To Order or Not to Order?

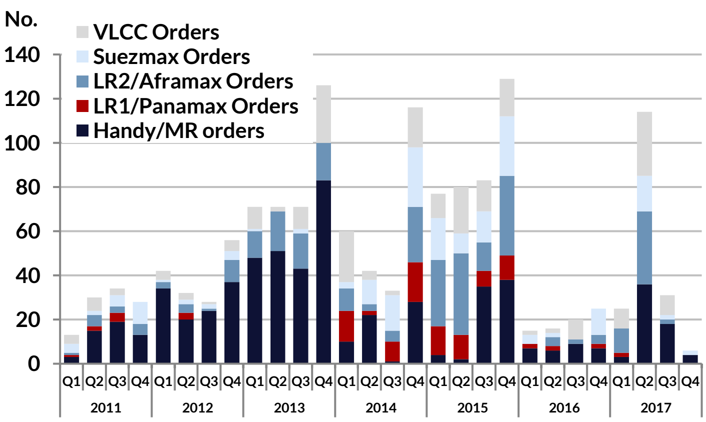
Weekly Tanker Market Report

Earlier this year a rebound in tanker ordering activity had been observed, at a time of plenty of new deliveries and weak/falling industry earnings. Investment in new tonnage had been predominantly focused on VLCCs and LR2/Aframaxes, although there were orders placed in other segments as well. The interest in new tonnage had been in part driven by the collapse in newbuilding prices, following the malaise in the shipbuilding industry. Shipbuilders went through several years of very limited new order intake from all sectors within the shipping market, forcing yards to compete aggressively by pushing their prices lower and lower, down to their lowest level since 2003/2004. In the 1st half of 2017, 139 tankers above 25,000 dwt had been ordered, double the level for the whole of 2016.

However, ordering activity has slowed down notably over the past few months, with just 37 units ordered since July. In the VLCC segment, 9 firm orders have been placed, versus 38 during the 1st half of the year. The change in investment appetite has been more dramatic in the Suezmax and LR2/Aframax segments. Just 4 Suezmaxes and 2 units in the LR2/Aframax size group have been ordered over the past four months, versus 16 and 44 correspondingly between January and June 2017. The only sector that has remained somewhat active is the MR segment (25,000 to 55,000 dwt), where 39 orders were placed in the 1st half of the year and another 22 orders since. Yet, even at these levels ordering activity is still limited, particularly when compared with investment levels witnessed back in 2012/13, when 340 MR orders were placed.

New Tanker Orders Placed Each Quarter

Above 25,000 dwt



Undoubtedly, the accelerating turmoil in the tanker market is a contributing factor to the latest slowdown in appetite for investment in new tonnage. Crude tanker earnings fell below the OPEX break-even mark over the summer months and in early autumn, while earnings in the product tanker market have faired similarly for most of this period. When earnings are low, it is challenging to argue the case for investing in new ships. There also have been several public statements by high profile individuals within the tanker industry, warning against ordering in the current weak market conditions.

However, it will be interesting to see whether we will see more activity in the newbuilding market in months ahead. The industry has entered the typical, seasonally strong period for tanker earnings. Demand for tonnage tends to increase in the 4th quarter, while weather related delays and disruptions also aid the tanker market over the winter months. Already, TCE returns for crude tankers have moved up notably in October and product tanker earnings have also benefited from more trading opportunities. In terms of asset values, although prices witnessed a minor uptick earlier in the year, they still remain at very low levels. The combination of firmer spot returns and rock bottom newbuild values may prove too attractive to resist. Yet, more orders now will only extend the period of rapid growth in the tanker market, delaying the sustainable recovery in the industry returns.

Crude Oil

Middle East

We have had a disjointed VLCC market this week with the gathering in Dubai. Although the week has been relatively active for 3rd decade cargoes, the momentum has not been great enough to force any meaningful change and levels remained rangebound throughout the week. Modern tonnage achieving low ws 70's East with older units moving into high ws 50's. West runs have paid ws 28 Cape/Cape. It was always a case of how low Suezmax rates were going to test down too this week after a couple of weeks of relative inactivity, they duly did with 140,000mt by ws 35 being paid twice for Basrah light to European destinations. On the back of this new low expect to see the market being more active. Aframaxes have experienced a sluggish week, enquiry levels have been minimal enabling Charterers to trim rates across the board. Levels to the East have fallen to 80,000mt by ws 125 and look set to come under further examination during next week.

West Africa

Suezmaxes have suffered from a lack of enquiry which has put a bearish feel to proceedings. Rates have softened to 130,000mt in the low ws 80's for European destinations. Cargoes are now receiving multiple offers and we may see a further erosion in rates. VLCC Charterers held back at the beginning of the week to take advantage of a weaker AGulf market. The week has been relatively quiet with 260,000mt by ws 72 being paid to the Far East and $3.35 million being paid for a cargo to East Coast India.

Mediterranean

The flower of the Mediterranean Aframax market has wilted. Increasing supply and a lack of cargo enquiry has led to rate erosion throughout the week. 80,000mt by ws 115 was the going rate for a vanilla X-Med at the opening of this week's trading, but by the close a low of ws 90 was achieved. There may well be some bottom feeding now and Owners will be hesitant to fix lower than this approaching a winter market which may see sudden rebounds in levels. Nine prompt Suezmax vessels to start the week ensured rates softened to 140,000mt by ws 90 for Black Sea/UKCont voyage. This rate has been repeated a few times and, the week ends with a more steady feel.

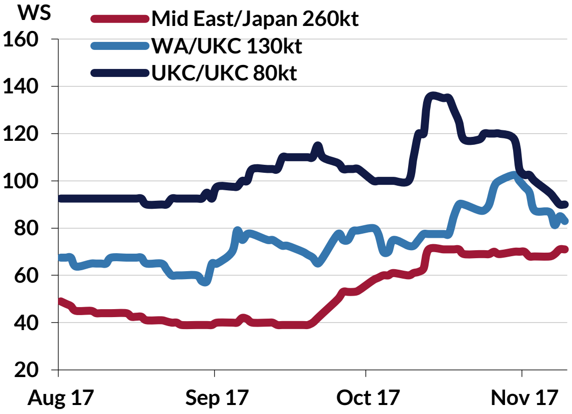
Caribbean

With the exception of one Aframax achieving 70,000mt by ws 115 for a prompt lifting the market by and large has operated around 70,000mt by ws 100 upcoast this week. With tonnage now more plentiful Owners will be doing well to maintain this level. VLCC's have seen little activity and in turn rates have softened to $4.35 million to West Coast India.

North Sea

A depressing week for Aframax Owners, with a growing tonnage list and with the forthcoming maintenance programme this month Owners have feed on scraps. Rates continued to slide throughout the week and have now likely bottomed at 80,000mt by ws 82.5 X-UKCont and to 100.000mt by ws 85 from the Baltic.

Crude Tanker Spot Rates



Clean Products

East

LRs have seen a week of consolidation and some sense returning with TC5 back above TC1! but really with most of the market in Dubai activity has been reduced and what has been done has been kept relatively quiet. Having said that LR2s have been closely watched and rates have just dipped a touch with 75,000mt naphtha AGulf/Japan down to ws 122.5 and 90,000mt jet AGulf/UKCont at $1.825 million. LR1s are harder to track with a fair amount of the voyages fixing being shorter hauls. On the headline routes, rates are steady with 55,000mt naphtha AGulf/Japan at ws 125 and 65,000mt jet AGulf/UKCont at $1.325 million. Next week when lists are done, and Charterers establish what is left to cover we will see if that's what we go forward with and if there is room to move either way.

With most of the market in Dubai for this week, it was inevitable that deals would be slow to surface. The MRs have remained looking reasonably tight off the front end, but the ease of fixing slightly softer rates face to face in Dubai has meant that sentiment has softened slightly throughout the week. As predicted, West rates have come off ending on $1.215 million due to the LR2s not pushing as much as predicted (hence MRs had to come off sympathetically) and Owners with Ice class vessels repositioning for the beginning of winter. Likewise, due to a quiet week, X-AGulf has come off $50k to $180k since Monday to match disappointing numbers seen on the LR1s. TC12 has remained very much untested, unsurprising given the fact that the LR2s haven't pushed as much as they looked as though they might, and scale economies mean that stemming up cargoes makes particular sense. With most of the industry returning to their desks over the weekend, it will be very interesting to see exactly what is left on Monday, and what has been kept buried this week. A busy return to the market of ATC come Monday morning as has been eagerly awaited for the past week would inject some real life back into the MR market.

Mediterranean

For much of week 45, a stalemate was seen between Owners and Charterers with both prompt tonnage and outstanding cargoes seemingly cancelling each other out causing rates to trade sideways at 30 x ws 130 and 30 x ws 140 for X-Med and Black Sea respectively. As cargoes began to be fixed away, the prompt units around West Med caused rates to soften slightly and X-Med ends the week at 30 x ws 125. Moving into next week with outstanding cargoes still there to be covered, we expect rates to hold for the time being however, Black Sea rates may come off a touch, back in line with X-Med rates.

Tight tonnage on the MR's in the Med meant that Owners were able to be bullish with rates and a Med/Brazil run achieved 37 x ws 170 on the back of this. A healthy number of stems were seen heading to West Africa with the going rate around the 37 x ws 130 mark. If enquiry persists moving into next week, with tight tonnage still the case around the Med, more could be on the cards for Owners.

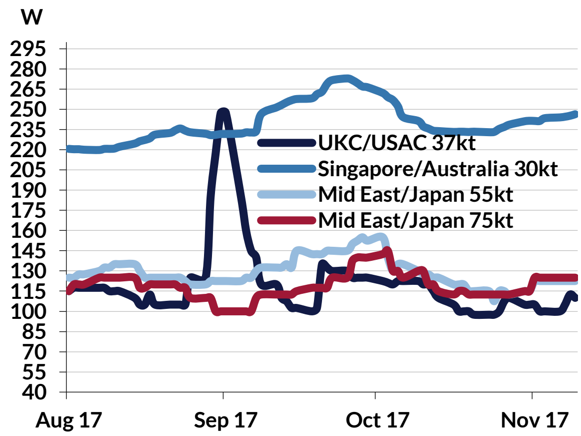
UK Continent

As week 45 comes to a close, Owners will be feeling positive that rates have been able to press slightly higher, but how this hasn't gone further from 37 x ws 110 is another puzzle. Consistent demand for UKCont/WAF runs over the past couple of weeks has diminished tonnage lists, and partnered with a strengthened States market, fresh tonnage has been in slow supply. Transatlantic runs have begun to appear slowly throughout the week and as we come to a close we see good levels of outstanding enquiry yet to be covered partnering nicely against a small number of ships to clear out. Pressing into next week, Owners will be looking to get further help from a tight Mediterranean market and a limited number of ballasters from the States to aid progression on market rates, as they hope to push levels higher for this winter market.

Handies this week have stayed fairly passive as 30 x ws 127.5 for Baltic and ws 122.5 for X-UKCont has been continually fixed. Little looked like it was going to affect things until mid-week where a planned LR1 stem ex Primorsk was broken down to the smaller Handies and options for Charterers became more slender. As we come to the end of the week, the slight mark of positivity is yet to prove for higher rates and whether we see further break down in the Baltic for the upcoming liftings will define any upside on fixing numbers.

Finally, to the Flexis where the passive market for the Handies has mirrored this 22kt sector with little movement in rates. Light levels of market enquiry have kept a lid on Owners desire for higher numbers and COA runs has kept some tonnage ticking over. Expect more of the same ahead for the foreseeable future under present market conditions.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week's activity in the continent was mainly concluded behind closed doors, but generally on the whole the week was quiet. Rates did not alter the X-UKCont 30 x ws 190 level due to a tight position list presented from the beginning of the week. First thing Monday morning, fresh tonnage lists will be key as we could well see a couple of spot vessels in the area that could get snapped up quickly if vetting allows, as the position list is starting to show, a handful of positions opening up mid-month which may wobble the market if enquiry doesn't turn a corner.

This week started with plenty in the tank as enquiry came bursting from the Black Sea snapping up the presented tonnage putting the heat on Charterers to fix in a rising market. The back end of this week, settled to a much steadier rate however, the strength of this market still appears to still have some legs. Adding to this with bad weather being forecast and delays in the Turkish Straits bouncing up and down moving towards end month dates next week, volatility could still be on the cards.

MR

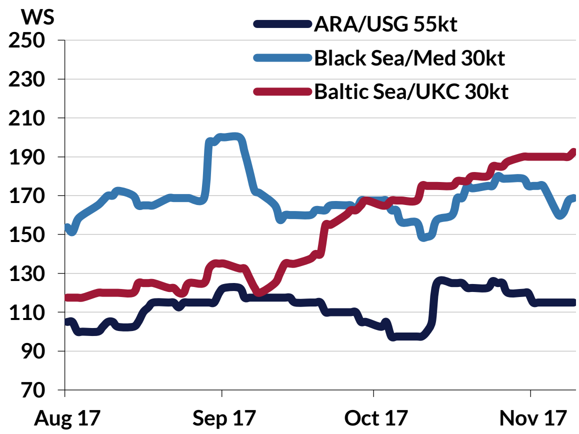
Little change this week in terms of activity and availability in the continent as neither of these fundamentals have been on the table. The one prompt vessel remains in the region with no current competition on the horizon forcing charterers to look at surrounding markets to find coverage.

The Mediterranean on the other hand was a different story with a string of full sized activity snapping up natural sized tonnage at top of the position list. The benchmark of this region has changed very little, but Owners will be feeling positive with the amount of full size stems on offer this week as well as the strength seen on the Handies.

Panamax

This week started off with promise for Owners as date sensitivity in laycans witnessed a ws 120 being concluded from the North. As quick as this was reported, Charterers started to look a little more forward, quickly giving them more workable units to offer. As the days ticked by firm tonnage continued to get clipped away, the majority of this activity being concluded at the conference level of ws 115. However, with this said, fresh stems continued to come to market all within November dates. As Charterers have less tonnage to pick from and more and more short haul options required, it is forcing them to evaluate whether to barrel up and dip into the Aframax sector which is currently at the doldrums.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+2**	71	69	65	80
TD20	Suezmax	WAF-UKC	**-12**	83	95	77	92
TD7	Aframax	N.Sea-UKC	**-11**	90	101	125	106

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

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+250**	24,750	24,500	23,000	32,750
TD20	Suezmax	WAF-UKC	**-5,000**	13,750	18,750	13,000	17,250
TD7	Aframax	N.Sea-UKC	**-9,000**	-2,750	6,250	24,250	9,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+0**	122	122	115	
TC2	MR - west	UKC-USAC	**+6**	110	104	119	145
TC5	LR1	AG-Japan	**+3**	125	122	126	130
TC7	MR - east	Singapore-EC Aus	**+5**	246	241	234	

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

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1,500**	10,500	12,000	11,500	
TC2	MR - west	UKC-USAC	**+500**	2,750	2,250	4,750	7,500
TC5	LR1	AG-Japan	**+0**	7,250	7,250	8,750	8,000
TC7	MR - east	Singapore-EC Aus	**-250**	11,750	12,000	12,000	

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

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