Tanker

A year to forget

Tanker market participants will be happy to forget 2021 and move on. This was one of the weakest years in terms of tanker spot earnings in living memory. The downward momentum which characterised spot hire rates in 2H20 continued into 2021 so that the returns for certain tankers stayed below operating expenditure levels for much of the year. These 18 months of weak earnings were unusually long. As at end-2020, seasonality was mostly absent last year. There were sporadic pockets of short, localized, higher rates which supported earnings but, as fleet fundamentals remained loose, these were few and far between.

MAERSK TRENTON (AND TRIESTE)
Both sister ships are oil products tankers, 49 709 dwt, built by Sungdong shipyard in 2017, operated by Maersk Tankers.

It became evident that 2021 would be a year of persistent pain for tanker owners

MARKET OVERVIEW

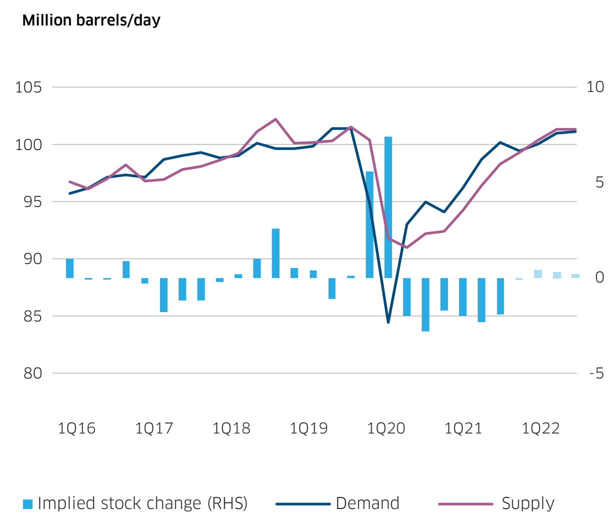
On the tanker demand side, the main driver came from global oil demand rebounding from the ravages of Covid which helped to draw down bloated inventories. In turn, this led to a rise in global refining activity and motivated the OPEC+ Alliance to ease their supply cuts which they had enacted in 2020. All told, this led to a rise in both crude and products transported by tanker. However, this was unable to offset the negative impacts of a steadily expanding tanker fleet as deliveries remained strong, and although tanker scrapping rebounded from 2020's lows, it was insufficient to have a positive impact.

Early 2021 was marked by hopes that vaccines would lead to a better second half of the year, unfortunately as Covid persisted and as scrapping never really took off, expectations were downgraded by summer, and it became evident that 2021 would be a year of persistent pain for tanker owners. OPEC+ continued to dictate the volumes of crude on the water as crude exports from the US, which, before Covid, had been the market's largest source of incremental ton – mile demand, struggled. This came as, rather than hiking production, in line with steadily strengthening prices, US producers remained extraordinarily disciplined and prioritized returning cash to shareholders and strengthening their balance sheets. By the end of the year, demand growth was again accelerating as surging natural gas prices saw some power generation capacity switch to burn cheaper oil.

At the turn of the year, global oil market fundamentals remain tight on the back of this strong demand and as OPEC+ is regularly undershooting their monthly production targets. Furthermore, simmering geopolitical tensions have helped to fuel a sustained price rally which has propelled ICE Brent to over $90/bbl, its highest in over seven years. These prices have dragged marine fuel prices higher with VLSFO prices now sitting at record levels in several hubs. All told, this is helping to pressure tanker earnings lower.

Global oil supply and demand balance

Million barrels/day

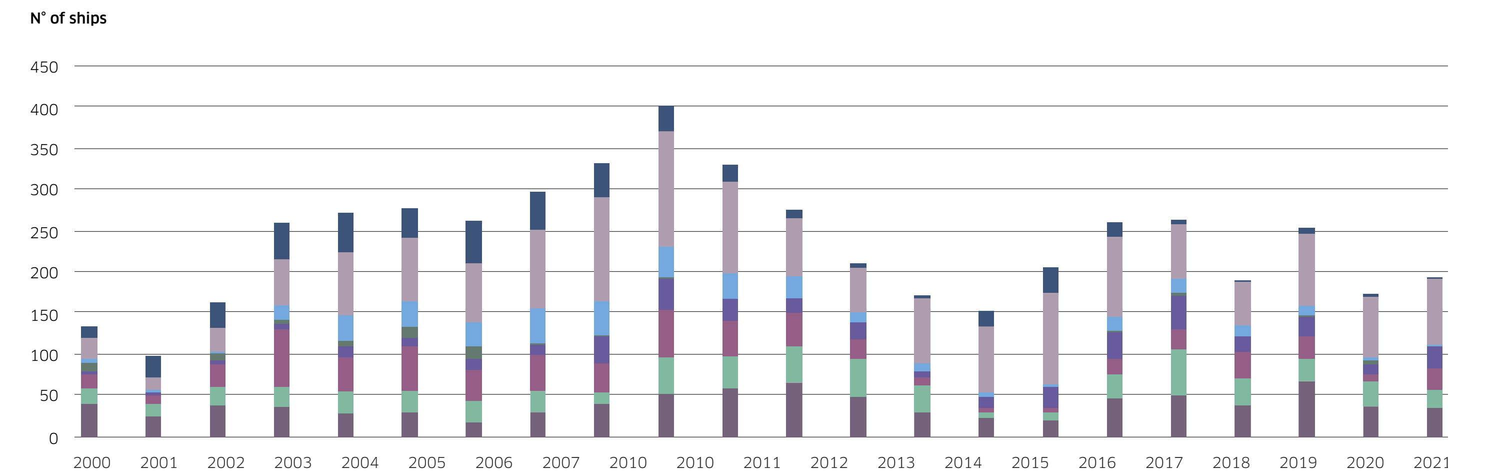


Perspectives have worsened for 2022. Indeed, with Omicron global oil demand is not expected to recover as was rapidly as initially expected, while a significant volume of new tonnage will be delivered. Nonetheless, there remains optimism for 2023 and beyond due to the lack of newbuildings amid shipyards being full of orders for vessels other than tankers, while global oil demand should have exceeded its pre-pandemic level by then. Indeed, the low orderbook for 2023 and 2024 is now virtually set in stone as it is almost impossible to order a ship in 2022 for pre-2025 delivery, and even 2025 shipyard slots remain scarce.

We anticipate that tanker supply will be limited further by sustained interest in scrapping. New environmental regulations, principally the IMO's Energy Efficiency Existing Ship Index (EEXI) & and the European Union's Emission Trading Scheme (EU ETS) should encourage the scrapping of the least efficient tankers. This has created a strange market where participants are resigned to persistent low rates across 2022 while anticipating much stronger spot rates thereafter. 2022 will also see the delivery of a significant number of dual fuel LNG tankers. It will be interesting to see if LNG will really be used by such vessels considering the elevated price of LNG at the time of writing ($2,100/mt in Rotterdam vs VLSFO at $529/mt) and whether additional dual fuel LNG tankers will be ordered during the year. The new regulations will likely encourage charterers to focus more on eco-tonnage, which is likely see higher premiums placed on such tonnage in the time charter market. These bullish expectations means that there is a light amid the current darkness.

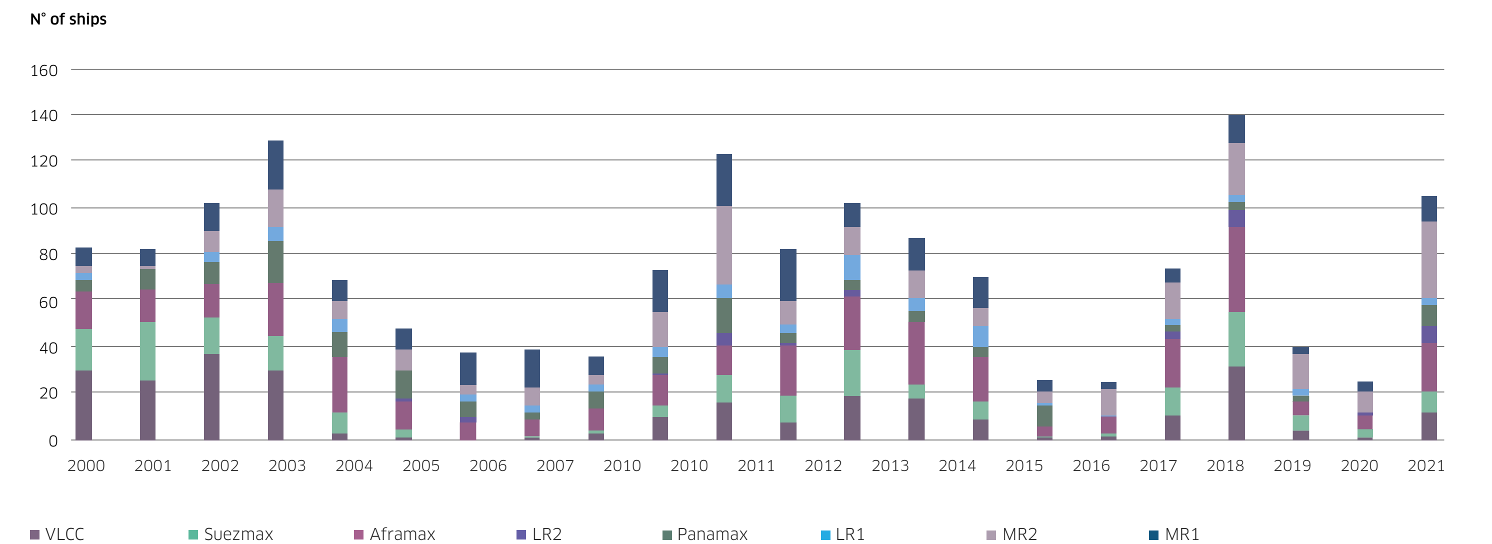
Annual Tanker deliveries

N° of ships



Annual Tanker demolitions*

N° of ships



* includes only those vessels reaching breakers' yards.

*Picture: **NISSOS KYTHNOS**, crude oil tanker, 318 744 dwt, built by Hyundai Ulsan shipyard in 2019, operated by Kyklades Maritime.*

CRUDE TANKERS

VLCC

2021 will go down in history as one of the most difficult years for global VLCC markets as the world continues to struggle with the aftershock left behind by the destructive power of Covid. As the world attempted to best manage virus spikes through vaccine rollouts and policy implementation aimed at reducing contact, the oil market spent most of its time trying to return to an even keel following the chaos of the previous year. Although global oil demand may have rebounded somewhat versus 2020, the belief that 2021 would bring back pre-pandemic consumption has come and gone.

It comes to no surprise that overall earnings have been largely affected by market conditions. VLCC earnings on TD3C (Ras Tanura-Ningbo, basis non-eco, non-scrubber) averaged -$518/day during the year, a stark difference to 2020 where earnings averaged $48,300/day. Quarterly performance shows no true spike across the year as earnings in 1H21 and 2H21 averaged $318/day and -$645/day, respectively. Vessel utilization rates steadily decreased throughout the year as fundamentals left tanker owners opting to idle vessels rather than fix at the awful market levels they were faced with at that moment in time. Such poor earnings paved the way for a potential resurgence in scrapping. However, supply side fundamentals were left largely unchanged for the most part of 2021 as a mere 15 units were scrapped across the year (excluding FSOs), despite extraordinarily high scrap prices.

VLCC demand did not rebound to hit its pre-pandemic level last year although the OPEC+ Alliance started to unwind their record 9.7 mb/d supply cut which was originally enacted in mid-2020 to stabilize then-collapsing world oil prices. This came as oil demand started to rebound, the world gained further insight into Covid and the vaccine rollout gathered pace. Accordingly, the producer group decided to ease this cut by 400 kb/d each month. Nonetheless, the effect of this unwinding was not sufficient to dramatically change market structure, and despite seeing additional cargoes month-on-month, the optimism the market had for 4Q21 soon started to dwindle.

For the majority of 2021, bearish headlines were commonplace making the all-important sentiment weaken. Between USGC exports remaining weak and in turn decreasing ton-miles to China, and Beijing deciding to release some SPR crude at local auction, the complications were seemingly endless. A very uncertain future lays ahead for the VLCC market with varying predictions of when rates will return to stronger levels. The continuous emergence of new Covid variants keeps throwing curve balls at policy makers and overall global consumption patterns which trickledown to the tanker market. With all these uncertain aspects, the VLCC market remains vulnerable to continued poor returns, but a time will come where stability will return. The only question remains when.

Suezmax

When 2021 started, and despite a deceiving 4Q20, most actors believed in a relatively quick economic recovery by the start of the summer. Continuous Covid-related travel and other restrictions due to raging variants have kept the damper on demand both East and West for the entire year. For Suezmax players, 2021 has been one of the worst periods since early 2018 with 15 months of continuous trading below OPEX, as earnings averaged $3,500/day (basis TD20 West Africa to Europe, non-scrubber, non-eco)!

The demand side for Suezmaxes in 2021 has been a repeat of 2020 with less demand from the Middle East Gulf and more from West Africa/Brazil or US Gulf/Caribbean reshuffling ships' trading patterns. The Middle East has basically become a VLCC-driven market into China while West Africa is mainly providing oil into Europe on Suezmaxes. This being said, there was some help with increased ton-miles with long west to the east shipments from USGC, Libya or CPC (Novorossiysk in the Black Sea) to name a few. The negative aspect of this trade is that ships opening in the Far East have not much choice other than to ballast back to the Atlantic. With bunker prices that strengthened by 40-50% during 2021, earnings could not but suffer. Non-scrubber fitted ships burning VLSFO were particularly hard hit by the extra bunker costs with their earnings clipped accordingly. In a market where every penny becomes marginal, a $5,000-6,000/day less in TCE compared with a scrubber-fitted ship, makes a huge difference. The result of trading below OPEX is giving some owners no incentive to move oil at a loss with waiting / laying idle being the cheaper option.

On the supply side, the Suezmax segment grew by a net-14 units as 23 newbuildings hit the water while 9 units were scrapped. By the end of the year, the fleet stood at 549 ships. The average age is increasing and now stands at 11.3 years. Furthermore, 28% of the fleet is over 15 years and 24 units (4.5% of the fleet) will enter this bracket during 2022. Owners with modern and well approved ships are actually predicting better returns in 2022 as the number of "workable" ships for oil companies with higher vetting levels will decrease, but this seems to be a bit too easy as 36 newbuildings are expected to enter the fleet this year. This will accelerate fleet growth to 6.5% unless we see more scrapping. However, as things stand, we do not expect the scrapping this year to be more than 22 units.

Prospects for 2022 remain dim with at best a revival of demand starting in the 3rd quarter while increasing oil supply will depend on the attitude of OPEC+. Indeed, even if OPEC+ ups its output hikes, as some commentators have suggested, the direct winners will be the VLCC's who continue to be the main competitor to the Suezmaxes.

Aframax

2021 was a year to forget for most tanker owners and it was no different for the Aframax segment. It was one of the toughest years in decades mainly due to the prolonged pandemic. Tankers voyaging on TD7 and TD17 had their worst earnings over the last 12 years with time charter equivalent earnings on TD7 averaging $171/day according to the Baltic Exchange.

In comparison to 2020 it has been a rather un-eventful year. Despite a mild increase in Urals exports out of the Baltic (+7% year-on-year) we were still about 20% down compared with pre-pandemic levels. Fuel exports from the Baltic to the US diminished substantially as well, mainly discharging in Northwest Europe, thereby decreasing ton miles.

We even reached a point where charterers started to time charterer out vessels they had on longer time charter to minimize their losses. Meanwhile, many large trading houses diminished their shipping exposure since the opportunities to make money remained very scarce.

The ageing fleet is still increasing with an additional 35 Aframaxes and 13 LR2s turning 15 years old in 2022. By the end of 2022, 36% of the Aframax / LR2 fleet is projected to be over 15 years old. With 23 deliveries expected there is still a glimmer of hope, but owners will need to be patient as the global economy slowly recovers.

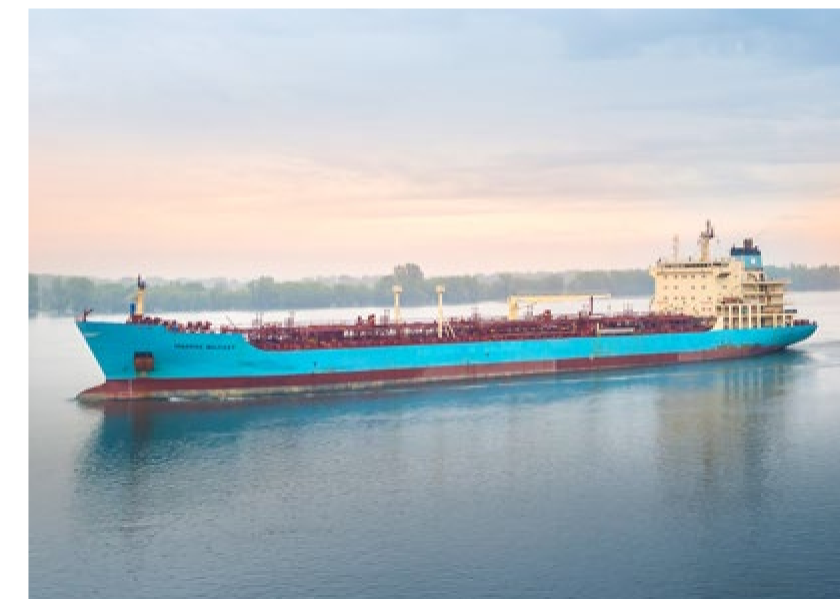
Interestingly, it's the first time in 10 years that TD19 has outperformed TD17, with Aframax owners in the Mediterranean enjoying an average TCE of $6,453/day in 2021 — a figure notably higher than its Baltic counterparty which recorded daily earnings around of $5,416/day.

There is a light amid the current darkness

Once more Libya that was the driving force behind a comparatively stronger Mediterranean market, with many owners relying upon the Maghreb energy heavyweight to provide the bulk of their income last year. Indeed, daily crude output oscillated around 1-1.2 mb/d throughout the year, barring the occasional, but reoccurring, regional uncertainties which we have grown so accustomed to.

Meanwhile, CPC exports remained relatively consistent, with an average of almost 34 stems being lifted out of the Black Sea on a monthly basis – a figure owners hope will be surpassed this year providing that Kazakhstan and Russia can both keep pace with their supply commitments under the OPEC+ deal.

However, all things considered, 2021 was and will remain, a more than uninspiring and uneventful year and charterers, owners and shipbrokers alike will be happy to leave the past twelve months behind, instead turning their attention to what the future in a Covid-ridden world holds.



*Picture: **NISSOS RHENIA**, crude oil tanker, 318 744 dwt, built by Hyundai Ulsan shipyard in 2019, operated by Kyklades Maritime.*

*Picture: **MAERSK BELFAST**, oil products tanker, 29 032 dwt, built by Guangzhou Sy shipyard in 2005, operated by Maersk Tankers.*

PRODUCT TANKERS – EAST

LR2

For the LR2 segment, 2021 started much like how 2020 had ended.

Poor refinery volumes due to depressed demand and high crude prices meant returns for much of Q1 and Q2 were below $5,000/day for TC1 and western runs from the Middle East Gulf for eco-vessels. Meanwhile, eco-tonnage equipped with scrubbers managed to perform at around the $10,000/day level.

In addition, the regular deliveries of newbuilding VLCC and Suezmax tonnage opting for CPP trade instead of DPP, took a lot of the volume out of the market. Indeed, one VLCC full of ULSD takes out three LR2 voyages from the market. Ironically some LR2s were being used to supply VLCCs with short runs from the Middle East Gulf to Fujairah or Male, the preferred STS locations for such reverse lightering.

The second half of the year saw an improvement in cargo volumes and general optimism that the negative impact of Covid on demand was lessening. With the DPP market in the west recovering somewhat, some Suezmaxes and VLCCs entered their intended DPP trade. Some LR2s also chose to dirty up over the summer as the premium for trading dirty was sufficient to more than pay for the cleanup of the vessel.

This effectively tightened the supply of tonnage and earnings across Q3 and Q4 rose to $17,000/day - $22,500/day for eco-vessels and mid to high $20,000s/day for eco-scrubbered vessels.

It is hard to be optimistic about 2022 with 46 VLCC newbuildings set to be delivered into a fairly poor DPP market. Therefore, it is expected that they will cannibalize the CPP segment and particularly LR2s. With crude prices touching eight-year highs, the scrubber premium on earnings should be maintained.

Oversupply of tonnage and weak demand proved to be the routine issues, certainly in the first half of the year, and continually threatened to destabilize the market

LR1

The LR1 segment saw stable earnings in 2021 as it benefitted from a resilient MR market. This came in spite of a rapidly increasing fleet age profile with the majority of the vessels now being from 12 to 15 years old.

The trend of activity followed that of the LR2s with a slightly better Q1 when earnings fluctuated around the low $10,000s/day compared with $7,500/day - $8,000/day for Q2. LR1s were able to weather the storm of 1H21 by taking MR short haul cargoes and optimizing earnings with demurrage. The segment was not as badly impacted by newbuilding VLCCs and Suezmaxes as the stem sizes cannibalized were more tailored to LR2s.

Some owners also dirtied up in Q3, mainly for one voyage as the premium to do so paid for the cleanup, much like the LR2s. However, Q3 saw earnings hover in the region of $10,000/day while Q3 saw earnings in the mid $10,000s/day.

The segment will likely continue to be less disturbed by the arrival of newbuild DPP tonnage. Furthermore, the LR1 order book is very slim (3 units), hence the older units should be able to keep operating with a limited supply of new tonnage.

MR

As with the larger segments, the in MRs East of Suez markets had a tough 2021. Early optimism for a 2H21 recovery was soon shot down as Q1 proved to be disappointing across the board as the markets struggled to recover from the end-2020 resurgence of Covid and the emergence of the Delta variant. Despite the slump in demand, we still saw evidence of the usual seasonal spike at the end of Q1, although this was considerably more muted than in previous years. TCE earnings climbed to a peak in March, to average $10,300/day across the month for a TC17 run.

As was to be the theme throughout the year, any improvements proved to be short lived. Oversupply of tonnage and weak demand proved to be the routine issues, certainly in the first half of the year, and continually threatened to destabilize the market. As such, Q2 was a return to the by-now-familiar doldrums and soft sentiment enabled charterers to drive rates down further as resolve amongst the owners weakened. Q2 also brought an end to the regular LCO trades into China, driving more vessels to the Middle East in search of employment. This culminated in a dismal performance in July, with TCEs dropping to $3,700/day for TC17. Global tonnage supply was also skewed towards the East, with approximately 56% of the global MR fleet trading East of Suez by June.

It seemed as though any recovery was a long way off, particularly as short-haul cargoes were covered on LR1s and other cargoes were regularly stemmed up to the LR2s, hampering any efforts by owners to drive the market upwards. However, the tables started to turn in August, as the world seemed to be on the path to recovery, and longer haul cargoes, in particular to South America increased ton-mile demand and accordingly tightened the position list. In addition, civil unrest on the regular South Africa route resulted in some long delays and the position list quickly tightened up. Furthermore, increased enquiry to Australia from West Coast India as a result of refinery closures and run-rate cuts gave the market some legs, and more importantly ensured a slower resupply of tonnage to the Middle East region. All told, this gave the market renewed hope for the end of the year and in September TCEs for TC17 crept up to a year-high of $11,700/day.

As we've become so accustomed to now, disaster was around the corner and October saw the beginning of a new wave - Omicron - and once again many countries started to consider travel restrictions. Negative sentiment crept in, and we saw Q4 begin on a softer note than we were used to seeing. Nevertheless, the MRs remained resilient in the face of this, and owners held their ground after being reinvigorated by the state of the market at the end of Q3. The end of the year saw a crunch in bunker prices, and costs which had been steadily climbing throughout the year took a sudden hike. This wasn't necessarily negative for the market, as the steady flow of ballast positions from Singapore started to dry up and ensured that the position list didn't grow exponentially as we had seen earlier in the year. Freight climbed alongside and an injection of cargo to supply the newly-onstream naphtha crackers in the Far East in the second-half December gave owners the boost they needed.

Despite some end-year positivity for the MR's, 2022 looks to be a similar picture to 2021 – certainly for the first half. The global tonnage balance has been restored as we start the year, but in order to see a sustained recovery, we will need to see a resurgence in crude production, which would no doubt need to be driven by the post-pandemic global economic recovery. However, there are some smaller more quantifiable elements that MR owners can hopefully look forward to, in particular the commissioning of new refineries across the Middle East and Southeast Asia, which should help to employ more vessels and reduce the strain on oversupplied position lists.

PRODUCT TANKERS – WEST

LRs

While 2021 offered little to smile about for tanker markets in general, the LRs found something of a niche which has helped them achieve better earnings than most sectors throughout the year. Naturally, reduced demand due to Covid has seen water-borne volumes decrease, but it also altered the fundamental trade-flow of tonnage which left Western supply shorter due to reduced ULSD and jet fuel coming from the East. Meanwhile, naphtha volumes going from west to east were the typical contract volumes. This has seen LR2 supply stretched at times and helped maintain a relatively healthy freight level for most of the year which has often been boosted by healthy Middle Eastern markets which saw export volumes largely unaffected – more re-directed. Although floating storage has not been a significant feature of the clean markets in 2021 as markets have adapted to the new, reduced demand, we have seen an increased numbers of newbuild VLCCs and Suezmaxes coming to West Africa on their maiden voyage with CPP ex Far East and lightering from there – largely into Latin America. This has not only created something of a new market, but also the slow loading and discharging of these STS runs has created some artificial tonne-miles.

The LR1s, as so often the case, have not been as fortunate. Just like 2020 (and most years before that), the LR1s in the West tend to be more reactive to the MR markets than the LR2 – largely because West Africa is the biggest market for them, and LR2 west to east trade is mostly contract supply, meaning no flexibility on size. As such, the weaker MR markets in 2021 have kept the LR1s restrained, even when supply would suggest a strong bull-market. The one real upside the LR1s have seen over the last 12 months is the Americas. They are the favoured size for STS with the newbuild VLCCs and Suezmaxes in West Africa, and due to constraints on vessel size for delivery into Brazil, this has seen strong demand for them in the US Gulf and East Coast Latin America. Additionally, they have benefited from several windows where the naphtha arb from the US Gulf to the Far East has been preferable to supplying from the Mediterranean.

What can we expect from 2022? Off to a bad start so far in January, with both the LR1s and LR2s losing ground over the holiday season and unable to gain any back so far this year. Approaching the depths of winter, this is not where we would expect the tanker market to be and it paints a bleak picture for the next 6 months. However, as we saw last year, once the impact of Covid fades, there is appetite to restore life to normal. However, there appears either an inability or a reluctance from global suppliers to prepare for it or even match it as it comes – so we can probably expect volatility and unpredictability which could/should work in owners' favour.

MRs

After a very uncertain 2020 with the impact of Covid, we all thought that 2021 would be much different but in fact the uncertainty remained throughout last year as well. The year naturally started off relatively strong with the ice season meaning owners that were able to, could make the most of the premiums but once this finished at the end of Q1, there was really not much to talk about at all throughout the summer months. Normally this is a quiet time of year for the European markets but last summer in particular with the ongoing Covid uncertainty was less busy than normal with earnings getting down below the $2,000/day mark for TC2. The latter part of the year in Europe is normally fairly active especially in Q4 but unfortunately that was not to be until the final two weeks of year where we saw the market starting to develop into something worth looking at again but still for owners the earnings weren't much over the $10,000/day mark so all in all a year to forget really I'm afraid. Bring on 2022!

Edible Oils

Vegoil

Vegoil exports from Argentina increased again in 2021, with approximately 7.8 million tons shipped, 6.5% more than in 2020. Some 226 MR1s and MR2s were chartered, of which 151 went to India, which remains the main importer of vegoil. Biodiesel flows were irregular, with some months more active than others. A total of approximately 1.15 million tons of SME (Soya Methyl Esther) was exported, exclusively to Europe. Almost twice much as the previous year.

Freight rates did not fluctuate much in 2021 following the persistently poor clean petroleum tanker market. Rates for 28,000-30,000 mt stems going to India moved from $37/mt at its lowest in February to its highest of $47/mt in December. It is also interesting to note that river water levels in Argentina remained low during the year due to a drought in Brazil, which did not allow the vessels to optimize their capacity. These rates produced daily returns of between $8,000 /day and $11,000/day.

In 2021, sunflower oil exports from the Black Sea were again significant and reached approximately 6.5 million tons. This market employed any size of ships to various destinations from small tankers to MR2s. The MR1s discharging into India were fixed for 30,000 tons around high $30s to mid $40s/mt.

Palm Oils

The palm oil market was again active in 2021 with around 340 MR2s and MR1s fixed into the Mediterranean, Continent, West Africa and the US. Furthermore, 49 MR newbuildings, out of the 80 launched last year, fixed palm oils on their maiden voyage. Rates moved from $13,500/day at their lowest to $20,000/day at their highest.

Volumes are likely to remain steady in 2022. We still expect approximately 70 newbuildings to be delivered across the year which will provide FOSFA tonnage to the market. However, this is slightly lower than in previous years. Rates will most likely depend on the Asian clean petroleum tanker market, nevertheless, we anticipate them to remain stable. Furthermore, exports of biodiesel and used cooking oil rose significantly in 2021, which provided good alternatives and returns in excess of $20,000/day to the owners whose tankers were able to carry these products.

Fuel Oil

The ongoing pandemic that impacted the broader tanker market in 2021 did not spare the fuel oil segment on Handies/MRs and Panamaxes.

The usual spikes in rates that follows normal seasonality did not occur in 2021 and the year began under very slow steam in terms of volumes with rates plumbing the bottom and this trend persisted throughout almost the full year. Nonetheless, rates started to suddenly pick up to good levels in Q4 which gave owners a breath of fresh air.

In Q1, rates for Handies voyaging from the Baltic to UK Continent averaged WS 145 on a minimum 30,000 mt intake with the averages for Q2 and Q3 remaining broadly flat, thereby demonstrating how flat the market was for the majority of the year. On the other hand, the average for Q4 surged to WS 204.

The time charter equivalent was impacted by the rising bunker prices. This was most noticeable during Q2 when the TCE for TD18 averaged $3,000/day while the highest average ($12,250/day) was in Q4. Both levels according to Baltic Exchange values and always basis round trip.

The Panamax market also started very slowly with the Q1 average WS level reported by the Baltic Exchange sinking to WS 74 translating into a negative TCE for most of the quarter. There was a slight improvement in Q2 and Q4 where TCE averages of $4,500/day and $3,250/day, respectively, were posted.

In the south, the Black Sea remains the area from which the majority of fuel oil is exported. The most active traders continue to be Galaxi, Trafigura and Lukoil while last year saw newcomer Coral Energy enter the fray.

The average fleet age on fuel oil tankers remains high with plenty of the vessels over 15 years old which imposes difficulties for some charterers who implement the restriction of only chartering tankers with a maximum age of 15 years.

The sentiment moving into 2022 is yet to be tested. However, the majority of the operators hope that the pandemic will dissipate sooner rather than later to lead tanker market activity back to its levels in 2019 and early 2020.

*Picture: **FRONT COUGAR**, Oil products tanker, 109 896 dwt, built by Guangzhou Sy Longxue shipyard in 2016, operated by Frontline.*

FFA MARKET

A year ago, many were happy to dismiss the end of 2020 as a miserable end to a dynamic year. The tanker FFA market did see record levels of activity throughout the first two quarters of the year, however, the storage play had a shelf life and the steep oil contango flattened out in the third quarter. The typically freight rate punchy Q4 had failed to deliver, and the year ended on a whimper. At the end of 2020 many in the FFA community had higher hopes for 2021 and FFAs were pricing a rosier future. On the 30 December 2020, TD3C 4Q21 was marked optimistically at $10.358/mt ($29,216/day) and the whole Cal 21 at $8.50/mt ($19,022/day). A year on and the reality is much dimmer with the current YTD for TD3C a dismal $6.42/mt while TD3 average TCEs for 2021 were a shocking -$518/day.

Many speculative traders at the start of this year had played the paper from the long side in anticipation of an eventual breakout which never materialized. Although the Cal22 and Cal23 FFA rates remained relatively high, the FFA 2021 forward curve moved lower in 2021 especially in the front months, thereby reflecting the state of the spot market. This presented a challenge for market participants as the 2021 monthly FFAs were often priced too low for hedgers to lock in an appropriate hedge and also well above spot rates for speculators to play from the long side. This left many to alternatively look at calendar spreads, taking a view on the shape of the curve to manage risk. Traders could look at spreads two ways: Bear spreading; selling nearby contracts and buying deferred or Bull spreading; buying nearby contracts and selling deferred. The rational for spreads is that FFAs typically have more movement from market conditions in the nearby months and to position oneself accordingly with the opposite position against the deferred periods.

Once again as we conclude 2021, FFAs paint a much more attractive future with 4Q22 TCE standing at $23,760/day while the Cal23 stand at $19,430/day.

2021 TD3C spot vs 4Q21 forward price

TIME CHARTER

The time charter (TC) market activity in 2021 contrasted significantly with 2020. Indeed, the amount of reported TC fixtures (for a minimum of 6 months or longer) has declined by more than 30% compared with 2020. This was especially the case for crude tankers where the number of transactions fell by about 45% year-on-year while they fell by 14% year-on-year for clean tankers. The persistently weak spot freight environment in 2021 and uncertain outlook due to Covid contributed to this reduction in the number of TC deals compared with 2020. However, it should be noted that 2020 saw an above average number of transactions which reflected the extremely high volatility which characterized the first part of the year.

Low spot freight earnings contributed to weaker short-term TC rates. On the other hand, rates for periods longer than 12 months remained stable, as the back end of the TC curve remained supported with expectations of an eventual stronger tanker market. During the first half of 2021, rates for 12 months TC and longer already held a significant premium compared with shorter time charter rates as market participants expected a recovery in spot freight rates by 4Q21. However, this didn't materialize and due to the ongoing Covid pandemic, market participants were more concerned about 2022. Nonetheless, as the coverage into 2022 gradually increased and hence the likelihood to be exposed to a stronger market, 12 month TC rates didn't decline significantly. For such periods, only eco-VLCCs (non-scrubber) saw a slight decline from close to $30,000/day in 1Q21 to mid-twenties by end of 4Q21. Other segments saw 1 year TC rates broadly unchanged with eco, non-scrubber MR2s oscillating around $14,000 to 15,000/day throughout the year. TC rates for periods longer than 1 year saw a similar trend.

2021 ended with a more bearish view for 2022 while expectations for 2023 and 2024 remained bullish. Indeed, a significant amount of newbuildings are expected to be delivered in 2022 and tanker demand may remain below pre-pandemic levels. On the other hand, 2023 and 2024 are looking much tighter in terms of supply and demand and upcoming regulations from the IMO (EEXI, CII) and from the EU with the inclusion of shipping in the EU Emission Trading System. In 4Q21, the negative outlook for 2022 saw some charterers trying to TC out their relets for periods covering most of 2022, while continuing to take positions covering 2023 and 2024. New regulations which will negatively impact the least efficient tonnage also led charterers to take eco tonnage on TC for long periods, and with few exceptions only fixing non-eco tonnage for short periods. This increased interest for eco tonnage has led to a higher premium on eco tonnage.

While the first part of 2022 will likely continue to be affected by the uncertainties regarding Covid and the recovery in tanker demand, the second half of 2022 will likely see rising TC rates as coverage beyond 2022 increases into a period expected to be characterized by significantly lower newbuilding deliveries, an ageing fleet and tanker demand recovering to exceed its pre-pandemic level.

Tanker prices increased for every reason except oil transportation demand.

SECOND HAND MARKET

'If you don't want to feel constantly frustrated, avoid desiring things that are beyond your control' - Epíktētos.

There is little doubt that Tanker Owners had to be adept at this self-discipline originating from "Epíktētos", a Greek philosopher (50-125) from the Stoic school.

Last year saw the poor demand for oil transportation hit all sizes and all vintages of tankers. No tanker owner was spared from the miserable earnings experienced all year long and there was no pre-emptive action that could have safeguarded them. Many were hoping for 2021 to be the year ending the poor market which characterized the last months of 2020. However, the pandemic and multiple emerging variants put an end to any hope. Besides the few owners with mixed fleets including bulkers or container carriers, the industry had every right to feel some frustration in the face of such a helpless situation.

In previous years, tanker owners had enjoyed alternating ups and downs, whereas 2021 was particularly dull and affected by macro-economic factors which drove price inflation for tankers of all ages. Meanwhile, the chartering market did not recover from the low levels of late 2020.

The newbuilding frenzy witnessed in the drybulk and container markets pushed newbuilding prices to levels not seen over the last decade. The combination of high demand and raw material price increases including shipbuilding steel did not facilitate things. Furthermore, the overall reduction in shipbuilding capacity brought prices to their highest level in the last 12 - 14 years. Older tankers' values were supported by the high demand for scrap steel and increase in demolition prices. This all meant that tanker prices increased for every reason except oil transportation demand.

Owners were denied the fulfilment of their expectations on the employment side by a lack of cargoes and had their hopes pushed into 2022 if not later.

Demolition sales increased across all sizes, with scrap prices increasing from $420 to over $600/ldt. However, the consensus remains that this was not enough to balance the impact of new deliveries. Nevertheless, there are expectations in the year to come that the oldest non-eco vessels will be pushed towards demolition due to incoming EEXI & CII regulations.

The long-term forecast appears brighter due to the restraint in ordering exercised by owners during the course of 2021 as only 94 units were contracted against 122 in 2020. VLCCs and Suexmaxes were particularly affected with a 30% and 66% reduction in newbuilding orders, respectively. Aframaxes and LR2s were the preferred newbuilding choice of tanker owners as ordering increased from 39 to 50 units between 2020 and 2021. Looking at the current order book and overall demand, market participants expect newbuilding prices to remain firm in 2022 with very few prompt slots available.

Units sold for recycling per year*

N° of Ships	2017	2018	2019	2020	2021
VLCC	16	32	11	2	20
Suezmax	14	23	8	5	10
Aframax & LR2	31	45	5	11	32
Panamax & LR1	8	10	6	3	12

* Does not correspond to the number of tankers reaching breakers' yards

*Picture: **MAERSK CURACAO**, oil products tanker, 49 919 dwt, built by Samsung Ningbo shipyard in 2019, operated by Maersk Tankers.*

New orders 2015 to 2021

N° of Ships	2015	2016	2017	2018	2019	2020	2021
VLCC	64	15	58	44	39	44	31
Suezmax	62	20	28	22	38	39	13
Aframax & LR2	109	19	37	28	56	39	50
Panamax & LR1	33	3	8	8	1	0	0

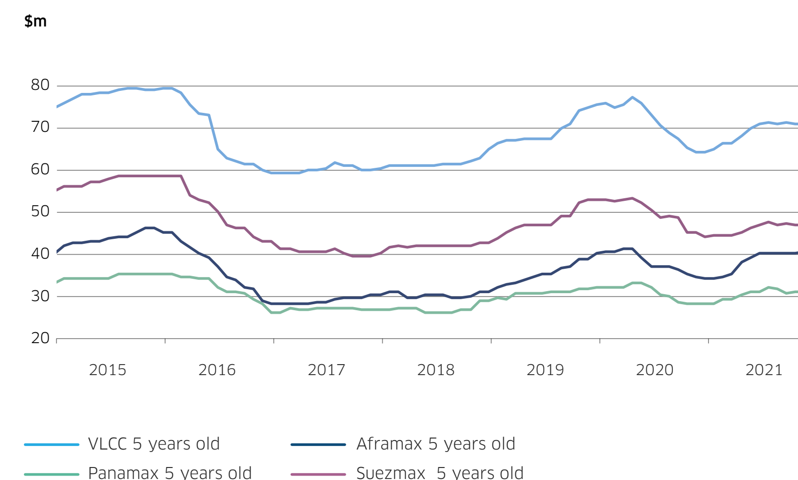
The evolution of second-hand tanker prices in 2021 was characterized, and mostly determined by, external factors and elements related to oil transportation. In general, asset values increased, while employment earnings decreased. Modern ship values were impacted by newbuilding prices while older units were impacted by higher scrap prices. Middle aged tankers were subject to various trends depending on their specifications and ability to adapt to future emission rules.

Price fluctuation was stronger for very modern units such as resales and those around 5 years old which rode the coattails of newbuilding prices. Resale values came close to their 2019 levels, while older tonnage experienced more erratic price changes explained by units' respective age profiles.

Vessel value changes from January 2021 to December 2021

	Re-sale	5 years	10 years	15 years
VLCC	12.36%	10.77%	3.45%	8.47%
Suezmax	18.58%	7.30%	1.64%	7.89%
Aframax & LR2	19.31%	18.44%	10.64%	14.81%
Panamax & LR1	24.36%	11.61%	14.71%	9.09%

Tanker second hand prices



For the fifth year in a row, the number of transactions for further trading increased by more than 15% with some 41 additional sales reported compared with 2020. The first 4 months of the year were particularly active with almost 50% of the year's transactions taking place by April and over 62% completed by the end of May. The number of transactions was also driven by numerous, large en-bloc sales.

After the summer, activity slowed down due to the growing mismatch between asset values and the underlying chartering market. Prices steadily increased for modern and resale units, while the prices for older units started to slowly weaken from their mid-year peak. This softening provided an opportunity for some players to buy a few ships in the hope of a future recovery.

S&P activity (vessels for further trading)

N° of Ships	2017	2018	2019	2020	2021
VLCC	48	48	59	105	101
Suezmax	29	28	41	44	38
Aframax & LR2	42	66	76	95	129
Panamax & LR1	12	20	33	24	41

VLCC

Last year saw 101 VLCCs reported as being sold for further trading which was very much in line with the previous years' performance.

This activity was particularly well distributed across age ranges except for 6 to 10 year old vessels which didn't catch buyers' attention compared with even younger tonnage.

Transaction volumes for ships younger than 5 years increased drastically to 31 reported sales, outperforming the 22 in 2020. A significant portion of these sales was composed of en-bloc transactions with large owners enforcing strategic decisions or starting sale and leaseback operations taking advantage of higher selling prices for refinancing requirements. To illustrate the above, Frontline's acquisition of 6 resales built at Hyundai in Korea from Central Mare Inc. serves as a good example. In respect of 6 to 10 year old vessels, only 5 transactions were noted, mostly linked to the Xihe Holdings bankruptcy. For vessels built 10 to 15 years ago there was a decent 20 transactions. Meanwhile, there were 45 transactions for units more than 15 years old. At the beginning of the year, 40 VLCCs were expected to hit the water, but in the end only 35 units were delivered. According to the orderbook at end-December 2021 which stood at 68 units, 50 ships should theoretically hit the water in 2022. Meanwhile, twenty units (including floating storage units) were scrapped last year.

Suezmax

The Suezmax market registered a slight decrease with only 38 units sold for further trading in 2021 against 44 in 2020. There was little appetite from buyers to match theoretical valuations referencing modern units and this was reflected in a shortage of candidates and sales.

Among the notable exceptions, was Euronav's purchasing of 3 Daehan Suezmax resales from Yasa Shipping for about $56-57 million each. As for vessels built between 2011 and 2015, we only saw five units changing hands and four of them were part of a single transaction. Similarly, only 5 sales took place for the 11 to 15 year old Suezmax category.

Buyers' attention focused on tonnage older than 15 years old with 22 transactions for further trading taking place during the year. The increase in recycling values gave shipowners the opportunity to offload once again some of their older tonnage for healthy values. A good example lies in NGM selling 2 Sasebo Heavy 2001 units for a reported price of $14.75 million each.

The Suezmax fleet saw 23 units delivered in 2021 (versus an end-2020 forecast for 35 vessels) while 10 units were scrapped. By end-2021, the total Suezmax orderbook stood at 58 units, of which 48 are expected to hit the water in 2022.

Aframax/LR2 and Panamax/LR1

Contrary to their larger cousins, Aframaxes and LR2s saw their S&P activity volume increase substantially with 132 transactions reported versus 95 in 2020. All vintages benefited from this trend, and we saw a strong transaction volume for all the different age segments.

Surprisingly, 28 units younger than 5 years old switched hands. It is worth mentioning that 10 of them were sold by Maersk Tankers to ADNOC. However, there were only 10 transactions for vessels aged between 5 and 10 years.

95 transactions took place for vessels older than 10 years, almost evenly balanced between the 10-15 years and the 15+ years segments. Among them, several units built at Shanghai Waigaoqiao Shipbuilding, emanating from the Xihe Bunkruptcy, were sold to different Greek buyers. Messieurs Castor Maritime were a major player purchasing up to 6 units in the segment.

The Aframax and LR2 segment has been the most active and enjoyed the most recognition in terms of price increase. This was driven by belief amongst buyers in the potential future upside to assets plays.

Out of the 69 Aframaxes (including LR2s) which were expected to be delivered during 2021, only 51 hit the water. In 2022, we should see another 48 vessels delivered while, as of late December 2021, the total orderbook stood at 58 units.

Panamax tanker sales increased to 41 transactions in 2021 against 24 reported the previous year. Only 4 units were less than 5 years old, built at Sungdong and sold by SAFEMARINE CORP. Only 3 units between 5 and 10 years old changed hands. Therefore, more than 80% of the transactions were for vessels older than 10 years. Among them, Eletson has been an active seller. The Xihe bankruptcy contributed to this activity with the disposal of four units built in 2007 at New Century for an average price of $10 million each.

In the Panamax (including LR1) fleet, we only saw 2 vessels delivered across 2021 against an anticipated number of 5 units, with 12 demolitions and no new orders. The total orderbook at end-2021 stood at 4 units, all due in 2022.

MR1 and MR2

MR2 S&P activity benefited from the same positive trend as crude tankers. However, the focus of buyers was clearly concentrated on 10 to 15 year old units. This reflected the exacerbated price evolution for newbuilding and resales (+14% increase) as opposed to values for the oldest vintage units which ended the year roughly where they stood in early 2021. Their smaller LDT meant that the rise of scrap steel prices had a smaller impact on their values.

The total number of transactions for further trading surged to 168 units compared with 116 in 2020. A strong 40 units below 5 years of age found new homes. In the 5 to 10 year old segment, there were 26 transactions reported. The preferred 10-15 year old segment saw a large total of 71 units sold. 15 years and older were not the flavour of the month with just 31 transactions reported.

The increase in second hand prices for modern units gave early exit opportunities for some sellers and the opportunity to bet on the future of the market for some buyers. If modern vessels values increased at a slower pace than newbuilding prices, this was of course related to the immediate current poor chartering market. Otherwise, vessels between 10 and 15 years old were particularly attractive for potential buyers.

In the newbuilding market, 88 MR2s were ordered during 2021, and 80 units were delivered against the initial expectation of 106. The total orderbook remains high with 149 units, of which 87 are expected to be delivered in 2022. A healthy 38 units were reported sold for demolition last year.

S&P activity in the MR1 segment was limited once again with only 37 transactions for further trading. Of which, only 4 units were less than 5 years old. Once again more than half of the sales were for units between 10 and 15 years of age. To complete the picture, 13 units older than 15 years old changed hands, with several Vietnamese and Middle Eastern buyers.

As of the 31 December 2021, the MR1 orderbook was left with only 3 units on order, all scheduled for 2022 delivery. Meanwhile, 24 units were sold for demolition in 2021.

OBO

Once again activity was limited in the OBO fleet with 3 transactions taking place in the S&P market. SKS sold 2 of their 120,000 dwt 2003 Hyundai Heavy-built units to Middle Eastern buyers for about $15 million each, while Klaveness sold their cabu vessel Banasol 72,562 dwt 2011 Oshima-built unit to Chinese buyers for a reported $13 million. The last three vessels on order at Yangzijiang were delivered to Klaveness and none remain on order.

S&P outlook for 2022

2021 was a year of expectations. Expectations which were not fulfilled. Endogenous pressure propelled tanker values higher, however, the segment lacked the demand support from the chartering market. Now the question is whether the market can recover in 2022? In theory no, but 2022 could, and should, be a year of change.

Nevertheless, shipowners could again suffer from headwinds as the Covid pandemic remains the key factor driving the evolution of the global demand for crude transportation. Therefore, the emergence of new Covid variants may kill this recovery theory.

There are therefore different approaches and expectations. Looking at the successful vaccination campaigns around the world and the decreased severity of recent variants, we hope to see a recovery in the second part of 2022 driving an increase in the demand for crude oil and clean products.

Although the discussions between Iran and the other P5+1 members continue, it doesn't appear likely that a nuclear deal can be reached promptly, the effect of which would be to reinstate Iranian crude in the market. Hopes for tanker owners should not be lost as they rest on more than geo-political outcomes – for instance EEXI regulations will be introduced in January 2023.

The new requirements in terms of the maximum amount of CO_2 emissions per tonne-mile will have a significant effect in 2023 and the necessary pre-adjustments will start to show in 2022. Every vessel larger than 400 GT will need to comply with the regulation and have their attained EEXI recorded as lower than the maximum threshold.

Among the existing possibilities to reduce a vessel's EEXI there is the derating of the main engine or the reduction of speed. Both cases might make older vessels less attractive and continue to push them out of the market but this will not happen in one day. It will be a slow process.

On the newbuilding front, prices are historically high, and yards are particularly busy. Owners rightfully question themselves every day in respect of the proper propulsion system to opt for (knowing that they must get it right for the next 20 years…). Therefore, the number of tanker newbuilding orders for short-term delivery will not be high. Although there is a high quantity of vessels to be delivered in 2022, numbers are significantly lower for 2023 with no slots available for the year anymore. There is therefore no doubt that the tanker market will have its revenge against containers and bulkers and there is no doubt that tanker owners will endeavour to get ready to make tough calls in 2022.

*Picture: **NORD MYABI**, oil products tanker, 49,996 dwt, newbuilding delivered by Imabari Minaminippon Oita shipyard to Norden in 2022.*