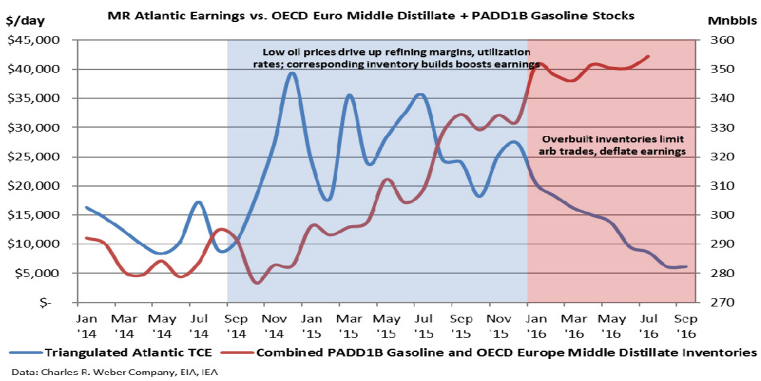
WEBER WEEKLY
TANKER REPORT
CHARLES R. WEBER COMPANY, INC.

WEEK 41 – 14 OCTOBER 2016 ISSUE 41 – 2016

Product tanker owners likely to experience another quarter of pain during Q4

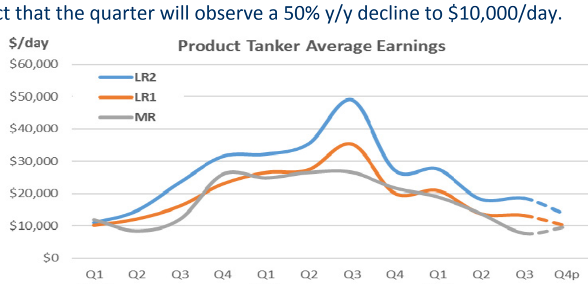
Product tankers continue to experience low earnings as the global downstream sector struggles to adapt to swollen global product inventories. After a relatively promising start to the year, directionally softer earnings prevailed in each of the product tanker segments successively. This development is largely attributable to overbuilt product inventories globally which have weighed on ton-miles and expanded vessel availability levels amid increased fleet trading efficiencies, to the detriment of earnings.

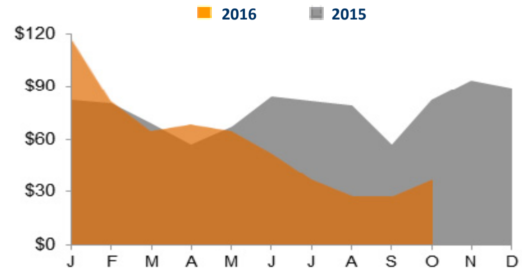
The loss of arbitrage opportunities during 2016 significantly impinged trade dynamics by leading to fewer long-haul voyages and more short-haul voyages. In part, this situation was created by low refinery maintenance during Spring '16 due to strong refining margins in 2015 which saw refiners reduce their maintenance plans to capitalize on an anticipated sustaining of margins strength. This came despite growing global refinery capacity levels as new projects came on stream. The resulting global product oversupply (which, in the Atlantic basin, saw PADD1B gasoline inventories flirt with max capacity and boosted NW Europe middle distillate stocks by around a quarter) has harmed refining margins – much as they have product tanker earnings. As a result, Autumn '16 refinery maintenance levels are widely tipped to exceed normal levels, which should support the start of a destocking cycle. Key among these, in our view, are plans by Middle East refineries – some of which are new distillate-intensive and export-oriented refineries, which have factored heavily into high European inventories.



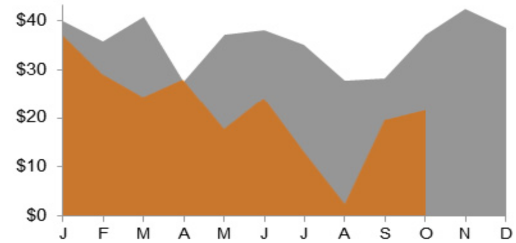
Depending on the extent of inventory draws in Europe, MRs could start to experience some upside late during Q4 as trans-Atlantic arbitrage opportunities reappear. However, as earnings presently stand at just ~$4,157/day with little upside likely in the interim, we estimate that the quarter will see earnings decline by 55% on a year-on-year basis to $9,780/day.

For LRs, while the past week has seen earnings bounce from earlier lows, we expect refinery maintenance scheduled for later during the quarter will erode any upside which prevails in the interim and lead earnings to year-on-year losses similar to those expected in the MR segment. LR2s are presently earning ~$12,170/day (having stood at just ~$7,546/day a week ago) and we project that the quarter will observe a 50% y/y decline to ~$13,500/day. LR1s are presently earning ~$8,389/day and we project that the quarter will observe a 50% y/y decline to $10,000/day.

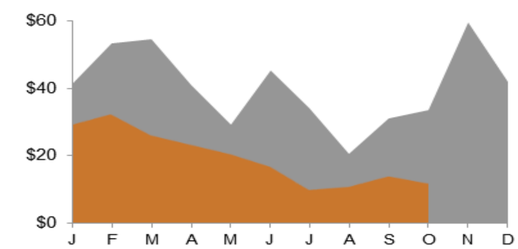




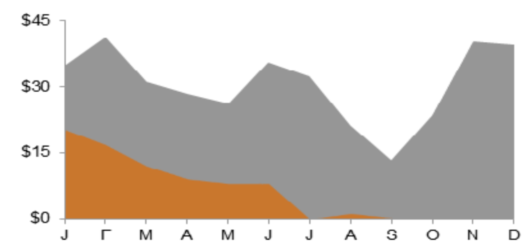
VLCC TCE AG-USG / CBS-SPORE/AG[1]	MTD Average ~$36,687/Day	Month y/y ▼ -55%



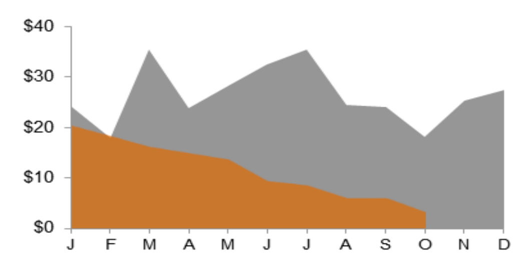
S'MAX TCE 130k WAF-UKC	MTD Average ~$21,588/Day	Month y/y ▼ -42%



A'MAX TCE 70k CBS-USG	MTD Average ~$11,648/Day	Month y/y ▼ -65%



P'MAX TCE 50k CBS-USG	MTD Average ~$(298) /Day	Month y/y ▼ -101%

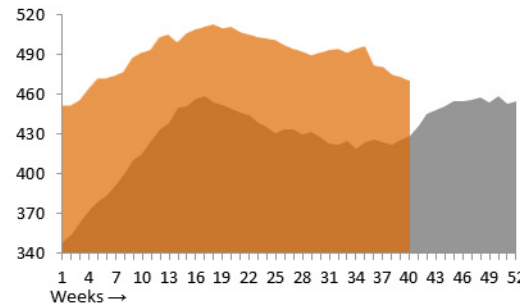


MR TCE USG-UKC/ UKC-USAC/USG	MTD Average ~$3,439/Day	Month y/y ▼ -81%

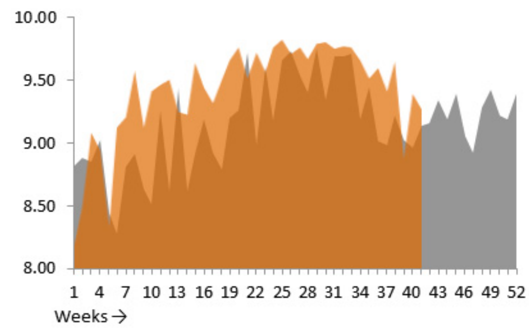
WEBER WEEKLY TANKER REPORT

Spot Market	WS/LS	TCE ~$/day	WS/LS	TCE ~$/day
VLCC (13.0 Kts L/B)	7-Sep		14-Oct	
AG>USG 280k (TD1)	30.0	$12,735	38.5	$21,189
AG>USG/CBS>SPORE/AG	--	$42,882	--	$52,833
AG>SPORE 270k (TD2)	55.0	$39,353	65.0	$50,451
AG>CHINA 265k (TD3C)	55.0	$33,782	65.0	$44,414
WAFR>USG 260k (TD4)	65.0	$49,640	65.0	$49,370
WAFR>CHINA 260k (TD15)	65.0	$53,882	67.0	$48,368
CBS>SPORE 270k	$4.20m	--	$4.50m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	80.0	$28,230	72.5	$22,439
WAFR>UKC 130k (TD20)	82.5	$23,933	72.5	$18,638
BSEA>MED 140k (TD6)	85.0	$32,480	75.0	$24,373
CBS>USG 150k	70.0	$24,741	75.0	$28,368
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	97.5	$25,623	92.5	$20,546
AG>SPORE 70k (TD8)	65.0	$7,699	65.0	$7,665
BALT>UKC 100k (TD17)	72.5	$21,769	72.5	$21,769
CBS>USG 70k (TD9)	82.5	$10,026	110.0	$20,117
MED>MED 80k (TD19)	75.0	$7,786	62.5	$2,459
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	85.0	$(434)	100.0	$3,041
CONT>USG 55k (TD12)	80.0	$5,801	85.0	$7,038
ECU>USWC 50k	127.5	$14,114	127.5	$14,553
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	72.5	$1,102	80.0	$2,492
USG>UKC 38k (TC14)	52.5	$(1,158)	52.5	$(1,246)
USG>UKC/UKC>USAC/USG	--	$2,919	--	$3,665
USG>CBS (Pozos) 38k	$250k	$1,247	$250k	$1,160
USG>CHILE (Coronel) 38k	$875k	$8,125	$825k	$6,572
CBS>USAC 38k	85.0	$4,613	80.0	$3,566
AG>JPN 35k	92.0	$4,254	92.0	$4,228
AG>JPN 75k (TC1)	55.0	$4,690	75.0	$10,647
AG>JPN 55k (TC5)	77.5	$6,269	85.0	$7,884

Time Charter Market *$/day (theoretical)*	1 Year	3 Years
VLCC	$32,000	$29,000
Suezmax	$20,000	$19,000
Aframax	$17,000	$17,000
Panamax	$14,000	$15,000
MR	$12,000	$14,000



US Crude Stocks (EIA) | **Last Week 474.0 MnBbls** | **Week y/y ▲ +8.6%**



US Gasoline Demand (EIA) | **Last week 9.264 MnB/d** | **Week y/y ▲ +1.4%**

2016 2015

SPOT MARKET SUMMARY

VLCC

Rates in the VLCC market continued to observe strong upside early during the week but leveled off after participants' positive sentiment was eroded by slower demand in the Middle East market. There, just 12 fixtures materialized, representing the slowest week in four months and a 70% drop from last week's hectic pace. The slowing, however, was not unexpected as charterers had covered a significant portion of the October program, leaving few cargoes to work this week ahead of a progression in earnest into November dates next week – and this belies what are otherwise strong fundamentals for near-term rate developments. Indeed, with a total of 142 October Middle East cargoes covered, the month was the most active in nearly three years and compares with a monthly average of 128 during the first nine months of 2016. Perhaps more importantly, recent demand gains in the West Africa market have simultaneously helped in reducing surplus Middle East tonnage by drawing several Eastern ballasters into the Atlantic basin and sets the market up well for reduced availability in the near-term as these units will take longer to reappear on position lists, being oriented largely to long-haul voyages to Asia. Demand this week in the West Africa market inched up by one fixture from last week's tally to seven, which keeps the four-week moving average above seven for the fourth consecutive week; this is the first time this has occurred in 18 months.

Middle East demand expectations for the November program remain high – particularly given the maintaining of Iraq's lofty supply rate from Basrah and an unchanged m/m view of VLCC cargoes for loading at the terminal (once likely Suezmax cargo merges onto VLCC tonnage are accounted for). Meanwhile, Saudi Arabia's November supply rate is unlikely to post a monthly decline, particularly if prospects for OPEC to reach a conclusive agreement to curb its collective supply during its meeting at the end of November remain. Meanwhile, the West Africa market should remain active, even as relatively-modest Saudi OSP cuts for November Asian buyers draws some interest back to the Middle East from West Africa, as the overall Nigeria supply appears to be moderating from August's decades-low rate.

In translating these factors into further rate strength, we note that this could be delayed in the very near-term on the immediate supply/demand picture. The number of surplus Middle East units uncovered at the conclusion of the October program stands at nine and while this is a marked reduction from the 20 observed, on average, during Q3, it could prove a modest challenge during November's first decade as Basrah VLCC cargoes are unevenly distributed and back-heavy: 8 during the first decade, 13 during the second decade and 17 during the final decade. Coming on the back of this week's Middle East breather, sentiment could potentially weaken early during the upcoming week before stabilizing ahead of gains coinciding with a progression by charterers into the second half of the month's program.

Middle East

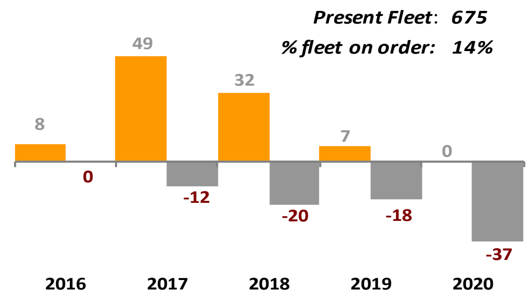
Rates to the Far East jumped 10 points w/w to a closing assessment of ws65. Corresponding TCEs rose by 28% to ~$48,323/day. Rates on the AG-USG c/c route added 8.5 points to conclude at ws38.5. Triangulated Westbound trade earnings jumped 32% w/w to conclude at ~$52,959/day.

Atlantic Basin

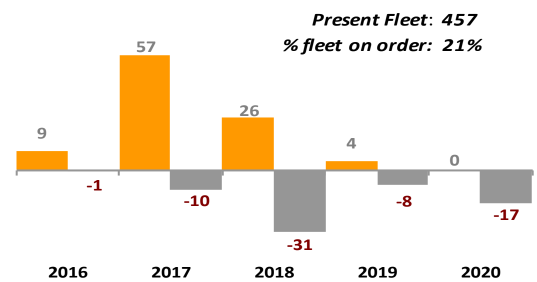
The West Africa market observed rate gains in tandem to the Middle East with the WAFR-FEAST route adding 12 points to conclude at ws67. Corresponding TCEs rose by 34% to conclude at ~$48,429/day.

In the Caribbean market, activity remained limited (with two fixtures failing) but sentiment in the region remains firm. The CBS-SPORE route added $0.6m to conclude at $4.50m lump sum. Rates as high as $4.53m were observed but later failed, leading to a modest decline at the close of the week. A resumption of fixture activity during the upcoming week should see rates observe fresh gains.

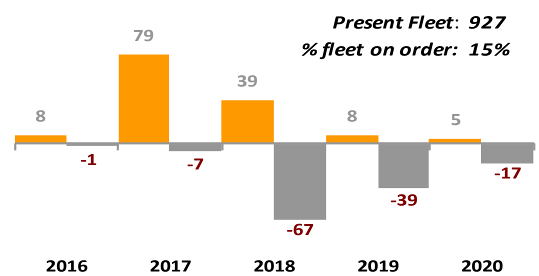
VLCC Projected Deliveries/Removals



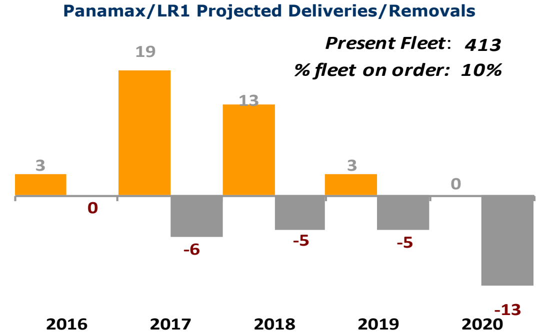
Suezmax Projected Deliveries/Removals



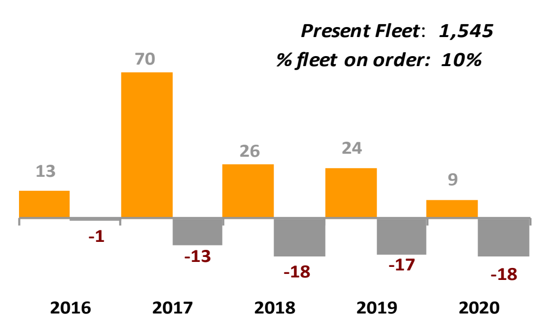
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



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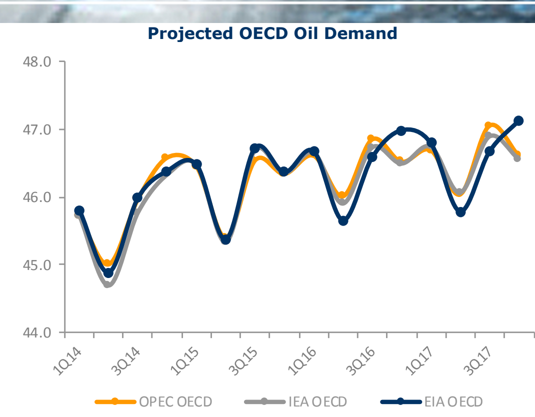
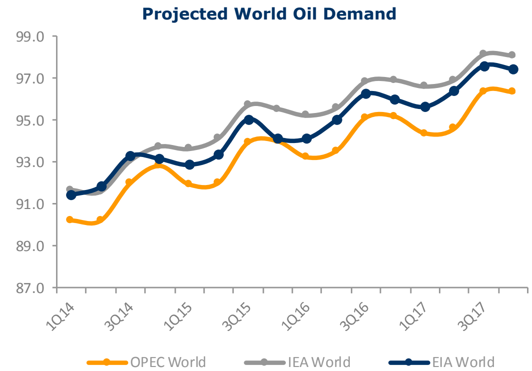
Suezmax

The West Africa Suezmax market was busier this week as charterers covered late purchases of mid-October cargoes and progressed further into the month's final decade, within which more Suezmax cargoes are available due to lower VLCC coverage as compared with the prior two decades. A total of 12 fixtures were reported (a gain of two from last week), bringing the October fixture tally to 51. This compares with 63 during the September program and follows the higher VLCC coverage rate in October; VLCCs jumped from 16 cargoes during September to 34 during October, offsetting the positive impact expected from rising Nigerian exports.

Rates followed the slower overall October demand, extending declines and aided by a slower conclusion to the week. The WAFR-UKC route shed 7.5 points to conclude at ws72.5. The slowing of VLCC coverage from October's third decade, which appears to have extended into November's first decade, suggests that Suezmaxes are set to observe more substantial demand gains during the upcoming week as charterers cover the remaining October cargoes and move into November dates. On this basis, rates should stabilize early during the upcoming and could observe fresh gains thereafter as supply/demand fundamentals narrow.



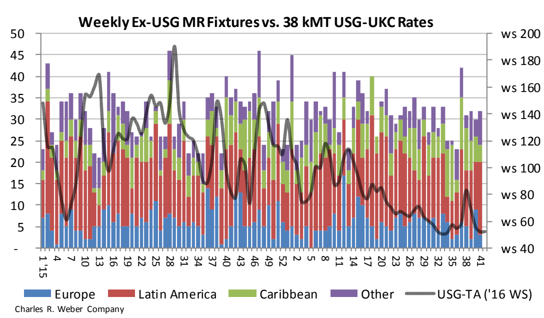


Aframax

The Caribbean Aframax market remained active for a second consecutive week. The week's fixture tally matched last week's 16. The sustained demand, particularly with activity being heavily centered around mid-week, saw owners become more resistant to the earlier rate environment and succeed in commanding gains. The CBS-USG route added 27.5 points to conclude at an assessed ws110 for normal requirements. By the close of the week, charterers pulled back – and some sought to utilize the more attractive freights offered by Panamaxes, where requirements permitted – which saw rates stabilize. Given that more units are likely to appear on position lists at the start of the week, further rate gains will require an extending of demand. Further forward, a collapse of Aframax rates in the Mediterranean market has pushed TCEs in that region to ~$2,459/day, or just 12% of those in the North Sea, Baltic and Caribbean markets, which is likely to see units freeing in the Mediterranean to seek ballasts to alternative markets. While a ballast to the Caribbean is a longer voyage (Gibraltar Strait to PLC is 11 days versus 6 and 8 days to Sullom Voe and Primorsk, respectively), with rates in the North Sea market falling this week and likely to extend to the Baltic market during the upcoming week, the Caribbean market's strength this week could influence some owners to pick their ballast destination accordingly.

MR

The USG MR market remained weak for a third consecutive week, exerting fresh negative pressure on long-haul routes from the region while short-haul routes held at an effective floor. A total of 32 fixtures were reported, representing a 7% w/w gain. Of this week's tally, three were bound for points in Europe (-6, w/w), 21 were bound for points in Latin America and the Caribbean (+4, w/w) and the remainder were yet to be determined or bound for alternative destinations. The small portion of voyages to Europe and an ongoing lack of long-haul extra-regional voyages, against a steady elevated flow of short voyages to Mexico's East Coast does not bode well for forward rate progression. Simultaneously, a strengthening UKC market appears to be drawing units freeing on the USAC back to Europe more concertedly, reducing the appearance of those units on USG position lists. Even once accounting for this, two-week forward availability stands at 41 units (-7%, w/w), which remains high.



WEBER WEEKLY TANKER REPORT

REPORTED TANKER SALES

***Hyundai Gunsan 2766* –** 308,000/17 – Hyundai Gunsan – DH
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-Sold on subjects for $83.0m each to Greek buyers (Kyklades Maritime Corp); to be deployed on 3-Year TCs to Reliance at $29,000/day.

"Astro Chorus" – 305,704/01 – Daewoo – DH
-Sold for $24.0m to undisclosed buyers.

"Marlin Ammolite" 49,999/16 – Guangzhou – DH – IMO II/III
"Marlin Apatite" 49,999/16 – Guangzhou – DH – IMO II/III
"Marlin Aquamarine" 49,999/16 – Guangzhou – DH – IMO II/III
"Marlin Aventurine" 49,999/16 – Guangzhou – DH – IMO II/III
"Marlin Azurite" 49,999/16 – Guangzhou – DH – IMO II/III
-Sold on private terms to Chinese buyers (Bank of Communications) as part of a sale/BBB deal.

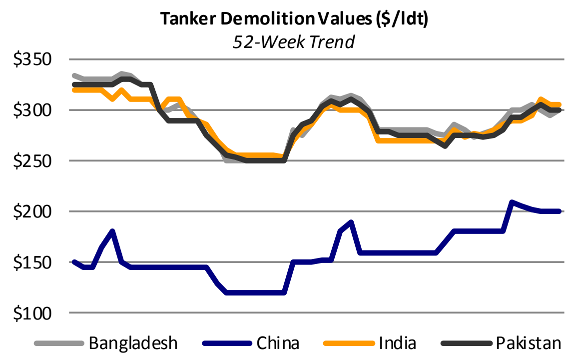
"Challenge Prelude" 48,555/06 – Iwagi Zosen – DH – Ice FS II
-Sold on private terms to Hong Kong buyers (Island Navigation), including TCB to sellers.

"Thames" 7,393/11 – Nanjing Tianshun – DH
-Sold at auction for $4.0m to undisclosed buyers.

REPORTED TANKER DEMOLITION SALES

Pakistan

"Prudent" 47,076/91 – 8,768 LDT – DH
-Sold for $300/ldt, basis as is, Mumbai.



[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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