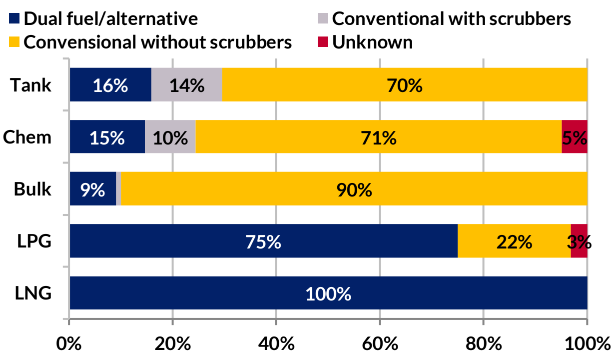
Conventional or Dual Fuel?

Weekly Tanker Market Report

Decarbonisation talk appears to be everywhere nowadays - on a government level and in a plethora of industries. Last year saw several international agreements reached during COP26 as well as European Union proposals to include shipping in their emissions trading scheme. The IMO agreed on short term measures for decarbonising shipping, including the Carbon Intensity Indicator (CII) and the Energy Efficiency Existing Ship Index (EEXI). Shipping companies are not immune to these pressures, with many trialling/implementing innovative options, be it alternative fuels, air lubrication, rotor sails, voyage optimisation, carbon offsets, etc.

When it comes to ordering new tonnage, uncertainty remains on the best long term propulsion solution and each sector is responding differently, depending on the specifics of their trade. In deep-sea merchant shipping, the most clarity over newbuilding choice appears to be in the LNG/LPG segments, which saw a surge in orders last year. Almost all existing LNG carriers are already dual fuel. For LPG carriers, this is a relatively new trend, with dual fuelled vessels accounting for 75% of 2021 orders. Of course, technological, and practical considerations mean that these sectors are most capable of operating with dual fuelled engines, essentially due to the type of cargo they carry.

2021 Orders by Propulsion Type (%)



The uptake of dual fuelled engines is also gaining pace in the container industry, supported by a colossal increase in newbuilding appetite. Last year saw a significant number of orders for LNG-fuelled containerships, with this choice supported by growing LNG bunkering infrastructure and the predictability of routing, enabling efficient bunker planning. Although there are concerns about the environmental credentials of LNG due to methane slip and life cycle emissions, another advantage of LNG propulsion is that both bio-LNG and synthetic LNG could be used as 'drop-in' fuels, if in the distant future there are restrictions on use of LNG as a fuel. For example, in the EU's proposed Energy Taxation Directive, LNG will have an advantage over conventional bunker fuels only for a transitional period, indicating that the block does not currently see it as a long-term sustainable option. Some new containerships are opting just for the LNG-ready notation, which enables vessels to be later retrofitted to LNG fuelled engines. A.P. Moller-Maersk, in contrast to many of its peers, has decided against LNG and instead ordered 8+4 dual-fuelled container vessels capable of running on methanol. While interest in LNG as a fuel is certainly on the rise, the sector is yet to come to a consensus as to whether or not LNG is the way forward, with orders for conventional engine with exhaust gas cleaning technology still being one of the most popular choices.

The dry bulk sector also appears to have made its choice, following a similar surge in orders, with conventional tonnage accounting for the overwhelming majority of 2021 orders. For tankers, there is less clarity. Investment in new tonnage has been very limited, due to depressed earnings, increases in newbuilding prices and questions around long term oil demand. The early part of 2021 saw some interest in alternative propulsion, with a number of LNG fuelled vessels being ordered, almost entirely in the larger crude segment. However, the overall trend points in a different direction. Nearly 85% of all tanker orders placed last year are for conventional propulsion, although there is still a healthy appetite for scrubbers. Some vessels have also been ordered with an LNG-ready notation and even with ammonia-ready notation. Surging LNG prices and higher premiums for dual propulsion may have deterred some interest. However, as with bulkers, the fact that most tanker orders are for conventional tonnage suggests that there is still confidence in existing new vessel designs with conventional propulsion which are considerably more fuel efficient relative to an average 10-year-old vessel. Whether this remains the case is yet to be seen. The finance industry now holds substantial portfolios of more environmentally friendly assets, and we can only speculate that financiers potentially could be more willing to push for a greener dual fuel tanker instead of a conventional type of ship.

Crude Oil

Middle East

A deflating week for VLCC Owners as the slow flow of enquiry combined with an over-abundance of tonnage gave every opportunity for Charterers to push for further discounts and ensure Owners returns are negligible at best. Last done levels to the East are 270,000mt x ws 33.5 and a Western voyage will command rates around 280,000mt x ws 17.5 to the US Gulf. The busy end Jan/Ely Feb window for Suezmaxes ex Basrah seems a distant memory now. The market started the week convinced that TD23 was heading to mid 30s, however, a lengthy forward list weighed on sentiment and Owners were unable to build on progress of last week. There are a number of Ee DD and newbuildings keen to get into the West in the next window so next week Owners will do very well to defend 140,000mt x ws 30 for Basrah/UKCM and 130,000mt x ws 60-62.5 for East destinations. A steady week on balance for Aframaxes in the East, however the higher bunker prices are arming Owners with a few tools to try and nudge rates up. AGulf-East is showing a few positive signs with rates closing at 80,000mt x ws 105.

West Africa

Many Suezmax Owners will be disappointed after the busiest 2-week fixing period in a year has resulted in only slight gains. Lists are, however, now looking thinner off forward dates and 130,000mt x ws 60 is within Owners' grasp for WAF/Europe and East around 130,000mt x ws 65-67.5. Momentum is on the Owners' side as we go into next week. Muted VLCC interest to start the week which saw high interest from Owners as expected forward positions look to be just as unexciting as the current dire situation Owners find themselves in. Levels to the East should next fix at around 260,000mt x ws 37.

Mediterranean

A gradual loss of confidence in the Med for Aframaxes this week. It could have seen to be inevitable with the recently active weeks that there would be a reckoning. This coupled with a below average delay in the Turkish Straits allowed rates to feather down from the recent short lived spike. Ceyhan loaders moved to 80,000mt x ws 105 then ws 103.75 as a conference rate, before a low of ws 100 was achieved for one of the last cargoes available off January dates on recently failed tonnage. Black Sea rates have suffered similarly with 80,000mt x ws 100 achieved for a local ship, though others will look to post the same level now. Programmes seem average enough and the larger ship sizes do not provide much hope for optimism in the near term. Buoyant Aframax markets helped to trim the front end of the Suezmax list at the start of the week and Black Sea Charterers have quietly gone about their work with a good portion of the East Med tonnage now taken. The Americas also continue to absorb West Med ships. TD6 has crept up in line with other areas to 135,000mt x ws 67.5 level and Black Sea/South Korea expected to pay $2.85 million + next week.

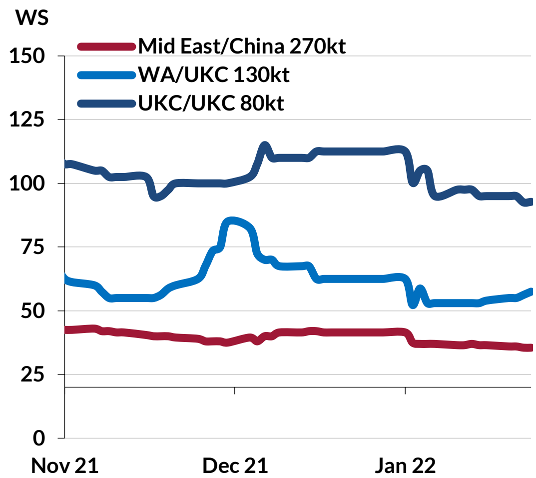
US Gulf/Latin America

Aframax levels have remained relatively stable throughout the week, with only minor fluctuations. Availability has thinned a little so there is a potential upside next week provided Owners see similar interest. For now, rates hold at around 70,000mt x ws 100 for transatlantic or short haul runs. VLCC Owners have not had the busiest of weeks, with only a small handful of cargoes. Rates have naturally dipped as all regions falter with last done being around $4.7 million from the US Gulf to South Korea/China.

North Sea

A bit of a flat week for Northern Aframaxes with the market travelling sideways and little to change the sentiment on the surface. Cross North Sea is trading at 80,000mt x ws 92.5 and Baltic/UKCont at 100,000mt x ws 90 levels. There is some hope that a rebound of sorts could be on the cards for next week, but for time being the going is slow.

Crude Tanker Spot Rates



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

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Clean Products

East

The LR2s have had a disastrous week, even with expectations set low. The rates came spiralling downwards with TC1 on subs at 75 x ws 75 and UKCont on subs at $1.65 million showing just how weak the LR2 market sits for now. A very tough pill for Owners to swallow, but Owners need to take weekend to recalibrate, accept that these levels have been done and look to next week, with impending Chinese New Year and hope that we see high levels of activity that can clear the tonnage list and slowly dig out of this hole.

LR1s had been fairly balanced over the course of the week with TC5 not moving from 55 x ws 97.5 for over 2 weeks and UKCont at the $1.625 million levels. However, with the rates that the LR2s are doing, Charterers rightly feel there needs to be a correction on the LR1s. Owners will have to accept that we are going to see a negative correction but, with bunkers so high, just how big will that correction be?

Another busy week for the MRs, but the terrible state of the LRs is starting to hinder MR sentiment. Aramco among others have been very busy off market into EAF, with rates starting at ws 185 before ws 192.5 finished the week off. Despite bunkers edging towards $700/mt, a ws 190 AGulf/EAF round trip earns a five figure TCE. As expected, where possible, X-AGulf has begun to move on LR1s, $210k might have failed for Jubail/Jebel Ali but this could likely be repeated. TC12 has been fixed at ws 132.5 but has peaked. With Singapore earnings hovering around the $6-7k/day mark, even a ws 127.5 TC12 pays better and as such we will see more ballasters this weekend (four have already set sail Friday). Sentiment is flat and rates likely to be tested lower off early February dates and the list lengthens out.

Mediterranean

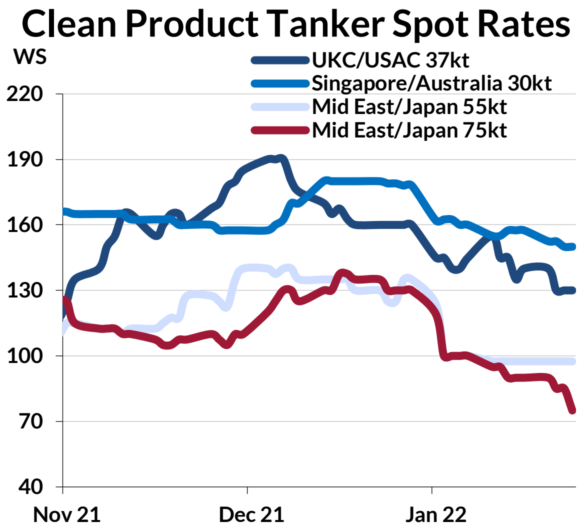
We saw pressure from the off this week, with the weather easing across the Med, which led to replenished lists being pulled on Monday morning. 30 x ws 160 soon became the going rate X-Med, however, we saw rates consistently slip throughout, and although 30 x ws 150 was paid on Wednesday evening, 30 x ws 155 continues to be the going rate at time of writing. The Black Sea has generally followed Med sentiment however, with TS delays beginning to increase towards the back end of the week and an uptick in cargoes seen ex Black Sea towards end month, the 30 x ws 165 last done Black Sea could be positively corrected in exchange for safer itineraries. Friday action has looked healthy and, with the weather not looking great over the next few days, there could be room for improvement.

Overall, it’s been an active week in this Mediterranean MR market, with the front end of the week bringing a large influx of fresh cargo into play. Unfortunately for Owners this also brought with it an extended fixing window and as a result, rates have come off from where we began the week. At the time of writing, 37 x ws 135 is on subs transatlantic ex Med and Black Sea with WAF trading at 5 points more. With little currently outstanding and TC2 at the 37 x ws 130 mark, expect some further pressure on next done levels heading into the weekend.

UK Continent

The weight of available tonnage has remained a constant thorn in Owners side this week, as we see rates further decline to a new low of 37 x ws 130 for TC2 now. With a wealth of options, Charterers have been able to pick and choose, with a good number of stems never making it to the market especially ex Baltic, which in turn has made this market feel a little quieter than reality, with few arbs seemingly open bar a limited number of Argie runs. With bunkers at a premium also now, it seems the bottom of this sector has been raised and expect for now anyway, rates to level out as we wait to see what sort of enquiry emerges off the early February window.

With a slow start to the week for Handy Owners in the North, there was no surprise when TC9 ice rates corrected down to 30 x ws 175 after good LRs demand was seen ex Baltic. That being said, this did spark a surge of enquiry for end month handy cargoes which saw last done levels repeated at the mid-week stage. Some Charterers looked for cover via the softening MR market for end month ice cover as Handies did tighten up but by Friday, 30kt clips softened by 5 ws points to 30 x ws 170. Non-ice units have been well supplied as UKCont/Med traded at 30 x ws 127.5-130 and XUKCont to 30 x ws 150. Pressured heading into next week.



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Dirty Products

Handy

The eerily quiet trend continues for the Northern markets where despite Owners recent efforts to hold on to reasonable levels, a combination of idle days stacking up and tonnage lists building has seen the inevitable correction in levels. From mid-week, weakening sentiment coming from the obvious lack of activity saw expectations of next done being fixed sub ws 200 (2022) and by keeping any questions under the radar, Owners have been forced to take what is on offer - with Ice Class tonnage considering voyages out of the region. Week 4 will start with a well populated list of tonnage and unless there is an injection of pace, levels will come under further pressure.

In contrast, the Med Handy market has gone from strength to strength where sustained firm enquiry, driven mostly from an uptick in Black Sea cargoes, has seen the tonnage list continue to shorten. By mid-week some Charterer had reached forward on dates to secure units, which only served to allow Owners the opportunity to push on where cargoes remained in the natural window. At the time of writing, ws 162.5 has been achieved from the Black Sea and, with end month replenishment for some fleets not yet surfacing, expect the region to firm further in week 4.

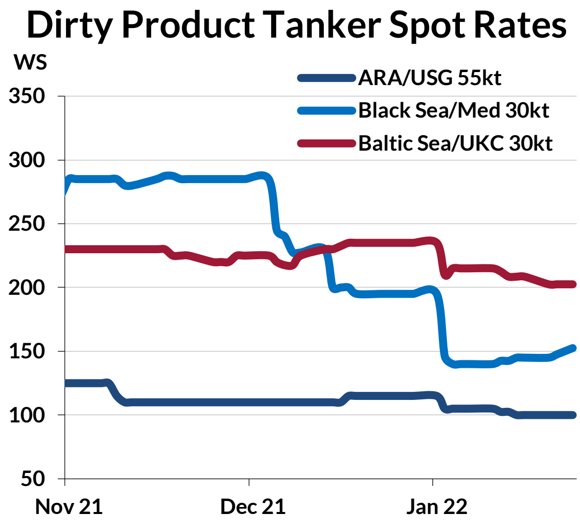
MR

Week 3 has seen a comparatively more subdued level of enquiry in the North compared with week 2 as firm units thinned and natural tonnage replenishment is yet to surface. The clear down of natural and ballast units may have put the brakes on enquiry this week, however, Owners may not be too disappointed to be out of the region this week as inactivity and continued softening of sentiment on the Handies continues. Going into week 4, all eyes will be on how bullish the first units to be marketed will be in order to gauge where the MR market goes next.

For those Owners fortunate to have tonnage to fix in the Med, the region has continued to strengthen this week driven in the most part by firm handy enquiry from the Black Sea and subsequent clear down of East Med tonnage. Despite few tests seen on a full cargo basis, the Handies are offering a viable backstop, which for now is keeping marketed tonnage tight and in turn pushing dates forward. Forward planning and potentially allowing time for ballast units for the next window will be key to securing tonnage.

Panamax

With larger units continuing to offer competitive levels, Panamax Owners with units positioned this side of the pond have once endured a week with very little to get their teeth stuck into. As a result, we have seen one Owner fix their tonnage for cargoes in the States and ballast the other side of the Atlantic to secure coverage. There have been some green shoots where others have managed to find employment where perhaps restrictions have been in play, but the lid is being kept on sentiment and as such we report of the first fixture done on ws 2022 flat rates now sitting at ws 105. Going forward, regardless of a tightening of units this side of the pond, we expect this market to experience no real change until the larger sizes pick up pace.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 20th	Jan 13th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-1**	35	36	42	37
TD20	Suezmax	WAF-UKC	**+5**	57	52	63	57
TD7	Aframax	N.Sea-UKC	**+0**	95	95	113	100

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

			wk on wk change	Jan 20th	Jan 13th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-2000**	-5,500	-3,500	3,250	-3,250
TD20	Suezmax	WAF-UKC	**+1250**	2,500	1,250	6,250	2,250
TD7	Aframax	N.Sea-UKC	**-500**	-2,000	-1,500	9,500	500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 20th	Jan 13th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-11**	78	89	133	
TC2	MR - west	UKC-USAC	**-7**	130	137	164	137
TC5	LR1	AG-Japan	**+0**	98	98	135	103
TC7	MR - east	Singapore-EC Aus	**-8**	150	158	180	150

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

			wk on wk change	Jan 20th	Jan 13th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-4250**	-1,500	2,750	16,500	
TC2	MR - west	UKC-USAC	**-2250**	3,000	5,250	9,250	4,250
TC5	LR1	AG-Japan	**-500**	1,500	2,000	11,000	3,000
TC7	MR - east	Singapore-EC Aus	**-1750**	4,750	6,500	9,500	5,000

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

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