

The Iranian Tale

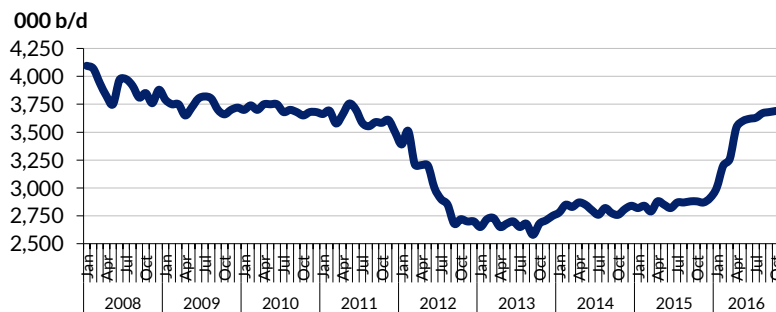
Weekly Tanker Market Report

When Iranian nuclear sanctions were lifted in January many industry participants were of the opinion that the country would struggle to bring its crude production quickly back to pre-sanction levels, not least due to years of underinvestment in aging infrastructure. Defying these expectations, Iranian output surged from 2.9 million b/d in December 2015 to 3.6 million b/d in May 2016, registering an impressive 0.7 million b/d gain. Since then, however, the growth in production has slowed down notably. Monthly gains have been marginal, ranging between 10,000 to 30,000 b/d per month between May and October, with the latest assessment for total crude output at 3.72 million b/d (Source: IEA). Overall, increases in Iranian crude exports provided a major boost to crude tanker demand, particularly for larger crude tankers.

In terms of export markets, Iran was largely successful in re-establishing trade links. China and India are the two largest buyers of Iranian crude, accounting for more than 50% of total exports. Between August and October, China imports averaged around 0.67 million b/d and India around 0.62 million b/d of Iranian crude. In fact, in terms of absolute volumes, crude trade to these countries is now higher than prior to sanctions. Crude shipments to South Korea are back to similar levels seen in 2008, while trade to Japan remain depressed, averaging close to 0.2 million b/d in three months to October, less than half the level back in 2008. Similarly, at 0.6 million b/d, trade to Europe and Turkey is strong but still 0.2 million b/d short of volumes seen before sanctions. Interestingly, westbound shipments are largely carried on Suezmaxes, while VLCCs are routed via Cape of Good Hope.

Iranian Crude Production

Before and after sanctions



When sanctions were lifted, a major concern in the industry was the potential release of VLCC tonnage engaged in Iranian floating storage back into the international tanker market. At the time, we were of the opinion that the majority of these units would remain in storage for an extended period of time. This proved to be the case. In fact, the number of VLCCs storing Iranian crude/condensate actually increased between January and

March 2016 from 24 to 28 units and only more recently it has started to slip. At the end of October, 24 VLCCs were involved in storage of Iranian crude and condensate, ironically this number is the same as in the beginning of the year. However, going forward floating storage is expected to continue to decline. It is widely believed that the majority of Iranian storage consists of condensate. The demand for condensate is firm in Asia and this could lead to a gradual drawdown of condensate stocks. Furthermore, Iranian media reports that the first phase of Persian Gulf Condensate Refinery is expected to come on stream by March 2017 and this is likely to support stronger domestic demand for condensate.

Finally, it will be interesting to see what role Iran plays in the proposed OPEC production cut. The country's officials have consistently stated that Iran will not discuss limiting its output until the pre-sanctions production level of 4 million b/d is reached. The latest estimates of Iranian production are 0.3 million b/d below that level. Longer term, prospects are strong for large increases in Iranian output and exports. However, for that to happen, Iran will need investment and the expertise of international oil companies, something that to date has largely failed to materialize. Mr Trump election also creates a new level of uncertainty, following the future president's criticism of the West's nuclear deal with Iran.

Crude Oil

Middle East

The week was spent fixing out the back end of the November VLCC programme and ended with the fresh cargo flow reduced to a dribble as Charterers then awaited December programmes which won't be fully in hand until late next week. The consequent loss of momentum has challenged Owners' previously rampant sentiment and although some particular needs will continue to provide occasional premiums, rates are moving gently downwards towards ws 60 East and mid/high ws 30's to the West. Industry events in Dubai next week will likely lead the market through a confused stage. Suezmaxes kept a steady, if unspectacular, profile at up to ws 77.5 to the East and low ws 40's to the West. Little near term shift in the local fundamentals, but if recent West African gains hold, then some availability will ballast away to that area. Aframaxes continued to ease to 80,000 by ws 82.5 to Singapore, on thin demand and easy supply. The recipe looks set to remain unchanged into next week too.

West Africa

Suezmax Owners initially repeated coverage at recent market bottoms, but once Charterers realised that there was no more fat to be trimmed, they charged back into the marketplace to recreate enough momentum to drive rates back up to ws 75 to Europe and ws 70 to the USGulf. Further improvement is possible before the bull run passes. VLCCs saw enough to broadly maintain their position at an average ws 65 to the Far East and \$3.5 million to West Coast India. Rate demands should hold similarly even if the AGulf does move off a little further.

Mediterranean

Starting in 'same as' mode, but the second half of the week saw a mini explosion of Aframax interest to double the XMed worldscale value to 80,000 by ws 140 and Charterers will struggle to regain any control for a while yet.

Suezmaxes also started slowly, but then caught on to the West African beat and rates pushed towards 140,000 by ws 80 for European destinations in short order with even higher numbers at least a possibility.

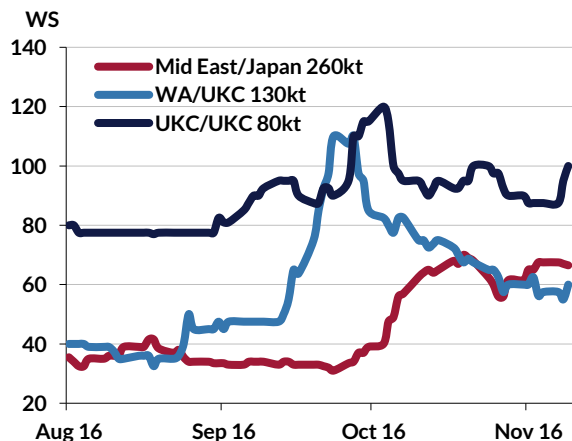
Caribbean

Quite the reverse for Aframaxes here - they had their fun last week, and this week it was a tale of steady decline as the market balance tipped ever more in Charterers' favour. Rates now operate at down to 70,000 by ws115 upcoast, but Owners will hope for some sentiment support from the other side of the Atlantic to provide a safety net. VLCCs moved through a very slow phase, but rates didn't move any lower than \$4.5 million to Singapore and \$3.7 million to West Coast India, nonetheless. Busier times should be around the corner though.

North Sea

As in the Med, a significant turn in fortunes for Aframaxes, busy, busy and port delays too. Rates jumped to 80,000 by ws 120 XUKCont and to 100,000 by ws 100 from the Baltic with higher on the cards too. VLCC interest was spasmodic as fuel oil 'arb' economics to Singapore became capped at \$4.1 million and then fell away into 'no interest' territory. A specimen crude oil movement was recorded from Hound Point to China at \$5.4 million, however.

Crude Tanker Spot Rates



Clean Products

East

As week 45 draws to an end, we are left with a market which has seen significant softening and continues to be pressurised by incredibly soft LR markets. With \$1.55 million on subs for an LR2 AG/UKCont, it was inevitable that Charterers would look to achieve better dollar per ton on the smaller size. \$900k is where jet runs West finish the week, and longhaul going East at ws 92.5, although this will come under more pressure next week. Shorthaul is also soft, at \$150K for the X and \$375k for runs into the Red Sea. EAf has today taken another blow, with ws 97.5 on subs to SAf, which puts EAf runs at ws 107.5 given the standard diffs. With most of the market away from their desks next week in Dubai and an incredibly bearish LR situation, MR Owners will not see light at the end of this tunnel in the coming week at least.

LRs have had a disappointing week with rates falling across both sizes. Activity levels have improved in the latter part of the week, but not enough to stem the tide. LR2s have looked vulnerable for 2 weeks and 75,000 mt naphtha AG/Japan has finally been tested and is now at ws 62.5 and 90,000 mt jet AG/UKCont is now down to \$1.55 million. LR1s are steadier with ws 75 the conference rate for 55,000 mt naphtha AG/Japan and 65,000 mt jet AG/UKCont is bottomed at \$1.10 million. LR1s have little more they can give but LR2s potentially could see small discounts from here.

Mediterranean

A steady week of activity has prevailed in the Mediterranean however, rates have continued to suffer. Handies at the start of the week were trading at 30 x ws 115, but with a number of options available to Charterers they were able to pick off tonnage at less than last done levels. By the mid-week point the XMed market had dropped to ws 30 x 110, but ex Black Sea liftings continued to hold at 30 x ws 120. Many in the market believed these levels would be the bottom however, Charterers turned the screw some more towards the back end of the week to ws 30 x ws 105. Until the prompt units are cleared, expect rates to continue to hug the floor.

MRs in the Mediterranean have remained tight in week 45 as TA levels end the week at 37 x ws 110. Some Charterers even had to look at Handies to try and cover their MR exposure to keep rates subdued which was achieved as Med/Jeddah remained stagnant at \$575k. The tightness looks to be maintained going into next week.

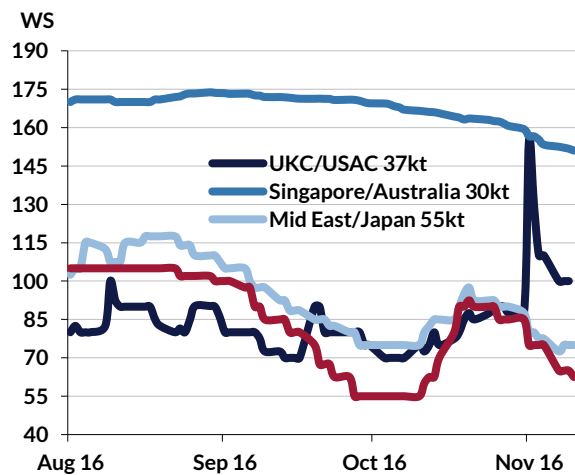
UK Continent

MR rates corrected this week after the inflated levels seen during the outage of the Colonial Pipeline. On the front end of the list, tonnage has been on the tight side throughout the course of the week and with a handful of prompt cargoes needing cover, rates have managed to be maintained despite Charterers best efforts to draw TC2 back into double figures, now holding 37 x ws 100. A slight uptick in Waf enquiry and Eastbound reformat (paying \$1.375 million) has also helped the Owners cause. Fresh enquiry has been sluggish in the tail end of the week leaving all parties keen to see the state of play early next week as to whether the favour is with the Charterers or the Owners.

Handies in NWE have had a rather lacklustre week with little for Owners to capitalise on and shake up the rates, 30 x ws 105 has traded flat for the duration of the week for both cargoes ex Baltic and XUKCont. Owners will take some solace of the news that production in Primorsk is back to normal levels. As we enter the colder months the outlook should be generally more positive. However, for the moment there is little on the immediate horizon to shake up the market.

Much like the Handies, the Flexis have had a rather uneventful week 22 x ws 140 has been the rate Owners and Charterers are happy to keep moving sideways as both cargo and tonnage remain well in the balance, with no discount for XUKCont voyages over the Baltic rates. Rates look set to continue trading at these levels into next week, although the colder month should help the Owners favour in the coming weeks.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Monday to Thursday in the Continent could not pass quickly enough from an Owner's perspective as spot tonnage combined with inactivity weighed heavily upon the region. Under the surface fixing did at least take care of some excess capacity although rates trade likened to those of a summer market. This said, Friday has finally brought about a change in sentiment as surrounding markets on the larger sizes witness availability dramatically being reduced and rate increment brought with it. Owners anticipate positivity on the horizon where handies look like good value.

Behavior in the Med this week, is at complete polar opposites of the spectrum, as increment between deals became a recurring theme. Numbers therefore are now placed significantly higher from where the week begun as Owners are now within touching distance of the WS 150 barrier. Furthermore, where replacement activity that initially started this run has brought momentum to usual fixing windows, Owners are confident that strength will last where we are yet to see end month dates in play.

MR

It's taken a long time, but this week could finally be one where a turning point has been reached. Units ballasting away from the region and some eventual full sized requirement remove availability afforded to Charterers off of a prompt basis. As such, although the rates that have led to this phase have not been

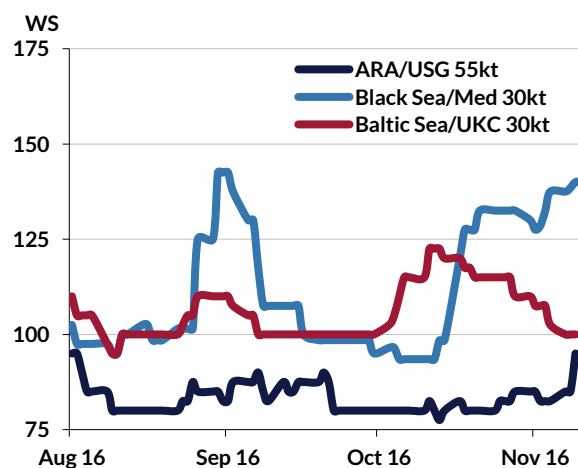
pretty for Owners, they may now have the opportunity to raise expectations.

Rather mirrored with the success of the surrounding handies, MR requirement in the Med was consistent, keeping the majority of units in employment. This said, it has taken a week with activity such as this, to create a platform where Owners might begin to build from again, as the week showed rather a lot of rate repetition.

Panamax

Perhaps it's been on the cards for a while where the US continues to trade positively higher against Europe, Owners have been looking to bridge such disparity in earnings. This week however, once the natural tonnage started to thin those left in position have been able to press for increment where Charterers placed simultaneous requirement into the market. In addition to rate hikes, the dynamics of this sector have also begun to alter where Charterers have needed to adjust fixing windows to allow greater lead time.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-3	64	67	66	64
TD20	Suezmax	WAF-UKC	+13	71	58	73	75
TD7	Aframax	N.Sea-UKC	+37	124	88	93	103

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

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-3,500	46,500	50,000	47,000	46,250
TD20	Suezmax	WAF-UKC	+6,250	23,000	16,750	23,250	25,750
TD7	Aframax	N.Sea-UKC	+33,750	49,250	15,500	15,000	29,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	-13	63	75	63	
TC2	MR - west	UKC-USAC	-16	101	117	80	113
TC5	LR1	AG-Japan	-3	75	78	85	84
TC7	MR - east	Singapore-EC Aus	-4	151	155	166	

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

			wk on wk change	Nov 10th	Nov 3rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	-3,500	7,000	10,500	8,250	
TC2	MR - west	UKC-USAC	-3,500	8,250	11,750	4,250	10,750
TC5	LR1	AG-Japan	-750	6,250	7,000	8,000	8,250
TC7	MR - east	Singapore-EC Aus	-1,000	9,250	10,250	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+14	252	238	265
ClearView Bunker Price (Fujairah 380 HSFO)	+2	273	271	290
ClearView Bunker Price (Singapore 380 HSFO)	-12	277	289	283
ClearView Bunker Price (Rotterdam 0.1% LSFO)	-1	402	403	445

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