WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

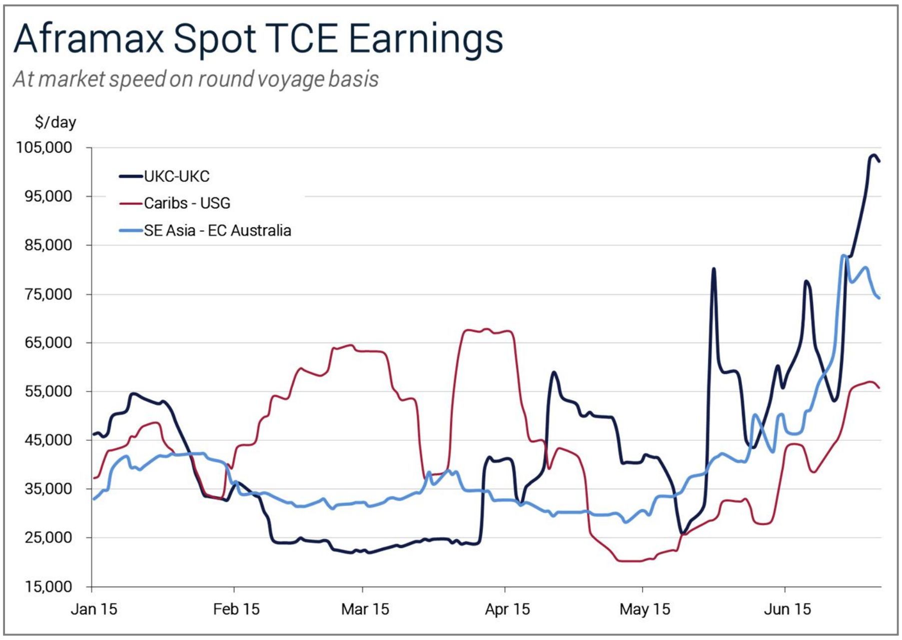
26th June 2015

AFRAs to the MAX

So far this year has been great for tanker owners, with spot earnings both in the crude and the product tanker market averaging at their highest level since 2008. In the crude sector, the impressive rebound in returns has been primarily driven by much tighter supply/demand fundamentals. On one hand, there have been marginal changes in tanker supply since 2014, while at the same time there have been notable increases in demand on the back of record high world crude production.

In current market conditions with earnings across all sectors being remarkably high, it is hard to pinpoint the front runner. Having said this, the Aframax market has reaped the highest rewards lately, despite summer typically being a weak period for this class of tanker, particularly in the West. Spot Aframax earnings on the key route across the North Sea (TD7) jumped to a staggering $103,500/day (design speed) this week, well above the corresponding returns for VLCCs and Suezmaxes on benchmark trades. This follows two smaller spikes in TD7 earnings in recent weeks. A similar strength has been observed in Asia Pacific. Tce earnings for 80,000 tonne cargoes from SE Asia to EC Australia (TD14) firmed substantially over the past month, peaking last week at nearly $83,000/day.

A number of factors have supported this exceptional strength in spot Aframax earnings, above the general level of returns in the industry. In the East, at least 25 Aframaxes have been chartered over the past few months for very short term t/c (60 to 90 days) for a fuel oil play, mainly off Singapore. In addition, there have been reports of discharge delays of fuel oil into China. Although these developments appear to be temporary, nonetheless it has contributed towards tightening Aframax supply in the region on top of trade requirements.



In the Atlantic Basin, the Aframax market has benefited greatly from increases in chartering demand. There was a notable gain in FSU crude exports during the first four months of this year, particularly in the Baltic. The Aframax market in the Mediterranean has also been more active, with strong year-on-year increases in spot fixture activity. Apart from trade developments, the oversupply of crude oil over demand has translated into delays in tanker transportation. At present around 20 Aframaxes are reportedly sitting with crude oil on board in the North Sea without any discharge orders. Similar to the developments in the East, this situation has helped to tighten Aframax availability.

The breath-taking strength in Aframax earnings is tempting LR2 owners to switch to dirty trade. The larger product tanker market is also firm, with LR2 spot tce earnings for ME Gulf – Japan currently over $35,000/day. Yet, it is nowhere close to returns in the Aframax market. Not surprisingly, we have seen around 15 LR2s switching to dirty trade since the start of the year, although there are rumours of more. The attraction of the dirty market over clean is apparent, but the question is how long the current strength is going to last? Will it last long enough to justify the costs of switching back (if needed) with a good profit margin?

Middle East

VLCC Charterers regrouped, initially slackened the pace, and put the ball back into the Owners court where they fumbled their return of serve and allowed rates to slip into the low ws 60s East and mid ws 30s West, via cape. At the last gasp, however, a spate of bargain hunting ensued, and the concentration of that was sufficient to stop the rot, and even, perhaps, allow for some reinflation over the coming period - especially if the shopping continues. Suezmaxes towed a steadier line, and generally maintained last week's solid numbers - up to ws 60 West and up to ws 100 to the East, where they should remain over the short term, at least. Aframaxes held up, as expected, at up to 80,000 by ws 155 to Singapore but things are quieter, and although a good number of units remain out of play on short storage duties, there could be some softening into next week.

West Africa

Suezmax sentiment ebbs, and flows, day by day, and sometimes even hour by hour. Just as things seem to be moving, enquiry slows, and heads go down, and just as quickly, replacements are called for, and off we go again. The end result is that rates nudge the ws 100 mark to Europe and a little less to the USGulf, and the flip-flopping looks set to continue for a while yet....or until the recently strong reinforcement from the Med and North Sea evaporates. VLCCs weren't over active, but there was good Indian interest with rates at up to a respectable $5.775 million to West Coast India, though Far Eastern levels threatened to move towards ws 62.5 - the resurgence, or otherwise, in the AGulf will dictate whether that threat is realised next week.

Mediterranean

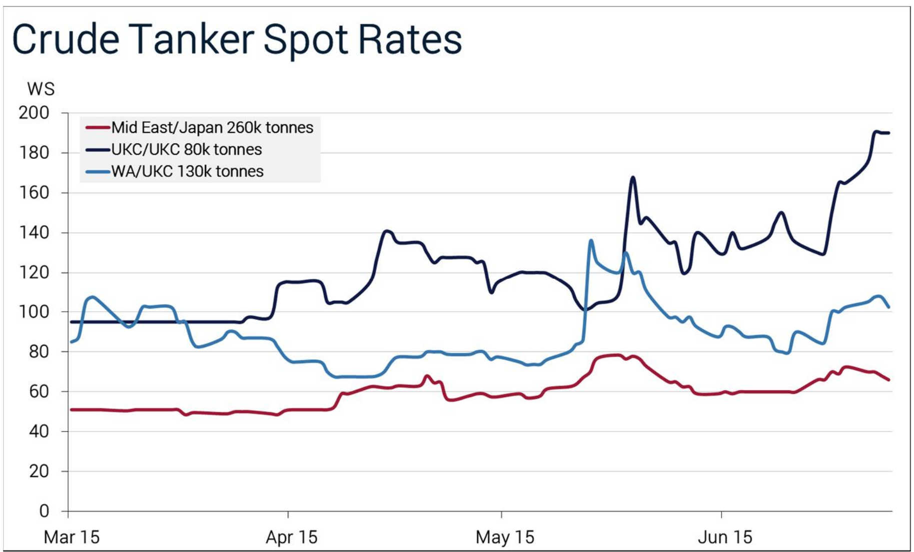
Delays in Trieste, on top of a generally active scene, propelled Aframax rates to 80,000 by ws 160 X-Med, but there is some settling underway now, and levels will settle towards the ws 150 mark upon the next deals. Suezmaxes had already grown legs, and kept jogging along nicely through the week at up to 140,000 by ws 130 from the Black Sea to European destinations, with $4.6 million paid to South Korea. Conditions are becoming a little more diluted now, and the expectation is for a gentle retreat over the coming period.

Caribbean

Aframaxes kept their end up through the week with rates operating within an 80,000 by ws 170/175 range upcoast. By the weeks end, however, less replacement needs, and a building tonnage list pointed towards a period of softer conditions to come. VLCCs started slowly and once Charterers started to cherry pick, Owners were in the mood to make some concessions. Rates eased slightly to around $7.1 million to Singapore, and to $6.1 million to West Coast India, accordingly, though no nasty rate-shocks are likely in the near term.

North Sea

Lots of Aframaxes are tied up with crude on board, and no homes to go to. The resultant squeeze on open positions meant that rates jumped even higher to a peak 80,000 by ws 190 X-UKCont, and to 100,000 by ws 155 from the Baltic. Charterers are holding back as best they can, and eventually those stranded units will discharge. Expect some degree of softening soon. Suezmaxes continued to find good interest transatlantic and secured a steady 135,000 by ws 80 for such runs. VLCC 'arb' economics to Singapore were called at $6 million, but few were brave enough to commit. Hound Point barrels resurfaced, however, and a healthy $ 7.9 million was reported for a deal into Ningbo.



CLEAN PRODUCTS

East

Clean in the Middle East had a slow start to the week, even slipping a few points, but it got busy by mid-week and finished the week up. 60kt x ws 150 was paid for Sikka/East Africa and by Thursday was at ws 160. 55kt x ws 137.5 is last done for AG/Japan, next could well be ws 140. A lot of shorthauls getting fixed too; X-AG going at a hefty $550k. On the bigger ships 75,000 tonne naptha AG/Japan rose gracefully up to ws 127.5 and $2.9 million was paid for AG/UKCont. Given the regularity of the flow of cargoes, rates are expected to remain buoyant for the time being.

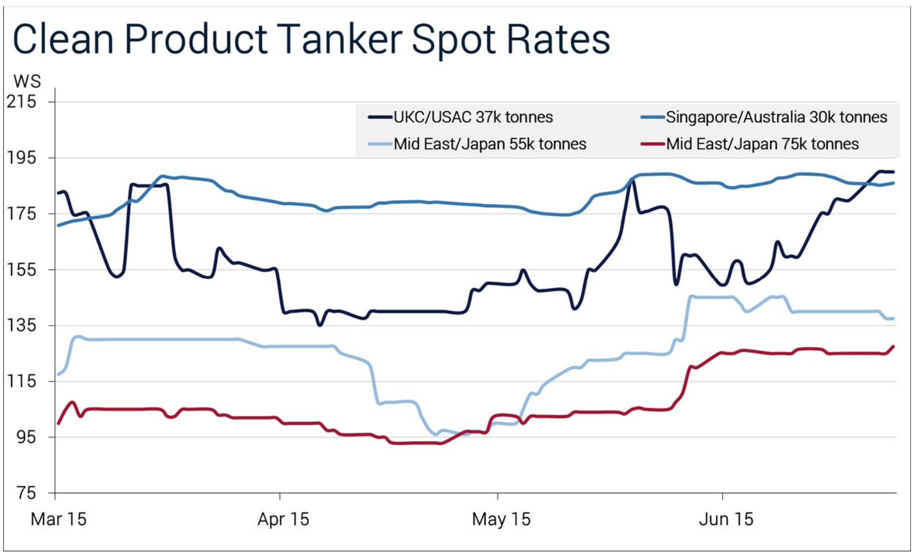
MRs have been firm throughout the week, but there is a feeling that rates have now hit their peak and Owners are happy to fix last done. TC12 is fixing at ws 140-145 and looks pretty stable. East Africa is fixing in the ws 195-200 bracket, UKCont has been fixed at $1.7 million, but as high as $1.85 million is on subjects at the time of writing. The Red Sea runs have been grabbing the headlines with AG-WCI to Gizan fixing at all time highs of $900,000, although some Owners are willing less as the TCE returns are so attractive at these highs. X-AG's continue to fix at $400,000 for Jubail/Jebel Ali and $450,000 for Kuwait/UAE. With demand for tonnage still outstripping supply the firm freight market is expected to remain for the immediate future. The LR2s have stolen the spotlight this week in North Asia, and most of the distillate cargo volume seems to be going on the bigger ships. Tonnage is tight, and we have seen some big numbers paid – the headline number being $1.0 million on subjects for Nakhodka/Singapore. Next week, Owners are expecting LR2 Korea/Singapore to surpass the $700,000 levels if this activity keeps up. LR1s are less exciting this week - $580,000 is on subjects at the time of writing for Korea/Singapore and the outlook is steady. The MR market has remained steady up until now, but due to quiet cargo volume and the lengthening position list, the outlook is now softer. Korea/Singapore should pay a maximum of $500,000 levels and may well come off more next week. In South East Asia, the MR market is buoyant, but stable – some of the prompt tonnage has been attracted away to the firmer AG-WCI market so the position list is sufficiently tight to prevent rate slippage – Singapore/Australia should fix at 30kt x ws 187.5 levels with a steady outlook.

Mediterranean

Another explosive week in the Mediterranean with the market pushing up to the 30kt x ws 200s. Buoyant levels of cargo enquiry met with limited available tonnage, with ship itineraries all over the place in the West Med in particular. The market initially began fixing 30kt x ws 190-195 levels in the West Med and 30kt x ws 190 from the Black Sea, but at time of writing ships are on subjects 30kt x ws 200-207.5 X-Med. MRs rates have also continued to rocket, with ships fixed or on subjects from the Med 37kt x ws 185-195 for transatlantic discharge and West Africa considered 37kt x ws 205-210 levels. Fixing East to the Red Sea and AG proved a challenge for Charterters, on natural dates would consider around $1.25 million levels for Red Sea + $100k AG although we did see on a prompt basis one MR confirmed at $1.5 million levels to the AG.

UK Continent

The UKCont. also had an explosive start to the week which saw TC2 continue to firm as it reached 37kt x ws 190 where it has settled for the rest of the week. The week ended on the slower side, with limited fresh enquiry and a few more ballast positions heading over from the USAC, leaving rates starting to come under pressure. The shorthaul market has been equally firm all week and despite slowing tonnage is still extremely tight keeping rates buoyant at 30kt x ws 205/22kt x ws 205. LR1 Owners continue to reap the rewards of the very tight list, with limited tonnage and rates firming to 60kt x ws 150 for Cont/WAfr. LR2s have had a slower week compared to recent weeks, although with the Aframax market so firm, several LR2s are looking to move into the dirty trade. Rates continue to hold firm at $2.8-2.9 million Med/Japan.



DIRTY PRODUCTS

Handy

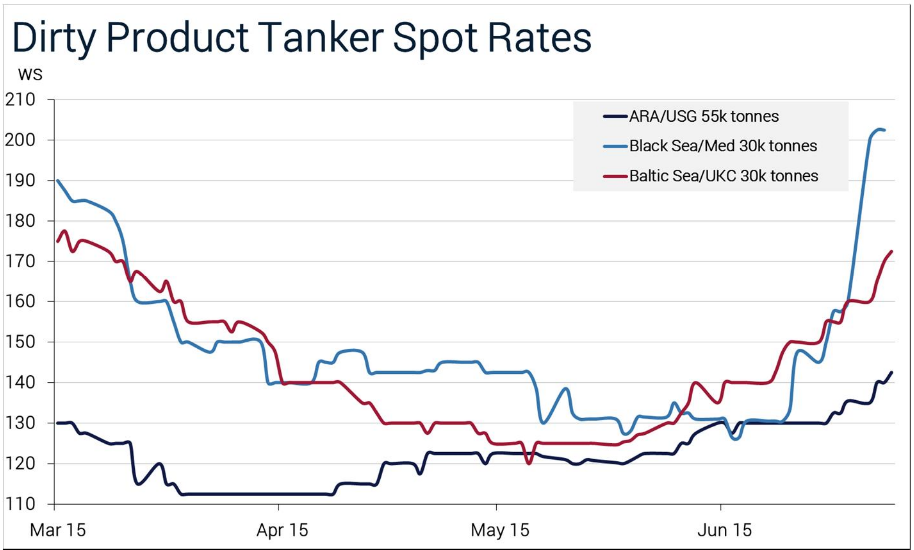
Enquiry continues to outweigh tonnage supply keeping the Continent market firm. A number of voyage orders have been sending vessels out of the Continent keeping the pressure on charterers to find coverage. Unfortunately for Charterers there doesn't seem to be any immediate signs of recovery in the region, however perhaps one positive to take from this is that increment has been increasing at a steadier rate in comparison to other regions... The Mediterranean rates have been climbing a mountain so far this month thanks to Black Sea activity. Without going into too much detail, one stigma for all this activity is supposedly due to an oversupply of oil in the East. Larger tonnage has been forced to act as floating storage offshore Singapore, this has affected the market leading to loadings on smaller ships instead of usual Aframax/Suezmax sizes causing unusual amounts of activity which inevitably firmed rates. So once this oil is absorbed in Singapore, the tonnage shall be released leading to a sudden drop. Our crystal ball cannot foresee when this may occur, however it doesn't look like it will happen in the short run as sentiment remains firm with cargoes knocking on the door.

MR

In previous weeks we've seen some MR Owners have to dip into handy stems in order to cover their assets, however this week there has been a healthy level of enquiry for full size stems and the rates have grown as a result. Until the position list is replenished we do not expect to see fresh stems in the market. MR's in the Mediterranean have been covering handysize cargoes making the most of the increased activity and buoyant rates. We have begun to see some Owners dig their heels in the ground and fix as 45kt stem even if shown 30kt. Those that have held out for full stems have seen levels firm into the ws160 mark from the Black Sea.

Panamax

As surrounding markets continue to firm, Panamaxs have followed suit this week. The tight availability of workable tonnage has led to a steady increase in rates. As we start to look towards next week we soon realise there is limited firm, natural, tonnage left this side of the Atlantic. In turn, eyes start to wonder towards the Caribs / USAC for coverage this side of the pond, but with the Caribs market trading 50kt x ws160, and firm, expect Owners ideas to remain bullish.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 25th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-4**	66	70	65	60
TD20	Suezmax	WAF-UKC	**+3**	104	101	96	87
TD7	Aframax	N.Sea-UKC	**+24**	190	166	121	115

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

			wk on wk change	Jun 25th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-6,000**	73,000	79,000	67,250	63,000
TD20	Suezmax	WAF-UKC	**+2,500**	58,750	56,250	51,250	50,750
TD7	Aframax	N.Sea-UKC	**+20,000**	102,250	82,250	43,750	41,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 25th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+0**	125	125	120	
TC2	MR - west	UKC-USAC	**+15**	193	177	160	161
TC5	LR1	AG-Japan	**-3**	139	142	142	136
TC7	MR - east	Singapore-EC Aus	**+0**	187	187	187	

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

			wk on wk change	Jun 25th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+750**	36,750	36,000	35,000	
TC2	MR - west	UKC-USAC	**+3,750**	31,750	28,000	23,750	24,000
TC5	LR1	AG-Japan	**-250**	31,000	31,250	30,250	29,750
TC7	MR - east	Singapore-EC Aus	**+750**	22,750	22,000	22,000	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-5**	326	330	323
LQM Bunker Price (Fujairah 380 HSFO)	**-16**	338	353	378
LQM Bunker Price (Singapore 380 HSFO)	**-20**	341	361	364
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-12**	554	565	555

SLK/JH/JD/BCR/LHT

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