MISC Monthly

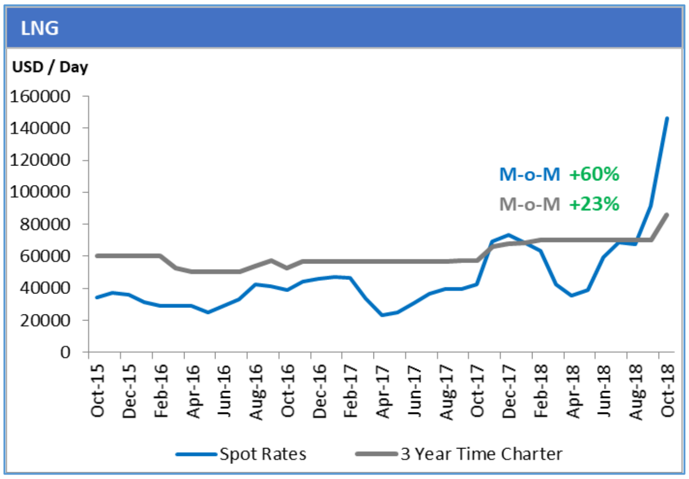
November 2018

moving energy to build a better world

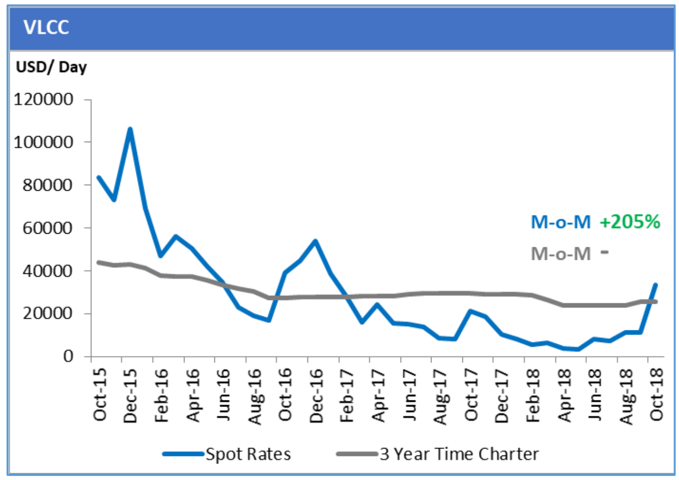
MISC Financial Calendar	
3Q 2018 Quarterly Results	Monday, 19th November 2018

MISC Announcements
Award of Contract: MISC through its 51%-owned joint-venture with PetroVietnam Technical Services Corporation ("PTSC"), has been awarded a time charter contract by Idemitsu Kosan Co., Ltd. ("IKC") for the provision of a floating storage and offloading vessel.

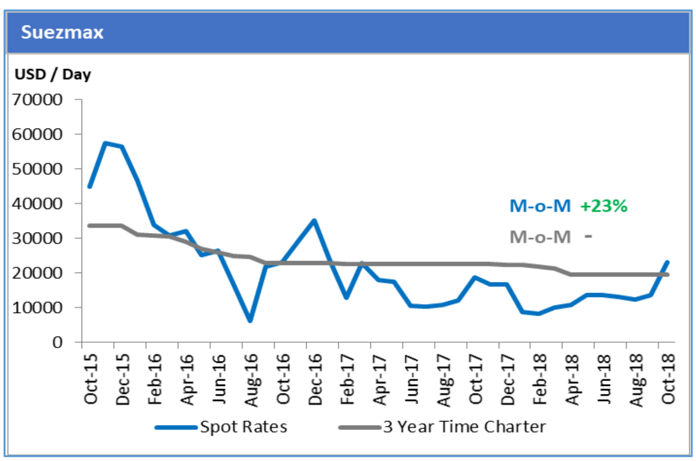
FREIGHT MARKET



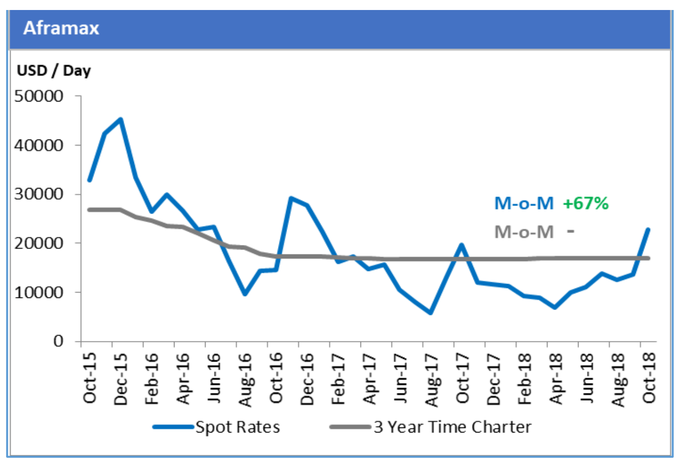
- LNG spot rates continued its upward rise as we enter the winter months.
- As further shipping demand grows, availability of tonnage remains low across all basins contributing to the spike in spot rates.



- VLCC rates surged in October to levels not seen since January 2017. Chartering activities in the Middle East and West Africa and tight vessel availability in the Atlantic helped push rates up.
- Strong demand from the Far East helped increase long haul voyage demand.
- There were five new deliveries and two demolitions in October.



- Suezmax market rose on the back of a firming VLCC market. Higher rates were seen across most trade routes particularly out of the Black Sea and Mediterranean.
- Transit delays in the Turkish Straits tied up vessels and also helped push the rates up.
- There was one new delivery and one demolition seen in October.



- Aframax segment posted strong increase in rates in October. Increased chartering activity from North Sea / Baltic region to Europe and strong demand out of the Black Sea / Mediterranean helped push rates up.
- There were three new deliveries and seven demolitions in October.

MISC Monthly

November 2018

FREIGHT MARKET

USD/Day	September 2018 Avg	October 2018 Avg	1-Month +/-%	YTD 2018	2017 Avg	2016 Avg
LNG						
Modern Tonnage						
Spot Rates	91,125	146,250	60%	68,214	42,222	34,796
1 Year Time Charter	92,500	102,500	11%	74,200	38,824	32,639
3 Year Time Charter	70,000	85,750	23%	71,388	58,369	54,079
Steam Engine						
Spot Rates	56,375	76,250	35%	40,898	27,735	26,465
1 Year Time Charter	56,250	61,875	10%	40,513	26,381	20,194
3 Year Time Charter	35,750	51,500	44%	36,405	32,631	29,771
PETROLEUM						
VLCC						
Spot Rates	10,987	33,491	205%	9,832	18,242	41,363
1 Year Time Charter	23,000	26,125	14%	21,308	27,143	36,554
3 Year Time Charter	25,750	25,750	-	25,540	28,786	33,002
Suezmax						
Spot Rates	13,510	23,111	71%	12,740	15,856	27,260
1 Year Time Charter	17,000	17,250	1%	16,428	18,534	27,299
3 Year Time Charter	19,500	19,500	-	20,193	22,507	26,296
Aframax						
Spot Rates	13,671	22,809	67%	12,042	13,933	22,885
1 Year Time Charter	14,250	15,219	7%	14,248	15,511	21,491
3 Year Time Charter	17,000	17,000	-	16,950	16,865	20,603
MR2						
1 Year Time Charter	12,438	12,344	-1%	13,094	13,219	15,078
CHEMICAL						
Spot Rates (USD/Tonne)						
Rotterdam - Far East	113	114	1%	116	105	107
Rotterdam-Taiwan	82	85	4%	89	83	80
Gulf-Far East	41	41	-	42	37	38
Singapore-Rotterdam	79	80	1%	80	76	76
Time Charter (USD/Day)						
1 Year Time Charter 19,000 dwt	12,750	12,750	-	12,900	13,146	15,513
1 Year Time Charter 37,000 dwt	11,250	11,250	-	11,528	11,438	13,995

MISC Monthly

November 2018

ASSET VALUE

USD 'Million	September 2018 Avg		October 2018 Avg		1-Month +/-%		YTD 2018		2017 Avg		2016 Avg	
LNG												
Newbuild (DFDE, Atlantic Max)	185		N/A		N/A		166		183		196	
PETROLEUM												
VLCC												
Newbuild	90		90		-		87		80		89	
5-Year	65		N/A		N/A		57		61		66	
Suezmax												
Newbuild	60		60		0.7%		58		54		57	
5-Year	45		N/A		N/A		39		41		47	
Aframax												
Newbuild	48		48		-		46		44		46	
5-Year	32		N/A		N/A		28		30		35	
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	32	N/A	32	N/A	-	47	31	47	29	49	30
Secondhand Prices - 10 years	33	14	N/A	14	N/A	-	33	13	33	14	36	17

FLEET DEVELOPMENT

No. of Vessels	Current Fleet	2018	2019	2020	2021+	Total Orderbook	Orderbook as % of Fleet
LNG							
LNG Carriers	492	13	36	31	10	90	18%
PETROLEUM							
VLCC	733	8	60	32	2	102	14%
Suezmax	568	8	24	20	2	54	10%
Aframax	643	13	60	21	18	112	17%

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INDUSTRY HEADLINES

SHIPPING: Ship operating costs expected to rise in 2018 and 2019

Total vessel operating costs in the shipping industry are expected to rise by 2.7% in 2018 and by 3.1% in 2019, according to our latest survey. Responses to our latest annual Future Operating Costs Survey revealed that drydocking is the cost category likely to increase most significantly in both 2018 and 2019, accompanied in the latter case by repairs and maintenance. The cost of drydocking is expected to increase by 2.1% in 2018 and by 2.3% in 2019, while expenditure on repairs and maintenance is predicted to rise by 2.0% in 2018 and by 2.3% in 2019. The increase in expenditure for lubricants is expected to be 1.9% in 2018 and 2.1% in 2019. Meanwhile, projected increases in spares are 1.9% and 2.2% in the two years under review, while those for stores are 1.6% and 1.9% respectively.

Source: Moore Stephens

SHIPPING: The fuel challenge in shipping

Choosing the most effective, sustainable and economically feasible strategy to comply with the new emission limits is not an easy task. The decision must be based in part on assumptions that may or may not prove to have merit. Amid the international environmental and climate-protection efforts, an impressive number of emission restrictions for shipping have come into force recently or will do so within the next few years. They are driving the search for low-emission alternatives to oil-based fuels. In particular, the decision of the International Maritime Organization (IMO) to limit the sulphur content of ship fuel from 1 January 2020 to 0.5% worldwide and the recently adopted ambition to reduce GHG emissions by 50% within 2050 have the potential to become game changers and have shipowners, operators and shipbuilders wondering which way to go. Currently up to 48 million tonnes of fuel with a sulphur content of 0.1% or less will be then needed annually. Once the IMO sulphur cap is in force, most of the fuel consumed (70 to 88%) will have a low sulphur content of 0.1 to 0.5% and will take the role of the high-sulphur fuel used today.

Source: DNV GL

PETROLEUM: Will history repeat itself this winter around?

Tanker owners will be looking forward to the upcoming winter period, typically the strongest of each year for the wet sector. However, they will also not be wishing for a repeat of last season, when the freight market failed to recover. In its latest weekly report, shipbroker Gibson said that “winter has typically been a period of stronger earnings and higher freight volatility for the tanker sector. However, the winter of 2017/2018 was a disappointment across all sectors, despite it being particularly cold in the Northern hemisphere. As analysts, this has made forecasting the 2018/2019 season all the more challenging. Higher demand from Chinese refiners seeking to fully utilize their crude import quotas and concerns about Iranian supplies has supported the market.

Whether or not the VLCC market can continue to move up throughout Q4, depends on part on how robust this buying activity remains and how lost Iranian barrels are sourced. So far OPEC has indicated that production will stay flat which, if true, is likely to force Asian refiners to source more from the Atlantic Basin, supporting tonne mile demand and VLCCs in particular. In fact, evidence has already emerged of stronger Chinese buying of West African grades, whilst Korean, Japanese and Chinese buyers have tapped into the US market. Potentially, this points to more barrels being shifted from Suezmaxes to VLCCs but of course is supportive for the entire crude tanker sector. Aframaxes will continue to see higher demand in the US Gulf, for both lightering and conventional trading operations as US crude remains one of the key sources of supply in the medium term.

Source: Hellenic Shipping News Worldwide

PETROLEUM: US Gulf-Asia VLCC rates hit fresh highs in spite of trade tensions

Growing Asian demand and rising shale output have created momentum for VLCC rates, despite China effectively pulling out of the market. Booming crude exports and high bunker prices have driven up VLCC rates in the US Gulf to previously unseen levels, a bullish development that analysts expect to last over coming weeks. While China has effectively stopped imports of US crude amid escalating trade tensions between the two countries, the US Gulf tonnage market has tightened with healthy crude demand from other Asian countries.

Source: TradeWinds

INDUSTRY HEADLINES

PETROLEUM: Iran woes may be tankers' gain

Ever since Washington decided to unilaterally withdraw from the Joint Comprehensive Plan of Action in May, there have been two schools of thinking over how the re-imposition of US sanctions on Iranian oil trades would affect crude tanker markets. On the one hand, the negative impact on shipping requirements by the removal of more than one million barrels per day (bpd) of Iranian crude seems straightforward. On the other, tonne-mile demand may actually increase if oil-consuming nations seek cargoes from farther afield. So far, the bulls have gained the upper hand.

Source: TradeWinds

PETROLEUM: Suezmax tanker owners can find hope for 2019, unlike their VLCC counterparts

As the tanker sector is still trying to recover part of the lost ground of the past couple of years in terms of earnings, shipbroker Charles R. Weber, in a recent research analysis, noted that supply fundamentals are bound to improve in the near future, at least for some segments, since VLCCs are about to post their biggest fleet growth since the '80s, not leaving much room for hope. According to the shipbroker, "Suezmax demand surged 12% y/y during the first nine months of 2018, easing the extent of an epic disjointing of fundamentals created by 7% decrease in demand between 2015 and 2017 coinciding with a 17% net fleet expansion. The improvement has already been well reflected in spot market earnings the class has observed: spot market earnings surged from a record quarterly low of ~$5,563/day during 1Q18 to ~$15,464/day during September and over $23,000/day today.

Source: Hellenic Shipping News Worldwide

PETROLEUM: New refining capacity in India to trigger crude demand

India is gearing up to be one of the major markets for crude oil demand, together with China. In its latest weekly report, shipbroker Gibson noted that "India, along with China has long been revered as a key driver of world oil demand growth. However, higher crude prices and a weaker rupee have seen domestic fuel prices surge. Now, with sanctions imminent against one of India's largest suppliers, consumers could see further price rises which may impact on their purchasing power. This begs the question; can the crude market really rely on India to drive demand over the coming years in a higher price environment?"

Source: Hellenic Shipping News Worldwide

LNG: LNG spot rates hover close to $200,000-per-day mark

Spot charter rates for modern LNG carriers are holding up at levels slightly shy of the eye-popping $200,000 per day paid last week, despite a quieter feel to trading. Owners and brokers said vessels have been offered out at daily rates of more than $220,000 but, early this week, there were no confirmed takers yet. Rates for gas-injection vessels were being pegged at between $185,000 and $195,000 per day, depending on where they are open for trading. Brokers have put levels for tri-fuel diesel-electric ships in the $165,000 to $175,000-per-day range, with even steam-turbine ships at daily levels of around $100,000 plus. The Baltic Exchange's trial BLNG rate index, which assesses a Gladstone-to-Japan round voyage on a 160,000-cbm, tri-fuel diesel-electric vessel, was held at just over $200,000 per day. They reported a quieter mood to the LNG chartering market, with virtually no open ships available and charterers appearing to hold off on their requirements. But they expect the bullish tone to continue into 2019.

Source: TradeWinds

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INDUSTRY HEADLINES

LNG: When will Yemen restart LNG exports?

Yemen's pipeline security committee was able to facilitate the export of an oil cargo in August, raising hopes for LNG exports from the country. Yemen exported an oil cargo in August – its first since civil war broke out in 2015 – raising the question of whether the country will restart its LNG exports. The presence of a newly formed pipeline security committee, comprised of local stakeholders, could help Yemen restart its LNG exports, as it has for oil exports. Having consolidated its influence over the area around the southern section of the pipeline in recent weeks, the tribe-backed committee is now in a strong position to facilitate the flow of gas to the LNG plant in the industrial port town of Balhaf in the Burum Coastal Area.

Source: Interfax Global Energy

LNG: Could LNG shipping spot rates hit $250,000/day?

Spot day charter rates for LNG carriers have hit their highest levels since mid-2012 on the back of low prompt availability of vessels in both the Atlantic and Pacific basins. This week, S&P Global Platts assessed Pacific and Atlantic day rates for LNG vessels at $140,000/day and $130,000/day, respectively, up 40% since mid-September, and nearly 3.5 times higher than a year ago when rates were still around $40,000/day. The surge in rates indicates that LNG supply is growing faster than new ships are being delivered. The year 2018 will see the largest number of newbuild LNG carriers added to the global fleet, taking it well past the 500 mark. Shipping typically accounts for 5%-20% of the delivered LNG price ex-ship, meaning big moves in rates can have a significant effect on the final price of gas, and the ability of traders to arbitrage LNG cargoes between regions.

Source: S&P Global Platts

LNG: LNG market facing looming tanker shortage – IEA

A shortage of new LNG carriers after 2020 is emerging as a potential bottleneck for the global LNG market, and could threaten the fuel's pivotal role in enhancing flexibility and security of global gas supply, according to a new report from the International Energy Agency (IEA). Growth in LNG shipping capacity is set to peak this year, with more than 50 new carriers with a combined capacity of 10 million cubic metres (MMcm) scheduled to be delivered, the IEA said in its third annual Global Gas Security Review, released on Monday. This growth in capacity represents an increase of around 13% from 2017 – nearly double the annual average over the past decade of 6.7%. This absence of available shipping capacity in a fast-growing LNG market could cause global supplies to tighten even before the limits of available liquefaction capacity are hit in the early 2020s as is widely anticipated. Industry participants have previously flagged the looming tanker shortage, with some predicting it could start to drive up the cost of shipping LNG from as early as next year.

Source: Interfax Global Energy

OFFSHORE: Offshore contractors prepare for upturn

Firmer oil prices and improving sentiment have been catalysts for several key strategic moves in recent days, as offshore contractors align themselves to make the most of the imminent upturn. Several mergers and takeovers signal more consolidation in the offshore sector as contractors seek to widen their appeal and capitalise on economies of scale. According to analysis by Oslo-based analysts Rystad Energy, the combined fleet will consist of 82 units comprising 28 floaters and 54 jack-ups. It is not yet clear whether the start of the offshore recovery is good news or not for rig operators with stacked units in Middle East waters. The region is home to the largest number of elderly jack-up rigs and principals are likely to focus on modern units which offer greater drilling efficiency. However, offshore-oriented shipyards will be watching the situation closely: rig mobilisation, refurbishment and upgrade contracts, which petered out following the downturn, would be most welcome.

Source: Seatrade Maritime