

# Heading East?

## Weekly Tanker Market Report

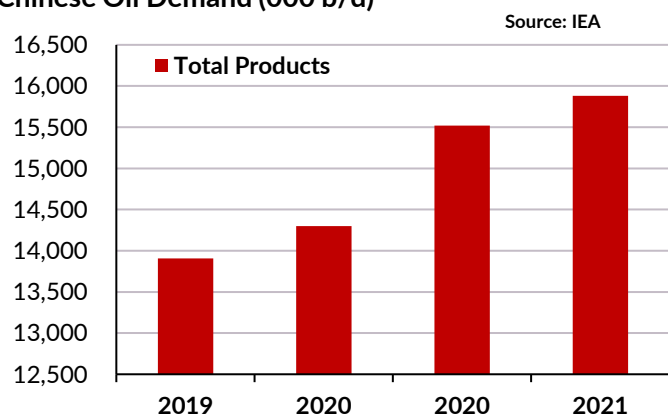
While the sanctions' list against Russia is growing longer as the days go by, the International Energy Agency (IEA) is warning that Russian exports of crude and products could fall by 2.5mbd amid a growing number of oil companies vowing not buy Russian crude and oil products. Disruptions to Russian flows in the West appear to be imminent, but is there an alternative market for Russian barrels?

Certainly, we have seen some indications that India is willing to continue to trade. Reports emerged that India's central bank is in consultations on a rupee-rouble trade arrangement. So far, Indian interest has also been apparent in the spot tanker market, with a number of crude cargoes fixed out of the Black Sea in recent weeks. However, this is nothing new, with the country being a regular buyer of CPC blend and Urals in the past. Potentially, there is scope for purchases to increase, without being forced to cut trade elsewhere, as Indian oil demand is anticipated to increase by 300kbd this year. However, a lot here depends on the willingness of the Indian government to withstand the pressure from the western economies to reduce energy ties with Russia.

What will China do? In the East, the majority of Russian crude heads to China via the ESPO pipeline spur and from Kozmino, while some additional barrels are also being delivered via Kazakhstan's Atasu-Alashankou pipeline, as well as from De Kastri and Sakhalin II (Prigorodnoye). So far, there has been no evidence of slowing Chinese demand for Kozmino loadings. There is potential for China to augment purchases, if there is less interest from other regional buyers, with crude exports from Kozmino to Japan and Korea, accounting for 85kbd last year and shipments from De Kastri and Prigorodnoye to the US, South Korea and Japan averaging nearly 200kbd, according to Kpler. In terms of Kozmino itself, the official capacity of the ESPO's Skovorodino/Kozmino link is 50 million tonnes (around 1mbd), while Kozmino crude exports maxed at around 780kbd. This implies that there is some underutilized capacity; however, the ESPO pipeline also feeds into the Komsomolsk-on-Amur refinery in the Far East.

So far there has been no official indication from China that it is willing to substantially increase its crude purchases from Russia. However, the geographical proximity of the Russian Far Eastern ports means that any increase in China's crude intake from Russia is likely to focus first on short haul routes in Asia, which alone could potentially account for 300 - 400kbd. Much depends on China's oil demand growth

Chinese Oil Demand (000 b/d)



and its willingness to reduce its purchases elsewhere to accommodate additional Russian crude. Latest Reuters' reports suggest there is currently flexibility in terms of West African barrels; however, this may not be driven by strategic decisions but more related to spot trading opportunities due to deep backwardation in oil futures.

The demand picture is also uncertain. China's total seaborne crude imports so far this year have been disappointing, although this in part was due to China's pursuit for clean air during the Olympics and resulting restrictions on the manufacturing sector.

Crude imports averaged 9.9mbd in January/February 2022, down by 1mbd year-on-year. The latest covid outbreak in China is an even bigger cause for concern, with daily number of new cases approaching levels seen in February 2020. Some estimates suggest than more than 45 million people in China currently face some mobility restrictions, with new covid cases reported across two dozen provinces in recent weeks. The IEA recently downgraded China's oil demand for this year, to just 360kd; yet, the agency acknowledges the uncertainty, not just in terms of the possible path of the outbreak, but also implications for Chinese economy if China chooses to maintain a "zero-Covid policy". The country's leader, Xi Jinping recently called to strive for "maximum effect" with "minimum cost" in controlling the virus. Will this translate into changes to the country's covid strategy? Another unknown in a highly uncertain world.

## Crude Oil

### Middle East

The AGulf VLCC market is quickly back on its knees here as we witnessed a good number of fixtures with new lows being set. This fall in levels is also against the continual rise in bunker prices, which will ensure Owners returns remain firmly in the negative. Last done to China is reported at 270,000mt x ws 37, with a voyage West somewhere in the very low ws 20's on 280,000mt to the US Gulf. An uneventful week in the AGulf Suezmax market, tonnage remains in good supply and Charterers have been able to make marginal gains into last done levels, with TD23 fixing at 140,000mt x ws 40-42.5 level off from ws45 last week. MEG/East runs remain steady at 130,000mt x ws 82.5-85, with rates holding into the weekend. Rates are slowly slipping in the AGulf on Aframax. AGulf/East has been fixed at 80,000mt x ws 130 this week, which is a new recent low. Looking at neighbouring markets, bunker prices and balanced tonnage lists, I expect rates to remain steady come the start of next week, it's not one way traffic just yet.

### West Africa

A surprisingly higher than usual number of ships failing subjects have only added further problems for VLCC Owners. However, with fewer Owners wanting to commit to the longer voyage at such low returns, this should ensure we see Owners looking to push for more. Last done remains at around 260,000mt x ws 38 into China. Suezmax rates have firmed this week, not on the back of overwhelming demand but Owners standing firm with more expensive bunkers on board their ships along with

the US Gulf market proving very tempting for UKCont-MED positioned ships. WAF/UKCont-MED is currently fixing around 130,000mt x ws 90-92.5 level and East runs regaining their differential going at around ws 97.5-100. You would expect Charterers to try hold back now. Time will tell if there is room in the programme for a pause, with Charterers also exploring part cargo opportunities and taking in VLCCs for 1 MB stems.

### Mediterranean

A week of little fanfare in the main for Aframax as Black Sea voyages settled at a new low of 80,000mt x ws 335 and X-Med activity did little to set pulses racing. There was a prospect of a rebound as rates did begin to pick up from a busy end month window, with Ceyhan moving from ws 135 to 145 levels. However, some bad news hit Owners' hopes; bad weather damage to 2 of the 3 CPC SBMs has threatened to affect export volumes for the next few weeks. Off the back of this, Owners with big fleets took discounts to secure X-Med business and by the close Ceyhan runs touched back down to ws 135 once more and a long Sidi Kerir voyage even achieved ws 120. The medium term looks un-inspiring. CPC going offline and subsequently coming back online has meant a lull in the Black Sea programme. With healthy premiums still available and a growing number of willing Owners, TD6 has softened to 135,000mt x ws 190 level and CPC/South Korea coming off to \$4.9-5.0 million. Med enquiry for both long and short haul runs has been virtually non-existent as tonnage has built significantly.

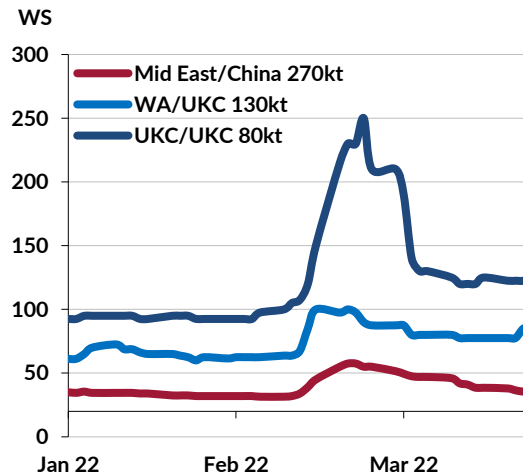
## US Gulf/Latin America

With the increase in volume of crude heading transatlantic, Aframax Owners have been able to steadily push levels on in this region. From 70,000mt x ws 135 at the start of the week to rates now edging towards ws 200. Shorter haul runs are somewhat riding those coattails, with last done around 70,000mt x ws 180 being achieved. VLCC interest has picked up over the week but, with a lack of committed tonnage heading West, Charterers have been forced to pay up over last done due to this imbalance. Last done to the Far East is reported at \$5.40 million.

## North Sea

An active week overall, but one that developed under the radar all in one day. Tonnage has been fixed away quietly and thus Aframax Owners have been blindsided somewhat. However, coming into the market end of the week one is faced with resistance and therefore we end the week on a firm note, with last done moving up to around 80,000mt x ws 130 for a generic X-North Sea run.

## Crude Tanker Spot Rates



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

## Clean Products

### East

The distillate Arb remains open for East/West cargoes presently, with both LR2 and LR1 stems yet to be covered as we head into the weekend. Larger pool Owners remain confident and hope to see the flow of early month system barrels coming into play next week. Hard to say exactly where UKCont rates sit but should be in the \$3.75 million levels for a LR2 and \$3.025 million for a LR1. Obviously as seen today, for a narrowed discharge option there could be a discount to be had, if Charterers are willing to lose options. With TC1 on subs a 75 x ws 165, it is hard to call it otherwise; however, with Scorpio publicly calling it 75 x ws 170, we could see more Owners dig their heels in at the 75 x ws 170 levels. TC5 on subs with Reliance at the 55 x ws 182.5 levels, but to note this is on an Indian flagged vessel so a more accurate assessment of TC5 would be 55 x ws 190 as we head into the weekend. Expect to see more stems early on next week off the 5-15 April window to come very much into play.

A very active week on the MRs in the region. A bouncing bunker level has encouraged Owners to recover from the previous week's dip. The list is now tight and sentiment very bullish. TC17 is now on subs 35 x ws 282.5, a bit step since last done; it will be interesting to see how quickly this is repeated. Westbound cargoes remain interesting due to the flip flopping Arb; \$1.8 million paid AGulf/UKCont but given the surge in

freight on larger sizes tonnage, we will see this push past \$2 million in the coming week, assuming enough volume emerges. AGulf/Argentina again is an active trade, given the emergence of the next round of delivery tenders; \$2.125 million paid and rates likely to move further north. TC12 needs a good test and has been quiet, given the volume moving on the LRs; 35 x ws 195 where we see the market today but in need of a solid test. Given the activity seen this week and a push in LR1 rates, next week should be interesting.

### Mediterranean

Rates wise it's been a rather flat week for the Handies in the Med, with X-Med trading at the 30 x ws 200 mark for the majority. Last weekend brought a flood of available tonnage to the list and as a result rates took a 20 point tumble to where they have remained ever since. Russian Black Sea also received a fresh test this week, as we saw 30 x ws 350 go on subs to the Med. Yet, some Owners will argue that this number should still begin with a 4. At the time of writing, the tonnage list has tightened up and 30 x ws 205 has been achieved for a jet cargo but, with the weekend approaching once again, any momentum starting to build here could be halted.

All in all, it's been a positive week for the Mediterranean MRs, which has seen rates increase off the back of a tight front end. Med/transatlantic rates have now jumped up to the 37 x ws 207.5 mark, with WAF still in need of a fresh positive test in light of this. A handful of cargoes

still remain, so expect Owners to be positive here, but with the fixing window now extending into the mid first decade, Charterers will be hopeful the weekend can bring a handful more candidates into play.

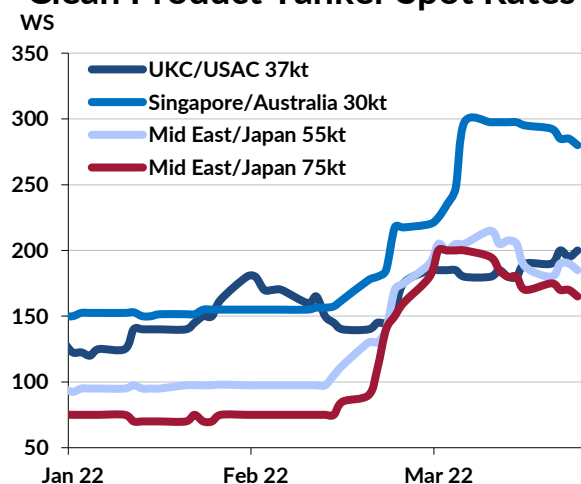
## UK Continent

A week of mixed fortunes for Charterers and Owners alike, but overall some more positivity for rates and sentiment. It didn't take long on Monday till we were faced with a new benchmark of 37 x ws 200 for transatlantic, with limited ballast tonnage and a few stems needing multiple options which ended up costing. Despite Charterers best efforts throughout the week in drip feeding enquiry, the simple fact of minimal ballast tonnage meant that Owners for the majority of the time were able to demand last done, if not more. A small dip was seen on Thursday, as we slid back below ws 200, with the wavering States market talk giving Charterers the opportunity to press. This may have quickly evaporated though, with a better States day passing; however, we will have to wait and see if Owners are able to make this argument stick and improve again. For now, we sit around 37 x ws 195...

In general, a fairly slow Handy market passes this week for Owners, with much of the Baltic liftings being tucked away under COAs. This has meant the Owners, without these contracts in place, have had to scrap a little harder to find employment. With a faltering Med sector, it wasn't a surprise to see some

negative correction. The few Owners still calling Russian ports saw their premium chiselled away to now 30 x ws 325 and the few X-UKCont cargoes lifted now sit around 30 x ws 190. However, with MRs in limited supply, some of the better lifting ships have been able to fix in this sector. Expect Owners to be looking to keep things ticking over around these levels but enquiry will be key early next week.

## Clean Product Tanker Spot Rates



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

# Dirty Products

## Handy

Across the sector conditions have stalled this week, with both the Med and the Continent showing an underlying softer current, which is pulling levels down. Furthermore, this is happening for both Russian and non-Russian business, except Baltic liftings where availability remains exceptionally tight on the Handies. In the Black Sea, however, the number of units able to call Russia have been allowed to build and come the end of week 11 premiums have dropped significantly. This, however, could prove to be temporary as bunkers remain high, providing a higher-than-normal floor.

## MR

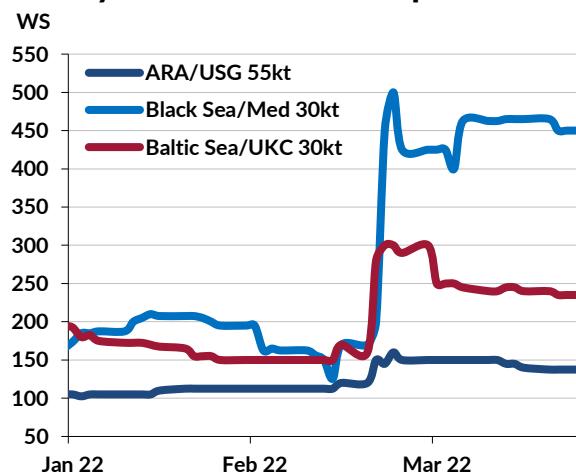
In a similar fashion to the surrounding Handies, the MRs have also faced tough conditions this week. MRs in general have struggled for full cargo opportunity. Subsequently levels have been placed into the spotlight, with slight differences seen between deals. Another signal for prevailing sentiment is the idle time some units are now starting to incur, with a few facing the prospects of taking out part cargoes to prevent idle time from really stacking up.

## Panamax

After levels were tested down to ws 137.5 for a conventional transactional run, subsequent activity followed suit setting the bar at where levels should be

placed. That said, although levels did come off because of the pressure from surrounding sectors, there are reasons for Owners in this sector to remain positive. The draw down on tonnage now means that the market can withstand periods of inactivity that much easier. Also, due to the lack of forward availability showing at present, Owners should be able to maintain these levels, even if the surrounding Aframaxes do suffer another wobble, just as long as volatility isn't too drastic.

### 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	Mar 24th	Mar 17th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	-3	36	39	39	38
TD20	Suezmax	WAF-UKC	+8	86	78	75	71
TD7	Aframax	N.Sea-UKC	+2	127	125	133	119

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

			wk on wk change	Mar 24th	Mar 17th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	-9750	-19,500	-9,750	-6,500	-17,000
TD20	Suezmax	WAF-UKC	+0	3,000	3,000	7,500	-5,500
TD7	Aframax	N.Sea-UKC	-6000	3,750	9,750	24,750	-2,250

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 24th	Mar 17th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	-12	168	180	76	
TC2	MR - west	UKC-USAC	+18	199	181	145	157
TC5	LR1	AG-Japan	-7	186	193	102	128
TC7	MR - east	Singapore-EC Aus	-19	277	296	159	189

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

			wk on wk change	Mar 24th	Mar 17th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	-8000	19,250	27,250	-5,250	
TC2	MR - west	UKC-USAC	+250	6,250	6,000	4,000	-1,500
TC5	LR1	AG-Japan	-5000	15,500	20,500	0	1,500
TC7	MR - east	Singapore-EC Aus	-6000	19,750	25,750	4,250	5,000

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

ClearView Bunker Price (Rotterdam VLSFO)	+73	913	840	731
ClearView Bunker Price (Fujairah VLSFO)	+106	940	834	786
ClearView Bunker Price (Singapore VLSFO)	+105	915	810	780
ClearView Bunker Price (Rotterdam LSMGO)	+214	1265	1051	880

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