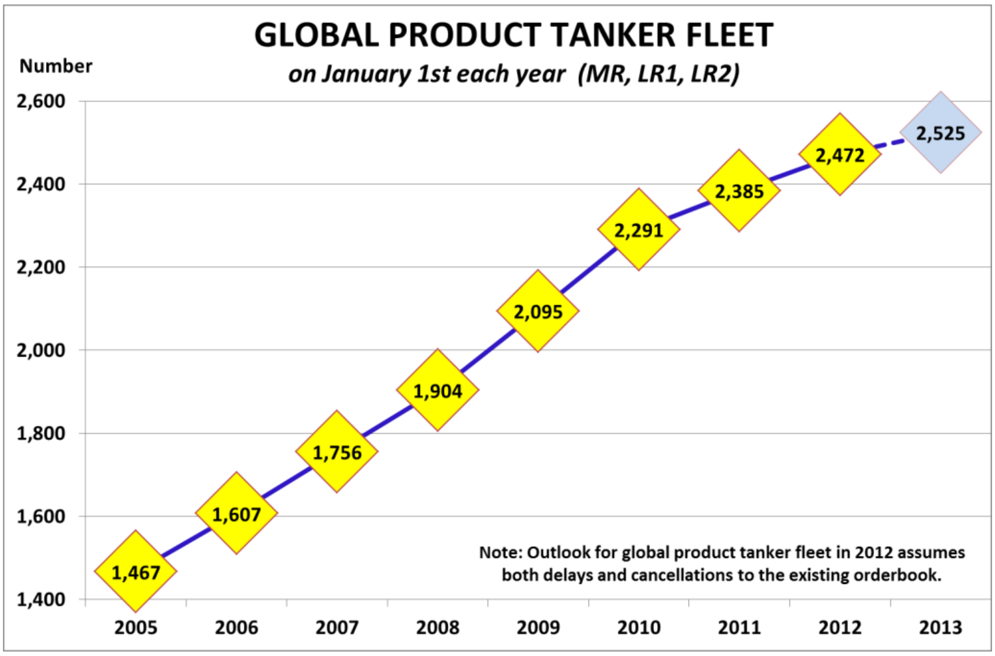
10th February 2012

# CLEAN EAST ROUGHS IT OUT

**The product tanker market in the East has been severely depressed over the past few months. Time charter equivalent earnings (tce) for LR2s trading on the benchmark route from the Middle East Gulf to Japan (TC1) have averaged only $6,000/day (on a round voyage basis at design speed) since November. Tce returns dropped to even lower levels over the past couple of weeks, to around $2,000-3,000/day at design speed. The conditions for smaller product carriers in the East have been similar, with LR1 and MR tce earnings also sinking well below fixed operating costs in recent months. This weakness in the region across all size groups has been primarily due to an abundance of available spot tonnage, with slow steaming becoming a common feature of the market.**

**Since 2005 the product tanker fleet has increased by 1,005 vessels (+65%). This is equivalent to close to an 8% p.a. increase. However, the pace of growth has slowed over the past twelve months and as a result, the total gain in supply was only 3.5% last year. In 2012 the expectations are for an even smaller increase in fleet numbers, not least due to anticipated delays and cancellations as well as strong interest in scrapping amid weak returns at present. The biggest gain is likely to be in the LR2 fleet, with net increase of 6% this year. Importantly, LR1 supply is forecast to rise by only 2% and MRs by just 1.5%. This will lead to an overall growth of only 2%. Beyond 2012, even slower expansion is projected in the product tanker fleet.**

**Thus, the current market is still feeling the effects of rapid fleet expansion over the past few years, but the more limited growth in supply over the next few years will alleviate the oversupply of product tankers. At the same time, on the demand side the prospects are for robust growth. More than 2.8 million b/d of new refining capacity in the Middle East and India is expected to come on stream by 2016 and this will offer strong support both to long haul and short haul products trade out of the region. Combined, these improvements in the supply and demand conditions could provide a solid base for a substantial gain in product tanker rates in the East in the medium term, but for now product tankers will have a few more "rough waves" ahead of them.**



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## CRUDE

A busy week for VLCCs in the Middle East Gulf, and February total volumes will easily hold their own against the recent 'bumper' months seen. But....despite that, Owners have very little to show for it. Rates have climbed by only a fraction to around WS 50 East and WS 34 West, but with bunkers ramping higher, the theoretical net returns haven't improved at all. Perhaps those that haven't secured their bunkers at the pre-hike level will recalibrate their spreadsheets, and raise their bottom line, but perhaps they'll just allow themselves to get squeezed further. However, with a nearly full March programme just around the corner, it should be the former scenario that prevails - eventually. Suezmax enquiry waned through the week, so that by the weeks' end rates had become pressured down to around 130,000 by WS 82.5 East, and to sub WS 50 West as Owners sought to escape the area. Aframaxes also moved off to 80,000 by WS 102.5 East, with an ongoing 10 worldscale point premium for Red Sea loading, as the East market became very quiet.

Suezmax Charterers in West Africa went on a mini bargain hunt spree, as predicted, and that, initially, turned the tide a little in Owners' favour to lead rates to 130,000 by WS 77. US Gulf, WS 82.5 Europe, but things had quietened down late-week, and the upward momentum was lost, and will stay that way until Charterers once again decide to engage. VLCCs eased a touch to 260,000 by WS 52.5 to the East as ballasters from that region became more eager to compete, but with costs increasing, lower levels are unlikely. Little was seen transatlantic, but WS 57.5 was the typical demand. Rates to West Coast India held ground on forward dates with USD 4.1 m the 'last done'.

Aframaxes in the Mediterranean found more pace in the second half of the week, but it only served to scrape rates off their very bottom, and ended at a still very lowly 80,000 by WS 85 cross-Mediterranean, with not much upside expected in the short term. Suezmaxes had a slow week of it and couldn't get out of the low WS 70's for 135,000 from the Black Sea for European destinations. Activity should increase during next week, but nobody is forecasting a significant rally.

Caribbean aframaxes held their heads relatively high, keeping the market at, or a bit above, 70,000 by WS 130 upcoast, but their plate is not likely to keep spinning for long, unless disruption intervenes. VLCCs suffered a quiet start and were primed for a downward correction, so that when Charterers came a knocking, rates fell off to USD 4.6 m for Singapore, but will probably now hold the line.

The North Sea was another tedious story for aframax Owners as rates could only stagnate upon no more than modest demand. 80,000 by WS 92.5/95 was typical cross U.K. Continent with 100,000 by WS 77.5/80 the mark from the Baltic, despite lurking ice. Suezmaxes saw very little, and continue to operate at West Africa-minus for transatlantic movements - in theory at least. VLCC demands eased to under USD 4.25 m for Singapore on very limited fuel oil 'arb' interest.

## PRODUCTS

The European freeze has helped West markets rise, whereas the East continues to struggle in vain.

LRS have once again struggled this week with a lack of cargoes continuing to bite. LR1s lost all ambition with 55,000 mt Naphtha AG/Japan stuck down at WS 100, and 65,000 mt Jet AG/U.K. Continent at USD 1.70 m. LR2s saw a little more activity but not enough to move rates off the bottom. 75,000 Naphtha AG/Japan remains at WS 85 and 90,000 mt Jet AG/U.K. Continent at USD 2.20 m.

The MR's in the AG have suffered another depressing week. Prompt ships continue weigh heavy in the market. There has been a steady trickle of fixing, but not enough to change the momentum of the market. West Coast India/East continues to be rooted to the floor at 35x105 for Japan and 135 for Singapore. East Africa is assessed at WS 170, but the majority of Charterers continue to favour the larger ships. Distillate movements to the U.K. Continent remain restricted to COA liftings, this run is assessed at USD 1.25 m, but less could be available if tested, as Owners may wish to relocate from the area. The shorthaul market has all but evaporated and the market sentiment remains very weak.

The Far Eastern markets have had a challenging week. MR owners faced with the prospect of a long ballast to West Coast India or the AG to fix 35 x WS 105-107.5 level have by enlarge opted to sit spot in Singapore. There has been a dearth of cargoes in the region leading to tonnage building up and the problem of over tonnage has been exacerbated by the fixing window creeping further and further towards the end of the month. The Korea/Singapore backhaul market has quietened down a fraction although levels for this type of voyage are still around the USD 370k level. The LR2s have had mixed fortunes with some of them managing to pick up Korea/Singapore cargoes at around the USD 500k mark. While these numbers are by no means lucrative for Owners it does provide some relief from the miserable Naptha AG/Japan voyages.

Week six followed the trend set in week five, cross-Mediterranean fixing slipped some ten worldscale points basis 30kt distillate to finish the week with WS 145 deemed as market, but potential for a touch less on East Mediterranean loaders. Some delays remain transiting through the S.O.M and Dardanelles but sheer availability of tonnage in the East Mediterranean has hindered this from inserting any spikes into fixing levels and also any premiums upon cross-Mediterranean fixing at 30 x 142.5-145. Long-haul trade for the MR's has remained steady, USD 1.2 m confirmed for A.G. discharge whilst West options secure 37x150 in line with the Continent.

The transatlantic market has fallen slightly this week, trading down to WS 150 basis 37kt, and tonnage was of good supply as the US markets still lacked any drive. Short-haul on the Continent was busy, and positions thin, rates for handy tonnage increased to WS 200-210 basis 30kt with the flexi's up to WS 265 basis 22kt, on subjects at time of writing. Cargoes bound for West Africa were in short supply, however freight rates would be the same of that pro-rata on the MR's. LR's were quiet generally, transatlantic fixing 115-117.5 basis 60kt, and there was Naptha interest Far East towards weeks end, Owners ideas USD 2.3-2.4m to Japan on LR1's.

The Caribbean market has remained very slow. Freight prices for movements upcoast again fell to WS 110-115 basis 38kt. Backhaul liftings ex US Gulf to U.K. Continent-Mediterranean ranges were covered between WS 75 - 80 and we saw Jet confirmed for discharge West Africa 38x110. US Gulf / Chile was fixed on MR at 1.4 m.

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