WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

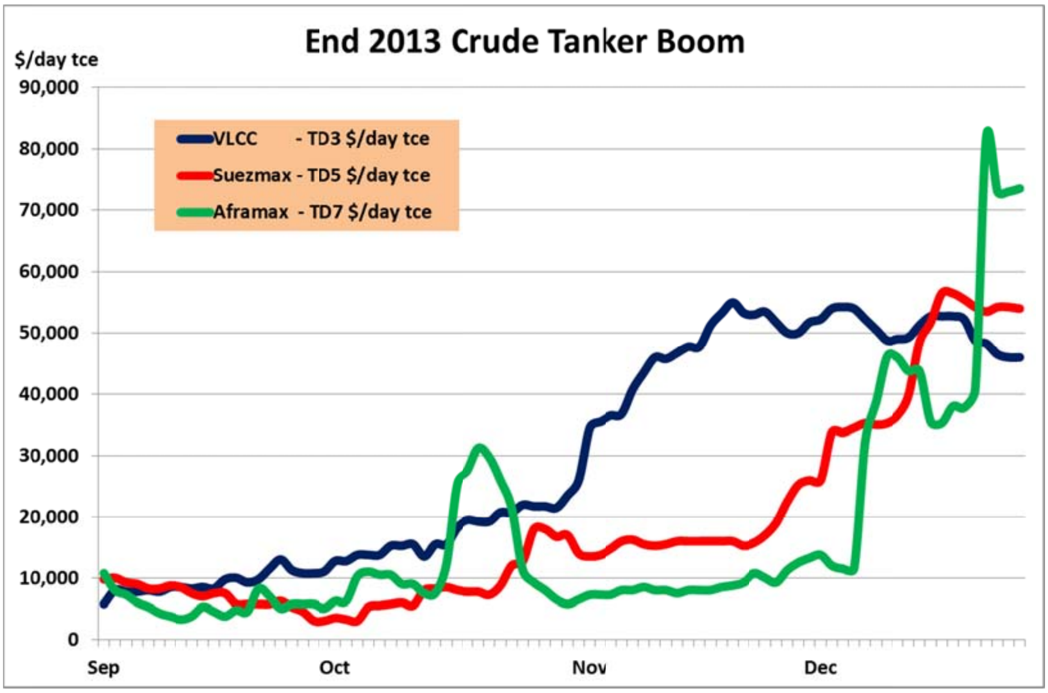
3rd January 2014

CRUDE TANKERS - PSYCHOLOGY TRUMPS FUNDAMENTALS

After a miserable 10 months for crude tanker owners, the end year spot market certainly did them some favours (for those that have fixed). The VLCC market started to move at end October after a sustained 3 month period of relatively high fixing in the Middle East and Atlantic Basin. Sustained support and charterers fixing further ahead in the run-up to the Christmas holidays, meant earnings were maintained at around $50,000/day on the benchmark AG-Japan (TD3) route for the final 2 months of the year.

In the first instance there was no move in the Suezmax and Aframax markets, with representative earnings for these vessels during most of November at only $15,000/day and $8,000/day respectively. Then, at the end of November the pressure on the VLCC market finally spilled over in to the Suezmax sector, with VL cargoes out of West Africa being split in to Suezmax cargoes. This, and the impending holidays again focussing charterers' minds in covering requirements, pushed Suezmax earnings up to the VLCC level of around $50,000/day.

Finally, in December the Aframax market stormed ahead to levels even higher than the VLCC and Suezmax markets. In the North Sea, bad weather, delays, charterers re-entering the market for replacement tonnage and the Christmas holidays all conspired to push spot rates to more-or-less double their earlier levels and earnings to hit $70,000-80,000/day. Aframax markets elsewhere in the West followed the same trend, with Caribs and Med rates also doubling. Rates did increase East of Suez, but at more muted levels of 35-45%.



Expectations are that rates and earnings will come down in January, but this all goes to show that in what is a relatively weak fundamental crude tanker market, there are conditions where rates and earnings can spike at extreme levels. The recent surge has pushed VLCC and Suezmax earnings to their highest levels for 3½-4 years and Aframax earnings to their highest since the economic collapse in 2008. In the long term, market fundamentals win out, but in the short term, market developments and importantly, market psychology, can mean the fundamentals become an irrelevance.

Middle East

The VLCCs have used the disjointed element to the holiday period over the past week to stagger out the enquiry and in doing so this has allowed them to chip away at the rates. The week finishes off at 270 x w55 East and 280 x w32.75 West with the likelihood of further erosion next week with a relatively ample tonnage list. Suezmaxes in the AG have had the benefit of the bullish West African market to help prop them up while their own market hasn't necessarily been providing them with the enquiry by which to keep the rates steady themselves. Now that they have some enquiry, they can independently work this to their means and this should keep rates at 130 x w87.5 East and 135 x w60 West due to ships ballasting West and leaving the list a little leaner. Aframaxes have been noticeably less active in the same period, but have been clinging to the established rates. However, each day becomes a little more of a struggle. Expect rates to stay flat with a soft undertone unless enquiry really starts to step up, with 80 x w115 for AG/East being the end of week call.

West Africa

West African Suezmaxes haven't had the enquiry this week to keep the firm sentiment going in the way in which Owners would like and some discounting might have to be seen to encourage Charterers to dance. With the threat of Eastern ballasters coming to further spoil the party, we can expect West Africa to the US Gulf to be 130 x w100. The VLCCs have had to read from a similar script as the enquiry has been minimal this week and discounting has occurred with the expectation of a little more next week with rates at 260 x w62.5 West and w55 East.

Mediterranean

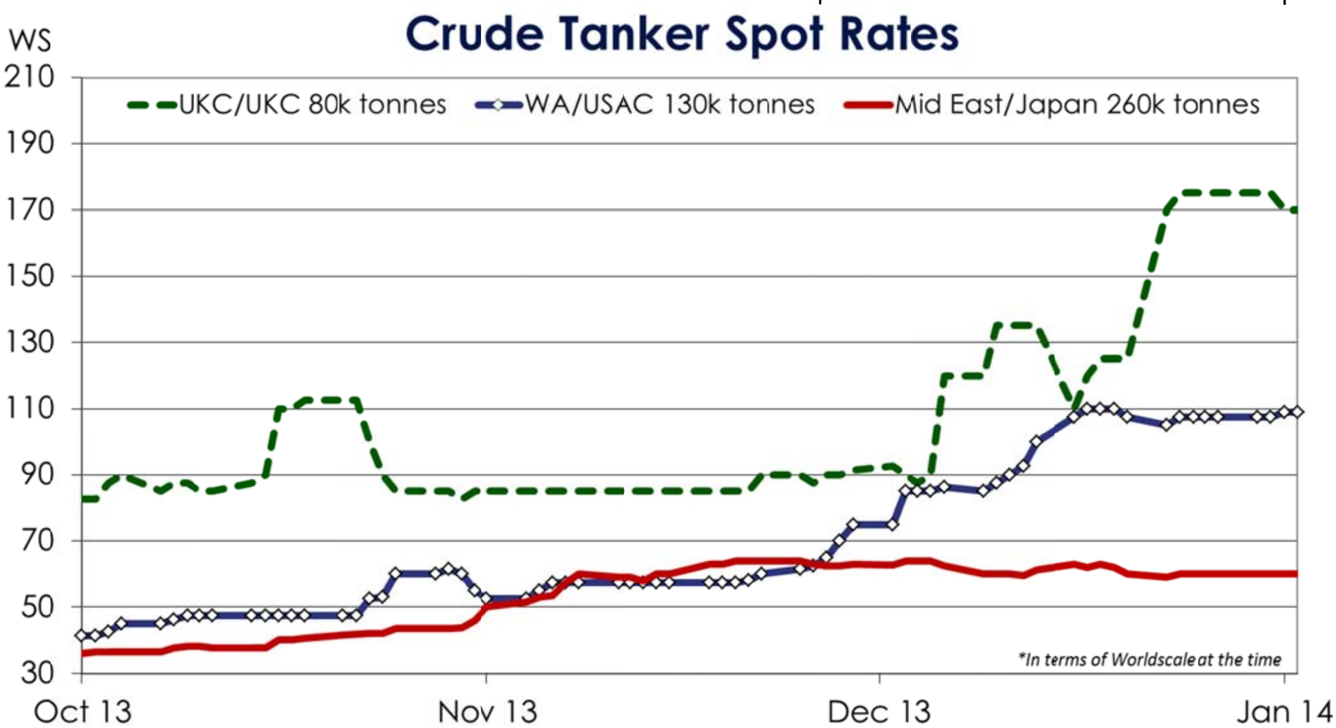
Suezmaxes in the Med and Black Sea were quiet at the start of the week, but with weather delays handing them back the momentum, Owners are getting the bit between their teeth and Black Sea to the Mediterranean should be around 140 x w120 and expect premiums next week depending on dates. Aframaxes has seen a week of consolidation this week at current levels and will hope the same weather delays see them prosper in the same manner. However the healthy tonnage list might curb that potential with the week finishing at 80 x w155 (2014) for Cross Mediterranean with a suspicion that might come under pressure.

Caribbean

The Aframaxes in the Caribbean continue to live a charmed life at the current levels and with prompt dates still being worked against a slim list, owners can expect this to run quite nicely into the weekend with 70 x w225 for Caribbean to the US Gulf likely to be improved upon.

North Sea

A fragmented week in the North Sea and Baltic regions for Aframaxes, with New Year's day breaking things up. Rates in both areas have been holding throughout the festive period, albeit with a lack of enquiry. This in turn has seen rates soften with 100,000 by ws140 (2014) seen for Baltic/UK Cont. In the North Sea generally though there is a perception that from the lull, a lower will be next to be seen if for a straight cross North Sea at 80 x w155 (2014), although additional options continue to come at a premium. Although nothing has been done this week on the VLCCs in the North Sea, the previous weeks' deals are still emanating around the market and Owners will hope to keep these circulating in order to keep the wheels turning for when the next opportunity arises. However, with a softer side to West Africa, last done levels will be difficult to repeat with Rotterdam/Singapore at around $5.0m (port costs for Charterers account). (All Worldscale rates based upon 2013 flat rates unless otherwise specified)



CLEAN PRODUCTS

East

The LRs have felt the quietness this week with rates slipping off across the board. The drop has been less profound with the LR2s as enquiry has been so low but US$ 1.925m is on subs for WCI/UKC which is more or less in line with the last done. However, some LR2 Owners are distressed as a Ppt X AG cargo has been fxd at US$ 265k; the same level as to what was fxd on the MRs just before Christmas, tonnage is building and the outlook is poor.

The story is similar on the LR1s with a long list developing and weak sentiment throughout the market. We have seen TC5 crash to 55kt x WS 90 (2013 flats) and, while firm jet cargoes to the west have been slim recently, US$1.65m is on subs for WCI/UKC; representing a drop of about 75k on last done. There has been some more cargoes into the market today which is a little unusual for a Friday, this has shored up some optimism amongst the owners but our feeling is that there is still too much supply and rates are due to suffer next week.

The MRs have been a slow starter to 2014, although the period between Christmas and New Year was not too bad in terms of activity levels. The new WS flat rates haven't been tested, but generally with WS flat rate coming off circa 5%, we expect WS rates to rise slightly. Tc12 is assessed at WS 120 by BITR, but it has not been tested. East Africa was fixing at 165 basis Mombasa-Dar Range on 2013 flat rates, the same returns put this at WS 170 on new flat rates. West runs have been more active, this route is fixing at US$ 1.3 million, although this is coming under pressure. We expect a clearer picture of the market next week.

It has been a largely disjointed week in the North Asian markets with a lot of countries being off for New Year celebrations midweek and Japan closed for the majority of the week. As a result activity levels have been minimal with South Korea/ Singapore fixing in the US$ 390-400k band for an MR and a fraction higher for LR1s and LR2s. Voyages into Australia have also been largely absent this week, in theory they are freighting at around 30 x WS 170 levels and with an increasing amount of Charterers not paying overage the resulting TCE is around 8,000 per day round trip. In all an uninspiring start to 2014 however, most commentators will view this week as write off and will judge the market by what happens when business starts in earnest on Monday 6th January.

Mediterranean

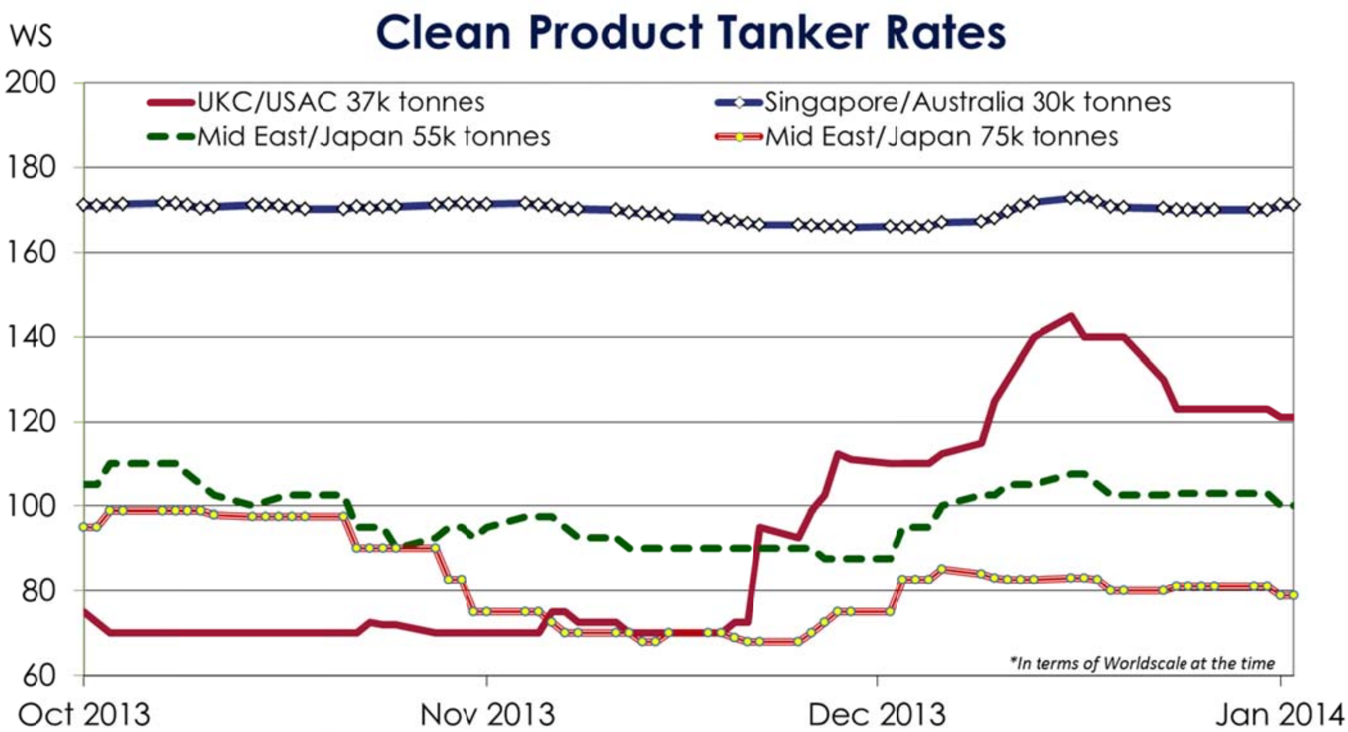
The market has remained steady as the dust settles after the holiday period; however off the natural window enquiry has been pretty subdued. Handies have continued to trade sideways for med and Black Sea loads, although tonnage looks like it is poised to build up into next week, it remains untested for now. As the market starts to move into the 2014 flat rates we assess the new handy levels to be 30 x WS 167.5 - 170 at time of writing, although expect the market soften next week. The MR market looks to continue trading inline with the UKC at around 37 x WS 120-122.5 levels - for West Africa 37 x 145-150 basis 2014 flats. The UKC, however, is looking a bit tighter so rates may see a reaction next week. For East of Suez discharge the market is totally untested - MRS are steady East of Suez, however for the Red Sea ideas around 1.05 - 1.1 million + 100-150k for AG.

UK Continent

A healthy number of MR / TC2 cargoes in the market to kick off 2014, 37 x WS 122.5 (2014) for TA. Cont/West Africa is fixing 37x145 (2013). Handies cross Cont are trading 30x170 / 22x195 (2014 flats). LR1's are steady, 60 x 120 Cont/West Africa (2013) and there are numerous questions for nap to Far East on both LR1 and LR2 (LR2's tight Owners talking US$ 3m plus for ARA/Japan).

Caribbean

TC14 rates have remained steady but largely untested over the festive period, finishing this week at WS 120 (basis 2014 flate rates). Tonnage is reasonably plentiful, although light enquiry has kept things trading sideways. The market should fully get back into the swing of things on Monday for the first full week back after Christmas, although expect some downward pressure on rates to start the New Year. Caribbean Sea to the USAC remains flat at WS 120-125.



DIRTY PRODUCTS

Handy

In a week disjointed from New Year's celebrations activity has remained consistent in the Continent driving rates steadily upwards. Tonnage is thin on the ground, especially off ppt dates which had put the ball firmly in an Owner's court. Sustained enquiry driven partly by Baltic programmes expanding has ensured units are few and far between until mid- month for Baltic loads.

The Med market has remained steady with enquiry moderating but stems known up to the 11-13 window ex Black Sea. Russian New Year will dampen expectation early next week as clearing vessels will become problematic ex Black Sea; expect normal activity to begin from Thursday. This should lead to a plateau of rates while tonnage begins to build and charterer's would do well to hold back and try to chip away at last done. Once activity does return the shortened week will put pressure on Charterers to cover suggesting those in first will reap the greatest benefit.

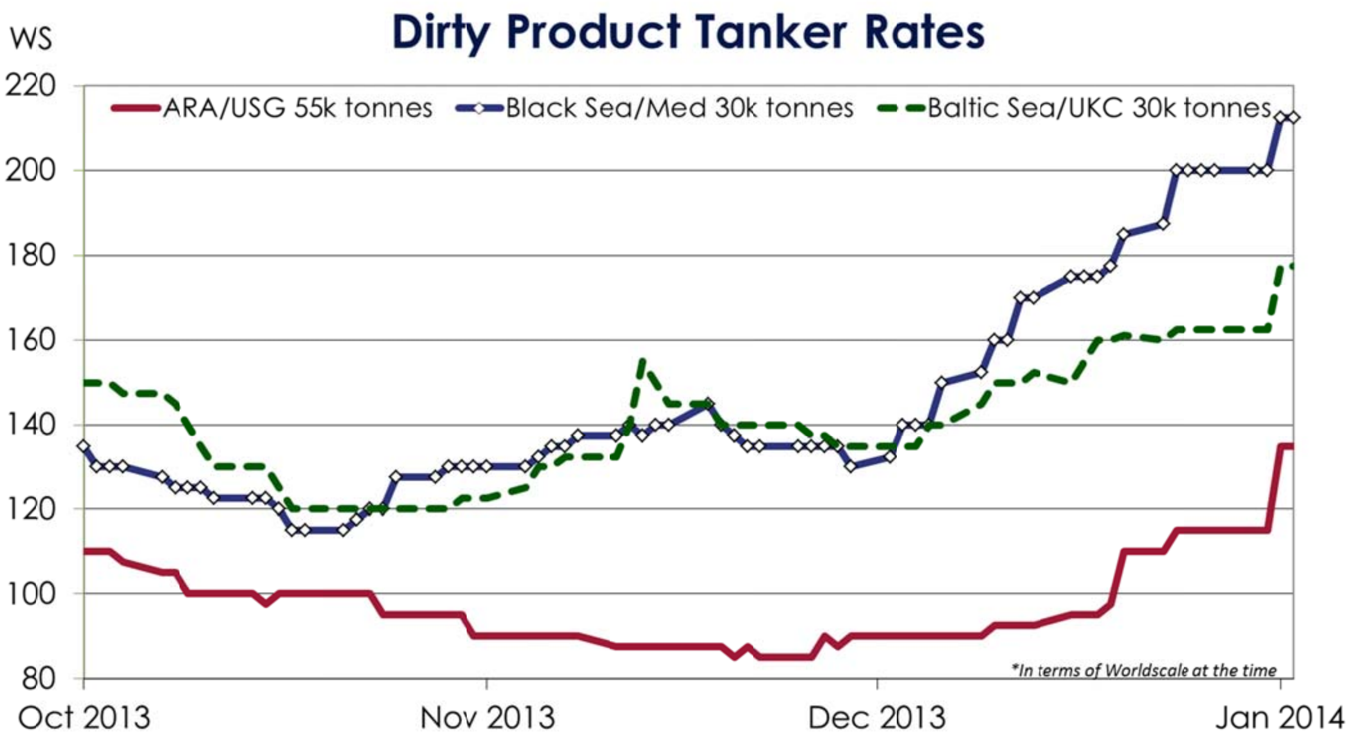
MR

Although we have had a disrupted week, Owners have managed to apply the pressure on rates, and obtain more and more strength. The Continent tonnage list is currently looking very one Owner heavy at present, and rates next achieved may not be market indicative.

Down in the Mediterranean more options are available, but with a continual strong handy market, rates will need to be able to keep up with the 30kt stems for owners to consider. Resistance to leave for a Trans-Atlantic voyage is high as owners will want to stay in these "hot" markets. Tricky to see the end of this press on rates with Handy and Panamax markets staying strong also.

Panamax

Panamaxs this week saw further gains with rates breaking 55/WS 130 levels (2013 WS Schedule) ex N.W.E . With this, the tonnage list now looks increasingly tight owing to limited units willing to ballast back from a firm Caribbean Sea market. It's worth noting that over in the US, Caribbean sea/USG markets now see Owners pushing for levels in the 180's (again basis 2013 schedule), for this reason caution will need to be adopted when looking at fixing dates as we suspect Charterers will have to entice these illustrious ballast ships back over. Covering Ex Med however a slight softer trend may be seen, for those able to charter ships of an ex D/D nature. A few natural positions do occur, perhaps offering discrepancy in rates between the Med and Continent.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 2nd	Dec 19th	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-3**	60	63	64	51
TD5	Suezmax	WAF-USAC	**+2**	112	110	85	80
TD7	Aframax	N.Sea-UKC	**+39**	162	123	90	105

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

			wk on wk change	Jan 2nd	Dec 19th	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-9,750**	40,250	50,000	51,500	28,250
TD5	Suezmax	WAF-USAC	**-3,000**	49,250	52,250	34,250	28,000
TD7	Aframax	N.Sea-UKC	**+23,250**	60,000	36,750	11,500	18,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 2nd	Dec 19th	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**-1**	79	80	82.5	
TC2	MR - west	UKC-USAC	**-18**	121	139	112	125
TC5	LR1	AG-Japan	**-6**	100	106	95	101
TC7	MR - east	Singapore-EC Aus	**+0**	171	171	166	

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

			wk on wk change	Jan 2nd	Dec 19th	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**-750**	10,250	11,000	12,000	
TC2	MR - west	UKC-USAC	**-5,500**	8,000	13,500	7,500	8,500
TC5	LR1	AG-Japan	**-4,000**	9,750	13,750	10,500	10,000
TC7	MR - east	Singapore-EC Aus	**-250**	13,250	13,500	12,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+6**	590.5	584.5	586.5
LQM Bunker Price (Fujairah 380 HSFO)	**+5**	617.5	612.5	611.5
LQM Bunker Price (Singapore 380 HSFO)	**+12**	610.5	599	609

SC/JCH/TP/JT/slk

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E.A. GIBSON SHIPBROKERS LTD., AUDREY HOUSE, 16-20 ELY PLACE, LONDON EC1P 1HP

Switchboard Telephone: (UK) 020 7667 1000 (International) +44 20 7667 1000

E-MAIL: tanker@eagibson.co.uk TELEX: 94012383 GTKR G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135