

# WEBER WEEKLY TANKER REPORT



WEEK 28 – 15 JULY 2016

ISSUE 28 – 2016

## Time for dirty LR1 cleanups?

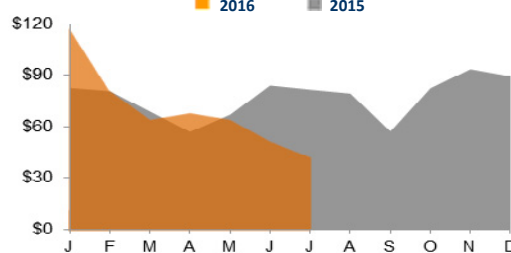
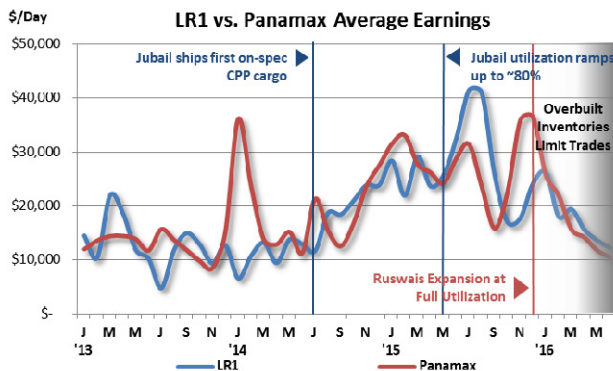
Until recently, LR1 tankers had counted on a positive future in the product tanker markets they were constructed to serve – even if the prevailing earnings differential between Panamax and LR1 markets had seen a significant share of the LR1 fleet trading dirty cargoes. The starting up of a number of large, export-oriented refineries in the Middle East – with Europe's then-coveted diesel market in their sights and building upon demand gains accompanying the earlier surge in product exports from India – was poised to offer significant fresh product tanker demand to make product trades decidedly more lucrative.

For a time, it seemed that all was going according to plan with each new Middle East refinery start accompanied by a substantial boosting of LR1 earnings. However, during 4Q15, LR1 earnings dipped while Panamax earnings surged – and since the start of the year both markets have been in a similar directional decline. Amid the uncertainty of both markets, the distribution of preexisting LR1 tonnage between clean and dirty markets has remained the same since a year ago. Though some units switched from dirty to clean trades and vice versa, the number in each instance was the same – and small: a total of six units cleaned up to trade in clean markets and six units trading clean dirtied up. During the preceding year, switches to dirty outweighed those to clean by seven to five, in line with stronger Panamax earnings. Presently, 38% of LR1s are trading in the dirty market, which compares with 39% a year ago.

Of the eleven newly built LR1 units which have delivered over the past year, however, ten have traded in the clean market while the remaining unit is believed to be shuttling crude between Brazil's offshore Campos basin fields and shore.

In addition to trading fuel oil and other dirty refined petroleum products, Panamaxes benefit from a small number of isolated crude markets where port restrictions and production volumes favor the class' relatively small size. However, with such crude flows fairly steady and largely opaque, Panamax earnings are heavily influenced by fuel oil trades. And as with most refined product markets, fuel oil inventories have been overbuilt by both a global surplus of refining capacity and excessive runs due to elevated margins during 2015. Thus, the same absence of clear arbitrage opportunities which have adversely impacted product tanker markets this year has also gripped the fuel oil market – and softer tanker rates have thus extended to both the clean and dirty spaces.

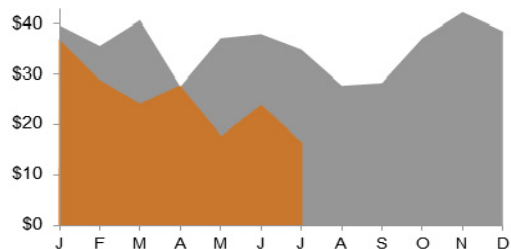
Panamax earnings have taken a particular blow in the Atlantic basin with TCEs in the Caribbean market now in negative territory. However, with LR1s presently earnings nearly double those of Panamaxes, an increasing number of owners of dirty LR1s appear to be considering now an ideal time to make the switch to clean.



**VLCC TCE**  
AG-USG /  
CBS-SPORE/AG1

MTD Average  
~\$41,570/Day

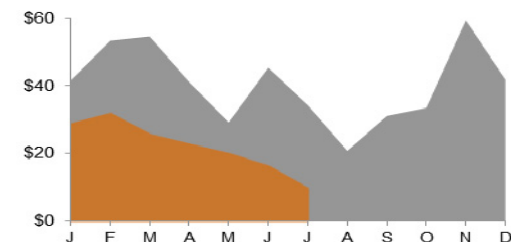
Month y/y  
▼ -49%



**S'MAX TCE**  
130k WAF-UKC

MTD Average  
~\$16,564/Day

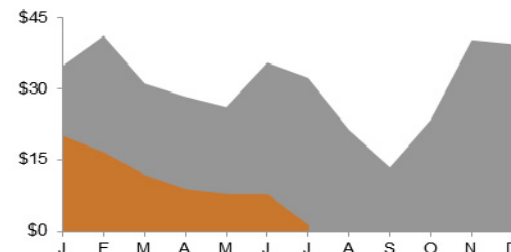
Month y/y  
▼ -53%



**A'MAX TCE**  
70k CBS-USG

MTD Average  
~\$10,182/Day

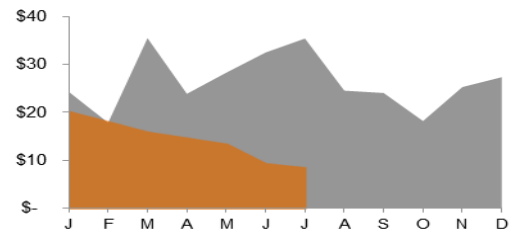
Month y/y  
▼ -70%



**P'MAX TCE**  
50k CBS-USG

MTD Average  
~\$1,579/Day

Month y/y  
▼ -95%



**MR TCE**  
USG-UKC/  
UKC-USAC/USG

MTD Average  
~\$8,730/Day

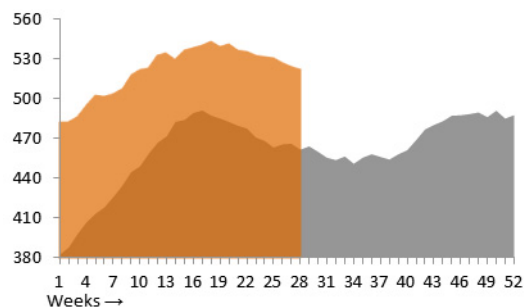
Month y/y  
▼ -75%

# WEBER WEEKLY TANKER REPORT



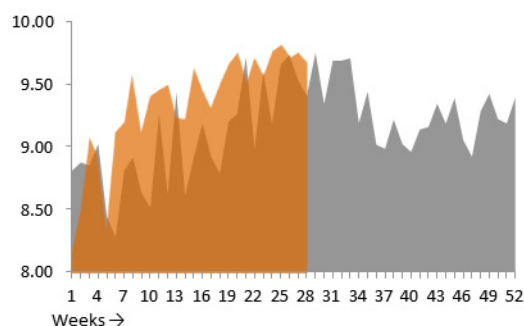
| Spot Market                   | WS/LS        | TCE<br>~\$/day | WS/LS         | TCE<br>~\$/day |
|-------------------------------|--------------|----------------|---------------|----------------|
| <b>VLCC</b> (13.0 Kts L/B)    |              |                |               |                |
|                               | <b>8-Jul</b> |                | <b>15-Jul</b> |                |
| AG>USG 280k (TD1)             | 25.0         | \$9,466        | 27.0          | \$11,505       |
| AG>USG/CBS>SPORE/AG           | --           | \$33,895       | --            | \$33,771       |
| AG>SPORE 270k (TD2)           | 43.0         | \$28,860       | 44.0          | \$30,034       |
| AG>CHINA 265k (TD3C)          | 42.0         | \$22,620       | 42.5          | \$23,214       |
| WAFR>USG 260k (TD4)           | 55.0         | \$40,970       | 52.5          | \$38,368       |
| WAFR>CHINA 260k (TD15)        | 50.0         | \$32,723       | 48.5          | \$31,114       |
| CBS>SPORE 270k                | \$3.50m      | --             | \$3.30m       | --             |
| <b>SUEZMAX</b> (13.0 Kts L/B) |              |                |               |                |
| WAFR>USAC 130k                | 65.0         | \$20,336       | 57.5          | \$16,147       |
| WAFR>UKC 130k (TD20)          | 67.5         | \$17,902       | 60.0          | \$13,816       |
| BSEA>MED 140k (TD6)           | 82.5         | \$33,520       | 70.0          | \$24,551       |
| CBS>USG 150k                  | 67.5         | \$24,578       | 70.0          | \$26,324       |
| <b>AFRAMAX</b> (13.0 Kts L/B) |              |                |               |                |
| N.SEA>UKC 80k (TD7)           | 100.0        | \$27,624       | 92.5          | \$21,898       |
| AG>SPORE 70k (TD8)            | 97.5         | \$21,899       | 90.0          | \$19,472       |
| BALT>UKC 100k (TD17)          | 77.5         | \$29,456       | 67.5          | \$22,673       |
| CBS>USG 70k (TD9)             | 82.5         | \$11,380       | 75.0          | \$8,367        |
| MED>MED 80k (TD19)            | 90.0         | \$19,655       | 80.0          | \$14,680       |
| <b>PANAMAX</b> (13.0 Kts L/B) |              |                |               |                |
| CBS>USG 50k (TD21)            | 92.5         | \$2,436        | 80.0          | \$(626)        |
| CONT>USG 55k (TD12)           | 97.5         | \$11,740       | 87.5          | \$8,946        |
| ECU>USWC 50k                  | 127.5        | \$16,202       | 125.0         | \$15,988       |
| <b>CPP</b> (13.0 Kts L/B)     |              |                |               |                |
| UKC>USAC 37k (TC2)            | 92.5         | \$5,988        | 95.0          | \$6,485        |
| USG>UKC 38k (TC14)            | 70.0         | \$3,086        | 72.5          | \$3,468        |
| USG>UKC/UKC>USAC/USG          | --           | \$8,644        | --            | \$9,296        |
| USG>CBS (Pozos) 38k           | \$325k       | \$7,133        | \$350k        | \$8,718        |
| CBS>CHILE (Coronel) 38k       | \$1.15m      | \$16,779       | \$1.15m       | \$16,801       |
| CBS>USAC 38k                  | 105.0        | \$9,350        | 105.0         | \$9,259        |
| AG>JPN 35k                    | 102.5        | \$7,071        | 100.0         | \$6,744        |
| AG>JPN 75k (TC1)              | 83.5         | \$15,119       | 85.0          | \$15,603       |
| AG>JPN 55k (TC5)              | 102.5        | \$13,366       | 99.5          | \$12,739       |

| Time Charter Market<br>\$/day (theoretical) | 1 Year   | 3 Years  |
|---------------------------------------------|----------|----------|
| <b>VLCC</b>                                 | \$35,000 | \$33,000 |
| <b>Suezmax</b>                              | \$25,000 | \$23,000 |
| <b>Aframax</b>                              | \$21,000 | \$18,500 |
| <b>Panamax</b>                              | \$18,500 | \$17,500 |
| <b>MR</b>                                   | \$14,500 | \$14,500 |



**Last Week**  
521.8 MnBbls

**Week y/y**  
▲ +13.1%



**Last week**  
9.671 MnB/d

**Week y/y**  
▲ +2.8%

2016 2015

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## SPOT MARKET SUMMARY

### VLCC

VLCC rates were mostly unchanged this week with positive pressure resulting from recent demand gains in the Middle East and West Africa markets countered by surplus July positions at a two-year high and a slowing of chartering activity coinciding with the progression from into August dates. Moreover, recent West Africa demand strength, while positive for ton-mile development, is having less of an immediate impact given that units sourced for the region's cargoes are less concerted from the Middle East than is normally the case. Instead, a number of West Africa cargoes have been fixed on units ballasting from the Caribbean market, where a slowing of cargoes from Venezuela has created a wide supply/demand imbalance (three of this week's seven regional fixtures were on Atlantic basin positions, rather than Middle East positions).

We note that 22 Middle East positions were uncovered at the conclusion of the July program – the most since September 2014 and seven more than the conclusion of the June program. As the market progresses into August dates, the surplus looks set to ease, but not likely by a sufficient number to support rates. We count 51 units available through the end of August's first decade, while 12 fixtures have materialized thus far leaving a likely 28 remaining. Once factoring for likely West Africa draws, the implied surplus is 18 units.

This week's IEA report noted that refinery utilization rates were lower during Q2 than previously expected but will likely surge during Q3. Against recent ton-mile gains in-line with stronger WAF-FAEST flows, this could set the market for fresh upside later during the quarter but in the interim rates will likely stagnate. The market is presently observing the development of two tiers comprised of competitive/modern units and disadvantaged/older ones.

### Middle East

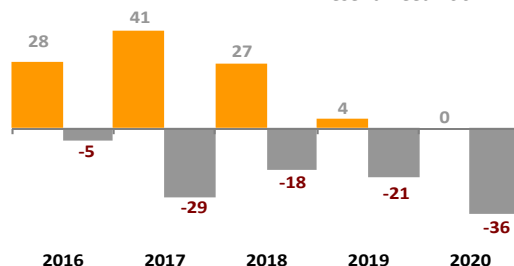
Rates to the Far East closed with a weekly gain of one point. Corresponding TCEs rose by 3% to ~\$22,914/day. Rates to the USG via the Cape rose by two points to ws27 as owners posted greater resistance due to souring onward trade prospects from the Caribbean; further isolated gains on the route are expected during the upcoming week on this basis. Triangulated Westbound trade earnings at present AG-USG and CBS-USG assessments stand at ~\$33,537/day, representing a w/w loss of 2%.

### Atlantic Basin

The West Africa market continued to track the Middle East and was largely unchanged this week, accordingly. The WAFR-FAEST route eased by 1.5 points from a week ago to a closing assessment of ws48.5. Corresponding TCEs dipped 6% w/w to ~\$30,934/day. The Caribbean export market remained very quiet leading to two vessels ballasting from the USG to find West Africa business. This also caused Caribbean export rates to reach their lowest lump sum levels in almost five years. Rates to India fell to \$2.5m while Singapore discharge is to be tested in the low \$3m range.

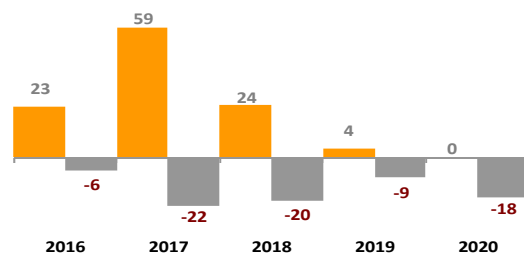
### VLCC Projected Deliveries/Removals

Present Fleet: 664



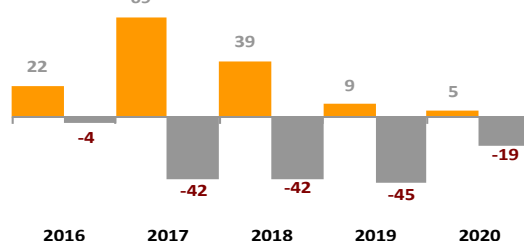
### Suezmax Projected Deliveries/Removals

Present Fleet: 446



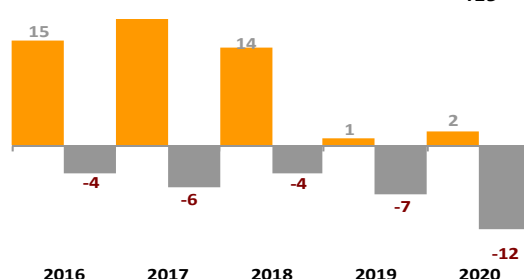
### Aframax/LR2 Projected Deliveries/Removals

Present Fleet: 918



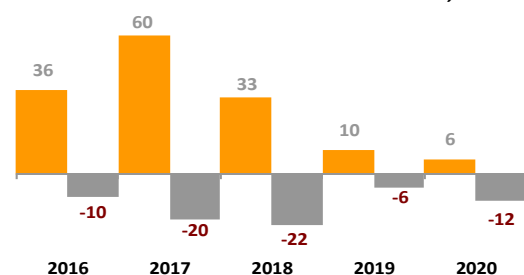
### Panamax/LR1 Projected Deliveries/Removals

Present Fleet: 419



### MR Projected Deliveries/Removals

Present Fleet: 1,402



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## Suezmax

Rates in the West Africa market were softer this week as fresh spot deals dropped by 18% to nine fixtures and participants became increasingly cognizant that demand levels will remain low following a recent VLCC demand surge. Rates on the WAFR-UKC route lost 7.5 points to conclude at ws60 and remain soft at the close of the week. Slumping demand in the Middle East market, where Suezmax demand was at a four-month low for the week and a two-month low on four-week moving average terms, presents further forward challenges for the key West Africa market. We expect that sentiment will remain soft on this basis through at least the upcoming week.

## Aframax

The Caribbean Aframax market tested fresh multiple-year rate lows this week, despite rebounding demand. The CBS-USG route lost a further 7.5 points to conclude at ws75. A total of 13 fixtures were reported, nine more than last week and the most in a month. Demand levels were heavily comprised of voyages to the USG area, representing a positive development by indicating a progression to fresh inventory building at PADD 3 refiners – but support for the regional Aframax market will take considerably further demand length. We expect that rates have now likely reached a bottom failing a fresh trailing of demand during the upcoming week.

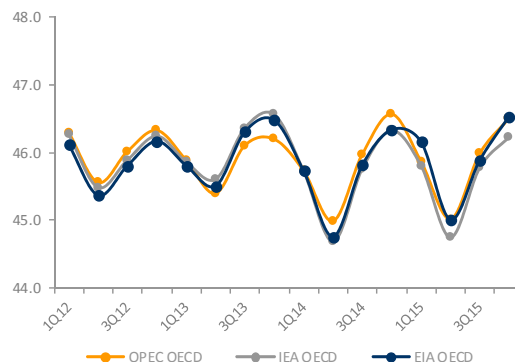
## Panamax

Rates in the Caribbean Panamax posted further losses this week with the CBS-USG route reaching ws80 and corresponding TCs dropping into negative territory. Stronger regional demand, however, saw rates stabilize at this level by mid-week and the emergence of a small number of fuel oil cargoes to Asia – combined with two fixtures for voyages to the USWC will likely help towards a supply/demand rebalancing by taking these units out of the Atlantic basin. In the immediate near-term, however, activity levels will need to accelerate further to prompt a quick rebounding of rates.

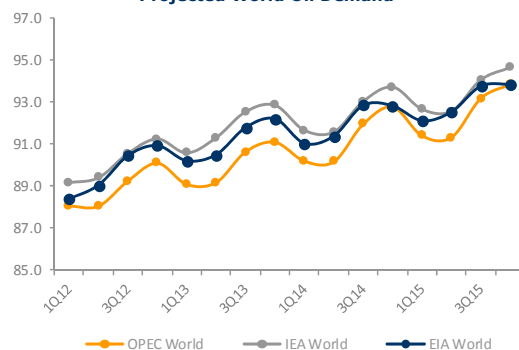
## MR

The USG MR market was moderately stronger this week on sustained demand and an earlier slump in the UKC market which saw participants seek stronger rates for TA trades. Over the course of the week, 30 fixtures were reported, representing a w/w decline of 14%. Of the tally, seven were bound for points in Europe (-1, w/w), sixteen were bound for points in Latin America and the Caribbean (-4, w/w) and the remainder were yet to be determined or bound for alternative areas. Rates on the USG-UKC route added 2.5 points to conclude at ws72.5 while those to Pozos Colorados were up by \$25k to \$350k. Rates could be poised to pare back this week's gains, however. We note that two-week forward availability has risen by 55% w/w to 51 units – the most in 18 months. Though the number of LRs available has dropped from recent highs to just two LR1 units and one LR2, we expect that the volume of available tonnage against the seasonally slower second-half of July will prove challenging for MR owners in the region.

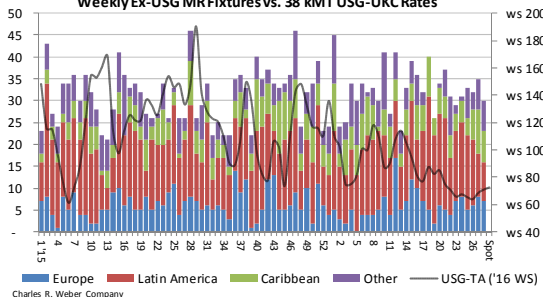
Projected OECD Oil Demand



Projected World Oil Demand



Weekly Ex-USG MR Fixtures vs. 38 KMT USG-UKC Rates



# WEBER WEEKLY TANKER REPORT



## REPORTED TANKER SALES

**"Avant I"** 110,673/04 – Mitsui Tamano – DH  
-Sold on private terms to Singaporean buyers for conversion to FPSO (old sale).

**"Challenge Prospect"** 48,539/05 – Iwagi Zosen – DH – FS Ice II  
-Sold on private terms to Indian buyers (Great Eastern Shipping) for delivery 3Q17.

**"Teesta Spirit"** 46,921/04 – Hyundai Mipo – DH  
-Sold for \$14.0m to undisclosed Greek buyers.

**"MTM Westport"** 19,997/10 – Shin Kurushima Akitsu – DH – IMO II/III  
-Sold for \$13.8m to undisclosed buyers.

**"Erkin-S"** 6,412/10 – Istanbul Shipyard – DH – IMO II – Ice 1A  
-Sold for \$10.0m to Norwegian buyers (Fjord Shipping AS-Maaloey).

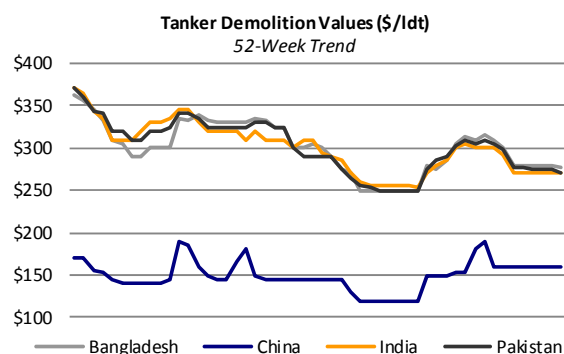
## REPORTED TANKER DEMOLITION SALES

### Pakistan

**"Siracha Master"** 89,960/91 – 14,219 LDT – SH  
-Sold on private terms.

### Turkey

**"Siteam Anja"** 44,651/97 – 11,018 LDT – DH  
-Sold on private terms. Unit suffered total loss off Uruguay.



<sup>1</sup>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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