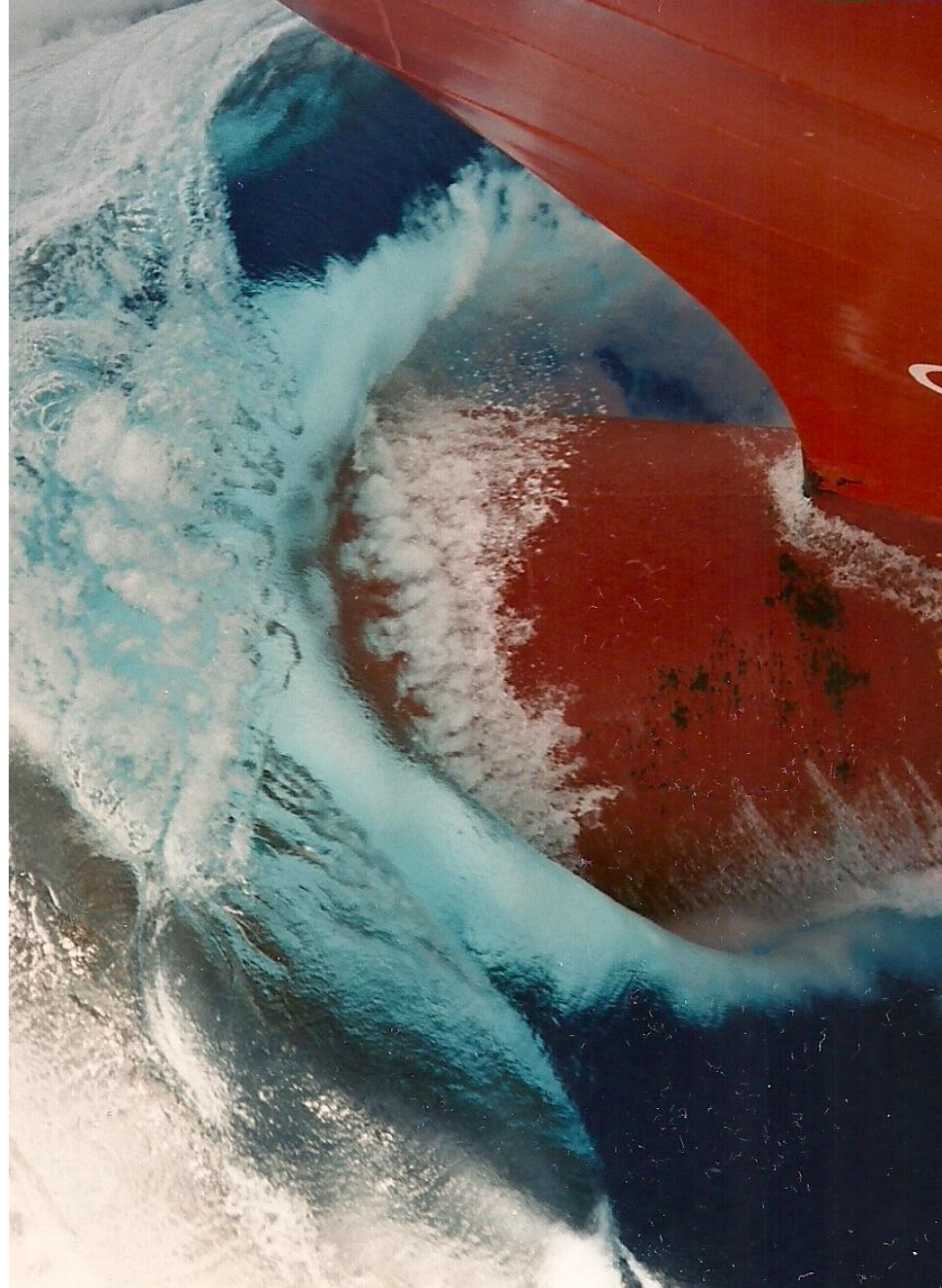


The Chemical Tanker Market

IMSF Annual Meeting 2017

Geneva



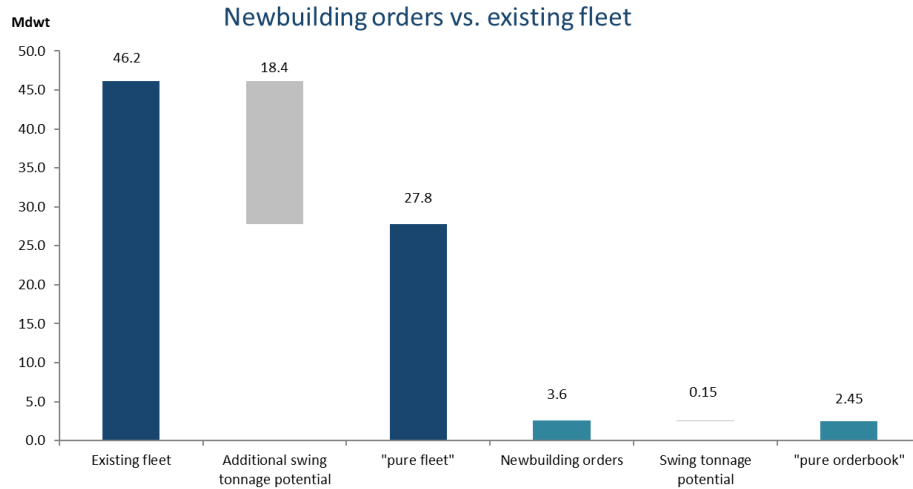
Lorentzen & Stemoco

Segmented, niche fleet providing various challenges...

- Oversupply in some chemical segments, too few vessels in others
- CPP market major impact
- Larger vs smaller vessels
- Financing still an issue
- Lower values and earnings
- Fleet trending towards larger average size
- Swing tonnage harder to define
- But future still promising?



Fleet development

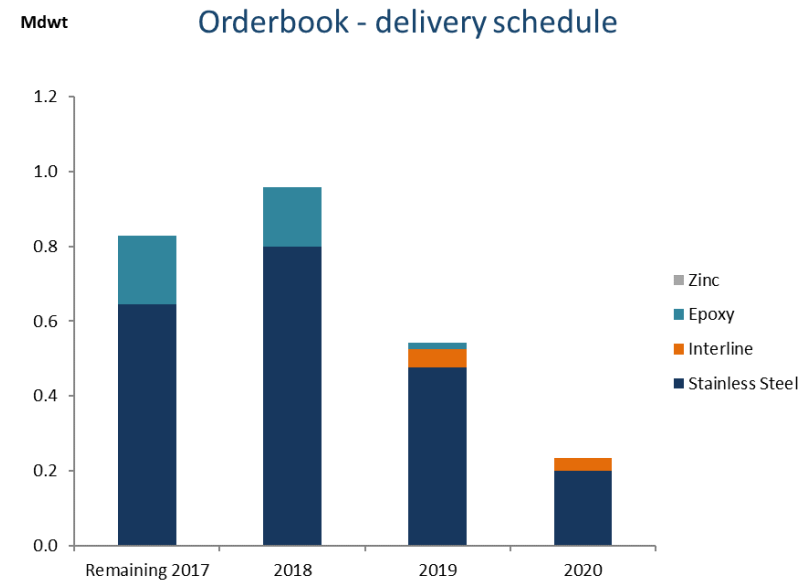


Swing tonnage here defined as epoxy coated IMO II tonnage with dwt/segregation ratio of above 3000

Fleet defined as IMO I/IMO II vessels above 10,000 dwt, not predominantly CPP trading

Lorentzen & Stemoco, KTS Management

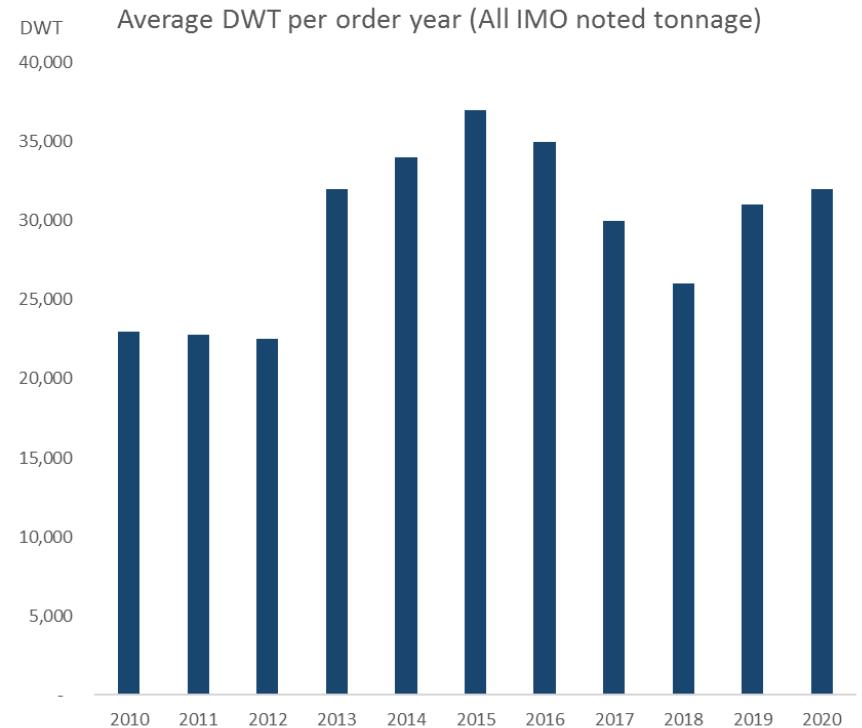
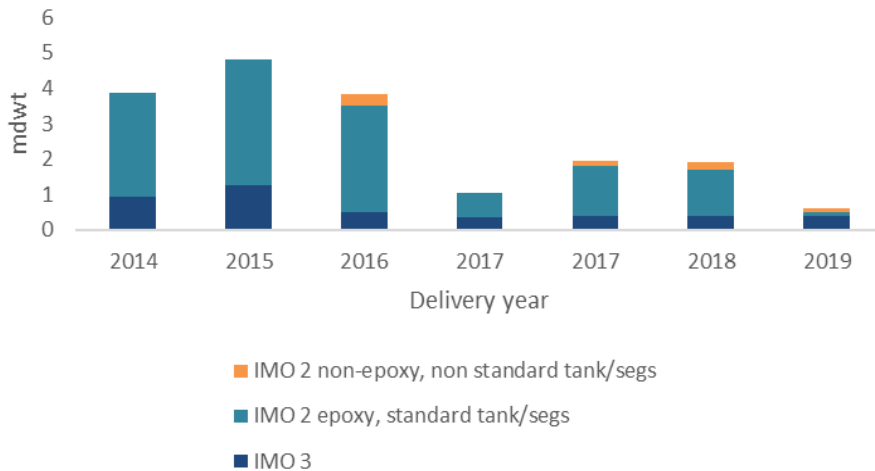
- Orderbook is shrinking, as orderbook of 2013-2015 seems to be relenting and deliveries come on water – now
- Emerging bulk chemical trade making fleet developments increasingly challenging to track in terms of swing tonnage



Fleet development

- Trend of all IMO noted tonnage (incl IMO 3) is a larger average size, as demand for bulk chemicals increases, and more newbuildings are built with IMO certificates to take advantage of palm oil trade (more MRs with IMO notation)
- Higher number of vessels above 40k dwt built with non-typical tank/segregation patterns (7/14), or typical swing tonnage coating.

Fleet dynamics changing in larger sizes

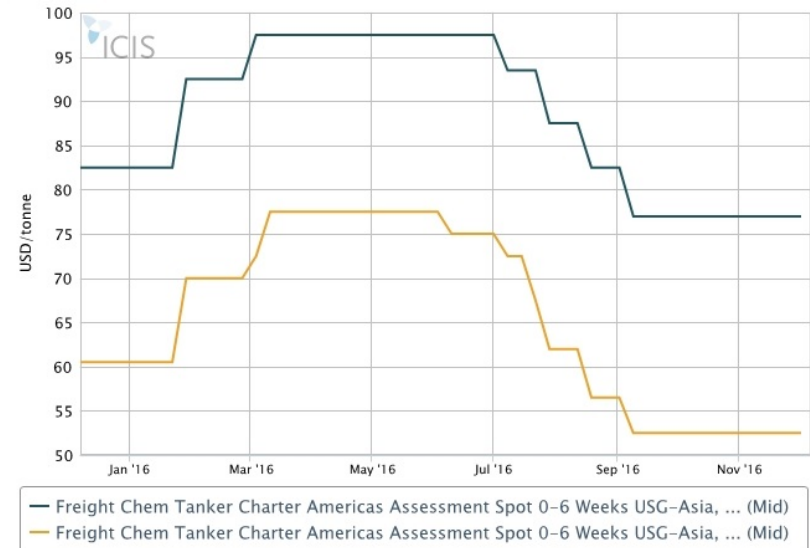


Source: Lorentzen & Stemoco, KTR



Pressure on rates...

- Weakness in CPP trade not helping.
- Volume growth has not kept pace with supply-side growth, a situation made more acute by the recent influx of CPP swing tonnage.
- On the demand side, weak return volumes from China and other Asia ports seem to will decline further
- Surge in Chinese domestic production, will cause declining demand for some chemical imports, pushing down freight rates to Asia.



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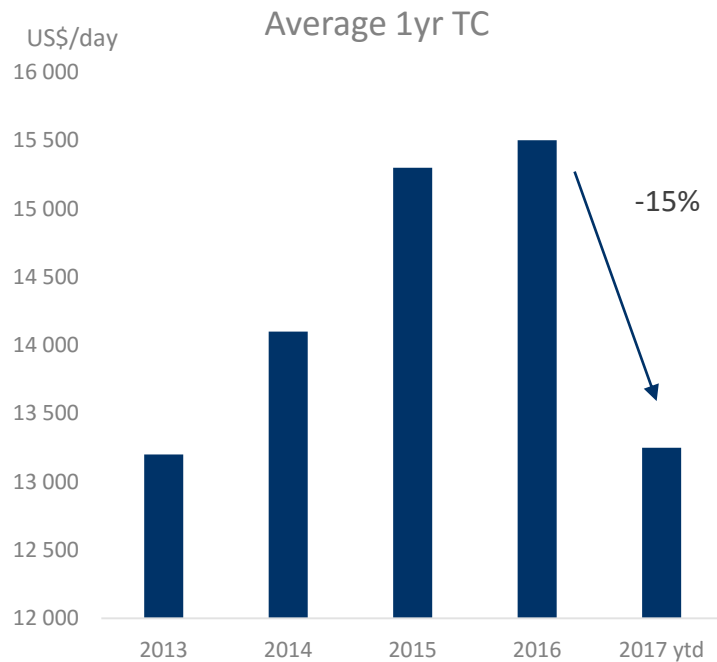
Source: ICIS



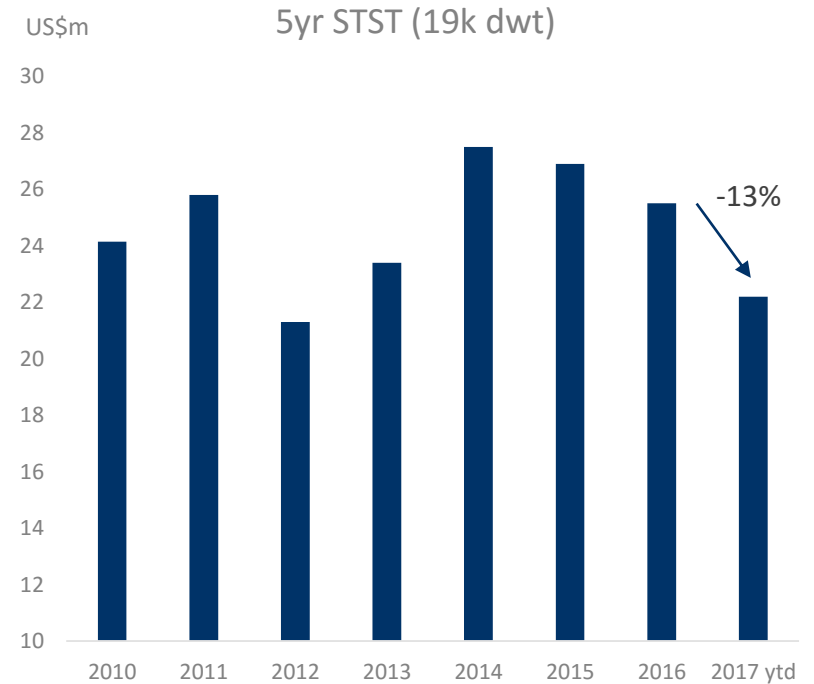
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Oversupply and swing tonnage+ stifled demand side bringing market and values down

- Average 1 YR TC 19k STST

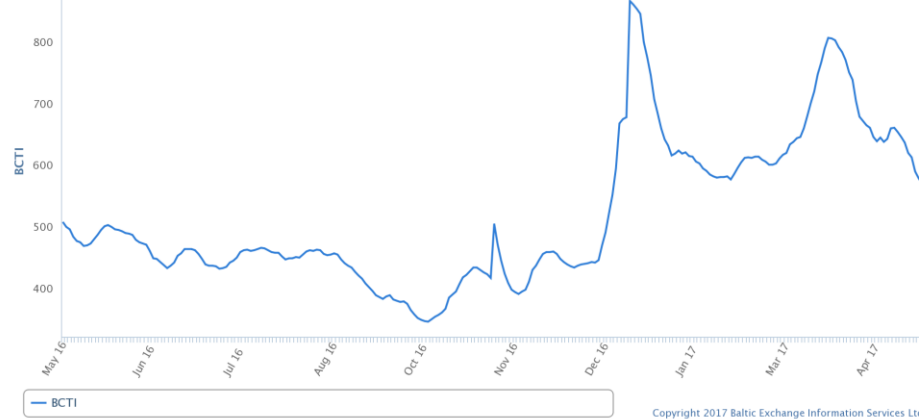


- Average values SH5 19k STST

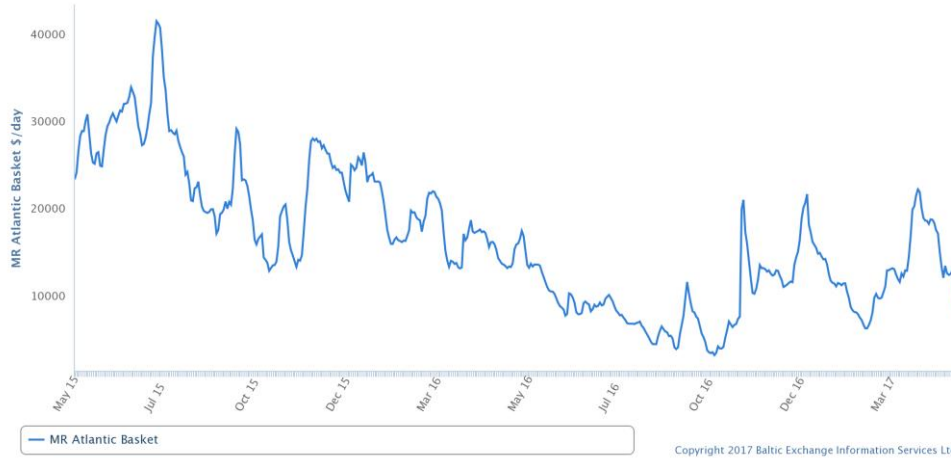


Improving Product Tanker Market removes Swing Tonnage

Baltic Clean Tanker Index



Baltic MR Atlantic Basket
US\$/day

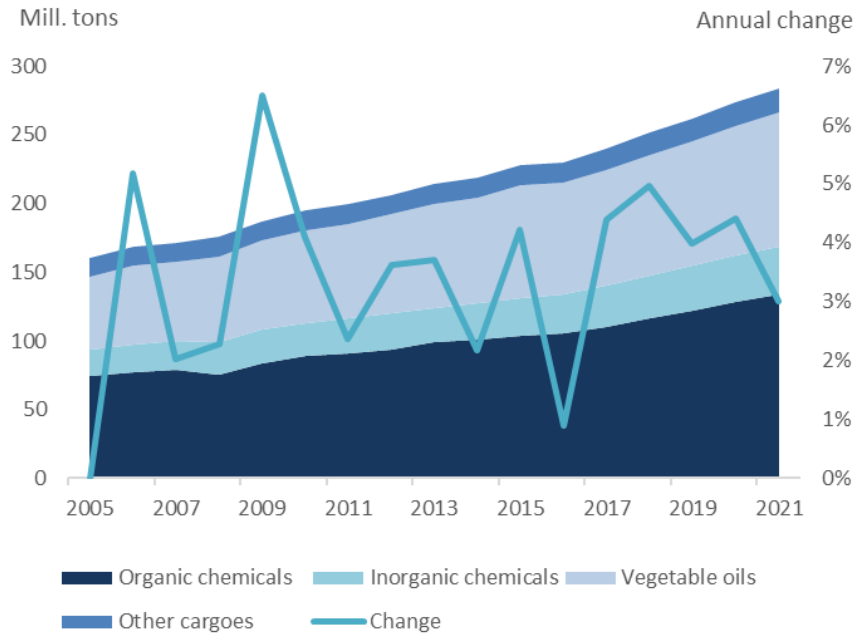


Source: Baltic Exchange

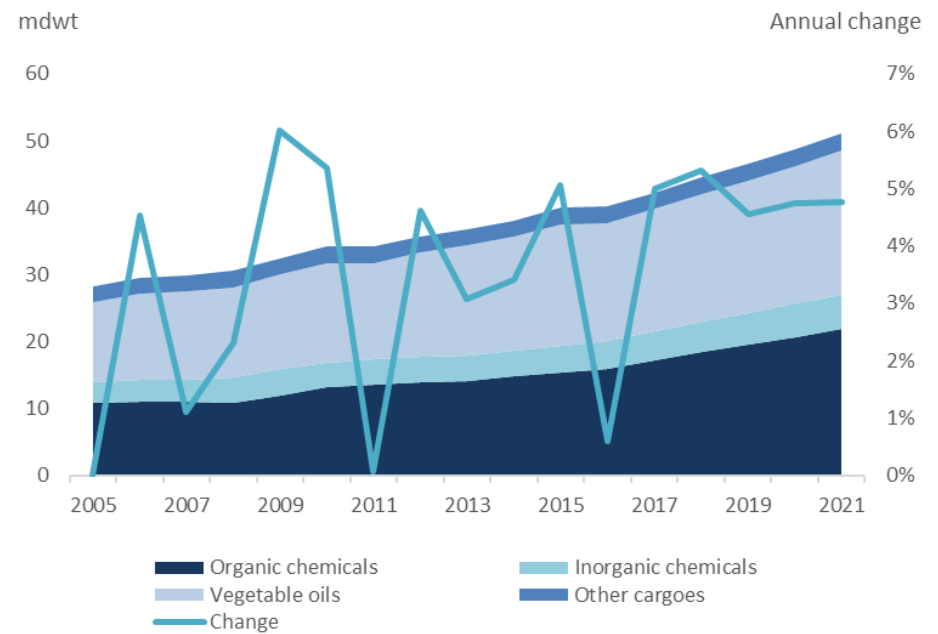


What is the outlook on the demand side?

Seaborne trade (tons)



Deadweight demand

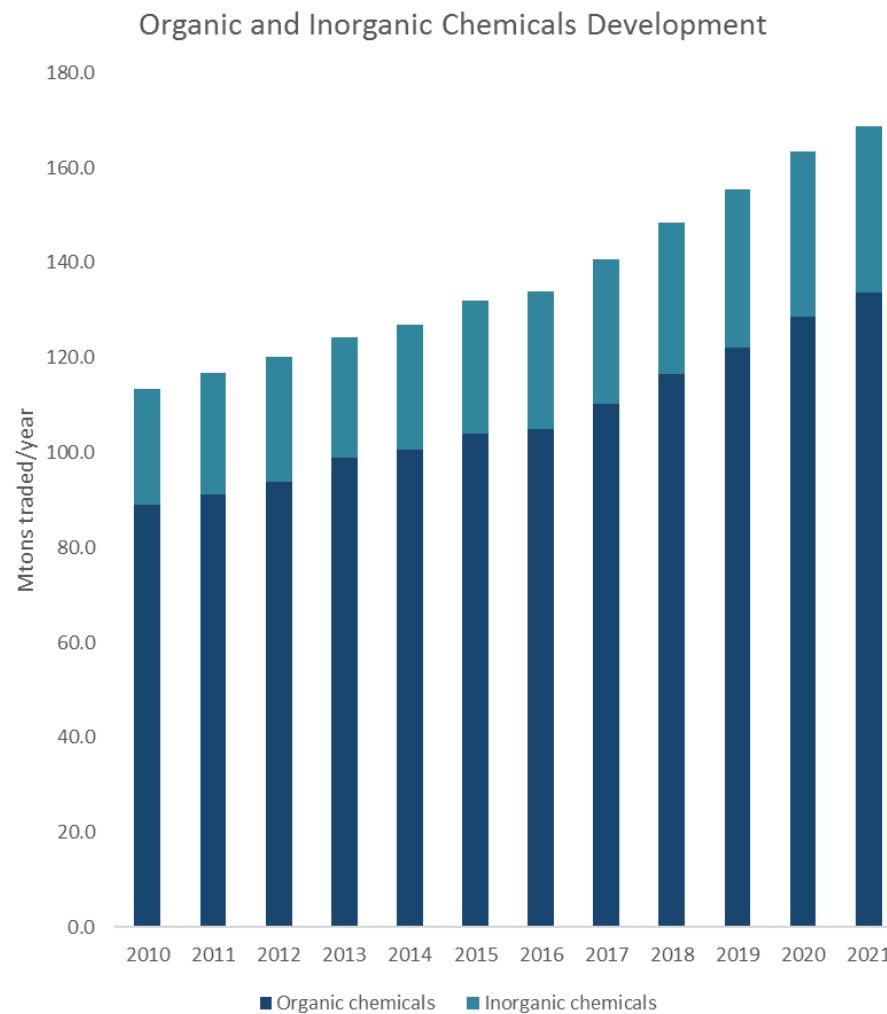


- Chemical demand growth is expected to grow with a CAGR of 5% between 2017 and 2021
- Strongest growth expected from organic chemicals as structural shifts unfold in locations like US, based on cheaper feedstock access

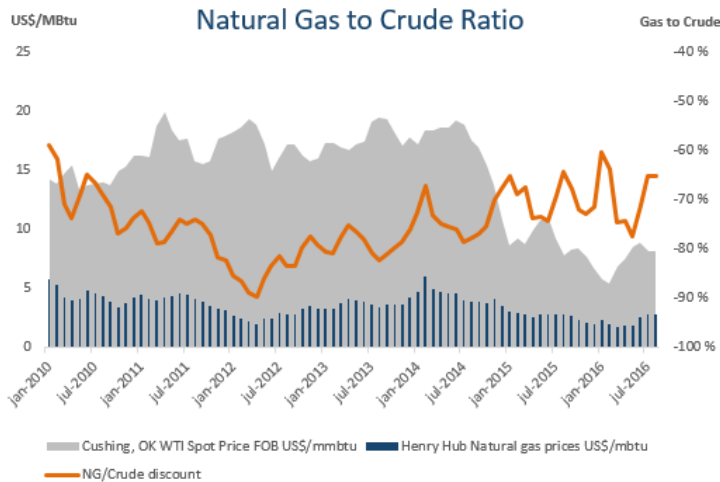
Source: L&S Research, MSI



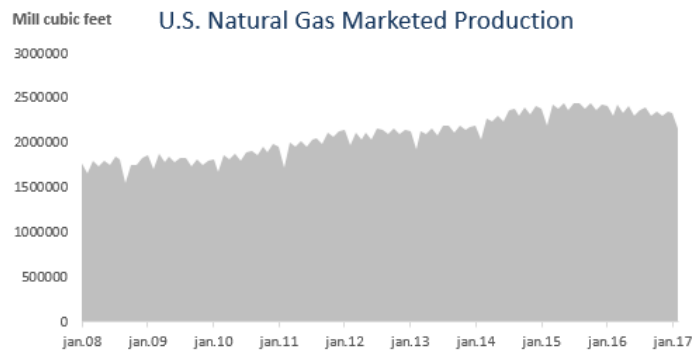
**Organic
chemicals with
most
pronounced
growth – why is
this?**



Despite lower oil price – natural gas is here to stay



- Cheap feedstock continue to support US chemical market fundamentals
- Whilst low crude prices have challenged the beneficial discount previously enjoyed by natural gas, natural gas based feedstock locations like the US and the Middle East are still competitive compared to other producing regions



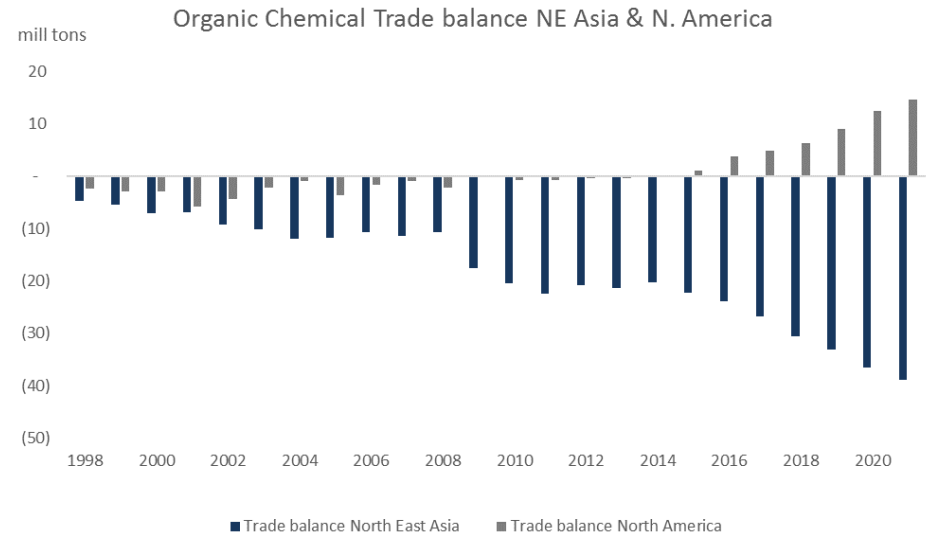
US feedstock still competitive

Source: L&S Research, EIA



US Feedstock Advantage Growing Organic Chemical Exports

- Cheap feedstock in the US increasing investment into chemical production capacity
- Organic chemicals and petrochemicals primary investment field
- North American chemical trade balance seeing significant improvement as exports increase

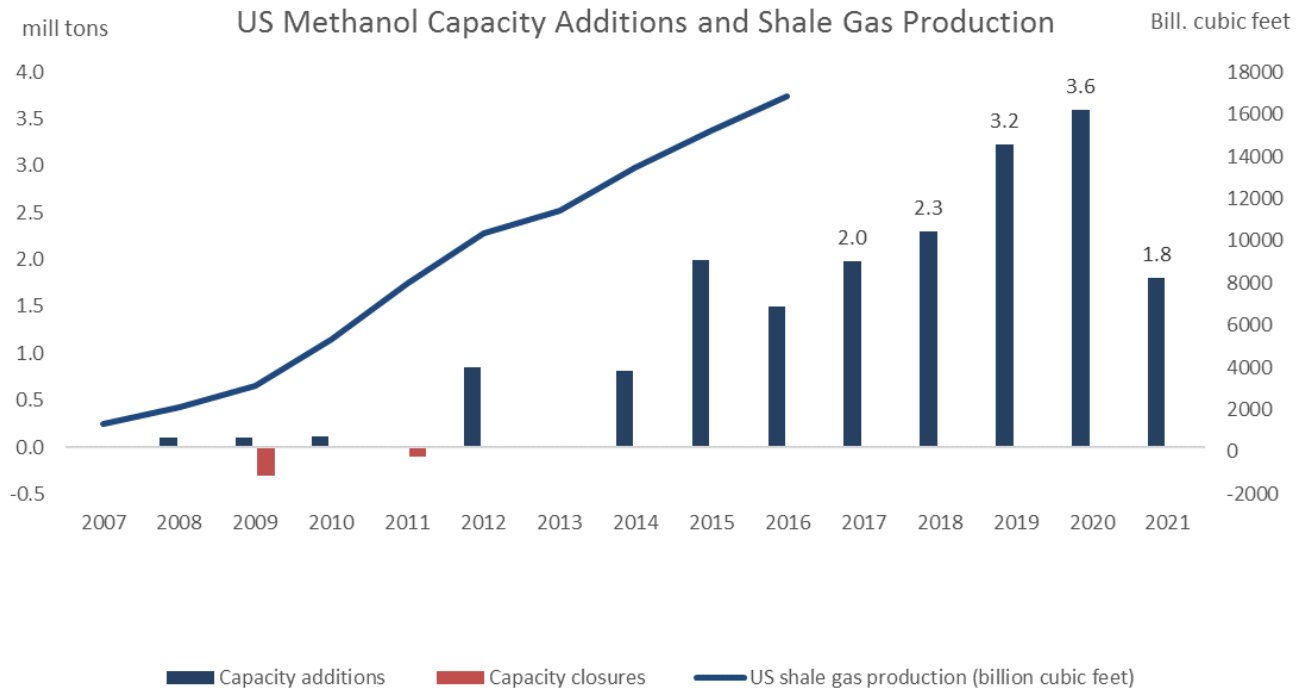


North American trade surplus chemicals

Source: L&S Research, MSI



US Methanol Development

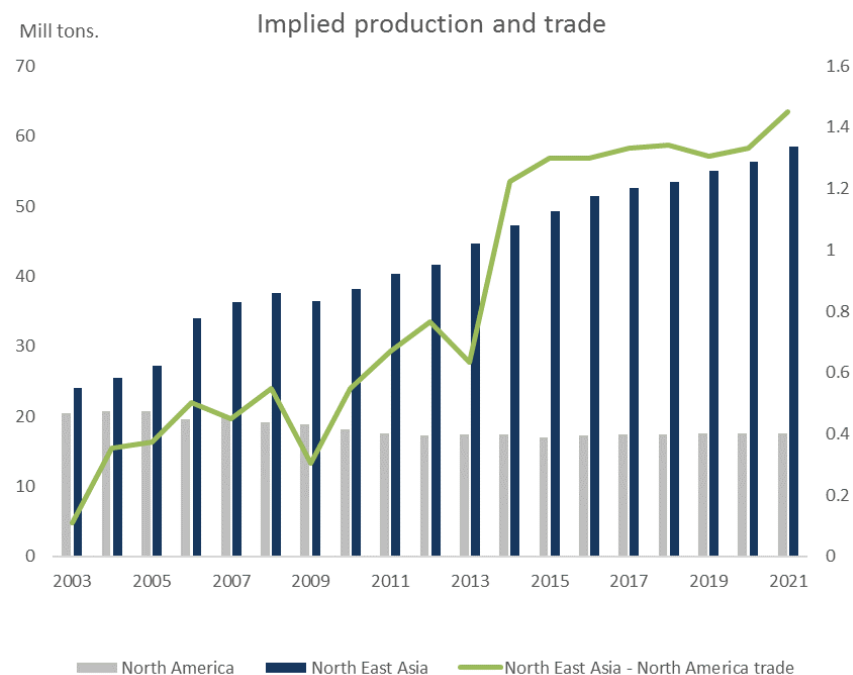
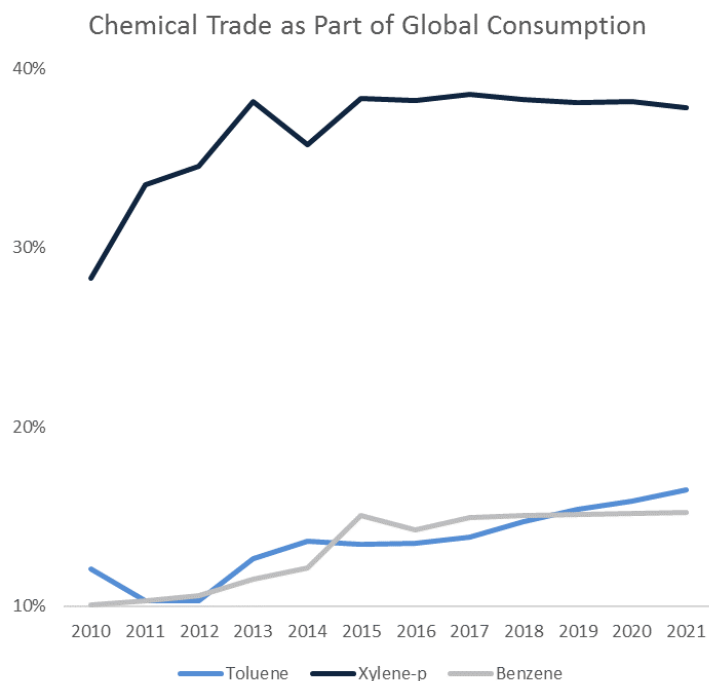


US methanol capacity major driver for organic chemicals going forward

Source: L&S Research, MSI



Shale changing dynamics in aromatics



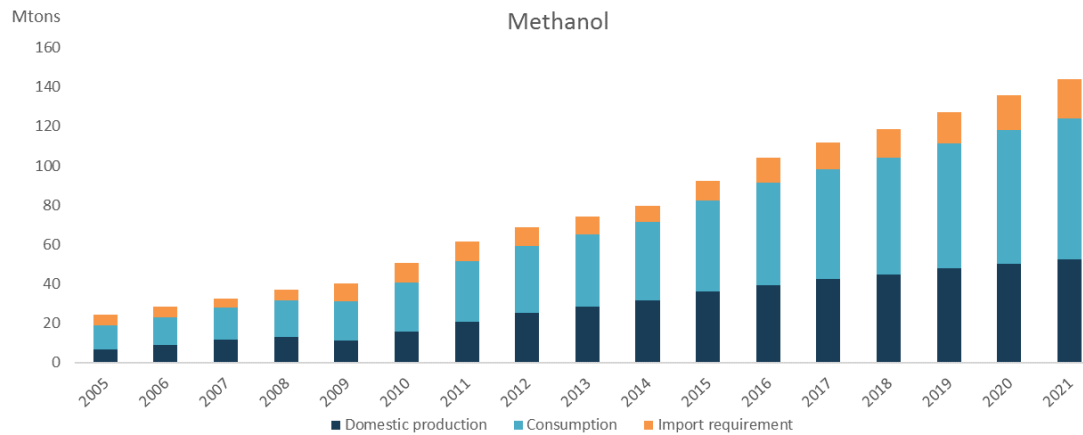
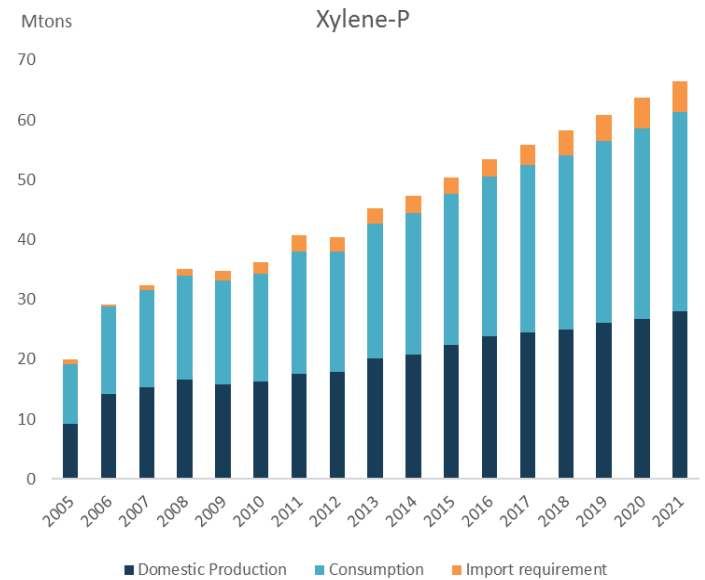
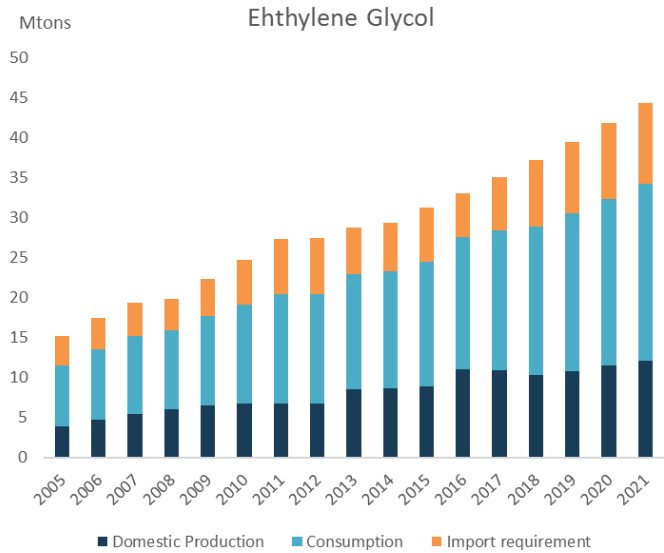
- Shale development has led to a decrease in aromatics yield from crackers as a result of lighter feedslates
- Trade as part of global consumption remaining stable overall, but seeing positive growth in the aromatics segment as regions become less self-sufficient
- Increased trade from North East Asia to North America

Light feedslates bring effect for other chemicals

Source: L&S Research, MSI



US changing in Chemicals – what about NE Asia as demand centre?



Source: Lorentzen & Stemoco, MSI



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