



TEEKAY

TANKER MARKET INSIGHT

August 2018

Research Department, Teekay Tankers



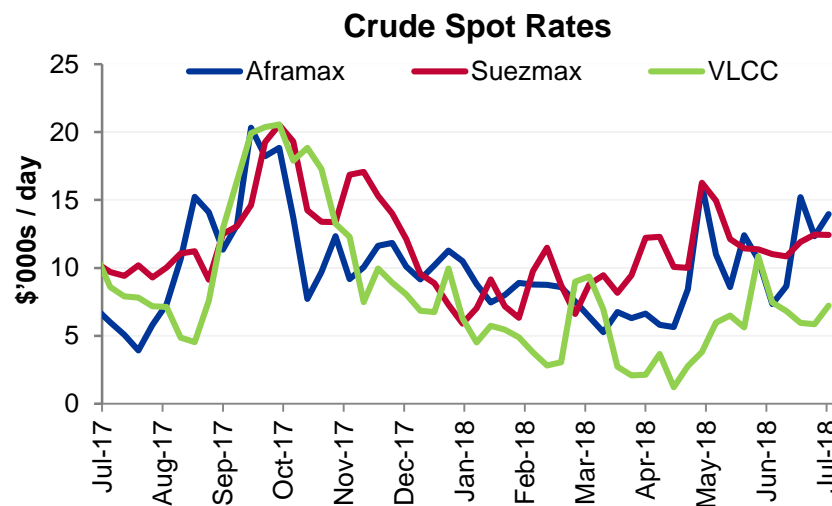
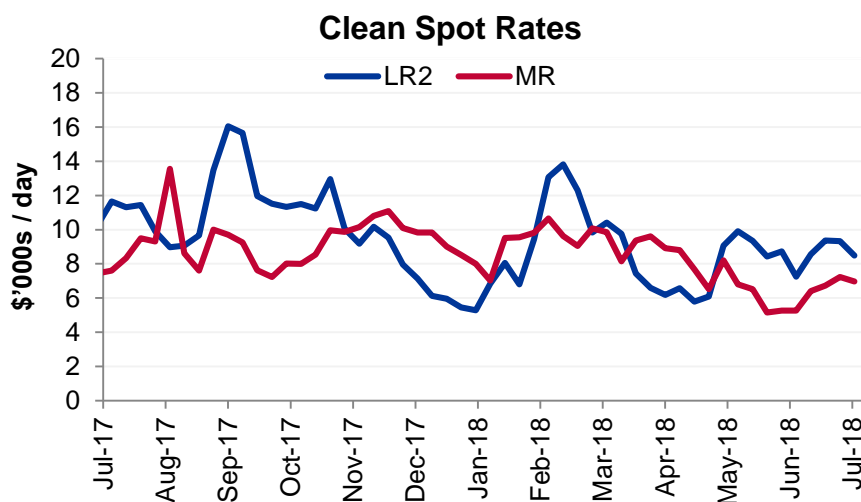
Monthly Summary

Surprising rate volatility during July, though spikes proved to be short-lived

July review: The crude tanker spot market saw some surprising strength in July as both VLCC and Atlantic Aframax rates rose to 9-month highs. It is encouraging that tanker rates are exhibiting some volatility in what is usually the weakest part of the year for tanker rates, though any such volatility is typically short-lived and rates remain well below long-term average levels. VLCC rates saw a surprising kick up to \$15,000 / day at the end of July / beginning of August, spurred by higher Saudi exports, an increase in WAF-Asia movements, and lower bunker prices. Suezmax rates remained steady at \$11-12,000 / day for the third straight month while Atlantic Aframax rates hit a 9-month high as rates in the MED / Black Sea briefly spiked to \$20-25,000 / day. LR2 rates held steady during July, but declined at the beginning of August counter to normal seasonality (Q3 is typically a strong quarter for LR2 spot rates).

August outlook: Tanker demand is expected to weaken in Aug / Sept as we pass peak summer demand and as refineries gear up for fall maintenance programs. A decrease in Chinese imports of US crude and a reduction in Iranian exports ahead of US sanctions in November could further dampen tonne-mile demand in the coming months. However, this may be offset to an extent by higher exports from Saudi Arabia and other Middle East Gulf nations (Iraq, UAE, Kuwait). Mid-size tankers may find some support by a switching of US crude export volumes to Europe on Aframaxes / Suezmaxes vs. VLCCs to China as the US / China trade war intensifies.

Wild cards: The extent to which Iranian crude export volumes will fall ahead of US sanctions, the impact of the burgeoning US / China trade war on tanker trade patterns, and the potential impact of the US / Turkey political spat are all Wild Card factors to look out for in the coming months. A steepening contango of the crude futures curve could be a positive Wild Card should it widen further.



Spot Market Review and Outlook

Rates expected to ease back during the seasonally weak months of Aug / Sept

Segment	Jun'18	Jul'18	July Review	August Outlook
	Spot Rates (\$/day) Source: 90% Clarksons			
VLCC	7,300	6,450	⬇️ VLCC rates remained in the doldrums for much of July. However, rates started to firm towards the end of the month, reaching a 9-month high of ~\$15,000 / day in early August as higher MEG exports, an increase in WAF-Asia movements, and lower bunker prices helped lift TCEs.	⬆️ VLCC rates should cool off through August as we enter the seasonally weaker part of the year (there are already signs that Saudi Arabia may be easing back on output having ramped up exports in June / July). However, rates should still average higher m-o-m due to the firm rates seen in early August.
Suezmax	12,200	11,900	↔️ Suezmax rates have been relatively steady for the past three months, trading consistently around the \$11-12,000 / day mark. It is encouraging that rates continue to hold steady during Q3, in what is typically the weakest part of the year for rates.	↔️ Suezmax rates are expected to remain flat in August, with ongoing weakness ex-WAF balanced by pockets of strength in the USG / Caribs and Black Sea. Reduced Iranian exports ahead of US sanctions could impact on Suezmax volumes ex-MEG.
Aframax (Pacific)	8,450	9,050	⬆️ Aframax rates in the Pacific once again held steady in July at ~\$9,000 / day; rates have largely been trading around this level for much of 2018, with little in the way of regional rate volatility.	↔️ An increase in delays and more long-haul cargoes are helping to support Pacific Aframax rates. However, this will likely be offset by seasonally weaker oil demand during the third quarter.
Aframax (Atlantic)	8,900	13,200	⬆️ Atlantic Aframax rates rose to a 9-month high in July. Rates in the MED / Black Sea spiked to \$20-25,000 / day in the first half of the month due to higher Russian exports, though this was offset by extremely weak rates in the USG / Caribs market as Venezuelan exports continue to tumble.	⬇️ Atlantic oil demand is set to decline as we pass the peak summer driving season, with refinery throughput in both Europe and the US expected to decline over the next two months. This may be offset by increased US crude exports to Europe on Aframax as China looks to cut back on US crude.
LR2	8,750	8,900	↔️ LR2 rates held steady through most of July, but have declined in the early part of August and have yet to show the normal seasonal uplift that LR2s typically see during the third quarter.	⬇️ Asian imports of Western naphtha are expected to fall to 1.3-1.4 MT in August from 1.5-1.6 MT in July, mainly due to a fall in shipments from the 330 kb/d Skikda refinery due to maintenance.

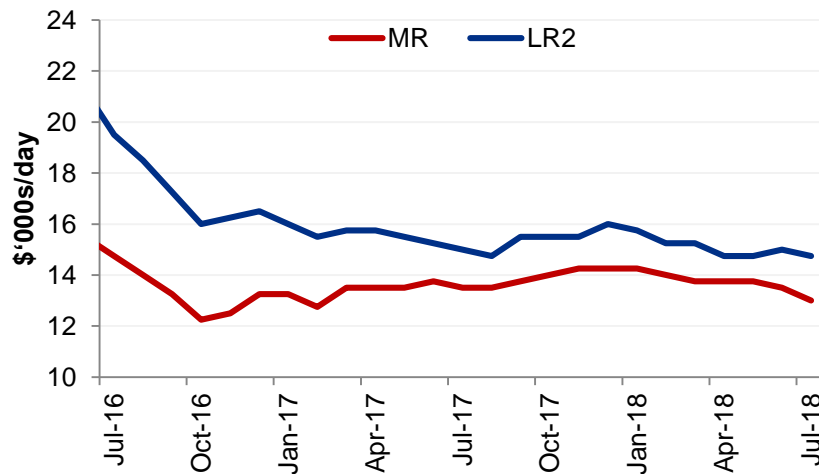
Time Charter Market

1-year TC rates for crude and product tankers are trending in opposite directions

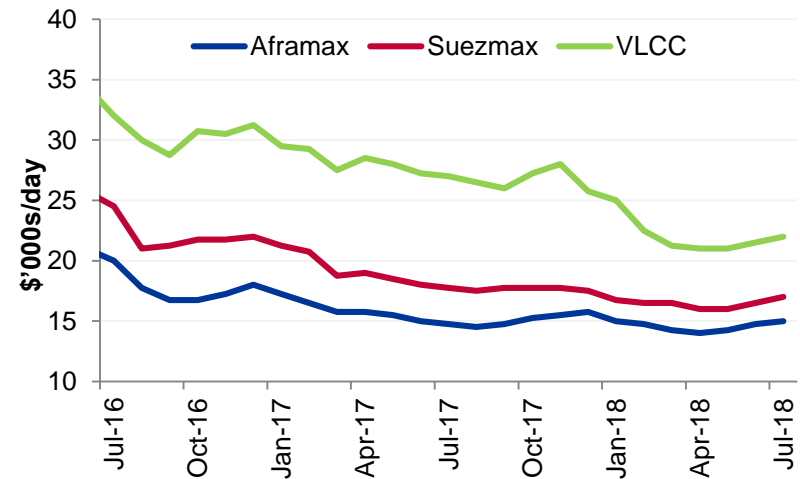
Broker Assessed Time Charter Rates

	1 year time charter rates (\$/day)		3 year time charter rates (\$/day)	
	Jun'18	Jul'18	Jun'18	Jul'18
VLCC	21,500	↑ 22,000	28,250	28,250
Suezmax	16,500	↑ 17,000	20,000	↑ 20,500
Aframax	14,750	↑ 15,000	17,250	↑ 17,750
LR2	15,000	↓ 14,750	17,250	17,250
MR	13,500	↓ 13,000	14,500	14,500

Clean 1 Year Time Charter Rates



Crude 1 Year Time Charter Rates



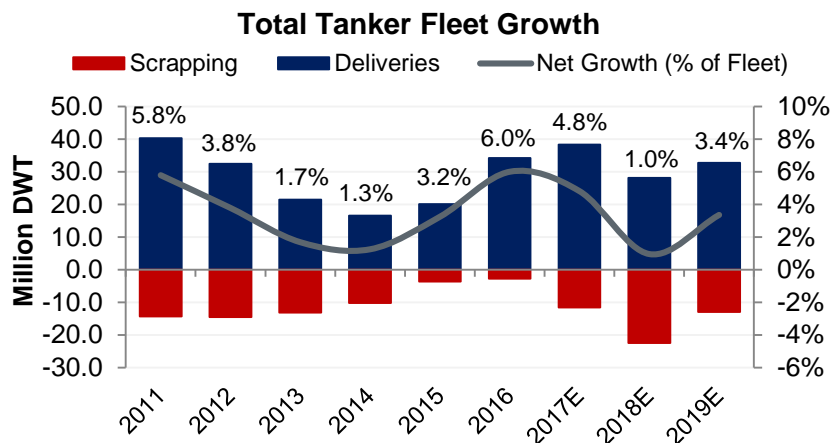
Source: Average of Clarksons, Braemar ACM, and Poten

S&P Market and Fleet Statistics

Modern asset values remain firm while units aged 10+ years come under pressure

S&P Activity

- The volume of tanker newbuild and secondhand sales activity has slowed down with the summer holiday period. Values for very modern assets have risen / remain firm on the back of rising newbuild prices. In contrast, values for older tonnage (10 years and over) are bearing the brunt of the weak spot freight market coupled with declining scrap prices due to the onset of the monsoon season on the Indian subcontinent.
- BW have now sold all four of their Samsung-built scrubber ready VLCC newbuilds for around USD 89 M each, which is an increase of more than 10% versus a year ago and highlights the above trend of firming prices. 2 x 2006 built VLCCs sold for prices in the low-to-mid USD 30 M's, which is steady / in line with market expectations.
- The Japanese-controlled 2006 built LR2 *River Eternity* (coated but not coiled) was sold to Hellenic Tankers, Greece for USD 13.5 M. The price is around USD 2 M lower than market estimates, which is partly explained by a lower level of Buyer interest due to no heating coils on the 12 year old unit.



Source: Clarksons, internal estimates

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	89.5 (+1.0)	59.0	47.5 (+0.5)	49.5 (+0.5)	35.5 (+0.25)
0	87.0	58.5	46.0	48.5	36.0
5yr	64.0	43.5	32.0	34.0	26.75
10yr	40.0	27.0 (-0.5)	20.0	20.0	16.0 (-1.0)
15yr	25.0	15.0 (-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 1.7 mdwt, or 0.3%, in the first seven months of 2018. A total of 18.5 mdwt of tankers have delivered into the fleet while 16.8 mdwt has been removed for scrapping. Overall we forecast 1.0% tanker fleet growth in 2018 and 3.4% in 2019.
- The pace of scrapping slowed in July to 1.0 mdwt, the lowest monthly scrapping total since Oct'17. Softer scrap prices and lower interest from scrap buyers with the onset of the Indian monsoon season are the reasons for the slowdown.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2018	-0.4%	2.7%	0.5%	2.3%	1.0%	1.6%
2019	4.6%	1.7%	1.8%	1.7%	1.5%	4.3%

Source: Clarksons, internal estimates



Economy and Oil Demand

Intensifying trade wars threaten to derail the global economy / oil demand growth

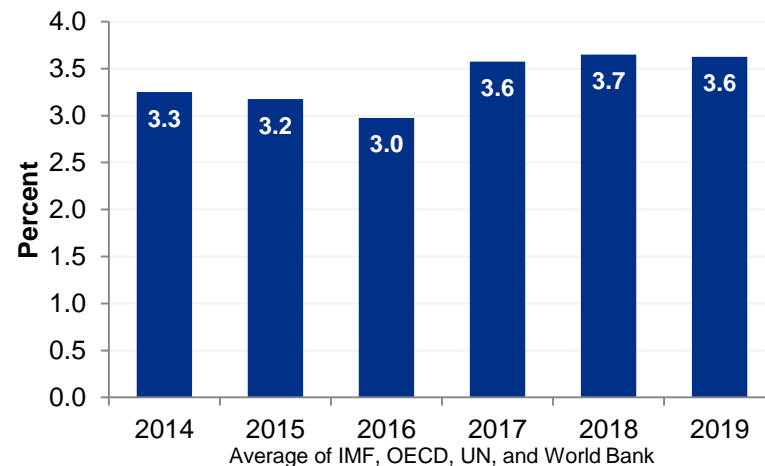
Economy Outlook

- The outlook from the major economic agencies is largely unchanged from last month. However, the World Bank warns that growth appears to be decelerating, with a noticeable slowdown in global goods trade. This slowdown reflects weak demand from the advanced economies (with the exception of the US) and slowing exports from Asia. The decline comes at a time of rising barriers to trade and elevated policy uncertainty.
- The US continues to take a hard line with regards to trade and tariffs. The US announced a further \$16 billion of Chinese goods which would be subject to a 25% tariff in early August, and the Chinese government responded in kind. In addition, the US has announced that it may raise the tariff on a further \$200 billion of goods to 25% from 10% previously. The US has also imposed tariffs on imports of Turkish steel and aluminium, which have contributed to a currency crisis in Turkey. There are fears that this contagion could spread to other emerging markets, particularly given the strength of the US dollar.

Oil Demand Outlook

- The average of oil demand forecasts from the three major agencies is largely unchanged from last month, though risks appear to be weighted to the downside for 2019 given concerns around growing trade wars and weaker currencies in various emerging markets (see above).
- Oil prices have softened over the past month and the futures curve has moved into contango, an indication that the market is well supplied now that OPEC and Russia have lifted production. However, spare global oil production capacity remains very tight at ~2-3 mb/d, and given instability in Iran, Venezuela, Iraq, Nigeria and Libya it would not take much for the oil market to tighten again and for prices to rise.

World GDP Growth



Global Oil Demand Growth

