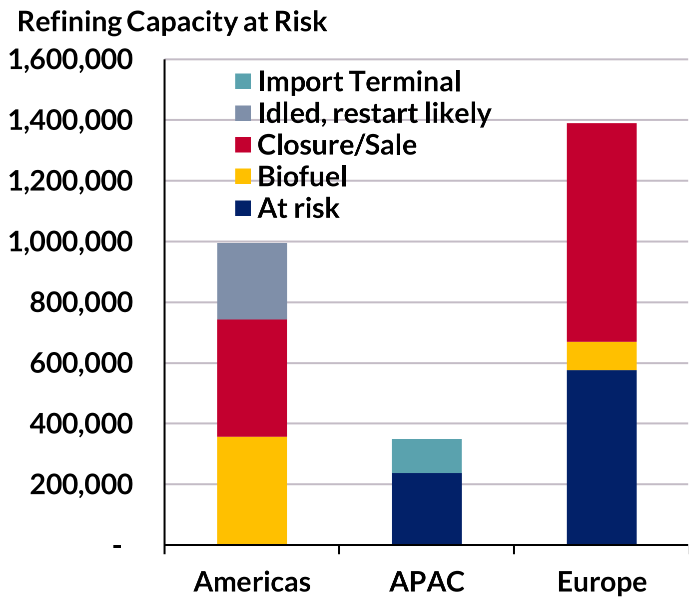
Refinery Rationalisation

Weekly Tanker Market Report

Refinery rationalisation is back on the agenda. With a prolonged weakness in refinery margins due to Covid-19 related demand destruction and an uncertain future for hydrocarbon consumption, many refiners have decided to throw in the towel, choosing to either sell, close, or convert their refining assets. The impact is not just in Europe, but global. Aging capacity in the United States, Asia and Australia is also under threat.

Over the past few months, a number of refineries in Europe have been sold, announced plans to convert or are considering permanent closure. Total recently sold its UK refinery to Prax Group and is considering converting its Grandpuits refinery to biofuel production. Gunvor announced a review of its refining assets, whilst Lukoil's Italian operation is also said to be at risk. Further plants are also rumoured to be analysing their options, although no public statements have been made.



In the United States, following Philadelphia Energy Solution's (PES) decision to close its 300,000 b/d refinery prior to the Covid-19 pandemic, an increasing number of refineries – primarily in the West of the country - have been forced to evolve to changing demand conditions, however, increasingly this has been focused on switching to biofuel production. P66, Marathon and HollyFrontier have all announced plans to convert crude distillation capacity into biofuel production. Whilst this will ultimately reduce demand for crude as a feedstock, it will create increased demand for feedstocks such as used cooking oil (UCO), vegetable oils and tallow.

Despite Asia being the epicentre for new refinery projects, the region is not immune to closures. Japanese refiners have faced constant pressure over the years, whilst Shell has taken the decision to stop production at its Philippines plant, intending to convert the facility into an import terminal. Down in Australia, refineries in Brisbane and Melbourne are also reviewing their future.

On a global basis, up to 2.6 million b/d of crude distillation capacity is at risk of full closure, or conversion to other purposes. But what does this mean for the tanker market?

In reality, it is unlikely to be a game changer in the near term. Globally, refining capacity is in excess and by rationalising capacity, those refineries that survive will see improved margins and higher run rates than would have been the case. Further, as increased capacity shifts to the East of Suez, and regional crude production stands to decline, tonne mile demand is expected to benefit. Likewise, reduced capacity in Europe and Australia should create new incremental product import opportunities. For smaller tankers, increasing demand for biofuel feedstocks could open up new trade flows as new biofuel plants scramble to find sufficient feedstock for their operations. However, demand growth in this sector will remain a small fraction of the energy mix, with biofuels expected to supply less than 3% of oil demand by 2021.

Crude Oil

Middle East

The VLCC market pace never got beyond 'slow' and for the most part remained 'dead slow'. Availability crowds the fixing window and will take a good while yet to disperse, even with modern units increasingly side-stepping the area for Atlantic loadings. Rates compressed into an even lower, and tighter rate band, with as low as ws 27 seen for an unchallenged unit to South Korea. Nothing scored to the West - again - where rates theoretically stand in the 'high teens'. Suezmaxes are also over populated and modest enquiry fails to make a dent on the queue. Rates to the East kept at little better than ws 40, with down to ws 18 the low-ball potential to the West. Aframaxes showed a little more promise than their bigger cousins. An active week in the Far East led to some improvement there and is washing back here too, with rates nudging to 80,000mt by ws 70 to Singapore and perhaps something a bit better next week.

West Africa

Suezmaxes remained firmly boxed in to recently poor returns and could even suffer more pain over the near/medium term. The supply/demand imbalance looks to be an ongoing late summer feature and rates will struggle to get above ws 45 to Europe and very low ws 40's to the USGulf accordingly. VLCCS hung on initially to quite wide premiums over prevailing AGulf/East levels but eventually Owners' resistance was broken and ws 37.5+ became ws 32.5 -to the Far East, with no realistic hope of a snapback unless something very unexpected happens.

Mediterranean

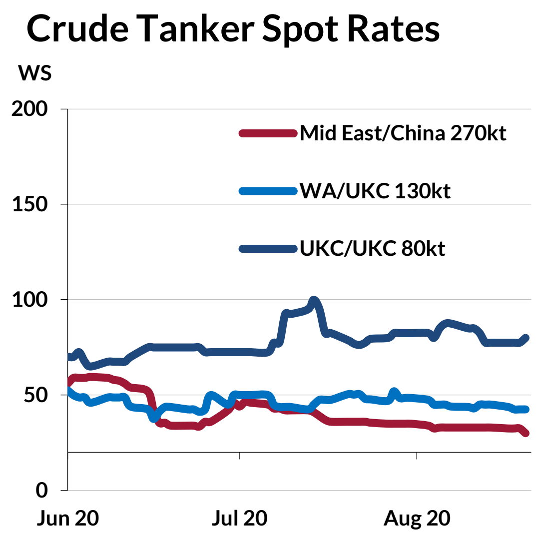
Aframaxes had been predicted to have yet another testing week, and the forecast was duly confirmed. Vessels flee the area for at least a chance of something a bit better but staying here at 80,000 mt by ws 50 - or little better – X-Med remains the fate for those that stay. Suezmax activity stagnated, with rates similarly flatlining at 140,000mt by ws 50 from the Black Sea to European destinations, and to $2.5 million for any runs to China. Hard to call for much different in the week to come either.

US Gulf/Latin America

The only big news here was Laura, and her consequent effect. Aframax Owners were hoping that there would be enough disruption to kick their market higher but for now the effect has proved minimal and rates look unlikely to move above 70,000mt by ws 65 either upcoast, or transatlantic, as tonnage has already started to rebuild. VLCCs again got occasionally picked off but the rate rage remained largely unchanged - $5.3 to $5.5 million effectively tops and tails the range from the USGulf to China-South Korea for now, but ongoing weakness elsewhere may lead to some discounting from that.

North Sea

Aframaxes made small, incremental, gains on what was a slightly busier week, with demand to the East helping to trim lists. For now, Owners fall short of enough enquiry to reach any degree of critical mass but rates X-UKCont are now peeking above 80,000mt by ws 80 and to 100,000mt by ws 57.5 from the Baltic. Still a rather fragile foothold though. VLCCs had questions again, but little evidential fixing. Rates theoretically hold at close to $5 million to China-South Korea but could well be drawn under that as the wider market fails to support.



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

Clean Products

East

MRs prevent extreme value versus other sizes and are unable to move. 35 x ws 120 EAF is repeated over and over and UKCont at $750k is both cheap and reflective of Owners desperate to reposition. Expect further enquiry in the new week given their value.

Less action on the LR2s this week, with Charterers giving an incredibly tight front end a wide berth. Westbound cargoes are garnishing offers at $2.175 million, which highlights the state of intent.

LR1s have been less utilised, but intent remains strong. 60 x ws 105 on subs pushes TC5 to 100, while equivalent earnings put West at $1.75million, but as we well know, not all Owners own a calculator.

Mediterranean

It's been a positive week for Handy Owners plying their trade in the Mediterranean, as rates finally moved up from the bottom. Good enquiry levels throughout the course of the week helped to clear out the abundance of prompt tonnage giving Owners a chance to push rates. The catalyst was seen midweek after 30 x ws 102.5 was put on subs for a prompt naphtha cargo ex W-Med, which gave Owners the ammunition they needed, with many now calling this market at the 30 x ws 100 mark. Black Sea activity also picked up midweek but it is now in need of a fresh test, which is likely to land around the 30 x ws 110 level.

Heading into next week Owners should be full of confidence, however, with the fixing window beginning to extend and a replenished tonnage list, Charterers will have a chance to slow this momentum.

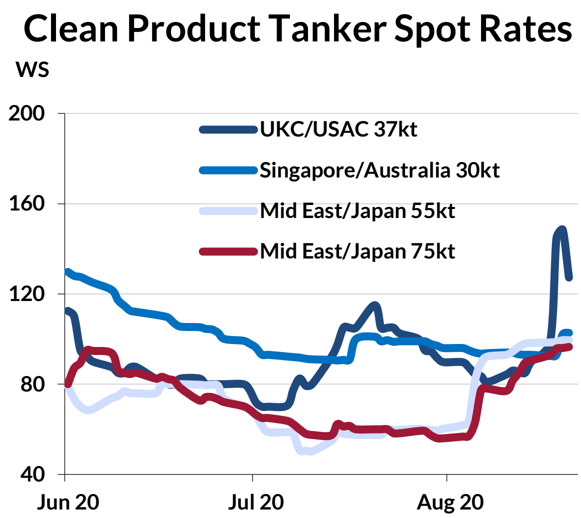
Finally, onto the MRs in the Med, where it has been another quiet week in terms of activity with rates mirroring the market in the North. After TC2 shot up to the 37 x ws 150 mark earlier this week, we did finally see a glimmer of Med activity, with 37 x ws 145 going on subs transatlantic with +20 for WAF. However, in the North, fixtures began to fail and rates as a result started to tumble, with TC2 now trading at around 37 x ws 115 as it stands. Fresh test needed ex Med to see where rates really lie.

UK Continent

A week dominated by hurricane Laura and the potential for supply disruption in the US saw this MR market rise sharply in the early part of the week. We saw levels in excess of ws 150 on subs going transatlantic as the front end of the list was decimated by Charterers scrambling for cover. By mid-week the arbs were slammed shut and when Laura deviated largely away from Texas, therefore minimising interruptions to shipping and refineries, the market was suddenly left reeling. The majority of ships that had been fixed, as the market rose, failed and although ws 140 was confirmed, it was evident there was not going to be sufficient demand to maintain these levels. We end the week with TC2 sitting around 37 x ws 115 levels but with more downward pressure now on the Owners. WAF has seen little in the way of fixtures, although plenty of enquiry. Rising rates forced Charterers to look for alternatives and therefore this market is in need of a fresh test. Rates will likely track the TC2 curve and therefore would be in the region of 37 x ws 125-130 currently.

With a wave of fresh September enquiry hitting the shores early in the week, partnered with the MR market jumping and causing some to look to take Handies instead, this sector was able to build consistently over the past 5 days. Baltic runs chipped away at our tonnage list and, with a few North Spain liftings also with limited options available, Owners have improved on each fixture. As we come to the close of the week, we stare at around 30 x ws 115-120 for Baltic and ws 105-110 for X-UKCont. Reports of a busier Baltic program ahead for September will only give Owners further confidence that this momentum will be able to continue. Expect some bullish numbers to be seen early next week, with a handful of outstanding still being seen today.

Moving to the Flexis, where despite a quiet week as a whole being seen, Owners here will be content to see the Handy market picking up, giving confidence that with a fresh test rates will fall in line here. For now, we call the market around 22 x ws 135-140, with potential for improved enquiry as larger vessel markets improve.



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Dirty Products

Handy

The Continent this week will be quickly forgotten as inactivity gripped the region right up past the mid-week mark. Only towards the end of the week a few units started to disappear, which for now keeps rates subdued. This said, it's fair to say that depending on what is to follow upon our Tuesday return, a few cargoes within a narrow date range could spark a quick revival as continent region has less options arriving from the West Med/Gib areas.

The Med this week saw stronger levels of enquiry, where as far as the East-Med region was concerned tonnage stocks were rapidly depleted with firm activity clipping away prompt natural units. What then followed was the inevitable pull of tonnage from the next nearest open zone as Charterers sought pre bank holiday cover. As dates moved on, sentiment was boosted especially at the mid-week mark where one Charterer found options rather limited given their vetting requirements. It is true that this fixture was the catalyst of immediate pick up in surrounding zones, but luckily for Charterers the West Med area was still running a surplus of availability, which proved the decisive factor in keeping any real volatility suppressed. Going forward, expect the region to be short on marketed tonnage as Owners attempt to hold on to this week's gains.

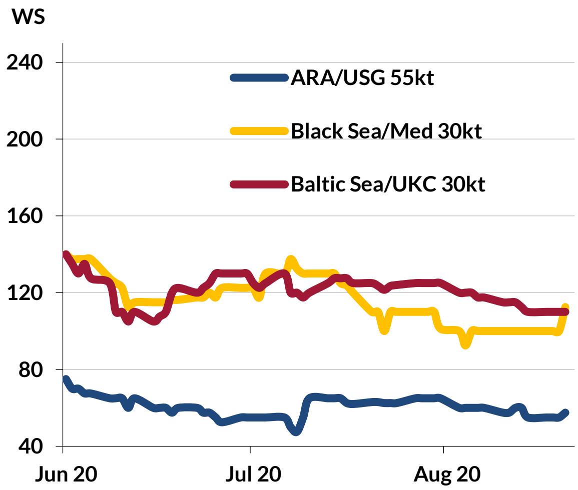
MR

Slowly but surely both the Med and the Continent have seen availability shorten, with many Owners initially just grateful so see full sized requirements bless the sector. The good news this week for Owners is that it didn't stop there! As the frequency of MRs going on subs picked up, those left saw an opportunity to press for rate increment, with the Continent moving up some ws 5 points. This trend was also repeated in the Med, where levels have picked up off the floor. For those following this market day to day, there is an argument that gains are minimal and could be purely attributable to pre bank holiday fixing; nevertheless, this week has at least afforded some breathing space, where Med MR Owners have had a tough time as of late.

Panamax

Like in any market there is always something happening, this week there were indeed some offerings of hope for Panamax Owners. Not quite there yet in terms of asking for increment, but enough to keep European tonnage lists from becoming saturated and rates hovering around the ws 60, give or take 2.5 points. Looking at the wider field of play, Aframaxes remain suppressed, which does cap what can be achieved 55/transatlantic; however, with the US and Europe reporting storms hitting land, perhaps some stimulus could be in store.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 27th	Aug 20th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-3**	30	33	36	28
TD20	Suezmax	WAF-UKC	**-1**	43	45	48	45
TD7	Aframax	N.Sea-UKC	**+0**	79	79	78	78

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

			wk on wk change	Aug 27th	Aug 20th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-3,250**	13,000	16,250	20,750	10,750
TD20	Suezmax	WAF-UKC	**-1,000**	11,000	12,000	14,250	12,000
TD7	Aframax	N.Sea-UKC	**-250**	3,500	3,750	3,000	2,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 27th	Aug 20th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+7**	96	89	58	
TC2	MR - west	UKC-USAC	**+42**	127	85	105	111
TC5	LR1	AG-Japan	**+2**	99	98	60	94
TC7	MR - east	Singapore-EC Aus	**+10**	103	93	99	107

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

			wk on wk change	Aug 27th	Aug 20th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+2,750**	21,000	18,250	7,000	
TC2	MR - west	UKC-USAC	**+8,250**	14,750	6,500	10,500	11,500
TC5	LR1	AG-Japan	**+500**	15,000	14,500	4,500	13,500
TC7	MR - east	Singapore-EC Aus	**+2,000**	7,750	5,750	7,000	8,250

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam VLSFO)	**+2**	314	312	306
ClearView Bunker Price (Fujairah VLSFO)	**+0**	335	335	339
ClearView Bunker Price (Singapore VLSFO)	**-5**	345	350	343
ClearView Bunker Price (Rotterdam LSMGO)	**-1**	359	360	361

GIBSON SHIPBROKERS

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

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

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