

WEBER WEEKLY TANKER REPORT



WEEK 2 – 12 JANUARY 2018

ISSUE 2 – 2018

Larger fleet, slower demand for crude tankers during 2017

Worsening structural oversupply implies market will remain challenged during 2018

Crude tanker earnings have commenced 2018 at seasonal lows not observed in decades as a large, ongoing newbuilding program continues to undermine fundamentals. Crude tanker earnings declined during 2017 by an average of 45% from 2016, led by a 46% decline in VLCC earnings to ~\$25,309/day while Suezmaxes shed 45% to ~\$13,838/day and Aframaxes fell 44% to ~\$13,101/day. The annual averages in each segment were heavily supported by seasonal strength during 1Q17 which appears to elude the market presently, implying a potentially horrendous year for average earnings during 2018.

Our base expectation is that VLCC earnings will conclude the year with a 30% y/y decline to *under* \$18,000/day. We project a 40% y/y decline for Suezmax earnings to \$8,250/day and a 12% y/y decline in Aframax earnings to ~\$11,500/day.

Supply

Fleet growth remains the key catalyst to the prevailing earnings environment with a long list of units ordered between 2013 and 2014 delivering during 2016 boosting capacity. A subsequent wave of orders penned during the strong earnings environment of 2015 extended high levels of newbuilding deliveries during 2017 – and is ongoing.

Phase-outs concluded 2017 considerably above expectations as stronger \$/ldt values against poor earnings incentivized a surge in demolition sales activity across all size classes while an improving offshore market saw conversion works progress on a number of units held for conversion in the VLCC space. All told, some 23 VLCCs were phased out during 2017 – a considerable increase from the just two and three units phased-out during 2015 and 2016, respectively, and the most since 2011. Twelve Suezmax units were phased out, up from zero and one during 2015 and 2016, respectively and the most since 2012. Thirty-three units were phased-out from the Aframax/LR2 asset class, up from 6 and 9 during 2015 and 2016, respectively and also the most since 2012.

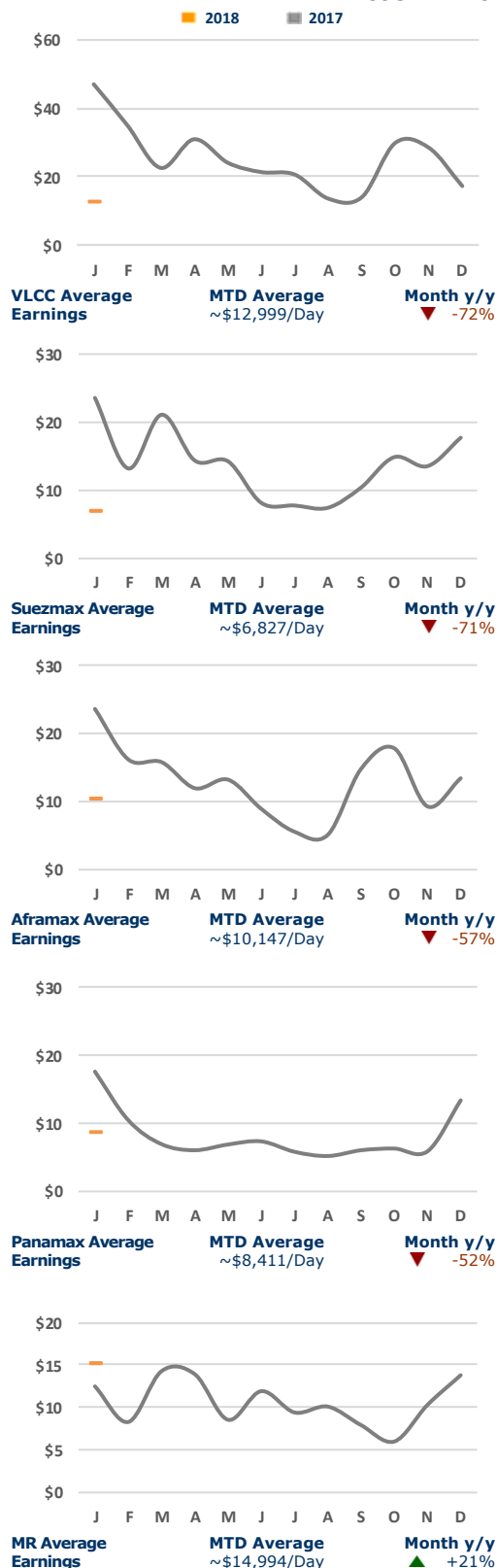
Despite the stronger phase-outs, net fleet growth was still high during the year (if lower than the more extreme levels observed during 2016), clocking in at 4.0% for VLCCs, 8.4% for Suezmaxes and 3.2% for Aframax/LR2s. For 2018, we project net fleet growth of 3.9% for VLCCs, 3.2% for Suezmaxes and 3.3% for Aframax/LR2s. While these levels are broadly within range of historical annual averages, coming on the back of the past two years' fleet growth levels, *any* positive net supply growth would only serve to delay a progression into earnings recovery.

Demand

Collectively, crude tanker demand rose by 4.0%, though a secular look shows that only VLCCs concluded in positive y/y territory. Demand for VLCCs returned to growth during 2017, posting an increase of 11% after a contraction of 4% during 2016. The gains were supported, in part, by an increase in voyages to Asia from the Atlantic basin, particularly during 1H17 due to OPEC supply cuts heavily distributed to Middle East producers and during September and October as US crude exports surged amid long-lasting US Gulf Coast-area refining outages after Hurricane Harvey and other storm systems.

Inversely to VLCCs, Suezmax demand was undermined during 1H17 due to OPEC supply cuts as more voyages from the Atlantic Basin to Asia oriented to VLCCs reduced cargo availability for the smaller class. These losses were partly offset by rising US crude exports (28% of which were serviced by Suezmaxes), but overall demand for the class concluded with a 1.3% y/y contraction.

Aframax demand was the hardest hit among its crude tanker counterparts. Like Suezmaxes, demand losses on key routes were partly offset by gains in ex-USG crude cargoes (for which the class serviced the lion's share of 42%), but these did little to stem contraction in intraregional Caribbean voyages, and contractions in nearly all other markets. Overall, the class saw demand decline by 10.8%.



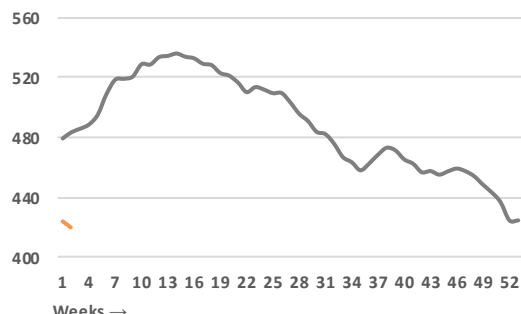
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Spot Market	WS/LS	TCE	WS/LS	TCE
VLCC (13.0 Kts L/B)		5-Jan		12-Jan
AG>USG 280k	19.9	\$(6,542)	19.9	\$(6,461)
AG>SPORE 270k	40.8	\$11,132	40.0	\$10,645
AG>JPN 265k	39.4	\$12,692	37.6	\$11,224
AG>CHINA 270k	43.2	\$12,460	39.8	\$8,691
WAFR>CHINA 260k	43.8	\$14,974	43.8	\$14,297
CBS>SPORE 270k	\$3.20m	\$12,400	\$3.40m	\$15,097
AG>USG/CBS>SPORE/AG	--	\$15,434	--	\$17,394
VLCC Average Earnings		\$13,123		\$12,050
SUEZMAX (13.0 Kts L/B)				
WAFR>USG 130k	59.5	\$9,339	50.0	\$4,697
WAFR>UKC 130k	61.2	\$5,152	55.0	\$2,265
BSEA>MED 140k	75.8	\$6,107	67.5	\$1,326
CBS>USG 150k	71.4	\$17,119	65.0	\$12,667
USG>UKC 130k	57.3	--	52.5	--
CBS>USG/USG>UKC/WAFR	--	\$13,048	--	\$9,375
AG>USG 140k	28.3	--	30.0	--
USG>SPORE 130k	\$2.65m	--	\$2.30m	--
AG>USG/USG>SPORE/AG	--	\$13,907	--	\$11,522
Suezmax Average Earnings		\$7,816		\$4,222
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k	100.0	\$4,971	97.5	\$3,146
BALT>UKC 100k	70.0	\$5,816	70.0	\$5,592
CBS>USG 70k	105.0	\$15,225	120.0	\$14,185
USG>UKC 70k	77.5	--	95.0	--
CBS>USG/USG>UKC/NSEA	--	\$15,225	--	\$23,206
MED>MED 80k	85.0	\$5,109	90.0	\$7,095
AG>SPORE 70k	92.5	\$9,811	92.5	\$9,091
Aframax Average Earnings		\$8,234		\$10,719
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k	140.0	\$8,902	110.0	\$2,279
CONT>USG 55k	105.0	\$7,527	110.0	\$8,721
ECU>USWC 50k	149.5	\$13,517	145.0	\$12,660
Panamax Average Earnings		\$9,489		\$7,289
LR2 (13.0 Kts L/B)				
AG>JPN 75k	82.0	\$6,866	80.0	\$6,500
AG>UKC 80k	\$1.45m	\$4,584	\$1.40m	\$3,635
MED>JPN 80k	\$2.16m	\$13,934	\$2.12m	\$13,315
AG>UKC/MED>JPN/AG	--	\$16,567	--	\$15,628
LR2 Average Earnings		\$10,097		\$9,540
LR1 (13.0 Kts L/B)				
AG>JPN 55k	95.0	\$5,842	89.0	\$4,790
AG>UKC 65k	\$1.10m	\$1,694	\$1.05m	\$710
UKC>WAFR 60k	142.5	\$9,795	139.0	\$9,203
AG>UKC/UKC>WAFR/AG	--	\$12,048	--	\$11,006
LR1 Average Earnings		\$8,945		\$7,898
MR (13.0 Kts L/B)				
UKC>USAC 37k	160.0	\$11,279	145.0	\$8,655
USG>UKC 38k	127.5	\$7,187	140.0	\$9,273
USG>UKC/UKC>USAC/USG	--	\$16,214	--	\$16,430
USG>CBS (Pozos Colorados) 38k	\$575k	\$20,495	\$625k	\$23,865
USG>CHILE (Coronel) 38k	\$1.35m	\$19,232	\$1.43m	\$21,421
CBS>USAC 38k	160.0	\$14,117	165.0	\$15,001
MR Average Earnings		\$15,219		\$15,248
Handy (13.0 Kts L/B)				
MED>EMED 30k	200.0	\$26,992	184.5	\$23,083
SPORE>JPN 30K	140.0	\$6,227	132.5	\$5,407
Handy Average Earnings		\$13,702		\$11,770

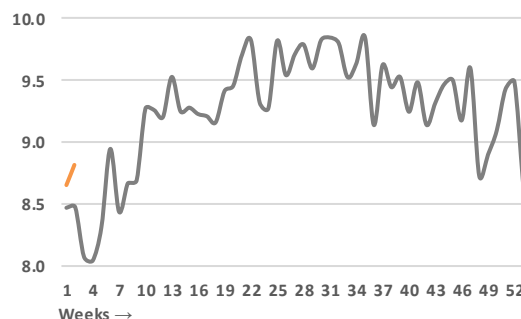
Average Earnings weighted proportionally to regional activity share of each size class' worldwide market (including routes not necessarily shown above).

Time Charter Market \$/day (theoretical)	1 Year	3 Years
VLCC	\$25,000	\$30,000
Suezmax	\$17,000	\$20,000
Aframax	\$15,000	\$17,500
Panamax	\$12,250	\$14,500
MR	\$13,750	\$14,500
Handy	\$12,500	\$13,250



Last Week
419.5 MnBbls

Week y/y
▼ -13.2%



Last Week
8.814 MnB/d

Week y/y
▲ +4.1%

2018 2017

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SPOT MARKET SUMMARY

VLCC

VLCC chartering activity improved considerably this week with most regions registering at a three-week high. The demand gains did little to change the course of rates, which continued to lose steam after surplus tonnage in the Middle East up to the 20th of January registered at a drastically high tally of 29 units. Indeed, rates posted further losses over the course of the week.

Looking forward, rates could be poised for a modest improvement in the coming weeks as this week's demand levels have absorbed tonnage while availability replenishment levels are starting to decline. The higher replenishment rates that pushed availability up in recent weeks were supported by the coinciding return to availability of long-haul voyages from the Atlantic basin during October and quick change to short-haul voyages during November. During December, though, trade patterns started to normalize which could see a more even distribution of replenishment in the coming weeks. Ex-West Africa demand, for instance, during December was 50% higher than during November. This is now being reflected in the supply/demand balance during January's final decade program in the Middle East. From 29 surplus units at the 20th of January, the surplus appears set to narrow to around 16 units at the end of the month. This would compare with the 14 surplus units of October and November, which saw AG-FEAST TCEs rise to near \$30,000/day. AG-FEAST TCEs have averaged ~\$11,928/day during the MTD and stand at ~\$10,585/day at present.

Middle East

Rates to the Far East shed 2.2 points to conclude at ws38.1 with corresponding TCEs dropping by 22% to ~\$10,585/day. Rates to the USG via the Cape were unchanged at ws19.9. Triangulated Westbound trade earnings rose by 13% to ~\$17,592/day.

Atlantic Basin

The West Africa market saw rates remain unchanged with the WAFR-CHINA route holding at ws43.8. Corresponding TCEs stand at ~\$14,477/day.

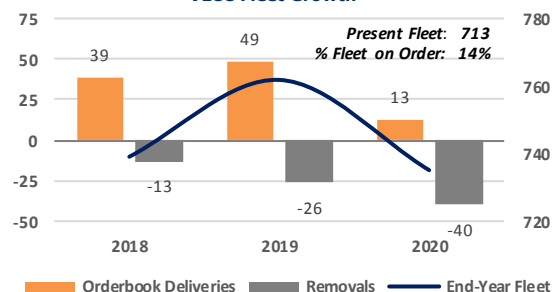
Rates in the Atlantic Americas pared earlier losses on a rise in regional demand. The CBS-SPORE route added \$200k to conclude at \$3.40m lump sum. Round-trip TCEs on the route rose in 1% to ~\$15,282/day.

Suezmax

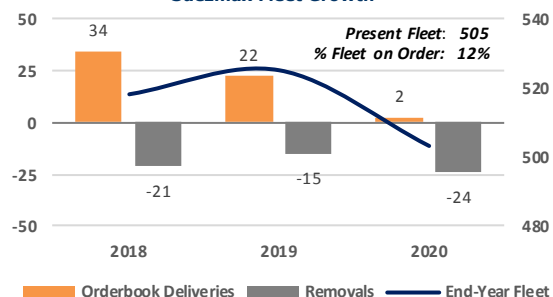
The West Africa Suezmax market continued to soften this week as overall fundamentals continue to sour. Demand inched up modestly w/w but remained 25% below the 2017 average. Availability, meanwhile, continued to rise. The WAFR-UKC route shed 6.2 points to conclude at ws55 with corresponding TCEs ending at ~\$2,265/day (barely a quarter of daily OPEX levels). An anticipated busy start to the February program should help to stem downside and possibly afford owners small gains, but otherwise little substantial change in direction is evident in the near-term.

Suezmax demand in the Caribbean market was stronger, particularly for voyages originating in ECMex and USG. However, as class-wide fundamentals continued to sour regional rates posted fresh losses with both the USG-UKC and CBS-USG route dropping to an effective floor dictated by their equivalent \$/mt value on Aframaxes. The smaller class saw firmer rates this week, implying that steeper Suezmax losses may have materialized. The USG-UKC route shed 4.8 points to conclude at 130 x ws52.5 and the CBS-USG route lost 6.4 points to conclude at 150 x ws65. Structural oversupply issues imply that rates could post further losses, particularly given that triangulated Atlantic earnings stand at a strong premium to those on round-trip voyages from West Africa.

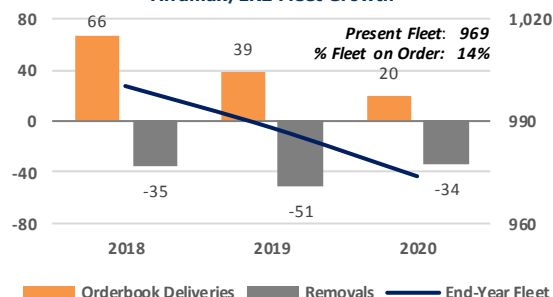
VLCC Fleet Growth



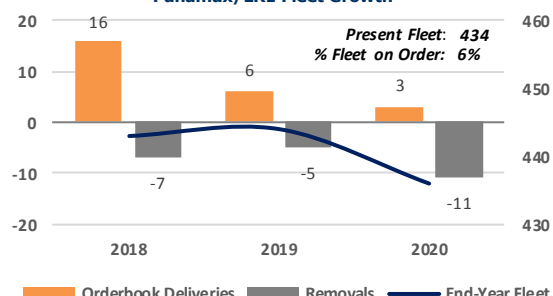
Suezmax Fleet Growth



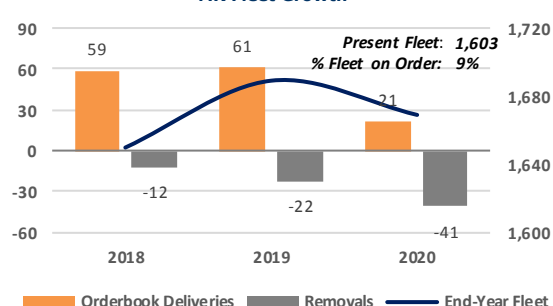
Aframax/LR2 Fleet Growth



Panamax/LR1 Fleet Growth



MR Fleet Growth



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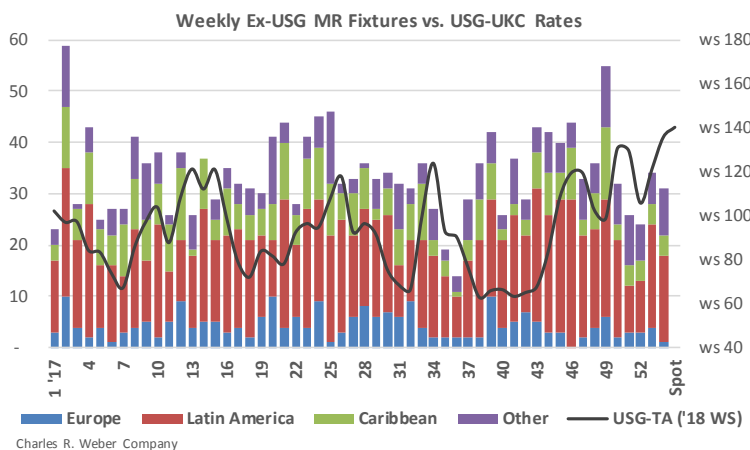


Aframax

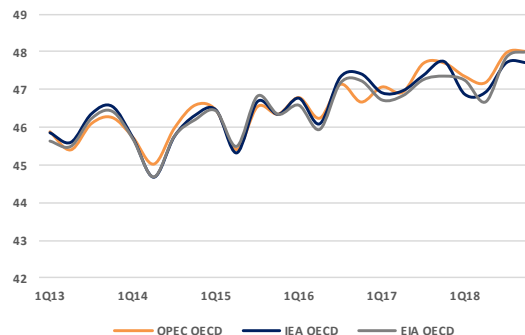
The Caribbean Aframax market observed a strengthening of rates this week on strong demand and supply issues from delays in the USG last week. Adding to positive pressure was a Suezmax class which commenced the week at strong \$/mt freight premiums. Softer rates for the larger class, however, and rising rates for Aframaxes meant that the two reached an inflection point, which served to halt further gains for the smaller class (and losses for the larger). The CBS-USG route added 15 points to conclude at ws120 and the USG-UKC route added 17.5 points to conclude at 70 x ws95. Further likely losses in Suezmax rates will see the two classes compete more closely for many requirements, and likely lead to a fresh weakening of Aframax rates during the upcoming week.

MR

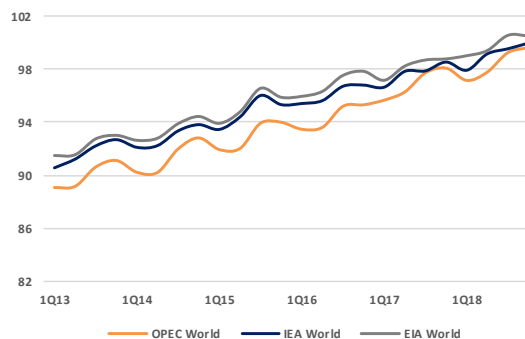
Slower demand in the USG MR market failed to stem positive pressure on rates as weather delays on Mexico's East Coast kept units from returning to position lists and thus maintain a tight supply/demand positioning. A total of 31 fixtures were reported, representing a 9% w/w decline. Though just one of these was bound for Europe, a third were bound for long haul and/or extra-regional destinations, which should limit any downside that accompanies an eventual easing of issues in Mexico. Rates on the USG-UKC route jumped 12.5 points to ws140 while the USG-CBS route added \$50k to \$625k lump sum and the USG-Chile route surged \$75k to \$1.425k lump sum. Two-week forward availability jumped at the start of the week and remained level through the remainder, concluding with a 55% w/w gain to 45 units. We expect that rates will show some easing at the start of the upcoming week on the slower recent demand and subsequently follow availability replenishment rates.



Projected OECD Oil Demand (Mnb/d)



Projected World Oil Demand (Mnb/d)



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REPORTED TANKER SALES

"Eurochampion 2004" – 164,608/05 – Hyundai Ulsan – DH – Ice 1C

"Euronike" – 164,608/05 – Hyundai Ulsan – DH – Ice 1C

-Sold for \$31.25m each to Norwegian buyers (Pareto) including BBBs on private terms.

"Aristaios" – 113,689/17 – Daehan – DH – Ice 1C

-Sold for \$52.5m to Greek buyers (Capital Maritime & Trading) as part of an internal deal. Unit includes balance of existing TC.

"Vega Voyager" – 104,864/03 – Samsung Geoje – DH

-Sold for \$10.5m to undisclosed buyers.

"Team Houston" – 13,221/08 – Jinse – DH – IMO II

-Sold for \$8.7m to Thai buyers (AMA Marine).

REPORTED TANKER DEMOLITION SALES

India

"Kareela Spirit" – 113,144/99 – 17,912 LTD – DH

-Sold on private terms.

"Rise" – 76,675/00 – 13,745 LTD – DH

-Sold on private terms.

"Taimen" – 68,790/96 – 12,964 LTD – DH

-Sold on private terms.

"Spica" – 46,168/99 – 9,600 LTD – DH

-Sold on private terms.

"Admiral L" – 40,708/90 – 8,258 LTD – DH

-Sold on private terms.

"Norte" – 40,007/91 – 8,258 LTD – DB

-Sold for \$460/ldt.

"Breeze" – 39,542/89 – 8,258 LTD – DS

-Sold for \$460/ldt.

Bangladesh

"Bankim Chandra Chatterjee" – 45,134/94 – 8,711 LTD – DS

-Sold on private terms.

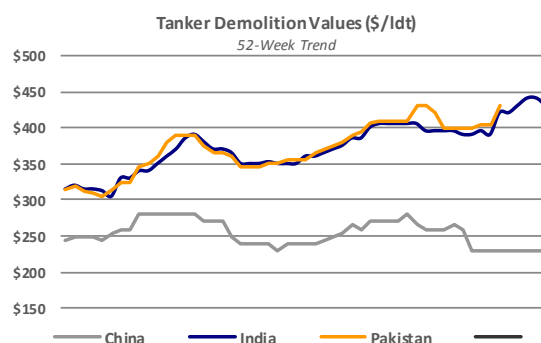
Unknown

"Moscow Stars" – 106,450/99 – 16,392 LTD – DH

-Sold on private terms.

"Cassandra" – 40,584/96 – 9,453 LTD – DH

-Sold on private terms.



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