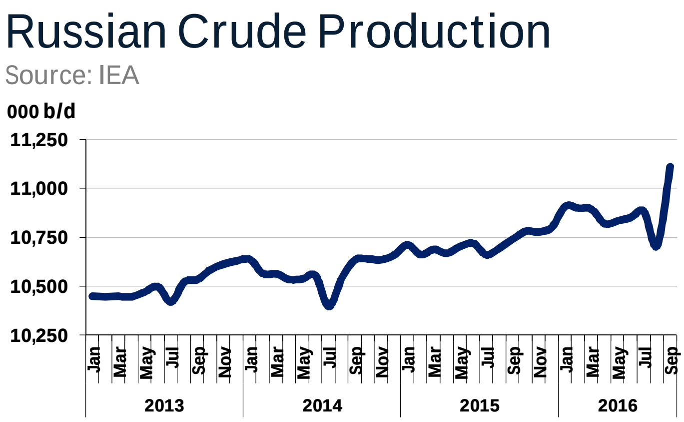
MOTHER RUSSIA

Weekly Tanker Market Report

Russia's oil exports are an important demand generator for the tanker industry. However, for quite some time now many in the industry have been expecting a decline in Russia's crude production on the back of Western sanctions, following the events in Ukraine and a collapse in oil prices. Yet, so far Russia has defied the expectations. Crude and condensate production averaged over 10.5 million b/d in 2015, up by around 150,000 b/d compared to the corresponding period in the previous year. Further gains have been seen in 2016. Most notably, in September output surged to a post-Soviet high of 11.1 million b/d, according to the preliminary government data. The growth in production has been supported by investments made prior to the collapse in oil prices, while the rouble's dramatic depreciation has cushioned the profitability of oil companies. In addition, Rosneft, which is by far the largest Russian oil producer, is intensifying its drilling effort and expenditure to maximize production at Soviet-era brownfields, where output is in decline. The company is also increasing its use of advance recovery methods, such as hydraulic fracturing and horizontal drilling. In a way, the seriousness of Rosneft's intentions is evidenced in the recently announced acquisition of India's Essar Oil, which will secure the company's market share in one of the world's fastest growing economies.

Ongoing gains in crude production coupled with a decline in refiners' crude throughput this year have supported rising exports, almost entirely seaborne. Russian crude shipments out of the Baltic and Northern ports averaged some 250,000 b/d higher between January and August 2016 compared to the corresponding period last year; while in the East, combined exports from the Kozmino terminal, Sakhalin and De Kastri edged up by 60,000 b/d. In the Mediterranean, there also has been a modest gain in crude exports from other Former Soviet Union members: BTC volumes were up by 70,000 b/d year-on-year during the 1st eight months of 2016.



In the short term, crude exports out of the Baltic and Northern ports are expected to remain at robust levels, aiding the tanker market during the upcoming winter season. However, these plans could be under threat, following the recent announcement made by the Russian President to participate in the OPEC output cap, despite the refusal by Rosneft's CEO for his company to engage.

In the Black Sea, exports of Caspian crude are forecast to increase, following the start-up of Kashagan and Filanovskoe oil fields in the 4th quarter of this year. The prospects are for a further major growth in Kazakh crude exports in 2017 and beyond, although these developments are largely linked to the successful launch and ramp up of production at the Kashagan, with initial flows expected to begin at 75,000 b/d and then increase to 370,000 b/d towards the end of next year.

The picture is more uncertain when it comes to Russia. Many do not see continued growth in production. However, if the efforts currently being implemented by Rosneft to reverse the decline in its brownfield fields are successful, this could be the case. Certainly, growing production and exports will add incremental support to the tanker market, most notably in the West as the capacity on the main infrastructure link to the East – the ESPO pipeline - is already operating close to its current capacity. However, going forward the capacity of the ESPO link is expected to increase to 1.6 million b/d by 2020 from 1 million b/d currently, with around 0.7 million b/d shipped from Kozmino and another 0.3 million b/d via a pipeline spur directly into China. This is good news for the tanker market in the East, with the anticipated increase in Kozmino exports by around 0.3 million b/d. Yet, if there is no major increase in Russian crude production in the medium term and/or there is a notable increase in refinery crude intake, higher crude exports to the East will threaten seaborne exports to Western customers.

Crude Oil

Middle East

October has proved the busiest month for VLCCs on record and given the volume, and recent momentum in concluding that volume, it is no surprise that rates propelled from around ws 30 to the East to as high as a peak ws 69 over the period. That said, rates are now only little better than they were in the early summer, and near equal cargo thrusts in the past have yielded far more spectacular results. Owners mustn't grumble but the underperformance is a reflection of the much larger fleet size than in those times, and it will take almost repeat performances to ensure longer term earning averages feel the benefit. Owners will, however, be hoping for a lively kick-off to the new November programme next week to keep up the good work. Suezmaxes saw no such fun and remained largely flat line through the week on limited interest, and ongoing good availability. Rates sagged to ws 35 West and to ws 55 to the East accordingly. Aframaxes leveraged up their previous gains to 80,000 by ws 87.5 to Singapore upon improved activity, and thinner availability, and Owners are once again raising their rate sights for next week's campaign.

West Africa

VLCCs basked in the reflected glory of the AGulf spike, and managed to ride rates into the high ws 60s to the Far East and $3.7 million to West Coast India, on a slew of first half November interest but then failed to gain further premiums as the week came to a quieter close. Next week will again be dictated by AGulf fortunes. Suezmaxes operated in defensive mode through the week. Initially Owners held a stubborn line, but cracked a little by the weeks end to engage at down to ws 67.5 to the USGulf, and to ws 70 to Europe. Hopes for something busier next week, but just hope for now.

Mediterranean

Nasty for Aframxes - rates crumpled steadily to as low as 80,000 by ws 62.5 cross Med and although there was a later week pick-up in activity, tonnage remained easy, and the market went nowhere. Suezmaxes calmly awaited November stems but had to allow rates to settle to 140,000 by ws 75 from the Black Sea to European destinations in the interim. Possibly busier next week, but no significant rebound looking likely.

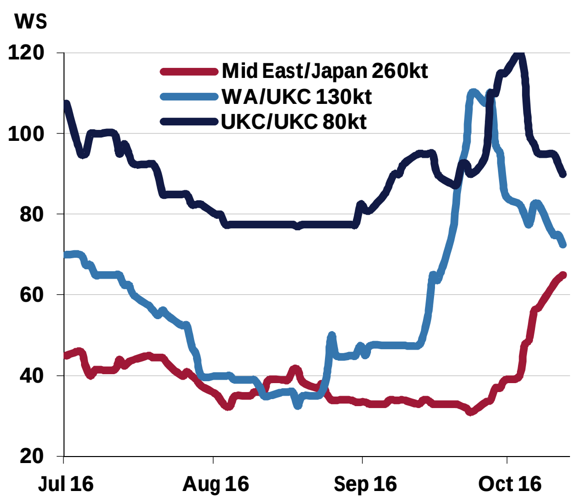
Caribbean

Better for Aframaxes - eventually. A more active fixing phase tightened lists, and allowed for rates to move sharply higher to 70,000 by ws 110 up coast with perhaps a bit more to come before the dust settles. VLCCs didn't make a lot of noise but were sufficiently balanced for Owners to engineer more positive rates when opportunities beckoned. $4.5 million - or near to for Singapore now with up to $3.8 million payable for runs to West Coast India.

North Sea

No change week on week in Aframax rates here - there was some undulation in the mid-week but we are basically back to the starting line at 80,000 by ws 95 cross UKCont and 100,000 by ws 85 from the Baltic, though the market barometer is starting to indicate something a little more 'fair' into next week. 'Arb' rates for VLCCs to the East improved, and with tonnage tight, Owners had the tools to demand, and get, higher rewards. Traders' economics moved to around $3.8 million for fuel oil to Singapore but Owners were holding ideas above $4 million into the close.

Crude Tanker Spot Rates



Clean Products

East

It was a super busy week for the LR2 with an abundance of cargoes entering the market. This resulted in the tonnage list tightening up quick and rates rose in accordance. AG/Japan sits at 75,000 x ws 70 mark and voyages to the UKC also rose sharply and trade at $1.8 million. As the week drew to a close the intensity did ease off as expected, but the tonnage list remains tight certainly up to 26-28 Oct dates. If there is another strong deluge of cargoes early next week the momentum seen could very well continue, however, with the outstanding cargoes looking more to the forward date's the current level of tonnage should be able to cover what is left. As it stands, the LR2s are set up well for another decent week of trading as we look to week 42. The LR1s have not been as fortunate as the LR2s this week. Activity levels have been decent, but there have not been a vast number of outstanding cargoes which could clear tonnage of the list. AG/UKC was pretty stable at the $1.25 million mark however it did see a gentle rise to $1.305 million towards the end of the week. TC5 has seen moderate activity but rates have been varied. It finishes up at the 55,000 x ws 85 level. Owners will be hoping for higher levels of cargoes entering the market next to try and stimulate the market further.It has been a steady week for the MRs in the AG. Throughout the week there have been decent levels of activity, however, rates have struggled to gain any traction and as a result levels consistently hovered around last done levels. The list has been comparatively long on tonnage and with the majority of cargoes on more forward dates, even the inclusion of early market quoted cargoes did little to stir excitement in the rates. AG/UKC voyages sit firm $925k. AG/EAfr fluttered around the ws 110 mark throughout the week and shorter voyage were a pretty similar state of affairs. AG/RSea trades at $375k and X-AG at the $140k level. Naphtha cargoes softened a little toward the end of the week and finish at 35,000 x ws 87.5 mark. It's been another tough week for MR Owners, however as we approach week 42 the more forward cargoes will be coming into the natural fixing window. This may see a slight clear out of tonnage and generate a little positive movement.

Mediterranean

After an initially slow start in week 41 the Med has been more positive across the board. As we reached the mid-week point tonnage was looking quite tight for both prompt dates and fixing window cargoes meaning rates have come up by 5 points for both ex-Med and ex BSea 30,000 x ws 105 and 30,000 x ws 110 respectively. As the week comes to a close there still a number of uncovered cargoes and tonnage is in short supply suggesting rates are likely to firm more before close of play. If this enquiry can be maintained into next week Owner are expected to push for higher still as the favour lies with them. MR action has been quiet again in the Med this week, although there have been a handful of cargoes to keep rates ticking over at last done levels. A general lack of available MR tonnage has helped to maintain this market for the moment but not enough to see rates firm.

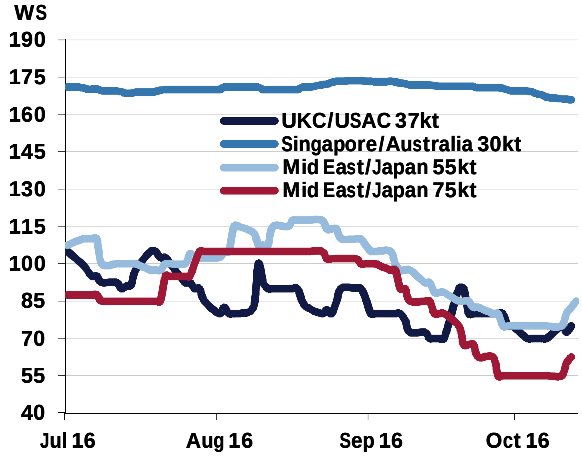
UK Continent

MRs in NWE have had a generally positive week, although the hiatus seen around Wednesday/Thursday seems to have fallen flat as the week comes to close with rates settling back down with 37,000 x ws 75 on subjets again. Heading into next week rates look to continue trading sideways at current levels. Although some tonnage has been cleared this week a handful of ballasters are likely to replenish stocks over the weekend leaving rates flat. TC2 seems to be the dominating route and enquiry ex-Baltic and down to WAfr remains light meaning next week is unlikely to be providing the break Owners are so desperately looking for. This week has bought little to swing the Handy market in either direction, enquiry has been a touch light but enough to keep rates moving sideways, whilst tonnage has been well supplied. Rates are unlikely to come off any further going into next week as the status quo yet again takes hold and Owner are resisting dropping below triple figures for 30,000 x ws 105 ex Baltic and 30,000 x ws 100 for ex-UKC. The Flexi market has seen a better week or trading, however the inactivity that has plagued the market in previous weeks left a considerable amount of tonnage to clear. As a result rates have hovered around last done levels and sometimes below 22,000 x ws 135-137.5. Next week looks to produce more of the same.

LRs

The first half of week 41 provided a steady level of LR1 inquiry in the West. A few vessels found employment and a couple more were put into own programmes. The second half of the week has, for the first time in a while offered further employment opportunities for Owners and therefore paired with a thinning tonnage list resulted in rates increasing. Rates achieved so far by Owners and where, for now, they continue to sit are 60,000 x ws 85 for Baltic/Cont and 60,000 x ws 65 for ARA/WAF-TA. We haven't seen a huge pull of product to the East this week, but there are rumours of an ARA/China reformate run circulating today. Owners are rating UKC/Japan at \$1.3 million and \$1.2 million for Med/Japan. If vessels currently on subjects are confirmed and we see a continued flow of fresh inquiry come Monday or Tuesday, then this might enable Owners to try and push rates up again during week 42. However, the hype could be short lived if activity levels cool as there are a number of vessels in USAC that are most likely going to ballast back to the Continent and will arrive from the 25th onwards. Owners of LR2s in the West will feel happier heading into the weekend after seeing a surge of activity in the AG result in rates rising to \$1.8 million for an AG/UKC run and with a decent handful of cargoes still outstanding the outlook remains positive heading into next week. The improvement in rates on that side of the Suez has attracted the attention of vessels which have been recently holding off Malta waiting for an improvement in rates to make sense of the ballast through the Suez. Inevitably, the improvement in the East has pushed up Owners ideas for West/East runs even without a noticeable improvement in inquiry. Their case has also been helped with the sight of a couple of LR2s turning to DPP in search of better returns.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Winter is coming! This week we were reminded of the effects the winter months on the continent. The limited options of vessels made the fundamentals difficult for Charterers and the ball was in the Owners court. We also saw a couple of replacement requirements which kept the pressure on the market and the rates tilting northwards. The new benchmark for cross UKC and Baltic UKC movements has been firmly set at ws 120 levels, and going forward we will probably see momentum continue as Charterers look to clip away firm positions in the region. Never to miss out on an opportunity, Owners in the Mediterranean and Black Sea joined the three digit club! Activity mainly driven from the Black Sea has dragged numbers from the 90's all the way into the ws 110 region, somewhere which Charterers have not been accustom to for sometime now. Next week is already looking like the trend will continue to tick over, so moving early could prove pivotal for those likely to be in the market.

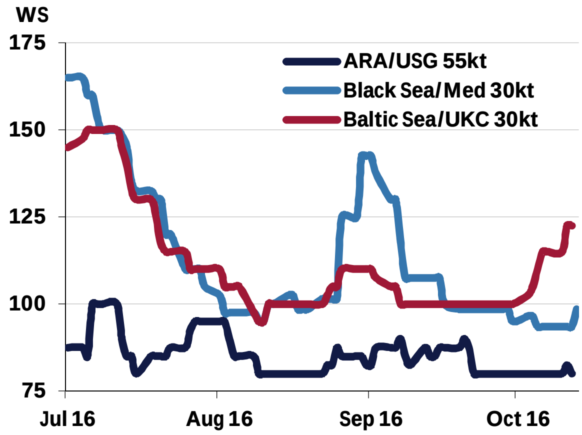
MR

This week on the continent, availability remains thin on the ground with only a couple of vessels in the region for Charterer's to consider. With no sign of a full sized stems, part cargo opportunities are the only meal on the menu for Owners at the minute but with more activity expected next week and with Handy tonnage lacking Owners in play should not be waiting too long before the phones start to ring come Monday morning. The position list at the start of the week did not look great for Owners in the Mediterranean as Charterer's remained spoilt for choice with a good amount of availability throughout the region. As the week drew on though the tables started to turn with the Handy market busy and a handful of full sized stems being reported MR tonnage started to rapidly decrease and Charterer's all of a sudden were forced to tread carefully. With the weekend break upon us, Charterer's will be hoping Monday morning brings a few more firm positions as owners will continue to put pressure on current levels.

Panamax

Monday morning presented us all with a sobering thought when digesting the content from the fresh tonnage lists that were drawn up. With an abundance of naturally positioned vessels this side of the Atlantic was only going to prove to be challenging for many. Rates proved disappointing for Owners as activity was drip fed into the market and as a result we have seen low of ws 75 achieved. If the steady activity continues into next week, the outlook is looking like much of the same as far as levels go, or at least until natural tonnage dissipates a little.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 6th	Oct 6th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+10**	66	56	37	59
TD20	Suezmax	WAF-UKC	**-7**	73	80	35	76
TD7	Aframax	N.Sea-UKC	**-5**	93	98	78	105

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

			wk on wk change	Oct 6th	Oct 6th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+11,000**	47,000	36,000	17,750	38,500
TD20	Suezmax	WAF-UKC	**-4,250**	23,250	27,500	6,000	25,000
TD7	Aframax	N.Sea-UKC	**-4,750**	15,000	19,750	4,500	25,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 6th	Oct 6th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+8**	63	55	104	
TC2	MR - west	UKC-USAC	**+10**	80	70	93	89
TC5	LR1	AG-Japan	**+9**	85	76	108	90
TC7	MR - east	Singapore-EC Aus	**-2**	166	168	170	

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

			wk on wk change	Oct 6th	Oct 6th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+3,750**	8,250	4,500	21,000	
TC2	MR - west	UKC-USAC	**+1,750**	4,250	2,500	8,000	6,000
TC5	LR1	AG-Japan	**+1,500**	8,000	6,500	15,000	9,000
TC7	MR - east	Singapore-EC Aus	**-500**	12,000	12,500	14,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+4**	265	261	216
ClearView Bunker Price (Fujairah 380 HSFO)	**+9**	290	281	226
ClearView Bunker Price (Singapore 380 HSFO)	**+6**	283	277	221
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+0**	445	445	366

www.gibson.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States