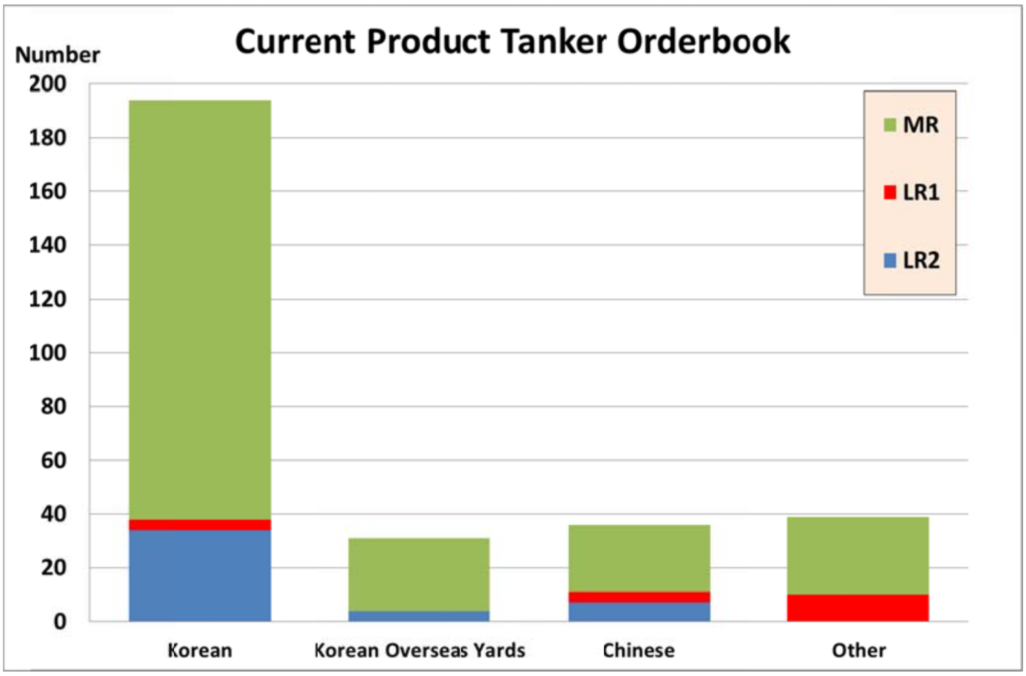
WEEKLY TANKER REPORT

10th May 2013

OFF THE PRODUCT (ion) LINE

If we take a detailed look at the tanker orderbook over the past 16 months, it will come as no surprise that investment has been heavily geared to product carriers. 86% of all tanker orders above 25,000 dwt placed over this period have been for products, particularly MRs. What may be more surprising is that 69% of all these orders have been placed at Korean shipyards and if you add tankers to be constructed in yards controlled overseas by Korean builders, the total rises to 83%. Over the same period, orders placed in China amount to a mere 10% while Japan registers just 3 product tanker orders.

While Chinese yards clamour for fresh orders for all types of vessel, clearly owners have a preference to build coated tankers at yards with a strong track record in this area; a claim most Chinese yards do not yet have. The one Chinese yard that appears to buck this trend is Guangzhou Shipyard International (GSI), which has an excellent record in building good quality product tankers for European owners and is currently constructing 28 MRs/LR2s. However given recent developments, finding slots in Korean yards for the latest 'tankers of preference' may become increasingly difficult as Korean shipyards continue to show a preference to build specialised tonnage guaranteeing higher revenues. Korean yards have moved away from basic ship types in favour of gas carriers, offshore and container ships which will generate larger profits, but just as importantly keep the orders turning over.



This policy and the current rush to secure product tanker tonnage has created a surge in demand for shipyard slots which has necessitated Korean yards to subcontract hull construction to their overseas facilities. With spot tanker earnings rising and newbuilding prices firming, slots for 2015 delivery are filling rapidly. Based on our market expectations, fresh orders will continue, as more owners take to securing more efficient tonnage at relatively low prices. The cost of building an MR today is somewhere around $33 million, about 60% lower than the peak in September 2008. At today's prices you will almost certainly get a better ship to fulfil both the owners requirements and those of the legislators. Our chart shows only confirmed orders, but we are aware of the abundance of undeclared options waiting to be confirmed. Assuming these go ahead, newbuilding prices may well rise in the coming months.

CRUDE

Middle East

Solid levels of VLCC fixing continued, and at last Owners managed to stage the breakthrough that they had hardly dared believe possible just a few weeks ago. Rates gained steadily through the week, ending at a new conference level of WS 40 East and into the low WS 20's to the West. For now, availability looks just finely balanced enough against the anticipated end May/early June programmes to maintain the higher rate-range. Thereafter Charterers may ease up somewhat, and test Owners' resilience once again. Suezmaxes started slowly, but then moved through a much busier phase. Unfortunately for them, the excess availability was never seriously challenged, and rates remained anchored to as low as WS 25 to the West, and WS 55 to the East, with little prospect of a higher level being forced in the near/medium term. Early Aframax positions can command a premium as availability thins, but Charterers that are able to fix ahead will find themselves awash with enough tonnage to ensure no such issues arise. Expect levels to keep flatlined at around 80,000mt x WS80 for Far East destinations on the forward date.

West Africa

Tough for Suezmax Owners here. Never enough attention to properly prune the lists, so that sentiment remained flat, at best. Rates settled lower to 130,000 by WS 52.5 for US Gulf, and no higher than WS 57.5 to Europe. The outlook shows little change. VLCC's these days are hog-tied to Middle Eastern fortunes, so that as the Arabian Gulf rose, so did rates here, and Charterers will find it hard to break much under 260,000 by WS 40 to the East on the next deals - and until the East finds a reverse gear.

Mediterranean

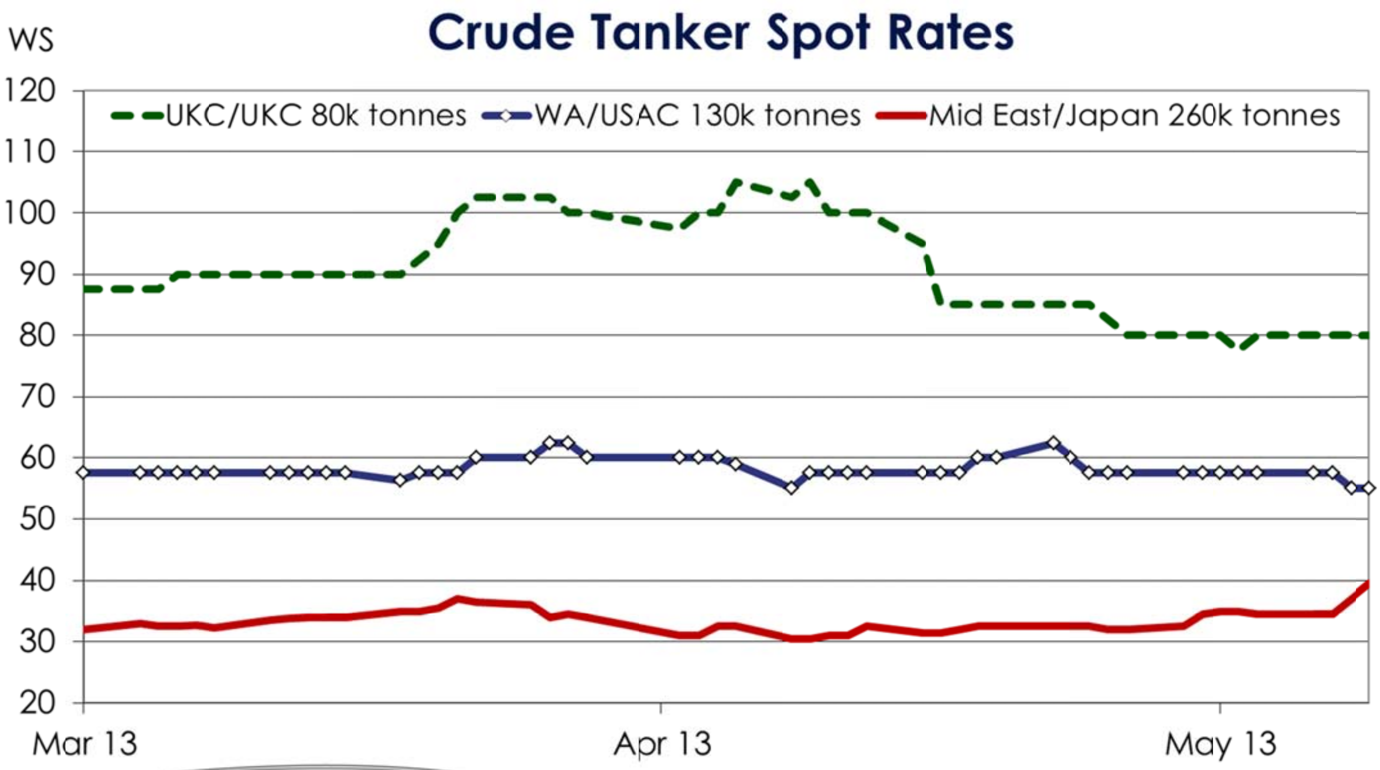
Med and Black Sea Aframax rates suffered this week as an abundance of tonnage available on prompt dates onwards caused excessive pressure on what was the previous bottom of the market. This saw lifting's ex Sidi Kerir to Euromed fixing as low as WS65 on 80kt and Libya to Euromed moving down to WS70 (a 2.5 point downwards movement). Now with the weekend in sight many vessels remain prompt on ready for employment which will do little to dispel the present soft sentiment in the market. At the time of writing a quoted cargo ex Sidi has covered on an older unit 2.5 below the WS65 mentioned above meaning further pressure on the present levels can expected next week. Whilst not a grave yard, the Med and Black Sea have afforded few opportunities outside of the normally expected cargoes. A little more activity midweek as end of May stems got covered but rates struggled to maintain last done levels. This could be a long summer for the Owners but we doubt that Suezmaxes laid up in Itea will become a tourist attraction again - even if these poor market levels remain.

Caribbean

An uneventful week for Aframaxes will work as a negative for Owners here, the tonnage list is beginning to build against the inactivity and next done levels will reflect that. Last done for a run of the mill Caribbean Sea/up was 70,000mt x WS105. VLCC's didn't fare any better, again limited interest but as the list was fairly trimmed to start with, so expect levels to remain rangebound. Last done to Singapore was at US$3.80m and $3.35m for West Coast India.

North Sea

Aframaxes remain depressed, with vessels continuously outnumbering available enquiry. The Baltic stems are pretty much covered till mid third decade and rates stay at the bottom with little prospects for early recovery. 80,000 cross UK Cont stays at flat WS 80 level and the Baltic remains bottomed at WS 57.5 for now. Tonnage availability remains relatively light here for VLCC's but with limited interest Owners will need to consider other load options as an alternative, as of now though, last done levels for Singapore are US$3.5m and US$4.75 for China.



CLEAN PRODUCTS

The West breathes a sigh of relief whilst the East Market is still gasping for air

East

LRs have seen a quiet week with rates continuing to fall. LR1s saw 55,000 mt Naphtha AG/Japan finally fix but 10 points down at w100 and 65,000 mt Jet AG/UKC is down to US$1.80 million. Lr2s have had no better luck with 75,000 mt Naphtha AG/Japan reported to be on subjects at W82.5 - if true a 7.5 point drop this week. 90,000 mt Jet AG/UKC continues to bump along the bottom at US$2.25 million with little sign of improvement.

The Mrs have been slightly busier towards the close of this week, with a surge of fresh fixtures being reported since yesterday, but unfortunately the rates do not reflect the healthy levels of activity we have seen, with TC12 tumbling yet further this week, and just when Owners thought they'd seen the worst of it...

Tuesday's fresh fixtures saw WCI/JPN for TC12 drop to 35kt x WS105 with a jolt, a 7.5 point drop on last done, however, with the recent surge of activity and WS 115 on subs for Red Sea/Japan Owners may be looking at this route with a shade more positivity. East Africa has also experienced a drop this week, and with last done to South Africa at WS 160 we can put this route at WS 170. AG to the Continent remains quiet, but is assessed at US$ 1.55-1.6 million.

The X AG market this week has also suffered, and we now assess Jub/Jeb at 170K. Although this week has been a gloomy one for Owners, there has been a higher level of enquiry which is giving Owners some hope that rates could improve in the coming weeks, time will tell if this likely or a false dawn.

The Far Eastern markets have not managed to avoid the general freight rate malaise that has afflicted the East of Suez as a whole. The only exception to this is the LR2 market for cargoes ex South Korea for May cancelling where the volumes of ships available is somewhat slim. Typically S.Korea / Singapore will fetch US$ 530-540k on an MR, but this market has been quiet and the expectation is that there is some downside to come. Cargoes into Australia have been largely absent this week so this market is largely untested and in theory this type of voyage should fetch 30 x WS 180-185, representing some slippage over last week's levels. There has been a good deal of interest in LR2s for Korea / UKC voyages and the paucity of tonnage has kept fixing levels to US$ 2.5m levels. This said with freight rates taking a nose dive ex AG and West Coast India it is difficult to see this market holding up in the longer term. Looking forward into next week more of the same softening is expected, like the AG market there is a bit more hurt for Owners before things start to look better.

Mediterranean

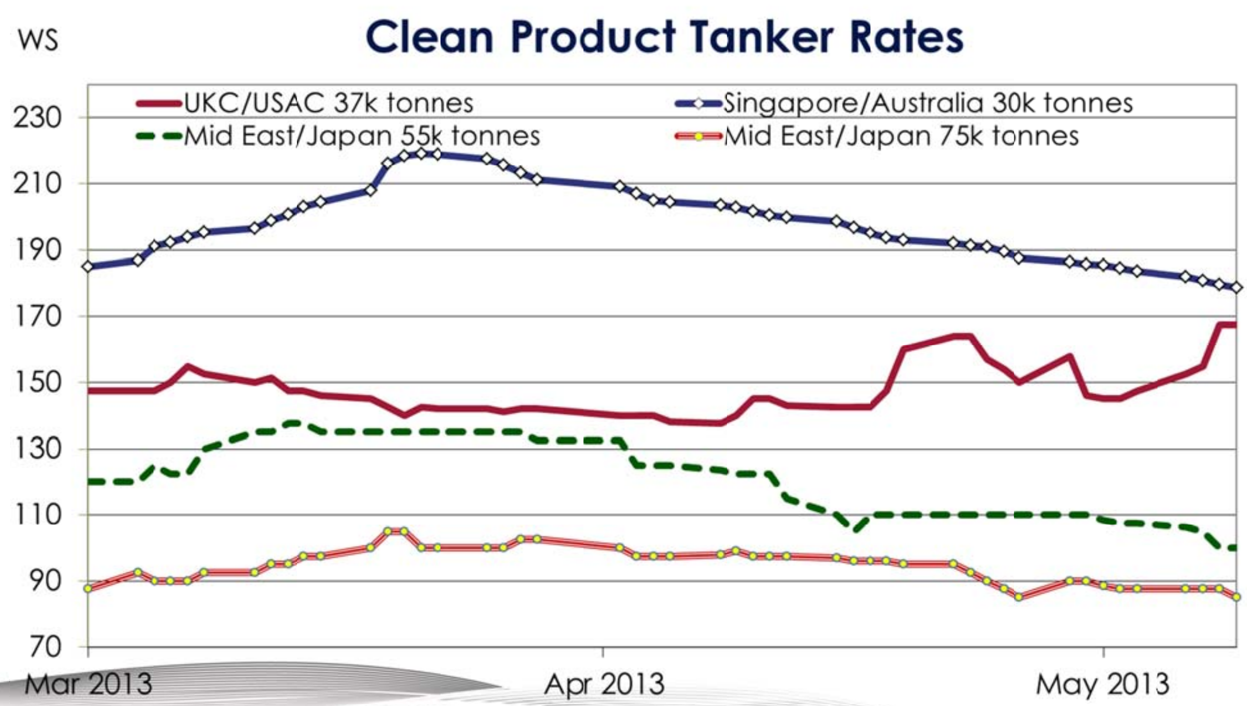
Considering the bank holiday in the UK and Ascension Day in Europe, the weeks end has actually seen an upturn in enquiry for the Cross Med and Black Sea handy market. Fixing levels throughout the week have been between 30 x 140-142.5, however the general outlook tonnage wise remains long and WS140 is rumoured to have been tested although not confirmed at time of writing. Given the rush of TC2 cargoes earlier In the week, we deem the Med MRs (tight for prompt dates) to be firm and trading around similar levels; 37 x 160 has been reported for TA discharge whilst for Red Sea and AG around US$ 950-1m / 1.05-1.1m respectively.

UK Continent

A lot of TC2 cargo enquiry on Tuesday quickly thinned out the list. Freight prices lifted up to max WS 175 basis 37kt, although levelled to WS 165-170 by the end of the week. Cross Continent movements were slow and the handy market dipped down to WS 120 basis 30kt. Flexi's were commanding WS 165 basis 22kt. LR's were steady fixing west at WS 95-97.5 basis 60kt for TA and West Africa. Owners were talking 2.2m levels for UKC / Japan.

Caribbean

The market has stayed firm this week for UKC-MED discharge with a high concentration of stems as well as South American discharge and Far East options fixing out of the Gulf. The market for backhaul has picked up with up with rumours around the 38 x WS85-90 levels being on subjects although this is being debated as prompt tonnage remains an ever present and the Arb closed for now - the outlook is soft.



DIRTY PRODUCTS

Handy

UKC: By the nature of holiday disruptions across most European countries, markets were left with a shortened time frame in which to cram forthcoming fixing programs. Holidays often have a distorting impact upon levels, with this week in the north being no different! Lows of WS 140 were reported where availability of tonnage grew. Next week is likely to see normality set back in suggesting that perhaps this sector has bottomed.

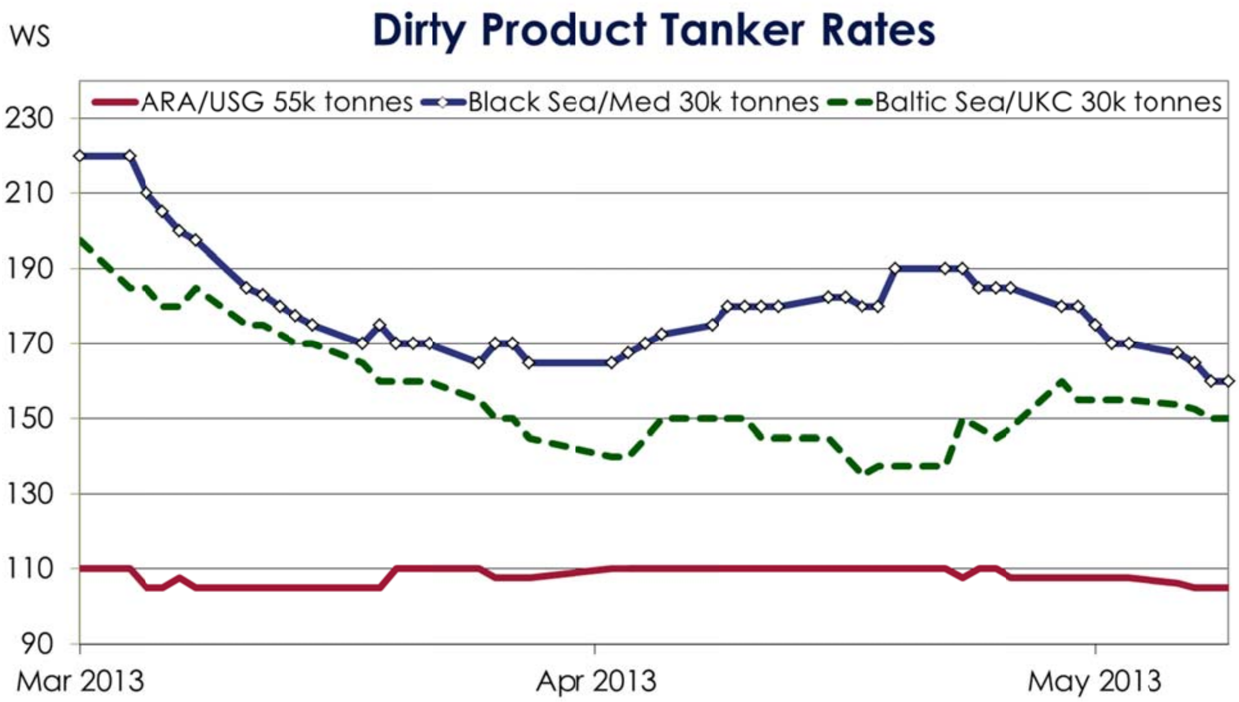
MED: Down in the med however, Owners operating here would choose to focus on the battle that lay ahead, where as widely predicted, rate erosion was indeed seen! The extent to which daily returns suffered has become an issue as the market losing arguably some 15 WS points casts doubt now if rates are to rebound immediately once disruption ends.

MR

Rates this week see a negative correction, more so in one region than any other the Mediterranean! Here levels touched WS 117.5 which is attributable to a combination of both inactivity and poor performing surrounding markets. Volatility however is not amiss in this sector, as finding an MR willing all discharge options often throws spanners in the works for even the hardiest of Charterers. Best then to keep that point range wider when assessing trades of a 45kt nature.

Panamax

As numerous ships sit on the list looking somewhat distressed, owners this week braced themselves for a tough week ahead. Levels in general though haven't drastically plummeted as enquiry from West Africa proved a life line.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk	May 9th	Last Week	Last Month	FFA Q2 13	FFA Q3 13	FFA Q4 13
TD3	VLCC	AG-Japan	**+6**	40	34	31	37	34	39
TD5	Suezmax	WAF-USAC	**-1**	55	56	58	53	50	54
TD7	Aframax	N.Sea-UKC	**+1**	80	79	98	79	79	87
LQM Bunker Price (Fujairah 380 HSFO)			**+12**	628	616.5	598			

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

			wk on wk	May 9th	Last Week	Last Month	FFA Q2 13	FFA Q3 13	FFA Q4 13
TD3	VLCC	AG-Japan	**+8,250**	17,250	9,000	4,000	12,750	8,750	16,250
TD5	Suezmax	WAF-USAC	**-1,500**	13,000	14,500	15,250	11,500	9,750	12,750
TD7	Aframax	N.Sea-UKC	**-250**	4,750	5,000	18,000	2,500	2,750	8,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk	May 9th	Last Week	Last Month	FFA Q2 13	FFA Q3 13	FFA Q4 13
TC1	LR2	AG-Japan	**-3**	85	87.5	98			
TC2	MR - west	UKC-USAC	**+24**	169	145	145	145	120	128
TC5	LR1	AG-Japan	**-8**	101	109	121	106	111	112
TC7	MR - east	Singapore-EC Aus	**-6**	179	185	201			
LQM Bunker Price (Rotterdam HSFO 380)			**+22**	599	577.5	629			

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

			wk on wk	May 9th	Last Week	Last Month	FFA Q2 13	FFA Q3 13	FFA Q4 13
TC1	LR2	AG-Japan	**-1,500**	12,500	14,000	19,250			
TC2	MR - west	UKC-USAC	**+4,750**	19,750	15,000	14,500	14,500	9,000	11,000
TC5	LR1	AG-Japan	**-3,000**	11,750	14,750	18,250	13,250	15,250	15,500
TC7	MR - east	Singapore-EC Aus	**-1,500**	14,250	15,750	18,250			

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

PAT/JCH/TP/JT/slt

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