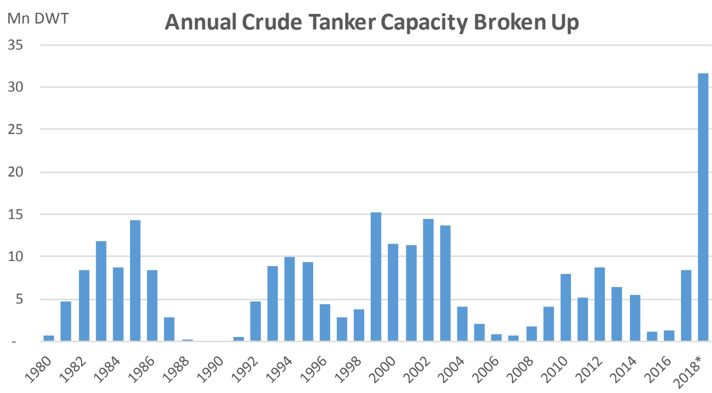
WEBER WEEKLY TANKER REPORT

WEEK 8 – 23 FEBRUARY 2018 | **ISSUE 8 – 2018**

Record crude tanker demolition demolitions during 2018?

Following a depressed year for crude tanker earnings during 2017, rising $/ldt demolition values appear to be the only positive development for owners of elderly tonnage during the first weeks of 2018 amid a worsened trading environment. Through the first eight weeks of 2018, crude tanker earnings have posted an average decline of 65% on the same period during 2017 – to levels that are either at or below OPEX costs in most cases. At the same time, $/ldt values have continued to rise, posting a 40% gain since the start of 2017.

Strengthening $/ldt values already prompted an accelerating of demolition sales activity during 2H17 and, over the course of the whole year, more tanker tonnage was demolished than during 2014, 2015 and 2016 combined. The trend appears to be accelerating, as so far this year there has been 4.3 Mn DWT of crude tanker capacity sold for demolition; on an annualized basis, this is a nearly four-fold year-on-year increase. Several additional crude tanker units currently under negotiation for demolition sales suggest that the trend may rise still – particularly as many of the units being worked are VLCCs.

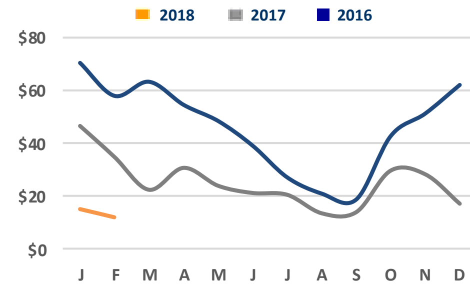


*Annualized from YTD as of 23 Feb
Charles R. Weber Company

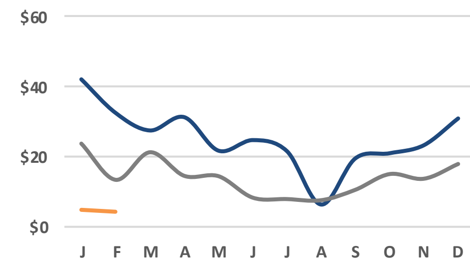
A heavy phase-out program between now and the end of the decade had already projected by market participants and factored into the projecting of a recovery of earnings in the coming years, in light of the age distribution of the crude tanker fleet and the high cost of compliance with forward maritime regulations. Pegging the precise timing of most units' phase-outs, however, is complicated by a number of factors, not the least of which is the fact that many owners have historically enjoyed better returns from older units that usually have little or no debt servicing obligations.

Our phase-out projections are made both generally (based on age and SS/DD positioning) and granularly (in consideration of known variables pertaining to the deployment, trading orientation and ownership profile of each unit). Yet, despite the expectations of both the market and our models, the extent of demolition activity was rather uninspiring until 3Q17 – well after the earnings downturn commenced. Moreover, even as the pace of demolitions surged during 3Q17 and 4Q17, the average age of demolished units actually rose to 27.7 years. The reluctance of owners to agree to demolition sales even as earnings were nosediving appeared to many as a harbinger of a poor trading market for years, rather than quarters, to come.

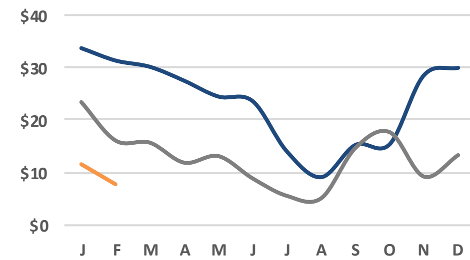
Since the start of the year, however, the average age has declined considerably to 21.7 years, with no less than five units younger than 20 years included in the average. Participants in the crude tanker market will undoubtedly be closely monitoring the pace and age characteristics of units sold for demolition in the coming months to ascertain the shape a forward recovery of earnings may take. Certainly, a sustained commitment to the demolition option by owners would be a positive development that could hasten a recovery forward by at least a few quarters.



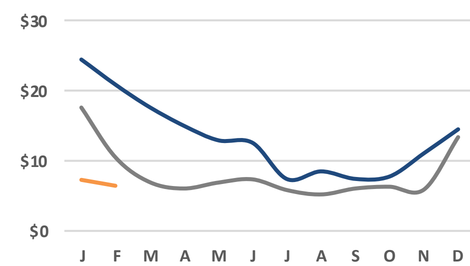
VLCC Average Earnings	MTD Average ~$11,825/Day	Month y/y ▼ -66%



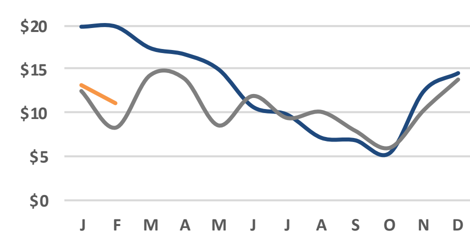
Suezmax Average Earnings	MTD Average ~$4,402/Day	Month y/y ▼ -67%



Aframax Average Earnings	MTD Average ~$7,644/Day	Month y/y ▼ -53%



Panamax Average Earnings	MTD Average ~$6,411/Day	Month y/y ▼ -38%



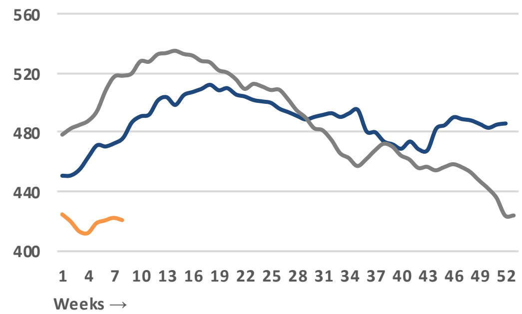
MR Average Earnings	MTD Average ~$11,051/Day	Month y/y ▲ +33%

WEBER WEEKLY TANKER REPORT

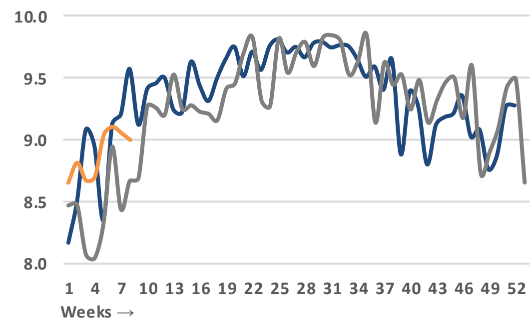
Spot Market	WS/LS	TCE	WS/LS	TCE
VLCC (13.0 Kts L/B)	**16-Feb**		**23-Feb**	
AG>USG 280k	18.0	--	17.5	--
AG>SPORE 270k	38.0	$9,468	37.0	$8,280
AG>JPN 265k	37.0	$11,318	36.0	$10,072
AG>CHINA 270k	39.0	$8,645	39.0	$8,406
WAFR>CHINA 260k	41.0	$13,023	41.0	$12,482
CBS>SPORE 270k	$3.25m	$14,522	$3.25m	$13,967
AG>USG/CBS>SPORE/AG	--	$16,076	--	$15,041
VLCC Average Earnings		*$11,463*		*$10,574*
SUEZMAX (13.0 Kts L/B)				
WAFR>USG 130k	52.5	$6,261	47.5	$4,193
WAFR>UKC 130k	55.0	$3,451	52.5	$1,816
BSEA>MED 140k	72.5	$5,168	65.0	$284
CBS>USG 150k	55.0	$7,099	55.0	$6,570
USG>UKC 130k	47.5	--	47.0	--
CBS>USG/USG>UKC/WAFR	--	$6,081	--	$5,424
AG>USG 140k	27.5	--	25.0	--
USG>SPORE 130k	*$2.00m*	--	*$2.00m*	--
AG>USG/USG>SPORE/AG		$9,120		$8,021
Suezmax Average Earnings		*$5,580*		*$3,085*
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k	90.0	$(105)	90.0	$(706)
BALT>UKC 100k	70.0	$7,290	70.0	$6,649
CBS>USG 70k	110.0	$11,751	107.5	$10,561
USG>UKC 70k	80.0	--	80.0	--
CBS>USG/USG>UKC/NSEA	--	$11,751	--	$17,078
MED>MED 80k	85.0	$5,930	105.0	$13,294
AG>SPORE 70k	87.5	$8,137	85.0	$7,300
Aframax Average Earnings		*$9,273*		*$9,837*
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k	107.5	$2,596	115.0	$3,905
CONT>USG 55k	105.0	$8,467	100.0	$6,866
ECU>USWC 50k	142.5	$12,885	142.5	$12,506
Panamax Average Earnings		*$7,377*		*$7,115*
LR2 (13.0 Kts L/B)				
AG>JPN 75k	84.0	$8,037	101.5	$12,691
AG>UKC 80k	$1.50m	$6,485	$1.50m	$6,128
MED>JPN 80k	$1.54m	$5,409	$1.51m	$4,506
AG>UKC/MED>JPN/AG	--	$11,550	--	$10,822
LR2 Average Earnings		*$9,207*		*$12,068*
LR1 (13.0 Kts L/B)				
AG>JPN 55k	108.5	$9,083	115.0	$10,267
AG>UKC 65k	$1.21m	$4,558	$1.29m	$5,864
UKC>WAFR 60k	107.5	$4,164	101.0	$2,686
AG>UKC/UKC>WAFR/AG	--	$10,405	--	$10,493
LR1 Average Earnings		*$9,744*		*$10,380*
MR (13.0 Kts L/B)				
UKC>USAC 37k	155.0	$11,286	160.0	$11,781
USG>UKC 38k	85.0	$791	110.0	$4,695
USG>UKC/UKC>USAC/USG	--	$10,804	--	$14,321
USG>CBS (Pozos Colorados) 38k	$425k	$11,029	$475k	$14,141
USG>CHILE (Coronel) 38k	$1.10m	$12,633	$1.20m	$15,279
CBS>USAC 38k	125.0	$8,523	130.0	$9,145
WCIND>JPN/ROK>SPORE/WCIND	--	$12,181	--	$12,001
MR Average Earnings		*$11,140*		*$13,013*
Handy (13.0 Kts L/B)				
MED>EMED 30k	156.0	$16,218	148.0	$14,023
SPORE>JPN 30K	135.0	$5,978	136.0	$6,014
Handy Average Earnings		*$9,664*		*$8,898*

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	$24,000	$30,000
Suezmax	$16,000	$21,000
Aframax	$14,500	$17,500
Panamax	$13,000	$14,500
MR	$14,000	$15,000
Handy	$12,750	$13,500



US Crude Stocks (EIA)	**Last Week**	**Week y/y**
	420.5 MnBbls	▼ -18.9%



US Gasoline Demand (EIA)	**Last Week**	**Week y/y**
	9.002 MnB/d	▲ +3.9%

2018 2017 2016

SPOT MARKET SUMMARY

VLCC

The VLCC market appeared to be further deteriorating this week with fresh demand-side headwinds adding to those caused by an ongoing and pronounced structural oversupply situation. Fixture activity in the Middle East market dropped 7% w/w and COA coverage thereof increased by six percentage points to account for 43% of the total. The Atlantic basin was worse yet: there were zero fixtures in the West Africa market, marking the first such occurrence in over a decade while in the Americas, demand remained limited and fresh cargoes were met with a growing list of available units.

Middle East
Rates on the AG-CHINA were unchanged at an apparent floor of ws39 (the shorter-haul AG-SPORE route experienced a fresh weakening). Corresponding TCEs concluded the week at ~$8,406/day. Rates to the USG via the Cape were off by 0.5 point to ws17.5. Triangulated Westbound trade earnings were off by 6% to ~$15,041/day.

Atlantic Basin
Rates in the West Africa market followed those in the Middle East. The WAFR-FEAST route was unchanged at ws41. The route's TCE concludes the week at ~$12,482/day. In the Americas, rates were unchanged at $3.25m lump sum for CBS-SPORE voyages.

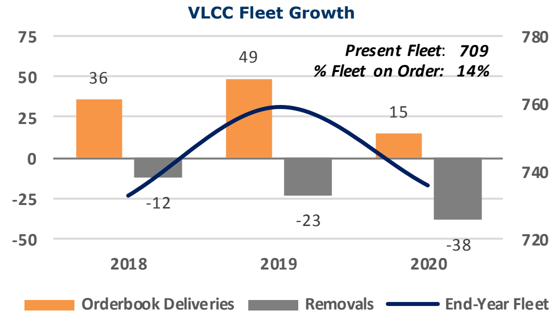
Suezmax

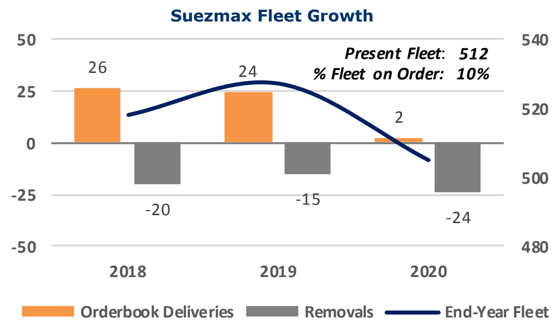
The West Africa Suezmax market observed a 50% w/w demand gain with 15 regional fixtures materializing representing a four-week high. The demand gains follow a decline in VLCC coverage of the first half of the March cargo program, though the demand gains afforded to the smaller class on this basis were below our expectations. Meanwhile, the Suezmax class' declining ability to compete in Aframax classes given its higher $/MT freight floor has offset a more than doubling of Black Sea Suezmax cargo demand to influence vessel availability higher. Rates on the WAFR-UKC route shed 2.5 points to conclude at ws52.5. Similarly, in the Black Sea market rates on the BSEA-MED route dropped 7.5 points to ws65.

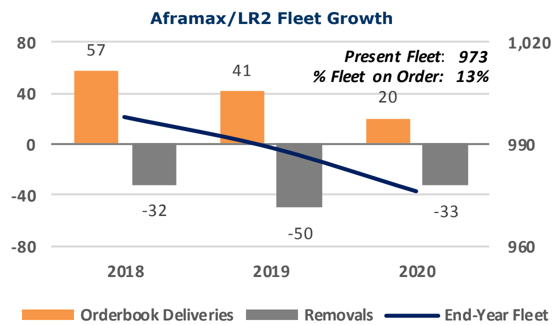
In the Americas, rates were mostly range bound at an effective floor. The CBS-USG route was unchanged at 150 x ws55 while the USG-UKC route shed 0.5 point to ws7

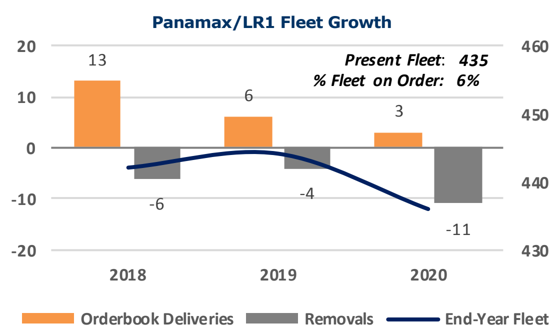
Aframax

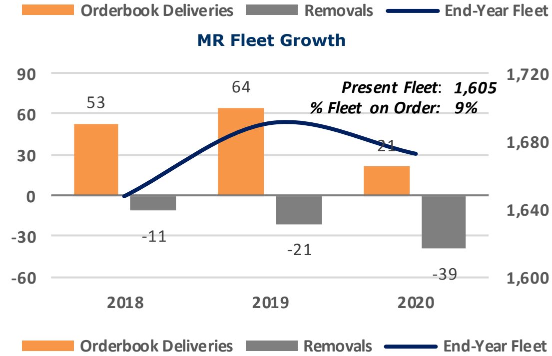
Rates in the Caribbean Aframax market remained buoyant this week as weather-related delays in the USG region continued to keep tonnage availability tight. Rates on the CBS-USG route concluded the week off 2.5 points to ws107.5. Though a full correcting of rates to levels observed two weeks ago remains unlikely to materialize immediately, the appearance of fresh units on lists on Monday should start to see some rate losses materialize with the trend likely to accelerate thereafter in line with the easing of delay issues.







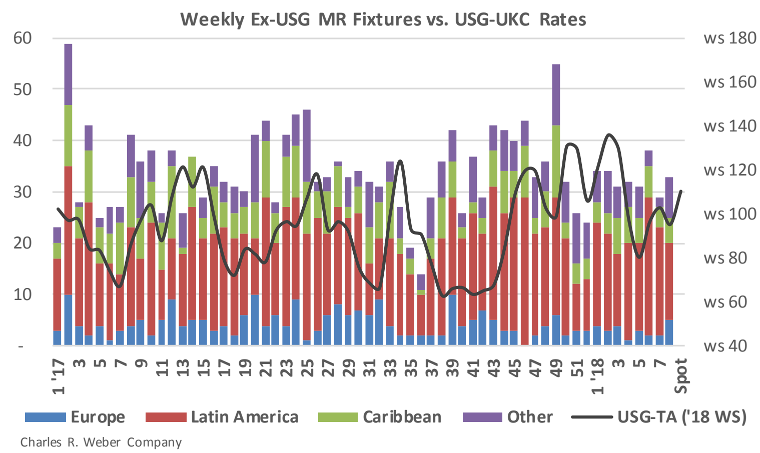


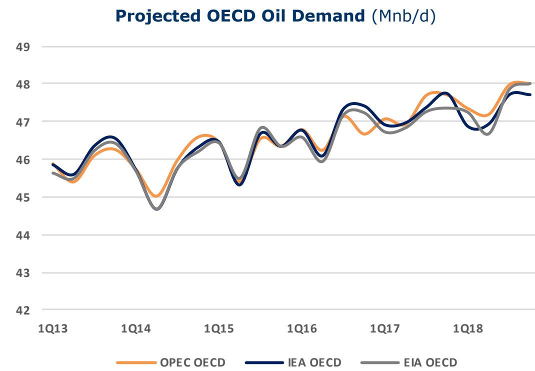


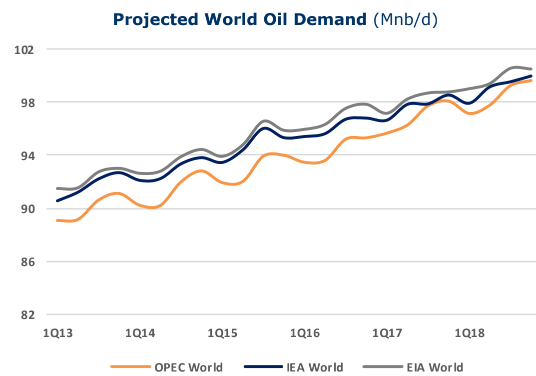
MR

In the USG market, the specter of strong availability builds during the holiday weekend which had weighed negatively on rates at last week's close ultimately proved unfounded as the two-week forward availability count facing those charterers who were working on Monday had actually declined over the weekend. Typically, availability rises on Monday as fresh units appear on commercial managers' position lists. In part, this may have been attributable to fog closures of the Houston Ship Channel, which delayed some units – though the weaker sentiment prevailing in the market a week ago likely also helped by influencing units freeing on the USAC to ballast back to the UKC market for its then more attractive earnings environment. On the demand side, the first half of the week was supported by the previous week's EIA data that showed a building of PADD3 gasoline inventory build in spite of a decline in regional refinery utilization rates amid regional turnarounds. Ultimately, there were 33 fixtures this week, which is on par with the YTD weekly average but represents a 14% w/w gain.

This week's EIA data shows a further 2.6 percentage points decline in PADD 3 refinery utilization last week, but only small 100,000 bbls decline in regional gasoline inventories (nationally, gasoline inventories rose by 200,000 bbls). This, together with supply-side development, suggests to us that the negative impact of PADD 3 refinery maintenance has been less pronounced than usual which should limit the amount of time the market needs to capture the upside of declining maintenance and seasonal demand gains during the final weeks of Q1.







REPORTED TANKER SALES

Ridgebury Sally B – 105,672/03 – Sumitomo – DH
-Sold for $9.3m to Eurotankers of Greece. Unit due for SS/DD 03/2018.

Maersk Privilege – 105,483/03 – Sumitomo – DH
-Sold for $12.7 to Winson Shipping of Taiwan. Unit due for SS/DD 11/2018.

Hafnia Australia – 74,540/10 – STX Jinhae – DH
-Sold on private terms to undisclosed Japanese buyers including 12-Year BBB w/ purchase option from year 4.

Speed Pioneer – 70,514/00 – Namura Imari – DH
-Sold for $6.0m to undisclosed China-based buyers.

British Courtesy – 47,210/05 – Hyundai Mipo – DH – Ice 1A
British Serenity – 47,210/05 – Hyundai Mipo – DH – Ice 1A
British Tranquility – 47,210/05 – Hyundai Mipo – DH – Ice 1A
-Sold en bloc for $12.2m each to undisclosed buyers including TCB.

Huascar – 35,722/92 – Shin Kurushima Onishi – DH
-Sold at auction for $2.8m to Trinity Ships of Greece. Unit converted to DH 01/2012.

Princimar Equinox – 19,976/12 – Ningbo Xinle – DH – IMO II – Ice 1C
-Sold for $15.1m to undisclosed Singapore-based buyers.

Martina – 11,137/98 – Nuovi Cantieri Apuania – DH – IMO II
-Sold for $4.0m to Falzon Group Holdings of Malta. Unit due for SS/DD 04/2018.

REPORTED TANKER DEMOLITION SALES

Final Destination: **India**

Pacific Pioneer – 105,237/98 – 16,700 LDT – DH
-Sold for $460/ldt.

Omega 1 – 46,538/90 – 9,550 LDT – DH
-Sold on private terms.

Bukhara – 45,691/92 – 8,259 LDT – DH
-Sold on private terms. Crude/DPP tanker.

Rising Phoenix – 38,793/87 – 9,545 LDT – DH
-Sold on private terms.

Zenith Star – 5,218/84 – 2,576 LDT – DH
-Sold on private terms.

Final Destination: **Unknown**

Kos – 305,870/01 – 43,178 LDT – DH
-Sold for $440/ldt basis as is, Khor Fakkan.

Poros – 284,170/00 – 38,979 LDT – DH
-Sold for $440/ldt basis as is, Khor Fakkan, including 500 MT bunkers. Unit due for DD 04/2018.

Kriti Breeze – 134,441/96 – 21,642 LDT – DH
-Sold for $430/ldt basis as is, Khor Fakkan.

Kuban – 106,562/00 – 16,280 LDT – DH
-Sold for $420/ldt basis as is, Singapore. Unit due for DD 03/2018.

Moscow – 106,553/98 – 16,289 LDT – DH
-Sold for $420/ldt basis as is, Singapore. Unit due for DD 10/2018.

Moscow Kremlin – 106,521/98 – 16,321 LDT – DH
-Sold for $420/ldt basis as is, Singapore. Unit due for DD 11/2018.

Cotopaxi – 66,100/99 – 12,236 LDT – DH
-Sold for $420/ldt basis as is, Singapore.

Kakariki – 46,724/99 – 11,916 LDT – DH
-Sold for $438/ldt.

Limar – 46,170/96 – 9,701 LDT – DH – IMO III
-Sold on private terms.

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