Gibson

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Tanker Market Report

Orderbook vs Aging Fleet

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Investment in new tankers today is not a simple decision, considering mounting environmental pressure, uncertainty about future vessel designs and concerns about the viability of global oil demand in the long term. Despite this, ordering activity surged last year to its highest level since 2015 and has continued at a robust pace this year. Since January, circa 340 confirmed and reported tanker orders have been placed, just marginally below approximately 350 orders placed last year.

Ordering activity has been particularly strong in the VLCC segment, with 42 confirmed and 16 reported in the media, the highest number since 2015. Investment has also been relatively high for MRs, with over 130 orders placed since January, compared to circa 145 orders last year. In contrast, there has been a slowdown in orders for Suezmaxes and Aframaxes/LR2s, with 35 and 67 orders placed this year, down notably relative to last year's investment. A rare increase in Handy and LR1/Panamax orders has also been witnessed, following years of underinvestment in these segments for most of the last decade.

Naturally, the tanker orderbook has swelled. LR2/Aframaxes and MRs have the highest orderbook relative to their existing fleet, at 17.5% and 17.2% respectively. The Suezmax orderbook currently stands at 15%, followed by LR1/Panamaxes, which have nearly 13% of the existing fleet on order. VLCCs still have a relatively restricted orderbook at 9.7% of the existing fleet, whilst Handies continue to have the smallest orderbook of all – at just 3.6%.

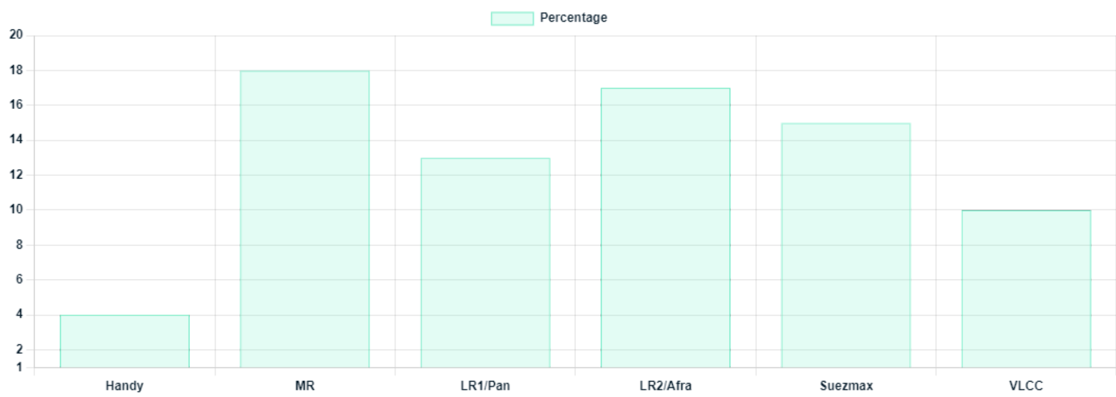
An impressive increase in new tanker investment is for the most part driven by a major uplift in industry returns and tanker tonne miles since the Russian invasion of Ukraine and sales of predominantly aging tankers into Russian trade. For some, newbuilds may also offer better value relative to secondhand tonnage, despite a delayed delivery. Since late 2020 newbuilding prices have on average appreciated by around 55% compared to 100% to 165% growth in secondhand values, with prices of 15-year-old ships seeing the biggest gains.

Another key factor that fuelled the latest surge in orders is the rapidly aging fleet. Around 40% of the existing tanker supply is 15 years of age or older, although numbers vary greatly depending on the size group. VLCCs and Suezmaxes have 35% and 37% of their fleet respectively built in 2009 or earlier, whilst Handies and LR1/Panamaxes have the oldest fleet, with 75% and 63% of their fleet being 15 years of age or older. LR2/Aframaxes and MRs sit somewhere in the middle, with 46% and 41% of their fleet built in 2009 or earlier.

With these statistics in mind, the orderbook largely pales in comparison, suggesting that on balance the size of modern, age-approved fleet is still likely to shrink over the next few years. The picture, however, is complicated by the grey fleet. According to

Gibsons estimates, nearly 63% of all tankers (above 25k dwt) built in 2009 or older are either trading sanctioned Iranian, sanctioned Venezuelan and/or have been solely engaged in Russian trade over the past 6 months. The trading lifespan of these vessels is undoubtedly longer than in the conventional market, but there is no clear indication of likely scrapping age. As such, it will be very challenging, if not impossible to accurately assess the prospects for tanker demolition and evaluate it against the existing orderbook. Yet, even if these vessels are not scrapped, they remain unfixable by a large portion of the tanker market, further restricting tonnage supply to mainstream players, despite rising tanker deliveries in the years ahead.

Tanker Orderbook as % of Existing Fleet (%)



Crude Oil

East

It's been a mixed week for VLCC Owners in the AG. The volume so far for first decade November has been fairly muted and below normal for this time of year but Owners' resistance has been notable. Despite a plethora of modern and available tonnage there has been an uptick in rates, with the possibility that we could see further gains next week if as expected the market is busier. Charterers may have to thread carefully to avoid all rushing in together to cover remaining stems and today we are assessing AG/China at WS57 and 280 Ag to USG in the region of WS35 level.

For Suezmaxes, on TD23 today Charterers will be looking to fix just below 140 x WS70 via C/C for a modern approved ship. Though the list remains tight and Charterers looking to do so could face some difficulty here. Rates to head East are steady with a large portion of these runs often mopped up by older tonnage. Modern ships today for East runs will be looking for around 130 x WS130.

It has been another busy week for Aframaxes in the AG and as such steady increments to rates are now being seen. AG/East finished the week at 80 x WS150-155 level, with WS160 paid on options cargoes and demurrage in the Mid 40s. The list of tonnage options is thinning and Charterers need to take care heading into next week.

West Africa

VLCC freight rates picked up in WAF despite a very inactive start to the week. We have seen an upturn in activity towards the end of the week, especially on quoted cargoes to India and WAF to UKC runs, which has brought a feel-good factor back to Owners. Like other areas the firmer market is more to do with sentiment rather than fundamentals as the tonnage availability remains high. However, Owners are making a real push to end the year on a positive footing and therefore we expect 260 WAF/China to fix in the region of WS61.5 level on today’s market.

Suezmax markets in West Africa are steady, with little movement in rates thus far. For TD20 today, we estimate rates to be around WS102.5, slightly higher than last week. With potential to firm even further as we move into winter.

Mediterranean

By the end of this week erratic behaviour in the Med Aframax market has subsided with benchmarks showing far more consistency and general acceptance from Charterers and Owners alike. The more technically challenging load ports had been working on forward dates adding to this distortion, partly due to availability shortages but also with Charterers trying to get ahead of firm sentiment. At the end of the week, however, with Ceyhan now settled at 80 x WS177.5 we have slightly wider differentials being achieved from CPC and North Africa. North African rates are easier to explain with the -7.5 delta to Ceyhan occurring due to promptish Owners grabbing the lifeline of earlier north African dates. CPC is now trading around WS190-192.5 levels with the spectre of Suezmaxes looming large for Owners trying to push for more. Perhaps this is one of the only positives for Charterers on what is likely to be a prolonged firm market cycle.

TD6 remains relatively stable but other than the biggest lifters we haven’t seen a great deal fixed by others yet. Rates today stand around 135 x WS115. Libya/East remains relatively steady with some prospects to firm at around $4.9M with a few putting their hands up for this run on the list.

US Gulf/Latin America

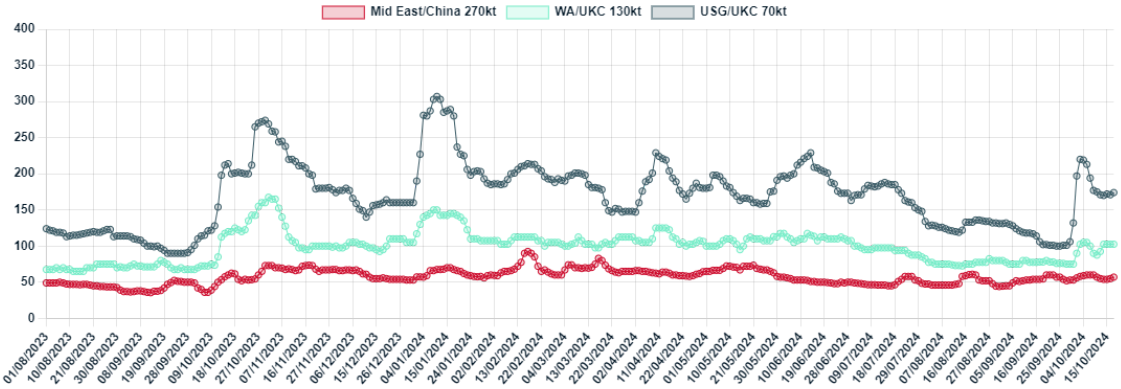
VLCC rates from the USG have been softening with every fixture reported, as a flurry of ships being released combined with a large volume of east ballasters heading to the area to take advantage of the expected stronger Q4 as exports increase. The volume of cargoes has been steady but unfortunately there are too many ships fighting for employment off similar dates, so Charterers have been able to take advantage of this scenario. The contrast with the Brazil export market has been interesting as that market has tended to follow similar patterns as in WAF. Here, however, a busy programme has seen more limited availability even off forward dates, hence the firmer market. Today we expect a USG/China cargo to pay in the region of $8.2m and a Brazil/China run is around WS60 level.

Aframaxes in the USG are seeing a similar phenomenon from a couple weeks ago, with spot tonnage waiting days for business and then an immediate uptick by a Charterer that has relets in ballast to the region. Firmer Suezmaxes give room for Aframaxes to warm up, but not enough for a moon shot. Would expect potentially a little more firming and then a wait and see on how other markets react.

North Sea

The UKC Aframax market this week was on the precipice of allowing Charterers the ability to claw back some value, however, a much-needed injection of activity (albeit mainly under the radar) altered conditions rather quickly. Gains from the recent conference low of WS122.5 were in fact the order of the week given activity and the states remaining firm enough to provide an escape. Levels sit a few points higher, which is now likely to hold for at least until November's program gets fully underway.

Crude Tanker Spot Rates (WS)



Clean Products

East

Better week for both LR1 and LR2s, more activity on and off market resulting in some rates seeing a little nudge upwards. TC1 seeing a push with 75 x WS133.25 on subs, however, UKC needing a refresh and as such assess it at $4.2m levels. A few stems still outstanding this side of the weekend which is a slightly more positive close to the week for Owners than what has been of late. The LR1s have seen plenty of enquiry this week added to that of contract liftings resulting in the list being chipped away at. TC5 has seen a gentle rise and currently on subs at 55 x WS137.5. UKC needs a test, but we estimate it will sit in the $3.5m-3.6m levels.

Despite rumours of some late off market activity, the MRs east of Suez have sunk back into trading flat and lack of volume has seen the list build. Despite TC12 being retested early in the week with WS160 repeated, TC17 has since dropped 5 points to WS235. With westbound runs failing the list has been restocked with ballasters and prompt units. Sentiment is very much poised to swing in Charterers favour should an injection of pace not come early next week.

Mediterranean

All in all, it's been a positive week for the Handies here in the Mediterranean which has seen rates improve. We began the week with xMed trading around the 30 x WS132.5 mark but thanks to an influx of cargoes on Monday/Tuesday the list soon tightened up. Fast-forward to the present and we now see rates settled around 30 x WS157.5-160 with not a great deal left to cover pre-weekend. Market steady.

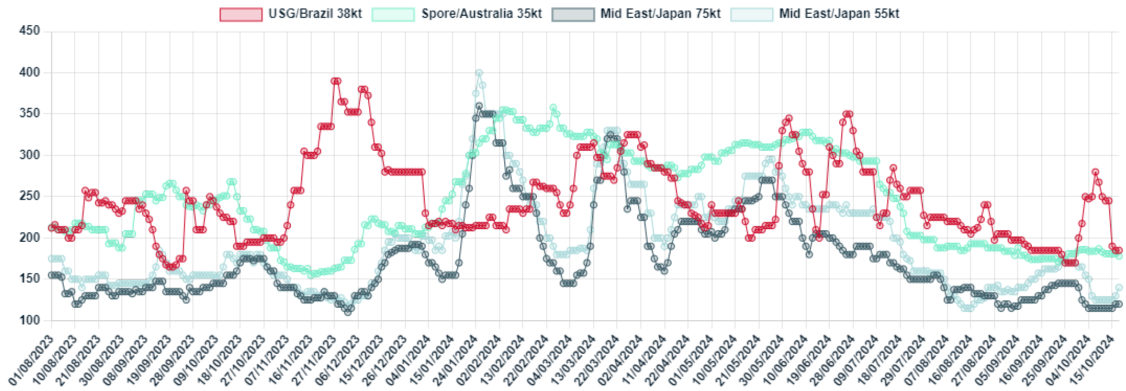
Finally, to the Med MR's where it's been an active backend of the week with plenty of cargoes for Owners to get their teeth into. 37 x WS105 was the call for Med/TA on Monday morning and to be honest rates have been unsettled since. Good enquiry has certainly helped to tighten the list up a touch, but rates have bounced between the 37 x WS95-105 levels with numbers very much cargo dependent.

UK Continent

Another dismal week for MR UKC Owners ends, with the lack of long haul moves really knocking any form of momentum out of this market. An active handy market has given some opportunities for Owners to keep tonnage moving. However, we see these ships opening up once again in a weeks' time and with a good number of laden vessels headed our way, until the long haul improves, we expect more of the same. As Friday arrives, we got a little spike in WAF interest which is the most promise we've seen all week, but still have a hefty tonnage list so expect this positivity to take some time to take grip.

It has been another busy week for ULSD trading XUKC as a good number of fixtures have been seen via Handies/MRs. A few more Handies have been readily available but with the MR long haul routes continuing to lack activity for most of the week, they have jumped on short haul cargoes to keep units moving. XUKC closes at 30 x WS135 (Handy) and 37 x WS107.5 (MR) with more of the same expected for the short term.

Clean Tanker Spot Rates (WS)



Dirty Products

Handy

The North's active end to last week left the list looking tighter and Owners feeling bullish for the weeks trading ahead. Unfortunately, enquiry has been scarce leaving little opportunity for Owners to take advantage and push levels. Rates sit at 30 x WS202.5 mark, but should enquiry enter the market early next week, we should see levels quickly firm up to WS205.

The Med has been the better of the two regions as enquiry has consistently clipped units from the list and clearing built-up approved-modern units. This has left the top of the list tight, particularly basis West Med, where most of the firming has stemmed from. Levels now sit at 30 x WS175 and as we look ahead to next week, Owners will hope momentum carries through despite what felt like a quiet Friday on the surface.

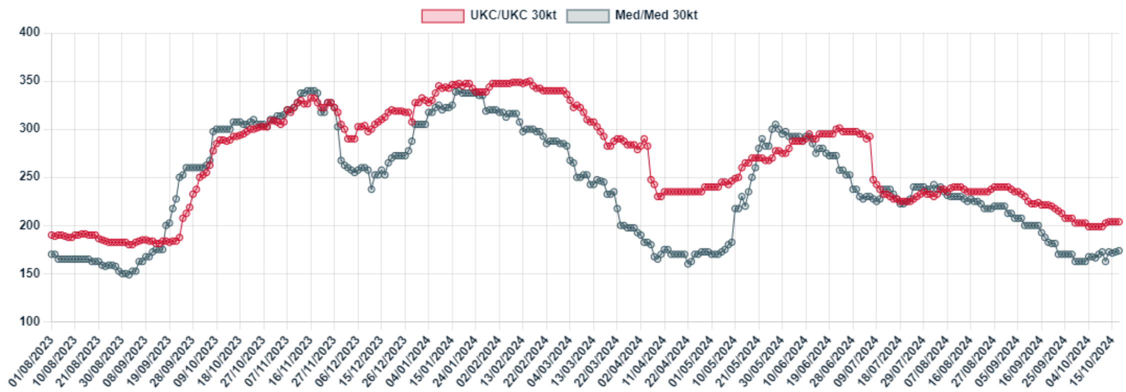
MR

A lacklustre week for MR Owners basis full stem. In the North tonnage has been scarce, along with enquiry. As we look to next week, should enquiry surface, Charterers will need to draw upon West Med units who will look to push levels if given the chance. However, the pull of a full-stem cargo should keep a ceiling on levels. In the Med, MRs have seen plenty of opportunity for part cargoes but few basis 45kt. As a result, available tonnage is leaner, and Owners will be looking to build on last done of 45 x WS125.

Panamax

Little to report for Panamaxes as tonnage continues to ballast back stateside rather than potentially sit idle waiting for elusive enquiry to emerge, when a steady source of employment awaits across the Atlantic. The need for a fresh test has left the market theorising where levels should sit. We expect the allure of a laden trip to the USG to come with a discount on next done. Over in the USG, an overall steady to flat feel and for the moment at least it looks as though that will remain the case early next week with levels at the WS142.5 mark.

Dirty Product Tanker Spot Rates (WS)



Rates & Bunkers

Clean and Dirty Tanker Spot Market Developments – Spot WS and $/day TCE (a)

	wk on wk change	Oct 17h	Oct 10th	Last Month*	FFA Q4
TD3C VLCC AG-China WS	-1	57	58	60	66
TD3C VLCC AG-China TCE $/day	-1,000	35,500	36,500	40,250	41,750
TD20 Suezmax WAF-UKC WS	11	100	89	80	108
TD20 Suezmax WAF-UKC TCE $/day	7,250	39,000	31,750	27,250	40,500
TD25 Aframax USG-UKC WS	-1	174	175	102	189
TD25 Aframax USG-UKC TCE $/day	250	43,500	43,250	17,250	45,250

TC1 LR2 AG-Japan WS	10	125	116	140	
TC1 LR2 AG-Japan TCE $/day	4,000	25,250	21,250	31,000	
TC18 MR USG-Brazil WS	-87	183	270	190	215
TC18 MR USG-Brazil TCE $/day	-16,500	22,250	38,750	24,000	26,000
TC5 LR1 AG-Japan WS	12	137	125	163	154
TC5 LR1 AG-Japan TCE $/day	3,500	18,750	15,250	25,750	21,250
TC7 MR Singapore-EC Aus WS	-1	180	181	174	209

TC7 MR Singapore-EC Aus TCE $/day	250	17,500	17,250	16,500	19,750

(a) based on round voyage economics at 'market' speed, eco, non-scrubber basis

Bunker Prices ($/tonne)

	wk on wk change	Oct 17h	Oct 10th	Last Month*
Rotterdam VLSFO	**-16**	537	553	514
Fujairah VLSFO	**-30**	567	597	567
Singapore VLSFO	**-22**	587	609	581
Rotterdam LSMGO	**-47**	634	681	616