WEEKLY TANKER REPORT

19th February 2016

A SOBERING TIME

Undoubtedly 2015 was a memorable year. For some a year to forget for tankers a year to enjoy. Whilst the misery has continued for many, tankers are still generating healthy returns across most sectors, in part aided by cheap bunker prices. However, sentiment, particularly in the tanker time charter market has certainly taken a hit as of late as the global economic outlook becomes increasingly bearish. Global stock markets have witnessed a terrible start with the China led malaise wiping billions off investments across the globe, unsettling the nerves of many investors, which perhaps explains the loss of appetite for long term commitments. It may be the view of some wealth managers mantra that the economy remains on track but it is difficult for many to stay calm when your investments have dropped in value by 15 to 20 per cent since April 2015. Furthermore after the initial boost of low oil prices, much concern is now focused on the health of the major producers who have expensed vast sums of foreign cash reserves in the face of falling oil prices.

Back in August 2014, we highlighted the growing role of private equity in the shipping sector as the involvement of major banks gradually faded from its peak in 2007. We speculated that at least $7 billion would come from this sector in 2014 which was still a drop in the ocean in their overall portfolios. Wilbur Ross estimated that private equity pumped $16 billion into shipping between 2008 and 2013 - two and a half times the amount generated through initial public offerings.

Whilst the Tanker sector has so far escaped the horrors of dry cargo, there is no longer the hunger of investors to continue their involvement with shipping, as the overall performance of these investments has not fulfilled expectations and they are looking for a swift exit. We argued back in 2014 that the activity was being driven by "other people's money "without sufficient restraints which can result in over ordering and this has certainly been a factor. As a result of that activity, several larger private equity groups that invested in shipping in the past, have decided to cut their losses and sell. Investment funds and banks do not want to be shipowners, trying to sell off unwanted assets where the buyers have the upper hand. Whilst many traditional shipping banks continue to wind down their shipping portfolios, other banks have signalled an intention to increase their presence in the sector with China's CMB Financial Leasing looking to increase shipping and aviation from 12% of its existing book to 25-40%. This points towards conventional banks playing more of a role once again in ship finance, yet it may not be the traditional European banks fulfilling this role.

There is a great deal of pain at the moment but this will be seen by some shipowners in a positive light going forward, where realistic shipping constraints return to investment decisions, preventing the mass ordering of unwanted newbuildings that we have seen from some of the recently funded players from private equity. There is no question that this scenario will put an enormous strain on shipyards who will need to be able to offer financing such as we have seen from Chinese banks and the Export credit agencies in other Asian shipbuilding nations. However their biggest problem is that the market has more than enough ships to meet demand and shipbuilders are struggling fill their forward slots. This sort of market brings the cash buyer to the fore and there are clear signs that they are focusing in on the opportunities that are being presented. In the dry sector as prices plummet, the traditional second hand cash buyers are becoming increasingly visible. For now tanker owners remain very much protected by the continued healthy state of the market, but we should take nothing for granted as we will encounter more challenges as we progress through 2016.

Middle East

A slow but steady approach by Charterers throughout this week on the VLCCs has kept rates pinned at around 270 x ws 60 for East and 280 x ws 35 West with enough tonnage going forward to see little change either way along a steady line. We have seen a very active week for Suezmax tonnage but rates have softened on the back of too many vessels in the area and a weaker West Africa market which does not support vessels ballasting away from the AG. Cargoes have been covered at ease with the conference rate of 140,000 mt by ws 45 for West discharge. Expect more of the same next week.

West Africa

What inevitably goes up quickly, comes down quickly and this has been the case for Suezmax tonnage this week. Suezmax cargoes have been sparse as Charterers have concentrated on VLCC tonnage and rates have dramatically softened to 130,000 by ws 77.5 for USGulf and ws 82.5 to Europe. Next week should be active but rates show little chance of recovering. VLCCs, as mentioned, have had their moment in the sun with Charterers barrelling up to the larger size and rates reacted accordingly to last done of 260 by x ws 72.5 for voyages to China. This is likely to be the peak, but it will now probably be more dependent on following the lead of the AG next week.

Mediterranean

The Med Aframax market took last week's lead and continued to motor. Activity persisted and the only factor preventing a steeper climb was the excess tonnage persisting from the last few weeks. By the close however, a great deal of this has now been employed and we are at a pivotal point. 80,000 by x ws 109 was achieved for a cross Mediterranean voyage needing a big lifter, and should there be a busy Monday, then rates will no doubt climb further towards this.

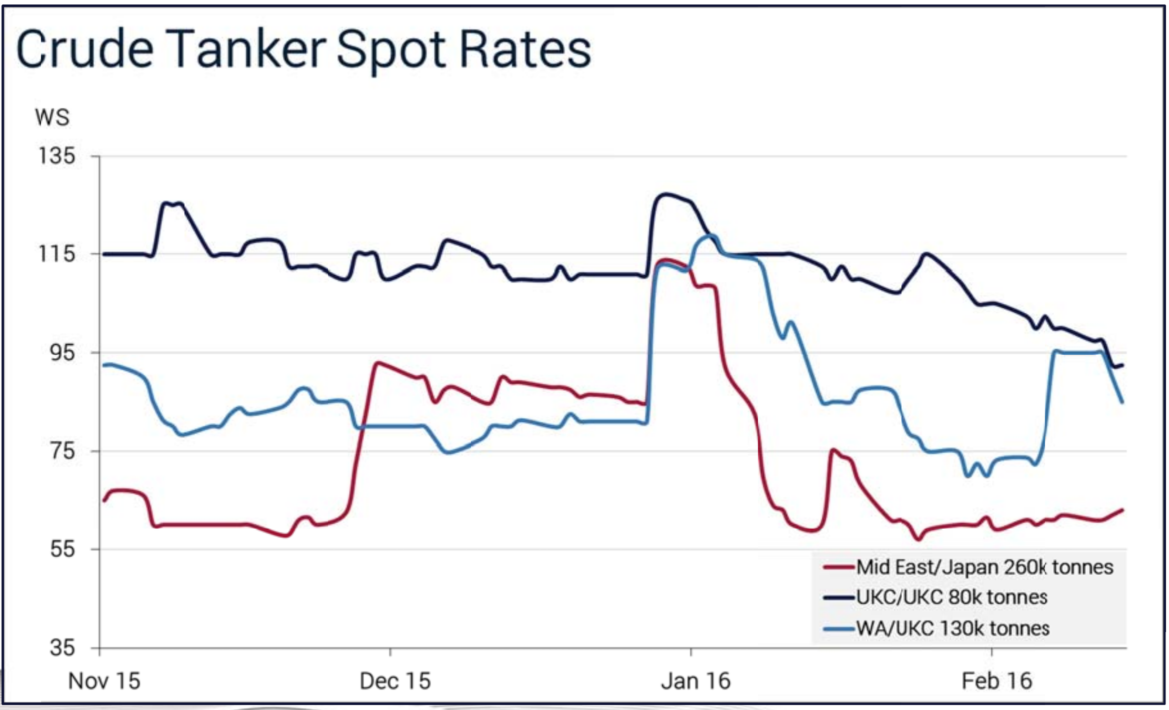
At the moment though the 3 figure mark may still be tempting enough for most Owners, especially for good voyages. The March preliminary Black Sea programme is particularly light of Suezmax cargoes for the first decade. Despite this Owners have been able to maintain the previous levels of 140,000 by ws 95 due to bad weather in the Mediterranean restricting the availability of tonnage.

Caribbean

Aframaxes have seen very little this week to get excited about and as enquiry has been sparse by last week's standards and with tonnage being relatively ample, both sides will accept that 70 by x ws 122.5 is the level to finish the week with further softening anticipated next week. The VLCCs have been on ice for most of this week, with little to show for a week's worth of work. We can anticipate the rates coming under a bit more pressure next week with voyages to Singapore likely to go at $5.6m and voyages to India at no more than $4.6m.

North Sea

The VLCCs will have used the firmer West African market to try and leverage a bit more out of Charterers that were out asking questions. However, there is little chance of them poking their heads over the parapet with the arbitrage seemingly out of play and Owners talking no less than $4.5m for Rotterdam to Singapore. North Sea Aframaxes rates dropped significantly this week after the prolonged period without enquiry and tonnage building finally impacted on rates. Baltic/UKCont rates came down from 100,000 tonnes by ws 82.5 ending up at 100,000 by ws 70. The outlook remains soft until the overhang of tonnage is cleared out and rates will only then have a chance of improving.



CLEAN PRODUCTS

East

The MRs have remained very balanced throughout the week, with the number of fresh stems aligning well with the arrival of fresh tonnage. Rates have therefore had little reason to be tested, and have remained flat. $200k is the benchmark for shorthaul stems in the AG, and those going down to EAfr have maintained a ws 140 level. Longer-haul voyages have remained unpopular, which is unsurprising when the softness of the larger sized vessels is considered, therefore these rates have remained flat, but relatively untested. AG/Japan rests at ws 115, and runs to UKCont are perched at $1 million. A reported $945 option this morning to the Cont is unlikely to reset the bar for western rates; due to the general positive sentiment in the market, Owners feel under little pressure to compete aggressively on rates.

LRs this week have lost further ground but may finally have hit their bottom. LR1s saw a small turnaround in sentiment even though rates are not really moving up yet. 55,000 mt naphtha AG/Japan back at ws 102.5 and 65,000 mt jet AG/UKCont at $1.35million. LR2s unfortunately have not seen any positivity yet with 75,000 mt naphtha AG/Japan now at ws 95 and 90,000 mt jet AG/UKCont at $1.70 million. Better times are expected but we have some work to do to get there.

Mediterranean

A burst of activity kick started the Mediterranean this week as we saw a good amount of prompt vessels clipped out. By the time we reached the mid point, Charterers were able to flex the dominance and drive rates for cross Med voyages down to 30 x ws 135 with Black Sea liftings equally sliding. As Friday arrives, it seems most outstanding cargoes have been covered, but also a few prompt vessels over the weekend will appear. Without a resurgence in Black Sea stems, it will be an uphill struggle for rates to improve.

MRs drip feed East inquiry with Charterers managing to shave of a few K here and there. With limited interest equally for transatlantic voyage, Owners will need to keep their options open to ensure employment.

After a couple of tough weeks for LR Owners in the West, Week 7 has provided more excitement and reason for Owners to be slightly more positive. The week has been dominated by plenty of fresh LR2 naphtha activity, helping Owners to reclaim lost ground. As the week nears its end, $2.25million has been achieved off end February dates for a Mongstad/Singapore run and $2.15million has been reported during the middle stage of the week for a Med/Japan trip.

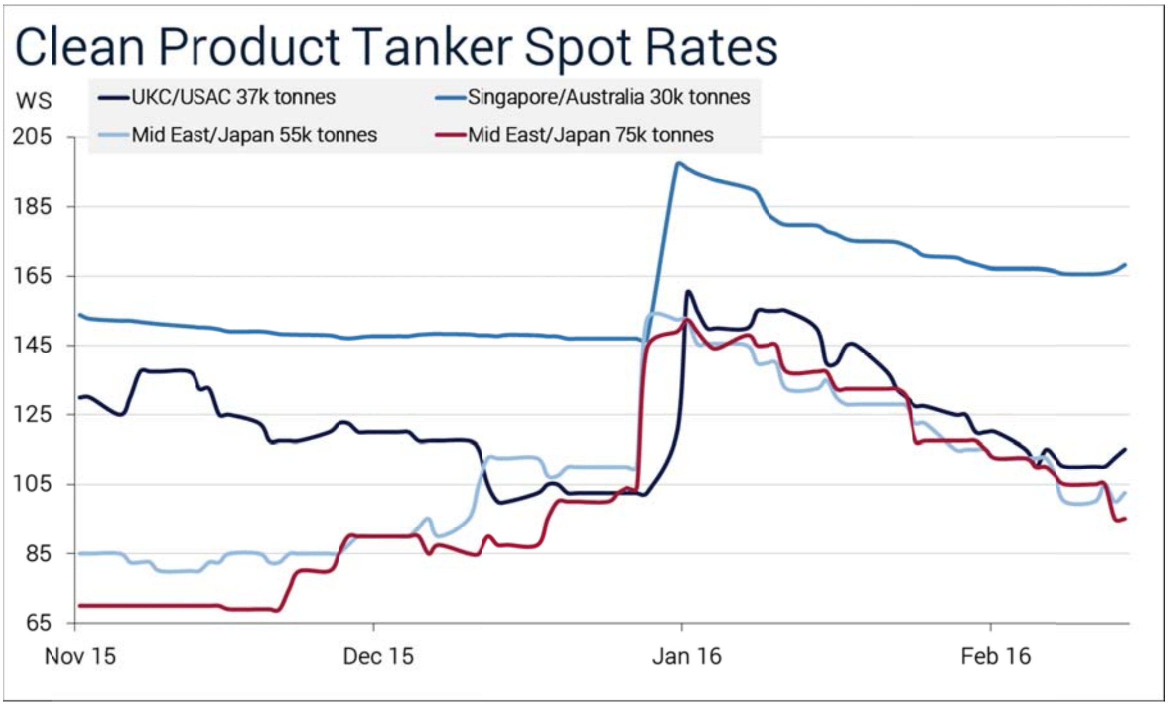
The list for LR2s is now looking tight, particularly in the Mediterranean. With a handful of outstanding cargoes hunting for cover in this region, it is likely we will see further gains for Owners. With the Red Sea being quiet, one vessel ballasted into the Mediterranean and one can expect further tonnage to ballast in over the weekend. LR1 enquiry continues to keep things ticking over in the West. ARA/WAF runs remain steady at ws 100, but the increase in enquiry has cleared enough vessels for Owners to begin turning the screw on any stems requiring cover during the final stage of February. ARA/Singapore runs have achieved $1.575million.

UK Continent

As Friday of Week 7 arrives, Owners despite not seeing any strengthening in rates, will feel content as good levels of activity have occurred. With the first half of the week seeing an excess of fixing, Monday tonnage lists were chopped away leaving good foundations for Owners to attempt to build off the 37 x ws 110 levels. However, as Wednesday passed, inquiry slowed and more of a clear up of outstanding stems have been covered rather than fresh. Looking ahead with dates up to end month now being covered, fresh stems will need to appear to keep tonnage moving but with TC14 reaching similar levels now, the potential ballasters can be expected to head South rather than East to the US. Foundations have been built… now we wait to see if they are used.

The Handy market has seen a very placid week pass as rates on Monday kicked around 30 x ws 140 and as Friday arrives the lacklustre dribble continues at the same level. We saw tonnage lists evolving throughout the week to now produce limited options for liftings still with a February laycan, but with many of these already covered, the number of chances Owners will have could be small. Expect positive fixing from Owners ahead if stems continue to flow, or a very dull week ahead if not.

Finally to the Flexis where surprise surprise a very similar trend has passed. Rates fluttered between 22 x ws 170 and 175 early on, but as inquiry slowed, the lower end of the rates held precedent. Tonnage has managed to tick over this week and as Monday approaches a fresh look at this market can be had to see who has the upper hand. Positivity is in the air for Owners presently, but for how long.


Clean Product Tanker Spot Rates
WS
UKC/USAC 37k tonnes
Singapore/Australia 30k tonnes
Mid East/Japan 55k tonnes
Mid East/Japan 75k tonnes
205
185
165
145
125
105
85
65
Nov 15
Dec 15
Jan 16
Feb 16

DIRTY PRODUCTS

Handy

An overall frustrating week for Handy Owners in the North with the market seeming to suffer from an inherent lack of requirement. This said, despite minimal activity for most of the week levels traded with just a slight negative gradient. Unfortunately for Owners the next publicised fixture will likely see rates further tested to their detriment as ice premiums diminish and excess supply is likely to make its mark.

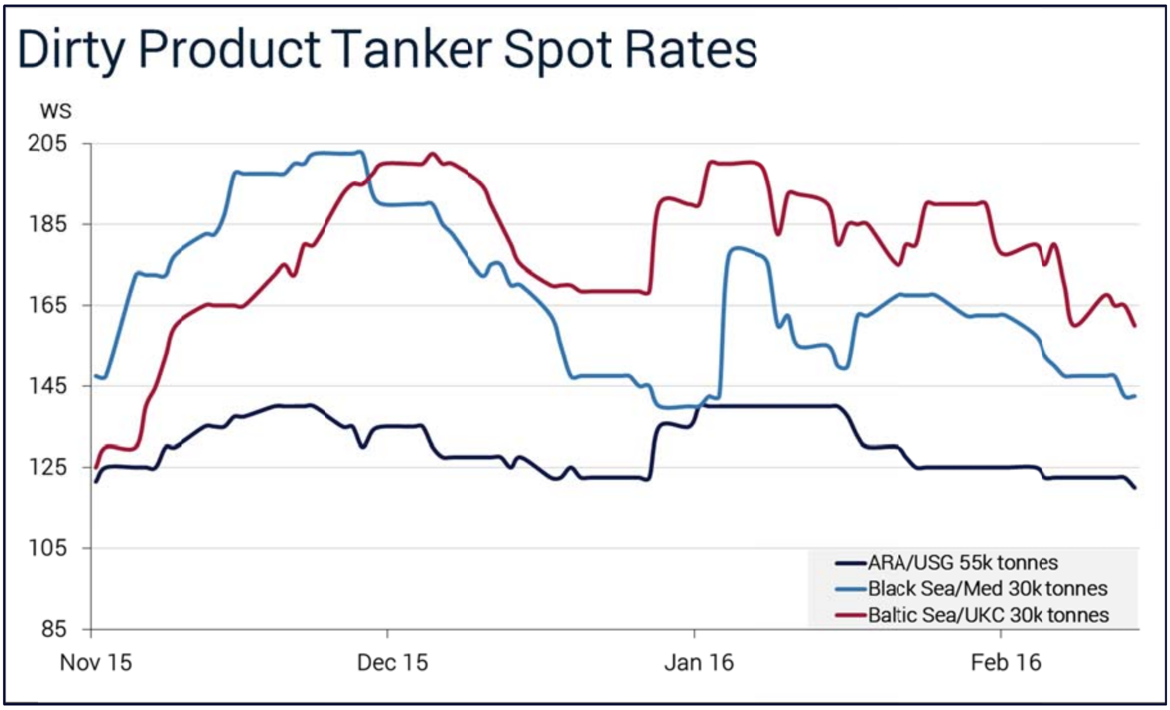
Down in the Med, if we were to review collective activity as a whole then the impression could at least on paper reflect a rather different outlook. In reality levels have been on the decline throughout the week where from Monday morning alone we faced an uphill struggle due to the abundance of prompt tonnage.

MR

This sector would appear to have fallen victim to the impact of negative trends in surrounding sectors, as both the Handies and Panamaxes inflict challenges for this size. Rates have subsequently softened with a distinct fear that we are yet to fully ascertain market floors.

Panamax

The writing was on the wall from the beginning of week 7 with the cocktail of inactivity, ballast units and soft surrounding Aframax markets piling on the pressure. Elsewhere the Caribs market has shown little sign of developing momentum this week as the steady flow of fixtures has continued to turn over tonnage placed at the top of tonnage lists. Adding to this a number of Owners with excess tonnage have taken the plunge to relocate this way, all placed to hit our shores towards the end of this month, on the back of already significantly softened numbers.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 18th	Feb 11th	Last Month	FFA Q4
TD3	VLCC	AG-Japan	**+0**	63	63	74	65
TD20	Suezmax	WAF-UKC	**-4**	87	90	85	86
TD7	Aframax	N.Sea-UKC	**-0**	93	93	109	99

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

			wk on wk change	Feb 18th	Feb 11th	Last Month	FFA Q4
TD3	VLCC	AG-Japan	**+250**	55,500	55,250	71,000	57,250
TD20	Suezmax	WAF-UKC	**-2,500**	37,250	39,750	39,000	36,750
TD7	Aframax	N.Sea-UKC	**-500**	20,500	21,000	35,500	25,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 18th	Feb 11th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-15**	95	110	133	
TC2	MR - west	UKC-USAC	**+1**	114	113	140	127
TC5	LR1	AG-Japan	**+0**	100	100	130	103
TC7	MR - east	Singapore-EC Aus	**+2**	168	166	176	

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

			wk on wk change	Feb 18th	Feb 11th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-5,250**	21,500	26,750	34,500	
TC2	MR - west	UKC-USAC	**+0**	14,250	14,250	21,250	16,750
TC5	LR1	AG-Japan	**+250**	16,000	15,750	24,000	16,500
TC7	MR - east	Singapore-EC Aus	**+250**	16,250	16,000	17,750	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+24**	151	127	106
LQM Bunker Price (Fujairah 380 HSFO)	**+14**	162	148	138
LQM Bunker Price (Singapore 380 HSFO)	**+2**	159	158	148
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+5**	298	293	229

MJFR/SMW/DAJ/DFP

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