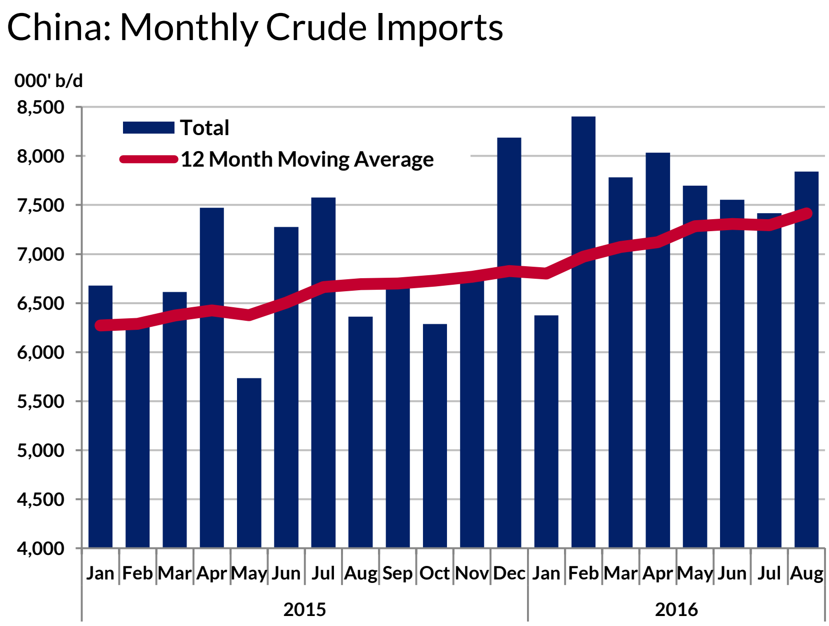
Golden Times
Weekly Tanker Market Report

Back in June, two of China's biggest shipping companies merged to establish COSCO Shipping Energy Transportation (CSET). The new company presently controls 36 VLCCs, with a further 12 newbuilds to be delivered by the 4th quarter 2018. Following the merger in June, CSET (in total) owned or managed 105 tankers, with a total dwt capacity of 16.8 million tonnes with another 25 vessels on order across most tanker sectors. In terms of ranking, their VLCC fleet is currently placed 4th in numbers (excluding vessels under construction). However their compatriot, China VLCC, also the result of an amalgamation in 2014, is presently the world's leading owner of VLCC tonnage, with 37 units operating and a further 16 VLCCs on order.

Back in 2011, China held an ambition to have more control over both their imports of raw materials and exports of finished goods across all shipping sectors. For crude oil imports, the planned target was 50% on owned or controlled tankers. As a consequence, a programme of newbuilding commenced – not least to support China's burgeoning shipbuilding ambitions. Many of these orders were placed during a period of depressed earnings, AG-Japan (TD3) averaging around $17,250/day at market speed. A new wave of orders caused some dismay at the time. Today, China's VLCC fleet is owned by a handful of players, with 13% of the world's existing fleet and a staggering 35% of the orderbook. Compare these statistics with a nation which just 15 years ago, owned just 8 VLCCs (less than 2% of the total fleet).

The nation's insatiable thirst for crude over the past few years has put these vessels to good use, supplying not only China's daily needs, but also filling the country's Strategic Petroleum Reserve (SPR). Since the beginning of 2011, China has added another 76.8 million barrels capacity to the SPR in four new sites, with a fifth facility scheduled to add another of 18.8 million barrels before the end of this year. Two further facilities are planned to open in 2017, which will add a further 50 million barrels capacity to the SPR, which will need to be filled. The government's ultimate aim is to achieve 90 days coverage. At present it is estimated that if you include barrels held in commercial storage locations, China's SPR has reached about 36 days coverage. The government sanctioned the use of more commercial storage to speed up their SPR goal. After 2017, the only other SPR site currently under construction is at Zhanjiang (31 million barrels) scheduled to commence operation in 2019. The government has further SPR facilities planned stretching out to 2024, so China will manage keep their burgeoning VLCC fleet employed and we should see no slowdown in their crude imports.



Crude Oil

Middle East

A much busier week for VLCCs as the market played catch-up from the previous holiday slowdown in the Middle East, and then benefited from additional volumes provoked by the upcoming holidays in China. Given the activity, rate increases have not impressed, but levels have now risen solidly off their recent lows to now stand at around ws 40 to the East, and into the higher ws 20s to the West, via Cape. Momentum will now slow, however, and further gains will be harder to engineer over the coming period, at least. Suezmaxes saw no discernible change but a flush of Iranian cargoes met limited interested supply, and large premiums were recorded for those movements over the more 'standard' ws 37.5 West and ws 60 level to the East. Aframaxes found very little to shout about and the market remained stuck at below 80,000 by ws 65 with no catalyst for positive change on the immediate horizon.

West Africa

Suezmax Owners rapidly ran out of the propellant that had previously boosted the market to in excess of ws 100. Initially, repeat deals were concluded, but as the week wore on the anticipated arrival of a number of Eastern ballasters upon the fixing window began to swing the balance back into Charterers favour and rates ended the week at no better than ws 82.5 USGulf, ws 87.5 for Europe with lower values expected into next week. VLCCs stayed active through the week, and the improved AGulf scene raised Owners rate sights to ws 50 to the Far East with around $2.6 million asked for Angola/West Coast India runs.

Mediterranean

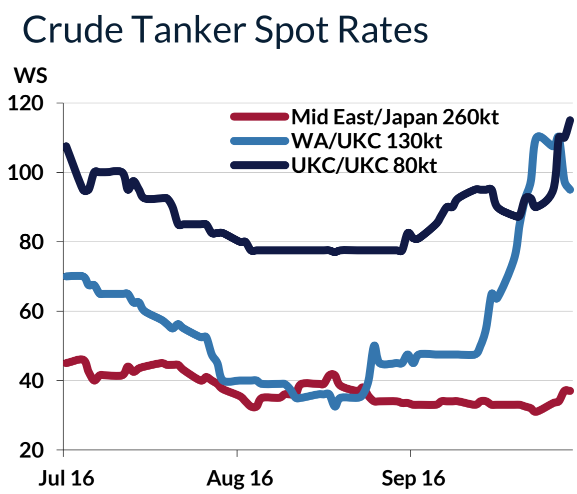
Aframax Owners ended last week upon the defensive, and remained that way all of this week too. Rates ticked lower to 80,000 by ws 87.5 cross Med and are unlikely to rebound in the short term. Suezmaxes started on an upward path to as high as 140,000 by ws 115 from the Black Sea to European destinations and maintained strength even as West Africa faded upon a rash of fixing, failing, and tight substitution. The noise is likely to abate a little within short, and then some downward pressure will threaten.

Caribbean

Aframaxes couldn't do anything other than comply...Charterers lowered rate sights to 70,000 by ws 75, and plentiful availability provided Owners with no upward leverage from that mark. Eventually a better balance will develop, but it may take a while yet. VLCCs have been heavily pruned over the past two weeks, and rates have followed an upward track accordingly. Currently Owners look for around $3.9 million to Singapore, and $3.1 million to West Coast India with no early retreat likely.

North Sea

Aframaxes punched higher...to 80,000 by ws 125 cross UKCont, and to 100,000 by ws 100 from the Baltic on solid volumes but once Charterers slowed the flow, the upward impetus was lost, and the market then slid sideways into the weekend. Less large size fuel oil fixing than of late, but that was largely down to the lack of available units on the preferred dates. Owners ideas moved higher to $2.9 million to Singapore with $4.15 million paid for a crude oil movement from Hound Point to South Korea.



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Clean Products

East

As the LRs scrape along the bottom, the MRs are fighting to keep just a scrap of dignity. Rates have held relatively firm throughout the week, experiencing just a slight drop off during the final days of the week. Earlier on in the week, LR1s stole MR short haul stems, and at rates cheaper than those the MRs were going on subjects for. MRs have therefore been brought down sympathetically, and finish the week at $172.5k, with RSea runs now at $390k. EAfr runs have been relatively unpopular, but have finished the week at ws 125, although Owners would be willing cheaper numbers going into the new week. West runs have been chopped down, $925k on subjets for a jet Kwt/UKC run - back down to almost minimal levels. Naptha runs have finished the week just slightly cheaper than where they started, at ws 97.5. There is every chance that next week will bring with it further softening, and adjustment between sizes occurs. Another week of downward rates and depression across both LR1s and LR2s. After the recent holidays, conferences and with lack of demand the fleet list on both sizes is just too big for any normal market to sort in any quick order. Activity levels continue to be steady but the level of early tonnage remains a thorn in Owners sides. 75,000 mt naphtha AG/Japan is down to ws 55 and 90,000 mt jet AG/UKC is at $1.4million. Both are closing in on zero returns so we must practically be at the bottom. 55,000 mt naphtha AG/Japan is steady at ws 75 and 65,000 mt jet AG/UKC still a little fragile at $1.225 million. Again rates must be close to the bottom although there perhaps is a little room if we are not any busier next week.

Mediterranean

Cargo volumes in the Med have remained at the low levels we have seen recently which is hampering any signs of recovery that Owners are so desperate for. Tonnage is freely available across the Med and BSea consequently Charterers are able to capitalise on this bearish sentiment and keep rates depressed 30 x ws 95 for Med and 30 x ws 100 for BSea. Whilst the general picture is not looking rosey with little signs of change on the horizon, it seems that Owners have managed to stem a further slide in rates which would plunge many ships into negative earnings if it hasn't already. MR action has been light, with little to report for commonly traded routes ex Med. the few cargoes that have come to the market have traded at last done levels into the RSea and tracking TC2 for any cargo directed transatlantic. Expect more of the same next week.

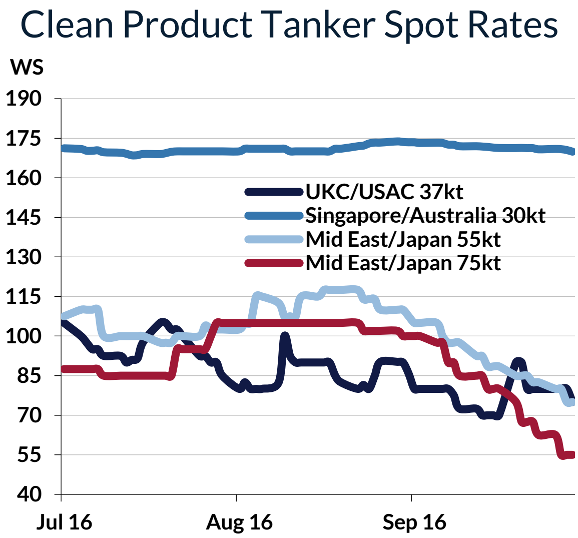
UK Continent

After last week’s hiatus of the Colonial pipeline Owners were faced with the uphill struggle of trying to maintain rates in a market that had slipped back to the all too familiar situation of being over supplied with tonnage and lacking the cargoes volumes required to alleviate this situation. At weeks close we see rates slip back to 37 x ws 75 for TC2, WAf trading 37 x ws 90 and cargoes loading ex Baltic paying 40 x ws 87.5. China and WAf cargoes are sporadic at best and offer little respite for Owners trying to work the best options for their tonnage. The landscape which has been all too familiar looks like it will persist into the foreseeable future. After starting week 39 on a positive note the Handies have succumbed to the market quickening past the mid-week point, and, with Charterers seemingly holding back cargoes, Owners have been forced to drop their fixing levels in order to lock in cargoes this side of the weekend. Now with 30 x ws 105 on subjects for cargoes ex Baltic leaving 30 x ws 105 for X-UKC likely to come off too. With the Med market in dire straits and many Owners looking to reposition tonnage to the Cont this market looks to be hampered by further problems as next week kicks off. Finally onto the Flexis where rates throughout the week have remained steady at 22 x ws 140. The standard contract liftings which keeps this market ticking over were assisted with a few spot cargoes which in turn has helped Owners hold onto the last done levels. Looking ahead tonnage is now starting to rebuild off natural dates and expect a fresh wave to come Monday morning.

LRs

Week 39 has delivered another week of pain for LR Owners on both sides of the Suez as

Charterers continue to slice away the last few remaining layers of fat from rates. LR1 ARA/WAf rates have fallen to 60 x ws 55 and during the second half of this week one Charterer crushed the ARA/Spore rate down to just $700k. We have however seen Owners achieve numbers around the $1.1 million mark for Med/Japan runs and a slight improvement in cargoes of naphtha and some UMS to the East is a welcome sight. The LR2s have also gone under the Charterers knife. A measly figure of $1.05 million was seen for a Med/Japan naphtha run. If reports are correct, then last done for an Ust-Luga/Japan run is $1.45 million. With the build-up of vessels in the West and the soft East market offering little respite, Owners are battling for what they can get. Although it is not for every Owner, those that can are looking to dirty up with ARA/Spore runs now paying $2.3-2.5 million.



Dirty Products

Handy

Reflecting upon week 39 the continent was made up of mixed emotions as passing the midweek stage tonnage availability looked like it was beginning to tighten. Fixing date progression however deflated any aspirations as availability re stabilised as cargo dates rolled through into October. Challenging conditions dogged the week as units stacked up and took a while to clear down in spite of activity being placed within a narrow date range. For now rates remain at rock bottom levels, with Owners desperate for week on week stability in order to try and raise the floor.

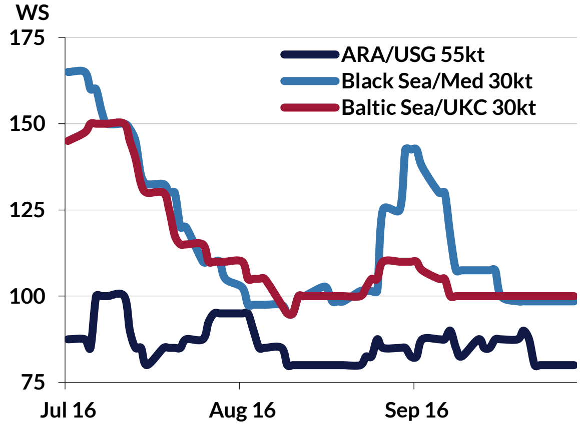
MR

The week met with a rather more upbeat end to that of where it begun as in the final session in the week we find a few MR's going on subs. Proving the market with a welcomed view of prevailing strength, it would appear that it's honours even for now with a flat trend visible for all to see. This has also been the case for proceedings in the continent, where to sumirse this sector in brief, green shoots of recovery are being shown if not only to be hindered by surrounding markets.

Panamax

A busy week in this sector leaves Owners scratching their heads as to how the market failed to show any positive volatility where tonnage at one stage was in such hot demand. The reality is perhaps that where the US markets trade with continued surplus capacity, negative impact will keep spilling over to European shores. A welcomed fundamental for Charterers perhaps, but one that equally serves only to damage Owner confidence.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 29th	Sept 22nd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+6**	38	33	37	51
TD20	Suezmax	WAF-UKC	**+3**	98	96	35	72
TD7	Aframax	N.Sea-UKC	**+27**	118	91	78	98

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

			wk on wk change	Sept 29th	Sept 22nd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+5,250**	17,250	12,000	17,750	31,500
TD20	Suezmax	WAF-UKC	**+1,500**	38,250	36,750	6,000	23,750
TD7	Aframax	N.Sea-UKC	**+24,250**	39,000	14,750	4,500	20,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 29th	Sept 22nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-13**	55	68	104	
TC2	MR - west	UKC-USAC	**-4**	77	80	93	91
TC5	LR1	AG-Japan	**-7**	75	81	108	79
TC7	MR - east	Singapore-EC Aus	**-1**	170	171	170	

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

			wk on wk change	Sept 29th	Sept 22nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-3,500**	4,750	8,250	21,000	
TC2	MR - west	UKC-USAC	**-750**	4,000	4,750	8,000	6,750
TC5	LR1	AG-Japan	**-1,250**	6,500	7,750	15,000	7,250
TC7	MR - east	Singapore-EC Aus	**+0**	13,250	13,250	14,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-2**	249	250	216
ClearView Bunker Price (Fujairah 380 HSFO)	**-2**	269	271	226
ClearView Bunker Price (Singapore 380 HSFO)	**-3**	260	263	221
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+5**	418	413	366

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