TEEKAY

TANKER MARKET INSIGHT

September 2018

Research Department, Teekay Tankers

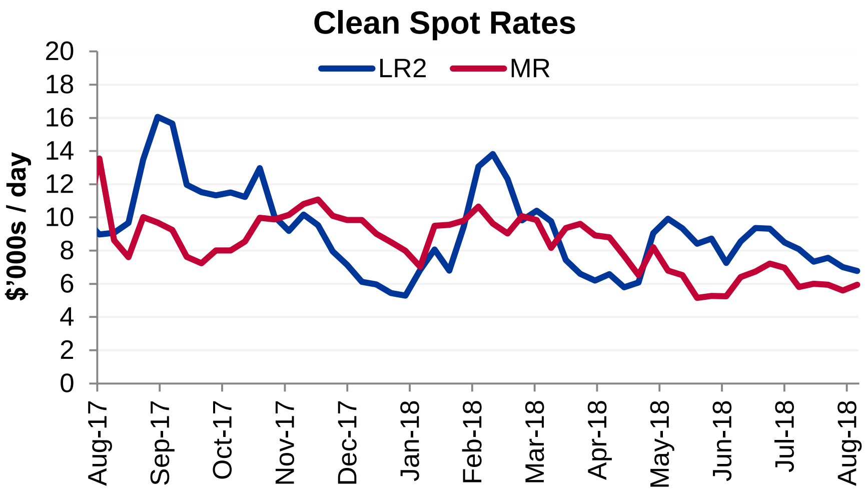
Monthly Summary

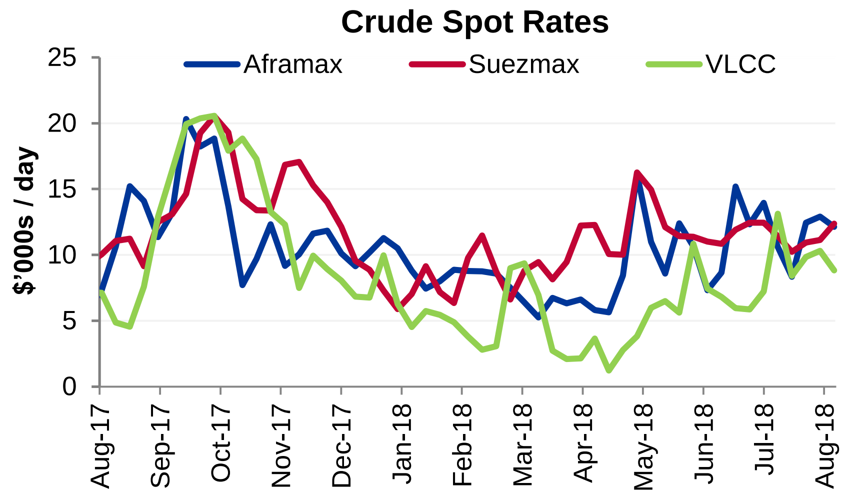
Crude tanker rates firmed counter-seasonally during August

August review: Crude tanker spot rates firmed moderately during August, with VLCC rates and Pacific Aframax rates hitting a 9-month high. Although rates remain well below the long-term average, it is encouraging that we are seeing some volatility in August / September, traditionally the weakest months of the year. An increase in OPEC production (reportedly the highest in 2018-to-date) was the primary driver, spurred by higher Saudi Arabian and Iraqi production (and offsetting lower Iranian exports ahead of the implementation of US sanctions in November). Suezmax rates held steady during the month, while Pacific Aframax rates rose on the back of vessel delays / longer waiting times and an increase in long-haul cargos into the region. Atlantic Aframax rates fell back from July levels due to a softening in the UKC / Baltic market. LR2 rates declined to a 3-month low, and we are yet to see any signs of a seasonal pickup in demand.

September outlook: Global refinery maintenance is expected to reach a peak in the next two months, which should weigh on tanker demand during September. However, the Atlantic Aframax market may find support from an increase in US crude exports to Europe and localized vessel delays in the US Gulf due to bad weather and a fire at Chevron's Pascagoula refinery. Looking further ahead, we believe that the tightening supply / demand balance seen in Q3 is setting the stage for a firmer winter market than we saw last year.

Wild cards: The main Wild Card in the coming month will be the extent to which Iranian crude oil exports decline ahead of the implementation of US sanctions in November, and the ability of the rest of OPEC to make up for lost production. Iranian exports appear to be declining at a rapid rate – August exports were reportedly down 0.5 mb/d from vs. June levels – though, for now, the rest of OPEC is able to make up the difference. The Atlantic hurricane season, and the potential for regional infrastructure disruptions, is a Wild Card that could lead to a tightening in the Atlantic Aframax market over the coming months.





Source: 90% of Clarksons

Spot Market Review and Outlook

Seasonal weakness expected, though Atlantic Aframax rates may find support

Segment	Jul'18	Aug'18	August Review	September Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	6,450	10,100	⬆ VLCC rates firmed in August, averaging above $10,000 / day for the first time since Nov'17. An increase in Middle East OPEC output was the primary reason behind the strength in rates.	⬇ VLCC rates are expected to soften in September as refineries approach peak maintenance season and as Iranian export volumes decline ahead of US sanctions (due to come into force in November).
Suezmax	11,900	11,200	⬅➡ Suezmax rates held steady for the 4th consecutive month. Rates out of the Middle East improved slightly as stronger WAF rates at the start of the month pulled tonnage away from the region and tightened vessel supply.	⬅➡ Suezmax rates are expected to remain steady during September, though a stronger Aframax market in the Atlantic basin and an increase in Black Sea / MED exports to Asia may help to support rates through the course of the month.
Aframax (Pacific)	9,050	11,150	⬆ Aframax rates in the Pacific firmed during August to a 9-month high of over $11,000 / day due to an increase in regional vessel delays and more long-haul cargos arriving in the region.	⬅➡ An increase in vessel delays points towards a tighter supply / demand balance in the Asia-Pacific region, which could help to underpin rates as regional refineries start to exit seasonal maintenance.
Aframax (Atlantic)	13,200	11,350	⬇ Atlantic Aframax rates fell in August, primarily due to a decline in the UKC / Baltic region. Rates in the Black Sea / Med remained firm, supported by an increase in Libyan volumes, while USG rates saw some strength towards the end of the month.	⬆ Rates in the USG / Caribs region exceeded $20,000 / day in the early part of September, supported by an increase in US crude exports to Europe on Aframaxes, weather delays, and delays due to a fire at Chevron's Pascagoula refinery.
LR2	8,900	7,350	⬇ LR2 rates slipped to a 3-month low in August, counter to the normal strengthening in rates that is typically seen in the third quarter of the year.	⬆ The product tanker market may find some support as refineries start to exit from seasonal maintenance. However, we expect that LR2 rates will continue to underperform vs. Aframax for the time being.

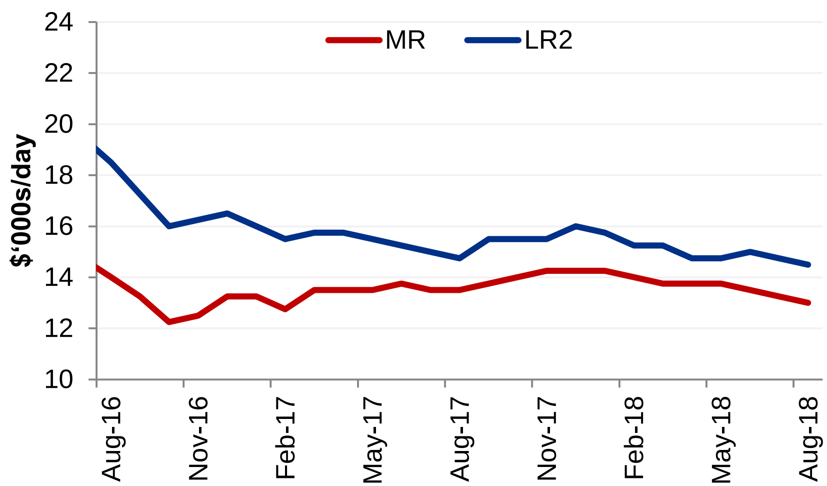
Time Charter Market

1-year crude tanker time charter rates continue to firm on a stronger spot market

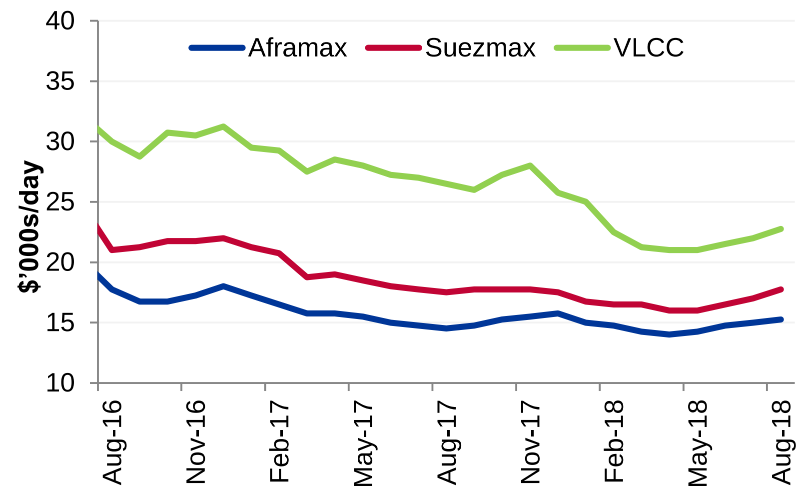
Broker Assessed Time Charter Rates

	1 year time charter rates ($/day)		3 year time charter rates ($/day)	
	Jun'18	Jul'18	Jun'18	Jul'18
VLCC	22,000	⬆ 22,750	28,250	⬇ 27,750
Suezmax	17,000	⬆ 17,750	20,500	20,500
Aframax	15,000	⬆ 15,250	17,750	17,750
LR2	14,750	⬇ 14,500	17,250	17,250
MR	13,250	⬇ 13,000	14,500	⬆ 14,750

Clean 1 Year Time Charter Rates



Crude 1 Year Time Charter Rates



Source: Average of Clarksons, Braemar ACM, and Poten

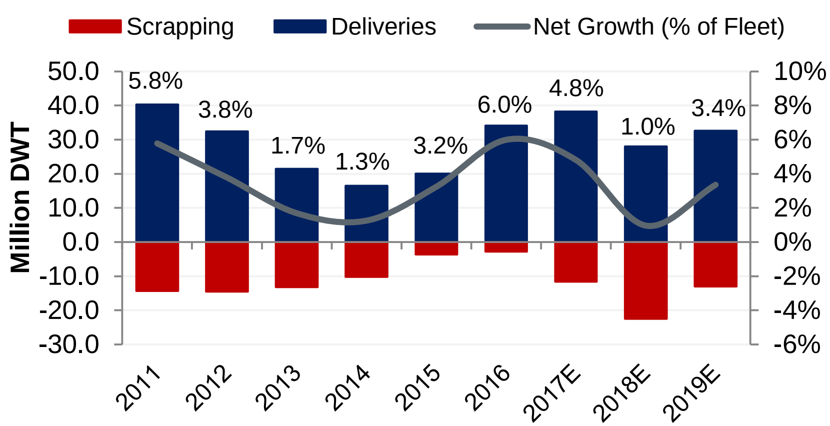
S&P Market and Fleet Statistics

Newbuild prices continue to strengthen; NB price index the highest since April 2016

S&P Activity

- A small number of second-hand vessel sales were concluded during the month, though activity was lower than usual given the summer vacation period.
- The 2013 Korean-built LR2 *Glory Crescent* (coated but uncoiled) was sold to a new Singapore based company for USD 25 million. The price is significantly lower versus market estimates as the uncoiled design drew very little interest from traditional tanker owners.
- Newbuilding prices continue to rise as a result of higher input costs, shrinking yard capacity / shipyard consolidation, and a relatively healthy level of orders across the tanker, LNG and containership sectors in the first half of 2018.
- Activity in the demolition market was sluggish with the onset of the monsoon season on the Indian subcontinent.

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	90.0 (+0.5)	60.0 (+1.0)	47.75 (+0.25)	49.75 (+0.25)	35.75 (+0.25)
0	89.0 (+2.0)	60.0 (+1.5)	47.0 (+1.0)	49.5 (+1.0)	36.0
5yr	64.0	44.0 (+0.5)	32.0	34.0	26.0 (-0.75)
10yr	40.5 (+0.5)	27.0	20.0	20.0	15.0 (-1.0)
15yr	25.0	15.0	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 2.8 mdwt, or 0.5%, in the first eight months of 2018. A total of 20.4 mdwt was delivered into the fleet while 17.6 mdwt was removed for scrapping.
- The pace of scrapping continues to fall with 0.6 mdwt scrapped in August, the first time this year that scrapping has been below 1 mdwt and the lowest monthly total since May'17.
- The pace of new vessel ordering continues to fall, with just three vessel orders of 0.3 mdwt in August (the lowest since Mar'17)

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%

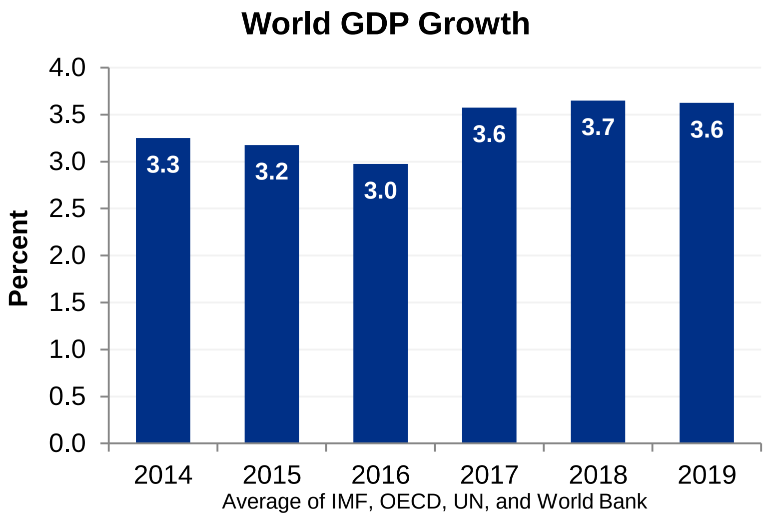
Source: Clarksons, internal estimates

Economy and Oil Demand

Emerging market weakness a potential threat to global economic growth

Economy Outlook

- In its recent "2018 Business and Finance Outlook", the OECD highlights a number of risks which have the potential to disrupt global economic growth in the coming year. These include rising global debt levels, the need to unwind financial crisis-era stimuli, and China's ability to manage its debt and vast off-balance sheet loans held by the country's banks.
- Currencies in a number of emerging markets continue to tumble, with Argentina's peso falling to a record low and the Indonesian rupiah sinking to its lowest value versus the US dollar in 20 years. This comes on the back of recent declines in the Turkish lira due to US trade tariffs. It was also announced recently that South Africa has entered into recession for the first time since 2009. Taken together, there are fears of growing contagion in emerging market economies which could lead to a slowdown in global economic growth should it continue to spread.



Oil Demand Outlook

- The major oil agencies (IEA, EIA and OPEC) have reduced their 2018 oil demand growth forecast from 1.6 mb/d to 1.5 mb/d due to concerns over the global economy and the potential impact of trade wars on economic growth, and therefore oil demand.
- Global oil prices strengthened during August, with Brent crude increasing from a low of $71 / bbl in the middle of the month to $78 / bbl by the start of September. A decrease in Iranian crude oil exports due to impending US sanctions and a renewed drawdown of global oil inventories were the primary reasons behind the gain. Aug / Sept are usually the softer "shoulder" season for oil prices, which implies that supply-side issues are trumping seasonality and supporting oil prices.