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Roller coaster, stratospheric and more. Low oil prices and skyrocketing freight rates. Is the shipping market really about to slow down?

In a context of rates that are still somewhat stratospheric, shipping is the choke point and is at a level that impedes trading, whether we like it or not. Some traders have confirmed that they do not buy cargo without the assurance of having a ship available, which puts a certain pressure on the market. We are seeing cases, especially on VLCCs (two million barrels) from the USA to China where the freight can be higher than the value of the cargo. Some companies have their own fleet available to them and it can be estimated that they have thus hedged on freight values (the fortunate ones who find themselves in this situation without actually having wanted to do so) but this has a boundary.

VLCC's freight rates have slightly decreased in the Middle East due to a decline in demand, and the trend is likely to persist this week. However, rates remain high, with 260,000 into Asia at WS160, compared to WS200 a week ago, i.e. a Time Charter Equivalent (average daily revenue performance) of about USD 230'000 a day. Suezmax (one million barrels) vessels have also suffered from a fall in demand and rates have naturally decreased in Europe as well as in West Africa. Exports from Africa to Europe are at WS150 today compared to WS180 a week ago. Black Sea to Mediterranean are at WS160 compared to WS180 last week. The same trend holds for the Aframax. Rates remain firm, 80,000 crude was fixed at WS235 from the Black Sea to the Mediterranean Sea. Northern Europe and Baltic have also seen a downturn in demand, and the reduction of the Urals export program has created some short-term uncertainty. The rates have decreased compared to last Friday, when 100'000 tonnes from the Baltic Sea were set at WS210 miles against WS185 now.

Let's focus a little more on refined products today. The clean Handies and the Medium Range (37 to 52'000 tonnes) in the Mediterranean and Black Sea have experienced an outstanding week, having reached a peak with a top a WS675 in Black Sea, i.e. a Time Charter Equivalent which temporarily exceeds USD 100'000 per day. On the dirty side (Fuel, Vacuum gasoil), levels for inter Mediterranean voyages have since Friday 24 April doubled from WS160 to WS300. The list of available tonnage is shrinking by the day, leaving a dozen Handies in the region for the next ten days. Despite this, we are not seeing the same exceptional improvement in Northern Europe as in the Mediterranean. Riverlake brokers also note that since there has been a significant difference between clean and dirty cargo levels, we now observe ship owners cleaning ships and switching from dirty to clean products, which tightens the pool of dirty tonnages available in Europe.

Is this why according to Riverlake quotes the market to date from the Black Sea so-called clean products at WS615, a decrease of 10% compared to Friday last week ?

Meanwhile it's a roller coaster situation on the MR clean market in Northern Europe compared to last week where rates were seriously under pressure due to a large amount of cargoes combined with a lack of ships. This week, the pressure is not the same as charterers are totally absent from the market. Some charterers are merely withdrawing their cargoes because the rates are too high to make any sense. We have not yet seen any TC2 (Northern Europe to USA trips) fresh contracts, but there are some market indications today that the TC2 is around WS375, down 10% from its peak of WS415. The question now is whether TC2 is simply waiting for more decent rates or is the market really starting to slow down?

The MR segment in West Africa continues to surge as marketers take a position with gasoline imports into Nigeria driving this demand. Liberia, Sierra Leone, Cameroon have also seen upsurge in activity for gasoline and gasoil. The PPPRA of Nigeria has announced that consumers should be prepared to pay more for petrol as the country cannot continue to subsidize the product, due to dwindling revenues and weaker Naira, the local currency. With lack of storage capacity beginning to emerge, the market is expected to remain firm for another week but afterwards, will we see a decline ?

The intermediates (10 to 19’900 tonnes) clean in Northern Europe see another frenzy week with rates continuously increasing to levels not seen since early 2000. This, together with low bunker rates, improves drastically daily net returns, in the aftermath of the larger sizes gained 15 % in only a matter of few hours end of last week, sometimes more. The gains are now up to 20 % and we hardly see any positions. Owners trade sharply and take time to fix the best cargoes: something not seen for so many years. It contrasts with the dirty markets but there, rates were high anyway and remain high. There is no real change in the demand. Yet…

The smallest units, notably from 3'000 to 10'000 tons, are still lagging behind in the hope of a market boom. A number of vessels are looking for freight. Shipowners frequently engaged under COA or local contracts in that segment have seen their programmes modified, postponed or simply cancelled due to lack of space in terminals and the absence of production. We observed a 13,000-tonne vessel setting a slightly higher than normal rate, a 11’000 tons cargo Spanish Med / ARA reformate cargo at low USD 300’000 when such a cargo was set not long ago at mid-high USD 200’000.
Bitumen activity, meanwhile, is virtually non-existent, even though this is supposed to be the peak season. This year, the big bitumen season will not be in the summer but postponed due to projects put on hold because of COVID-19.

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Best regards
Riverlake