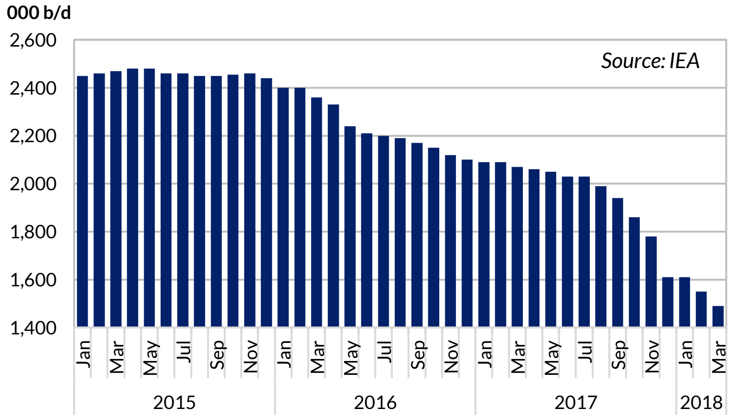
A New Hope?

Weekly Tanker Market Report

Later this month the people of Venezuela will once again be heading to the polls to vote in Presidential elections. Whatever the outcome of the vote, the next government will be facing significant challenges over the next few years. The Venezuelan economy is almost entirely dependent on revenue generated from the oil and gas industry. Opec's decision in November 2014 to remove all production limits hit Venezuela particularly hard as the oil price fell to historically low levels. As a result, the nation's economy slumped from what was already a precarious position and despite the country sitting on the world's largest proven oil reserves. Venezuela lacked the financial investment and expertise from overseas companies, which could have helped drive down production costs as well as support higher production levels which in turn would have at least slowed the nation's economic decline. According to the IEA, in March Venezuelan production fell to just 1.5 million b/d, down 24% from a year earlier. Production has fallen by around 40% since Maduro took office in 2013, following the death of Chavez. Until recently, sanctions imposed by the US against Venezuela has benefited the tanker market in terms of long haul crude exports previously destined for US refineries. However, as production and the quality of the crude continues to decline, the impact on shipments is a cause for concern. Between January and April this year, some 9.5 million tonnes of crude and fuel oil was shipped on VLCC and Suezmax tonnage to Asia, down from 12.2 million tonnes over the same period in 2017. Fortunately for the tanker market, increased volumes from the US and Brazil have more than compensated for these losses.

Venezuelan Crude Production



It must be concluded that Venezuela urgently needs huge outside investment into their oil and gas industry which in all probability needs to be in the form of foreign technology and investment. The current political impasse with the US would make this difficult. The fear of another Maduro victory, the most likely result, has resulted in several companies trimming further their operations in the country. In April, Schlumberger joined other service providers, by reducing their Venezuelan workforce, because of payment problems with money owed to them. Chevron have also withdrawn key personnel ahead of the election. In the same month, ConocoPhillips received confirmation from an arbitration case that the state-owned oil company Petroleos de Venezuela SA (PDVSA) owes them $2.04 billion in a contractual compensation settlement dating back to 2007. Also last month Halliburton announced that it was writing down its remaining investment in the distressed Opec member, citing "continued devaluation of the local currency, combined with US sanctions and ongoing political and economic challenges". Reuters reported that in March PDVSA's refineries were operating at 43% of their total capacity due to a lack of spare parts, light crude and feedstock caused by cash flow problems. Venezuela is consistently short of gasoline and other fuels and is forced to import more and more to supplement domestic demand.

The elections are unlikely to change the political scene, though the outcome will be keenly followed in Washington and further measures could be placed against Venezuela. Therefore, it is difficult to see much hope of a turnaround anytime soon. The problems that plague Venezuela's oil industry are only going to get worse as the nation's economic and political crisis deepens. The IEA's prognosis sees production falling to around 1 million b/d by 2020, which places an even greater burden on servicing their huge international debt. The pressures on the Caracas government continue to mount and at the moment there appears to be no release valve.

Crude Oil

Middle East

A slow feel to the week for VLCCs, but in fact there was reasonable demand and it was just that there was such easy availability that merely repeat-rate fixing served to numb enthusiasm. The end month phase will be underway shortly, and with it, perhaps the chance of a slight flick in the tail, but any rate increases that do develop are more likely to be only compensatory for higher bunker prices that will affect the majority of those yet to load. Currently rates peak into the low ws 40's East for modern units with discounts into the low ws 30's for more challenged vessels, with rates to the West stuck under the ws 20 barrier. Suezmaxes bumped along on very modest demand and easy supply. 130,000mt at down to ws 62.5 East and to ws 24 West, with many Owners deciding to ballast off to the Atlantic in protest. Aframaxes operated to a slow bell - again - and 80,000mt by ws 87.5 to Singapore proved an effective ceiling to the market. No early change likely.

West Africa

Suezmaxes began brightly to push above ws 70 for all destinations, but quickly hit their Icarus moment as Eastern ballasters began to threaten and Charterers started to seek VLCC alternatives, and then to more generally hold back. Rates fell sharply to ws 55 USGulf, and to under ws 60 to Europe, in response and Owners will now move through a period of hard defensive digging to attempt to prepare for a fightback if Charterers once again decide to shop in numbers. VLCCs found a raft of rare interest to Europe courtesy of the Suezmax mini-spike and quickly established 260,000mt at ws 47.5 as 'conference' for those runs. Some of those deals eventually failed subjects as the smaller size crumpled, but the resurgent Caribbean/USGulf zone provided an attractive alternative, and supported rates to the East to end the week with a small gain to 260,000mt by ws 42.5 to China with around $2 million payable from Angola to West Coast India.

Mediterranean

Aframax Owners lost their ball and Charterers chased the market steadily down to as low as 80,000mt by ws 80 X-Med and an elongated phase of bottom feeding will be needed to re-inflate. Suezmaxes - as in West Africa - began hopefully but likewise also dipped into the second half of the week, albeit less remarkably. 140,000mt by ws 80, at best, for European destinations now and Owners will remain upon the defensive for a little while yet.

Caribbean

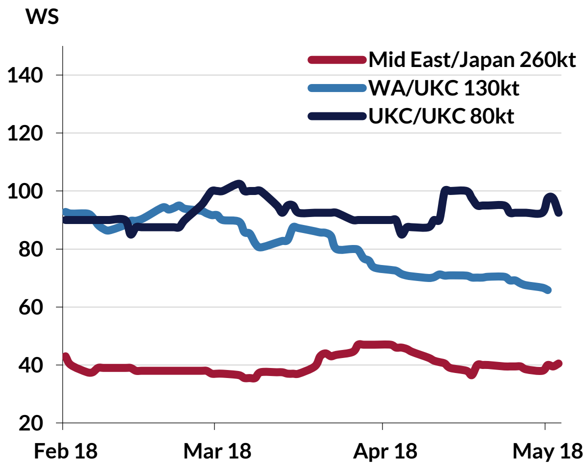
Aframaxes huffed and puffed but never quite achieved critical mass to allow the market to break through the 70,000mt by ws 100 barrier upcoast. More of the same forecast for the coming period too. VLCCs had already become tight, and a week of strong fixing volume converted into a marked rate rise to $3.4 million

from the Caribs to Singapore, and to $3.0 + million to West Coast India. Ballasters from the East will lend some dilution, eventually, but for the time being, Owners will remain in the driving seat.

North Sea

No discernible change here in the low-based Aframax rate structure - 80,000mt by ws 90/95 X-UKCont and 100,000mt by ws 67.5 from the Baltic are today's marks, and will probably not improve from those given the wave of tonnage now arriving from the USGulf area. VLCCs had Caribbean alternatives to support and Charterers had to add premiums to previous rate levels to engage. Crude oil from Hound Point to South Korea now moves at over $4.25 million, with just under $3 million asked for fuel oil to Singapore.

Crude Tanker Spot Rates



Clean Products

East

A busier week for the LR2s, finishing with a more positive sentiment. The activity has managed to clear out some of the early ships, and we head in to the next week with a good number of outstanding cargoes. Rates have finally begun to firm a little and if these levels of activity hold, possibly we will see a further rate rise next week. Heading west finishes on $1.65 million, but could see a further push next week. TC1 has seen a small rise this week to ws 87.5, but considering the flat previous few weeks, any rise is a welcomed change.

The LR1s have remained steady, with no changes to the rates. They haven't followed suit to the larger tonnage with the high levels of activity, but have had enough to maintain rates. TC5 has been tested throughout the week and closes at ws 110 levels. Heading towards the UKCont remains less popular and Owners try to balance their fleet, thus it sits at $1.475 million. There is a decent amount of outstanding cargoes to start off the new week, but the prompt tonnage is going to need to be cleared before we are likely to see any rates firm. The sideways trend looks set to hold for now.

A reasonably flat week on the MRs, activity has kept ticking over but with minimal changes rates wise. X-AGulf has been moderately tested and sits at $150k mark. EAF has finally stopped falling and has levelled out and remained at ws 135 all week. Owners will be hoping it has reached its natural floor and allow rebuilding to begin. Red Sea runs fluctuated a little, however, settled at $325k. TC12 saw a mid-week change, pushing 5 points to finish on ws 130. UKCont still remains very untested at $1.125 million and is in definite need of a fresh test. The flat sentiment is likely to stick around even though there has been a late week influx of fresh stems, they are still not appearing at a fast-enough pace to generate an upwards rate push. With the natural fixing window sitting on 10-15 dates, there is plenty of tonnage around and a few prompt ships post the weekend, it will take one or two busy days next week to get the tonnage list looking balanced again.

Mediterranean

There has been little on offer to provide much excitement in the Med this week, with rates trading more of less flat for the duration, with 30 x ws 140 for X-Med being the going rate with momentary blips above (and occasionally below). Ultimately this has been due to the pace of fresh enquiry matching the rates at which the tonnage list is being resupplied, in turn this means the playing field is pretty level with both Owners and Charterers seemingly happy to fix last done or thereabouts. Black Sea rates have mirrored the sentiment seen on the X-Med market with a comfortable ws 10 point premium that looks to be maintained going forward. At first glance a short week in the UK next week is unlikely to provide much inspiration to the Med Handies, so expect rates to be trading in a similar vein as they currently are.

All in all, the MRs in the Med have been pretty placid in terms of offering an alternative to NWE despite tonnage looking a little tight early in the week which saw 37 x ws 155 on subs, but ultimately fail. The odd cargo in the later stages of the week revealed a few more positions and in turn certain cracks in the market leaving number only able to trade in line with those achievable on the Continent. Med/transatlantic is offering Owners 37 x ws 140 today with WAF about ws 15-20 points above, a market

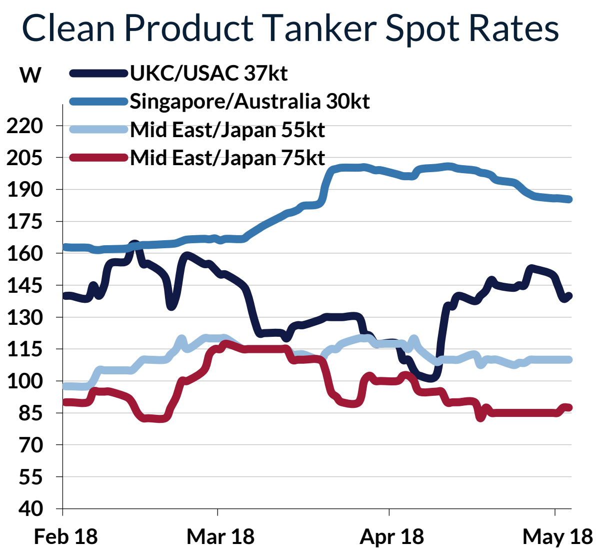
quote to Brazil mid-week sees 37 x ws 154 on subs suggesting some Owners may be more willing for certain routes. For the moment eyes are trained to the market in NWE in order to discern what numbers are on the cards, right now, it doesn't look like there's much for Owners to push on from.

UK Continent

A rather disjointed week for MRs up in the continent, the bank holidays across Europe hasn't enabled the market to gather any real momentum. Once tonnage lists were drawn first thing on Monday they showed a wealth of ballasters from the USAC setting sail for Europe to try and capitalise on the higher numbers compared to a softening USGulf market. With a healthy amount of units for fixing dates and cargo enquiry weak, TC2 began to soften and levels quickly fell to 37 x ws 140. WAF rates continue to react, basis transatlantic as demand is slow due to full tanks and a number of bigger units already booked for WAF discharge over the last few weeks. One positive to take from this week, will be the slight rebound seen from the States market which looking forward should now see USAC ballasters head down to the USGulf and stay away from European shores. For now Charterers remain in the driving seat.

Just like the MRs it has been a similar story this week for the Handies in the north as once again there has been enough tonnage to cater for demand. The market had a wobble at the start of the week as Baltic liftings dropped to 30 x ws 150 and X-UKCont to 30 x ws 140, but as we rolled through the days, cargo enquiry did improve which enabled Owners to hold onto last done levels. Looking ahead and with the tonnage seemingly looking rather balanced, many are expecting this sideways theme to continue in the short term.

A typically quiet week for the Flexis, that has become part and parcel of this market. As a result it is hard to give a meaningful benchmark as the small amount of action has been away from prying eyes under COAs or on Charterer controlled tonnage. As a result one must look to the Handy market to draw sentiment, with some gradual softening early in the week but ultimately finding its feet by Friday. For route guidance 22 x ws 185 is about where X-UKCont is trading, although it must be said in practice the actual 'rates on the ground' could be notably different depending on the willingness of Owners to minimise idle days.



Dirty Products

Handy

A roller coaster week for the North West Europe market, as fresh enquiry seemed to have stalled early on with a few prompt units forcing rates to drop right down to a low of ws 137.5 fixed from Slagen. However, as the week progressed, all cargo enquiries improved enough to clear down the position list and release the market from what was looking initially to be a challenging week for Owners. As the week closes, workable tonnage is now looking tighter and thus swinging the scales back to even levels, establishing rates up to ws 150 for Baltic-UKCont. Looking ahead towards next week, with the likely replenishment of tonnage due over the weekend, we do not expect considerable changes in the market trend which will remain stable.

The Mediterranean this week started off on the back of a firm couple of weeks trading, but with the fresh tonnage lists that were presented to us on Monday, it could be said it was inevitable that we have seen negative correction in rates. Owners with prompt tonnage managed to do a good job of maximising earnings where possible by fixing at the beginning of the week. However, as the days ticked by more and more units opened up putting enormous strain on Worldscale. With the week closing out today, the balance looks to be firmly in Charterers favour as rates continue to be under pressure with further downward pressure in the back of everyone's minds.

MR

Once again this week offered limited natural choice for Charterers, but we did witness a couple of tests from the region. Again this week proved that should a natural position present itself Charterers should move fast for cover and with the smaller sizes also tightening next weeks levels could elevate rather quickly.

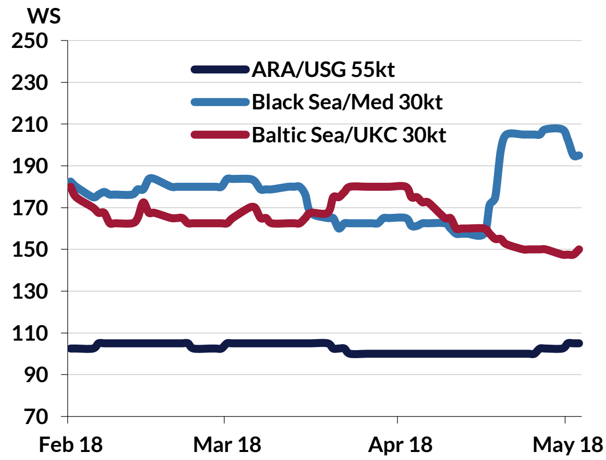
Owners would have felt the pressure for the majority of the week as rates particularly on the smaller sizes continued to drop like a stone, which did not help Owners cases when it came to full sized enquiry. A lack of action throughout, has seen vessels start to replenish in the region as next week, unfortunately for Owners, is likely to bring further negative correction.

Panamax

Unsurprisingly the Panamax sector this week traded sideways as a steady number of cargoes trickled into the market from this side of the Atlantic. Natural tonnage has once again thinned meaning US tonnage will need to be tempted this way unless some Owners aim their bows towards our shores over the long weekend.

The US market has also ticked along steadily offering Owners just enough employment opportunities to keep positions moving. In summary TD12 continues to be capped from competitive Aframaxes as more and more Owners are willing transatlantic since the recent surge of Aframax backhaul employment.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 03rd	Apr 26th	Last Month	FFA May/June
TD3C	VLCC	AG-China	**+1**	40	39	45	44
TD20	Suezmax	WAF-UKC	**-6**	61	67	55	60
TD7	Aframax	N.Sea-UKC	**+1**	93	92	90	94

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

			wk on wk change	May 03rd	Apr 26th	Last Month	FFA May/June
TD3C	VLCC	AG-China	**-500**	4,000	4,500	11,000	7,750
TD20	Suezmax	WAF-UKC	**-2,750**	7,750	10,500	6,500	7,500
TD7	Aframax	N.Sea-UKC	**+1,750**	-2,250	-4,000	-4,000	-1,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 03rd	Apr 26th	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+3**	88	85	98	
TC2	MR - west	UKC-USAC	**-12**	140	152	107	143
TC5	LR1	AG-Japan	**+0**	110	109	113	115
TC7	MR - east	Singapore-EC Aus	**-2**	185	188	196	

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

			wk on wk change	May 03rd	Apr 26th	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+0**	4,250	4,250	9,500	
TC2	MR - west	UKC-USAC	**-2,000**	8,000	10,000	3,750	8,500
TC5	LR1	AG-Japan	**-500**	6,750	7,250	8,750	8,000
TC7	MR - east	Singapore-EC Aus	**-250**	12,250	12,500	15,000	

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

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ClearView Bunker Price (Singapore 380 HSFO)	**-5**	415	420	382
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