

Tanker Market Outlook

April 2018

Global Presence

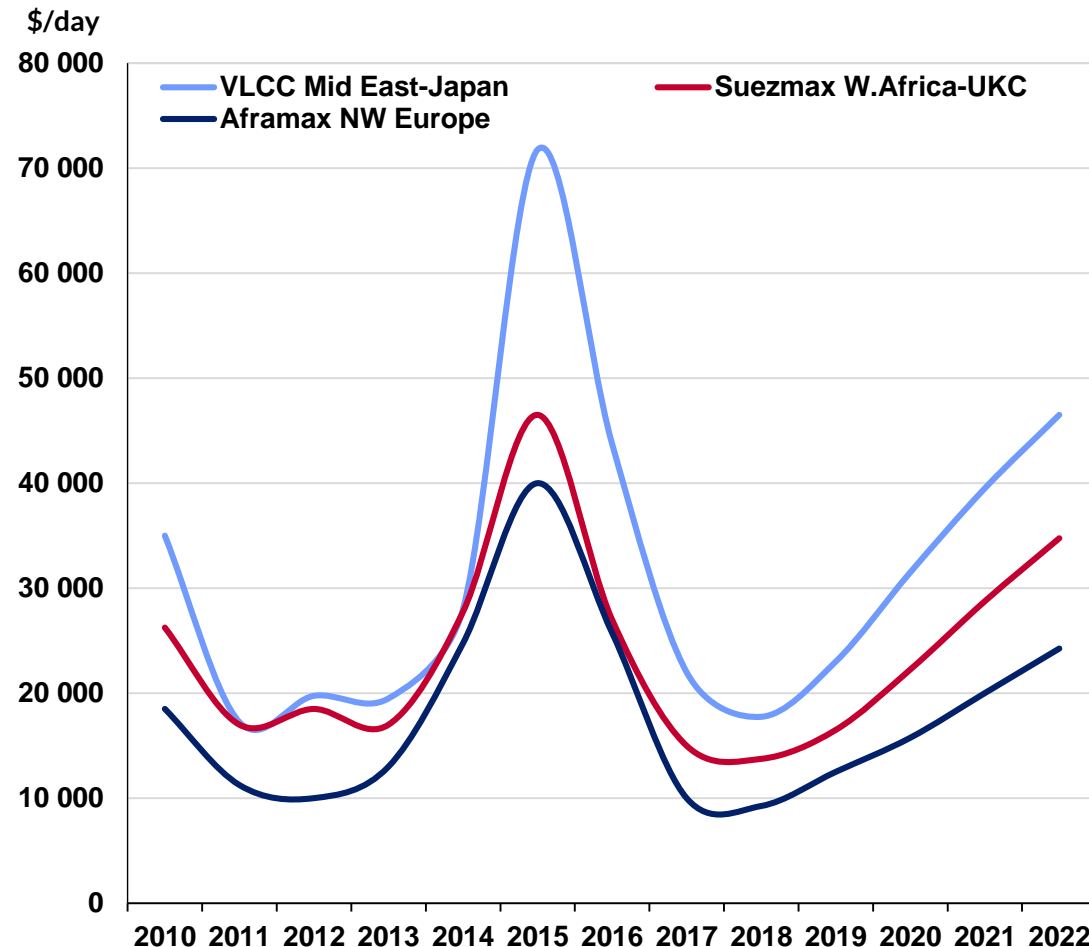
160 staff in strategic locations



2018: Bottom of the crude tanker cycle?

- **OPEC/non-OPEC production cuts**, backwardation, **high fleet growth** throughout 2017 weighing on earnings. 2018 growth being tempered by **scrapping** in Q1.
- However, steady **world oil demand growth**, rising output from outside OPEC will support earnings from 2019.
- OPEC production cuts to eventually be scaled back.
- **New regulations support scrapping** from 2020 (sulphur limits and ballast water treatment).
- 2020 will encourage new trade flows – **higher demand for sweet crude**, supporting West – East flows.
- **Overinvestment in new tonnage** remains a risk to the recovery in earnings.
- **Expanding refining capacity** in the Middle East and Africa poses a threat to exports from those regions.
- However, this is roughly offset by Asian additions, supporting trading demand.

Outlook for Spot Crude Tanker Earnings
 Round voyage basis at market speed



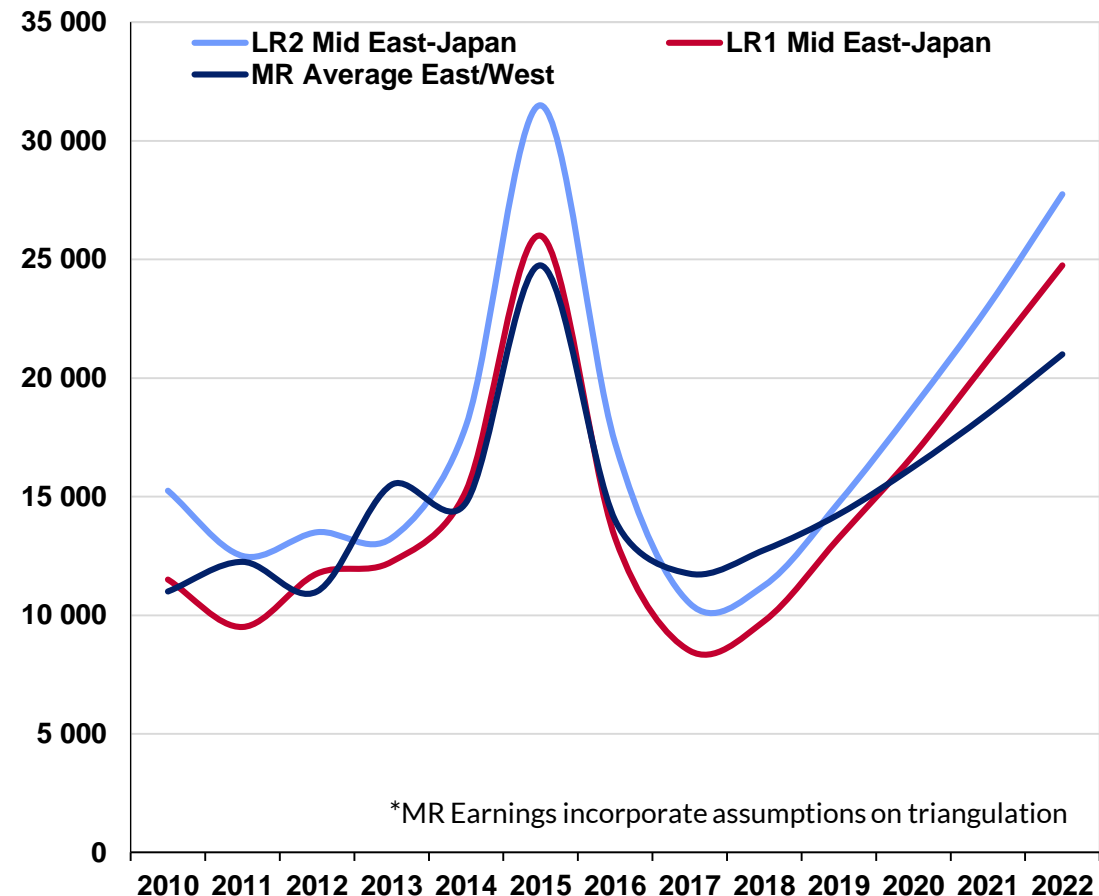
2018: Bottom of the clean tanker cycle?

- *Fleet growth* continues to weigh on earnings, yet deliveries have slowed in the MR sector.
- In recent years, high levels of land based *product stocks* and few new export refinery projects have limited demand growth.
- *Middle East refinery maintenance* saw a weak start to Q1, but the market should improve as maintenance programs conclude by April.
- *WAF and Latin American demand* have emerged as main drivers in the Atlantic.
- *Chinese exports* have emerged as a key demand driver in the East.
- *Newbuild crude tankers* continue to compete with the clean tanker market.

Outlook for Spot Product Tanker Earnings

Round voyage basis

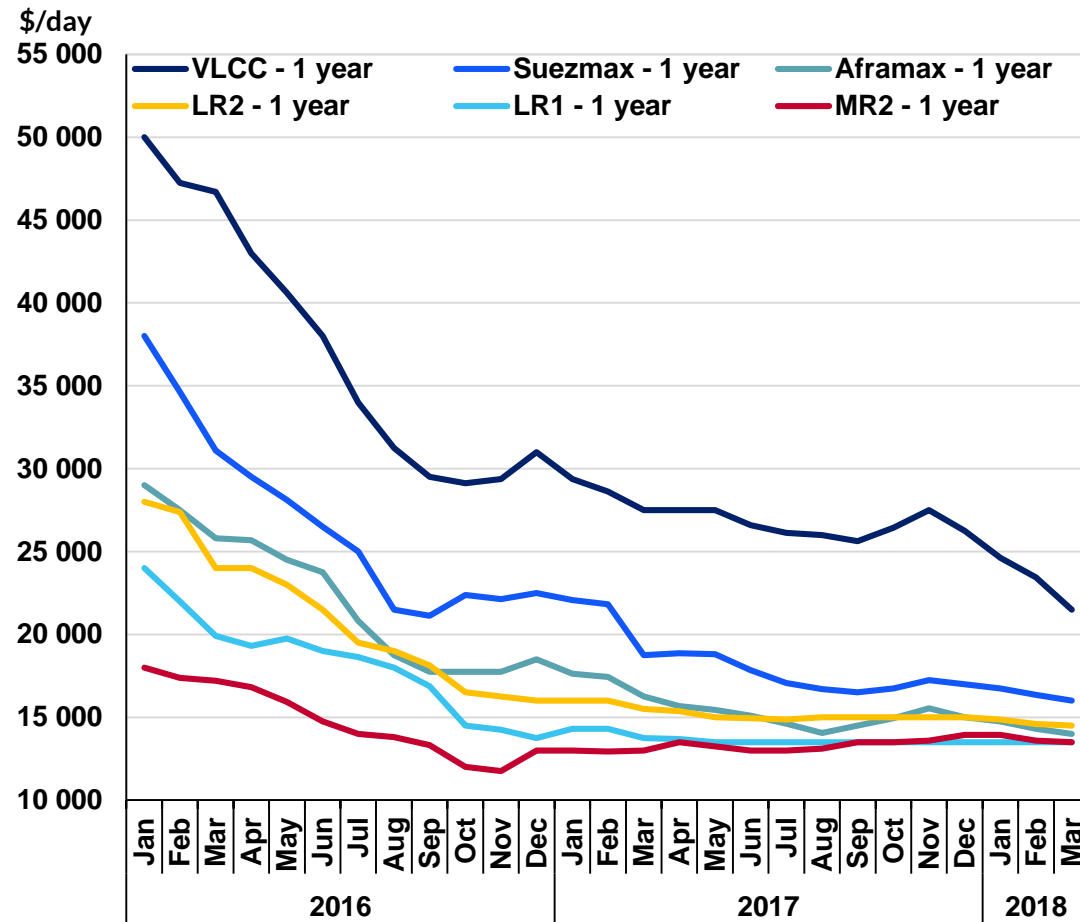
\$/day



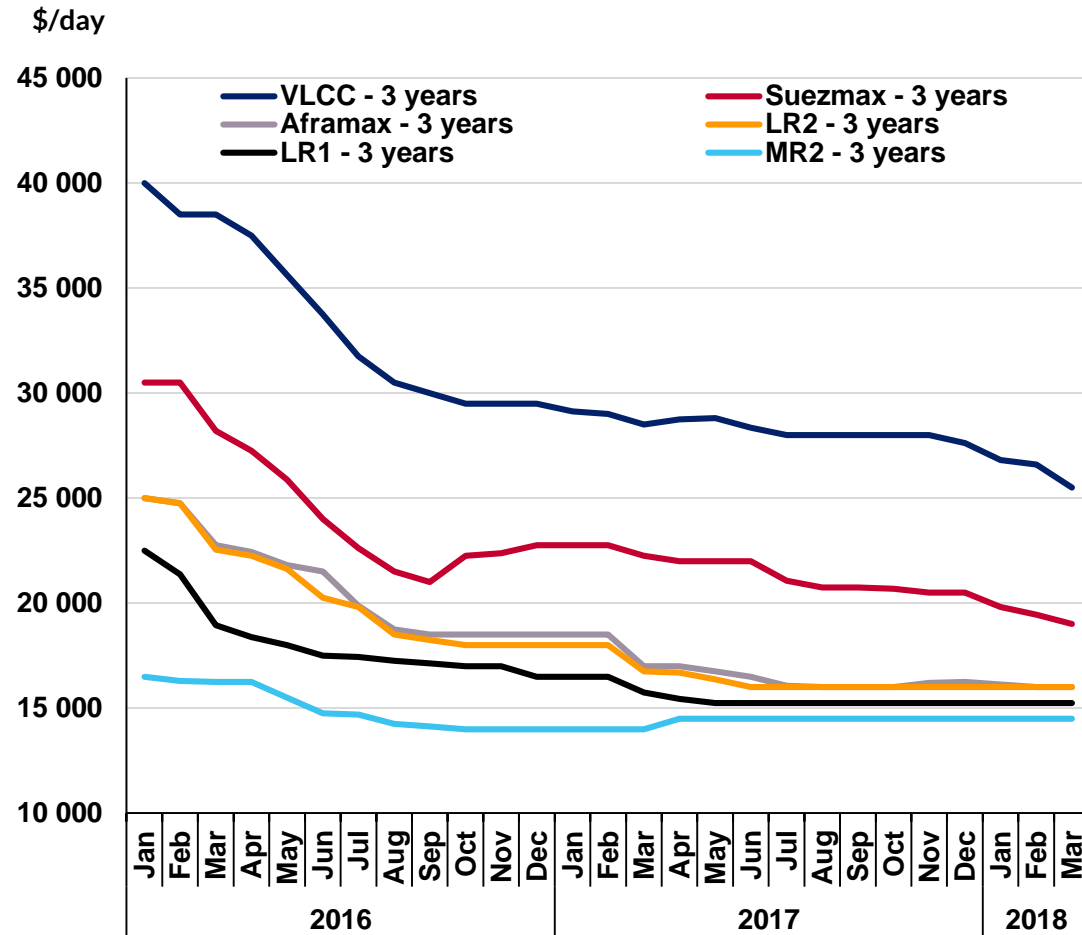
Time charter rates have adjusted in line with the spot market

- Short term rates have fallen below that of longer term rates as the spot market weakens.

1 Year TC Rates



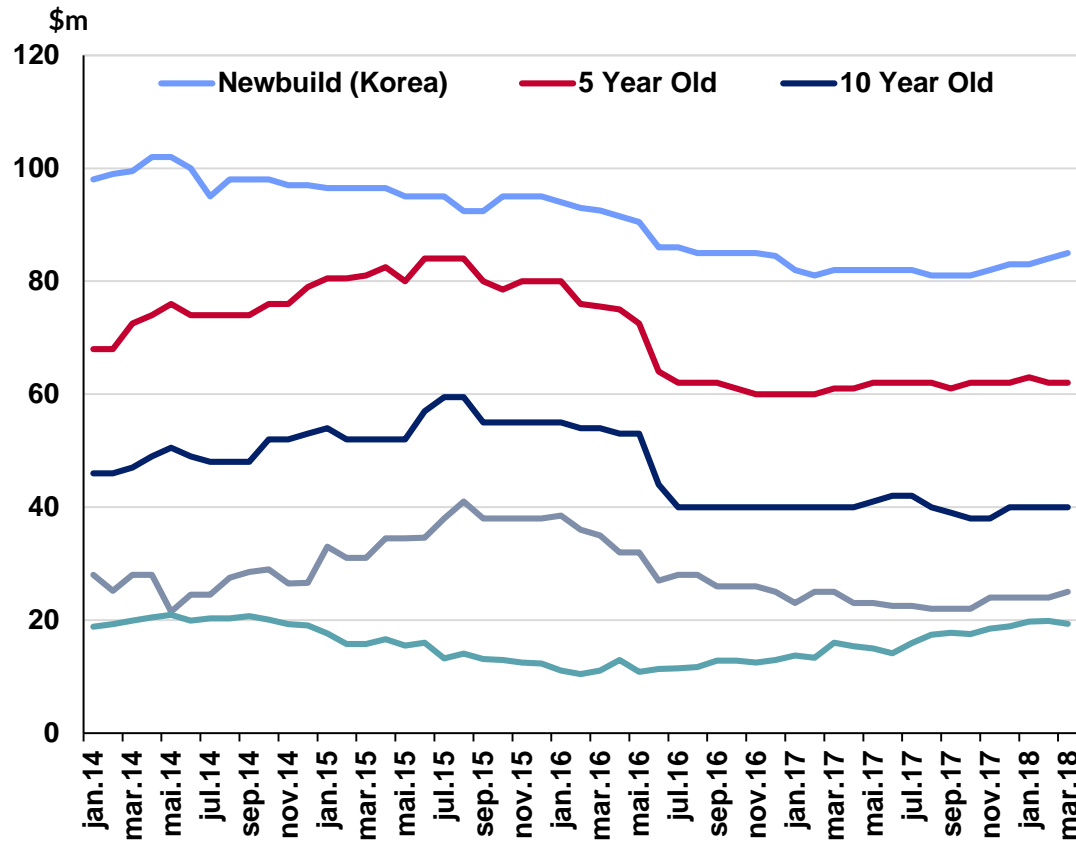
3 Year TC Rates



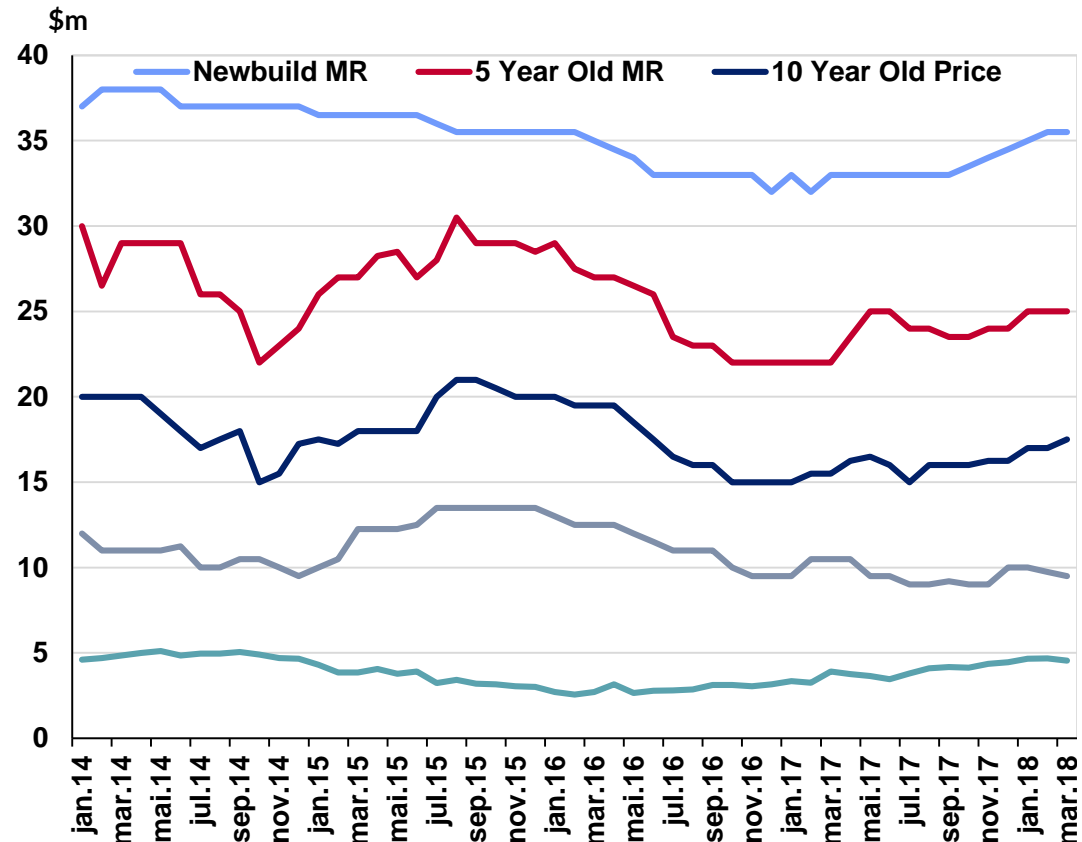
Newbuild and scrap values have edged higher

- *More interest in newbuilds with forward delivery has supported newbuild prices. Higher scrap prices have supported demolition.*

VLCC Newbuild and Secondhand Prices



MR Newbuild and Secondhand Prices

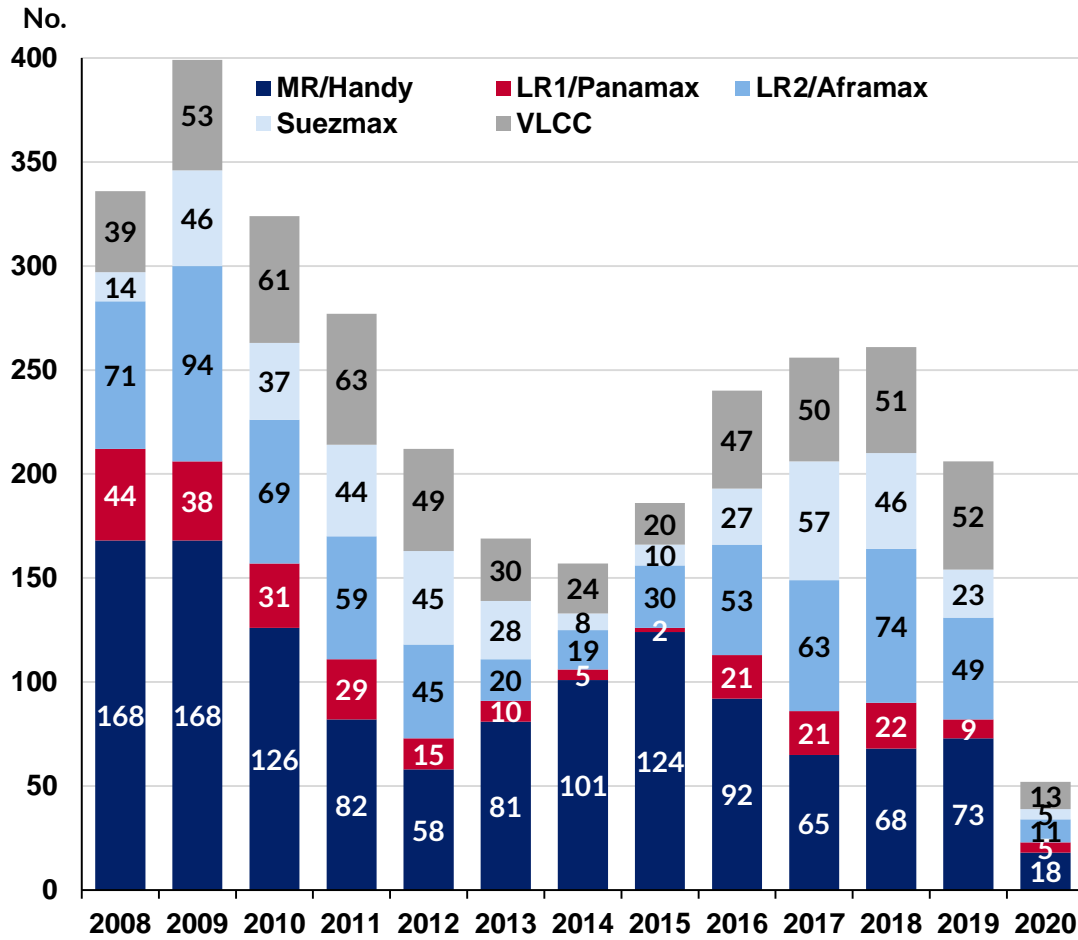


Supply Developments 2018-2022

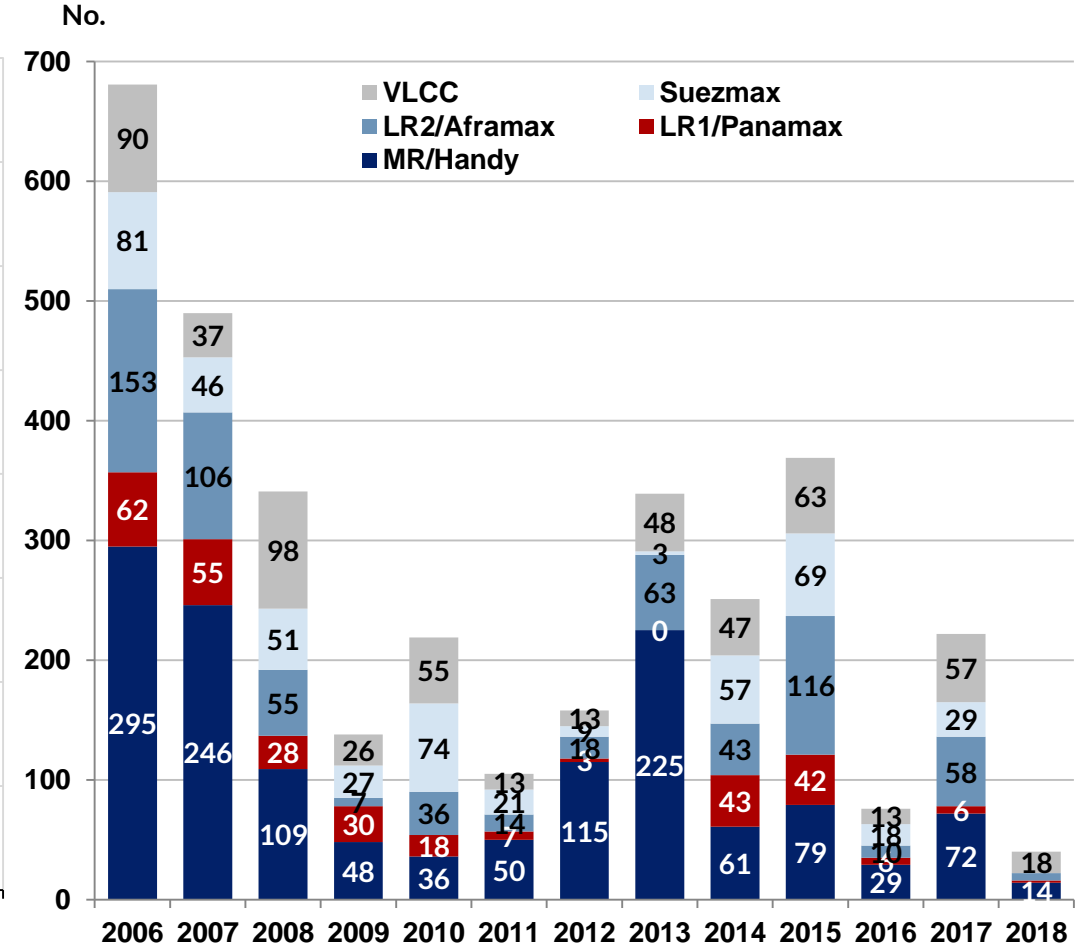
High deliveries provide downside pressure into 2018

- Slippage is likely to push a number of deliveries into 2019

Scheduled Tanker Deliveries



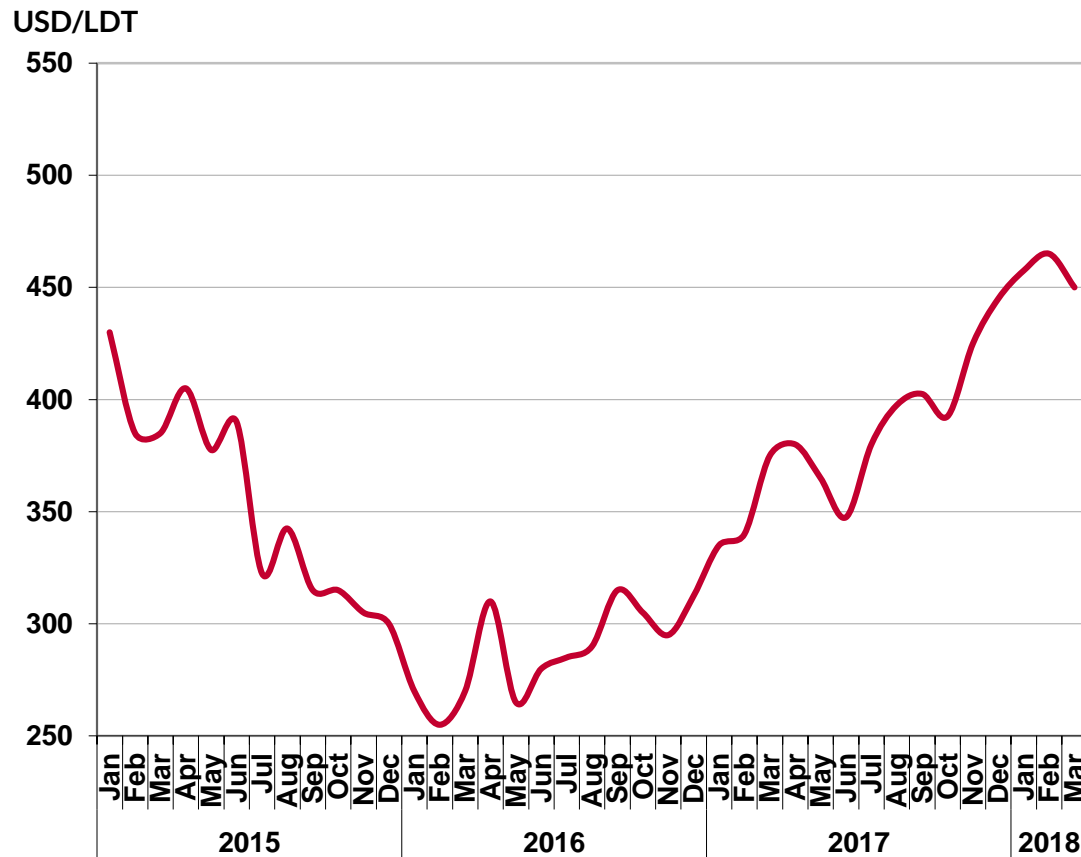
New Tanker Orders



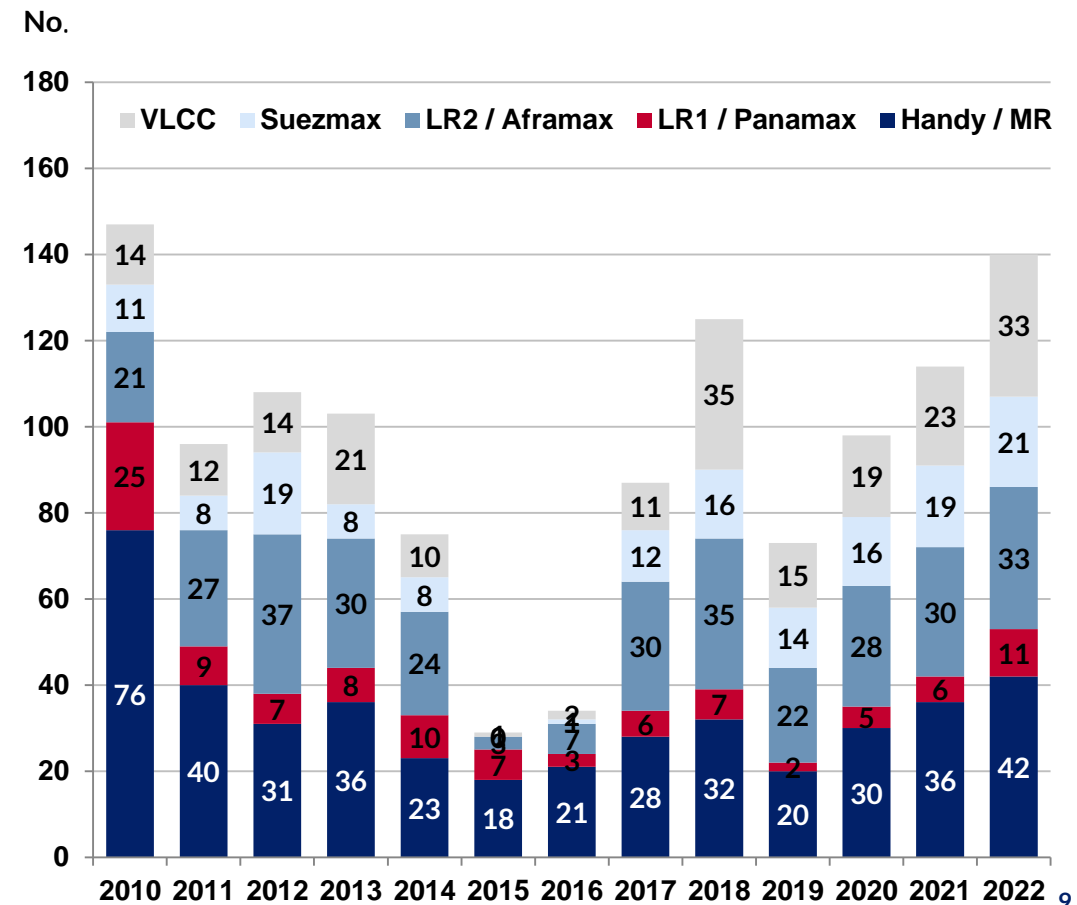
However scrapping activity has increased

- A weak spot market, reduced floating storage and higher scrap prices have supported scrapping activity.
- Regulatory pressures (e.g. ballast water management, bunker spec) and an aging fleet are likely to lead to a further increase in demolition in 2020 and beyond.

Tanker Scrap Prices



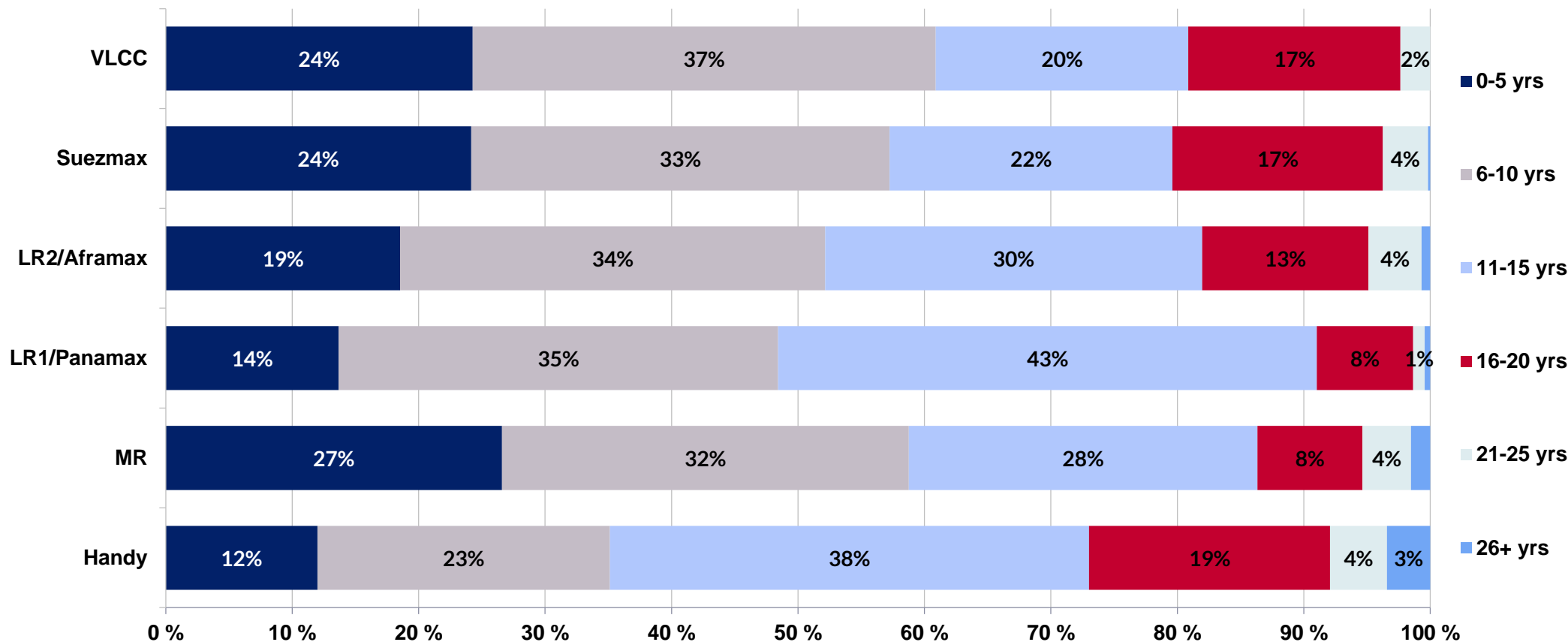
Tanker Scrapping Forecast



Tanker Fleet Age Profile

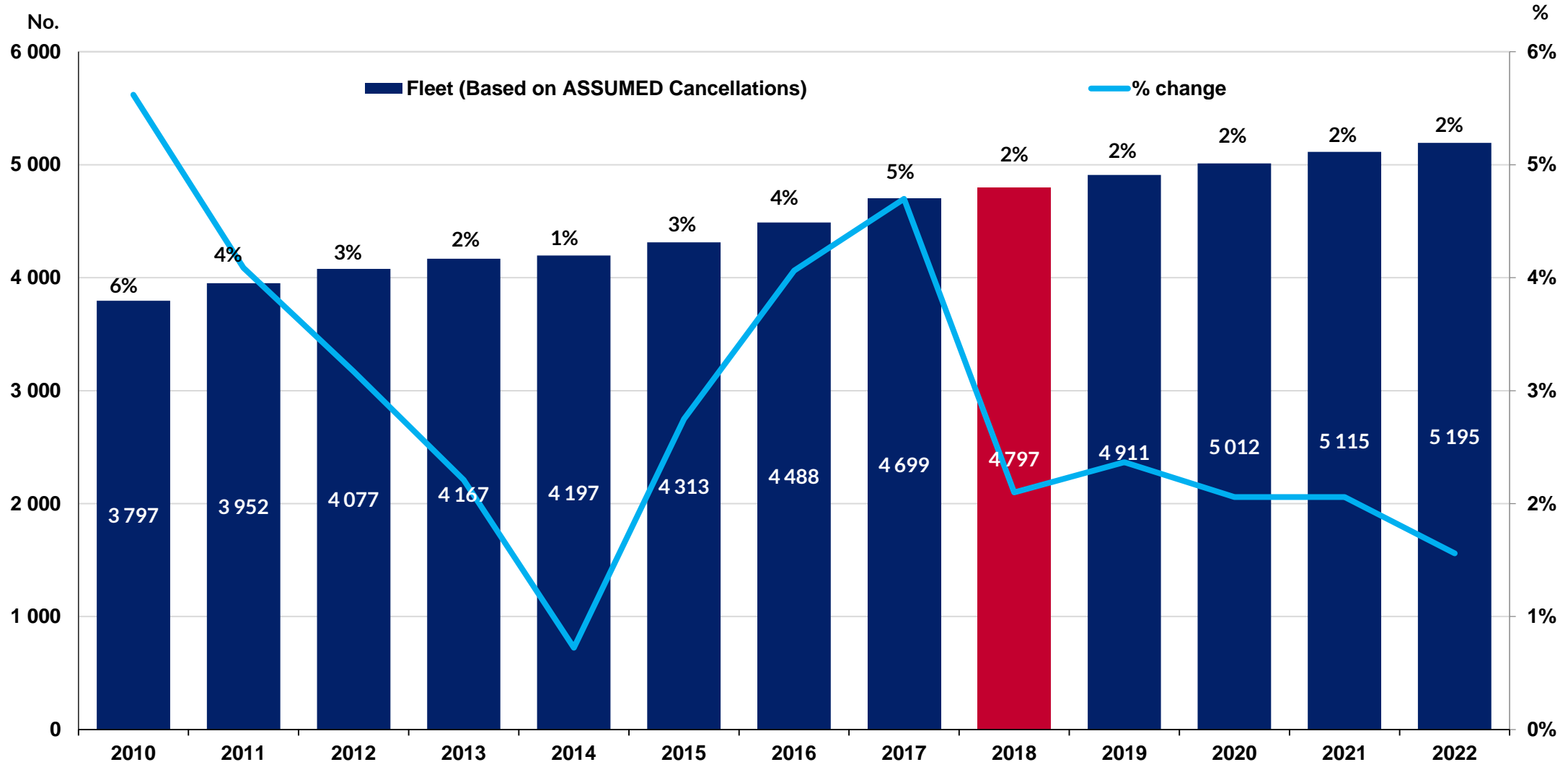
- The tanker fleet is young, with over 80% less than 15 years of age; the LR1/Panamax size group has the youngest fleet.
- However, the global fleet is starting to age, with around 25% between 11 and 15 years of age.

Tanker Fleet Age Profile



Tanker Fleet Developments

Basis annual average fleet size in each year

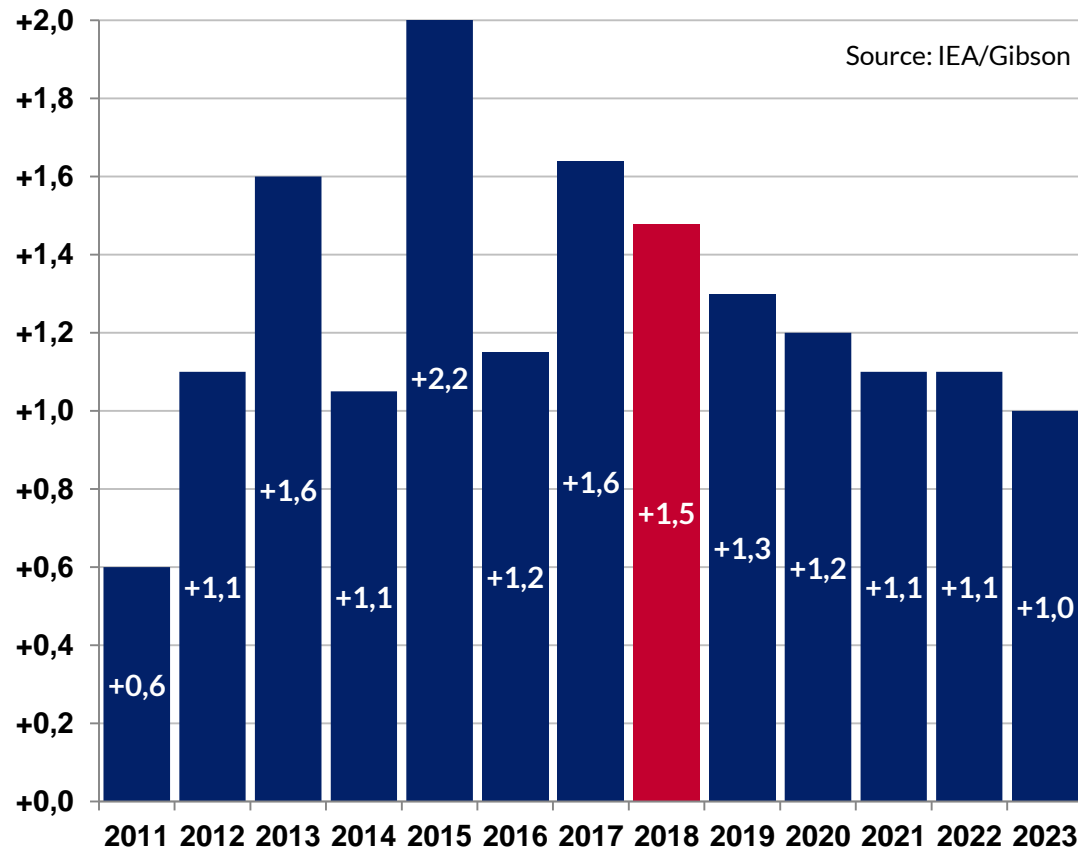


Crude Tanker Demand

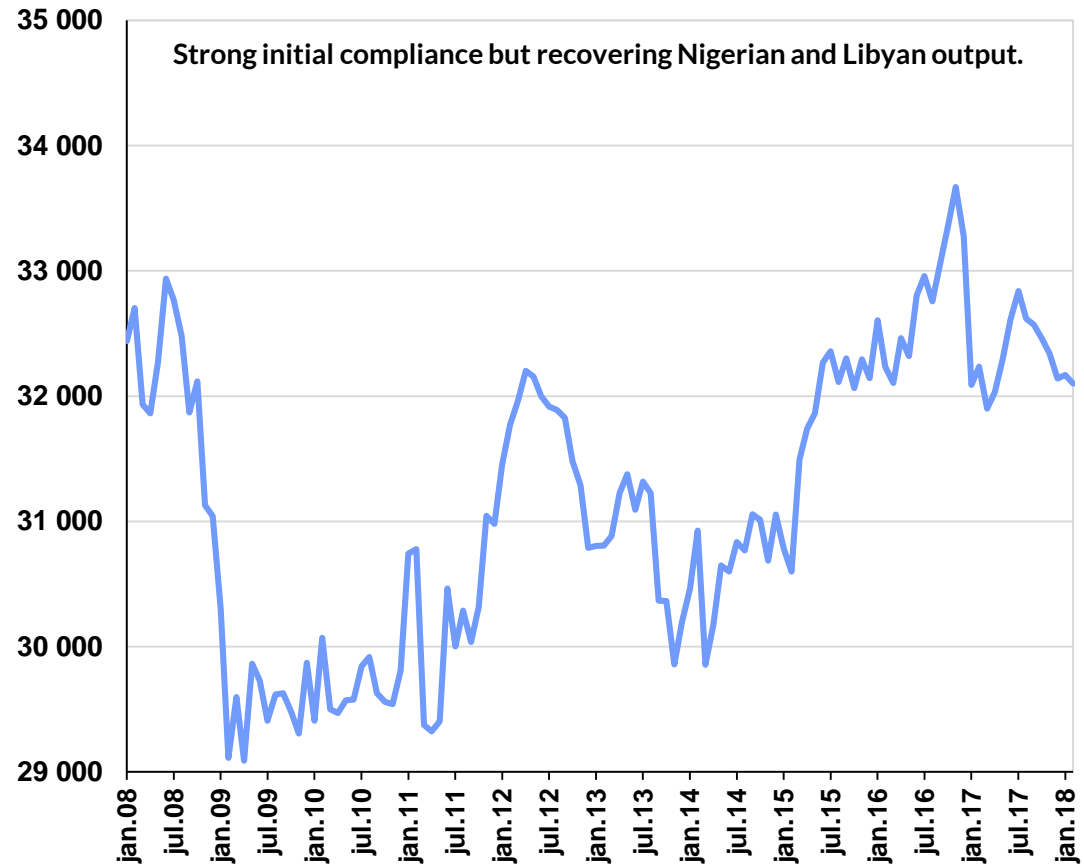
Steady oil demand growth, supply constrained by OPEC

- Oil demand growth is projected to remain reasonable; however, OPEC cuts have limited the volumes shipped.

World Oil Demand Growth (mln b/d)



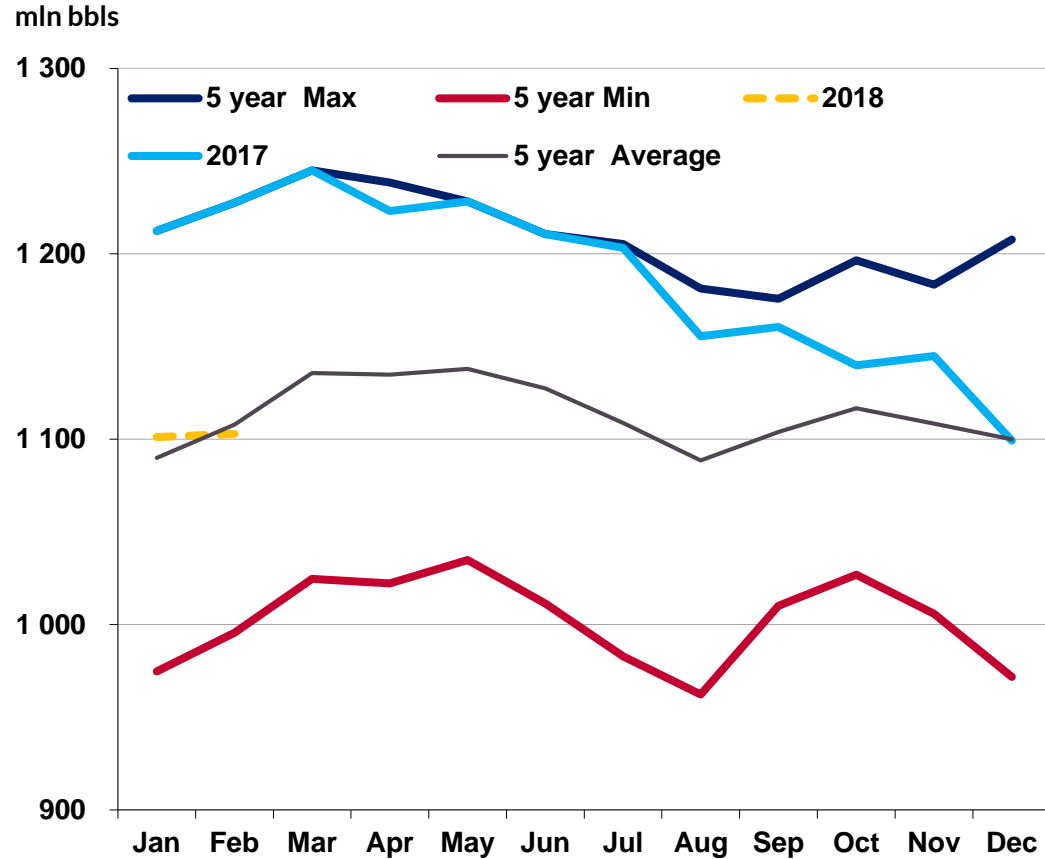
OPEC Crude Production (mln b/d)



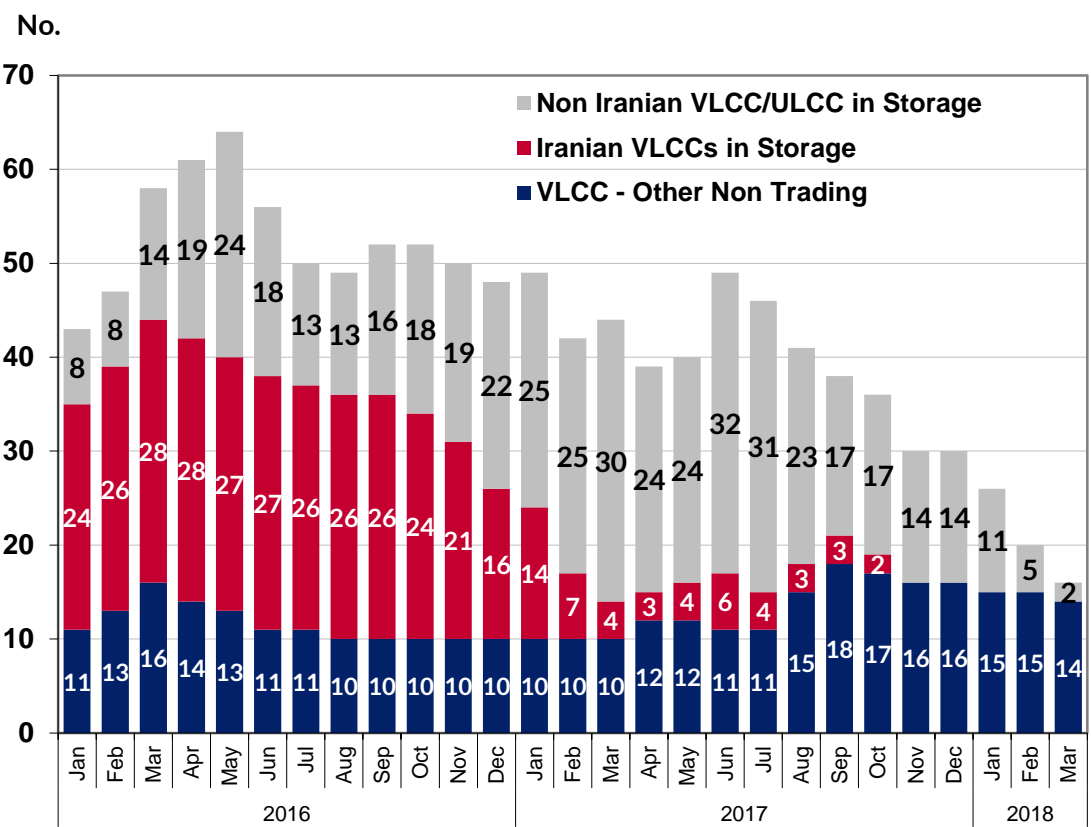
Floating storage is no longer supporting the market

- Crude stocks are drawing, led by declines in the US and floating storage.
- Floating storage has fallen to a three year low owing to backwardation the forward curve.

Global Crude Oil Stocks (OECD)



Number of Non-Trading VLCCs

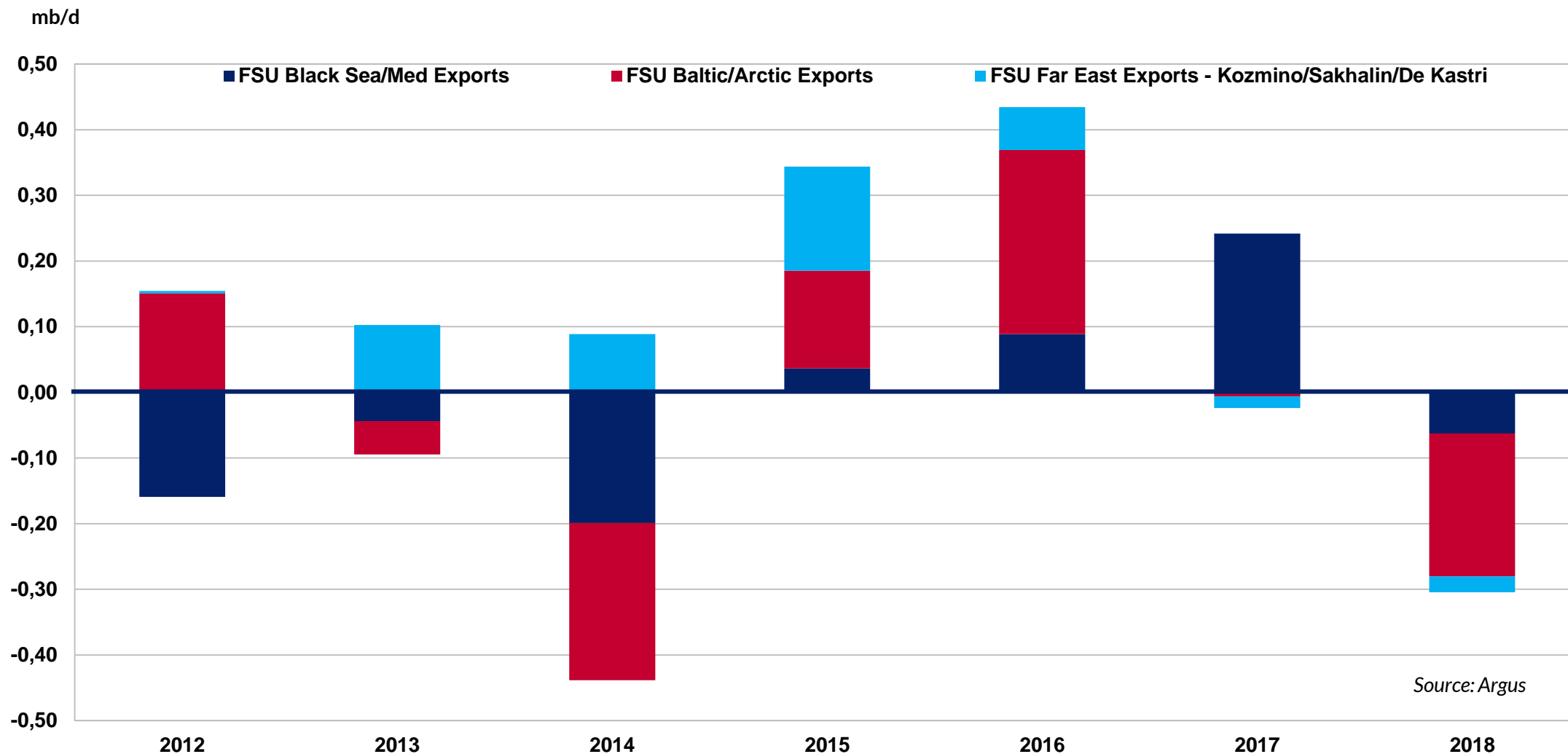


* Includes VLCCs employed in fuel oil play off Singapore, shuttle service and laid up

Source: Gibson Consultancy & Research

Annual Changes in FSU Seaborne Crude Exports

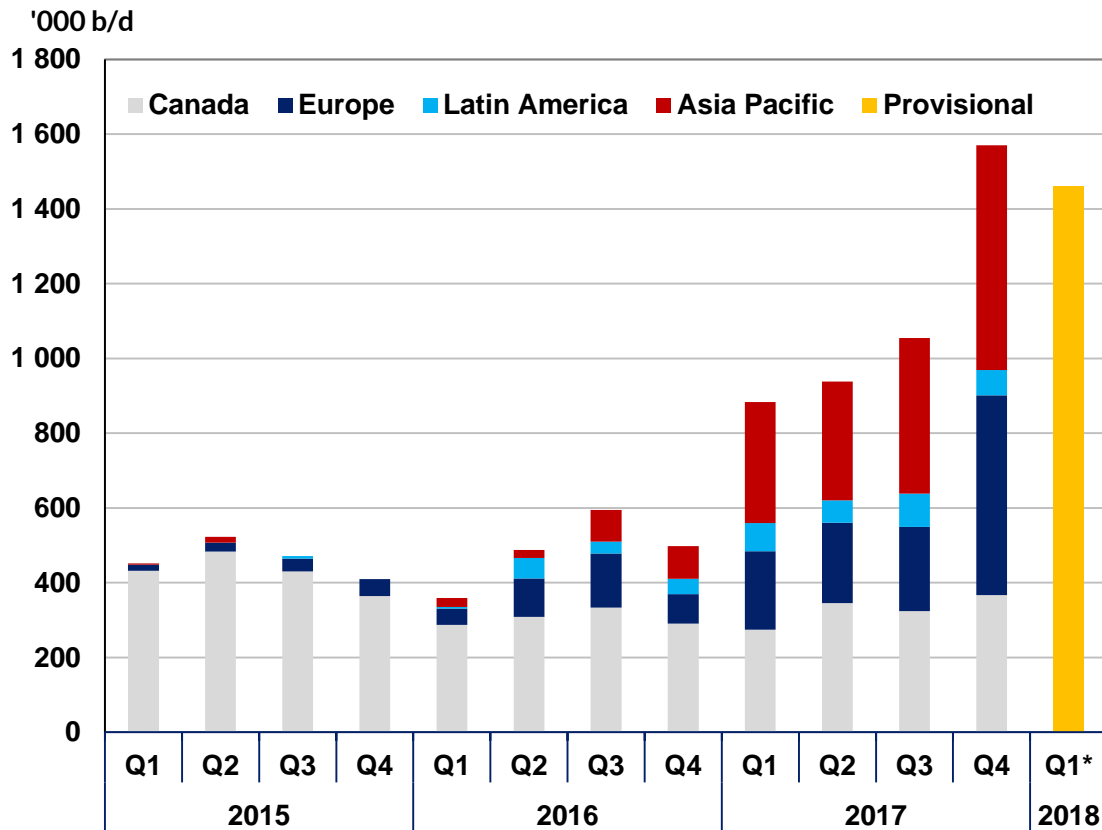
Mainly Russian, Kazakh and Azeri Crude



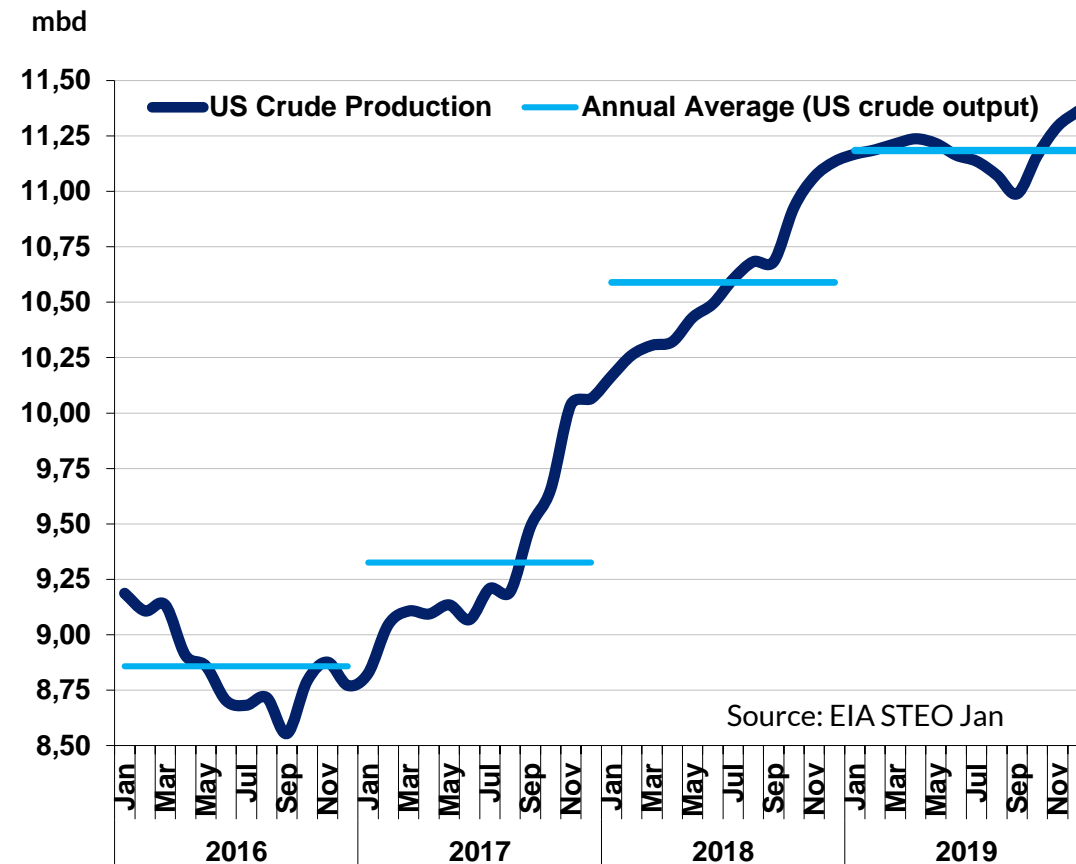
US crude exports are hitting record levels and finding new markets

- All crude tankers are benefitting but much depends on the economics of exporting to Asia or Europe.
- Rising production is likely to support further export growth in the medium term, whilst infrastructure improvements will improve the freight economics for moving US crude to the East.

Main Destinations for US Crude



Outlook for US Crude Oil Production



Export infrastructure projects



- *First VLCC loaded at LOOP, however loadings are expected to be limited to 1 per month at first.*
- *However, whilst **LOOP** is well connected to US pipeline infrastructure for US Gulf crudes, there is strong demand from domestic refiners along the line, reducing potential export volumes.*
- *Furthermore the pipeline is not so well connected to North Dakota or West Texas.*
- *Nevertheless, LOOP has a big advantage in terms of water depth.*

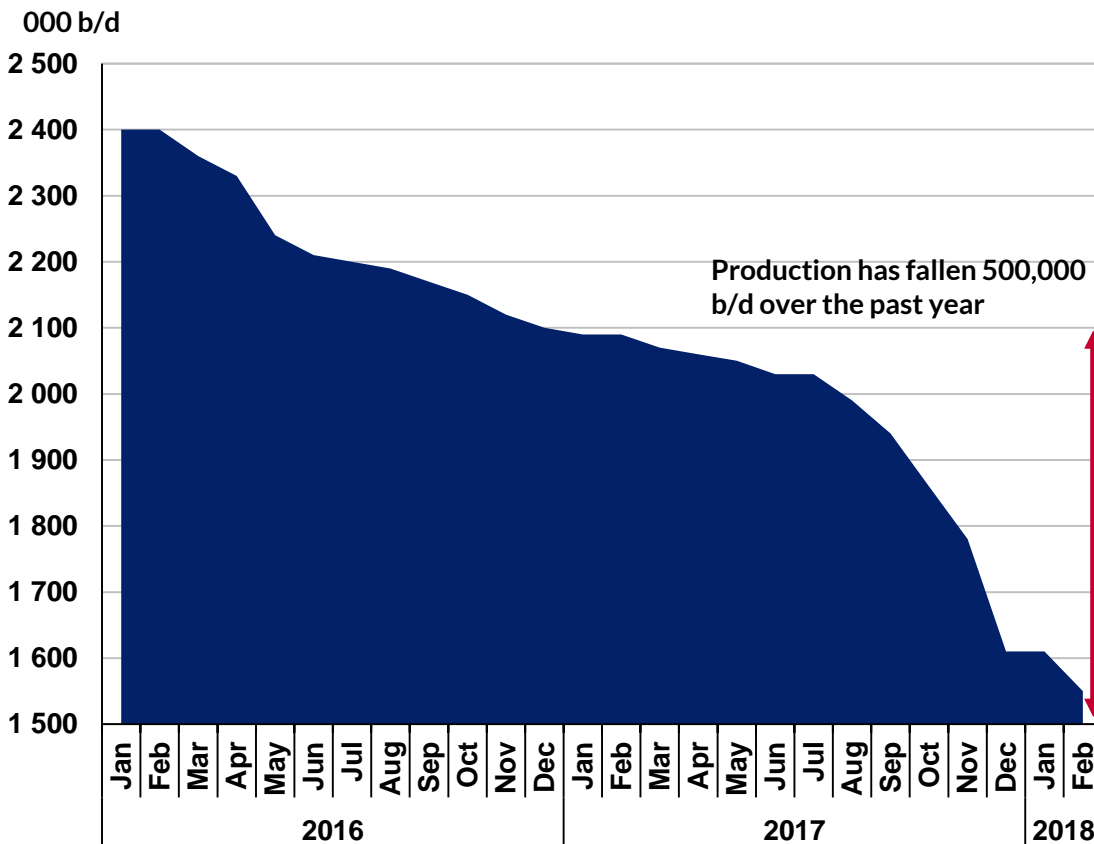


- *The port of **Corpus Christi** has announced a project to dredge the channel to 54ft (16.46 m) to allow for VLCC part loads – due for completion end 2018.*
- *At the Occidental Ingleside terminal, this will allow VLCCs to load 1.2 to 1.4 million barrels.*
- *A new bridge will also allow an air draft of 205ft (62.48 m) although this does not impact Ingleside which has no air draft restrictions.*
- *Various pipeline projects (South Texas Gateway, Cactus II and another unnamed pipeline) are planned to export up to 1.5 mbd of crude to the Gulf coast, coming online from 2019 subject to approvals.*

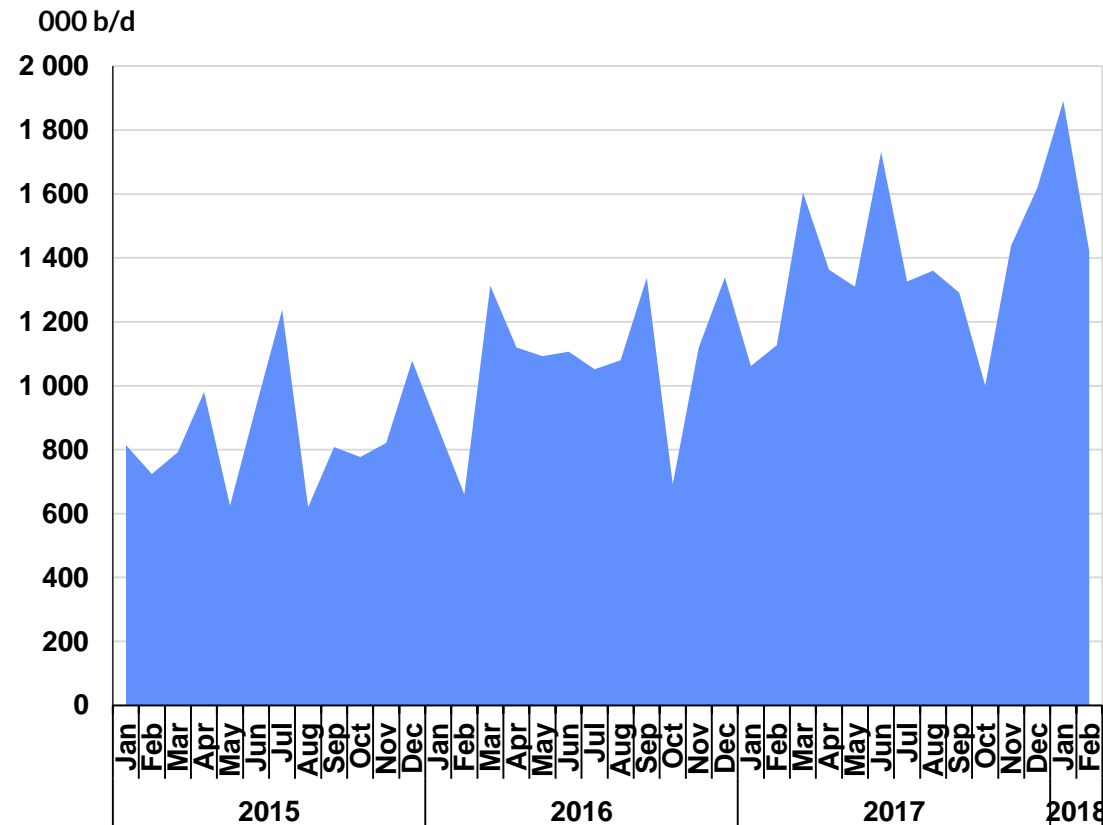
Venezuela remains a risk to tanker demand

- Sanctions against the Venezuelan oil sector would primarily damage Aframax demand.
- Talk of oil sanctions seems to have faded for now, but a risk of further declines in production threatens tanker demand.
- So far volumes to China have generally held up, but Aframax demand in the Caribbean is suffering.

Venezuelan crude production



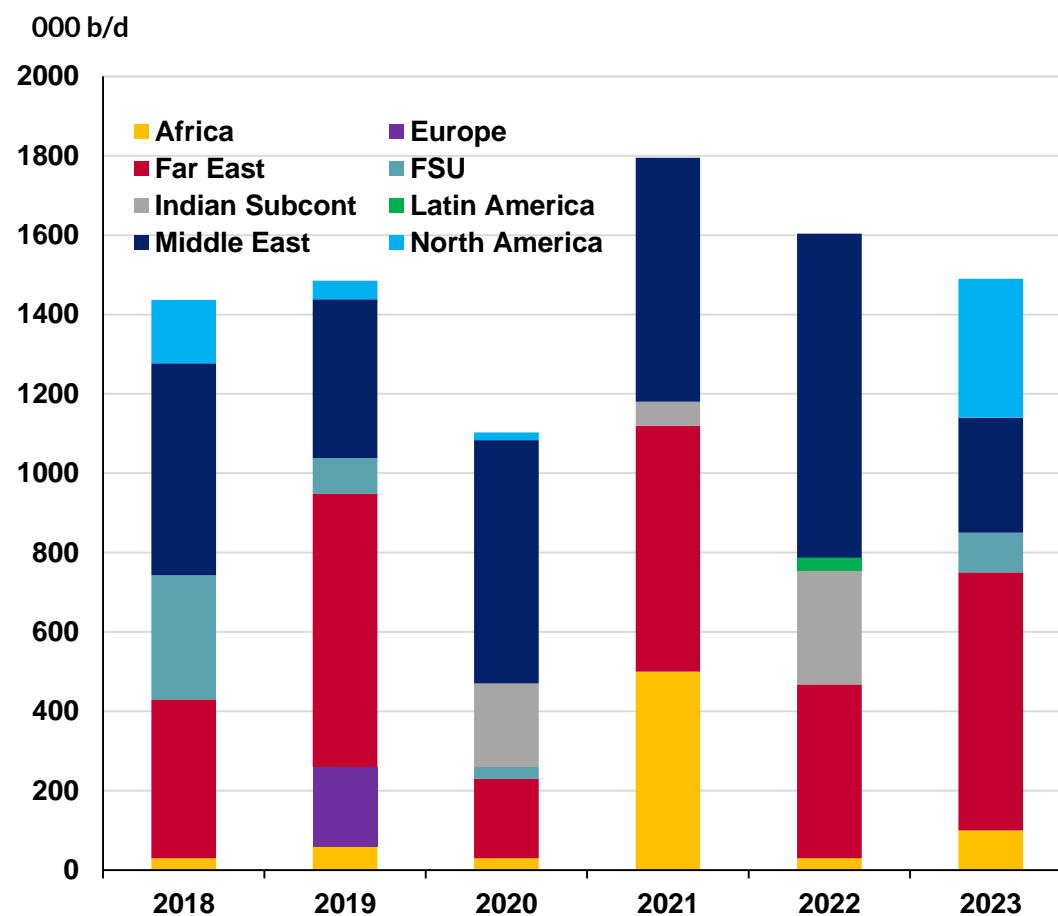
Chinese imports of North & South American crudes



Refining capacity expansions offer mixed signals

- *New refiners in the Middle East and Africa could impact on crude exports out of these two key exporting regions.*
- *The last round of capacity additions in the Middle East (2013-15) was partly offset by OPECs fight for market share, which saw crude exports from the region grow despite rising refining capacity.*
- *However, new capacity additions in the Middle East from 2019 onwards could limit crude export growth, whilst the 600kbd Dangote refinery in Nigeria (if successfully built) is unlikely to be offset by higher Nigerian production.*
- *Despite this, expanding Asian capacity will still need to be fed from overseas sources, negating at least some of the negative impact.*

Refinery Capacity Expansions

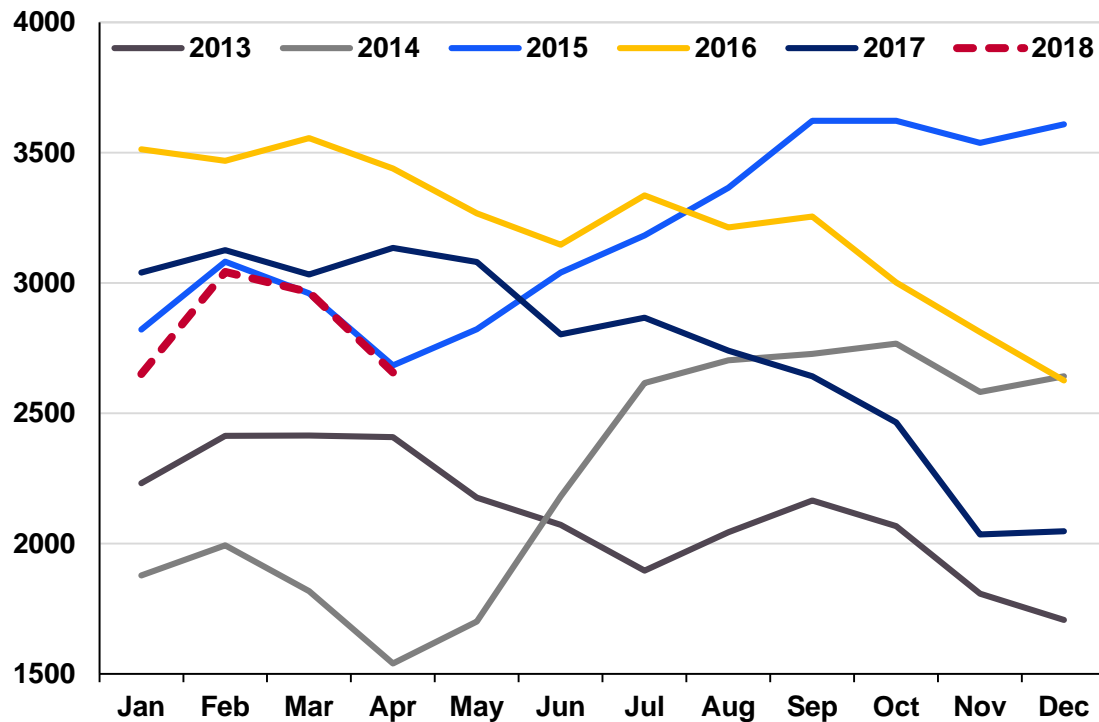


Product Tanker Demand 2018-2022

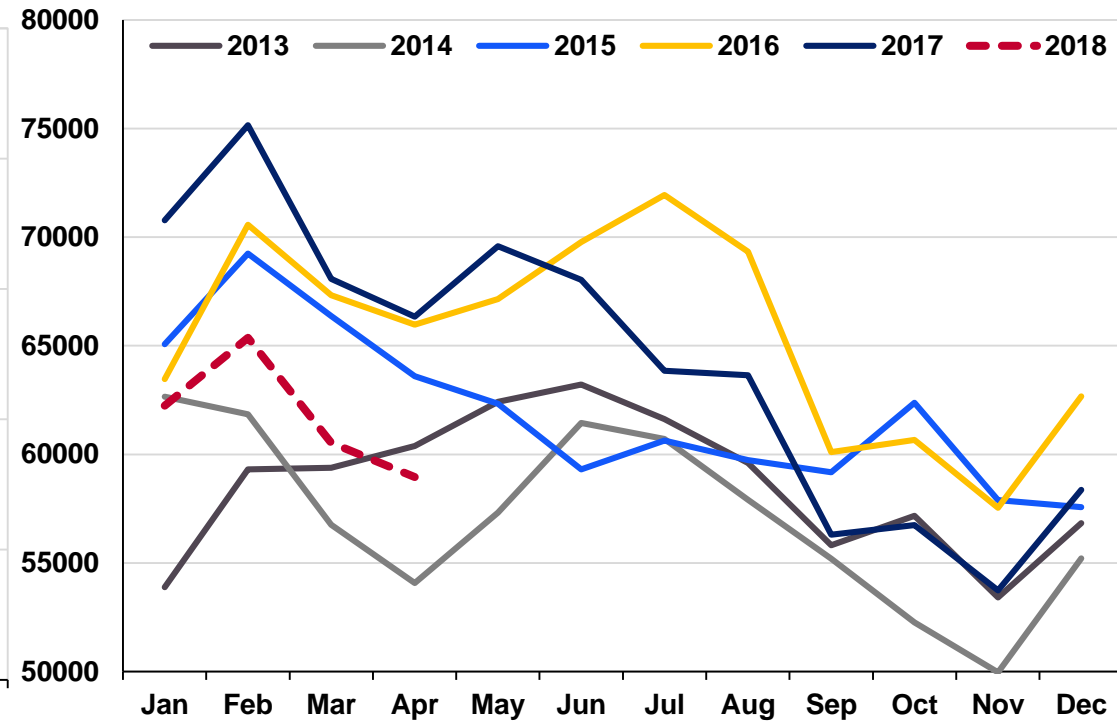
Product stock draws taking place, demand is good

- Product stocks in the US have eased in line with seasonal trends, but high refining runs could see a rebound.
- European distillate stocks have come down but could rise on higher imports from Russia and the Middle East, although regional refining maintenance may prevent this.
- It remains to be seen whether lower stocks will translate into more meaningful arbitrage opportunities.

ARA Gasoil Stocks (000 tonnes)



USAC Gasoline Stocks (000 bbls)

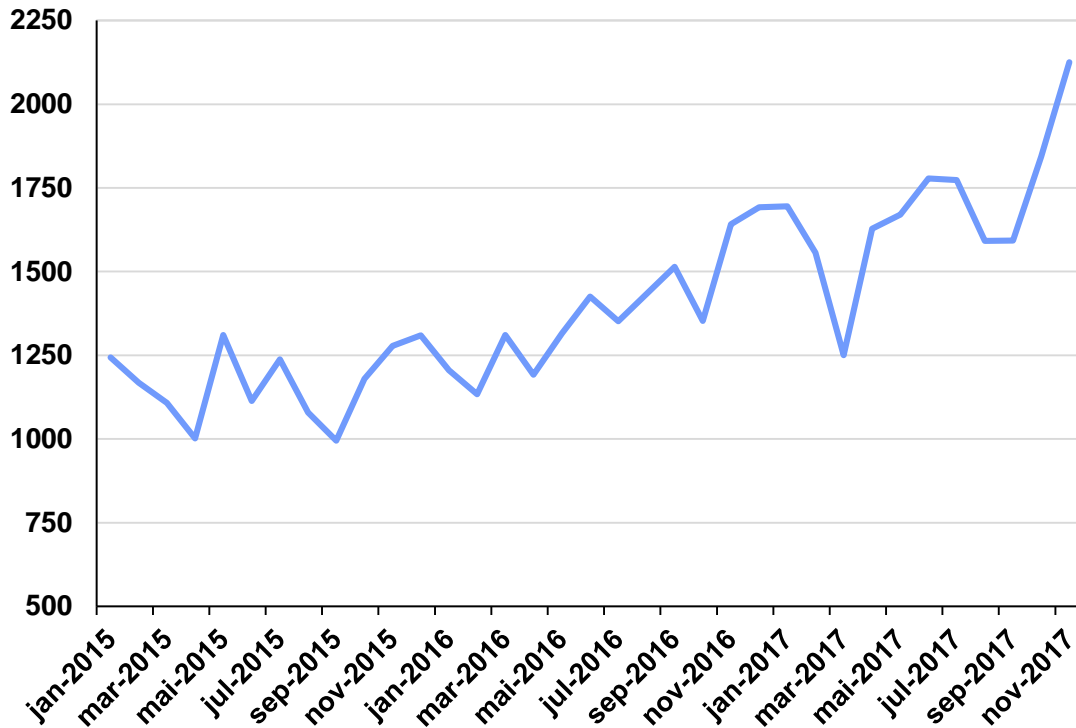


Latin America and West Africa driving the Atlantic CPP market

- Latin America, Mexico and Nigeria driving demand for US products owing to limited refining capacity developments and economic growth.
- For much of 2017, these two regions were the main driver of freight volatility in the Atlantic.

US Gasoline & Distillates Exports to Mexico + S.America

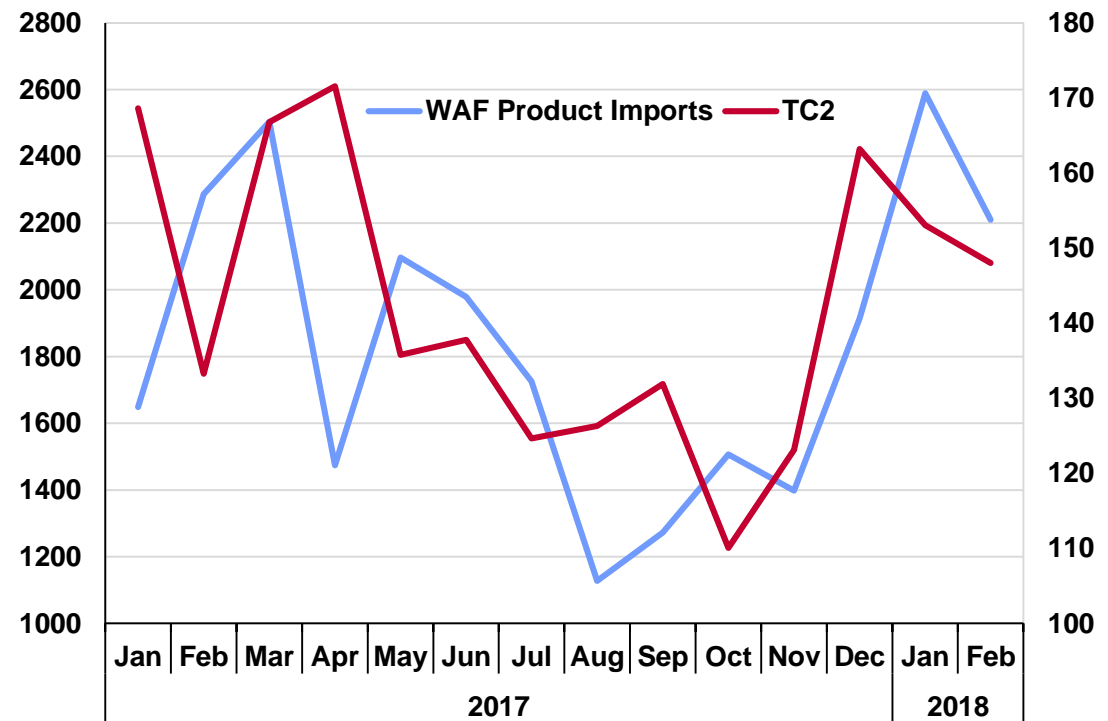
000 b/d



West Africa Gasoline Imports

000 tonnes

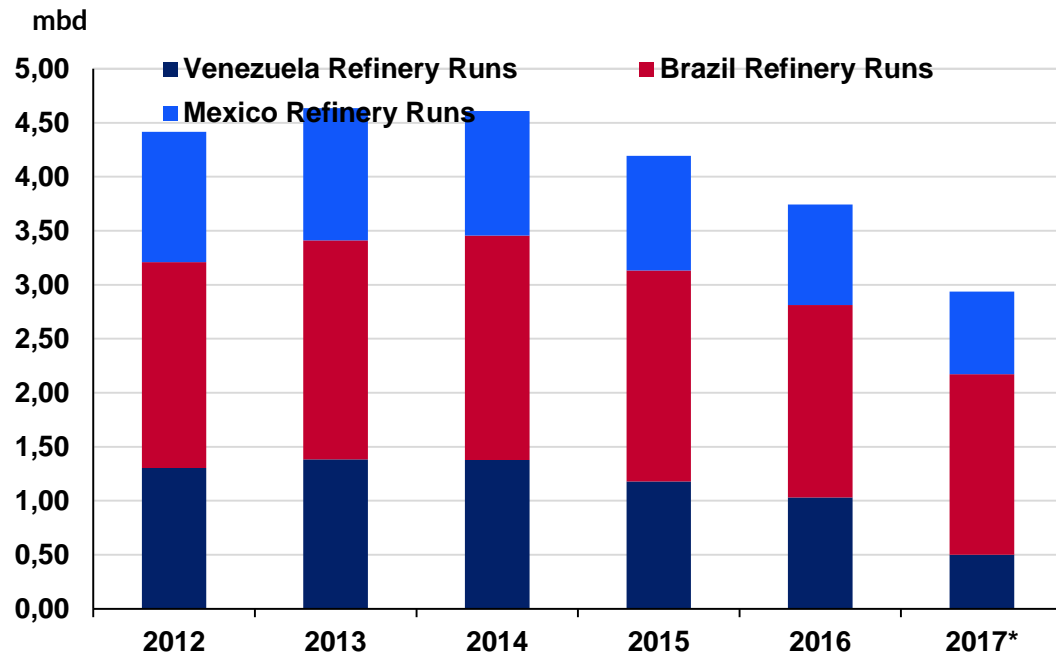
WS



The Latin American refining sector has faced headwinds

- Lower refinery runs in **Mexico, Brazil** and **Venezuela** are supporting imports from the US, and occasionally Europe.
- Pemex plans to raise runs this year following repairs and upgrades.
- Venezuela remains highly uncertain and could see further declines.
- Petrobras needs investment to finish the Comperj (165kbd) refinery and phase II of Abreu e Lima (115kbd). However the firm is seeking to recapture market share from foreign imports.
- Mexico has seen Repsol, Exxon, BP, Glencore and Andeavor all make inroads into the country's fuel sector.

Refinery Runs: Mexico, Brazil, Venezuela

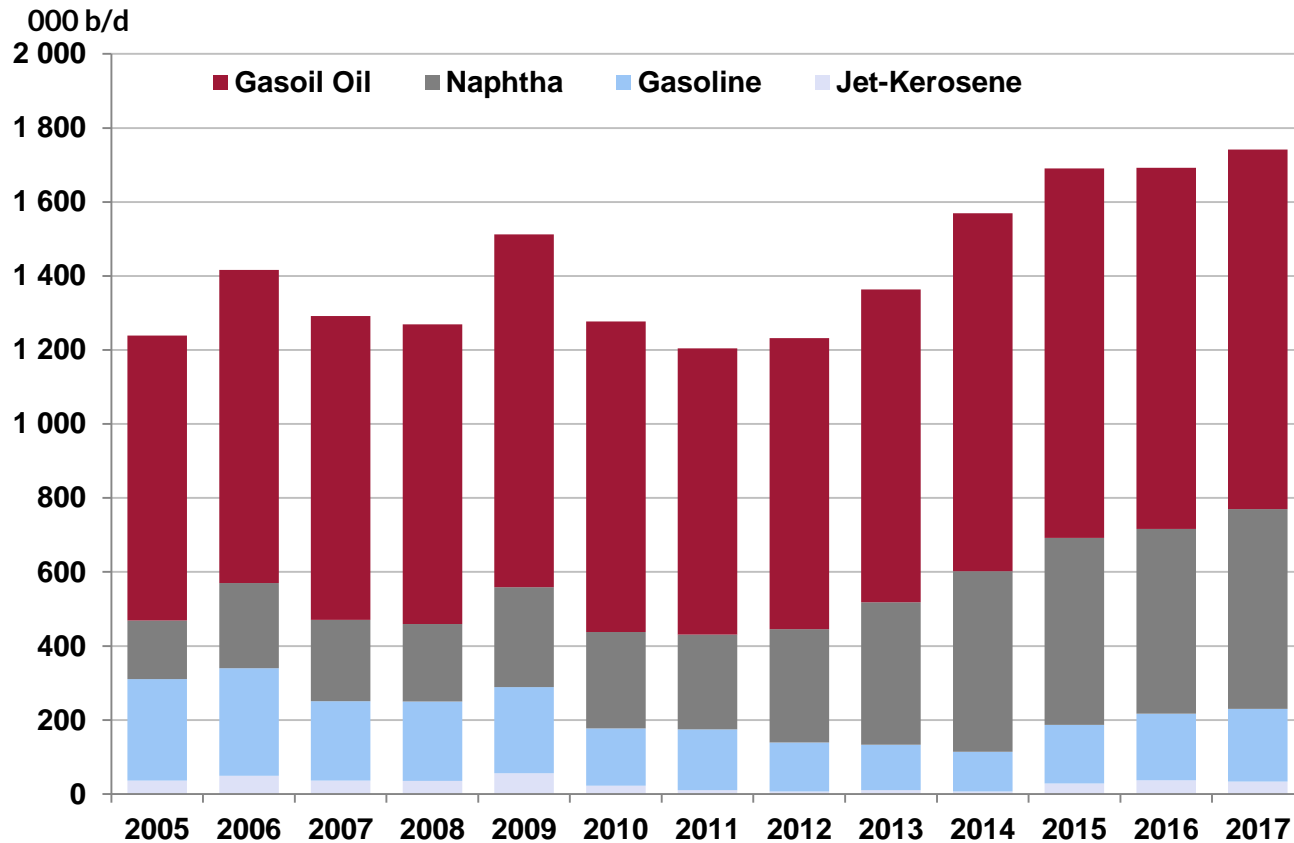


- On the **West Coast**, imports into **Colombia** have fallen following upgrades to the **Cartagena** refinery.
- Small scale expansion in **Peru** (30,000 b/d) has been delayed until 2019 at best.
- **Repsol La Pampilla** (Peru) bought online a new diesel unit in 2016, and has a new gasoline unit due this year, reducing import demand, but potentially supporting exports.

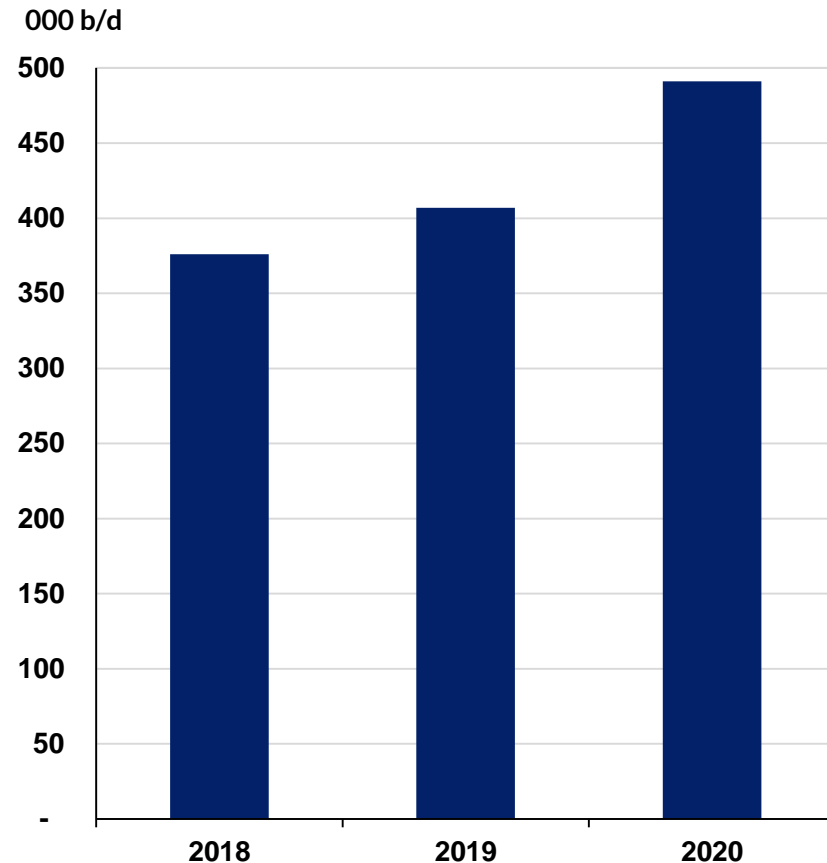
Russia/FSU: Higher CPP exports, lower DPP exports expected

- Clean exports should see further growth from Russian ports following distillate pipeline and refinery expansions.
- LR1s and LR2s playing an increased role in exports from the Baltic at the expense of Handies and MRs.

FSU Clean Product Exports



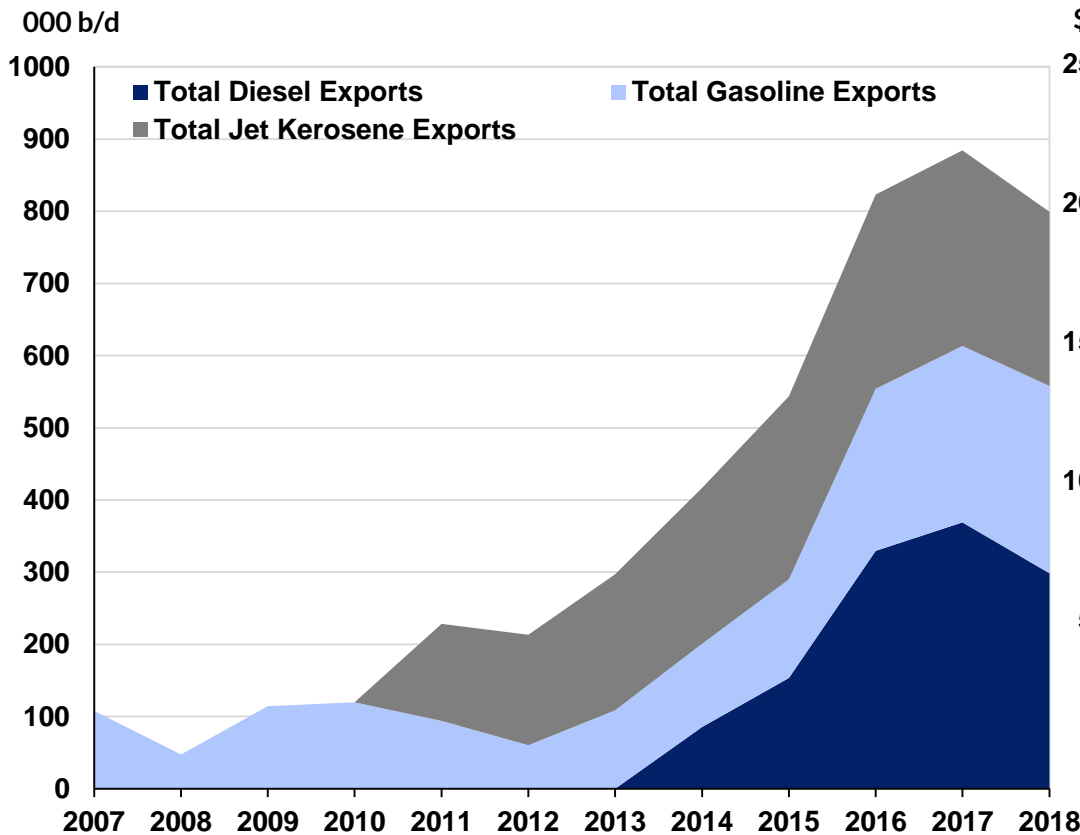
Primorsk Product Exports



Growth in Chinese exports supportive for regional trade

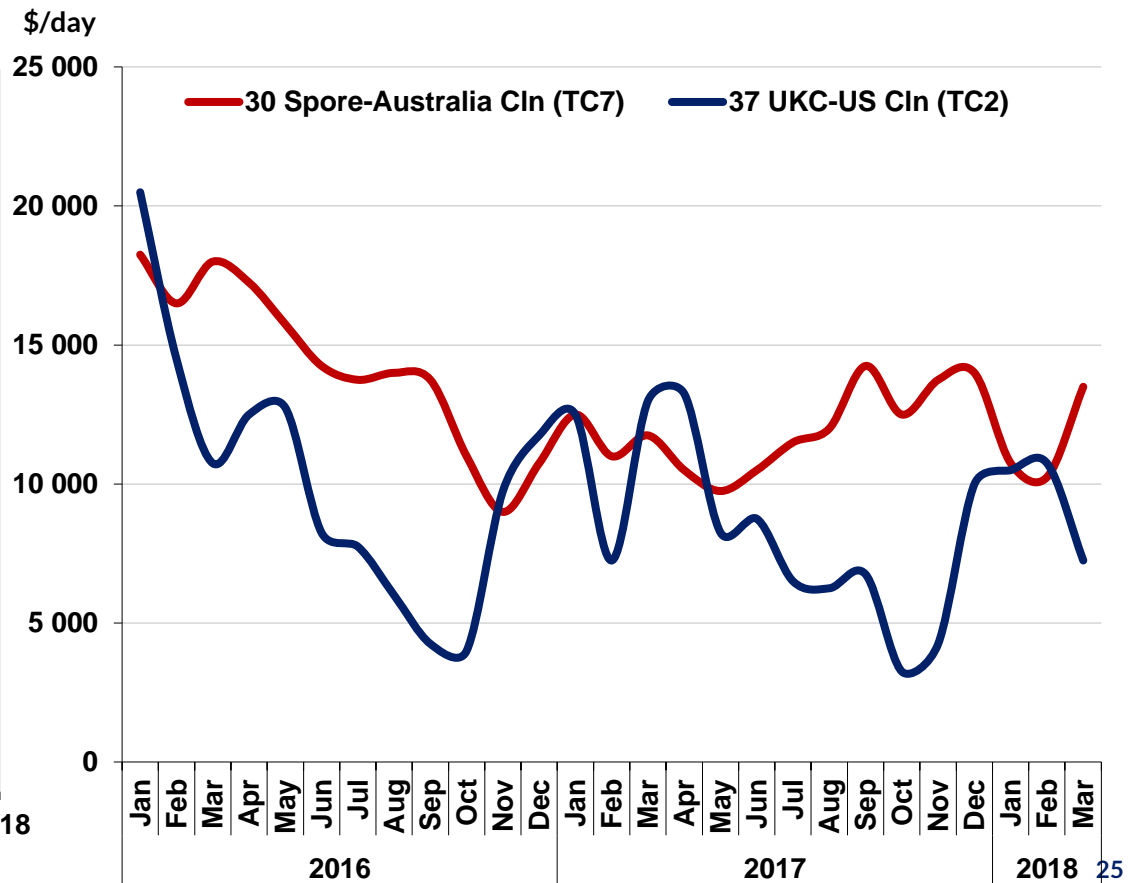
- However, volumes fell during Jan-Feb owing to maintenance but should move higher as maintenance concludes.
- Growth for 2018 of expected to average 200-300kbd, basis current quotas.
- Newbuild crude tankers have taken some market share from product carriers.

China: Light and Middle Distillate Exports



Tanker Market Outlook | April 2018

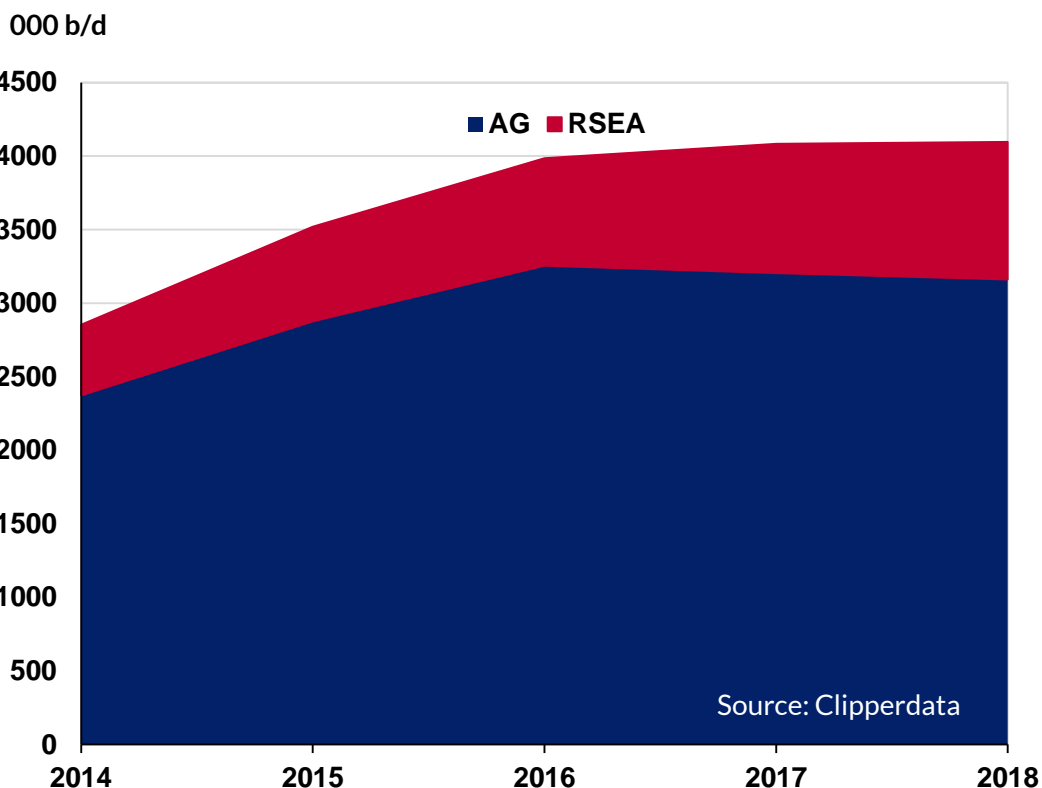
Monthly Average Clean Tanker Earnings



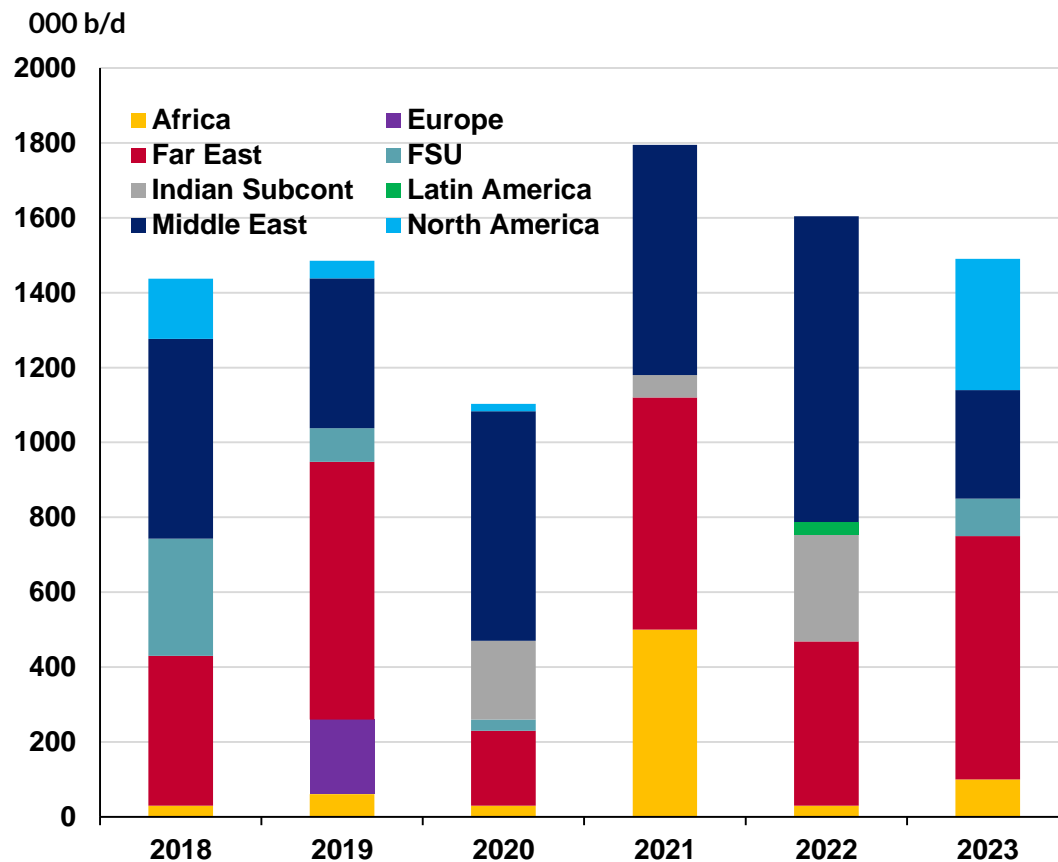
Refining capacity expansions support trade from 2019

- Large scale expansions in the Middle East and India are positive for product tanker demand.
- From 2019 to 2022 the expansion is expected to offer support for product exports from the Middle East.
- However, the construction of a large refinery in Nigeria could threaten import demand IF the refinery is successful.

Middle East Product Exports



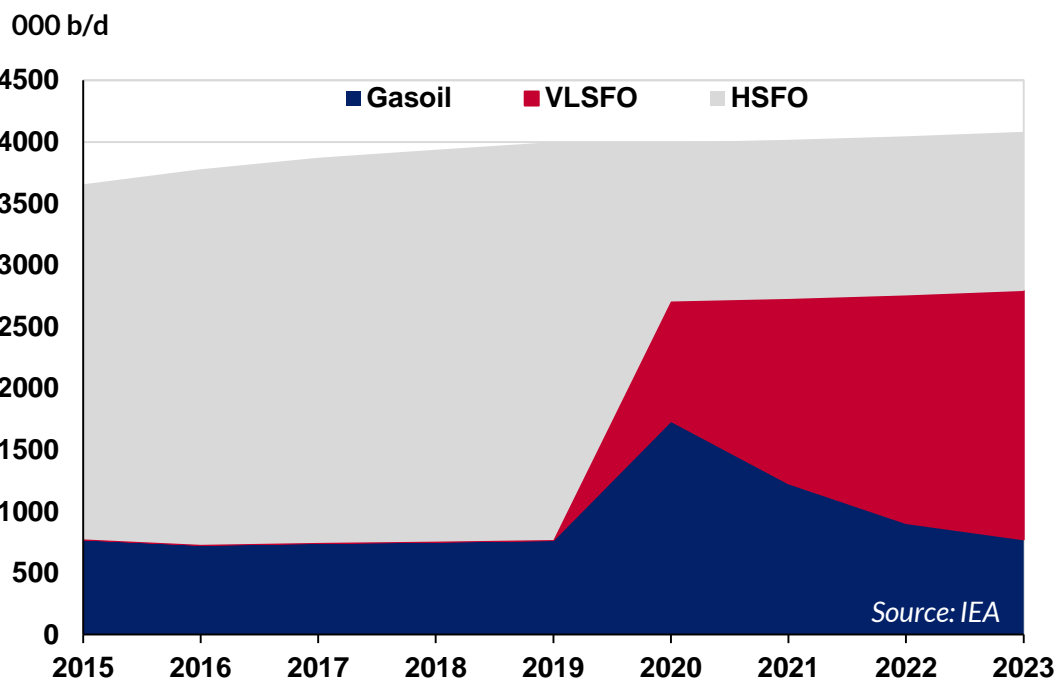
Refinery Capacity Expansions



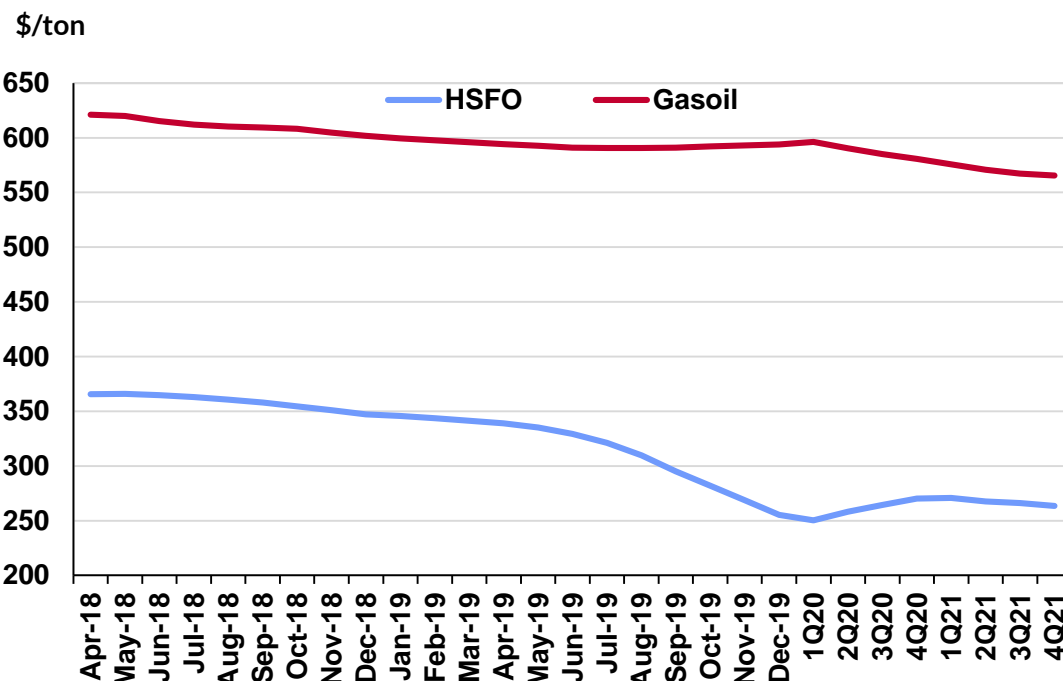
2020 will see a surge in gasoil demand

- 2020 will see a 2 mb/d shift in demand across the bunker pool.
- HSFO demand could fall by 2 mb/d, with VLSFO and MGO demand increasing by 1 mb/d each. However this assumes refiners will produce significant volumes of VLSFO by 2020, which is uncertain.
- However, overtime, the IEA assume demand will swing from MGO to VLSFO as new desulphurization capacity comes on stream. Returning the clean/dirty bunker split to pre-2020 levels.
- The IEA estimate that power generation in the Middle East and Africa could absorb 500kb/d of the fuel oil surplus.

Bunker demand by grade

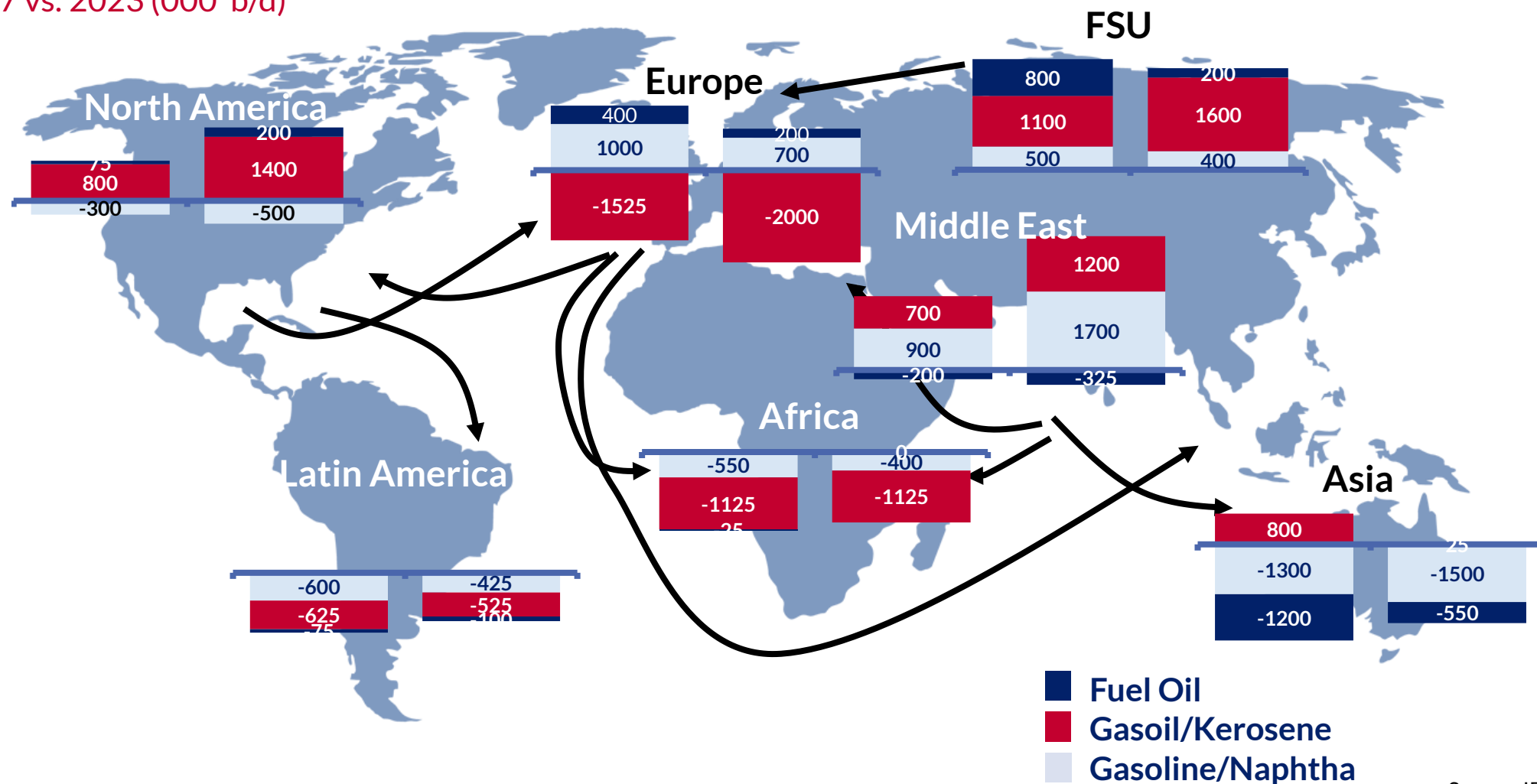


Fuel Oil vs. Gasoil



Growing product surplus in the US, Middle East and Russia

2017 vs. 2023 (000' b/d)



Source: IEA

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