

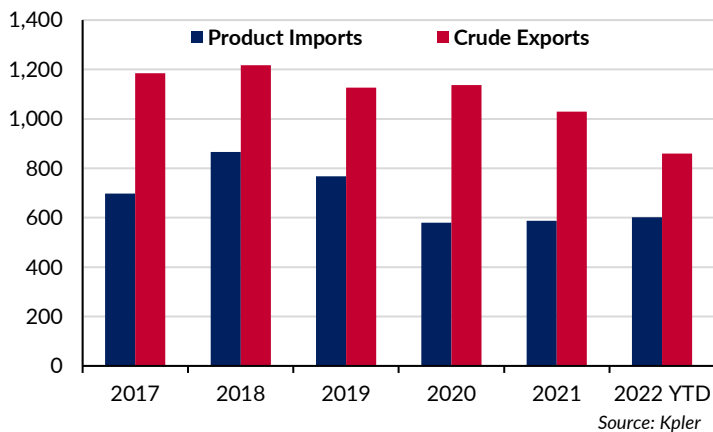
Mexican Revamp

Weekly Tanker Market Report

When Lopez Obrador was elected as the Mexican president, a key policy pledge of his election campaign was to rescue the country's energy industry. At the time, Mexico's domestic production was declining rapidly, down to 2.07 mbd by 2018 after peaking at 3.8 mbd in 2004. The focus was made on sovereignty and security, which effectively put an end to the privatization of the energy sector. Under Obrador, the decline in domestic crude production has slowed, while output could actually edge up in 2022/23 as Pemex has been investing to lift its crude output in the short term. Yet, many believe that in the longer term, international investment is needed to prevent the decline from mature fields.

President Obrador also promised to build a grass roots domestic refinery. Indeed, construction started in 2019 on the new 340,000 b/d Dos Bocas plant. The scheduled completion date is in 2022, with the government expecting to start operations in 2023. However, some analysts doubt this is achievable due to technical/logistical delays and speculate that start-up dates could slip by 1-2 years. Another key component of the government's strategy has been modernisation of the existing refineries. Mexico's refining capacity is currently just over 1.6 mbd, but their refineries have been operating between 37%

Mexico Seaborne Crude and Product Trade (kbd)



to 44% of their nameplate capacity since 2018 due to lack of maintenance and years of underinvestment. In May 2021, President Obrador announced an investment of \$2.64 billion into a coking plant at Tula refinery, which will be able to process 140 kbd of fuel oil. The project is scheduled for completion in 2023.

Since 2020, changes in government energy policy have been seen, with the emphasis shifting to self-efficiency. To this end, Pemex recently completed an acquisition of the controlling interest in the 340,000 b/d Deer Park refinery in Houston jointly owned with Shell.

Pemex is yet to confirm whether all products coming out of the refinery will be destined for the Mexican market; however, such a strategy will certainly be in line with the government's self-sufficiency targets. In terms of refinery intake, Reuters reported that Pemex agreed to supply over 100 kbd of Maya crude into Deer Park; however, it also signed a long-term supply contract with Shell for 200 kbd, which suggests that refinery may not entirely operate on Mexican crude. Domestically, authorities have also openly stated their plans to restore Pemex's dominance in the retail market, with the company offering discounts to wholesalers and retail owners trying to convince them to return to Pemex.

This year, reports have emerged that Indian term contracts have been cut. Pemex has also announced that it plans to reduce crude exports to just 435 kbd in 2022 from around 1 mbd in 2021 and could stop exporting completely in 2023. The plan is in line with the government's goal to eliminate seaborne product imports, which averaged 580 kbd in 2021. Although crude shipments into and product exports out of the Deer Park refinery appear to be counted as domestic movements; nonetheless, this suggests that Mexico's crude and product seaborne trade is set to decline. The question is by how much?

On the face of it, the government targets are ambitious. Apart from technical and logistical challenges, Mexico needs to recover from the pandemic induced economic shock. Meanwhile, Dos Bocas refinery costs are already 40% over the original budget. In addition to the Dos Bocas and Deer Park refineries, Mexico also needs to increase runs at existing refineries to be able to meet its prepandemic demand levels of nearly 2 mbd. Further investment is needed, whilst Pemex already has the highest debt of any oil company. As such, although political will is clearly a major force at play here, the challenges faced may see Mexican crude exports and product imports declining slower than envisioned by the government.

Crude Oil

Middle East

VLCC Owners would have been hoping for a rebound of activity after the previous quiet week due to Chinese New Year. Unfortunately, Charterers kept a lid on their enthusiasm and we only saw a drip feed of enquiry throughout the week. Rates have somehow come off from last done, with a voyage East currently standing at around 270,000mt x ws 31.5. A voyage West was fixed to the UKCont at 280,000mt x ws 16 (via Suez). An interesting week as we saw Suezmax Charterers having to take weaker tonnage to achieve last done levels; prime tonnage Owners have been asking for mid 30's to head West. The week closes with TD23 steady at 140,000mt x ws 30-32.5 level, with a real possibility of more to come. A voyage East stands at around 130,000mt x ws 60-62.5. A quiet week in AGulf. Premiums have been paid off early dates but simply not enough cargo volume to allow Aframax Owners to capitalise on a tight list. Rates hovering at 80,000mt x ws 105-110 for the natural fixing window. If volumes remain low expect rates to come under pressure next week despite the rising bunker prices.

West Africa

Only a couple of servings heading to India were on the menu for VLCC Owners this week, with Charterers receiving plenty of interest and securing sub last done levels. One glimmer of hope though is an uptick in activity from the US Gulf, which should help stabilize levels. Rates to the East

stand at around 260,000mt x ws 33.5. As expected, recent gains have slowly been eroded, with a well-stocked Suezmax tonnage list rates do not look likely to firm any time soon. TD20 is now 130,000mt x ws 60-62 and the likelihood ws 60 will be a milestone Owners will not want to break, especially with bunkers as they are.

Mediterranean

The week started brightly with rates still in 3 figures, however, confidence has slowly been eroded throughout the week as limited cargo activity coupled with minimal delays offers no fundamentals to influence this market which currently stands at around 80,000mt x ws 97.5. The outlook next week is similar, however, with bunkers still pushing up there will be a natural correction up to compensate but we don't foresee this being a large change. A slow week has caused TD6 to soften to 135,000mt x ws 70-W72.5. Charterers have held back throughout the week due to the previous weeks of reaching further forward and some positive steps were taken by Owners closely watching the U.S markets as they ballasted to US Gulf. Med/East rates are stable around \$2.6 million.

US Gulf/Latin America

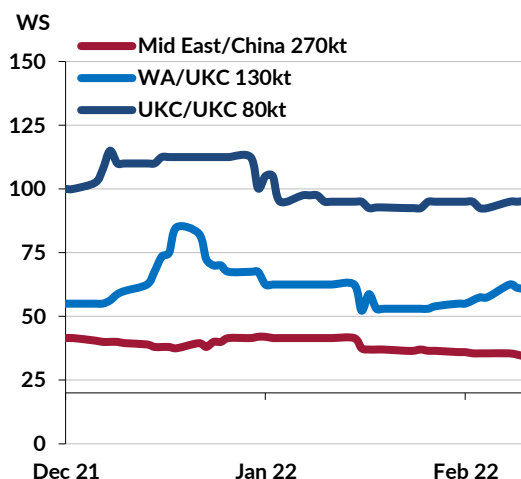
One replacement Aframax enquiry gave one solitary Owner the opportunity to claim a high premium over last done and that has at least given Owners on the forward position hope of pushing levels on. Fewer speculative Owners are risking

the ballast across the pond so the list is a little more balanced than previously seen ensuring this area certainly has a chance of a more prolonged progression. Last done for short haul is now around 70,000mt x ws 140. VLCC tender interest sparked a number of Charterers into life giving the market a false sense of activity, unfortunately it is only likely to provide a short spike in rates where last done sits at around \$4.3 million to the Far East.

North Sea

A lack of change in the North at the moment, with the only considerable movement being the hike in bunker prices. Rates look likely to remain the same in the near term with X-North Sea fixing at 80,000mt x ws 95 level and Baltic at 100,000mt x ws 85. Ballasters are the obvious indicator as to how weak the X-North Sea market is with numerous heading either TA or Med. Sentiment remains flat.

Crude Tanker Spot Rates



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

Clean Products

East

Tough times have continued for LR2s, especially the LR2s, where even with a good volume of fixing, improvements have been nigh on impossible to see. In fact, even lower than the perceived floor was paid to East Africa, with 90,000mt AGulf/EAf fixed at ws 49. But there has been good volume of fixing behind the scenes and the list will definitely be shorter on Monday. The question remains though if enough volume will continue to clear tonnage to finally see any real progression for Owners. 75,000mt naphtha AGulf/Japan is steady at ws 70 and 90,000mt jet AGulf/UKCont is no lower than \$1.65 million today. Further out the LR2 list is much shorter, so once lists clear, rates in March could start to see faster improvements.

LR1s have seen a flat week, with freight in some places still showing higher levels than LR2s, which was always going to hamper LR1 moves. 60,000mt Sikka/Singapore is a touch firmer, with ws 107.5 done twice and ws 110 predicted to be next. 55,000mt naphtha AGulf/Japan is also getting a little tougher to repeat last done, with ws 97.5 definitely next and ws 100 not far away. 60,000mt jet AGulf/UKCont remains flat at \$1.60 million and needs LR2s to gain some separation before any significant rises can be seen.

MRs in the AGulf have remained largely flat over the course of the week. However, with a number of off-market deals added to openly quoted cargoes by

the close of the week, the list is starting to tighten. EAF held steady at 35 x ws 185 and TC12 at the 35 x ws 127.5 mark. West runs have not been at active as in previous weeks and as such hold at \$1.25 million. There is an expectation that we will see West and TC17 cargoes early next week, but Owners need to be careful as trying to push too hard could see Charterers looking to the larger ships that have more favourable economies of scale.

Mediterranean

A week of two halves in the Med, with Monday lists proving to be grim reading for Owners and the build-up of prompt tonnage leading to losses for the first half. 30 x ws 145 soon became the going rate after two days of rates softening and it wasn't until Thursday that this market started to turn. A large influx of enquiry across the board (especially ex Black Sea), coupled with an already tightening list, saw rates firm to 30 x ws 160 levels with mf 7.4 achieved on Thursday. Improvement in rates didn't stop there, with 30 x ws 205 achieved ex Black Sea on Friday and 30 x ws 190 on subs X-Med but needing a fresh positive as well as the heights of mf 10. Next week is sure to bring further Black Sea action, given the shorter month, which will keep rates propped up and those with firm itineraries in EMed/Black Sea should and will be showing high ideas.

All in all, it's been a positive week for the Med MRs, with rates firming throughout off the back of improved enquiry and a tightening list. 37 x ws 135

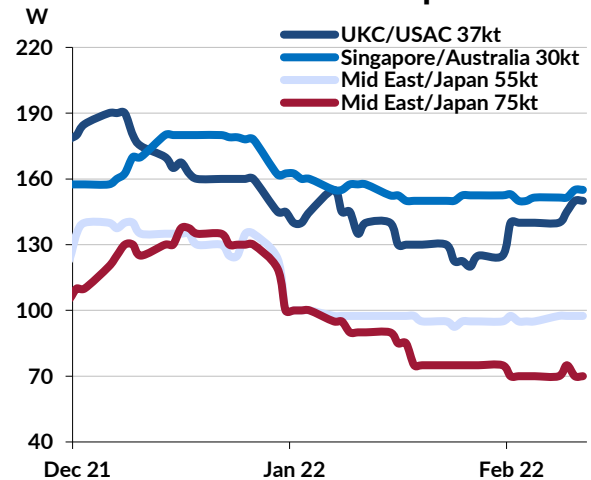
Med/transatlantic was the call at the start of the week and WAF was tracking at +5 points more (37 x ws 140); yet, after a handful of ships were picked off early in the week, rates soon began to move. Increasing TC2 rates also enhanced Med Owners ideas and at the time of writing, we now see Med/transatlantic and Med/WAF level at the 37 x ws 150 mark. Heading into the weekend, cargoes still remain and, with a prompt TC2 currently on subs at 37 x ws 167.5 (lc fame) and 37 x ws 157.5 on subs off natural window, expect some bullish ideas.

UK Continent

Overall, another successful week passes for Owners, with the cherry on the top being the prompt market quote being covered on Friday at a hefty 37 x ws 172.5 (lc fame - 37 x ws 167.5). Owners have been able to build from 37 x ws 140 on Monday off the back of a couple of hiccups/late runners and by midweek (despite minimal WAF enquiry as larger tonnage has been preferred) rates clambered to ws 150. Ice enquiry has been good, which pulls that market also to 37 x ws 180 for UKCont/transatlantic discharge options. With much of the top of our tonnage lists dominated with Ice vessels, Charterers were left with slim pickings for alternative moves. With Friday giving us such a jump as well as a 37 x ws 157.5 being seen, we expect rates to settle somewhere in between these 2 and wait to see what levels of enquiry appear on Monday morning. Owners will certainly be boisterous walking into week 7, as Charterers look to the horizons in hope of excess ballasters on the way.

Overall, it has been a positive week for Handy Owners up in the North as TC9 has been the catalyst for other runs to improve. 30 x ws 220 was the going rate at the start of the week and, with the list lacking ice candidates, charterers had to dip into the MR sector to cover their Handy exposure. Off the back of this, levels dropped by 10 points to 30 x ws 210, so Handy Owners could compete. Non-ice ships have been in short supply and X-UKCont has firmed to 30 x ws 185. Slower end to the week, as some now lean on COA partners in order to cover cargoes under the radar.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

Tonnage on the Continent has continued to tick over this week, albeit at a pace more in line with a summer market. Off market questions and rumours of rates being cropped confirmed a further slide in sentiment. A mid-week hammer blow from a market cargo shaved off an additional 10 points from last done and widened the diff for Med from 5 to 10 points. With ws 155 on subs and tonnage weighting heavily at the prompter end of the list, Owners were forced to take what was on offer at Charterers' ideas and we close the week with ws 150 being the latest benchmark. Going forward, the enquiry tap needs to remain open to stem any further drop in levels; however, tonnage replenishment come Monday may mean we have not yet reached the bottom.

In the Med this week, the foot came off the throttle enough for Charterers to claw back some of the positive sentiment that has been with Owners for some time now. With West Med tonnage building and enquiry from the Black Sea seemingly dropping off, prompt units have been targeted, which have inevitably been forced to discount market levels. Within only a handful of mid-week cargoes, rates for X-Med soon dropped below ws 200 and fixing and failing across the region saw very little length taken out of the lists. Availability across the region is serving to maintain a sentiment swing in Charterers' favour. Going forward, those with end decade cargoes to fix can expect more of the same come Monday.

MR

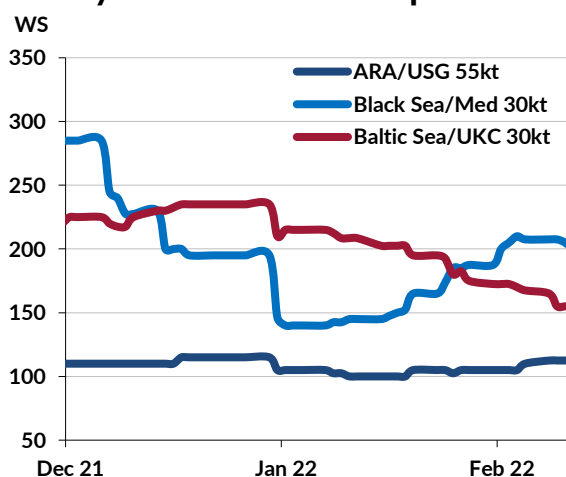
Little variance in fixing levels has been seen this week in both the Cont and Med, with both regions seeing deals concluded at last

done settling point. The point to make here though is that tonnage lists have been kept ticking over. In the Med, this is particularly important as the surrounding Handies are starting to come under pressure. Looking ahead, there is perhaps more chance of negative conditions occurring in the Med than the Continent, owing simply to the amount of units trading in the area.

Panamax

Repetition at the ws 112.5 this week has reaffirmed benchmarks and in the process has given Owners cause for optimism going ahead. Tonnage on this side of the Atlantic remains sparse in availability, which should allow the markets to remain robust, even if a quiet spell is to follow. Elsewhere, positive volatility has been seen in the US, with the market reaching the ws 200 milestone. With such large disparities in earnings, we could well see units ballasting back further, shortening Charterers' options.

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	Feb 10th	Feb 3rd	Last Month*	FFA Q1
TD3C	VLCC	AG-China	-1	33	34	36	35
TD20	Suezmax	WAF-UKC	-3	62	65	52	62
TD7	Aframax	N.Sea-UKC	+0	95	95	95	96

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

			wk on wk change	Feb 10th	Feb 3rd	Last Month*	FFA Q1
TD3C	VLCC	AG-China	-3250	-11,250	-8,000	-3,500	-8,250
TD20	Suezmax	WAF-UKC	-2500	2,000	4,500	1,250	2,500
TD7	Aframax	N.Sea-UKC	-500	-3,000	-2,500	-1,500	-1,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 10th	Feb 3rd	Last Month*	FFA Q1
TC1	LR2	AG-Japan	+1	74	73	89	
TC2	MR - west	UKC-USAC	+8	151	143	137	144
TC5	LR1	AG-Japan	+1	97	96	98	101
TC7	MR - east	Singapore-EC Aus	+3	155	152	158	153

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

			wk on wk change	Feb 10th	Feb 3rd	Last Month*	FFA Q1
TC1	LR2	AG-Japan	-1000	-4,750	-3,750	2,750	
TC2	MR - west	UKC-USAC	+1000	5,750	4,750	5,250	4,750
TC5	LR1	AG-Japan	-1000	-250	750	2,000	1,000
TC7	MR - east	Singapore-EC Aus	-500	4,250	4,750	6,500	4,250

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

ClearView Bunker Price (Rotterdam VLSFO)	+1	669	668	606
ClearView Bunker Price (Fujairah VLSFO)	+23	728	705	664
ClearView Bunker Price (Singapore VLSFO)	+15	730	715	676
ClearView Bunker Price (Rotterdam LSMGO)	+14	809	795	731

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