WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

23rd August 2013

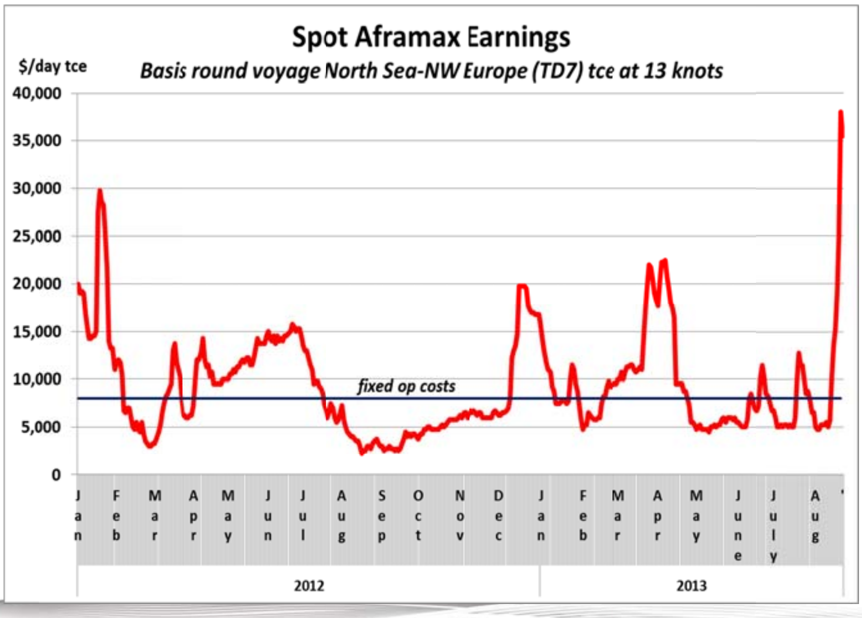
SOME VERY GOOD NEWS FOR A VERY FEW OWNERS

There has been very little good news for crude tanker owners for more than a year now. "Oversupply", "extremely low earnings" and "financial challenges" are words that typically make the news headlines nowadays. So this week it is somewhat a relief that we can write a far more positive story (at least for a few). For Aframax owners currently operating out of the North Sea and Baltic, it looks like Christmas has come very, very early, with spot rates up by 55-65% in just 10 days, from W80 to W125 out of the North Sea and W57 to W95 out of the Baltic.

On the face of it, this is not a time of year that a spike is expected. The fourth and first quarters are periods of higher expectations based on weather disruptions, more cargoes and ice conditions. At this time of year North Sea maintenance and no disruptions can limit tanker demand. This, and that there is more than sufficient Aframax tankers to meet global requirements, would suggest that the third quarter should be a time of weak rates. However, even in an oversupplied industry, there are times when the unexpected can happen at a 'local' level, as the current North Sea/Baltic Aframax market clearly demonstrates.

Until mid-August North Sea-NW Europe Aframax rates had been trading in a very narrow range of WS80-90 for the previous four months. Then, an increase in longer haul Russian crude exports out of the Baltic going transatlantic, to the Med and further afield in NW Europe removed a significant amount of Aframax tonnage, and with end August crude cargoes still to be covered from a dwindling tonnage list, the market became much tighter. This was reinforced with a greater urgency to fix and so led to a surge in rates such that today, earnings in this sector are above $35,000/day, something we have not seen for almost 2 years. So, after extended periods where owners did not even cover fixed operating costs, and short-lived upturns when earnings moved in to the $15,000-20,000/day range, today's market is in a different stratosphere.

However, this cannot last. The dynamics that pushed rates higher will not be sustained; there is an overall surplus of Aframax tonnage and vessels elsewhere will be tempted to ballast in to NW Europe; and once the more prompt cargoes are covered, charterers are likely to hold-off entering the market, so creating a vacuum where rates will fall. Nonetheless, these surges in rates are a very welcome relief for those owners that do fix and can make annual average earnings look a little better than the dire returns for the crude tanker industry generally.



Middle East

The Vlcc market has witnessed plenty of fixing this week, but with more than enough ships there to support the enquiry, rates have been going nowhere fast, nor does it look like it will change for the upcoming week. Rates will continue uninspiringly at w32 for east and around w21 for west. Suezmaxes have been on the steady slide all week as enquiry has been on a drip feed basis. Tonnage is hardly overflowing, but it is sufficient to keep Charterers in control with w55 for East and w35 for West. The Far East and the AG Aframax Charterers finished their week's business by Wednesday and are sitting on their September stems until Monday. This would otherwise put pressure on the rates but with an active Red Sea market, this will keep rates going sideways at around 80 x w90 for East.

West Africa

Crash, Bang, Wallop went the Suezmax rates as they found their true value after an extended period 'in the sun'. By end of the week rates sharply fell to 130,000 mt by w50 for US Gulf discharge and w52.5 for a long Mediterranean discharge option. With an over saturation of available tonnage in the current window Owners will be facing more pain next week. Similar could be said of their larger Vlcc cousins, with this market effectively henpecked by the East market and the ships that accompany it, with rates last seen 260 x w34.25 to the East.

Mediterranean

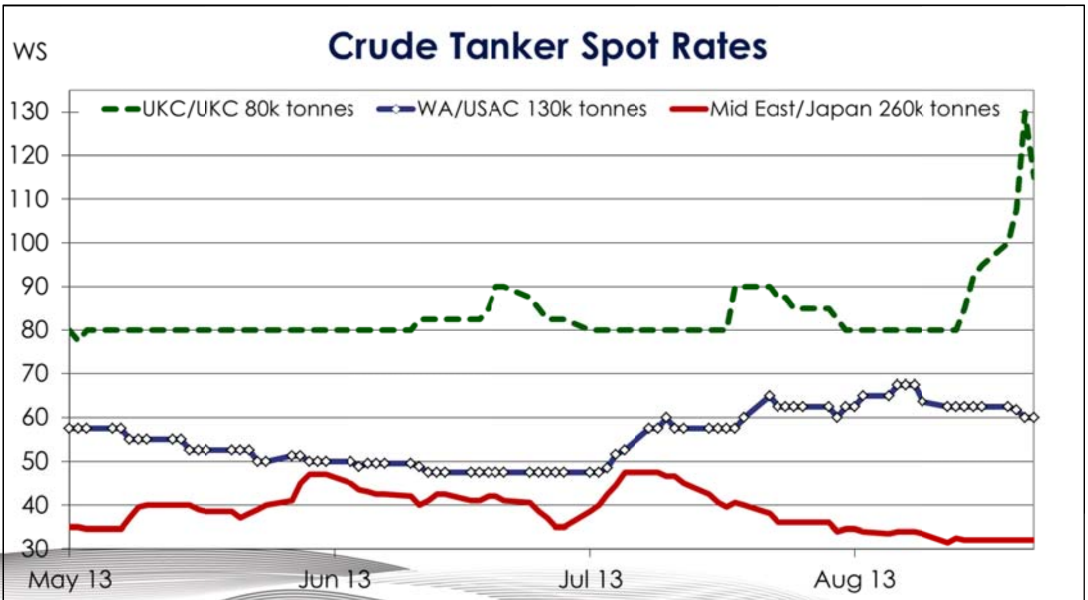
The week began with the Aframax market in the Mediterranean stagnating. Enquiry was minimal and rates hovered around the w82.5 level for vanilla Cross Med voyages. Uncertainly in Libya with Force Majeure being declared in some ports did cause some Owners to worry about cargo availability; however, it looks like it was short-lived as some ports look to reopen and activity has picked up general. This sustained enquiry for Cross-Med in addition to business in the Black Sea caused rates to rise and they now are nudging 80 x w90 Cross-Med. No doubt the strength of Aframax rates in the North Sea has also helped in this. Into the next days we expect little material change in the Med and rates to hold. The Suezmax market remains slow in this area. The week started with Cross Med cargoes being concluded at 140,000 by w 59. Owners may now start to 'gate crash' the Aframax market due to the lack of natural size stems in the area rather than face the alternative ballast to West Africa with a lower return.

Caribbean

The Aframax market started off the week with rates coming off slightly to where they left off on Friday, with 70,000 by w115 being done. The market remained firm with Charterers attempting to cover end/early stems on top of each other; increased lightering volumes in the week took out much of the tonnage which kept the rates trading at w110 as we approach the end of the week. A number of Vlcc fixtures were traded throughout the week with levels remaining at what was seen in the previous with sentiment remaining with Owners at $3.4m for Singapore discharge.

North Sea

The fundamentals don't lie and this week in the North Aframax tonnage has been in short supply. Rates have risen sharply before settling to a slightly slower pace. This saw cross North Sea move upto 80kt w130 for a fixture of the 1st and Russian export blend has been covering at ws92.5 although dirty products have commanded higher premiums (VGO export on subs 100kt ws105 for UK Cont discharge). The cause for such a sharp rise has been a shift in available tonnage created by more longer haul options on REBCO being exerted. That and some North Sea barrels going further afield has left the list lean and created a pressure point. However, the present situation is a pinch and with London closed for three days next week should show these levels have topped and rates will again start to ebb away.



CLEAN PRODUCTS

East

Middle East markets experienced a huge explosion of activity this week. Demand for tonnage suddenly rocketed and freight rates have been rising super-fast. 75k Naphtha AG/Japan went from w68 up to w110: a w42 point rise on the week. That takes owners earnings from $2k per day, up to a much more reasonable $20-21k per day. West bound cargoes also shot through the roof with rates moving from $1.95m, upto $2.75m: A mighty $800k rise in a week. We have not seen this level of activity, demand and excitement for a couple of years. The market was moving up by the hour things got so hectic.
LR1's also got in on the action with 55 Naphtha AG/Japan moving up from w92.5 to w120. A very respectable 27.5 rise. However, the shorter haul cargoes jumped! Ex - Arabian Gulf fixed at $450k. Sikka/ Singapore moved.

The MRs have felt rather lonely this week, the forgotten guest at the ball. The list looks relatively healthy with the AG prompt position short on tonnage and Charterers having to look for ballasters to get coverage. While there has been the odd opportunity for Owners (US$280k on subs for Cross AG Jet movement) the MRs have not followed in the path of the LRs with rates largely remaining steady at best. TC12 hasn't been fixed in a while but is assessed at the 35kt x WS 105 level. AG-West Coast India /East Africa was last fixed at 35kt x w142.5 but while it's steady now, this attractive route could be the first to come under pressure if things remain this quiet. AG/UKC has quietened right off after the spell of very cheap fixtures over the last couple of weeks but for now is assessed at the US$1.25m marker. Sikka/Gizan has also seen a steadier week but last done levels of US$735k is probably a fair assessment of the market moving forward. MRs need to see a strong injection of cargoes next week to keep freight for these vessels from slipping off.

The LRs are facing a bull run at the moment with one Owner talking 600k for a South Korea/Singapore backhaul run. It is not hard to see why, given the upswing in rates in the AG at the moment. This bullish sentiment has however, not been felt in the MR sector relatively speaking, although we must add that it is climbing up slowly as there are still prompt units to be cleared out. The stem dates are now all being fixed for early September and hence MR Owners are still a little cautious about their market, despite what is happening with their larger cousins. Barring any restrictions, MRs for the Korea/Singapore run are still at around 400k mark.

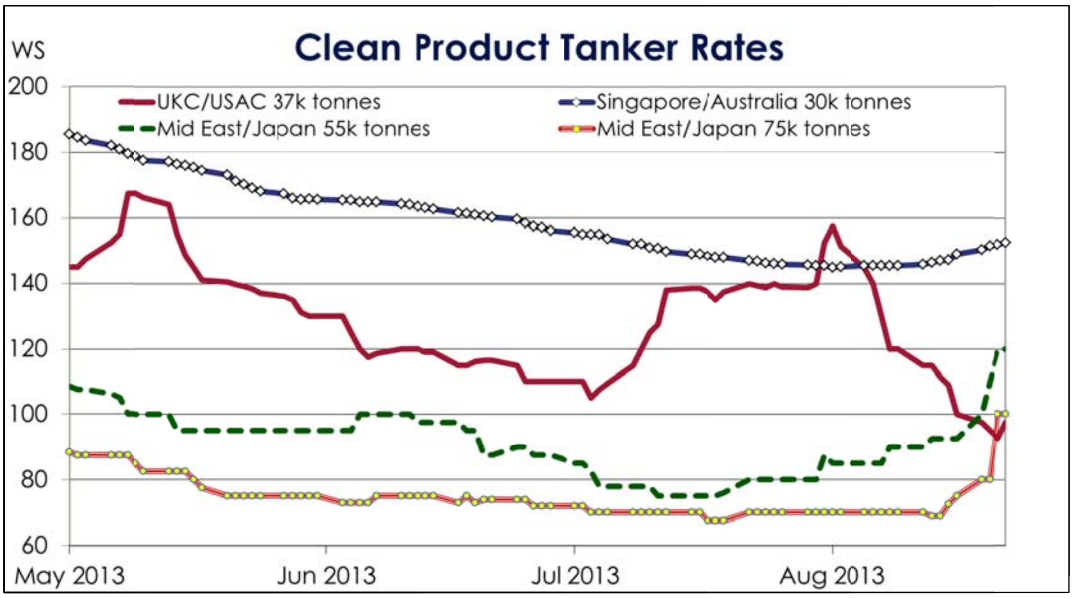
In the South, things are looking a little brighter due to the market situation in the AG/West Coast India. Owners are in a better bargaining position as they can swing ships to fix out of West Coast India if they do not get a decent rate with the Singapore cargoes. TC4 and TC7 were inching up higher every day over the course of this week, which reflected the positive sentiments for the South. 30kt x w160 on a Singapore/Oz run has been fixed and owners are expected to better the last done in the coming week. All in all, positive sentiment for the Owners generally.

Mediterranean

The Med market has slipped ten points this week with a car park of ships open before the end of the month looking for employment – downward pressure has been persistent. The lack of gasoil stems out of the Black Sea remains a significant bain to enquiry levels as well as continued disruption out of Ras Lanuf and for Cross Med and Black Sea Med we deem the market around 30kt x w130 levels by the end of the week. There have been a handful of longhaul fixtures loading in the Med – primarily for West options, with TC2 trading around 37kt x 97.5 we would deem the Med in line with this, West Africa + 10pts and for heading East the market is largely untested with not a great deal of enquiry however, we would deem for MRs around 950k for Red Sea Discharge + 100k for AG.

UK Continent

TC2 began to get busier towards the end of the week as a draw in gasoline opened the Arb transatlantic. Fixtures were arranged at w95-97.5 basis 37kt with West Africa maintaining a ten point premium upon this. Handies Cross Continent were paying managed to hold 22x180 / 30x135 even though a number of MRs were under-cutting these levels to gain employment. LR's Cont/West Africa are currently w87.5, we saw increased interest for Naphtha going East of Suez by weeks end, such were arranged at US$2.1m



DIRTY PRODUCTS

Handy

An interesting week in the Cont, dominated by Wednesday's trading. Led into the market by a flat start to the week Charterers were able to maintain rates at a w142.5-145 range despite a condensed upturn in activity. The typical subsequent market tightening was offset by hidden vessels resulting in rates holding at w145 by the end of the week despite conditions described as firm. Rates are expected to hold at the start of next week with little to suggest a dramatic change in sentiment. Dates covered have moved into early September.

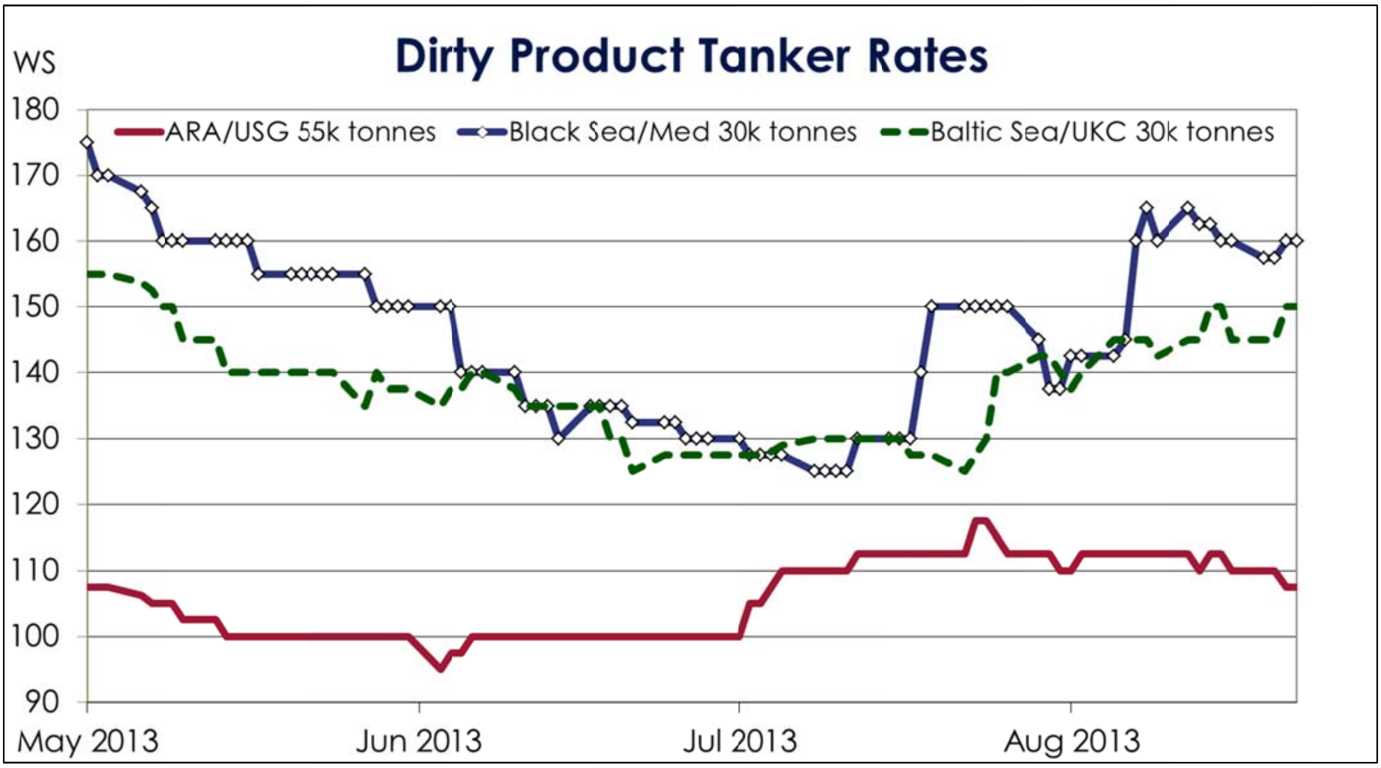
The Med market experienced a consistently active week ensuring a steady shortening of tonnage in the East Med. West Med is more fallible with the potential for a split in Cross Med numbers to be achieved at the close of this week's play; tonnage numbers will be the catalyst if indeed this does occur. The Black Sea finishes firm despite the market on the whole holding at 30 x w157.5. Noticeably with early September dates being worked, we saw one and all seek to cover end month stems rapidly became prompt and short on vessels.

MR

Tightness of availability plagued the continent this week where charterers were deterred from moving a 45kt stem through concern of finding a vessel. A sweeping statement perhaps as all three vessels (that on Monday morning were showing availability) would prove to be more than enough units by mid-week where enquiry lacked.
In the Med part cargo employment has prevented the list from becoming saturated; a fear for owner's operating here as most of the activity currently seems to be of a short haul nature. In essence levels in both regions see little rate variation moving into week 35.

Panamax

Owners of tonnage in this sector should view this week as something of a success as the picture painted by Monday's tonnage lists made for a turbulent week of trading. Activity levels were to prove a lifeline however where lower end market numbers soon rebounded back into the WS 110 region. Going forward however, as fixing date progression plays its part once again, competition will intensify for cargoes; charterers may still find trading exists between boundaries seen this week.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 22nd	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**+0**	32	32	37	34	38	36
TD5	Suezmax	WAF-USAC	**-9**	56	65	64	59	58	58
TD7	Aframax	N.Sea-UKC	**+31**	123	92	85	93	88	94
LQM Bunker Price (Fujairah 380 HSFO)			**+0**	606.5	606.5	602.5			

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

			wk on wk change	Aug 22nd	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	**+250**	7,000	6,750	14,250	9,750	16,000	13,500
TD5	Suezmax	WAF-USAC	**-6,250**	13,750	20,000	19,750	16,000	15,500	15,750
TD7	Aframax	N.Sea-UKC	**+22,000**	35,500	13,500	8,500	12,500	9,250	13,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 22nd	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+0**	72.5	72.5	70			
TC2	MR - west	UKC-USAC	**-12**	97	109	138	116	130	121
TC5	LR1	AG-Japan	**+28**	119	91	78	109	114	116
TC7	MR - east	Singapore-EC Aus	**+0**	147	147	146			
LQM Bunker Price (Rotterdam HSFO 380)			**+0**	607.5	607.5	607.5			

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

			wk on wk change	Aug 22nd	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	**+0**	7,750	7,750	7,000			
TC2	MR - west	UKC-USAC	**-2,250**	4,000	6,250	12,750	8,000	11,250	9,500
TC5	LR1	AG-Japan	**+9,000**	18,250	9,250	5,250	15,000	16,750	16,750
TC7	MR - east	Singapore-EC Aus	**+0**	9,000	9,000	9,000			

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

SPC/JCH/TP/JT/slt

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