Tanker Market Insight

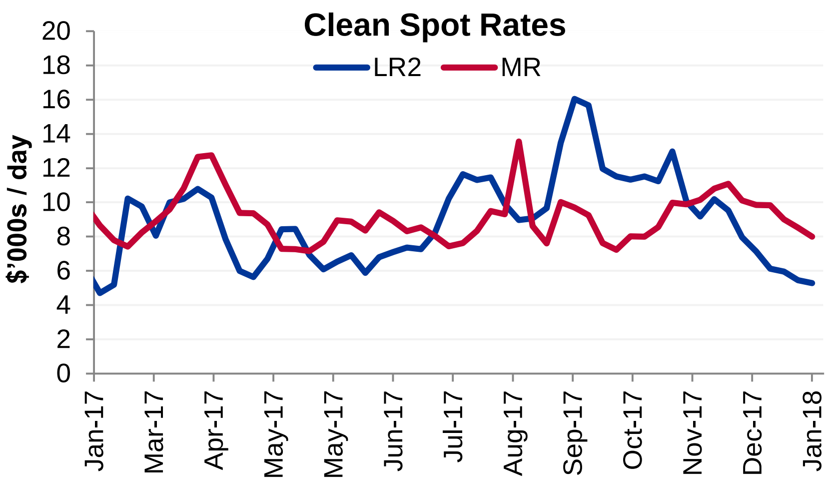
February 2018

Research Department, Strategic Development

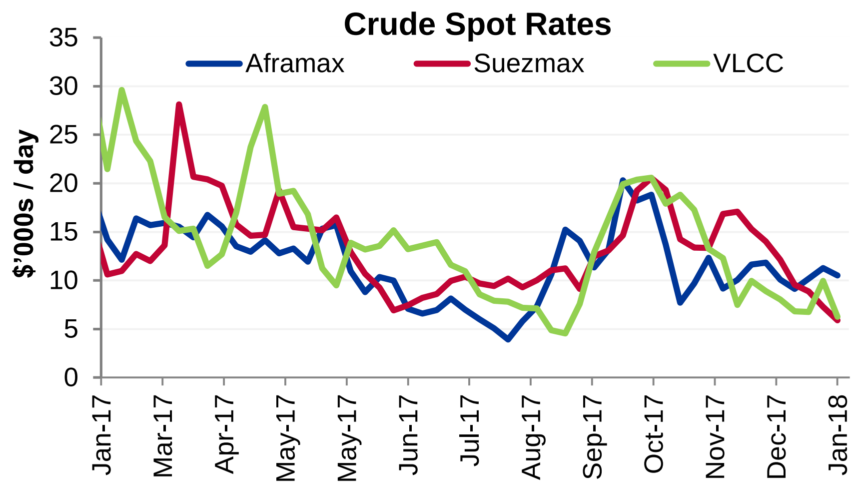
January review: January was another disappointing month for the tanker market as rates, particularly for large crude tankers, plumbed new depths. OPEC supply cuts have deepened in recent months, which has been detrimental to VLCCs, and has consequently impacted on the Suezmax market as well. Aframaxes remained steady in January, finding some relief from winter weather delays in the North Pacific and US Gulf. A reduction in naphtha cargoes ex-MEG due to refinery maintenance and a closed West-East naphtha arbitrage kept LR2 rates under pressure.

February outlook: As we near the end of the winter months, we expect rates in February to remain flat at current low levels. OPEC production cuts are expected to continue throughout 2018 and the onset of refinery maintenance season could further limit demand for tankers. Downward pressure from a weak VLCC market may continue to dampen Suezmax rates as they compete for cargoes in West Africa. Instability in Nigeria could put further negative pressure on rates if militants follow through with their threats to attack oil infrastructure. Aframaxes may find some relief from localized weather delays, however weaker refining margins in Europe could keep rates from finding any upside.

Wild cards: Nigerian militant group the Niger Delta Avengers (NDA) has made threats to attack oil infrastructure, specifically deep sea operations off the coast. These attacks could disrupt Nigerian crude supply, which would be negative for Suezmax and VLCC demand. The United States extended the nuclear agreement with Iran for an additional 120 days in January, though the US is threatening to withdraw from the agreement if its European partners do not agree to changes. Venezuela is holding a presidential election in April, which could cause further disruption to the country. In addition, the US has raised the possibility of further sanctions on Venezuela, potentially including a ban on crude imports.



Source: 90% of Clarksons



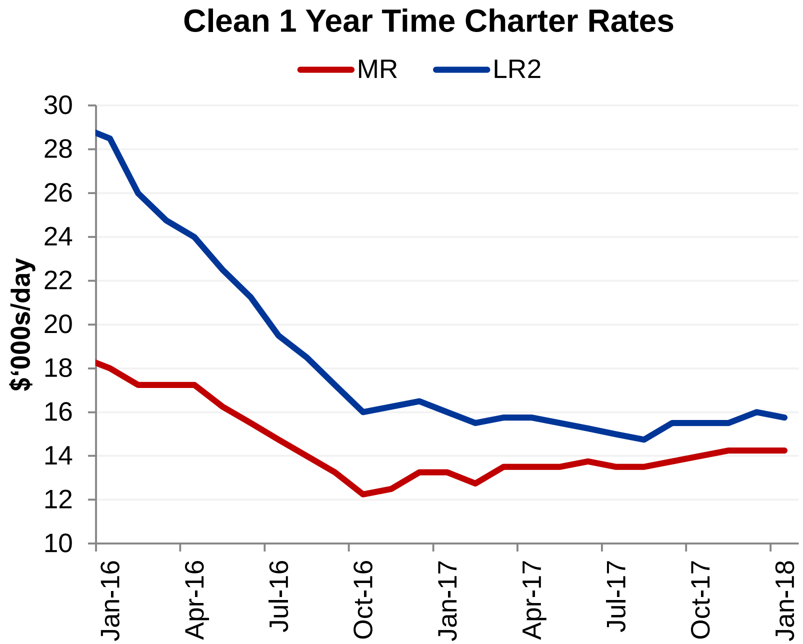
Source: 90% of Clarksons

Another disappointing month as tanker rates fell across the board

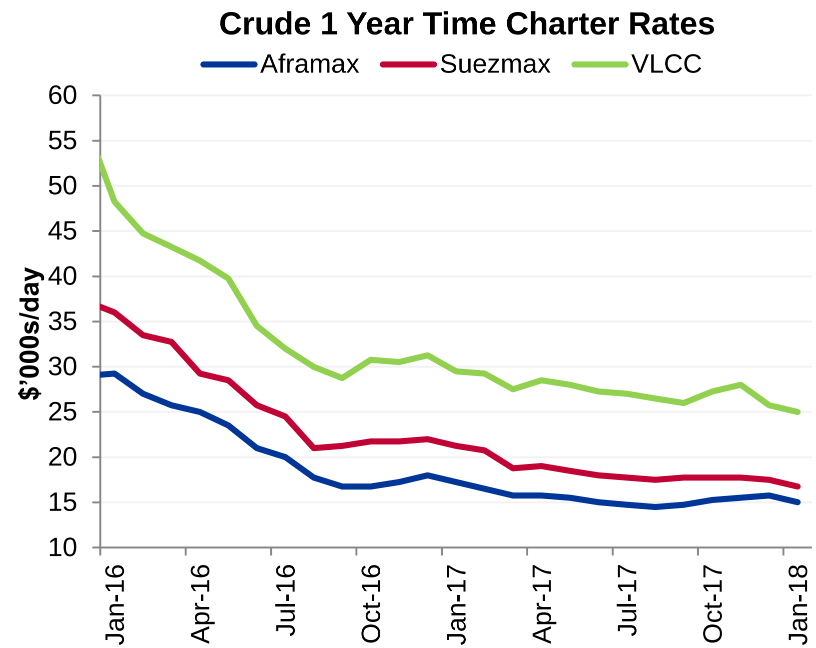
Spot Market Review and Outlook

Segment	Dec’17	Jan’18	January Review	February Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	9,300	7,400	VLCC rates continued to struggle in January with rates falling back to Q3-17 lows of just $7,400 / day. OPEC achieved over 130% compliance with production cuts on December, due largely to reduced Saudi volumes, which resulted in fewer cargoes out of the Middle East.	We expect to see much of the same in February as high OPEC compliance is set to continue, and we don’t expect to see much change in the rate environment. The onset of refinery maintenance season could provide additional downside pressure on rates in the near-term.
Suezmax	15,100	7,900	The trickle down effect of a weak VLCC market drove Suezmax rates down further in Jan’18 as a lack of MEG cargoes forced VLCCs into the Atlantic to compete with Suezmaxes. Fleet growth also continues to impact on the Suezmax market with seven new vessels delivering in January.	We expect that rates will remain subdued in Feb’18 due to continued OPEC cuts and instability in Nigeria. Militants (NDA) have made multiple threats to attack oil infrastructure in Nigeria, which could put additional pressure on Suezmax demand if they follow through with their threats.
Aframax (Pacific)	9,500	9,200	The Pacific Aframax market remained relatively flat during January. Weather delays in the north Pacific provided some support, however it was not enough to move rates up.	Pacific Aframax rates are expected to stay steady in February. Further weather delays in the north Pacific could provide some relief, however an overall weak market may prevent any upside.
Aframax (Atlantic)	9,500	10,100	Winter weather delays in US Gulf once again gave some (limited) support for rates during January. We also saw stronger rates in the MED, though competition from Suezmaxes in the area prevented any significant upside.	Fewer cargoes from Primorsk due to terminal maintenance, a lack of winter ice in the Baltic Sea, and weakening European refining margins are expected to put pressure on Atlantic Aframax rates during February.
LR2	8,800	5,700	Ongoing heavy refinery maintenance in the Middle East limited cargo supply during Jan’18. The naphtha arbitrage from UKC to Asia was briefly open in December, but closed in January and therefore failed to provide any support.	Middle East refinery maintenance continues through to March, limiting demand for large product tankers. LR2s may also encounter competition from newbuildings on the backhaul from northeast Asia due to a heavy Q1-18 delivery schedule.

Rates expected to remain flat in Feb’18 as refinery maintenance begins



Source: Average of Clarksons, Braemar ACM, and Poten



Source: Average of Clarksons, Braemar ACM, and Poten

Broker Assessed Time Charter Rates

	1 year time charter rates ($/day)		3 year time charter rates ($/day)	
	Dec'17	Jan'18	Dec'17	Jan'18
VLCC	25,750	↓24,750	29,750	↓29,500
Suezmax	17,500	↓16,750	20,750	20,750
Aframax	15,750	↓15,000	17,000	17,000
LR2	16,000	↓15,750	17,250	17,250
MR	14,250	14,250	14,500	14,500

Source: Average of Clarksons, Braemar ACM, and Poten

Crude tanker 1-year TC rates fall on the back of a weak spot market

S&P Activity

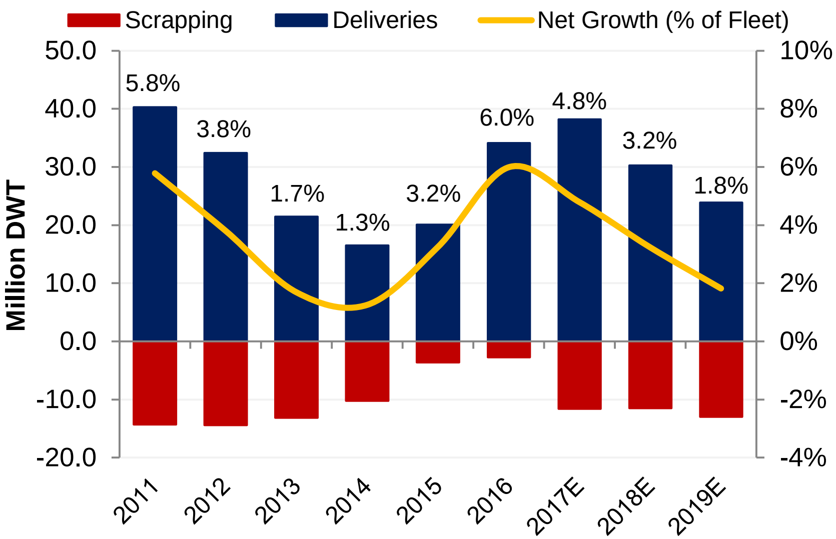
- The VLCC *Kai-Ei* (299k DWT / IHI / 2004) was sold to Indonesian buyers Pertamina for USD 27M. 3-4 parties were interested and a range of prices was seen (USD 22M to 25M). Price is slightly below broker values and may have included longer subjects.
- SWS sold a Suezmax (160k DWT / SWS / 2018) resale for USD 51M. The price was higher than the sister vessel which sold in November 2017 for USD 49.7M
- The Croatian-built Suezmax *Marika* (166k DWT / Brodosplit / 2004) was sold to Avin for USD 15.5M. The discount in price is likely due to the country of build, and the fact that she may have been trading Kurdish oil (sanctioned / blacklisted).
- The Aframax *Vega Voyager* (104k DWT / Namura / 2003) was sold for USD 10.7M. Shortly after, Ridgebury sold *the Alice M* (105k DWT / Sumitomo / 2003) for USD 10.95M. The prices are marginally higher than the *Singapore Voyager* (104k DWT / Namura / 2003) , which sold in Nov'17, for USD 10.4M.
- The secondhand market appears to have found a bottom for now, but buying interest is low as a result of a weak spot market, and several newbuilds joining the fleet. In the near term, this has the potential to exert downward pressure on secondhand pricing.

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	83.4 (+1.4)	56.0 (+0.5)	44.0 (-0.5)	47.0 (+0.5)	35.0 (+1.0)
0	84.0	57.0	45.0	47.5	35.0
5yr	63.0 (-1.0)	42.0 (-1.0)	32.0	34.0	25.0
10yr	40.0 (-1.0)	27.0 (-1.0)	22.0	22.0	17.5
15yr	25.0 (-1.0)	17.0 (-0.5)	12.0	12.0	10.0

Source: Clarksons
Note: values in brackets indicates change from last month

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Fleet Statistics

- The tanker fleet grew by a modest 2.0 mdwt, or 0.4%, in the first month of the year, despite January traditionally being a heavy month for tanker deliveries. This was the lowest rate of fleet growth for the month of January in four years, and far below the 6.5 mdwt, or 1.2%, of growth seen in the same month last year.
- Tanker scrapping remains strong with 1.6 mdwt removed from the fleet in January. High scrapping and a more modest delivery schedule should lead to a decline in fleet growth during 2018/19.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2018	3.3%	3.1%	3.9%	2.0%	3.3%	2.1%
2019	1.9%	1.5%	0.6%	1.6%	0.7%	3.2%

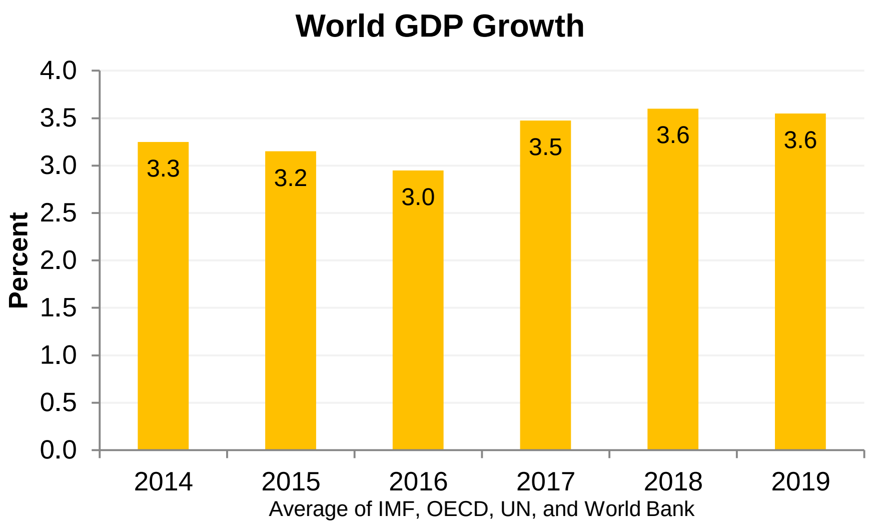
Source: Clarksons, internal estimates

Further signs of a moderation in tanker fleet growth at the start of 2018

Economy Outlook

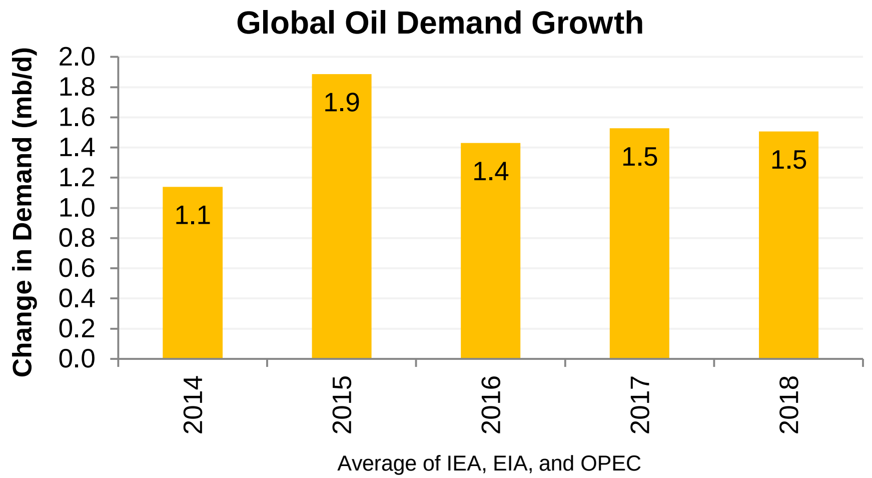
- In their newest outlooks, the IMF and World Bank have increased their forecasts of economic growth for 2018.
- According to the IMF, global economic activity continues to firm up. Forecasts for 2018 and 2019 have been revised upward, reflecting increased global economic momentum, and U.S. tax changes. Similarly, the World Bank states that the global economy is experiencing a broad-based cyclical upturn, which is expected to be sustained over the next couple of years, although with downside risks.

USA	Forecasts have been increased due to stronger than expected activity in 2017, higher global demand, and tax policy changes
Europe	Growth rate forecasts for many euro area economies have increased, reflecting stronger domestic and external demand
Japan	Growth picked up in 2017 to an estimated 1.7%, but is expected to slow in 2018 as fiscal stimulus is withdrawn.
China	Growth is expected to moderate gradually in China, although with a slight upward revision to the forecast for 2018 - 2019.



Oil Demand Outlook

- Forecasts of global oil demand growth for 2018 are largely unchanged from last month.
- In January 2018, Brent crude oil prices breached $70 per barrel for the first time since December 2014. Reuter's most recent survey of oil price forecasts shows an average price of $61 – $62 / bbl in 2018 – 2019.
- The US EIA continues to expect global oil supply growth to exceed demand growth in 2018 and 2019; the EIA expects global inventories to increase by 0.2 million b/d in 2018 and by 0.3 million b/d in 2019.

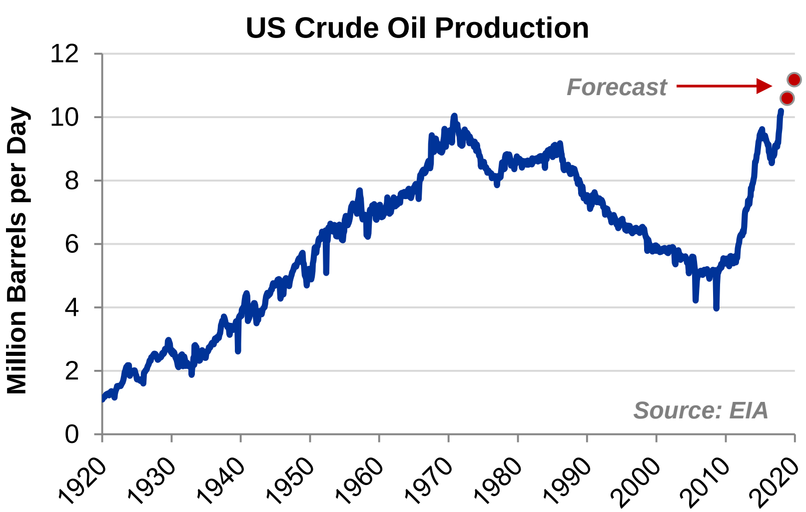


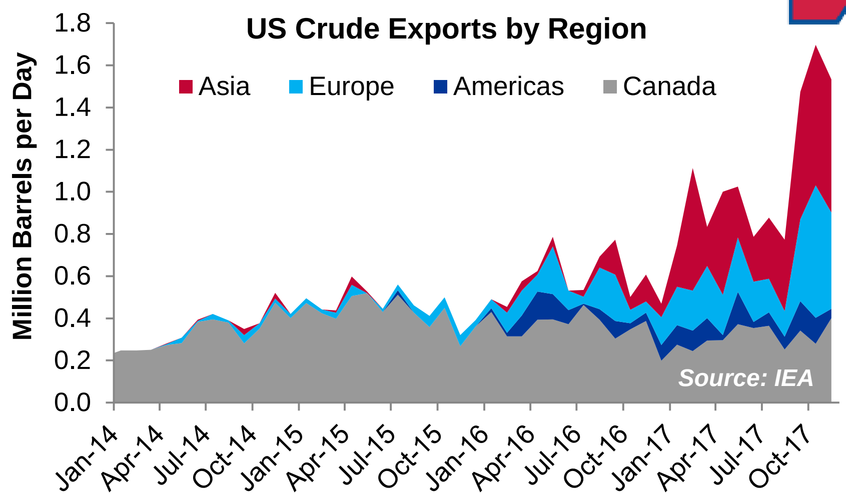
Stronger economic growth forecasts, but no change as yet to oil forecasts

US Oil Production Reaches 10 mb/d

The renaissance in US crude oil production over the past few years has been nothing short of spectacular. To recap, US crude production rose steadily through the course of the 20th century up until 1970, when it peaked at just over 10 mb/d (remember Hubbert peak oil theory?). Production declined thereafter, to a low point of around 5 mb/d by the mid-2000s. At the time, it was widely assumed that production would continue to decline into the future as oilfields matured.

However, this all changed from around 2010 onwards with the advent of the shale oil era. New techniques in hydraulic fracturing ("fracking") and horizontal drilling unlocked vast quantities of new oil production, and in November of last year US crude production once again hit the 10 mb/d mark. This trend is expected to continue, with the EIA now forecasting US crude production to exceed 11 mb/d by next year.





Shale oil is predominantly light crude which is ill suited for US Gulf refineries that are tooled towards processing heavier grades. This means that some of this shale oil is surplus to domestic requirements, and at the start of 2016 the US lifted its 40-year old ban on crude oil exports in order to move this surplus to international markets. This has resulted in a rapid increase in US crude oil exports from ~0.2 mb/d pre-ban to ~1.5-2.0 mb/d at present. What's more, this crude is moving further afield, with volumes increasingly moving long-haul to Europe and Asia (see chart above).

This increase in US crude exports is positive for tanker trade volumes, and has also created the need for reverse lightering in the US Gulf. However, a rapid increase in US production lessens the need for other crude supplies, which may cause OPEC to maintain production cuts for longer. In an ideal world, global oil demand growth will be such that there is a need for both increased US exports ***and*** more OPEC supply. We can but hope!