WEEKLY TANKER REPORT

GIBSON
SHIPPING ENERGY

5th December 2014

CRUDE CHRISTMAS

The recent announcement by OPEC not to reduce production looks to be a big positive for owners. OPECs recent decision to keep the taps flowing, means it is unlikely that the oil price will exceed current levels for some time, punishing some producers hard. At the same time low oil prices will stimulate consumption, ultimately encouraging crude movements. In this report we focus on the VLCCs as a key driver of the overall crude market.

2014 has seen a marked improvement in sentiment, with many suggesting that we may have seen the bottom of this particular cycle. The fortunes of the VLCC owner can be judged from the 12 month t/c returns for VLCCs fixed between June 2011 and June 2014. This averaged $20,500/day, compared to around $32,500/day currently commanded by a modern non eco unit.

The frequent volatility of the spot market during 2014 has significantly increased the confidence of shipowners who have been struggling with low returns since the beginning of 2011. Owners have as a result shown a greater appetite to take their chances on the spot market to rebuild their war chests but will this be the right tactic for 2015? We have seen some VLCC owners decide that a $30,000 p/d level is the tipping point for them and have chosen to lock in at this level for 12 months t/c. The average December 2012 TD3 spot was $24,750/day (basis slow steaming). In December 2013 the figure was $45,500/day and as of today it is $53,000/day and weakening.

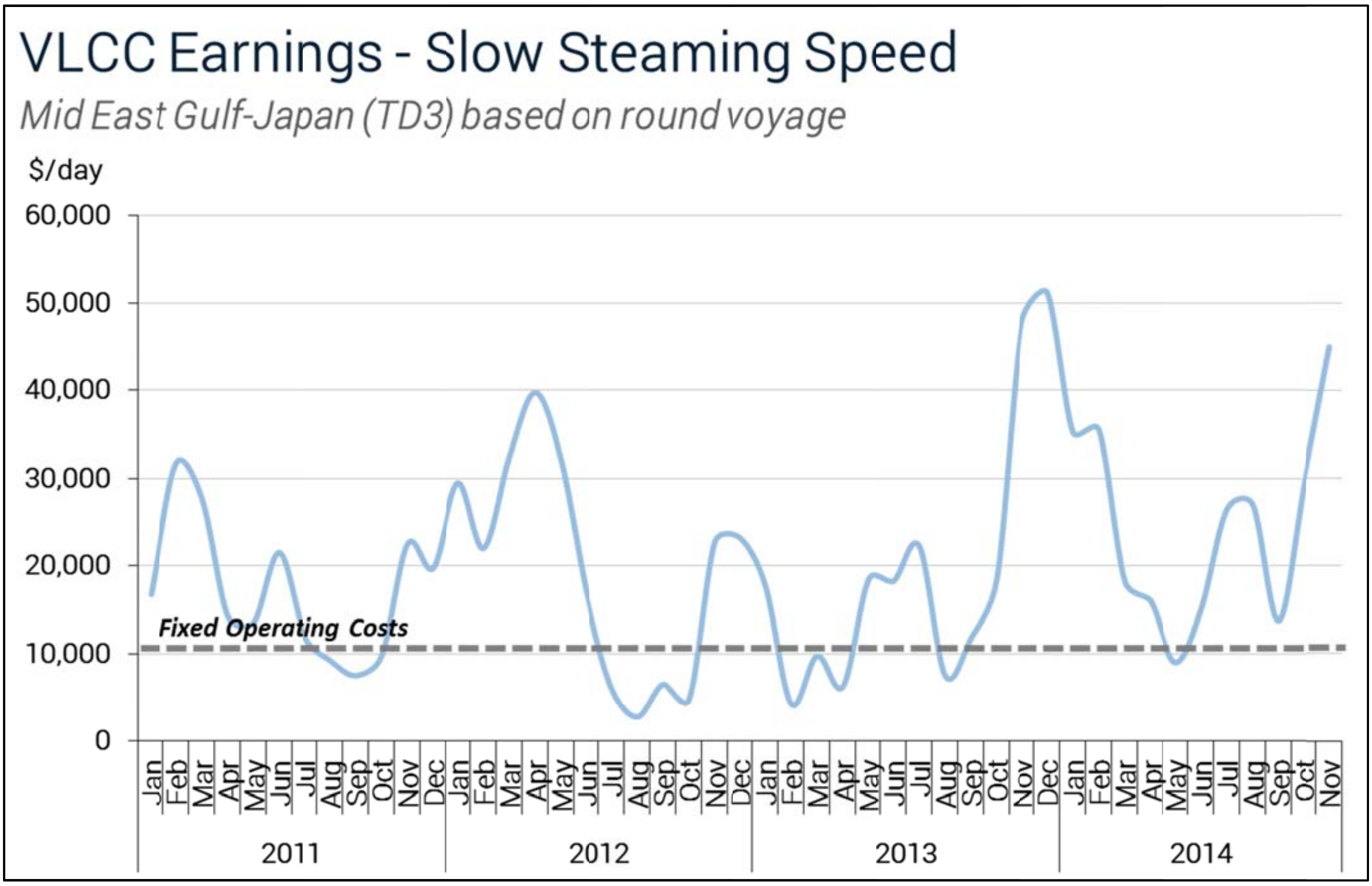
The earnings position for the owners has of course been considerably enhanced by the fall in bunker prices. In the case of Rotterdam 380cst, the price has fallen 36% since the beginning of the year from $592/tonne to $373/tonne today. In this scenario higher spot rates may encourage owners to reverse their super slow steaming strategies. However, one should be aware, that abandoning this policy could compromise the owners' position.

In the last two years the VLCC market has been adapting to a change in trading patterns resulting from a decline in imports of crude to the US and increasing demand from the East. The longer voyages from West Africa and the Caribbean to Asia Pacific inevitably throw up scheduling issues for charterers with tonnage being out of position or in short supply. This situation is likely to be compounded next year with fewer voyages taking place to the US which will make programming liftings ex Caribs even more problematic.

VLCC newbuilding deliveries in 2014 and 2015 have been very much under control with 24 being the final total for 2014 and a further 23 scheduled for 2015. There will also be some scrapping and limited conversions which will help the balance, so these statistics look pretty favourable from the owner's standpoint. However, the picture changes in 2016 with some 54 deliveries currently on the radar, somewhat more significant. This year has also seen further consolidation of the VLCC fleet. For example, Frontline and Tankers International entered into a joint venture which encompasses some 62 Tankers trading on the spot market. This equates to approximately 10% of the current fleet, and an even greater share of the spot VLCC market. The theory is that these bigger fleets have greater bargaining power to achieve better rates.

There has been a great deal of discussion about the contango structure in oil prices which until now has not been steep enough to stimulate much tanker storage. However, once we have gone into 2015 there may come a point when the rapid build-up of surplus crude in the market will open opportunities for floating storage. This scenario is a further positive for VLCCs.

In conclusion we believe the prospects for VLCCs and generally in the crude sector look fairly set for 2015 to carry on where 2014 leaves off.



Middle East

what goes up, must come down...and eventually the reverse is true, though for VLCCs to turn, and turn again within only a week is pretty rare. Charterers started the week with enough discipline to puncture last week's rally, but once prices had moved off some 10 pct, re-entered in sufficient numbers to encourage Owners to once again set their sights upon regaining the ws 65/67.5 peak numbers that had been seen to the East, with around ws 33 available to the West, via Cape. Suezmaxes moved in a more consistent direction - downwards. Not a complete collapse, but levels did tumble noticeably to 130,000 by ws 90 to the East and high ws 50's payable to the West, though the market should move through a more level patch over the next period. Aframaxes looked as if they had topped at ws 140 to Singapore, and, indeed, the market slipped to ws 125 on thin enquiry, and easier availability. Further deterioration looks on the cards.

West Africa

No relief for Suezmaxes as last week's big hit bruised rates even further to end at 130,000 by ws 70/72.5 to the US Gulf with only small premiums above that anticipated for European options. Some explanation of the lack of enquiry points to the fact that the fixing window has now reached the date where VLCCs had previously been taken in numbers. Once that window has been hurdled, then there may be more opportunity for Owners. VLCCs found concentrated attention for end Dec/early Jan positions, and that, together with the u-turn in the AGulf, brought rate ideas back up again to around ws 62.5 to the further East with $5 million+ asked for West Coast India.

Mediterranean

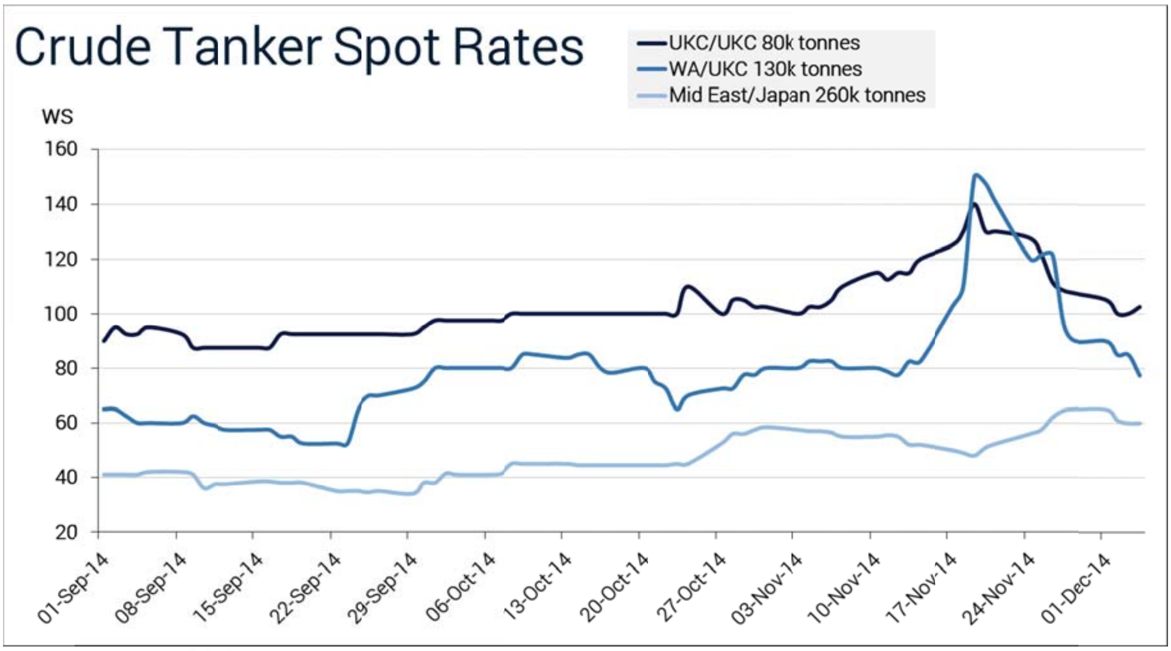
Increased pain for Aframaxes as Charterers whipped rates back down to 80,000 by ws 90/92.5 X-Med, though that eventually provoked more meaningful shopping, and a trimmed tonnage list provides some hope of a degree of re-inflation next week. Suezmaxes kicked a few cans, but had to give ground on the lack of Afra opportunity, and the relative collapse in West Africa. Rates from the Black Sea moved off to 140,000 by ws 82.5 for European destinations, though up to $4.6 million was seen on an early, tight, position from the Med to China, with heat.

Caribbean

Aframaxes started their post-Holiday campaign where they left off - at 70,000 by ave ws 115 upoast, but then hoped that they would benefit from a pre-Christmas rush ...they were disappointed, and the week closed at little better than ws 110. VLCCs kept their tails up with rate demands still at around $7.2 million to Singapore and $6.5 million to West Coast India, though a thick looking North Sea list poses some threat to the tight local supply as we move deeper into January.

North Sea

Owners managed to put the handbrake on the runaway train, and rates started to creep upwards to 80,000 by ws 105 X - UKCont and 100,000 by ws 85 from the Baltic, as Charterers started to clear their pre-Christmas lines. Further gains should be seen. Suezmaxes found more friends for once with eastern options particularly sought after at up to $4.6 million from the Baltic to Singapore. Transatlantic levels varied somewhat, but operated within a ws 60/65 range for the majority. VLCCs run through a dry patch whilst the 'arb' economics fail to match Owners' alternatives from the Caribbean... and maybe even from West Africa, now.



CLEAN PRODUCTS

East

A tough week for LRs but also one ending in a slightly more positive mood than when it started. Rates saw a steady slip all week but tonnage lists are now looking a little better for Owners and rates look like then may see a small bounce back. 55,000 mt Naphtha AG/Japan is now at ws 110 and 65,000 mt Jet AG/UKC is $1.85 million. LR2s are also down on the week with 75,000 mt Naphtha AG/Japan at ws 105 and 90,000 mt jet AG/UKC at $2.75 million. But once again these rates may see slight improvements next week.

MRs began the week with a heavy front end position list, but have really thinned out and the shorthaul market is firming as the week draws to an end. TC12, as usual, has not been affected and remains 35 x122.5-125 levels, although you would expect Owners to try and push this for 2nd half December lifting's. East Africa and South Africa has seen a lot of activity and most this was covered before the shorthauls firmed, hence rates actually came off and ws 148 is on subs, that is a 12 point drop over the week. AG to the UKC has been fixing at $1.25 million, but there aren't too many Owners remaining who are willing, next done is expected to closer $1.3 million. The shorthauls have done a complete U-turn, with Jubail/Jebel Ali firming to $265,000, which was a $55,000 jump in under 24 hours, Owners are now talking in excess $300,000. With the prompt position cleared out, next week should see the MRs firm, but with a weak LR1 market, these will compete for the shorthaul cargoes, given current levels.

The theme for this week in North Asia this week has been one of downwards adjustment, unfortunately for Owners. At the end of last week, a decent flow of cargoes combined with positive Owner sentiment drove the market up, but this week, cargo volume has dwindled and at the time of writing $510K is on subjects for MR Korea/Singapore – a $40K drop on last done, which, in terms of Far East mentality, is a big correction. This is also largely due to pressure from the weaker LR1s, which in many cases are cheaper than the MRs, and some Owners would realistically do low $500K levels now. The Singapore market, against the odds, has managed to hold fairly steady and that now the WCI-AG MR market looks more positive, it should stay stable next week. Singapore/Australia is fixing at 30kt x ws180 levels right now.

Mediterranean

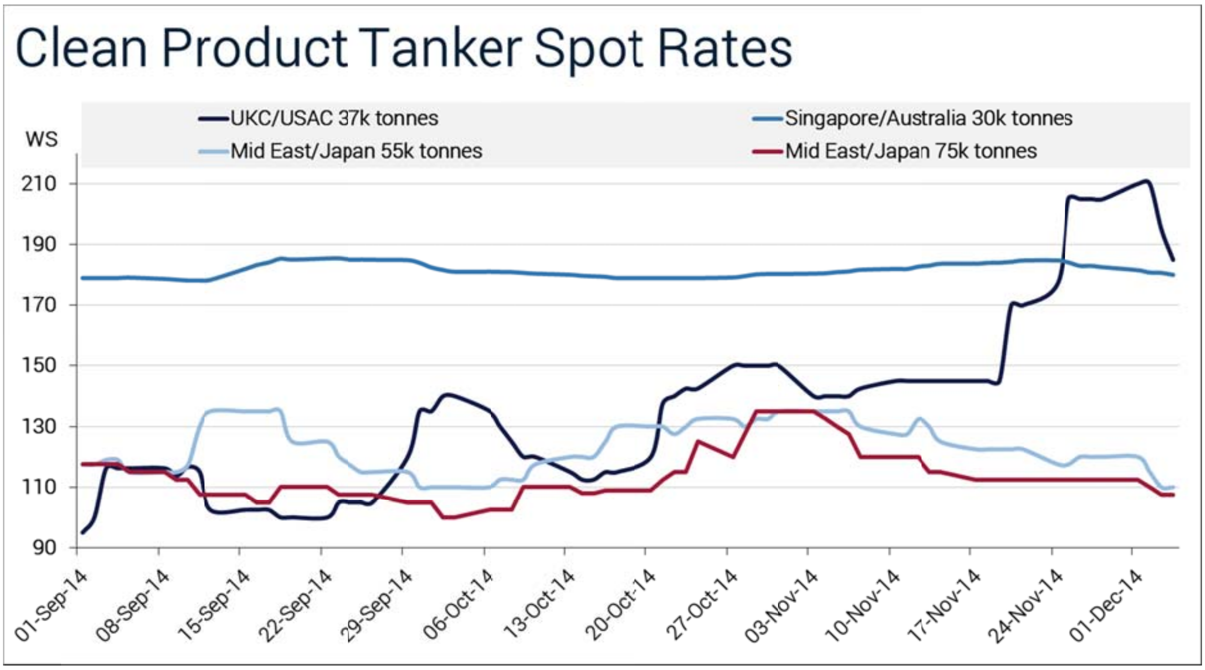
An active week for the most part and Handy rates remain buoyant with the West Med settling close to 30 x ws 210 with positions tighter than the East Med, which as a result has been softer fixing in the 30 x ws 200-205 bracket. Black Sea has been relatively quiet for exports and a few specific deals concluded 30 x ws 190-195, but more widely considered 37 x ws 200-210 depending dates. MRs have seen a positive number of Med enquiries, but due to all the ballasting ships TA rates have been slipping and remain under pressure with 37 x ws 180 last done from UKC and considered similar from the Med. West Africa premiums are being tested in light of a falling TC2 market, but a rising USG market and last done ex UKC 37 x ws 205 levels, would suggest similar for a Med load. Markets East of Suez showing some signs of improvement, but the West remains a better prospect so this route is very Owner dependent, last done to Redsea around $1.1-1.2m.

UK Continent

A real slow off in demand for Flexis through to MRs this week on the Cont. Rates have subsequently slipped across the board as the tonnage lists lengthens. TC2 has now slumped to 37 x ws180 and with more ships now appearing on the list we expect rates to come under further pressure. West Africa also slips to 37 x ws 205, although with the USG firing West Africa rates likely to stay firmer. Flexi's and handies have a slow week, 22 x ws 240 still the conference rate and 30 x ws 190 levels on the handies. LRs on the other hand have yet another strong week. A slow start on the LR1s but the list tight enough to keep rate at 60 x ws150 levels as cargos trickled in. Nap still in strong demand to the East, with a number of LR2s being worked for Med / East - $2.9-3.0m levels are still being achieved.

Caribbean

What a week for the USG. After a number of "nearly" weeks with a tight list but not enough cargos, the ULSD arb finally swung open, and rates reacted accordingly. From LR2s to MRs, vessel's were in demand and Owners made the most where they could. 38 x ws160+ now for TC14 and the possibility to firm further, USG/Brazil trading firm up at 38 x ws190. LRs have been a talking point the Gulf, as LR2s now being paid 80 x ws100 for USG/TA and LR1s $2.5m going East.


Clean Product Tanker Spot Rates
UKC/USAC 37k tonnes
Singapore/Australia 30k tonnes
Mid East/Japan 55k tonnes
Mid East/Japan 75k tonnes
WS
210
190
170
150
130
110
90
01-Sep-14
08-Sep-14
15-Sep-14
22-Sep-14
29-Sep-14
06-Oct-14
13-Oct-14
20-Oct-14
27-Oct-14
03-Nov-14
10-Nov-14
17-Nov-14
24-Nov-14
01-Dec-14

DIRTY PRODUCTS

Handy

Steady is the most applicable adjective to describe the UKC market this week; consistently low level inquiry has made a relatively simple task of picking off the naturally positioned ships. Thus, in turn, rates have flattened at ws 155 X-UKC with little positive stimulation to move from this point. UKC - Med will remain competitive while the Med sits 20 points higher . Med ships will be less likely to ballast to the UKC; looking further forward this should create a shortage of units in the UKC so keep an eye on dates as we move closer to the Christmas season - traditionally forward fixing occurs.

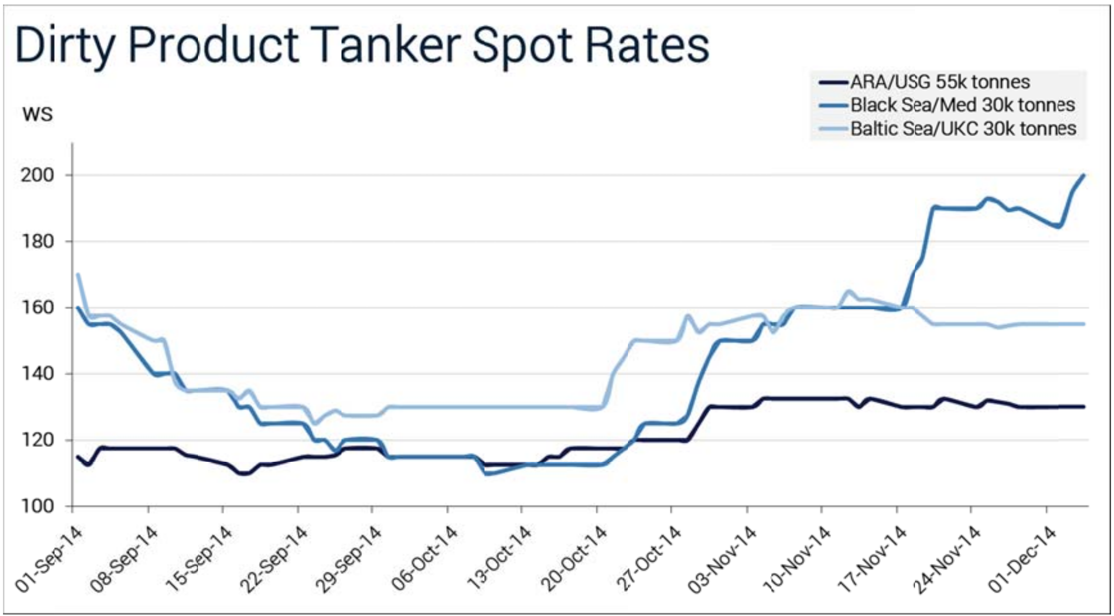
Med rates close the week 10 points up ex Black Sea with the propensity to firm further. Condensed inquiry allied with a shortage of vessels with reliable itineraries has led to the bull run on rates. Forward fixing is occurring contributing the growing hype surrounding the fixing window up to 17th. Taking a ship with a second voyage option should be more of a consideration in the current market trend. Expect ex Black Sea to move above ws 200 next week and it will naturally drag X-Med numbers with it. The traditional 10point differential will be widened at the start of next week with X-Med lagging behind.

MR

As suspected, last weeks Aframax flurry was likely to be only short lived, and with Aframax rates tumbling it was only a matter of time before their smaller companions followed suit. However as the week progressed roaring inquiry from the Black Sea naturally relayed onto the MRs causing a new rising cycle and fight back, albeit a small one. How far this will go remains to be seen but with forward fixing in the back of our minds we expect growth to continue pulling the East Med along with it. The West Med and Continent doesn't seem to have a generic fixing level which leaves the doors open for both Owners and Charterers to battle out each voyage individually. Further inquiry as we run down into Christmas will be the real game changer otherwise we expect a little surprise in this market.

Panamax

After a week that started on a back foot, the subsequent finish to the week begins to leave Owners with a lifted outlook on what is to follow. Activity over in the US has made an impact to the availability of units where at time of writing levels approach the 50/150 mark, and it's here in that leaves the market pondering the next move! Any subsequent reliance on ballast tonnage from the US is likely to be met with inflated ideas covering ex UKC.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 4th	Last Week	Last Month	FFA Q1 15
TD3	VLCC	AG-Japan	**-4**	60	64	56	50
TD20	Suezmax	WAF-UKC	**-16**	80	96	83	84
TD7	Aframax	N.Sea-UKC	**-7**	102	109	107	110

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

			wk on wk change	Dec 4th	Last Week	Last Month	FFA Q1 15
TD3	VLCC	AG-Japan	**-2,250**	59,750	62,000	48,000	42,500
TD20	Suezmax	WAF-UKC	**-9,500**	38,250	47,750	36,500	46,750
TD7	Aframax	N.Sea-UKC	**-3,750**	26,750	30,500	27,500	31,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 4th	Last Week	Last Month	FFA Q1 15
TC1	LR2	AG-Japan	**-5**	108	113	128	
TC2	MR - west	UKC-USAC	**-39**	189	229	140	133
TC5	LR1	AG-Japan	**-6**	112	118	134	103
TC7	MR - east	Singapore-EC Aus	**-3**	180	183	181	

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

			wk on wk change	Dec 4th	Last Week	Last Month	FFA Q1 15
TC1	LR2	AG-Japan	**+0**	28,500	28,500	35,000	
TC2	MR - west	UKC-USAC	**-7,750**	29,750	37,500	16,500	16,500
TC5	LR1	AG-Japan	**-250**	20,250	20,500	25,500	17,000
TC7	MR - east	Singapore-EC Aus	**+750**	19,250	18,500	18,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-43**	370	412.5	436.5
LQM Bunker Price (Fujairah 380 HSFO)	**-50**	413	462.5	470
LQM Bunker Price (Singapore 380 HSFO)	**-44**	419	462.5	460.5

MR/JH/JD/DP/SLK

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