

What the hell just happened?

Weekly Tanker Market Report

12 months ago, we titled our closing report of 2021 'A year to Forget'. 2022 has been anything but and summarizing what just happened on one page is no easy feat. Early in January, we then titled a report called 'Tanker Super Cycle', where we assessed the likelihood of the tanker market experiencing the same fortunes as the LNG and container markets. We concluded that based on the fundamentals at the time, the tanker market needed a black swan event to trigger its very own super cycle...

On the 24th of February, Russia launched its much-feared invasion of Ukraine, and whilst Western intelligence officials had been warning of an attack, few believed Russia would follow through. Ultimately, the war triggered a path of self-sanctioning, followed by oil embargoes and price caps which are redefining oil trade flows on a scale never seen before. The resulting changes in trade flows have created large inefficiencies in oil trading, boosting tonne mile demand well beyond the pre-invasion scenario. Indeed, the slow and steady recovery we expected for most sectors has accelerated into a super cycle.

However, not all tankers benefitted in the same way. VLCCs were the last asset class to join the party, with their fortunes being constrained by ongoing OPEC+ production cuts, Chinese covid policy and the reshuffling of Russian oil being a largely Aframax and Suezmax play. China's zero covid policy has clearly been a drag on the crude tanker market this year; however, with a looser policy heading into 2023, China is forecast to contribute nearly half of all demand growth.

The strength of the tanker market this year has prevailed against a gloomy economic outlook, with high inflation and hawkish monetary policy dominating sentiment in financial markets. However, despite this backdrop, oil production growth has surged by 4.7mbd this year, driven largely by gains in the Americas and the unwinding of OPEC+ production cuts, whilst refinery throughputs also gained 2.3mbd year on year as diesel refining margins strengthened on the back of recovering demand, gas to oil switching and supply concerns from Russia.

With all the disruptions to oil trade this year, it is perhaps surprising that oil prices are currently trading towards the bottom of their high/low range. This year Brent prices peaked at \$127.98/bbl in the weeks following the invasion, and bottomed out at \$76.10/bbl last week, averaging \$99.65/bbl for the year to date. Ultimately this suggests that the price surge following the invasion was sentiment driven, whereas prices today reflect less concern over global oil supply/demand balances, despite import bans and the price cap. However, it is early days and only time will tell where the fundamentals truly lie.

On some routes, freight rates have averaged at record levels this year. LR2s on the Middle East/UK Cont run have averaged \$4.1m so far in 2022 vs. a previous record average of \$3.4m in 2008. Other routes may not have averaged at record levels, but have briefly seen all-time highs, such as the Aframax cross Caribbean route, which briefly hit WS640. For routes involving Russia, the sky may well be the limit.

High freight rates and demand for older tonnage (much of which will likely trade Russia) have also led to exceptional increases in asset values. The price of a 10-year-old Aframax has increased more than 50% from January to December, reaching levels not seen since 2008. Newbuild prices have also continued to rise this year, which depending on the asset size, are up 5-8%. Although this trails the strong growth seen in secondhand prices, it is important to note that newbuild prices had already gained over 25% in 2021 (asset class dependent), with yard availability remaining tight and cost inflation for materials and labor persisting. Tanker newbuilding orders this year sit at the lowest level since 2016, meaning that the orderbook continued to deplete. This year, just 7.95mdwt of crude and product tankers have been ordered, against deliveries totaling 26.4mdwt. 5.2mdwt has been sold for demolition, which given firm secondhand prices for older tankers, is hardly surprising.

Overall, the tanker market in 2022 has been transformed owing to terrible circumstances. It is impossible to say how long the war will persist, but for now, with few signs of peace, and permanent changes to the world's relationship with Russia, shipowners have good reason to remain bullish into 2023.

Summary Table - Market & Fleet Data

		Dec-21		Dec-22 MTD		2022	
		WS	TCE/day*	WS	TCE/day*	WSLow	WSHigh
Rates (TCEs at 'market speed')							
VLCC	Middle East - Ningpo	40	\$750	79	\$47,750	31.5	127.5
Suezmax	West Africa - UKCont	67	\$7,500	182	\$75,000	52.5	230
Aframax	North Sea - UKCont	107	\$4,500	323	\$163,750	92.5	330
LR2	Middle East - Japan	123	\$12,500	295	\$73,750	70	325
LR1	Middle East - Japan	132	\$9,750	343	\$63,750	92.5	375
MR	UKCont - USAC	170	\$10,500	399	\$53,000	120	405
		Dec-21		Dec-22			
		Fleet Size		Fleet Size			
VLCC		843		880			
Suez / LR3		617		652			
Aframax / LR2		1,085		1,102			
Panamax / LR1		455		456			
Handy / MR		2,185		2,221			
Tanker Firm Orderbook (25kdwt+)		375 / 49.4m dwt		265 / 29.2m dwt			
New Deliveries (25kdwt+)		179 / 23.8m dwt		184 / 26.7m dwt			
		End 2021		End 2022 latest			
Brent Oil Price		\$78.98		\$79.12			
		Singapore		Rotterdam			
Bunkers VLSFO (end Dec)		\$601.5		\$526.5			
		2021		Q4-22			
World Oil Supply		95.3	1.60%	101.6	6.6%		
OPEC crude production		31.5	2.30%	34.7	10.2%		
Non OPEC		63.8	1.30%	66.9	4.9%		
World Oil Demand (full year)		97.7	6.80%	100.8	3.2%		
		2021		2022			
Tankers Demolished (25kdwt dwt)**		137 / 15m dwt		59 / 5.2m dwt			
		Subcont Dec 2021		Subcont Latest 2022			
Scrap Prices		\$601		\$555			

*Reported VLSFO prices used in earnings calculation non-ECA areas. Non Scrubber, Non Eco Tonnage

** excludes storage units

Crude Oil

Middle East

VLCC rates recovered this week after we saw a busy end to December and the first January cargoes. Owners remain positive that January volumes will ensure a decent level of activity and we may see Charterers next week move early to take tonnage before the holiday season begins. Today we can expect to see modern ships achieve 270,000 at around ws 83 level for AG to China and 280,000 at ws 56 for US Gulf discharge. Rates in the AG for Suezmaxes remain soft as we head into the weekend and anyone coming to market will be looking to break 130,000mt x ws 90 for Basrah/Med and 130,000mt x 177.5 ws for AG/East. Overall, it has been a quiet week in the East with most activity done under the radar. The list in the AG is healthy with more options available to Charterers compared to the last few weeks. Sentiment is flat leaning towards soft, but Indo is helping to keep sentiment up a tick. We expect AG/East to end the week at the 80,000mt x ws 290 level.

West Africa

Activity was limited on VLCCs this week on both East and UKC runs but despite this, rates have picked up as Owners show resistance and today we can expect a WAF/East run to fetch in the region of 260,000 x ws 82.5. Tonnage in West Africa remains rather plentiful, and this is keeping pressure on rates, however with early Jan dates in play levels stand at 130,000mt x ws 170 for WAF/UKCM in this window. Enquiry for cargoes heading East is still few and far between, and the premium over West stays at around 10 points.

Mediterranean

The Med seems to be the only region for Suezmaxes maintaining ground, but rates have a softer feel with levels currently around 135,000mt x ws 292.5 for CPC/UKCM. Reluctance to head East continues and Owners will be asking somewhere in the region of \$6.8 million. With very little for Owners to get their teeth into, many will be considering taking part cargoes. This week has been hit and miss for Med Aframax. Enquiry has been relatively limited which would have otherwise caused rates to dip rapidly; however, insurance delays in the Turkish Straits led to a restriction of vessel supply and thus sentiment to be less affected. Premium CPC voyages have paid around ws 500 during the week which eventually feathered down a touch to ws 490 by the close, but Cross Med runs after hitting the w390s suffered a little more. They hit ws 352.5 for an attractive Zawia/Trieste run but Owners will hope that the next week brings an Xmas rush and in the very least a bottoming of current levels.

US Gulf/Latin America

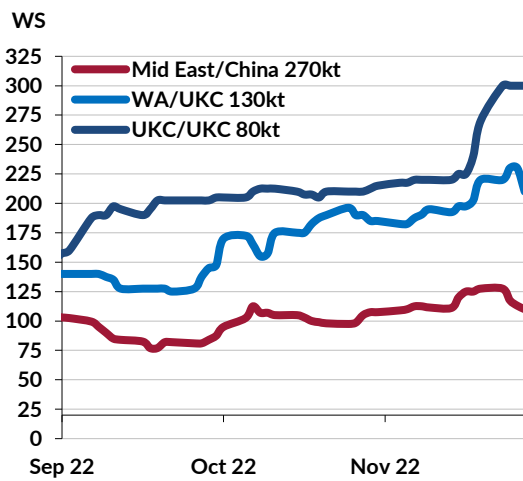
A busy week for the VLCC's in this area but Owners push to get rates back to recent highs were thwarted by a large number of ships failing subjects and therefore today we consider USG to Far East to be in the he region of \$9.5million.

Aframax had a very challenging week where rates fell alarmingly, especially at the beginning, but we are seeing signs of recovery and a noticeable pick up in volume yesterday as led to expectations of a recovery.

North Sea

A pretty slow week on the whole for Northern Aframax as activity has trickled along. There is a sense that we will see some testing in the build up to Christmas. Rates are currently trading at ws 320 but this could change in the near term as people seek to get things tucked away.

Crude Tanker Spot Rates



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

Clean Products

East

The list on the LR2s is tight and with very few ships left for December dates; as such Owners are really pushing on their ideas. \$6.5million is being offered for a West run is a sizable step up from the \$6.1million currently on subject. TC1 is at the 75 x ws 320-325 levels, given the list expectation is to see the LR2 step on. A West voyage on the LR1s has been tested at \$5.5million a few times and this would suggest it is holding steady for now, but given how tight the list is, this could be pushed if Charterers come out with short notice requirement. TC5 in the 55 x ws 370-380 bracket. On the whole, Owners preference is to lock in long haul cargoes for one last voyage before the end of year.

The MRs remain flat whilst the LRs push higher – which should drag the whole market sentiment. The MR list still looks tight for good ballasting tonnage, but we're yet to see the usual disappearing spree of 4-5 ships overnight. It continues to feel like the calm before the storm, and with LR rates rising to where they are, expect to see more downsizing to come next week. MR Owners seem very happy to fix at last done levels (ws 475 EAFR) and not push further. Charterers too though are not working too hard to see if lower can be eked out. Is this a Pre-Christmas 'easy life' being taken, or are we again at a crossroads of which direction does this market go, and neither side knows? I think both are true – but fundamentally the list remains tight for ballasters and good tonnage; the cargo flow continues to be solid, and TCE earnings are great. We remain bullish for the end of December.

Mediterranean

What a week for the Handies in the Med as we see rates push up around 50 points from Monday. We began the week with X-Med trading at the 30 x ws 415 mark, but after a large influx of cargoes into the market on Monday we soon saw the list tighten and rates on the move. At the time of writing, we now see 30 x ws 470 on subs for a replacement stem and with the list still tight up to the 22nd especially for Nap + Jet stems, expect Owners to remain bullish. In terms of the Black Sea, we saw Non-Russian levels push to the 500 mark midweek but expect more on the cards with Russian loads at a high premium. The market is positive as we near the weekend.

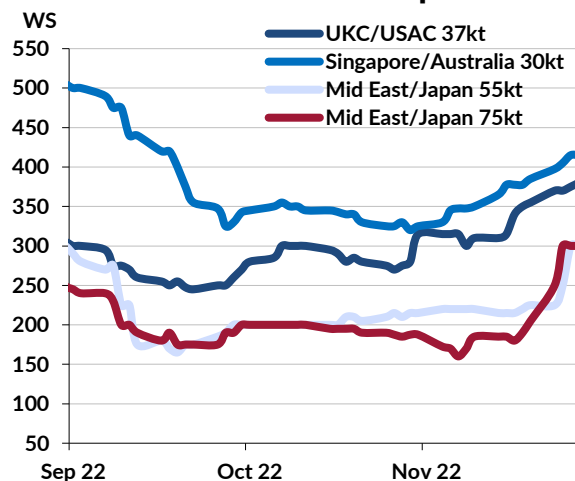
In contrast to the Handies, the MR's in the Med haven't been as positive as we now see rates slip below the 400 levels. 37 x ws 390 is now the call for a Med/TA voyage (holding around 5 points higher than TC2), with WAF in need of a fresh test but expected to continue trading at a 20 point premium on TA. As we approach COB there is not a great deal left outstanding here in the Med and with the list slowly improving expect Charterers to continue applying the pressure. That being said, the Handies remain tight so we may see the MR's begin to look at the 30kt clips.

UK Continent

As Week 50 concludes, Owners have throughout found themselves on the back foot as Charterers see their opportunity to clear the decks before the upcoming festivities. Enquiry levels especially to WAF have been slow and with the States market also seeing some negativity, Owners would have been pleased by midweek to have found a floor of 37 x ws 385 for TA. A late in the day Thursday fixture has taken a few by surprise down to ws 365 and no doubt the handful of outstanding stems we see still will be looking for a similar result. Owners will look to bounce back but in reality, time is ticking, and fixing away your tonnage before next Wednesday will be key.

Handies on the other hand have found support from other sectors which has helped keep the X-UKC market around the 30 x ws 400 mark. A buoyant Russian Baltic market has rocketed up to the high 30 x ws 800s with dates being covered towards the end month. Despite many not being able to do these runs, it has kept the few who can off our lists which has thinned options out for Charterers. Throwing into the mix a Mediterranean sector which has jumped 50 odd points as well, Owners will be hoping this is enough to keep rates at least stable despite the tonnage list looking healthier and outstanding stems limited.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

In both the Med and the Continent this week we have hit what seems to be the likely peaks for the year, with more vessels being shown and a general shift in mentality, where Owners are more mindful of their dates approaching the Christmas disruption. This has been illustrated throughout the week as last done levels have become a conference rate where previously Owners have needed little reason to push. Next week, however, is set to be an intriguing period of the calendar. With a whole working week in play before we depart and still the best part of half a month's program to cover, divided opinions combined with individual company needs could certainly lead to a tense finale of the year.

MR

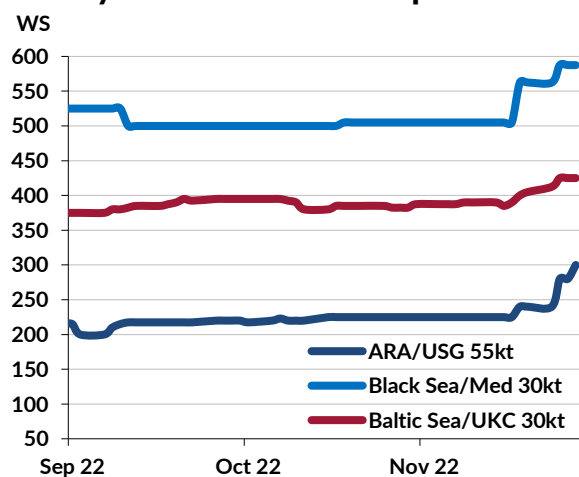
MR availability has been slightly more frequently occurring this week, where Owners and Charterers settled for last done levels. Mindful of what is happening in surrounding sectors and what happens if you miss an MR, where fall back options are still likely to be limited, Charterers haven't been able to push levels down. That said, MRs this week have been a bit more accommodating to fixing Handy cargoes, displaying the very mindset we speak of above, where getting fixed is the crucial objective.

Furthermore, at time of writing there are units facing the prospect of waiting time heading into the weekend, which could well play into Charterers' hands come next week.

Panamax

The phrase "like London Buses" comes to mind right now as for a long while we have suffered supply issues on the availability side. However, now when we finally have multiple Owners, all with vessels naturally open on European lists, requirement is absent. Painfully, we are likely to see these units ballast back over to the US where, although markets have noticeably cooled, employment possibilities seem a great deal more plentiful at least.

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	Nov 24th	Nov 17th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	-18	110	128	99	102
TD20	Suezmax	WAF-UKC	+7	213	206	185	187
TD7	Aframax	N.Sea-UKC	+60	308	248	209	206

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

			wk on wk change	Nov 24th	Nov 17th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	-19500	80,750	100,250	64,250	72,500
TD20	Suezmax	WAF-UKC	+5500	90,250	84,750	70,750	76,000
TD7	Aframax	N.Sea-UKC	+45250	151,250	106,000	75,750	78,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 24th	Nov 17th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	+115	291	176	192	
TC2	MR - west	UKC-USAC	+36	379	343	283	335
TC5	LR1	AG-Japan	+94	306	212	210	255
TC7	MR - east	Singapore-EC Aus	+36	414	378	341	373

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

			wk on wk change	Nov 24th	Nov 17th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	+39250	71,000	31,750	35,500	
TC2	MR - west	UKC-USAC	+7750	48,500	40,750	28,250	40,750
TC5	LR1	AG-Japan	+23500	53,500	30,000	28,000	41,250
TC7	MR - east	Singapore-EC Aus	+6500	50,000	43,500	36,250	43,250

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

ClearView Bunker Price (Rotterdam VLSFO)	-33	553	586	634
ClearView Bunker Price (Fujairah VLSFO)	-13	625	638	689
ClearView Bunker Price (Singapore VLSFO)	-18	650	668	715
ClearView Bunker Price (Rotterdam LSMGO)	-61	875	936	1041

www.gibsons.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong

Room 1401, 14/F,
OfficePlus @Wan Chai,
303 Hennessy Road,
Wanchai. Hong Kong.

T (852) 2511 8919
F (852) 2511 8901

Singapore

8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston

770 South Post Oak Lane
Suite 610, Houston
TX77056 United States

Mumbai

Office 128, Level 1, Block A,
Shivsagar Estate,
Dr. Annie Besant Road, Worli,
Mumbai, Maharashtra, 400018,
India

T +9122-6110-0750