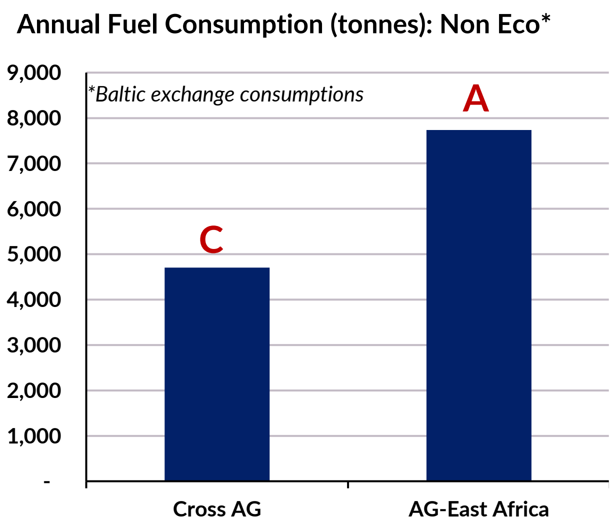
Unintended Consequences

Weekly Tanker Market Report

The IMO's carbon intensity indicator (CII) and Energy Efficiency Existing Ship Design Index (EEXI) will come into effect on 1st of January 2023. These measures form a key part of the IMO's strategy to lower CO_2 emissions from the industry. However, as is sometimes the case with regulation, unintended consequences can arise, which could in the short-term increase inefficiency of the fleet until industry practices adopt, or older vessels are removed from trading. Indeed, regulation also sometimes fails to account for commercial practices which are not always compatible with technical directives from the IMO.

From a commercial standpoint, EEXI is more straightforward to implement because compliance sits firmly with the owner. It is the owner's obligation to ensure the vessel complies with the reference line and make technical/design amendments to the vessel if compliance is not met. CII is commercially more complex as it concerns how the vessel is traded. Under a spot voyage, it is the owner's obligation to manage the vessel's performance to attain the CII rating the owner desires. However, under a time charter, the situation could be much more complex. Given that CII ratings are retrospective, a vessel on time charter could be traded inefficiently and returned to the owner with an inferior rating, putting the owner at a commercial disadvantage following the charter. From a charterer's perspective, whilst CII is an operational measure and can be managed through trading patterns, the CII performance of a ship is linked to other factors, such as design, maintenance and warranted fuel consumption. If any of these factors is not as described in the charter party, then a dispute is likely to arise.



The biggest issue with CII, however, is that vessels will have to adjust their trading patterns to attain the required rating and the IMO will argue that this is exactly the point. However, a non eco ship, which would typically trade shorter voyages, will now be more likely to engage in longer haul voyages to attain the required CII, which is largely a function of CO_2 emitted, cargo capacity and importantly, distance sailed. Likewise, eco ships with much better CO_2 emissions could be deployed on shorter voyages where, despite smaller distances, could still attain an acceptable CII rating due to their fuel efficiency. Overall, the net effect in these circumstances could be higher total CO_2 emissions for the tanker sector and exactly the opposite of what the IMO is trying to achieve, at least in the short term.

On a longer-term basis of course, older less efficient vessels will see reduced trading opportunities and may eventually face pressure to scrap, with the replacement leading to improved operational and design efficiency across the fleet. It is also hoped that CII will force owners and charterers to squeeze as much operational efficiency out of their fleets as possible. However, for this to be realised, operational and commercial practices may need to change, notably around sailing speeds, demurrage and scheduling.

Ultimately, few question the industry's need to reduce emissions; however, future regulations must avoid unintended consequences and be sensitive to industry practices, which will take time to evolve. Only steps which lead to a net reduction in emissions should be taken forward and regulation should avoid encouraging non eco vessels to engage in long voyages over eco tonnage. CII will distort trading patterns and could lead some vessels to emit more CO_2 than they would have prior to the regulations in order to chase a rating. Only time will tell whether CII has the desired effect or creates unintended consequences.

Crude Oil

Middle East

VLCC rates have been on rise as Charterers were trying to cover last decade September program. Combined with strengthening US Gulf market, the Owners' sentiment had quickly turned bullish during the middle of this week. Rates have settled around 270,000mt x ws 80 level for a voyage East at the time of writing and a level of 280,000mt x ws 45 to the USG. However, this is expected to keep moving next week.

This week the Suezmax Middle East market has once again witnessed a slow flow of enquiry, which has maintained levels in general across the region. Rates sit at approximately 140,000mt x ws 65 for Basrah/Med and ws 137.5 for East.

It's been a quieter week for Aframaxes in the East. AG/East is slipping and closing at around 80 x ws 235 level.

West Africa

VLCC enquiry in West Africa has been relatively less busy compared to Middle East and US Gulf. However, the sentiment is getting much stronger. The last done was at 260,000mt x ws 72.5 levels to China and further gains are expected to be achieved in line with AG/East rates. Next done will likely start with an 8.

At the time of writing, the West African market has fared slightly better as firm workable tonnage has thinned down. This had been mainly due to the amount of off-market enquiry turning over tonnage. We close the week with levels trading steady 130,000mt x ws 127.5 level for UKC; however, we should expect some tonnage replenishment for early October dates. Runs heading East are looking around the ws 137.5 level.

Mediterranean

The dearth of CPC cargos has dealt a severe blow to Aframax Owners in the Mediterranean basin. Options have been thin and consequently the cargoes worked have been eagerly snapped up. First thing on Monday a market X-Med cargo eroded rates to ws 170 and a further quoted cargo achieved ws 150 as a new low for the week. Little change is expected into the next week, unless ships fix out of the region or the Black Sea gets going in earnest.

The Mediterranean is one area to watch; the uncertainty of up and coming CPC stems and units starting to build up opening naturally in the region just may be enough to build on Charterers' confidence here. Expecting a fresh test in early trading next week. Short X-Med runs are approx 130,000mt ws 150, with runs into the East at roughly $5m.

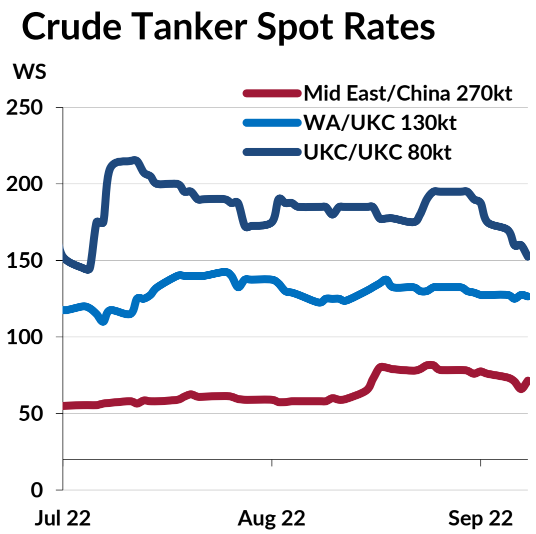
US Gulf/Latin America

A stuttering week for Afras in the Gulf as a holiday caused a pause in proceedings. The resumption saw a deluge of cargoes. Rates bottomed out in the low 230's before rebounding with highs of 240 done and potentially more in the pipeline.

An active start to the week with Petrobras market quote ex Brazil, followed by a flurry of enquires from USG to East. TD22 USG/China has been ramping up from $8.5m early this week to just over $9m by Friday.

North Sea

A pretty tepid week overall for Northern Aframaxes as drip fed activity bled rates reaching a new bottom. X-North Sea is now trading at ws 152.5 levels and Baltic at ws 180 levels. The feeling is it will be tricky few weeks for Owners but there is a sense of optimism as we go deeper into the year.



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

Clean Products

East

LR2s have seen a steady stream on enquiry and rates have pushed on slightly with 5 points on TC1 with 75,000 mt Naphtha AG/Japan now at ws 280. West rates have been under pressure but so far Charterers have managed to limit their exposure and rates have remained relatively flat. 90,000 mt Jet AG/UKC is now $5.25 million but there is likely to be higher paid next week. Rates for Red Sea/UKC have seen a rise of $300k on market assessments from last week showing where AG load may well get to.

A very busy week for the LR1's. A lot of shorthauls being covered quietly off market leading to a thinning list with a lot of uncertain itineraries. With a steady flow of both East and West stems rates have progressively increased. With outstanding stems in the market Owners are feeling bullish and wanted to push further as the week comes to a close. TC5 is sitting at the 55 x ws 330-340 levels some 30 point up from the start of the week. Westbound cargoes sit at $4.75m-5.0m depending on options and requirements. Sentiment is strong for Owners, end month stems expected next week should see this head of steam continue.

A slightly flatter sentiment on the MRs this week, but the underlying positive sentiment across all sizes has seen Charterers just look to cover and ensure a sudden flurry of cargoes wouldn't leave them stranded. As we move into the next fixing window, there are ships/Owners upcoming who are more than happy to lock in the $50k/day earnings, so ws 520 levels for EAFR are likely to come under a little pressure.

We are not foreseeing a collapse, but more a slight re-adjustment downwards. Given also that the LRs have drawn focus this week, we will likely start next week having come off the back of a quiet few working days in this segment.

Mediterranean

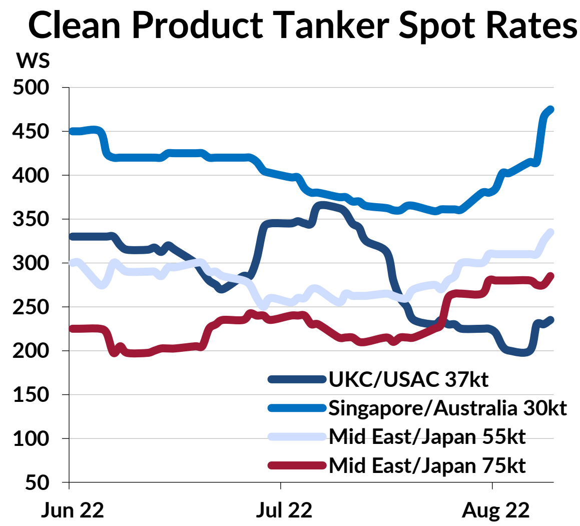
A positive week for the Handies here in the Mediterranean with rates firming up throughout. We began the week with levels at the 30 x ws 160 mark X-Med but with good enquiry helping to clear out the buildup of tonnage on the front end we now see rates up around the 30 x ws 185-190 levels. Black Sea rates are in need of a fresh test off the back of these improved TC6 market with Russian loads still trading at a high premium. At the time of writing a handful of cargoes remain outstanding so expect Owners to remain positive into the weekend.

Throughout the week the Mediterranean MR market has remained at a premium over its UKC counterpart with rates pushing up around 20 points. 37 x ws 225 was the call to begin the week but with decent enquiry and many still ballating through Suez to the flying Middle East market, rates are now at the 37 x ws 245 mark Med/Transatlantic. WAF enquiry has been on the quiet side but expect levels to land at around +10 points on Transatlantic when next tested. With little now outstanding expect rates to hold here into the weekend.

UK Continent

MRs this week saw a rebound on rates back to 37 x ws 230 for TC2 from 37 x ws 200 level the week prior. With the Med at a premium, USG firming and the Middle East pumping it's really helped to shorten our lists and given Owners multiple options to consider, helping drive the UKC market again. We expect future gains with multiple MRs ballasting to the Middle East and other ballast tonnage not so readily available. A pretty quiet finish but Owners still hold hope and have confidence in the market with all things considered.

Improved enquiry has been seen from the Continent this week which has now resulted in X-UKC freight bouncing back and closing at 30 x ws 175. A few units have also been fixed out of the region either down to the MED or some even WAF which will see the list tighten as the weeks roll on with owners feeling optimistic about this sector in the short term. On the other hand, Russian Baltic has corrected down this week with levels closing at 30 x ws 325 as COAs once again mop up most of the action.



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

Dirty Products

Handy

With the downcycles in the Continent market failing to bring any real tonnage replenishment, levels have not been correcting down. In turn, this is allowing an upward movement when a few stems are seen across a set date range. This week we see levels elevated to ws 370 and with a number of Owners saying they are waiting to see where next availability will present, it is unlikely that we will break free from the current sentiment in the short term.

In the Med conditions have also been positive for Owners, where a steady cargo base has reduced availability to such an extent that Owners have been able to make gains. Ws 345 for a standard A to B run wouldn't signify a huge uptick; however, this could be the start of something more to follow, unless a few more itineraries start to firm up.

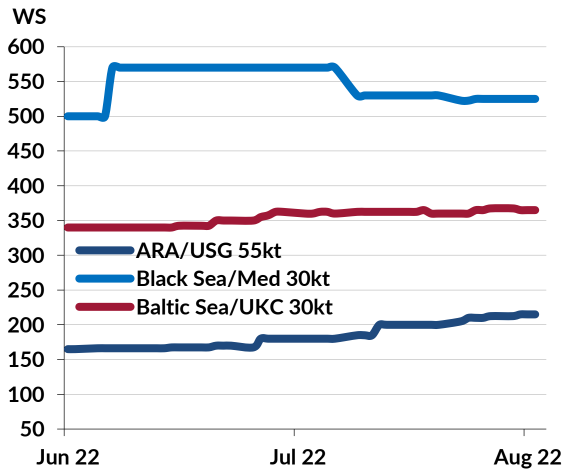
MR

Riding the wave of the strength seen on the surrounding Handies, the MRs also seem to be boasting in a similar trading pattern with favourable conditions. This said, full 45kt stems have been few and between but, with well-paying part cargo opportunity as a back stop despite the gaps in fixing patterns, tonnage lists are not being allowed to build.

Panamax

Performance of European markets continues to be placed under the spotlight and on face value markets are extremely firm, with numbers into the ws 200's. That said, the US is still some 200 points firmer. With availability this side thin enough as it is, we are still losing units to the US, being programmed stateside before ships get anywhere near their open dates.

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 8th	Sep 1st	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-5**	71	76	60	66
TD20	Suezmax	WAF-UKC	**-3**	125	128	123	128
TD7	Aframax	N.Sea-UKC	**-36**	153	189	185	172

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

			wk on wk change	Sept 8th	Sep 1st	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-4,250**	34,500	38,750	15,500	29,000
TD20	Suezmax	WAF-UKC	**-500**	37,000	37,500	31,750	38,500
TD7	Aframax	N.Sea-UKC	**-27,000**	34,500	61,500	56,500	48,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 8th	Sep 1st	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+3**	280	277	212	
TC2	MR - west	UKC-USAC	**-22**	232	208	341	283
TC5	LR1	AG-Japan	**+26**	331	305	265	288
TC7	MR - east	Singapore-EC Aus	**+72**	479	407	364	393

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

			wk on wk change	Sept 8th	Sep 1st	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**2,250**	66,750	64,500	39,500	
TC2	MR - west	UKC-USAC	**4,750**	18,750	14,000	37,000	28,250
TC5	LR1	AG-Japan	**7,000**	59,000	52,000	39,500	48,750
TC7	MR - east	Singapore-EC Aus	**12,750**	60,500	47,750	38,000	46,000

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

	wk on wk change	Sept 8th	Sep 1st	Last Month*
ClearView Bunker Price (Rotterdam VLSFO)	**-38**	641	679	741
ClearView Bunker Price (Fujairah VLSFO)	**-62**	671	733	835
ClearView Bunker Price (Singapore VLSFO)	**-28**	665	693	781
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	1041	1034	1037

** WS spot rates converted into 2022 WS100* www.gibsons.co.uk

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