

## June 2011 Newsletter / Maritime Week Americas

Good day to all. I recently attended Maritime Week Americas in Cartagena. The main focus of the presentations were an examination of the current situation in the marketplace, what can we expect as new tighter regulations move closer to enactment, and what lies ahead from a macro economic standpoint. All these dynamics will continue to determine future prices and quality for bunker.

Let us first look at the current state of the deep sea fleet. With the now widely adapted practice of slow steaming we have seen a rapid expansion of the active fleet since the recession. According to Lloyd's 2011 statistics the deep sea fleet is as follows:

	<b>Deployed</b>	<b>Ordered</b>	<b>Ordered as %</b>
<b>Containerships</b>	<b>5053</b>	<b>490</b>	<b>9.70%</b>
<b>Bulkers</b>	<b>8863</b>	<b>2613</b>	<b>29.50%</b>
<b>Tankers</b>	<b>12,836</b>	<b>1062</b>	<b>8.20%</b>
<b>Totals</b>	<b>26752</b>	<b>4165</b>	<b>15.60%</b>

A large order book in these 3 segments, similar growth in other segments (cruise industry), and idled fleets back in service will further pressure fuel prices higher. Tight supply and high prices are key elements to the potential for both quantity and quality issues.

Other dynamics are also playing a role on the maritime side:

- Shipping rates are now falling
- Regulations raising fuel costs
- Bank loans more difficult to obtain
- Interest rates are rising
- China spending on shipyards and with low building costs may continue to build. Over 40% of all new builds were produced in Chinese yards in 2010
- Lower fleet values make refinancing very difficult yet if fleet values improve banks may try to increase foreclosures.
- KG (German Investment) spending way down
- Ship values are currently flat

One of the by-products of all of these issues is and will continue to be tighter credit lines with fuel suppliers. As shipping rates fall in many key sectors and fuel prices remain very high (and most likely heading higher) suppliers will be placing more scrutiny on payment terms and sizes of credit lines.

Of course the biggest factor is the world economy, which will have the largest impact of all. While global commodities have seen broad support, higher interest rates and slower growth from emerging countries are a down side risk. Other wild cards are the US housing industry, European Debt, and China. We are also seeing a fundamental shift in growth. The latest GDP forecasted by

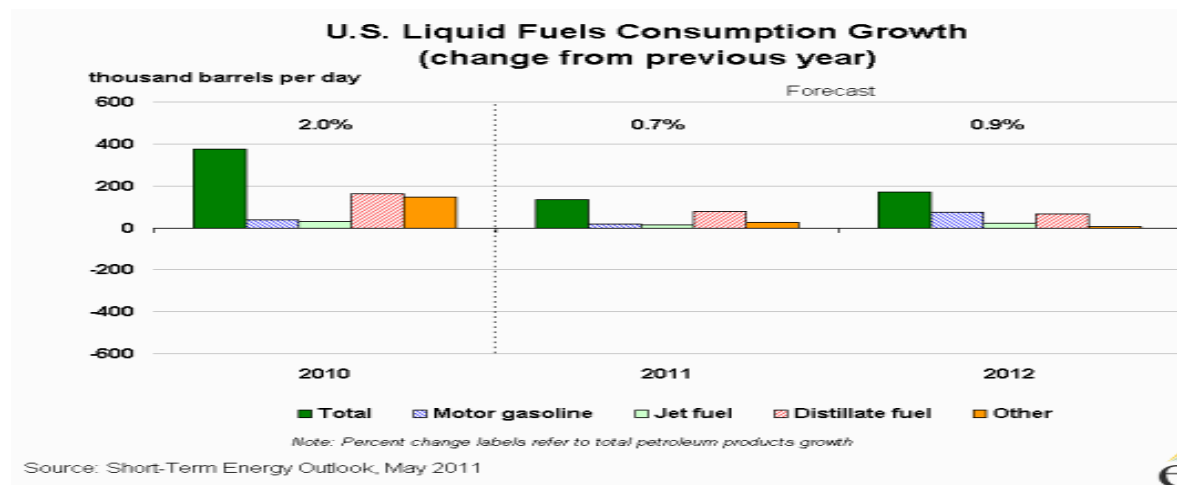
Wells Fargo in the below chart, illustrates the change in growth away from OECD countries. With growth comes potential inflation, and the developing countries will need to keep a close eye on CPI as increases will hurt consumer spending.

<b>Wells Fargo International Economic Forecast</b>						
(Year-over-Year Percent Change)						
	GDP			CPI		
	2010	2011	2012	2010	2011	2012
Global (PPP weights)	4.8%	4.0%	4.3%	4.2%	5.3%	4.8%
Global (Market Exchange Rates)	3.7%	2.8%	3.1%	n/a	n/a	n/a
<b>Advanced Economies<sup>1</sup></b>	<b>2.8%</b>	<b>2.1%</b>	<b>2.6%</b>	<b>1.5%</b>	<b>3.0%</b>	<b>2.6%</b>
United States	2.9%	2.4%	2.7%	1.6%	3.3%	3.4%
Eurozone	1.7%	1.8%	2.2%	1.6%	2.7%	2.1%
United Kingdom	1.3%	1.4%	2.2%	3.3%	3.9%	2.2%
Japan	4.0%	0.4%	2.1%	-0.7%	0.2%	0.0%
Korea	6.2%	4.3%	4.5%	3.0%	3.9%	2.9%
Canada	3.1%	2.9%	3.1%	1.8%	2.7%	2.0%
<b>Developing Economies<sup>1</sup></b>	<b>7.3%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>7.6%</b>	<b>8.1%</b>	<b>7.4%</b>
China	10.4%	9.4%	9.0%	3.3%	4.8%	3.9%
India	8.4%	7.4%	8.3%	12.1%	8.5%	7.0%
Mexico	5.5%	4.4%	4.6%	4.2%	3.7%	3.7%
Brazil	7.5%	4.5%	4.9%	5.0%	6.7%	5.7%
Russia	4.0%	4.3%	4.0%	6.9%	9.6%	10.0%

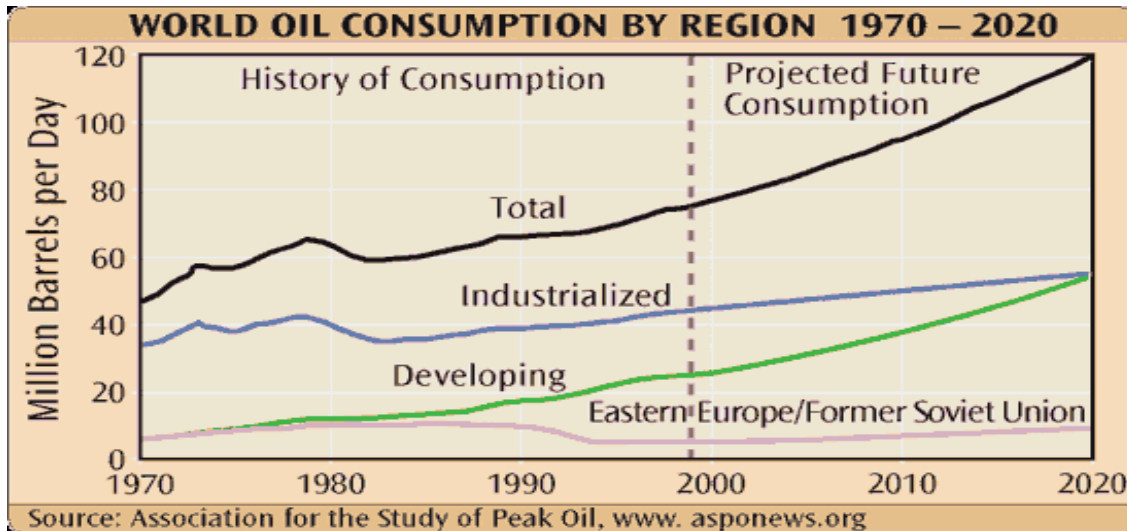
Forecast as of: May 11, 2011

<sup>1</sup>Aggregated Using PPP Weights

Regardless of the downside risks, the current and projected rates of growth of the Non OECD countries combined with continued consumption (still growth) in the OECD countries has the strong potential in creating a fuel supply issue. This, even before the upcoming tightening of sulfur limits.



On the supply side, the amount of spare capacity by OPEC is rapidly diminishing. According to data presented by FC Stone, spare capacity, which was approximately 6 mmb/d in 2010, will be at a deficit by 2013. We can also see this in the stockpile figures for OPEC. While averages had been about a 62 day supply current levels are around 56 days and typically supply draw down is highest in 4<sup>th</sup> quarter. Expect that by the 4<sup>th</sup> quarter this stock will be around 50 days. As supply comes down pricing will go up. If we look at the past and future trend projections for consumption we can see why there are even bigger concerns on supply.



In essence, global demand is expected to rise by about 50% between 2010 and 2020.

As discussed in earlier newsletters we now also face the added impact of environmental regulation. In January 2012 the worldwide limits on sulfur change from 4.5% to 3.5% This followed by the full enforcement of the North America ECA Zone in August 2012 requiring 1.0% with 200 miles of coast. The demand for ULSD and other lower sulfur fuels will continue to rise.

Yet to produce low sulfur HFO economically many refineries require sweet crude. Sweet crude comprises only 25% of world crude supplies. So there is a fundamental supply issue in producing the product. Additionally, given that marine fuels represents a very small % of a refinery revenue pie there is little interest investing in the technology to produce low sulfur HFO.

So in order to meet the upcoming restrictions we will see increased demand for distillate as vessels will burn it within ECA zones and suppliers will use it for cutter for HFO to bring sulfur within the 3.5% global limit. All while competing for supply on the land side with global growth.



In looking at our trend lines on sulfur content for HFO bunkered in the Americas we see the following averages. From Jan – May 2011 for US and Canadian Ports our submitted samples for HFO averaged around 2.5% sulfur with the U.S. gulf region on the higher end around 2.9% and East Coast around 2.0%. Similar situation in South America with Venezuela on the higher end of the averages. Thus much work will need to be done to have adequate supply of lower sulfur HFO for voyages to ECA zones or alternatively higher stocks of distillate. As we proceed through the year we will be keeping a close eye on the trends/averages and publish in upcoming newsletters.

As the conference was a focus on the Americas we would be remiss in not discussing the biggest development in the maritime community in the Americas, the widening of the Panama Canal. The progress on the Canal is right on schedule with the opening expected for August 2014. In anticipation of the expected rapid increase in traffic the supply community and government are reacting in a positive manner by expanding the amount of dedicated marine fuel tank storage. Here are the current projects:

Administrator	Location	Capacity in M bbls	
		2010	2012
AMP	BALBOA	1.76	1.76
AMP	CRISTOBAL	1.59	1.59
APSA	GATUN	1.21	1.21
PATSA	BALBOA	0.98	0.98
Decal	TABOQUILLA	1.05	1.05
Telfers	Cristobal		1.2
Petroport	Cristobal	0.6	2
MOTI	Melones		2.1
TITSA	Taboguilla		2
COASA/Oil Tanking			0.75
	<b>TOTAL CAPACITY</b>	<b>7.19</b>	<b>10.59</b>

Source: Maritime Logistics Services Panama

These projects will increase storage capacity in 2 years by about 47%. No doubt that Panama will become a larger player in the bunker market. With this growth, new supply chains will need to be established from all over the world.

Given all the issues presented, fuel prices and fuel quality in the Americas are set to become an even bigger concern to all parties. With complete coverage of all major ports in the Americas (please see below chart) including ISO approved laboratories in Panama, Valparaiso, Guatemala, Houston, and NY/NJ our highly experienced staff will be there to assist on any quantity or quality issues.

<b>NORTH AMERICA</b>	<b>NORTH AMERICA</b>	<b>CENTRAL/SOUTH AMERICA</b>	<b>CENTRAL/SOUTH AMERICA</b>
Halifax	New Orleans	Puerto San Jose	Maracaibo
St Johns	Houston	Puerto Quetzal	Caracas
Montreal	Galveston	Acajulta	Paranagua
Quebec City	Los Angeles	San Lorenzo	Santos
Vancouver	Oakland	Corinto	Sao Paulo
Boston	San Francisco	Puerto Sandino	Rio De Janeiro
Providence	Portland	Punta Arenas	Callao
New Haven	Seattle/Tacoma	Golfito	San Vicente
New York	Altamira	Puerto Armeulles	Valparaiso
Philadelphia	Veracruz	Manzanillo, Panama	San Antonio
Norfolk	Tampico	Balboa	Montivideo
Charleston	Manzanillo, Mexico	Cristobal	Buenos Aires
Savannah	San Juan	Montivideo	
Jacksonville	Curacao	Buenos Aires	
Miami	Dominican Republic	Cartagena	
Port Everglades	Trinidad	Buenaventura	



In closing we are pleased to provide our updated historical pricing matrix calculating the spread of a barrel of West Texas crude vs. a ton of RMG 380 in Houston. Since June 1<sup>st</sup> the spread has widened further and as of June 7<sup>th</sup> we see WTC @ \$99.99 and RMG 380 @ \$664 or a **6.7** factor, the highest level since the peak in October 2008. Given all the prevailing conditions covered in this newsletter we can only unfortunately project record prices in the 4<sup>th</sup> quarter 2011.

Date	Barrel West Texas	RMG 380	RMG vs. Barrel Crude	Date	Barrel West Texas	RMG 380	RMG vs. Barrel Crude
Oct-07	\$86.20	\$388.00	4.5	Sep-09	\$69.46	\$413.50	6.0
Nov-07	\$94.62	\$491.50	5.2	Oct-09	\$75.82	\$427.00	5.6
Dec-07	\$91.73	\$453.00	4.9	Nov-09	\$78.08	\$469.50	6.0
Jan-08	\$92.95	\$472.00	5.1	Dec-09	\$74.30	\$448.00	6.0
Feb-08	\$95.35	\$447.00	4.7	Jan-10	\$78.22	\$466.00	6.0
Mar-08	\$105.56	\$468.50	4.4	Feb-10	\$76.42	\$437.00	5.7
Apr-08	\$112.57	\$471.50	4.2	Mar-10	\$81.24	\$448.50	5.5
May-08	\$125.39	\$516.00	4.1	Apr-10	\$84.87	\$459.50	5.4
Jun-08	\$133.93	\$594.50	4.4	May-10	\$73.74	\$432.00	5.9
Jul-08	\$133.44	\$688.00	5.2	Jun-10	\$75.35	\$438.00	5.8
Aug-08	\$116.61	\$699.00	6.0	Jul-10	\$76.35	\$442.00	5.8
Sep-08	\$103.90	\$652.00	6.3	Aug-10	\$76.60	\$447.00	5.8
Oct-08	\$76.65	\$576.00	7.5	Sep-10	\$75.29	\$442.00	5.9
Nov-08	\$57.44	\$280.00	4.9	Oct-10	\$81.90	\$472.00	5.8
Dec-08	\$41.02	\$221.00	5.4	Nov-10	\$84.23	\$493.00	5.9
Jan-09	\$41.74	\$209.00	5.0	Dec-10	\$89.15	\$514.50	5.8
Feb-09	\$39.16	\$252.50	6.4	Jan-11	\$89.01	\$573.50	6.4
Mar-09	\$47.98	\$257.50	5.4	Feb-11	\$89.58	\$548.00	6.1
Apr-09	\$49.79	\$251.00	5.0	Mar-11	\$99.63	\$635.50	6.4
May-09	\$59.16	\$292.00	4.9	Apr-11	\$107.94	\$642.50	6.0
Jul-09	\$64.09	\$389.00	6.1	May-11	\$113.52	\$649.50	5.7
Aug-09	\$71.06	\$424.00	6.0	Jun-11	\$102.70	\$645.00	6.3

Since June 1<sup>st</sup> the spread has widened further and as of June 7<sup>th</sup> day we see WTC @ \$99.99 and RMG 380 at \$664.00 or a **6.7** factor the highest level since the peak in October 2008. Given all the prevailing conditions covered in this newsletter we can only unfortunately project record prices in the 4<sup>th</sup> quarter of 2011.

Should you have any questions or comments please feel free to contact me.

Best Regards

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