WEEKLY TANKER REPORT

28th August 2015

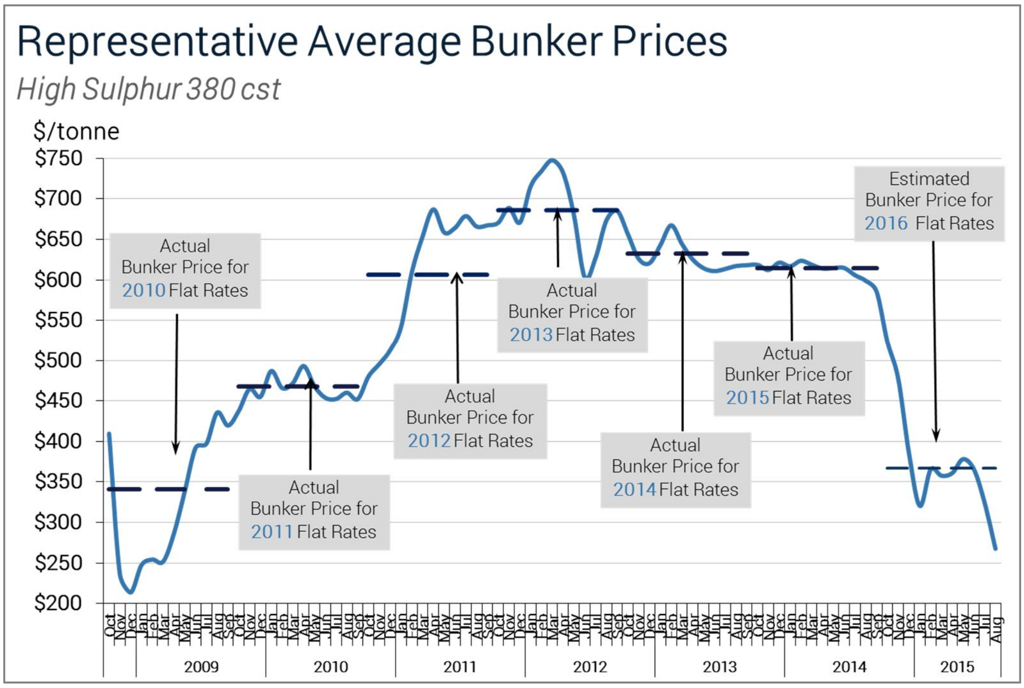
WORLDSCALE FLAT RATES

The principle of the Worldscale system is not an easy concept to explain to people outside the tanker market. This task gets even more complicated as Worldscale flat rates are reset at the beginning of each year. The bunker element is the most critical factor that affects flat rates. This is particularly true for long haul routes, where bunker costs are by far the biggest expense endured by the shipowners during the voyage. As such, flat rates are greatly influenced by major swings in international oil and bunker prices.

The period of stability in oil prices seen since early 2011 through to mid-2014 came to an end. The downward trend in oil prices started in July last year and accelerated after the OPEC's decision in November 2014 against production cuts, with Brent falling as low as $46/bbl in January this year. Stronger than expected growth in world oil demand and slowing US crude oil production offered some support, with the Brent benchmark partially recovering to around $60-65/bbl between February and July this year.

Nonetheless, world oil supply still exceeds demand and with the growing certainty of Iran returning soon to the international crude market, oil prices have resumed their slide, falling in late August even below the levels seen at the start of 2015. The anticipated increases in crude supply, once the Iranian sanctions are lifted, prompted a number of leading analysts to revise down their outlook for oil prices in 2016, to levels similar to those seen so far this year.

The sizable downward correction in oil and bunker prices observed over the past twelve months will be reflected in 2016 Worldscale flat rates. The bunker component that goes into the flat rate formula is based on prices between October and September each year; therefore we already have nearly all the data that will go into the 2016 calculations. Taking into account the latest bunker forward curve, international bunker prices between October 2014 and September 2015 are expected to average around 40% lower compared to the corresponding period a year earlier. This suggests that WS flat rates in 2016 will fall by a colossal 26-29% on long haul routes and by around 15-18% on short haul trades. Moreover, if the latest oil price forecast proves to be true and oil prices remain low, then flat rates in 2017 could decline by another 10%.



Middle East

Another grim week for VLCCs, but there were signs, at least, that the recent rate-rout had come to an end, and that some very tentative re-inflation was underway. Owners can console themselves to some degree in that the market bottom remains well above that of last summer with much lower bunker prices aiding TCE's. Rates currently operate at close to ws 30 to the East and ws 20 to the West. Suezmaxes found few friends through the week, and the result was further deterioration to around ws 26.5 West, and low ws 50s to the East. Another hard ride expected into next week too. Aframaxes merely ticked over at 80,000 by ws 95 to Singapore. There is just a little more action in the further East now, and perhaps that may rub off more positively over the coming period - perhaps.

West Africa

Suezmaxes failed to find any solid grip upon an already slippery market, and rates dipped to 130,000 by ws 55 to USGulf, and no better than ws 60 to Europe accordingly. The long weekend in the U.K. won't help either, and the soggy scene is likely to remain in place over the near term, at least. VLCCs continued to be negatively impacted by the ongoing Middle Eastern malaise, but Owners still managed to retain a wider than normal premium over AG/East routes as hopes for an autumn turnaround there meant that some 'insurance' was demanded for the longer haul commitments. Rates bottomed at 260,000 by ws 40 to the Far East with runs to East Coast India operating at around $3.45 million. Steady into next week.

Mediterranean

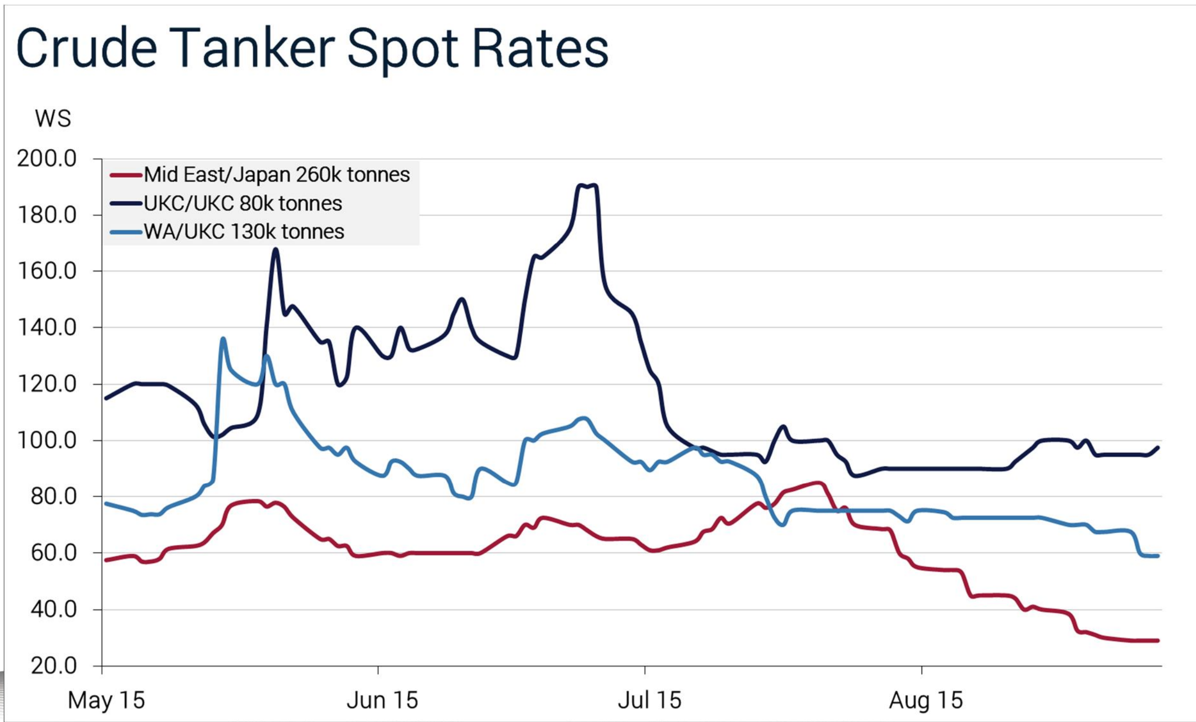
No change in the previously Southerly direction for Aframaxes here, but a reasonably solid bottom was hit at 80,000 by ws 75 X-Med, and there is just enough happening under the surface to allow for some hope of upward readjustment later next week. Suezmaxes stumbled hand in hand with West African fortunes. Not enough enquiry to pressure the good availability circulating, and rates eased off to 140,000 by ws 62.5 from the Black Sea to European destinations with $3.8 million the mark to China. Maybe some improvement in the medium term, but nothing likely in the short term.

Caribbean

Aframaxes levelled off at 70,000 by ws 80 upcoast and Owners pointed to trimmed position lists to try to goad Charterers into making a more concerted move. So far that has failed, and any hoped for gains will have to wait a while. VLCCs had easily out-performed their peers in other load zones - and continue to do so, but have had to lower their performance levels to something a little more in line as ballasters from even further afar threaten the limited local supply. Rates fell off to around $5 million to Singapore, and $4 million to West Coast India with no rebound in near sight.

North Sea

Aframaxes danced gently around an unchanging centre-point but talk of a busier September programme is lending some heart to the marketplace, and an expectation that some gains will be posted as those dates become more seriously worked. For now, bottom levels stand at 80,000 by ws 97.5 X-UKCont and 100,000 by ws 75 from the Baltic. Suezmaxes saw occasional interest, but 135,000 by ws 50 to the USGulf lit no fires, and until West Africa shakes up, rates will remain anchored. VLCC fuel oil 'arb' enquiry picked up somewhat in the low $4 million's from Rotterdam to Singapore, and one or two deals were concluded upon that basis. Further, a crude lifting was reported from Houndpoint to South Korea at $5.8 million.



CLEAN PRODUCTS

East

LRs have seen a rapid decline in fortunes this week with LR1s losing some 30 percent across the board. LR2s have remained quiet and are really untested but will have to show at least parity with LR1s. 55,000 mt Naphtha AG/Japan is now ws 120 and 65,000 mt Jet AG/UKCont is down to $2.20 million. 75,000 mt Naphtha AG/Japan has come down to ws 120 in sympathy to LR1s with 90,000 mt Jet AG/UKCont now at $3.1 million but both have seen no fixtures this week so it is all perception. Rates appear to have now seen their correction and are expected to level off for the next week ahead.

Although activity has been very high this week, rates have taken a fair few blows as the negativity from the LR market filtered its way into the MRs. AG/EAfr is currently trading at ws 190 but looks likely to soften further. AG/Japan continues to drop and closes the week at ws 142.5. After the initial sharp drop AG/Gizan held reasonably steady at the $750k level, however as the other routes were tested it showed signs of pressure and a further $25k was nibbled away. The saving grace is that bunkers remain low, giving owners some respite as these rates continue to come off.

Mediterranean

As Friday ebbs away in week 35, Owners will feel that ground has been regained after a number of weeks in the passenger's seat. A strengthening Black Sea market has been one of the driving factors for improved rates as we found a limited East Med tonnage list providing the opportunities. Inquiry will need to last into the coming week if we are to see this trend continue, before fixed tonnage rear their heads again with many remaining in the Mediterranean.

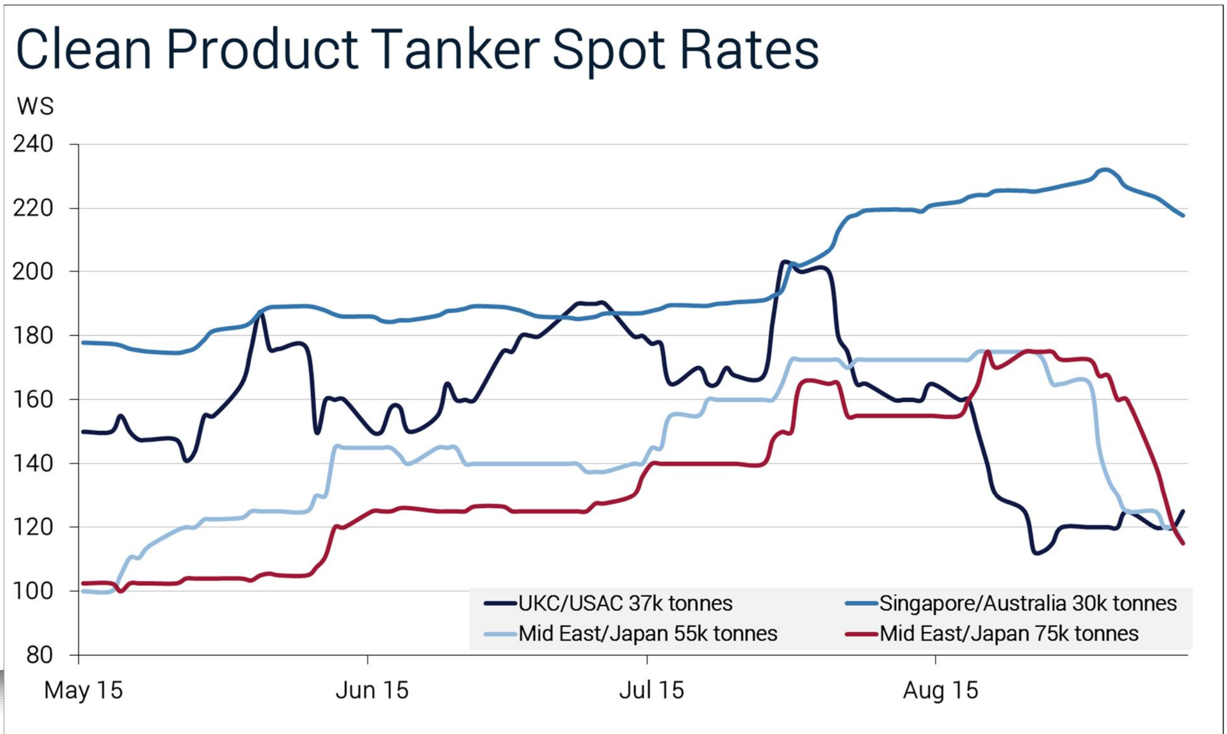
The MR sector has trickled along in activity with a few different names finding themselves in control of stems. Rates have skipped along in this sideways market with only a couple of prospects for owners and Charterers alike to shift this sentiment.

UK Continent

As we approach the finish line of week 35, the owning fraternity will feel that perhaps an opportunity has passed to press rates northbound, with a healthy amount of activity and a tonnage list being cut back with uncertain positions remaining. A short respite for Charterers appears in front of us with the Monday Bank holiday for the UK, which will give time to replenish lists and thwart momentum. A Tuesday tonnage and cargo list will be crucial in the direction of this market ahead of us as well as a continued weak states market that could increase ballast tonnage which in turn end up being the thorn in the Owners side. We wait to see...

The Handies appear to have reached an equilibrium at the 30 x ws 150 mark as Charterers and Owners alike seem content as this sector continues sideways. Owners so far have managed to hold defences strong as limited cargoes have kept pressure last done and will continue to do so next week if activity does not pick up... How long Owners can repel advances is the question for next week.

A similar story for the Flexis was about to be written until a stark cut in rates appeared in front of us on Friday morning. With 22 x ws 180 being the given rate for the majority of the week, Owners will stay strong in belief that only a minor hiccup has passed and rates are there to continue sideways. Whether Charterers will also see this ideology will be the determining factor of the market for week 36.



DIRTY PRODUCTS

Handy

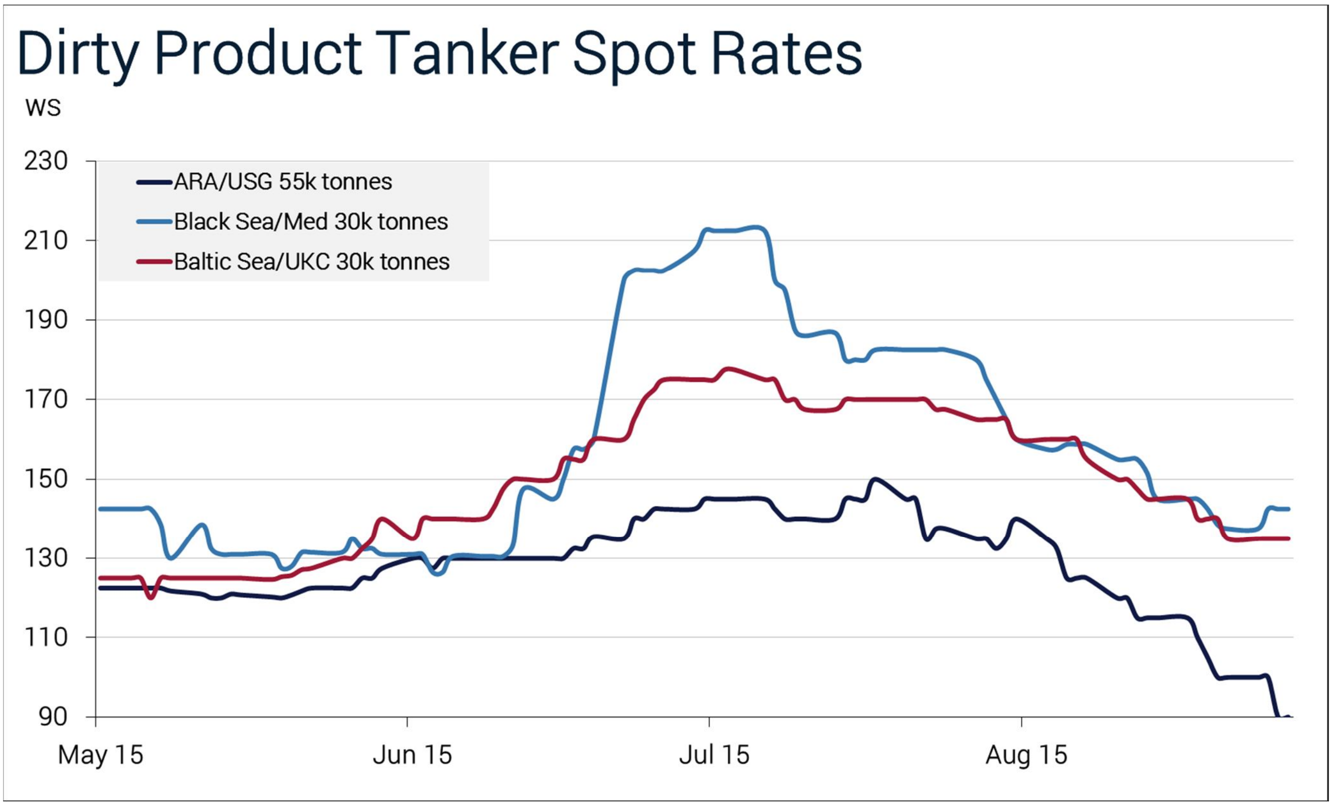
As the week has developed it has become increasingly apparent that the Continent has had a clear-out. A number of vessels have been fixed this week from the region, tightening positions and firming the market gradually. Without doubt the beginning of next week will be quiet with some of the market absent on Monday, however come Tuesday, those with stems in hand may have to snap up surviving tonnage quickly or pay the price.
With the remarks mentioned earlier, the Mediterranean should expect some of the Continents tonnage and a quiet beginning to the week which could affect the market over the coming weeks. Rates for now have been on the up as Owners have been looking a couple of days further ahead than usual giving an inflated reflection of where the market actually lies. However, with September on the horizon we may begin to see more activity across the board which should counterbalance the oversupply of tonnage in the region.

MR

Some of the more optimistic Owners are holding out waiting for a full size stem in the Continent, despite a lack of activity with competition thrown in the mix. The Handy market has been active with the run up to the extended weekend, and some MR Owners have jumped on-board these opportunities rather than wait for a rare full stem. The region probably needs a new test as tonnage seems to outweigh demand, which brings us onto the Mediterranean - Little activity has been seen this week as Aframax vessels are a more economical option, eradicating any 45kt cargoes in our market. Those Owners that are willing to make it more attractive for Charterers to take an MR can be very creative in this market and go fishing for exciting, imaginative business.

Panamax

It is no secret that both the Continent and Mediterranean markets are under downward pressure. Unfortunately for Panamax Owners, Charterers' are blessed with alternative vessel options which has had a detrimental effect on rates. The Caribbean market has been flat for some time which has also thrown a spanner in the works as far as momentum is concerned. The beginning of next week is likely to remain flat in terms of activity; however Owners will be hoping that the attractive rates will bring more interest into play.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 27th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1**	30	31	74	39
TD20	Suezmax	WAF-UKC	**-9**	59	68	75	68
TD7	Aframax	N.Sea-UKC	**-3**	96	99	93	99

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Aug 27th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+1,000**	25,750	24,750	88,250	40,500
TD20	Suezmax	WAF-UKC	**-6,000**	30,750	36,750	39,000	37,500
TD7	Aframax	N.Sea-UKC	**-4,500**	29,500	34,000	27,500	32,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 27th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-45**	115	160	155	
TC2	MR - west	UKC-USAC	**+2**	121	119	164	132
TC5	LR1	AG-Japan	**-17**	117	134	171	134
TC7	MR - east	Singapore-EC Aus	**-12**	218	230	218	

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Aug 27th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-18,250**	40,000	58,250	50,250	
TC2	MR - west	UKC-USAC	**+500**	18,500	18,000	26,500	21,000
TC5	LR1	AG-Japan	**-4,250**	28,500	32,750	41,750	34,250
TC7	MR - east	Singapore-EC Aus	**-1,000**	33,000	34,000	29,750	

(a) based on round voyage economics at 'market' speed

LQM Bunker Price (Rotterdam HSFO 380)	**-20**	208	228	288
LQM Bunker Price (Fujairah 380 HSFO)	**-33**	215	248	325
LQM Bunker Price (Singapore 380 HSFO)	**-41**	210	251	303
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-10**	423	433	478

SLK/JH/DLT/OD/BCR/LHT

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