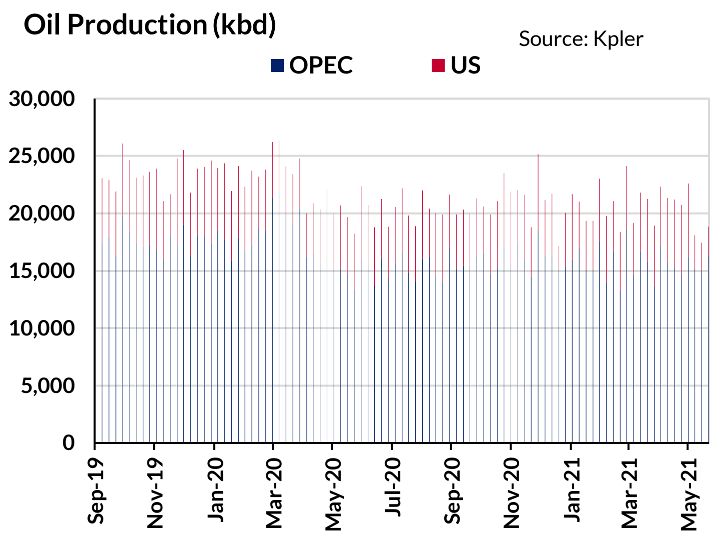
Oil production – It's a game of two halves

Weekly Tanker Market Report

With oil prices racing back up to $75/barrel and the very real prospect of sustained demand rising in the near term, the time to open the taps, you would think would be now. However, as with everything that has happened over the past 18 months, it isn't as simple as that. OPEC+ have instigated monthly meetings to keep an eagle eye on prices, demand and production. This has allowed them to fine tune its quota system. At the time of writing OPEC+ was yet to reach a cohesive agreement on production volumes for August onwards, although most members supported a monthly increase of 400kb/d.

Over in the United States, things are slightly different. The shale producers are keeping output flat and showing considerable restraint on spending despite the rise in current oil prices. Historically, when oil prices rose, the US shale producers would have piled in and increased production. But this time, investors are demanding better financial returns over more volume and energy financiers are shifting their focus to renewables.



Shale production over in the US remains below the January 2020 peak of 9.18 m b/d, with production running at around 7.77 m b/d. Baker Hughes highlights that there were 670 US oil drilling rigs then, currently there are around 372. At recent oil prices, we would have expected rig count and production to substantially increase, but there has been restraint not seen at such oil prices before.

However, despite the rapid increase in oil prices, OPEC+ still has the upper hand, with around 6 million b/d of spare capacity. The impact of this potential spare capacity is obvious. Despite oil prices being well above breakeven levels for most shale producers, the fear that OPEC+ will reopen the taps has meant that they are much more circumspect when it comes to investment opportunities rather than just chasing market share like they used too.

The lack of freely available capital to the shale producers could well hinder the industry in the future. Dutch bank ABN Amro announced that it plans to exit oil and gas lending in North America, after agreeing to sell its $1.5 billion portfolio of loans to investment firms Oaktree Capital Management and Sixth Street Partners. It could only be a matter of time before more banks follow suit. However, most US oil execitves are downplaying the potential for shale to increase rapidly in the near term. Recently Hess chief executive, John Hess estimated that it would take four years for US oil output to get back to pre-Covid levels.

For the tanker sector, most owners will be grateful for an increase in oil supply, no matter where it comes from. Rising global demand for gasoline, jet fuel and chemicals will eventually require an increase in crude production. For now, OPEC+ seems like the primary source of growth in the short term. However, if crude prices remain firm (or even rise) then it will only be a matter of time before producers in the US are tempted to accelerate production increases. The challenge for OPEC+ is to find the right balance between prices that are acceptable to its membership, but not too attractive to shale producers. For tanker owners however, the tighter OPEC keep things today, the greater the potential future rewards from higher US exports could be.

Crude Oil

Middle East

A busy few days in the week with a good variation of VLCC enquiry for Owners to work with has at least trimmed the availability of tonnage, but unfortunately, the list was long enough to endure such interest and rates have in fact come off from what was already thought to be the bottom. Currently a voyage to the East on a modern approved unit stands at 270,000mt x ws31 and we estimate a lowly level of around 280,000mt x ws 18.5 to the US Gulf (via Cape).

Suezmax activity has been minimal and the availability of tonnage continues to grow. The next Basrah/Europe cargo will make a dent in the last achieved rates and we expect to see levels close to 140,000mt x ws 27.5 being paid.

West Africa

Little demand for VLCC tonnage with Owners main preference being to fix shorter haul runs from the AGulf due to the increase in bunker costs will mean that levels are unlikely to shift much lower from last done, which stands at 260,000mt x ws 34 to the Far East. Another uninspiring week for Suezmax Owners, which has seen minimal activity and rates further eroded to 130,000mt x ws 55 East and close to ws 50 to Europe.

Mediterranean

The fall after the rise in the Mediterranean Aframax market this week. The influx of firm ship positions from Trieste on Monday led a softer feeling to proceedings and last done was often not the lowest done. First Ceyhan voyages were eroded from 80,000mt x ws 100 to ws 95. Then longer runs provided a refuge for tonnage with CPC voyages slipping from a theoretical 3 digits to ws 95 and then an unexpected ws 87.5. Bunker prices prevent much further erosion of rates but the going remains bleak for Owners. Suezmax Sentiment remains weak and Owners are not receiving any support from alternative Atlantic load areas. Rates to the East remain flat at $2.15 million for Libya to Ningbo and the next fixtures to be concluded for Continent discharge will be close to ws 50.

US Gulf/Latin America

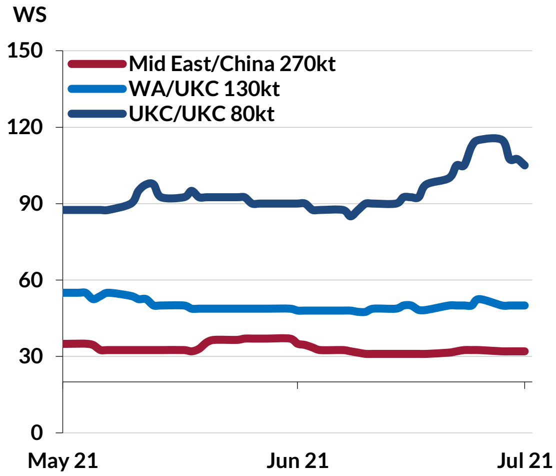
A rush of interest mid-week gave Aframax Owners a glimmer of hope that they might be on the road to a recovery as rates gently ticked up from the previous lows that we have witnessed for a number of weeks. Alas, as interest waned Owners found it increasingly difficult to hold on to improved levels and as such rates currently stand at around 70,000mt x ws 72.5 for transatlantic and around 70,000mt x ws 80 for a shorter haul run.

VLCC levels are starting to nudge a little down after another quiet week left Owners in a state of flux although such discounts are only likely to be minimal as the higher bunker prices take another bite out of what earnings there are. Last done is just below $4 million for US Gulf to the Far East.

North Sea

It is two steps forward and one step backwards for Aframax Owners in the Continent. Emphasis on the backwards as we end the week, with the market back down in the doldrums. Looking ahead we see little to buck the trend.

Crude Tanker Spot Rates



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

Clean Products

East

The LR2s seemed to be the only size in the market this week that saw more than just a handful of cargoes quoted, and as a result the tonnage list cleared slightly (especially for westbound runs). A combination of a lack of West suitable ships and a rise in bunkers saw Owners try to push freight up but, with only 2 stems in the market and a disastrous LR1 segment there is little owners could do. Pushing too hard saw Charterer re-evaluate their options, downsize and quote in the disastrous LR1 market... East runs are steady and still bumping along for now at 75 x ws 75. West should pay about $1.65 million, however, it is in need of a fresh test next week.

A week to forgot for the LR1 Owners. Starting the week looking fragile it closes very much on its knees with the list long and littered with older/unwanted cargo history tonnage. As a result, Charterers have been aggressive and hammered down on last done levels on these vulnerable ships. TC5 is on subs at ws 77.5 for an ex DD ship, which should indicate ws 80 for a fully approved ship, however, expect Charterers to use the ws 77.5 as a benchmark. Westbound has yet to see a test but it will soften slightly as we see LR2 stems downsized and put into the LR1 market as traders look to gain further value in this segment. We asses UKCont at $1.25 million-1.275 million.

A desperately quiet week on the MR segment. A distinct lack of distillate enquiry has seen a hefty tonnage list develop, with relets as likely to be sat without employment as pure Owner vessels. TC12 will next be tested at 35 x ws 90 levels, date dependant and also loadport dependant (India less popular than the Gulf amongst Eastern Owned tonnage). Westbound should trade $1.05 million to the UKCont, but needs a fresh test. It's likely we'll see Argentina on subs at the same level - $1.1 million was on subs twice this week but failed and Owners are becoming more desperate. Short hauls are the most popular with $120k on subs X-AGulf for jet, and EAF is trading at ws 145, although you may see less done without a SAF option. All in all, a very depressed market and we need a really good level of enquiry to stabilise sentiment.

Mediterranean

More of the same in the Med this week, with rates trading consistently at the bottom line of 30 x ws 120 and 30 x ws 130 for X-Med and Black Sea respectively. Activity was OK on Monday and Tuesday but from then onwards, cargoes dried up and it was easy enough for Charterers to pick off units at the bottom line. A few discounts are being seen here and there but this is Owner dependent as the current returns are next to nothing. Expect this flat bottom line to continue next week.

A tale of two halves for the MRs with the week starting on a positive note with a tighter list meaning 37 x ws 125 and 37 x ws 135 were the going rates for transatlantic and WAF voyages ex Med.

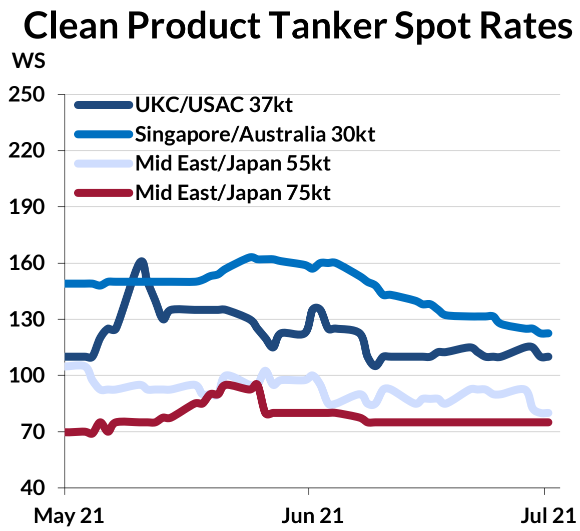
However, with ballasters starting to enter the fixing window from mid-week and cargoes on the thin side, rates were under pressure, and we finish the week with 37 x ws 120 on subs Black Sea/transatlantic.

UK Continent

A fairly balanced week on the Continent, with rates fluctuating between ws 110/115 for TC2 with ARA/WAF still at a 5 point premium. As we end the day 37 x ws 115 has been put on subs for a prompt ARA/transatlantic 04-06 dates and that's what we will go with for now. The list is relatively balanced for the next fixing window 10-15 Jul, but we are left with zero cargoes in the North. Sentiment steady/softer at ws 115.

The summer market remains in full swing for Handies up in the north as freight once again has traded at the bottom at 30 x ws 120 for TC9 and 30 x ws 115 for X-UKCont. Prompt units have been on offer for Charterers throughout the week and currently it's tough to see how Owners can change their fortunes in the short term with this flat trend expected to continue.

All in all, it’s been a pretty lacklustre week in this UKCont Flexi market, with cargo enquiry slow throughout and minimal fixing activity. Over the course of the week rates in this market have been guided by discounted Handy levels with the call for a X-UKCont run remaining stagnated at the 22 x ws 150 mark all week.



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

Dirty Products

Handy

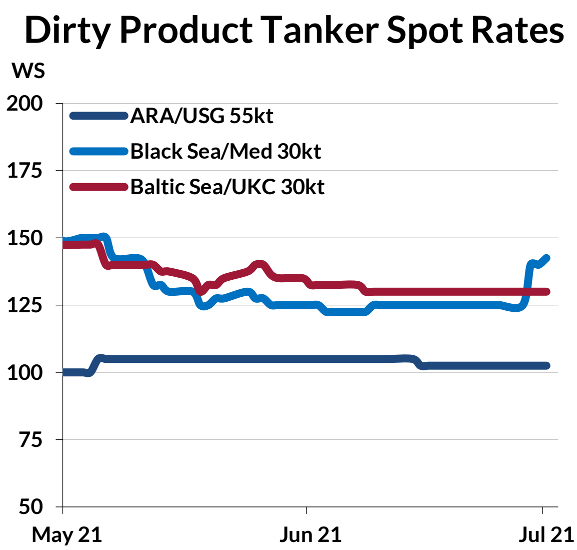
The Continent this week seems to end just as it started getting interesting with length being taken out of the tonnage lists, although there is argument that perhaps this boost in activity has arrived just in time to thwart any impending negative correction. As it stands, fixing dates are moving on where for now a stable fee to the region prevails which could change quickly. The Med, however, is even more interesting, not only are levels looking firm but yet again we see examples of Charterers getting caught out on prompt requirements. As it stands, further elevation has been reported for a normal run but it will be next week now before we get to ascertain whether this proves pivotal for the deals that follow.

MR

In the Med, levels are probably looking undervalued right now on benchmarks, as if you take what is being reported on the Handies where MRs have been put on subs at steamy numbers, then this is sure to get Owners tails up when the next test is seen. Heading into the weekend for once full of anticipation, the Continent also looks rather thin on availability for prompt coverage. Looking ahead this will mean that Charterers have to adjust their attitudes to MR coverage and plan their next moves in advance.

Panamax

Perhaps it's just as well the MRs are looking firmer as they are probably the only life line for most of the Panamaxes prompt here in Europe. That said, recent successes seen in the surrounding Aframax markets have momentarily alleviated the pressure of being undercut from above. This should mean the coveted ws 105 is easier to justify on the next test.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 1st	Jun 24th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-1**	32	33	34	39
TD20	Suezmax	WAF-UKC	**-1**	51	52	48	56
TD7	Aframax	N.Sea-UKC	**-11**	102	113	90	94

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

			wk on wk change	Jul 1st	Jun 24th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-1500**	-4,250	-2,750	250	4,000
TD20	Suezmax	WAF-UKC	**-1250**	0	1,250	500	2,500
TD7	Aframax	N.Sea-UKC	**-7000**	4,750	11,750	-3,250	0

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 1st	Jun 24th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+0**	75	75	80	
TC2	MR - west	UKC-USAC	**+2**	112	110	134	127
TC5	LR1	AG-Japan	**-7**	81	88	88	97
TC7	MR - east	Singapore-EC Aus	**-7**	122	129	153	154

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

			wk on wk change	Jul 1st	Jun 24th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-250**	750	1,000	3,250	
TC2	MR - west	UKC-USAC	**-250**	1,000	1,250	5,750	3,250
TC5	LR1	AG-Japan	**-1750**	500	2,250	3,000	4,250
TC7	MR - east	Singapore-EC Aus	**-1500**	1,750	3,250	7,500	7,000

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

ClearView Bunker Price (Rotterdam VLSFO)	**+12**	533	521	505
ClearView Bunker Price (Fujairah VLSFO)	**+6**	546	540	519
ClearView Bunker Price (Singapore VLSFO)	**+6**	547	541	521
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