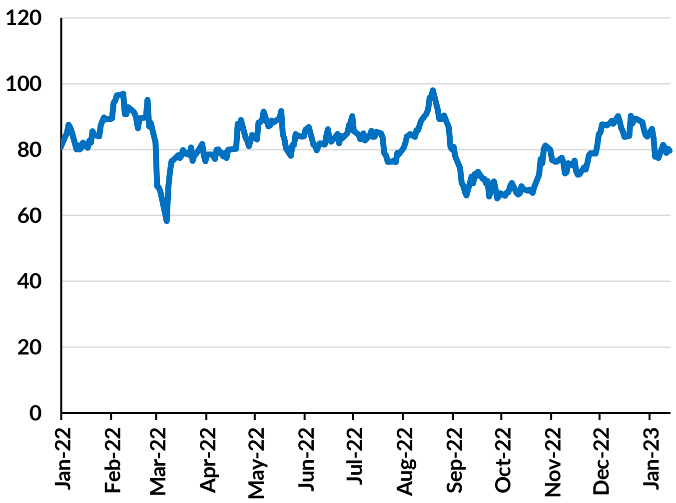
Regulatory Acceleration

Weekly Tanker Market Report

With much of 2022 being focused on the fallout of the invasion of Ukraine and the major reorientation of global oil trade, it is easy to overlook the important environmental and regulatory developments that are putting the industry on a potentially accelerated decarbonization pathway. This growing momentum should take a central role in 2023, with the IMO's Carbon Intensity Indicator (CII) and Energy Efficiency Existing Ship Index (EEXI) regulations having already kickstarted proceedings on the 1st January after much criticism and debate. Whilst CII is initially focused on data collection with the initial ratings not coming out until next year, it signals that the process of achieving net zero has begun. There is increasing support for stricter emissions reduction targets at the IMO from a growing number of member states, but this is yet to be finalized. This regulatory pressure is only likely to continue gathering pace with important implications for the shipping industry in terms of both future commercial and investment decisions.

ICE Carbon Emissions (EUA) Allowances (€/tonne)



Attention will now be turning to MEPC 80 due in July, given that important regulatory decisions have been deferred to this meeting. Primarily, the issue of agreeing a revised IMO GHG reduction strategy will be addressed, with mounting pressure from a broad and growing number of member states. Also, up for agreement is the role of carbon capture and storage (CCS) technology in the context of emission reduction strategies. Likewise, the potential for easier compliance with CII and EEXI via new correction factors and reference lines could be agreed.

This will coincide with start of shipping's inclusion in the EU Emission Trading System (ETS) from 2024 for vessels over 5000 GT. The ETS represents the first attempt by regulators to put a price on maritime emissions and will be watched closely by the IMO and other state bodies who may consider implementing or expanding their own systems in the future. Shipping's integration into the EU carbon market alongside other industries already subject to carbon pricing frameworks will put a market price on shipping's GHG emissions. In turn, this will help to guide further emission reduction strategies and create incentives for their accelerated uptake.

From 2025, the pace of regulations is scheduled to accelerate further. The planned implementation of the Mediterranean ECA will take place. Additionally, all newbuild vessels will be required to make carbon intensity reductions of 30% under the Energy Efficiency Design Index (EEDI) Phase 3 framework after its initial introduction in 2022 to only specific vessel types. Meanwhile, the proposed Fuel EU GHG intensity reductions could begin to take place, whilst the industries' full inclusion into the EU ETS will be completed by 2026. During this period there is likely to be some heightened business complexity as market participants get to grips with their new obligations under these policies. This may result in owners making strategic decisions regarding future vessel designs and fuel systems, which may increase ordering activity. Although this will require regulatory clarity, which is still needed.

Over the longer term, these initial policy actions will lay the initial foundations for achieving the to be agreed IMO emissions reduction targets by 2050. These measures will be important to keep shipping's decarbonization trajectory in line with the broader global goal of keeping temperature rises limited to 1.5C in accordance with the Paris Climate Agreement. Whether these steps are ambitious enough or not is a key area of debate, certainly they will not be easy and will require both considerable financing and commitment to make these environmental pledges a reality. However, despite these challenges, undoubtedly new opportunities will emerge, and all eyes will be on the initial CII ratings due next year.

Crude Oil

Middle East

A dire week on the VLCC front for Owners in the AG as rates collapsed. The sheer volume of available tonnage against limited demand means the market will remain challenged. Today's rate for a VLCC for 270,000 AG to China is in the region of ws 41.5 and an AG/USG is ws 35, both on the 2023 scale. Rates in the AG for Suezmaxes are firming and Owners will be looking to push on from last done. Though there seems to be a natural ceiling created for cargoes East from the weak VLCC market. Rates today stand at 130,000mt x ws 72.5 for Basrah/Med and 130,000mt x ws 145 for AG/East.

Following a steady week of activity, the list is looking thinner. Subsequently, the AG has stabilized and rates are in fact slightly inching up. With Suezmaxes rebounding, Aframaxes in the AG are in a good position going into next week. To close business we rate AG/East at 80 x ws 240-242.5 (23).

West Africa

This is a more positive environment for VLCC Owners than in AG as demand is good for cargoes up to the UKC and with a firm Suezmax sector helping matters, Owners are showing resistance. The demand for eastbound cargoes remains quieter but today an Owner could expect a 260,000 WAF/China to fetch ws 51. Suezmax rates have firmed over the course of the week in West Africa, tonnage for the end-month remains tight and Owner sentiment is strong; rates stand at 130,000mt x ws 132.5 for WAF/UKCM.

Rates into the East aren't especially sought after and sit approximately 5 points above the rate for the Continent.

Mediterranean

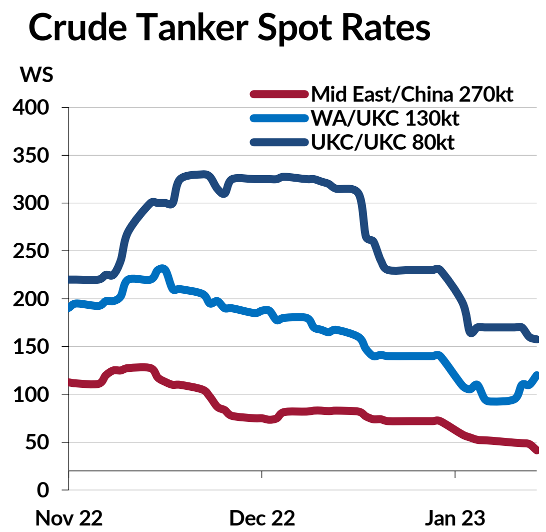
A tumultuous week for Med Aframaxes, with a succession of early X-Med cargoes stripping the list bare. Certain Charterers were left hanging, as Owners focused on the best voyages on offer and as such eventual premiums were paid. Port disruption has also had a hand to play with Milazzo and Augusta suffering disruption of various kinds as well as the usual suspects leaving very few firm ships to choose from. In the end only the weak Suezmax sector prevented much greater gains as these ships were mopped up on a part cargo basis. By the week's end freights have risen by more than 20pc, with Ceyhan printing ws 240 and CPC ws 360 by the close. Ballasters from the North will temper ambition next week but the going remains firm. Little (if any) enquiry is preventing ideas from improving too much for this market but there is a healthy level of optimism. A CPC/UKCM voyage is likely to set Charterers back somewhere around 135,000mt x ws 215 for CPC/UKCM. Owners remain hesitant to head East and rates are approximately $5.5million.

US Gulf/Latin America

This sector has remained busy on the VLCC front, but despite this activity rates have stagnated, as tonnage especially in the UKC is building up and we have an influx of East ballasters competing for cargoes in order to escape the falling AG market. A cargo from USG to the Far East loading in the mid-February remains in the region of the $8.4million level. Aframaxes in the Caribbean have started to recover after a challenging period and Owners can remain confident going into the weekend that this will continue.

North Sea

Another quiet week in the North for Aframaxes and those which did not want to be involved in the Baltic have been looking South towards the Med to join the party. TD7 started the week around 80,000mt x ws 167.5 levels, but no momentum was achieved and sentiment slowly dulled. As we end the week 80,000mt x ws 155 is the going rate for a X-North Sea cargo and increased cargo enquiry is needed in order to slim down a healthy tonnage list next week.



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

Clean Products

East

The LR2s have seen a negative correction on rates this week, with Charterers ideas for West runs at circa $4.0million levels it's a sharp drop from a few weeks ago. However, with MRs ticking up this week, it's likely only a matter of time until traders stem up to take advantage of these scale economies, and thus we see activities levels pick up and rates level out and reset for the new year.

A week of big corrections for the LR1s here, with short haul deliveries going on the LR1s as Charterers take advantage of the significantly lower earnings on these voyages versus the long haul. The West is in line for another test after the $3.85million that was paid earlier this week. All eyes will be on the only outstanding West run and how much can be taken off, the $3.2-3.3million level could be on the horizon. TC5 needs a natural test but 55 x ws 190-200 levels seem to be where its heading. Expect a quiet end to the week as Owners look optimistically to next week whilst Charterers continue to apply pressure in a quiet market.

A good press on the MRs this week with over 45 fixtures done but the discussion to be had here is whether this is a pre–Chinese New Year rush and whether further progression is capped by the underperforming LR segments. Certainly, the front/natural window remains busy - and ws 295 is on subs for AG/EAFR is showing willing amongst Owners to keep the upward pressure on. It seems inevitable though that traders will turn to bigger sizes soon here to leave the MRs a little quiet.

Mediterranean

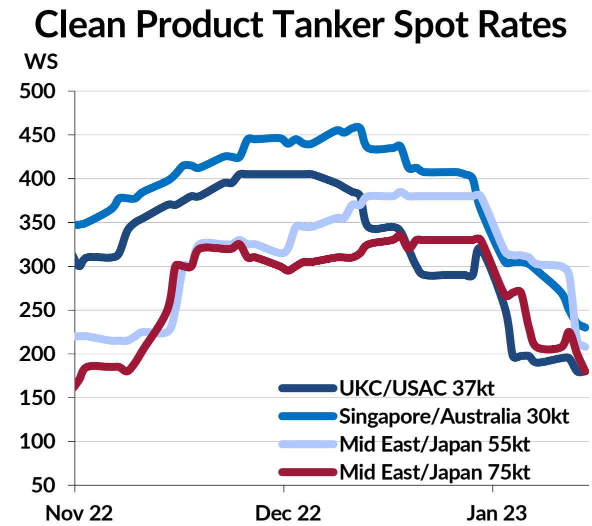
All in all a lackluster week for the Handies here in the Med, which has seen rates come off around 30 points since Monday. 30 x ws 210 was the call for X-Med at the start of this week but, with 18 ppt Handies on our lists, the writing was on the wall for Owners. This, combined with sluggish enquiry levels, now sees 30 x ws 180 on subs a handful of times. Non-Russian Black Sea levels are due a negative correction off the back of this, with Russian levels expected to maintain their large premium. As we near the weekend a handful of ships remain prompt, so expect some further pressure here come Monday.

Finally, to the Mediterranean MR market, where we have seen some good levels of cargo enquiry this week. On Monday rates for a Med/TA run were trading around the 37 x ws 195 mark but with the list looking fairly healthy, we soon saw rates come off to the 37 x ws 180 mark, which was repeated multiple times. WAF levels also received a fresh test, with last done at the 37 x ws 195 mark (+15 on TA). However, Owners will be positive because ws 185 TA has now been achieved on a Jet stem and, with cargoes still looking for cover before the weekend, expect some improved ideas.

UK Continent

MR Owners in this Continent market will be grateful for the amount of enquiry we have seen this week as pretty much every other region struggled especially in the States, giving little support for the well supplied tonnage list on Monday. Some negative correction was always going to be on the cards, but thankfully we see rates only slip 10-15 points to 37 x ws 180-185 for TA and around ws 95 for WAF come Friday. With time running out for Russian exports, any willing tonnage has been clipped away for this, leaving our lists reduced and, with good levels of both TA and WAF stems, we find ourselves with a relatively tight front end, leaving prompt enquiry tougher to cover. Moving into next week, we expect Owners to remain optimistic and as long as the cargoes continue to flow, any improvement in the States or East sector will surely give Owners here a chance to press back towards the 200s once again.

It has been a fairly lackluster week for Handies in the North, with supply heavily outweighing demand, which has resulted in levels taking a tumble as the week pushed on. X-UKC now closes at 30 x ws 185 and UKC/MED is in need of a fresh test but should land around the 30 x ws 175 mark. With the weekend on the horizon, it will once again force the tonnage to be replenished, which could see further losses as we head into next week. The deadline looms for Russian business but fixing continues, albeit mainly under the radar as this sector is steady at 30 x ws 725-750.



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Dirty Products

Handy

The handy market in the North this week has been somewhat of a nonstarter, despite the position list showing plenty of opportunity in terms of both prompt natural and ballast tonnage. It has been some time since this market has needed a fresh test but that has been the buzz phrase all week where there has been some disparity in levels of 40-50 points between where BITR levels are being reported and what is being forecast as potentially next done. Undoubtably, questions will begin to flow and with that will come correction and eventually some sign of stability.

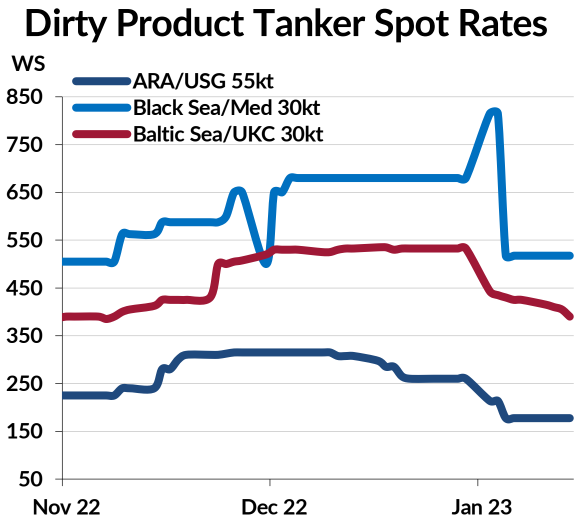
The second week of 2023 will not go down as one with much cause for celebration but one of relief on the part of handy Owners with tonnage in the Med, despite a slow start by mid-week the foot was back on the gas and a correction of some 75 points between deals saw questions begin to flow. A further drop was seen and with marketed cargoes getting upwards of 6 firm offers from prompt tonnage, ws 325 was established as a repeatable rate. Going into week 3, expect more of the same where Owners take what is on offer in order to keep chipping away at the positions list and a range of levels seen with cargoes. Once volumes have been maintained for a week or so we also expect fixtures to be concluded on 2023 rates fairly soon.

MR

In contrast to the Handies, the MR market in the North has seen the lion's share of activity, with the week closing and just one prompt unit still to find a cargo. Correction in levels was seen early on with two consecutive cargoes clipping away full stems at ws 370, some 25 points off last done levels. The expectation is that the clear down seen will stabilise levels. However, those units behind need to take coverage and idle days stack up and could well be the target of some testing numbers. The Med hasn't fared quite as positively with full stems on the missing list and the long list of prompt Handies meaning getting a look at a part cargo is all the more difficult. For now, Owners still have to sit tight and wait for things to pick up to pre-Christmas levels.

Panamax

Very little to report on the Panamaxes this week where availability of tonnage has thinned of late with just a handful of units surfacing. The expectation has been that, despite smaller sizes softening, the Panamaxes will hold on close to last done as availability of units and a slight firming in sentiment on the larger size may just keep sentiment steady for now.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 12th	Jan 5th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-8**	45	53	83	46
TD20	Suezmax	WAF-UKC	**+23**	117	94	170	102
TD7	Aframax	N.Sea-UKC	**-10**	160	170	322	160

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

			wk on wk change	Jan 12th	Jan 5th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-8500**	18,750	27,250	52,250	20,250
TD20	Suezmax	WAF-UKC	**+10500**	51,250	40,750	67,250	41,250
TD7	Aframax	N.Sea-UKC	**-21000**	63,250	84,250	161,000	64,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 12th	Jan 5th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-68**	178	246	312	
TC2	MR - west	UKC-USAC	**-20**	179	199	380	213
TC5	LR1	AG-Japan	**-85**	218	303	373	209
TC7	MR - east	Singapore-EC Aus	**-53**	245	298	446	244

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

			wk on wk change	Jan 12th	Jan 5th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-28250**	47,000	75,250	79,750	
TC2	MR - west	UKC-USAC	**-7500**	20,500	28,000	49,250	28,500
TC5	LR1	AG-Japan	**-25250**	44,000	69,250	71,250	41,500
TC7	MR - east	Singapore-EC Aus	**-11750**	30,500	42,250	56,750	30,250

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

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Bunker Price - Singapore VLSFO	**+26**	616	590	603
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