

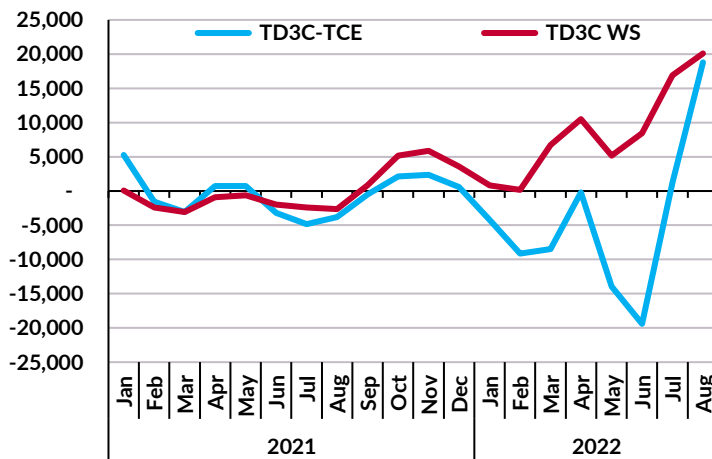
VLCCs back in the game?

Weekly Tanker Market Report

This week, benchmark VLCC earnings (non-scrubber, non eco) surged to over \$40,000/day after spending nearly 20 months with TCEs either negative or below fixed operating costs. TCEs have found support from a combination of lower bunker prices and higher freight rates in contrast to recent months where fuel costs have squeezed returns. So, what factors have led to these higher rates, and can they be sustained in the months ahead?

In trying to understand what has driven rates higher, trade data shows us that global VLCC export volumes have risen consistently since June, whilst fixture volumes from the US Gulf and West Africa have trended higher over the past two months. VLCCs have also seen their trading patterns shift and have been increasingly employed on voyages from the Americas and Africa to Europe as charterers seek

TD3C (WS & TCE)



to optimise their \$/tonne freight costs, particularly in the wake of bullish Aframax and Suezmax markets. Although these volumes are small, they have created new trading opportunities in the Atlantic basin.

Higher export activity showing up in the trade data can be partly explained by higher US production, with US crude exports reaching a record 5 million b/d last week as WTI's discount to international benchmarks incentivises exports of US crude. In fact, WTI has been the best priced crude grade for months,

so this alone cannot be the only factor behind the uptick. Although benefitting to a lesser extent than small crude tankers, VLCCs have also seen increased demand to ship crude into Europe, with imports averaging around 900kbd since April. Global VLCC exports from the Middle East have also been growing and are now higher than they were during the same period of 2019. Given the growth seen in the VLCC fleet since the pandemic, it might be hard to justify the rate rises recently purely from a VLCC demand/supply perspective, however spot market availability is unlikely to have grown to the same extent given much of the older tonnage has been sold into illicit trades, with Gibson counting over 100 VLCCs undertaking dark activity. Finally, positive sentiment spilling over from the Suezmax and Aframax markets is also likely to be playing an unquantifiable role.

Looking ahead, despite the widely reported economic risks and weaker Chinese/US data, the fundamentals in the near term would appear to be supportive. Chinese crude demand has been observed recovering although remains fragile, whilst the government has taken a divergent interest rate policy to the West by cutting lending rates this week. Further, US oil prices are expected to remain attractive to international buyers, particularly whilst SPR releases continue, and refinery intake eases off during the autumn maintenance season. Simultaneously, Europe will have to substitute even greater volumes of Russian crude as the year progresses, before ceasing all seaborne imports on December 5th. Stricter sanctions will not only impact European buyers, but also Asian buyers who rely on insurance underwritten in Europe, the UK and USA, which in turn may force larger buyers in countries like China to shun Russian barrels, shifting some demand back onto the VLCCs. Crude demand is also finding support from gas to oil switching, whilst the recent dip in crude prices and a narrower backwardation further incentivises long haul crude exports. Finally, wildcard factors can also not be ruled out. A potential return of Iran to the market or shift on OPEC production policy might be all that is needed to shift the VLCC market onto a more stable footing.

Crude Oil

Middle East

VLCC levels have taken a lengthy stride forward here as Charterers quickly went about looking to cover their 1st decade September program. Combined with an already attractive US Gulf market, it was inevitable that Owners sentiment had quickly turned bullish and that the lure of a stronger Western market would naturally pull a good number of ships away from the region. Rates have now settled around the 270,000mt x ws 78-80 level for a voyage East and a level of 280,000mt x ws 48.5 was posted to the UK Cont (via Cape). Suezmax rates in the Middle East seem to have been largely unaffected by the rally seen on the VLCC's. Rates are around 140,000mt x ws 67.5 for Basrah/Med with a similar story for levels to the East as we see Owners failing to gain any real traction. Levels stand at 130,000mt x ws 137.5 as the week draws to a close. Aframaxes in the AG have enjoyed another very healthy week. Short tonnage lists in both the Indo and AG regions have enabled Owners to apply pressure, gradually pushing rates up. AG/East finishes the week at 80,000mt x ws 225-230 level.

West Africa

VLCC Owners needed to see some big improvements over last done levels here otherwise there was no comparison to returns that could be secured from the US Gulf. Charterers have had to dig deeper into their pockets and with last done at 260,000mt x ws 82.5, it could be deemed that some further gains can be achieved. West Africa is yet another region that has failed to ignite despite the V's charging upwards in the Atlantic

basin. Charterers are fixing under the radar which is keeping rates suppressed for now but there is some room for movement and we expect next paid to be around 130,000mt x ws 137.5 levels to the East and 130,000mt x ws 132.5 for UK Cont.

Mediterranean

A week of stock taking as Aframax Owners digested a balanced position list and the threat of uncertain CPC stems loomed large. In the main vanilla, cross Med's were concluded at around last done levels with the TD19 index gradually gaining a few points by the week's end to 80,000mt x ws 186. When CPC stems finally started to move after the recent outage the inevitable correction was seen. Theoretical rates of 80,000mt x ws 240 were reset to ws 225 and then ws 220 for CPC-Med runs but we expect the rot to be arrested now. Expect more of the same for both markets next week with a small chance of a rebound as some ships ballast to the firm States market. The Med Suezmax market has remained unimpressive this week, with a somewhat limited flow of cargoes for Owners to get their teeth into with short runs from the Med standing around 130,000mt x ws 150. The market for Med/East has also remained flat with runs into China sitting at approximately \$5 million.

US Gulf/Latin America

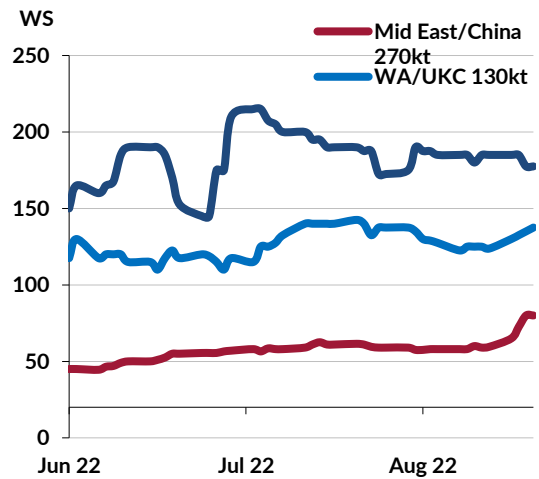
Short haul EC Mexico/US Gulf runs are now demanding healthy premiums of around 70,000mt x ws 400 against a continual flow of enquiry.

Transatlantic voyages have not been the Charterers main focus on the smaller sizes although these levels again hold at around 70,000mt x ws 260. VLCC activity has remained very healthy throughout the week with rates now touching US\$9 million for a voyage East. Transatlantic runs have also shifted to a healthy US\$4.25 million from the US Gulf to the UK Cont. Interest has waned somewhat as we near the weekend which should at least keep levels rangebound.

North Sea

An interesting week for the North with a mid-week test finding a new level for X-North Sea trading now standing at 80,000mt x ws 177.5. The Baltic market is attracting plenty of attention with more players turning their focus to it with levels fixing circa 100,000mt x ws 220 and seemingly remaining there for the time being. Flat for now.

Crude Tanker Spot Rates



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

Clean Products

East

A busy week behind the scenes for the LR2s, but this was very much required given the lack of enquiry seen for the last few weeks. TC1 is flat at 75x ws 215 however, it could see a sympathetic rise as the West rates have picked up a little. West saw a push to \$4.25m for a true jet stem with LOA restrictions, could a West run with less restrictions give Charterers a little more breathing space? Time will tell as to whether we repeat on the next, but with the tonnage list having seen a good clear out of early positions, Owners might try and push on.

A slow start but a strong end to the week for the LR1s. Plenty of outstanding cargoes for a Friday and likely we will see Owners really sit back here and apply the pressure. However, this may not be terrible for Charterers sitting on West stems as the usual West contender's itineraries currently aren't the firmest, and those that will venture West have ideas higher than what's currently on subs at \$3.7m. TC5 needs a fresh test after the 55x ws 270 was paid earlier this week. Currently the market is a touch light on Nap stems end month so there may be a few more to emerge early next week. Owners will be buoyed by decent levels of activity and hope to see further gains next week.

What started off as a busy bullish week on the MRs soon moved into a Mexican standoff before petering out Thursday night. A significantly thinned list on Monday night looked set to ignite the MRs back toward ws 350 for EAFR; only for the peak to reach ws 335 and to be repeated three times (TCE \$25k/day).

Soon longhauls became shorties, quoted cargoes were withdrawn and LR1s stole barrels. As we close out the week with limited outstanding cargoes, Owners will be a little nervous the bull-run has been stopped before the wheels even got moving. However, with the Red Sea extremely active and a busy LR1 market, not all hope should be lost just yet.

Mediterranean

All in all, a lackluster week for the Handies plying their trade in the Med with rates sliding around 60 points since Monday. We started the week with levels at the 30 x ws 350 mark X-Med, but slow levels of enquiry led to a buildup of tonnage on the front end and at the time of writing we see 30 x ws 290 on subs. Black Sea action has been kept under the radar for the majority of the week with levels in need of a test in light of the drop seen on TC6. As we approach COB little remains outstanding and with the weekend likely to bring a replenished list expect some further pressure come Monday. A disappointing week for Med MR Owners as we see rates slip due to slow enquiry and pressured rates in the UKC. Coming into Week 33 Med/Transatlantic levels were trading at the 37 x ws 340 level but with TC2 coming under fire all week and little being quoted it wasn't long until we saw Med levels follow suit. Fast forward to Friday and we now see 37 x ws 250 on subs Med/Transatlantic and with less being seen ex UKC, expect rates to come off some more when next tested.

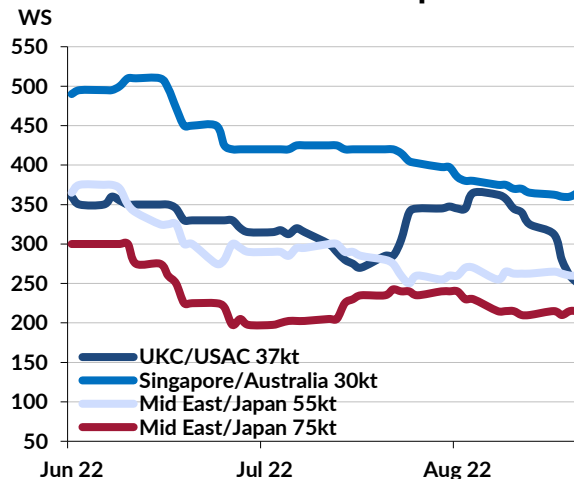
Despite a WAF option being seen at +20 today, this was for a non-WAF player so expect a vanilla run to land more around the +5/10-point premium. The market remains pressured going into the weekend.

UK Continent

As feared by many this week, we have seen Owners firmly stuck on the back foot throughout with Charterers able to chip away at last done rates with every fixture. A vast number of “BLST” vessels have plagued our tonnage lists and with a slow level of enquiry to match it. We saw nearly 100 points wiped off our market. The slumped States market has been one of the major factors in excess tonnage but to try and take some positives from the situation, we at least see this market hitting the bottom and stabilizing over the past couple of days which could well help limit additional ballast tonnage. Enquiry next week will be key if Owners are going to be able to prevent this market spiraling further as we look to see what the early September window can offer.

Unsurprisingly also we see this Handy sector struggle to maintain last done levels as with limited enquiry and a troubled MR sector has come losses. A quiet week in general has seen our X-UKC rates now slip towards the ws x 230 level with a fresh test needed to show true strength after a slow Thursday and Friday. Russian Baltic liftings continue to remain sideways around the ws x 500 mark and we expect non-Russian loads to see some negative correction in line with X-UKC... slow.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

A familiar trend repeats in the North this week, with limited availability keeping rates at current values. That said, activity has again been delivered in short bursts, meaning that there hasn't been sufficient volume to make ws 362.5 hold; yet, equally Charterers have found it a tough task in achieving sub ws 360. The sentiment also remains firm for the short-term outlook, which seems to support Owners' cause in holding market values.

In the Med we have seen a rebound from the lows dipping below ws 300. At the close of the week we find ourselves with 10-15 point upswing, with a tonnage list now looking very light on front end availability. Additionally, there are also some delays being seen to itineraries, keeping the supply of availability thinner than it would otherwise be. Furthermore, the reality is that the fleet is now smaller, where units have been sold off or switched trade into CPP.

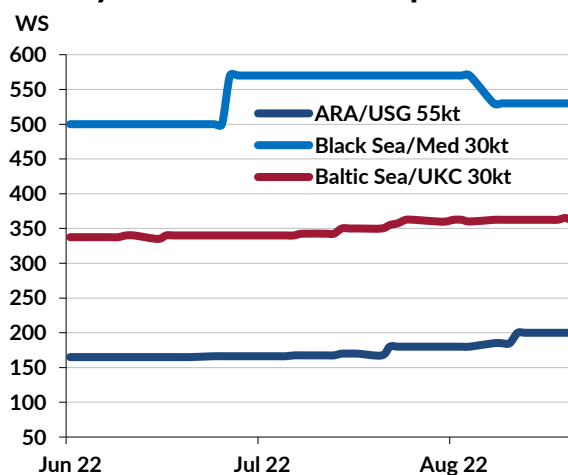
MR

The MRs in both the Med and UK-Cont have continued to find value, being supported by the surrounding Handies, where not only do they offer price support but also alternate employment which provides attractive earnings right now. With full back options looking attractive, Charterers with MR stems aren't able to command much in terms of negative turnaround, further supporting stability in levels despite gaps in fixing.

Panamamax

Fixing levels were validated this week, with numbers landing slightly below ws 200, but dig a little deeper and you understand why it would be a mistake to present anything lower than this as a repeatable rate for fully approved tonnage (Badged up and Sire's in date), as such units are a commodity right now and scarce. What's also influencing proceedings this side, is the US market touching nearly ws 400, which is on a ws perspective double of what we are seeing over here. This is the widest the spread between Europe and the US there has been since TD21 started being published!

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	Aug 18th	Aug 11th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+21	81	60	62	68
TD20	Suezmax	WAF-UKC	+12	135	123	141	132
TD7	Aframax	N.Sea-UKC	-4	181	185	192	156

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

			wk on wk change	Aug 18th	Aug 11th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+25750	41,250	15,500	10,250	26,750
TD20	Suezmax	WAF-UKC	+7500	39,250	31,750	40,750	37,750
TD7	Aframax	N.Sea-UKC	-3500	53,000	56,500	61,250	35,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 18th	Aug 11th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	+4	216	212	227	
TC2	MR - west	UKC-USAC	-93	248	341	276	287
TC5	LR1	AG-Japan	+1	266	265	290	271
TC7	MR - east	Singapore-EC Aus		362	364	419	363

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

			wk on wk change	Aug 18th	Aug 11th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	+2250	41,750	39,500	39,500	
TC2	MR - west	UKC-USAC	-16750	20,250	37,000	24,500	27,500
TC5	LR1	AG-Japan	+750	40,250	39,500	41,500	41,750
TC7	MR - east	Singapore-EC Aus	+250	38,250	38,000	44,000	38,750

(a) based on round voyage economics at 'market' speed, non eco, non scrubber basis

ClearView Bunker Price (Rotterdam VLSFO)	-20	721	741	771
ClearView Bunker Price (Fujairah VLSFO)	-50	785	835	971
ClearView Bunker Price (Singapore VLSFO)	-23	758	781	911
ClearView Bunker Price (Rotterdam LSMGO)	+42	1079	1037	1061

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