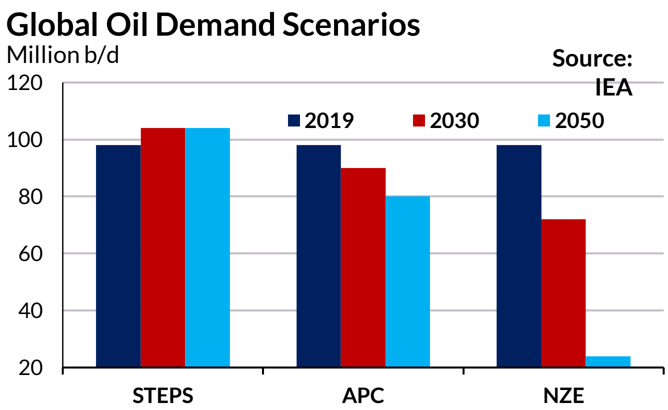
Peak Oil Demand in Sight?

Weekly Tanker Market Report

Last month the International Energy Agency (IEA) released its Net Zero 2050 report, outlining the actions that are needed to achieve net zero emissions globally by 2050. To reach this, the IEA calls for no new oil and gas developments from this year onwards. In the Net Zero Emissions Case (NZE), world oil demand never returns to pre-pandemic levels, declining from around 90 million b/d in 2020 to just 24 million b/d by 2050. Net zero targets rely on further rapid deployment of available technologies as well as the development of new technologies. In 2050, almost half of emission reductions come from technologies that currently are at the demonstration or prototype stage. In detail, the road map plan to net zero emissions includes:

1. Solar and wind power capacity additions of 1,020GW a year by 2030, or four times the record level achieved last year.
2. Electric vehicles go from around 5% of global car sales currently to more than 60% by 2030.
3. Annual battery production for EVs increases from 160 gigawatt hours currently to 6,600 GWh in 2030, equivalent of adding almost 20 gigafactories each year for the next ten years.
4. Every month from 2030 onwards, ten heavy industrial plants need to be equipped with carbon capture technology, three new hydrogen-based industrial plants need to be built, and 2GW of electrolyser capacity needs to be added at industrial sites.
5. Global electricity networks that took over 130 years to build need to more than double in total length by 2040 and increase by another 25% by 2050.

The IEA openly admits that actions needed to achieve net zero emissions are highly ambitious and require unprecedented urgent action from governments around the world. Some feel these targets are unrealistic to achieve, with a number of countries rejecting the call for no new oil and gas investment. The IEA itself notes that although over the past year there has been a rapid increase in governments pledging to cut greenhouse emissions to net zero, less than a quarter of these pledges are fixed in domestic legislation, and few are underpinned by specific policies to deliver as promised on time and in full. Further highlighting the uncertainly, the IEA calculates in its Stated Policies Scenario (STEPS) (which takes into account only specific policies that are in place or have been announced by governments) that oil consumption in 2050 is 15% higher than in 2020. In the Announced Pledges Case (APC) (which assumes that all announced national net zero pledges are achieved in full and in time), oil demand does not return to its peak in 2019, instead it eases off gradually by just 10% from its 2020 level to 80 million b/d by 2050.



Interestingly, a broadly similar view of the future was shared by Vitol at the recent FT Commodities Global Summit, where the chief executive suggested that oil demand could peak around 2030 but at first demand would not fall sharply initially, instead plateauing well above the 100 million b/d reached in 2019.

With exception of net zero case, all alternative scenarios discussed above support tanker trade to a varying degree over the next two decades. Yet, environmental pressure will only intensify further going forward and so the peak in oil demand is likely to happen sooner rather than later. Nonetheless, the tanker industry is also highly cyclical and is facing similar environmental pressures. Even without the latest IMO measures, from 2030 onwards the majority of the fleet is likely to consist of tankers built in 2015 or later, which are for the most part between 15% to 25% more fuel efficient that those built prior to 2015. If oil demand peaks sooner than expected, the scrapping pressure on the least fuel efficient tonnage will increase exponentially, eventually rebalancing tanker supply with demand, albeit at lower absolute levels of trade.

Crude Oil

Middle East

A difficult week for VLCC Owners, albeit with a good number of fixtures concluded. Yet, with so much being covered under the radar, there was never any opportunity to build any momentum and as such rates continue to languish. Last done to the East for modern tonnage is 270,000mt x ws 31.5 and a voyage West we estimate to be around 280,000mt x ws 18.5 to the US Gulf (via Cape). The supply of Basrah suitable Suezmax tonnage visibly tightened this week and a concentration of end June - early July loading cargoes gave Owners the opportunity to push rates up to 140,000mt x ws 30 to Europe. By the close of the week tonnage availability had re-stocked and rates are back down to ws 27.5 to Europe and sub ws 60 to the East.

West Africa

A very quiet week for VLCC Owners, although it remains unlikely rates are going to be further chipped away as higher bunker prices eat into what little gains Owners can achieve. Rates continue to hold in the region of 260,000mt x ws 32.5 to Far Eastern destinations. A familiar story to last week for Suezmax Owners. Availability of tonnage continued to tighten but levels of enquiry were not sufficiently high enough for Owners to push rates up. Close to ws 50 has been paid to Europe and 135,000mt x ws 55 East.

Mediterranean

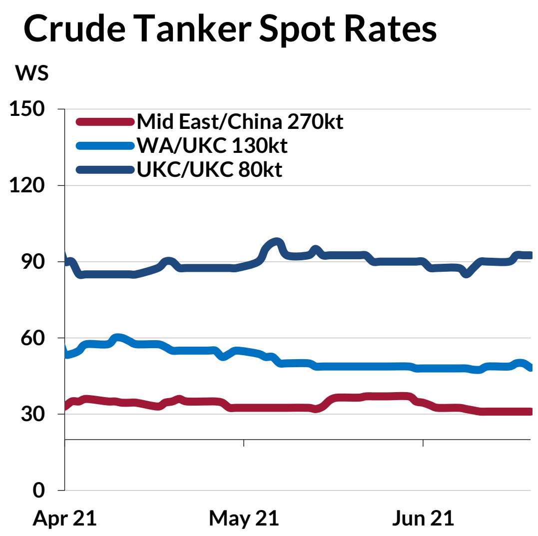
This week was more of the same for Aframax Owners. The list of available tonnage was plentiful at the start of the week and then by midweek after a healthy level of activity Owners were in a much stronger position. Rates for Ceyhan-Med voyages and Black Sea-Med voyages have risen by a few points to 80,000mt x ws 90 level and ws 95 levels respectively. The weekend, as always, has come at the wrong time for Owners and, with only a few cargos outstanding, there may well not be too much more upside before the inevitable restocking of tonnage once again. Suezmax Owners have fared better this week, with a Libya cargo paying 130,000mt x ws 67.5 to Europe. Owners had hoped that a bumper July CPC program would help push levels up; however, Charterers have already quietly covered the first decade with minimum fuss.

US Gulf/Latin America

Transatlantic Aframax voyages have been the main source of excitement but after a very quiet period the build-up of tonnage has meant that it was easy for Charterers to repeat and sometimes do even better than last done levels. Short voyages continue to remain on a slow drip feed, with last done being 70,000mt x ws 82.5. VLCC levels have at least stabilised over the week at around the $4 million mark to the Far East but again it is unlikely we will see any recovery in short, with tonnage already committed to the region.

North Sea

Plenty of Aframax activity has come to the market, pushing rates and pressuring the list of available tonnage. Although bunker prices have capped these gains, the momentum is still there and depending on July Urals, could continue into next week. Baltic/UKCont is currently trading at 100,000mt x ws 70 levels, with X-North Sea 80,000mt x high ws 90s.



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

Clean Products

East

It has been a quieter week than was anticipated and hoped for. LR1s have struggled for volume and although the list is not overrun, rates are just flat for now. 55,000mt naphtha AGulf/Japan is hovering around ws 87.5 but, with nothing done since earlier in the week, it needs a test. 65,000mt AGulf/UKCont remains stuck on $1.30 million for now.

LR2s have also been slow and cargoes scarce. Some cheap and somewhat desperate deals have been seen off the earlier dates due to the long early list we have had. But, with a few cleared and jet suitable ships willing west being harder to now find, rates should edge up. 90,000mt jet AGulf/UKCont is at $1.65 million today but Owners are trying to force this up over the $1.70 million level. 75,000mt naphtha AGulf/Japan remains at ws 75 but if more pressure comes on West runs maybe it could see nearer ws 80 paid. But there are always ships keener for TC1. More volume across the board is needed to see these markets change significantly. Rates are at a base levels though so any movement will be upwards.

MRs have had a very flat week and the ever-present fear is that the armada of unemployed tonnage sitting off Singapore would choose, at least in part, to ballast towards the Middle East. Now we see these ballasters and Owners have brought down their fixing ideas in order to fix before more competition arrives.

EAF cargoes have dipped down to ws 147.5, Ardmore in reality the only Owner willing these numbers and making the broker with that BP cargo barely work for his commission. Most others have said ws 150 is the market, but Vitol replacing this morning ex Vadinar at ws 155 (granted, needed to cover for 5kt jet and a Pemba LOA) has allowed a bit of breathing space for Owners. Shell have now paid ws 152.5 with Latam options and Trafigura could yet struggle to cover their India loader with Walvis Bay. The reality of this market is that the South Africa option makes very little sense to give.

Argentina is on subs at $1.125 million, not a bad run for an eco-ship, but not necessarily a popular run amongst Owners. TC12 at ws 105 is fairly woeful stuff, but bigger pools can simply fix away and let another office pick up the pieces in a month or so. It's the smaller Owners with less exposure in the region who may feel shoehorned towards short haul where $150-160k is the rate, grade and dates depending.

The interest on this segment is that the front end provides very few well vetted vessels and even fewer that want to go to South Africa, let alone give the option as a throw away. Looking further out, we can't see Owner pushing Charterers around in any way, there's just too much tonnage.

Mediterranean

Rates have consistently traded at the bottom of the market this week at 30 x ws 120 and 30 x ws 130 for X-Med and Black Sea respectively. With the current bunker price, Owners are unwilling to fix under this level given the returns, which has allowed Charterers to pick off ships behind the scenes throughout the week. We've seen a few more cargoes come out the woodwork on Friday and a cargo needing Italian cabotage off prompt-ish dates has achieved 30 x ws 125-135 for Med-Italy. There is only one way this market can go from here so Owners will be hoping for further enquiry off end month dates in order to drive some momentum.

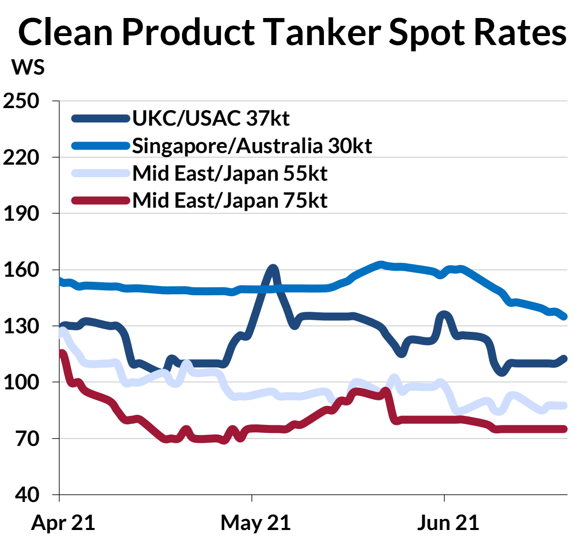
An influx of stems on Tuesday was the catalyst in rates firming this week, with rates consistently trading North of TC2. Heights of 37 x ws 125 were seen ex EMed on Tuesday/Wednesday, which was off the back of a tighter list, however, with sentiment in NWE now poor given the lack of momentum, Friday sees rates slip to 37 x ws 120 ex EMed heading transatlantic, with rates firmly under pressure.

UK Continent

On paper it seems like another flat week has passed on the MRs in the Continent, with 37 x ws 110 seen both on Monday and Friday for transatlantic. In reality with some premium rates achieved Ex Med, we found ourselves at the midweek point believing opportunities were on the horizon to improve and in a couple of cases this was true and we were getting ready for a slender tonnage list around the corner due to lack of ballasters. Once the States market faltered though, destination Europe was back on the cards, and a few more options will appear shortly. This sector is no doubt at the bottom now and small jumps in rates are not surprising if a cargo is caught out but for now we expect to hold roughly around this area until enquiry can cut our tonnage lists back.

Another dull week in NWE on the Handies with plenty of COA and off market deals helping to maintain the levels at bottom ws 120 Baltic/UKCont – ws 115 X-UKCont. Roughly 18-20 fixtures that we know of and 3 cargoes outstanding heading into next week, with the market rates likely to maintain, we need a real influx of market cargoes to see any improvement.

All in all, it's been a lacklustre week in this UKCont Flexi market, with cargo enquiry on the slow side and little to report in the way of fresh fixing activity. As a result, rates in this market have been guided by their 30kt counterpart with the call for a X-UKCont run remaining flat at the 22 x ws 150 mark throughout. Market quiet.



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Dirty Products

Handy

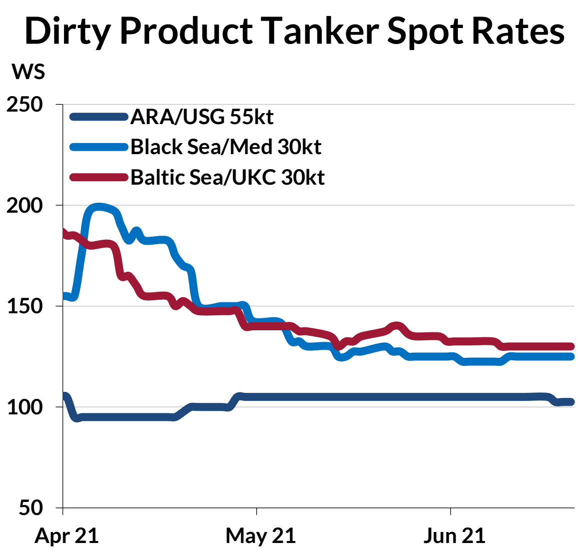
Handies all around have endured a week of flat trend, where rates were repeated in the Continent at ws 130 and in the Mediterranean and Black Sea ws 115 and ws 125 respectively. So flat right now are conditions, that even when windows have looked a little stretched, fixing dates moved forward readdressing any issues with supply tightening. Looking ahead, any volatility in rates is likely to be cause and effect from bunker price fluctuation rather than trading conditions.

MR

Littered across the tonnage lists, MRs have endured a tough week of trading, although, in the Continent, however, with a few requirements being covered rates did benefit slightly. Shorter voyages though will only defer the cycle into the next fixing windows and, with units back around soon, one can't predict any long term stability being maintained. Furthermore, compounded by a misfiring Mediterranean sector, it is clear that MRs in the West Mediterranean will ballast up meaning an injection of liquidity in both sectors is needed before any real green shoots of recovery emerge.

Panamax

Limited demand for Panamax tonnage this week saw questions continue to be asked about the validity of ws 105, but still Owners remain resolute not to succumb to pressure from surrounding markets. As such, very little has changed week on week in terms of market fundamentals. Surrounding sizes impede Panamax earnings, the cargo base is being lost to larger units (offering not only a cheaper $/MT but also giving away in some case an additional 75,000mt overage for nothing), meaning that for now Owners are left clinging very tightly onto the hope that someone will be restricted whereby they have to use a Panamax.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 17th	June 10th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+0**	31	31	35	34
TD20	Suezmax	WAF-UKC	**+2**	50	48	49	53
TD7	Aframax	N.Sea-UKC	**+3**	94	91	91	91

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

			wk on wk change	June 17th	June 10th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-750**	-3,750	-3,000	3,250	-1,250
TD20	Suezmax	WAF-UKC	**+750**	0	-750	1,500	1,750
TD7	Aframax	N.Sea-UKC	**+3000**	250	-2,750	-1,500	-1,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 17th	June 10th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+0**	75	75	91	
TC2	MR - west	UKC-USAC	**+3**	113	110	135	125
TC5	LR1	AG-Japan	**-2**	88	90	89	100
TC7	MR - east	Singapore-EC Aus	**-7**	135	142	155	150

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

			wk on wk change	June 17th	June 10th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**-500**	1,500	2,000	8,500	
TC2	MR - west	UKC-USAC	**+500**	2,000	1,500	6,750	3,750
TC5	LR1	AG-Japan	**-750**	2,750	3,500	4,500	5,500
TC7	MR - east	Singapore-EC Aus	**-1500**	4,500	6,000	9,000	6,750

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

ClearView Bunker Price (Rotterdam VLSFO)	**+3**	513	510	471	
ClearView Bunker Price (Fujairah VLSFO)	**+11**	529	518	486	
ClearView Bunker Price (Singapore VLSFO)	**+13**	533	520	476	
ClearView Bunker Price (Rotterdam LSMGO)	**+4**	581	577	536	

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