WEBER WEEKLY TANKER REPORT
CHARLES R. WEBER COMPANY, INC.

WEEK 28 – 14 July 2017 ISSUE 28 – 2017

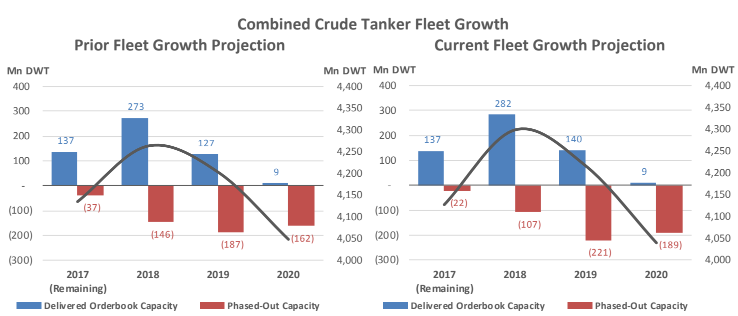
IMO Ballast Water delay prompts revision of intermediate-term tanker supply view

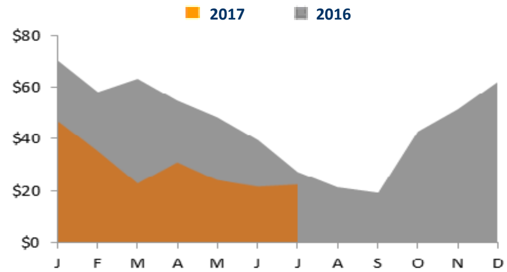
In a development that caught many industry participants off guard, the IMO agreed last week to urging by a number of flag-states to delay enforcement of Ballast Water Management Convention (BWMC) compliance for existing vessels from September 2017 to September 2019. Compliance for existing vessels calls for the fitting of Ballast Water Treatment systems from their first International Oil Pollution Prevention (IOPP) renewal survey after the enforcement date. Given the cost and lost time associated with BWT fittings, it had been a wide industry assumption that the mandate would hasten the phasing-out of older vessels, which already face higher maintenance costs than their younger counterparts.

Indeed, the September 2017 enforcement date had comprised a major component of the projected phase-out timeline, particularly coming amid a challenging earnings environment for tankers amid a high pace of newbuilding deliveries. In light of the change, we have revised our granular, unit-specific view of tanker phase-out projections and have pushed forward a number of units' projected phase-out dates accordingly. In tandem, we have accounted for the fact that many aging units have completed major maintenance intervals recently, as well as the fact that owners of older units have shown an evident reluctance to phase-out vessels on economic factors. Many of the older constituents of tanker fleets offer their owners comparatively low daily break-even rates than their newer counterparts (being fully depreciated and/or facing low or no debt servicing requirements) and are often deployed to niche trades, which can be lucrative on this basis.

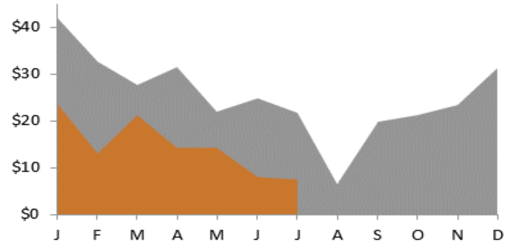
Our age-related phase-out target varies by asset class and is subject to the owner and deployment profile of each unit, but is generally 22.5 years with a decline to 20 years by 3Q19, when BWT comes into play – just ahead of the 2020 global 0.5% sulfur cap mandate, which brings its own set of compliance issues. This will likely maintain supply-side headwinds into 2019, with a progression into a sustainable earnings recovery not envisioned until 3Q19. The segments that stand to be most adversely impacted by the revised view are the Suezmax and Aframax classes – which already stood to face the greatest forward supply-side headwinds from a robust newbuilding delivery profile.

Prior to our revision, we projected that the Suezmax fleet would observed net growth of 10.0% and 1.6% during 2017 and 2018, respectively; our revised projections are 11.9% and 2.1%. The Aframax class was previously projected to post net growth of 6.1% and 0.3% during 2017 and 2018, respectively while the revised figures stand at 6.3% and 3.0%. VLCC fleet growth revisions are more moderate and include a higher YTD pace of phase-outs than previously expected (due, in part, to some recent conversions and demolition sales). We previously projected that the VLCC would post net growth of 6.0% and 5.1% during 2017 and 2018, respectively, while our present projections are for 4.8% and 5.7%.

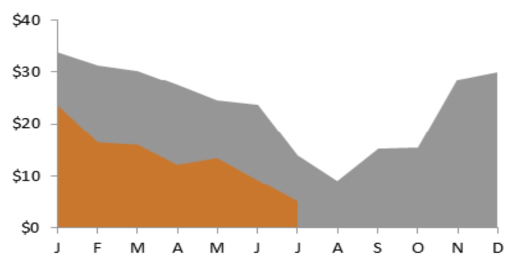




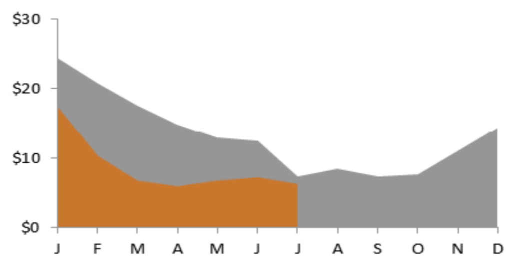
VLCC Average Earnings | MTD Average ~$22,093/Day | Month y/y ▼ -20%



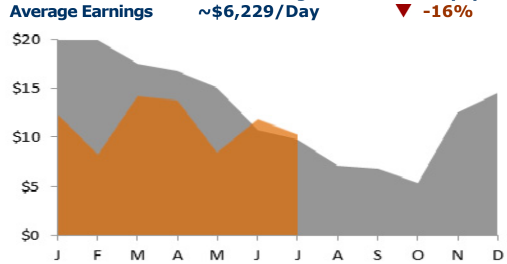
Suezmax Average Earnings | MTD Average ~$7,723/Day | Month y/y ▼ -64%



Aframax Average Earnings | MTD Average ~$4,613/Day | Month y/y ▼ -67%



Panamax Average Earnings | MTD Average ~$6,229/Day | Month y/y ▼ -16%



MR Average Earnings | MTD Average ~$10,595/Day | Month y/y ▲ +8%

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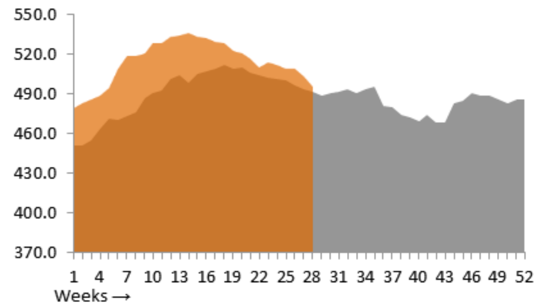
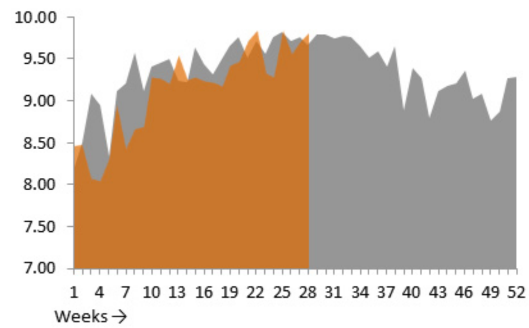
Spot Market	WS/LS	TCE	WS/LS	TCE
VLCC (13.0 Kts L/B)	7-Jul		14-Jul	
AG>USG 280k	25.0	$649	24.5	$(123)
AG>USG/CBS>SPORE/AG	--	$25,698	--	$22,165
AG>SPORE 270k	54.0	$20,808	55.0	$21,359
AG>JPN 265k	52.0	$21,657	52.5	$21,925
AG>CHINA 270k	54.0	$20,521	55.0	$21,069
WAFR>CHINA 260k	60.0	$27,116	55.0	$22,744
CBS>SPORE 270k	$3.50m	--	$3.20m	--
VLCC Average Earnings		*$22,770*		*$21,827*
SUEZMAX (13.0 Kts L/B)				
WAFR>USG 130k	60.0	$9,663	60.0	$9,370
WAFR>UKC 130k	65.0	$7,258	62.5	$5,658
BSEA>MED 140k	72.5	$4,389	72.5	$4,677
CBS>USG 150k	65.0	$12,740	65.0	$12,429
Suezmax Average Earnings		*$8,714*		*$7,867*
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k	90.0	$6,163	90.0	$3,721
AG>SPORE 70k	90.0	$7,293	92.5	$7,708
BALT>UKC 100k	65.0	$6,415	62.5	$4,763
CBS>USG 70k	82.5	$1,882	90.0	$3,861
USG>UKC 70k	60.0	--	65.0	--
CBS>USG/USG>UKC/NSEA	--	$5,706	--	$7,761
MED>MED 80k	75.0	$2,593	82.5	$3,986
Aframax Average Earnings		*$4,889*		*$5,219*
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k	115.0	$1,859	112.5	$1,162
CONT>USG 55k	105.0	$6,402	107.5	$6,694
ECU>USWC 50k	147.5	$10,971	145.0	$10,668
Panamax Average Earnings		*$6,219*		*$6,052*
LR2 (13.0 Kts L/B)				
AG>JPN 75k	95.0	$9,078	93.0	$8,505
AG>UKC 80k	$1.35m	$6,144	$1.35m	$5,801
MED>JPN 80k	$1.75m	$10,821	$1.87m	$12,458
AG>UKC/MED>JPN/AG	--	$14,447	--	$15,434
LR2 Average Earnings		*$10,866*		*$10,813*
LR1 (13.0 Kts L/B)				
AG>JPN 55k	118.5	$8,796	111.0	$7,434
AG>UKC 65k	$1.17m	$5,625	$1.14m	$4,968
UKC>WAFR 60k	122.5	$5,581	126.5	$6,008
AG>UKC/UKC>WAFR/AG	--	$11,745	--	$11,615
LR1 Average Earnings		*$10,270*		*$9,525*
MR (13.0 Kts L/B)				
UKC>USAC 37k	130.0	$6,958	125.0	$5,855
USG>UKC 38k	100.0	$3,396	117.5	$5,643
USG>UKC/UKC>USAC/USG	--	$9,898	--	$11,164
USG>CBS (Pozos Colorados) 38k	$400k	$11,110	$475k	$16,013
USG>CHILE (Coronel) 38k	$1.10m	$14,368	$1.30m	$20,004
CBS>USAC 38k	135.0	$9,551	150.0	$11,782
MR Average Earnings		*$10,037*		*$11,349*
Handy (13.0 Kts L/B)				
MED>EMED 30k	143.5	$10,921	129.5	$7,574
SPORE>JPN 30K	147.0	$6,365	147.0	$6,330
Handy Average Earnings		*$8,005*		*$6,778*

Average Earnings weighted proportionally to regional activity share of each size class' worldwide market (including routes not necessarily shown above).

Time Charter Market *$/day (theoretical)*	1 Year	3 Years
VLCC	$26,000	$29,000
Suezmax	$17,000	$18,500
Aframax	$15,000	$17,000
Panamax	$13,000	$14,000
MR	$13,500	$14,500
Handy	$12,000	$13,000



US Crude Stocks (EIA)	Last Week	Week y/y
	495.4 MnBbls	▲ +0.9%



US Gasoline Demand (EIA)	Last week	Week y/y
	9.786 MnB/d	▲ +1.2%

2017 2016

WEBER WEEKLY
TANKER REPORT

SPOT MARKET SUMMARY

VLCC

The VLCC market commenced with modest rate gains which appeared likely to extent to notable gains as the supply/demand position appeared tight, if tenuous on the demand side. While demand-side fears appear more likely to have been unfounded as indications suggest the July Middle East program will be on-par with our week-ago expectations (of 129 total spot cargoes), the fundamentals have disjointed and further rate gains were halted by charterers neglecting to reach forward into the August program. This meant that few Middle East cargoes were being worked. Just 12 fixtures were reported this week in the Middle East market, marking a 57% w/w decline to the slowest weekly demand period in the region in fourteen months. Meanwhile, chartering activity in the West Africa market was also slower; five fixtures materialized there, representing a w/w decline of four fixtures and the fewest in four-weeks. Amid the slow pace of demand, unit availability rose markedly as a number of internal program units from Asian charterers were relet into the spot market. As a result, whereas last week the July program appeared likely to conclude with as few as eight surplus units, the projection now stands at 15. This is based on 35 units vying for 15 remaining July cargoes with five draws thereof to service West Africa demand expected.

While this week's fresh supply/demand disjointing eroded some of the week's earlier rate gains, the market nevertheless closed in the black – and some further gains may well materialize during the upcoming week. Given that there remain a number of July cargoes outstanding while charterers are expected to start working August cargoes (having failed to reach forward on some of the early August stems as is usually the case), the pace of chartering activity should be busier, potentially lending support due to rate sentiment in tandem. Ultimately, however, with sufficient tonnage available and August's first decade expected to be lighter than the same period during July, any observed strength will likely be short-lived.

Middle East

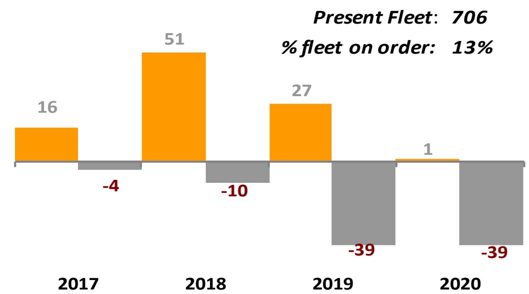
Rates on the AG-JPN route gained 0.5 point from last week's closing assessment to conclude at ws52.5 (having briefly touched ws55 earlier during the week). Corresponding TCEs rose by 1% to ~$21,925/day. Rates to the USG shed 0.5 point to conclude at ws24.5. Triangulated Westbound trade earnings lost 14% to conclude at ~$22,165/day.

Atlantic Basin

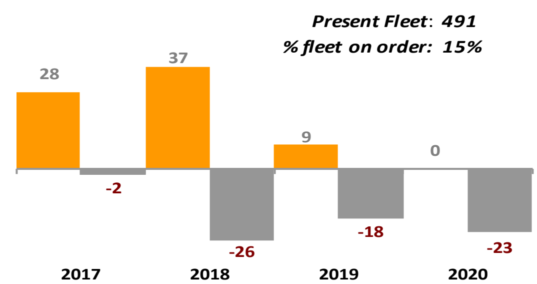
Rates in the West Africa market concluded softer. The WAFR-FEAST route concluded with a loss of 5 points to ws55. TCEs on the route fell by 16% to ~$22,744/day.

Demand in the Caribbean market remained slow for a third consecutive week, leading rates to further modest erosion. The CBS-SPORE route shed $300k to conclude at $3.2m lump sum.

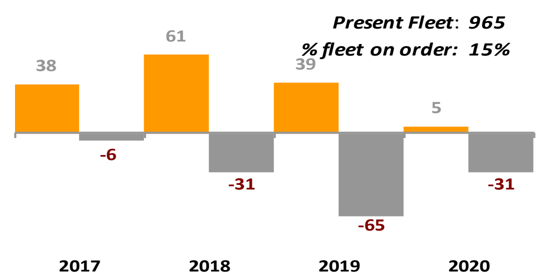
VLCC Projected Orderbook Deliveries/Phase-Outs



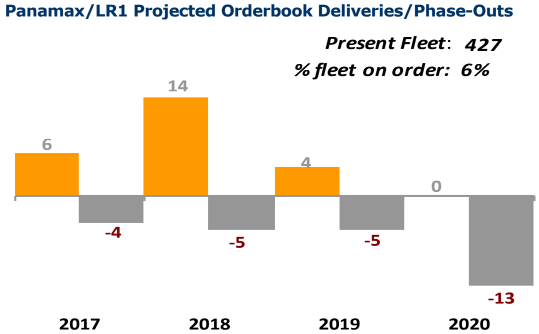
Suezmax Projected Orderbook Deliveries/Phase-Outs



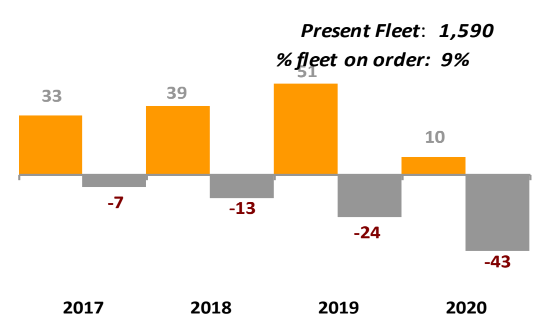
Aframax/LR2 Projected Orderbook Deliveries/Phase-Outs



Panamax/LR1 Projected Orderbook Deliveries/Phase-Outs



MR Projected Orderbook Deliveries/Phase-Outs

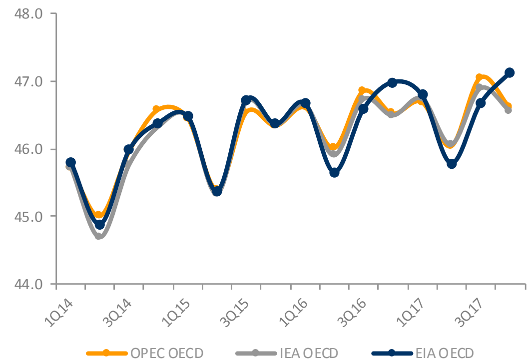


Suezmax

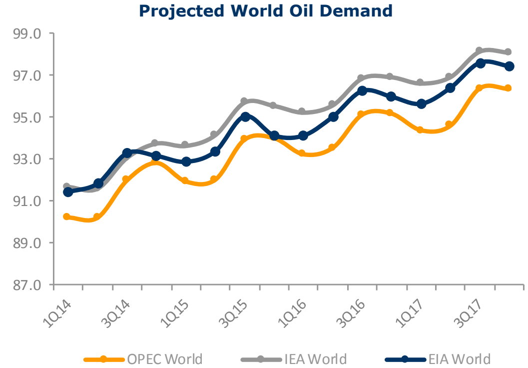
Demand in the West Africa Suezmax market remained strong this week. There were 17 reported fixtures in the region and while this represents a 11% w/w decline, it was 55% above the YTD weekly average. Due to an ongoing oversupply situation, rates posted a modest decline early during the week, though some positive pressure materialized late during the week to allow some routes from the region to recover earlier losses. The WAFR-USG route concluded unchanged at ws60 while the WAFR-UKC route concluded off 2.5 points to ws62.5. Demand appears poised to decline, however, in light of a fresh force majeure on Bonny Light following a halting of flows on the Nembe Creek Trunk Line in Nigeria – as well as a halting of supply from Djeno due to strike action by Total workers and an incident during an SBM loading. Reports indicate that the two streams were scheduled to ship about 403,000 b/d during July. These developments could see some fixtures fail, bringing tonnage back into an oversupplied market. We expect that this will place negative pressure on rates during the upcoming week, though the extent of potential downside will likely be limited by TCEs already below OPEX. The extent of time needed to undertake repairs and affect a labor relations resolution is presently unclear, clouding near-term demand expectations.

In the Caribbean market, rates were steady as regional demand remained elevated, particularly for long-haul extra-regional voyages. The CBS-USG route was unchanged at 150 x ws65 accordingly.

Projected OECD Oil Demand



Projected World Oil Demand



Aframax

The Caribbean Aframax market posted fresh late gains this week after a prompt lightering fixtures was followed by a prompt replacement fixture, which exposed a slightly tighter front-end of the position list. The replacement fixture tested a 7.5-point gain on the week for the CBS-USG route to ws90, which appears repeatable at the close of the week. Overall, however, demand this week remained light; 14 fixtures were reported, or 15% fewer than the YTD weekly average. It remains to be seen if the market will be able to maintain this level at the start of the upcoming week, in light of the usual weekend buildup of fresh tonnage and the absence of more substantial demand levels.

MR

Rates in the USG MR market rallied this week on the back of a sustaining of elevated demand and a modestly tighter position list at last week's close. There were 38 reported fixtures this week, representing a gain of 15% on last week's tally (the latter having been reduced by five fixtures due to failed subjects). Of this week's tally, eight were bound for points in Europe (+2, w/w), 17 were bound for points in Latin American and the Caribbean (-7, w/w) and the remainder were for alternative destinations or have yet to be determined. Rates on the USG-UKC route added 17.5 points to conclude at ws117.5 while those on the USG-CBS route added $75k to conclude at $475k lump sum. The USG-Chile route added a handsome $200k to conclude at $1.3m lump sum.

While the front-end of the position list appears tight, and factored into the support for this week's rate strength, the fundamentals point to a correction once charterers move past near-term dates. We note that there are 49 units with certain availability on a two-week forward basis, representing a 44% w/w gain and the highest tally in three months. Moreover, last week's fixture tally included a large volume of units bound for ECMex, which will eventually conclude their operations and return to the position list. Moreover, the number of units bound for the USAC are rising from recent lows – and those freeing there in the near-term are expected to opt for ballasts towards the relatively strong USG market in lieu of the UKC market. On this basis, USG-area supply appears poised to remain elevated or expand without a similar expected rise in demand, thus influencing a negative rate trend.

REPORTED TANKER SALES

"Phoenix Advance" – 114,024/11 – Hyundai Ulsan – DH
-Sold for $28.0 to Greek buyers (Pantheon Tankers).

"Seaborne" – 106,638/03 – Tsuneishi – DH
-Sold on subjects for $10.9m to undisclosed Indonesian buyers.

"Gener8 Pericles" – 105,674/03 – Sumitomo – DH
-Sold for $11.7m to undisclosed Far East buyers.

"PTI Volans" – 51,224/06 – STX Jinhae – DH – IMO II
-Sold for $15.3m to undisclosed buyers.

"Marlin" – 46,145/00 – Hyundai Ulsan – DH – IMO III
-Sold for $7.0m to Indian buyers (Seven Islands Shipping).

"Global Jupiter" – 13,001/08 – Higaki – DH – IMO II/III
-Sold for $12.0m to undisclosed buyers.

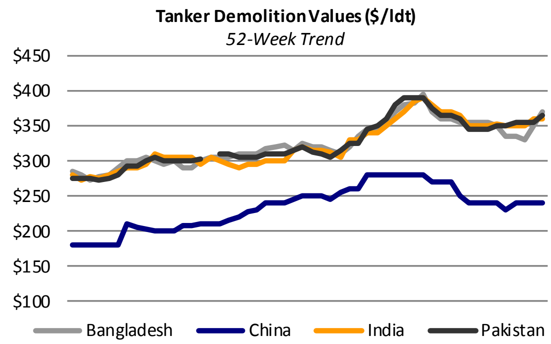
"Sun Jupiter" – 8,833/02 – Usaki – DH – IMO II/III
-Sold for $6.5m to undisclosed Far East buyers.

REPORTED TANKER DEMOLITION SALES

Unknown

"Aura" – 303,184/93 – 39,731 LDT – DH
-Sold for $330/ldt, basis as is, Khor Fakkan.

"Bright" – 299,085/93 – 38,996 LDT – DH
-Sold for $330/ldt, basis as is, Khor Fakkan.



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