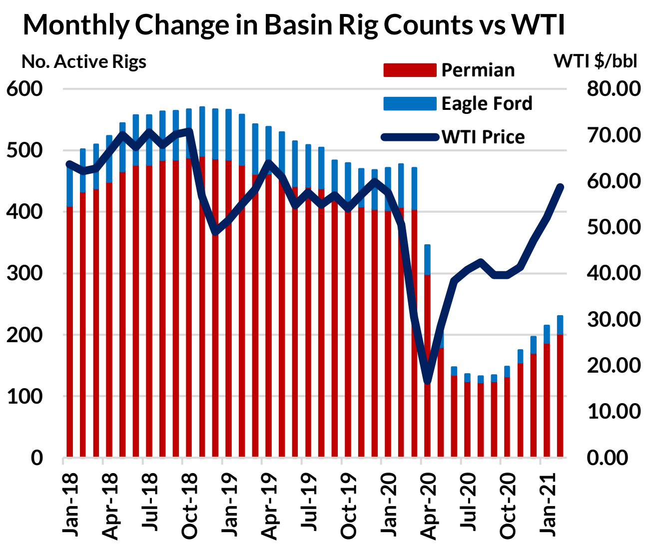
The Permian Strikes Back?

Weekly Tanker Market Report

Despite recent cold weather in Texas disrupting oil and gas production, a comeback in US shale may already be on the horizon given the increasingly bullish fundamentals of the global oil market. Goldman Sachs have revised up their 2021 oil forecasts to around $72/bbl WTI and $75/bbl Brent by Q3. This is significantly higher than the EIA short term estimates of $49/bbl and $52/bbl respectively for the same period. For the time being both grades are trading firmly above $60/bbl.

According to Bloomberg, US shale has estimated breakeven levels in the region of $35-45/bbl due to improved capital structures and continued efficiency gains in the sector. Likewise, production is relatively easier to bring back online in response to price swings than "traditional" producers. Current margins in the region of at least $15-25/bbl will pique the interest of suffering producers as the short-term disruption in Texas subsides. However, the sector had been plagued by excess investment and capacity resulting in bankruptcies and a diminished attractiveness for credit and investors. Increased shale output will not only depend on sustained higher oil prices but also the ability to raise fresh capital and the support of the new US administration which could yet hold back renewed volumes reaching the market despite strong oil prices providing the necessary support for increasing production.



Source: Baker Hughes

Whilst OPEC+ members will be enjoying higher prices; they will of course be weary that this could encourage a bounce back in shale. Many members in the group will be keen to obtain increased production quotas at next week's meeting, which subject to the volumes granted, will have implications for oil prices. Lower prices may not be desirable for all, but the group will be weary of the impact on prices and the need to protect fragile demand growth. However, when shale production does bounce back, OPEC+ could be forced once again to consider production cuts to offset rising US volumes. Yet, as has been seen in the past, this would be counterintuitive to the desire to defend market share.

Additionally, under a new President, there is now increased potential for Iranian crude to return to the market later this year or early next year. Venezuela could also make a limited comeback if the US administration allows crude for product swaps to resume on humanitarian grounds. Combined with Iran, potential increased supplies from Venezuela and the US could limit the ability of the wider OPEC+ group to return production to pre-pandemic levels. Indeed, this delicate balance of oil supply and demand fundamentals is further complicated by the varying recovery speed of oil demand from Covid-19 over the short and medium term.

The prospect of higher US crude volumes would provide another glimmer of hope for crude tankers struggling in a protractedly sluggish market. Assuming renewed oil demand post Covid-19, higher US crude exports would provide further stimulus on dirty routes loading in the US Gulf. However, in the short term, OPEC+ will be keen to restore as much output as possible whilst keeping prices in an acceptable range and this is likely to act as buffer to any substantial rises in shale output this year. Indeed, the decisions made by OPEC+ next week will set the tone for oil output and tanker demand for the balance of 2021 and beyond.

Crude Oil

Middle East

A busier week for VLCC Owners, which would normally have some impact on rates, but with so many ships available there was little hope or opportunity in pushing for stronger levels. In fact, against the higher bunker prices returns are again lower than in the previous week. Last done to the Far East on a modern vessel was 280,000mt x ws 27.75. With no interest from Charterers going West we estimate the level to be around 280,000mt x ws 18 to the US Gulf (via cape). Suezmax Owners have fared better this week for cargoes discharging in the East. As the week progressed, rates have firmed to 130,000mt x ws 57. Unfortunately rates to the West remain unchanged at 140,000mt below ws 20. An interesting week for Aframaxes in the East. There has been a recent disconnect between rates and earnings in the hot Med market versus the AGulf; however, as we close the week one Owner has pushed the market to 80,000mt x ws 90 for AGulf-East. Next week will be the true test. It is possible the Med market will soften before the Owners in the AGulf have a chance to repeat rates.

West Africa

It has proved a little more difficult for VLCC Charterers to chip too much off last week's levels as the potential lock in for the longer voyage at such low returns has put a few Owners off from competing. Last done holds at 260,000mt x ws 34.5 for a voyage East. Another uneventful week for Suezmax tonnage. Charterers have been spoilt by the mass availability of Eastern ballasters and once these vessels are removed from the list it will become a more challenging arena for Charterers. Rates have peaked this week at 130,000mt x ws 62.5 to Brazil and are pushing towards ws 57.5 for European discharge.

Mediterranean

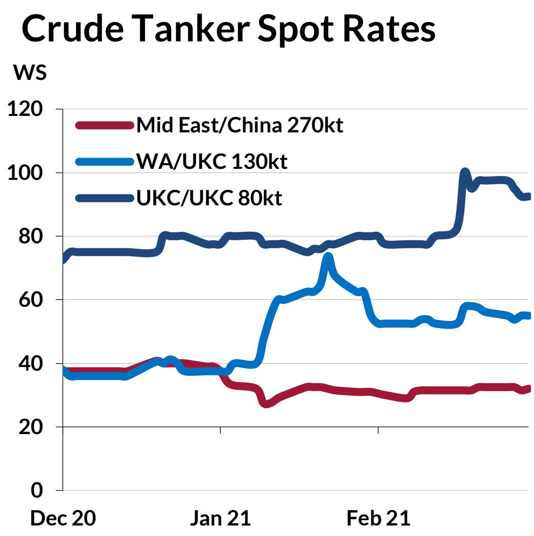
A solid week for Aframax Owners in the Med and Black Sea markets. No fireworks as were seen in the previous days but enough cargoes were worked to keep rates firm and to indeed push them on in most cases. Highs of 80,000mt x ws 140 were achieved for CPC loaders to the Med and mid 130s for voyages from Ceyhan into the Med, which reflects week on week increases of about 10 percent. The medium term outlook seems more of maintenance than growth as Turkish strait delays slip into modesty and Charterers take a breather. However, a firm US market provides a healthy addition to the cocktail and owners hope any erosion next week will be minimal. Suezmax rates have been propped up by a firm Aframax market this week, a long X/Mediterranean cargo has paid 135,000mt x ws 67.5 to Portugal. Charterers are still gaining benefit from the large availability of Eastern ballasters for round trip cargoes. Libya to China is currently paying around $2.6 million.

US Gulf/Latin America

A rather volatile week for Aframax Owners here as severe weather delays reduces a good portion of availability. Owners that are able to trade have secured some healthy premiums, with last done for a generic EC Mex/US Gulf run being 70,000mt x ws 155. VLCC levels hold at around the $4 million mark to the East, with only a small variance upwards from that. Difficult to forecast much off that for next week as the bunker price continues to bite.

North Sea

After a rather uneventful week the North and Baltic seem to have settled at new levels, despite a rising amount of tonnage. X-North Sea is currently trading at 80,000mt x ws 95 levels with Baltic/UKCont around ws 82.5. Owners are digging their heals in as fuel prices, which pressured them earlier in the year, continue to rise. The March Urals programme is up according to the initial sheet and injection barrels could help to fortify the Baltic rates. For now, the market seems stable, although the growing list could test this.



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

Clean Products

East

Not quite the big rally in rates Owners were hoping for this week, but nevertheless rates have improved. ENGEN did well not to panic earlier in the week, eventually taking a LC VEG ship for 2.5pts better than last done. Whilst it's a step in the right direction, ws 135 to Durban pays under $4k/day for 35 days work – still grim reading for any Owner when bunkers continue to rise and now sit at $527.5/mt in Fuj – the highest level since Feb 7th 2020.

Positively for Owners, the continued delays in EAF, a lack of Singapore ballasters and the small fleet building up outside Sudan, are all contributing to keeping the list relatively balanced. Furthermore, whilst many cargoes are being official 'withdrawn' – brokers continue to press those who offered whether they would be willing to take another look…

Never a great end to the week seeing LR1s pick up MR cargoes. With limited cargoes entering the market over the course of the week the wave of the MRs that the LR1s were riding seems to have dissipated and left Owners somewhat paddling around. With Suez/Japan on subs at 55 x ws 90 its seems the correction has begun. With the lack of enquiry for UKCont, it too is in need of a fresh test but should be around the $1.2 million levels.

LR2s have appeared to look busier than they probably have been, and as such where able to push rates, with an equivalent AGulf/UKCont at $1.4 million and TC1 on subs today at 75 x ws 75, from the outside the sentiment would appear positivity. However, with a tonnage list that can support all fixing windows and offers being seen at the $1.35 million level for AGulf/UKCont it would be fair to say that next week Charterers will not be accepting anything other than less than last done.

Mediterranean

A lacklustre week all in all on the Handy front with Owners on the back foot from the off. The heights of over ws 200 last week were quickly forgotten on Monday with minimal cargoes quoted and a replenished list bringing rates south of this number with 30 x ws 190 seen. At the time of writing, although Owners are calling it around the 30 x ws 175-177.5 mark, we expect a negative correction from this as sluggish enquiry is allowing Charterers to take the upper hand. Monday will likely see further pressure unless we see an influx of cargoes as the new found fixing window will likely stretch towards 6-7 dates which will provide plenty of units to choose from.

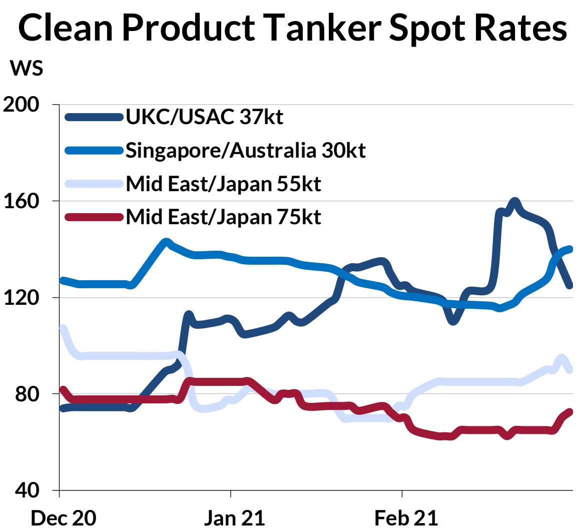
The hype last week about the potential influx of cargoes after the weather in the US never materialised which swiftly led to negative pressure in this market. With tonnage ballasting over from the States it was never going to be an easy ride for Owners and with TC2 softening 30 points this week, we leave Friday at 37 x ws 117.5 transatlantic with WAF likely next done at sub 130 levels. Lists are grim reading with cargoes outstanding having 10+ offers in so expect Monday to bring further sorrow to Owners.

UK Continent

A bitterly disappointing week passes for Owners in the MR sector with so much hype off the back of the freeze in the States producing so little. Partnered with the weight of ballast tonnage on the horizon, Owners have struggled to take a grip this week with what little enquiry we did see able to knock a few points off with each fixture. Come Friday we find Owners licking their wounds as 30 points are cut out of this market as we settle to just under 37 x ws 120 for transatlantic and ws 130 for WAF and, with the limited outstanding stems pushing dates towards the end of the first dec, further pressure is applied as we question how much more can give at these levels.

It has been a steady week for Handies up in the North with rates holding the line at last done levels. Much of the Baltic programme continues to be gobbled up under COAs resulting in very little bubbling to the market surface but keeps the tonnage list turning over for ice class units. Rates close at 30 x ws 150 for TC9, 30 x ws 125 for X-UKCont and 30 x ws 110 for UKCont/MED. There still seems to be a good amount of UKCont/MED willing units, which will keep that run suppressed.

The week has seen a few more Flexi cargoes in the market, that said, however, with tonnage readily available rates on offer are touch below the pro-rated handy levels which are now around 22 x ws 165 for X-UKCont. All eyes will be watching what happens on the 30kt clips and if any improvements are seen Flexi Owners will look to ride on the coattails of that sector.



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Dirty Products

Handy

Although it looked like a slower week for the Continent Handy market, conditions have remained remain tight. As such, with repetition of ws 172.5, the lack of requirement in the 1-5 March window hasn't allowed for sentiment to reverse. In fact, the drip fed requirement seen this week has managed to take out the front end availability once again. This means that when the injection of activity is seen, this is likely to spell another phase of Charterers having to delve deeper into their pockets.

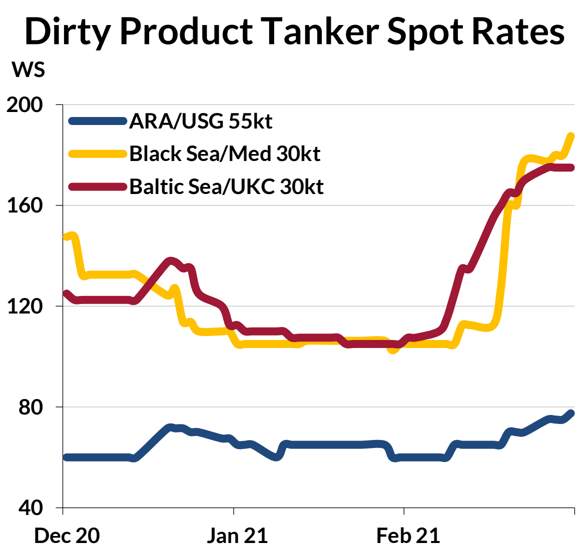
The Med Handies have actually been quite firm in recent weeks and just like in the Continent, are managing to hang onto positive sentiment during slower cycles. At the end of this week, however, activity once again made an impact on freight rates, with Black Sea availability off front end dates looking rather stretched. Reports of 30/195 on subs at time of writing seem anything but farfetched. Sentiment has been heading in this direction and, with weather delays and Black Sea transit times increasing slightly, the ws 200 barrier seems to be within Owners' grasp.

MR

We mentioned last week that the suggestion of the MRs being undervalued wasn't such an outlandish claim. Where surrounding Handies had seen earnings improve, the residual MR availability in both the Med and Continent would suggest that any Owner paying attention should soon gain a sense of how much more in demand their services were becoming. This has indeed transpired into positive rate correction, where on the Continent we have now seen levels rise to 45/132.5, which keeps it more or less on par with the highs seen ex Black Sea. Looking ahead, recent fixtures suggest a staggered re-emergence of positions showing availability, which is likely to prevent tonnage build up in the immediate fixing windows to come.

Panamax

Finally, some positivity is shown to Owners, although the market remains very much in need of a second successive week like this if the backlog of availability is to be cleared. This opening sentence may sound brutal but you cannot ignore fundamentals of the market. With Europe / transatlantic achieving at best 72.5 (non ice), this is less than half the value of ws percentages available to a Panamax trading in the US. Furthermore, such disparity is rarely sustained. Some Owners are contemplating a ballast back across the Atlantic unless levels pick up. However, who actually does this remains to be seen, as we all know chasing a market tends not to end too well. Yet, with TCEs still at loss making levels over here and bunker prices moving against owners, we can expect some pushback in the near future.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 25th	Feb 18th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**-1**	32	33	32	34
TD20	Suezmax	WAF-UKC	**-2**	55	57	69	54
TD7	Aframax	N.Sea-UKC	**+0**	97	97	78	89

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

			wk on wk change	Feb 25th	Feb 18th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**-2,250**	-3,000	-750	2,000	-500
TD20	Suezmax	WAF-UKC	**-1,250**	4,000	5,250	14,500	3,500
TD7	Aframax	N.Sea-UKC	**+0**	3,500	3,500	-6,250	-1,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 25th	Feb 18th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**+6**	71	65	72	
TC2	MR - west	UKC-USAC	**-31**	128	159	130	124
TC5	LR1	AG-Japan	**+9**	91	82	74	89
TC7	MR - east	Singapore-EC Aus	**+19**	137	118	128	132

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

			wk on wk change	Feb 25th	Feb 18th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**+1,250**	500	-750	3,500	
TC2	MR - west	UKC-USAC	**-5,500**	5,500	11,000	8,000	4,750
TC5	LR1	AG-Japan	**+1,250**	3,250	2,000	1,750	3,000
TC7	MR - east	Singapore-EC Aus	**+2,500**	5,000	2,500	5,500	4,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**+10**	491	481	413	
ClearView Bunker Price (Fujairah VLSFO)	**+11**	516	505	445	
ClearView Bunker Price (Singapore VLSFO)	**+19**	529	510	451	
ClearView Bunker Price (Rotterdam LSMGO)	**+12**	533	521	451	

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