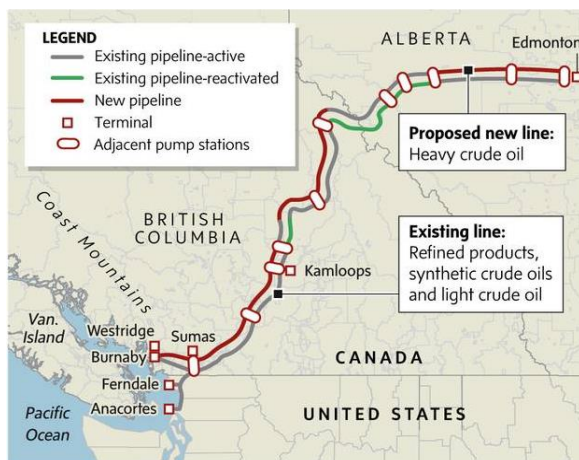


Peace Pipe still Smoking

Weekly Tanker Market Report

The Canadian government has long harboured the ambition to be able to export crude without the need to rely almost entirely on the US for distribution. Increasing US shale oil production lessens the need for Canadian barrels for US domestic consumption and therefore increases the need to diversify export solutions. Globally, Canada has the third highest proven oil reserves and is under greater pressure to sell more crude into the international market. However, the government in Ottawa continues to struggle against balancing environmental issues versus the need to stimulate economic growth, particularly in a low oil price environment.



Last November the Canadian government granted approval to the Kinder Morgan Trans Mountain Expansion Pipeline (TMP), a 1,150Km pipeline which will run parallel with the original built in 1953. The cost of the new pipeline is C\$7.4 billion (US\$5.9 billion). The project will increase the capacity from 300,000 to 890,000 b/d by adding approx. 980km of new pipeline and reactivating of another 193Km of existing network. The pipeline will run from Edmonton (Alberta) to the Burnaby terminal (Vancouver) and will require the construction of 14 additional reception tanks. Pipeline approval follows a 29 month review by the National Energy Board, which placed 157

conditions on the project before it could proceed. According to Kinder Morgan, the project came about in response to requests from oil shippers to help them reach new markets by expanding the capacity of North America's only pipeline with access to the West Coast.

Naturally any project of this nature will meet with objections. Earlier this month a judicial review was convened in Calgary to address any concerns from environmental groups and aboriginal people who have been granted two weeks to present their cases. There has been no indication as to when the judicial review will make their decision but the government has called the export of its natural resources a "fundamental" responsibility, and that it had considered many factors in approving the project, including environmental concerns. Given yesterday's announcement that TransCanada Corp. has abandoned the Energy East pipeline amid mounting regulatory hurdles, the go ahead for the TMP project takes on even more significance for Canadian oil export ambitions. This latest setback comes less than a year after the government rejected the Enbridge Northern Gateway pipeline. Both viewed as major setbacks to the government's aspirations.

However, in some ways the TMP pipeline stands a better chance on getting the go ahead because most of the construction will take place adjacent to the existing structure, with a clear plan to restore any disrupted areas back to their original state. According to the existing construction schedule, work on the pipeline was due to commence last month, with a completion date as early as December 2019. When fully operational, tanker traffic at the Burnaby's Westridge terminal will increase nearly seven-fold to about 400 visits annually. Tankers must travel 80 nautical miles in the narrow waterway in order to reach the load terminal, which will restrict crude operations to Aframax. Should this project succeed, the Aframax market could be on the cusp of a major employment boost, albeit still a few years further down the pipeline.

Crude Oil

Middle East

Despite the Holidays, Chinese VLCC Charterers showed enough maintained interest to keep the market simmering with rates to the East topping ws 60 and levels to the West moving ahead of the mid ws 20's barrier. That will give Owners hope that they may be able to squeeze a bit more in the usually busier end month fixing phase, but availability remains rather too easy to call for any noticeable spike and Charterers compliance is also not a given. Suezmaxes trudged sluggishly through the week and rates softened accordingly towards ws 75 East and ws 35 to the West with the trend looking likely to be maintained. Aframaxes turned a corner as the fixing pace picked up and rates headed towards 80,000mt by ws 120 to Singapore. There could yet be further gains before ballasters from the Far East potentially dilute.

West Africa

The bright end to last week for Suezmaxes dulled as this week progressed. Charterers kept the cargo flow upon drip feed and Owners resolve began to crumble, though there was resistance rebuilding at the ws 70 mark for most Atlantic discharge options. The game of nerves will continue to play out for a little while yet. VLCCs remained busy, especially earlier in the week, but apart from a very slight gain to ws 62 to the Far East and to \$2.7 million to West Coast India, Owners failed to take solid advantage. Another attempt perhaps next week if the AGulf gets going, but only if...

Mediterranean

Ignoring the soft early part of the week, the story for Aframaxes here came late on as volumes ramped up and lists tightened. Rates jumped to 80,000mt by ws 130 X-Med with more on the cards. The longevity of the mini-spike remains in doubt however. One reason for that doubt is that Suezmaxes floundered for most of the week at no better than 140,000mt by ws 80 from the Black Sea to European destinations - and to \$2.8 million to China - and now will look to show themselves for part cargo opportunities thrown up by the Aframax gain.

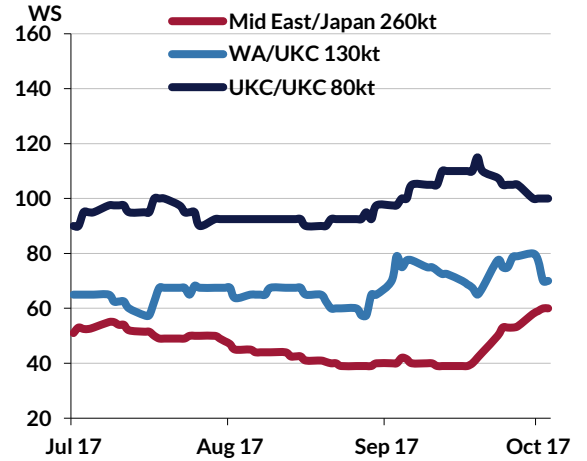
Caribbean

Gravity - and easy availability - felled Aframaxes to as low as 70,000mt by ws 100 upcoast, but then a more active period restored pride to around ws 110. Now there is another pulse of nasty weather approaching the region and that will potentially lead to firming opportunity for Owners to take advantage of. VLCCs were reasonably pruned on the earlier fixing window and rates firmed up a touch to \$3.2 million to West Coast India and to \$4 million to Singapore as a result. Owners will attempt to drive harder bargains for any forward requests, but Charterers will be hard to persuade.

North Sea

Unlike the Med, Aframaxes here found life less frisky, but as some now decide to ballast South, sentiment should harden somewhat and rates may well ease up a little from their present 80,000mt by ws 100 X-UKCont and 100,000mt by ws 75 Baltic/UKCont levels into next week, even if local volumes stay light. VLCCs stay thin on the ground, but 'arb' economics don't allow for much more than \$3.6 million for fuel oil to Singapore or \$4.3 million for crude oil to South Korea.

Crude Tanker Spot Rates



Clean Products

East

An incredibly disappointing week for LR Owners, particularly those with LR1s to cover. The initial softening was seen on TC5, which was taken down to 55 x ws 140 - a ballaster from Brazil looking to lock in a longhaul quickly. Sentiment amongst Owners really caved post this number - and we have seen particular softening on the 1s. TC5 continued to fall, and although it needs a fresh test - will likely see further negative correction in the fresh week down to 55 x ws 130 - we will likely see Charterers push hard for Platts next week. A very aggressive \$1.475 million seemed unnecessary at the time of going on subs, but will inevitably be repeated now sentiment is so soft. LR2s have also softened, but not to the same extent. The list has remained pretty thin and yet sentiment has dictated a distinct softening. Next done AGulf/UKCont will likely be \$2 million, and although it sounds aggressive, Charterers are likely to seek 75 X ws 120 as next done TC1 figures, finding extra value where necessary compared to the LR1s.

This week the MRs have been active, but unfortunately rates have started to soften across the board. We have seen a good volume of shorthaul cargoes throughout the week, ranging from \$255k to \$220k grade and route dependant. MR cargoes have been traded by both MRs and LR1s, and have therefore experienced downward pressure. The Red Sea as a loading area has not been particularly busy this week, and we are actually seeing Red Sea openers ballast back round to the AGulf in search of their next cargo. AG/Red Sea has also softened, and finishes the week at \$525k and in need of a fresh test.

AGulf/UKCont has probably been the steadiest route on the MRs, and finishes the week at \$1.3 million, although it has been incredibly untested. AGulf/EAF has also remained relatively flat, but will come under distinct pressure in the new week; still giving Owners good returns even with some softening on rates - they are likely to still snap up EAF cargoes at softer levels. EAF will move down next week towards the ws 210 in my opinion.

Due to the incredibly quiet Far Eastern market, many of the Singapore openers are now ballasting to West Coast India looking for work, and we have inevitably seen TC12 soften. Ws 170 was put on subs early this week, but again will come under more downward pressure in the new week.

It has been a quiet end to the week, with nearly no new cargoes so Charterers will happily let tonnage arrive over the weekend and will try and cut further fat out of these rates in the new week. The softening seen on the LRs this week will start to trickle down to the smaller tonnage, and further softening is very likely.

Mediterranean

This week has seen rates come off from the hiatus of the previous few weeks trading, particularly in West Med where rates softened 20 points to 30 x ws 180 and looks pressured still. Central Med and East Med have seen tonnage in shorter supply as they are not being replenished by ballast positions, as a result Owner's have been able to achieve ws 10-15 points over the West Med numbers. Consistent enquiry for Black Sea loaders has just about kept rates in the 30 x ws 200's. However, with tonnage seemingly well supplied and better balanced for outstanding cargoes beyond the 10th October the gap in

Med rates should start to close, and subsequently add negative pressure on the Black Sea levels too.

Tonnage was on the slim side for MR's in the Med this week with Med-transatlantic runs achieving 37 x ws 125, a nudge in front of TC2 rates in NWE. Although tonnage was in short supply, enquiry was slow throughout the week meaning a Skikda-Brazil cargo receive enough interest to achieve competitive freight 37 x ws 146.

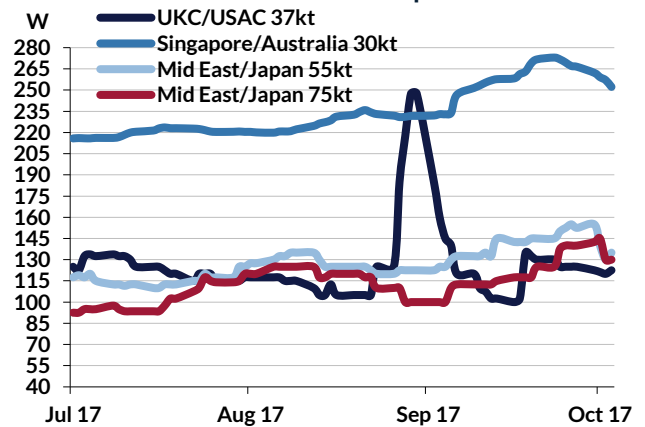
UK Continent

Week 40 has been sluggish for the most part for MR Owners in NWE. Early in the week TC2 traded 37 x ws 122.5 and momentarily dipped to 37 x ws 120 as oversupplied tonnage kept rates suppressed. The later stages of the week we see a handful of vessels being swapped around for replacements allowing 37 x ws 125 to be put on a couple of times. It's too early to say if hurricane Nate in the US Gulf will have any substantial impact, if not then rates could come under pressure early next week. WAF and Brazil runs have been light this week, a handful of cargoes keep rates rolling in 37 x ws 145 region for both,

The Handy market felt the squeeze this week as Charterers have been able to chip away at last done levels. A main catalyst for this has been the Baltic programme going on LRs which in turn then swallows 2-3 Handy cargoes per lifting. Rates ex Baltic began trading at 30 x ws 150 and then dropped to 30 x ws 140, but now seems to have stabilized towards the back end of the week. On a whole X-UKCont movements have been subdued as Handy Owners have been reliant on Baltic volumes to keep their vessels employed, rates close at 30 x ws 137.5.

Flexi enquiry has yet again been quiet this week. The softening of the Handy market has not helped Owners fortunes and whilst the market needs a fresh spot test for rates, 22 x ws 185 looks to be the going rate this week. Some Owners have looked on more exotic routes to Brazil although with one failing on fixing these ships away it is unlikely to have any impact on the rates on offer in NWE.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The NWE region started off with the hangover from the prior week’s trading. This week, Charterers were presented on Monday with a tonnage list that was poised to keep the market firm. As predicted, it did not disappoint, as Charterers steadily tested the water dipping the toe in cautiously trying to limit market hype. With the week closing out today fixing levels have maintained at the ws 167.5 marker. Turning to next week, we are likely to see more of the same sentiment, but as we’ve witnessed more tonnage fixed away from the region tonnage lists come Monday will be key.

The Mediterranean market has not managed to excite our taste buds this week, as enquiry levels have just about managed to keep things ticking over. In turn, rates remained fairly steady in the first half of the week, but as tonnage built, increasing pressure followed suit. As we draw the week to a close, levels dropped 10 points from last done for a Black Sea/Med cargo down to ws 155, which is now on subs. Fresh activity is still evading the region and the sentiment is turning negative as we look into mid October dates as tonnage replenishes.

MR

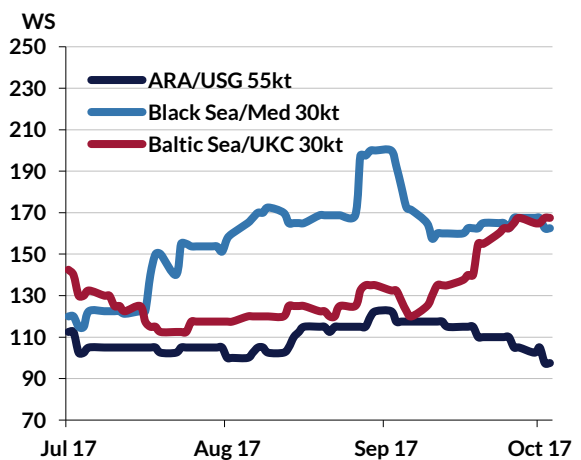
In the continent whilst the short haul moves are protected against seeing value slashed, it was the transatlantic moves that came under fire where a poor performing Panamax markets gave Charterers cheaper freight costs even with deadfreight taken into account. This said, availability favours Owners where the lists remain stretched, with recovery being immediately placed on surrounding sectors improving.

Down in the Med conditions made for a rather more enduring week, as full-sized opportunity was seldom seen. As a result of which, where combined with a the surrounding Handies coming under pressure, tonnage stocks have thickened with prevailing values still likely to take some negative adjustment.

Panamax

This week took a couple of days to get off the ground. One Charterer took advantage of the lack of enquiry and decided to sit back and wait for Owners to succumb to their fixing ideas. It was a difficult platform for Owners to build on once 55 x ws 97.5 had been reported especially with the waiting time involved, however, there were a couple of cargoes that followed behind this fixture that cleared some of the prompt tonnage presented. With the soft Caribbean market still on Charterers side, for the immediate future Charterers should be able to continue booking competitive freight.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 5th	Sep 28th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+8	61	54	46	70
TD20	Suezmax	WAF-UKC	-7	73	80	67	86
TD7	Aframax	N.Sea-UKC	-6	99	105	93	107

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

			wk on wk change	Oct 5th	Sep 28th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+5,500	20,250	14,750	11,250	28,000
TD20	Suezmax	WAF-UKC	-2,000	11,750	13,750	10,250	16,750
TD7	Aframax	N.Sea-UKC	-5,000	4,250	9,250	1,750	11,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 5th	Sep 28th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-10	130	140	120	
TC2	MR - west	UKC-USAC	-3	123	126	118	145
TC5	LR1	AG-Japan	-23	130	153	128	132
TC7	MR - east	Singapore-EC Aus	-15	252	267	220	

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

			wk on wk change	Oct 5th	Sep 28th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-5,500	11,500	17,000	14,250	
TC2	MR - west	UKC-USAC	+250	5,500	5,250	5,250	8,750
TC5	LR1	AG-Japan	-3,500	9,250	12,750	9,750	9,500
TC7	MR - east	Singapore-EC Aus	-3,000	14,250	17,250	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-12	313	325	302
ClearView Bunker Price (Fujairah 380 HSFO)	+0	342	342	314
ClearView Bunker Price (Singapore 380 HSFO)	-10	336	346	322
ClearView Bunker Price (Rotterdam LSMGO)	-25	508	533	475

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