WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

28th March 2014

CORRIDOR OF POWER

Last month the respective Presidents of both China and Pakistan signed an agreement to create an “economic corridor” between the two nations. Pakistan’s President Hussain predicted that the project would not only benefit both nations, but also the whole region with billions of people. The project which includes upgrades to the roads and railways linking the two countries also outlines proposals to assist the Pakistan government to develop their energy sector in order to alleviate power shortages and bring economic advancement to the region. China is already investing heavily in Pakistan and is committed to a $9 billion scheme to build a nuclear power plant in Karachi as well as a number of other civil projects. China also recently assumed control of the port of Gwadar.

Other long term plans envisage the construction of oil and gas pipelines from Gwadar to north western China although no announcement of the proposed capacity was mentioned. China sees this as another step towards securing energy supply by diversifying energy sources and trade routes - this scenario can be viewed in several ways. The project appears to be very similar to the 440,000 b/d Myanmar pipeline due to go online later this year. The proposed Pakistan-China pipeline link would be constructed on exactly the same premise, to shorten the crude supply route into the interior of China and secure supply. For tankers both projects could impact on the tonne-miles from the Middle East Gulf to China. Gwadar port is just 360 miles outside the Hormuz Strait (Quoin Island) and this project would reduce the need for seaborne shipments from the Middle East. The pipeline would be considerably shorter than the distance from Quoin Island to Ningbo (5,550 miles). The go ahead for the new pipelines still requires a great number of barriers to be overcome including physical, political, economic and security issues to name but a few. Iran has already offered to build a crude pipeline to link into Gwadar, but this is very much dependent on normalisation of relations with the US. Before last year’s change in government in Iran, the previous administration had expressed its willingness to build a 400,000 b/d refinery at Gwadar.

Another way to view the impact of both the oil pipeline projects is that China is now seeking to develop the vast interior which is driving up the need to shorten crude supply routes. If this is the case, then the pipeline developments can be viewed as additional barrels and not just a requirement for more direct shipments into the Chinese interior. Other new overland pipeline projects from the FSU have never diminished the growing seaborne demand from China. However, the potential of the threat to tonne-miles will require a watchful eye. Recent history tells us that China usually gets what it wants and Pakistan now appears to be firmly in its sights.

Middle East

Another very soggy week for VLCCs generally kept rates at their low-points of the year. There was some late-week excitement, however, but not of a good sort, as one active Owner encountered 'problems' that meant previously fixed deals had to be unpicked, and re-fixed, upon very early dates. There was some upward knee jerk to rate demands, but the weight of forward availability should ensure that that dissipates pretty quickly. Rates for easy dates remain at around ws 36 to the East, and high ws 20's to the West via Cape. Suezmaxes found more to do than of late, and that helped Owners to keep rates at around 130,000 by ws 62.5 to the East and at up to ws 35 to the West, where they should stay for a while yet. Aframaxes couldn't find any real grip, and light enquiry pushed rates down a little further to 80,000 by ws 85/87.5 to Singapore with similar values expected over the coming week.

West Africa

Another opportunity was given to Suezmax Owners to shine as Charterers started in busy fashion, but rates barely nudged above 130,000 by ws 65 for any Atlantic destination, and once the debris had cleared, the cargo flow halted, and Owners were looking at closer to ws 60, and will be on the defensive at the start of next week. VLCCs kept steady-ish at just above 260,000 by ws 40 to the East, and to US$3.65 for East Coast India, but with the Arabian Gulf remaining sticky, there was no chance to expect, or even ask, for premiums. More of the same to come, with May dates in the mainframe from Monday.

Mediterranean

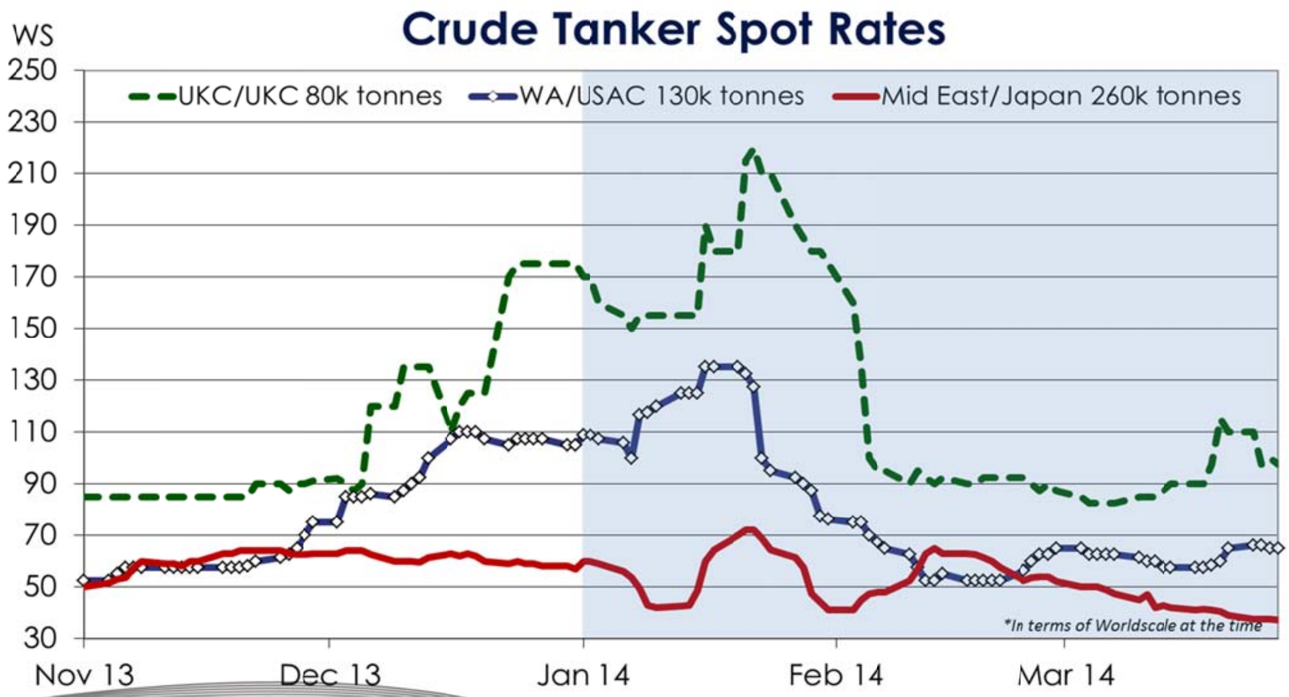
Some date sensitivity pushed the top end of the Aframax rate range, but the herd generally stayed penned in to an 80,000 by ws 95/100 corral, and rates could come under pressure as dates roll into the second decade April. Suezmaxes started brightly, and good volumes allowed for the market to inflate to above ws 70 from the Black Sea to European destinations with just over US$2.4 million seen for a run to East Coast India.by the week's end, however, the scoreboard was light, and the near term prospects look a little easier for Charterers to manipulate in their favour.

Caribbean

Aframaxes see-sawed within a very tight rate band, and end the week at 70,000 by ws 97.5 upcoast with no clear winner. As long as fog doesn't return to the area, Charterers should be able to keep things under control. VLCCs had a busier week of it, but there remain plenty enough units to soak up the demand so that rates stay top ended at US$3.7 million Singapore and US$ 3.2 million for West Coast India. Hard to see any significant change through next week.

North Sea

Reverse gear for Aframaxes here as enquiry slowed, and availability started to stack up once again. Rates have fallen off to 80,000 by ws 95 Cross UKC and to 100,000 by ws 70 from the Baltic, with further deterioration anticipated. Suezmaxes saw very little, but there was some interest to the East where Owners were asking for around US$3.3 million for heated cargoes to Singapore. VLCCs stayed largely ignored and early units had to ballst off. Theoretically rates for fuel oil to Singapore could be booked at about US$3.8 million.



CLEAN PRODUCTS

West is balanced , East is stedy

East

A mixed week for the LRs with lists looking tight and apparent potential but at the same time rates falling off a touch. 75,000 mt Naphtha AG/Japan fought it's way to w95 only to see w92.5 paid at the tail end of the week. This may only be a blip as most Owners are looking to hold for at least w95. 90,000 mt Jet Ag/UKC is looking a little firmer now at U$2.30 million but improvements are fragile. 55,000 mt Naphtha AG/Japan is presently at w107.5 and 65,000 Jet AG/UKC steady at US$1.90 million. These rates could see rises next week with MRs busier but the Owners will have to work for it.

A mixed week for the LRs with lists looking tight and apparent potential but at the same time

The MRs strong form has continued this week with the tight tonnage remaining and rates on the rise. The shorthauls and inter-AG movements is where most gains have been made. Cross-AGs have risen to US$ 300k for Kuwait/UAE voyages and high 200's for shorter voyages, with Red Sea runs up to 750k basis Gizan. East Africa remains untested, but given the firming elsewhere, is assessed at a minimum of ws 175 on 35kt. Distillate movements have also risen to US$ 1.45-1.5 Million basis UKC. Tc12 hasn't seen such dramatic rises, with Ws 115 on subs. Next week more of the same is expected, with the new levels becoming more established.

It has been a reasonably subdued week in terms of cargo volumes in North Asia, but the position lists remain tight and there has been at least enough enquiry to hold the market firm and fixing at these decent levels that have now become run of the mill. South Korea/Singapore for the MR is still holding firm at around the USD 530K mark and looks to remain there through next week. South Korea/Singapore for the LR1s and LR2s are also going steady, and LR1s should fix at around US$ 580K, while the LR2s are paying around the USD 630K marker. Singapore is still ticking over nicely, but freight rates remain unchanged from last week and Singapore/Australia should go at around 30kt x ws170-172.5.

This market could be one to watch in the near future though, as increased demand for IMO2 tonnage to carry Mixed Aromatics parcels to china off Lightering LRs is expected in the coming months this could shake things up in both the Singapore and North Asia markets.

Mediterranean

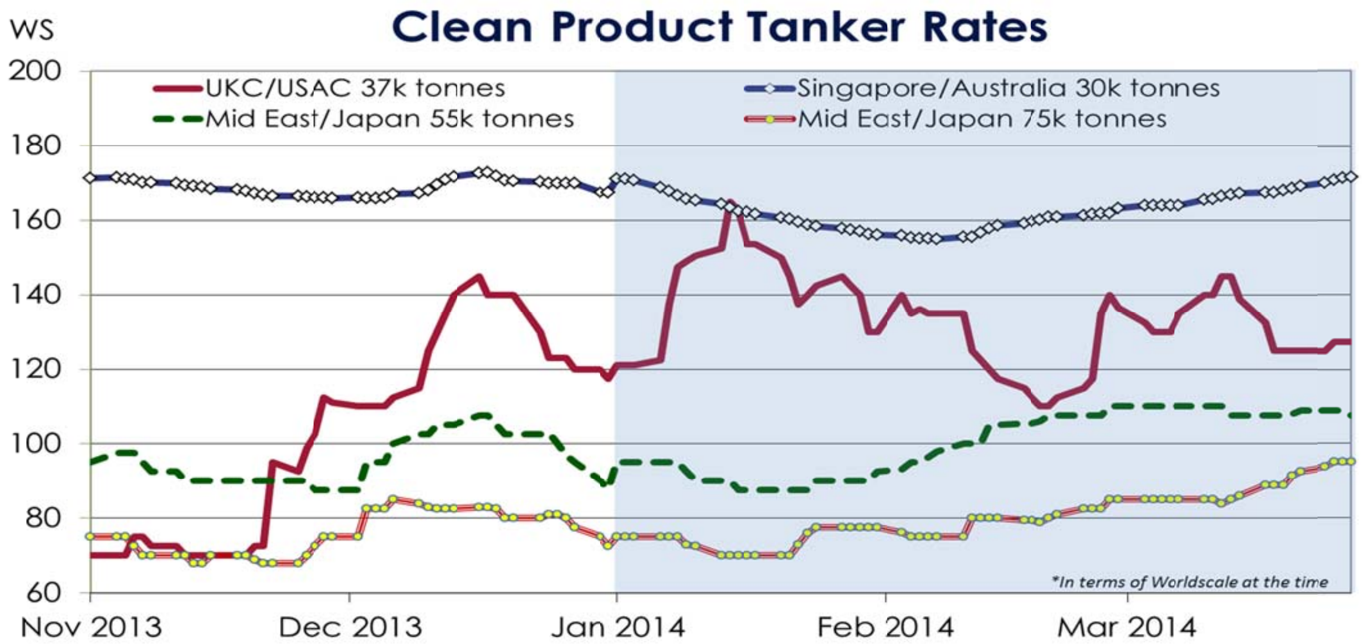
A quiet and uneventful week in the Med with the market softening on all trades on the handies. Cross med is now fixing at 30 x ws 165, while the black sea still holds a slight premium at 30 x ws 170. Tonnage going into next week looks on the long side and unless activity picks up we expect the market to soften further. Longhaul MRs trade in line with with cont at 37 x ws 130 and ws 145 to WAFR. On the MRs trading East we deem the market Usd 950k-1.0m for redsea basis a central med load and + Usd 100k-200k for the AG.

UK Continent

Despite not being overly active, TC2 has seen a gradual rise in freight prices from 37x125 up to 37x130 and the list looks well balanced. Cont/wafr has been very quiet on MR size, 37x145 last fixed for approved tonnage. LR1'S are fixing steadily 60x100 Cont/ta-wafr and owners ideas around usd 2.15m cont / japan. Handies have enjoyed a relatively active week fixing 30x160-165 throughout and flexis 22x195.

Caribbean

A busier week for TC14 saw rates finally firm up to WS 77.5 levels as the list has eventually started to thin. Steady enquiry all week kept owners optimistic, although for rates to increase further activity will need to step up another level. Caribs up to the USAC continues to trade sideways at WS 95 while South America runs remain at WS 110 levels.



DIRTY PRODUCTS

Handy

A relatively successful week for the owning fraternity as the markets now head into the spring period. Conditions finish the week firm in the Continent and Mediterranean alike with sentiment quietly positive; however, in the latter region there is a wind of change on the horizon. Activity has stimulated the market up until now supported by delayed itineraries that in turn put pressure on the current fixing window, hence a justification to the 30 x ws 205 lvls witnessed. It is difficult to expect these levels to hold going forward however as expectation follows that volumes from the B.Sea may begin to diminish.

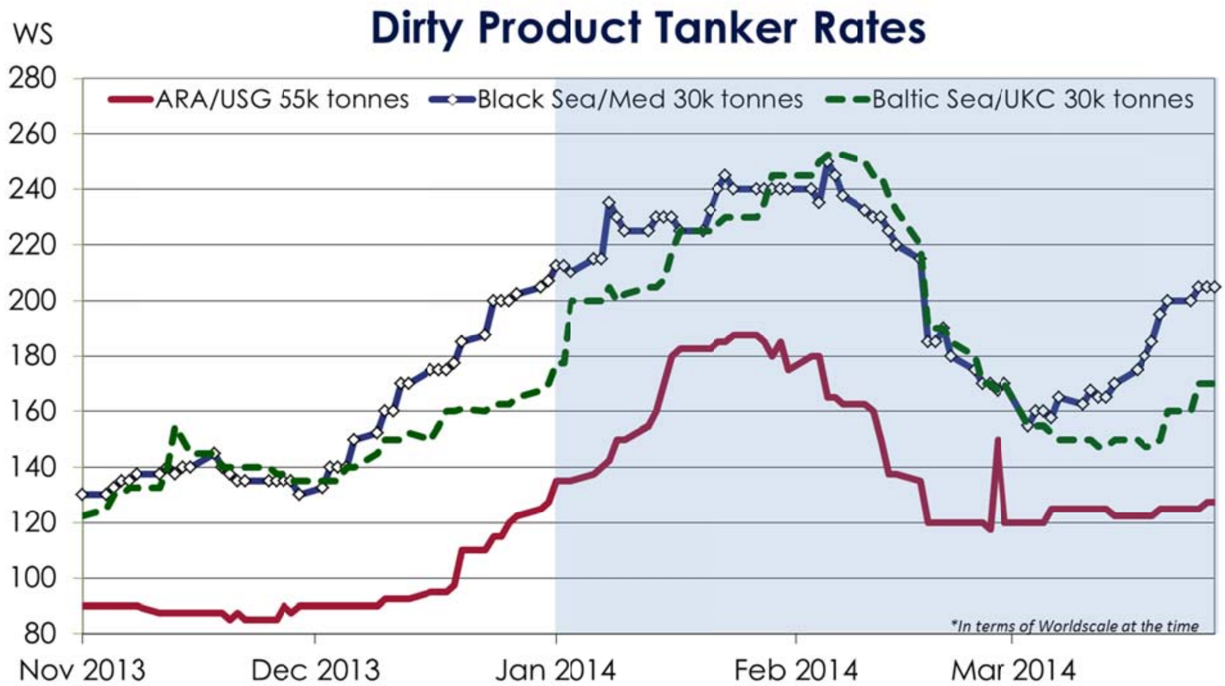
The Continent market should remain firm at the start of next week. Naturally positioned published tonnage is in short supply and the market could turn tight quickly with condensed inquiry. Gathering tonnage in Sp.Med may offer some negative pressure to the north if the Med market begins to subside.

MR

Sporadic full sized activity keeps the tonnage list from building in length this week, and on the odd occasion owners became optimistic that they may find potential to raise the market. In the Med, Owners were able to benefit from an active Handy sector which is likely to equate to a flat trend going forward. In the North tonnage remains tight, and just as caution needs to be practised on the surrounding markets, here too Charterers found securing tonnage was not as strait forward as they had envisaged.

Panamax

Another active week in this sector especially in the Continent with rates still balanced carefully. Potential to force rates down was on the cards in the beginning of the week, however as Friday comes to a close, we find 4-5 vessels on subs, and a thinner tonnage list, supporting owners claim for rate justification. Waiting to hear subjects being lifted will be the key factor in where rates move next week, however with the Caribbean market still weak, expect owners to start ballasting free tonnage across the Atlantic, presenting the same conditions in forward fixing windows.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 27th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	-4	37	41	54	39
TD5	Suezmax	WAF-USAC	+3	64	61	63	63
TD7	Aframax	N.Sea-UKC	-15	96	111	89	94

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

			wk on wk change	Mar 27th	Last Week	Last Month	FFA Q1 14
TD3	VLCC	AG-Japan	-5,250	11,000	16,250	32,750	13,250
TD5	Suezmax	WAF-USAC	+2,250	16,750	14,500	15,000	15,750
TD7	Aframax	N.Sea-UKC	-10,750	11,500	22,250	6,500	9,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 27th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	+6	95	89	85	
TC2	MR - west	UKC-USAC	+3	128	125	140	123
TC5	LR1	AG-Japan	-1	109	110	108	108
TC7	MR - east	Singapore-EC Aus	+3	172	169	163	

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

			wk on wk change	Mar 27th	Last Week	Last Month	FFA Q1 14
TC1	LR2	AG-Japan	+2,500	15,250	12,750	10,750	
TC2	MR - west	UKC-USAC	+750	9,750	9,000	12,000	8,500
TC5	LR1	AG-Japan	-250	12,750	13,000	12,250	12,500
TC7	MR - east	Singapore-EC Aus	+750	12,750	12,000	10,750	

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

LQM Bunker Price (Rotterdam HSFO 380)	+0	577.5	577.5	587.5	
LQM Bunker Price (Fujairah 380 HSFO)	+3	605.5	602.5	612.5	
LQM Bunker Price (Singapore 380 HSFO)	-8	593	600.5	617.5	

PAT/JCH/TP/JT/slk

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