Tanker Market Insight

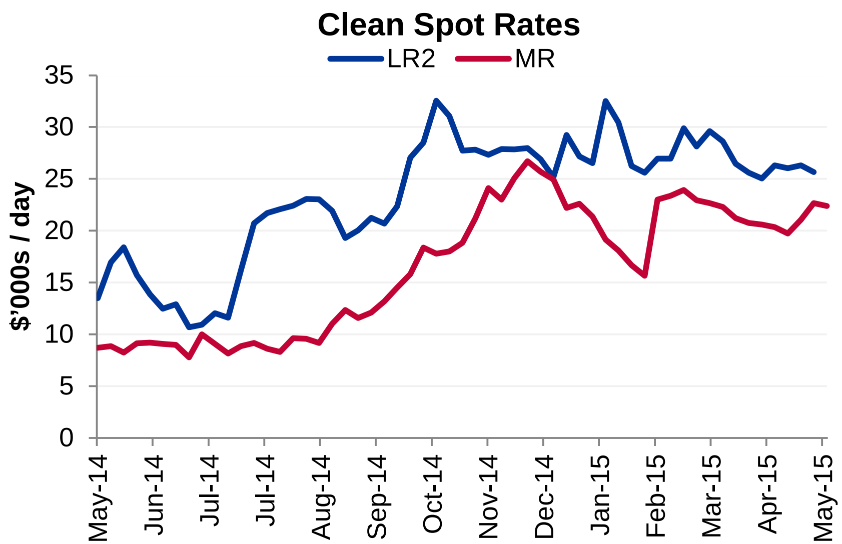
June 2015

Research Department, Strategic Development

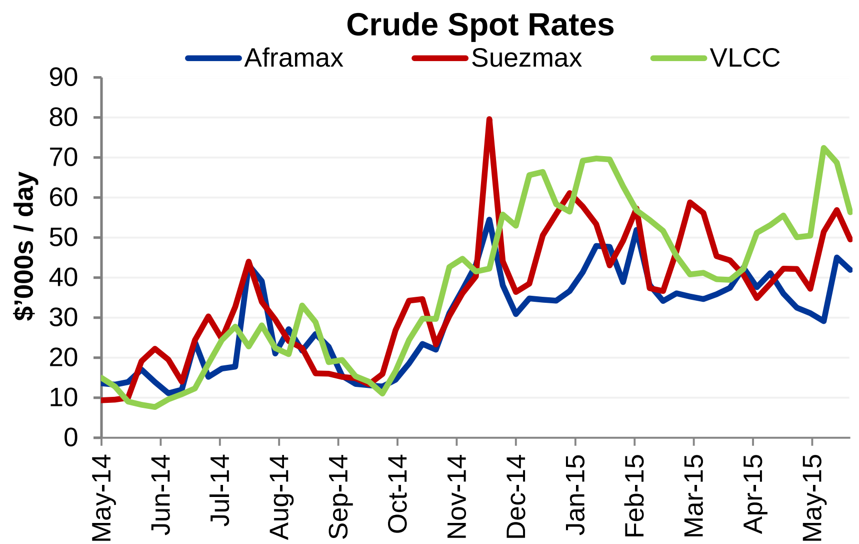
May review: Spot tanker rates continue to show counter-seasonal strength, and increased from April to May in most segments. VLCCs and Suezmaxes benefitted from an increase in crude exports from Iraq and West Africa and an increase in month-over-month crude imports into Asia. Strong refining margins and the start of the US summer driving season supported product tanker trade. Overall, average rates in May were double (or more) the rates seen in the same period of 2014 for all segments, except for LR2s which were ~70% higher than a year ago.

June outlook: The tanker market has now come through the traditionally weaker spring refinery maintenance period without a significant decrease in rates. With OPEC expected to leave production quotas unchanged at its upcoming meeting, and with high refinery throughput expected in June / July as plants exit planned maintenance, we expect that spot tanker rates will remain counter-seasonally firm into the summer months.

Wild cards: Higher Iraqi crude exports supported the tanker market in May. But, if Iraqi exports soften again, this could weaken the Middle East market over the summer when Saudi Arabia also tends to have lower exports, as more of its oil production is consumed domestically for power generation. Supply changes in Libya and floating storage in Singapore are two wildcards that could affect the Atlantic and Pacific Aframax markets respectively in June.

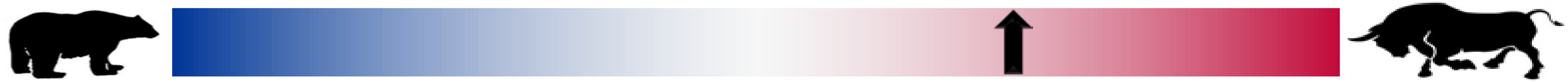


Source: Clarksons



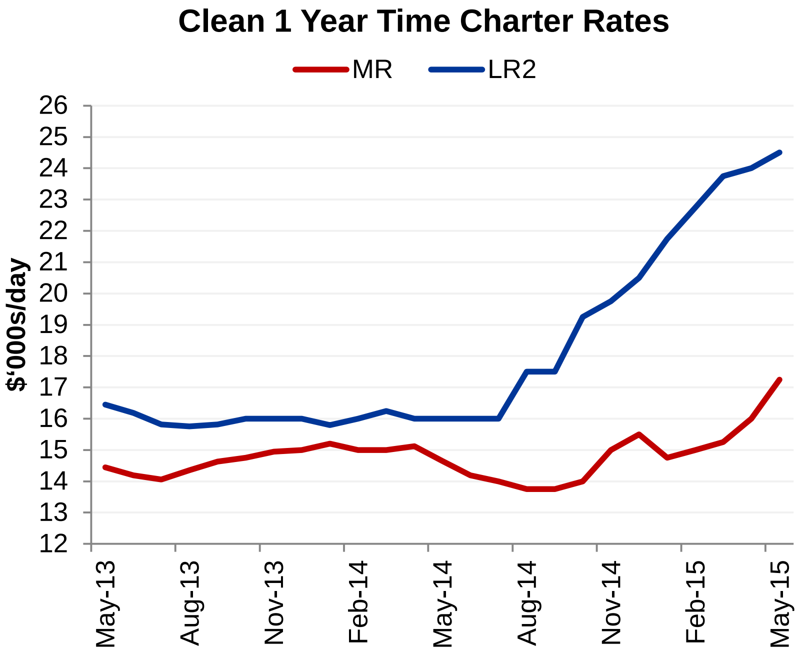
Source: Clarksons

Tanker rates increased in May on strong MEG / WAF exports and firm demand

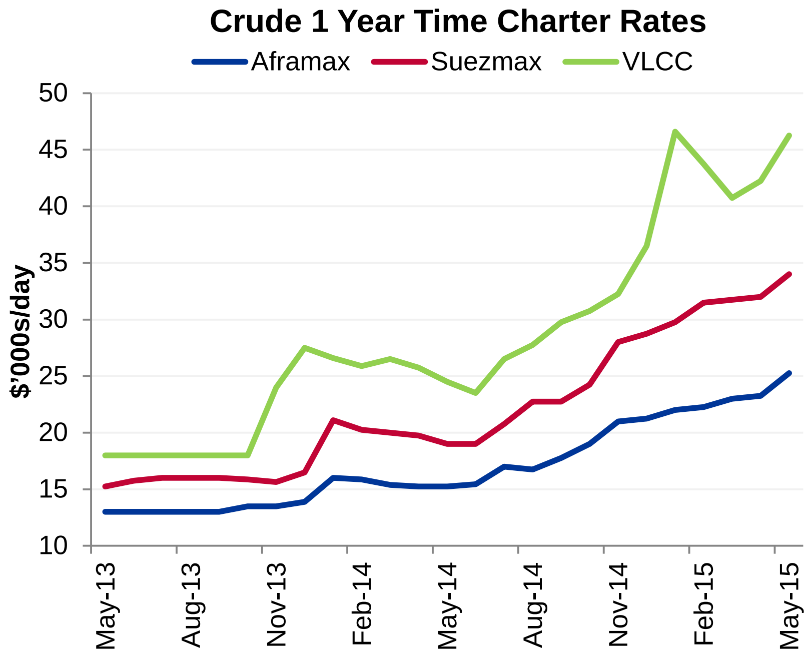


Segment	Apr'15	May'15	May Review	June Outlook
	TCE ($/day)			
VLCC	50,500	59,600	↑ Asian crude imports increased m-o-m in May, led by India and South Korea. The commissioning of India's Paradip refinery, designed to run heavy Latin America crudes, supported rates in the Caribs. In the Middle East, Iraq's southern exports from Basrah reached a record high in May.	↔ Rates began to soften at the end of May, but should remain strong as refinery throughput in Asia increases, and Iraq's exports are expected to increase another 600 kb/d in June. This could be partly offset as Saudi Arabia increases domestic crude consumption for power generation.
Suezmax	39,125	47,500	↑ Suezmax rates increased due to higher WAF to Asia exports, less competition from VLCCs, and more Suezmax demand in the Mediterranean due to an increase in Iraqi exports via Ceyhan.	↔ Rates could be supported in June by higher Russian exports in the Black Sea and an increase in European imports from WAF to replace lower North Sea production. However, this could be offset by an expected drop in WAF to Asia movements.
Aframax (Pacific)	31,000	33,700	↑ A surplus of fuel oil in Singapore created a short-term demand for Aframax floating storage during May. Rates were further supported by increased cargoes from the Middle East to Asia.	↔ Short-term floating storage demand and increasing Asian refinery throughput should continue to support Pacific Aframax rates in June, which start the month in the high $30,000s per day.
Aframax (Atlantic)	38,300	35,600	↔ Atlantic Aframax rates averaged slightly lower on supply disruptions in Libya and lower output from Primorsk. However, this weakness occurred in the first half of the month, and rates improved in the second half on UKC and cross-Med routes.	↔ Russia's seaborne crude exports are set to increase by 143 kb/d m-o-m in June, and Libya intends to increase exports by 200 kb/d over June and July. However, this could be offset by a lower North Sea loading schedule in June and July.
LR2	26,400	27,200	↔ Strong global refinery runs and the ramp-up of new MEG export refineries supported LR2 rates. Asian naphtha imports from the West were 1.8 M tonnes in May, a small increase over April.	↑ Asia's long-haul naphtha imports are expected to increase slightly to 1.8 – 1.9 M tonnes in June. In addition, China's naphtha imports are increasing to support petchem demand and gasoline blending.
MR	21,200	21,200	↔ Strong global refining margins and an increase in US gasoline imports in advance of the summer driving season supported MR rates.	↔ Rates are expected to remain steady on strong product demand in the Atlantic (US summer driving season and gasoil demand in the Mediterranean)

Spot rates expected to remain counter-seasonally strong in June



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)	
	Apr'15	May'15	Apr'15	May'15
VLCC	42,250	⬆ 46,250	39,500	⬆ 41,500
Suezmax	32,000	⬆ 34,000	30,750	30,750
Aframax	23,250	⬆ 25,250	22,250	⬆ 23,250
LR2	24,000	⬆ 24,500	22,250	⬆ 23,000
MR	16,000	⬆ 17,250	15,500	⬆ 16,000

Source: Average of Clarksons, Braemar ACM, and Poten

Time charter rates increased due to strong spot rates in May

S&P Activity

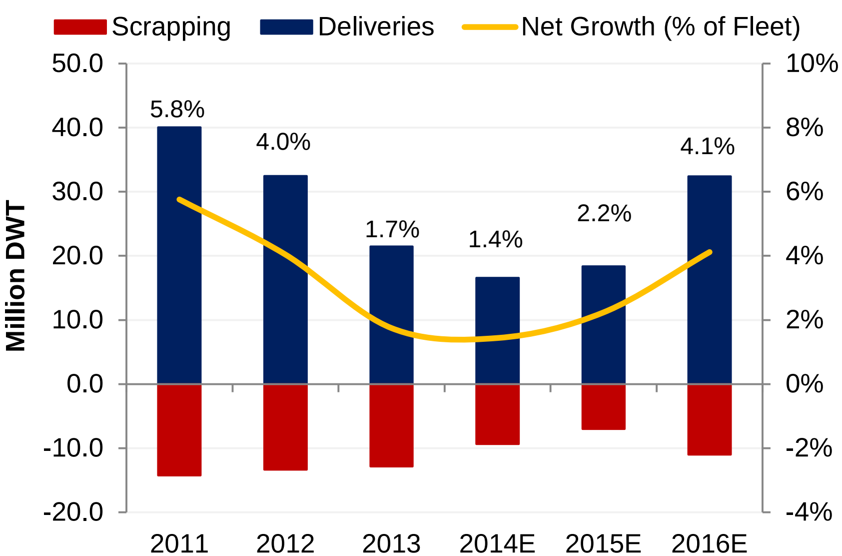
- There was limited number of modern tankers sold in May. HMM sold the Universal Crown and Universal Queen (2005 HHI-built) to Sinokor for USD 49.5M each, which is in-line with broker assessed values.
- There was an influx of LR2 newbuild orders in May, including Frontline (2 from SWS), Reederei Nord (2 from Samsung), and CS Tanker (4 from Dalian).
- The surge of new orders could have been triggered by upcoming IMO Tier III regulations on NO_X emissions, which comes into force on 1st January 2016 and which will increase tanker newbuild prices by USD 2-4 million. Owners have been circumventing the regulations by laying the keel early, though shipyards are advising that contracts signed within June'15 are likely to be last month when early keel laying can be applied.

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	96	64.5	53	56	36.5
0	105.0	70.0	56.0	59.0	↑ 37.5
5yr	↓ 80.0	59.0	45.0	47.0	↓ 26.0
10yr	52.0	40.0	30.0	30.0	18.0
15yr	↑ 34.0	22.0	16.0	16.0	12.0

Source: Clarksons

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Fleet Statistics

- A strong freight market has resulted in much lower tanker scrapping than anticipated in 2015 with just 1.9 mdwt removed in the first five months of the year. As a result we have lowered our 2015 scrapping estimate to 7.0 mdwt resulting in higher fleet growth in 2015 / 16 than previously forecast.
- Our preliminary forecast for 2017 based on the current orderbook is for fleet growth of ~2%. However, this figure may rise as more orders are placed for 2017 delivery.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2015	1.8%	0.2%	-1.7%	10.2%	-1.2%	5.6%
2016	4.5%	3.2%	-0.6%	8.0%	3.4%	5.6%

Source: Clarksons, internal estimates

Lower than expected scrapping leading to higher fleet growth in 2015 / 16

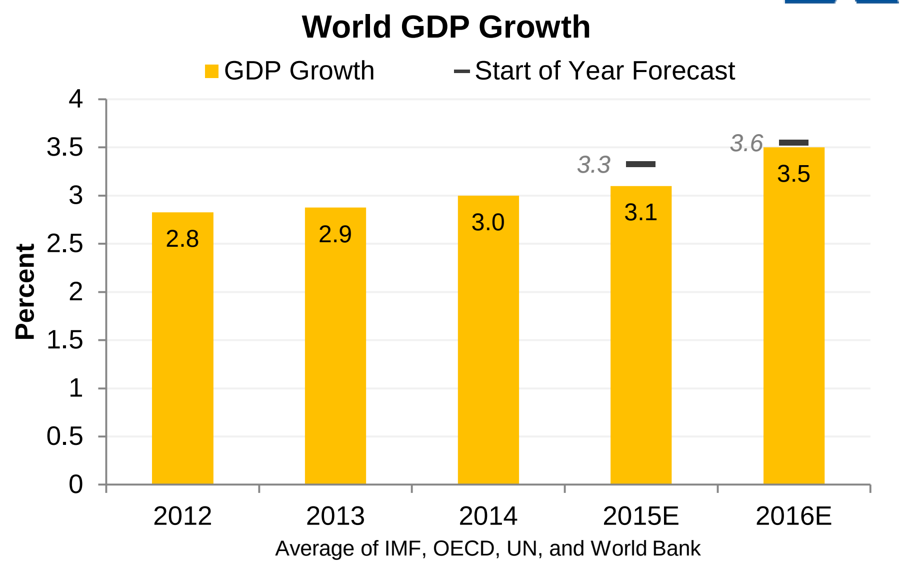
Economy Outlook

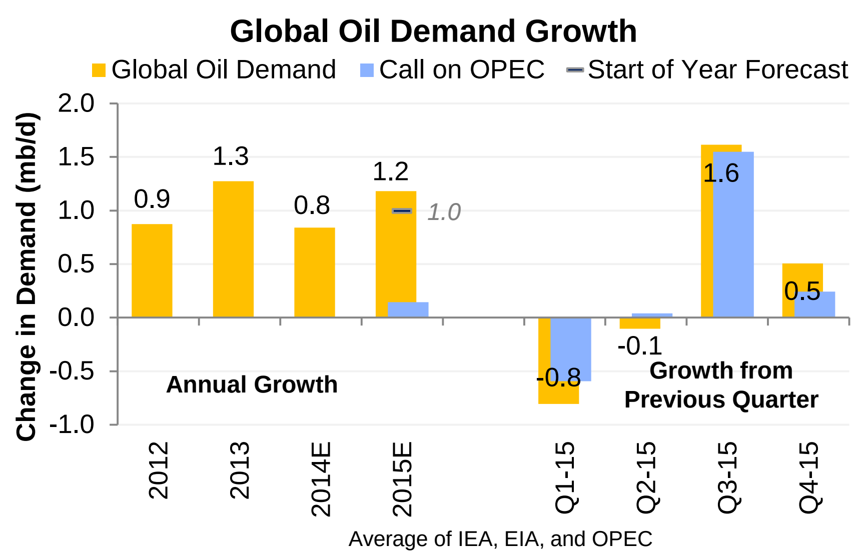
- In May, the UN reduced their GDP growth forecasts to 2.8% in 2015 and 3.1% 2016, a decrease of ~0.2%. The revision is largely due to expectations that Russia and Brazil will contract in 2015 due to weaker energy prices and political problems.
- In June, the OECD reduced their forecast of GDP growth in 2015 to 3.1% (down from 3.6%). Their 2016 forecast was reduced by only 0.1%. The sharp revision for 2015 is largely due to unexpectedly slow growth in the first quarter of 2015.
- As a result of the revisions, our average of GDP growth forecasts has been reduced since last month.

USA	After a slow start to 2015, low energy prices and falling unemployment should support growth in H2 2015. However, the strong US dollar is now less supportive of exports.
Europe	Growth forecasts for 2015 - 2016 have increased due to low oil prices, depreciation of the Euro, and more ECB stimulus
Japan	A weaker yen is supporting exports, but GDP growth is expected to remain low around 1% in 2015 due to weak growth in wages and private consumption.
China	Growth forecasts have been slightly reduced given weaker than expected economic data in early 2015.

Oil Demand Outlook

- Despite lower GDP growth forecasts, oil demand growth expectations continue to increase due to low oil prices.
- The EIA increased their 2015 and 2016 oil demand growth forecasts by 0.2 mb/d, claiming that "lower oil prices stimulate demand growth more than previously expected". This is a slight reversal of opinion from early 2015 when the EIA argued that the negative impact of lower economic growth would outweigh the positive impact of lower oil prices.



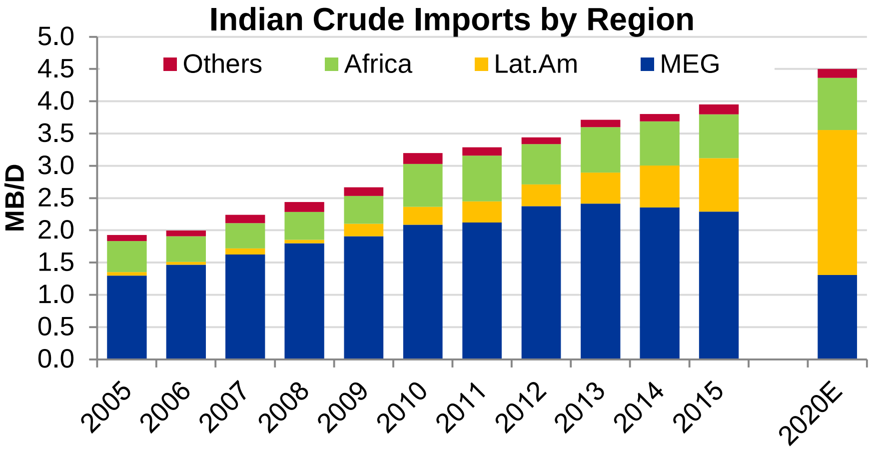


GDP slightly weaker, but oil demand growth stronger on low prices

India is one of the fastest growing oil consumers in the world. As a result, it is has significantly increased its imports of crude oil, with imports roughly doubling over the past decade from around 2 mb/d in 2005 to just below 4 mb/d in 2015. By the end of the decade Indian crude imports are expected to increase further, to around 4.5 mb/d, as new refineries are built to satisfy both growing domestic demand and rising product exports.

India has traditionally sourced most of its crude from the Middle East. In 2008 the Middle East supplied 75% of India's crude imports, mostly from Saudi Arabia, Iran and Iraq. However, in recent years India has been sourcing crude from further afield and in particular from Latin America. In 2015-to-date India has sourced 20% of its crude from Latin America, chiefly from Venezuela but with rising volumes also from Brazil and Colombia.

This balance could shift further in the coming years. The Indian government recently announced its intention to increase it imports of Latin American crude to 50% of total imports over the next five years in order to reduce dependence on the Middle East.



Source: Government Data / Internal Estimates

Tanker Demand Generated by Indian Crude Imports

	MEG	Nigeria	Venezuela	TOTAL
Distance (miles)	1,400	7,000	10,000	-
Sailing time @ 13 knots (days)	4.5	22.5	32.0	-
Round trip (days)	13.0	49.0	68.0	-
2015 imports (mb/d)	2.3	0.7	0.8	-
2015 tanker demand (VLCC equivalent)	15	17	28	**60**
2020 imports (mb/d)	1.3	0.8	2.3	-
2020 tanker demand (VLCC equivalent)	8	20	77	**105**
Additional vessel demand by 2020 (VLCC equivalent)				**45**

This shift in imports could have a significant impact on crude tanker demand in the coming years. Indian crude imports are expected to be 15% higher in 2020, but the increase in tanker demand is expected to be much greater due to the increased distances generated by the growth of imports from Latin America.

The table above shows the amount of tanker demand generated by Indian crude imports, expressed as VLCC equivalent units on a round trip basis. In 2015 Indian crude imports generated demand equivalent to 60 VLCCs; by 2020 this number reaches 105 VLCCs due to the significant tonne-mile demand generated by an increase in Latin American imports. This equates to demand for an additional 45 VLCCs over the next five years.

In practice, not all of the demand generated will be for VLCCs. Some of India's imports from Latin America are done on Suezmaxes (the bulk of imports from Colombia, for example, are on Suezmaxes). However, it is clear that the changes are likely to benefit the large tanker sizes – VLCC and Suezmaxes – over Aframaxes, with could suffer from a reduction in Venezuela to US movements as more crude is directed East.

Changing trade patterns into India expected to benefit VLCCs / Suezmaxes