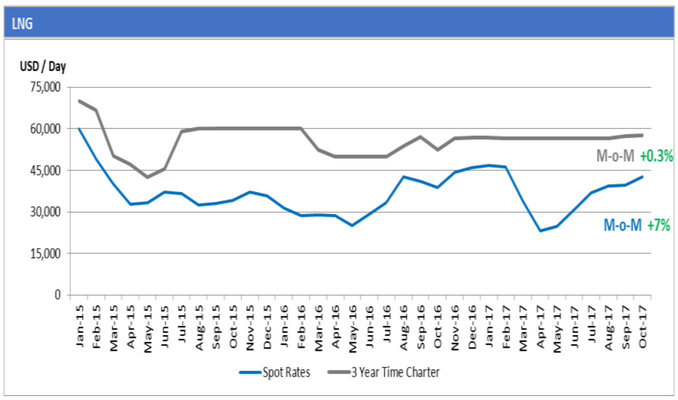
MISC Monthly

November 2017

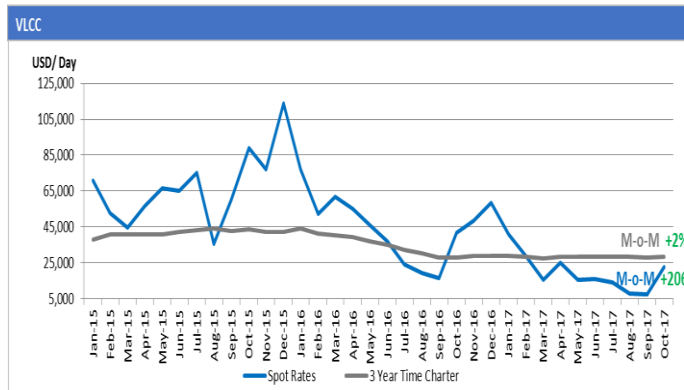
moving energy to build a better world

MISC Financial Calendar	
4Q 2017 Quarterly Results	9 February 2018
MISC Announcements	
Proposed Disposal by MISC Enterprises Holdings Sdn. Bhd., a wholly-owned subsidiary of MISC, of the 25% equity interest in Trans-Ware Logistics (Private) Limited ("TWL") to John Keells Holdings PLC ("JKH")	

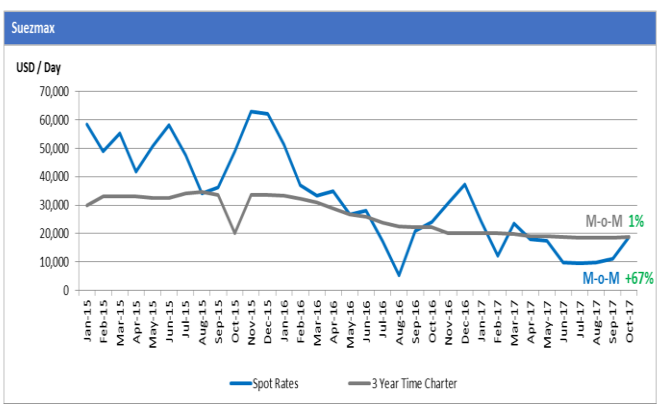
FREIGHT MARKET



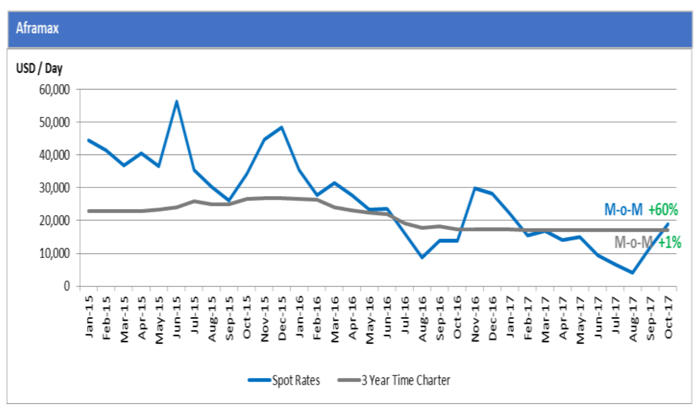
- Spot rates on the rise driven by higher demand from China.
- China's decision to cut back coal consumption in the forthcoming winter season to lower their pollution level has also benefited the LNG demand trade and shipping market.
- On supply side, vessel availability in the spot market is tight, giving shipowners an upper hand in commanding higher rates.



- Despite holidays in the Far East this month, the spot market firmed up, with steady demand in all regions supporting rises in rates on the majority of featured routes.
- Activity in the MEG has increased and with enquiry in WAF have supported more bullish sentiment amongst owners.
- Availability of modern tonnage has also remained limited, with two deliveries this month.



- Spot rates increased substantially mid of the month, as rates jumped in West Africa on the back of increased enquiry and a very tight tonnage list.
- In the Mediterranean area, the strong Aframax market also led to slightly more Suezmax activity in the region.
- The fleet grew by three newbuilds, bringing it to 53 vessels delivered year to date.



- Rates were fairly stable, supported by increased activity in the Mediterranean and Black Sea regions. Improvements in the North Sea and Baltic were also apparent.
- Med/Black sea region were active, driven by bad weather and increased Turkish Straits delays.
- There were two Aframax deliveries in October 2017, raising the year to date deliveries to 60 vessels.

FREIGHT MARKET

USD/Day	Sep 2017 Avg	Oct 2017 Avg	1-Month +/-%	YTD 2017	2016 Avg	2015 Avg
LNG						
Spot Rates	39,700	42,625	7%	36,429	34,796	38,430
1 Year Time Charter	39,200	40,000	2%	35,726	32,639	36,119
3 Year Time Charter	57,300	57,500	0.3%	56,705	54,079	56,750
PETROLEUM						
VLCC						
Spot Rates	7,397	22,646	206%	19,426	44,900	67,279
1 Year Time Charter	24,600	26,375	7%	27,418	38,367	45,805
3 Year Time Charter	28,000	28,500	2%	28,351	34,496	41,869
Suezmax						
Spot Rates	11,218	18,726	67%	15,459	28,897	50,411
1 Year Time Charter	17,000	17,438	3%	18,789	27,381	35,024
3 Year Time Charter	18,500	18,688	1%	19,139	25,785	31,956
Aframax						
Spot Rates	11,886	19,026	60%	13,464	23,368	39,614
1 Year Time Charter	14,600	15,125	4%	15,773	22,335	26,577
3 Year Time Charter	17,000	17,125	1%	17,050	20,957	24,619
MR2						
1 Year Time Charter	13,125	13,531	3%	13,098	15,078	17,754
CHEMICAL						
Spot Rates (USD/Tonne)						
Rotterdam - Far East	109	108	-2%	107	107	105
Rotterdam-Taiwan	85	84	-1%	82	80	85
Gulf-Far East	35	38	7%	35	38	46
Singapore-Rotterdam	77	79	3%	75	76	91
Time Charter (USD/Day)						
1 Year Time Charter 19,000 dwt	13,000	12,750	-2%	13,225	15,513	15,233
1 Year Time Charter 37,000 dwt	10,750	12,438	16%	11,226	13,995	15,877

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ASSET VALUE

USD 'Million	Sep 2017 Avg		Oct 2017 Avg		1-Month +/- %		YTD 2017		2016 Avg		2015 Avg	
LNG												
Newbuild (DFDE, Atlantic Max)	182		182		-		183		196		200	
PETROLEUM												
VLCC												
Newbuild	81		81		-		80		89		96	
5-Year	62		62		-		61		66		81	
Suezmax												
Newbuild	54		54		1%		54		57		64	
5-Year	41		40		-2%		41		47		60	
Aframax												
Newbuild	43		43		-		43		46		53	
5-Year	30		30		-		30		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	47	29	47	29	-	-	48	29	49	30	59	31
Secondhand Prices - 10 years	34	14	33	14	-3%	-	34	14	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	24	40	35	8	107	24%
PETROLEUM							
VLCC	684	5	41	28	2	79	11%
Suezmax	514	8	31	9	-	50	9%
Aframax	674	11	49	18	9	88	13%

INDUSTRY HEADLINES

SHIPPING: IMO fails to recognise urgency of climate action

Calls for urgent action to reduce ship greenhouse gas emissions have been met with heavy push-back by many states and big industry groups meeting at the International Maritime Organisation (IMO). A group of Pacific Island and mainly European states clashed repeatedly with those saying that decisions on immediate measures should await the final iteration of the IMO's comprehensive GHG strategy in 2023, rather than be part of the "initial" strategy in 2018. Green groups Seas At Risk and Transport & Environment, which are members of the Clean Shipping Coalition (CSC) [1], said the most obvious immediate measure is to regulate ship speed, with the feasibility and effectiveness of slow steaming having been proven during the recession. John Maggs, senior policy advisor at Seas At Risk and president of the CSC, said: "Can a strategy that doesn't prioritise emissions reductions in the next six years be considered 'comprehensive' or indeed fit for the urgent purpose of tackling the climate crisis? We don't think so. The IMO meeting heard that ship greenhouse gas emissions are rising again and need to peak soon, but key flag states and developing countries blocked an agreement to prioritise and develop measures for immediate short-term emission reductions."

Source: Seas at Risk

SHIPPING: Sale and lease back of ships a growing trend among ship owners, with the help of Chinese financial institutions

China has been growing as an alternative source of financing, when it comes to shipping. The gradual exit of the ship financing market by traditional banks and the recent fall of the hedge fund frenzy which swept the industry a few years back, has left more than enough room to be exploited by other lenders. Chinese banks have exploited this opportunity to grab and increase their market share, mainly through refinancing deals. According to the latest weekly report from shipbroker Gibson, "the retreat of the traditional forms of ship finance since the financial crisis, prompted by the Lehman Brothers crash and subsequent turmoil since 2008, has forced shipowners to seek alternative funding methods in order to finance replacement tonnage. Since 2008 it has been well publicised that the traditional European and US banks have worked hard to reduce their exposure to the volatile shipping markets and ran down their portfolios".

Source: Hellenic Shipping News Worldwide

PETROLEUM: Southeast Asia crude imports to more than double by 2040: IEA

Southeast Asia's net crude oil imports will more than double by 2040 as the region adds new refining capacity to meet rising demand while oil output falls, according to the International Energy Agency (IEA). The region, together with China and India, will account for about two-thirds of global oil demand growth over the next 20 years. Southeast Asia's net crude imports will grow to 5.5 million barrels per day (bpd) by 2040 from 2.1 million bpd now, as refining capacity grows by 60 percent to 7.7 million bpd, the IEA said in a report this week. "A number of risks exist, not least the reliance on a small number of Middle East suppliers, while pressure on the Strait of Malacca intensifies due to the lack of viable alternatives," the agency said, referring to the busy shipping route through which the majority of Asia's crude imports pass.

Source: IEA

PETROLEUM: Clean tankers' outlook for 2018 still lacklustre

The oversupply of clean tankers remains a concern when the market is functioning without disruptions, as shown by the fall of earnings to five-year lows recently. However, supply shocks can still create short-term shortages, during which there are rate spikes. This indicates the supply overhang is not as dramatic as it appears at first glance. A recent example is the short-lived boost in earnings of large-sized vessels after Hurricane Harvey. The market shock included the immediate disruption caused by waterway and refinery closures as well as draft restrictions in some US Gulf locations. This appeared to have encouraged more long-haul shipments on long range tankers, temporarily driving up rates on larger ships. Another plus to the supply disruptions has been a drawdown in product inventories in some locations on both sides of the Atlantic as US refiners have been running at lower rates.

Source: Lloyd's List

INDUSTRY HEADLINES

PETROLEUM: VLCC tanker on a high roll

Despite the decline of tanker fixtures in the Middle East market, VLCC rates remained in positive territory through much of the past week, as the market continued to react to narrowing fundamentals and sentiment remained positive as participants expect a further narrowing going forward, while a modest paring occurred on Friday. In its latest weekly report, shipbroker Charles R. Weber, said that Indeed, the gains came despite a slowing of demand as charterers were slow in progressing into October dates and demand in the West Africa market eased. There were 20 fixtures reported in the Middle East market, representing a 33% w/w decline. Meanwhile, in the West Africa market, just three fixtures were reported, off from eight last week.

Source: Hellenic Shipping News Worldwide

PETROLEUM: VLCC tonnage oversupply to diminish in October says Shipbroker

In the Suezmax tanker market, the shipbroker said that "the West Africa Suezmax market was softer this week on a scaling back of regional demand against fresh availability gains. An easing of delays in the Black Sea contributed further to sentiment, as did softening rates in the Caribbean market and slower demand in the Middle East – all reducing the specter of forward tonnage sourcing issues in the West Africa market. There were seven fresh fixtures this week, representing a 36% w/w decline. Rates on the WAFR-UKC route shed 7.5 points to conclude at ws72.5. The Caribbean market was softer on an easing of Aframax rates which placed the Suezmax class at an even greater $/mt premium and brought Aframaxes into the fray as an alternative – even if only as an argument point for charterers. Demand levels were healthy irrespectively; eleven regional fixtures were reported, including six for USG crude exports and two for fuel oil exports. Rates on the CBS-USG benchmark shed five points to conclude at 150 x ws72.5", CR Weber concluded.

Source: Hellenic Shipping News Worldwide

PETROLEUM: Tankers: Black Sea-Med Aframax route hits 4-month high on tight tonnage

The cost of taking crude oil from the Black Sea to the Mediterranean on Aframaxes hit a four-month month high Monday due to bad weather and an extremely short tonnage list, sources said. The Aframax route from the Black Sea to the Mediterranean, basis 80,000 mt was assessed at Worldscale 145 or $10.80/mt Monday, the highest since May 23 when it was valued at $11.18/mt or w150. The Russian Black Sea port of Novorossiisk was hit by bad weather last week, which delayed a lot of vessels by up to a week as they were stuck at anchorage outside the CPC and Sheskharis terminals waiting to load, sources said. This has squeezed the tonnage list and there are so few Aframaxes which can actually make the current loading window in the Black Sea of October 20-25 that charterers have been looking at taking Suezmax vessels with part-cargoes, sources said. Rates for cross-Mediterranean Aframax cargoes have also risen, and a number of stems have already been fixed on Suezmaxes as well, which may cap Aframax prices, a shipbroker said.

Source: Platts

LNG: Shipping's focus on carbon emissions to hasten pace of LNG bunkering

Increasing focus on carbon emissions and with the International Maritime Organization's global sulfur cap set to kick in from 2020, shipowners are eyeing LNG dual fueled engines for newbuilds to stay flexible in an uncertain price environment, sources said at an industry event Thursday. The looming 0.5% sulfur cap is the biggest issue for shipping right now because it covers the high seas too, Michihiko Nakano, general manager bunker business office, Mitsui O.S.K. Lines, said at the Gas Asia Summit & Exhibition, held as part of the Singapore International Energy Week. The rule would affect more than 70,000 ships and required the industry to act swiftly, he said. Several options exist to comply with this rule. This includes distillates, low sulfur fuels, scrubbers with HSFO, and other alternatives, mainly LNG. "Improving logistics, development of engineering, rule making, and environmental consciousness make LNG a promising option as a marine fuel," Nakano said. "We are ready to go into LNG fuel and LNG bunkering together with good partners."

Source: Platts

INDUSTRY HEADLINES

LNG: Spot LNG shipping fleet to post an operating loss of US$230m in 2017

The pressure on LNG shipping spot rates will continue for another year on account of strong fleet growth. However, rates should strengthen from 2019 as fleet growth slows and trade remains strong, according to the latest edition of the LNG Forecaster report published by global shipping consultancy Drewry. Spot rates (East of Suez) for modern LNG vessels averaged $33,000pd in the nine months to September 2017, an increase of 5% compared with the same period last year. While current spot rates are enough to cover operating costs of around $15,000pd, they are still below breakeven, which ranges between $45,000pd and $60,000pd. Drewry Maritime Financial Research calculates that the global spot fleet will make aggregate operating losses of USD 230m in 2017. Shipowners with substantial spot market exposure face continued challenges as Drewry expects pressure on the freight market to continue in 2018 on account of strong fleet growth.

Source: Drewry

OFFSHORE: Offshore indicators: High hopes from a long way down

Since the onset of the downturn in 2014 it has been a pretty bleak few years for the offshore sector, with the occasional chinks of light on the horizon often quickly clouded over. More recently there have been indications that things might be clearing up a little and so sentiment has improved somewhat. But it is worth recalling just how low the barometer has sunk in order to put these things in perspective. A range of indicators, of different degrees of precision, can be useful when attempting to assess the state of the offshore sector. Since the start of 2017, high level indicators have helped to induce slightly more positive sentiment. For instance, the oil price so far in the year has averaged $51.90/bbl (up 25% y-o-y). Oil company offshore E&P spend, meanwhile, is expected to fall by around 5% in the full year; not ideal, but certainly better than the 19% and 27% cuts in 2015 and 2016. Estimated offshore project CAPEX is also up by 9% y-o-y on an annualised basis (at around $45bn in the year to date as of start October), with project sanctioning sentiment having perked up. Reduced offshore exploration and development activity has naturally translated to challenged vessel markets. A total of 129 jacks-ups and floaters also remain cold stacked, up 87% on October 2014. So again, though there are a few encouraging signs on a regionalised basis, things are still a long way down. In general then, key offshore indicators have been slightly more positive in 2017. But even with these small improvements, things clearly remain challenged. The sector has a long way still to go before it reaches the sunnier climes once more.

Source: Clarksons

HEAVY ENGINEERING: Expectations drive the newbuilding market

Rosier outlook for the future of the shipping markets has prompted a series of renewed newbuilding ordering activity, with dry bulk carriers leading the foray. In its latest weekly report, shipbroker Allied Shipbroking said that "for a second week in a row, we see a healthy volume in terms of ordering, confirming in a way the expressed anticipation early on in the year for a strong newbuilding market for the later part of this year. In the dry bulk sector, even if activity has considerably slowed down compared to previous weeks, we have seen another modest flow of new orders emerging this week, with the uptrend in momentum and the positive outlook coming from the freight market helping feed the market with more and more buying interest. On the other hand, for the tanker sector things remain pretty uncertain, with a mixed sentiment among the interested parties, keeping new ordering activity to a minimum. Having seen some notable movement this past week, we have yet to identify how things will be effected once we start to see a strong rise in quoted prices, or will an over confident shipbuilding industry hamper the positive momentum being noted with a too sudden rise in prices.

Source: Hellenic Shipping News Worldwide