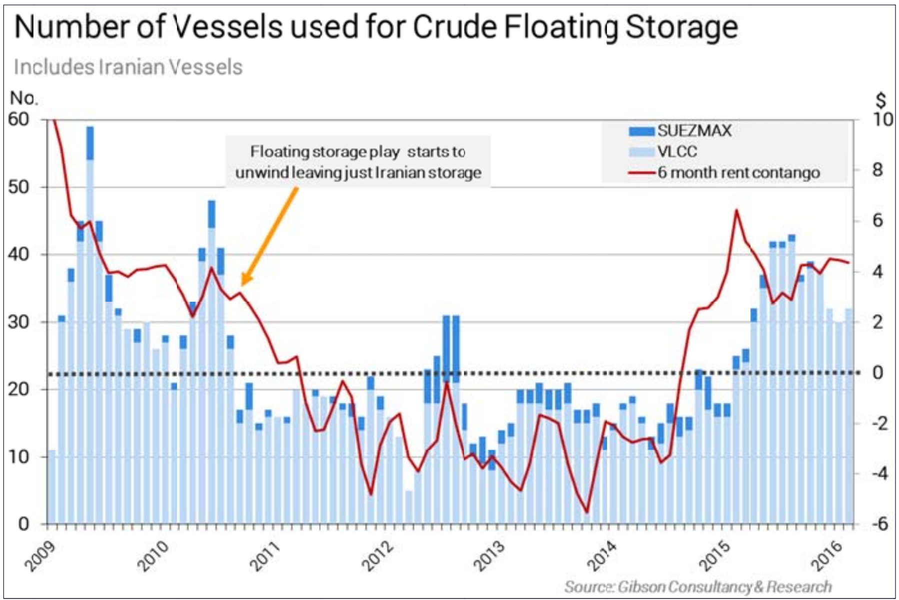
WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

4th March 2016

FLOATING STORAGE PARKED (FOR THE MOMENT)

Traders continue to keep a watchful eye to take advantage of any opportunities to exploit contango play, but (so far) the synergies required to make this happen remain elusive. Even short term contango employment is hard to square as all of the dynamics required for this to happen need to move together. For the time being, floating storage demands will continue to rely upon to logistical problems. However, the issue is not going away, it's just got parked in another place. The recent announcement by a handful of OPEC members and Russia not to increase production has done nothing to ease the current oil glut which translates into doing little to stem the downward pressure on the oil price other than a temporary uplift. For contango based floating storage play to take place, the discount in oil prices for prompt delivery has to deepen relative to forward assessments, a drop in timecharter rates would also help.



The last significant floating storage took place 2009-10 when we witnessed a very different scenario from what we are seeing today. Back then the world had just entered into the economic slump following the banking collapse in the autumn of 2008. As a result, OPEC was continually revising oil demand as the crisis took hold. On the supply side 2009-10 saw 113 VLCCs delivered as a result of the glut of ordering through the tanker market boom years 2005-08 when we believed that the BRIC economies would drive forward crude demand. Following the banking collapse, floating storage cushioned the impact of the tonnage surplus, providing owners with an additional income stream ahead of the recovery albeit at 'more challenging' timecharter rates. Back in 2009/10 the average I year VLCC timecharter rate was around $37,500/day.

Today's picture is very different. Crude production is at record levels, with no indication of a slowdown. While US production is slowing, crude stocks levels in the US are at their highest since records began. Back in 2010 (Jan-Apr), most floating storage took place in the Gulf of Mexico, not surprisingly, today there is none. Today, floating storage is mostly for operational reasons (not contango based) or in the long term fuel oil storage hub in the Singapore/Malaysian region. Also there is some limited storage in the Middle East Gulf, in addition to the Iranian NITC positions. On the supply side, we have witnessed only moderate fleet growth over the past year or so which has notably lifted timecharter rates. Of course, the strength of the tanker market since the oil price shock commenced in June 2014 has led to more brisk investment which will result in a spurt in fleet growth starting in the second part of this year.

Naturally owners are keen for the return of this phenomenon, particularly if the crude tanker spot market continues to soften, with the resulting influence on timecharter rates. Owners will continue to pursue storage options in their charterparties, as they did in January 2015. Very few of these options actually ended up loading cargo to store. However, if overproduction persists and the delivery profile impacts on spot rates, we could witness an increase in demand for floating storage in the second half of this year – but will it be contango based play? Either way, whether contango floating storage materialises or not, whilst prompt oil prices remain below the forward assessments, this sets the floor to short term VLCC rates.

Middle East

With VLCC rates dropping to as low as they had, it would always be tempting for Charterers to go bargain hunting in numbers, even though they knew that they would then risk provoking a counter trend. Well, the shopping got into full swing, and many bargains were indeed bagged.. as to generating upward momentum, there was a degree of pullback, and certainly a hardening sentiment, but it will need another solid spell of concentrated fixing to really get the market motor turning. Currently rates to the East operate in the low ws 50s with levels to the West at, or a little under, ws 30. Suezmaxes found no such fun - merely a very slow trawl with little to show for it. Rates eased down into the low ws 70s East and into the high ws 30s to the West. Aframaxes failed to convert last week's promise into anything extra, but rates did maintain a reasonably steady 80,000 by ws 120 level to Singapore, nonetheless. Another attempt perhaps for next week.

West Africa

All very soggy in the Suezmax camp here. Just too many ships, and not nearly enough cargoes, to prevent rates bumping down to the very low ws 60s to USGulf and no better than ws 67.5 to Europe. Things may change for the better as Charterers move into unfixed territory, but it will take a while before the excess can be trimmed severely enough to lead to a noticeable rebound. VLCCs maintained a small premium over prevailing AG/East numbers, and then began to open up a wider differential as the Middle East decline skidded to a stop. 260,000 by ws 59 has now been seen for China discharge and improvements over the last fixed $3.25 million to West Coast India should now be possible.

Mediterranean

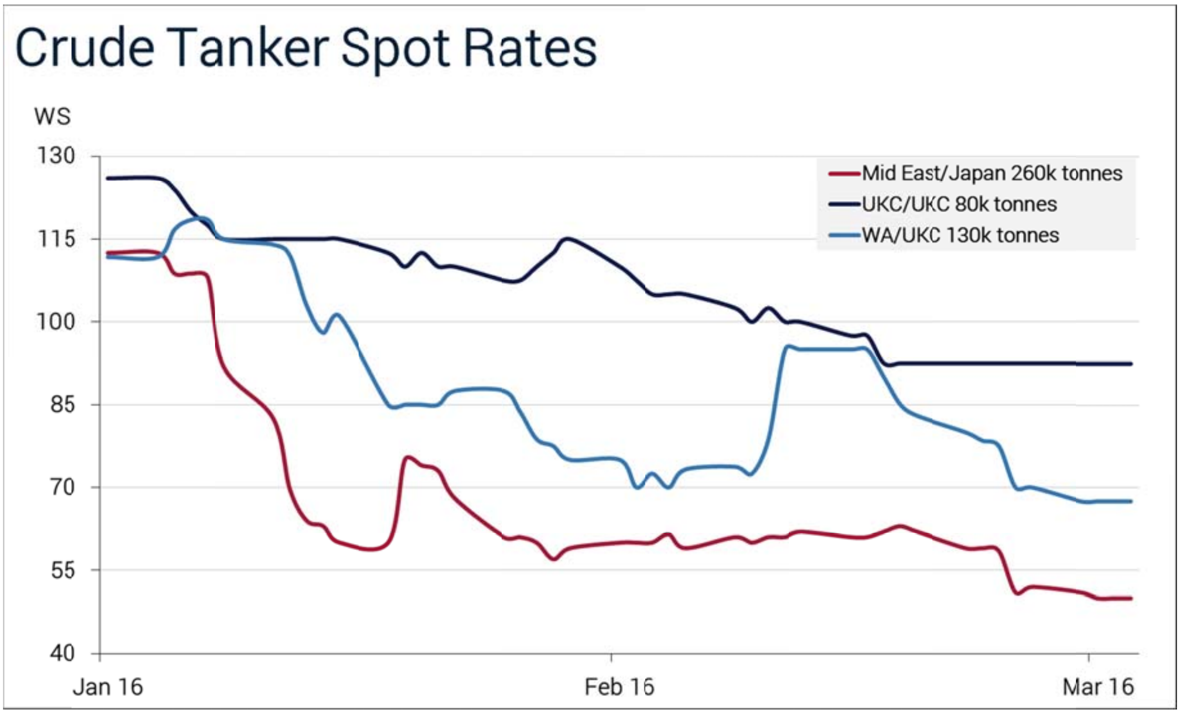
Reasonable early Aframax action held some promise of rate gain, but eventually that promise was punctured, and the market settled back again to 80,000 by ws 85 cross-Med with a little higher payable ex-Black Sea. Suezmaxes played to the same slow beat as in West Africa to push rates down another notch to 140,000 by ws 70 from the Black Sea to European destinations, and little early prospect of a significant turnaround in sight.

Caribbean

Aframaxes held their heads up through most of the week, but the market began to look a little tired by the weeks end, and rates were moving back through the ws 130s on the standard 70,000 upcoast run. VLCCs had threatened to move lower, and some vessels that had been left behind decided to cash in their chips at down to $3.9 million to West Coast India, and $4.85 million to Singapore. That may prove to be a bottom line, but it will be hard for Owners to extract much more over the short term, at least.

North Sea

Flat/soft - again - for Aframaxes. Apart from occasional sweet spots, the market never seems to be challenged enough to allow for sustained improvement. Rates slip sideways at 80,000 by ws 92.5 cross-UKCont and at 100,000 by ws 72.5 from the Baltic. VLCCs had already seen renewed fuel oil 'arb' interest to Singapore, and some residual interest remained this week with demands moving up slightly to $4.55 million, though that will probably prove a ceiling for the time being.



CLEAN PRODUCTS

East

The week ends on the larger ships with a general positive sentiment amongst Owners for both the LR1's and LR2's. Numbers are starting to level off on the LR2's, and are no longer in as weak a position as they were last week. Naphtha runs are now rated ws 87.5, and West runs are $1.65 million. With stems still to cover off mid-March dates, Owners are currently taking a stronger position on desired returns. The level of activity at the start of next week will surely dictate how stubborn they remain. The LR1's have also finished the week looking in a slightly more positive position. A repeated ws 110 on an AG/Japan indicates that the market has firmed since the ws 100 seen on Monday. Currently in the AG a firm and safe position on a LR1 is not guaranteed, and Charterers may find it a good deal more difficult to achieve in the new week.

There has again been substantial activity for the MRs in the AG this week. The tonnage list started the week looking tight and closes looking evening tighter; as a result rates have been positively tested during the week. AG/Gizan is currently on subs at $585k and although it is for a prompt lifting there is a feeling that this could be the new bench mark for AG/RSea voyages. AG/EAfr has again had another decent week seeing a steady rise on the rates, it closed the week at ws 172.5 however this will certainly be tested next week. Although not as busy as other routes AG/UKCont has also seen a rise and is dancing around the $1.5 million level. With the tonnage list tight going into week 10 the sentiment is very much a positive one for the Owners and there is an anticipation of seeing these rates being further tested next week.

Mediterranean

All in all a pretty lackluster week for Handy Owners in the Mediterranean. The recipe of limited Handy interest and a weighty tonnage list were all the ingredients Charterers needed to apply pressure on last done levels and in turn leave a bitter taste for Owners. Cross-Mediterranean levels have been squeezed down to 30 x ws 130 and Owners will be hoping heading into week 10 that this is the market bottom. On the other hand Black Sea stems have achieved a slight premium and have concluded at around the 30 x ws 140 mark.

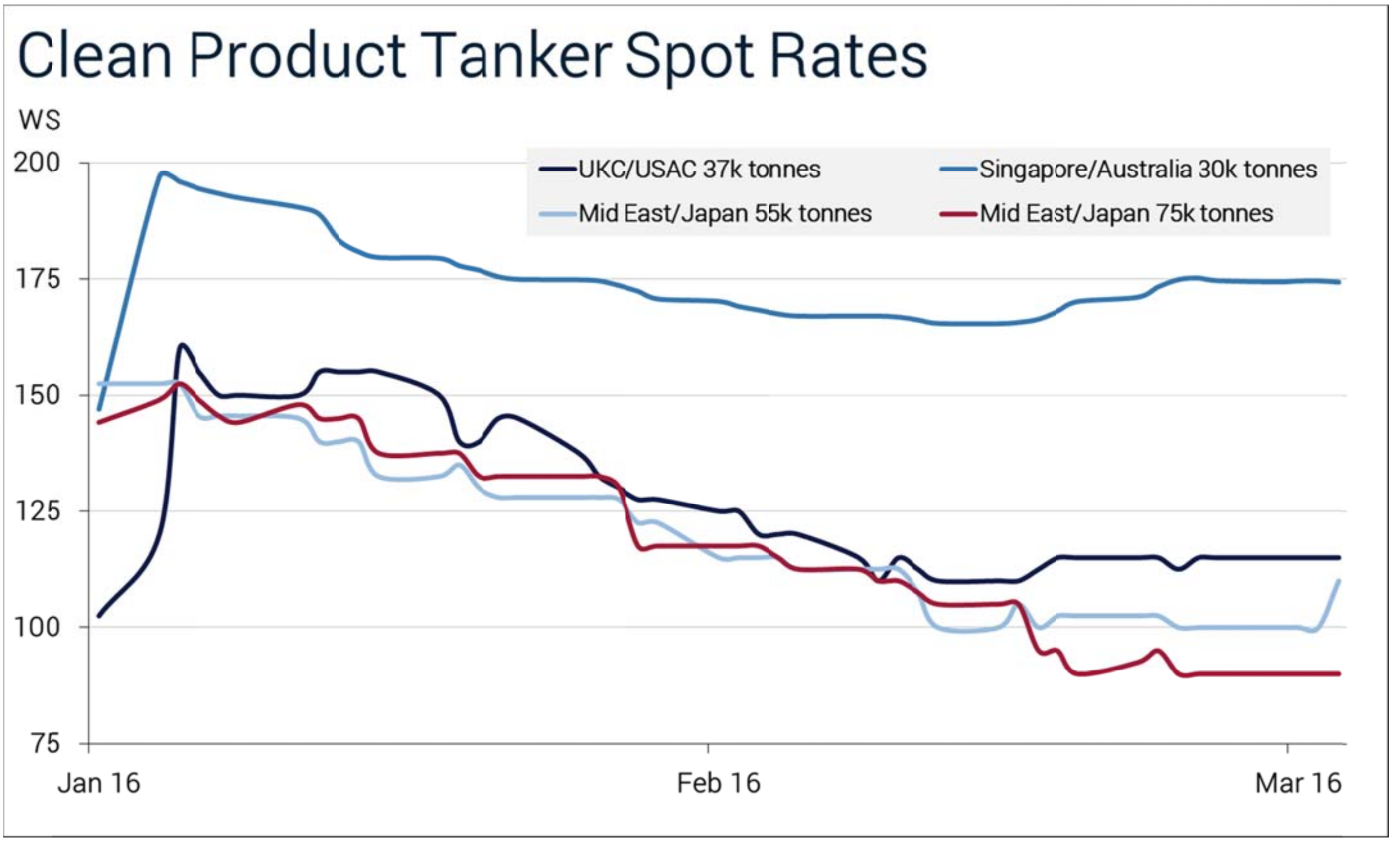
A quiet week for MRs plying their trade in the Med and movements West have been limited as 37 x ws 105 was achieved for Med/USG trips. Gasoline demand to the Red Sea has slowed and rates have fallen to $800k basis Central Med into Jeddah.

UK Continent

As we come to the conclusion of week 9, it is fair to say that this one will not be one for the record books. A placid tone has clouded the continent market and despite acceptable levels of fixing throughout, Owners were unable to get a real grip. Transatlantic voyages are drip fed to hungry Owners, with Charterers being able to come as they please clipping out tonnage at 37 x ws 115 levels. West Africa runs have been few and far between, with Far East reformate movements being the main focus for activity. This said once the second half of the week arrived even these dried up, and as we arrive Friday, Charterers still find well stocked tonnage lists in front of them. Demand will have to change across the board if we are to see rates begin to creep back up, and with TC14 not providing any excitement either, how long this trend remains will be a concern for some. Handies continue the trend with rates holding firm throughout the week, but unfortunately for Owners we sit at the bottom of the hill. An equilibrium has been met between the two parties and we see 30 x ws 135 consistently being fixed for Baltic runs, with the possibility for a couple points less for a natural X-UKCont run. But despite Owners attempts at keeping tonnage moving, we find today a handful of prompt vessels ready for the weekend, and any employment opportunities will be quickly snapped up. Additional Baltic liftings will be needed to keep this glut of tonnage on the move. Finally as we arrive at the Flexis, Charterers find themselves cutting some fat off the market, as by the end of the week we see 22 x ws 155 being placed on subjects. Even though we see these rates appear, Owners begin defence pushing their numbers back up to 160 as we see the prompt section of tonnage evaporating. Owners will be looking forward to the calls from COA partners shortly to gently alleviate the pressure which has begun to build.

LRs

Week 9 has provided a mixed bag of fortunes for the LR fraternity in the West as we began with a tightness of LR1s. This gave Owners the opportunity to apply pressure to UKCont/WAf numbers and as a few stems entered the market, Owners managed to drive rates up to 60 x ws 120. Further activity was seen for LR1s off the continent, with $1.65 million being achieved a number of times for ARA/Spore trips and $1.2 million was written into the books for a Med/AG. The biggest surprise was seeing LR2 levels slip. A few Owners took out $2 million to ensure they grabbed the chance to reposition in the East, although a lack of availability of tonnage in the Med held rates firm at $2.35 million to Japan. As Friday appears we can already see fresh positions enter the frame offering Charterers a wider array of options. The result of Ullage problems on the continent shrouds a number of positions in uncertainty aiding Owners in their quest to improve rates and a fresh list on Monday will show the true strength of this market.


Clean Product Tanker Spot Rates
WS
UKC/USAC 37k tonnes
Singapore/Australia 30k tonnes
Mid East/Japan 55k tonnes
Mid East/Japan 75k tonnes
200
175
150
125
100
75
Jan 16
Feb 16
Mar 16

Handy

If the continent market were a movie where you could fast forward the slow bits to go and prepare some TV snacks, you would have had time to prepare a full on feast! Such was the extent of inactivity Monday through Friday, that levels dropped to around 30 x ws 120 with Owners fortuitous of Charterer mercy that levels are not sat lower.

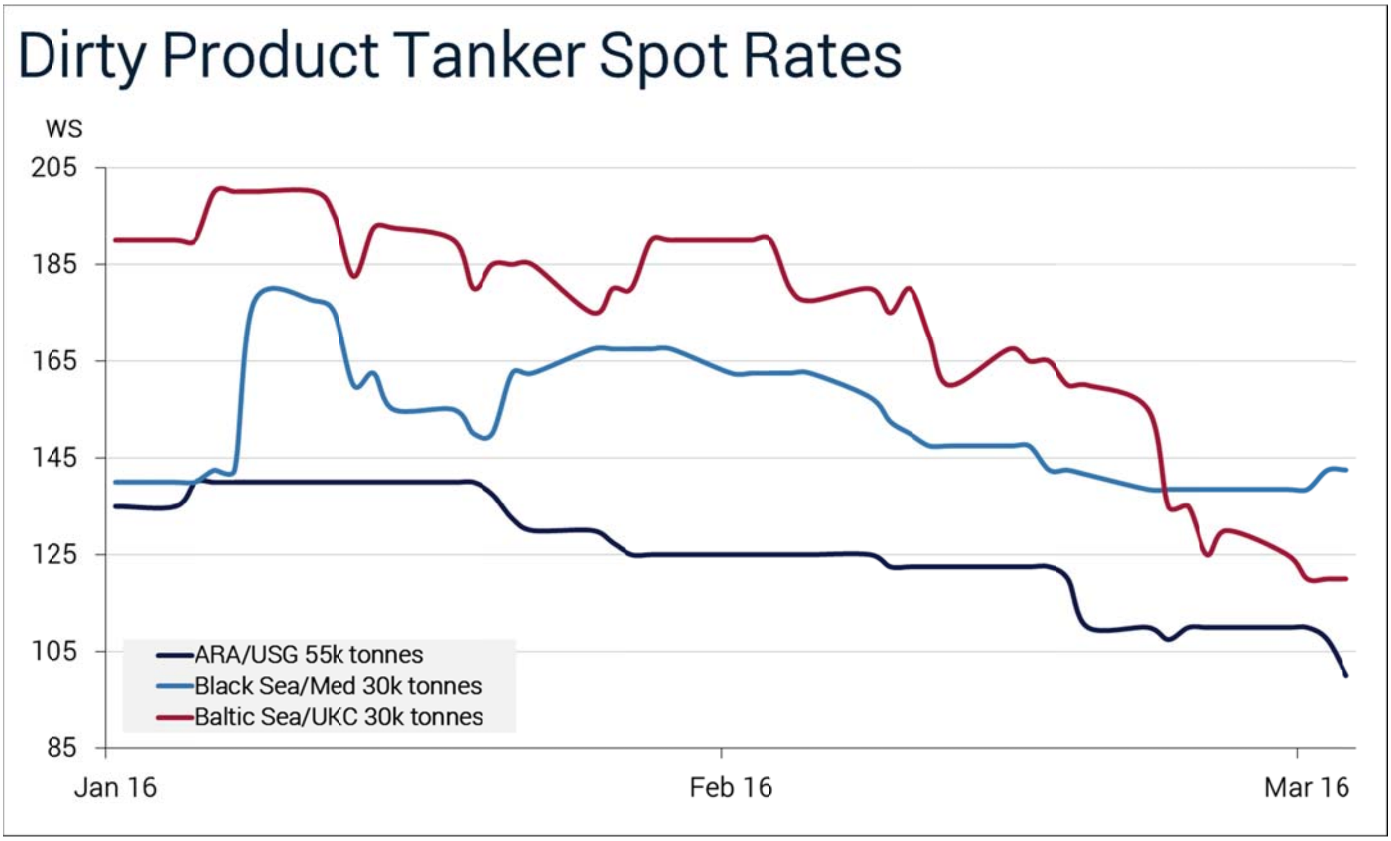
In the Med however conditions were altogether more favourable for Owners as with healthy activity seen leading into this week, more of the same has allowed owners to seize the edge in negotiations. Rates have risen as a result, but perhaps what is more telling for the overall change in trend is that fixing widows have shifted forward, where Charterers try to avoid being left without optimal selection of tonnage.

MR

This sector appears to have taken on behavioural Characteristics from the surrounding Handy markets in both the Med and Cont alike, as in the Med where activity is healthy, rates have remained stable with tonnage levels kept from lengthening. In the continent however, just as the Handies have had a week to swiftly forget, inactivity has damaged confidence. Still awaiting a recognised test of strength Charterers are expected to have the upper hand in negotiations.

Panamax

With tonnage building naturally it has taken near on all week to learn what impact this would have on levels, although bookmakers would have stopped taking bets a long time ago with regards to what conclusion we would finally reach. In short, the activity there has been simply hasn't surfaced to anywhere near the extent needed to affect the supply v's demand balance, regardless of what is happening states side.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 3rd	Feb 25th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-3**	50	53	61	58
TD20	Suezmax	WAF-UKC	**-4**	68	71	74	78
TD7	Aframax	N.Sea-UKC	**-1**	93	93	108	103

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

			wk on wk change	Mar 3rd	Feb 25th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-3,750**	40,750	44,500	53,000	49,500
TD20	Suezmax	WAF-UKC	**-2,500**	26,750	29,250	30,500	32,000
TD7	Aframax	N.Sea-UKC	**-750**	20,000	20,750	32,000	27,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 3rd	Feb 25th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+0**	90	90	115	
TC2	MR - west	UKC-USAC	**-0**	114	114	120	134
TC5	LR1	AG-Japan	**+5**	106	101	112	119
TC7	MR - east	Singapore-EC Aus	**-1**	174	175	167	

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

			wk on wk change	Mar 3rd	Feb 25th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-250**	20,000	20,250	27,750	
TC2	MR - west	UKC-USAC	**-500**	14,250	14,750	15,500	18,250
TC5	LR1	AG-Japan	**+1,000**	17,500	16,500	18,750	20,250
TC7	MR - east	Singapore-EC Aus	**-750**	17,000	17,750	16,000	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+7**	146	139	153
LQM Bunker Price (Fujairah 380 HSFO)	**+1**	158	157	165
LQM Bunker Price (Singapore 380 HSFO)	**+16**	163	147	164
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+19**	308	289	288

PAT/JH/DAJ/JDT/DP/LHT

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