WEEKLY TANKER REPORT

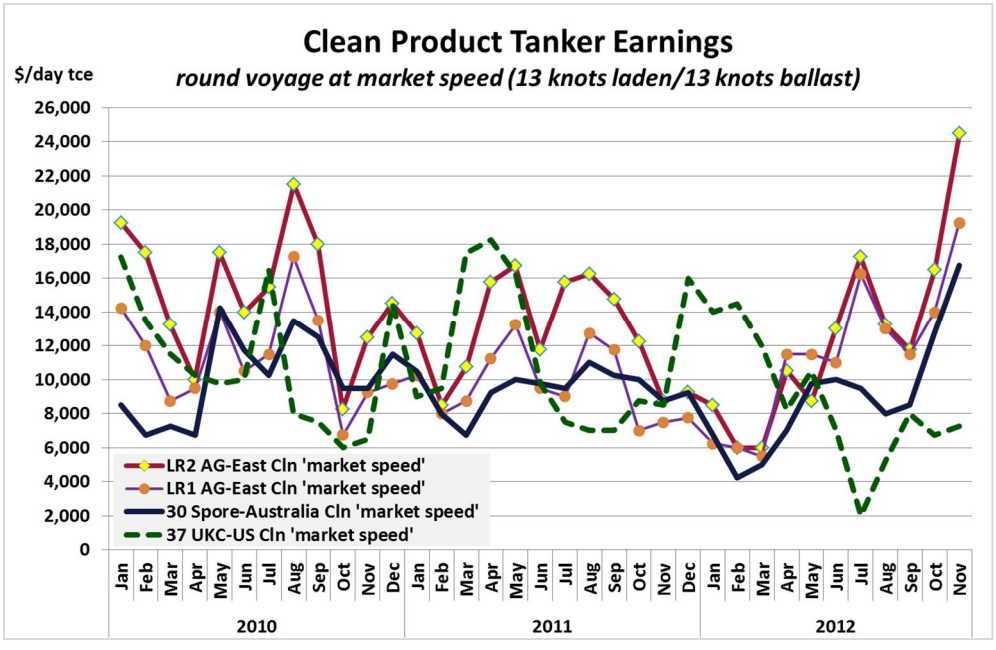
GIBSON SHIPPING ENERGY

30th November 2012

CLEAN EAST MARCHES UP

Over the course of this year the product tanker market in the East has moved from extreme weakness to a remarkable strength. Back in February/March 2012, earnings for all product tanker categories in the region sunk below fixed operating expenses, to their lowest level in over a decade. Now the opposite is true - clean tanker returns have surged to their highest level since early 2009. Tce earnings for LR2s trading from the Middle East Gulf to Japan have averaged $24,500/day this month (at market speed), while LR1 earnings on the same route averaged at $19,250/day. The returns for MRs operating Singapore – Australia followed a similar trend, jumping to $16,750/day.

As it is frequently the case, the latest strength in the product tanker market in the East has been driven by tight supply/demand fundamentals, with strong levels of chartering interest in recent weeks notably limiting tanker availability. However, for larger product tankers the latest tightening in supply is also in part attributable to the exceptional weakness in earnings earlier this year as well as in 2011, as some tanker owners were prompted to move away from trading clean to try their luck in the dirty market. Since the beginning of last year, at least 44 coated tankers between 80,000 to 120,000 dwt have switched from clean to dirty trading. There are currently 244 coated tankers in this size group, and so the number of vessels that left clean employment represents a sizable 18% of the fleet. Not surprisingly, market conditions are tight at present! A number of LR1s also switched from clean to dirty, although the percentages are lower here – but still at 7% of the trading fleet.



Now, with clean product tanker returns at very robust levels, there may be a temptation to switch back to trading clean! However, just a few have done so recently, as while it is very easy to move from clean to dirty, it is not so simple to do it the other way around. Apart from direct clean-up costs and waiting time involved, owners also need to discount their first three fixtures. These indirect costs can reduce significantly, if not destroy completely the economic benefits of switching to clean, depending on how long the strength in the clean market lasts. Thus owners need to think very hard before moving from dirty to clean trading. However, for those who are already trading clean, these "barriers" to enter the market mean that tightness in supply (and with it higher returns) could last for a while longer, particularly if demand remains at healthy levels!

CRUDE

Middle East

It should have been a busy week for VLCCs, but Charterers didn't read the script, and decided to hold back to allow sentiment to soften, and re-set the market at a lower level in that, they succeeded, and rates eased to around WS 47.5 East and WS 30 West. Further erosion is possible, but now there is too much to do in too short a time to prevent a much more active period developing. Suezmaxes found very little to get their teeth into and look set to remain top heavy for some time to come. Rates for what was done showed no better than WS 70 East for even short hauls, with under WS 40 available to the West. Aframaxes stayed within their anticipated 80,000 by WS 90/92.5 rut to Singapore and the barometer says 'no change'.

West Africa

As in the East, Suezmaxes found charterers in withholding mode, and eventually the pressure forced Owners down to 130,000 by WS 52.5 for both US Gulf and European options - close to rock bottom, yet there may yet be a WS point, or two, left to squeeze. VLCCs saw slightly less than of late and rates came off in lock-step with the Arabian Gulf to end 260,000 by WS 47.5 to the East with US$ 3.75 million paid for West Coast India.

Mediterranean

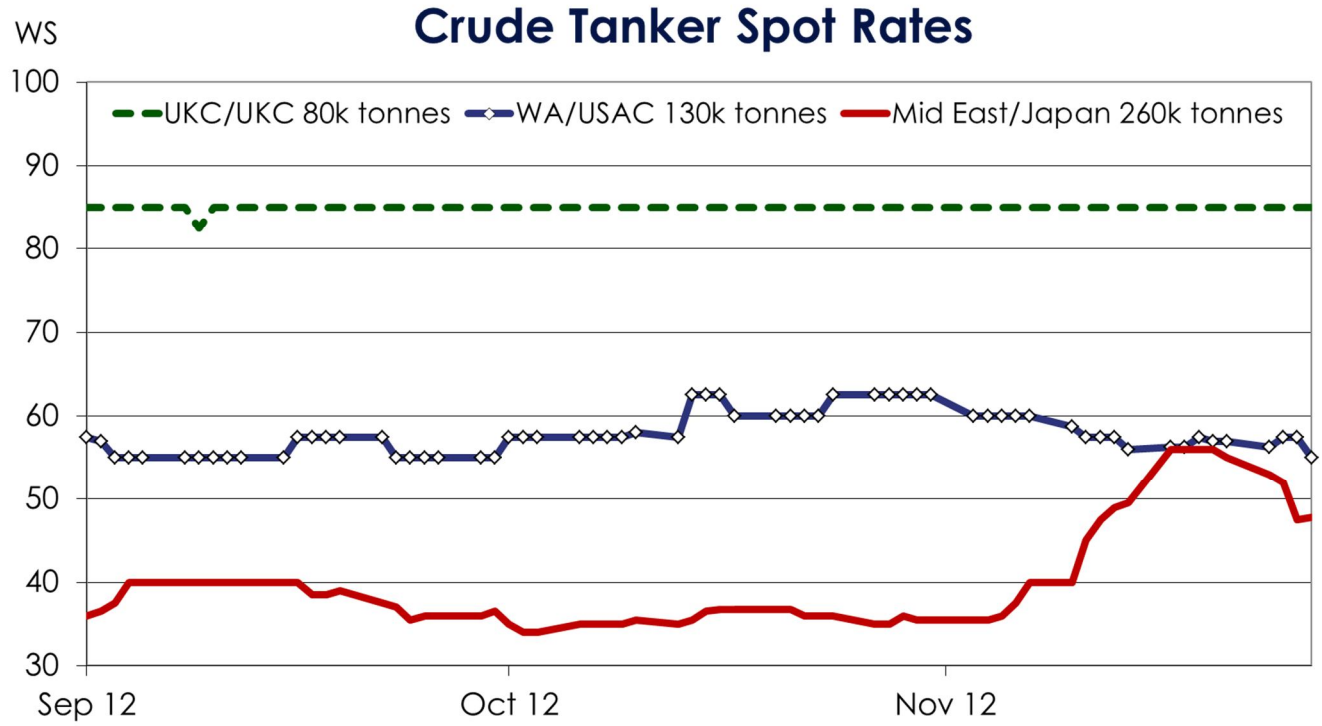
Aframaxes slumped to yet another low as availability continued to swamp demand. Rates bobbed around within an 80,000 by WS 72.5/77.5 band cross med, and will only be able to make a break out once 'winter factors' disrupt things. Suezmaxes saw moderate enquiry, but yet again it was never nearly enough to force any issues, and rates remained at around 140,000 by WS 62.5 from the Black Sea to Europe, and down to 135,000 by WS 47.5 for runs to the states. Bosphoros delays are the next hope for Owners.

Caribbean

A complete wipe-out for Aframax Owners as rates dumped down to 70,000 by WS 87.5 upcoast, with no sign of a ladder to climb back again. VLCCs held their ground well, however, on an ongoing fine balance, and no threat of dilution from eastern ballasters. Rates stayed as high as US$ 4.9 million to Singapore with US$4.7 mill average and US$4.1 million the mark to West Coast India. Dates now are moving into January, and there's no early retreat likely.

North Sea

Look at the dotted green line on the graph below...a little tedious to say the least! and until the wind blows, and ice forms, the Aframax market here will remain flatline.80,000 cross UKC goes at WS85,and 100,000 from the Baltic at WS 57.5. Suezmaxes can only be estimated due to the lack of volume - 135,000 by WS 50 to the states - and VLCCs ask for no less than US$4.3 million to Singapore, but takers are few for now. Availability, however, is always thin so Charterers cannot be complacent.



CLEAN PRODUCTS

"Strong markets both East and West"

East

A big week for the LR1s particularly and rates have pushed up again accordingly. 55,000 mt Naphtha Ag/Japan is fixed at w145 but w150 is likely next and 65,000 mt Jet Ag/UKC is now close to Usd2.50 million. Tonnage is cleared away throughout December so rates are unlikely to ease until at least January. Lr2s still are still in reasonably short supply but rates have eased a touch. But with the weeks firmness on Lr1s we expect a slight bounce back in the coming week. 75,000 mt Nap AG/Japan is at w130 today and 80,000 mt Jet AG/UKC is at US$3.1 million.

The MRs have not been that busy this week, but the list is sufficiently tight, to be able to absorb a few slower days with rates remaining unchanged. TC12 is stable at WS 155 and is fixing off mid December, looks set to maintain at these levels until the end of December. Majority of Owners are talking WS225 basis 35kt for East Africa, there could be 2.5 point discount if dates were perfect for Owners, but generally the market calm at WS225. Fixing into the West is generally not preferred as the East has been firm for over month now, with TCE's at comfortable level. Consequently to cover West bound cargoes comes at a premium at US$1.75-1.8 Million. The cross AG's remain tight, with these keeping the tonnage ticking over and ships are earning at healthy levels. Rates have reached a point where owners are content to fix at last done levels, there is not the appetite to push rates as much as we have seen previously.

This week has given some Charterers some respite from frenetic activity of the past month. Fundamentally the market has not changed, tonnage in the Far East be it for North Asia or Singapore loading is still tight but activity levels have declined. South Korea, Singapore voyages are hovering around the US$520k level for MRs and Lr1s are over US$550k. The Singapore, Australia market has also been relatively quiet and fixing levels are flat at 30 x WS 210 levels and look set to remain there going into next week. Cargo movements into USWC have been non-existent this week; theoretically South Korea-USWC is being freighted at US$1.5 mil. All in all a moderately quiet week in the East but this is not enough to change the freight market and going into next week it will be difficult to try to find tonnage to discount current market levels.

Mediterranean

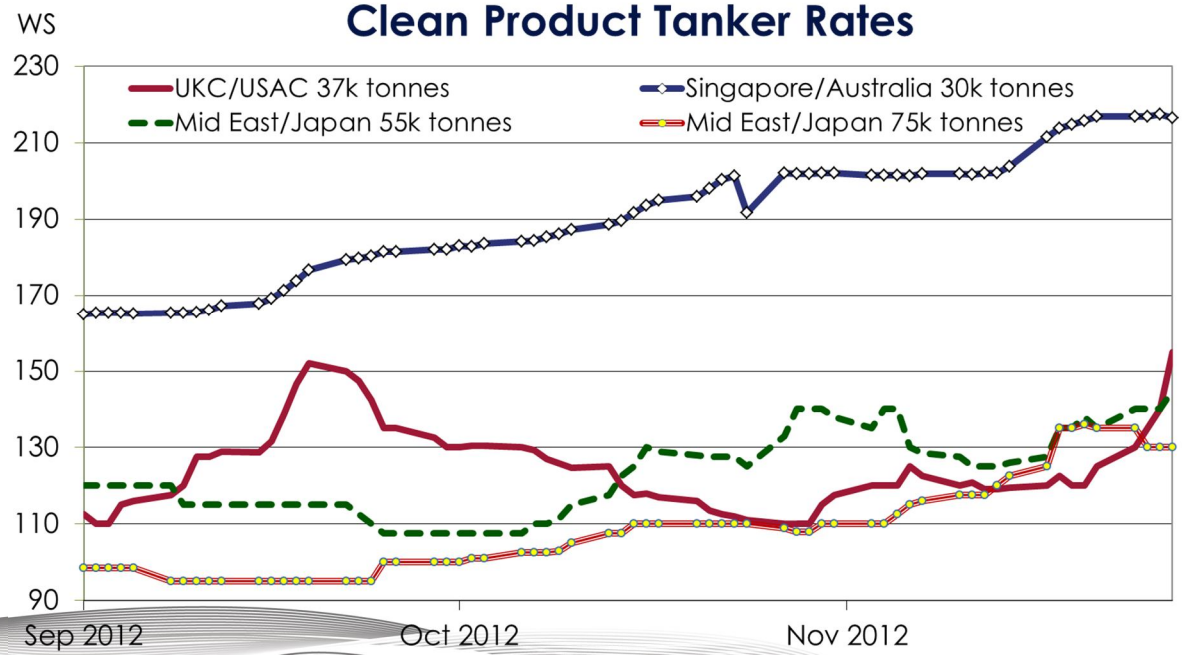
Heat has been maintained in a busy Mediterranean market this week. A solid level of cargo enquiry for cross med trades has been the main driving factor pushing the rate floor upwards, helped by uncertain vessel itineraries which has tightened the list. Currently the market is fixing 30 x WS180 for cross med discharge, whilst out of the Black Sea Owners ideas are ranging between 30 x WS180 -185 levels with 30 x WS182.5 reported on subjects at the time of writing. For the MRs, cargo activity has been somewhat muted in comparison to recent weeks however tonnage wise the Med appears very short of well approved and flexible candidates. As such the market remains largely untested, however, considering the heat in the TC2 market (37 x ws155 ta / 165 West Africa), ideas are likely to be in excess of this and will be very date dependent. Meanwhile for MRs heading East Owners are looking to push for US$ 1mil into the Red Sea + 100k for AG discharge.

UK Continent

Very busy on the Continent this week, with demand for West Africa bound cargoes being the main drive of the market. Quickly, tonnage became tight up to 10th December, and rates increased, currently WS 155 basis 37kt is on subjects, for TC2 and WS 165 is on subjects for Cont / West Africa basis 37kt. Handies were not overly busy, although Owners managed to command up to WS 162.5 basis 30kt for Baltic / cont runs and flexis cross cont were paying WS 205 basis 22kt. LR1's were relatively quiet although 60 x 112.5 - 115 was being paid for TA and West Africa, US$ 1.1m level for Red Sea discharge ex UKC and US$ 1.2m level for AG discharge. There was some Naphtha interest on LR2 level, Owners ideas US$ 2.5-2.6m to Japan.

Caribbean

The USG / Caribbean Sea market has taken a slide this week as the TA ARB has shut leaving the region overtonnaged and under-enquired. Rates for backhaul distillate stems are on subjects at 38 x WS95 levels and the feeling remains soft with plenty of candidates showing for market enquiry. Owners have quietly begun to ballast their tonnage back to the busy UKC market. The Caribbean Sea / USAC market has been tested this week and Owners have shown around 38 x WS140 levels to be in line with their ideas.



DIRTY PRODUCTS

Handy

UKC: Beginning in the colder climbs and with substantially less market activity, the Continent has crept along with negotiations taking place around WS 150 lvls. Cargos remain down on volume with larger tonnage absorbing stems that would have otherwise been destined for the Handy market; this lack of activity has served to stagnate the market with little significant rate movement for the past couple of weeks. Impetus is required and with tonnage tight, it will take little to get the momentum going...however, this has been said for numerous weeks now!

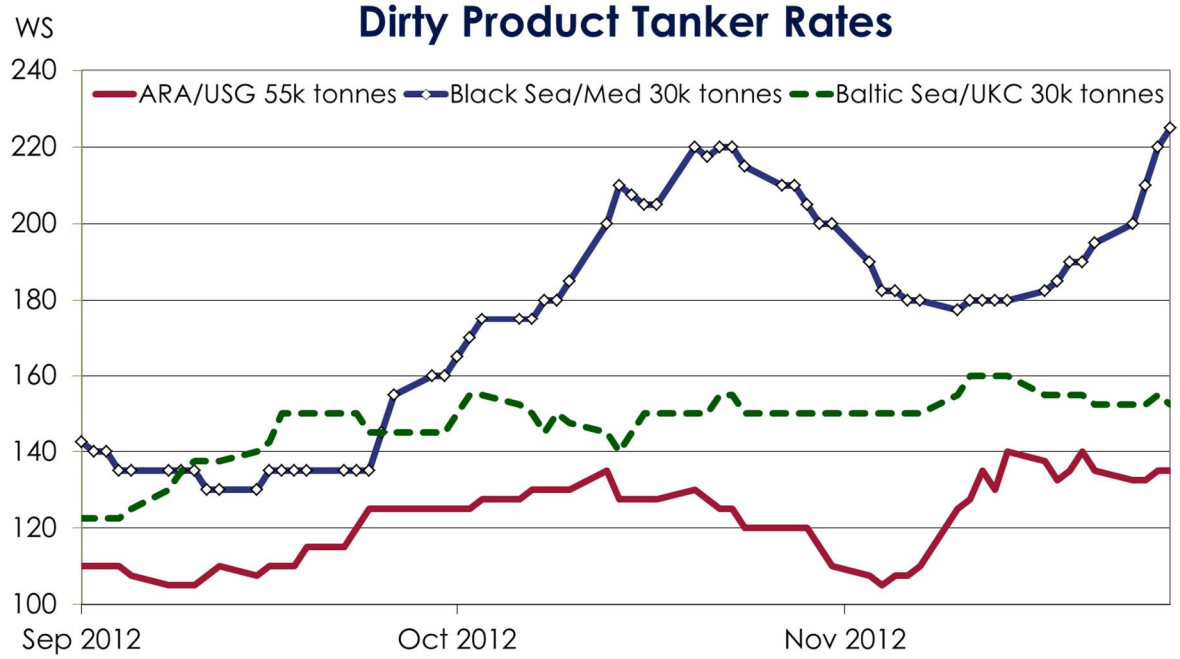
MED: Last Friday's momentum continued into this week in the Mediterranean with the Black Sea particularly active leading to a rate rise of +25/30 from the load zone. East Med positioned tonnage was thin at the start of the week and this was exacerbated by the volume of cargos to move, hence a substantial rise occurred. The positive sentiment led to forward fixing with cargos covered up to mid-month dates compounding the problem from a chartering perspective as strong rates form the negotiating point for further Dec stems. Cross - Med has risen off the back of Black Sea activity as the two rates continue the traditional follow my leader routine. WS 210 is the new XMed lvls. With weather expected to be poor next week, delays are inevitable and the expected fall out may mean late runners and the dreaded replacement negotiation. Expect ppt opening ships to be hot property if this occurs.

MR

This week the port of Ras Lanuf has continued its dominance of the MR chat with a further 2-3 stems spewing out. On top of this with the Black sea and Italy taking out the rest of the available tonnage, we are staring down the barrel of a very tight Mediterranean list. Any uncovered stems before the second half of December would do well to repeat last done figures of 45x155, as Owners see an opportunity to push this market up. In the Continent, another slow week has hit this sector, with only a handful of cargoes available, and tonnage looking at the 30kt handy stems also, as a time killer and repositioning assignment. Inquiry will need to increase for Owners to emulate their Mediterranean cousins, otherwise the ballast south will start to look more innocuous.

Panamax

This market has at best ticked over this week, with little fresh enquiry on this side of the Atlantic to drive rates anywhere. Replacement business in the Continent has managed to be concluded this week at the same rate as last done (55xWS132.5). At the time of writing in the Mediterranean there is some rumours of fresh enquiry and reports of a vessel being on subs off mid-December dates, so all eyes are firmly fixed to see what the outcome of this fixture will be. On the other side of the Atlantic we have seen the markets soften a little down to 50xWS125 levels, in turn this could prompt Owners to start to ballast over this side of the Atlantic could add pressure on rates over here next week.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 29th	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TD3	VLCC	AG-Japan	**-7**	48	55	36	43	41	37
TD5	Suezmax	WAF-USAC	**-1**	55	56	63	61	57	55
TD7	Aframax	N.Sea-UKC	**+0**	85	85	85	89	86	84
LQM	Bunker Price (Fujairah 380 HSFO)		**-10**	602.5	612.5	626.5			

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

			wk on wk change	Nov 29th	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TD3	VLCC	AG-Japan	**-8,750**	24,500	33,250	7,000	23,500	20,750	15,000
TD5	Suezmax	WAF-USAC	**-500**	9,000	9,500	14,000	17,000	14,250	12,750
TD7	Aframax	N.Sea-UKC	**+750**	6,750	6,000	5,750	11,250	9,250	7,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 29th	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TC1	LR2	AG-Japan	**-6.0**	130	136	110			
TC2	MR - west	UKC-USAC	**+22**	142	120	110	130	119	112
TC5	LR1	AG-Japan	**+3**	141	138	128	108	106	108
TC7	MR - east	Singapore-EC Aus	**+1**	217	216	196			
LQM	Bunker Price (Rotterdam HSFO 380)		**-10**	582.5	592.5	606.5			

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

			wk on wk change	Nov 29th	last week	last month	FFA Q4 12	FFA Q1 13	FFA Q2 13
TC1	LR2	AG-Japan	**-2,000**	28,000	30,000	19,250			
TC2	MR - west	UKC-USAC	**+4,750**	11,750	7,000	4,500	11,500	9,250	7,750
TC5	LR1	AG-Japan	**+1,250**	21,500	20,250	17,000	15,000	14,500	15,000
TC7	MR - east	Singapore-EC Aus	**+250**	18,250	18,000	14,000			

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

SL/JCH/TP/DY/slt

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E.A. GIBSON SHIPBROKERS LTD., AUDREY HOUSE, 16-20 ELY PLACE, LONDON EC1P 1HP

Switchboard Telephone: (UK) 020 7667 1000 (International) +44 20 7667 1000

E-MAIL: tanker@eagibson.co.uk TELEX: 94012383 GTKR G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135

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