

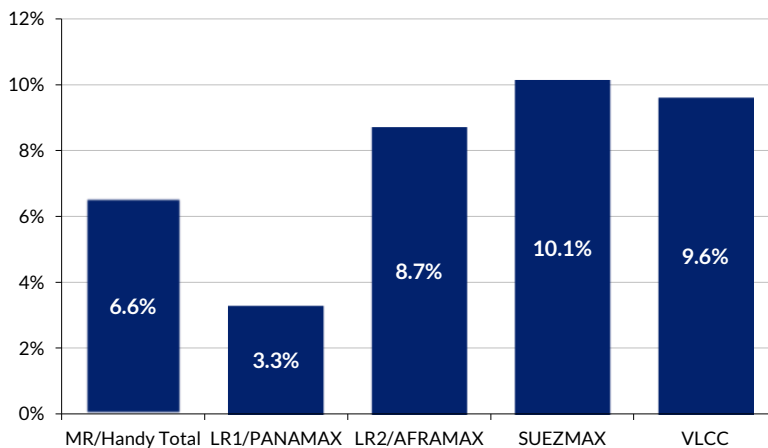
Fleet of the Future

Weekly Tanker Market Report

New tanker ordering activity has been restricted in recent years, most notably back in 2016, when just 76 tankers over 25,000 dwt were ordered. Investment levels increased in the following two years, with around 200 units ordered in 2017 and 155 in 2018 but overall volumes still remained well below those seen earlier this decade. This year has seen a similar trend, with appetite for new tonnage staying on the low side. During the 1st ten months of 2019, just over 170 confirmed tanker orders have been placed. Of all segments, MRs (25,000 to 55,000 dwt) have seen the largest interest, with 77 tankers ordered. However, even this seemingly elevated number represents just 3.7% of the existing MR fleet on the water. Investment in other tanker segments has been even more limited. So far in 2019, 40 Aframax/LR2s, 28 Suezmaxes and 26 VLCCs have been ordered. There have been no orders for Panamax/LR1s.

In percentage terms, the tanker orderbook now stands at its lowest level in two decades, at 7.6% of the existing global tanker fleet over 25,000 dwt. Of all segments, the Suezmax orderbook is the largest, at 10.1% in relationship to its current size. The VLCC orderbook is marginally lower, at 9.6%. Aframax/LR2s have 8.7% of the existing fleet on order, while the orderbook for MRs stands at 6.6%,

Orderbook as a % of Existing Fleet



with tankers on order almost entirely in the larger 40,000 to 55,000 dwt segment. Panamax/LR1s have the smallest orderbook, at just 3.3%; however, this largely reflects owners' preference for larger LR2s or smaller MRs.

Although the bulk of the existing orderbook is scheduled for delivery over the next twelve months, deliveries in 2020 will undoubtedly decline from levels we have seen this year. This is likely to offer a degree of support to industry earnings, particularly

if demolition activity picks up, although it will still take time to absorb all of the 2019 deliveries.

Scheduled deliveries in 2021 at present are very modest, but this number could change if ordering activity increases over the next six months or so. A lot here depends on how the market will perform in the months to come, with robust spot earnings frequently stimulating new tanker ordering activity. Yet, newbuilding prices are some 13% to 15% above the lows seen back 2017, potentially limiting newbuilding interest.

All in all, making an investment decision today to order a new tanker is a much more challenging task than it has been in the past. The growth in world oil demand is undeniably slowing on the back of the efficiency gains and this slowdown is widely anticipated to accelerate, with demand eventually peaking. Meanwhile, the IMO2030 and IMO2050 environmental targets are also creating plenty of uncertainty about future vessel designs. To achieve these goals, new ships coming out of the yards by 2030 will need to have radical changes in existing bunker consumption practices. Whether the ambitious IMO targets are achievable is debatable; however, in any case ships that are built in 2030 and beyond are highly likely to be much more efficient and competitive than those built today with a known technology. As tankers typically trade for twenty years, any investment decision now will be heavily influenced by the owner's view of what is facing the market over the next twenty years both in terms of demand for oil transportation and the ability of the industry to act upon the IMO environmental targets. Here, one of the biggest concerns is that a tanker built today could potentially become uncompetitive and less demanded in ten years' time.

Crude Oil

Middle East

Here we go again?...probably not to anything like the same degree as in October, but VLCC Owners have managed to turn the market noticeably in their favour, nonetheless, and a reasonably fine balance upon the current fixing window could yet add further gains. Currently, rates to the East knock upon the ws 115 door, with up to ws 60 asked for rare runs to the West, Via Cape. Suezmaxes also found more to do and the whole sector complex is in the process of firming. 130,000 at up to ws 125 to the East now with West rates at up to ws 57.5. Aframaxes completed the firmer set here with rates at up to 80,000 by ws 180 to Singapore recorded although another pulse of fresh activity would be welcomed to bolt that level securely down over the next period.

West Africa

Suezmaxes initially continued to ratchet their marketplace higher and then settled in on a solid 130,000 by ws 122.5 platform to Europe with only a little less demanded for U.S Gulf. A little shelf clearing is now underway at those levels but once lists are further trimmed, Owners will be agitating for more increases. VLCCs followed the AGulf lead - a solid pulse of mid-week action assisted and rates moved towards ws 115 to the Far East accordingly. A temporary period of consolidation likely, but if the middle East then does make another move, rates here will quickly follow.

Mediterranean

Aframaxes had already been pushing higher last week, and this week continued to inflate to 80,000 by ws 215 X- Med and up to ws 230 from the Black Sea. A holding pattern into next week with an eye open for premiums if Charterers push just a little harder. Suezmaxes kept busy through the week with further support from the smaller sizes and from wider afield too. Rates took a smooth upward ride to 140,000 ws 140+ from the Black Sea to European destinations and to \$5.7 million to China. More of the same into next week too.

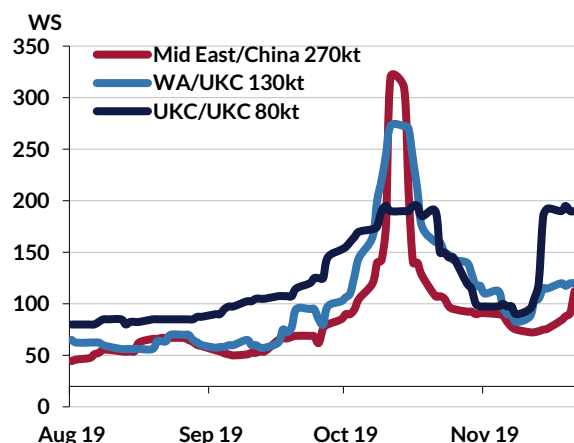
US Gulf/Latin America

Aframax interest both Transatlantic, and upcoast, stayed strong and rates more or less equalized upon those routes at an average 70,000 by ws 165 and perhaps a little more to come before the cycle completes. VLCCs had already looked very thin upon the fixing window and as ballasters necessarily raised their marks to compete with raised AGulf and West African marks, rates here also took a significant turn for the better to \$10.5 million from the US Gulf to Singapore, and another noticeable step higher looks on the cards if those other load zones continue to mature.

North Sea

Aframaxes started brightly but lost a little shine by the week's end. 80,000 by a still healthy ws 185 X-UK Cont and 100,000 by ws 155 from the Baltic may prove hard to defend into early next week but if the med and Caribs-USG areas remain as firm, then a counter flick back would always be a possibility. VLCCs are few and far between in the area and with the US Gulf ramping, rate demands here also spiked with up to \$11.5 million reported for Crude Oil to South Korea - a level that traders are finding difficulty in confirming, but Owners will merely side step the area if something close to that isn't proffered.

Crude Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Clean Products

East

A busy week for the MRs where the tonnage list has tightened up and rates have seen positive tests. Owners will be pleased with the rise that EAFR has seen – closing the week at 35 x ws 200 a strong performance during the course of the week. Naphtha heading East has been more active and with a few fixtures on sub at 35 x ws 180 Owners are now looking to improve on last done. UKC saw a fresh test and at \$1.625m again seen an upwards trend on rates. Short haul stems have been a little less active this week but Charterers should be looking to pay \$250k levels for a X-AG and around \$650k levels for Red Sea cargoes. Several open stems that still need to be addressed next week allows Owners to head into the weekend with a slightly more positive outlook.

Mediterranean

Owners have been able to capitalise on this period of positivity in the Med this week with rates firming from the off. With the front end tight and itineraries shaky, a lack of options left those with favourable itineraries able to kick start momentum with rates jumping from 215 to 230 for a market quote needing naphtha suitable ship and Italian flag. The influx of cargoes was consistent and with a list tighter than most had ever seen it, we finish the week closer to the 300 mark with most calling the market somewhere in between 30 x ws 270-280. This however isn't the roof just yet with uncovered cargoes still there to be covered and Owners with firm itineraries (who know the lack of ships) are extremely bullish. Bsea rates have followed suit and although difficult to pin point where we finish the week, 30 x ws 280 - 290 would not be surprising. Whether the weekend will stem this momentum slightly will be interesting but expect Owners to arrive on Monday with a spring in their steps.

MR Owners in the Mediterranean also enjoyed the result of this perfect storm, with the handies seeing a spike in rates as well as the MR Owners in the UKC being buoyed on with WAF moves at the forefront. Despite the limited fixing levels Owners have managed to jump on the bandwagon and we see a fresh test late in the

week for the AG achieving a good improvement at \$1.3m. Pushing forward Owners will feel confident further gains will be on the cards with short haul options being made available by the jubilant 30kt sector, and a fresh test needed on the more traditional transatlantic/WAF runs with new highs in the North being seen with almost every fixture.

UK Continent

MR - An exceptionally positive week for the Owners as this market improved initially day by day and now almost fixture by fixture, leaving Owners very much with the advantage going in to next week. Buoyed by a thinner list than we have seen all year, a constant flow of fresh enquiry and virtually every other segment on clean and dirty also rising sharply, we are finally in a period of positivity that looks to have some sustainability about it. The only question mark is what is next done! We are assessing TC2 to be 37 x ws 185 and WAF 37 x ws 220 at this precise moment but these are very much moving targets.

Handy - It's been a positive week for Owners in the Continent with the market firming continuously to the point where we have seen roughly a 50 point jump in Baltic/Cont rates from the start of the week. We started the week with a Baltic/Cont run on subs at the 30 x ws 145 mark, but with the tonnage list looking tight all week and plenty of cargo enquiry, Owners were going to be bullish with their ideas and therefore this number was always going to increase. Fast-forward to today and we now see 30 x ws 197.5 on subs for a Baltic/Cont cargo. As a result X-Cont rates have also improved drastically to the point where we now see 30 x ws 172.5 on subs with room for further positive correction in line with the current rates ex Baltic. We have also seen a few Cont/Med runs this week with Owners looking to take advantage of the rapidly firming Med market. Moving into Week 48 we fully expect this momentum to continue in Owners favour as larger tonnage enjoy a similar fate with the question mark of, at what point do we settle?

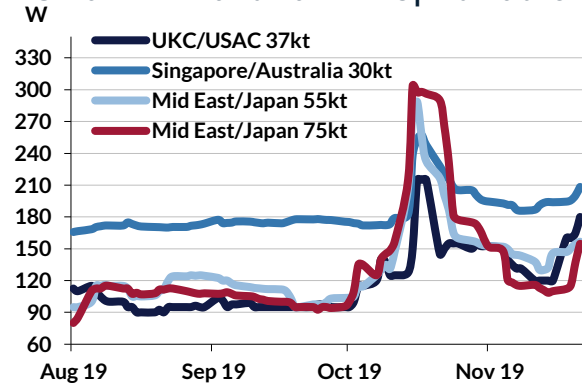
Flexi - Even though not the busiest week enquiry wise on the Flexis, Owners have managed to capitalize and re-adjust their fixing ideas due to the firming which has been occurring on the Handysize. The drastic rise in the 30kt stems has lifted the lid for the Flexis and for the enquiry that has been seen, rates improved with each fixture. For now we anticipate the market to push towards the 22 x ws 240 mark, and if as predicted this handy market continues, further gains will be on the cards.

LRs

LR2s have been the flavour of the week with an influx of cargoes quickly moving rates. 75,000 mt naphtha AG/Japan was first and saw rates up 35 points to ws 155 at the close. 90,000 mt Jet AG/UKCont also then saw pressure and is now at \$2.95 million and could see higher. Cargoes are still uncovered but first half of December looks done for the most part now. LR1s have been slow with most volume on the larger vessels but a lot more activity on the smaller sizes is predicted for the coming week. LR1 rates need to now take up the slack. For now 55,000 Naphtha AG/Japan is ws 155 and 65,000 mt Jet AG/UK-Con at \$2.1 million. But with control in the hands of only a few Owners rates could rise quickly with any real volume.

*All rates displayed in graphs in terms of WS100 at the time

Clean Product Tanker Spot Rates



Dirty Products

Handy

Rinse, wash and repeat. In the NWE sector once again this week we witness owners with firm tonnage continuing to gain ground with every fixture. This has resulted in a 20+ point gain in fixing levels from where the week started. However enquiry levels have not been of significant volume whilst off market activity continues to be a major driving force here. This comes as no real surprise as Charterers will be keen to keep tonnage that is under their control for their own further fixtures. Looking ahead this firm sentiment gives no signs of letting up, so expect this tail of events to continue throughout next week.

Turning our attention to the Mediterranean region, this sector simply continued on from last week's whirlwind of activity. No pun intended but the weather has been a major factor as to how this week has played out. With delays seen all over the region creating issues for a number of fixtures. Vessels delaying at discharge and further delays of units loading in the Black Sea has left tonnage replenishment limited.

There has been no get out of jail free card for charterers from the larger Aframax sector, as here too continues with growing and positive momentum. As we close the week out fixing levels from the Black Sea have reached a high of ws 340 and continues to look strong. Come Monday Charterers will be looking for some tonnage replenishment in the region however we fear that this may not be the case, so with what is being marketed, tonnage is likely to get snapped up quickly.

MR

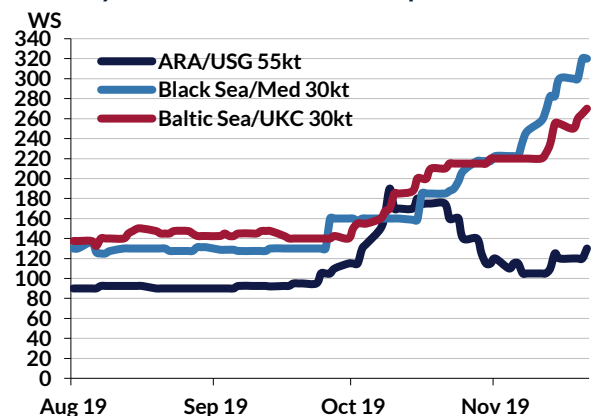
Benefitting from a well-paying Handy market and the scarcity of MR's on the Continent, sentiment has been backed up by a glowing set of performance statistics which easily justifies increment. With this in mind the extent of positive volatility in the Continent might not be fully announced as anticipation of markets adjusting in line with surrounding sectors will be faced in the next test.

In the Med it has been likened scenario playing out as seen to the Continent, where MR Owners have been the benefactors of momentum tricking through from a hot Handy market. Where Handies now trade at the 30 x ws 340 mark B.Sea / Med even taking a part cargo gives an equivalent of 45 x ws 226. To get an MR at this number as a Charterer and you have done well (assuming the vessel is well approved). If you have the oil to fill an MR, this size offers a much better \$/MT even with anticipated adjustments to follow.

Panamax

This sector seems to be stuttering right now where much of the anticipated requirement is being lost to the surrounding Aframax sector. This said, where possible requirement was present it didn't deter Owners from trying to force some positive movement onto market with 135 levels being mooted a perhaps a more fairer reflection of where conditions should sit given natural tonnage availability and US Markets picking up. We do point out though that nothing further actually has been done since 55 x ws 125 was seen from the Continent.

Dirty Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Tanker Spot Market Developments - Spot Worldscale

| | | wk on wk change | Nov 21st | Nov 14th | Last Month | FFA Q4 |
|--------------|-----------|--------------------|-------------|-------------|---------------|-----------|
| TD3C VLCC | AG-China | +34 | 109 | 75 | 133 | 112 |
| TD20 Suezmax | WAF-UKC | +11 | 122 | 111 | 201 | 146 |
| TD7 Aframax | N.Sea-UKC | +9 | 192 | 183 | 194 | 159 |

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

| | | wk on wk change | Nov 21st | Nov 14th | Last Month | FFA Q4 |
|--------------|-----------|--------------------|-------------|-------------|---------------|-----------|
| TD3C VLCC | AG-China | +37,250 | 95,500 | 58,250 | 118,000 | 112 |
| TD20 Suezmax | WAF-UKC | +6,500 | 47,500 | 41,000 | 88,500 | 146 |
| TD7 Aframax | N.Sea-UKC | +7,250 | 82,500 | 75,250 | 84,750 | 159 |

Clean Tanker Spot Market Developments - Spot Worldscale

| | | wk on wk change | Nov 21st | Nov 14th | Last Month | FFA Q4 |
|---------------|------------------|--------------------|-------------|-------------|---------------|-----------|
| TC1 LR2 | AG-Japan | +46 | 155 | 108 | 298 | |
| TC2 MR - west | UKC-USAC | +58 | 178 | 120 | 171 | 190 |
| TC5 LR1 | AG-Japan | +24 | 157 | 133 | 256 | 170 |
| TC7 MR - east | Singapore-EC Aus | +14 | 208 | 194 | 257 | 215 |

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

| | | wk on wk change | Nov 21st | Nov 14th | Last Month | FFA Q4 |
|---------------|------------------|--------------------|-------------|-------------|---------------|-----------|
| TC1 LR2 | AG-Japan | +14,500 | 37,000 | 22,500 | 78,750 | |
| TC2 MR - west | UKC-USAC | +11,500 | 21,750 | 10,250 | 19,500 | 24,000 |
| TC5 LR1 | AG-Japan | +5,500 | 26,750 | 21,250 | 47,500 | 30,250 |
| TC7 MR - east | Singapore-EC Aus | +2,000 | 23,000 | 21,000 | 30,000 | 24,500 |

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

| | | | | |
|---|-----|-----|-----|-----|
| ClearView Bunker Price (Rotterdam HSFO 380) | -14 | 243 | 256 | 269 |
| ClearView Bunker Price (Fujairah 380 HSFO) | -3 | 242 | 245 | 303 |
| ClearView Bunker Price (Singapore 380 HSFO) | +11 | 310 | 300 | 346 |
| ClearView Bunker Price (Rotterdam LSMGO) | -16 | 548 | 563 | 571 |

www.gibsons.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
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