WEEKLY TANKER REPORT

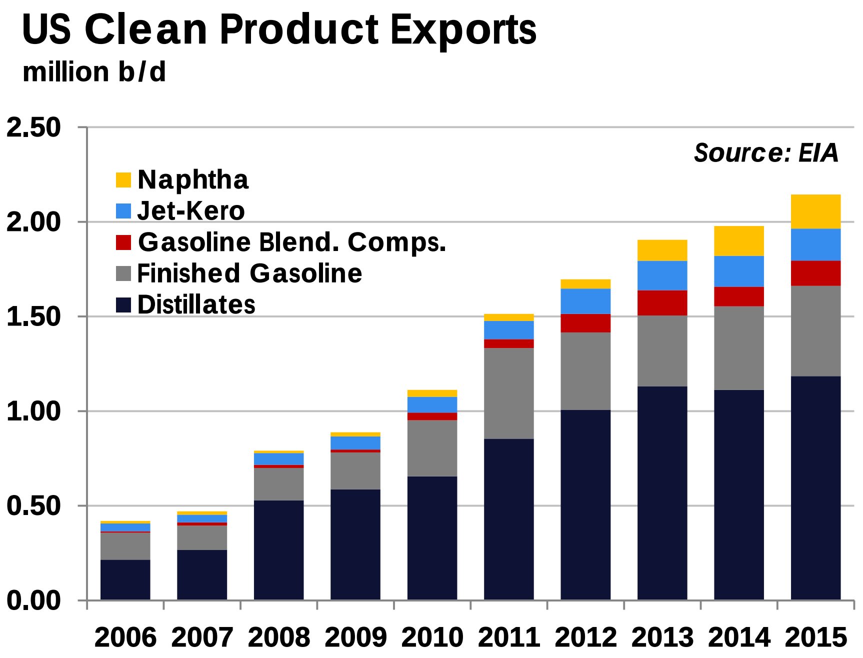
GIBSON SHIPPING ENERGY

1st April 2016

LATIN AMERICAN THIRST

2015 saw the continued growth in US product exports. According to the Energy Information Administration (EIA) exports of the main clean products (Gasoline, Diesel, Jet and Naphtha) increased by over 170,00 b/d to 2.15 million b/d. Whilst exports of most clean products increased, gasoline and diesel led the way, accounting for 140,000 b/d of the total increase. Much of the increase was absorbed by traditional markets – Latin America and Europe. Whilst the European market has become increasingly competitive as Russia, the Middle East, India and even China all flood Europe with products, the US still dominates in Latin America.

The US has benefitted as refining in Latin America has struggled to make progress in recent years. In Venezuela, many refineries have, at times seen utilisation rates of just 50% as PDVSA lacks the cash to carry out maintenance and upgrades. Investment in new capacity has also been slow, with just 130,000 b/d due between 2018 and 2020, although given the economic situation in the country, delays seem almost inevitable. Much hope had been placed on Brazil as the economic powerhouse of the region, yet the downstream sector has been plagued by major delays. Whilst Brazil has now started production at its Abreu e Lima refinery, only one of the 115,000 b/d refining units is operational, with the other not slated for start-up until at least 2018. Beyond that Brazil's next major project – Comperj is unlikely to be delivered until at least 2021 vs. an original start date of 2016. Elsewhere in the region, capacity additions are small scale. Mexico, one of the largest importers of US products, has a 40,000 b/d project planned for 2019. Peru has a 33,000 b/d project planned for 2019. Other developments in the region focus on small projects delivering post 2020. Colombia has 50,000 b/d project and Costa Rica 65,000 b/d.



Whilst capacity additions are fairly small, weak economic growth and higher local production of biofuels could see demand growth for refined products in Brazil stall. However, in the short term, Brazil may need to bolster its product stocks ahead of this summer's Olympic games, something that was evident during the 2014 FIFA World Cup. Elsewhere in the region, whilst capacity additions are limited, the IEA predicts that such additions are likely to keep pace with demand growth which may limit the potential for US product exports to the region. However, it is likely that imports will exceed expectations if any existing projects face additional setbacks, outages increase or biofuel production falls below expectations.

Thus, Latin America will remain an important outlet for refined products, particularly from the US. However, the US may have to work harder to defend its presence in the region as producers in the Middle East and India seek to expand their share of emerging markets. Nevertheless, despite the lifting of the crude export ban and the narrowing of the Brent/WTI differential, the US is expected to remain a formidable refining centre owing to relatively sophisticated facilities and access to cheap gas, not to mention its close proximity to Latin America and the newly expanded Panama Canal. As such it will remain a challenge for refiners from further afield to compete in the region.

Middle East

Volatility returned forcefully into the VLCC arena. Pre Easter had seen a steady slide with Charterers regaining control after the previous spike, but no sooner had the holiday passed, they once again charged into the marketplace to reignite momentum and send rates rocketing back into the ws 90s East and high ws 50s to the West, via Cape. Early positions remain very tight, and delays in the East persist, so there remains potential for continued strength, however Charterers eye improved forward supply,and will attempt to hold back in the hope of dampening down sentiment.suezmaxes started brightly too and quickly consolidated gains at up to ws 115 to the East and to a peak ws 77.5 to the West for the more restricted Basrah heavy lifts. Some settling at the weeks end, but certainly no meaningful retreat yet. Aframaxes, on the other hand, suffered from less activity than of late, and rates to Singapore slumped to 80,000 by ws 125 with further erosion likely.

West Africa

Suezmax Owners had hoped for a post-holiday boost but Charterers failed to oblige and although there was enough activity to retain a stable 130,000 by ws 72.5 USGulf, ws 75 to Europe it ended again as another hope for next week. VLCCs would have preferred more attention, but although activity was limited, the surge in the AGulf bolstered rate demands towards ws 80 to the Far East, and to $4.8 million to west Coast India though easy Atlantic supply will prevent further gains in the short term, at least.

Mediterranean

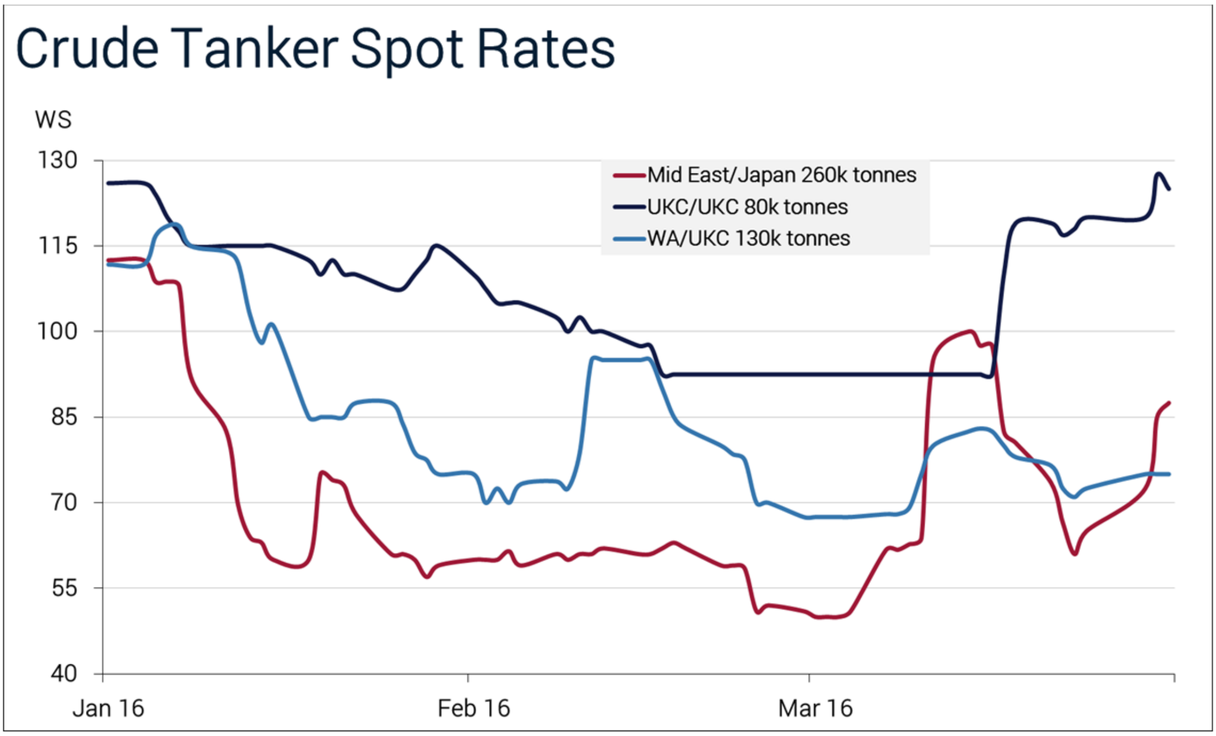
Downwards step by step for Aframaxes here as volumes eased through the week and rates declined to 80,000 by ws 105 cross Med. Charterers will probably continue to maintain the squeeze for a little while yet. Suezmax availability built steadily and fresh enquiry was only spasmodic. Rates stayed firmly set at little better than 140,000 by ws 75 from the Black Sea to European destinations and will stay there until the backlog is meaningfully pruned.

Caribbean

Minimal disruption, a slow cargo feed, and plentiful availability, pushed Aframax rates to as low as 70,000 by ws 87.5 up coast before a degree of bargain hunting allowed for mild inflation back into the low ws 90s. More puff will be needed to get the balloon truly off the ground. VLCCs stayed upon 'dead slow' through the week but strength in West Africa provided some underpinning, and a viable ballasting alternative. Rates flat lined at around $5.7 million to Singapore, and $4.7 million to West Coast India.

North Sea

Last week’s gains for Aframaxes were broadly retained with 80,000 by ws 125 cross UKCont and 100,000 by ws 100 ex-Baltic the current marks but a slow end to the week leaves Owners slightly apprehensive of the week ahead. Larger fuel oil movements to Singapore were hard to justify on freight economics, but some coverage was placed on VLCCs at up to $4.75 million to Singapore with $3.9 million asked for Suezmax crude lifts to China.



CLEAN PRODUCTS

East

The larger ships have seen a weighty amount of action this week, although the LR1s and LR2s have finished on slightly different stances. The LR2s in particular have continued to thin, as a huge number went on subs mid-week. Despite reduced availability of tonnage, rates remain stuck in the mud at the ws 105/$2.175 million mark, as Owners settle for last done. One key reason for this is that cargoes quoted are relatively evenly spread throughout April, with some already on subs for end-month. There is therefore little opportunity for thinning off specific dates and tonnage can remain light but steady. With cargoes still outstanding going into the new week off end-April dates, Owners are still talking firmer rates, and Charterers are still insisting that last-done rates are more fitting. The LR1s finished the week on a soft footing. The LR2s have certainly hogged the majority of action throughout the week, and therefore trailing activity has put downward pressure on rates. A ws 112.5 put on subs for an AG/Japan was deemed cheap at the time for the market, but was soon repeated, and Owners were forced to re-evaluate the market level. West runs to the Continent finish the week at $1.55 million. The MRs have suffered from an inactive week, and rates have really come off. Short haul was initially tested, as a $400k went on subs for an AG/RSea. This has subsequently affected x-AG rates, which now finish the week at $245k. Longer haul is due a fresh test, and a $1.1 million on subs earlier in the week for AG/UKCont no longer reflects the current stance of the market. Runs to the Far East currently sit at ws 125 for an AG loading, although often these stems have loaded in WCI. EAfr runs sympathetically softened in line with other rates, and a fresh test this week found that the new market level is ws 145. Owners will be hoping that rates are now bottoming out, although it is likely that longer haul in particular will experience further softening before it finds the floor. Those Charterers with relets opening in the AG will look to load own programme to allow tonnage to continue its arrival coming into the new week.

Mediterranean

Pre the Easter break the Handy market witnessed an influx of cargoes which saw the prompt tonnage availability shrink drastically, standing Owners in good stead heading into week 13. Throughout the week cross-Mediterranean levels have hovered around the 30 x ws 125-127.5 level and although fresh market enquiry has been there it hasn't been substantial enough to really get the wheels turning for the Owning fraternity. Many felt that the game changing catalyst would come from the Black Sea but just like the Mediterranean enquiry has remained modest. Levels ex Black Sea end the week around 30 x ws 135-137.5 mark. An interesting development for MRs in the Med has been the gasoline arbitrage opening up to NW Europe which has seen rates tick up to 37 x ws 110-115. Transatlantic discharge also rose to 37 x ws 105 and $800k was achieved to the Jeddah basis central Mediterranean load.

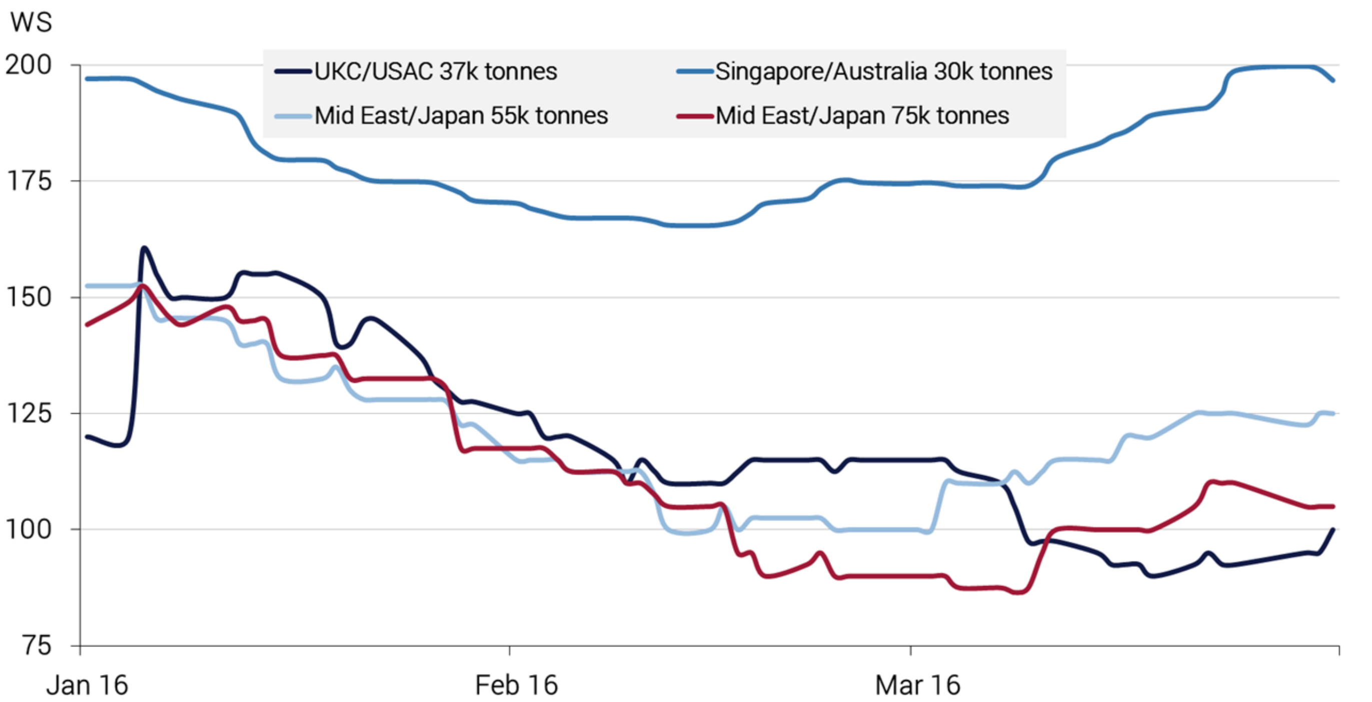
UK Continent

As the truncated Easter week comes to a close, Owners in the MR sector can feel pleased at their progress. A glut of inquiry cracked into our Week on Tuesday with runs down to WAf dominating our lists. As tonnage was clipped away and options reduced, the Owning fraternity managed to squeeze a few extra points and we arrive at Friday we see 37 x ws 142.5 on subjects. This push from Owners managed to aid TC2 runs and although only a minor improvement up to ws 100 and above, the limited number of voyages available kept this stable. Pushing ahead into next week, if we continue to see this demand with an additional sprinkling of reformate stems to the East, then further press on rates could be seen. This all said, with a peaked Caribs market and limited inquiry ex WAf, Charterers may start looking a little further afield for coverage, which in turn could help plateau the rates. The Handy market as a whole seemed to be the forgotten sister. Inquiry has been drip fed to a hungry tonnage list, and rates have remained bottomed at 30 x ws 115. Further movement could be plausible and the strength of Owners defences here will be key. Additional Baltic runs are needed to come to the surface to keep rates flat, and the possible spill over from MR stems will also benefit. Flexis have seen a quiet week pass with COA business keeping tonnage ticking over. Market stems have been few and far between, which seems to have stabilised this market, as fresh inquiry could cause a battle between many. A fresh test will be required here to show the true stability ahead.

LRs

A glimmer of light has finally shone on the LRs in the West this week. LR1 Cont/WAf activity has increased helping to clear the long list of tonnage that has built up recently. Although, with the weight of tonnage available to Charterers, rates have actually fallen to 60 x ws 87.5-90. Levels for Med/AG have also come under pressure from Charterers with one trip reportedly paying $950k. However, Owners will hope that the clear out of tonnage will enable them to reclaim some lost ground heading into next week. The naphtha and reformate demand in the Far East is picking up due to strong demand from petrochemical plants and supply in the region shrinking. Consequently the arbitrage to the East has sprung open this week providing a spike in enquiry, many have been patiently waiting to see. A number of LR2s have been picked off at low rates with reports of $1.6 million for an ARA/Singapore run. However, with options for Charterers narrowing, one LR2 achieved $1.8 million for a Med/Japan trip which is more in line.

Clean Product Tanker Spot Rates



Handy

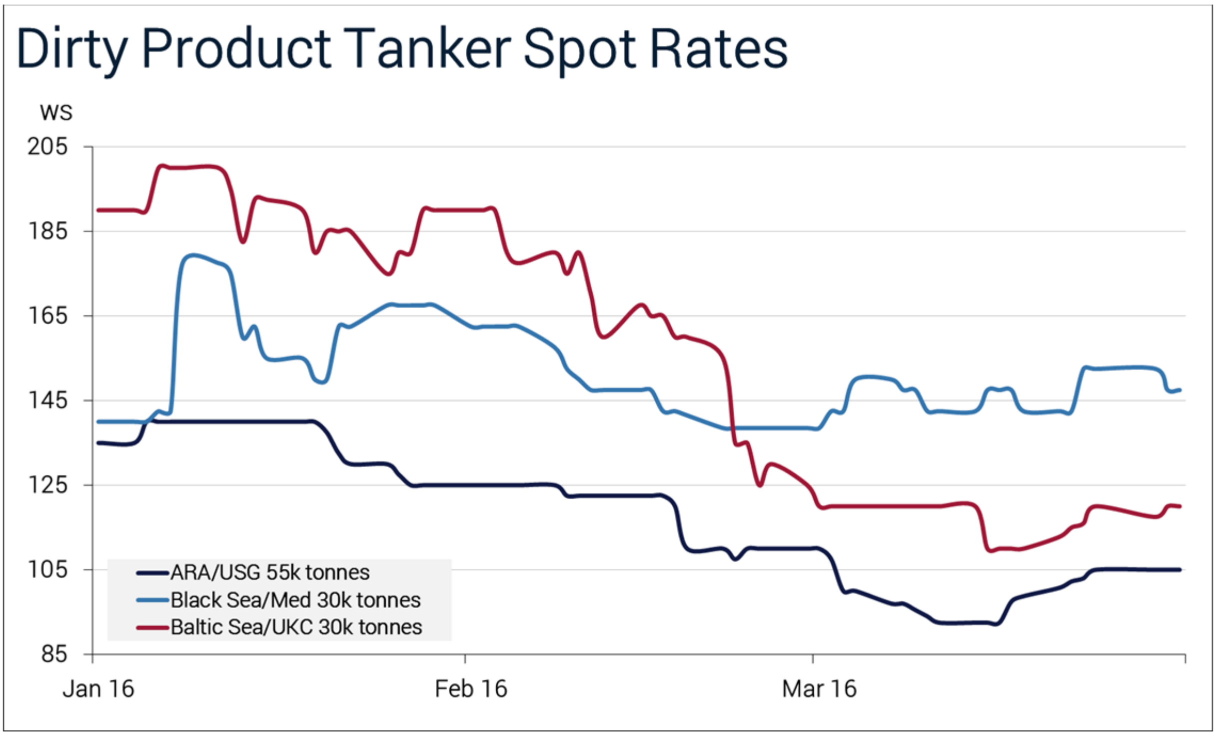
As we conclude the short week the Handy market on the continent has had only minimal reports of activity, where-as-such we have seen momentum within the region stall, levels have yet to negatively correct from the ws 117.5-120 range. However, Charterers are sensing that there could soon be an opportunity to take advantage. In the Med despite activity being rather more consistent it would appear that towards the closing stages to week 13, we have seen the region succumb to the effects of excess tonnage supply. Softer numbers driven by front end tonnage, Charterers will be enjoying a shift in trend with levels perhaps yet to fully reflect re-corrected levels.

MR

Scattered fixing levels have been evident this week as different discharging options are met with differentiating levels of interest. This said, with numbers trading back towards the lower end of recent peaks and toughs, those operating in this sector are having to adapt ideas against the limited business on offer. The market remains for now in the Charterers favour across both the continent and Mediterranean regions, although in the continent conditions have more potential to change owing to fewer units operating.

Panamax

Simmering conditions in this market come to the boil this week as Charterers become ever more reliant upon ballast tonnage supply. The majority of natural tonnage being uncertain, vessels ballasting in have managed to close the disparity in earnings between Europe and the US. Ws110 being the higher end achieved this week, this sentiment looks likely continue for the short term, unless fixing and failing undoes Owners efforts.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 31st	Mar 10th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+4**	87	84	53	66
TD20	Suezmax	WAF-UKC	**-3**	77	80	71	83
TD7	Aframax	N.Sea-UKC	**+8**	125	116	93	105

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

			wk on wk change	Mar 31st	Mar 10th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+5,000**	82,750	77,750	44,500	57,750
TD20	Suezmax	WAF-UKC	**-1,250**	31,500	32,750	29,250	34,250
TD7	Aframax	N.Sea-UKC	**+6,750**	42,750	36,000	20,750	28,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 31st	Mar 10th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+5**	105	100	90	
TC2	MR - west	UKC-USAC	**+5**	99	93	114	129
TC5	LR1	AG-Japan	**-3**	119	122	101	115
TC7	MR - east	Singapore-EC Aus	**+6**	195	189	175	

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

			wk on wk change	Mar 31st	Mar 10th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+2,000**	24,000	22,000	20,250	
TC2	MR - west	UKC-USAC	**+1,500**	11,000	9,500	14,750	16,750
TC5	LR1	AG-Japan	**-250**	20,000	20,250	16,500	18,750
TC7	MR - east	Singapore-EC Aus	**+1,000**	19,500	18,500	17,750	

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

	wk on wk change	Mar 31st	Mar 10th	Last Month
LQM Bunker Price (Rotterdam HSFO 380)	**-10**	158	168	139
LQM Bunker Price (Fujairah 380 HSFO)	**-7**	175	182	157
LQM Bunker Price (Singapore 380 HSFO)	**-6**	179	185	147
LQM Bunker Price (Rotterdam 0.1% LSFO)	**-23**	325	348	289

RNM/JH/JDT/DAJ/DP/LHT

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