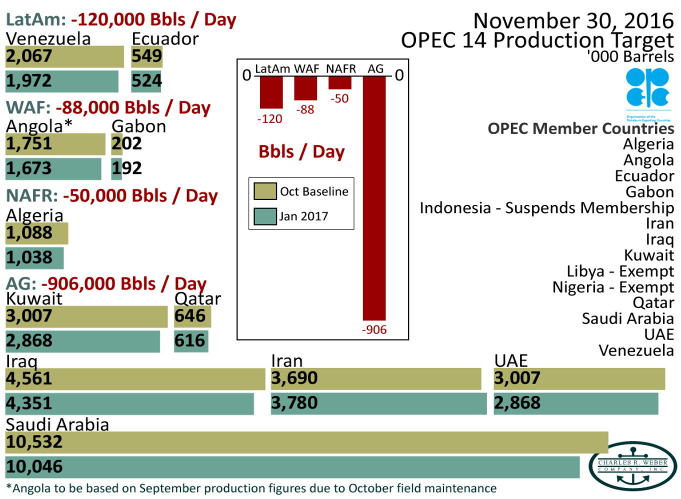
WEBER WEEKLY TANKER REPORT

WEEK 48 – 2 DECEMBER 2016 **ISSUE 48 – 2016**

OPEC agreement threat to 2017 tanker earnings?

OPEC's announced this week an agreement to cut production by 1.2 Mn b/d for six months starting from 1 January 2017. The deal ends a stalemate between member producers over how to distribute cuts, which saw production targets abandoned at the end of 2015 and has sent waves through the oil industry, pushing Brent futures to over $54/bbl for the first time since July 2015, while simultaneously weighing negatively on tanker equities and FFAs.

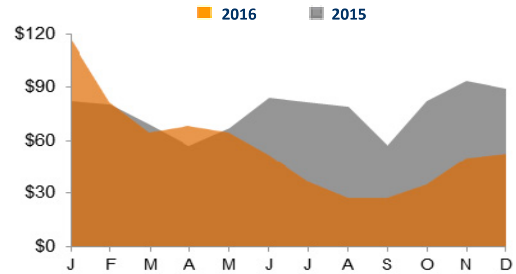
The cuts are based on OPEC's October production figures (based on secondary sources) and distributes cuts proportionally, calling for most members to trim their output by 4.6%, though Nigeria and Libya are exempted due to domestic security issues and Iran is permitted to increase its production by 2%. Indonesia, a net oil importer, suspended its membership. The deal also hinges on cuts from non-OPEC producers of 600,000 b/d with half of that figure to come from Russia and the remainder yet to be disclosed.



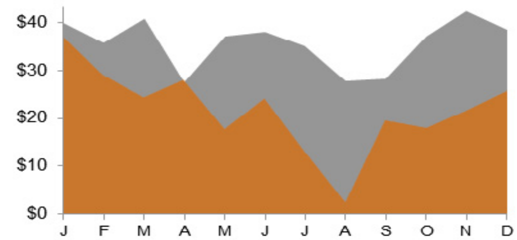
We note that OPEC quota compliance rates, historically low to begin with, had falling before being targets were scrapped. Moreover, just days prior to OPEC's meeting, Russia had been averse to imposing a cut on its production, favoring a freeze instead which, it said, represented a cut relative to its plans for 2017. Thus, we view full implementation of the agreement with a marked degree of skepticism. Based on what is known about the agreement, our impressions for demand and earnings are as follows:

VLCC Demand

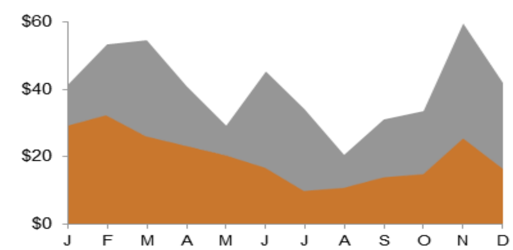
Given that 78% of the cuts are distributed to the Middle East region, the implications are notionally negative for the VLCC workhorses of that region's exports, though this could actually prove beneficial to VLCC demand by prompting greater purchases of West African crude by Asian buyers. Angola's 50,000 b/d cut is relatively small compared to offline Nigerian production poised to come back on stream during 2017. During October, Nigeria's production rate was 157,000 b/d below 1Q16 and 237,000 b/d below 2015 (using the same OPEC production data as that applicable to the OPEC deal). If Asian buyers source just nine additional VLCC cargoes per month from West Africa as a result (representing a replacement of just 64% of volumes lost in the Middle East), due to longer voyage durations, total round-trip VLCC employment days associated with Asia-bound trades could rise by around 8.7%. Elsewhere, we note that Venezuela's cuts (which were likely to occur on the basis of directional production declines) are unlikely to alter crude flows to China as part of normal trades and oil repayments for development loans, relative to our prior base expectation. Floating storage could also come into play, provided that market participants are able to observe cuts being adhered to, raising a short-term contango structure for the remainder of the six-month term of the current OPEC agreement.



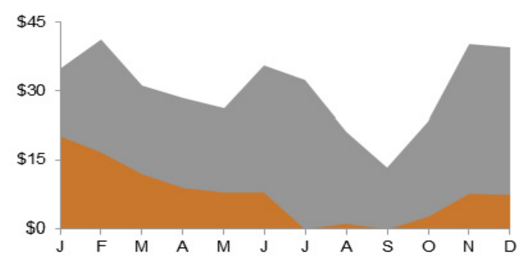
VLCC TCE AG-USG / CBS-SPORE/AG¹	MTD Average ~$52,397/Day	Month y/y ▼ -41%



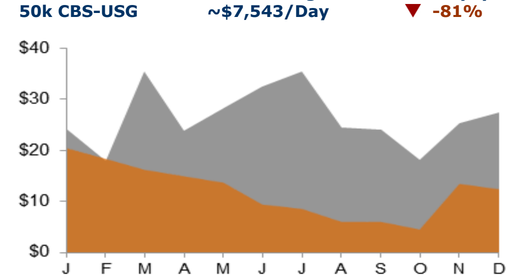
S'MAX TCE 130k WAF-UKC	MTD Average ~$25,787/Day	Month y/y ▼ -33%



A'MAX TCE 70k CBS-USG	MTD Average ~$16,412/Day	Month y/y ▼ -61%



P'MAX TCE 50k CBS-USG	MTD Average ~$7,543/Day	Month y/y ▼ -81%



MR TCE USG-UKC/ UKC-USAC/USG	MTD Average ~$12,446/Day	Month y/y ▼ -54%

Suezmax Demand

Oil price support corresponding to the OPEC agreement could set the stage for a modest rebound in domestic US production, contributing to expected regulatory support for E&P from the upcoming Trump administration. Moreover, since the deal was announced, Brent prices have experienced greater gains than WTI prices; assuming such a structure holds, this could increase incentives for US refiners to increase their sourcing of US crude and reducing the modest increase of imports from West Africa observed in recent months. This would suggest a negative for Suezmax demand on the trans-Atlantic route. More importantly, while refining margins have experienced some immediate-term support from the deal – largely due to refiners benefiting from inventories built at pre-deal prices – the same headwinds for refiners are likely to remain during the coming months, potentially some of the much-awaited refining capacity rationalization in Europe to come to fruition, which would detract from Suezmax demand on routes from West Africa to Europe. Meanwhile, production losses in the Middle East market could hit regional Suezmax demand harder than VLCC demand by trimming voyages to Asia and to Europe (the latter of which having experience a 77% YTD, y/y increase), with little potential for a geographic reorientation of trade routes to benefit ton-miles similarly to VLCCs.

Aframax Demand

Supply cuts in Latin America, North Africa and Russia (across its Baltic, Black Sea and Asia export areas) are likely to impact Aframax-favorable demand, though Panamaxes are likely to feel the brunt of Ecuador's estimated 25,000 b/d cut. However, Libya is targeting a 2017 production increase which exceeds the sum of production cuts in the three aforementioned regions, relative to its October production rate – which itself marked a 168,000 b/d gain from September – following a recent agreement between the state-run National Oil Corp. (NOC) and the armed forces controlling the country's key oil ports of Ras Lanuf and Es Sider. If this agreement holds, enabling oil exports as per NOC's plans, it should go some way in offsetting the impact on Aframax demand. Additionally, the potential for US crude exports to post further gains could also contribute a measure of replacement Aframax demand.

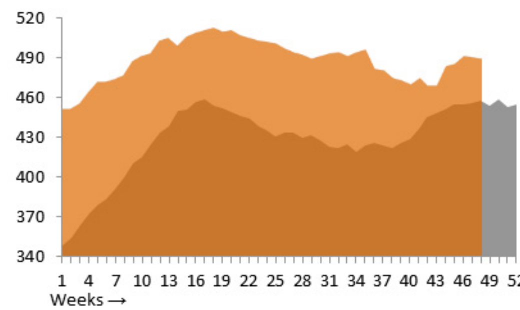
Earnings

With projected 2017 fleet growth levels already set to exceed our base demand growth case, adherence to the OPEC agreement presents an additional challenge to fundamentals. Our Suezmax and Aframax fleet net growth projections for 2017 stand at 10.6% and 7.5%, respectively, up from projected 2016 net growth of 5.5% and 4.3%. Meanwhile, VLCC net fleet growth is projected to decline from 2016's rate of 6.9% to 5.3%. Moreover, across the three classes, 2017 deliveries heavily centered to Q1, implying a quick hit to earnings from early during the year on a supply basis – and the disadvantaged nature of newbuildings on their first trades weigh even more heavily on rates than fleet numbers suggest by offering charterers with more competitively-priced units. Though we view Suezmax fundamentals as the most vulnerable, given the class' ability to compete with both Aframaxes and VLCCs, negative earnings pressures are likely to be more evenly distributed.

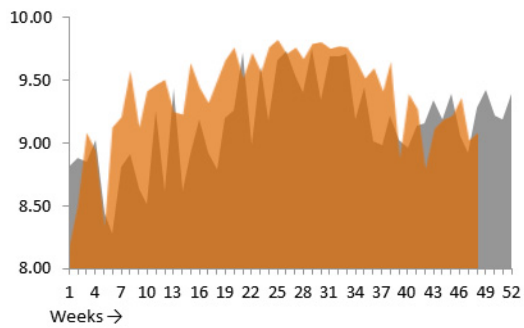
Our Earnings Revisions

In revising our projections for crude tanker earnings during 2017 on the basis of the OPEC agreement, our base case assumes a rate of compliance with the new targets of 75% during 1H17, which we reduce to 50% during 2H17 given the high degree of uncertainty over whether the agreement will be rolled over in its present form. We also account of prospective production increases in countries exempted by and not party to the OPEC agreement.

	VLCC		Suezmax		Aframax	
$/day	Nov '16	Dec '16	Nov '16	Dec '16	Nov '16	Dec '16
1Q17	*$40,000*	*$38,000*	*$21,000*	*$18,750*	*$21,000*	*$19,500*
2Q17	*$32,000*	*$29,500*	*$17,000*	*$16,000*	*$17,750*	*$16,500*
FY2017	*$34,188*	*$32,500*	*$19,000*	*$17,750*	*$18,563*	*$17,500*
FYΔ		*-5%*		*-7%*		*-6%*



US Crude Stocks (EIA) | **Last Week 488.1 MnBbls** | **Week y/y ▲ +6.8%**



US Gasoline Demand (EIA) | **Last week 9.080 MnB/d** | **Week y/y ▼ -2.2%**

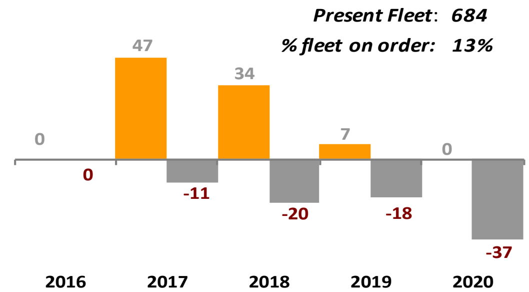
2016 2015

WEBER WEEKLY TANKER REPORT

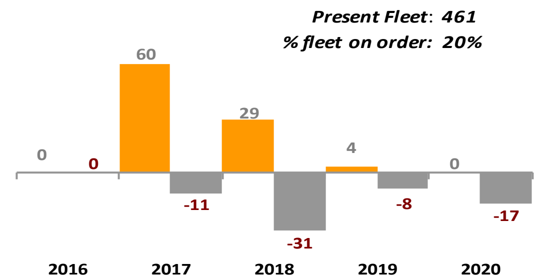
Spot Market	WS/LS	TCE ~$/day	WS/LS	TCE ~$/day
VLCC (13.0 Kts L/B)	**23-Nov**		**2-Dec**	
AG>USG 280k (TD1)	40.0	$22,366	41.0	$22,670
AG>USG/CBS>SPORE/AG	--	$54,343	--	$53,908
AG>SPORE 270k (TD2)	72.5	$58,516	72.5	$57,452
AG>CHINA 265k (TD3C)	72.5	$52,149	72.5	$51,066
WAFR>USG 260k (TD4)	70.0	$54,767	70.0	$53,535
WAFR>CHINA 260k (TD15)	68.75	$50,178	70.0	$50,321
CBS>SPORE 270k	$4.50m	--	$4.50m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	92.5	$33,170	85.0	$28,274
WAFR>UKC 130k (TD20)	95.0	$30,500	87.5	$25,656
BSEA>MED 140k (TD6)	117.5	$55,516	110.0	$49,184
CBS>USG 150k	85.0	$36,480	78.75	$30,671
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	135.0	$64,987	140.0	$68,835
AG>SPORE 70k (TD8)	92.5	$15,810	100.0	$17,455
BALT>UKC 100k (TD17)	100.0	$40,909	100.0	$39,675
CBS>USG 70k (TD9)	120.0	$24,022	100.0	$15,846
MED>MED 80k (TD19)	165.0	$44,812	167.5	$45,230
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	117.5	$7,601	120.0	$7,459
CONT>USG 55k (TD12)	115.0	$15,553	112.5	$14,048
ECU>USWC 50k	127.5	$14,814	127.5	$14,368
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	110.0	$8,852	95.0	$5,196
USG>UKC 38k (TC14)	85.0	$5,194	100.0	$7,353
USG>UKC/UKC>USAC/USG	--	$12,291	--	$12,242
USG>CBS (Pozos) 38k	$400k	$11,535	$475k	$16,036
USG>CHILE (Coronel) 38k	$1.10m	$14,696	$1.25m	$18,502
CBS>USAC 38k	115.0	$10,596	120.0	$10,974
AG>JPN 35k	90.0	$3,843	100.0	$4,791
AG>JPN 75k (TC1)	67.5	$8,261	71.5	$8,831
AG>JPN 55k (TC5)	75.0	$5,556	75.0	$4,967

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

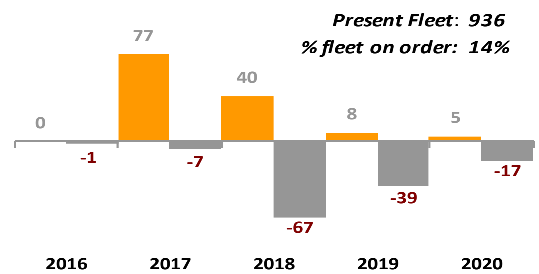
VLCC Projected Deliveries/Removals



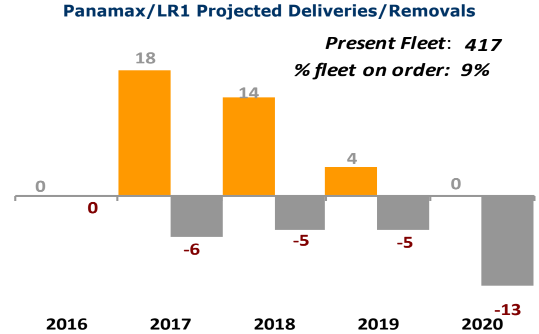
Suezmax Projected Deliveries/Removals



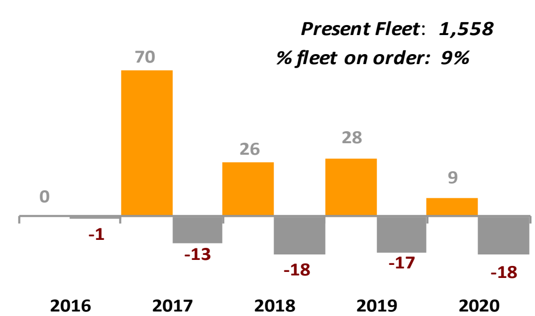
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



WEBER WEEKLY TANKER REPORT

SPOT MARKET SUMMARY

VLCC

VLCC demand in the Middle East market built on last week's gains, rising by a further 57% w/w to a four-week high of 36 fixtures. The West Africa market observed five fixtures, off by four from last week's two-month high. Despite this week's Middle East demand strength and last week's high fixture count in the West Africa market (which drew on Middle East positions) rates failed to observe much upside this week. This was largely due to the presence of a large number of disadvantaged units in the Middle East market, where 31% of this week's fixtures were concluded on such units. As a result, a two-tiered market was very notably present with disadvantaged units trading around 10 points below their more modern counterparts. Greater downside might have otherwise ensued for competitive units, but fundamentals remain strong and indicative of rates above present levels which saw owners of modern units post strong resistance and remain bullish. We note that with 85 December Middle East fixtures concluded thus far, there are a further 2-4 remaining through the end of the second decade. Against this, there are 13 units available, from which West Africa draws should account for five, implying a surplus of just 4-6 units.

As charterers progress into December's final decade during the upcoming week, we expect that rates will observe strong upside. In addition to the prevailing tight VLCC supply rate, most of the disadvantaged units have now been covered and cargo availability during the final decade should be considerably longer. Adding to rate support, demand will be fragmented amid holiday parties in the New York and London maritime centers, leading to a likely hectic start to the week as participants seek to cover requirements in advance.

Middle East

Rates to the Far East concluded at ws72.5, representing a 2.5 points gain on last week's close. Corresponding TCEs rose 3% w/w to ~$55,064/day. Rates to the USG via the Cape were unchanged at ws40. Triangulated Westbound trade earnings concluded at ~$54,477/day.

Atlantic Basin

The West Africa market followed the Middle East with rates on the WAFR-FEAST route adding 1.25 points to conclude at ws70. TCEs on the route gained 1% w/w to conclude at ~$50,745/day.

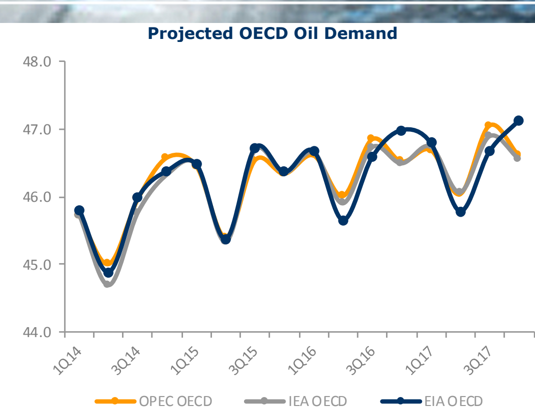
The Caribbean market was quiet this week while rates on the CBS-SPORE route held at $4.5m level for the 8th consecutive week.

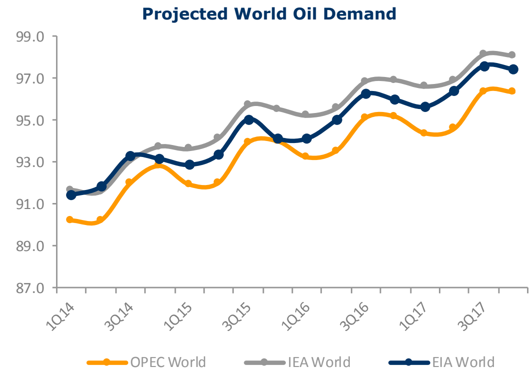
Suezmax

The West Africa Suezmax market was softer this week on softening regional demand and an easing of rates in the Black Sea and Caribbean markets. Rates on the WAFR-UKC route lost 7.5 points to conclude at ws87.5. The December West Africa program commenced on a strong note for spot Suezmaxes with the first decade yielding 21% more cargoes than the same period in November. However, as charterers move now into the second decade, cargo availability is likely to decline due to strong earlier coverage in the date range by VLCCs. While this could maintain a negative rate sentiment, the fractured work week ahead amid holiday parties in the New York and London maritime centers could lead to an early concentration of demand and limit downside.

Aframax

The Caribbean Aframax market commenced with limited demand, allowing the buildup of tonnage which prevailed over the holiday weekend to extend. Rates quickly turned negative with rates incrementally softer throughout the week, despite stronger demand at mid-week as owners were aggressively seeking to cover availability before the end of the week. Ultimately, the market observed 19 fixtures, a 73% w/w gain while rates lost 20 points to conclude at ws100. With availability rising and demand having pared back at the close of the week, the upcoming week should commence with an extending of rate losses.





WEBER WEEKLY TANKER REPORT

MR

The USG MR market experienced its most active week in two years, led by a surge in voyages to Mexico's East Coast. The demand gains came following last week's holiday-shortened work week and marked a 123% w/w gain, with 49 fixtures. Of this week's tally, just four fixtures were bound for Europe (unchanged w/w), 23 were headed for points in Latin America (+14, w/w) and the remainder were yet to be determined or bound for alternative destinations. Strengthening PADD3 refinery utilization rates and a surge of regional distillate inventories (EIA data notes a 2.7 MnBbl build last week) helped to create new export opportunities, supporting cargo flows to Latin America amid unsupportive economics to move cargoes to Europe, and added to regular Latin America-bound gasoline flows. Coming against a relative tight front-end position list, the demand gains proved heavily supportive of rates. The USG-UKC route jumped 15 points to conclude at a four-week high of ws100 while the USG-CBS route added $75k to conclude at $475k and the USG-CHILE route added $150k to conclude at $1.25m. Rates appear poised to remain elevated in the near term as availability remains tight. The two-week forward view of tonnage shows 36 units available, representing a 22% w/w drop – and this tally includes USAC positions given present owner preference in ballasting to the comparatively strong USG market (as opposed to return ballasts to Europe).

REPORTED TANKER SALES

"Gener8 Ulysses" – 318,695/03 – Hyundai Samho – DH
-Sold on one-month BOD subjects for $31.0m to Dutch buyers (SBM Offshore).

"British Curlew" – 114,809/04 – Samsung Geoje – DH
"British Merlin" – 114,761/03 – Samsung Geoje – DH
-Sold en bloc for $29.2m to Greek buyers (Tsakos).

"Rose" – 45,737/04 – Miniaminippon – DH
-Sold for $12.0m to undisclosed European buyers.

"Nord Princess" – 38,554/06 – Guangzhou – DH
-Sold for $13.5m to Greek buyers (Ancora Investment Trust).

"Vemaoil XXI" – 9,927/94 – Daedong Busan – DH
-Sold on private terms to undisclosed buyers.

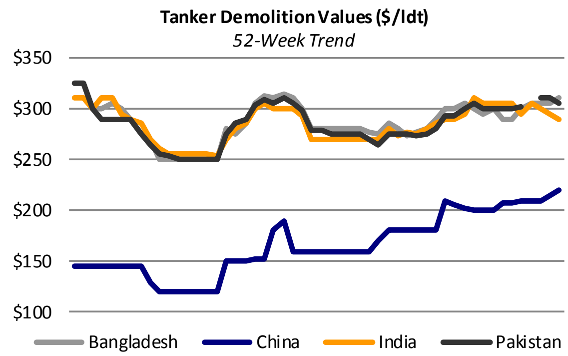
"Crystal West" – 8,143/94 – Boelwerft – DH – Ice 1B
"Crystal Zuid" – 8,143/94 – Boelwerft – DH – Ice 1B
-Sold en bloc for $6.7m to undisclosed buyers.

"Bow Master" – 6,046/99 – Szczecinska Stocznia– DH – IMO II – Ice 1C
-Sold on private terms to Norwegian buyers (Utkilen).

REPORTED TANKER DEMOLITION SALES

India

"Durgandini" 34,793/95 – 8,519 LDT – DH
-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