

19th July 2013

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The Kirkuk-Ceyhan pipeline has been subject to intermittent stoppages in the last month due to frequent sabotage attacks. The effects of these delays have been temporarily positive for Mediterranean Aframaxes. However, continued attacks in the autonomous region of Kurdistan, where the pipeline runs through, has skewed an optimistic outlook for Iraq, and has forced both the Iraqi and Turkish governments to come up with better solutions.

The key export terminal of Ceyhan is vital for supporting crude oil trade in the Mediterranean. Last year some 325,000 b/d of Iraqi crude was exported through the terminal, in comparison to this year to July where only around 225,000 b/d had been exported. If the trend continues into the second half of 2013, the export rate will be the lowest since 2008. This week's recommencement of flow will bring back around 300,000 b/d of crude, equivalent to around a fully laden Aframax tanker every two days.



During the three weeks of outages which started on the 21st June, Aframaxes were forced to wait at Ceyhan to load. Freight rates and earnings on the benchmark cross Mediterranean Aframax route from Ceyhan to Lavera were around \$5,750/day at the time of the stoppage, rising to around \$8,750/day by the start of July. Despite a fall in rates thereafter, today's earnings are around \$11,500/day. A combination of Kirkuk-Ceyhan export barrels becoming available and Libyan export terminals coming back online has seen tonnage rapidly booked up this week.

While the Kurdistan Regional Government (KRG) is still in disagreement with Iraq over its oil industry, the KRG's relationship with Turkey is expanding. Without the blessing from Baghdad, a new 300,000 b/d independent line from the Kurdistan oil fields to Fishkabour on the Turkish border is reportedly under construction, with suggestions of completion by the fourth quarter. If this is true, the new line would give Med tanker markets the continuous support they need. To bypass attack-prone areas in the Kurdistan region of Iraq, Baghdad has also offered another option to build a 'federal pipeline' from Basra to Ceyhan.

The civil unrest and supply disruptions in Egypt, Libya and Syria, together with the repeat attacks on the Ceyhan pipeline will only continue to disrupt the Med Aframax market (as well as pushing up oil prices). Iraq is playing a pivotal role in global oil supply growth, and is set to rapidly expand in the next decade, but if the geopolitical tensions remain, our shipping markets will continue to face disruption from trade out of Ceyhan.

CRUDE

Middle East

VLCC Charterers maintained their newly found walking pace, withholding from large-scale August fixing, to continue to test market sentiment. Owners gritted their teeth, and accepted the medicine, but drew a line in the sand at ws 40 to the East and ws 25 to the West for most of the week, before crumbling a little below by the week's close. This follows the same pattern as for July and June dates, and if the pattern of fixing continues, one could reasonably expect further softening, followed by a busier period that may - should - force a degree of rebound, but perhaps not to the peaks seen in those previous months. Suezmaxes kept their plate spinning relatively well as short haul, and early dates dominated, and kept availability upon the tight side. Rates moved into the mid ws 60's East, with up to ws 70 paid for an early Fuel Oil stem, though rates to the West remained pegged by Owners back-haul needs to no better than ws 35. Aframaxes remained solid through the week, but couldn't break into clear blue water so rates held in the low/mid ws 90's to Singapore, though as high as ws 110 was seen for a replacement deal loading in the Red Sea, but next week should see a degree of softening take hold.

West Africa

Suezmaxes spent the whole week searching for direction. Initially Charterers seemed to hold the advantage with rates sliding to 130,000 by ws 55 transatlantic, but a busier second half of the week lent Owners some degree of grip, and levels inflated slightly to more like ws 57.5 US Gulf and ws 62.5 to Europe. Next week should see another gentle roller-coaster ride as things look for now.

VLCCs saw only thin, and spasmodic, enquiry as charterers eyed the easing Arabian Gulf market and were prepared to sit tight to reap the benefits from ballasters from the region. Rates fell off to close to 260,000 by ws 40 East with an easily repeatable US\$ 3.55 million paid for a movement to West Coast India.

Mediterranean

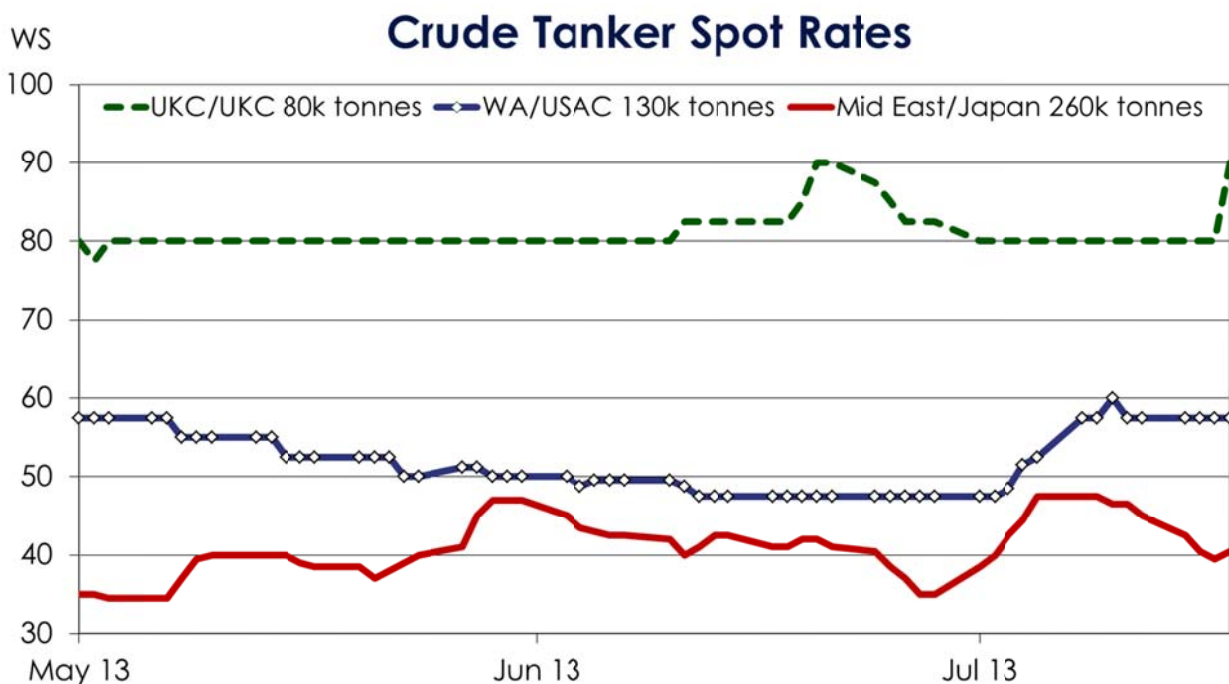
At last some better news for beleaguered Aframax Owners here. Delays at certain key ports, Libyan terminals back on-stream, and a busy fixing spell, combined to tighten the rope and allow rates to jump to 80,000 by ws 112.5 cross Med, and it will be hard for charterers to rein the market in for a little while yet. Suezmaxes, on the other hand, enjoyed no such luck, but did manage to keep things steady at around 140,000 by ws 52.5 from the black sea to Europe with 130,000 by ws 70 paid for a short haul cross med deal. Next week, rates are more likely to move up, rather than down, but any movement at all is a possibility, and not a probability.

Caribbean

A restricted Aframax cargo on an early date bucked the soggy rate-trend, and Owners used it as an effective weapon to marginally beat up slightly confused Charterers. Rates moved to 70,000 by ws 95 as a consequence, though Charterers will now make an effort to regroup and put another slab of ice onto the market. VLCC lists had lengthened, and the recent lack of attention eventually converted into some discounting. US\$ 3.65 million is now the mark for Singapore discharge with US\$ 3.25 million paid - and payable - to West Coast India.

North Sea

Better things also for Aframax in the North Sea, but so far by a far less degree than seen in the Med. Solid levels of enquiry eventually converted into a higher 80,000 by ws 85/90 market cross UKC with further upside threatened for next week, though if Charterers play a canny game, then it will be more of a plateauing to be seen. Suezmaxes found a little more than of late, but not enough to tip the scales, and rates didn't break above 135,000 by ws 50 transatlantic, through the week. VLCCs suffered again from a very shut Fuel Oil 'ARB' to the East, so that the only deal seen was for a rare movement to the US Gulf at an unsurprising 260,000 by ws 40, and we don't expect much action next week either.



CLEAN PRODUCTS

West is hot, East... is not

East

The LR1 market has finally picked up in terms of activity levels. We've seen an encouraging level of fixing, but unfortunately nowhere near enough to start jacking rates back up. 55,000 MT Naphtha Ag/Japan remains at w75, and US\$1.5M is currently on subs for 65,000 mt Jet AG/UKC. Due to the excess available tonnage, these boats will fight for any cargoes, and will continue to undercut the MRs. ATC currently have two LR1s on subs into Jeddah for 600K each, which when fixed on subs was a US\$ 40,000 discount over a MR. A lot of ships remain on the list, so rates are not about to shoot up, but the increased levels of activity should give owners at least some positivity going forward. Let's just sit tight and see what happens.

The LR2s have had another quiet week, and with the mounting available tonnage, freight rates continue to be choked out. 75kt Naphtha AG/Japan has slipped now to ws67.5, and we now assess 80KT Jet AG/UK Continent at US\$1.95M. Earnings at these levels are very poor indeed, and we hope things can change going into August

MRs have been very quiet all week, with little fresh activity throughout and rates continuing to soften. Bitr for TC12 is showing WS 97, but less has been fixed, with 91.5 being confirmed for an unapproved ship. East Africa has weakened down to Ws152.5 basis Mom-Dar and this puts South Africa at Ws142.5. Westbound voyages are very quiet, and are assessed at US\$ 1.3 Million, but if tested, will break this number. Shorthauls continue to come under pressure from the weak Lr1s, with longer voyage cross-AGS are fixing at US\$ 170,000 and shorted Jubail/Jebel Ali voyages fixing at US\$ 140,000. The level of despondency is ever increasing with Owners, due to general lack of activity in the market.

A more positive week for Owners with vessels in North Asia, compared with previous weeks there has been more activity and the tonnage list has thinned out. The MR sector which had suffered the most from falling freight levels has managed to gain some ground with S. Korea / Singapore averaging US\$ 390k levels. In this region both LR1 and LR2 units are in short supply and as we go into the weekend a high of US\$ 475k is reported on subjects for S.Korea / Singapore on an LR1 with LR2s trading at US\$ 525k levels. There is potential for further firming in this area across all sectors.

The market around Singapore tells a very different story, there is prompt tonnage available and freight levels are soft. Singapore / Australia is still fixing at 30 x WS 150 levels

although these type of cargoes have not been in abundance. On balance after numerous weeks of despondency there is a small ray of light for Owners with ships in North Asia, the Singapore market continues to be weak and this will probably not change until there is an uptick of activity in the AG and West Coast Indian market.

Mediterranean

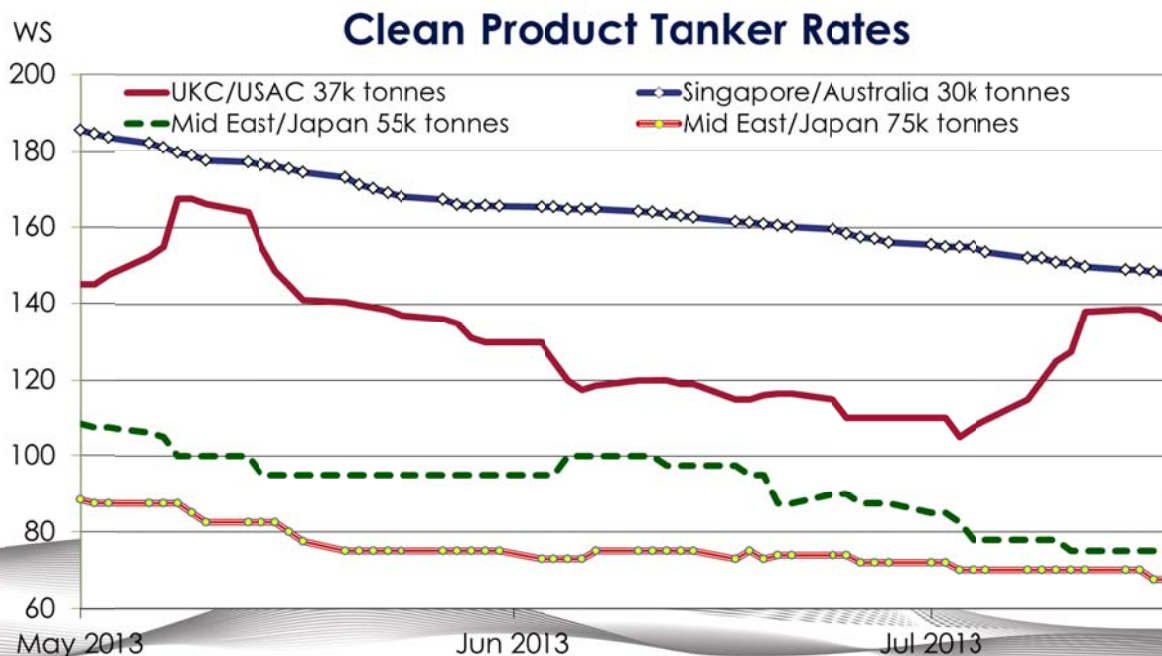
A roller-coaster week 29 in the Mediterranean as rates spiked at 30 x WS 160 for cross Med discharge mid-week on account of active enquiry and rapidly thinning prompt tonnage in the central and West Mediterranean. The market remains unsettled with a spread of rates being fixed but on prompt dates handys are in tight supply and this looks to be the case for week 30 as well, so Owners feeling positive that such rates will persist a bit longer. The Black Sea has also been busy but there was more available East Med positioned tonnage so last done levels are lower at 30 x WS 150-152.5, but we expect rates to improve in line with cross Med. It has been largely uneventful for the Mr's, with little being shipped longhaul to the West so rates untested but we consider rates in line with that ex UKC 37 x WS 135-137.5 ta / 150 West Africa. Still little appetite to fix East where the markets are in poor shape, so Owners generally looking to be compensated to the tune of US\$ 1.2-1.3m Red Sea, plus US\$ 100k for the AG on an MR, whilst handy's fixing US\$ 925-975K levels.

UK Continent

Enquiry for transatlantic bound cargoes was flat this week. We saw tc2 fixing between WS 135-140 basis 37kt. There was interest to West Africa, 37 x 160 was fixed top of the market on the MR's and the handies were arranging deals at 33 x 165 levels. Handies for cross Cont liftings tightened up, and WS 137.5 basis 30kt is on subjects at time of writing. Flexi's are fixing 22 x 180. LR1's were quiet, market considered to be WS 107.5 basis 60kt for TA and West Africa however 60x117.5 was reported on subs this week. LR2's remained as they were, with some activity, rates remain around 90x95.

Caribbean

The market in the states looks to have come off a touch this week and reportedly now 38 x 110 is on subjects for backhaul distillate stems. Despite enquiry staying active - tonnage has gradually built and markets out of the USG/Caribbean Sea look to have taken a general downturn



DIRTY PRODUCTS

Handy

UKC: Five working days in the North, but how they felt like ten! Activity took its precious time to pick up and when it finally did, this only arrived to the detriment of owners daily earnings with levels falling south of the WS 130 mark. If the Med is anything to go by however hope could well be on the horizon as Russian exports put huge squeeze on any available tonnage able to meet a July B/L. Rates in this region subsequently rose touching Ws 152.5 from the Black Sea, and Cross med expected to peak above 130.

MR

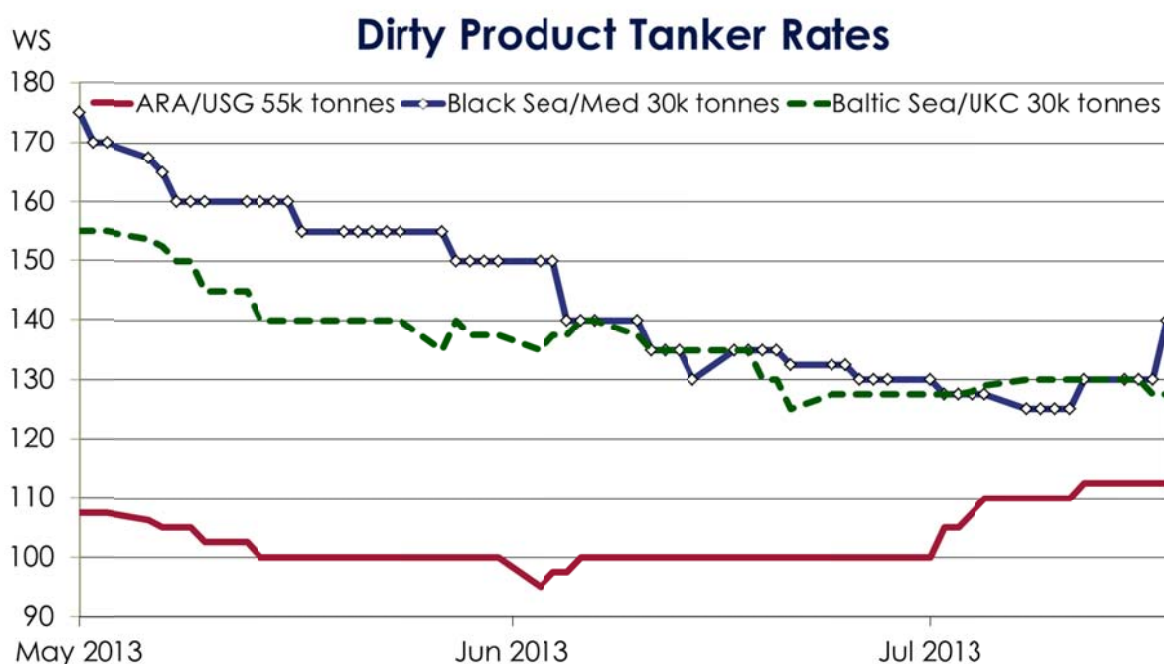
Productive week for MR's in the Med as many vessels gained employment. Rates have not moved too far for short haul, negotiated around 45 x ws 115 and all ending in a 2.5 point range. A narrow choice of Owners remain in the region, with positions tightening for end month dates suggesting a rise could be on the cards. Additionally, MR's will be strengthened by a firming Handy market offering options if full 45kt stems dwindle.

The Continent was quieter in comparison with early week cargos ensuring a plateau in negotiation as common

sense dictated the vessels to approach. Little else reported in a region that only really sparked into life from Thursday. Vessels available for the natural dates being covered.

Panamax

Up until now an uneven spread of tonnage had been seen between the Med and the UKC, with the Med having a more favourable supply on ships (from a Charterer's perspective). Adding to this, rates were also being somewhat spurred by the strength evident in other load zones. This week however strength is now being supported upon own merit, where the Majority of what Panamax business has been concluded in the Med/Black Sea, thus creating a similar tonnage shortage as seen elsewhere. Market trend on current outlook is also likely to last in the short term, logical ballast positions are being clipped away over in the US being employed in local markets.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Jul 18th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	-7	40	47	41	38	39	38
TD5	Suezmax	WAF-USAC	+0	59	59	48	55	57	56
TD7	Aframax	N.Sea-UKC	+7	87	80	88	79	86	83
LQM Bunker Price (Fujairah 380 HSFO)			+4	607.5	603.5	627.5			

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

			wk on wk	Jul 18th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TD3	VLCC	AG-Japan	-10,500	18,500	29,000	18,750	15,500	17,250	16,000
TD5	Suezmax	WAF-USAC	-250	16,000	16,250	9,000	13,000	14,750	14,250
TD7	Aframax	N.Sea-UKC	+5,000	10,000	5,000	10,250	2,750	8,000	6,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk	Jul 18th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	-3	67.5	70	74			
TC2	MR - west	UKC-USAC	+8	136	128	117	130	132	132
TC5	LR1	AG-Japan	-1	76	77	92	87	106	121
TC7	MR - east	Singapore-EC Aus	-3	148	151	161			
LQM Bunker Price (Rotterdam HSFO 380)			-2	608.5	610.5	592.5			

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

			wk on wk	Jul 18th	Last Week	Last Month	FFA Q3 13	FFA Q4 13	FFA Bal 13
TC1	LR2	AG-Japan	-1,000	5,750	6,750	7,750			
TC2	MR - west	UKC-USAC	+1,750	12,250	10,500	8,500	10,750	11,500	11,500
TC5	LR1	AG-Japan	-500	4,250	4,750	8,750	7,750	14,250	10,500
TC7	MR - east	Singapore-EC Aus	-1,000	9,000	10,000	11,750			

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

MJC/JCH/TP/JT/slt

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