The Debate Continues

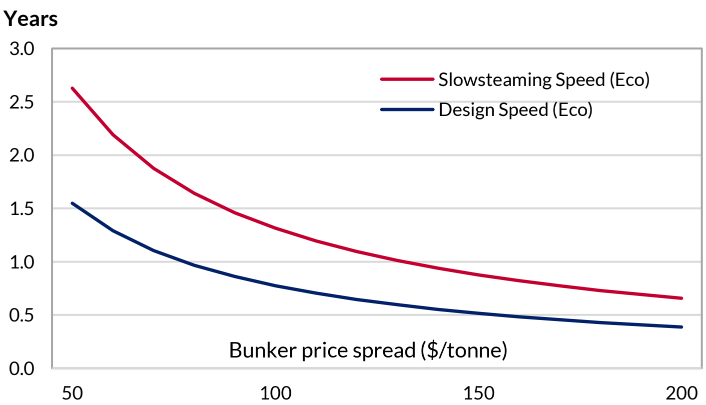
Weekly Tanker Market Report

The scrubber debate continues with the same intensity as it did six months ago, although there appear to be fewer announcements for new installations. According to the DNV GL, the number of new bookings for fittings during 2019 decelerated over the past couple of months. It remains to be seen whether this slowdown is attributable to a diminishing appetite for scrubbers or limitations in yard/manufacturing/equipment capacity. On the face it, perhaps the latter is true since the interest in installations over the course of 2020 continues to grow, although absolute numbers are much lower versus 2019 figures.

There has also been a shift in the regulatory landscape, with open loop scrubbers getting more attention. Since the mid-1970s, Belgium has had a law banning any discharge within a 3-mile zone off its coast. Also, washwater discharge is banned in Lithuania, Latvia and in Dublin, Ireland. In the US, open loop scrubber discharge is not allowed in California and Connecticut. More recently, Singapore has announced a ban on open loop scrubbers effective January 1st 2020. China has also started to limit their usage. According to BIMCO, since the 1st January 2019 a ban has been introduced on the discharge of wastewater from scrubbers within China's inland ECAs, port waters under coastal DECA and the Bohai Bay waters. Furthermore, the expectations are that a full ban along coastal ECAs could be soon introduced. Australia stated it will review its policy on open-loop systems, while Norway is expected to ban open loop scrubbers in its fjords, once all the regulatory procedures are met. The rising trend of scrubber usage bans in coastal waters is a concern for those opting for the technology and/or considering it. However, this largely means adopting the same approach which already exists within Emissions Control Areas (ECAs); in other words, burning LS MGO in ECAs and HSFO elsewhere. For large deep-sea vessels, where most of the scrubber investment has gone, operations in ECAs and hence the extra cost of LS MGO bunkers is marginal considering the typical long-haul nature of trade for these types of ships.

VLCC Open Loop Scrubber Repayment Period

Basis newbuilding at a cost of $1.8 million



We are also starting to get the first feel of the spread between HSFO and a compliant 0.5% bunker fuel. Two major price reporting agencies – Argus and Platts have started producing physical assessments of 0.5% sulphur marine fuels, while NYMEX and ICE are introducing future contracts. Separately, in early January CPC published its first general indication for 0.5% LSFO180, which has been priced at a premium of around $100/tonne versus 180 cSt HSFO (in Taiwan). Around the same time, Platts was quoted pricing 0.5% sulphur bunker fuel (barge assessment) at an even lower level – just a $40/tonne premium in Singapore. The current spreads are notably below those expected by the market in 2020 but it is important to note that prompt demand for compliant fuels is yet to emerge.

The economics of a scrubber retrofit will of course be impacted if the spread between 0.5% sulphur bunkers and HSFO turns to be much smaller than expected. With newbuilds, the picture is not as clear cut, as the cost of installation is much cheaper and without additional down time. As such, the open loop scrubber repayment period will still be fairly short, somewhere between 9 to 16 months, even if the spread in bunkers averages at $100/tonne and the ban on the discharge of scrubber washwater is introduced within coastal waters globally. Yet, the risks remain that regulations may evolve further, open loop scrubbers might see a global ban, the spread may fall to negligible levels or HSFO availability might decline dramatically over time.

Crude Oil

Middle East

VLCC Charterers worked steadily through the last dregs of the January programme and only dipped toes into February as confirmations began to come through late week. Modern units on early dates, however, began to thin somewhat and that, together with favourable ballast economics to the Atlantic, allowed for a modest tick higher to over ws 56.5 to China, with absent western movements marked in the mid ws 20's. It should get busier next week and perhaps the gains will then at least be consolidated. Suezmaxes merely ticked over through the week on easy supply and modest demand. Rates remained largely rangebound, with a nod to the downside, at 130,000mt by ws 90+ to the East and to just below ws 40 West. Aframaxes were disappointed to find thinner enquiry than they'd hoped for and that punctured the previous inflationary scene to lead rates back down to 80,000mt by ws 115 to the East, with further erosion possible.

West Africa

Suezmaxes had thought a bottom had been reached last week but continued discipline from Charterers, and ongoing full availability, allowed for the downward progression to continue. Rates are now at 130,000mt by ws 77.5 to Europe and to ws 72.5 to the USGulf and there may yet be further chipping away before any bargain hunting momentum develops to allow for a spring-back. VLCCs enjoyed support from wider Atlantic noise but volumes remain on the light side. Rates crept up to ws 57.5 to the Far East and if the AGulf makes a positive move next week, could go higher but that remains a big 'if' for now.

Mediterranean

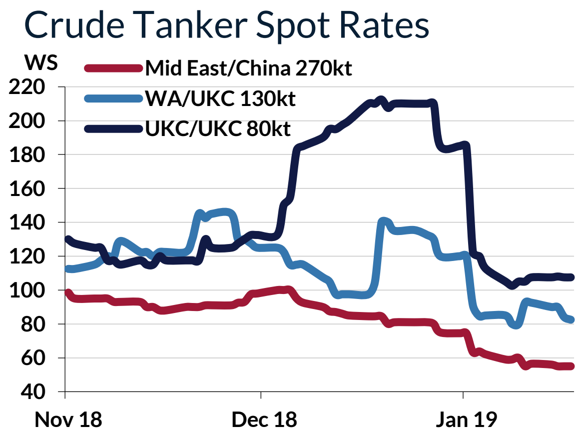
Aframaxes failed to find enough volume to keep lists tight, and maintain rate marks. A steady deflation through the week to 80,000mt by ws 122.5 X-Med, with minimal premiums from the Black Sea and Turkish Straits delays have prevented even more serious damage. Those delays have also been influential in allowing Suezmaxes to continue to outperform but even here the pressure began to tell as West Africa fell away, and availability remained. 140,000mt by a lower ws 115 now to European destinations, with runs to China marked at around $4 million.

Caribbean

Aframaxes built a fairly solid defence line at 70,000mt by ws 145 upcoast and for a while threatened to claw back some of the lost ground, though Charterers then failed to oblige and the market slid sideways. Now, however, there is bad weather on the near horizon, and any consequent disruption will strengthen the upward cause. VLCCs remained very active to hold on to recent highs upon dates into March. $6.4 million from the USGulf to Singapore, and up to $5.4 million from the Caribs to West Coast India now but ballasters from the Far East are providing an effective cap to anything better than that, and may actually allow for some degree of discounting unless the AGulf does take a noticeable step higher.

North Sea

No rate change for hesitant Aframaxes week on week, with 80,000mt by ws 102.5 X-UKCont, and 100,000mt by ws 87.5 from the Baltic still in play, but there is a little more activity circulating and if that continues then perhaps some degree of re-inflation could develop. VLCCs saw occasional interest and rate demands moved higher to equalise, with in-play USGulf/Caribs opportunities. $6.3 million for crude oil from Hound Point to South Korea was reported 'last done', with Owners pegging fuel oil from Rotterdam to Singapore at no less than $5 million for any rare trade that develops.



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

Clean Products

East

LR2s have had a good week, with rates coming back up again and a very tight list going into February. 75,000mt naphtha AGulf/Japan has edged back to ws 130 and could see more next week. 90,000mt jet AGulf/UKCont has seen better progress moving some $400,000 back to $2.70 million. We don't expect there to be much more in that though. LR1s have seen a very steady week, with activity levels flat and rates not really moving. With a lack of longer hauls there is concerns of a fall next week but that will depend on volumes going into early February. 55,000mt naphtha AGulf/Japan rests at ws 150 and 65,000mt jet AGulf/UKCont is $2.15 million.

Not the most productive week for MR Owners in the AGulf. With a lack or real enquiry the tonnage list built up a little and exposed a few nervous Owners that were happy to take less than last done to get their tonnage moving. EAF dipped to 35 x ws 207.5 and the short hauls corrected quite steeply. X-AGulf at $300k and Red Sea stems at the$725k level. Westbound stems have been very untested of late but, with a number of Owners indicating resistance for heading West which currently sits at the $1.55m level. Similar sentiment for naphtha heading East, as rates sit around the 35 x ws 150 level and in need of a fresh test. It's not a terrible outlook for Owners as the tonnage should firm up as we see fresh cargoes coming into the market next week. Not quite as firm as we have seen of late and there is a likelihood a further negative correction soon.

Mediterranean

A variety in rates has been seen across the Mediterranean this week, with a sluggish level of enquiry ex W-Med causing rates to soften with the going rate at the time of writing at 30 x ws 170. Weather delays at the beginning of the week coupled with a tighter front end, meant for liftings ex E-Med, a handful more points was seen however, with the weather easing off. It wouldn't be surprising for E-Med to move in line with rates further West. Black Sea enquiry has been consistent, however, given the sentiment in the Med, rates have followed suit and next done is likely to be closer to the 30 x ws 180-185 mark. As we move into week 4, the fixing window tonnage is very well supplied (especially in W-Med) and come Monday, with more vessels opening up over the weekend, expect the market to be under pressure with further rate losses likely.

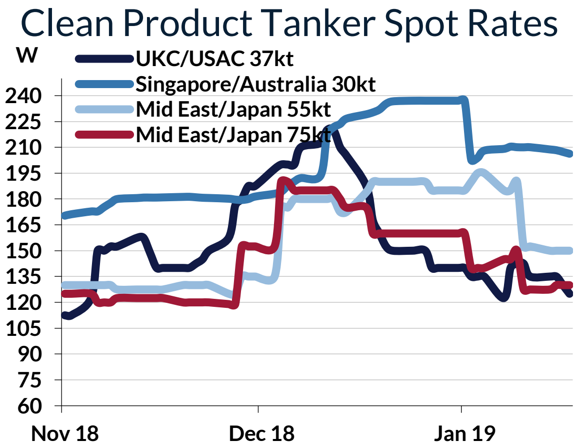
MRs plying their trade in the Mediterranean have struggled to find their own beat, relying on the UKConts rhythm for guidance, despite reasonable enquiry levels. Unfortunately here for Owners, rates have slipped in the North and therefore likewise in the Med as we see by the close of play 37 x ws 125 on subs for transatlantic. Runs heading East have had a wealth of tonnage to pick from, with a number of Owners looking to send tonnage this direction and so it was no surprise to see these numbers under pressure, as we see $675k for Suez and $825k AGulf. Expect further moves East to test this last done, and other routes will continue to sit in the shadow of the pressured UKCont sector.

UK Continent

Owners began week 3 with optimism in holding rates firmly in place, but Charterers had a different opinion here and only the ice class required rates were able to be frozen in place. Non ice enquiry saw negative pressure being applied and rates began to sink from 37 x ws 135 down 10 ws points, settling at the time of writing at ws 125. WAF premiums have been under pressure and we see a dip to 12.5 ws point premium being fixed. On the positive for Owners with the luxury of available Ice tonnage, Charterers have had little chance to rebuke their ideas and we see 40 x ws 165+ being taken out for UKCont discharge and 37 x ws 210 for transatlantic, with limited options available still. Pushing ahead we expect these mentalities to continue, with a little spike of WAF enquiry being seen near the end of the week but not enough to prevent Charterers looking to press further and ice tonnage enjoying the opportunity in dictating market levels.

Those with ice class Handies have experienced a good week, as Owners have now managed to push Baltic ice requirements up to 30 x ws 185, as the combination of good enquiry and a tightening tonnage list for ice being the main two catalysts. However, those with non-ice tonnage have a different tale to tell at the end of week 3, as Continent cargo flow has been minimal and the soft MR market has attracted bigger units in for Handy cargoes in order to avoid locking in a long-haul at low TCEs. Looking ahead the Handy market will become a two tiered market, with the premium for ice liftings increasing over non ice Baltic liftings and Continent cargoes.

Ice class demand on the Flexi spot market is rather subdued as Flexi rates have not quite enjoyed the same firming as the ice class Handies, but have seen more subdued positivity from pro-rated X-UKCont Handy levels. For now the market still holds around 22 x ws 200-210 X-UKCont, but the market is in need of a fresh test. Flexis will react to what happens on the bigger ships.



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Dirty Products

Handy

This week saw increased activity which resulted in a clear out of tonnage, which was pretty limited to begin with. Owners have finished the week, with their feet firmly in the driving seat with ideas bullish. Charterers could be at their desks first thing Monday morning trying to take out units that firm up over the weekend. One thing to highlight is that major ports in the Baltic like Ust Luga will need icebreakers (unless 1A) from the 31st. This will be the fixing window on Monday morning.

Momentum in the Med this week travelled in a sideways motion but with a softening undertone. However, with the building tonnage list Owners managed to find the right grip on the market, at least for the first part of the week, to hold the levels previously fixed ws 260 for Black Sea and ws 250 for X-Med. However, the amount of tonnage continued to weigh down on Owners. By the end of the week, rates were under pressure and registered a drop of 5 ws points for Black Sea/Med trade, now at ws 255. While the majority of the trades are still being fixed on 2018 flat rates, finally a few deals are now on subs basis 2019 flats. Monday looks to be a poisoned chalice for Owners as Charterers will look to challenge last done again.

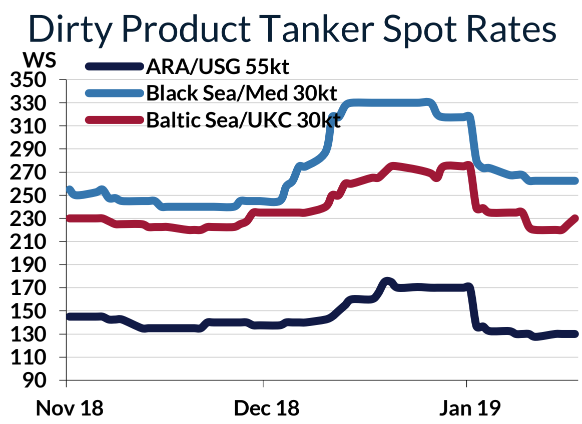
MR

A continual lack of availability hinders this region, where Charterers are forced to look at alternative moves. Restrictions permitting some relief maybe found if Charterers are able to utilise Aframax tonnage. If however, you have to move on MRs, Charterers can expect the trend to remain with Owners for the immediate future.

In the Med, current trend is being fully supported by demand for the larger units, as no sooner vessels are marketed they are finding employment opportunities coming their way. Furthermore, with the tonnage list being stretched, Charterers are finding it increasingly difficult to cover cargoes loading in the West Med, as the Black Sea continues to draw in tonnage.

Panamax

The week failed to really get going for the Panamax sector. Due to barrels being moved on a more competitive surrounding Aframax market and a lack of natural activity, few deals Monday / Friday can be reported. As such, the market hasn't really been tested for validity around the benchmark ws 130 level, but we can expect immediate negotiations ahead to go from this number, with Charterers possibly gaining some upside, where the Caribs trades firm and Owners want to get tonnage back states side.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 17th	Jan 10th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-1**	56	57	85	51
TD20	Suezmax	WAF-UKC	**-11**	81	92	99	72
TD7	Aframax	N.Sea-UKC	**+3**	108	105	198	106

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

			wk on wk change	Jan 17th	Jan 10th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-1,250**	30,750	32,000	50,750	25,250
TD20	Suezmax	WAF-UKC	**-6,250**	26,250	32,500	27,750	20,500
TD7	Aframax	N.Sea-UKC	**+2,000**	23,250	21,250	73,000	21,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 17th	Jan 10th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+2**	130	128	180	
TC2	MR - west	UKC-USAC	**-14**	127	141	215	121
TC5	LR1	AG-Japan	**-5**	149	154	175	127
TC7	MR - east	Singapore-EC Aus	**-4**	206	210	224	

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

			wk on wk change	Jan 17th	Jan 10th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+9,000**	27,250	18,250	34,250	
TC2	MR - west	UKC-USAC	**-2,750**	11,000	13,750	19,500	9,750
TC5	LR1	AG-Japan	**-1,500**	21,500	23,000	22,000	16,250
TC7	MR - east	Singapore-EC Aus	**+4,500**	21,000	16,500	13,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-6**	352	358	352
ClearView Bunker Price (Fujairah 380 HSFO)	**+0**	379	379	391
ClearView Bunker Price (Singapore 380 HSFO)	**-4**	396	400	391
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	534	527	531

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