

WEBER WEEKLY TANKER REPORT



WEEK 30 – 29 JULY 2016

ISSUE 30 – 2016

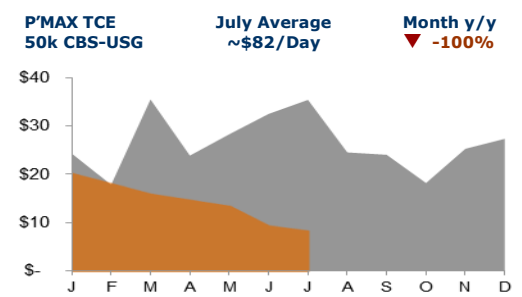
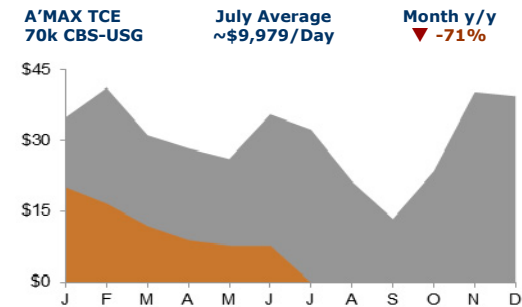
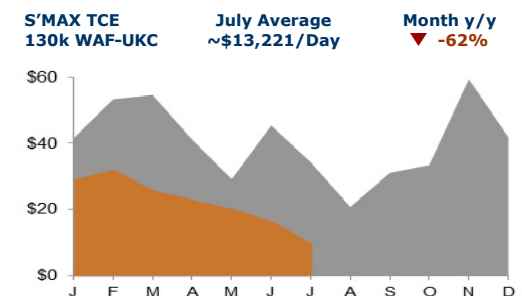
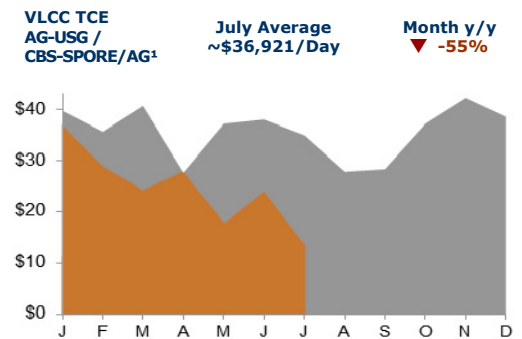
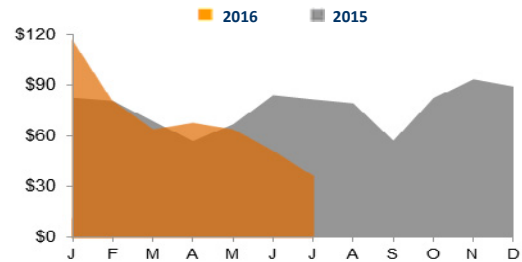
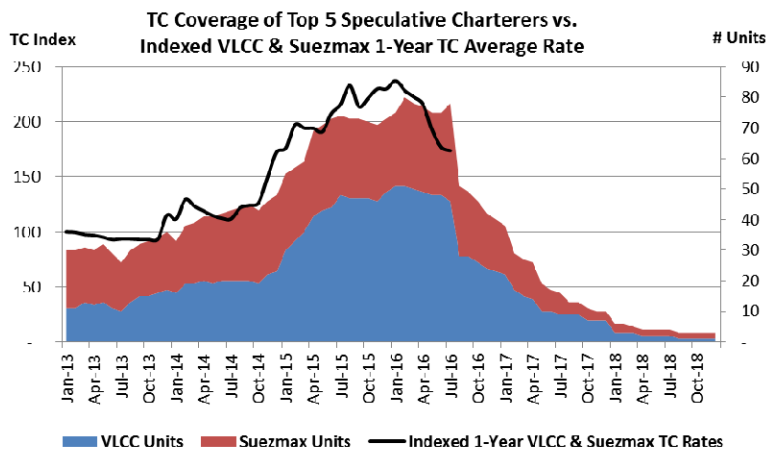
Dwindling forward charterer TC coverage pointing to fresh imminent TC activity to come as rates decline?

Historically, the commercial management profile of the VLCC and Suezmax size classes has been evenly split between entities characterized as charterers and those characterized as pure owners. Amid the low time charter rate environment of 2013 and the subsequent rally from late during 2014 until recently, that proportion changed with charterers increasing the share of the fleets under their management.

For the most part, this strategy has proven to be highly lucrative. At the end of 3Q14, one-year time charter rates for VLCCs, for instance, were assessed at just \$25,000/day while average spot market earnings during the subsequent four quarters averaged 131% higher at ~\$57,795/day. Even three-year time charters entered into a time will likely prove highly profitable; at end-3Q14 the three-year time charter rate was assessed at \$30,000/day and spot market earnings between then and now have averaged ~\$61,327/day. VLCC earnings are presently mired at the bottom of a seasonal low exacerbated by crude supply issues and stand at ~\$22,858/day. Even if earnings were to hold at the present level (something we view as unlikely) through the remainder of a three-year TC which commenced at the start of 4Q14, the corresponding \$30,000/day rate would remain well below what the spot market earnings will have average over the same period at \$45,298/day.

We recently looked at the TC coverage of the top-five most active charterers whose activities we assesses as being largely speculative (relative to those charterers who tend to maintain a more consistent fleet of in-chartered units or who are more likely to TC for more efficient management of consistent structural cargo movements). On this basis, we observed a lagging correlation of units TCed by these entities to movements in TC rates. Indeed, as rates have now been declining, we are observing a sharp drop-off in forward TC coverage.

This is not unexpected as the extent of recent rate losses stokes considerably less certainty as to the market's position going forward. Simultaneously, we note that often speculation in terms of TC coverage often has as much to do with managing freight market exposure as it does to pure speculation on the freight market itself. On this basis, we note the extent of TCs at the start of 2013 – when the market and its outlook was mired at its lowest post-global financial crisis and in over a decade overall. Accordingly, as TC rates decline to reflect the spot market and souring sentiment, the market TC market could well be poised to observe stronger demand to keep TC coverage level with historical norms and take advantage of lower rates. Certainly, those participants who believe the market will rebound (at least in part) in line with stronger refinery utilization rates during Q3 and Q4 and as crude supply levels rebound from levels dragged down recently by force majeure and other short-term geopolitical issues will be keen to lock into TC rates presently achievable which may no longer be so come Q4.



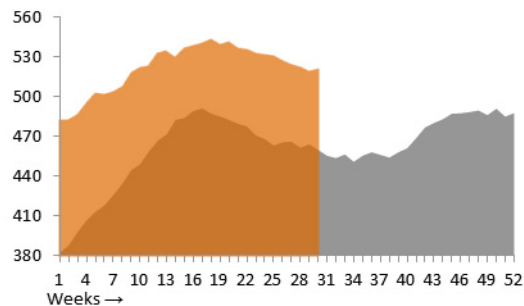
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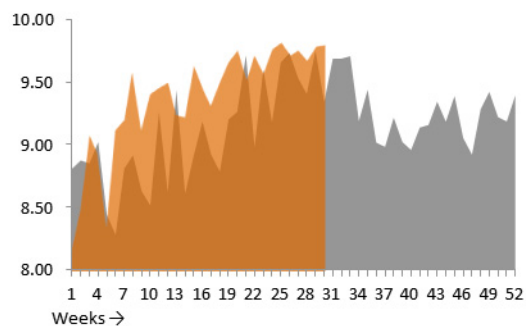


Spot Market	WS/LS	TCE ~\$/day	WS/LS	TCE ~\$/day
VLCC (13.0 Kts L/B)	22-Jul		29-Jul	
AG>USG 280k (TD1)	26.0	\$11,034	24.0	\$9,865
AG>USG/CBS>SPORE/AG	--	\$33,481	--	\$30,814
AG>SPORE 270k (TD2)	42.5	\$29,007	35.0	\$21,050
AG>CHINA 265k (TD3C)	42.5	\$23,873	35.0	\$16,482
WAFR>USG 260k (TD4)	52.5	\$38,909	50.0	\$37,315
WAFR>CHINA 260k (TD15)	48.5	\$31,656	45.0	\$29,041
CBS>SPORE 270k	\$3.30m	--	\$3.10m	--
SUEZMAX (13.0 Kts L/B)				
WAFR>USAC 130k	55.0	\$15,248	40.0	\$8,175
WAFR>UKC 130k (TD20)	55.0	\$11,665	40.0	\$4,746
BSEA>MED 140k (TD6)	65.0	\$21,172	50.0	\$11,007
CBS>USG 150k	65.0	\$22,965	47.5	\$10,534
AFRAMAX (13.0 Kts L/B)				
N.SEA>UKC 80k (TD7)	85.0	\$14,969	80.0	\$10,206
AG>SPORE 70k (TD8)	87.5	\$16,213	87.5	\$16,792
BALT>UKC 100k (TD17)	60.0	\$15,704	57.5	\$14,834
CBS>USG 70k (TD9)	85.0	\$12,242	80.0	\$10,985
MED>MED 80k (TD19)	77.5	\$9,919	72.5	\$8,403
PANAMAX (13.0 Kts L/B)				
CBS>USG 50k (TD21)	80.0	\$(354)	85.0	\$1,388
CONT>USG 55k (TD12)	85.0	\$8,581	97.5	\$12,570
ECU>USWC 50k	120.0	\$15,507	122.5	\$16,143
CPP (13.0 Kts L/B)				
UKC>USAC 37k (TC2)	100.0	\$7,700	90.0	\$6,293
USG>UKC 38k (TC14)	60.0	\$1,367	57.5	\$1,409
USG>UKC/UKC>USAC/USG	--	\$8,179	--	\$7,237
USG>CBS (Pozos) 38k	\$315k	\$6,573	\$300k	\$6,037
USG>CHILE (Coronel) 38k	\$1.03m	\$13,405	\$1.03m	\$13,864
CBS>USAC 38k	105.0	\$9,481	100.0	\$8,965
AG>JPN 35k	110.0	\$8,438	110.0	\$8,545
AG>JPN 75k (TC1)	89.0	\$17,177	105.0	\$22,044
AG>JPN 55k (TC5)	97.5	\$12,660	104.0	\$14,317

Time Charter Market \$/day (theoretical)	1 Year	3 Years
VLCC	\$33,000	\$30,000
Suezmax	\$24,000	\$22,500
Aframax	\$19,000	\$17,500
Panamax	\$18,000	\$17,000
MR	\$14,000	\$14,000



US Crude Stocks (EIA) Last Week **521.1 MnBbls** Week y/y **▲ +13.4%**



US Gasoline Demand (EIA) Last week **9.797 MnB/d** Week y/y **▲ +4.9%**
■ 2016 ■ 2015

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SPOT MARKET SUMMARY

VLCC

The VLCC market progressed further into summer doldrums this week with rates posting further declines to observe fresh two-year lows. By the close of the week, AG-FEAST TCEs had dropped to under \$20,000/day for the first time since October 2014. Tonnage oversupply remained a key challenge and extended this week while demand levels dropped on a w/w basis. Combined Middle East and West Africa chartering demand was at a six-week low; Middle East demand was off by two fixtures w/w to 18 while the West Africa market was off by three fixtures w/w to just two fixtures – the lowest weekly tally in over three months. The slowing of cargoes meant that by the close of the week, at least one cargo had received nine offers.

The August Middle East program has yielded 64 cargoes thus far, leaving an anticipated twenty uncovered through the second decade. Against this, there are 40 units available and draws from the West Africa market should remain modest at best amid limited recent interest in regional stems from Asian buyers and a growing list of units freeing on the USG failing to find onward trades from the Caribbean. This implies that the Middle East surplus at 20 August will stand at 18 units. Though two fewer than the number estimated uncovered at the conclusion of the first decade, it remains high relative to recent norms. Moreover, the number of “hidden” positions has likely risen amid the low rate environment, which could keep rates under negative pressure as these units reappear to compete for fixtures.

Middle East

Rates to the Far East concluded the week with an 8-point loss at an assessed ws35. Corresponding TCEs eased 20% w/w to conclude at ~\$19,265/day. Rates to the USG via the Cape concluded off by 2.5 points to ws23.5 on an untested basis but appear poised to retest lower. Triangulated Westbound trade earnings closed the week with a 12% weekly loss to ~\$29,636/day.

Atlantic Basin

The West Africa market lagged behind the Middle East. The WAFR-FEAST route was off by 3.5 points to ws45 with corresponding TCEs off by 9% to ~\$28,558/day. The Caribbean market remained slow but retested lower on one fixture with the CBS-USG route losing \$200k to \$3.1m lump sum.

Suezmax

The West Africa Suezmax market observed strong rate erosion this week on the back of a very slow progression into the August program amid markedly softer demand in alternative Suezmax markets. Though VLCC demand in the region has been lighter, any impact of corresponding cargo availability for Suezmaxes has been seemingly more than offset by reductions in Nigeria, where force majeure on Qua Iboe is strongly impacting exports. The WAFR-UKC route shed 15 points to ws40; the corresponding TCE of ~\$4,746/day is the lowest observed since 2013.

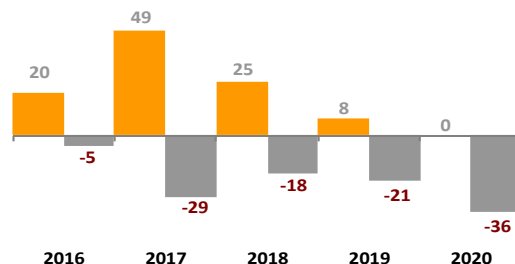
Given usual supply rates of Nigerian grades under force majeure and (low) VLCC loadings August loadings to date, a backlog of cargo is likely to materialize for the Suezmax class during the upcoming week which should help to stabilize rates making the present level an effective floor. Furthering this thesis, TCE earnings at sub-OPEX levels are likely to see owners present a stronger resistance to lower rates.

Aframax

The Caribbean Aframax market was less active this week with the regional fixture tally easing 28% w/w to 13. The slowing demand saw regional rates ease to reflect prevailing supply/demand economics and the CBS-USG route was off by five points to ws80. The direction is uncertain at the close of the week which will likely see the upcoming week commence around this week's closing level. However, with TCEs in the region now more closely matching those of alternative markets, hopes for a geographical redistribution of tonnage to support Caribbean rates appears unlikely and instead seasonal factors could see further directional losses through August.

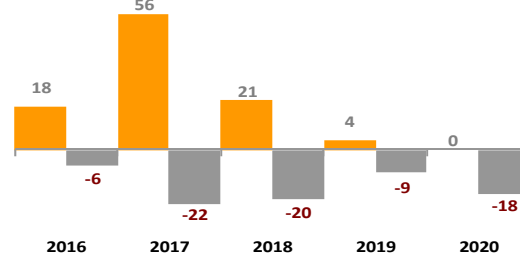
VLCC Projected Deliveries/Removals

Present Fleet: 664



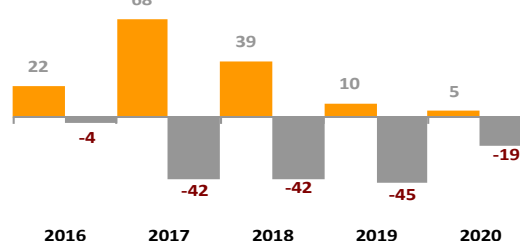
Suezmax Projected Deliveries/Removals

Present Fleet: 446



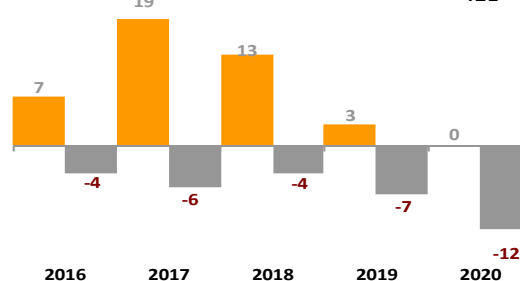
Aframax/LR2 Projected Deliveries/Removals

Present Fleet: 919



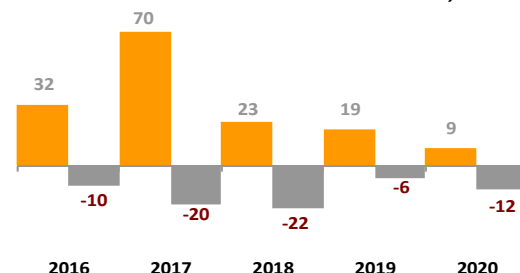
Panamax/LR1 Projected Deliveries/Removals

Present Fleet: 421



MR Projected Deliveries/Removals

Present Fleet: 1,404



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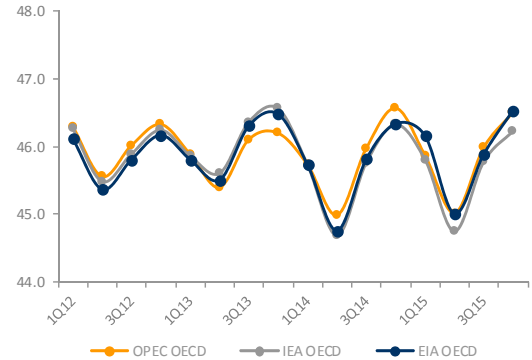
MR

The USG MR market continued to observe rate downside as fresh tonnage builds weighed negative on sentiment. There were a total of 29 fixtures reported this week, representing a w/w decline of 12%. Of this week's tally, 7 were bound for points in Europe (unchanged, w/w), 15 were bound for points in Latin America and the Caribbean (-35%, w/w), and 7 were for alternative destinations or had yet to be determined. Arbitrage opportunities remained elusive and the regions exports continue to instead be absorbed by Latin America, where refining runs have eased amid strong competition from PADD 3 refiners as displaced diesel and, increasingly, gasoline supplies seek outlets. During 1Q16, gasoline and diesel exports to Latin America increased each by 6%, as we reported in this quarter's *Weber US Product Trade Report*. Though the rise in product exports to Latin America helped to boost overall product export figures, the impact on the USG MR market has been far from positive, leading to fewer ton-miles, fewer MR unit exits from the region and quick reappearances on position lists.

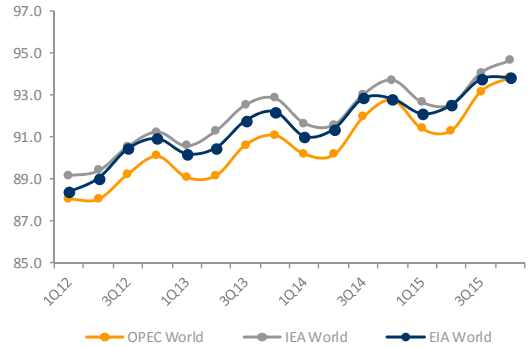
More recently, cargoes being diverted from the USAC to the Caribbean region due to high NYH inventories have added further to USG vessel availability. EIA data shows PADD 1B (Central Atlantic) jumped by 2% w/w last week and, though shy of record highs, are disproportionately distributed in the NYH area.

Rates on the USG-UKC route shed 2.5 points to ws57.5 while those on the USG-POZOS route were off by \$15k to \$300k lump sum. The two-week forward availability view shows 54 units available, representing a 10% w/w gain. Failing a significant change to the demand profile during the upcoming week, which we view as unlikely, rates are likely to remain around present levels as the market is likely at an effective floor.

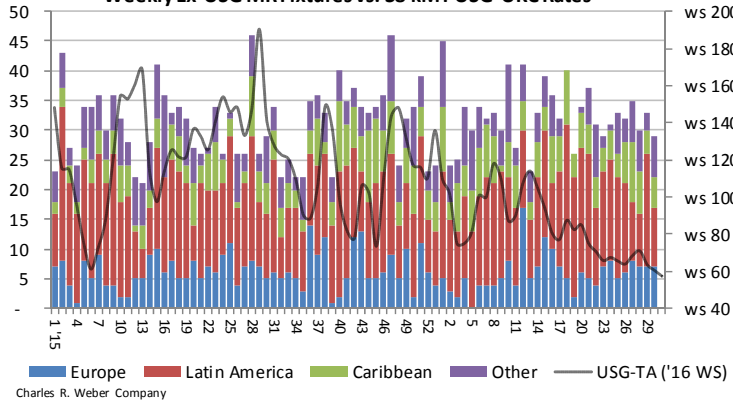
Projected OECD Oil Demand



Projected World Oil Demand



Weekly Ex-USG MR Fixtures vs. 38 KMT USG-UKC Rates



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REPORTED TANKER SALES

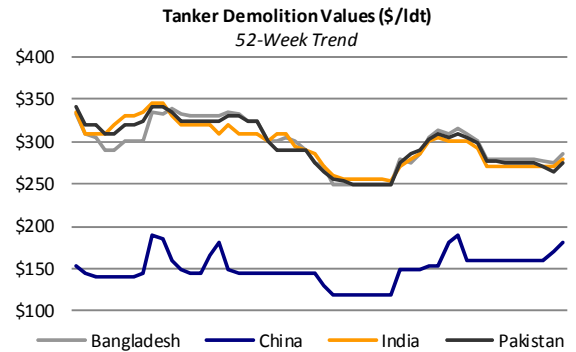
Hyundai Samho S791 300,000/16 – Hyundai Samho – DH
Hyundai Samho S792 300,000/16 – Hyundai Samho – DH
 -Sold en bloc for \$168.0m to Belgian buyers (Euronav).

“Sichem Edinburgh” 13,153/07 – 21st Century – DH – IMO II - MarineLine
 -Sold for \$11.5m to undisclosed buyers.

“ST Dragon” 11,559/94 – Hayashikane – DH – IMO II/III
 -Sold for \$4.10m to undisclosed Taiwanese buyers.

REPORTED TANKER DEMOLITION SALES

There are no reported tanker demolition sales for week 30.



**Monthly triangulated VLCC AG-USG/CBS-SPORE/AG TCE averages based on average CBS-SPORE assessments and prior-month AG-USG assessments to reflect earnings reality for units engaged in this trade.*



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