

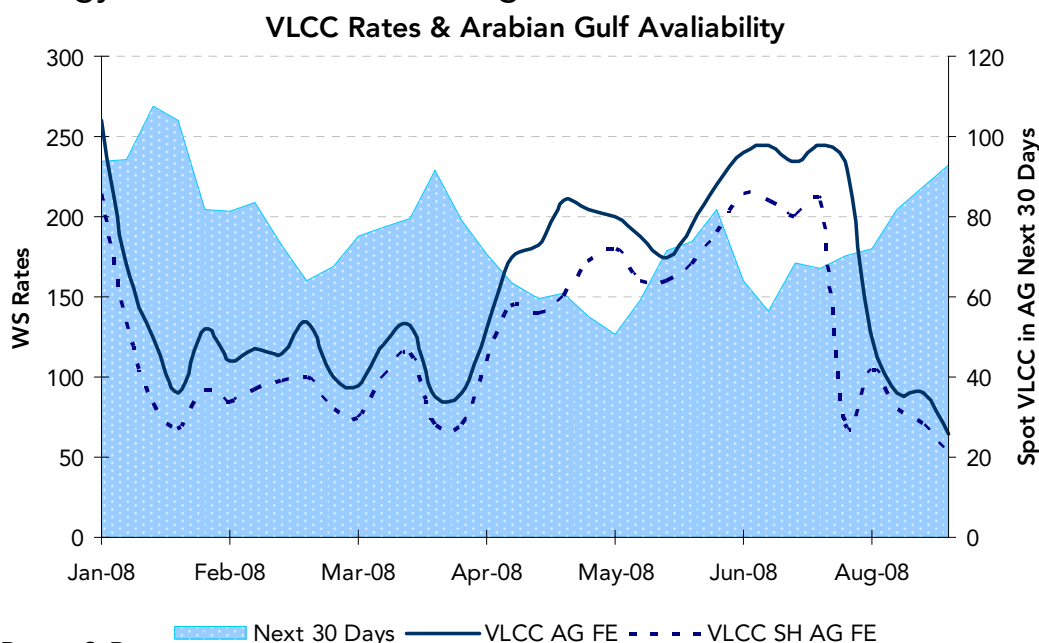


POTEN & PARTNERS

To Fish or Cut Bait

August 22, 2008

For anyone monitoring the tanker market, the precipitous drop in VLCC freight rates over the past two to three weeks is difficult to miss. While charterers are enjoying a respite from 2008's earlier freight rate frenzy, some shipowners are now left scratching their heads asking "what happened?" During the last week of July, time charter equivalents for Arabian Gulf to Far East voyages (260kt) were assessed to be \$184,400 per day. Just three weeks later, time charter equivalents have dropped to less than \$10,000 per day for the same voyage. The chart below shows the assessed Worldscale (WS) Rates for the AG – Far East voyage for double and single hull vessels, as well as the number of ships that are expected to be available in the Arabian Gulf during the next 30 days. This rapid change in rates is a reminder of how sensitive rates are to the supply of ships and the market psychology involved in chartering decisions.



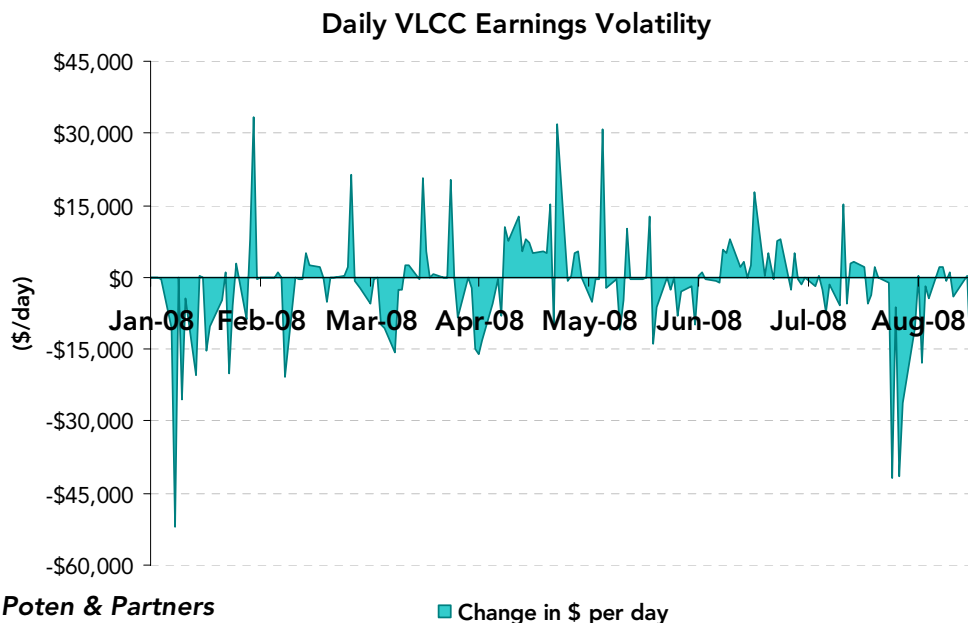
Source: **Poten & Partners**

Rates for double hull VLCCs have averaged WS 156 on average in 2008, and the amount of available vessels has averaged 75. By the beginning of August the market was poised to be substantially weaker than the average for 2008.

Ship availability began to rise appreciably during the second week of August, first to 80 VLCCs and now approximately 90 ships are expected in the next 30 days. Vessel availability three to five weeks ahead is a good indicator of market direction, as it is generally inversely related to freight rates. The prospect of more available ships can contribute to the willingness of shipowners to be more competitive on rates. Charterers are quite savvy at sensing the weakening market and are able to capitalize through careful timing of cargoes. In falling markets, it can be more difficult for the shipowner to get charterers to take the rate bait.

Changes Overnight

The momentum of a market downturn can vary. For example, the largest one-day change in earnings was in January, roughly \$50,000 per day, while others have been less severe. Volatility is generally a function of market psychology insofar as shipowners' future expectations dictate their willingness to accept a rate. The chart below shows the day-on-day change in time charter equivalent earnings for a VLCC trading Ras Tanura – Yokohama (260kt).



Source: *Poten & Partners*

What's Next

Higher fuel prices create a floor below which it becomes uneconomic for shipowners to operate the vessel. When the time charter equivalent for the ship is approaching zero, shipowners are torn between committing the vessel for a voyage at lower rate levels or waiting, betting that rates will improve in the near future. The range of personalities determining chartering decisions and forming the market sentiment will certainly come into play. No doubt some owners will be patient enough to wait in position for the big fish, in the form of a rate reversal, to come along.