WEEKLY TANKER REPORT

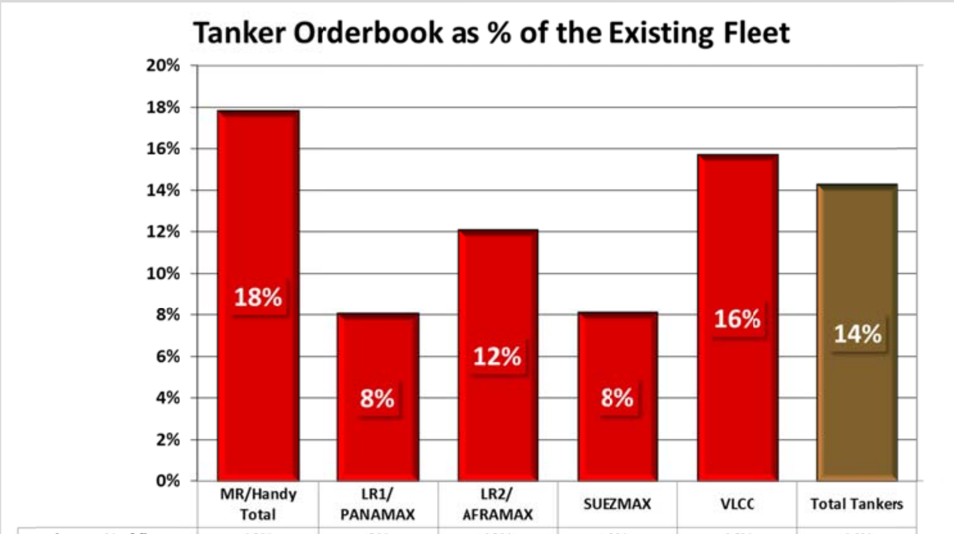
GIBSON SHIPPING ENERGY

2nd May 2014

TANKER ORDERS BACK INTO THE SPOTLIGHT

Last year the tanker industry witnessed a surge in new tonnage investment. Despite tanker returns remaining for most of 2013 at depressed levels, ordering activity reached its highest level in six years, over 350 tanker orders placed. This in part was "helped" by asset prices for most tanker categories declining in the 1st half of 2013 to their lowest level since 2004. Investment was almost entirely focused on three segments – MRs, LR2s and VLCCs. Ordering activity was particularly strong in the MR/Handy size group, with 227 ships added to the orderbook in 2013 (the third highest annual number on record), this follows 115 ordered in 2012. In the LR2 category, 66 ships were ordered last year, also the third highest number on record. Strong ordering activity for MRs and LR2s was for large part driven by strong positive sentiment in the product tanker market, as the expectations are for large scale increases in demand due to the expanding refinery profile in the Middle East.

New VLCC investment was also strong last year, with 50 vessels ordered, the highest number since 2010. This trend has continued in 2014, with a total of 28 VLCCs ordered to date. As a result, the VLCC orderbook as a percentage of existing fleet has increased from 12% at the start of 2013 to 16% currently. It is perhaps surprising to see such strong investment in new VLCC tonnage, as the same refinery developments in the Middle East will mean more crude barrels heading into domestic refining at expense of international exports, with negative implications for VLCC demand. However, orders both in 2013 and this year to date mainly came through between November and February, when VLCC earnings spiked to their highest level since 2010, boosting owners' hopes of the recovery in the market. In addition, most of the recent orders are for delivery in 2016/17, near the time when the incremental barrel from the Middle East is expected to revert from products back to crude.



	MR/Handy Total	LR1/ PANAMAX	LR2/ AFRAMAX	SUEZMAX	VLCC	Total Tankers
orders as % of fleet	18%	8%	12%	8%	16%	14%
On Order	336	35	111	39	99	620
Existing Fleet Feb 2013	1,884	434	917	479	630	4,344

In contrast to VLCCs, ordering activity for LR2s and MRs has slowed down markedly this year, with just 14 and 7 orders respectively in each size group. This is welcome news, particularly for the MR/Handy segment, where the orderbook has swelled from 10% in early 2013 to 18% currently. The growth in the MR/Handy fleet has slowed down notably over the past two years to around 2% p.a. compared to average annual growth of around 8% between 2004 and 2010. However, the recent surge in orders means that the gains in fleet supply are going to accelerate once again in the near term, putting at risk prospects for recovery in tanker earnings.

Middle East

Another week where holidays bring further disruption to a market where Owners are already fixing just above opex. Rates for Eastern destinations have settled at around 270,000mt x ws38.5 and to the West last done was seen fixing 280,000mt x ws25 via the Suez Canal for Canada. Suezmaxes continue to fight the mundanity of the market as tonnage outweighs inquiry and with that rates will remain unchanged at 135 x w62.5 for East and 135 x w32.5 West. Aframaxes have a steady stream of business off early dates in the AG and this has thinned out the list on that position, so there will be premiums, but anything reaching out to later dates may still be able to achieve 80 x w95 for east, but there is now a slightly firmer sentiment that hasn't been seen for a while, so we will see as to whether Owners can sustain it.

West Africa

Disappointingly rates which appeared to be bumping along the bottom fell a little more. Over the week we saw Ws 57.5 slip to Ws 55 and then slide to Ws 52.5 for UKC Med options. Suezmaxes ballasting in from the East had little option but to fix and thus gave Charterers a steady stream of fixing candidates. Dates now moving into the 25-30 May window. Limited VLCC activity here has given Charterers every opportunity to pressure Owners into lowering their ideas, combined with the faltering Middle East market Owners have little ammunition to fight with to even maintain last done levels. Present rates to the far East are around 260,000 x ws40.5 and just above US$3 million for East Coast India was seen.

Mediterranean

A non-event of a week for the Mediterranean and Black Sea Aframax markets. Although Owners did their best to hide excess tonnage it was clear to see that as soon as one ship was fixed, at least another one appeared. This, coupled with the insignificant amount of activity in the shortened week, has seen rates drop from high ws80's down to ws77.5-80 levels for Black Sea/Med and Cross-Med voyages. Little change is expected especially with the bank holiday approaching for London.

Generally a slower week with the May Day holiday failing to inject any urgency into a lack lustre Suezmax market. Although rates have slipped ws2.5-ws5 points it could have been worse ironically if more cargoes had of been quoted. There is little to encourage vessels to ballast out of the Med either at this time as West Africa rates have also weakened and the prospects of losing more money over a long voyage are hardly appealing.

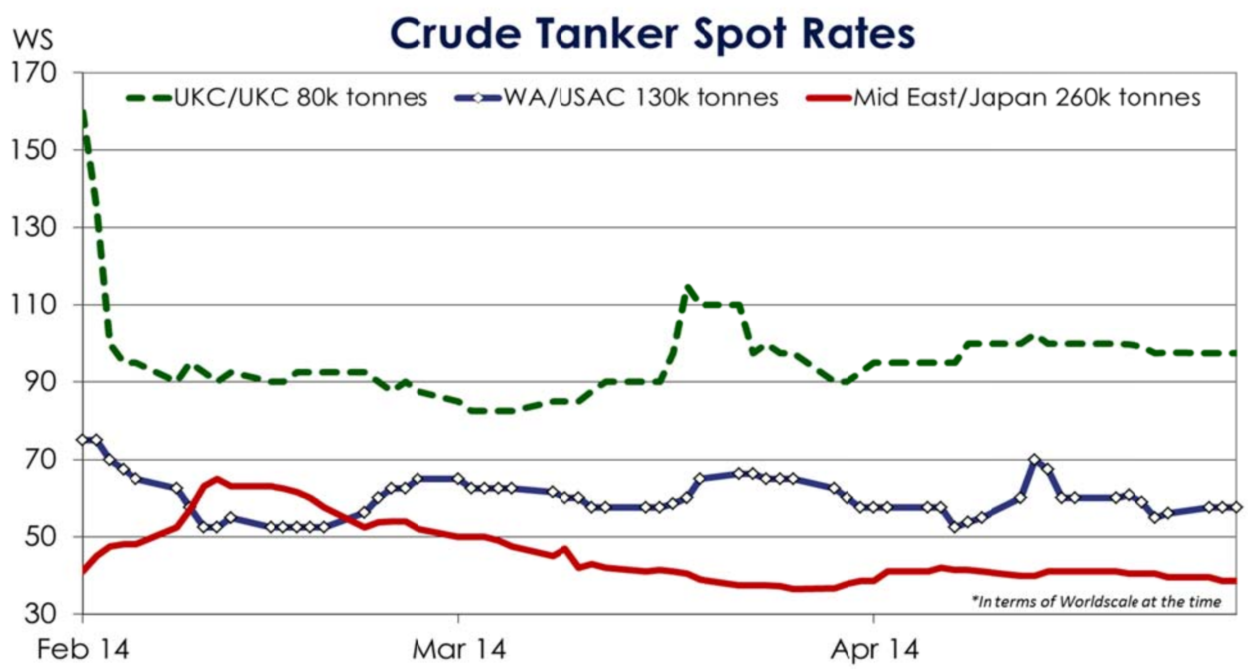
Caribbean

A surprise turn around in fortunes for Aframaxes here, as replacement cargoes took the slack of tonnage available giving Owners the chance to regain some lost ground. Present levels are around 70,000mt x ws 110 for the milk run of Caribbean/up coast. VLCC interest has remained out of the spot light this week putting pressure on last done levels of US$3.5 million to Singapore and just below US$3 million to West Coast India.

North Sea

A busy week for Aframaxes in the North with a large amount of fixing seen. However, rates continued their slide at the start of the week due to the overhang of tonnage, going down to as low as 100,000 by ws67.5 for Baltic/UKC voyages. Once the list thinned out rates began to readjust moving upwards seeing levels at 100,000 by ws75. The North saw a raft of replacement business due to delays in Rotterdam causing issue however a rate rise is yet to be realised for cross North Sea with levels currently 80,000 by ws95.

As the Arb market starts to show signs of opening here we can expect to see some increased VI activity. Last done was noted at US$3.5 million with port costs for Owners account but with enough tonnage to cover the potential demand its hard to see Owners getting the upper hand.



CLEAN PRODUCTS

East

The LR market has seen a turn around this week with LR1s continuing their recovery and LR2 lists starting to thin out. 75,000 mt Naphtha AG/Japan is hitting bottom around w80 and 90,000 mt Jet AG/UKC at US$2.15 million, but rates look set to bounce slightly back up with shorter lists and more activity. 55,000 mt Naphtha Ag/Japan is back over w100 again with w102.5 last done. 65,000 mt Jet AG/UKC is now up to US$1.85 million and may see more added in the coming week. Holidays as ever are coming at the wrong time for Owners but some momentum is likely to be held through to next week.

MRs began the week quietly, but are finishing in much more promising position. TC12 is assessed at ws 110, but next there has not been that much volume moving on this route, next could be higher. East Africa is ws 170 and most likely similar levels remain available. AG to the UKC is US$ 1.4 Million, but finding ship willing to reposition into a weaker West markets, is no easy task. The main excitement is on teh shorthauls and Red Sea runs, with these firming, Owners are now willing just under US$ 700k for Gizan and US$ 265k is on subs for Iraq runs. The sentiment is much stronger at the week's end, meaning Owners will be pushing at next week's commencement.

The North Asia freight market has been treading water this week and it appears that the downward pressure on rates has abated for time being. MR stems for S. Korea / Singapore have levelled off to US$480k, LR1s US$ 510k with LR2s around 550k mark. Looking further down the road into mid-May dates the prospects for MR Owners look brighter as a few more cargoes have entered the market on these dates. The LRs have had mixed fortunes with some Owners unable to secure cargoes being forced to ballast back towards Singapore, rates are under pressure. There has been some cargo activity into Australia where rates have been trading in the 30 x ws 165-170 range steadily all week. Looking forward into next week we do not expect rates to vary too much from what has been established as the conference rates for this week.

Mediterranean

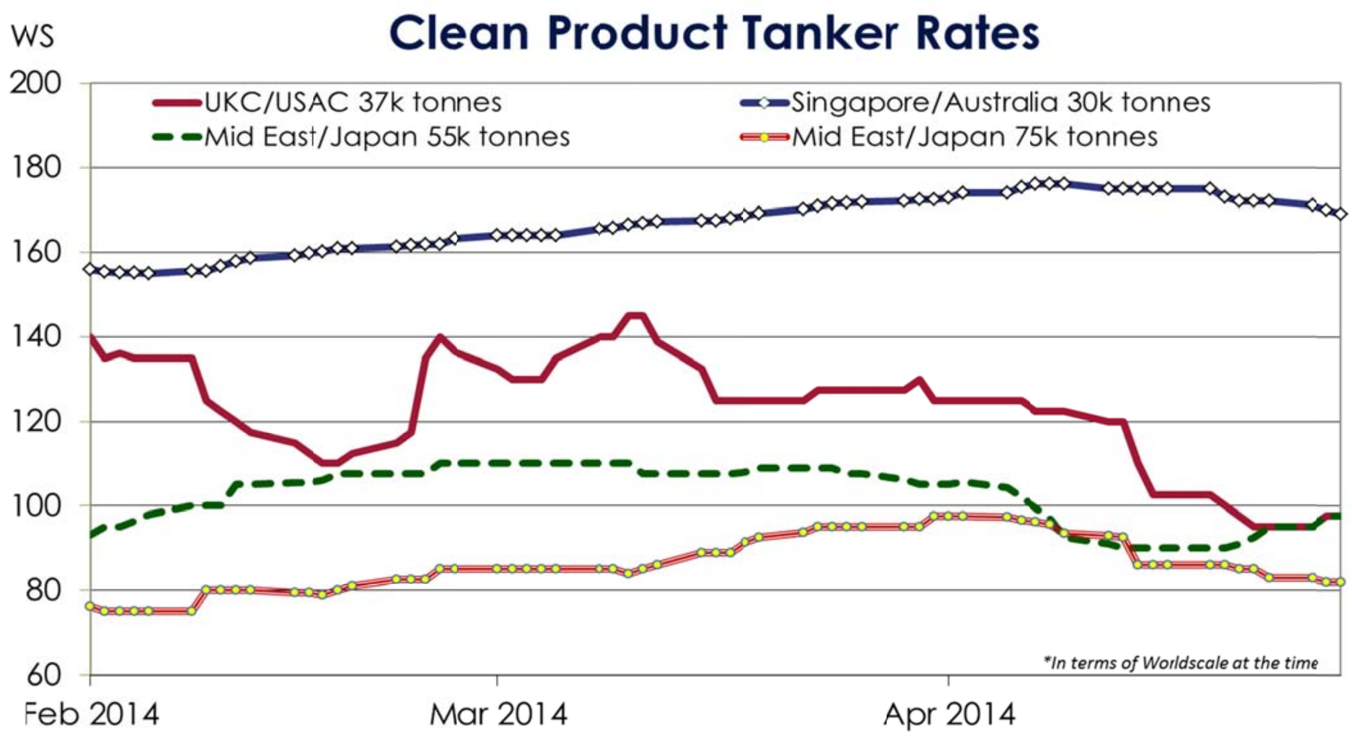
The market enjoyed a fairly active start to the week for handys and MRs in the Mediterranean which has kept tonnage list from snowballing to the kind of lengths we saw a few weeks ago. However, even with a narrower pool of tonnage enquiry levels haven't been sufficient for the market to improve and rates traded sideways at 30 x ws 115 for black sea and cross med voyages. Available MRs tonnage has remained on the long side, but the UK Cont market saw some action with rates firming to 37 x WS 105 TA and we would consider it to be the same now from the Mediterranean. Last done to West Africa is 37 x WS 110, but now likely to be pushing 37 x ws 115-120. Some interest for ums/gasoil fixing east to the Red Sea, with market considered US$ 850k level into the Red Sea on an MR basis a central Med load and US$ 1.0m for AG discharge.

UK Continent

The TC2 list got quite tight towards the end of the week, trading up to 37 x ws 105. Cont/West Africa is largely untested this week on the MR's, owners talking 37 x ws 115-120 for approved tonnage. Handies cross continent have suffered a very slow week, and with tonnage building, freight prices fell to 30 x 130 and flexis 22 x177.5 . LR1's enjoyed steady activity this week Cont/West Africa traded up to 60 x ws 97.5 with some owners talking 60 x ws 100. LR2's were being paid 2.55m Baltic / Japan Naphtha.

Caribbean

A busy US market this week ensured TC14 rates firmed to 38 x ws 80. On top of the typical USG activity, this week saw several TA movements from the USAC help to clear the list and an up tick in rates finally materialised. South America runs trade sideways this week, although the Caribbean Sea up to USAC has started to show signs of life and firms to WS 100.



DIRTY PRODUCTS

Handy

In a merry go round type cycle the North witnesses trading patterns now reflecting conditions similar to those seen upon Monday opening. Slow to get started, lack of opportunity quickly tuned into negative pressure with Charterers relishing such opportunity to at least momentarily adjust rates sub of the WS 140 mark. The real spark to the week occurred in a late fixing really just before most of Europe departed for the May Day bank holiday where Increments up to 147.5 were seen, however at time of writing, almost all activity has ceased. London Being off on Monday Owners will again face the same battle with competition for possible employment intensifying.

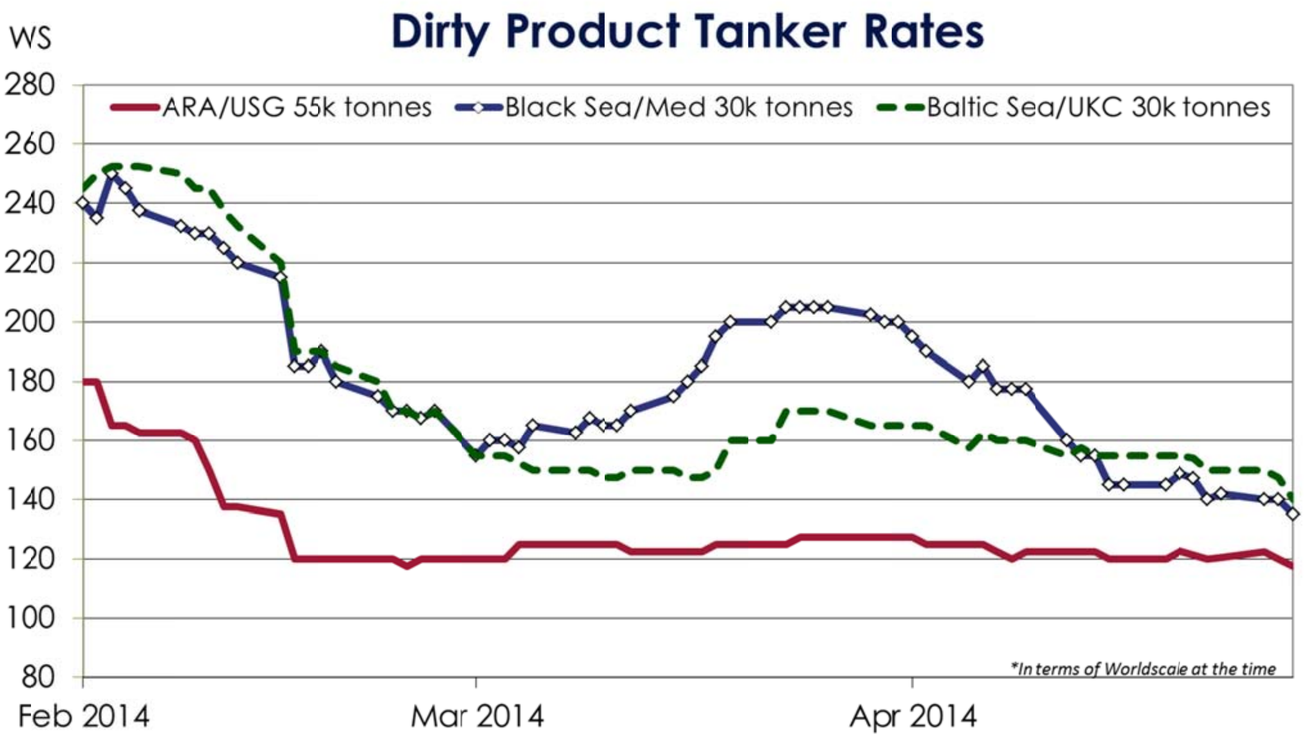
Wirth market parameters set out in a similar fashion to that of the continent, Owners were under no illusion that the week would consist of just three main days of trading. Much to owners delight, Tuesday / Wednesday failed not to disappoint and by doing so, rates traded in a sideways direction.. Early next week however, there will of course be a couple of units under increased pressure to get fixed on that could throw a few anomalies onto the fixture report! for now there remains slightly more balance to the region.

MR

The north continues to show an impervious vein of form which remains devoid of any real negative threat to the levels at which we currently trade. Forward programming of units never actually hitting the tonnage lists continue to ensure supply in the region is thinly kept. In the Med however a few heart palpitations may have occurred as 35kt movements from the Black Sea seemed to be in very short supply. In turn this has led to MR's needing to look at an even smaller part cargo of just 30kt!, The next Charterer to move a 45kt stem in this region is likely to enjoy further ability to test the market.

Panamax

Taking a historical glance at the spread between Med / TA and UKC / TA fixing levels,. Charterers would have sought little other inspiration as to the direction rates in the North should be heading. With this in mind, applying a 5 point increment over the Med (now trading around 107.5/110) - Charterers have now managed to break the WS 120 UKC/TA. Elsewhere, conditions in the Caribbean Sea remain flat despite a fair amount of activity. Owners may now think twice about ballasting over if more readily available employment presents locally.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 1st	Last Week	Last Month	FFA Q2 14
TD3	VLCC	AG-Japan	**-3**	38	41	39	41
TD5	Suezmax	WAF-USAC	**-7**	54	61	59	59
TD7	Aframax	N.Sea-UKC	**-7**	93	100	94	96

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

			wk on wk change	May 1st	Last Week	Last Month	FFA Q2 14
TD3	VLCC	AG-Japan	**-3,250**	14,250	17,500	14,750	18,500
TD5	Suezmax	WAF-USAC	**-4,250**	11,000	15,250	13,750	14,000
TD7	Aframax	N.Sea-UKC	**-5,250**	10,250	15,500	10,250	12,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 1st	Last Week	Last Month	FFA Q2 14
TC1	LR2	AG-Japan	**-4**	82	86	97.5	
TC2	MR - west	UKC-USAC	**-4**	103	107	121	113
TC5	LR1	AG-Japan	**+9**	98	89	106	104
TC7	MR - east	Singapore-EC Aus	**-6**	169	175	173	

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

			wk on wk change	May 1st	Last Week	Last Month	FFA Q2 14
TC1	LR2	AG-Japan	**-1,250**	10,500	11,750	16,750	
TC2	MR - west	UKC-USAC	**-500**	5,000	5,500	8,250	7,000
TC5	LR1	AG-Japan	**+3,000**	10,500	7,500	12,500	12,250
TC7	MR - east	Singapore-EC Aus	**-1,000**	12,250	13,250	13,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-8**	572.5	580.5	577.5	
LQM Bunker Price (Fujairah 380 HSFO)	**-12**	587.5	599.5	587.5	
LQM Bunker Price (Singapore 380 HSFO)	**-2**	587	588.5	580	

SK/JCH/TP/JT/slk

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