Capital Link Shipping
Weekly Markets Report

CONCORDIA MARITIME

Kim Ullman
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Concordia Maritime

Kim Ullman, CEO of Concordia Maritime, Expects A Market Turnaround in Q3-Q4

New York, April 30, 2018. OPEC and non-OPEC production cuts, which means less oil to ship from export countries coupled with less demand from importing countries, as they have been drawing down on their stocks, are the main reasons behind a soft market in 2017 and Q1 2017, according to Kim Ulman, CEO of Concordia Maritime.

Market Indications Point to A Turnaround in Q3-Q4

He mentioned that all indications are that the situation is set for a reversal in Q3-Q4 2018. He elaborated that as a result of OPEC's policy, OECD oil inventories are just about to go through their 5-year average (which was last year's target) after being record high. This has pushed Brent to 75 bucks, albeit with some political tension factored in. OPEC intends to continue their cuts (setting new targets every week basically), and if they do continue, inventories will reach critically low levels during Q3+4, risking exceptional price spikes and all that comes with that. In our opinion, with basically nobody really wanting $100+ oil again, and by running inventories almost to a dry – a reversal will have to happen sometime during Q3-4 to stop stockpile draw downs and possibly even replenishing some. All this can be to the benefit of tanker trades. Tankers live on the edge and it doesn't take much to regain confidence and rates have no ceilings when that happens.

He concluded "We've said this for some time (gradual improvement from second half 2018) – and our believe has actually strengthened lately when reading all the GDP news, inventory news and oil consumption news. I believe what goes down will come up and with a little help from our scrapping friends on top assists the other side of the coin too. For what it's worth – that's our humble take on it"

IMO Regulations to Boost Tanker Demand

In a recent interview with Nidaa Baksh of Lloyds List, Kim Ulman stated that he expects a pick-up in demand for tankers as a result of the new International Maritime Organization's rules on low sulphur use after 2020. "The move is good for product tanker markets in general," he said "A surplus of high sulphur fuel oil in the Rotterdam region will be shipped out to India, the Far East and the Middle Eastern refineries who can crack the product further to low sulphur, and that refined low sulphur fuel oil will, to some extent, move from east to west, he said. We happen to be in dirty and clean tankers so we can benefit from this shift," he concluded.

Newbuildings Restraint A Necessity

Mr. Kim Ullman stated on his recent interview with Fairplay that the only way to keep this market financially sustainable is to never let the orderbook go over 10%; 5% for replacement and 5% for forward delivery, adding that to look for reasons to build more, either in anticipation of scrapping and oil companies' biased chartering policies, was "suicidal". He reiterated the industry is still coming off a hefty delivery schedule of newbuildings and it has reached an orderbook of 15% for the VLCCs once again. "Although the Suezmax orderbook is 11% today, we have to account that the orderbook is coming off a 25% mark from a few years back with a spot rate of USD $5,000/day today on a main trade," he stated.

According to Mr. Ullman, the current tanker fleet, even before deliveries of ships currently on order, is too big for today. "The fleet has been growing by some 6–8%, while demand by 2–3%. Concordia's view is that ships are built and maintained to last a long time, and therefore their age should be measured against their quality background and not their age. I (Kim Ullman) don't buy the argument that "we need replacement orders", for any *anticipated* reason (i.e. future scrapping/regulations/cheap prices). We have basically had a surplus of tankers since 1975 with few exceptions (2003-2008 for instance) at which time we have had balanced markets and never a shortage of tankers. We can have a long term and sustainably sound tanker market if we can refrain from trying to read into the future of what could happen (and we are masters at finding good reasons to build – the problem is that many do it at the same time and your arguments get so diluted that we're all back to square one). Let demand speak for itself. Enjoy higher earnings on the ships you already have rather than no earnings on your "future fleet".

In the orderbook, we have seen more orders for new ships across all commodity types, tankers, dry bulk carriers, containerships, and liquefied natural gas/liquefied petroleum gas (LNG/LPG) tankers. By the first quarter of 2018, 4.76 million dwt of new tanker carrier orders were placed translating to a 25% increase from last year. In the VLCC segment, there was a 41% increase in orders from last year.

According to Pareto, it is expected in the upcoming years that extensive fleet replacement will take place due to the aging profile of the current fleet which will require more ship orders. Some of the factors pushing newbuild prices upward are attributed to the rising steel prices, limited financing, and a weaker US dollar.

Also, scrapping levels are expected to continue due to the IMO Water Ballast treatment regulations and the 2020 low-sulphur regulation. Scrapping seems to be accelerating with 18 VLCCs having been demolished this past year. Increasing demolition prices, weak freight market, drydocks/survey expenses, and investment regulations have forced many owners to retire older fleet.

Please refer to the following links for the Company's financial report and presentation:
https://www.concordiamaritime.com/globalassets/delarsrapporter/2017/pdf/cm_q4_2017_eng.pdf

Concordia Maritime *is an international tanker shipping company. Our focus is on cost-effective and safe transportation of refined petroleum products and vegetable oils. The Company's B shares were first listed on Nasdaq Stockholm in 1984.*
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