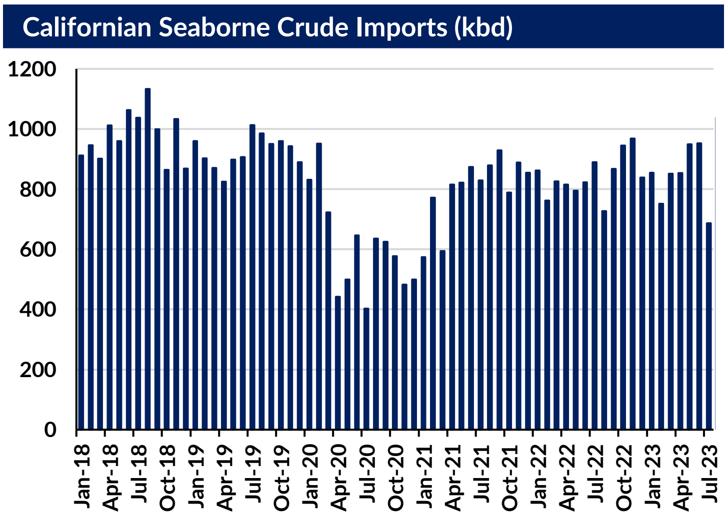
California Dreamin'

Weekly Tanker Market Report

The state of California is a unique case in the US energy market, particularly when it comes to crude oil. Thanks to local environmental laws, around 75% of the state's oil demand has to be met with overseas barrels due to a lack of interstate pipelines connected to California and regulations limiting rail imports. On top of that, the Jones Act limits the ability to ship crude from US export terminals. This makes the state a net importer of non-US crude, a very different dynamic compared to other states with large crude deposits and growing exports.

Additionally, new rules on oil drilling are putting pressure on state wide oil production which will likely mean even more crude will need to be imported over the coming years. There is little sign that policy will change therefore, what extra support could the tanker market find from the Golden State?



After the Covid-19 drop in crude imports, there has been a gradual recovery in volumes with this year averaging 863 kbd, although these have trended higher back in 2018 and 2019. Flows data also shows a stable preference for medium sour crude by state refiners with Saudi Arabia, Ecuador, Iraq and Brazil all being the main load countries, mostly via Suezmax and Aframax tankers.

Perhaps one of the most interesting opportunities from the state could be the start up of the Trans Mountain Pipeline Extension project where despite not necessarily being a good match it terms of grades, at least some Albertan crude is expected to be purchased by USWC refiners. Although, if demand materialises, this will likely have limited impact on tonne miles given the relatively short distance required to ship the cargoes. Nonetheless, another discharge option in the region may create some interesting trading opportunities for Pacific basin Aframaxes.

Meanwhile, over a longer horizon, California's ageing refineries and strict regulatory framework for the sector may put a dampener on longer term crude demand in California. This will make the state more dependent on clean product imports to meet demand if refinery units close. The region is already net short in gasoline and this may give rise to higher transpacific MR demand for vessels loading in the Far East, particularly South Korea. Some of these facilities are also likely to see conversion to biofuel import terminals which could benefit the specialised tanker market or product tankers carrying these cargoes, with a diverse source of potential suppliers in both Asia and Latin America.

Over the longer term, the outlook for the state's oil demand is generally bearish. Recent data from the California Energy Commission shows the state hit its 2025 electric vehicle (EV) sales target two years ahead of schedule and EV demand remains very firm. This is likely to impact local gasoline demand which will start to create a challenging demand outlook for state refiners. On top of this, state-wide energy transition targets are typically more ambitious than other states and the political mood is unlikely to shift in favour of hydrocarbons, instead it is likely to accelerate this lower carbon agenda. Therefore, while there is likely to be some short to medium term support for the tanker market, the current longer term trajectory appears less favourable and might be one of the first examples of the paradigm shift away from oil in advanced economies.

Crude Oil

Middle East

VLCC rates remain depressed as cargo remains few and far between and most of the business that is being done is off the radar which makes any improvement soon more difficult to achieve. Another challenge for Owners is the continuation of crude exports cutbacks which is forcing many to send vessels towards the Atlantic. Today, we would expect a 270,000mt AG/China run to fetch in the region of ws 43.5 and a 280,000mt AG/USG run to go for at least the ws 29 level.

In the Suezmax sector, the AG has slowed down towards the end of this week with Charterers able to chip away at last done here, it may well force Owners to look to ballast to West Africa or into the Med, Charterers could expect to pay 140,000mt x ws 60 for a Basrah/West run. The list for Basrah suitable units begins to open up as we get to a later fixing window. Enquiry for Long East has been limited this week, and rates have dropped for a typical run you could expect 130,000mt x ws 90 being paid today.

For the Afras, it has been a somber week in the East with volume out of the AG limited in comparison to the long list of ships awaiting employment. As a result, Owners have been unable to prevent TD8 falling over 10 points as we approach the back end of August. Surrounding markets are offering little support with Indo lacking cargo enquiry and the Med remaining balanced. A minimal change in sentiment is expected in the near term as we finish the week with AG/East at the 80,000mt x ws 117.5 level, with reports Charterers aiming lower.

West Africa

Sentiment remains soft on the VLCC's as activity for the 2nd decade remains limited and an influx of East ballasters does not bode well for next week with Owners struggling to push rates above last done levels. There is a notable preference for Owners to prefer shorter routes than the long East options as it's hard to ignore the vibrancy in the USG/SAM zones. Today we are expecting a 260,000mt WAF/China run to go for the ws 51 level.

West Africa saw a continued uptick in rates in early trading however enquiry levels have tailed off as the week ends, leaving some question as to whether a peak has been found with Ships discharging in WAF starting to firm up and giving an option to Charterers; sentiment is steady here. A standard TD20 run rates stand around 130,000mt x ws 75. Premiums to head East stand at approximately 10-15 points, there are less willing Owners to head East currently.

Mediterranean

Suezmax enquiry for short runs in the Med has been quiet this week, following on from last week, however we have seen more enquiry for long runs and Charterers may soon find fewer willing units as WAF begins to push on once again, In the Black Sea rates have not moved much amid continued low enquiry, for a standard TD6 run it will pay around 130,000mt x ws 72.5. The Market for Libya/Ningbo is quiet, but some expect it to pick up, for a standard run we would expect a lumpsum rate of 4.0$M.

This week the volume of Aframax cargos in the Mediterranean was encouraging and Charterers were having to wait on certain tricky cargos in the face of higher quotes. However, some Owners were too optimistic, and it is a case of missed opportunities; in the main, Charterers found a way out by hook or by crook and thus last done was concluded in most cases by the close. A Ceyhan voyage and good Cross Med runs worked out at ws 107.5 levels and CPC loaders had a conference rate of ws 130. With the Turkish straits closed and some port delays abound Owners are hoping for better next week.

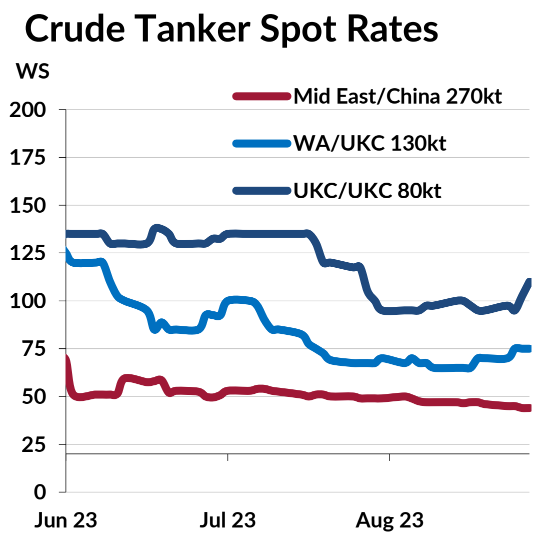
US Gulf/Latin America

A busy week in this sector has seen VLCC Owners make gains especially off earlier dates where the tonnage list has tightened considerably. The outlook looks good as reports of an increase in USG exports is on the horizon and it will further increase Owner's confidence that this market is sustainable for the next few weeks. We expect a USG / China run will fix in the region of $8.3m on today's market while a Brazil/China run is paying ws 51.

The Aframax market remains balanced with sufficient levels of enquiry keeping rates steady and should carry over into next week.

North Sea

A flutter of activity mid-week caused rates within the Northern Aframax market to push upwards and take several ships from the near side of the list. At the close, we see X-North Sea trading at ws 105, along with Owners digging their heels in at those levels. As we move to next week and a short week here in the UK, activity will need to continue to surface if Owners stand any chance of maintaining rates at current levels.



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

Clean Products

East

The LR2s have remained tight into the Mid-September window with Charterers starting to look further out. But again, a slight lack in total volume has hampered Owner's efforts to move rates further up. We remain steady for now with a 75,000 mt Naphtha AG/Japan run at ws 135 and a 90,000 mt Jet AG/UKC run at $3.85 million.

Meanwhile, the LR1s have seen a topsy turvy week with ambition early on and depression now. A 55,000 mt Naphtha AG/Japan run had achieved a mid ws 150's level by the end of last week and was predicted to move on but the lack of activity mid-week saw it pushed down to ws 142.5. This is now steady and with early stems coming out after this drop. West runs are also untested but have seen an easing off, although with very few Owners willing to head West it may take a premium over the comparative rates East. Expectations are still high and once the London bank holiday is over, we should see some firming to both the LR1s and LR2s.

It was a busy week for the MRs but only a small increase in rates (TC17 up to ws 280). Owners will in hindsight be disappointed to not have pushed harder towards the ws 300 levels, but with earnings over 30k/day on a TCE basis, most Owners are content to take the money and move on. With the AG earning almost 10k/day more than the far East, we expect to see more ballasters from Sing/Chitt/Oz this weekend. As such going into next week and moving onto September laycans we should see the MRs settle and Charterers look to challenge last done levels again.

Mediterranean

Another active week for the Handies here in the Mediterranean as we see rates continue to firm. We began the week with X-Med at the 30,000mt x ws220 mark but with consistently good enquiry filtering into the market and the list growing ever-tighter we now see levels up at 30,000mt x ws 255 with the potential for more before the week is out. Black Sea action on the other hand has been quiet this week with levels in need of a test off the back of a positive X-Med market. As we approach the long weekend, expect Owners to remain bullish with their ideas given that there are a couple of end-month stems still to be covered.

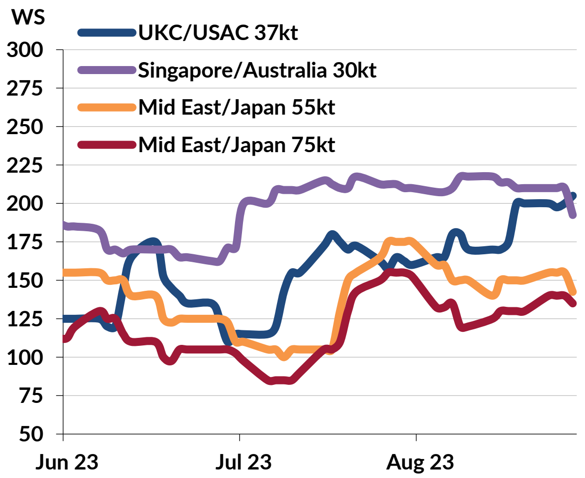
Finally, to the Med MR market where it has been a positive week for the Owning fraternity with good enquiry and increasing rates. Med/TA is currently at the 37,000mt x ws 220 mark which is a 10-point jump from where we began the week and with this list still looking tight for end/early dates Owners will be confident of further gains. In terms of rates, we have seen some varying levels this week but expect vanilla runs to land at +10 premium on TA. Market firm into the long weekend.

UK Continent

It was a tale of two halves for this UKC MR sector as despite a great deal of enthusiasm at the start of the week, the lack of enquiry kept Owner's aspirations at bay. 37,000mt x ws 197.5 was seen for a vanilla TC2 run and the feeling that a spike in enquiry could really push things had to wait till Thursday. With the bank holiday on Monday around the corner it seems that, finally Charterers stepped up to the plate and with a lack of ballasters and limited tonnage, Owners were finally able to stretch their legs.

We see rates improve up to 37,000mt x ws 210 levels now for TC2 and with the expectation that more early September cargoes are around the corner, Owners will keep their bullish attitude into the weekend. A healthy amount of fixing has occurred this week for Handies up in the North which has seen the list now starting to tighten as we hit Friday. Naphtha/Jet requirements are becoming more problematic for Charterers due to the lack of suitable candidates which could be the catalyst for freight to improve. X-UKC closes at the 30,000mt x ws 187.5-190 range but expect a quiet Monday to occur due to a bank holiday in the UK.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

It's been a lackluster week for the Handies on the Cont as tonnage supply has over powered the regions level of enquiry. The week started off with questions around whether ws 190 from the previous week was still there but this was soon answered after one Owner went on subs at ws 185 (pro-rated) on Monday. As the week progressed, available tonnage continued to struggle for employment which lead to rates sliding even further to ws 182.5 (now being last done) where it's expected to remain going into the weekend.

The Med was in need of a test going into this week, although Owners believed ws 165 was still there despite a healthy amount of tonnage populating the region. Come Tuesday, this figure was in fact tested and one Owner took the plunge at ws 157.5 which became the conference rate for the week as steady enquiry kept the region ticking over. As the list begins to tighten, there is potential that we'll see rates start to firm come next week if replenishment is minimal over the weekend.

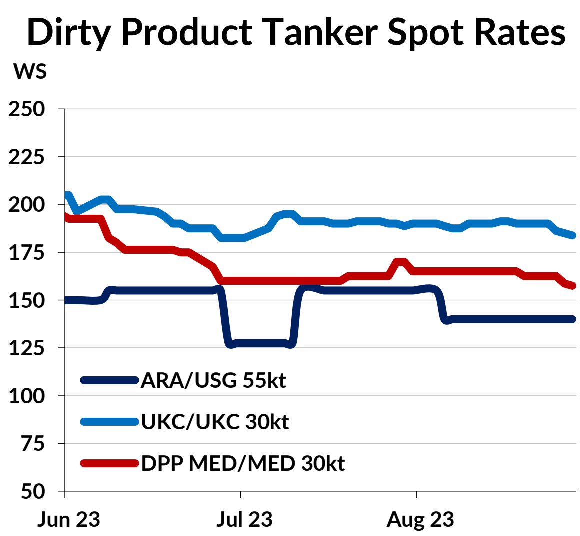
MR

Both the Cont and Med started the week with good supply of tonnage leaving Owners hopeful that full stem enquiry would pick itself back up following a rather bleak 2 weeks. However, the lull was only exacerbated in the Cont as marketed tonnage at the beginning of the week struggled to find employment. This has consequently created a softer feel to the region where a fresh test is now required to determine where market levels truly lie.

Much the same can be said for the Med although some Owners here have managed to keep the propellers spinning by taking coverage on part cargoes prior to the weekend.

Panamax

Liquidity issues once again leaves us with a market place which lacks inspiration and finds itself in need of a test. Last done levels have grown increasingly stale and with surrounding Afra's having seen their values change since last done meaning we are left to estimate where next done should align. This said, availability isn't overly stacked up either which will mean next done may not be such an unfamiliar number.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 24th	Aug 17th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-2**	44	46	51	50
TD20	Suezmax	WAF-UKC	**+7**	75	68	72	80
TD7	Aframax	N.Sea-UKC	**+9**	105	96	120	117

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

			wk on wk change	Aug 24th	Aug 17th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-2750**	17,500	20,250	29,750	26,500
TD20	Suezmax	WAF-UKC	**+5250**	21,500	16,250	20,500	25,000
TD7	Aframax	N.Sea-UKC	**+8250**	14,750	6,500	30,750	25,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 24th	Aug 17th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+1**	133	132	130	
TC2	MR - west	UKC-USAC	**+6**	205	199	173	176
TC5	LR1	AG-Japan	**-8**	144	152	139	144
TC7	MR - east	Singapore-EC Aus	**-15**	200	215	213	210

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

			wk on wk change	Aug 24th	Aug 17th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+500**	28,500	28,000	28,750	
TC2	MR - west	UKC-USAC	**+1500**	25,750	24,250	19,250	19,000
TC5	LR1	AG-Japan	**-2000**	21,750	23,750	21,250	22,000
TC7	MR - east	Singapore-EC Aus	**-3000**	21,250	24,250	24,750	23,500

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

Bunker Price - Rotterdam VLSFO	**+1**	590	589	567
Bunker Price - Fujairah VLSFO	**-18**	611	629	581
Bunker Price - Singapore VLSFO	**-17**	622	639	586
Bunker Price - Rotterdam LSMGO	**+21**	892	871	802

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