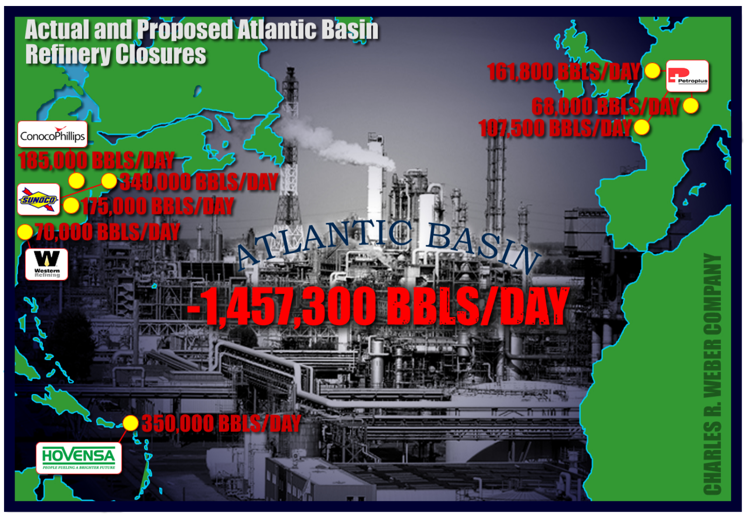
WEBER WEEKLY TANKER REPORT

WEEK 03 – 20 JANUARY 2012 **ISSUE 03 – 2012**

HOVENSA refinery latest casualty of poor refining margins

What are the implications for the tanker market?

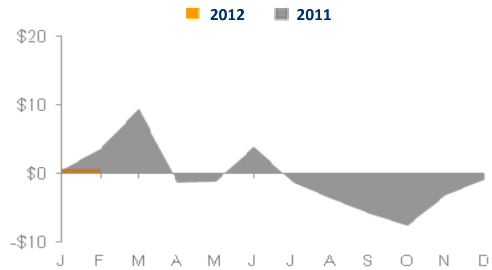
With the announcement of the closure of the Hovensa refinery, the resulting gasoline shortfall would be widely expected to be replaced with European excess gasoline, boosting TC2 activity. However, as this development follows a string of completed and planned refinery idling on the US Atlantic Coast and Europe, much remains unknown as to how the products market will rebalance.



Crude

PDVSA is believed to operate two Suezmax tankers on time charter shuttling heavy crude cargoes from export terminals at Puerta La Cruz, Venezuela, to the Hovensa terminal at St. Croix. Given the voyage duration and accounting for average waiting, loading, discharge and delay time, it can be surmised that Venezuelan crude accounts for between 275,000 and 295,000 b/d of Hovensa's crude inputs. During 2011 crude imports via the spot market amounted to approximately 52,500 b/d – of which 41,400 b/d was sourced from West Africa light crude grades (with Suezmax tonnage accounting for 79% and Aframaxes the balance). Though it would stand to reason that the two Suezmaxes shuttling Venezuelan crude to St. Croix will ultimately be redelivered to their owners, the elimination of this short-haul route will likely lead to a greater number of Venezuelan cargoes committed to longer-haul routes.

The net affect of the elimination of spot market Suezmax cargoes from West Africa may compound the imminent decline in trans-Atlantic Suezmax activity from the previously announced US Atlantic Coast refinery idlings. However, given the recent newbuilding order of some 10 Suezmaxes (with options for a further 10) by Chinese interests, there is reason to believe that with Chinese crude requirements increasingly sought from production



VLCC TCE 280k AG-USG	MTD Average $500/Day	January y/y ▲ +18%

S'MAX TCE 130k WAF-USAC	MTD Average $34,750/Day	January y/y y ▲ +307%

A'MAX TCE 70k CBS-USG	MTD Average $10,000/Day	January y/y ▼ -10%

P'MAX TCE 50k CBS-USAC	MTD Average $5,500/Day	January y/y ▼ -69%

MR TCE 38k CBS-USAC	MTD Average $16,500/Day	January y/y ▲ +89%

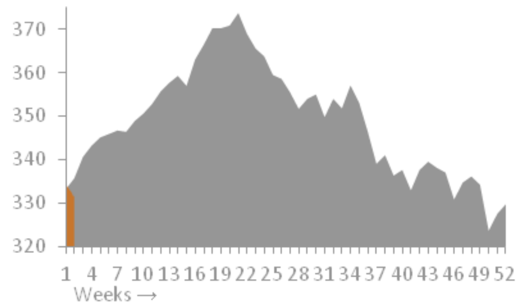
areas in the Atlantic basin, Chinese charterers may be keen to expand beyond their reliance on VLCC tonnage to more flexible Suezmax tonnage.

CPP

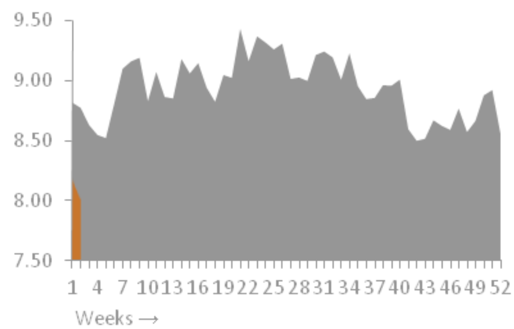
Given the implications for changes in ton-mile demand progression for product tankers, this issue is one which industry participants are keen to digest. With a combined refining capacity of over 1.4 mb/d either now idled or scheduled to be idled by mid-2012 on not just the US Atlantic Coast and St. Croix, but also Europe, questions abound as to where the replacement cargoes will be sourced from; especially when demand rebounds.

To this end **a clear answer has yet to emerge**; only a general inference that product tanker ton-mile demand will improve as trades rebalance to absorb some of the excess capacity in the east. Just a few weeks ago, TC2 activity was widely expected to post demand gains to offset US Atlantic Coast idlings. Petroplus idling of 337,000 b/d of capacity (in addition to an unknown reduction of utilization at their two remaining refineries), however, highlights the profitability issues plaguing European refiners and may be a prelude to further idlings there to come. In this case, TC2 activity could actually decline and USAC gasoline supplies will be increasingly sourced from the Bahamas' BORCO and other Caribbean-area storage and trans-shipment centers (where CPP is increasingly likely to come from the Far East on LR tonnage).

Sluggish TC2 rates against greater Caribbean market activity will discourage owners to trade USG-TA cargoes, prompting stronger rate gains on that route.



US Crude Stocks (EIA) | **331.2 Mbbls** | **'11-'12 WoW ▼ -1.3%**



US Gasoline Demand (EIA) | **7.996 Mb/d** | **'10-'11 WoW ▼ -8.9%**

2011 2010

WEBER WEEKLY TANKER REPORT

Spot Rates	Trade	Cargo	WS	TCE
VLCC				*$/day*
TD1	AG>USG	280,000 MT	37.5	$5,400
TD2	AG>SPORE	260,000 MT	65.0	$40,600
TD3	AG>JPN	260,000 MT	65.0	$43,700
TD4	WAFR>USG	260,000 MT	67.5	$41,200
TD15	WAFR>CHINA	260,000 MT	65.0	$38,000
SUEZMAX				
TD5	WAFR>USAC	130,000 MT	81.25	$22,200
TD6	B.SEA>MED	135,000 MT	92.5	$33,000
AFRAMAX				
TD7	N.SEA>UKC	80,000 MT	120.0	$36,300
TD9	CBS>USG	70,000 MT	125.0	$18,900
TD19	TRK>MED	80,000 MT	90.0	$11,500
PANAMAX				
TD10	CBS>USAC	50,000 MT	105.0	$5,600
TD12	CONT>TA	55,000 MT	120.0	$12,200
CPP				
TC2	CONT>TA	37,000 MT	167.5	$14,200
TC3	CBS>USAC	38,000 MT	130.0	$7,300
TC4	SPOR>JPN	30,000 MT	120.0	$100
TC1 LR2	AG>JPN	75,000 MT	90.0	$10,400
TC5 LR1	AG>JPN	55,000 MT	100.0	$5,900

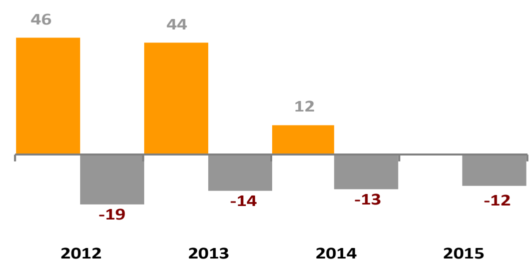
Time Charter Rates *$/day (theoretical)*	1 Year	3 Years	5 Years
VLCC	$16,250	$24,750	$30,000
Suezmax	$16,750	$20,750	$22,250
Aframax	$13,000	$17,000	$18,500
Panamax	$13,500	$14,750	$16,500
MR	$13,800	$14,750	$16,500

THE TANKER MARKETS

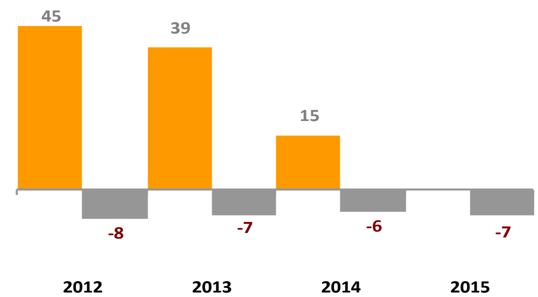
VLCC

The pace of fresh activity accelerated further this week as Chinese charterers rushed to cover requirements ahead of the upcoming Chinese New Year holiday week. This, combined with sustained activity in the Atlantic basin, which drew from Middle East positions, saw rates across all markets extend gains. Of particular note, average earnings in the VLCC sector (calculated as a weighted average of earnings on key VLCC routes basis activity proportions) rose by week's end to nearly $41,000/day. Given the extent of gains realized during the present rally, the market appears to have

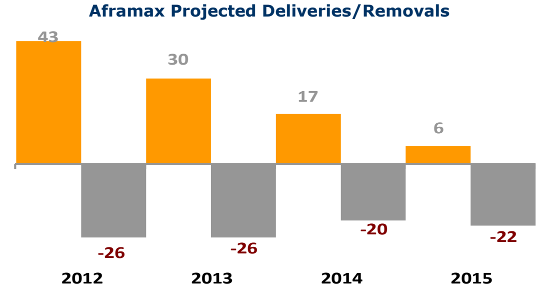
VLCC Projected Deliveries/Removals



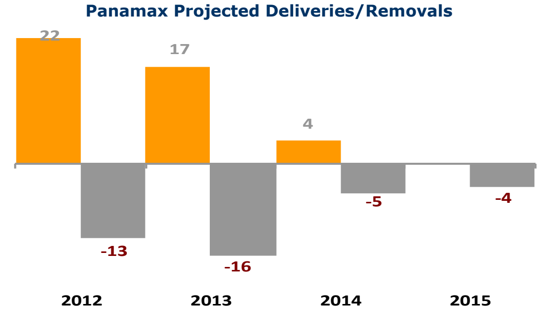
Suezmax Projected Deliveries/Removals



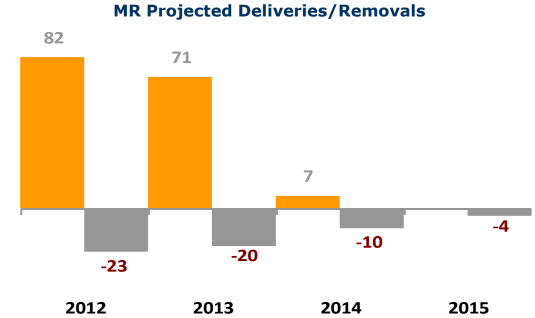
Aframax Projected Deliveries/Removals



Panamax Projected Deliveries/Removals



MR Projected Deliveries/Removals



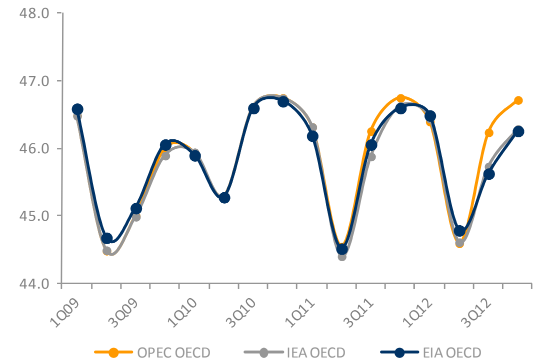
neared its peak with an increased likelihood of a correction during the coming month. This sentiment is apparent in the present TCE return differentials, as shorter voyages are commanding much greater premiums than longer voyages reflecting the willingness of owners to lock into lower returns where the duration of such returns are greater.

In the Middle East market, some 37 fresh fixtures were reported this week. Of these, 33 were bound for the east, with the discharge profile led by China, which accounted for 11, followed by 6 bound for Korea. Four were bound for the west in an even split between the USG and UKC as the discharge range. Rates to the far east gained 12.5 points from a week ago to a present assessment of ws65. TCE returns gained $19,000/day w/w to ~$42,200/day. Rates to the USG gained 2 points from a week ago to ws37.5 presently. Simple round-voyage TCEs on the route gained $3,300/day w/w to ~$5,300/day.

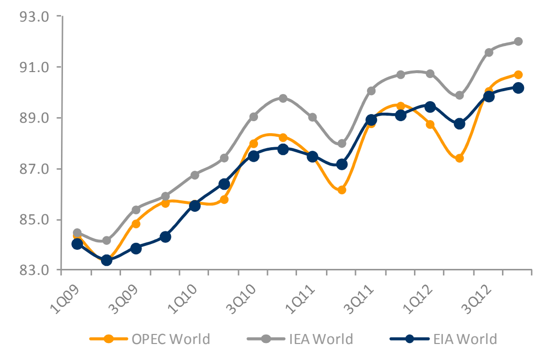
With the January Middle East program likely having concluded with a tally of 123 cargoes, all eyes are on the February program, for which some 46 cargoes have been covered to-date. This leaves a further 14 cargoes as likely remaining through the first half of the month whilst some 44 units are projected to be available through the period space of time. Although positions remain tight through the first decade of February, the overall excess of some 30 units through the first half implies that following some date-sensitivity issues, rates are likely to soften in the coming week.

Activity in the Atlantic basin remained strong this week with some 13 fresh fixtures reported and the limited list of normal positions kept upward pressure on rates. Illustrating this, all 6 of this week's ex-WAFR fixtures were concluded on ballast units from the east. Eastbound rates firmed in tandem with the strengthening MEG market as owners successfully commanded premiums in order to bypass the MEG on ballasting units, with rate gains of 11 points this week, yielding a present TCE of ~$41,500/day. Trans-Atlantic activity was limited as the softening Suezmax rates saw that sector remain more economical and overall VLCC tonnage availability was low. Rates on the CBS-SPORE route were untested at the start of the week at the $4.75m level but on retesting were in excess of $5.25m. Though the upcoming week is expected to be quieter, the availability of natural positions should hold rates at present levels.

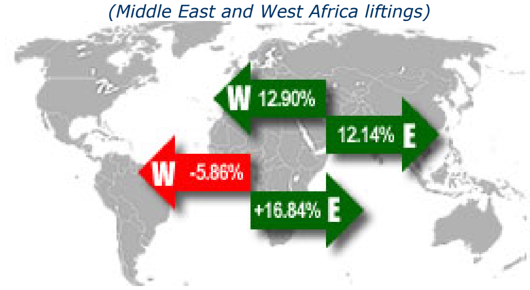
Projected OECD Oil Demand



Projected World Oil Demand



Percentage Change, 130+kMT fixtures, 2011, y/y
(Middle East and West Africa liftings)



Suezmax

Rates in the Atlantic Suezmax market were under negative pressure this week on the back of a decline in fresh inquiry as many ex-West Africa cargoes were bound for the far east on VLCC tonnage. The WAFR-USAC benchmark route shed about 11 points to conclude at ws81.25. With weather delays in the BSEA/MED market having declined, overall tonnage availability is likely to expand during the coming week, prompting further rate losses.

Aframax

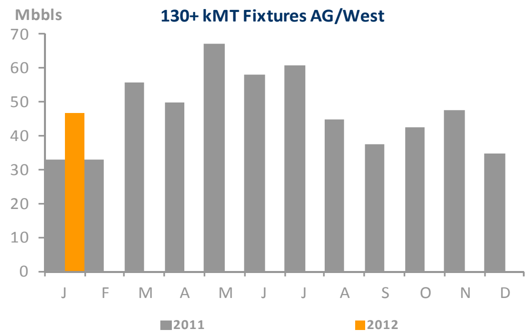
After a volatile start to the week, a quick resurgence of activity at midweek in the Caribbean Aframax market saw rates post strong gains. The benchmark CBS-USG route gained 20 points to conclude at ws125. Though the supply/demand ratio is presently well balanced which would imply that rates remain stable, fog and other delays may provide owners sufficient reason to command some small gains.

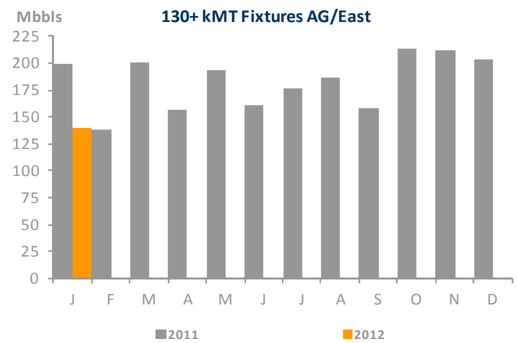
Panamax

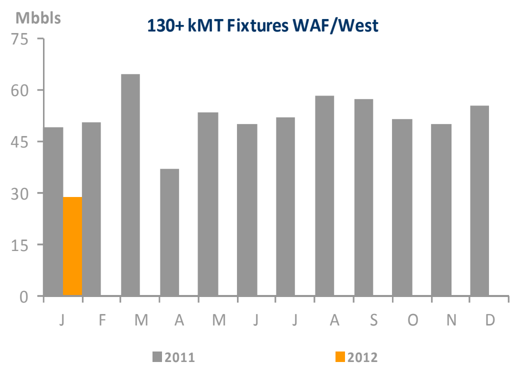
The Caribbean Panamax market was largely flat this week at the ws105 level on the benchmark CBS-USAC route. With Caribbean Aframax returns having gained traction from mid-week and Panamax rates on the CONT-USG route having gained 12.5 points to ws120, owners showed greater resistance to the stagnant CBS-USAC rates but lacked sufficient demand to command any gains. During the week ahead, more units may ballast towards the European market where TCE returns are presently more than double those in the Caribbean whilst fog in the USG and transit delays at the Panama Canal may be sufficient to allow for gains, but this will ultimately require an uptick in activity.

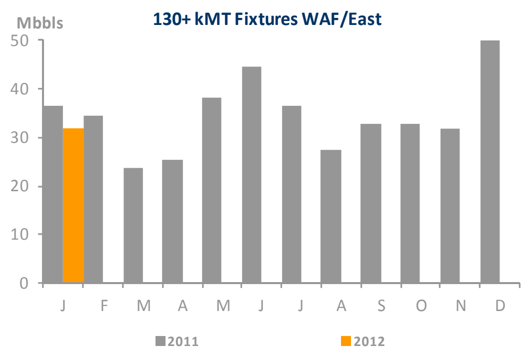
CPP

MR rates across the Atlantic were soft this week as a lull in activity in all markets followed the shutting of several key arbitrage windows. The CBS-USAC route saw a 25 points correction this week The CONT-USAC route was more volatile, having commenced at ws167.5 before gaining 2.5 points on the back of a brief mid-week uptick in demand and ultimately settling back at ws167.5.









REPORTED TANKER SALES

"Samho Dream" 319,360/08 – Samho - DH
-Sold for $28.3m to Greek buyers (Embiricos) after failing to reach an auction reserve.

Sungdong S2032 – 150,000/12 – Sungdong – DH
Sungdong S2033 – 150,000/12 – Sungdong – DH
-Sold to Greek buyers (Tsakos) for $52.0m each.

"Hartzi" 15,441/02 – Samho – DH
"Skledros" 15,441/99 – Samho – DH
-Sold for $7.3m and $7.0m, respectively, at auction to undisclosed buyers.

"Golden Willing" 12,999/08 – Saiki – DH
-Sold for $12.4m to Singaporean buyers.

REPORTED TANKER DEMOLITION SALES

PAKISTAN

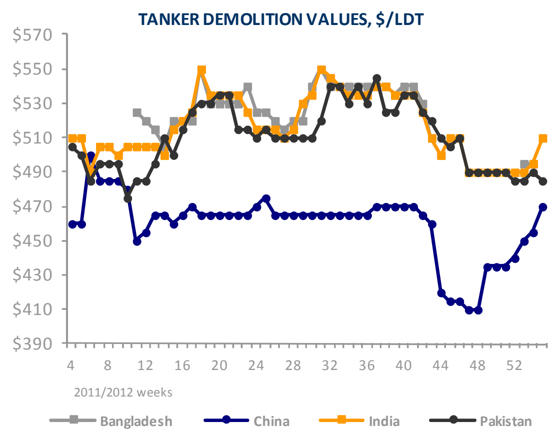
"Ionian Sea" 98,827/92 – 16,787 LDT - DH
-Sold for $495/ldt. Unit converted from OBO and to DH 12/2006.

INDIA

FPSO **"Sea Cat"** 89,636/85 – 14,148 LDT
-Sold for $441/ldt basis as is, Malaysia.

"Andros C" 55,289/84 – 11,221 LDT – SH
-Sold for $340/ldt basis as is, Cuba.

"Bow Prosper" 46,665/87 – 12,200 LDT – SH
-Sold for $525/ldt, including 250 MT of St St.



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