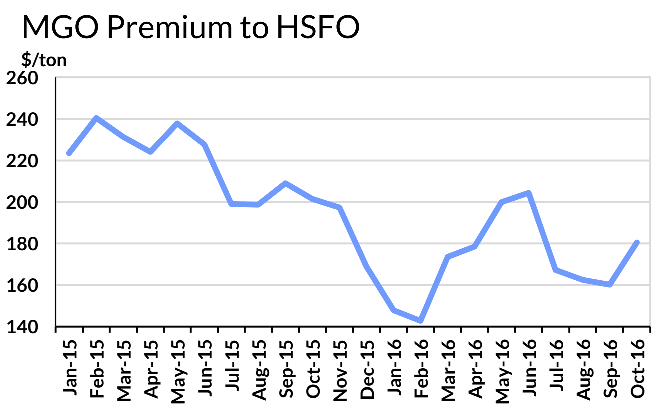
Scrubbing Up

Weekly Tanker Market Report

Last week the IMO's Marine Environment Protection Committee (MEPC) met to set the implementation date to reduce the global sulphur content of bunker fuels at 0.5% from 2020, down from 3.5% (outside existing emission control areas) today. Much debate surrounded whether implementation should be deferred to 2025 in order to give the refining sector more time to adjust. However, the report commissioned by the IMO found that the refining sector would be capable of delivering sufficient quantities of low sulphur fuel by 2020, despite many industry participants claiming the contrary.

So what are the implications? Shipowners now have a choice: install abatement technology (scrubbers), invest in new engines to burn alternative fuels (LNG) or burn compliant fuels (e.g. 0.5% Marine Gas Oil (MGO)). In the longer term, abatement technology and LNG may well become the dominant routes to compliance. Right now, scrubber technology remains in its infancy and the costs are high with some industry bodies suggesting the cost could range from $3-10 million depending the size and type of vessel, as well as the ease of installation. Even if costs do fall over the coming years and the technology improves, such investment on older units will prove hard to recover. For younger units the economics might make more sense, particularly if the differential between high sulphur fuel oil (HSFO) and MGO widens. However, retrofitting scrubbers may not be technically straightforward, given the requirements for additional space and waste collection tanks. Equally operators will face costs associated with disposing of the hazardous waste created during the scrubbing process. LNG remains an interesting option. At present LNG bunkering does not have a wide enough global presence to suit tramp shipping, leading to a chicken and egg situation, which comes first, the LNG fueled ships or the infrastructure to fuel them? However, vessels are being constructed with easy conversion to LNG in mind, which appears to be a sensible option, giving owners the flexibility to convert to the fuel when the logistical, economical and technical issues are resolved. For many operators, burning lower sulphur fuels may be the most logical option, particularly for ships with limited trading life left, where recovering the cost of investment may prove tricky.



Looking beyond the direct impact on shipping, it is important to consider the implications for the refining sector. Current estimates suggest that marine fuel demand stands at 4 million b/d, even if it is assumed that just half of that demand is transferred across to MGO, the refining sector may still struggle to cope. Such a shift will require investment in desulpherising and coking capacity to produce the necessary volumes of compliant fuels with a separate report commissioned by BIMCO doubting such capacity will be brought online in time. Such increased demand will undoubtedly tighten the distillate market, increasing fuel prices and in particular the spread between HFSO and MGO, which could shift the focus in favour of abatement technology. A shift towards cleaner fuels may equally increase demand for sweeter crudes which produce lower sulphur fuels, impacting upon crude trade flows.

For operators, whilst the cost of compliance may be high, they may ultimately benefit in the long term from higher scrapping levels. On top of lower sulphur limits, the introduction of the ballast water management convention is also likely to strengthen the case for scrapping which will help tip the supply/demand balance into the owners' favour. Whilst scrapping is likely to be higher, the risk of overinvestment in new, compliant tonnage remains, and just how supportive such regulations are for freight rates largely depends on building activity over the coming years.

Crude Oil

Middle East

Busy for VLCCs, as many Owners had anticipated last week. Their readiness to respond, and the consequent momentum, combined to push rates higher and re-establish close to ws 70 to the East and ws 40 to the West. November volumes aren't expected to be quite as high as record October needs however, and the likelihood of any further significant move is slim, but equally, Charterers will find it hard to force a u-turn over the coming period. Suezmaxes maintained a reasonably solid front, but demand never got them to the point of critical mass and rates ended largely unchanged at up to 77.5 East and high ws 30's to the West. Some hopes of improvement from that into next week. Aframaxes eased slightly to 80,000 by ws 90 to Singapore and won't strengthen much from that unless Charterers go shopping in numbers next week.

West Africa

Suezmaxes had to endure another week of supply/demand imbalance with further production problems in Nigeria adding to the debit side of the equation. Rates bumped along at down to ws 55 for virtually any Atlantic route and look set to remain handicapped over the near term, at least. VLCCs, on the other hand, held solid ground as Owners drew support from the AGulf and other active Atlantic load zones. Current rate demands of around ws 67.5 to the East and $3.80 million to East Coast India should be maintained, or perhaps even improved upon, next week.

Mediterranean

Groundhog days for Aframaxes here - low volumes and too many ships chained rates to no better than 80,000 by ws 67.5 XMed and no early surprises likely.

Suezmaxes drifted slowly downwards on underwhelming demand and a parade of availability. 140,000 by ws 70 from the Black Sea to European destinations, and around $3.1 million for China runs, is the best that Owners can achieve with lower on the horizon.

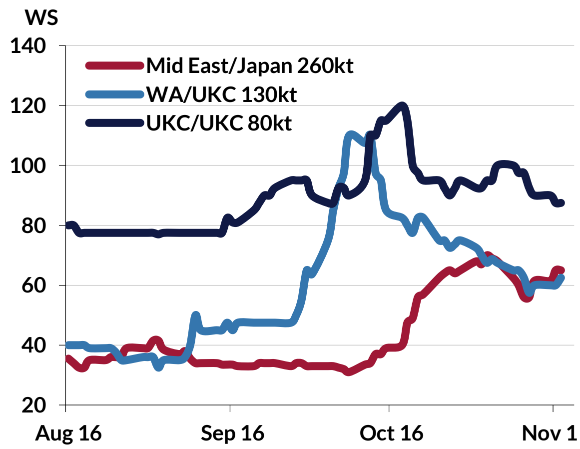
Caribbean

Previously steady Aframaxes suddenly burst into life in the second half of the week with rates spiking from 70,000 by ws 110 upcoast to a very healthy ws 145 level. Charterers will probably slow the pace into next week, but Owners will take a while to cool down. VLCCs moved through a busy mid week spell to severely prune earlier positions and allow rates to inflate towards $4 million to West Coast India and no less than $4.6 million to Singapore. Similar values likely over the next phase.

North Sea

No improvement for Aframaxes upon a very slow week of fresh enquiry. 80,000 by ws 87.5 again for XUKCont movements with 100,000 by ws 60 the top end of the Baltic loaders' range. It's hard to call for an early turnaround either. Few VLCCs available, but also few cargoes to fix. There was the odd deal concluded, however, and rates for fuel oil to Singapore held at close to $4 million.

Crude Tanker Spot Rates



Clean Products

East

LRs have had a desperate week with rates falling off a cliff. LR1s have actually faired worse as although LR2s have seen big drops the percentage loss in freight is much larger on the smaller units. 55,000 mt naphtha AG/Japan is ws 77.5 now and 65,000 mt jet AG/UKCont is at an annual low of $1.10 million. LR2's have been so quiet 75,000 mt naphtha AG/Japan is now down to ws 67.5 and 90,000 mt jet AG/UKCont is last done at $1.70 million, but less is expected next week.

MR activity levels have been consistently high for the duration of the week within the AG. There have been generous amounts of fresh stems entering the market. However, with the tonnage list only getting longer, ship rates on certain routes have struggled. This negative sentiment has also been compounded by the fact that the larger ships, especially the LR1s have had a torrid week, and are thus hunting for MR cargoes. AG/UKCont came off as the week progressed and voyages sit at $1.0 million. AG/EAf held pretty steady throughout the week, but also felt the pressure in the end and finished at 35 x ws 115. Following the sentiment of the other routes shorter voyage had a hard time too, AG/RSea trades at $375k and XAG at the $155k level. TC12 remained pretty steady at 35 x ws 95. Given the pressure seen this week and the fact that there are no signs of improvement, its looks set to be another tough week for Owners.

Mediterranean

As week 44 draws to a close the Owning fraternity will be pretty disappointed that they have lost ground after a week which at one point offered a lot of potential. Post Colonial pipeline explosion there was a huge demand for gasoline barrels to the States across the MRs and Handies. But as we have experienced MRs have been tight in the Med for the past couple of weeks therefore Charterers were looking to cover their exposure via Handies. This looked like the catalyst Handy Owners had been crying out for. However, as many began to hold back cargoes and reassurances that the pipeline will be back up and running by the weekend the market began to fizzle out. Handies went back to what they know best. XMed and Black Sea lifting's and a market quote enabled Charterers to test the strength of the market, enabling them to shave off some ws points for XMed to now 30 x ws 115 and 30 x ws 120 for Black Sea lifting's.

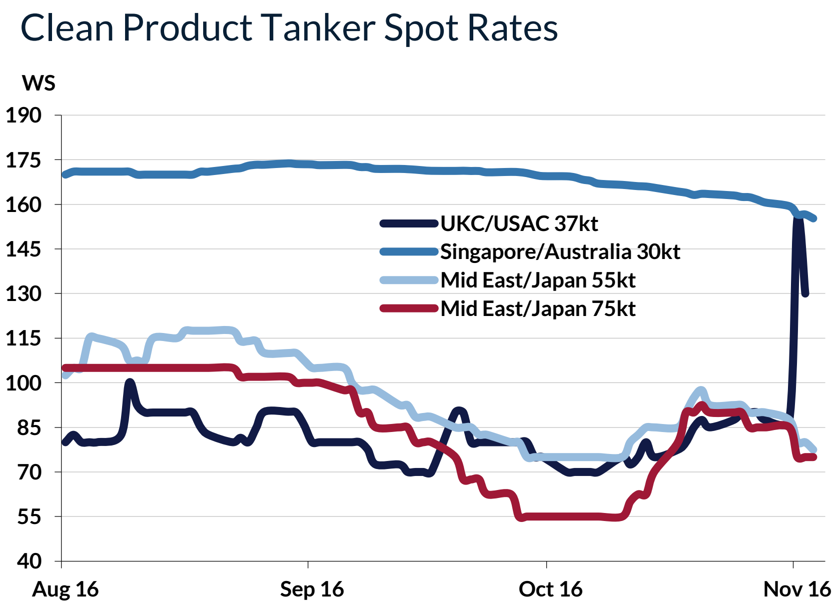
MRs heading transatlantic quickly began to mirror what was happening on TC2 and by the week's end had fallen to 37 x ws 10.

UK Continent

After a typically slow start to the week the excitement of the Colonial Pipeline outage has been the impetus Owners have desperately been craving. After the initial rapid and aggressive firming of rates the market saw a number of failures, this coupled with a more clear picture of the situation from the States meant that numbers have slipped back to 37 x ws 110 on TC2 from highs of 37 x ws 155. There are a handful of uncovered cargoes as the weekend approaches and with tonnage now tight on the front end, we may see higher than last done achieved whilst fixing window cargoes and beyond are a little more flat. Next week looks to trade back to less inflated levels as repairs on the pipeline are due to be completed over the weekend. Short haul and WAf runs have both been quiet this week, although there are reports for reformate heading east being worked.

At one point the Handy market looked to have gained on the back of the MR action seeing enquiry for transatlantic as well as Baltic rates firming. However as the MR market settled back down and long haul voyages were apparently no longer working for Handies, rates came off to settle 30 x ws 105 ex Baltic and for XUKCont as week 44 comes to a close. Eisbien has had no effect on the market and looks to pick up next week where this week closes.

Flexi action has been fairly quiet again this week, however with tonnage a little better balanced, Owner have been able to hold fast at last done levels seeing 22 x ws 140 trade sideways for the duration of the week. It seems there is little on the horizon to swing this market in either direction, however any further inactivity may put negative pressure on rates as tonnage starts to build.



Dirty Products

Handy

The Continent market this week has seen minimal enquiry throughout and Charterer's remain spoilt for choice with prompt tonnage in the region. Like gravitational force, negativity takes its toll on current market levels Owners will be keeping one eye on the calendar as the winter months can't come quickly enough as any signs of increment remain doubtful for now.

In the Mediterranean we have seen a shortage of ships with firm itineraries due to delays and bad weather and Owners in play taking full advantage of this situation, as we close the week out with Black Sea levels trading close to the ws 140 mark. Next Monday the fresh position list will prove vital in whether current levels can be maintained or if a few more vessels will start to appear enabling rates to settle.

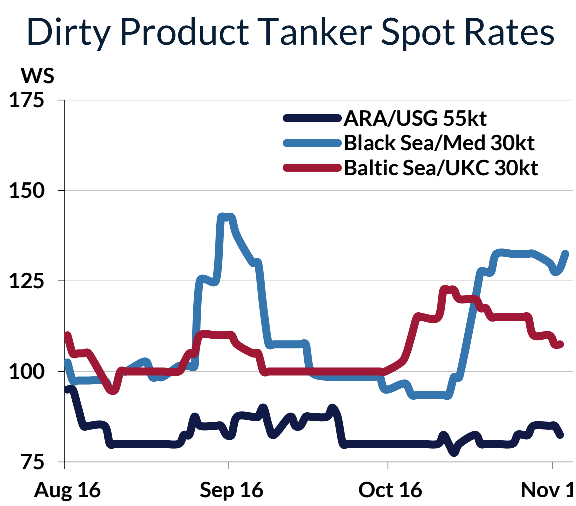
MR

For the few Owners currently in the region, this week may have been one to forget with opportunities for employment remaining thin on the ground. We close the week out still in need of an honest test as Owners continue to weigh up their options.

Similar story to the Handy market as finding a natural sized unit with firm itinerary became a rarity. Current conditions have left us closing the week out with XMed trading around ws 115 levels and Owners will be hoping the weekend break does not stall current momentum.

Panamax

Conditions in the US this week were given a gentle nudge positively where the surrounding Aframax market showed volatility unprecedented in recent times. In turn this has largely prevented the return of units coming back to Europe, leaving Charterers looking at only natural tonnage for the more competitive numbers. Although Owners on these shores can only post narrow increment week on week, the tonnage list is looking thinner which can be viewed perhaps as the building blocks for things to come.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 3rd	Oct 27th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+11**	67	56	56	64
TD20	Suezmax	WAF-UKC	**-0**	58	59	80	71
TD7	Aframax	N.Sea-UKC	**-7**	88	95	98	98

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

			wk on wk change	Nov 3rd	Oct 27th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+14,750**	50,000	35,250	36,000	46,500
TD20	Suezmax	WAF-UKC	**+1,750**	16,750	15,000	27,500	24,000
TD7	Aframax	N.Sea-UKC	**-1,250**	15,500	16,750	19,750	25,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 3rd	Oct 27th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-10**	75	85	55	
TC2	MR - west	UKC-USAC	**+26**	115	90	70	113
TC5	LR1	AG-Japan	**-10**	78	89	76	85
TC7	MR - east	Singapore-EC Aus	**-6**	155	161	168	

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

			wk on wk change	Nov 3rd	Oct 27th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2,000**	10,500	12,500	4,500	
TC2	MR - west	UKC-USAC	**+6,000**	11,500	5,500	2,500	11,000
TC5	LR1	AG-Japan	**-1,750**	7,000	8,750	6,500	8,250
TC7	MR - east	Singapore-EC Aus	**-750**	10,250	11,000	12,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-35**	238	273	261
ClearView Bunker Price (Fujairah 380 HSFO)	**-17**	271	288	281
ClearView Bunker Price (Singapore 380 HSFO)	**+0**	289	289	277
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-45**	403	448	445

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