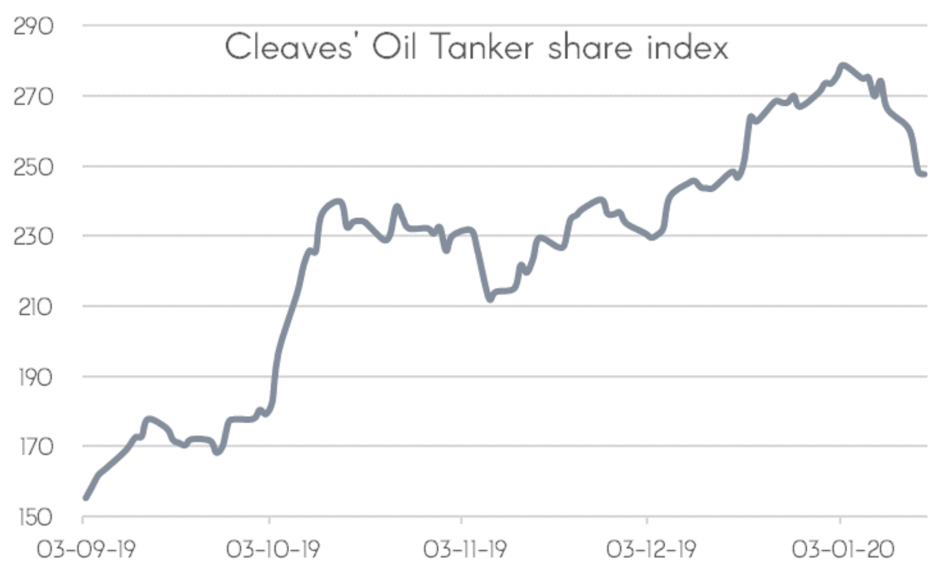
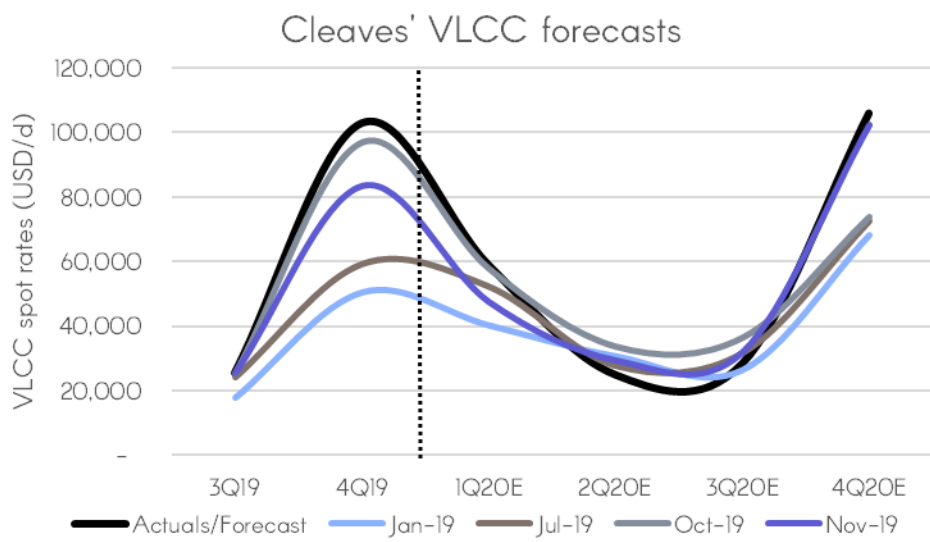
Oil Tanker spot rates have plummeted over the past week, with ie VLCCs on Arabian Gulf - Japan quoted (Galbraith) -48% w/w to 57k/d and Suezmaxes on West Africa – US Gulf quoted -24% w/w to $50k/d.

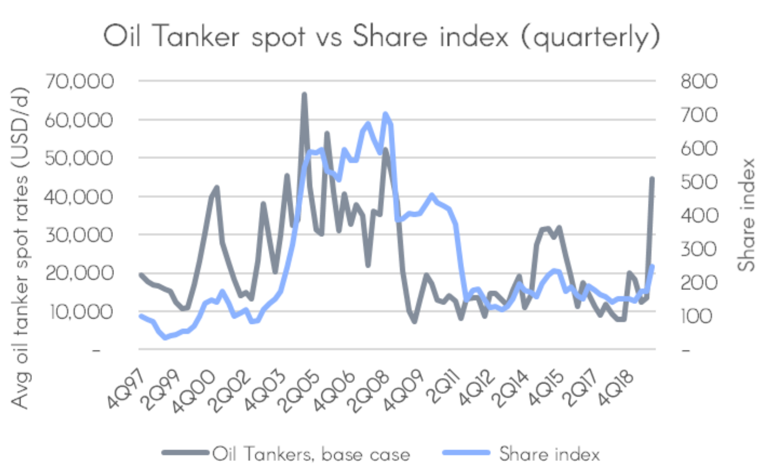
Over the same timeframe, Cleaves' Oil Tanker share index has fallen 10%, from 275 to 248. We believe the main trigger for the decline is the fall in spot rates.

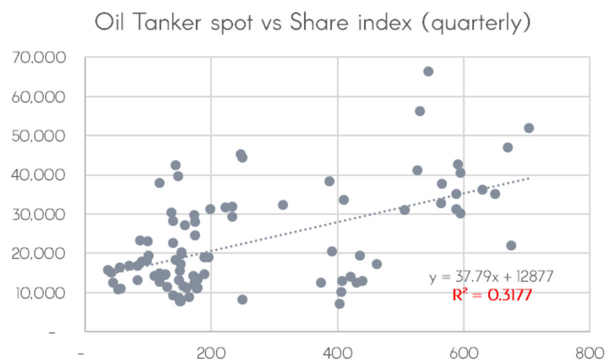


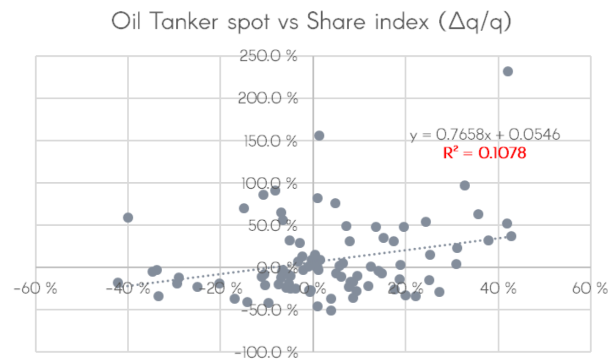
While we understand the dynamics, we do view any significant weakness in Oil Tanker share prices as an opportunity to increase exposure as the seasonal fall in spot rates should already have been discounted into the share prices in an efficient market. In the graph below, we show our historical forecasts for VLCC spot rates per quarter in 2020E, all of them showing that the ongoing drop-off in rates in 1Q20 was very much as we had expected.



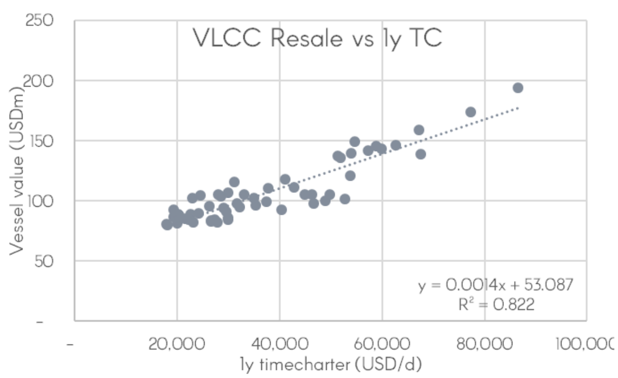
So, what should be driving Oil Tanker share prices if not spot earnings? We believe the answer is timecharter rates and asset prices, which by large omits any seasonal effects on spot rates. Running the numbers back to the 1990s (quarterly basis), we find no statistically significant correlation between our Oil Tanker share index and Oil Tanker spot rates (R^2=0.32)

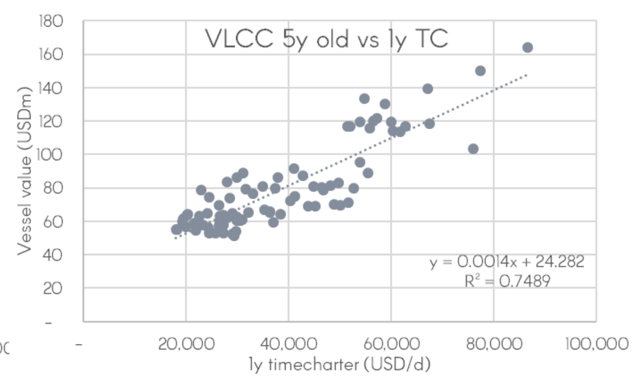


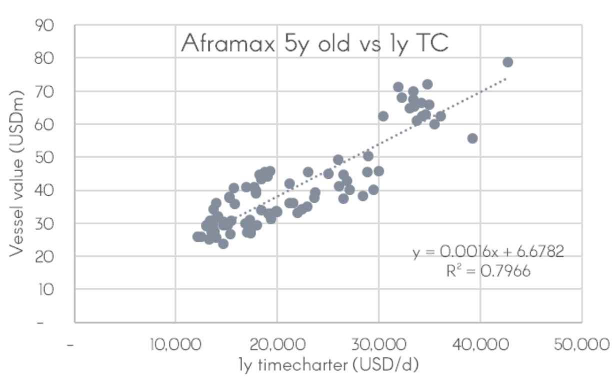


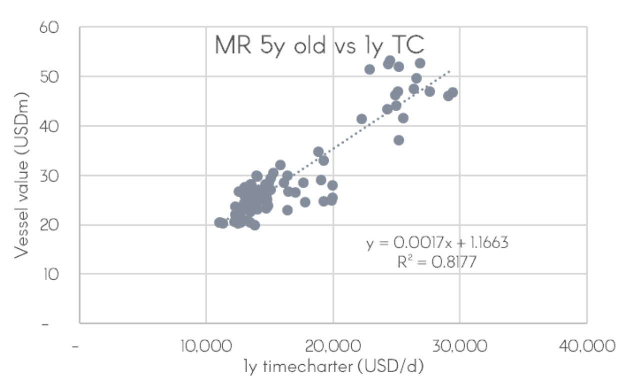


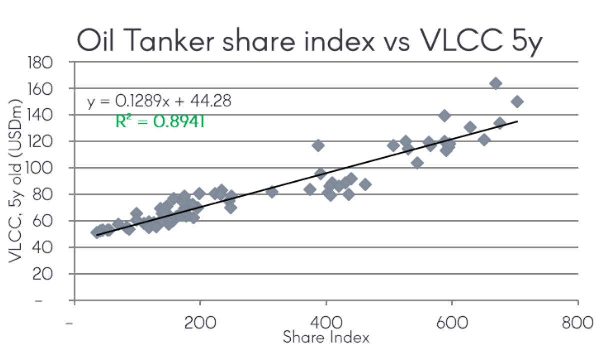
Looking towards timecharter rates and asset prices, the statistical correlation to our Oil Tanker share index is highly significant. This is exemplified by a few select graphs below, and we see similar correlations for other vessel classes and vintages as well.

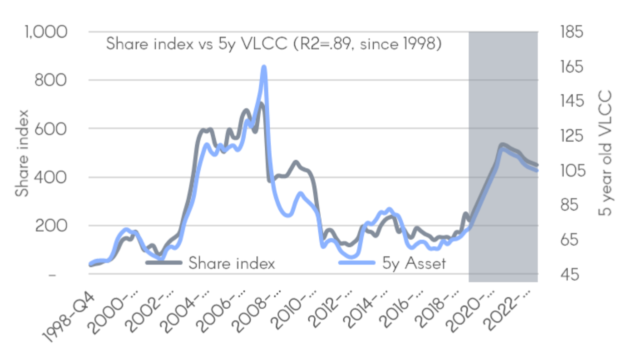












Our point is that despite the expected seasonal retreat of spot rates, timecharter rates are very strong, asset prices continue to rise and we forecast spot rates to rise y/y going forward. Market inefficiencies could offer opportunities for the opportunistic investor, and we see share price weakness as an opportunity to buy.

Our upcoming Oil Tanker report will give a complete run-down of our view, which is close to unchanged from November.

Best regards

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