WEEKLY TANKER REPORT

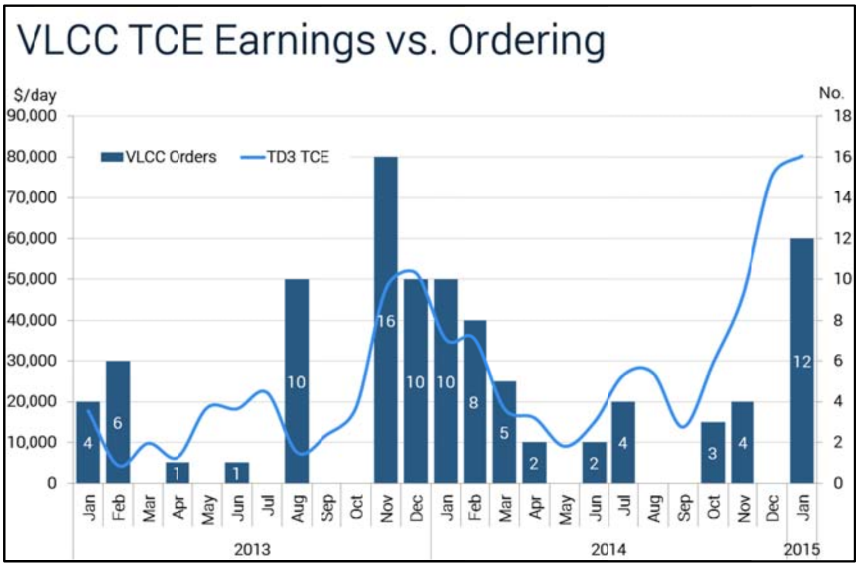
GIBSON SHIPPING ENERGY

13th February 2015

VERY LARGE CRUDE CONTRACTING

With spot VLCC earnings averaging in excess of $50,000/day in the fourth quarter of 2014 and $70,000/day for the year to date, it is little surprise that VLCC orders are once again in focus.

With 12 orders placed in January, the VLCC orderbook has broken through the symbolic 100 mark, standing at 101, or 16% of the existing fleet. In our September 2014 report on VLCC ordering we emphasised the strong correlation between spot market earnings and contracting in recent years. On one hand it was therefore surprising to see no contracting reported in December as earnings hit a 6.5 year high; although on the other hand, one felt investor confidence might have been dented by an already sizeable orderbook. This may well have proved the case initially at least, however even higher earnings in January appear to have focused minds with 12 VLCCs contracted in a single month, versus 38 for the whole of 2013.



Whilst current spot market earnings might have provided the confidence to pull the trigger on orders today, one of course must look further afield to determine if the scale of current ordering is justified. As we move forward in a low oil price environment there are both upside and downside risks which when played out, will provide the answer. In terms of the upside, a persistently lower oil price will discourage investment in higher cost projects, such as deepwater, shale and oil sands which in turn could support demand for US crude imports and Middle East crude exports. However, the downside risk of stronger US crude import demand is less barrels available in the Atlantic Basin for export to the East. Furthermore the addition of 800,000 b/d of refining capacity in the Middle East and Red Sea this year will see more crudes processed domestically at the expense of international exports. In 2017/18, the 400,000 b/d Jazan refinery is expected to come online. Beyond this, as refining capacity in the Middle East stabilises, VLCCs will once again be supported by further growth in crude exports, driven by incremental increases in global oil demand. Perhaps with a long term view, the new wave of orders can be justified.

However, one might argue that the sector is nearing the risk of overinvestment. It seems certain that more VLCCs will be ordered this year and as we reported last week, scrapping activity and FPSO conversions are expected to be lower at the same time. If earnings soften as expected into the second half of the year, we would expect to see contracting decline - if the correlation between spot market earnings and contracting holds true. However the potential for floating storage remains a wildcard which could prompt a repetition of the investment seen in 2010.

Middle East

Party week for many industry players, but that left the VLCC market atmosphere a little flat. February stems have now been almost fixed out, and most Charterers took the opportunity to postpone their March interest until final programmes are finalised from early next week. Rates softened slightly into the high ws 50's to the East, and to under ws 35 to the West via Cape .The trend may continue, but the upcoming Chinese new year provides Owners some hope, at least, that a pre-festivity busy patch could develop. Suezmaxes held a reasonably steady line on early tightness, but the market is moving forward onto better tonnaged positions now, and the current rates of 130,000 by ws 90 East and ws 50 West could become increasingly challenged. Aframaxes found some support to an otherwise softening trend from Red Sea lifting's, but that merely kept the rates to Singapore pegged at 80,000 by ws 115, with a renewed threat to the downside for next week.

West Africa

Suezmaxes fought an initially brave rear-guard action, but there was just too much availability to hold the line, and rates fell off noticeably into the low/mid ws 70's for all Atlantic options. That said, this has now provoked a rash of bargain hunting which, if continued, will allow for some redress. VLCCs kept in lock-step with the Middle East, and operated at, or a bit below, the 260,000 by ws 60 mark to the East with $5.395 million the last paid for a Nigeria/West Coast India run. Busier, perhaps, next week.

Mediterranean

What goes up must(or often) come down....and so Aframaxes, that had shot up 100 ws points, then came back down by nearly the same amount to an average 80,000 by ws 115 Cross Med.

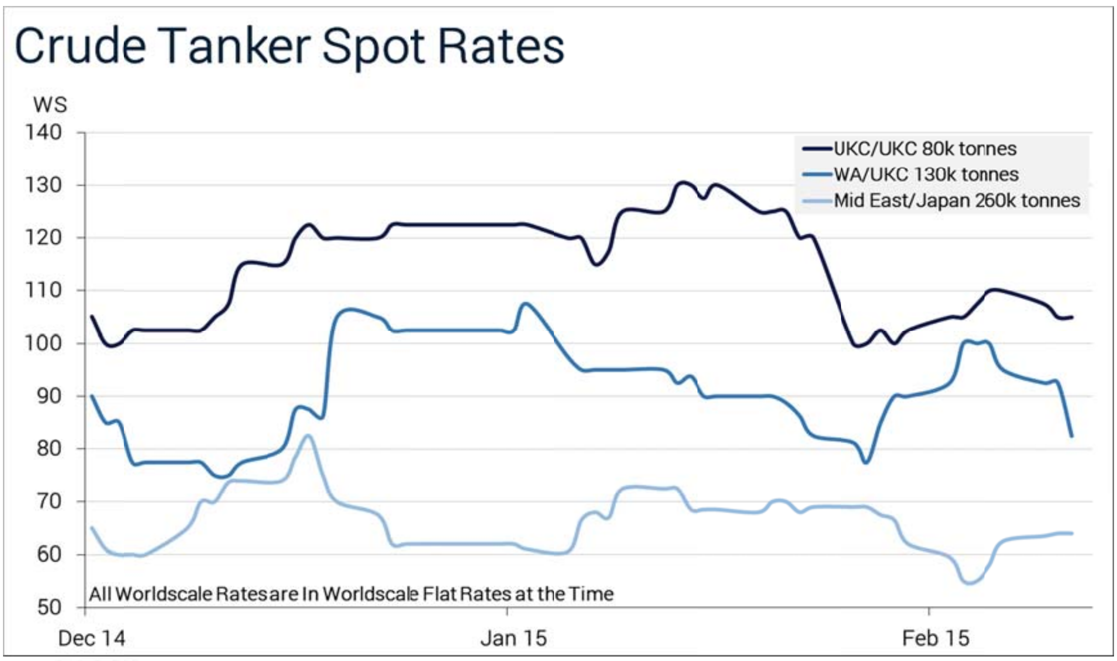
Weather delays are again starting to threaten, and may convert into some ground regained, but another big spike looks unlikely. Suezmaxes moved to the same mood music as West Africa. Fresh enquiry slowed, tonnage built up, and rates slid off to 140,000 by ws 80 from the Black Sea to European destinations and will stay soft until the next serious tranche of fixing interest develops.

Caribbean

Aframaxes had already started to make an upward move late last week, and continued the theme this week to peak at around 70,000 by ws 160 upcoast. All good for now, but as in any short-haul market, it won't be long before the herd move in the opposite direction. VLCCs saw little, but the market remains finely enough balanced to keep rate ideas at no less than $7.4 million to Singapore, and $6.4 million to West Coast India with little early change anticipated.

North Sea

A rather subdued Aframax scene here. Just the bare minimum being concluded, and with less advantage for Owners to de-camp to the Mediterranean too, rates moved off to a sticky 80,000 by ws 100 -ish level Cross UKCont, and 100,000 by ws 90 from the Baltic, with more of the same to come over the near term. Larger sizes doesn't feature much, but ws 72.5 was paid to the US Gulf on Suezmaxes, and $6.3 million was available for fuel oil to Singapore, but candidates are extremely few, and far, between, leaving potential Charterers largely frustrated.



CLEAN PRODUCTS

As the West starts to firm, the East is weaker

East

The LRs are finishing the week at a bit of a low ebb. While some of this would have been as a result of the IP week antics, it's worth noting that more and more of the big AG LR Charterers are now less involved with the London parties then in previous years; refinery turnarounds and Chinese New Year preparations might also be involved. LR2s have slipped to $2.425 million being on subs for AG/West at the time of writing which represents a slip of $75k over the week. 75kt Nap AG/Japan has slipped a little with ws 99 being the last fixed number. LR2 Owners have done well in preventing this slip being more dramatic over the last few days but many would argue that there is enough tonnage to suggest that a more pronounced shift downwards might well be a distinct possibility next week.

LR1s are having a distinctly more torrid time with a lengthier position list and only a few long haul cargoes to mention. The sentiment from Owners is wobbly and rate ideas are being adjusted as a result. 55kt Nap AG/Japan was last fixed at ws 110 but under this level looks like a certainty in the near future. 65kt Jet AG/West has held up relatively well with $1.95 million levels being on subs recently but Charterers will realistically be shooting for $1.9 million levels or less moving forward.

MRs has struggled due to a lack of cargo volume and a lengthening position list, consequently rates have come off dramatically. TC12 has come off 10 points to ws 110, East Africa has also come off 10 points to ws 170 and next done could well be off a further 10 points down from this. AG to the UKC failed subs at $1.64 million, however given the long tonnage list, this run can only be assessed now at a maximum of $1.55 million. AG/Red Sea has plummeted, with $600,000 on subs at the time writing, a drop of over 17% from where the market was assessed on Monday. The shorthaul markets are also wobbling and next done cross AG, Jubail/Jebel Ali for example is expected to be in mid 200's. Looking to the immediate future, further softening can only be expected as the rates continue to be pressurised.

The Far East CPP market has remained fairly quiet on the whole for cargo volume this week, and if there was to be a pre-Chinese New Year rush, we have not seen it yet. In North Asia, the MRs remain flat and slow unfortunately $435,000 is on subs at the time of writing for Korea/Singapore, but this is for a market order cargo, which usually puts a slight premium on market levels (in this case about $10,000). The story is a little different on the LR1s although it has not been raining cargoes, the LR1 tonnage list for Korea remains very tight indeed and Owners are looking to push rates. $560,000 has just failed subjects for Korea/Singapore but some Owners with tonnage in position will fancy themselves to achieve higher levels than this now. The LR2s have seen some increase in long haul cargo activity, particularly in the form of gasoil to West Africa, but still is not quite enough to push actual market levels above $625,000 for Korea/Singapore for now. The Singapore region has also had a quiet time of things this week, and the market is slow to soft, we are lacking enquiry for the long haul routes, and Singapore/Australia would struggle to fetch above 30kt x ws170 levels right now.

Mediterranean

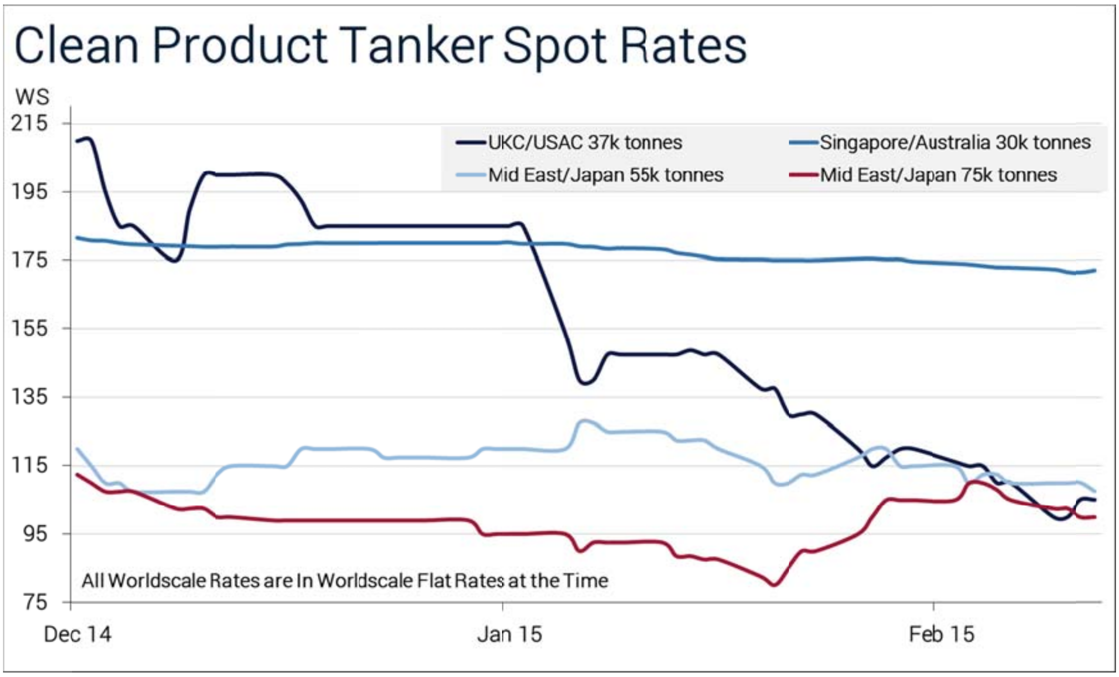
A stop to the rot in the TC6 market this week as rates ultimately bottomed out at around 30kt x ws 135, however at the time of writing, Owners ideas are once more picking up and third decade February stems in the market are being subjected to Owner's ideas around 30kt x ws 137.5 -140 for X-Med and Black Sea loads. In light of this Charterers are sitting on their hands until Monday to see a true reflection of Handy tonnage positions but sentiment does seem more firm. MR positions look very tight with some replacement cargoes cleaning out the prompt positions, with TC2 looking hot, last done is 37kt x ws 105, however we are calling next done 37kt x 110 off the UKC and we expect the Med MRs to follow suit on the back of this weeks activity. For West Africa MRs have been talking around 37kt x ws 125-130 whilst heading East of Suez consider around 850k for the Red Sea range +/- 25k and +100k for the AG on and MR.

UK Continent

Despite a slow start with IP week in full swing, the MRs on the Cont started to show signs of promise by Thursday and a narrowing list is allowing rates to build momentum heading into the weekend. TC2 firms to 37kt x ws 110 levels and with the gasoil arbitrage ex Baltic appearing open expect further upward pressure on rates. West Africa demands a 20 point premium, although needs to be fully tested. The short haul market continues to suffer with Handies and Flexis slipping to 22kt x ws 192.5 and 30 x ws 175 all inclusive. LRs have had another lackluster week with limited fresh enquiry despite to odd sign of life - Cont/West Africa now 60kt x ws 110 and LR2s going East stay flat at $2.4-5 million ex Med. Worth noting however that the LR1 list is balanced and the LR2s quite tight, so it will not take much activity to swing rates back in the Owners favour.

Caribbean

TC14 this week went on a slight rollercoaster ride, as the list tightened on the back of last week's increase in activity and rates firmed up to a peak of 38kt x ws 72.5. However, unfortunately the momentum could not continue and rates softened once again to 38kt x ws 65 levels, with the expectation that last done will fall further. LR1s remain quiet and despite a number of vessels opening they will be looking to ballast to the Cont as rates are stagnating at 60kt x ws 55 levels.



DIRTY PRODUCTS

Handy

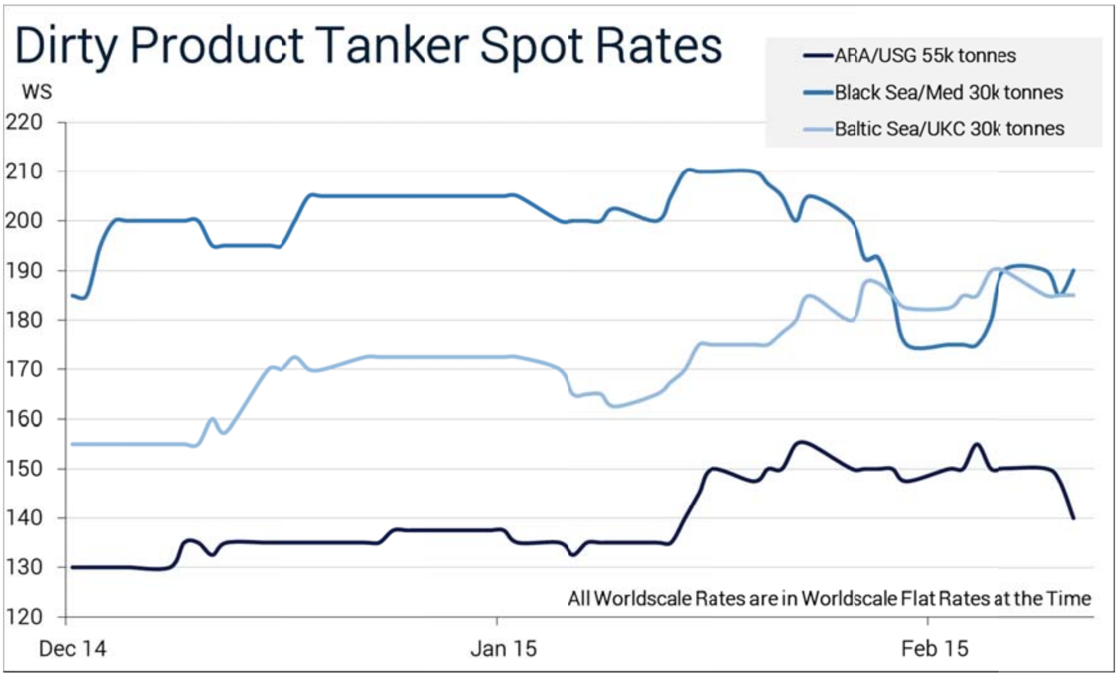
A repetitive theme was expected to have been endured across the Handy sector with the disruption brought around by IP week. As it transpired this was certainly the case in the Continent where inactivity lead to rates falling by around 5 ws points, In the Med however, this was anything but the case!. A flurry of Black Sea activity saw levels rally into the ws 200's with Charterers scrambling for the first ships on firm itineraries. The knock on effect from all of this was that Cross Mediterranean numbers are now also trading firmer, with prevailing conditions expected to continue leading into the end month fixing windows.

MR

Opting to copy and paste the above Handy summary (albeit with changing the applicable numbers) it isn't really in keeping with the spirit of writing a report. However such is the synergies in market behaviour in both the Med and Continent, anyone reading would find hard to argue against. This said however, although the Continent has been quiet, with fewer units in the region just a small amount of activity can make immediate impact on sentiment.

Panamax

This market failed to get going throughout most of the week, where only towards the end stages did we have some excitement in bringing a fresh test of market strength. Inactivity had led to units accrue spot on the lists, and as ever, where this occurs Charterers are usually able to seize the initiative in reducing levels. This week inevitably had shown evidence such example with levels softening, however with the Caribs at time of writing appearing a little more active and few additional ballast units committing to head this way, Charterers need to be careful not to succumb to gaps in availability of approved tonnage.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 12th	Last Week	Last Month	FFA Q1 15
TD3	VLCC	AG-Japan	**+4**	61	57	70	52
TD20	Suezmax	WAF-UKC	**-17**	83	100	92	71
TD7	Aframax	N.Sea-UKC	**-8**	102	110	129	107

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

			wk on wk change	Feb 12th	Last Week	Last Month	FFA Q1 15
TD3	VLCC	AG-Japan	**+4,000**	64,000	60,000	84,250	47,500
TD20	Suezmax	WAF-UKC	**-13,500**	42,750	56,250	53,500	44,000
TD7	Aframax	N.Sea-UKC	**-7,500**	28,750	36,250	54,000	32,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 12th	Last Week	Last Month	FFA Q1 15
TC1	LR2	AG-Japan	**-8**	100	108	88	
TC2	MR - west	UKC-USAC	**-9**	103	112	147	111
TC5	LR1	AG-Japan	**-4**	109	113	121	108
TC7	MR - east	Singapore-EC Aus	**-1**	172	173	176	

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

			wk on wk change	Feb 12th	Last Week	Last Month	FFA Q1 15
TC1	LR2	AG-Japan	**-4,750**	26,750	31,500	24,500	
TC2	MR - west	UKC-USAC	**-2,750**	11,250	14,000	23,500	12,500
TC5	LR1	AG-Japan	**-2,250**	20,750	23,000	27,250	19,750
TC7	MR - east	Singapore-EC Aus	**-1,250**	19,500	20,750	22,500	

(a) based on round voyage economics at 'market' speed

LQM Bunker Price (Rotterdam HSFO 380)	**+20**	303	283	238
LQM Bunker Price (Fujairah 380 HSFO)	**+26**	351	325	278
LQM Bunker Price (Singapore 380 HSFO)	**+32**	352	320	282

RNM/JH/JD/DP/SLK

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