Gibson

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Tanker Market Report

The Beginning of the End (Take 2)

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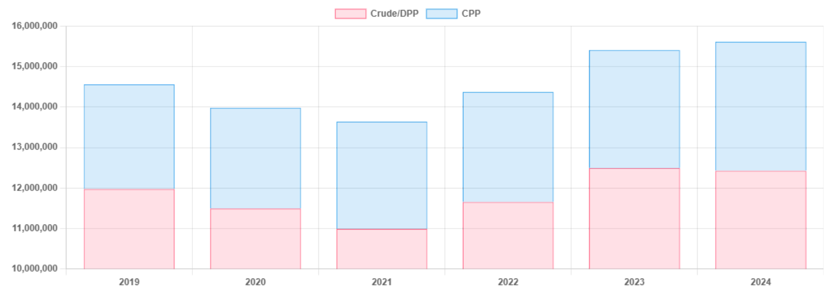
Back in February, we wrote a report titled "The Beginning of the End" following Trump's first phone call as President with Putin. 6 months on, following the first face to face meeting between Trump and Putin in his second term, the report itself remains surprisingly relevant. Whilst the meeting yielded little, it is once again focusing minds on the possibility of the conflict coming to an end or at least being frozen. Whilst the path to peace remains uncertain, if progress can be made, it is unclear to what extent trading relationships can revert to pre-war patterns.

Historical demand impact

Tanker tonne miles (crude/DPP/CPP) grew 5.4% in 2022 following the invasion and by 7.2% in 2023 after the implementation of the European/US embargo on Russian oil and oil price cap framework. Whilst not all of this growth was attributable to the war, the majority was, particularly in 2023. Tonne mile growth has since slowed, gaining just 1% in 2024, and contracting 4% for the year to date.

Global Crude, DPP, and CPP Tonne Miles



European reaction

It remains heavily debated whether trade flows might return to “normal” in the event of a peace deal. The current leaders of the UK, France, and

Germany, as well as the Baltic and other EU States might try particularly hard to prevent a swing back to Russian energy trade, especially in the event of a "bad deal" for Ukraine. Yet, with President Trump effectively ruling out Russia giving up all its territorial gains, as well as Ukraine joining NATO, concessions appear to already be on the table.

If it is assumed that any deal is likely to involve sanctions relief, then some normalization in trade flows is possible. The key, however, would be whether European refiners are allowed to return to Russian crude supplies. If this were to be the case, then over time trade flows might shift to resemble something similar (but not the same) as their pre-war patterns. Next year, European refining throughput will be 500kbd lower than in 2022, whilst closures in Germany are likely to offer reduced scope for Russian pipeline flows to return to previous levels. Equally, other producers (notably the US) have captured market share in Europe and will need to be displaced. For the products market, the impact could be arguably more significant than for the crude sector. CPP tanker tonne miles surged as Europe scrambled to replace Russian supplies in 2023 with cargoes from the Middle East, India, Far East and United States. At the same time, Russian cargoes which typically traded into Europe were pushed to new markets in Latin America, Africa and Asia creating substantial inefficiencies to the benefit of tanker owners and traders. Refining margins in Europe (and worldwide) also benefitted initially and would likely come under pressure if Russian supplies return to Europe. As a result, not only could we see lower domestic refining activity in Europe, but also lower long haul imports. Refiners in the US, who have lost some market share into the Americas might gain that back, but the overall impact would still be significantly lower tonne miles.

As such, in terms of tonne miles, the reaction of European leaders is of utmost importance. If Europe lifts its current embargo on Russian oil, this will have significant negative implications for tanker demand.

More competition in the crude market for Indian and Chinese refiners?

If sanctions are lifted, discounts for Russian oil will narrow and Indian and Chinese crude buyers will see more competition for Russian cargoes. Depending on willingness from Europe to resume Russian imports, India and China could be incentivized to increase intake from elsewhere (likely West Africa, the Americas and Middle East) depending on prices and refining margins for specific grades.

Impact on tanker sizes

For crude tankers, Aframaxes, followed by Suezmaxes were the greatest beneficiaries of the conflict, whilst VLCCs lost market share. As major VLCC destinations, India and China might have preferred to continue to use larger tankers, but given Russian port restrictions, were required to switch to Aframax and Suezmax tonnage. Thus, any increase in Indian or Chinese buying from outside Russia, is likely to benefit VLCCs more than other sizes, given the cargoes are likely to originate in West Africa, the Americas or the Middle East – key VLCC markets. In contrast, smaller crude carriers are set to lose, with Aframaxes the most vulnerable.

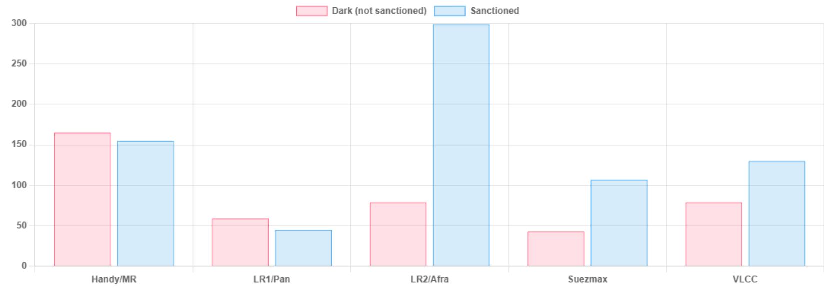
For clean tankers, LR2s and MRs saw the strongest gains in tonne miles as the refined products price cap came into effect. MRs may see less downside from reverting trade flows, given they could be redeployed on Russian exports to Europe, whilst MRs in the US Gulf would also gain back some market share in Latin America. However, for LR2s it is difficult to find a positive outlook, with LR2s feeling the brunt of any decline in trade from the East to Europe.

Impact on the dark fleet

However, a return to a “new normal” is not entirely negative. Since 2022, the dark/grey/illicit fleet has grown to over 1160 ships, more than 63% of which are now sanctioned. More than 92% are over 15 years of age and critically, more than 62% are over 20 years old. It’s important to note that many of these are engaged in Iranian or Venezuelan trade (particularly in the VLCC and Suezmax segments), so will not be impacted by a potential lifting of Russian sanctions. Still, this clearly indicates that it will be very difficult for the >20 year old ships currently solely shipping Russian barrels, to resume trading in the mainstream market. The hedge therefore for mainstream shipowners, is that whilst they may see tonne mile demand fall, any mainstream player returning to Russian trade is unlikely to use >20 year old tonnage with a chequered trading history.

In the Handy sector, where the fleet has rapidly aged, any increase in demand for sub 20 year old ships might prove problematic given many were sold off to serve trade outside the oil price cap framework. As such MRs may pick up extra demand here.

Dark and Sanctioned Tanker Fleet (no. of vessels)



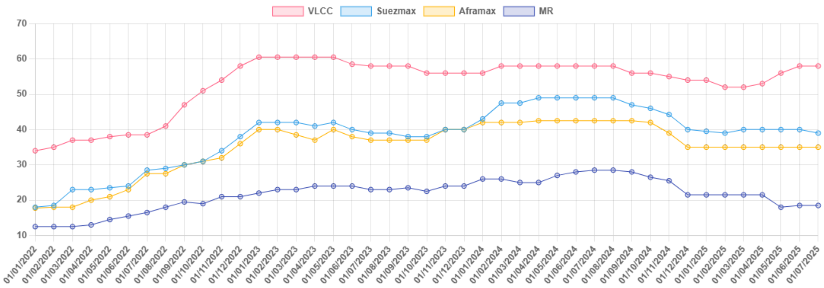
Ice class ships

Likewise, for both crude and clean tankers, the availability of ice class tonnage could prove problematic given the lack of investment, ageing of the fleet and trading history of these ships in recent years.

Asset prices and second hand market

The sale and purchase market could also be heavily impacted. Asset prices for newbuild and secondhand ships surged following the invasion. At the start of this year, 15 year old prices for Suezmaxes were up 114% compared to February 2022, whilst Aframaxes gained 94%. VLCCs were up “just” 54% over the period, clearly demonstrating the preference for smaller crude carriers. However, this year asset prices for older ships have come under steady pressure as demand for dark fleet ships becomes saturated. With the exception of VLCCs, 15 year old prices are down by 15-17% year on year and could see further downside if the conflict ends. If sanctions against Russia are lifted, demand for older ships is likely to come under further pressure, perhaps bringing prices close enough to scrap levels. With a 20 year Aframax currently valued around $25m, compared to $7m for scrap, demolition activity is limited. Notwithstanding the challenges involved in scrapping sanctioned ships, the lifting of sanctions could significantly narrow the gap over time, making large scale scrapping a real possibility. Scrap prices are currently the lowest since 2020, and could come under further pressure if an increase in scrapping is not met by an increase in demand for scrap steel.

15 Year Old Tanker Prices ($Million)



Conclusion

Once again, we now face an uncertain period where negotiations between the US and Russia, with or without Ukrainian and European involvement, could lay the foundations for an end to hostilities. It is impossible at this stage to determine what the final settlement might look like, and most importantly, what Europe's policy towards Russia and its energy exports might be. If Trump loses patience with Russia, then the tanker market may indeed need to brace for another round of sanctions.

Crude Oil

East

A slow start to the week with limited fresh enquiry and only rumors of private cargoes working. There was much anticipation that a huge flow of enquiry was due to however that was not to be the case. Freight levels were on a steady incline which was helped by activity in the Atlantic basin. As we progressed through the week, activity had picked up and there was a decent handful of cargoes working and from this, levels had soon started to move with freight rates jumping almost 10 points on the previous day. Looking ahead to next week & with the cargo count sitting around the 40 level for first decade, we can expect 10 or so more cargoes unless these get swept up by local vessels or larger grouped Owners. Sentiment remains firm & rates are expected to continue edging upwards. Today we are calling AG/CHINA ws68 & AG/USG ws38.

After a quiet start to the week, Suezmaxes in the AG have now pushed on as we reach the end, giving some owners second thoughts on ballasting to the Atlantic over the long weekend. For Basrah/West today, charterers are likely looking at paying around 140 x ws62.5 via C/C as the list tightens up. With more charterers looking to take Suezmaxes via Suez, we only expect this market to remain firm. Rates to head East hold firm at 130 x ws127.5 level.

West Africa

The West Africa VLCC market started the week in positive fashion with activity bubbling underneath the surface. Freight levels were showing signs of improvement and with a thinning tonnage list, it didn't take long before we saw a jump in rates. There was a lot of enquiry for WAF/UKCM & although some Charterers were asking questions for East, owners were not as receptive due to not wanting to lock in for longer unless it was at premium numbers. As we moved through the week, VLCC rates continued to push on past the ws60 level which provided further strength to Owners sentiment. Looking ahead to next week, we can expect charterers to start reaching out for later dates where the list opens up and last done maybe becomes achievable. Today we are calling WAF/EAST ws65 and WAF/UKC ws68.

Suezmax markets kicked off in style with 10 points added to the market by midweek, as charterers continued to look for tonnage off of August dates. The firm USG market has only helped to keep owners sentiment high as we begin to test further into a September window that most had thought would be quiet. As we move further into the window, we expect TD20 to push on a touch further before topping out. Next done is likely to be in the ws117.5 range.

Mediterranean

Med Aframax owners were well placed this week. Having spotted a number of owners heading transatlantic and port delays continuing to provide problems for some charterers, they were ready to pounce if the opportunity presented. However the hoped for volumes did not arise and thus replacement cargoes could not be exploited in full. Rates initially slipped from ws145 to ws140 for Ceyhan loaders with a 5 point premium achieved for replacement business. By the close, the firmer sentiment in the North Sea, coupled with the firm sentiment on the larger sizes seems to have given Med owners a bit more optimism as they try to achieve a few points more.

The Black Sea program has done a lot to push Suezmaxes on in this region. Amid an already tight position list, we had charterers taking forward positions to cover their cargoes and with the middle decade still to come, it seems unlikely that this market is going to run out of steam. ws145 is likely to be paid for a standard TD6 type run. Libya/East remains untested and with more charterers looking to move via Suez, a premium is likely to be applied here, as these runs will start to compete with those cargoes sold from CPC for East discharge. Libya/East today we rate at around the $5.0m level.

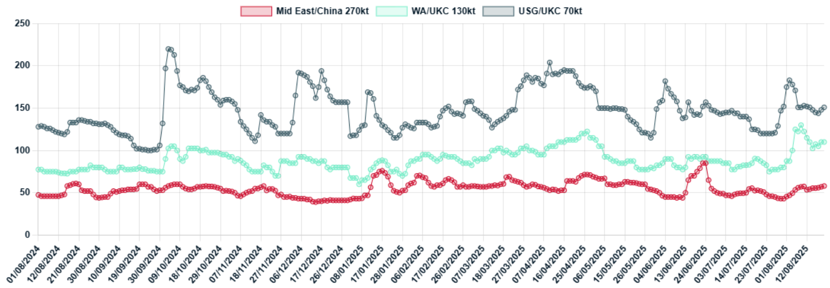
US Gulf/Latin America

The VLCC market in the Americas region had started the week on the slower side, with Charterers drip feeding cargos into the market and the activity that did take place kept private. Levels initially moved sideways, showing little change from the previous week, but as Owners resisted, gains in freight rates were soon made. While the pace of enquiry remained slow overall those Charterers that did step out attracted a limited amount of offers reflecting the overall tightness in availability and like the surrounding regions, sentiment firmed & further improvements were seen. Looking ahead to next week, the tonnage list remains on the tighter side even as we move into October dates which will provide Owners with further control of the market. Like the USG region, the Brazil export market also faced a lack of enquiry, yet levels here also pushed on which was to be expected after gains were made in the adjacent regions. One positive for the Charterers is the tonnage availability for natural dates is still manageable should we see some activity in the early part of next week. Today we are calling USG/East $7.6m & Brazil/East ws64.

North Sea

An uptick this week with North Sea action seeing a decent resurgence in Aframax rates. What started with plenty of relets ended in a tight list with owners in the driving seat. Some trickier cargoes helped to add some spice and give owners the chance to push. With relets being taken into local or TA programmes, tonnage supply has tightened. For now Cross North Sea is paying in the low ws 140s and feels stable for the short term at least.

Crude Tanker Spot Rates (WS)



Clean Products

East

A slight dip on rates was seen over the course of the week as charterers played their hand very well. There have been significant numbers of ships on subs and the list has thinned out. Rates will bounce back quickly and we expect that owners will hit the ground running come Monday. We assess TC1 at 75 x ws142.5 and UKC at $4.0m via Cape. The LR1s have managed to hold fast for yet another week, and despite a slight wobble on rates mid week, owners are remaining very positive. TC5 sits at 55 x ws160 and UKC at $3.1-3.2m. Expect to see more first decade stems hit the market Monday and as result owners will be well placed to push on last done.

This week, the AG MR market has seen the list replenish and rates come under pressure. We began the week with TC17 trading at the 35 x ws237.5 mark and TC12 at 35 x ws175 but with sluggish enquiry since Wednesday, less has now been achieved. At the time of writing TC17 is at 35 x ws220 with TC12 expected to land around 35 x ws160-165 levels when next tested. Two mid first decade cargoes remain outstanding and with the list looking well-supplied for those dates, charterers will be looking to further turn the screw. However, it is worth noting that we have seen very few cargoes off 1-5 Sept dates come into play so far so expect only a small correction.

UK Continent

A positive week comes to a close for the MR owners in the UKC, with good activity clearing out vessels at improved rates. TC2 has picked up from the doldrums of 37 x ws100 to now around ws120. With the US market now boosted up to ws200, we can forget about any ballasters for the foreseeable stocking our lists here in the UKC, and await laden tonnage although delays across Europe will aid owners positivity. Expect this buoyancy in the market to continue into next week with the potential for certain cargoes being caught out.

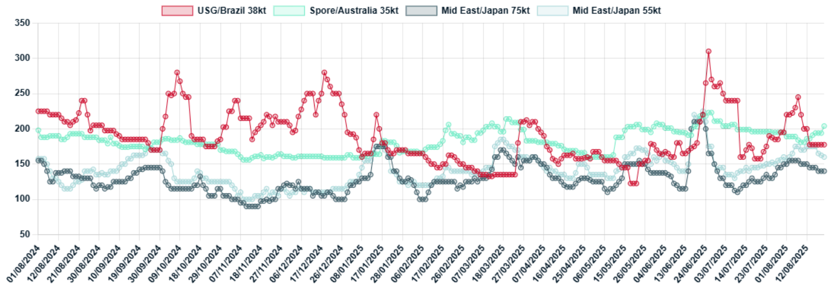
Over recent weeks MRs have been the thorn in Handy owners side as they have competed on short-haul stems. Now, with MR freight bouncing back, this has enabled 30kt clips to also push levels as XUKC closes at now a steady 30 x ws150. The front end of the tonnage does lack some depth but with a holiday weekend in the UK, this extended break should see a few more positions firm up come next week. For now though, sideways this side of the weekend.

Med

A slightly more active week for MRs in the Med with last done at 37 x ws135 for a Med-UKC run. The start of the week saw a last cargo palms fixture at 37 x ws130 which served to bolster owners sentiment and push rates up slightly. The list can be considered relatively balanced moving forward so the direction the market move is dependent on charterers activity.

A stagnant week for Handies in the Med with the market trading sideways throughout at 30 x ws135 levels. Unfortunately for owners, the list remains well stocked and with a long weekend approaching these levels are set to continue into next week. Owners will be hoping that after the long weekend there is a pick-up in inquiry to work through the front end of the list and put some pressure on rates. However, it would come as no surprise to see charterers reaching out to maintain current levels should sentiment pick up. Having reached bottom levels, the only way is up, it is just a question of when this will happen. Some grade sensitive stems might be the saving grace owners need.

Clean Tanker Spot Rates (WS)



Dirty Products

Handy

A slow week for activity in the North, which has seen levels soften from ws237.5 to ws235. We've seen relets head own programme, keeping cargoes out of the market for the most part. With the holiday in the UK next Monday, there was some hope of a late uptick in activity with charterers perhaps looking to cover slightly forward, but unfortunately this failed to materialise. Overall, the list is still well balanced for the next fixing window, which should keep current levels repeating early into next week.

It’s been a similar story in the Mediterranean with limited cargo flow and a rather lengthy list, with 5 prompt ships across the region on Monday, and additional units set to open over the week. Rate ideas started the week at last done levels of ws230 but as the days went by, tonnage build up looked inevitable. Levels succumbed to negative pressure and were tested down to ws227.5 and ws225 was covered soon after. Units remain available and with idle days mounting for some, we could see rates come under further pressure into next week.

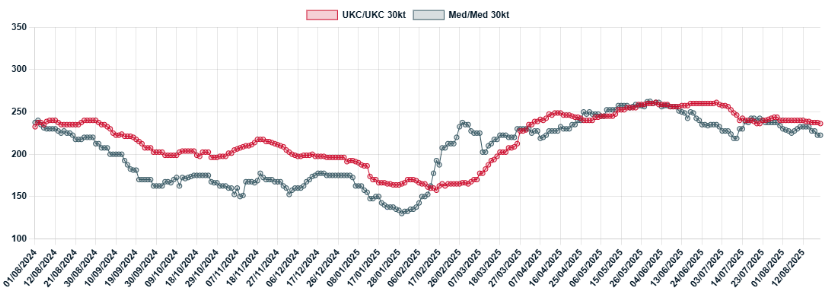
MR

MRs have seen a relatively quiet week across both regions this week with just the one fixture to report in the UKC at 45 x ws165 X-UKC, with other MR tonnage reported to have covered Handy stems. Units are scarce for now, leaving a firming of rates to ws170 likely. In the Med, owners have had little by way of full-stem enquiry to get stuck into, with part cargoes providing employment this week. Rates look set to soften on next done with ideas in the ws155-160 bracket as options remain available to charterers.

Panamax

A quiet week for Panamaxes in the UKCM this week, as few units are available to work in the current window. Units are expected to open ex DD end/early, but with a steady market Stateside providing relatively consistent employment, we expect owners will look to ballast back to the USG rather than hang around this side of the Atlantic. TD21 has seen a steady week as ideas hold around ws150 for the most part, as enquiry keeps the list ticking over. We expect to see more of the same for now.

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	**Aug 21st**	**Aug 14th**	**Last Month***	**FFA Q3**
TD3C VLCC AG-China WS	10	67	57	49	57
TD3C VLCC AG-China TCE $/day	13,750	52,500	38,750	28,500	35,500
TD20 Suezmax WAF-UKC WS	-11	110	121	80	98

TD20 Suezmax WAF-UKC TCE $/day	-6,750	47,250	54,000	25,750	36,500
TD25 Aframax USG-UKC WS	3	154	151	140	151
TD25 Aframax USG-UKC TCE $/day	1,000	37,000	36,000	30,000	31,750
TC1 LR2 AG-Japan WS	-16	138	153	111	

TC1 LR2 AG-Japan TCE $/day	-5,000	32,500	37,500	21,750	
TC18 MR USG-Brazil WS	11	249	238	176	195
TC18 MR USG-Brazil TCE $/day	2,000	35,500	33,500	21,250	23,000
TC5 LR1 AG-Japan WS	-19	157	176	144	154

TC5 LR1 AG-Japan TCE $/day	-4,750	26,750	31,500	22,250	23,750
TC7 MR Singapore-EC Aus WS	23	207	184	202	187
TC7 MR Singapore-EC Aus TCE $/day	4,250	24,500	20,250	22,750	20,000

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

Bunker Prices ($/tonne)

	wk on wk change	Aug 21st	Aug 14th	Last Month*
Rotterdam VLSFO	**-12**	457	469	521
Fujairah VLSFO	**-5**	491	496	521
Singapore VLSFO	**-10**	494	504	524
Rotterdam LSMGO	**-4**	658	662	707