WEEKLY
TANKER REPORT

8th February 2013

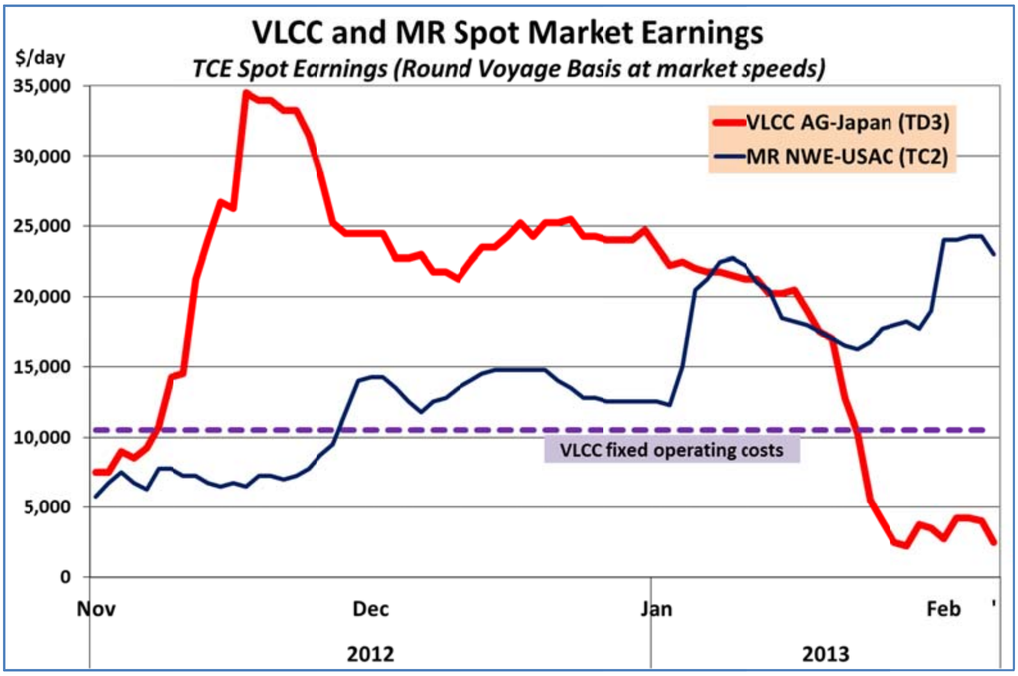
VLCCs: WOE, WOE AND THRICE WOE

Every now and again the market moves to a position "that just shouldn't happen". The past two weeks have been such an occasion, with MRs earning up to 10 times more than VLCCs! In the MR TC2 trade (NW Europe-USAC) earnings were a very respectable $18,000/day in the second half of January and have since risen to the stellar heights of $23,000-24,000/day (if only on a temporary basis). Over the same period VLCC earnings on the benchmark TD3 market (AG-Japan) have collapsed from an "ok" $20,000/day in mid-January to a disastrous $2,500/day now. How can a 5 year old product tanker valued at around $25 million earn 10 times more than a 5 year old VLCC, valued at $55 million? The answer is quite simple: we operate in an efficient and transparent market and ultimately supply & demand win out, and it only takes a small change in these fundamentals to have a huge impact on rates/earnings.

The market for owners of MR product tankers in NW Europe has been extremely good in recent weeks. Although US gasoline stocks are not especially tight, there was an unseasonal decline in the second half of January that supported the market. This, plus weather related delays and sufficiently attractive earnings elsewhere preventing ballasters coming in to the region have all worked in owners' favour and pushed TC2 rates to WS190 from WS155 just two weeks ago.

If everything has gone well for MR owners in NW Europe, then it has been the complete opposite for VLCC owners. There has been a sharp drop-off in Middle East production over the past few months, with Saudi output down from 9.95 million b/d in October to 9.35 million b/d in December, and initial indications of a further 0.1-0.2 million b/d cutback in January. This has meant a 'loss' of around 10-12 VLCC loadings per month. At the same time VLCC supply is increasing (even though the pace of growth is slowing), with 6 more VLCCs now than there were in October. Looking at the numbers, it doesn't seem much of a negative swing to force such a collapse in the market, but this is what happens.

How do VLCC owners get out of this position? A more cohesive response in refusing to do business at below fixed operating costs is one possibility. Major pooling arrangements or laying up tonnage are other options. All of these are effectively constraining supply. However, the reversal (and it will come) is more likely to follow a relatively small positive turnaround on the demand side. On this fundamental front, the recent surge in oil prices could lead to Mid East oil producers (mainly Saudi Arabia) raising production to ease pricing pressures and so raise VLCC demand. It is not often that someone says higher oil prices are a good thing, but at the moment VLCC owners are likely to wish for anything that will turnaround their fortunes.



CRUDE

Middle East

A steady flow of VLCC enquiry for the week prior to Chinese New Year, but not a sign of any recovery for Owners. Tonnage is in plentiful supply for the remaining February programme and a further rise in bunker prices just compounds their plight. Present levels achieved for the East remain on the bottom at around W32 on 265,000mt and 280,000mt at around WS18 via Cape for Western destinations. Suezmaxes fairing no better as again enough enquiry to normally cause a stir but enough tonnage to break the trend and keep levels flatlined. Last done seen was 135,000mt by WS 30 for the West and 130,000mt by WS62 for the East. Aframax rates East will come under pressure as a dearth of enquiry may push Owners into conceding some points, present levels are 80,000 by ws80 to the East.

West Africa

Suezmax Charterers faced little to no resistance in covering their West Africa stems this week and although it has been a fairly active week levels have been firmly fixed at the 'bottom'. Owners have been willing to conclude fixtures at 130,000 x W 50 for US Gulf and W 52.5 Europe discharge and whilst tonnage remains plentiful levels will remain unchanged. VLCC's had a busier week with interest going to the East although predominantly taken care of by Eastern ballasters as naturally placed Western units benefitting elsewhere. Levels to the East have slightly firmed over the week mainly due to the rising bunker price with levels at 260,000mt by WS34 and US$2.625 last done for West Coast India discharge.

Mediterranean

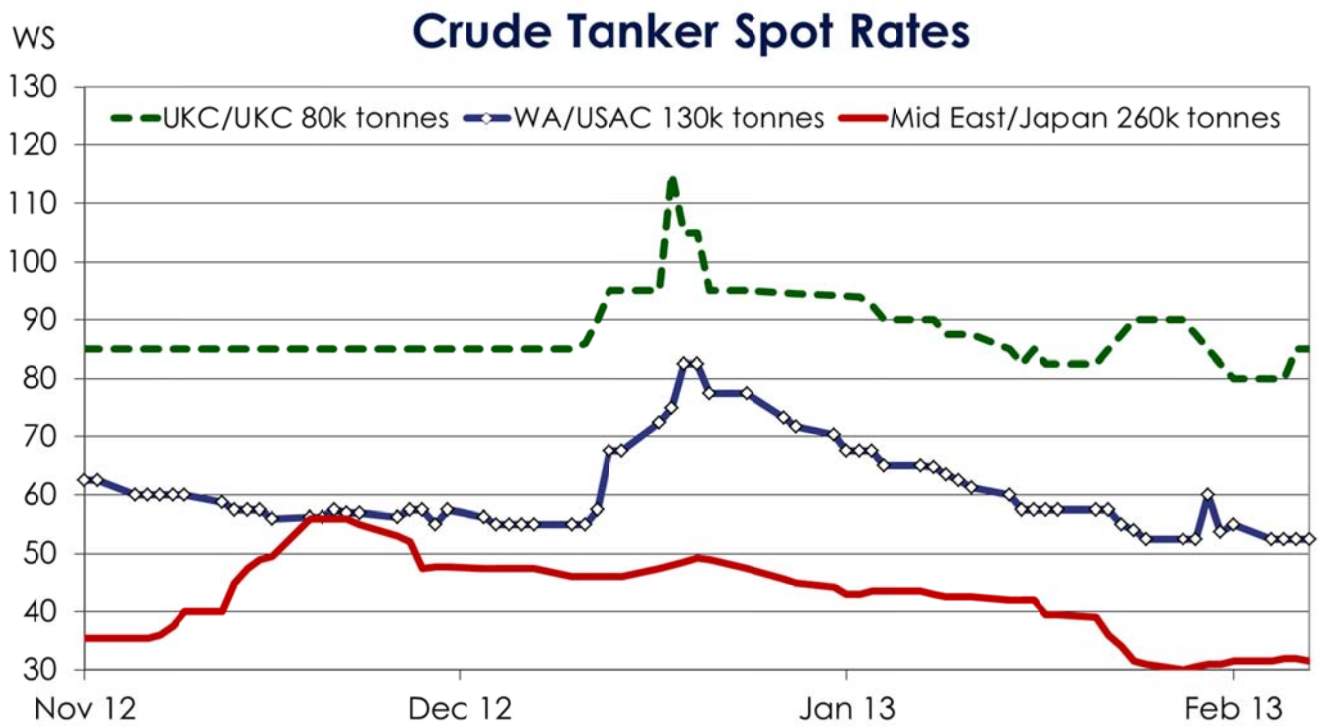
Med Aframaxes were an interesting conundrum this week. All signs were there that the going was firm and the thoroughbred owners would be at least maintaining the status quo. However as hours became days it became clear that the majority of business was of a replacement nature, and for normal fixing dates the enquiry was thin. Not even disruption due to bad weather is helping the Owners' plight. Rates began to slide and as a result ws100 for a vanilla cross Mediterranean eventually became WS92.5; by the close the few cargoes remaining are pushing for below WS90 and few would back against them achieving this if not today then Monday. A plentiful supply of Suezmax tonnage has mopped up what cargoes that have been shown. Black Sea cargoes have been concluded at 135,000mt by WS60 for European discharge, whilst Mediterranean cargoes discharging in the US Gulf have obtained levels of 130,000 mt in the mid WS40's.

Caribbean

A place to be if you owned a VLCC, as a finely balanced position list enables Owners the opportunity to maintain current levels. Chinese Charterers dominated proceedings here this week with last done levels of US$4.1 million seen for Singapore. Aframaxes kept on the quiet side all week with Owners given no hope of a recovery. Rates will be held coasting along the bottom with last done 70,000mt x WS82.5 readily achievable.

North Sea

Market fundamentals are still playing against Aframax Owners in the Baltic. While this week has seen an increase in activity with Primorsk coming out of maintenance break, the market remained unshaken due to ice-class tonnage still outnumbering cargoes fed to the market. 100,000 at WS65 is the going rate here and unlikely to change before early next week. North Sea also stays flat with 80,000 by WS85 capping the market. Little Suezmax activity of note with rates now below 130,000 by WS 50 for Transatlantic discharge. VLCC interest remained minimal with Arb levels substantially lower than last done, Owners will need to recalculate as to how bad it looks.



CLEAN PRODUCTS

The West remains strong whilst the East is weak.

East

LRs have been quiet this week even with Pre-Chinese New year activity. LR2s have seen only a handful of fixtures and rates have stuck resolutely at the bottom. Lr1s have cleared a little bit but with no lack of tonnage and holidays coming it seems impossible that rates will go anywhere positive for now. 55,000 mt Naphtha AG/Japan is stable at W92.5 and 65,000 Jet AG/UKC around US$1.80 million. 75,000 mt Naphtha AG/Japan remains down at W80 with 90,000 Jet AG/UKC at US$2.25 million. Next week is bound to be quiet with the holidays in the East and so rate are expected to stay where they are.

The MRs were holding their own for the first few days, however most of the weeks enquiry came in on Tuesday and the rest of the week saw this enquiry being picked off. The sentiment has been gradually dwindling and we finish the week with the MRs being weak. TC12 has fallen to WS 112.5, which is a 12.5 point drop since Monday. East Africa has been quiet, with 195 failing subjects, next done is expected to be WS 190 or less. AG to UKC has been tested with US$ 1.5Million fixed. With a quiet start to next week expected, due holidays in the Far East the market will come under further pressure.

A familiar trend is emerging in the Far Eastern Markets blighting blights the East of Suez in its entirety; over supply of tonnage and lack of cargo activity. The North Asia backhaul market for an MR has dropped around US$ 30k this week and last done for this voyage is US$ 450k. LR1s have suffered the same fate and in all likelihood they are at parity with the MRs for this run with LR2s being US$ 20-25k more expensive. Singapore / Australia voyages have slowed up and theoretically the freight levels here are around 30 x WS 175. Gasoil movements west bound have largely been the preserve of new build Suezmaxs as LR2s cannot compete on the dollar per ton freight level. With the Chinese New Year holiday next week the prognosis for the Tanker market in the region is grim reading.

Mediterranean

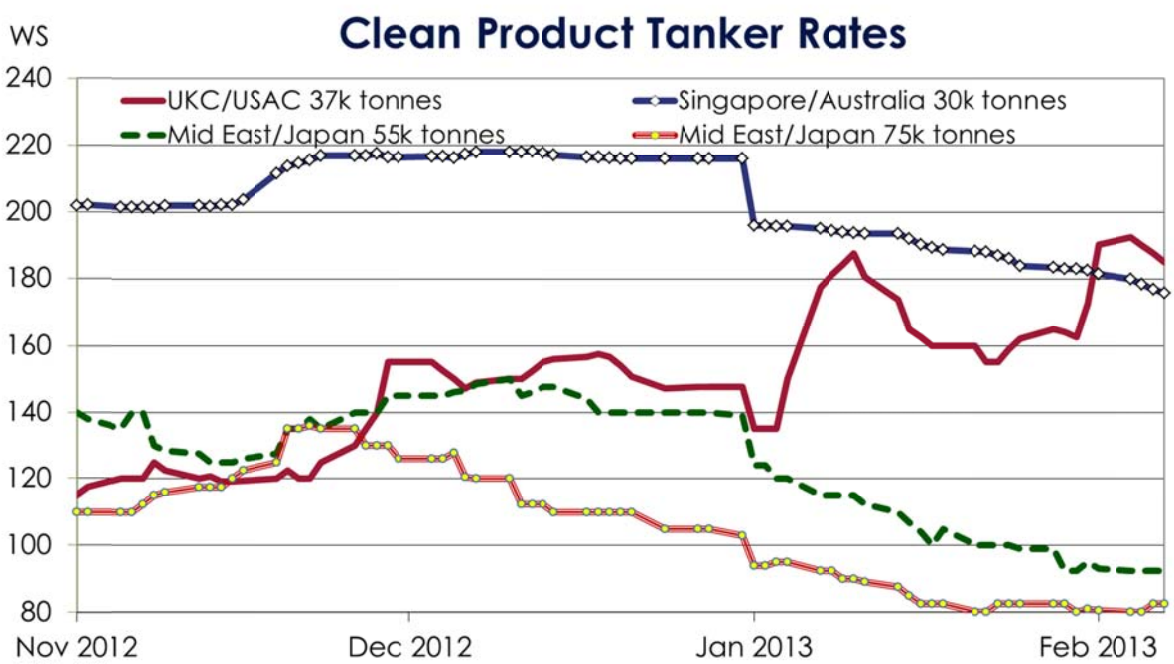
A steady week in the Mediterranean where weather delays have so far kept the available tonnage balanced against what has been a slower stream of cargos, with the cross med market fixing 30 x WS 177.5. The Black Sea exports were quieter and market established at 30 x WS 180 levels, although less is reported on subjects at time of writing. Today is anticipated to be quiet and the outlook for next week is that the handy market likely to soften into next week unless it opens with a bang. The Mr's loading from the Med have been fixing longhaul rates below similar business from the UKC, with market freighting 37 x WS 190 to W Africa and with a couple of ships fixed a shade under WS 190 for Brazil, USAC/USG/Caribbean Sea discharge is considered 37 x WS 180 lvls. The market heading east has been difficult to assess, as many Owners prefer to give only options west while the market is strong, so there is a wide spread in Owners ideas around US$ 1.1-1.4m lvls.

UK Continent

There was enough level of activity to keep rates relatively bouyant at around WS 185-190 for TC2. Premiums to West Africa have secured up to 10 points over trans-Atlantic. Baltic/Cont was trading 30 x 180 for non ice and 30 x 195 for ice class tonnage. Flexi's were commanding WS 260 basis 22kt. LR1's have ticked over with West options trading at circa 60x130 for TA and West Africa, options destined to the Red Sea were arranged at US$1.55 m. LR2's were asking upwards of US$ 3m for Cont / Japan.

Caribbean

Tonnage is at a premium in the USG/Caribbean Sea this week as the arbitrage for ULSD movements TA continues drives demand whilst local cross Caribbean Sea and South American movements remain busy also. 38 x 115 has been reported this week and Owners remain bullish - whilst ideas for Caribbean Sea - USAC are around 38 x 145-150 levels whilst USG to South America is fixing 38 x 175.



DIRTY PRODUCTS

Handy

With tonnage light in the Continent, charterers became a little more inventive, vessels in the west Mediterranean the beneficiaries of early week trading. This activity led Med rates to stabilise at 30 x WS 155 and prevent the downward curve continuing. Tonnage continued to find willing suitors as the week continued with charterers active across the region as a whole; this led rates to finish the week 30 x WS 160 X Med and WS 165 ex B.Sea. Steady rather than spectacular appears the weekly story as suppressed prices on barrels greased the wheels of the market with the Med set to tighten if early trading next week proves busy.

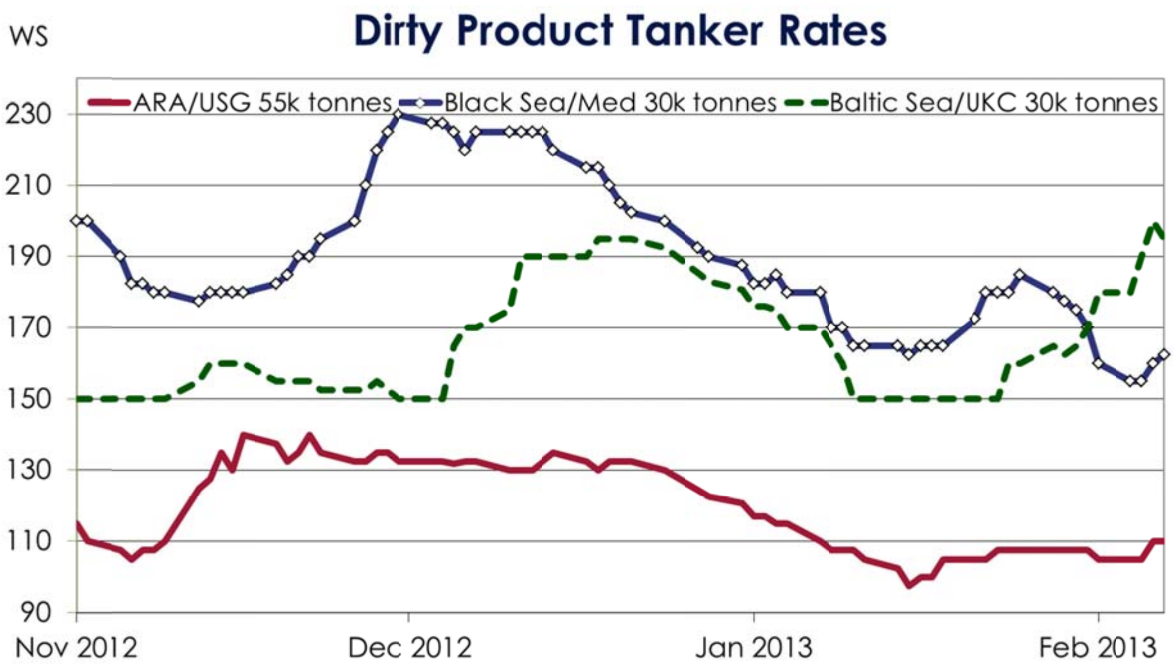
The Continent is plain and simple…tight for ships, tighter for ice tonnage. Rates shot up in comparison to last week with 30 x ws 195+ for ice at the end of this week with roughly 10 points less for normal X Cont business. It will be interesting to see the tonnage list come Monday as those with ice requirements may not have a plethora of options.

MR

Slowly but surely MR Owners have found a way to keep tonnage employed as activity levels by week on week appear to have dropped off noticeably. Rates for this reason found themselves down in value (with the exception of ice class tonnage up in the north firm in WS 155 region). Down in the Med, a WS 140-145 benchmark seems to bare truth, aided largely once again by lifting's ex Ras Lanuf. Next week being the last before IP week's disruption, owners will be hopeful that an influx of inquiry hits the market as should fortnight of quieter times prevail, charterers may find a few softer deals are there to be had

Panamax

Levels in the North in the early stage of the week experience a little volatility as owners found the position list supported a WS 110 market. Rates elsewhere however became more questionable as West African enquiry was met by a surplus of med tonnage resulting in premiums of less than 10 WS points achievable v's covering ex UKC. Going forward we again become set in the idea that with date progression of stem dates, ballast units will keep the market balanced until the Caribbean markets provide stimulus.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 7th	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TD3	VLCC	AG-Japan	**+0**	31	31	43	33	36	35
TD5	Suezmax	WAF-USAC	**-2**	53	55	62	54	54	51
TD7	Aframax	N.Sea-UKC	**+2**	85	83	87	87	85	85
LQM Bunker Price (Fujairah 380 HSFO)			**+15**	652.5	637.5	632.5			

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

			wk on wk change	Feb 7th	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TD3	VLCC	AG-Japan	**-1,000**	2,500	3,500	21,250	5,250	10,250	8,750
TD5	Suezmax	WAF-USAC	**-2,500**	9,000	11,500	16,750	9,750	10,000	8,000
TD7	Aframax	N.Sea-UKC	**+500**	6,250	5,750	8,750	6,250	5,000	5,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 7th	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TC1	LR2	AG-Japan	**+2**	83	81	90			
TC2	MR - west	UKC-USAC	**+19**	187	168	183	156	126	115
TC5	LR1	AG-Japan	**-4**	91	95	117	97	104	110
TC7	MR - east	Singapore-EC Aus	**-6**	176	182	194			
LQM Bunker Price (Rotterdam HSFO 380)			**+22**	647.5	625.5	621.5			

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

			wk on wk change	Feb 7th	last week	last month	FFA Q1 13	FFA Q2 13	FFA Q3 13
TC1	LR2	AG-Japan	**+500**	10,750	10,250	11,000			
TC2	MR - west	UKC-USAC	**+3,500**	22,500	19,000	22,250	15,500	9,000	6,750
TC5	LR1	AG-Japan	**-1,750**	7,750	9,500	16,750	9,750	12,000	14,250
TC7	MR - east	Singapore-EC Aus	**-1,500**	12,750	14,250	13,500			

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

SC/JCH/JW/JT/SLT

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