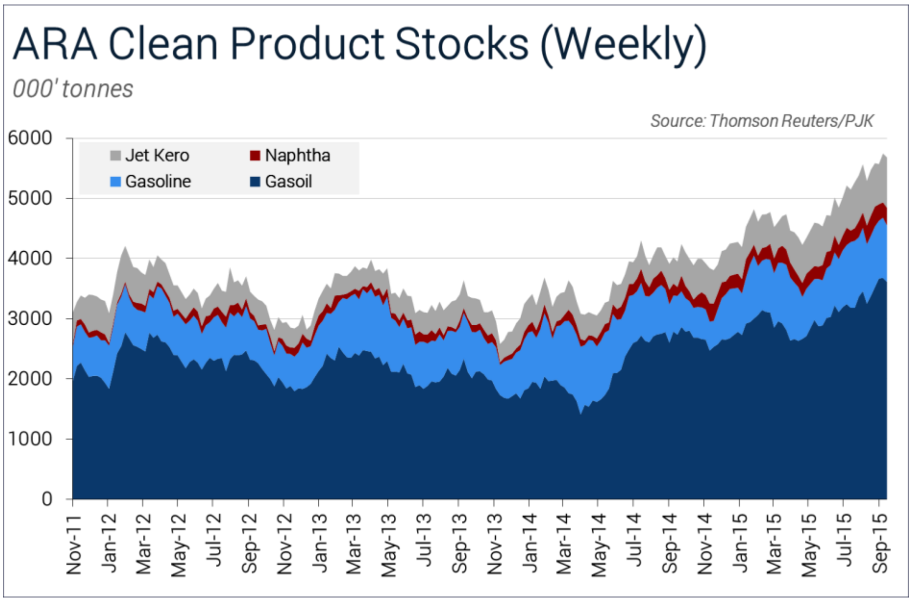
WEEKLY TANKER REPORT

2nd October 2015

THE (PRODUCTS) HANGOVER

Global product stocks are swelling. In the Amsterdam – Rotterdam – Antwerp (ARA) region, stocks of clean petroleum products (CPP) have surged by over 40% to approx. 5.6 million tonnes from 3.95 million tonnes just 12 months ago. Strong product margins have seen European refinery runs surge, whilst the influx of products from Russia, the US and Middle East have only added to the products hangover.

Whilst stocks in Europe are fairly well documented, total capacity is less certain; so the question remains how long can storage infrastructure continue to absorb any further product stock builds? Analysts must therefore look for other clues to determine where the tank tops lie. Looking at historical highs can be helpful, yet these peaks are often not representative of current capacity given developments within the tank farm industry. Nevertheless signs are starting to indicate the ceiling may be nearing, with reports of discharging delays and the potential for forced products storage starting to emerge despite the contango in gasoil futures (a key indicator of the profitability of floating products storage) not being supportive of floating storage costs.



Outside of Europe signs also point to 'toppy' product stocks. In the Far East, the availability of CPP storage capacity in China remains a debated topic, yet government actions suggest increasing concern over a domestic products glut. Just recently the Chinese government increased product export quotas to 800,000 b/d for the Q4 2015. Middle distillates will account for a large proportion of the surplus, owing to weaker domestic demand for the fuel. Much of the surplus is expected to stay within the region; however, grades which meet stricter European and US requirements may well go long haul, potentially adding to regional stocks West of Suez. In recent months an increase in long haul products trade from the Far East to the Atlantic Basin has been observed as traders increasingly look to place cargoes further afield.

Until now the surplus has had a largely positive effect on the product tanker market. However, not all of the side effects are positive. With both sides of the Atlantic looking well supplied, notable declines in the distillate trade from the U.S. to Europe have been observed as record distillate stocks in Europe depress local prices and arbitrage plays into the region become increasingly difficult.

Whilst limited arbitrage opportunities in the Atlantic Basin apply downwards pressure on demand, structural changes to the refining industry mean producers will continue to move barrels into the region, evidenced surge in imports from the Middle East, Russia and India which have all added to the oversupply. It remains likely that European refining margins will come under increased pressure as more competitive producers compete for a slice of the European market. This by its very nature points to positive increases in long haul products trade – a key support factor for the long term health of the tanker market.

CRUDE

Middle East

VLCC enquiry has kept to a steady, strong, pace throughout the week putting Owners in a very healthy position to push levels on to returns not seen this year. Presently daily earnings are close to around US$100k per day with last done to the East reported at up to ws 90 and in the mid ws 50,s to the US Gulf. Owners will seek further opportunities to increase rates over last done as Charterers continue to look for cover for their end month positions. Suezmaxes are starting to see some positives here as the opportunities of VLCC cargoes being split takes momentum. The position list is already balanced and as such any sudden surge of enquiry will quickly put Owners on the front foot enabling the chance to push levels up healthily. Presently rates are 130,000 mt x ws 85 for the East and ws 47.5 for Western destinations. Aframaxes keep rather deflated with limited enquiry to feed on. Delays in the Far East could impact and give Owners an opportunity to recover some lost ground next week but at present last done is 80,000 mt x ws 85.

West Africa

West Africa Suezmax market has seen rates soften over the week. Charterers played their hand well by witholding enquiry in the early part of the week, Owners quickly chased rates down to 130,000 by ws 72.5 for North West Europe discharge. Rates have now bottomed, and with many stems still to be covered in the last decade of October, we are likely to see rates quickly rebound next week.

On the back of a very strong VLCC market in the Middle East Charterers were forced to press on with their early November programme probably sooner than they would have liked. Tonnage available will emanate mainly from the East so Owners returns will need to be comparable to what is achievable in the AG. Last done reported to the East was270,000 x ws75 but we can expect to see higher rates reported for the next batch of fixing.

Mediterranean

The Mediterranean market continued to disappoint in the face of stronger Aframax markets worldwide. Activity and firmer sentiment have aided other areas, but the length in the tonnage list here has prevented Owners from pushing. Rates have remained firmly rooted to year-low levels and continue to trade in this ws 65-70 region as the week approaches its close. However, a rumour has surfaced that a small uptick could finally be on the cards as some ships have fixed out of the area and it remains to be seen if the weekend lull will put paid to Owners' ambition to capitalise on this.

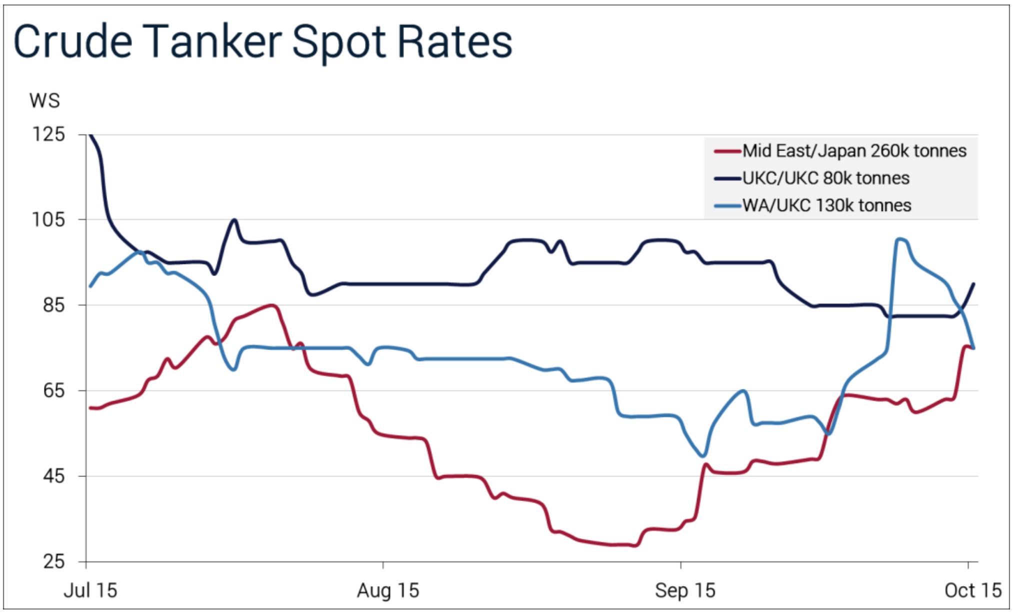
It is a similar story to West Africa for Suezmax Owners in this area. Charterers sat back in the early part of the week to weaken Owners confidence, the latter part of the week has seen levels soften to 140,000 mt by ws 75 for Black Sea load. Rates have now bottomed and we are likely to see higher levels paid by early next week.

Caribbean

Normally a rather volatile market, but this week Aframax Owners have been able to hold their own here with levels keeping in the region of 70,000 mt x ws 120-125. VLCC enquiry has moved further into November as the tonnage list throughout the month looks very balanced. Last reported fixed was US$6.0million for India and US$7.1 for Singapore.

North Sea

As forecast, the North Sea and Baltic saw Afra rates rise this week, with steady inquiry providing Owners with a foundation to push. The large volume of Baltic REBCO combined with a marked increase in transatlantic fixing (some 10-12 ships at time of writing) has played its part at thinning the list and promising inquiry on forward dates. Cross North Sea has shifted up from 80,000 mt at ws 82.5 to ws 90. In turn the Baltic which has truly driven the rate rise has moved upto ws 70 on 100kt. Owners, although experiencing a quiet Friday, are looking to push further on rates. However, Charterers have paid the piper, as such, and bought themselves some breathing space. In turn, with ships still remaining for most occasions, further rate rises look unlikely short term. VLCC rates of up to US$7.25 million were seen for crude oil from Hound Point to South Korea, and Owners are at no lower than US$6.5 million for fuel oil to Singapore, though traders are finding it hard to make work on the 'arb'.



CLEAN PRODUCTS

East

Its been a tough week for the MRs as rates have been tested hard. Across the board all rates have suffered and the week closes with levels at a yearly low. AG/EAfr took a large hit and is on subs at 35 x ws 132.5 and AG/Gizan was squeezed to US$485k. AG/Japan saw less activity however, and was affected by the low LR1 rate and finishes the week at 35 x ws 100. It's not all doom and gloom for the Owners though, as the tonnage list slowly clears of the promt vessels, it would appear that the market may be steadying.

LRs have also had a hard time of it coming off the end of a long holiday in the Middle East. LR1s have felt the brunt though with 55,000 mt naphtha AG/Japan dropping right down to ws 80. 65,000 mt jet AG/UKCont is untested, but vessels are willing to do US$1.75 million. LR2s have remained a little more stable although the decline of LR1s will inevitably hurt them to some extent. 75,000 mt naphtha AG/Japan is still ws 80 today and 90,000 mt jet AG/UKCont has slipped back to US$2.15 million. More stems are needed if we are to stop the decline.

Mediterranean

The Mediterranean market has played out like a Cricket test match between Owners and Charterers resulting in a draw. There has been little change to Handy rates in the Mediterranean since the start of the week, with levels fluctuating throughout between 30 x ws 147.50 and 30 x ws 150. Ahead of the weekend, it has been a quiet day so far with little activity to report, perhaps a sign that both sides have retired to the clubhouse for the weekend. After a sustained week of fixing, Monday's fresh tonnage list will as always, help reveal any opportunities for either side to exert some pressure on levels.

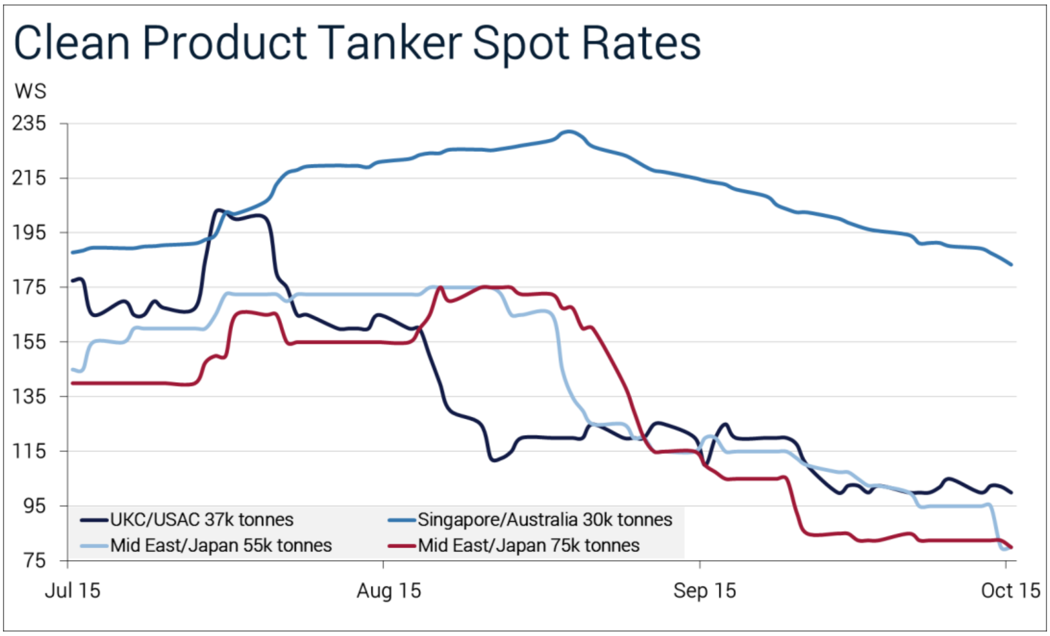
MR inquiry remains quiet in the Med, but there have been a few moments of interest for Owners. In the first half of the week there was a shortage of MR tonnage open for natural dates resulting in a 37 x ws 140 being achieved for Skikda to Brazil, but the general consensus is this is not a fair reflection of the market and further tests are needed to determine where Med/Transatlantic sits in relation to TC2.

UK Continent

As we find Week 40 coming to an end in the MR sector a similar pattern begins to emerge. A positive start to the week with rates improving away from the ws 100 mark up 5 points. However, as Charterers take control the market finds itself back to the century level with consistent fixing here. Pushing forward, with a depleted backhaul market at ws 75-80, the possibilities for vessels to ballast improves and this presently balanced market can be expected to remain.

The Handies market has passed under the radar this week, with rates remaining consistently flat. 2.5 points either side of 30 x ws 135 have been achieved, but with no staying power for now. It seems hard to imagine this sector deviating much in the upcoming weeks unless we start to see an increase of either tonnage or cargoes.

Finally we reach the Flexi market which at the time of writing seems to be showing an increase in activity, albeit with no upside on rates yet to be seen. Continual 22 x ws 165 numbers have been achieved with the occasional blip to keep us awake. Pressing forward, tonnage lists on Monday will be a true measure of this inquiry improvement and as to whether we are to expect an increase on rates.



DIRTY PRODUCTS

Handy

As we reach the end of the week the Handy market up in the continent has been rather a forgetful one. The minimal activity seen earlier in the week has maintained its trend and as we finish and review the position list, prompt handy tonnage remains well spread and plentiful. Owners will be looking toward to a fresh start come next week and hoping the summer lull is well and truly put behind them. Charterer's will be eagerly awaiting their traders nod of approval to enter the market, as rates must be close enough to spark interest on 30kt stems.

Down in the Mediterranean, Owners were faced with an uphill challenge as prompt tonnage kept on coming as the week rolled on. Activity has been steady at a time when positions desperately needed increased enquiry. Like a good old pick and mix stand, Charterers have been able to greedily pick and choose their favourite vessels at competitive levels. As a result of all this availability, the fixing window has shortened which is something for Owners to hold onto. If production out of the Black Sea kicks back into life on Monday the market may start to recover.

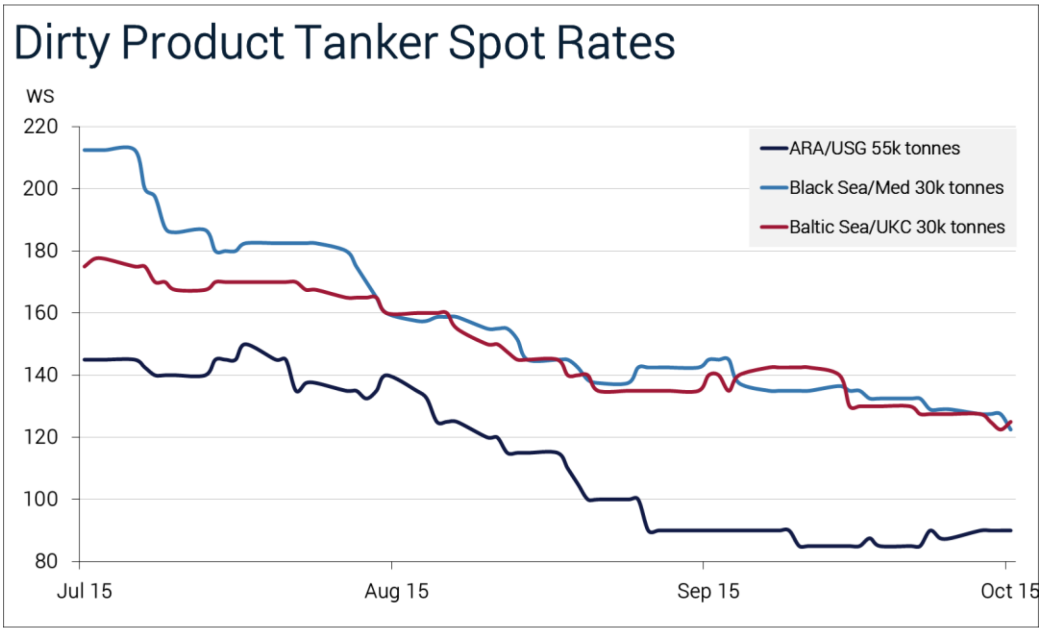
MR

It's been a tough week for 45kt affiliates in the Continent this week, with minimal activity and tonnage options sitting idle free of cargo, some sadly waiting longer than others. Production is noticeably low and some Owners have indicated levels that equal better dollar per ton than a Panamax can in attempt to try and source some new business. Without sounding like a broken record, the market needs to be tested and come Monday should we be lucky enough to have a full stem; a new benchmark will most likely be carved into the industries work pads.

A very steady flow of activity in the Mediterranean this week and today vessels try their best to get covered before the weekend. At the time of writing rates seem to be trading sideways, but if the position list on Monday looks full to the brim, Charterers may put them to the test.

Panamax

As we end week 40 the natural positioned Panamax tonnage remains somewhat tight in both the Continent and Mediterranean unless one can look at older tonnage. Our cousins across the pond Caribs-USG Market is the more attractive in terms of both rates and activity which is limiting the amount of ballasters crossing the Atlantic. Whilst we review the Continent and Med markets we can see despite the recent clearout of prompt tonnage the market is still maintaining around the ws 87.5-90 levels. Owners will have their fingers crossed next week hoping for improvement on these levels.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 1st	Last Week	Last Month	FFA Q4
TD3	VLCC	AG-Japan	**+16**	78	62	46	76
TD20	Suezmax	WAF-UKC	**-23**	76	98	51	90
TD7	Aframax	N.Sea-UKC	**+8**	90	83	96	118

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

			wk on wk change	Oct 1st	Last Week	Last Month	FFA Q4
TD3	VLCC	AG-Japan	**+25,750**	101,750	76,000	48,750	97,750
TD20	Suezmax	WAF-UKC	**-17,000**	43,000	60,000	22,750	53,500
TD7	Aframax	N.Sea-UKC	**+5,750**	24,000	18,250	28,000	46,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 1st	Last Week	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-3**	80	83	105	
TC2	MR - west	UKC-USAC	**-7**	96	102	120	145
TC5	LR1	AG-Japan	**-15**	81	95	116	99
TC7	MR - east	Singapore-EC Aus	**-9**	182	191	213	

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

			wk on wk change	Oct 1st	Last Week	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-1,000**	23,250	24,250	33,750	
TC2	MR - west	UKC-USAC	**-1,750**	12,250	14,000	17,250	23,500
TC5	LR1	AG-Japan	**-4,750**	16,000	20,750	27,250	21,750
TC7	MR - east	Singapore-EC Aus	**-1,500**	25,250	26,750	30,500	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+1**	220	219	248
LQM Bunker Price (Fujairah 380 HSFO)	**-3**	238	240	248
LQM Bunker Price (Singapore 380 HSFO)	**-3**	238	241	259
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+5**	438	433	448

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E.A. GIBSON SHIPBROKERS LTD., AUDREY HOUSE, 16-20 ELY PLACE, LONDON EC1P 1HP

Switchboard Telephone: (UK) 020 7667 1000 (International) +44 20 7667 1000

E-MAIL: tanker@eagibson.co.ukTELEX: 94012383 GTKR G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135