



TEEKAY

TANKER MARKET INSIGHT

June 2018

Research Department, Strategic Development



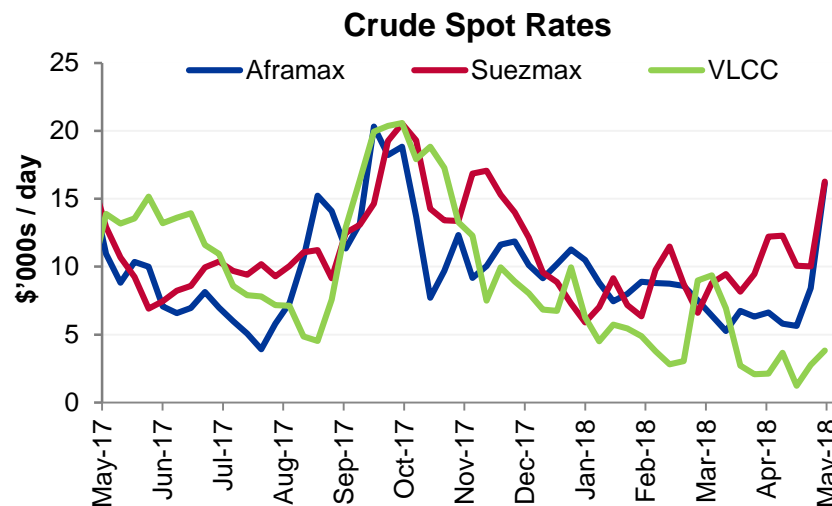
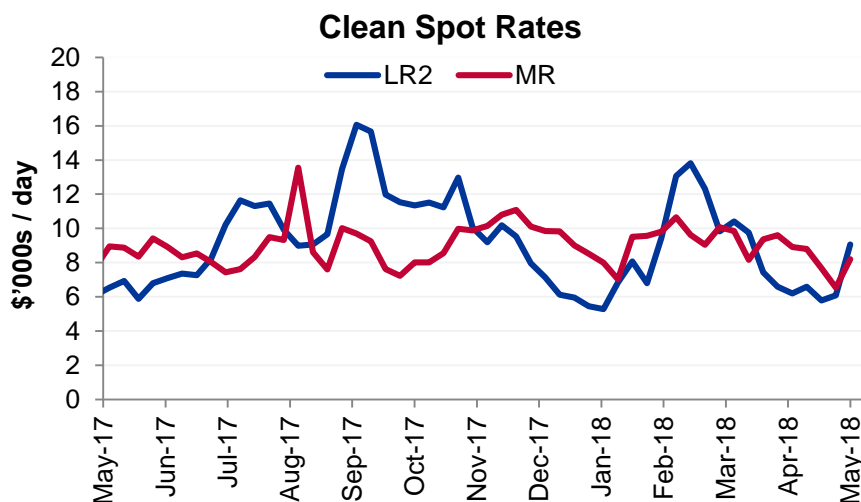
Monthly Summary

Mid-size rates saw an uptick in May driven by activity in the MED

May review: VLCC rates continued to struggle in May as OPEC supply cuts reached 163% compliance; however, the mid-size tanker market found positive relief thanks to strong rates in the Mediterranean and Black Sea. The return of Asian refineries in the Pacific further supported Aframax rates, while the Suezmax market benefitted from a strong Aframax market in the Atlantic. A closed naphtha arbitrage and low LPG prices prevented LR2 rates from finding any upside in May with rates remaining at depressed levels.

June outlook: We expect the mid-size tanker market to remain relatively steady in June. A decline in WAF and Russia exports may hinder Suezmaxes from climbing, however an improving VLCC market - benefitting from long haul exports from the US to Asia - may prevent rates from falling too far. Venezuelan port delays may provide positive support for Atlantic Aframax and help offset a weaker MED market. LR2 rates could find support as we enter the summer months and demand for refined product increases.

Wild cards: Venezuela is considering force majeure on its exports as they struggle to meet loading schedules. An estimated 70-90 tankers are currently in Venezuelan waters waiting to load a backlog of more than 24 million barrels of crude. Iran continues to be a wild card as European buyers have scaled back on purchases since the US pulled out of the nuclear deal. The US is asking OPEC to increase production to make up for the Iranian supply that will be cut off by the sanctions. The first named storm of the Atlantic hurricane season, sub-tropical storm Alberto, made its debut on May 25th and made landfall in Florida. Further storms could cause disruption to oil / refining / shipping activity in the USG / Caribs regions through the summer months and may create pockets of rate volatility.



Source: 90% of Clarksons

Spot Market Review and Outlook

Small improvement in rates expected during June, though still at low levels

Segment	Apr'18	May'18	May Review	June Outlook
	Spot Rates (\$/day) Source: 90% Clarksons			
VLCC	3,400	2,800	⬇ High compliance with OPEC production cuts continued to weigh on the VLCC market. Despite rates remaining low, the Clarksons global average benchmark includes routes not heavily traded, and actual rates are likely to be somewhat higher.	⬆ Rates in June are expected to find support as refineries maximize crude throughput in preparation for the summer driving season. A wide Brent/WTI spread is driving an increase in long haul exports of US crude to Asia, which may also be positive.
Suezmax	9,800	12,100	⬆ Strong Aframax rates in the MED gave support to the Suezmax market as charterers looked to load part cargoes on Suezmaxes. However, a weak market ex-MEG pushed more tonnage into the Atlantic basin, putting a cap on rates.	↔ Suezmax rates are expected to remain flat in June. Disruptions to West Africa loadings and a decline in Russian exports via the Black Sea may impact Suezmax demand in June, though an improving VLCC market may keep rates from falling.
Aframax (Pacific)	7,700	8,500	⬆ The return of Asian refineries from seasonal maintenance and a stronger Atlantic Aframax market gave support to rates in May and helped offset the impact of high bunker prices.	↔ Fundamentals look largely unchanged in June and rates are expected to remain flat. Upside could come from a stronger Atlantic market, which may create some positive rate momentum.
Aframax (Atlantic)	5,300	9,000	⬆ Increased exports from Libya and the Black Sea drove up rates, with the cross-MED route briefly hitting \$30k/d (highest in 18 months). The Caribs market saw some support due to weather delays caused by sub-tropical storm Alberto.	⬆ Busy lightering activity and growing port delays in Venezuela may help tighten the tonnage balance in the USG/Caribs region and give support to rates. This should help offset a weaker European market as MED rates fall back from May highs.
LR2	7,500	6,900	⬇ Low LPG prices continued to limit naphtha arbitrage opportunities to the East in May, while newbuildings fixing gasoil on maiden voyages impacted demand to the West.	⬆ Low product stocks and higher demand as we move into the summer, coupled with reduced short haul movements of diesel from Russia to Europe, should support LR2 tonne-mile demand in June.

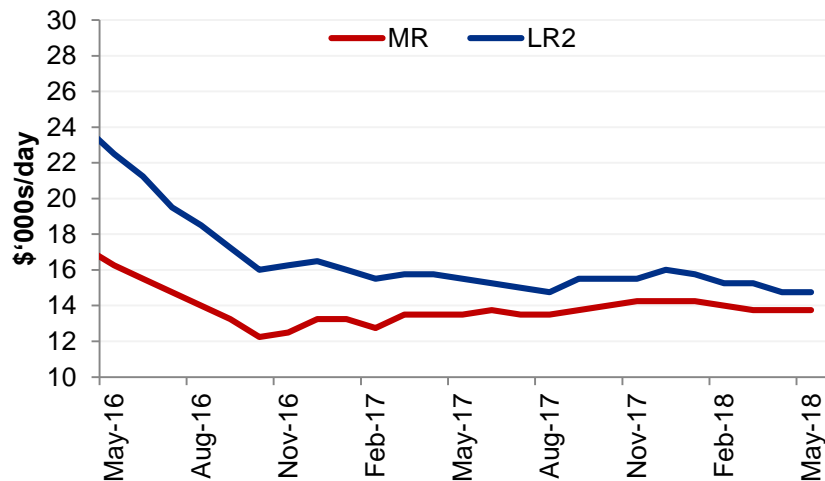
Time Charter Market

TC rate ideas have stabilized following declines earlier in the year

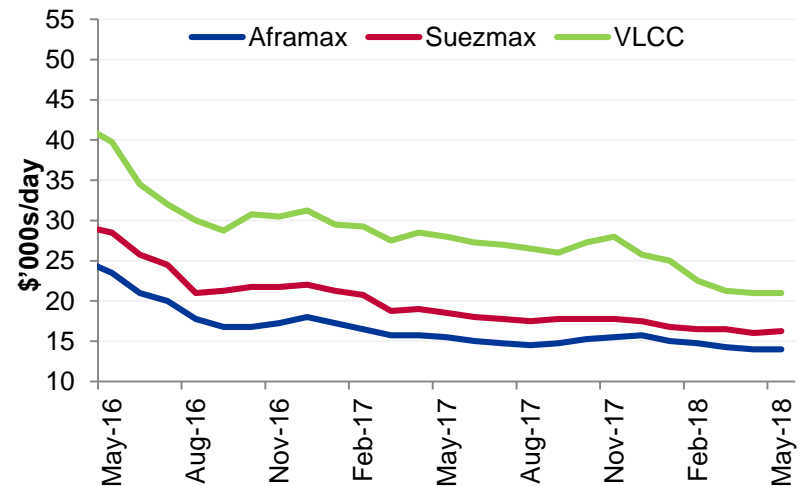
Broker Assessed Time Charter Rates

	1 year time charter rates (\$/day)		3 year time charter rates (\$/day)	
	Apr'18	May'18	Apr'18	May'18
VLCC	21,000	21,000	27,250	↓ 26,250
Suezmax	16,000	↑ 16,250	19,500	19,500
Aframax	14,000	14,000	17,000	17,000
LR2	14,750	14,750	17,250	↓ 16,250
MR	13,750	↓ 13,500	14,750	14,750

Clean 1 Year Time Charter Rates



Crude 1 Year Time Charter Rates



Source: Average of Clarksons, Braemar ACM, and Poten



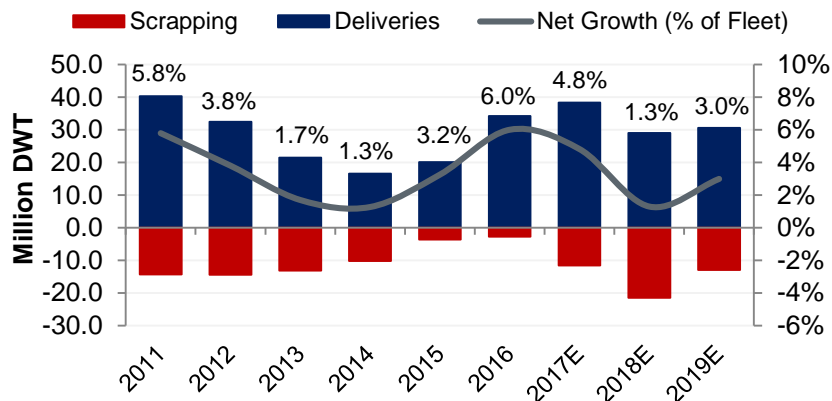
S&P Market and Fleet Statistics

Newbuild prices continue to find support; secondhand prices steady

S&P Activity

- The majority of the sales in May were from the Toisa / Calimnopoulos fleet (bankruptcy related sale). The fleet of 13 units (5 x Suezmax, 5 x Aframax / LR2, 3 x LR1) were predominantly Chinese built and the reported sale prices were at / very close to market estimates, particularly on the modern assets (after taking into account the Chinese built / bankruptcy sale related discounts). All vessels were sold to Greece based Buyers.
- An Italian court in Naples has begun the auction of the remaining fleet of bankrupt owner Rizzo Bottiglieri De Carlini Armatori (RBD Armatori). Bids are due by 24th July with minimum starting price of USD 200 M for the entire fleet including shore staff of around 40 persons and employment contracts of minimum 2 years.
- 2 x 2004 ice class 1C Korean built Aframaxes were sold by NS Lemos to Thenamaris, Greece. The price level is in line with market expectations and the transaction reflects the close relationship between the two Greece based private shipowners.

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	87.5 (+0.5)	59.0 (+0.5)	46.5 (+1.0)	48.5 (+1.0)	35.25
0	86.0	58.5	45.0	47.5	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	17.0	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 1.3 mdwt, or 0.2%, through the first five months of the year. 14.4 mdwt of new tankers have delivered into the fleet while 13.1 mdwt has been removed.
- We have revised our scrapping forecast up to take into account the very high level of removals seen so far in 2018. As a result, our fleet growth forecast for 2018 has been lowered to 1.3%. This would be the lowest annual tanker fleet growth in percentage terms in the past 15 years (equal to the 1.3% growth seen in 2014).

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	4.2%	1.3%	2.1%	1.1%	1.8%	4.8%

Source: Clarksons, internal estimates



Economy and Oil Demand

Forecasts remain strong, but with increasing trade and geopolitical risks

Economy Outlook

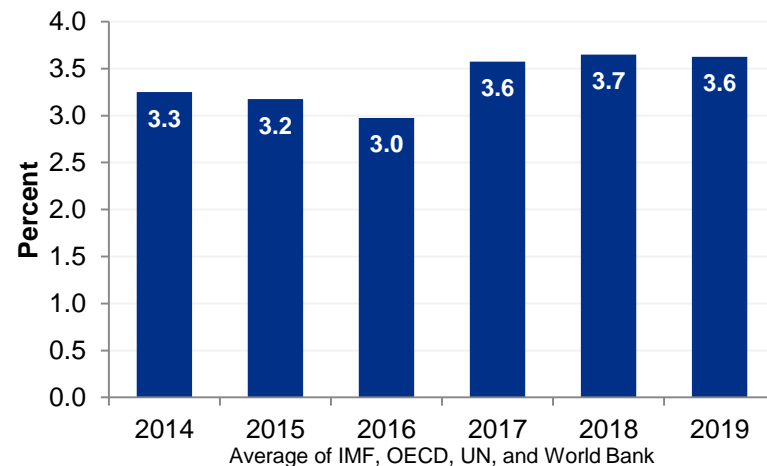
- The World Bank, OECD, and UN released their updated forecasts. Each agency expects the higher rate of growth seen since 2017 to continue through 2018 and 2019. However, downside risks are increasing, including rising trade and geopolitical tensions, and inflationary pressures from higher oil prices.
- The UN, OECD and IMF expect GDP growth to improve slightly in 2018-2019, whereas the World Bank is alone in expecting growth to ease slightly in 2018-2019 as financial conditions tighten.

USA	The economy may be at full potential; unemployment is near pre-recession levels. Tax cuts and budget spending will continue to support GDP growth in 2018.
Europe	Growth in 2017 was the strongest since the recession (2.4%), but will ease slightly to near 2% in 2018 and 2019.
Japan	Growth is projected to slow to ~1% in 2019 due to higher energy import costs (higher oil prices) and tax increases in 2019.
China	Growth will slow to ~6.4% by 2019, but remain robust due to strong consumer spending and supportive fiscal policies.

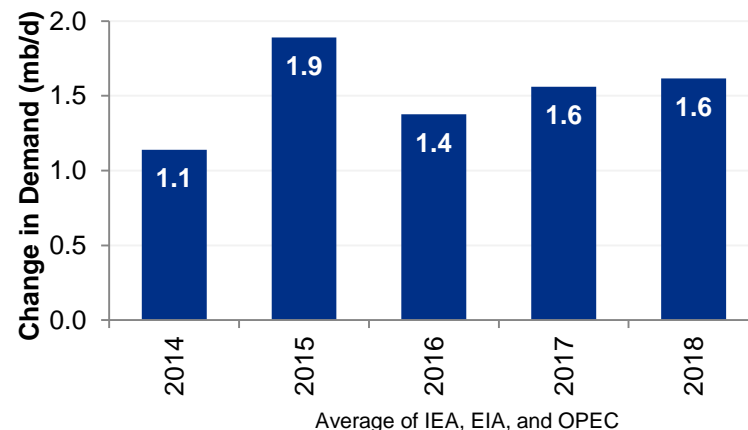
Oil Demand Outlook

- Oil demand forecasts remain largely unchanged from last month. However, the IEA has slightly reduced their forecast due to the expectation that higher oil prices will impact demand growth in 2H-2018.
- Brent crude oil prices have remained above \$70 / bbl since mid-April 2018 and reached \$80 / bbl in late-May 2018. Prices continue to be supported by low crude stock levels, falling production in Venezuela, and high compliance with OPEC supply cuts.

World GDP Growth



Global Oil Demand Growth



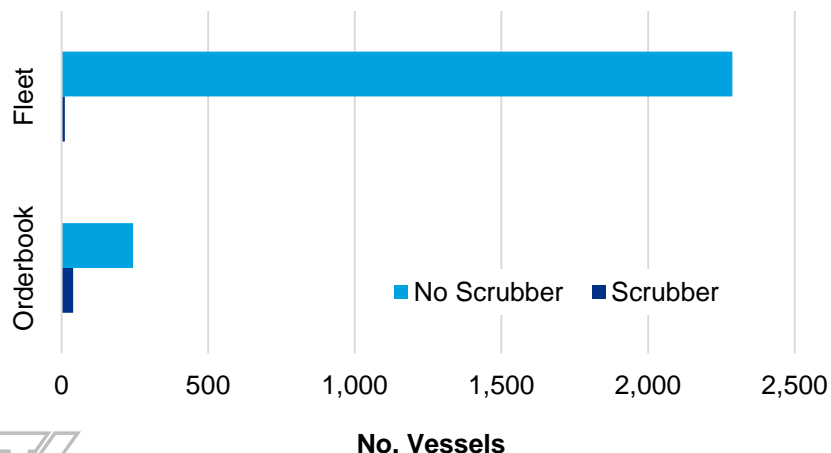
Gearing Up For IMO 2020

New fuel regulations likely to have a significant impact on the tanker market

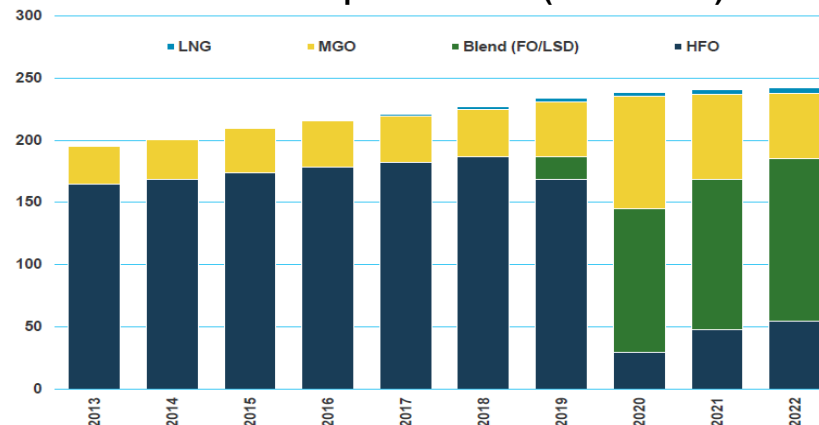
We are now a mere 18 months away from the new IMO regulations on sulphur content in bunker fuels coming into force. From 1st January 2020 the global limit on sulphur content will fall to 0.5% from an existing cap of 3.5%. This is a huge change, with major implications for oil markets, refiners, bunker suppliers and shipowners alike. So how are the various players reacting, and what is the likely impact on the tanker market?

The short answer is, no-one really knows for sure. But some things are becoming clearer. For a start, it is becoming apparent that the uptake in scrubbers has been extremely low. Out of a global merchant fleet of almost 95,000 vessels, only 290 have scrubbers installed (of which just 11 are tankers of Aframax size or larger). A further 530 vessels with scrubbers are on order, of which 40 are large tankers. Even in the most optimistic scenario, only a very small proportion of the fleet will have scrubbers installed by 2020 and will be able to continue burning high sulphur HFO.

80,000+ dwt Tanker Fleet & Orderbook



Bunker Consumption Forecast (Source: MSI)



Given the low uptake of scrubbers, it is becoming clear that most vessels will have to switch to low-sulphur fuels from 2020 (either marine diesel oil, or low sulphur fuel oil). From a chartering perspective this is a good thing, as it means shipowners should be able to pass the extra cost through to the customer. However, it is not clear how refiners will manage the switch, and whether there will be enough low sulphur bunker fuel come implementation date.

Our most likely assessment on the change is that it will be positive for tankers in a number of ways. Firstly, it will likely create new trade routes for both fuel oil and diesel oil as dislocations between regions of surplus and deficit grow, creating demand for clean and product tankers. Secondly, the need to stockpile compliant fuel ahead of implementation is likely create significant demand for floating storage in certain locations, which will tighten tonnage supply. And thirdly, the oldest and least fuel efficient vessels may be scrapped at a faster rate, leading to lower fleet supply. All of which could create a very volatile market for tankers as we get ever closer to the 2020 deadline.