WEEKLY TANKER REPORT

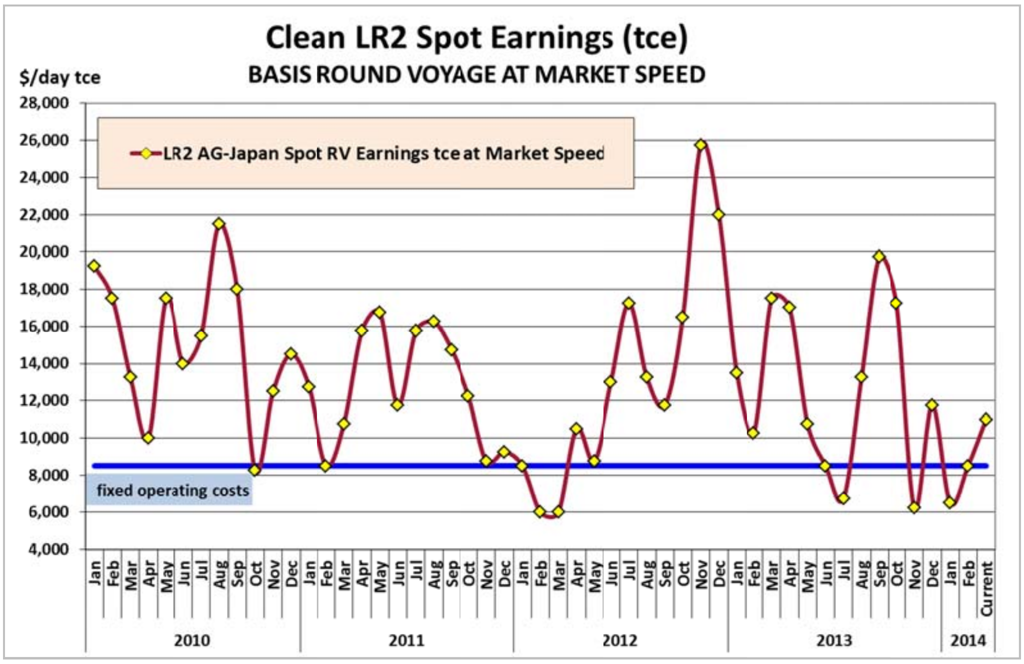
GIBSON SHIPPING ENERGY

14th March 2014

SLOW START TO THE YEAR FOR LR2s

Large clean product tankers did not start this year very well. LR2s trading Middle East – Japan on average did not earn enough in terms of tce earnings at market speed in January/February to cover fully fixed operating expenses. In the first half of March returns have improved slightly on steady levels of activity to around $11,000/day; however, ample spot tonnage availability has kept rates in check and prevented further gains. Just to put things into perspective, currently the returns for LR2s in the East are about $3,000/day lower relative to average levels seen over the past five years.

The underperformance in the LR2 segment is perhaps surprising considering high hopes for stronger demand following the start-up of export orientated refineries in the Middle East, with the first one - the 400,000 b/d Jubail refinery in Saudi Arabia starting operations in the second half of last year. However, the current weakness in the LR2 earnings has been primarily linked to the abundance of spot availability, even though at times demand has also been weak. Although LR2 fleet increased by just three vessels last year, around 30 dirty ships converted to trading clean. The lack of long haul product exports from the US to the Asia Pacific due to the very cold winter in the US was an additional contributing factor behind weak rates and earnings.



However, the winter is coming to an end and with it, US exports are likely to recover, albeit slowly. In addition, two more 400,000 b/d refineries in the Middle East are expected to come on stream in 2014 and this undoubtedly will further boost clean tanker demand. In terms of supply, there also could be some positive developments. Somewhere between 15 to 20 LR2 deliveries are expected enter the trading fleet this year, while there are 11 trading vessels in this category above 20 years of age and another 16 between 15 to 20 years of age. If we are to see reasonable volumes of scrapping, this would again translate into modest growth in the LR2 fleet supply in 2014.

In the longer run, the prospects for the largest clean tanker category are still positive. Export orientated refining capacity in the Middle East and India will continue to grow and with it, demand for clean tankers, in particular demand for long haul shipments. However, it might take a little longer until tanker owners see some significant improvements in their returns.

CRUDE

Middle East

VLCC Owners hoped for a busy week to lead them into higher end month territory a la February, but once volumes did pick up they still heavily outnumbered the enquiry, and merely ended up fighting amongst themselves to drag the market in the opposite direction. Rates fell off to close to ws 40 to the East and as low as ws 28 to the West via Suez - pretty well back at the previous lowpoint of the year, and it looks as if the suffering will continue well into the April programme now. Suezmax volumes see-sawed gently, but overall It's been a non-descript week and rates settled into the low ws 60's East with around ws 30 available to the West. Little imminent change forecast. Aframaxes tightened a little, but not enough to force rates up to above 80,000 by ws 95 to Singapore, and it's only hope for next week.

West Africa

Supply stayed well in excess of limp Suezmax demand here, and rates reflected that by sliding to as low as 130,000 by ws 55 for all Atlantic options with further squeezing of Owners' pips on the cards. VLCCs necessarily took their lead from the falling Arabian Gulf sector with light volumes not helping, and rates crumbling to 260,000 by ws 42.5 to the East and theoretically to around 3.5 million to West Coast India.

Mediterranean

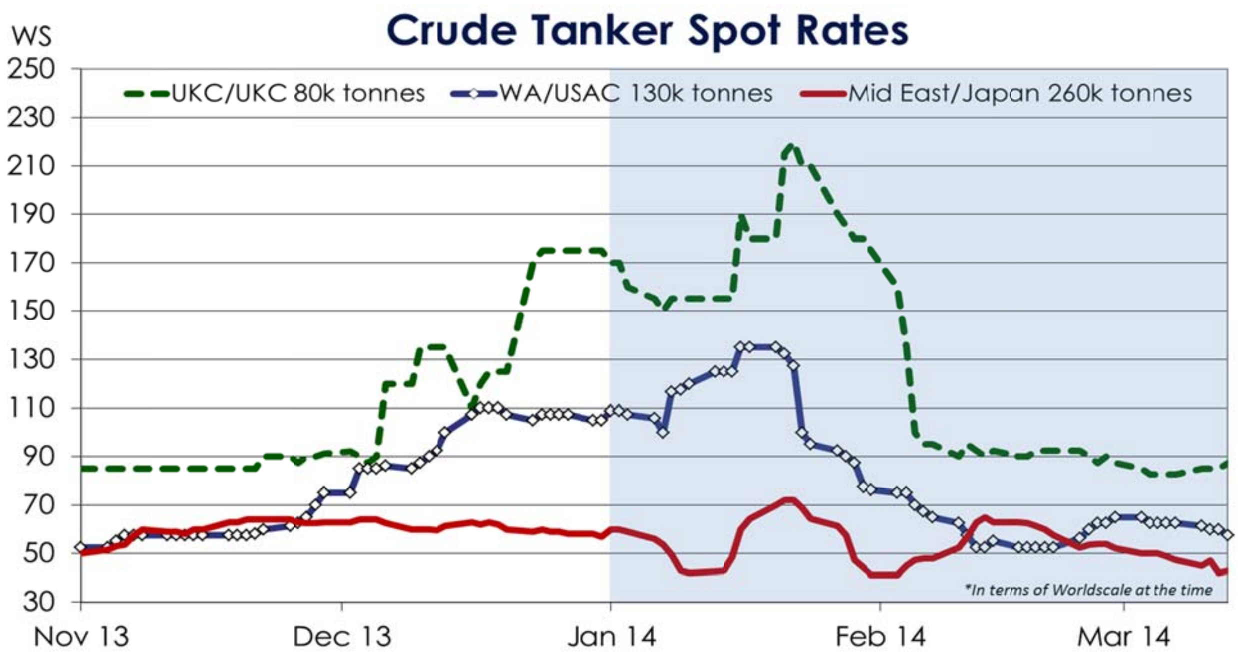
A more active Aframax scene ate steadily into availability, eventually pulling rates up modestly to 80,000 by ws 95/97.5 cross Med. If the flow keeps flowing then further gains could be seen, but few bets are being placed. Suezmaxes started to believe that they were in the Sargasso Sea, and not the Mediterranean, and with enquiry so light, rates had to compress down to little better than 140,000 by ws 57.5 from the Black Sea to European options, ws 50 Transatlantic, with even runs to the East off the scorecard. It won't get better soon.

Caribbean

A brief return of fog disruption gave Aframax Owners hope, but it burnt off pretty quickly and the market found no real grip. Rates eased to 70,000 by ws 95/97.5 upcoast, and look range bound for the foreseeable. Suezmaxes had a few hits at 150,000 by average ws 55 upcoast, but didn't threaten higher. VLCCs moved into hard-times territory as the growing supply/demand imbalance negatively impacted rates to send them spiralling down to as low as US$4 million to Singapore, and around U$3.4 million to West Coast India.

North Sea

Aframax sentiment improved a little, hand in hand with the Med, but the end results weren't very eye-catching. 80,000 by ws 87.5/90 cross UK Cont, and 100,000 by ws 65/67.5 from the Baltic are the current numbers, and although some further fat may be gained, it is likely to be worked off quickly once again. Suezmaxes tried to 'make it work' to the East at around US$2.8 million, but only one, or two, passed the 'subjects' test, and the mood stayed flat. VLCCs also had the odd opportunity, but there were enough candidates to keep rates easily capped at US$4 million for fuel oil runs from Rotterdam to Singapore.



CLEAN PRODUCTS

West in the balance, while the East has more potential.

East

Lr2s have been busy this week with East rates edging up slightly but West rates still weak. Lr1s have looked tight but had to ease off with LR2 rates showing too much value. If LR2s can continue their activity levels both sizes could look better next week. 55,000 mt NAP AG/Japan is off a touch at w107.5 and 65,000 mt Jet AG/UKC is at US$1.925 million. 75,000 mt Naphtha AG/Japan is at w86 today and 90,000 mt Jet AG/UKC at US$2.0 million. April looks tighter on tonnage so rates may well see more improvements next week.

MRs have been generally quiet throughout this week. There is a bit more activity on the shorthaul window, which potentially could lead to some rises. TC12 has been fxd at ws 105, in all likelihood next done will be there or thereabouts, any firming seems unlikely. East Africa remains 35x157.5 and these number is stable and the equivalent has been repeated. West bound runs are untested, but for assessment purposes it is US$ 1.3 million. Cross AGs are hovering around 250k for Jubail/Jebel Ali voyages. Cargo enquiry has not been a little quiet this week, but an injection early next week, may well lift Owners spirits.

It has been another strong week for the North Asia CPP markets. In a similar vein to last week, much of this week's MR enquiry has remained outstanding as owners hold back on fixing looking to achieve higher rates. MRs from South Korea/Singapore should still fix in excess of US$ 500K and look to remain stable through until April. LR1s are also stable, and we have ended up with a `Mexican-stand-off' situation between Owners and Charterers with outstanding stems, they are currently fixing at around US$ 575K levels for South Korea/Singapore. LR2s are tight, but there has not been a huge amount of enquiry this week, South Korea/Singapore should still pay above US$ 600K, but some Charterers are now hinting at a softening market. Singapore has seen a boost in activity this week for the MRs, and we have seen a mini-clear-out of some of the prompt tonnage. There also is a good amount of outstanding long haul enquiry off the 20-30th March window, and Owner's sentiment has heightened with its arrival. Singapore/Australia should fix at around 35kt x ws155 with potential to firm further.

Mediterranean

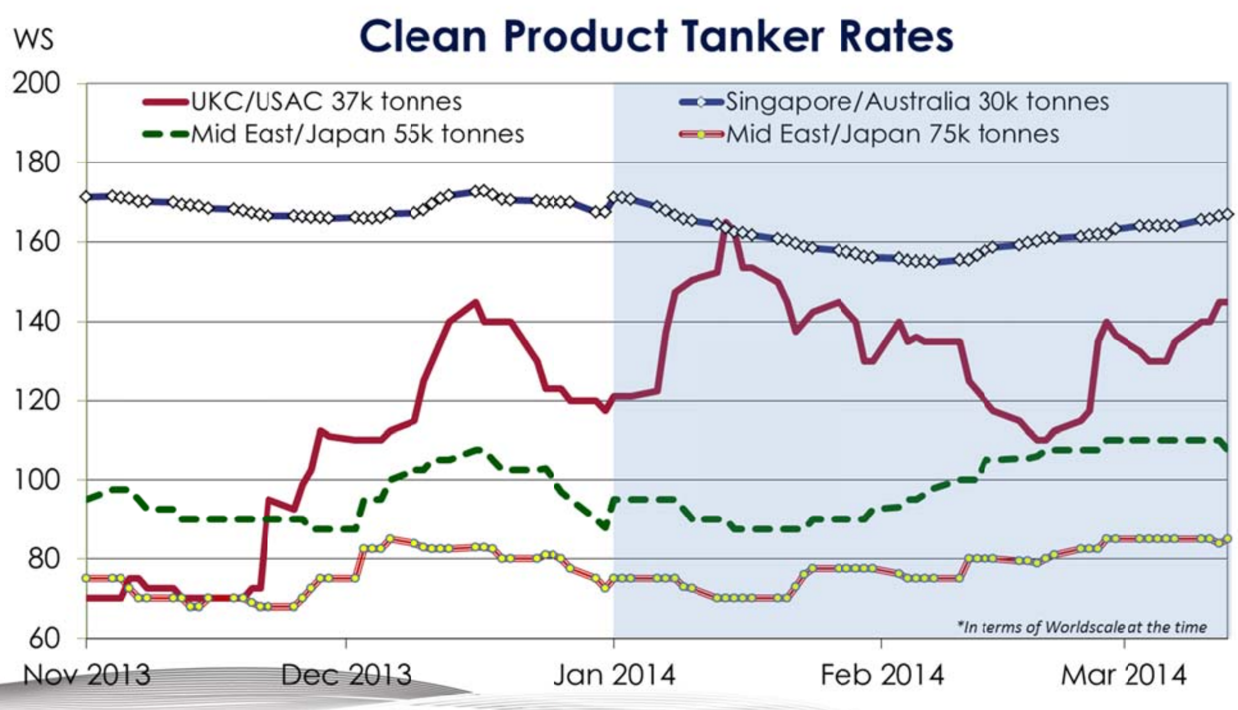
The Med market has continued to silence the doubters this week with good levels of fresh enquiry for TC6 and out of the Black Sea. The tonnage list looks tight for anything loading up until the end of next week and the feeling is rates may begin to firm, we deem cross Med 30 x ws 175 and for the Black Sea 30 x ws 185 is reported on subjects at time of writing. Natural Med MR positions are looking fairly tight, however with the number of ballasters approaching Europe they are likely to trade in line with the Cont and we asses longhaul options 37 x WS 140 levels for TA while West Africa continues to hold a 15-20 ppt premium. East runs are Owner dependent as ever, but for now on MR rates are trading sideways at around US$ 1.0-1.05m to the Red Sea and 1.15m-1.3m to the AG.

UK Continent

A steady week on the MR's, with freight prices holding for the most part. Owners current ideas for TC2 are 37x150, but it is noticeably quieter and there are a lot more ballasters coming back from the USA. Cont/West Africa is a little untested, last done was 37x155. The handies have not been overly busy, currently trading 30x160 / 22x195. LR1's saw some good activity, but there is just too much tonnage, and rates struggled to go higher than 60x90 for TA-West Africa.

Caribbean

The USG market suffered another tepid week and rates have slipped to WS 67.5 for TC14 cargoes. Refinery maintenance has kept cargo enquiry subdued for middle distillates which are being soaked up by local demand. More Owners are looking to ballast straight to the Cont, and although those left behind may hope this will thin the list, downward pressure on rates is likely to continue until fresh enquiry picks up. Caribbean Sea to the USAC continues to trade sideways at WS 100 levels, while trades to South America are now WS 115.



DIRTY PRODUCTS

Handy

Rates in the North traded within a 10 point range this weekend where pockets of strength developed in the Baltic owing to the necessity of ballasting ships from the Continent. Owners from then on, were confident of maintaining some of this momentum, however with date progression and additional units competing against one another, Charterers contentiously re align levels closer to WS 140 X UKC come the end of week 11.

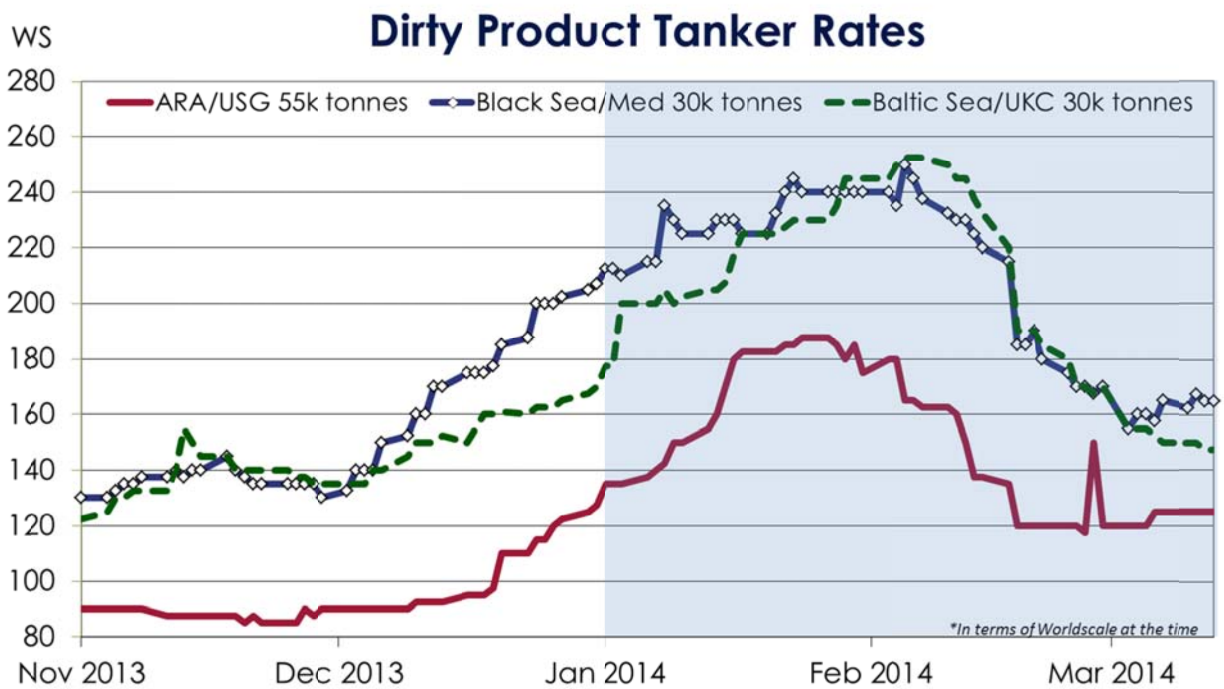
Conditions from the Black Sea give Owners a little more cheer as rates bounced from the low 160's back into the 170 region. Progressive activity seen through the week provided justification for such rises, although the Mediterranean (particularly if West Med loading) currently lags with rather more consistency at last done levels.

MR

Sporadic full size enquiry provides the market with a reminder where levels should be trading, as previous benchmarks were becoming rather stale. Previously, owners had been sitting around waiting for the next MR cargo, or finding themselves having to compete on a 30kt stem; Once again we witness the sectors resilience to inactive periods. Owners next week maybe in position to build daily returns should those employed not reappear immediately back on the lists.

Panamax

Still trading with in a reliable 5 point boundary ex continent, repetition was seen in the 125-130 range. This said, Owners will face a tough task going forward as the Caribbean Sea began to lose precious WS points. April dates will now show a selection of available units, and ships ballasting this way now prove more than just an idle threat, next week could see Charterer's make progress in reducing freight rates.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 13th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-8**	42	50	64	43
TD5	Suezmax	WAF-USAC	**-6**	58	64	52	63
TD7	Aframax	N.Sea-UKC	**+3**	87	84	92	94

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

PAT/JCH/TP/JT/slk

			wk on wk change	Mar 13th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	**-10,250**	17,750	28,000	45,750	18,500
TD5	Suezmax	WAF-USAC	**-3,250**	12,750	16,000	7,750	15,750
TD7	Aframax	N.Sea-UKC	**+2,250**	4,750	2,500	9,000	9,500

Clean Tanker Spot Market Developments - Spot Worldscale

Produced by Gibson Consultancy and Research

			wk on wk change	Mar 13th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+0**	85	85	80	
TC2	MR - west	UKC-USAC	**+14**	144	130	120	120
TC5	LR1	AG-Japan	**+1**	110	109	104	108
TC7	MR - east	Singapore-EC Aus	**+3**	167	164	158	

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

Visit Gibson's website at

			wk on wk change	Mar 13th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	**+0**	11,250	11,250	8,750	
TC2	MR - west	UKC-USAC	**+3,000**	13,000	10,000	8,000	8,000
TC5	LR1	AG-Japan	**+500**	13,250	12,750	11,250	12,500
TC7	MR - east	Singapore-EC Aus	**+250**	11,500	11,250	9,750	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-7**	577.5	584.5	580.5
LQM Bunker Price (Fujairah 380 HSFO)	**+0**	602.5	602.5	610.5
LQM Bunker Price (Singapore 380 HSFO)	**+4**	600.5	596.5	612

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