WEBER WEEKLY
TANKER REPORT

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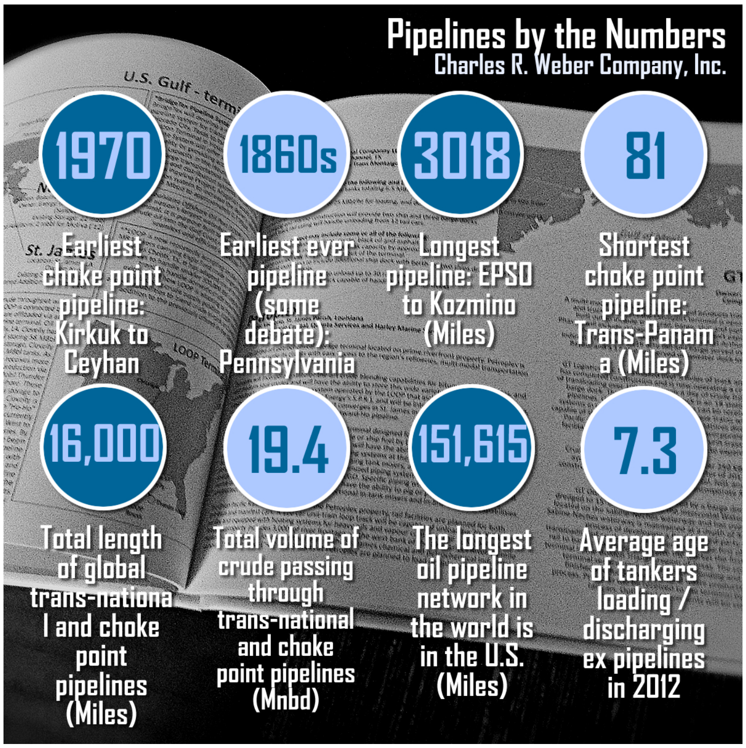
Pipelines 2013: By The Book

By John M. Kulukundis

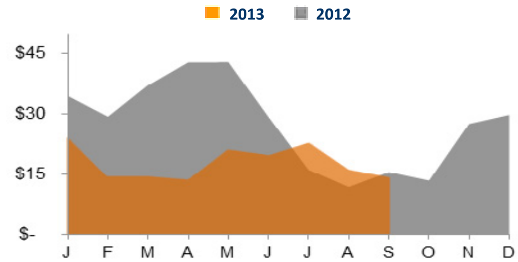
With tanker owners facing a global market that is painfully oversupplied, driven by dramatically shifting trade patterns and a tinder box of risk in the Middle East it would seem that owners have more than enough to contend with. Then, to compound all of the above, pipelines, the nemesis of seaborne trade, keep popping up all over the place. Bringing with them the potential to decimate tanker ton miles. Is there a silver lining to this particular cloud? In Charles R. Weber's latest comprehensive "Pipelines 2013" report, authored by we believe there might be.



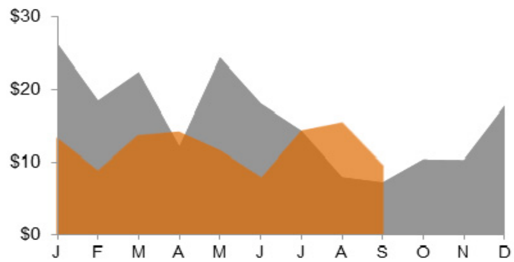
In the latest report from Weber Research we contend that pipelines create very interesting times for tanker owners. With 4.1Mnbd of pipeline capacity added in 2012 and all of this new capacity served by crude oil tankers, total pipeline capacity served by oil tankers is now around 19 Million barrles a day. Not an insignificant amount of crude needing tankers and there is also a further 3.5Mnbd scheduled to come on stream by 2018 with several other schemes on the drawing board.

We contend that pipelines are significant to ship owners not just because of the increasing amount of oil that goes through them, but also because they represent vulnerable links in the oil supply chain and as such introduce a significant risk element into oil transportation. The frequent disruption to the Kirkuk-Ceyhan pipeline as a result of action taken by militants is an example of the vulnerability of the pipeline trade link.

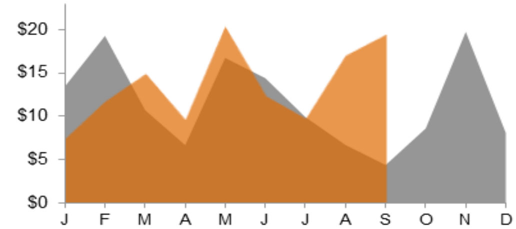
The completion of the first phase of Russia's ESPO (East Siberian Pacific Ocean) pipeline in 2009 is the best example in recent times of how a pipeline can transform seaborne trade. When liftings started from the new Kozmino oil terminal near Nakhodka, completely new trade routes were opened up. For the first time Russian oil could be exported economically to the countries of the



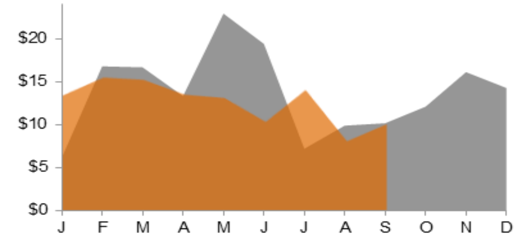
VLCC TCE 280k AG-USG + CBS-SPORE | MTD Average $14,400/Day | Month y/y ▼ -7%



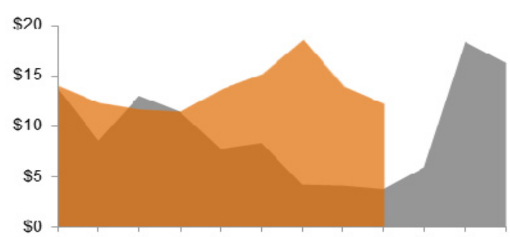
S'MAX TCE 130k WAF-USAC | MTD Average $9,600/Day | Month y/y ▲ +33%



A'MAX TCE 70k CBS-USG | MTD Average $19,500/Day | Month y/y ▲ +346%



P'MAX TCE 50k CBS-USAC | MTD Average $10,100/Day | Month y/y --



MR TCE 38k CBS-USAC | MTD Average $12,300/Day | Month y/y ▲ +223%

Pacific Rim. The initial volumes of 0.3Mnbd were not huge, but by 2025 (if not earlier) it is expected that Kozmino's throughput will reach 1Mnbd. Port restrictions at Kozmino mean that this particular trade is the exclusive province of the Aframax sector presently.

Pipelines have been crucial in getting new oil to market. For example a series of pipelines have allowed landlocked oil from countries of the Former Soviet Union like Azerbaijan and Kazakhstan to export their oil through terminals in the Black Sea. This injection of new oil has boosted existing Aframaxes and Suezmaxes trades.

While the two examples above are considered positive developments for seaborne trade, others are not seen in such a positive light. When the Myanmar-China (0.42Mnbd) pipeline is commissioned in 2014, it will create a much shorter seaborne route for Middle Eastern crude to reach China. Currently VLCCs transport all crude oil from the Middle East to China along the long haul trade route via the Malacca Straits, and the new pipeline could dent their employment prospects somewhat.

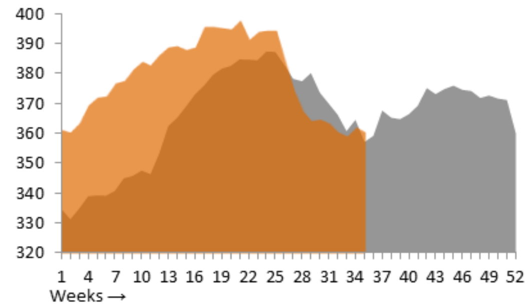
The Straits of Hormuz is the most important chokepoint in the world oil transportation network, and much material has been written on its strategic importance. Approximately 15 Mnb of oil (mostly crude, plus some refined products) flows through the Straits of Hormuz daily. This represents close to 40% of the world's oil exports, and approaching 20% of the world's total oil production. Iran has repeatedly threatened to close the Straits of Hormuz over the last few decades. In June 2012, Saudi Arabia completed the conversion of its 745 mile Petroline 2, which had been used for gas, back to crude oil transportation. The nameplate capacity of this 48 inch pipeline is approximately 2Mnbd. The existing parallel 56 inch Petroline 1 pipeline has a nameplate capacity of 3Mnbd. Together the two pipelines put around 5Mnbd out of reach of Iran. The proviso being that they can achieve their nameplate capacity. Also in June 2012, the UAE completed the construction of a brand new 1.5Mnbd (220 mile) crude oil pipeline running from Habshan to Fujairah. Like Petroline 2, this conduit by passes the Straits of Hormuz.

These are just a few of the multitude of pipelines that either begin or end with an oil tanker, covered in the Charles R. Weber report. At over 65 pages, it is packed full of original analysis, maps, charts and illustrations all bound in a hardcover book.

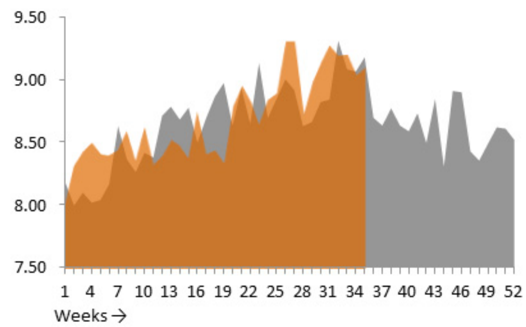
We have taken a very broad and global subject and condensed it into one volume, an essential primer for anyone who is engaged in drilling, transporting, trading, supplying or receiving crude oil from anywhere in the world. And once you've finished reading it, it makes an excellent addition to your office reception next to your copy of "Ships Loved and Painted" by Manuel E. Kulukundis.

For a preview of the report click here:
http://prezi.com/rgew7ty8sqsn/?utm_campaign=share&utm_medium=copy

To purchase the report directly click here:
http://www.blurb.com/b/4536899-pipelines-2013?ce=blurb_ew&utm_source=widget



US Crude Stocks (EIA)	Last Week 360.2 Mbbls	Week y/y ▲ +0.9%



US Gasoline Demand (EIA)	Last week 9.094 Mb/d	Week y/y ▼ -0.9%

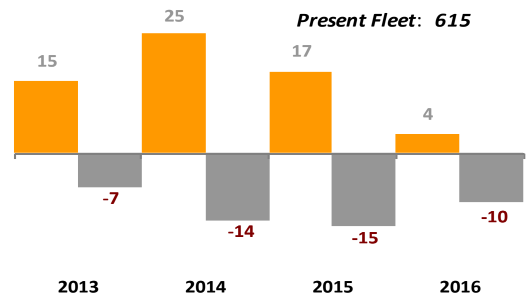
2013 2012

WEBER WEEKLY TANKER REPORT

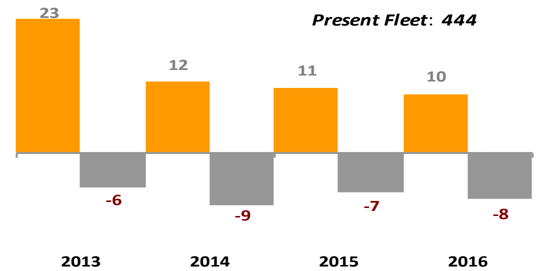
Spot Market	WS	TCE $/day	WS	TCE $/day
VLCC	**30-Aug**		**6-Sept**	
AG>USG 280k (TD1)	20.5	$(8,609)	22.5	$(5,458)
AG>USG/CBS>SPORE/AG	--	$14,265	--	$15,242
AG>SPORE 270k (TD2)	31.0	$5,727	34.0	$10,543
AG>JPN 265k (TD3)	31.0	$4,892	34.0	$9,897
WAFR>USG 260k (TD4)	40.0	$18,364	37.5	$14,409
WAFR>CHINA 260k (TD15)	34.0	$9.073	36.0	$12,025
SUEZMAX				
WAFR>USAC 130k (TD5)	52.5	$9,645	52.5	$9,509
BSEA>MED 135k (TD6)	55.0	$3,260	52.5	$765
CBS>USG 130k	56.5	$9.069	55.0	$(197)
AFRAMAX				
N.SEA>UKC 80k (TD7)	100.0	$22,519	82.5	$8,635
AG>SPORE 70k (TD8)	85.0	$14,825	82.5	$13,731
BALT>UKC 100k (TD17)	77.5	$24.088	62.5	$11,100
CBS>USG 70k (TD9)	115.0	$21,606	105.0	$16,985
MED>MED 80k (TD19)	80.0	$11,740	72.5	$6,855
PANAMAX				
CBS>USG 50k	115.0	$9,055	110.0	$7,410
CONT>USG 55k (TD12)	110.0	$12,659	110.0	$12,544
ECU>USWC 50k	157.5	$24,465	152.5	$22,727
CPP				
CONT>USAC 37k (TC2)	110.0	$6,943	97.5	$3,853
USG>CONT 38k (TC14)	97.5	$6,501	100.0	$7,060
CONT>USAC/USG>CONT	--	$15,963	--	$14,724
CBS>USAC 38k (TC3)	127.5	$12,923	125.0	$12,233
AG>JPN 35k	115.0	$8,176	120.0	$9,341
SPORE>JPN 30k (TC4)	117.5	$6,187	122.0	$7,148
AG>JPN 75k (TC1)	107.5	$26,152	105.0	$25,013
AG>JPN 55k (TC5)	120.0	$17,260	118.0	$16,625

Time Charter Market $/day (theoretical)	1 Year	3 Years
VLCC	$17,750	$21,000
Suezmax	$15,750	$18,250
Aframax	$13,500	$15,250
Panamax	$14,000	$15,500
MR	$14,000	$15,500

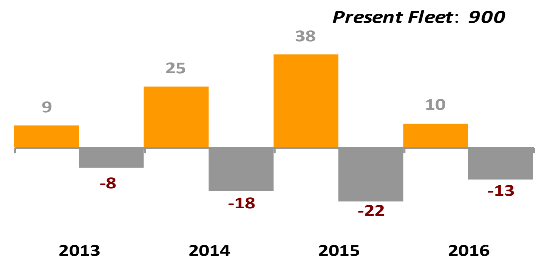
VLCC Projected Deliveries/Removals



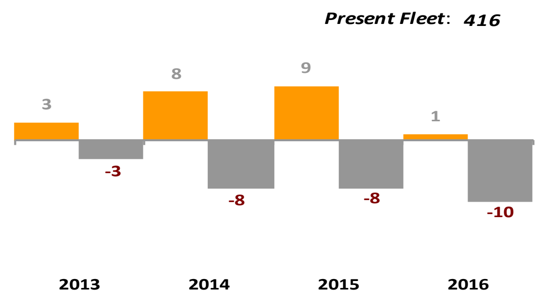
Suezmax Projected Deliveries/Removals



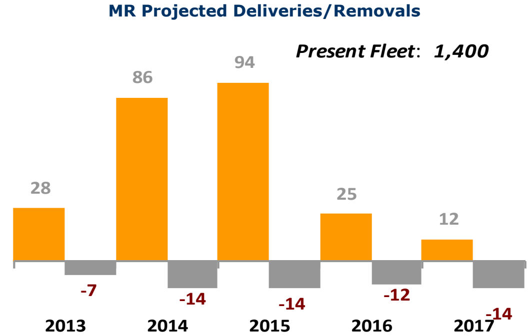
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



THE TANKER MARKETS

VLCC

VLCC chartering activity was significantly stronger this week, led by a 77% w/w increase of fixtures originating in the Middle East. A total of 46 fixtures materialized there, representing the highest regional fixture count in 18 months. The number was also nearly double the average YTD weekly fixture count and came largely on the back of strong demand for voyages to

Asia. Asian crude buyers were largely responding to production outages in Iraq – which represents a major supplier of crude to Asia – ahead of a progression by Asian refineries from seasonal turnarounds and into winter production. The high degree of uncertainty created by the potential for military action against Syria over Damascus' alleged use of chemical weapons further added to an atmosphere of panic buying, which many industry pundits believe could contribute to continued stronger crude purchases by Asian buyers from alternative Middle East suppliers in the coming weeks.

Despite the chartering activity gains, rates across the VLCC market remained mired at an apparent bottom – with only marginal gains observed in the Middle East market, which were largely linked to higher prevailing bunker prices but did represent w/w TCE gains. Average spot market earnings presently stand at ~$10,543/day – which is just shy of average daily OPEX.

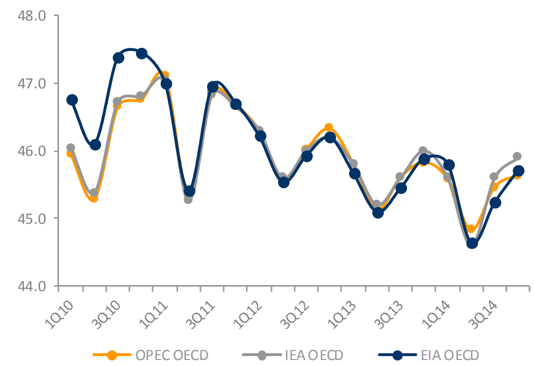
Middle East
Rates to the Far East gained 1.3 points, w/w, to an average of ws32.42 with corresponding TCEs gaining ~$1,773/day to an average of ~$7,332/day. Rates to the USG via the Cape, however, lost 0.4 point, w/w, to an average of ws20.6 despite greater activity as more units vied for Westbound voyages. Triangulated Westbound trade earnings lost ~$1,513/day to an average of ~$12,819/day, reflecting the higher lower AG-USG rate and higher Venezuelan port costs.

To-date, 101 September Middle East cargoes have been covered, leaving an estimated 22 remaining. Against this, there are some 55 units appearing on position lists as available through end-September dates, implying an excess of 33 units (the highest monthly excess in 13 months). With fundamentals thus markedly weak and a relatively small number of September cargoes remaining uncovered, the rates should be under negative pressure during the upcoming week, though the extent of any losses will likely be capped by the present low of corresponding earnings.

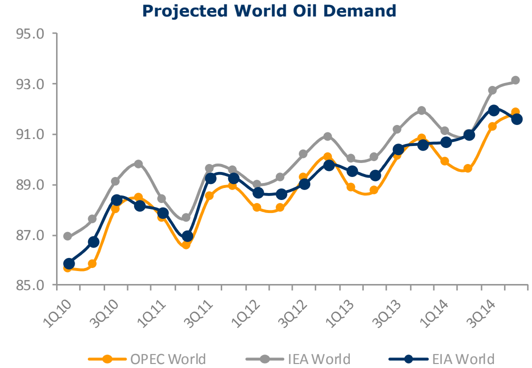
Atlantic Basin
The Atlantic basin was quieter this week with 7 fresh fixtures reported. Rates on the WAFR-FEAST route pared earlier softening and posted modest gains on the back of higher bunker prices, averaging ws34.8 (a 0.8 point w/w gain). Rates from the Caribbean were flat with the CBS-SPORE route unchanged at $3.4m LS. Though this route is already at a 2013 low, with sufficient units available rates could see downward pressure, though higher port costs could cap losses.

Suezmax
Fixture activity in the West Africa Suezmax market gained 21%, w/w, led by a rise in voyages to points in Europe and Asia. Just one fixture materialized for discharge in the US – against a YTD weekly average of 4. The discharge profile underscores the affects of crude supply outages in Libya and Iraq, which have prompted both European and Asian crude buyers to seek alternative sources (though the latter remain largely interested in alternative Middle East barrels). Despite the greater demand, tonnage supply remained abundant which saw rates trade unchanged with the WAFR-USAC route holding at ws52.5. With TCEs on the route presently standing at ~$9,509/day while those on the BSEA-MED route having recessed further this week to just ~$765/day, its likely that more units will vie for cargoes in the West Africa market which could negatively impact rates during the coming week failing further demand gains.

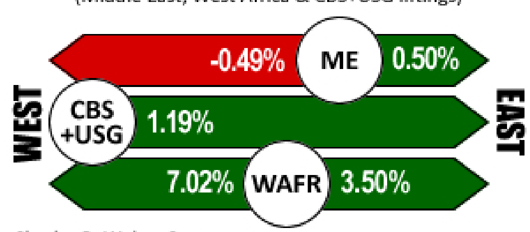
Projected OECD Oil Demand



Projected World Oil Demand



130 + kMT Fixtures, Year to Date y/y Percentage Change
(Middle East, West Africa & CBS+USG liftings)



Charles R. Weber Company

Aframax

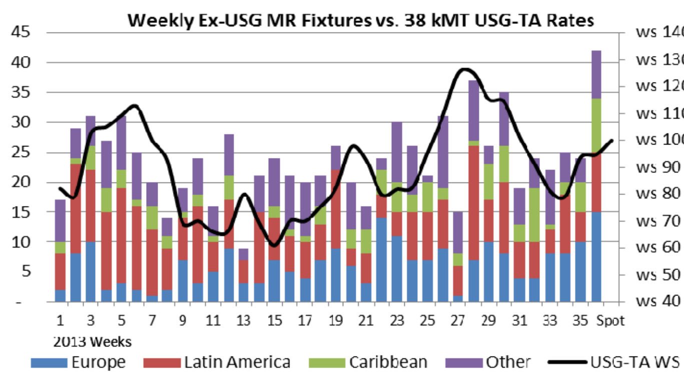
The Caribbean Aframax market was quieter with fresh activity falling to a five week low – and the majority of this week's regional fixtures comprised of lightering contracts. While the pace of rate erosion was modest through much of the week, with positions expanding towards the close of the week, Friday rate losses appeared to be accelerating. The CBS-USG concluded with a weekly loss of 5 points at ws105. With the TCE presently at ~$16,985/day – against average earnings of ~$14,559/day – and fundamentals appearing weaker, the upcoming week is expected to see rates correct further at the start of the upcoming week.

Panamax

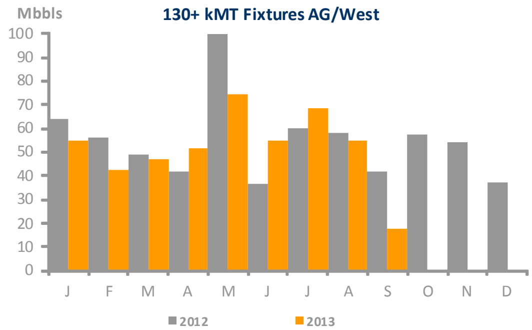
The Caribbean Panamax market was softer this week on the back of a slower pace of fresh activity. Rates on the CBS-USG route declined 5 points to conclude at ws110. As the route remains untested at this level, a further correction is likely at the start of the upcoming week.

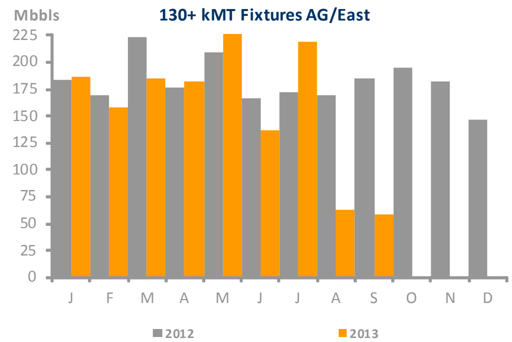
CPP

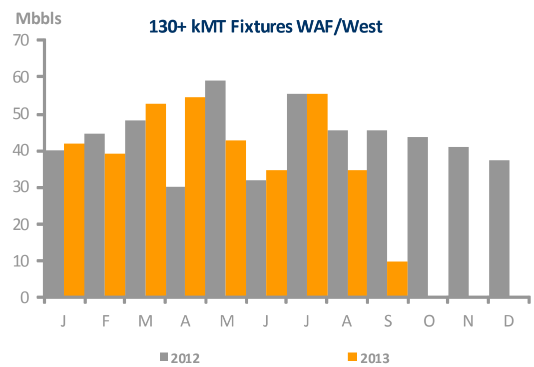
The USG MR market experienced record demand this week with 42 spot market fixtures materializing. Though voyages to all key destinations gained, those to Europe led the discharge profile and were also at a record high, gaining 50% w/w, to 15. The activity gains helped to halt earlier rate erosion which had prevailed through mid-week and the USG-CONT route ultimately posting a weekly gain of 2.5 points to ws100 – a 5-week high. The rise came as European refineries are operating at reduced rates and product demand in Latin America remains strong. PADD 3 (Gulf Coast) distillate production gained 67,000 b/d while distillate inventories dropped 1.2 Mbbls w/w to 40.4 Mbbls during the week ending 8/. Despite the w/w inventory draw, regional inventories remain 2.1 Mbbls above year-ago levels, which should help to support exports. With positions closing the week tighter and a number of cargoes remaining uncovered in the Sept 15-20 window, the sustained demand is expected to see rates remain on a firmer trend during the start of the upcoming week.

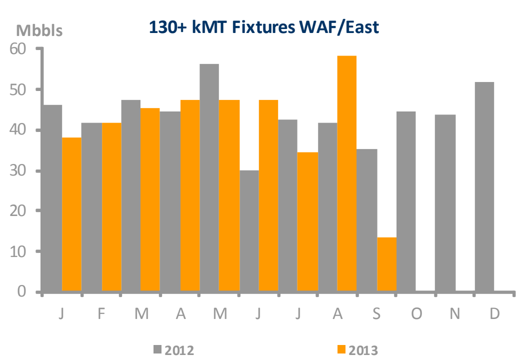


The Continent market was quieter this week, though voyages to the US remained relatively buoyant. This came despite the restarting of Irving's Saint John, NB, gasoline-producing unit as EIA data showed a 74,000 b/d w/w decline in PADD 1 (East Coast) gasoline production and a 63,000 b.d rise w/w rise in total US gasoline demand. Reports also surfaced that KNOC has made an internal decision to sell its 115,000 b/d North Atlantic refinery at Come By Chance. Against rising tonnage availability in the Continent, rates remained under negative pressure with the CONT-USAC route shedding 12.5 points to conclude at ws97.5. Rates remain under negative pressure at the close of the week and are likely to post further losses early during the coming week.









WEBER WEEKLY TANKER REPORT

REPORTED TANKER SALES

"TAKASAGO MARU" 281,050/99 - IHI - DH
-Sold for $21 mill to Thai buyers (Nathalin).

"FORWARD FORTUNE" 115,567/05 – SASEBO - DH
-Sold for $20.5 mill to Singaporean buyers (Tanker Pacific).

"STAVANGER BAY" 105,744/04 - SUMITOMO - DH
-Sold for $20 mill to Greek buyers (East Med).

"YASA BODRUM" 50,261/09 - SPP - DH
"YASA MARMARIS" 50,261/09 - SPP - DH
"YASA SEYHAN" 50,162/09 - SPP - DH
"YASA CEYHAN" 50,162/09 - SPP - DH
-Sold en bloc for $29 mill each to U.S. buyers (Ridgebury Tankers).

"CHAMPION PIONEER" 40,538/90 – CROATIA - DH
-Sold for $5.4 mill to Greek buyers.

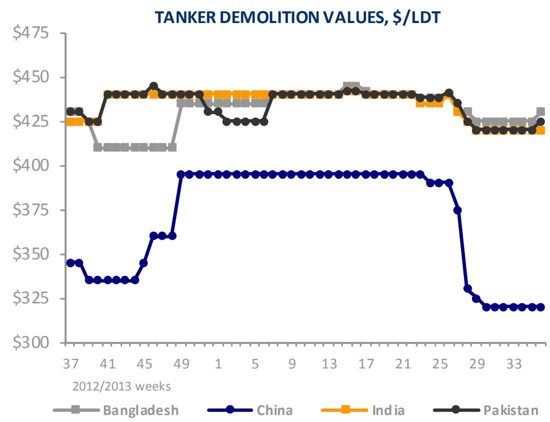
"KOLKA" 37,211/03 - HYUNDAI - DH
-Sold for $13.4 mill to Greek buyers (Ancora Investment).

"NORGAS CARINE" 9,422/89 - GERMANY - DH
-Sold for $11.5 mill to Emirati buyers.

REPORTED TANKER DEMOLITION SALES

China

"Da Qing 93" 68,635/91 – 13,788 LDT
-Sold on private terms.



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