WEEK 33 – August 20, 2010

The Dog Days of Summer

By Johnny M. Kulukundis

As the dog days of summer roll on, the U.S. has little uplifting financial news this week. The biggest U.S. petroleum stockpiles in two decades are leading oil pundits to predict further price declines that may lead OPEC to enforce tighter controls on their production quotas.

This week's Labor Department data showed that U.S. initial jobless applications rose by 12,000 to 500,000 last week. Claims exceeded all estimates from economists polled by news agencies, beating the median forecast of 478,000.

Also the Federal Reserve Bank of Philadelphia said this week that its general economic index slipped to minus 7.7 this month, signaling contraction in the area covering eastern Pennsylvania, southern New Jersey and Delaware. Economists forecast the measure would rise to 7.

The Standard & Poor's 500 Index declined 0.6 percent to 1,069.26 and the Dow Jones Industrial Average dropped 0.8 percent to 10,194.39. The dollar climbed to $1.269 per euro, up 1 percent from yesterday, reducing the appeal of commodities as an investment.

According to this week's U.S. Energy Department report, inventories of crude and fuel products rose to 1.13 billion barrels last week, the highest level since the Energy Department began keeping combined weekly data in January 1990. The price of oil has fallen 11 percent since reaching a three-month high on Aug. 3.

The U.S. economy is showing increasing signs of slowing growth, and according to the U.S. Energy Department, demand for fuel products has declined 6 percent to 19.7 million barrels a day since the recession began in December 2007.

Crude hasn't traded below $70 since June 7, when it fell as low as $69.51 a barrel. Oil for September delivery fell 97 cents, or 1.3 percent, to settle at $73.46 on the New York Mercantile Exchange. Crude has fallen 2.6 percent this week to a six-week low.

U.S. crude stockpiles fell 818,000 barrels to 354.2 million barrels last week, the Energy Department report showed. Supplies were forecast to drop by 1 million barrels. Gasoline inventories slid 39,000 barrels to 223.3 million, versus the 375,000-barrel decline that was predicted. Inventories of distillate fuel, which include diesel and heating oil, jumped to their highest levels since 1983, climbing 1.07 million barrels to 174.2 million.

Distillate stocks in the U.S. may well continue to rise as European nations economic growth falters, the seasonally very high stocks essentially reflect the downturn and the fact that diesel-fuel use has plummeted around the world.

It would appear that supplies are rising faster than demand is recovering, a full year into the recovery from recession, crude stocks are actually 3% higher than at the same week a year ago. Supplies may rise further as U.S. refineries shut for regular maintenance and the vacation-travel season ends, sapping demand for gasoline and jet fuel.

OPEC cut production by the most in its 50-year history at the end of 2008 when it lowered targets by 4.2 million barrels a day, capping output at 24.845 million. According to IEA data compliance with the...
cut weakened in July as Nigeria and the United Arab Emirates pumped more.

The 11 members with quotas increased production by 190,000 barrels a day to 26.8 million last month, implying compliance of 53 percent, the IEA said in an Aug. 11 report, down from 72 percent a year earlier. Supplies from all 12 nations, including Iraq, grew by 220,000 barrels a day to average 29.2 million.

On an up note OPEC has raised its demand outlook for 2010 and 2011 by 140,000 barrels a day each in its monthly report last week. Worldwide crude use will increase by 1.05 million barrels a day, or 1.2 percent, to average 86.56 million a day next year, the organization’s Vienna-based secretariat said.

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<th>Trade</th>
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THE TANKER MARKETS

VLCC
An active start to the week in the AG brought with it a firming market with rates touching upon highs not seen in over a month. However, these peaks proved to be short-lived as owners faced the stark reality of tonnage oversupply. For their part, charterers demonstrated a calculated patience with the aim of reducing owners’ rate ideas. Indeed, by the end of the week, Eastbound rates had fallen almost 20%. The issue of oversupply has been compounded in recent weeks by the fact that oil company relets are appearing now with greater frequency on the tonnage list whilst the number of VLCCs employed on short-term period charters for crude storage has effectively concluded its run for now. The redelivery of VLCC units from storage charters would translate into upwards of 10% of the world fleet which had earlier been off the spot market. Simultaneously, some 40 newbuilding units have been launched since the start of the year while only 26 single-hull units have been phased out, translating into a YTD net fleet growth of 2.59%. Following the acceleration of demolition and conversions in Q1, the trend now appears to have slowed and at present the pace is well below projections. Owners looking for a change in direction would almost certainly be looking for two events to occur during 2H10: the reemergence of a contango curve to incentivize a resurgence of floating storage and a reacceleration in single-hull removals. Much remains to be seen.

This week we report 31 fixtures; 27 emanating from the MEG and 4 in the Atlantic basin. With just 3 MEG fixtures bound for Western discharge ports, Eastbound business accounted for the lion’s share. Per the usual, Eastbound business was dominated by China-bound fixtures with 9. Eastbound rates commenced on a firmer tone, with rates peaking at just over ws60, before charterers’ took advantage of the mounting levels of tonnage by slowing their inquiry and thus at week’s end, rates have eased to the low ws50s. Of the 3 Westbound fixtures, none were bound for the USG, with 2 headed for the UKC-M range and one bound for the USWC. Rates initially posted a small 2.5-points gain to ws45, but have since eased to the ws40 level.

As we look ahead to next week we expect the activity to continue as stem confirmations are received and charterers get moving on their first half September programs. August is close to complete with 103 fixtures reported thus far and as we don’t expect next month to be as busy, the expectations are for only a handful of cargoes to go. September, on the other hand has just gotten started with 15 cargoes reported thus far. We compare this to a position list that still has 20 vessels remaining for the month, 9 of which are double hulls. Looking further ahead we see an additional 35 units (30 doubles) available through the first decade of September. This leaves the supply/demand equation in the charterers favor and with the expected slow trickle of cargoes to continue rates will continue to soften, moving closer to break-even levels. Eastbound rates facing pressure below the ws50 level, while westbound business softens below ws40.

The Atlantic Basin was much quieter this week with only 4 fixtures reported, three of which were destined for the east. Trans-Atlantic rates began the week at the ws60 level, but a stagnant Suezmax sector, coupled with falling AG rates put downward pressure on levels, despite a not too overly populated position list. The next done likely to be in the mid ws50’s as these trend look to continue.
Suezmax
Slower activity in the Atlantic Suezmax market saw rates ease over the course of the week; whereas the market commenced at the ws80 level, as the build-up of tonnage continued, rates had ease to the low ws70s by week’s end. With a fresh round of sabotage acts in the Nigerian delta forcing at least one major to declare force majeure, it is unlikely that the much-needed boost in West Africa exports will be slow in coming. This said, we expect that the market will have likely bottomed at the present level.

Aframax
The Caribbean Aframax market saw a relatively lackluster week, with little to change the supply/demand ratio significantly enough to change the market’s direction. Rates were punchy, but in general remained in the low ws110s throughout the week. With little to suggest much difference in the week ahead, expect rates to hold generally flat.

Panamax
The Caribbean Panamaxes saw a lackluster week. Prompt tonnage was available throughout the week, compounded by ballast units from the USWC. Despite an active MR sector, the Panamax market was only tested twice and these saw the market fall to the ws115 level by week’s end, providing a TCE return of just $5,800/day – representing a 9-month low.

In the European market, no pressure on rates this week with ample tonnage available in the UKC and Mediterranean ranges. A few cargoes were fixed at the ws125 level, yielding a TCE return of $8,900. The expectation is that charterers should be able to achieve last done levels.

In the Ecuador market, though the earthquake had no affect on load terminals, inquiry was light this week and rates came off by 5 points to the ws160 level for USWC discharge.

CPP
The ULSD arb was open for briefly at the start of the week and for a couple of days the activity looked as if the market might tighten on the strength of the USG activity; however, the short-lived window closed mid-week and capped the momentum. Rates for both TC3 and TC2 slips slightly another 5 points ending at 125 for TC3 and 135 for TC2 earning Owners a mere $4-5,000/day TCE.

USG exports to Europe numbered around 6-8 ships at the ws70 level and several exports headed for Brazil in the mid ws120s. The amount of MR tonnage in the Atlantic basin clearly does not allow for any demand to build, even after a brief spurt as we had this week on the ULSD exports.
**Sale & Purchase**

The dry market continued its upward trend this week, despite it being the middle of August and many people are on holiday. The BDI and the BCI rose by more than 11%, with the BCI crossing the 3,500 point mark for the first time since mid June. The week’s real winner was the BSI which increased by 13.38%.

Iron ore and coal demand continue to be the main drivers for the rising dry market, while the Russian grain export ban has also been an important factor for the improving market.

After a couple of lackluster months, the positive market movement has stirred sentiment and is leading to increased enquiries for tonnage. We expect the market to remain on a generally positive path in the short term.

In the dry sector, the sisterships M/V “USHUAIA” and M/V “CORDOBA” (37k / 2009/10 blt China) were sold en bloc, for US$ 30.5 million each, while M/V “NIEBLA” (39k / 1984 blt Japan) was acquired by Kuwaiti buyers for an impressive $9 million, in a sale that took place at least one month ago. For tankers, Ireland-based buyers have bought M/T “ELISA” (29k / 2005 blt Korea) for $21 million.

On the demolition front, sales have picked up again while prices remain firm, and it is worthwhile mentioning the sale of a Capesize bulk carrier for a firm $437 per ldt. The re-opening of the Bangladeshi market is still pending.

-Sale & Purchase commentary courtesy of WeberSeas (Hellas) S.A.
TANKER SALES

“ELISA” 29,000/05 - STX - B&W 9,701 - COILED - COATED - IGS - SBT - COW - DH - IMO II - SS/DD 11/2010
-Sold for $21 mill. to Irish based buyers (Ardmore Shipping).

“CHEMSTAR ACE” 19,481/97 - KURUSHIMA - MIT 8,401 - COILED - ST. ST. COATING - IGS - DH SS/DD 01/2012
-Sold for $7.5 mill. to Singaporean buyers (Glory Ship Management).

TANKER DEMOLITIONS

INDIA:

“NIKOS A” 12,691/85 – 3,671 LDT
-Sold for $410/ldt.

“CORONA” 6,594/85 – 2,226 LDT
-Sold for $470/ldt, including an unspecified quantity of stainless steel.

“SUPPAVAN I” 6,135/79 – 1,815 LDT
-Sold for $417/ldt.

PAKISTAN:

“KRITI EPISKOPI” 145,242/92 – 19,720 LDT
-Sold for $465/ldt.

“ARAMIS” 59,439/83 – 14,176 LDT
-Sold for $470/ldt.

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George P. Los,
Senior Analyst
Charles R. Weber Research
research@crweber.com
Charles R. Weber Company, Inc.
Greenwich Office Park One,
Greenwich, CT 06831
Tel: +1 203 629-2300
Fax: +1 203 629-9103

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