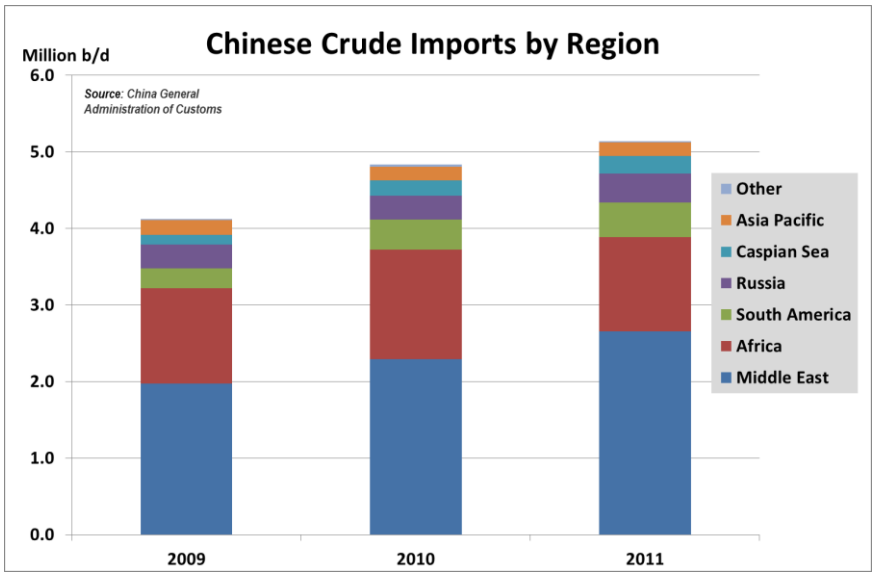
24th February 2012

CHINA'S STORY

Undoubtedly, for many years China's relentless thirst for oil to fuel its expanding economy provided massive support to the tanker industry. Over the past three years alone, Chinese crude imports have increased on average by around 0.51 million b/d per annum. However, there was a slowdown in crude trade growth last year. Imports rose by just 0.31 million b/d on the back of moderating economic growth and slowing refining capacity expansion. More than the net gain came from the Middle East producers, with volume from the region up by 0.37 million b/d year-on-year. However, long haul crude imports from Africa actually declined by 0.2 million b/d in 2011, as more light sweet West African crude was "pulled" into Europe to compensate for the loss of Libyan barrels. This year the expectations are for an even smaller increase in Chinese crude imports. The research unit of China National Petroleum Corp forecasts an annual growth of just 0.25 million b/d, although around 0.8 million b/d of refining capacity is scheduled to come on stream over the course of 2012 (some of which may slip into 2013).

For tanker markets, rapidly recovering Libyan crude oil production is likely to lead to stronger crude tonne mile demand into China. The rebound in Libyan crude production is easing supply pressures on European refiners, making more African crude available for eastern buyers. At the same time, the geopolitical tensions in Iran, Sudan and Yemen could lead to less crude oil exported from these countries to China. These "lost" barrels will have to be replaced, possibly from further afield, pushing tanker tonne mile demand even higher. Last, but not least, there is also a possibility of higher crude imports due to strategic storage developments, more specifically the 2nd phase of the Strategic Petroleum Reserve (SPR). Although the Chinese authorities are still to release detailed information, the indications are that the reserve capacity during this phase could increase by 169 million bbls. Media reports suggest that close to 79 million bbls of storage facilities have already been constructed and are ready to be filled or are due to be completed soon. If these 79 million bbls facilities are filled evenly in 2012, this would imply an increase of 0.22 million b/d in crude import requirements. However, the IEA warns that buying decisions are likely to depend on prevailing market conditions, such as the level of oil prices. Therefore, the pace of filling the reserve is expected to be more erratic and for tankers it is likely to translate into greater volatility.



Combined, the above developments suggest that the actual crude tanker demand into China in 2012 is likely to be stronger than the base case forecasts would indicate. Yet, this may still not be enough for tanker owners this year. Nonetheless, the further expansion in Chinese refining capacity and the filling of the SPR could mean a return to stronger growth in crude imports over the next couple of years.

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CRUDE

VLCC Charterers in the Middle East Gulf handled themselves with distinction, much to Owners Chagrin, as they chose to merely drip feed cargoes into the marketplace, thereby preventing Owners from achieving the momentum needed to push the market higher. Rates settled into the low WS 50's East, and maintained around WS 34 to the West, though net earnings were eroded by higher bunker costs. Now IP week is over, there may be more concentration upon the sharp end, and if the reins are loosened a little, then Owners will quickly take advantage. Suezmaxes had a busier week of it, but it was not enough to soak up the excess availability and rates remained at an average 130,000 by WS 82.5/85 East and around WS 45 to the West with little early change forecast. Aframaxes didn't see a lot, and only just enough to hold the line at 80,000 by WS 95/97.5 for Singapore with Owners staying under pressure for a while yet.

Suezmaxes in West Africa started to harden their sentiment midweek as sufficient demand started to more severely prune supply, but the market never reached critical mass, and rates stalled at 130,000 by WS 77.5 for US Gulf, WS 80 U.K. Continent-Mediterranean with even some slippage by the weeks' end. They will hope that Charterers lose their discipline for the last decade of March. VLCCs, certainly, are in tight supply on the suezmax fixing window where rates hold at 260,000 by WS 60/62.5 for (rare) US Gulf runs, but the more voluminous East demand is working off sufficiently forward dates to encompass ballasters, so that round trips are pegged below WS 60 - for now, or until the AG improves.

The Mediterranean aframax scene was, for most of the week, one of frustration for aframax Owners. They would have pushed if they could, but Charterers didn't play the game until late, and rates held no better than 80,000 by WS 87.5 cross-Mediterranean, but a late flurry may now drag rates to a higher rate-band. Suezmaxes had a very dull time of it - yes, there was fixing of course, but it was thin, and availability plentiful. Rates end at 135,000 by WS 75/77.5 from the Black Sea for European destinations, and will take a while to turn the corner.

Aframaxes in the Caribbean hung on to tales of fog disruption in the US Gulf, and that prevented rates from falling as sharply as they would otherwise have done, declining modestly to 70,000 by WS 130 upcoast, though further easing is expected. VLCCs were steadily picked off through the week at a 'conference' USD 4.8 m for Singapore, and may creep a little higher next week as the list thins.

The North Sea became - or remained - a tedious aframax tug of war match with 80,000 by WS 87.5 cross U.K. Continent as the 'gain line', and it is the slightly more burly charterers team that looks to have the upper hand going into next week' contest. Suezmaxes drew a virtual blank, but in theory move at 135,000 by WS 67.5 for transatlantic runs. VLCCs have been virtually fixed out, but USD 4.45 m was recorded to Singapore for fuel oil 'arb' barrels with crude to further East options running a little South of the USD 6 m mark.

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PRODUCTS

Another dire week East of Suez, as West gives a small sign of promise.

The LRs in the East have had a quiet time with tonnage continuing to build up, especially on the LR2 size. LR1s looked a little more optimistic earlier in the week but it struggled to really come to anything. 55,000 mt AG/Japan remains stuck firmly at WS 100 with the odd deal done below, and 65,000 mt AG/U.K. Continent is stable at USD 1.70 m. 75,000 mt AG/Japan settled at WS 82.5 this week and 90,000 mt AG/U.K. Continent is available at USD 1.95 m. These rates look unlikely to improve in the coming week.

MR's are showing some signs of life and the prompt tonnage is slowly being cleared out, whilst this is encouraging rates remain rooted to the bottom and with ever increasing bunker prices, the challenges remain. TC12 has traded at WS 105 all week and UMS shipments into Singapore at WS 135, but some Owners are beginning to talk higher numbers, however none of these have been realised. East Africa is fixing at WS 165 basis 35kt, but not all Owners are willing to fix these levels, given the piracy risk associated to this route. AG to the U.K. Continent continues to be restricted to COA movements, but is assessed at USD 1.2 m. Many expect March to be a more buoyant market, only time will tell.

This week has seen a clear out of a lot of the prompt MR positions in Singapore for a combination of reasons. There has been a product draw into Indonesia after a refinery shut down, the arrival of 2-3 LR1s in Singapore containing Aromatic cargoes bound for China on MR units loading early March dates and finally an uptick in West Coast India requirements. While there is still sufficient tonnage to cover the various outstanding requirements at similar rates to what we have previously seen some Owners are feeling more confident about the possibility of freight levels up. The back haul market remains busy on both MR and LR1 sizes with both sets of tonnage fixing at similar levels for Korea / Singapore stems.

Still no spark in the Mediterranean market, which is continuing to trade flat. Cross-Mediterranean business is fixing 30 x WS 140-142.5 levels, which seems to be the agreed bottom of market, with rates below strongly resisted. The Black Sea has been slightly more active as product has begun to trickle through, however rates remain parallel with cross Mediterranean 30 x WS 140-142.5. MR tonnage is fairly tight/date dependent in the med, but with longhaul requirements slow, the market is considered in line with the U.K. Continent, 37 at WS 190 for transatlantic/West Africa discharge. UMS trading to the East has been quiet, but rates need testing in light of a more active West market; idea's arranged around USD 1.2m /1.3m levels for Red Sea/AG discharge.

The Continent has followed the trajectory of week 8 as the TC2 market continued to make strides and tonnage remains fairly tight. Fixing levels were reported up 20 worldscale points with WS 187.5 fixing basis 37kt mogas. West Africa has seen fewer enquiries, however, discharge options have been reported and the market has stayed at a pace, MR's are in line with transatlantic runs. Handies are trading at around 33 x WS 205-210. North West Europe has been fairly quiet, liftings from the Baltics for gasoil have secured 30 x WS 200 with flexis achieving 22 x WS 270 for Ice Class units. Trickles of enquiry on the LR's, West options loading ex Continent have been booked at WS 117.5 for long-haul discharge options transatlantic and West Africa.

A steady week in the Caribbean, up-coast movements of CPP discharging into the Atlantic basin were confirmed around WS 160 basis 38kt. Further backhaul enquiry for distillates loading ex US Gulf with discharge options into the U.K. Continent and Mediterranean, rates are trading around WS 97.5 date dependant on liftings of 38,000 mts.

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