Tanker Market Insight

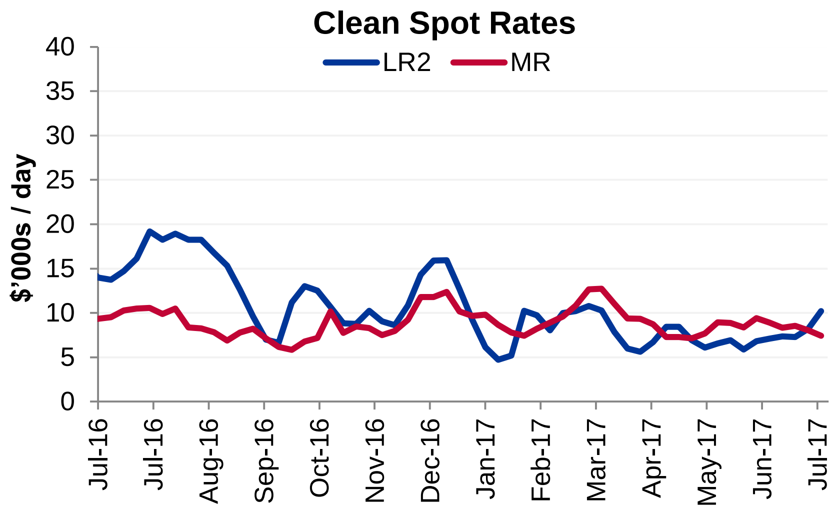
August 2017

Research Department, Strategic Development

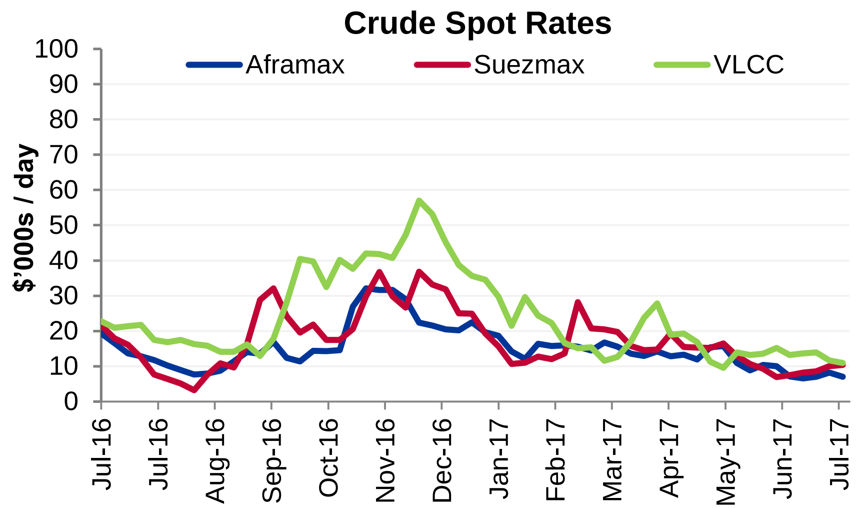
July review: Despite production increases in Libya and Nigeria, stock drawdowns combined with fleet growth have kept rates low. OPEC compliance slipped to 78% through the month which, coupled with a dip in Asian demand, put downward pressure on rates. These negative factors have come at a time when the tanker market typically experiences a seasonal dip in demand. On the flip side, LR2 demand ticked up as rising LPG prices encouraged some feedstock switching to naphtha.

August outlook: Rates are expected to remain in the doldrums in August as seasonally softer demand continues along with the impact of fleet growth and ongoing OPEC cuts. While Nigerian production has provided somewhat of a floor for rates, their recent agreement with OPEC to cap production at 1.8 m b/d has the potential to eliminate any rates relief for VLCC's and Suezmaxes. LR2's may find some upside to rates as the Pernis refinery in Rotterdam has been taken offline due to a fire, which could result in an uptick in European product imports.

Wild cards: Recent US sanctions against Venezuela have raised the potential for an embargo on Venezuelan crude imports into the USG. Such a move could limit Aframax demand in the Caribs market while giving a boost to VLCC movements between Venezuela and China as more volumes become available for transport long-haul. The ire of war between North Korea and the US continues to heat up, making many nervous that the North Korean government may take extreme action towards the US and their allies. The impacts to shipping on a war between North Korea and the US could be localized, or more broad in scope. This is a watch and see wild card, for sure.



Source: 90% of Clarksons



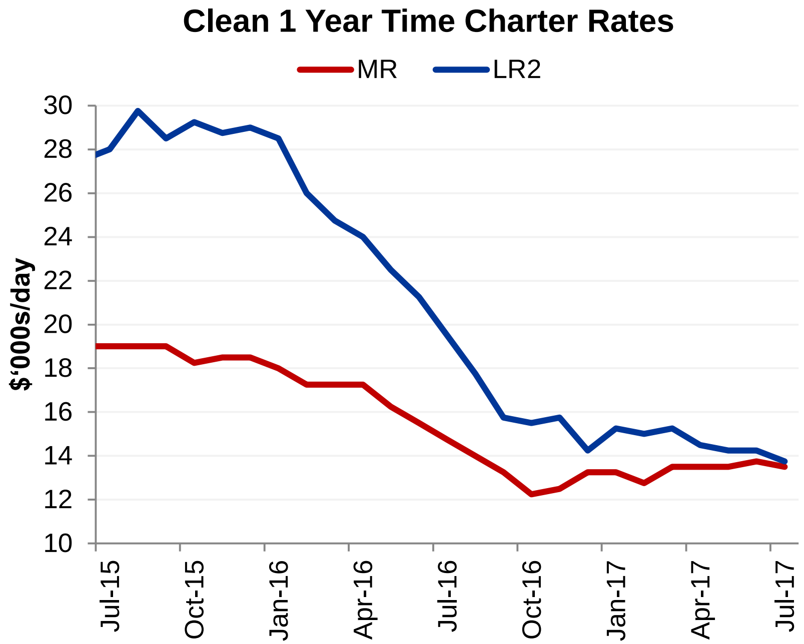
Source: 90% of Clarksons

Spot rates under pressure from seasonality, fleet growth, and OPEC cuts

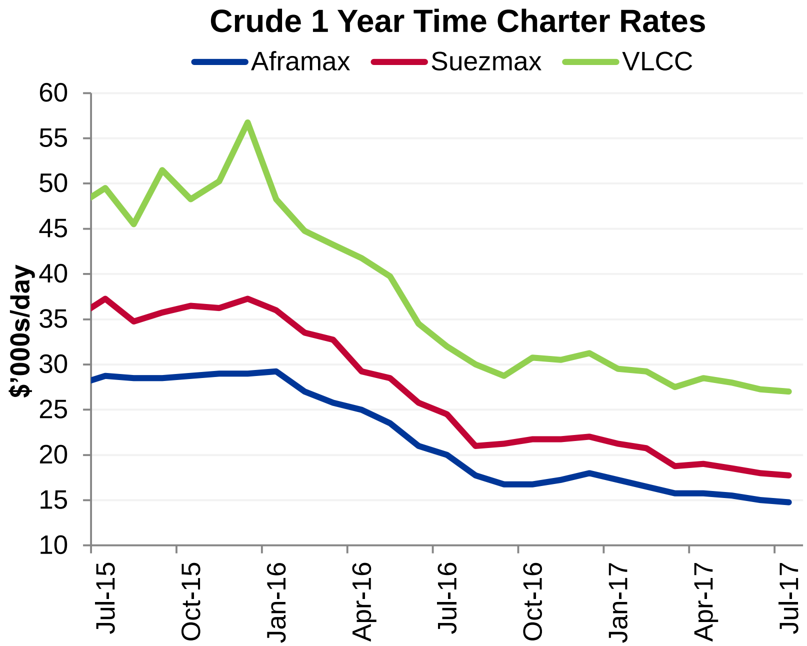
Spot Market Review and Outlook

Segment	June'17 Spot Rates ($/day) Source: 90% Clarksons	July'17	July Review	August Outlook
VLCC	13,800	12,500	Asian demand dipped due to refinery maintenance and seasonal factors. Domestic MEG demand ticked up due to cooling requirements, leaving fewer bbls for export. Ongoing OPEC production cuts are also putting downward pressure on rates while fleet growth ticks up. 32 vessels have delivered YTD.	Saudi Arabia announced that it would cut crude exports to 6.6 m b/d in August, a decline of 0.2 mb/d m-o-m. Combined with ongoing low seasonal demand, fleet growth, and a 10% reduction in Chinese refinery throughput, rates are expected to find further negative pressure.
Suezmax	9,400	9,250	Nigerian crude production continued to climb in July, reaching 1.7 m b/d by month-end. While the uptick provided underlying support for rates, VLCCs seemed to be the real benefactor of increases. 35 vessels have delivered YTD, which has added to the negative pressure of seasonal demand declines through the month.	Nigeria has agreed to take part in production cuts and cap production at 1.8 m b/d. This will limit the upside to WAF demand. Seasonal demand declines and high fleet growth are likely to continue putting negative pressure on rates through the month.
Aframax (Pacific)	9,900	7,700	A long available tonnage list, fewer ullage and port delays and 19 deliveries year to date, combined with seasonal demand factors, have caused rates to reach towards OPEX levels.	Kozmino exports are excepted to decline by 20% in August / September due to pipeline maintenance, which is negative for Aframax demand in the region.
Aframax (Atlantic)	8,950	6,550	Libyan production reached 1.1 m b/d in July, which should have been positive for MED demand. However, European refinery maintenance limited demand while a long tonnage list in the MED added insult to injury.	An excess of ships, limited European demand, and seasonal weakness may continue to keep rates low. North Sea maintenance coupled with Venezuelan production declines could also prevent any upside to rates.
LR2	6,650	8,250	Naphtha prices became more attractive than LPG for feedstocks, which provided an upside to LR2 rates during a period when clean tanker rates typically experience seasonal demand increases.	The 0.4 m b/d Pernis refinery has been taken offline due to a fire, and is not expected to start up again until mid-month. This will provide some support for rates in the region.

Despite Libya and Nigeria production increases, crude tanker rates remain low



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)	
	June'17	July'17	June'17	July'17
VLCC	27,250	27,000	29,500	29,500
Suezmax	18,000	17,750	21,000	21,000
Aframax	15,000	14,750	17,000	17,000
LR2	14,250	⬇13,750	16,000	16,000
MR	13,750	13,500	14,250	14,250

Source: Average of Clarksons, Braemar ACM, and Poten

Spot rates continued to slip as time charter markets found a potential bottom

S&P Activity

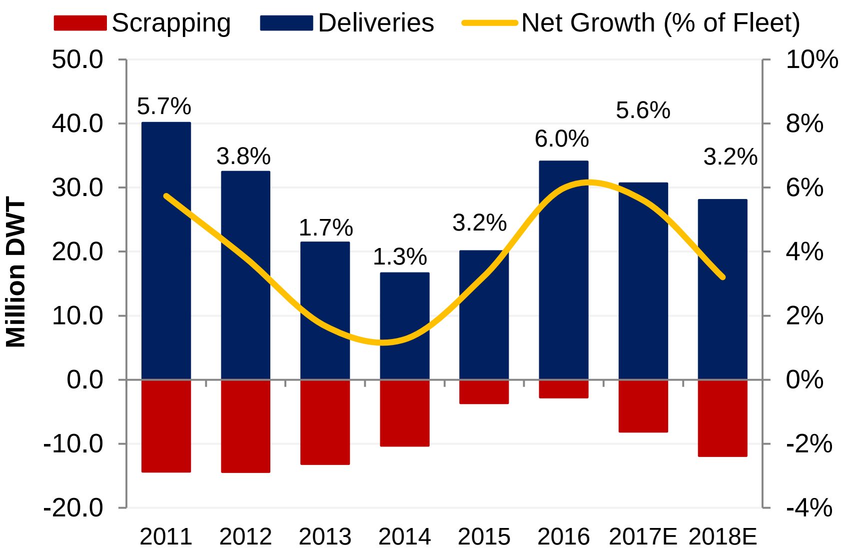
- Interest for modern assets remains strong and prices are holding despite a softer freight rate environment. However, older assets (15+) are facing downward pressure and buying interest in this vintage is limited.
- The *Phoenix Advance* (Aframax/2011/HHI) was sold to Pantheon for $28.1M which was in line with last done *Nissos Santorini* (Aframax/2012/Samsung). Shortly after, the *Phoenix Light* (Aframax/2009/HHI) was sold to Great Eastern for $23.5M.
- The *Seaborne* (Aframax/2003/Tsuneishi) was sold to Indonesian buyers for $11.5M, which was used for a project tender. The price is in line with last done *Silvaplana* which sold for $13M.
- The next benchmark Aframax is likely to be the *Nissos Serifos* (2012/Samsung). Buyers are asking for $30.5M which is in line with the price achieved on the *Phoenix Advance*.
- The Suezmaxes *Gener8 Horn* and *Phoenix* (1999/DSME) were sold for scrap. Nordic American Tankers is also looking to sell their older Suezmaxes, but there has been no interest to inspect because of the current low freight rate environment.

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	81.0	54.0	43.0	45.0	33.5
0	84.0 (-2.0)	56.0 (-1.5)	45.0	46.5 (-1.0)	34.0 (-1.0)
5yr	64.0 (-1.0)	41.0 (-3.0)	31.0	32.0 (-1.0)	24.0 (-1.0)
10yr	40.0 (-1.0)	26.5 (-2.5)	20.0	20.0	16.0
15yr	22.5	14.0 (-1.0)	12.0	12.0	9.0

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

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Fleet Statistics

- The tanker fleet has grown by 21.9 mdwt since the start of the year, or 4.0%, driven by a heavy tanker delivery schedule and continued low levels of tanker scrapping.
- 35 VLCCs, 40 Suezmaxes, and 40 Aframax / LR2s have joined the fleet so far this year
- Scrapping has started to pick up slightly, with 3 VLCC, 6 Suezmaxes, and 13 Aframaxes have been sent to the breakers.
- We estimate tanker fleet growth of 5.6% in 2017 and 3.2% in 2018

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2017	5.6%	9.7%	3.4%	7.7%	4.9%	3.3%
2018	3.5%	3.6%	3.1%	3.0%	2.6%	1.6%

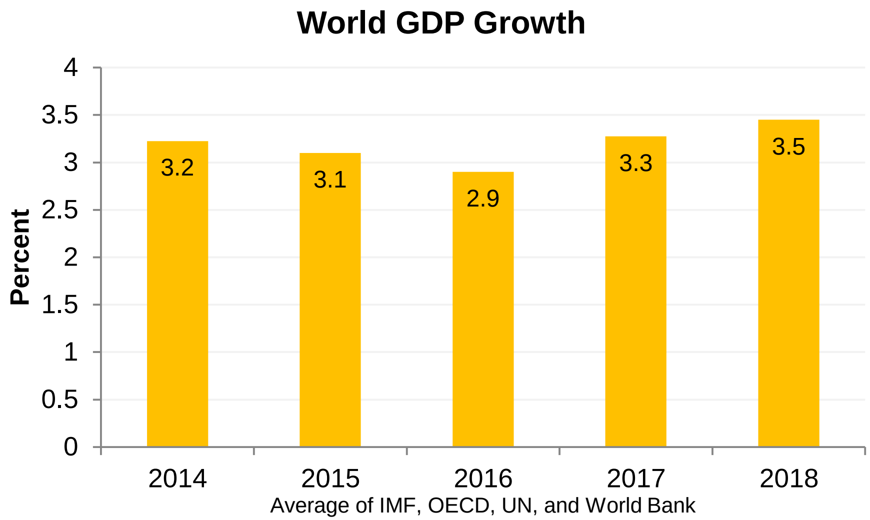
Source: Clarksons, internal estimates

Modern tonnage holding value while older assets (15+) facing downward pressure

Economy Outlook

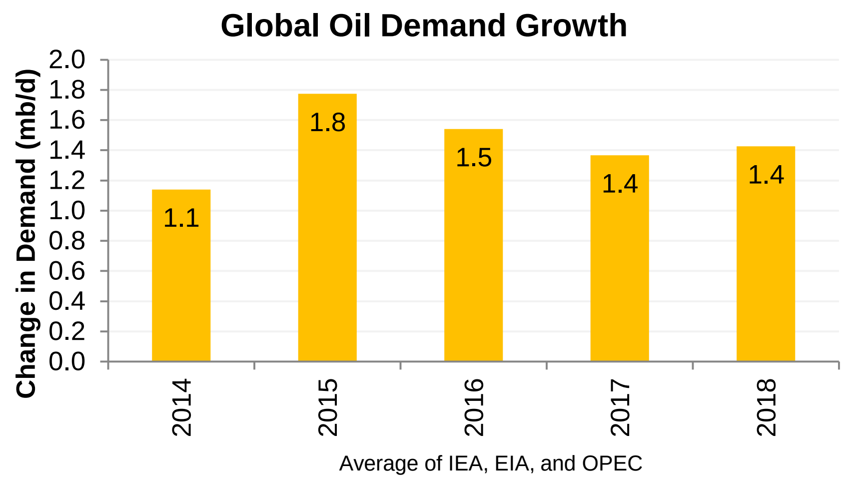
- According to the IMF's newest forecast, the improvement in global growth anticipated by their previous forecast remains on track, with projected growth of 3.5% in 2017 and 3.6% in 2018. However, projected growth rates remain below pre-crisis averages, especially for most advanced economies and for commodity-exporting economies.

USA	While growth in 2017 / 18 is expected to be higher than 2016, forecasts have been lowered on the assumption that fiscal policy will be less expansionary than previously assumed.
Europe	Forecasts have been increased slightly due to higher growth in Q1-17, however Euro area growth is expected to remain moderate, around 1.8% in 2017 / 18.
Japan	Growth is expected to pick up in 2017 due to fiscal support and stronger exports, but will slow again in 2018 due to lower public spending and ongoing weak private consumption.
China	Forecasts have been increased due to a strong Q1-17 and the assumption that Chinese authorities will delay fiscal adjustments and maintain high public investment to meet their GDP targets, at the expense of further increases in debt.



Oil Demand Outlook

- OPEC has released their first forecast for 2018, and expects a small decrease of 0.1 mb/d in both oil demand growth and the call on OPEC crude next year. In contrast, the IEA expects oil demand growth in 2018 to be the same as 2017, and the US EIA expects an increase in 2018 oil demand growth.
- After oil demand growth reached a three-year low in Q1-2017, oil demand growth rebounded in the second quarter. As a result, the IEA has slightly increased their forecast of 2017 oil demand growth. Brent crude prices increased from a low of ~$47 / bbl in early July to ~$52 as of early August.



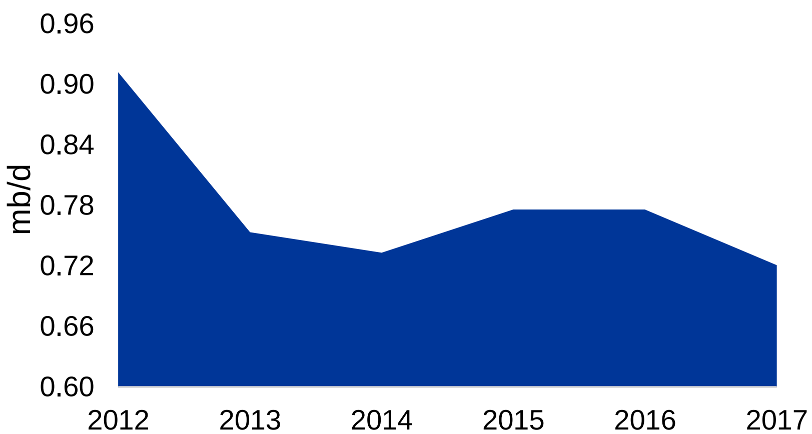
Small improvements in oil demand growth and Brent crude prices

US Sanctions on Maduro Could Be Just the Start

On July 31, the United States government announced economic sanctions on President Nicolas Maduro in response to recent Venezuelan election results that are largely viewed as illegitimate and a move towards a dictatorship regime within the nation. The sanctions are an embargo on all US individuals and organizations doing business with President Maduro. Although no formal oil-related sanctions have been included in the sanctions as yet, there is speculation that sanctions on the oil industry may follow. Venezuela holds the world's largest oil reserves.

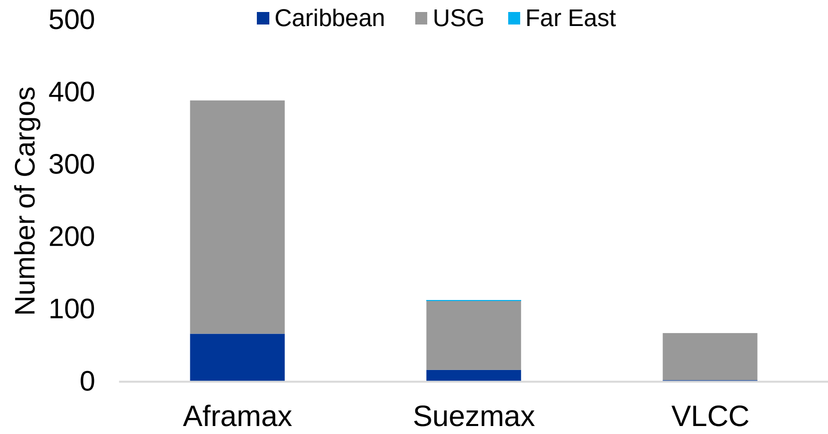
At it's height in the late 1990s, the US imported ~1.4 mb/d from Venezuela – more than their imports from Mexico, Saudi Arabia, and Canada. However, by 2016, those imports halved to ~0.7 mb/d, falling a distant third behind Canada and Saudi Arabia. Should an oil embargo be enacted, US refiners will be forced to source crude further afield, which will ultimately be a hit on their margins.

US Imports of Venezuelan Crude



Source: EIA

Venezuela Exports by Vessel Size (2016)



The lion's share of Venezuelan exports to the US move on Aframax tankers, as shown on the chart above. Our data suggests 323 movements from Venezuela into the USG in 2016. The obvious outcome of a Venezuelan oil embargo would include a serious decline in Aframax demand in the Caribs market.

While Aframax movements out of Venezuela to the USG would likely evaporate under US sanctions, there could be some upside from a more volatile trading pattern. Longer haul movements from WAF and the MEG into the USG, as well as an uptick in lightering demand, could provide some upside to tanker demand. In addition, volumes that would have previously moved to the US will likely move to Asia on VLCCs, which would further stretch the VLCC fleet between the MEG and the Atlantic. Such trading volatility could provide some upside to rates through an otherwise down time in the market cycle.

Aframax demand in the Caribs could be collateral damage to further sanctions