TANKER MARKET INSIGHT

October 2018

Research Department, Teekay Tankers

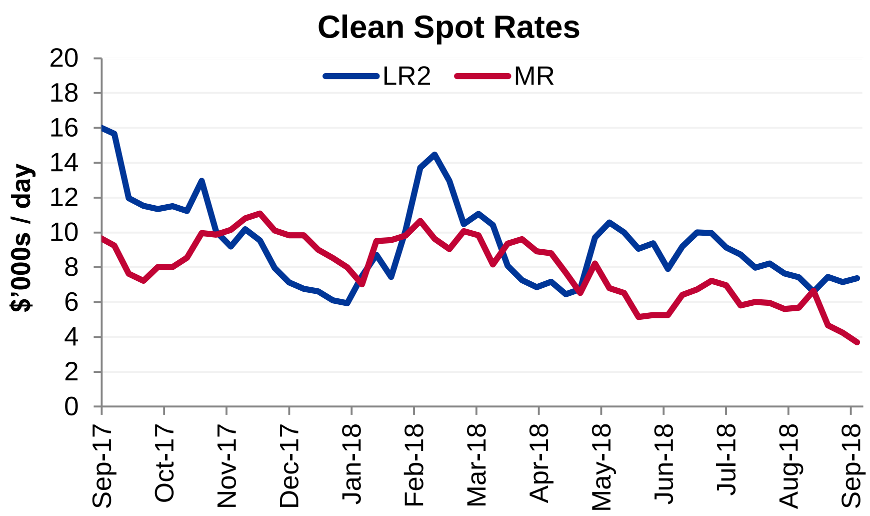
Monthly Summary

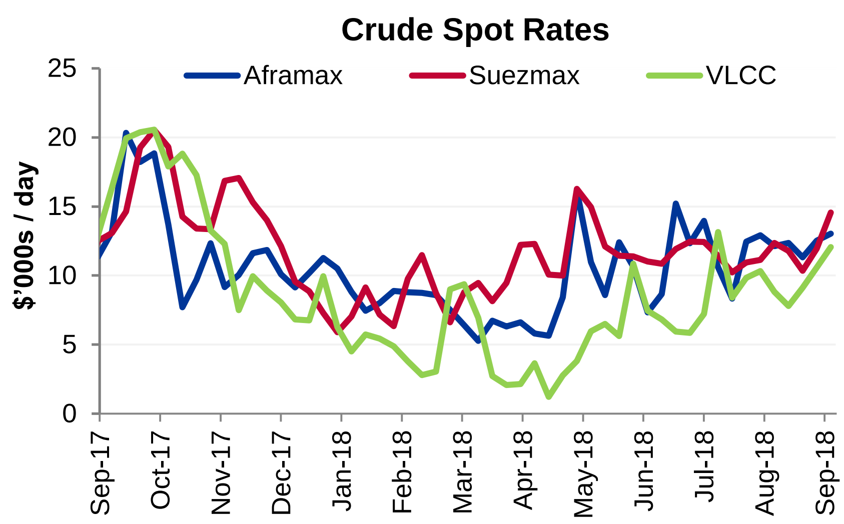
Crude rates held relatively steady in what is usually the weakest month of the year

September review: Crude tanker spot rates held relatively steady during September, which is an encouraging sign as this is usually the weakest month of the year. An increase in long-haul movement of US crude exports to Japan and Korea boosted VLCC demand, while strong activity out of West Africa and the Black Sea supported Suezmax rates. Aframax rates held steady through the month while LR2 rates fell once again, capping a dismal third quarter for the large product tanker market.

October outlook: Crude tanker spot rates look to be rising at the start of October, with VLCC rates reaching an 18-month high of around $30,000 / day. Strong demand from refiners ahead of the peak winter demand season, an increase in WAF-Asia movements, and higher Saudi exports are the key drivers behind the increase in rates. Continued strong demand ex-WAF is lifting Suezmax rates, which are threatening to break out of the $11-13,000 / day band they have been trading in for much of the year. In sum, it is an encouraging start to the fourth quarter for crude tanker spot rates, and we remain optimistic that rates will increase meaningfully throughout the winter months.

Wild cards: We are getting ever closer to November 4th, the day that US sanctions targeting Iranian crude exports come into force. There are signs that more and more importers are cutting imports of Iranian crude in the run-up to the deadline, including key buyers such as India and China. It is being reported that China's largest refiner, Sinopec, is cutting Iranian imports by half, and Turkey and India have also signaled that they will reduce imports. This comes on top of reductions already seen in European, Japanese and Korean imports. There are worries that the rest of OPEC might not be able to cover a steep decline in Iranian crude exports, which explains the recent rise in crude oil prices to a 4-year high of over $85 / bbl. Some analysts fear that oil prices could push through $100 / bbl by year-end.





Source: 90% of Clarksons

Spot Market Review and Outlook

Crude tanker spot rates poised to firm during October

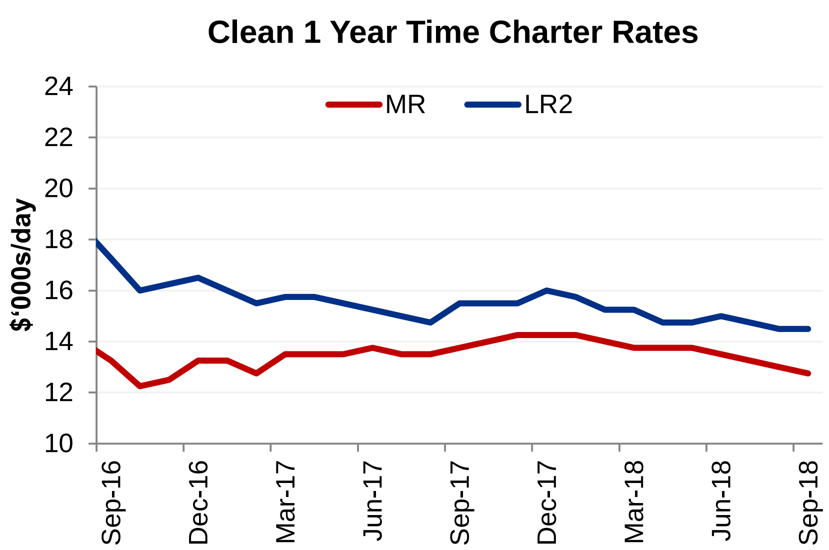
Segment	Aug'18	Sep'18	September Review	October Outlook
	Spot Rates ($/day) Source: 90% Clarksons			
VLCC	10,100	9,900	VLCC rates held steady during September, in what is usually the weakest month of the year. An increase in Japanese / Korean imports of US crude due to the wide WTI / Brent discount helped offset the impact of lower Iranian exports to Asia.	VLCC rates have increased substantially at the start of October, with rates reportedly approaching $30,000 / day (highest level in 18 months). The increase is being driven by strong refinery demand in the run-up to the peak winter season.
Suezmax	11,200	12,150	Suezmax rates increased slightly during September, but remained stuck in the $11-13,000 / day range for the fifth consecutive month. The WAF and Black Sea markets saw some strength towards the end of the month.	Rates are firming at the start of October, with earnings ex-WAF reaching the $15-20,000 / day range. Strong demand in the Atlantic and a firming VLCC market should help support rates through the course of the month.
Aframax (Pacific)	11,150	10,350	Aframax rates in the Pacific fell slightly last month. We are yet to see any seasonal volatility in the East, though we anticipate demand will increase as refineries exit maintenance.	A more volatile Atlantic market may encourage some Owners to ballast to the West, tightening fleet supply in the Pacific market. This could support rates as we move into the fourth quarter.
Aframax (Atlantic)	11,350	11,900	Atlantic Aframax rates held steady in September, with a weaker European market being offset by strength in the USG / Caribs market due to strong US crude exports (including an increase in volumes moving to Europe on Aframaxes).	Atlantic Aframax rates are expected to benefit from an increase in Russian / Kazakh exports via the Black Sea / MED in Q4, while the USG / Caribs market should continue to benefit from elevated US crude exports due to a wide Brent / WTI spread.
LR2	8,000	7,150	LR2 rates slipped again during September, dragged down by a very weak MR and LR1 market. To say that the third quarter has been disappointing would be a vast understatement.	The near-term outlook for product tanker rates appears challenging. However, an expected surge in global refining runs later in Q4 and the start up of the Jazan refinery could provide some upside.

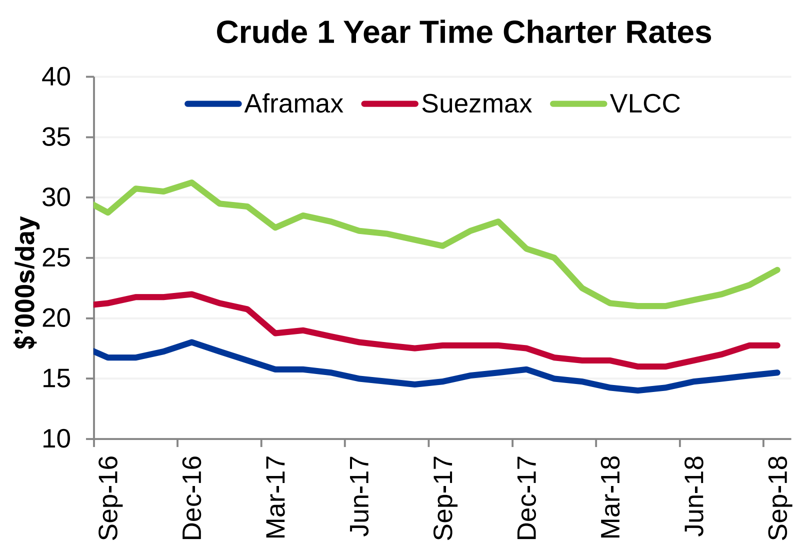
Time Charter Market

Crude TC rates holding steady while MR product tanker rates continue to slide

Broker Assessed Time Charter Rates

	1 year time charter rates ($/day)		3 year time charter rates ($/day)	
	Jul'18	Aug'18	Jul'18	Aug'18
VLCC	22,750	⬆ 24,000	27,750	⬆ 28,250
Suezmax	17,750	17,750	20,500	20,500
Aframax	15,250	⬆ 15,500	17,750	17,750
LR2	14,500	14,500	17,250	⬆ 17,500
MR	13,000	⬇ 12,750	14,750	14,750





Source: Average of Clarksons, Braemar ACM, and Poten

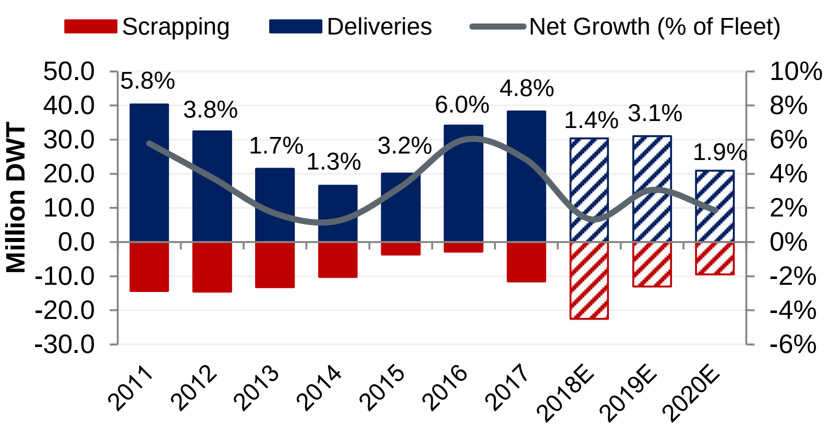
S&P Market and Fleet Statistics

Newbuild and modern secondhand prices continue to rise

S&P Activity

- Newbuild prices are on the rise and top tier yards are holding on to firm price ideas. A recent Suezmax order at a 2nd tier yard in Korea at USD 62 M highlights the rise in newbuild prices of around 10% or more up over past 18 months.
- Secondhand pricing for modern units are being driven up by the newbuild price; holding relatively steady for 5 to 10 year old units; and facing downward pressure on units over 10 years old.
- Recycling prices on the Indian subcontinent are starting to show signs of recovery after the seasonal monsoon period.
- TOP Ships / Pistiolis, who currently has 2 x 2018 built Suezmaxes and 2 x 2019 units on order at Hyundai Samho, has reportedly sold 2 x newbuild options to Spyros Polemis (Polembros Shipping) at around USD 65 m each, which sets a new / higher benchmark.

Total Tanker Fleet Growth



Source: Clarksons, internal estimates

Asset Values (USD million)

	VLCC	Suezmax	Aframax	LR2	MR
NB	91.0 (+1.0)	60.0	48.0 (+0.25)	50.0 (+0.25)	36.0 (+0.25)
0	90.0 (+1.0)	61.0 (+1.0)	47.0	49.5	36.0
5yr	65.0 (+1.0)	44.5 (+0.5)	32.0	34.0	27.0 (+1.0)
10yr	40.5	27.0	20.0	20.0	14.0 (-1.0)
15yr	25.0	14.5 (-0.5)	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 3.4 mdwt, or 0.6%, in the first nine months of 2018. A total of 22.6 mdwt has delivered into the fleet while 19.2 mdwt has been removed for scrapping.
- We currently project that around 30 mdwt will be delivered in 2018 and around 22.5 mdwt scrapped, leading to fleet growth of 1.4%. A similar level of deliveries is expected next year; however we expect that there will be less scrapping in a higher freight rate environment, leading to fleet growth of just over 3%.

Forecasted Fleet Growth by Size Range

	VLCC	Suezmax	Aframax	LR2	Panamax	MR
2018	-0.1%	3.2%	0.4%	3.3%	1.4%	1.5%
2019	4.5%	1.3%	2.1%	1.1%	1.2%	4.1%

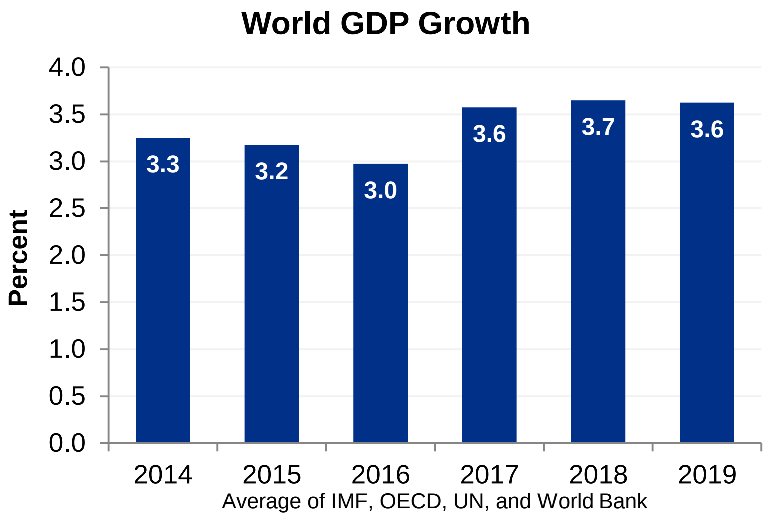
Source: Clarksons, internal estimates

Economy and Oil Demand

Solid global economic growth in 2018, but downside risks are mounting for 2019

Economy Outlook

- In its recent "Interim Economic Outlook" report, the OECD lowered its global GDP growth forecast and warned that "expansion may have peaked", plateauing at around 3.7% in 2018 and 2019. They also warn that risks to global economic growth are intensifying, including rising trade restrictions, tightened financial conditions / stress in emerging markets, and rising political risks in Europe.
- In its most recent monthly note the World Bank reported solid global growth in Q2-2018 of 3.6%. However, they noted that growth is becoming more uneven, with an acceleration in the United States and a deceleration in other parts of the world, particularly in emerging markets.
- The US-China trade war shows no signs of abating, with the US recently implementing a 10% tariff on a further $200 billion of Chinese goods (rising to 25% at the start of 2019). JP Morgan expects the endgame to be the implementation of a 25% tariff on all Chinese goods in 2019, which could have negative implications for the global economy and trade.



Oil Demand Outlook

- The major oil agencies have started to moderate their forecasts for global oil demand growth in 2019 due to concerns over global economic growth. The IEA cites uncertain growth in emerging markets due to currency depreciation vs. the US dollar (and therefore higher oil import costs) and escalating trade disputes as key risks.
- Oil prices rose to a 4-year high in early October with Brent crude exceeding $85 / bbl. The key driver of higher oil prices is a tightening of global oil supply / demand balances, particularly with fresh US sanctions on Iran due to enter into force next month.