

27th March 2015

ICE QUEENS

The ice class season 2014/2015 in North West Europe is nearly over. Baltic ice conditions are usually most severe in March/April. However, mild weather this year means that the ice has already started to break and restrictions have been eased. A relatively “premature” conclusion of the ice season limited earnings potential, as this period is traditionally the time when owners reap the rewards for the extra investment in ice class specs and higher bunker consumption. However, crude tanker earnings in general both for ice and non-ice class have moved to higher levels since last year. Also, owners of tonnage operating in the Baltic Sea earned a healthy premium in January 2015. During the period average spot tce earnings for Aframaxes trading Baltic-UK Cont were some \$27,000/day higher than for Aframaxes trading across the UK Cont, the highest premium in nearly two years.

Going forward there are indicators both in favour and against ice class tankers. On the downside, perhaps one of the most worrying factors is the recent decline in the FSU crude exports in the West. FSU crude exports in the Baltic averaged just under 1.3 million b/d last year, down by 0.27 million b/d from 2013 levels and down by 0.35 million b/d compared to 2012. This drop has been driven by expanding pipeline infrastructure to the East and growing/upgrading refining capacity in Russia. The declining trend in the Baltic FSU crude exports is likely to continue taking into account plans underway to expand further pipeline links to the East, growing emphasis of the Russian Federation to increase trade ties with Asia Pacific and international

sanctions that have the potential to curb Russian crude production in the short to medium term.

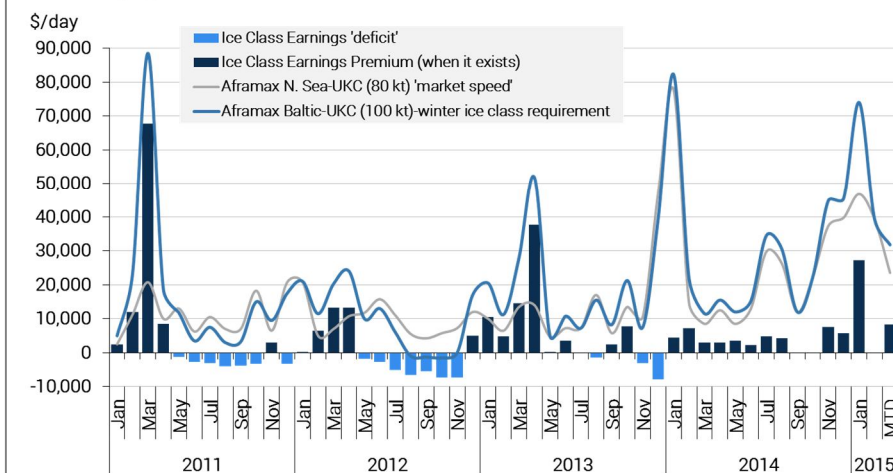
On the upside, the rapid growth in the ice class supply seen between 2000 and 2010 has come to a complete halt. At present, there are no orders in the Suezmax, Aframax/LR2 and LR1 sectors and just three Panamaxes on order all due for delivery in 2016.

In terms of future scrapping activity of ice class tankers

capable of carrying crude (55,000 to 160,000 dwt) the picture is mixed. The near term demolition prospects are limited as there are just a few units over 20 years of age. However, the lack of fresh orders indicates that supply will remain flat in the next few years. Beyond 2016/17, demolition activity is likely to start increasing, as the population of “aging” ice class tankers gets bigger. At present, out of the 167 ice class fleet (55,000 to 160,000 dwt), 16 tankers (10%) are over 15 years of age, most notably in the Suezmax segment. However, what impact this will have on the overall fleet size remains to be seen. A key factor here is future ordering activity, which to great extent is linked to the performance and prospects both for ice and non-ice class tonnage.

Ice Class vs Non-Ice Class Aframax Earnings (tce)

Round Voyage Basis at Market Speed



Middle East

VLCC Charterers refused to inject enough April action into the marketplace to re-light any fires, but Owners were equally obstinate in their refusal to allow for any meaningful slippage either. Stalemate then, and the centrepiece ws 50 to the East and ws 26 to the West remained intact with 'outliers' concluded on both sides of those marks. Easter looms, and there will be some potential for a busier patch, but supply seems easily adequate to prevent that converting into anything substantial - if it happens. Suezmaxes found little spark, especially later in the week. There was a flurry of shorthaul interest, but that couldn't budge rates from an average 130,000 by ws 85 East and low ws 40s to the West. Again, little change forecast. Aframaxes failed to realise their hoped for potential emanating from improvements in the short far Eastern scene, but did manage to creep a little higher to 80,000 by ws 115 to Singapore, nonetheless. Consolidation is now on the cards.

West Africa

A hopeful start for Suezmaxes broke down mid-week, and by the end Owners were more firmly on the back foot, defending rates of 130,000 by ws 82.5 USGulf/ws 85 Europe. Charterers will test for further discounting before perhaps shopping in numbers before the holiday which would then stop the rot. VLCCs found reasonable enquiry but remained handcuffed to flat Middle Eastern fortunes and rates merely tracked sideways at an average ws 50 to China and \$3.85 million to West Coast India and rates will continue to operate within a tight range for the near term, at least.

Mediterranean

With West Africa softening, one would have thought that Suezmaxes here would also suffer, however Owners made the most of what they had and kept

rate north of 140,000 by ws 92.5 from the Black Sea to European destinations. They were aided to some extent by a rash of interest to the East that increased the market volume to protect sentiment. Rates to Singapore averaged \$3.5 million and should remain propped similarly until the interest dissipates. Early replacement needs allowed Aframaxes to leverage rates up to 80,000 by ws 145 X-Med but it was a hard branch to hold onto as fixing moved to easier positions, and the market tracked back to ws 130, with further softening around the corner.

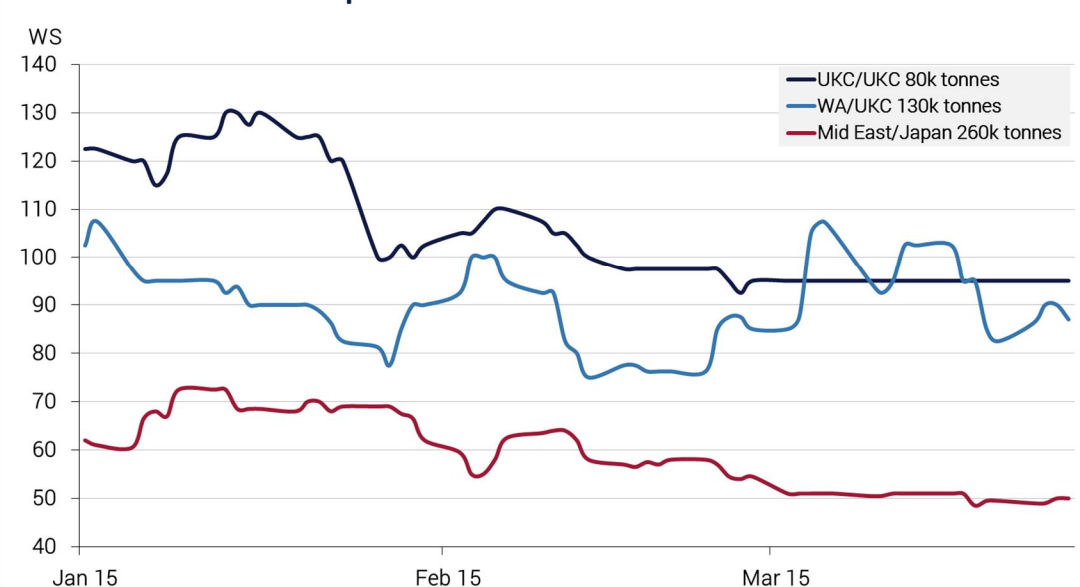
Caribbean

Yes - it was replacements again to save the day for Aframax Owners. The market had previously been upon a steepening downward path, but those early requirements intervened, and rates staged an impressive u-turn to peak at close to 70,000 by ws 190 upcoast by the weeks end. Suezmaxes now start to come into play as an alternative - and as a market cap. VLCCs - you've got it! Also were relieved from further discounting by backfilling/replacement needs with a peak of \$6.4 million seen to Singapore, though nearer \$6.1 million was achievable for forward dates with around \$5.25 million the level to West Coast India.

North Sea

A rather tedious week for Aframax market watchers, and players, this week. Cargoes were easily paired with vessels and rates tracked sideways at 80,000 by ws 95 X-UKCont, and 100,000 by ws 80-ish from the Baltic. Maybe the short week to come will provide more excitement - maybe. VLCCs moved through a more active phase as fuel oil 'Arb' economics matched Owners rate ideas at an average \$5.00 million to Singapore, though interest tailed off as the week closed.

Crude Tanker Spot Rates



CLEAN PRODUCTS

East

LRs have had a fairly unremarkable week. The LR2s have been pretty busy but there has just been fractionally too many ships to maintain last done levels so TC1 has slipped from ws 105 to ws 102 for 75,000 for AG/Japan. Full cargo of Jet has slipped a little to with \$2.475 million being on subjects and representing a drop of \$25,000 from last done. The Tonnage list is not overloaded with vessels so freight should be steady moving forward with the potential of maybe a little more slippage here and there. The LR1s have had a very quiet week; there is undeniably tightness for the first 10-15 days of April so rates haven't suffered, but with the end April stems due to start coming out next week there might be the potential for a little softening. As of now, the rates for LR1s are ws 130 for 55kt Naptha AG/Japan and \$2.35 million for 65kt AG/West. MRs have been firm all week and with plenty of cargoes coming into the market both short and longhaul rates have been on the rise. TC12 has fixed at ws 115, but next done should be in excess of ws 120. East Africa has moved up to ws 170 and although untested AG to the UKCont is assessed at \$1.625 million. The shorthauls have been very busy with the prompt position clearing out, as a consequence X-AG's have risen to the heady heights of \$400,000, although realistically high 300's is where the market is assessed. AG to RSea is also firm, Owners are aiming for \$675,000 basis Gizan and with tonnage in short supply, rates are set to remain firm across all routes. On the whole, it has been a very quiet week in the Far East CPP markets, with very little fixing activity to speak of. Cargo volume has dwindled, possibly due to the commencement of refinery turn-arounds in North Asia, and also due to the fact that the arbitrages are shut. This has caused the MR position lists to gradually lengthen, and the market to soften. \$570,000 is reportedly on subjects for MR Japan/Singapore which should mean Korea/Singapore is at \$540,000 levels with a softer outlook. The Singapore MR list is now looking over-tonnaged after a quiet spell – last done for Singapore/Australia was 30kt x ws 180, but the market should now pay below that at ws 175-177.5 levels. The LRs have also been quieter, and the backhaul routes are yet to be tested since this lack of activity. LR2 Dalian/Singapore is reported on subjects at \$730,000, but in reality most Owners would settle for considerably below \$700,000 now. LR1s are also looking weaker and below \$650,000 levels should be achievable for Korea/Singapore by Charterers now.

Mediterranean

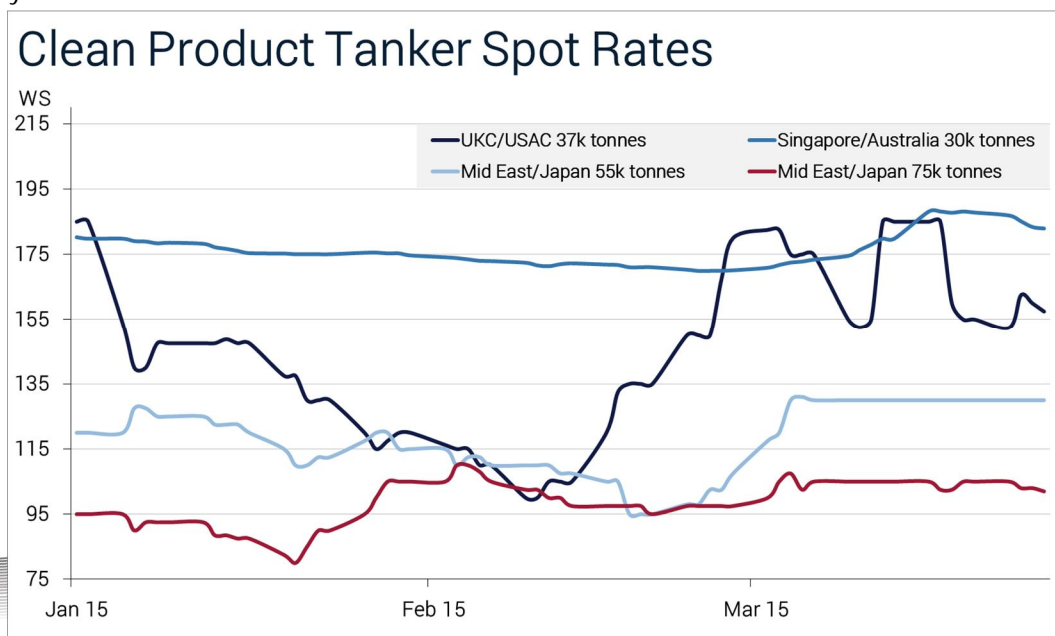
A turnaround in fortunes in the Med handy market this week after what looked like a general slow down during the mid month window. Firm levels of fresh enquiry from Monday-Wednesday helped to prevent what looked like a slide to 30 x ws 160 levels and below. Rate consensus has settled at 30 x ws 165 out for X-Med and Black Sea loads and Owners by the end of the week are pushing for 170+ with a few sensitive cargoes around and the feeling that pre Easter we may have a busy beginning to next week. We have also witnessed improved fortunes in the longhaul market this week, with the earlier tonnage clearing out earlier in the week. A few ships have been pursued for Argentina gasoil delivery which has added an extra longhaul dynamic X-Black Sea and for Gibraltar ballasters from the UKC/Baltic. We deem MRs transatlantic for early April around 37 x ws 155-160, consider around + 15 points on this for West Africa delivery, and for East of Suez ideas being arranged around \$1.1 million for the Red Sea + \$100k for the AG.

UK Continent

A balanced list coupled with an active first half of the week saw Owners ideas firm slightly once again and 37 x ws 165 end on subjects for TC2. However as the market settled, rates corrected to a steadier level of 37 x ws 155-160 by the end of the week. Prompt tonnage is thin although unless activity picks up rates are unlikely to firm any further. Cont/WAfr options deemed ws 175-180 levels and need testing. LR1s have had a slightly more active week although with a tight list, limited fixing is possible - 60 x ws 145 still the conference rate and more activity X-Med and Black Sea. Naptha has been in demand going East with a number of enquiries in a tight market seeing Owners ideas firming towards \$3.0 million Cont/Japan. The shorthaul market has lacked volume all week and struggles at 30 x ws 205 and 22 x ws 210 for the week.

Caribbean

Firm in the USG this week as fresh activity picks up and TC14 trades up to 38 x ws 140 accordingly. The list is on the tight side and with activity continuing to filter into the market, expect rates to stay firm. On top of the usual MR trade, LR1s have been particularly busy this week with a number of vessels getting fixed and reducing the ballast positions heading to the Continent.



DIRTY PRODUCTS

Handy

The markets in the North seem to have peaked during the early stages of the week where gradually Charterers have seen a change in prevailing strength being brought about. Through a combination of inactivity (from Wednesday onwards) and a lengthening tonnage list, the week inevitably finished softer to that of where you started. Still, with Easter looming positivity is expected to follow if we do see a fixing run leading into the break.

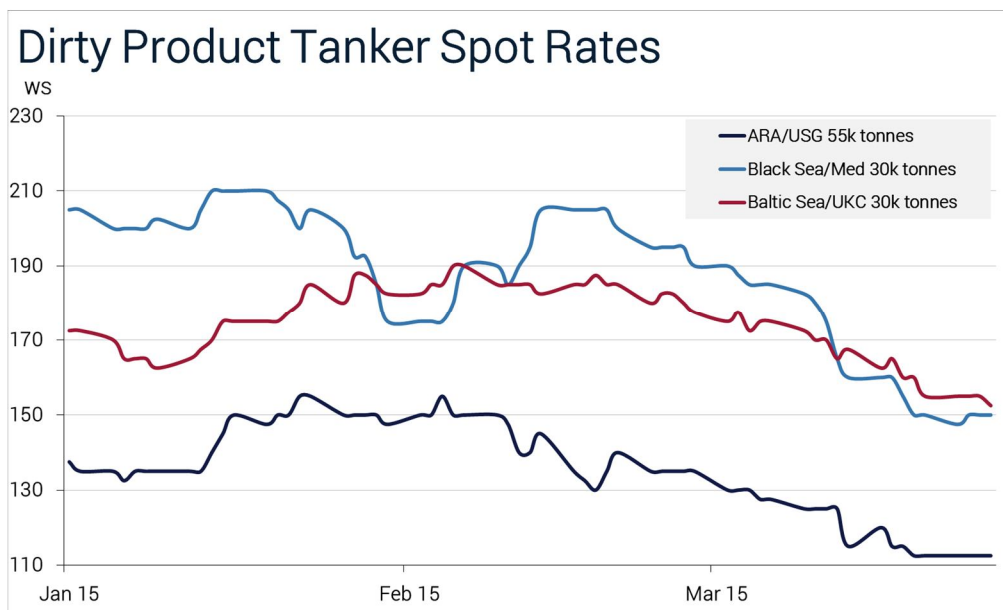
The Med followed a similar run of form where from an Owners perspective, the best fixing occurred during the open stages of the week. In this region however, Owners were able to launch a more collective campaign in hanging on to precious worldscale points with very little movement seen. A testament perhaps to Owners resolve although we will need to see larger volumes being moved with a shortened working week that follows.

MR

With units being kept employed through both natural and part cargo employment, the sector has become a little fragmented when applying general benchmarks. For example, sporadically positions units in the North have forced ambiguity on shorthaul numbers, and depending on whether or not a ballast unit was needed, numbers have differed. This pattern has now also been reflected in the Med, where voyages of a short nature have seen some higher numbers being paid.

Panamax

Charterer's blanket of comfort for a continued soft market has been overshadowed this week by two contributing factors, a substantially stronger Aframax market in the US and momentum spilling over into local Panamax markets. In a nut shell, levels would have shown a little volatility had fewer units been positioned naturally.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 26th	Last Week	Last Month	FFA Q1 15
TD3	VLCC	AG-Japan	+0	50	50	53	45
TD20	Suezmax	WAF-UKC	+3	89	85	87	69
TD7	Aframax	N.Sea-UKC	+0	95	95	96	95

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

			wk on wk change	Mar 26th	Last Week	Last Month	FFA Q1 15
TD3	VLCC	AG-Japan	-1,500	47,000	48,500	49,000	37,750
TD20	Suezmax	WAF-UKC	+1,500	47,000	45,500	44,750	37,750
TD7	Aframax	N.Sea-UKC	-750	23,750	24,500	22,750	23,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 26th	Last Week	Last Month	FFA Q1 15
TC1	LR2	AG-Japan	-3	102	105	98	
TC2	MR - west	UKC-USAC	-4	152	156	161	91
TC5	LR1	AG-Japan	-1	129	130	101	117
TC7	MR - east	Singapore-EC Aus	-5	183	188	170	

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

			wk on wk change	Mar 26th	Last Week	Last Month	FFA Q1 15
TC1	LR2	AG-Japan	-2,250	28,250	30,500	25,000	
TC2	MR - west	UKC-USAC	-1,500	22,500	24,000	23,750	8,250
TC5	LR1	AG-Japan	-1,250	27,500	28,750	17,500	23,000
TC7	MR - east	Singapore-EC Aus	-2,000	22,000	24,000	19,000	

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

LOM Bunker Price (Rotterdam HSFO 380)	+20	308	288	323	
LOM Bunker Price (Fujairah 380 HSFO)	+23	340	318	368	
LOM Bunker Price (Singapore 380 HSFO)	+30	336	306	353	

SK/JH/JD/DP/LHT

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