Shale Evolution

Weekly Tanker Market Report

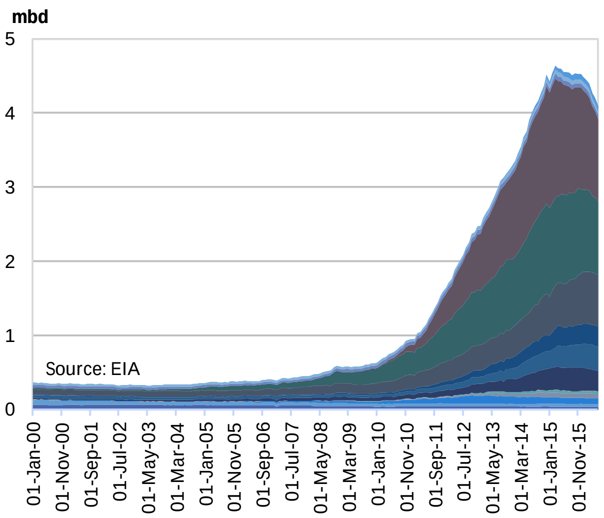
The shale industry is constantly evolving. The fall in oil prices which put the brakes on the shale 'revolution' has forced producers to find innovative ways of cutting costs and maximizing output. Despite these efficiency gains, US shale production remains in decline, yet the sector has proved more resilient at lower prices than originally anticipated. As technology improves and service costs fall, producers are lowering their breakeven costs, prompting a rise in the US rig count.

The Baker Hughes North American oil rig count has risen from a low of 316 at the end of May to 381 last week, having risen almost every week since the end of May. Much of this increase was driven by rising oil prices, which flirted with $50/bbl in June as outages in Nigeria and Canada supported prices. Prices have eased back since then, yet the rig count continues to rise as changes in drilling activity tend to lag fluctuations in oil prices. Whether or not the rig count continues to rise over the coming weeks may have already been influenced by easing prices over the previous month, yet the significant factor remains that producers have been adding rigs in a $40-50/bbl price environment.

Baker Hughes Rig Count

Exact breakevens may not be known but many analysts suggest the majority of wells could now be profitable at $60/bbl whilst many wells in the Permian Basin, which account for over 30% of US shale production, could make sense at prices below $40/bbl. What's more, decline rates have improved drastically in recent years. When the shale industry first started a decade ago, decline rates stood near 90% but are now said to be nearer 20% over the first four months of the well's life. Whilst oilfield services costs may not be able to fall any further, technical innovation and new drilling techniques could see lower $/bbl costs bring more marginal wells online.

US Tight Oil Production



Perhaps it is important to consider the context of these additions. 381 rigs fall well short of 1,609 peak in October 2014. Even with the latest additions, US crude production is likely to continue to fall as well decline rates exceed new capacity brought online. However, with breakevens now cited at much lower levels, it can be argued that shale oil is now a medium, not high cost source of oil. Longer term this indicates that as oil prices recover; shale production will become an increasingly important source of supply. Furthermore, with lower costs, it is likely that tight oil production will recover before higher cost projects (e.g. deepwater), impacting on tanker trade flows.

Current projections from the EIA indicate that US crude production will begin to rise once again in the second half of 2017, subject to oil prices firming. As domestic oil supplies increase, crude export from the regions are likely to rise, whilst imports into the US would once again ease. Rising exports of US light sweet crude and falling imports of similar grades is likely to support long haul trade, pushing more West African barrels East, whilst also generating increased flows from the US Gulf. However, everything comes down to price, so any further fall in oil prices could delay the anticipated recovery in shale oil production.

Crude Oil

Middle East

No break-out yet, but VLCCs at least managed to stop the previous rot, and very gently re-inflate. It's all been very tentative, however, but full September programmes will be in hand from mid next week, and Owners will hope that they can then reap some extra benefit if bargain hunting momentum then ensues. Currently rates operate in the mid/high ws 30s East and mid ws 20s to the West. Suezmaxes trod water in the market shallows with again levels little better than ws 25 West, and ws 42.5 East, though a relatively weighty September Basrah programme will give some heart to the sector. Aframaxes turned sluggish, and rates moved down to 80,000 by ws 75 to Singapore accordingly. Little early relief in sight.

West Africa

Suezmaxes hit 'absolute zero' in terms of earnings and although some Charterers did take easy cover at rates down to ws 35 for any Atlantic discharge option, even such discounted numbers failed to provoke a shopping spree. The only way is 'up', but when? More work needs to be done. VLCCs held modest premiums over prevailing AG/East numbers but enquiry fell short of providing enough impetus to stimulate the market higher. Other Atlantic load areas also remain on the back foot and forward availability will have to be more severely trimmed before any new growth sprouts. Rates East hover at around ws 40 with runs to West Coast India scoring in the low 2 mills.

Mediterranean

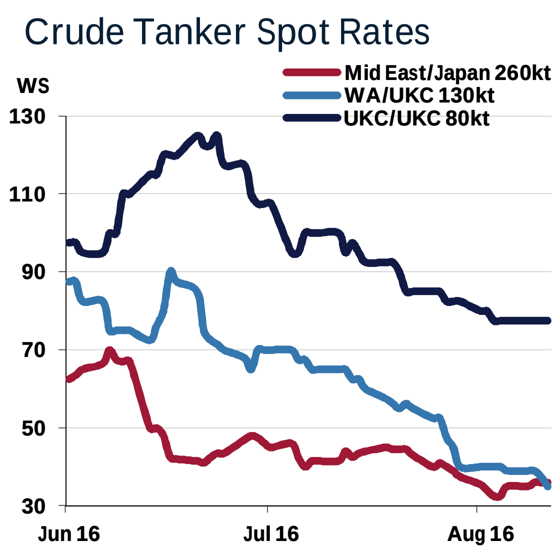
Limp and only one step away from lifeless for Aframaxes...80,000 by ws 65/67.5 cross Med now, and that is reflective of the ongoing supply/demand imbalance. Suezmaxes just watched more 'neighbours' arrive as enquiry remained flat. Rates stumbled to 140,000 by ws 42.5 from the Black Sea to European destinations and will remain under pressure for some while yet.

Caribbean

Aframaxes compressed to 70,000 by ws 72.5 up coast, then became 'conference' at that number. There was then a busier spell of fixing but availability remained sufficient to keep absorbing the attention. Rates may move a little higher next week, but the emphasis being on the 'little'. VLCCs dug deep but once some welcome interest did pass their way, had to accept rates down to $2.8 million to Singapore, and as low as $2 million to West Coast India with no good news on the near term horizon.

North Sea

As in the Med, Afras continued to suffer.80,000 cross UKCont slid off a bit to 80,000 by ws 75 and to 100,000 by ws 47.5 from the Baltic with more of the soggy same to come. VLCCs saw very little but an underwhelming $3.75 million was paid for a crude movement from Hound Point to South Korea with similar values still on the table.



Clean Products

East

An incredibly disjointed week this week on all sizes, but in particular on the MRs. For a market that requires regular cargoes to emerge and go on subjects in order to remain stable, the absence of personnel throughout the week has inevitably created a sense of uncertainty for the MRs. Owners have therefore on occasion been strong-armed into dropping rates from last done levels. Strangely, subsequent cargoes have been taken on subjectss at much higher numbers. The AG/UKC rate, which has seemingly settled at the $1.25 million has today gone on subjects at $1.2 million, although Owners are currently scratching their heads searching for a dodgy cargo history or west-yard period for explanation. Naphtha runs have again sat fairly firm at the ws 102.5 level, and it has been the EAfr runs which have been most interesting. The firmness seen last week was undercut by a ws 150 (last veg) at the end of the week, and Owners seem unsure where exactly to put it. From ws 155 to ws 167.5 been put on subjects, the week ends with Owners willing at the lower bracket to pick up a cargo on dates. Shorties have sat relatively firm at the $230k level, and those runs going into the RSea have done so at the $575k level, having taken a slight dip from last week's levels. Owners will be keen to see more cargoes emerge next week, but will also be keeping an eye on the heavy tonnage list sitting in Singapore, wary that many of these ships will ballast over to the west coast of India, looking for employment. Action on the larger sized ships did not start until Tuesday, when an explosion of cargoes were released (particularly on the LR1s). The LR2s have been steady yet unexciting - last done levels on naphtha runs being sufficient to satisfy both Charterers and Owners at ws 105. West runs have taken a slight dip - $2.125 million the new norm for market levels. LR1s have been far busier, and Owners have a lot of cargoes to have a look at. An interesting situation has emerged, in which tonnage is thin before the 25th, and thereafter builds up, so that cargoes with later laycans have been traded simultaneously at lower rates than those with earlier laycans. $ 1.65 million looking the likely market value for an earlier lifting, and $1.5 million on subjects for a Kuwait lifting off later dates. Naphtha runs are again very popular amongst Owners, keen to avoid the desperate search for work in the west. Ws 102.5 has been a tried and tested norm to Japan, whereas ULSD headed to Singapore has taken a little bump up to the ws 117.5 level. With a number of cargoes yet to be covered on the LR1s, they are in healthy position going into the new week, both for AG and WCI loadings. The only rates which may not see sympathetic increases will be RSea loadings, which are in high demand from Owners ballasting tonnage through Suez looking for employment.

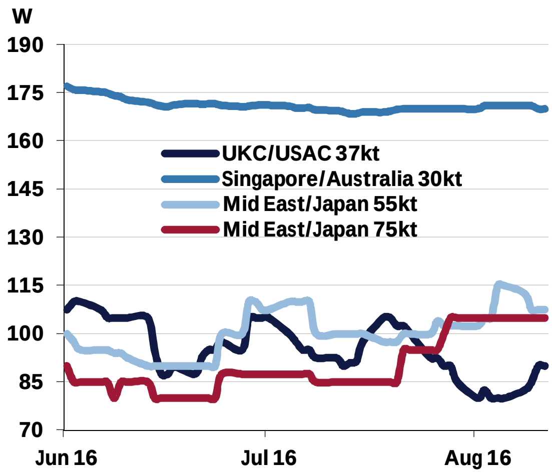
Mediterranean

Week 32 has proven to be a pretty lacklustre for Handy Owners in the Mediterranean. The recipe of limited Handy interest and a weighty tonnage list have been the ingredients Charterers have needed to keep rates subdued. The term 'sideways' comes to mind when summarising Handy levels throughout the week as 30 x ws 112.5 was repeatedly put on subjects and fixed. Black Sea volumes have remained limited and with supply clearing out weighing demand , Charterers were able to shave off 5 points from this market forcing rates down to 30 x ws 120 mark, looking ahead this seems to be the lowest levels Owners are willing to fix at. Owners who have positions in the west Mediterranean will also have a firm eye on what is happening with Handies up on the Continent as there is potential for rates to push up and may consider the ballast up. A quiet week for MRs plying their trade in the Med and movements west have been limited. We have seen 37 x ws 90 achieved for Med/Transatlantic, but it will be heavily dependent on how TC2 performs heading into next week. For Red Sea discharge rates have pushed to $600k basis Sarroch/Jeddah.

UK Continent

A topsy-turvy week for the MRs with activity starting slowly, peaking in the middle of the week and seemingly settled as we draw to a close. Charterers with prompt requirement were presented with a tight tonnage list by Tuesday setting TC2 rates at 37 x ws 100 and 37 x ws 125 for WAF. However this spike was short lived as fresh enquiry seen at the tail end of the week pushed the fixing window into 3rd decade leaving tonnage demand in the balance and rates settled back down at 37 x ws 90. WAF enquiry has remained light as has cargo ex Baltic nonetheless Owners will take some encouragement at seeing some reformate enquiry going east late in the week but this market will require a fresh test. The Handies have seen consistent enquiry for the last couple of weeks now although this has not had any great effect until late this week. A handful of fresh cargoes early in the week means the tonnage list suddenly shrunk giving Owners the prerogative to push for higher and with 30 x ws 110 the going rate at the midway point this could easily be pushed higher by COB. A couple of distressed cargoes ex Baltic on Friday are likely to encourage an uptick in rates where Owners look to capitalise. A dismal week in general for the Flexis with nothing to report in the way of fresh spot cargo. Certain ships have been picked off under COA liftings but the volume of this is not sufficient to clear all prompt tonnage. As it stands the market waits to see the levels at which rates will be tested although 22 x ws 140 seems to be the number on peoples lips and possibly less if these market conditions persevere.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Owners will feel that this week the Continent has hit the bottom and is starting to steer back into the right direction. Increased activity and ships being sent away from the region are all positive signs for Owners that there is market recovery on the horizon. Whether any strength can be sustained moving into week 33 is as ever entirely reliant upon the activity that follows, however hopeful that the last decade could present more opportunity, Owners will be less willing to discount. The battle in the Mediterranean continues and Owners will feel like they have been through hell and back, although at the end of this week they are sat somewhat more positive in stance when counting the collective fixture volumes Monday through Friday. This said, at current market levels Charterers will not exactly feel defeated either, and despite only small margins of increment there is a growing sense of relief.

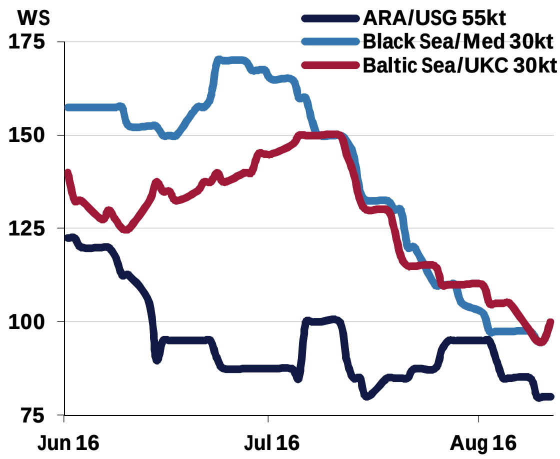
MR

The Market in both the Continent and Mediterranean has been a mixed bag of emotions for Owners as at the start of the week negative outlooks remained where the volume of enquiry still remained low and part cargo rates were not making sense. As the week progressed Owners will be feeling slightly more positive where the surrounding Handy activity has picked up. Although at time of writing the MR market is far from out of the woods, just with idle days stacking up on numerous positions.

Panamax

Suffering a slight blip this market managed to find a more agreeable “conference rate” of ws 80 where activity swiftly proceeded following new market lows. Although with just medium appetite levels for this size of tonnage where many of our regular names decided not to step into this sector, additional relief was halted. Furthermore with a flat / Soft Caribbean trend, the next immediate fixing windows are likely to experience a very similar market when covering Europe/Transatlantic.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 11th	Aug 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+4**	37	33	44	39
TD20	Suezmax	WAF-UKC	**-5**	35	40	61	43
TD7	Aframax	N.Sea-UKC	**+0**	78	78	94	88

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

			wk on wk change	Aug 11th	Aug 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+3,000**	17,750	14,750	24,750	20,750
TD20	Suezmax	WAF-UKC	**-2,500**	6,000	8,500	18,250	10,000
TD7	Aframax	N.Sea-UKC	**-250**	4,500	4,750	17,500	13,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 11th	Aug 4th	Last 7th	FFA Q3
TC1	LR2	AG-Japan	**-1**	104	105	85	
TC2	MR - west	UKC-USAC	**+12**	93	81	92	89
TC5	LR1	AG-Japan	**-4**	108	112	100	104
TC7	MR - east	Singapore-EC Aus	**-2**	170	172	169	

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

			wk on wk change	Aug 11th	Aug 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-750**	21,000	21,750	14,250	
TC2	MR - west	UKC-USAC	**+2,250**	8,000	5,750	7,000	7,250
TC5	LR1	AG-Japan	**-1,250**	15,000	16,250	12,500	14,000
TC7	MR - east	Singapore-EC Aus	**-3,250**	14,500	17,750	13,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+1**	216	215	234
ClearView Bunker Price (Fujairah 380 HSFO)	**+5**	226	221	250
ClearView Bunker Price (Singapore 380 HSFO)	**+1**	221	220	248
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+6**	366	360	408

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