MRs: Hope on the Horizon

Weekly Tanker Market Report

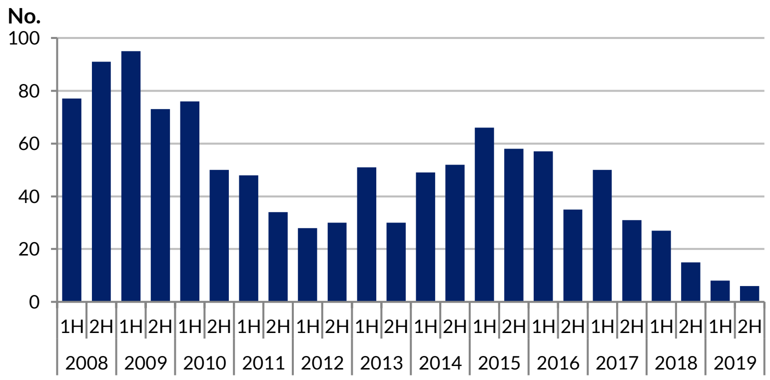
The developments in the MR segment (25,000 to 55,000 dwt) have been rather disappointing since early 2016. TCE earnings across a number of key routes have frequently flirted with the operational breakeven, although the winter season has brought with it some temporary relief. The factors behind the weak market are known. On one hand, we are seeing continued strong increases in supply across all product tanker sizes and cannibalisation between them. On the other hand, demand continues to suffer from swollen land based stocks, accumulated since 2015. Although overall global inventories have started to dip in recent months, some areas remain heavily oversupplied, limiting trade and arbitrage opportunities.

So when the tide turns in the owners' favour? On the macro level, much will depend on demand factors, such as growth in product consumption, the level of stocks, refining developments and regional product imbalances. Although global oil demand is expected to continue to grow, elevated inventories and delays to start-ups of new export orientated refining projects, particularly those in the Middle East – all suggest that the major uplift in the product tanker demand is not quite on the cards yet.

However, aside from demand, we also have supply side developments which are starting to look a little bit more encouraging, at least for MRs. A multiyear period of intense deliveries is drawing to a close. Limited investment in new tonnage between 2014 and 2016 means that the MR orderbook now is at its lowest level at least since 2005 - at just 6.5% relative to its current size, with existing orders almost entirely in the larger 40,000 to 55,000 dwt segment. The vast majority of these units are scheduled for delivery over the next 18 months, translating into a much lower delivery profile relative to what the market has witnessed in recent years.

New MR Deliveries (25,000 - 55,000 dwt)

Actuals + Scheduled Delivery of Current Orderbook



At the same time, prospects for tanker demolition are also improving. In the near term, scrapping activity will remain primarily driven by earnings at the time and as such a prolonged period of weak market conditions could facilitate demolition activity. Furthermore, around 6% of the trading MR fleet is over 20 years of age and these units are now more vulnerable to near term scrapping than ever before. This is due to the Ballast Water Management (BWM) convention which will come into force in September this year. Certainly, these aging ladies are highly unlikely to install a BWM system so late in their trading life; while the economics of de-coupling the renewal of the IOPP certificate from dry docking to delay BWM installation are questionable.

The analysis of deliveries, the age profile and factors affecting demolition all suggest the potential for flattening MR supply over the next 18-24 months, which will improve the supply/demand balance. The expectation of continued growth in larger product tankers over the same period (due to a later surge in ordering activity) could offset these developments. However, competition from the larger sizes may have a limited effect due to port restrictions on some key trades in the Mediterranean, Baltic and the UK Continent, one of the primary markets for smaller MR tonnage.

A word of caution… Newbuild prices have fallen to their lowest level since 2004, the orderbook is minimal and there is strong potential for major increases in demolition post 2020 due to the combined effect of the BWM legislation and IMO global sulphur limits, all this offers an attractive investment proposition in new tonnage. As such, we could see an increase in speculative and counter-cyclical ordering, which if "overcooked", could lead to another period of strong growth in MR supply in the medium term.

Crude Oil

Middle East

February VLCC fixing came to an effective close early in the week and Charterers then largely retreated to await full March confirmations which will be fully in hand from the re-start next week. The quiet interim phase started to work against sentiment and rates began to fall off to ws 34 to the West and towards ws 70 to the East with further deterioration on the cards. Suezmaxes failed to make any headway on spasmodic demand and easy supply. Rates slid sideways in the low ws 70's East and ws 40 to the West - again with no early relief likely. Aframaxes worked well ahead, but in doing so left a number of comrades behind and their continued presence kept rates at no better than 80,000 by ws 115 to Singapore accordingly with no significant change likely over the near term.

West Africa

Suezmaxes really had thought that they'd done enough to provoke Charterers into a meaningful shopping spree, but just as their hopes were up, the anticipated extra demand failed to materialise and Owners were left clinging on to 130,000 by ws 75 to the USGulf and ws 80 to Europe. Perhaps their luck will change next week, but there could be further downside first. VLCCs played gently within a tight, low ws 70, rate range to the Far East and $3.1 million to West Coast India, but confidence was knocked by the late week dip in the Middle East and there could be some discounting within short.

Mediterranean

Aframaxes remained firmly capped through the week, but eventually the steady drip feed of enquiry started to rebalance lists and there is at least some potential for a modest gain over the coming period. Suezmaxes found it all a bit slow and tedious and the puncturing of West African ambitions didn't help either. Rates drift sideways for now at 140,000 by ws 80 from the Black Sea to European destinations with down to $3 million asked for runs to China.

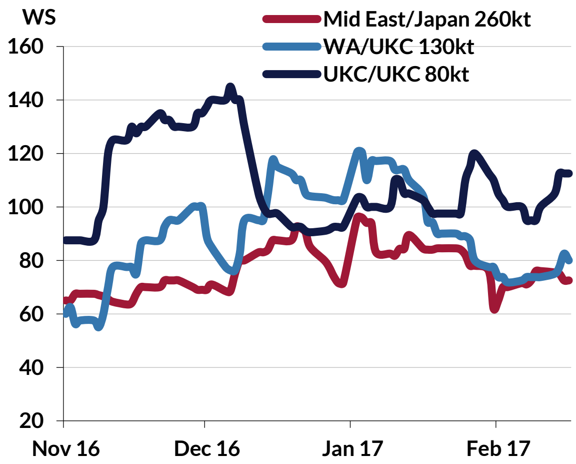
Caribbean

An initial sideways shuffle, then a small step up and then a more significant surge for Aframaxes to enjoy. 70,000 by ws 150 upcoast now and Owners could/should remain on a roll for a short while at least. VLCCs found very little - again. Replacements were occasionally called upon, but even those failed to prevent rates from easing to $4.5 million to Singapore and to $3.6 million to West Coast India and there may yet be more fat to trim.

North Sea

A bright-ish start for Aframaxes to shift rates up to 80,000 by ws 112.5 X-UKCont and to 100,000 by ws 115 from the Baltic, but there was some late week deceleration for Owners to contend with and there is likely to be a slightly lower compromise rate in place for the start of next week. Little activity on VLCC 'arb' movements, but $3.6 million was reported for fuel oil from Rotterdam to Singapore and $4.95 million was seen for crude oil from Hound Point to South Korea.

Crude Tanker Spot Rates



Clean Products

East

The MRs this week have played second fiddle to a thriving LR market. The positive aspect for the smaller tonnage is that they have faced less competition, especially from the LR1s, for shorthaul, so tonnage has managed to disappear at a moderate pace. No-one would call the market particularly exciting by any means though. Westbound has been the only route which has firmed, sitting now at $1.05 million ex Kuwait. Other routes have not fared as well, with a X-Qatar on subs at $150k, and EAF now on subs at ws 158. Red Sea runs have been on subs and failed at $430k, but with the Red Sea remaining the only relatively firm loading area for MRs East of Suez, it is not an undesirable place to open up for an MR Owner. TC12 runs have taken a real hit today, with ws 132.5 now repeated headed East. What the MRs could really do with now is the stimulus of the LRs to continue firming, which will ease the downward pressure on them, and allow them to try and hold these rates which at the moment continue to be put under pressure.

The LRs have had a busy week, which has seen the LR2s in particular thin and rates pushed up considerably. Naphtha runs have been popular, and 75 x ws 120 has been repeated several times this week. However, with one ship pulling away from a TC1 cargo to fulfil own programme commitments, there is every likelihood that this will be further pushed up towards the ws 130 level. TC5 has also seen a fair level of firming, and we are now seeing 55 x ws 125 the market level for naphtha. An interesting situation remains however, whereby most tonnage which remains in February is last UMS, so are unable to lift naphtha. Singapore rates are therefore trading independently from Japan trades, and the usual differentials therefore do not apply. UMS to Singapore is actually a sought after cargo for those with last UMS, and Singapore cargoes are on subs at ws 125. Red Sea, like the MRs, is looking relatively tight, and we have seen ws 132.5 on subs to Japan ex Red Sea. If we see more naphtha stems next week this market will get very interesting.

Mediterranean

Rates for the Handies managed to hold for the first part of the week with 30 x ws 140 being maintained for X-Med voyages whilst bad weather in the Baltic Sea maintains rates around 30 x ws 152.5. Despite good levels of fixing for the first 3 days fresh enquiry dwindled at the mid-week point tonnage started to be recycled meaning Charterers have been able to successfully apply negative pressure finishing off 30 x ws 135 and 30 x ws 150 with both rates looking soft going into IP week.

Enquiry has been quieter in NWE and the same can be said of MR action in the Mediterranean. Rates seen to Brazil softened by 5 points early in the week to finish 37 x ws 145. Red Sea enquiry has been light and now going for low lumpsum $600K. Tonnage continues to be well supplied for the amount of cargo available keeping rates depressed into a seemingly quiet week 8.

UK Continent

As week 7 comes to a close, MR Owners will feel relieved as we have seen negative pressure throughout. With a slow demand for TC2 runs all week with the gasoline arb being shut, Owners had to be a little more creative to find employment. WAF runs have been consistent thankfully, but excess tonnage has caused rates to fall and by the close of play we see a range of 37 x ws 135-145. Baltic stems have not been able to demand the premium Owners would be expected to see at this time of year and settle at 40 x ws 140, with TC2 at 37 x ws 130. With a bottomed states market, ballasters have been a constant thorn in

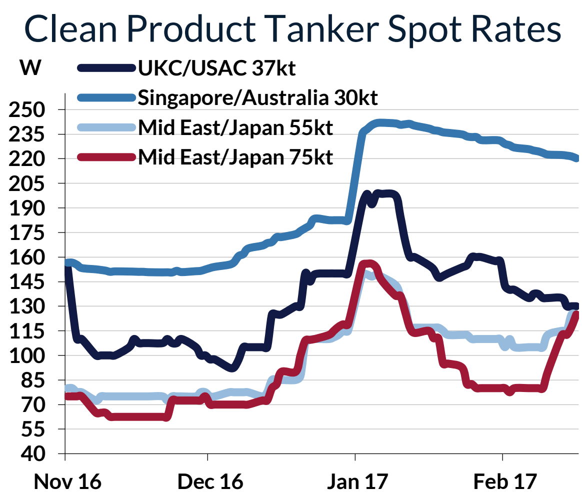
Owner's sides as fresh tonnage have been steadily available. Looking ahead, if we are to see any improvement on rates we are going to need an influx of transatlantic runs to clear out excess ships.

Overall a good week for Handy ice tonnage as enquiry has been steady and the front end of the tonnage list as remained tight. Off natural fixing the market has been consistent and has fixed at 30 x ws 175, but those looking off prompt dates found it more challenging to find employment as 30 x ws 180 was concluded. A slow week for non-ice Handy tonnage as levels have traded around the 30 x ws 165 mark, for now the market remains flat.

Another classic week has occurred in the Flexi market as spot volume has remained super light and the dominance of contract cargoes were ever present. 22 x ws 207.5-210 seems to be a fair reflection of the market at close of business today, but with prompt tonnage now starting to build expect further pressure to be applied heading into week 8.

LRs

Week 7 has been fruitful for LR Owners in the West. There has been a strong improvement in LR1 enquiry through a combination of UMS ARA/WAF runs and demand for both UMS and naphtha coming from the East. Much of the workable tonnage has been either snapped up by Charterers or is waiting to get theirs subjects today. Owners have managed to steadily improve rates over the course of the week as options have thinned. TC16 had fallen to ws 107.50 on Monday, however, there are now reports of an LR1 on subjects at 60 x ws 120 for a Mongstad/WAF run. Rates for trips to the East have also been given a few fresh tests with levels sitting at around $1.45 million for ARA/Spore and $1.65 million has been fixed for a Black Sea/Japan run. All eyes remain heavily fixed on whether vessels get their subjects or not and although there are few outstanding cargoes left this side of the weekend, Owners are pretty bullish. LR2s have been trading steadily for a little while now in the West as the workable tonnage/cargo ratio has been pretty balanced. However, a few extra naphtha cargoes have been dealt into the market which has enabled Owners to push rates up a touch. MED/Japan rates are now sitting at $2.1 million. If further enquiry is seen, rates will continue to firm during week 8.



GIBSON SHIPBROKERS

Dirty Products

Handy

A lackluster week for this sector where limited activity illustrated tonnage lists not portraying an honest reflection of availability. The markets therefore reacted with uncertainty as levels were negatively tested between deals, where at time of writing the next cargo will undoubtedly test the market gain unless activity on Monday ramps up considerably.

Despite activity ticking along steadily in the Mediterranean this region just could not handle the number of vessels free to work in order to starve off negative correction, (much to Owner's dismay). Looking ahead at trading conditions, next week looks to remain unchanged as tonnage stocks are likely to replenish too quickly for Owners to be able put up credible challenge in restoring any order.

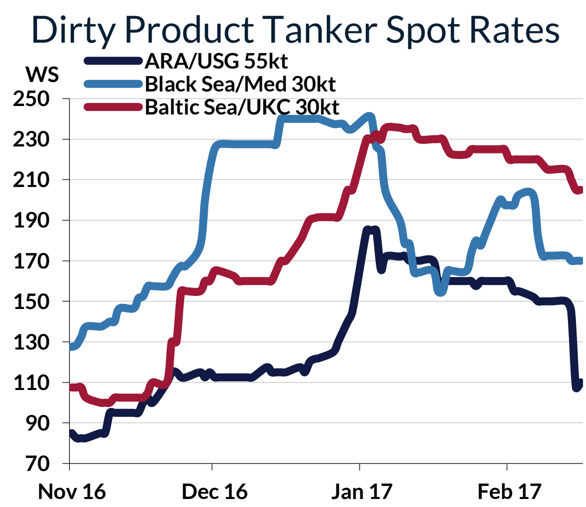
MR

Sporadic fixing in the Continent shows a market holding value between deals as intermittent positioning of natural tonnage creates an underlying strength Charterers cannot avoid. Fixing ahead in this market has proved a wise option as come Friday some Charterers are left considering coverage on alternative sizes.

In the Mediterranean those Owners who opted to move on part cargoes immediately upon this week’s opening may have just performed a chartering masterstroke! As with such limited natural sized enquiry and the Handies shedding value where the week progressed, those early deals now look rather good. This said, with this week concluded, however, and levels being corrected down, it is looking more probable that a floor has been found.

Panamax

The Panamax sector has seen some severe correction in rates over this side of the Atlantic by measurement of arguably most negative volatility seen this year to date. One of the main culpable causes is down to inactivity although with the Caribs soft which combined with a stuttering surrounding Aframax market, both combined only to still both markets at large. This said, since levels had corrected down conditions do seem to be improving on the back of increased activity on both sides of the Atlantic, with increment now expected on next done. Furthermore, we can finally report a full transition on to using the 2017 Worldscale schedule (but depending on the Owner you talk to there is still some work to be done with the fixed differential on discharge options required). The outlook for next week is somewhat on a knife edge as outstanding enquiry is likely to roll over to next week's trading.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 16th	Feb 9th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	74	76	82	65
TD20	Suezmax	WAF-UKC	**+9**	81	73	112	80
TD7	Aframax	N.Sea-UKC	**+14**	111	97	101	106

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

			wk on wk change	Feb 16th	Feb 9th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2,750**	33,000	35,750	40,250	24,250
TD20	Suezmax	WAF-UKC	**+2,750**	15,250	12,500	28,750	14,750
TD7	Aframax	N.Sea-UKC	**+10,750**	18,000	7,250	12,500	14,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 16th	Feb 9th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+45**	125	80	118	
TC2	MR - west	UKC-USAC	**-7**	130	137	174	135
TC5	LR1	AG-Japan	**+14**	122	108	118	119
TC7	MR - east	Singapore-EC Aus	**-4**	220	224	241	

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

			wk on wk change	Feb 16th	Feb 9th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+11,000**	14,000	3,000	12,250	
TC2	MR - west	UKC-USAC	**-1,000**	6,750	7,750	13,500	7,250
TC5	LR1	AG-Japan	**+2,000**	8,500	6,500	7,750	7,750
TC7	MR - east	Singapore-EC Aus	**-250**	11,000	11,250	13,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+8**	311	303	308
ClearView Bunker Price (Fujairah 380 HSFO)	**+8**	336	328	336
ClearView Bunker Price (Singapore 380 HSFO)	**+3**	329	326	340
ClearView Bunker Price (Rotterdam LSMGO)	**-1**	481	482	463

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