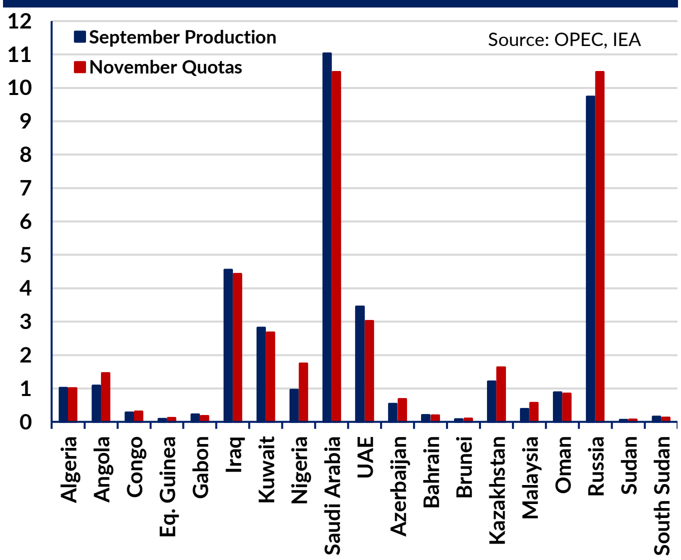
Making the Cut

Weekly Tanker Market Report

Last week, OPEC+ agreed to make production cuts of 2 mbd for the next 14 months from November 2022 to December 2023, representing a 2% reduction in global oil supply. This stemmed from a concern that the oil market is now out of balance which has put downward pressure on oil prices. Meanwhile a stronger dollar and a deteriorating economic outlook are impacting the demand outlook and thus reinforcing the pressure on oil prices. Crude prices rose on the news of OPEC's decision but have yet to breach the $100/bbl mark due to the broader demand concerns outweighing the reduction in supply. The question now arises as to how effective these cuts will be in supporting oil prices and what impact this could have on the tanker market. In addition, it also raises further questions about the future of OPEC relations with leading oil consumers such as the US, following President Biden's criticism of the plan and how this could accelerate the energy transition.

OPEC+ Production: August vs November Quota (mbd)



Under the new quotas, the OPEC 10 will be required to make a combined cut of 1.273 mbd, whilst associate members will cut up to 727 kbd. The largest of these cuts will come from Saudi Arabia and Russia who will both be required to reduce production by 526 kbd respectivly; as well as Iraq by 220 kbd and the UAE by 160 kbd. Other members will make varying levels of much smaller cuts meaning the bulk of these cuts will come from the Middle East (55%) and Russia (26%). These producers have adequate capacity to make such production cuts given their steady increases in production in line with previous OPEC+ policy since April 2021. In contrast, Russia is a special case, where output has been falling since April 2022 and is currently producing below its output quota.

Countries such as Nigeria and Angola have also been consistently underproducting due to lack of investment and production difficulties which will make the cuts lower in real terms. As of September, OPEC+ has been collectivly underproducing their combined quota by 3.3 mbd, with overall production of those participating in cuts at 38.76 mbd. For the tanker market, the annoucned cut is a concern, especially given that the vast bulk of reductions are due to be made in the Middle East and this will inherently impact VLCC and Suezmax flows. Trade data seems to indicate OPEC+ seaborne crude exports peaked in August at 28.86 mbd and are now likely to ease off, although reduced direct burn demand could limit some of the decline. Reduced OPEC+ production will likely support the market for Russian crude to make up any shortfall in exports from the Middle East to Asia for those willing to trade outside the G7 price cap.

In making these cuts, OPEC+ has received criticism from President Biden for reducing output when inflationary pressures are taking their toll on the global economy and the G7 price cap on Russian oil is gathering momentum prior to its future implementation. This is likely to further increase tension between OPEC+ and consumers such as the US and in the longer term, encourage production increases in Non-OPEC+ producers such as the US, Canada, Brazil and the North Sea. It is also likely to increase the political support for energy security in the US and Europe through renewables. Whilst these lower volumes are a cause for concern, especially if deeper cuts are made, the main source of downside risk in the tanker market will likely be macroeconomic in nature relating to oil demand rather than supply, given the expected increased tonne mile effect from sanctions.

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Crude Oil

Middle East

A flurry of end month VLCC activity this week has given Owners all the ingredients to make this market a little spicier than before. Rates have shifted up to 270,000mt x ws 95 for a voyage East and levels West nearing ws 50 on 280,000mt. With the November program expected to be worked early next week, this should again allow further growth to this already buoyant market.
Suezmax markets have pushed up substantially towards the latter end of the week, with levels looking to surpass 140,000mt x ws 85 for Basrah/Med. Runs into the East have pushed up in line with rates West, with freight approximately 130,000mt x ws 160. Like in the Med, it's been a bit up and down of late. At the start of the week the AG Aframax market looked softer following a quiet period of activity, ships in ballast and the Med showing cracks. This led to a Red Sea/WCI run fixing at a low 80 x ws 182.5. However, the Med has turned a corner again and an AG/East is reported on subs at 80 x ws 200 level and further reports of a replacement done at 80 x ws 215. Quality units on list these days are in short supply, often leading to volatility.

West Africa

West African Suezmax markets have firmed rather rapidly, with current levels at 130,000mt x ws 170 for more prompt dates. Runs into the East remain unpopular and we feel Owners will be looking for 130,000mt x ws 185. Sandwiched between two strengthening markets has already given this region a much needed helping hand in pushing levels on. Questions remain in this region and we expect rates to mirror that of the AG market, with levels around 260,000mt x ws 95 for a generic voyage East.

Mediterranean

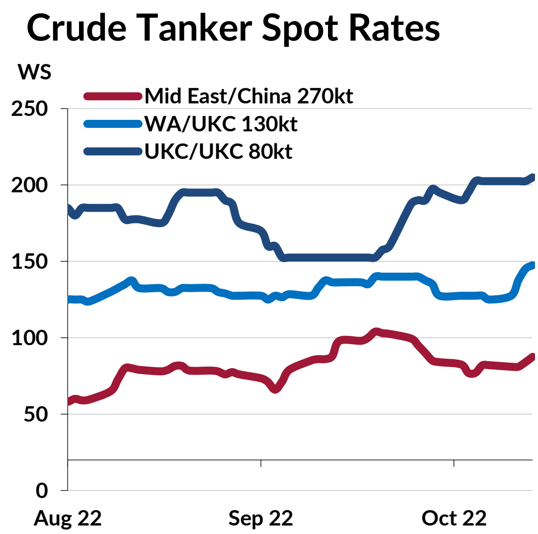
A solid week for Med Aframaxes, with enquiry balancing tonnage availability. Vanilla Ceyhan voyages moved from ws 215 to ws 220 and by the close ws 225 was achieved, with more in the offing. CPC was achieved at ws 245 but this is now considered to be an outlier... The major sentiment driver is the prospect of CPC cargos finally coming back to the party in November, with maintenance apparently being concluded. A healthy program has been released and Owners expect this to drain a thin list further with much higher rates to come. The market in the Med has firmed, with a large portion of tonnage looking to do a final run of Russian business before the deadline. Rates today for a short run are around 130,000mt x ws 200. With Owners feeling bullish, voyages to the East in today's market are likely to set Charterers back $5.5m.

US Gulf/Latin America

A general shift in preference has seen voyages Transatlantic secure premiums over the shorter voyage here, with levels pushing on to around 70,000mt x ws 220. Shorter runs have remained relatively stable throughout the week, holding at 70,000mt x ws 200. VLCC availability remains light with fewer ballasters committed to the region.
This combined with a steady flow of enquiry, means rates are now in excess of $10m for a voyage East.

North Sea

A positive week of growth for the North, with lists tightening and little availability for certain runs. X-North Sea is now trading at ws 205 levels and Baltic ws 220. Owners who can are trying to grab what's left of the Baltic stem list before the window gets too narrow to squeeze through safely. Surrounding markets are also heating up, with Owners' optimism on solid ground for the rest of Q4.



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

Clean Products

East

It has been a week of bubbling sentiment on the MRs. We've seen a below average number of fixtures done but finish the week with plenty of cargoes outstanding. This has been the product of a weeklong standoff between Owners and Charterers on TC17 runs, with Owners demanding a push towards ws 400 and charterers arguing that ws 350-360s levels paid are enough. Fundamentally, the list is evenly matched between units and cargoes – but Owners are simply not willing to do EAFR at low to mid ws 300 levels (20-25k/day TCE). With all Owners bullish for Q4 East of Suez, shorthauls have been snapped up by the bigger sizes, eastbound is sort after and westbound remains tough to cover. Whilst a stagnant week - we expect these MRs to push further next week and considerably further into November/ December.

LRs

LRs have continued their upward trend although progress is slower than some would have wanted. LR1s have been the flatter of the two with only steady volume and rates stabilising for now. The 55,000 mt Naphtha AG/Japan is now at the ws 190-200 level and at parity with the LR2s. 60,000 mt Jet AG/UKC runs are hovering around $3.3 million although the fully Jet suitable vessels are still at a slight premium. The sentiment is improving in line with the LR2s though - but when volume does come to the LR1s they will be keen to push rates on.

As above, LR2s are seeing better volume and a lot of the prompter vessels are clearing. The job is not done yet and some Owners are still very long tonnage. But rates have seen an improvement and Owners are now getting bullish. 75,000 mt Naphtha AG/Japan runs are at ws 190 levels and could see ws 200 breached soon. A 90,000 mt Jet AG/UKC voyage was last done at $4.3 million but tonnage is now reluctant below $4.5 million. A few more stems could see this lift further and with that LR1s will see more activity.

Mediterranean

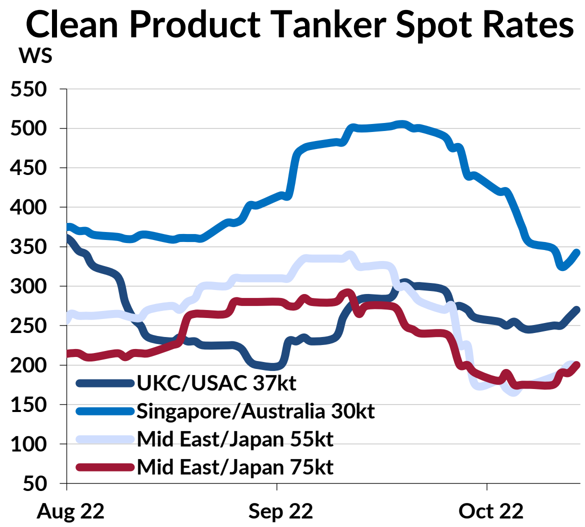
Another active week for the Handies plying their trade in the Med which has seen consistent enquiry throughout. For the majority of the week, X-Med has traded between the 30 x ws 330-340 levels but with the list growing ever tighter we have seen a couple cabotage runs get caught out with 30 x ws 370 X-Italy on subs. At the time of writing a couple of cargoes are still looking for cover before the week is out so expect some bullish ideas from Owners here. In terms of Black Sea, Non-Russian levels are expected to positively correct off the back of better X-Med levels with Russia trading in the ws 500's. Market firm.

All in all, an up & down week in the Med MR market which has seen rates fluctuate. We began week 41 with Med/Transatlantic at the 37 x ws 265 levels with WAF tracking at 10 points more but with the list tightening we saw rates reach the heights of 37 x ws 280 midweek. Since then, we have seen a few more ballsters come our way from the UKC which has brought a few more candidates into play for Charterers. To finish the week rates now sit at the 37 x ws 270 mark Med/Transatlantic but expect Owners to be positive come Monday.

UK Continent

An active week passes for the MRs in the North and once Charterers chopped away at the tonnage list which was well supplied with non CPP tonnage, we saw the markets chains cut and improvement occur. With a good mixture of Transatlantic, WAF and South America runs throughout, Owners have been able to slowly regain the upper hand and come midweek we had bounced back above the 37 x ws 250 mark for TC2. Throwing some replacements into the mixer in the second half of the week saw rates gather further momentum to around 37 x ws 270 as Charterers now look for other sized options for employment. A quieter Friday to end the week but expect further positivity ahead into Week 42.

Unlike the above, the handy market has been fairly subdued throughout the week with some negative correction down to 30 x ws 220 now for X-UKC. Russian Baltic moves continue to be mainly taken out on the COA front around the 37 x ws 380 point, but for the majority with limited action employment has been trickier. A slight positive we do see is certain MR cargoes now looking to the Handies for coverage so anticipate we have reached the floor with some light at the end of the tunnel.



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Dirty Products

Handy

The Continent this week has remained firm; however, Charterers were afforded a momentary reprieve in sentiment where a few more workable units came in play for the 22-25 Oct window with levels reacting negatively by 5 points. With rates sitting at ws 390, there will be an expectation that those who opted not to fix at this rate and remain without employment will be looking to re-apply lost ground at first opportunity come Monday morning.

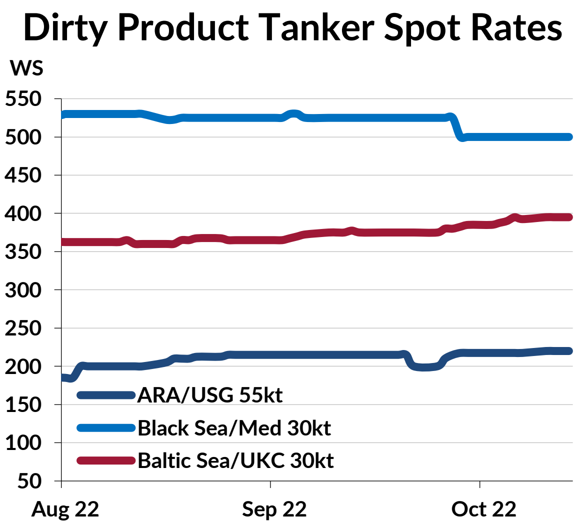
In the Med, Charterers have also enjoyed a moment of favour where during the early stages of the week rates touched ws 330, however since then several off-market deals have trimmed availability. Furthermore, a number of units have also been encountering delays, where, at the time of writing, Charterers are still out there with front end fixing dates are finding unexpected difficulty. The Med market does appear to be rebounding at this late stage of the week.

MR

A pretty flat week as far as MR's are concerned, yet the important part to take from what has occurred is that availability has been kept tight heading into next week once again, with a number of units being shown not yet firm on discharge. Charterers will continue to need to look ahead on this size given the added complexity that not all owners are interested in the same trade routes.

Panamax

As the market is waiting for workable tonnage to come into fixing windows, we are almost at that stage where benchmarks can be looked at once again but from the proceedings in the surrounding Aframax market perhaps Charterers shouldn't be expecting anything less than last done. In actual fact, although US levels are much lower than the peaks seen last time Europe /Transatlantic was tested, they are still high enough to pull units back over in ballast condition.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 13th	Oct 6th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**+6**	87	81	88	90
TD20	Suezmax	WAF-UKC	**+21**	146	125	135	150
TD7	Aframax	N.Sea-UKC	**+4**	204	200	151	155

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

			wk on wk change	Oct 13th	Oct 6th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**+8750**	50,250	41,500	53,500	54,000
TD20	Suezmax	WAF-UKC	**+11750**	48,500	36,750	42,250	51,500
TD7	Aframax	N.Sea-UKC	**+1500**	72,500	71,000	37,250	38,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 13th	Oct 6th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+27**	196	169	288	
TC2	MR - west	UKC-USAC	**+20**	270	250	284	304
TC5	LR1	AG-Japan	**+20**	191	171	338	276
TC7	MR - east	Singapore-EC Aus	**-28**	345	373	498	383

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

			wk on wk change	Oct 13th	Oct 6th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+10000**	36,250	26,250	68,000	
TC2	MR - west	UKC-USAC	**+3250**	25,500	22,250	28,750	32,250
TC5	LR1	AG-Japan	**+5750**	23,000	17,250	60,000	44,250
TC7	MR - east	Singapore-EC Aus	**-4000**	36,500	40,500	63,000	43,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**+1**	647	646	674
ClearView Bunker Price (Fujairah VLSFO)	**-7**	718	725	690
ClearView Bunker Price (Singapore VLSFO)	**-24**	730	754	695
ClearView Bunker Price (Rotterdam LSMGO)	**+31**	1065	1034	953

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