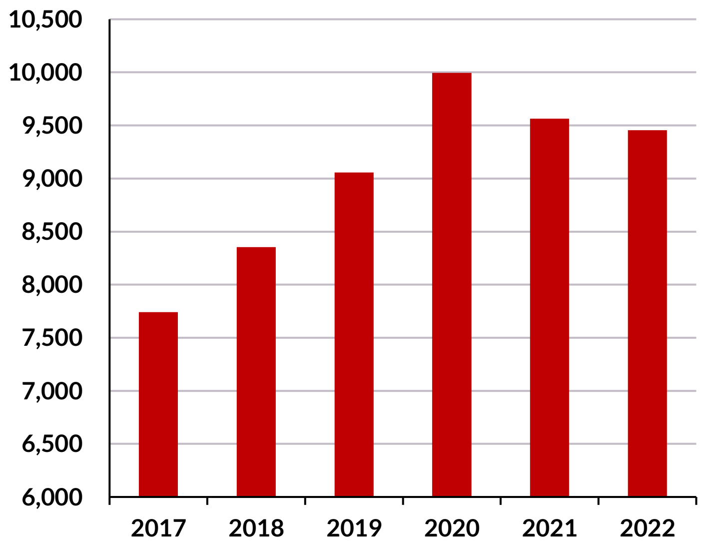
Driving Force

Weekly Tanker Market Report

China's dramatic shift away from its strict zero covid policy at the end of 2022 defied expectations of a gradual reopening over the course of 2023. Inevitably fuel demand is now projected to grow strongly over the course of 2023, with the IEA predicting growth of 900kbd, whilst Refinitiv Oil Research forecasts crude imports gaining 10% year on year. However, resurgent Chinese demand raises several key questions. Firstly, how much of this incremental import demand will be met with Russian supplies, and secondly, to what extent will rising domestic consumption compete with refined product exports.

In terms of crude supply, Russia is likely to establish itself as China's top oil supplier when pipeline flows are included, particularly with reports that the top state-owned refiners have returned to purchasing Russian crude after a brief hiatus towards the end of 2022. Further, smaller teapot refiners in Shandong province may also turn to discounted Russian fuel as a feedstock for their facilities. Nevertheless, not all of China's demand growth is expected to be met with Russian barrels, with higher buying out of the Americas, West Africa and Middle East expected to contribute towards an uptick in vessel demand, most notably for VLCCs. With Chinese crude production largely flat, on the crude side it is quite simple. China will need to increase seaborne imports to meet its demand growth – a positive for the tanker market even if Russia plays a significant role. However, for refined products the picture is less straight forward.

Chinese Seaborne Crude Imports (kbd)



Over the course of the pandemic, China has boosted its domestic refining industry and now boasts the largest capacity in the world at 18.4mbd, ahead of the United States. Although lower utilisation rates means that projected run rates for 2023 stands at 14.5mbd (+800kbd yoy). However, despite increased capacity and higher output, the forecast for refined product exports growth is modest, having been revised down since China abandoned its zero covid policy. Whilst overall CPP exports are expected to grow with gasoil and jet seeing the greatest upside, gasoline exports are expected to fall back as domestic travel sees barrels retained for local consumption. Overall exports are now expected to grow by around 10%, pegged back by stronger domestic consumption.

However, export volumes could well be higher, initial quota allocations look generous at 18.99 million tonnes (around half of total 2022 exports) whilst overseas demand is likely to rise in the coming months. Meanwhile, strong refining margins should incentivise refiners to boost output. However the key will be how much quota is issued in the second round of 2023. Longer term, the key determinant will be government policy towards the refining sector. For now, the government appears to be more focused on economic development rather than environmental policy as was the case during the first half of 2022. Whilst a policy shift back cannot be ruled out, the economic opportunity to capture more value in the refining industry, and the desire to boost GDP growth following the end of zero covid should prevail this year.

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Crude Oil

Middle East

VlCCs in the AG are ending the week on a positive note as Charterers are having to pay up especially for early March dates and the tonnage list is tightening. The improvement in sentiment has been helped by a rebound in the USG and today we are rating it 270,000mt x ws 70 for AG/China and 280,000mt x ws 43 for an AG/USG voyage.

Ships remain keen to head West, keeping cargo very sought after here. Rates for AG/West are around 140,000mt x ws 57.5. The front end of the list is loaded with Russian players, looking at much larger numbers from the Black Sea. For ships that remain, rates stand at approximately 130,000mt x ws 130.

It feels like Aframaxes have bottomed in the East as markets in surrounding areas are making positive noises. Rates close the week at 80,000mt x ws 180 level for AG/East.

West Africa

Rates remain firm in the VLCC WAF sector as pressure from other zones combined with limited tonnage availability has put Owners firmly in the driving seat despite seeing less activity . Today we are expecting a 260,000mt WAF/China to go in the region of WS 67.

The market in West Africa has continued to firm throughout the course of the week, and tonnage for early dates remains limited. Rates for a UKCM run today are hovering around 130,000mt x ws 125 with healthy levels of enquiry. The list has a limited number of ships with Owners willing to send them East. As such, the premium is about 10 points.

Mediterranean

Enquiry has been few and far between from CPC, but the rising tides elsewhere are raising Owners expectations in the region. Rates for a standard TD6 run are in the region of 130,000mt x ws 167.5. Runs into the East have seen an improvement in rates in the tail end of the week, with a cargoes heading that direction facing rates in the ballpark of $5.8m.

The Mediterranean market coughed and spluttered this week with activity solely serving to show how many ships were available and first counters were taken. However, Owners began to dig their heels in at current earnings and this coupled with further CPC activity allowed rates to bottom and show promise once more. Ceyhan rates dipped to ws 170 levels but by the close the stragglers were forced to pay ws 180. CPC cargoes were concluded at ws 270 levels and signs of optimism over the pond give chances for rates to improve further into next week.

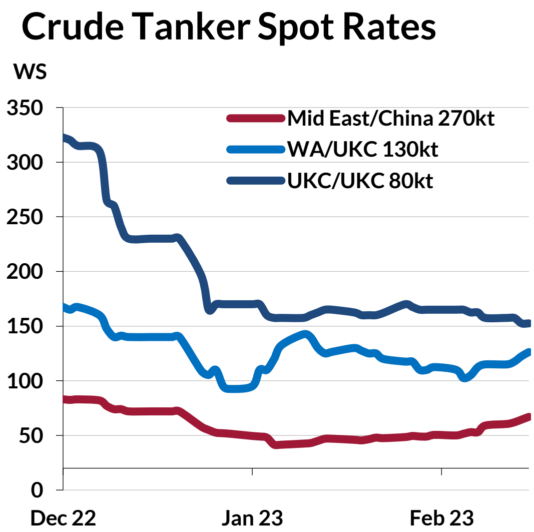
US Gulf/Latin America

This week has seen a healthy recovery in freight rates here as Charterers struggle to cover 2nd half of March dates against a resurgent Owners market. A USG to China run today would expect to fetch in the region of $9m.

The Aframax market here is finishing the week on a positive note as rates improved day by day against a backdrop of increased activity and pressure from other sectors.

North Sea

The week rounds off looking slightly more positive than it started. We have seen a few ballasters to the warmer climes of the US market which has helped trim the units and polish the sentiment of Owners in Northern Europe. The market is now trading in the mid ws 150's and looks likely to push upwards as we move into next week as surrounding markets are also popping.



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

Clean Products

East

A busy week on the LR2s. $/tonne came into a play which incentivized traders to use this segment for the longest haul business. Westbound last done is $4.5m ex India, but with more to go on subs this afternoon after this report was written. Naphtha last done is on subs at 75 x ws 175 but again we see Owners talking ws 200 basis Japan and heavily incentivised to push on as we go into the fresh week.

The LR1s have also firmed. Last week the LR1s drove the change, but this week they are content following the LR2s. $3.8m is on subs AG/UKC - a good jump up - and further Westbound enquiry is still to be covered. TC5 is on subs at 55 x ws 210, although a ws 250 basis East Coast India will add further bull to an already bullish segment. Indian export taxes are down again so expect further Indian longhauls to be quoted which has been buoying this segment for a few weeks now.

Most of the excitement has been in the LRs this week, but the MRs have managed to tick higher. Rates have flattened to finish the week and Owners aren't too fussed when Durban deliveries currently pay $48-50k/day. As we enter next week, we expect rates to remain flat / potentially come under a little pressure as we get into the next fixing window. Current earnings and market dynamics we will see more Chittagong/Singapore/Australia ballasters this weekend, so the MR list is beginning to look better supplied for end month/early March. We are not calling this market bearish, just unlikely to see the 20-25% leaps we've seen in recent weeks.

Mediterranean

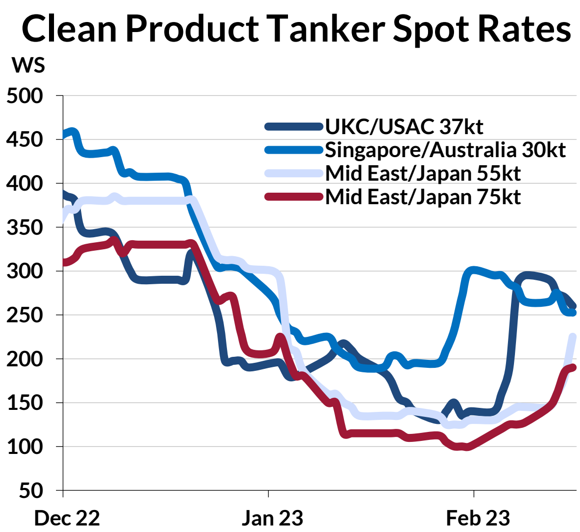
Overall, a steady week for the Handies here in the Mediterranean with rates trading sideways throughout. Good levels of enquiry combined with a balanced list, has seen rates remain flat at the 30 x ws 265 mark X-MED for the best part of this week. Non-Russian Baltic Sea levels have also remained steady around the 30 x ws 320 mark which has been repeated a few times. Heading into next week there is little left outstanding and with paper levels dropping we could see some pressure come Monday.

Finally, to the Med MR market where it's been a quiet week in terms of fresh cargo enquiry. Med/TA began the week at the 37 x ws 285 mark but with TC2 coming under pressure and enquiry on the slow side rates have come off with levels now around ws 275 levels. That being said the Med has been able to hold a premium on its UKC counterpart due to certain grades needing to be loaded which is now at 37 x ws 260. WAF levels are in need of a test with +10 expected on TA. Improved enquiry needed next week if the Med is to hold its current premium on TC2.

UK Continent

A relatively slow week passes for the MRs on the Continent as we saw for the majority, different sized options for Charterers to pick out to knock some of the wind out of Owners sails. This has kept enquiry levels at a slow pace but as the week evolved rates picked up on the LRs and Handies limiting options. The result of this is yet to be shown on the cargo front, but as we trade TC2 around the 37 x ws 260 mark and +10 for WAF, we can certainly believe next week will show increased activities and with good foundations now surrounding the MRs. The opportunity to improve slowly becomes believable. Enquiry at the start of the week certainly is key and without it, we will continue this placid route, but any impetus of stems should get things moving again.

It has been a real positive week for Handy Owners in NWE as there has been a ws 100 point swing since this time last week on X-UKC. There has been an injection of stems and with some Owners ballasting down to Gibraltar to fix the higher X-MED numbers resulting in the tonnage list quickly tightening. 30 x ws 290 is now the going rate for X-UKC (which was paid Friday morning) and UKC/MED trades at 30 x ws 280. The MR continues to stagnant which may see some lean on MRs to cover their handy exposure moving forward. Owners bullish here.



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Dirty Products

Handy

The North market this week has taken an inevitable tumble off the back of prompt units building up. This, combined with inactivity has seen rates fall from ws 262.5 to ws 240 and with one unit that has been prompt for a week managing to find coverage at this level. We go into the weekend with Owner's confidence dampened. Despite some of the usual Russian players holding back this week, one Owner has ballasted two C.Med positions to the Baltic to cover cargoes back to the Med at ws 500-530 further adding to the oversupply of units in the region. The outlook for Owners in the North is soft in the short term, however, there remains the potential for an injection of pace once again, tightening the list and pushing numbers.

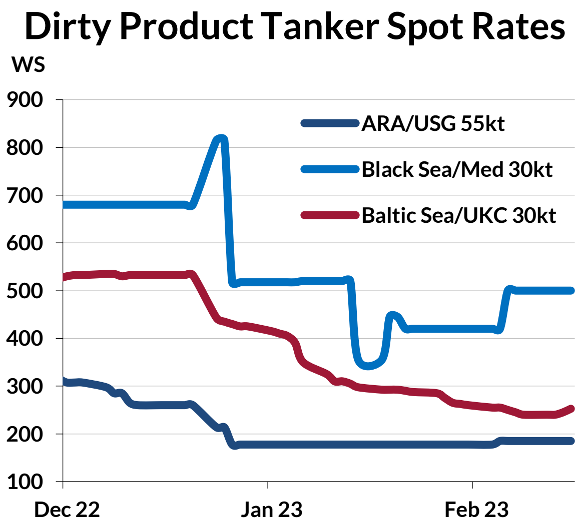
A familiar trend repeated in the Med this week where, after an active first few days, activity slowed towards the end of week. The slow down hasn't dampened sentiment, however, as the mid-week clear down of prompt units has set the tone that we have found the bottom. With ws 235 being achieved, ws 240+ is now being pushed for and with uncertain itineraries and weather also being a factor, the expectation is that rates will steadily climb from here. One caveat, however, is the disparity in supply between East Med and West Med where one marketed cargo saw only one offer for an East Med load. With availability tight going into the weekend, Owners will be hoping the pace of cargo flow is maintained in order to keep pushing.

MR

This week's mixed fortunes have plagued the one natural MR on the Continent where failing subs meant closing the week closer to its opening dates and ppt on Monday. Ballast tonnage from the Med has also been available in the natural window but with very little cargo on offer these units have found more localised business to jump on. As a result, levels are holding fairly steady in both regions with MRs in the Med looking tighter with potential for rates to bounce in line with improvements on the Handies next week.

Panamax

Activity continues this week as a one Owner this side of the pond manages to find a UKC/Argentina run which saw levels break the ws 200 benchmark. Supply, however, is limited going forward and without a good supply of tonnage showing before end month, expect questions to surface at a slower rate and with the Caribs market stabilising and earnings still at reasonable levels, attracting ballasters is not yet a viable option.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 16th	Feb 9th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+13**	66	53	47	58
TD20	Suezmax	WAF-UKC	**+14**	125	111	125	119
TD7	Aframax	N.Sea-UKC	**-10**	153	163	162	161

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

			wk on wk change	Feb 16th	Feb 9th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+19500**	48,250	28,750	19,750	37,250
TD20	Suezmax	WAF-UKC	**+10000**	56,500	46,500	56,250	52,750
TD7	Aframax	N.Sea-UKC	**-8250**	56,000	64,250	64,250	63,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 16th	Feb 9th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**+60**	184	124	128	
TC2	MR - west	UKC-USAC	**-25**	264	289	205	219
TC5	LR1	AG-Japan	**+72**	215	143	149	204
TC7	MR - east	Singapore-EC Aus	**-26**	256	282	199	249

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

			wk on wk change	Feb 16th	Feb 9th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**+25000**	48,250	23,250	25,250	
TC2	MR - west	UKC-USAC	**-5750**	40,250	46,000	26,250	30,000
TC5	LR1	AG-Japan	**+22000**	42,250	20,250	22,500	39,500
TC7	MR - east	Singapore-EC Aus	**-5000**	31,750	36,750	20,000	30,750

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

Bunker Price - Rotterdam VLSFO	**-3**	591	594	579
Bunker Price - Fujairah VLSFO	**-11**	634	645	651
Bunker Price - Singapore VLSFO	**-16**	645	661	657
Bunker Price - Rotterdam LSMGO	**+6**	795	789	887

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