WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

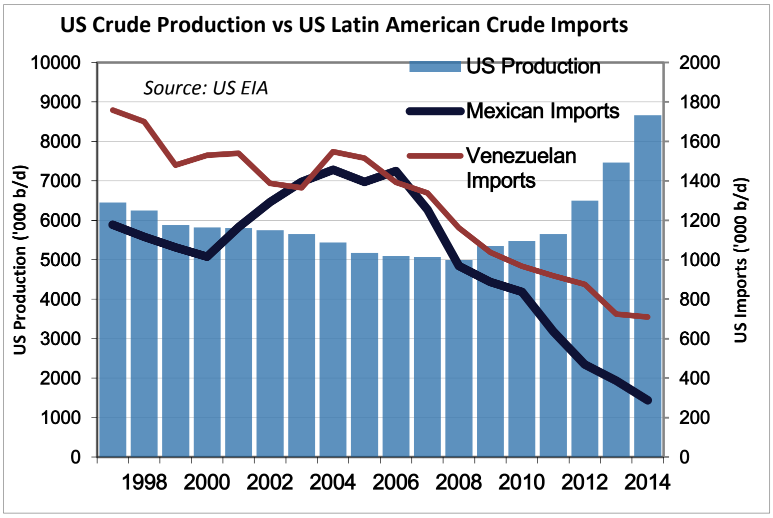
15th May 2015

A SURGE IN US DOMESTIC ABUSE DRIVES OUT NEIGHBOURS

Resulting from the unforeseen shale oil boom, in February 2015 (latest EIA figures) US domestic crude production has reached 9,238 kb/d, levels not seen since the 1970s. This increase has contributed significantly to large shifts in global supply and demand along with oil trade flows. Latin America, renowned for heavy sour crudes, is now becoming an even more serious market player in global crude flows and the reason is two-fold; 1) Latin American crude which has traditionally been sold into the North America has to find new export markets in the wake of supressed US import demand; 2) Demand centres continue to originate and grow from Asian refiners who are finding efficiencies running heavier sourer crudes, which trade at steep discounts to global benchmarks such as Brent and Dubai. Running Venezuelan crude, such as Vasconia, through a European refinery would be akin to an engine designed for gasoline, running diesel. However, feed Vasconia to a complex refinery, such as those coming online on both the Indian sub-continent and in East Asia, and it will satisfy such refineries' diets. To summarise the change in Latin American flows; you have one push factor, the US shale revolution, and one pull factor, the increase in demand for heavy sour crude from Asian refiners to feed their complex refineries.

As Chinese capital controls have eased since 2007, China has invested over $50 billion into Venezuela in exchange for imports of crude and product shipments. Venezuela's National Oil Company (PDVSA), record that 550,000b/d is exported to China and 360-400,000b/d to India and they expect volumes to grow further. As Venezuela relies on oil for 95% of its export earnings, it is important to get a competitive slice of this export market, especially considering the recent drop in crude oil prices. Considering Venezuela managed to improve its current account by $14.5 billion in 2014 alone indicates the importance of global petrochemical shipments to Venezuela's economic health.

Asian refiners have recently been assessing the new Iraqi 'Basrah Heavy', a heavier grade from the AG. Although this grade is of similar density to a typical Venezuelan crude such as Vasconia (both around 24 API), the Basrah Heavy is sourer - with a higher sulphur content of 4%, which might make the Iraqi contestant a difficult purchase in large volumes. It has been reported that Vasconia should show a greater discount to Basrah Heavy and therefore this could mean its attractiveness to the East is sustained, especially if the freight economics work. It was only earlier this year that Mexico delivered its first crude export to South Korea in 20 years, another welcome alternative to Asia's dependence on the Middle East.



When bitumen is in high demand, cargoes of Latin American crude are often sold into NWE in small parcels. These parcels have to be carefully planned as the heavy crude requires blending with lighter crudes in order to be run through the European refineries. One strategy could be to ship larger volumes of lighter crude from West Africa and the Mediterranean to the Caribbean for blending into medium-type grades. PDVSA states that Venezuela would like to supply refineries with medium grade crudes due to the oversupply of light sweet crude from increased US domestic production. Again, the shipment of this lighter crude to the Caribbean will work only if tanker economics fit on what is currently an unestablished tanker route. Last October Sonatrach supplied 2 million barrels of light sweet Algerian crude to PDVSA which was blended prior to US import. Repetition of this trade could add an interesting dynamic into global crude trade flows.

For the tanker market the benefits of this increased demand are obvious. Although Latin American countries still rank as some of the top suppliers of crude to the US, with the increase in US domestic production, exports have been in decline and therefore Latin American producers need to supply significant volume to other markets. Additional pressure has been added due to the slump in the price of oil so countries like Venezuela will need to increase notional export volume just to sustain income. Crude imports into the US from Venezuela alone have dipped by around 750,000b/d since 2004, translating into an additional 11 VLCC liftings per month. This export trade surplus volume needs to find a buyer and Asian refiners seem to have the solution.

CRUDE

Middle East

The May VLCC programme just about equally matched availability to cargoes and the rapidly apparent lack of leeway sent the market into markedly higher territory, and as Charterers then pushed on hard into early June, there is now the prospect of some super-high values being seen. For now rates have reached ws 75 East and up to ws 50 West via Suez, but another 10 ws points both ways is not out of the question. It may be difficult for Owners to maintain such high levels, but a quick crash back to earth is unlikely either over the coming week. Suezmaxes also got busier, and pricier, but not as spectacularly as VLCCs. 130,000 goes at around ws 100 to the East and ws 50+ to the West with some further upside still possible. Aframaxes continued busy and rates gained another, higher, rate ledge at 80,000 by ws 120 to Singapore, with more to come.

West Africa

Suezmaxes were in good form last week, and as Charterers continued to chase, and availability shrank, Owners found themselves very much in the driving seat. Rates popped to as high as 130,000 by ws 135 to Europe, though that particular fixture was streets ahead of the pack, and the general market is likely to bed down at closer to ws 110. As the AGulf jumped, so VLCCs here also had to leap, and rates to the Far East strode up to 260,000 by ws 72.5 as a result, and even higher could yet be seen.

Mediterranean

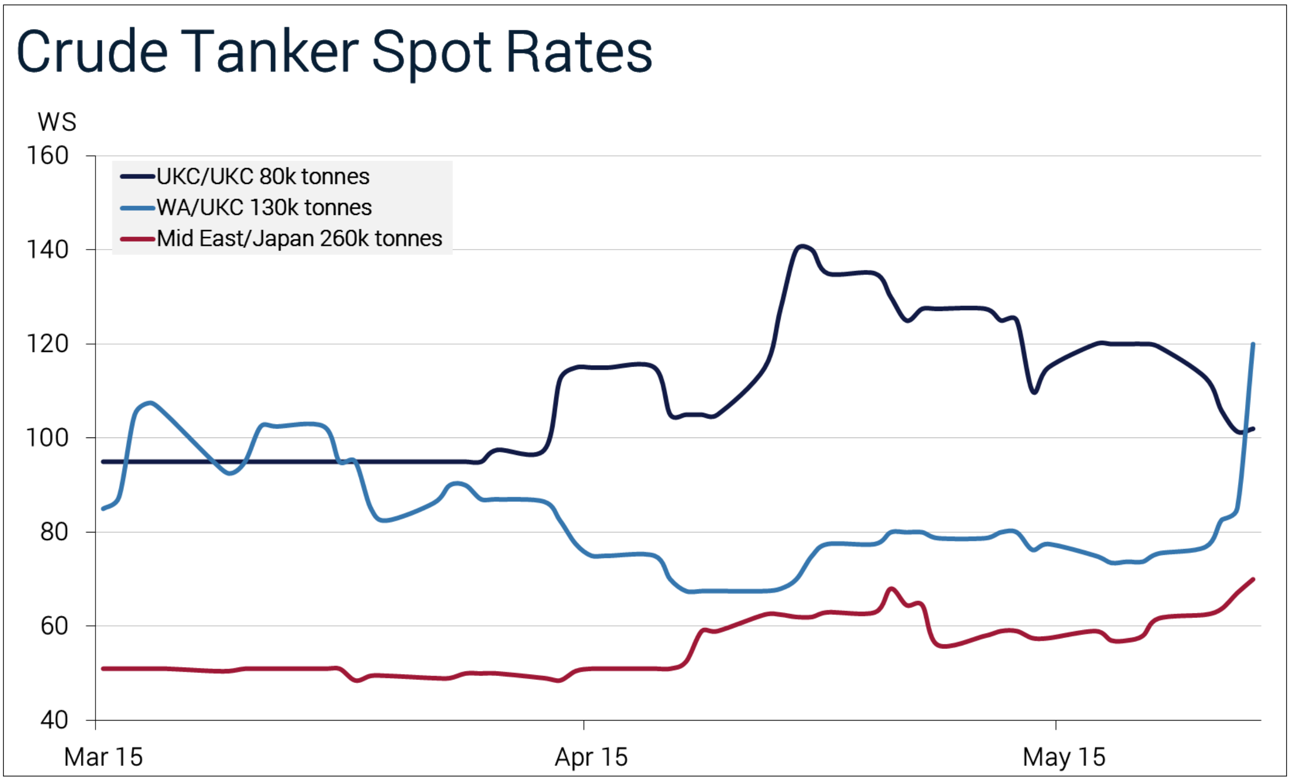
Suezmaxes started slowly, but then enjoyed increased attention which, combined with the positive news from West Africa, combined to boost sentiment - and rate ideas.140,000 Black Sea/Europe now moves at ws 100/110 and could go higher, but could also be pegged back by presently lacklustre Aframaxes that hang back at 80,000 by ws 90/95 X-Med, and are unlikely to firm of their own accord over the near term.

Caribbean

Aframaxes had achieved a finer balance, and then received a bit more attention. That allowed for rates to gently inflate to 70,000 by ws 110 upcoast and Owners will push for more if Charterers increase the cargo-flow even slightly. VLCCs tightened, and took further heart from the drums beating elsewhere. Rates moved into a higher \$6.3/6.5 million range to Singapore, and close to \$5.5 million to West Coast India with no likelihood of softening over the coming week.

North Sea

Aframaxes initially dipped, but regrouped later to hold a line at 80,000 by ws 100 X-UKCont and 100,000 by ws 82.5 from the Baltic, though the recipe is still too weak to allow for anything really tasty to develop. VLCCs saw little, but there were only a few visible candidates to court, however \$5.25 million was covered for a fuel oil from Rotterdam to Singapore, and \$6.75 million was paid for a crude run into South Korea.



CLEAN PRODUCTS

East

LRs remain positive on both sizes with tonnage lists tight although activity has come off slightly through the week. LR2 rates are still steady with 75,000 mt Naphtha AG/Japan at ws 104 and 90,000 mt Jet AG/UKCont at $2.60 million. 55,000 mt Naphtha AG/Japan has climbed to ws 122.5 and is likely to see a little more but needs further demand to see more of a rise. 65,000 mt Jet AG/UKCont is now $2.1 million but may see more pressure upwards next week.

MRs have seen correction down on the rates this week, which was not wholly unexpected, but MRs end the week with a more positive mindset. TC12 has slipped near enough 3.5 points with ws 121.5 on subjects at the time of writing. East Africa came off in stages to ws 160, then ws 157.5 and has levelled off. AG to the UKCont was failed at $1.5 million and the arbitrage, appears to be shut, next done will be around these levels. The shorthauls have seen larger corrections, Jubail to UAE has fallen to $235,000 and AG to Red Sea came off $100,000 to $550,000 basis Gizan - rates are currently stable. Activity as a whole has been quite high, but with the majority being shorthaul, tonnage has not been leaving the area and hence kept a lid on rates, but with a steady LR1 and LR2 market, the prompt position clearing out, Owners will be very quietly optimistic for next week, provided the present activity levels remain.

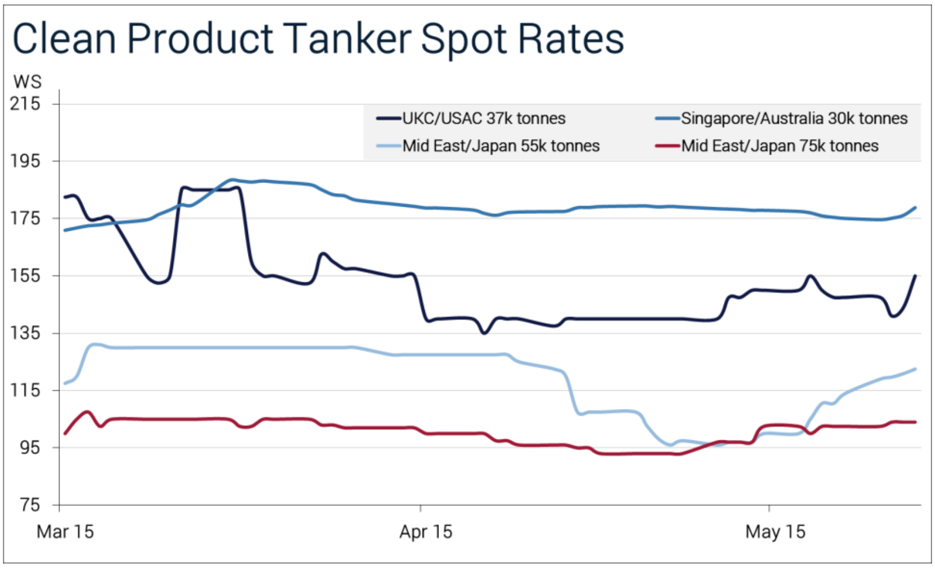
For the CPP MR size, the situation in North Asia continues to be steady as we draw to the end of week 20. The enquiry on the MRs has been dwindling, and the list fairly heavily tonnaged up until the end of the month – MR rates should stay steady at $520,000 levels for Korea/Singapore. LR1s are now firming due to an active fronthaul market and $575,000 is last done levels for Japan/Singapore, which puts Korea/Singapore at $540-550,000 levels. LR2s are also looking more positive, and $640,000 is currently on subjects for Korea/Singapore, although this is for a Charterer with 3.75% address commission. MRs in Singapore have had a busier end to the week too, with a lot of ships going on subjects in the prompt position. Singapore/Australia is currently on subjects at 30kt x ws 185, which should give Owners confidence going in to next week.

Mediterranean

A steady week in the Mediterranean market with Handys softening to around 30 x ws 135-136.5 by Friday for both Med and Black Sea loads. Dates for end month are starting to creep into the window out of the Black Sea whilst for the Mediterranean tonnage is still in ready supply for dates around 20th May loading, finding prompt replacements has proved neither difficult nor expensive. For the MRs the list looks tight ten days out....Transatlantic consider in line with UKCont but date sensitive and West Africa premium around ws 20-25 points on this. For East options Red Sea is fixing around a million +100k AG.

UK Continent

A promising week on the continent as a surge of cargoes absorbed plenty of the early tonnage, the list continued to narrow leaving TC2 at ws 165 basis 37,000 mts. Runs to West Africa have been quiet but the little we have seen on the MRs have been arranged at 15-20 points above the base rate for transatlantic runs. LR1s have been occasionally tested but they do feel a lot quieter and rates have settled to ws 135 basis 60kt. A handful of fixtures on the LR2s and, with a balance of tonnage, the market remains at around $2.8 million for voyages out to the Far East. Handies are still active trading in North West Europe and rates have finished around 30 x ws 190 for the week, Flexis at 22 x ws 195.



DIRTY PRODUCTS

Handy

Fearful of market earnings plummeting further south, we saw a week with most Owners staying resolute against dropping their fixing ideas any lower, and come Friday we can write that Charterers found very few instances where further value could be extracted. There was of course the odd exception however these did prove to be an anomaly as next done numbers seemed not to be affected. Upon reflection, the region this week has been slightly more active, something which Owners will be hoping to build upon leading into end month fixing windows.

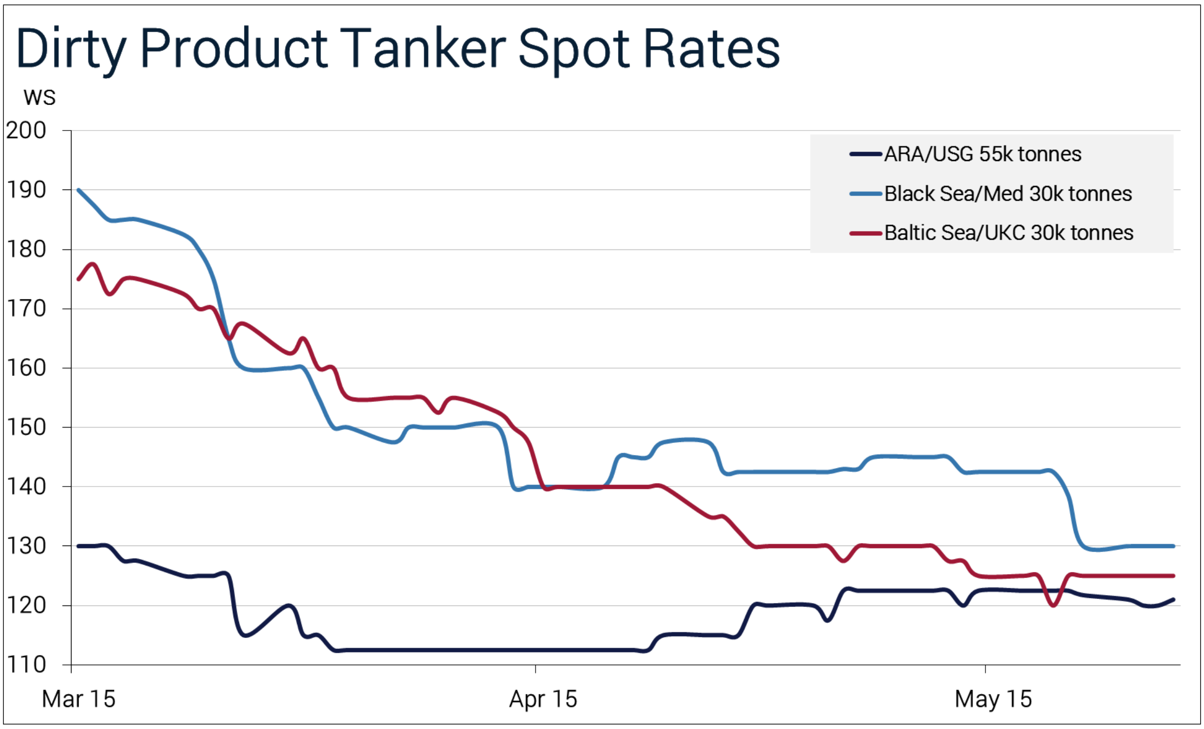
In the Mediterranean the competition among Owners became too much for the market to bear, allowing Charterers the room they needed to lower the costs for shorthaul Mediterranean and Black Sea voyages. Owners will however find a slight silver lining to this grey cloud, as looking back over the weeks combined volume of activity, a fair amount of tonnage from the front end of the lists has been moved on. Here it is worth remembering that eventual shifts in trend so often start in such fashion.

MR

Week 20 proved to be one of mixed blessings for those operating in this sector, where despite a rise in activity levels the majority of fixtures only served to further damage owner confidence. W-O-W, It is the Mediterranean that saw the most amount of negative volatility, with Charterers being able to secure tonnage at rock bottom numbers.

Panamax

As what is so often repeated in this sector, activity presents in waves and where one Charterer enters, so do others. This week was no exception although we can only report that come the close of week 20, freight rates failed to do anything too thought provoking beyond the ws 120-122.5 range. This said, because of this recent clear down in availability and a slight pickup in activity over in the US, any Charterer leaving it later to cover possible end / early stems may not be guaranteed a set of conditions this favourable.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 14th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+10**	70	60	63	55
TD20	Suezmax	WAF-UKC	**+47**	120	73	73	75
TD7	Aframax	N.Sea-UKC	**-19**	102	121	138	97

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

			wk on wk change	May 14th	Last Week	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+16,500**	74,000	57,500	66,500	47,750
TD20	Suezmax	WAF-UKC	**+35,250**	67,750	32,500	34,250	43,000
TD7	Aframax	N.Sea-UKC	**-14,750**	26,750	41,500	57,250	22,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 14th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1**	104	103	95	
TC2	MR - west	UKC-USAC	**+7**	155	148	136	120
TC5	LR1	AG-Japan	**+12**	121	109	109	120
TC7	MR - east	Singapore-EC Aus	**+4**	179	175	179	

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

			wk on wk change	May 14th	Last Week	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+750**	26,750	26,000	24,750	
TC2	MR - west	UKC-USAC	**+1,500**	21,500	20,000	18,250	13,000
TC5	LR1	AG-Japan	**+3,750**	22,750	19,000	20,750	21,750
TC7	MR - east	Singapore-EC Aus	**+1,000**	20,000	19,000	21,000	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-3**	355	358	321
LQM Bunker Price (Fujairah 380 HSFO)	**-6**	390	395	348
LQM Bunker Price (Singapore 380 HSFO)	**-10**	379	389	344
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-1**	595	595	555

JAWT/JH/JD/DP/LHT

Produced by Gibson Consultancy and Research

Visit Gibson's website at www.gibson.co.uk for latest market information

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.ukTELEX: 94012383 GTKR G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135