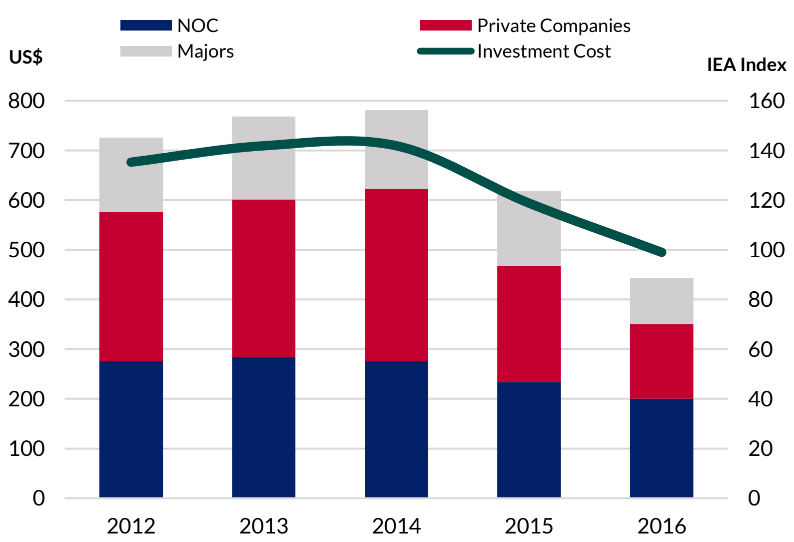
Crunch Time
Weekly Tanker Market Report

The global oil markets have been digesting the impact of the OPEC led production cuts, which were hoped, would push up prices whilst absorbing some of the excess global supply. Whilst the concern right now is too much oil, over the horizon the opposite could be true. Lower oil prices over the past few years have resulted in lower investment, leading the IEA to warn of a potential oil supply crunch in the next 3-5 years.

Evidently, investment in conventional oil exploration and production has declined over the past two years. Conventional oil refers to oil produced by traditional drilling methods both on land and offshore. Often these are long term projects requiring high levels of CAPEX, with long payback periods. The IEA estimates that yearly global oil and gas investment dropped by a quarter in 2015 and by an additional 26% in 2016. Meanwhile, oil demand is forecast to grow steadily year-on-year at an average rate of 1.2 million b/d per annum through to 2022.

Upstream Investment and IEA Oil Investment Cost Index



While the oil majors have not simply stopped investing in oil and gas completely, a greater emphasis has been placed on investment in short-cycle projects such as shale oil, which offer quicker returns and less long term risk. Chevron recently announced it would focus spending on short-cycle projects in the US Permian Basin, a view echoed by ExxonMobil, who confirmed a $6.6 billion acquisition of oil fields in the same region. Although the potential of these projects is undoubted, this is not considered enough to fill a potential future supply shortage at current oil price levels.

If new oil supply is not brought online to meet future demand, markets will begin to place an ever-greater reliance on Middle East OPEC producers. On one hand this could be good news for VLCC demand out of the region. However, the cost might be fewer loadings from West Africa and Caribbean/Latin America to the East, where investment levels have been trimmed over the past two years. Furthermore, OPEC spare capacity would be reduced, limiting their ability to intervene during times of market instability.

Thankfully oil industry costs are pro-cyclical and the cost of everything from labour to field services, raw material and spare parts tend to rise and fall with the price of oil. This cycle has helped reduce shale investment costs and also offers hope for future conventional oil investments. Royal Dutch Shell, Chevron and ExxonMobil have all recently signaled their intent to return to deep water drilling in the Gulf Mexico with big investments.

It may be a little too early to tell what this means for tanker markets and where the actual balance will lie in terms of the trade flows in the medium. However, one thing is clear. The Middle East will continue to play an important role, with crude exports out of the region remaining one of the key demand drivers for the crude tanker market.

Crude Oil

Middle East

Only moderate VLCC fixing volumes and not nearly enough to eradicate the supply over-hang that had already negatively impacted. Owners therefore came under more pressure and rates cracked again under the strain - now down into the low ws 40's East and mid ws 20's West reflecting the lowest TCE's since last summer. Things look to continue challenging over the near term, at least. Suezmaxes chipped lower to the East at down to ws 82.5 and then Owners turned their attention to fighting for West runs to leave rates at little better than ws 37 with no positives in early sight. Aframaxes remained busy, but failed to move past last week's peaks. 80,000 by ws 125 now to Singapore, but lists are once again tightening and modern units will try again next week.

West Africa

Suezmaxes were initially aided by a slew of 'injection' barrels, but once covered, the market reverted quickly back into defensive mode and rates ended at no better than last week's marks, down to ws 82.5 to the USGulf and to ws 87.5 to Europe with Eastern ballasters beginning to threaten in larger numbers too. VLCCs started bravely, but once the AGulf took another hit, Owners quickly came into line to accept rates into the low ws 50's East with runs to West Coast India marked at around $2.5 million. Another tough week ahead as it looks now.

Mediterranean

Aframaxes here benefitted from extra port disruption and good early-week interest. Rates ramped up to 80,000 by ws 120 cross Mediterranean and would have gone even higher, but for a tailing of interest into the close. Suezmaxes were also reasonably active and managed to ignore the flat West African and AGulf scenes to keep rates at, or a little above, 140,000 by ws 92.5 from the Black Sea to European destinations with perhaps a modest degree of further upside possible.

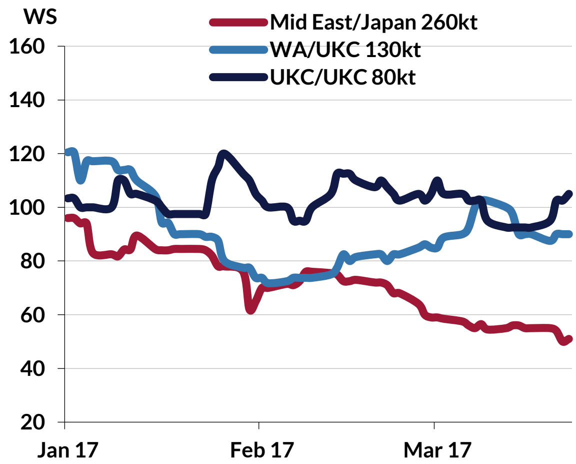
Caribbean

A dull week for Aframaxes that consistently, and easily, outweighed demand. Rates slid off to 70,000 by ws 95 upcoast and stayed there for the back half of the week with danger of further erosion still lurking. VLCCs surprisingly kept to their previous marks of no less than $4 million to Singapore and $3.1 million to West Coast India despite the reductions elsewhere. It may be a hard line to again maintain into next week though.

North Sea

Aframaxes tried to push, but couldn't gain as much grip as in the Mediterranean and only very modest improvement ended being posted. 80,000 cross North Sea moves at around ws 105 with 100,000 ex Baltic at ws 95 - ish. Attempts were made to cover VLCCs for fuel oil to Singapore, but the 'arb' economics crumbled and on subs rates of $3.45 million failed to make the grade leaving a substantial funding gap to be filled - most likely by a reduction from the Owners' side next week.

Crude Tanker Spot Rates



GIBSON SHIPBROKERS

Clean Products

East

A mixed bag this week on LRs starting with expectations of a slight downturn, but ending having firmed back up, against most expectations. 55,000 mt naphtha AG/Japan is now back to ws 135 and 65,000mt jet AG/UKCont is up to $1.25 million, with both likely to see more upside next week. 75,000 mt AG/Japan is at ws 110 and 90,000 mt jet AG/UKCont is now $1.60 million and is expected to remain steady for the short term, but into mid-April rates may rise as lists are looking thinner.

An interesting week on the MRs - the number of cargoes which have appeared and been taken on subs has been well balanced to the arrival of tonnage, and yet we have seen rates soften slightly on certain routes. Given the strong level of activity in the West, UKCont and Med market, Owners are willing to take cheaper West rates for a good reposition. Rates are moving towards the $1 million level, sitting currently around $1.25 million. EAF has also come off to ws 170 - down 5 points. However, this is due to the fact that all cargoes were looking to be in the end-early window, and the appearance of a 26 March stem was met with fierce competition amongst Owners with tonnage still open. Red Sea runs still sit at the $450k level, and shorthaul has bounced around $175-200k dependent on grade and dates. TC12 has bumped around ws 137.5 - some Owners saying that they would prefer to keep tonnage local. With LR1s looking to be on the up, we may see Owners try to push rates in the new week, but they will also be wary of the fact that there are a few good ships remaining who have missed their opportunity to trade on a natural window.

Mediterranean

A rather spicy week has occurred for Handies in the Mediterranean as cargo enquiry has remained strong which have enabled Owners to continually push the market northwards. With a number of vessels showing uncertainty at the start of the week due to delays in ports/Turkish Straits and traders looking to finalise their Q1 book, market fundamentals swung heavily into the owning fraternity. After pasting the mid-week stage, X-Med was trading at 30 x ws 270-275, but this wasn't the highest as a prompt replacement achieved 30 x ws 300. Black Sea also looked very tight of end/early dates and rumours flooded the marketplace of 30 x ws 300 being on subs a couple times. Looking ahead Charterers will be grateful that the weekend is on the horizon and will be hoping that the 2 days extra 'rest bite' will enable more units to turnaround/firm up and be workable come Monday morning. Fresh cargo enquiry will be key here once again.

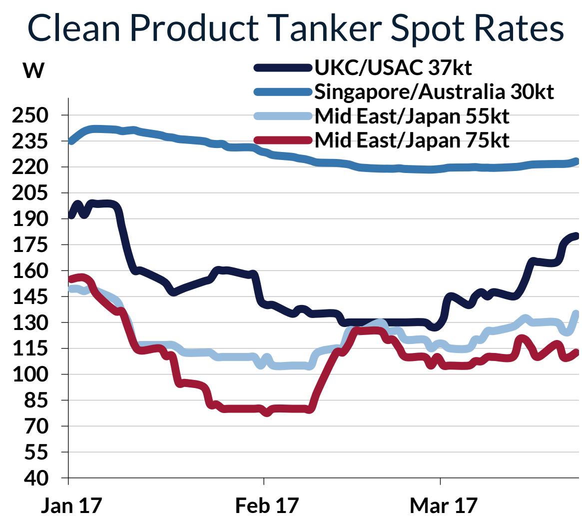
As with the NWE MRs in the Med has also enjoyed a steady flow of enquiry and lack of tonnage leaving Owners in the driving seat when it comes to rates. For the most part, rates have been mirrored to those seen north although a week highlight is a troubled stem that paid 37 x ws 210 from Med/UKCont and 37 x ws 240 for Med/Brazil. Whilst these numbers not be repeated the sentiment on the back of them has had an impression on Owners with any tonnage still around.

UK Continent

Week 12 has brought some good favour to MR Owners in NWE as the week kicked off with good enquiry from a Monday that continued steadily for the duration of the week. The fixing from previous weeks meant Charterers were faced with an already tight tonnage list that shrunk further as the week progressed allowing Owners to apply some positive pressure keeping TC2 37 x ws 190 with any prompt requirement likely to pay well into the 200's. The same can be said of WAF runs now paying 37 x ws 220 and although Baltic/UKCont has been a touch quiet, a lack of tonnage will leave Charterers paying around 40 x ws 210. Friday looks set to stay quiet due to the standoff between Charterers and Owners, although there is some positivity that Owners will take into next week.

An active start to the week for the Handies in the UKCont with demand for Ice Class tonnage outweighing availability. With this, rates have managed to pick up to break 30 x ws 200 by the end of the week ex Baltic with X-UKCont runs remaining in the shadows in excess of ws 185. Owners continue to apply the pressure with every fresh enquiry, but as we have seen many times before, the end of week supply of stems has slowed, leaving us waiting to see where next done levels land. With tight MR options also for Charterers, expect demand to continue into week 13 and Owners being able to hold where we are presently.

With a busy Handy market exciting Owners, it perhaps is not a surprise to see rates gently pick up for the Flexis. Demand has been consistent, mainly through COA runs, with the few market stems appearing showing strength at 22 x ws 215. Looking ahead some Owners may be setting their targets significantly higher, but for now we hold here and await next done.



Dirty Products

Handy

Starting the week with a firm sentiment, operators of tonnage in the North were optimistic that there may be an opportunity to raise the bar again where tonnage stocks had looked somewhat depleted. The reality of the week's trading however proved to be something of a let-down where inactivity re adjusted the supply ratio back in Charterers favour. The subsequent result of this is that the market is not situated some way short of where the week begun, leaving Owners with a challenge next week if they are not to lose ground.

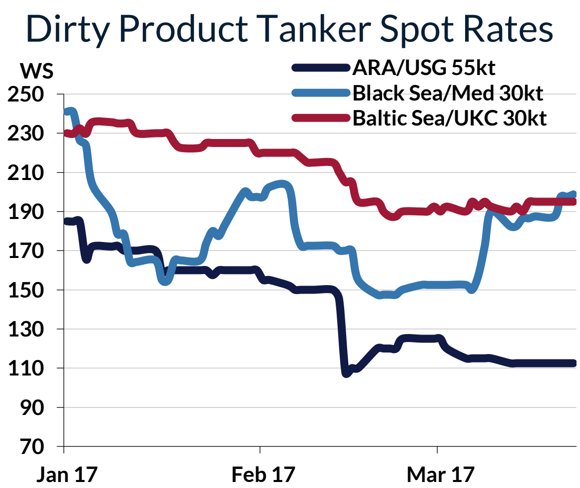
In the Mediterranean momentum continued to gather pace where Charterers had been presented with logistical challenges in covering prompt dates from the Black Sea. Naturally, any operator with a unit in position sensed an opportunity to maximise their returns on this occasion, with prevailing rates touching the ws 200 realms. A by-product of this was also seen where X-Mediterranean values adjusted positively with Charterers being forced to match potential earnings for Owners on offer elsewhere. Looking ahead however, Charterers are going to be slightly more optimistic where Turkish Strait delays have reduced back down to more normal transiting times.

MR

Owners of this size of vessel have been more successful at keeping this region ticking over and actually towards the end of the week despite seeing minimal natural sized activity within this sector, the region looks tight off prompt dates. If we were to get our crystal ball out then the forecast for next week might just be in Owners favour. This theme is echoed in the Mediterranean where at the end of this week securing a firm MR is somewhat of a challenge. The weekend will give Charterers a chance to breath while the position list catches up with the recent activity, but Owners are likely to put pressure on last done rates albeit incrementally.

Panamax

It's probably a fair statement to suggest that week 12 will be resigned to the history books without much thought, as where trend is concerned, we see zero movement from continuous repetition at the ws112.5 mark. In addition, one of the main drivers for movement on the Europe / transatlantic route, the Caribs/USGulf move, also seems to be in the doldrums where a flat trend prevails at market bottom numbers. For now, then conditions aren't too difficult for Charterers where the only chance of volatility is likely to come from prompt opportunity barrels or replacement business.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 23rd	Mar 16th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-7**	48	55	70	56
TD20	Suezmax	WAF-UKC	**-0**	91	91	81	93
TD7	Aframax	N.Sea-UKC	**+15**	108	92	101	102

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

			wk on wk change	Mar 23rd	Mar 16th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-4,500**	14,750	19,250	29,250	20,250
TD20	Suezmax	WAF-UKC	**+500**	21,500	21,000	15,500	22,250
TD7	Aframax	N.Sea-UKC	**+11,750**	17,000	5,250	10,500	12,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 23rd	Mar 16th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-3**	113	115	115	
TC2	MR - west	UKC-USAC	**+33**	196	163	130	164
TC5	LR1	AG-Japan	**-1**	131	132	126	125
TC7	MR - east	Singapore-EC Aus	**+2**	223	221	219	

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

			wk on wk change	Mar 23rd	Mar 16th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-500**	11,750	12,250	11,500	
TC2	MR - west	UKC-USAC	**+5,500**	18,000	12,500	6,750	13,000
TC5	LR1	AG-Japan	**+0**	11,000	11,000	9,000	10,000
TC7	MR - east	Singapore-EC Aus	**+250**	11,500	11,250	10,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-11**	270	281	306
ClearView Bunker Price (Fujairah 380 HSFO)	**-5**	293	298	334
ClearView Bunker Price (Singapore 380 HSFO)	**-7**	295	302	330
ClearView Bunker Price (Rotterdam LSMGO)	**-9**	435	444	483

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