WEEKLY TANKER REPORT

22nd May 2015

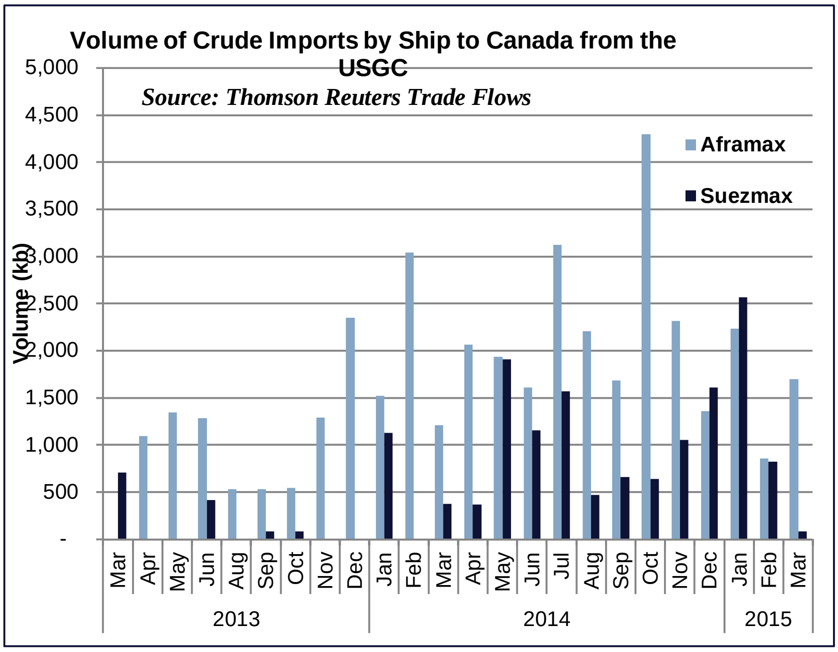
CANADA'S THIRST SOAKS TANKER DEMAND

Canada's role in the oil industry has changed dramatically in recent years driven by synthetic crude oil production in the oil sands of Alberta. Oil sands, a type of unconventional oil, are a mixture of sand, water, clay and bitumen which results in the bituminous deposit being hard to process. Oil sand reserves have only recently been considered to be part of the world's oil reserves as higher oil prices and new technology enable profitable extraction and processing. This 'oil sand revolution' has led to Canada being one of the world's five largest oil producers, and this means their role in the global oil markets is changing. Currently 97% of Canada's oil exports are to the United States via rail or pipeline although new developments will no doubt have a significant impact on both the tanker market and international trade flows.

Canada is a net exporter of crude although crude imports are relied upon for more than 40% of their annual requirement. They have the gift of extensive natural resources but with the burden of a mountainous landscape and poor weather conditions leading to the densely populated eastern provinces of Canada such as Quebec, isolated from the centre of oil production in the West. The logistical challenges in moving domestic oil from the West (due to terrain and the dilution requirement prior to piping) along with the East refineries light sweet diet results in Canada, the only country able to legally import US crude oil, having a dependence on light sweet crude both from the US and further afield.

Crude oil imports into Eastern Canada via ship have been on the increase and there has been a significant increase in the number of tankers trading crude from the US Gulf Coast on both Suezmax and Aframax vessels. Since the increase in US domestic production, crude oil from the USGC can be purchased at a discount to imported crude from traditional suppliers. The volume of imports from the USGC is increasing year on year which has resulted in a freight requirement that has started to soak up some of the available tonnage in the region. In 2013 13.6 million barrels of crude was imported from the USGC to East Coast Canada with an increase to 39.9 million barrels in 2014. With the volume for the first quarter of 2015 already higher than that of previous years, it looks like these tanker imports are set to increase.

New plans for Energy East, a cross-Canada West to East pipeline with a capacity of 1,100kb/day are being put forward to allow the movement of diluted domestic oil from the West to the import dependant Eastern provinces. The cost of a barrel to be produced from the Alberta oil sands is high and with the break even mark being in the region of $60-65 it is not economical to go ahead with this project in current market conditions. Fortunately weakening of the CAD versus USD has softened the blow of the oil price crash for Canada but without an increase in oil price there will have to be a production cut, easing the demand for this multibillion-dollar pipeline pushing it further into the future. This in turn should increase imports of crude from the USGC and with it, the derived-demand for Aframax and Suezmax tonnage.



With a light sweet requirement in the Eastern provinces the question might be raised on why there is a need for a pipeline to transport the heavy bituminous oil sands from the West if Eastern refineries could not process them. Suncor are looking to add a coker to their Montreal refinery which would allow for oil sand processing and for East Canada, in addition to energy independence; there is potential new dynamic, crude oil export. A pipeline will not only be used to supply East Canada with domestic oil but it will also open up new trade routes from the East coast of Canada, acting as a new gateway to markets currently untouched by this unconventional oil. Canada has estimated reserves of 173 billion barrels (the third largest on the planet) of oil and opening this up to the Atlantic could add a new dimension to the oil markets.

In the short run the question for tankers is two-fold; 1) will the volume of crude being imported from the USGC increase further; 2) will this increase be enough to soak up enough of the tonnage to see rates rise. In the long run the question surrounding the supply of Canadian's heavy oil to external markets remains an open one although the heavy oil from Latin American producers may have just found another competitor.

Middle East

VLCC Owners quickly realised their threatened potential to initially push rates to the East to as high as ws 85 and held firmly on to close to ws 50 to the West. Once those peaks had been established, however, Charterers took their foot off the gas, and are now in the process of trying to engineer the market back some 10 ws points. A more cautious week ahead looks on the cards. Suezmaxes never found enough to really fire their engine, and spent most of the week slightly on the defensive - 130,000 to the East moves at around ws 95 with ws 50 the top mark to the West now. Aframaxes continued to make incremental gains to end at 80,000 by ws 127.5 to Singapore, and seem in good enough form to allow for a fraction more, before the tide turns again.

West Africa

Suezmaxes found recent sky-high rates hard to hold onto as Charterers resisted rolling forward in numbers onto the less tonnage-challenged forward positions. By the weeks end rates had fallen into the low ws 90s to the USGulf, and a little below ws 100 to Europe - still very good for Owners, but not quite so eye-watering for Charterers. Further softening is likely as the long holiday weekend impacts further activity. VLCCs weren't as active as they'd have liked, and therefore failed to equalise with the highs seen in the AGulf, though 260,000 by ws 70/72.5 to the Far East kept most Owners smiling. A reported $4.8 million to West Coast India, however, represented a degree of underperformance.

Mediterranean

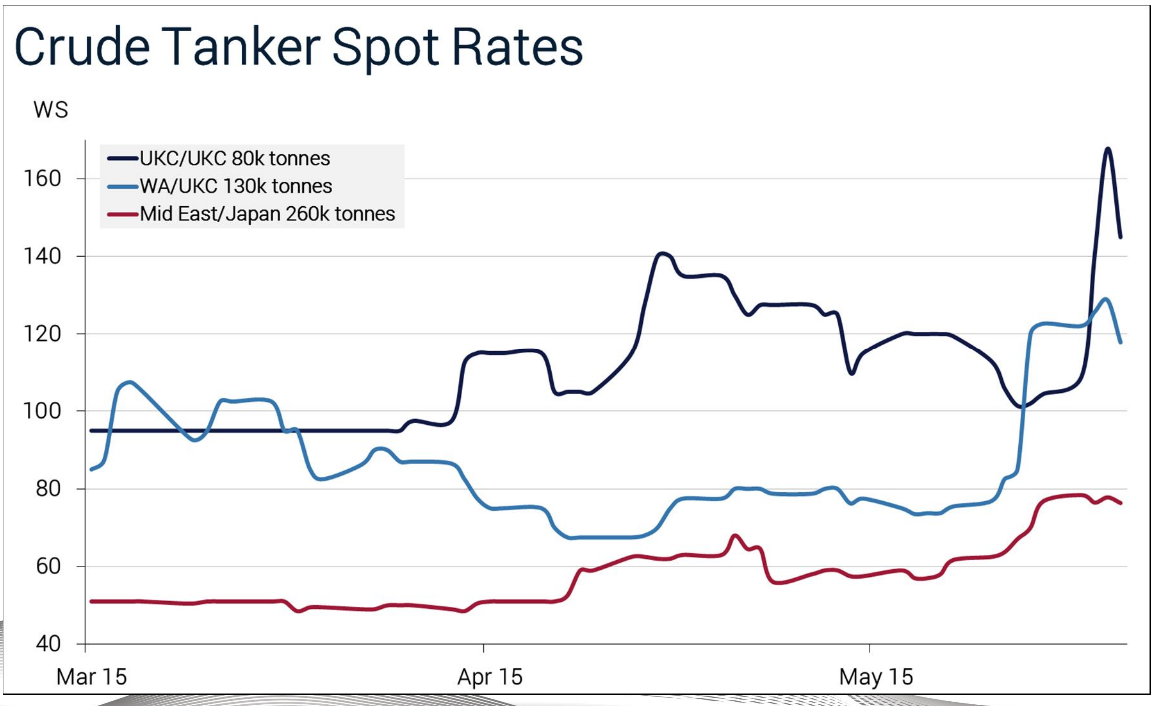
Aframaxes moved through a rather unexpected whirlwind of fresh enquiry that impressively drove rates from 80,000 by ws 95, to ws 150 X-Med, in short order. Once any replacement deals have been sorted out, however, it's likely that things deflate just as fast. Suezmaxes had gained late last week, and continued the good work to a top 140,000 by ws 125 from the Black Sea to Europe, but once West Africa stalled, then tracked back to end nearer ws 105 with further downside looming.

Caribbean

Aframaxes tried hard to spook Charterers into heavy fixing, and did see enough to push rates to 70,000 by ws 125 upcoast, but volumes fell short of providing enough energy to propel the market into clear blue water, and the holiday on Monday will act as drag anchor too. VLCCs are very tight on early dates, and look very finely balanced moving forward too - rates jumped to $7.5 million to Singapore with $5.65 million paid to West Coast India. Charterers may have to brace themselves for even higher demands from now onwards.

North Sea

Frenetic early fixing gave Aframax Owners the ladder to climb briefly to 80,000 by ws 170 X-UKCont, but then quickly slowed to end at ws 140, with 100,000 by ws 115 available from the Baltic. Owners will attempt another rally if Charterers get busy again next week, but they'll be more wary next time. VLCCs are in short supply in the area, and rate ideas to the East are propped up by viable Caribbean load alternatives. Consequently little was seen on the fuel oil 'Arb' run to Singapore, but $6 million would be a hard mark for Charterers to break.



CLEAN PRODUCTS

East

LRs have been busy in the East this week. LR1s have seen rates climb relatively well whilst LR2s have struggled to make serious progress even with high volume and a thinning list. 55,000 mt Naphtha AG/Japan is now ws 127.5 and 65,000 mt Jet AG/UKCont up to $2.35 million. 75,000 mt Naphtha AG/Japan has edged up to ws 105 and 90,000 mt Jet AG/Japan is now $2.575 million but more upside is expected next week on both.

MRs have been quite flat all week as the fixing window moved into June. TC12 remains hovering around the ws 122.5-125 mark, East Africa has yoyo'd slightly fixing at ws 157.5, peaking at ws 162.5 and ws 160 is on subjects at the time of writing. The arbitrage for AG to the UKCont remains shut with no movements fixing on MRs this week. Shorthauls have seen the rates for Jubail/Jebel Ali slip to $240,000 and AG to RSea is fixing between $575-600,000. Looking to the immediate future, early June has been active, but rates are stable and look set to remain, as there could be an overhang of May tonnage.

By enlarge, it has been a lethargic week for the MRs in North Asia with rates at best hovering around the $510k mark for a Korea/Singapore voyage but many Charterers will feel that less is now achievable. LR1s have been quiet too and mid to high $500s is the approximate level for a Korea/Singapore voyage. LR2s have also been fairly quiet but there has been just about enough going on to suggest that the backhaul market into Singapore has stabilised at $650k after the activity of last week. The Singapore MR market has had a strong week with $210k being paid for a cross Singapore and 30 x ws 190 level the going rate for an Australia run.

Mediterranean

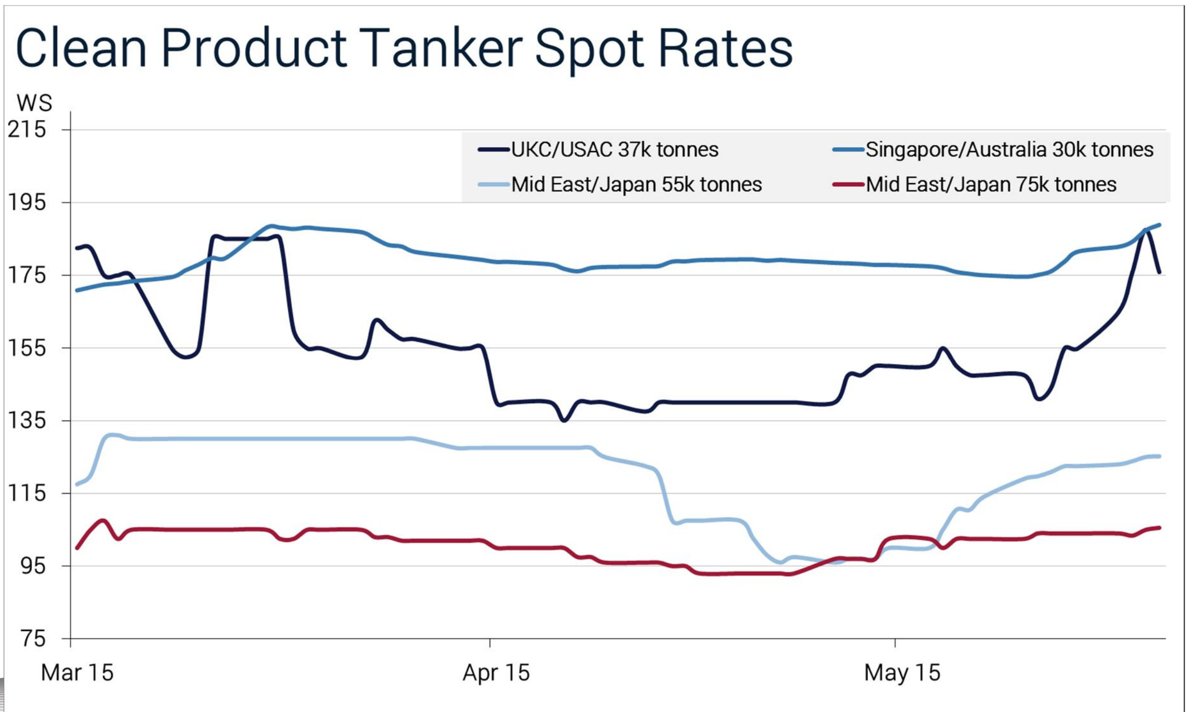
A very busy start to the week for the Handys in the Med and a swathe of prompt tonnage was booked on Monday/Tuesday in advance of the long weekend. Following suit Charterers reacted by booking into early June dates X-Black Sea and end/early for Med loads by the end of the week. Subsequently the market ticked back up to 30 x ws 140 as consensus but stronger sentiment and a few isolated cargoes with cabotage or physical restrictions on the end early window seeing the sharp end of some ideas - to the tune of around 30 x ws 150. On the MR size the market looks set for a fairly large correction especially with cargoes X-UKCont countering around 37 x ws 150, however the week in general has been strong with the Med benchmarking against the UKCont market. The list does appear to be in greater supply of MRs for end/early dates now so pressure should subside, consider transatlantic around 37 x ws 150 to be next done, 37 x ws 170-175 and for Red Sea AG around 1 million levels + 100k AG with not much pull factor to reposition.

UK Continent

A roller-coaster week on the MRs this week! An active start saw the list quickly thin and allowed Owners to push the market quickly, with TC2 reaching 37 x ws 190 by midweek. However, as has been the case before, the fall can be just as quick as the climb - the table turned with activity slowing and the list lengthening - TC2 finishes the week back where it began at 37 x ws 150 levels. The Handies remain firm, with some delays helping to keep the market buoyant, 30 x ws 190 / 22 x ws 197.5 deemed market. LR1s have had a lacklustre week, with limited fixing and the list is starting to grow - 60 x ws 130 surely must now be broken. LR2s have enjoyed more activity as June stems hit the market - Med/Japan now holding at $2.6 million levels.

Caribbean

A slower week in the USG this week as both shorthaul and TC14 routes begin to stutter. While the list is still fairly balanced, rates are starting to re-adjust after the active previous weeks, as TC14 slips to 38 x ws 105 levels. The bank holiday on Monday may allow the list to grow again, but Owners will hope that activity will pick up again next week.



DIRTY PRODUCTS

Handy

Momentum spilling through from the week previous, combined with and an extended weekend for many shipping hubs created a mass vessel clear-out this week up in the continent. With this in mind, Charterers were quick to find that conditions has also been changed through numerous vessels delaying; leaving May dated laycans (particularly from the Baltic) near on impossible to secure tonnage against. As a result of this we have now seen fixing dates shift into early June dates with rates naturally lifting as a by-product. Charterers that got caught in this spike found themselves having to look across sizes in order to cover, a condition rarely seen in recent weeks. Charterers may however find that upon our return, with the market given some cooling time, a cap on any further aspirations could be obtainable.

Those Charterers who got ahead of the rush will look back at this week and be thankful they moved when they did, as tonnage availability and rates turned against them almost daily. Looking at the overall picture however, this region having moved from rock bottom numbers has so far only led to the recently lost ground being re obtained. Nevertheless, positive volatility will be very much welcomed by Owners who will defiantly be sat the happier party come the close of week 21.

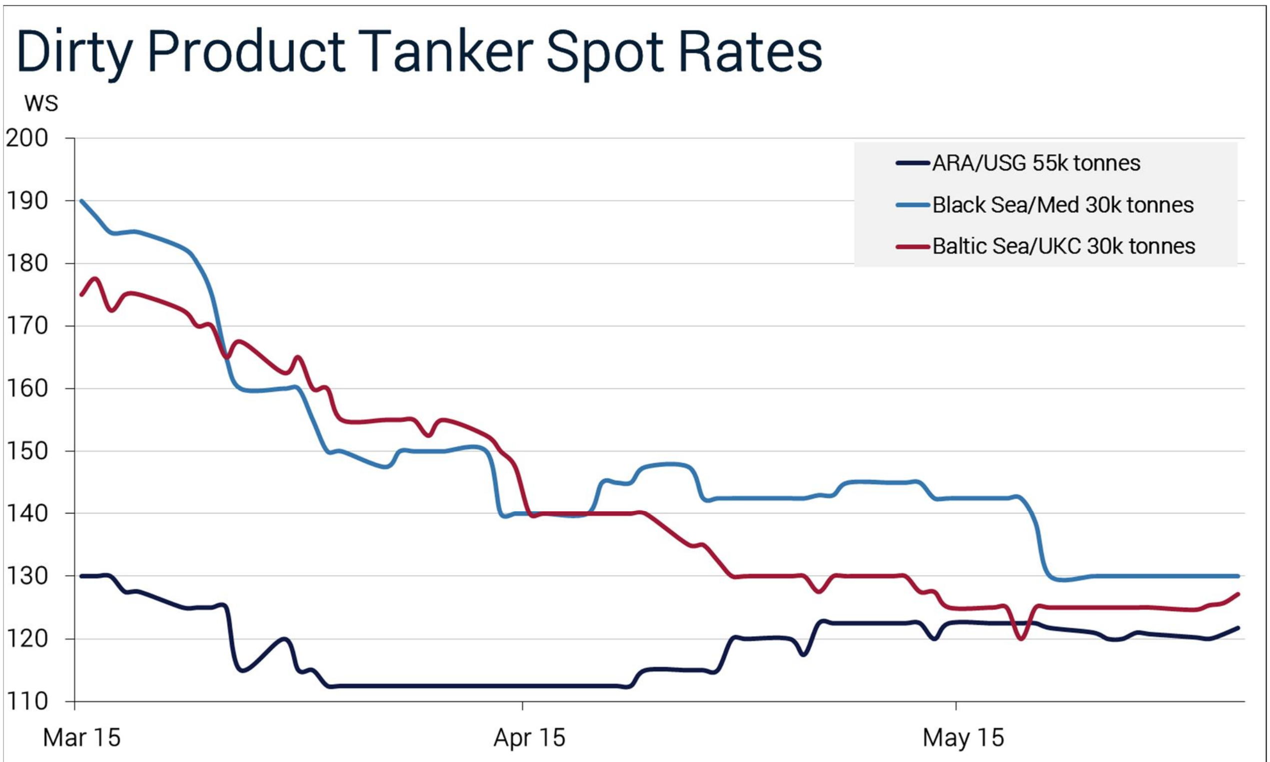
MR

Recent activity on the Handies has paid off for the MR's as well! The continent being frequently short of naturally positioned units found itself in an unfamiliar position where by an injection of requirement was needed in order to mop up tonnage that had been allowed to accrue. This week we can report that this market received a most needed boost. Numerous deals reaching fully fixed status leaves the remaining Owners with a solid platform from which they can leverage future negotiations upon. Finishing this week, we are now looking into June dates where some increment could soon be due.

Elsewhere in the Mediterranean, a stir was caused by a buzzing Aframax market leaving Owners positive in viewpoint hoping to capture some spilled over opportunity. Unfortunately, this spike proved very short lived dashing hopes of any unseasonably high daily earnings. Alas, there was at least a continuous flow of alternate part cargo stems, negating the risks of holding back to see how the 45k market would develop.

Panamax

Boyed from momentum in the US, Owners with tonnage sat naturally within Europe but slowly and surely noticed conditions started to change around them. The initial fixtures at the earlier stages of the week took care of units showing first availability, with levels bouncing between the ws 120/122.5 range. It is now however that we sit on the cusp of volatility as where a disparity between daily earnings has developed between the US and Europe, meaning ballast units are no longer guaranteed to head this way.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 21st	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+6**	76	70	64	54
TD20	Suezmax	WAF-UKC	**-2**	118	120	80	75
TD7	Aframax	N.Sea-UKC	**+43**	145	102	130	101

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

			wk on wk change	May 21st	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+13,250**	87,250	74,000	68,500	50,000
TD20	Suezmax	WAF-UKC	**-500**	67,250	67,750	39,250	47,500
TD7	Aframax	N.Sea-UKC	**+35,000**	61,750	26,750	50,750	25,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 21st	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1**	105	104	93	
TC2	MR - west	UKC-USAC	**+21**	176	155	138	130
TC5	LR1	AG-Japan	**+4**	125	121	98	122
TC7	MR - east	Singapore-EC Aus	**+10**	189	179	179	

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

			wk on wk change	May 21st	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,500**	28,250	26,750	23,750	
TC2	MR - west	UKC-USAC	**+5,500**	27,000	21,500	18,750	15,750
TC5	LR1	AG-Japan	**+2,500**	25,250	22,750	17,250	23,750
TC7	MR - east	Singapore-EC Aus	**+2,500**	22,500	20,000	21,000	

(a) based on round voyage economics at 'market' speed

LQM Bunker Price (Rotterdam HSFO 380)	**-20**	336	355	324
LQM Bunker Price (Fujairah 380 HSFO)	**-22**	368	390	348
LQM Bunker Price (Singapore 380 HSFO)	**-16**	363	379	345
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-17**	578	595	553

JAWT/JH/JD/DP/LHT

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