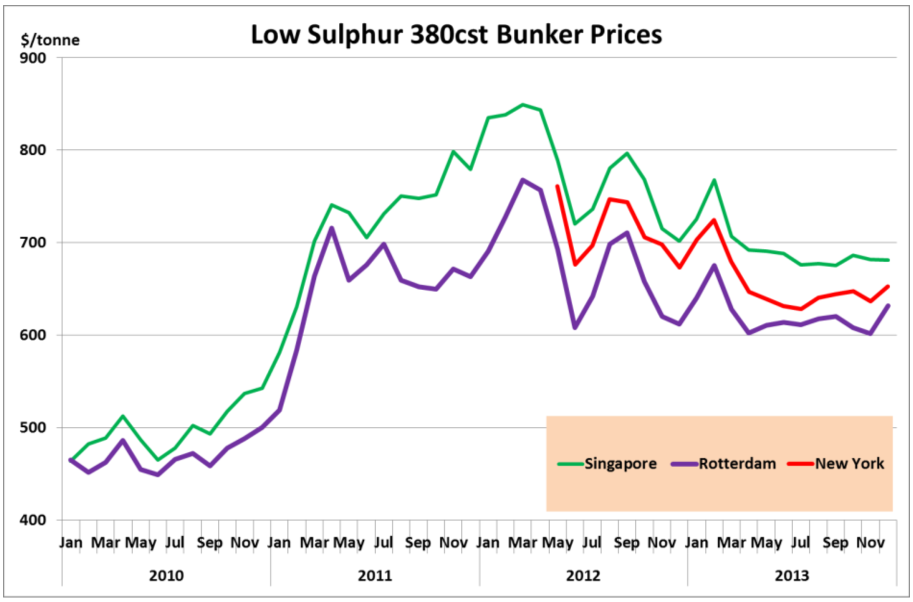
WEEKLY TANKER REPORT

6th December 2013

COMING CLEAN

With just over 12 months until the next phase of the lower permissible sulphur limits are once again reduced in the emissions control areas (ECAs), it is very difficult to gauge how owners will deal with the additional requirements for the 0.1% maximum sulphur content. Owners operating almost exclusively within these zones have been dealing with this issue for quite some time either having to pay the additional costs for low sulphur fuel or seek other measures to reduce their exposure to high bunker prices. Distillate fuel still remains the most viable option, given the lack of any workable alternative, although the high price will continue to rankle with owners, with no real easing in fuel prices apparent. Exhaust gas cleaning systems or scrubbers have been adopted by some owners operating ferries or coastal tonnage within the ECAs, but very few of these systems have been embraced by deep sea fleet owners. Various studies into the use and cost of fitting scrubber technology has provided little comfort for those considering this option and some owners have encountered serious problems with a piece of kit relatively untested for use at sea. The high capital cost of the equipment and installation needs to be weighed against the costs of distillate fuel and perhaps the residual value of your vessel long term given other impending legislation which could require even more investment.

Alternative fuels such as LNG still appear to be a long way off although the US seems to have already adopted dual-fuel technology through heavy government support in newbuildings for all vessel types (including product tankers) for Jones Act trade – but again coastal trading. Europe appears to have fallen behind the US in terms of LNG bunkering with a lack of any coherent policy on the issue. Many technical issues need to be surmounted for LNG to work effectively on longer voyages. So the net result of the imposition in the ECAs in 2015 (0.1% sulphur limit) will probably change very little assuming there is an ample supply of gas oil to meet demand. The more significant date will be the adoption of the Global Sulphur Limit scheduled for 2020 which is to a large extent outside the shipping industry's control. Here the industry will very much be at the mercy of the refineries and their ability to meet the new requirements both in terms of quantity and specification. Development of alternative fuels and improved propulsion systems will take huge strides between now and 2020. The development of more efficient ship designs and Eco technology will not eradicate the need for oil based fuels; it will just increase the demand for cleaner fuels.



Middle East

'Conference' through the week for VLCC rates, and at a level that, although a little under the peaks, still remained in relatively super-charged territory in the low ws 60's East and very high ws 30's to the West. By the weeks' end, however, Charterers were mopping up the last dregs of the December programme at an easier pace, and unless they jump solidly ahead onto January dates, then a degree of softening is likely over the coming period. Suezmaxes had a busy week of it, but it wasn't until late on that the balance became finer, and rates remained stuck at around ws 72.5 East, though did push up to ws 45 for West runs, with more upside possible. Aframaxes also saw good activity, and enough to make a significant break-out. Rates jumped to 80,000 by ws 105 to Singapore upon a noticeably tightening list, and could spike further, although probably not for long.

West Africa

Suezmax Charterers ignored the warning signals, and proceeded to pump large volumes into the marketplace. Owners wasted no time in responding, and rates ramped up to 130,000 by ws 82.5 US Gulf, ws 85 Europe in short order. January dates may see some retreat, but it looks set to remain pretty solid through the balance of December. VLCCs err in the opposite direction on forward positions, but earlier dates still recorded impressive enough numbers of upto 260,000 by ws 62.5 to China, and US$ 5.3 million to West Coast India – US$ 6.2 million was even seen for East Coast India, but on a particularly tight position.

Mediterranean

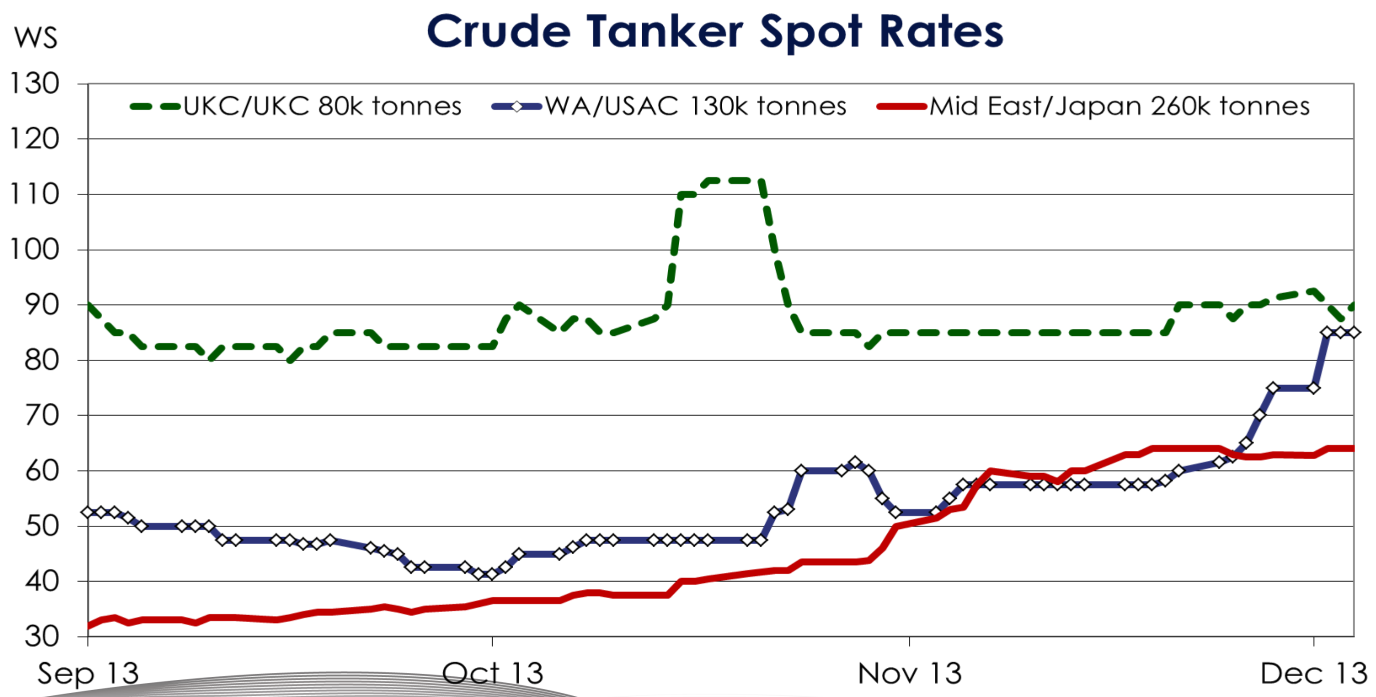
Suezmaxes here also got into the party, and in their own right, rather than merely hanging onto the coat-tails of West African improvement. A busy scene converted into rates from the Black Sea leaping to a peak 140,000 by ws 97.5 for European options, with up to 130,000 by ws 110 seen for a short cross Med voyage, and US$4.1 million paid for a Black Sea/ South China run. Almost too good to be true, but Owners won't retreat until Charterers themselves pull the plug. Aframaxes, on the other hand, merely mooched around for most of the week at bottom hugging numbers down to 80,000 by ws 65 cross med, though may see some limited improvement over the coming week.

Caribbean

A belated gain for Aframaxes as bad weather, including fog, disrupted itineraries and created opportunity for Owners to kick rates initially to 70,000 by ws 110 upcoast, and then to a top of ws 125.the improvements should hold until the weather abates. Suezmaxes also benefitted from the general upswell, and strong demand pushed rates to 150,000 by ws 90 to US Gulf with US$ 5.1 million paid for a heated cargo to China. VLCCs were a bit patchy, but there was steady pruning behind the scenes that kept rates from easing below US$5.7 million to Singapore and 5.10 million to West Coast India, where they should remain for the near term.

North Sea

Eventually Aframaxes started to bubble...not boil over, but certainly bubble. Rates end the week at around 80,000 by ws 105 Cross UKC with 100,000 by ws 75/77.5 the range ex Baltic, though Charterers will have to tread carefully from Monday to prevent more icing forming on Owners' cake. Larger sizes weren't exactly busy, but rate ideas are inherited from the other, busier, zones, and 135,000 to the States pays a theoretically higher ws 67.5 now, and VLCCs to the East still talk at US$6.5 million to South Korea and around US$5.25 million for fuel oil to Singapore.



CLEAN PRODUCTS

A crazy week in the East – the West looks solid

East

Following the trend of LR2s last week, the LR1s have sprung to life this week. The majority of early LR1's are now fixed away on subjects and the list is looking on the thin side, with plenty more activity in the market. LR1s are also mopping up any hard to cover MR stems, as that size gets busier. Momentum is starting to build in both LRs, although the market is only moving at a slow rate. LR2's continue their punchier spell with 75,000mt Naphtha AG/Japan up 5 points at WS 82.5, although owners are pushing for WS 85, but so far the Charterers have kept the pressure on. 90,000mt Jet Arabian Gulf/UKC up to $2.30 million just this morning showing a weekly rise of Usd300k. 55,000mt Naphtha Arabian Gulf/Japan is now at WS 95 and 65,000mt Jet Arabian Gulf UKC has made small inroads at $1.775m. Momentum should continue to build and rates slowly increase into next week.

Who would have thought last week that we'd now be calling the MRs "punchy", "strong" and "tight"! That's the "name of the game" this week as the market has pushed through the previous few week's doldrums and is starting to show signs of life. Tonnage has thinned out right up to the 20th and prompt cargoes that are still coming to the market are seeing stronger rates from Owners, but still some way off year-to-date highs. East Africa has seen more intent with the market rising to WS 175 levels, very date dependent. Thinner lists have led to west rates talking $1.3m although this needs testing and TC12 has climbed to WS 135. X-ag is now trading firm at $285k, over $100k high than last week. The wind is now in Owner's sails and expect prompt cargoes to have to pay up next week.

MRs in North Asia have had another quiet week - last done for South Korea/Singapore is still at US$ 430K, and with tonnage still available it looks like next done will be lower still, with Owners now talking USD 415K for this route. Despite their firming in the AG-WCI region, LR1s and LR2 are still weak in the Far East, and do not look like firming for the time being. US$ 475K is last done for S.Korea/Singapore on the LR1s, Owner sentiment is still low - actual current market levels are closer to 450K for this run. The LR2s are also fixing at around US$ 475K S.Korea/Singapore. Most of the focus this week in the Far East has been diverted to the MRs in Singapore, where the tonnage has been pulled to a firming AG market leaving the Singapore list tight up until Mid-December.

Levels for MR Singapore/Australia are currently untested, but with little available tonnage Owners are talking 30kt x ws180 for this route. If things continue to be busy in the AG, further firming is on the cards for the Singapore market.

Mediterranean

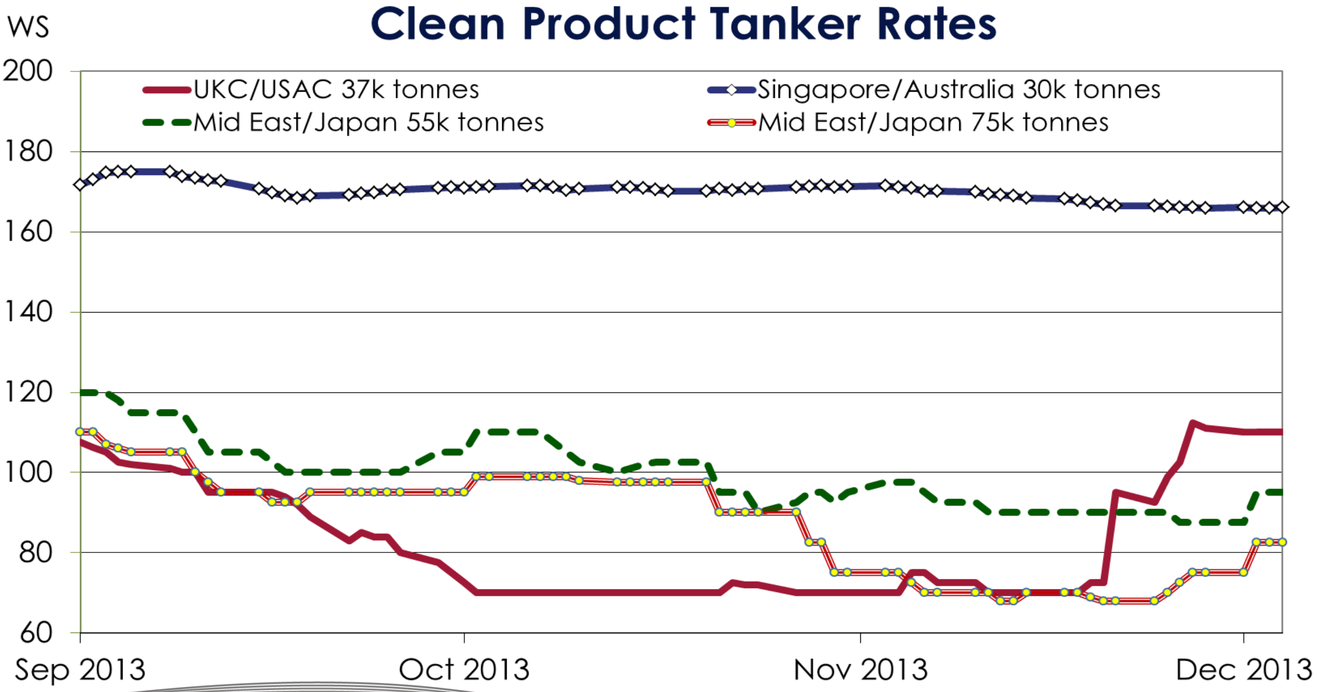
A busy week for the handy's and the market has firmed with rates trading upwards to 30 x ws 160 for Cross Med/Black Sea Med and considered more for prompt or specific requirements where less tonnage is available. With handy positions tightening and patches of poor weather disrupting vessel turnaround the market looks set to continue firming into week 50, with Owners bullish and Charterer's in need of fixing ahead to cover for the Christmas period. MRs have had a largely disappointing week with limited longhaul options, perhaps on account that most of the action was focused on LR1/LR2's. Rates for Mrs have been largely untested as a result but considered in line with the UKC market, 37 x ws 110 ta / 150 West Africa / US$ 1.1-1.2m Red Sea / US$ 1.3-1.5 AG. The Naphtha arb was wide open at the beginning of the week causing a run for LR2/LR1's, with LR2s on subs at US$ 2.75-2.85m for Med Japan but next done expected to be higher with tonnage tight. LR1s confirmed Med AG at US$ 1.45-1.475 levels, but with limited available tonnage next done expected to be higher and considered US$ 1.5m Red Sea/ 1.6m AG and US$ 2.5m reported on subs for Black Sea to Japan.

UK Continent

All in all a good week across all sizes on the cont. The general MR trade on the continent this week has been steady, and MR's are tight, but its just lacked that extra cargo to move the market north, currently fixing 37 x ws 110. Cont / West Africa has been trading 37 x 145-150, with 4/5 stems coming out towards weeks end. Handies have been busy too 30x165 / 22x200. LR's have been busy, last done 60 x 112.5 Cont/West Africa and US$ 1.6m ara / AG.

Caribbean

TC14 has softened this week to around 38 x ws 110 as tonnage supply has increased in the USG, however, there is some optimism at the end of the week with an improved level of enquiry and pre christmas jitters as charterers look to cover their books. Cross Caribbean movements are fixing around US$ 575K lumpsum and USG-Brazil around 38 x ws 140.



DIRTY PRODUCTS

Handy

Markets north and south in Europe rose this week on the back of concentrated trading periods throughout the last 5 days. A tight Continent market has witnessed steady trading leading to an end week gain of +7.5 points; with natural positions tight until the second decade of the month more traditional winter numbers are being crept towards.

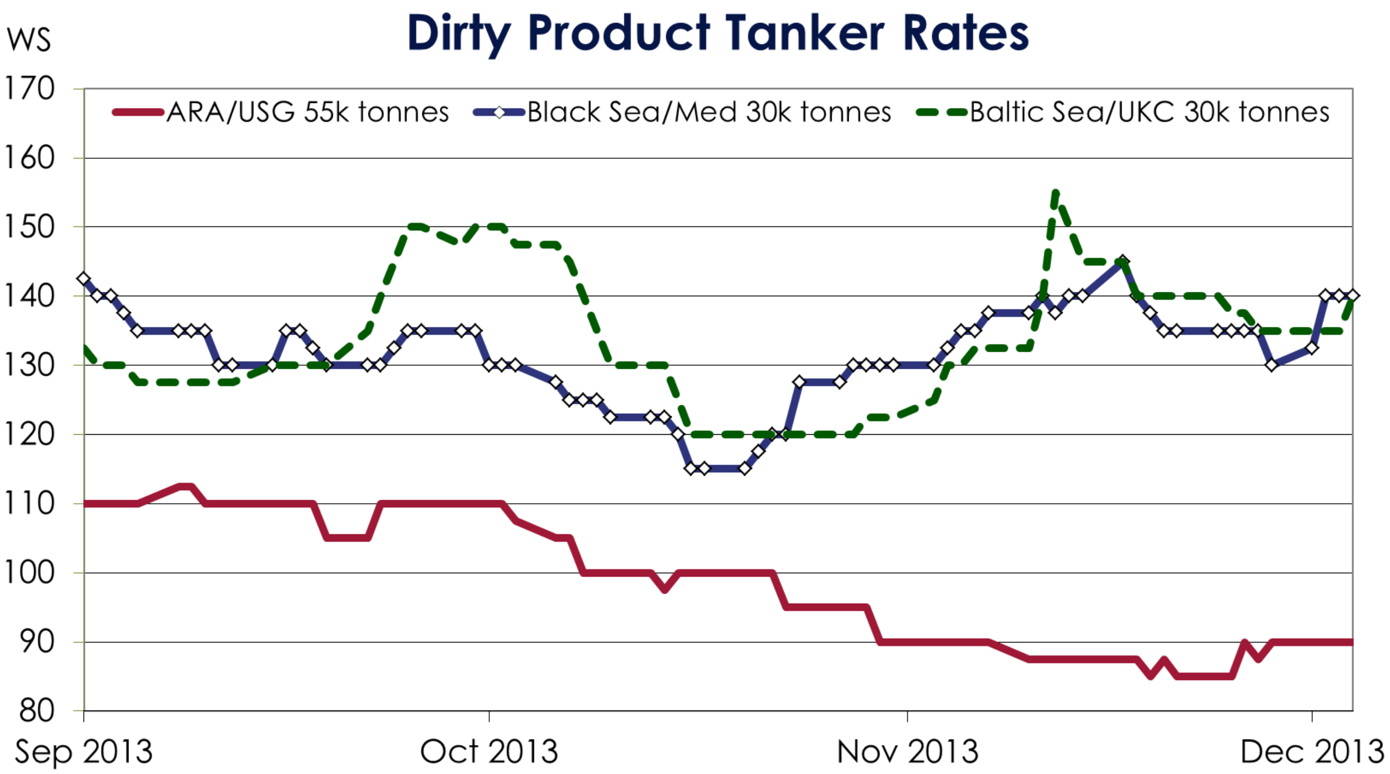
The story of the Mediterranean market has been all about ex Bsea requirements. With a high volume of stems in close proximity the market rose abet with rates lagging behind the trade volume completed. If anything, the market became undervalued with ex Bsea conceivably higher than 35 x ws 120 agreed towards the end of this week. Stems have been covered up to 20/21 with charterers keen to lock in rates while the market remains competitive – expect choice to be tight next week in light of the activity and uncertain itineraries.

MR

Piggy backing off the back of the success of the handies, conditions in the Med have noticeably changed as we progressed through the week. Part cargo employment mopped up much the tonnage overhang, leaving those left on the list in a rather prominent position for when a full cargo does eventually appear. In the North, charterers have been forced in some cases to seek alternate sized cover owing to the lack of tonnage and type of voyage's on offer, volatility could easily be seen here with just a few additional requirements going into next week.

Panamax

Rates in this sector seem to be on the verge of movement, but only once the natural tonnage is removed. Caribs/USG this week has rallied hitting 50/120 mark, which will now prevent the ballast units from coming over, unless they are reimbursed against what they could earn locally. Up until now however, levels remain largely flat in direction in both NWE and the Med.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 5th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**+2**	64	62	57	47
TD5	Suezmax	WAF-USAC	**+13**	85	72	58	63
TD7	Aframax	N.Sea-UKC	**-1**	90	91	85	89

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

			wk on wk change	Dec 5th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**+3,000**	51,500	48,500	40,750	28,250
TD5	Suezmax	WAF-USAC	**+9,000**	34,250	25,250	16,250	18,750
TD7	Aframax	N.Sea-UKC	**-1,000**	11,500	12,500	8,000	8,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 5th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+8**	82.5	75	70	
TC2	MR - west	UKC-USAC	**+3**	112	109	72	116
TC5	LR1	AG-Japan	**+7**	95	88	96	107
TC7	MR - east	Singapore-EC Aus	**+0**	166	166	170	

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

			wk on wk change	Dec 5th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+3,500**	12,000	8,500	6,000	
TC2	MR - west	UKC-USAC	**+500**	7,500	7,000	-1,000	8,500
TC5	LR1	AG-Japan	**+2,500**	10,500	8,000	10,250	14,250
TC7	MR - east	Singapore-EC Aus	**+0**	12,250	12,250	13,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+4**	586.5	582.5	581.5	
LQM Bunker Price (Fujairah 380 HSFO)	**-6**	611.5	617.5	630	
LQM Bunker Price (Singapore 380 HSFO)	**-1**	609	610	600	

PAT/JCH/TP/JT/slk

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