WEEKLY TANKER REPORT

GIBSON
SHIPPING ENERGY

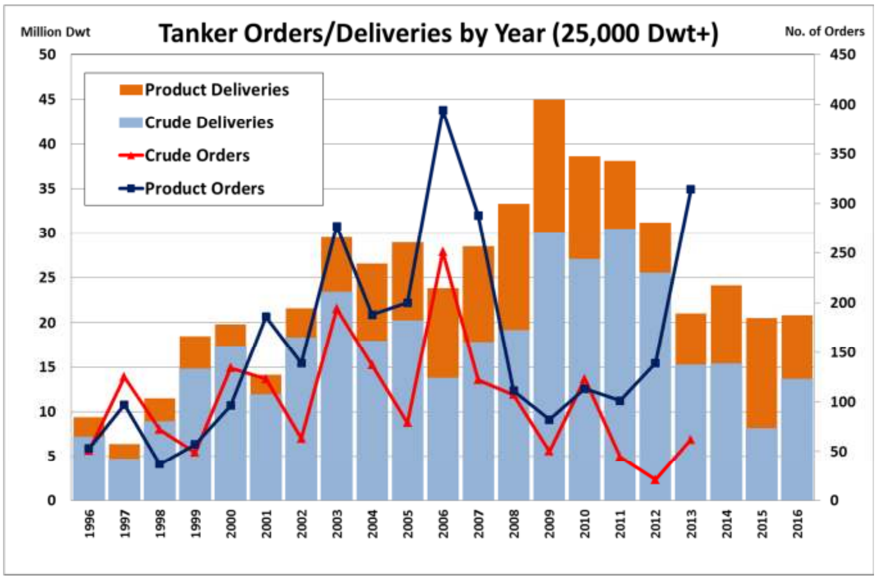
7th March 2014

TANKER GAME CHANGER

Tanker deliveries in 2013, both in terms of numbers and deadweight, were the lowest recorded since 2002. The final deadweight total, 21 million tonnes was 10 million lower than 2012 and considerably down from the 45 million delivered in 2009. Not surprisingly, crude tanker tonnage accounted for three quarters of the 2013 total at 15.2 million.

The graph below shows the dreadful result of the over-ordering of both crude and product tonnage during the burgeoning tanker market in the years in the run up to the financial crisis in the autumn of 2008. Despite delays and cancellations, deliveries from the Far-Eastern production lines continued to flood the market with unwelcome tonnage. Between 2009-2012 the annual average tonnage hitting the water was 38.7 million tonnes, into a market offering little hope of recouping the high investment costs, or making any inroads into the repayment of debt.

Moving on from this period, we can see that the tanker market emphasis is clearly showing the shift towards the clean products market in terms of the surge in orders placed last year. Scheduled product tanker tonnage for delivery this year is set to increase by 3 million tonnes dwt to around 8.8 million, surging to around 12.3 in 2016. In comparison crude deliveries will be slightly higher this year than last at 15.4 million dwt, but fall dramatically to just 8.2 million thereafter before moving up again in 2016 reflecting the recent surge in VLCC orders.



Our analysis for 2014-2016 is based on no cancellations or delays. However some slippage will inevitably occur including negotiated delays and of course the failure of some shipyards to fulfil their orderbook. Orders placed now are generally for delivery in 2016 and beyond, so the profile will be somewhat lower than shown in our graph. However, next year's product tanker deliveries will overtake crude tonnage. Owners may still be tempted into a fresh wave of investment on the back of the recent temporary rebound in several of the tanker sectors. Inevitably newbuilding prices have started to rise and there could be an element of buying before prices gain too much momentum. Of course statistics can be misinterpreted. The forward orderbook for product tankers (in tonnage terms) is still much lower than the peak deliveries, 14.1 and 14.9 million tonnes deadweight in 2008 and 2009 respectively, but this high profile was on the back of replacement tonnage. Today's investment is firmly based on the belief in the future prospects for a sustained long-haul products trade. The new investment coming into shipping through hedge funds and private equity may do a better job in managing to keep a tighter check on any overinvestment.

CRUDE

Middle East

It's been a good game of tug of war this week as Charterers did not oblige the Owners in pumping cargoes into the market. For the main part those cargoes that did show really struggled to pull the Owners over the centre line. However, by the end of the week some Owners ran out of strength and were defeated, with 265 x WS 47.5 being concluded Arabian Gulf / Taiwan down from a start of the week at WS 51 level. It is looking increasingly likely that we are going to have a very light month in terms of Arabian Gulf fixtures done although we could see a busy start to next week and many Owners still believe there will be another bounce back. Suezmaxes saw a lot of activity and rates improved a little, but there is so much tonnage there and with no support from VLCCs and West Africa that a large improvement in rates is unlikely. Despite good enquiry for Aframaxes there has been too many ships competing for the business. Rates have dropped from 80 x WS 105 level to WS 95 level for fuel oil Arabian Gulf / Singapore, and we are not expecting any great shakes for next week.

West Africa

VLCC Charterers here have also had to work hard to chip away at rates here with the main West Africa VLCC Charterer adopting a new tactic of quoting the market in order to achieve their aims. Rates started 260 x WS 52 for Asia at the beginning of the week and ended around 260 x WS 48.5 level. Suezmax Owners had the wind taken out of their sails early on this week when several ships failed subjects as Charterers rearranged, and have ended the week down 130 x WS 60 level for all Western discharge options.

Mediterranean

The Mediterranean Aframax market flattered to deceive this week. Charterers were faced with a thin position list at the opening. This led some to believe rates could firm from their WS 90 levels for vanilla Cross-Med and Black Sea-Med voyages. However, cargo availability was limited and over the course of the next few days owners faced reality and began to discount market levels, until a low of WS 82.5 was achieved Cross-Med by the close. The potential of marginally increasing Libyan production looms, and Owners will hope this translates into improved rates for them next week.

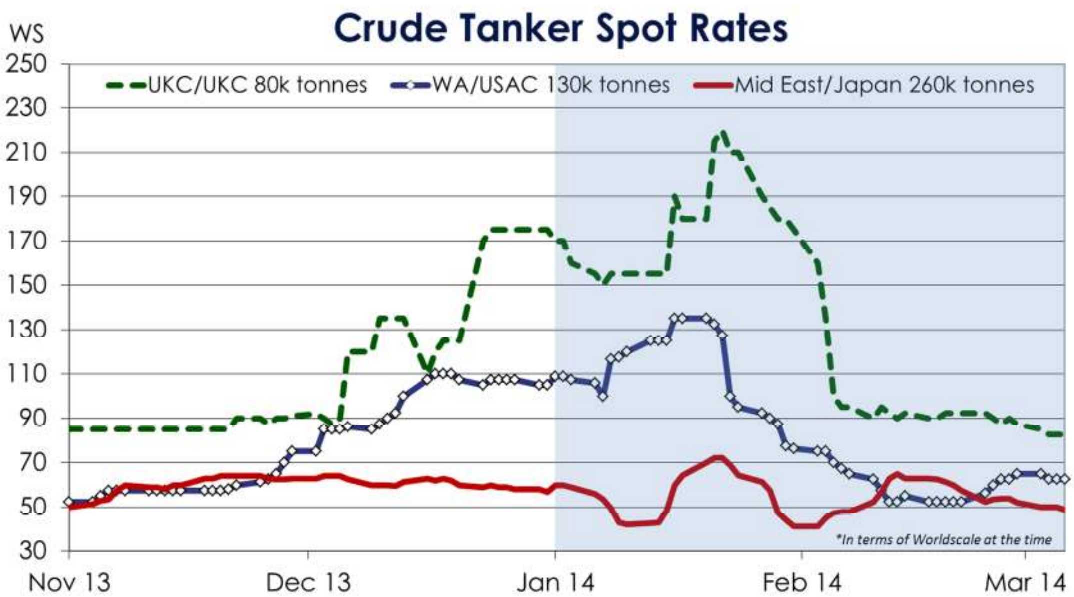
Caribbean

The Chinese Charterers finally got active here for March and managed to work the rates down from US$5m to US$4.5m level. Suezmaxes have been busy here again with cargoes going in all directions. Caribbean Aframaxes have ticked along at last done with rates sitting around WS 100 – WS 105 basis 70kt. A balanced market as we enter the weekend.

North Sea

Report of a VLCC being concluded for forties crude to Korea at US$5.5m is the main highlight for VLCC's, but there are still several ships open in the area with what seems to be a closed fuel oil arb. Suezmax rates have fallen in line with West Africa with 130 x WS 55 done for fuel oil Continent/United States Gulf.

With warm weather being carried across the Atlantic and the Arctic winds never really materializing the Ice Season has been short lived. News on Wednesday that Ice restrictions at the port of Primorsk would be lifted, drew to a close a particularly short season. Rates have been stale for some time and maintained even on replacement business at last done 100kt at WS 60 basis Primorsk / UK Cont. In turn the North Sea has been remarkably slow with volumes minimal and those with enquiry finding it easy to cover on available tonnage. North Sea rates maintain at their low levels of 80kt at WS 85. Next week it looks like more sideways scuttling as the market continues at the present lows with minimal chance of upside.



CLEAN PRODUCTS

Active in the West, relatively flat in the East.

East

The LR1s have seen some decent levels of activity with The Saudi Red Sea Imports starting to kick in and taking at least 4 ships out of a relatively tight window. Rates have therefore stayed at the healthy US$965,000 marker and look steady. East Africa has seen a little bit of activity with 3-4 ships fixing between the WS 125 and WS 127.5 markers on 60,000mt. 65kt Jet Arabian Gulf/West is the quietest route but sentiment is hovering at the US$1.9m levels for a Southern Arabian Gulf load. It's a balanced view moving forward.

LR2s have seen consistent enquiry but unfortunately for Owners, not enough to soak up the amount of tonnage on the lists. A handful of ships have been fixed for 75kt Arabian Gulf / Japan between WS 82.5 and WS 85 but there are a couple of Charterers outstanding that are happy to wait till next week with good confidence that rates will soften further. Like the LR1s the Jet remains quiet and our sentiment here suggests that the next done will be down to the US$2m marker for 80kt Arabian Gulf / UK Cont.

The AG MR market started to show some signs of promise at the weeks opening; with outstanding cargos up to the 10th proving tricky to cover and rates for Cross Ags creeping up to US$ 280k for Jet. Unfortunately for Owners this did not last and enquiry has notably slowed up over the last couple of days; as a result, the bulls out there will be looking to fix towards the US$200k area for a simple Jubail / Jebel Ali . One of the main reasons for this is that Long Haul cargoes are virtually non-existent, with only a few opportunities to clear vessels out of the load area. Red Sea imports have been largely taken care of on the LR1s leaving little for the MR's; rates slipped as a result as US$ 650k is on subs. West Inquiry has slowed up after a busy period but sentiment has slipped to the US$1.3m levels. East Africa is also quiet with last done at 35kt x WS 157.5 and 35kt Nap slow at WS 105.

The North Asia MR market remains firm, and, for the moment, stable. South Korea/Singapore for an MR is currently fixing at around US$510-520K. Although most of the cargoes off mid-March dates have now been cleared, Owner-sentiment remains sky-high and this will continue to prop up the market and it is even the honest opinion of some charterers that this market will remain firm through to early-April dates. LR1s are still fairly strong in North Asia, fixing at around US$570K date-dependent, and rates look to remain firm. LR2s market levels are also date-dependent, but tonnage is tight in patches and South Korea/Singapore will fetch anywhere between US$600-650K. Singapore MRs remain reasonably quiet, with some activity on the short-haul just enough to keep the market chugging along, although returns for Owners are quite poor. It looks like this market may slowly firm outwards from here, as some tonnage will be drawn away to a more-attractive North Asia market. MRs from Singapore/Australia should fix at around 30kt x WS 165-170 levels with potential for gradual further firming this month.

Mediterranean

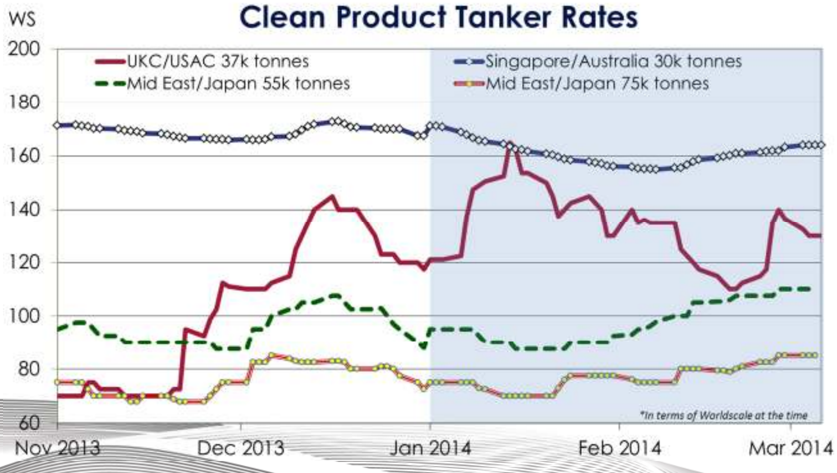
A positive level of enquiry across the Mediterranean and tightness in available positions (partly owing to weather delays) has kept rates firm this week. The differential in rates evidenced last week between East - West load areas has evened out and the market was fixing around 30 x WS 172.5 for Cross-Med trades. Black Sea gasoil exports have been a steady flow, but due to slightly longer tonnage in the East Med rates ticked down to 30 x WS 180. For the MRs there hasn't been that many cargos, but available units for loading in the Med have been in short supply through to mid-March dates with greater availability after the 18th. We would assess long haul options as 37 x WS 130-135 ta / WS 150-ish for West Africa. Heading east an MR was confirmed at the beginning of the week at US$1.07m to Gizan, but Owners as always have a range of ideas in the US$1.0-1.2m level for Saudi Red Sea and handy's considered about the same if not slightly more given the strength in the local market.

UK Continent

On the whole, volumes have been high this week but an ample tonnage list stood in the way of rates rising, TC2 finishes the week around 37 x WS 130 but very date dependant, the pool of Owners before the 15th is small, but post 15th the list opens out especially when you consider the prospect of United States Atlantic Coast ballasters trying to get away from the weak US markets. West Africa remains to stand alone with 37 x WS 145 deemed market on subjects at time of writing, these rates should come under further pressure considering LR1s only secure the equivalent to 37 x WS 137.5. Cross UK-Continent saw a bit of a rally towards weeks end but unfortunately the damage to that market was already done, 30 x WS160-170 / 22 x WS 202.5-205 is market for non-ice and ice voyages respectively.

Caribbean

The market remains bleak in the USG with TC14 falling to around WS 80 at weeks end and looking soft. Long-haul activity has been minimal this week with local enquiry providing the only employment opportunities and with refinery maintenance taking place, downward pressure is anticipated. Prompt tonnage looks long and owners have begun looking to ballast to the Cont from the United States Atlantic Coast. Runs to Brazil have also softened to WS 125 and cross Caribs business is now fetching US$425k.



DIRTY PRODUCTS

Handy

Collective activity through the week leaves Owners pondering what might have been, if not for the forthcoming weekend, although for our Charterers, the break that follows may have just arrived in time to keep a lid on rate movement. Activity levels in the north initially failed to aspire to any extent likely of causing panic and here lays testament to Owners resolve in hanging onto rates. Finishing the week we trade at around 30/150, with Owners start week 11 in a rather more prominent position.

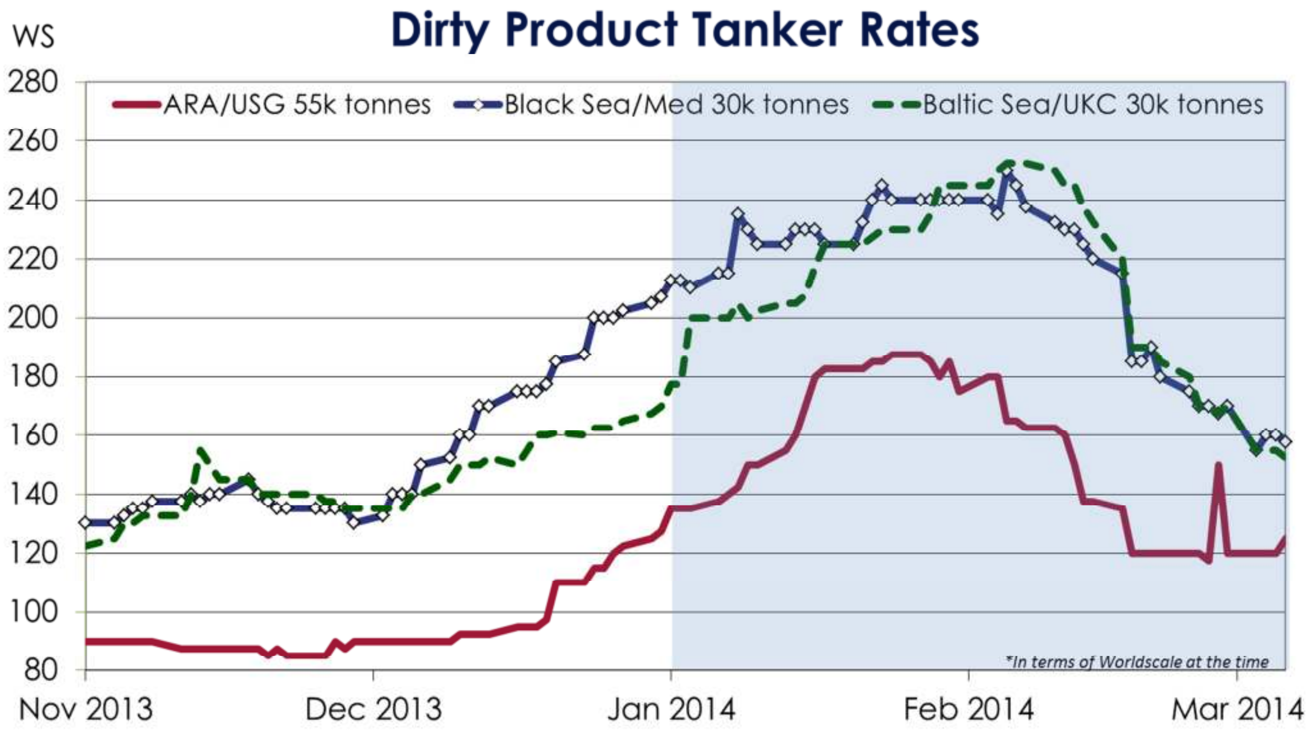
Conditions in the Med almost mirrored those elsewhere on the Handies although, with Charterers covering strangely forward dates from the Black Sea, Owners in this region were able to post better than conceived market earnings. One market driver to perhaps look out for would be the development of adverse weather conditions in the West and Central Med regions. Should they persist, and disrupt vessel itineraries this will have impact on the wider market.

MR

A tough week for MR's in both the Med and the Continent for varying reasons. In the Cont there was little natural inquiry with owners displaying clear signs of frustration as come Friday part cargo repositioning stems are reported to be on subjects. In the Med, tonnage had been allowed to build where a previous flat trend had come under negative pressure. Here though, where at least the Black Sea has produced few 35kt stems, some of this pressure is alleviated at time of writing.

Panamax

This week notes the disparity between US and European trading levels to among some of the narrowest seen in recent months, raising the question of why the European markets aren't seeing more ballast units arrive? And with this, given the fact that the continent market touched WS 130 (for a fairly ppt lift) Owners face seemingly pleasing conditions in which to operate. One theory perhaps is that whilst backhaul voyages seem to be a little more frequent as of late, and given Owners preference for triangulation, the supply balance of available tonnage will continue to be distorted. Charterers therefor still serve better protected allowing sufficient lead time to secure ballast tonnage (before it sits ppt) on the US tonnage lists.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 6th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-4**	50	54	48	45
TD5	Suezmax	WAF-USAC	**+1**	64	63	67	65
TD7	Aframax	N.Sea-UKC	**-5**	84	89	99	97

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

			wk on wk change	Mar 6th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-4,750**	28,000	32,750	24,750	21,250
TD5	Suezmax	WAF-USAC	**+1,000**	16,000	15,000	18,000	16,500
TD7	Aframax	N.Sea-UKC	**-4,000**	2,500	6,500	14,750	11,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 6th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+0**	85	85	76	
TC2	MR - west	UKC-USAC	**-10**	130	140	136	116
TC5	LR1	AG-Japan	**+1**	109	108	96	111
TC7	MR - east	Singapore-EC Aus	**+1**	164	163	159	

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

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

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

LQM Bunker Price (Rotterdam HSFO 380)	**+0**	584.5	584.5	573.5
LQM Bunker Price (Fujairah 380 HSFO)	**-8**	602.5	610.5	614.5
LQM Bunker Price (Singapore 380 HSFO)	**-9**	596.5	605.5	608

PAT/JCH/TP/JT/slk

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