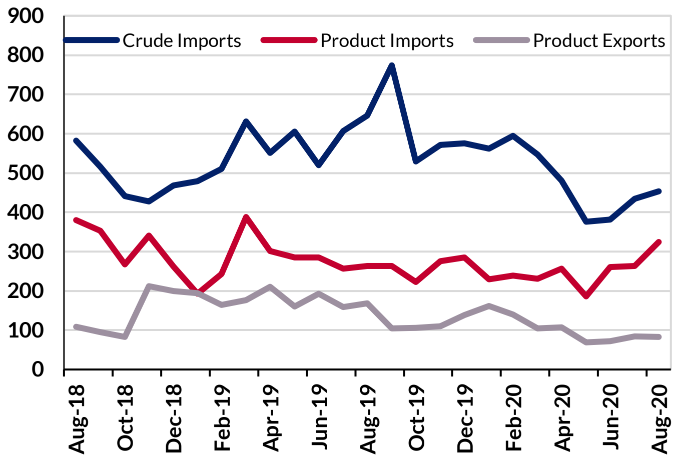
Not So Turkish Delight
Weekly Tanker Market Report

Its been simmering for a while, but the spat between Turkey, Greece and Cyprus, seems to be escalating. How has this situation come about? Turkey sent a drill ship to the Mediterranean in May 2019 where it carried out seismic surveys and exploratory drilling off the north coast of Cyprus, leading the island nation to condemn the actions as illegal. In response, the EU reduced pre-accession financial assistance to the country for 2020 by €145.8 million and halted high-level bilateral talks. Despite this, Turkey has said that the EU actions 'will in no way affect Turkey's determination to continue its hydrocarbon activities in the Eastern Mediterranean.' To prove the point, Turkey deployed further drill ships to the region this year along with naval escorts.

So, what is this dispute about? There has been increased interest in exploration in the eastern Mediterranean over the last decade, with large oil and gas finds off Israel and Cyprus. Cyprus is already home to as much as 550 Bcm of gas resources following the Aphrodite, Calypso and Glaucus discoveries recently. So, the right to explore, develop and extract the potential oil and gas finds within the Cypriot borders could provide incentives to both parties, should significant reserves be found. Cyprus and the EU consider the north of the island to be part of the Republic of Cyprus and the waters surrounding it to be part of the Exclusive Economic Zone (EEZ), which means EU nations have the exclusive right to fish, drill and carry out other economic activities. But Turkey recognises Northern Cyprus as independent, with its own EEZ, Ankara says it is within its rights to drill there. Also, Turkey does not recognise awards granted to French and Italian companies by Cyprus for hydrocarbon exploration because they say a portion of the awards fall within Turkey's continental shelf.

Turkish Crude and Product Trades (kbd)



So what next? The EU has suggested that sanctions against Turkey were not 'in principle' on the table. Turkey it seems will continue its actions in the disputed zone and has announced that it will start drilling activities in Greece's EEZ. For the EU to press for sanctions on Turkey, or even relevant services or individuals, will require unanimity among the EU member states in order to enforce sanctions and it's not clear yet whether there is appetite by members to agree such actions.

Sanctions on Turkey will no doubt have some impact on the country, but in terms of impact on the tanker space, this is more difficult to assess. Significant volumes of crude are imported via pipeline from the Middle East, and to a declining extent, Russia. However, the AIS data shows that with the start-up of the STAR refinery in Aliaga, Turkey is also a product exporter to the Mediterranean markets, while at the same time the majority of imports stem from European refinery output, with Greece, Italy, Spain, the Netherlands and Belgium all providing significant volumes. Whatever the outcome of this situation, it is clear that both crude and product flows could be impacted.

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Crude Oil

Middle East

With a fairly good supply of VLCC enquiry throughout the week, Owners could have been in a position to structure some form of a recovery but, with the abundance of tonnage available, there was only going to be one direction where rates headed. Last done levels have dropped to a new low of 270,000mt x ws 24 for Eastern destinations on a modern vessel and, with nothing concluded to the West we estimate levels to be around 280,000mt x ws 16 via Suez to the US Gulf. Suezmax available tonnage continues to grow week on week. This has led to a further erosion in levels and the week ends with Owners fixing at the lowest levels we have seen this year, 140,000mt x ws 15.5 West. Next week Owners will again be on the back foot and rates to the East will come under further attack, it seems inevitable that Charterers will achieve rates sub 130,000mt x ws 40.

Mixed fortunes for Aframaxes in the East this week. Rates have slipped down to 80,000mt x ws 64 for a long East run to South Korea, however, rates remain steady around the ws 70 mark for a shorter AGulf/Singapore run. On a positive note for Owners, rates have risen in North Asia due to Typhoons disrupting itineraries.

West Africa

VLCC rates again slid further as more Owners see locking in for the longer run probably being an astute move as expected supplies continue to stall. Last done is 260,000mt x ws 29.75 to China, with further downward pressure expected as it again gets pulled down by developments in the AGulf.

Suezmax cargoes are drawing an unprecedented number of offers and rates have been in free-fall throughout the week. The market is still seeking a floor even though we currently have seen the lowest rates of the year being paid. Levels of 130,000mt x ws 32.5 have been paid to Europe and the next fixture East is likely to be sub ws 40.

Mediterranean

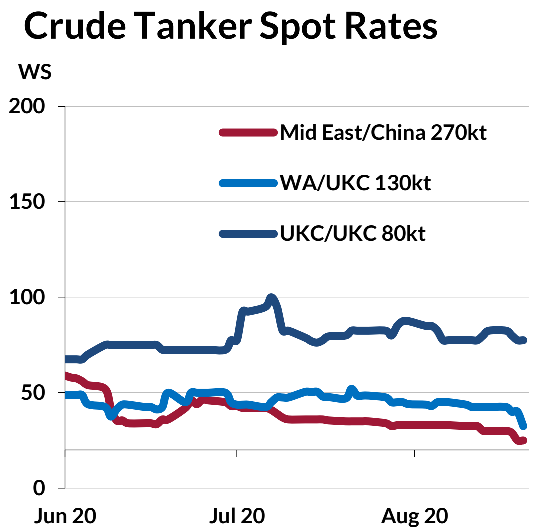
The Med Aframax market has picked up a touch trading at ws 57.5-60 levels, with recent action capturing Owner's attention and helping to bolster sentiment. Black Sea has been a bit more active and is trading at ws 60 levels. However, there is still some way to go before we see any significant uptick but for Owners it is a step in the right direction. In the medium term we see this market warming. This area remains a backwater for Suezmax activity and levels will come under further pressure next week. Next done levels are likely to be no better than 140,000mt x ws 45 for Black Sea to European destinations and $1.7 million for a Mediterranean to Singapore run.

US Gulf/Latin America

Aframax Owners see a continual flow of available tonnage hindering any chance of an uptick in rates, even if against a modest supply of enquiry. Other factors will need to come into play if we are to see any sudden turnaround in fortunes but, with the long weekend looming Aframax Owners will need to ready their new battle lines for the short upcoming week, with last done being 70,000mt x ws55 for a generic Caribs-up run. VLCC levels look as though they are about to come into line with other markets here as more Owners look to the US Gulf for salvation and in turn increased competition leads to further discounting with the latest fixture reported being Lumpsum $4.4 million from the USGulf to China.

North Sea

North market continues to travel sideways at ws 50 levels for Baltic/UKCont and ws 77.5 levels for X-UKCont after a pretty uneventful week. Little really tested the market and, with the full programme leaving little to the imagination we can't expect too much from September. Therefore, nothing seems likely to change the market's current course in the medium term. Muted VLCC interest but, with rates on the slide elsewhere we would expect to see similar discounts applicable here also. Expect to see levels fixing around Lumpsum $4.4 million for North Sea to South Korea.



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

Clean Products

East

A very quiet week for the MRs in the AGulf, with the lack of enquiry and a tonnage list that started the week longer than the queues at McDonalds post Covid-19 lockdown. It could only mean one thing – a negative correction in rates. EAF was the first to come off to ws 112.5 (all inc of $150k) and then the later part of the week saw further depression to ws 105 (all inc). With a number of prompt ships as we head into the weekend, Charterers with the right cargo could get some competitive deals on short haul stems, possibly at the $125k levels. UKCont needs a fresh test but at $750k, it is very competitive for Charterers and these soft rates have put pressure on the larger ships to correct as at $750k, it makes sense to split up larger stems. Owners will be welcoming the weekend to nurse their bruises and will be hoping for a glimmer of positivity early next week. At present, best to set expectations low.

LRs started the week in a buoyant mood, with hopes of further rises. But steadily belief has been eroded as activity hasn't met expectations. LR1s have seen a sharp drop on TC5, with 55,000mt naphtha AGulf/Japan now at ws 76, down some ws 25 points. 65,000mt jet AGulf/UKCont was being pushed to $1.75 million a week ago but now rests at just $1.50 million and may see it fall lower. LR1s will not see any reversal until MRs can push on and rebound enough to give value again.

LR2s have held slightly better with a much shorter list on the front end but a lack of stems as Charterers head to smaller sizes. 75,000mt naphtha AGulf/Japan is now around ws 80 and less is expected. 90,000mt jet AGulf/UKCont looks set to fall below the magical $2.0 million again, with $1.90 million surely on the cards. Once again, improvements on the smaller sizes are needed to see this decline halted and for any recovery to be seen.

Mediterranean

It has been a week full of momentum for Handy Owners in the Mediterranean market, which has seen rates jump around ws 40 points from Monday. 30 x ws 100 was the call for a X-Med run when we started week 36 but, with a consistent influx of fresh cargoes throughout the week, combined with an ever-tightening list we now see the equivalent of 30 x ws 140 on subs. After a few rather inactive weeks, Black Sea activity has also sparked into life, with last done currently at the 30 x ws 140 mark but expected to rise in line with Med sentiment when next tested. With some cargoes still looking for cover, expect Owners to be bullish with their ideas and push for a few more points before this week is out.

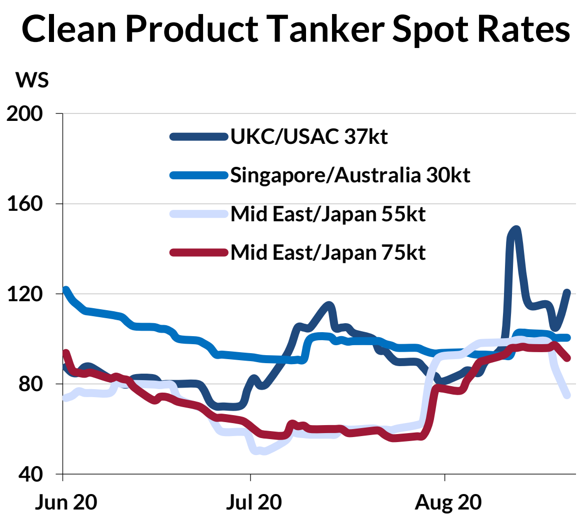
MRs in the Mediterranean saw a limited number of fixtures, where activity has been driven by the far more active UKCont sector and thus rates improved consistently. By the midpoint of the week, we had jumped ws 15 points, with TC2 at 37 x ws 120 and despite the glut of fresh enquiry off similar dates, Charterers have dodged Owners optimism and rates topped out. A quieter end to the week partnered with a falling States market will slowly pull this market back in Charterers favour and expect next week to see Charterers looking to press once again as ballasters begin to clog up the horizon across the Atlantic.

UK Continent

A slow start to the week, possibly due to a public holiday in the UK, was swiftly followed by a hectic midweek rush that highlighted the shortage of tonnage especially at the front end of the list. Owners were able to move TC2 up to 37 x ws 120 as Charterers scrambled for cover, but it is possible that more could have been achieved given the level of enquiry. The back end of the week has seen the market settle somewhat without any further change in numbers and as we look a little further ahead it may be that we have seen the best from this market for now. WAF has again been relatively stable in tracking TC2 rates lately, although a recent fixture at 37 x ws 127.5 suggests this route may have lost some ground now. Overall a good week for the Owners but, with many more ballasters likely to head in this direction from a faltering US market, choppier waters may lay ahead.

A week to forget for Handies up in the North, as the combination of drip-fed enquiry and ample units has forced freight to soften. The biggest thorn in the side for the owning fraternity has been Charterers preference to take LRs ex Baltic, which ultimately has gobbled up numerous 30kt clips resulting in slim picking for those with vessels in position. Baltic/UKCont has now softened to 30 x ws 105 and X-UKCont to 30 x ws 100 and looking ahead further losses could be on the cards. Charterers are in control here.

An uninspiring week in the Flexi market, with cargo enquiry almost non-existent and any small glimmers of fixing activity being kept below the market surface. Last week's action in the Handy market would have filled Flexi Owners with some hope of improvement but this week it has been a different story as lack of enquiry has caused rates to drop once more. As a result, the call for a X-UKCont run currently stands at the 22 x ws 130 mark but Charterers will feel that less can be achieved.



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Dirty Products

Handy

In both the Med and the Continent Handy sectors, we at least gain perspective this week, where our questions have been answered - last week's gains were indeed attributable to the Bank Holiday, with Charterers seeking forward cover. It comes as no surprise then to see fixing windows given a chance to come back in line with current calendar working days, but as a result of this process, not only has positive sentiment been allowed to escape all Handy sectors, we have also seen negative corrections reapplied. Finishing week 36, levels have arguably dropped by some ws 5 points from the Black Sea/Med regions and ws 2.5 points on the Continent, with validity in both zones very much in question.

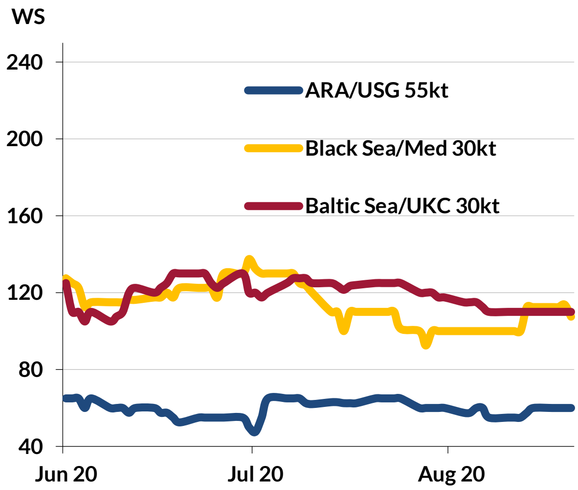
MR

Typically, when the Handies suffer, MR Owners can be heard groaning under the pressure and this week was no such exception. Units have been allowed to fall past their open dates, which will need to be addressed before any recovery can be seen. Until then though, absent of any real tests, Charterers have an opportunity come Monday but the downside we speak of may be limited as from where we are sitting, the shelves are not deeply stacked.

Panamax

At long last this sector can finally report some progress in terms of altering the supply vs. demand ratio of units open naturally in Europe, where for some, this week finally offers an opportunity to write off the idle time which has elapsed. As far as rates are concerned, having dipped below ws 60, it did not take long for this benchmark to be reestablished once a clear out took place. Looking ahead, the outlook for Owners appears brighter for two reasons; If you have to use a Panamax, those left on the list should be in a position to try and raise the bar and without ballast units willing to come over (round voyage earnings are simply too low!), Charterers are a little stuck for optionality. That said, there is limited upside for now. With Aframaxes pro-rating at around current levels, we go back to what we wrote in the above sentence "If you HAVE to use a Panamax"…

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 3rd	Aug 27th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-5**	25	30	34	27
TD20	Suezmax	WAF-UKC	**-7**	37	43	49	38
TD7	Aframax	N.Sea-UKC	**-2**	78	79	83	77

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

			wk on wk change	Sep 3rd	Aug 27th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-5,000**	8,000	13,000	18,000	10,250
TD20	Suezmax	WAF-UKC	**-3,500**	7,500	11,000	14,750	8,500
TD7	Aframax	N.Sea-UKC	**+0**	3,500	3,500	6,500	3,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 3rd	Aug 27th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-5**	91	96	56	
TC2	MR - west	UKC-USAC	**-7**	121	127	91	107
TC5	LR1	AG-Japan	**-24**	75	99	59	71
TC7	MR - east	Singapore-EC Aus	**-2**	100	103	97	107

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

			wk on wk change	Sep 3rd	Aug 27th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-1,000**	20,000	21,000	6,250	
TC2	MR - west	UKC-USAC	**-750**	14,000	14,750	7,750	11,000
TC5	LR1	AG-Japan	**-6,000**	9,000	15,000	4,250	8,000
TC7	MR - east	Singapore-EC Aus	**+0**	7,750	7,750	6,750	8,750

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

ClearView Bunker Price (Rotterdam VLSFO)	**-14**	300	314	310
ClearView Bunker Price (Fujairah VLSFO)	**-9**	326	335	333
ClearView Bunker Price (Singapore VLSFO)	**-19**	326	345	343
ClearView Bunker Price (Rotterdam LSMGO)	**-26**	333	359	363

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