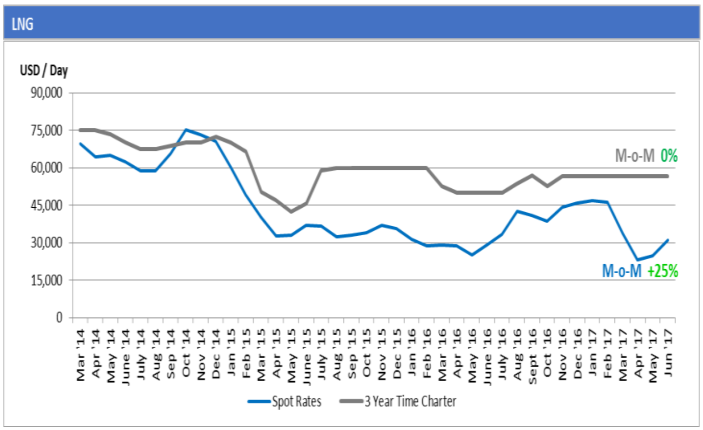
MISC Monthly

July 2017

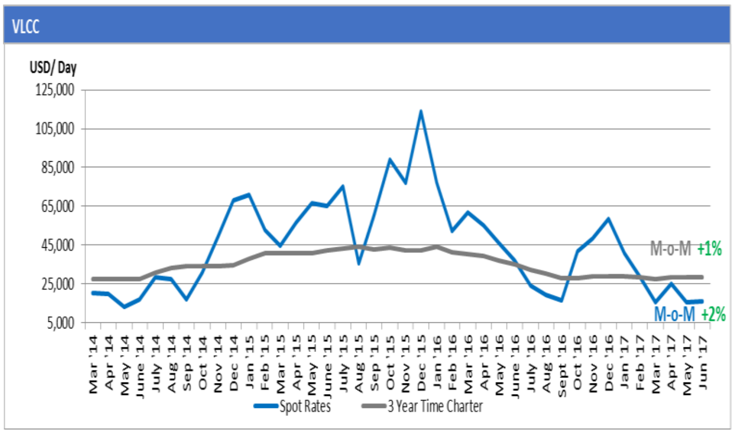
moving energy to build a better world

MISC Financial Calendar	
2Q FY2017 Quarterly Results	Wednesday, 9 August 2017
3Q FY2017 Quarterly Results	Friday, 3 November 2017
MISC Announcements	
Award of long term contract to own and operate two specialist DP2 shuttle tankers from Statoil ASA	
Incorporation of new subsidiary in Brazil	
Update on material litigation, arbitration and adjudication proceedings by GKL against Sabal Shell Petroleum Company Limited (SSPC)	

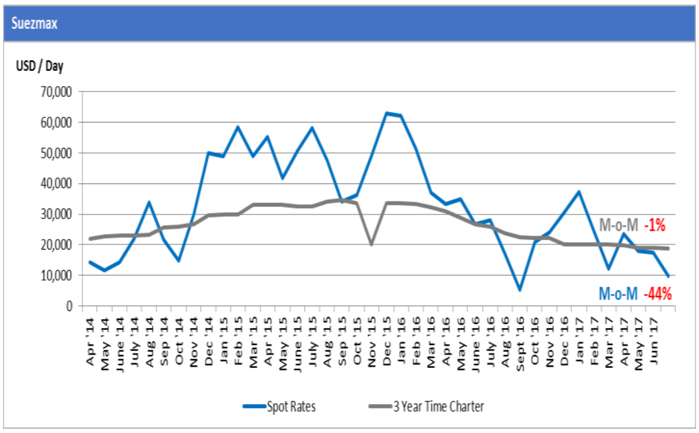
FREIGHT MARKET



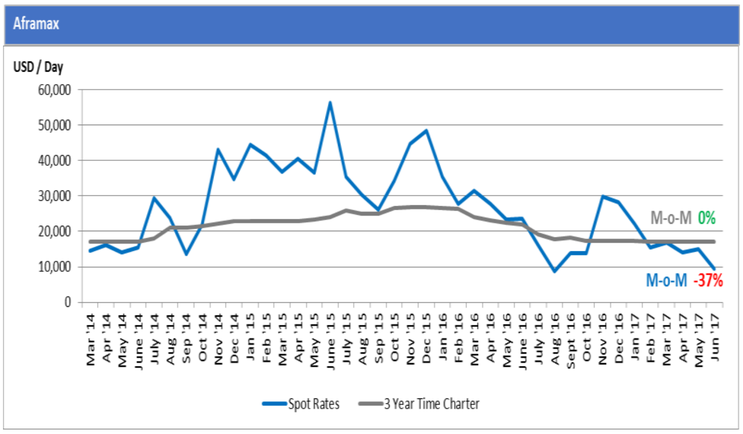
- Increased chartering activity in both the East and West pushes up spot rates further in June.
- The higher rates suggests a tightening spot market as global vessel availability continues to fall, especially in the Atlantic.



- Despite the increase interest in floating storage, rates have remained under pressure in the Middle East Gulf and West Africa.
- Meanwhile, the VLCC fleet grew by four new deliveries in the month making it 29 vessels for the first six months of the year.



- Suezmax rates weakened as excess tonnage outpaced demand across markets including West Africa, the Middle East and the US Gulf of Mexico.
- Additional six vessels delivered within the month, bringing the total vessels to 34 for the year to date.



- The freight on the cross-Mediterranean route fell due to a tonnage list that lengthened rapidly in the month.
- Market tends to slow in the summer months due to weaker demand for crude oil, but the supply of crude in the Mediterranean has generally increased in recent months.
- There were 34 deliveries during the first six months, with four newbuild deliveries in June.

FREIGHT MARKET

USD/Day	May 2017 Avg	June 2017 Avg	1-Month +/-%	YTD 2017	2016 Avg	2015 Avg
LNG						
Spot Rates	24,813	30,900	25%	34,306	34,796	38,430
1 Year Time Charter	29,938	30,250	1%	34,448	32,639	36,119
3 Year Time Charter	56,500	56,500	-	56,542	54,079	56,750
PETROLEUM						
VLCC						
Spot Rates	15,536	15,810	2%	23,660	44,900	67,279
1 Year Time Charter	27,750	27,000	-3%	28,492	38,367	45,805
3 Year Time Charter	28,250	28,500	1%	28,377	34,496	41,869
Suezmax						
Spot Rates	17,393	9,742	-44%	17,539	28,897	50,411
1 Year Time Charter	18,500	18,100	-2%	19,783	27,381	35,024
3 Year Time Charter	19,000	18,750	-1%	19,533	25,785	31,956
Aframax						
Spot Rates	14,949	9,398	-37%	15,502	23,368	39,614
1 Year Time Charter	15,688	15,000	-4%	16,365	22,335	26,577
3 Year Time Charter	17,000	17,000	-	17,063	20,957	24,619
MR2						
1 Year Time Charter	13,281	13,275	-0.05%	12,992	15,078	17,754
CHEMICAL						
Spot Rates (USD/Tonne)						
Rotterdam - Far East	108	101	-6%	106	107	105
Rotterdam-Taiwan	79	88	12%	81	80	85
Gulf-Far East	35	35	-2%	35	38	46
Singapore-Rotterdam	77	74	-3%	75	76	91
Time Charter (USD/Day)						
1 Year Time Charter 19,000 dwt	13,500	13,000	-4%	13,417	15,513	15,233
1 Year Time Charter 37,000 dwt	11,250	11,100	-1%	11,246	13,995	15,877

ASSET VALUE

USD 'Million	May 2017 Avg		June 2017 Avg		1-Month +/-%		YTD 2017		2016 Avg		2015 Avg	
LNG												
Newbuild (DFDE, Atlantic Max)	182		179		-2%		185		196		200	
PETROLEUM												
VLCC												
Newbuild	78		79		1%		80		89		96	
5-Year	60		62		3%		60		66		81	
Suezmax												
Newbuild	53		53		-		54		57		64	
5-Year	40		42		4%		41		47		60	
Aframax												
Newbuild	43		43		-		43		46		53	
5-Year	29		30		3%		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	47	29	-2%	-2%	48	29	49	30	59	31
Secondhand Prices - 10 years	34	15	34	15	-	-	34	15	36	17	37	16

FLEET DEVELOPMENT

No. of Vessels	Current Fleet	2017	2018	2019+	2020+	Total Orderbook	Orderbook as % of Fleet
LNG							
LNG Carriers	448	46	42	28	5	121	27%
PETROLEUM							
VLCC	675	20	39	18	0	77	11%
Suezmax	502	28	28	8	0	64	13%
Aframax	674	25	43	15	4	87	13%

INDUSTRY HEADLINES

SHIPPING: All eyes on the sulphur cap

The ability of the maritime industry to proceed with a co-ordinated environmental strategy will soon be on display as the 0.5% sulphur cap edges closer to reality. While the ballast water management convention comes into force this upcoming September, its attachment to IOPP renewal surveys strips away the collective nature that characterises the implementation of the 2020 sulphur cap. Just two and a half years away from the cap, fundamental practical questions about the transition and the potential logistical challenges that may arise have yet to be addressed.

Source: Lloyd's List

PETROLEUM: Tanker fleet growth at 2.41% over the first five months of 2017 says shipbroker

Tanker owners are seeking for rays of hope in a gloomy environment of late, with demand slowing down and fleet growth rising. Latest weekly report, Allied Shipbroking said that "news of U.S. inventory decline has hit the market by surprise with prices of the commodity showing some quick revival as OPEC continues to push with its production cuts limiting trading volumes and increasing bullish sentiment amongst investors. The prevailing sentiment has been holding for some months now that the supply glut has managed to still hold despite efforts that had been made since the final quarter of 2016. We are likely seeing a reversal to the prevailing trends and as such an increase demand which could help bolster the price of crude oil further. This however could have negative repercussions on the tanker trade, as the continual limit of production volumes could end up leaving for a sluggish trade and limited activity in the freight market". According to Head of Market Research & Asset Valuations, "on the plus side, however we may well see an increased demand for imports from the U.S. in the case that an effort is made to bolster inventories once more. The positive sign from all of this is that we are starting to see a slight revival in demand, especially from Western economies, while the Far East should continue to keep its insatiable demand going.

Source: Hellenic Shipping News Worldwide

SHIPPING: Ship demolition market hits standstill, while shipping needs more scrapping to recover

While all shipping markets are eagerly awaiting for more ship scrapping activity moving forward, in order to be able to alleviate the tonnage oversupply and stage a viable and sustainable recovery, things don't seem to be able to move that way. In its latest weekly report, the world's leading cash buyer of ships, GMS, said that "negotiations, fixtures and overall local activity ground to a virtual standstill this week with most end buyers focusing their attention on the budgets of Pakistan and Bangladesh, before deciding on whether to / what to offer on future tonnage". According to GMS, "the general expectation, based on the prevailing rumours, is that prices will likely soften depending on the outcome of the budgets. This expectation remains bolstered by the advent of the monsoon / summer season, which has historically been a quieter period in the sub-continent recycling markets. However, there has been an omnipresent demand persisting from most recycling locations, where many end buyers who had purchased vessels at the peak of the market, remain keen to even out some of those high-priced fixtures, with new ones at the current (lower) levels. Meanwhile, it has become a tricky time at the waterfront for owners who failed to secure first class counterparties on their fixtures as news of several renegotiations and frivolous money— reducing games plague the industry once again. Additionally, the commencement of the Holy month of Ramadan will result in reduced working hours in addition to a reduction in appetite / aggression to acquire new units.

Source: Hellenic Shipping News Worldwide

PETROLEUM: VLCC market on volatile mode, but strong Middle East demand a positive sign

As the crude tanker market looks set for another downward cycle, news this week that VLCC rates were volatile on mixed sentiment came as no surprise. Yet, the week ended with modest gains on strong Middle East demand. In its latest weekly report, shipbroker Charles R. Weber said that "there were 33 reported fixtures in the Middle East market, representing a 94% w/w gain – and the loftiest tally in four weeks. Meanwhile, the West Africa market was less active with the reported tally halving from last week's two-month high to five fixtures. Mixed sentiment is guided by both uncertainty over the extent of July loadings in the Middle East as no official Basrah stems were released for the month while an unofficial program is circulating that suggests loadings will be at a multiple-year low (though this may not include some exchange traded cargoes and may be incomplete). This week's pullback in West Africa demand adds to overall demand uncertainty. On the positive side, the surplus tonnage appears likely to decline progressively during July".

Source: Hellenic Shipping News Worldwide

INDUSTRY HEADLINES

PETROLEUM: Tankers: WAF-UKC Suezmax freight rates fall to 10-month low on weak demand

The cost of sending crude oil from West Africa to UK-Continent on Suezmaxes has dropped to a 10-month low due to weak demand, as well as the growing Suezmax fleet, according to market sources this week. The West Africa to UK-Continent Suezmax route, basis 130,000 mt, was assessed at $6.19/mt on Monday, the lowest since it was assessed at $5.05/mt on August 23, according to S&P Global Platts data. Prices are typically weaker at this time of year as demand does drop off in the summer months, sources said. However, the Suezmax fleet is growing quickly at a time when OPEC cuts are restricting supply. According to Affinity Tankers data, there will be 40 Suezmaxes delivered this year, with the order book out to 2019 representing 14% growth of the current fleet.

Source: Platts

PETROLEUM: Tankers: Cross-Mediterranean Aframax route at seven-month low

The cost of taking crude oil on the cross-Mediterranean route on Aframax vessels has fallen to a seven-month low due to a tonnage list that has lengthened rapidly in the past few weeks, sources said. With delays in the Turkish strait at one day both northbound and southbound and minimal bad weather and sea fog, charterers have been able to pressure freight rates, leaving ship-owners to complain that current rates are pushing earnings close to operating costs, sources said. The cross-Mediterranean Aframax route, basis 80,000 mt, was assessed at $6.15/mt Tuesday, the lowest since $6.08/mt on November 7, S&P Global Platts data showed.

Source: Platts

PETROLEUM: More than 50 VLCCs storing crude oil

More than 50 VLCCs are currently being used for crude storage - most of which in Asia - given the declining oil price, says Affinity Research. A 10% fall in oil prices since late May has pushed owners and traders to store their cargo off Singapore. Nick Pugh, tanker market analyst at Affinity, told TradeWinds: “We have seen an upward trend in floating storage capacity between September 2016 and late April this year, peaking in February at approximately 70m barrels. “Late April-May saw approximately 10m barrels of this storage shifted ahead of OPEC’s production extension, but recent weeks have seen bolstered storage as the oil price continues to decline. “There are currently more than 50 VLCCs being used for storage, with around 70% cent of these positioned off the Singapore coast/Straits of Malacca, most likely destined for the Far East as the market inverts.” Shipping data cited by Reuters suggest that at least 15 supertankers are sitting in the region laden with unsold fuel.

Source: TradeWinds

LNG: LNG Pacific freight rates rise 30% in week as buyers scramble for vessels

Spot day rates to charter LNG carriers in the Pacific have risen 30% over the past week, a second hike in rates in just over a week amid a tightening of availability east of Suez. S&P Global Platts Friday assessed Pacific day rates for LNG vessels at $35,000, up from $27,000 a week ago, marking a sharp spike in rates for a market that had been static since early April. Woodside is reported to be in discussions to use a Coolpool vessel for a mid-July load, although the deal has not yet been finalized, while a second vessel, the Grace Dhalia, was heard on subjects for loading out of Papua New Guinea. Exxon was also heard to have fixed the Gaslog Salem for the end of June. Shipping sources said the Woodside request will likely be the Gaslog Singapore loading out of Pluto, with a hire rate in the mid-$30,000s/day. One source said a positioning fee and a hire component above 50% with fuel is included in the ballast bonus, although this could not be corroborated. Exxon also paid around the mid-$30,000s/day range for its vessel, sources said, with one saying it was done with round-trip economics.

Source: Platts

LNG: Pertamina pulls plug on tender for Cilacap FSRU

Indonesian state energy company Pertamina has cancelled a tender for a floating storage and regasification unit (FSRU) to supply LNG to a power plant serving a refinery near Cilacap on the island of Java. The company is understood to have put the tender on hold in February but has now confirmed it is pulling the project. LNG consultants in Southeast Asia say the fall in the price of oil has been a key factor in the decision, adding that gas is currently more expensive than diesel.

Source: TradeWinds

INDUSTRY HEADLINES

LNG: LNG freight rates unruffled by Qatar crisis

Liquefied natural gas freight markets have emerged largely unscathed from the continuing Qatar crisis, despite some uncertainty, as voyage charter rates remain stable at the $38,000 per day level, according to ship brokers. This is roughly 20% higher than a year earlier and an increase from year-lows of around $32,000 per day seen in the April-May period when markets had eased after winter demand. While market players are still wary of any new developments in the Middle East, spot LNG carrier demand has not been affected, and 10-11 vessels are still available between the Atlantic Basin and the Middle East, brokers said. Market sentiment was supported by a flurry of deals and tenders in the last few weeks, including the agreement between Qatargas and Shell that was signed in the midst of the trade sanctions, indicating that LNG markets continue to function normally. Over the weekend, Qatargas agreed to deliver up to 1.1m tonnes of LNG annually to Shell for five years starting in January 2019.

Source: Lloyd's List

OFFSHORE: Global offshore oil struggles to find its footing: Fuel for Thought

Global offshore oil production has been the most sluggish and recovery resistant sector in the oil industry during the last three years of slumped oil prices, but the arena is showing signs of adaptation and resiliency thanks to new cost-paring measures that in some cases allows offshore projects to compete with shale. The need to reduce costs is not only critical for private companies and national oil companies. The world needs oil from those projects to meet future demand. "The offshore sector, which accounts for almost a third of crude oil production and is a crucial component of future global supplies, has been particularly hard hit by the industry's slowdown," the International Energy Agency said in a recent report. "In 2016, only 13% of all conventional resources sanctioned were offshore, compared with more than 40% on average between 2000 and 2015," IEA said. As the industry adjusts to what could be a lower-for-longer oil price and what investment bank Barclays has called a "new oil paradigm," the offshore sector is becoming more compact, nimble and phased, Barclays analyst David Anderson told S&P Global Platts. Breakeven prices for offshore projects generally are around $50-$60/b, analysts say, higher than world oil prices which have hung in the mid-$40s/b to low-$50s/b in the last year.

Source: Platts

OFFSHORE: Offshore markets to bottom out by end-2018

Offshore markets will need another 18 months to recover from the doldrums with a prolonged supply overhang amid slow scrapping, attendees of Marine Money Offshore were told. Since oil prices collapsed in 2014, energy companies have sharply cut back spending on offshore projects, resulting in much lower demand for offshore services, rigs, drillers and other mobile units. "Globally, the downturn has resulted in the biggest drop in capital expenditures [in exploration and production] ever seen," said Rystad Energy partner Jon Fredrik Muller, referring to the fall between 2014 and 2016. However, as several major players, including ExxonMobil and Oil and Natural Gas Corp, have started to award offshore energy production projects this year, Mr Muller said he is seeing more positive signs. According to estimates by Rystad Energy, global offshore exploration and production capital and operating expenditures will grow by an aggregate 14% in 2018-2022 after declining by another 9% in 2017. "The offshore market is forecast to reach bottom in 2017 and 2018," Mr Muller said. Offshore sanctioned amounts, referring to Investment amounts in Greenfield offshore projects during the first investment year, will recover from $38bn in 2016 to $60bn in 2017, $71bn in 2018, $97bn in 2019 and $157bn in 2020, data from the consultancy showed. "With increasingly competitive projects, offshore sanctioning activity is to gradually return," Mr Muller said. However, the recovery is expected to come amid prolonged oversupply, as scrapping remains slow.

Source: Lloyd's List