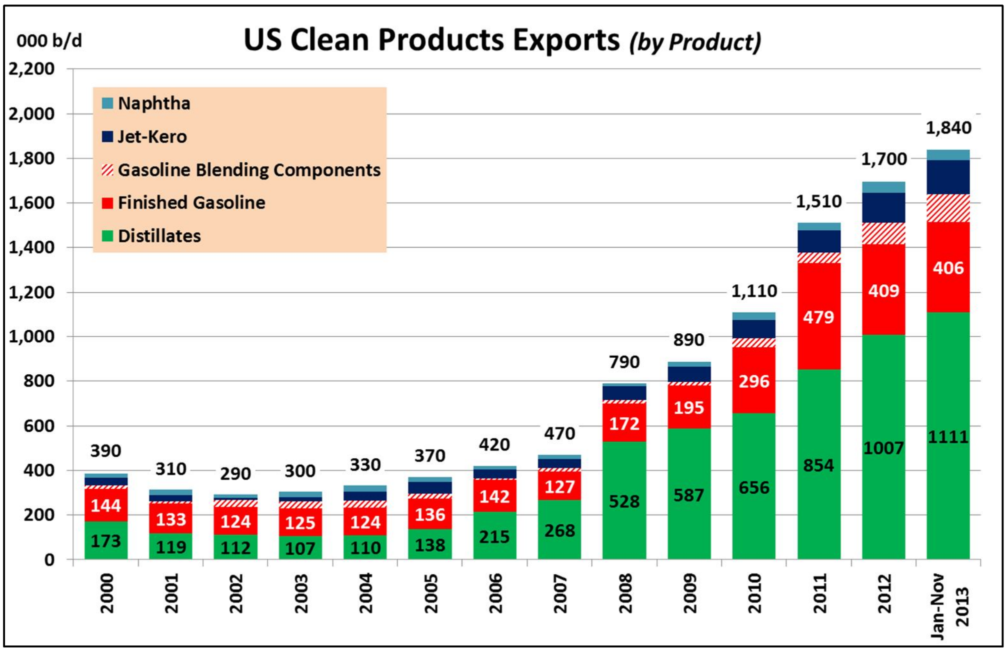
WEEKLY
TANKER REPORT

28th February 2014

US PRODUCT TRADE BOOST

Following our recent coverage of the possible impact of the lifting of the ban on US crude exports, it is perhaps a good time again to look at the growth of US product exports and its current impact on the clean tanker market. The current abundance of fracked crude in the US has provided US refineries with an increasing supply of cheap feedstocks. US refinery net input of crude oil stood at 15.3 million b/d last week, around 875,000 b/d more than the same period last year. To accommodate recent increases in production, trade flows have shifted, and new markets for these products have been established.

The fronthaul transatlantic MR route has been repeatedly switching direction since mid-last year as export volumes of CPP provided the tanker market with fresh opportunities to improve earnings through triangulation. However, recent winter storms and cold temperatures in the US have triggered a large product stock draw, which left Atlantic Basin inventories at their lowest in six years. As demand increased, prices for diesel spiked in New York, drawing European cargoes across the Atlantic. This tightening was apparent on the benchmark MR trade from Rotterdam to New York (TC2) – earnings rose to $16,750/day mid-January, up $10,000/day from the start of the month. Despite some erosion in rates thereafter, the current uptick is the result of the US rebuilding stocks, and high demand for fuels at a local level. The backhaul TC14 business for this reason is quiet at the moment. Refinery maintenance in the US could also temporarily erode product exports, and it is likely that the reverberations of this will be felt in the transatlantic market.



US products are also gaining ground with increased export volumes to the Caribbean, Latin America and West Africa. Demand is growing in all of these regions with the US now being the obvious choice of supply. West Africa was once an almost exclusive market for European products, but exports from Continent have halved over the past five years with the contraction of the European refinery industry. Exports to Asia are also expected to follow, and the widening of the Panama Canal could give the US additional impetus for this.

Should the US position on crude oil exports change anytime soon, it is unlikely to have significant impact on the growing products export trade. US shale oil producers want to increase production and cite improved employment opportunities for Americans on the back of this new wealth. Whatever the outcome of the debate, the US will continue to provide considerable support for the tanker market for some years to come, be it clean or possibly dirty (or both).

Middle East

A fighting retreat for VLCCs, but despite best efforts, a retreat nonetheless. Activity did pick up, but no positions were particularly challenging for Charterers, and rates chipped steadily lower to little better than ws 60 East and ws 30 to the West by the week's end. Further erosion is possible, but a complete crash unlikely. As VLCCs softened, Suezmaxes were precluded from the stem-splitting benefits enjoyed last week, and rates eased down to ws 60 East and just under ws 30 to the West accordingly with next week likely to stay tough for Owners. Aframaxes saw enough to regain the 80,000 by ws 100 mark to Singapore, but not enough to really push on and no significant change is expected over the coming week.

West Africa

A busier spell of bargain hunting proved enough to allow Suezmaxes to bounce up around 10 wspoints to an average 130,000 by ws 65 inter Atlantic and threatened even higher before a rather lightweight end to the week doused the flames somewhat. Another attempt will be made next week, but Charterers will not give way easily. VLCCs continue to suffer from rare excess of 'local' units, and that, together with a lower Arabian Gulf scene, has dragged rates down to close to 260,000 by ws 50 to the East and UU$4.0 million to West Coast India. Further mission creep is possible, but nothing dramatic is likely unless the Arabian Gulf does take a real nosedive.

Mediterranean

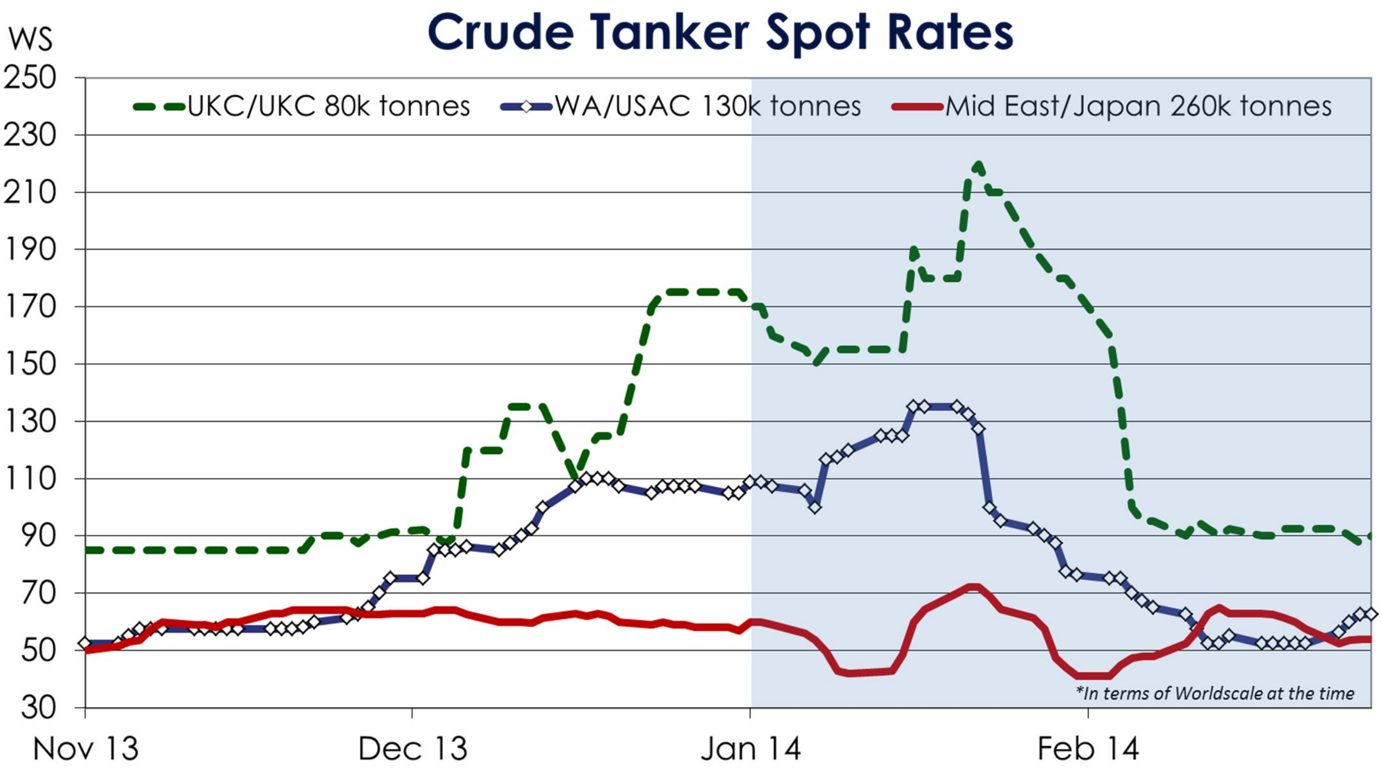
A slight uptick in Aframax fortunes here, but 80,000 by ws 87.5/90 cross Med is hardly anything to shout about, and Owners will have to find the stamina to keep up their resistance if they are to make any significant break-out. Unlikely as it seems now. Suezmaxes started slowly, but a midweek flurry, combined with the improvement in West Africa, allowed rates to inflate to 140,000 by ws 65 from the black sea to European destinations. Movements to the east were limited, but US$2.5 million was seen for a run to Singapore.

Caribbean

Fog in the US Gulf saved the day for a while for Aframaxes, pushing rates to 70,000 by ws 115 upcoast, but as it started to lift, and normal service resumed, rates started to crumble back towards the ws 100 mark once again. VLCCs had to wait longer than normal for the front month Chinese programme, and that weighed on rate ideas that fell off to below US$5 million to Singapore, and close to US$4 million to West Coast India. Availability looks easily able to absorb the next tranche of cargo, and rates will stay at the bottom end of the range.

North Sea

Warm temperatures point to a shortened ice season and that takes away an important prop to the Aframax market. Enquiry has been generally thin over the week, and rates stayed bogged down at no better than 80,000 by ws 90 cross UK Cont, and 100,000 by ws 70 from the Baltic. Suezmaxes did find some attention, and also benefited from the West African upturn. Rates therefore moved up to 135,000 by ws 62.5/65 for Transatlantic movements, but the closed Fuel ARB to the East meant little was to be done for those routes. VLCCs also saw little to the East, and that provoked a markedly lower US$4 million to Singapore on a rare opportunity.



CLEAN PRODUCTS

Active in the West while the East continues to Firm

East

LRs have once again seen a very promising week with both Lr1s and Lr2s busy resulting in reduced tonnage and rising rates. 75,000 mt Naphtha AG/Japan have reached w85 with Owners still pushing for more. 90,000 mt Jet AG/UKC is also higher at US$2.20 million although there is less West bound trade at the moment. 55,000 mt Naphtha AG/Japan has edged up to w110 but with shorthaul rates rising steeply we expect further increases next week. 65,000 mt Jet AG/UKC has moved up another notch to US$1.90 million and US$2.0 million is likely to be breached next week.

MRs had a strong start to the week and the tightness in the tonnage remains. TC12 has potential firm, but with far Eastern controlled ships willing 102.5-105, owners wanting to push are being under minded. East Africa moved up 10 points to WS 147.5, but with more activity owners are expecting another push on, how high is yet to be established, ws 180 was being offered, but ultimately next done is expected to around ws 160-165 basis 35,000 mt. AG to the UKC has firmed up further with US$1.38mill on subs at the time of writing. The real squeeze has been felt on the shorthauls, with in excess of US$ 300,000 being paid for an Iraq delivery and high 200's for Cross-AGs, however the demand for tonnage has softened towards the weeks end, however the list remains very tight.

This week, the tonnage situation in North Asia has remained tight and firm across the board. On the MRs, cargoes remain outstanding off Mid-March, and owners remain bullish on the rates. MRs from South Korea/Singapore are currently fixing upwards of US$ 500K levels, and although charterers are hinting at a softening market, Owners are currently in the driving seat when it comes to freight levels here. The tightness of the MR sizes has caused Charters to build on stem sizes and thus the LR sizes are now also firm. LR1s South Korea/Singapore are fixing at close to US$ 600K and LR2 sizes slightly above this at around USD 620K, with 640K failing subs just prior to the time of writing. The Singapore market, which has been the intermediate area between the strength of North Asia and a firming WCI-AG market, has also begun to look more healthy, particularly on the MRs, which should now fix at around 30kt x ws165 for a Singapore/Australia run with the potential for further firming.

Mediterranean

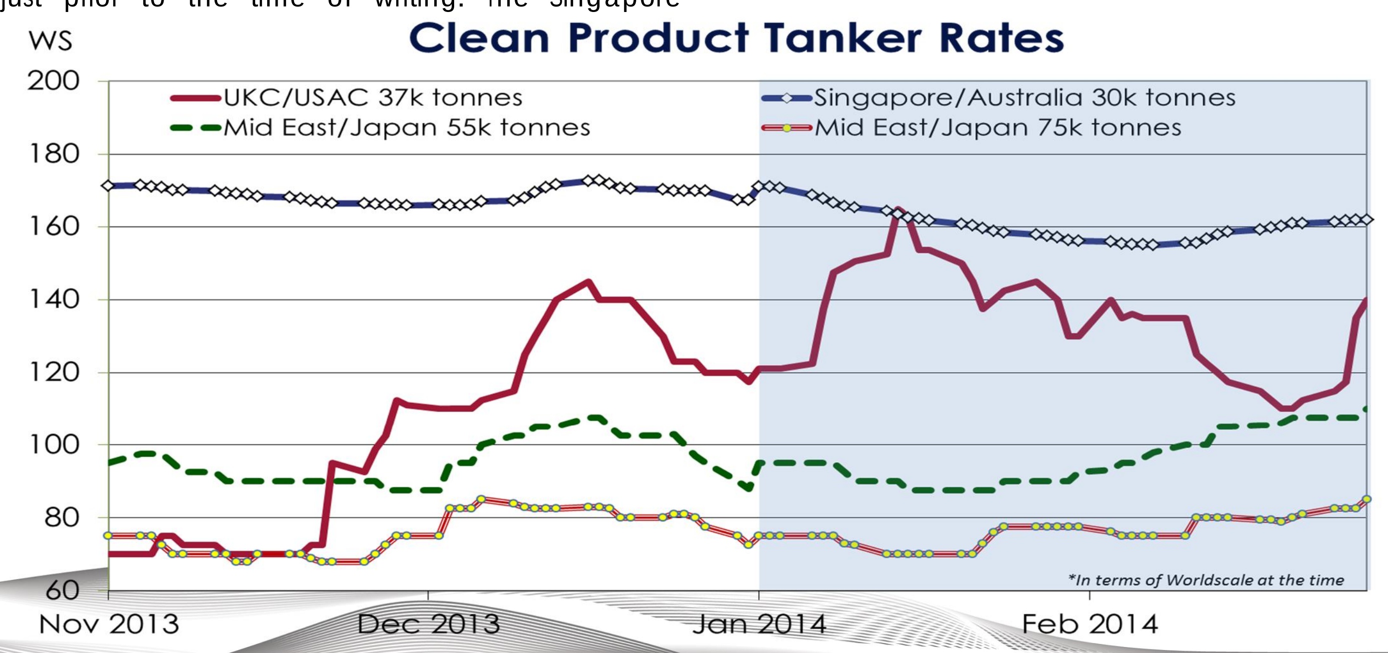
On the back of last week's late spike in the Black Sea and East Med market, the handies in the Mediterranean have remained tight and rates have strengthened accordingly. First decade blacksea liftings were paying 30 x WS 185 level and considered the same for east mediterranean liftings. The week started with more available tonnage positioned in the west med, so rates here were softer and generally fixing 30 x ws 160-165, but this looks set to change on account of tight positions. MRs were active especially for naptha cargos destined to Brazil (37 x ws 167.5 reported on subjects) and longhaul rates considered 37 x ws 135+ for the states, 37 x ws 157.5-160 for West Africa. East bound moves were quieter but considered around usd 1.05-1.15m redsea / 1.2-1.3 AG and as ever very Owner dependent.

UK Continent

A busy start to the week for TC2, the list tightened quickly, with freight prices rising to 37 x ws 135 levels. Continent/West Africa peaked at 37 x ws 157.5 but market is now noticeably slower and likely to decrease. Handies have been generally poor throughout, lacking volume, trading 30x185 for ice vessels and 22x207.5. LR1's have finally kick started and we have seen much more activity, fixing mostly at 60 x 92.5 levels for TA and West Africa.

Caribbean

Once again the US market had a lackluster week, with TC14 softening to WS 100 at week end. The tonnage list continues to be over populated and fresh enquiry is limited. US refineries are still stockpiling and demand for gasoil locally remains high, which we expect will keep rates flat as we head into Spring next week. Trades to Brazil have softened to WS 145 while cross Caribbean Sea is fixing at US$ 575k-600k levels.



DIRTY PRODUCTS

Handy

The Continent market began the week hamstrung by ppt tonnage but early week activity attempted to correct the imbalance as units were clipped away while the market appeared to bottom out at sub 30 x ws 170 lvls. The clearance of tonnage has put the Continent market in better stead long term with rates flattening out; although ppt tonnage still exists but off market fixing as alleviated pressure on owners and in turn left last done numbers looking unthreatened at cob today. The fixing window is approaching the end of March's first decade.

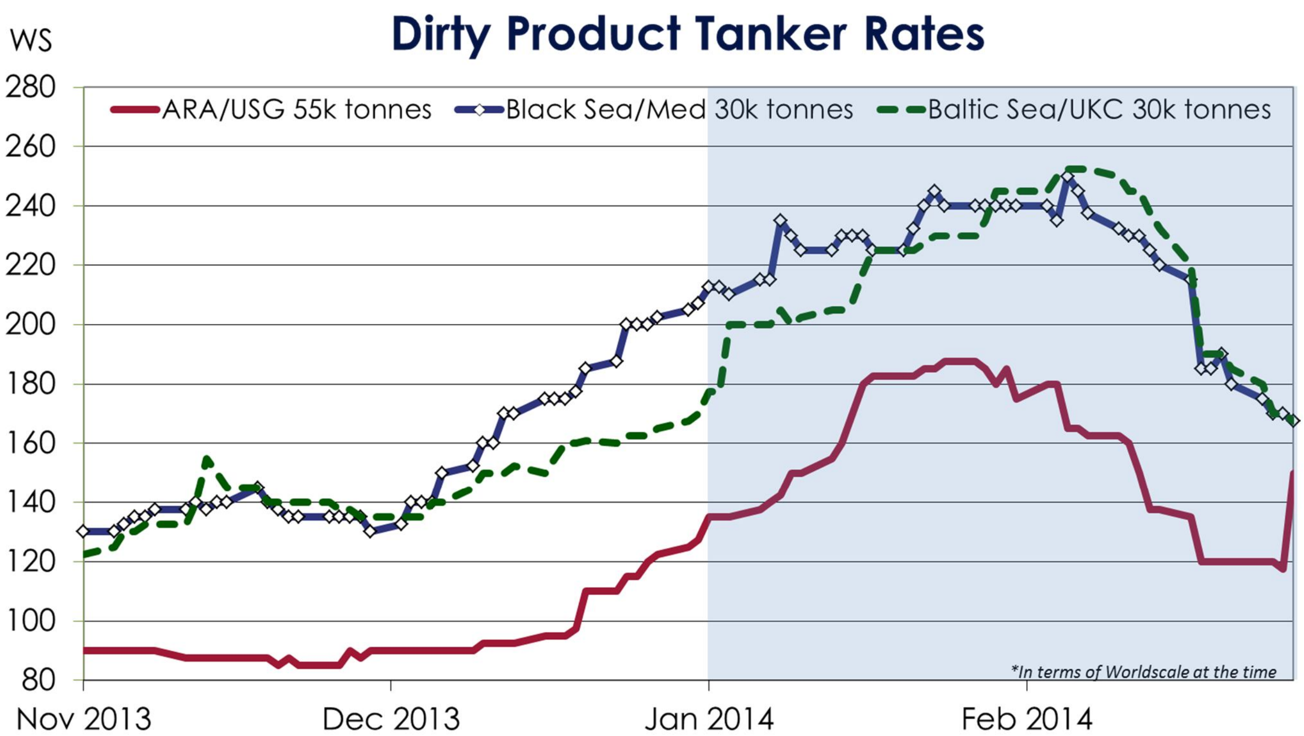
The Mediterranean market has been at it's volatile best with sustained mid-week inquiry providing a bit of life to a market that was in danger of heading into free-fall. With a closed arb more of early March's product is remaining in the region and thus greater employment opportunities are offered to Handy tonnage. Rates have regained a vague consistency as we reach Friday with Xmed settling at ws 150-155 and ex Black Sea looking ws 165-170 lvls whereas early week it seemed rates couldn't fall quick enough. Expect last done to be the negotiation platform rather than viewed as the number to discount from; a semblance of stability has hit the market and more activity is forecast.

MR

Perhaps something of a testament to the durability of this sector, surrounding markets this witnessed value dropping significantly, yet the cost of moving a full 45kt showed considerably less volatility. On average, rates in the Med fluctuated between 45/140 - 150 date / position depending, and of course, the usual story of part cargo employment helping to prevent tonnage from building. The Continent however appears a tad more vulnerable where activity levels are assessed to be comparable to some of lowest seen in while. Here rumours begin to circulate surrounding the competitiveness of numbers achieved for voyages repositioning tonnage away from the area.

Panamax

Pulling up to the end of the week, owners will be positive with the continuing levels of activity we have seen from last week. Although rates still seem to be trading at the 55x120 mark, opportunities to push further on this seem to be on the horizon. Keeping a close eye on the Afra rates and ballasters from the States, as the weather improves, will be the key factor in which way we see this market go.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 27th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-7**	54	61	43	53
TD5	Suezmax	WAF-USAC	**+7**	63	56	83	64
TD7	Aframax	N.Sea-UKC	**-3**	89	92	175	99

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

			wk on wk change	Feb 27th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-9,000**	32,750	41,750	18,000	31,750
TD5	Suezmax	WAF-USAC	**+5,250**	15,000	9,750	29,000	15,500
TD7	Aframax	N.Sea-UKC	**-2,250**	6,500	8,750	69,500	13,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 27th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+5**	85	80	76	
TC2	MR - west	UKC-USAC	**+30**	140	110	141	131
TC5	LR1	AG-Japan	**+1**	108	107	89	106
TC7	MR - east	Singapore-EC Aus	**+2**	163	161	159	

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

			wk on wk change	Feb 27th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+2,000**	10,750	8,750	6,750	
TC2	MR - west	UKC-USAC	**+6,250**	12,000	5,750	12,250	10,000
TC5	LR1	AG-Japan	**+250**	12,250	12,000	6,500	11,750
TC7	MR - east	Singapore-EC Aus	**+750**	10,750	10,000	9,750	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+4**	584.5	580.5	567.5
LQM Bunker Price (Fujairah 380 HSFO)	**+0**	610.5	610.5	626.5
LQM Bunker Price (Singapore 380 HSFO)	**-7**	605.5	612	613.5

MJC/JCH/TP/JT/slk

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