

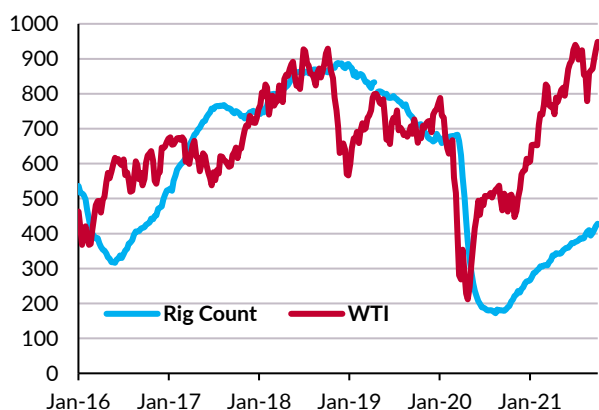
# Self Imposed Discipline

## Weekly Tanker Market Report

US crude production has averaged this summer some 600,000 bpd above the level seen in summer 2020. However, on an annual average basis, US crude output in 2021 is still likely to average at slightly lower levels compared to 2020, in part due to disruptions caused by Hurricane Ida. Another key factor why the US is not seeing a greater increase in output is the impressive cash-flow discipline shown by public US shale operators. They have moved away from expanding production to debt reductions and dividend growth after years of disappointing financial results. The CEO of Pioneer Natural Resources, the single biggest oil producer in the Permian basin shale, expressed an opinion that shale producers are likely to keep using rising cash flows to pay shareholders and not fund new drilling, despite the upward trend in oil prices.

Nonetheless, the US drilling activity is rising. Baker Hughes data shows that there are currently 428 oil drilling rigs in operation, more than double the level seen in Q4 2020, although these numbers still are well below the rig count seen prior to the pandemic. According to analysis done by IHS Markit, private

**US Oil Rig Count vs. WTI**



companies accounted for the vast majority of the growth in the number of US oil and gas drilling rigs this year, as these companies do not face the same pressure from investors. Going forward, larger companies may have to increase spending in drilling. Up till now, many operators have been relying on drilled but uncompleted wells (DUCs) to maintain production without higher spending. The number of DUCs fell to 5,957 in July, the lowest in four years, from nearly 8,900 at its 2019 peak. The EIA estimates that the top US shale fields have less than six months of DUCs remaining. On this basis, drilling activity needs to increase in order to prevent a decline in production. Higher oil prices are

another critical factor which could stimulate investment. Rystad Energy estimates that during the 1H 2021 shale's break-even price at the well-head averaged in a range of \$20-\$40/bbl, depending on the basin. With WTI comfortably above \$60/bbl since February this year, this leaves plenty of margin to offer attractive returns to investors and to invest into expanding the production base at the same time. Both the IEA and EIA see US crude output growing going forward, with their latest estimates for growth in 2022 ranging between 650,000 bpd and 800,000 bpd. Further gains are also likely beyond 2022.

For the tankers markets, higher US crude output will facilitate rising exports. Kpler data shows that so far this year US crude exports have averaged just circa 200,000 bpd below the record levels reached in 2020. Long haul exports on VLCCs have remained stable, while Suezmax shipments have actually increased by over 40% at the expense of declining Aframax trade. If a rebound in US crude exports is indeed seen, longer haul trade on larger tankers is likely to benefit the most, as refining capacity in Europe has seen some permanent capacity shutdowns, while demand is under exponential environmental pressure. Furthermore, as a sizable portion of West African crude will be refined domestically once Nigeria's Dangote refinery becomes operational, Asian buyers of misplaced barrels may have to look further afield to source grades of similar quality.

Although expectations are for the growth in US shale to resume, for now the gains here are unlikely to be as spectacular as those projected prior to the pandemic. Yet, we need to bear in mind that rising oil demand, steep draws in global inventories and the reluctance of OPEC+ to release more than 400,000 bpd into the market on a monthly basis could well see further upward pressure on oil prices, testing once again shale producers' self-imposed discipline.

## Crude Oil

### Middle East

With Charterers focus turning to their third decade VLCC program, Owners will be encouraged that they have been able to push for slightly higher levels from the previous week against predominantly Chinese enquiry. Next week we should start to see more interest for the last decade window but for now rates are holding at around 270,000mt x ws 40.75 to the Far East and we estimate levels around 280,000mt x ws 20 for the US Gulf. As in other areas Suezmax demand ratcheted up for both East and West with the most significant gains achieved in many months. Basrah/Med is up to 140,000mt x mid ws 30's and East heading towards 130,000mt x ws 65 with cargoes left uncovered over the weekend. The clear out of Aframaxes in the AGulf is in motion and with the Med market inching up and few ballasters on the horizon from Singapore, levels for AGulf-East are back at 80,000mt x low/mid ws 90's with expected further gains on the cards next week.

### West Africa

The steam was slightly taken out of the VLCC market here after seeing a number of deals posted at slightly below last done, even though the US Gulf markets continued to strengthen. It looks increasingly unlikely Charterers will be able to better last done which currently stands at 260,000mt x ws 42.5 to China. A busy third decade has enabled Suezmax Owners to push through this week with TD20 rising from 130,000mt x

ws 57.5 to high ws 60's. Next week Owners have their eyes set on ws 70 for Europe and ws 75-77.5 for East against a tight forward list.

### Mediterranean

This has been a profitable week for Aframax Owners in the Mediterranean and Black Sea markets. A steady stream of cargoes and a thinner list of well approved ships led to a strengthening of rates from 80,000mt x ws 102.5 for CPC loaded off normal dates to a high of ws 112.5 for a replacement enquiry. As the days passed the replacement number was used as an anchor with rates for normal positions moving up towards it. However, Charterers played an immaculate hand and en-masse decided to wait for sentiment to cool before playing their hands. The conclusion was collective fixing at ws 110 levels rather than the ws 115-120 levels which Owners were shooting for. In the main the ships taken have not had the best of itineraries though and we wait to see if more replacement opportunities can give Owners another chance. Consistent short and long-haul demand has trimmed the slack in the Med list and given Suezmax Owners the opportunity to push. Black Sea/Med is up to 140,000mt x ws 72.5-75 level and East currently around the \$3.0 million mark.

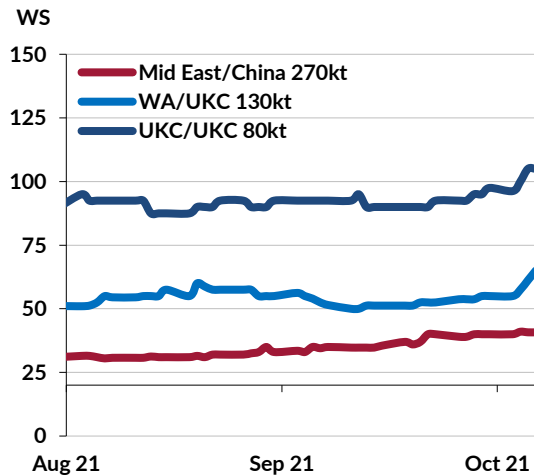
## US Gulf/Latin America

Aframax levels have gently nudged up as the week progressed against a gradual thinning of availability. Needs more if Owners are to really make any impact, but the coming weekend should see the list replenish ensuring Owners again go on a more defensive footing with short haul levels up to 70,000mt x ws 85. VLCC rates have moved up to far healthier levels as Charterers keep coming back for more, combined with higher bunker costs this has given Owners a far stronger stance on levels needed with last done being around \$5.4 million to the Far East.

## North Sea

Perhaps one of the most exciting weeks in the last couple of quarters in the North. Monday had a sense of anticipation which materialised with a relatively sharp increase in Aframax Baltic rates on Tuesday. Although momentum settled down a bit in the tail end of the week the market remains warm with Baltic/UKC trading at 100,000mt x ws 80 levels and X-Cont at 80,000mt x ws 105. Could this be the start to the long awaited recovery...?

## Crude Tanker Spot Rates



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

## Clean Products

### East

A quieter week again for LRs and rates have seen the associated fall away. LR2s have seen harsher drops, with 90,000mt jet AGulf/UKCont now at \$2.1million. TC1 stayed flat for longer than expected but now 75,000mt naphtha AGulf/Japan is down 7.5 points at ws 95. These rates should stabilise now if we see the expected activity increase after the Japanese holiday.

LR1s have been busier but rates have seen limited progress. TC5 for 55,000mt naphtha AG/Japan is at ws 102.5 but there may be the odd discount even to that out there. West runs are flat at \$1.525 million AGulf/UKCont. The short hauls are an early gift to Owners but do result in a faster return of tonnage so a more sustained market is tough. But activity is expected to see an improvement and lists could potentially reduce quickly. Next week will see how the month moves on.

MRs saw a correction on rates this week as the lack of activity put pressure on the Owners. However, with just enough stems the front end has been chipped away and with a number of open stem going into the new week, there is scope for light hope from Owners. Both East and West stems are not preferred at present (higher bunkers prices not helping) and expect to see a push on last done as Owners want a premium. We assess TC12 at 35 x ws 125 and UKCont at \$1.2 million levels. EAF and short hauls have been very much preferred by

Owners and as such EAF at 35 x ws 175 and X-AGulf at the \$190k levels should be repeatable. Hopefully the return of the Far East back from Golden week will give a little more stimulation to the market.

### Mediterranean

For much of the week we saw rates hold at the 30 x ws 130 and 30 x ws 140 mark for X-Med and Black Sea respectively but a quiet mid-week allowed Charterers to apply some pressure and with a slow build-up of tonnage, rates began to slip. Thursday saw 30 x ws 130 on subs ex Black Sea (albeit for a Black Sea opener), which in turn led to 30 x ws 125 on subs X-Med, with rates still under pressure on Friday. Expect most Charterers to be aiming now towards the ws 120 mark, however, with the bunker price where it's at, returns are still poor for Owners so expect them to dig their heels in. Monday is likely to bring a replenished list however with paper trading at a touch higher than 30 x ws 135 for the balance of October, it's likely we see improved cargo enquiry next week which should put Owners in a strong position for rates to improve once again.

In terms of activity, it has been a pretty good week in this Mediterranean MR market, which has seen the tonnage list start to improve. For the majority of the week ships have mainly been fixed away for short haul X-Med stems rather than longer haul runs but as we approach the weekend, we see a handful of

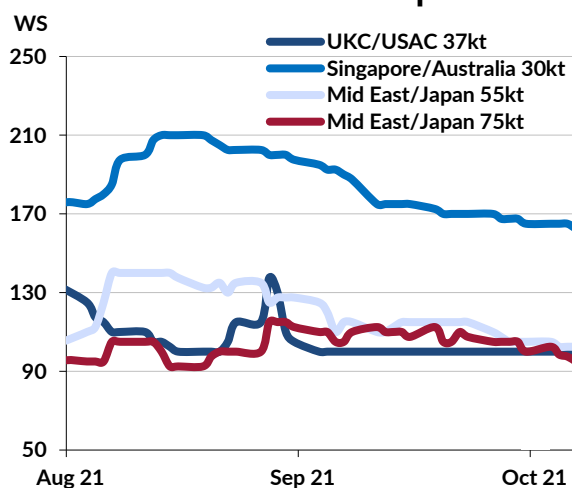
transatlantic/WAF cargoes enter the market. For now, rates remain at the 37 x ws 100 mark for transatlantic and slightly higher for WAF but Owners will feel there is perhaps some potential to push rates from the bottom if further enquiry is seen next week.

## UK Continent

The week started with many talking about the lack of ballast tonnage from the Atlantic Coast on our lists and perhaps this was going to be the week of change. Unfortunately, we remain hampered by excess prompt tonnage and, with only a splattering of transatlantic stems and lack of WAF, Charterers continued to hold the upper hand. Owners have been treated to more short-haul, where perhaps Handies would have been used, which has kept vessels moving but unfortunately not far enough away. This market continues to sit in the doldrums of 37 x ws 100, and a spike in enquiry is going to be needed to shake these levels.

Ultimately another subdued week on Handies in NWE. This week has been an uphill battle for Owners with MRs competing for the short runs and a lack of cargoes in general, rates fell back to the bottom in the middle of the week to 30 x ws 120 for Baltic/UKCont with a ws 5 point discount for X-UKCont voyages. A never-ending stacked list combined with COA partners and other cargoes quietly fixing under the radar has helped kick Owners' belief in the market. The outlook is flat.

## Clean Product Tanker Spot Rates



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

# Dirty Products

## Handy

Additional gains were seen on the Continent this week with the supply vs demand equilibrium tipping still in Owners' favour. Throw into the mix additional market dynamics, where in this case fixing dates moving forward, this can often flatten off any upside. Currently though Owners also claim the bragging rights on this factor with most forward tonnage still looking uncertain, thus keeping supply limited. Units arriving from the Med, however, have had a slight cooling effect, where north of 160 probably would have otherwise been on the cards.

In the Med, conditions have also been favourable with the impact of successive weeks of a larger cargo base making their mark. Driven mainly by the Black Sea rates going from strength to strength with Charterers feeling the effect of date sensitivity. Further testing however showed levels falling a bit short of their peaks, yet there were undeniable gains which remain. Furthermore, the immediate forward picture for this sector looks somewhat rosier, with Charterers now having to work further ahead, which brings a whole new layer for potential problems, although the mid/near-term view on this market is slightly cloudier when Tuapse goes offline for maintenance.

## MR

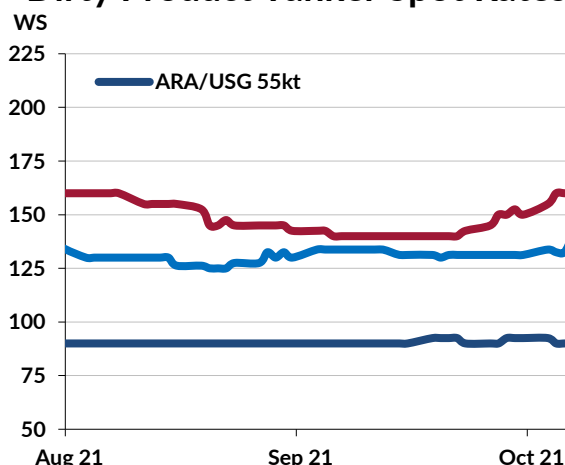
Once again, we see a trend in each region echoing that of surrounding sectors, where this week the Continent held more potential for Owners, although those who fixed later on in the week would have seen the tables turning slowly in their favour. Finding an MR in the Med, however, was less of a challenge but with all the activity that had been seen leading into this week, Charterers found

owner confidence firm enough to support rates, but again for a successive week not firm enough to really press for any lasting increment.

## Panamax

Absent of activity, current benchmarks have begun to look stale with multiple units now sat well past their open dates. With some units opting to ballast back to the US, those left over here are prepared to draw a line on the waiting time but remain resolute in giving any reduction. For Charterers maybe there is 2.5 points from last done, but the artificial floor to this market is real as bunker prices are now higher Owners simply won't move oil for negative returns. With long-haul questions yet to surface, going forward we could see Owners compete for part cargoes as firming in surrounding markets continues to build.

### Dirty Product Tanker Spot Rates



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

## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 7th	Sep 30th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	+0	41	41	34	48
TD20	Suezmax	WAF-UKC	+9	64	55	52	72
TD7	Aframax	N.Sea-UKC	+10	106	96	92	108

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

			wk on wk change	Oct 7th	Sep 30th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	-750	3,500	4,250	-1,000	11,500
TD20	Suezmax	WAF-UKC	+4000	5,250	1,250	1,500	9,250
TD7	Aframax	N.Sea-UKC	+5500	2,000	-3,500	-5,000	3,500

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 7th	Sep 30th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	-8	97	105	106	
TC2	MR - west	UKC-USAC	+0	100	100	98	132
TC5	LR1	AG-Japan	-1	103	104	114	116
TC7	MR - east	Singapore-EC Aus	-3	163	166	186	171

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

			wk on wk change	Oct 7th	Sep 30th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	-2500	6,750	9,250	10,750	
TC2	MR - west	UKC-USAC	-500	-2,000	-1,500	-750	3,000
TC5	LR1	AG-Japan	-500	4,500	5,000	8,000	7,500
TC7	MR - east	Singapore-EC Aus	-750	7,500	8,250	12,000	9,000

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

ClearView Bunker Price (Rotterdam VLSFO)	+14	559	545	509
ClearView Bunker Price (Fujairah VLSFO)	+22	583	561	535
ClearView Bunker Price (Singapore VLSFO)	+8	576	568	540
ClearView Bunker Price (Rotterdam LSMGO)	+29	669	640	576



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