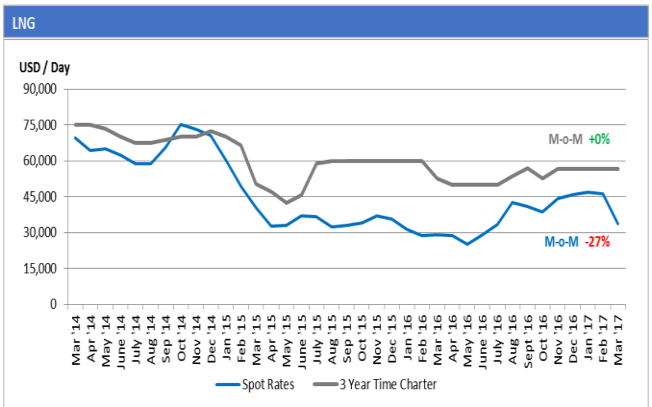
MISC Monthly

April 2017

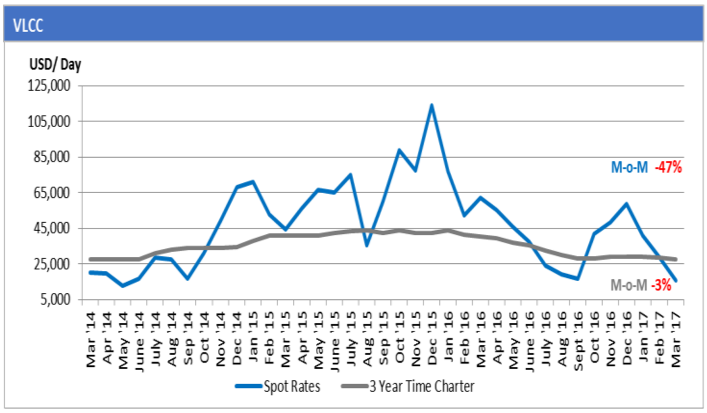
moving energy to build a better world

MISC Financial Calendar	
1Q FY2017 Quarterly Results	Thursday, 4 May 2017
2Q FY2017 Quarterly Results	Wednesday, 9 August 2017
3Q FY2017 Quarterly Results	Friday, 3 November 2017
MISC Announcements	
Notice of AGM – Thursday, 20 April 2017	
Proposed renewal of the authority for MISC to purchase its own shares of up to 10% of its prevailing ordinary issued and paid-up share capital at any time	

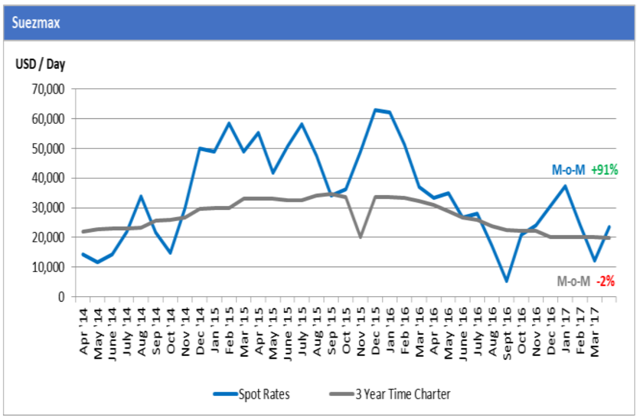
FREIGHT MARKET



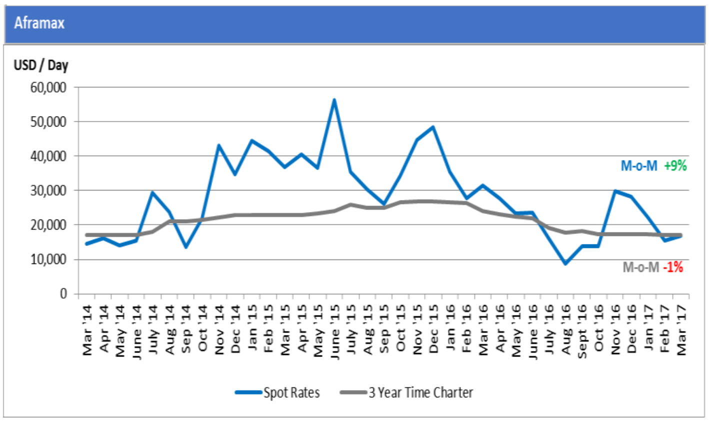
- Spot rates have come under further pressure on the back of increasing availability of tonnage from vessel redeliveries.
- There were low activity levels during the month, with only few confirmed fixtures as arbitrage opportunity diminished between basins.
- The oversupply situation continues with 3 additional LNG vessels delivered in March.



- Saudi oil exports continue to decline with production cuts, pressuring rates further with low cargo volumes.
- Decline in rates were compounded by refinery maintenance in the Far East, impacting demand for crude.
- Rates are expected to be soft in the near-term as we move into the seasonally weaker Q2.
- An additional 2 vessels were delivered during the month, further augmenting the current oversupply situation.



- Spot rates improved tremendously during the month from strong demand in the Black Sea coupled with increase in crude production from West Africa and Iran.
- Weather related delays in the Turkish Straits had also help boosted spot rates.
- Nevertheless, vessel supply in the market continue to increase with 5 additional vessels delivered during the month.



- Spot rates strengthened, primarily boosted by demand in the Black Sea and the Mediterranean.
- Weather related delays in the US Gulf had also helped to improve rates marginally.
- There were 4 additional newbuilds delivered during the month of March.

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USD/Day	Feb 2017 Avg	Mar 2017 Avg	1-Month +/-%	YTD 2017	2016 Avg	2015 Avg
LNG						
Spot Rates	46,250	33,750	-27%	42,292	34,796	38,430
1 Year Time Charter	37,500	37,500	-	37,917	32,639	36,119
3 Year Time Charter	56,500	56,500	-	56,583	54,079	56,750
PETROLEUM						
VLCC						
Spot Rates	29,116	15,559	-47%	28,505	44,900	67,279
1 Year Time Charter	29,500	28,200	-4%	29,421	38,352	45,805
3 Year Time Charter	28,500	27,700	-3%	28,400	34,496	41,869
Suezmax						
Spot Rates	12,319	23,529	91%	20,039	28,897	50,411
1 Year Time Charter	21,500	20,100	-7%	21,200	27,381	35,024
3 Year Time Charter	20,250	19,950	-2%	20,150	25,780	33,063
Aframax						
Spot Rates	15,494	16,888	9%	18,215	23,368	39,614
1 Year Time Charter	17,063	17,000	-0.4%	17,167	22,334	26,577
3 Year Time Charter	17,125	17,000	-1%	17,125	20,957	24,619
MR2						
1 Year Time Charter	12,500	12,550	0.4%	12,642	15,078	17,754
CHEMICAL						
Spot Rates (USD/Tonne)						
Rotterdam - Far East	108	108	-	107	107	105
Rotterdam-Taiwan	79	79	-	79	80	85
Gulf-Far East	35	35	-	35	38	46
Singapore-Rotterdam	74	76	3%	74	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	11,375	11,000	-3%	11,354	13,995	15,877

ASSET VALUE

USD 'Million	Feb 2017 Avg		Mar 2017 Avg		1-Month +/-%		YTD 2017		2016 Avg		2015 Avg	
LNG												
Newbuild (DFDE, Atlantic Max)	188		187		-1%		188		196		200	
PETROLEUM												
VLCC												
Newbuild	82		79		-3%		82		89		96	
5-Year	60		60		-		60		69		81	
Suezmax												
Newbuild	54		54		-		54		58		64	
5-Year	40		40		-		41		51		60	
Aframax												
Newbuild	44		43		-2%		44		48		53	
5-Year	29		29		-		29		35		46	
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	15	-	-1%	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	451	44	41	22	2	109	24%
PETROLEUM							
VLCC	666	30	38	4	0	72	11%
Suezmax	487	47	18	0	0	65	13%
Aframax	674	33	39	9	3	84	12%

INDUSTRY HEADLINES

SHIPPING: IMO 2020 regulation could cost shippers extra US$60 billion a year

According to a Wood Mackenzie study, global bunker fuel costs could rise by up to US$60 billion annually from 2020, in a full compliance scenario, when the International Maritime Organization's (IMO) 0.5 wt% sulphur cap for bunker fuels kicks in. Fuel oil, which is high in sulphur content, has traditionally been used by the shipping industry as bunker fuel. In 2016, global demand for high-sulphur fuel oil stood at almost 70% of overall bunker fuels. With the implementation of the IMO regulation in 2020, the shipping industry will have to consider a switch to alternative fuels, such as marine gas oil (MGO), or install scrubbers, a system that removes sulphur from exhaust gas emitted by bunkers. A combination of higher crude prices and tight availability of MGO could take the price of MGO up to almost four times that of fuel oil in 2016, and eventually cost the entire industry additional US$60 billion annually. Sushant Gupta, research director for Asia refining at Wood Mackenzie, said, "Installing scrubbers may be an economically attractive option. Although there is an initial investment, shippers can expect a high rate of return of between 20% and 50% depending on investment cost, MGO-fuel oil spread and ships' fuel consumption. "Despite attractive returns, penetration rate for scrubbers could be limited by access to finance, scrubber manufacturing capacity, dry-dock space and technological uncertainties.

Source: Wood Mackenzie

LNG newbuild orders hit 6-year low

The global fleet of liquefied natural gas (LNG) tankers welcomed 31 new additions in 2016 – in a year where only 10 new orders were placed, GIIGNL, the International Group of LNG Importers said Monday in its latest annual report. The new orders – the lowest number since 2010 – included one floating storage and regasification unit (FSRU) and 3 bunkering vessels. Compared to the year before, 23 less new orders were placed in 2016, the report shows. At the end of 2016, the global orderbook comprised of 137 vessels, 121 of which were above 50,000 cubic meters. According to GIIGNL, 64 vessels were scheduled for delivery in 2017. The report also shows that the global LNG tanker fleet consisted of 478 vessels at the end of 2016, including 24 FSRUs and 30 vessels of less than 50,000 cubic meters. In 2016, the average spot charter rate for a 160,000-cbm LNG carrier stood at $33,528/day, compared to an average $36,038/day in 2015, it said.

LNG bunkering is an idea whose time hasn't come (yet)

Time passes quickly when looking into LNG bunkering. Two years ago the market talked about it as a possible solution to the introduction of a 0.1% sulfur emission control area (ECA) for ships in northern Europe. Five years before that it was the start of the 1% sulfur ECA in the same area that might have helped promote the idea. And now the International Maritime Organization (IMO) has decided that global marine sulfur emission limits will be cut from 3.5% to 0.5% from 2020, prompting some to wonder again whether LNG bunkering might be the solution. Not long ago the industry gathered in Amsterdam for the annual LNG Bunkering Summit with that hope in mind. When 2020 comes, shipowners will either be forced to install emissions-cleaning scrubbers on board their vessels or switch to burning cleaner, more expensive fuels. For most that will mean switching to a gasoil-based fuel, but switching to LNG would allow shipowners both to comply with the new sulfur regulation and with future limits on nitrogen and particulate matter emissions that are likely to be imposed. But while a ship can burn a gasoil-based fuel straight away, using LNG would need a new engine for most—and retrofitting one into an existing vessel looks prohibitively expensive. So making the switch requires large up-front capital expenditure on new vessels from a shipping industry that isn't flush with cash at the moment. Officialdom has been convinced of the environmental benefits of LNG bunkering. There were port authority representatives from as far away as Miami at the Amsterdam conference. And the energy majors are excited about a potential new market for their LNG, with Shell alone sending seven people to Amsterdam. Total sees the market for LNG bunkering growing to 10 million mt/year by 2025, and Shell expects one of 30 million-35 million mt/year by 2040. But shipowners were few and far between at the summit, and it was difficult to find a single one who hadn't already invested in LNG bunkering. There was no great body of shipowners on the fence about the idea who wanted to come and find out more. The European ships currently using natural gas are mostly short-haul ferries operating in northern Europe.

Source: Platts

INDUSTRY HEADLINES

PETROLEUM: Supply disruptions cloud aframax, suezmax outlooks despite small rate gains

Benchmark aframax and suezmax rates posted small weekly gains, but the recent conflict at Libya's oil ports has raised the spectre of supply disruptions that could adversely affect freight rates in coming weeks. In addition to Libya, market observers have also expressed concerns over growing geopolitical risk at a number of other oil-producing nations that could have a larger cumulative impact, such as Colombia, Venezuela, Iraq and Nigeria. Many of those exports are short-haul cargoes carried by aframaxes and suezmaxes, and while initial disruptions may cause volatility in spot rates, the long-term impact on freight markets is bearish. The Libyan National Army lost control of the key central-eastern ports of Ras Lanuf and Es Sider to a rebel faction called the Benghazi Defence Brigades, news agency Reuters reported over the weekend. The two ports account for about 600,000 barrels per day of Libya's oil export capacity. "We are against any actions that could damage the oil infrastructure in the country, including oil fields, pipelines, ports, plants and other petroleum facilities," National Oil Corp chairman Eng. Mustafa Sanalla said in a statement.
Source: Lloyd's List

PETROLEUM: New oil production shifts could change ton-mile demand, but the Middle East will remain "king" for the VLCC market

The tanker market is about to face new trade flow changes, as soon as new oil producing projects enter the market, however, it seems that, at least in the medium term, the Middle East will still remain the main source of VLCC cargoes. In its latest weekly report, shipbroker Gibson said that "the global oil markets have been digesting the impact of the OPEC led production cuts, which were hoped, would push up prices whilst absorbing some of the excess global supply. Whilst the concern right now is too much oil, over the horizon the opposite could be true. Lower oil prices over the past few years have resulted in lower investment, leading the IEA to warn of a potential oil supply crunch in the next 3-5 years". According to the shipbroker, "evidently, investment in conventional oil exploration and production has declined over the past two years. Conventional oil refers to oil produced by traditional drilling methods both on land and offshore. Often these are long term projects requiring high levels of CAPEX, with long payback periods. The IEA estimates that yearly global oil and gas investment dropped by a quarter in 2015 and by an additional 26% in 2016. Meanwhile, oil demand is forecast to grow steadily year-on-year at an average rate of 1.2 million b/d per annum through to 2022". Gibson added that "while the oil majors have not simply stopped investing in oil and gas completely, a greater emphasis has been placed on investment in short-cycle projects such as shale oil, which offer quicker returns and less long term risk. Chevron recently announced it would focus spending on short-cycle projects in the US Permian Basin, a view echoed by ExxonMobil, who confirmed a $6.6 billion acquisition of oil fields in the same region. Although the potential of these projects is undoubted, this is not considered enough to fill a potential future supply shortage at current oil price levels".
Source: Hellenic Shipping News Worldwide

PETROLEUM: Tanker consolidation: What next?

DHT rejected Frontline but accepted BW Group, changing the landscape of the VLCC market. Lloyd's List looks over the horizon for other consolidation activity among the big crude tankers. DHT Holdings choosing to jump into bed with BW Group rather than accept Frontline's advances highlights the different approaches to consolidation — and throws a spotlight on what other potential tanker marriages are out there, writes Hal Brown. Tanker industry insiders speaking to Lloyd's List on Friday said that BW's offer left the management of DHT in charge, whereas Frontline would have "swept them out". That is why DHT threatened to activate its poison pills against Frontline when it attempted the acquisition, according to one insider. If pushed, Mr Fredriksen may have given assurances that the bosses at DHT would keep their jobs, he said. "That reminds me of Woody Allen's famous quote, 'and the lion will lie down with the lamb but the lamb won't get much sleep'." Despite extensive evidence to the contrary — such as overordering of new tonnage — major very large crude carrier owners tend to be both strategic and pragmatic, Lloyd's List was told. Highlighting this, the two big pool owners — Tankers International and Nova — are not concerned about rivals being in their pools because the main point is to have shipowners who act as strong blocs and are not influenced easily by charterers. It helps to have fewer individual ships bidding for the same cargo, driving freight prices down. As such, any major owner should find consolidation satisfying for strategic reasons. In addition, scaling up if you are a listed company makes your shares more liquid, potentially making you an investment of choice for fund investors. In this vein, it is pertinent to look at what other consolidation activity might be out there. Lloyd's List has collated responses on the issue. Euronav has added 25 VLCCs to its fleet over the last two years. The New York- and Euronext-listed owner might not be finished yet.
Source: Lloyd's List

INDUSTRY HEADLINES

OIL & GAS: Upstream players to spend $25bn more in 2017

Upstream oil and gas companies are expected to spend about $25 billion this year, an 11% increase from 2016, as optimism starts to creep back into the sector following one of the worst downturns in the industry's history. A new analysis published by consultancy Wood Mackenzie shows a "quietly optimistic" but cautious approach to capital expenditures among the 119 companies that have so far announced their annual budgets. Of those 119 companies, 99 have indicated an increase in spending plans for 2017 from a year earlier. The increase is both indicative of company attempts to return to growth as well as a reflection of the severe cuts made in 2016, WoodMac said. Producers active in the US Lower 48 - and in the Permian basin in particular - are "loosening their purse strings and setting ambitious growth targets", WoodMac said. That would include independent producers such as EOG Resources and Pioneer Natural Resources. US producers overall appear to be raising capex by around 60%, with plans to spend around $15 billion. Bigger budgets are also expected in Canada, Latin America and Russia.

Source: Upstream

OFFSHORE: The floating production sector has 'turned the corner': analyst

The floating production sector has “turned the corner” according to analyst Energy Maritime Associates. There were no orders for floating production units in Q4 2015 or Q1 2016 with orders starting to return in the shape speculative FSRU orders in Q2 2016. “For the past two years more LNG related units than FPSOs,” David Boggs, managing director Energy Maritime Associates told Marine Money’s Singapore Offshore Finance Forum. Looking at the market as a whole Boggs said: “This year the floating production industry has turned the corner, still not back to the levels of 2014, but people are more optimistic going forward.” Last quarter of 2016 saw seven floating production unit awards comprising three FPSOs, three FSRUs and one production semi for Mad Dog 2. The FPSO awards included the Liza from ExxonMobil to SBM Offshore which is yet receive the final investment decision and a move by BW Offshore to acquire a stake in the Dussafu production sharing contract in Gabon, which Boggs said was to secure employment for an existing FPSO unit. Commenting on the BW move into field assets he said: “We’ll see if other contractors want to makes similar move.”

Source: Seatrade