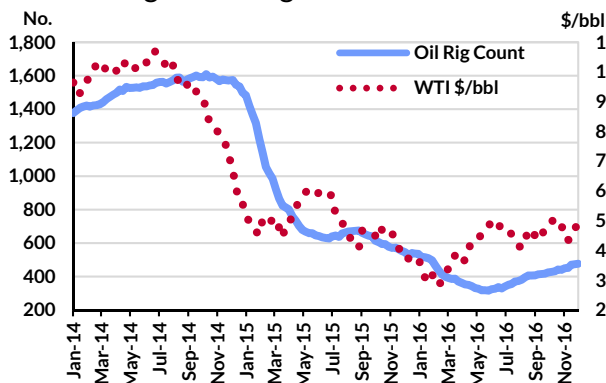


Shale hails higher prices

Weekly Tanker Market Report

With the dust starting to settle following last week's OPEC deal, all eyes now focus on two key issues, compliance, and rising non OPEC supply, in particular shale production in the USA. In our tanker market report back in August, we noted a rising rig count and discussed the potential for this trend to continue. Since then the rig count has risen every week bar one and now stands at 477, up 96 rigs since our August count. And with prices firmly above the \$50/bbl level those gains look set to increase.

Baker Hughes Oil Rig Count vs. WTI



According to Rystad Energy, the average breakeven price across the Permian, Niobrara, Eagle Ford and Bakken fields stood at \$67/boe in 2014, today average costs across those regions are said to have nearly halved to \$35/boe. With many plays now in a profitable zone, it is little surprise to see US crude production bottoming out, with some marginal upside now being observed. Data from the EIA shows US crude production as reaching a floor in July, trading sideways until mid-October where production has since risen by 200,000 b/d. Such increases may well be small, but if it is the start of a sustainable

trend, US crude production could be rising sooner than anticipated.

So far export growth appears to have been limited at 475,000 b/d, broadly in line with 2015 levels. However, a clear shift in terms of export destinations is taking shape. In 2015, 92% of US crude exports went to Canada, with little or no benefit to the tanker market. This year, just 62% of exports have made their way to Canada, creating an increase in seaborne exports, even if outright volumes remain largely unchanged. Unsurprisingly US exports are finding a home in Europe, where the medium haul nature of the trade makes it suitable for Suezmax and Aframax tonnage, which can load in US ports. However, seaborne exports are making their way to longer haul destinations. In September Singapore received 3 million barrels of US crude, part of which was provided by VLCCs loaded via STS in the US Gulf.

US Crude Production



So what are the prospects for seaborne exports going forwards? The US Energy Information Administration remain pessimistic for crude production in 2017, projecting output of 8.8 million b/d, only 100,000 b/d above its latest historical supply estimates. However, the administration acknowledges that its latest forecast is based on a Brent price of \$52/bbl, and suggests that last weeks OPEC deal could provide further upside in terms of prices and shale production. If, this happens, the exports look set to rise, supporting tanker demand at a time of potentially declining exports from Middle East OPEC producers, and supporting long haul trade to the Far East.

Crude Oil

Middle East

Yet another busy week for VLCCs, but one in which yet again a large slice of the action was concluded very much under the covers. Those deals regularly came to light, but the information flow was erratic enough to prevent what could have been a more significant spike. As it is, rates have moved into a higher bracket with low ws 80's to the East and mid ws 40's to the West the current marks. Onward progress will now depend upon whether Charterers decide to chase ahead into January before full programmes are in hand from late next week. Suezmaxes kept a steady profile at up to ws 90 to the East and ws 50 to the West, but an upward u-turn in West Africa may tempt ballasters away and start to open more opportunity for gains over the next phase. Aframaxes bubbled and rates heated up to 80,000 by ws 125 to Singapore accordingly. The near term outlook is for things to remain positive for Owners.

West Africa

A see-saw of a week for Suezmaxes. A slow start and Owners responded quickly by taking flight. Rates fell sharply into the mid ws 70's for a while, but Charterers couldn't resist the bargains and then shopped in sufficient numbers to recreate momentum to once again force rates up into the low ws 90's to USGulf and high ws 90's to Europe and a short term reversal is this time unlikely. VLCCs continued in active/very active mode, but as in the AGulf, the effect on rates, although positive, was not quite as marked as could have been expected. Rates moved to a peak ws 76 to the Far East with \$4.25 the last paid to West Coast India, but unless the AG really moves, then the market here will plateau at similar numbers.

Mediterranean

A steady decline for Aframaxes through the week, but with Black Sea transit times increasing again, a bottom 80,000 by ws 117.5 XMed seems to have been reached and there could be a degree of rebound waiting in the wings for next week. Suezmaxes moved through a slower phase whilst the next month's programme was being awaited. Rates eased to 140,000 by ws 90 from the Black

Sea to European destinations and to \$3.4 million to China, but the resurgent West African scene will bolster sentiment and Owners will be in the mood to push for higher values once normal service resumes.

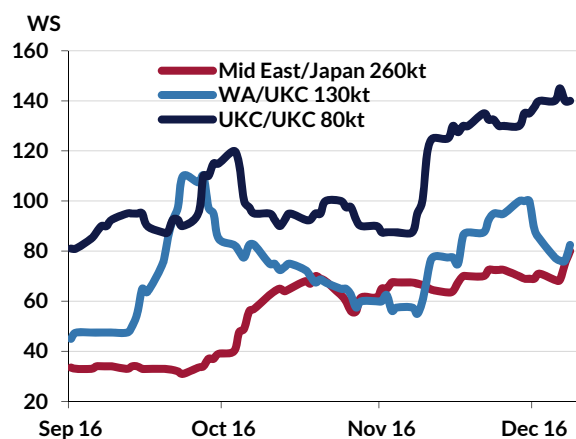
Caribbean

A slump for initially overtonnaged Aframaxes towards 70,000 by ws 80 upcoast, but eventually enough of the excess fat was trimmed to rebalance and allow levels to gently re-float to ws 95 and further gains may be secured early next week. VLCCs found very little local attention, but the noise from elsewhere and ballasting opportunities to South America and West Africa, have supported sentiment and rate ideas remained at around \$4.7 million to Singapore and \$3.7 million to West Coast India.

North Sea

Aframaxes enhanced their previously upward move, but then consolidated at 80,000 by ws 140 XUKCont and 100,000 by ws 117.5 from the Baltic. For the time being those bottom markers should hold as the next fixing window will be upon us within short. VLCCs were in short supply, but 'arb' economics limited rates to around \$4.1 million for fuel oil to Singapore with up to \$5.65 million paid for crude oil from Hound Point to China. No retreat likely whilst other load zones hold.

Crude Tanker Spot Rates



Clean Products

East

A very busy week for the MRs which has seen the tonnage list really tighten as week 49 comes to a close. Both in the AG and the Red Sea there has been a squeeze on available tonnage. That said, rates have yet to react, although slightly better than last done has been on achieved on some voyages. However, on the whole it has been steady. AG/UK Cont voyages have taken steps forward and we asses next done to be at the \$950k level. EAF has danced around a bit but sits at 35 x ws 130. X-AG has moved a little, but has still been hampered by the soft LR1 rates; it closes the week at the \$175k level. The Red Sea has become a desired end destination given the lack of available tonnage thus rates have remained steady-ish at \$400k levels. The Far East trade saw a little spread but holds around 35 x ws 100. There is a lot of expectation that next week will see high levels of activity as the pre-Christmas rush commences, and given that the lists are looking tight, a push on rates really could be seen.

LRs have seen an interesting week as tonnage cleared and with dirty rates increasing pressure has mounted on Owners of LR2s to move over. A number of Owners are being tempted and this in turn is making the list shorter and shorter. A little bit of a pre-Christmas rush and rates could move considerably next week. 75,000 mt naphtha AG/Japan is steady for now at ws 70, but without being tested yet, and 90,000 ULSD AG/UK Cont is last seen at \$1.55m, but again will be tested soon. LR1s have remained busy, but rates so far are unresponsive. 55,000 mt naphtha AG/Japan is at ws 75 and 65,000 mt Jet AG/UK Cont is flat at \$1.15m, but with a shorter list and the high probability of LR2s firming LR1s could see an effect next week.

Mediterranean

A slow week in the Mediterranean has made it tough for Owners to hold onto last fixed rates. With limited interest X Black Sea and a healthy tonnage list on Monday, rates managed to hold at 30 x ws 140 XMed for much of the week. As halftime was passed, the pressure showed and we leave week 49 at 30 x ws 135. Black Sea runs have naturally been dragged down also towards ws 145, but some fresh tests will be needed to solidifying this. Expect rates to remain under pressure into next week with bad weather across the Med giving Owners opportunities to hold fast.

For the MRs in the Med the positivity seen on the Cont had given Owners the momentum to push for higher than last, and with tonnage still in short supply marginal gains have been seen, now with 37 x ws 100 on subs transatlantic. Owners are likely to remain bullish into next week although they will be keeping a keen eye on the Cont market to bolster the action down in the Med. Voyages into the Red Sea have normalised after the inflated rates seen a week or so back, but still looks an attractive route for Owners.

UK Continent

As we come to the close of week 49 we begin to feel positivity from Owners on the MR sector. Good levels of fixing throughout the working week has given opportunities to press rates and partnered with a strengthened US market we see the 3 digits once again. Looking ahead with outstanding stems at a Mexican standoff with the available tonnage we await to see who blinks first as to where rates will settle. Limited enquiry for WAF and East moves have aided Charterers to hold fast for the time being, and we will see next week if this continues.

Handies end up where they started the week, with a positive spell eventually diminishing. Good levels of early week cargoes gave Owners the impetus to push rates north, by Tuesday seeing 30 x ws 120 on subs and the potential for further a climb, but with a couple of quiet days passing and Charterers digging heels in, 30 x ws 115 was once again produced and the pressure remains on this rate by the end of the week. With fresh enquiry reaching the 20's in December, now vessels opening soon will be wanting to find employment which will in turn keeps pressure on market levels.

Finally, to the Flexis where with good levels of COA employment appearing has wiped out a good number of ships. Owners have been able to squeeze gently as rates head towards 22 x ws 150. This said market cargoes have been on the quiet side and opportunities to show strength from Owners have been slim. A fresh test will be needed to give a clearer picture to all.

LRs

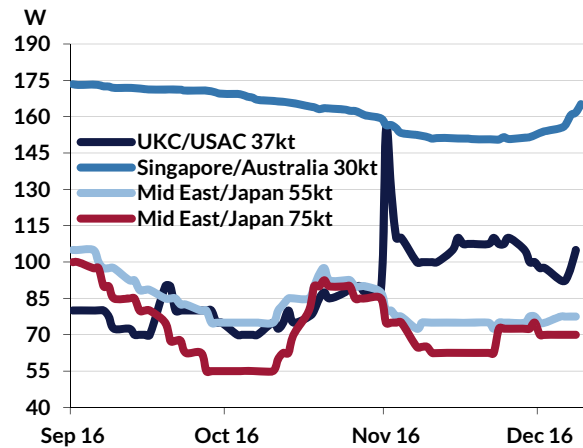
There has been a good level of activity on both the LR1s and LR2s this week. Charterers have been picking off tonnage which leaves them starring at a pretty short looking tonnage list heading into week 50.

On the LR1s, we are still not seeing much UMS move from ARA to WAF, but Owners are becoming more bullish and their ideas have increased to 60 x ws 90 and some are even aiming for 60 x ws 95 now for that route. The Baltic/Cont run has had a fresh test with one Charterer paying 60 x ws 120 for an Ice Classed vessel. There has also been some naphtha moving from the Med to Brazil and to the East. Owners have achieved 60 x ws 92.5 on the Brazil run which looks a touch light now and \$1.15m is where the MED/AG rate remains. There are a few options available to Charterers up on the Continent and a few ballasters on the horizon could divert into the Mediterranean, but a small

glut of enquiry early next week will give Owners the chance to apply pressure and try to push rates up again especially now that the MR market is firming.

LR2s remain very tight in the West and Charterers are limited to just a small handful of options, as a number of vessels have uncertain positions and some Owners are likely to switch their vessels to the DPP market where rates in North Europe on a round voyage are showing daily earnings above \$40k. Having said that, with the naphtha arbitrage being closed, Owners are limited in terms of employment opportunities. The latest test in the west has seen one Owner place his vessel on subs at \$2.05m for a naphtha Tuapse/Japan run. In a similar way to the LR1s, a sudden burst of enquiry could see rates fly, but for now they remain firm heading into next week.

Clean Product Tanker Spot Rates



Dirty Products

Handy

For the majority of this week the X Baltic/Continent market traded sideways with neither Owners or Charterers gaining much ground. As the week unraveled and activity steadily dripped along, Charterers began to get more control and Owners were starting to show signs of softening. As we head into the weekend there are still prompt units, something which we haven't seen for a couple of weeks now. Some Owners are looking at this as a positive with the view that next week we might see pre-Christmas panic kick in.

The Mediterranean has somehow managed to hold the ws 200 mark despite activity coming off and one Charterer managing to break this number halfway through the week. Looking ahead the Christmas window will be in the back of Charterers minds and we could see some forward dates come into play with both parties eager to cover. Itineraries on Monday, might just be the bit of help Owners needed to keep rates firm as preference is given to safer itineraries.

MR

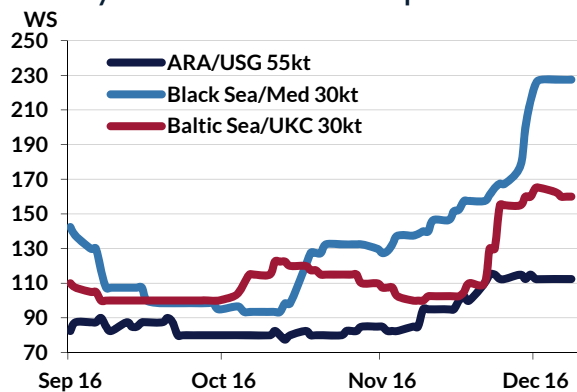
In the Continent, this week natural positions have been hard to come by with Charterer's continuing to look further afield in both terms of fixing dates and where units are coming from. Furthermore, with the Mediterranean still trading strong and Owners managing to gain further ground, Charterers faced a tough task in tempting Owners up to a market that trades with significant

disparity on prevailing strength. Heading into next week with the ice factor now in play and the market still primed for a test, if the weekend break does bring some tonnage replenishment we do not expect to wait too long before Charterers start asking questions in both regions.

Panamax

Activity this week reflected fixing ws rate variations from anywhere between 112.5 and ws 115 and with the Continent being reliant almost entirely upon ballast positions, Owners found that they had more leverage in achieving the higher end of the scale from this zone in particular. Charterers however, have been offered some reprieve as where the Caribs markets have lost ground, ballast candidates are apparent with Europe offering a good opportunity for coverage over the festive period. On the premise that Charterers do leave enough time for these units to arrive, we can expect current conditions to endure into next week.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 8th	Dec 1st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+10	79	69	64	50
TD20	Suezmax	WAF-UKC	-7	80	87	71	68
TD7	Aframax	N.Sea-UKC	+4	141	137	124	97

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

			wk on wk change	Dec 8th	Dec 1st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+11,000	60,250	49,250	46,500	26,500
TD20	Suezmax	WAF-UKC	-4,000	26,500	30,500	23,000	19,250
TD7	Aframax	N.Sea-UKC	+3,250	62,250	59,000	49,250	19,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 8th	Dec 1st	Last Month	FFA Q3
TC1	LR2	AG-Japan	+0	70	70	63	
TC2	MR - west	UKC-USAC	+3	99	96	101	118
TC5	LR1	AG-Japan	+0	76	75	75	92
TC7	MR - east	Singapore-EC Aus	+9	162	153	151	

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

			wk on wk change	Dec 8th	Dec 1st	Last Month	FFA Q3
TC1	LR2	AG-Japan	+0	6,500	6,500	7,000	
TC2	MR - west	UKC-USAC	+500	7,250	6,750	8,250	10,250
TC5	LR1	AG-Japan	+0	5,250	5,250	6,250	8,500
TC7	MR - east	Singapore-EC Aus	+1,000	9,250	8,250	9,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+2	290	288	252
ClearView Bunker Price (Fujairah 380 HSFO)	+4	317	313	273
ClearView Bunker Price (Singapore 380 HSFO)	+7	322	315	277
ClearView Bunker Price (Rotterdam LSMGO)	-2	441	443	402

www.gibson.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong

Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore

8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston

770 South Post Oak Lane
Suite 610, Houston
TX77056 United States