Tanker Market Insight

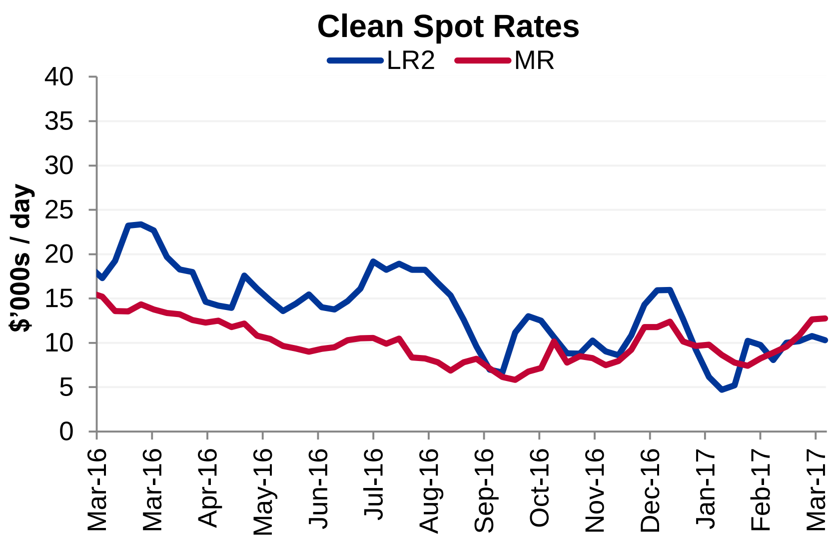
April 2017

Research Department, Strategic Development

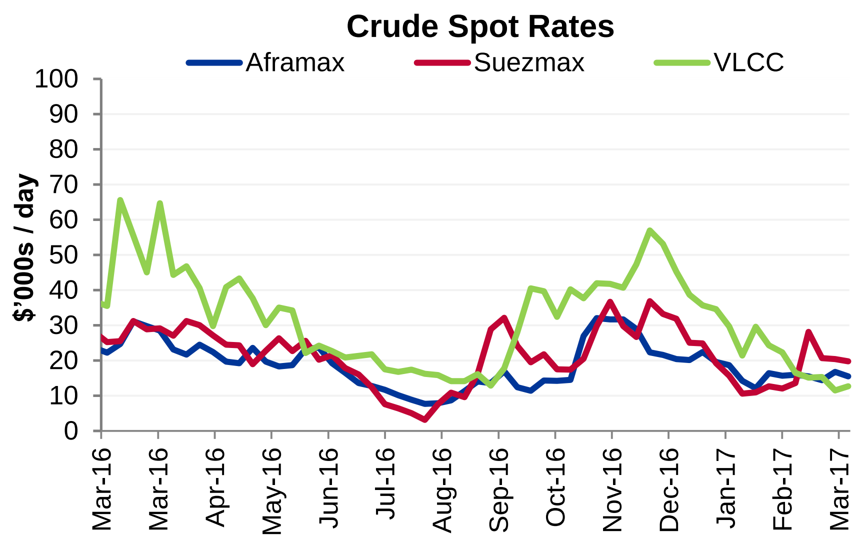
March review: OPEC cuts continued to weigh heavily on VLCC demand during the month of March. In addition, a longer than normal Asian refinery maintenance period limited demand for the larger vessels. Mid-sized tanker rates saw some positive upside due to production volatility in the MED alongside Nigeria's decision to sell off crude from storage. Increased exports out of the US Gulf supported rates in the form of reverse lightering while the LR2 market found limited upside from an uptick in Japanese naphtha demand.

April outlook: While refinery maintenance is expected to conclude in most regions, a longer than normal maintenance period in Asia will continue until the end of April. Combined with ongoing OPEC cuts, demand for the larger vessels is likely to remain muted. Clearing weather delays will also create some downside pressure during a time when robust fleet growth is expected to weigh on the larger vessels. Aframaxes in the Atlantic may find some support in the form of reverse lightering as US exports continue to increase.

Wild cards: Libya continues to be a wild card as civil unrest has erupted again. Libya started March at ~700 kb/d production, only to drop to ~500 kb/d at the end of the month after NOC declared force majeure on loading of Sharara crude from the Zawiya terminal. We would also be remiss if we didn't mention escalating tensions between the US and North Korea, which could present issues in the Pacific markets should things move from posturing to real gestures.



Source: 90% of Clarksons



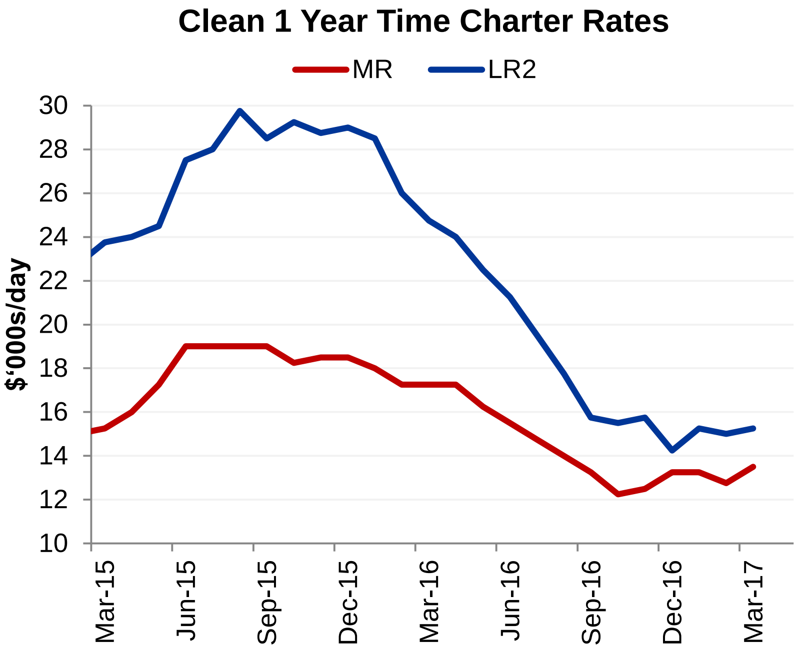
Source: 90% of Clarksons

Fleet growth and OPEC cuts are putting downwards pressure on freight rates

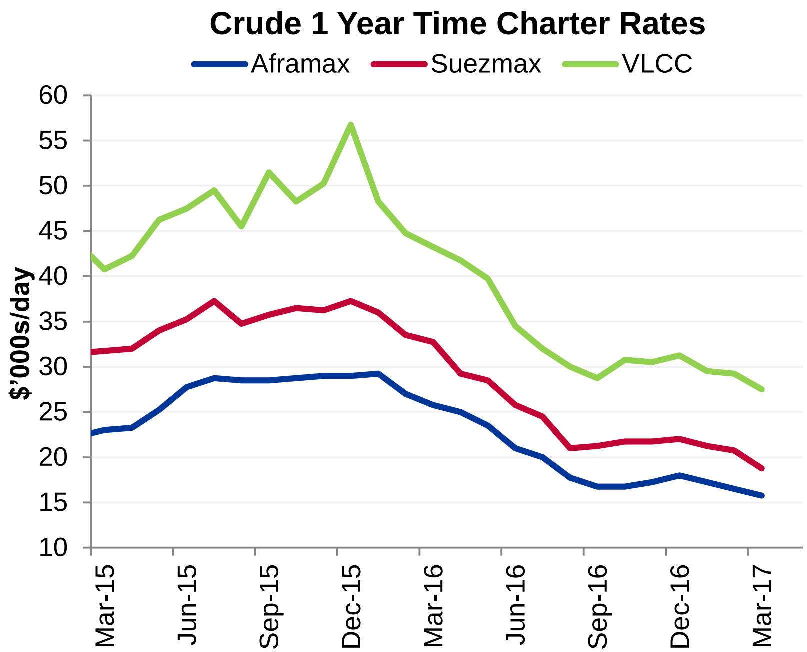
Spot Market Review and Outlook

Segment	Feb'17	Mar'17	March Review	April Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	24,400	14,200	⬇ VLCC rates fell to their lowest level since October 2014. OPEC cuts continued to put pressure on VLCC rates, with Saudi Arabia cutting production by 300 kb/d in March while Asian refinery maintenance limited long-haul demand.	⬌ Ongoing Asian refinery maintenance into April combined with OPEC cuts are likely to keep a lid on rates. A heavy delivery schedule so far this year, with 16 newbuilds having been delivered YTD, is also a negative factor in 1H-2017.
Suezmax	11,550	20,500	⬆ Suezmax rates spiked during the second week of March as demand rose unexpectedly in the MED region. Rates found further support from the drawdown of Nigerian inventories for export. The robust delivery schedule YTD with 14 vessels joining the fleet kept a cap on the rates spike.	⬇ Exports from the Baltic are expected to increase by ~154 kb/d in April, which could offset some of the downward pressure arising from ongoing OPEC cuts and a longer than normal Asian refinery maintenance program. Fleet growth will also continue to put some downside pressure to rates.
Aframax (Pacific)	13,800	13,950	⬌ Refinery maintenance and mild weather presented some negative pressure on rates. However, a floor for rates was found as intermittent ullage tied up some vessels in the region.	⬇ The longer than normal Asian refinery maintenance period, as well as a long tonnage list of prompt ships in Singapore, will likely put negative pressure on rates through the month.
Aframax (Atlantic)	13, 800	15,350	⬆ Increased US crude exports supported rates in the form of reverse lightering, as well as the conclusion of refinery maintenance in Europe and the US. Volatility in the MED market also provided some upside to rates.	⬌ Continued reverse lightering in the USG due to US crude exports, as well as expected terminal maintenance in the MED, could provide some upside to rates. However, clearing weather delays could put a cap on that upside.
LR2	7,750	9,850	⬆ Rising Japanese naphtha imports as a result of increased petrochemical margins supported LR2 rates. However, the West – East arbitrage remained closed, which limited the upside.	⬌ Rates could find support from increased naphtha flows into Asia, which are expected to increase for the third month in a row. The increase is likely due to a lack of cheap LPG rather than the West – East arbitrage, which remains closed.

OPEC cuts, refinery maintenance, production volatility a mixed bag for rates



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)	
	Feb'17	Mar'17	Feb'17	Mar'17
VLCC	29,250	⬇ 27,500	29,750	⬇ 29,500
Suezmax	20,750	⬇ 18,750	21,750	⬇ 21,500
Aframax	16,500	⬇ 15,750	17,750	⬇ 17,000
LR2	15,000	⬆ 15,250	17,000	⬇ 16,750
MR	12,750	⬆ 13,500	14,000	⬆ 14,250

Source: Average of Clarksons, Braemar ACM, and Poten

Crude tanker TC rates continue to decline while product TCs find some support

S&P Activity

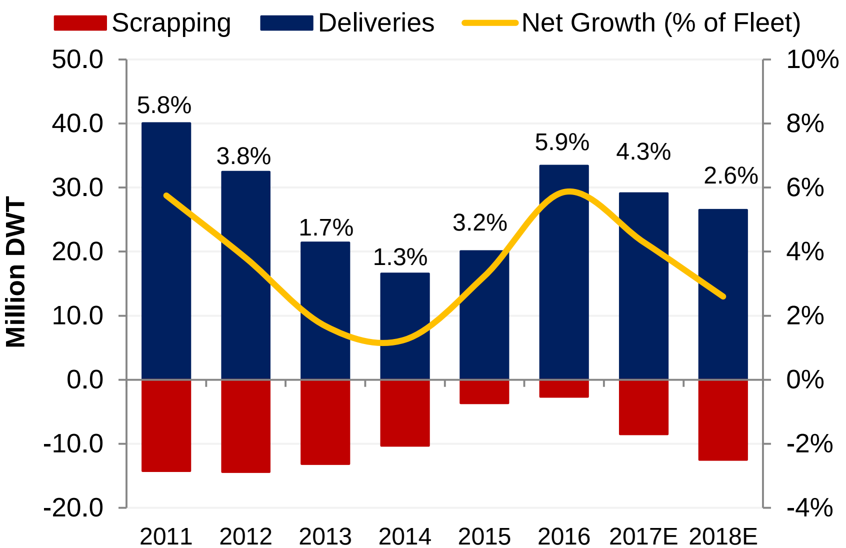
- After being targeted for a takeover by Frontline, DHT acquired 11x VLCCs from BW Group for USD 538M enbloc. The fleet consists of 9x on the water vessels with an average age of 10 years, as well as 2x newbuildings set to be delivered in 2018. 2x VLCCs are built at Bohai (China), 1x at HHI, and the remaining vessels are built at DSME. DHT will take over the remaining capex commitments ($104M) and pay BW $117M in cash and $256M in equity. DHT now owns a fleet of 30 VLCCs.
- There are no modern tanker sales to report. On the older ships, the 2002-built LR2 *Morning Glory VIII* (Onomichi) was sold to Winson Oil for $10.2M, whilst the Aframaxes *Gener8 Daphne* and *Gener8 Elektra* (2002 / Tsuneishi) are rumored to be sold for $10.5M each.
- The 2006 Aframax *Ambrosia* (Sumitomo) was sold for $21M on long subjects, which could explain the premium received on the vessel (broker assessed values put an 11yr ship at $16-$17M).

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	80.0 (-1.0)	53.0 (-0.5)	43.0 (-0.5)	45.5	32.5
0	82.0	54.0	43.0	46.0	33.0 (+0.5)
5yr	62.0	42.0 (+1.0)	29.0 (-1.0)	32.5	23.0 (+0.5)
10yr	42.0	27.5 (-1.0)	19.0	19.0	17.0 (+1.0)
15yr	25.0 (-1.0)	15.0 (-2.0)	11.0 (-2.0)	11.0 (-2.0)	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 1.9 mdwt, or 0.3%, in March, driven mostly by the larger vessels being delivered into the fleet and ongoing low scrapping.
- YTD, 18 x VLCC and 14 x Suezmaxes have joined the fleet, while only 1 VLCC ,1 Suezmax, and 1 Aframax have been scrapped.
- We estimate that the tanker fleet will grow by 4.3% in 2017 and by 2.6% in 2018, though uncertainty around upcoming regulations could change our outlook to the upside.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2017	4.0%	7.9%	2.6%	6.7%	4.9%	2.5%
2018	3.6%	2.0%	1.9%	1.7%	3.0%	1.1%

Source: Clarksons, internal estimates

Low freight rates and increased fleet growth are limiting S&P transactions

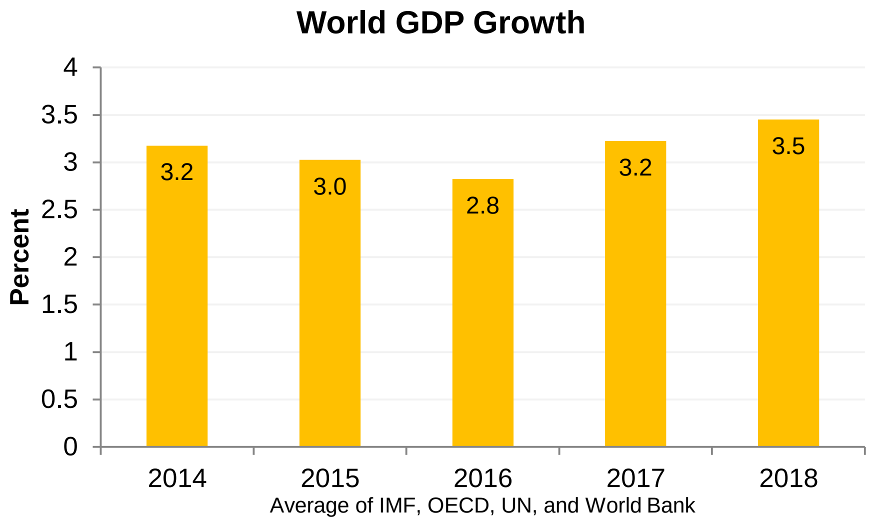
Economy Outlook

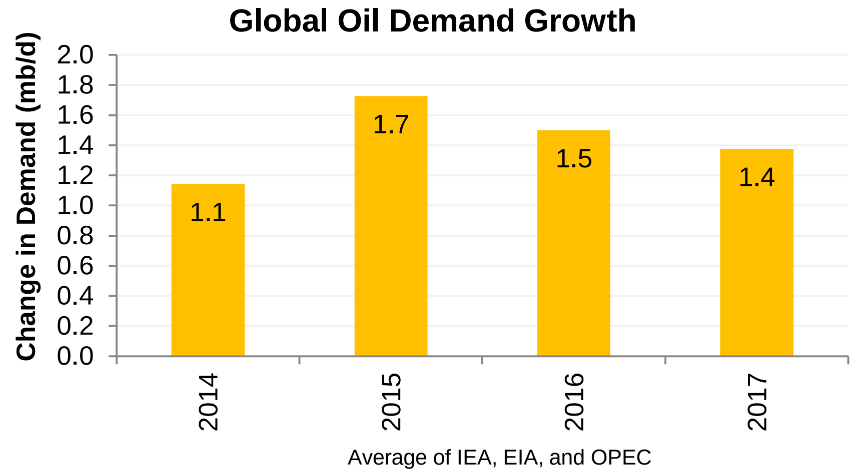
- The OECD released their newest economic outlook in March 2017. According to the OECD, GDP growth is forecast to improve modestly to around 3.5% in 2018, from just under 3% in 2016, which is largely unchanged from their previous forecast. However, the OECD warns that consumption, investment, trade, and productivity are far from strong, and growth remains below average.

USA	After weak growth of 1.6% in 2016, the OECD expects growth of 2.4% in 2017 and 2.8% in 2018, supported by fiscal expansion (government spending and tax cuts).
Europe	GDP growth is projected to continue at the current moderate pace. Even though unemployment is falling steadily, the rate remains above 9%.
Japan	Industrial production and exports have improved due to a weaker yen, but consumption remains subdued. Growth is forecast to remain low, near 1% in 2017 and 2018.
China	Growth is forecast to slow moderately to 6.25% by 2018 as the economy shifts towards consumption and services. Demand is being supported by fiscal policy.

Oil Demand Outlook

- According to the IEA, global oil demand growth is expected to ease to 1.4 mb/d in 2017. Data from the first quarter of 2017 shows a slight slowdown in oil demand growth in several large economies (e.g. Japan, Germany, Korea and India).
- At the start of the year there was considerable variability in forecasts of 2017 oil demand growth amongst the IEA, EIA, and OPEC. However, forecasts are now narrowing, with a current range of 1.3 - 1.5 mb/d, and an average of 1.4 mb/d.



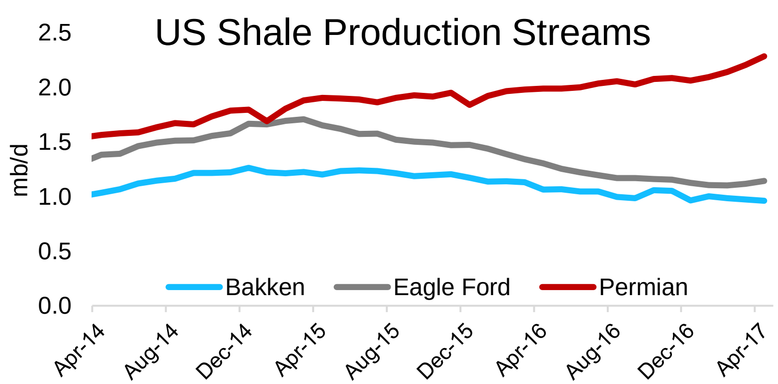


More agreement on 2017 oil demand growth forecasts near 1.4 mb/d

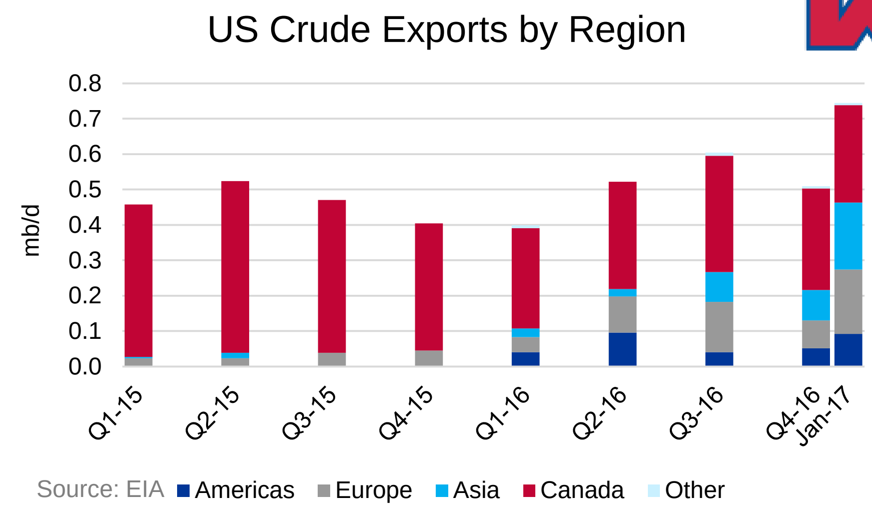
Changes in US infrastructure positive for seaborne exports

Last month, we discussed changes to US crude production and the resulting uptick in seaborne US crude exports as it relates to global oil pricing. While global benchmark pricing is having a direct impact on the desirability of US light sweet crude moving to global markets, there are some finer details making it easier and more economical for US producers to get their barrels to international markets.

Despite reduced production in the Bakken and Eagle Ford shale fields as a result of ongoing low oil prices, a decrease in the cost of production in the Permian Basin has elevated production by ~0.4 mb/d from Jan'16 to Apr'17. Coupled with the rapid expansion of pipeline capacity into the US Gulf, including the 470 kb/d Dakota Access Pipeline expected online in Q2-2017, as well as an additional 340 kb/d of pipeline expansions by the end of 2017, the expectation is that US crude exports out of the US Gulf will continue to increase. Finally, the build out of a new export-capable Aframax terminal in the US Gulf will make it easier to ship barrels out, which will be positive for mid-sized tankers.



Source: EIA



Prior to lifting the crude oil export ban in 2015, US crude exports went almost entirely to Canada. However, as the chart above demonstrates, movements to global markets, particularly to Asia and Europe, increased significantly in 2H-2016. Movements to Asia have increased 83 kb/d from Q1-15, while volumes to Europe have increased 55 kb/d during the same period. These increases have largely offset exports to Canada, which have decreased by 145 kb/d.

While the increase in US seaborne exports is positive for tankers, the volume of exports isn't likely to materially move the freight market. For now… Given the robust delivery schedule for large tankers in 1H-2017, which is likely to put downside pressure on freight rates, the positive demand fundamentals resulting from increased US exports could offset some of the burden of fleet growth. As the orderbook rolls off, and deliveries slow, we expect that the next burst of US exports through infrastructure build outs could contribute to a potential mid-size tanker market recovery from 2018 onwards.

Mid-sized tankers are poised to find support from increased US crude exports