WEBER WEEKLY
TANKER REPORT

WEEK 32 – 12 AUGUST 2016 ISSUE 32 – 2016

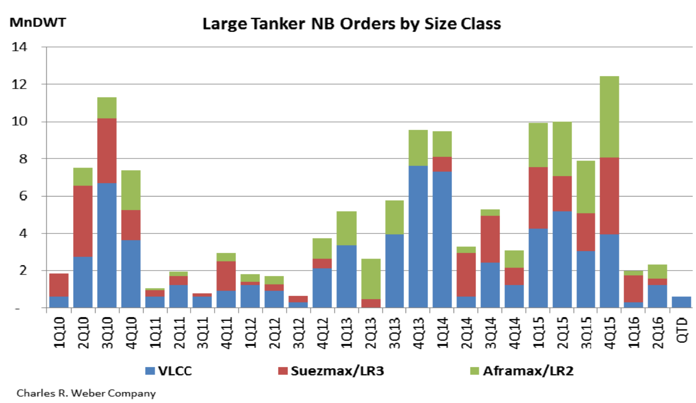
1H16 Large Tanker NB Orders at 4-Year Low

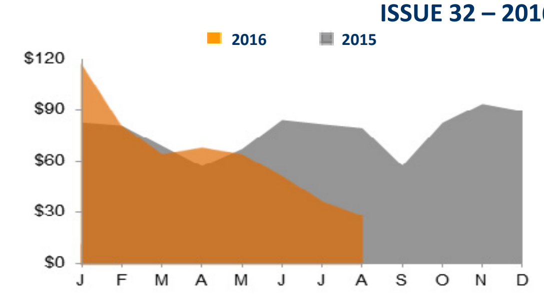
In the large tanker segments – including the VLCC, Suezmax/LR3 and Aframax/LR2 size classes – orders during the first half of the year stood at their lowest in terms of collective DWT capacity since 1H12. This development comes on the back of earnings declining from 2015 highs and as asset prices across the board have come under strong negative pressure resulting from declining newbuilding prices and corresponding pressure on second hand values.

In the Aframax segment, for instance, we presently assess newbuilding contracts for South Korea/Japan construction at $41m – which compares with an peak average of nominal price of $75m during 2008 or a real (inflation-adjusted) price of $84m. As recently as 2014, the average price was $54m ($55m in real terms), implying a 24% price reduction on nominal terms.

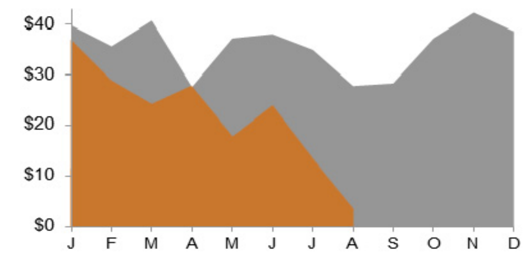
In terms of the depressed current spot market, in which earnings have now declined to a two year low, we view the present driving supply/demand imbalance as being only partly structural (i.e. high newbuilding deliveries in recent months). But instead we believe that rates are being dragged down by seasonal factors being heavily exacerbated by crude supply issues in key markets. VLCCs have been impacted by force majeure issues in Nigeria which have made West African grades less attractive to Asian buyers, as well as by declining US crude production which have driven up VLCC units arriving on the USG without matching levels of export growth from Venezuela to offer onward trades for these units. The result is the reduction of West Africa as a competitor for Middle East units both because of the reduction of demand and the intermittent ballasting of units to West Africa from the USG. Aframaxes have been hit by ongoing crude supply issues in Libya, slower supply from Ceyhan, economic supply reductions from the Baltic Sea region and a lack of growth in the Caribbean and Far East markets. Suezmaxes have been hit both as a function of their competition with the larger and smaller size classes (having observed upside on the back of the gains for those classes that offset earlier strong losses on the WAFR-USAC route – and supply issues in West Africa.

While we remain optimistic that many of these issues will resolve as the market heads into Q4, there is an inherent uncertainty thereof – particularly as pertains to prospective crude supply rebounds from Libya and Nigeria. Moreover, sustained low crude prices cast a shadow on the sustainability of volumes from Venezuela, Angola, Nigeria and the likelihood for US crude production to stabilize. Thus, regardless of the reasons driving lower tanker orders, we view the present reduction thereof to be constructive for the longer-term health of the tanker markets. Given the uncertainty over the development of crude tanker fundamentals on the demand side, fleet growth remains a key challenge. As the market continues to work through deliveries of earlier orders amid an ongoing reluctance by owners to phase-out older units, we note that fleet growth is expected to clock in at high levels. We currently estimate that fleet growth between now and the end of 2017 will stand at 5% for VLCCs, 10% for Suezmax/LR3s and 4% for Aframax/LR2s.

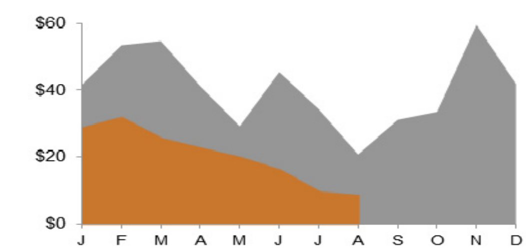




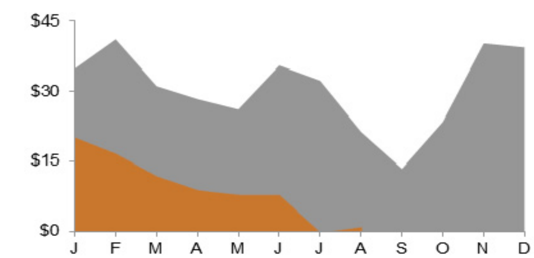
VLCC TCE AG-USG / CBS-SPORE/AG[1] | MTD Average ~$28,334/Day | Month y/y ▼ -64%



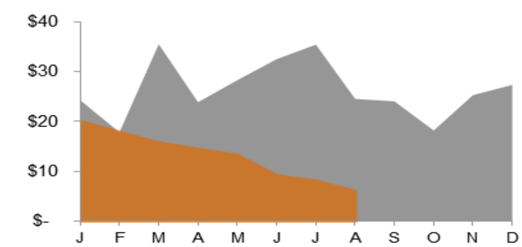
S'MAX TCE 130k WAF-UKC | MTD Average ~$3,574/Day | Month y/y ▼ -87%



A'MAX TCE 70k CBS-USG | MTD Average ~$9,156/Day | Month y/y ▼ -56%

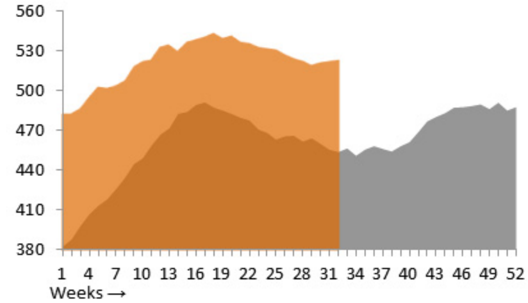


P'MAX TCE 50k CBS-USG | MTD Average ~$1,343/Day | Month y/y ▼ -94%

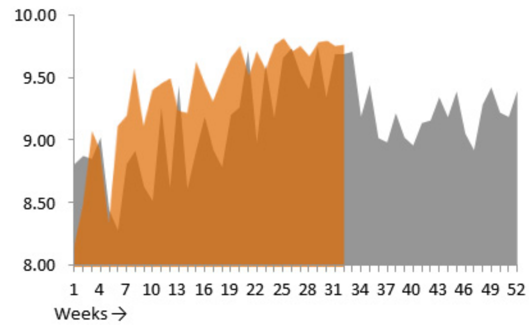


MR TCE USG-UKC/ UKC-USAC/USG | MTD Average ~$6,553/Day | Month y/y ▼ -73%

WEBER WEEKLY TANKER REPORT



US Crude Stocks (EIA)	Last Week	Week y/y
	523.6 MnBbls	▲ +15.4%



US Gasoline Demand (EIA)	Last week	Week y/y
	9.769 MnB/d	▲ +0.9%

2016 2015

Spot Market	WS/LS	TCE ~$/day	WS/LS	TCE ~$/day
VLCC (13.0 Kts L/B)	5-Jul		12-Aug	
AG>USG 280k (TD1)	21.5	$7,277	25.0	$10,238
AG>USG/CBS>SPORE/AG	--	$27,658	--	$28,216
AG>SPORE 270k (TD2)	34.0	$19,523	37.5	$23,014
AG>CHINA 265k (TD3C)	34.0	$14,992	37.5	$18,314
WAFR>USG 260k (TD4)	45.0	$32,113	45.0	$31,492
WAFR>CHINA 260k (TD15)	40.0	$23,880	40.0	$23,276
CBS>SPORE 270k	$3.00m	--	$2.80m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	39.0	$7,626	35.0	$5,059
WAFR>UKC 130k (TD20)	39.0	$4,206	35.0	$1,671
BSEA>MED 140k (TD6)	50.0	$10,890	45.0	$6,890
CBS>USG 150k	47.5	$10,479	42.5	$6,211
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	77.5	$7,983	75.0	$4,965
AG>SPORE 70k (TD8)	80.0	$14,295	80.0	$14,057
BALT>UKC 100k (TD17)	50.0	$9,846	45.0	$6,120
CBS>USG 70k (TD9)	75.0	$9,106	75.0	$8,745
MED>MED 80k (TD19)	70.0	$7,370	65.0	$4,981
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	85.0	$1,014	90.0	$2,204
CONT>USG 55k (TD12)	85.0	$9,165	80.0	$7,438
ECU>USWC 50k	122.5	$16,594	122.5	$16,538
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	80.0	$4,309	90.0	$5,915
USG>UKC 38k (TC14)	57.5	$1,377	52.5	$137
USG>UKC/UKC>USAC/USG	--	$6,120	--	$6,130
USG>CBS (Pozos) 38k	$275k	$4,326	$250k	$2,373
USG>CHILE (Coronel) 38k	$1.00m	$13,125	$925k	$10,687
CBS>USAC 38k	100.0	$8,938	95.0	$7,703
AG>JPN 35k	110.0	$8,364	107.5	$7,831
AG>JPN 75k (TC1)	105.0	$21,800	105.0	$21,555
AG>JPN 55k (TC5)	113.0	$16,065	110.0	$15,177

Time Charter Market *$/day (theoretical)*	1 Year	3 Years
VLCC	$31,000	$30,000
Suezmax	$23,000	$22,500
Aframax	$19,000	$17,500
Panamax	$17,000	$17,000
MR	$14,000	$14,000

WEBER WEEKLY TANKER REPORT

SPOT MARKET SUMMARY

VLCC

Directionally stronger demand for VLCC voyages to China in recent weeks combined with a second consecutive week of fixture activity in the Middle East matching or exceeding the 52-week average and West Africa demand at a three-week high all provided modest positive rate support this week. Rates on the AG-JPN benchmark route gained 2.5 points to conclude at ws35, paring the month's earlier losses.

Despite this week's gains, the market's fundamentals suggest that rates are poised to observe further losses in the near-term. We note that, as compared with last week's view of surplus Middle East tonnage for August, when seventeen units were counted, has now increased, even as August cargo demand to-date has exceeded expectations. There are 21 units available while one further cargo is expected, implying a surplus of 20 units. While representing a reduction from July's 22 surplus units, the age profile shows that about half are 15+ years old with a further two being new buildings lacking approvals. With such a high proportion of the available units thus likely to trade at levels below market, the negative pressure on rates suggested by the supply/demand position could be exacerbated – particularly once charterers progress into September dates when availability levels will rise to include that month's positions.

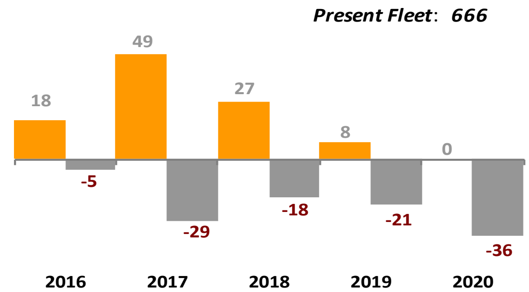
Middle East

Rates to the far east gained 2.5 points to conclude at ws35 with corresponding TCEs rising 6% to ~$19,034/day. Rates to the USG via the Cape added 3.5 points to conclude at ws25. Triangulated Westbound trade earnings rose by 3% to ~$28,756/day.

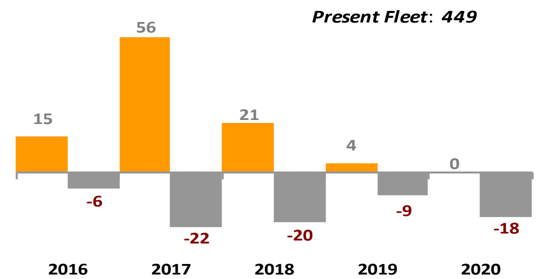
Atlantic Basin

The West Africa market was largely unchanged this week with the WAFR-FEAST route holding at the ws40 level but appears poised to observe modest gains in-line with the usual lag of regional rates from those in the Middle East. TCEs on the WAFR-FEAST route lost $362/day to conclude at ~$23,759/day due to bunker price fluctuations. The Caribbean market remained slow with just one fixture reported, for a voyage commencing on the USG. Due to rising USG arrivals outpacing voyage originations from the regional export leader, Venezuela, rates observed fresh rate downside with the CBS-SPORE route shedding $200k to conclude at $2.80m lump sum – the route's lowest assessment in the past five years.

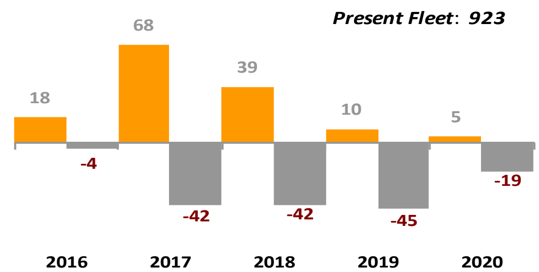
VLCC Projected Deliveries/Removals



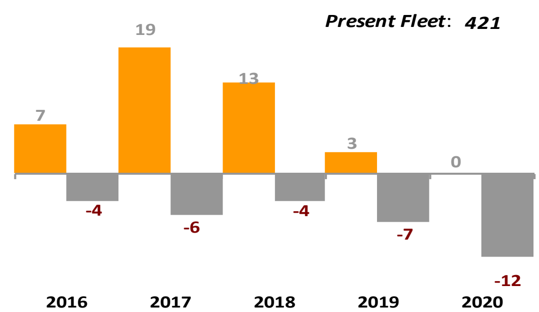
Suezmax Projected Deliveries/Removals



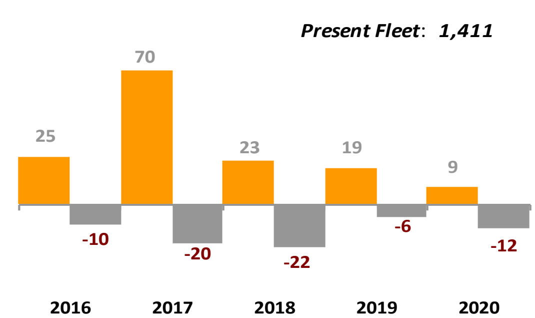
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals

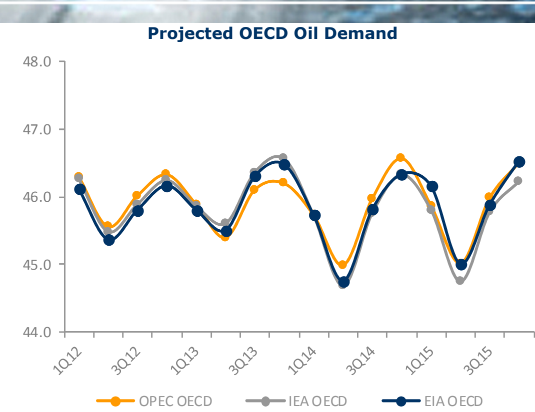


MR Projected Deliveries/Removals



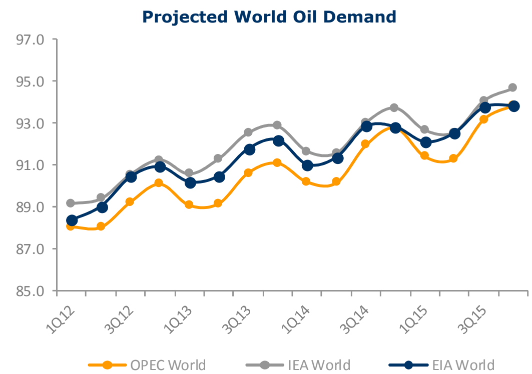
Suezmax

The West Africa Suezmax market continued to observe downside this week on the back of slow demand in West Africa amid ongoing force majeure issues on a number of grades and a lack of opportunity to compete with Aframax and VLCCs in the West Africa market and elsewhere. A total of six fixtures were reported this week in the West Africa market, one fewer than last week and 56% fewer than the 52-week average. Rates on the WAFR-UKC route dropped 4 points this week to conclude at ws35; corresponding TCEs stand at ~$1,671/day (well below OPEX of ~$9,500/day). Given the extent of TCE pressure, rates could be poised to level off and as such it is unclear how demand developments will influence rates in the near-term. We do note, however, that demand woes appear unlikely to alleviate in the immediate near term; this week saw force majeure declared on Bonny Light – building upon forces majeures on other significant grades. In addition to threatening near-term fundamentals, the possibility that the latest force majeure – and that on Qua Iboe earlier (though as much as been denied by its operator) – may in fact be related to attacks by rebel group Niger Delta Avengers may imply a significant issue for Nigeria's export rate. Conversely, reports this week indicated that the group's leadership structure is starting to show cracks and recently week the Nigerian government reversed their position to offer financial incentives to stop rebel attacks.



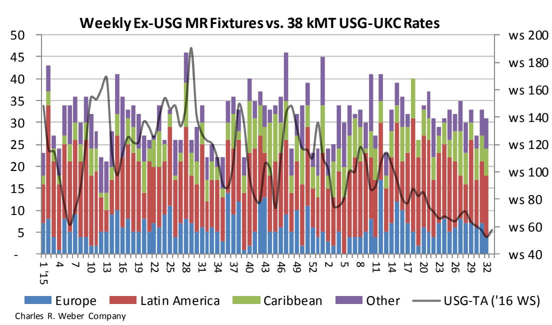
Aframax

The Caribbean Aframax market was moderately busier this week with the regional fixture tally rising 70% w/w to 17. Despite the gains, rates remained mired at an effective floor as availability levels remain out of step with demand. Rates on the CBS-USG route were unchanged at ws75 through the week. Failing a drastic surging of demand during the upcoming week, rates show little likelihood of rebounding.



MR

Demand in the USG MR market was marginally softer this week with the regional fixture tally easing 6% w/w to 31. Of the tally, four were bound for points in Europe (-3 w/w, the fewest in just over two months), 20 were bound for points in Latin America and the Caribbean (unchanged, w/w), and the remainder were bound for alternative destinations or are yet to be determined. An uneven distribution of the demand throughout the week thereof, combined with a number of cargoes serviced through charterers' internal tonnage and rising competition from owners for cargoes made the week feel more sluggish than it was. As a result, sentiment was driven further south with fresh multiple-year rate lows being observed on various routes. Rates on the USG-UKC route dropped five points to conclude at ws52.5 while the USG-CBS route lost $50k to conclude at $250k (a six-year low). The two-week forward availability view shows 58 units available – a 9% w/w gain to the loftiest tally since October 2014. While the expanded list of available units could weigh further on rates, we note that following this week's losses, TCEs – already well below OPEX in most cases – are approaching voyage breakeven levels which could limit the extent of further downside. Moreover, given that a part of the USG downside observed was driven by the USG-UKC route as rising rates in the UKC market incentivized voyages in that direction with carryover effect on round-trip/intraregional voyages, the fact that the UKC market peaked late in the week and is now easing from earlier highs could imply some (albeit very modest) rate support for the USG market.



REPORTED TANKER SALES

"Genmar Victory" 312,638/01 – Hyundai Ulsan – DH
-Sold for $28.0m to Singaporean buyers (Bentek) for conversion to FSO.

"Eagle Baltimore" 99,405/96 – Samsung Geoje – DH
-Sold on private terms to undisclosed buyers.

"Pacific Marchioness" 46,710/10 – Hyundai Mipo – DH – IMO III
"Pacific Duchess" 46,697/09 – Hyundai Mipo – DH – IMO III
-Sold en bloc for $43.0m to undisclosed Singaporean buyers; sale includes BB charters to ENOC.

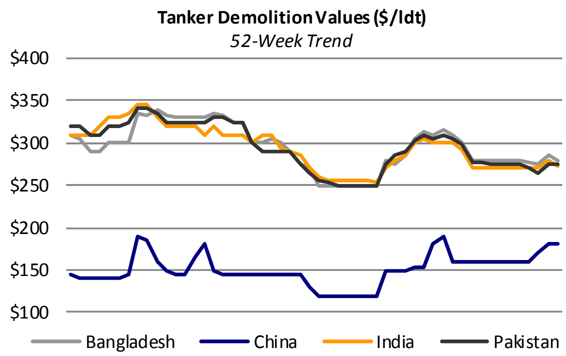
"Oliphant" 40,000/04 – ShinA Tongyeong – DH – IMO III
-Sold for $13.5m to Monacan buyers (Andromeda); sale includes TCB for 2 years @ $14,500/day.

"Nord Mermaid" 38,461/06 – Guangzhou – DH – IMO III
-Sold for $13.5m to undisclosed buyers. SS/DD due 09/2016.

"Mid Fighter" 20,866/08 – Shin Kurushima – DH – IMO II/III
-Sold for $21.5m to Danish buyers (Celsius Shipping).

REPORTED TANKER DEMOLITION SALES

India
"Stolt Emerald" 38,719/86 – 11,510 LDT – DH
-Sold on private terms.



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

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