GIBSON SHIPBROKERS

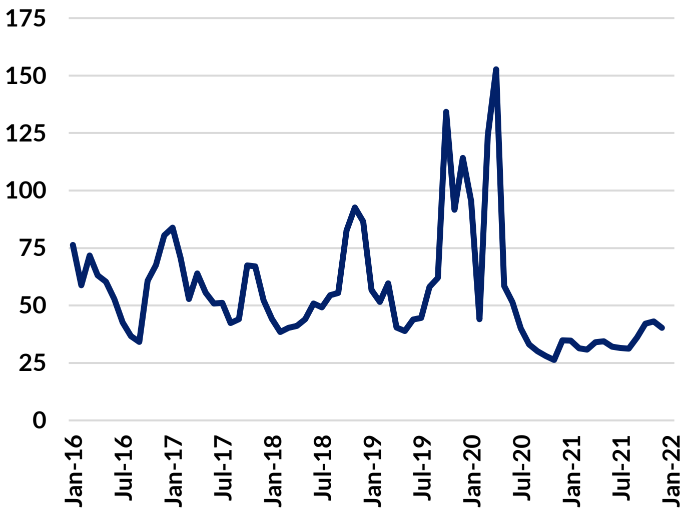
Week 4 | 28th January 2022

The Year of the Tiger

Weekly Tanker Market Report

On February 1st China will enter the year of the tiger. 2021 saw total Chinese crude imports at 512.98 million tonnes, down by 5.4% vs 2020's 542.39 million tonnes, marking the first fall in imports since 2001. The decline in imports last year occurred despite an increase in refinery runs, with Chinese refinery output up 4.3% year-on-year, reaching 703.55 million tonnes. Nonetheless, lower refining runs were seen towards the end of the year, as mobility restrictions and "Zero Covid" policies reduced demand for products and thus refinery throughput. Heading into New Year, China is facing multiple challenges in its petroleum sector, ranging from the energy transition, refining policy and the demand outlook. All of which may reshape China's prominent role in the oil and tanker markets.

Monthly TD3C Rates (WS)



The first-round of 2022 crude oil import quotas have been reduced by 11% from 2021's quota for the period to 109.03 million tonnes. This comes as China's refining sector is under pressure to consolidate and cut excess refining capacity with a cap of 20m b/d (1000mmt/year) by 2025. Current capacity is estimated at 990 mmt/year. This leaves only 10 mmt/year of additional capacity to add so future sector growth is limited. However, utilisation rates are expected to increase as older "teapot" units run at lower rates compared to more efficient and newer facilities.

In the short term, refiners have been requested to limit emissions ahead of the winter Olympics. This includes options such as cutting throughput by 30% or capping utilisation rates at 70%. Demand for gasoline and jet fuel would typically be higher this time of year due to Lunar new year celebrations and increased travel but renewed mobility restrictions have put this in doubt. Jet fuel demand could be 15-20% lower in January as domestic flights are cancelled, theoretically offering support to jet fuel exports. However, in terms of oil product export quotas, the first-round of 2022 volumes is down 56% from 29.5 million tonnes in 2021, leaving just 13 million tonnes for exports of cargoes such as gasoline, gasoil, and jet fuel. LSFO is the main exception to that, with export quotas for product increased by 30%.

So where do the latest developments leave the tanker market? For the last 20 years, continuous growth in crude imports provided steady support for tankers as other regions fluctuated. In the short term, reduced import crude quotas are likely to drag on freight levels, particularly for VLCCs and Suezmaxes. At the same time, product tankers will experience fewer Chinese export cargoes which is negative for vessels trading in the East. Longer term, as China transitions to a lower emission economic model and the shift in the country's refining industry begins to gather momentum, the tanker market might not enjoy the same level of demand growth that many had come to rely on. Nonetheless, whilst these developments seem somewhat bearish for the tanker market, fundamentally China is still the strongest source of crude tanker demand and future imports will remain considerable and robust for many years to come. Gōngxǐ Fācái!

Crude Oil

Middle East

A fairly active week for VLCC Owners as Chinese Charterers took centre stage and looked to take cover prior to the coming Chinese New Year celebrations. Even on forward dates, Charterers were able to secure deflated market levels highlighting Owners concerns that there looks to be very little upside opportunities going forward. Last done to the East is 270,000mt x ws 34.5 on modern tonnage and a voyage West remains around 280,000mt x ws 17.5 to the US Gulf via Cape. Suezmax rates have stabilised, with TD23 coming off this week to 140,000mt x ws 27.5-30 level and East 130,000mt x w s57.5-60. Rates will likely be maintained into the weekend with tonnage looking to the gains made in West Africa and Med/East rates now at levels that will entice ballasters. Aframax rates continue to trundle along at around the 80,000mt x ws 105 level for AGulf-East. The list is tight of quality vessels off the front window, but options replenish quickly, therefore Owners are struggling to claw back any ground. It’s hard to see great change next week with Chinese New Year on the door step.

West Africa

Rates have edged a little down as AGulf and US Gulf markets continue to falter. Returns remain comparable to the AGulf markets but where locking in for the longer duration has initially discouraged some Owners from competing it now seems there is just enough available tonnage willing to compete as there is in the AGulf. Last done East dipped to 260,000mt x ws 36.5. Owners have played a good hand this week in the Suez market, enquiry has been steady in WAF but Owners have been aided by opportunities from South America and the US Gulf, which has led to a real tightening in the Atlantic basin coupled with a real lack of Eastern ballasters. So much so that rates have firmed to 130,000mt x ws 67.5-70 to the UKContMed and 130,000mt x ws7 0-72.5 for East, with potential for further gains today with a few cargoes outstanding. Looking into next week, Suezmaxes could well be capped as VLCCs will come into play.

Mediterranean

A week which provided much of the same as the last. Enough Aframax activity to keep things ticking over rate wise, with conference 80,000mt x ws 97.5 concluded for Ceyhan loaders and ws 102.5 ex CPC. By the close though, with replacement activity due to bad weather delays and the impending partial shutdown of Trieste, Owners looked to achieve more. Ws 105 has been done a number of times from the Black Sea and we can expect X-Med business to be concluded a few more points above last also. Med/East Suezmax runs have been a driver this week as rates continued a steady upward trend as Owners try to lock in long. TD6 has stabilised at 135,000mt x ws 70 with Owners benefiting from a busier spell in the Atlantic drawing West Med tonnage away.

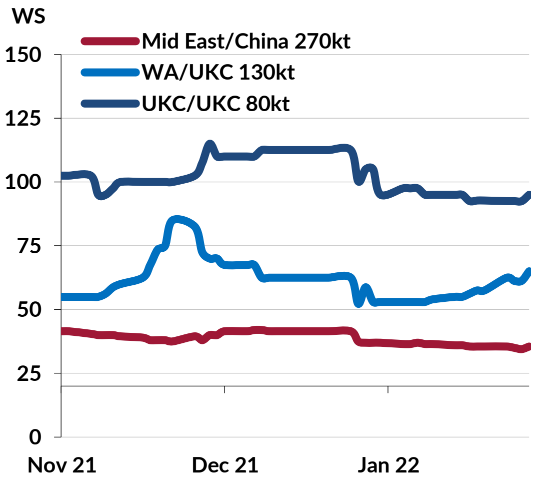
US Gulf/Latin America

Aframax Owners continue to swim against the tide with a slow drip feed of enquiry against a strong supply of tonnage. Rates however have seen a gentle recovery with gains achieved for transatlantic. Last done is 70,000mt x ws 110 with shorter haul runs fairing slightly worse at around 70,000mt x ws 100-105 levels. VLCC rates took a pretty hefty hit this week, with Charterers pressing on with their forward March positions. Rates have plummeted down to around $4.45milion for a voyage from the US Gulf to the Far East.

North Sea

Another pretty static week for the North as Aframax rates crab walked their way along giving little to suggest any change is on the horizon. X-North Sea is trading at around the 80,000mt x ws 95 level and Baltic at 100.000mt x ws 85. The Urals programme was slightly disappointing compared to January leaving little to hope for. Ice season seems to be coming to a swift end with a cold snap needed in order to bolster current restrictions.

Crude Tanker Spot Rates



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

Clean Products

East

LRs have had another tough week overall but the LR2s have suffered badly. LR1s have managed to keep their head just above water, with West jet runs on the LR1s continuing into this week and just $25k being lost off rates. 60,000mt jet AGulf/UKCont now rests at $1.60 million and there is little appetite below this from Owners. 55,000mt naphtha AGulf/Japan sits at ws 95-97.5 but could approach ws 100 soon if both activity is seen early next week and if the LR1s can continue to mop up the shorter MR stems. With the firmer early MR market, the remaining list of LR1s have the get out of taking the X-AGulf runs off the MRs.

In contrast, LR2s fell off the cliff further unfortunately. Returns are below breakeven now unless you are a proper eco ship. 90,000mt jet AGulf/UKCont is $1.65 million whilst Yanbu/UKCont is $1.25 million. There really is nowhere further down these rates can go. 75,000mt naphtha AGulf/Japan fell to ws 75 this week and this makes around $3,000 per day for an eco vessel. With bunkers so high, even slightly less economical ships will lose money fixing at this level. The only ships making sense of East numbers are those with a need to get East or ones with no sire, using a voyage as a loss leader. Owners will have to dig in now and wait for the Chinese New Year holidays to pass before any improvements can be looked forward to.

A very interesting week on the MRs, suggestions of Singapore ballasters coming in and softening market have been quashed by a good volume of enquiry to end the week. This has resulted in a bounce, which seems to have gone unnoticed amongst a handful of lazy Owners. Westbound has been trading in a $1.225 million - £1.227 million spread this week. TC17 trades at 35 x ws 187.5 to finish the week, although dipped down to ws 182.5. TC12 down to ws 130 but may come under further pressure with Singapore ballasters in the new week, which prefer TC12 cargo. Shorthaul will feed into the LR1 segment - but a bounce at the end of the week needs to be better handled by Owners in these scenarios.

Mediterranean

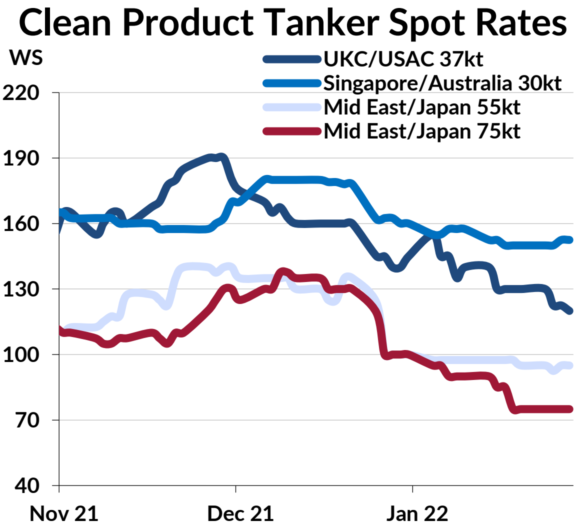
It’s been a positive week for the Handy owning fraternity, which has seen rates shoot up off the back of poor weather and increased delays in the Turkish Straits. Black Sea rates have been the driver this week due to heavy delays and at the time of writing, we see 30 x ws 185 on subs for an ex DD ship. As a result, X-Med rates have followed suit with EMed firming first to the 30 x ws 175 mark and now WMed has done the same despite being quieter on the cargo side. Vessels are now once again able to make their way through the TS but, with a large backlog of tonnage, expect Owners with firm itineraries to be bullish in terms of ideas, with a handful of cargoes still looking for cover.

We began week 4 with the list looking tight for end month dates in the Med MR market but unfortunately for Owners cargo enquiry has slowed. 37 x ws 135 was the call for a Med/transatlantic run at the start of this week, but since then rates have slowly slipped and at the time of writing, we now see rates at the 37 x ws 125 mark transatlantic. This fall in rates has also been due to the pressure seen in the UKCont market, with Med only able to hold slightly higher due to the tightness of the list. Heading into the next week expect Charterers to start applying some pressure, with the fixing window now stretched.

UK Continent

Owners have remained on the back foot all week, with an overwhelming number of ships keeping any chance of improvement at bay and Charterers picking carefully through the tonnage list. 37 ws x120 was seen late on Monday and ever since this was the target for the few stems we saw, with most of time Charterers succeeding, whether through non CPP last cargoes or well positioned tonnage. WAF has remained in the shadow, with larger tonnage seeming to remain the preferred option but we also do see a number of Argie runs being either put on subs or at least being an option in a deal; yet, whether all of these will be taken is yet to be seen. High bunker prices mean that hopefully we have hit the bottom of this sector, and certainly the tonnage list has been dented this week. We look to Monday morning to reassess if any chance of bounce back is on the horizon.

It's been a sluggish week for Handies plying their trade in the North. A few LRs have been fixed ex Primorsk, which has affected 30kt clips supply and saw rates soften to 30 x ws 160 on Tuesday. Even though enquiry has been lacking, the front end of the tonnage list has been tight for ice class ships, which then enabled owners to steady the ship for the remainder of the week. Non-ice units have been well supplied as X-UKCont closes at a soft 30 x ws 140 and UKCont/MED needing some testing from 30 x ws 125. Charterers are in control here.



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

Dirty Products

Handy

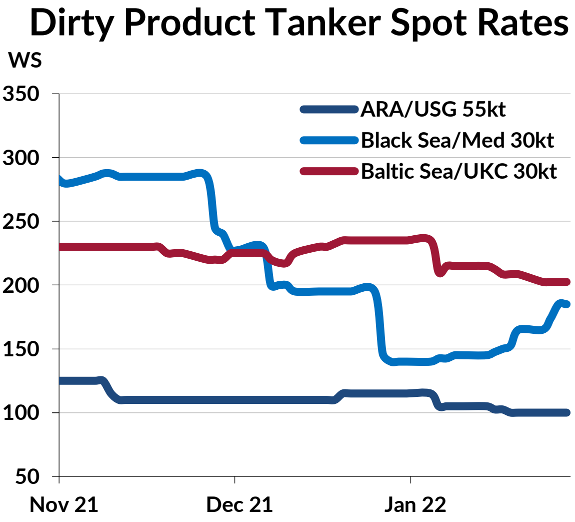
With Handy rates looking softer in the Continent, Charterers this week sensed an opportunity to finally correct values down, with the end of the week's tests reflecting a more accurate measure of where supply vs demand should sit. Furthermore, we finally see a recognised transition to 2022 WS flat rates, which helps to gain an accurate measure of UKCont vs Med values. Yet, there is no disguising that this week's events will be a disappointing blow for Owners in the North hoping to capitalise on seasonal ice factors. The Med, however, has received a much welcome boost from Turkish Strait delays and a general uptick in activity levels. At time of writing, values from the Black Sea have reached ws 185-190 realms, with a -10 point diff for X-Med trading.

MR

MRs availability in the Continent shows Charterers still need to tread carefully in this region, as despite limited activity this week, sentiment remains firm. Secondly, you also have to take into account the age profile of some of the units in the next fixing windows, with this likely to pose problems to some vetting criteria as the outlook in the north is somewhat positive. The Med can also report a firmer sentiment this week, where levels have increased in accordance with a firming Handy sector. Here, weather delays have caused charterers a few reasons for concern, with the tonnage lists now looking thin for front end availability.

Panamax

Most of this week should be viewed in a positive light for those operating within this sector; however, for now perhaps we are a little shy of calling the market more positive, with levels yet to show any upward movement. Units being fixed away is the first step needed though and this has been happening. Also, with rising bunker prices, charterers will soon feel some kick back from the surrounding sectors for transatlantic, which still places a cap on what Panamaxes can ask for.



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

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 27th	Jan 20th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+1**	36	35	38	37
TD20	Suezmax	WAF-UKC	**+7**	64	57	55	63
TD7	Aframax	N.Sea-UKC	**+1**	96	95	111	99

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

			wk on wk change	Jan 27th	Jan 20th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**+750**	-4,750	-5,500	500	-2,500
TD20	Suezmax	WAF-UKC	**+2500**	5,000	2,500	5,250	4,000
TD7	Aframax	N.Sea-UKC	**+500**	-1,500	-2,000	12,750	-250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 27th	Jan 20th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-3**	75	78	106	
TC2	MR - west	UKC-USAC	**-10**	120	130	145	136
TC5	LR1	AG-Japan	**-2**	96	98	114	103
TC7	MR - east	Singapore-EC Aus	**+3**	153	150	161	150

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

			wk on wk change	Jan 27th	Jan 20th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-750**	-2,250	-1,500	10,000	
TC2	MR - west	UKC-USAC	**-2250**	750	3,000	8,000	3,750
TC5	LR1	AG-Japan	**+0**	1,500	1,500	7,250	3,250
TC7	MR - east	Singapore-EC Aus	**+750**	5,500	4,750	8,250	5,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**+3**	649	646	561
ClearView Bunker Price (Fujairah VLSFO)	**-9**	679	688	621
ClearView Bunker Price (Singapore VLSFO)	**-11**	679	690	631
ClearView Bunker Price (Rotterdam LSMGO)	**+20**	783	763	683

GIBSON
SHIPBROKERS

Paratus

OFFERING THE WORLD'S FIRST PARAMETRIC FUEL AND FREIGHT PRICE INSURANCE

Please contact enquiries@gibsonshipbrokers.co.uk to find out more on how the Paratus range of products could meet your risk management needs.

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 1401, 14/F,
OfficePlus @Wan Chai,
303 Hennessy Road.
Wanchai. Hong Kong.

T (852) 2511 8919
F (852) 2511 8901

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

Mumbai
Office 128, Level 1, Block A,
Shivsagar Estate,
Dr. Annie Besant Road, Worli,
Mumbai, Maharashtra, 400018,
India
T +9122-6110-0750

This report has been produced for general information and is not a replacement for specific advice. While the market information is believed to be reasonably accurate, it is by its nature subject to limited audits and validations. No responsibility can be accepted for any errors or any consequences arising therefrom. No part of the report may be reproduced or circulated without our prior written approval. © E.A. Gibson Shipbrokers Ltd 2022.