

Americas Tanker Market Challenges & Opportunities

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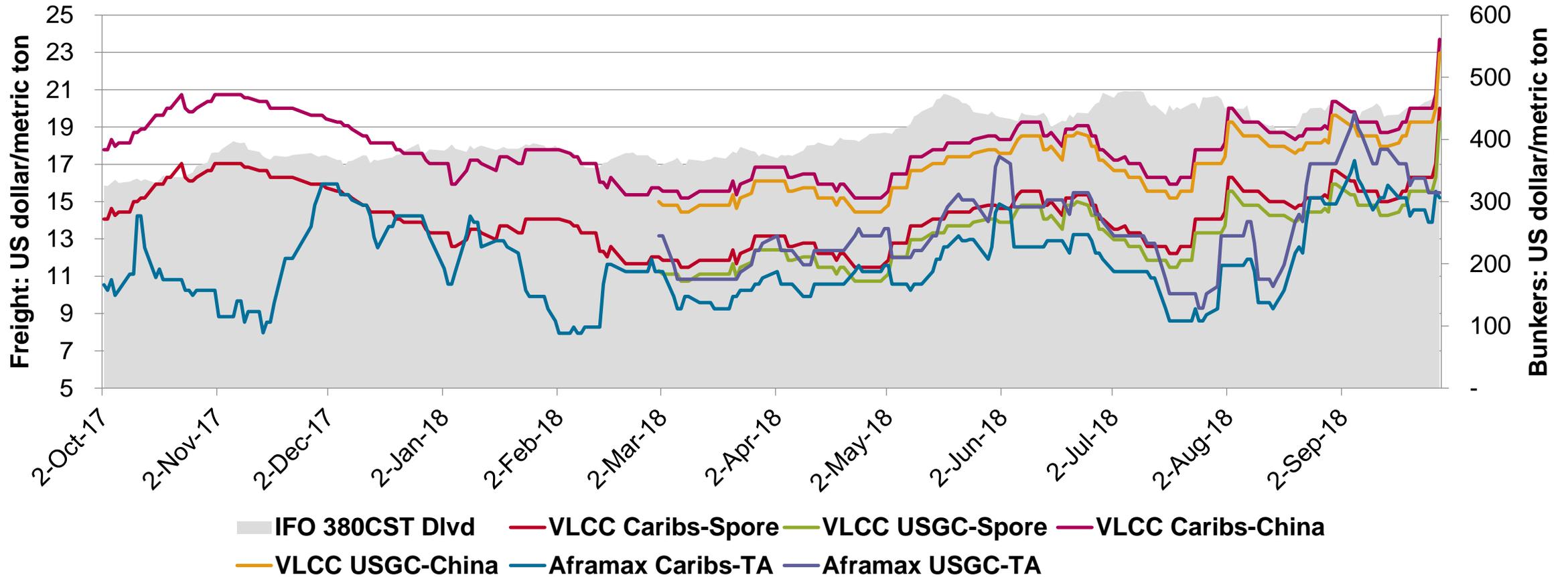
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POINTS OF DISCUSSION

- Creating a bridge from current freight lows
- South American products demand limits clean tankers to intra-regional waters
- US Gulf Coast crude loadings transform dirty tanker landscape
- Global 0.5% sulfur ceiling challenges & opportunities

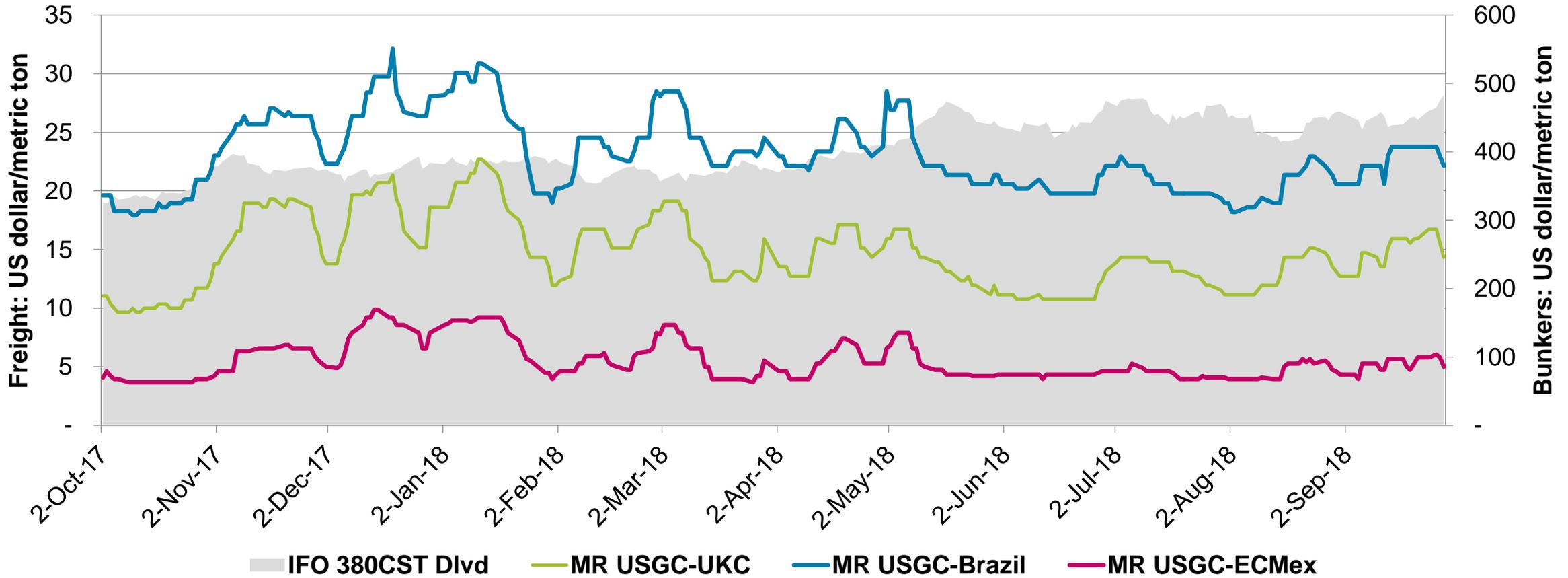
Creating a bridge from current freight lows

LOWER FREIGHT VALUES, RISING BUNKER COST PUSH ON TANKER EARNINGS FOR DIRTY TONNAGE AND ...



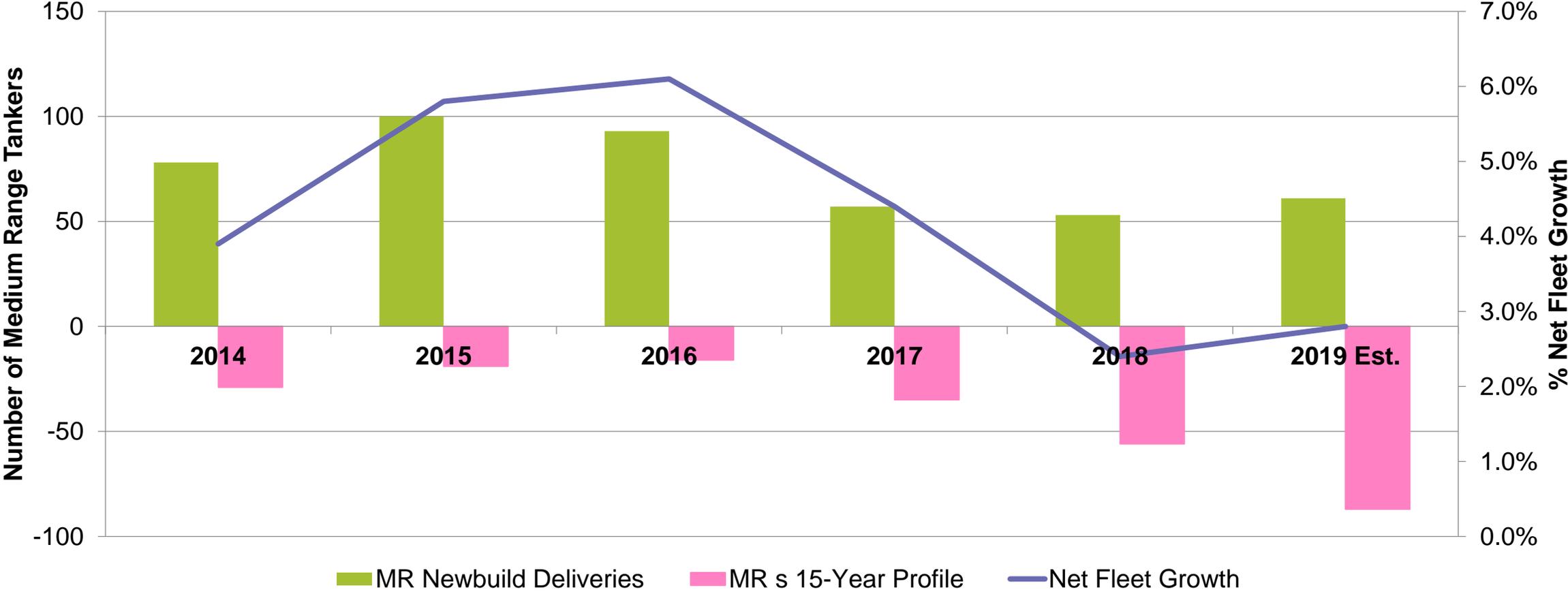
Source: S&P Global Platts

... CLEAN TONNAGE



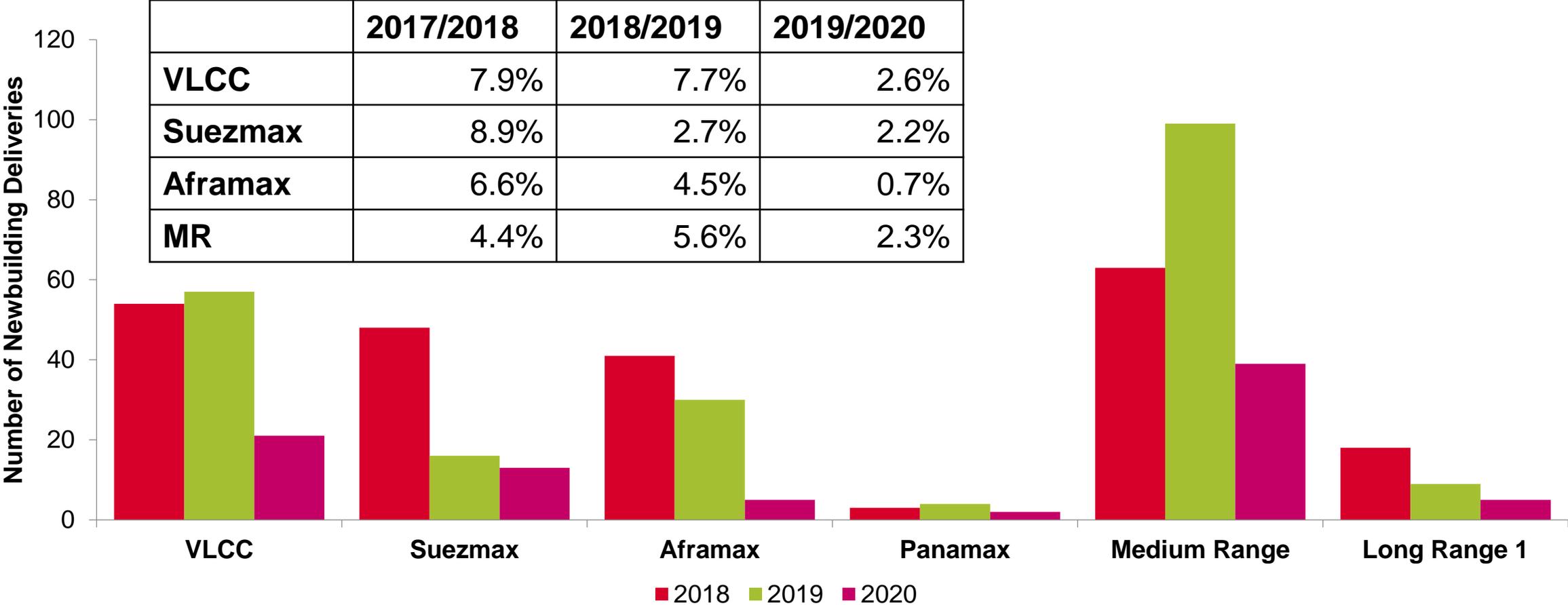
Source: S&P Global Platts

NET FLEET GROWTH FORECAST DURING Q1, 2018 SENDING POSITIVE SIGNALS TO CLEAN FREIGHT MARKETS, BUT ...



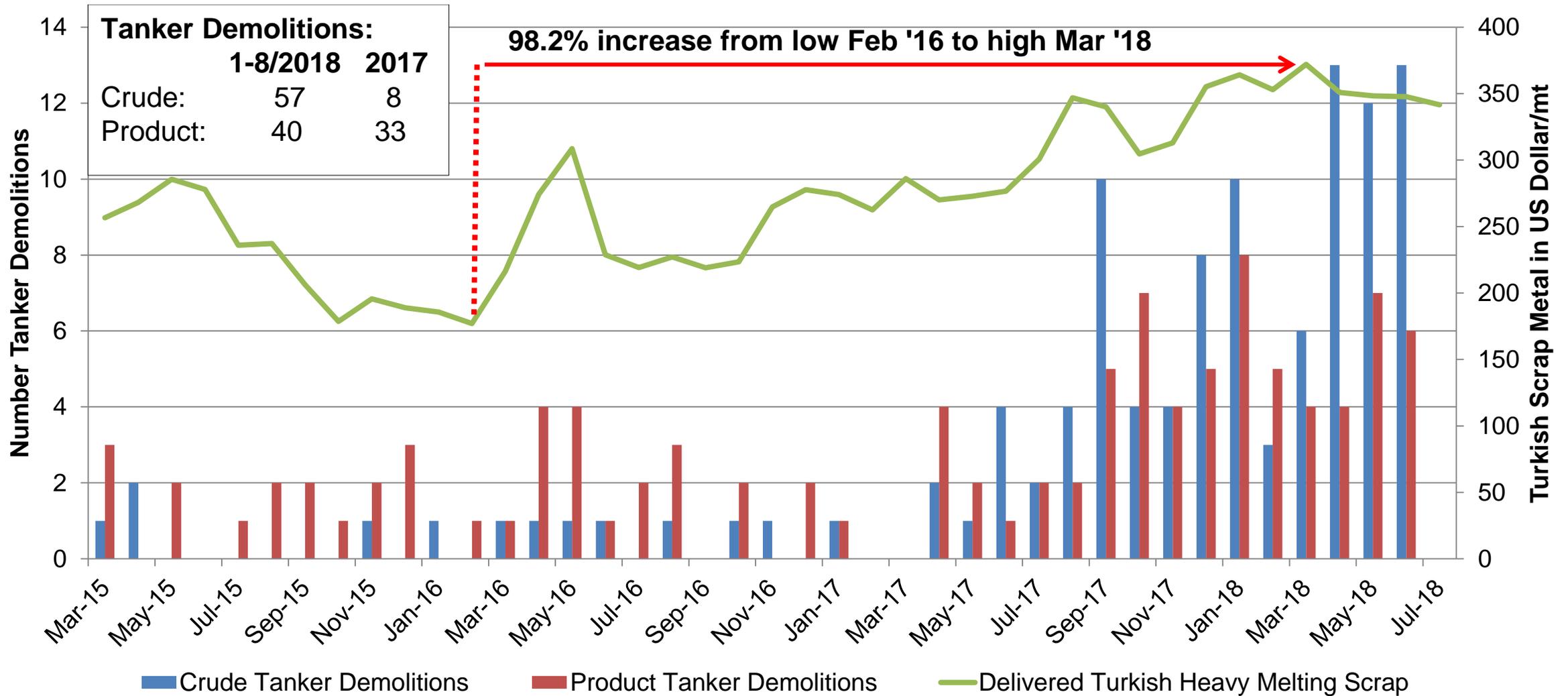
Source: Stifel Research, Scorpio Tankers

.... LARGE DIRTY TANKER NEWBUILDING DELIVERIES PUSH ON CLEAN MARKET PLUS MR ORDERBOOK UP AHEAD OF IMO 2020



Source: Affinity

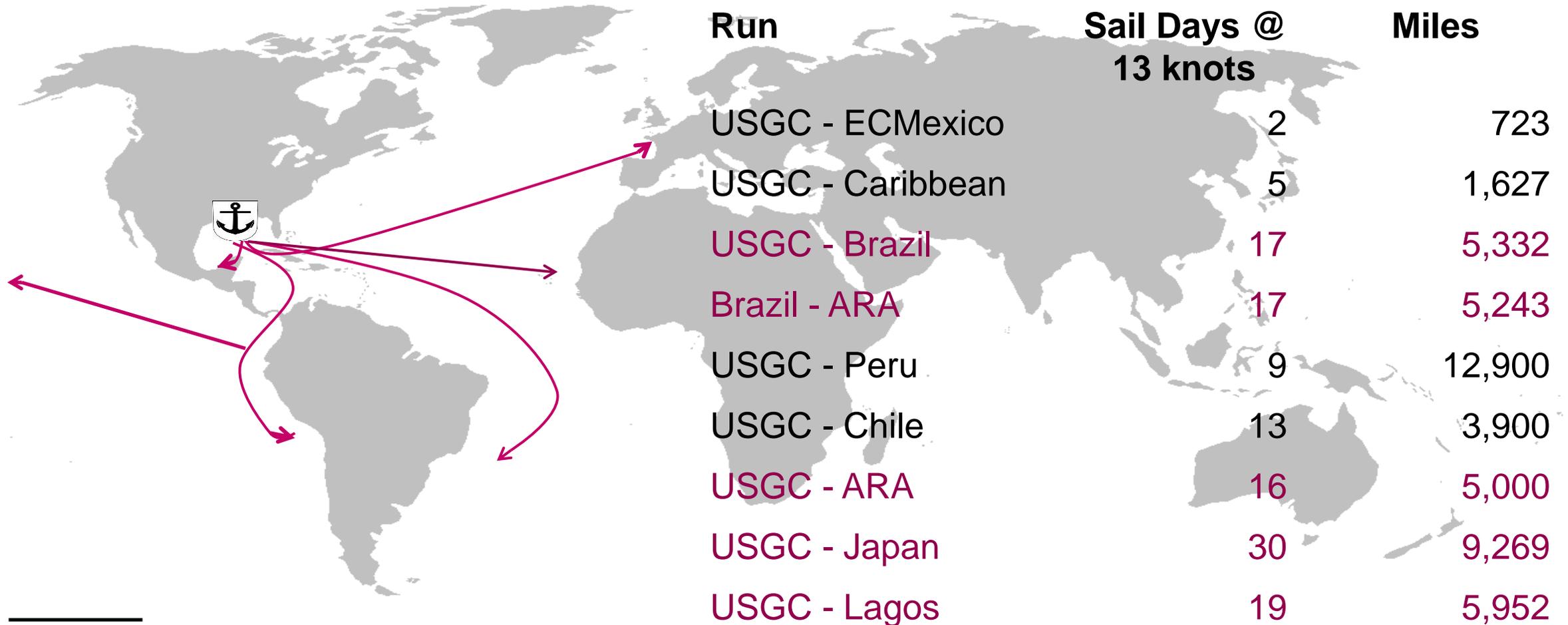
INCREASED SCRAPPING BALANCES OVERTONNAGED TANKER MARKETS



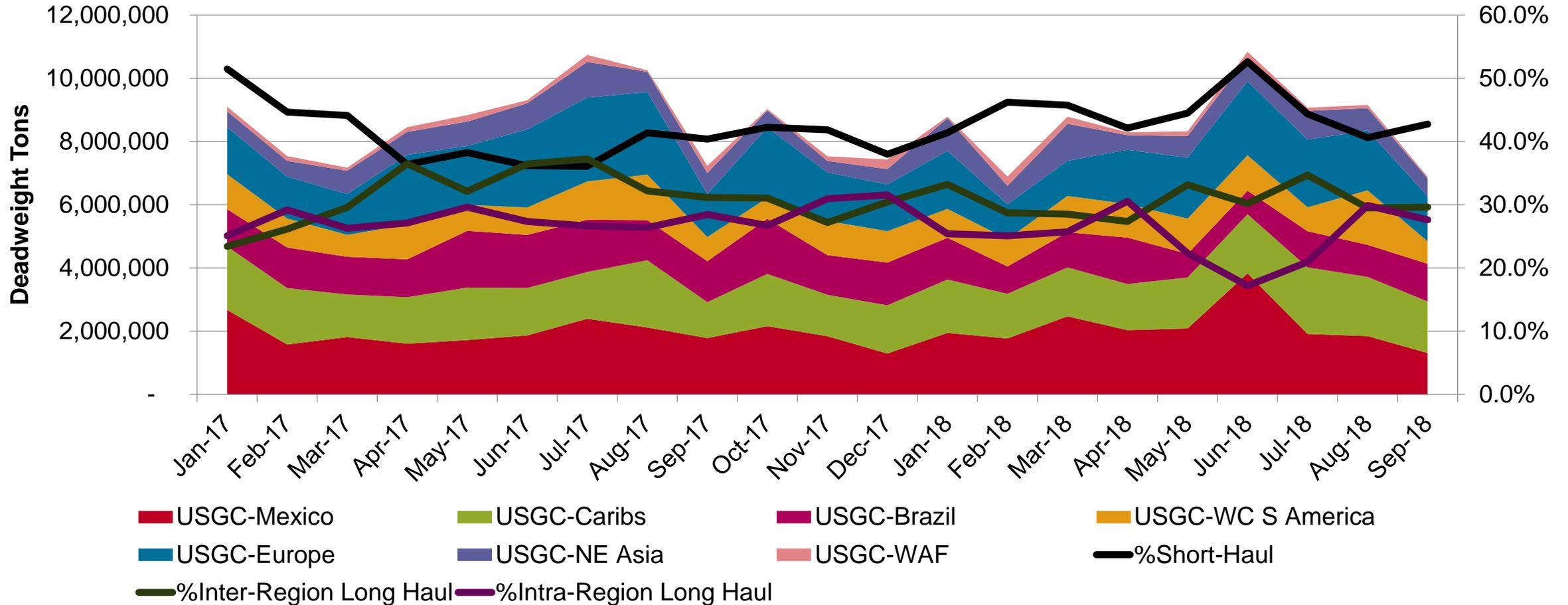
Source: S&P Global Platts; Banchero Costa

South American products demand limits clean tankers to intra-regional waters

- Ton mile demand decreasing significantly, as European and Brazil import volumes wane and Yanbu/Russia step in to supply diesel to Europe
- Intra-regional tonnage recycles within one to two weeks
- Tonnage from NE Asia weighs on position lists, with China making up a rising share



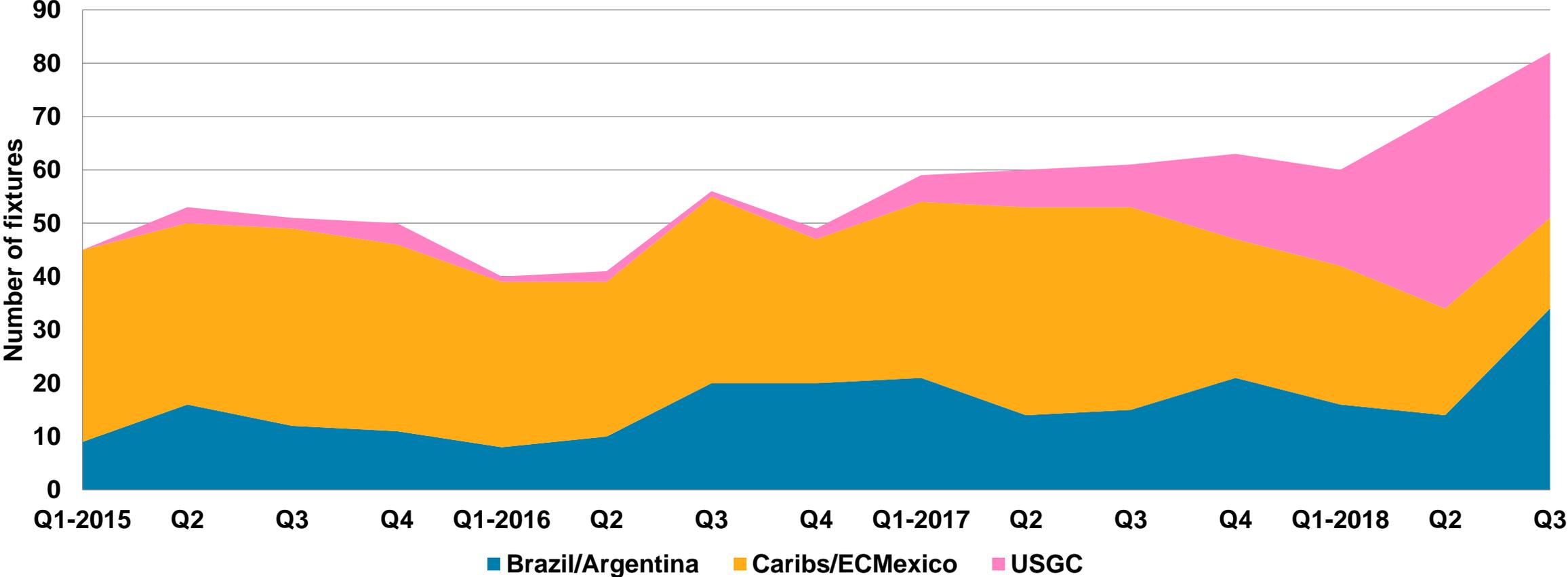
LACK OF INTRA-REGIONAL ARBITRAGE HAS 70%-85% OF TONNAGE EMPLOYED IN THE AMERICAS; 45%-55% ON SHORT-HAUL RUNS



Source: cFlow

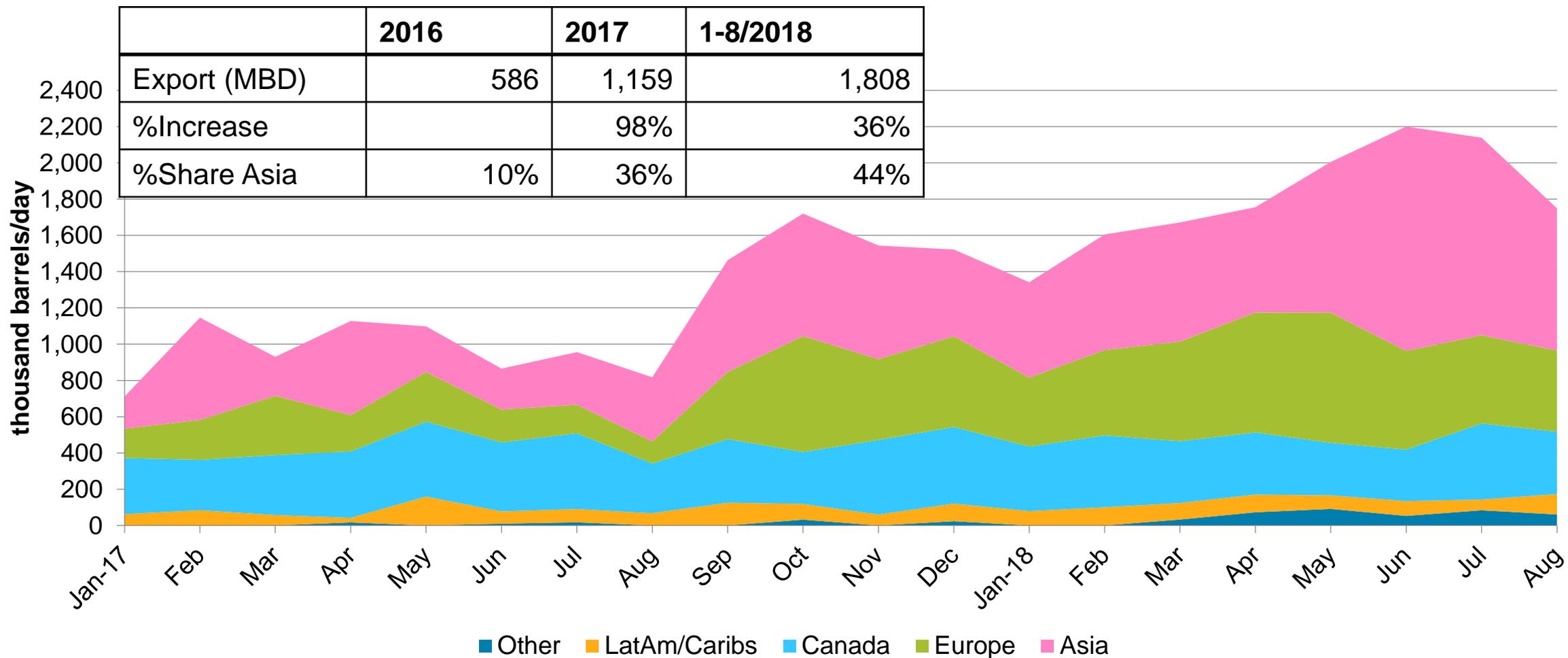
US Gulf Coast crude loadings transform dirty tanker landscape

ATLANTIC BASIN VLCC DEMAND ON THE RISE, AS BRAZIL AND USGC MORE THAN COMPENSATE FOR LOWER VENEZUELAN LOADINGS



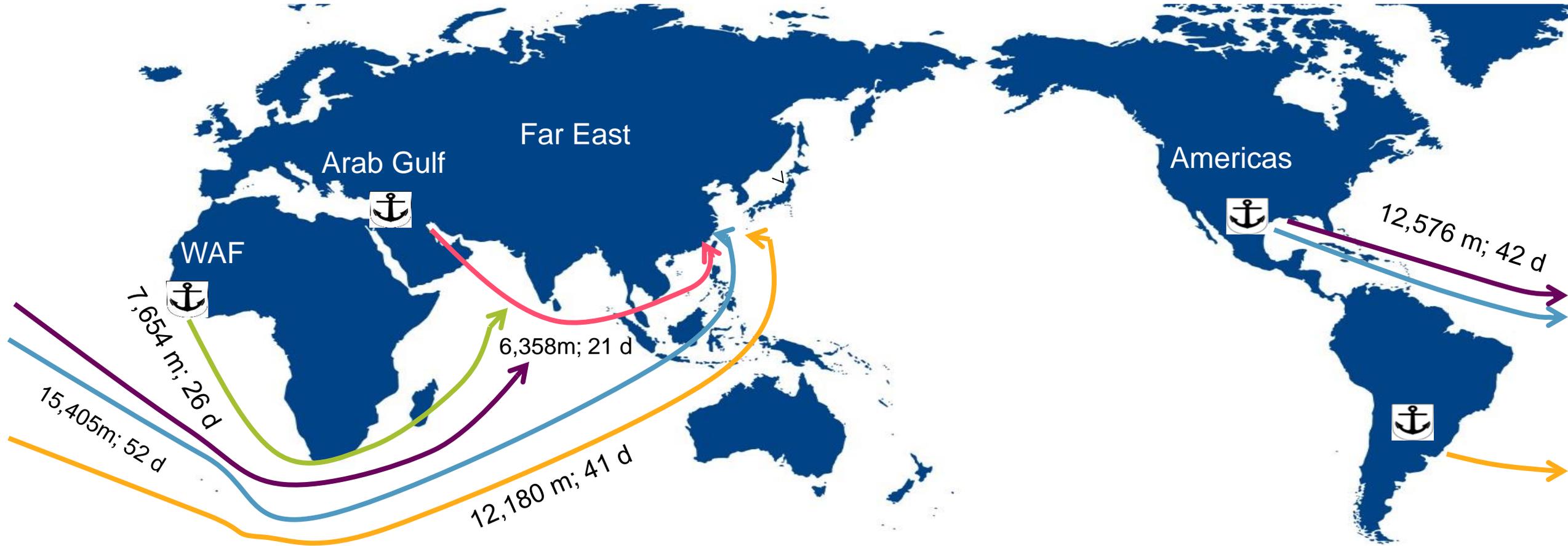
Source: Charles R. Weber Company

RISING VLCC TONNAGE EAST AT LEAST DOUBLES TON MILE DEMAND VIS A VIS MIDEAST LOADERS



Source: US Census

TON MILES MORE THAN DOUBLE: AMERICAS-FAR EAST VS. ARAB GULF-FAR EAST



Ton-Mile Demand Comparisons

USGC-China = AG-China x 1.78; Brazil-China = AG-China x 0.95; USGC-WCI = WAF-WCI x 0.62

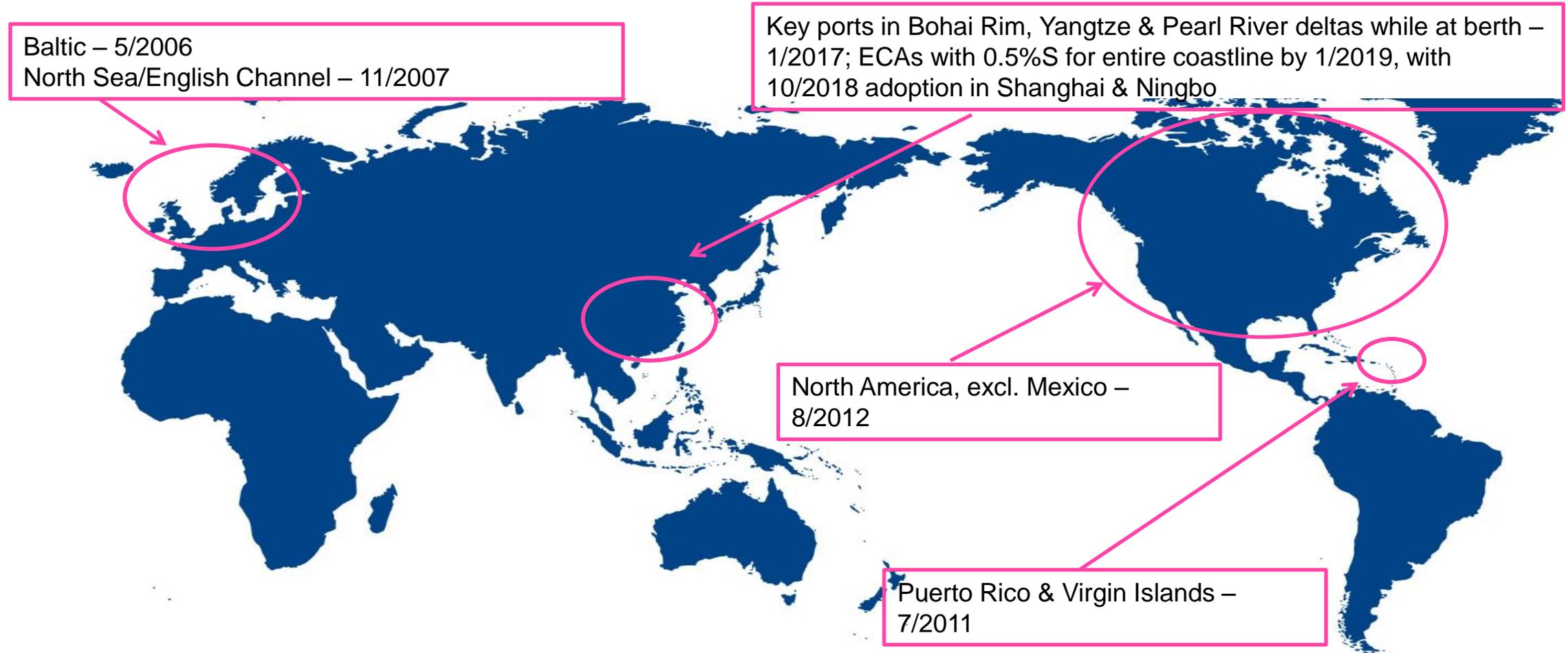
GLOBAL 0.5% SULFUR CEILING CHALLENGES & OPPORTUNITIES



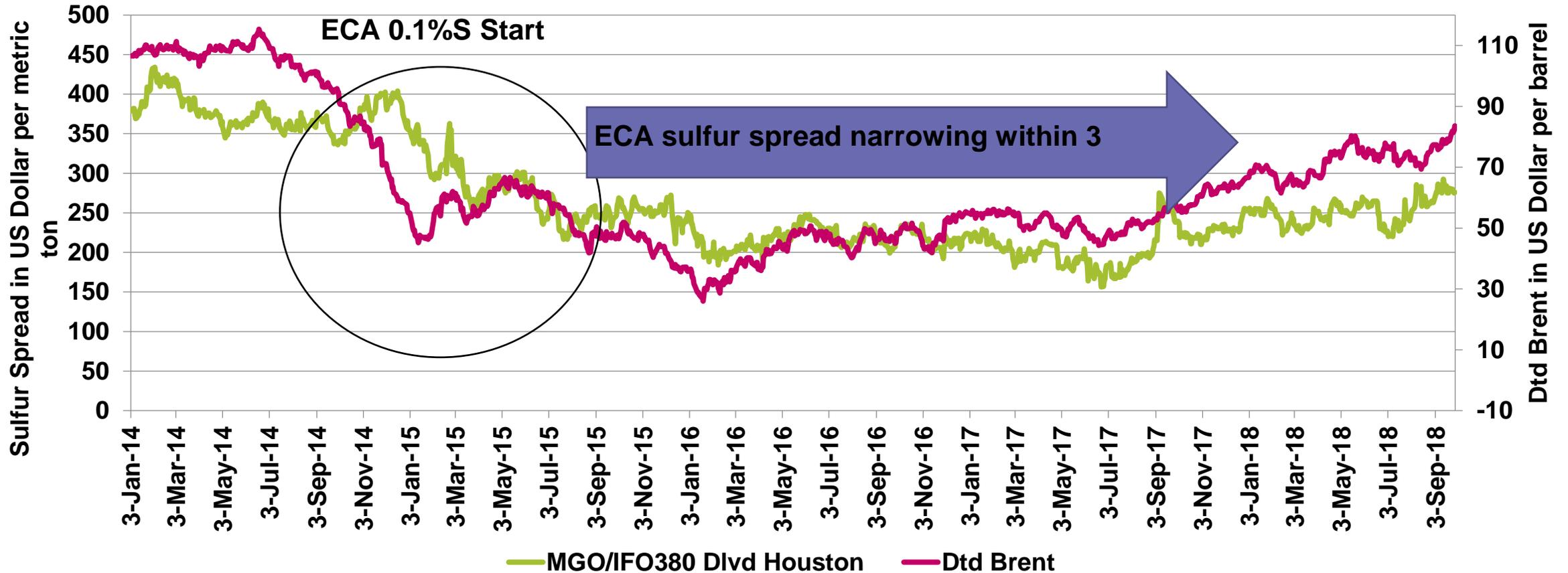
SULFUR CEILINGS – GLOBAL & ECAs

ECA sulfur: 1.5% → 5/2006; 1.0% → 7/2010; **0.1% from 1/2015**

Global sulfur: 4.5% → 12/2011; 3.5% → 12/2019; **0.5% from 1/2020**

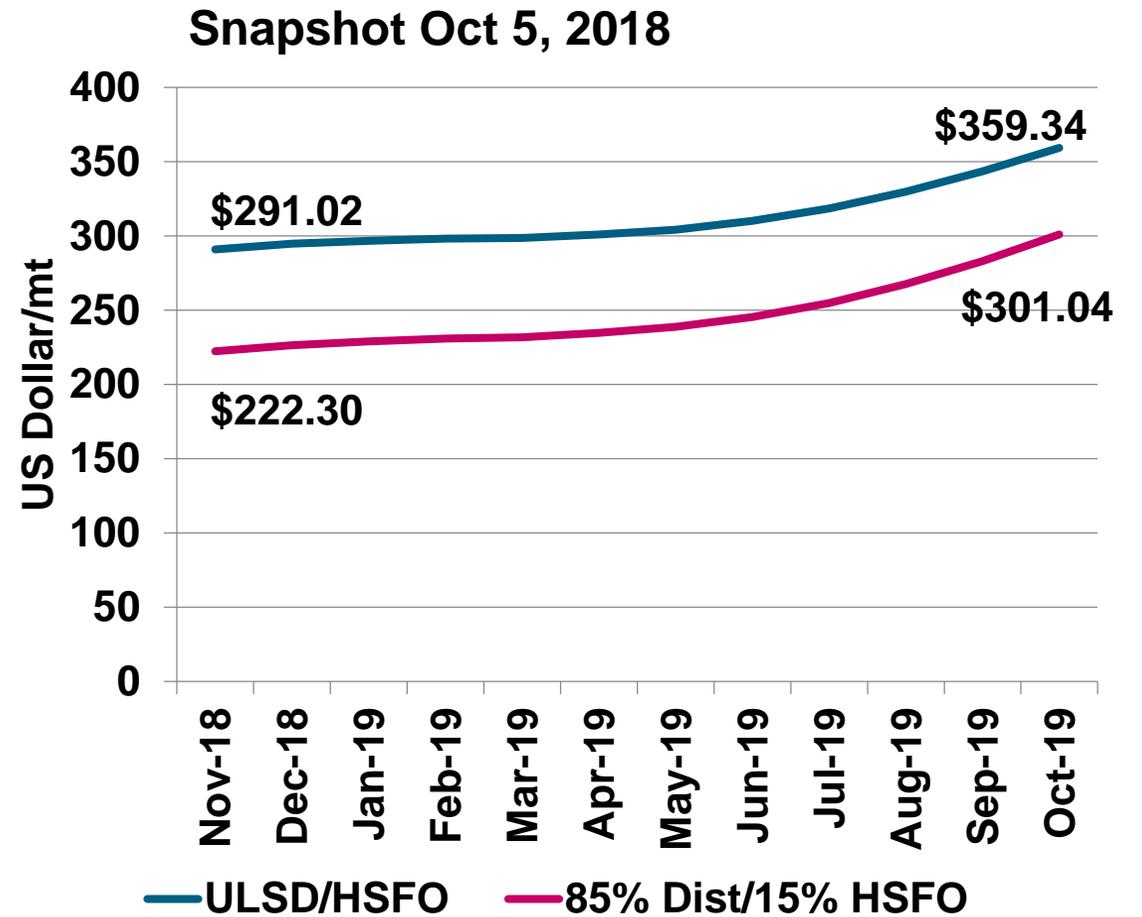
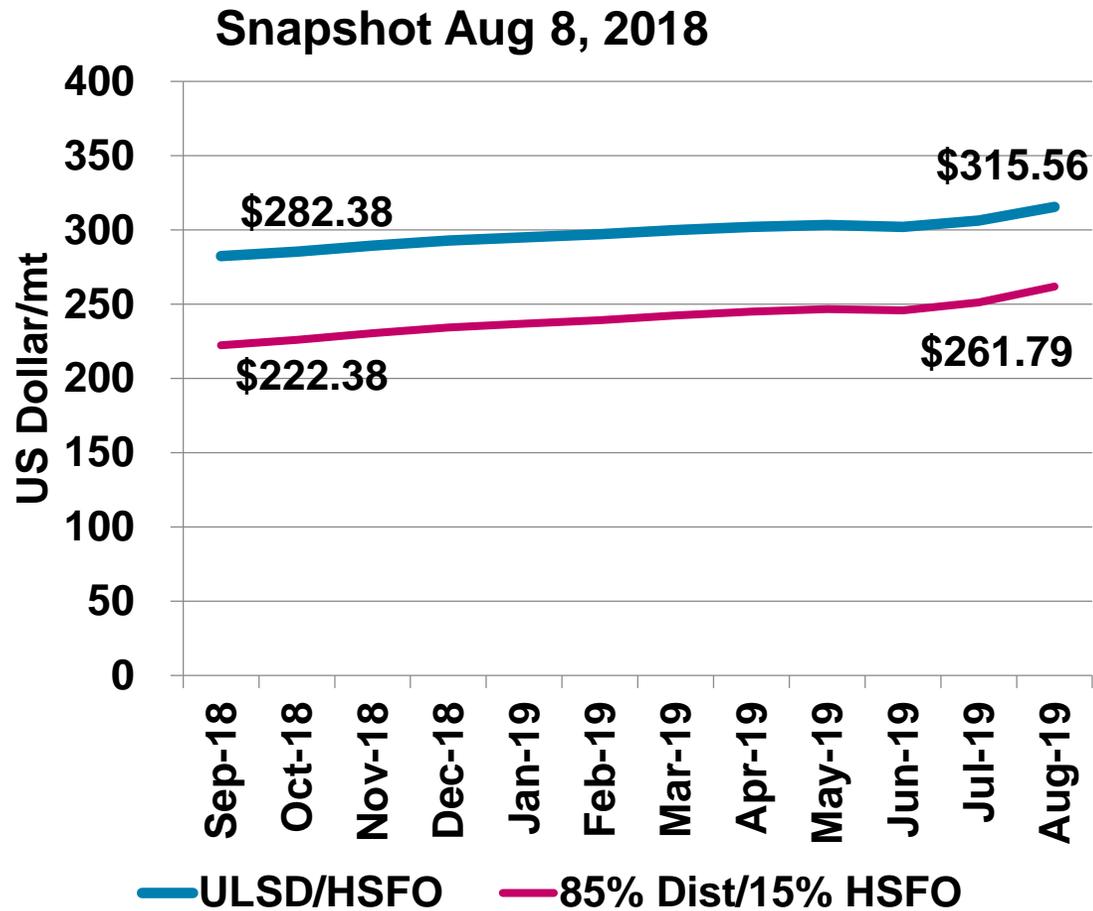


ECA 0.1%S CEILING IMPACT MANAGEABLE



Source: S&P Global Platts

FORWARD CURVE SULFUR SPREAD TRENDING UP

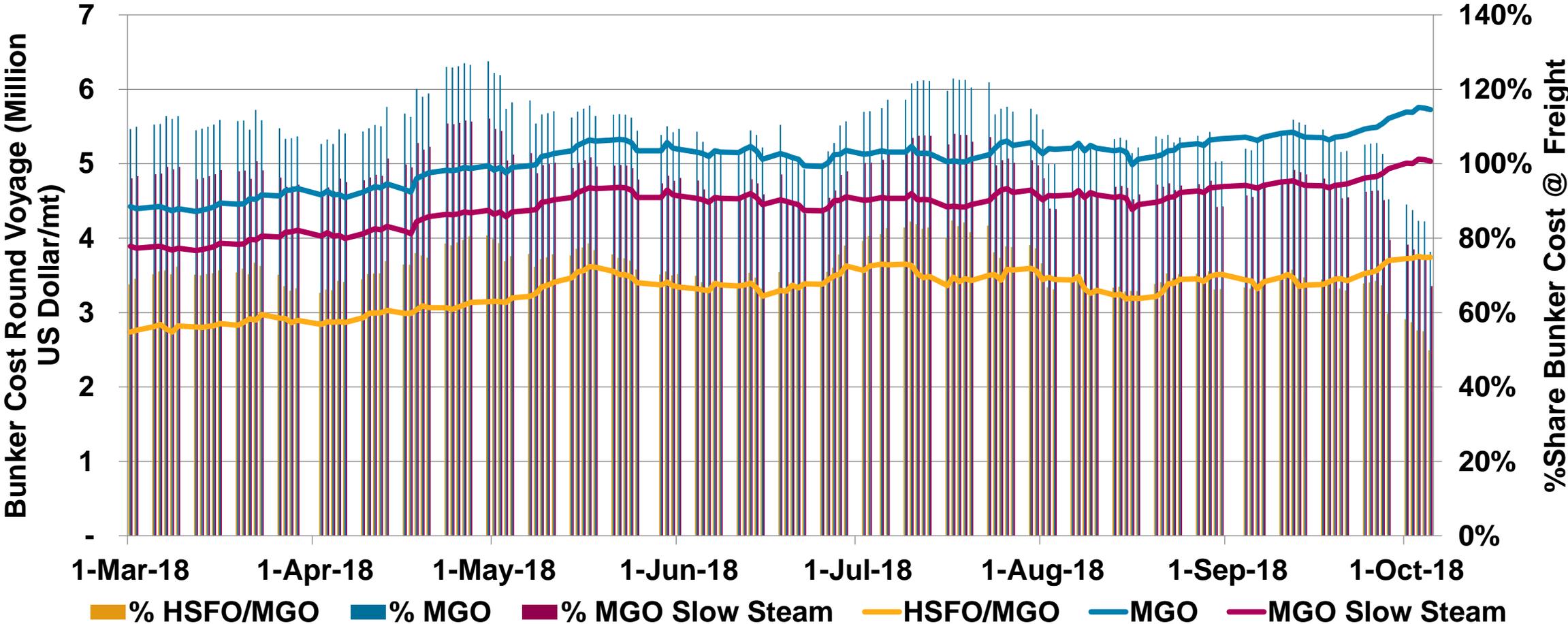


Source: S&P Global Platts

ASSUMPTIONS: STEAMING AND SLOW STEAMING THE USGC-CHINA CRUDE ROUTE

- 10 year old VLCC
- Routing via Cape of Good Hope
- Steaming at avg 12.5 knots – 52 days
- Slow steaming at avg 8.5 knots – 76 days
- HSFO/MGO bunkers
 - Laden = 52 days @ 80 mt/day bunker (1.5 days US ECA)
 - Ballast = 52 days @ 65 mt/day bunker (1.5 days US ECA) (3,380 mt 52 days)
- MGO bunkers (runs 2% under HSFO Use)
 - Laden = 52 days @ 78.4 mt/day bunker (1.5 days US ECA)
 - Ballast = 52 days @ 63.7 mt/day bunker (1.5 days US ECA) (3,312 mt 52 days)
- Slow Steaming at 8.5 knots cuts MGO consumption by up to half

VLCC USGC-CHINA VOYAGE: SLOW STEAMING ON THE BALLAST LEG SAVES 10-15% OF MGO BUNKER COST *



Note: * Bunkers basis delivered Houston; Roundtrip basis

Source: S&P Global Platts

KEY TAKEAWAYS

- CHALLENGES – CURRENT MARKET

- Heavy newbuilding spree on dirty tanker markets pressures clean and dirty freight
- South American products demand limits majority clean tonnage to intra-regional runs
- Time charter equivalent values squeezed by rising bunker cost
- 0.1% sulfur ceiling a partial lesson for 2020; global 0.5%S impact 10-fold

- OPPORTUNITIES – 2019 MARKET

- Opportunities to tighten tonnage through scrapping and slow steaming
- Tanker ton mile demand to rise on diversified and higher diesel trade flows
- Increase in light crude trade flows to produce lower-sulfur fuels
- USGC increasingly a natural loading area shipping low-sulfur crudes

Questions?



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