The winds of change

After two years of turbulence, Q4 2018 marked the end of a long and painful storm. As the winds eased and freight rates rose, tanker owners looked to the future with renewed optimism. The outlook for 2019 is positive, although we believe the market will calm before rising to new highs in the second half of the year and beyond.
The first nine months of 2018 were extremely difficult for tanker owners, with crude and clean tanker Time Charter Equivalent (TCE) earnings down 20%-25% compared to the same period in 2017 (which itself was 30%-50% lower than in 2016). Owners' difficulties started with the lack of a winter rally in 2017-2018, and rates remained persistently low until October. The worst performing tankers were Suezmaxes which in January-May saw TCE earnings drop to their lowest level for this period in over 20 years.

The low freight rate environment and high scrap prices encouraged demolition and conversion activity throughout the year. Accordingly, by end-2018, 140 tankers (allowing 34,000 dwt) had been scrapped or converted, compared with an average of 85 tankers per year over the past 20 years. Activity was concentrated in the crude tanker market from Panamax to VLCC, which accounted for 50% of the number of units removed from the market. Moreover, this activity occurred while newbuilding deliveries were slowing, which led to weak or flat net fleet growth in many tanker segments. Tightened fleet fundamentals supported freight rates but were insufficient to lift levels until tanker demand firmly firm in the second half of 2018. However, this activity occurred while newbuilding deliveries were slowing, which led to weak or flat net fleet growth in many tanker segments. Tightened fleet fundamentals supported freight rates but were insufficient to lift levels until tanker demand firm in the second half of 2018.

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Will tanker freight volatility persist in 2019? Several factors will exert downward pressure on tanker rates in the first half of the year. From the fleet side, net growth could accelerate as a significant number of new tankers are scheduled to be delivered over the year. Meanwhile, we could see scrapping activity descend from its lofty levels. Furthermore, OPEC’s recent decision to rein in production will likely take 3 to 5 weeks per vessel, reducing tonnage supply throughout the year, especially on VLCCs and Suezmaxes. Furthermore, demand for low-sulphur crude (yielding more low-sulphur products) will likely increase by end 2019 which could see oil trade patterns shift, especially out of the US. Finally, marine fuel prices are likely to rise significantly in 2019, boosting demand for petroleum product tankers. Indeed, this could even herald the return of floating storage. Hence, while the first part of 2019 has seen some storms, the winds should be favourable again for shipowners during the second half of 2019.

Nonetheless, as we approach the implementation of the new bunker regulations in January 2020, bullish elements will grow stronger. Scrubber retro-fitting will likely take 3 to 5 weeks per vessel, reducing tonnage supply throughout the year, especially on VLCCs and Suezmaxes. Furthermore, demand for low-sulphur crude (yielding more low-sulphur products) will likely increase by end 2019 which could see oil trade patterns shift, especially out of the US. Finally, marine fuel prices are likely to rise significantly in 2019, boosting demand for petroleum product tankers. Indeed, this could even herald the return of floating storage. Hence, while the first part of 2019 has seen some storms, the winds should be favourable again for shipowners during the second half of 2019.
Crude Tankers

**VLCC**

It was a tale of two halves in 2018 for the VLCCs or more accurately a tale of Q4 versus the rest of the year. 2018 started in a subdued fashion which continued right through to October with owners unable to gain any traction amid a generally oversupply of tonnage in all segments. The average TCE for the Baltic Exchange TD3C route (Rio Tanura/Enargo, 270,000mt) in 2018 was $19,000 per day, compared with $19,900 per day in 2017.

The saving grace for owners in 2018 was a strong Q4 which saw a stark contrast to the rest of the year. Saw vastly improved earnings on all routes. Without this, returns would have looked extremely bleak. The average TCE for TD3C rose to $44,800 per day for the quarter, compared with an average of $10,400 per day between Q1 and Q3 2018.

Looking at the fundamentals for 2018, 38 newbuilds were delivered versus 50 in 2017. However 32 VLCCs were scrapped, against 11 in 2017. While the VLCC fleet grew by 5.6% over 2017, increased scrapping activity reduced this to 0.7% in 2018, the lowest level since 2003. Despite minimal fleet growth in 2018, the overhang from 2017 meant competition for cargoes was fierce.

On the demand side, there was a steady increase in output for most of 2018 even with the cut in Iranian exports, and the market saw more production from other countries, notably the US. The market turned towards the start of Q4 as saw a sharp rise in inventory and a steep fall in Iranian exports (which did not materialise by year end). This was prolonged as producers then maintained production ahead of an anticipated cut by OPEC. Higher stumps from the Middle East, combined with increased US Gulf and Brazil/Uruguay exports, enabled owners to dig in their heels and sentiment finally flipped back in owners’ favour.

**Suezmax**

Q4 2018 was a period to remember for crude tanker owners, especially those operating Suezmaxes.

The first few months were forgotten quickly, as returns sunk to their lowest level in years. Indeed 2018 started with ships trading below operating costs (OPEX) and in some cases at a loss, as was the case for Mediterranean (MEO)/West voyages. Relief did not come before October. Thus, for earnings, there was a clear ‘before’ with the western markets averaging $7,800 per day and the east $2,500 per day, and a clear ‘after’ in Q4 when freight rates TCs reached around $45,000 per day.

Looking ahead to 2019, there are conflicting views on where the market will go. On one side with OPEC and the affiliated countries opting to cut output by 1.2 mb/d until June 2019, the market should see fewer cargoes trading. Moreover, 76 newbuilds are expected to be delivered in 2019 (equivalent to 1.1% of the existing fleet), of which 27 are O/E.

However, it is not all doom and gloom. The key word for 2019 is ‘scrubbers’ and we are less than one year away from IMO 2020 regulation coming into effect. There has been a huge variety of opinion on the potential impact of this, but looking at the fundamentals one can see there will be some significant changes in the market.

Owners’ vessel trades over 15 years old with less efficient engines will have to make big decisions, and it is likely that many will decide to scrap. In addition, those deciding to retrofit scrubbers on existing vessels will need to enter dry docks for around 3 to 5 weeks. This will lead to a significant reduction in supply. Whether the bulk of these retrofits are done evenly over the year or concentrated towards the end of 2019, the impact is likely to be significant.

Meanwhile, an increase in US crude output projected at 1.1 mb/d will boost ton-mile demand and keep vessels employed for longer periods.

Taking all of this into consideration, there may be reduced optimism for the first half of 2019; however beyond this with the new regulations in sight, the market could improve quickly. As always, the VLCC market is very much sentiment driven and owners may see this collectively as an opportunity to push for more.

In terms of supply, the Suezmax fleet reached 571 ships by end December. There was little change in the average age (9.1 years) during 2018, while net fleet growth was just 7 units after 32 deliveries during the year. Deactivation returned with a vengeance; as 23 Suezmaxes were demobilised while one vessel sank. Removed scrapping activity was irrelevant, with 22% of the fleet at the start of the year over 15 years old and earnings often below OPEX in the first half of the year. 2019 will only see marginal growth, as 30 additions are to be expected.

The main challenge facing the Suezmax market arose from US foreign policy, which had both positive and negative consequences for demand. Firstly, US sanctions against Iran suspended the Middle East Gulf-Baltic trade; although from May onwards and later the US trade dispute with China saw crude flows reduced, as well. Indeed, the US-China trade dispute distorted not only US and European crude trading patterns but also Suezmax movements. US crude which was previously shipped to China or VLCCs had to switch to European buyers and Suezmaxes. In return, Black Sea crude; notably Ural and CPC blend, became more attractive to Far Eastern buyers. In the later summer, Mediterranean tankers would move oil from the Middle East Sea to the Far East, crossing not only the Mediterranean but also the Suez Canal, to reduce costs. Moreover, there was less activity on East coast where there was a demand for a lower acid content, resulting in a lack of available tonnage, especially in West Africa where black crudes remain concentrated. At the same time, ships opening in Europe were mainly considering Black Sea or Mediterranean cargoes and thus the longer ballasting down to West Africa.

Overall, the forecast for 2019 is for freight earnings similar to those registered at the end of 2018 and little variation in volumes on the main trading routes (E&O to Europe and Black Sea or West Africa to Far East). The Suezmax fleet is also expected to remain stable with little change in the size or age profile.

That being said, there is an unknown factor on the supply side this year. What will be the impact of the retrofitting of scrubbers? Up to 8-9% of the current fleet will be retrofitted with scrubbers by the end of 2019, assuming all scheduled retrofits are completed on time. Yards need 3 to 5 weeks to complete such retrofits, and this will see Suezmax tonnage lightened significantly over the year.

Aframaxes

The figures don’t lie: 2018 was a choppy year for the Aframaxes, especially in Northern Europe. TCEs in Q1 for 107 (Round Point/Withhelmshaven, 80,000mt) and T107 (Primorsk/Withhelmshaven, 100,000mt) fell to $1,606 and $1,772 per day respectively, well below OPEX and arguably much worse than anyone anticipated. The combination of another mild winter; lacking ice, lower export volumes of Ural (207 million tons exported from Primorsk and Ust-Luga in Q1 2017 vs 16.1 million tons in Q1 2018); plus strong newbuilding deliveries contributed to the awful winter results. Unfortunately, this persisted throughout the first half of the year.

2018 saw mixed results for the Mediterranean and Black Sea markets. As expected, Q1 and Q2 were particularly bad and even the oversupply of tonnage and continued trend of VLCCs dirtying up pushed owners to fix below OPEX, especially in the first half of the year. Aframax developments were subdued.

By Q3, with busier Black Sea exports and an increasing number of ships turning 15 years old, we saw a sharp rise in volatility. In addition, towards the end of Q4 we experienced a huge increase in delays for transiting the Turkish Straits which injected further panic into the market. In contrast to April, as of mid- December TD19 was trading at W$67.39 in April (TCE $1,458 per day).

The second half of 2018 proved to be better with more volatility and a much stronger correlation between the three main zones: SUE, Caribbean-Mediterranean/Black Sea. This mostly occurred in November/December 2018, when the shipping market improved because of the US trade dispute that saw US crude exports increase and thus no longer ballasting down to West Africa.

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Product Tankers

Fuel Oil

2018 was another depressed year in terms of freight earnings, following a similar path as 2017. However, a rapid rise in rates at the end of 2018 boosted owners’ confidence moving into 2019.

In the Mediterranean fuel oil market, we noticed a number of MR1 dirty vessels redeployed back to owners in the summer after long term charters, and subsequently sent to drydock in order to clean up and trade cleaner. This reduced the number of dirty vessels in the most fuel oil laden parts of the Mediterranean and Continental. Accordingly, fewer vessels are trading regularly in the area, but there remains a slightly higher availability of modern tonnage. The market in Europe remains strong, much smaller than in the Mediterranean. Accordingly, fewer vessels are trading regularly in the area, but there remains a slightly higher availability of modern tonnage.

We have noticed a constant flow of cargoes from the region and saw owners’ earnings average about $14,000 per day. However, high sulphur fuel oil demand and supply fundamentals raise a question mark going forward. With the new environmental regulation coming into force in 2020, how many owners will finally install scrubbers on their fleets? Will high sulphur fuel oil become a niche market? Or will the possible decline in the price lead to new demand i.e. for power generation, with higher volatility helping sustain the market? Our opinion is the latter, and we expect to see fuel oil trading patterns and routes shift accordingly.

Vegetable Oils Soy & Sunflower Oils + Biodiesel

Soya oil exports from South America dropped 7% year-on-year in Q1 2018 to approximately 6 million tons. Out of the 168 MR1s and MR2s that were fixed with vegoils during the year, 119 went to India which was again extremely active. Biodiesel exports from Argentina increased significantly with the largest buyers, buying large volumes of SME (Soya Methyl Ether). Approximately 1.4 million tons of biodiesel, employing 46 MR2s, were fixed in 2018 giving owners interesting repositioning cargoes in North West Europe. A total of 214 MR1s and MR2s were chartered from South America with vegoils and/or biodiesel.

Clean Petroleum Products – East

MR1

The MR1 segment in the East suffered throughout the year from an oversupply of tonnage, while demand was weak in the summer season which typically boosts earnings for owners. It proved, unusually, to be the weakest segment across the three product tanker sizes (MR1, LR1 and LR2), with low rate volatility and little period demand.

Q1: 2018 saw more or less at about $11–$12,000 per day in a continuation of Q4 2017. After that, conditions were pretty grim. An oversupply of tonnage due to weak West and Far East markets meant that the segment was always under pressure and TCE equivalents averaged around $9–$10,000 per day across Q2 and Q3, which was disappointing as increased Western European demand usually fuels a freight rally.

Another factor was the constant competition from a distressed LSR segment, which was always looking to take short haul cargoes away from the MR segment. However Q4 turned out to be stronger, fueled by a combination of stronger Western and Far East markets, and a more constant supply of longer haul cargoes which took tonnage away from the area. This translated into average rates of $16,000 per day, higher than anticipated in October. Although December saw rates fluctuate above $20,000 per day.

MR owners are more optimistic for 2019. An increase in time charter demand from traders looking to take positions for 2019 has solidified the idea that MR owners are more optimistic for 2019. An increase in time charter demand from traders looking to take positions for 2019 has solidified the idea that owners have managed to triangulate well, combining shorter haul cargoes with typical longer runs such as TCS, which earned between $7,000 and $10,000 per day during the year, thus reducing their tail risk.

Palm Oils

Almost WCO MR1s and MR2s were fixed to carry palm oil from Indonesia and Malaysia to Europe and the US in 2018, a similar number to the previous year. Out of the 52 MR2 newbuildings that were delivered in 2018, 39 units were fixed with palm oil on their maiden voyage. Daily returns were weaker than expected during the year at around $14,500 per day for an eco ship, with a spike in December above $16,000 per day. We expect approximately 80 MR2s to be delivered in 2019, which will provide enough FSOFA tonnage for charting. However, if the palm oil market continues to improve in Asia, shippers may have enough alternatives.

LR1

The LR1 segment was, for once, the not the poor relation of the East of Suez product tanker market. Earnings averaged around $12,000 per day in Q1 and $20,000 per day to start the year. A notable start, during the year saw some of the bigger naphtha traders elect to move their business to the Mediterranean and Continent. As always, India remained the main importer at approximately 0.5 sulphur cap.

We expect to see fuel oil trading routes shift with the 0.5% sulphur cap

The volume of sunflower oils exported from the Black Sea continues to rise, reaching about 6.2 million tons in 2018, an 11% increase compared to 2017. The market employed a lot of small tankers to various destinations across the Mediterranean and Continent. As always, India remained the main importer at approximately 0.5 sulphur cap.
Clean petroleum products - West

**MR1**

The MR1 market in the West began with a disappointing winter. With more deliveries into Poland, ton-mile rates were reduced out of the Baltic. Periodic storage capacity constraints caused delays in the ARAs, but overall there were still too many ships, resulting in an average TCE of $6,500 per day for the year. It is worth noting that the handy fleet is aging rapidly and so are the ice class vessels. This market might create some surprises in the years to come as the lack of newbuildings for 2018 and 2019 should keep the fleet broadly unchanged. As a consequence, the share of MR1s exceeding 15 years is likely to increase from 30% to 45% of the total fleet. The fleet currently consists of 110 units with an average age of 11 years.

Returns on this market were also disappointing, with rates averaging $10,000 per day for the first three quarters of 2018. On a more positive note, Q4 averaged $11,500 per day, as the last few weeks of the year firmed significantly before starting to soften in early 2019. Continue to West Africa voyages saw less demurrage, while East of Suez found cargoes headed more to the Middle East rather than Far East, thus reducing overall ton-mile demand. However, cargo priority in the Middle East Gulf increased, supplied by producers in the UK Contingent, the Mediterranean and West Africa. At the end of the year, Brent imports increased drastically due to a refinery fire which pulled tonnage away from the Middle East Gulf and saw vessels remain in the western Atlantic.

In terms of supply, there is a relatively small orderbook for LR1s. The fleet is expected to grow 2% in 2019, while the average age is fairly balanced at 9.4 years. However, the Bibby/Navisa merger could bring change as this will consolidate the LR1 fleet further, with the new company controlling some 30% of total LR1 tonnage.

Overall, we expect 2019 to be better than 2018 which was a disappointing year though the LR1 segment will remain sensitive to the fortunes of the MRs.

**MR2**

Any rate spike in the West was quickly tapered by the oversupply of tonnage on the opposite side of the Atlantic. With average rate levels of $6,500 per day over the first three quarters, 2018 was extremely disappointing for MR2 owners. The usual upside from the hurricane season did not materialize, and the poor market continued all the way until October. Fundamentals then improved as TC14 (USCGC Thetis, 38,000mt) activity produced more ton-miles, gasoline demand from West Africa remained firm, the summer product spread changed to winter spread, and more blending naptha was traded in the Continent and Baltic.

Thus, markets firmed for the first time around mid-November but rates dropped again by Christmas. Overall in the west, average TCEs for the full year were just above $10,000 per day.

It was another difficult year for the LRs, with owners achieving $15,500 per day on average in similar pattern to the LR1s. Except for the end of Q4, where both segments moved together, the quiet LR2 market (overstated any last minute spike, and vice versa with each segment taking the other).

One of the more remarkable events in the LR2 segment during the year was the disappearance during Q2 of reformate volumes going into Singapore, a result of new Chinese taxes. This gave owners another reason to work the West market as a backhaul only. Naphtha trades remained small and only tender volumes could be expected.

During the year we saw oil prices and bunker costs spike

<table>
<thead>
<tr>
<th>Time Charter Rates 2018 vs 2017</th>
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<tbody>
<tr>
<td>Category</td>
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<tr>
<td>----------</td>
</tr>
<tr>
<td>VLOC</td>
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<tr>
<td>SUEZMAX</td>
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<tr>
<td>AFRAMAX</td>
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<td></td>
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<tr>
<td>LR1</td>
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<td>MR2</td>
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<td></td>
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<td>MR1</td>
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**FFA MARKET**

2018 was an interesting year for tanker FFA trading, with several features that should create growth for the market.

Firstly, we saw a concentration of interest around the introduction of the sulphur cap in 2020, which in turn created a lot of back end trading activity due to the uncertainty around bunker supply, scrubber-ready tonnage, and possible tanker break downs due to fuel contamination issues. This will lay a good base for trading over the next two years as positional plays are managed going forward.

During the year, we saw crude oil prices spike and bunker costs with them, challenging owners to finally reject the low offers that had become standard practice. We see 2019 as a year of further consolidation and better control with renewed appetite for hot and general FFA rates remained at a good level. The forward curve levels have been a lot stronger than at the close of 2017.

The introduction of a new VLOC route (USGC/China) and an Aframax route (USGC/MMC) will, we hope, gain some traction in 2019 as these should reflect the changing oil flows from the US. We have seen particular interest in the USGC/MMC route. This interest, combined with an expanding client base due to the re-emergence of owners and hedge funds, plus new entries into the FFA market, suggests 2019 could see a healthy marketplace ahead.

The year began with an average of 5 million tons a week being traded. By Q4 this had risen to 10-12 million tons a week and sometimes more, which is indeed a positive note for the year ahead.

The one positive development was the number of LR2s that dirtied up, about 15 in total, which will likely help to offset the coming years. Figures for this segment show 349 units at the end of 2016 with an average age of 7.4 years old. The year end saw some 12% of the existing fleet, while 3% of the fleet was over 15 years old.

**West African Market - MR2**

Owners witnessed less demurrage outside Lagos in 2018, with the average wait for an MR with gasoline at between 7-10 days during the first half of the year. This extended to approximately 12-15 days (and sometimes even longer) as the year progressed, but with a strong finish to the year in Europe, owners were less keen to have their ships tied up on demurrage. All eyes are now on Q1 2019, with many confident that the market is gradually easing back on the right track. Cross West Africa rates could remain firm at decent levels during the early part of 2019.

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SECOND HAND MARKET

Crude Tankers

“In matters of conscience, the law of the majority has no place” - Mahatma Gandhi (1869-1948). Since the author needs no introduction, we should simply add that this quote sheds some light on the dichotomy between morals and law.

During 2018, crude tanker owners were forced to make a choice. To fit, or not to fit scrubbers prior to the IMO fuel regulation deadline of 1 January 2020. In an ideal world, such a decision would have been taken at a later stage. However, existing or forthcoming bottlenecks related to the availability of equipment, available space in repair yards, and even educated manpower rendered the question compulsory this year.

In simple terms, the law demands that owners trade their ships either with Low Sulphur Fuel Oil (LSFO), or with a scrubber burning High Sulphur Fuel Oil (HSFO), or with a substitute fuel such as LNG, LPG or Methanol. Then, depending whether one places the moral emphasis at a "balance sheet company" level or at a “saves the planet” level, there are good and bad reasons to define any decision made, in what is likely to be a debate that will remain open for several years.

This decision was taken by owners against a backdrop of very discouraging earnings, which in the first three quarters of 2018 barely covered operating costs. These conditions followed the terrible rates endured in 2017, and as such the market registered a fantastic upsurge in tanker scrapping, seen only before in the mid-1990s.

Units sold for scrap per year

<table>
<thead>
<tr>
<th>N° of Ships</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLCC</td>
<td>24</td>
<td>11</td>
<td>1</td>
<td>2</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Suezmax</td>
<td>8</td>
<td>10</td>
<td>1</td>
<td>1</td>
<td>14</td>
<td>23</td>
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<tr>
<td>Aframax &amp; LR1</td>
<td>25</td>
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<td>3</td>
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<td>10</td>
</tr>
</tbody>
</table>

Newbuilding prices had already started to strengthen in 2017, and the trend continued in 2018. This kept modern VLCCs near the peak of the market, a trend only reversed in the second half of 2018, which resulted in a sharp drop in VLCC prices. This drop did not concern Suezmax, or Aframax/LR2 prices, which continues to benefit from the tightening of the market for these smaller vessels.

The second-hand crude tanker price evolution in 2018 (see table below) reversed the trend of the past and all categories but one showed significant price hikes. On the one hand, re-sales prices were pushed by stronger newbuilding quotes, and on the other, 15-year-old units benefiting from a sensible correction upwards since their values were far too close to demolition prices at the start of the year.

There were few ten year old candidates for sale during the year, explaining why for the majority of years also benefited from some traction, with a total of 16 sales. Here it should however be put into perspective as a large portion were in fact closer to refinancings (mainly to Chinese and Japanese leasing companies) rather than straight sales to third parties. These refinancings were due to the over cash situation of many owners after several years of low spot and time charter rates.

S&P activity (vessels for further trading)

<table>
<thead>
<tr>
<th>N° of Ships</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<td>51</td>
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<td>46</td>
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<tr>
<td>Suezmax</td>
<td>20</td>
<td>34</td>
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<td>29</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>Aframax &amp; LR2</td>
<td>41</td>
<td>67</td>
<td>52</td>
<td>42</td>
<td>44</td>
<td>66</td>
</tr>
<tr>
<td>Paramax &amp; LR1</td>
<td>25</td>
<td>22</td>
<td>18</td>
<td>8</td>
<td>12</td>
<td>20</td>
</tr>
</tbody>
</table>

In 2018, the volume of second hand transactions peaked significantly returning to the high levels seen in 2014 when earnings were far better. This is a sign that many shipowners have decided to position themselves with new acquisitions for a market recovery. Both the VLCC and Aframax segments received serious attention from market participants, while it proved difficult to chase and commit Suezmax vessels. This large volume of transactions should however be put into perspective as a large proportion were in fact closer to refinancings (mainly to Chinese and Japanese leasing companies) rather than straight sales to third parties. These refinancings were due to the over-cash situation of many owners after several years of low spot and time charter rates.

Vessel value changes from January 2018 to December 2018

<table>
<thead>
<tr>
<th>N° of years</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLCC</td>
<td>9.7%</td>
<td>6.5%</td>
<td>5%</td>
<td>10.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suezmax</td>
<td>7%</td>
<td>6%</td>
<td>7.5%</td>
<td>10.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aframax &amp; LR2</td>
<td>10.3%</td>
<td>3.5%</td>
<td>7.3%</td>
<td>6.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paramax &amp; LR1</td>
<td>7.7%</td>
<td>8.5%</td>
<td>0%</td>
<td>10.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Second hand transactions picked up significantly in 2018

We noticed a similar trend in the Suezmax market. Out of 28 S&P transactions in 2018, no less than 13 were for vessels built before 2001 and 2005. Values were attractive for these vintage, for example nothing clients of Avin to acquire the 15 year old African Spirit (151,000 dwt, built in 2003) for a modest price of $15 million. This category of ship has also been under the spotlight during the year for the forced sale of several modern or re-sale units from the Trade & Transport fleet to various owners. We can mention the sale of the United Dynamic (161,000 dwt, built in 2010 in China) for a price of around $72 million. It is worth noting that out of the 28 transactions in 2018, ten were re-sales. Such a high ratio can be explained by the attractive prices obtained by some buyers as a result of forced sales.

The Singapore fleet saw units delivered in 2018 versus a forecast at the end of 2017 for 50 vessels. As of December 2018, the total Suezmax orderbook was 58 units, with 31 due to start trading in 2019.
Aframax and Panamax

The age profile of Aframax vessels sold during the course of 2018 was more evenly spread. A total of 66 units (including LR2) changed hands, and 13 vessels were five years old or younger. The forest sale by Trade & Transport plus several refinancing deals boosted the volumes of modern ships sold. The 5-10 year old category was quite active with 16 vessels sold. Greek buyers took the lead in this segment as illustrated by the Avin purchase of the United Japan (112,000 dwt, built SPP in 2010) for a reported $26.1 million. The Ionian’s share nevertheless fell again in the 10-15 year old category. Once again, this was due to the magnitude of the fall in their values over the past 18 months; a correction that had to happen given prices were too good to resist. Some 32 units of this age changed hands. As an example, we note the sale of the CSK Shelton (186,000 dwt, built Daewoo in 2000) for a reported price of $13.3 million.

Of the 75 Aframaxes (LR2 included) we were expecting at the end of 2017 to be delivered during 2018, we finally saw 68 hit the water in 2019. We should see another 61 vessels delivered while the total orderbook stood at 100 units as of late December 2018.

Sales activity for Panamax tankers saw a strong revival, and most sales were conducted at year-end when LR1 and most sales were conducted at year-end when LR1 and LR2 sales were conducted at year-end when LR1 spot rates improved significantly due to the larger volumes produced in the Middle East refineries. While only 12 units were sold in 2017, no less than 20 changed hands. All vessels sold were built between 2000 and 2011, with no agreement possible for the most modern units. We could however expect this trend to change during 2019 with modern ships changing hands at rates improve in a refinancing exercise. Hafnia sold two of its 75,000 dwt vessels (built at STX Korea in 2010) for a reported price of $19.3 million with a seven-year bareboat charter back. The other Formosa Falcon (70,500 dwt, built Japan in 2006) was reported sold for a price in the region of $8.5 million.

For the Panamax L4 (LR3 included) fleet, we saw 17 vessels enter the fleet in 2018 against an anticipated number of 21 units at 31 December 2017. The total orderbook at end-2018 consisted of 28 units, of which 17 are due in 2019.

OBO

There are still very few OBO newbuildings of around 83,500 dwt in the pipeline for delivery. Such vessels would be very welcome in order to rejuvenate this niche market. For a change, we can report the sale of the VLOF F Whale (319,869 dwt, built HHI 2011) in 2018 for a price reported to be around $37 million after the vessel’s previous owners defaulted at the time of yard delivery. Otherwise four units ranging from 54,500 to 110,000 dwt built in the 1980s and 1990s found their way to demolition.

Crude S&P outlook for 2019

While one should remain prudent, there are a number of reasons for us to be reasonably optimistic for the volume of transactions and vessel prices in the short to medium term. Tanker owners found themselves in an of circumstances with the current president of the US not only President Trump keen to maintain a low oil price for his re-election chances but current government policies are disrupting business activities. While this may partly benefit oil transportation in the short term, there would certainly be more benefit in the longer term with an end to the trade wars. There are additional factors which should reassure tanker owners. In first place comes the progressive reduction of the orderbook. In parallel, shipyards are in a position to lower their asking prices as capacity has already been reduced and refund guarantees are now obtainable if, and only if, the project appears sound to the yard financiers. A lack of traditional ship finance, the crew matrix, plus ever changing rules and regulations create some sort of an invisible barrier to new entrants, de facto protecting the value of the existing vessels and the position of existing tanker owners. But the market has been there before, and while we have good reason to believe that the worst is behind us, it could only take a few large orders in each segment to spoil the party.

In less than a year we will in theory consider the 2020 fuel dilemma a past debate, and our eyes should turn to the next industry challenge: that is the IMO’s commitment to halve greenhouse gas emissions between 2008 and the end of 2050. Then it is likely we will again face the “Gandhi” dilemma, as we already know promoting LNG as the shipping fuel of the future is an obvious choice of greenhouse gases appears already highly controversial due to the inevitable release of methane into the atmosphere.

Clean tankers

The year started on a positive note with the Baltic Exchange S&P index (BSPA) for 5 year old second hand MR2s having already improved by about 10% during 2017. This trend continued in 2018, with the price rising a further 10% over the course the year from a starting point of $23.7 million in January to $26.1 million by December.

The increases could be attributed to a general optimism for the future of the products market, combined with the impact of the upcoming 2020 fuel regulations, and a strong presence in the market by Chinese leasing houses. One can note that the time charter rates travelled a different journey during the year. Earnings for MR2s were at the vicinity of $14,500 per day in Q1 2018, followed by a downward trend that saw rates reach an average of $13,800 for Q2, falling to around $13,000 for Q3 and finally $13,100 during Q4. The MR1s followed a different trend, with time charter rates during Q1 coming in around $12,000 a day, rising to $13,000 by Q4. We expect this trend to continue in 2019 as a result of the projected increase in trade of clean petroleum products. The IMO sulphur rules taking effect 1st January 2020 raise many questions, and it remains to be seen whether the US administration will seek to postpone the implementation of the regulations.

In the sale and purchase market, 48 MR2s and 114 MR1s were sold in 2018. These figures include at least 38 vessels sold under sale and leaseback structures. A large share of these vessels belonged to Scorpio Tankers.

In the newbuilding market, 70 MR2s were ordered during 2018, equal to about 3.5 million deadweight. This is very similar to 2017, when the market saw some 3.7 million deadweight ordered. There were no MR1s ordered during 2018.