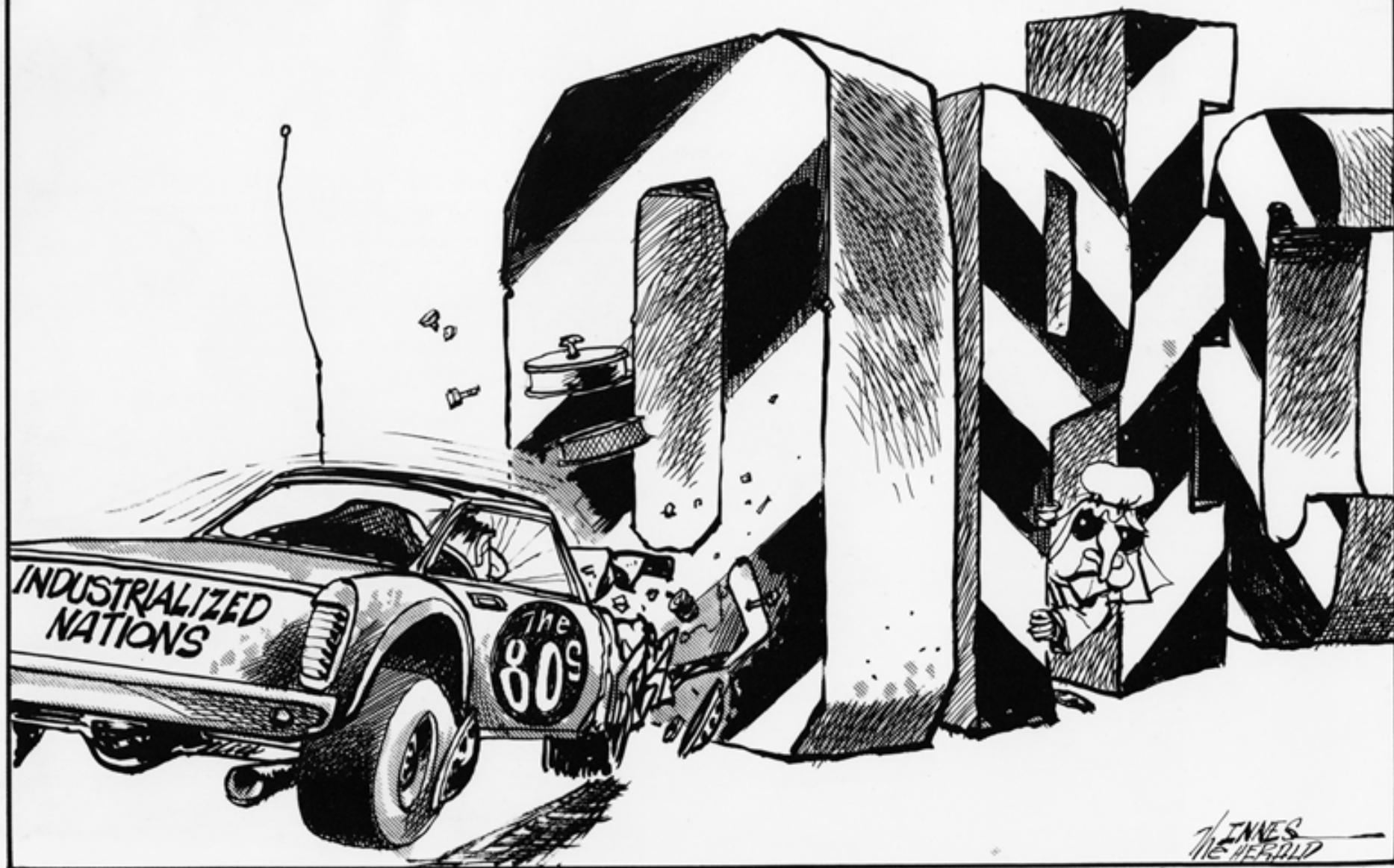


Tanker Market Status 2014-2018



08/05/2018

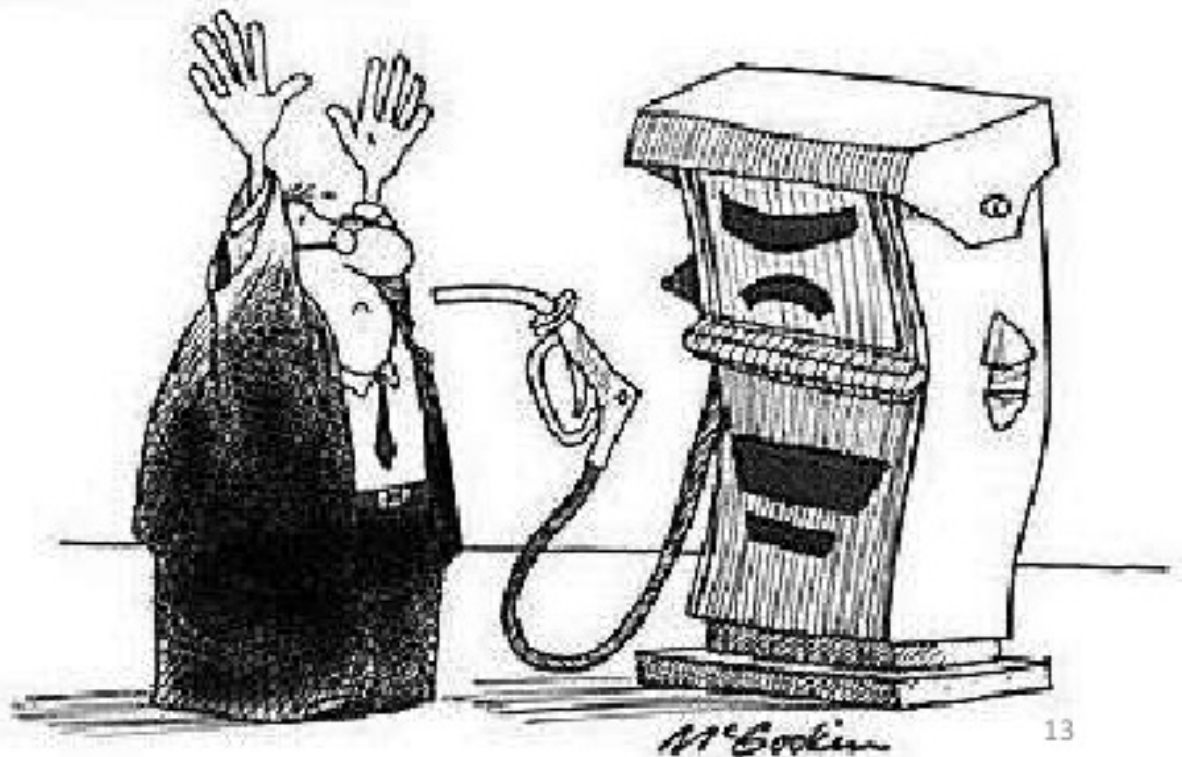
Flashback



INNES
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Thurs. Jan. 3/80

70's Crisis

- Two crisis during 1970's.
 - » 1973 Oil Crisis- Yom-Kippur War.
 - » 1979 Energy Crisis- Iranian Revolution.



Historical overview

- After the 1967 Six-Day War, Israeli forces occupied the Sinai peninsula, including the entire east bank of the Suez Canal. Unwilling to allow the Israelis to use the canal, Egypt immediately imposed a blockade which closed the canal to all shipping until 5 June 1975
- Suez Canal closure in 1967 saw tanker freight rates rocket and the beginning of a tanker building boom of larger and larger tankers built to trade round the Cape of Good Hope.

First Oil Crisis

- In 1973
- OPEC decided to quadruple the price of oil to almost \$12 a barrel.
- Oil exports to the United States, Japan, and Western Europe, which together consumed more than half the world's energy, were also prohibited.
- OPEC's decision was made in retaliation for Western support of Israel against Egypt and Syria during the Yom Kippur war (1973).



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Second Oil Crisis

- Iranian Revolution (1978–79).
- High levels of social unrest severely damaged the Iranian oil industry, leading to a large loss of output and a corresponding rise in prices.
- In 1981 the price of oil was stabilized at \$32 per barrel.



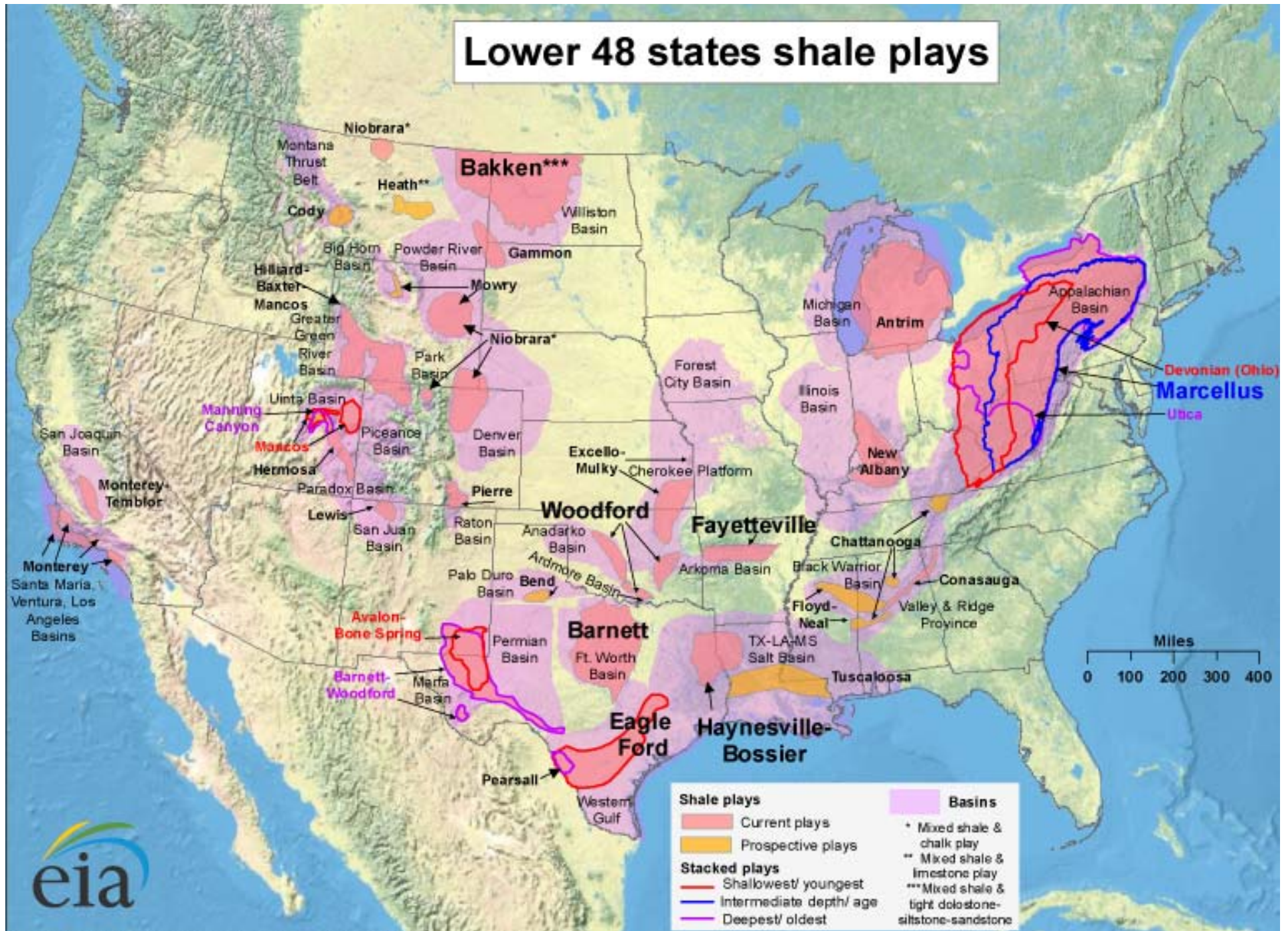
Aftermath

- Arab-Israel war 1973 and Arab oil embargo 1973/4 cut oil exports and hiked oil prices. Tanker demand collapsed.
- Oil price increased from \$2/bbl in the early 1970s to \$30/bbl by the end of the decade after the 1979 oil price shock.
- Suez Canal reopened in 1975, decimating tanker tonne-miles and leaving a large, modern tanker fleet, which increased by 250% during the 1970s, locked into chronic oversupply and floundering even before oil production started to decline in 1979.

Shale revolution



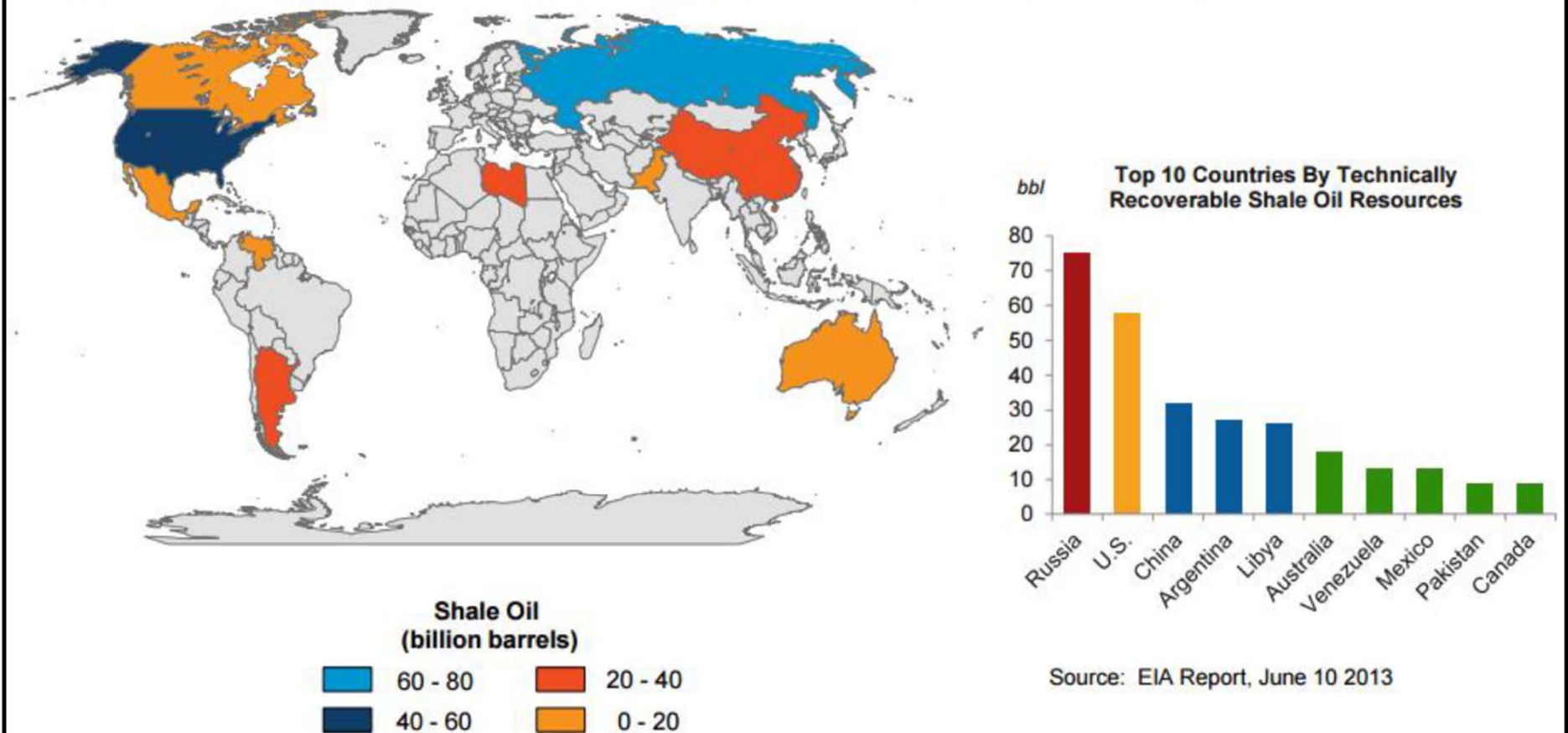
Lower 48 states shale plays



Source: Energy Information Administration based on data from various published studies.

Shale Oil Reserves

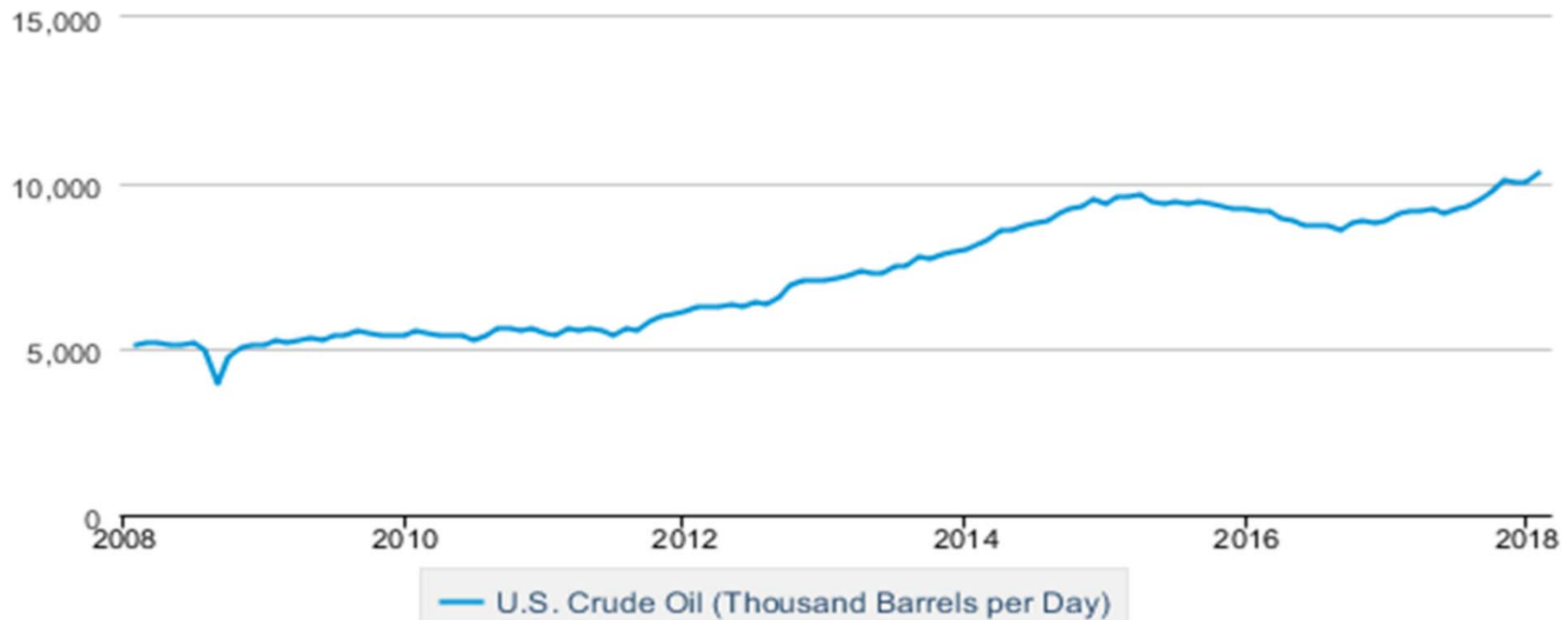
Top Ten Countries with Largest Shale Oil Resources



US Crude Oil Production

U.S. crude oil production

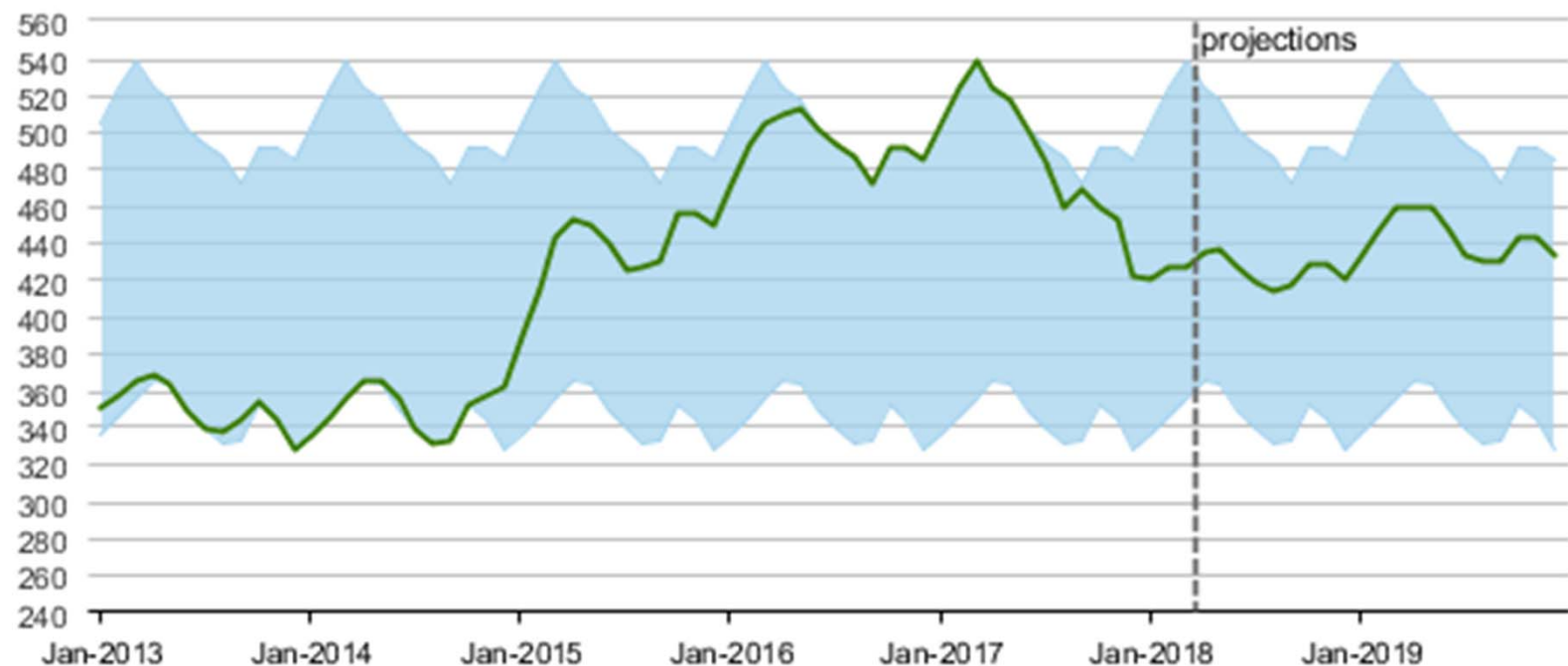
thousand barrels per day



Source: U.S. Energy Information Administration

U.S. commercial crude oil stocks

million barrels



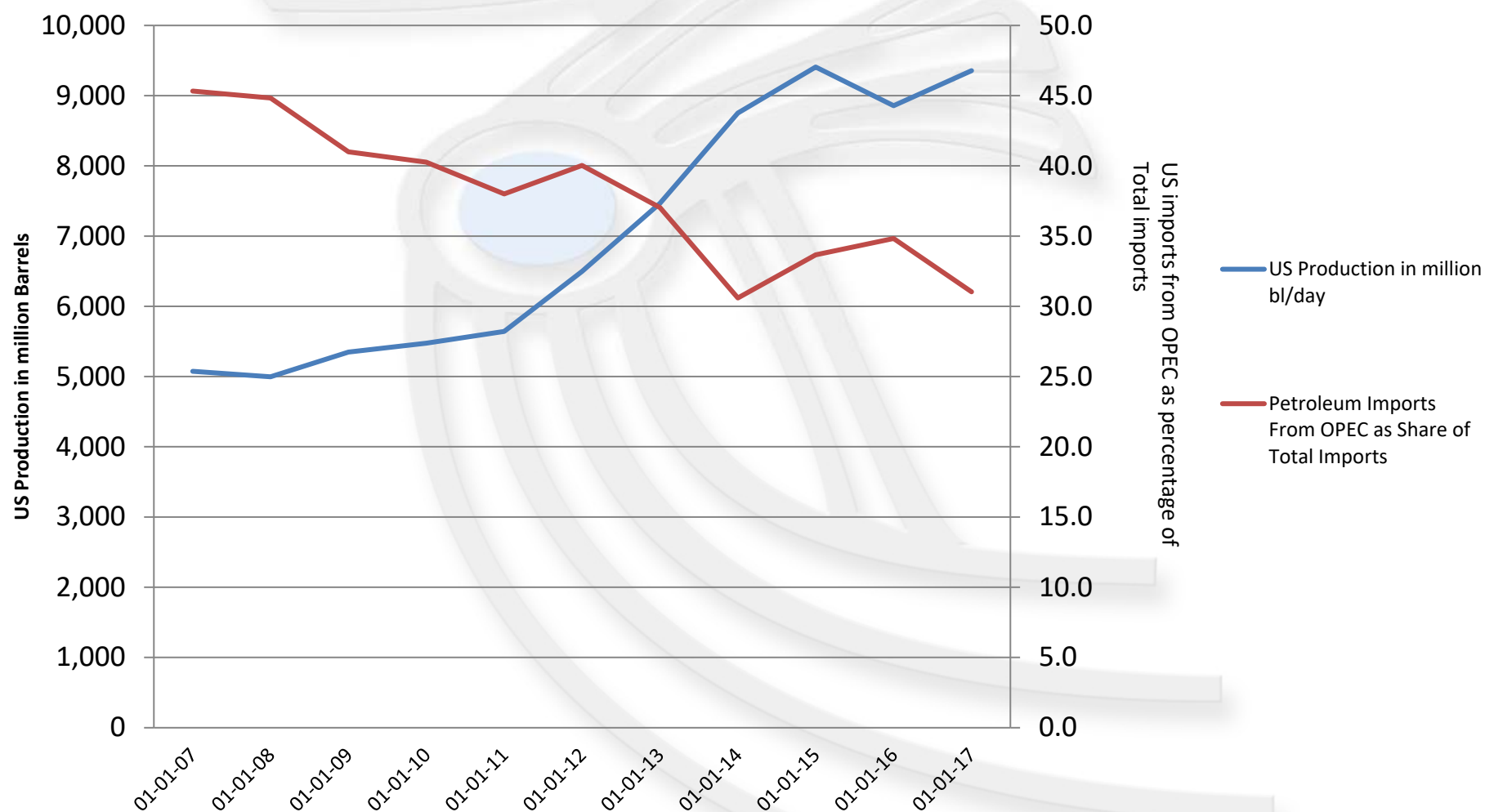
— U.S. crude oil stocks



Source: Short-Term Energy Outlook, April 2018

Note: Colored band around storage levels represents the range between the minimum and maximum from Jan. 2013 - Dec. 2017.

US production vs US imports from OPEC



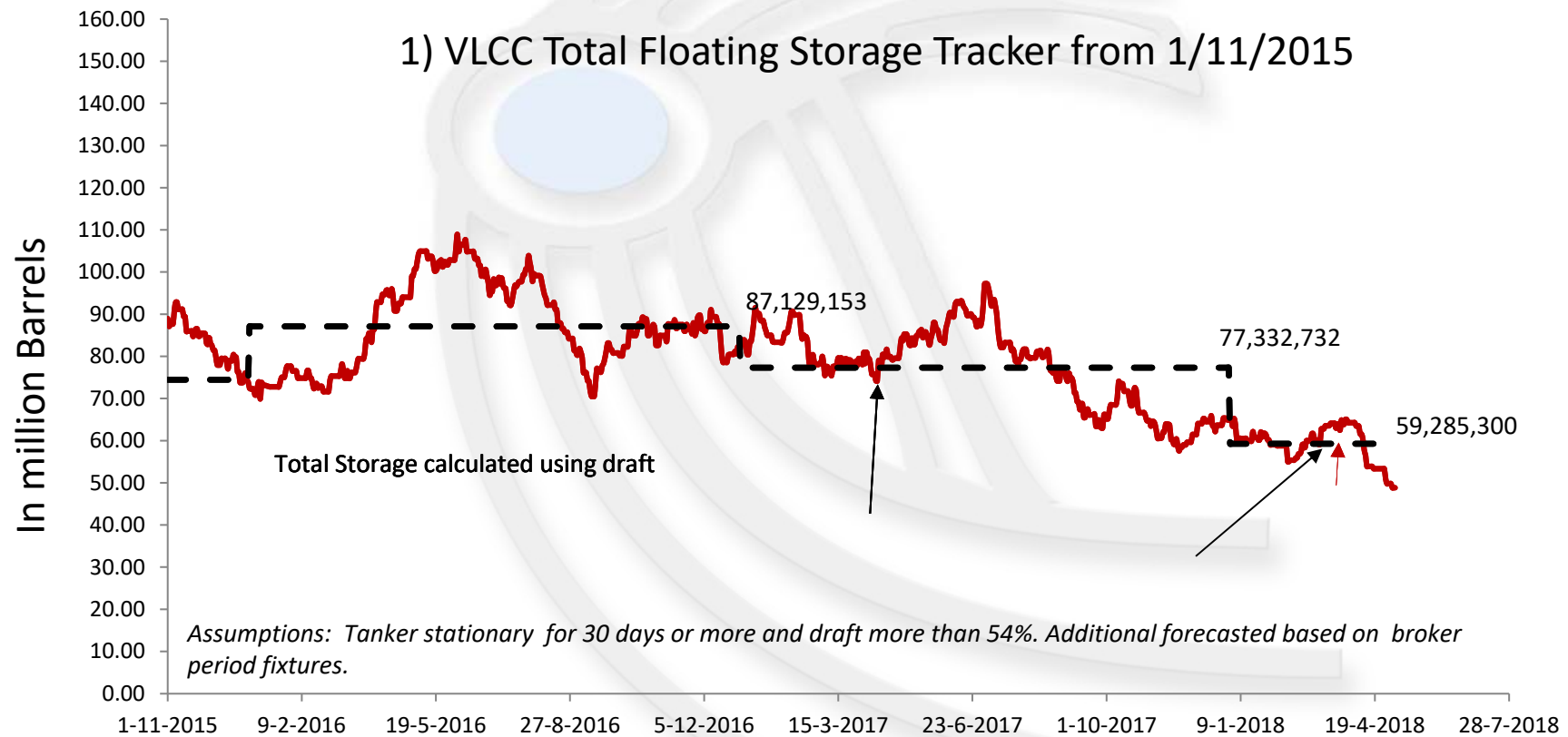
Super-Contango effect

- It means that the price for spot crude oil is trading at a discount to crude oil to be delivered in future months.
- What causes a contango? The vast majority of time it is simply a situation where supply is greater than demand.
- How do traders take advantage of a contango?
- In short, they buy crude today (at the current spot price), put it in storage and sell it at a future date at the then higher price.

Example

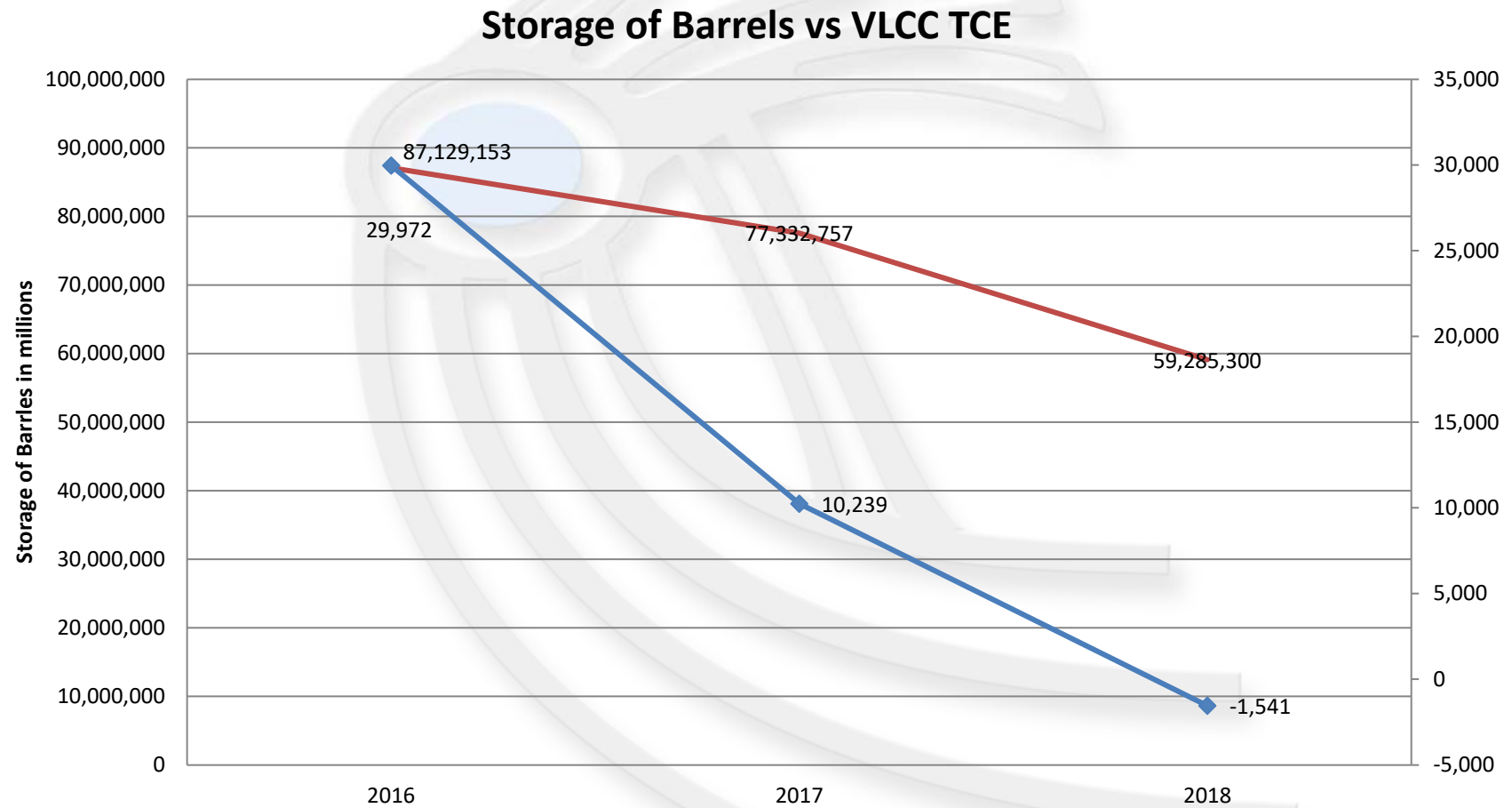
- Buy physical WTI today for \$50/BBL with intent of selling it in November at the current forward price (based on the December futures which expire on November 13, 2015) of \$57.50/BBL.
- In order to lock in this profit, you need to sell an equivalent volume of ICE Brent crude oil futures at the current forward price of November futures which is \$57.50/BBL.
- In addition, your storage cost (not just storage but also your cost of capital) between now and December needs to be \$7.50/BBL or less.
- First, you buy and take delivery of physical WTI today, at a cost of \$50/BBL, and place it in storage. Next, you simultaneously sell the equivalent volume of ICE Brent crude oil futures. The combination of these two locks in your gross profit of \$7.50/BBL. You then subtract your cost of storage, say \$5/BBL, to get to your net profit, in this example \$2.50/BBL.

VLCC Total Floating Storage Tracker



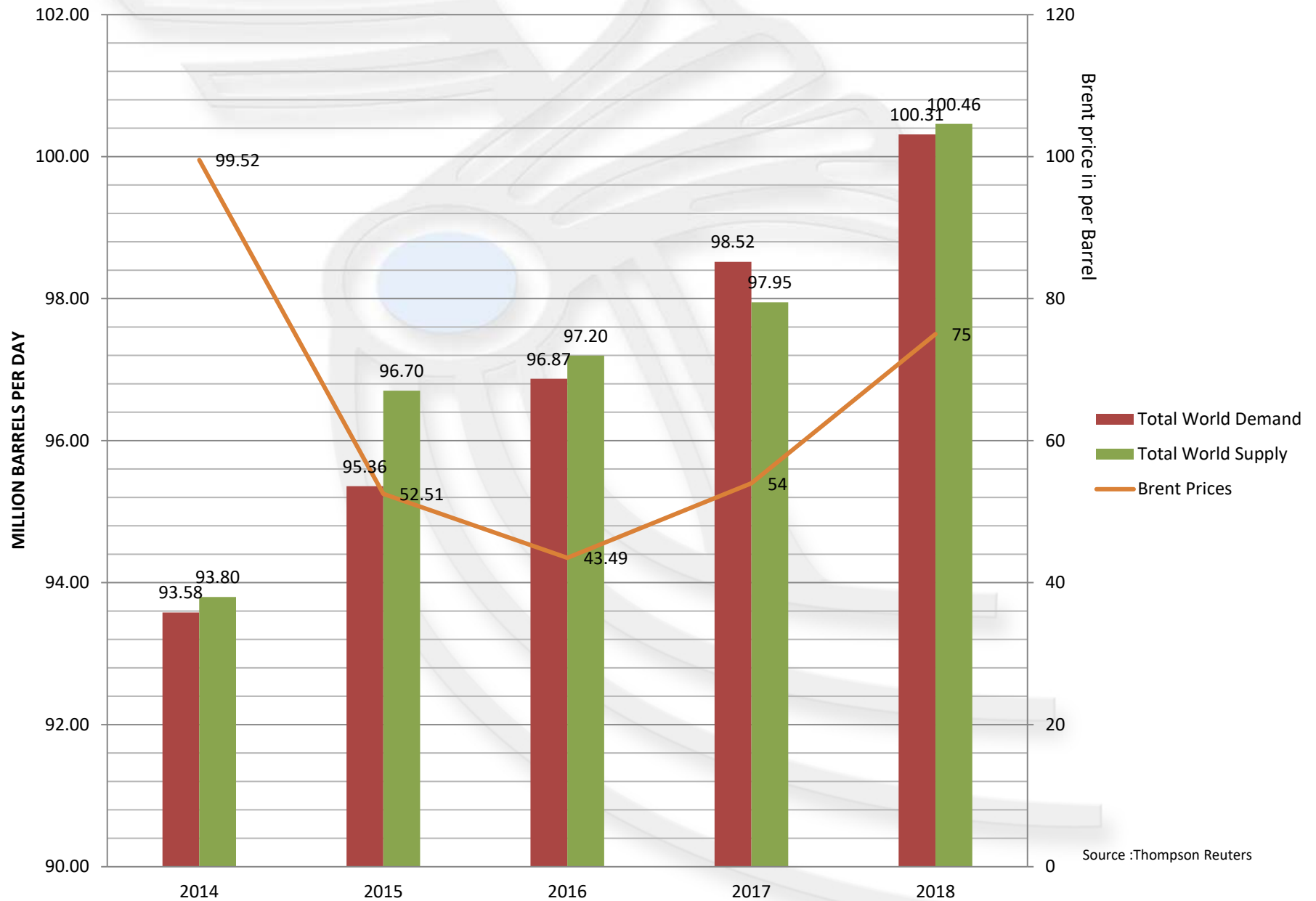
Source :Thompson Reuters

Storage VS VLCC TCE

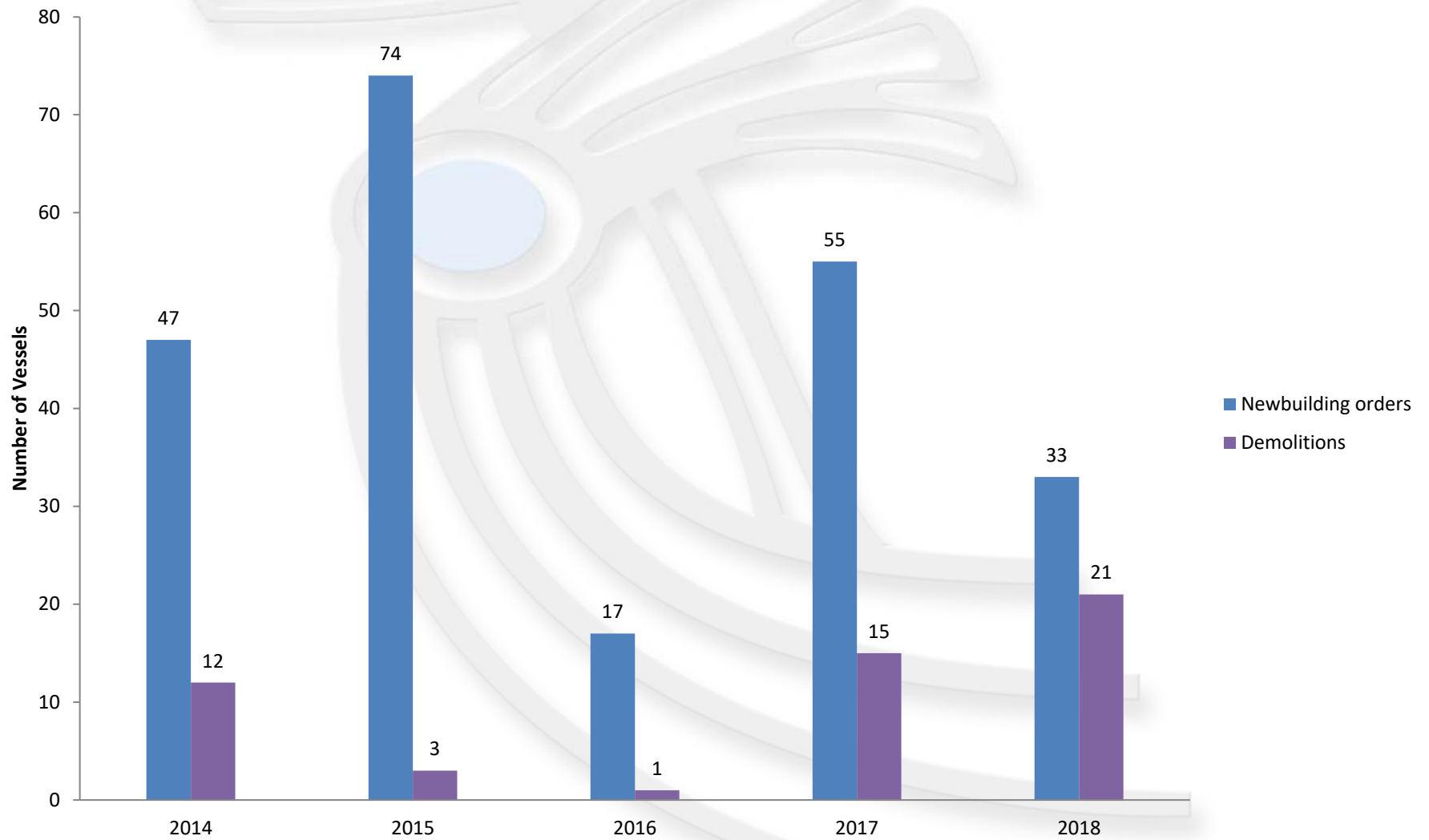


Source :Thompson Reuters

Demand –Supply-Brent Price



Demolitions vs Newbuilding orders



Current Status

- Brent prices have reached the area of \$75/bl, the highest level seen for almost four years, US Gulf to Europe loading are more favorable due to Brent-WTI spread.
- The uptake in oil prices is more than welcomed by the US shale producers that seek financial opportunities to further expand their production projects, hence U.S. oil production has marked a fresh record of 10.62 million barrels per day (bpd).
- This fact had caused benchmark 10-year Treasury yields to reach a 3% increase for the first time since January 2014 on concerns about rising inflation.
- As of now US produces more crude oil than Saudi Arabia with only Russia currently pumping more oil, at around 11 million bpd. Relatively high oil prices, supported by production cuts by OPEC help U.S. shale producers to continue ramping up production.

Current status

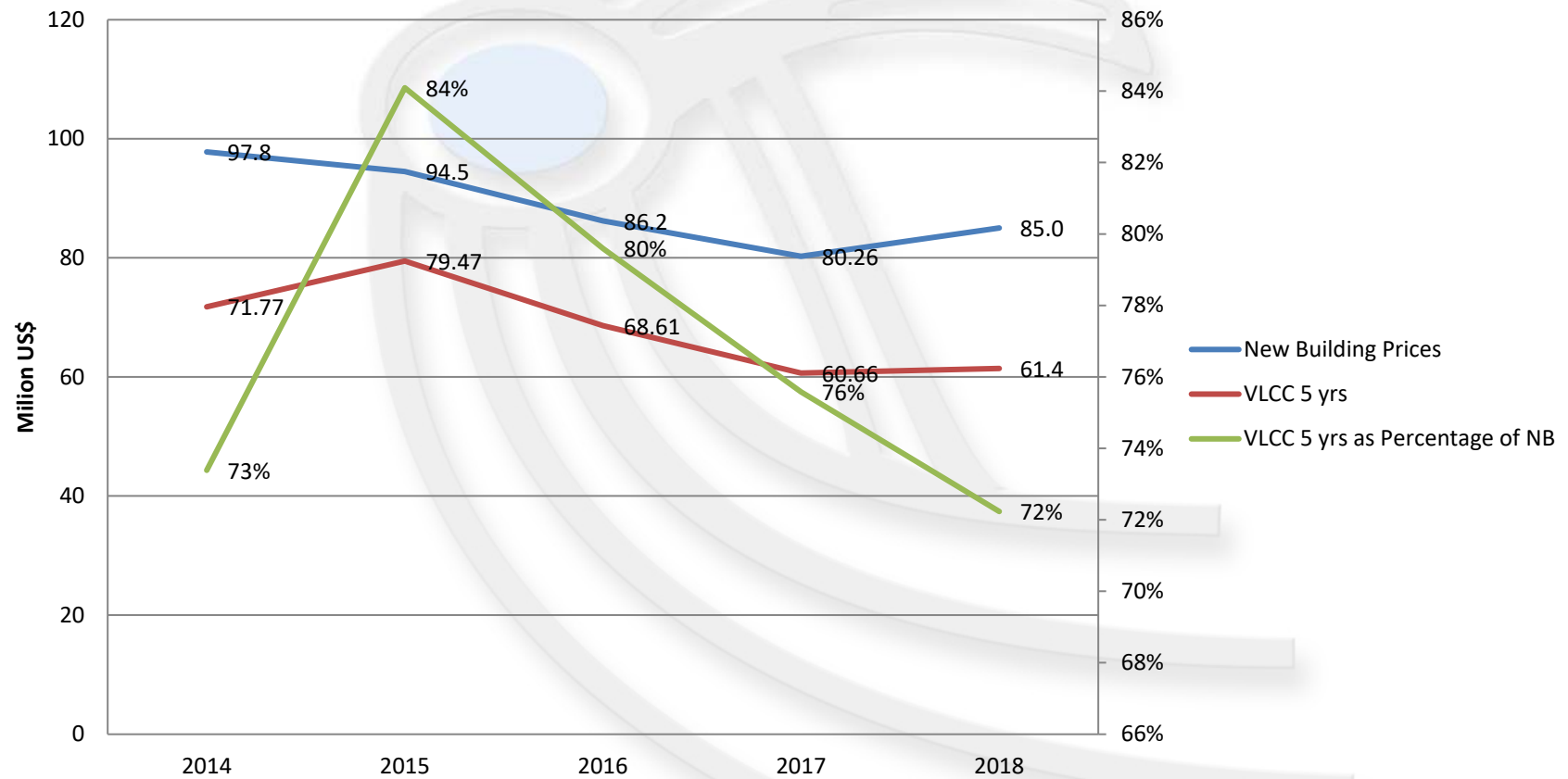
- Hedge funds and other money managers cut their net long U.S. crude futures and options positions in the week to May 1.
- Concerns about potential oversupply in the United States capped gains from concerns about supply disruptions due to potential sanctions against Iran.
- Brent crude speculators also cut their net long positions, by 21,928 to 591,457 in the previous week.

Current Status

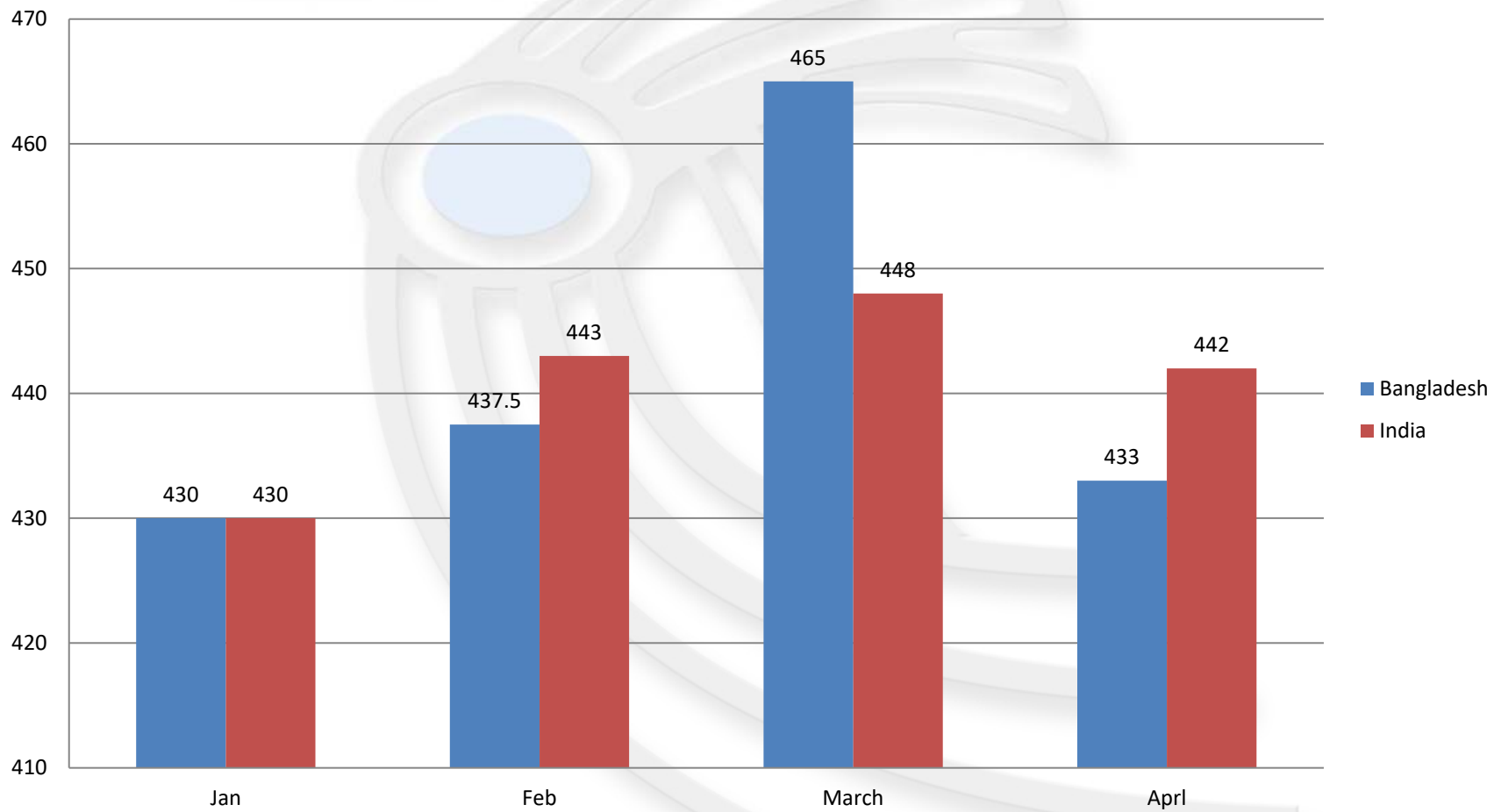
- Brent gains came despite an appreciated dollar which is at its strongest since the beginning of the year against a basket of currencies. A stronger dollar makes US denominated commodities, like oil contracts more expensive for holders of other currencies. However, price increases have been capped by rising U.S. production as shale drillers ramp up activity.
- To be short a currency means traders believe it will fall in value.

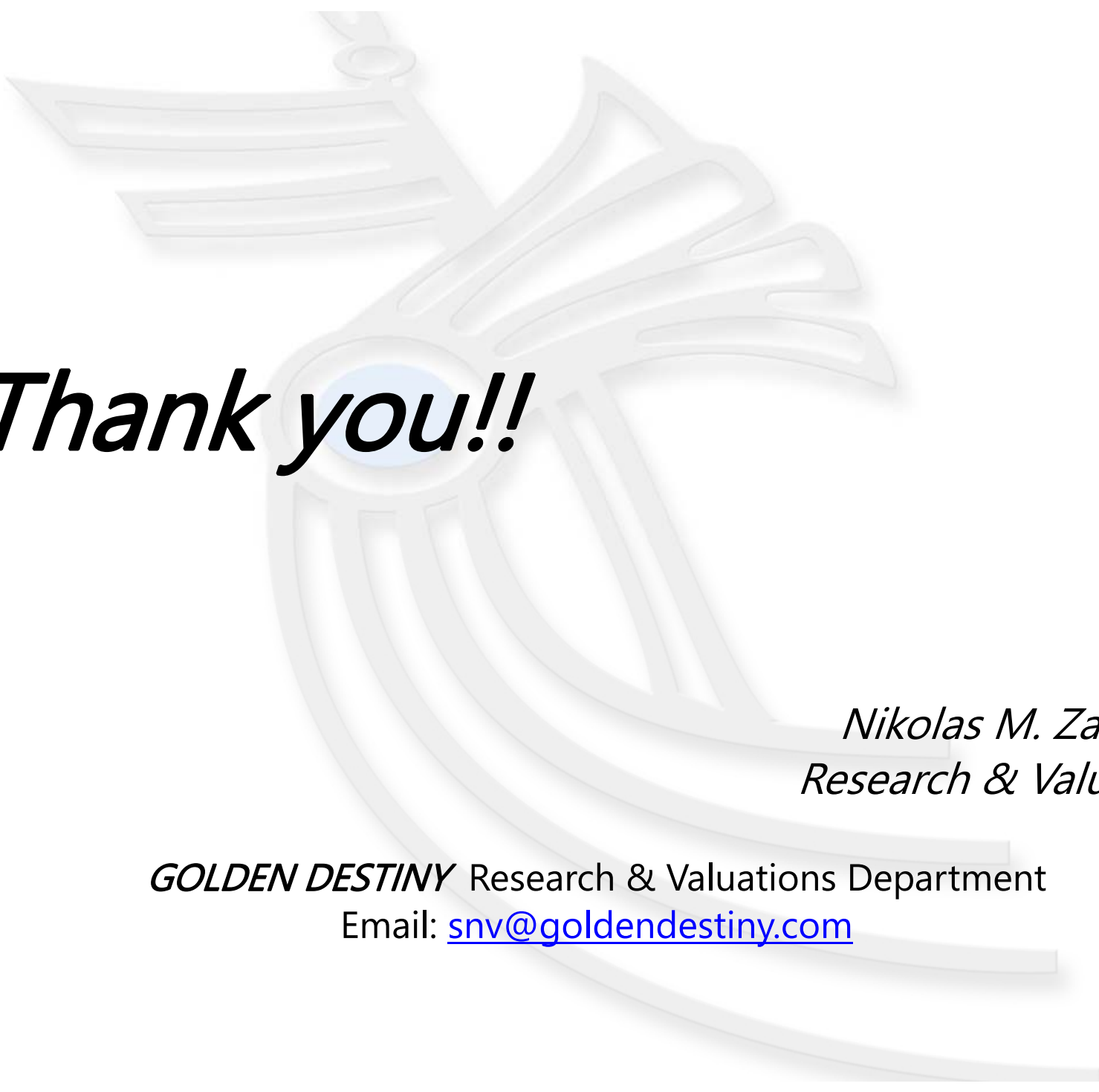
S&P and Newbuilding

5 Years VLCC Vs Newbuilding VLCC



Scrap prices 2018





Thank you!!

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