Tanker Market Insight

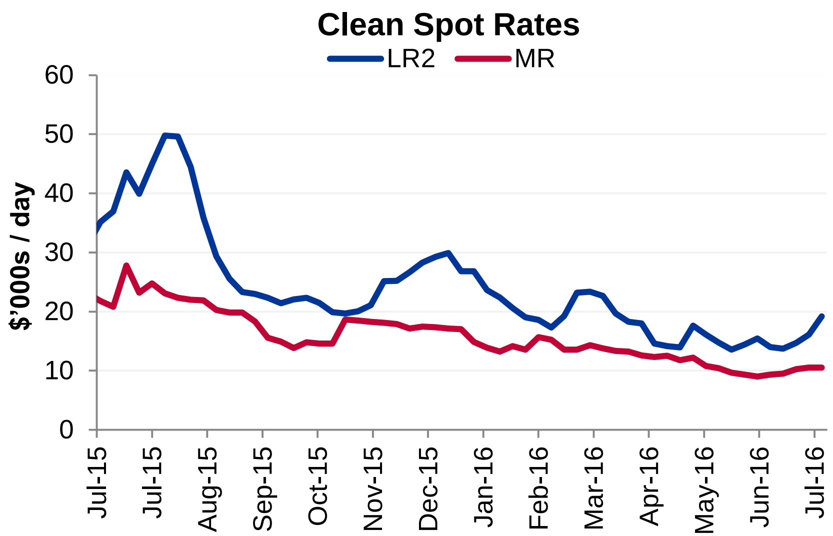
August 2016

Research Department, Strategic Development

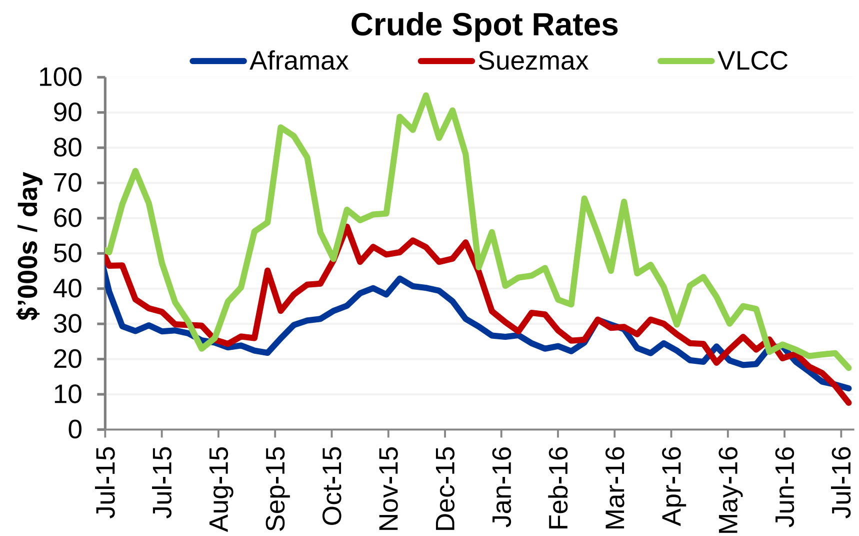
July review: Crude tanker rates fell across all segments in July. Clearing congestion at Chinese ports, particularly in the North East, took the steam out of VLCC rates, while significant supply outages in the Atlantic Basin put pressure on mid-sized tanker segments. Clean tanker rates, however, found support from increased naphtha demand AG - Asia and an uptick in gasoline movements US - Mexico.

August outlook: Mid-sized crude tanker rates are yet to find relief from the one-two-punch of seasonal demand declines and ongoing supply outages. Chinese refinery maintenance is expected to negatively impact VLCC rates, while the mid-sized crude tankers will likely feel the pinch from a variety of factors, including ongoing outages in the Atlantic basin, as well as lower ESPO cargos coming out of Kozmino. Clean tanker rates, however, could see some upside as naphtha movements into Asia are expected to increase in August, if only marginally.

Wild cards: Libya continues as the wild card favourite. There has been talk recently of agreements between warring factions to allow for the increase of oil exports, which of course would be positive for the MED markets. Truly a wait-and-see situation. Typhoon season continues in the Asia-Pacific region, which has the potential to increase delays in the region should a meaningful storm materialize.



Source: 90% of Clarksons



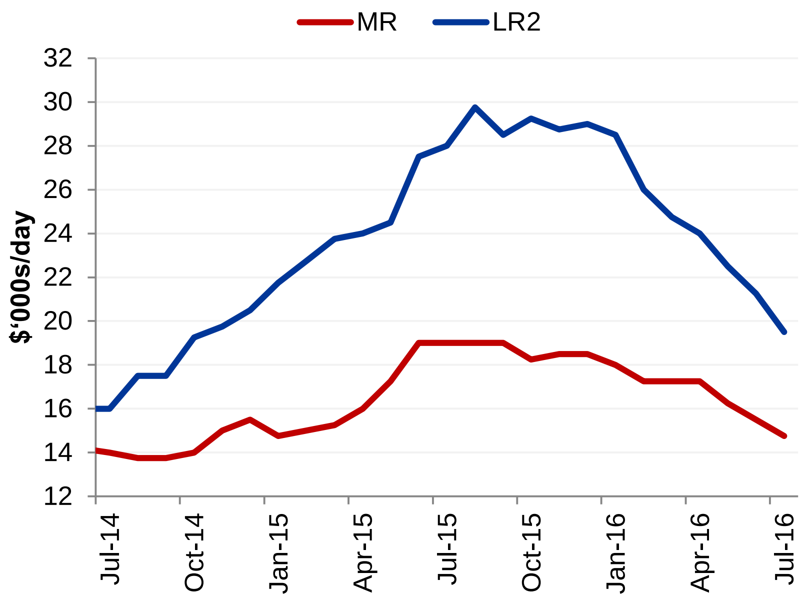
Source: 90% of Clarksons

Seasonality and supply outages continue to negatively impact rates

Segment	June'16 TCE ($/day)	July'16 TCE ($/day)	July Review	August Outlook
	Source: 90% Clarksons			
VLCC	28,915	20,840	Reduced discharge delays in China, particularly in the North East where the majority of teapot refineries are located, has increased available tonnage lists, putting downward pressure on rates. Teapot refineries have slowed buying as they try to cope with the massive intake of crude into their systems so far this year.	VLCC rates could face some further downward pressure as ~200 kb/d of Chinese refining capacity comes offline for maintenance, while high onshore stocks will continue to put some pressure on rates. However, ongoing contango in the price structure for Brent coupled with declining time charter rates could lead to an increase in floating storage.
Suezmax	23,725	15,110	Ongoing production outages in the Atlantic basin are wreaking havoc on Suezmax rates. Compared to June, there were ~21 fewer Suezmax cargoes ex-WAF. By month end, rates reached their low level since Oct'13.	Nigerian production has fallen to 1.4 mb/d, the lowest since 1989. The situation could continue to deteriorate should a resolution between militant groups and the government not be reached.
Aframax (Pacific)	16,830	16,300	The Pacific Aframax market found support from lower fuel oil inventories in Asia, which helped to put a floor under rates. However, a weak Atlantic market, seasonal factors, and high onshore crude inventories prevented rates from rising as a result of the fuel oil boost.	Lower ESPO crude exports out of Kozmino combined with a reduction in Asian demand, mainly from Chinese teapot refineries, is expected to put negative pressure on rates. However, typhoon season is upon the region and could provide a spike in rates should a storm materialize.
Aframax (Atlantic)	22,360	13,775	A reduction in Caribs cargos, driven mainly by fewer Venezuelan – USG movements, put downward pressure on rates in July.	Ongoing supply outages in the Caribs market coupled with lengthy tonnage lists will continue to put pressure during what is typically a soft month for rates. Field maintenance in the North Sea will also be negative for rates.
LR2	14,555	15,550	LR2 rates found some support as Asian naphtha demand increased ~14%, or 0.4 MT, driven by higher AG-Japan movements.	Naphtha movements AG-Asia are expected to increase slightly on July volumes. However, an outage at a key Japanese cracker could put some downside pressure on rates.
MR	9,620	10,040	Refinery outages in Mexico increased gasoline movements from USG - Mexico.	High US gasoline inventories could put some downward pressure on UKC – USAC movements.

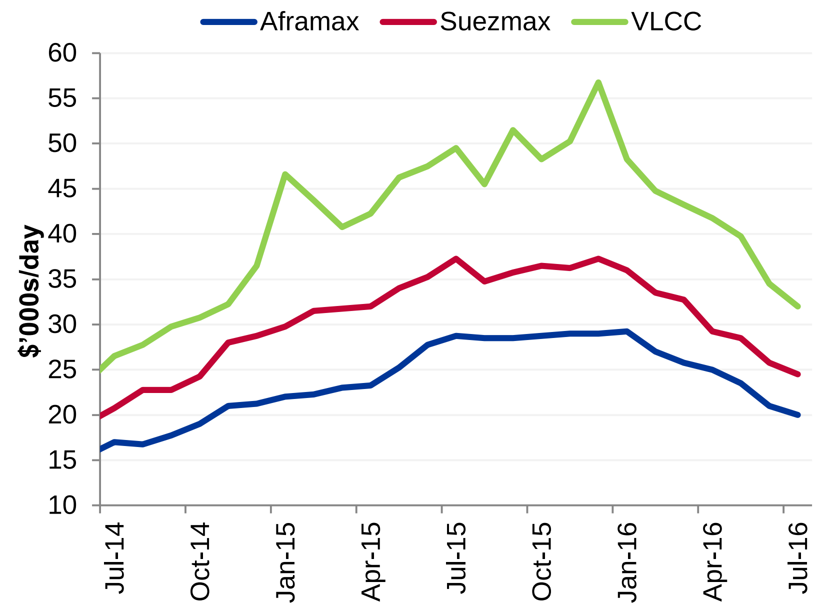
Clean tanker rates rose as per seasonal expectations while crude softened

Clean 1 Year Time Charter Rates



Source: Average of Clarksons, Braemar ACM, and Poten

Crude 1 Year Time Charter Rates



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)	
	June'16	July'16	June'16	July'16
VLCC	34,500	⬇ 32,000	32,250	⬇ 31,500
Suezmax	25,750	⬇ 24,500	24,250	⬇ 23,750
Aframax	21,000	⬇ 20,000	19,750	⬇ 19,250
LR2	21,250	⬇ 19,500	19,750	⬇ 19,250
MR	15,500	⬇ 14,750	15,000	15,250

Source: Average of Clarksons, Braemar ACM, and Poten

Time charter rates continue to soften along with the weaker spot market

S&P Activity

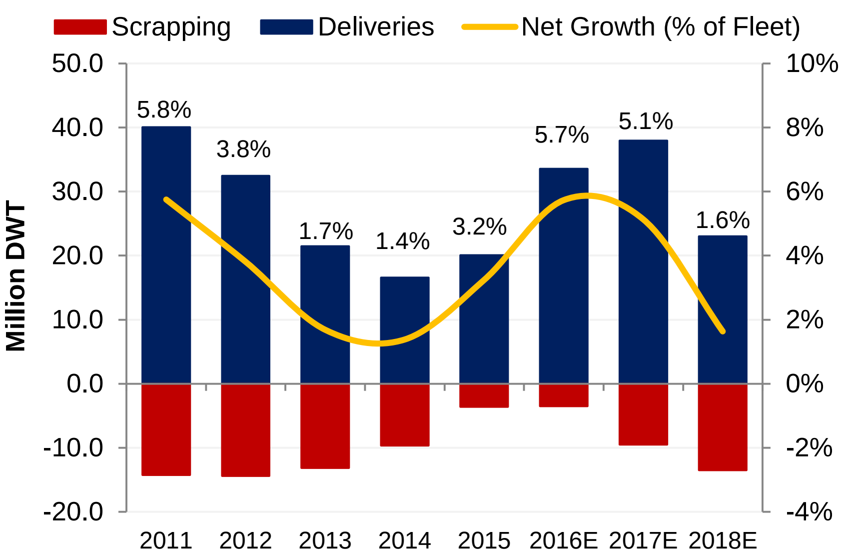
- Asset prices declined further in July. Primorsk (Russian) sold their ice classed fleet of 3x LR2s, 1x Aframax, and 5x MRs to SCF (Russian) for $215M enbloc, which we estimate is a 6% decline in value compared to broker values. This is a chapter 11 / "Debtor in Possession" type of sale. Shortly after, the *TH Sonata* (107k DWT/2008/Tsuneishi) was sold for $26M, 9% less than the equivalent Aframax in the Primorsk fleet sale.
- The *Challenge Prospect* (48k DWT/2005/Iwagi Zosen) was sold for $14M in late July'16 whereas the older *Teesta Spirit* (45k DWT/2004/HHI) was committed for the same price early July'16
- Euronav purchased 2x HHI VLCC resales for $84M each with delivery in September / November 2016. This was approximately the same price as the 2x VLCC Resales Frontline purchased from Metrostar in June'16
- Buying interest is limited mainly to a few cash Buyers who are aiming to get a price 5% to 10% lower than last done. We see this trend continuing given that access to equity / debt financing remains tight and potential Buyers are unsure about the impact of the newbuilding tanker deliveries over the next 6 to 12 months.

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	87.5 (-2.0)	57.5 (-2.0)	47.5 (-2.0)	50.5 (-2.0)	33.3 (-0.2)
0	86.0	59.0 (-3.5)	50.0 (-2.0)	55.0	34.0 (-1.0)
5yr	64.0	46.5 (-6.0)	35.0 (-2.0)	39.5	23.0 (-1.0)
10yr	44.0	34.0 (-3.0)	22.0 (-2.0)	22.0 (-2.0)	16.5 (-0.5)
15yr	28.0 (+1.5)	21.5 (-0.5)	15.0	15.0	11.0 (-1.0)

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 16.8 mdwt (3.2%) in the first seven months of 2016 vs. growth of 10.1 mdwt (2.0%) in the same period of 2015.
- 1.3 mdwt of tankers were scrapped in the first seven months of the year, putting 2016 on track for the lowest level of annual scrapping since 1989.
- Fleet growth is expected to remain elevated for the next 12-18 months as a large number of VLCCs and Suezmaxes are set to deliver, with anticipated tanker fleet growth of 5.7% in 2016 and 5.1% in 2017.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2016	6.9%	4.8%	2.0%	10.3%	5.1%	4.4%
2017	4.7%	7.6%	1.8%	7.9%	6.1%	3.7%
2018	2.1%	0.7%	0.5%	1.1%	2.5%	1.0%

Source: Clarksons, internal estimates

Asset values continue to slide on an uncertain market outlook

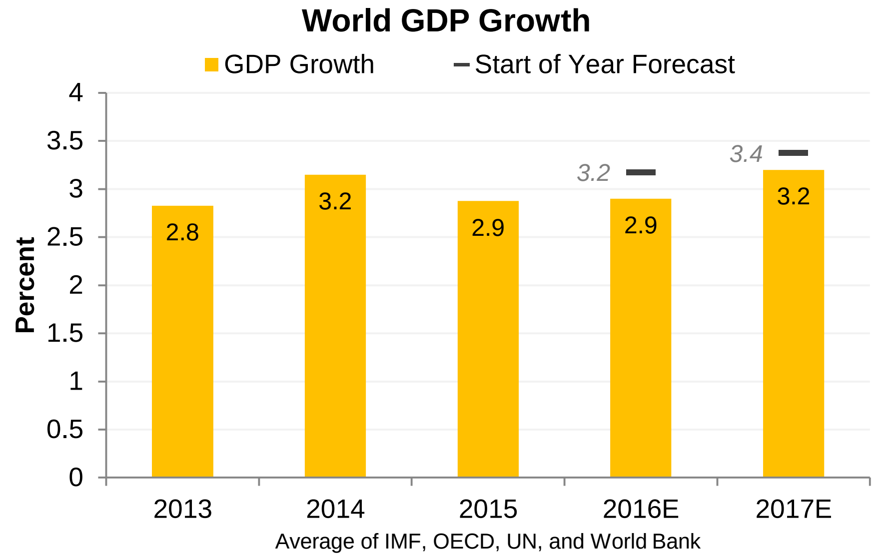
Economy Outlook

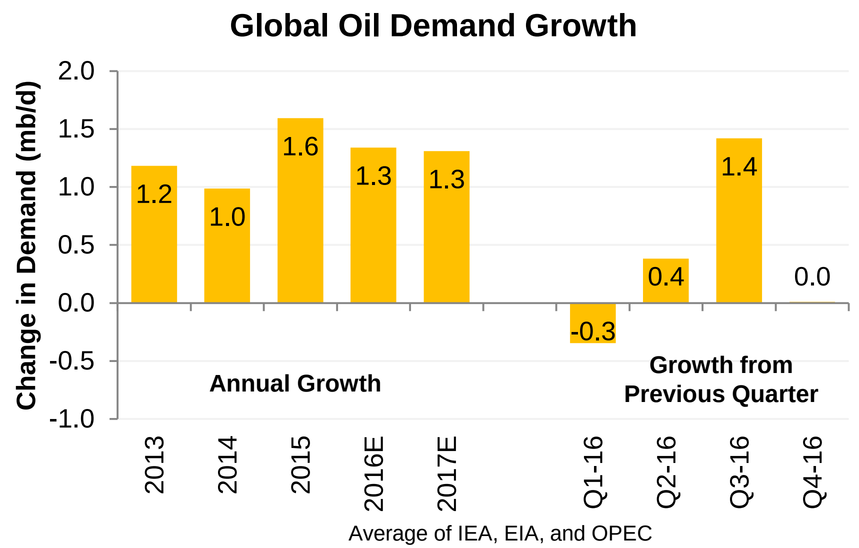
- The IMF reduced their forecast of global GDP growth in 2016 and 2017 by 0.1% compared to their April 2016 forecast. According to the IMF, global economic growth in 2016 has in fact been in line with their previous forecast, however, the surprise result of the Brexit vote is now expected to have a negative macroeconomic impact by reducing market confidence and investment.
- As a result, the UK experienced the largest downward forecast revision amongst advanced economies.

USA	First quarter growth was weaker than expected, but early data suggests an improvement in the second quarter.
Europe	First quarter growth was stronger than expected. The IMF would have increased their GDP forecast for Europe, if it were not for the impact of Brexit.
Japan	The IMF reduced their forecast of 2016 GDP growth due to challenges associated with a further appreciation of the yen.
China	China's growth forecast is relatively unchanged since the IMF's last forecast, with a slight improvement in 2016 due to increased monetary and fiscal policy support.

Oil Demand Outlook

- Global oil demand growth forecasts are relatively unchanged from last month.
- OPEC has now released their initial estimate of oil demand growth in 2017 at 1.15 mb/d, which is slightly less than the IEA (1.29 mb/d) and the EIA (1.49 mb/d). Overall, the average of forecasts suggests that global oil demand growth in 2017 is expected to remain similar to 2016.





Oil demand growth forecasts steady, despite lower GDP forecasts

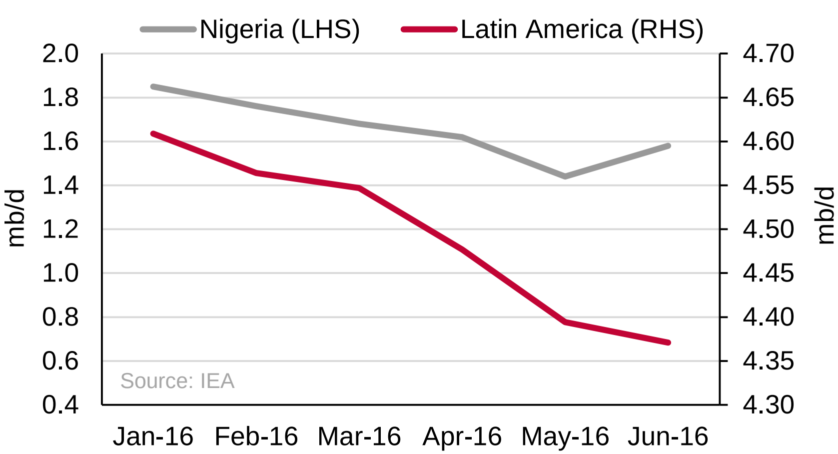
Atlantic Basin Outages Wreaking Havoc with Mid-sized Rates

Supply outages in the Atlantic Basin are wreaking havoc on mid-sized tanker rates. Repeated attacks on oil infrastructure in Nigeria and reduced output in Latin America have reduced Atlantic supply by around 700 kb/d since the start of the year, which is the equivalent of one fewer Aframax cargo per day.

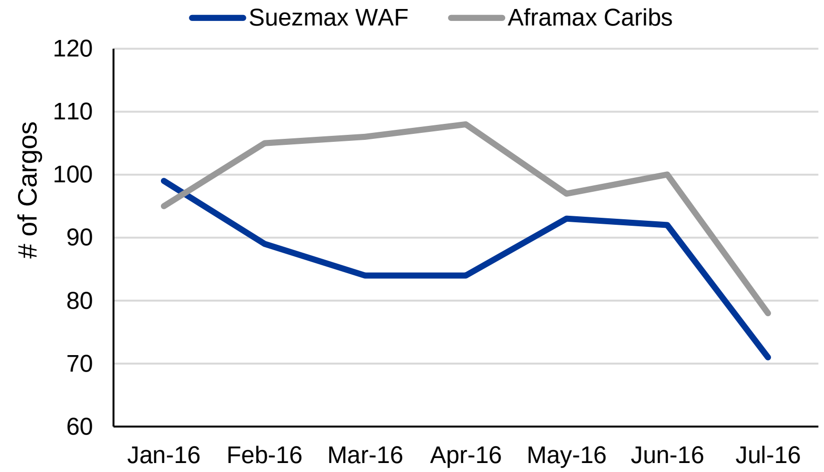
Nigeria's volumes have been reduced to 1.4 mb/d, the lowest since 1989. Some streams are under force majeure, while others are facing long loading delays. It remains uncertain if the government and militant groups will reach an agreement to end the violence. However, the country now faces the potential for recession given ongoing low oil prices and the associated impact on Nigeria's bottom line, which has the potential to contribute further to the current instability.

The economic crisis in Venezuela is leading to a significant slow down in production, as well as increased loading delays for the volumes that are still available for export. With a projected inflation rate of almost 500% for 2016, the financial situation in Venezuela is dire, and the oil industry in that region will be under great strain for the foreseeable future.

Nigeria / Latin America Supply Outages



Mid-sized Tanker Atlantic Basin Trade



Atlantic supply outages were particularly acute in July, with around 20 fewer Suezmax cargos from West Africa, and around 20 fewer Aframax cargoes in the US Gulf / Caribs region, compared to the average cargo count seen in the first half of the year. This reduction in available cargos has done little to boost oil prices, but has added to the negative momentum to earnings in what is already a typically softer time of the year for freight rates. Atlantic Aframax rates fell ~$8,500 / day in July, while Suezmax rates ex-WAF fell by ~ $9,000 /day.

Going forward, these outages will continue to put pressure on Atlantic Basin tanker demand during Q3-2016. However, should crude buyers look further afield for volumes, there could be a shift in the market that works to soak up the excess tonnage in both the Caribs and WAF. In addition, should US exports continue to increase, we could see buyers replacing WAF barrels with light US volumes. Such a move would be positive for reverse lightering demand in the Caribs, with the potential for increased Suezmax demand to Asian markets.

Ongoing supply outages in Nigeria and Venezuela negative for tanker rates