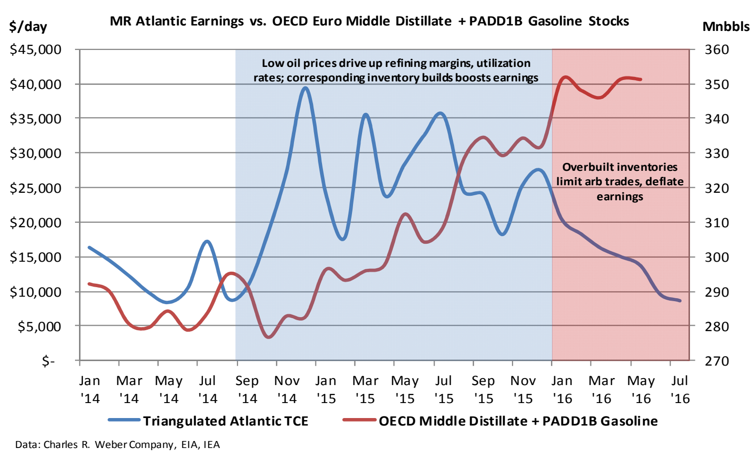
WEBER WEEKLY TANKER REPORT

WEEK 35 – 2 SEPTEMBER 2016 **ISSUE 35 – 2016**

MRs set for tailwinds?

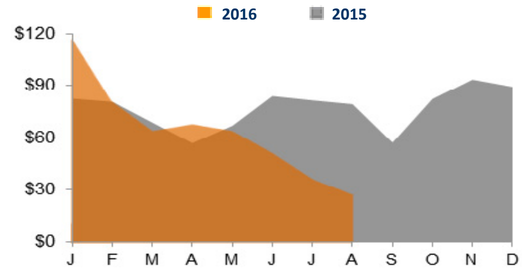
After observing a respectable rally during 2015 when earnings posted a 70% annual gain, MRs have been on an unabated directional slide since the start of the year with earings off by 44% YTD, y/y and raising fresh fears that the trade dynamics deflating rates and earnings represent a new paradigm. Despite the extent of downside, our view remains that current market headwinds have resulted from non-structural influences created by overbuilt product inventories following the collapse of crude oil prices in 2H14 and the immense surplus refining activity which accompanied corresponding improvements to global refining margins.

As the world's surplus product sought an outlet, traders took relief in rising demand growth and significant volumes made their way into respective inventory and demand centers – in the Atlantic basin, this is characterized by gasoline inventory builds in the US and diesel and jet fuel inventory builds in Europe. Between September 2014 and the end of 2015, these cargo flows and the simultaneous general availability of arbitrage opportunities within the Atlantic basin and intermittent availability of longer-haul West-East arbitrage opportunities helped to propel the 2015's strong earnings by adding demand in excess of levels ultimately warranted by global product market fundamentals. Gasoline inventories at NYH (evidenced by the PADD 1B sub-region) and European diesel and jet fuel inventories (evidenced by OECD Europe Middle Distillate stock data) rose to levels flirting with record highs by 1Q16 and have held at excessively elevated levels since. In Europe, the trend was more pronounced as a wave of new diesel supplies emanating from export-oriented and diesel intensive refinery startups in the Middle East were imported. Collectively, global refining capacity rose to a ~1.0 Mnb/d surplus during this time and the impact was exacerbated by a subsequent below-normal global spring '16 maintenance program.

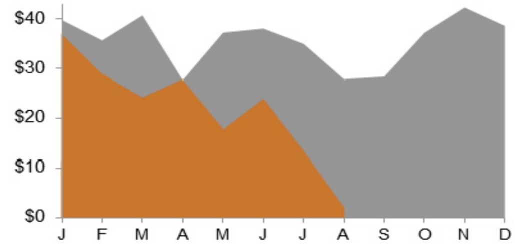


As markets grappled with high inventories since the start of the yeawr, long-haul MR routes have seen significant contractions. On a YTD y/y basis, USG-FEAST voyages have dropped 65%, BALT-TA voyages are off 7.2% and UKC-TA voyages are off 2.5% while USG-TA voyages have dropped 3.5%. These contractions are heavily attributable to fewer arbitrage opportunities and high inventories (and low US absorption of distillate stocks in heating fuel this past winter amid an El Nino weather pattern in the US this past winter didn't help). Meanwhile, short-haul routes have been more active as record refining runs seek outlets. Voyages from the USG to points in the Caribbean and Latin America are up 14% YTD, y/y and CHINA-FEAST voyages are up 19% (the latter as a function of liberalized crude imports for China's export-oriented "teapot" refineries).

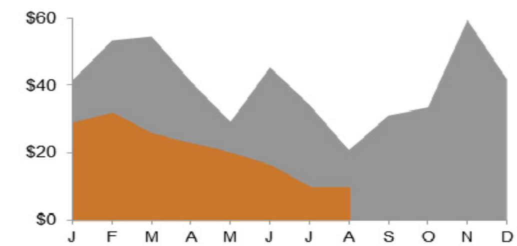
Going forward, our expectation is that trades will normalize and restructure around routes and patterns which are structurally positive for MR earnings, though the length of the road there is uncertain – and likely to be bumpy. Early during Q4, the higher-than-normal maintenance anticipated for global refiners should mark the commencement of a product destocking cycle while poor margins could help further by prompting the capacity rationalizations and lower long-term utilization rates at the world's least competitive plants needed to restore balance to global product markets. Additionally, long-range weather forecasts increasingly suggest a colder US north and warmer and drier US south, implying greater heating fuel demand in the north and gasoline demand in the south.



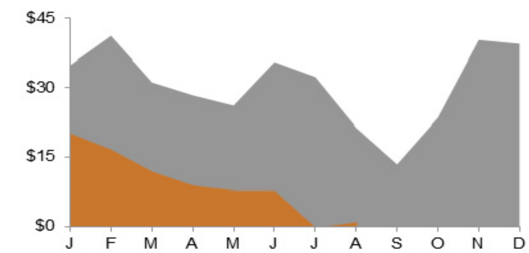
VLCC TCE AG-USG / CBS-SPORE/AG¹	**Aug Average ~$27,281/Day**	**Month y/y ▼ -66%**



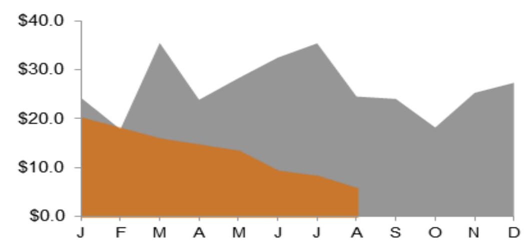
S'MAX TCE 130k WAF-UKC	**Aug Average ~$2,502/Day**	**Month y/y ▼ -91%**



A'MAX TCE 70k CBS-USG	**Aug Average ~$10,531/Day**	**Month y/y ▼ -49%**



P'MAX TCE 50k CBS-USG	**Aug Average ~$1,370/Day**	**Month y/y ▼ -94%**

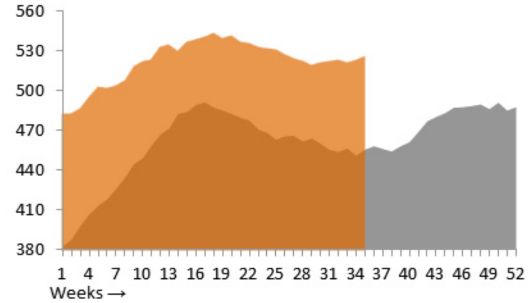


MR TCE USG-UKC/ UKC-USAC/USG	**Aug Average ~$6,162/Day**	**Month y/y ▼ -75%**

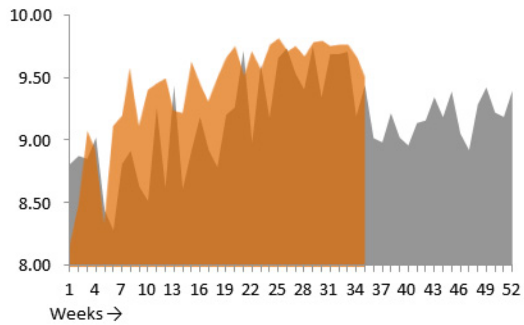
WEBER WEEKLY TANKER REPORT

Spot Market	WS/LS	TCE ~$/day	WS/LS	TCE ~$/day
VLCC (13.0 Kts L/B)	**26-Aug**		**2-Sep**	
AG>USG 280k (TD1)	25.0	$8,882	23.0	$7,585
AG>USG/CBS>SPORE/AG	--	$23,990	--	$23,012
AG>SPORE 270k (TD2)	35.0	$18,809	33.0	$17,229
AG>CHINA 265k (TD3C)	35.0	$14,199	33.0	$12,722
WAFR>USG 260k (TD4)	45.0	$30,166	37.5	$23,141
WAFR>CHINA 260k (TD15)	40.0	$22,009	37.5	$20,093
CBS>SPORE 270k	$2.50m	--	$2.50m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	40.0	$6,635	45.0	$9,862
WAFR>UKC 130k (TD20)	40.0	$3,177	47.5	$7,656
BSEA>MED 140k (TD6)	50.0	$10,144	50.0	$9,883
CBS>USG 150k	45.0	$6,972	47.5	$9,593
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	77.5	$6,365	80.0	$9,832
AG>SPORE 70k (TD8)	70.0	$10,227	65.0	$9,097
BALT>UKC 100k (TD17)	47.5	$6,599	52.5	$10,776
CBS>USG 70k (TD9)	90.0	$13,553	97.5	$16,799
MED>MED 80k (TD19)	65.0	$4,301	65.0	$4,657
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	90.0	$1,457	82.5	$165
CONT>USG 55k (TD12)	85.0	$7,939	87.5	$9,168
ECU>USWC 50k	122.5	$15,993	125.0	$15,581
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	87.5	$4,690	80.0	$3,775
USG>UKC 38k (TC14)	52.5	$(531)	57.5	$854
USG>UKC/UKC>USAC/USG	--	$5,169	--	$5,618
USG>CBS (Pozos) 38k	$255k	$2,130	$275k	$3,848
USG>CHILE (Coronel) 38k	$925k	$10,115	$950k	$11,179
CBS>USAC 38k	90.0	$6,140	92.5	$7,008
AG>JPN 35k	102.0	$6,438	99.0	$6,297
AG>JPN 75k (TC1)	102.5	$19,969	100.0	$19,603
AG>JPN 55k (TC5)	112.0	$14,831	108.5	$14,422

Time Charter Market *$/day (theoretical)*	1 Year	3 Years
VLCC	$29,000	$27,000
Suezmax	$19,000	$19,000
Aframax	$17,000	$17,000
Panamax	$14,000	$16,000
MR	$13,000	$14,000



US Crude Stocks (EIA) — **Last Week** 525.9 MnBbls — **Week y/y** ▲ +15.5%



US Gasoline Demand (EIA) — **Last week** 9.511 MnB/d — **Week y/y** ▲ +0.8%

2016 2015

SPOT MARKET SUMMARY

VLCC

VLCC rates continued to ease this week on most routes despite fresh demand strength in the Middle East as sentiment remained negative on a sustained supply/demand imbalance. In that region, 29 fixtures were reported this week, marking a 38% w/w gain and the loftiest tally in two months. In the West Africa market, the fixture tally doubled to four but with half thereof drawn from Atlantic basin positions there was little impact to supply levels in the Middle East (from where West Africa demand has generally sourced tonnage for requirements in recent years). Further offsetting the impact of stronger demand, the Middle East fixture list this week again included a number of disadvantaged units fixing below market levels (and one fixture for a voyage to China concluded at a fresh YTD rate low on a disadvantaged unit with no valid SIRE and which had recently changed technical management).

To date, 84 September Middle East fixtures have been covered (including 41 for the month's first decade which has concluded, 32 for the second decade and 11 for the final decade). We anticipate a further 12 remain uncovered in the second decade; against this, there are 27 units showing available for loading through September 20th and draws thereof for West Africa demand are expected to tally at just two. Accordingly, the implied surplus at the close of the second decade is 15 units. Though we expect that a number of "hidden" positions will ultimately increase this number modestly, the number will likely be below the 22 surplus units estimated at mid-month and the 20 units uncovered at the conclusion of the August program. We note that there is already a small measure of support to sentiment on this basis, but with October cargoes not expected to commence in earnest for another two weeks, a slower interim period will likely prevail which will likely prevent upside from materializing. We are optimistic that rate upside should accompany the commencement of the September program on the back of sustained elevated Middle East crude exports and potential improvements in supply rates from the West Africa market. However, a lack of clarity as to availability during September's final decade has followed an apparent increase in the number of hidden positions from large commercial managers and is clouding corresponding rate expectations.

Middle East

Rates to the Far East shed two points to conclude at ws33 with corresponding TCEs losing 11% to ~$15,737/day. Rates to the USG via the Cape similarly shed two points to conclude at ws23. Triangulated Westbound trade earnings were off by 7% to conclude at ~$22,529/day.

Atlantic Basin

Rates in the West Africa market resumed its lagging correlation to the Middle East. Rates on the WAFR-FEAST route shed 2.5 points to conclude at ws37.5 with corresponding TCEs easing 9% to ~$20,093/day.

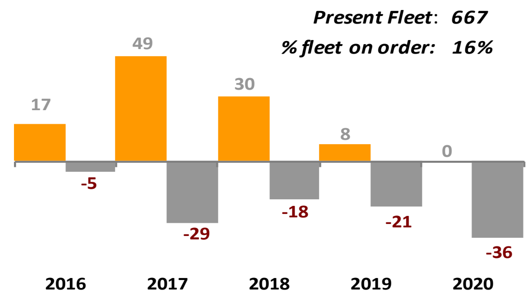
The Caribbean market remained quiet after charterers reached far forward during mid-August, leaving few cargoes available now. The CBS-SPORE route was unchanged and untested at the 12-year low of $2.50m lump sum.

Suezmax

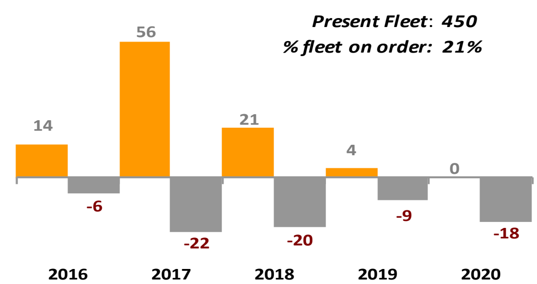
The West Africa Suezmax market observed further rate strength this week as chartering worked further into their long list of second-decade September stems. This week's 10 fresh fixtures boosted Suezmax coverage in the second-decade range to 21 cargos, representing the most within any decade date range since June. The demand gains were largely expected given prevailing export rates and the low proportion thereof being covered in advance by VLCCs due to disfavorable early pricing for Asian buyers amid ongoing substantial Nigerian crude supply issues. Tighter resulting Suezmax availability allowed owners to boost rates with the WAFR-UKC route gaining 7.5 points to a five-week high of ws47.5.

As a recent ceasefire agreement between the Nigerian government and the militant group responsible for much of recent oil infrastructure attacks, Niger Delta Avengers, appears increasingly likely to hold, pricing differentials have brought fresh purchases

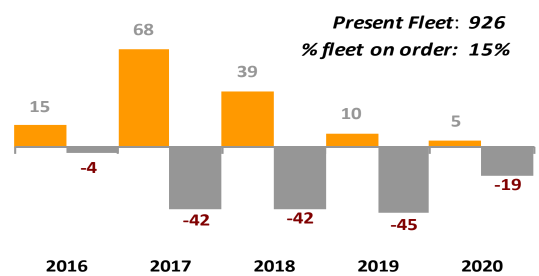
VLCC Projected Deliveries/Removals



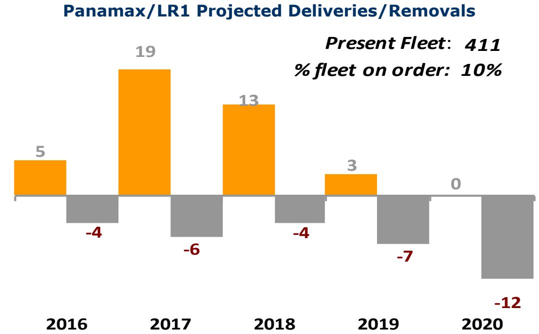
Suezmax Projected Deliveries/Removals



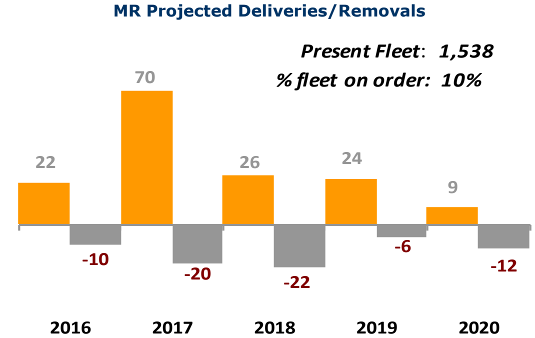
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



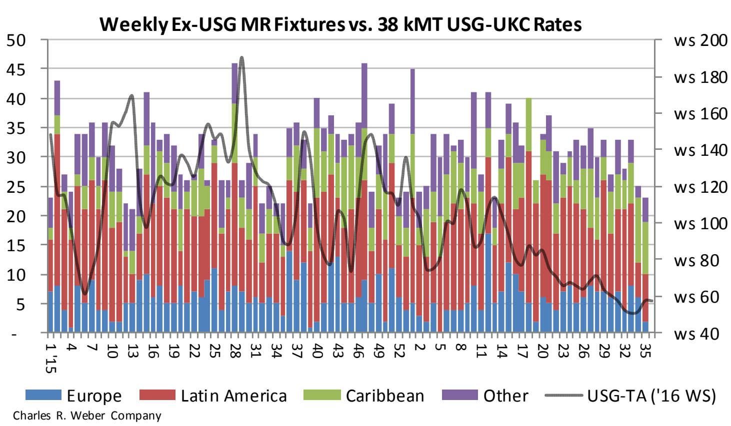
by Asian buyers. This has already boosted VLCC coverage thus far in the final decade of September to a one-month high of seven cargoes (vs. 4 during the preceding ten days) and implying a moderating of Suezmax demand during the coming week as charterers of the smaller class progress concertedly into the final decade. While Shell's announcement this week of plans to restart the 200,000 b/d pipeline supplying Forcados terminal by mid-September represents a positive development which, together with eventual resumptions of other key grades remaining under force majeure, could help restore the crude tanker ton-miles and geographic distribution of trade needed to improve crude tanker earnings, in the near-term the impact remains nominal. Exports from Forcados during September will likely amount to between one and two Suezmax sailings, while limited remaining cargo for Suezmaxes from other operating terminals remain lower than levels observed for earlier September loadings. On this basis, Suezmax rates have likely reached a near-term ceiling and could fail to observe further gains until Charterers move forward into the October program and further regional forces majeure are lifted.

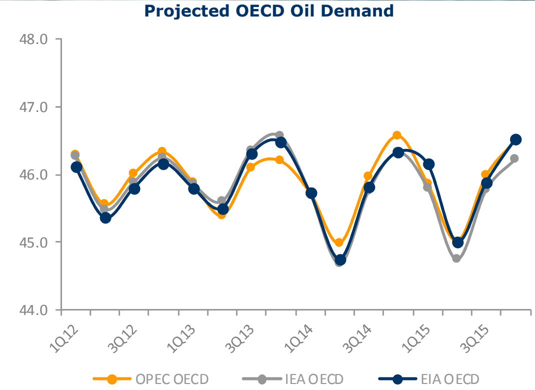
Aframax

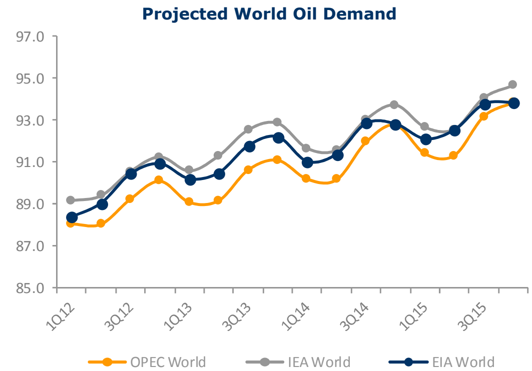
Caribbean Aframax demand rebounded this week with the regional fixture tally rising 54% w/w to 20 fixtures. This boosted the four-week moving average to a six-month high of 18 and helped to support fresh rate gains as availability levels thinned and date-sensitivity remained an issue for some cargoes. The CBS-USG route added 7.5 points to conclude at a three-month high of ws97.5. A thin list of available units at the close of the week could help to support further rate gains during the upcoming week failing a substantial easing of demand levels.

MR

Rates in the USG MR market were moderately stronger this week despite an easing of fresh demand. A total of 23 fixtures were reported, representing an 8% w/w decline. A relatively shorter position list at last week's close, combined with hopes of a pre-holiday rush to cover requirements, likely aided in this week's modest rate gains early during the week; thereafter, falling ex-UKC rates saw USG owners seek higher rates for trans-Atlantic trades with carryover effects on round-trip ex-USG routes helping to keep rates buoyant. The USG-UKC route gained 5 points to conclude at ws57.5 while the USG-CBS route gained \$20k to conclude at \$275k lump sum. Given that the two-week forward view of tonnage has rebounded, jumping 55% w/w to 48 units and a usual lag between demand variances and resulting rate changes, we expect that rates will retreat from closing levels early during the upcoming week, failing any more substantial losses in the UKC market.







WEBER WEEKLY TANKER REPORT

REPORTED TANKER SALES

"CE-Merapi" 105,274/96 – Namura – DH
-Sold for $11.1m to undisclosed Russian buyers basis SS/DD due.

"St. Johannis" 51,218/07 – STX Jinhae – DH
"St. Marien" 51,218/07 – STX Jinhae – DH
-Sold en bloc for $18.0m each to UK buyers (Union Maritime).

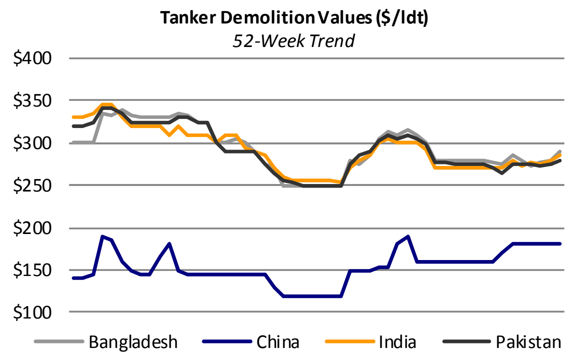
"Nord Thumbelina" 38,461/06 – Guangzhou – DH
-Sold for $14.0m to Maltese (Valloeby Shipping) basis SS/DD due.

"Dong-A Pontus" 12,940/06 – Samho – DH – IMO II
-Sold for $10.2m to Vietnamese buyers (Prime Shipping Corp).

REPORTED TANKER DEMOLITION SALES

India

"Stolt Jade" 38,720/86 – 11,509 LDT – DB
-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.

George P. Los
Senior Market Analyst
Charles R. Weber Research
research@crweber.com

Charles R. Weber Company, Inc.
Greenwich Office Park Three,
Greenwich, CT 06831
Tel: +1 203 629-2300
Fax: +1 203 629-9103
www.crweber.com

1001 McKinney Street,
Suite 475
Houston, TX 77002
Tel: +1 713 568-7233
Fax: +1 713 337-6486