20th January 2012

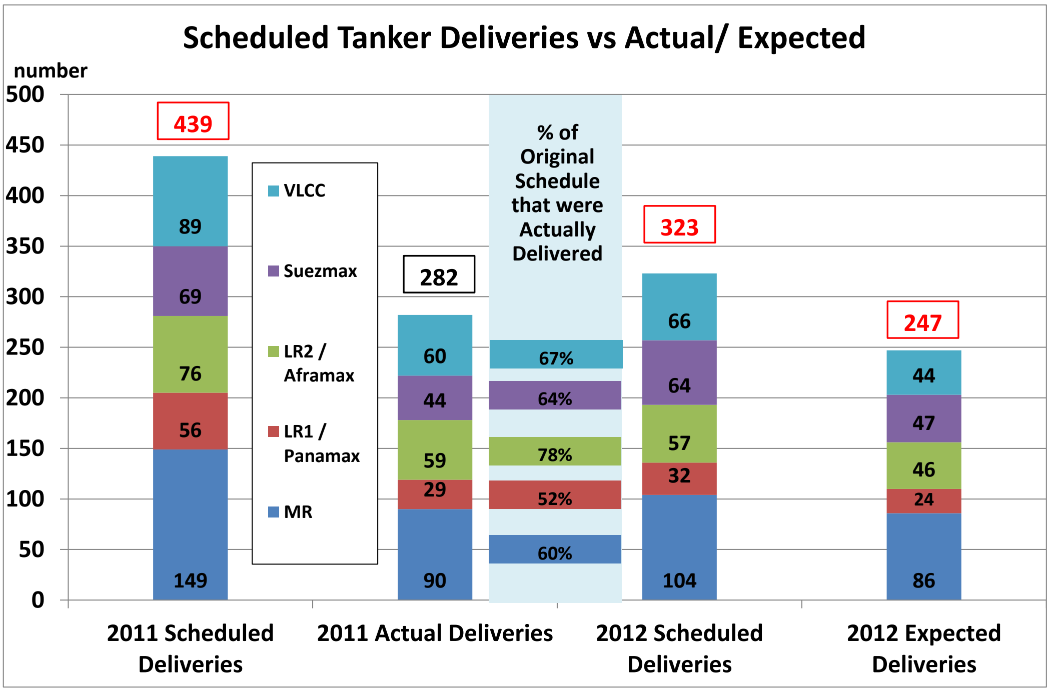
LESS THAN SCHEDULED – BUT STILL TOO MANY

Any sustained recovery in tanker earnings in 2011 were largely restricted by the steady supply of new deliveries. The increase in the tanker fleet largely outpaced demand growth, putting further pressure on earnings in an already highly competitive market. VLCC deliveries in 2011 averaged over one a week (60), four higher than 2010, whilst there was a similar picture for Suezmaxes (44 deliveries), 7 higher than 2010.

Of the 439 new tankers (25,000+ dwt) originally scheduled to enter service in 2011 just 282 tankers were delivered within their original timeframe. The remaining 157 were either subject to newbuilding contract renegotiations resulting in delivery delays or cancellations, accounting for around 36% of the original orderbook. Breaking this down further by size, LR1/Panamax deliveries were just 52% of the original schedule; while MR and Suezmaxes were slightly higher at 60% and 64% respectively. VLCC deliveries were marginally higher at 67%, but it was the LR2/Aframax newbuilds which were highest with over three quarters (78%) of all scheduled deliveries actually adhering to their original due dates.

Although the number of tankers scheduled to enter into the market in 2012 is significantly less than scheduled for 2011, the tanker market is still suffering from the effect of the previously swollen orderbook. Thankfully, orders placed in 2011 are about 50% lower than those placed in 2010. Based on the assumption that around 25% of scheduled deliveries will not arrive this year, some 247 new tankers will still join the fleet in 2012, which on the face of it would indicate fewer deliveries than last year.

Even if the delivery of tanker newbuilds continues to slow, a considerable increase in global oil demand and trade will still be required to significantly boost owners' prospects. Although demand has been rising, the IEA in its most recent report has revised down its forecast for global oil demand growth in 2012 by 0.2million b/d to 1.1million b/d. Nonetheless this is still more than the 0.7million b/d increase seen in 2011. Hence across the whole tanker industry we are looking at slower growth in tanker supply this year and potentially a bigger increase in oil demand. However, at this stage any improvement in tanker fundamentals is likely to be limited; but the prospects for 2012 look better than 2011(but that's not difficult!).



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CRUDE

Last week we noted the potential for VLCCs in the Middle East Gulf to 'pop' in the lead up to the Chinese New Year, and the market definitely read the script! Owners also managed to kill two birds with the same stone - pushing the market through its' previous ceiling, and then converting onto the new, higher, worldscale flat rates at levels that had been the peak on the 2011 Scale. Now things are set to slow somewhat, but for the near term, Owners should hold the gain. Currently rates to the East operate at around WS 65 (2012) and WS 38 (2012) West. Suezmaxes also had a busy week of it with a raft of short haul cargoes impacting on a very tight early list to force rates to close to 130,000 by WS 100 on the new worldscale, and next week should see no let up, despite the holidays. Aframaxes completed the positive picture in the area with strong activity allowing rates to push to 80,000 by WS 135 to Singapore with a 10 worldscale point premium for Red Sea loaders.

Suezmax Charterers in West Africa took their foot off the gas, and predictably that undermined Owners confidence so that by the weeks' end rates had been corrected down to 130,000 by WS 82.5 for U.K. Continent, and perhaps a touch lower for US Gulf with WS 88.75 paid for a run to the East. Next week should start to see some bargain hunting at the lower level, and if that gets too frenetic, then Owners may once again turn the trend. VLCCs remained extremely tight on early positions, and very reliant upon ballasters from the East to supplement even forward positions, and as the AG improved, so Owners raised their ideas to equalize earnings. Rates bumped higher to 260,000 by WS 65 (2012) to the East, and USD 5.1 m for West Coast India whilst rates to the US Gulf theoretically move at around WS 67.5 (2012).

Too many ships - not enough cargoes.. so it goes for Aframaxes in the Mediterranean, and rates necessarily fell to 80,000 by WS 85 cross-Mediterranean, with a reduction in Bosphoros delays not aiding the cause either. Some of the slack has now been taken up, but it will need a lot more before any significant turnaround can be engineered. Suezmaxes had a quiet week of it, and sentiment became compromised by the softening West African scene. Rates were chipped away to 135,000 by WS 87.5 from the Black Sea to European destinations with rates in the low WS 70's seen for US Gulf. Next week will become busier, so rates should stabilise from now.

VLCCs in the Caribbean kept rates at up to USD 5.2 m for Singapore with Owners pushing for even higher values on the next deals. Some may succeed, but it will be the earliest vessels that get the full benefit with later positions providing more competition. Aframaxes took a rare upward stride to 70,000 by WS 135 upcoast, but had started to fall away again late-week to end closer to WS 120 and Owners will stay on the defensive through next week.

North Sea aframaxes made steady gains through the week and owners look set to be able to keep their plate spinning for a little longer, but more tonnage is appearing, and there is likely to be some wobbling before too long. Rates moved to 80,000 by WS 125 cross U.K. Continent with 100,000 from the Baltic touching WS 110. Suezmaxes got reasonable attention to the East with up to USD 4.1 m paid for Singapore, but very little was seen for anywhere else, and rates to the US Gulf should now dip below 135,000 by WS 80. VLCCs asked, and some got, relatively sky high numbers with runs to South Korea commanding up to USD 7.5 m, and over USD 5 m asked for Singapore. Little retreat in the near term.

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PRODUCTS

CPP worldwide markets have contrasted. East of Suez has suffered from a dearth of activity whereas Western markets have shone.

LRs have seen mixed fortunes this week, with LR1s seeing a rapid increase in interest but LR2s are still very quiet. 55,000 mt Naphtha AG/Japan has moved upto WS 107.5 and 65,000 mt Jet AG/U.K. Continent is upto USD 1.80 m, increases of 7.5 points and USD 100k respectively. LR2s though have seen hardly any business and 75,000 Naphtha AG/Japan although assessed at WS 90 is probably available at WS 87.5 and 80,000 Jet AG/U.K. Continent is down at USD 2.30 m. Next week will be quiet though with Chinese New Year and it may take the heat out of the LR1s.

The MR's have really suffered this week from the lack of activity. The week began with hugely over tonnaged AG and Singapore list and the prompt position has not cleared. AG-West Coast India Naptha movements to the Far East have fallen to WS 108, coupled with the extremely high bunker prices, that is route is at the bottom, with T/C earnings at just over break even. East Africa has also suffered, with the latest fixture being concluded at WS 172.5 basis 35kt. Jet movements to the U.K. Continent continue to be restricted at USD 1.45 m, but with next to no volume, if tested less could be achieved. Looking to next week with Far Eastern holidays in full swing, it will create a disjointed week, which lead to further inactivity.

The Far East has seen another week that has largely been quiet. We started with a very long list of tonnage in South East Asia but one thing worth mentioning is that 30kt Singapore/Japan has been reported in the market for the first time in a while with fixing numbers at the WS 122 level. As well as the Northbound voyages there has been a little Singapore-Indonesia business and some vessels have also ballasted up to West Coast India to cover naphtha stems; while prompt tonnage is certainly still available we can say that list has thinned a little. Voyages from North Asia down to Singapore-Indonesia have been very quiet; charterer's aiming to fix sub USD 375k for a large MR.

All the best wishes from us for the Year of the Dragon, Celebrations will continue into next week (with Singapore and Korea off for Monday and Tuesday too) and shipping markets are expected to be extremely quiet as a result.

A steady current of shorthaul business in the Mediterranean this week, but not enough to prevent the outlook being weak. Rates for cross-Mediterranean began the week trading 30 at WS 182.5-185 levels, but on account of greater available tonnage they ticked down to 30 at WS 177.5-180. The Black Sea suffered a similar fate, despite some temporary closures in the Turkish Straits and for another week failed to earn a premium on the cross-Mediterranean trade with market currently considered 30 at WS 180 (-). Some interest for ums parcels heading East on both 37kt and 33-35kt clips, with rates spread from USD 950k - 1.1m for Red Sea discharge and USD 1.15-1.25m levels for the AG. Movements West to the US Atlantic Coast remained quiet with most action on the Continent, so the Mediterranean market considered in line with this at 37 at WS 170-175 levels.

A bright start to the week as an abundance of cargoes flooded the market on Monday, WS 175 was highest seen fixed basis 37 kt for runs of mogas basis transatlantic, but was quieter towards end week and WS 167.5 is on subs at time of writing. As strikes draw to a close in West Africa more questions are asked, smaller clips of CPP were arranged at WS 185 basis 33kt. Short haul runs of CPP continued to tick over at WS 185 basis 30kt loading ex Baltics. Cross-Continent movements remained flat with liftings of 22,000 mts secured at WS 215. A quiet week on the LR's in the West, ideas for transatlantic and West Africa are around WS 130 levels but remain largely untested.

A disappointing week in the Caribbean as rates continue to feel the pressure, upcoast movements of CPP into the Atlantic Basin are now deemed to be around WS 130 basis 38kt. Distillates destined for the U.K. Continent and the Mediterranean are trading around WS 80 or less . On the LR's backhauls commanded 60 x 70 for similar discharge options.

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