TANKER MARKET INSIGHT

July 2018

Research Department, Teekay Tankers

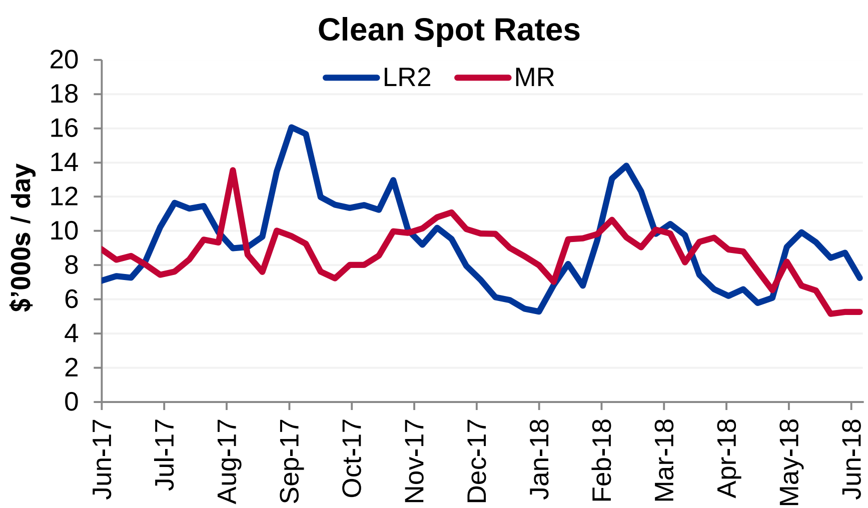
Monthly Summary

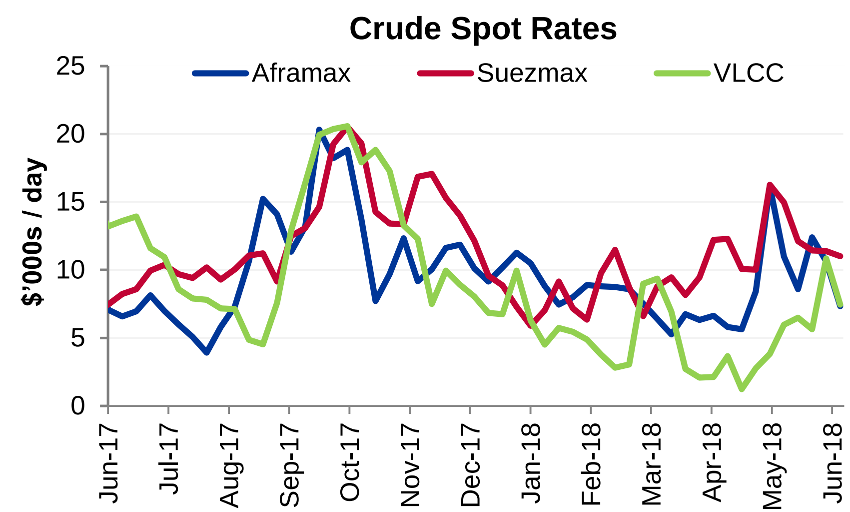
Spot rates held steady in June as Saudi Arabia opened the taps

June review: VLCC rates found support in June as Saudi Arabia reportedly increased oil production by ~0.5 mb/d. This comes on the heels of OPEC's decision on June 22nd to increase oil production by up to 1 mb/d in order to return to 100% compliance with supply cuts. Suezmax rates were relatively unchanged throughout the month; it was interesting to note that Suezmax rates in Q2 outperformed the first quarter, which is counter to normal seasonality. Aframax rates remained steady during June, while LR2 rates saw a bump at the start of the month but fell away as the calendar turned to July.

July outlook: Increased Saudi Arabian oil production should be a positive for crude tanker demand; however, it will depend on how much crude Saudi makes available for export, as they usually retain more crude for direct burn in power plants during the summer months. Suezmax rates are expected to remain steady, though they could find support if the VLCC market kicks on. Aframax rates in the Atlantic could come under pressure from reduced Libyan production (down ~0.8 mb/d) and declining Venezuelan output, though Pacific rates are expected to remain steady. LR2 rates are yet to see the normal third quarter push, and are expected to remain subdued during July.

Wild cards: The US has decided to go ahead with the implementation of tariffs on Chinese goods, and China has responded in kind. At the moment the tariffs don't include crude oil, but this may be introduced during the second round of tariff announcements. The implementation of tariffs on US crude imports would likely be negative for tanker tonne-mile demand, as US exports would have to price into other markets (likely Europe) while China would have to replace US crude from other source (likely Russia / MEG).





Source: 90% of Clarksons

Spot Market Review and Outlook

Rates expected to remain subdued as we enter the Q3 doldrums

Segment	May'18	Jun'18	June Review	July Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	2,900	7,300	Saudi Arabia reportedly increased oil production by ~0.5 mb/d in June. This follows the OPEC announcement on June 22nd to increase output in order to get back to 100% compliance with cuts. An increase in MEG supply boosted VLCC rates	VLCC rates may find support from extra Saudi volumes in the coming months; however, Saudi Arabia may retain some production for direct burn in power plants during the hottest summer months, which could limit volumes available for export.
Suezmax	12,200	12,200	Suezmax rates were virtually unchanged during June, with rates holding steady around the $12 kpd mark throughout the month. Unusually, Suezmax rates in Q2-18 outperformed the first quarter by ~$3,500 / day – perhaps a sign that we have passed the bottom of the cycle.	Suezmax rates may find some support from a stronger VLCC market as more VLCCs are pulled to MEG vs. WAF. However, this could be offset by lower expected exports from Nigeria due to the earlier force majeure on Forcados crude (July export volumes expected to be down ~0.3 mb/d at 1.4 mb/d).
Aframax (Pacific)	8,500	8,400	Aframax rates in the Pacific held steady during June, as a stronger VLCC market and vessel delays in China / Thailand helped to offset the impact of higher bunker prices.	The onset of typhoon season and associated vessel delays could cause disruption over the coming months, though this may be offset by seasonally weaker demand as we move through Q3.
Aframax (Atlantic)	9,000	8,900	Atlantic Aframax rates held steady in June; the MED market lost steam through the course of the month due to reduced output from Libya, though this was offset by higher activity / rates in UKC / Baltic and a steady USG / Caribs market.	Libyan oil production is reportedly down by 0.8 mb/d due to renewed fighting. This, coupled with North Sea field maintenance and reduced Venezuela cargos in the Caribs could put downward pressure on Aframax rates in the Atlantic.
LR2	6,900	8,700	LR2 rates started positively, but lost momentum as the month wore on. Low LPG prices relative to naphtha and competition from newbuilds for west-bound cargos were the familiar culprits.	The LR2 market is yet to show the usual third quarter strength that we would typically see at this time of the year; we expect rates to remain low though the month of July.

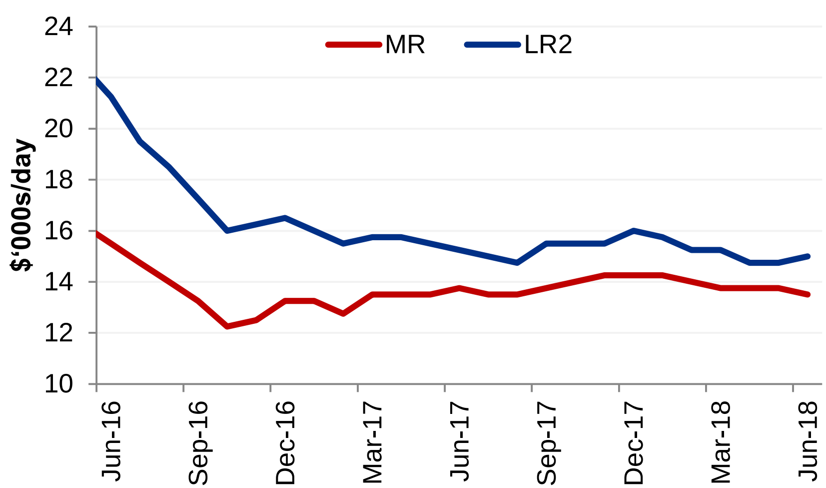
Time Charter Market

Crude TC rates gradually firming as we pass the bottom of the cycle

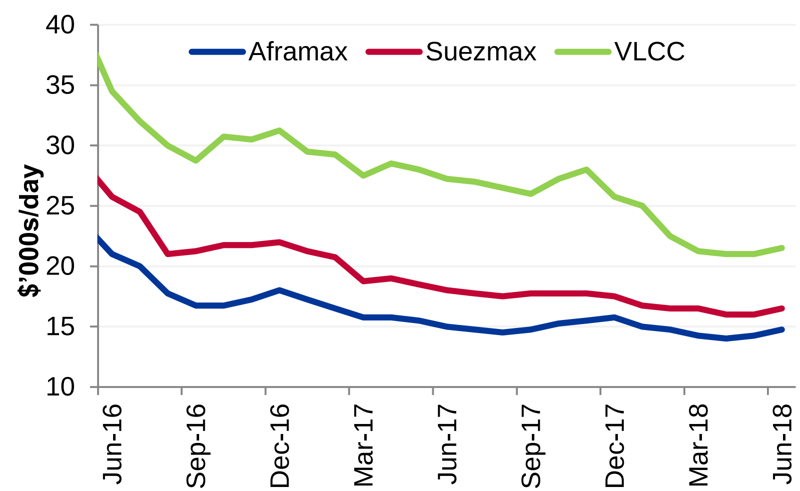
Broker Assessed Time Charter Rates

	1 year time charter rates ($/day)		3 year time charter rates ($/day)	
	May'18	Jun'18	May'18	Jun'18
VLCC	21,000	↑ 21,500	26,250	↑ 28,250
Suezmax	16,000	↑ 16,500	19,500	↑ 20,000
Aframax	14,250	↑ 14,750	17,000	↑ 17,250
LR2	14,750	↑ 15,000	17,000	↑ 17,250
MR	13,750	↓ 13,500	14,750	↓ 14,500

Clean 1 Year Time Charter Rates



Crude 1 Year Time Charter Rates



Source: Average of Clarksons, Braemar ACM, and Poten

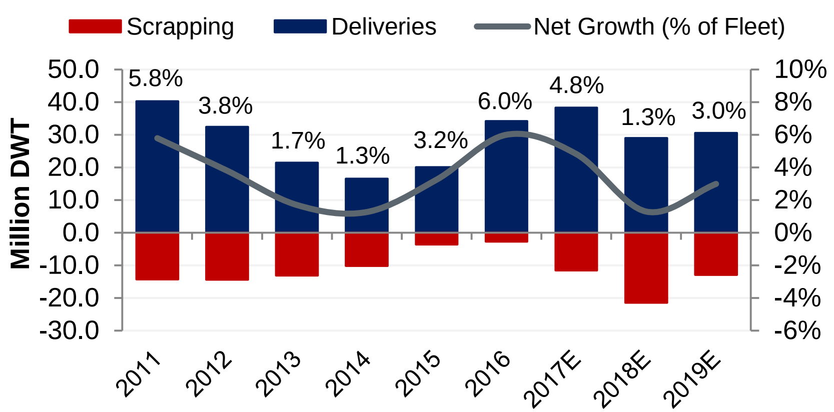
S&P Market and Fleet Statistics

Newbuilding prices continue to find support (up ~10% y-o-y)

S&P Activity

- Pricing on modern secondhand units (0 to 5 years old) is steady / rising, 10 year old units are holding steady, and older tonnage (15 years and older) is seeing limited interest / declining values.
- Okeanis / Kyklades (Alafouzos family, Greece) has raised USD 100 million via a listing in Oslo with six existing tankers (3 x Suezmax / 3 x Aframax) and nine newbuildings on order (8 x VLCCs and 1 x Suezmax). This follows from the funds raised by Hunter Group (7 x scrubber fitted VLCC newbuilds at DSME) earlier this year.
- ADS Crude Carriers (4 x 2002 built VLCCs from Frontline) is the latest owner to try and raise funds in the Norwegian market based on an older VLCC (scrubbers to be fitted) market play, though we believe they are struggling to achieve sufficient investor interest.
- Newbuilding prices are rising due to higher steel costs and improved forward orderbook cover at most major shipyards due to recent ordering activity across various different ship types. NB prices in Korea are now ~10% higher year-on-year.

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	88.5 (+1.5)	59.0 (+0.5)	47.0 (+1.0)	49.0 (+1.0)	35.25
0	87.0 (+1.0)	58.5	46.0 (+1.0)	48.5 (+1.0)	36.0
5yr	64.0	43.5	32.0	34.0	26.75
10yr	40.0	27.5	20.0	20.0	17.0
15yr	25.0	16.0 (-1.0)	11.0	11.0	9.0

Source: Clarksons (Note: values in brackets indicates change from last month

Fleet Statistics

- The global tanker fleet grew by just 0.2 mdwt in the first half of 2018, which represents virtually zero growth in percentage terms. 15.8 mdwt of tankers were delivered into the fleet while 15.6 dwt was removed for scrapping.
- We currently forecast 1.3% tanker fleet growth in 2018. However, this is dependent on the pace of tanker scrapping slowing down in 2H-2018. If tanker scrapping remains elevated, we could see the first year of zero or negative fleet growth since 2001.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2018	0.0%	4.2%	-0.4%	3.0%	0.6%	1.2%
2019	3.9%	1.3%	2.1%	1.1%	1.8%	4.8%

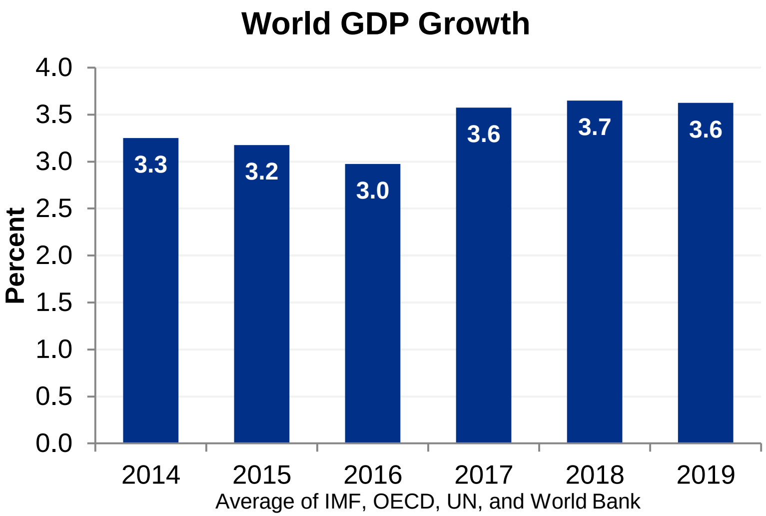
Source: Clarksons, internal estimates

Economy and Oil Demand

US / China trade war threatens to derail global economic growth

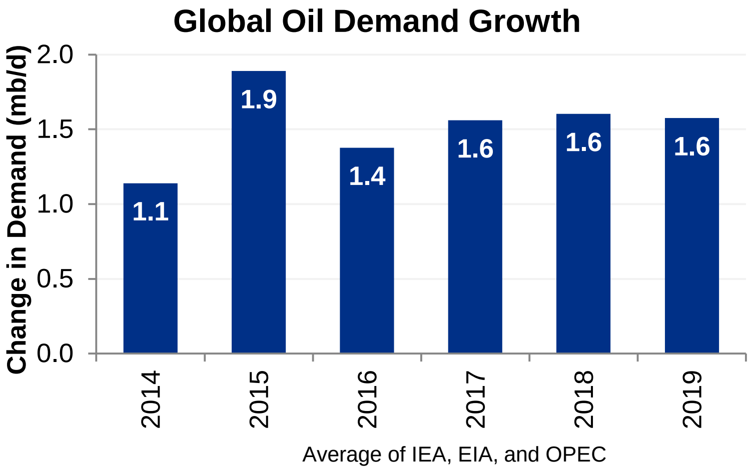
Economy Outlook

- The outlook from the major economic agencies (IMF, OECD, World Bank) is unchanged from last month. The consensus view is for steady global economic growth over the next two years, though medium-term threats are growing (not least of which is the threat of protectionism / trade wars – see below). A global financial crisis typically emerges once a decade, and it has now been 10 years since the last major financial crisis in 2008.
- The US has enacted 25% tariffs on $34 billion worth of goods from China, and the Chinese government has reacted in kind. A second round of tariffs, which will apply to around $16 billion if imports, is set to be imposed in the coming weeks with the potential of a much larger 10% tariff on $200 billion of goods to follow. An all-out trade war could have a detrimental impact on the global economy in 2019.



Oil Demand Outlook

- The average of oil demand forecasts from the major oil agencies remains unchanged, though they continue to diverge in their views. The IEA reduced its 2018 oil demand forecast to below 1.4 mb/d as they expect higher oil prices to impact on demand in the second half of the year, while the EIA raised its forecast to 1.8 mb/d.
- Initial forecasts of 2019 oil demand indicate another year of 1.6 mb/d growth, though this outlook faces downside risks from higher oil prices and the potential economic impact of a global trade war (see above).
- Global oil prices remain elevated at close to $80 / bbl, despite the recent announcement by OPEC that they would increase production in order to get back to 100% compliance with production cuts. Outages in Canada, Libya and Venezuela, and potentially lower Iranian exports in the coming months, have all given support to crude oil prices.

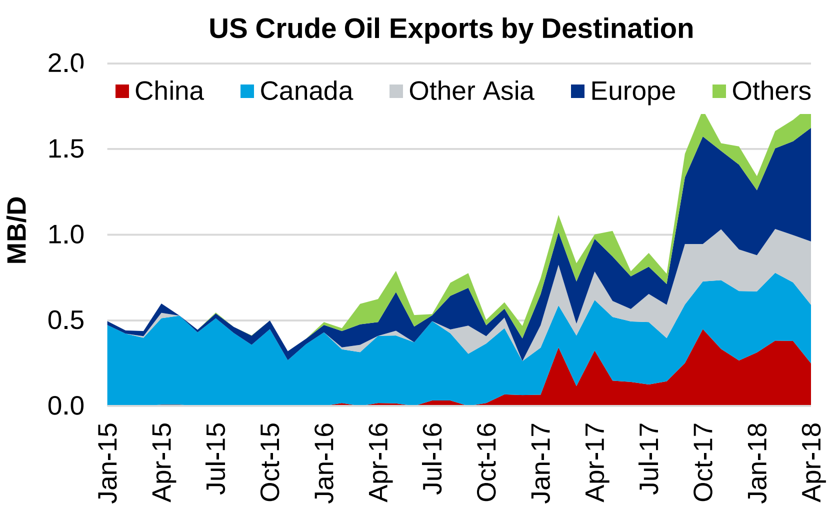


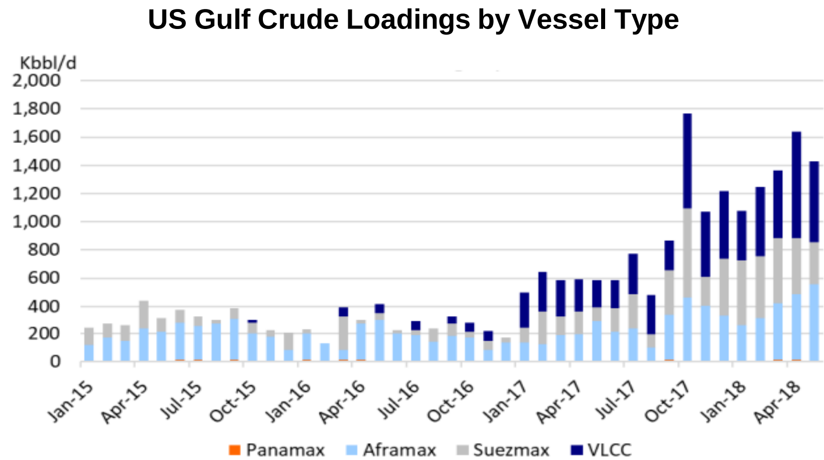
US-China Trade War Threatens Tanker Tonne-Miles

Though the redistribution of trade may benefit mid-size tankers

On July 6th the US imposed a 25% tariff on $34 billion of Chinese goods in response to complaints about alleged theft of intellectual property by China. The Chinese government responded in kind, choosing to focus on agricultural and other products. However, China has indicated that they might include crude oil should the US go ahead with their planned implementation of a further 25% tariff on $16 billion of additional goods in the coming weeks (and a 10% tariff on $200 billion of goods after that).

A move by China to reduce imports of US crude would hurt the US more than China. US crude exports have averaged 1.6 mb/d in 2018 year-to-date, with China being the second largest destination at an average of 330 kb/d (behind only Canada). This means that China accounts for approximately 20% of total US crude exports. In contrast, the US accounts for only around 4% of China's total crude imports of approximately 9.2 mb/d.





Should China go ahead with imposing tariffs on US crude exports, it would force the US to sell crude into other markets at a lower price. The most obvious destination would be Europe, which has becoming a growing destination for US oil. This would be negative for overall tanker tonne-mile demand, as the trip from the US Gulf to China is over 15,000 nautical miles (via the Cape of Good Hope) vs. 5,000 miles to NW Europe. However, it could be positive for mid-size tankers as US-Europe is more likely to be an Aframax or Suezmax trade vs. sailing to China on VLCCs.

On the flip side, China would have to replace US barrels with imports from elsewhere. The most obvious candidates would be Saudi Arabia, Iran, and Russia, all of which are lower tonne-miles vs. US imports. Iran, in particular, could become a key supplier to China given its export options will become more limited from November when US sanctions take effect. In sum, voyage distances could be set to shrink later this year, though this will impact VLCCs more than mid-size tankers.