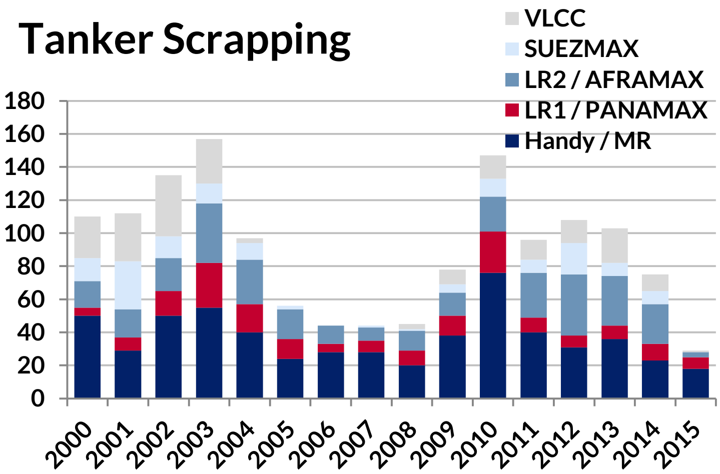
Demolition Drivers

Weekly Tanker Market Report

Our report last week struggled to be optimistic when looking at the wave of new deliveries hitting the market over the next 2 years. However, we did note the ratification of the Ballast Water Management (BWM) Convention which will enter into force in September 2017. Tankers which are able to dry dock prior to this date will not have to fit a BWM system until their special survey after September 2017 and are thus likely to continue trading for the time being. However, the focus has to be on ships which are due to dry dock after September 2017, and thus will be required to fit BWM systems.

Going forwards, the current tanker fleet age profile will start to change, with more vessels approaching scrapping age. Today, 85% of the fleet falls below 15 years of age, with 62% below 10 years. However, over the next 5 years we will see an increasing number of tankers becoming over 10 years old. By 2020, around 50% of the fleet will still fall below 10 years of age (vs. 62% today); however, the percentage of 11-15 year olds will increase substantially from around 15% currently (depending on the sector) to around 35%. There will also be a growing number of tankers crossing into the 15-20 and over 20 age brackets.



Whilst one might argue that the fleet will remain well balanced in terms of its age profile, one has to consider the drivers of scrapping over the period. Firstly, new regulations. From September 2017, the requirement for vessels to a BWM system at their next dry docking will create an additional and significant cost that will need to be recouped in the market. Equally there is potential for further regulations to be introduced towards the end of the decade. The IMO is expected to reach a decision regarding the Sulphur content of bunker fuels this October. Should the IMO decide to implement the specification change in 2020, then owners can expect fuel costs to rise substantially. The alternative is to invest in expensive and unproven abatement systems (scrubbers). This, together with the cost of installing a new BWM system may force many owners down the scrapping route.

Much could depend of course on the prevailing freight market conditions that coincide with owners having to make the investment decision. Our projections indicate that tanker earnings could bottom out over the next few years before recovering in the latter stages of the decade, therefore we may see a heavy period of scrapping in 2018/19. If owners believe that there will be a phase out of older, less fuel efficient tonnage, lacking ballast water systems, then it could soon become attractive to invest in replacement tonnage.

However, nothing is set in stone. We are already learning of potential loopholes which could see owners avoid having to fit a BWM system until 5 years after implementation (2022). These holes could soon be closed and we need to wait for the outcome of the IMO's decision regarding global sulphur limits. However, if both regulations are confirmed, with no legal loopholes, scrapping could rise to levels not seen since 2010, incentivising investment in new tonnage.

Crude Oil

Middle East

VLCC Owners have had very little to play with this week as holidays in the East badly effected enquiry putting Owners on a more defensive footing. The over abundance of tonnage remaining in September will ensure Charterers starting on their first decade October positions will have little to fear. Current levels remain in the low ws 30's on 270,000mt going East and in the low ws 20's on 280.000mt for a voyage West. A fragmented working week for Suezmax tonnage has seen a build-up of vessels open off prompt dates. In turn levels have softened to 140,000mt x low ws 30's for West discharge. With a firmer West market we are likely to see vessels ballasting out of the East. Aframaxes East of Suez saw an uptick in activity this week - but rates in AG and Far East remained range bound, even on replacement or challenged cargoes. Premiums only being seen for Iran business currently, although these are declining in value. The weak Suezmax makert in the East will block off any immediate hope Aframax Owners may have had that the larger sizes would help uplift the Aframaxes. Last done for a voyage AG/East is 80,000mt X ws 60.

West Africa

Some prompt Nigerian VLCC barrels sparked life into the west African market this week giving Owners the opportunity to raise levels. Last done to the East was 260,000 x ws 45 off early October dates. Whether Owners can build on this for later dates remains to be seen though. Suezmax Owners have seized the opportunity to push rates up throughout the week. They have benefited from Bonny and Qua Iboe bbls coming back into play earlier than anticipated and this coupled with less available tonnage has pushed levels up. It seems that rates may now stabilize, even peaked at 130,000 x ws 65 to Europe and ws 75 East. Going into next week the only concern for Owners is the volume of cargoes already committed on VLCC tonnage.

Mediterranean

After a quiet start to the week the Med Aframax market emulated an F1 car's acceleration as rates soared to ws 90 levels. Owner's sentiment was high as plenty of cargoes lay open ready to feed the market. Kers kicked in mid-week as rates rose to ws 95 with the elusive ws 100 in owner's minds. However this was not to be as the market had to pull into the pits for a quick tyre change due to loss of traction. With a fresh set the market is set to return to the track with the same pace as ws95 continues to work with a plentiful supply of cargoes. The overhang of Suezmax tonnage finally became absorbed and Owners grabbed the opportunity to push rates up. CPC October loading program offers increased Suezmax volumes, there still remains a thirst to take cargoes East and this coupled with a firmer West Africa market has created more pressure. Black Sea rates have pushed to 135,000 x ws 80 for Mediterranean discharge and Owners will be looking to achieve above $2 million to go East.

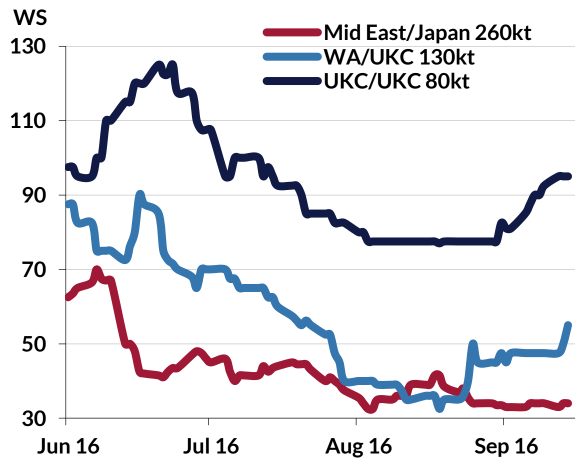
Caribbean

Aframax Owners were unable to hold on to the gains achieved last week as the continual flow of available tonnage put Owners on the back foot, last done for Caribs/up was 70,000 x ws 87.5 with further discounts expected. VLCC interest has dipped although early positions have diminished against a steady flow of enquiry. Latter month availability looks to be enough to stem any further thoughts for any more increments. Expect levels to move up to around $2.9 for Caribs to Singapore and around $2.4 for India.

North Sea

A slow start in the Northern Aframax makrt with transmission slipping into neutral. N.Sea maintenance plagued market progress and helped it plateau early on. Rates started trading at ws70 in the Baltic and ws 95 XNsea and failed to improve. This inevitably led to the markets losing their footing with rates dropping off by around 2.5 points apiece. The next Baltic fixtures are likely to be concluded at 100,000mt x high ws 60's. Muted VLCC interest, but the majority of natural positions have fixed away, what Owners remain are trying to push the market but ARB conditions dictate and last done levels seem repeatable which are around $2.35 million of no heat fuel oil from Rotterdam to Singapore.

Crude Tanker Spot Rates



Clean Products

East

An incredibly disappointing week for Owners of larger clean ships operating in the Gulf. Rates have really slipped, and inevitably Owners are struggling with earnings desperately needed to balance books in this market. LR2s had yet to see cargoes appear off end decade dates, and as more tonnage arrived into the AG, the few that eventually emerged were hard fought over. Shell took ships on subs for AG/UKC at $1.75 million, but inevitably those ships left behind will now accept 50k less on the same route - setting the market level as the week closes. TC1 cargoes have been scarce, and even more popular (unsurprising given the state of play East of Suez). 75 x ws 75 has now been done - but again we may see more shaved off this rate as well come the new week.

The LR1s have also struggled to maintain any type of a firm platform under rates, which have again slipped - the story of the moment on all sizes. An AG/UKC on subs at $1.3 million may seem cheap, but Charterers are keen for more blood to be drawn out of this stone - $1.275 million looking the inevitable next-done level. TC5 was given a fresh test this morning, and has slipped down to the ws 85 level. Unlike the LR2s, cargoes remain uncovered, but the LR1s remain a little lifeless, and could do with some fresh cargoes early next week to inject a bit more life.

It was another soft week for the MRs in the AG. As the week commenced the tonnage lists remained long on ships, and as a result rates came off as Owners became very competitive to get early ships moving. There were periods of high activity which certainly helped to clear some of the early tonnage. However, with a lack of early cargoes any short term change to the sentiment is slim. AG/UKC voyages dropped off further and close at $925k level. AG/East Africa dropped again, and finishes the week at the 35 x ws 105 mark. Shorter voyage sit pretty steady given there isn't much meat left on the bone and AG/Red Sea trades at $350k and with X-AG at the $145k level. Naphtha cargoes softened a little and finish at 35 x ws 90 mark. Another frustrating week for MR Owners in the AG, where the sentiment remains soft.

Mediterranean

This week has seen enquiry in the Med dwindle further and as a result rates momentarily dipped below triple figures. West Med enquiry has been a touch better than East Med and Black Sea which has meant Owners could bring rates back to 30 x ws 100 and steady for now. Black Sea enquiry is currently not gaining any premium over Cross Med voyages as tonnage is oversupplied for the level of enquiry currently being seen. Going into next week, tonnage continues to be well supplied meaning rates look set to remain flat, at least until the activity picks up and Owners can justify higher rates.

The Med has seen enough MR action to keep rates ticking along and mirroring what is achievable for TA and Brazil rates as seen off the Continent. Rates are stable and with the Continent potentially firming, could also enjoy an uptick in rates. This market has been helped in recent week by offering little to Owners which has kept the Med tonnage list from growing too much.

UK Continent

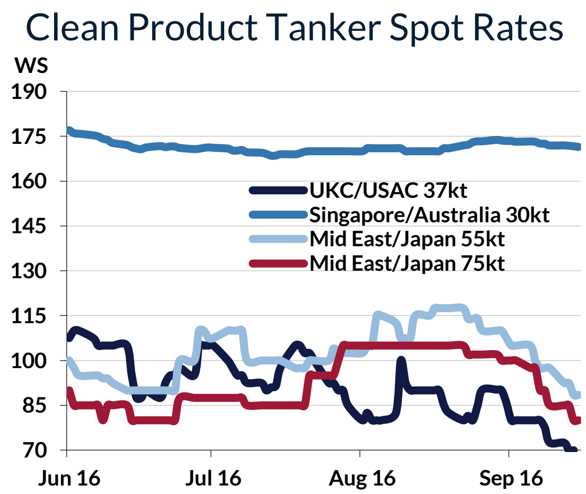
As week 37 comes to a close we see an a MR market which despite not moving on rates, saw good levels of fixing and tonnage turnover. TC2 runs began and ended at the same mark of 37 x ws 70, but today with are feeling that the potential for improvement growing. Pipeline issues in the USG have driven the Gulf market up up and away, which in turn has prevented ballasters dominating our tonnage lists in the Continent. With problems expected to continue into next week, we can expect tonnage to hold tight over in the West of the Atlantic and options to be less. A handful of WAF runs appeared at the front end of the week settling this market at 37 x ws 85, but these thinned out as inquiry fell. Looking ahead into next week, a fresh tonnage list on Monday will be an interesting read with Owners looking to hopefully press on the ws 70. If problems continue in the Gulf, restricting availability, then possibilities could bloom to see improvement.

Handy activity at the beginning of the week seemed to plateau in the back of the action seen last week, however as we hit the mid-week point and tonnage became more scarce and a flurry of fresh enquiry gave Owners the platform to push rates higher. Baltic cargoes are now commanding 30 x ws 110 and there looks to be room for these rates to improve if this level of enquiry continues into next week. Cross Cont cargoes are also struggling to get any discount on the back of the action, which has also seen an uptick for handy stems down to the Mediterranean. This market looks to remain stable going into next week.

Despite a bit of a slow start early in the week Flexi inquiry steadily picked up moving up 2.5 points to settle at 22 x ws 140. Spot action on the Flexis continues to be limited but with the few ships trading it doesn't take much for this market to move, there is potential for rates to improve next week as a result of the improvements seen on the Handies, to what extent if any remains to be seen.

LRs

Week 37 has provided mixed fortunes for LR Owners in the West. There has been a small improvement in activity, but with the East market coming off and a vast number of vessels crying out for employment Charterers have applied pressure and stripped further fat from rates. LR1 rates USG/TA have slightly improved to 60 x ws 50, however for cargoes loading on the Continent rates have fallen to 60 x ws 65 for ARA/WAF due to the large list of vessels available from the start of the week. A fresh test was seen on a Porvoo/AG run, but rates were suppressed to $750k. LR2s have also seen a touch of love this week but like the LR1s rates have slipped further with one Charterer taking a vessel at $1.6 million for an Ust-Luga/Japan naphtha run. One would hope rates are nearing the bottom now on most LR routes, but with plentiful tonnage options and a soft East market, there is a chance we will see Charterers apply further pressure next week.



Dirty Products

Handy

Despite there being more action on 30kt in the continent this week, Owners and Charterers have seen zero volatility in rates and heading into the weekend the trend remains flat. One thing for sure is that behind closed curtains, hidden tonnage will have been cleared away quietly which will have kept a potential long list on Monday snipped short.

What happened to the Mediterranean, we thought holidays were over now? Perhaps the Ibiza closing parties have kept people for a September lock in? It has been another tough week for Owners in this region with little enquiry to get their teeth stuck into. The ball is certainly on side of court at the moment during a time of year where we expected signs of recovery. We can't see this lasting much longer and surely we are at the bottom of this curve now the summer sun has finally come to an end.

MR

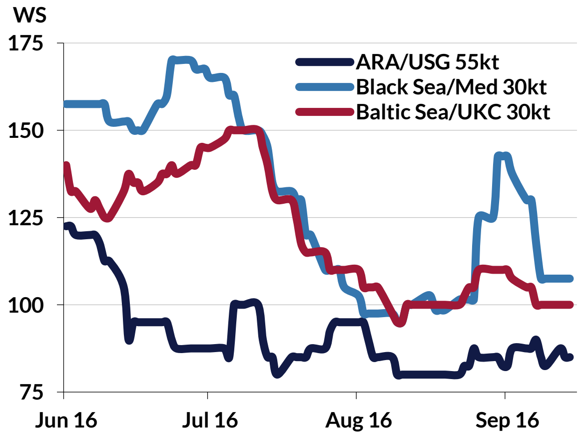
Frustrating week for Owners up in the continent as Handy sized stems continue to dominate the action. Charterer's were made to be wary as with such few natural positions if the requirement for a vessel is needed off promptish dates. Owners in play will be licking their lips at the chance to force some increment. Heading into next week Charterer's will be keeping a close eye on Monday morning's fresh tonnage list, hoping the weekend brings a few more units to play just to ease minds if the call has to be made.

Tiresome week for Owners in the Mediterranean as they continue to fight it out with Handy Owners to get a slice of the pie as full 45kt stems continuing to be a rarity. With natural sized units remaining well spread Charterer's are still in the driving seat as Owners prepare themselves for another tough week ahead.

Panamax

From an Owner's perspective levels this week have shown inconsistency between the continent and Mediterranean where Mediterranean numbers have shown to be lagging behind values seen up North. Date sensitivity has also festered in the mix of rates being reported, where owing to the ballast days needed to position a ship onto this side of the Atlantic, Charterers who hadn't left enough time to cover found Owners sharpening their pencils towards the latter stages of the week where benchmark numbers aligning slightly higher.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 15th	Sept 8th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-0**	34	34	37	47
TD20	Suezmax	WAF-UKC	**+16**	63	48	35	69
TD7	Aframax	N.Sea-UKC	**+2**	93	92	78	97

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

			wk on wk change	Sept 15th	Sept 8th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+250**	13,750	13,500	17,750	27,750
TD20	Suezmax	WAF-UKC	**+8,750**	19,500	10,750	6,000	22,500
TD7	Aframax	N.Sea-UKC	**+1,750**	17,250	15,500	4,500	20,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 15th	Sept 8th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-10**	80	90	104	
TC2	MR - west	UKC-USAC	**-7**	70	77	93	97
TC5	LR1	AG-Japan	**-10**	88	98	108	91
TC7	MR - east	Singapore-EC Aus	**-2**	171	173	170	

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

			wk on wk change	Sept 15th	Sept 8th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-3,500**	12,250	15,750	21,000	
TC2	MR - west	UKC-USAC	**-1,000**	3,250	4,250	8,000	8,000
TC5	LR1	AG-Japan	**-1,750**	9,500	11,250	15,000	10,250
TC7	MR - east	Singapore-EC Aus	**+250**	13,750	13,500	14,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-6**	240	246	216
ClearView Bunker Price (Fujairah 380 HSFO)	**-13**	256	269	226
ClearView Bunker Price (Singapore 380 HSFO)	**-14**	249	263	221
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-6**	398	404	366

GIBSON
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www.gibson.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States