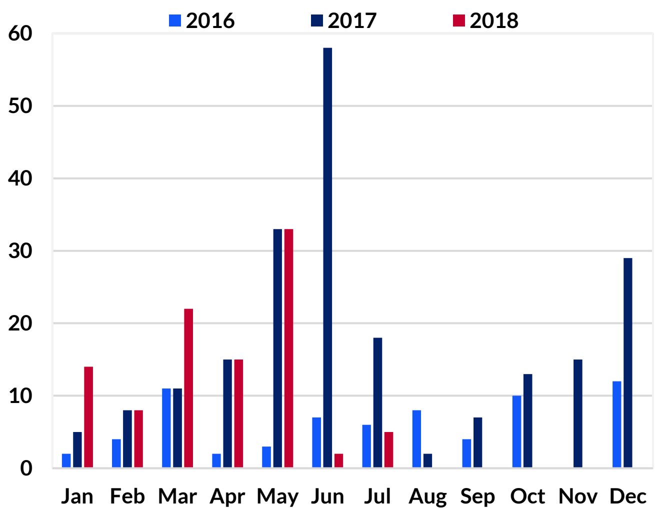
Opportunity or Risk

Weekly Tanker Market Report

There are signs that tanker ordering is beginning to slow down. It is not unusual to see a reduction in ordering activity over the summer months, but since the beginning of June our records show just a handful of fresh tanker contracts have been placed. Posidonia is often used as a launching pad for announcing new contracts, but this year's event was dominated by a tranche of LNG orders - only 2 tanker orders were placed in June. To put this in perspective, June to August 2017 shows 78 tanker orders were placed during a period where earnings in both the clean and dirty sectors were deteriorating. Of course, Trafigura announced a massive 32 ship order last June (2017) which swelled the numbers, but the appetite from other investors and owners kept contracts rolling in. Even 2016, a year of record low contracting activity saw more orders over the corresponding period. Of course, we could cite higher newbuilding prices for putting the brakes on. Twelve months ago, a Korean newbuild VLCC would have cost in the region of $82 million, today would be in the region of $90 million without any extras. However, rising prices has not prevented orders for 34 VLCCs placed in the first five months of the year. We have also recorded 38 MR orders this year, their price has risen to around $36 million, up $3 million on August last year.

Tanker orders by month



It is possible that increased pessimism on the speed of recovery in the tanker market from the current depression is weighing on owner's enthusiasm to place more orders for the time being. It is also worth noting the growing popularity of sale and leaseback deals by owners to keep their tankers moving are finding increasing favour, particularly amongst owners exposed in the product tanker sector. Spot earnings in the product market have been very weak for quite some time. 2018 has generally (so far) turned into a year for the owners of product tankers to forget despite limited fleet growth and declining product stocks lending some support. Prospects for a market recovery appear to be moving further out. Add to the mix the uncertainty over trade tariffs, then we are beginning to see an air of uncertainty enter all the shipping sectors. One example of this uncertainty is that despite the absence of US crude from China's latest round of retaliatory tariffs, this has done little to revive buying interest from Chinese refiners who have voluntarily cut back on imports of US crude, wary of the unpredictable nature of the dispute.

There are many different reasons for ordering a new ship. The popularity of scrubber technology has gained momentum this year despite dividing opinions of ship owners, some of whom appear to have changed their initial reluctance. Although it is difficult to provide a definitive percentage, much of the newbuilding uptake we are presently seeing will be either scrubber fitted or scrubber ready. New investment vehicles have swelled the VLCC orderbook, although the last confirmed orders were back in May with units confirmed by Elandra Tankers, Hunter Group and Oaktree Capital. Only two Suezmaxes have been ordered, both to be fitted with scrubber and with timecharters already in place. Also, within that size range 4 shuttle tankers for 2020 delivery were contracted in May. The few orders placed over the summer months have all been for MRs and a couple of LR2s, all for established owners. Access to finance still appears to be restricted for newbuilds and, at the moment, it is difficult to advocate investment in this area given the huge amount of uncertainty in the conditions that influence the tanker market.

Crude Oil

Middle East

VLCC Owners managed to stem last week's market slide, but Charterers failed to push sufficient fresh September barrels to allow for any more than marginal re-inflation. The week ends with rates for modern units at no higher than ws 53 to the Far East with runs to the West pegged in the very low ws 20's. Full September programmes will be in hand from early next week and there will be hope that positive momentum results - availability, however, will continue to weigh the odds against anything significant developing. Suezmaxes remained broadly flatline with never enough volume to lift the rate lid by more than a crack...130,000 by around ws 70 East and to ws 27.5 to the West now, and thin prospects of much change to that over the near term. Aframaxes were already ticking higher, and this week moved into a noticeably higher gear. Much busier, and tight for tonnage - rates jumped to 80,000 by ws 125 to Singapore and could well remain there for a while yet.

West Africa

Suezmaxes spent the initial part of the week consolidating absolute bottom markers that eventually encouraged Charterers to feed more actively and lead rates up slightly to 130,000 by ws 60+ to the US Gulf, and to ws 67.5 to Europe. Early availability is more finely balanced and if the feeding continues similarly then rates will continue to inflate...a spike, though, is rather unlikely. VLCCs saw only modest interest but Owners did manage to construct a 'conference' rate of ws 52 to the far East nonetheless and will be sensitive to any improvement in the AGulf if that develops.

Mediterranean

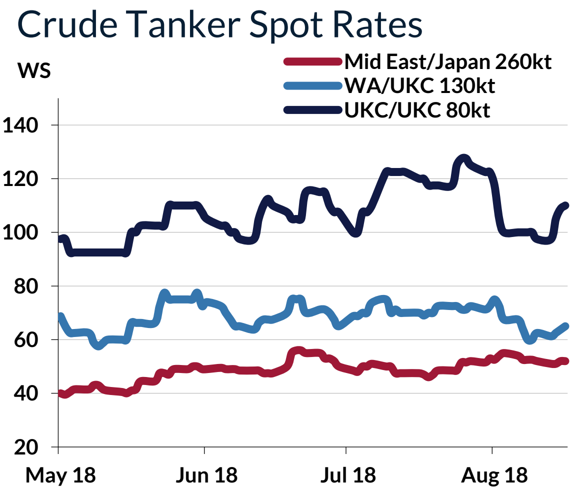
Aframaxes followed the upward script anticipated last week but as the list thinned, and rates rose, fresh volume started to falter, and the market stalled at the 80,000 by ws 125 level Cross Med which could hold for a little longer before counter pressure returns. Suezmaxes drifted sideways initially but did become a little more active later in the week and will move higher if West Africa does gain further next week. Currently 140,000 by ws 80 from the black sea to European destinations with around $2.9 million available for china discharge.

Caribbean

Aframaxes sank lower to 70,000 by ws 90 upcoast but enquiry then improved to prevent further falls, and with lists a little better balanced, there could be some mild fightback to come for next week. VLCCs have moved through an exceptionally slow phase but any rare opportunity on forward dates has met admirable resistance from Owners who hold ideas at close to $3.8 million from the US Gulf to Singapore. Discounting from that may be possible, but upon early dates where few barrels seem to be in play.

North Sea

With some help from the Med, but also with good local interest, Aframaxes broke away from their recently sticky lower rate range to move to 80,000 by ws 110+ cross UKCont and 100,000 by ws 85 from the Baltic - nothing spectacular, but Owners seem in confident enough mood to hold things there for the time being. VLCCs found little to engage with but rates that were seen, showed little change - $4.375 million for crude oil from Hound Point to South Korea with ideas for fuel oil to Singapore still just a little above $3 million.



Clean Products

East

On the whole MR Owners will want to put week 33 in the bottom of the chest and sink it to the bottom of Davy Jones' locker. Rates have been negatively tested aggressively and with a lack of outstanding cargoes to add to the mix, Owners have been competing hard on the scarce cargoes that do appear. EAFR has come off hard and last done sits at 35 x ws 117.5. TC12 was tested and hovers at 35 x ws 117.5. The shorter voyages also felt the heat with X-AG softening to $130k levels and Red Sea cargoes getting close to yearly lows at $325k. With the West still remaining an unfavorable market to open up in. It appears to be clinging on to last done levels at $1.2m. It has to be said, with Public holidays next week in the Middle East, week 34 could be another tough one for Owners.

Mediterranean

As with previous weeks, the lists pulled on Monday were grim reading for Owners with a plethora of prompt tonnage available across the board. That being said, even with enquiry entering the market at a sluggish rate, Charterers seemed happy to take out ships at the 30 x ws 120 mark off the market with details being kept under wraps. For much of week 33 the Black Sea market has tracked X Med at the +10 point premium however a slight dip in rates was seen towards the back end due to a poorly approved vessel which will inevitably give Charterer's punchier ideas on next done levels. At the time of writing, we are yet to see this slight dip translate into the Med market however, come Monday with more spot ships likely, it would not be surprising to see South of last done.

Another slow week on the MR front in the Med with rates and sentiment by and large driven by action up in the UKC. A tighter tonnage list in NWE meant TC2 has traded for the most part around the 37 x ws 125 mark with Med rates in line with this as a Med-Brazil market quote fixed at just under the +10 point premium at 37 x ws 134. With the sentiment fairly negative in the North for the beginning of week 34, expect last done rates in the Med to be pressured from the off.

UK Continent

A week that looked to hold some rare promise for Owners early in the week has ended up falling shy of the mark and now looks set to fall back in the opposite direction. Monday revealed a tight tonnage list prior to the 20th and with stems left to cover, Owners were able to keep last week's momentum. Nonetheless by the time Tuesday came around 2 cargoes that were destined to push the TC2 up to 37 x ws 130 managed to achieve last done 37 x ws 125. A bank holiday in much of Europe on Wednesday then further reduced the heat from the market so by Thursday the fixing window had pushed on into dates now well supplied with tonnage (despite the USG improving) and rates began to soften as a result. 37 x ws 120 has been done a handful of times but with a depleted cargo list Friday lunchtime, further losses look likely, especially considering a number of hidden ballast units headed for our shores in the next 10 days. Short haul routes continue to be preferred by some meaning rates can only track those on TC2. WAF enquiry is currently insufficient to allow Owners to push beyond 37 x ws 130 and with a couple of slightly distressed ships with more than willing Owners some 'competitive' rates are on offer (hence the 37 x ws 127.5 ex Baltic). Early next week the market looks to pick up from where it is now with favor currently in the Charterers hands. If there is to be improvement, then the supply of fresh

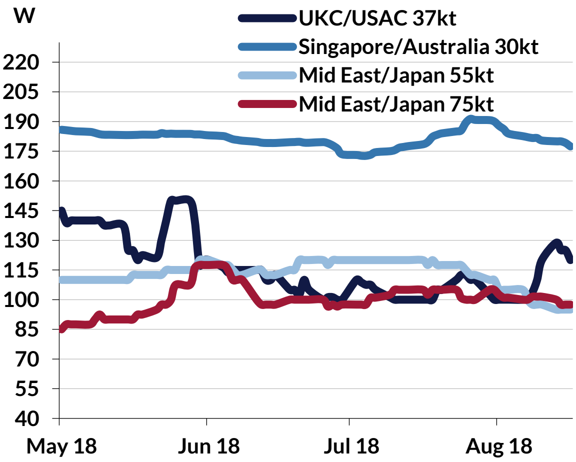
tonnage needs to be culled by an improved USG market, something which is potentially on the cards but has some way to go yet before we can reap the benefits here.
Baltic Handy volumes have suffered this week as charterers have opted to cover their exposure on the LRs however the saving grace for Owners has been the improved amount of enquiry seen up on the Continent which has kept the tonnage list ticking over. Levels ex Baltic have managed to hold the line at 30 x ws 125, X-UKC remains at 30 x ws 115 and a few longer hauls cargoes down to WAF have been confirmed at the 30 x ws 127.5 mark. All in all, a good week for Owners volumes wise, however the over-supply of tonnage especially on the front end of the list has kept Charterers firmly in the driving seat. Balanced moving into next week.
Finally, to the Flexis where the placid Handy market has stunted any rate movement in this sector with Owners having to look at intermediate sized cargoes to keep boats moving. Rates continue to be dictated by the larger units levelling out at 22 x ws 155 and with the lack of market enquiry we see very little opportunity for this number to be tested. Whilst the Handy market continues its sentiment expect Flexis to remain in their shadow and continue sideways.

LRs

The LR2's has had a reasonably slow week, with little activity early on it was inevitable that rates were going to come under pressure as the tonnage slowly grew. TC1 had stubbornly held at ws 100, however the lack of movement in the market saw it come off, 75 x ws 97.5 was tried and tested but with a lot of public holidays on the horizon ws 95 has been achieved as Owners are keen to get tonnage covered. UKC cargoes have been quiet but the last test put rates at $1.84m however, this could be further tested going into next week.

Owners are in need of more cargoes early next week or it has potential to be another quiet one. LR1's have led the way with regards of activity. Owners should be pleased with the weeks progression, the tonnage list is looking a lot better off early dates when compared to the start of the week, but there are still a few early ships that need cargoes. This clearing of tonnage has resulted in a slight push on last done level with TC5 closing at 55 x ws 102.5 and cargoes into the UKC at the $1.5m level. Owners will be really hoping that this movement can continue through next week and see levels recover further, however, with Eid commencing on the 21st it could be a tall order.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Owners in the North will be heading into the weekend rather pleased and optimistic after a week of gradual increment has left the market looking primed for further gains next week. Week 33 started with the market hanging in the balance as Charterers were presented with a good selection of tonnage, but an influx of cargoes quickly stabilized levels around the ws 160 level. Heading into next week Charterers will be glad to see the weekend upon us to provide a chance for some tonnage replenishment but should still be expecting a shortened position list come Monday morning.

Tough week for Owners in the Mediterranean as fresh enquiry appeared to be lacking for the duration. With tonnage continuing to build, the Black Sea market was quickly corrected down to ws 175 being fixed. The only saving grace for Owners is that this was repeated, and further softening has not been witnessed at the time of writing this. The position list remains lengthy as we close the week out and we should not be surprised to some last-minute dealings with the market looking primed for further testing in week 34.

MR

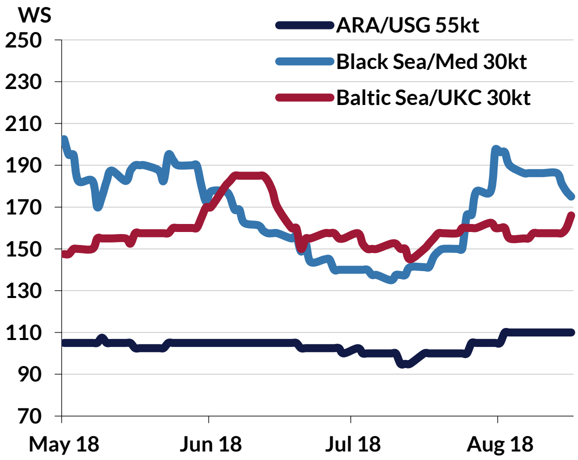
Firm workable units proved to be a rarity this week as Itineraries of the few natural units in the region were slightly on the risky side. Those Owners with upcoming vessels will be pleased to see the handy market gaining some ground as they prepare their ideas for the next test. In the meantime, we can expect to see a quiet finish to the week as Charterers continue to monitor said vessels whilst an eye will also be kept on surrounding regions.
Steady week in the Mediterranean as it was mainly part sized opportunity for Owners to feed on.

Early on, a considerable amount of workable units were seen prompting for the Owners in question to snap up some 30kt cargoes in search of shortening Charterers options. Levels continue to sit in the ws 120's respectively but with options still readily available we can expect Charterers to add further pressure early next week.

Panamax

This week has followed the theme of week 32 with a lack of natural tonnage in the region dominating proceedings. With this said we have witnessed a couple of units fixing and failing this week, which in turn has developed into opportunity for those with firm units in play. As a result, we report of 55 x ws 120 being concluded twice this week, is this just a blip or will it be repeated I hear you ask? Well with natural tonnage depleted this side of the pond we can expect resistance from Owners in the next round of fixing so watch this space.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 16th	August 09th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1**	52	53	47	55
TD20	Suezmax	WAF-UKC	**-0**	64	64	70	70
TD7	Aframax	N.Sea-UKC	**+11**	110	100	119	103

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

			wk on wk change	August 16th	August 09th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**+0**	13,500	13,500	9,250	16,250
TD20	Suezmax	WAF-UKC	**+250**	8,750	8,500	11,250	11,250
TD7	Aframax	N.Sea-UKC	**+6,500**	10,000	3,500	15,750	5,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 16th	August 09th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-3**	97	100	104	
TC2	MR - west	UKC-USAC	**+17**	123	106	103	119
TC5	LR1	AG-Japan	**+2**	98	96	118	103
TC7	MR - east	Singapore-EC Aus	**-4**	177	182	183	

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

			wk on wk change	August 16th	August 09th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-250**	6,250	6,500	10,000	
TC2	MR - west	UKC-USAC	**+3,000**	5,250	2,250	2,000	4,500
TC5	LR1	AG-Japan	**+750**	4,250	3,500	8,000	5,250
TC7	MR - east	Singapore-EC Aus	**+250**	10,000	9,750	11,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-13**	411	424	416
ClearView Bunker Price (Fujairah 380 HSFO)	**-12**	447	459	441
ClearView Bunker Price (Singapore 380 HSFO)	**-26**	445	471	451
ClearView Bunker Price (Rotterdam LSMGO)	**-1**	618	619	606

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