WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

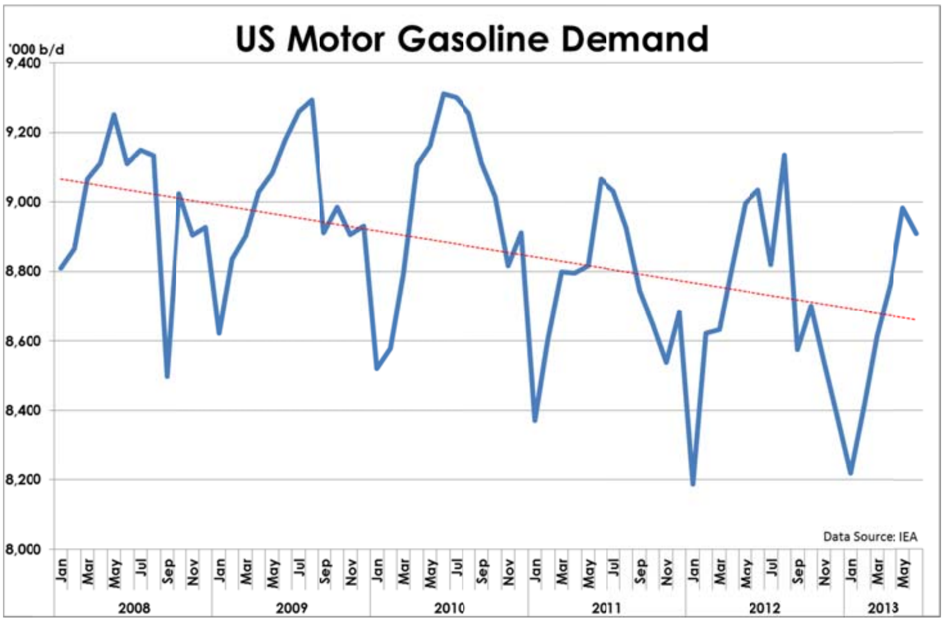
9th August 2013

SUMMER *DRIVES* DEMAND

The MR benchmark route UK Continent to the US Atlantic coast (TC2) has historically been secure through America's vast thirst for imported gasoline. The recent highs and subsequent lows in earnings highlight the instability on the trade, as gasoline consumption in the US has been in steady decline since around 2007. Demand for overseas fuel, an exponential growth in automotive efficiency, as well as the glut of ships operating in the region, has proved very problematic, but where one route falters, others look set to gain.

US gasoline consumption in 2012 averaged about 8.7 million b/d, equivalent to almost 10% of global demand. It has been falling from the peak in 2007, where it reached 9.3 million b/d. However, a fairly robust July is expected to help bring an eventual influx of around 0.3 million b/d of extra demand this summer. Memorial Day weekend in late May to Labour Day holiday in early September marks the US driving season, and traditionally provides a seasonal pick-up for product tanker owners. However, the lift is reportedly not enough to prevent a 2013 average contraction of roughly 0.1%.

If fuel efficiency of cars and trucks improves by an average of 2.5% per year, it is estimated to be enough to restrain growth in oil demand. Not only this, environmental policies and efficiency standards also play their part in reducing thirst for fuel. In March, China introduced stringent fuel efficiency standards of 34 mpg minimum rating by 2015 and 47 mpg by 2020. In America, 55 mpg will be achieved by 2025. Such policies will not solely eliminate the effects of an increasing number of cars, but will aid in dampening them.



Weak local demand, combined with the unlocking of large shale oil reserves, has also generated strong growth in American product exports. Most of this gasoil is transported back to Europe, improving the transatlantic backhaul route, but also boosting trade flows from the US to South America. So although the established and traditional trade flow from Europe to the US is slowly shrinking, other routes will prosper. In the cases of exports to South America, or triangulation to Europe, net tonne-miles will be increased and available tonnage will be reduced, providing some hope for product tanker owners operating in the Atlantic basin.

CRUDE

Middle East

A reserved approach by Charterers on the Vlccs this week yielded the intended results with rates coming under further pressure. They could only go so low with returns now being below opex at 265 x w33 for east and 280 x w21 for west with the overwhelming tonnage list providing little relief for Owners for the forthcoming week. Suezmaxes continue to push for premiums off prompt dates and for short voyages into India, but anything forward enough and long enough either East or West will show noticeable discounts on what is otherwise a relatively quiet market ahead with 130 x w65 and 140 x w35 respectively being expected or achieved for the end of the month stems. Aframax activity has been steady this week to avoid any further softening, but any rebound is unlikely to be seen with tonnage sufficient enough to retain the status quo of around 80 x w85 for East discharge.

West Africa

Although Charterers on the Suezmaxes tried to play a more disciplined approach to try and rein in the Owners bullish ideas from the previous week, enquiry still had to be shown to seek coverage for the last decade. This allowed rates to remain steady throughout the week, with a small possibility of minor gains leading into next week with w67.5 for United States Gulf and w70 for Europe being the basis by which to work upon. Activity on the Vlccs was relatively ample by the end of the week on the back of the stronger Suezmax market and the obvious weakening witnessed by the vlccs showing an opportunity to co-load parcels. Whether these come to fruition is another matter and irrespective of this, rates will remain contained on the back of the weak eastern market with 260 x w40 for USG and w35-36 for East.

Mediterranean

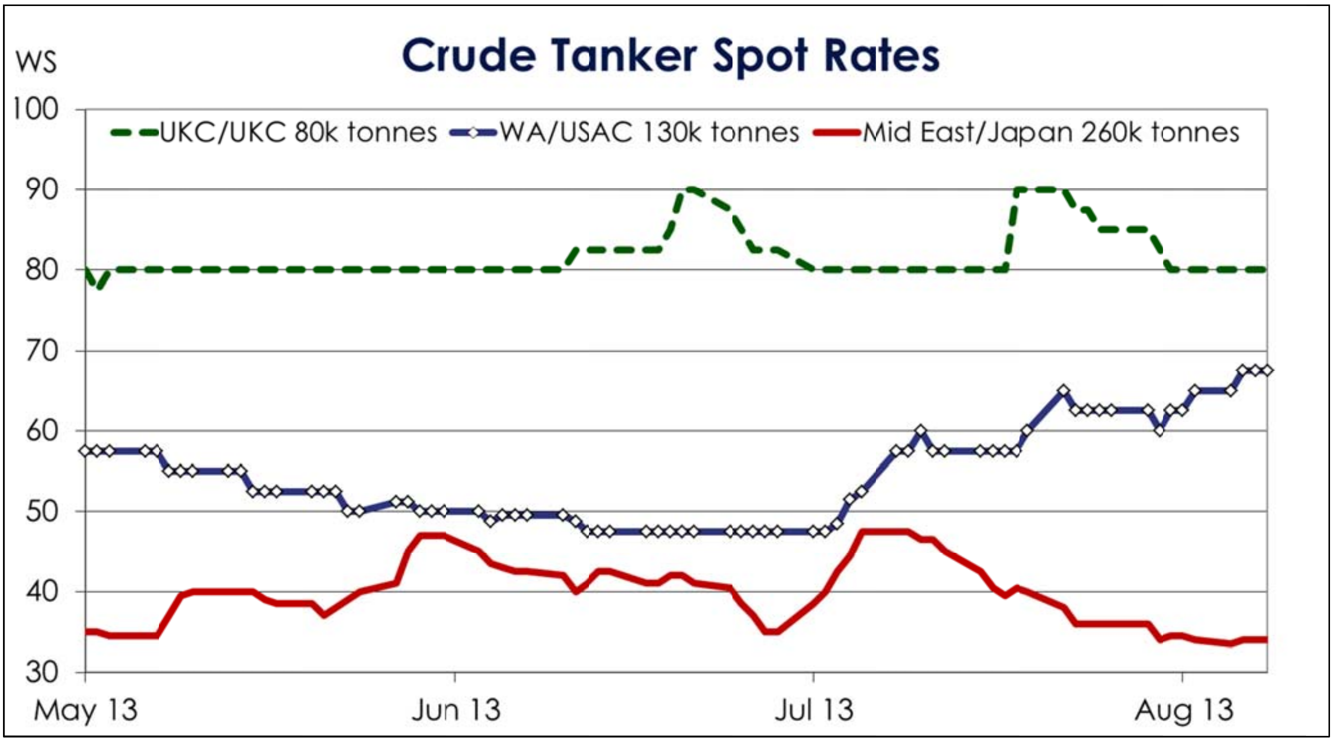
Aframaxes started the week still facing the prospect of no supply from either Kirkuk or Libya due to disruptions and strikes, but it turned out to not being as depressing as first assumed with just enough enquiry around to keep levels steady with little change expected as rates march along at around 80 x w80 for cross Med. Suezmaxes were a slight spectator sport but with some mid-week activity and West Africa not waning, rates should remain in their range of around 140 xw 62.5 for Black Sea/Med.

Caribbean

Some midweek activity on the Aframaxes allowed Owners to drag their rates up from the dreary opex levels that they had become accustomed to and with enquiry being slightly more prolific towards the end of the week, this should allow Owners to propose rates around 80 x w100 for Caribbean Sea/United States Gulf which is much more to their liking. The Vlccs remained on the back burner this week which should allow rates to remain at levels of around $3.45m for Singapore and $2.95m for West Coast India.

North Sea

Prompt replacements on the Aframaxes lead to premiums being paid, but off forward and therefore safer and more established dates, Charterers should have an easier task in order to achieve cross North Sea at around 80 x w82.5, but a bullish sentiment remains in focus for next week. Suezmaxes were quiet in this area, but it is assumed that those in the area will hope to tow the line created by the steady West African sentiment. The arbitrage remains shut for any possibilities for the Vlccs to move from this area to the East and rates should be remain penned in at around $3.05m for Singapore discharge.



CLEAN PRODUCTS

East

The LR2s in the East have remained quiet and flat this week; with Eid al-Firtr now underway and most of the East on holiday, the market never really stood a chance of gaining any real momentum. 75kt AG/Japan still sits at just below w70 levels. Going West, fixing levels are sitting at around US$1.9m AG/Cont. A few vessels have been sitting spot for some time now, and are feeling the heat of this quiet spell.

The LR1s made a busier start to this week, and though activity levels have dwindled over Eid, Owner confidence has finally become apparent in freight rates. There has been a 10 point lift in 55kt AG/Japan, and notably the Red Sea has seen a marked increase as last done has been bettered by over US$100k with US$825k going on subs this week. Going west is still the preferred route for some Owners, and AG/UKC still sits at around US$1.65m AG/UKC for now. Rates are still low, but things are looking a bit more positive for owners recently. If the market is to firm further, we will have to see another dumping of cargoes early next week to keep up this mini-fixing surge going in a market that has otherwise been dormant for some time.

The MRs are beginning to show some signs of firming, but this is yet to be really reflected in rates across the board, it is more sentiment driven. This is encouraging given that the Singapore and Middle East markets have been shut for 2 days this week. TC12 remains fixing at w90-95. East Africa last done was w130, but next done is likely to a minimum of 5 points higher. UKC fixing could well be a little higher than the US$950k that fixed last, as TC2 is softening, Owners will become increasingly reluctant to reposition into the west at cheap levels. The cross AG market has firmed up, with US$195k fixing for Kuwait/UAE, but next done is expected to break the 200 mark.

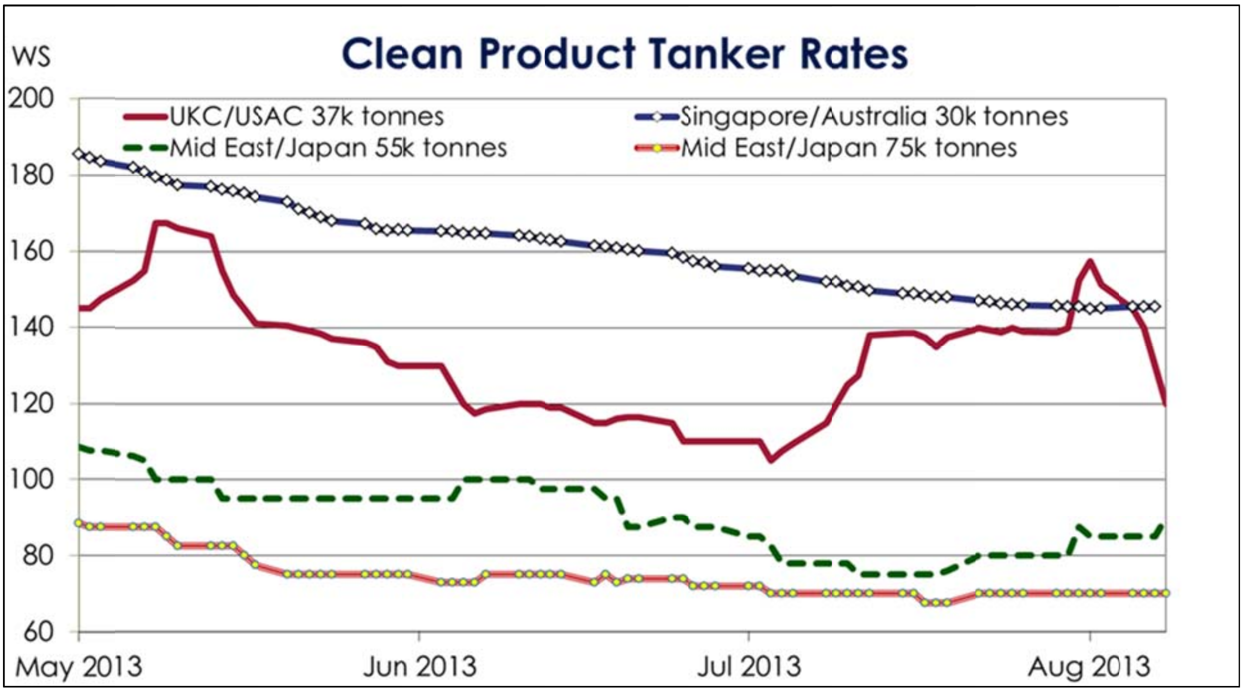
Another quiet week in the Far East seems to have been wrapped up rather earlier than usual this week with the arrival of Eid and holidays in the East. MRs are fixing S. Korea / Singapore at US$380k level, LR1s at US$430k and LR2s at US$485k. LR1s are looking slightly tighter after a busier spell so arguably rates have the potential to go up, but for now it is more likely that Charterers will opt to take the cheaper LR2s, so LR1 rates will probably stay put until Charterers run out of options on the bigger ships.

Mediterranean

Another slow week in the Mediterranean and Black Sea markets both for Handys and MRs with August looking like a long drawn out month for Owners, certainly the market outlook is soft. For cross Med and Black Sea 30 x w145-147.5 is deemed market at time of writing although 30 x w140 is rumoured on subjects - the Black Sea is also looking quiet. MR cargoes for long haul options remain on the quiet side in the med with Owners choosing to ballast up to ARA instead, however, TC2 has come off to around 37 x w120 by the weeks end and although untested, we would consider the market in line with those ideas - going East US$1.1-1.2m Red Sea / US$ 1.25-1.35m AG.

UK Continent

A slump for TC2 this week as demand for transatlantic runs of Mogas dwindles, at time of writing 37 x 120 is on subjects. Runs from the North into West Africa for MRs secured ten points premium as heading t.a. now looks less attractive. Sufficient activity in North West Europe for handy lifting's from the Baltics discharging on the Cont, 30kt parcels fixed at w140. Flexis trading on the cross continent motorway achieved 180 basis 22kt CPP. Less enquiry on the LRs this week, w100 is deemed the conference rate for western discharge options, further discharge options heading to the Red Sea were arranged at around US$1.35m for Gasoil and Mogas. Longer haul options to the Far East ideas for Naptha were booked at US$2.05 loading ex Mediterranean.



DIRTY PRODUCTS

Handy

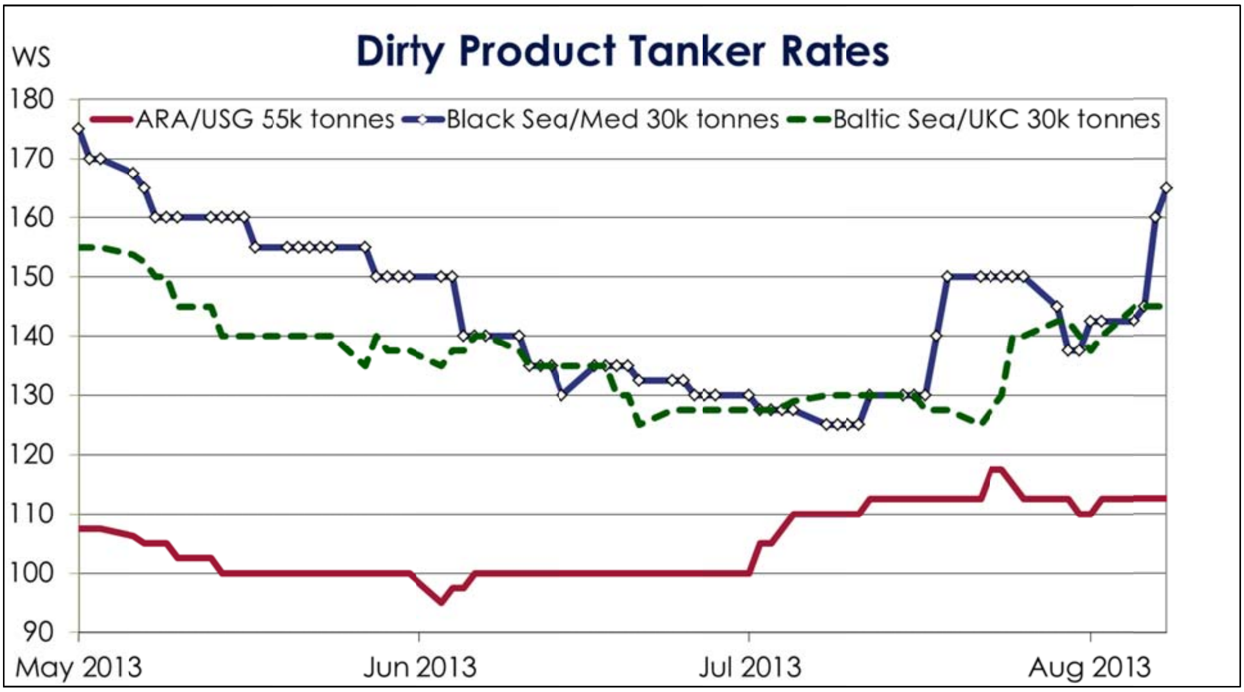
This week witnessed substantial activity in the Black Sea - Med with cargoes covered up into the early 20's date range. With the arbitrage East shut - ensuring stems had to find a regional home - allied to an increase in product production rates steadily climbed as fresh cargoes entered the market on mass mid-week. Rising activity pushed the fixing window forward, the natural effect of a rising market further turning the screw on those last to enter the market. A rough rise of +25 points ex Black Sea has occurred by the weeks end. Expect next week to begin quietly with natural dates to work already covered. Despite ambitions to the contrary mid-week, the Continent market has remained relatively rate stable around 30 x w140 levels. The week began tight for tonnage but with limited activity ppt units built acting as a catalyst for charterers to chip away vessels getting edgy with the weekend approaching. Expect a healthier tonnage list next week.

MR

A quiet week in the Continent for MR employment with little serious excitement to whet the appetite. One unit dropped down to seize a good repositioning handy stem in an otherwise uninspiring week. With ppt units still existing levels are flat and heading towards soft especially as competitive vessels exist for all applicable voyages. As always in the MR market, units really chose themselves based upon the discharge options required. Busier in the Med with a mixture of stem size from 40kt to full 45kt providing employment for the owning fraternity. Tonnage has been cleared on the back of good activity but with the vast majority undertaking short haul voyages, rates will not move far from 45 x w115 levels.

Panamax

With a flat market the only glimmer of hope for owners is the activity we have seen in the Mediterranean. At the start of the week spirits were lifted by a couple of vessels going on subs for Black Sea - Med voyages but these did not get confirmed. Soon after these vessel have found employment with long haul Med – t.a. cargoes. The market sentiment looks to remain the same for the coming week with potential vessels from the other side of the Atlantic keeping a steady flow of tonnage available.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Aug 8th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**+0**	34	34	47	34	38	36
TD5	Suezmax	WAF-USAC	**+4**	68	64	59	60	58	60
TD7	Aframax	N.Sea-UKC	**+0**	80	80	80	79	86	83
LQM Bunker Price (Fujairah 380 HSFO)			**+3**	602.5	599.5	603.5			

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

			wk on wk	Aug 8th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**+0**	10,000	10,000	29,000	9,750	16,000	13,500
TD5	Suezmax	WAF-USAC	**+3,500**	22,750	19,250	16,250	16,750	15,750	17,250
TD7	Aframax	N.Sea-UKC	**+250**	5,250	5,000	5,000	3,000	8,250	6,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Aug 8th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+0**	70	70	70			
TC2	MR - west	UKC-USAC	**-39**	121	160	128	126	130	127
TC5	LR1	AG-Japan	**+6**	88	82	77	94	106	120
TC7	MR - east	Singapore-EC Aus	**+0**	145	145	151			
LQM Bunker Price (Rotterdam HSFO 380)			**-8**	601.5	609.5	610.5			

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

			wk on wk	Aug 8th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+0**	7,000	7,000	6,750			
TC2	MR - west	UKC-USAC	**-8,250**	9,250	17,500	10,500	10,000	11,250	10,750
TC5	LR1	AG-Japan	**+1,750**	8,250	6,500	4,750	10,250	14,250	12,250
TC7	MR - east	Singapore-EC Aus	**+0**	8,750	8,750	10,000			

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

MJC/JCH/TP/JT/slt

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