

2nd August 2013

NICARAGUAN CANAL – FACT OR FICTION?

With the arrival of August, many of the offices around the globe are emptying as people take their summer break. The 'summer lull' is traditionally a slow month for news, but one story that has been circulating recently (but treated sceptically) has been the proposal to build a canal across Nicaragua to rival the enlarged Panama canal. The credibility of this project is beginning to gain some credence with several of the established news agencies providing more particulars. In June, Wang Jing, the owner of HKNG Group (a Telecom company) signed a contract with Nicaragua's president Ortega, which will give the Central American nation 51% of the new canal company. Wang unveiled a \$40 billion plan for a 170 mile waterway linking the Pacific to the Caribbean. Suggestions are that construction would begin in December 2014 and the project would be completed within 5 years. No details of the proposed physical dimensions of the waterway have been released other than "Nicaragua would be able to accommodate the new generation of ships ranging up to 250,000 tons".



So what does all this mean and will there be a need for another canal? Certainly should the proposal go ahead, it will be in direct competition with the enlarged Panama waterway and that can only mean good news for those currently being forced to pay the higher tariffs implemented by the Panama canal authorities. Wang believes that by the time the canal opens in 2020, world trade would be at a level that could safely accommodate two Pacific - Atlantic waterways. In our Weekly Tanker Report (12th April), we gave our views on why the new Panama Canal would give little or no advantage to the tanker market and it is

difficult to see the Nicaraguan proposal providing significantly more opportunities – even without knowing the exact specifications. If the stated vessel size limitations are to be believed, it will certainly rule out a fully laden VLCC, although part laden cargoes may be of some interest. With Asian appetite for crude from the Americas increasing, this suggests an opportunity for larger cargo sizes. Distances from Venezuela to Asia are considerably shorter via Panama than going via the Cape if the destination is anywhere north of Thailand; for example, Venezuela to Ningbo is 12 days shorter (basis 12 knots). The proposed canal will be more than three times the length of the Panama Canal, but other than this, the difference in distances over the existing routes appears to be negligible.

Certainly Nicaragua has more to gain than to lose; such a project could bring huge revenues to one of the world's poorest nations. The project still remains unfunded, but it is believed that investment from Europe or the US is unlikely, particularly as the latter already has huge investments in Panama. Mr Wang proposes to name his investors in the next two months, but even Chinese appetite for this project may be a step too far.

CRUDE

Middle East

VLCCs spent the whole week stuck within their new, lower, conference rate band of ws 34/36 East and 21/23 West via Cape. Volumes were actually quite steady, but availability too plentiful to allow for any tightening, and although the resistance potential will increase somewhat as the August end game comes into view, any repeat of the significant spikes in June and July looks most unlikely. Suezmaxes started very solidly to maintain the gains of last week, but by the week's end, things had slowed somewhat, and levels eased back to around 130,000 by ws 65 East and ws 45 to the West with further softening possible. Aframaxes slowed a little, and rates eased to 80,000 by ws 85 to Singapore accordingly. Some tightness is starting to get noticed in the East, however, and that may provoke another upward trend developing through next week.

West Africa

Suezmax Charterers tried hard to break the market to below ws 60 for Atlantic destinations, but ultimately failed, and by late-week were back on the defensive again as Owners pushed the market to 130,000 by ws 70 to Europe, and into the low ws 60,s to US Gulf. Things could get firmer, but it seems to be the load zone of choice for Owners, and perhaps too many may be too keen to play for rates to make much further ground. VLCCs had a very quiet week of it, but some deals were concluded at down to 260,000 by ws 36 to the East and close to US\$ 3 million for West Coast India. As long as the Arabian Gulf flounders, then rates here will remain weak also.

Mediterranean

Some resistance from Aframax Owners, but ultimately futile with the cancellation of a good number of Libyan cargoes not helping the cause either. Rates stayed

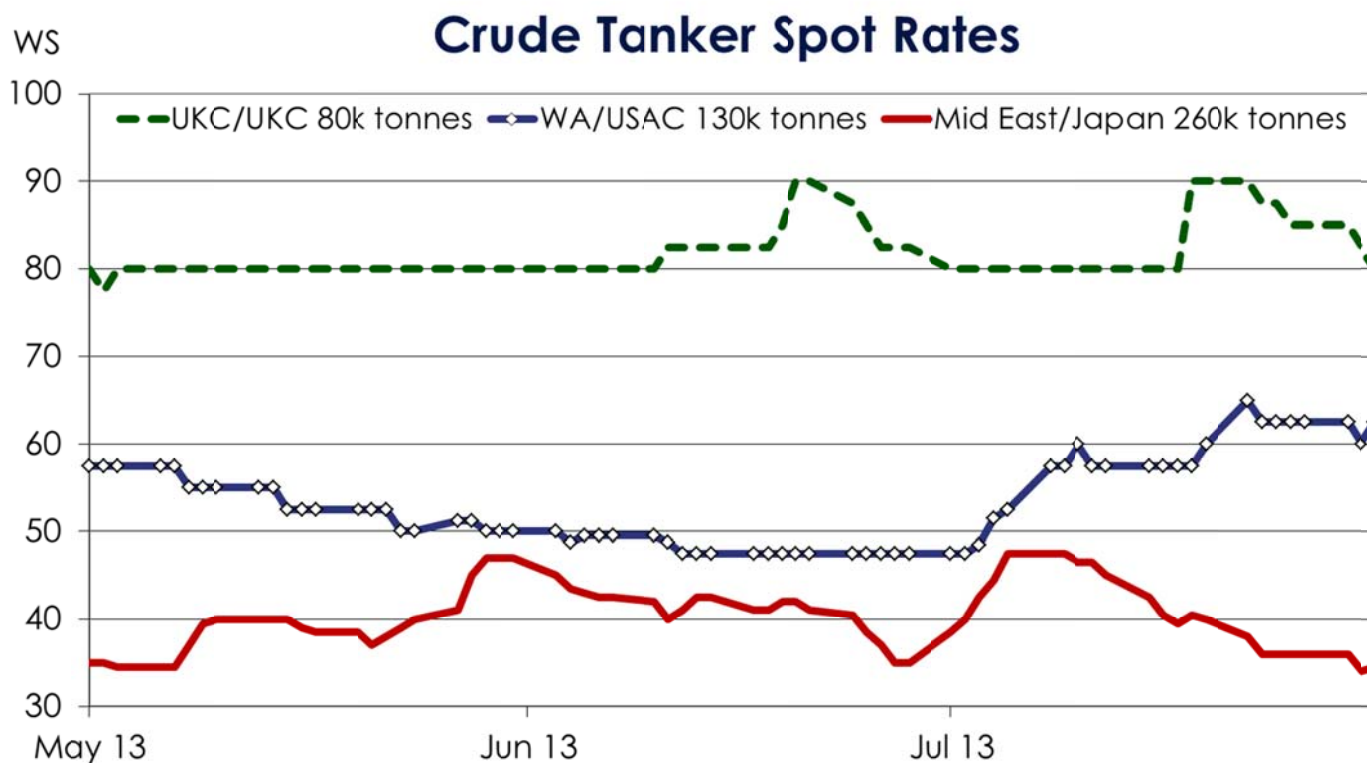
around 80,000 by ws 80/82.5 cross Med for most of the week, and threaten to dip further if volumes don't pick up soon. Suezmaxes ticked steadily downwards through the week to shed nearly 15 wpoints from the Black Sea to as low as 140,000 by ws 58.75 to Europe, and to ws 50 to the states. Now that West Africa is making a move though, Owners are taking a more solid stance, and will attempt to stage a rebound next week.

Caribbean

Aframax Owners spent the week fighting a losing rear guard battle to leave rates at hardly better than 70,000 by ws 85 upcoast as supply easily outweighed demand. Unless disruption intervenes, levels look set to stay similar through next week. VLCCs kept upon a slow bell, and once some fixing got underway, Owners were nicely softened up to accept a lower US\$3.5 million to Singapore and a shade over US\$3 million to West Coast India, and it looks as if Charterers will retain the upper hand over the short term, at least.

North Sea

Generally grim for Aframax here, but a rise in Fuel Oil demand countered the maintenance affected Crude oil sector, and provided for some potential for higher rates. However, Owners were slow on the uptake, and may have already let the opportunity slip. Rates stay close to 80,000 by ws 82.5 cross UKC and 100,000 by ws 62.5 from the Baltic for the time being. Suezmaxes got the odd knock to the States at, or a little below, 135,000 by ws 50 but will add some wpoints if West Africa holds the gain. VLCCs suffered from the Fuel Oil 'arb' remaining shut to Singapore, but theoretically US\$3.1 million would be achievable for such runs.



CLEAN PRODUCTS

The heart still beats in the West whilst the East shows some signs of life

East

The LR2s have had a quiet week in comparison to their smaller counterparts, with activity levels dwindling and rates still struggling to get off the ground. A few PPT ships are left outstanding searching for cargoes, and general owner sentiment unfortunately still seems below par. 75kt AG/JPN Remains at a shade below ws 70lvls, with last done at ws68. Going West, fixing levels are around US\$ 1.95M AG/Cont, with US\$ 1.86M on subs for Sikka/West off 25/30-August.

In relation to the norm of late, this week has been a much more interesting one for LR1s around the AG. A long-awaited dosage of enquiry on Wednesday has spiced things up, and owner confidence has been elevated as a result. Many of the fresh cargoes still remain outstanding, suggesting Charterers are being shown more expensive offers than they would like and holding back. Going West is looking firmer on the earlier dates, with Owners talking US\$ 1.6M lvls and above AG/Cont. TC5 remains a talking point, with 55kt x ws85 rumoured on subs AG/JPN, we believe this to be an accurate assessment given available tonnage vs. enquiry, but it is worth noting that some bullish Owners are suggesting ws90 is their minimum fixing level now. Can this market really deliver, or is all a lot of hot air? Looks like we're going to have to wait until these cargoes get covered to find out.

The MRs earlier on in the week showed some signs that things could improve as there was some increased level of enquiry, however it is looking like it is a false dawn. TC12 remains at 90-92.5 now, which is actually down on last done and no signs of improvement, MRs into East Africa are fixing at 130-135 levels with South Africa still going at 10 point discount, once again these levels have been repeated and UK Continent runs are around US\$ 1.0 Million, less has been down and this may still be possible on specific ships, but sub 1.0 mill is certainly not a conference rate. The short haul market is unchanged US\$ 160-165k levels for longer voyages and Iraq deliveries, US\$ 140-145 for short voyages. In general the market is nothing more than ticking over and any upside seems limited at this stage, could the firmer, more positive sentiment from LR1s influence MRs, possible, but there remains an awful lot of tonnage to clear before any talk of a firming market.

It has been a terribly quiet week in North Asia, despite the slim position list and the potential for some rate firming the cargo base has not been there. This has left rates for backhaul cargoes essentially unchanged and in the case of LR2s somewhat weaker than they were at the start of the week. MRs typically are fixing S. Korea / Singapore at US\$ 380k level, LR1s at US\$ 430k and LR2s at US\$ 500k. Singapore, much like the previous few weeks as also seen very little activity, some ships have been spot for over 2 weeks and there is very little sign that this market will rejuvenate any time

soon. Cargoes into Australia have been few and far between although a differential has opened up between loading in North Asia vs loading in Singapore. Singapore/Australia is trading at 30 x ws 145 and S.Korea/Australia is at 30 x ws 150-15 level. Looking to next week there is potential for North Asia to firm as the position list remains tight, but this depends on the cargo volume entering the market. The Singapore spot market is still soft, and is not being helped by the weak WCI and AG market- this looks set to remain into next week.

Mediterranean

A very slow week for the Mediterranean and rates are softening. Enquiry came only in drips and drabs and with available tonnage building market rates have ticked down to 30 x ws 155 Cross Med and considered similar from the Black Sea. The MR's were more or less totally dead and rate ideas have been solely driven by an active UKC market, so need to be tested. Given there are also a number of Mrs opening in the Red Sea with limited options but to ballast north, in reality the market is softer than the UKC and considered 37 x ws 145-150 ta / WS 160 lv West Africa /US\$ 1.1-1.2m Red Sea / 1.25-1.35m AG.

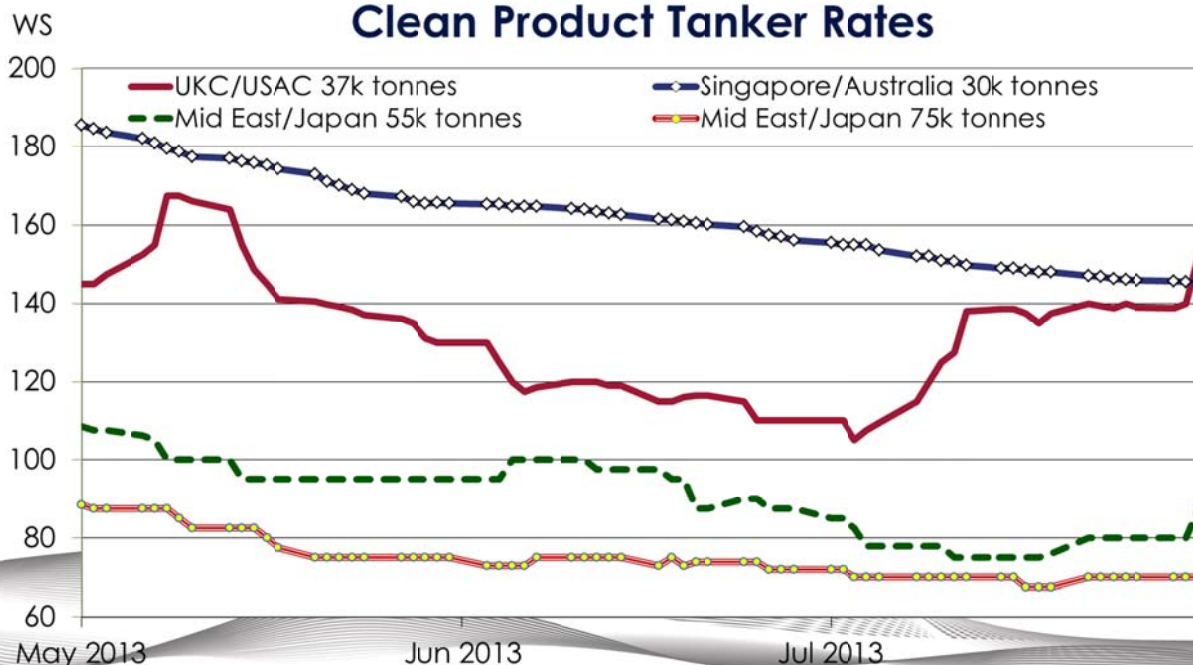
UK Continent

A promising start to the week for the Continent as a short list of approved tonnage pushes rates up to ws 155 basis 37kt of Mogas, at time of writing higher is on subjects (165). Little enquiry to West Africa, rates still continue to command anything from 10-20 points over transatlantic runs. North West Europe enjoyed some activity for Baltic liftings of Gasoil and Nahptha to the Continent, a conference rate of 30 x 140 booked throughout the week. Flexis shuttling cross Continent with CPP secured ws 182.5 basis 22kt. Steady volumes of enquiry on the Lrs throughout the week, Mogas stems from the Continent with discharge options to West Africa and transatlantic traded around ws 100 basis 60kt. Further options to the Red Sea were arranged around US\$ 1.6 m. Little Nahptha enquiry on the LR2s to the far East, however West runs to West Africa were organised at around ws 82.5 basis 90kt.

Caribbean

A steady level of enquiry remains in the USG/Caribbean Sea market for backhaul cargoes and Cross Caribbean trade, however, with a strengthening UKC market we have noticed a big upturn in marketed ballasting tonnage that is backing TC2 trades. For backhaul distillate stems - 38 x 100 is deemed the market by the weeks end and it is looking on the soft side, meanwhile for Caribbean Sea USAC 150 remains Owners ideas but is largely untested.

Clean Product Tanker Rates



DIRTY PRODUCTS

Handy

UKC: Two regions, two stories this trading week. The Continent market started strong and a consistently short tonnage list ensured rates steadfastly refused to drop below 30 x ws 140 for Xcont. Natural Cont positions were in short supply providing little negotiating room for charterers and facilitating small early week gains. With units known to be slowly accumulating in ARA and Algeciras/Gib regions, a tonnage list with greater depth is expected on Monday perhaps leading to sub ws 140 to be achieved if early week cargos are lacking.

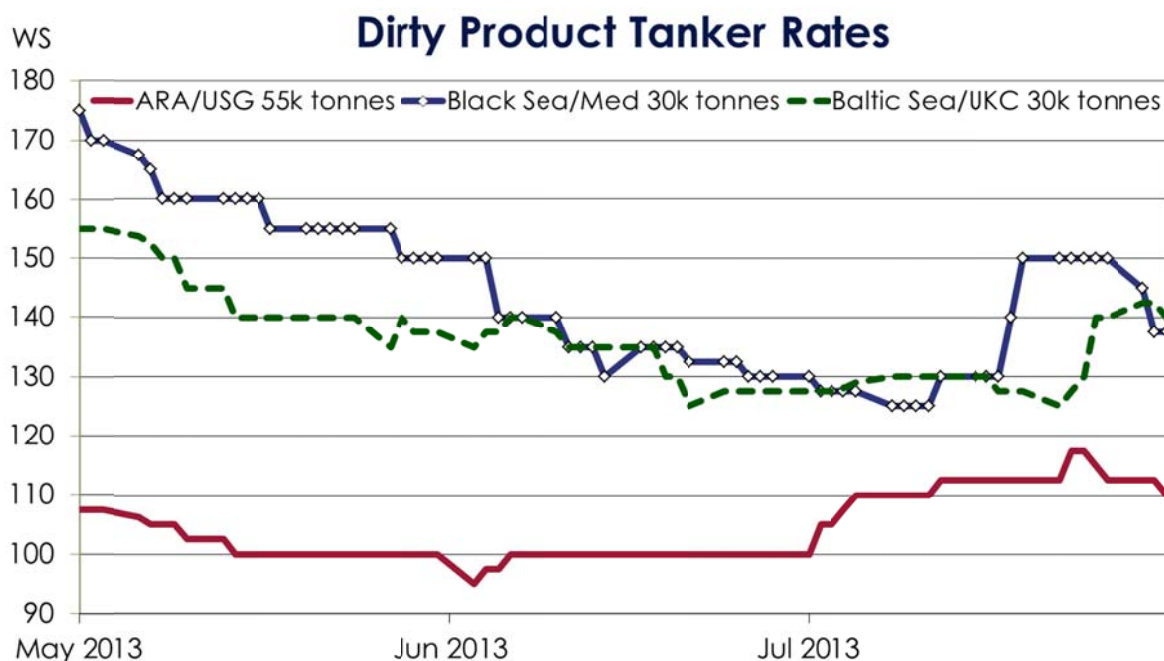
MED: The Med has experienced greater rate volatility with early week trading seizing upon negative pressure created towards the end of last week. A substantial justified correction occurred ex Bsea, TD 16 falling to 30 x WS 137.5 as ppt tonnage built in the region. On the back of quieting activity owners took out the first cargos offered, and by mid-week this began to redress the fall in rates leading to an end of week plateau in the X Med market to 30 x ws 127.5-130 region X.Med and Bsea 30 x ws 140 lvs.

MR

Sporadic activity throughout the week prevented stagnation from setting in, where in this sector frustration grows as Libyan exports face increased uncertainty. Being such a life line for the MR's charterers will also be in the knowledge that part cargo employment at today's levels (on a straight 30ks basis) really isn't a viable alternate as a means of employment. Date depending therefor as we progress through the August fixing program full MR stems could force a widened benchmark beyond the 45/115-120 level.

Panamax

Owners in the Mediterranean this week would be inwardly pretty pleased with the outcome; from at one point the list looking burden with tonnage, activity once again enabled owners to hang onto the ws 110 and turned potential for negative correction into a flat market. In the immediate future this is likely to remain the case however the continent is just waiting on one Charterer to get caught as the US markets continue to absorb the ideally positioned ballast tonnage.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Aug 1st	Last Week	Last	FFA	FFA	FFA
						Month	Q3 13	Q4 13	Bal 13
TD3	VLCC	AG-Japan	-3	34	37	46	36	38	37
TD5	Suezmax	WAF-USAC	+0	64	64	51	60	59	60
TD7	Aframax	N.Sea-UKC	-5	80	85	80	79	86	83
LQM Bunker Price (Fujairah 380 HSFO)			-3	599.5	602.5	597.5			

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

			wk on wk	Aug 1st	Last Week	Last	FFA	FFA	FFA
						Month	Q3 13	Q4 13	Bal 13
TD3	VLCC	AG-Japan	-4,250	10,000	14,250	27,750	13,000	16,250	15,250
TD5	Suezmax	WAF-USAC	-500	19,250	19,750	10,750	16,500	16,000	17,000
TD7	Aframax	N.Sea-UKC	-3,500	5,000	8,500	5,000	2,750	7,750	6,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Aug 1st	Last Week	Last	FFA	FFA	FFA
						Month	Q3 13	Q4 13	Bal 13
TC1	LR2	AG-Japan	+0	70	70	70			
TC2	MR - west	UKC-USAC	+22	160	138	108	146	138	144
TC5	LR1	AG-Japan	+4	82	78	82	94	106	120
TC7	MR - east	Singapore-EC Aus	-1	145	146	155			
LQM Bunker Price (Rotterdam HSFO 380)			+2	609.5	607.5	585.5			

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

			wk on wk	Aug 1st	Last Week	Last	FFA	FFA	FFA
						Month	Q3 13	Q4 13	Bal 13
TC1	LR2	AG-Japan	+0	7,000	7,000	7,250			
TC2	MR - west	UKC-USAC	+4,750	17,500	12,750	6,750	14,250	12,750	14,250
TC5	LR1	AG-Japan	+1,250	6,500	5,250	6,500	10,250	14,500	12,250
TC7	MR - east	Singapore-EC Aus	-250	8,750	9,000	10,500			

(a) based on round voyage economics at 'market' speed (13 knots laden/12 knots ballast)

PAT/JCH/TP/JT/slt

Produced by Gibson Consultancy and Research

Visit Gibson's website at www.gibson.co.uk for latest market information

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.uk TELEX: 94012383 GTRK G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135



This report has been produced for general information and is not a replacement for specific advice. While the market information is believed to be reasonably accurate, it is by its nature subject to limited audits and validations. No responsibility can be accepted for any errors or any consequences arising therefrom. No part of the report may be reproduced or circulated without our prior written approval. © E.A. Gibson Shipbrokers Ltd 2013