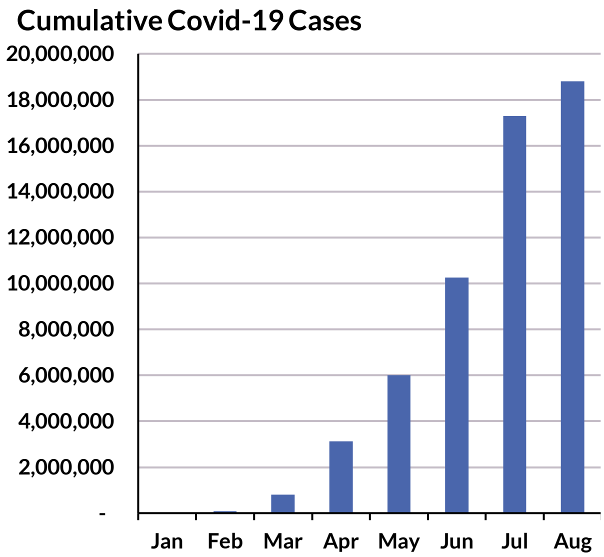
Mixed Signals

Weekly Tanker Market Report

The oil market is displaying mixed signals as it tries to respond to the evolving demand conditions created by the covid-19 pandemic. In general terms, lockdowns in most parts of the world have eased. However, increasingly, governments are being forced to implement regional restrictions, whilst also slowing the pace at which they reopen their economies. These factors are significant when it is considered that many demand side forecasts made just a month ago, may have overestimated the pace of recovery. Now it is emerging that the road to normality might take longer than previously anticipated.



On the face of it, oil prices indicate that demand is recovering. Earlier this week, prices closed at a 5 month high of $45.17/bbl, although this was largely driven by a weaker US dollar and a draw down in US crude inventories. However, looking at the forward curve, one can see that the contango in crude futures is wider than it was just one month ago, albeit far lower than during the peak of the pandemic. The current contango structure remains insufficient to support renewed storage activity, even with lower freight costs, however it provides an indication that the oil market remains well supplied for now. With demand likely on a slower recovery path, and oil supply gradually expanding, prices may remain under pressure in the months ahead.

The refining market is also showing signs of weakness. Typically summer in the Northern Hemisphere is when gasoline and jet margins are at their strongest. Jet margins remain under pressure for obvious reasons, however more significantly, European gasoline margins are also particularly weak, falling back to levels not seen since April. Margins also remain under pressure in the East, with Singapore gasoline cracks trading around $0 to $1/bbl, whilst gasoil profits, which had performed better throughout the pandemic have also eased. Renewed or extended restrictions in Hong Kong, the Philippines, Indonesia, Australia and India have all contributed towards the weakness, whilst the prospect of higher exports from China and India is weighing on sentiment. In addition, high product stocks have been another factor impacting refining margins, however short term demand side indicators are also concerning. US gasoline demand remains nearly 1 million b/d below the same period of 2019, whilst mobility data also points towards a flattening of the demand at around 80-85% of pre-crisis levels.

For tanker trade, these factors highlight key downside risk. However, at the same time, new trading opportunities may emerge. If demand continues to remain weak and oil supply continues to expand, renewed floating storage opportunities could emerge, particularly considering the fact that global land based storage remains bloated. Weak demand may also keep some oil in floating storage for longer than original planned, tying up tonnage that would otherwise be released for trading activities. In addition, opportunities could emerge as bloated product stocks are cleared out. As an example, US Gulf diesel stocks hit a new record this week. As soon as an export market opens up, this product will be pushed out. Overall the theme remains bearish, but short term opportunities may emerge and tanker market players need to remain alert and ready to exploit such events to their advantage.

Crude Oil

Middle East

No relief for depressed, and compressed, VLCCs so far this month. The bottom end of the recently 'conference' rate range was pulled lower by those Charterers that could accommodate more challenged units, whilst Owners of more modern and badged units hung on to rates up to a maximum ws 35 to the East and ws 20 West via Cape. There are atlantic load alternatives for those vessels and that should continue to protect their bottom line, at least. Small crumbs of comfort though. Suezmaxes can never shake off ongoing heavy competition so that even occasional busier phases lead to no gain. Rates bump along at close to ws 50 to the East and in the very low ws 20's to the West - and for some time to come. Aframaxes needed more enquiry to convert a tighter tonnage list into worldscale points. It didn't happen and little better than 80,000mt by ws 70 to Singapore seems set for the next round of negotiation.

West Africa

Suezmaxes enjoyed a reasonably bright first half of the week as Charterers' attention seemed to drift somewhat. From mid-week, they regained concentration and there was sufficient availability remaining for them to drip feed enquiry and rates eased off a little once again to 130,000mt by ws 42.5 to towards ws 47.5 to Europe. Owners will remain in defensive mode, unless an early shopping spree kicks off next week's campaign. VLCCs dipped a touch, but then managed to hold ground, and retain small premiums over prevailing AGulf/East marks as more solid activity developed, and the USGulf also busied. Rates hold at a shade over ws 38 to the Far East now, and probably into next week too.

Mediterranean

No positive step change for weary Aframaxes here. 'Sluggish' sums it up, and poor rates of little better than 80,000mt by ws 50 X-Med and ws 55 from the Black Sea, reflect that. Another testing week to come in all probability. Suezmaxes enjoyed a rare - very rare - moment in the spotlight and at last began to operate on tighter availability. Rate increases were still nothing to celebrate at up to 140,000mt by ws 65 from the Black Sea to European destinations, and to $2.8 million to China, but every little helps, as they say.

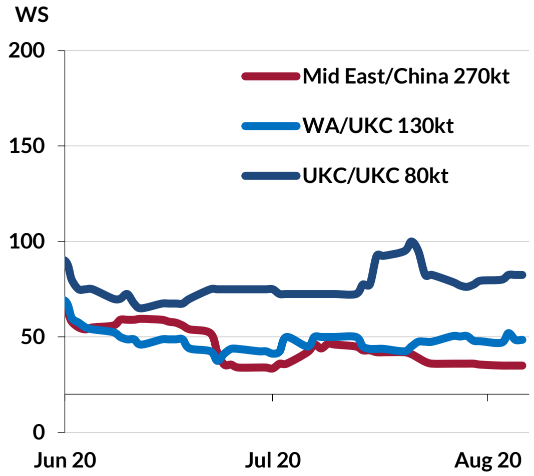
US Gulf/Latin America

Another week of 'nearly there' for quite active Aframaxes. Rates never bounced higher than ws 82.5 upcoast, or transatlantic, however, and Owners will have to regroup for another attempt next week, which unless disruption intervenes, is likely to end up yielding the same frustrating result. VLCCs moved through a busier phase than of late and busy enough to add a little rate fat to $5.5 million from the USGulf to China/South Korea but it's a ballasters market, and the maths is dictated by the state of the AGulf market, which for now seems to be going nowhere.

North Sea

A mood change for previously expectant Aframaxes. Rates had solidified last week, and Owners had hoped for something a bit more special to come around the corner this week, but that has now started to evaporate, and defence will be the order of the day now, unless Charterers re-start next week, with a bang. VLCCs posted no public fixing but the small increases seen in the USGulf will slightly raise Owners expectations here if anyone comes to knock. Around $5.3 million will be asked for China/South Korea destinations when they do.

Crude Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Clean Products

East

Although we mustn't get carried away with ourselves here, we are certainly benefitting from an uptick in volumes on the MRs. Now, whether or not that is a by-product of seeing some 'extra' barrels that could've gone on LR1s should physical restrictions allowed, or whether that is down to some Charterer's inability to optimise to take advantage of the freight on larger vessels – the fact remains it's given people a whole lot more to talk about this week. Rates are yet to go anywhere, and we are still going to be incumbered by the fragility of the LR1 segment. Most importantly though - Owners' main concern of late has been volume, or a lack thereof – so this week will be welcomed with open arms irrespective of how the freight behaves in the short term. 35,000mt naphtha West Coast India/Japan is flat at ws 80, whilst 35,000mt gasoil AGulf/East Africa is ws 100 for now.

LRs have seen another dreadful week, with rates hitting the bottom and sticking there. But as we close out the week, LR2s have some signs of improvement and rates may start to see a gradual rise. 75,000mt naphtha AGulf/Japan is now ws 60 up from the weeks low of ws 55. 90,000mt jet AGulf/UKCont is heading up to $1.60 million now, with a very short list available. The rises should now be sustainable with tonnage further out looking thinner. Any increase in volume was always predicted to move the market swiftly and we may now see this. LR1s have struggled to see any positive signs this week though and rates remain at their lowest levels. 55,000mt naphtha AGulf/Japan is ws 60 and 60,000mt jet AGulf/UKCont is still $1.15 million. Although it won't take a huge amount to get these rates a little better, MR activity will be needed to work in tandem.

Mediterranean

Rates have consistently traded at the bottom of the market through week 32 at the 30 x ws 80 and 30 x ws 90 mark for X-Med and Black Sea respectively. That being said, the market is in a stronger position than previous weeks, with few prompt vessels remaining by Friday and outstanding cargoes to cover. For much of the week, Charterers were able to pick off ships behind the scenes, with everyone willing the same number, however, come Thursday a relatively healthy list of cargoes gave Owners a glimmer of hope. Although rates are yet to firm, sentiment is more positive and if Monday brings a further influx of cargoes, Owners will begin to ask for a handful more points.

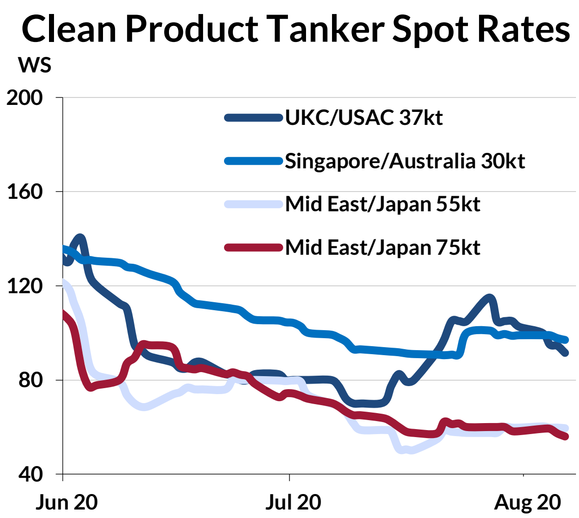
The MRs in the Mediterranean saw an active start to the week, which gave us a mixed bag of fixing rates, which just about managed to prop up this dwindling market. With WAF enquiry being the shining star of the week, rates bounced between 37 x ws 110-100, with some last cargoes offering some reductions… but unfortunately by the mid-point of the week, cargoes began to dry out and the weight of a slipping UKCont market has shown. A glut of enquiry could quickly spin this market back in Owners favour, with tonnage looking on the slender side, but having seen a spike in WAF this week it seems unlikely more is on the horizon, as Owners once again will have to fall in line with UKCont levels.

UK Continent

Despite some reasonable levels of fixing across both the Mediterranean and the Continent MR markets, Owners once again have found themselves on the ropes as Charterers continue to chisel away at existing fixing rates. A slip of 10 points or so was seen in the first couple of days this week and by Wednesday TC2 settled at 37 x ws 95 and, with a busier Med market being seen we anticipated things to begin to hold. But alas, this was not the case and come Friday, we see a tick under 37 x ws 90 on subs for transatlantic, which in turn drags the quieter WAF market towards 37 x ws 100-105. A busy start to next week will be key if Owners are able to claim back control of this sector but for now they head into this weekend in trepidation that a repeat of this negativity is on its way.

Not a bad week for Handy Owners plying their trade in the North as they finally managed to break the mould and shift rates upwards. Fresh Monday tonnage lists showed Owners had a much better platform to work from as the wealth of prompt units had been cleared out. The market was very much date dependent and anything on the prompt-ish side ex Baltic was lacking candidates, which resulted in 30 x ws 97.5 going on subs and some having to cover their exposure via MRs. By the end of the week and once all prompt cargoes had been covered rates for natural dates (17-18 window), rates actually corrected down to 30 x ws 92.5 as the list started to open back up again. X-UKCont has largely remained in the shadows, with rates expected to land around 30 x ws 87.5 when next tested.

The seemingly never-ending period of inactivity continues for another week in this UKCont Flexi market, with cargo enquiry on the slow side and little to report in the way of fixtures. Fixing ideas have therefore been guided by the UKCont Handy market this week, which is beginning to show some signs of improvement. Flexi Owners will be hoping that this positivity can trickle down next week but for now the call for a X-UKCont run remains at the 22 x ws 115 mark but in need of a fresh test.



*All rates displayed in graphs in terms of WS100 at the time

Dirty Products

Handy

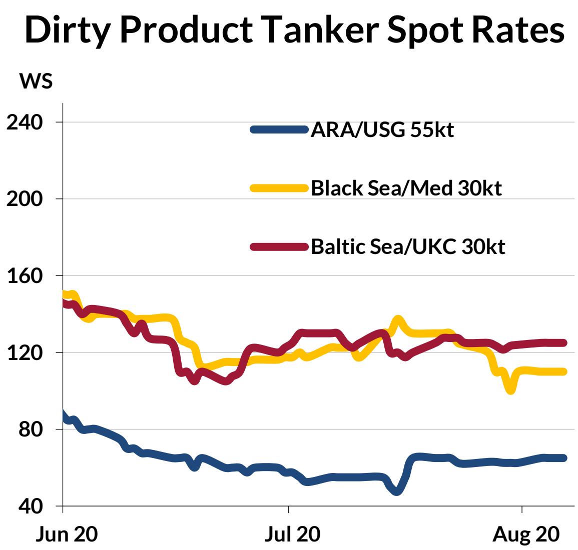
The Continent is probably the best place a dirty Handy Owner could have a ship at the moment, provided the ship is well approved. This region seems to be showing value around the ws 125 mark and what remains for immediate fixing windows isn't for everybody's vetting criteria. Charterers can however find relief from West Med tonnage ballasting up, and from MRs without employment. But the real value for Charterers right now is when Med/Black Sea stems are being covered. Prolonged inactivity has allowed for further rate erosion this week, with a psychological barrier being breached as rates dipped below ws 100. Ultimately, whilst we may be nearing the floor, conditions could yet deteriorate further in the Black Sea.

MR

What has been seen in the surrounding Handy market really has dictated proceedings on the MRs and a comment we made earlier in the week still runs true. Right now, the Continent is showing tonnage availability at its highest levels in recent memory. We can expect therefore Charterers to test where the strength lies, where for Owners the impact is likely to be detrimental. In the Med, however, things have been a little more stable but they are just about hanging on to last done. The only problem for MR Owners in the Med though is that Handy employment is no longer viable without taking a loss (in most scenarios).

Panamax

Another week shows the Panamax list tightening again for natural ships, where we now reach a point where what is left is either mainly ex dry dock or post 15 year vintage. If this were any other time of year, (or in different conditions) we would be thinking maybe there could be some volatility with some Charterers finding it difficult to now cover. Sadly, however, with Aframaxes being so soft, Charterers have an escape route and for now all we can do is focus on finding employment for these ships which have found trading rather challenging as of late. If vetting allows, as a Charterer with what's recently happened, you can expect to see levels remain consistent.



*All rates displayed in graphs in terms of WS100 at the time

GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 6th	June 30th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-2**	34	36	47	40
TD20	Suezmax	WAF-UKC	**+1**	49	48	52	52
TD7	Aframax	N.Sea-UKC	**+5**	83	78	72	76

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Aug 6th	June 30th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-2,750**	18,000	20,750	34,750	25,750
TD20	Suezmax	WAF-UKC	**+500**	14,750	14,250	17,250	16,250
TD7	Aframax	N.Sea-UKC	**+3,500**	6,500	3,000	250	1,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 6th	June 30th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-2**	56	58	65	
TC2	MR - west	UKC-USAC	**-14**	91	105	70	105
TC5	LR1	AG-Japan	**-1**	59	60	61	77
TC7	MR - east	Singapore-EC Aus	**-2**	97	99	93	110

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Aug 6th	June 30th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-750**	6,250	7,000	10,000	
TC2	MR - west	UKC-USAC	**-2,750**	7,750	10,500	3,750	10,250
TC5	LR1	AG-Japan	**-250**	4,250	4,500	5,250	8,750
TC7	MR - east	Singapore-EC Aus	**-250**	6,750	7,000	6,250	9,000

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam VLSFO)	**+4**	310	306	299
ClearView Bunker Price (Fujairah VLSFO)	**-6**	333	339	323
ClearView Bunker Price (Singapore VLSFO)	**+0**	343	343	331
ClearView Bunker Price (Rotterdam LSMGO)	**+2**	363	361	357

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States