TEEKAY

TANKER MARKET INSIGHT

March 2018

Research Department, Strategic Development

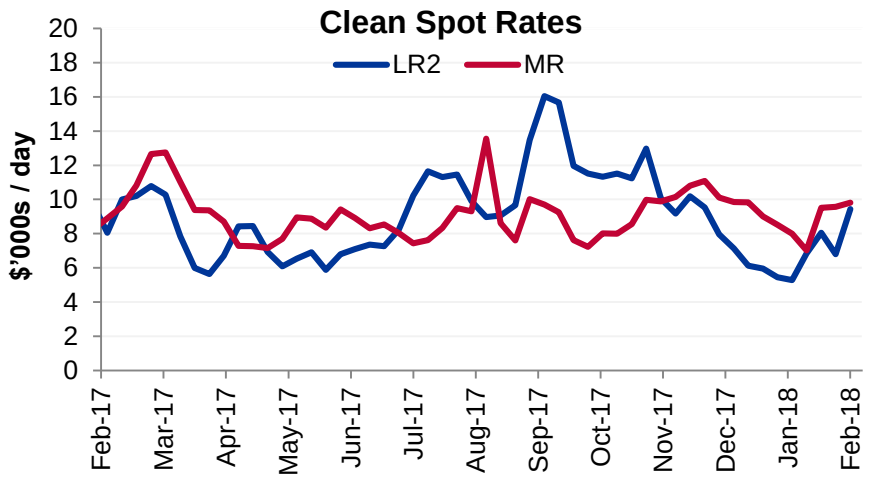
Monthly Summary

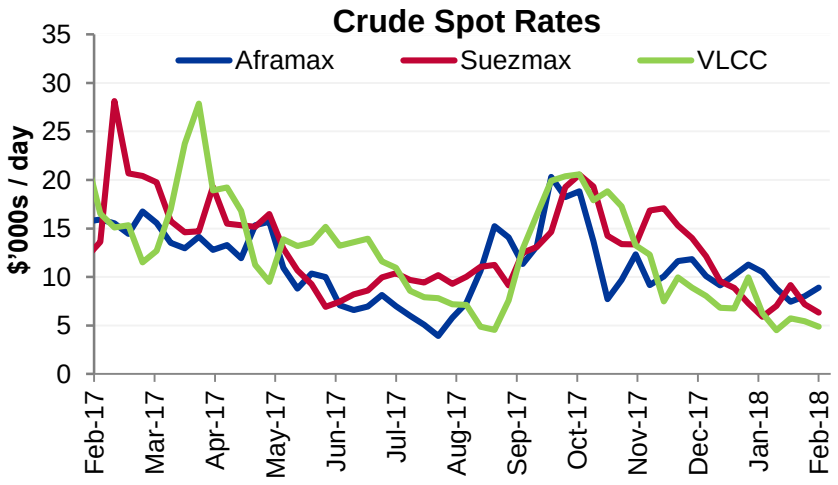
High OPEC cut compliance and seasonality impacted rates during February

February review: Rates across all segments continued to come under pressure during February. High compliance with OPEC-led production cuts, coupled with seasonal refinery maintenance, put downward pressure on VLCC and Suezmax rates. Limited demand in Asia and decreased production in Libya and Venezuela was negative for the Aframax market. However, LR2's found some relief as increased naphtha flows from the West to Asia provided some support for rates.

March outlook: We expect VLCC rates to remain depressed during March due to ongoing OPEC supply cuts, with Saudi Arabia expected to keep crude oil exports below 7 mb/d throughout the month. Suezmax rates started to firm towards the end of February, which may continue through March as Angola and Nigeria are expected to increase crude exports. A backwardated oil market may keep rates flat for Pacific Aframaxes. However, Aframax rates in the Atlantic could find support from increased Ural exports via Primorsk and a resumption of crude imports to PDVSA's Curacao refinery. A reduction in the arbitrage for western naphtha may cap any upside to LR2 rates during March.

Wild cards: The US has reaffirmed that they will not renew waivers for Iran when the current nuclear agreement expires in May, increasing the possibility of US sanctions on Iranian crude oil exports. Venezuela has postponed their Presidential election to May 20th in order to try and gain candidates to opposed President Nicolas Maduro. The US is also contemplating imposing oils sanctions on Venezuela, which would be a devastating blow to an already crumbing Venezuelan economy.





Source: 90% of Clarksons

Spot Market Review and Outlook

Mid-size vessels may find some regional support during March

Segment	Jan'18	Feb'18	February Review	March Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	7,400	5,100	⬇ Compliance with OPEC-led supply cuts reached 149% in February as Saudi Arabia reduced crude exports to below 7.0 mb/d and UAE steepened cuts as well. Total OPEC supply fell to 32.0 mb/d, the lowest level since Apr'17.	⬅➡ Saudi Arabia and Russia have renewed their commitment to supply cuts. Saudi Arabia is expected to keep exports below 7 mb/d for the foreseeable future. The onset of refinery maintenance in the Far East during March and April could further impact demand for VLCCs during the month.
Suezmax	7,900	7,400	⬇ Rates remained largely unchanged during February as a weak VLCC market continued to impact on Suezmax demand. However, we saw a firming in rates at the end of the month with earnings ex-WAF exceeding $10,000/day for the first time since the start of the year.	⬆ There has been an increase in Suezmax activity in WAF and the Middle East in recent days, which may give some support to rates during March. Angolan and Nigerian exports are expected to rise, which may give support to Suezmax demand.
Aframax (Pacific)	9,200	8,600	⬇ A drawdown in oil inventories in Asia has limited demand for crude imports and has eliminated ullage delays and local floating storage requirements.	⬅➡ We expect the Pacific Aframax market to remain relatively unchanged in the short term as a backwardated oil market and upcoming refinery maintenance continues to limit demand.
Aframax (Atlantic)	10,100	8,500	⬇ A shutdown of the 0.1 mb/d Elephant oil field in Libya and a continued decline of Venezuelan oil production put downward pressure on rates. However, the end of the month saw an increase in weather delays caused by ice in the Baltic Sea and fog delays in USG, which helped lift rates.	⬆ A 12% increase in Russian Urals crude exports via Primorsk in March could be positive for Aframax demand in the Baltic. The resumption of crude imports into PDVSA's Curacao refinery from the US and Russia may also help to provide some support for Atlantic Aframax rates during the month.
LR2	5,700	7,800	⬆ An increase in naphtha flows to Asia since the start of the year, including higher than normal flows from the West, have lifted LR2 rates from the severely depressed levels seen in January.	⬅➡ Positive momentum for LR2 rates may start to erode as we enter March due to a reduction in the arbitrage for western naphtha barrels.

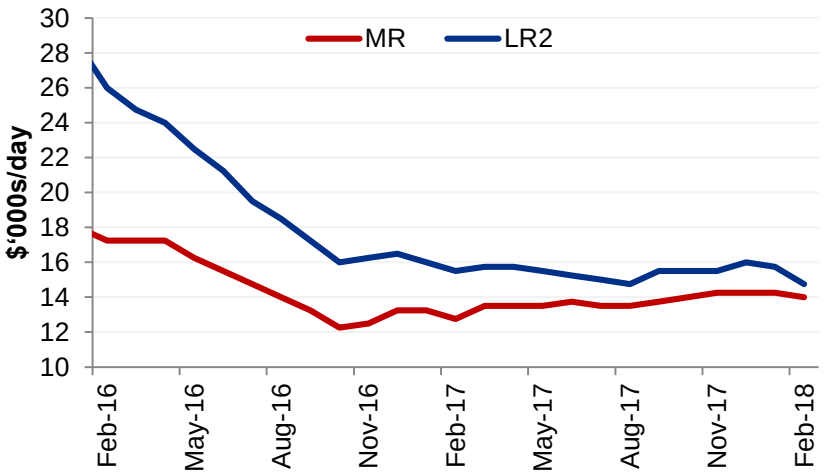
Time Charter Market

TC rates down across the board in response to a weak spot market

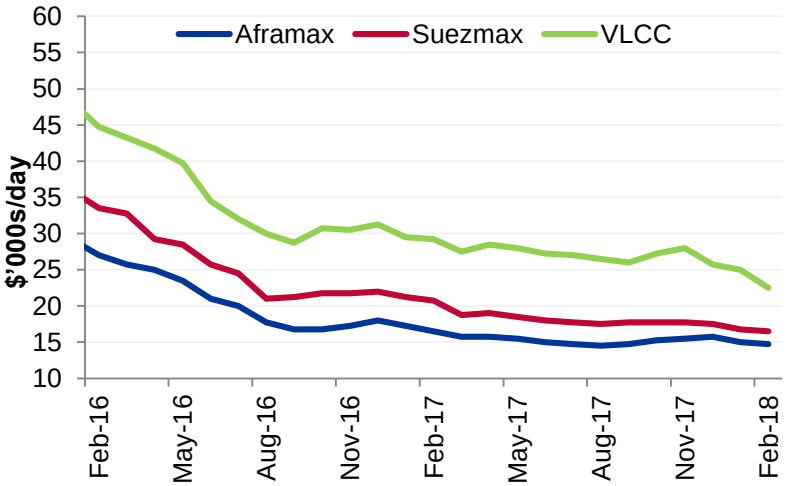
Broker Assessed Time Charter Rates

	1 year time charter rates ($/day)		3 year time charter rates ($/day)	
	Jan'18	Feb'18	Jan'18	Feb'18
VLCC	24,750	↓ 22,500	29,500	↓ 28,250
Suezmax	16,750	↓ 16,500	20,750	↓ 20,000
Aframax	15,000	↓ 14,750	17,000	↓ 16,750
LR2	15,750	↓ 14,750	17,250	↓ 16,500
MR	14,250	↓ 14,000	14,500	↑ 14,750

Clean 1 Year Time Charter Rates



Crude 1 Year Time Charter Rates



Source: Average of Clarksons, Braemar ACM, and Poten

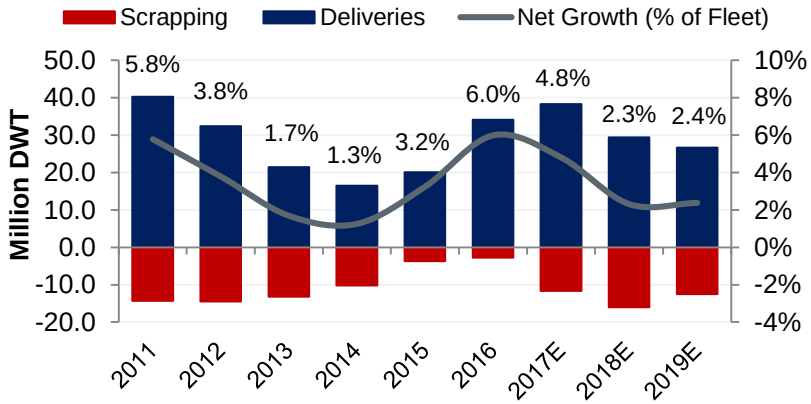
S&P Market and Fleet Statistics

The tanker fleet shrank during Feb'18 as scrapping exceeded deliveries

S&P Activity

- Older Aframax values (15 years old) remain firm. The *HS Carmen* (2003/HHI) sold for US$11.3M, which is higher than the US$10.95M paid for the *Ridgebury Alice M* (Sumitomo/2003) in Jan'18. As a reminder, the ex-*Stella Voyager* (Samsung/2003) was purchased for US$10.0M in Sept'17.
- Ridgebury continues to offload older tonnage, selling the Aframax *Ridgebury Sally B* (Sumitomo/2003) for US$9.2M. The discount in price compared to the *HS Carmen* is due to the imminent dry dock due. The buyers, Eurotankers, also waived inspection.
- The coated Aframax *Maersk Privilege* (Sumitomo/2003/trading dirty) sold to Winson Oil for US$12.5M. The vessel will be used for a specific project and requires the vessel to be trading clean, which could explain the premium paid.
- Oslo-listed Ocean Yield has acquired 4 x 2019-delivery VLCC resales from Kyklades for US$83.75M each. The vessels will operate on a 15 year Bareboat back to Kyklades.

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	85.0 (+1.6)	57.5 (+1.5)	45.0 (+1.0)	48.0 (+1.0)	35.0
0	84.0	56.5 (-0.5)	44.0 (-1.0)	47.5	35.0
5yr	63.0	42.0	30.0 (-2.0)	34.0	25.0
10yr	41.0 (+1.0)	27.0	20.0 (-2.0)	20.0 (-2.0)	18.0 (+0.5)
15yr	25.0	17.0	11.0 (-1.0)	11.0 (-1.0)	9.5 (-0.5)

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

Fleet Statistics

- The tanker fleet has grown by 2.1 mdwt, or 0.4%, since the start of the year. The tanker fleet actually shrank during February, as the removal of ships for scrapping exceeded new tanker deliveries.
- 3.7 mdwt has been scrapped since the start of the year. This marks the highest level of scrapping in the first two months of the year since 2002, when 5.4 mdwt was scrapped. We have raised our scrapping estimates for 2018 based on higher than expected activity at the start of the year; consequently, our forecast for tanker fleet growth has fallen to 2.3% this year and 2.4% in 2019.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2018	1.9%	3.6%	0.9%	3.0%	2.8%	1.6%
2019	2.6%	2.2%	2.2%	0.9%	0.8%	3.9%

Source: Clarksons, internal estimates

Economy and Oil Demand

Higher oil demand growth forecasts in response to an improving economic outlook

Economy Outlook

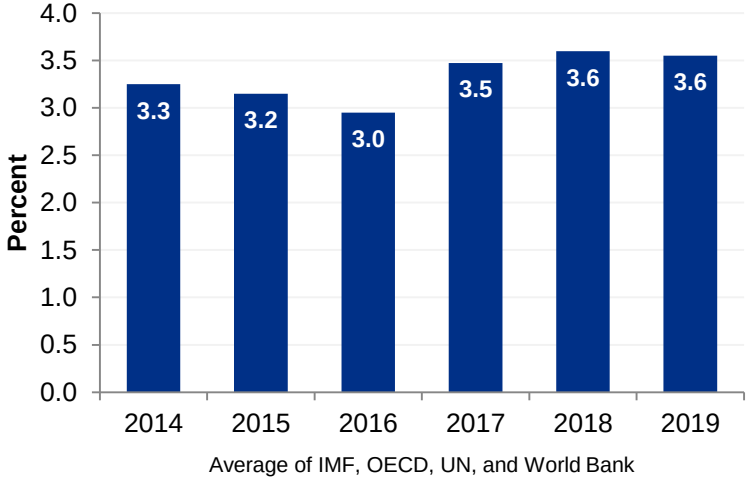
- According to the World Bank, global economic growth remained solid in Q4-2017, with positive growth continuing into the start of 2018. The PMI was close to a 7-year high in January 2018, which provides ongoing support to global trade growth.
- Stock markets fell in early February in response to higher inflation and wage growth data, which raises expectations of future interest rate hikes. Equity markets have since recovered some of the losses, but remain below their January highs.

USA	US economic growth remained robust in Q4-17, and average wage growth showed the strongest increase since 2009.
Europe	Early data showed a strong start to 2018; the Purchasing Managers Index (PMI) was near a 12-year high in January 2018.
Japan	Growth slowed in Q4-17 (vs. Q3-17), which is in line with expectations that Japan's growth will slow slightly in 2018.
China	Growth was 6.9% for 2017 as a whole, and recent data are in line with expectations of a gradual economic slowing in 2018.

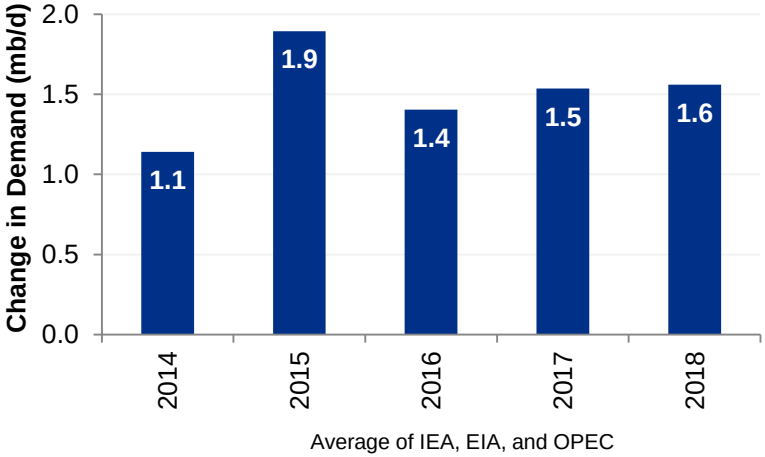
Oil Demand Outlook

- Forecasts of global oil demand growth are starting to catch up with improving forecasts of economic growth. The IEA has raised their forecast for 2018 oil demand growth to ~1.4 mb/d (an increase of 0.1 mb/d from last month). According to the IEA, the higher forecast is partly due to an optimistic GDP forecast from the IMF.
- However, the IEA still expects oil demand growth in 2018 to be lower than 2017, due to higher oil prices, shifting Chinese demand, and fuel switching in the non-OECD. In contrast, the US EIA and OPEC expect oil demand growth in 2018 to be higher, or on-par, with 2017.

World GDP Growth



Global Oil Demand Growth

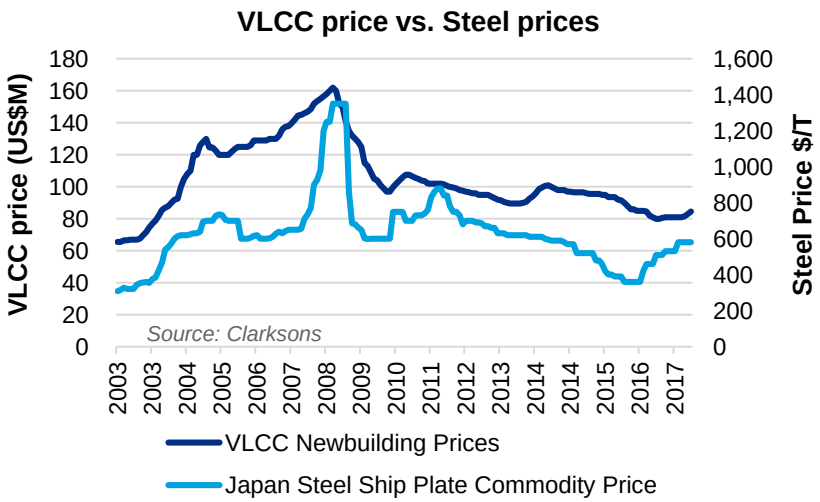


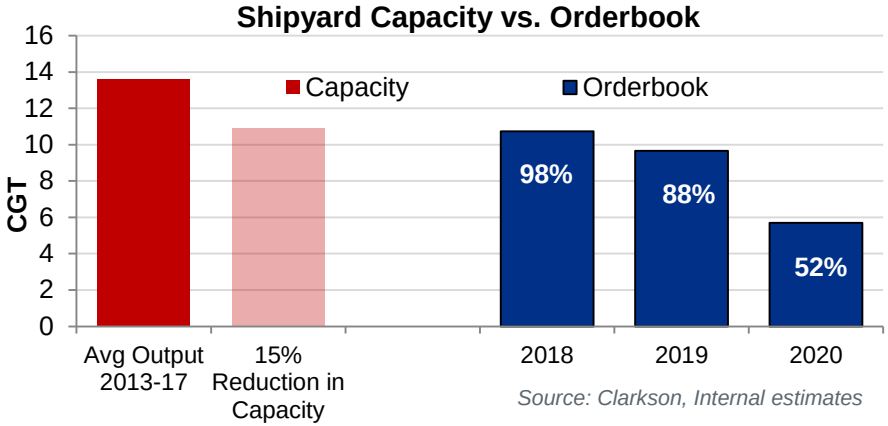
Newbuilding Prices Finding Support

Recent uptick in orders and capacity reductions have better positioned the yards

In 2016, the shipping industry experienced a dramatic collapse in newbuild orders due to a weak market environment across all shipping segments. As a result, 2016 saw the lowest number of orders since the early 1990s. As we quoted when we first wrote about the collapse, “it is not the strongest of species that survives, nor the most intelligent, but the one most adaptable to change”.

Going into 2017, Korean banks started to exert their influence over decision making by not letting Korean yards take loss-making contracts. The Chinese government consolidated shipbuilding capacity, and let many smaller second and third tier yards fail. Meanwhile, steel prices rebounded from $360/T to $460/T by the end of 2017, which impacted profit margins. As a result, shipyards were limited in their ability to discount in order to attract orders. Instead, the shipyards adapted by cutting costs through capacity closures and headcount reduction. We estimate that total global shipyard capacity was reduced by 30% during this time.





Through the course of 2017 (and early 2018) we have seen an increase in newbuilding ordering as shipping markets recover. In particular, we have seen an increase in VLCC, containership and large bulk carrier ordering, as well as a slight uptick on LNG carrier / FSRU ordering, most of which has been ordered at top-tier shipyards. This increase in ordering, coupled with a reduction in shipyard capacity, has put yards in a much better position than they were 2-3 years ago. The chart above shows the current orderbook at top-tier shipyards vs. the theoretical capacity (assuming a 15% reduction in total capacity at top tier yards vs. 2013-17 average output) and shows that the yards are largely full through 2019, and are approximately 50% full through 2020.

Shipbuilding capacity reductions and increased ordering has led shipyards to increase their newbuild price ideas. According to Clarksons, the lowest VLCC order price in 2017 was US$80M, but today’s estimated price is US$84.5M. We anticipate this price trend to continue through 2018 as additional orders from other shipping segments will continue to fill shipyard capacity.