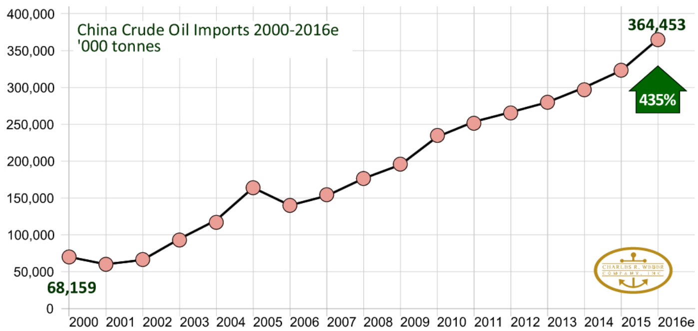
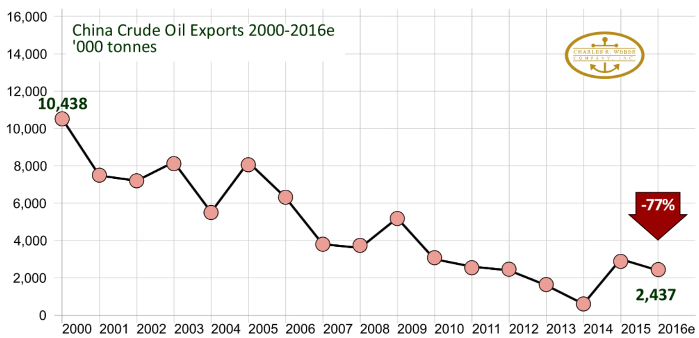
WEBER WEEKLY TANKER REPORT

WEEK 50 – 16 DECEMBER 2016 **ISSUE 50 – 2016**

Underpinning the Recovery in China Crude Oil Imports

Excerpted from the upcoming Charles R. Weber China Country Report





For much of the year, there were concerns that the slowing pace of Chinese economic growth and burgeoning refined product stocks would lead to a softening in China's appetite to import oil. However, we estimate that China's full year imports are set to increase by 9%.

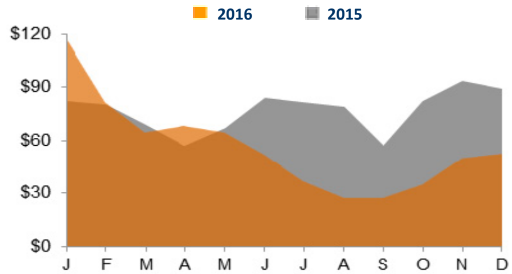
Several factors underpinned the recovery in crude oil imports:

- *Decline in Chinese crude oil production*
- *Revival of refinery throughputs*
- *Drive to add to strategic crude oil reserves*

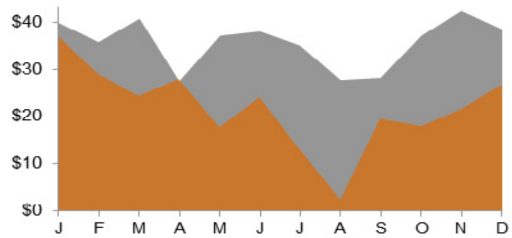
Decline in Chinese crude oil production
Chinese crude oil production has dropped sharply in 2016 from 4.25million b/d in December 2015 to 3.8million b/d in October, which was a seven-year low. It recovered to 3.93million b/d in November but we are presently anticipating an estimated number of around 2,437,000 tons of domestic crude exports for China for 2016, down 77% from their 2000 exports. Aging oil fields and a low oil prices were an important factor undermining crude oil production in 2016, but we anticipate the decline to continue – with output set to fall to 3.5million b/d by 2020.

Revival of refinery throughputs led by teapot refineries
The rise of the independent teapot refinery has been a market-transforming phenomenon in 2016, emerging as a brand new source of crude oil demand growth. This group of refineries accounts for about 30% of total present Chinese refinery capacity (14.4million b/d). Traditionally teapots were required to purchase crude oil from state petrochemical companies. In September 2015, seven teapot refiners received their own import licenses. More licenses followed pushing total teapot quotas to 1.26million b/d at the end of 2016.

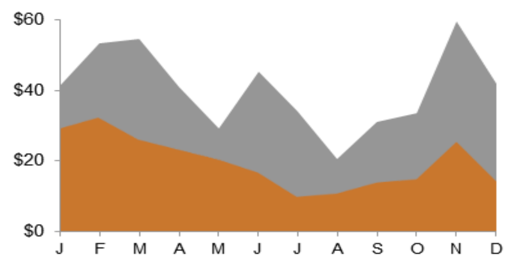
Teapots are expected to add between 200-400,000 b/d to Chinese crude oil import demand growth in 2017, if – as seems likely - quota levels for the next year are maintained at end 2016 levels. Some estimates suggest that Chinese crude oil import demand will increase by 500-700,000 b/d next year.



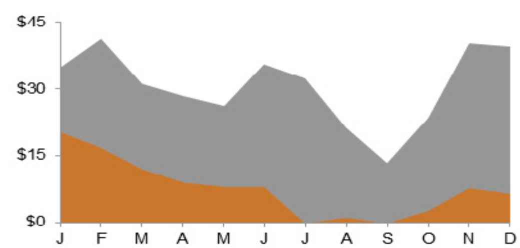
VLCC TCE AG-USG / CBS-SPORE/AG[1]	MTD Average ~$53,051/Day	Month y/y ▼ -41%



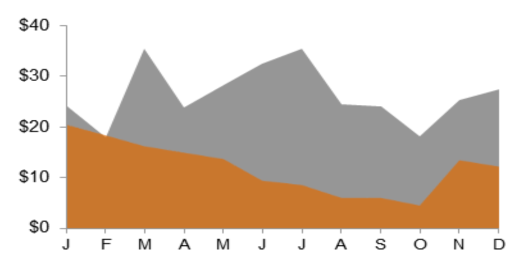
S'MAX TCE 130k WAF-UKC	MTD Average ~$26,765/Day	Month y/y ▼ -31%



A'MAX TCE 70k CBS-USG	MTD Average ~$14,806/Day	Month y/y ▼ -65%



P'MAX TCE 50k CBS-USG	MTD Average ~$6,581/Day	Month y/y ▼ -83%



MR TCE USG-UKC/ UKC-USAC/USG	MTD Average ~$12,331/Day	Month y/y ▼ -55%

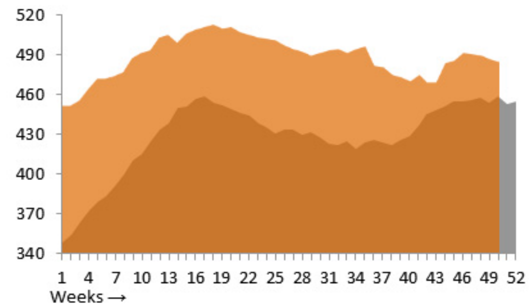
Drive to add to strategic crude oil reserves

Since 2008, when China completed building its first phase strategic crude oil infrastructure, stockpiling has been a very important part of Chinese crude oil import demand growth. However, this source of demand doesn't always hit the headlines because of uncertainty about the exact size of current Chinese reserve capacity and a market perception that it is close to its maximum ceiling.

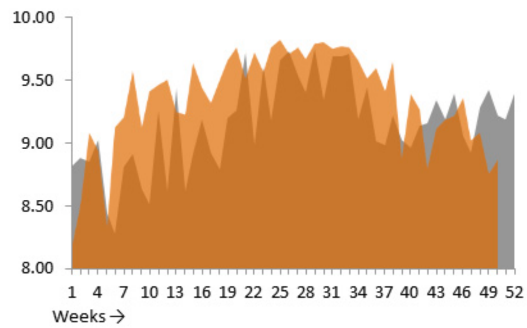
This uncertainty has generated attention in recent months because of the disparity between government statements about stock levels and increasingly sophisticated independent stock measurements made by market observers using AIS tracking and satellite imagery.

Under the latest five-year plan 2015-2020, China's government is targeting combined government (SPR, 476 million barrels) and commercial reserves (209 million barrels) to reach the equivalent of 90 days (685 million barrels) of emergency cover i.e. cover sufficient to replace its net import requirement.

However, there are suggestions from Orbital Insight and others that the storage building program may already even exceed this target, in part because of the identification of possible additional storage sites – including underground caverns by the Yellow Sea and a scattering of islands in the Yangtze River delta. As a result, we think that China's strategic stockpiling is still not completed and will continue to be an important source of crude oil demand growth – at least while oil prices remain relatively low…



US Crude Stocks (EIA)	Last Week 483.2 MnBbls	Week y/y ▲ +5.4%



US Gasoline Demand (EIA)	Last week 8.874 MnB/d	Week y/y ▼ -3.8%

2016 2015

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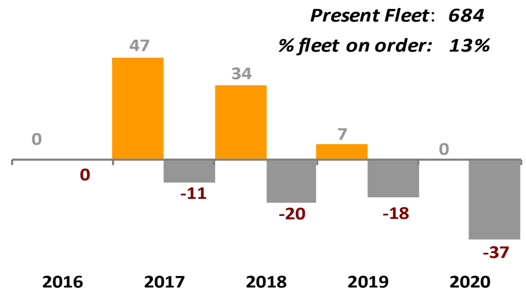
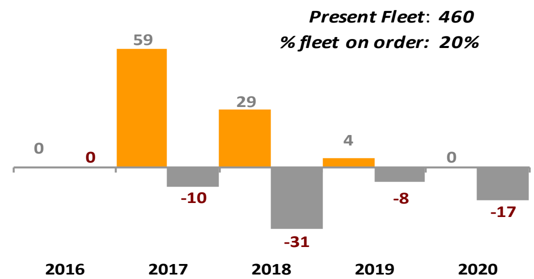
Spot Market	WS/LS	TCE ~$/day	WS/LS	TCE ~$/day
VLCC (13.0 Kts L/B)	**9-Dec**		**16-Dec**	
AG>USG 280k (TD1)	43.0	$24,207	55.0	$36,059
AG>USG/CBS>SPORE/AG	--	$57,907	--	$72,189
AG>SPORE 270k (TD2)	82.5	$67,903	95.0	$81,495
AG>CHINA 265k (TD3C)	82.5	$61,039	95.0	$74,084
WAFR>USG 260k (TD4)	74.5	$57,702	85.0	$68,119
WAFR>CHINA 260k (TD15)	77.5	$57,250	82.5	$62,198
CBS>SPORE 270k	$4.80m	--	$5.25m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	90.0	$30,537	107.5	$39,329
WAFR>UKC 130k (TD20)	92.5	$27,880	110.0	$36,494
BSEA>MED 140k (TD6)	97.5	$40,062	120.0	$55,787
CBS>USG 150k	72.5	$25,681	87.5	$36,649
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	140.0	$68,775	95.0	$22,875
AG>SPORE 70k (TD8)	125.0	$24,575	117.5	$22,112
BALT>UKC 100k (TD17)	117.5	$50,971	97.5	$37,781
CBS>USG 70k (TD9)	95.0	$13,437	112.5	$19,687
MED>MED 80k (TD19)	120.0	$25,312	115.0	$22,987
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	117.5	$6,675	140.0	$11,814
CONT>USG 55k (TD12)	112.5	$13,833	120.0	$15,606
ECU>USWC 50k	127.5	$13,922	127.5	$13,596
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	97.5	$5,594	130.0	$11,642
USG>UKC 38k (TC14)	85.0	$4,364	100.0	$6,984
USG>UKC/UKC>USAC/USG	--	$10,122	--	$15,685
USG>CBS (Pozos) 38k	$400k	$10,805	$500k	$17,379
USG>CHILE (Coronel) 38k	$1.15m	$14,395	$1.20m	$16,668
CBS>USAC 38k	110.0	$8,884	125.0	$11,596
AG>JPN 35k	100.0	$4,482	103.5	$4,821
AG>JPN 75k (TC1)	71.0	$8,262	85.0	$12,247
AG>JPN 55k (TC5)	75.0	$4,574	85.0	$6,575

Time Charter Market *$/day (theoretical)*	1 Year	3 Years
VLCC	$32,000	$29,000
Suezmax	$22,500	$23,000
Aframax	$17,750	$18,500
Panamax	$15,000	$15,000
MR	$12,750	$14,000

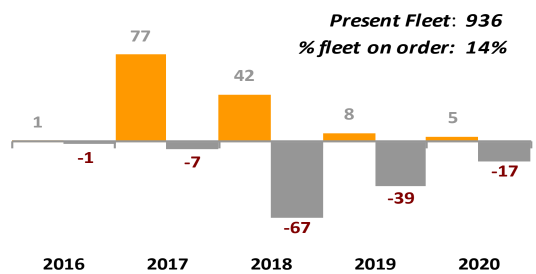
VLCC Projected Deliveries/Removals



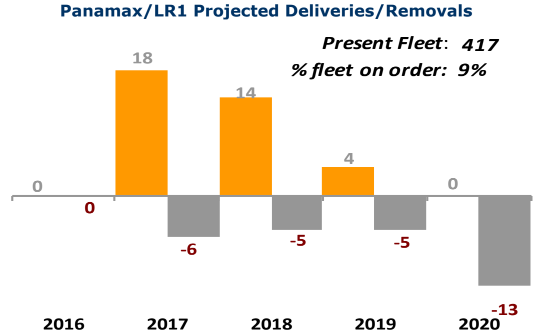
Suezmax Projected Deliveries/Removals



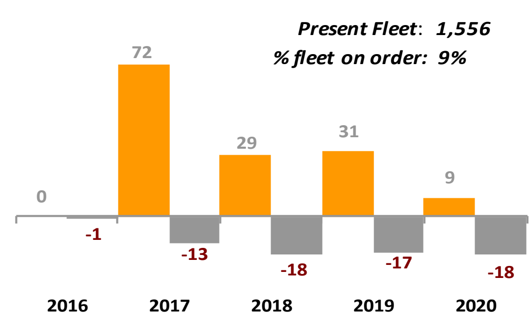
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



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SPOT MARKET SUMMARY

VLCC

VLCC rates continued to strengthen this week on the back of a low count of surplus December units in the Middle East market, and observed stronger upside after the Basrah January program was released. Our estimate of the distribution of cargoes between size classes, including likely co-loads, shows VLCC cargoes representing the highest count since June. Moreover, whereas in recent months Basrah loadings have been relatively back-heavy, the January program shows a more even distribution between date ranges. Coming on the back of a strong conclusion to the December Middle East program, participants are markedly more bullish for rate progression through the start of January. Contributing to the bullishness, after this week's relatively light demand, the combination of January stem confirmations and expected pre-holiday rush suggest that rates will firm on the active forward pace even in the absence of tight supply. A total of 23 fixtures were reported in the Middle East market, representing a w/w decline of 38%. In the West Africa market, demand remained elevated with seven fixtures reported one fewer than last week).

Middle East

Rates to the Far East gained 12.5 points to conclude at ws95 with corresponding TCEs rising by 21% to ~$74,084/day. Rates to the USG via the Cape gained 12 points to conclude at ws55. Triangulated Westbound trade earnings rose 25% to ~$72,189/day.

Atlantic Basin

The West Africa market followed the Middle East with rates on the WAFR-FEAST route adding 5 points to conclude at ws82.5. TCEs on the route rose by 9% to conclude at ~$62,198/day. The Caribbean market was markedly more active this week and followed an earlier trend of units freeing on the USG to ballast towards the West Africa market, yielding a tighter supply/demand position. Rates on the CBS-SPORE route posted further gains on this basis, adding $450k to conclude at $5.25m

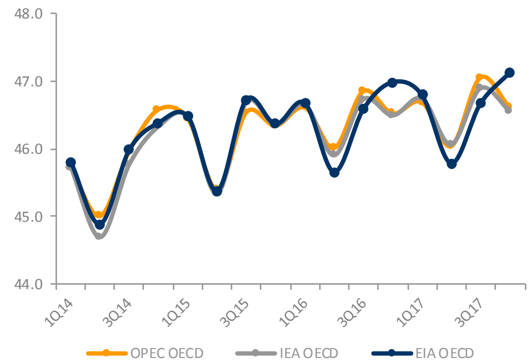
Suezmax

Rates in the West Africa Suezmax market firmed this week as charterers rushed to cover a surprisingly large number of remaining December cargoes and progressed aggressively into the January program. December's final decade yielded the most spot-serviced cargoes of any decade date range since September, helping to tighten availability just as charterers progressed into the January program, wherein Nigeria's offerings are expected to post a m/m gain on December, despite an ongoing absence of Forcados cargoes. Meanwhile strong recent demand in the Middle East Suezmax market has trimmed ballasts into the West Africa region, extending a recent trend. During Q4, weekly Middle East spot Suezmax fixture tallies have averaged 25% above the weekly average during the first nine months of the year – and the four-week moving average now stands at 44% above the average of the first nine months of the year. Rates on the WAFR-UKC route surged ahead 17.5 points to conclude at ws110. With charterers expected to remain active through the upcoming week to cover requirements ahead of the holidays, rates could remain firm.

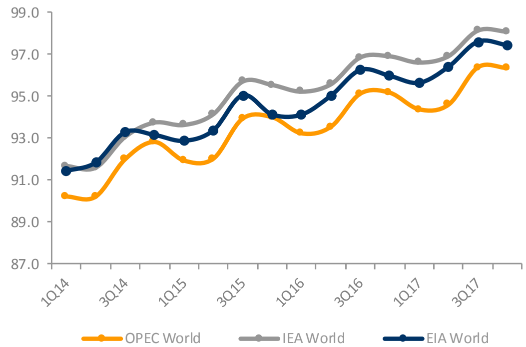
Aframax

Despite a w/w drop in total fixtures, a relatively robust start and steady, albeit lower, demand thereafter coupled with lower availability to support incremental rate throughout the week. The availability drop followed a number of units having previously ballasted to European markets where TCEs were at a considerable premium. Just as rates in those markets corrected, those in the Caribbean firmed with the CBS-USG route adding 17.5 points to conclude at ws112.5. The gains were guided by early strength for rates on voyages from the region to Europe (in light of the souring onward trade prospects), which extended to intraregional rates. The market remains firm at the close of the week and with charterers expected to be busy during the upcoming week to cover requirements ahead of the holidays, rates appear poised for further upside.

Projected OECD Oil Demand



Projected World Oil Demand



Panamax
Rates in the Caribbean Panamax market were markedly stronger this on the back of elevated demand and tighter supply. Rates on the CBS-USG route surged north by 22.5 points to conclude at ws140. Given expectations for a pre-holiday rush, rates appear poised to remain firm through at least the start of the upcoming week with the extent of fresh demand likely to determine the direction rates take thereafter.

MR
Demand in the USG MR market rebounded this week, rising 27% w/w to 38 fixtures. Of these, fixtures for voyages to Europe were unchanged for the fourth consecutive week while those to Latin American and the Caribbean accounted for 34 (+25%, w/w) and the remainder were yet to be determined. Demand for voyages to ECMex was notably low for the second consecutive week. Surging demand in the UKC market saw rates there accelerate and increased that region's attractiveness as a ballast destination for units freeing on the USAC, leading to greater competition for these units between the two regions and supporting rate gains in the USG market. The USG-UKC route added 15 points to conclude at ws100 and the USG-POZOS route added $100k to conclude at $500k. Two-week forward availability view at the close of the week shows 32 units available, representing a 24% w/w decline and the fewest in five weeks. With charterers expected to be busy during the upcoming week ahead of the holidays, rates appear poised to continue to observe gains.

REPORTED TANKER SALES

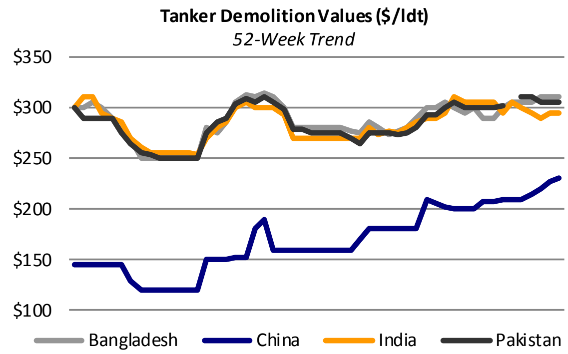
"BW Ulan" – 299,325/00 – Daewoo – DH
-Sold for $24.0m to Indian buyers (Seven Islands Shipping Ltd.)

"Aegean Pride" – 105,302/99 – Samsung Geoje – DH
-Sold for $10.5m to undisclosed Chinese buyers.

"Oriental Clematis" – 14,227/06 – Asakawa Imabari – DH – IMO II/III
-Sold for $13.5m to Japanese buyers (Maruta Industries Co. Ltd.).

REPORTED TANKER DEMOLITION SALES

FPSO **"Petrobras XXXIV"** 45,163/59
-Sold on private terms basis as is, Brazil. Unit converted from oil tanker in 1979.



[1]Monthly triangulated VLCC AG-USG/CBS-SPORE/AG TCE averages based on current-month aveage CBS-SPORE assessments and prior-month AG-USG assessments to reflect the earnings reality for units engaged in this trade.

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