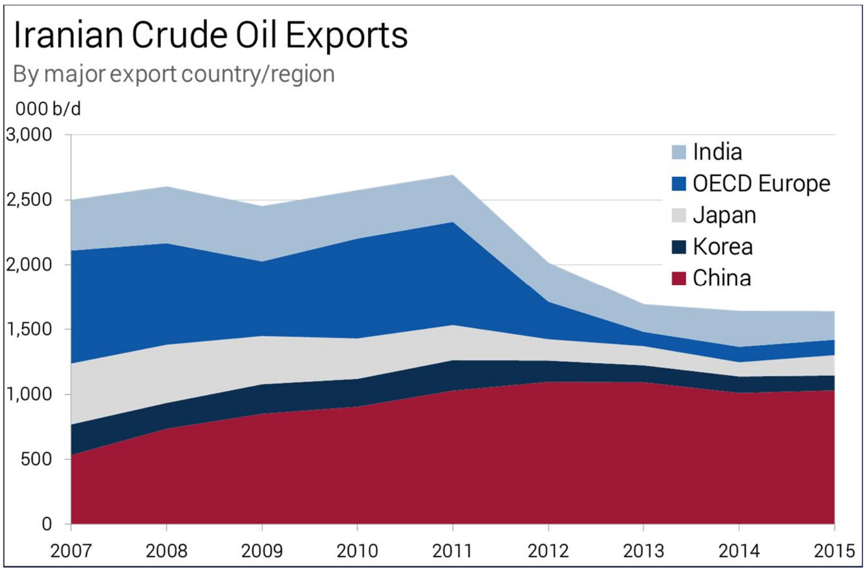
WEEKLY TANKER REPORT

10th July 2015

50 STEPS FORWARD - 50 STEPS BACK?

Nothing in politics is ever straightforward and Iran's nuclear talks with the West are a case in point. Just as the oil markets began to price in the prospect of more oil, another deadline passes. Whilst both sides appear willing to continue, the failure to seal a deal last night means that US lawmakers will have two months to scrutinise any proposal, opposed to just one month had the deal been signed last night. Therefore, it is unlikely that sanctions will be lifted before the fourth quarter.

However, if sanctions are removed, Iran will understandably be keen to re-capture market share, notably in Europe and Asia. Exports of Iranian oil to OECD Europe peaked at just below 900,000 b/d in 2007, contrasted to 120,000 b/d in the first quarter of 2015. A similar trend has been observed in OECD Asia whereby imports have declined from 700,000 b/d to 270,000 b/d over the same period. Imports into OECD Asia since 2007 have gone almost exclusively to Japan and Korea. However, exports to China, which is not part of the OECD have followed an opposite trend. In 2007, Chinese imports of Iranian oil stood at 530,000 b/d and have risen to remain consistently above 1 million b/d since 2011, coinciding with the implementation of Western sanctions. Exports to India, another key market for Iran, have also been under pressure, shrinking to just 220,000 b/d for the year to date.



Iran has made it clear that it will endeavour to return exports to pre sanction levels if the embargo is lifted. Whilst Tehran claims it could increase production immediately by 500,000 b/d and then another 500,000 b/d six months later, most market participants are more pessimistic. However, oil/condensate in floating storage, which Gibson estimates at approximately 42 million barrels, could be quickly released. With little indication that other OPEC members would be willing to cut production to accommodate additional Iranian barrels, the demand side developments for the crude tanker market would certainly be positive. Further support may also be found from the inherent symptoms of increasing production in an oversupplied market, notably with regards to difficulties in placing and discharging cargoes ashore.

However, with more Iranian crude, comes the release of more Iranian tonnage. The Iranian fleet currently consists of 37 VLCCs (5.8% of the global VLCC fleet), 12 Suezmaxes and 5 Aframaxes, with most currently absent from the conventional tanker market. The Iranian fleet will need to re-establish compliance with international standards if it is to enter the mainstream spot markets. However, these vessels will continue to serve a purpose and are likely to get first refusal on any Iranian cargoes. Furthermore, our analysis of Iranian trading patterns identifies a number of operational inefficiencies (for example extreme slow steaming) which could be quickly rectified in response to higher demand. Therefore, the net effect is not only more ships, but also improved trading efficiency, bolstering the supply fundamentals.

If sanctions are lifted, it may be that Iranian vessels return to the market before any significant increases in crude exports, which would prove immediately bearish for the sector. On this basis tanker owners would hope Tehran ramp up its production as quickly as possible in order to absorb this additional tonnage.

Middle East

VLCC Owners had ended last week slightly on the back foot, but Charterers kicked off this week from the starting bell, and shopped in such numbers that rates couldn't fail to respond, and the market pushed steadily to end in the low ws 70s East and high ws 30s to the West. July is now nearly fixed out, but August dates have only been merely tickled, and if there isn't a more disciplined delay, further gains will be posted once the August programmes are finalized. Suezmaxes lost a bit of sparkle, but there was enough interest constantly circulating to prevent rates from falling much below 130,000 by ws 90 East and ws 55 to the West, though up to 10 wspoints extra were payable for restricted basrah heavy lifts. Aframaxes staged the expected orderly retreat to 80,000 by ws 135 to Singapore, and the slightly diluted conditions should persist into next week too.

West Africa

The Suezmax see-saw continued to rock - firstly up again to near ws 100 to Europe, and then dipping to nearer ws 90 by the week's end, with a few Wspoints less for USGulf, on easier supply, and only modest demand. Perhaps a further small dip, and then the see-saw will swing back again, no doubt. VLCCs, on the other hand, could only go up as the AGulf motored, and a rash of early replacements also supported. Rates moved smartly up to ws 70+ to the East with $5.25 million the bottom mark to West Coast India. More good news for Owners anticipated for next week too.

Mediterranean

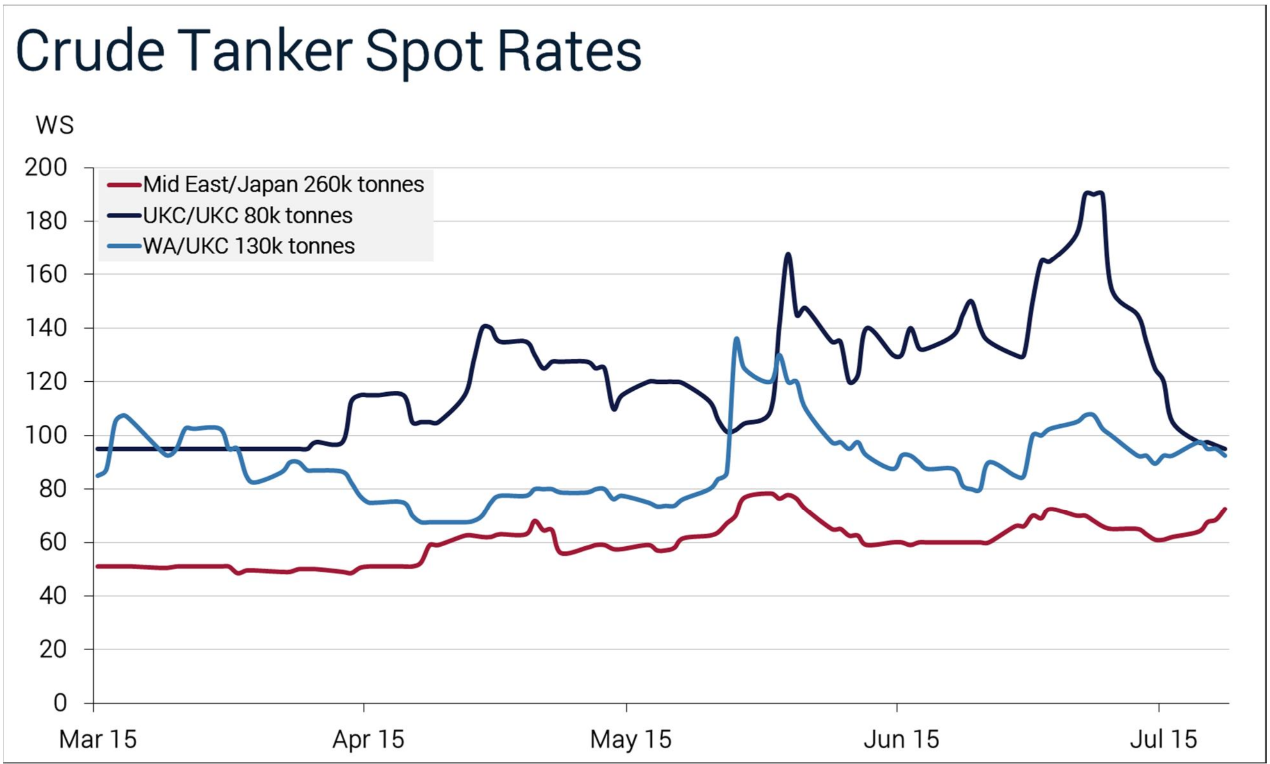
Violins, and sad songs of (recent) past glories for Aframaxes here. Libya out of action again, more limited delays, indifferent volumes, and plenty of availability, could only lead to a collapse, and rates indeed dropped to 80,000 by ws 75 X-Med. Bottom may well have been touched now, however, and Owners will hope for something to turn things more positive next week. Suezmaxes bumbled along but with only superficial rate damage. 140,000 from the Black Sea eased into the low ws 90s for European options with up to $4 million payable for Med runs to China.

Caribbean

Aframax tonnage built up, and fresh cargoes dwindled...rates fell accordingly to 70,000 by ws 105 upcoast, and look set for another soggy few days, at least. VLCCs had a slow week of it, and discounts were potentially available early week, but once West African strength bolstered sentiment, Owners re-established their previous asking levels of $7 million+ to Singapore, and just over $6 million to West Coast India. A busier week beckons.

North Sea

Aframaxes fell off futher, but the decline wasn't nearly as dramatic as that of two weeks ago where rates dumped from 80 x ws 190+ X-UKCont to ws 105 in short order. Today, they stand at ws 95 with 100,000 X-Baltic at around ws 70. Next week, the end month game will get underway, and that should allow for some redress - by how much is open to question though. Fuel oil 'arb' economics were challenging for most traders to make sense of into Singapore on VLCCs, but there was a degree of success posted at up to $6.25 million, nonetheless.



CLEAN PRODUCTS

East

MRs in the AG have seen a buoyant week with rates at first steady but later seeing good rises. 35,000 naphtha AG/Japan is up to ws 150 and AG/SAfr at ws 205. 40,000 mt jet AG/UKCont is still at records levels of $1.825 million. X-AG rates are also very high with $445k being paid this week. Tonnage remains tight going forward and with Middle East holidays on the horizon rates will stay strong into next week but further out may slow down.

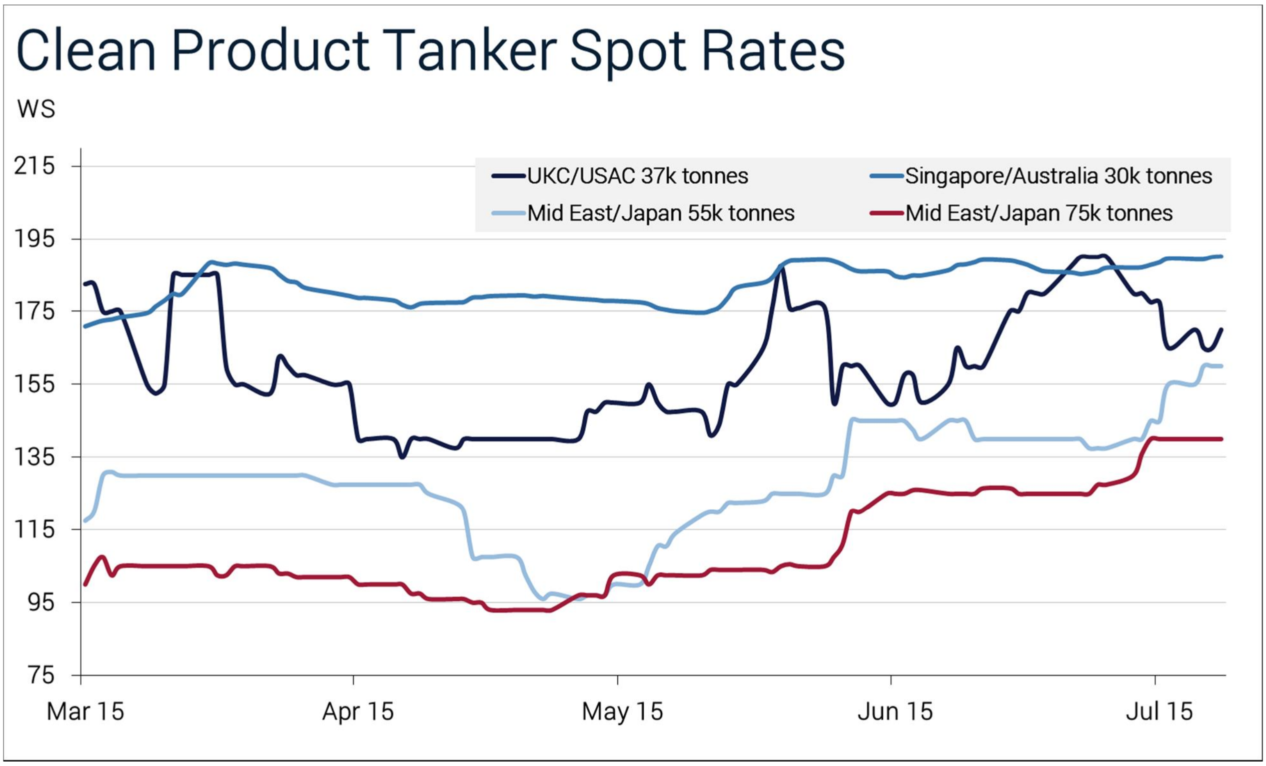
The powerful run on the LRs continued this week with tonnage lists tight across the board. Freight levels are mostly stable but the sheer volume of fixing has enabled Owners to force some routes to even higher highs. 75 naptha AG/Japan is fixing at ws 140, with bunker prices falling this returns low $40's basis round trip. AG/UKCont was confirmed at $3.3 million and Red Sea/UKCont at $3.15 million. LR1s have had a rocking week with AG/UKCont rising up to $2.9 million, which returns above $40k a day. 55 Nap AG/Japan was fixed at ws 160 numerous times. There are no signs of things calming down just yet and Owners are basking in the glory of a major cash injection.

Mediterranean

MRs in the Med have been super strong this week with little or no tonnage left on the early positions and ships looking to now ballast from a strong Red Sea market. A little further out though rates have stayed at TC2 levels so leading to a very date dependent market. Off the next 5 days 37,000 mt naphtha Med/transatlantic will be around ws 220, yet a few days later and ws 170 is available.
Handies have also been in great demand with 30,000 gasoil X-Med up to ws 275 although it looks like it will settle at nearer ws 260/265 for now.

UK Continent

Owners sentiment remains firm after another active week in the UKCont draws to a close as TC2 has held firm at 37kt x ws 170 levels. TC2 now hangs finely in the balance, off natural dates tonnage is in ample supply however if more enquiry hits market early next week this could quickly change. Cracks started to appear in the Owners armour towards the end of the week in the shorthaul market, Handies and Flexis have softened to 30kt x ws 185 and 22kt x ws 195 all inclusive.



DIRTY PRODUCTS

Handy

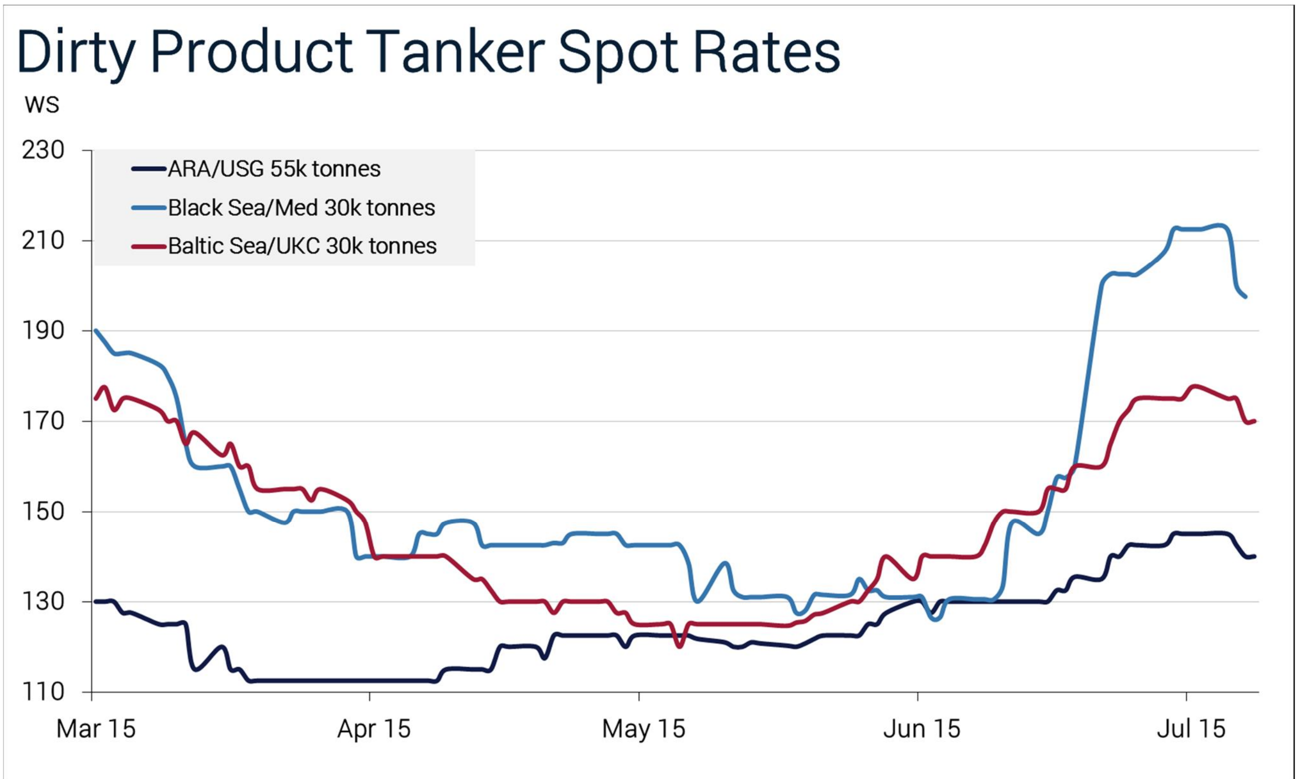
With a reversal of trend Charterers will be sitting much happier come the end of this week in a market now showing more typical traits synonymous for the time of year we currently endure. Values in both the Continent and Mediterranean have felt noticeable decrement, where in the Continent, lack of activity takes a hold, and in the Mediterranean, excess tonnage undermines Owner's efforts in what has been collectively quite an active week.

MR

In the Continent limited selection between ship operators creates resilience to the effects from inactivity, where despite surrounding markets losing value, when full MR stems were presented we noticed a rather constant market week on week. In the Mediterranean however a rather different set conditions create a new challenge very much favouring the side of the Charterers. Units have now begun to see their itineraries firm which has repopulated the tonnage lists. Charterers therefore with more selection and Owner confidence being lessened through a softer Handy market have made progress in readdressing freight values.

Panamax

In this market Owners have noticed pillars of strength being removed from recent firm conditions where States side, Aframax's have seen chunks of value removed sending ripples through to the neighbouring Panamax sector. This however was not the sole root cause for a shift in trend, spot tonnage being allowed to accrue in the USG region has also added further weight to Charterers arguments as they looked to beat last done levels. Elsewhere in Europe, It was also weakened the Aframax sector that provides hindrance to Panamax Owners. This week saw both value lost and cargo opportunity taken away where Charterers had more competitive alternatives.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 9th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+10**	71	61	61	65
TD20	Suezmax	WAF-UKC	**+7**	95	88	80	86
TD7	Aframax	N.Sea-UKC	**-25**	94	119	145	111

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

			wk on wk change	July 9th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+18,250**	84,500	66,250	63,250	74,250
TD20	Suezmax	WAF-UKC	**+7,250**	54,000	46,750	39,500	47,500
TD7	Aframax	N.Sea-UKC	**-19,000**	27,000	46,000	65,000	40,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 9th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+0**	140	140	125	
TC2	MR - west	UKC-USAC	**-2**	166	168	159	174
TC5	LR1	AG-Japan	**+11**	159	149	141	139
TC7	MR - east	Singapore-EC Aus	**+1**	190	189	189	

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

			wk on wk change	July 9th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+3,000**	46,750	43,750	35,750	
TC2	MR - west	UKC-USAC	**+250**	26,500	26,250	23,500	28,000
TC5	LR1	AG-Japan	**+4,750**	39,000	34,250	30,750	32,000
TC7	MR - east	Singapore-EC Aus	**+1,000**	24,250	23,250	22,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-27**	296	323	340
LQM Bunker Price (Fujairah 380 HSFO)	**-20**	303	323	360
LQM Bunker Price (Singapore 380 HSFO)	**-23**	312	334	365
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-30**	503	533	583

RNM/JH/JD/DP/LHT

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