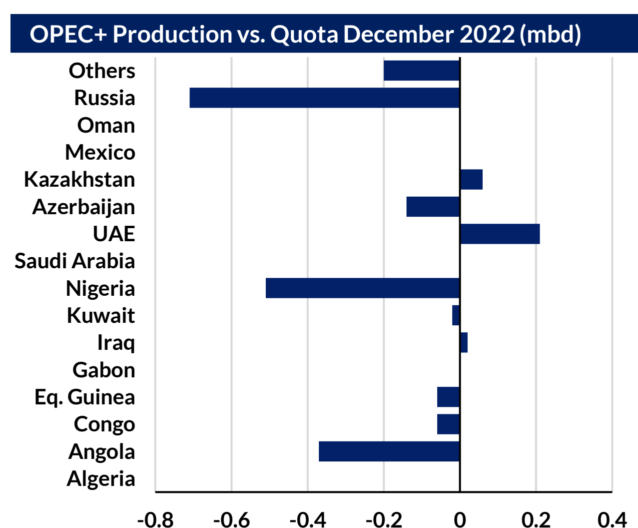
Wait and See

Weekly Tanker Market Report

This week, the Joint Ministerial Monitoring Committee (JMMC) of OPEC+ held a virtual meeting where they agreed to maintain current production levels. This comes after their announced output cut in October 2022 of 2 million bpd from Novemebr until the end of 2023; driven by concerns about the state of the global economy, the oil demand outlook and a subsequent drop in crude prices. In their latest Oil Market Report, the IEA estimates OPEC+ December crude production at 38.33 million bpd for those members in the current output cut deal which corresponds to 1.77 million bpd under target.

At the time of writing, oil prices are trading below the symbolic $100/bbl level, while the supply and demand balance does not feel particulary tight and Russian crude exports remaining resilient despite the crude price cap. Whether OPEC+ should revise its current targets in 2023 for the time being remains uncertain. While the demand outlook seems more optimistic, this is far from guaranted.



Detering any further near term output cuts is the positive revision in the oil demand outlook for 2023. The IEA now expects global oil demand to increase by 1.9 million bpd in 2023, compared to a 1.7 million bpd forecast back in December. Whilst this revision is relativly minor in absolute terms, it signals that consensus expectations for further demand destruction may have begun to reverse, primarily off the back of growing optimism about Chinese demand in the post-zero-Covid policy era. While it will take time for the full return of China to the global oil market, it is likely that pent up Chinese economic activity and higher population mobility should improve demand going forward.

The same trend of improved demand optimism is also reflected in macroeconomic forecasts. The IMF have now revised up their outlook for 2023 growth to 2.9% (up 0.2% compared to their October report), again driven primarily by increased demand from China and India. However, US Federal Reserve rate hikes are keeping oil demand growth subdued across many importing nations.

Where the outlook becomes more complicated is in terms of market supply and the role of Russian crude exports. In terms of supply growth, 2023 is forecast to see a 1 million bpd increase but this assumes a 870 kbd decline in Russian output. If Russia cannot find a new export market for all of its refined product exports after the 5th February, this could result in lower refinery runs and higher crude exports, which may alter this forecasted output decline and support Russian crude exports. China and India have both been importing more Russian crude and both are likely to continue doing so for the foreseeable future. So long as Russian crude keeps flowing at a discount to non Russian grades, most extra short term demand growth could likely be met by Russian barrels, which would keep the overall market supply and demand balance under control.

Therefore this gives OPEC+ an opportunity to consolidate current production, while seeing how the full impact of Russian sanctions play out on the overall supply and demand balance of the market. Meanwhile in the crude tanker market, especially the VLCC sector, any futher output and exports would have been welcome admist the current rate slump, but owners will have to wait until OPEC is ready to announce higher production targets, which may not realistically occur until Q2 or Q3 at the earliest, once the market is past the current short term uncertainty. Nonetheless, economic headwinds still persist and the extent of the fallout from Russian sanctions remains unkown, for now the best option may be to wait and see.

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Crude Oil

Middle East

VLCC rates remain steady for now but Owners are confident we can see a pick up next week as Charterers move to cover the outstanding 3rd decade stems. A lot will depend on what happens in other areas but there are signs that the Atlantic market will firm against a noticeable pickup in activity, so this should generate positive sentiment for the AG. For today's market we are calling AG/China 270,000mt x ws 49 and 280,000mt x 35 on an AG/USG run.

Rates in the AG for Suezmaxes are showing signs of firming with Charterers having more difficulty than first thought keeping rates down. There is a healthy level of enquiry in the AG and rates today stand at 130,000mt x ws 55 for Basrah/Med and 130,000mt x ws 130 for AG/East.

For the Afras, it has been a painful week for Owners in both the East and West markets. Two market cargos received plentiful offers which exposed the long list of tonnage available to Charterers due to the recent lack of inquiry. Owners will be thankful that the weekend has now arrived as the market saw the outcome of a much-needed AG/East test which was snatched at by a Suezmax. It is now only a matter of time until Charterers break 80,000mt x ws 200 for AG/East.

West Africa

We are seeing more enquiry on VLCCs from WAF towards the end of the week for both the East and for runs up to the UKC but so far rates have remained stagnant. However, we expect this to change positively for Owners as we are seeing large volumes of activity in USG and Brazil zones. Today we are expecting a 260,000mt WAF to China run to fetch in the region of ws 50.

Suezmax rates appear to be bottoming in West Africa and Owners will be looking to push on from last-done. Owner sentiment is strong with anticipations of the rising VLCC market having a knock-on effect, rates stand at 130,000mt x ws 112.5 for WAF/UKCM. Rates into the East still aren't particularly sought after and sit approximately 5 points above the rate for the UKC.

Mediterranean

With West Africa and the AG firming for Suezmaxes, Owners will have greater aspirations in the Med. A CPC/UKCM voyage is likely to set Charterers back somewhere around 135,000mt x ws 170 for CPC/UKCM. Owners remain reluctant to head East and rates from Libya are approximately $5.25M.

A position list showing thickness on the front end had the expected effect on Aframaxes in the Med. Ceyhan voyages were eroded from ws 220 levels to ws 205 and then ws 195 for ship opening locally. This brought other Charterers to the party and a clutch of Cross Med fixtures were concluded in the same range. CPC cargo rates were also damaged with rates slipping to ws 295 and then ws 280 for Med discharge, in part also due to the threat of Suezmaxes on part cargo. These ships did also pluck a few Cross Med voyages from the Aframaxes and this has prevented a rebound which seemed on the cards at the close.

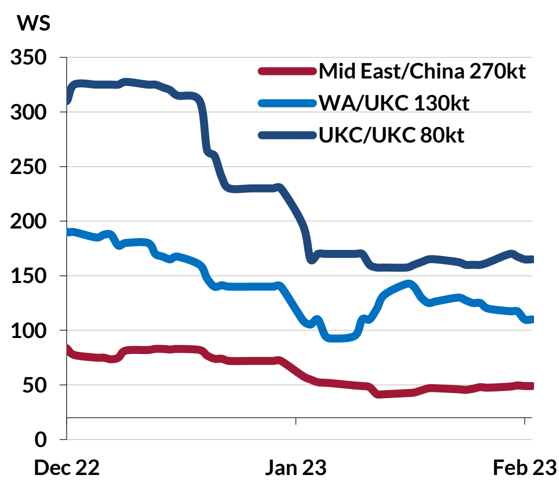
US Gulf/Latin America

Rates on VLCC's have started to recover here after the recent downturn and while we have a long way to go to get back to where levels were before the fall, the prospects look good for further increases as the Atlantic basin gets busy. A USG to China cargo today would fetch in the region of $7.4m.

Another week of fluctuating rates on the Aframax sector as the midweek gains were wiped out by weeks end as rates were heading back to where we started the week.

North Sea

The North has held it's ground this week trading sideways with Owners unwilling to drop the baton. X-North Sea continues to trade at ws 165 levels and looks set to stay that way for the near future.



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

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Clean Products

East

LR2s have continued to dip, but for how long? With East trading at 75 x ws 100 and West at what must be the bottom at $3.0million levels. Charterers will be looking at the current value held by the larger ships and trying to take advantage before (as we have seen in the past) a quick change of sentiment occurs and the LR2s try to advance. Owner will be well aware of what is happening on the LR1s and there cannot be many LR2s left to repeat last done levels.

A busy week on the LR1s which has cleared a good proportion on the front end leaving limited competitive units for both East and West runs. Expect to see further enquiry for Nap stems into next week, 55 x ws 130 levels for now but Owners will be hoping for a push on last done. West runs are struggling now to get any offers, $2.85million had been achieved a few times however, Owner's ideas are pushing North of this closer to the $3.0million mark as they hope this is the start of a resurgence, and it does feel things are moving.

The MRs have been poised all week to make their move – which finally happened Thursday night with EAFR firing up to w237.5 ($25k/day) from the lows of w185 last week. The list remains tight with limited ballasters or safe itins to work from – those Owners with ships left are holding out for w250, but it is likely someone buckles for a step in the w240s first. The Far East is ripping, to the point where we're seeing Durban ships ballast to Singapore instead of Fujairah, helping keep the position list tight. The weak LRs means Nap East and Distillate West will continue to go on the LRs.

However, the bigger sizes are showing signs themselves of bottoming, so overall a very positive week for the AG MR segment. Except a further push in rates next week.

Mediterranean

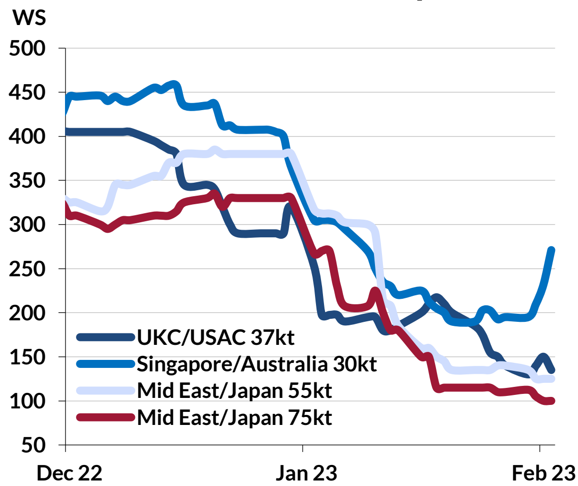
All in all its been a steady week for the Handies here in the Mediterranean which has seen rates trade at the 30 x ws 195 mark X-Med throughout. Improved levels of enquiry in the mid-point of the week helped to prevent any pressure but since then fresh cargoes have been on the slow side and with the weekend approaching, we could see some negativity come Monday. In terms of Black Sea rates Non-Russian levels continue to trade at the +50 on X-Med with Russian loads in need of a test. Quiet finish here.

Finally, to this Med MR market where it has been a very positive week for Owners after good enquiry levels and improving rates. We began the week with Med/TA trading at the 37 x ws 150 mark with WAF tracking at 10 points more but with an influx of enquiry, including a handful of Jet stems rates soon picked up. 37 x ws 182.5 Med/TA was achieved for a Jet stem on Wednesday which was the peak of rates this week and since then we see vanilla Med/TA settle at the 37 x ws 160 mark. At the time of writing a handful of cargoes remain so expect Owners to remain bullish here into the weekend.

UK Continent

After a mixed bag of fixing on Monday, this MR sector in the North has for the most part been stable with TC2 fixing around 37 x ws 140 and WAF holding a 10 point premium. Enquiry levels have certainly been lower this week especially for WAF where the larger LRs seem to have been preferred, but thankfully for this market a couple of trickier cargoes X-Med (Jet/Nap) have seen some inflated rates achieved. This has meant a number of ballasters have headed that direction and with talk of the East sector picking up also, the Mediterranean finds itself now holding a 20 point premium. Come Monday it will be interesting to see which ships have been clipped away and once we hear what the price cap for Russian products is, can expect a few more ships to slip away, leaving a tonnage list which shows signs of recovery…

Majority sit back and wait for the EU announcement for the price cap for Russia business which ultimately is the main catalyst for the supply side improving massively for Handies in the North. UKC enquiry has been lacking and partnered with an oversupply of tonnage, freight for X-UKC has hit a new low of 30 x ws 135 and expect UKC/MED to negatively corrected to 30 x ws 125 when next tested. Keep an eye next week for some Owners willing to ballast down to West MED to secure cargoes at higher levels. Pressure ahead.



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Dirty Products

Handy

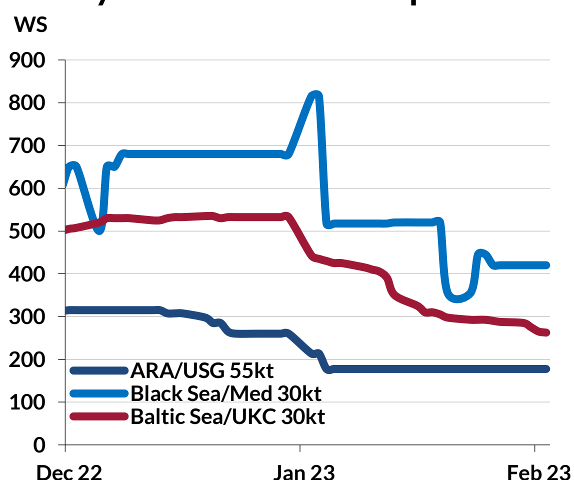
With little going on this week Owners were again being forced to compete for what is on offer. However, all things considered, both the Med and Continent show only a modest reduction in levels. Look a little deeper though beyond face value levels, you can see a number of little changes to sentiment and start to pinpoint what has changed since we left the volatile markets of 2022. Additional tonnage, waiting time for ships and increased competition being the obvious characteristics, but considering this is winter and fixing dates remain about a week ahead shows just how comfortable Charterers are right now. Still, if you look at what the earnings are on paper and on the premise that you can more or less hit your dates, it's really not all doom and gloom.

MR

A more established trading pattern has started to develop in this sector when a full MR has been needed. Although, some of the moves MR's have been looking at have raised a few eyebrows when ballasting has been taken into account and the destinations of these cargoes being fixed is also somewhat slightly irregular. If these deals get fixed, tonnage leaving the area could yet be a positive for this sector, as with a few units coming back into play having taken leave to pursue alternative trade. A bit of rebalancing could help owners hold value in the weeks ahead.

Panamax

Some activity to finally report this week with Panamaxes being tested on a couple of occasions, but perhaps the most intriguing deal was where a unit ex CPP turned to DPP, achieving a premium over last done in the process. Europe does not have any immediate availability of the traditional beam type unit, and with CPP being in the doldrums, this does beg the question whether other ships will start to consider such a move. Should this be the case then its highly likely such returns will continue to be on offer.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 2nd	Jan 26th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+1**	49	48	45	52
TD20	Suezmax	WAF-UKC	**-12**	112	124	117	110
TD7	Aframax	N.Sea-UKC	**+5**	166	161	160	161

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

			wk on wk change	Feb 2nd	Jan 26th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+3250**	22,500	19,250	18,750	26,750
TD20	Suezmax	WAF-UKC	**-7500**	46,750	54,250	51,250	46,250
TD7	Aframax	N.Sea-UKC	**+3250**	65,000	61,750	63,250	61,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 2nd	Jan 26th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-15**	96	111	178	
TC2	MR - west	UKC-USAC	**-11**	140	151	179	186
TC5	LR1	AG-Japan	**-5**	126	131	218	179
TC7	MR - east	Singapore-EC Aus	**+80**	276	196	245	230

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

			wk on wk change	Feb 2nd	Jan 26th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-5500**	11,250	16,750	47,000	
TC2	MR - west	UKC-USAC	**-1500**	11,250	12,750	20,500	22,000
TC5	LR1	AG-Japan	**-1250**	15,000	16,250	44,000	30,750
TC7	MR - east	Singapore-EC Aus	**+16500**	35,000	18,500	30,500	26,000

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

	wk on wk change	Feb 2nd	Jan 26th	Last Month*
Bunker Price - Rotterdam VLSFO	**-22**	591	613	559
Bunker Price - Fujairah VLSFO	**-40**	649	689	596
Bunker Price - Singapore VLSFO	**-15**	676	691	616
Bunker Price - Rotterdam LSMGO	**-99**	821	920	869

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