

PROSPECTS FOR DEMOLITION

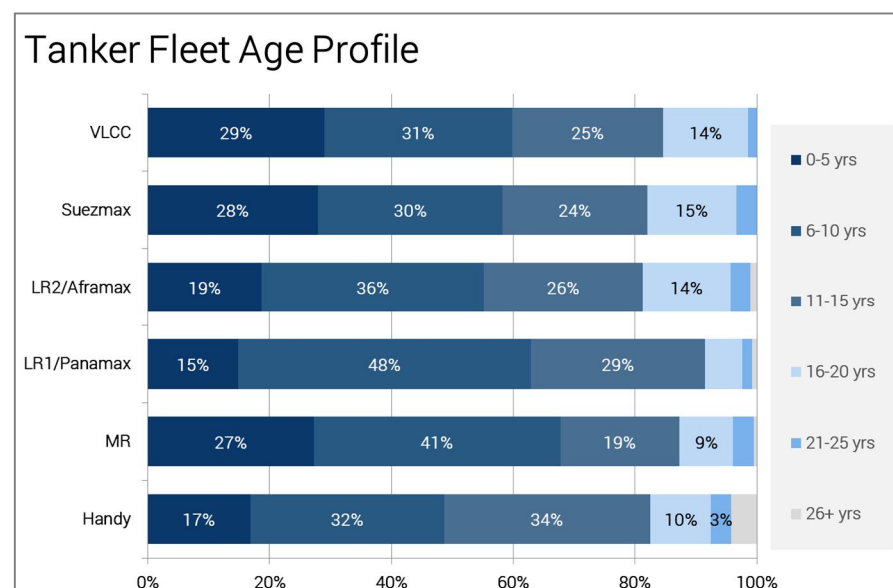
The subject of tanker demolition is always topical, particularly now after several years of robust investment in new tonnage. With exception of Handy/MRs, the orderbook in percentage terms relative to the existing fleet is quite substantial, starting from 17% for LR1/Panamaxes up to 24% for Suezmaxes at the top. The pace of deliveries will accelerate this year, and even more additions to the market are expected in 2017, to highs not seen since 2009/11.

In contrast, the immediate prospects for scrapping are restricted, taking into account the young age profile. Around 85% of the global fleet above 25,000 dwt is less than 15 years of age, while another 11% is between in the 16 to 20 year bracket. This indicates a limited number of natural candidates for scrap yards. At present, the drivers for demolition are further reduced as tanker earnings remain healthy whilst scrap prices are at their weakest since 2008. In addition, with bunkers close to their lowest level in over a decade, the pressure in terms of fuel efficiency on aging units has almost disappeared.

However, pending legislation, in particular regarding Ballast Water Treatment could potentially push a few extra aging ladies towards earlier retirement beyond 2016. The upcoming flood of tanker deliveries could also apply a considerable downwards pressure on earnings, if future increases in demand fail to keep pace with expanding supply. In this scenario, lower earnings would offer a stronger stimulus for demolition, with older tonnage likely to be affected the most.

For example, in the Suezmax sector, the trade for units over 15 years of age is largely restricted to the East, most notably Middle East to India/Pakistan/Bangladesh region. Although younger tankers also operate in the region, the spot market is dominated by vintage tonnage, which is often traded at a notable discount. Our analysis indicates that last year the difference in terms of tce earnings at times reached 45-50% for Middle East – WC India runs. Despite much lower levels, returns remained healthy, owing to the exceptional strength of the market in 2015. Yet,

the picture is somewhat different this year, as rates and earnings started to soften, even for modern tonnage in the West. If the market moves to even lower levels, it will become harder for older tonnage to remain above the break even, particularly if modern units start competing more aggressively in the East.



11 and 15 years of age, pointing to a notable increase in aging tonnage in about five years from now. In addition, oil prices sooner or later are likely to resume their upward path and with it, fuel efficiency could once again become a critical “make-or-break” factor. The emphasis on eco designs will become notably more pronounced, if the IMO global sulphur cap at 0.5% is adopted in 2020, fast-tracking the exit of the most inefficient ships

CRUDE

Middle East

The VLCC spike of late last week failed to mature as Charterers reacted like elephants to a mouse, largely refusing to engage, unless they had to upon the still tight very earliest dates. The fixing window has now moved onto more populous positions and the market is in the process of rebalancing at noticeably lower levels. Currently rates to the east theoretically stand in the mid ws 70s with around ws 45 available to the West. Suezmaxes reacted to the initial VLCC surge upon a staggered start so that they began the week brightly with Owners leveraging the heavy action into a reasonable rate gain to reach high ws 50s West, and to ws 110 to the East, but the excitement had also subsided here late-week, and some settling looks on the cards over the next period. Aframaxes continued to bubble and at a point boiled at up to ws 150 to Singapore, but slightly less late week heat brought the rate temperature back towards ws 140, though there will remain enough confidence to keep Owners in the driving seat for some time to come.

West Africa

Suezmaxes took a gentle step higher as Owners continued to play hardball but there wasn't quite enough interest to really get their motor going and availability started to rebuild somewhat. Rates, therefore, began to ease a little and Owners will remain upon the defensive into the next phase. VLCCs had scored as high as ws 85 to the Far East but as the AGulf took a U-turn, Charterers held back and rates will quickly recalibrate to match those lower levels with owners already indicating willingness to the ws 70 mark. More activity next week as ballast time considerations start to force enquiry to be worked.

Mediterranean

Not quite as frothy as last week for Aframax, but rates see-sawed at close to last week's highs nonetheless, however ended with some discounting to 80,000 by ws 112.5 cross Med and perhaps an easing run into the holiday for next week. Suezmaxes held up reasonably well at around 140,000 by ws 80 from the Black Sea to European destinations, and to about \$4 million to China but Charterers felt that they should have extracted more benefit from the seemingly more than adequate availability circulating.

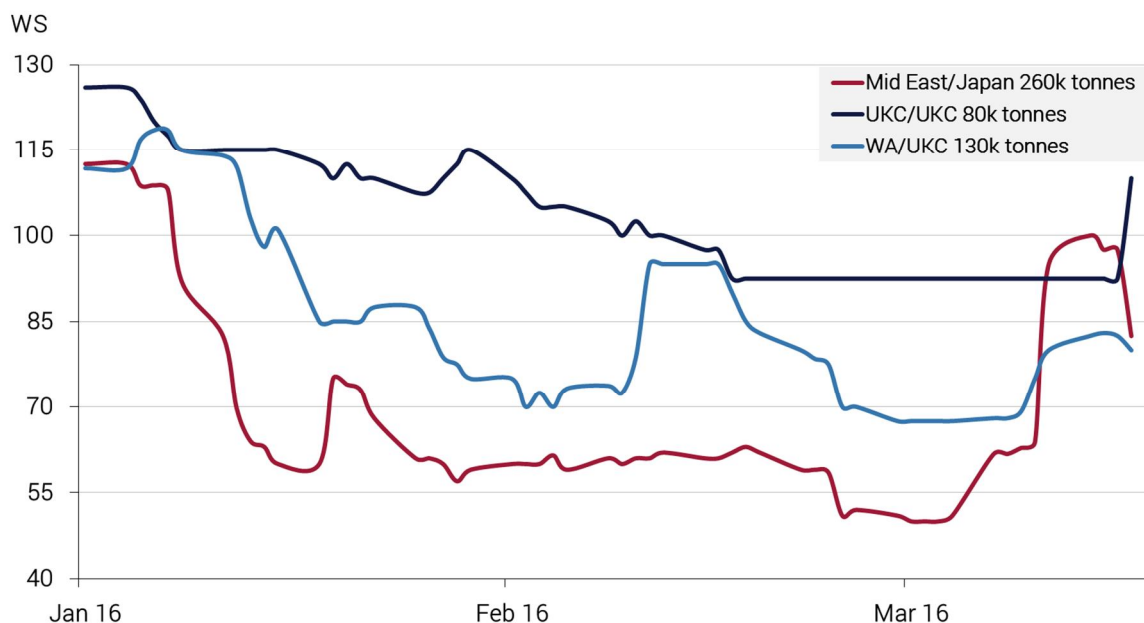
Caribbean

Down - down.. and further down for over tonnage, and under supplied Aframax. Rates have now bumped to an effective bottom at 70,000 by ws 90 upcoast but will need some weather disruption to help them recover in the short term. VLCCs recorded very little, but sentiment was solid, and availability in few enough hands to allow a higher \$6 million to be posted to Singapore with around \$5 million payable to West Coast India. Those levels may well, but are unlikely to be bettered over the near term, at least.

North Sea

A busy back end to the week for Aframax provoked in part by a shortage of units for March cancelling in the Baltic, drove rates smartly higher to 100,000 by ws 120 from the Baltic and to 80,000 by ws 120 for cross North Sea runs too. Until that pinch point has passed, the gains will be held, thereafter expect swift slippage. Little seen for VLCCs to the East as fuel oil 'arb' economics didn't match Owners needs of close to \$5 million from Rotterdam to Singapore - \$4.5 million might do it, but it'll take more time for the stars to align.

Crude Tanker Spot Rates



East

This week has firmed the position of the larger-sized ships, and finishes the week offering Owners some well-founded faith that further firming is likely next week. The LR2s have thinned significantly off end/early dates, which has induced a slight rate inflation. Although the last done for a West run was \$2 million for a Sikka/East Med, the number of outstanding West bound cargoes suggests that higher rates will be seen next week, all that is left to figure out is which Charterer will pay up first. Eastern runs have been less popular on the LR2s this week due to the opening up of the arb, but have sat firmly at ws 100 for an AG/Japan. The LR1s have also disappeared as the majority of ships on natural fixing dates are snapped up. Similarly to the LR2s, a rush of action during the first couple of days of the week left Charterers searching in vain for last-done levels. EAfr runs have rested around the ws 140 level, with naphtha runs to Japan currently at ws 122.5, and runs West to the continent pulling in \$1.6 million. Owners are happy to wait out the weekend before reassessing rates on Monday and deciding which cargoes to start working.

MRs have this week seen a slight reduction in the level of activity experienced over the previous couple of weeks. The main reason for this is that the LRs have been busy in their stead. Although activity has been steady, it has not been enough to further test rates. Gasoil stems bound for EAfr have come off slightly, and finish the week at ws 172.5, although an outstanding market quote may further test rates. Rates on runs to Japan have also taken a downward turn, and end the week at ws 132.5. The last done levels for western runs to the continent was \$1.25 million, although this is due a fresh test, and indications are that these rates may also relax slightly in the new week. With MRs looking slightly softer than this time last week, Charterers will feel more confident of their ability to beat last done coming into the new week.

Mediterranean

Week 11 has been nothing short of depressing for Owners with rates tumbling again. Plentiful options for Charterers has once again presented an opportunity to drive levels down, and they have obliged. Cross Mediterranean rates began the week at 30 x ws 127.5, but rates have been fixed as low as 30 x ws 120 and ex Black Sea runs fallen to 30 x ws 132.5. As things stand it is hard to see a turn around on the horizon, as still a number prompt vessels continue to hunt for employment.

However, there has been an increase in MR activity. Charterers have entered the market with a number of gasoline stems. Med/WAf runs have achieved 37 x ws 127.5, trips to the Red Sea are now collecting \$775k and 35 x ws 95 is the new benchmark for transatlantic.

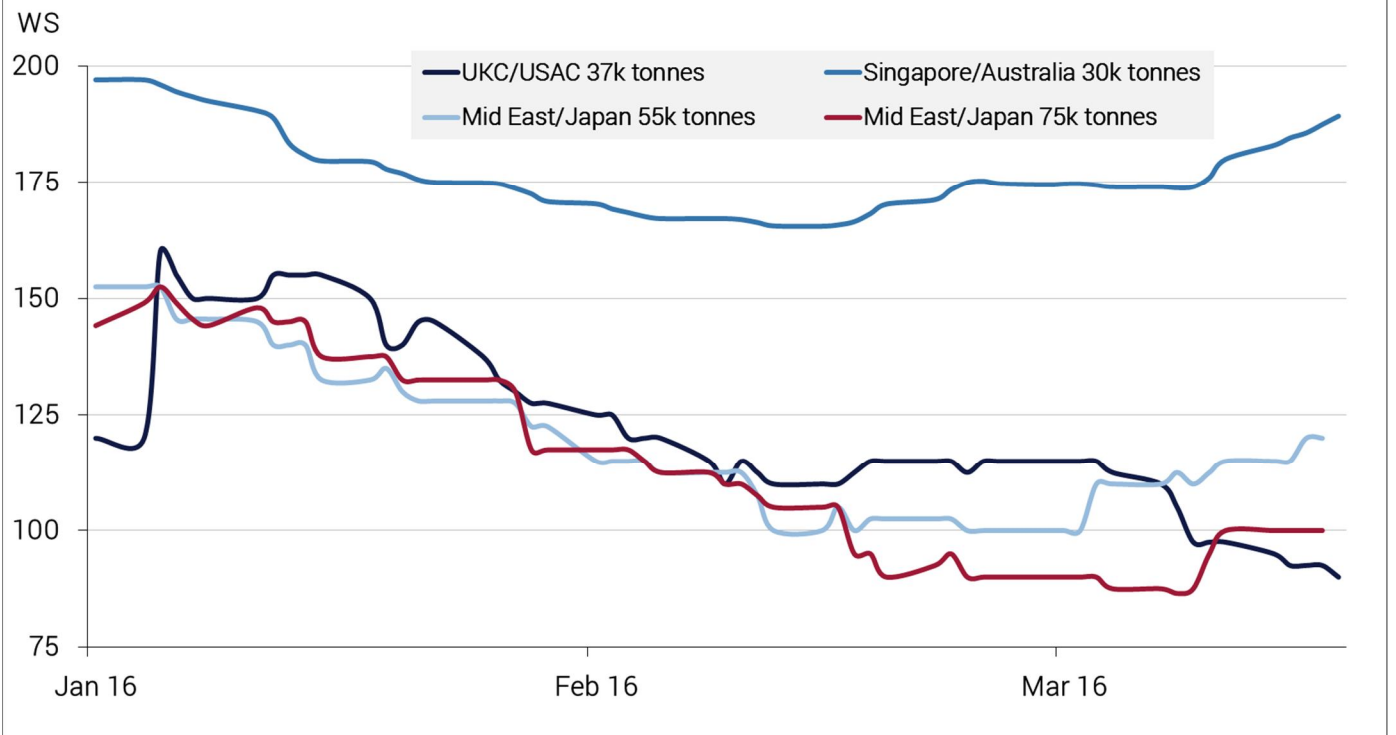
UK Continent

As we come to the conclusion of Week 11, the build-up of pressure from an inactive TC2 market over the past couple of weeks has seen rates continue to slide down the ladder. With the gasoline arbitrage remaining shut to the States. The real talking point up on the continent has been the demand for gasoline from West Africa which has been keeping the market ticking over. With enquiry up, rates have managed to hold and trade around the 37 x ws 125 level, however TC2 has fallen to 37 x ws 90. Looking ahead, US East coast suppliers will soon be switching from winter gasoline to summer gasoline. Naturally this could see an increase in demand from North West Europe which may lead to an uptick in freight rates. In the Handy sector trading has remained suppressed with supply quite clearly outweighing demand. Prompt tonnage has been in ample supply which has been the main catalyst behind rates falling to 30 x ws 115. Until cleared, expect rates to continue to bottom-feed. The Flexis similarly have operated a slow and soft theme throughout the week with 22 x ws 150 being the benchmark. Enquiry levels will have to increase otherwise last done levels may be squeezed.

LRs

With the naphtha/reformate arb remaining closed to the East, activity has remained minimal. At the same time the list of vessels in the west has grown and positions have firmed, enabling Charterers to drive levels down this week. ARA/WAF runs have fallen to 60 x ws 110, an LR2 has fixed an STS Med/Japan at \$1.75 million and \$1.9 million has been reported for a run from Mongstad to Japan. The list looks healthy in terms of LR options both in the Mediterranean and off the continent and with next week's bank holiday weekend, there is added motive from Owners to get vessels fixed away. Consequently, I feel there is some fat in last done levels for any Charterer looking to take cover during Week 12.

Clean Product Tanker Spot Rates



DIRTY PRODUCTS

Handy

It has taken a while but finally Owners are offered a reprieve from recent trend as the weeks activity combined with ullage delays helps to transform the outlook. Numbers however in the north are so far yet to feel any benefit, but this does leave us in an interesting place come Monday morning where a pre Easter clear out could easily provide Owners with momentum. In the Med, Owners will be hoping this is the calm before the storm as Monday through Friday this week felt rather lacklustre. Generally, both sides of the equation were happy to accept numbers around last done, with an erosion being kept within a slight negative gradient.

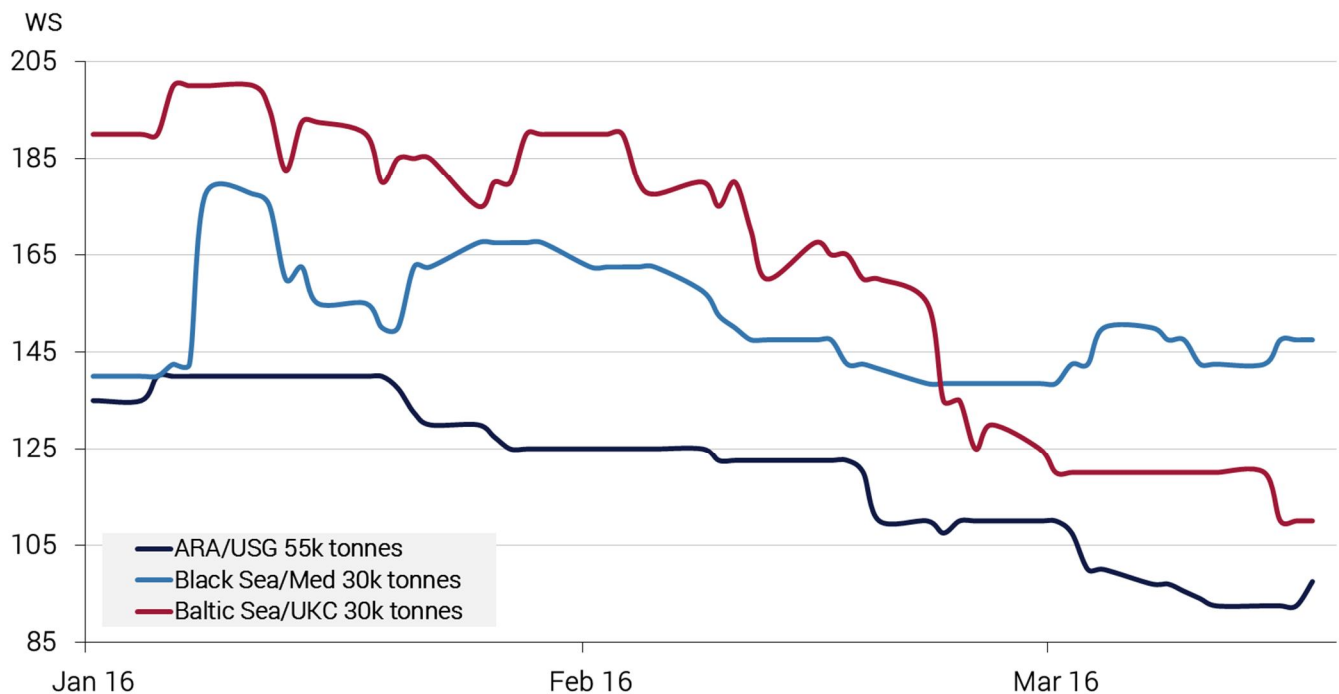
MR

The Med and continent alike were being kept from growing stagnant where vessels throughout the week managed to find employment. This said, some deals were looked at as to reposition units into forward fixing windows, rather than taking any real profits in today's market. Ultimately this is telling us the bigger story in the MR sector where confidence isn't quite firing on all cylinders.

Panamax

Slowly but surely naturally placed tonnage supply has been drawn upon leaving those remaining on the lists in a more recognised period of strength. Negotiations therefore favoured side with Owners and come the end of the week levels have edged back closer to reaching triple digits basis Europe/transatlantic. Owners were also given added benefit from a Caribs market that showed signs of life, and in doing so reassured owners that healthier earnings would last locally. Until the disparity in fixing levels is shortened between Europe and the US any ballast units are unlikely to come this way at the lower end of the range seen recently.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 17th	Mar 10th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	+12	84	71	63	63
TD20	Suezmax	WAF-UKC	+5	80	75	87	83
TD7	Aframax	N.Sea-UKC	+24	116	93	83	100

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

			wk on wk change	Mar 17th	Mar 10th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	+14,000	77,750	63,750	55,500	53,500
TD20	Suezmax	WAF-UKC	+3,000	32,750	29,750	37,250	33,500
TD7	Aframax	N.Sea-UKC	+17,250	36,000	18,750	20,500	23,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 17th	Mar 10th	Last Month	FFA Q2
TC1	LR2	AG-Japan	+5	100	95	95	
TC2	MR - west	UKC-USAC	-4	93	97	114	135
TC5	LR1	AG-Japan	+9	122	112	100	123
TC7	MR - east	Singapore-EC Aus	+9	189	180	168	

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

			wk on wk change	Mar 17th	Mar 10th	Last Month	FFA Q2
TC1	LR2	AG-Japan	+1,250	22,000	20,750	21,500	
TC2	MR - west	UKC-USAC	-750	9,500	10,250	14,250	17,500
TC5	LR1	AG-Japan	+2,000	20,250	18,250	16,000	20,250
TC7	MR - east	Singapore-EC Aus	+2,000	18,500	16,500	16,250	

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

LQM Bunker Price (Rotterdam HSFO 380)	-1	168	169	151	
LQM Bunker Price (Fujairah 380 HSFO)	+2	182	180	162	
LQM Bunker Price (Singapore 380 HSFO)	+8	185	177	159	
LQM Bunker Price (Rotterdam 0.1% LSFO)	+5	348	343	298	

SK/JH/DAJ/DP/LHT

Produced by Gibson Consultancy and Research

Visit Gibson's website at www.gibson.co.uk for latest market information

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 GTRK G FACSIMILE No: 020 7831 8762 BIMCOM E-MAIL: 19086135

This report has been produced for general information and is not a replacement for specific advice. While the market information is believed to be reasonably accurate, it is by its nature subject to limited audits and validations. No responsibility can be accepted for any errors or any consequences arising therefrom. No part of the report may be reproduced or circulated without our prior written approval.

© E.A. Gibson Shipbrokers Ltd 2016.