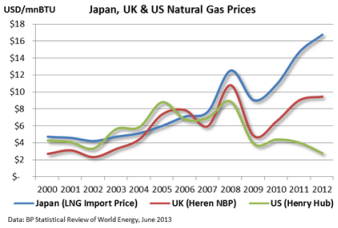
WEBER WEEKLY
TANKER REPORT

WEEK 15 – 11 APRIL 2014 **ISSUE 15 – 2014**

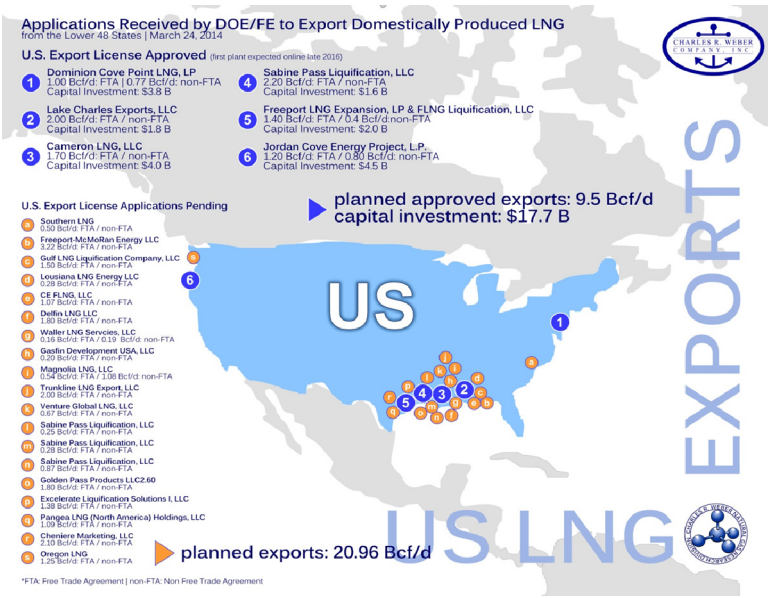
Rising prospect for large-scale US exports of natural gas maintains long-term positive for LNG tankers

Supported by the advancement of hydraulic fracturing and horizontal drilling technologies that have led to new, cost-effective applications in shale gas production, US natural gas production has risen by 35% since 2005 with an annual average production growth rate of 4% in the same space of time. As domestic marketed production has grown, the share of US natural gas demand supplied from domestic sources has risen from 86% in 2005 to 98% last year.

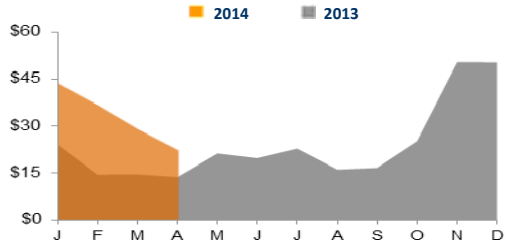


The observed gains, combined with the lack of licenses and infrastructure for the US to export, have placed an effective ceiling on production as an excess supply would apply further negative pressure on domestic prices and thus impact production margins. During 2013, domestic production averaged 25 trillion cubic feet while further expansion projections from the EIA show that the figure could grow to nearly 35 trillion cubic feet by 2040. Thus, further production growth remains largely dependent on the establishment of export markets.

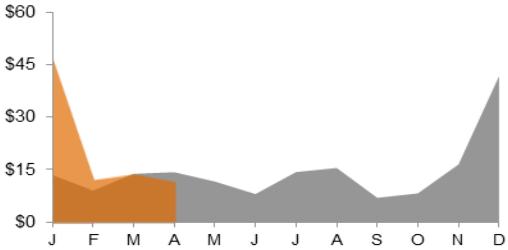
With LNG exports already presenting economic benefits – including the creation of jobs and a narrowing of the US' trade deficit – it seems that foreign policy benefits are now contributing to a greater political will to progress on commercial export projects. To date, applications for six export licenses have been provisionally approved – the most recent coming in the wake of political tensions in Ukraine; collectively these projects would lead to the exporting of 9.5 Bcf/d. An acceleration of the pace for license approvals during the coming months appears increasingly likely. We note that 19 further licenses are pending with a combined planned export rate of 21.0 Bcf/d.



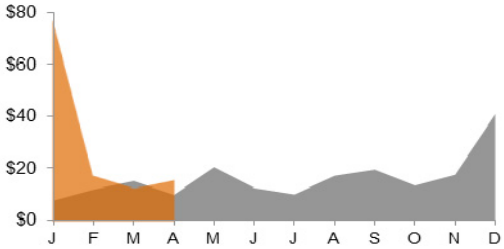
As the already approved licenses require massive investment (to the tune of $17.7Bn) and take time, we note that substantive US LNG exports remain at least 3-4 years away and thus offer LNG tanker owners nothing by way of near-term benefits. Large scale offshore LNG extraction projects in Cypriot and Israeli waters could see seaborne exports commence as early as 2015 and help to bridge the time gap, but the logistics of pipelines, liquefaction and export



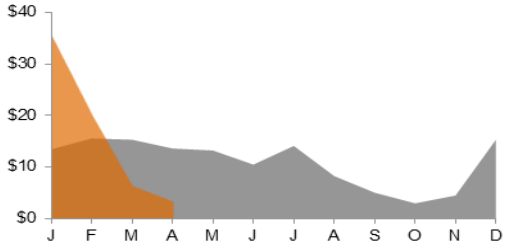
VLCC TCE AG-USG / CBS-SPORE/AG | **MTD Average $22,100/Day** | **Month y/y ▲ +60%**



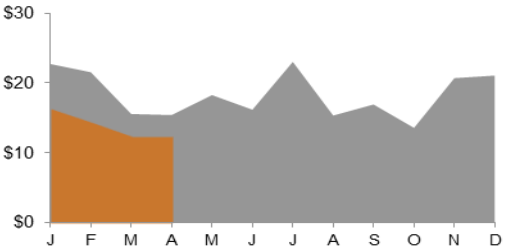
S'MAX TCE 130k WAF-USAC | **MTD Average $11,700/Day** | **Month y/y ▼ -18%**



A'MAX TCE 70k CBS-USG | **MTD Average $15,500/Day** | **Month y/y ▲ +60%**



P'MAX TCE 50k CBS-USAC | **MTD Average $4,000/Day** | **Month y/y ▼ -71%**



MR TCE USG-UKC/ UKC-USAC/USG | **MTD Average $12,400/Day** | **Month y/y ▼ -20%**

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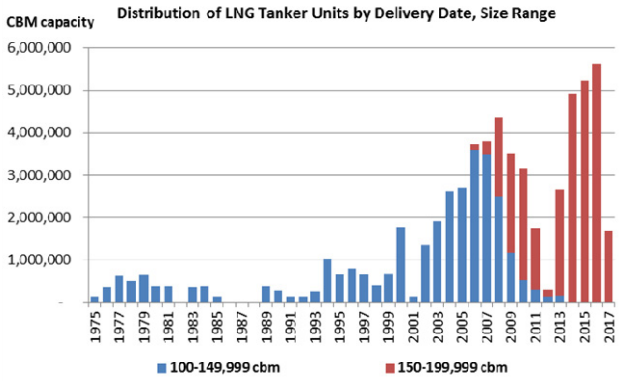
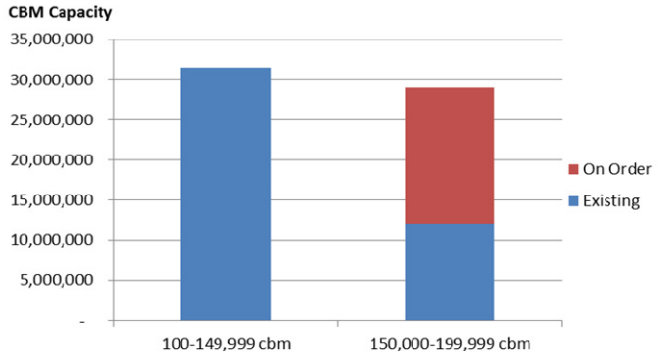
terminal locations are yet to be sorted. Qatar is also in the process of nearly doubling its LNG export capacity to 10.4 Bcf/d while a strong Reserves-to-Production ratio suggests that exports will indeed expand in the coming years. Furthering a long-term positive view on LNG tankers, a large natural gas field off of the East African coast discovered in the early 2010s has been characterized as the world's largest. A consortium of international companies has already agreed to develop Area 1 of the field, off of Mozambique, which has the potential to become the world's largest LNG export hub; exports are slated to commence by 2018.

LNG Fleet/Orderbook Ratio Highly Secular

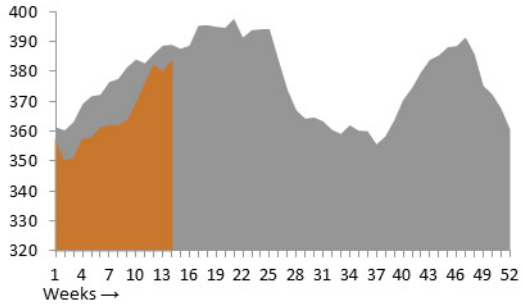
Since the late-2000s, charterer size preference has shifted from the 100-149,999 cbm range to the 150-199,999 cbm range. At present, 21% of the smaller range is aged over 20 years with an average age of 14 years. The last unit delivered in the range was during 2013 (one unit) and no units are on order, illustrating the shifting of interest to the larger range. As the older portion of the smaller range becomes increasingly disadvantaged by charterer preference for greater economies of scale (particularly given the long-haul orientation of LNG exports from the US, Middle East and East Africa), long-term upside should thus materialize for the larger segment.



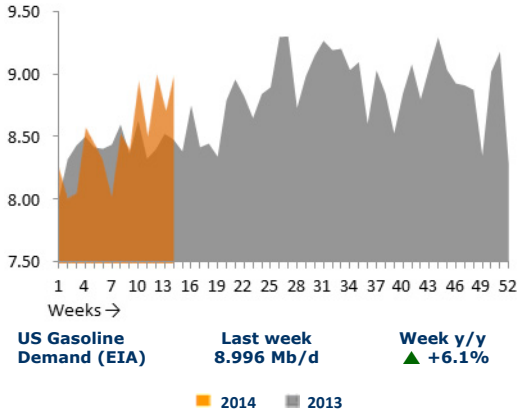
Existing and orderbook capacity in the 150-199,999 cbm range represents 92% of capacity in the 100-159,999 cbm range; suggesting that the smaller range is overbuilt, raising the prospect that owners could progress on phase-out plans amid limited near-term demand growth potential.



Units sized 200,000+ cbm are generally built for specific projects servicing internal programs. Forty-five of these units were delivered between 2007 and 2010 and no units are on order. Given the tailored nature of these units, no forward impact on fundamentals in the 150-159,999 cbm range is expected.



US Crude Stocks (EIA)	Last Week 384.1 Mbbls	Week y/y ▼ -1.2%



US Gasoline Demand (EIA)	Last week 8.996 Mb/d	Week y/y ▲ +6.1%

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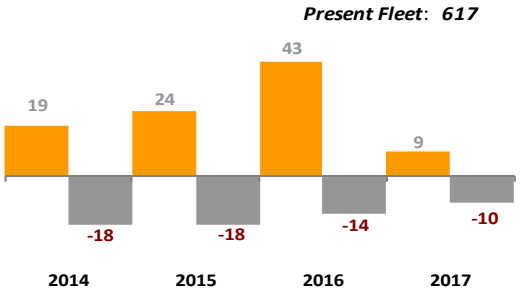
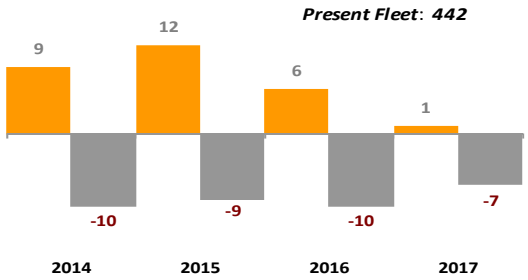
Spot Market	WS/LS	TCE $/day	WS/LS	TCE $/day
VLCC (12 Kts L/11.5 Kts B)	4-Apr		11-Apr	
AG>USG 280k (TD1)	28.0	$3,197	29.0	$4,759
AG>USG/CBS>SPORE/AG	--	$21,288	--	$22,221
AG>SPORE 270k (TD2)	39.0	$17,666	42.0	$21,620
AG>JPN 265k (TD3)	39.0	$17,050	42.0	$21,115
WAFR>USG 260k (TD4)	47.5	$25,864	47.5	$26,048
WAFR>CHINA 260k (TD15)	41.5	$18,074	42.5	$19,642
CBS>SPORE/AG 270k	$3.50m	$20,283	$3.45m	$18,799
SUEZMAX (12 Kts L/11.5 Kts B)				
WAFR>USAC 130k (TD5)	60.0	$13,343	55.0	$10,207
BSEA>MED 135k (TD6)	62.5	$9,881	57.5	$5,694
CBS>USG 150k	63.5	$20,156	55.0	$12,977
AFRAMAX (12.5 Kts L/B)				
N.SEA>UKC 80k (TD7)	90.0	$15,563	100.0	$23,987
AG>SPORE 70k (TD8)	95.0	$17,258	95.0	$17,180
BALT>UKC 100k (TD17)	75.0	$16,219	75.0	$16,114
CBS>USG 70k (TD9)	110.0	$17,330	100.0	$12,011
MED>MED 80k (TD19)	85.0	$12,808	100.0	$21,984
PANAMAX (12.5 Kts L/B)				
CBS>USAC 50k (TD10)	105.0	$3,497	102.5	$2,846
CBS>USG 50k	105.0	$7,800	102.5	$7,020
CONT>USG 55k (TD12)	125.0	$12,494	125.0	$12,571
ECU>USWC 50k	165.0	$19,038	162.5	$17,810
CPP (13.5 Kts L/B)				
CONT>USAC 37k (TC2)	125.0	$9,497	122.5	$8,932
CONT>WAFR 37k	137.5	$11,506	140.0	$12,161
USG>CONT 38k (TC14)	80.0	$1,457	67.5	$(1,512)
USG>CONT/CONT>USAC/USG	--	$13,007	--	$10,308
USG>P.COLORADOS 38k	$475k	$11,908	$390k	$6,057
CBS>USAC 38k (TC3)	97.5	$5,118	95.0	$4,456
AG>JPN 35k	115.0	$7,166	115.0	$7,113
SPORE>JPN 30k (TC4)	115.0	$5,330	117.0	$5,674
AG>JPN 75k (TC1)	97.5	$19,177	95.0	$17,896
AG>JPN 55k (TC5)	106.5	$9,795	95.0	$5,862

Time Charter Market $/day (theoretical)	1 Year	3 Years
VLCC	$24,500	$26,500
Suezmax	$19,250	$22,000
Aframax	$14,500	$17,000
Panamax	$14,750	$16,500
MR	$14,750	$16,000

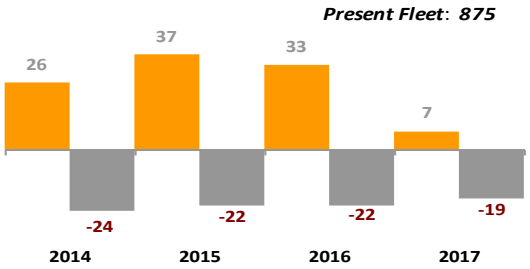
VLCC Projected Deliveries/Removals



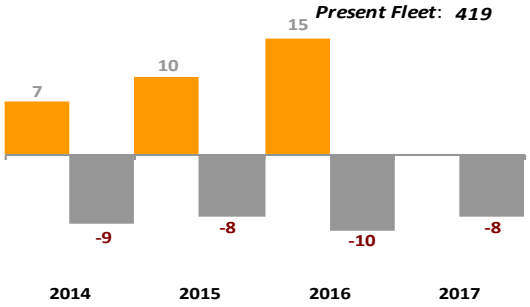
Suezmax Projected Deliveries/Removals



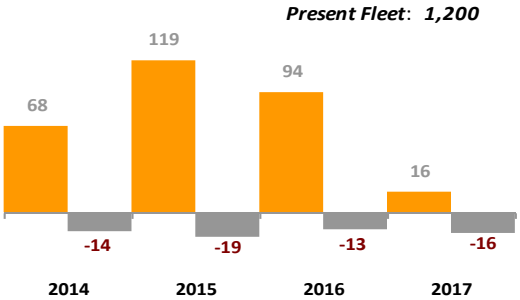
Aframax/LR2 Projected Deliveries/Removals



Panamax/LR1 Projected Deliveries/Removals



MR Projected Deliveries/Removals



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WEBER WEEKLY
TANKER REPORT

THE TANKER MARKETS

VLCC

Rates in the Middle East VLCC experienced fresh gains this week as last week's more active pace maintained pressure through the early part of this week with charterers focusing their attention on April's final decade stems. With owners facing a long list of outstanding cargoes, their increasing bullishness ultimately prompted charterers to take a more patient approach and by mid-week a slowdown revealed a more-than-adequate list of available units to meet demand and effectively halted positive rate progression. The market concludes the week at an effective standoff as a degree of upward pressure remains on the back of outstanding inquiry while an imminent conclusion of the April program with May stems about a week away casts some doubt over the ability for further gains to materialize.

Intermediate term VLCC prospects appear somewhat improved by recent developments in Libya where a force majeure at the port of Harega (110,000 b/d) was lifted following an earlier agreement between rebel groups and the government to end a blockade of exports from Harega and the port of Zueitina (100,000 b/d) in eastern Libya. The ports of Sidra and Ras Lanouf (combined 550,000 b/d) were also part of the agreement and were at the time said to be reopened within a month. While the supplying of full volumes from these ports is likely at least a few months away, the reintroduction of Libya's supply could potentially present a tailwind for VLCCs by reducing West Africa crude supplies bound for Europe and pushing more to points in the Far East. Tempering any prospective corresponding ton-mile demand gains is recent uncertainty over China's economic growth after statistics for March showed a steep decline in both exports and imports. Some analysts, however, pointed to the possibility that distortions in year-earlier data imply positive year-on-year growth last month.

Middle East

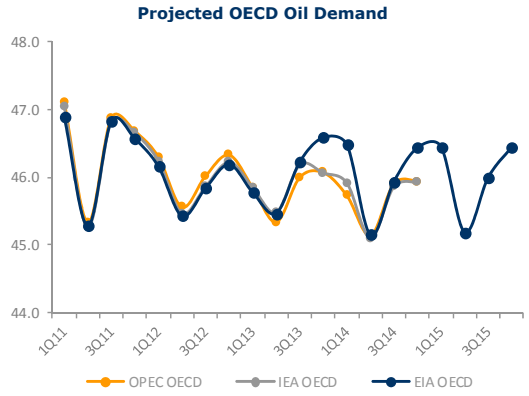
Rates to the Far East gained 3.4 points w/w to an average of ws41.3. Corresponding TCEs gained ~$4,687/day w/w to an average of ~$20,740/day. Rates to the USG via the Cape posted an assessed average of ws29, representing a w/w gain of 1.3 points. Triangulated Westbound trade earnings averaged ~$22,100/day – a w/w gain of ~$1,042/day. With 110 April Middle East cargoes covered to-date, we note that a further 10-12 are likely to materialize through the remainder of the month's program. Against this, some 22 units presently appear on position lists as available through the end of the month, implying a surplus of 10-12 units. As this represents a decline from 17 estimated a week ago to remain uncovered at the conclusion of the program and is in line with the average of 10 observed during 4Q13 and 1Q14, near-term rate downside appears unlikely while further upside will likely be prevented by the pause between April and May programs.

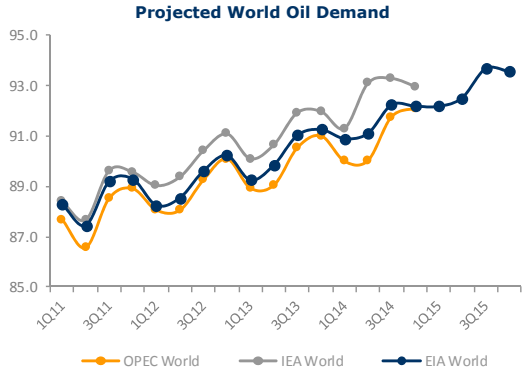
Atlantic Basin

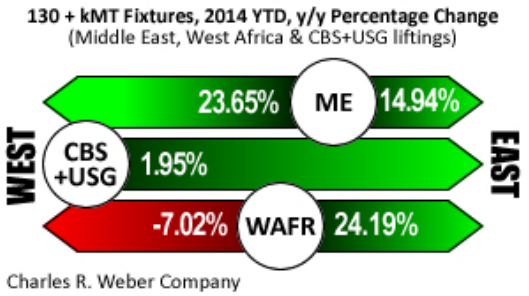
The West Africa market was more active this week with fixture activity gaining 18% on last week to 13 fixtures. No fixtures materialized elsewhere in the Atlantic basin. Rates on the WAFR-FEAST route gained 1.7 points w/w to an average of ws42.2 and corresponding TCEs gained ~$2,352/day to ~$19,086/day – largely in line with the Middle East market. The Caribbean market was inactive as charterers demonstrated greater patience ahead of the May program, using the lull to erode sentiment. The CBS-SPORE route was unchanged at $3.45m lump sum. On a MTD basis, the route has averaged below the 2010-2013 range – largely on the back of a 58% y/y rise in fixtures on the AG-USG route during Q1.

Suezmax

The West Africa Suezmax market was under negative pressure this week with rates on the WAFR-USAC route initially shedding as much as 10 points from last week's closing value of ws60 but ultimately concluding at ws55. Chartering







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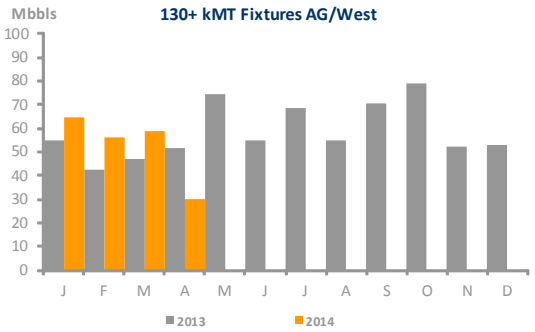
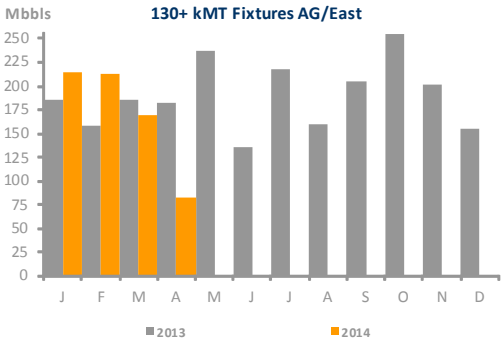
activity was modestly improved with total regional fixtures gaining 18%, w/w, to thirteen. The activity gains came as charterers progressed to end-April stems and as improved West African crude differentials improved, incentivizing greater volumes bound for Europe where refineries are progressing towards the end of seasonal maintenance. A quieter conclusion of the week, however, has eased remaining positive pressure and rates could pare some of this week's gains early next week in the absence of a fresh improvement of demand while an eventual progression to early March dates should limit downside thereafter.



Aframax

At the start of the week, market participants viewed the Caribbean Aframax market as overhyped with a correction being imminent. That correction came, pushing rates on the CBS-USG route from ws110 to as low as ws100. As rates fell, however, the pace of fresh activity gained substantially and allowing owners to command rates in the mid-ws110 range. A drop-off of activity thereafter started to erode sentiment and after initial resistance by some owners, at least one fixture was concluded by the close of the week at ws98. During the upcoming week, the availability of prompt tonnage could see rates remain under negative pressure, though any rate erosion thereof could prove limited if a rush of inquiry materializes ahead of the Easter weekend.

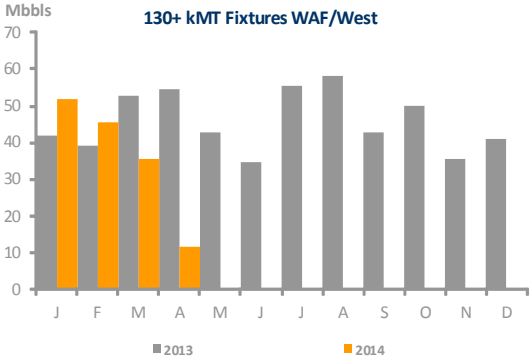


Panamax

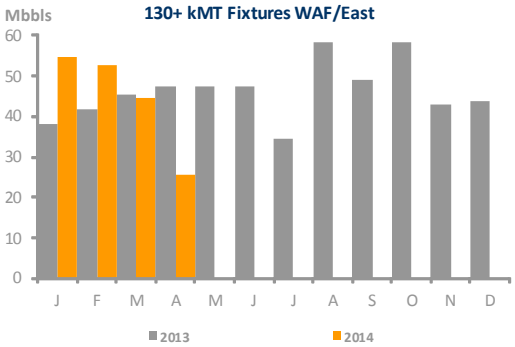
The Caribbean Panamax market was largely flat this week as the absence of substantive demand gains eroded owners' ability to command stronger rates. The CBS-USG route traded around the ws105 level through most of the week though by the close of the week charterers succeeded in achieving lower rates, bringing the closing assessment to ws102.5. Limited upside is expected to materialize during the upcoming week though a rise in inquiry ahead of the holiday weekend could help to prevent downside.

CPP

The USG MR market was quieter this week with a tally of 21 fixtures representing a 30% decline on last week. The number of fixtures for Europe-bound cargoes added one to a total of 5, despite less certain arbitrage opportunity. Voyages to Latin America and the Caribbean gained modestly also from last week but this week's combined total of 11 represents a lower number than the 1Q14 weekly average of 15. Fixtures to other destinations and those for which the intended discharge range has not been identified dropped 74%, w/w, to just five fixtures and thus dragging down total ex-USG activity. With the lull coinciding with the appearance of more units from earlier short-haul voyages to Latin America and points in the Caribbean boosting supply by 14% from a week ago, rates were markedly weaker. The USG-UKC route shed 12.5 points to conclude at ws167.5. Combined with rate erosion in the UKC market, triangulated USG-UKC/UKC-USAC/USG TCE earnings dropped 21% to ~$10,308/day. Rates on the USG-Pozos route shed $85,000 to $390,000 lump sum with corresponding TCEs losing 49% to conclude at ~$6,057/day. Indicative of short-haul regional trades, the degree of weakness on the USG-POZOS route implies a more bearish near-term outlook by owners on the USG market. Given the extent of this week's losses, further downside should be limited assuming activity levels improve at least modestly during the week ahead.



The UKC MR market was more active this week, helping to stem the pace of regional rate erosion. The UKC-USAC route lost 2.5 points to conclude at ws122.5 while the UKC-WAFR route gained to ws140. With refineries progressing towards the end of seasonal maintenance, low West African crude differentials have improved gasoline cracks to their highest level in about nine months, raising the probability of strong refinery utilization rates. This could ultimately keep demand in the UKC market elevated (while hindering a recovery of rates in the USG market as PADD 3 export cargoes remain regionally oriented). During the week ahead, arrivals of more units from USG-UKC voyages will likely counter steady demand to keep ex-UKC rates largely steady.



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REPORTED TANKER SALES

"Venture Spirit" 298,300/03 – Universal Ariake – DH
-Sold for $43.5m to Greek buyers (Navios Maritime Acquisition).

Correction: **"Huelva Spirit"** 160,383/01 – Daewoo – DH
-Sold for $21.0m to undisclosed buyers.

"Forward Venture" 115,567/06 – Sasebo – DH
-Sold for $31.0m to Singaporean buyers (Eastern Pacific), subject to IPO.

"Riga" 68,467/01 – Koyo Dock – DH
-Sold for $9.0m to Greek buyers (Coral Shipping Corp.).

"Eastern Siberian Sea" 47,358/98 – Uljanik – DH
"Laptev Sea" 47,314/98 – Uljanik – DH
-Sold en bloc for $10.0m each to undisclosed buyers.

"Bunga Balsam" 45,612/10 – SLS – DH
"Bunga Bakawali" 45,553/10 – SLS – DH
"Bunga Begonia" 45,479/11 – SLS – DH
"Bunga Banyan" 45,479/11 – SLS – DH
-Sold en bloc for $35.5m each to Emirati buyers (UACC).

"Icdas-11" 19,984/11 – Biga – DH – 1A
"Icdas-09" 19,983/10 – Biga – DH – 1A
-Sold en bloc for $19.0m each to undisclosed buyers.

"Sakarya" 11,258/08 – Tuzla – DH
-Sold en bloc for $14.0m to undisclosed Norwegian buyers.

"Orarikke" 6,450/08 – Rongcheng Ziziakou – DH – 1C
"Orarose" 6,450/08 – Rongcheng Ziziakou – DH – 1C
-Sold en bloc for $10.0m to undisclosed Belgian buyers.

"San Matteo" 5,765/04 – Madenci, TR – DH
"Santa Rita" 2,500/08 – San Giorgio Genoa – DH
"San Francesco" 2,358/09 – San Giorgio Genoa – DH
"Santa Guilia" 1,388/72 – Visentini F&C – SH
-Sold en bloc on private terms to Dutch buyers (Vroon).

"Ayse0S" 5,606/08 – Istanbul SY – DH – 1A
-Sold to Danish buyers (Nordic Tankers) for $13.5m.

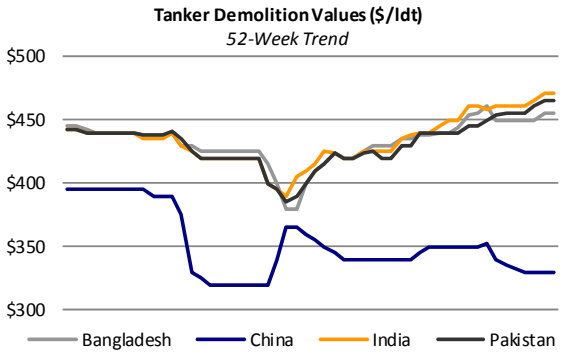
REPORTED TANKER DEMOLITION SALES

Pakistan

FSO **"Southernpec 3"** 281,751/91 – 33,129 LDT – DH
-Sold on private term.

India

OBO **"Perla"** 48,577/88 – 13,650 LDT – SH
-Sold on private terms.



George P. Los,
Senior Market Analyst
Charles R. Weber Research

Charles R. Weber Company, Inc.
Greenwich Office Park Three,
Greenwich, CT 06831
Tel: +1 203 629-2300
Fax: +1 203 629-9103
research@crweber.com
www.crweber.com

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