

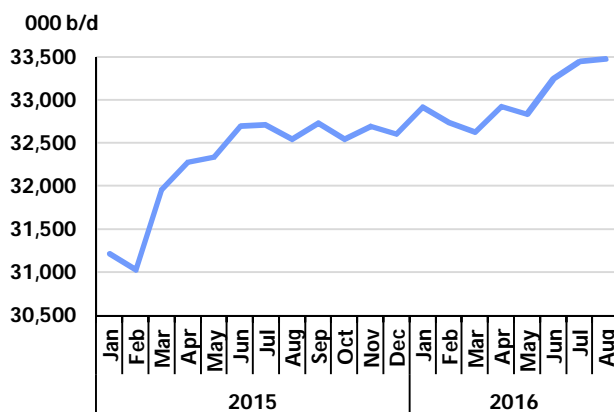
OPEC Swings into Action

Weekly Tanker Market Report

Last week's announcement that OPEC has reached a provisional agreement to cut production came as a surprise to many oil market participants. Whilst we had known for some time that an informal OPEC meeting would take place on the sidelines of the International Energy Forum in Algeria, few expected any meaningful news to emerge. Yet we now know that there is an intention within OPEC to limit output within a 32.5 to 33 million b/d range, down some 0.5 to 1 million b/d from nearly 33.5 million b/d produced by OPEC in August.

Yet despite this intention, the details still need to be ironed out with OPEC needing to agree, who and how much to cut. Firstly, Iran is likely to remain exempt from any deal until its production is restored to 4 million b/d, up from approx. 3.6 million b/d at present. Whilst Nigeria, which has been supportive of such an arrangement is likely to be unwilling to cap production much below 2 million b/d, from recent levels as low as 1.46 million b/d. Equally other OPEC producers will claim their production is in recovery mode. Production in Libya is rising but well below the 1.39 million b/d produced in 2011. Venezuelan production has also been in decline, meaning they may also be unwilling to adhere to any reduction in production levels.

OPEC Crude Production



These factors mean the emphasis is likely to be placed again on Middle East producers, with Saudi Arabia in particular focus. Saudi crude production hit 10.6 million b/d in August, following seasonal trends which typically see production increase over the summer months to meet domestic energy demand. One could therefore argue that production was always going to fall towards the end of the year as peak electricity demand faded closer to the cooler winter months. Thus a cut of 0.4 million b/d which has been muted by some analysts, may have a limited impact. Other Gulf states including Kuwait, the UAE and Qatar also boosted production over the

summer, and may follow similar seasonal patterns.

In any case, even if some OPEC member's trim production, rising production from both within and beyond OPEC could offset any declines. Increases from Iran and Nigeria seem likely, whilst any artificial support to the oil price will stimulate non OPEC supply and could be the catalyst needed to reinvigorate the US shale industry. Shale producers have been forced into becoming far more efficient in order to survive lower prices, meaning break evens across the industry have fallen. 109 rigs have been added since May, and production may be starting to stabilize, all of this in a \$40-50/bbl price range. If oil prices are to firm further, then US drilling activity is likely to intensify. Additionally, production is rising in Brazil, whilst crude flows from the Kashagan field are starting to materialize. Equally, Russia is sending out mixed signals. Russian production is at or near record levels, and whilst Russia has signaled it may be willing to freeze output, a cut could be a step too far for now. Overall, whilst such action from OPEC is typically negative for the tanker market, it may not be a disaster with the impact being marginal, offset by rising supplies elsewhere. Equally, much of the cut backs could be a reflection of lower seasonal domestic demand amongst crude producers, and thus have a limited impact on seaborne exports.

Crude Oil

Middle East

Rampant volumes for a second week running heaved VLCCs into new, higher, Rate territory but the wealth of availability meant that although rates moved noticeably to an average ws 55 to the East and to ws 30 to the West, There remains a feeling of slight underperformance on what will prove to be the busiest month of the year. Owners are now consolidating the gain, and will look for further upward opportunity if Charterers maintain momentum into next week, and into the November programme - if. Suezmaxes merely drifted sideways, however, upon only modest enquiry, and easy looking tonnage. Rates remained at no better than ws 37.5 to the West for 'standard' movements, Though loadings from Iran commanded large premiums. Levels to the East also hardly broke above the previous ws 60 mark. Aframaxes became a little busier and that proved sufficient to drag rates off their bottom markers to end at 80,000 by ws 67.5 to Singapore - modest, but progress nonetheless.

West Africa

Suezmaxes initially continued upon their retreat upon a more measured cargo flow, and more arrivals from the East. From mid-week, however, the brakes were successfully applied and Charterers found difficulty in eroding the market below ws 77.5 to the USGulf, and ws 80 to Europe, Though Owners are still not out of the woods and will have to find stamina for next week's campaign. VLCCs started slowly but as the AGulf pushed onwards, and as ballast time considerations came into play, Charterers had to make some move into November, and rates rose to ws 55 to the Far East with up to \$3.65 million paid for a run to West Coast India. Owners are now attempting to re-establish the previous differentials over AG/East numbers and higher values are possible on next deals.

Mediterranean

Another week of disappointment for Aframaxes that saw rates steadily tick down to 80,000 by ws 75 cross Med and increasing fears of further pruning into next week. Suezmax availability rose

on the fixing position, and West Africa weakness further undermined sentiment. Rates fell off to 140,000 by ws 82.5 from the Black Sea to European destinations, and could ease further over the coming period.

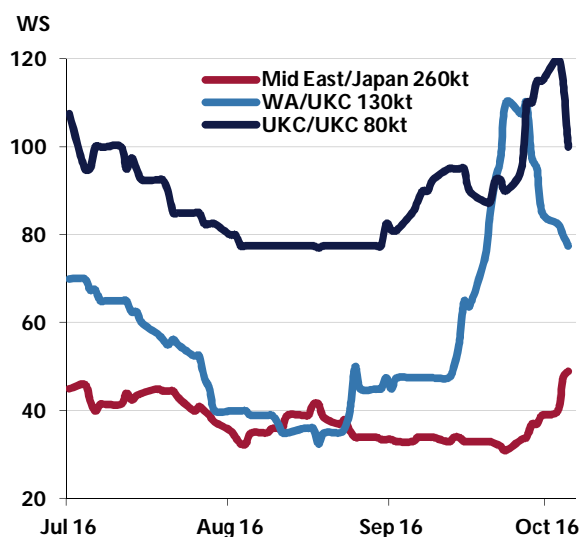
Caribbean

Bad weather - very bad weather - but the worst of it skirted the main shipping hubs, and Aframaxes failed to gain any disrupting advantage. Rates stuck at 70,000 by ws 75 for most of the week but just enough activity then began to surface to add a few ws points by the week's end. VLCCs remained reasonably balanced but fresh enquiry was very light and rates remained theoretically at around \$3 million to West Coast India, and \$3.8 million to Singapore. More action expected for next week, but little rate change.

North Sea

Aframaxes held up well for most of the week, but then the plug was pulled and a diluted balance allowed Charterers to drive rates back to 80,000 by ws 95 cross UKCont, and to 100,000 by ws 70 from the Baltic with perhaps more discounting to come. The 'arb' opened up for VLCCs to the East and with tonnage also tight, rates jumped to as high as \$4.6 million for crude from Hound Point to South Korea, and to \$3.4 million for fuel oil from Rotterdam to Singapore - similar/higher rates to be expected on next slots too.

Crude Tanker Spot Rates



Clean Products

East

A relatively flat week in the Middle East for the MRs. The arrival of tonnage has been steady, and a relatively long list of cargoes has matched it well. The issue with many of these cargoes is that they have been flakey in terms of moving laycans and disappearing bbls. Short haul was softened by a \$120k put on subjects for a Bahrain/UAE - they sit at the \$140k level for a standard Jub/J.Ali. There have been a few TC12 cargoes to cover, and the rate seems relatively set at the ws 97.5 level. West runs have been unpopular on this size, as larger tonnage is currently so cheap, and sit at the \$925k level for a jet lift. Runs into the Red Sea sit at \$380k, and have been relatively popular, leaving a lot of Owners with tonnage now to cover in the Red Sea. EAfr has also been popular for a successive week, and ws 120 has been the market level for an AG or WCI load, ws 115 ex-Red Sea. Tonnage is not too oppressive going into the new week, so predicted rates will remain flat, but as always will be dictated by the quantity of emerging cargoes come Monday and Tuesday. The LR2s have experienced a degree of thinning throughout this week, as enough cargoes appeared and were taken on subjects to keep ships moving. The issue here has been that rock bottom rates have been reached, and Charterers are under no pressure to move away from these levels. Owners are in a rut - a fear that if they don't take the Charterer's ideas, then someone else will. Naphtha runs have sat buried at the 75 x ws 55 level, but there is sentiment that this rate may see slight improvement next week. A window-shop rate of ws 54.5 is now on subjects, and Charterers are looking to cover their next stems at ws 52.5. However, now the LR1s are in a healthier situation, levels this low may not be achievable. West runs have been misreported at the \$1.2 million ex-Yanbu, but Charterers are happy to fix at the \$1.35 million level - low enough they feel to be put under more pressure. AG loads sit at the \$1.4 million level, and look flat at this level going into the new week. The LR1s thinned earlier in the week, and were left in a much healthier position than they have been in previous weeks. Naphtha-suitable tonnage is thin until the 20th, and some Owners are talking 55 x ws 80 going into the new week. West runs will sit steady at

the \$1.2 million, possibly firming slightly. Although a \$1.175 million was done earlier in the week, it would be difficult to repeat in the current market. The challenge remains to find Owners who are keen to send vessels West at these levels.

Mediterranean

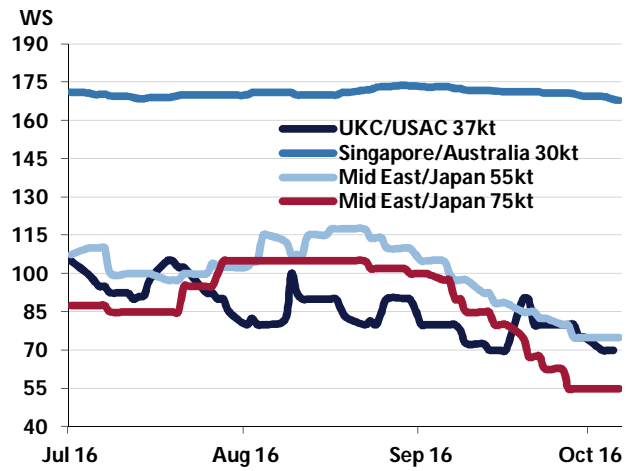
Week 40 began in a typically quiet manner in the Mediterranean. A good supply of handy tonnage left rates trading sideways and another slow week could have resulted in rates slipping from 30 x ws 95 for cross Mediterranean runs and 30 x ws 100 for ex Black Sea runs. MRs began the week in similar fashion to the Handies with little signs of promise in the early stages. On Tuesday however, a few signs of life appeared with reports of 30 x ws 97.5 on subjects for Handy cross Mediterranean runs and as there was a scarce supply of MRs, Owners saw an opportunity to dig their heels in and reclaim some lost ground on rates. By the mid-week stage a steady flow of activity on both Handys and MRs saw rates climb back into triple figures across the board and this positive outlook has remained running into the weekend. As the week comes to a close there is a short supply, particularly of MRs in the Mediterranean. Handies for now continue to trade around the 30 x ws 100 levels, but Black Sea rates have finally jumped on the bandwagon and have increased 5 points to 30 x ws 105.

UK Continent

As week 40 draws to a close, all in all Owners will be pleased with the amount of enquiry and fixing which has been concluded. Many come Monday morning were very pessimistic on what laid ahead as NWE was attracting a huge amount of ballast units from a softening States market which would highly likely keep transatlantic & WAfr levels suppressed. By the mid-week point and healthy levels of enquiry continuing, transatlantic levels were maintained at 37 x ws 70 and WAfr trading at 37 x ws 90. With the tonnage list now tight up until the 14th, Owners sentiment has now turned and are optimistic of achieving more than last, but as seen in the past some may have flexibility on their dates which enables more tonnage options and in turn relieve all pressure. Not the greatest week for Handies plying their trade up on the Continent & Baltic as Charterers continued to shave points off the marketplace. 30

x ws 100 was achieved ex Baltic and there was some resistance from a few Owners trying to hold at 30 x ws 105 although this policy of hold the line didn't last long. Looking ahead there is little in the way of outstanding cargoes as we end the week and many in the Owning fraternity will hope the resistance will stand strong and refuse to break the psychological 3 digit barrier. Variety, as they say, is the spice of life ... unfortunately for Flexis we are not seeing much of this at the moment. Fresh market enquiry remains extremely light and levels have slipped to 22 x ws 137.5.

Clean Product Tanker Spot Rates



Dirty Products

Handy

You can almost hear the sigh of relief from Owners in the Continent as finally the market starts to move in their favour. Charterers will be heading into the weekend knowing they have had a good run for quite some time but there will be a small part of them which will be wondering whether Monday's activity will continue or will it flop like we have seen too many times before. However, with the current position looking tight as my colleagues wallets at the bar, this region should continue to firm. There has been little change in fixing ideas this week in the Mediterranean, but it did feel like more was going on than we've seen for some weeks. Frustratingly for Owners and luckily for Charterers, the number of failings this week has kept the market at bay, however, the general consensus is there is more going on behind the scenes and we expect this region to tighten next week.

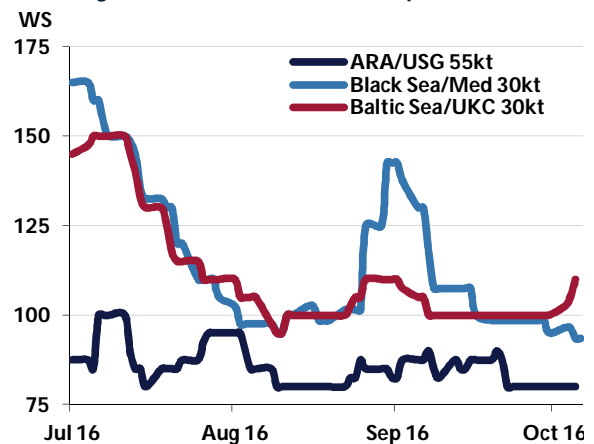
MR

The Continent market this week has sustained the lack of naturally placed units Charterers have grown accustomed to, but from an Owners point of view they will be pleased to see that the Handies have done a great job in causing increment. With full sized stems and tonnage still a rarity in the region, the market is in need of a fresh test. The beginning of the week failed to maintain the level of enquiry that the end of last week brought (particularly out of the Black Sea) in the Mediterranean, and with tonnage availability remaining healthy throughout Owners could not of be blamed for fearing another week of battling it out to get their tonnage on the move. As the week drew on, steadily full sized stems started to appear much to Owners relief, heading into next week things could be looking a little brighter for Owners as the market is showing early signs of picking back up.

Panamax

A sharp contrast in activity levels seen this week within this sector from the previous week. As the days tick by the naturally positioned tonnage this side of the pond start to firm leaving Owners digging deep to find employment. Combine this with the inactivity from the US markets and it is beginning to leave a bitter taste for things to come. With this said looking forward to next week, it is worth keeping a close eye on hurricane Matthew hitting the Caribs and USAC region over the coming weekend, this in turn could develop into some itineraries slipping back a couple of days and tighten this market.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 6th	Sept 29th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+18	56	38	37	55
TD20	Suezmax	WAF-UKC	-18	80	98	35	73
TD7	Aframax	N.Sea-UKC	-20	98	118	78	107

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

			wk on wk change	Oct 6th	Sept 29th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+18,750	36,000	17,250	17,750	35,750
TD20	Suezmax	WAF-UKC	-10,750	27,500	38,250	6,000	23,500
TD7	Aframax	N.Sea-UKC	-19,250	19,750	39,000	4,500	27,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 6th	Sept 29th	Last Month	FFA Q3
TC1	LR2	AG-Japan	+0	55	55	104	
TC2	MR - west	UKC-USAC	-7	70	77	93	88
TC5	LR1	AG-Japan	+1	76	75	108	80
TC7	MR - east	Singapore-EC Aus	-2	168	170	170	

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

			wk on wk change	Oct 6th	Sept 29th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-250	4,500	4,750	21,000	
TC2	MR - west	UKC-USAC	-1,500	2,500	4,000	8,000	5,750
TC5	LR1	AG-Japan	+0	6,500	6,500	15,000	7,000
TC7	MR - east	Singapore-EC Aus	-750	12,500	13,250	14,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+12	261	249	216
ClearView Bunker Price (Fujairah 380 HSFO)	+12	281	269	226
ClearView Bunker Price (Singapore 380 HSFO)	+17	277	260	221
ClearView Bunker Price (Rotterdam 0.1% LSFO)	+27	445	418	366

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