GIBSON
TANKER REPORT

13th January 2012

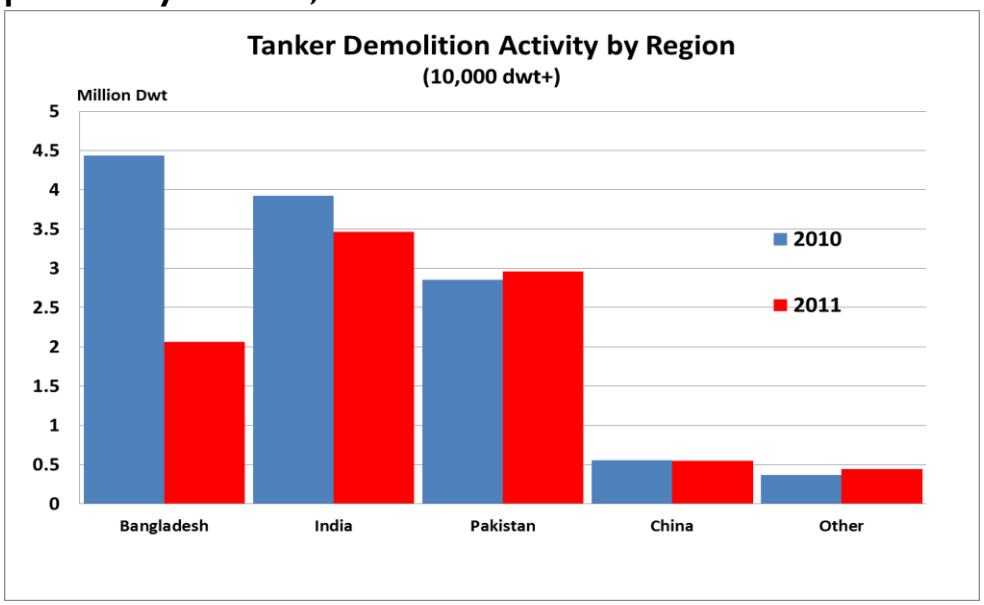
TANKER DEMOLITION DOWN

Final total tanker demolition sales for 2011 amounted to 9.5 million dwt, down by 2.6 million dwt over the volume achieved in the previous year. Although the bulk of the single hull tankers have already been removed from the fleet, 49 units amounting to 4.6 million dwt were scrapped, 'mopping up' more of the remaining tankers (including 8 VLCCs). However, more importantly, we have seen an increasing amount of double hull tonnage going for scrap.

Given the poor trading conditions experienced by some markets during the year, particularly for the crude tankers, it is perhaps surprising that more sales were not concluded given that lightweight prices remained fairly firm throughout 2011. However, as asset values fell and bunker prices spiralled higher, we began to see more sales of first generation double hull tankers and witnessed the sale of the first double hull VLCC for demolition. Our Tanker Report (16th December) cited recent sales of double hull VLCC tonnage for recycling, generating returns of around $20 million, at the same time as the second-hand price for a 15 year old has fallen to around $24 million. One such sale was the 1998 built RION ex Orion Trader (267,736 dwt), which has the distinction of being the youngest tanker sold for demolition at a mere 13.9 years of age, although the actual sale price was not reported.

Looking back at last year's statistics, 12 VLCCs (average age 22 years) were sold for demolition, with half of the sales concluded since late September. The largest tanker being the TIAN SAN (357,128 dwt) when sold to Bangladeshi breakers in February. Amongst the oldest units sold for demolition were 4 US flagged Jones Act MRs, totalling more than 190 years service between them. There were 8 Suezmax sales, while Aframaxes accounted for a further 27 (average age 20.6 years), with 7 Panamax and 55 MRs also removed.

The biggest talking point throughout the year has been the absence of Bangladesh from the market for much of the year. Bangladesh has in the past been the traditional destination for tanker demolition and has taken no deliveries of any tonnage (wet or dry) since the beginning of November. Other factors affecting the demolition market, particularly in India, has been the devaluation of local currency against the US dollar, which has had an impact on buyers being able to obtain credit. However, lightweight prices remain relatively firm and this plus a cocktail of factors could prompt more sales activity over the next few months should owners continue to be squeezed by poor margins, as well as increasing legislation.



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CRUDE

A steady week for VLCCs in the Middle East Gulf with the main concentration upon mopping up the last dregs of the January programme whilst merely toe-dipping into the February 'pond'. Volumes proved just about sufficient to eliminate most of the slack, and by the weeks' end Owners had achieved a higher WS 42.5 for the West, and were pushing for above WS 62.5 to the East - all on the 2011 worldscale. Next week holds promise for a busy pre-Chinese holiday shopping spree, and if that is the case, then the market could temporarily 'pop'. Suezmaxes converted smoothly onto the new 2012 worldscale, and good, initial, enquiry settled the market into a comfortable 130,000 by WS mid WS 90 level to the East with around WS 50 achievable to the West. Aframaxes held up well through the week, averaging 80,000 by WS 120 to Singapore. Premiums up to WS 135 were still payable for Red Sea load, and the confusion over the Sudanese tug of war evident at Bashayer added extra support.

In West Africa, suezmax Charterers didn't allow for things to settle, and pushed enough enquiry to set rates upon an upward path, that was maintained through the week, before eventually plateauing at around 130,000 by WS 92.5 for US Gulf, WS 97.5 for Europe - upon the 2012 worldscale. Another attempt to cut the flow is now underway, but it will get busier again soon enough, and the market should hold steady in the interim. VLCCs are part of the reason for that - being exceptionally tight upon the fixing window, and through the first half of February. Rates haven't yet rocketed, but are very solid at 260,000 by WS 57+ to the East and above WS 60 for US Gulf (2012) with just under USD 4 million achieved for West Coast India.

Aframaxes in the Mediterranean, and North Sea, are the poor relations just for now. Cross-Mediterranean rates eased to close-on 80,000 by WS 100 as availability easily matched demand, and early dates found units left behind. Suezmaxes ran out of Black Sea opportunities and had to rely upon a thin feed of Mediterranean cargoes, and the 'good news' from West Africa, to prevent boredom impacting upon rates. There was some discounting to 135,000 by WS 97.5 (2012) from the Black Sea to European destinations, but nothing spectacular, and levels should hold similar until the next wave of enquiry from mid next week.

In the Caribbean, VLCCs enjoyed continued strong demand so that as high as USD 5.2 million was recorded for a prompt movement to Singapore, and although there will be some discounting from that high on more competitive positions, there will be no overall retreat. Aframaxes suffered badly, but as rates hit 70,000 by WS 87.5 upcoast, there was a rash of clandestine fixing as Charterers moved to bargain hunt without causing the necessary stir to turn the market. Owners will eventually catch-on if the shopping spree continues into next week.

North Sea aframaxes couldn't get any real grip, and slid a little further down the greasy rate pole to 80,000 by WS 97.5(12) cross U.K. Continent and 100,000 by WS 82.5(12) from the Baltic with no sign of an early turnaround. Suezmaxes only saw crumbs and are marked at around 135,000 by WS 85(12) for transatlantic runs if they appear. VLCCs are tight enough to command premiums from those that need them with rates to Singapore moving above USD 4.5 m and up to USD 6.3 m for China with no early retreat likely.

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PRODUCTS

A reasonably busy week but with too many early vessels rates can only hope to remain flat. 55,000 mt AG/Japan still hovers around WS 100, and 65,000 mt Jet AG/U.K. Continent is USD 1.70 m. LR2s also remain stable with 75,000 mt AG/Japan fixing at WS 92 level and 80,000 Jet AG/U.K. Continent is USD 2.40 m, but with tonnage slowing building we may see slightly less done soon.

A very challenging week for the MR's, a dearth of activity has seen prompt tonnage accumulate both in Fujairah and Singapore. As a consequence rates have tumbled, coupled with an ever increasing bunkers prices has squeezed Owners margins. AG-West Coast India to Japan began the week at WS 115 and reports of WS 108 on subs at the time of writing and with well over 10 prompt ships in Singapore, any upside for Owners trading this route is limited. The main route has been into South Africa with Durban refinery in turnaround, there has been huge demand for product. Rates remain low for this run, fixing at WS 190 inclusive of all guards and looks set at that level. Jet fuel runs to the West have been assessed at USD 1.45 m, but remains untested.

The Far East has seen a very quiet time of it this week with tonnage in Singapore still mounting up. In terms of rating the market the levels for 30 kt for Singapore/Japan and Singapore/Australia are WS 120 and WS 165 respectively. The North has also had a very quiet time with USD 380k levels on subs for South Korea/Singapore-Indonesia on an MR and as little as USD 480k levels being the Market levels for the LR2's/NB Afras on the same run.
Far East brokers have a gloomy outlook for next week; with the pre Chinese New Year surge of fixing not taking place this week it would suggest that cargoes are all now covered. Bunkers are USD 732.5/mt in Singapore today and are 5 dollars above the Fujairah price; very unusual. Next week is expected to be bleak.

The cross-Mediterranean markets continued to tick over this week with rates holding steady. The Black Sea export markets for gasoil and naptha were balanced and continued fixing 30 at WS 185 for Mediterranean discharge. The shorthaul cross med markets were active enough to prevent rates easing off and market appears solid for now 30 at WS 185. Some longhaul interest both east and west, but with TC2 easing off MR rates for med loaders have come off similarly; central Mediterranean to Red Sea and AG now considered USD 1.1m/1.2m levels respectively and 37 at WS 150 for discharge to the USAC and West Africa.

A sticky week on the Continent as a lack of cargo enquiry sees rates come under pressure due to a longer list of ships. Transatlantic runs of mogas are trading between WS 150-155 with a fully clean background basis 37kt. Further interest for mogas destined to South Africa from both sides of the Suez this week, rates secured around USD 1.65-1.75 m loading from the Continent. Only trickles of activity into West Africa this week, MR's were in line with transatlantic. The short haul activity remains active with runs loading ex Baltics secured at WS 175-180 on liftings of 30,000 mts. The cross-Continent ticks over with rates confirmed at WS 212.5 basis 22kt. LR's remain thin loading ex U.K. Continent, longhaul options of mogas for transatlantic and West Africa confirmed WS 140 on 60kt.

The Caribbean market has been weak so far. Upcoast liftings are trading down to 38x160 and backhaul movements are now being rumoured at below WS 100 basis 38kt.

PAT/JCH/TP/DJY/MS/alk

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