



# Capital Link

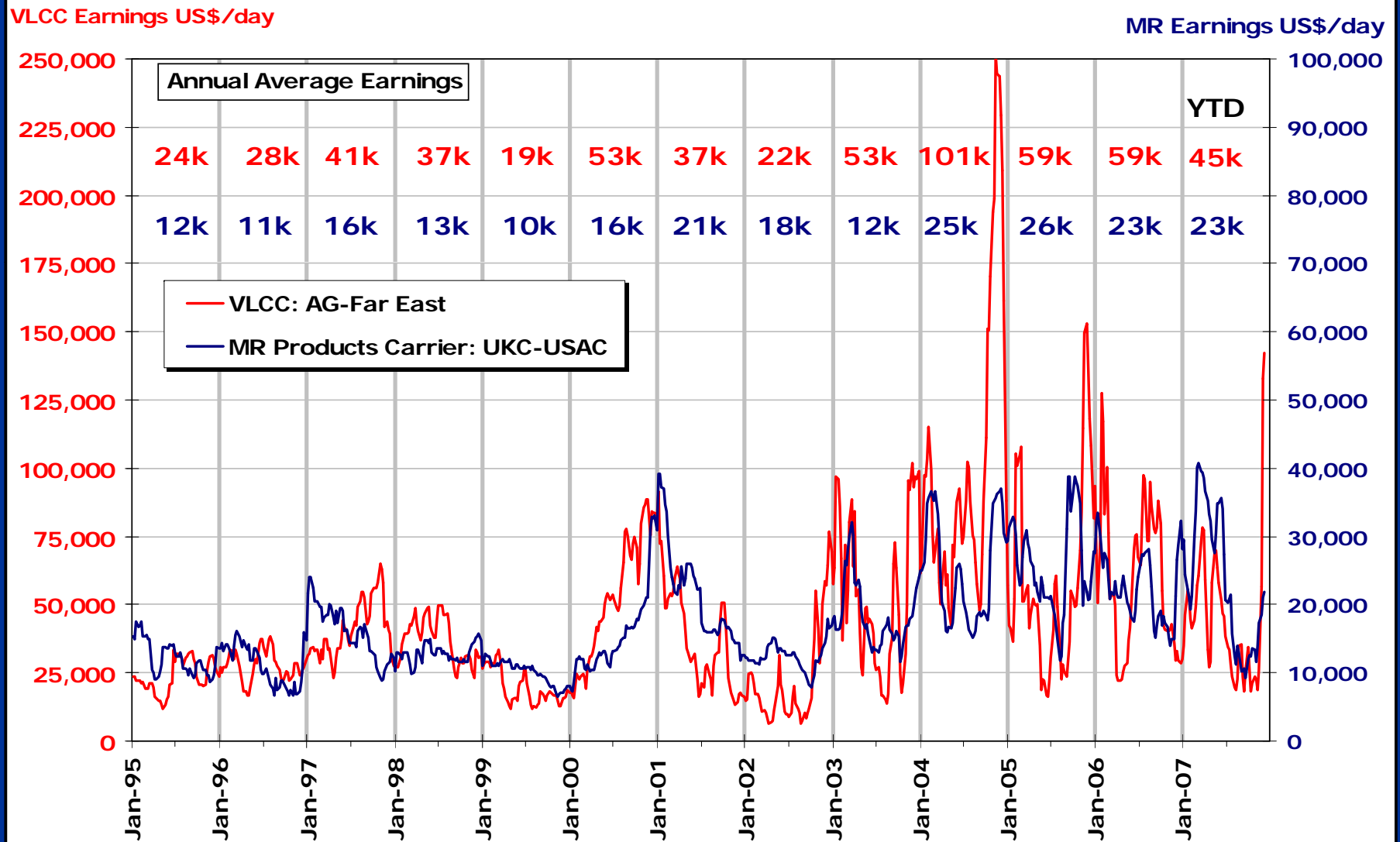
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## Tanker Market Review and Outlook

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Tanker earnings have softened from the peak levels seen earlier in the decade, but freight rates remain volatile and annual average earnings are well above the average levels seen in the 1990s.

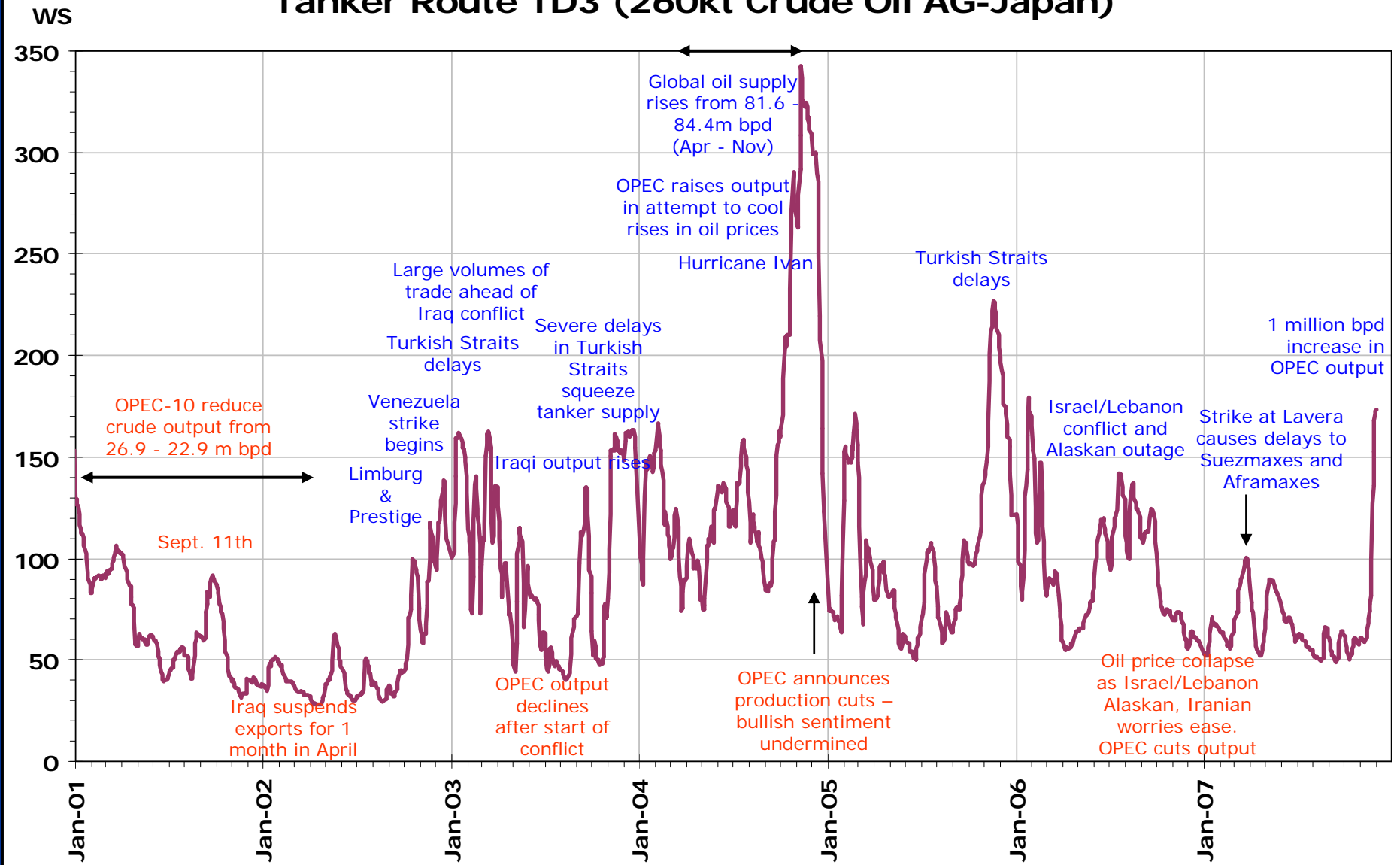
### Tanker Time Charter Equivalent Spot Market Earnings



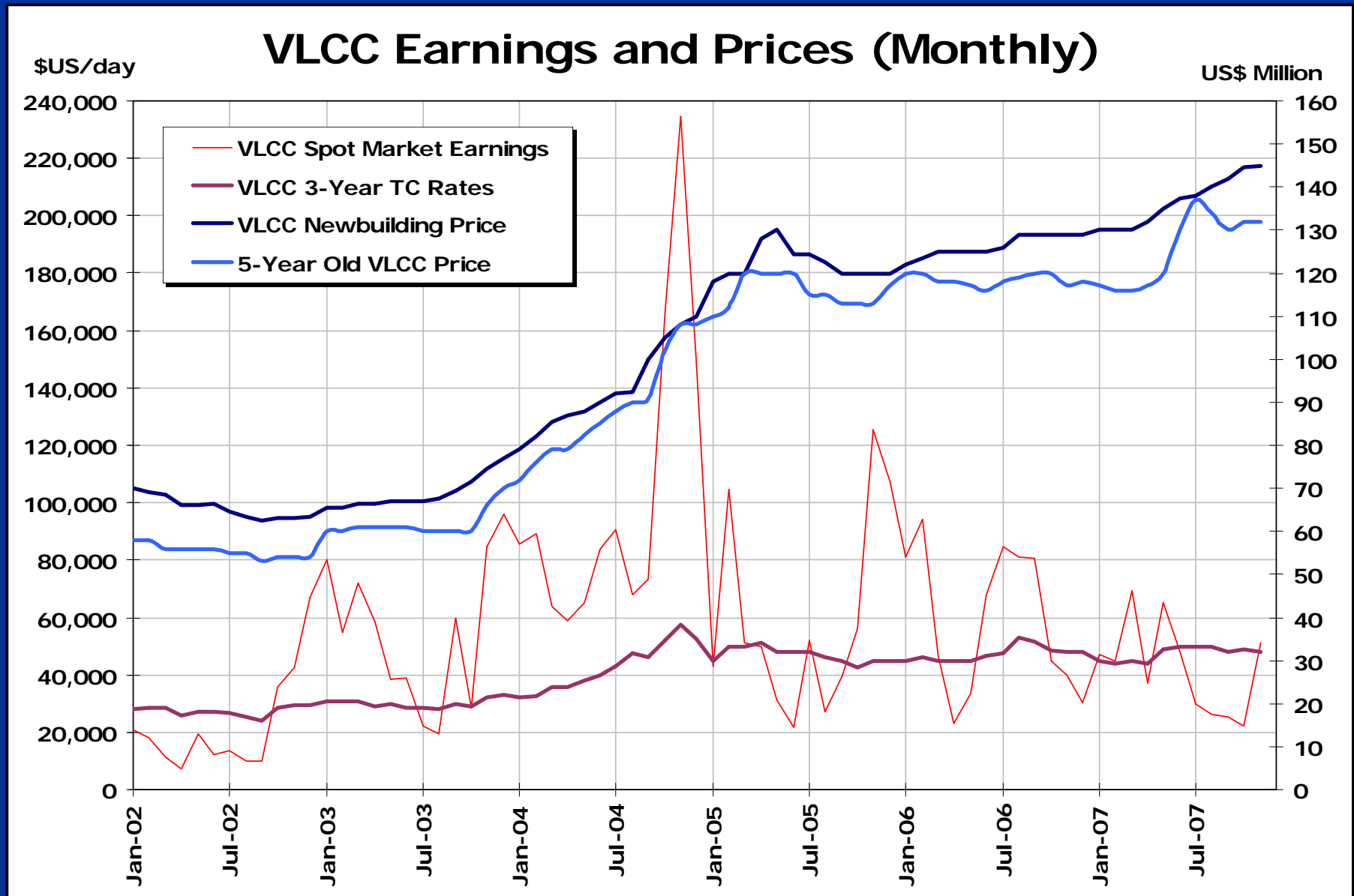
OPEC oil production levels have a large impact on freight rates, but many other factors that have affected the tanker market in the last few years have been external to the market and have been highly unpredictable.

Source data: Baltic Exchange

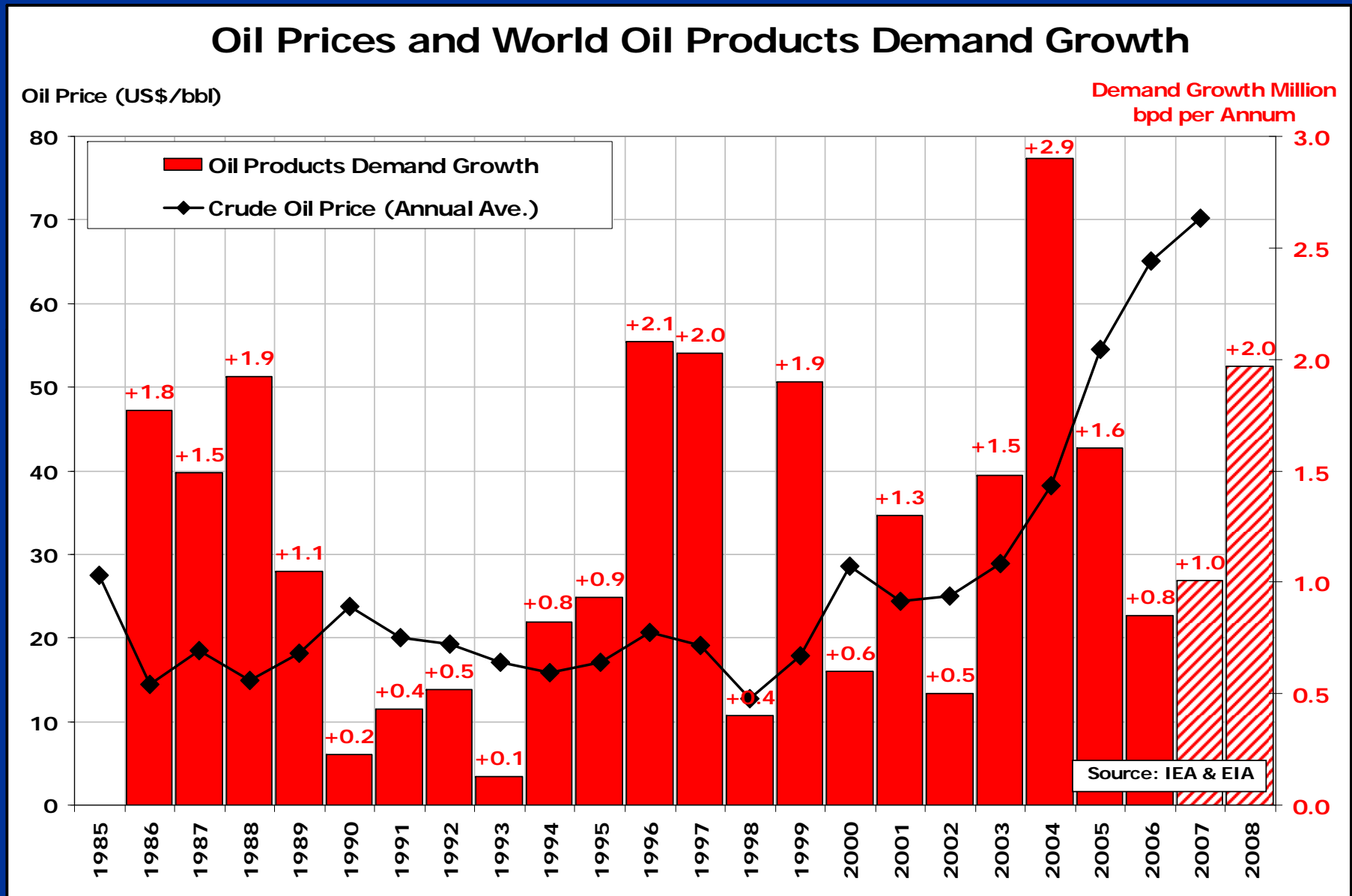
### Tanker Route TD3 (260kt Crude Oil AG-Japan)



Tanker prices and time charter rates have remained firm in spite of the weaker spot market returns that have been seen this year.

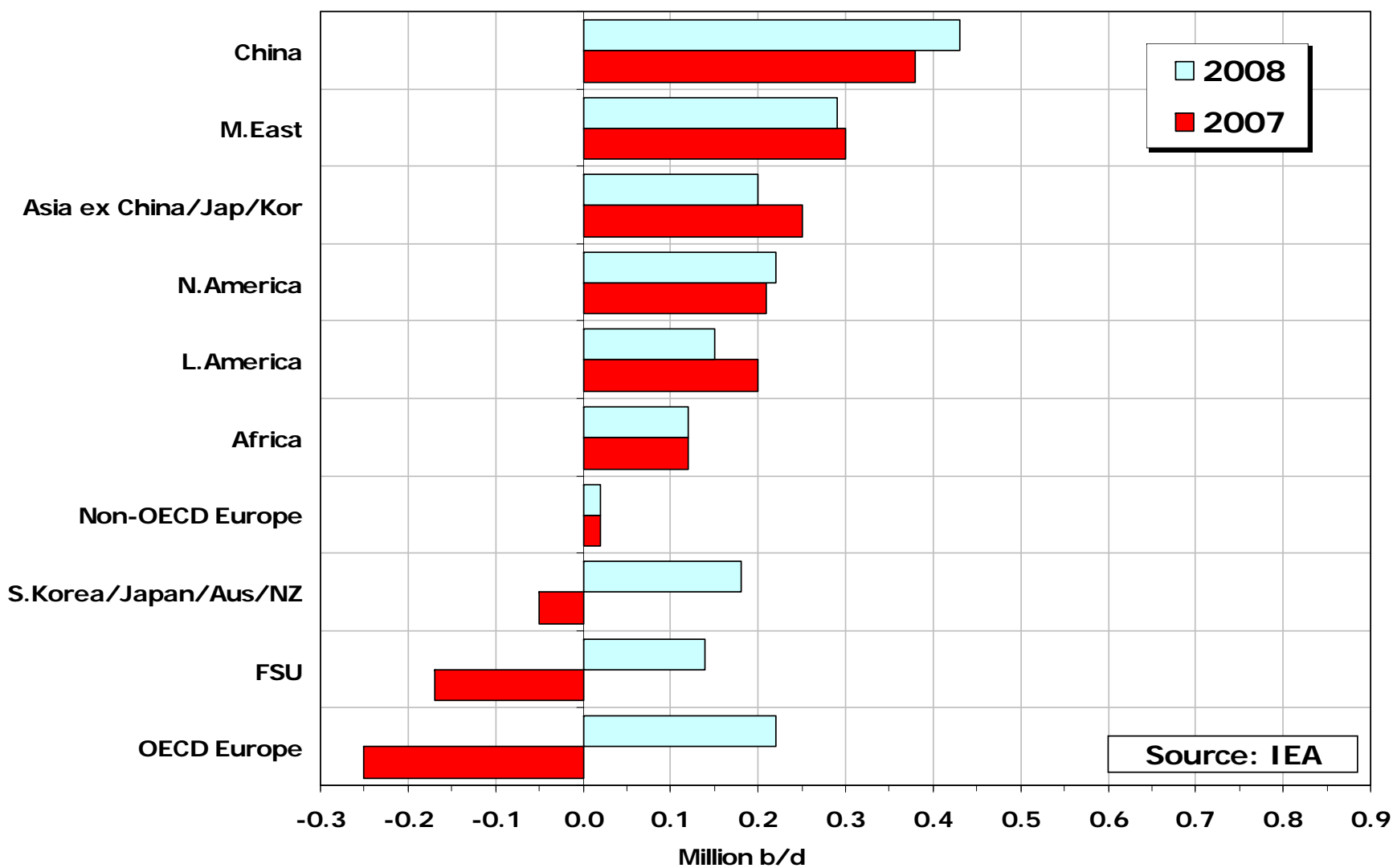


Oil demand growth is forecast to accelerate in 2008, although forecasts are being revised downwards because of high oil prices and expectations of slower economic growth. The IEA forecast still appears very bullish in this light.



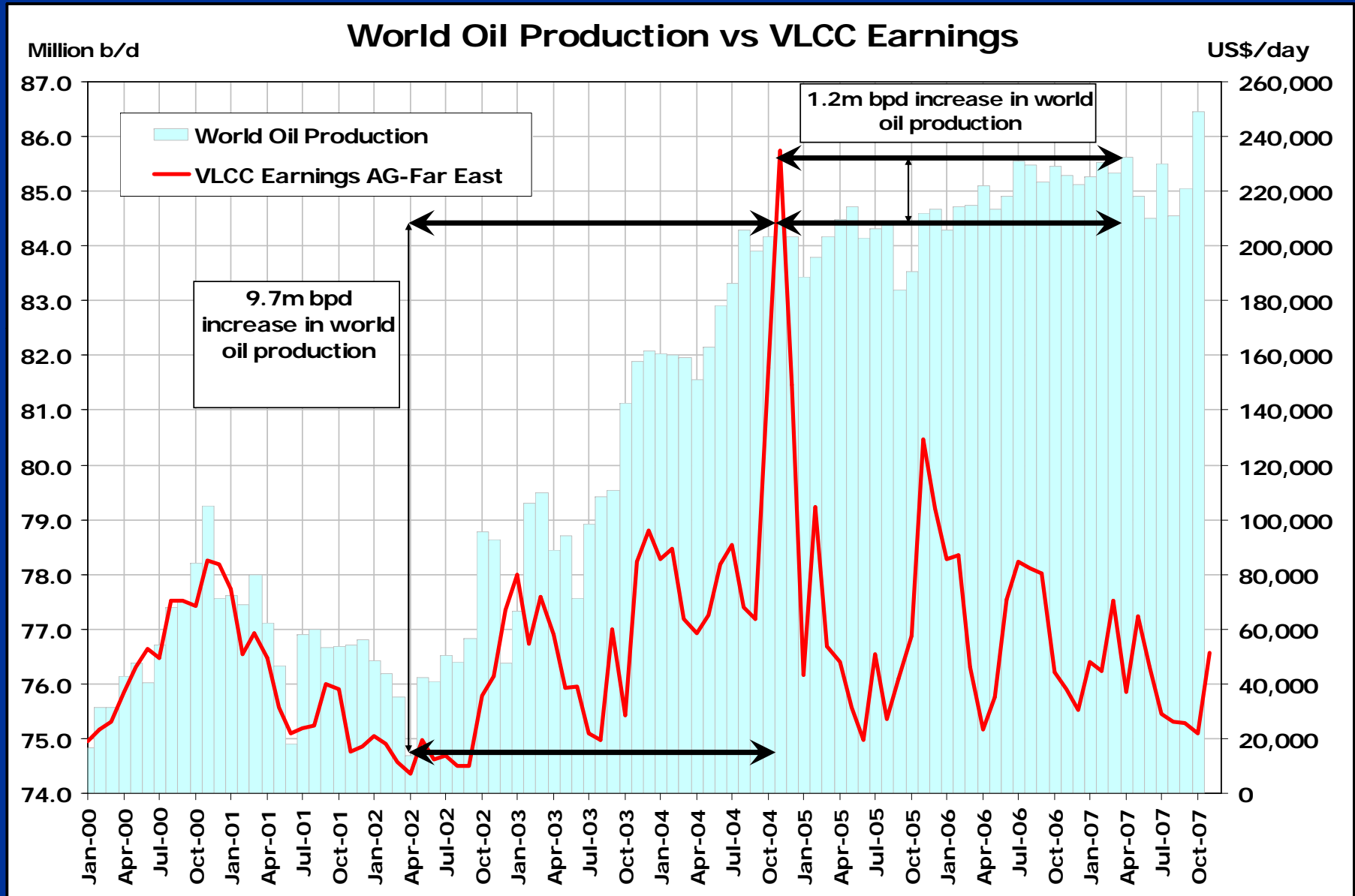
The regions that should see the greatest growth in demand will be China and the other developing Asian countries, the Middle East and North America. Europe and OECD Asia may see a re-bounce in demand growth.

### Year/Year Oil Demand Changes

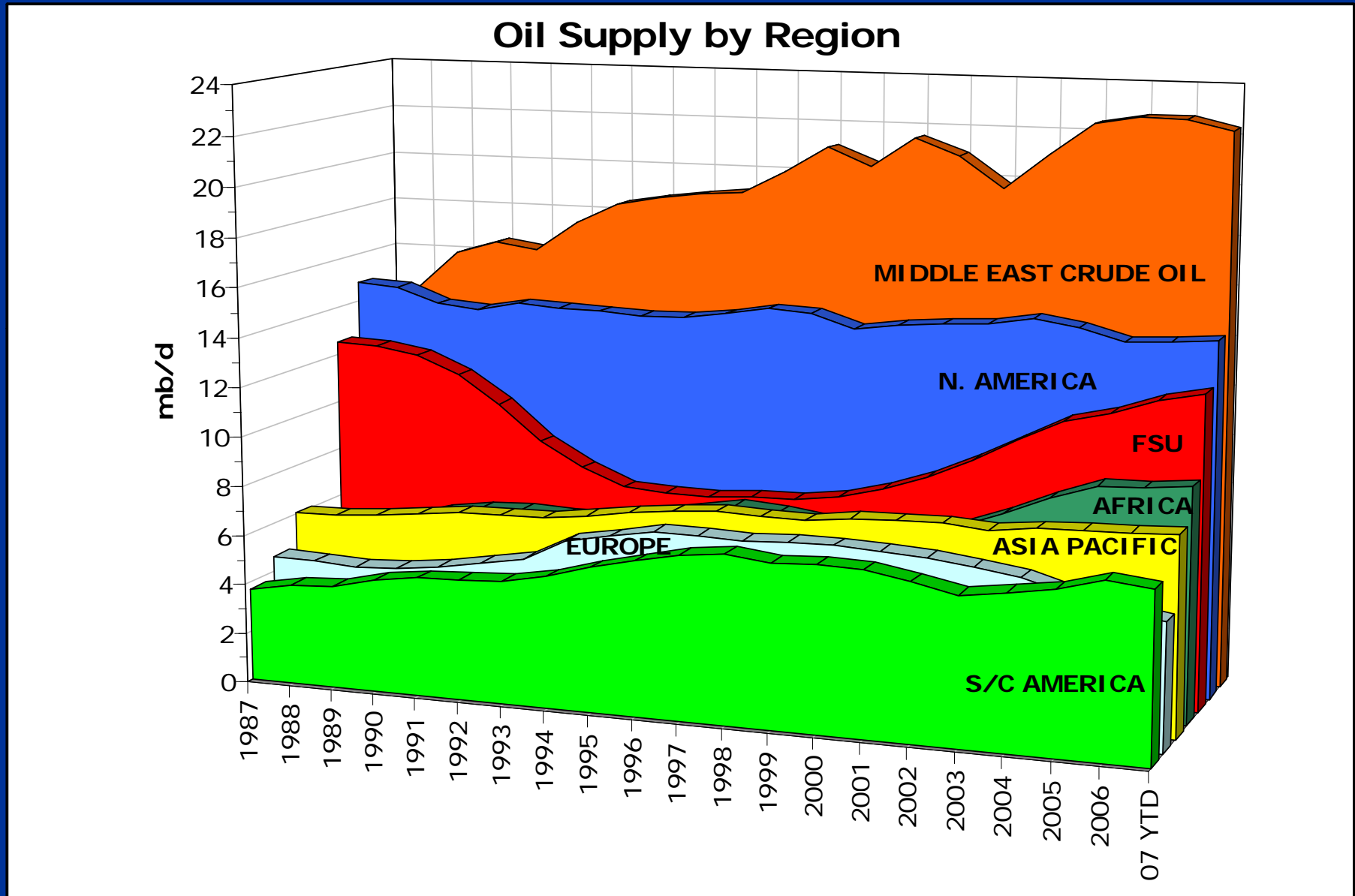


Source: IEA

World oil supply and trade grew very quickly from April 2002 to November 2004, but both supply growth and trade growth have been much more modest since then.

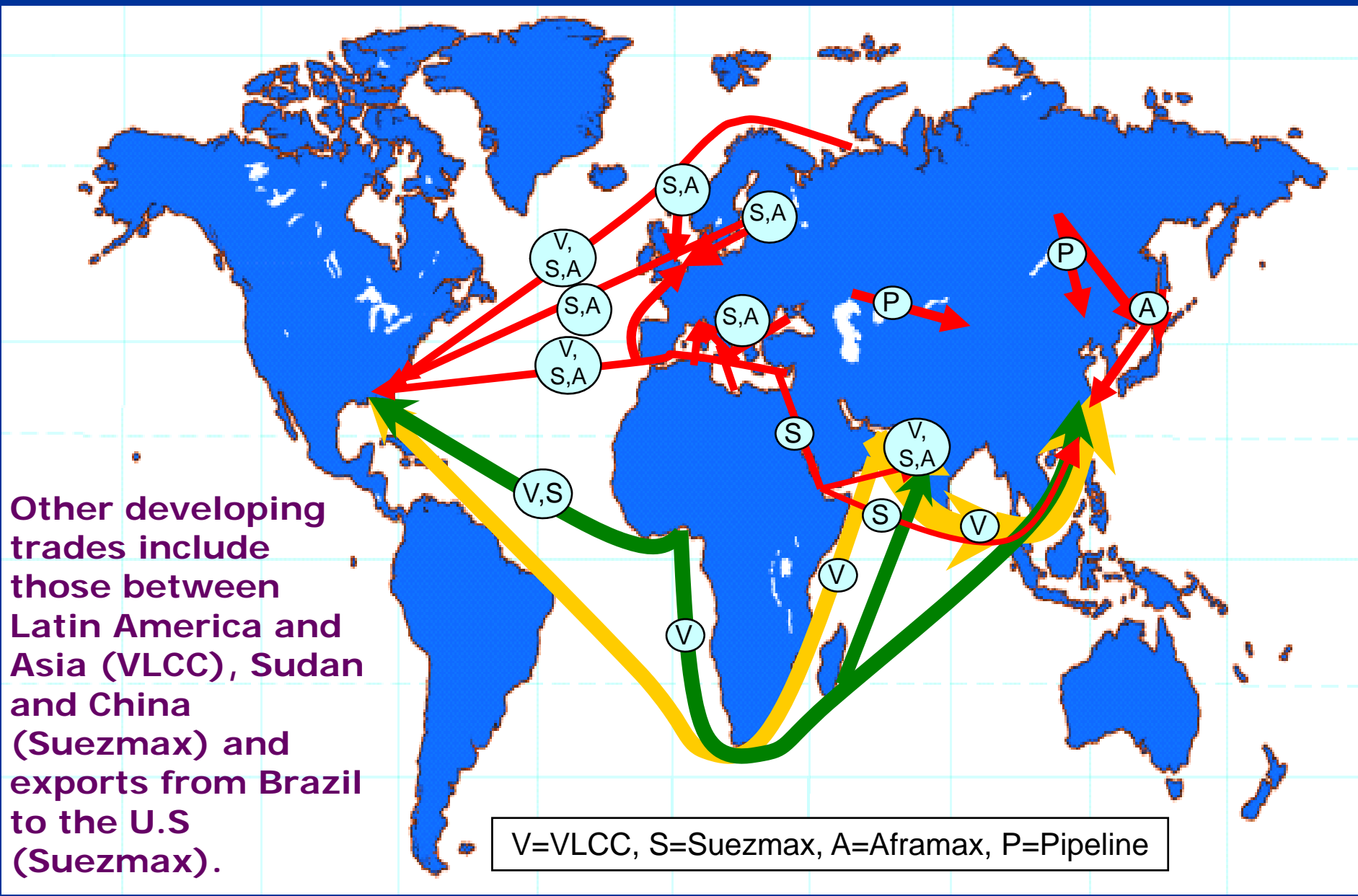


Tanker earnings have suffered as a result of lower production in the Middle East since Q4 06 because of OPEC cuts. OPEC has now started to increase output again and this is being reflected in freight rates.

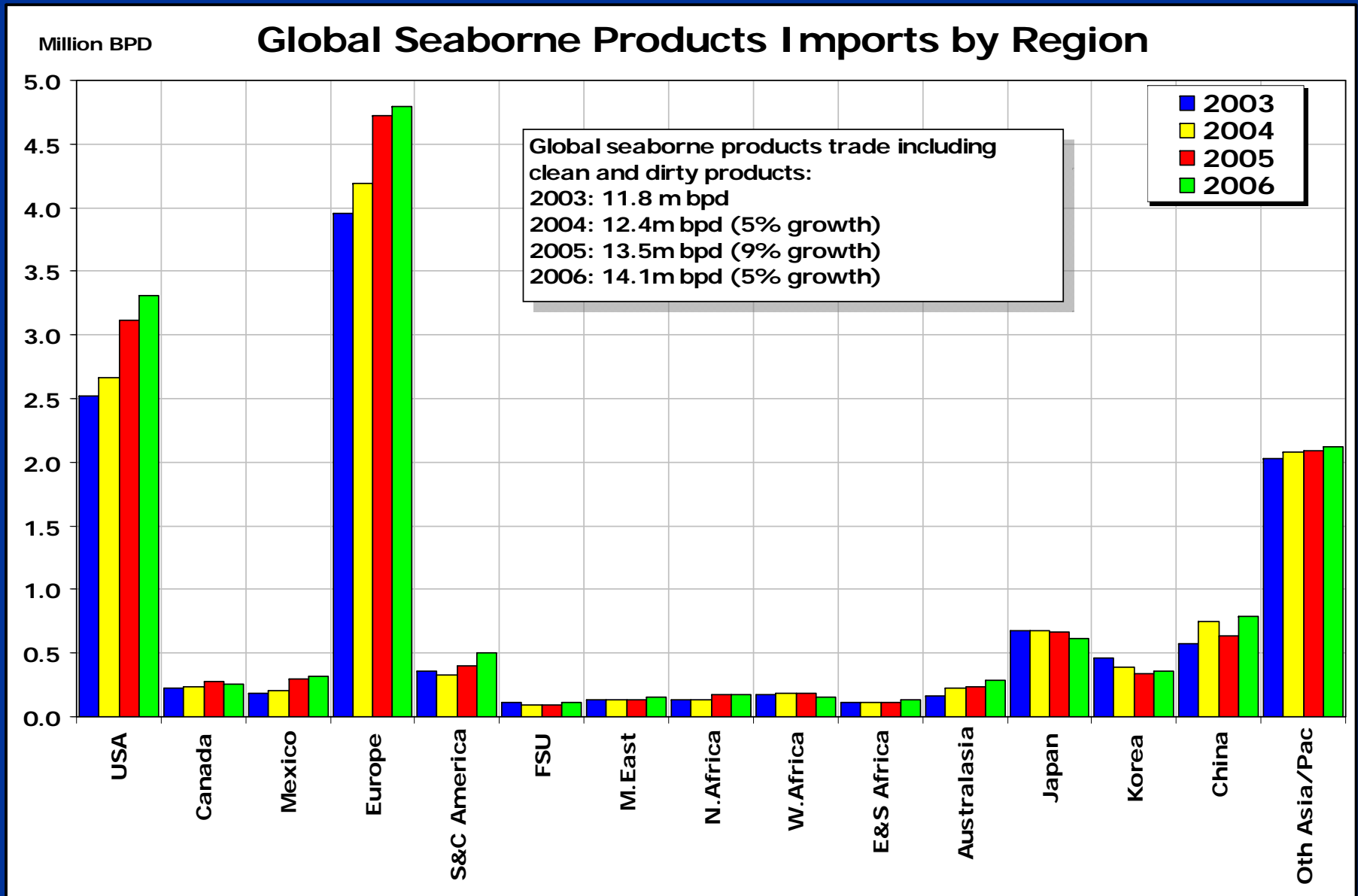




The basic premise for crude tanker demand growth over the next few years is the further expansion of crude oil trade from the Middle East, Africa and FSU to developing Asia, the U.S. and Europe.



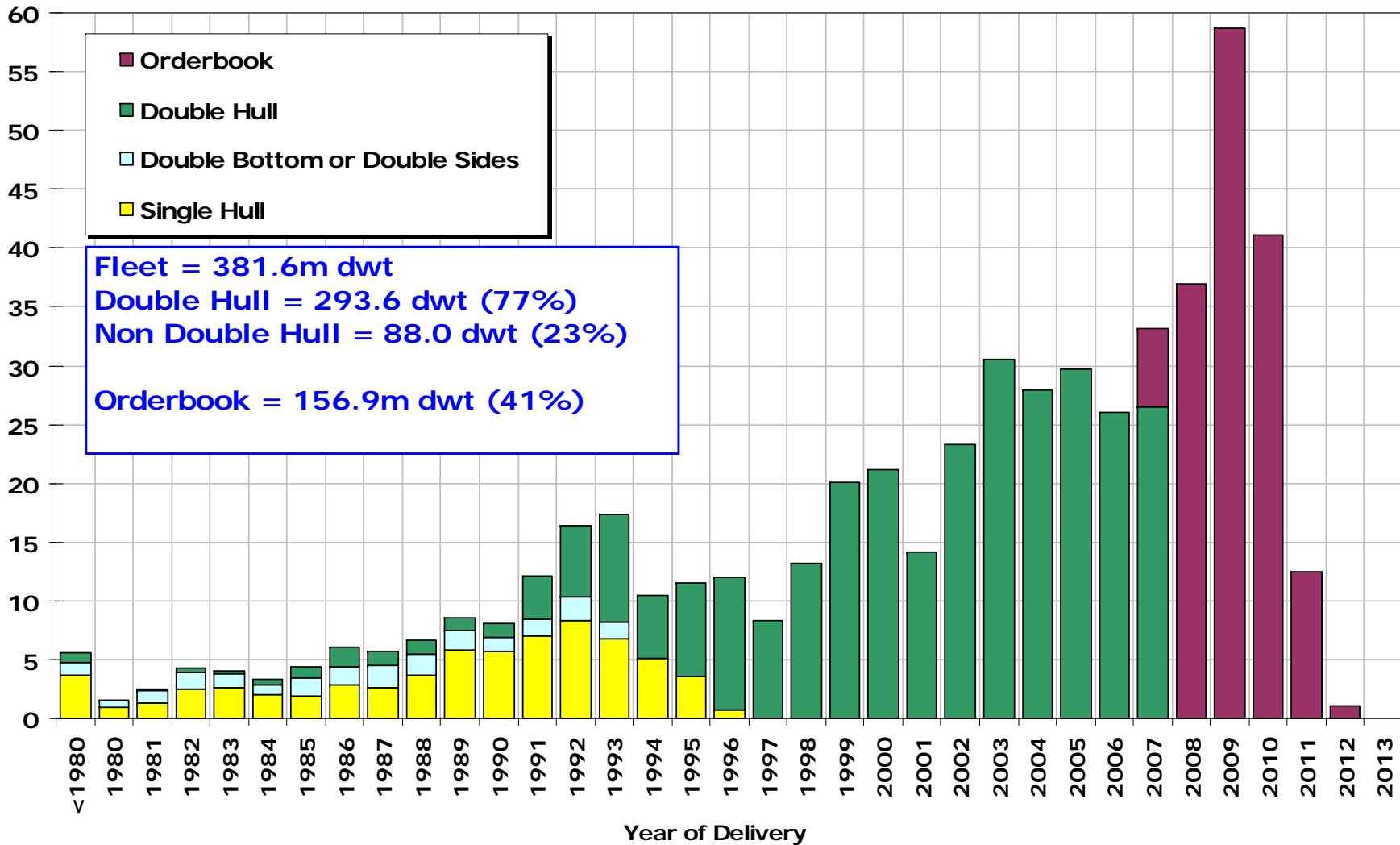
Further strong growth is also expected in petroleum products trade, products exports from India are expected to grow particularly strongly as a result of growth in refining capacity.



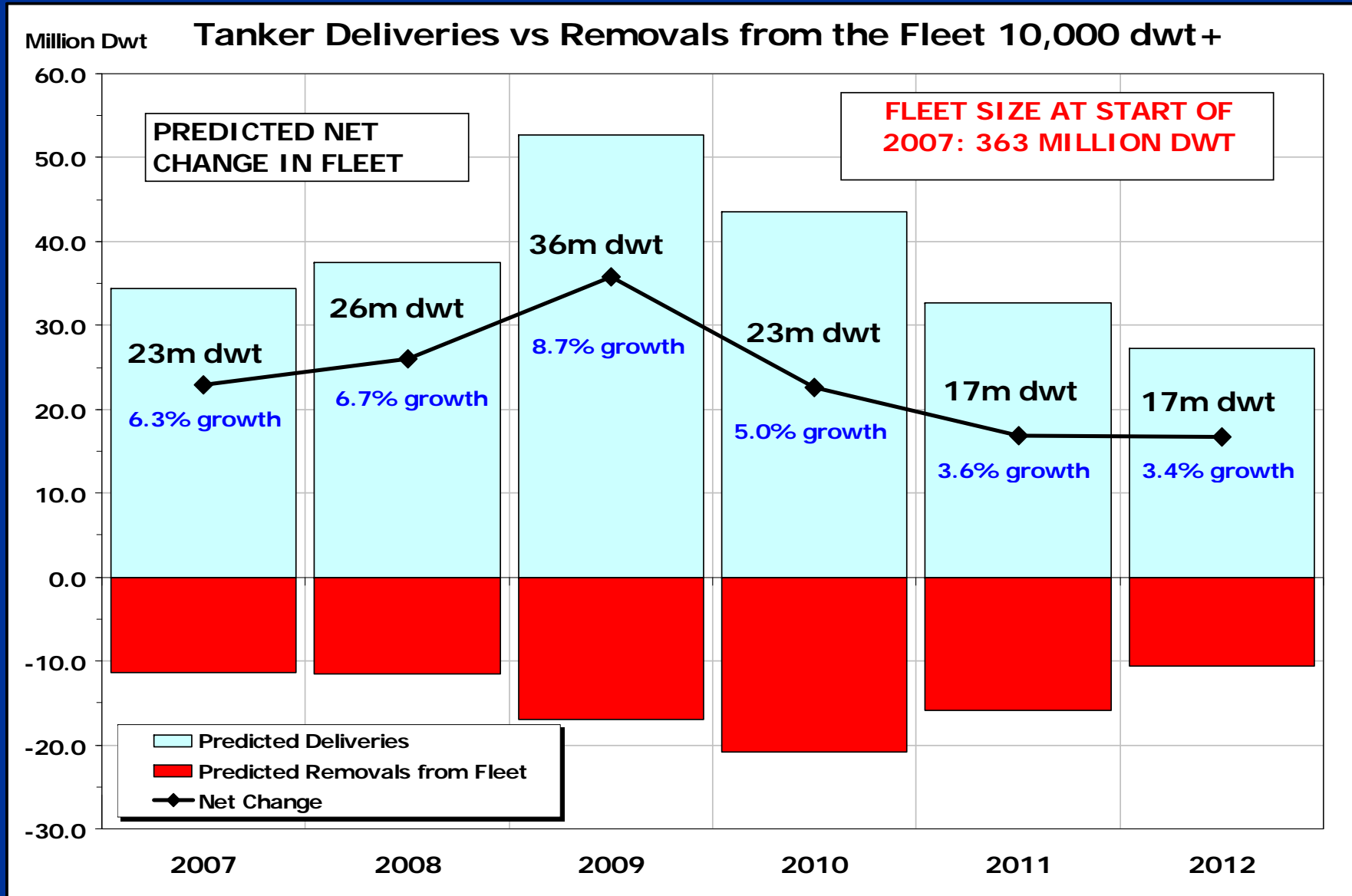
There is a very large orderbook for new tankers to be delivered in the next 3 years, but non double hulled tankers are being removed from the market offsetting some of these deliveries.

## Tanker Fleet and Orderbook by Hull Type

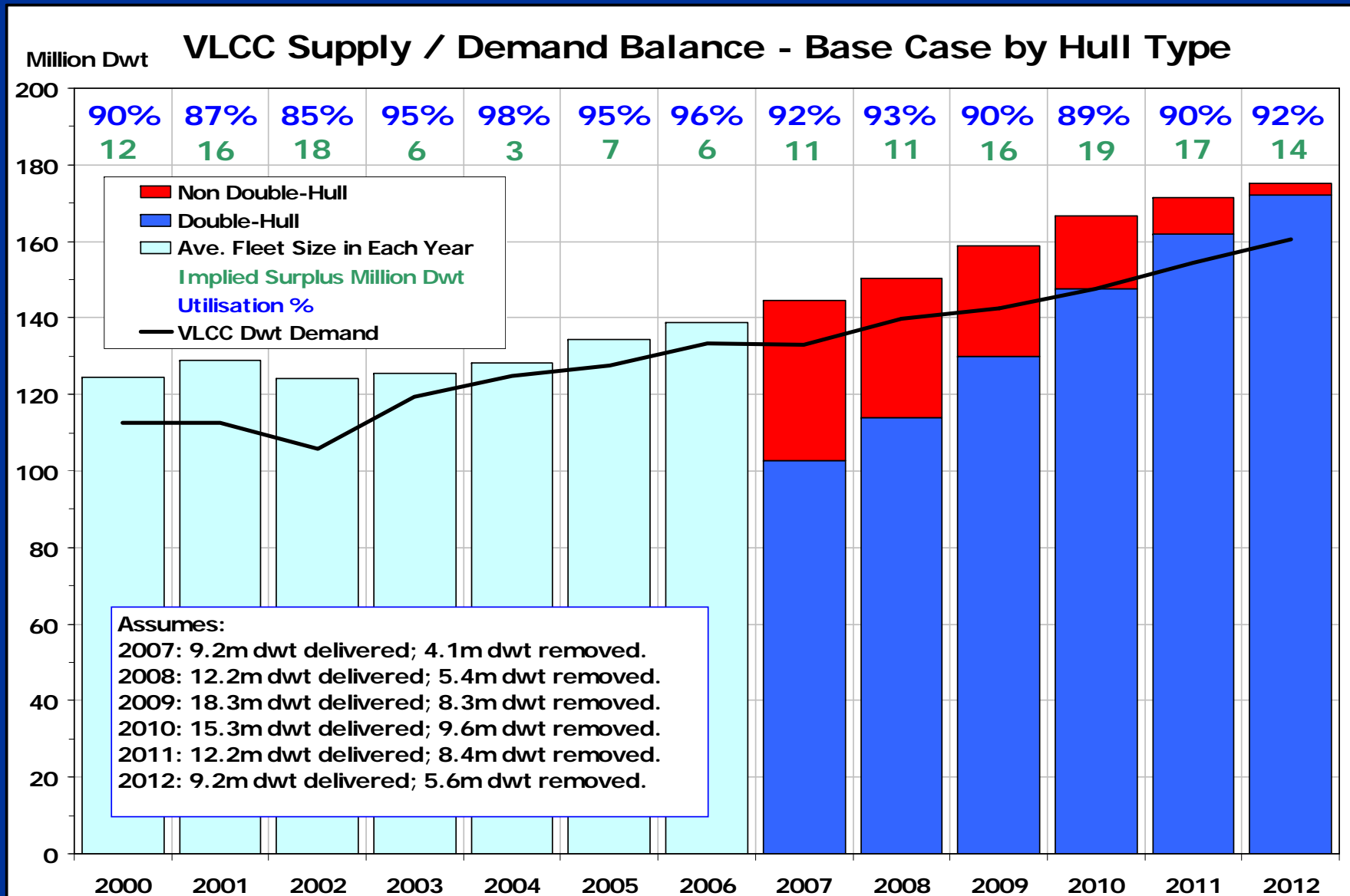
Million Dwt



Although non double hull tankers are being removed, tanker fleet growth is expected to accelerate, putting downward pressure on rates – particularly in 2009.



Higher OPEC output in 2008 should help to support the market, but strong fleet growth will lead to a weaker market in 2009. Reduced fleet growth should lead to a stronger market in 2011/2012 as long as demand growth is sustained.



**However, many unpredictable factors will continue to influence the market...**

**Economic growth**

**Iraq**

**Nigeria**

**Weather**

**Iran**

**OPEC production decisions**

**Venezuela**

**Russia**

**Non OPEC production growth**

**Pipelines**

**Vessel incidents**

**Refinery outages**

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