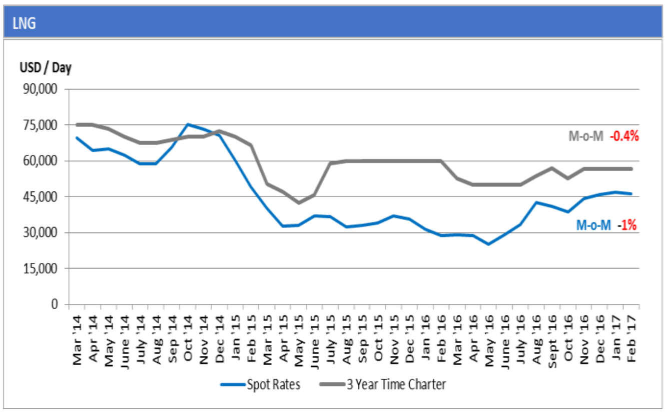
MISC Monthly

March 2017

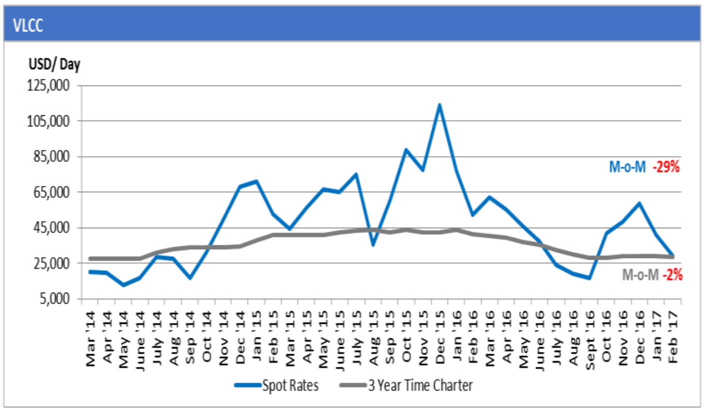
moving energy to build a better world

MISC Financial Calendar	
1Q FY2017 Quarterly Results	Friday, 5 May 2017
2Q FY2017 Quarterly Results	Wednesday, 9 August 2017
3Q FY2017 Quarterly Results	Friday, 3 November 2017
MISC Announcements	
Declaration of second interim dividend of 20 sen per ordinary share	
Adjudication decision in favour of GKL	
Integration of MISC Fleet Management Services & AET Shipmanagement	

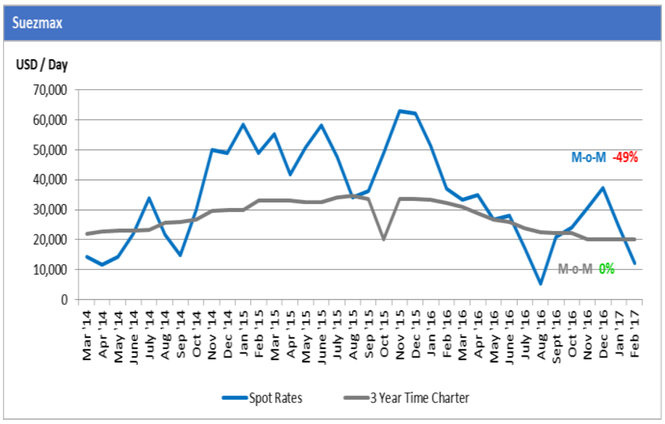
FREIGHT MARKET



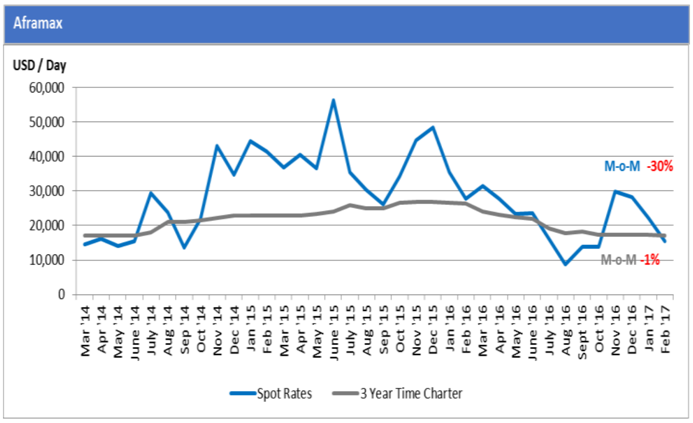
- Spot rates have started to come under pressure with the early onset of warm weather conditions, reducing demand for LNG.
- Subdued activity seen in both the Pacific and Atlantic during February with the absence of arbitrage trade due to the narrowing gas price.
- Oversupply of vessels persists in the spot market with 2 additional LNG vessels delivered in February.



- Sluggish demand in the Middle East has put pressure on rates with production from Saudi showing decline.
- Continued supply disruptions in Nigeria has resulted in lower volumes for the West Africa trade routes.
- Reversal of offshore storage with the crude oil price backwardation releasing further tonnages into the market.
- An additional 3 vessels were delivered during the month of February further adding to the current oversupply situation.



- Competition from VLCC segment for West Africa cargoes has displaced demand for Suezmax.
- Supply disruptions in Nigeria continue to plague export levels leaving demand for vessels uncertain.
- Vessel supply in the market increased with 3 additional vessels delivered during the month.



- Lack of demand coupled with oversupply conditions continue to plague the segment with spot rates softening further.
- Improved weather conditions in the Turkish Straits resulted in lesser weather-related premium in rates.
- In February, 3 additional newbuilds were delivered adding further pressure on rates.

FREIGHT MARKET

USD/Day	Jan 2017 Avg	Feb 2017 Avg	1-Month +/-%	YTD 2017	2016 Avg	2015 Avg
LNG						
Spot Rates	46,875	46,250	-1%	46,563	34,796	38,430
1 Year Time Charter	38,750	37,500	-3%	38,125	32,639	36,119
3 Year Time Charter	56,750	56,500	-0.4%	56,625	54,079	56,750
PETROLEUM						
VLCC						
Spot Rates	40,839	29,116	-29%	34,977	44,900	67,279
1 Year Time Charter	30,563	29,500	-3%	30,031	38,352	45,805
3 Year Time Charter	29,000	28,500	-2%	28,750	34,496	41,869
Suezmax						
Spot Rates	24,270	12,319	-49%	18,295	28,897	50,411
1 Year Time Charter	22,000	21,500	-2%	21,750	27,381	35,024
3 Year Time Charter	20,250	20,250	-	20,250	25,780	33,063
Aframax						
Spot Rates	22,263	15,494	-30%	18,878	23,368	39,614
1 Year Time Charter	17,438	17,063	-2%	17,250	22,334	26,577
3 Year Time Charter	17,250	17,125	-1%	17,188	20,957	24,619
MR2						
1 Year Time Charter	12,875	12,500	-3%	12,688	15,078	17,754
CHEMICAL						
Spot Rates (USD/Tonne)						
Rotterdam - Far East	106	108	1%	107	107	105
Rotterdam-Taiwan	79	79	1%	79	80	85
Gulf-Far East	35	35	-	35	38	46
Singapore-Rotterdam	72	74	2%	73	76	91
Time Charter (USD/Day)						
1 Year Time Charter 19,000 dwt	13,500	13,500	-	13,500	15,513	15,233
1 Year Time Charter 37,000 dwt	11,688	11,375	-3%	11,532	13,995	15,877

MISC Monthly

March 2017

ASSET VALUE

USD 'Million	Jan 2017 Avg	Feb 2017 Avg	1-Month +/-%	YTD 2017	2016 Avg	2015 Avg
LNG						
Newbuild (DFDE, Atlantic Max)	189	188	-0.3%	188	196	200
PETROLEUM						
VLCC						
Newbuild	85	82	-3%	83	89	96
5-Year	60	60	-	60	69	81
Suezmax						
Newbuild	55	54	-1%	54	58	64
5-Year	41	40	-2%	41	51	60
Aframax						
Newbuild	45	44	-2%	44	48	53
5-Year	29	29	-	29	35	46

USD 'Million	Jan 2017 Avg		Feb 2017 Avg		1-Month +/-%		YTD 2017		2016 Avg		2015 Avg	
CHEMICAL												
IMO II 37,000 dwt	S/S	Coated	S/S	Coated	S/S	Coated	S/S	Coated	S/S	Coated	S/S	Coated
Newbuild Prices	48	29	48	29	-	-	48	29	49	30	59	31
Secondhand Prices - 10 years	34	16	34	16	-	-	34	16	36	17	37	16

FLEET DEVELOPMENT

No. of Vessels	Current Fleet	2017	2018	2019+	2020+	Total Orderbook	Orderbook as % of Fleet
LNG							
LNG Carriers	452	57	42	18	5	122	27%
PETROLEUM							
VLCC	660	32	39	1	-	72	11%
Suezmax	484	52	16	-	-	68	14%
Aframax	670	35	36	8	4	83	12%

INDUSTRY HEADLINES

LNG: LNG fuels could be the way forward for the shipping industry

LNG fuels have been on the forefront of alternatives for the shipping industry for quite some time now, but the latest developments with the IMO decision to limit sulphur content of marine fuels by 2020 are putting things into "fast forward" mode. In its latest weekly report, shipbroker Intermodal noted that "from January 2020, global sulphur content of marine fuels will be condensed from the current maximum of 3.5% to just 0.5%. This decision is designed to radically reduce emissions produced by vessels using marine diesel and fuel oil and principally the levels of Sulphur oxides (SOx), nitrogen oxides (NOx) and particulate matters (PM). The shift will impose major costs for the shipping industry in search for efficient solutions. As of 2015 vessels in the SECAs areas comprising of the Baltic Sea, North Sea, North American ECA, most of the US and Canadian coast and the US Caribbean ECA, are compelled to use marine fuels with only 0.1% Sulphur content". Intermodal's Katerina Restis, from the Tanker Chartering department noted that "nowadays, natural gas in most nations is a significant power source for residential, commercial & industrial sectors' energy needs. Several arguments indicate that LNG utilization as transportation fuel and in particular its shipping implementation may provide a future-fit solution as it has nearly no Sulphur content (0.004%). Even though LNG requires more tank space (volumetric) compared to other transportation fuels to generate equivalent energy, is of lower cost and environmentally friendly". Ms Restis added that "furthermore, it emits zero SOx and with the use of appropriate technology almost 90% fewer NOx. Furthermore, it is a global commodity widely available, with more than 20 countries exporting to 35 importing countries. Market penetration is increasing in areas such as Middle East, Africa, Latin America and South-East Asia. The market is currently heading into oversupply with estimates of approximately 150 million tons per annum of new export capacity due to come on line between 2015-2020, representing 50% increase over current capacity". According to Intermodal's analyst, "lately, an increasing number of bunkering facilities is being built, while current developed infrastructure is concentrated in North West Europe like Rotterdam, Stockholm as well as the USG. Moreover, Asian ports that serve deep-sea routes are in the process of developing LNG bunkering facilities as evidenced by the world's busiest bunker port, Singapore.

Source: Hellenic Shipping

LNG: Number of idling LNG ships mounts as business thins

Over 30 LNG carriers are idling as spot trading of cargoes slows across all markets, leaving vessels without employment. Numbers vary widely as to how many vessels are taking downtime, with figures heading towards 20 ships in the Far East and the balance either off Fujairah in the Middle East or waiting for business in the Atlantic Basin. Brokers say that on top of the idling tonnage, around 20 LNG carriers are laid up. The picture is in stark contrast to the global LNG trading fleet status seen last month when at one point the number of LNG vessels idling fell to single digits. "The spot side is going to be grim," said one owner, suggesting that it will likely take until September or later this year before any real improvement is logged. He indicates that while the fleet position is clear this has yet to filter down into rates, which are now coming under downward pressure. Brokers indicate that some owners are now lowering the charter rates they are offering and dropping ballast bonus demands. Daily rates for modern tri-fuelled, diesel-electric vessels are now being quoted in the $30,000 range, with steam-turbine ships in the low $20,000s or less, one says.There are, however, glimmers of activity. Most market players seem to have their eyes firmly fixed on the latter part of 2017 for any firm signs of recovery for LNG shipping. In GasLog's fourth-quarter results call at the end of last week, chief executive Paul Wogan highlighted the LNG charter rate rises in late 2016 and said the company expects that tightening to continue through 2017 on the back of new LNG volumes coming into the market. "From my over 30 years of experience in several shipping sectors, tightening markets usually reach an inflection point when rates turn sharply upwards," Wogan said. "Whilst we can't predict exactly when that inflection point will happen, when it does, we expect rates to move higher quickly, especially as we expect charterers will then look to locking in tonnage often for multi-year periods."

Source: Tradewinds

INDUSTRY HEADLINES

LNG: Global LNG prices to remain capped beyond 2020 on supply/demand imbalance

Moody's expects global liquefied natural gas (LNG) prices to remain constrained beyond 2020 as a wave of fresh supply capacity comes online at a time when demand from the world's largest importers is weakening, says the rating agency in a report published today. "Strong LNG demand growth from China, India and new markets will not be enough to absorb the fresh supply capacity coming online, particularly with demand falling in the largest importing countries, Japan and Korea. The market will not rebalance until the early years of the next decade, when global demand and LNG import infrastructure catches up with supply," says Tomas O'Loughlin, a Vice President – Senior Credit Officer at Moody's. Imports into Japan, the world's biggest market, which consumes over one-third of global LNG, will fall to 80 million tonnes per annum (mtpa) by 2020, a 9% reduction from its 2014 record, as nuclear power production slowly restarts. Demand from Korea, the world's second-largest consumer, will be flat over this period. At the same time, new global supply will jump 44% by 2020 to 455 mtpa versus 2015 as LNG construction projects in Australia, the US and Russia, costing more than a quarter of a trillion dollars to build, come online. These projects were boosted by a spike in demand from Japan following the 2011 tsunami and subsequent nuclear shutdown, as well as abundant US shale gas supplies. Moody's expects that global LNG demand growth will continue to be robust, boosted by low prices, environmental concerns and the build out of infrastructure in new markets allowing the import of greater LNG volumes. This demand growth, coupled with a pause in supply capacity development, will allow the market to rebalance in the early 2020s.

Source: Moody's

PETROLEUM: Floating storage tankers hit two-year low as oil curve flips

The number of dirty tankers being used as crude oil floating storage has fallen to its lowest in over two years, in line with a critical change in the oil market that makes hoarding crude unprofitable. This change in the oil price structure is significant because it not only reduces storage driven time charter demand for tankers, but also affects tanker demand for large-scale stockpiling of crude due to low oil prices. Additionally, the fleet released from storage duty adds to tonnage and pressures freight rates. In the week ended February 24, 2017, a total of 53 oil tankers were being used for short-term floating storage, of which 32 vessels were VLCCs, five were suezmaxes and 16 were aframaxes, according to Lloyd's List Intelligence. The last time there were as few as 53 oil tankers in floating storage was in the week of January 9, 2015. At the start of 2017, as many as 75 oil tankers were in oil storage mode, and the number had touched a high of 91 vessels in mid-June 2016, when storing oil was highly profitable. It takes two to tango. One of the reasons for tankers coming out of floating storage has been the reactivation of Iran's VLCC fleet after sanctions were lifted, helping National Iranian Tanker Co to return to the global market. The other reason has been the oil market structure flipping from what is called a contango to a backwardation. A contango structure indicates that future oil prices will be higher than current levels, creating the incentive to hoard crude onshore or offshore. *Source: Lloyd' List*

PETROLEUM: Tanker market in "weakened" mode

Chartering demand was down significantly in the tanker market, as charterers were slow in their progression into the Middle East's March program. In its latest weekly report, shipbroker Charles R. Weber noted that "just 12 fixtures materialized for loading in the region, a 68% w/w decline and the fewest in ten months. Elsewhere, demand in the West Africa market were similarly slow; just two fixtures were reported for loading there, marking a departure from the relatively elevated levels observed since the start of the year. According to CR Weber, "adding to increasingly sour sentiment were reports indicating greater compliance by OPEC producers under the 2016 OPEC/Non-OPEC production cut agreement than had been expected and the emergence of the March Basrah program showing a sharp decline in total supply from the terminal. We remain skeptical that reported production cuts will translate into reduced supply (given the export length afforded to producing states by inventories and above-average winter refinery turnarounds, including in states party to the agreement). The shipbroker added that "we expect that a rebound in demand in the Middle East will likely stabilize rates by offering owners more options".

Source: Hellenic Shipping News

INDUSTRY HEADLINES

OIL & GAS: India taps newcomers to unlock $7 billion oil and gas assets

India approved awarding rights for 31 small discovered oil and gas fields in its first auction in six years, entrusting most of these to new entrants as it seeks to boost local production. Sun Petrochemicals Pvt., a privately owned company formed by the directors of drugmaker Sun Pharmaceuticals Industries Ltd., and engineering company Megha Engineering & Infrastructure Ltd. were among 15 new entrants out of 22 companies that have received rights to develop the fields, according to a government statement. Established players, including Hindustan Exploration Co. and state-run Oil India Ltd., also won some fields. Development of these small oil and gas fields is crucial for Prime Minister Narendra Modi's plan to reduce oil imports by as much as 10 percent by 2022. The awarded blocks will boost India's oil output by as much as 15,000 barrels of oil per day and gas production by 2 million standard cubic meters a day, according to the oil regulator Directorate General of Hydrocarbons. "These fields hold potential for lot of investments in India over the next decade," Atanu Chakraborty, the head of DGH, said. "It will open new avenues for jobs and create entrepreneurs." The 46 areas that went under the hammer were discovered by Oil and Natural Gas Corp. and state-run Oil India Ltd. with estimated in-place oil and gas reserves of about 625 million barrels. They weren't developed as the explorers focused on bigger fields. Larger established companies like Reliance Industries Ltd. and ONGC stayed away from the auctions. The government had received 134 bids from as many as 42 companies in the auction round that closed Nov. 21, after rules were relaxed allowing pricing freedom for oil and gas and uniform policy for all kinds of hydrocarbons.

Source: Bloomberg

OFFSHORE: Non-traditional deepwater basins to support forecast expenditure, with 2017-2021 deepwater spend to total $120 billion

Douglas-Westwood (DW) forecasts global deepwater expenditure to total $120 billion (bn) over the 2017-2021 period. Spend is expected to decline at a -6% CAGR. However, if forecast floating production system (FPS) spend is isolated, expenditure is estimated to increase by 3% compared to the 2012-2016 period. Despite rig day rates hitting record lows in recent years, drilling and completion expenditure is expected to total $41.6bn, accounting for 35% of Capex. Subsea production equipment, SURF (subsea umbilicals, risers, and flowlines) and pipelines will represent a combined 38% of total expenditure, whilst floating production units will account for 27% of spend over the forecast period. Sustained low oil prices will hinder forecast expenditure, with no deepwater FPS units having been ordered between July 2015 and December 2016. This highlights several operators' decisions to consider alternative development options, with the motive of reducing development costs. In the near-term, Capex will be driven by traditional deepwater countries in Africa and the Americas. However, offshore installation activities on the Liza field (Guyana), SNE (Senegal), and the commencement of activities offshore East Africa, as well as the development of the Zohr field in Egypt, will support expenditure during the latter years of the forecast period. Renewed interest in developing deepwater reserves is also expected in the South China Sea and East India, which will significantly contribute to spending towards the end of the forecast period. OEMs are beginning to feel the full impact of the downturn due to the low volume of projects sanctioned since 2014 as they are rapidly working through their record backlogs established over the 2011-2014 period. However, a number of mega projects waiting final investment decision (FID) are expected to be up for tender over the next 18 months, as operators hope to take advantage of a more competitive pricing environment. Subsequently, subsea tree installation activity is estimated to grow at a 4% CAGR over the forecast period. DW has identified over 118 deepwater fields in its World Deepwater Market Forecast with potential drilling activity, which demonstrates that many oil majors have and will continue to invest in deepwater operations to replenish dwindling production profiles.

Source: Hellenic Shipping News