WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

29th November 2013

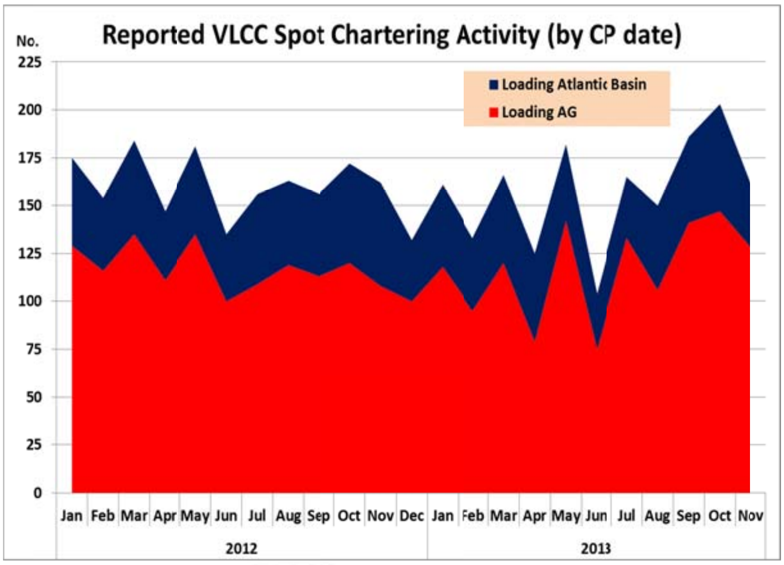
VLCCs GO WEST TO GO EAST

The extent of the VLCC market rise over recent weeks has surprised most of us. It is normal for a seasonal increase to take place around this time of year, on the back of rising oil demand and the up-coming holiday periods. In each of the past 3 years VLCC earnings for trading AG-Japan increased by $13,000-18,000/day between October and November. On this basis, we could have expected earnings this November at around $35,000/day. Instead, with momentum and a strong psychological tailwind, earnings have averaged more than $45,000/day and at their peak hit the dizzy heights of $55,000/day (on Nov 20th).

On the fundamental side, over the past 3 months VLCC chartering in the AG has been constantly high at around 140 fixtures per month, something we haven't seen in this market since the end of 2011. At the same time, there has been a continuous high level of VLCC business out of the Atlantic Basin going East, with 44 reported fixtures in August, 45 in September and a high of 56 in October. These sustained high levels of fixing from both areas have created the fundamental push to lift the market; the psychology has then held it there, even against the potential increase in vessel speeds.

OPEC is meeting next week, but the expectation is there will be no shift in policy. However, general forecasts are that OPEC production next year will be slightly lower than this year and if this is the case, any cutbacks are usually centred on the Middle East. Given this, and that more Middle East refining capacity is scheduled to come on stream in 2014, the drop in crude exports from the region could be more severe. The one area of confusion surrounding this will be what happens if/when Iranian sanctions are lifted?

If there is some doubt as to what will happen in the Middle East, the Atlantic Basin VLCC prospects seem clearer. The fact that VLCCs now regularly ballast to West Africa to pick up eastbound cargoes is clearly a support to the VLCC market generally and the need to do this has increased in recent times. This rise in West Africa-East VLCC trade can be put down to the huge success in US fracking. The major increases in US oil production have been in very light crude and so removed the US import requirement for light grades from West Africa (which was typically a Suezmax trade). These crude volumes don't just disappear; they find a new home, which has mostly been a VLCC trade to Asia-Pacific. The trend is forecast to continue next year (and beyond) and so we expect even more VLCC trade from the Atlantic going East. However, our base forecast is that next year the loss of AG VLCC business will be greater than the gain in the Atlantic Basin. So, based on a further increase in VLCC supply, we would ordinarily expect a weaker VLCC market in 2014; the one major uncertainty is still Iran.



CRUDE

Middle East

For every VLCC fixture that dipped below the bar, another one seemed to pop up that in-filled the lost ground. Replacements, although few in number, formed the reinforcing rod, and although Charterers will do their best to evenly spread the remaining December enquiry, it does look as if the month's fixing will play out on a relatively even average keel, albeit with a wider rate spread than the norm. Levels to the East operate in the low WS 60's with runs to the west a little under the WS 40 mark. Suezmaxes had a reasonably busy time of it during the first half of the week, but as dates moved onto the more forward, populous, positions, Owners came under pressure to give way, and rates eased down to around 130,000 by WS 70 to the East and WS 40 West, with no early turnaround anticipated. Aframaxes became much busier, and rates have now started to respond, moving to close on 80,000 by WS 90 to the East with further gains possible over the coming period.

West Africa

Suezmaxes enjoyed a pre-Thanksgiving rush to fix, and quickly engineered rates upwards to 130,000 by WS 70+ to the States and close to WS 77.5 for European destinations. A slower end to the week, but there remains potential for the peaks to be repeated if Charterers don't take their foot off the gas next week. VLCC's retained a very steady profile with rates continuing to equalise with the Arabian Gulf at around 260,000 by WS 62 to the East with as high as US$6.2 million seen for a replacement deal to West Coast India. No let up until things ease in the Middle East.

Mediterranean

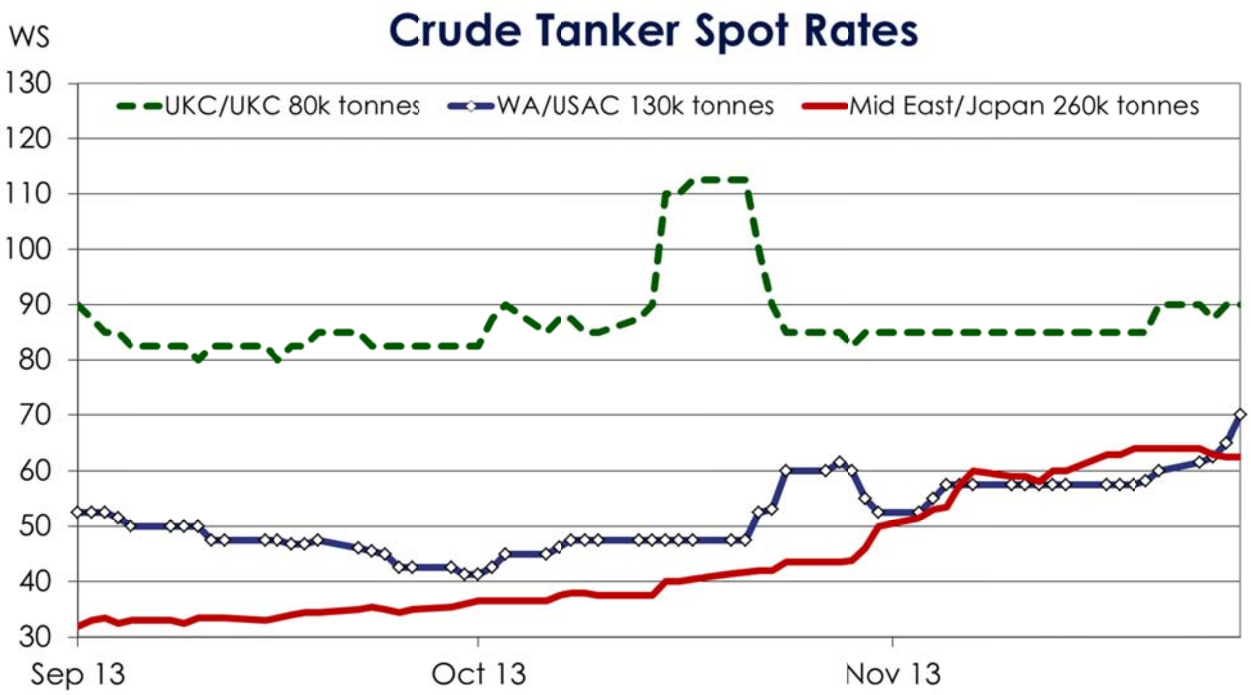
Good activity here too for Suezmaxes, and that, combined with the feel good factor permeating from West Africa, meant rates moving higher to 140,000 by WS 75/77.5 from the Black Sea to Europe, with US$3.6 million paid for China discharge, while runs from the Med to Singapore knocked on the US$3 million door. Aframaxes, on the other hand, failed to spark with supply easily outweighing demand and rates accordingly sluggish at a lowly 80,000 by WS 62.5/65 Cross Med, and no quick fix in sight, despite the gains on the larger size.

Caribbean

Aframaxes got a little pre-holiday cheer as Charterers cleared their immediate lines. Rates pushed to 70,000 by WS 105 upcoast, but don't have any real stamina about them, and slippage could well be seen at the start of next week. Suezmaxes had a more active role than of late with upcoast rates of 130,000 by WS 75 backed up by strong levels to the East with up to US$4.2 million recorded for a heated cargo to Singapore. VLCC's played a steady hand, and although rates came off a touch to US$5.75 million to Singapore, US$5.2 million to West Coast India, they remain in relative gold-standard territory, and should stay there for a while yet.

North Sea

The Baltic bubbled for Aframaxes allowing the market to take an upward turn, and then consolidate at 100,000 by WS 75 for continent discharge with 80,000 Cross UKC also running at a higher WS 90/92.5 level. Momentum is still needed however, and any easing in the pace of fixing will puncture the market once again. Suezmax rate ideas moved higher on the back of the gains in West Africa and the Med, and extra interest to the East further solidified things with up to US$3.8 million seen for fuel oil from the Baltic to Singapore. VLCC's didn't have much attention, but theoretically hold at around US$5.5 million to Singapore and US$6.5 million to South Korea on limited supply.



CLEAN PRODUCTS

East

LRs have been very busy this week in the East with LR2's particularly in the spotlight. LR1's have also now seen more business at the end of the week but rates are not moving yet. 75,000 mt Naphtha Arabian Gulf/Japan is up some 10 points to WS 77.5 and 90,000 mt Jet Arabian Gulf /United Kingdom Continent up some US$150k to US$2.1 million. 55,000 mt Naphtha Arabian Gulf/Japan is now at WS 90 after briefly dropping into the 80's, and 65,000 mt Jet Arabian Gulf /UKC is still struggling around US$1.70 million. All rates should see improvements next week with reduced tonnage lists and still plenty of enquiry.

The MR's have had a torrid week with very little exciting news to report. Iraq imports are the headline this week with up to 4-5 ships being fixed. The rates have suffered and at the time of writing US$160k in on subs for Jebel/Kaz (admittedly for a handysize vessel). East Africa has seen a couple of cargoes but the rate stays flat at 35kt x WS 137.5 levels. Going West has been dead too and freight now assessed at US$1.15 million. TC12 has been flat at WS 102.5 for 35kt and Red Sea imports have rallied a fraction to US$550k for Gizan. The list certainly has looked healthier this week when compared to what we have seen recently and there are some outstanding cargos at the weeks end but not enough to see a real change in the near future.

This week, some Owners have referred to the North Asia market at `Chaotic'. Maybe this is a step too far, but things have undeniably been put on hold by some unforeseen circumstances, such as the Qingdao pipeline explosion which occurred last Friday, coupled with the bad weather off Korea, (severe enough to cause 3 small cargo ships to run aground) which has resulted in some congestion in these northern ports. Generally, things have been quiet and slow for all sizes of vessel in the North. US$430K has been fixed this week on the MR's for South Korea/Singapore, which is a considerable drop on last done. Neither the LR1's nor the LR2's hold much of a premium over the MRs and they are competing for the MR stems. For South Korea/Singapore the LR1s are still fixing at around US$450K levels and the LR2's at around US$480K. Outlook for the bigger ships is bleak for now. In terms of shipping activity for the MRs, most of the attention turned to the Singapore region, where there has been a decent activity level on the short haul.

Mediterranean

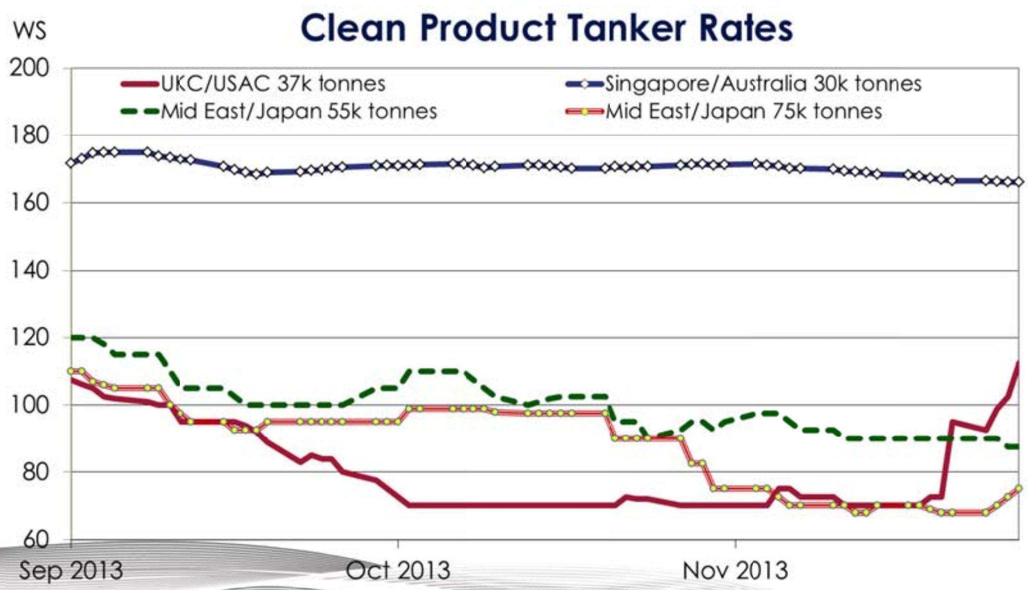
The Mediterranean market has continued to firm this week with good enquiry for Black Sea and Cross Med trades and continued weather delays keeping tonnage tight. There remains a premium for Italian cabotage or specific ship requirements, which could be more scarce on the list. By the weeks end 30 x WS 152.5 - 155 has been reported fixed for first decade laycans, however, higher is on subjects for Cross Med off forward dates. For the Black Sea there remains at least a 5 point discount despite a busier start to the week we deem the market 30 x WS 145-150 date dependant. MRs on the UKC have been the talking point of the week, but with limited activity in the Med they are slightly untested, however, it is hard to see past them following the UKC numbers and hitting around 37 x WS 110/+40pts for West Africa. For discharge East of Suez enquiry remains limited and with little incentive - we deem ideas around at US$1.1-1.2 million levels for the Red Sea and US$100K and at least for Arabian Gulf - largely Owner dependant.

UK Continent

All in all, a very busy week on the Continent! A flurry of TC2 cargoes on Monday quickly tightened the list and Owners were able to push for higher rates. A couple of stems requiring ice class vessels also appeared and some higher straight TA rates were paid on the back of some ice premiums, up to WS 120 basis 37kt, and ice (breach East Coast Canada paid 37x147.5) 37x110 on subs TA at time of writing. As a result, Cont/West Africa traded up to WS 155 basis 37kt (on subjects at time of writing). The handies were also tight and levels went up to 30x140 and 22x185 on the flexi's. LR's trading flat at 60x110

Caribbean

As the US settled in for Thanksgiving turkey, the trend of TC14 trading at double TC2 is slowly coming to an end. At the weeks end TC14 is trading 38x120-130 levels and TC3 ideas are around 38x120. Enquiry levels have softened against the pre-holiday rush and the trend for the TA distillate arbitrage has been squeezed. Tonnage remains long for United States Gulf loading and we deem the outlook soft going into December.



DIRTY PRODUCTS

Handy

Tight conditions were seen this week but any rate momentum was checked by a limited cargo volume. Despite a short tonnage list charterers were not forced to incur a rising freight as a Mexican standoff ensured that dwindling cargos matched supply. In turn this resulted in rates sliding sideways at 30 x WS 135 level.

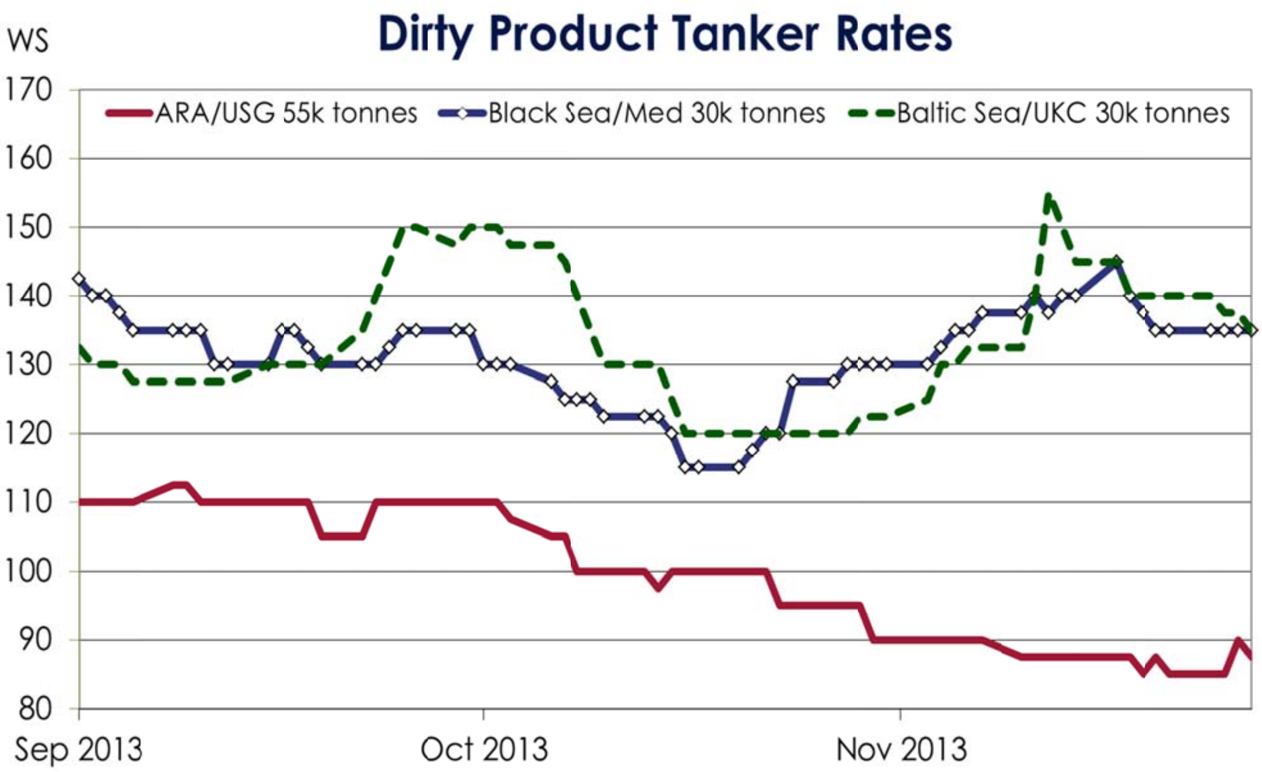
Although conditions were markedly different in the Med the same imbalance occurred; which unfortunately for the owning fraternity prevented rates moving to anywhere near to normal winter numbers. Tonnage remains plentiful and the region is in need of an active week combined with weather delays if, in the short term, there is going to be any heat generated in the region. This said, we still expecting an increase in Black Sea / Med December stems, thereafter proving scope for healthier Handy/MR employment opportunities.

MR

Measurement of activity throughout the week would best be described as "Sporadic", a sentiment displayed in both the North and Med markets alike. Taking into account the lack of enquiry with most markets have suffering, Owners in the Med will be the ones with more concerns owing to being allowed to accrue. Rates up until time of writing have remained largely flat, with some scope to press off of PPT dates from the Black Sea.

Panamax

Owners this week have slowly made progress in re correcting freight rates, with some in the belief that this was well overdue, considering the fixing run recently seen within the sector. WS 90 has now been established from the North with a +5 point premium to that fixing ex Med, this said, Owners may yet find ability to press again with tonnage looking a lot thinner for the first 10 days of December.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 28th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-2**	62	64	46	45
TD5	Suezmax	WAF-USAC	**+14**	72	58	56	59
TD7	Aframax	N.Sea-UKC	**+5**	91	86	83	88

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

			wk on wk change	Nov 28th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-2,500**	48,500	51,000	26,000	24,750
TD5	Suezmax	WAF-USAC	**+10,000**	25,250	15,250	14,000	16,000
TD7	Aframax	N.Sea-UKC	**+4,000**	12,500	8,500	6,500	8,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 28th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+7**	75	68	75	
TC2	MR - west	UKC-USAC	**+38**	109	71	70	117
TC5	LR1	AG-Japan	**-1**	88	89	95	101
TC7	MR - east	Singapore-EC Aus	**-1**	166	167	171	

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

			wk on wk change	Nov 28th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+3,000**	8,500	5,500	8,500	
TC2	MR - west	UKC-USAC	**+8,000**	7,000	-1,000	-1,500	8,750
TC5	LR1	AG-Japan	**-250**	8,000	8,250	10,250	12,250
TC7	MR - east	Singapore-EC Aus	**-250**	12,250	12,500	13,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+5**	582.5	577.5	587.5
LQM Bunker Price (Fujairah 380 HSFO)	**-3**	617.5	620.5	620.5
LQM Bunker Price (Singapore 380 HSFO)	**+4**	610	606	608

SC/JCH/TP/JT/slt

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