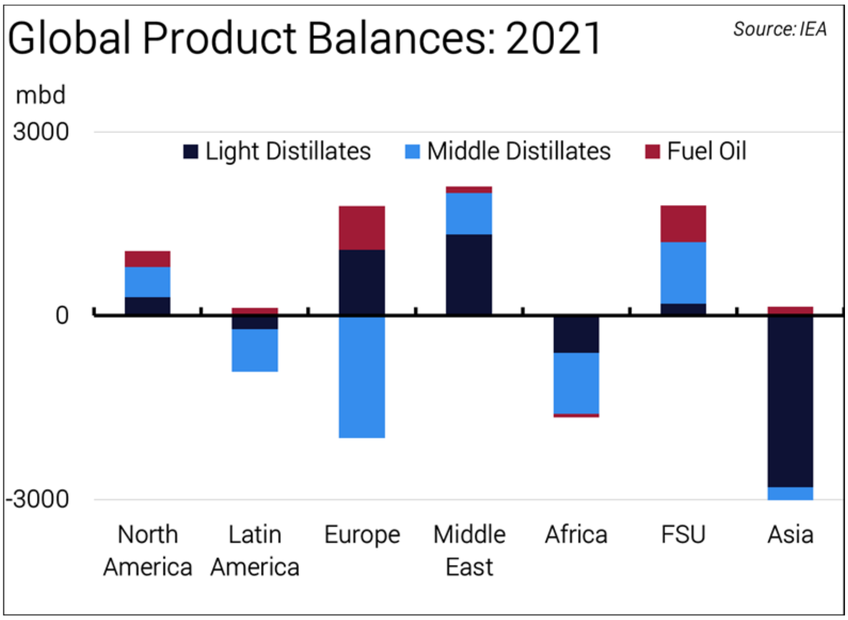
WEEKLY TANKER REPORT

11th March 2016

BALANCING ACT

Much has changed in the last 12 months following the global rout in oil prices. The anticipated rationalisation of European refining capacity has been put on hold in the face of strong margins whilst setbacks to various greenfield refining projects have altered views on the evolution of global product flows.

Recently the IEA released their Medium Term Oil Market Report which has of course been revised to take account of changing markets. Looking at the detail it can be seen that the expectations for regional balances have, in some cases, changed substantially. One of the major areas of change concerns Asia. Until recently it was anticipated that Asia might have a 1.0 mbd deficit of light distillates (Gasoline/Naphtha) by 2020, however the IEA's recent projections now point to a massive 2.8 mbd deficit by 2021, pointing to a substantial import reliance. In our naphtha report earlier this year we highlighted how supportive a 1.0 mbd deficit might be, and thus news that this deficit could nearly triple bodes particularly well for products trade. To identify how supportive this development might be, one must look towards to the regions which are net long on lighter distillates, namely Europe and the Middle East.



Imbalances will also remain a feature of the middle distillates market. However, whilst Europe is set to remain structurally long on light distillates such as gasoline and naphtha, the opposite is true for middle distillates (i.e. gasoil/jet) where projections indicate a substantial deficit of 2.0 mbd by 2021. In short Europe will have a significant deficit of middle distillates by 2021, being heavily import reliant. However, with other regions increasingly long on the grade, there will be a fight for market share with the main suppliers being the Former Soviet Union (FSU), US and Middle East.

Interestingly, despite Russia remaining long on middle distillates, constant changes to fiscal policy make the longer term picture less predictable. However, under the current scenario Russian refineries are expected to cut runs in response to tax changes, whilst demand growth is also expected to recover over the medium term. Thus exports of all clean products from Russia could come under pressure although FSU states are set to remain significant exporters. Other regions will also be short on the fuel, with Africa and Latin America both remaining large importers.

The Asian middle distillate market will also evolve. Last year Asia was a net exporter of middle distillates, but by 2021 Asia slips into a deficit moving to become a net importer. Developments in India should also be monitored closely. In India, refinery capacity additions have not been enough to keep pace with surging demand and thus exports have fallen whilst import demand has risen. Additionally, with increased petrochemical capacity coming online in the future, not only will India's demand for naphtha continue to increase, its exports of clean products are likely to face further declines.

Importantly for product tanker owners, the IEA stated that oil product flows will continue to grow at faster pace than crude flows, supported by widening regional imbalances. On balance, these imbalances are structurally supportive for the product tanker sector.

Middle East

A total about-face for VLCCs. At the end of last week sentiment had started to harden, but needed a sustained period of concentrated bargain hunting to convert into higher rates and that is indeed what happened. Heavy activity, combined with March availability being severely compromised by ongoing delays, mainly in China, allowed the market to inflate, and then jump significantly higher to ws 95 to the East, and to around ws 50 to the West. The spike may well continue over the near term but eventually the severe pinch-point catalyst will be superseded by a more balanced flow of tonnage back into the area. Suezmaxes started flat, but busy Aframax fixing for short term storage in the East began to open up similar opportunities on this size, and rate ideas began to firm towards ws 100 to the East, and to mid ws 40s to the West. Aframaxes didn't find much local interest, but the ongoing demand for storage in the East will continue to provide alternatives, and support, to the market, and rates to Singapore are unlikely to show at any less than 80,000 by ws 125 in the short term.

West Africa

Suezmaxes began slowly, but Owners started to at least make some attempt to test the ceiling, and did manage to push it a little to 130,000 by ws 70 US Gulf, and to ws 75 to Europe, though a solid spell of fixing will still be required to make a significant impression. The temporary halt on ballasters from the East should help. VLCCs benefited from the Middle Eastern gain as Owners sought to at least match the returns being recorded there. Rates have moved to ws 72.5 to the Far East, and could/should yet post higher numbers.

Mediterranean

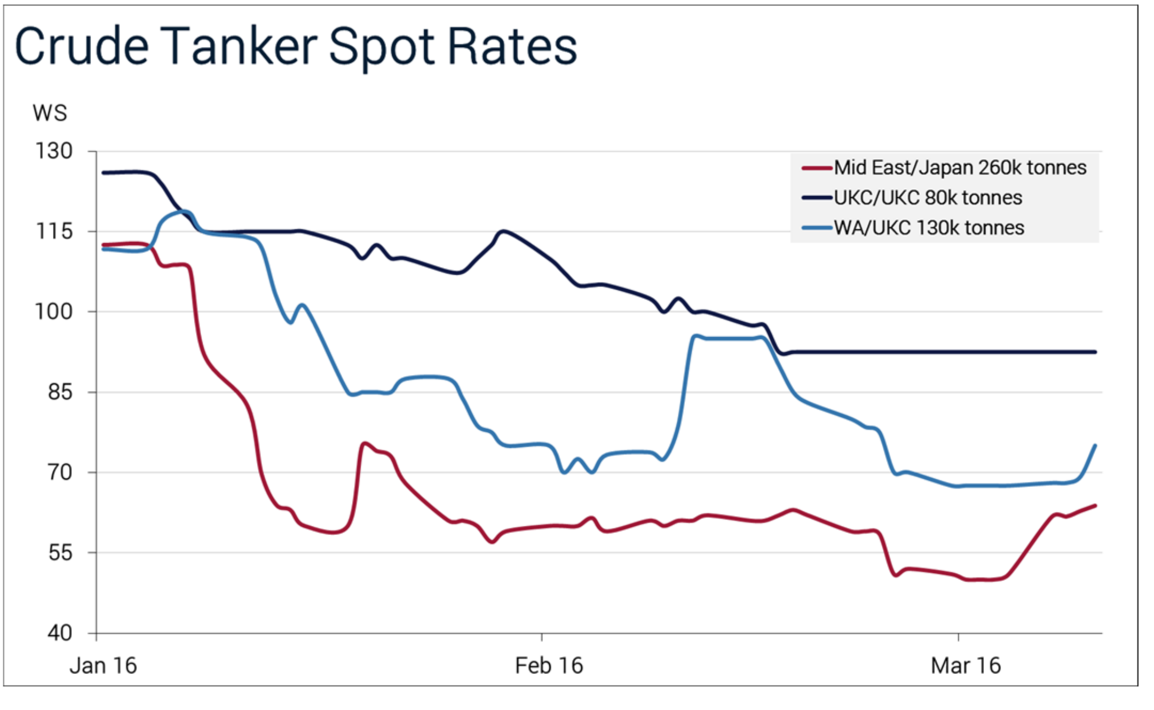
A rare lively week for Aframaxes, and the consistence of the cargo flow helped Owners to smoothly push rates to 80,000 by ws 120 cross-Med with small premiums payable for Black Sea lifts. Good things don't often last long in this short-haul market, but Owners will be reasonably optimistic of keeping their plate spinning well into next week. Suezmaxes initially took a step higher to 140,000 by ws 77.5 from the Black Sea to European destinations, but thereafter failed to find enough momentum to make further headway as march stems began to get fixed out.

Caribbean

Nasty weather in the US Gulf gave Aframax Owners support to touch 70,000 by ws 140 upcoast, but it quickly passed, and availability was then never tight enough to prevent gentle slippage back towards ws 130, and Owners may stay upon the defensive over the near term, at least. VLCCs tightened on early dates though some failing of subjects initially prevented any marked rate gain. Eventually enough were cleared to tighten availability on the fixing window, and levels did then improve to $4.3 million to West Coast India, and to around $5.4 million to Singapore.

North Sea

Aframaxes here looked enviously towards the buoyant Med scene but had to make do with much less spicy fare. Rates tracked mostly sideways at 80,000 by ws 92.5 cross-UKCont, and around 100,000 by ws 70 from the Baltic and don't look likely to make a significant move over the next period. VLCCs got occasionally picked off at down to $4.1 million for fuel to Singapore, and to $6 million for crude from Hound Point to South Korea, though Owners will now raise their rate-sights in line with the advance in other load zones.



CLEAN PRODUCTS

East

The larger sized vessels have finished the week in a much firmer position than where they began. The LR2s have moved very quickly over the past couple of days and seen particular firming - a number of end/ely stems going on subs have cleared tonnage. The last done on an eastern run was 75 x ws 97.5, although there is the potential for further firming going into next week, given the lack of tonnage on natural dates. Although West runs have not been as popular as naphtha runs on the LR2s, they have also firmed - last done was $1.74 million. With the LR2s presenting a decent bargain for Charterers at the start of the week, the LR1s saw less action and remained flat initially. However, they have also picked up at the back end of the week, and a ws 125 on subs for a Red Sea/Japan indicates the firmer stance of the LR1s. West runs currently sit at $1.4 million.

The MRs have looked very firm throughout the week, and rates have been positively tested on all routes. Late replacements off prompt dates on Monday gave the impression of unrealistic firming on Eastern runs, although firming was also seen off natural lifting dates - runs finish the week at ws 142.5. Western runs to the continent were also tested, and $1.25 million is the repeated benchmark to finish the week. Gasoil headed down to East Africa has been less popular this week, after the flurry of activity it experienced in week 9 - this rate has therefore remained relatively flat at ws 172.5. With x-AG at $300k, and AG/Red Sea at $585k, the MRs finish the week in a very strong position, and Owners are currently in no rush to jump on outstanding cargoes.

Mediterranean

A somewhat predictable week for Handys in the Med. Rates started at 30 x ws 130 but after concluding a quiet Monday rates slipped to 30 x ws 127.5. Owners adopted the policy of hold the line for the remainder as both parties seemed happy enough to sing from the same songsheet and conclude last done levels. On the other hand the Black Sea fared a bit better than the Med as more volumes were seen which has enabled rates to hover around 30 x ws 147.5 mark.

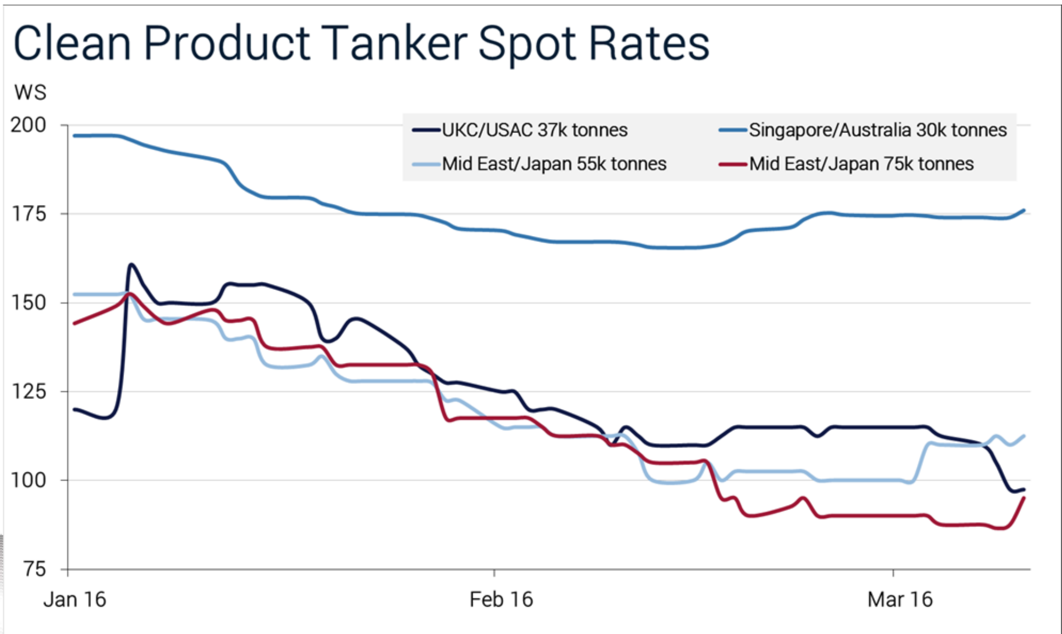
A quiet week for MRs plying their trade in the Mediterranean as fresh cargo enquiries have been limited. Gasoline demand from the East has slowed and as a result rates have slipped further down the ladder. For Red Sea discharge levels have dropped to $775 and $875K for the AG. Transatlantic rates have also taken a hit and 37 x ws 102.5 is the new market low.

UK Continent

If Owners were sitting last week scratching their heads as to why the market did not improve well the scratching can continue as we see this MR market slip further south. With a healthy looking tonnage list appearing in front of us on Monday morning, Charterers had the chance to test whether we truly were at the bottom of the barrel. The answer arrived on early on that we were not, and as we reach Friday we see 37 x ws 97.5 being repeated and the new low found. Pushing ahead we can look forward to Summer grade Gasoline needing to be moved from the beginning of April, hopefully giving tonnage a life line once again, as Far East movements dry up. Across in the States the arb seems shut tight as TC14 demand is limited which again keep rates stagnant. The Handy market has dragged its heels kicking and screaming throughout the week. Demand has been limited and prompt tonnage plentiful which has accumulated, not surprisingly, to the market falling down to 30 x ws 120. A strengthening demand for voyages ending in WAF will give some a little positivity, but as a whole we need to see increased Baltic activity to see an upside shortly. Finally to the Flexis where not to break a trend, limited COA inquiry has been seen. Partnered with only a handful of market stems, rates have slipped to 22 x ws 155 with tonnage readily available in the near future. Owners will be holding on tight, as we wait to see when the wave of inquiry will arrive.

LRs

Week 10 delivers disappointing results for Owners as uncertainty, much of which is due to ullage issues on the Continent, has surrounded many vessel positions. Naturally, Charterers have only dipped their toes into a market which presents limited tonnage options, so as not to get `burnt'. A few of the fixtures reported this week have been due to fixing and failing, but otherwise activity has been minimal with little change seen to rates. Fresh tests are now required on many of the routes. Owners are beginning to think themselves that UKC/WAF runs should be closer to 60 x ws 115. The weekend break will provide respite for vessels to firm up and or new vessels to enter the frame. As things stand however, Week 11 could begin in similarly slow fashion.



DIRTY PRODUCTS

Handy

Another week goes by with minimal movement in the Continent. The region is really lacking in momentum with Charterers and Owners growing increasingly conscious of the conditions. At the final hour we have seen a flutter of activity which in Owners eyes offers a glimmer of light at the end of the tunnel. This said, there is a lot of work to be done before we see any signs of recovery.

In the Med conditions have traded with a rather flat undercurrent, where although activity has been healthy, the regions tonnage supply was more than adequately on hand to mop up requirement. Levels did slip slightly over certain positions, although not enough to damage confidence heading into next week.

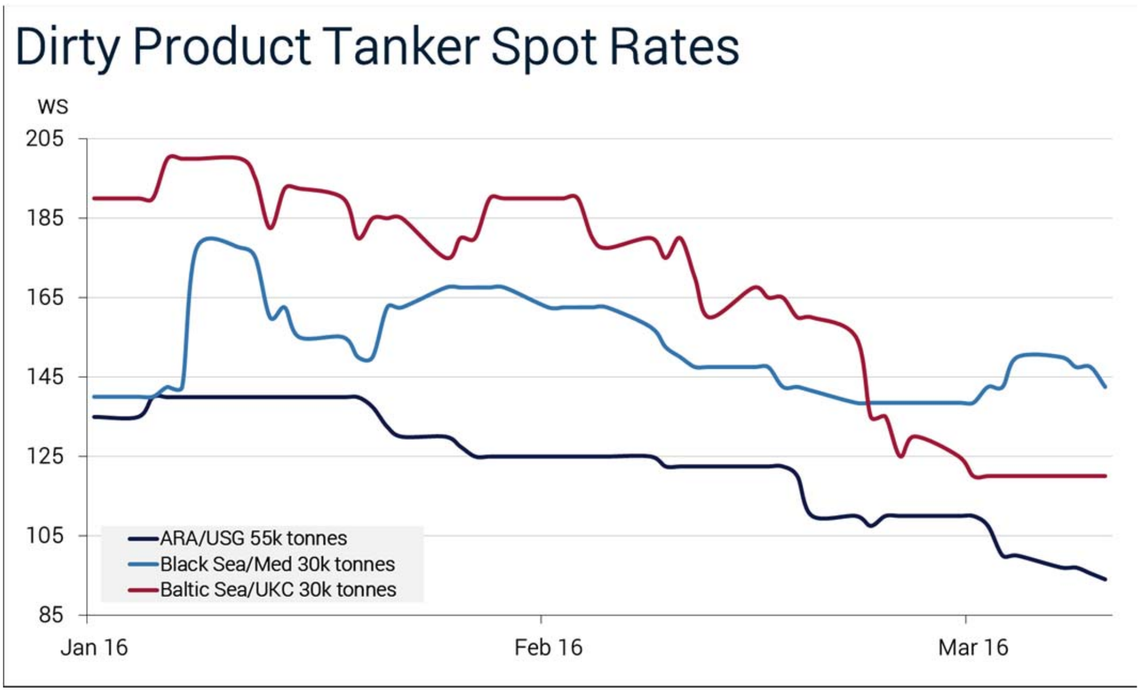
MR

As we started the week up in the continent Owners could not of been blamed if they thought “here we go again” as the lack of enquiry continued. Hitting the mid-week mark and with close to double figures of prompt Handy/MR tonnage in the region, intense competition would have done nothing to raise Owners spirits. That said closing the week out with a couple of units being placed on subjects will slightly alter the outlook for next week.

In the Med reports of a handful of units employed against full sized stems will have Owners feeling slightly more positive. Furthermore where this is combined with bad weather, replacement opportunity has seen the region trade with a degree of firmness. Heading into next week, if surrounding markets continue to prosper, further momentum could be seen.

Panamax

We started this week with a plump looking tonnage list that was flooded with naturally placed units. As the week progressed however we have seen much more activity than in recent times and drawing to a close of the week signs of recovery have started to appear.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 10th	Mar 3rd	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+21**	71	50	63	66
TD20	Suezmax	WAF-UKC	**+7**	75	68	90	82
TD7	Aframax	N.Sea-UKC	**-1**	93	93	93	100

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

			wk on wk change	Mar 10th	Mar 3rd	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+23,000**	63,750	40,750	55,250	56,500
TD20	Suezmax	WAF-UKC	**+3,000**	29,750	26,750	39,750	33,250
TD7	Aframax	N.Sea-UKC	**-1,250**	18,750	20,000	21,000	23,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 10th	Mar 3rd	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+5**	95	90	110	
TC2	MR - west	UKC-USAC	**-17**	97	114	113	134
TC5	LR1	AG-Japan	**+6**	112	106	100	124
TC7	MR - east	Singapore-EC Aus	**+6**	180	174	166	

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

			wk on wk change	Mar 10th	Mar 3rd	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+750**	20,750	20,000	26,750	
TC2	MR - west	UKC-USAC	**-4,000**	10,250	14,250	14,250	17,250
TC5	LR1	AG-Japan	**+750**	18,250	17,500	15,750	20,500
TC7	MR - east	Singapore-EC Aus	**-500**	16,500	17,000	16,000	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+23**	169	146	127
LQM Bunker Price (Fujairah 380 HSFO)	**+22**	180	158	148
LQM Bunker Price (Singapore 380 HSFO)	**+14**	177	163	158
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+35**	343	308	293

RNM/JH/JDT/DAJ/DP/LHT

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E.A. GIBSON SHIPBROKERS LTD., AUDREY HOUSE, 16-20 ELY PLACE, LONDON EC1P 1HP
Switchboard Telephone: (UK) 020 7667 1000 (International) +44 20 7667 1000
E-MAIL: tanker@eagibson.co.uk TELEX: 94012383 GTKR G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135