WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

23rd November 2012

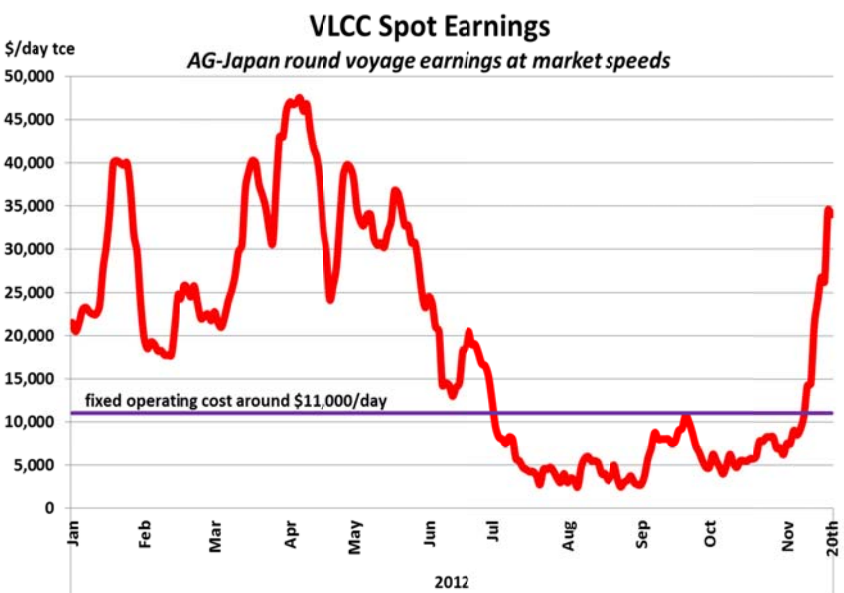
TD3 – CHRISTMAS COMES EARLY?

At last we have some excitement in a crude tanker segment. VLCCs have burst into life in the last 10 days, offering some much needed respite for their owners. With Thanksgiving celebrations this week and Christmas parties soon to be in full swing, it would be easy for owners to think all their Christmases have come at once.

With AG-Japan rising from WS36 on the 6th November to WS56 on Wednesday this week, earnings have – comparatively speaking – soared from $7,500/day to $34,000/day (at market speed - slow steaming). If you have been lucky enough to fix your VLCC in the last few days, a pat on the back is well deserved. But what has driven this recent surge in activity and will it last?

An increase in Chinese demand mainly from the AG but also from West Africa is a plausible cause. Slow steaming – reducing availability – is another contributing factor. Also, the recent plentiful volumes of national holidays always cause a stir, as charterers decide their strategy for approaching the market. Whilst owners will be hopeful this increase can be sustained, it is already noticeable that cargo activity has quietened. If rates do continue to rise, vessels may speed up and once again an oversupply of spot tonnage will occur. Owners will want to avoid this, suggesting further rises will be limited.

The dire state of VLCC earnings in recent times is well documented. Average earnings (at market speed) this year to date are around $19,000/day. November's jump in rates, if maintained for the rest of this month, still only lift average earnings year to date to $20,000/day. This lacklustre performance is predominantly caused by the abundance of tonnage dominating this fleet. With 82 VLCCs currently on the orderbook (accounting for 14% of the existing VLCC fleet) the problem of oversupply is not going away anytime soon.



However A.P.Moller-Maersk has taken two interesting steps this week to help tackle this ailing sector. Firstly, their 2012 Maersk Ilma will be retrofitted to improve fuel efficiency; an $800,000/year saving on bunker costs is anticipated. Secondly, with the announcement that two of their modern VLCCs are to be put into cold lay-up. Moller believes that such action is "behaving responsibly". Having done their share of reducing capacity in the container market and now turning their attention to the tanker market, Moller will be looking to other owners to do their bit and "behave responsibly" too.

Seasonal weather delays are inevitable, more holidays and other sporadic events will continue to occur allowing spikes in rates, but the problem of oversupply will continue to exist. Maybe for now owners need to raise a glass to Moller as they lead the way to tackle the supply issue. Maybe, just maybe, some will even be brave enough to follow?

CRUDE

Middle East

All good things come to an end...or do they? VLCC Owners initially enjoyed even more success by driving rates to the East up to a peak WS 57.5, and WS 35 to the West, but the second half of the week became compromised by players taking a break in lieu of the U.S. Thanksgiving holiday, allowing Charterers to claw back some ground, and put Owners slightly on the defensive. Next week should become busy again, however, and opportunities may well develop for any lost ground to be made up once again. Suezmaxes, on the other hand, had nothing to celebrate with minimal enquiry, and plentiful availability, anchoring rates to no higher than 130,000 by WS 70 East and WS 40 West. Aframaxes also kept a low profile so that rates remained unchanged at an average 80,000 by WS 92.5 to Singapore, where they look set to stay for the near term.

West Africa

Even a mini flurry of pre-Holiday activity failed to tighten the Suezmax rope, and Owners merely had to accept 'last done' levels for all options.130,000 goes at around WS 55 to the US Gulf at present, and will stay there, or thereabouts for the duration. VLCCs stayed in short supply, and the market remained reliant upon ballasters from the East to supplement the lack of naturally placed units. Rates, therefore, stayed in lock-step with the Arabian Gulf, and held a little above WS 50 to the East, with a little over US$4 million the mark for West Coast India discharge.

Mediterranean

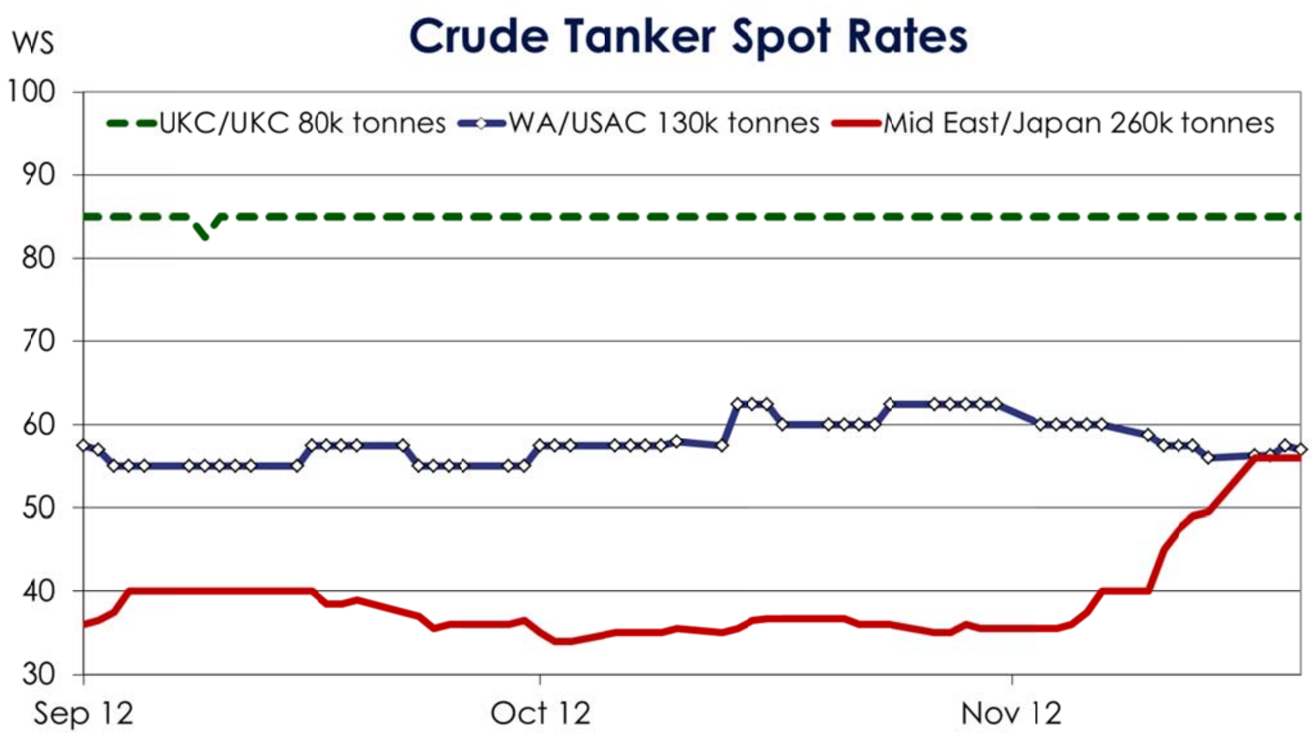
Until more serious winter factors cause ongoing disruption, the Aframax market here will merely bob about at very close to what has become a 'conference' 80,000 by WS 75/80 rate band cross med. Suezmaxes also found no new ground to race upon and limited enquiry coupled with reasonable availability kept the market pegged at no better than 140,000 by WS 62.5 from the Black Sea. Early dates have, however, been fairly well pruned, so it is possible that a small premium could be secured for those positions.. if needed.

Caribbean

Aframaxes had a very brief surge to a peak of 70,000 by WS 140 upcoast, but as the Holiday beckoned, enquiry, sentiment, and rates, slipped badly to end the week at 70,000 by WS 110/115, and a soggy restart to the campaign is forecast. VLCCs, however, remained in fine balance and owners retained ideas of US$4.75 million+ to Singapore, and US$4.4 million to West Coast India with no early retreat likely.

North Sea

As in the Med, Aframax Owners can't break out of their rate box. 80,000 by WS 85/87.5 is the ongoing tune cross UK Cont with 100,000 by WS 57.5/60 the bracket from the Baltic. Renewed focus next week after the Holiday, but no predictions of any surprises. Suezmaxes got the odd knock which merely re-confirmed the predicted 135,000 by WS 50 forecast to the States. VLCCs stayed very thin on the ground, however, and Charterers were willing to pay up to US$4.3 million to Singapore and US$6.5 million for runs to S Korea/China.



CLEAN PRODUCTS

A steady week across all sides in the West, as the East enjoys a strong week

East

Another big week on the LRs with LR1s now pushing hardest. With more fixtures in a week than we have seen for a few years 55,000 mt Naphtha AG/Japan has moved up to w140. 65,000 mt Jet AG/UKC is firm too with Owners looking for US$2.45 million. LR2s, having moved rapidly, are now taking a breather but rates remain very firm. 75,000 mt Naphtha Ag/Japan is at w135 and 90,000 Jet Ag/UKC at Usd3.1 million. With tonnage still very tight rates are likely to remain strong for the remainder of this year.

The MRs have been going from strength to strength with rates ramping up and tightness evident on all routes. The Naptha is fixing at the WS 160 for 35kt; East Africa is WS 222.5 and climbing steadily and Rates for the UKC 40kt Jet is as high as US$ 1.9m; not been seen since Nov 2008. The Cross AG's has been one of the leading lights this week with rates for Kwt/UAE now at the US$ 350k lvls and, coupled with a plentiful amount of Jet enquiries this week, some LR1s have been fixed in light of the short MR supply. Moving forward, the optimism remains with the Owners and. like the LR's, this could be the trend for the rest of 2012.

One gets a strong sense of dijû vu is when looking at the Far Eastern freight markets this week. Fundamentally the conditions haven't changed, there is still a regular volume of cargo coming into the market and tonnage is evenly spread or tight for certain laycans. The current conference rate for a South Korea / Singapore voyage is in between US$ 480-500k, up from the low 400s in the last quarter. This can vary dramatically depending on dates and deadweight requirements, for example US$ 590k was fixed this week for a cargo requiring under 46kt dwt. Singapore/Australia voyages have dried up a bit this week, Owners were talking 30 x WS 220 levels for this type of run at the end of last week but realistically this is probably no longer achievable in the normal fixing window. Larger west bound arbitrage movements have been conspicuous by their absence with only a couple of fixtures concluded. The vast majority of product moving west is still being sourced from WCI or the AG where it continues to be busy; diminishing the available units in the East for West bound cargoes. This market in particular remains a precarious one for Charterers trying to take advantage of different product pricings.

Mediterranean

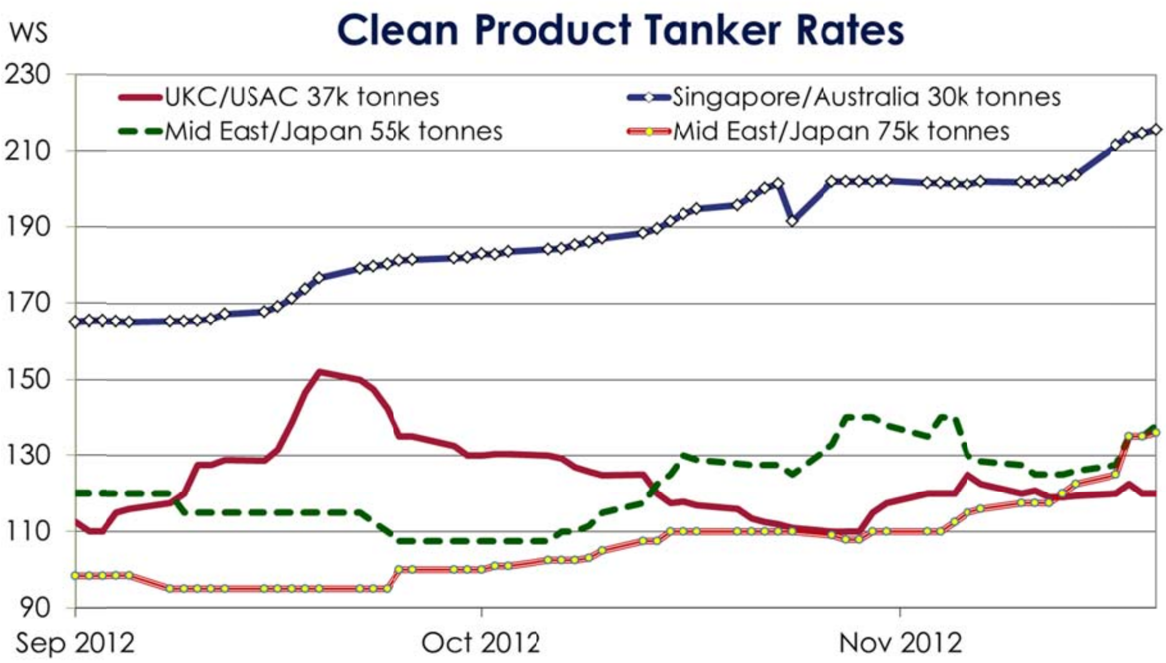
A busy week in the Mediterranean with the market firming on back of plentiful enquiry. The market opened with tonnage looking a little on the long side and fixing 30 x WS 160, but strong enquiry from the start tightened up the position list and market has since traded-up to the 30 x WS 165 lvl for Cross Med discharge. The Black Sea market was fairly busy for end-month dates, but rates traded inline with the Med fixing 30 x WS 160, but now considered 30 x WS 165+ depending dates. MR positions were on the tightside and longhaul stems were commanding a premium over ships fixing ex UKC, with 37x WS 147.5 confirmed ta for Naptha mid-week, but market now fixing 37 x WS 135-140/145-150 for ta/West Africa discharge and US$ 900-1.0m depending Owners.

UK Continent

Another disappointing week on the continent as TC2 trundles along not breaking its mould of around 37 x 120 for liftings of 37 kt of Mogas ex ARA with options to West Africa at the usual premium of plus 10 points. The tonnage list looks poised with indicators showing signs of potential to move up but the lack of cargo enquiry prevents any such realism. In contrast the short haul market rocketed with a huge surge of enquiry for Baltic load with discharge on the UKC and cross Continent movements, 30 x 150 now last done with flexis achieving 22 x 200. LRs had pockets of enquiry, LR1s were booked for West discharge options 60 x 115. LR2s remain tight with ideas arranged around US$2.5 m for loading ex Med destined for the Far East.

Caribbean

The USG markets have seen a steady amount of activity this week. Backhaul fixing to UKC-Med ranges were trading WS 120 basis 38kt, and upcoast movements were fixing 38kt x WS 160. Liftings to Brazil ex USG were paying 38 x160.



DIRTY PRODUCTS

Handy

UKC: The Continent again suffered with a lack of cargos to ignite the blue touch paper; however, activity was sufficient enough to reach WS 157.5 despite being pegged by an early WS 150 agreed at the start of the week. Tonnage remains slim but based upon the previous 3 weeks of trading this does not appear to affect the market while handy trade remains low. Further Cont – Med voyages were completed which continues to chip away at tonnage in the region; in turn raising owners hopes that those who are left can eventually reap the benefit from a tight market.

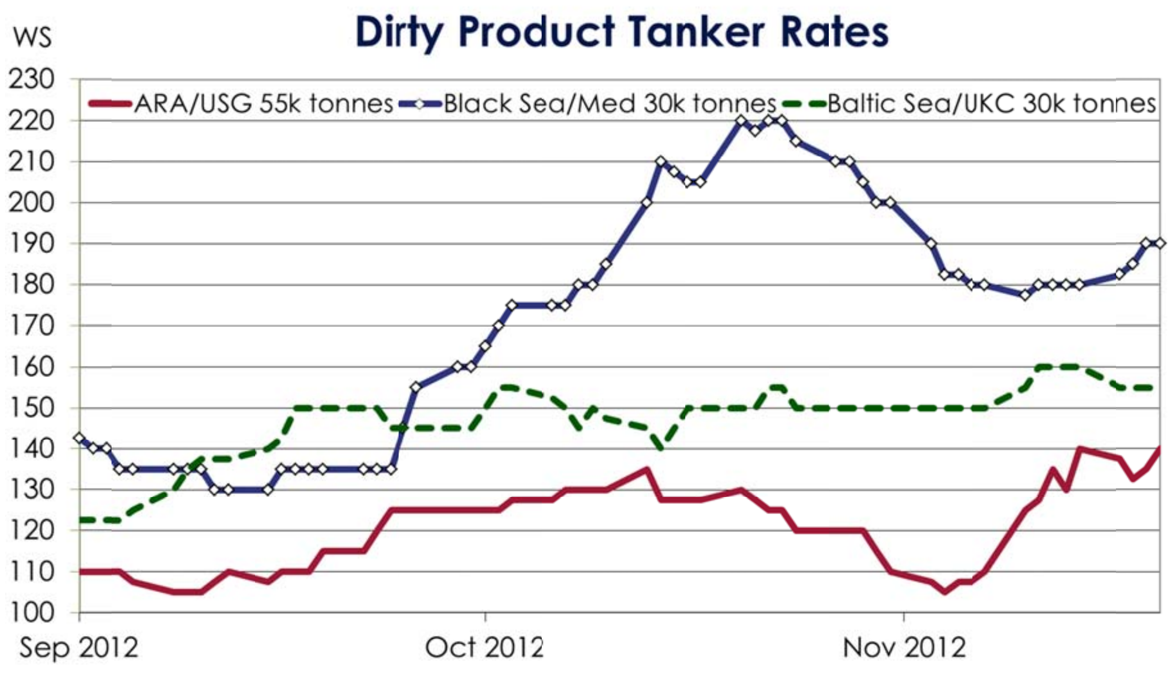
MED: Life was breathed into the Handy market at the start of this week with a high level of activity from Monday to Wednesday in the Mediterranean. This reversed the downward curve of rates in the region and injected some positive sentiment leading to a small rate rise with X Med to reach WS 180 levels and the Black Sea to enter the WS 190s. Tonnage is tight in the East Med leading to suspicions of a further rate hike if cargo volume is high at the start of next week – with not a great deal of tonnage to choose from rates are unlikely to drop with a plateaus perhaps a Charterers best hope. The Black Sea activity will drive this market.

MR

Ras Lanuf has dominated the MR market this week with 5 stems appearing out of what seems nothing. With these vessels getting fixed, we are sitting here today with a tight tonnage list this side of December and will have to wait and hear on discharge orders to see whether we will be receiving many more soon. In the Continent, a similar story can be reported, with few options available, and with the knowledge of this, owners will be working their upmost to push some upward pressure on these levels.

Panamax

This side of the pond has seen very little opportunities for Owners to push the market, with near on no fresh enquiry to drive expectations anywhere. Valero came to the market late Wednesday evening for an early December 55kt Skikda stem but quickly compared the rates from natural tonnage to the Afra markets and quickly spun on their heels to go down the larger tonnage route. Across the Atlantic, with Thanksgiving kicking in on Thursday, any activity reported was focussed at the beginning of the week. Caribbean Sea up figures of 50x135-140 seems to be the trend, and unless we see a sharp increase in inquiry, it will be a tough hold for owners. Staring into Week 48, incoming tonnage lists from Owners will be an interesting read to assess where our Panamax market will be shifting after the quiet week we have had.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 22nd	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TD3	VLCC	AG-Japan	**+5**	55	50	37	44	41	38
TD5	Suezmax	WAF-USAC	**-2**	56	58	62	61	58	55
TD7	Aframax	N.Sea-UKC	**+0**	85	85	85	91	86	84
LQM Bunker Price (Fujairah 380 HSFO)			**+3**	612.5	609.5	637.5			

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

			wk on wk change	Nov 22nd	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TD3	VLCC	AG-Japan	**+6,500**	33,250	26,750	7,750	24,250	20,000	15,750
TD5	Suezmax	WAF-USAC	**-1,250**	9,500	10,750	13,250	16,500	14,500	12,500
TD7	Aframax	N.Sea-UKC	**-250**	6,000	6,250	5,250	12,250	8,750	7,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 22nd	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TC1	LR2	AG-Japan	**+16.0**	136	120	110			
TC2	MR - west	UKC-USAC	**+1**	120	119	115	128	119	113
TC5	LR1	AG-Japan	**+9**	138	129	130	111	107	109
TC7	MR - east	Singapore-EC Aus	**+14**	216	202	196			
LQM Bunker Price (Rotterdam HSFO 380)			**-5**	592.5	597.5	619.5			

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

			wk on wk change	Nov 22nd	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TC1	LR2	AG-Japan	**+6,250**	30,000	23,750	18,750			
TC2	MR - west	UKC-USAC	**+500**	7,000	6,500	5,250	10,750	9,000	7,750
TC5	LR1	AG-Japan	**+2,500**	20,250	17,750	17,250	15,500	14,500	15,250
TC7	MR - east	Singapore-EC Aus	**+2,250**	18,000	15,750	13,750			

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

AV/JCH/TP/JT/SLT

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