

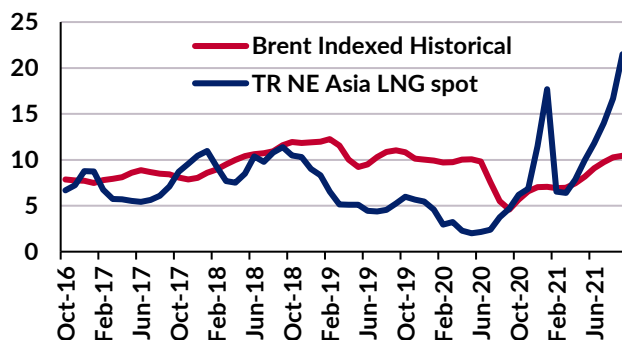
Price Pain

Weekly Tanker Market Report

The current strength in gas prices is having major ramifications for global energy markets. Record prices in Europe and Asia are forcing utility firms to look for alternative energy sources and have pushed some companies into bankruptcy. Many have been forced to burn more coal despite the environmental consequences, whilst oil-based fuels will also receive a demand boost in regions where oil fired power capacity still exists. With oil demand expected to find some support, could tankers finally receive the catalyst they have been longing for?

The answer to this question depends on the scale of the demand increase, which Goldman Sachs estimate could equate to a near 1% uptick in global oil consumption. However, this would depend on a 'cold winter' and would also likely be focused East of Suez where oil-based fuels have greater potential to form part of the power generation market. High sulphur fuel oil (HSFO) is expected to be the primary beneficiary of the oil-based fuels. Countries including Pakistan and Bangladesh, as well as some Middle Eastern players have already been more active in the spot HSFO market as LNG prices began to rise in Q2. Now HSFO burn is also likely to increase in parts of East Asia, such as Japan where oil fired capacity is still available. However, higher HSFO prices and limited supply will eventually restrict this practice. Unlike East of Suez, Europe has limited capacity to burn HSFO for power generation (oil-based fuels generated just 1.8% of the EU's electricity supply in 2019), so in Europe there is less potential for an increase in oil demand to offset higher gas prices.

Gas vs Oil Prices (\$/mmbtu)



Higher HSFO prices could also potentially increase refining run rates, supporting crude demand. Fuel oil cracks, although still negative, are currently close to multi-month highs, which combined with stronger Asian gasoil and jet margins, could incentivize higher refining activity. Asian refiners may also seek to boost HSFO output through changes to refining slates/configurations if prices continue to find support from the gas market. Relatively stronger demand for HSFO in power generation in the East compared to the West should also offer some support for arbitrage flows. Typically,

arbitrage flows ease this time of year as Middle East power generation demand falls in line with cooler temperatures. However, higher gas prices have the potential to support above average West to East HSFO flows this winter.

Crude direct burn also has the potential to increase due to higher gas prices. This practice is most common in the Middle East, although regional players have sought to reduce the practice in recent years, shifting focus to 'cheaper' gas/LNG and HSFO. Now that the price relationship has changed and gas has a higher value, consumption of crude could find support once again. Whilst this would theoretically reduce the amount of crude available for export from the Middle East, this practice is expected to be limited. Many Middle East consumers of domestically produced gas lack the infrastructure to divert domestic volumes to the export markets and have a limited capacity to exploit the current strength in gas prices. Some are even importers of LNG and may switch to HSFO or crude once again.

For tankers, any increase in oil demand is positive. If demand continues to find support from firm gas prices, then tanker owners can expect to benefit from increased oil trade, be it increased HSFO trade, higher refining run rates or a boost in OPEC+ output. However, any increase in crude direct burn in the Middle East could offset some of the benefit. Any gas related demand increase is unlikely to be enough to return oil demand to pre-covid levels but could at least provide a temporary boost.

Crude Oil

Middle East

VLCC Owners have seen a steady run of first decade enquiry throughout the week, which has been just the tonic needed to push levels on. Availability has thinned due to the pull from other regions as well, so it is likely this has the potential to strengthen further. For now, last done East is around 270,000mt x ws 40, with estimated levels West nudging up to around 280,000mt x ws 20 (via cape). Suezmax Owners have been able to build upon an active couple of weeks and due to tighter availability of tonnage. For first decade loading, rates have pushed up to 140,000mt x ws 30 to Europe. Rates to the East are still in the 50's on 130,000mt. A frustrating week for Aframax Owners in the East. Rates have slipped 10 points on an Indo-up cargo, which then triggered the fall in rates in the AGulf where currently levels sit around 80,000mt x ws 82.5 to the East.

West Africa

Buoyed by all areas showing signs of strengthening, VLCC Owners here see further opportunities to hold out for more. Charterers are going to have to dig a little deeper into their pockets provided such global interest persists with last done currently sitting at 260,000mt x low ws 40's to China. Another uneventful week for Suezmax Owners that has lacked any momentum and levels continue to remain flat at 130,000mt x ws 52.5 to Europe and around ws 57.5 East.

Mediterranean

The Med Aframax market has been bubbling slowly over the past few weeks but, with little to show for it. A thick CPC program on the horizon has given Owners some hope and finally there have been some rate movements. A high of 80,000mt x ws 92.5 has been concluded for a couple of Black Sea voyages to the Med and although the nature of those cargoes does mitigate to some degree, the bias is upwards. How much upwards is arguable, as when Owners all position themselves together their impact is diminished. But for now, the going is firmer and the expectation is there. Suezmax tonnage remains in good supply and 'last done levels' are still achievable for European discharge. 130,000mt x ws 57.5 has been paid for an Algeria/Rotterdam cargo. Freight levels for longer haul cargoes have slightly firmed this week with a Black Sea cargo paying 140,000mt x \$2.65 million to Ningbo.

US Gulf/Latin America

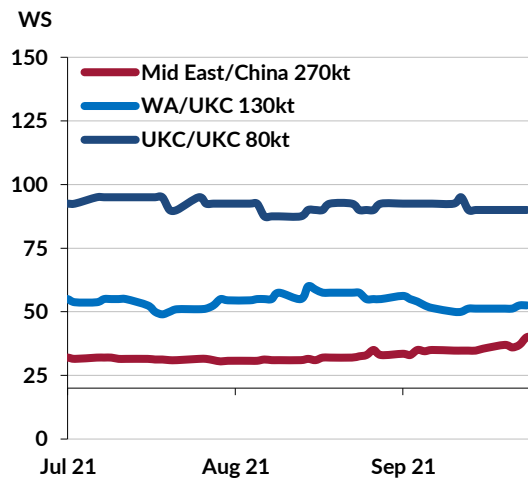
Aframax Owners remain on a more defensive footing as enquiry slows and availability builds, with levels falling to 70,000mt x ws 95-100 level for short haul. The preferred transatlantic run is heavily discounted with rates down to 70,000mt x ws 77.5. Potential weather delays could slow the recent slide in rates, however. In contrast, VLCC rates continue to strengthen as naturally placed ships remain at a minimum and

Charterers remain dependent on Eastern ballasters with a voyage USGulf/East fixed at over \$5 million into South Korea.

North Sea

A busy beginning to the week for Baltic Aframaxes mainly concluding under COA contracts. There were high hopes for the market to kick on mid-week, but Charterers played their cards close to their chest and fixed under the radar to keep rates plodding along sideways. This however, has kept units ticking over and there are hopes that the market will kick on from 100kt x ws 60-65 levels next week with many relets and COA partners now sold out until October.

Crude Tanker Spot Rates



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

Clean Products

East

A quiet week on the larger segments in the region. Starting with the LR2s, a lack of enquiry leaves market levels in need of a fresh test. The count of unused tonnage suggests a softening, but those with vessels remaining are remarkably stubborn and may refuse to drop their ideas. \$2.225 million basis UKCont is a fair marker, with KPC the only outstanding with something similar and need to cover for Avonmouth restrictions. TC1 will be retested once the Kuwait naphtha tender is awarded but 75 x ws 105-107.5 is our call for now and it's worth noting that this will be a popular run.

The LR1s, put quite simply, need more enquiry. The front end looks heavy, and the natural window is lacking cargoes. TC5 pushed up to ws 117.5 quite inexplicably off forward dates for a private stem, somewhere between ws 2.5-5 points over where we assess the market. Westbound is fluctuating all over the place with 'weaker' units doing \$1.475 million ex Sikka for West Africa. UKCont deliveries require more clearances, so younger tonnage is asking for \$1.65 million levels for a similar run. This segment will be supported by a fiery MR market, which cannot provide traders with the units/options they need. We will therefore see barrels short, and LR1 units mopping them up to keep moving before the next window.

The MRs have had a very good week, driven predominantly by Latin America

delivery tenders. Owners are so unwilling to send tonnage West that even those keen for Argentina are on subs \$1.4 million (and considered sharp number). EAF has pushed to ws 190 but without options (i.e. no SAF options available for Charterers, Owners taking the opportunity to narrow ranges to more profitable options). TC12 sits at ws 135, likely one of the most popular runs in the market (although little tested). MR Owners will price themselves out of cargoes for now. LR1s come into play for short deliveries. But the list remains tight enough that if and when they are required, they can push the market further.

Mediterranean

A busier couple of weeks for Med Handies has left Owners in a good place with the list in much better shape. 30 x ws 115 was stable for much of the week but an influx of cargoes on Thursday/Friday has led to Owners ideas heightening. At time of writing, we continue to see 30 x ws 115 as last done but reports of higher are creeping into the market, with 30 x ws 130 rumoured and some Owners talking ws 150 levels. It will likely be cat and mouse on this one, with Charterers trying to contain rate rises so it will be interesting to see what next week brings but expect Owners bullish.

Overall, it's been a slow week for the MRs plying their trade in the Med, with little enquiry throughout. This, combined with the plethora of available tonnage

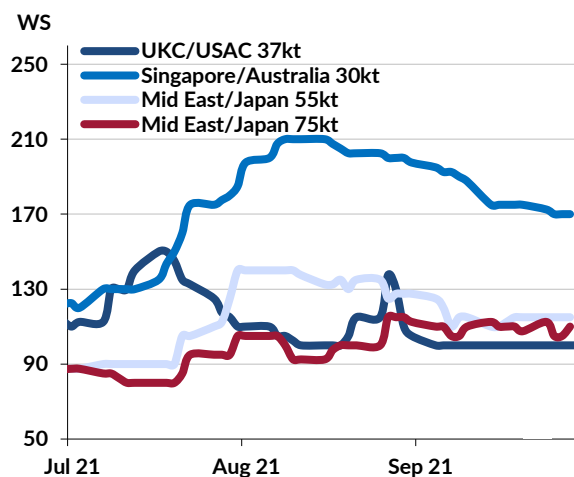
available to Charterers has seen rates remain flat at the bottom. Until we see a pickup in MR activity to help clear the list, expect rates to stay floored at 37 x ws 100 for both transatlantic and WAF.

UK Continent

A rather predictable week passes for the MRs as we see rates continue to remain hampered by the excessive available tonnage despite a reasonable start to the week. Charterers manage to clip away vessels easily with numbers stuck in the mud at 37 x ws 100 for TC2, and, with WAF runs preferred by many Owners with the hope of some demurrage, the traditional premium is rubbed away to sit in parity to transatlantic at ws 100. At these levels we also see Charterers looking to cover short X-UKCont stems with a little more ULSD on the water but unfortunately the sheer weight of tonnage has nullified the enquiry and, with little excitement on the horizon it seems this situation will be here for the foreseeable.

If it weren't for the above comments, this Handy market could well have managed to gain some traction and been able to build on a tighter tonnage list and good enquiry. Unfortunately for Owners though, Charterers have been enjoying the ability to take the larger tonnage for short haul clips and any time options seem limited, an MR would come to the rescue. With the dark cloud of available MRs still looming, it seems unlikely much will change in the near future.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

On the Continent, Charterers concerns came home to roost this week, where 6-7 cargoes were seen in quick succession have caused a tightening on tonnage supply, with rates reacting positively. In this region, although for now the measurement of positive volatility is only 5 points, it's the change in sentiment and time needed for conditions to cool off that is making Charterers think maybe this market now trades firmer for the next window coming into play.

Down in the Med, it's also been something of a week to take note of where consistent activity Monday through to Friday has really made a dent in the surplus of tonnage. These words have been chosen carefully, however, as for now this is all that's happened. Despite all the fixing going on, rates remain at conference levels, but you can't help but get the impression that the sector has seen the foundations laid down for positive volatility to eventually happen.

MR

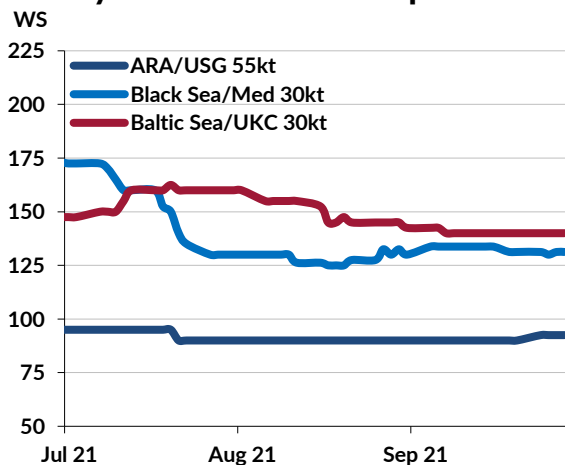
On the Continent this week, MR Owners have remained bullish on where they offer their ship at for a full 45kt stem, with numbers hitting the ws 115 mark. There was, however, more going on this week, which combined with an active Handy sector made explanations for such increments more justifiable. That said, Owners have also been quite savvy in knowing when to move on part cargo stems, and by doing so making sure they don't miss their fixing dates. In turn the lists remain tight for immediate fixing windows ahead, with limited downside from today's values.

In the Med, conditions haven't quite been so purposeful, where for the most part Owners have had to take out part cargo opportunities in absence of 45kt demand. This however has kept the lists from stagnating and alleviating any negative pressure. It could even be argued that sentiment from the surrounding Handies is starting to give the MR's a boost. As ever, the forward trend depends entirely on the activity which now follows, but another week like this and it's unlikely for conditions to stay flat.

Panamax

This sector is one to keep a close eye on with a seesaw of both negative and positive fundamentals, yet we remain with the familiar outcome. In recent weeks, Panamax supply has been pretty tight, when on the odd occasion the market was tested, we saw levels touch ws 92.5. Now however, tonnage is looking well stocked and although the surrounding Aframaxes improved slightly, any upside is once again capped. However, it's worth mentioning that with US earnings considerably higher, Europe could see some of its tonnage length lost from units ballasting back Stateside.

Dirty Product Tanker Spot Rates



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

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 23th	Sep 16th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+4	39	35	32	33
TD20	Suezmax	WAF-UKC	+1	53	52	58	53
TD7	Aframax	N.Sea-UKC	+1	93	92	92	94

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

			wk on wk change	Sept 23th	Sep 16th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+4500	2,750	-1,750	-2,500	-3,500
TD20	Suezmax	WAF-UKC	+0	500	500	5,250	1,000
TD7	Aframax	N.Sea-UKC	+0	-5,000	-5,000	-3,750	-4,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 23th	Sep 16th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	+0	108	108	100	
TC2	MR - west	UKC-USAC	+0	100	100	108	112
TC5	LR1	AG-Japan	+0	112	112	131	108
TC7	MR - east	Singapore-EC Aus	-3	169	172	200	161

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

			wk on wk change	Sept 23th	Sep 16th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	+0	10,500	10,500	9,500	
TC2	MR - west	UKC-USAC	-250	-1,250	-1,000	1,250	750
TC5	LR1	AG-Japan	+250	7,250	7,000	12,250	6,250
TC7	MR - east	Singapore-EC Aus	-250	9,000	9,250	14,750	7,500

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

ClearView Bunker Price (Rotterdam VLSFO)	+10	536	526	497
ClearView Bunker Price (Fujairah VLSFO)	+6	551	545	518
ClearView Bunker Price (Singapore VLSFO)	+0	560	560	525
ClearView Bunker Price (Rotterdam LSMGO)	+17	611	594	563

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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