

# WEBER WEEKLY TANKER REPORT



WEEK 26 – 1 JULY 2016

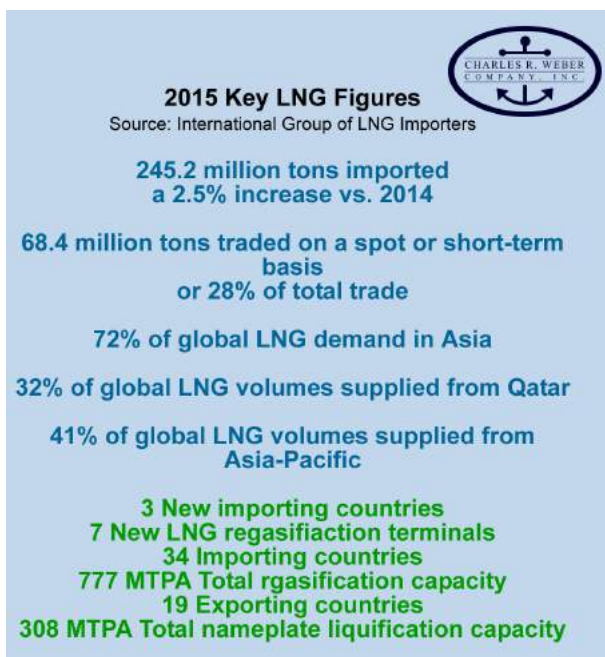
ISSUE 26 – 2016

## Expanded Panama Canal set to shake up LNG trade or LNG Trade set to shake up expanded Canal?

By John M. Kulukundis

With the opening of the expanded Panama Canal there has been much fanfare about the significant implications the expanded locks will have for the LNG trade. While it is undisputed that most every LNG carriers in the world (about 90%) except for the very large Q-Flex/Q-Max vessels will be able to transit the new locks and that by doing so will shave multiple days off particular trades from the US Gulf Coast / Atlantic Basin to key markets in Asia while providing additional access to previously regionalized LNG markets this may not be the whole story...

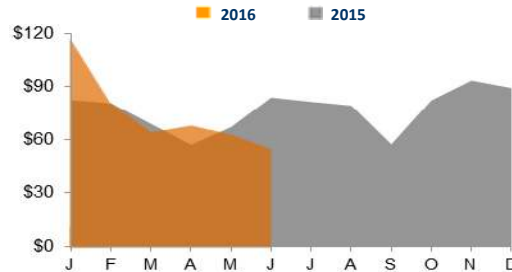
What has not been highlighted by many commentators is that the international market for liquefied natural gas is presently struggling with an age old shipping dilemma. There may well be too much capacity and not enough demand and this may well impact the predicted canal LNG bonanza.



In the old days, LNG was purchased on long-term, oil-indexed contracts that called for certain volumes of LNG to be delivered by specified Point A to specified Point B. With today's strong supply and slipping demand these terms have been replaced by intense competition among suppliers, new sources of supply and demand, a glut of liquefaction capacity expected to last at least a few years, more spot purchases, and contracts incorporating destination flexibility—and, for many, tied to natural gas and not oil prices.

While eight years ago U.S. natural gas prices were spiking, domestic gas production was declining, and much of the market was anticipating a boom in LNG imports to the U.S. from Qatar and other major suppliers. Now, pipelines are being reversed to bring US shale gas to the Gulf Coast to be liquefied and exported. According to RBN Energy, the first LNG shipments out of Sabine Pass's Train 1 have gone to countries not in the Far East, but instead to places like Brazil, Portugal, India, and the United Arab Emirates.

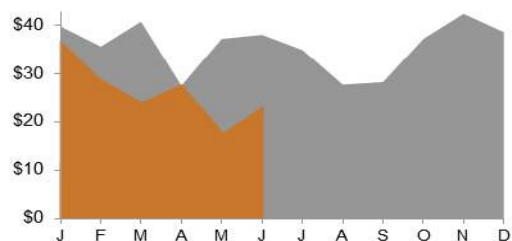
The market expectations on which Sabine Pass, Cameron LNG, Corpus Christi LNG, Freeport LNG and Dominion's Cove Point were built are not looking quite so rosy today. Recent spot LNG prices are around 75% lower than they were 30 months ago, suggesting that there is plenty of LNG for global requirements. Additionally, from the end of 2015 and 2020, global LNG capacity may grow by 45% to around 448



VLCC TCE  
AG-USG /  
CBS-SPORE/AG<sup>1</sup>

Jun Average  
~\$55,279/Day

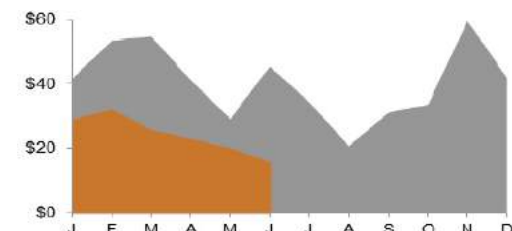
Month y/y  
▼ -34%



S'MAX TCE  
130k WAF-UKC

Jun Average  
~\$23,452/Day

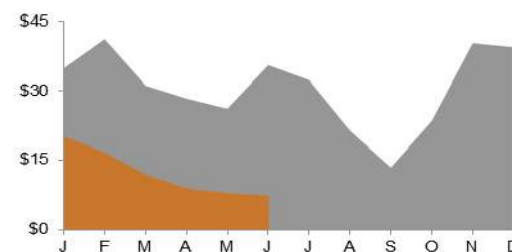
Month y/y  
▼ -38%



A'MAX TCE  
70k CBS-USG

Jun Average  
~\$15,887/Day

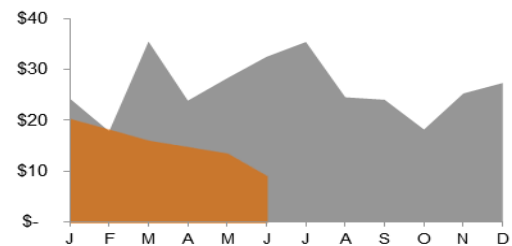
Month y/y  
▼ -65%



P'MAX TCE  
50k CBS-USG

Jun Average  
~\$7,396/Day

Month y/y  
▼ -79%



MR TCE  
USG-UKC/  
UKC-USAC/USG

Jun Average  
~\$9,231/Day

Month y/y  
▼ -72%

# WEBER WEEKLY TANKER REPORT



MTPA, with the biggest increase being around 62 MTPA in the US and around 50 MTPA in Australia.

Global LNG demand in 2015 totaled about 245.2 MTPA, with most of the new growth being absorbed by the Middle East and Europe. In fact worldwide demand for LNG increased by only 1% in 2014 and only 2.5% in 2015. In 2015 Qatar supplied 78.4 MTPA, or 32% of world demand, but according to the latest report from the IEA, Australia and the US may soon be in strong competition if all the LNG plants are completed.

India's Petronet has reportedly renegotiated their supply contracts with both Qatar and Australia. In Japan, JERA Co. was formed as an energy-procurement and power-plant-management joint venture of Japanese electric utilities, Tokyo Electric Power Co. and Chubu Electric Power Co. and It's also been reported that JERA and Korea Gas over the past few months have been discussing the possibility of forming a co-buying to gain leverage.

Long-time LNG buyers also have been reducing the share of their LNG needs that they secure via long-term deals and increasing their purchases of LNG on the spot market (with better pricing) which has emerged as a logical solution with a surfeit of global supply to chose from.

## Source of LNG Imports 2015



|                   |       |
|-------------------|-------|
| Algeria           | 12.13 |
| Equatorial Guinea | 3.65  |
| Nigeria           | 19.5  |
| Norway            | 4.33  |
| Trinidad & Tobago | 11.81 |

### Atlantic Basin 51.43

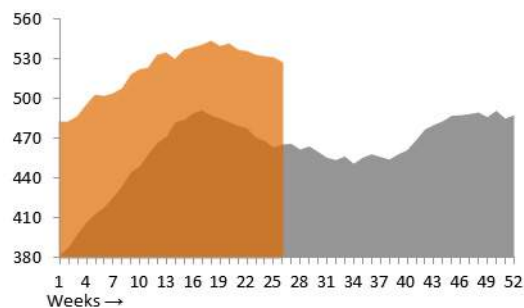
|           |       |
|-----------|-------|
| Abu Dhabi | 5.70  |
| Oman      | 7.56  |
| Qatar     | 78.40 |
| Yemen     | 1.52  |

### Middle East 93.19

|                  |       |
|------------------|-------|
| Australia        | 29.45 |
| Brunei           | 6.48  |
| USA (Alaska)     | 0.32  |
| Indonesia        | 18.03 |
| Malaysia         | 24.99 |
| Papua New Guinea | 7.18  |
| Peru             | 3.57  |
| Russia           | 23.37 |

### Pacific Basin 100.58

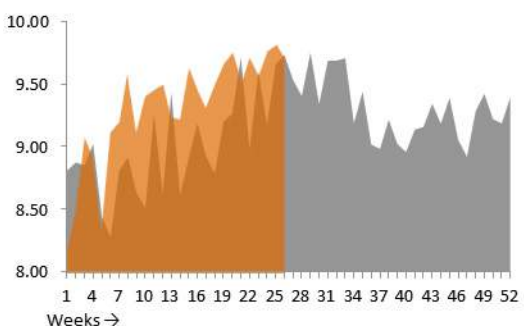
### Total 245.19



US Crude  
Stocks (EIA)

Last Week  
530.6 MnBbls

Week y/y  
▲ +13.1%



US Gasoline  
Demand (EIA)

Last week  
9.709 MnB/d

Week y/y  
▼ -0.2%

2016 2015

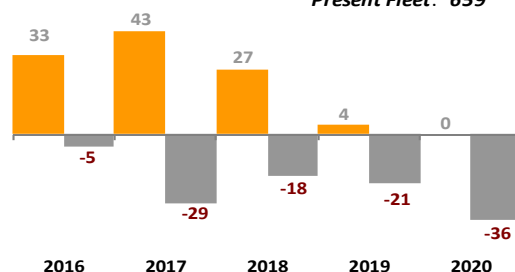
While this new buyers market may spur new demand and thereby absorb what otherwise will be a growing surplus of liquefaction capacity, the part played in this by the expanded Panama Canal may not be as predictable as some would have you believe. The three new countries to take LNG imports in 2015 were Egypt, Jordan and Pakistan. The more immediate story to watch may well be how the expanded canal may affect the LPG carrier market.

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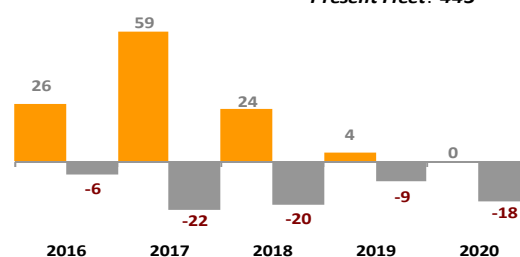
## VLCC Projected Deliveries/Removals

Present Fleet: 659



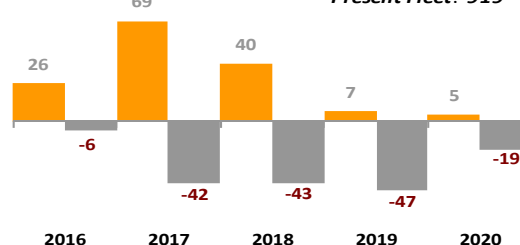
## Suezmax Projected Deliveries/Removals

Present Fleet: 443



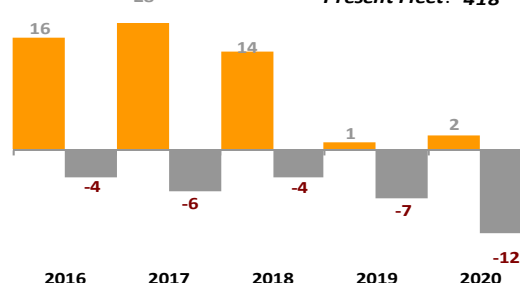
## Aframax/LR2 Projected Deliveries/Removals

Present Fleet: 919



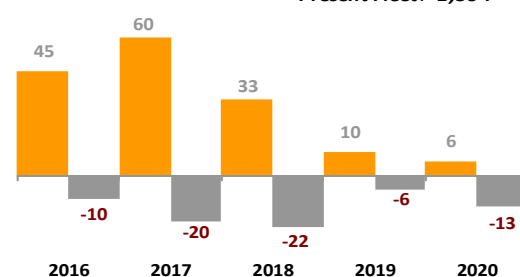
## Panamax/LR1 Projected Deliveries/Removals

Present Fleet: 418



## MR Projected Deliveries/Removals

Present Fleet: 1,394



| Spot Market                   | WS/LS   | TCE<br>~\$/day | WS/LS   | TCE<br>~\$/day |
|-------------------------------|---------|----------------|---------|----------------|
| <b>VLCC</b> (13.0 Kts L/B)    |         |                |         |                |
|                               | 24-Jun  |                | 1-Jul   |                |
| AG>USG 280k (TD1)             | 29.0    | \$13,427       | 27.5    | \$11,691       |
| AG>USG/CBS>SPORE/AG           | --      | \$38,208       | --      | \$35,764       |
| AG>SPORE 270k (TD2)           | 47.5    | \$33,934       | 45.0    | \$30,679       |
| AG>CHINA 265k (TD3C)          | 47.5    | \$28,574       | 45.0    | \$25,408       |
| WAFR>USG 260k (TD4)           | 57.5    | \$43,373       | 55.0    | \$40,622       |
| WAFR>CHINA 260k (TD15)        | 52.5    | \$35,211       | 50.0    | \$32,482       |
| CBS>SPORE 270k                | \$3.60m | --             | \$3.50m | --             |
| <b>SUEZMAX</b> (13.0 Kts L/B) |         |                |         |                |
| WAFR>USAC 130k                | 67.5    | \$21,149       | 67.5    | \$21,527       |
| WAFR>UKC 130k (TD20)          | 70.0    | \$18,674       | 70.0    | \$19,046       |
| BSEA>MED 140k (TD6)           | 77.5    | \$29,557       | 75.0    | \$28,356       |
| CBS>USG 150k                  | 75.0    | \$29,644       | 70.0    | \$26,230       |
| <b>AFRAMAX</b> (13.0 Kts L/B) |         |                |         |                |
| N.SEA>UKC 80k (TD7)           | 120.0   | \$43,102       | 107.5   | \$33,114       |
| AG>SPORE 70k (TD8)            | 95.0    | \$21,146       | 90.0    | \$21,569       |
| BALT>UKC 100k (TD17)          | 97.5    | \$43,054       | 85.0    | \$34,218       |
| CBS>USG 70k (TD9)             | 90.0    | \$13,842       | 85.0    | \$12,240       |
| MED>MED 80k (TD19)            | 117.5   | \$32,242       | 107.5   | \$27,851       |
| <b>PANAMAX</b> (13.0 Kts L/B) |         |                |         |                |
| CBS>USG 50k (TD21)            | 107.5   | \$5,679        | 95.0    | \$2,875        |
| CONT>USG 55k (TD12)           | 90.0    | \$9,352        | 85.0    | \$8,202        |
| ECU>USWC 50k                  | 140.0   | \$18,881       | 135.0   | \$17,840       |
| <b>CPP</b> (13.0 Kts L/B)     |         |                |         |                |
| UKC>USAC 37k (TC2)            | 97.5    | \$6,627        | 105.0   | \$8,180        |
| USG>UKC 38k (TC14)            | 62.5    | \$1,386        | 65.0    | \$2,013        |
| USG>UKC/UKC>USAC/USG          | --      | \$7,742        | --      | \$9,022        |
| USG>POZOSCOLORADOS 38k        | \$325k  | \$6,880        | \$340k  | \$8,049        |
| CBS>USAC 38k                  | 105.0   | \$9,089        | 100.0   | \$8,274        |
| AG>JPN 35k                    | 99.0    | \$6,628        | 102.5   | \$6,890        |
| AG>JPN 75k (TC1)              | 87.5    | \$16,386       | 87.5    | \$16,078       |
| AG>JPN 55k (TC5)              | 100.0   | \$12,882       | 107.5   | \$14,235       |

| Time Charter Market<br>\$/day (theoretical) | 1 Year   | 3 Years  |
|---------------------------------------------|----------|----------|
| <b>VLCC</b>                                 | \$38,000 | \$35,000 |
| <b>Suezmax</b>                              | \$26,000 | \$25,000 |
| <b>Aframax</b>                              | \$21,500 | \$19,000 |
| <b>Panamax</b>                              | \$18,500 | \$17,500 |
| <b>MR</b>                                   | \$15,000 | \$14,500 |

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# WEBER WEEKLY TANKER REPORT



## SPOT MARKET SUMMARY

### VLCC

The more muted climate witnessed in VLCC sector this week is hardly surprising when you consider the furor witnessed last week that picked rates up from yearly lows. This week we reverted to a more normal pace that halted the rise, and even allowed the market to regress a little again. Part of the blame goes to the fact that 30% of eastbound business went on COA voyages and another 25% on older units in excess of 15 years but the main contributing factor is the sheer amount of tonnage available. Cargo volume from the Middle East has remained at the strongest levels since 2012 with the monthly average at 125.5 cargoes per month through June which includes the paltry 111 fixtures in February. Since March the average has been just above 130 per month and we do not foresee much change, with the July program on a similar pace. Despite this relatively strong demand, fundamentals have still moved in the Charterers favor, as delays in China and the Far East have subsided, faster laden/ballast speeds have artificially increased the fleet and we have seen 21 New Buildings added to the fleet already, with another 33 or so still to come this year. This, combined with zero deletions from the VLCC fleet, makes for bearish prospects going forward.

### Middle East

Rates to the East started off having climbed to the mid/high W40's, with a high of W48.5 based on 270,000 tons paid for voyages to Japan on modern shallow drafted units. The next fixture represented the other end of the spectrum, as W42.75 was paid on a large cargo size, equivalent to 43.5 on the normal 270,000 tons, for a preferred voyage to Korea on an older unit coming from storage business. Following this the market settled around the W45 level, equivalent to TCE returns in the low \$30,000's pd, and although some have tried to hold it up, their efforts have been in vein as there have been enough older and/or restricted units happy to oblige. Westbound rates held steadier in the upper W20's as the follow on business from the Caribbean fell to its lowest levels in two years – thus the triangulated returns stand at about \$36,500 over the two voyages.

There were a total of 32 fixtures to report this week, bringing the July tally to 85. All but two of those were through the first two decades, leaving an expected 40 cargoes to go. This compares to a position list with some 60 units available over that same period, and while that is not overwhelmingly in the charterers favor, it does not include VLCC Chartering and the usual amount of hidden ships. Just as telling is that 25 units remain available through the first two decades, a period already mostly taken care of. The other factor is timing: August stems are not expected for a couple of weeks, plenty of time to cover those cargoes in a clam and steady manor. All in all this indicates further downward pressure on the market.

### Atlantic Basin

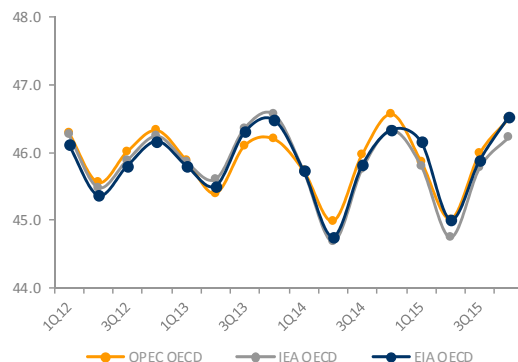
The West Africa market continued to lag movements in the Middle East. Rates on the WAFR-FEAST route closed slightly lower at ws50; WAFR-FEAST TCEs conclude at ~\$31,413/day, representing a 6% w/w loss.

The Caribbean market was a little more active, but there was not enough inquiry to change sentiment or any market direction. The CBS-SPORE route was held flat with \$3.6m lump sum recorded, remaining at a two-year low.

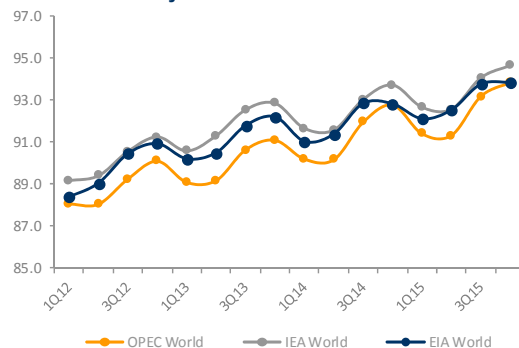
### Suezmax

The West Africa Suezmax market was little changed this week after an earlier softening was countered by a more active pace as charterers moved further into the July program. The WAFR-UKC route concluded unchanged from a week ago at ws70. Recent VLCC demand, which for the third-decade of the July program jumped to the highest level for any decade date range since February, implies few remaining cargoes for the smaller Suezmax class as charterers progress further into the month. Corresponding rate downside could, however, occur later in the month as availability looks tight through July 20 relative to prospective demand.

Projected OECD Oil Demand



Projected World Oil Demand





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## Aframax

The Caribbean Aframax market was quiet with the week's fixture tally dropping to just nine – a four-month low and 31% fewer w/w. Rates on the CBS-USG route took their cue accordingly, losing five points to conclude at ws85. Though rates elsewhere were softer, Caribbean TCE earnings remain low relative to alternative markets (and less than half those in the Mediterranean and 63% below those in the North Sea), which has likely cushioned. Supply/demand fundamentals dictate lower rates during the week ahead failing a surge in demand, but we expect that owners will maintain resistance on the basis of the relative earnings citing the possibility of ballasting to find better returns elsewhere which will continue to limit the extent of losses.

## Panamax

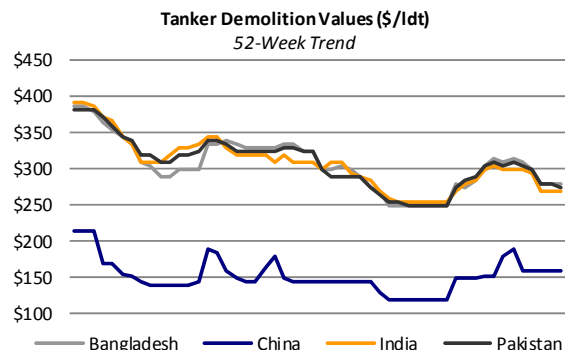
The Caribbean Panamax market was markedly as lull in demand saw rates post a sharp correction to an effective bottom early during the week. Softer recent rates in the UKC market contributed to the downside as returns there, although above those in the Caribbean market, were insufficient to justify ballasting, thus removing one of the points owners have been using to their favor. The CBS-USG route dropped 12.5 points to conclude at a fresh YTD low of ws95.

## MR

Chartering activity in the USG MR market remained largely level with that of recent weeks. A total of 32 fixtures were reported, off by one w/w. Of the week's tally, six were bound for points in Europe (+1, w/w), 22 were bound for points in Latin America and the Caribbean (+1, w/w) and the remainder were yet to be determined. Rates posted only modest improvements – largely due to the concentration of demand to the early half of the week as charterers sought to cover requirements ahead of a potential pre-holiday surge (which failed to materialize). The USG-UKC route added 2.5 points to conclude at ws65 while the USG-POZOS route added \$15k to conclude at \$340k. Two-week forward availability concluded the week with 37 units, representing a 9% w/w gain.

## REPORTED TANKER DEMOLITION SALES

**"Eagle Ford"** 124,644/78 – 24,868 LDT – DH  
-Jones Act units. Sold on private terms.



## REPORTED TANKER SALES

**"Cape Baxley"** 159,385/03 – Hyundai Samho – DH  
-Sold for \$25.5m to UK buyers (Tufton Oceanic).

*\*Monthly triangulated VLCC AG-USG/CBS-SPORE/AG TCE averages based on average CBS-SPORE assessments and prior-month AG-USG assessments to reflect earnings reality for units engaged in this trade.*



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