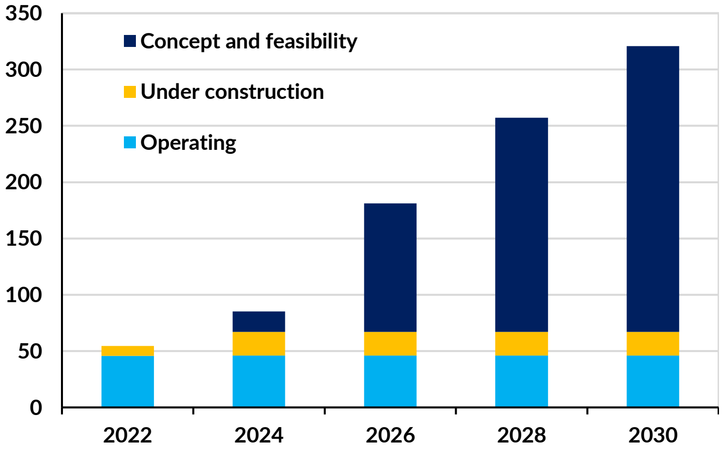
Shipping a different kind of carbon

Weekly Tanker Market Report

Recently we wrote about the potential of onboard carbon capture and storage systems (CCS) as a means to decarbonise shipping. Whilst CCS technology could allow shipping to carry on burning cheaper fuels, and meet emerging environmental legislation, it also offers a new source of cargo demand for the industry, which could over time help offset lost demand from a declining trade for conventional hydrocarbon cargoes.

Operational and planned carbon capture capacity by status, 2022-30 (mtCo2/year) - *Source: IEA*



Unsurprisingly, there is significant interest in the sector, with some new projects under construction and significant design and feasibility work underway for potential future projects. Currently, North America leads the way, accounting for approximately half of the installed, under construction or planned CCS capacity. Europe then accounts for around 35% of planned projects, which is unsurprising given the region's stricter environmental targets. Although Asia has significant potential, currently planned projects amount to just 19.2 mtCo2/year, less than 10% of the global project pipeline.

Whilst the US and Canada lead in terms of CCS projects, much of the activity will be onshore, reducing demand for shipping; however, in Europe with most projects offshore under the North Sea, shipping will be in much greater demand, either for direct injection via floating infrastructure, or shipping to dedicated onshore injection facilities from across Europe where subsea pipelines will transport captured CO2 into depleted oil and gas fields.

Perhaps one potential issue however is that, if many of the projects currently undergoing feasibility studies are to get approved, there could be a shortage of shipping capacity available for when the projects are commissioned. Currently, just two CO2 carriers are on order and will be dedicated to the Northern Lights project, which commences in 2024. Given current newbuilding lead times and uncertainty over designs, projects coming onstream, which require shipping capacity in the 2026 period, could find themselves short of specialised tonnage, if orders are not placed soon. For shipowners, this could create an opportunity for a speculative order, however, with most projects still in their infancy, the risk of ordering the wrong size/design cannot be ignored. Yet, with yards researching designs which can carry ammonia and LPG, as well as CO2, it may not be long until shipowners can mitigate the risk through cargo flexibility, giving some owners the confidence to take the plunge into this burgeoning market, whilst also (potentially) improving their ESG credentials.

From the perspective of CO2 project developers, it is not inconceivable that projects and infrastructure could be designed around the specifications of any vessels that are ordered, particularly if yard availability remains tight. Markets such as the US and Europe, where significant CO2 storage is being developed, could also import CO2 for storage from outside the region, boosting longer haul demand and requiring larger vessels to facilitate economies of scale.

Undoubtedly there is a future for CO2 shipping, and whilst technical and regulatory hurdles need to be addressed, there is a clear will at government and corporate level to develop CCS as a solution to combat climate change. If projects are to be developed by the late 2020s, then time is running out to secure dedicated vessels, which could create an opportunity for those brave enough to order ahead of the crowd.

GIBSON SHIPBROKERS

Crude Oil

Middle East

A topsy-turvy week for VLCC in AG, as the momentum which built up from early in the week was well and truly shattered by weeks' end as we saw a big drop off after a few market cargoes exposed how many ships were left scrambling for 1st decade business. With Eid holidays and an expected slowdown in exports, Owners could be in for a challenging week ahead. Today we would expect 270 AG/China to fetch ws 65 and 280 AG/USG to go for at least ws 45 level.

Suezmax rates for AG/West have stabilised, as the week comes to a close, and we are starting to see more resistance from Owners to improve market levels. Rates currently sit around 140,000mt x ws 65. There are a few ships on the list that would be keen to head East, and Charterers looking to fix in this direction are going to be looking to break 130,000mt x ws 125.

The week started brightly for Aframaxes in the AG. Yet, as EID holidays came rushing in, Suezmaxes have taken the Aframax Lunch money and the Med Aframax market has stumbled, the market has quietened down and rates have softened. Limited quality units remain, but this quiet period will aid Charterers come next week as a few extra vessels enter the frame. AG/East closes the week at 80 x ws 210-215 level.

West Africa

WAF continued to be a mixed bag for Owners. While there were some gains made earlier in the week off prompter dates, it proved to be the opposite off forward dates where an oversupply of available tonnage combined with a weakening USG sector meant rates were falling by week's end. It is likely that this market will remain challenged unless we see a recovery especially in USG rates. Today we are expecting a 260 WAF/China to for ws 64.

After dropping off rapidly at the beginning of the week, Suezmax markets in West Africa are now showing signs of life and these markets are beginning to firm. Rates for TD20 will have Owners looking to push above 130,000mt x ws 130 at the beginning of next week. The current premium to head East is around 10 points, with some ships keen to head in that direction.

Mediterranean

Suezmaxes in the Med have had a challenging week, with some very fierce competition, rates need a fresh test but are approximately 130,000mt x ws 135 for a TD6 run. At the moment though Black Sea/Med is dominated by the Aframaxes. Runs for Med/East are around $5.4M.

A bit of a week to forget with little action entertaining the market. Levels sit in the high ws 140s, with little momentum in the short term. Much more needed next week to rock this market out of its current situation.

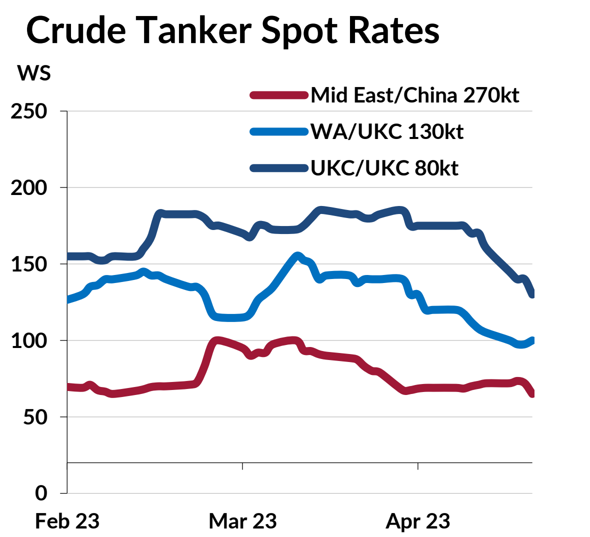
US Gulf/Latin America

It's been another very tough week for VLCC Owners here, where rates have tumbled on a daily basis with no end in sight to the current downturn. What's even more frustrating is that it has been active; however, with Charterers moving off forward dates, the competition has been fierce and Owners' sentiment has weakened considerably. Currently we are calling USG/China in the region of $8.9m.

The Aframax market had another challenging week, as rates remained soft. There is some hope, however, with rates improving on transatlantic routes, that market could have hit the bottom of the current downward cycle.

North Sea

Little to disturb the surface in the North this week, as activity failed to kick the market into action. The feeling is that rates have bottomed out at ws 130 levels, with more expected next week.



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

Clean Products

East

The LR2s have been fantastically busy this week with basically all units in April now covered away. Owners have been slowly testing last done levels and as such we have seen a steady rise over the course of the week. AG/UKC is on subs at $4.6m with $4.7m surely next. TC1 is pushing on to the 75,000mt x ws 185-190 levels. Owners are gunning to get to the $5.0m mark which if any ppt or replacement cargoes appear then a Charterer could be forced to pay, hence we are seeing quite a wide window of stems in the market as Charterer try to cover as much as possible.

LR1s have been very much in second spot this week, as all eyes were on the LR2's and as such there was nothing overly exciting, (until last night!). With TC5 going on subs at 55,000mt x ws 210 there is a sense that Owners have the confidence to sit back and weather the lull and, perhaps ride on the coat tails of the larger ships. Alas not so much the case on the West bound stems, Charterers have struggled to cover as the current lack of interest has limited their options. The $3.5m from last week was always going to be a hard line in the sand to follow and with the LR2s moving Owners have been reluctant to repeat or come close to last done levels on these West runs. Time will tell if Owner's ideas need to be reassessed but for now assess a West run at $3.6-$3.7m levels.

The MRs are entering a small period of steadiness as all the action is on the LR2s. The list is very tight for good itineraries for the rest of the month, but we need to see further cargo flow otherwise lager trading companies will sense the opportunity to test this market and curb Owner's ideas. TC12 is at 35,000mt x ws 230 levels and a UKC voyage is at the $2.65m-2.7m mark.

Mediterranean

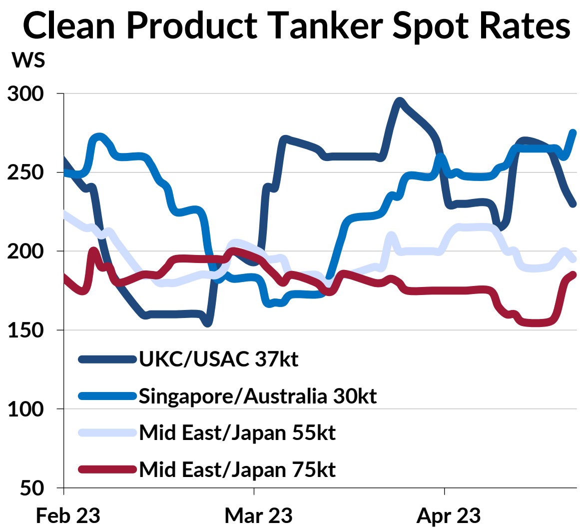
It was a very up & down week for the Handies here in the Mediterranean as we see rates slide back below the 30,000mt x ws 300 levels for X-Med. The market started the week strongly after a handful of replacements were needed for Friday/Monday and as a result rates began to push. Midweek we saw rates at 30,000mt x ws 330 which was repeated a handful of times with higher also achieved for further replacements but since then enquiry has slowed and the fixing window has extended bringing a lot more tonnage into play. At the time of writing, last done is at the 30,000mt x ws 295 mark but expect further pressure before the week is out.

Finally, to the Med MR market where rates have come under pressure throughout the course of the week. On Monday, 37,000mt x ws 305 was achieved for a NAP stem Med/TA but since then enquiry has slowed and with more ballasters heading our way from the States this has seen rates tumble. At the time of writing 37,000mt x ws 240 is last done Med/TA with WAF trading at +10 points but with TC2 falling into the low 200's expect further losses here.

UK Continent

After a solid improvement in recent weeks this calendar week took a drastic turn with a serious lack of activity since the beginning with mostly system cargoes being fixed. Along with TC14 slipping back down to 38,000mt x ws 115 it meant our side is now being re-supplied with a decent amount of ballast tonnage which has helped to revert power back into Charterers favor for late April and early May laycans. Starting off with levels at 37,000mt x ws 250 plus we now look at TC2 being corrected all the way down and next done looks like it will be max 37,000mt x ws 200. Soft outlook

It has not been the most eventful end to the week for Handies in the North as levels close at 30,000mt x ws 235 for X-UKC. May dates have started being quoted today and even though the front end of the tonnage list is fairly balanced there will be ample candidates come Monday for that window. MRs also are not helping Handy Owners cause as TC2 continues to suffer from over supply. An Injection of cargoes is required on Monday if Owners are to hold onto last done levels here.



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Dirty Products

Handy

In the Continent the region has experienced a period of limited availability, as a result of last week's activity. Owners have begun to realise that they perhaps hold more cards at the negotiating table when questions to surface. Come mid-week, rumors of a 2.5 point increment started to circulate, which later proved incorrect. With the cargo base limited throughout the week, a stalemate situation has kept a lid on Owners' aspirations. If this week had been slightly busier, we would have witnessed the next increment duly earned. While cargoes were being drip fed to the market, ws 260 remains the conference number, with conditions unaltered heading into Monday.

In the Med, Monday's list showed nine prompt ships, most of which were positioned in East Med, with TA 2 tier market emerging as the central and West regions offered fewer options in terms of a firm itinerary. With some of the front end availability also not quite to all vetting departments' liking, a degree of rationale to how the market subsequently traded emerges. Numbers traded relatively flat, bouncing between ws 245 and ws 250, where very ppt dates were worked against opportunity bbls. This said, the Med is in need of an injection of pace, if Owners are able to at least hold on here.

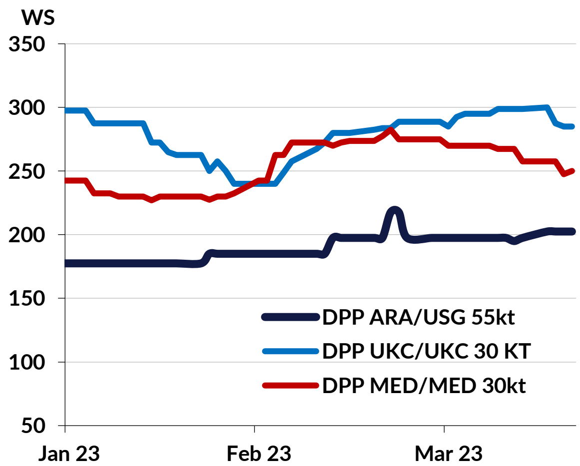
MR

With tonnage tight in the North, there has been very little for the market to discuss in terms of firm activity this week, That said, Owners confidence has been knocked, where one ballast unit has reset the market to ws 210 x UKC, with the usual -5 for Med, which is where this cargo is expected to end up. Going forward, with replenishment slow on the Handies, expect to see any firm MRs that surface take on part cargoes to limit idle periods. Activity in the Med has mirrored that seen on surrounding Handies, where only a handful of firm units have been asked questions, with part cargo opportunities attracting the attention of those Owners.

Panamax

Finally the markets have received a much needed test this week; however, with the Afras losing ground for on the TA run and now prorating at much less than last done, an awakening moment has arrived. 55/ws 152.5 keeps the market slightly higher than a pro rate, whilst charging a small premium for heat being included and having the flexibility of Panamax.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 20th	Apr 13th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-8**	65	73	90	58
TD20	Suezmax	WAF-UKC	**-11**	98	109	144	99
TD7	Aframax	N.Sea-UKC	**-43**	128	171	181	160

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

			wk on wk change	Apr 20th	Apr 13th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-8250**	49,500	57,750	86,250	40,000
TD20	Suezmax	WAF-UKC	**-5500**	39,750	45,250	71,500	41,000
TD7	Aframax	N.Sea-UKC	**-35000**	35,000	70,000	79,750	62,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 20th	Apr 13th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+20**	179	159	181	
TC2	MR - west	UKC-USAC	**-26**	225	251	263	209
TC5	LR1	AG-Japan	**-2**	197	199	182	199
TC7	MR - east	Singapore-EC Aus	**+7**	269	262	213	244

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

			wk on wk change	Apr 20th	Apr 13th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+9000**	48,250	39,250	50,000	
TC2	MR - west	UKC-USAC	**-4750**	32,500	37,250	41,000	29,000
TC5	LR1	AG-Japan	**+500**	38,750	38,250	34,750	39,500
TC7	MR - east	Singapore-EC Aus	**+2250**	36,000	33,750	25,250	31,000

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

Bunker Price - Rotterdam VLSFO	**-34**	563	597	538
Bunker Price - Fujairah VLSFO	**+4**	621	617	558
Bunker Price - Singapore VLSFO	**-10**	610	620	570
Bunker Price - Rotterdam LSMGO	**-34**	735	769	761

www.gibsons.co.uk

London
12th Floor,
6 New Street Square
London EC4A 3BF

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
2 Battery Road
09-01, Maybank Tower
Singapore 049907

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

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

Mumbai
B 1006, 10th Floor
Kohinoor Square
Plot No. 46, NC Kelkar Marg, OPP
Shivsena Bhavan, Dadar (W)
Mumbai - 400028
Maharahstra, India
T +9122-6110-0750