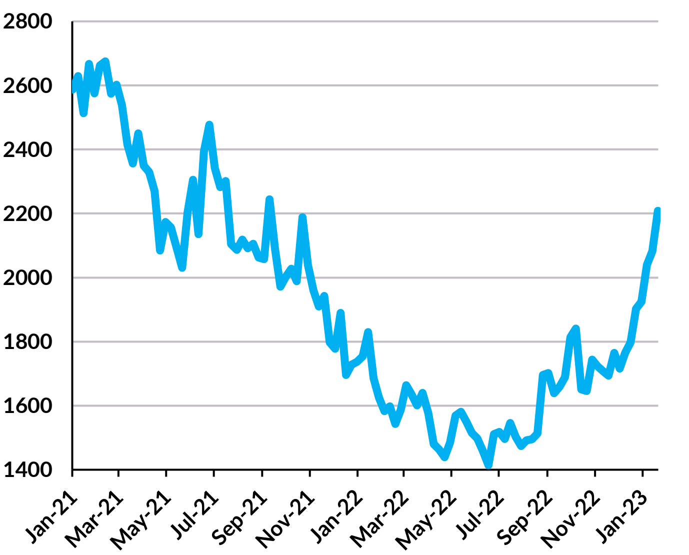
Diesel Distortion

Weekly Tanker Market Report

With just two trading weeks left until the EU's refined products embargo and G7 price cap come into effect, the clean tanker market is softer than many expected. It was largely expected that from mid-December onwards, product tanker freight rates from East of Suez and the US Gulf into Europe would find support from increased fixture activity as traders sought to place barrels into Europe for February delivery. However, with laycans now approaching February load dates, any cargoes which are fixed from the East will not arrive until after the embargo comes into effect.

For January to date, Europe has imported ~1mbd of clean products from Russia, most of which is diesel. Rather than weaning itself of Russian supplies this month, Europe has maximized import volumes, but this begs the question, will there be a hard landing in February? Whilst this, combined with imports from other sources is likely to exceed demand, it still suggests that a sizeable portion of Russian supply needs to be replaced. Thus, increased fixture activity from the East and Americas will likely be required as Russian supply dries up. In the short term, increased stockbuilding may help manage the gap. Europe has done a better job than expected in hoarding diesel ahead of the embargo, whilst a milder winter and softer gas prices have reduced gas to oil switching somewhat.

ARA Gasoil Stocks (000 tonnes)



Refining activity in Europe is also worth watching. Whilst middle distillate margins have been robust since the invasion, gasoline has been persistently weak until December. Now with strong margins across the barrel, European plants should be incentivized to maximize runs, which could also be contributing to narrow East-West spreads. Provisional data shows European refinery runs hit a post Covid high in December, further boosting regional supplies. Yet runs are expected to fall back during Q1 as maintenance takes hold, which is expected to tighten regional product supply just as Russian barrels are removed from the European market, whilst total European refining throughput is expected to ease marginally year on year. Fundamentally, the region is structurally short and parting ways with its main source of supply, so longer haul imports have to step up. However, potentially derailing this scenario is the ever-present threat of a recession, with the World Bank forecasting zero growth in European GDP in 2023 with more down, than upside risk. Furthermore, the 'rebranding' of Russian products in blending hubs such as North Africa and the Middle East could see some Russian cargoes enter the European market via the backdoor, depending on how closely authorities want to scrutinize cargo origin.

In the short term, Europe looks adequately positioned to weather the loss of Russian barrels. However, without increased flows into the region, stocks will fall, and East-West pricing differentials are likely to widen, particularly when spring refining maintenance programs commence. Ultimately, this points towards an increase in tonne mile demand and upwards pressure on freight rates. However, with spot flows dictated by arbitrage economics, rates will be constrained by pricing differentials between Europe and export hubs in the East and Americas. Volatility is expected to remain a key feature of the market as trading opportunities open and close.

Crude Oil

Middle East

VLCC Owners go into the weekend in a more positive frame of mind as the February program gets off to a busy start and rates improve w-o-w. It remains to be seen if sentiment changes next week as we expect to have a quiet start due to the Lunar New Year. In today's market we assess 270,000mt for AG/China to be ws 47 and 280,000mt AG/USG to be ws 36.

Basrah suitable tonnage availability will make give a competitive atmosphere for anyone looking to fix West and rates are looking to push towards 140,000mt x ws 70. Runs into the East remain fairly few and far between. There are a few Owners who will be keen, and Charterers will be looking to break 130,000mt x ws 145.

The week ends in similar fashion to how it began with little activity reported and rates steady in the AG. LR2s are flirting with the prospect of dirtying up which is adding options to the list, although Owners preference remains to head West. With Chinese New Year upon us, we can expect a quiet start next week and rates may slip a touch as a result. AG/East remains around 80,000mt x ws 245.

West Africa

This week proved to be one of the busiest for a while on the VLCC front. We saw a combination of more Crude going Eastbound and a busy West programme as Charterers recanted to the firm rise in the suezmax sector. However, this increased activity has not managed to have much impact on rates which are only slightly better than last week with 260,000mt WAF/China fetching in the region of ws 52.5. Plenty of ships have been put on subs for the same window in this region which will bolster Owner's ideas. There are fears we could see a number of these failing though leaving the list with a lot more stock next week. After being repeated multiple times yesterday, rates stand at approximately 130,000mt x ws 125 with a tad more being done today. Similar to last week, not many seem keen on East runs and those who want to fix should expect to face a premium of 5 points.

Mediterranean

A topsy turvy week for Aframaxes in the Mediterranean. The prevailing issue has been bad weather, and this has kept rates generally firm. A slow start to the week initially troubled Owners and after a market cargo garnered more offers than expected, some rate erosion was achieved down to ws 230 for a long X-Med. However, end month positions continued to prove fruitful, and by the close firm tonnage was in thin supply and Owners achieved ws 260+ for good voyages and ws 300 for shorter flats. CPC cargos have in the main been steady, ws 350 was the going rate at first but the aforementioned quiet period allowed ws 340 and 335 to be achieved. Owners will hope to reassert their confidence again from here.

With an approximate delay of 13 days through the straits, Charterers will certainly be keen on the more prompt tonnage. For this reason, those with ships on the front end of the list will be looking for over 130,000mt x ws 210.

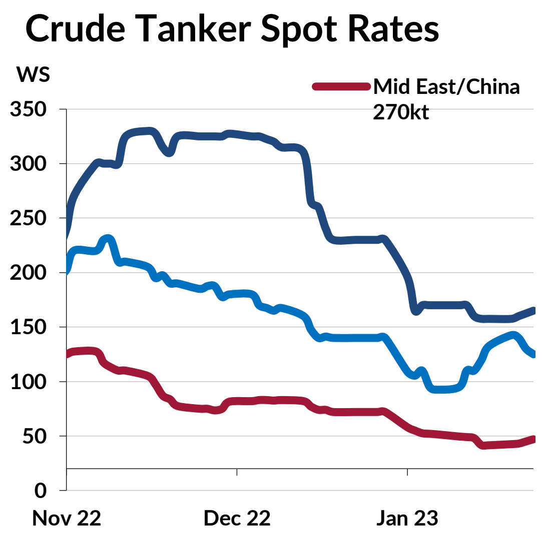
The list for Med-East is rather tight and Charterer's only real option are the non-CPC players who will be looking for $5.7million for a run into the East.

US Gulf/Latin America

VLCC market here remains very active as Charterers react to freight levels dipping below last done as a result of the Atlantic region being overtonnaged with the influx of Eastern ballasters competing with naturally placed ships. Owners can expect to achieve just under $8.2 million for a long East voyage. Aframax rates have now steadied after the healthy rise in the first part of the week and with activity getting lighter, we might see another fall off today.

North Sea

It has been a flat week in the North with meagre activity reported. With the Med outperforming neighboring markets, some Owners decided to take the ballast on the chin in order to get involved in the fun. Bad weather and French strikes continue to cause headaches for Charterers although they are yet to be stung with a healthy tonnage list providing cover if needed. The week ends with X-UKC around ws 162.5 level.



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

Clean Products

East

Another week of declining rates for both LR1s and LR2s. LR2s have been particularly vulnerable with large chunks of freight being taken off each fixture. A 75,000 mt Naphtha AG/Japan run dropped swiftly to ws 150 but now rates are no higher than ws 120 and needs a real test. A 90,000 mt Jet AG/UKC run is being tested right now with KPC in the market and patiently pushing for what is achievable. It looks set to settle at around $3.5 million at the present trajectory. At that stage we should see a period of stability but without a doubt, tonnage remains over supplied.

LR1s have fared little better with TC5 falling to ws 135 today - some 40 points off this week. 65,000 mt Jet AG/UKC has found its level at $2.875 million and should now hover at that level. With a pickup on the MRs, LR1s are likely to see any improvement first. But overall, with Chinese New Year now hitting; we will see a very quiet few days and Owners will have to hold their collective nerve or another decline will be forced.

MRs have been the most fruitful of the sectors this week - and the only sector to firm as opposed to soften throughout. TC17 was a busy route - unsurprising given that Africa is a good home for spare product. ws 315 is the top rate we have seen this week, but it is worth noting that we have now flipped to 2023 flat rates and are trading on a 35 x ws 255-257.5 basis now. Westbound is still being traded despite the dollar per tonne advantage available on larger sizes, $2.5 million basis UKC has been repeated a couple of times.

TC12 is popular due to repositioning opportunities closer to North Asia and in particular China where 35 x ws 197.5 was last done but could come under pressure as ballasters emerge from Singapore looking to lock in a repositioning cargo in the next fixing window. Shorthaul enquiry has been shared with the LR1s where $350k levels have been tried and tested. It is worth noting here how firm the front end of the list is, which means further enquiry could be tricky to cover, although the natural window now moves into February dates.

Mediterranean

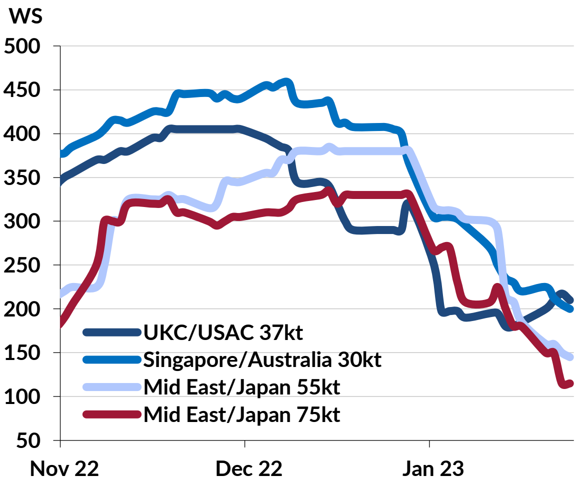
All in all, it's been a positive week for the Handies here in the Med, which has seen rates begin to improve. We began the week with X-Med trading at the 30 x ws 180 mark, but with better enquiry and some bad weather creeping into the Med, rates have pushed up to the ws 190-195 levels dependent on load zone. Non-Russian Black Sea levels are therefore expected to positively correct when next tested, with Russian rates still up in the ws 400's. Heading into the weekend, bad weather looks to continue, so expect Owners to remain positive with their ideas come Monday.

Finally, to the MRs here in the Med, where it has been an up & down week in terms of rates. 37 x ws 192.5 was the call for Med/TA on Monday morning but, with an influx of enquiry into the Med and improvement seen on TC2, rates soon pushed their way up to the 37 x ws 215 mark midweek. Since then, however, TC2 has come off due to increased ballast tonnage from the States and with enquiry slowing, rates have slipped to 37 x ws 205. WAF levels are in need of a test but expect them to track at +15 on TA. Further pressure on the cards here next week.

UK Continent

Not been the most exciting week for Handy Owners in the North, as supply has outweighed demand throughout. 7 prompt units were available for Charterers on Monday morning, which quickly saw levels re-adjust down to 30 x ws 150 for X-UKC, although that being said, Owners have held the line, as these levels have held. Russian Baltic fixing continues, as levels trade at 30 x ws 750-775; yet, with the deadline on the horizon, it will be interesting to see how this market plays out.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

Levels have again been correcting both in the Med and the Continent this week; however, Owners can at least breathe a sigh of relief, as the speed of the decline in both zones has slowed down significantly.

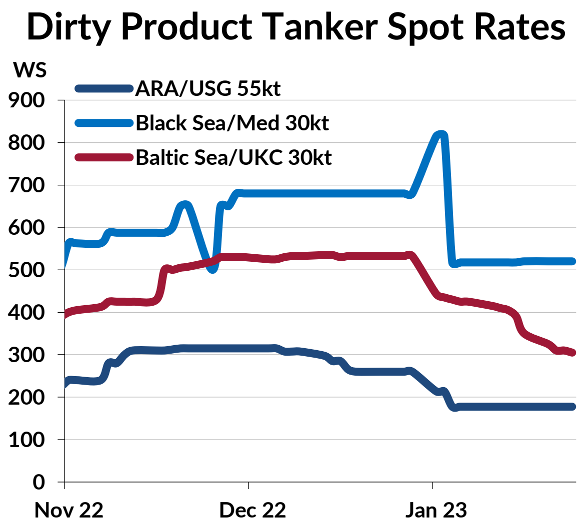
Although conditions in this cycle would suggest we are still to fully find the floor, at least this week we can pinpoint where levels are sitting on the 23 schedule, giving further clarity to the market. Out of the two zones, the Med is the region which remains rather more precariously positioned: the number of units needing to be fixed in the nature of a short haul market does leave questions remaining unanswered for Charterers.

MR

Coming into the week levels have been pretty untested, where for the most part we have been contemplating theoretical values, given how the surrounding Handies had plunged in value. Settling at the ws 240 mark, whilst also switching over to ws 2023 schedule, a common ground has been found, where for Charterers the $/MT looks better against a Handy, whilst Owners are still being compensated for the use of a ship able to lift a full 45kt. This said, just like the surrounding Handies in the Med, levels will continue to be scrutinised next week, with many units keeping a close eye on part cargo opportunities as well.

Panamax

Little to reflect on this week, as the units over here fail to register much of a glimpse of the markets that led us to believe ws 217.5 (22) was still valid. As such, with units now bypassing their open dates, some tough decisions will need to be made. Ballasting to the US remains an option; however, conditions in the US are softer now and Owners are having to compete. Whilst any ship in ballast does have an advantage of a firm itinerary, the units facing this decision aren't ordinary units. The two ships in question are both relets, which may just signal what we can come to expect from own programs, if we do start to see AIS systems start pinging for US bearings.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 19th	Jan 12th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+2**	47	45	76	49
TD20	Suezmax	WAF-UKC	**+8**	125	117	144	107
TD7	Aframax	N.Sea-UKC	**+2**	162	160	261	167

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

			wk on wk change	Jan 19th	Jan 12th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+1000**	19,750	18,750	44,500	23,000
TD20	Suezmax	WAF-UKC	**+5000**	56,250	51,250	52,750	44,000
TD7	Aframax	N.Sea-UKC	**+1250**	64,500	63,250	118,250	69,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 19th	Jan 12th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-50**	128	178	329	
TC2	MR - west	UKC-USAC	**+26**	205	179	330	199
TC5	LR1	AG-Japan	**-69**	149	218	376	188
TC7	MR - east	Singapore-EC Aus	**-46**	199	245	427	230

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

			wk on wk change	Jan 19th	Jan 12th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-21750**	25,250	47,000	85,500	
TC2	MR - west	UKC-USAC	**+5750**	26,250	20,500	40,250	25,000
TC5	LR1	AG-Japan	**-21500**	22,500	44,000	72,250	34,250
TC7	MR - east	Singapore-EC Aus	**-10500**	20,000	30,500	53,500	26,250

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

Bunker Price - Rotterdam VLSFO	**+20**	579	559	531	
Bunker Price - Fujairah VLSFO	**+55**	651	596	619	
Bunker Price - Singapore VLSFO	**+41**	657	616	601	
Bunker Price - Rotterdam LSMGO	**+18**	887	869	851	

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