WEEKLY TANKER REPORT

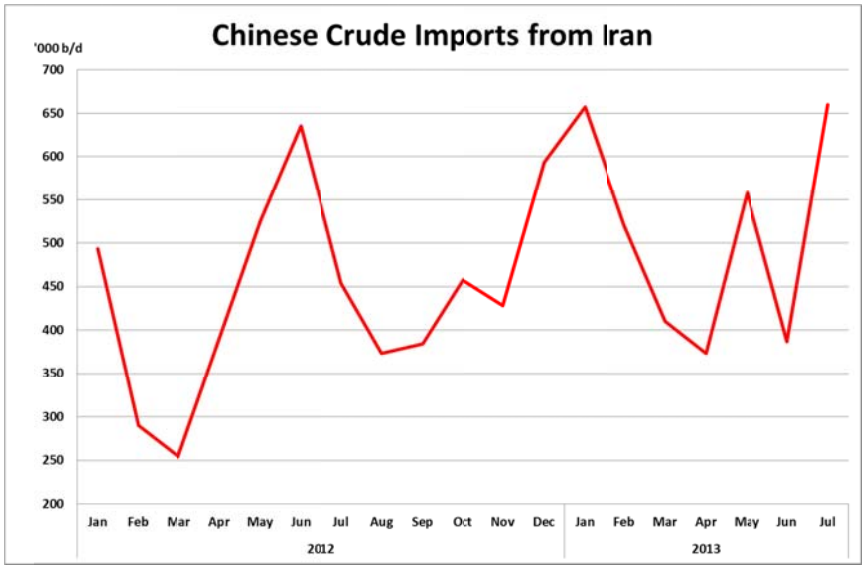
GIBSON SHIPPING ENERGY

16th August 2013

CHINA TO CHANGE CRUDE SUPPLIER?

Last time our weekly focused on the situation in Iran, it was the eve of the presidential elections where we speculated that little would change in respect to the nation's relationship with the West. The surprise choice of a moderate president, Hassan Rouhani gave a clear indication, during his inauguration in early August that he wished to improve foreign relations and appealed to the West to drop the sanctions that were crippling Iran. While it is perhaps still too early to see if this rhetoric will produce any concessions by the West, it is becoming increasingly clear that sanctions, in terms of crude exports, may be beginning to bite even harder?

In June, the US State Department renewed six month waivers on Iran sanctions for China, India and eight other countries with the understanding that these nations would reduce their crude imports from the rogue state. A few days later the Chinese president Xi Jinping met with his American counterpart Barack Obama to discuss, amongst other items, sanctions against Iran.



According to the IEA, just five countries were importing crude from Iran in July – China, Japan, South Korea, Turkey and the UAE. Recently published data for July shows that India may have bowed to political pressure and has ceased to import Iranian crude, while China appears to have increased their imports, on the back of stock building, to the highest volumes equal January levels. Iranian crude exports climbed to 1.16 million b/d in July largely due to a rebound in Chinese imports which rose to 660,000 b/d (386,000 million b/d in June). With VLCC owners worried by the repercussions from trading with Iran, crude exports from the region are increasingly carried by the national carrier, NITC. NITC has added 12 VLCCs to its fleet since September last year and their current fleet (37) represents 6% of the total VLCC population. The use of AIS data in addition to other market intelligence, shows current Iranian storage numbers at 14 VLCCs anchored off the coast. A further 11 VLCCs appear to be heading East, with most having entered their destination as China with a further 3 heading back to the AG from China.

Our latest analysis of NITC VLCC movements shows that 5 VLCCs are currently anchored off China fully laden and awaiting discharge instructions. What is interesting is that 4 of these VLCCs have been waiting since late June/mid July to discharge. Sources emanating from China have indicated that some of the Chinese crude programmes are full and that they no longer have a requirement for these cargoes. Other unconfirmed reports suggest that pressure has been put on Chinese oil companies to lessen its dependency on Iranian barrels. So this begs the question, has some sort of agreement between Washington and Beijing has been struck to cut Iranian crude imports? Analysis of movements over the next few weeks may provide us with a clearer picture. Whatever the truth is, the VLCC market will certainly welcome the prolonged absence of these VLCCs out of the market.

CRUDE

Middle East

Back to earth with a nasty bump - Vlcc Owners had to completely give up hope of a repeat of the spikes seen in June and July, and were forced to compete hard bringing tce,s back to sub-running cost levels. Worse, oil, and bunker, prices have risen, so the bottom line has been further squeezed. September fixing has started, but only just, and next week will prove a lot busier. Heavy availability awaits, however, and another Turkey-shoot beckons at rates in the very low w30,s East and little better than w20 to the West. Suezmaxes spent the week gently deflating as activity petered out, and availability started to build upon the fixing window once again. Rates to the east edge into the low w60,s with West runs back at just under w35. Aframaxes never found enough action to pull them out of their recent 80,000 by w85 rut to Singapore, and are expected to trundle on similarly through next week.

West Africa

Rebalancing is now underway here for Suezmaxes. charterers decided that they didn't want to play anymore, and generally went into hiding. Owners now find themselves wrong footed, and playing 'chase', so rates will inevitably fall with w60 to the US Gulf, w62.5 Europe, likely to be challenged within short. Vlcc's enjoyed a rare flush of Inter-Atlantic cargoes as a consequence of the previously higher Suezmax market, and a few deals were struck at w40 to US Gulf and up to w45 to the continent. That won't last if the smaller size moves lower, and rates to the East remain firmly anchored to around w35/36 while the Arabian Gulf suffers.

Mediterranean

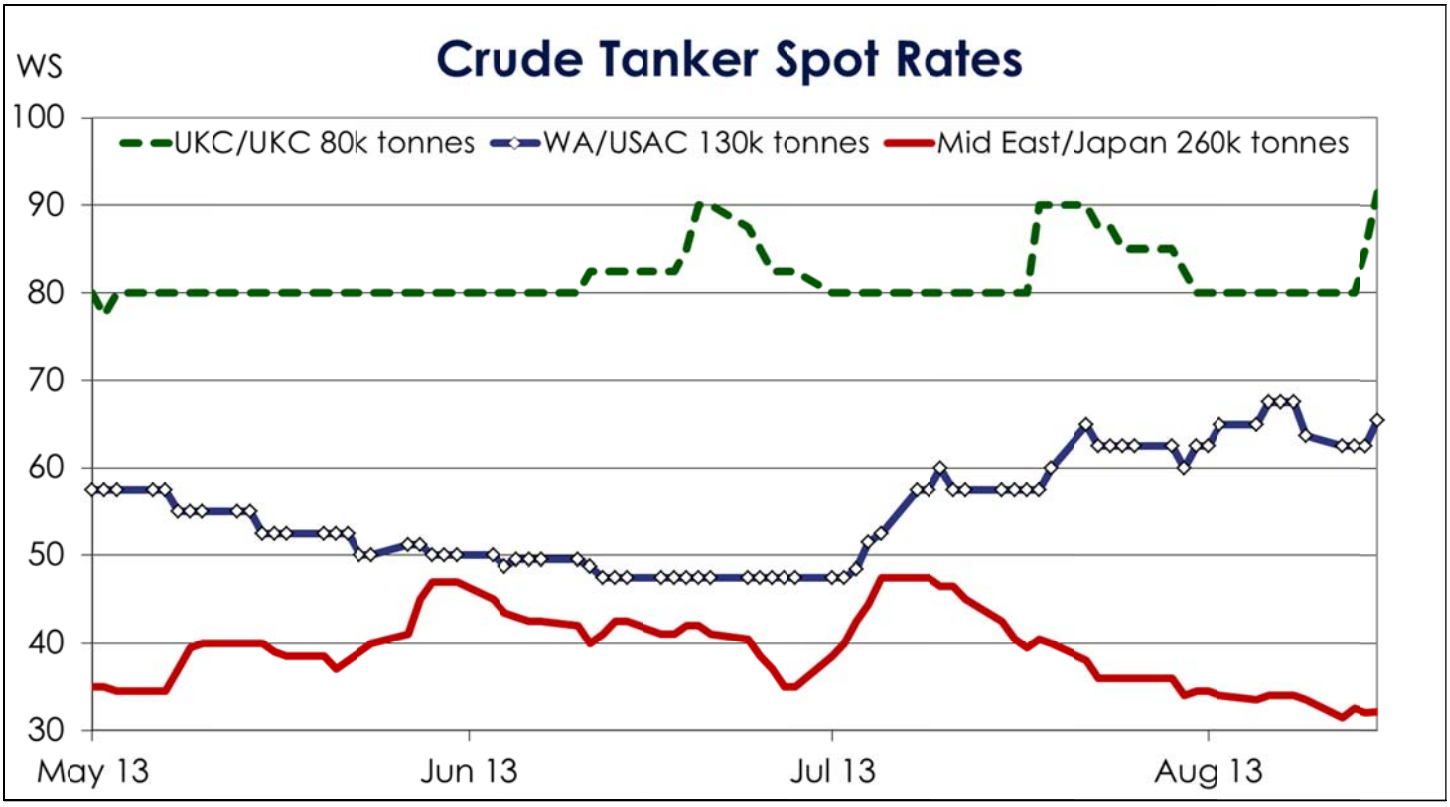
Disruptions abound here, with Libya and Ceyhan the main offenders, but that has started to stretch the Aframax tonnage list and Owners will look to push rates higher than the current 80,000 by w85 level Cross Med - and should succeed next week. Suezmaxes don't have quite the same feel about them - slow, soft sentiment, and plentiful enough tonnage to ensure rates err to the downside.

Caribbean

Weather disruption came to Aframax Owners' cause, and tightened the market sufficiently to force rates to a peak of 70,000 by w117.5 upcoast with more to come over the short term, at least. Vlcc's had a very slow week of it, and rates are largely theoretical at US$3.4m to Singapore, and no better than US$3m to West Coast India. Heavy availability to remain a feature over the coming week.

North Sea

Surprisingly active in the North Sea and Baltic Aframax sector, and once Owners realised their improved position, they wasted no time in pushing, and achieving, rates of up to 100,000 by w70 from the Baltic to UK Cont, and to 80,000 by w95 for standard cross UK Cont runs. It seems to have peaked now, and the pendulum should start to swing back in Charterers favour as next week progresses. Suezmaxes saw the odd cargo to the states and rates continued to operate in the mid w50,s for that direction. Just a little more fuel interest on the larger sizes was also seen to Singapore, and a Vlcc found cover at US$3.25m, which looks repeatable if required.



CLEAN PRODUCTS

East

The LRs have had an interesting, topsy-turvy week. The main gossip at the start was that the LR1s were looking like they might firm off the back of a much talked about market last week. The LR2s had a very slow start with rates hovering around the w69 levels for 75kt and Charterers started opting for the bigger ships as the more cost effective option. At the weeks close though the LR2s suddenly had a new lease of life of their own with a lot of front haul; and back hual cargoes going on subs. Rates have moved up to w75 for 75kt for 1st decade lifting in September and sentiment is firm with a good proportion of the fleet on subs or fxd away.

After the wobbly moment in the middle of the week the LR1s saw enough activity going on towards the weeks close to keep Owners positive sentiment ticking over well. 55kt has lifted to w92.5, 65kt Jet Arabian Gulf / West has come up to US$1.65m; Owners are now a little more reluctant to go west in the slightly more positive Arabian Gulf Market so next done will surely be above US$1.7m. Sikka/East Africa/Singapore/Jeddah has also lifted with the end week rate levels now at 60kt x w110/60kt x w100 and US$875k. Tonnage is set to be in much shorter supply come next week and there is every indication that things will firm further.

The MR's have had a good week, with firming across the board and the position list tightening up. TC12 has risen to w105, that's a 12.5 point rise over the week, East Africa is up to heady heights of w145 and next done is expected to w150. Arabian Gulf to the UK Cont has firmed to US$1.25m, but west bound candidate are few and far between. Finding a vessel prior to the 25th is very tough and short haul rates reflect that, with Kuwait/UAE expected to fetch over US$250k and shorter Cross-Arabian Gulf cargoes are now US$230k and remaining firm. Next week is expected to continue in a similar vain, as the LRs continue to be positive, this tightness could be more than just a flash in the pan.

There has been very little change this week in MR freight levels for S.Korea / Singapore back haul cargoes, rates are still bumbling along at an impoverished USD 380K for such voyages. The future is perhaps not as grim as this initial picture portrays, routine refinery maintenance of the SK refinery should see a boost in cargo activity prior to the refinery closing bringing with it higher freight levels. The paucity in LR1 vessels up until early September has led to a scramble for LR2 units for back haul cargoes. As a result previous last done rates of US$500k are less likely to be achieved for fresh inquiry as Owners set their sights on US$520k levels. Australia bound cargo volumes have been on the up this week, both loading North and South East Asia. Going into the weekend 30 x w153 is fully fixed for Singapore / Australia and 30 x w155 has been fixed for Korea / Australia. At the beginning of the week TC 7 was trading at 30 x w144.7, showing that we have experienced some firming this week and most likely this will continue into next week.

Mediterranean

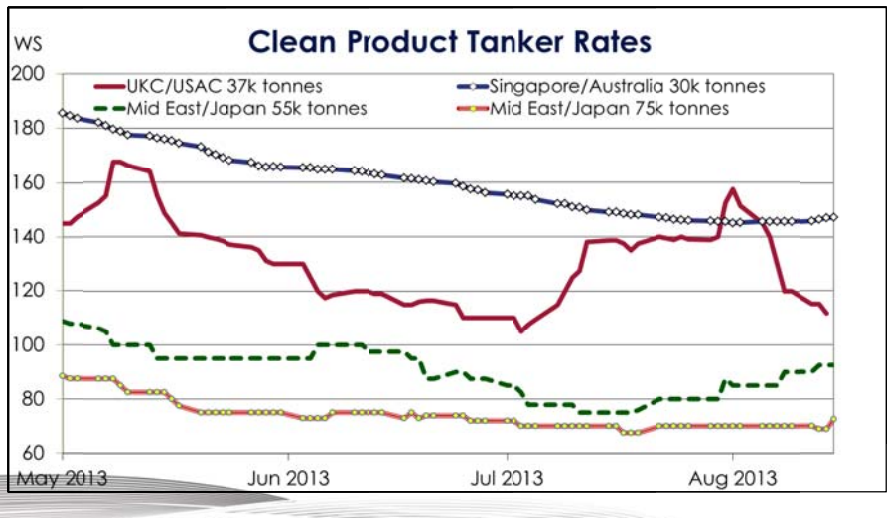
By all accounts a slow week for the Mediterranean market with the Assumption holiday grinding the end of the week to a halt. The shorthaul handy market has done very well considering the slow enquiry and prompt tonnage to trade more or less sideways 30 x w140-142.5 for med discharge. Black Sea exports have been very sluggish and Owners positioned in the Sea of Marmara actually wondering if they might do better to ballast against the flat rate towards Greece. The MRs have been wretched with rates being dragged downwards on account of a weakening continent market and longhaul liftings from the Med considered the same if not a bit less with market now at 37 x w100 ta, plus around w10 points for West Africa discharge. Movements east have been limited due to the Eid celebration, but with the West markets in jeopardy, Owner's ideas for Red Sea/Arabian Gulf discharge have ticked down as well and considered US$925-975k on an MR basis central med to Red Sea and and US$100-150k for the AG.

UK Continent

The Continent market for TC2 trade has suffered another quiet week. Tonnage continued to build and freight prices fell to w115 basis 37kt, and w100 is reported on subjects at time of writing. There were few MR cargoes to West Africa which were arranged around 37 x 115 level. Handies trading Baltic / Cont were fixing w137.5 basis 30kt although activity increased towards weeks end. Flexi's were achieving 22 x w180. Lr1's still slipping, w99 basis 60kt was seen fixed for TA and West Africa and w90 is on subjects at time of writing. LR2's very slow.

Caribbean

The Caribbean market have also seen a slower week, with US Gulf / TA trade paying w80 basis 38kt. Caribbean Sea / US Atlantic Coast is commanding w125 basis 38kt.



DIRTY PRODUCTS

Handy

This week proved as tale of two halves with a longer than recently experienced tonnage list proving too tempting for Charterers to resist. Condensed activity ensured a rapid firming of the market but an insufficient lag in time for rates to make a sizable move; an increase of 10 points nevertheless is significant and purely down to a dramatic shrinking of tonnage in the current fixing window of early 20 dates. We are approaching end month dates so next week is expected to contain a reasonable level of activity, hence why some owners are considering a ballast up from Gibraltar positions.

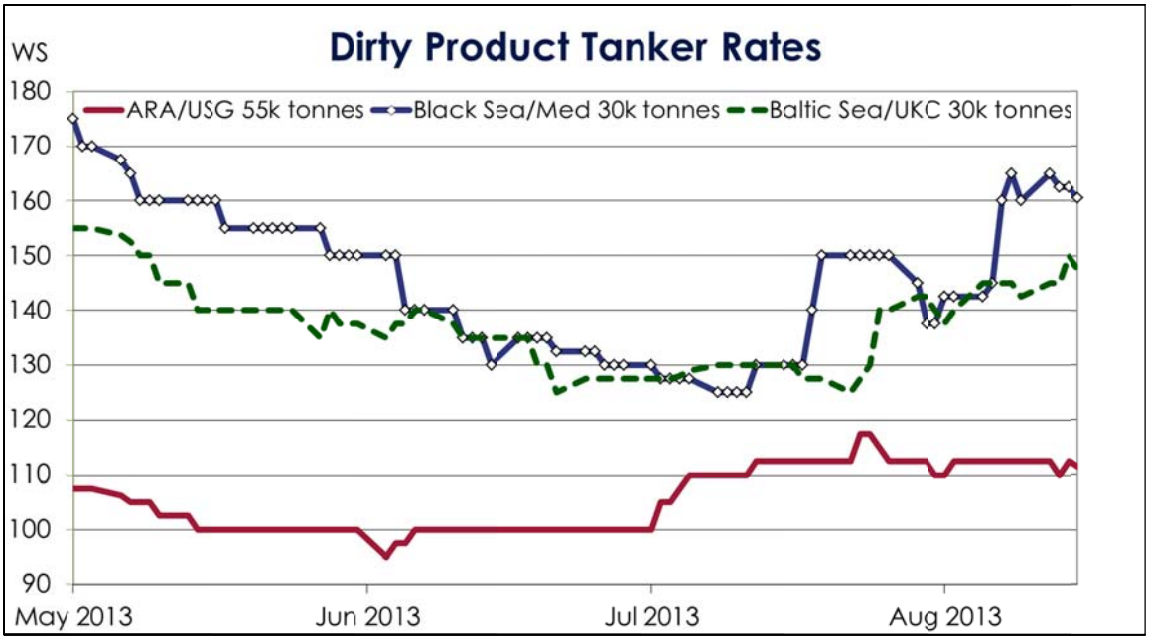
A steady week of trade in the Mediterranean with dates covered still slightly disjointed from last week's sizable activity ex Black Sea. With such a high volume completed, there was bound to be a hangover period but by end week end month ex Black Sea dates are creeping into the market. This has assisted rates to firm at 30 x w160 ex Black Ssea with Cross-Med quieter and flattening at 30 x w145.

MR

Sporadic activity through week litters the fixture report, proving relief to a few but ultimately we are only likely to experience the same market trend once the next wave of activity is upon us! Rational for this; is largely owing to positions being simply shifted to the next fixing windows as only short haul enquiry seems to be the most viable at present.

Panamax

Ballast units hitting the tonnage lists provide charterers with scope that they may still be able to achieve w110's (Ex NWE) for the forthcoming early March programmes. With this in mind it was activity over in the US had cast initial uncertainty as markets experienced something of a flutter, and rates pushing well into the 120's! Assuming next week activity levels get back to normality after so many absentees, (missing due to IP week); The tonnage isn't awash with natural tonnage, indicating volatility could follow if multiple load zones (West Africa / Med / UKC) all fire collectively.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Aug 15th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**-2**	32	34	40	35	39	36
TD5	Suezmax	WAF-USAC	**-3**	65	68	59	60	58	60
TD7	Aframax	N.Sea-UKC	**+12**	92	80	87	85	87	87
LQM	Bunker Price (Fujairah 380 HSFO)		**+4**	606.5	602.5	607.5			

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

			wk on wk	Aug 15th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**-3,250**	6,750	10,000	18,500	11,000	17,250	13,250
TD5	Suezmax	WAF-USAC	**-2,750**	20,000	22,750	16,000	16,500	15,250	17,000
TD7	Aframax	N.Sea-UKC	**+8,250**	13,500	5,250	10,000	7,000	8,500	8,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Aug 15th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+3**	72.5	70	67.5			
TC2	MR - west	UKC-USAC	**-12**	109	121	136	118	131	123
TC5	LR1	AG-Japan	**+3**	91	88	76	99	109	114
TC7	MR - east	Singapore-EC Aus	**+2**	147	145	148			
LQM	Bunker Price (Rotterdam HSFO 380)		**+6**	607.5	601.5	608.5			

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

			wk on wk	Aug 15th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+750**	7,750	7,000	5,750			
TC2	MR - west	UKC-USAC	**-3,000**	6,250	9,250	12,250	8,250	11,250	9,500
TC5	LR1	AG-Japan	**+1,000**	9,250	8,250	4,250	11,750	15,250	13,500
TC7	MR - east	Singapore-EC Aus	**+250**	9,000	8,750	9,000			

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

PAT/JCH/TP/JT/slt

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