Tanker Orders in Focus

Weekly Tanker Market Report

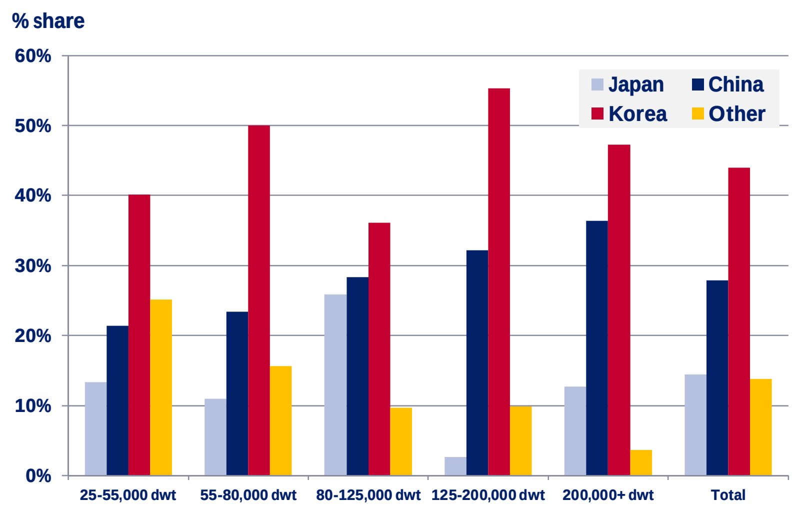
Between 2013 and 2015 the tanker industry witnessed a surge in new orders for all sizes, except Handy/MRs. Investment in the LR2/Aframax and LR1/Panamax size groups was focused on clean tonnage, although last year there was also a strong interest in dirty Aframaxes. The total number of orders placed last year reached the highest level since 2007. For the most part, new investment was driven by impressive tanker earnings. However, some orders scheduled for 2016 were "fast tracked" in to 2015 to avoid paying higher costs associated with TIER III regulations.

The investment background is different this year. Tanker rates and earnings have started to ebb, most notably in the product tanker market. At the same time, there have been reports of difficulties in accessing new finance. Concern is growing that earnings could come under further downward pressure once all the tonnage ordered over the past three years is delivered into the market. Since January, 102 tankers over 25,000 dwt have started trading but there are still so many more to be delivered over the next two years. As of now, the tanker orderbook stands at 14% of the existing fleet, although percentages vary depending on the sector. Suezmaxes have the largest orderbook of all, at 22% relative to its current fleet. In contrast, Handy/MRs have the smallest orderbook, at just 10%.

Not surprisingly, there has been just a handful of confirmed tanker orders so far in 2016. Just 20 orders have been placed, with nearly half in the MR segment. It will be interesting to see what happens to ordering activity during the remainder of the year. Downwards pressure on asset values could stimulate new investment, with newbuilding prices slipping in May to its lowest level since 2013. This particularly could be the case, taking into account challenges faced by the shipbuilding industry. Apart from limited access to new finance, shipyards are dealing with a number of other adverse conditions, most notably low order intake and shipowners delaying placing orders. This turmoil could force yards to compete even harder and reduce newbuilding prices even lower. Some owners may use it as an opportunity to augment their fleets and/or replace aging tonnage.

On the other hand, the same could translate into a permanent closure of shipbuilding capacity. STX Shipbuilding filed for a court-led restructuring last week, creating not only a cloud of uncertainty over the yard's existing orderbook but also highlighting how severe market conditions could become even for prominent shipbuilders. Media reports indicate that many other leading yards in South Korea are also experiencing significant financial difficulties.

Share of Tanker Orderbook by Country of Build



The crisis in shipbuilding industry is expected to translate in to delays for tonnage ordered at troubled yards. However, the chances of cancellations are considerably less likely, particularly for tankers where construction is already under way. Furthermore, in South Korea, where the bulk of the tanker orderbook is contracted, large shipyards provide a vital contribution to the domestic economy; as such, further government intervention and support is likely.

To conclude, the number of tanker deliveries expected to commence trading over the next 18 months could be lower than previously envisaged. The recent lull in new tanker investment will also apply the brakes on the pace of expansion in supply in two/three years down the line. All of this offers welcome news for owners, providing that cautious approach to new investment continues.

Crude Oil

Middle East

Busy enough through the week for VLCC Owners to use last week's bottom markers as a springboard for reasonable improvement, though Charterers didn't shop quite hard enough to allow for that to then convert into a significant break-out. Rates moved up to ws 67.5 to the East and to no less than ws 35 to the West but the intervention of Posidonia will make for a muddled start to the new week. Suezmaxes had started in fine form but lost a little of their gloss by the weeks end though tightness persists, and rates hold up for now at close to ws 90 East and ws 45 to the West, with a tentative start to next week likely. Aframaxes failed to pick up as hoped, and merely tracked sideways at 80,000 by ws 100 to Singapore over the period. For now, there's no good reason to anticipate anything much different for next week.

West Africa

Suezmaxes had their week in the sun before then retreating on profit taking and the sunshine in Greece will probably allow now for Charterers to ease back, and Owners to continue to chase downwards. Rates now stand at ws 75 to the USGulf, and around ws 80 to Europe, but had previously pushed at nearly 10 ws points higher than that for a short while. VLCCs got a little busier from mid-week, and once the AGulf had made its move. Rates equalised with that zone at up to ws 67 to the East and should stay in lock-step over the next period as ballast time considerations from the East force Charterers hands.

Mediterranean

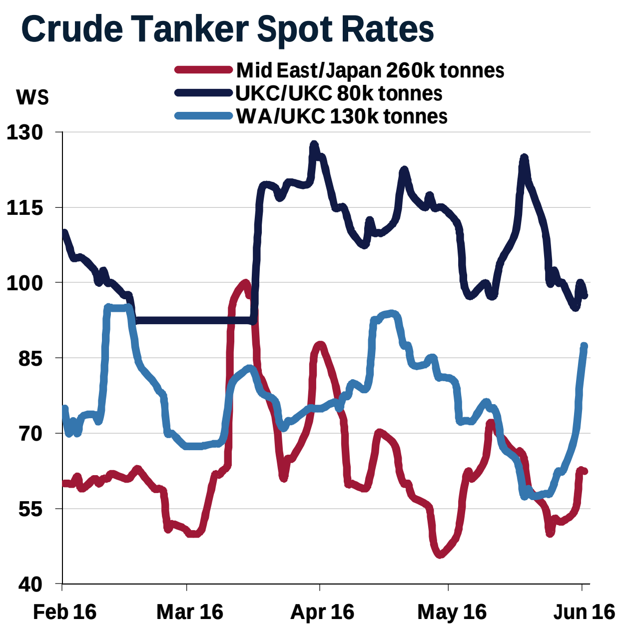
Aframaxes worked hard but fell back from modest peaks to end up where they ended last week - 80,000 by ws 117.5 cross Med - and although nobody's solidly calling the market lower, 'holding' is about the best that Owners can hope for. Suezmaxes rolled along nicely on firstly Aframax support, and then West African gains, but as both of those supports then wobbled, rates eased off a fraction to 140,000 by ws 95 from the Black Sea to European destinations, and could/should come off further over the next fixing phase.

Caribbean

All rather static here. Aframaxes bobbed about within a tight 70,000 by ws 97.5/102.5 range all week, and there aren't any obvious catalysts for early change. VLCCs saw only occasional interest and also remained stuck at around \$4.75 million to Singapore, and \$3.75million to West Coast India with another flat week looking on the cards.

North Sea

Still a bit soggy for Aframaxes. Availability remained easy enough for Charterers to merely take things steady, and rates chipped down to 80,000 by ws 95 cross UKCont, and to 100,000 by ws 67.5 from the Baltic. Larger sizes saw little and VLCCs remain theoretically marked at \$3.9 million for fuel oil from Rotterdam to Singapore, but trades are hard to cement, and recent delays and uncertainties in France haven't helped.



Clean Products

East

LR2s spent most of the week quietly waiting for the rates the drop. Given the lack fresh cargoes entering the market it was unfortunately only a matter of time until they slipped and negatively corrected. 75,000 mt naphtha AG/Japan is down to ws 85 and 90,000 mt jet AG/UKC has reverted back to $1.75 million. LR1 rates have also suffered with this very quiet week, 55,000 mt naphtha AG/Japan sits at ws 95 and 65,000 mt jet AG/UKC stumbled down to $1.275million. With the tonnage starting to build quickly in the AG the LRs are in some real need of fresh cargoes to reach the market, otherwise this fairly unimpressive week will push on into week 23 . It was a pretty uneventful week for the MRs even with activity being of an acceptable level. The amount of available tonnage and reasonably forward dates of fresh stems has resulted in rates across the board remaining soft and in some cases even taking a further downward turn. AG/EAfr has endured its soft rate throughout the week at 35 x ws 130. UKC voyages procrastinated around the $975k mark but, when put under a little pressure they creaked and closed the week at $960k. X-AG voyages also came off a touch and currently sit at $170k. AG/Japan remains relatively untested at 35 x ws 102.5. It's been relatively frustrating week for the MR Owners who will be hoping to see a change in the wind soon, however, currently that doesn't appear to be coming too soon.

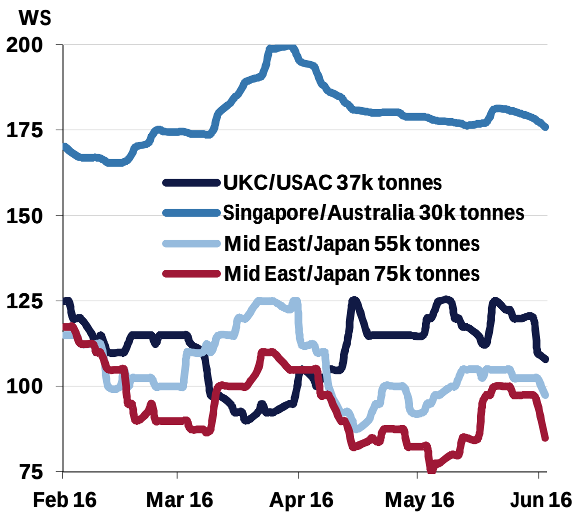
Mediterranean

After a promising end to week 22, many in the Owning fraternity were optimistic heading into Monday and continue the push on freight rates But as London staggered in after the long bank holiday week , so did the market. Volumes were on the light side and with a glut of Handy tonnage appearing over the next 10 days levels were clipped down to 30 x ws 135 and 30 x ws 140 for Cross Med liftings and Black Sea respectively. With Posidonia on the horizon, activity did pick up towards the back end of the week but many would assume Charterers were clearing their books ahead of the party week. Off the back of this a slight rebound has been seen from the Black Sea and East Med region which seems to have tightened. If further inquiry creeps into the market next week, Owners will have the chance to hold levels or hope for further progression, but equally if we do not see the demand, rates can just as quick be seen struggling to hold by Charterers. A balanced market has been left at present. On the MRs we have seen little to get excited about for all parties across the board. Red Sea runs have slipped to $650k basis Suez discharge and transatlantic cargoes have been a rarity through the week and require a fresh test at 37 x ws 110.

UK Continent

As Week 22 comes and goes, it has left us with a market which has struggled to hold onto last done rates, but with demand staying strong throughout a sense of optimism from Owners begins to shine. As the delayed start of the week gave us rates around the 37 x ws 120 mark, good levels of tonnage building up gave Charterers the upper hand, and we saw 10 points shaved off here. Activity continues as Charterers enjoy cheaper rates available on the table, and as the conclusion of the week looms, options available are slender for cargoes. Owners begin to feel that promise is there and we could start to see rates slowly creep back up. This said, with Posidonia around the corner, how many more fresh cargoes we will see at the beginning of the next week will be in question. A small handful of inquiry heading to WAF has been a pleasant arrival for Owners as options for employment have improved. The Handies this week have kicked the can along the street with little to get excited about across the board. Owners have managed to gradually build from 30 x ws 135 on Monday to the dizzying heights of 145 today (sarcasm included). Looking forward we can expect this trend to continue, as tied up tonnage in France slowly becoming free and giving Charterers options when fixing, keeping rates where they are today. Flexis see a week pass which had potential to improve with delays in France, to then seeing very little to get excited about and rates holding fast. French port strikes continued to be talked about by Owners hoping to add fuel to the fire and set this market alight. Despite this, Charterers have been able to see rates tick along at 22 x ws 180 for both COA and market runs and we are left with a well-balanced market ahead. Any spike in either side of tonnage or stems will see rates affected appropriately, but for the time being the week has come to an end, and pens are put to rest for the weekend.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The continent's legs grew tired this week and Owners by no fault of their own have been unable to build on the previous week's buoyant trading due to an absence of cargo and oversupply of tonnage. To Owners credit, damage has been resisted to a certain extent as at the end of this week there has been 10 point discrepancy helping owners to slow the rate of decline. This said, higher numbers have been due to restrictions which highlights that even in this market there are still some areas that Charterers stand to get caught out upon. Nonetheless the reports will undoubtedly cause some juicy debates in next week's negotiating. Pre-Posidonia packing is probably the best way to summarise activity in the Mediterranean this week. Following on from last week's momentum, with Black Sea stem supply the driving force, we saw an active start to the week which cleared out prompt positions giving Owners the opportunity to build on every fixture. This fizzled out somewhat as the week progressed and Charterers probably realised that instead of adding fuel to the fire, sitting tight until next week once positions have replenished could be a safer card to play.

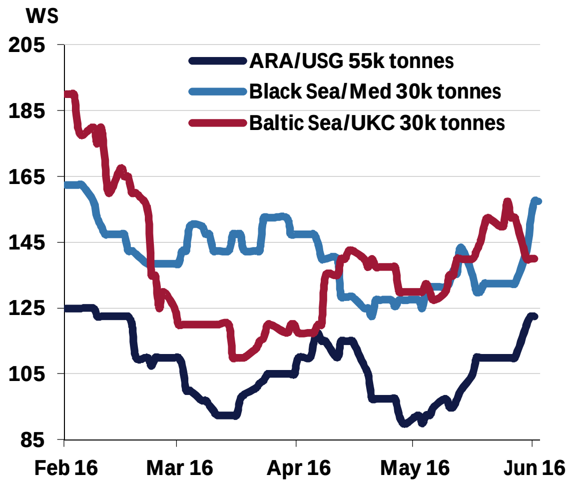
MR

This week we saw a slow elimination of virtually all naturally positioned vessels on the continent placing greater need for Charterers to start look further afield, both in terms of fixing dates, and for tonnage ballasting in. Elsewhere, busy activity in the Mediterranean has led to a thinning of available MR options although with most of the activity being of a short haul nature, the majority of projected opening positions stacked up in the East Med region. Owners will be keen to build on this week's activity however, it is worth noting that this week's reported rates were very date sensitive. And with many of absentee expected next week, perhaps further increment may be put on ice.

Panamax

The week has been one of highs and lows as laycans prove the ruling decision maker when trying to secure firm tonnage and deciphering what level you will need to pay. With little natural tonnage this side of the Atlantic Charterers have been forced to look at securing firm tonnage from the States, and where so long as ballast time allows, these Charterers managed to secure the more competitive levels. Furthermore this trend is set to continue into next week as our lists show few signs of replenishment. With this in mind if fresh enquiry continues next week the outlook for this market is set to remain firm.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 2nd	May 26th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+12**	64	52	48	61
TD20	Suezmax	WAF-UKC	**+25**	87	62	83	76
TD7	Aframax	N.Sea-UKC	**-6**	96	102	115	94

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	June 2nd	May 26th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+14,250**	49,500	35,250	32,750	45,750
TD20	Suezmax	WAF-UKC	**+14,000**	33,000	19,000	32,750	27,250
TD7	Aframax	N.Sea-UKC	**-5,000**	13,750	18,750	33,750	12,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 2nd	May 26th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-13**	85	98	83	
TC2	MR - west	UKC-USAC	**-10**	109	119	117	100
TC5	LR1	AG-Japan	**-3**	98	100	99	95
TC7	MR - east	Singapore-EC Aus	**-1**	179	180	179	

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	June 2nd	May 26th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-4,000**	14,500	18,500	14,750	
TC2	MR - west	UKC-USAC	**-1,750**	10,500	12,250	13,000	8,750
TC5	LR1	AG-Japan	**-500**	12,250	12,750	13,500	11,750
TC7	MR - east	Singapore-EC Aus	**-500**	15,250	15,750	16,000	

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam HSFO 380)	**-2**	223	225	202
ClearView Bunker Price (Fujairah 380 HSFO)	**-2**	243	245	221
ClearView Bunker Price (Singapore 380 HSFO)	**+2**	230	229	220
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-8**	435	443	405

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