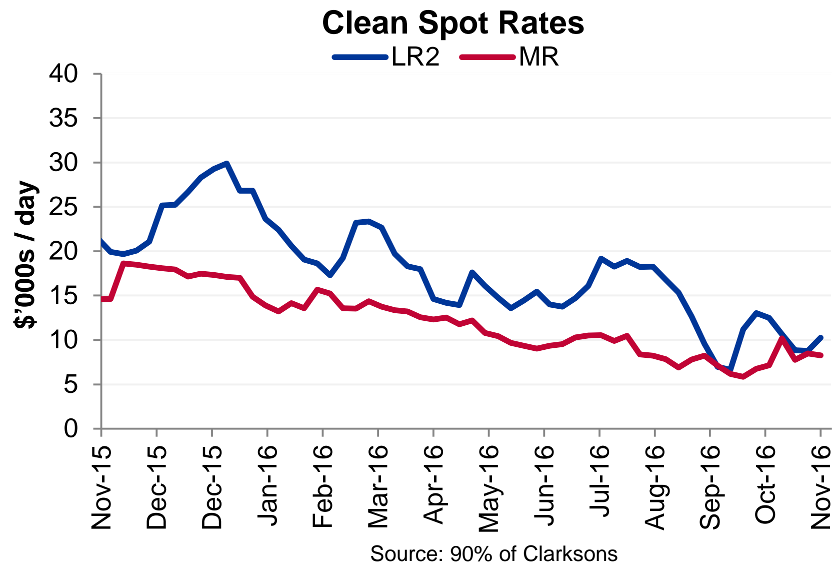
Research Department, Strategic Development

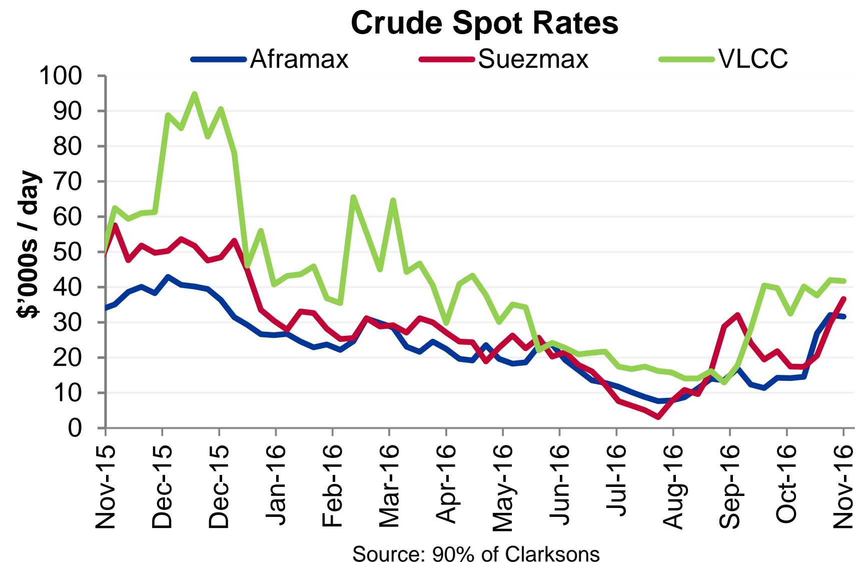
November review: VLCC rates continued to show strength in November, supported by record high OPEC crude oil production and seasonally high refinery throughput. The mid-size sectors also saw some support during November, particularly in the Atlantic basin where the return of oil supply in Nigeria and Libya coupled with the onset of regional weather delays led to a sharp increase in rates. The LR2 market continues to face headwinds from a lack of West-East naphtha arbitrage opportunities and competition from cheap LPG.

December outlook: Crude tanker rates are approaching a seasonal peak, with record high OPEC production, high refinery throughput, and the onset of winter weather delays giving support to rates. Support could also come from increased stockpiling of oil ahead of OPEC production cuts and expected higher crude oil prices from Jan'17. This follows the recent decision by OPEC to cut oil production by ~1.2 mb/d from January (see back page article for more details).

Wild cards: The political situation in Nigeria and Libya remains volatile; any renewed disruption to production and exports could have a negative impact on mid-size tanker demand in the Atlantic. Weather remains a key wild card at this time of year; delays in the Turkish Straits have eased after reaching ~6 days northbound / ~8 days southbound at the end of November, but bad weather has the potential to tighten tonnage supply as we move further into winter.

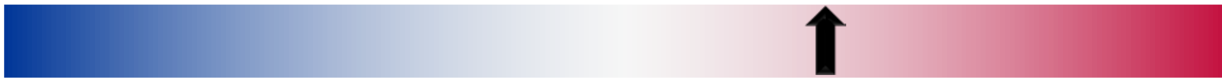


Source: 90% of Clarksons



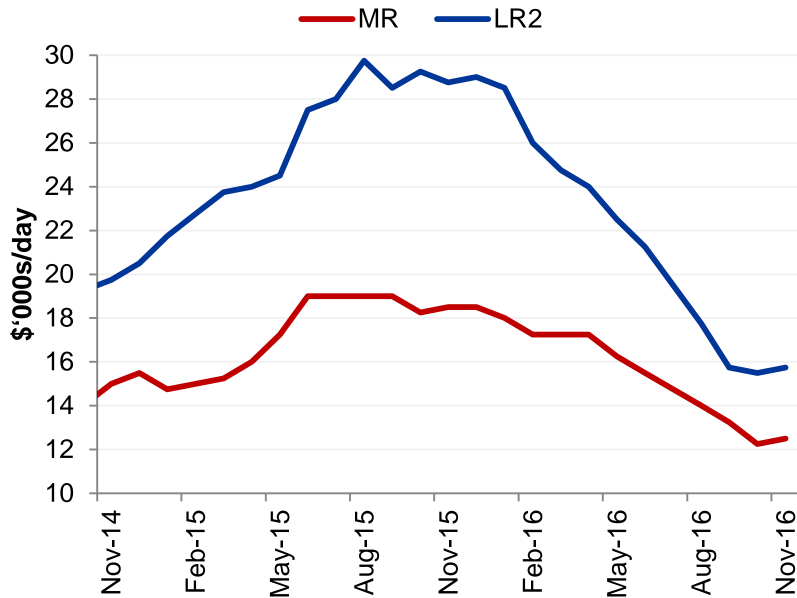
Source: 90% of Clarksons

Crude tanker spot rates approaching their seasonal peak

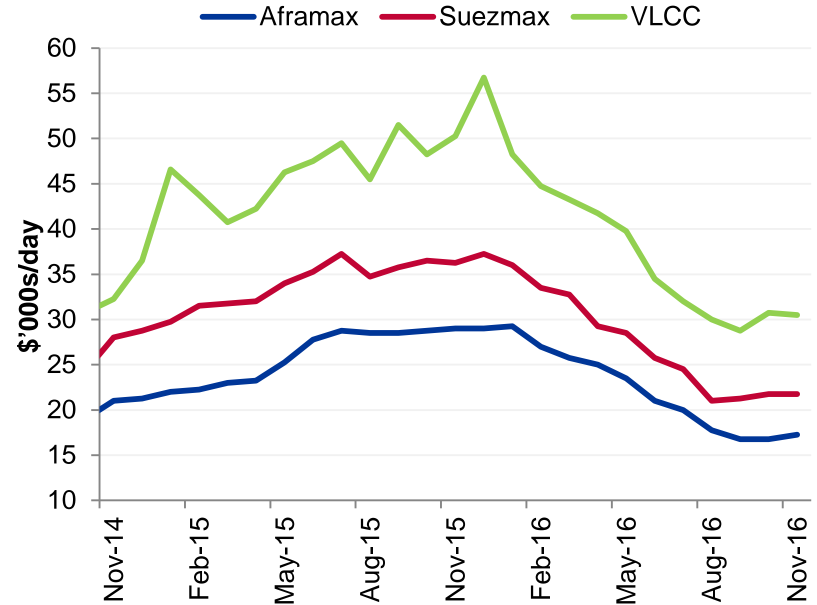


Segment	Oct'16	Nov'16	November Review	December Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	35,175	40,400	⬆ VLCC rates continue to be supported by very high OPEC crude oil production and strong demand as refineries approach their seasonal peak for throughput; 140 VLCCs loaded from MEG in Nov'16 vs. the 12-month average of 118.	⇔ VLCC rates are likely to remain supported by very high export volumes out of the Middle East and as refiners / governments look to build inventories prior to an OPEC production cut and potentially higher oil prices from Jan'17.
Suezmax	20,750	26,100	⬆ An increase in delays through the Turkish Straits to a peak of ~6 day northbound / ~8 days southbound and ullage delays in Europe and the US Atlantic Coast led to an increase in Suezmax rates during November.	⇔ Bad weather should continue to give support to Suezmaxes in the Atlantic during December, though this may be offset by lower output from Nigeria as the Agbami field undergoes two weeks of planned maintenance.
Aframax (Pacific)	12,800	13,750	⇔ Pacific Aframax rates edged higher towards the end of the month on the back of a strengthening Atlantic market, though a plentiful supply of tonnage kept a lid on rates.	⬆ Rates have continued to firm at the start of December and there is hope that a strong Atlantic market will continue to draw tonnage away from the region and lead to a continued strengthening of Pacific rates during the remainder of the month.
Aframax (Atlantic)	12,065	29,350	⬆ Atlantic Aframax rates increased significantly during November, driven by the UKC / Baltic and MED / Black Sea markets. The onset of winter weather delays, short-term floating storage in the North Sea and increased waiting times at ports are the main reasons behind the increase.	⇔ European Aframax rates will likely remain well supported by bad weather / port delays during December, though this is being offset by a weak USG / Caribs market due to a continued decline in Venezuela-US cargoes and as Mexico continues to send more crude long-haul to Asia at the expense of regional Aframax demand.
LR2	10,835	9,650	⬇ LR2 rates continue to come under pressure due to a lack of West-East naphtha arbitrage opportunities in the face of competition from cheap LPG and ongoing high fleet supply.	⇔ The UKC / East naphtha arbitrage has opened up at the start of December; however, a long LR1 tonnage list is likely to prevent LR2 rates from firming substantially in the near-term.

The onset of weather delays gave support to Atlantic mid-size rates in Nov'16



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)	
	Oct'16	Nov'16	Oct'16	Nov'16
VLCC	30,750	⬇ 30,500	29,750	⬇ 29,500
Suezmax	21,750	21,750	22,250	22,250
Aframax	16,750	⬆ 17,250	18,000	18,000
LR2	15,500	⬆ 15,750	17,500	17,500
MR	12,250	⬆ 12,500	14,000	14,000

Source: Average of Clarksons, Braemar ACM, and Poten

Time charter rates ideas holding steady for now

S&P Activity

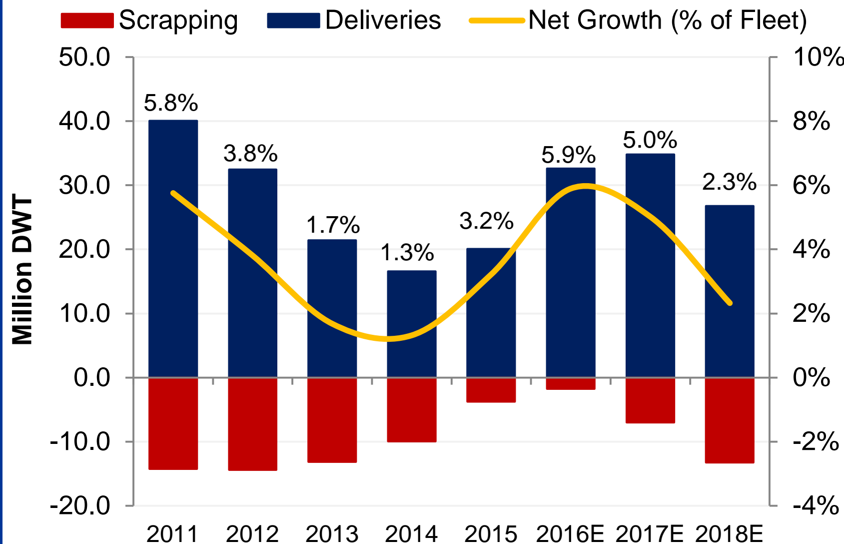
- Secondhand prices for tankers (modern and older) remain under pressure as new transactions have dropped prices by about 5% to 10% from broker assessments. Furthermore, Buyers have incorporated an extra year of depreciation into their pricing ideas as Sellers are looking for a forward delivery in order to capture the winter rally.
- BP sold 2x Aframaxes (2003 / 2004 Samsung built) to Tsakos for $29.3M enbloc. This was a private deal and we have heard that one of the vessels requires some maintenance. Based on 2017, the price achieved was 10% lower than broker assessed values.
- The 2x Metrostar VLCC Resales (2017), committed to Kyklades for $83M each on long subjects, appear to have now failed. The vessels were supposed to go on time charter to Reliance for 3 years at $29,500/day pending the buyers ability to acquire the vessels.

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	85.0	55.0	45.0	47.0	33.3
0	84.0 (-1.0)	55.0 (-1.0)	44.0 (-2.0)	47.0 (-2.0)	32.5
5yr	60.0 (-1.0)	40.0 (-3.0)	29.0 (-2.5)	31.5 (-2.5)	22.0
10yr	40.0	27.5 (-3.0)	18.0 (-2.0)	18.0 (-2.0)	15.5
15yr	24.0 (-1.0)	16.0 (-3.0)	13.0 (-2.0)	13.0 (-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 30 mdwt, or 5.7% through the first 11 months of the year. Annual fleet growth looks set to come in at ~6% during 2016 as a whole, the highest level of annual fleet growth since 2009, when the fleet grew by 7.7%.
- We forecast ~35 mdwt of deliveries during 2017, up slightly on 2016 levels. However, we expect fleet growth will moderate to ~5% next year due to a pick-up in scrapping.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2016	7.2%	5.2%	3.0%	9.8%	3.9%	5.9%
2017	4.5%	8.4%	2.9%	7.5%	5.2%	3.3%
2018	2.9%	2.0%	1.4%	1.0%	2.7%	1.3%

Source: Clarksons, internal estimates

Secondhand prices remain under pressure

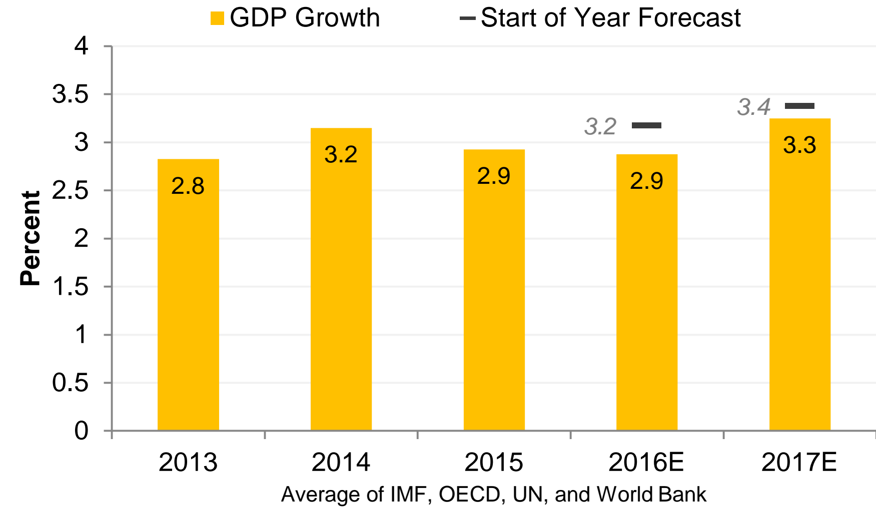
Economy Outlook

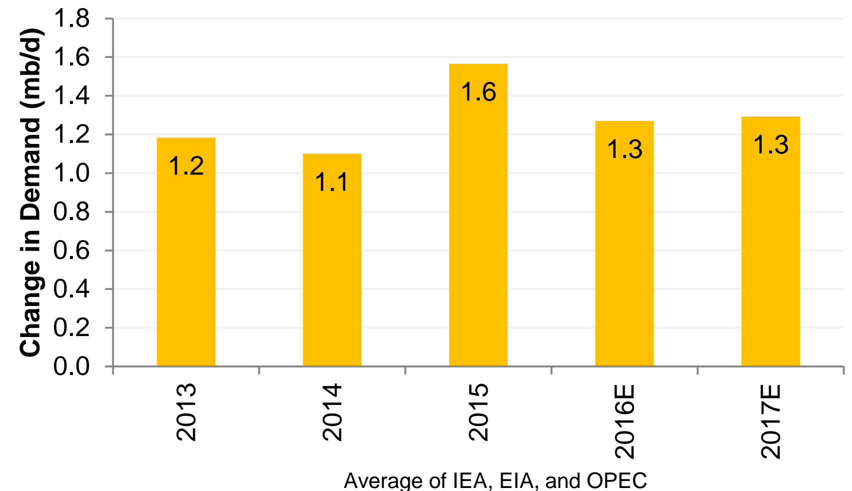
- The OECD has released their latest forecast of global economic growth, and has slightly upgraded their forecast of 2017 GDP growth to 3.3% (an increase from 3.2%).
- According to the OECD, the global economy has been stuck in low-growth for the past five years, with annual GDP growth disappointingly stuck around 3%. However, further fiscal stimulus in the US, China and Europe, if effective, could push the global economy to a modestly higher growth rate of around 3.5% by 2018.

USA	Estimated growth in Q3 was increased to 3.2% (versus 2.9% reported last month), which remains the strongest quarterly growth in 2 years.
Europe	The OECD expects European growth to remain near current weak levels through 2017 and 2018.
Japan	While GDP growth improved slightly in Q3 2016, the OECD expects growth to remain near 1% annually through 2018.
China	GDP growth in 2016 will meet the 6.5% – 7% official target, but the OECD expects GDP growth to continue a gradual slowing towards 6.1% in 2018.

Oil Demand Outlook

- After revising down their forecast last month, the US EIA has now reversed direction and increased their forecast of global oil demand growth in 2017 to 1.5 mb/d (up from 1.3 mb/d reported last month).
- According to the EIA, China is expected to contribute the most to oil demand growth in 2017, and the EIA sees ongoing positive economic data in China (e.g. recent GDP growth of 6.7% in Q3). In contrast, the IEA and OPEC expect 2017 oil demand growth closer to 1.2 mb/d.

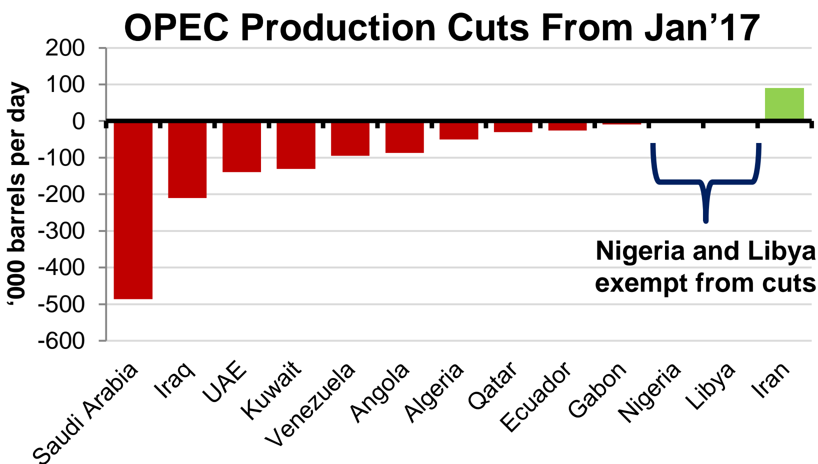


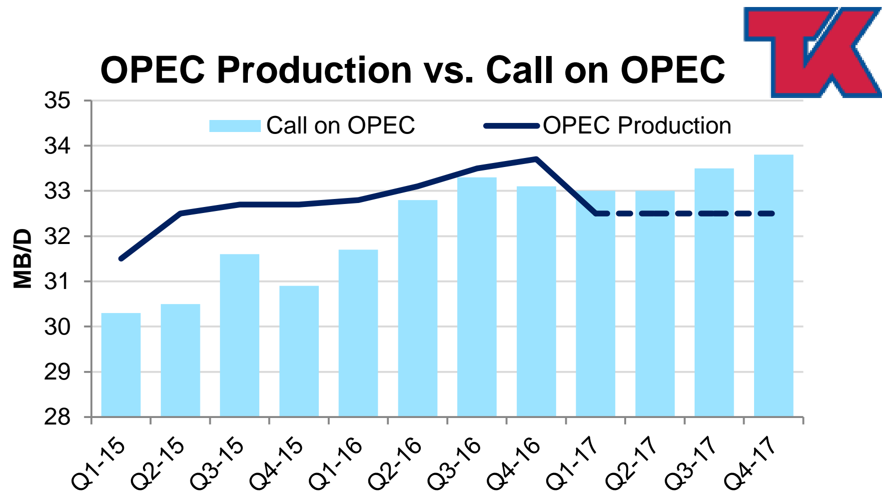


EIA expects higher oil demand growth in 2017

OPEC has agreed to a 1.2 mb/d cut in oil production to 32.5 mb/d, starting from January 1st 2017 and effective for at least six months. The group also stated that certain non-OPEC producers have pledged a 0.6 mb/d reduction of their own, of which Russia is to provide 0.3 mb/d in cuts (details of which are due to be announced later this week). How will this impact on tanker markets as we move into 2017?

Firstly, it is important to look at who is cutting production. As shown by the chart below, the Middle Eastern nations are responsible for ~75% of the cuts, led by Saudi Arabia with a cut of 0.5 mb/d. Nigeria and Libya are exempt from cuts as these countries are currently battling against unplanned outages (Nigeria due to attacks on pipeline infrastructure earlier this year and Libya due to the ongoing conflict which commenced in 2011). Iran has been allowed to increase its production slightly as it looks to return to pre-sanction production levels. Other countries have been allocated minor cuts while Indonesia was suspended from OPEC as its position as a net oil importer left it unable to participate.





At first glance the move by OPEC appears negative for tankers, as it will result in fewer crude export cargos and potentially higher oil prices (which is negative for oil consumption, stockpiling demand and bunker prices). However, this could be offset by an increase in long-haul movements from the Atlantic basin to Asia in order to compensate for the loss of Middle East cargos.

Looking longer-term, a reduction in OPEC oil production during 2017 could lead to a faster-than expected rebalancing in global oil markets. As shown by the chart above, OPEC production has been above the theoretical "call on OPEC" crude over the past 2-3 years, which has led to a big increase in global oil inventories. This is set to reverse if OPEC reduces supply to 32.5 mb/d, with oil supply moving into a deficit from Q1-2017 and continuing throughout the year. While this may be negative for tanker rates in 2017, it could leave the oil markets in a much healthier position from 2018 onwards at a time when fleet growth is set to reduce considerably. So it may be a case of short-term pain for long-term gain.

OPEC surprises the market with a 1.2 mb/d supply cut; is it all bad news?