

WEBER WEEKLY TANKER REPORT



WEEK 37 – 15 SEPTEMBER 2017

ISSUE 37 – 2017

VLCCs ballasting from Asia to the Caribbean?

Rates in the Caribbean VLCC market have experienced strong gains since early August on the back of a decline in USG arrivals and a strengthening outbound cargo demand, including a 42% rise in average weekly ex-USG cargoes since Q1. The benchmark CBS-SPORE route has risen by 48% to \$4.00m lump sum, even as rates on all other routes have been under strong negative pressure.

Though the Caribbean market's rate gains have failed to stop a decline in average earnings – which at just ~\$10,994/day stand below OPEX levels – the situation presents an interesting development for the VLCC market and represents a positive indicator for performance during Q4. Amid the shortfall in regional positions, nine spot-oriented VLCCs have opted to ballast towards the region from Asia; two of these were fixed for Caribbean market cargoes while they remained available for Middle East cargoes while the remainder were subsequently undertaken speculatively based on potentially better TCE earnings.

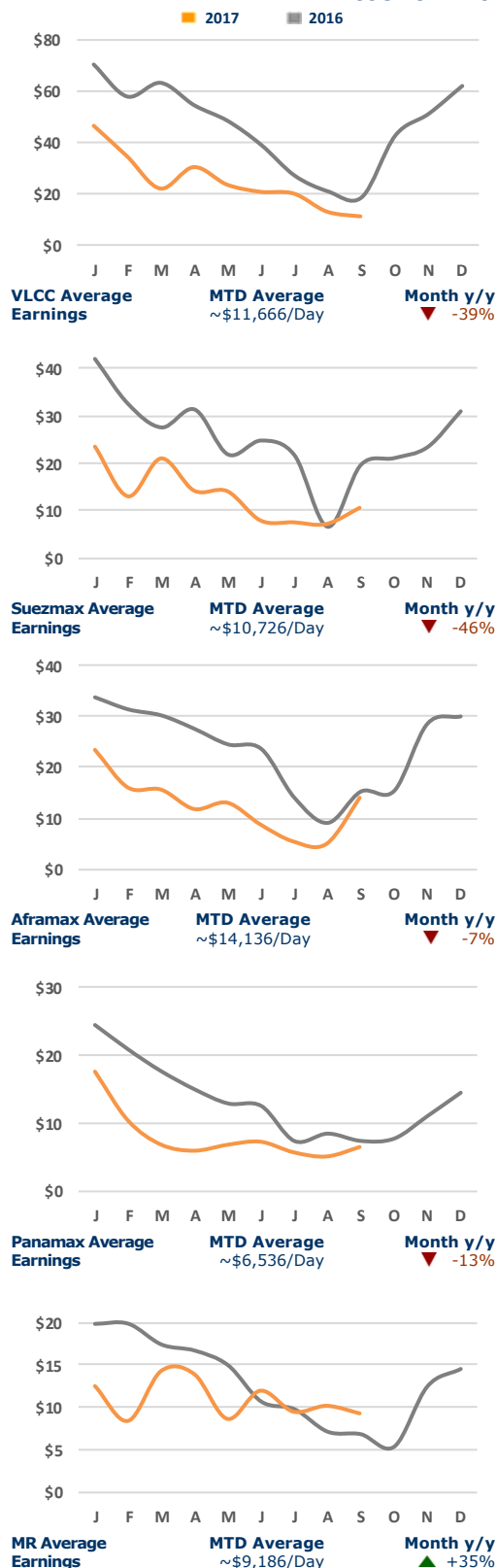
Indeed, even when adding the 24 more ballast days Asian ballasters require to reach the Caribbean relative to the Middle East market, such trades can offer a TCE as high as ~\$25,888/day, assuming a subsequent ballast back to the Middle East (at a time when seasonal factors typically dictate a better trading environment).

The nine ballasters to-date have reduced the number of surplus units in the Middle East market by an equal number. We currently estimate that there are 29 surplus positions for Middle East cargoes loading up to the end of September – the highest since June 2014. A surplus of 38 units would have represented the loftiest surplus since August 2012, when AG-FAST TCEs averaged just ~\$5,069/day, or 38% below present levels. Thus, the immediate impact of these ballasters in terms of cushioning market lows is evident.

More importantly, however, is the forward impact on supply/demand dynamics during Q4. With fleet efficiency declining on the back of this trend and the units engaged in ex-CBS trades removed from position lists for longer periods, availability replenishment in the Middle East should decline during the coming weeks – just as the market progresses into a traditionally stronger quarter. The extent to which the present trend will prevail is uncertain, but it appears likely to remain for at least the near-term. Aiding this, five VLCC cargoes were fixed in the North Sea this week, representing a high number of draws on North Sea arrivals which typically are otherwise drawn to the Caribbean for subsequent trades.

Tempering the positive impact from the Asia-Caribbean ballast trend, we note that the net number of units engaged in floating storage has declined by 14 units since mid-August (many already being reflected in availability levels), likely due to a recent uptick in crude prices. We had previously envisioned such a return to take place during early/mid-Q4, rather than during Q3.

In forecasting average VLCC earnings during Q4, we balance the earlier return of floating storage units, which has prompted us to downwardly revise our earnings expectations for the start of the quarter, against the Asia-Caribbean ballast trend, which has prompted us to upwardly revise our expectations from mid/late October onwards. Accordingly, we presently envision average earnings during Q4 of \$25,750/day, as compared with a month-ago projection of \$24,750/day.



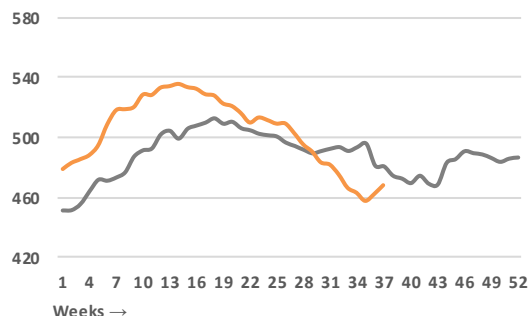
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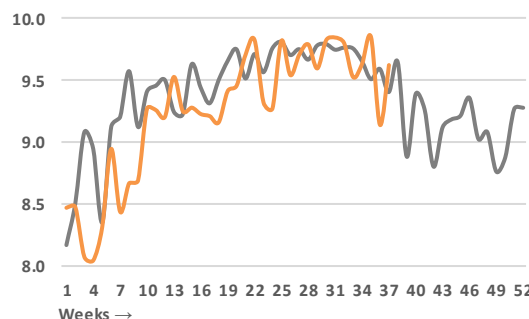
Spot Market	WS/LS	TCE	WS/LS	TCE
VLCC (13.0 Kts L/B)	8-Sep		15-Sep	
AG>USG 280k	20.0	\$(5,962)	19.0	\$(6,995)
AG>USG/CBS>SPORE/AG	--	\$20,454	--	\$23,226
AG>SPORE 270k	41.0	\$8,477	41.0	\$8,064
AG>JPN 265k	39.0	\$8,950	39.0	\$8,528
AG>CHINA 270k	41.0	\$7,718	41.0	\$7,297
WAFR>CHINA 260k	49.0	\$15,892	47.0	\$13,994
CBS>SPORE 270k	\$3.60m	--	\$4.00m	--
<i>VLCC Average Earnings</i>		<i>\$11,310</i>		<i>\$10,994</i>
SUEZMAX (13.0 Kts L/B)				
WAFR>USG 130k	67.5	\$10,474	65.0	\$9,303
WAFR>UKC 130k	75.0	\$8,606	70.0	\$6,475
BSEA>MED 140k	80.0	\$7,477	82.5	\$8,758
CBS>USG 150k	82.5	\$20,883	77.5	\$17,728
<i>Suezmax Average Earnings</i>		<i>\$10,979</i>		<i>\$9,828</i>
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k	100.0	\$8,898	107.5	\$15,242
AG>SPORE 70k	90.0	\$5,969	95.0	\$6,875
BALT>UKC 100k	70.0	\$5,637	90.0	\$16,751
CBS>USG 70k	155.0	\$21,531	150.0	\$19,921
USG>UKC 70k	110.0	--	115.0	--
CBS>USG/USG>UKC/NSEA	--	\$27,723	--	\$28,244
MED>MED 80k	105.0	\$10,551	135.0	\$20,647
<i>Aframax Average Earnings</i>		<i>\$13,613</i>		<i>\$18,944</i>
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k	122.5	\$1,559	125.0	\$1,999
CONT>USG 55k	117.5	\$7,041	117.5	\$6,983
ECU>USWC 50k	140.0	\$8,951	140.0	\$8,719
<i>Panamax Average Earnings</i>		<i>\$6,175</i>		<i>\$6,300</i>
LR2 (13.0 Kts L/B)				
AG>JPN 75k	111.0	\$11,454	114.5	\$11,990
AG>UKC 80k	\$1.60m	\$9,206	\$1.55m	\$8,092
MED>JPN 80k	\$1.55m	\$6,237	\$1.51m	\$5,494
AG>UKC/MED>JPN/AG	--	\$13,273	--	\$12,222
<i>LR2 Average Earnings</i>		<i>\$12,060</i>		<i>\$12,067</i>
LR1 (13.0 Kts L/B)				
AG>JPN 55k	131.0	\$9,767	141.0	\$11,215
AG>UKC 65k	\$1.42m	\$8,889	\$1.47m	\$9,722
UKC>WAFR 60k	114.0	\$2,791	96.5	\$(138)
AG>UKC/UKC>WAFR/AG	--	\$12,741	--	\$11,596
<i>LR1 Average Earnings</i>		<i>\$11,254</i>		<i>\$11,406</i>
MR (13.0 Kts L/B)				
UKC>USAC 37k	125.0	\$4,175	100.0	\$414
USG>UKC 38k	95.0	\$971	75.0	\$(2,011)
USG>UKC/UKC>USAC/USG	--	\$6,949	--	\$2,509
USG>CBS (Pozos Colorados) 38k	\$375k	\$8,112	\$300k	\$2,990
USG>CHILE (Coronel) 38k	\$1.03m	\$10,977	\$925k	\$7,993
CBS>USAC 38k	130.0	\$7,378	112.5	\$4,532
<i>MR Average Earnings</i>		<i>\$8,035</i>		<i>\$5,350</i>
Handy (13.0 Kts L/B)				
MED>EMED 30k	139.0	\$9,161	146.5	\$10,806
SPORE>JPN 30k	180.0	\$9,140	200.0	\$11,104
<i>Handy Average Earnings</i>		<i>\$9,147</i>		

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

Time Charter Market	1 Year	3 Years
<i>\$/day (theoretical)</i>		
VLCC	\$24,500	\$28,000
Suezmax	\$17,000	\$18,500
Aframax	\$14,500	\$17,000
Panamax	\$12,000	\$13,500
MR	\$12,750	\$14,500
Handy	\$12,000	\$13,000



US Crude Stocks (EIA) Last Week 468.2 MnBbls Week y/y ▼ -2.5%



US Gasoline Demand (EIA) Last Week 9.619 MnB/d Week y/y ▲ +2.3%

2017 2016

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SPOT MARKET SUMMARY

VLCC

Any positive pressure on rates that had accompanied last week's strong surge in Middle East demand evaporated this week as the September program in that region appears to be near an abrupt end and overall demand was light as charterers were yet to commence coverage of the October program in earnest. This week's tally of Middle East fixtures was slashed down 64% w/w to just 15 fixtures. Some cushioning on the negative impact on rates came, however, from sustained elevated demand in the Atlantic basin. The West Africa market observed seven fixtures, off by one from last week while demand in the North Sea market was at elevated levels with five fixtures reported there. The North Sea fixtures drew from positions, which would otherwise have ballasted to the Caribbean basin, helping to extend the directional tightening of fundamentals in that region which has already been drawing strongly on Middle East positions in recent weeks.

Despite a further round of fresh speculative departures of Middle East positions to the Caribbean market, with the Middle East September program now likely to conclude with just 121 cargoes – which is below the August tally and below our earlier expectations – the projected end-September availability surplus has risen to a fresh three-year high. With 40 units available through the end of September to cover an estimated seven remaining cargoes, once draws to the Atlantic basin are accounted for the surplus will likely stand at around 28 units – or four more than a month earlier and 75% more than the YTD average. This will likely continue to undermine rates as charterers progress into the October program with rates likely to continue to hover around present levels during the upcoming week with only minor changes to match sentiment driven purely by activity levels.

Middle East

Rates on the AG-JPN/ROK routes were unchanged at ws39 with corresponding TCEs declining 5% on higher bunker prices to ~\$8,528/day. Rates to the USG via the Cape shed one point as owners more aggressively sought trades in this direction given rising rates for onward trades and improving triangulated TCEs. Triangulated Westbound trade earnings rose by 14% to conclude at ~\$23,226/day.

Atlantic Basin

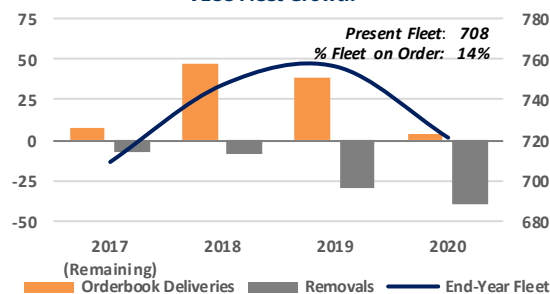
Rates in the West Africa market were softer as a lag to Middle East rates. The WAFR-FAST route shed two points to conclude at ws47 with corresponding TCEs off by 12% to ~\$13,994/day.

The Caribbean market remained strong on a tightening regional supply/demand positioning. Rates on the CBS-SPORE route added \$400k to conclude at \$4.00m lump sum. Date sensitivity remains a key component to the gains and with a fresh number of Middle East positions opting to speculatively ballast towards the Caribbean this week it remains to be seen if rates will hold up once they are in position to command regional cargoes. In the interim, rates appear set to remain firm.

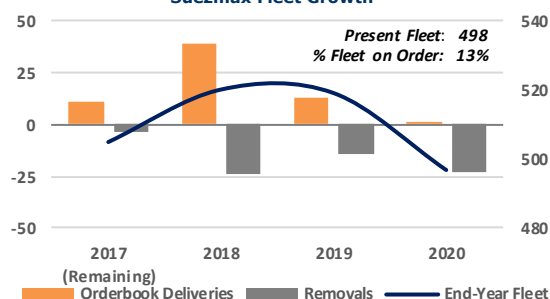
Suezmax

Rates in the West Africa market were softer this week as slower regional demand, combined with softening rates in the Caribbean market, weakened sentiment. There were six fixtures this week, representing a 57% w/w decline. Rates on the WAFR-UKC route shed 5 points to conclude at ws70. In the Caribbean market, \$/mt Suezmax rates at a premium to Aframax (which themselves were softer this week) saw demand levels for intraregional voyages wane and rates move into correction. The CBS-USG route shed 5 points to conclude at 150 x ws77.5. At this level, rates remain at a premium to Aframax and with sentiment for the smaller class waning, further Suezmax losses seem inevitable. Additionally, rates on the CBS-SPORE route stand at a premium to VLCCs – even following recent rate gains for the larger class – which could contribute further headwinds during the upcoming week in both the Caribbean and West Africa markets.

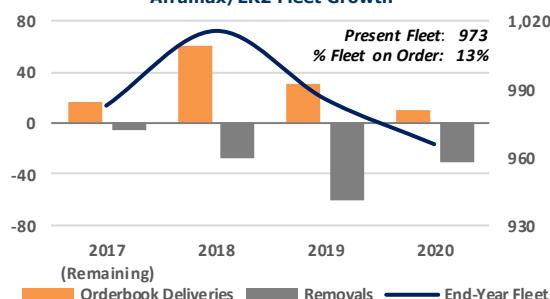
VLCC Fleet Growth



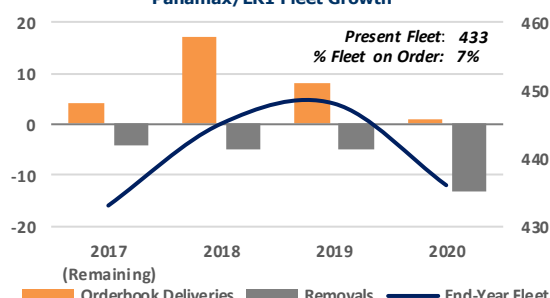
Suezmax Fleet Growth



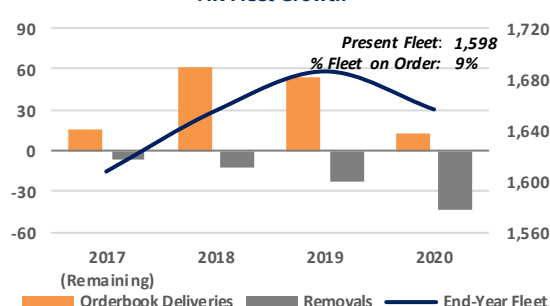
Aframax/LR2 Fleet Growth



Panamax/LR1 Fleet Growth



MR Fleet Growth



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Aframax

The Caribbean Aframax market commenced the week with softer sentiment as a number of fresh units previously delayed appeared on positions lists. However, with delays for many other units ongoing, some prompt replacement fixtures at mid-week bolstered owners' position and allowed rates to pare earlier losses. The CBS-USG route concluded at ws150, off five points from a week earlier, having declined to the ws140 level earlier during the week. Though rates will likely remain elevated from normalized levels during the upcoming week as delays are ongoing and the timing of a full normalization of itineraries uncertain, rates should observe some pullback at the start of the upcoming week as at least some of these units reappear on position lists.

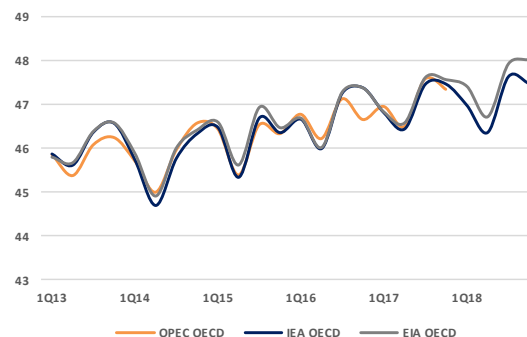
MR

Key Atlantic MR markets have seen availability levels jump to extreme highs as the aftermath of a number of natural disasters have caused significant fluctuations in trading patterns. In the USG market, two-week forward availability levels have risen to match record YTD highs with 62 units showing availability. Simultaneously, demand levels remain undermined by widespread reductions of refining utilization (most recent EIA data shows a PADD3 weekly refinery utilization rate of 60.7% -- the lowest since 2008) and infrastructure issues due to Hurricane Harvey. Meanwhile, a surge in TC2 fixture activity immediately following that storm supported strong rates that attracted displaced units elsewhere in the Atlantic basin as ballasters, with their arrivals ultimately coinciding with a fresh reduction of demand after arbitrage levels collapsed and cargo available for export declined. We presently count 83 units available on a two-week forward basis in the UKC market, representing the loftiest end-week tally of 2017. In the USG Market, some 10 units were fixed for USG-Florida runs ahead of Hurricane Irma's arrival last week after the US Department of Homeland Security provided a blanket Jones Act waiver for voyages to hurricane-affected areas on Friday. Many of those fixtures subsequently failed, pushing units back into an oversupplied market. The Department of Homeland Security extended and expanded the Jones Act waiver to offer greater flexibility on loading and delivery locations, which appears to have support some fresh coastwise trades this week.

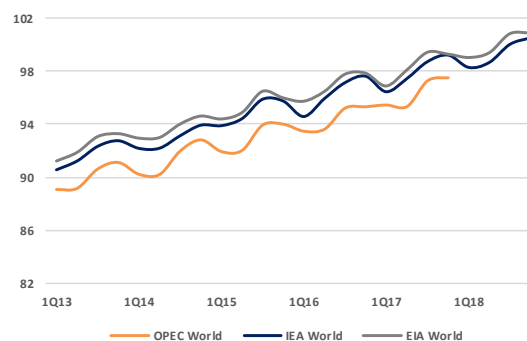
Demand in the USG market was stronger this week but remained below normal levels. There were 30 fixtures, or 114% more than last week. Among these, just two were bound for points in Europe, nine were bound for points in Latin America and the Caribbean and 19 are for alternative areas (including four provisionally bound for Florida) or have yet to be determined. Rates on the USG-UKC route shed 20 points to conclude at the YTD low of ws75. The USG-CBS route lost \$75k to conclude at \$300k lump sum (also the YTD low) and the USG-Chile route shed \$100k to \$925k lump sum. Two-week forward USG availability stands at 52 units, or 7% fewer than last week.

We expect that rates on both sides of the Atlantic are now at an effective floor and though they will likely remain low during at least the start of the upcoming week, as trade patterns begin to normalize, an improvement should materialize by late during the month. The headwinds presently facing the market should ease as tonnage redistributes and long-haul trades recommence; CPP pricing differentials caused by Hurricane Harvey and Mexico's West Coast earthquake, and to a lesser extent Hurricane Irma, have limited such trades as buyers in many regions have sought cargo elsewhere (particularly Asia, where CPP rates have already been rising). Generally, the impact of recent natural disasters should turn positive for the market, in our view, past the immediate near-term as PADD3 refinery production losses – and lost production from PEMEX's 330,000 b/d Salina Cruz refinery (which is presently not expected to restart for "at least 2-3 weeks" due to damage from the recent earthquake) should bode well for global product trades as inventories decline.

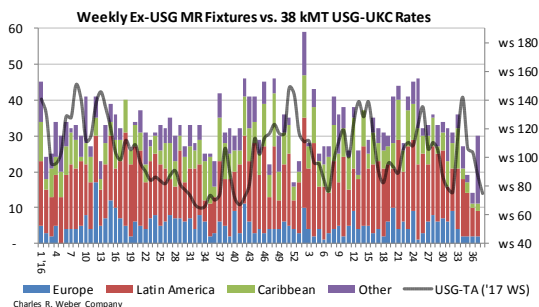
Projected OECD Oil Demand (Mnb/d)



Projected World Oil Demand (Mnb/d)



Weekly Ex-USG MR Fixtures vs. 38 kMT USG-UKC Rates



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REPORTED TANKER SALES

"Isuzugawa" – 299,984/04 – Universal Tsuneishi – DH
-Sold for \$25.8m to South Korean buyers (Sinokor Merchant Marine).

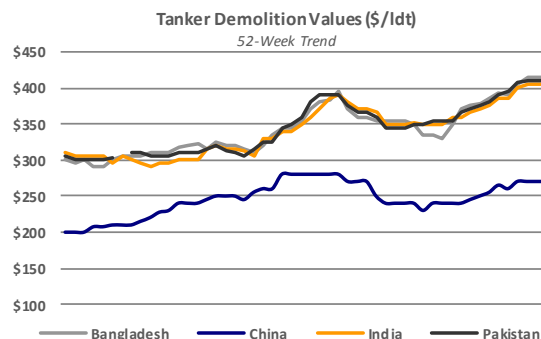
"RS Tara" – 160,036/16 – Shanghai Waigoqiao – DH
-Sold for \$51.0m to Greek buyers (Cardiff).

"FD Sea Wish" – 40,083/02 – ShinA – DH - IMO III
-Sold for \$7.5m to undisclosed buyers basis SS due.

"King Edward" – 38,850/04 – Guangzhou – DH – IMO III Ice 1B
-Sold for \$7.1m to undisclosed buyers.

REPORTED TANKER DEMOLITION SALES

There are no reported tanker demolition sales for week 37.



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