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

WEEK 5 – 2 FEBRUARY 2018

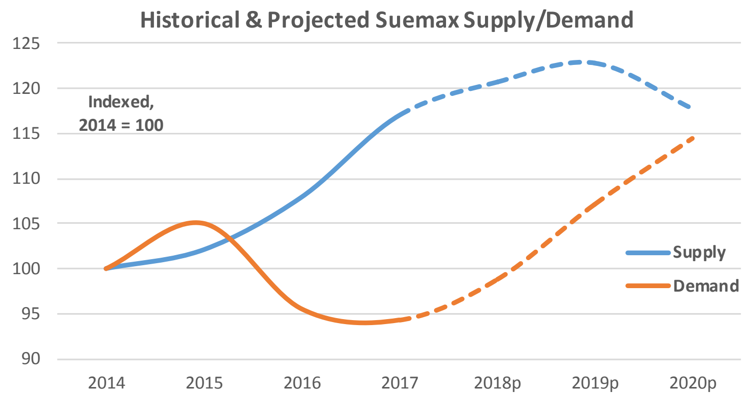
ISSUE 5 – 2018

Suezmax market in worst position among crude tanker peers

Absent a substantial increase in phase-outs, recovery will lag counterparts

A broad decline in Suezmax rates since the start of the year has seen average pushed earnings to sustained lows with average returns hovering under $3,000 /day throughout this past week. Representing merely third of average daily OPEX, average earnings stand 35% below the low observed during 2017 – at a time when the market is still at seasonal strength.

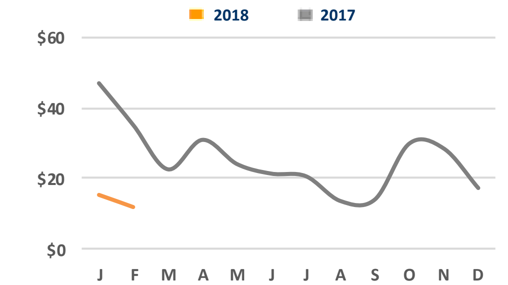
While hosts of factors have influenced trade dynamics to the detriment of demand distributed to the Suezmax class, the drivers of the extreme scope of the earnings downturn are far from complex: global fleet supply has expanded by 17% since 2015 while demand has decline by 8%. Indeed, in order to achieve earnings equivalent to the ~$42,280/day observed during 2015, we estimate that the fleet would need shed 111 units. Instead, we project that the 2018 orderbook will produce 33 deliveries by the close of the year. Net of a projected 21 phase-outs, the fleet is likely to expand by 2.4%. During 2019, a further 24 newbuilding deliveries and 15 phase-outs are projected, for a net growth of a further 1.7%.



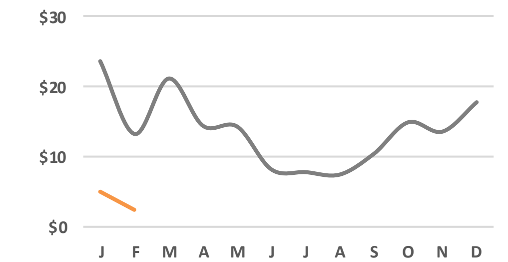
Suezmax demand is not isolated and the class' ability to compete in VLCC and Aframax markets implies that any advance improvements elsewhere in the crude tanker market will be supportive, to varying degrees, of Suezmaxes. Inversely, challenges in those markets have applied strong negative pressure on Suezmaxes in recent quarters – something evidenced by the fact that Suezmaxes presently earn considerably less than Aframaxes on a TCE basis but are more expensive for charterers on a $/mt basis for comparable voyages. At the time of the last downturn, at their lowest Suezmax earnings were earning 56% of Aframaxes were – and indeed today, the larger class is earnings 59% of the smaller. Typically, Suezmaxes out earn Aframaxes by 132%.

Encouragingly, the pace of demolition sales in the crude tanker market surged during 2017 amid 38% rise in $/ldt values. Twelve Suezmaxes were ultimately retired through such sales, partly offsetting the 51 newbuilding units delivered; between 2014 and 2016, just 10 units were retired. Expanding the pace during 2018 could help to lift the floor during the ongoing trough market. It would be unreasonable to expect 111 units to be quickly phased-out in the coming months – indeed, achieving that number would require nearly every unit under 16 years of age to be demolished, something unlikely given recent major maintenance undertaken on a large portion thereof. Simultaneously, it would not be unreasonable to expect at least some pickup. Our base-case phase-out assumption, which is based on a granular analysis of the likely phase-out time for each consistent of the fleet given a range on information pertaining to attributes like ownership, construction and deployment, is for 22 phase outs during 2018.

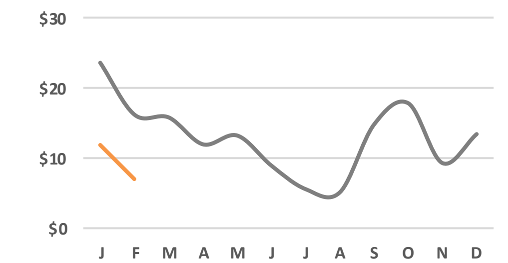
In a high scrapping scenario, we would assume that the commercial disadvantages of older tonnage and the prolonged earnings lull would change the mentality of owners around scrapping sufficiently that most units under 18 years of age would be phased-out in during the year, totaling 38 units. Assuming that similar scrapping acceleration is observed throughout the crude tanker space, the impact would certainly be meaningful: **we estimate that the difference between 22 and 38 phase-outs during 2018 for earnings could be as much as $13,000/day.**



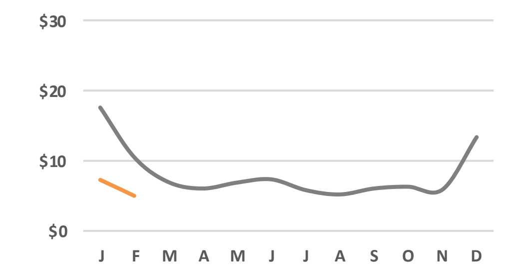
VLCC Average Earnings	MTD Average ~$12,128/Day	Month y/y ▼ -65%



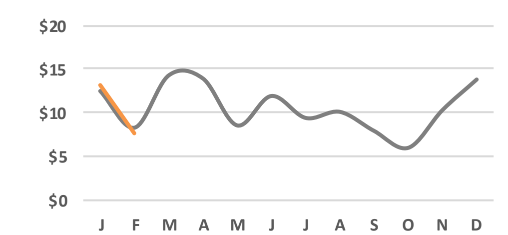
Suezmax Average Earnings	MTD Average ~$2,437/Day	Month y/y ▼ -81%



Aframax Average Earnings	MTD Average ~$6,998/Day	Month y/y ▼ -57%



Panamax Average Earnings	MTD Average ~$4,927/Day	Month y/y ▼ -53%



MR Average Earnings	MTD Average ~$7,701/Day	Month y/y ▼ -7%

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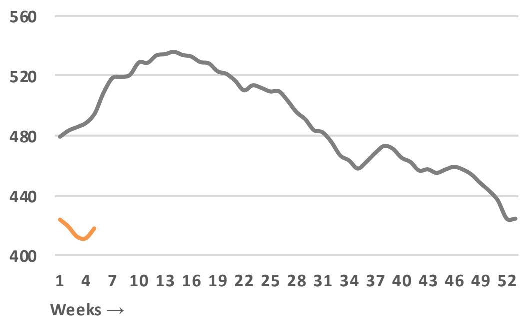
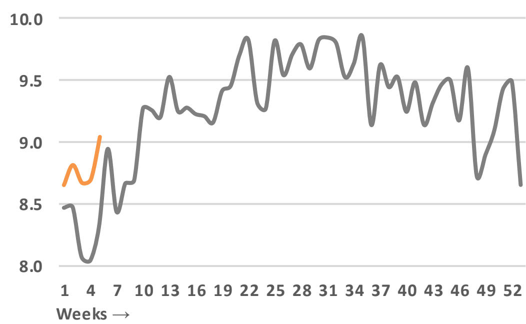
Spot Market	WS/LS	TCE	WS/LS	TCE
VLCC (13.0 Kts L/B)	26-Jan		2-Feb	
AG>USG 280k	18.0	--	18.0	--
AG>SPORE 270k	42.0	$11,749	39.0	$9,091
AG>JPN 265k	40.0	$12,794	37.0	$9,974
AG>CHINA 270k	43.0	$10,925	40.0	$8,274
WAFR>CHINA 260k	45.0	$15,123	44.5	$14,718
CBS>SPORE 270k	$3.50m	$16,076	$3.50m	$16,138
AG>USG/CBS>SPORE/AG	--	$16,481	--	$16,562
VLCC Average Earnings		*$13,179*		*$11,290*
SUEZMAX (13.0 Kts L/B)				
WAFR>USG 130k	50.0	$4,426	50.0	$4,502
WAFR>UKC 130k	52.5	$832	52.5	$908
BSEA>MED 140k	65.0	$(227)	65.0	$(226)
CBS>USG 150k	60.0	$8,900	60.0	$8,998
USG>UKC 130k	50.0	--	52.0	--
CBS>USG/USG>UKC/WAFR	--	$6,783	--	$7,637
AG>USG 140k	30.0	--	27.5	--
USG>SPORE 130k	*$2.15m*	--	*$2.10m*	--
AG>USG/USG>SPORE/AG	--	$9,958	--	$8,680
Suezmax Average Earnings		*$2,654*		*$2,901*
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k	100.0	$4,400	90.0	$(1,908)
BALT>UKC 100k	85.0	$14,294	75.0	$8,397
CBS>USG 70k	90.0	$4,000	85.0	$2,387
USG>UKC 70k	75.0	--	65.0	--
CBS>USG/USG>UKC/NSEA	--	$11,589	--	$7,702
MED>MED 80k	110.0	$14,595	105.0	$12,712
AG>SPORE 70k	92.5	$8,622	90.0	$8,037
Aframax Average Earnings		*$10,647*		*$7,063*
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k	105.0	$983	95.0	$(1,153)
CONT>USG 55k	105.0	$7,280	102.5	$6,739
ECU>USWC 50k	142.5	$11,806	142.5	$11,875
Panamax Average Earnings		*$6,013*		*$4,900*
LR2 (13.0 Kts L/B)				
AG>JPN 75k	85.0	$7,396	93.0	$9,700
AG>UKC 80k	$1.40m	$3,432	$1.48m	$4,953
MED>JPN 80k	$1.88m	$9,554	$1.69m	$6,616
AG>UKC/MED>JPN/AG	--	$12,998	--	$11,787
LR2 Average Earnings		*$9,261*		*$10,395*
LR1 (13.0 Kts L/B)				
AG>JPN 55k	91.0	$4,790	99.0	$6,492
AG>UKC 65k	$1.05m	$539	$1.09m	$1,454
UKC>WAFR 60k	109.5	$3,650	109.0	$3,595
AG>UKC/UKC>WAFR/AG	--	$7,601	--	$8,182
LR1 Average Earnings		*$6,195*		*$7,337*
MR (13.0 Kts L/B)				
UKC>USAC 37k	155.0	$10,150	140.0	$7,668
USG>UKC 38k	90.0	$671	75.0	$(1,800)
USG>UKC/UKC>USAC/USG	--	$10,407	--	$7,031
USG>CBS (Pozos Colorados) 38k	$375k	$6,833	$345k	$4,853
USG>CHILE (Coronel) 38k	$1.05m	$10,409	$975k	$8,273
CBS>USAC 38k	125.0	$7,666	115.0	$5,920
MR Average Earnings		*$9,722*		*$7,646*
Handy (13.0 Kts L/B)				
MED>EMED 30k	183.0	$22,613	168.0	$18,813
SPORE>JPN 30K	131.0	$4,939	132.0	$5,128
Handy Average Earnings		*$11,301*		*$10,054*

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



US Crude Stocks (EIA)	**Last Week** 418.4 MnBbls	**Week y/y** ▼ -15.4%



US Gasoline Demand (EIA)	**Last Week** 9.044 MnB/d	**Week y/y** ▲ +8.8%

2018 2017

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

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SPOT MARKET SUMMARY

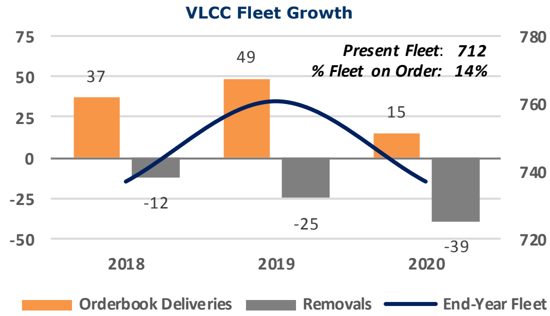
VLCC

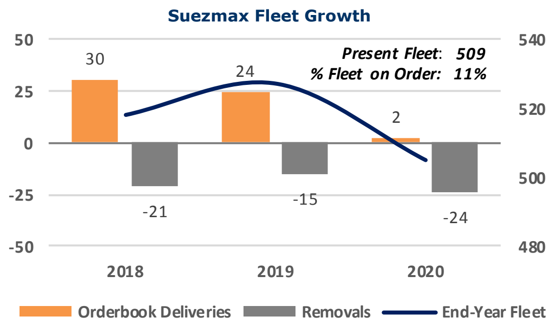
VLCC supply/demand positioning in the key Middle East market worsened further this week as the pace of demand dropped, effectively, its lowest level in several years, draws to the Atlantic basin remained moderate and fresh units continued to appear on position lists. The Middle East market observed 17 fixtures this week; however, as nine of these were covered under COA agreements, just eight cargoes were actually being actively worked. This is the lowest figure since we began tracking the data in this way. Meanwhile, there were six fixtures in the Atlantic basin; although representing a doubling from last week's tally, it was below the 52-week average and below expectations. For its part, further fresh units appeared on Middle East position lists. The surplus projected through the end of the second decade of the February program jumped to 30 units – the largest surplus observed since June 2014. Contributing to the rise, some units previously engaged in floating storage have returned to market as recent crude price gains and a backwardated futures structure simultaneously incentivized inventory sales and trimmed demand for normalized purchases. The impact of this situation should moderate as oil markets normalize and the coinciding of rising US crude exports should help to support some rebalancing of the market in the coming months. Still, rates and earnings will remain undermined by a structural oversupply through at least the near- and intermediate-terms.

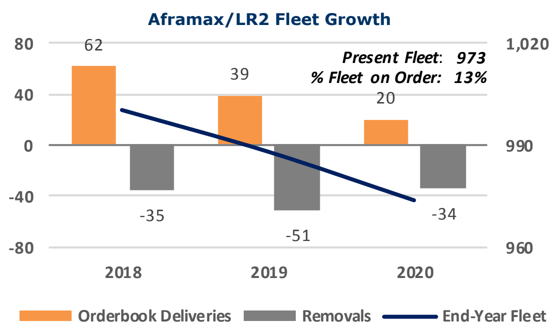
Middle East
Rates to the Far East route dropped 3 points to conclude at ws37 with corresponding TCEs dropping 22% to ~$9,974/day. Rates to the USG via the cape were unchanged at ws18. Triangulated Westbound trade earnings gained 5% to a closing assessment of ~$16,562/day.

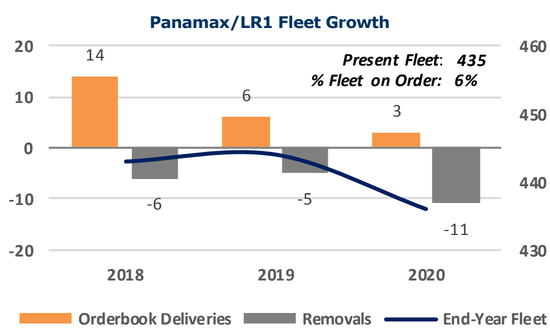
Atlantic Basin
Rates in the West Africa market lagged those in the Middle East. WAFR-FEAST rates lost 0.5 point to conclude at ws44.5 with corresponding TCEs off by 3% to ~$14,718/day.

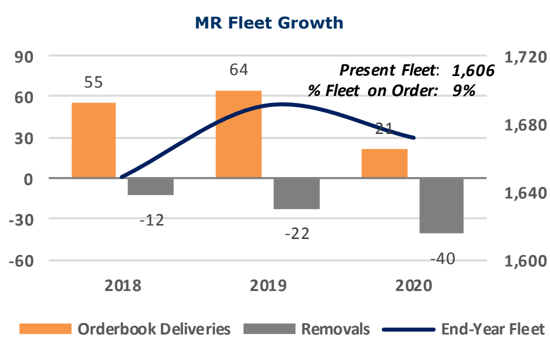
Rates in the Atlantic Americas were stable on last week's strong demand. The CBS-SPORE route was unchanged at $3.5m lump sum with the corresponding round-trip TCE concluding at ~$16,138/day.











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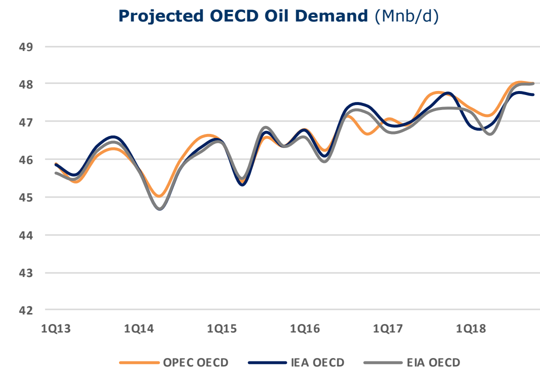
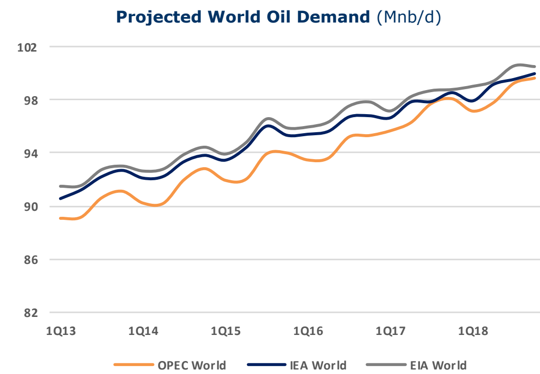
Suezmax

Suezmax rates in the West Africa market lost further ground early this week as the impact of a weak demand environment in the Black Sea market pushed more units into the region. Rising resistance by owners from mid-week ultimately saw rates pare earlier losses, though TCEs remain abysmal. The WAFR-UKC route concluded at ws52.5, unchanged from a week ago after dropping to the ws50 level earlier during the week. The route's TCE concludes at just ~$908/day.



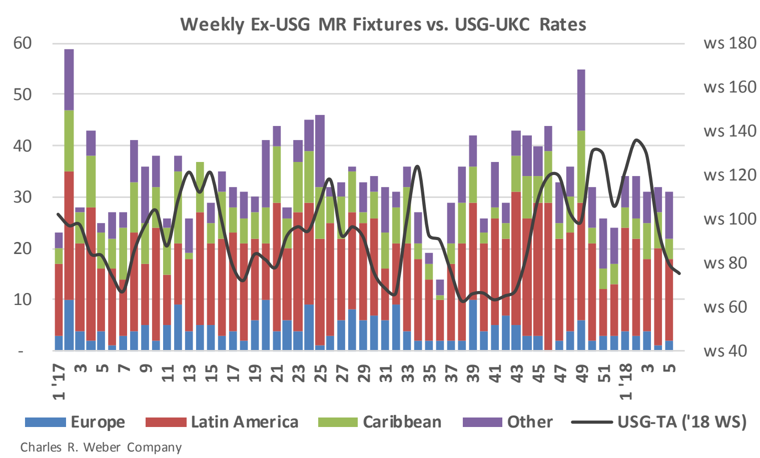
Aframax

Voyage TCE returns in the Caribbean Aframax market declined to fresh multiple-year lows this week as rates declined further. The CBS-USG route shed five points to conclude at ws85 and corresponding TCEs off 40% to just ~$2,387/day, breaking below 2017's trough. The USG-UKC route lost 10 points to conclude at ws65. Little change to the supply/demand positioning during the upcoming week is presently evident, though further losses may be elusive given waning interest from owners in assuming the risk associated with trades while TCE earnings are at sub-OPEX levels (and approaching negative levels for some units).



MR

Rates in the USG MR market remained in decline this week as participants' sentiment remained psychologically driven by the extent of rate losses observed last week and around the impact of freeing vessels on Mexico's East Coast and the specter of greater ballasts from the USAC. Fundamentals, however, remained unsupportive of the extent of rate losses observed, which saw rates on many routes pare some losses towards the end of the week. A total of 31 fixtures were observed, or one fewer than last week. Meanwhile, at the close of the week the two-week forward view of available tonnage is unchanged from a week ago at 41 units. The USG-UKC route shed 15 points to conclude at ws75. The USG-CBS route shed $30k to conclude at $345k lump sum (having dipped to the $325k level earlier during the week). Similarly, the USG-Chile route lost $75k for the week to conclude at $975k lump sum, after rebounding from an earlier low of $925k. We expect that rates will continue to inch up during the upcoming week as rates remain below levels guided by the supply/demand positioning. Simultaneously, successive declines in PADD 3 refinery utilization rates and regional distillate and gasoline inventories could create a challenging environment for ex-USG demand, which may limit the extent of near-term rate upside – and, indeed, has prompted us to reduce our forward view of average rates during February to ws82.5 for the USG-UKC route and $375k for the USG-CBS route.



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REPORTED TANKER SALES

"Anikitos" – 50,082/16 – Samsung Ningbo – DH – IMO II
-Sold for $31.5m to Greek buyers (Capital Product Partners) as part of an internal sale/TCB deal.

"Ashland" – 46,162/00 – Hyundai Ulsan – DH
-Sold for $8.5m to Indian buyers (Seven Islands Shipping).

"Green Ray" – 19,940/03 – Usuki – DH – IMO II/III
-Sold for $10.7m to Indonesian buyers (Waruna). Unit due for SS/DD 08/2018.

"Crane Jupiter" – 8,558/02 – Higaki – DH – IMO II/ III
-Sold for $6.5m to undisclosed Indonesian buyers.

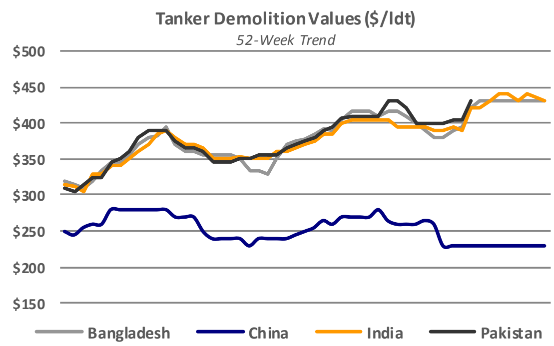
REPORTED TANKER DEMOLITION SALES

Unknown

"Tajimare" – 265,539/96 – 31,141 LTD – DH
-Sold for $447/ldt.

FSO **"African Leader"** – 84,080/90 – 14,830 LTD – DH
-Sold on private terms. Unit converted chemical/products tanker 2010.

"Umnenga" – 66,895/93 – 12,878 LTD – DH
-Sold for $438/ldt basis as is, Colombo.



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