WEEKLY TANKER REPORT

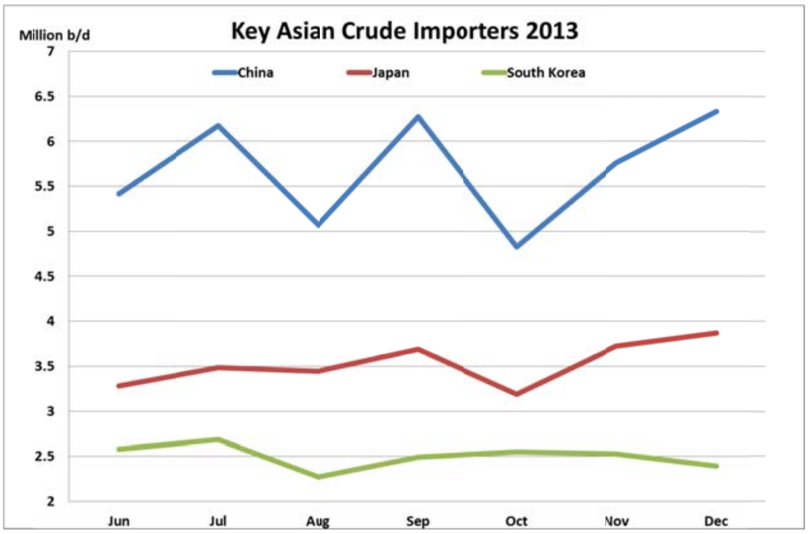
GIBSON SHIPPING ENERGY

21st February 2014

MIXED SIGNALS FROM ASIA?

The dramatic changes in US crude oil production through the development of the shale oil industry have already had a significant impact on the VLCC market in terms of demand. The current forecast is that US shale oil production will level off at around 9.5 million b/d by 2016, an increase of 4.5 million b/d over the previous 5 years. Add to this the lack of appetite for barrel demand for Europe, it is hardly surprising that the crude tanker market has very much been focused on growing demand from Far East customers and in particular China.

This week, Reuters data claimed that China's crude oil imports grew by just 4% last year, a good rate of growth in any other market, but not when we are talking about Chinese demand. This level of growth was their slowest rise since 2007 and well below the 17% rise achieved in 2010. Recently the South China Post stated that Chinese crude oil imports surged in January to 6.63 million b/d, although largely attributed to stockpiling ahead of the Chinese New Year. This follows a healthy 6.33 million b/d in December. The article goes on to speculate that these strategic stockpiles are being replenished which accounted for the surge. The recent spike could be maintained when a new 18.9 million b/d storage cavern at Huangdao is scheduled to commence filling this quarter. Already we could be looking at a substantial increase in Chinese imports for 2014.



Another interesting development announced this week by the South Korean government was the approval for the construction of two nuclear plants. This follows concerns about the risk of blackouts and the nation's ability to maintain power supplies. Following the Fukushima disaster in Japan (March 2011) the South Korean government initiated a series of nuclear reactor shutdowns over safety issues. This latest initiative is a complete policy reversal coming little more than a month after the government announced that it had planned to cut their reliance on nuclear power to 29% of its total power supply by 2035. What impact this latest development has on South Korea's high dependence for fossil fuels remains some way off. Japan has also had to wrestle with similar problems, particularly where nuclear power generation is concerned. Japanese crude oil imports have averaged around 3.6 million b/d over the past four years and show no signs of increasing that demand any time soon.

For the tanker market, the continued growth of China is paramount and any signs of a major slowdown in the economy will be of serious concern. However, although there is a degree of slowdown, the country's appetite for crude remains fairly healthy, with the IEA expecting 0.35 million b/d growth in 2014. On top of that we should not forget that there will be an additional demand to fill up strategic reserves. Oil demand for the rest of developing Asia is also cautiously optimistic with another 0.33 million b/d anticipated this year.

Middle East

I.P. Week in London, President's Day in the U.S. on Monday, slightly delayed March programmes, and stem splitting, meant for a very slow start to the week for VLCCs. Owners started to lose their bullish mood, and Charterers then thought better of pushing any noticeable volume into the marketplace. Rates eased down to no better than ws 60 to the East, and ws 33.5 to the West. Next week will be busier, but the downtrend may well set in nonetheless. Suezmaxes saw some benefit from the VLCC stem splitting, and rates edged up to a 'conference' ws 65 to the East, ws 30 West, but then saw less as the larger size became more economic once again, though rates should hold for a little while yet. Aframaxes had a non-descript week, and gently eased to 80,000 by ws 95 to Singapore with similar values expected over the near term.

West Africa

A very slight uplift for Suezmaxes - very slight - to ws 52.5 to US Gulf and touching ws 55 to Europe, but fresh activity was woefully light, and it will take some heavy fixing next week to lead to any significant rate gain. VLCCs, therefore, remained out of play for inter-Atlantic trades and had to sit it out for East movements also whilst the Arabian Gulf tried to find its new, lower, level. Once it does, then it should become busier and rates will equalise. Theoretically around ws 57.5 should be available to those who wish to trade, with US$ 4 million about right for West Coast India runs.

Mediterranean

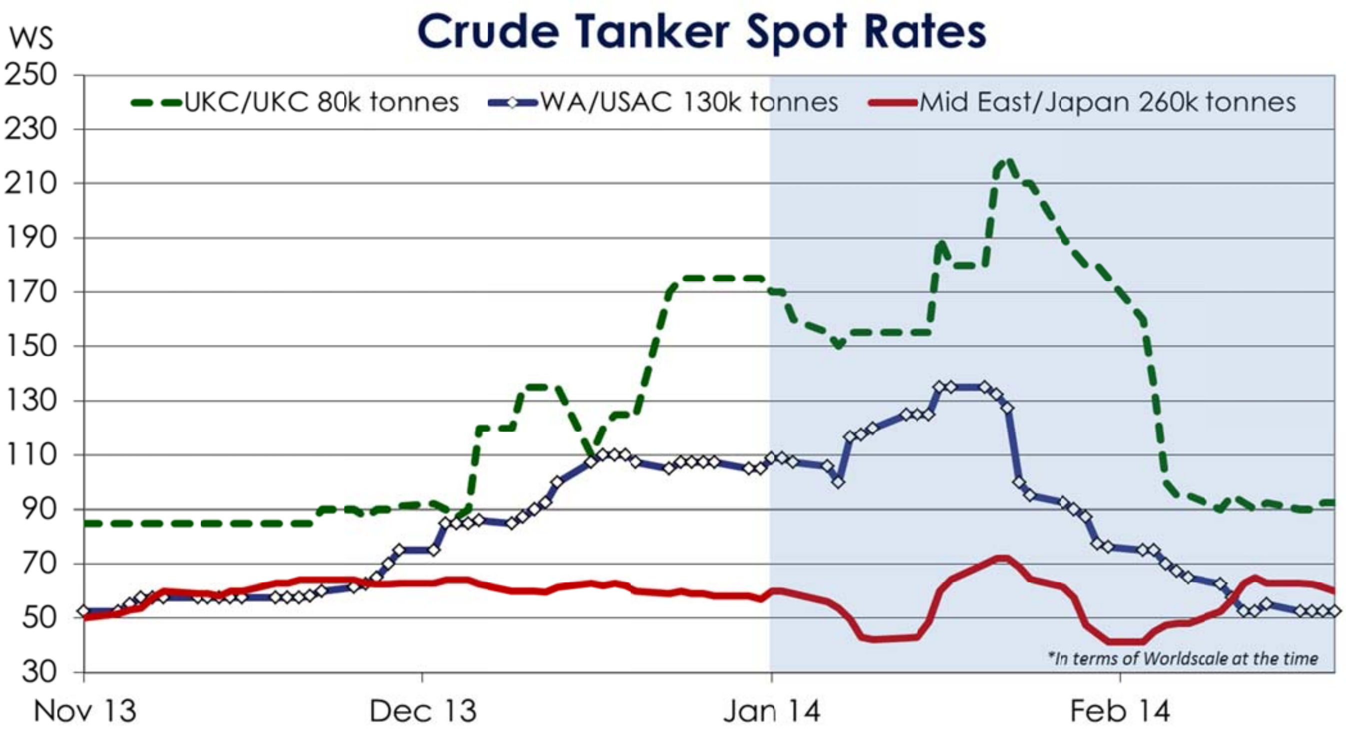
No boats being rocked on a very calm Mediterranean pond. Aframaxes at least saw steady action, but availability continued to easily soak it up and rates continued to settle at 80,000 by ws 80/82.5 cross Med with minimal premiums available from the Black Sea. Suezmaxes didn't see as much, and had to scratch around to make anything happen. Rates couldn't go anywhere, so remained at around 140,000 by ws 57.5 from the Black Sea to European destinations and down to US$ 3 million asked for Singapore.

Caribbean

A small further step down, followed by a small, fog-aided, step up again for Aframaxes that ended the week at around 70,000 by ws 105 upcoast. Owners will hope for further weather disruption to aid their cause - its the only likely support they'll get. VLCCs had an exceptionally quiet week that led to rate ideas softening to US$4.8 million to Singapore, and US$ 4.25 million to West Coast India - maybe less, but the market will get properly tested next week.

North Sea

Cross North Sea stayed slow for Aframaxes with rates merely bumping along at 80,000 by ws 90 - ish cross Uk Cont. Baltic interest was a little more visible, but not so much as to raise rates above 100,000 by ws 82.5 for Continent discharge. Suezmaxes found little, and stayed theoretically at 135,000 by ws 50/52.5 transAtlantic, with US$ 2.975 million reported for an early fuel oil cargo from Spain to Singapore. VLCCs recorded one deal at US$ 5 million to Singapore, but that's old news now, and the next deal should post less.



CLEAN PRODUCTS

East looking good, West is slow

East

LRs have had a generally firmer week although rates on LR1s and LR2s have not seen the rises some expected. LR1s have faltered slightly but this is mainly due to LR2 rates remaining flat and both rates being a pro rata of each other. Lr2s have been busy but they haven't seemingly seen quite enough activity to push rates on - although some blame the ambition of certain Owners. Still, Lr1 rates are a touch up with 55,000 mt Naphtha AG/Japan now at w107.5 and 65,000 mt Jet AG/UKC at US$1.775 million. But 75,000 mt Naphtha AG/Japan remains stuck at w80 with 90,000 mt Jet AG/UKC slightly better at US$2.1 million.

The MRs are have been very interesting this week, Western runs have moved up a considerable amount, as demand for tonnage and also owners reluctance to fix West has driven the market up to US$ 1.35 Million, currently on subs. TC12 has not seen such rises, but BITR assessments have gradually risen to Ws 105, but this route hasn't seen much volume to test it. East Africa has firmed 10 points, with Ws 147.5 on subs, some owners are pushing for considerably more and feel the market should be higher. The short hauls although active, have only seen slight increases, however the activity has cleared out tonnage on the February positions and next week many Owners will start the week in a bullish mood and be hoping to make some considerable gains.

Last week, we commented on the sparsely populated North Asia tonnage list up until the end of February, particularly on the MRs. This week, the market has felt its effect, with MR rates sling-shotting upwards as Charterers have struggled to find available tonnage for their requirements. This time last week, although actual market levels were at about US$ 420K, last done for a straight MR South Korea/Singapore voyage was below US$ 400K - this week, US$ 475K has been fixed and now US$ 515K has just failed subs ¿with actual market levels sitting at around US$ 500K. Because of the tightness of the MRs, the cargo sizes have stacked up to the LR1s, which are also looking tighter in North Asia. It's only the LR2s that are slightly quieter and we have reached the slightly odd situation where all three sizes are fixing at similar levels for South Korea/Singapore US$ 500K. In S.E Asia, the position is not as tight, but the market is still being kept busy with a decent amount of short haul business. This keeps the market ticking over, but does not clear the region and ignite the market as we have seen in North Asia. Singapore/Australia should fix at around 35kt x ws145 and looks steady.

Mediterranean

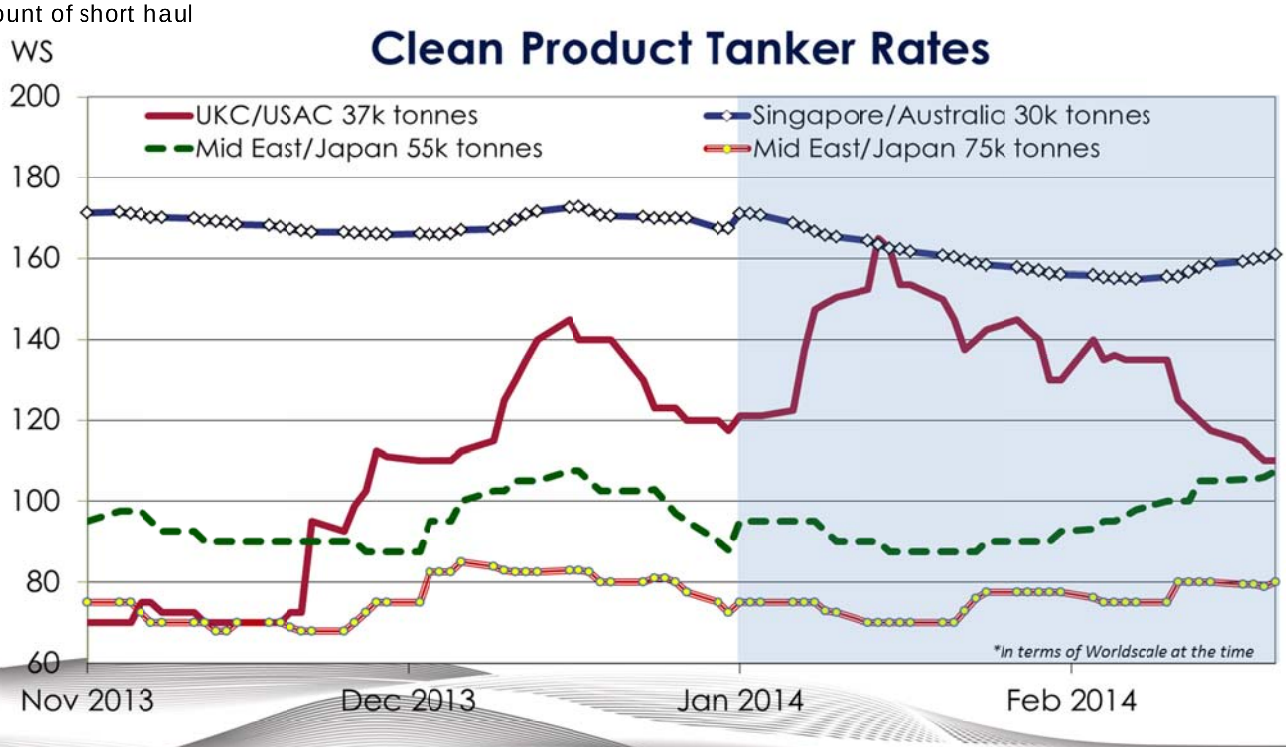
A quiet start to IP week saw owners once again shaking their heads with limited enquiry for cross med trades. However, with an influx of end month cargoes out of the Black Sea and East Med, tonnage has tightened rapidly and the Black Sea market has spiked with WS 170 -180 now on subs. The West Med has been quieter, trading at around 30 x WS 145-147.5 but with the imbalance of enquiry, tonnage is starting to ballast into the hotter east market, and we expect rates will react. MRs have remained weak and traded in line with the Cont, now fixing at 37 x WS 110 and the West Africa premium is untested. MRs going East are trading sideways with US$ 975k-1.05m levels to the Red Sea and USD 1.175-1.2m to the AG.

UK Continent

The Continent market in general has had a slow week. TC2 levels have fallen to 37x110 (and even rumours 37x105 on subjects at time of writing). The US has picked up this week (38x110 being talked of now on tc14 trade) so no fresh ballasters, this should stem the bleeding, and also a few more cargoes are entering the market as we speak on the continent. Continent/West Africa is trading 37x122.5 levels. Cross Continent is paying 30x192.5 for ice vessels and 22x210. LR1's have been extremely quiet, freight for Continent/West Africa paying 60x100-105 levels and US$ 2.35m to Japan (untested).

Caribbean

Despite a relatively quiet week in the Gulf, a steady trickle of prompt TC14 enquiry has kept tonnage tight and has driven rates up gradually; the market is now reported at WS 105. With a few last decade stems still to cover on a tight list, Owners can expect rates to continue to firm into next week, although will be hoping for an increase in fresh activity in order for rates to remain firm into March. Caribbean Sea to the USAC has traded sideways at WS 115 this week, while trades to South America are fetching 38 x ws 165 and cross Caribbean Sea is fixing around US$ 600-650k.



DIRTY PRODUCTS

Handy

Markets this week endure barren run with opportunity noticeably lacking from both the Med and the Continent sectors! Tonnage lists as a result have been allowed to build significantly thus providing charterers with all the ammunition needed in negatively adjusting rates. Looking into next week, Owners will face further scrutiny surrounding their freight ideas, as hanging onto last done levels may just become beyond the realms what is possible when taking into account additional tonnage opening over the weekend. Typically, rates X UKC and X Med seem to be following each other, and without either region taking a lead, those trading in the North could come under additional pressure from tonnage opening in the Gibraltar area being offered little from the Mediterranean.

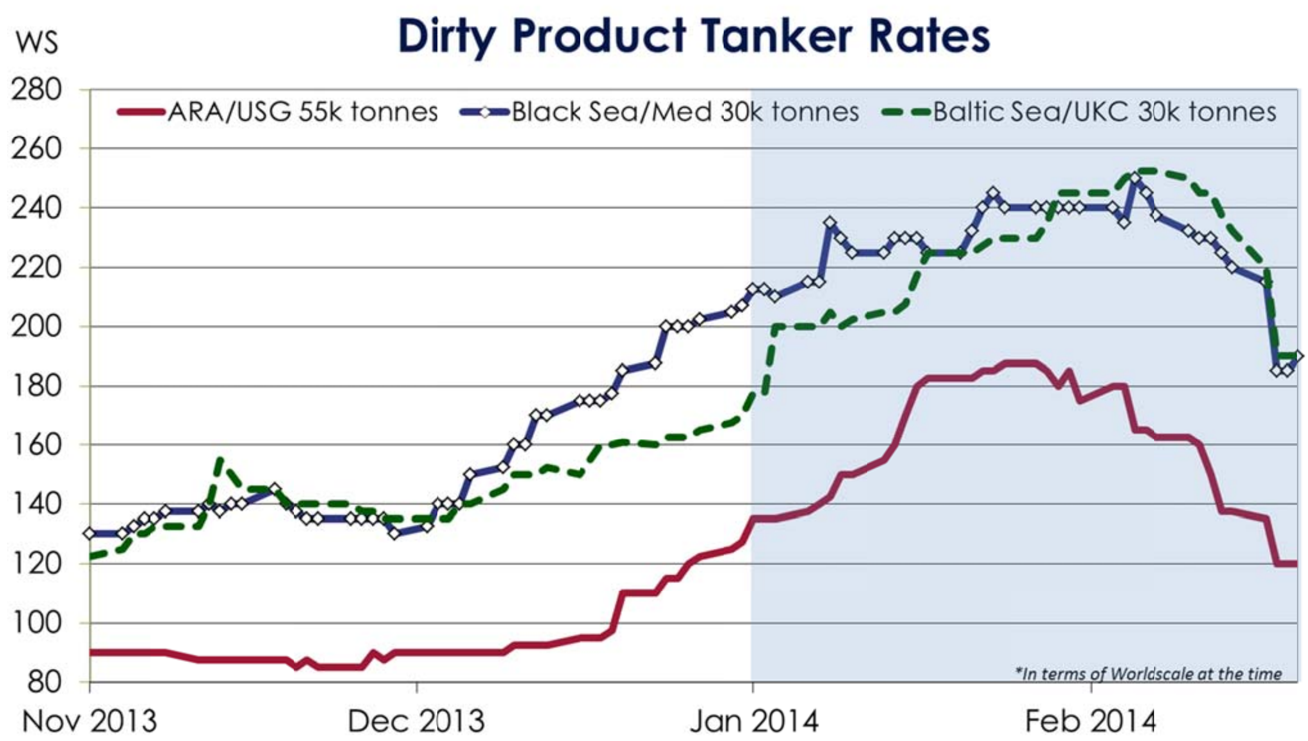
MR

A tough start set the trend for subsequent rates achieved when business was eventually conducted during this trading week. PPT vessels dominated tonnage lists in the Med and Cont weighing heavily on last done numbers and providing little opportunity for owners to gain a foothold in which to negotiate from. Whereas previously the Continent had artificial strength based on a narrow selection of ownership the appearance of other units - all ice class - broke an ownership monopoly and last done was significantly challenged.

Similar to the above, the Med market has been hamstrung by PPT tonnage and Africa levels back towards their 2013 levels. With this in mind rates have fallen substantially which was an inevitable and necessary correction to ensure this tonnage market gained employment. End of the week employment will have hoped brought an essence of stability back to a market that was looking fragile. Rate plateau is on the cards.

Panamax

A positive week on the fixing front for owners this week as our market report is dominated by 55kt stems. As a result 55x120 now seems be a rather solid benchmark for trans-Atlantic voyages, with any potential for an increase likely to arise through the tightening of tonnage lists, caused by delays due to weather in the Caribbean / US Gulf area. Tonnage opening in the US Gulf with a good itinerary could see a slight premium, although this pocket of strength is likely to be short lived as once these same conditions remiss, as a spate of clear skies will flood the tonnage list once again.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 20th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-3**	61	64	70	53
TD5	Suezmax	WAF-USAC	**+4**	56	52	95	62
TD7	Aframax	N.Sea-UKC	**+0**	92	92	213	102

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

			wk on wk change	Feb 20th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-4,000**	41,750	45,750	53,000	31,250
TD5	Suezmax	WAF-USAC	**+2,000**	9,750	7,750	37,750	14,000
TD7	Aframax	N.Sea-UKC	**-250**	8,750	9,000	97,250	15,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 20th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+0**	80	80	76	
TC2	MR - west	UKC-USAC	**-10**	110	120	140	121
TC5	LR1	AG-Japan	**+3**	107	104	86	105
TC7	MR - east	Singapore-EC Aus	**+3**	161	158	159	

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

			wk on wk change	Feb 20th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+0**	8,750	8,750	6,750	
TC2	MR - west	UKC-USAC	**-2,250**	5,750	8,000	12,250	8,000
TC5	LR1	AG-Japan	**+750**	12,000	11,250	5,500	11,250
TC7	MR - east	Singapore-EC Aus	**+250**	10,000	9,750	9,750	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+7**	587.5	580.5	567.5	
LQM Bunker Price (Fujairah 380 HSFO)	**+2**	612.5	610.5	626.5	
LQM Bunker Price (Singapore 380 HSFO)	**+6**	617.5	612	613.5	

PAT/JCH/TP/JT/slk

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