WEEKLY TANKER REPORT

17th January 2014

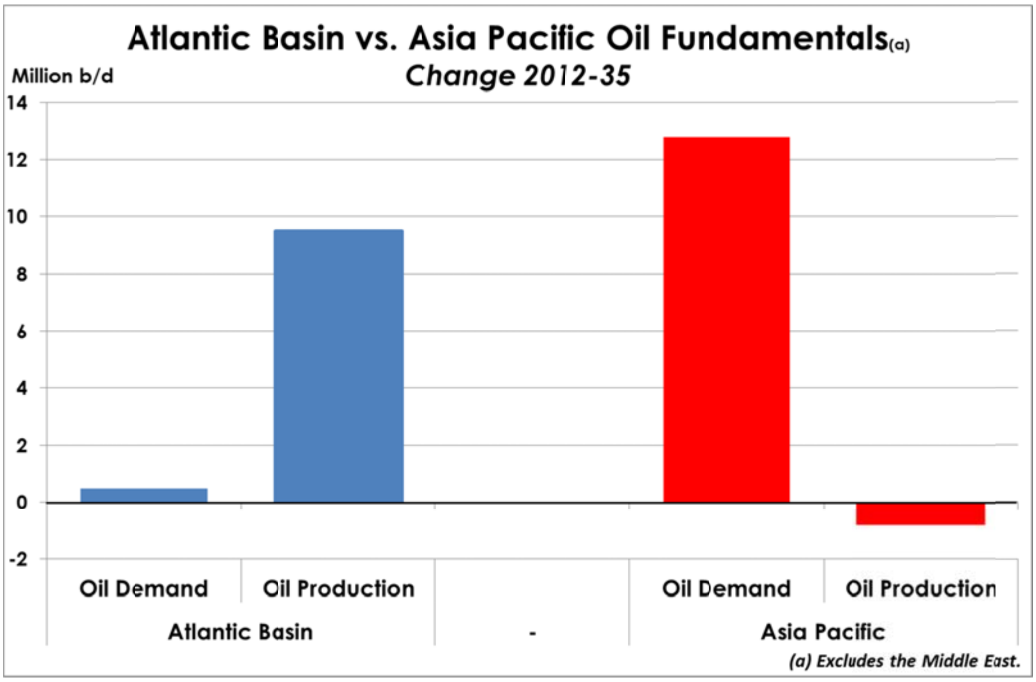
BP ENERGY OUTLOOK 2035

BPs forward thinking statistical review of long term energy was released this week, following a well-pitched presentation by CEO Bob Dudley and Chief Economist Christof Ruehl. Although the outlook covers all energy sources, we take this opportunity to highlight what implications BPs oil forecast could mean for the tanker market.

Oil is expected to show the slowest percentile growth of all energy forms, over the outlook period up to 2035. BP estimates total global liquids demand (oil, biofuels, and other liquids) are likely to rise by around 19 million b/d, to reach 109 million b/d by 2035. This growth in demand comes wholly from non-OECD economies; China, India and the Middle East account for nearly all of the net global increase. China continues to lead the way in the increase in oil demand, growing by 8 million b/d to 18 million b/d in 2035, surpassing the US in 2029. Within this, China's import requirement is projected to more than double from today's levels to almost 14 million b/d, or 75% of demand.

The non-OECD transport sector provides the majority of the hike in liquids demand growth to 2035, up 16.6 million b/d, owing largely to a rapid expansion in vehicle ownership. In the OECD countries, declines are expected, driven by vehicle efficiency improvements and the increasing use of alternative fuels.

To meet this increase in global demand by 2035, OPEC production will have expanded by 7.4 million b/d, coming primarily from NGLs (3.1 million b/d) and crude oil in Iraq (2.6 million b/d). Non-OPEC supply on the other hand is expected to increase by 10.8 million b/d. The largest increments of non-OPEC supply will come from the US (3.5 million b/d), Canada (3.4 million b/d) and Brazil (2.4 million b/d), offsetting declines in mature fields such as the North Sea. The increase in US tight oil production, coupled with declining demand, will force net imports to decline from a peak of well over 12 million b/d, or 60% of demand, in 2005 to just 1 million b/d, or less than 10% of demand in 2035.



All in all, the above trends will have major implications for the tanker markets. Factors such as increases in vehicle fuel efficiency and the slowdown in global oil demand growth, on the face of it, may be negative. However, with the substantial gains in Atlantic Basin oil production, coupled with the world's major increases in oil demand taking place in the East, the shift in trade from the West to East will provide a strong boost to crude tanker tonne-miles in the future.

Middle East

After enduring a month of steady decline, ending in a severe dumping late last week, VLCC Owners suddenly realised that they had reached a lower bottom than was perhaps justified.. dug their heels in, and provoked Charterers to tempt them to trade by offering higher numbers. The process quickly fermented, and levels jumped significantly once again to end at around ws 62.5 to the East and ws 38 to the West via Cape, and next week should see sufficient activity to consolidate the position. Suezmaxes kept steady enough, but initially couldn't make further headway as VLCCs on part cargoes capped the top end of the range, but by the week's end, and a higher VLCC scene, that barrier was removed, and rates upticked to 130,000 by ws 102.5 East and near ws 60 to the West. Aframaxes kept in 'same as' territory at 80,000 by ws 115 to Singapore for most of the week, but there is now some degree of exodus to the greener grass of the Med/Atlantic, and levels are likely to move up noticeably over the coming period.

West Africa

Suezmaxes here saw enough to keep their plate nicely spinning at an average 130,000 by ws 120 U.S Gulf, ws 130 Europe but it was mainly the super-hot Med/Black Sea market to the North that made the difference, effectively precluding ballasters from that area working at anything less than 'last done'. There may be some amelioration next week, but nothing significant until the rest of the Atlantic zone calms down. VLCCs were also brought into the frame on a competitive basis for part cargoes/co-loads which bolstered their levels to ws 72.5 to UK Cont, and to over ws 60 to the East on the back of the resurgent Middle East. No retreat likely for a while yet.

Mediterranean

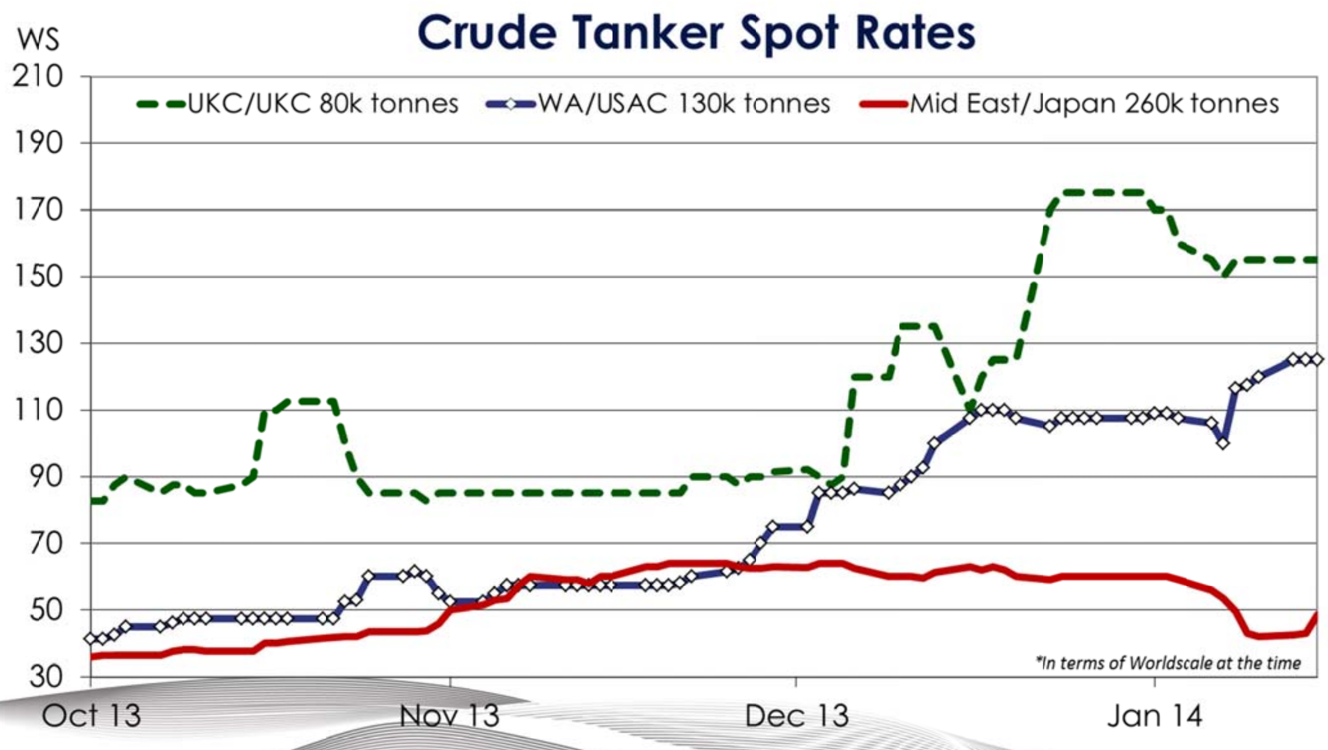
Aframaxes took rare centre stage here with strong activity layered over general delays, allowing Owners to propel the market into eye-watering 80,000 by ws 280 - ish territory for cross Med, and although notorious for lack of stamina, the sector should stay close to the peaks for a little while yet. Suezmaxes were already 'hot', and spent the week getting hotter with an increase in Bosphoros delays aiding and abetting. Rates pushed to as high as 140,000 by ws 190 from the Black Sea to European destinations, with around US$ 5 million the mark for Med/China runs. More heat to come for next week too.

Caribbean

VLCCs did get picked off in the early position, but availability remained full enough upon the next fixing window to peg rates back to US$ 5.2 million to Singapore, and US$4.7 million for West Coast India with little early change forecast. Aframaxes stayed in buoyant form, and managed to squeeze the market even higher to 70,000 by ws 290 upcoast, though no bets are being taken as to the longevity of the spike.

North Sea

Aframaxes lagged behind the other zones for a while, but late-week played catch-up as the exuberant mood elsewhere rubbed off on sentiment, and rates moved to 80,000 by ws 175 cross UKC and 100,000 by ws 175 also from the Baltic. Charterers are now also being tempted into moving further ahead, and if that continues then the stronger market will perpetuate. Suezmaxes didn't see as much as of late, but had alternatives to prop them up, and rates to the States operated at around 135,000 by ws 110 as a consequence. VLCCs got the odd knock, and availability was thin enough to yield US$d5.5 million for fuel to Singapore, with US$6.8 million seen for a Houndpoint to South Korea movement.



CLEAN PRODUCTS

The market in the West is generally firm with rates moving north, as the East continues to suffer.

East

LRs have had another reasonably busy week but rates have resolutely remained at the bottom. Tonnage has just been too abundant for the recent activity to move the market anywhere positively. Next week some Owners both hope and optimistically hope for improvements but any rise will be short lived with Chinese New Year holidays likely to kill activity the week after. 75,000 mt Naphtha AG/Japan is stuck at w70 and 90,000 mt Jet AG/UKC at US$1.90 million. 55,000 mt Naphtha AG/Japan has stayed around w87.5 but 65,000 mt Jet AG/UKC has seen major pressure and now is down at US$1.45 million.

The MR market has really struggled this week and it has been from the sheer lack of activity. TC12 has fallen below ws 100 with 99 being fixed, East Africa voyages have slipped down ws 150 on 35kt. Jet movements to the UK Continent are untested, but better than last done is achievable and is assessed at US$ 1.15Mill, but potentially less could well be there. Cross AG voyages are down at US$ 160-165k levels. The list is quite long on both ppt positions in AG and Singapore, therefore when activity levels do increase, rates will not follow suit in any hurry, until the backlog of tonnage clears.

The North Asia MR market has been fractionally busier towards the end of this week, and although rates are still at rock bottom levels, the tonnage list is now looking more balanced and if there is to be a pre Chinese New Year fixing rush, there is now at least a good platform on which freight rates can build. MRs for South Korea/Singapore are fixing at around 380K, but are showing signs of improving going into next week. It is a similar story on the larger ships also; for South Korea/Singapore LR1s are fixing at low US$ 400K levels and LR2s at around US$ 450-475K, but again, the market has been busier on both sizes and Owners will be keeping their fingers crossed for pre-holiday improvements in freight rates. The situation in Singapore is not so rosy, ships are queuing in the prompt position and some Owners have even opted to ballast back to a bruised AG-WCI market with no fixing prospects. Some PPT tonnage, albeit having dirty history, are willing US$ 70-80K levels for a Cross Singapore Deal just to get tonnage moving ¿ a sign of the times.

Mediterranean

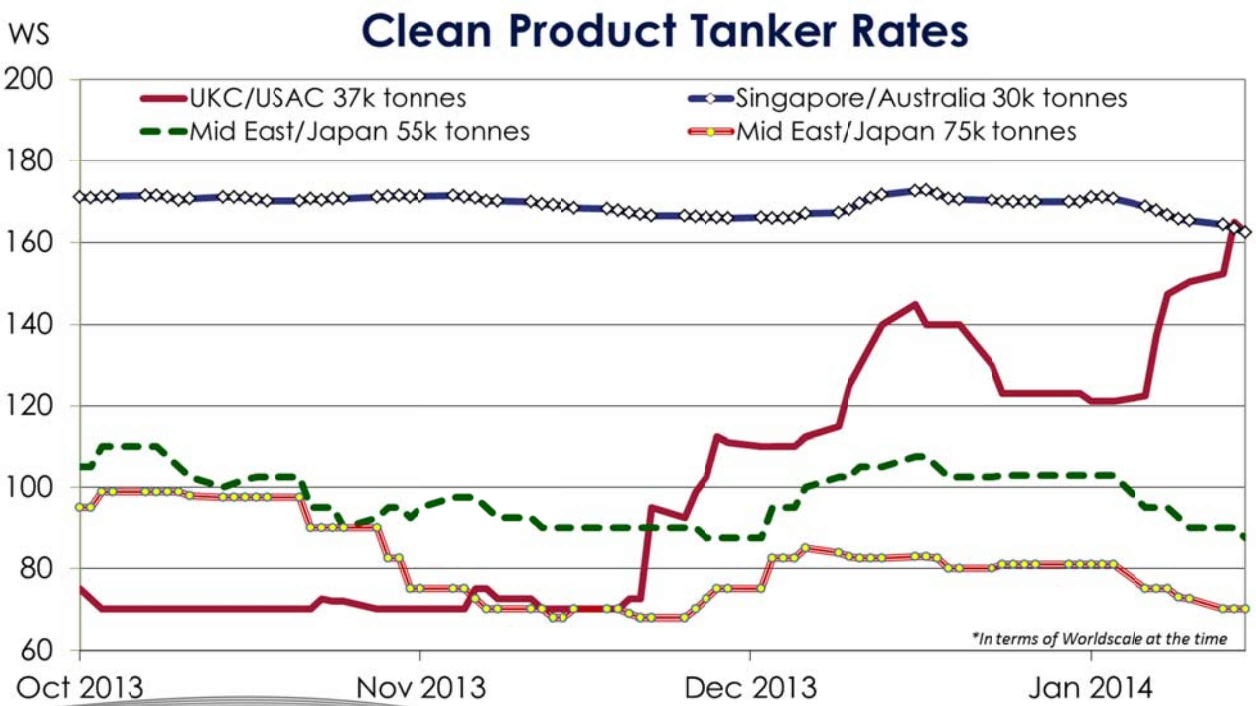
It's been a slower week in the Mediterranean for the handy's and by Friday rates have eased off to around 30 x ws 162.5 for Cross Med movements. Early week activity out of the Black Sea, however, has managed to keep rates from sliding more than they perhaps may have done, with some West Med/Cross Med positions ballasting to pick up stems, we deem the market 30 x 165 at the time of writing. It has been a bit limited for longhaul cargos loading ex Med this week and with TC2 rates wavering we would consider an MR to freight 37 x ws 152.5-155 for ta discharge / 167.5-170 West Africa / US$ 1.1m lvl Red Sea.

UK Continent

A very interesting week upon the Continent leaves all markets in contrast today, the MRs started strong reaching 37x165 on subjects for USAC discharge but unfortunately run out of steam from mid-week, as a result we saw fixing settle to ws 152.5-155 basis 37kt. West Africa discharge trades 37x175, Owners are doing their best to keep levels where they're albeit tough with all the ballasters ex USAC. IMO MRs fixing to china are arranged around US$ 2.3m. The short haul market flourished on the flexis and handies closing the week with 30x195 / 22x210 on subjects, temperatures in Baltic ports now at -15 degsC we should see this market hold. LR1's have been tight throughout the week, US$ 2.75m has been achieved ARA / Japan and US$ 1.8m on subjects at time of writing to Red Sa. Owners have mainly had preference to stay West as the East market has been very weak, 60x120 last done Cont/West Africa (for West Africa discharge only) however if Charterers require more optionality we have seen 60x130 arranged for West Africa.

Caribbean

The TC14 market appears to have bottomed this week as abundant prompt tonnage saw rates go into free fall. Enquiry has certainly been quieter and has pushed rates down to around 38 x WS 85 lvls. In light of this more ships may look to ballast to the Cont and take advantage of the stronger TC2 market. Caribbean Sea up to USAC has also come off to around 102.5, whist cross Caribbean Sea movements are fixing around US$ 450K at time of writing.



Handy

UKC :
Markets in the North through the week witness levels creeping steadily up in 2.5 WS point increments as tonnage availability was further reduced. Owners (like in most markets) were handed the initiative pretty early on, owing to the fact that no sooner a firm position was shown, numerous employment opportunities were presented. And with this in mind, the turn of good fortune for owners is unlikely to be cut temporarily short (at least for the short term) , forward fixing will soon see the introduction of February lay cans, with these stems experiencing the exact same market conditions.

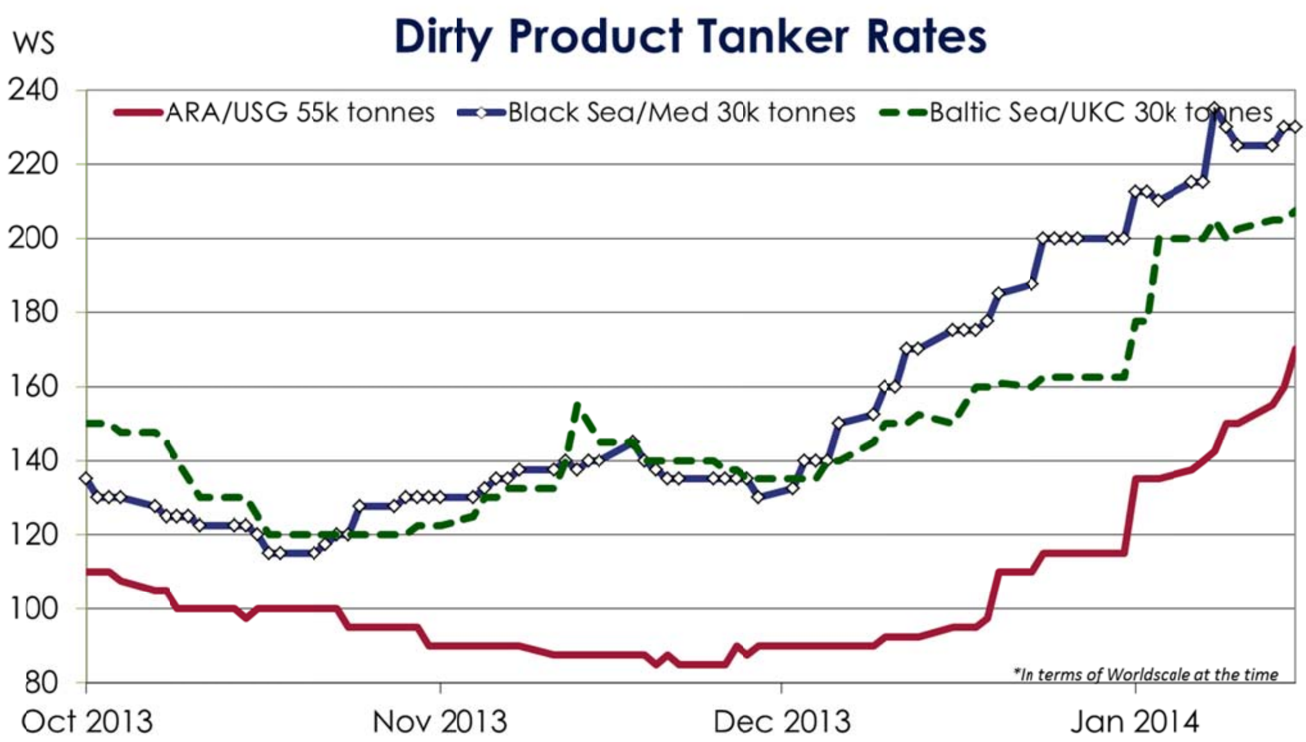
MED:
After a very short quiet spell, Charterers were able to secure coverage from the B.Sea at numbers they considered somewhat more competitive than previously envisaged, WS 225's! And with subsequent repetition, the theory proved correct that the lists were in need of a clear down in order for owners to surmount a challenge to these rates. Cross Med numbers subsequently experienced a slight degree of volatility, (although rarely stretching beyond 30/210), the platform for next week may not need too much momentum injected to see levels to move.

MR

There has been a strong week of trade for the MR sector in the Continent and Med markets. Firm numbers from the Afras that are currently surfing a rate wave shows no sign of breaking. In an expensive market, barrelling down in an attempt to improve dollar per tonne has increased full stem MR employment opportunities; the extent of which has seen rates firm beyond 45 x ws 175 in the Cont and saw past WS 230 ex Bsea. This said, lack of tonnage options are dictating rate rises with inquiry consistent and owners being able to push on from last done. A strong Handy and Panamax market also removes the ceiling which has traditionally clipped Owners aspirations leading to the levels we are currently witnessing.

Panamax

Rates in Caribs now excel beyond WS 200, which for those following this sector; lead to a pretty accurate guess to the direction European numbers would follow. First 170, then 175 became needed to entice a USG ballast position. And now at time of writing we are waiting for numbers to settle somewhere in the 180's. The Med however, conditions are also firm, however the market does see some relief offered from units ballasting from the East if you are looking to perform a trans-Atlantic voyage. This is relief is wiped out for short haul business as enquiry spilling over from surrounding markets attracts some unprecedented rates.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 16th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**+14**	59	45	63	55
TD5	Suezmax	WAF-USAC	**+14**	133	119	110	98
TD7	Aframax	N.Sea-UKC	**+22**	176	154	123	129

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

			wk on wk change	Jan 16th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**+17,750**	38,750	21,000	50,000	33,500
TD5	Suezmax	WAF-USAC	**+9,250**	63,750	54,500	52,250	40,500
TD7	Aframax	N.Sea-UKC	**+16,250**	70,750	54,500	36,750	36,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 16th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**-5**	70	75	80	
TC2	MR - west	UKC-USAC	**+9**	158	149	139	136
TC5	LR1	AG-Japan	**-3**	87	90	106	97
TC7	MR - east	Singapore-EC Aus	**-3**	163	166	171	

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

			wk on wk change	Jan 16th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**-7,250**	1,500	8,750	11,000	
TC2	MR - west	UKC-USAC	**+2,250**	16,250	14,000	13,500	11,750
TC5	LR1	AG-Japan	**-1,000**	6,000	7,000	13,750	8,500
TC7	MR - east	Singapore-EC Aus	**-1,500**	11,000	12,500	13,500	

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

	wk on wk change	Jan 16th	Last Week	Last Month
LQM Bunker Price (Rotterdam HSFO 380)	**-17**	560.5	577.5	584.5
LQM Bunker Price (Fujairah 380 HSFO)	**+10**	622.5	612.5	612.5
LQM Bunker Price (Singapore 380 HSFO)	**+1**	599	598.5	599

MJC/JCH/TP/JT/slk

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