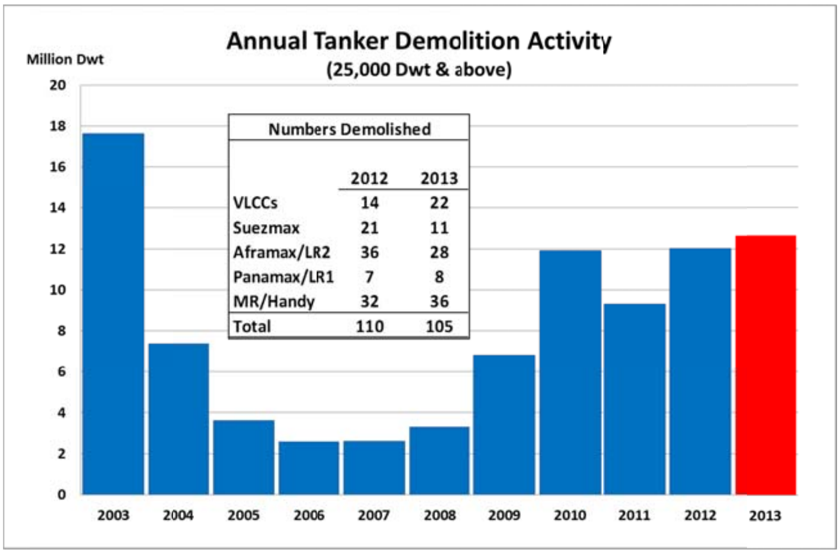
WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

10th January 2014

TANKERS FEEL THE HEAT!

In deadweight terms, tanker tonnage sold for demolition last year amounted to 12.6 million tonnes, the highest total achieved since 2003. Total tanker demolition sales for the year exceeded the 2012 volume by 0.8 million dwt as trading conditions, particularly for the crude tankers, continued to be challenging for most of the year. Lightweight prices remained fairly firm throughout the year and closed December at around $435/lwt tonne (sub-continent), still around $15 higher than the corresponding period last year. Of the 105 tankers (25,000 dwt+) sold for scrap, exactly one third were less than 20 years old and importantly 72 vessels were double-hull.



Looking back at last year's statistics, 22 VLCCs (average age 18.9 years) were sold for demolition, with half the sales concluded in the 3rd quarter. VLCC tonnage accounted for half of the deadweight total scrapped at 6.4 million. The VLCC DIAMOND JASMINE (281,050 dwt) was just 14 years of age when sold to breakers in June, and the largest tanker sold for disposal was the SEAGULL (310,653 dwt), both to India. There were 11 Suezmax sales, while Aframax/LR2s numbered 28 (average age 21.7 years) accounting for 22% (2.7 million dwt) of all demolition. A small increase in MR/Handysize, up by 4 to 36 over last year, while Panamax/LR1 disposals totalled 8. Once again these numbers reflect the general pattern in the short term expectations of the tanker industry: concern for the crude market and stronger prospects for product tankers. Pakistan once again dominated tanker demolition, taking 6 million dwt (47 units). Bangladesh retained second spot with 2.8 million dwt, followed by India (1.7 million dwt).

The 22 VLCCs sent for breaking last year is the highest number since 2003 when 27 sales were recorded. 2003 was an exceptional year for tanker demolition as the International regulations on the first phase of single-hull disposals became effective the following year. This year should see the removal of the last single-hull tankers. Of the remaining single-hulls, the majority no longer trade in the conventional tanker markets (storage or shuttle duties etc.). However many of these will be removed this year and their duties taken over by the first generation double-hull tonnage. Of course, as always, the worry for the tanker market is the pace that new orders are placed and following the slow start, 2013 saw a massive boom in fresh orders, particularly for product carriers. Although the tanker fleet continues to get younger, we expect more scrapping this year than 2013; there can never be too much recycling to bring about a faster recovery to the tanker market.

Middle East

A nasty post-Holiday hangover hit hard for VLCC Owners as Charterers sustained discipline over the period built up visible availability, and undermined sentiment, to bring rates back to where they were at the end of October, last, and before the sustained upswing in the lead up to Christmas. Levels now stand at a relatively lowly ws 40 to the East (from a peak of w67.5), and ws 29 to the West (from a peak of w39) via Cape. The next period may well be busier with bargain hunters, but although rates should bottom out, a meaningful improvement will take some time to re-engineer. Suezmaxes stuttered initially, but found strong interest late-week, which, coupled with continued Atlantic strength, to raise the rate-bar to around 130,000 by ws 95 East and ws 57.5 to the West with consolidation likely over the near term. Aframaxes scrapped around, but never found enough to get any real grip, and rates remained stuck at close to 80,000 by ws 115 to Singapore with little early change anticipated.

West Africa

Suezmax Charterers couldn't fully ditch their fixing habit, and a market that had been looking slippery, suddenly rebounded sharply upon a flurry of late-January interest that propelled rates to 130,000 by ws 120 US Gulf, and ws 130 to Europe by the week's end, and although ballasters from the East will start to dilute things, there will be more hay to be made by Owners before the inevitable collapse. VLCCs started slowly as Charterers eyed the pertinent Middle East decline, but eventually more was seen, albeit at down to a much lower 260,000 by ws 49.5 East, with US$4.65 million 'last done' for a Nigeria/EC India run. There was also some rare Inter Atlantic action due to the spiking Suezmax sector, and up to 260,000 by ws 69 was paid for UK Cont discharge.

Mediterranean

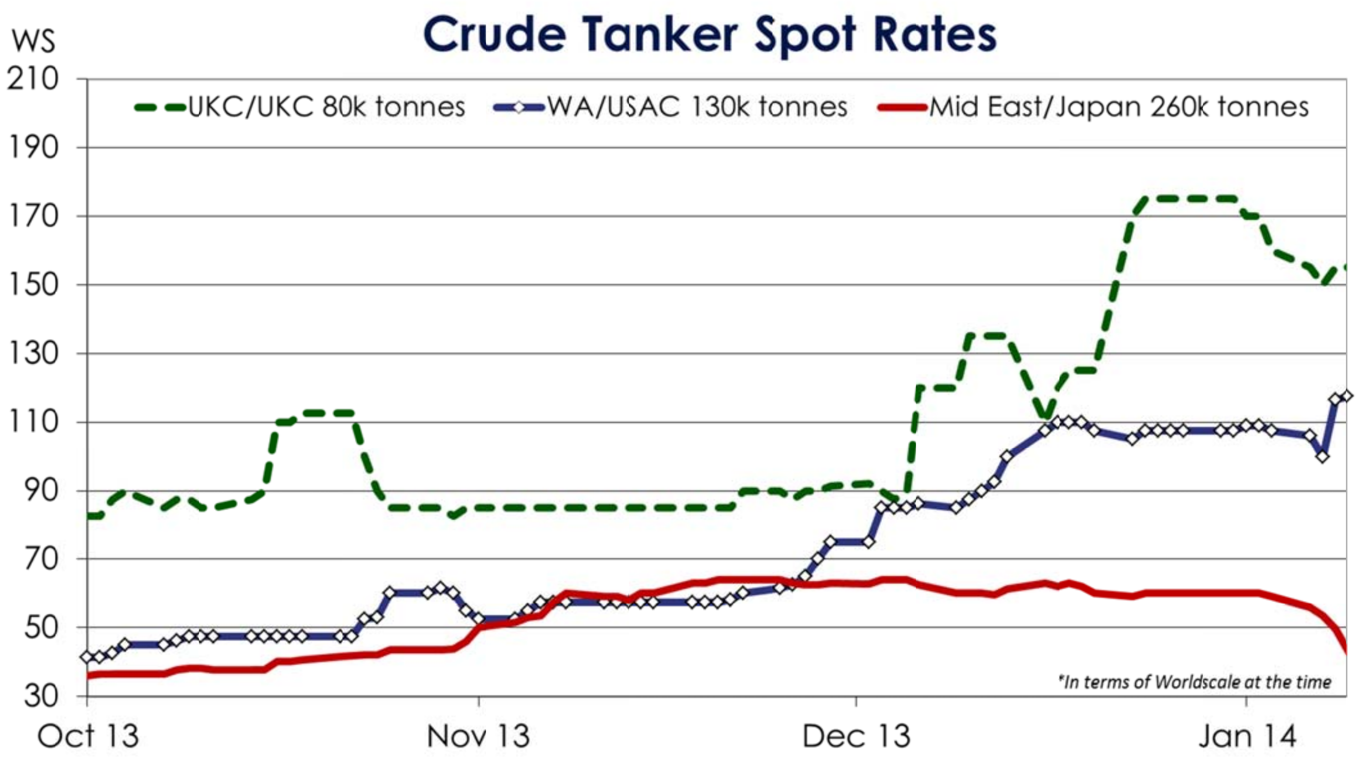
As in West Africa, Suezmaxes started a little uncertainly, but quickly had their faith restored by steady, sustained, demand and rates from the Black Sea moved up to 140,000 by ws 140 to European options, accordingly, with up to a peak of ws 160 seen for a cross Med run, and US$4.5 million paid for Black Sea to Singapore. More of the same for a little while yet. Aframaxes spent the first half of the week in retreat, but then as balance was restored, rates began to move up again to 80,000 by ws 127.5 cross Med, though still a long way short of last week's ws 155 peak mark. Weather has temporarily improved, freeing up previously tied up units, so upside potential looks rather limited for now.

Caribbean

Aframaxes here continued to live the dream, and a continued surge of enquiry, together with bad weather disruption, boosted rates to 70,000 by ws 260 upcoast - too good to last for very long, but it has already lasted longer than forecast, so perhaps there's another round to come. Suezmaxes also kept busy, but more to outside of the area with Transatlantic paying up to 130,000 by ws 110,and Fuel to Singapore at US$ 3.5 million. VLCCs also picked up the pace somewhat, but the previous over-hang of tonnage pegged rates back to around US$ 5.2 million to Singapore, and US$ 4.75 million to West Coast India.

North Sea

Week on week, Aframax rates haven't materially changed, despite some inter-week fluctuation. 80,000 moves at ws 155 cross UKC with 100,000 by ws 145 the mark ex Baltic, and ice still not yet a serious consideration - or a rate propellant - for the time being. Suezmaxes couldn't fail to enjoy continued strength with West Africa and the Med being so buoyant, and rates of 135,000 by ws 115 Transatlantic, and US$ 4.9 million from the Baltic to South Korea were the result, and will continue similar whilst those other areas prosper. VLCCs stayed very thin on the ground, and saw little interest, but rate demands stayed at around US$5.25 million for Rotterdam to Singapore.



CLEAN PRODUCTS

East

LRs started the week with very long tonnage lists and an overwhelming downward feel. As the week has progressed rates have dropped steadily but encouragingly activity levels have continued to rise and it now looks possible we have seen the worst of it and rates will bounce a touch back up. 75,000 mt Naphtha AG/Japan is w69 and 90,000 mt jet AG/UKC is US$1.90 million, but these rates could see small improvements in the next next or so. 55,000 mt Naphtha AG/Japan is down to w90 but should stop there for now. 65,000 mt Jet AG/UKC has fallen to US$1.65 million and with a firmer West market is still the preferred route, so is unlikely to improve quickly.

MRs have stuttered this week and a long tonnage list, particularly in Fujairah and Singapore has really hampered Owners. There hasn't been too much enquiry either, really compounding Owners woes. Tc12 is assessed at ws 100-105 and with such a backlog of ships in Singapore, any chance of improvement looks slim. East Africa has been fixed at ws 160, but the inactivity means the rates have softened, with Ws 155 being available. Western runs to the UK Continent have fixed at US$ 1.225, but off the right dates, some ships are willing US$ 1.2Mill or even less. The Cross-AG are seeing competition from the LRs also, which is keeping rates under pressure. The outlook for MRs is weak, as there supply far outstrips demand for tonnage.

It has been a mixed week for North Asia ¿ we have seen fixing levels step up a shade towards the end of this week, but more activity is needed to build momentum and push rates in an upward direction. Market levels are still weak, and MRs for South Korea/Singapore are fixing at 380K levels. South Korea/Australia on the MRs is currently fixing at 35kt x ws 150. The bigger ships are also in the doldrums; for South Korea/Singapore, LR1s are fixing at as low as USD 400K levels and LR2s are struggling to beat US$ 450K. Singapore also has a lengthy MR tonnage list for January, and Singapore/Australia is fixing at around 30kt x ws165. There is an upside for Owners in the Far East: historically, we are used to seeing a busy period before Chinese New Year, which is coming up at the end of this month. While this week’s activity has not given rates a boost, it has left a fractionally healthier tonnage list on which is a good platform to build, so now Owners are keeping their fingers crossed for a pre-holiday fixing spree.

Mediterranean

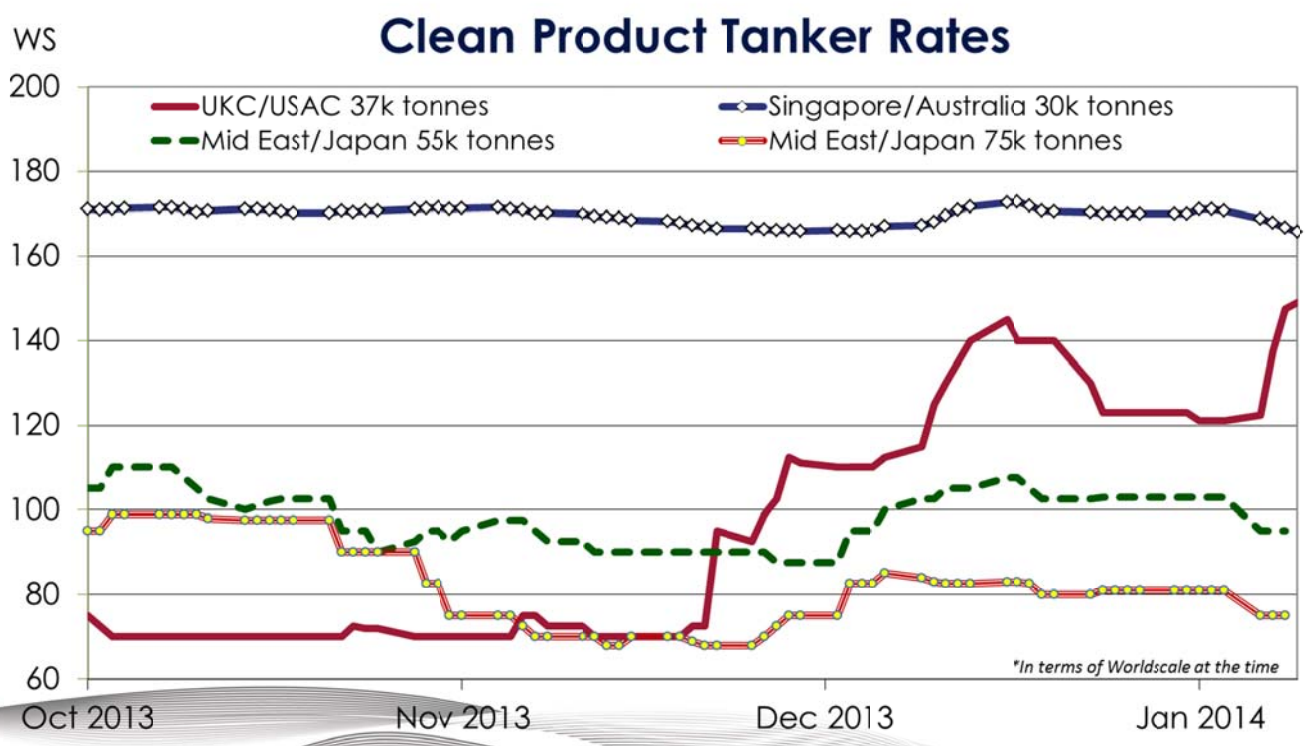
Overall there has been a decent level enquiry for handys in the Mediterranean, but it's not been sufficient to counter balance the growing tonnage list. Rates have softened slightly fixing 30 x ws 165-167.5 for cross Med and Black Sea Med and expected to tick down further into week 3. On the MRs there have been slim pickings for actual Med loading cargos, but rates have risen on the back of a firm UKC market and now considered 37 x ws 147.5-150 for transatlantic discharge/ ws 165-170 for West Africa. For East discharge Owners ideas arranged around US$ 1.05-1.15m Red Sea / US$ 1.2-1.3m AG. LR1s are especially firm with US$ 1.55m on subs for Med to the AG and US$ 2.6m confirmed for Japan, but next done likely more with the list tight.

UK Continent

An extremely busy week on all sizes on the Continent. Lots of enquiry on the MR's, TA, West Africa and reformate to China all the way up to end month. TC2 is currently trading 37 x 150 and firm. Cont / West Africa is fixing 37 x ws 165. Owners ideas to china for IMO 2 units is around US$ 2.2-2.3m but so far haven't seen anything confirmed on the MR's. Handies getting tighter as ice begins to play a part, 30 x 177.5 on subs ex Baltic at time of writing with clear potential for next done being more, the flexi's are 22 x 195. Lr1's have had an extremely active run, with all routes coming into play and tightening the list up to the end of the month. LR1's Cont/West Africa Owners taking 60 x140 (2014), US$ 2.75m is on subs Cont / Japan.

Caribbean

The polar vortex seems to have put the freeze on USG enquiry this week with TC14 trending downwards as prompt tonnage has built in the Gulf. Rates have slowly softened to 38 x WS 110 at time of writing, and sentiment indicates rates could come off further into next week. USG to Brazil has also slipped by about 10ppts to WS 145, while Caribbean Sea up to USAC has been largely untested this week, Owners ideas around 38 x WS 115 levels all week.



DIRTY PRODUCTS

Handy

UKC:

Market activity further enhances Owner's position in driving rates north in direction as replacement business and fresh requirements quash the week's initial stage of uncertainty, this also being reflected by the disappearance on numbers sub WS 200 as we progressed through the week. Owners now find themselves in a rather prominent position, a shortage of tonnage is believed to be occurring in the North where units had previously left the region, and with the Med also performing relatively well lists are also not likely to reflect surplus availability in the short term.

MED:

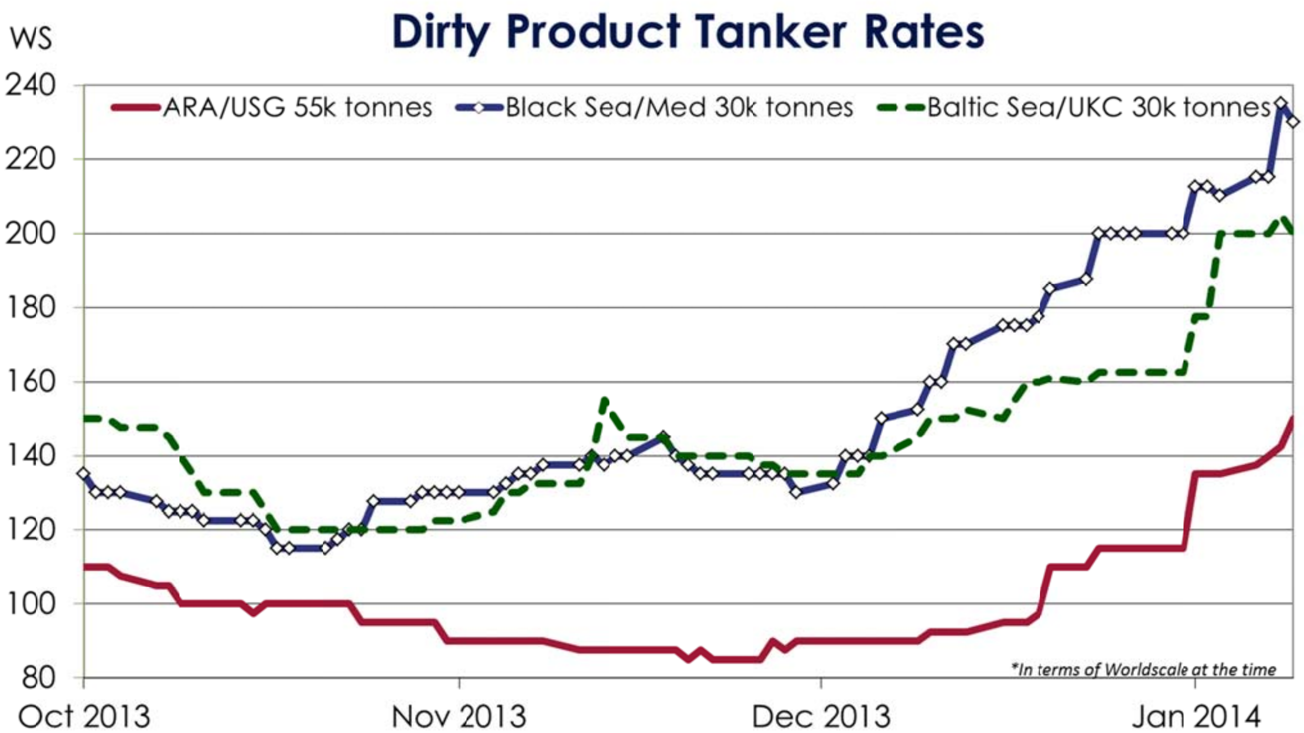
Noticeable gains in this sector were made again however as the week progressed Charterers found relief covering B.Sea stems from an otherwise unlikely source, the West Med area. Recent strength and activity had made tonnage opening in the east med light on the ground, and with tonnage being secured from Malta area, rates edged past the Ws 220 mark. Come Friday rates do appear to be trading sideways in trend, this said, one suspects that January's fixing program is far from finished.

MR

Upon reflection the MR's this week endure a steady but progressive week of trading. Strong surrounding markets provide a platform relieving any pressure felt by owners in rushing to fix units unless they achieved satisfactory returns. Rates in the North touch WS 175 + although the Med is lagging behind slightly as tonnage selection reflects more plentiful.

Panamax

The continuing strong Caribbean market is only causing havoc for charterer's ideas of fixing over our side of the Atlantic. With 50x190 being the market in the States, and ballasting vessels will be looking to achieve the same returns, so with a 10+ day ballast, rates of 55x160+ are being touted for stems loading in the Continent. In the Mediterranean a few more options are available with a couple of Dry Dock vessels appearing on the horizon. Owners may want to emulate the rates achieved in the Continent, but Charterers will have a little more ammunition to fight back the rates, and obtain numbers more in line with last done.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 10th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-15**	45	60	61	44
TD5	Suezmax	WAF-USAC	**+7**	119	112	91	90
TD7	Aframax	N.Sea-UKC	**-8**	154	162	131	113

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Jan 10th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-19,250**	21,000	40,250	47,750	20,000
TD5	Suezmax	WAF-USAC	**+5,250**	54,500	49,250	38,500	34,750
TD7	Aframax	N.Sea-UKC	**-5,500**	54,500	60,000	42,250	24,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 10th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**-4**	75	79	82.5	
TC2	MR - west	UKC-USAC	**+28**	149	121	136	137
TC5	LR1	AG-Japan	**-10**	90	100	105	96
TC7	MR - east	Singapore-EC Aus	**-5**	166	171	171	

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Jan 10th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**-1,500**	8,750	10,250	12,000	
TC2	MR - west	UKC-USAC	**+6,000**	14,000	8,000	12,750	11,500
TC5	LR1	AG-Japan	**-2,750**	7,000	9,750	13,750	8,750
TC7	MR - east	Singapore-EC Aus	**-750**	12,500	13,250	13,250	

(a) based on round voyage economics at 'market' speed (13 knots laden/12 knots ballast)

LQM Bunker Price (Rotterdam HSFO 380)	**-13**	577.5	590.5	586.5
LQM Bunker Price (Fujairah 380 HSFO)	**-5**	612.5	617.5	605.5
LQM Bunker Price (Singapore 380 HSFO)	**-12**	598.5	610.5	605

PAT/JCH/TP/JT/slk

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