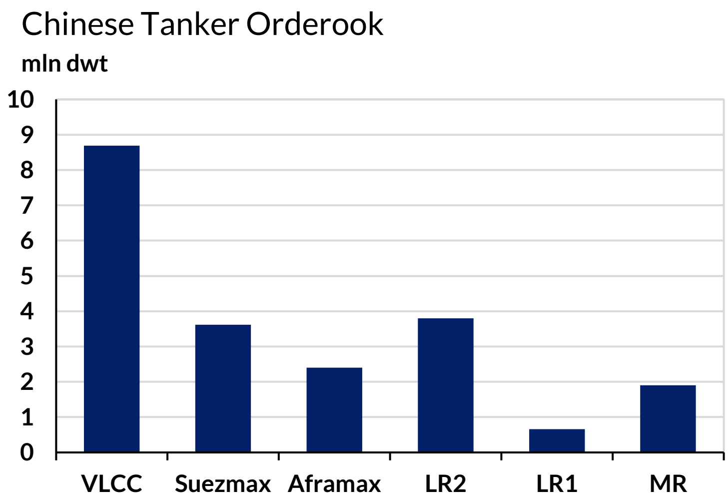
Bank on China

Weekly Tanker Market Report

The retreat of the traditional forms of ship finance since the financial crisis, prompted by the Lehman Brothers crash and subsequent turmoil since 2008, has forced shipowners to seek alternative funding methods in order to finance replacement tonnage. Since 2008 it has been well publicised that the traditional European and US banks have worked hard to reduce their exposure to the volatile shipping markets and ran down their portfolios. Similarly, many of the recent IPO offerings have failed to attract strong levels of interest, often resulting in disappointing failure to reach target price. Next came the US hedge funds which for a while became 'quite sexy' for investors but lost their appeal as once again the volatile shipping markets put an end to earning a 'fast buck' for those seeking a quick return from that vehicle. Enter China!



Many diverse ship owners have taken advantage of China's enthusiasm to enter the finance market' including several well-known tanker owners. Scorpio Tankers announced in its 2nd/Qtr financial results that in April it sold and leased back three 2013 built MR product tankers to an "unaffiliated third party" for a sale price of $87 million in total. Scorpio followed this up in September with a similar sale and leaseback for five more 2012 built MRs at $27.5 million each. The deal in both cases was through the Shanghai Bank of Communications Financial Leasing (BoComFL). Similarly, Teekay Tankers announced in their 2nd/Qtr results a $153 million sale and leaseback financing transaction involving four modern Suezmax tankers, again BoComFL were the financiers. But perhaps the biggest BoComFL deal to come to light so far is the financing (if not all, part) of the estimated $1.3 billion 32 tanker order announced by Trafigura in June. Full details of the project still need to be unravelled; however, many of the orders to build Suezmaxes, LR2s and MRs in yards in China and Korea announced so far, appear to have BoComFL financial backing.

Several Chinese financial institutions have sprung up over the past few years keen to fill the gap left by traditional lenders, in part to support domestic shipbuilders, leasing vessels back to international 'blue chip' owners. This has of course raised concerns about the ease of raising finance to build more ships for oversupplied markets. However, the 'blue chip' companies are less likely to default on loans. Even so, Chinese financiers are keen on the sale and leaseback deals because lenders are still worried about payment defaulting. Under this arrangement, the banks can more easily take control of the asset should the leasing company default on payments. Our records indicate that BoComFL currently finance around 5.2 million dwt tanker tonnage spread amongst refinancing existing tonnage and newbuildings, but precise data is difficult to obtain. The Industrial & Commercial Bank of China portfolio is estimated at 2 million dwt of existing tanker tonnage but this particular bank is more heavily involved in financing in a wide range of shipping sectors. However, Minsheng Financial Leasing, one of China's largest lessors is reported to finance more than 300 vessels, more than doubling their portfolio in three years with tanker tonnage representing 15 percent of this total. Clearly, China has once again built a formidable challenge to the traditional western players, in yet another service sector of shipping, but this should hardly be viewed as a surprise.

Crude Oil

Middle East

An active week for VLCCs, but the end result is that rates haven't changed since last week's report as availability continues to easily match demand. Into the second half of the November programme now and the near-term outlook is for more of the same. Rates to the East operate at around ws 70 for modern units with sub ws 60 seen for older vessels and rates to the West still hanging in the mid/high ws 20's. Suezmaxes tightened steadily through the week, but never quite reached critical mass to allow the market to step higher than last week's ws 87.5 East and ws 42.5 West levels. Kharg liftings were more prevalent however, and noticeable premiums for those are still to be paid. Aframaxes remained quite steady at 80,000mt by ws 140/145 to Singapore, but would have liked a little more interest to really bolt down rates for the next fixing phase.

West Africa

Suezmaxes built upon last week's stronger platform and continued solid enquiry created enough momentum to bolster sentiment and allow Owners to counter ongoing good availability and push rates up towards ws 100 to Europe and ws 95 to USGulf. Charterers will be glad of the weekend fire-break, but will face similar demands next week unless they hold back from chasing forward. VLCC volumes fluctuated day on day, but never proved enough for Owners to re-establish positive differentials over AGulf/East numbers. For now, that remains the case.

Mediterranean

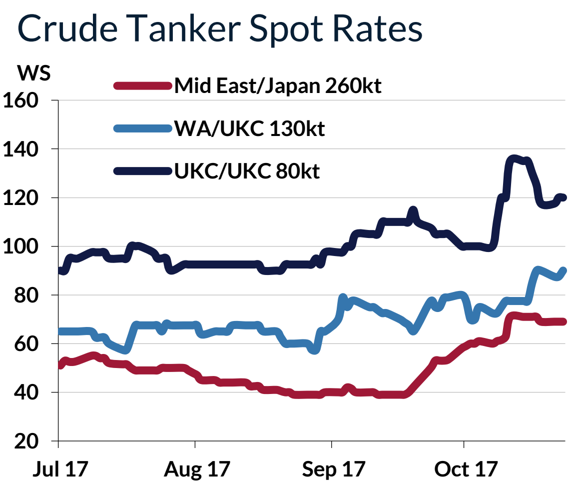
Aframaxes had moved through a weaker phase, but it became a lot busier and Owners quickly responded to regain all of the lost ground. 80,000mt by ws 160+ X-Med and Owners will feel in good shape to continue to take advantage next week - if Charterers comply that is. Suezmaxes enjoyed support from West Africa, resurgent Aframaxes, and Bosphorus delays, that made up for modest local enquiry. Rates remained broadly unchanged over the period at 140,000mt by ws 102.5/105 for European destinations with around $3.1 million available for runs to China. Perhaps some improvement next week?

Caribbean

Initially a heavy fall to 70,000mt by ws 110 upcoast for Aframaxes, but then a burst of bargain hunting tested the market bottom and set the scene for a potential last gasp rebound before the week's close. VLCC lists have looked tight for a while and over the foreseeable future also and rates are no lower than $4.1 million to West Coast India and $4.5 million to Singapore with upside potential very much in play though ballasters from the Far East are again beginning to take more notice which could cap forward gains.

North Sea

After a bright start, Aframaxes failed to make further headway and in fact started to decelerate into the weekend. 80,000mt by ws 117.5 X-UKCont and 100,000mt by ws 97.5 from the Baltic now and it will need another bright start next week to lead to a turnaround. Little 'arb' activity on VLCCs to the East, but rate demands remained at no less than $3.9 million to Singapore on very slim position lists....to be continued.



Clean Products

East

The LR2s haven't seen the greatest levels of activity, but there has been a constant drip supply of cargoes ensuring the tonnage list remained relatively tight and rates were maintained. TC1 has been set in rock this week at 75 x ws 112.5 and shows no sign of changing any time soon. UKCont stems have had a little fluctuation, but close the week at $1.85m. The LR1s have been really busy all week, however, they needed to be. With a lot of early ships at the start of the week the LR1s were hunting for cargoes of all shapes and sizes. However, as the activity was maintained the list started to tighten up and the slight sense of panic eased. TC5 improved during the course of the week and closes at 55 x ws 112.5 and cargoes heading westbound sit at $1.325 million. With a number of outstanding cargoes, Owners will be hoping for another week of plentiful activity to help this momentum continue.

The MRs have had a very busy week, activity has been high and as a result the tonnage list has remained tight. There has been a constant healthy supply of cargoes entering the market which has helped Owners fight off the pressure from the LR1s towards the beginning of the week. Rates have slowly been positively tested as the week progressed, maybe not as much as Owners were hoping for, but certainly an encouraging end to the week. AGulf/EAF saw high levels of activity and nudged its way up to ws 220. TC12 saw moderate levels of activity and sits at the 35 x ws 165. X-AGulf runs were trying to push hard, but with LR1s sharking for any open cargoes, momentum was hard to achieve. It finishes the week at the $210k mark (very date dependant). Runs into the Red Sea have not been hugely active when compared to that of previous weeks and asses it at $485k. UKCont hasn't been the flavour of the week and Owners haven't been overly keen to head west, that said, rates have improved a little and sits at $1.25 million. With activity expected to be high again next week in the run up to Bahri, a healthy supply of cargoes still to be covered added to the fact that the tonnage list remains tight, Owners should be feeling confident for week 44.

Mediterranean

Slow enquiry over week 34 means rates softened throughout with X-Med now trading at relatively stable 30 x ws 132.5. Black Sea rates also followed suit softening to 30 x ws 140 early in the week, however, with some weather delays, Wednesday's rates managed to rebound to 30 x ws 150, but look weak at the time of writing. Owners will be crossing their fingers for fresh enquiry at the early stages of next week as any further build-up of prompt tonnage is likely to cast a bearish shadow over the market.

Enquiry has been good enough and tonnage tight enough for most Owners to keep the Med/transatlantic rates a nudge ahead of those in NWE although 37 x ws 97.5 was done in the middle of the week. Med/AGulf runs are flirting around $750k with both East and West routes looking stable in the back end of the week especially with some signs of improvement on the UKCont.

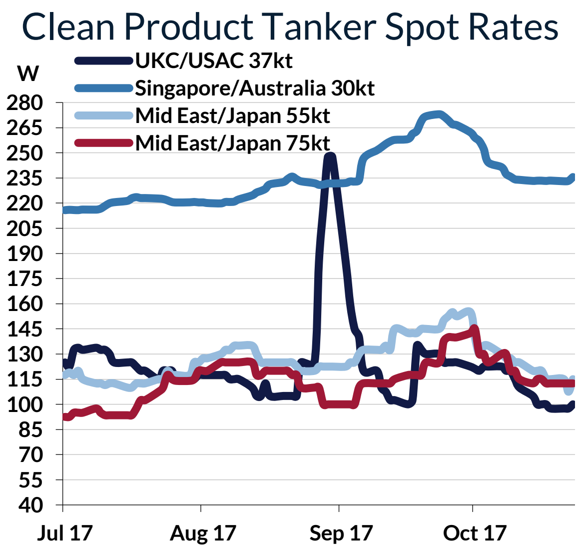
UK Continent

The MR market up until the week's end remained fairly stagnant as levels for transatlantic and WAF continued to hug the floor. With volumes light and earnings low Owner's preference has been to try and keep their tonnage short. These shorthauls were achievable when Baltic Handy cargoes hit the marketplace and MRs were able to compete on the freight with a few vessels getting fixed at the 40 x ws 97.5-100 mark. At this point TC2 was trading at 37 x ws 97.5 and 37 x ws 110 for WAF respectively however, as Thursday approached the gasoline arbitrage to the US opened and with this fresh enquiry hit the market which in turn cleared out the front end of the tonnage list. With the tonnage list shirking, rates began to rise with 37 x ws 107.5 on subs for transatlantic and a replacement/restricted cargo achieving 37 x ws 115. Looking ahead towards next week the momentum will have to be maintained if Owners wish to try and hold rates at the current level. Also, the USGulf will have to improve some more in order to steer USAC, ECC units away from European shores which could see negative pressure build back up again.

A thoroughly lacklustre week for the Handies in NWE sees the market plagued again with too much tonnage for the levels of enquiry we are currently seeing. As a result, rates have been unshaken for their 30 x ws 130-mark ex Baltic and 30 x ws 125 for X-UKCont. The owning clan have done well to maintain these levels in light of the relative inactivity especially at the early stages of the week which saw MRs competing for 30kt clips ex Baltic.

For now, the sentiment remains subdued with Owners hoping for the MRs to pick up in order to relieve some pressure on the Handy market.

A handful of cargoes coming into the market during the week keep rates ticking over 22 x ws 165 (X-UKCont) and 22 x ws 170 (Baltic/UKCont). Luckily for Owners tonnage is on the thin side which is managing to stem an overall collapse and with a steady Handy market rates should remain unchanged for the most part. That said for Flexi rates to start to improve we need to see the Handy market show some signs of life first.



Dirty Products

Handy

Positions remaining tight for the duration of this week in the continent gave Owners the upper hand where at time of writing Owners are pushing current levels close to the ws 190 mark! Activity during this week saw rates continue to climb gradually where it became quickly apparent that sentiment would show no sign of abating. As the week progressed a rise in activity has derived further tightening of the lists, where Charterers will grow nervous for the balance of their November schedules knowing how many units have been booked to leave the region as of late.

Friday's depiction as often being a slower day for business was confirmed today as little sign of trade was seen in the Med. Despite this there was some activity holding rates stable at around the ws 177.5-mark ex Black Sea give or take a few points. This said, Charterers seemed to be holding their cards close to their chest as to what requirement they need to imminently cover. Owners will hope the type of tempo which saw rates build to today's levels hasn't been hampered come start of Monday where we gain a clearer picture of availability.

MR

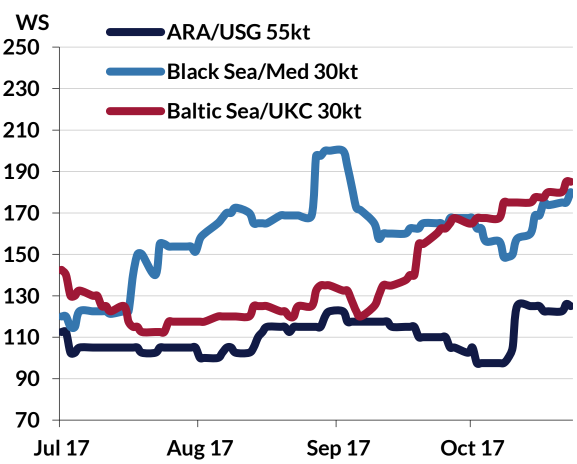
The continent continues its minimal activity due to a restricted tonnage list, with three fixtures made throughout the week. Rates remained stable at ws 140 although with the position lists continuing to be diminished Owners will be hoping workable tonnage represents quickly in order to take advantage of any potential upturn.

In the Med this week many operators have been choosing to conduct their business with minimal fuss, accepting general trend being flat and moving on with greater tasks at hand. Although this week we learn little about the forward prosperity of the sector, surrounding Handies look precariously placed which does hold potential to negatively distort MR conditions. Those deals booked this week keep the list ticking over could well assist in keeping conditions more favourable next week.

Panamax

Owners will be leaving the week wondering what on earth happened over the previous five days trading with many feeling that the rug has been swept from up under them. Touching ws 120 immediately after a period of firmness, the US markets were the main culprit in reversing trend where the weight of the tonnage lists left Owners looking for an exit from the US, and in doing so heading towards Europe in search of next employment. As a result of which, as soon as fixing dates moved beyond the first decade of November, the imbalance between supply and demand swung back in Charterers favour.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 26th	Oct 19th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1**	71	72	41	78
TD20	Suezmax	WAF-UKC	**+12**	99	88	74	96
TD7	Aframax	N.Sea-UKC	**-4**	122	126	101	111

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

			wk on wk change	Oct 26th	Oct 19th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1,750**	28,000	29,750	6,250	34,750
TD20	Suezmax	WAF-UKC	**+5,000**	21,750	16,750	12,250	20,500
TD7	Aframax	N.Sea-UKC	**-3,000**	22,250	25,250	7,500	14,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 26th	Oct 19th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-0**	112	113	110	
TC2	MR - west	UKC-USAC	**-1**	98	99	144	134
TC5	LR1	AG-Japan	**-7**	111	118	129	125
TC7	MR - east	Singapore-EC Aus	**+4**	237	233	234	

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

			wk on wk change	Oct 26th	Oct 19th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-250**	10,000	10,250	10,500	
TC2	MR - west	UKC-USAC	**+0**	2,000	2,000	8,250	7,000
TC5	LR1	AG-Japan	**-1,250**	6,250	7,500	9,250	8,500
TC7	MR - east	Singapore-EC Aus	**+250**	12,000	11,750	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 38C	-1	322	323	317
ClearView Bunker Price (Fujairah 380 HSFO)	+7	343	336	335
ClearView Bunker Price (Singapore 380 HSFO)	+4	345	341	333
ClearView Bunker Price (Rotterdam LSMGO)	-6	497	503	500

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