WEEKLY
TANKER REPORT

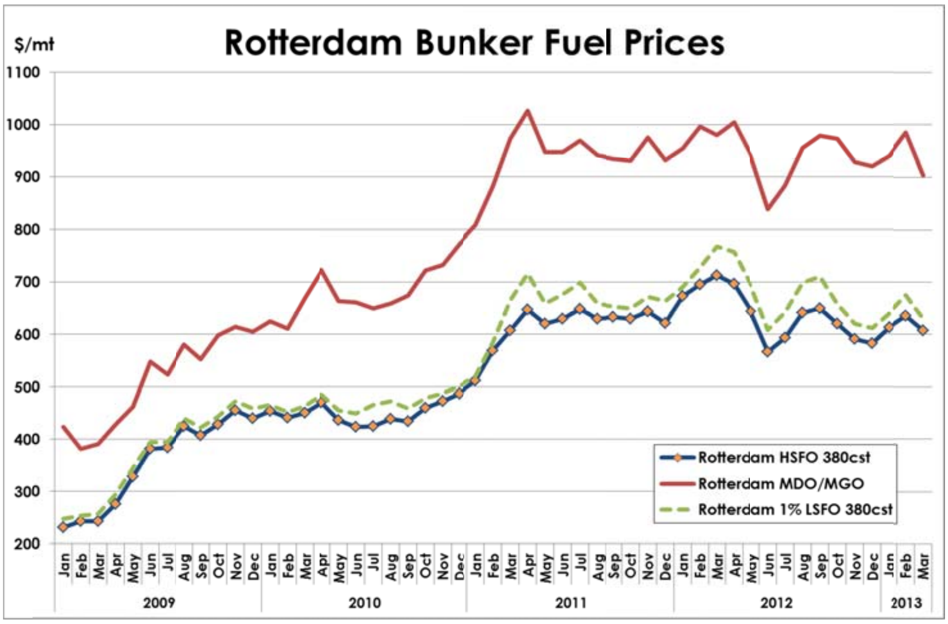
22nd March 2013

BUNKERS – A CLEANER FUTURE

Bunker prices have fluctuated more than two fold in the last five years. The average price of 380cst this year to date hovers around $635 pmt. The impact of bunker fuels on operational costs is substantial and has caused considerable damage to ship owner's profitability. However with even tougher regulations and emission targets on the way, how will these changes affect the shipping industry?

As seaborne trade continues to grow, shipping plays a larger part in adding to the world's 'greenhouse gases'. Following political pressure to further reduce emissions from shipping, a new set of sulphur requirements within MARPOL Annex VI will be implemented on the 1st January 2015. Permissible sulphur levels in bunker fuel will be capped at 0.10%, from the current maximum of 1.0% within existing Emission Control Areas (ECA).

Although the European bunker market handled previous reductions in sulphur limits much better than expected, a common view is that the same cannot be envisaged in 2015; the UK Chamber of Shipping has said "shipping needs more time to prepare [before the 2015 cap]", adding that neither time nor sufficient technology is currently available to support the changes. The shift in 2015 will mean most ships will use marine gas oil (MGO) while operating in ECAs, instead of heavy fuel oil. The premium of MGO over 1.0% LSFO 380 currently stands at around 40% in Rotterdam. Although the price of this fuel is hard to project to 2015, it is expected that supply may not grow as quickly as demand and will therefore command an even higher premium during the initial stages after the 2015 inauguration. The increase in products available for export from the US (see Gibson's WTR - 15th Mar 2013) could offer the solution to lacking supplies, but the nation itself will need more MGO to meet their own new ECA requirements. As various countries in the world compete for global supplies of sub 0.10% fuels, this could provide a boost for the MR tanker market.



The next major issue is the proposed IMO legislation shifting <u>all</u> bunkers to less than 0.5% sulphur, due to be introduced globally in 2020. Lack of investment in Europe's refining sector suggests it is highly unlikely there will be sufficient availability of low sulphur fuel oil to meet this requirement.

The use of new technologies - like scrubbers and LNG as the main fuel for propulsion - to meet the strict sulphur regulations may offer ship owners an alternative, but the shipping community needs to push the development of such technologies to capitalise on their potential and make them a commercially viable solution. Whilst there is huge uncertainty surrounding the scale of impact the new fuel regulations will have on the shipping industry, it appears the only certainty is that this issue is not going to go away anytime soon.

CRUDE

Middle East

An active week for VLCCs as charterers closed the book on March liftings, and started to tuck in heartily to the April programme. Owners managed to extract some advantage, but it was to a minimal extent, and any hopes for the market reaching critical mass seem rather faint. Rates topped out at WS 37.5 to the East and WS 19 to the West. Suezmaxes found only spasmodic action, and the lack of consistency, and plentiful availability, kept things pegged to around WS 30 West and WS 55 East for the duration. Next week looks set to stay rangebound too. Aframaxes tightened on early positions, allowing rates to creep to 80,000 by WS 85 to Singapore, but will stay at closer to WS 80 deeper into April.

West Africa

There was a point where Suezmaxes seemed to have gained enough footing to lever themselves to a higher rate-step, but just as they were about to make their move, Charterers largely sat on their hands and temporarily diffused the situation. There is some extra support developing in the Med/Black Sea area now, and that may force charterers hand next week.130,000 stays at WS 55 USG, WS 57.5 UK Cont for now. VLCCs saw good eastbound interest at slightly elevated rates to equalise with the slight improvements in the AGulf with up to WS 38.5 paid to Taiwan, and US$3.525 million seen to East Coast India. A rare inter Atlantic voyage commanded a premium 260,000 by WS 52 for Brazil, but was upon a relatively early date, with zero competition..and the more populous forward positions will pose no such problems for Charterers.

Mediterranean

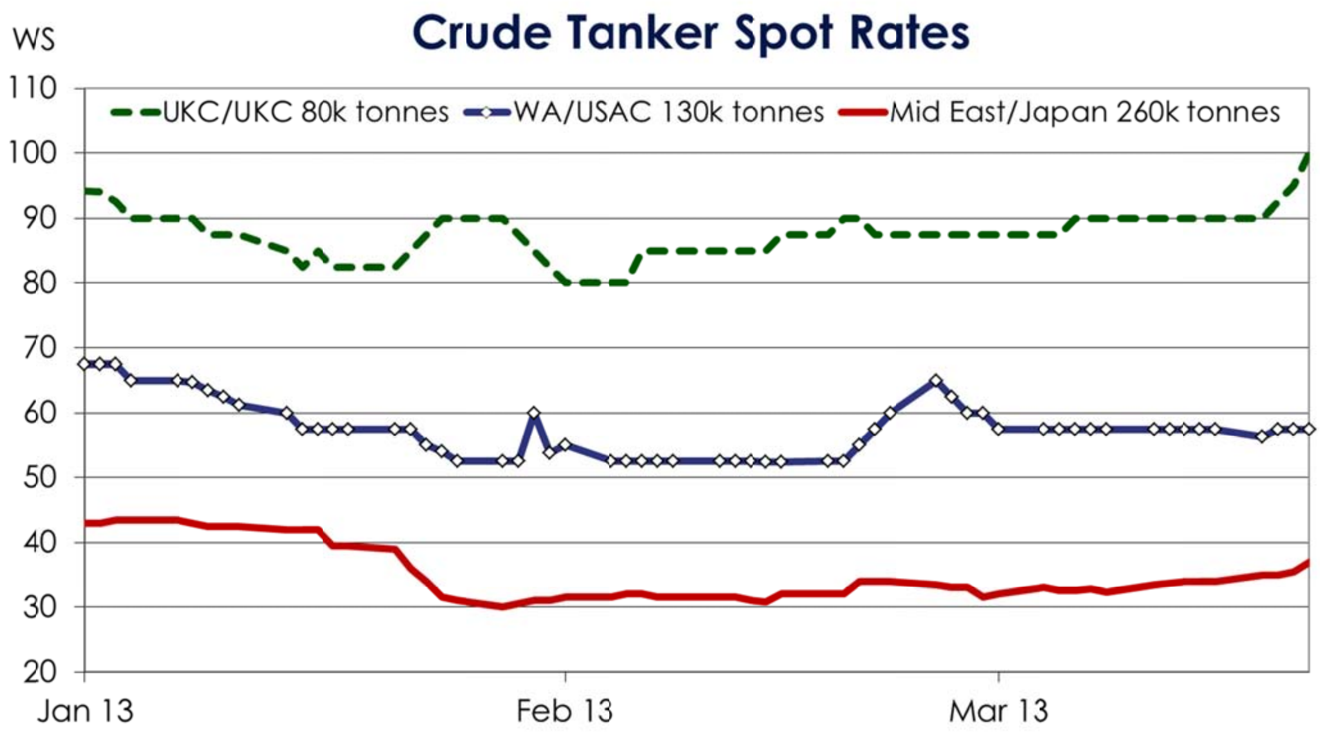
Initially steady fixing, and then some back-filling on late march dates, due to poor weather and suspect itineraries, boosted Aframax demands late week, and the market moved a little north of 80,000 by WS 100 cross Med, with even higher likely before the inevitable correction.. Suezmaxes also became a little more bubbly late-week so that 140,000 from the Black Sea moved into the WS 70/75 bracket for European destinations, and levels to China hardened at no less than US$3.6 million from there.

Caribbean

Steady decline in Aframax fortunes was stalled briefly by some fog delay, but then slipped once again to 70,000 by WS 87.5 upcoast, before Owners dug in a bit harder to hold the line. VLCCs ticked lower as Charterers played a canny game of cat and mouse. Rates eased to around US$ 3.5 million to Singapore with US$ 3.1 million the latest mark to West Coast India.

North Sea

As in the Med, the search for replacement tonnage gave Aframax Owners - and rates - a boost to 80,000 by WS 100+ cross UK Cont, and 100,000 by WS 100 also from the Baltic. By the weeks' end, however, Charterers immediate needs seemed satisfied, and Owners moved once again onto the defensive. Suezmaxes got the odd knock, but no surprises...135,000 by WS 45 was seen transatlantic for no heat, and US$ 2.7 million paid to Singapore, also without heating costs. VLCCs weren't left out either, but still slipped lower with a couple of deals reported at US$ 3.8 million for Fuel Oil to Singapore, despite the patchy availability.



CLEAN PRODUCTS

A positive week in the East whilst the West stays steady

East

A steadier week for the LRs with Lr1s firmly establishing their levels but Lr2s stumbling slightly, unable to push on as they had hoped. 55,000 mt Naphtha AG/Japan is at W135 and 65,000 mt Jet AG/UKC is US$2.40 million. Both rates are likely to stay there for now but looking ahead tonnage lists are tight and it could firm further. The Lr2s on the other hand have struggled to keep up and may accordingly hold the Lr1s back. 75,000 mt Naphtha AG/Japan is w100 and 90,000 mt Jet AG/UKC is US$2.65 million with little ability to reach the higher levels Owners had ambitions for at the start of the week.

MRs have gone from strength to strength this week, with activity on all routes and rates firming as tonnage contracts. TC12 is at WS 140 and with a tight Singapore and far East market, should remain firm for the near future. East Africa briefly hit WS 220 for Mom-Dar, but at the time of writing WS 215 is on subs, but the general sentiment for East Africa is strong. AG to the UK Continent remains firms and with a strong Middle East and far East markets, Owners are reluctant to fix into the weaker western markets hence this route is assessed at US$ 1.8Mill, mostly this run is covered under COAs. The cross AG market has seen a dramatic rise, with in excess of US$ 400,000 being fixed for Iraq deliveries and other voyages fixing in the high 300's, coupled with strong demand for product into the Red Sea, is keeping demand for tonnage high.

It has been another week of troublesome markets from a Charterers stand point. In North Asia the tonnage list, as it has been for the last month, is not plentiful. To combat this Charterers have resorted to coming into the market with fresh stems off very forward dates; we are already seeing cargoes for mid-April dates. Rate levels are however are more stable than we have seen in recent weeks and typically a S. Korea / Singapore voyage is fixing at around US$ 600k levels. Movements into Australia have been prominent this week and rates have moved up accordingly, the highest level so far seen is 30 x WS 220 for a Singapore / Australia run. The draw into Australia is having the effect of pulling more tonnage out of the market for longer periods of time prolonging the tighter position lists and fuelling the freight cost increases in South East and North Asia. It will take a sustained bout of inactivity to for tonnage to start to accrue and rates to drop, therefore the expectation is that rates will remain at a similar level moving into next week. The only cloud on the horizon, particularly for the North Asia back haul market is a collapse in the LR1 and LR2 market which will free up more tonnage to perform these voyages and put downward pressure on freight rates.

Mediterranean

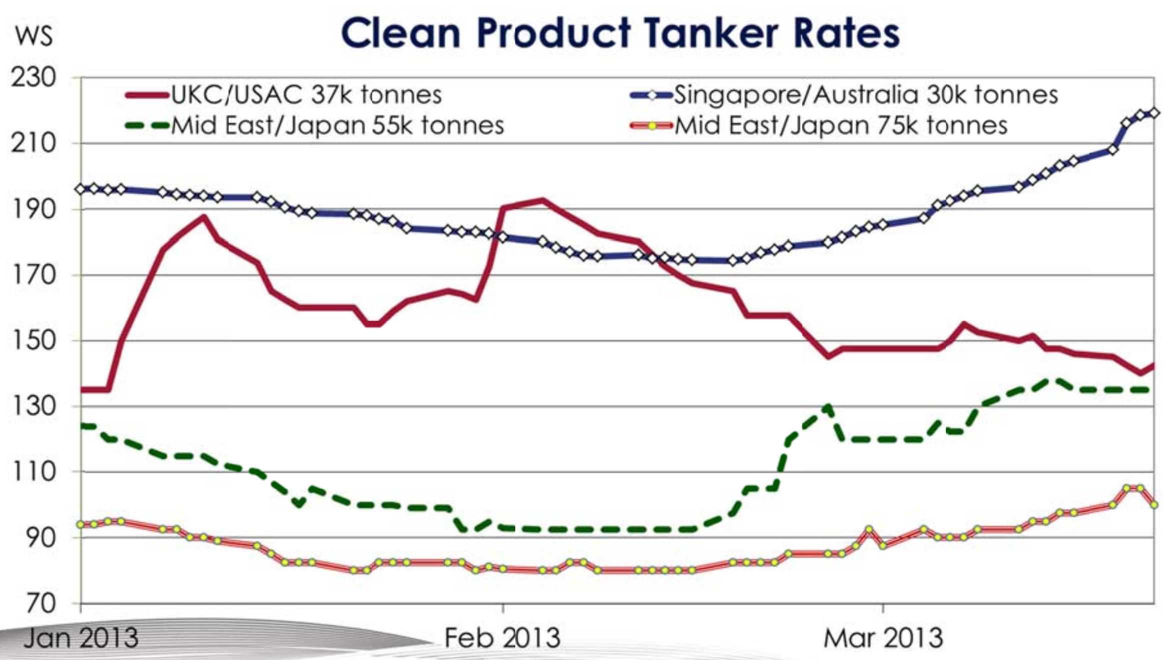
An action packed week in the Mediterranean on both handy and MR tonnage. The Black Sea market has seen healthy enquiry for end month dates and with east med tonnage tight, rates have ticked up through the week and now fixing 30 x WS 167.5 for med discharge. Cross med business has been steady against the tonnage base and in general fixing 30 x WS 162.5-165. The MRs have experienced a surge of end-early enquiry for both ums and Naptha, market is now date sensitive but considered 37 x WS 140-142.5 TA / 150-152.5 West Africa / US$ 950K lvls Red Sea.

UK Continent

In general a busy week on the Continent, particularly on TC2, the list tightened but still freight levels struggled to reach above 37 x 140 (some Owners ideas 37x142.5 at time of writing). Liftings to West Africa are still commanding 10 WS point premium over transatlantic. Cross continent movements are paying WS 175 basis 30kt for non-ice and 200 for ice vessels. The flexi market has been trading WS 235 basis 22kt for non-ice and WS 260-265 for ice class vessels. LR1's have seen levels come under pressure, with 60 x 107.5 on subjects at time of writing for West Africa discharge.

Caribbean

Rates in the USG and Caribbean have appeared to bottom out this week with 38 x ws60 reported fixing for UKC/MED – representing below opex returns for Owners. The ULSD arb and the number of ballasting vessels returning to the UKC does seem to have filtered through and by the weeks end we are hearing reports for 38 x 72.5-75 levels on subs. Caribbean Sea up remains untested owners ideas around 38 x 120.



DIRTY PRODUCTS

Handy

UKC: Not the most inspiring of trading weeks in the Continent, illustrated by stale rates and a depressed market. A number of vessels are due to open at the beginning of next week and together with ballasters form the proverbial albatross around the markets neck. The Continent finishes the week sub 30 x WS 150 and in need of stimulation. There is the sense that the market is bottoming with rates unlikely to move too much lower, we wait to see if this plays true.

MED: The Mediterranean week has proved a tale of two half's with a busy introduction to the week that unfortunately could not be sustained. Volume picked up as end month dates were covered, particularly ex BSea. However, despite this activity the prominence of ppt tonnage prevented any tangible upswing in in rates, thus at time of writing where activity now lacks, the feel that sub 30 x WS 160 XMed will soon be upon us.

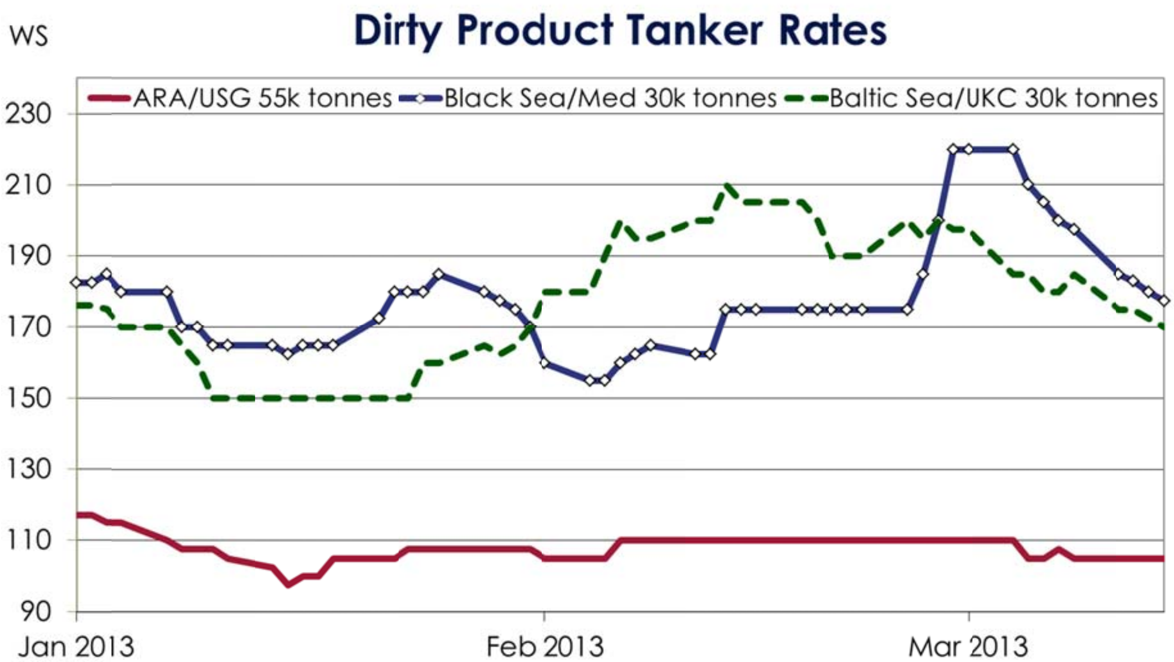
MR

Mixed opinion surrounds the MR market up the North where by looking at the tonnage clear out ship Owner's mood should have lifted. This in mind, Here lies the problem for those left on the list conditions normally would be set whereby possible gains are there to be had; An underperforming handy market however is pinning levels as where charterers have the option to move less cargo, a cheaper $/MT's is available.

Down in the Med a burst of activity was seen as the week started but faded drastically, therewith any aspirations of positive market movement. On a plus note some of the competition had been reduced down, conditions therefore on current outlook are looking somewhat comparable to those we currently face.

Panamax

Over the past two week a noticeable change in conditions has engulfed sector where since numbers ex NWE were struggling to stay above WS 100, WS 110 is now commanded. Owing to stimulation across all main load areas, tonnage surplus has been reduced significantly which ultimately paved the way for small increments fixture by fixture. Looking ahead where now fixing date progression will become a factor, levels are likely to remain sideways whilst the cycle repeats whereby the first few vessels on the lists are fixed away.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 21st	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TD3	VLCC	AG-Japan	**+3**	37	34	34	34	36	36
TD5	Suezmax	WAF-USAC	**+2**	60	58	57	58	55	51
TD7	Aframax	N.Sea-UKC	**+12**	101	89	89	92	85	85
LQM Bunker Price (Fujairah 380 HSFO)			**-13**	627.5	640.5	657.5			

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

			wk on wk change	Mar 21st	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TD3	VLCC	AG-Japan	**+5,000**	12,750	7,750	6,500	8,250	11,750	11,750
TD5	Suezmax	WAF-USAC	**+1,250**	16,000	14,750	12,500	14,500	12,750	10,000
TD7	Aframax	N.Sea-UKC	**+8,750**	19,750	11,000	9,750	11,750	7,000	7,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 21st	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TC1	LR2	AG-Japan	**+3**	100	97.5	83			
TC2	MR - west	UKC-USAC	**-7**	141	148	154	145	126	115
TC5	LR1	AG-Japan	**+2**	137	135	107	129	117	113
TC7	MR - east	Singapore-EC Aus	**+16**	219	203	178			
LQM Bunker Price (Rotterdam HSFO 380)			**-4**	601.5	605.5	626.5			

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

			wk on wk change	Mar 21st	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TC1	LR2	AG-Japan	**+1,500**	19,000	17,500	10,500			
TC2	MR - west	UKC-USAC	**-1,500**	13,500	15,000	15,750	14,250	10,250	8,000
TC5	LR1	AG-Japan	**+1,000**	23,250	22,250	12,750	20,750	17,000	16,000
TC7	MR - east	Singapore-EC Aus	**+3,000**	21,250	18,250	13,250			

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

MJC/JCH/TP/JT/AS/slt

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