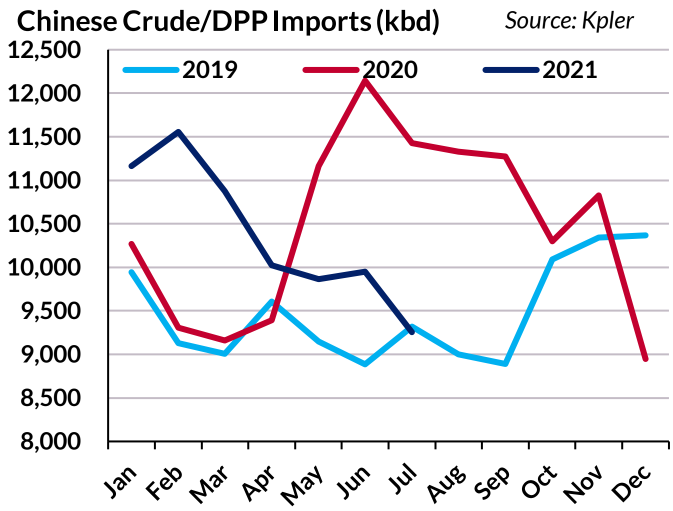
Chinese Crackdown
Weekly Tanker Market Report

The Chinese refining sector has recently been under pressure, not so much from the extreme demand pressures of the past 18 months, but more driven by changes in domestic government policy. Independent refineries (often called Teapots) have become a major force in the sector; however, their presence has often attracted the attention of the central government. Recent policy decisions now put their future under threat.

As part of China's goal to peak CO2 emissions by 2030, the independent sector has become a target with the government seeking to reduce excess capacity in order to lower emissions. Several new measures to reduce the output of independent refiners have recently been introduced, such as the imposition of taxes on key products used by the Teapots for blending or as a feedstocks including LCO, mixed aromatics and bitumen mixture. Crude import quotas have also been cut in the second tranche issued for 2021, although total quotas for the year are steady in line with 2020. The trading of crude import quotas from state owned to private refiners has also been outlawed, preventing companies from reselling unutilized quotas. Effectively, the Teapots will now see their feedstock options much reduced. Fuel oil is the obvious alternative, but this is also subject to import duties. Additionally, taxation on blendstocks like LCO and mixed aromatics will further limit the Teapot's ability to produce gasoline and diesel, leading to overall lower production.



Inevitably, there will be an impact on trade. According to Refinitiv Oil Research, the Teapots are expected to import 200-300,000 b/d less crude this year as a result of the policy changes. However, higher run rates at state owned/new facilities will still see overall crude imports grow. Rongsheng Petrochemical recently doubled capacity to 800,000 b/d, whilst Shenghong Petrochemicals is planning to commission a new 320,000 b/d facility later this year. Given that both facilities are modern petrochemical focused plants, they are not expected to experience the same quota issues as the older Teapots. State owned refineries are also expected to increase run rates, using their own quota allocations directly now that trading quotas with third parties has been prohibited, which will see the market share of the state-owned facilities grow.

Overall, refined product exports could remain under pressure for the balance of the year, barring any major lockdowns which would increase China's domestic surplus, whilst there is no reason to expect a recovery in volumes of LCO/mixed aromatics. Likewise, trade of bitumen mix into China, much of which originates from Venezuela is expected to decline, although fuel oil will replace some of the lost volumes. It is also worth noting that some of the bitumen mix volumes could be reclassified as crude oil once again if the taxation on crude proves to be preferable.

Overall, for tankers, the Chinese crackdown limits the potential upside. Import volumes into the country will still grow, but at a slower rate, whilst regional product flows may also see limited upside. However, demand, both domestic and international markets remains the key variable. As regional vaccination rates move higher, crude runs in China will have to respond to stronger demand, or refineries elsewhere (e.g Middle East) will need to increase throughputs to fill the void. Either way, market demand will be met, whether it is met by China, or other regional players.

Crude Oil

Middle East

Another tough week for VLCC Owners as any attempt to get rates moving quickly gets quashed by Charterers. Availability remains the main anchoring point as there are just too many ships with too few cargoes to really get any momentum. A conference rate of 270,000mt x ws 31.5 for China has been repeated numerous times and it remains unlikely that we are going to see any real change going into next week. Voyages West remain just a pipe dream for the majority, but we estimate rates to hold at 280,000mt x ws 18.5 to the US Gulf (via Cape). As the week progressed Suezmax Owners fortunes have improved. Sentiment grew stronger off the back of an active market for cargoes destined to India and a firming Aframax market giving Suezmax Owners more opportunities. Rates to the East started the week close to 130,000mt x ws 55 but Owners are now pushing for higher. Last paid to Europe is 140,000mt x ws 26.5 and Charterers may face further resistance next week. It has been an improved week of fortunes for Aframax Owners in the East. As always, it takes a combination of factors and tighter lists paired with improved activity across the East region has given a boost to Owners sentiment and rates are inching up. AGulf-East is now sitting at 80,000mt x ws92.5-95 level. The problem is that Suezmaxes are likely to keep a roof on rates.

West Africa

Similar to developments in the AGulf, VLCC Owners remain handcuffed to their current rate band, with limited interest and other areas offering little support to really test Charterers. Last done provides a slight premium over what can be achieved in the AGulf, with levels at 260,000mt x ws 32.5 to the Far East. Suezmax Charterers initially concentrated on quietly fixing Eastern ballasters and tonnage committed to the area due to a resistance from Owners to ballast tonnage from Europe. Activity has been light and we still have Owners willing to fix at the current conference rate of 130,000mt x ws 55 to Europe. To the East, 135,000mt x ws 55 has been paid.

Mediterranean

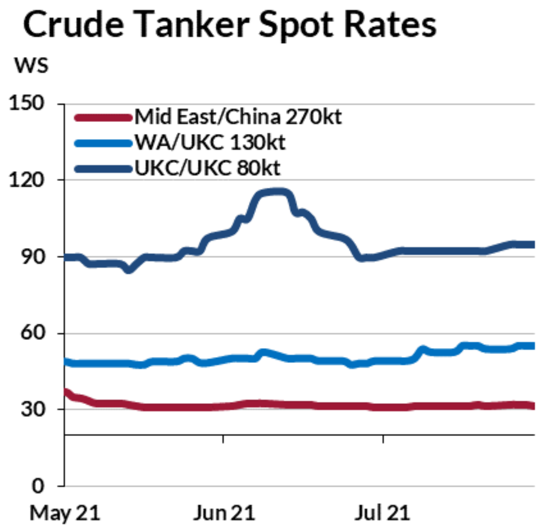
A week which promised much in the end delivered very little as new cargo dates turned out to be very far forward indeed. Aframax Owners hoped that with only a few offers going in for an attractive X-Med run showed resistance; indeed, it was concluded at 80,000mt x ws 77.5. However, as a few more cargoes surfaced it encouraged more Owners to offer and as such a new recent low was achieved from Ceyhan. Black Sea CPC cargoes are currently fixing around 80,000mt x ws 90 and Owners will be hoping of better things to come next week. Suezmax Charterers remain spoilt on the abundance of available tonnage in the area and levels remain flat at 130,000mt x ws 57.5 for a Libya to the UKCont run. To the East, a slightly higher level was posted at $2.25 million to China.

US Gulf/Latin America

Aframax Owners really do have little to cheer about as a new low is somehow reached by Charterers. Again, the issue remains that there are just too many ships fighting over what scraps they can. Last done transatlantic is 70,000mt x ws 65, with levels in the low-mid 70's for short haul. VLCC rates continue to be chipped away at as we see a number of fixtures fail subjects adding a little more uncertainty to the already fragile mind of Owners. Last done is lumpsum $4.05 million from US Gulf to South Korea.

North Sea

Comparatively a bit more Aframax action in the North this week. Although there haven't been any real rate gains, with Baltic trading at 100,000mt x ws 62.5-65 levels and X-North Sea around 80,000mt x ws 95 the surface action seemed busier. We are still a way off this turning into any serious shift in sentiment but it is at least positive to see ships being clipped from the rather plentiful list.



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

Clean Products

East

LR1s and LR2s have had very contrasting weeks. The LR2s saw a real lack of stems over the previous 10 days and the week started with a fair volume of enquiry. But this only confirmed a lack of belief and rates dropped very quickly. 90,000mt jet AGulf/UKCont fell to $1.70 million and is worth no more for now. 75,000mt naphtha dropped to ws 80 and less could be seen but it was a decline of 10 points so Owners will be keen to avoid any further discount.

LR1s have been busy, and rates have seen slight increases with 60,000mt jet AGulf/UKCont back to $1.35 million and 55,000mt naphtha AGulf/Japan up from a low of ws 80 to ws 90 now. Owners are pushing for more on the long hauls as well as short runs - but progress is likely to be slow. If next week is busy though, rates will keep some momentum.

A very busy end to the week on the MRs with some seriously good volume coming out and thinning the front end of the list. We delay writing this commentary as long as we can as the market keeps pushing with each fixture on subs. Last done rates are as follows but are unlikely to hold: EAF 35 x ws 155, AGulf/UKCont $990k - please note the MTBE premium may be argued here (Owners would disagree of course). TC12 trades at 35 x ws 105 but needs a fresh test. In reality, very few Owners will fix this side of the weekend and we have twelve cargoes outstanding so Charterers may have to explore alternative sizes to avoid a bullish market.

Mediterranean

A similar story this week in the Med with plenty of fixing window tonnage keeping rates firmly at the bottom. For much of the week 30 x ws 120 has held but on occasion, a touch under at the 30 x ws 117.5 mark has been achieved by Charterers, dependent on the vessels position. A slip in rates ex Black Sea to 30 x ws 120 albeit on an '02 built vessel shows the lack of action but expect the majority to hold for the 30 x ws 125 mark, which has been the market for much of the week at +5 on top of X-Med. More of the same is likely next week and, with bunker prices still increasing, expect Owners to dig their heels in with further losses meaning earnings edge closer to zero returns.

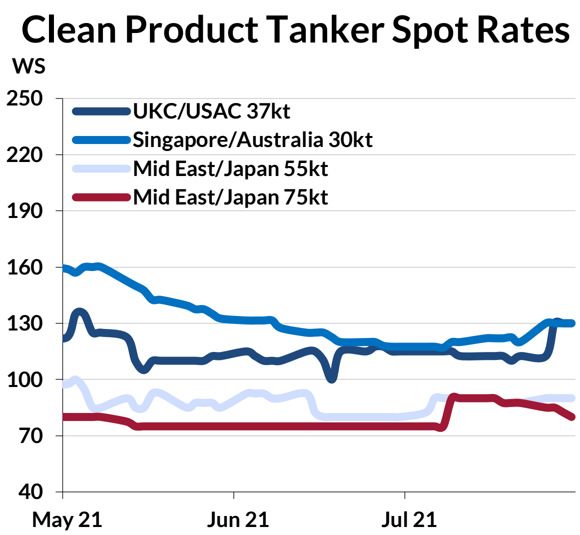
For the MRs, UKCont and Med activity has been like chalk and cheese this week, with little action to note ex Med. We saw a fresh test midweek at the 37 x ws 115 mark but, with positive sentiment in the UKCont expect this rate to be higher when next tested. A tight list coupled with prompt cargoes in NWE has seen TC2 firm to 37 x ws 140 on Friday and although Med rates may not see heights like this, expect Owners ideas to be bullish. WAF remains untested but will track the positive transatlantic sentiment. Next week should see Owners start on the front foot and it will only take a few cargoes for the Med to follow suit.

UK Continent

Off the back of an active week passing last, Owners stepped into the office on Monday with a spring in their step knowing further activity could finally pull us out of these doldrums. Luckily enough, Monday provided a good number of fresh stems and with positivity in the air we quickly pulled up from the 37 x ws 115s up to 37 x ws 130, with potential for more. The midweek section offered limited fixtures as Charterers scrambled around in hope of avoiding getting stung but as laycans started to get closer, some have had to take the plunge and so far today we see further gains up to 37 x ws 140 and expect this hostility to continue ahead. WAF has seen very little involvement in this party with a fresh test really needed to gauge what additional premiums we can expect, but for now we wait to see just how far Owners believe this sector can be pushed heading into the weekend.

It's been an active week for Handies playing their trade up in the North as good demand has been seen for various routes. The continued enquiry for UKCont/Med has seen a healthy amount of units now leave the region resulting in the tonnage list tightening significantly and freight improving to 30 x ws 110. At the time of writing TC9 trades at 30 x ws 130 although with cargoes still uncovered and Owners becoming more bullish their fixing ideas, further gains on freight could be possible.

Activity wise it's been a quiet week in the UKCont Flexi market, with cargo enquiry being on the slow side throughout. However, the good news for Flexi Owners is that their 30kt counterparts have seen rates firm this week, which should heighten ideas in this 22kt market. The call for a X-UKCont run currently stands at the 22 x ws 165 mark but a fresh test will be needed to see where this market really lies.



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Dirty Products

Handy

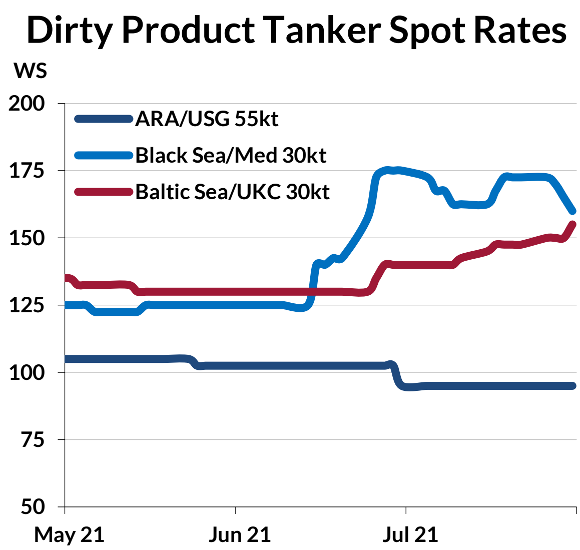
Rates in the North have received a further welcome boost this week, where again owing to the imbalance of tight supply, Charterers are having to manoeuvre up in the Continent with caution. The only problem, however, is that alternate sizes (smaller) are now taking advantage. At the time of writing, ws 155 is being reported on subjects from the Baltic, with extended premia being placed on discharge zones further afield than Bordeaux. Instances such as these further underline the current firm sentiment. Elsewhere, however, the Med cannot boast such conditions where confidence fades by the day. Between deals, rate erosion is being seen where both the tonnage list lengthens and inactivity sets in.

MR

Just as we have seen in the Handy sector, the MRs have been in a similar vein of form where on the Continent they are boosted from tight supply of tonnage, and in the Med, Charterers are realising conditions are favourable. As for rates, it comes as no surprise that the biggest movement has been seen in the Med this week, where at time of writing ws 45 x 112.5 levels are being tested (down week on week). However, the Med could soon find support from stricter vetting requirements. The need for younger tonnage and/or the approvals each ship carries may need some careful navigating around for some Charterers.

Panamax

The validity at ws 95 holds again this week, owing to factors outside of Owners control, as with drip fed activity and the Aframaxes being cheaper on a pro-rata basis, Panamax rates were capped at this level. Other fundamentals do look slightly better though, with the US improving slightly this does alleviate the threat of ships looking to come over and forces Charterers to (where possible) live with the tonnage selection that presents this side (mainly over 15).



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 29th	Jul 22nd	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+0**	32	32	32	34
TD20	Suezmax	WAF-UKC	**+0**	55	55	51	54
TD7	Aframax	N.Sea-UKC	**+2**	96	94	102	94

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

			wk on wk change	Jul 29th	Jul 22nd	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-750**	-4,250	-3,500	-4,250	-1,750
TD20	Suezmax	WAF-UKC	**-500**	2,250	2,750	0	2,000
TD7	Aframax	N.Sea-UKC	**+0**	-2,750	-2,750	4,750	-4,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 29th	Jul 22nd	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-7**	80	87	75	
TC2	MR - west	UKC-USAC	**+18**	130	112	112	126
TC5	LR1	AG-Japan	**+3**	89	86	81	93
TC7	MR - east	Singapore-EC Aus	**+6**	131	125	122	137

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

			wk on wk change	Jul 29th	Jul 22nd	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-2500**	2,500	5,000	750	
TC2	MR - west	UKC-USAC	**+2500**	4,000	1,500	1,000	3,250
TC5	LR1	AG-Japan	**+250**	2,250	2,000	500	3,250
TC7	MR - east	Singapore-EC Aus	**+750**	3,250	2,500	1,750	4,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**+14**	524	510	533
ClearView Bunker Price (Fujairah VLSFO)	**+16**	536	520	546
ClearView Bunker Price (Singapore VLSFO)	**+6**	545	539	547
ClearView Bunker Price (Rotterdam LSMGO)	**+16**	589	573	595

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