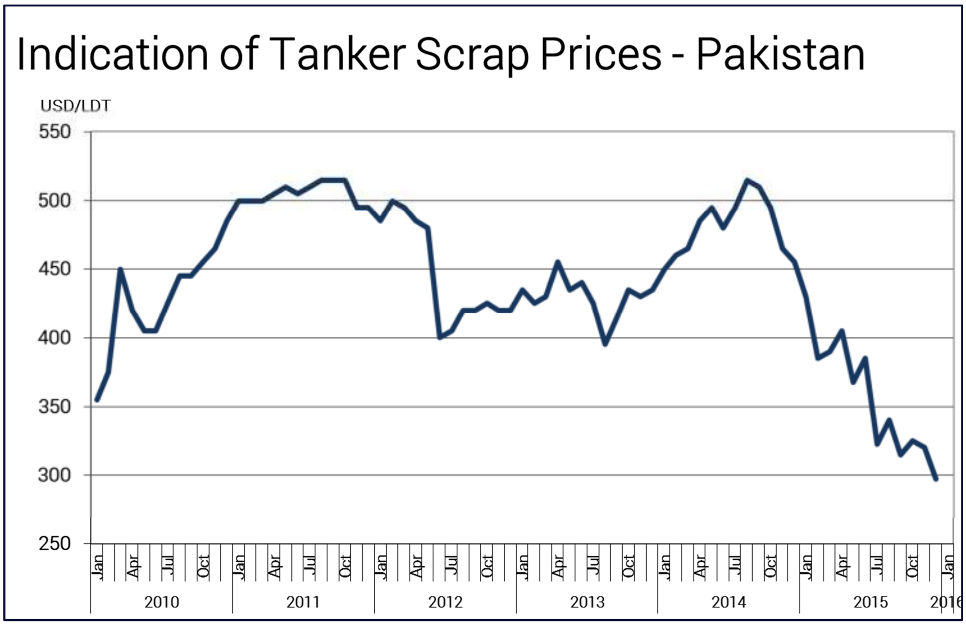
WEEKLY TANKER REPORT

GIBSON SHIPPING ENERGY

8th January 2016

DOWN TO SCRAPS!

It will come as no surprise that tanker demolition activity during 2015 reached its lowest level in twenty-five years. In deadweight terms tonnage sold for scrapping amounted to 1.7 million tonnes, just 29 units. Robust earnings across most tanker sectors over the year discouraged scrapping, Also, the phase out of single hull tanker tonnage, with most of the replacement taking place between 2003 and 2010, meant that more than half of the current global tanker fleet is less than 10 years of age. There are very few tankers over 25 years of age, with more than 80% of the existing fleet less than 15 years of age.



Scrap prices collapsed in 2014 and current lightweight prices for Pakistan are presently in the region of \$300/ldt, around \$200 less than in September that year. Pakistan breakers took more than half the tanker tonnage sold last year. Prices peaked at over \$500/ldt in mid-2014 and have fallen dramatically to the low prices on offer today and are at their lowest since August 2009. The major drop in scrap prices across the sub-continent to large extent was driven by strong imports of Chinese billets (semi-finished metal products) which provided an easier and cheaper alternative to ship scrap.

Just one VLCC demolition sale was concluded last year, while Suezmax scrapping was non-existent. In November the VLCC "ALBA" (built 1989) was sold by Single Buoy Moorings to Bangladesh breakers having purchased the vessel in April 2011 for a potential offshore FPSO conversion. The tanker had been anchored off Labuan since September 2012 and her fate may have been finally sealed as a result of the low oil price as the demand for offshore projects collapsed. Three Aframaxes were scrapped, all 1992 vintage, the first sale in March sold for \$380/ldt, while the third sale in November only achieved just \$250/ldt. Seven Panamax/LR1 tankers were sold, which included the youngest tanker sale the "JI LI HU" at just over 15 years of age. The remaining tonnage sold (18 units) were all MR size, including the oldest demotion sale which was just short of 34 years of age. The average age of all tanker tonnage sold for scrap amounted to 25 years.

In the near term, prospects both in the crude and the product tanker market remain robust and coupled with the age profile of the fleet and the low lightweight prices on offer; demolition activity in 2016 is anticipated to remain at highly restricted levels. Lower bunkering costs also mean that fuel efficiency is less of an issue and thus extending the life of many tankers. With the continued delay in implementation of the Water Ballast regulations and the limited potential for FPSO conversion projects, the likelihood is that levels of tanker removal this year could be even more challenging.

CRUDE

Middle East

First weekly report of the New Year, and the euphoria of the Pre-Holiday VLCC scene has been fairly well punctured. For most of the period Owners held their heads up well, despite the disrupted cargo flow, but as the January programme entered its final phase, and good availability remained, a harder hit was difficult to resist, leading rates down to ws 65 to the East and to around ws 40 West - roughly a 30 pct Worldscale drop from prior to the holidays. Further softening may yet be seen, but Charterers will soon be weighing up whether to go bargain shopping once again, which may provoke a rebound if they do. Suezmaxes, on the other hand, showed much less variance over the period - ws 85 East is now ws 80, and ws 50 West is now close to ws 40...and still soggy, but forward dates may see levels propped up by the exodus of tonnage departing for potential West African opportunities. Aframaxes eased off a little to 80,000 by ws 110 to Singapore, but there are tentative signs that things could improve somewhat over the coming week.

West Africa

Suezmaxes were topped and tailed over the period in a ws 75/90 range for Atlantic options, and just for now operate at close to the top end of that range, though ballasters from the East, and a reluctance by Charterers to continue to hunt on more forward positions, is likely to reduce the fizz. VLCCs shadowed AGulf rate movements, but are unlikely to move as low as wherever that market goes as Owners stick for 'insurance' in case of a rebound developing during the longer voyage duration. 'Last done' to the East is at ws 71.5 with around 5.7 million payable to West Coast India.

Mediterranean

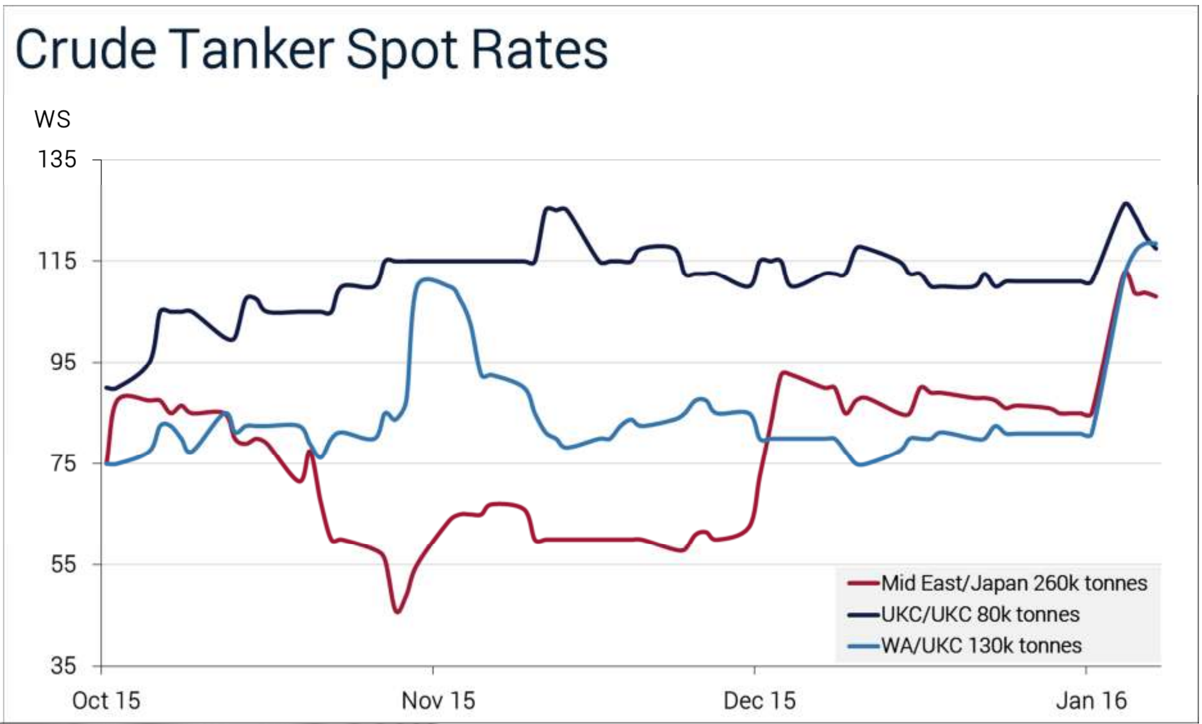
Aframaxes declined, and then broadly remained flat - 80,000 cross Med moves at no higher than 80,000 by ws 120 on the 2016 Worldscale, and there's not enough bad weather to tighten things sufficiently to allow for any early spike. Suezmaxes operated similarly to those in West Africa so that rates have recently peaked at up to 140,000 by ws 110 from the Black Sea, but with a less certain outlook to the South, delays ameliorating, and January programmes from the Black Sea almost spent, levels are likely to come under some pressure again.

Caribbean

Despite some port closures, Aframaxes are struggling to find true grip, and the market continues to look slippery at 70,000 by ws 110 (2016) upcoast until further delays impact, and/or Charterers get noticeably more active. VLCCs retained solid numbers - up to $7.8 million to Singapore, and $6.6 million to West Coast India - but there are one or two early units left behind that will discount if given the opportunity. Apart from those, however, once the market moves deeply into February, there is a supportive finer balance.

North Sea

Into deep mid-winter, and at last 'ice' is sighted. A two tier Aframax market therefore beckons with an expectation that ice-class vessels will soon be a be able to bank noticeable premiums over the currently 'standard' 80,000 by ws 115 (2016) cross UKCont, and 100,000 by ws 105 (2016) levels currently on offer. Quiet initially for VLCCs, but the fuel oil 'arb' recently snapped open, and that allowed a handful of deals to be concluded at an average $6.5 million 'all in' for Rotterdam to Singapore runs.



CLEAN PRODUCTS

East

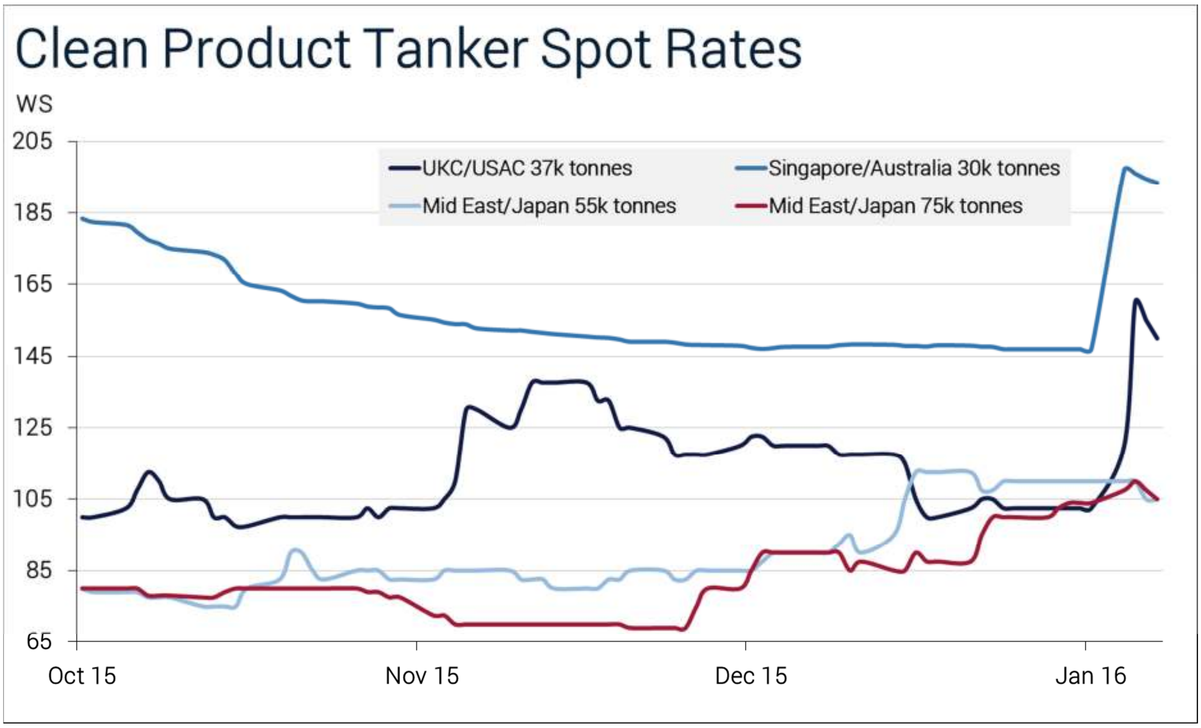
It was a very busy start to the beginning of 2016 for the MRs in the AG, however, given the soft footing from where it started, activity needed to be high in order to clear the prompt tonnage and get a more stable looking position list come the end of the week. With generous amounts of early tonnage rates were never going to set the world alight and as a result, a trend of splitting up larger stems into MR stems was seen. AG/EAfr has been consistent at ws 105 and AG/UKCont has also been steady at the $1.0 million level. Shorter voyages were tested as the week progressed and a cross AG sits at the $185k mark. With the tonnage list sitting in a much better position towards the close of the week, there are all the signs that these rates will be tested early next week as Owners try to get the MRs to align with the larger ships. LR2s started the week at pace with initial hype and rate rises but has ended pretty much where we started. 75,000 mt naphtha AG/Japan hit the lofty heights of ws 115 mid-week but is now back at ws 104. 90,000 mt jet AG/UKCont never really managed to gain enough ground and stays at around $2.40 million. LR1s have remained fairly steady throughout this week in contrast to the bigger units. 55,000 mt naphtha AG/Japan is now ws 105 and 65,000 mt jet AG/UKCont is hovering around $1.70 million. Next week is likely to be more of the same while we wait for the MRs to complete their recovery.

Mediterranean

The first week of the New Year has proved to be a steady one for those Handies plying their trade in the Mediterranean. Rates started the week at 30 x ws 175 (16) and with a solid amount of fixing throughout the week levels were able to push up to 30 x ws 180 (16). The tonnage list remains balanced heading into next week, but further trimming could be on the cards as those ice class ships searching for the illusive Med/Cont look to get back home for the ice season. An increase in demand for gasoline heading to the Red Sea has seen MR action in the Med pick up. Red Sea runs basis central Med load have attracted East of Suez ballasters due to their subdued market and rates have now closed the week at $950k (+ $100k for the AG). MRs heading transatlantic are considered around 37 x ws 155 levels.

UK Continent

As 2016 rears its head, adjusting to vastly different flat rates have kept many busy with their calculators. Initial trepidation over who will be the first to fix the new rates was present at the beginning of the week, but as we reach the close of business, most are fully committed now. Activity in the North sparked to life as limited prompt options for Charterers were present and rates kicked up to 37 x ws 160 (16) by halftime. But this seemed to be as far as it got, with rates being dragged back down to 37 x ws 150 (16) as Friday arrives, with demand for gasoline into the States slumping due to high stock levels across the pond. Owners looking ahead will be pleased with the start so far, but will need to keep ships moving to hold back any further slip. Vessels with Ice Class status will rebound transatlantic stems as we see the winter chill finally arriving. In the Handy market, little has shone so far this year with the market continuing from 2015 levels. Activity has been balanced nicely against current tonnage lists keeping this sector flat. Charterers must keep a close eye on the current Ice build up in the Baltic, soon we can expect restrictions to develop further and premiums to build once again here. Finally to the Flexis, a slight decline can be seen during the conversion over to 2016, but this can be accredited to a strong finish to the market last year. We see rates levelling out to 22 x ws 200, but with a healthy tonnage list being produced, the possibilities of further decline is slowly building. Expect pressure to keep increasing into Week 2, as COA business keeps the boat afloat so far.



DIRTY PRODUCTS

Handy

Coming into the first deals of 2016 we have seen a distinct reluctance to fix on the new schedule, and whilst this is normally the case when stepping between years, perhaps this time round there was more of a justifying reason. It is fair to say there was a distinct nervousness, as the differences with straight conversions distorted numbers, and with big differences in daily earnings in jeopardy it was no wonder it took a few deals to start the transition.

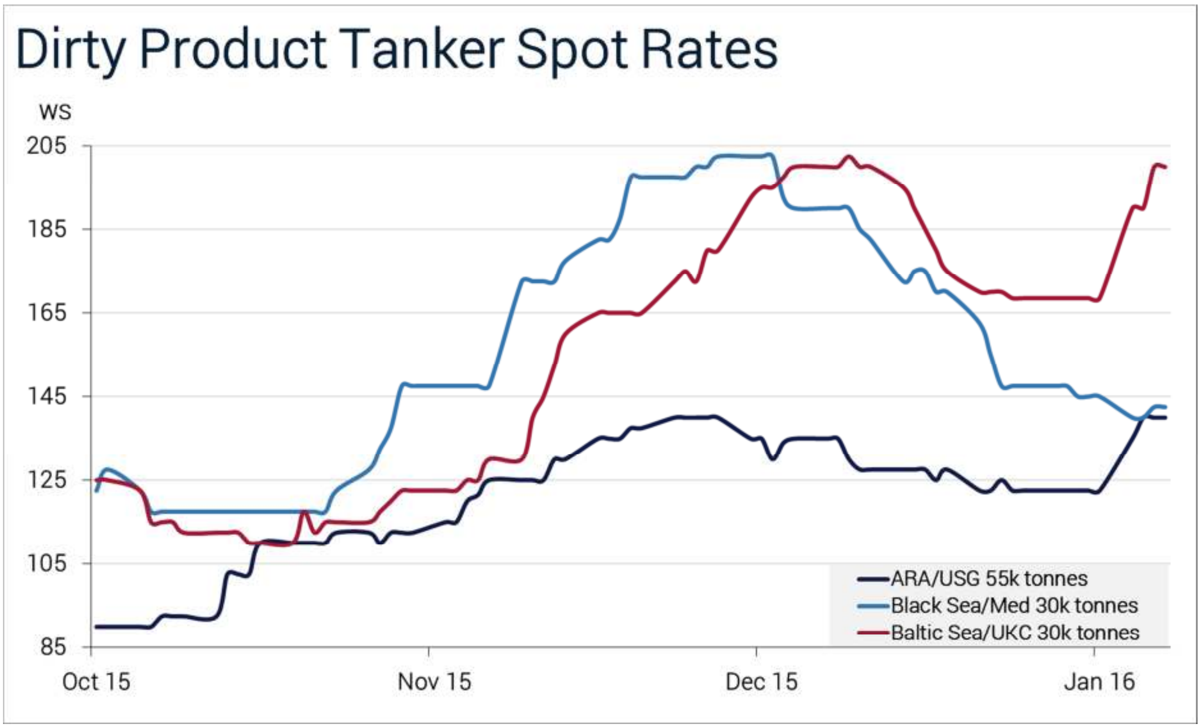
In the Med things were rather less complicated, and with a solid week of trading behind us owners have seen a positive transformation to the tonnage lists. Not quite enough to reclaim some of the lost Worldscale points but enough to create a solid foundation for starting week two.

MR

On the MR's the North has had a moderate start to say the least with only a couple of natural units in play, matched only by a couple of firm deals to see them employed. Looking ahead it would appear that the only thing that has changed year on year is the dates on the calendars, as with limited natural tonnage conditions remain unchanged. Down in the Med owners will report a somewhat frustrating week as with the Handy market activity ticking along, a full 45kt requirement has been much harder to come by. Nevertheless as we close the week, reports of a couple of vessels going on subs will have owners on the edge of their seats the results from a well-publicised test.

Panamax

Off to a flyer in this sector as the new-year brings around a spate of early fixing. As a result two things have happened all rather quickly; firstly, we very quickly established where 2016 fixing levels should sit, and secondly, which is probably the more significant occurrence, the list has been significantly lightened from natural availability. Looking ahead, this will make the European markets much more susceptible to impact from fluctuation in US levels.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 7th	Dec 17th	Last Month	FFA Q4
TD3	VLCC	AG-Japan	**+19**	109	90	87	92
TD20	Suezmax	WAF-UKC	**+36**	117	81	77	116
TD7	Aframax	N.Sea-UKC	**+6**	118	112	113	119

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

			wk on wk change	Jan 7th	Dec 17th	Last Month	FFA Q4
TD3	VLCC	AG-Japan	**-19,000**	109,000	128,000	121,250	89,250
TD20	Suezmax	WAF-UKC	**+4,250**	55,250	51,000	47,000	54,500
TD7	Aframax	N.Sea-UKC	**-7,750**	39,250	47,000	46,250	39,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 7th	Dec 17th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+18**	105	88	85	
TC2	MR - west	UKC-USAC	**+52**	151	100	114	159
TC5	LR1	AG-Japan	**+36**	148	112	92	145
TC7	MR - east	Singapore-EC Aus	**+45**	193	148	148	

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

			wk on wk change	Jan 7th	Dec 17th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-5,250**	24,750	30,000	27,750	
TC2	MR - west	UKC-USAC	**+6,500**	22,500	16,000	18,750	23,500
TC5	LR1	AG-Japan	**-1,750**	27,250	29,000	21,750	26,000
TC7	MR - east	Singapore-EC Aus	**-1,750**	19,250	21,000	20,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	**-16**	127	143	161
LQM Bunker Price (Fujairah 380 HSFO)	**-5**	158	163	186
LQM Bunker Price (Singapore 380 HSFO)	**+3**	174	171	190
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-9**	289	298	338

PAT/JH/DLT/OD/DP/LHT

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