# WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

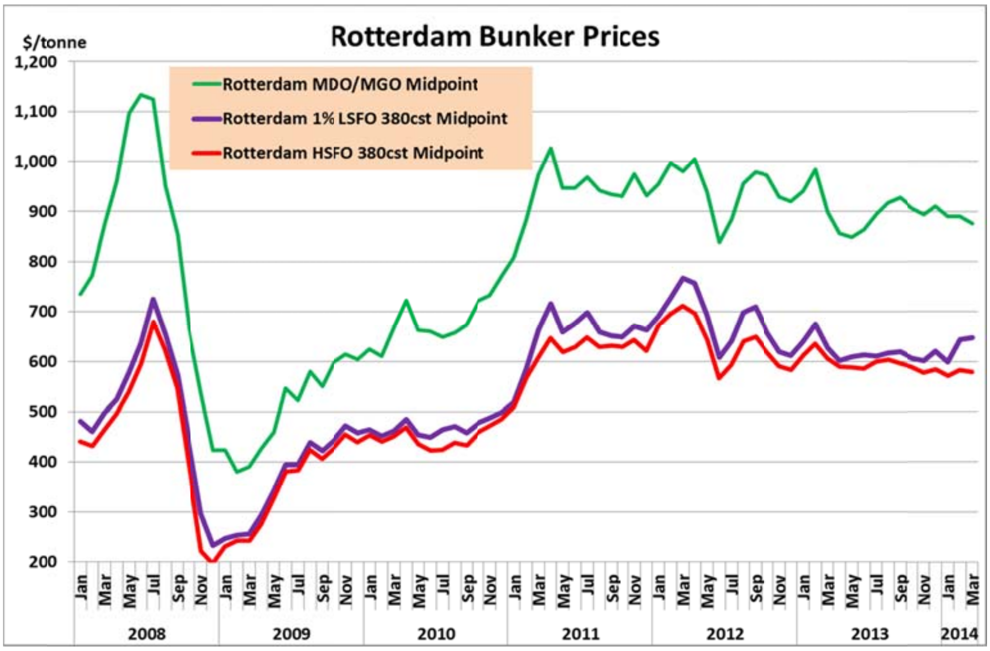
25th April 2014

## LOW SULPHUR – STILL A BURNING ISSUE

Earlier this month the Marine Environmental Protection Committee (MEPC) held its 66th session at the International Maritime Organization (IMO) and delivered the results of their latest deliberations on several issues which will have a significant impact on the whole shipping industry. The MEPC is perhaps the most influential body within the IMO in terms of setting down proposals and the timescales for any impending legislation affecting the whole industry.

Perhaps the most significant area of interest at the IMO is the MEPC consideration of the review of the timing of the implementation of the global sulphur limits. In particular, to determine if there will be enough availability of fuel oil to comply with the standard set out in the regulation. As a result of the latest meeting, the MEPC has agreed to set up a correspondence group to recommend whether the global 0.5% sulphur limit should be implemented in 2020, or deferred to 2025. The correspondence group will report back in October this year, and if its terms of reference are accepted, the study will be set in motion and make recommendations to the IMO in 2017. However, whatever the eventual outcome of any IMO study, the European Union has already fixed the date for their “sulphur directive” in EU territorial waters at 2020 even if there is a delay in the introduction of the 0.5% global sulphur cap. Effectively this will mean that in 2020 a 0.1% permissible sulphur content will apply within the European ECA and 0.5% level in the remaining EU territory.

On the issue of the availability of sufficient low sulphur fuel by 2020, the industry appears divided. A joint UK/Netherlands paper on this subject refers to a refinery analysis which indicates that refining capacity in 2020 will exceed demand for low sulphur fuels which will reduce the price. However, another industry expert recently said that refiners are being constrained by the lack of upgrading in Europe, minimal upgrading in the US and the possibility of delays in the new Middle East capacity. This may indicate a significant price differential within different bunkering regions and more product would require shipment to the areas of requirement. This scenario could put further pressure on supply and increase the fuel prices. The average HSFO fuel price in Rotterdam averaged $598/tonne in 2013. MGO prices were 30% higher at just over $900/tonne during the same period. Whatever the outcome of the IMO deliberations, the industry eagerly awaits more clarity as to what the long term global policy will be as many key investment decisions hang on the results of the MEPC recommendations.



# CRUDE

## Middle East

A steady, but uninspiring, cargo flow before, and after, the Easter holidays was never enough to invigorate the VLCC market, and with seemingly good onward availability, Owners face another week of defensive operations. Rates eased to as low as w36.5 to the East with the average dipping below the ws 40 mark. Little moved to the West, but in theory levels stand at around ws 28 via Cape. Suezmaxes saw more cargo volatility but the wealth of tonnage prevented that from converting into any rate gain and the market continued to operate in the low ws 60's East and low ws 30's to the West as a consequence. Aframaxes failed to hook onto a more active far Eastern scene, but could push above the present 80,000 by ws 95/97.5 level to Singapore if that situation continues through next week.

## West Africa

An elongated slow patch in the Suezmax sector pressured Owners into accepting down to 130,000 by ws 52.5 US Gulf, ws 55 Europe. Thereafter a bout of bargain hunting stopped further rot, but also proved insufficient to promote a rebound. Next week, perhaps.. perhaps. VLCCs were gently cherry-picked, but that merely resulted in rates easing to the bottom end of their recent rate range with 260,000 by ws 41.5 the last seen to the East and just below US$ 3 million available for West Coast India.

## Mediterranean

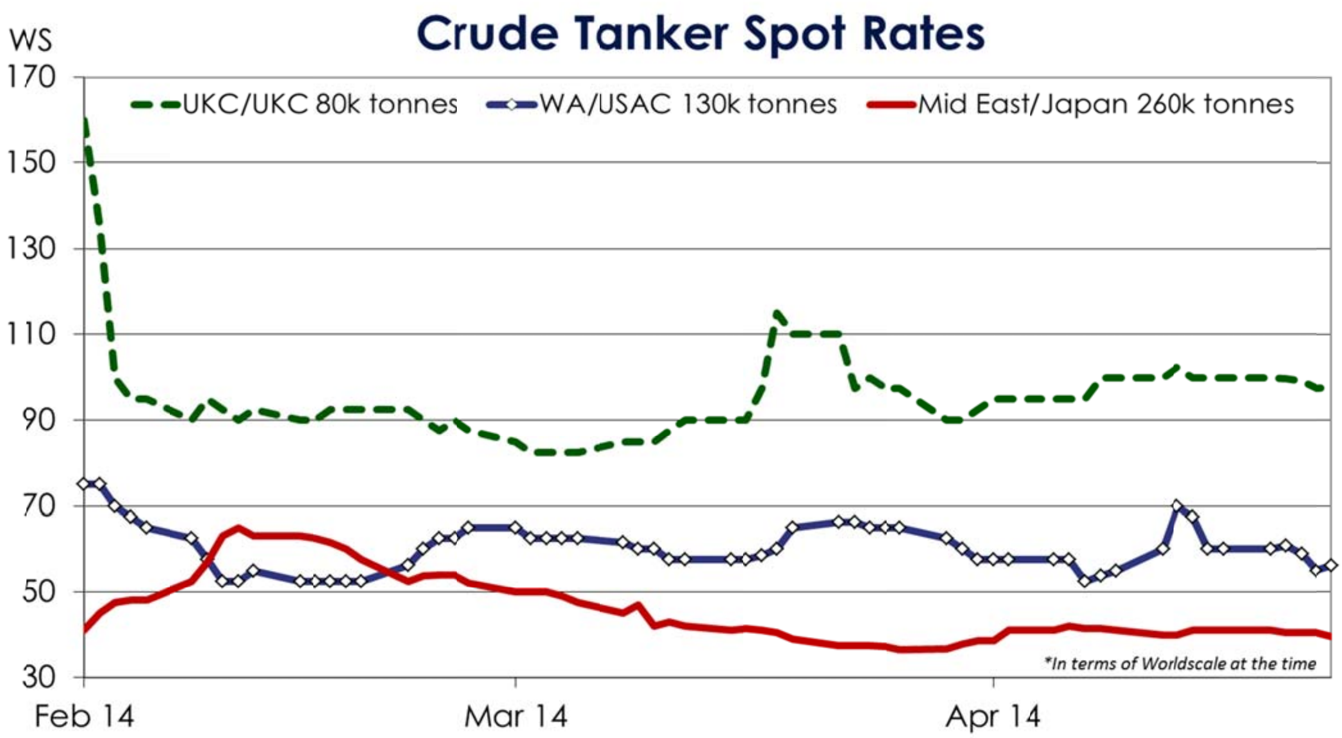
Initially 'up', but then down once again after the holidays for Aframaxes here.80,000 by ws 87.5 Cross Med is now in Charterers' sights, and it will take some time for the current malaise to unwind. Suezmaxes drifted sideways, and then also downwards, as the week progressed with 140,000 by ws 55 concluded from the Black Sea to European options and US$2.15 million paid for a run to West Coast India, and it's nothing more than hope for Owners to cling onto for the near term, at least.

## Caribbean

Aframaxes resisted, but eventually crumbled to 70,000 by ws 90 upcoast, and look set to stay upon the defensive for next week's campaign, unless bad weather again comes to their aid. VLCCs remained in over-supply but Owners were stubborn enough to prevent rates from falling below US$3.5 million to Singapore and US$ 3 million to West Coast India with little early change forecast.

## North Sea

Steady demand, but steady supply too, resulted in Aframax rates staying close to 80,000 by ws 95 Cross UK Cont and down to 100,000 by ws 72.5 from the Baltic, though tea-leaf readers are now expecting a slightly lower rate range to become in vogue next week. Suezmaxes saw very little but estimated at 135,000 by ws 52.5 for US Gulf. VLCCs also struggled to find partners but a rare deal was recorded at a lower US$3.50 million for Fuel Oil to Singapore.



# CLEAN PRODUCTS

## East

LRs have had a mixed week with a swift recovery on LR1s but a decline in LR2s. Lr1s ended last week in doom and gloom but have quickly moved back up with 55,000 mt Naphtha Ag/Japan now at w95 and 65,000 mt Jet AG/UKC at US$1.75 million. By contrast LR2s saw rates drop off slightly with a weaker start after the holiday. 75,000 mt Naphtha AG/Japan is now down to w83 and 90,000mt Jet AG/UKC is at US$2.15million. Rates should now level out with enough activity to leave lists fairly balanced.

The MRs have seen rates fall through the floor this week, even though there have been a decent levels of activity, this hasn't prevented wholesale weakening. TC12 is down to ws 110 and next done will surely be lower. East Africa has come off 10 points to ws 170 and Charterers will be looking for further discounts. AG to the UKC has been tested and is now just below US$ 1.4 mill, with US$ 1.395 on subs twice. There may not too much downside in this route, as the western markets are very weak, so owners will not be willing cheap levels to fix into a poor market. The shorthauls have ticked over, but rates are falling, with sub US$ 200k on subs for a Cross-AG, thankfully the competition from LR1s has diminished, but this week has seen a surplus of MR tonnage, which has been the root cause of the falling market.

Despite a quiet start to the week following the Easter weekend, North Asia has picked up somewhat and is looking slightly tighter on the MRs, particularly off prompt dates, and some charterers have had difficulty finding tonnage for their requirements. MRs should now fix for South Korea/Singapore at around the US$ 475K mark there may be more increase on this next week, but with the holidays looming at the beginning of May, any rate increases are in danger of being quickly quelled. LR1s South Korea/Singapore should fix at US$ 510-520K levels and LR2s at about US$ 550K. The situation in Singapore remains unchanged with short haul requirements keep the market stable without clearing tonnage in the long term Singapore/Australia remains unchanged at 35kt x ws150-155 levels.

## Mediterranean

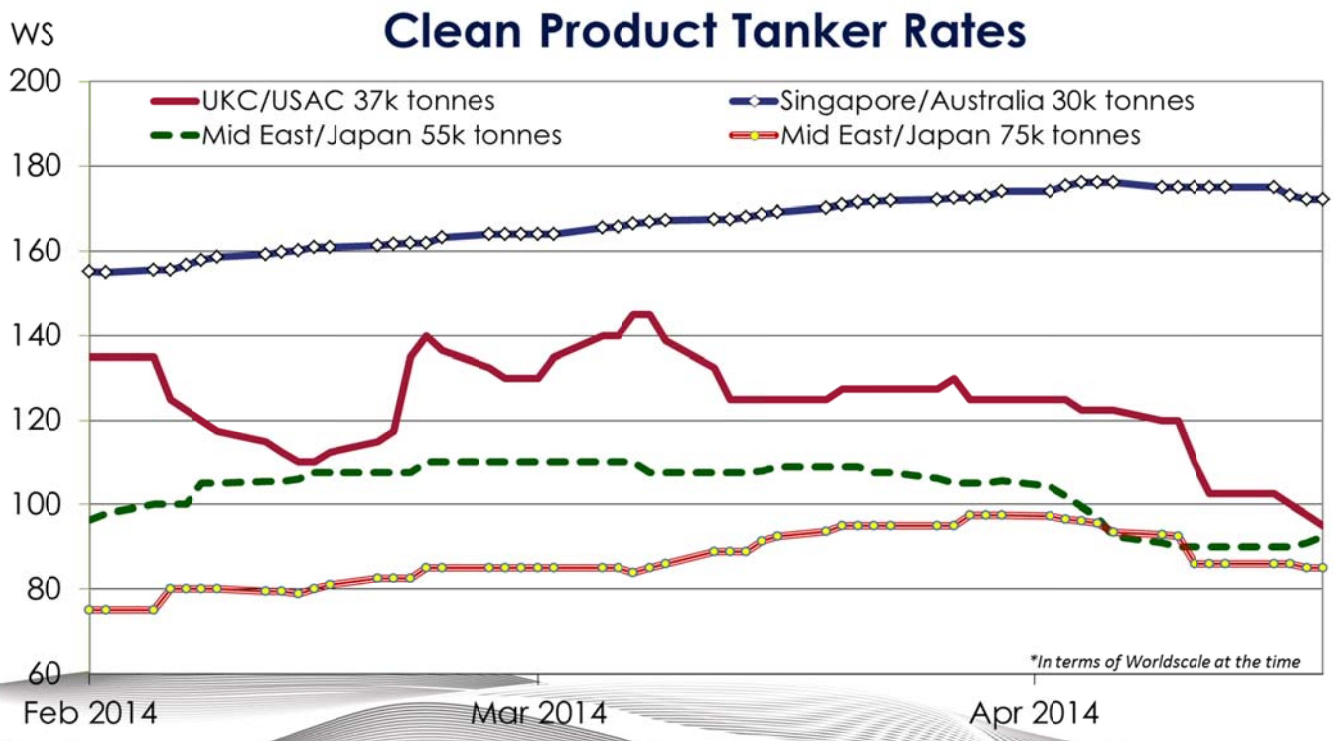
The Mediterranean market continues to falter, well approved tonnage available for Cross Med / Black Sea loads with no pressure on dates, very little outstanding before early May. MRs on the continent continue to take a hammering with 37 x ws 92.5-95 levels deemed the market and we would expect longhaul movements ex Med to trade in line whilst for West Africa we deem the market 37 x 110. For East of Suez options 850k ish for the Red Sea basis Jeddah is achievable, plenty of candidates willing that direction, for the AG around a million.

## UK Continent

An extremely busy week for the MR's in the end. The short week started with some 10 ppt MR's on the list, and very little enquiry. Mid week became busy, but freight prices for TC2 were still depressed (fixing down to 37x90) but market now seems to have settled 37 x ws 95. Continent/West Africa has been fixing 37 x 110 levels for approved tonnage. Handies have and continue to suffer, 30 x 145 and weak. Flexi's been trading sideways 22 x ws 185. LR1's steady 60 x 90. We saw some interest for LR2 NAP UKC / Far East - Owners ideas around 2.5m to Japan.

## Caribbean

The Caribbean market has had a slow start after Easter. Tc14 is trading 38 x ws 72.5. Caribbean Sea up is currently 38 x ws 90. We have seen USG / Brazil at 38 x 122.5.



# DIRTY PRODUCTS

## Handy

In the North Owners will lament missed opportunity where in spite of a negative correction, momentary initiative was presented with increased desire from Charterers securing tonnage willing UKC / Med voyages. In a region that for a while now is thought to be somewhat under populated (where tonnage had previously been fixed away from the area and failed to return), additions units exiting the region could have provided the rest with a little more leverage in enforcing their ideas onto the market. Alas, with subsequent failing Ships remain PPT! Any subsequent change in momentum for the moment looks unlikely.

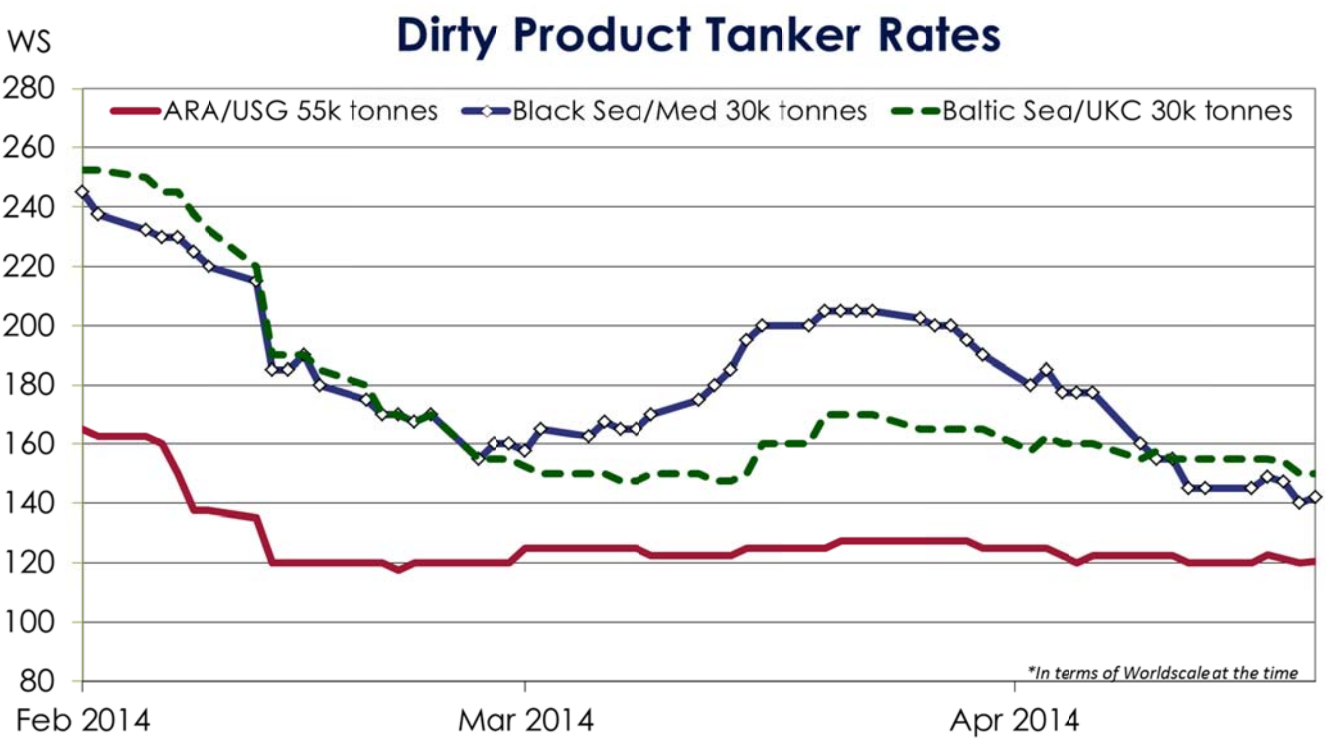
Med:
Optimism quickly turning into despair probably fits the mood over at many an owner's office this week as coming back from an extended break, expectation began to build of a cargo serge, making up for the lack of enquiry pre-Easter. With a lengthened tonnage however not enough requirement was seen to keen everyone happy, which in turn promoted fiercer competition for what was on offer. Little surprise there for to see levels dropping but some 15 points week on week.

## MR

With general trend in surround markets lacking any real momentum, MRs in the continent have had an advantageous trump card to play! As with so few units operating owners have been able aspirate levels even during periods of inactivity. This week however, the region has finally succumb to negative impact, measurable by around 5-10 WS points. Charterers however will need to proceed with caution as volatility can be seen just as easily to their detriment. Elsewhere Owners in the Med have had to fight it out for part cargo employment or face new market lows touching 45/117.5.

## Panamax

Trading somewhat flat we can report that rates have been freshly tested through the week in the North, and with supply meeting demand Ws 120-122.5 would be a fair reflection of trading conditions. It was the Mediterranean though that provided us with sparks of volatility as fixing levels sub WS 110 began to circulate. This number now very much in the spotlight Charterers going forward will be looking to have this set a conference rate, In this region it does look like Owner's face a stern test.



## Dirty Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | Apr 24th | Last Week | Last Month | FFA Q2 14 |
|---|---|---|---|---|---|---|---|
| **TD3** | VLCC | AG-Japan | **-1** | 40 | 41 | 41 | 42 |
| **TD5** | Suezmax | WAF-USAC | **-5** | 56 | 61 | 61 | 59 |
| **TD7** | Aframax | N.Sea-UKC | **-2** | 98 | 100 | 111 | 96 |

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

| | | | wk on wk change | Apr 24th | Last Week | Last Month | FFA Q2 14 |
|---|---|---|---|---|---|---|---|
| **TD3** | VLCC | AG-Japan | **-1,000** | 16,500 | 17,500 | 16,250 | 18,750 |
| **TD5** | Suezmax | WAF-USAC | **-3,500** | 11,750 | 15,250 | 14,500 | 13,750 |
| **TD7** | Aframax | N.Sea-UKC | **-1,500** | 14,000 | 15,500 | 22,250 | 12,500 |

## Clean Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | Apr 24th | Last Week | Last Month | FFA Q2 14 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **-1** | 85 | 86 | 89 | |
| **TC2** | MR - west | UKC-USAC | **-14** | 93 | 107 | 125 | 108 |
| **TC5** | LR1 | AG-Japan | **+3** | 92 | 89 | 110 | 98 |
| **TC7** | MR - east | Singapore-EC Aus | **-3** | 172 | 175 | 169 | |

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

| | | | wk on wk change | Apr 24th | Last Week | Last Month | FFA Q2 14 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **-500** | 11,250 | 11,750 | 12,750 | |
| **TC2** | MR - west | UKC-USAC | **-3,000** | 2,500 | 5,500 | 9,000 | 5,500 |
| **TC5** | LR1 | AG-Japan | **+1,000** | 8,500 | 7,500 | 13,000 | 10,250 |
| **TC7** | MR - east | Singapore-EC Aus | **-500** | 12,750 | 13,250 | 12,000 | |

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

| | | | | |
|---|---|---|---|---|
| LQM Bunker Price (Rotterdam HSFO 380) | **+2** | 582.5 | 580.5 | 575.5 |
| LQM Bunker Price (Fujairah 380 HSFO) | **-2** | 597.5 | 599.5 | 606.5 |
| LQM Bunker Price (Singapore 380 HSFO) | **-2** | 587 | 588.5 | 594 |

PAT/JCH/TP/JT/slk

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