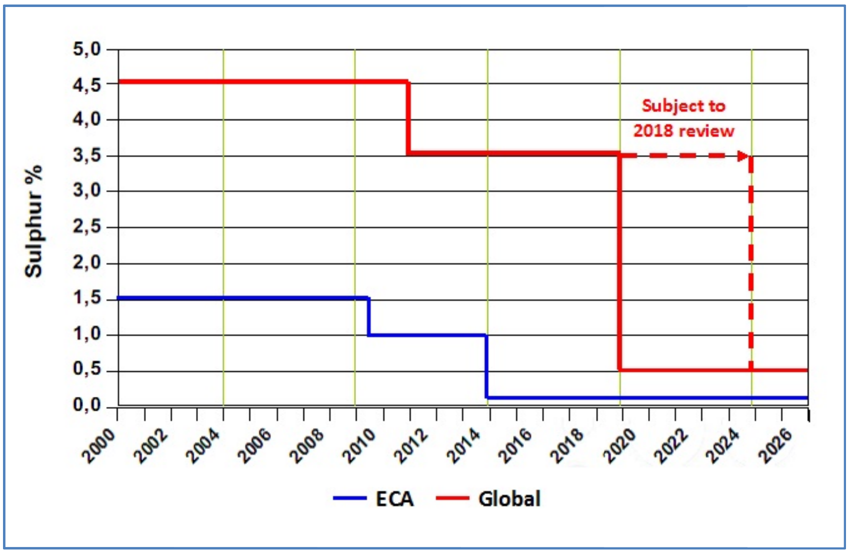
WEEKLY TANKER REPORT

12th July 2013

THE ONLY CERTAINTY IS UNCERTAINTY!

With less than 18 months until the next deadline for the reduction in permitted sulphur content in marine fuel, many owners could be spending their summer holidays thinking about their own approach to what many deem to be yet another imposition on the already beleaguered tanker industry. From 1st January, 2015 the permissible sulphur content level in the emissions control areas (ECAs) will fall from the current 1% to 0.1% with the rest of the world (non-ECAs) continuing with a maximum sulphur level of 3.5%. Then from 2020, the non-ECAs are scheduled to fall to just 0.5% under proposed IMO legislation.

While this may not appear to be an issue for many until 2020, it is evident that the popularity of the ECAs will continue to grow as more nations express their concerns over emissions. In June, Turkey ratified MARPOL Annex VI and is planning to put a formal proposal to the IMO in 2015 to create a Turkish Straits and Marmara Sea ECA. Hong Kong has also recently announced plans for a voluntary sulphur limit that ship owners will be urged to observe and will be offering 50% cuts in port costs and light dues for ships that switch to 0.5% (or less) sulphur content at berth. The Hong Kong government also plans to set up a formal ECA as a long term goal, but still has concerns about the availability of low sulphur fuel in the region. It is also apparent that a number of other nations are also reviewing their own positions regarding emissions.



The solution vaunted for most newbuilds or existing ships, is to install exhaust-gas cleaning systems, more commonly known as scrubbers. The first consideration for owners is the financial impact of installing these large pieces of kit in order to continue to benefit from the use of cheaper, higher sulphur fuels. Scrubber technology has been around for a number of years, but few units have been installed on ocean-going ships, let alone tankers. As such the technology remains unproven. The alternative is to 'burn' more higher cost, low sulphur fuel which could over time prove to be more expensive given the uncertainty of oil prices and availability over the next few years. Use of distillate fuels will also require modifications to engine specifications and the installation of extra bunker tanks.

Given other impending regulations (e.g. Ballast water convention), owners have several other considerations to weigh up. The proposed IMO fuel oil availability review in 2018 will have little or no impact on the European Union as the 2020 deadline is already written into EU law. However, the availability of distillates by 2020 could still be a considerable obstacle to implementation and we expect the deadline to be postponed to 2025. It is not for the first time that owners have been left to make some difficult choices without having the answers to outstanding issues still at the whim of the politicians.

CRUDE

Middle East

VLCC Owners initially managed to keep their plate spinning at up to ws 50 to the East and ws 30 to the West, but as in June, once the month's programme had reached it's end-game, Charterers became reluctant to move further forward, and the consequent slow-down started to have a negative effect on market sentiment. Rates now look to move into the lower ws 40,s East, but another repeat of the June and July feast and famine pattern of fixing would then allow for another upswing somewhere down the line. Charterers will try hard to buck that trend. Suezmaxes had another busy week of it.. perhaps not quite as active as of late, but early dates stayed tight, and that helped prevent a severe rate crash upon more populous forward dates. Rates held at an average 130,000 by ws 55 East and low ws 30,s West, with as high as w40 paid for a prompter date. Aframaxes became much busier - and tighter - so rates jumped to as high as 80,000 by ws 105 for a prompt load to Singapore, with high ws 90,s the average for easier dates. With the indo area also busy, the supply of ballasters back should continue to be compromised, and rates thereby supported.

West Africa

Suezmaxes enjoyed a rare opportunity to stretch their legs as Charterers started the week in a busy mood. Rates jumped smartly to a peak of 130,000 by ws 60 to the US Gulf, and ws 62.5 to Europe as a result, but a quieter end to the week brought levels down again by around 5 ws points with some further potential downside in the offing if cargoes don't materialise within short. VLCCs benefited from the AGulf improvement, and initially managed as high as 260,000 by ws 47.5 to China, though ws 45 became more the norm, and more slippage could result if the Middle East does soften further. Cargoes to West Coast India did occasionally surface, and rates showed close to US$3.6 million for those runs.

Mediterranean

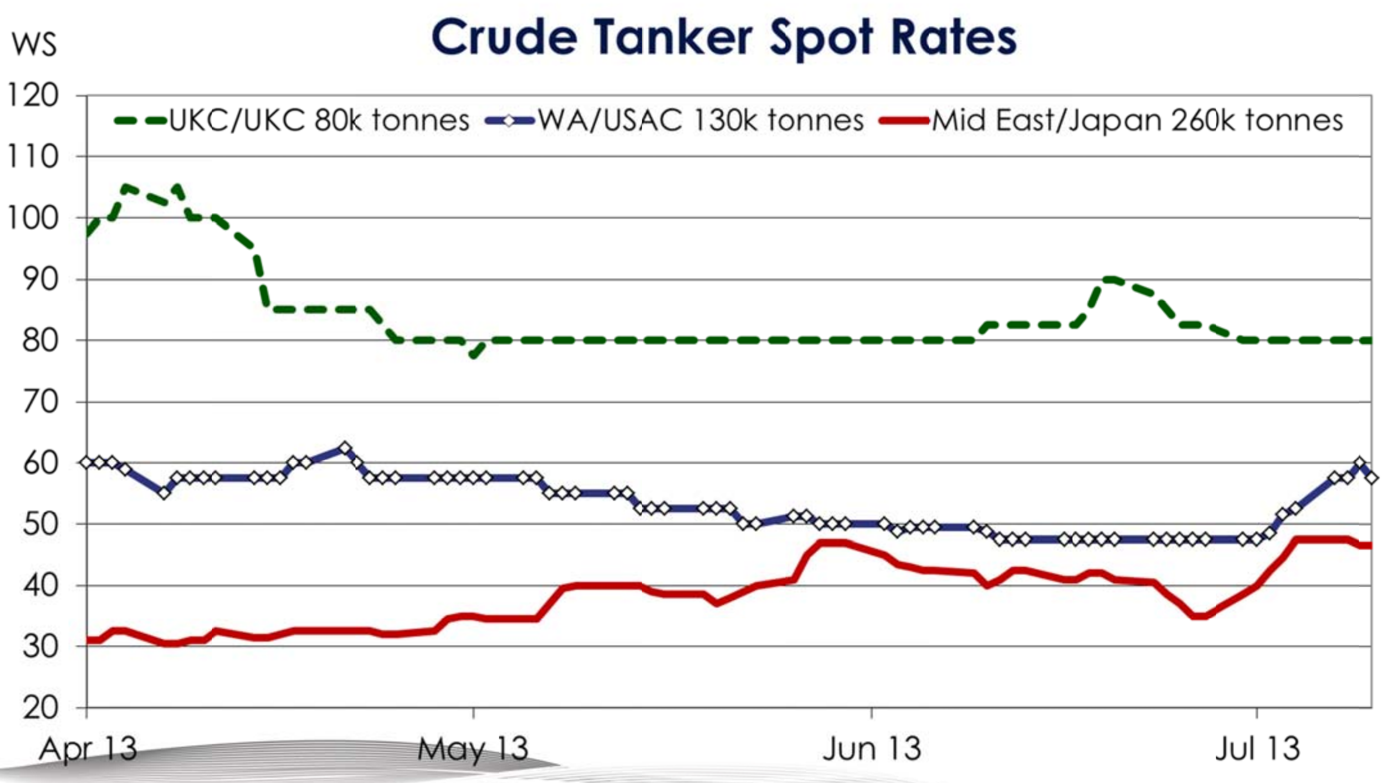
Aframaxes couldn't break out of their 80,000 by ws70/75 rate-range cross Med, but there were factors to give some hope at least - Zawia in Libya re-opened, and delays lengthened for Kirkuk loadings - so there is cautious optimism for next week. Suezmaxes generally failed to match the West African improvement, but did initially get some reflected glory with a slightly higher 135,000 by ws 53.75 seen for Black Sea to the Med, and above ws 50 seen for runs to the States. Unless activity really picks up, however, then the market is unlikely to take another upward step.

Caribbean

The Aframax sector here never shrugged off the U.S. holiday of last week so that supply easily outweighed thin demand, and rates remained cemented to 70,000 by ws 80 bottom marker for upcoast runs. VLCCs kept a steady profile at around US$3.8 million to Singapore, and US$3.3 million to West Coast India, but the fixture haul was certainly upon the light side, and it needs more to prevent some erosion.

North Sea

No catalyst to change a rather flat Aframax scene.80,000 by ws 80/82.5 remains 'conference' cross UK Cont, and if there is any move, then it is more likely to be to the downside over the coming period. Suezmaxes got the odd knock, and moved their market just a tad higher to 135,000 by ws 50/52.5 to the states, but will take their next cue from whatever happens in West Africa, rather than any local developments. VLCC 'ARB' opportunities stayed virtually absent, but theoretically US$3.3 million remains the entry level for Owner interest.



CLEAN PRODUCTS

Very different stories either side of the Suez Canal this week. The West has enjoyed a firm market while the East is continuing to endure torrid times.

East

A dismal week for Lrs with little encouragement on any front in the East and even worse rates seen in particular on the Lr1s. 55,000 mt Naphtha AG/Japan is dropping down to w75 and 65,000 mt Jet AG/UKC is down to US$1.525 million. With so many available ships remaining in July no recovery is on the horizon for now. 75,000 mt Naphtha AG/Japan remains stuck down at w70 and 90,000 mt Jet AG/UKC at US$2.05 million. Owners on both sizes are earning below their operating expenses at rates not seen for 3 years. There is hope August could see some improvement but it will be hard fought.

Ramadan has begun and the market certainly is fasting! Rates are continuing to slip and the thinking is that this will continue to slide for a little while longer. 35kt NAP AG-WCI/JPN has been fighting off the threat for dipping below the WS 100 marker for weeks now but this week it has succumbed quite notably as WS 93 is on subs. AG-WCI/East Africa has slipped 5 points with WS 160 now being the level and, while this route is relatively busy, Owners might still fix lower with the promise of a long voyage with good potential for demurrage. X AG routes are fixing down towards the US$ 160s for the short haul and Iraq runs are only commanding a 30k premium at the US$ 190k lvl. AG-WCI/Gizan fixtures have now dipped below the US$ 700k with US$ 690k being last done but there could be room here for things to slip too, possible US$ 675k might be achievable for the next voyage. Jet to the Continent remains dead but with the dramatically weakening LR1's, it must be freighted at the US$ 1.3m lvls.

It has been another tough week for the Owning fraternity in North East Asia; rates have gone from bad to worse. Korea / Singapore has slipped to below US$ 380,000 for an MR and will remain under pressure going into next week. The larger tonnage is still managing to hold its own with LR1s fixing at US$ 450k for a backhaul and LR2s around US$ 525k level, minimal change from last week. Perhaps most concerning for MR Owners is the lack of activity in the Singapore region, with a vessel fixed for US$ 275k this week for a Singapore / Japan cargo we are seeing some multi year lows. Freight levels for Singapore / Australia have not escaped the culling spree in the MR sector and the conference rate for this type of voyage is 35x ws 150. In all another dreadful week in the shipping markets, minimal activity and returns for Owners are right down to the bare bones.

Mediterranean

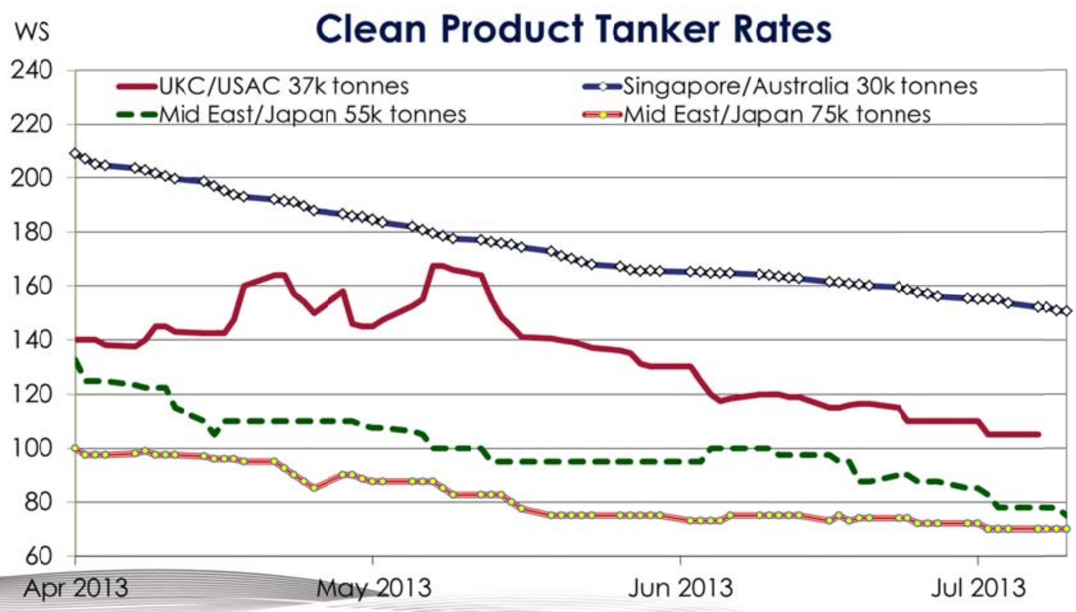
In the Mediterranean the handys have been steadily busy all week and with the tonnage list tightening to some extent Owners are having the chance to start pushing cross med and Black Sea rates a few points upwards to 30x WS 120. However, there are very few handy cargos taking ships out of the area and with tonnage recycling on shorthaul routes any rate rises will be constrained. There has been enquiry at last for MRs loading in the med and with few ships ballasting from West Africa and none from the US, MR positions have remained very tight. Rates so far have followed the trend on the UKC with last done reported 37 x ws 127.5 lvl for transatlantic discharge / 37 x WS 150 ish for West Africa, but we could easily see rates move above this on certain dates. Little enquiry East and this route needs retesting, but with roundtrip TCE in West market strong Owner's ideas on the lofty side around US$ 1.15-1.2m Red Sea/1.25-1.3m AG.

UK Continent

The arb was open for gasoline TA for the majority of week 28. Quickly MR's tightened up to 20th dates, and freight prices for TC2 jumped to WS 127.5 on subjects at time of writing. Premiums to West Africa saw an increase to WS 20 points above transatlantic, as Owners opted to go TA into a strong market than to fix to West Africa. Handies were steady throughout fixing WS 130 basis 30kt and the flexi's WS 177.5 basis 22kt. LR1's were quiet trading WS 105-107.5 basis 60kt for TA and West Africa. LR2's quiet this week in the West.

Caribbean

The Caribbean/ USG markets have managed to maintain its levels as of late, 'backhaul' liftings (if you can still call it that) to UKC/Med has been trading around WS 125-130 basis 38kt. USG / Brazil is paying 38 x WS 185 and MR's going to Chile have been commanding around US$ 1.75m.



DIRTY PRODUCTS

Handy

UKC: A game of 2 halves in the Continent to borrow the oft used football cliché. On the back sustained activity rates began firm at 30/WS 130 with Owners making a concerted effort to push into levels above and beyond as tonnage looked set to narrow. Unfortunately, these aspirations quickly evaporated in the London sun as 30kt stems took leave from the market Wednesday afternoon onwards. Product was moved on MR and Panamax's leaving Handy's to revise their bullish estimates, this combined with additional units hitting the lists.

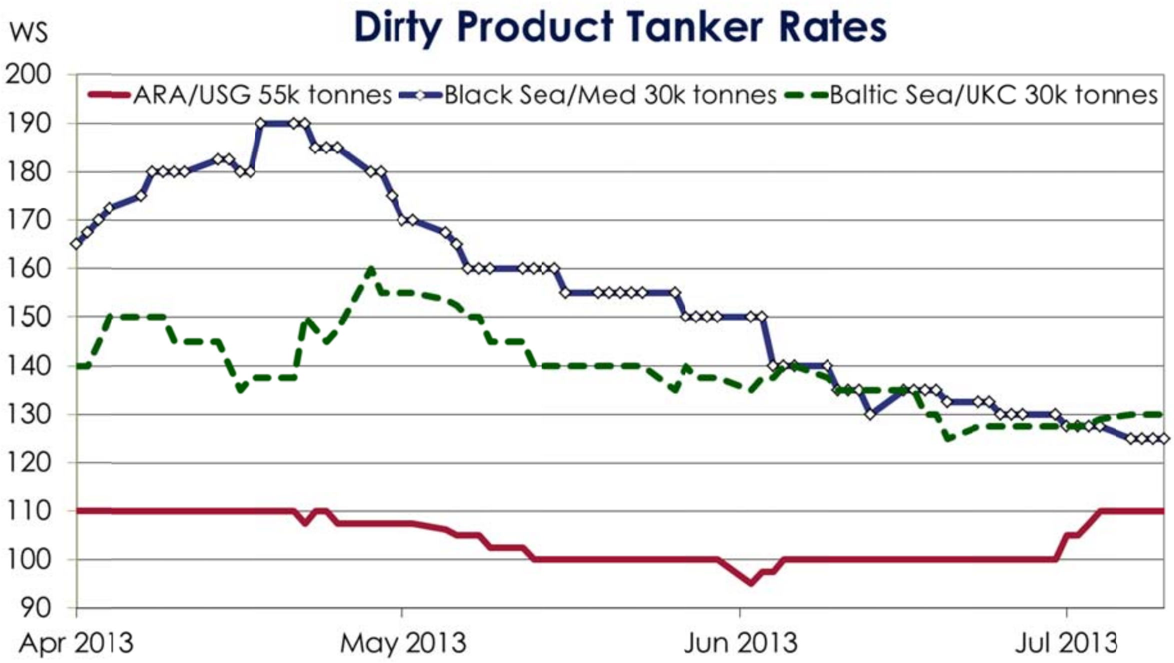
MED: The Mediterranean witnessed a high volume of trade, stimulated by the belief that Xmed and ex Black Sea had bottomed at 30 x ws 117.5 Xmed, With +5-7.5 points additional from the Black Sea. Get them while it's hot was the general attitude as cargos were covered with no one wanting to be caught late. Expect a slight firming in market conditions as owners push back to 30 x ws 125 Xmed; whether this is obtainable is debatable, however, its mere mention demonstrates renewed confidence. Looking ahead, a number of ex Black Sea voyages had been fixed; expect a high concentration of vessels in the central med off end month.

MR

Every now and then, owners have a week to remember and this one defiantly makes the cut. Markets through sustained activity found themselves gradually creeping up both in the Med and Cont alike, where now those left to find cover will benefit from increased daily earnings. The longevity of these sectors newly found strength will depend on how much of this enquiry turns out to be only short haul business, where ships could re appear on the lists in the near future.

Panamax

Benefitting from activity in the US, Panamax Markets this side of the Atlantic have corrected positively in order to tempt units to come over, a reoccurring story as of late with minimal tonnage opting to ballast without potential employment in hand. WS 112.5 has been set this week as a new benchmark ex UKC, and a pattern emerges where by forcing fixing date progression a little more forward than Charterers would find comfortable. Like in most markets this time of year questions present how long this trend will last, Owners in this sector however seem to be a little more relaxed whilst a readily available supply of natural tonnage lacks.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Jul 11th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**+1**	47	46	42	39	40	40
TD5	Suezmax	WAF-USAC	**+8**	59	51	48	55	56	56
TD7	Aframax	N.Sea-UKC	**+0**	80	80	84	79	86	82
LQM Bunker Price (Fujairah 380 HSFO)			**+6**	603.5	597.5	627.5			

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

			wk on wk	Jul 11th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**+1,250**	29,000	27,750	20,250	17,000	19,000	19,250
TD5	Suezmax	WAF-USAC	**+5,500**	16,250	10,750	8,750	13,250	14,250	14,500
TD7	Aframax	N.Sea-UKC	**+0**	5,000	5,000	7,750	2,750	8,000	5,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Jul 11th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+0**	70	70	75			
TC2	MR - west	UKC-USAC	**+20**	128	108	119	130	131	130
TC5	LR1	AG-Japan	**-5**	77	82	97	89	106	122
TC7	MR - east	Singapore-EC Aus	**-4**	151	155	163			
LQM Bunker Price (Rotterdam HSFO 380)			**+25**	610.5	585.5	589.5			

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

			wk on wk	Jul 11th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**-500**	6,750	7,250	8,250			
TC2	MR - west	UKC-USAC	**+3,750**	10,500	6,750	9,000	10,750	11,250	11,000
TC5	LR1	AG-Japan	**-1,750**	4,750	6,500	10,500	8,750	14,250	11,000
TC7	MR - east	Singapore-EC Aus	**-500**	10,000	10,500	11,750			

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

PAT/JCH/TP/JT/slt

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