WEBER WEEKLY
TANKER REPORT

WEEK 45 – 11 NOVEMBER 2016 ISSUE 45 – 2016

Crude tanker values decline sharply during 2016 – Any end in sight?

Following strong performance during 2014 and 2015, this year has seen asset values slide considerably with recent S&P transactions testing lows last seen late during 2013.

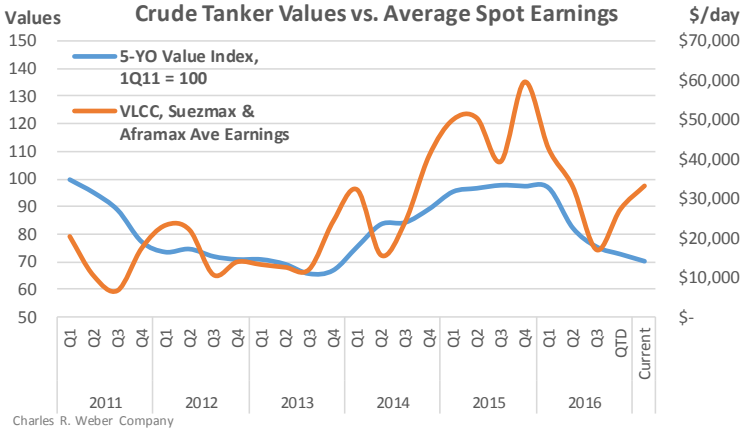
The decline comes following softer y/y earnings since Q2 amid a geographical redistribution of trade routes, mounting global crude inventories, declining refining capacity growth and significant forces majeure in Nigeria for much of the year. It also accompanies surging newbuilding deliveries and an absence of meaningful phase-outs. The average net growth of crude tanker fleets for 2016 is projected at 5.8%, versus 2.5% during 2015 and -0.1% during 2014; during 2017, the number is expected to rise further still, to 7.8%. While forward fleet growth woes are most pronounced in the Suezmax class, due to their ability to compete in both VLCC and Suezmax markets their impact is not likely to be disproportionately isolated. Adding to negative pressure on asset values are looming regulatory compliance costs.

The greatest hit has been to existing units between 5 and 15 years of age, as these face the combination of exposure to forward earnings headwinds and eventual regulatory compliance costs. Newer units have either been built to higher specifications, which partly cushions the regulatory compliance cost hit – and their longer remaining useful life allows their owners better prospects of capturing future cyclical highs. Meanwhile, for the oldest constituents of the tanker fleets, value erosion has been least hit as the likelihood of phase-outs ahead of forward regulatory compliance had be largely priced in.

Crude Tanker Benchmark Values, YTD	
Prompt	-20.6%
5-Year	-29.0%
10-Year	-30.3%
15-Year	-28.6%
20-Year	-18.3%

Though geographical trade distribution should improve during 2017 (to the detriment of fleet efficiency and benefit of earnings) the directional decline of earnings is likely to prevail due to the supply-side headwinds. While we expect this will continue to weigh on asset values, we see some signs that the pace of decline should ease. Firstly, asset values are now near their 2013 lows, implying that the expected forward earnings headwinds have already been priced in, at least in large part. Secondly, newbuilding costs have likely bottomed and could well rise going forward. We base this view on the fact that competitive yards have been aggressively marketing their services following the collapse of newbuilding orders across all maritime segments, with little positive impact on their overall order books and without benefit to their financial health. On this basis, these yards are likely to move towards a restructuring of their business models to those which prevailed before newbuilding orders surged from the early/mid-2000s by returning to a focus on margins, rather than volume.

Any rise in replacement (newbuilding) costs should provide support to newer units in the longer-term, while helping to stem the pace of value erosion thereof in the nearer-term, once it prevails.



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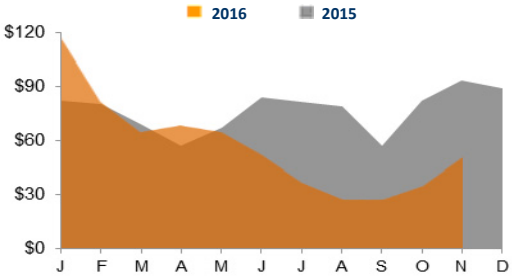
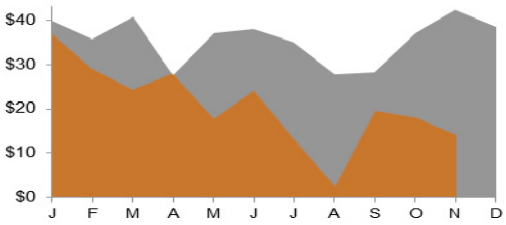
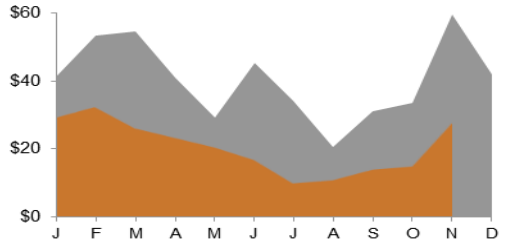


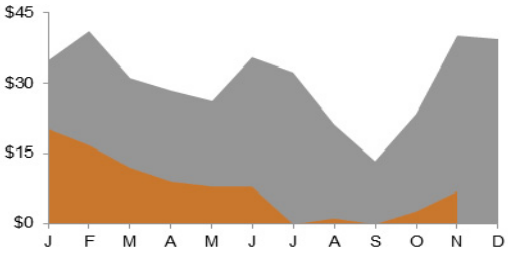
VLCC TCE AG-USG / CBS-SPORE/AG[1] | **MTD Average ~$50,347/Day** | **Month y/y ▼ -46%**



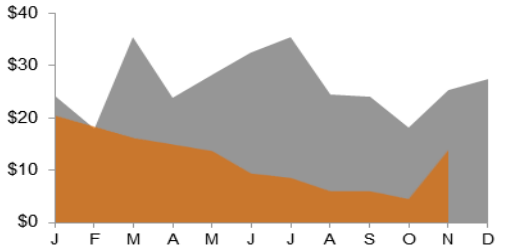
S'MAX TCE 130k WAF-UKC | **MTD Average ~$14,141/Day** | **Month y/y ▼ -67%**



A'MAX TCE 70k CBS-USG | **MTD Average ~$27,541/Day** | **Month y/y ▼ -54%**



P'MAX TCE 50k CBS-USG | **MTD Average ~$7,085/Day** | **Month y/y ▼ -82%**



MR TCE USG-UKC/ UKC-USAC/USG | **MTD Average ~$13,864/Day** | **Month y/y ▼ -45%**

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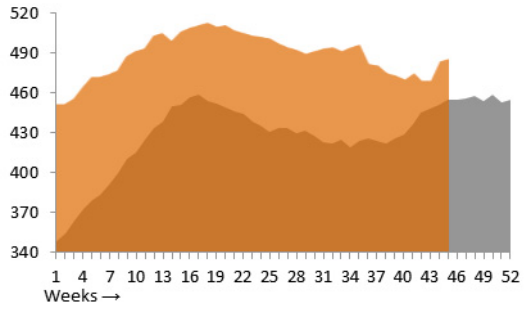
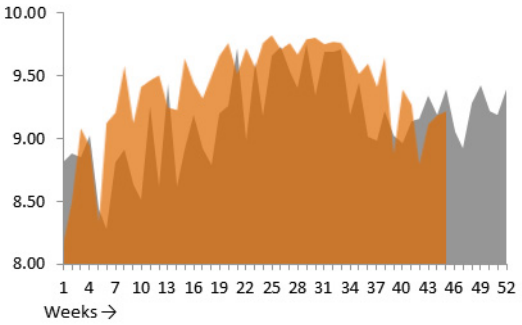
WEBER WEEKLY TANKER REPORT

Spot Market	WS/LS	TCE ~$/day	WS/LS	TCE ~$/day
VLCC (13.0 Kts L/B)	4-Nov		11-Nov	
AG>USG 280k (TD1)	38.5	$22,419	38.5	$22,366
AG>USG/CBS>SPORE/AG	--	$54,181	--	$54,121
AG>SPORE 270k (TD2)	70.0	$57,151	62.5	$48,887
AG>CHINA 265k (TD3C)	70.0	$50,902	62.5	$43,014
WAFR>USG 260k (TD4)	65.0	$50,572	65.0	$50,548
WAFR>CHINA 260k (TD15)	66.0	$48,483	66.0	$48,423
CBS>SPORE 270k	$4.50m	--	$4.50m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	55.0	$14,243	75.0	$24,687
WAFR>UKC 130k (TD20)	57.5	$11,920	77.5	$22,167
BSEA>MED 140k (TD6)	70.0	$21,966	77.5	$27,133
CBS>USG 150k	67.5	$23,739	65.0	$21,911
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	87.5	$16,518	125.0	$54,773
AG>SPORE 70k (TD8)	92.5	$16,594	85.0	$14,438
BALT>UKC 100k (TD17)	60.0	$14,710	102.5	$42,471
CBS>USG 70k (TD9)	140.0	$31,991	115.0	$22,680
MED>MED 80k (TD19)	67.5	$5,140	140.0	$35,065
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	120.0	$8,482	110.0	$6,139
CONT>USG 55k (TD12)	82.5	$7,136	90.0	$9,194
ECU>USWC 50k	127.5	$14,649	122.5	$13,712
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	110.0	$8,967	105.0	$8,068
USG>UKC 38k (TC14)	110.0	$10,156	85.0	$5,494
USG>UKC/UKC>USAC/USG	--	$16,179	--	$11,935
USG>CBS (Pozos) 38k	$550k	$21,945	$400k	$11,834
USG>CHILE (Coronel) 38k	$1.40m	$23,757	$1.20m	$17,961
CBS>USAC 38k	115.0	$10,860	105.0	$8,955
AG>JPN 35k	95.0	$5,141	92.0	$4,795
AG>JPN 75k (TC1)	70.0	$9,813	62.5	$7,670
AG>JPN 55k (TC5)	77.5	$6,858	75.0	$6,407

Time Charter Market *$/day (theoretical)*	1 Year	3 Years
VLCC	$30,000	$29,000
Suezmax	$21,000	$20,000
Aframax	$17,750	$17,000
Panamax	$15,000	$15,000
MR	$12,750	$14,000



US Crude Stocks (EIA) | **Last Week** 485.0 MnBbls | **Week y/y** ▲+6.6%



US Gasoline Demand (EIA) | **Last week** 9.213 MnB/d | **Week y/y** ▼-1.9%

2016 2015

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WEBER WEEKLY TANKER REPORT

SPOT MARKET SUMMARY

VLCC

VLCC rates came under negative pressure this week as charterers had fewer cargoes to work in both the Middle East and West Africa regions. In the former, a surge in demand last week left a limited number of remaining November cargoes. A total of 19 fixtures were reported in the Middle East, representing a 61% w/w decline while four were reported in the West Africa market, off by one from last week. The Middle East letup, coming amid the fresh appearance of previously hidden units weakened owners' resolve to maintain rates at last week's highs and saw fresh erosion prevail.

The Middle East market has yielded 133 November fixtures to-date, leaving an estimated seven cargoes uncovered. Against this, there are 18 units available while West Africa draws will only likely draw away three of these, implying an end-month surplus of eight units. This compares with an earlier estimate of 0-5 units but remains low relative to the average of 20 observed during Q3. Ultimately, however, rate sentiment remains heavily dictated by the immediate demand profile as owners compete for cargoes when the market is slow, as illustrated by the upwards of seven offers S-Oil received for an AG-ROK requirement. Given the supply/demand balance, we believe rates will trend higher with our model suggesting an AG-FEAST TCE around $54,000/day, as compared with ~$46,412/day at present. However, as recent monthly cargo programs have been considerably back-heavy between the three decade ranges, rate upside accompanying a progression into the December Middle East program could be moderate, but thereafter with availability unlikely to expand significantly – and potentially subject to decline, given recent West Africa demand strength and the corresponding lengthening of voyage turnaround time – rates could be poised for more aggressive upside once charterers move into second-decade December dates. Furthering the upside potential are the hiking of Saudi and other Middle East OSPs for Asian buyers, which should maintain strong VLCC demand in the West Africa market and thus contribute to rate sentiment on competition for units among and between the two markets. Tempering this, however, we note that attacks on Nigeria's Forcados pipeline have ramped up over the past week while an Escravos Pipeline station was shut this week due to protests; if the situation in Nigeria translated to a return to high forces majeure, then the extent of Asian interest in West African crude grades could wane.

Middle East

Rates to the Far East lost 7.5 points this week to conclude at ws62.5. Corresponding TCEs dropped 15% w/w to conclude at ~$46,830/day. Rates to the USG via the Cape were unchanged at ws38.5. Triangulated Westbound trade earnings declined by a marginal $60/day to conclude at ~$54,121

Atlantic Basin

The West Africa market was largely stable this week. Rates on the WAFR-FEAST route concluded unchanged at ws66 with corresponding TCEs ending at ~$48,423/day.

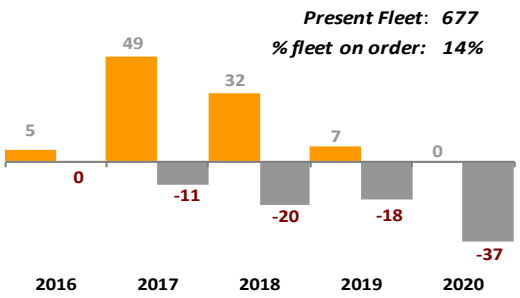
The Caribbean market remained active this week which saw rates steady. The CBS-SPORE route was unchanged at $4.5m. The sustained regional demand, combined with a recent spate of fixtures in the North Sea and Mediterranean markets should contribute to positive pressure during the upcoming week.

Suezmax

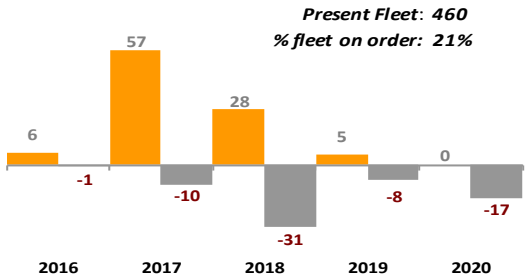
Rates in the West Africa Suezmax market were stronger this week as charterers shored up remaining November cargoes and progressed into November dates while availability replenishments declined on earlier Middle East demand strength, stronger Black Sea and Mediterranean demand and improved rates for Suezmaxes competing in European Aframax markets. Rates on the WAFR-UKC route added 20 points to conclude at ws75. Elsewhere, the BSEA-MED route added 7.5 points to conclude at ws77.5.

Rates in the West Africa market should continue to observe upside during the upcoming week as charterers progress further on early December requirements. Furthering this view, we note that the prevailing TCE discount for ex-West Africa

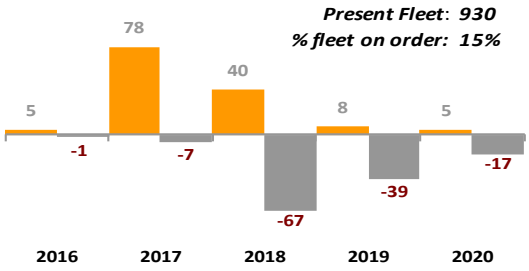
VLCC Projected Deliveries/Removals



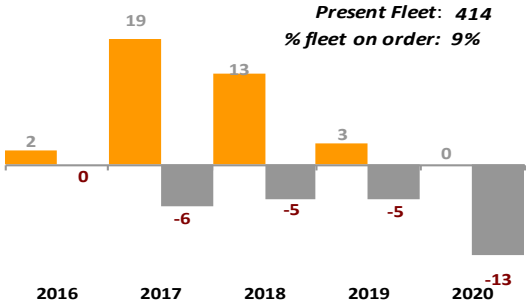
Suezmax Projected Deliveries/Removals



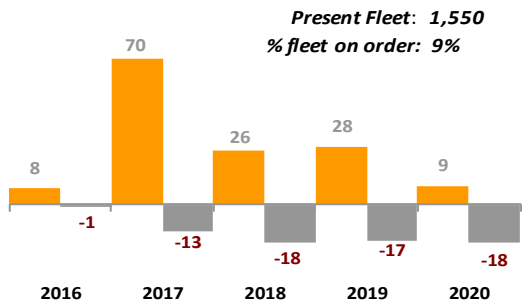
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



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Suezmax routes relative to the BSEA-MED benchmark should offer owners an arguing point, meanwhile European Aframax markets remain strong which could present further prospects for Suezmaxes to compete where requirements permit and Suezmax demand in the Middle East market remains elevated which should add to sentiment by reducing forward availability prospects in the West Africa market.

Aframax

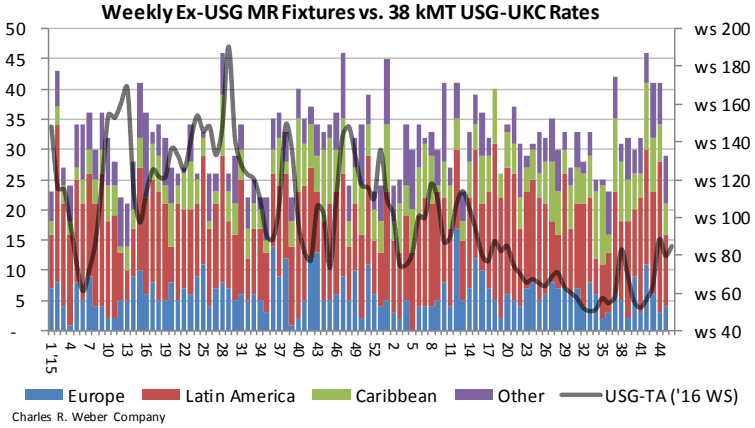
Demand in the Caribbean Aframax market declined markedly this week while a small number of ballasters appeared on position lists, ostensibly to capitalize on the region's earlier premium to alternative markets, leading rates to correct. Just seven fixtures were reported, half of last week's tally and the fewest in six weeks. Rates on the CBS-USG route shed 25 points to conclude at ws115. With some under-the-radar activity appearing to have taken place however – and with the benchmark CBS-USG TCE now about half of European benchmark TCEs, rates should stabilize during the upcoming week.

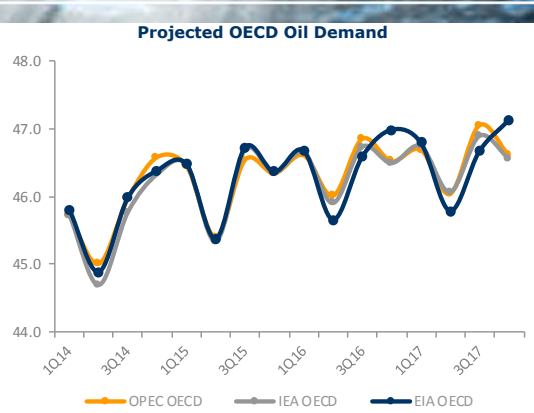
Panamax

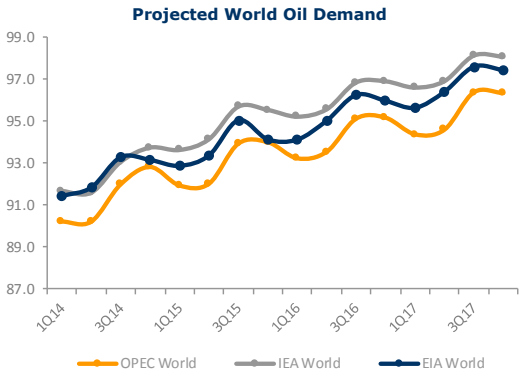
Rates in the Caribbean Panamax market softened this week after last week's rally with the reappearance of prompt units at the start of the week adding to negative influence from the correcting Aframax market. Rate losses were largely distributed and incremental over the course of the week as more units appeared on position lists with the CBS-USG route ultimately shedding 10 points to conclude at ws110. With a modest degree of activity being reported at the close of the week – with a few outstanding requirements – rate downside could stem at the start of the upcoming week. Though present supply/demand fundamentals suggest that rates should ease thereafter, recent demand strength in the Med and UKC markets could potentially draw some units away, which may potentially allow rates to hold at present levels in tandem.

MR

The USG MR market was less active this week, allowing further rate declines throughout much of the week before fresh strength materialized at the close of the week on declining availability. A total of 29 fixtures were reported, representing a 29% w/w decline and a none-week low. The correction was not unexpected following a normalizing of the market following earlier Colonial Pipeline issues and an ongoing PADD3 refinery utilization lull amid maintenance. The late rate upside came as units freeing on the USAC were earlier more decidedly oriented to return ballasts to Europe and itineraries for units discharging at some ECMex ports delayed availability there. A modest increase in extra-regional fixtures of late also factored into the declining availability. At the close of the week, the two-week forward view of availability shows just 32 units, representing a 27% w/w decline and the fewest in over two months. Rates on the USG-UKC route closed at ws85, off 25 points, having earlier declined into the mid-ws70s. The USG-CBS route similarly shed $150k to close at $400k lump sum, having declined earlier into the mid/high $400s. Rates are likely to remain firm through the start of the upcoming week and should maintain directional upside during coming weeks on the back of seasonal factors.







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REPORTED TANKER SALES

"Seafaith II" – 109,280/00 – Dalian – DH
-Sold for $12.0m to Indonesian buyers.

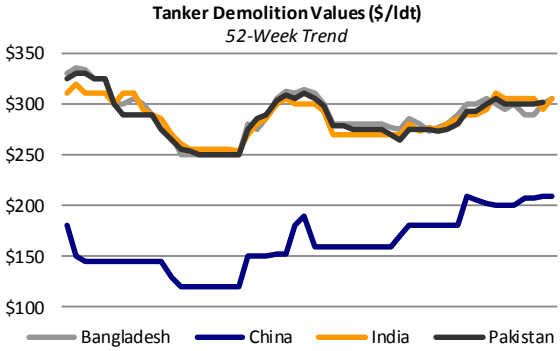
"Phoenix Concord" – 105,525/12 – Hyundai Ulsan – DH
"Phoenix Beacon" – 105,525/11 – Hyundai Ulsan – DH
-Sold en bloc for $56.0m to Indian buyers (Great Eastern Shipping). Delivery Q2 '17 (Buyer's Q4 '17).

"Seto Express" – 47,999/07 – Iwagi Zosen – DH
-Sold for $13.7m to Japanese buyers (Mitsui OSK Lines).

"Zhu Min Victoria" – 16,026/97 – Shin Kurushima – DH – IMO II/III
-Sold for $5.9m to undisclosed buyers.

REPORTED TANKER DEMOLITION SALES

There are no reported tanker demolition sales for week 45.



[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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