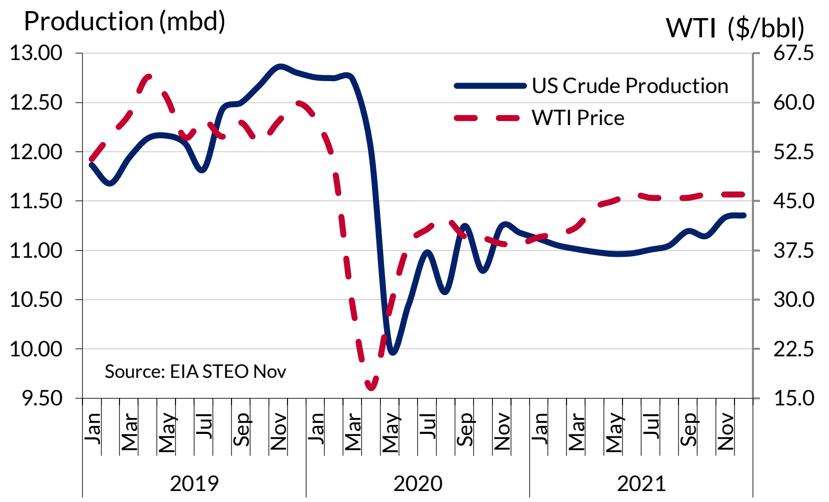
Delicate Balance

Weekly Tanker Market Report

A year ago, US crude production reached its highest level ever, averaging 12.9 million b/d in November 2019. At the time, many were convinced the sector was set for robust growth in the years to come. However, the global pandemic, a brief but fierce oil price war and an unprecedented negative WTI prices back in April changed all that. In May, US output plummeted to just 10 million b/d, nearly 3 million b/d below its peak. A partial rebound to 11.25 million b/d was seen by November on the back of firmer oil prices. Yet, the US Energy Information Administration (EIA) still expects domestic output to edge down by around 300,000 b/d by July 2021, as production from new wells is unlikely to be sufficient to offset legacy well declines. The turning point is expected to happen around mid-2021, with output climbing modestly above November levels by the end of next year, if WTI prices remain consistently above $45/bbl.

Outlook for US Crude Oil Production



In contrast to US crude production, the country's exports have not witnessed a similar dramatic collapse. According to Kpler, seaborne exports have averaged around 2.7 million b/d over the past three months, down from a quarterly peak of 3.1 million b/d in Q1 2020. Long haul trade to Asia has remained largely unchanged. If anything, a modest increase in tonne miles has been seen, as Chinese purchases have increased substantially this year, in part at expense of lower trade to South East Asia. Export volumes have been shielded by a large-scale decline in US crude refining runs and weak domestic demand. Since April, US crude throughputs have averaged around 13.6 million b/d, down by 2.1 million b/d year-on-year. The resilience of US crude exports so far this year is a welcome development. However, shipments are likely to come under downwards pressure, once US refining runs bounce back from the pandemic induced shock, even if some capacity shut earlier this year never comes back online again.

In the longer term, prospects both for the US crude production and exports are more encouraging. In its latest long-term world energy outlook, the International Energy Agency (IEA) expects US tight oil output to return to 2019 levels by 2022. Thereafter, output is expected to grow further, peaking around 2030s. However, the IEA warn that there is a significant degree of uncertainty. The US shale story of 2020 has been one of bankruptcies, layoffs, shut-ins and cuts in investment. The access to easy credit has dried up and the rebound in production very much depends on future oil prices, the amount of investment mobilised by the industry and potentially the government policy, with the US president-elect promising to focus on clean energy to fight climate change.

Overall, the prospects for US crude production both in the short and long term are in many ways strongly linked to OPEC+ policy and its willingness to support prices. With this in mind, perhaps the latest prolonged OPEC+ meeting and the group's surprise decision to increase output by 0.5 million b/d in January is not just about bringing global inventories down, but also about attempting to strike a delicate balance between the level of oil prices, protecting its future market share and keeping US crude production in check.

Crude Oil

Middle East

A very slow week for VLCCs here, and yet despite that, and very easy availability, rate ranges have moved higher. All very odd for outside observers but this is merely a response to higher bunker costs, and an Atlantic market leading the re-set. Net earnings don't yet show much benefit. Rates to the East are now marked to around ws 32+ for modern units, with untested West runs in the high 'teens' via Cape. It should get busier next week, but no fireworks expected. Suezmaxes picked up the pace late week but there remained a long queue to meet the increased demand and rates remained largely pegged. 130,000mt by ws 45 to the Far East is the top of the range, with anything to the West hovering at around the ws 20 mark. Aframaxes confirmed the anticipated flat scene with low volume enquiry and rates stuck again at 80,000mt by ws 55 to Singapore. No early change likely either.

West Africa

Suezmax Charterers fed more into the market than of late but suitable tonnage also remained in good supply and Owners failed to achieve enough grip to hoist rates much above previous levels, although there are grounds now for expecting some degree of upturn over the coming week...perhaps. 130,000mt by ws 40 - at best - to Europe and to ws 35 to the USGulf, with the Far East pegged at no better than ws 45. VLCCs enjoyed quite solid interest and Owners successfully levered rates to a much better ws 37 to the Far East, although net returns even at that are far from satisfactory for such long time commitment over the usually lucrative winter period. Consolidation, rather than forward progress, until the AGulf catches up.

Mediterranean

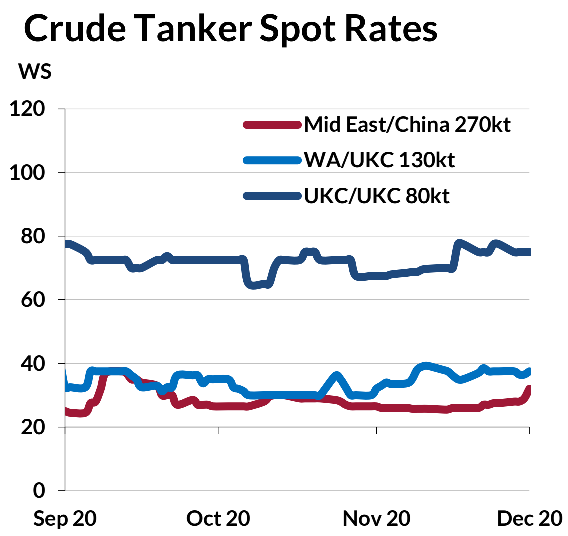
Aframaxes ended last week daring to believe that real change was underway but Charterers had other ideas and refused to push the necessary cargoes to 'make it happen'. So, a flatter end to the week with rates again in an 80,000mt by ws 60/65 range for anything X-Med, or even from the Black Sea. Suezmaxes are starting to cheer on the onset of worse winter weather as the disrupting catalyst to pop their market out of it's recent rut. That may happen, but for now it's still 140,000mt by ws 50/52.5 from the Black Sea to European destinations, and to $2.7 million for anything to China.

US Gulf/Latin America

The U.S. Holiday into last weekend took the wind out of Aframax Owners' sails as they returned to find a much more limited cargo menu to feed off. Transatlantic rates fell away to as low as 70,000mt by ws 60 with upcoast levels slipping to ws 85, and perhaps lower than that. VLCCs weren't over busy but stronger activity from West Africa and Brazil and the rate increases seen there, pushed Owners ideas up towards $5 million from the USGulf to South Korea/China and another pulse of improved activity should be around the corner.

North Sea

As in the Med, Aframaxes lost upward momentum, and back tracked upon only modest enquiry. Back to 80,000mt by ws 75 X-UKCont and to 100,000mt by ws 45 from the Baltic with a slack start likely to next week too. A little behind the scenes VLCC trading but Owners were pointing to increases elsewhere in the Atlantic and Charterers failed to engage much as demands shifted to $4.6 million+ to South Korea/China. Ballasters from the East also remain very much in play for forward dates.



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

Clean Products

East

Another progressive and positive week comes to an end on the MRs, with currently no end in sight to this rally. Whilst it hasn't been a big week of cargo quoting, the continuation of off market private fixtures combined with those public stems has left this MR position list the tightest it has been since Q2. The limited tonnage available is being further highlighted by the lack of ballasters from Singapore (as the Far East remains busy) and continued delays in Beira, Dar es Salam and Hamriyah. The end result is ws 175 EAF and $230k X-AGulf on subs pushing TCE equivalent. Earnings in five figures for the first time in months (c. $10-$11k on a EAF round trip, c. $9-$10k on a standard X-AGulf) – all whilst bunkers have risen to their highest levels since march. The one downside Owners will be acutely aware of is the dire state of the LR2s. On a $/mt basis, MRs are twice as expensive than LR2s on both West and East longhauls and as such it wouldn't be a surprise to see Charterers next week take advantage of the economies of scale.

Owners will be pleased with how the week comes to a close. Rates have seen positive corrections and, with a good proportion of the older ships removed from the front end of the list, Owners have an air of confidence. However, (and there is always a however) with the LR2s struggling to gain traction there is a natural ceiling imposed on the LR1s, and UKCont at $1.4 million, it is probably getting close to its plateau for the time being. TC5 is on subs at 55 x ws 80 and should have a few more points in it before it also levels outs. There is a risk that the momentum gained this week could be quickly lost if Charterers see more value in the underperforming LR2s and as a result, the activity levels come off the LR1s into next week. Time will tell.

LR2 rates have closed in on the 2020 low and may well get there next week, with perhaps another $50k and ws 5 points before hitting the bottom. There is a feeling (optimistic hope) from Owners that 2nd half December will see higher volumes and so the depression can at least level and bounce a touch. LR1s have seen improvements and this may then reflect on to the LR2s. But for now, tonnage is long, cargoes are few and there is little Owners can do other than to sit and hope.

Mediterranean

Enough enquiry has been seen this week to keep rates consistently trading sideways ex E-Med at the 30 x ws 85 mark throughout. For much of the week, we have seen a split market with W-Med warranting ws 5-10 points more due to a tighter list, however, a slower back end of the week has allowed Charterers to make 30 x ws 85 the blanket rate across the board. Black Sea action has by and large been done behind the scenes, with Owners happy to settle for 30 x ws 90-92.5 although a quiet Friday and what is looking to be a replenished list on Monday will dampen Owners hope of any momentum.

On the MRs here in the Mediterranean, where despite a more buoyant sector seen in the UKCont, the lack of cargoes has kept this market relatively placid. Cargoes heading transatlantic have only managed up to 37 x ws 75 really and unlike previous weeks any East moves seem to have dried up. With the busier UKCont market absorbing much of the ballast tonnage from WAF, this Med market has been lucky enough not to saturate in tonnage but if Charterers are able to take some of the older/less approved ships about then options do open up to keep the pressure on.

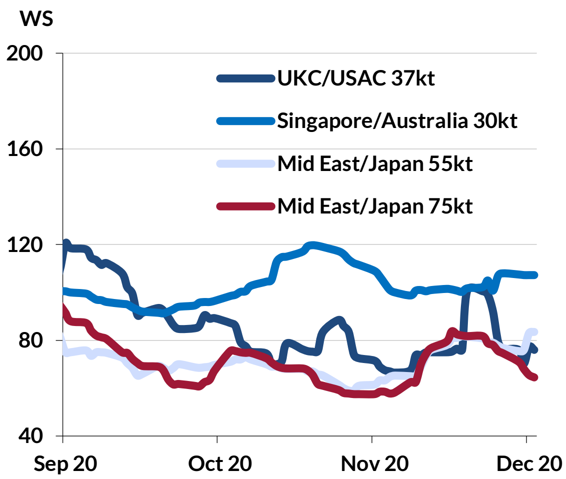
UK Continent

A rush on ULSD stems heading to the States has been the pivotal factor in the MR Continent market improving this week with a good level of ships cleared out from the top part of our tonnage list. The true weight of available ships has really been exposed as despite a bumper week in fixtures, rates transatlantic have only really been able to climb ws 10 points to 37 x ws 80 and only up to ws 85 for the more subdued WAF market, and after a quieter couple of days partnered with a few failures, could potentially be there for a slight dip again. Hidden vessels and private cargoes have been quite the norm this week, which for sure has held back opportunities to press further, and Owners will be wary of incoming ballasters from the weaker US shores as well as LR1s also playing a part in transatlantic runs, which will hold ambitions back a touch.

Overall, it has been a steady for week for Handies in NWE as both parties have seemed content to repeat last done levels. TC9 for the majority traded at 30 x ws 85 and X-UKCont around the 30 x ws 82.5-85 level and some improving demand down to the Med has seen a reasonable number of units fixed away from the region. Also, with COAs ex Baltic keeping the bigger fleets employed (under the radar), by Friday the tonnage list had tightened for the 14-15 window ex Baltic resulting in TC9 pushing up to 30 x ws 90. A good end to the week for Owners.

All in all, it's been a good week for the UKCont Flexi market, which has been a bit more active than it has in previous weeks. Vessels have been going on subs throughout the week amidst fresh enquiry with rates continuing to trade in line with the UKCont Handy market. Another positive for Flexi Owners is that after a week of trading sideways, Handy levels are now showing signs of improvement, which will likely trickle down to the 22kt size. For now, the call for a X-UKCont voyage stands at the 22 x ws 110 mark.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

A tale of two regions this week in the West Handy sector as the North West Europe sector has pretty much just about ticked over and the Med has exploded. In the North, the drip fed enquiry has just about been enough to maintain fixing levels at what could be said to be the conference level of ws 95 for cargoes staying in the region. With that said, at the time of writing, well approved tonnage remains limited and so come Monday, if we see an upturn in fresh enquiry, those with the right badges will be well placed to claw back recent losses.

The second half of the story plays out the complete opposite to the above, as the mix of ullage delays and bad weather in the Black Sea and across the Mediterranean forced an injection of enquiry into the region as some Charterers scramble to cover stems. Throughout early trading, steady gains were made but, with a mix of fixing and failing while tonnage thinned some saw the opportunity for more. We end the week 30-40 points from where we were on Monday. As we close this week out, Owners' confidence remains strong leaving early trading next week subject to how tonnage replenishment looks come Monday.

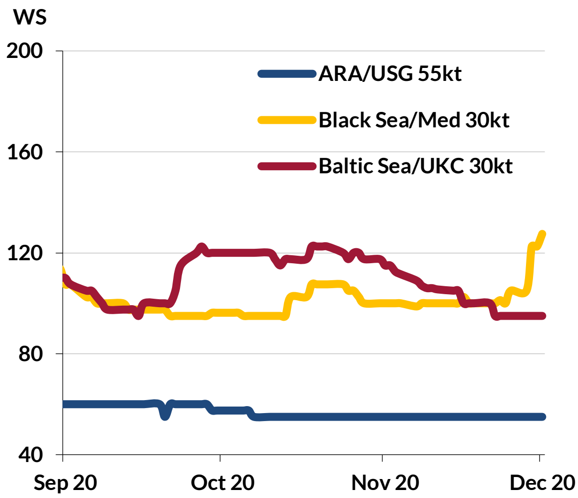
MR

MRs in both the North and Med, markets have once again this week had to ride on the crest of the Handy market to find employment. Those Owners marketing tonnage in the North have seen levels stagnate but, with little on offer on full size stems, Owners have had to throw their hat in the ring for part cargoes and as result we finish the week with MRs units looking tighter. As detailed above, in the Med the Handy market has experienced a week of activity and thinning of tonnage not seen since last winter and, with this came a boost in confidence for Owners with MRs to fix too. With a significant push on rates as a result of weather delays and uncertain itineraries, week 50 is expected to continue in very much the same way.

Panamax

The lists have shrunk here in Europe but for now it is business as usual as activity levels have not yet ticked up to a point where Owners can start to push. The US Panamax market has continued to turn over units with steady activity levels on the back of the Holiday in the US, however, this side of the pond the Aframaxes continue to offer Charterers a better deal both on short and long haul business. As a result, expect this flat sentiment to continue at least until tonnage thins there.

Dirty Product Tanker Spot Rates



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

GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 3rd	Nov 26th	Last Month*	FFA Dec
TD3C	VLCC	AG-China	**+3**	31	28	26	36
TD20	Suezmax	WAF-UKC	**-2**	37	39	34	42
TD7	Aframax	N.Sea-UKC	**-4**	75	79	69	98

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

			wk on wk change	Dec 3rd	Nov 26th	Last Month*	FFA Dec
TD3C	VLCC	AG-China	**+3,750**	12,250	8,500	8,500	18,000
TD20	Suezmax	WAF-UKC	**-1,500**	4,500	6,000	4,750	8,000
TD7	Aframax	N.Sea-UKC	**-3,500**	-1,500	2,000	-2,750	15,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 3rd	Nov 26th	Last Month*	FFA Dec
TC1	LR2	AG-Japan	**-10**	65	75	58	
TC2	MR - west	UKC-USAC	**-3**	76	79	67	82
TC5	LR1	AG-Japan	**+6**	84	78	65	87
TC7	MR - east	Singapore-EC Aus	**+0**	107	107	100	116

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

			wk on wk change	Dec 3rd	Nov 26th	Last Month*	FFA Dec
TC1	LR2	AG-Japan	**-4,000**	8,250	12,250	7,250	
TC2	MR - west	UKC-USAC	**-1,000**	2,750	3,750	2,500	4,250
TC5	LR1	AG-Japan	**+1,750**	10,000	8,250	6,000	10,750
TC7	MR - east	Singapore-EC Aus	**+0**	7,500	7,500	7,250	9,000

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

ClearView Bunker Price (Rotterdam VLSFO)	**+4**	357	353	311
ClearView Bunker Price (Fujairah VLSFO)	**-2**	376	378	336
ClearView Bunker Price (Singapore VLSFO)	**-2**	376	378	336
ClearView Bunker Price (Rotterdam LSMGO)	**+2**	393	391	331

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