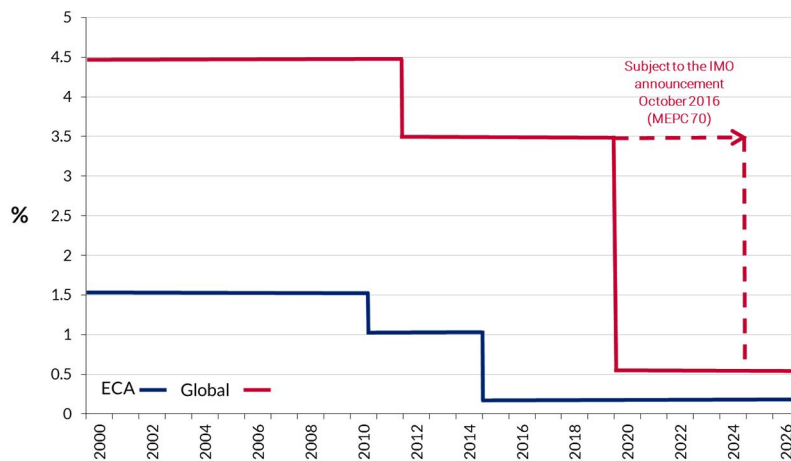


Clouds and Clarity

Weekly Tanker Market Report

In October, the International Maritime Organization (IMO) will hold the 70th Marine Environment Protection Committee (MEPC) meeting where it is anticipated that there will be an announcement on the timing of the implementation of the new global sulphur cap for marine fuels. Back in October 2008, the IMO agreed to reduce the maximum sulphur content in marine fuel to 3.5% from 2012, with a further reduction to 0.5% from 2020 onwards. Following protests from various stakeholders who wished to delay the deadline to 2025, the IMO commissioned a firm of consultants to assess availability of compliant marine fuel for the original 2020 deadline. The regulation as it currently stands (MARPOL Annex VI, Reg.14) stipulates that the global maximum permissible sulphur limit on marine fuel will be 0.5% outside of the Emission Control Areas (ECA). The limit inside the existing ECAs is already set at the much lower 0.1%.

Emission Control Area and Global Sulphur Limits



The IMO are currently sitting on the results of the consultancy's study which is believed to suggest that global distillate production capacity will grow faster than demand. The International Bunker Industry Association (IBIA), which represents both shipowners and bunker suppliers, believes that 2020 will be the IMO's chosen date. IBIA believes that the study is flawed as it assumes ships will only use fuels with maximum 0.1% sulphur content within the ECAs after implementation.

Also that by 2020 there will be widespread adoption of exhaust gas cleaning systems. Over the past two years, global shipping has become accustomed to lower bunker prices as a result of the oil price shock and many owners/charterers have absorbed the additional cost of the low sulphur fuels for ECA compliance. As a result, investment in emission abatement systems (on vessels trading outside of the ECAs) has had a very limited uptake. Effectively this means that these systems are relatively untested for ocean-going tonnage because most of the larger ships have, up until now, had little or no requirement for scrubbers as many never enter the ECAs. Owners who have taken delivery of new tonnage over recent years have benefited from many of the ECO developments, which have reduced their consumptions and improved efficiency. Even so, to comply with the new sulphur regulations there are only three main options, switch to 0.5% fuel, install scrubbers or convert to use LNG, all carry different benefits, risks and not least costs. IBIA is concerned that the industry may not have access to sufficient supplies of compliant 0.5% low sulphur fuel by 2020 to meet shipping demands going forward.

Regardless of any announcement from the IMO in October, the EU has already stated its policy by adopting the 0.5% for all member states in 2020. This is written into EU legislation and not open to debate. Effectively this means that vessels trading in northern Europe will be subject to the ECA sulphur rules, while Mediterranean EU states will have to conform to 0.5% sulphur content fuel, possibly ahead or the rest of the globe. What shipowners require is clarity and full marks to the IMO for trying to advance the announcement. However, decisions taken by the organization have significant repercussions at a time when many owners are trying to keep their tonnage operating in difficult markets. Climate change and the need to lower harmful emissions is vital, but we also have to be sure that the solution is clear and workable.

Crude Oil

Middle East

VLCC activity kept to a steady albeit slow flow this week but with the extent of available tonnage available Owners were given little opportunity to push levels on. Currently last done levels West are 280,000mt x ws 24 to the US Gulf via Suez and to the East we are seeing levels nudging around 270,000mt x ws 42.5. Suezmaxes had a rough week and tonnage saw the influence of the shorter Basrah programme with limited activity to support rates. West rates have remained in the low 30s and the East took a blow, down to the Mid 50s, with no sign of improvement for the time being. Aframaxes in the AG endured a stale week with the usual recycling of the less-approved vessels in the area for short voyages and Charterers making the most of a poor Suezmax market and utilising the larger tonnage for the odd jucier voyage. A much busier Far East market has limited the flow of ballasters which should help with trimming the list but for now Charterers remain in control, currently rates for AG/East remain around 80,000mt xws 85-87.5.

West Africa

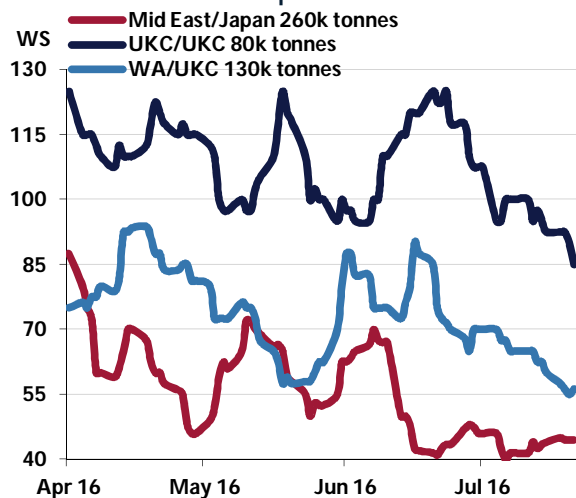
At the start of the week Owners were optimistic that an expected busy AG VLCC programme would naturally have a positive impact here, this was initially reflected in rates as they nudged up a couple of points. As the week progressed it became evident that such sentiment was ill founded and levels have again subsided to around 260,000mt x ws 48 for Far East destinations. Suezmax rates have remained low and Charterers have continued to squeeze further points down to 130,000mt x ws 55 for UKCM. Oversupply of tonnage is the key issue here and with steady VLCC and Qua Iboe expected down for a month there is no sign of recovery yet.

Mediterranean

A week of groundhogs in the Med. Conference rates have been reached as new lows prevent much rate erosion even in the face of significant availability of Aframax tonnage. Sentiment is now very weak and even a busy Thursday did not

allow Owners to push on and now the threat of a restocked position list on Monday looms large. Vanilla cross Med voyages are now rated at around 80,000mt x ws 75 with some Black Sea voyages managing to command a couple of points more. The going remains flat as we approach the close. Rates softened yet again with no real activity to absorb the huge volume of Suezmaxes opening in the East Med. With X-Med now set at 135,000mt x ws 57.5 more resistance will be met and the bottom looks to be found although there are very little positives to report.

Crude Tanker Spot Rates



Caribbean

Aframax Owners will be happy how the week has ended as an uptick in enquiry over the last couple of days has trimmed availability and given Owners the chance to secure premiums over last done. Current levels for Caribs/upcoast are 70,000mt x ws 82.5-85 level. VLCC interest kept minimal this week, but the majority of the August programme is already covered, any late comers looking to pick off a bargain shouldn't be disappointed as availability remains healthy keeping levels at around \$3.4 million to Singapore or \$2.5 million to W.C.India.

North Sea

Is this the bottom? The North Sea has now hit an annual low with current fixtures going at around 20 points less than this year's average. Prompt tonnage and sparse cargoes have caused the

market to steer further South as Owner's sentiment remains soft. Waiting time is an issue for ships that don't find cover, which will continue to weigh on the market. The short term outlook does not look positive with rates looking to continue on this tack for the time being. For now it's time to batten down the hatches and weather the storm. A good amount of VLCC interest was seen this week, but it was mainly the crude cargoes that were able to conclude with last done levels at \$4.15 million for Hound Point/South Korea.

Clean Products

East

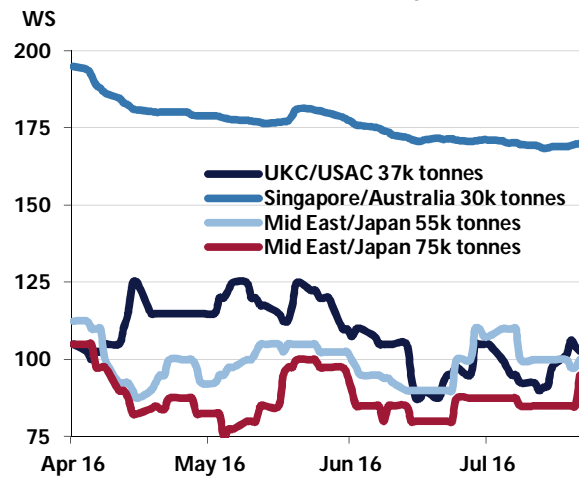
LRs have generally had a much more optimistic week. LR2s have been busy and fixing well ahead, whilst LR1s have also seen volumes increase and a market starting to work in the west. 75,000 mt naphtha AG/Japan has taken a jump of 10 points to ws 95 and 90,000 mt jet AG/UKC is up some \$150k at \$2.0 million. LR1s have seen rates stabilise more than rise but they are poised to see improvement. 55,000 mt naphtha AG/Japan is now back at ws 100 and 65,000 mt jet AG/UKC flat at \$1.45 million. Next week should see more from both sizes though so rates are likely to firm. It's been an interesting week for the MRs within the AG. It has been very hard to actually track whether the market has been rising or if indeed it was coming off. With rates in some cases lower than last done, but based on last done rates that were for very prompt cargoes. Actually it was probably an accurate reflection of where the market was. However, in comparison there have been better than last done levels achieved especially when looking at gasoil stems to EAfr. The one constant throughout the week is that activity has been high, and although there is not an abundance of outstanding cargoes going into week 30, this could easily change. AG/UKC has been less active this week and does not account for a \$1.245 million prompt lifting. We assess the UKC stems of the natural fixing window at \$1.175 million. AG/EAfr maintain a gentle positive sentiment and closes the week at 35 x ws 60. Shorter voyage have settled a little and AG/RSea stabilised at \$540k and with X-AG at the \$225k level. Eastern naphtha voyages again were a little less active but sit at the 35 x ws 110 mark. Looking forward to week 30 expect the bigger ships to steal a little more of the limelight given their current position, however, if few prompt cargoes enter the market early next week the MR's would very easily positively test rates.

Mediterranean

As Week 29 draws to an end, Handies plying their trade in the Mediterranean will be best pleased to see the back of this week. Rates have continued to scrape the bottom of the barrel and enquiry has remained thin on the ground. Levels

started at 30 x ws 120 for X -Med and 30 x ws 130 for Black Sea respectively but as time has pushed on rates began their downward spiral and the main catalyst for this was the vicious build-up of prompt units seeking employment. That being said activity did pick up on Thursday and a few prompt ships were cleared from the list which has seen levels stabilize around the 30 x ws 115 and 30 x ws 125 mark. MRs have seen little to get excited about in the Med this week, with demand for Red Sea runs being minimal to none along with transatlantic voyages. A few MRs open in the Med have even taken the ballast up to the Continent for employment as volumes remain limited. Fresh tests will come next week.

Clean Product Tanker Spot Rates



UK Continent

A week of ifs, buts and possibilities, which has ended up taking the wind out of Owners sails. Positivity flourished on Monday where Owners had the bit between their teeth with cargoes flowing from all angles. Rates managed to pick up some momentum, dragging towards 37 x ws 110. Then came perhaps a push too far, where targets were set too high, and Charterers held back. Following a couple of quieter moments partnered with consistent ballasters, Charterers took the charge and by the close of the play on Friday we see sub 100 ending on subjects. Looking ahead Owners will be hoping further inquiry to appear to keep tonnage lists moving and to alleviate the building pressure. Handies began to see some tightening of options for Charterers and the potential to press this market grows. We saw a

gentle climb up to 30 x ws 117.5 with the hope for more, but as with the MR sector, fresh stems faltered, and ships became prompt. Numbers are reined back in at 30 x ws 112.5 and a fresh test is required next week to show where we stand. Flexis struggle to get into gear this Week with rates ticking along in a balanced fashion at 22 x ws 150. A few small ups and downs were seen, but on the whole little to get excited about. Market calls have been limited, and if any of these appear next week, a fresh test on the stability of this market will be had.

Dirty Products

Handy

If you took your annual leave this week it was probably one of the most beautifully timed vacations of 2016...The Continent this week was laced with prompt units some of which had been idle from the previous week looking for some kind of activity. Unfortunately Charterers and Owners were left very dissatisfied with fresh cargoes completely flat. As the days passed and the tonnage built, so did the pressure and at the close of business today market rates finished almost at the yearly low. However, every cloud has a silver lining and the positives to take from this week is that activity did pick up towards the back end and signs of recovery were bumbling underneath the surface. Similarly in the Mediterranean the biggest hindrance to both these markets was the absence to Russian exports. There has been a distinct lack of Black Sea cargoes this week, which has wounded market rates which were already top heavy on prompt tonnage. The few stems that were worked tested Owners. With daily earnings at the lowest we've seen this year, many feel that Worldscale levels have hit rock bottom and there is going to be a U-turn next week, albeit a gradual one.

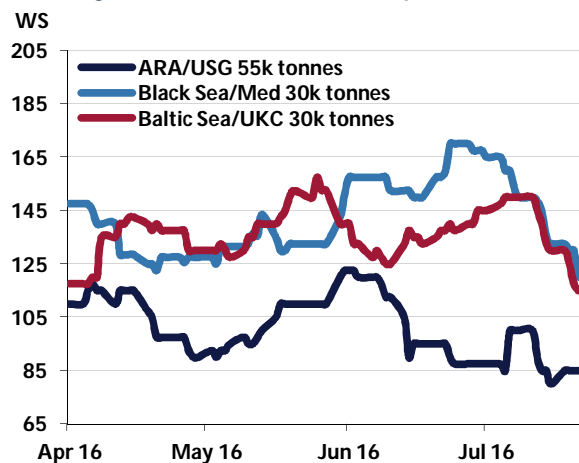
MR

With all markets not exactly rocking this week, MR's were not really going to feel much love given how tight positions were in region during a weak market. With these fundamentals in mind correction is on the cards whatever way the market activity swings. The Mediterranean was a case of too many prompt units and not enough a action which inevitably ended with soft rates reported. Owners were forced to have to look at Handysize stems to keep their units moving, some on fairly forward dates. With a late week MR stem coming into play, it may have just got a few Charterers attention and we could have more to say on this size come Monday...

Panamax

With this week seeing very little Panamax enquiry, from both sides of the Atlantic it is important to note that rates have not dropped any lower which suggests we have found the bottom of the market for TD12 voyages. As the week developed and early August stems became increasingly more difficult to cover with tonnage disappearing, Owners ideas understandably became more bullish. This as always, highlights how date sensitive this market is.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 21st	July 14th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	+0	44	44	67	47
TD20	Suezmax	WAF-UKC	-5	56	61	75	62
TD7	Aframax	N.Sea-UKC	-9	85	94	109	98

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

			wk on wk change	July 21st	July 14th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	+500	25,250	24,750	51,750	28,500
TD20	Suezmax	WAF-UKC	-2,750	15,500	18,250	25,500	19,000
TD7	Aframax	N.Sea-UKC	-7,500	10,000	17,500	24,750	20,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 21st	July 14th	Last Month	FFA Q2
TC1	LR2	AG-Japan	+10	95	85	85	
TC2	MR - west	UKC-USAC	+11	103	92	105	102
TC5	LR1	AG-Japan	-1	98	100	94	104
TC7	MR - east	Singapore-EC Aus	+1	170	169	174	

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

			wk on wk change	July 21st	July 14th	Last Month	FFA Q2
TC1	LR2	AG-Japan	+1,750	16,000	14,250	14,000	
TC2	MR - west	UKC-USAC	+2,250	9,250	7,000	9,250	9,250
TC5	LR1	AG-Japan	-250	12,250	12,500	11,000	13,500
TC7	MR - east	Singapore-EC Aus	+500	14,000	13,500	14,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-1	233	234	238
ClearView Bunker Price (Fujairah 380 HSFO)	-2	248	250	253
ClearView Bunker Price (Singapore 380 HSFO)	-6	242	248	252
ClearView Bunker Price (Rotterdam 0.1% LSFO)	-10	398	408	458

www.gibson.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong

Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore

8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston

770 South Post Oak Lane
Suite 610, Houston
TX77056 United States