VLCC Flotilla

Weekly Tanker Market Report

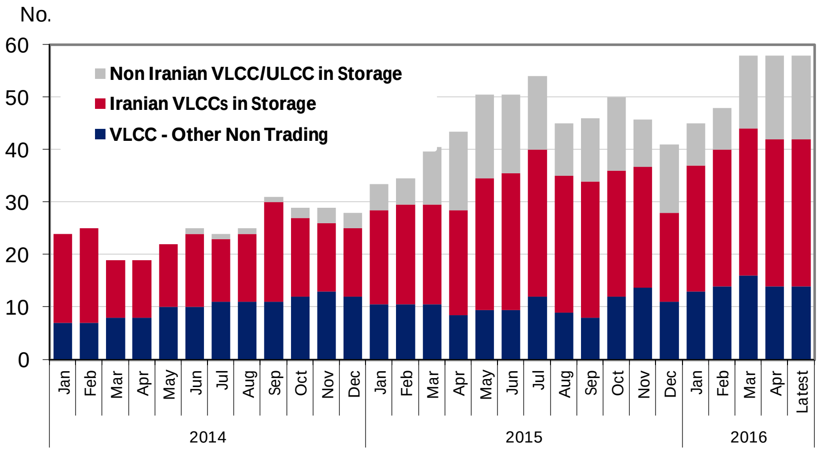
VLCC storage has been a topical subject since early 2015 despite the fact that the contango structure in crude futures never widened enough to justify a major floating storage play. The possibility of this happening now is perhaps even smaller than it has been over the past sixteen months. The premium for forward assessments in Brent futures has generally been in decline this year. Although VLCC period rates have also edged down, the decline has not been so steep. As such, the gap between VLCC freight costs and the contango premium has widened. VLCC freight rates for 12 month storage in the West are currently assessed around $11.60/bbl, while the premium of 12 month forward assessment in Brent futures relative to the front month is less than $4.00/bbl.

Despite a shrinking contango, there has been an increase in VLCCs storing crude of non-Iranian origin: from 8 tankers in January to 16 currently, most likely for operational/logistical reasons. The main driver behind this type of storage has been a persistent and major overhang of crude oil production. However, US shale output is falling and so the excess in oil supply vs demand is expected to fall notably in the 2nd half of this year. In its latest monthly report, the IEA sees global oil inventories rising by just 0.2 million b/d between July and December 2016, versus an expected stock build of 1.3 million b/d in the 1st half of the year. More importantly, global oil inventories are expected to start to draw steadily at some point in 2017 and with it, crude floating storage is also likely to decline.

Tanker storage of Iranian crude/condensate has also moved up this year, despite sanctions being lifted. Currently 28 VLCCs are employed, up from 24 in January. Most of these tankers are part of the NITC fleet, although a few are owned by international players. It remains to be seen what the immediate future holds for these VLCCs. It has been widely speculated that the majority of Iranian storage is condensate, which is difficult to market for a number of reasons. Furthermore, for a while now we have been of the opinion that it will take time for the Iranian tankers to sort out insurance, classification and some units are too old to return to trade. However, it appears that Iran is making progress to address these issues. Earlier this week Iranian officials stated that Iran has obtained agreement of the International Group of P&I Clubs for insurance coverage of its tankers and that the Egyptian authorities have issued the permit that will allow the NITC tankers to resume oil shipments through the SUMED pipeline.

Number of Non-Trading VLCCs

Primarily Floating Storage



Source: Gibson Consultancy & Research

Crude/condensate storage aside, there also has been an uptick in a number of VLCCs involved in other non-trading activities this year, with the latest count at 14 tankers. These units have been primarily employed for fuel oil storage off Singapore. The dynamics of fuel storage are different to crude, and as such it is unlikely to be affected to the same extent by rebalancing in oil markets.

All in all, the number of VLCCs employed in non-trading activities has reached 58 units since late March. This represents nearly 9% of the global fleet, offering major support to tanker earnings. What happens to these tankers over the course of the year is critical to the health of the VLCC market, as any major changes in these numbers are likely to have a notable impact on spot rates.

Crude Oil

Middle East

A quick-step into the week initially reinvigorated the VLCC market as Charterers decided en-masse to clear out their remaining May stems despite the knowledge that the concentration would translate into firmer levels, and rates gained accordingly to a high of ws 74 to the East, and into the low ws 40s to the West. By the weeks end, however, things slowed, and discounting into the ws 60s was underway with further uncertainty likely until June programmes are in full receipt from early next week. Suezmaxes merely remained flatline through the week on good availability and only spasmodic demand with rates bumping down to ws 82.5 East and to ws 40 West. A full June Basrah programme to come, but equally, well stocked lists still likely. Aframaxes saw little local interest, and certainly not enough to re-build rates from their previous 80,000 by ws 87.5 mark to Singapore. More time needed.

West Africa

An attempt at an upward push by Suezmaxes was quickly thwarted as Charterers realised that availability was easily adequate, and slowed the fixing pace. Further, a rash of supply problems in Nigeria added to the negative mix and rates tumbled back towards ws 62.5 to the USGulf, and ws 67.5 to Europe and it's difficult to foresee any quick turnaround. VLCCs saw moderate interest but Owners were disappointed by the failure of the AGulf to maintain, and rate ideas moved back to around ws 62.5 to the East with $4.65 million the last seen for East Coast India discharge.

Mediterranean

Aframax rate gains seen at the end of last week were fortified at the start of this week, moving to 80,000 by ws115 cross Med, but then retreated once again to ws 107.5 as the market quietened and Charterers began to take a more relaxed attitude. Suezmaxes also picked up a little, but also then deflated back to 140,000 by ws 80 from the Black Sea to European destinations as itineraries improved, and West Africa weakened. The trend looks to be progressive too.

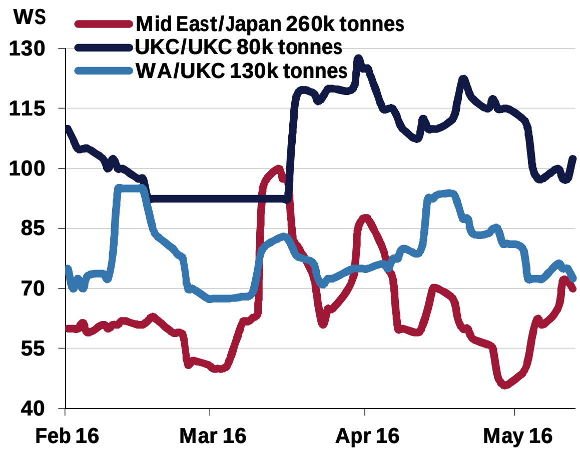
Caribbean

Aframaxes continued to fall, and quite sharply, to 70,000 by ws 92.5 upcoast. Too much tonnage, and not enough enquiry, sums it up and it will take a while to rebalance. VLCCs never got to 'busy' but there was sufficient demand to prevent slippage under $4.8 million to Singapore, and although a deal at $3.65 million was seen to west Coast India, demands were more typically closer to $ 3.9 million for those runs.

North Sea

'Patchy' for VLCCs here. Crude deals from Houndpoint to the Far East were seen in the high '5s' (million) but the supply of those barrels is always limited, and the fuel oil 'arb' fell sharply away to make equivalent demands for Rotterdam/Singapore of around $4 million unattractive/impossible for traders to employ. Owners will increasingly consider ballasting away now. Aframaxes ran on a little longer than in the Med as enquiry sustained a fast enough pace to push rates to 80,000 by ws 105 cross UKCont, and to 100,000 by ws 82.5 from the Baltic, though Charterers will do their best to put temporary brakes on over the near term.

Crude Tanker Spot Rates



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Clean Products

East

LRs have seen a busy and hopeful week but rates so far have been stagnant. With June starting to look much busier than May ambitions are rising particularly on the LR2s. 75,000 mt naphtha AG/Japan is now ws 82.5 and 90,000 mt jet AG/UKC is upto $1.65 million but we expect both rates to firm next week. LR1s have seen a steadier week but still are poised for improvements. 55,000 mt naphtha AG/Japan is at ws 105 and 65,000 mt jet AG/UKC is at $1.325 million today. We don't expect to see LR1 rates improve too much though until LR2s move. It hasn't been the most exciting week for rates when it comes to the MRs in the AG. Following off from the end of last week the soft sentiment lingered and was pushed further as cargoes were getting covered away. The first to take a hit was AG/EAfr after an initial drop of ws 10 points it saw a further drop and closes the week at ws 145. UKC voyages also took a hit and sits at the $950k. Cross-AG runs fluttered around the $190k as they also saw a little squeeze. Owners will be hoping that with the larger ships starting to look more promising there will be an influx of early June stems next week which should help to get the momentum going again.

Mediterranean

Well where do we start here… Just when we think we hit the bottom, the trap door is opened again, and rates plummet. As we come to the close of play, we see 30 x ws 122.5 on subjects for a cross Med run with reports less has also be done. Owners will be hoping ballast tonnage will continue sailing to the Continent, as putting it simply, ships are just too plentiful. Owners dig their heels in ready for the rocky road ahead. The MR sector has seen little opportunities for employment, which has kept the pressure on Owners. Any fresh East runs can expect numbers to be put to the test, with new lows a certain possibility.

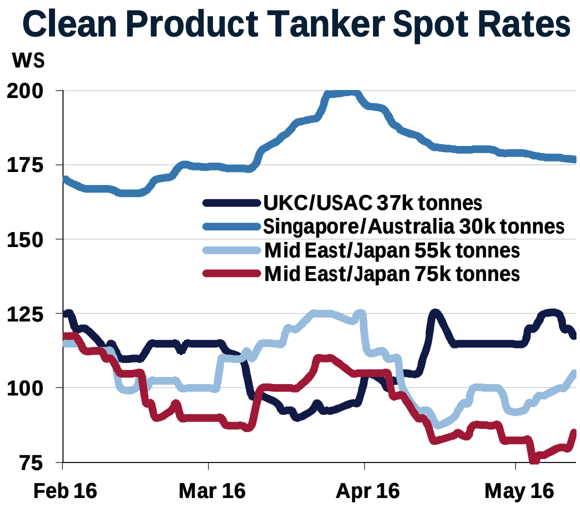
UK Continent

A slow week has passed in the Continent across the board, with tonnage being available for the drip feed introduction of new cargoes. MRs have been clipped away with ease with rates consistently being picked at 37 x ws 120 for transatlantic movements. As the second half of the week progressed, fresh stems slowed and the pressure which gently built produced a minor rate correction to ws 117.5. Looking ahead, Owners will be hoping to see improved inquiry for both transatlantic and WAF runs, but with the LR1 market in the doldrums, opportunities to push will be limited. Handies have had a tough week pass, with ships a plenty and cargoes none. Employment has been a tricky game to play, as we see the Mediterranean market crumble, and tonnage deciding to remain in place. Looking ahead we can hope to see an improved demand for ships, and with a Flexi market which is picking up, perhaps the opportunity to lift the small stems improve. Flexis shine the light for the Continent market with gradual improvement in rates. Despite mainly COA activity keeping this ticking over, we see dates fly ahead to late 20s and ships being taken out here. Rates creep up to 22 x ws 155 and Owners wanting to press further on. A fresh market cargo will show the true strength here.

LRs

Week 18 began with LR rates in the West remaining heavily under pressure due to a sustained period of inactivity and subsequently a tonnage list offering plentiful options to Charterers. LR1 ARA/WAF rates were hanging by a thread at 60 x ws 97.5 and during the second half of the week Owners worst nightmares were realised when an LR1 was put on subjects at 60 x ws 75. Trips to the East have also been limited recently with the Arb being closed, but reports of LR2 naphtha inquiry to Japan towards the back end of the week raises hope of improved activity looking forwards. Interestingly, with levels being so low, LR1s are now starting to compete with MRs. One LR1 has achieved 60 x ws 65 for a Baltic-TA. Owners hope rates have now bottomed and that fresh inquiry in the early part of next week enables them to reclaim some lost ground. On the LR2s we saw rates slip again during the first half of the week with a Baltic/Japan run collecting just $1.9 miilion and

Skikda/Japan just $1.6 miilion. However, the tide might have turned slightly. Rumours of a handful of LR2 cargoes to the East entering the frame and the fact a few clean vessels have gone to DPP leaves the LR2 market in a healthier position. For now, rates are unlikely to surge, but maybe we have reached a turning point.



Dirty Products

Handy

Upon reflection Owners would view this week as something of a success from an Owner's perspective, as in the Continent and Med alike, position lists were vastly shortened through sustained activity. In the Continent however I think it is safe to say that numbers were trading with the most volatility between the regions and at one stage we even saw rates surpass the ws 140 barrier. In the Med, once we passed the mid-week stage, activity levels did tail off a little however with the May fixing programme far from over, many positives will be taken into week 20 where Owners are likely to start on the front foot; so long as the cargo base does not dry up.

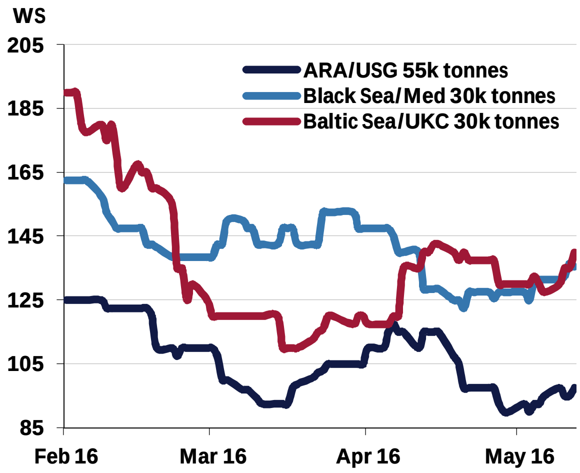
MR

Activity in the Continent this week has been plentiful for Owners particularly both on a natural and on part cargo basis, and with natural sized units becoming few and far between early in the week, Charterer's will be keen for the weekend break and come the opening bell Monday will hoping a few more units appear. With Owners remaining bullish throughout the week pushing rates northwards into the next, we can expect to see momentum being carried forward. Down in the Mediterranean this week has brought a handful of full sized cargoes providing the benchmark Owners have recently been searching for. With enquiry easing off toward the back end of the week however, Charterers may be given a reprieve as tonnage come Monday may reflect slightly more favourably.

Panamax

As the clock ticked along this week so have worldscale points as natural units in both the Continent and Mediterranean have found employment. The steady flow of stems lifted this side of the Atlantic is perhaps the only thing that has stopped rates from rapidly moving North. With this in mind Owners may be slightly frustrated but at least in their eyes momentum is shifting in the right direction. Over in the Caribbean things are steadily ticking along but it is a question of who is actually there and who isn't. Owners are playing a clever game of not giving too much away until they see something firm and therefore keeping the position list trimmed. Should we see a couple of stems from the Continent or Mediterranean early next week off natural dates we could see numbers pass the 55 x ws 100 mark.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 12th	May 5th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+9**	71	62	68	60
TD20	Suezmax	WAF-UKC	**-1**	72	73	93	75
TD7	Aframax	N.Sea-UKC	**+2**	101	99	110	119

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

			wk on wk change	May 12th	May 5th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+9,500**	58,000	48,500	59,000	45,250
TD20	Suezmax	WAF-UKC	**-1,250**	25,250	26,500	39,250	26,750
TD7	Aframax	N.Sea-UKC	**+750**	22,250	21,500	32,000	35,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 12th	May 5th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+8**	85	78	83	
TC2	MR - west	UKC-USAC	**-4**	117	122	120	113
TC5	LR1	AG-Japan	**+4**	103	98	91	104
TC7	MR - east	Singapore-EC Aus	**-2**	176	178	181	

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

			wk on wk change	May 12th	May 5th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+1,500**	14,750	13,250	16,250	
TC2	MR - west	UKC-USAC	**-1,500**	12,500	14,000	14,250	11,500
TC5	LR1	AG-Japan	**+500**	13,750	13,250	12,750	14,000
TC7	MR - east	Singapore-EC Aus	**-500**	15,250	15,750	17,000	

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

	wk on wk change	May 12th	May 5th	Last Month
LQM Bunker Price (Rotterdam HSFO 380)	**+16**	216	200	178
LQM Bunker Price (Fujairah 380 HSFO)	**+16**	237	221	191
LQM Bunker Price (Singapore 380 HSFO)	**+13**	232	219	198
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+18**	406	388	353

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