Mid-Year Review

Weekly Tanker Market Report

Our last two Weekly Reports have been very much focused on the product and crude tanker markets looking at developments over the first six months of the year, so there is little need to repeat our thoughts in our mid-year summary. The statistics produced below show that the tanker fleet has grown over the past twelve months by another 203 units amounting to 21.9 million dwt. This follows a period of very limited fleet growth (across all but the MR sector) following a period of reasonable demolition activity at firmer lightweight prices prior to 2015. Of course the strength of the tanker market during the low oil price regime has meant that owners have had little need to even think about scrapping as bunker prices headed south improving their margins still further. Eco-ships no longer held any significant advantage as legislation on environmental issues continued to keep its distance resulting in demolition numbers falling to a mere 34 tankers (2.5 million dwt) over the past twelve months.

Of the 366 tanker orders placed last year, 218 were contracted in the 2nd half of the year, although many were placed to circumvent the higher costs associated with the new Tier III regulations which came into force 1st January in the US. Newbuilding prices themselves had been slowly falling since June 2014 but had a small resurgence over the 4th quarter 2015. However, the appetite for new orders across all the tanker sectors has evaporated this year despite renewed falls in pricing and the mounting pressure on shipbuilders to fill their forward orderbook. Finance too appears to have ended its love affair with the shipping industry, mostly driven by the disastrous state of affairs in the dry cargo market, but also the high tanker orderbook and the spate of deliveries scheduled for 2016/17. In the 1st half of this year 14 million tonnes dwt has already been delivered compared to the 17 million in the whole of 2015. Despite the strong earnings across most tanker sectors over the past two years, second-hand values have also come under downwards pressure since the turn of this year as freight rates began to decline.

Looking at the political scene, this time last year we were talking about the return of Iran to the tanker market and in particular more crude being available for shipment. Despite the lifting of sanctions in January, Iran continues to find it difficult to get significant traction into the market, but it will only be a matter of time as the difficulties associated with trading with the nation subside. Iraqi production continues to rise, however there is a feeling that this may have peaked. The low oil price has limited investment in new infrastructure which could restrict further increases in production. More recently we have seen the disruptions to crude oil production in Nigeria which has impacted heavily on Suezmax earnings (Suezmaxes also represent the largest segment of the orderbook in percentage terms compared to the existing fleet).

Last December the US lifted their ban on exporting crude. However, so far the impact of this action has been minimal particularly as US shale oil production is falling as a result of low oil prices. The situation in Libya remains unchanged from what we were reporting this time last year and appears to be a long way from any kind of resolution. Meanwhile crude production continues apace despite moves by several producers who in April failed to find a consensus of agreement to cut production in order to stimulate higher oil prices. The IEA in its latest report states that OPEC production 32.76 million b/d, has reached its highest level since August 2008. Cheaper feedstock led to a renaissance for the less efficient refiners, in some cases changing the threat of closure into a return to profit. However, a global products glut has hampered arbitrage opportunities pressuring product tanker earnings. On the crude side, floating oil storage, mostly out of operational necessity, continues to provide support to the VLCC sector and employment for fuel oil storage is increasing.

So much has happened over the past twelve months which is difficult to précis into a single page. What is clear is that the 2nd half of the year will remain challenging particularly with such a heavy delivery profile scheduled. Earnings across most sectors started the year quite strongly although crude began to slump recently, while the products sector has experienced a tough six months. Of course the health of the tanker market remains very much in the hands of the producers and the decisions that they make regarding future production, However, we still need to keep a watchful eye on the orderbook and hope that new orders remain in check.

The table below shows some of the market developments affecting the tanker industry over the past 12 months.

	Jun-14		Jun-15		Jun-16	
Spot Rates/tce Earnings (a)	WS	TCE/day	WS	TCE/day	WS	TCE/day
VLCC Rates: Mid East-Japan	38	$12,250	64	$69,250	48	$36,500
Suezmax Rates: West Africa-UKC	72	$22,750	93	$50,000	70	$27,500
Aframax Rates: North Sea-UKCont	99	$13,500	150	$69,500	110	$27,750
55k Naphtha: Mid East-Japan	110	$13,000	141	$32,250	95	$11,750
37k Gasoline: UKCont-USAC	99	$5,500	171	$26,500	100	$8,500
VLCC Total	626		638		666	
Suezmax Total	476		483		490	
Aframax/LR2 Total	895		931		961	
Panamax/LR1 Total	440		418		419	
MR (25-55mdwt) Total	1,843		1,880		1,962	
Deliveries Jul to Jun (25,000 dwt+)	17.7 M dwt (162 vsls)		16.7 M dwt (180 vsls)		21.9 M dwt (203 vsls)	
Orderbook (excl. options)	62.1 M dwt (590 vsls)		77.3 M dwt (599 vsls)		83.0 M dwt (627 vsls)	
VLCCs On Order	86		114		109	
Demolition Jul to Jun (25,000 dwt+)	12.3 M dwt (104 vsls)		4.7 M dwt (70 vsls)		2.5 M dwt (34 vsls)	
Ldt price China / Sub Continent	$325/ $495		$220/ $390		$170/ $270	
VLCC Price NB / 10yr old	$100.5M	$50M	$95M	$52M	$86M	$40M
Suezmax Price NB / 10yr old	$66M	$34M	$64M	$40M	$58M	$35M
Aframax Price NB / 10yr old	$54.5M	$24M	$53M	$31M	$48M	$23M
Brent Oil Price (ICE Close)	$ 112.36(June 30th)		$ 62.00(June 30th)		$ 50.15(June 30th)	
Brent-Previous 12 mth Low/High	$101.63 / $117.34		$112.29 / $46		$27.17 / $63.21	
Bunkers 380cst Fujairah/Rotterdam	$623/$599 tonne		$333/323 tonne		$255/$236 tonne	
World Oil Supply (Latest available))	92.6 million b/d		95.61 million b/d		96.2 million b/d	
OPEC Crude Production	30.2 million b/d		31.27 million b/d		32.76 million b/d	
Non OPEC Production	53.42 million b/d		54.85 million b/d		56.6 million b/d	

(a) These are assessed at market speeds (around 13 knots laden / 11.5-12.0 knots in ballast.

Crude Oil

Middle East

A very slight average uptick for VLCCs but Owners still find themselves at close to the lowest rates of the year. Volumes were healthy enough but supply remained easy, and as things stand looks sufficient to prevent any pinch points developing through the balance of July. Next week starts with holidays in the U.S., and then the end of Ramadan...momentum is unlikely to outweigh the fundamentals for a while yet. Suezmaxes found steady attention and became balanced enough to allow for some upward potential, from low ws 40s West and ws 77.5 East, but the weekend came too quickly to allow that to become realized. Next week perhaps? Aframaxes were also reasonably active but again never reached the point of critical mass, and rates look set to remain at around ws 95/97.5 to Singapore over the near term.

West Africa

Some effort shown by Suezmaxes but all the huff and puff merely ended with rates ending at exactly the same numbers they closed at last week - at down to 130,000 by ws 62.5 to USGulf and to ws 67.5 for Europe. Now it will be a question as to whether Owners can even maintain those lowly figures for another week. VLCCs had already established a reasonably wide premium over AG/East numbers, and successfully protected that through the week. 260,000 by ws 52.5 to china, and $3 million to West Coast India were typical values but may yet be trimmed a little if Charterers put in the extra effort.

Mediterranean

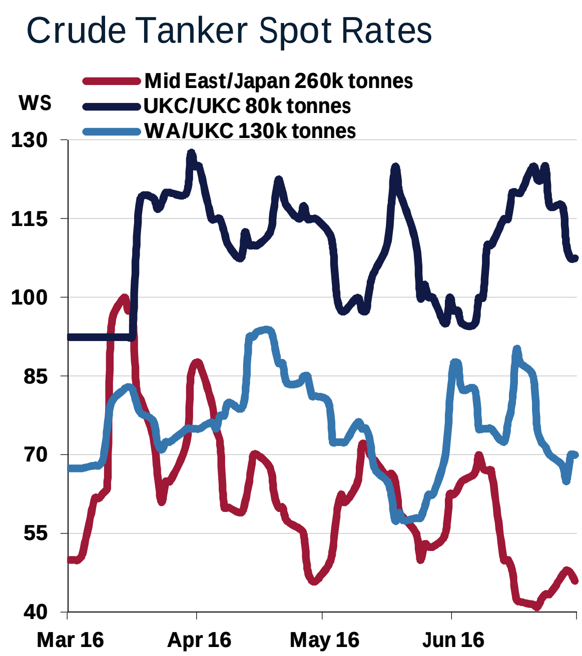
Aframaxes had already come off their recent peaks and spent most of this week fighting a rearguard action. By the end, levels had fallen towards ws 105 Cross Med (from up to ws 130) and it will only be an extension of berthing delays that will prevent further softening next week. Suezmaxes are beginning to get clear of congested French ports already and that, combined with a lack of volume, and West African malaise, will pressure Owners into potentially discounting the current 140,000 by ws 75 to Europe bottom marker over the next fixing phase.

Caribbean

No pre-holiday rush came to Aframax Owners' aid and at the time of writing rates remained anchored within the low ws 80s upcoast. Maybe some post-holiday 'catch-up' will come to the rescue...maybe? VLCCs had a slow week but availability wasn't badly out of balance and Owners managed to keep rates steady nonetheless. Up to $3.95 million was seen to Singapore with runs to West Coast India close to $3 million. No dramatic early change likely.

North Sea

Nothing of great note for Aframaxes here as interest waned in the latter half of the week to bring rates to a slippery 80,000 by ws 105/110 range Cross North Sea, and 100,000 by ws 82.5/87.5 range from the Baltic and the short term prognosis is for more settling. VLCC Owners lowered their sights to around $3.2 million for fuel oil to Singapore and to/just under $5 million for crude from Hound Point to South Korea. Traders were occasionally tempted at those levels but there wasn't enough feeding to support any upward push from there.



Clean Products

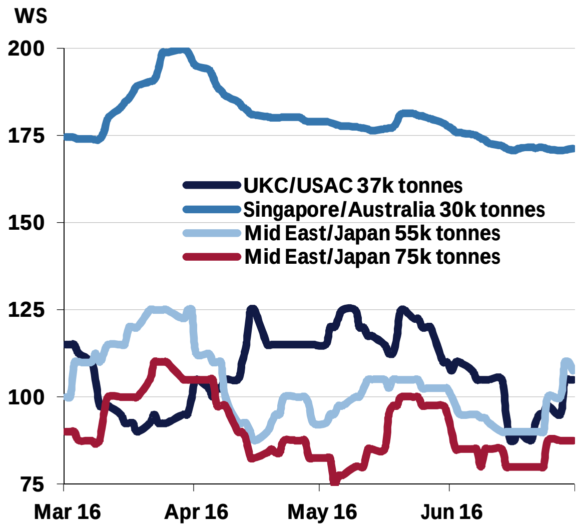
East

LRs started the week with an abundance of stems to cover, but as the week has progressed not so much has quoted and we have ended the week with a slightly quieter feel. With holidays next week we may see a slight decline in the shorter term. 55,000mt naphtha AG/Japan is at ws 110 today but may well be ws 105 into next week. 65,000 mt jet AG/UKCont is $1.50 million and pretty steady. 75,000 mt naphtha AG/Japan is hovering at ws 87.5 and looks fairly safe, and 90,000 mt jet AG/UKCont is at $1.85 million although West rates have maybe the more upside with Owners unwilling to go that way. It was a very positive start to the week for the MRs within the AG. Activity for the first few days was intense and as a result the tonnage list started to show signs of clearing. With this clearing, the tonnage list pushed up rates. Gasoil cargoes again saw decent activity compared to naphtha runs but AG/EAfr never found its complete footing and as a result closes the week at 35 x ws 127.5. There was a moderate rise for the shorter voyages with AG/RSea sitting at the $400k level and Cross-AG at the $180k mark. West voyages still remain undesired, however, with better than last done being achieved each time, there was a little incentive for the Owners. AG/UKCont currently trades at $1.015 million and AG/Japan has stayed reasonably steady over the duration of the week at the 35 x ws 100 level. The MRs currently sit in a poised position, the tonnage list is looking tighter as the week comes to a close. However, there needs to be an influx of cargoes reaching the market on Monday to see this momentum taken further, otherwise another few calm trading days could easily see the market get caught in a rip current and loose its footing.

Mediterranean

As the sun sets on the Mediterranean for Week 26, small highs and lows have been seen, but in general placid trading has passed. Good levels of cargoes have flowed but this has been equally matched with healthy tonnage lists and looking ahead it is difficult to see how things are going to change. Expect this 30 x ws 130 for Med and 30 x ws 140 for Black Sea runs to continue for the foreseeable future. MRs have experienced a much better week as activity and freight rates have picked up. Red Sea runs have moved back up to $725k basis Sarroch / Jeddah and transatlantic voyages have realigned with the levels up on the Continent as 37 x ws 102.5 is the new market benchmark.

Clean Product Tanker Spot Rates



UK Continent

A frustrating week has passed for MR Owners as despite good levels of fixing, Charterers have always seemed to hold the upper hand. Rates have managed to creep up 10 points which on paper would be said a successful week, but the promise of more was always on the horizon. The key factor here in reducing movement has been prompt LR1s which have competed aggressively for transatlantic and WAf runs. Looking ahead with a poor States market still, we can expect to see further tonnage on our lists appearing on Monday, and again further options for Charterers. Despite a tight market on prompt dates, with a good clear out of tonnage, additional units are arriving on the horizon, and we wait to see where this market moves next. And now to the Handy and Flexi market, where in all honesty the less we talk about it the better. Owners and Charterers have kicked the can down the street together, as an equilibrium has been found and fixings of 30 x ws 117.5 and 22 x ws 157.5 has been a consistent thing. Cargoes have been clipped out easily with readily available tonnage, and neither party has had many opportunities to press further. Looking ahead expect this trend to continue, unless anything drastic changes on the larger sizes.

LRs

The week began where it left off in Week 25 with a fairly strong level of LR1 activity. With the MR market firming, Charterers were seen moving gasoline to the States on LR1s at 60 x ws 60 and a few LR1 runs to WAf also entered the frame fixing at 60 x ws 65. Unfortunately, this burst of enquiry was not enough to clear the double digit list of prompt vessels that had built up, therefore rates have remained flat. A fresh test for a Med/Japan naphtha run saw $1.3 million achieved although this was out of Mellitah which usually demands a premium and USG/transatlantic runs have slipped down to a measly 60 x ws 47.5. With the East market still looking pretty tight, vessels have ballasted though to pick up stems out of the Red Sea and one even ballasted to the AG. As we come to the end of the week, enquiry has cooled off back down to a trickle and there remains a handful of prompt vessels seeking employment. With new LR1s joining the list daily and more just around the corner, Owners will be crossing their fingers for fresh inquiries come Monday to avoid another soul destroying build-up of tonnage. LR2 activity remains minimal with the arbitrage to the East closed. LPG prices remain attractive and thus we are seeing increased competition from the alternative feedstock, therefore it is unlikely we will see a change in enquiry in the short term. A few naphtha moves which did go East provide an update on market levels. A Tuapse/Japan run collected $1.75 million which is $50k less than last done and a fresh test for a Skikda/Japan run places rates at $1.55 million. Given the dire straits right now, vessels are ballasting from the Continent down to the Mediterranean towards the AG and LR2s opening in WAf are looking to ballast round to the AG via the Cape of Good Hope.

Dirty Products

Handy

The continent trajectory has been heading in one direction this week and that has been North. When you look at the number of fixtures there hasn't been a noticeable surge in enquiry than previous weeks, which can raise question marks. However a combination of factors has led to increased fixing rates. The last two weeks we have seen a lot of fuel moved from the Continent into the Mediterranean eliminating naturally positioned Handies from the region keeping availability tight. Further to this there have been delays particularly from Immingham and with July dates being worked up to 10-11 dates, Charterers have found themselves scrambling to cover. Next week we expect some stability but with the forward dates already being shown, Charterers might sit back a little and wait for itineraries to firm and free before coming into the market. The only Black Sea stems this week came from a handful of Russian players and even still this was limited. It would appear that some of the traders who we are so accustomed to see on this route are still treading carefully since Brexit. With this lack of activity rates took a tumble but Owners will feel they have come out the other side relatively unscathed. The slight concern for Owners who haven't managed to cover their prompt ships, is the number of prompt vessels that will be pushed on Monday and the further negative correction that is potentially on the horizon next week if the fundamentals mentioned above don't change..

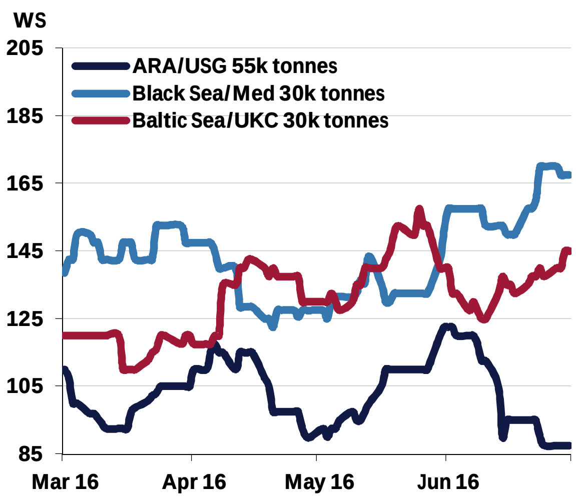
MR

This week the Continent this week remained in need of a test, with options tonnage wise limited combined with current delays and lack of handy tonnage we have seen pressure being sustained by Owners who will be itching for a chance to push rates toward the ceiling. Entering next week Charterer's will be hoping to see the weekend break provide a few more options helping contain Owner's current aspirations. The Mediterranean market has seen enquiry steadily decline as we headed further into the working week. With previous shakey itineraries firming up and activity on the smaller sizes starting to dwindle, Charterers can expect a lengthy list Monday morning and negative correction could be due.

Panamax

When faced with the fresh tonnage lists at the start of the week, the realisation that the suppressed activity levels seen from both sides of the Atlantic were taking its toll. As we broke through the mid-way point of the week fresh enquiry has managed to move on a number of the naturally placed units this side of the Atlantic, but with this said it has not been enough to move rates as the continued theme of sub ws 90 being repeated a number of times.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 30th	June 23rd	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+2**	47	45	61	54
TD20	Suezmax	WAF-UKC	**-0**	70	70	60	77
TD7	Aframax	N.Sea-UKC	**-15**	108	123	120	109

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

			wk on wk change	June 30th	June 23rd	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+1,500**	28,500	27,000	45,000	36,500
TD20	Suezmax	WAF-UKC	**-10,000**	22,500	32,500	18,250	27,000
TD7	Aframax	N.Sea-UKC	**-14,000**	24,500	38,500	35,500	25,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 30th	June 23rd	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+8**	88	80	98	
TC2	MR - west	UKC-USAC	**+10**	105	95	116	100
TC5	LR1	AG-Japan	**+13**	108	95	105	94
TC7	MR - east	Singapore-EC Aus	**-1**	171	172	181	

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

			wk on wk change	June 30th	June 23rd	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+2,500**	15,250	12,750	18,250	
TC2	MR - west	UKC-USAC	**+2,000**	9,250	7,250	12,000	8,250
TC5	LR1	AG-Japan	**+2,750**	14,000	11,250	13,750	11,000
TC7	MR - east	Singapore-EC Aus	**-750**	13,250	14,000	16,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+6**	244	238	220
ClearView Bunker Price (Fujairah 380 HSFO)	**+14**	264	250	245
ClearView Bunker Price (Singapore 380 HSFO)	**+19**	266	248	224
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-3**	436	439	423

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