SHIPPING MARKET REVIEW

APRIL 2010

DSF/10/19

DANMARKS SKIBSKREDIT

Copenhagen, April 2010

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Christopher Rex, Chief Analyst
rex@shipfinance.dk

Anette Dalsgaard Jakobsen, Analyst
adj@shipfinance.dk

Brian Thorsen, Analyst
bth@shipfinance.dk

Danmarks Skibskredit **I** Sankt Annæ Plads 3 **I** DK-1250 Copenhagen K **I** danmarks@skibskredit.dk **I** www.skibskredit.dK

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FOREWORD

PLEASE READ CAREFULLY THE DISCLAIMER AT THE BEGINNING OF THIS REPORT.

THE GLOBAL ECONOMIC RECOVERY IS PROGRESSING BETTER THAN PREVIOUSLY ANTICIPATED, PRIMARILY DRIVEN BY STRONG GROWTH IN ASIA. HOWEVER, THE RECOVERY IN WORLD TRADE VOLUMES WILL HARDLY BRING ABOUT A RETURN TO PRE-CRISIS LEVELS ALREADY IN 2010. COMBINED WITH AN UNPRECEDENTED INFLOW OF NEW TONNAGE, THE 2010 OUTLOOK FOR THE MERCHANT FLEET IS BLEAK.

WORLD TRADE VOLUMES CONTRACTED 12% IN 2009

In September 2009, when we last published our Shipping Market Review, global production and trade were starting to recover. Confidence was rebounding as the extraordinary policy support measures began working their way through the economies. Both monetary and fiscal policies provided major stimuli in response to the economic downturn. The stimuli programs were a success to the extent that world GDP contracted merely 0.8% in 2009. For world trade, in contrast, 2009 was the worst period in 70 years: World trade volumes contracted 12% (fig. 1).

WORLD INDUSTRIAL PRODUCTION DROPPED 8% IN 2009

The fact that world trade declined much more severely than world GDP clearly taught us an important lesson. Fiscal and monetary stimuli packages are not directed towards supporting world trade as no governments are interested in exporting taxpayers' money. World industrial production is therefore expected to decline in an economic recession. World industrial production dropped 8% in 2009.

OECD INDUSTRIAL PRODUCTION DECLINED 12% IN 2009

The recession impacted regional industrial production unevenly. The OECD led the downturn with a 12% decline in industrial production, while the non-OECD industrial production declined less (fig. 3). It was therefore evident that the OECD could not lift the global economy out of recession. GDP in the *advanced economies* dropped 3.2%. It was thus left up to major emerging economies in Asia (e.g. China) to drive the

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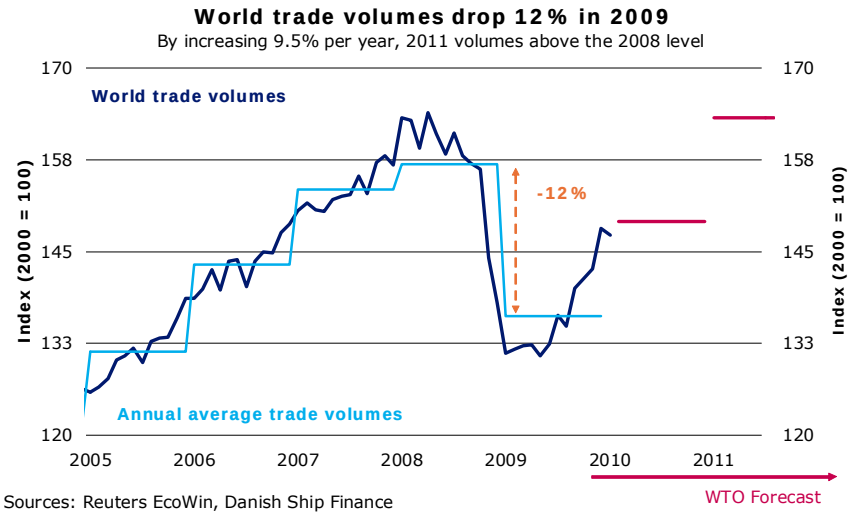
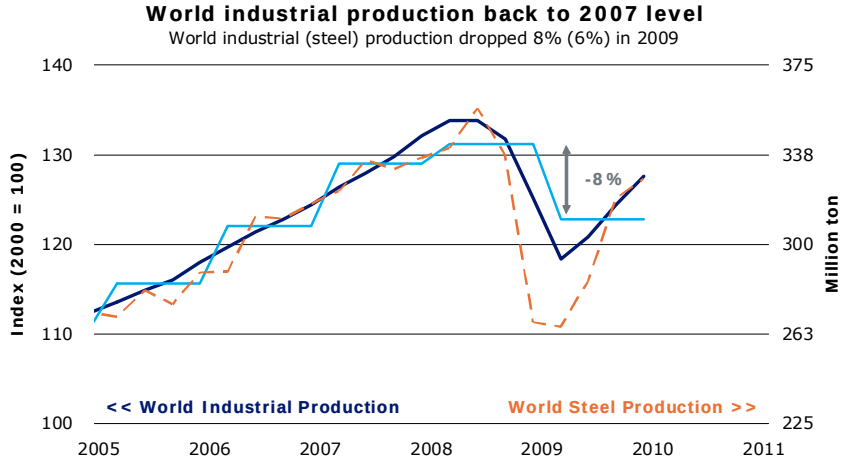


Sources: Reuters EcoWin, Danish Ship Finance

Figure WDI.2



Sources: Reuters EcoWin, Danish Ship Finance

global recovery over the period. GDP in the *emerging and developing economies*, taken together, rose 2.1% (*developing Asia* 6.5%).

ASIAN GROWTH SUPPORTED CRUDE TANKERS AND DRY BULK DEMAND IN 2009

The lower OECD industrial production significantly reduced OECD demand for raw materials (incl. oil). OECD demand for crude tankers and dry bulk declined accordingly. Container and product tanker demand followed suit. However, the fiscal stimuli programs initiated in several Asian economies boosted demand for raw materials. The increased Asian appetite for raw materials generated further demand for crude tankers and dry bulk vessels, whereby much of the lost ground was regained. Unfortunately, the increased Asian demand for raw materials was insufficient to offset the distance-adjusted decline in crude tanker demand. Thanks to China, distance-adjusted dry bulk demand remained at about the 2008 level.

51 MILLION CGT DELIVERED IN 2009

2009 was a difficult year for the merchant fleet. A record-high 51 million cgt entered the fleet while trade volumes declined 12%.

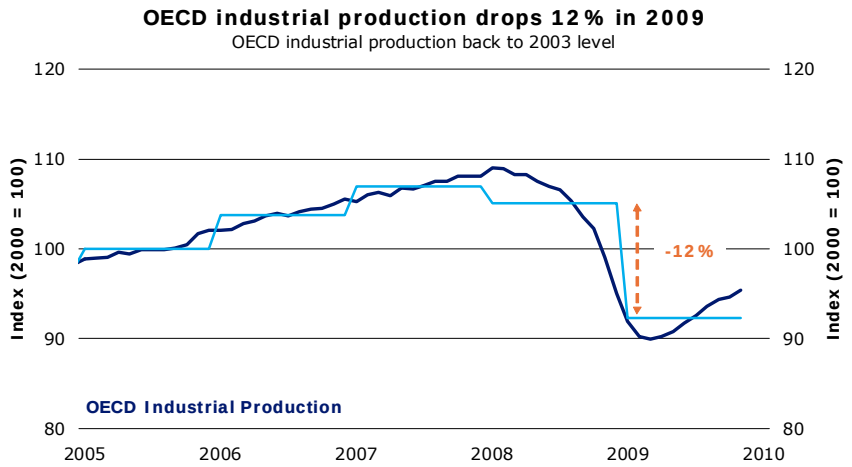
WORLD GDP EXPECTED TO INCREASE 3.9% IN 2010

The IMF forecasts that world GDP will increase 3.9% in 2010. This growth is comprised of a 2.1% increase in *advanced economies* and a 6% growth in *emerging and developing economies*. For *advanced economies*, it is important to stress that their 2010 output will not rise sufficiently to match pre-crisis levels.

WORLD TRADE EXPECTED TO EXPAND 9.5% IN 2010

According to the WTO, world trade volumes are expected to increase 9.5% in 2010, driven by an increase in trade volumes from the developed economies of 7.5% and an increase of 11% in trade volumes from developing economies. The dynamics of trade is therefore expected to change with the developing economies expected to comprise a larger share of world trade than previously. An increase of 9.5% in world trade volumes will bring average annual trade volumes above 2006 level, albeit still far below average annual 2008 trade volumes (fig. 1). However, an increase in world trade volumes of 9.5% in 2011 as well will drive world trade volumes above average annual 2008 trade volumes.

Figure WDI.3



Sources: Reuters EcoWin, Danish Ship Finance

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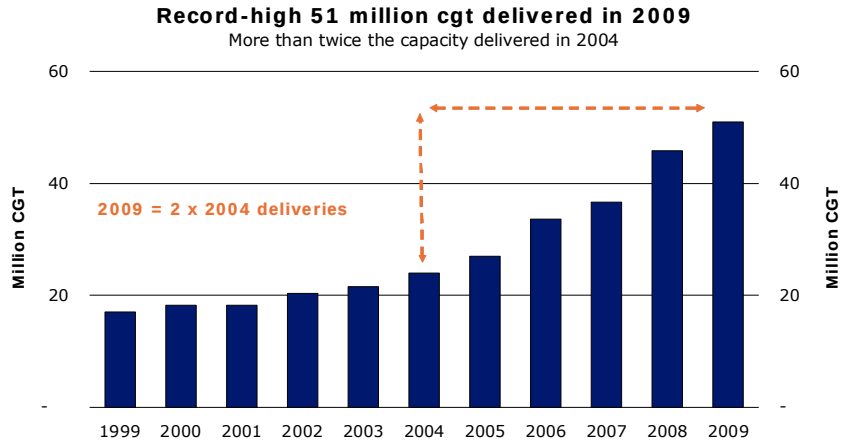


Sources: Clarksons, Danish Ship Finance

THE ECONOMIC RECOVERY REMAINS FRAGILE

The 2010 recovery in world GDP and hence world trade volumes is highly fragile. On the positive side, money markets have stabilized, banks have become much less reliant on central banks' emergency facilities and government guarantees and the tightening of bank lending has started to loosen up. Despite these welcome trends, bank lending is expected to remain subdued, given the need to rebuild capital, reduce leverage as well as the possibility of further credit write-downs and the risk of regulatory tightening. The supply of bank credit is therefore not expected to return to pre-crisis levels, at least in 2010. Moreover, several advanced economies are burdened with high unemployment rates and increasing debt ratios. Together with the general threat from the global imbalances, these factors continue to further challenge the global economic recovery in 2010. A key issue for the outlook is therefore that policymakers will not be tempted by the otherwise promising GDP growth figures to perform a premature, and in all probability, incoherent, exit strategy from supportive policies and hence undermine the recovery.

53 MILLION CGT EXPECTED TO BE DELIVERED IN 2010

World yard output is expected to rocket in 2010. According to the nominal orderbook, 69 million cgt is scheduled to be delivered in 2010 (compared to 51 million cgt in 2009). We estimate that as much as 53 million cgt will actually be delivered.

HARSH OUTLOOK FOR SHIPPING MARKETS

Despite the expectation that the world economy will continue to recover in 2010, the outlook for the shipping markets is still gloomy. The reason is simple: It is volumes not growth rates that fill vessels. As stated above, world trade volumes are not expected to be back at the pre-crisis level until 2011. Therefore, the unprecedented inflow of capacity delivered in 2009 and 2010 will potentially continue to struggle to find profitable employment.

EXECUTIVE SUMMARY

GENERALLY SPEAKING, THE MERCHANT FLEET IS PRIMARILY SUBJECT TO OVERCAPACITY. WHEREAS FLEET CAPACITY IS EXPECTED TO ROCKET IN 2010, DEMAND WILL LIKELY REMAIN SUBDUED. THE OUTLOOK FOR FREIGHT RATES AND ASSET VALUES IS THEREFORE GLOOMY.

SHIP BUILDING: Contracting activity in 2009 was historically low, driving the newbuilding prices back below the 2004 level. Postponement and cancellation of deliveries continued throughout 2009. Only 106 million dwt (71% of scheduled deliveries) of the 150 million dwt scheduled for delivery in 2009 actually reached the sea. For 2010, we estimate that 76% (166 million dwt) of the nominal orderbook scheduled for 2010 will end up being delivered. We expect the 2010 contracting activity to pick up, driven by a lower newbuilding price.

CRUDE TANKERS: Crude tanker earnings were in the doldrums during 2009. However, during fourth quarter 2009 and in the beginning of 2010, earnings improved significantly, largely bolstered by the use of vessels for storage and the harsh winter in the northern hemisphere. Timecharter rates, in contrast, were not supported by this trend and remain subdued. Asset values declined accordingly. The outlook for crude tankers in 2010 is ambiguous. On the one hand, global oil consumption is expected to recover in 2010, primarily driven by Asia. On the other hand, the supply side is bleak as a huge number of vessels are expected to be delivered. Nevertheless, extensive scrapping, conversion, phase-out of single-hull tankers and postponement activity offer potential to dampen fleet growth enough to balance supply and demand.

PRODUCT TANKERS: The product tanker market was having to confront oversupply and waning demand for refined products in 2009. Timecharter rates and earnings were testing the lows of 2002. However, earnings recovered somewhat during second half 2009 because Asian demand increased and vessels employed as floating storage reduced fleet availability.

With earnings in the doldrums, asset values declined and few new orders were placed. For 2010, distance-adjusted demand is expected to advance 7%. By itself, this sounds promising. However, the product tanker market has been flooded by new capacity entering the market during 2009, and more is yet to come in 2010. Therefore, product tankers are still expected to struggle finding employment. The return of vessels currently being employed as floating storage will only make the challenge even greater.

CONTAINER: The container industry faced great challenges in 2009. 2009 rates were, on average, below the low level of 2002. By late 2009 and early 2010, box rates recovered, whereas timecharter rates remained subdued. Asset values declined more than 30% accordingly. Demand decreased 11% in 2009. Liner companies were combating overcapacity by postponing the delivery date of contracted tonnage, returning chartered vessels to the tonnage providers, extensive use of slow steaming and scrapping older vessels. Tonnage providers were suffering. An unprecedented inflow of new capacity is expected to test rates and values in 2010 and beyond. Demand is expected to recover somewhat, but insufficiently to restore balance between timecharter rates and tonnage providers' break-even rate. Tonnage providers account for 6 out of 10 deliveries in 2010. Any improved market conditions are expected to impact box rates and hence benefit liner companies first.

DRY BULK: Greatly supported by port congestion and, to a lesser extent, scrapping, Chinese demand managed to absorb the 10% increase in the dry bulk fleet. Dry bulk earnings recovered accordingly, but the average fixture period continued to decline. Newbuilding and secondhand prices dropped accordingly. The outlook for 2010 is bleak despite the current acceptable rate level. We expect 96.5 million dwt to be delivered in 2010. Let us hope that the combination of strong Chinese demand and port congestion will once again balance supply and demand. However, we consider this outcome very uncertain.

OFFSHORE SUPPLY VESSELS: The offshore supply vessel market in 2009 was dominated by a tremendous inflow of new vessels. Demand for offshore supply vessels declined in tandem with cancellations or delays of offshore development programs. Accordingly, spot rates plummeted. In 2009, spot rates dropped 66%, but recovered slightly in the beginning of 2010. Secondhand values declined, on average, 20% in 2009, while newbuilding prices kept momentum although very few new orders were placed. The outlook for offshore supply vessels is gloomy. The inflow of new tonnage will dominate the agenda even though demand is expected to pick up during 2010. Accordingly, we believe that rates and values will remain depressed in 2010 as inflow of new tonnage will most likely far outstrip demand.

SHIPBUILDING

MODEST CONTRACTING ACTIVITY AND SHRINKING ORDER COVER HAVE REDUCED NEWBUILDING PRICES DURING 2009. IN 2010, THIS TREND IS EXPECTED TO REDUCE THE AVERAGE NEWBUILDING PRICE.

NEWBUILDING PRICES

NEWBUILDING PRICES CONTINUED THEIR DECLINE THROUGHOUT 2009 AND INTO THE FIRST MONTHS OF 2010, AND ARE NOW, ON AVERAGE, BACK TO THE LEVELS OF 2004.

The lack of new orders in 2009 makes it difficult to give an accurate assessment of the newbuilding prices. One thing is certain, though: Shrinking order books and shorter delivery times have caused newbuilding prices to decline during 2009. On average, the newbuilding prices have dropped an estimated 30% over the year. This has effectively wiped out the larger part of the equity in many ships contracted before the crisis set in.

TANKER NEWBUILDING PRICES DECLINED 33% IN 2009

By March 2010, the average VLCC newbuilding price stood at USD 97 million (fig. 1), which means that the average VLCC newbuilding price has declined USD 49 million (33%) during 2009. From September 2009 to March 2010 the newbuilding price dropped USD 12 million (11%). The current newbuilding price is USD 34 million (35%) below the historical average of 2005-2009, but still USD 32 million (49%) above the 2002 low (fig. 2).

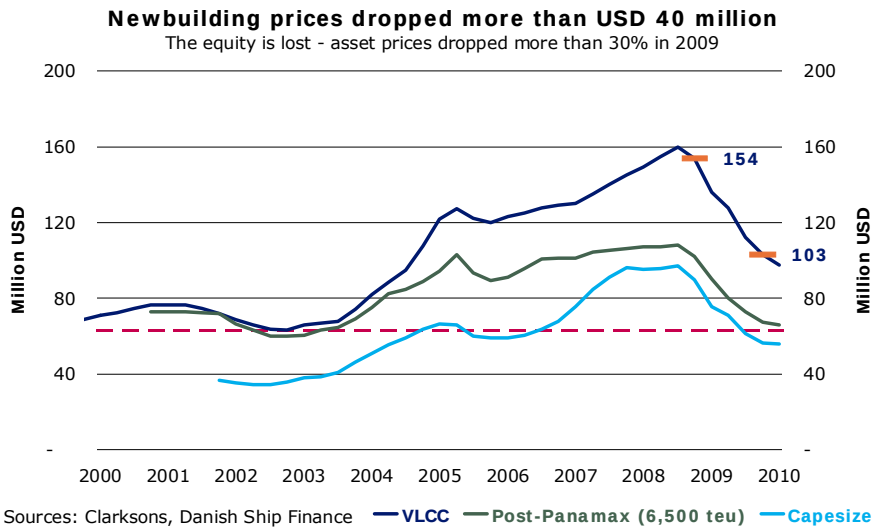
CONTAINER NEWBUILDING PRICES DECLINED 32% IN 2009

The average newbuilding price of a 6,500 teu post-panamax container vessel fell to USD 66 million by March 2010 (fig. 1). The newbuilding price has thus dropped USD 11 million in 2010 and USD 28 million in 2009. The current price is USD 4 million above the 2002 low and USD 30 million below the five-year average.

DRY BULK NEWBUILDING PRICES DROPPED 36% IN 2009

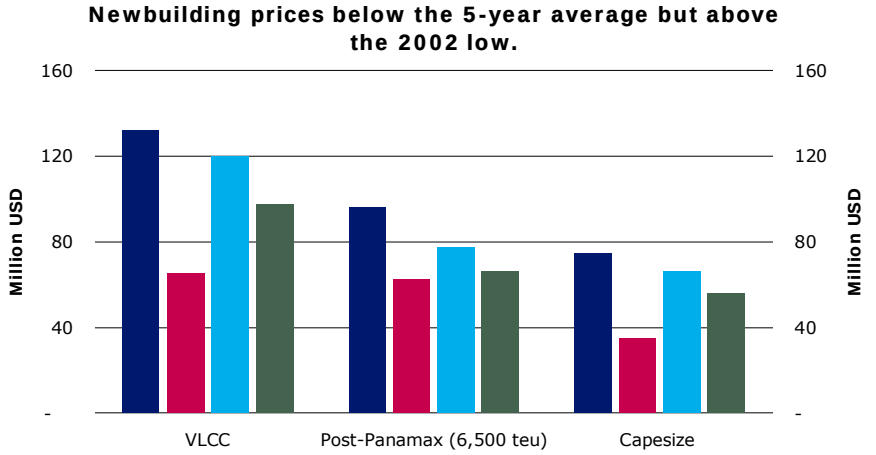
The capesize segment followed the same trend (fig. 1). The current newbuilding price of USD 56 million is USD 20 million above the 2002 low, but USD 19 million below the five-year average (fig. 2).

Figure SB.1



Sources: Clarksons, Danish Ship Finance

Figure SB.2



Sources: Clarksons, Danish Ship Finance

CONTRACTING ACTIVITY WAS MODEST IN 2009 AND IN THE FIRST MONTHS OF 2010, AND THUS THE AVERAGE DELIVERY TIME FELL BY ONE YEAR. DRY BULK CONTRACTING AT CHINESE AND SOUTH KOREAN YARDS DOMINATES THE SCENE.

RECORD-LOW CONTRACTING IN 2009

Contracting activity plummeted in 2009. The combination of an astonishing 140 million dwt delivered and a modest 22 million dwt contracted, reduced the shipyards' order cover significantly during 2009. As illustrated above, the impact on newbuilding prices was great: The average newbuilding price dropped by more than 30% in 2009. The appetite for new tonnage, albeit at a low level, returned during the first three months of 2010. In fact, the average monthly contracting almost doubled compared to the average level of 2009 (fig. 3).

DELIVERY TIME APPROX. 2 YEARS SINCE FIRST QUARTER 2009

The low contracting activity in 2009 reduced the average delivery time by almost one year. The average delivery time dropped below 2 years during the first quarter of 2009 (fig. 3). The shortest delivery time was seen in the dry bulk segment.

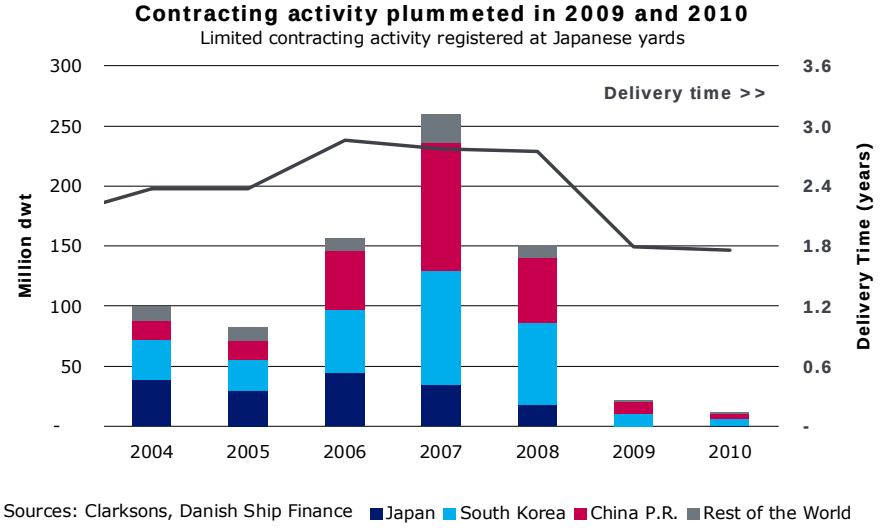
SOUTH KOREAN AND CHINESE YARDS STOLE THE SHOW IN 2009

South Korean and Chinese yards accounted for 94% of the 22 million dwt contracted in 2009 (and 84% of the tonnage contracted this far in 2010). Further, it is remarkable that 10 million dwt, out of the 22 million dwt contracted in 2009, did not have an expected delivery date. In 2010, 3 million dwt, out of the 11.5 million dwt contracted, was accordingly recorded without any specific delivery date. We might therefore question the accuracy of the recorded contracting activity in 2009 and, to some degree, for 2010.

APPETITE FOR DRY BULK VESSELS STILL PRESENT

In 2009, more than 60% (80%, 2010) of all vessels ordered were dry bulk vessels (fig. 4). To us, this is surprising. As we argue in the Dry Bulk section below, the current orderbook is expected to be fully capable of satisfying the future tonnage demand. In fact, from our perspective, there is a great risk of (future) overcapacity attached to the current orderbook. Again, the lack of scheduled delivery dates could well signal that the recorded orders are as much options as they are firm contracts.

Figure SB.3



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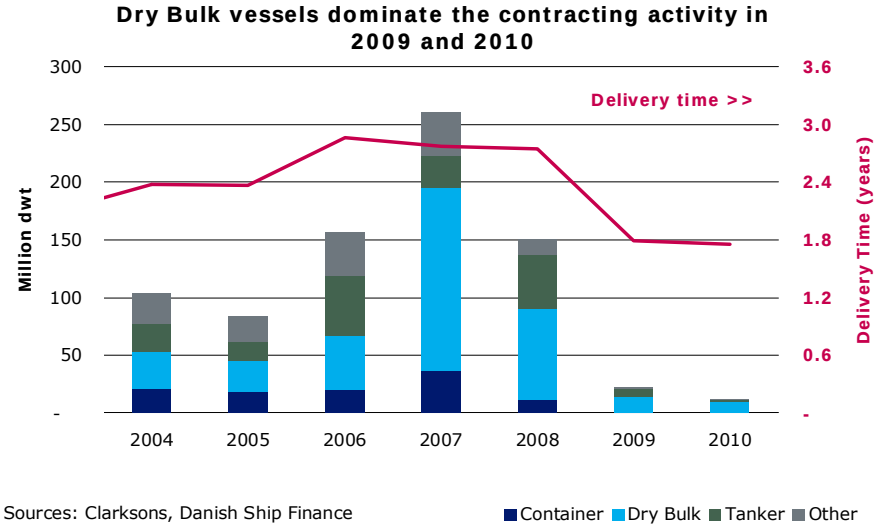


PRICE REDUCTIONS DID NOT MOTIVATE INCREASED CONTRACTING

A possible explanation for the sudden increase in the 2010 contracting activity could be price reductions, but we do not find this explanation likely, since the recorded contracting prices were, on average, in line with the average newbuilding prices.

DELIVERY PERFORMANCE

POSTPONEMENT AND CANCELLATION HAVE REDUCED THE 2009 DELIVERIES TO 71% OF THE SCHEDULED 2009 DELIVERIES. ESTABLISHED YARDS BUILT 90% OF THE VESSELS DELIVERED IN 2009.

2009 DELIVERIES INCREASED 25% FROM 2008

In September 2009, the nominal 2009 orderbook stood at 150 million dwt, but only 106 million dwt (71%) ended up being delivered in 2009. This is 27 million dwt (+25%) more tonnage delivered in 2009 than in 2008 (fig. 5). The capacity increase was primarily driven by capacity expansions in China (+14 million dwt) and South Korea (+11 million dwt).

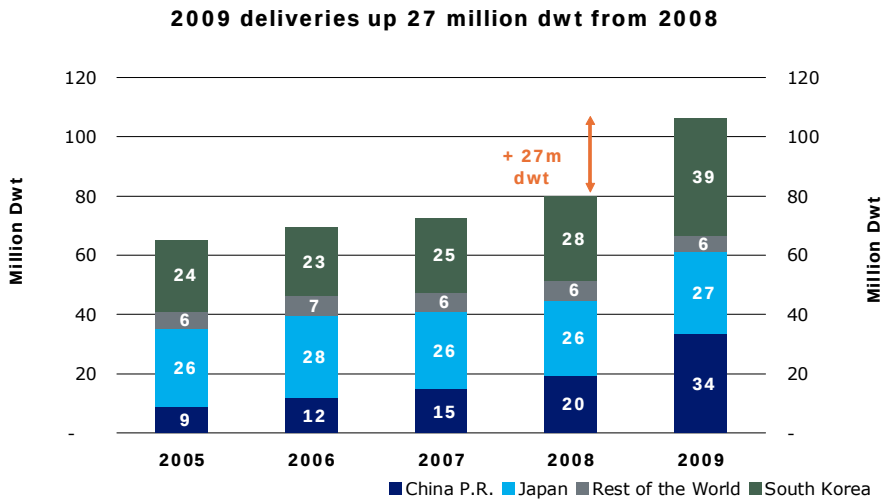
CHINA NOW THE SECOND-LARGEST SHIPBUILDER IN THE WORLD

Chinese yards delivered 34 million dwt (+73%) in 2009, and China thereby overtook Japan as the second-largest shipbuilder in the world. As expected, China was the world's largest builder of dry bulk vessels, building 17 million dwt (39%) of a total of 43 million dwt dry bulk deliveries in 2009.

SOUTH KOREA YARD CAPACITY UP 39% IN 2009

South Korea is still the largest shipbuilder in the world. In 2009, South Korea built 40 million dwt, of which 24 million dwt comprised tanker vessels. The 40 million dwt constitutes a capacity increase of 39% (+11 million dwt) measured in dwt. The actual capacity increase (in cgt) may be less than 39% in 2009, because South Korea built more dry bulk tonnage in 2009 than in 2008.

Figure SB.5



Sources: Clarksons, Danish Ship Finance

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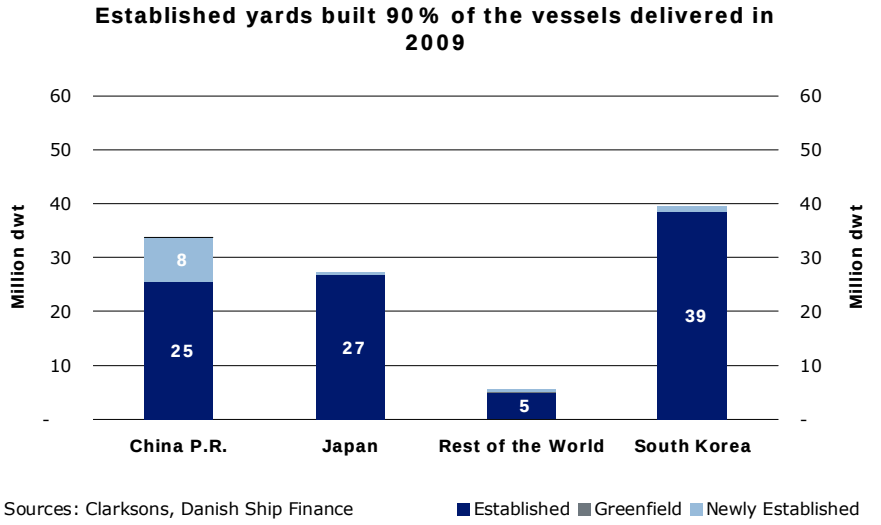

Sources: Clarksons, Danish Ship Finance

ESTABLISHED YARDS BUILT 90% OF THE 2009 DELIVERIES

Established yards delivered 96 million dwt (90%) of the 106 million dwt delivered in 2009 (fig. 6).

LARGEST POSTPONEMENT ACTIVITY WITHIN THE CONTAINER ORDERBOOK

Container owners either postponed or cancelled 36% of the scheduled deliveries in 2009. Of the nominal 2009 orderbook of 22 million dwt (1.75 million teu), only 14 million dwt (1.1 million teu) was delivered (fig. 7). For dry bulk and tankers, 66% and 79%, respectively, of the nominal orderbook scheduled to be delivered in 2009 actually reached the sea (fig. 7).

OUTLOOK

SHIPYARD UTILIZATION WILL BE DECLINING IN 2010, SINCE 166 MILLION DWT IS EXPECTED TO BE DELIVERED AND ONLY 50 MILLION DWT IS EXPECTED TO BE CONTRACTED. THE AVERAGE NEWBUILDING PRICE PER DWT IS ACCORDINGLY EXPECTED TO DECLINE UP TO 20% OVER THE COURSE OF THE YEAR.

There is much uncertainty attached to the accuracy of the orderbook, but one thing is certain; The current orderbook is large and so is the expected annual yard output for 2010. However, one might consider whether world yard capacity has become unsustainably large. As illustrated by figure 8, world yard capacity has almost tripled from 2000 to 2009 (measured in cgt), and such capacity expansion might easily turn out to be a long-term drag on newbuilding prices.

Newbuilding prices are determined by factors beyond component costs, for example yard utilization. Therefore, if world yard capacity exceeds annual fleet replacement (i.e. annual contracting activity) for an extended period, newbuilding prices will fall. This is exactly what is going on at the moment. The declining newbuilding prices might easily spill over into secondhand prices. For 2010, we are concerned about further asset value reductions, as contracting activity is expected to be inadequate to match annual deliveries.

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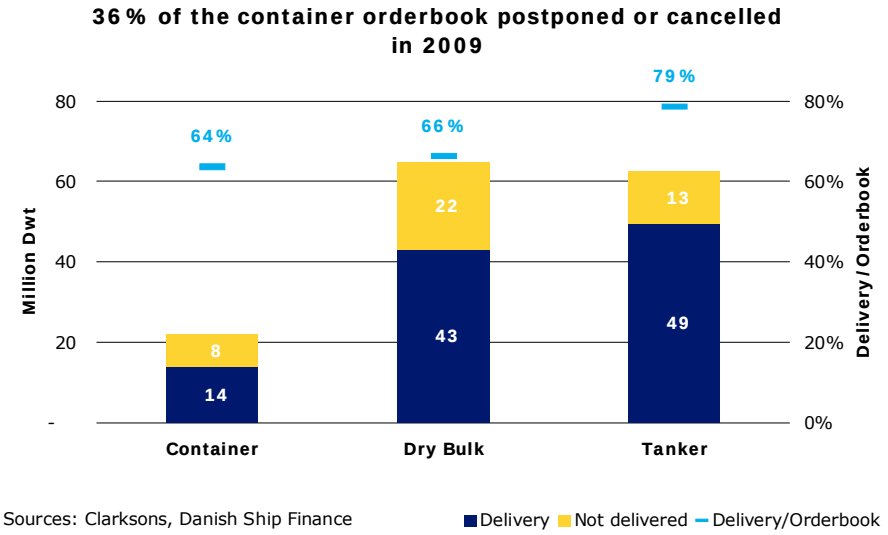

Sources: Clarksons, Danish Ship Finance

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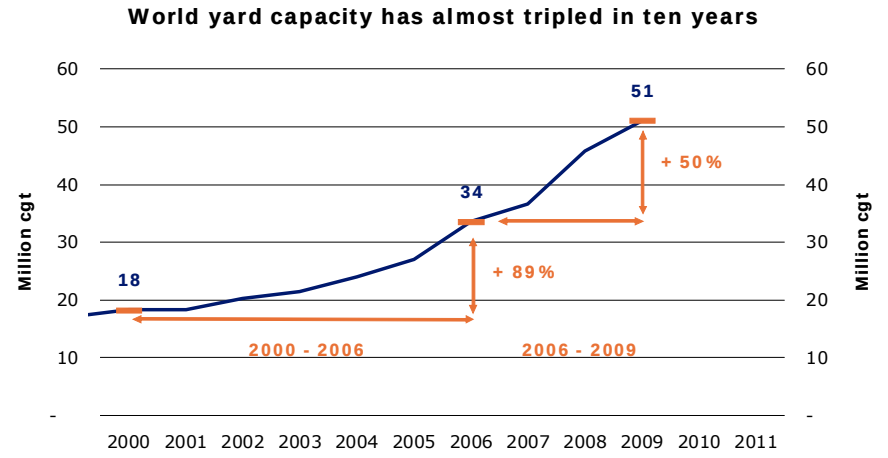

Sources: Clarksons, Danish Ship Finance

220 MILLION DWT SCHEDULED TO BE DELIVERED IN 2010

More than twice the capacity built in 2009 is scheduled for delivery in 2010. World yard output is scheduled to increase by 113 million dwt in 2010 (fig. 9). In terms of cgt, there is, however, a more modest increase of 35%. The difference between the growth rate in cgt and dwt reflects the fact that dry bulk vessels account for a larger share of the 2010 orderbook than the 2009 orderbook. These figures reflect the scheduled orderbook - the actual deliveries may be much less. In the following paragraphs we elaborate on these numbers and our expectations for deliveries in 2010.

CHINA EXPECTED TO BE THE LARGEST SHIPBUILDING NATION IN 2010

China and South Korea are driving the growth in world shipyard capacity. China's yard capacity, in particular, is expected to rocket in 2010. As illustrated by figure 9, Chinese yard capacity is scheduled to increase by 55 million dwt, to 89 million dwt, in 2010. If doing so, China will become the largest shipbuilding nation in the world.

ESTABLISHED YARDS ACCOUNT FOR 77% OF THE NOMINAL ORDERBOOK

Greenfield yards have been a hot topic during the last few years. So far, they have played a minor role, contributing only a negligible share of annual deliveries. In 2010, Greenfield yards are expected to deliver 3% of the 220 million dwt. To put this into perspective, established yards are expected to deliver 170 million dwt (77%) of the nominal orderbook scheduled for delivery in 2010 (fig. 10).

76% OF THE 2010 ORDERBOOK WILL BE DELIVERED

We expect postponement and cancellations of orders to continue in 2010. In 2009, 71% of the scheduled deliveries actually materialized. If we replicate this delivery schedule with respect to yard experience, builder country and segment, we expect that 166 million dwt (76%) of the 220 million dwt will end up being delivered in 2010. The remainder is postponed one year. Unsurprisingly, dry bulk vessels are expected to account for 76% (127 million dwt) of the 166 million dwt built in 2010 (fig. 11).

ESTIMATED YARD CAPACITY IN 2010 OF 180 MILLION DWT

Clearly, with 106 million dwt delivered in 2009, there is much concern over whether yard capacity will increase enough in 2010 to

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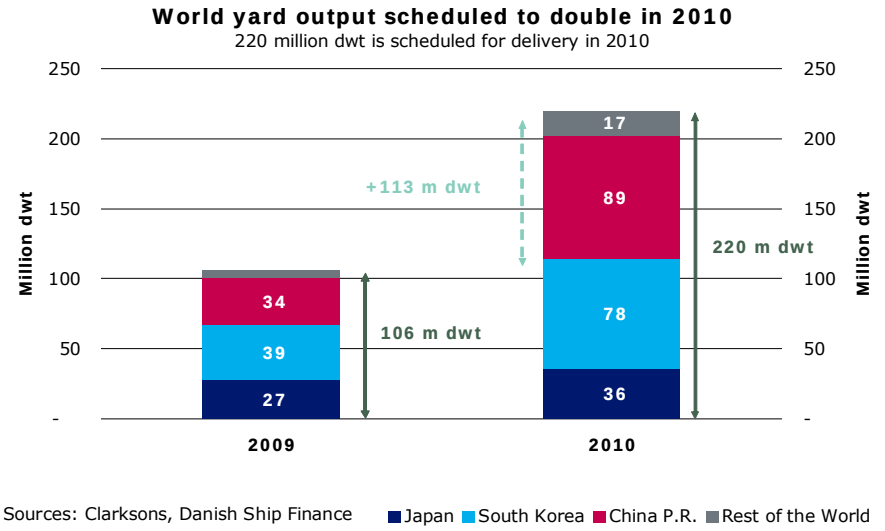

Sources: Clarksons, Danish Ship Finance

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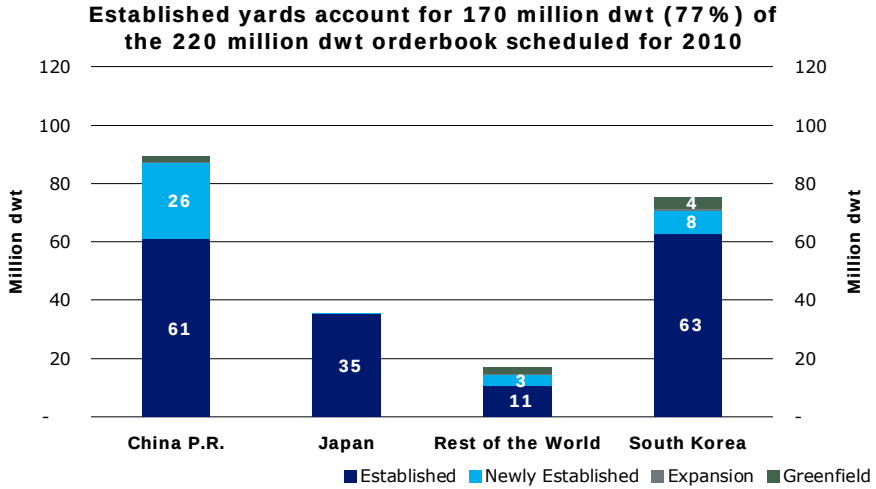

Sources: Clarksons, Danish Ship Finance

build 166 million dwt in 2010. Our approach is simple: We use each country's maximum monthly delivered capacity (from 2009 and the first three months of 2010) as a proxy for capacity. This methodology might seem simplistic, but nevertheless provides a rough indication of the maximum annual shipyard capacity (measured in dwt) per shipbuilding country. By doing so, we estimate that the world shipyard capacity in 2010 is around 180 million dwt. Accordingly, we conclude that the 2010 delivery schedule of the estimated 166 million dwt is feasible for yards to deliver.

THE NEWBUILDING PRICE DEPENDS ON THE CONTRACTING ACTIVITY

Consequently, we expect as much as 166 million dwt to exit the orderbook and enter the fleet in 2010. In terms of yard utilization – and hence newbuilding prices – the question is now how much will enter the orderbook (i.e. be contracted in 2010). Nobody can tell. Instead of speculating on this issue, let us turn the question on its head: How many more new contracts would have been required in 2009 for newbuilding prices to have remained stable? We take a simple approach by analysing how many new orders would have been required to enter the orderbook to match the capacity being delivered (i.e. maintaining shipyard utilization) in 2009.

AN ADDITIONAL 40 MILLION CGT WAS REQUIRED IN 2009

We estimate that the contracting activity in 2009 would have to have been 41 million cgt above the actual 10 million cgt contracted if yard utilization and hence newbuilding prices were to have remained fairly stable in 2009 (fig. 12). Above, we estimated that 166 million dwt (approximately 53 million cgt) will be delivered in 2010. For current prices to remain stable, we therefore need approximately the same capacity contracted during 2010.

12-13 MILLION CGT CONTRACTED IN 2010

Do we really expect that 50-60 million cgt will be contracted in 2010? Based on the contracting activity during the first three months of 2010, the answer is clearly no. The average monthly contracting activity during the first three months of 2010 indicates that 12-13 million cgt will be contracted in 2010. This is slightly above the contracting activity during 2009, but insufficient to stabilize the size of the orderbook (fig. 12).

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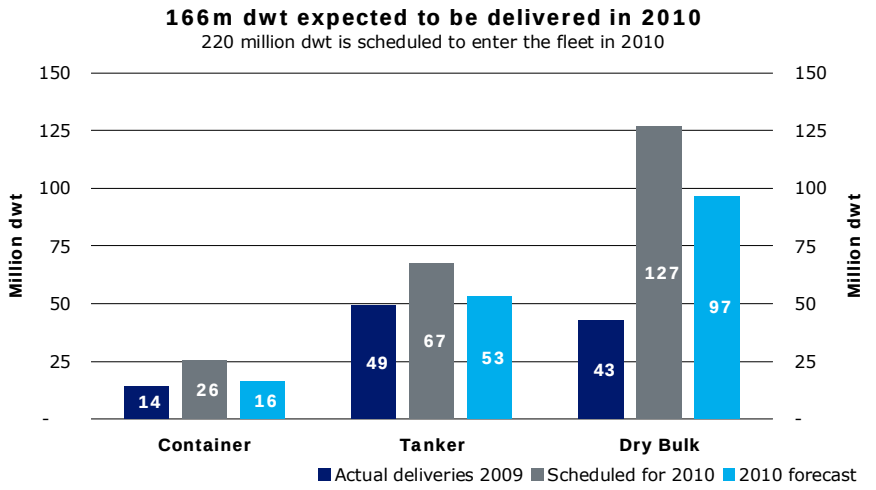
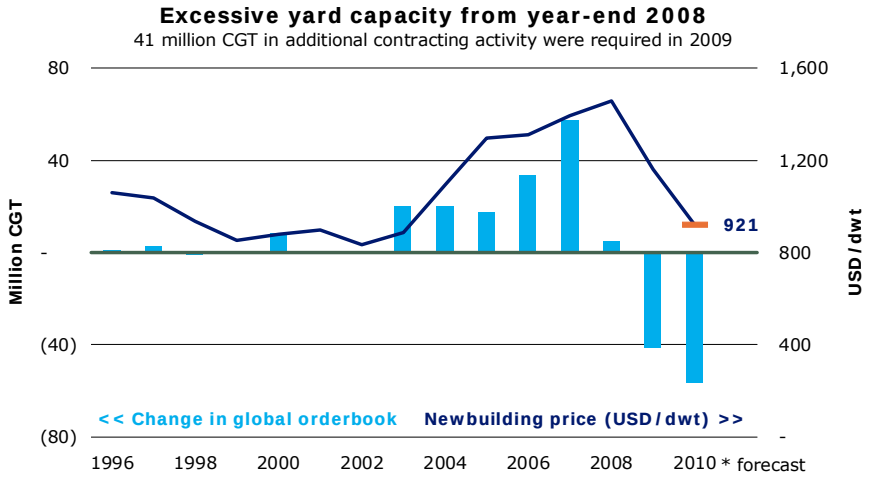


Sources: Clarksons, Danish Ship Finance

Figure SB.12

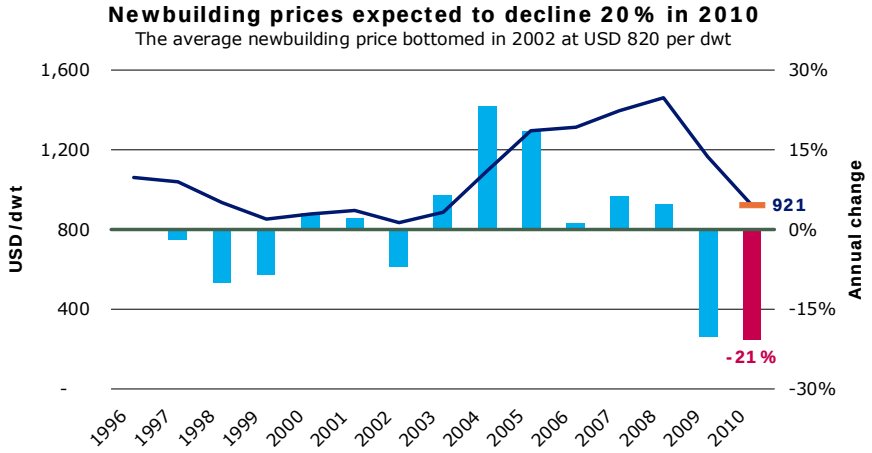


Sources: Clarksons, Danish Ship Finance

NEWBUILDING PRICE DOWN 20% IN 2010

The impact of the low contracting activity on the newbuilding prices will be considerable. Based on forecasted world shipyard utilization, we expect that the average newbuilding price will decline by as much as 20% in 2010 (fig. 13). Clearly, this is an average figure at the aggregated level. The newbuilding price will obviously vary according to segment, builder country and yard experience level. We also expect a larger spread between newbuilding prices in 2010 than we have seen in 2009: The newbuilding price of a Japanese-built dry bulk vessel out of an established yard is not expected to decline 20% in 2010. This fate, on the other hand, is likely to affect a Chinese dry bulk vessel from a non-established yard with a small orderbook and a short track record. However, this forecast is based on current steel prices (i.e. component costs) and therefore significant steel price increases may reduce the effect on newbuilding prices from lower world shipyard utilization. ▪

Figure SB.13



Sources: Clarksons, Danish Ship Finance

CRUDE TANKERS

THE CRUDE TANKER MARKET IS WAITING FOR SINGLE-HULL TANKERS TO BE PHASED OUT. CORE FUNDAMENTALS ARE CURRENTLY AGAINST FREIGHT RATE INCREASES, BUT SHORT-TERM FACTORS HAVE SUPPORTED RATES IN 2009. EXPANDING ASIAN OIL CONSUMPTION AND SINGLE-HULL TANKER PHASE-OUT ARE CRITICAL ISSUES FOR RATES AND VALUES IN 2010. WE ARE SLIGHTLY OPTIMISTIC.

FREIGHT RATES

IN 2009, EARNINGS AND TIMECHARTER RATES SUFFERED DUE TO LOW CRUDE OIL DEMAND. ALBEIT, PEAK-SEASON EARNINGS RECOVERING SOMEWHAT DURING FOURTH QUARTER 2009 AND THE FIRST MONTHS OF 2010, NOT LEAST SUPPORTED BY THE HARSH WINTER IN THE NORTHERN HEMISPHERE. TIMECHARTER RATES, HOWEVER, REMAINED DEPRESSED.

In September 2009, when we last published our Shipping Market Review, crude tanker earnings and timecharter rates were in the doldrums. The economic recession had reduced OECD oil demand significantly. The impact on crude tankers was severe: Off-season crude tanker earnings were down 77% compared to same period 2008, while timecharter rates were down by 39%. At that time, we expected that earnings would improve.

THE COLD WINTER SUPPORTED PEAK-SEASON EARNINGS

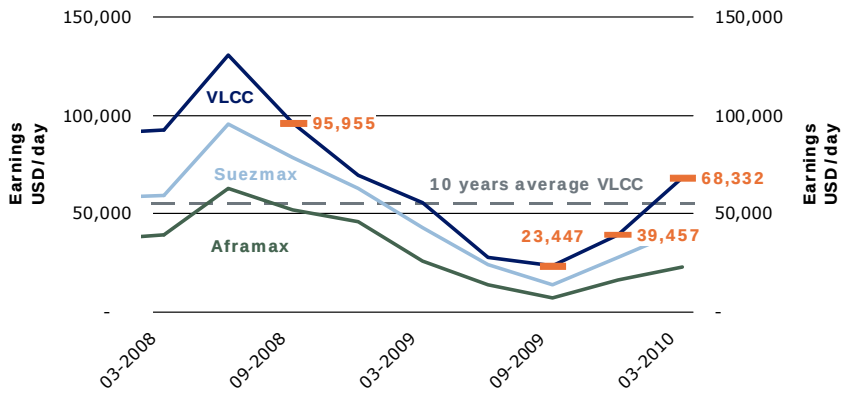
By the fourth quarter 2009, earnings had recovered. VLCC earnings gained on average USD 16,000 per day during the fourth quarter of 2009 ending at USD 39,600 per day. Earnings continued the upward trend during the first quarter of 2010 and ended first quarter 2010 at USD 68,000 per day (fig.1).

TIMECHARTER RATES DOWN TO LEVELS LAST SEEN IN 2003

Timecharter rates have been declining during the last 18 months. In 2009, timecharter rates dropped 32% on average. A slight improvement in market conditions bolstered timecharter rates during the first months of 2010 (fig.2), with potential for further improvement in the wake of rising earnings in the near future.

Figure T.1

The cold winter and higher oil demand support peak-season crude tanker earnings.

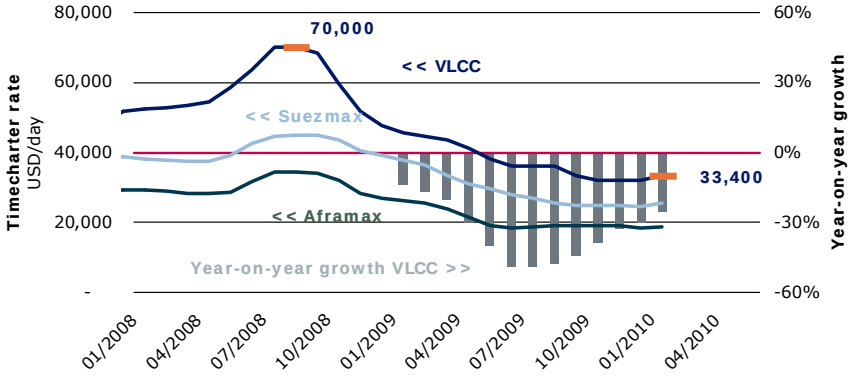


Sources: Clarksons, Danish Ship Finance

Figure T.2

VLCC timecharter rates show little improvement

Three-year timecharter rates down 25% on average YTD

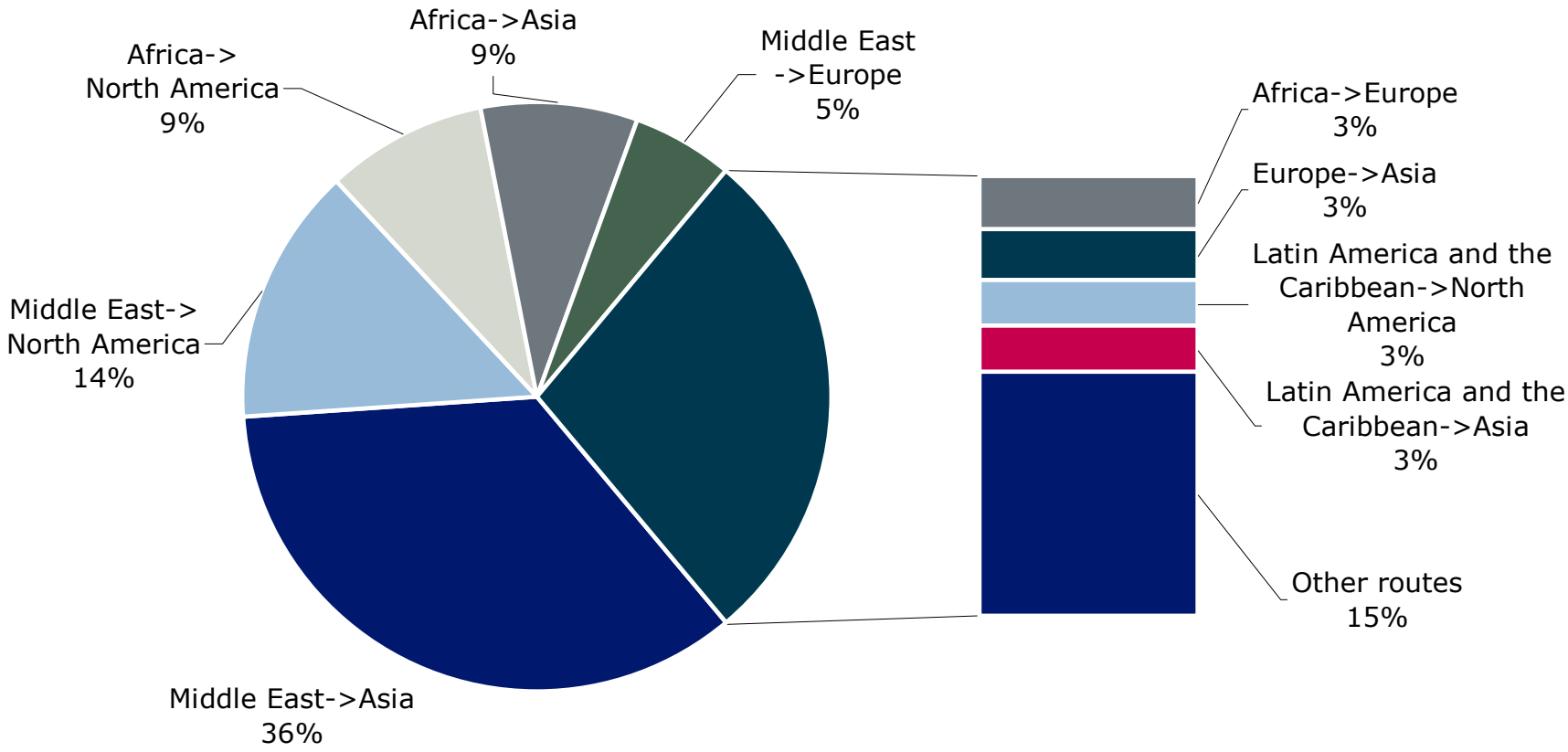


Sources: Clarksons, Danish Ship Finance

Figure T.3

Major front-haul crude tanker routes in 2009

(measured in billion ton-miles)



Source: Global insight, Danish Ship Finance

TANKER EARNINGS WERE LARGELY SUPPORTED BY THE COLD WINTER, AN EXTENSIVE USE OF TANKERS EMPLOYED AS FLOATING STORAGE AND AN INCREASING RELUCTANCE TO FIX SINGLE-HULL TANKERS. HOWEVER, FUNDAMENTALS RAN REVERSE: NOMINAL SUPPLY GREW APPROXIMATELY 6%, WHILE DISTANCE-ADJUSTED DEMAND DECLINED 6%.

30.7 MILLION DWT ENTERED THE CRUDE TANKER FLEET IN 2009

An almost unprecedented inflow of new tonnage joined the fleet in 2009. An astonishing 37.7 million dwt was scheduled for delivery in 2009, while 30.7 million dwt actually entered service (fig 5). First-quarter 2010 deliveries followed suit with a large inflow of new tonnage entering service (fig. 4).

19% OF SCHEDULED 2009 DELIVERIES POSTPONED

In 2009, 19% of the scheduled deliveries never reached the sea (fig. 5). Whether these 19% were cancelled or postponed is hard to say. However, Clarksons' orderbook indicates that the majority was postponed to later delivery dates rather than being outright cancelled.

4.7 MILLION DWT SCRAPPED IN 2009

During 2009 4.7 million dwt was scrapped, albeit neither compared to the 30 million dwt joining the fleet nor historical scrapping an at all extraordinary amount. However, the fact that the VLCC segment accounted for half of the capacity scrapped during 2009 was welcome news (fig. 4).

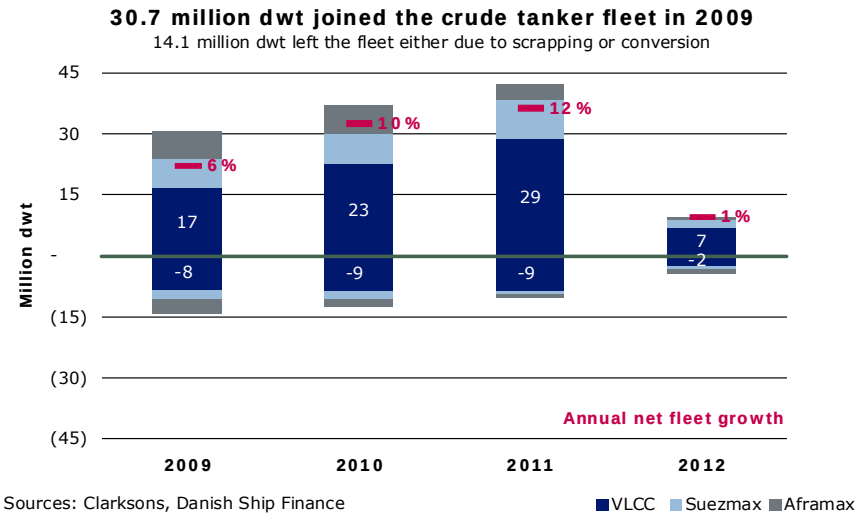
9.4 MILLION DWT LEFT THE TANKER FLEET IN 2009

While scrapping activity was modest in 2009, the number of converted crude tankers almost reached the same record-highs as in 2008. A total of 9.4 million dwt was converted from tankers into other segments in 2009. Most conversions comprised tankers turned into dry bulk vessels, but offshore-related segments were also frequently represented in the 2009 conversion program. The converted crude tankers in 2009 have mostly been single-hull vessels.

THE CRUDE TANKER FLEET GREW 6 PERCENT IN 2009

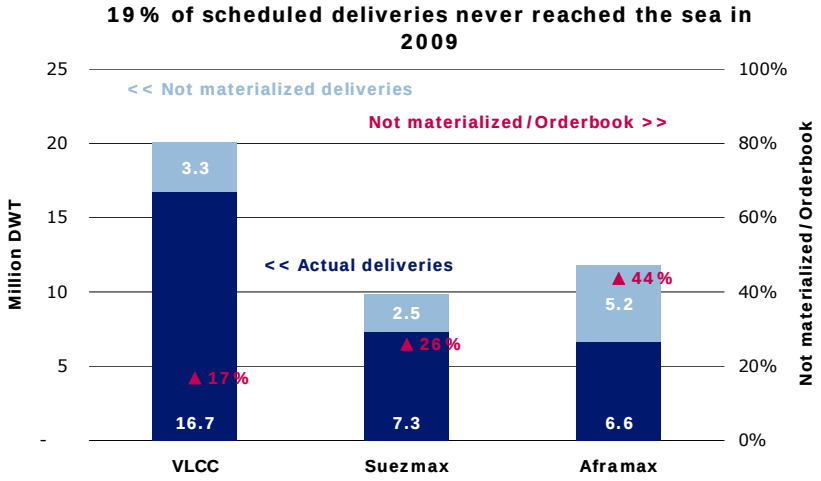
The combination of modest scrapping and extensive conversion of crude tankers has absorbed almost half of the deliveries in 2009 (fig. 4),

Figure T.4



Sources: Clarksons, Danish Ship Finance

Figure T.5



Sources: Clarksons, Danish Ship Finance

thereby limiting annual fleet growth to only 6% in 2009. Unfortunately, the growth was not equally distributed between the segments, as the VLCC segment grew 5.6%, whereas the Suezmax segment expanded by 9%.

SUPPLY WAS FURTHER REDUCED BY FLOATING STORAGE

The fleet availability was further reduced by an extensive use of tanker vessels being employed as floating storage. Floating storage normally comes into play when the oil price is in contango (i.e. when the forward price of oil is above the spot price). In this situation, it might be attractive to buy oil, store it (on tankers) and sell it at a later date. The oil price was in contango during 2009. We estimate that approximately 5% of the VLCC fleet was employed as floating storage for crude and clean products (only possible for newly-built VLCCs) during 2009.

MODEST FLEET AVAILABILITY IN 2009

To sum up: Scrapping, conversions, floating storage (not to mention the potential effect from slow steaming) and a general reluctance to fix single-hull tankers, we actually ended up with a rather low effective fleet availability in 2009.

GLOBAL OIL PRODUCTION FELL BY 1.2 MILLION BARRELS PER DAY IN 2009

Global oil production fell by 1.2 million barrels per day in 2009. OPEC oil production declined approximately 1.8 million barrels per day, whereas non-OPEC production rose 0.6 million barrels per day. However, from the second half of 2009 the declining trend was reversed, since global oil production grew 1.5% compared to first half 2009 (fig. 6).

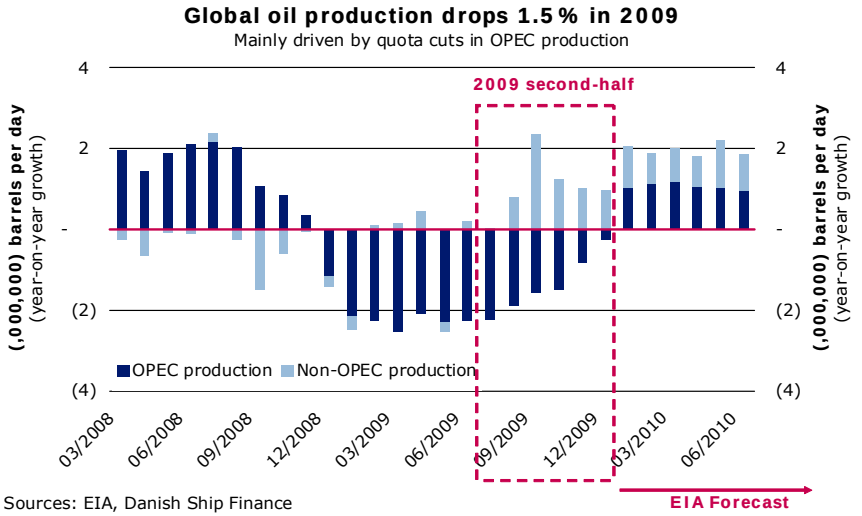
GLOBAL OIL DEMAND CONTINUED TO DECLINE IN 2009

Following the slight decline in 2008 (0.3%), global oil consumption fell by 1.7 million barrels per day (1.9%) in 2009. The decline was due to a combination of a lower OECD oil consumption (-4.5% or 2 million barrels per day) and a non-OECD consumption rise of 1.2% (0.4 million barrels per day) (fig. 7).

US OIL CONSUMPTION BACK TO THE LEVELS OF 1997

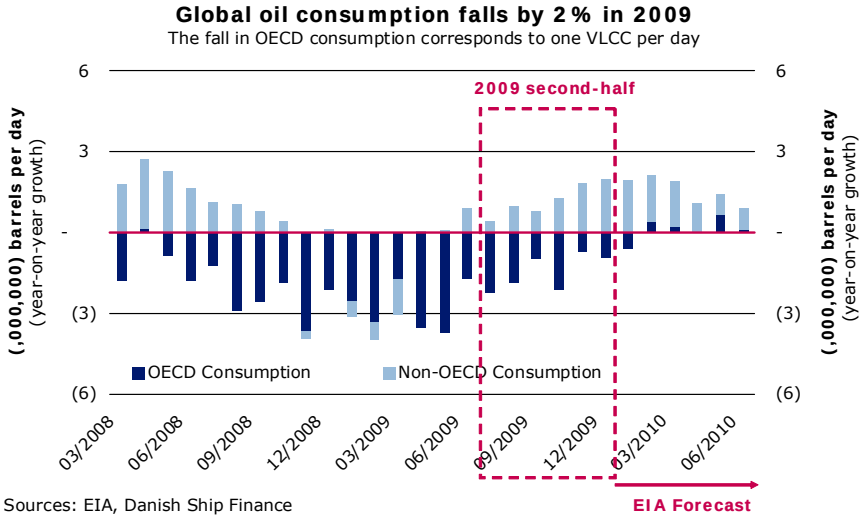
The drop in OECD oil consumption was mainly the result of a decline in the US and European oil consumption of 0.8 million barrels per day (-4% and -5%) and a drop in Japanese oil consumption of 0.5 million barrels per day. US oil consumption has not been that low since 1997.

Figure T.6



Sources: EIA, Danish Ship Finance

Figure T.7



Sources: EIA, Danish Ship Finance

CHINESE OIL CONSUMPTION ROSE 5% IN THE SECOND HALF OF 2009

In terms of oil consumption, China is the third-largest consumer in the world. In contrast to the OECD economies, the Chinese economy continued to grow strongly in 2009, Chinese oil consumption increasing 5% (0.4 million barrels per day) over the year. Even so, the increase in the overall Asian oil consumption was not large enough to offset the decline in OECD oil consumption (fig. 7 & 8).

OECD INVENTORIES DOWN ABOUT 100 MILLION BARRELS

The cold winter (assisted by a lower positive spread between the forward and the spot price of oil) has exerted downward pressure on inventories in the OECD. OECD commercial inventories have declined 3% during fourth quarter 2009 and first quarter 2010. Still, OECD inventories are 70 million barrels above the ten-year average (fig. 9).

DISTANCE-ADJUSTED CRUDE OIL DEMAND DOWN BY 6% IN 2009

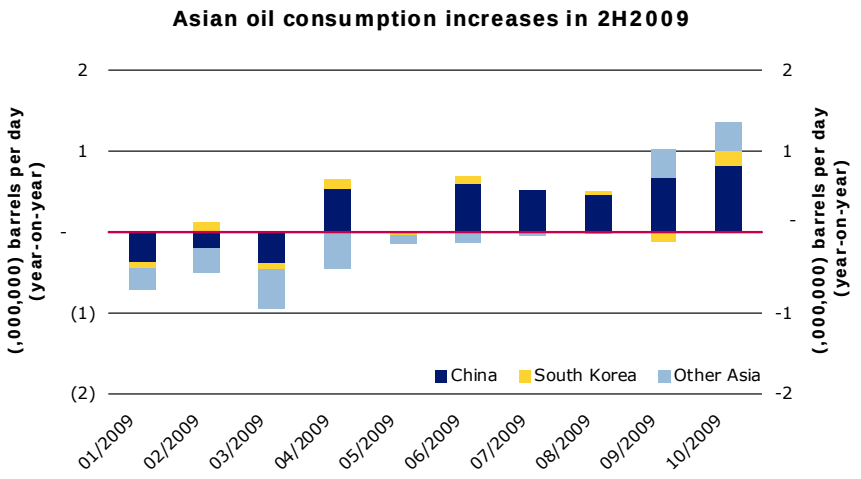
To sum up, crude tanker demand declined in tandem with lower global oil consumption. China was the only major oil consumer that increased oil consumption in 2009. This was definitely good news for crude tanker demand. However, before we celebrate the success of the Chinese growth miracle, let us put its effect on global oil demand in perspective: It takes a 23% increase in Chinese oil consumption to offset a 1% drop in US oil consumption.

Moreover, not all of this is directly transmittable to crude tanker demand. A significant share of US oil consumption is domestically produced or imported through pipelines. Nonetheless, it is a fact that lower US oil imports is still the most important factor behind lower distance-adjusted crude tanker demand. The EIA estimates that US oil imports from OPEC dropped by approximately 1 million barrels per day (19%) in 2009. The impact on distance-adjusted crude tanker demand was considerable. We estimate that global distance-adjusted demand for crude tankers dropped 6% in 2009 (fig. 10).

VLCC DEMAND HIT HARDEST BY WANING OIL CONSUMPTION

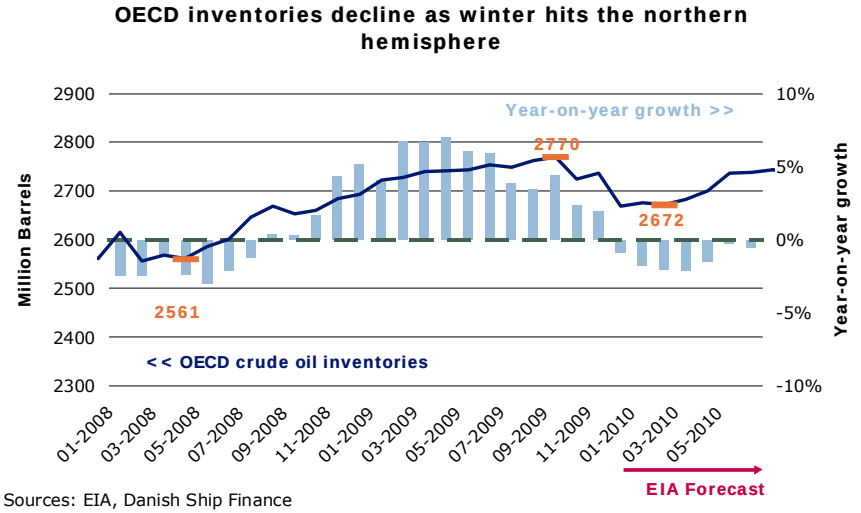
Generally, lower demand volumes impact the largest vessels the most, and crude tankers are no exception. The drop in global oil consumption lowered VLCC demand the most. Figure 11 summarizes the distance-adjusted impact on VLCC demand for the major trading routes. Demand on the largest trading route from the Middle East Gulf (MEG) to the Far East/South Asia fell 9% in 2009 (compared to a general distance-

Figure T.8



Sources: EIA, Danish Ship

Figure T.9



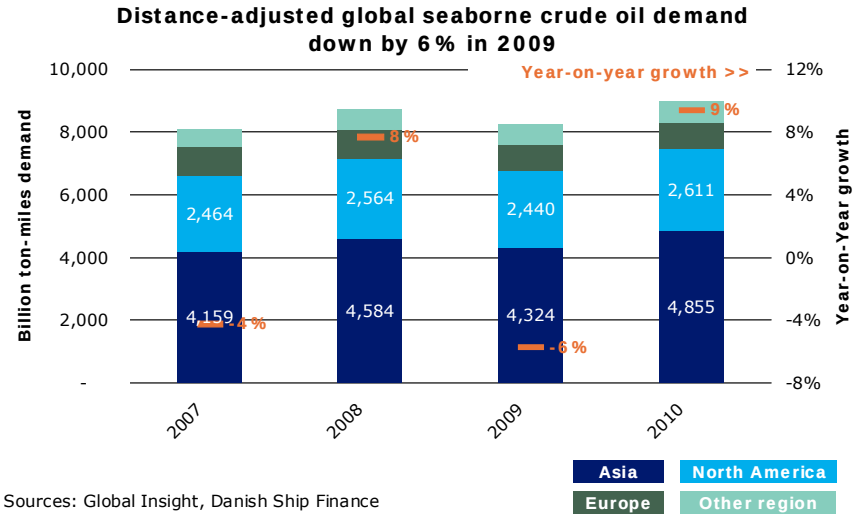
Sources: EIA, Danish Ship Finance

adjusted demand drop of 6%). A similar trend is evident on the major trade routes into North America from the Middle East Gulf and West Africa. The only trade which grew a little in 2009 was West Africa to Asia, mainly driven by new refinery capacity entering the Indian market.

THE CRUDE TANKER MARKET SHARPLY DOWN IN 2009

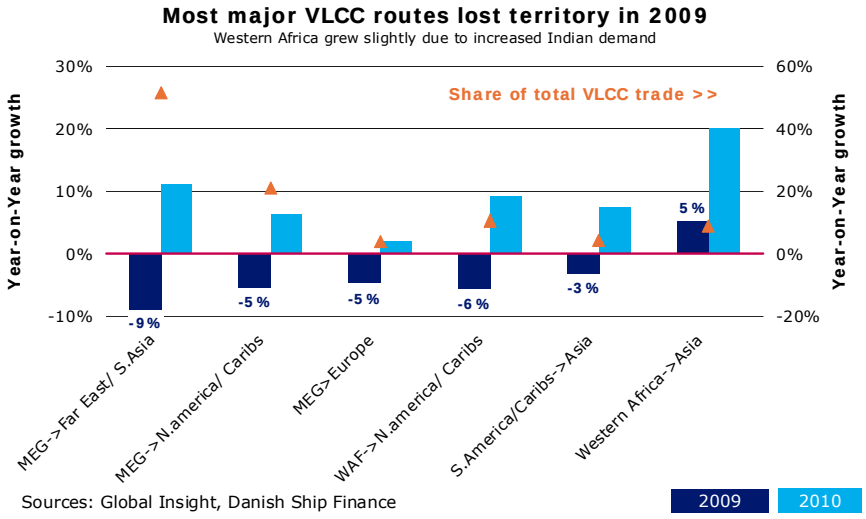
So, what do the developments in 2009 tell us about the state of the tanker market? Nominal supply grew approximately 6%, while distance-adjusted demand declined 6%. This appears as a simple description of supply outpacing demand. But why, then, did rates start to recover during the fourth quarter of 2009 and the first quarter of 2010? Peak-season tanker rates were indeed helped along by the cold winter, an extensive use of tankers employed for floating storage and an increasing reluctance to fix single-hull tankers. Together, these factors effectively limited the fleet availability and hence worked in favour of improved tanker earnings. Nevertheless, the low timecharter rates do indicate that there is more tonnage available than indicated by the spot rate development.

Figure T.10



Sources: Global Insight, Danish Ship Finance

Figure T.11



Sources: Global Insight, Danish Ship Finance

LOW CONTRACTING ACTIVITY AND SHORTER DELIVERY TIMES REDUCED THE NEWBUILDING PRICE BY APPROXIMATELY 30% IN 2009. THE SECONDHAND PRICES DECLINED SLIGHTLY ABOVE 30% IN 2009.

CRUDE TANKER ORDERING LIMITED IN 2009

Low earnings and the risk of overcapacity heavily reduced owners' appetite for ordering new vessels in 2009, with only a modest 12.4 million dwt contracted in 2009. To put this in perspective this equals merely one third of the capacity contracted in 2008, though approximately the same capacity ordered as in 2002. Most new contracts were contracted towards the end of the year and the beginning of 2010 (fig. 12).

DELIVERY TIME IS DECLINING AS THE ORDERBOOK IS DIMINISHING

Approximately 30.7 million dwt left the orderbook during 2009, while a modest 12.4 million dwt was contracted. The average delivery time remained relatively stable (fig. 12).

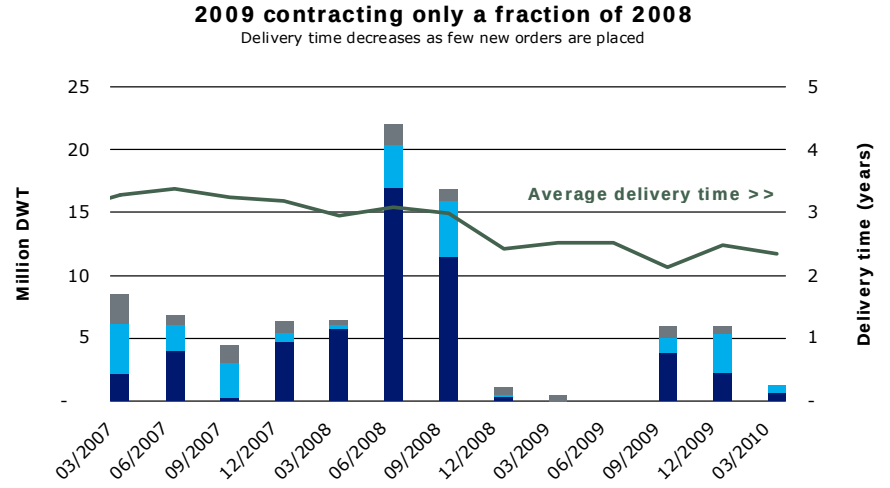
NEWBUILDING PRICES DECLINED ON AVERAGE 31% IN 2009

Newbuilding prices are declining in tandem with shorter delivery times. Crude tanker newbuilding prices (per dwt) have lost, on average, 31% during 2009. The drop in newbuilding prices levelled off in tandem with new contracts being placed. The average newbuilding price lost a modest 5% during the fourth quarter of 2009 and only 2% during the first months of 2010 (fig. 13).

SECONDHAND PRICES DECLINE 32% IN 2009

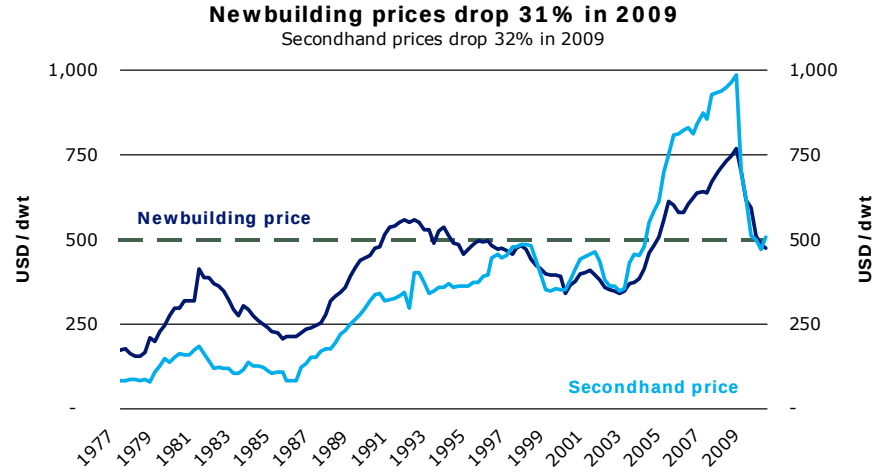
Secondhand prices usually respond to movements in the newbuilding prices and the timecharter incomes. With newbuilding prices declining 31% in 2009 and the Baltic Dirty Tanker Index down 61% in 2009, it is not surprising that the average secondhand price (per dwt) fell 32% in 2009. The secondhand price dropped the most during the first three quarters of 2009, while declining a modest 6% during the fourth quarter of 2009. The average secondhand price recovered 8% in the first quarter of 2010, due to a rise in earnings (fig. 13).

Figure T.12



Sources: Clarksons, Danish Ship Finance

Figure T.13



Sources: Clarksons, Danish Ship Finance

MUCH UNCERTAINTY IS ATTACHED TO THE OUTLOOK FOR CRUDE TANKERS IN 2010. ASIAN OIL DEMAND AND THE PHASE-OUT OF SINGLE-HULL TANKERS ARE CRITICAL ISSUES. NONETHELESS, WE DO SEE A POTENTIAL FOR RATES AND VALUES TO IMPROVE IN 2010.

CRUDE TANKER ORDERING LIMITED IN 2009

The outlook for crude tanker is dominated by low global oil consumption and a large orderbook. Tanker owners are looking to a phase-out of single-hull tankers, scrapping and extensive postponement activity to save the day for earnings, timecharter rates and, eventually, asset values. What will happen in 2010 and beyond is anyone's guess. Our approach is to look at the individual components case by case.

30 MILLION DWT ENTERS THE CRUDE TANKER FLEET IN 2010

In 2010, almost 37 million dwt is scheduled to enter the crude tanker fleet. This is approximately the same capacity as was scheduled for delivery in 2009. As discussed above, approximately 19% was postponed into 2010 or later delivery dates. For illustrative purposes, we replicate this trend and postpone 20% (7 million dwt) of orders scheduled for delivery in 2010 into 2011 (fig. 15). This will effectively reduce the annual inflow of new tonnage to 30 million dwt in 2010 (fig. 14).

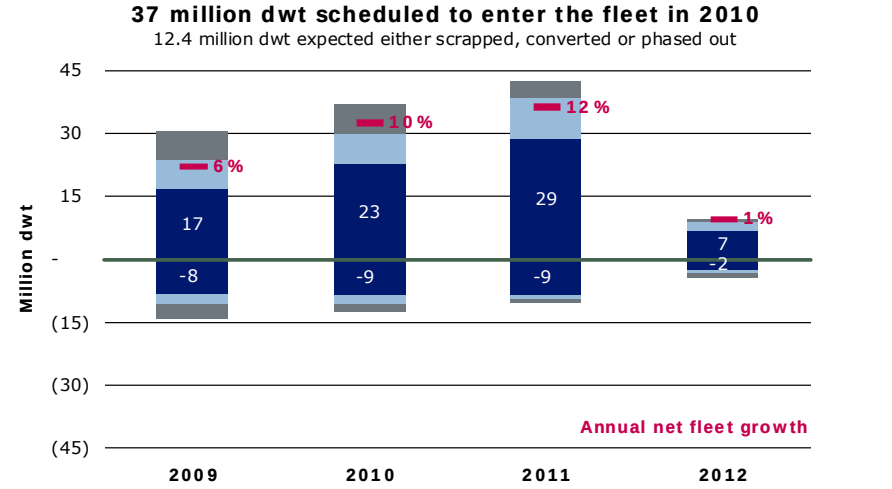
3.6 MILLION DWT SCRAPPED IN 2010

A total of 3.6 million dwt is expected to be scrapped in 2010 given that all vessels older than 25 years are scrapped in 2010. Single-hull tankers accounts for 82% (2.9 million dwt) of the scrapping capacity. Single-hull VLCCs account for 1.1 million dwt of the total. However, 3.6 million dwt scrapped is barely a trickle compared to 30 million dwt entering the fleet (fig. 16).

4.9 MILLION DWT IS EXPECTED TO BE PHASED-OUT IN 2010

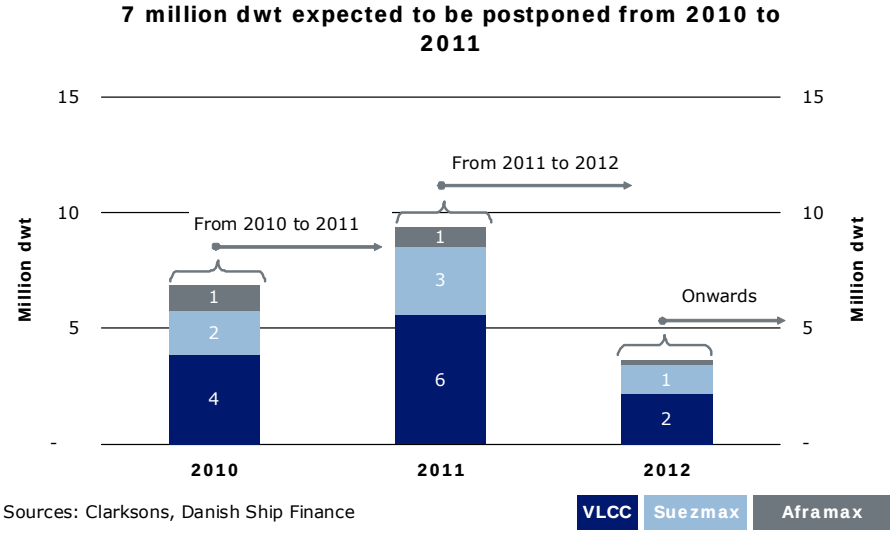
The IMO MARPOL regulation stipulates that all single-hull tankers are to be phased out latest 2015. Single-hull tankers (VLCC, Suezmaz and Aframax) currently amount to 29.8 million dwt (of which we assume 2.9 million dwt will be scrapped in 2010, as they are older than 25 years). Assuming that all single-hull tankers are to be phased out by 2015, we need to schedule for further phase-out than the amount comprising the maximum age of 25 years requirement. Taking into consideration the

Figure T.14



Sources: Clarksons, Danish Ship Finance

Figure T.15



Sources: Clarksons, Danish Ship Finance

large nominal orderbook, the relatively low oil consumption in the OECD and the low freight rates, we expect this phase-out to be relatively strong in 2010 and 2011. Accordingly, we assume that an additional 4.9 million dwt (24%) of the current single-hull VLCC fleet will be phased out in 2010 (fig. 16).

3.9 MILLION DWT UNDER CONVERSION IN 2010

According to Clarksons, 3.9 million dwt is expected to be converted from crude tanker into other segments in 2010. Almost half the converted capacity is expected to come from converted VLCCs (fig. 16).

6% FLEET GROWTH IN 2010 AFTER POSTPONEMENT AND PHASE-OUT

Adding it all together, we expect 12.4 million dwt to leave the fleet in 2010, due to either scrapping, postponement, phase-out of single-hull or to conversion. The annual inflow of new capacity entering the fleet is expected to be about 30 million dwt. In combination, this reduces the annual fleet growth from 10% (before postponement and phase-out of single hull tankers) to 6% in 2010 (fig. 17)

GLOBAL OIL CONSUMPTION UP 1.5 MILLION BARRELS PER DAY IN 2010

Global oil consumption is expected to increase by 1.5 million barrels per day in 2010 (-1.7 million barrels per day in 2009). By 2010, global oil consumption is therefore expected to have regained most of the lost territory of 2009.

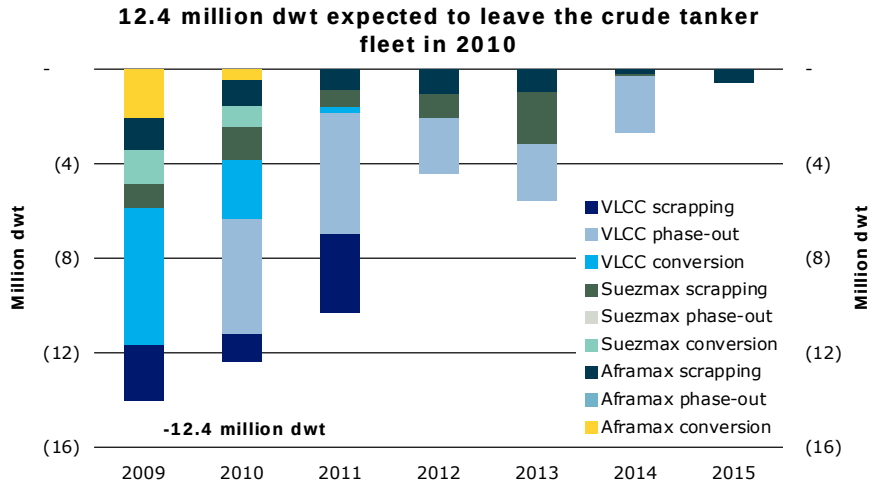
OECD OIL CONSUMPTION UP JUST 100,000 BARRELS PER DAY IN 2010

OECD oil consumption is, however, expected to increase only 100,000 barrels per day in 2010 (fig. 18). This contributes merely 7% to the recovery in global oil consumption. US oil consumption is expected to increase by 200,000 barrels per day; European oil consumption is expected to increase a modest 50,000 barrels per day while Japanese oil consumption is expected to decline further 230,000 barrels per day.

NON-OECD OIL CONSUMPTION UP BY 1.4 MILLION BARRELS PER DAY IN 2010

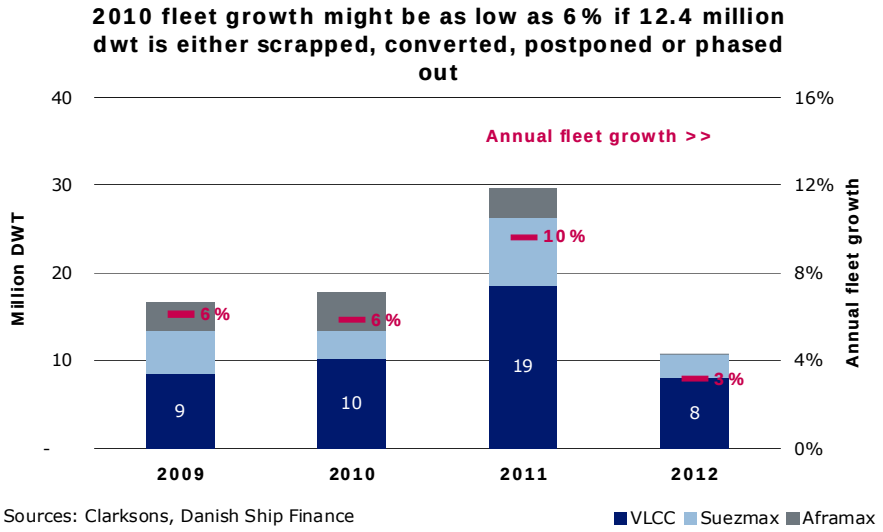
Non-OECD oil consumption is expected to increase by 1.4 million barrels per day (fig. 18). Asian (non-Japan Asia) oil consumption is expected to increase by 750,000 barrels per day, of which increased Chinese oil consumption accounts for with 440,000 barrels per day.

Figure T.16



Sources: Clarksons, Danish Ship Finance

Figure T.17



Sources: Clarksons, Danish Ship Finance

DISTANCE-ADJUSTED CRUDE TANKER DEMAND UP 9% IN 2010

What is the impact on crude tanker demand from the 1.5 million barrels per day increase in global oil consumption? To answer this question, we have to remember that it is not only a question about increased daily consumption – it is as much a question about travel distances.

In terms of daily oil consumption, Asian oil consumption is only 1 million barrels per day larger than North American oil consumption. However, in terms of distance-adjusted crude tanker demand, the Asian oil consumption generates almost twice as much crude tanker demand as the North America oil consumption.

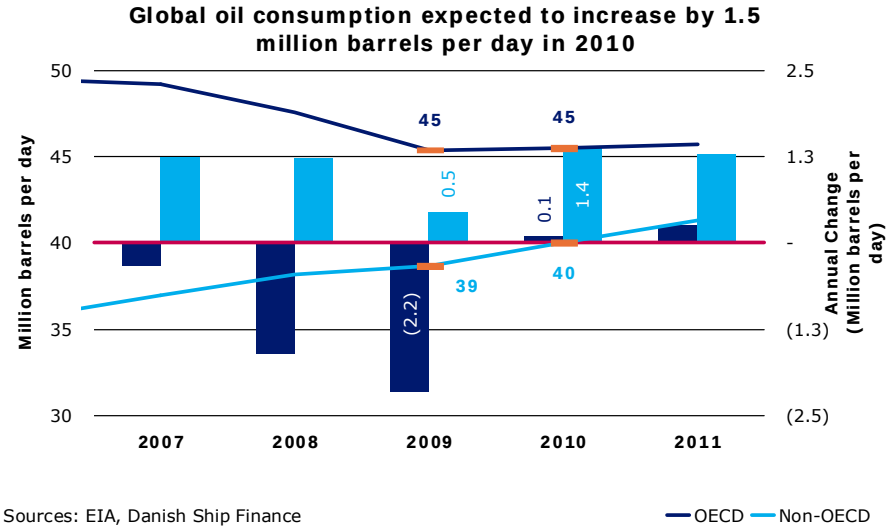
The impact on crude tanker demand is therefore particularly profound because the 1.5 million barrels per day increase in global oil consumption is generated primarily by (long-haul) Asian oil consumers. We estimate that distance-adjusted crude tanker demand will end up rising approximately 9% in 2010 (fig. 19).

RATES AND VALUES IN 2010

The crude tanker fleet is expected to grow by 6% in 2010 if all supply cutting measures are being used. All three segments are expected to grow approximately 6% in 2010. Distance-adjusted crude tanker demand is expected to grow 9% in 2010. Put simply, this tells us that demand will grow faster than supply. If this turns out to be more or less correct, we certainly expect earnings to increase in 2010.

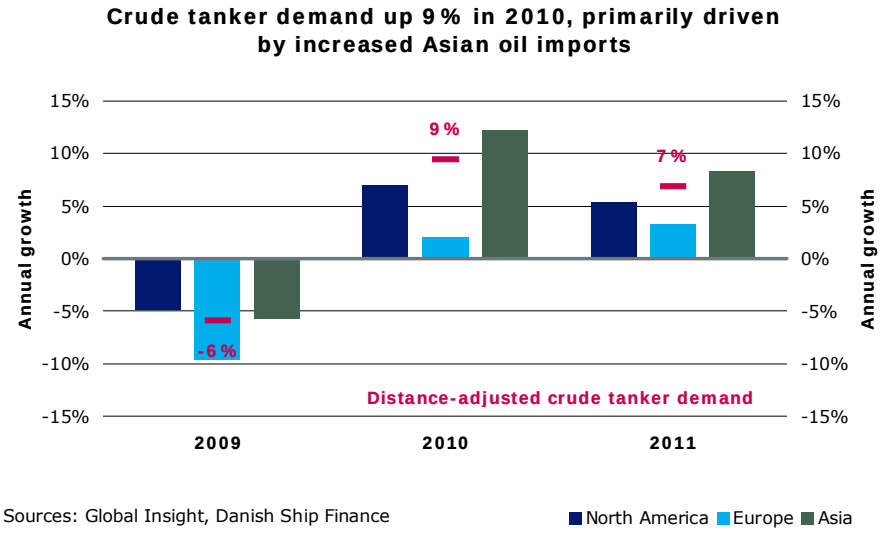
However, much uncertainty is attached to this simple conclusion. First of all, if all vessels scheduled for delivery in 2010 end up being delivered in 2010 and few single-hull tankers end up being scrapped supply growth will come in at 10% (fig. 14) instead of the 6% (fig. 17). This will certainly jeopardize the likelihood of freight rate increases in 2010. Secondly, we currently have many vessels employed as floating storage. What happens if these vessels are no longer used for floating storage and therefore are available for employment? How will that impact effective supply growth? It will certainly not support freight rate increases. What about asset values? Much indicates that newbuilding prices will continue to decline in 2010 if owners refrain from ordering new vessels. By itself, that will put pressure on the secondhand prices. Whether secondhand prices will fall or not depends on whether the timecharter income will be strong enough to offset the effect from declining newbuilding prices.

Figure T.18



Sources: EIA, Danish Ship Finance

Figure T.19



Sources: Global Insight, Danish Ship Finance

PRODUCT TANKERS

THE PRODUCT TANKER MARKET IS BATTLING OVERSUPPLY AND WANING DEMAND. RATES HAVE BEEN EXTREMELY LOW DURING 2009, WHICH EXPLAINS WHY ASSET VALUES HAVE DECLINED. THE OUTLOOK IS TWO-SIDED AS DEMAND IS EXPECTED TO IMPROVE, BUT THE SUPPLY SURPLUS MAY CONTINUE TO DOMINATE THE AGENDA.

FREIGHT RATES

PRODUCT TANKERS SUFFERED IN 2009, WITH EARNINGS AND TIMECHARTER RATES TESTING THE LOWS OF 2002. FLOATING STORAGE AND INCREASED FAR EAST DEMAND ASSISTED EARNINGS DURING THE LAST MONTHS OF 2009, IN PARTICULAR FOR LR SEGMENTS.

The economic recession has significantly reduced OECD oil demand and demand for refined products. Nevertheless, the strong winter in the northern hemisphere has supported earnings somewhat during the fourth quarter of 2009 and first quarter of 2010. In 2009, the new refineries in the Far East have done little to bolster product tanker demand, as China has moved from a net importer of several refined products to a net exporter.

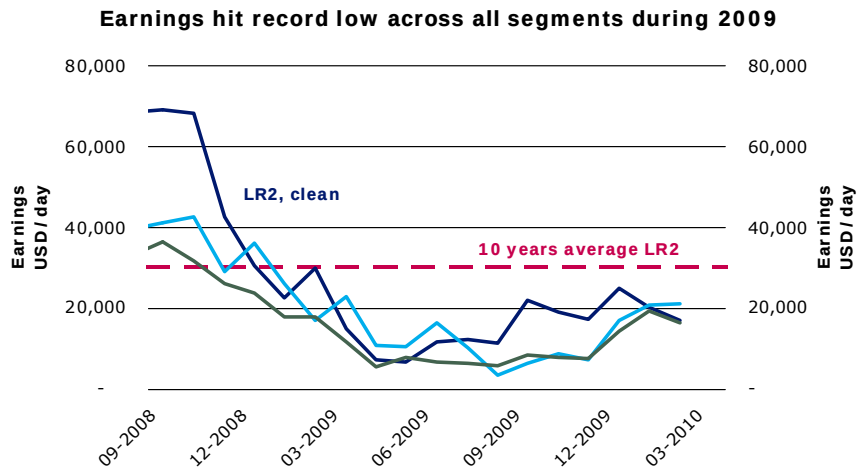
AVERAGE 2009 EARNINGS BELOW RECORD-LOW 2002

Product tanker earnings plummeted in 2009. On average, 2009 earnings fell below the previous record-low level of 2002. LR2 earnings entered 2009 at approximately USD 30,000 per day, bottomed in May at approximately USD 6,500 per day and ended fourth quarter 2009 at USD 25,000 per day. During the first months of 2010, the rally fizzled out, with earnings at the end of March at USD 15,000 per day (fig. 1).

TIMECHARTER RATES BACK TO THE LEVELS OF 2002

Timecharter rates have been declining since September 2008. In 2009, timecharter rates on average dropped 30%. LR2 timecharter rates have dropped from USD 25,000 per day in January 2009 to USD 17,250 per day in December 2009. Timecharter rates are currently, on average, only 11% higher than the 2002 low (fig. 2).

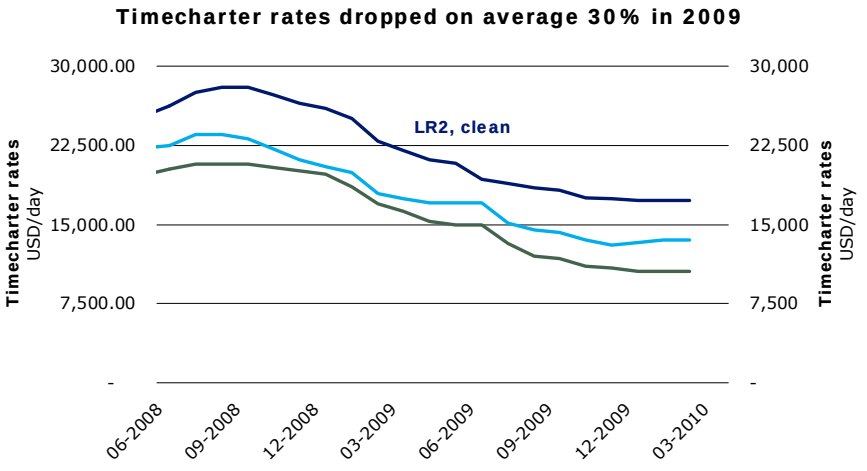
Figure PT.1



Sources: Clarksons, Danish Ship Finance

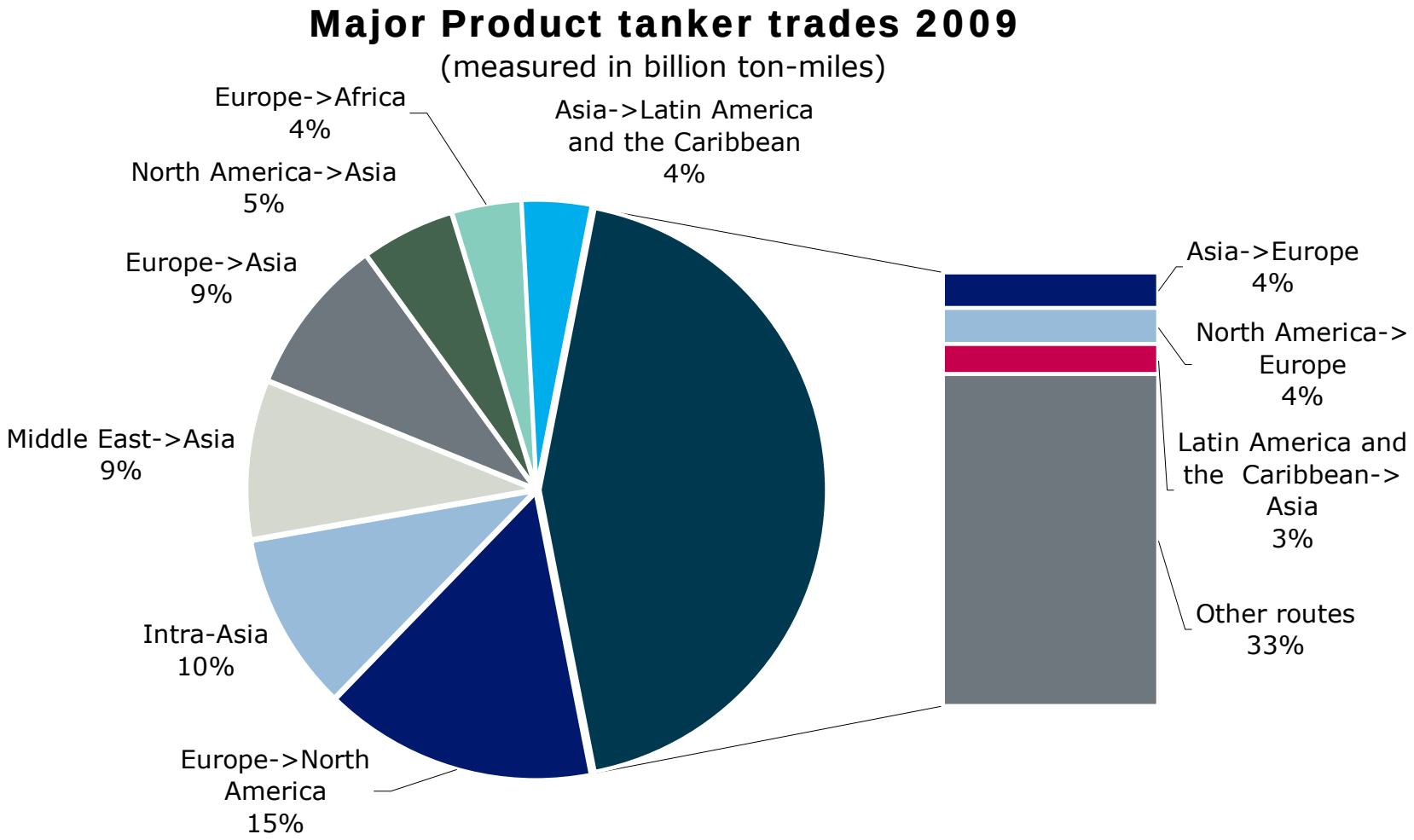
MR, dirty MR, clean

Figure PT.2



Sources: Clarksons, Danish Ship Finance

MR, dirty MR, clean



Source: Global insight, Danish Ship Finance

EXCESSIVE CAPACITY DOMINATED THE PRODUCT TANKER MARKET IN 2009. THE PRODUCT TANKER FLEET GREW 10%, WHILE DEMAND DECREASED BY 1%. EXTENSIVE USE OF FLOATING STORAGE LOWERED FLEET AVAILABILITY, BUT WAS UNABLE TO BALANCE AVAILABLE SUPPLY TO DEMAND.

13 MILLION DWT ENTERED THE PRODUCT TANKER FLEET DURING 2009

On average an astonishing 1.1 million dwt per month was delivered in 2009. Thus, overall, 13 million dwt was delivered in 2009, representing 77% of the 17 million dwt scheduled for delivery in 2009 (fig. 4 & 5). Monthly deliveries halved during first quarter 2010. A modest 1.6 million dwt entered the fleet during the first quarter of 2010 (fig. 4).

23% OF SCHEDULED DELIVERIES NEVER SAW THE SEA IN 2009

23% of the scheduled deliveries in 2009 never reached the sea (fig. 5). Whether these deliveries have been postponed or in fact cancelled is difficult to say. However, Clarksons' orderbook indicates that approximately 1.1 million dwt (7% of 2009 orderbook) has been cancelled outright, whereas the rest has been postponed.

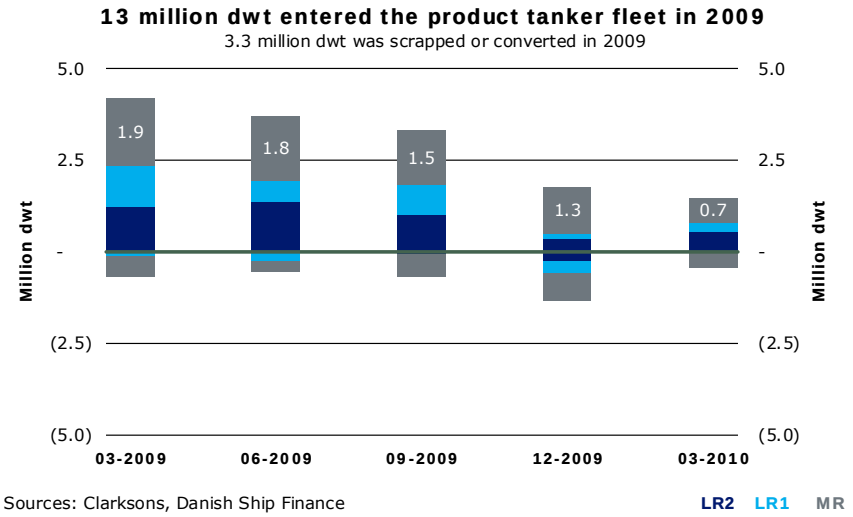
2.2 MILLION DWT SCRAPPED IN 2009

2.2 million dwt was scrapped during 2009. The majority of the scrapped vessels were single-hull tankers. Compared to the inflow of 13 million dwt, the capacity scrapped is not enough to balance the entry of new capacity. In a historical context, the 2.2 million dwt scrapped in 2009 is very small. However, the fact that most of the scrapping occurred in the MR segment, the largest part of the fleet, is positive news (fig. 4).

1.1 MILLION DWT CONVERTED TO OTHER TYPES IN 2009

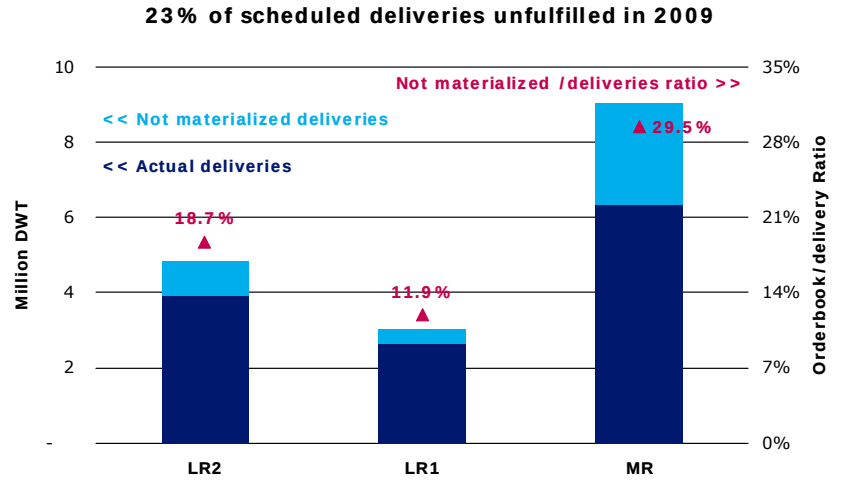
While scrapping was very limited in 2009, compared to the inflow of new tonnage, the number of converted product tankers in 2009 almost reached the same levels as in 2008. A total of 1.1 million dwt was converted into dry bulk vessels or offshore-related vessels. Most of the converted tonnage comprised older single-hull vessels.

Figure PT.4



Sources: Clarksons, Danish Ship Finance

Figure PT.5



Sources: Clarksons, Danish Ship Finance

THE PRODUCT TANKER FLEET GREW 10.5% IN 2009

Extensive conversion and modest scrapping were only enough to absorb about 25% of the inflow of new tonnage in 2009 (fig. 4). The annual product tanker fleet grew 10.5% in 2009 after scrapping and conversion. Unfortunately, the fleet growth was not evenly distributed across the segments: The LR2 segment grew by 20%, whereas the MR segment grew only 7%.

FLOATING STORAGE EFFECTIVELY REDUCED FLEET AVAILABILITY

Fleet availability was significantly reduced by the use of vessels employed for floating storage. In the second half of 2009, the future price of products exceeded the spot price, thus making it profitable to use product tankers for storage. Vessels used for floating storage were mostly LR2 and LR1. By end-January 2010, the SSY estimates that the number of vessels employed for floating storage has been reduced to about 80 LR2 and LR1 from approximately 120 vessels. This amount corresponds to an effective fleet reduction of more than 20% in these segments. Taking floating storage into account, the effective fleet growth in the larger segment (LR1 and LR2) came close to zero in 2009, albeit only occurring in second half 2009.

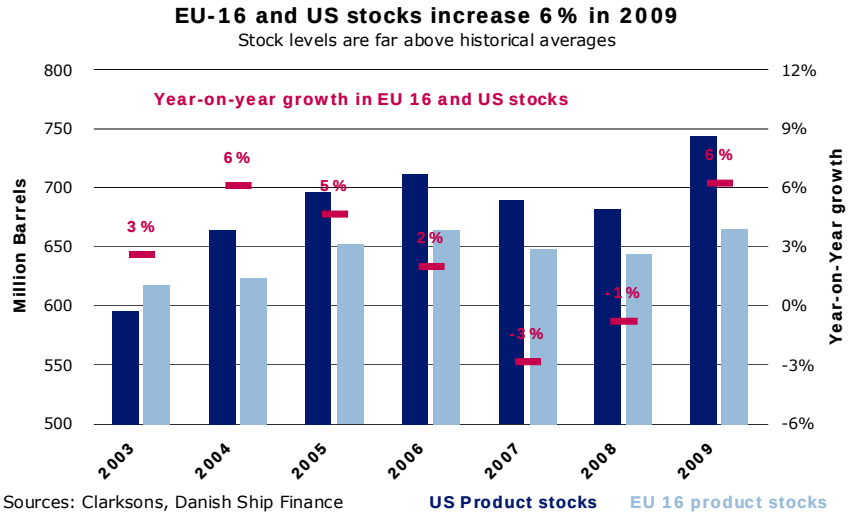
THE GLOBAL RECESSION CUTS DOWN PRODUCT TANKER DEMAND

The demand for product tanker has been seriously hurt by the global recession. As discussed in detail in the Crude Tanker section, world oil consumption declined 1.7 million barrels per day in 2009 (fig. T.6), while OECD oil demand declined the most with a decrease of 2.2 million barrels per day. Accordingly, demand for refined products have waned throughout the OECD, US product demand, in particular, falling 800,000 barrels per day over the year. US product imports fell approximately 500,000 barrels per day (15%) accordingly. Non-OECD oil consumption continued to increase, particularly in China. The opening of new refinery capacity in India, and to a lesser extent in China and the Middle East, helped bolster distance-adjusted product tanker demand in 2009.

US AND EUROPEAN REFINERIES IN THE DOLDRUMS

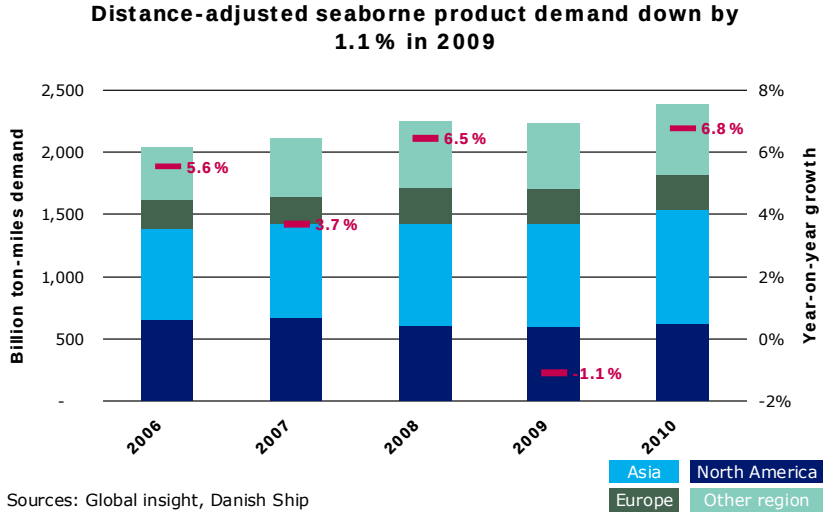
OECD refineries are struggling to stay in business as demand for refined products waned and refinery margins are falling. The average refinery utilization has dipped below 85% in the US and Europe, while the Japanese refinery utilization bottomed out below 75% in 2009. Several OECD refineries have closed or shut down temporarily. This has further reduced the demand for product tankers.

Figure PT.6



Sources: Clarksons, Danish Ship Finance

Figure PT.7



Sources: Global insight, Danish Ship

US AND EUROPEAN PRODUCT STOCKS RECORD HIGH

In 2009, US and European product stocks have increased significantly above the historical average, particularly middle distillates (fig. 6). In the last months of 2009, however, the northern hemisphere turned exceptionally cold, boosting demand for heating fuels and large distillate stocks. The cold weather wiped out some of the large inventories, but, overall, December 2009 product inventories continued to be 25.5 million barrels above the December 2008 level (fig. 6). Accordingly, product tanker demand did not fully benefit from the cold weather conditions as the bulk of demand was from inventories.

DISTANCE-ADJUSTED PRODUCT DEMAND FELL BY 1.1% IN 2009

To sum up, product tanker demand declined in tandem with the global recession though Asian (ex. Japan) oil consumption continued to increase. The increase in Asian product tanker demand was primarily driven by increased Chinese imports of refined products and exports from new refineries in India. This has certainly contributed to the product tanker demand in 2009. However, these two nations still only generate a small part of the aggregated product tanker demand and are not yet able to offset the decline in OECD product tanker demand. Still, in volume terms, the increase in China's product imports might be able to offset the decline in Japan's product imports. Unfortunately, in terms of distance-adjusted product tanker demand, China's product imports travel shorter distances than those of Japan. Adding it all together, we estimate that global distance-adjusted product demand dropped 1.1% in 2009 after a steady growth in the previous years (fig. 7).

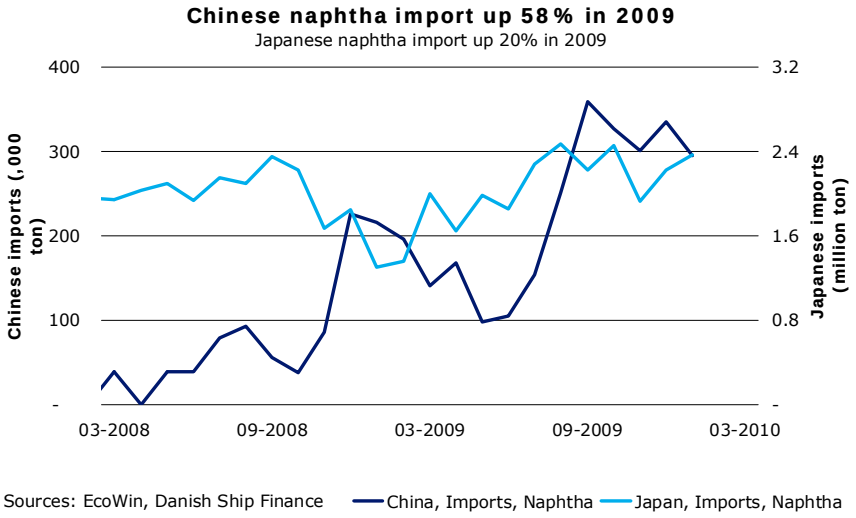
MR TANKERS HIT HARD BY FALLING US GASOLINE DEMAND

While the LR segments have had some support from floating storage and increased demand for naphtha in the Far East - which made the ballasting leg from Europe especially profitable - during the latter part of 2009, no refuge was found for the smaller segments (fig. 8). The MR segments found no substitute to the drop in US gasoline imports. US imports of gasoline and related products dropped 14% in 2009, severely affecting the trans-Atlantic trade from Europe to the US (fig. 9).

A BITTER 2009 WITH SOME SWEETNESS IN THE END

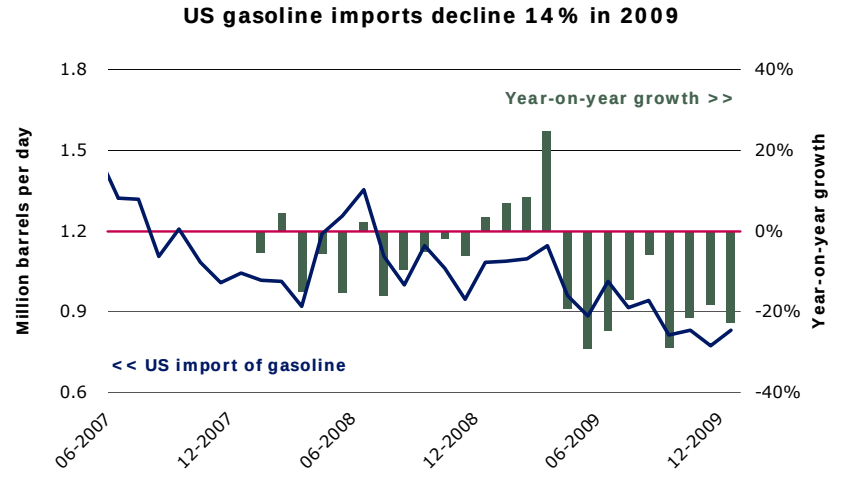
The year 2009 proved to be one of the worst years in recent times for product tankers. The year was characterized by overcapacity and diminishing demand, especially in the OECD countries.

Figure PT.8



Sources: EcoWin, Danish Ship Finance

Figure PT.9



Sources: EIA, Danish Ship Finance

LOW CONTRACTING ACTIVITY HAS REDUCED DELIVERY TIMES. ACCORDINGLY, NEWBUILDING PRICES FELL BY 22% IN 2009. SECONDHAND PRICES DROPPED 39% IN 2009.

A MODEST 1.6 MILLION DWT CONTRACTED IN 2009

The risk of overcapacity, waning earnings and a massive inflow of new tonnage during 2009 reduced the appetite for new contracting to merely a trickle. Just 1.6 million dwt was contracted during the year, 57% of which where MR tankers, while the majority of the reminder 43% were LR2 tankers (fig. 10). Contracting activity rallied slightly in fourth quarter of 2009, but fell quickly in first quarter 2010 (fig. 10). The capacity contracted in 2009 corresponds to 25% of the contracting activity in 2008.

DELIVERY TIME DROPS BELOW TWO YEARS IN 2009

While 13 million dwt left the orderbook in 2009, only 1.6 million dwt was contracted. The average delivery time declined from approximately 2.5 years in the beginning of 2009 to approximately 1.5 years in late 2009 (fig. 10).

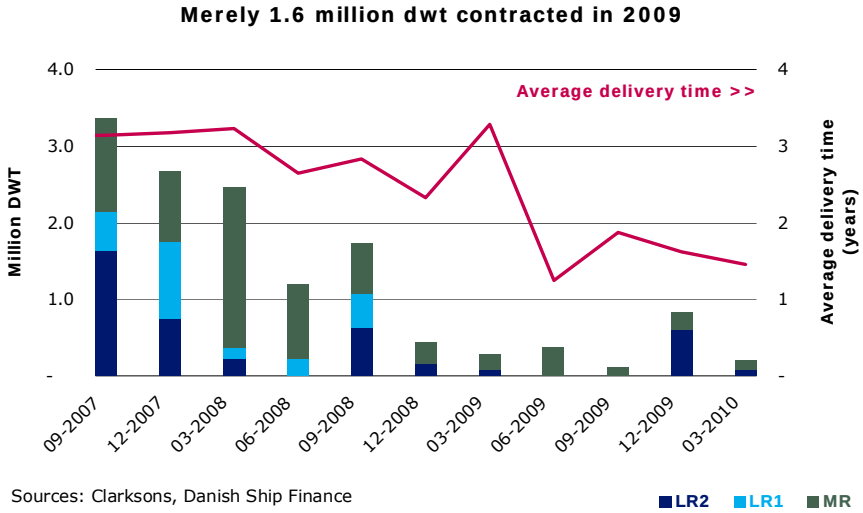
NEWBUILDING PRICES DROPPED ON AVERAGE 22% IN 2009

The impact on newbuilding prices was profound. On average newbuilding prices lost 22% in 2009, the smaller segments declining the most. The average newbuilding price in first quarter 2010 declined 4% compared to the fourth quarter of 2009 (fig. 11).

SECONDHAND PRICES UNDER EXTREME PRESSURE DURING 2009

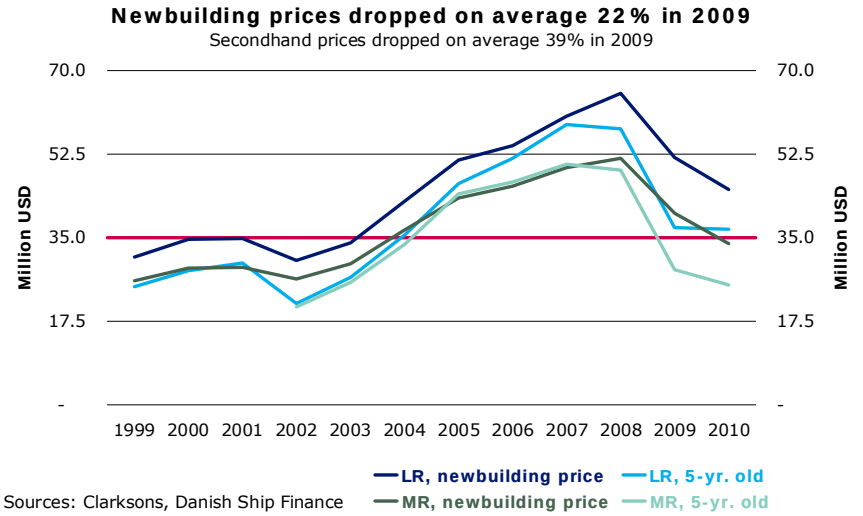
Secondhand prices are expected to decline in tandem with lower newbuilding prices or lower timecharter income, or both. The value of a three-year timecharter contract declined, on average, 25% in 2009, while the newbuilding price dropped 22%. It is therefore not surprising that secondhand prices of a five-year-old vessel on average dropped close to 40% in 2009. Secondhand prices declined the most during the first eight months of 2009. During the first couple of months of 2010, secondhand prices have been stable or even recovering in the larger segments due to improved market conditions in the first quarter of 2010 (fig. 11).

Figure PT.10



Sources: Clarksons, Danish Ship Finance

Figure PT.11



Sources: Clarksons, Danish Ship Finance

THE OUTLOOK FOR PRODUCT TANKER DEMAND IS MIXED. DISTANCE-ADJUSTED PRODUCT TANKER DEMAND IS EXPECTED TO GROW BY 7% IN 2010. HOWEVER, THE SUPPLY SIDE IS FRIGHTENING: HOW TO ABSORB THE SUPPLY SURPLUS OF 2009 TOGETHER WITH THE NEW CAPACITY ENTERING THE FLEET IN 2010. EXTENSIVE SCRAPPING, PHASE-OUT AND POSTPONEMENT ACTIVITY IS NEEDED IF FREIGHT RATES AND VALUES ARE TO STAY AT CURRENT LEVELS. RATES AND ASSET VALUES ARE LIKELY TO TREND DOWNWARDS IN 2010.

11.6 MILLION DWT IS SCHEDULED TO ENTER THE FLEET IN 2010

11.6 million dwt (12% of the current fleet) is scheduled to enter the product fleet during 2010. This is 10% less than what was delivered in 2009 (fig. 12). However, in 2009, approximately 23% of orders scheduled to be delivered in 2009 was postponed or cancelled during 2009. For illustrative purposes, we replicate this trend and postpone 2.7 million dwt into 2011. This will effectively reduce the 2010 deliveries to approximately 9 million dwt (fig. 13).

8.4 MILLION DWT SCRAPPED IN 2010

The scrapping potential is great. 8.4 million dwt is expected to be scrapped in 2010 if we assume that all vessels older than 25 years are due to be scrapped in 2010. Single-hull product tankers account for 70% (5.9 million dwt) of the scrapping potential in 2010. Single-hull MR tankers account for 4.8 million dwt of the 8.4 million dwt.

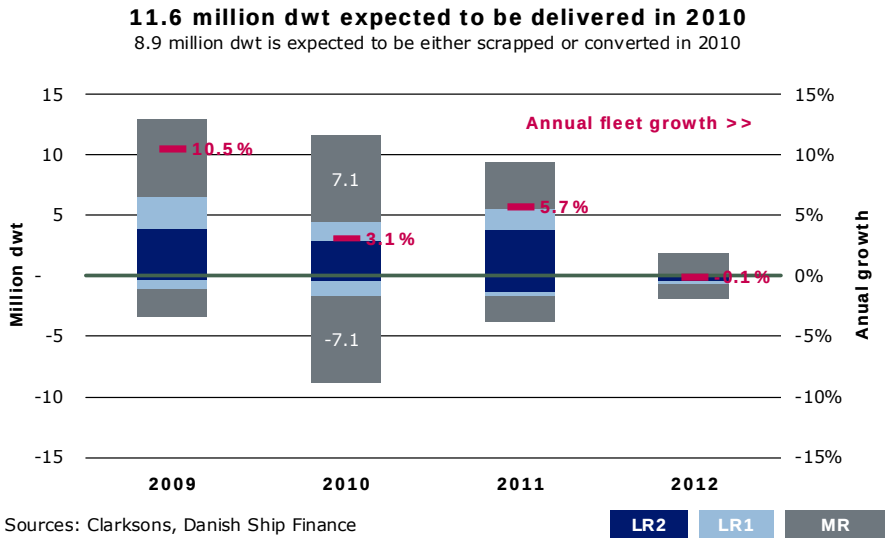
500,000 DWT UNDER CONVERSION IN 2010

According to Clarksons, a modest 500,000 dwt is expected to be converted from product tankers into other segments in 2010. The converted capacity is more or less equally distributed among the three segments. The annual fleet growth will be reduced to 3.1% if 8.9 million dwt is scrapped or converted in 2010 (fig. 12).

3.2 MILLION DWT EXPECTED TO BE PHASED OUT IN 2010

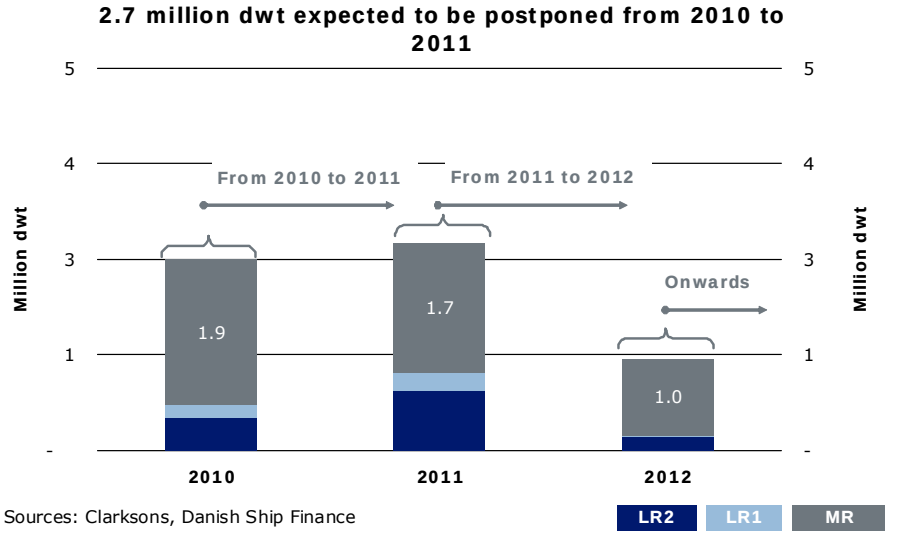
The IMO MARPOL regulation stipulates that single-hull tankers are to be phased out no later than 2015. The current single-hull product tanker fleet amounts to 12.3 million dwt, of which we assume that an additional 3.2 million dwt will be phased out in 2010 (fig. 14).

Figure PT.12



Sources: Clarksons, Danish Ship Finance

Figure PT.13



Sources: Clarksons, Danish Ship Finance

POTENTIAL NEGATIVE FLEET GROWTH OF MINUS 3% IN 2010

Where does all this leave the product tanker fleet in 2010? We assume that 8.4 million dwt will be scrapped due to age, another 3.2 million dwt due to the IMO MARPOL regulation, and a modest 500,000 dwt will be converted into other segments. Consequently, adding it all together, we end up in a situation where 12.1 million dwt is expected to leave the fleet in 2010, whereas 9 million dwt is expected to enter the fleet. In this scenario, the product tanker fleet is actually declining by 3.2 million dwt (minus 3% fleet growth) (fig. 14).

GLOBAL OIL CONSUMPTION EXPECTED TO INCREASE BY 1.8% IN 2010

Global oil consumption is expected to increase by 1.5 million barrels in 2010. Global oil consumption in 2010 is therefore expected to be back at pre-crisis levels. However, most of the growth is expected to be in non-OECD oil consumption. Non-OECD oil consumption is expected to increase by 3.5% (1.4 million barrels per day) in 2010, compared to 2009 levels. US oil consumption is expected to increase by 200,000 barrels per day in 2010. Hence, improved product tanker demand is expected to be generated by non-OECD countries. Asia is, once again, the primary source due to expected stronger economic growth than the OECD (fig. 15).

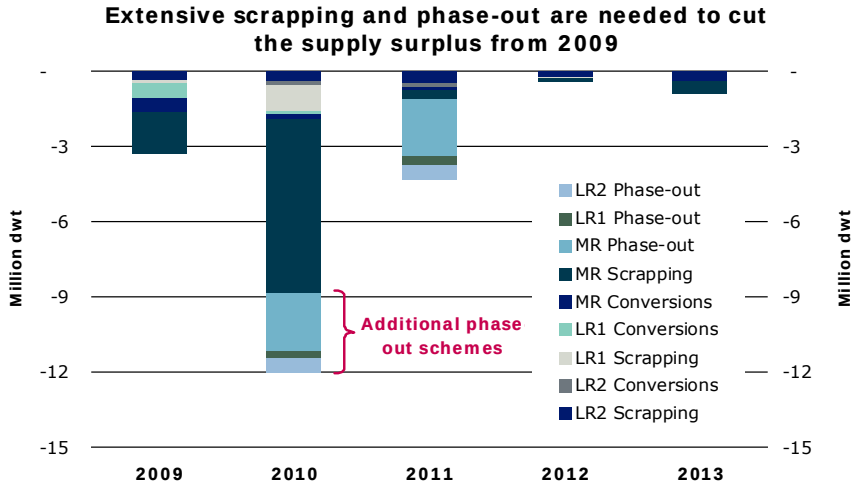
NEW REFINERY CAPACITY CONTRIBUTES TO TON-MILES DEMAND

A lot of new refinery capacity is expected to enter the market during the next couple of years as some of it was delayed or postponed due to the financial crisis. The IEA and Argus estimate that around 5-8 million barrels per day of extra capacity will enter the market between 2010 and 2013. Most of this new capacity will either be built in the Middle East or Asia. They will most likely be more economically viable than their peers in Europe or the US. These new refineries produce mostly for export, and since they are located in areas remote from OECD consumption, ton-miles demand for product tankers is likely to benefit positively from this.

DISTANCE-ADJUSTED PRODUCT TANKER DEMAND UP 7% IN 2010

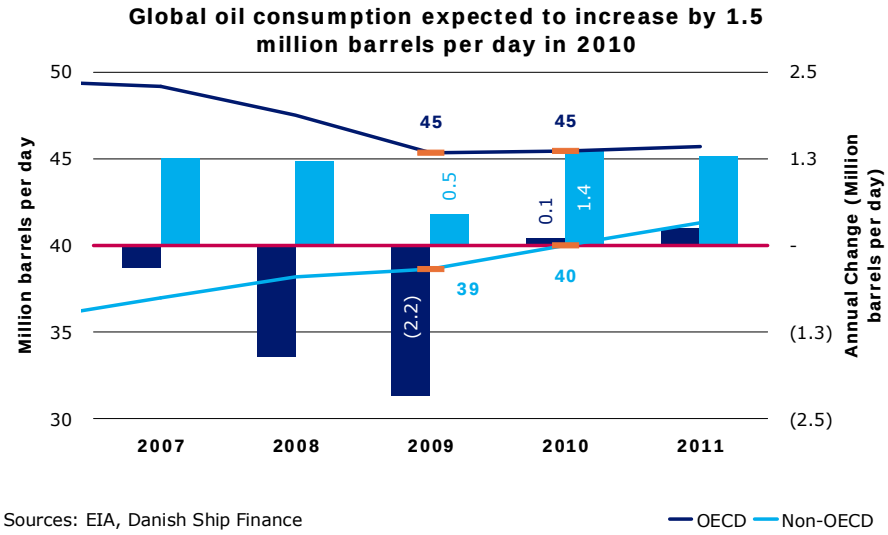
How will the enhanced refinery capacity coming on steam in 2010 and beyond affect product tanker demand? The impact on product tanker demand is likely to be profound as the new refinery capacity is expected to augment the ton-miles effect of the increase in global oil consumption. Global Insight estimates that global distance-adjusted

Figure PT.14



Sources: Clarksons, Danish Ship Finance

Figure P.15



Sources: EIA, Danish Ship Finance

product tanker demand will grow approximately 7% in 2010 (fig. 16). Unsurprisingly, most of the growth will be generated outside the OECD. Asian imports of refined products is expected to increase by 10% in 2010 (fig. 16).

STILL IMBALANCES BETWEEN SUPPLY AND DEMAND IN 2010

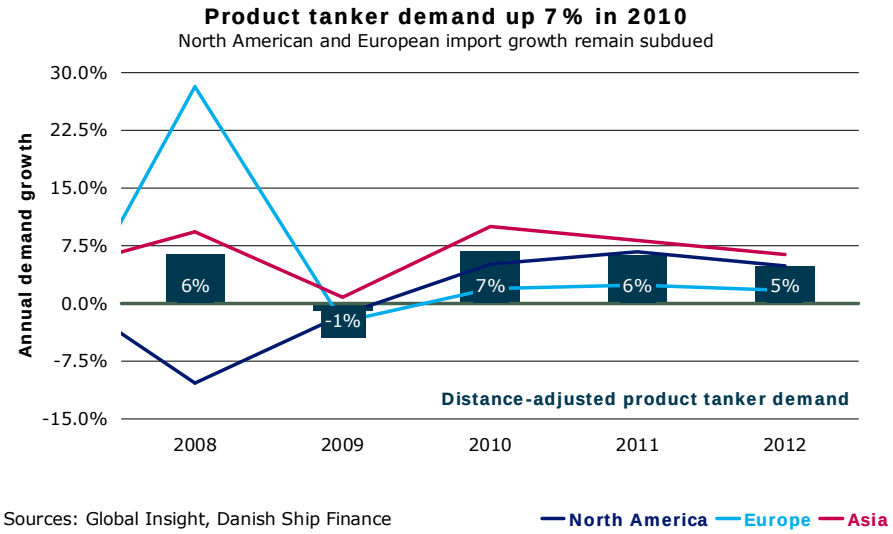
What is the outlook for rates and values in 2010? Distance-adjusted product tanker demand is expected to increase 7% in 2010, while product tanker supply might potentially shrink. This sounds like the perfect setup for freight rate increases. And it might well be. The downside is the current risk of overcapacity of vessels (i.e. the huge number which came out in 2008 and 2009). Figure 17 illustrates the situation. We estimate that a supply surplus of approximately 12% was built up in 2009. If extensive scrapping, phase out, postponement activity and demand act as estimated above, then the supply surplus of 2009 might be absorbed in 2010. However, much uncertainty is attached to this scenario. Most likely, 2010 will end up with a modest supply surplus of let us say of 3%, unless demand rises more than anticipated.

The outlook for product tankers is mixed. There is currently little balance between supply and demand, as indicated by the freight rate development in 2009. Furthermore, 11.6 million dwt is scheduled to be delivered in 2010. Clearly, annual fleet growth is expected to come in below 2009 levels, but if all vessels end up being delivered, the entering capacity is only 1.5 million dwt below the 2009 level. In 2010, product tanker owners therefore seem highly dependent on extensive scrapping of older vessels, phasing out of single-hull vessels and, if possible, further postponement of newbuilding contracts to later delivery dates. Nevertheless, there is a distinct possibility that the product tanker fleet will shrink in 2010, leaving some potential, albeit a highly uncertain outlook for freight rates and asset values.

SWING FACTORS IN 2010 CAN SURPRISE THE MARKET

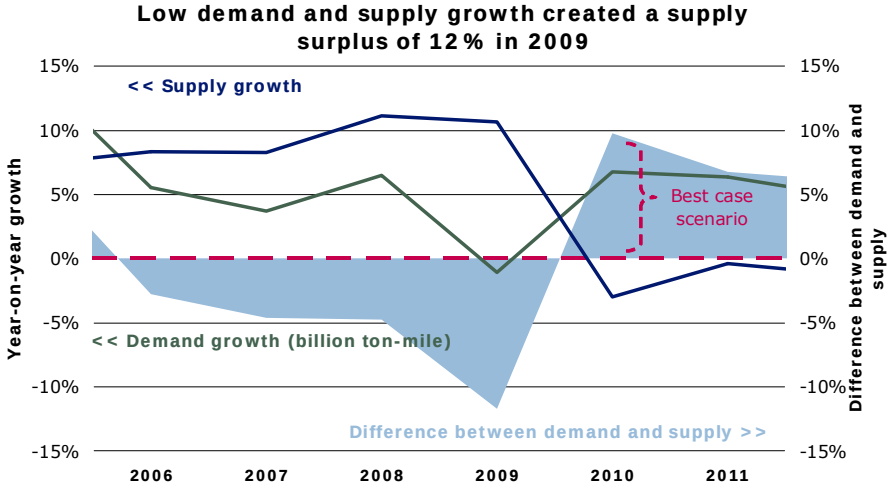
Several factors can mitigate the outlook for 2010. Floating storage is one of the biggest unknown factors. It might end up either supporting or harming freight rates and potentially values. No one knows what will happen with the vessels currently employed for floating storage. Will more vessels be employed or the opposite? We find it most likely that

Figure PT.16



Sources: Global Insight, Danish Ship Finance

Figure PT.17



Sources: Clarksons, Global Insight, Danish Ship Finance

some of the offshore inventories will be drained during 2010, and hence downward pressure will be put on rates as fleet availability increases.

RATES AND VALUES IN 2010

Product tanker rates will most likely trend downwards during 2010 as supply will, in all probability, not be cut as much as we are hoping for. MR tanker rates in the Atlantic basin will most likely be pressured by low gasoline imports from Europe into the US up to the driving season, due to a shift in consumer driving habits. The large segments will face difficulties if vessels employed in floating storage re-enter the market.

What about asset values? Much indicates that newbuilding prices will be subdued during 2010 due to owners' continued reluctance to order new vessels. Secondhand values will be under pressure from declining newbuilding prices and downward trending rates.

CONTAINER

THE CONTAINER INDUSTRY IS SUFFERING. LINER COMPANIES SEEM TO HAVE RETURNED TO BREAK-EVEN BY REPATRIATING CHARTERED TONNAGE, WHEREAS TONNAGE PROVIDERS HAVE BEEN EXPOSED TO A CHARTER MARKET IN DISTRESS. ACCORDINGLY, ASSET VALUES ARE DECLINING IN TANDEM WITH OVERCAPACITY.

FREIGHT RATES

THE CONTAINER INDUSTRY FACED GREAT CHALLENGES IN 2009. OWNERS BATTLED OVERCAPACITY, DECLINING DEMAND AND RECORD-LOW BOX AND TIMECHARTER RATES. 2009 RATES WERE ON AVERAGE BELOW THE LOW LEVEL OF 2002. BY LATE 2009 AND EARLY 2010, BOX RATES HAD RECOVERED, WHEREAS TIMECHARTER RATES REMAINED SUBDUED.

BOX RATES HAVE FINALLY RECOVERED - TO LEVELS ABOVE THE 2008 AVERAGE

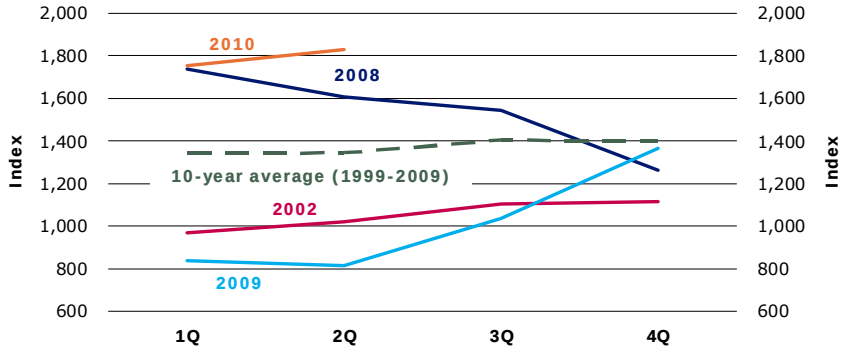
Since September 2009, when we last published our Shipping Market Review, liner companies have successfully raised box rates beyond the prevailing supply and demand mechanisms. The solution was simple but dramatic - capacity was withdrawn, particularly on the major head-haul route from Asia to Europe. Box rates increased accordingly. Third-quarter box rates increased 27% compared to the previous quarter. By the end of the fourth quarter of 2009, box rates approached the level of the 10-year average. In 2010, this trend seems to be continuing, box rates having reached the heights of 1Q2008 (fig. 1). Obviously, raising box rates by withdrawing capacity from one route is not a permanent cure but rather a temporary relief, for liner companies have to return further capacity to the tonnage providers in order to support general box rate increases.

RECORD-LOW TIMECHARTER RATES

Tonnage providers are suffering, since liner companies are returning the chartered vessels as charters expire. We introduce a new measure for profitability in the overall container segment, the Container Profitability Index, which bottomed out in December 2009 at an all-time-low minus 34 and has improved modestly in the first months of 2010. Figure 2 clearly illustrates that the current crisis is more severe than the previous crises of 1998 and 2002.

Figure CS.1

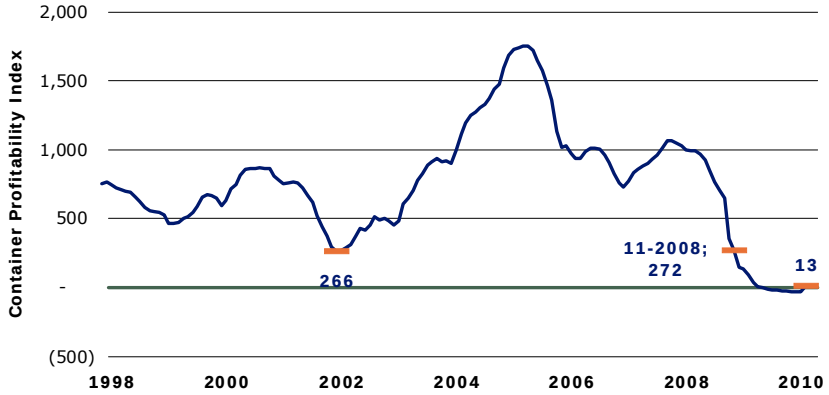
Box rates out of China bound for Europe finally above the 10-year average.



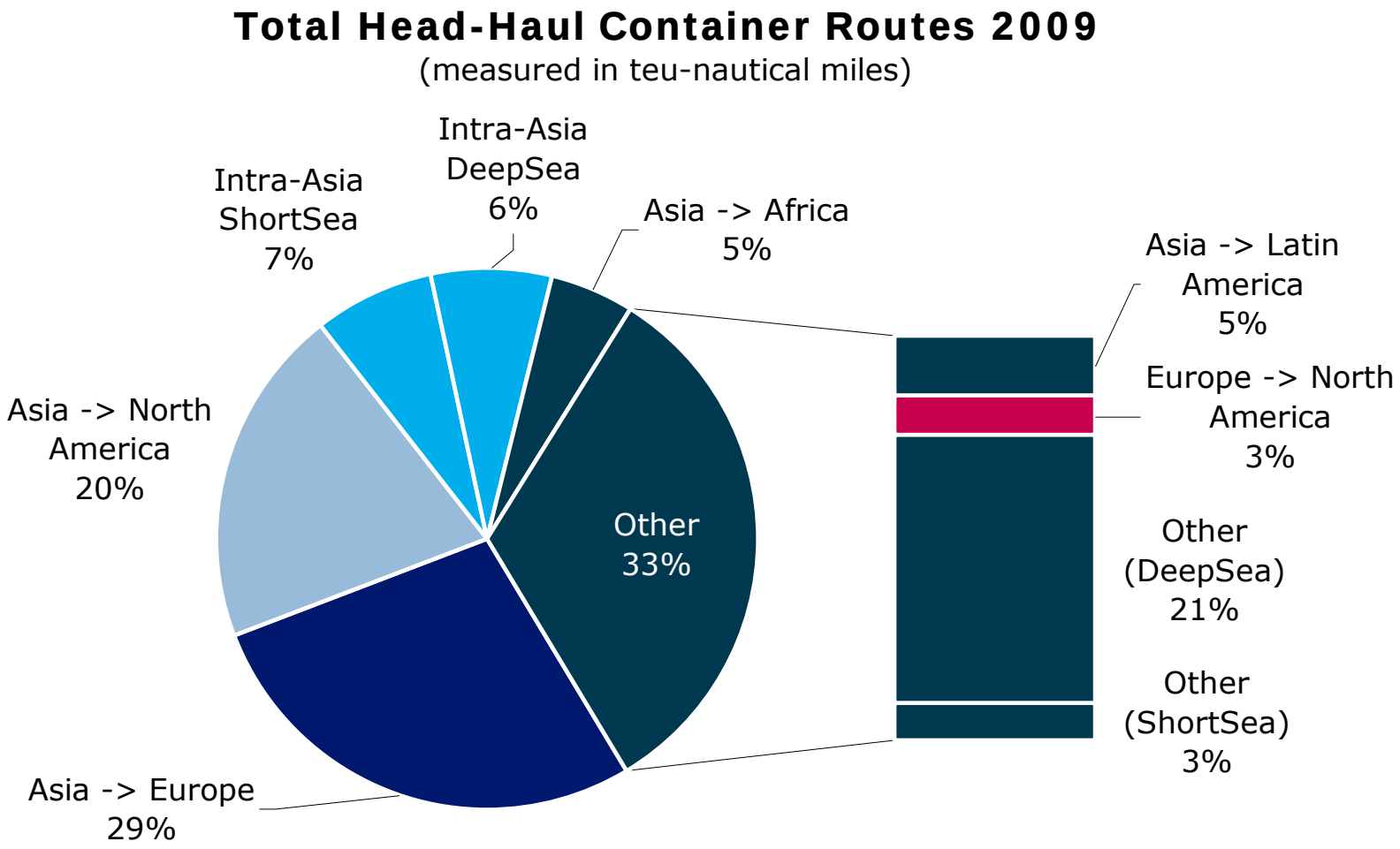
Source: China's Ministry of Commerce, Danish Ship Finance

Figure CS.2

Container Profitability Index
(Timecharter rate per teu minus OPEX per teu)



Sources: Clarksons, Danish Ship Finance



Sources: Global Insight, Danish Ship Finance

DEMAND DECREASED 11% IN 2009. LINER COMPANIES ARE COMBATTING OVERCAPACITY BY POSTPONING THE DELIVERY DATE OF CONTRACTED TONNAGE, RETURNING CHARTERED VESSELS TO THE TONNAGE PROVIDERS, SLOW STEAMING EXTENSIVELY AND SCRAPPING OLDER VESSELS. TONNAGE PROVIDERS ARE SUFFERING.

MODEST ENTRY OF NEW TONNAGE DURING SECOND HALF 2009

Ship owners have been successfully reducing the inflow of new tonnage during the second half of 2009 and the first months of 2010. In September 2009, 1.1 million teu was scheduled to enter service during the second half of 2009. The actual inflow turned out to be much lower, though, as only 0.5 million teu reached the sea during second half 2009 (fig. 4). Owners succeeded in postponing fully 610,000 teu (56%) of their second-half 2009 deliveries.

36% OF SCHEDULED 2009 DELIVERIES NEVER REACHED THE SEA

For the full year 2009, 1.1 million teu ended up being delivered, whereas 1.75 million teu was scheduled to be delivered in 2009. Thus, 630,000 teu (36%) never reached the sea (fig 5).

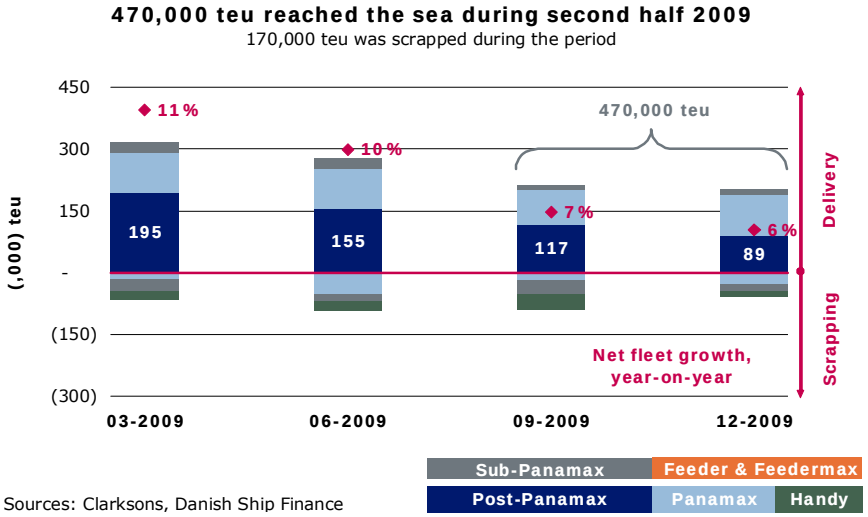
FEW NEWBUILDING CONTRACTS CANCELLED OUTRIGHT

Despite all the talk of ship owners cancelling newbuilding orders, we find little evidence of this in Clarksons' current orderbook. So far, our monitoring reveals that only 140,000 teu (8% of expected 2009 deliveries) has left the aggregated orderbook. Of these, 100,000 teu was scheduled for delivery in 2009, while the remaining were cancellations of deliveries scheduled for 2011.

RECORD-HIGH SCRAPPING ACTIVITY IN 2009

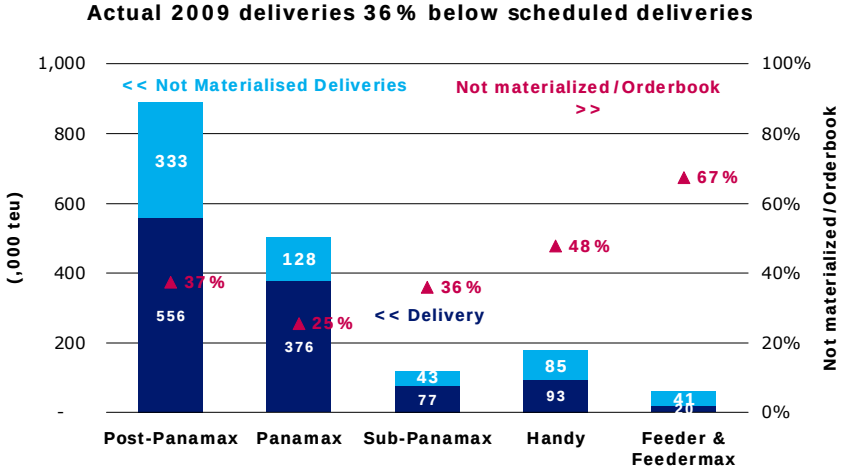
Ship owners scrapped 340,000 teu in 2009. In terms of past scrapping activity this is a record-high level. However, the scrapped capacity is hardly a trickle compared to the inflow of tonnage (fig. 4). The fact that the vessels scrapped are smaller vessels whereas the vessels entering are larger vessels further reduces the general impact of the scrapped capacity.

Figure CS.4



Sources: Clarksons, Danish Ship Finance

Figure CS.5



Sources: Clarksons, Danish Ship Finance

THE CONTAINER FLEET GREW 6% IN 2009

The combination of extensive postponement and record-high scrapping has successfully limited the annual supply growth to single-digit territory for the first time in six years. Unfortunately, the uneven capacity distribution between segments entering and leaving the fleet has made overall fleet growth highly asymmetrical. To illustrate the extremes: The post-panamax segment grew 12%, while the sub-panamax segment fell 1% during 2009 (fig. 4).

EXTENSIVE USE OF SUPPLY-CUTTING MEASURES

In September 2009, when we last published Shipping Market Review, slow steaming was widely used to reduce supply availability. Approximately 10% of the container fleet was idle. Today, the situation is more or less unchanged. The global economy has clearly improved during the last months of 2009 and the first months of 2010, albeit by far less than required to absorb the 6% fleet growth. Taking into account the potential effect of further use of slow steaming, supply growth might have been reduced to approximately 1% in 2009.

HEAD-HAUL CONTAINER DEMAND DOWN BY 11% IN 2009

Transported container volumes shrank severely in 2009 (fig. 6). Consumers became indebted in tandem with asset value depreciations and increasing unemployment rates, OECD private consumption correspondingly losing substantial momentum during 2009. The impact on container demand was exceptional: Distance-adjusted head-haul container demand fell 11% in 2009 (fig. 6).

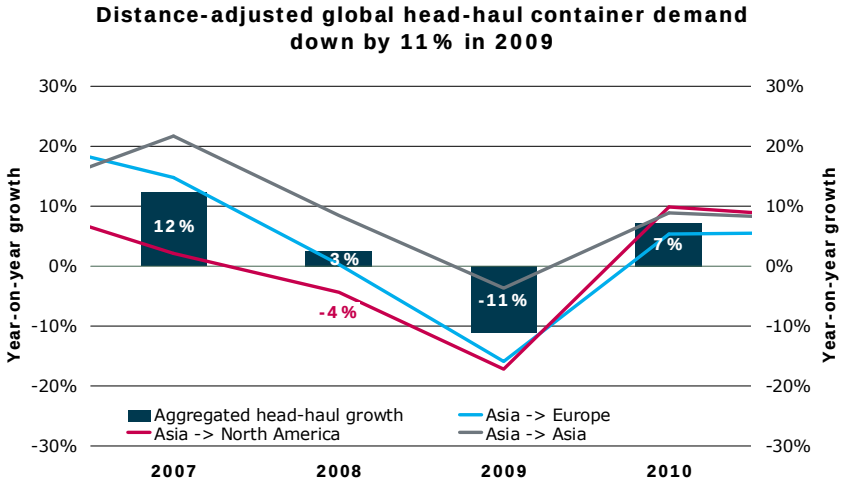
NORTH AMERICAN AND EUROPEAN IMPORT VOLUMES DROPPED 16%

North American and European imports suffered the most. Distance-adjusted head-haul import volumes dropped approximately 16% in 2009 (fig. 6). However, the growth was unevenly distributed between the quarters. As illustrated by figure 7, North American and European import volumes have improved throughout the year. Fourth-quarter import volume growth flattened, but remained positive (fig. 7).

INTRA-ASIA TRADE STILL DEPENDENT ON OECD CONSUMERS

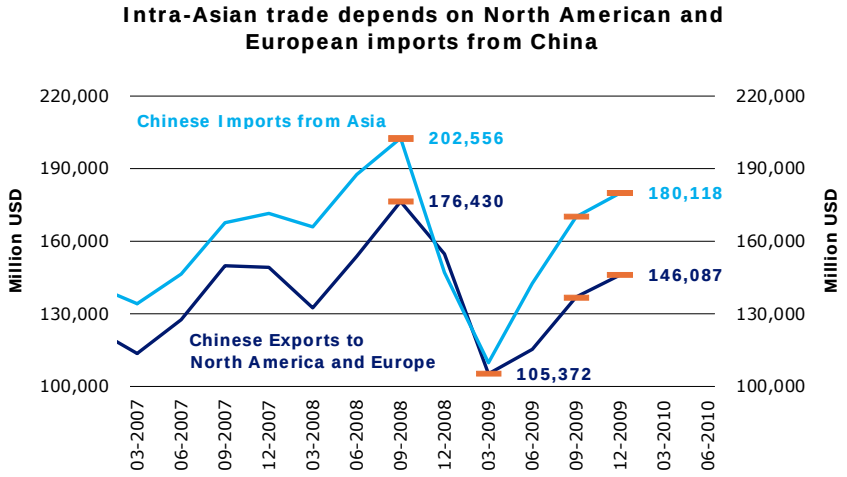
Despite several Asian economies' efforts to increase private consumption's contribution to GDP, we see little evidence of changed trade dynamics in the regional trade figures. Intra-Asian trade is still highly dependent on consumers in North America and Europe.

Figure CS.6



Sources: Global Insight, Danish Ship Finance

Figure CS.7



Sources: Reuters EcoWin, Danish Ship Finance

In figure 7 we have illustrated this relationship. Chinese imports from Asia is used as a proxy for Intra-Asian trade. Chinese exports to North America and Europe is used as a proxy for Asian exports to North America and Europe. From the graph, it is clear that Chinese imports from Asia is still highly dependent on the exports to North America and Europe. Chinese imports from Asia (i.e. Intra-Asian trade) follows a similar trend as Chinese exports to North America and Europe. On an annual basis, distance-adjusted head-haul Intra-Asian trade volumes dropped 4% in 2009 (fig. 6).

NEGATIVE IMPORT GROWTH INTO LATIN AMERICA

The dependency on North America and Europe also applies to African and Latin American imports, but for other reasons. Import volumes into Latin America took a serious hit dropping 6% in 2009 (+10% in 2008). African imports maintained a positive volume growth, albeit only 1% in 2009 (+14% in 2008) (fig. 8).

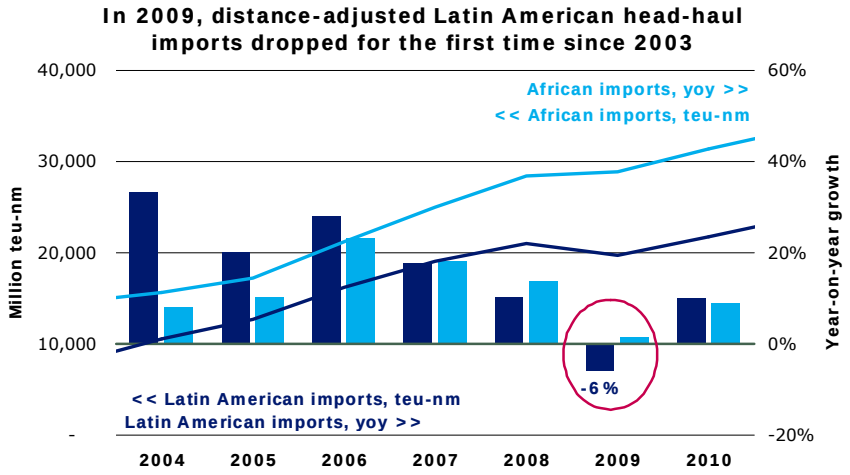
THE SUPPLY GAP WIDENED IN 2009

Adding it all together, we are in the midst of a growing supply surplus. As illustrated above, aggregated nominal supply grew 6% (fig. 4), whereas distance-adjusted demand fell 11% (fig. 6) in 2009. At the aggregated level, 2009 contributed to the supply surplus with a mismatch between supply and demand of 17% (fig. 9). However, accounting for the supply effect from slow steaming, supply growth might be limited to 1%, hereby reducing the 2009 mismatch between supply and demand to 12%.

As mentioned above, the supply growth is primarily driven by a large inflow of post-panamax vessels, whereas the trading routes with positive volume growth are lower capacity routes not requiring post-panamax tonnage.

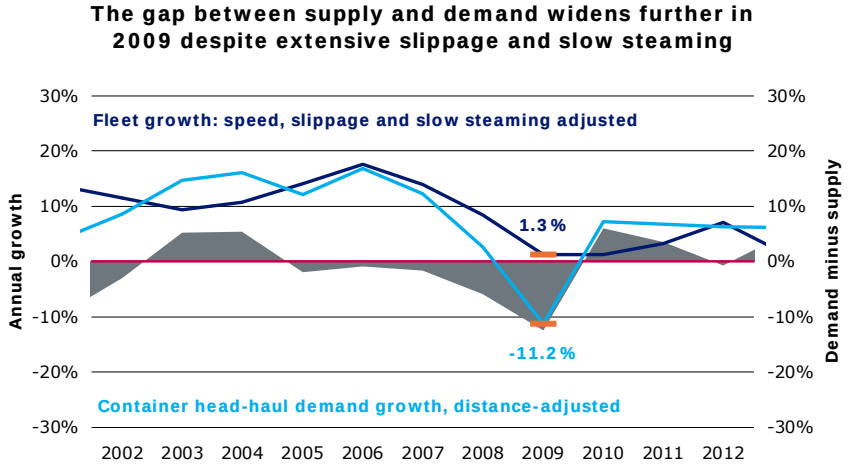
It is therefore hardly surprising that liner companies have been struggling to adjust capacity to lower import volumes during 2009. This measure has supported box rates, but caused timecharter rates to plummet. Adjusting capacity to lower import volumes basically means returning chartered vessels to the tonnage providers as soon as charters expire.

Figure CS.8



Sources: Global Insight, Danish Ship Finance

Figure CS.9



Sources: Global Insight, Danish Ship Finance

THE ORDERBOOK DECLINED 30% AS OWNERS HAD NO APPETITE FOR CONTRACTING NEW TONNAGE IN 2009. ASSET VALUES DROPPED ACCORDINGLY. NEWBUILDING PRICES ON AVERAGE FELL 31% DURING 2009, SECONDHAND PRICES FARING WORSE, WITH A DROP OF 36%.

ALMOST NO CONTRACTING ACTIVITY IN 2009

For obvious reasons, the ship owners' appetite for contracting new vessels was low in 2009, with only a modest 42,000 teu contracted (fig. 10).

NOMINAL CONTAINER ORDERBOOK DOWN 30%

The combination of 1.1 million teu delivered in 2009 and 42,000 teu contracted in 2009 has reduced the container orderbook by 30%. The average delivery time declined accordingly, from 3.2 years to 2.1 years (fig. 10).

NEWBUILDING PRICES DECLINED 31% IN 2009

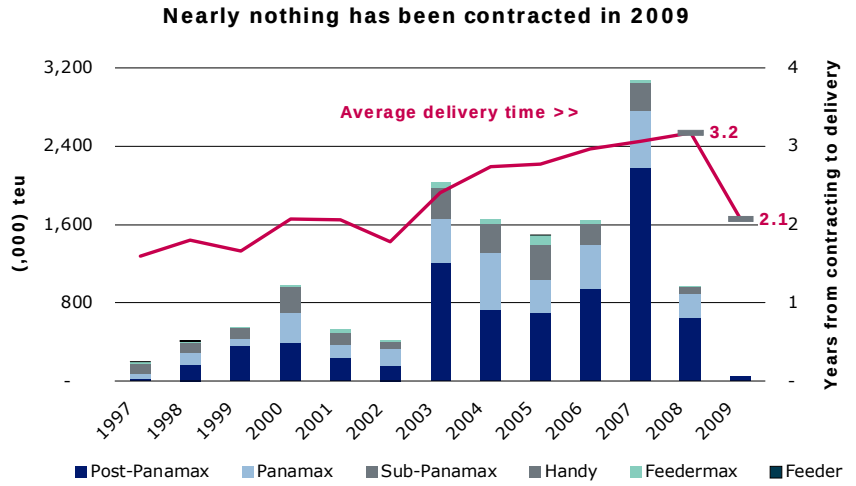
The impact on newbuilding prices was profound. On average, newbuilding prices (per teu) lost 31% in 2009 compared to 2008. The largest drop came during the first six months of 2009 (-29%), while the price has been relatively steady, but declining, during the last six months of the year (-2%). There has been no significant movement during the first months of 2010 (fig. 11).

SECONDHAND PRICES DECLINED 36% IN 2009

A declining newbuilding price is usually associated with lower market expectations for long-term earnings. Therefore, the secondhand price (per teu) is expected to decline due to two factors: Lower newbuilding prices or if the free cashflow from operations turns negative. As discussed above, the Container Profitability Index decreased during the second half of 2009 and the cash contribution to secondhand values from operations was therefore negative during the second half of 2009 (fig. 11).

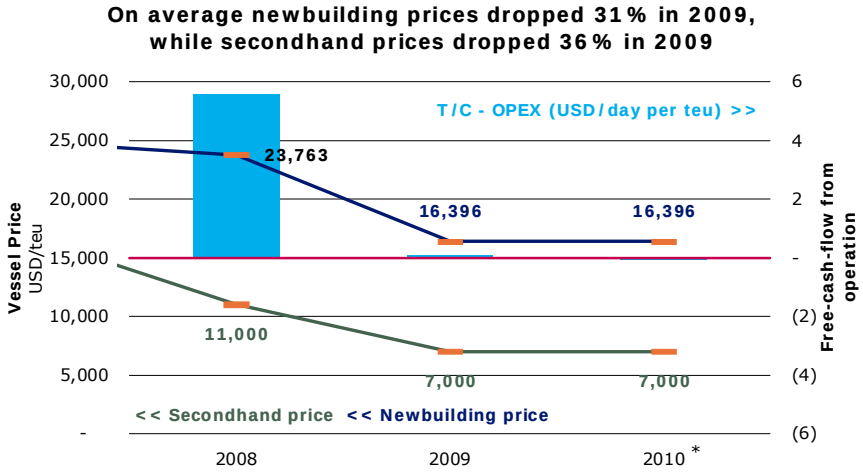
On average, the secondhand price (per teu) fell 36% in 2009 – 27% during the first six months of 2009 and a modest 13% during the second half of the year.

Figure CS.10



Sources: Clarkson, Danish Ship Finance

Figure CS.11



Sources: Clarksons, Danish Ship Finance

*) February 2010

OUTLOOK

AN UNPRECEDENTED INFLOW OF NEW CAPACITY IS EXPECTED TO TEST RATES AND VALUES FURTHER IN 2010 AND BEYOND. DEMAND IS EXPECTED TO RECOVER SOMEWHAT IN 2010, BUT INSUFFICIENT TO BRING BALANCE BETWEEN TIMECHARTER RATES AND TONNAGE PROVIDERS' BREAK-EVEN RATE. TONNAGE PROVIDERS ACCOUNT FOR 6 OUT OF 10 DELIVERIES IN 2010. ANY IMPROVED MARKET CONDITIONS ARE EXPECTED TO IMPACT BOX RATES AND HENCE BENEFIT LINER COMPANIES THE MOST.

THE SUPPLY SURPLUS DOMINATES THE OUTLOOK FOR 2010+

Needless to say, the container orderbook is large. The years to come will inevitably be challenging for container owners no matter how optimistic we are about order cancellations, slippage and slow steaming.

MORE THAN 1 MILLION TEU IN EXCESS ENTERING 2010

As discussed above, approximately 10% of the container fleet (1.3 million teu) is currently in excess in one way or another. This 1.3 million teu has been sending timecharter rates (and asset values) through the floor and continues to trouble tonnage providers.

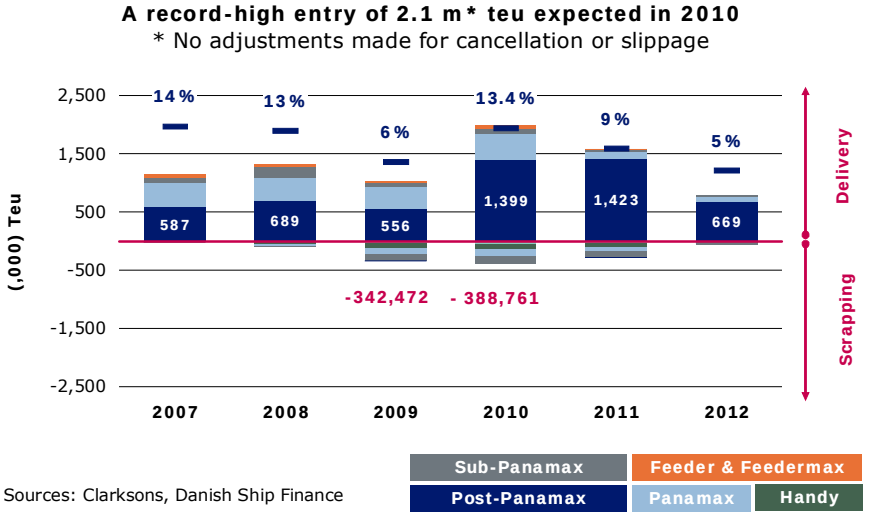
2.1 MILLION TEU SCHEDULED TO ENTER THE FLEET DURING 2010

The outlook for 2010 is characterized by fear of further overcapacity. Clarksons estimates that 2.1 million teu is scheduled to enter the fleet during 2010. Of these, the post-panamax segment accounts for 1.4 million teu (fig. 12). This is by far the largest scheduled delivery program ever seen in the industry. Before any scrapping is considered, such inflow alone would generate a fleet growth of 16% (28% post-panamax fleet growth). Extensive scrapping, postponement or cancellations are thus required.

390,000 TEU SCRAPPED IN 2010

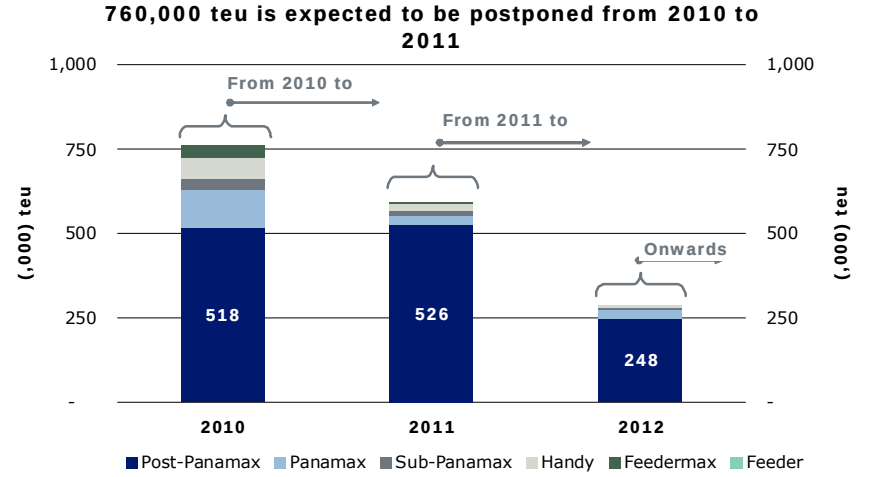
Where the majority of the entering vessels are post-panamax vessels (fig. 12), the scrapping candidates are mostly vessels below 3,500 teu. For 2010, we expect that as much as 390,000 teu will be scrapped (340,000 teu in 2009). This will bring annual fleet growth down to 13% in 2010, but provide little relief to the post-panamax segment (fig. 12).

Figure CS.12



Sources: Clarksons, Danish Ship Finance

Figure CS.13



Sources: Clarksons, Danish Ship Finance

760,000 TEU POSTPONED UNTIL 2011

In the current market, an effective fleet growth of 13% (post-panamax +28%) would be a disaster for ship owners in terms of timecharter rates and asset values. All available instruments are therefore being employed to reduce the fleet growth in 2010. Postponement of newbuilding orders is clearly an effective weapon against fleet growth. Nobody knows for sure how many orders will be postponed or cancelled in 2010. For illustrative purposes, we replicate the postponement schedule from 2009 to 2010. We postpone, by one year, 36% of the orders scheduled for 2010 (fig. 13). Hence, we expect that as much as 760,000 teu will be postponed from 2010 into 2011. Such postponement activity will cut annual fleet (post-panamax) growth from 13% (28%) to 8% (18%) in 2010.

THE FLEET MIGHT SHRINK IN THE SMALLER CONTAINER SEGMENTS IN 2010

When replicating the postponement schedule from 2009, for the smaller segments (below panamax), the postponing activity will in fact reduce the fleet by 3% in 2010. Accordingly, the outlook might be better for these segments.

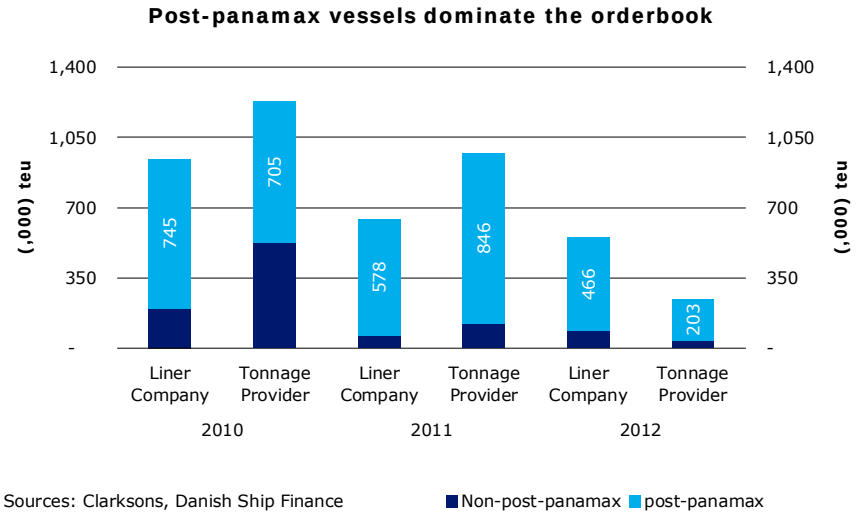
SLOW STEAMING MIGHT REDUCE FLEET GROWTH TO 1% IN 2010

Even if we apply a highly optimistic demand growth scenario for 2010, it will not be possible to absorb a post-panamax fleet growth of 18%. Further supply cutting measures are required to restrict post-panamax fleet growth. We extend the slow steaming scenario even further by reducing the average speed on all segments by 1.5 knots. For post-panamax vessels the average speed is thus reduced from 21.7 knots in 2009 to approximately 20 knots in 2010. This figure might sound conservative taking into consideration the fact that some liner companies on particular routes have reduced the speed to only 14 knots. However, applied to the entire post-panamax fleet – idle or not – we consider it a fairly conservative figure. Effective post-panamax fleet growth is then reduced from 18% to 9% in 2010, while the aggregated effective supply growth is reduced from 8% to 1%.

LINER COMPANIES AND TONNAGE PROVIDERS

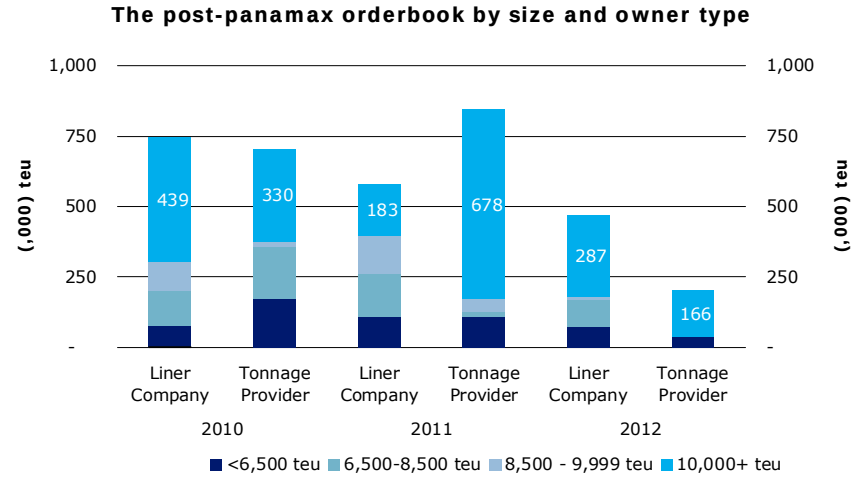
Before turning to demand, let us reiterate what the last twelve months have taught us: The container market is not one but two markets. Liner companies are returning excessive tonnage to the tonnage providers: Tonnage providers are suffering accordingly. The question is how this

Figure CS.14



Sources: Clarksons, Danish Ship Finance

Figure CS.15



Sources: Clarksons, Danish Ship Finance

will impact future supply. Do we expect to see many cancellations in 2010 and beyond?

DIFFICULT TO RAISE CAPITAL WITHOUT EQUITY

Financing is at the centre of this question. Nobody knows for sure how much of the current orderbook remains to be financed. However, one thing is certain: It has become more difficult and more expensive to raise capital, not least when asset values have declined more than 30% and thus effectively wiped out the equity share in many cases.

TONNAGE PROVIDERS ACCOUNT FOR 6 OUT OF 10 DELIVERIES IN 2010

Tonnage providers account for 6 out of 10 orders scheduled for delivery in 2010 (fig. 14). With less than 12 months to delivery and a charter market in distress, we find it unlikely that many charter-free, unfinanced newbuilding orders will be financed. Whether this means that unfinanced newbuildings will not be delivered is another story. It could easily turn out that the yard will complete the construction and simply try to sell the vessel at a reduced price (i.e. partly financed by the original owner).

POST-PANAMAX ORDERS ACCOUNT FOR 67% OF THE 2010 DELIVERIES

Post-panamax orders account for 67% of orders scheduled for delivery in 2010 (fig. 14). The super-large post-panamax vessels (10,000+ teu) account for 53% of these (fig. 15). Liner companies are scheduled to take delivery of more than 400,000 teu of these super-large post-panamax vessels in 2010, while tonnage providers are set to take delivery of 330,000 teu in 2010 (fig. 15).

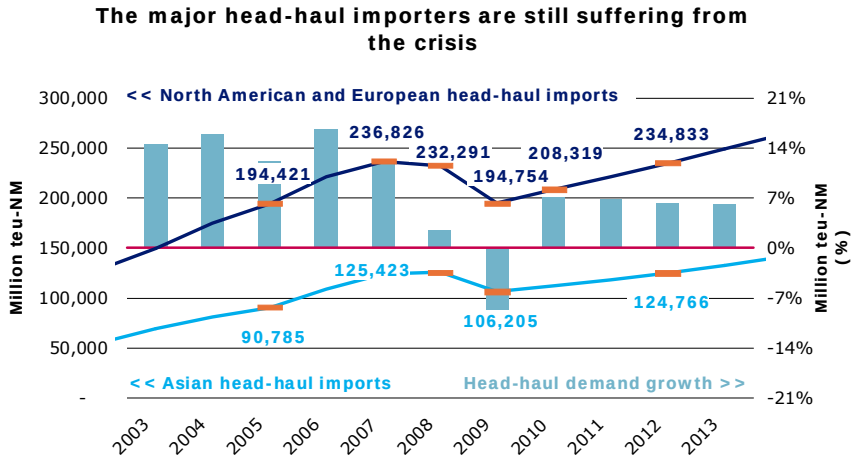
LOWER VOLUMES TROUBLE THE ENTRY OF SUPER-LARGE POST-PANAMAX

The entry of the super-large post-panamax vessels creates a need to rethink the trading logistics as soon as a full trading structure is in place – if they end up being delivered! They are expected to enter the major head-haul trading routes from Asia to Europe and from Asia to North America. Cascading has for long been a theme, but the situation has become more complex because import volumes shrank substantially in 2009.

CONTAINER DEMAND UP 7% IN 2010

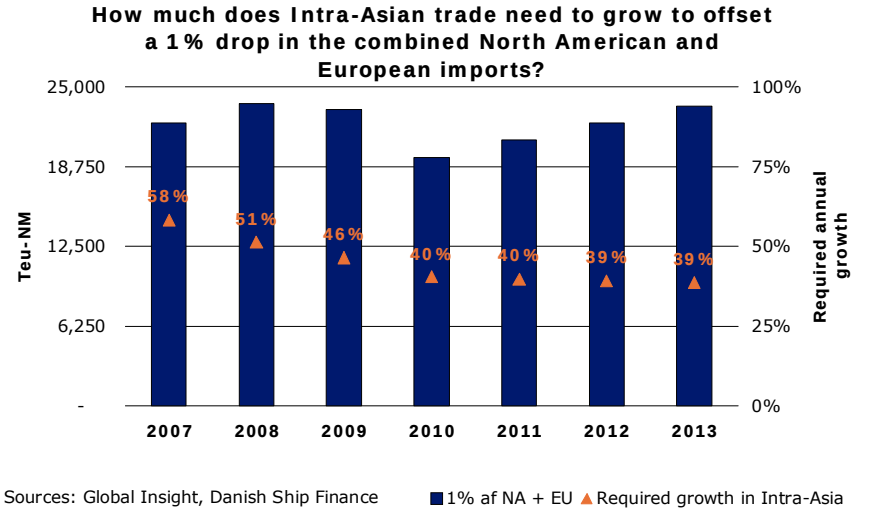
The super-large post-panamax vessels were ordered when global growth was at its peak. Trade volumes continued to grow year on year as production moved to Asia and OECD consumers increased consumption by lending against unrealized asset gains. The impact on head-haul

Figure CS.16



Sources: Global Insight, Danish Ship Finance

Figure CS.17



Sources: Global Insight, Danish Ship Finance

container demand was significant. Today, this is history. OECD consumers are repaying debt as declining asset prices have put an end to their spending spree. In 2009, several OECD countries spent an unprecedented amount of taxpayers' money to stimulate economic growth. Although the effectiveness of the money spent by various governments can be called into question, it nevertheless seems to have impacted container demand positively. For 2010, distance-adjusted head-haul import volumes are expected to grow 7% (-11% 2009) (fig. 16).

EUROPEAN AND NORTH AMERICAN IMPORTS UP 7%

The apparent economic recovery in North America and Europe seems fragile. Nevertheless, container demand is recovering. Some of the lost territory of 2009 is likely to be regained in 2010. The combined distance-adjusted head-haul imports for these two regions is expected to increase 7% in 2010 (-16% in 2009), albeit measured in teu-NM still significantly below the volumes of 2008 (fig. 16).

INTRA-ASIAN IMPORTS UP 9% IN 2010

Intra-Asian trade is gaining momentum due to increased North American and European imports. The combined distance-adjusted Intra-Asian head-haul demand is set to rise 9% in 2010 (-4% in 2009).

NOMINAL SUPPLY SURPLUS WILL UNDOUBTEDLY INCREASE IN 2010

This paragraph concludes our demand analysis; 2010 demand is still expected to continue struggling to regain the lost territory of 2009, while supply growth continues to pump further capacity into excess. Our demand section is deliberately short this time since taking an in-depth approach to the short-term demand outlook looks a bit out of scope with a post-panamax supply growth that large. Nevertheless, in 2010 we will carry out a more fundamental analysis of the future container demand situation. This report will be published during 2010. In the meantime, we will end the demand discussion by highlighting the short-term dependency on North American and European demand.

HIGH DEPENDENCY ON NORTH AMERICAN AND EUROPEAN DEMAND

Looking at the third-largest distance-adjusted driver behind container demand (fig. 3), we ask ourselves how much Intra-Asian trade will have to grow to offset a 1% drop in the combined imports to North America and Europe. Intra-Asian trade will have to grow 40% in 2010 to offset a 1% drop in North American and European head-haul imports (fig. 17). Unfortunately, such a theoretical increase does not benefit owners of super-large post-panamax vessels, because these vessels are expected to enter the major head-haul trading routes from Asia to Europe and from Asia to North America.

POSITIVE GROWTH FIGURES DO NOT FILL THE CONTAINER FLEET

Optimists, however, would argue that there is a limited risk for further import volume reductions into North America and Europe: Their economies are recovering, production continues to be moved to the east and still more goods are expected to be transported in containers.

Certainly, we do not expect shrinking import volumes into North America and Europe in the foreseeable future and positive growth numbers are good news for the container industry. It is, however, not growth figures but volumes that fill the container fleet. Distance-adjusted head-haul demand is not expected to beat 2008 volumes until 2011 at the earliest. With a current supply surplus of approximately 1.3 m teu, which is expected to increase during 2010, we do not expect the container market to recover fully in 2010. It will certainly be necessary to slow steam further in 2010.

POST-PANAMAX OWNERS WILL SUFFER IN 2010+

Without substantial cancellation of newbuilding orders, scrapping of young vessels and conversion of post-panamax orders into smaller vessels, we expect any recovery to be for liner companies alone, and limited to a recovery in box rates. Timecharter rates and asset values will continue to decline until demand recovers sufficiently to fill the capacity of the container fleet.

RATES AND VALUES MIGHT RECOVER IN THE SMALLER SEGMENTS

A bright spot in the dark: The smaller segments might have a better outlook for rates and values as these segments are expected to shrink in 2010.▪

DRY BULK

THE DRY BULK MARKET IS COMBATTING OVERCAPACITY. ALTHOUGH CHINESE DEMAND AND PORT CONGESTION HAVE SO FAR MANAGED TO ABSORB FLEET GROWTH, THE OUTLOOK IS BLEAK IN 2010. WE EXPECT 96.5 MILLION DWT TO BE DELIVERED IN 2010. LET US HOPE THAT THE COMBINATION OF STRONG CHINESE DEMAND AND PORT CONGESTION WILL ONCE AGAIN ABSORB THE NEW CAPACITY ENTERING THE MARKET.

FREIGHT RATES

DRY BULK EARNINGS RECOVERED IN 2009, BUT THE AVERAGE FIXTURE PERIOD CONTINUED TO DECLINE.

2009 was a year of great uncertainty. In September 2009, capesize earnings stood at USD 30,000 per day. At that time, we expected market sentiments and earnings to fade in tandem with lower Chinese iron ore imports. Once again, we underestimated the Chinese dry bulk demand, or at least the impact on freight rates from port congestion.

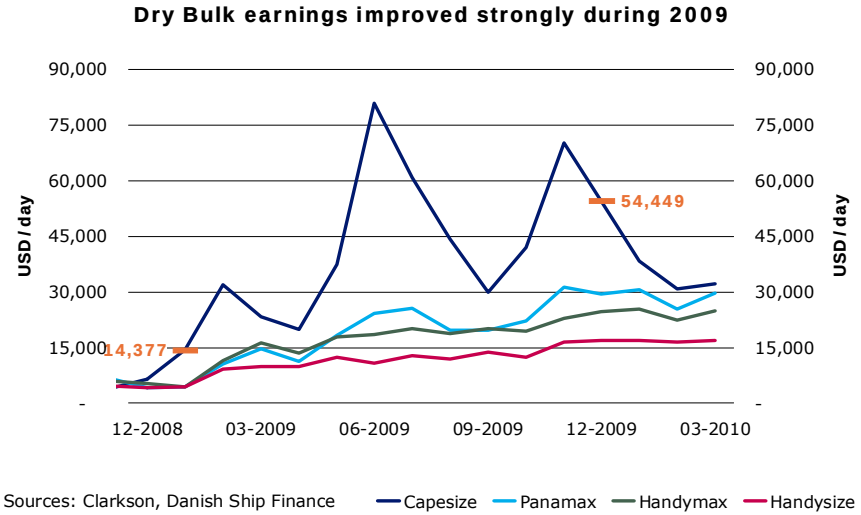
PORT CONGESTION MAINTAINED MOMENTUM AND SUPPORTED EARNINGS

Distance-adjusted front-haul demand stagnated during the fourth quarter of 2009. Traditionally, freight rates are expected to decline when supply outpaces demand. That did not happen: Capesize earnings increased, on average, by USD 10,000 per day during fourth quarter, ending at USD 55,000 per day (fig. 1). Thanks to Chinese demand and inadequate port capacity, 2009 turned out much better than we had anticipated when capesize earnings stood at USD 15,000 per day in January 2009. By March 2010, dry bulk demand had dipped slightly (-1%), reducing capesize earnings to USD 30,000 per day, despite a large share of the fleet being queued up either in China or Australia.

THE AFTERMATH OF THE BULL MARKET

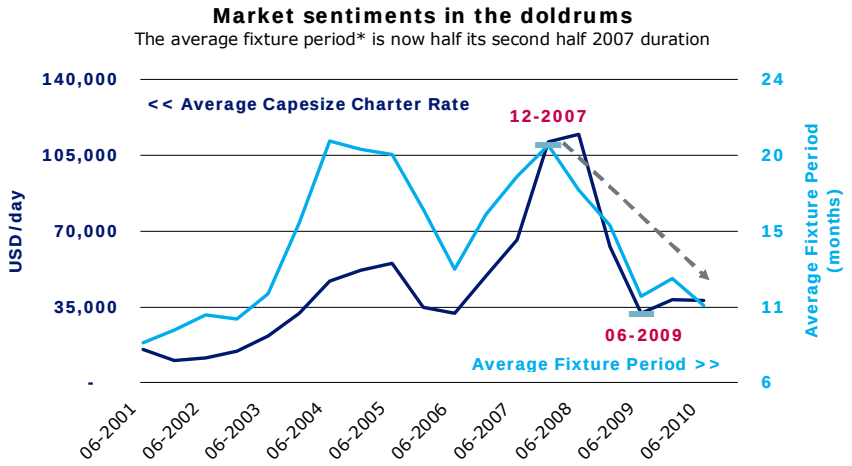
The average length of fixture periods has been trending downwards since the beginning of 2008. This means that the average capesize vessels have been fixed for ever shorter periods and at ever lower rates (fig. 2). To us, this signals that owners are increasingly wary of the risk of overcapacity (i.e. risk of lower earnings and hence the prospects of lower asset values) increasing.

Figure DB.1



Sources: Clarkson, Danish Ship Finance

Figure DB.2



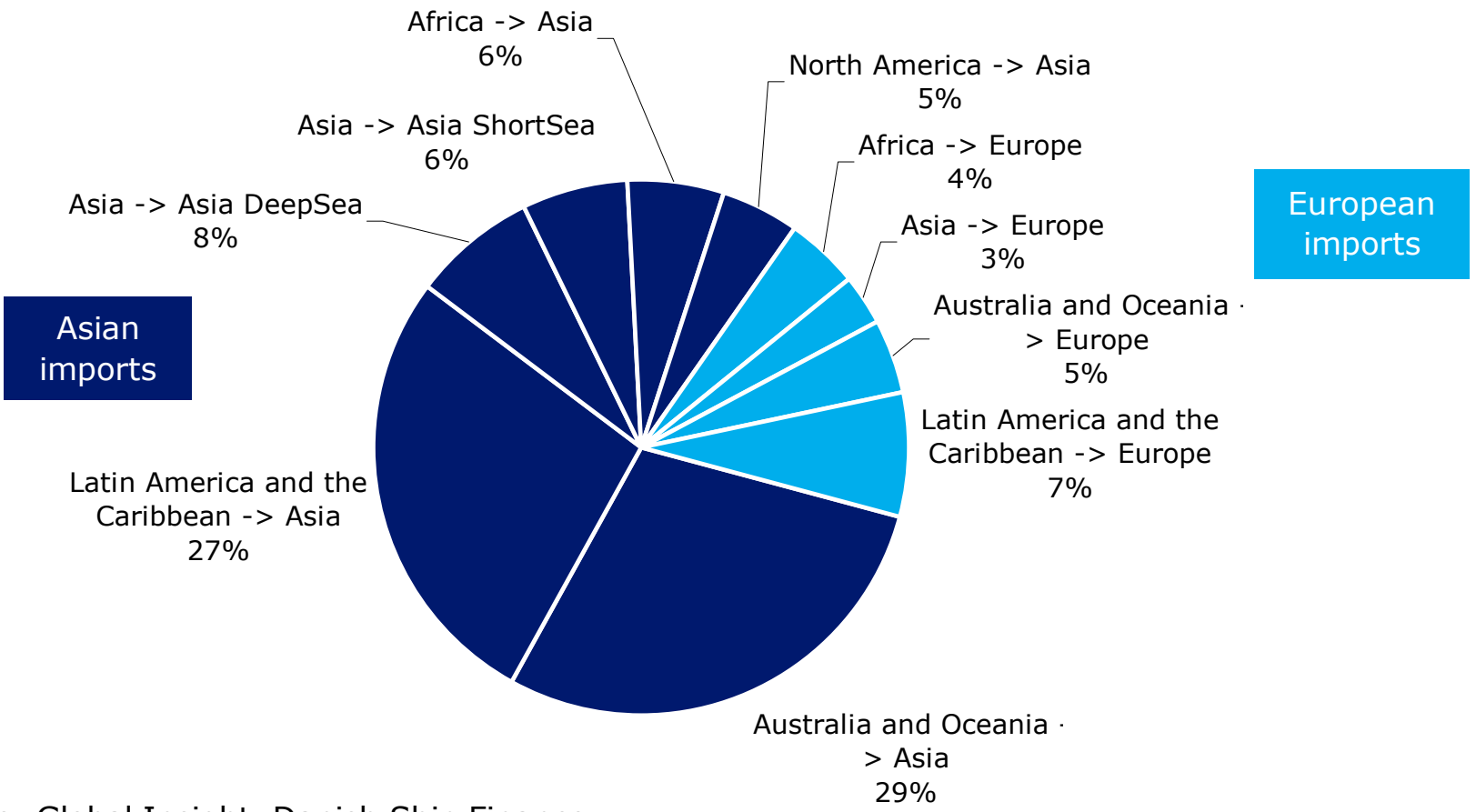
Sources: Clarksons, Danish Ship Finance

* Six-month average

Figure DB.3

Asian and European demand dictate Capesize demand

Top 10 Front-Haul Capesize Routes 2009 (ton-NM)



Sources: Global Insight, Danish Ship Finance

GREATLY SUPPORTED BY PORT CONGESTION AND, TO A LESSER EXTENT, SCRAPPING, CHINESE DEMAND MANAGED TO ABSORB THE 10% INCREASE IN THE DRY BULK FLEET.

As briefly discussed above, port congestion has, once again, been a significant contributor to the 2009 recovery in freight rates. Without port congestion effectively limiting fleet availability, it seems unlikely that freight rates would have recovered that strongly. Therefore, the recovery in freight rates (and values) is as fragile as ever. Ship owners were trying to curb supply growth by postponing the delivery dates of newbuilding orders and scrapping older tonnages.

30 MILLION DWT ENTERED SERVICE IN SECOND HALF 2009

52 million dwt was scheduled to enter the fleet during the second half of 2009, but only 30 million dwt (58%) was actually delivered (fig. 4). For the full year 2009, 74 million dwt was scheduled to be delivered, whereas only 52 million dwt (70%) actually entered the fleet. Tankers converted into dry bulk vessels accounted for 9 million dwt of the 52 million dwt (17%) delivered in 2009.

30 % OF SCHEDULED 2009 DELIVERIES NEVER REACHED THE SEA

Thus, owners succeeded in postponing as much as 22 million dwt (30%) of contracts scheduled to enter the fleet in 2009 (fig. 5). Almost 40% of handymax and handysize contracts scheduled for delivery in 2009 were postponed into 2010 or later.

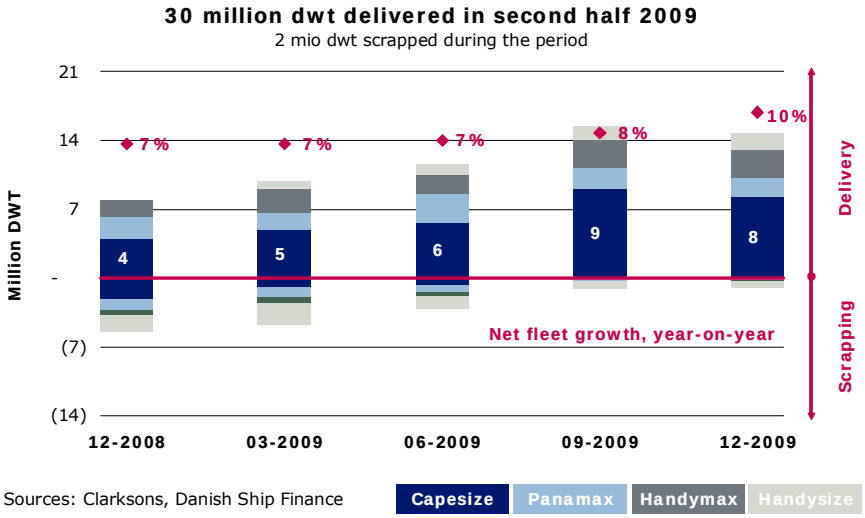
10 MILLION DWT SCRAPPED IN 2009

Ship owners scrapped 10 million dwt in 2009. This is the highest amount scrapped since 1998 and twice as much as in 2008. Nevertheless, with 52 million dwt entering the fleet, of which 28 million dwt was capesize vessels, 10 million scrapped seems merely a trickle. Not least given that 62% of the 10 million dwt scrapped was either handymax or handysize vessels (fig. 4).

THE DRY BULK FLEET GREW 10% IN 2009

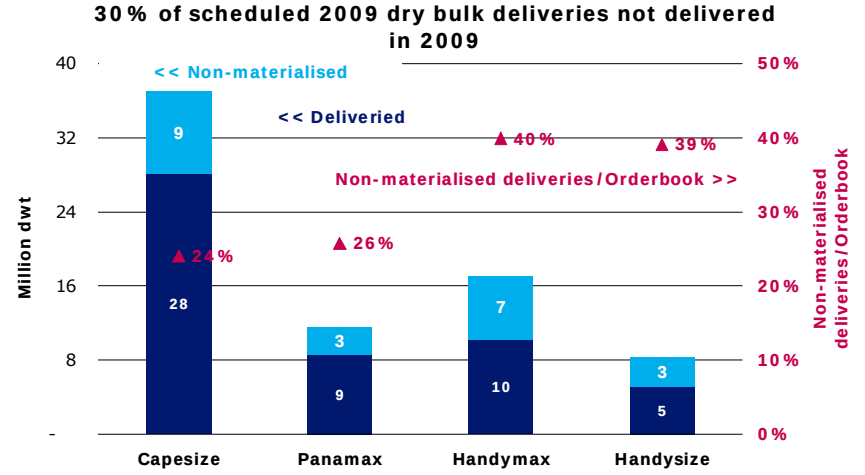
The postponement of deliveries and scrapping of vessels restrained the annual supply growth to 10% in 2009. However, given the fact that the vessels entering the fleet are larger vessels and that the vessels scrapped are smaller vessels, the growth is unequally distributed among

Figure DB.4



Sources: Clarksons, Danish Ship Finance

Figure DB.5



Sources: Clarksons, Danish Ship Finance

the segments: The capesize segment grew 19%, panamax 5%, handymax 11% and handysize 0%.

GLOBAL STEEL PRODUCTION DROPPED 8% IN 2009

In volume terms, global dry bulk demand declined in 2009 in tandem with an 8% (107 million tons) drop in global steel production. The decline was, however, accounted for by lower OECD demand, whereas China continued to increase its steel production (fig. 6). Steel production in Europe and Japan dropped almost 30% (92 million tons), while Chinese production increased 14% (68 million tons). Still, China is by far the world's largest steel producer. In 2009, China accounted for 47% of the global steel production (fig. 6).

CHINESE STEEL PRODUCTION ROSE 15% IN 2009

Generally speaking, global steel production has recovered some of the lost territory during 2009. Yet European and Japanese steel production did not regain the lost territory until fourth quarter 2009. The strong fiscal stimuli program initiated by the Chinese government during the last months of 2008 continued to stimulate Chinese steel production during the first three quarters of 2009. In fourth quarter 2009, Chinese steel production fell 5% (7 million tons).

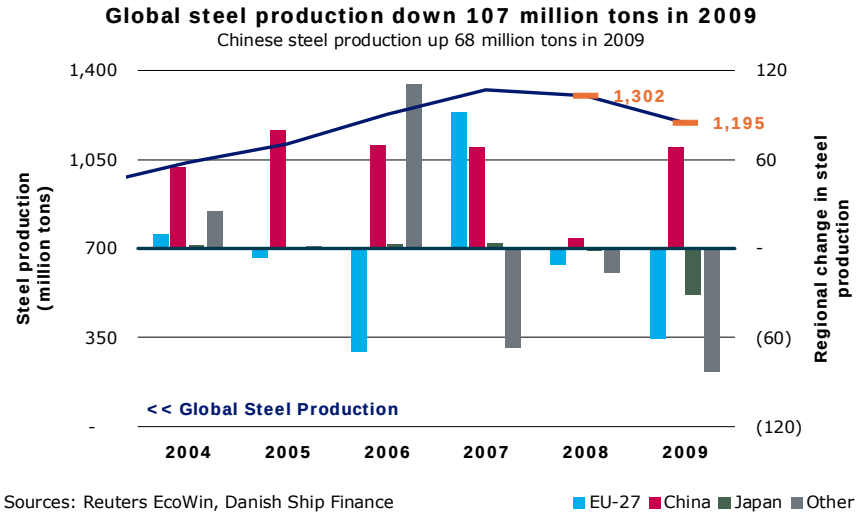
IRON ORE IMPORTS INCREASED 120 MILLION TONS IN 2009

We would normally expect iron ore demand to follow a path similar to the trend in global steel production. It was therefore surprising that global iron ore shipments increased in 2009. The combined iron ore import volumes (i.e. pure volumes, not distance-adjusted) of Europe and Asia increased by 120 million tons (+10%) in 2009.

CHINESE IRON ORE IMPORTS INCREASED 43% IN 2009

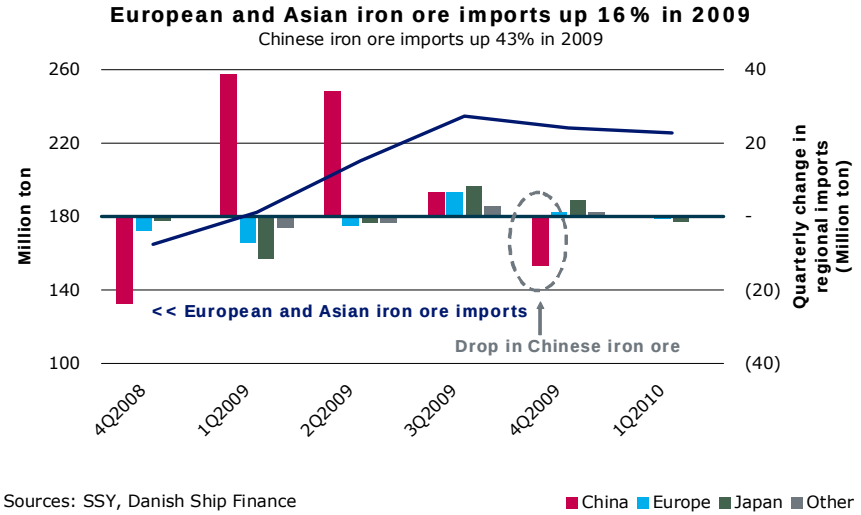
China took everyone by surprise: Chinese iron ore imports increased 43% (190 million tons) in 2009 (fig. 7). This is far more than required to support the increase in the Chinese steel production. In combination with a 90 million tons increase in domestic iron ore production, one would assume that the domestic iron ore inventories – not only at the major ports but also at inland inventories - are large and increasing (fig. 8). The same holds true for Chinese steel inventories. Only time will tell if current levels reflect actual demand or inadequate central planning.

Figure DB.6



Sources: Reuters EcoWin, Danish Ship Finance

Figure DB.7



Sources: SSY, Danish Ship Finance

CHINESE COAL IMPORT TRIPLED IN 2009

Chinese coal consumption surged heavily in 2009. The cold winter contributed significantly to the 9% increase in Chinese electricity consumption in 2009 (+5% in 2008). The combination of increased electricity consumption and supply chain disruptions for domestically mined coal generated a strong demand for (long-haul) imported coal. Consequently, Chinese net import of coal increased throughout 2009 and reached an unprecedented 71 million tons. This might seem modest compared to the iron ore figures, but the effect on distance-adjusted demand is, however, appreciable as the trading structure for coal is significantly impacted by China, which has shifted from being a net exporter to being a net importer.

DISTANCE-ADJUSTED DRY BULK DEMAND REMAINED STABLE IN 2009

Where does this leave us in terms of dry bulk demand? Leaving iron ore out of the equation, dry bulk demand declined 8% in 2009. However, the strong Chinese iron ore imports generated a 5% growth in 2009 iron ore import volumes. Aggregated dry bulk volumes ended up declining 3% in 2009. Distance-adjusted dry bulk demand was, however, further supported as the average travel distance increased in 2009. We estimate that the distance-adjusted dry bulk demand in 2009 ended up in line with 2008 (fig. 9).

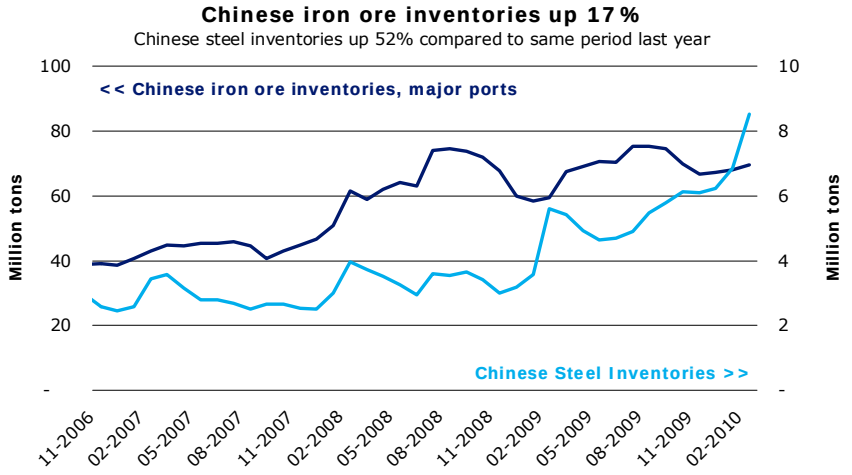
SUPPLY OUTPACED DEMAND IN 2009

Fundamentals deteriorated in 2009. Supply grew 10%, while distance-adjusted demand remained stable (i.e. zero growth in 2009). Accordingly, supply outpaced demand, but then why did rates improve in 2009?

CHINESE PORT CONGESTION EASED OFF IN FOURTH QUARTER 2009

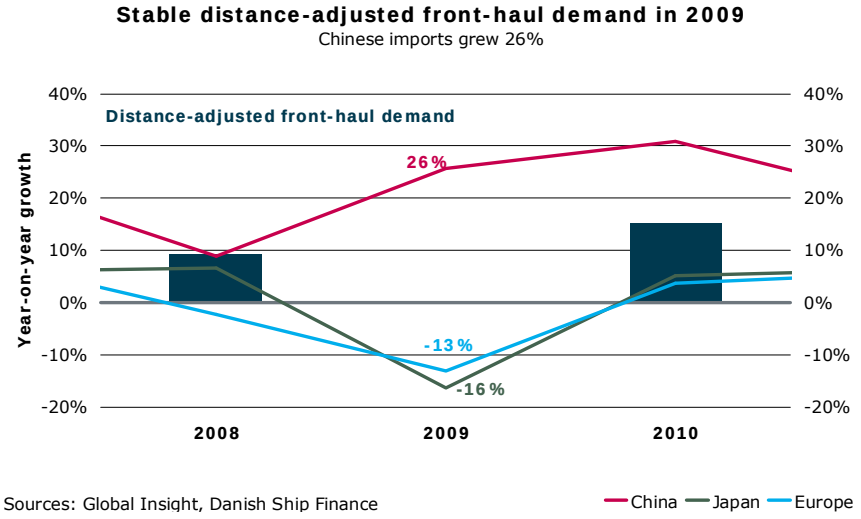
The unprecedented increase in Chinese iron ore and coal imports and the related changes in trading patterns further tested the cargo-handling capacity of major ports in both Australia and China. Port congestion has therefore been a major issue in 2009 and effectively restrained the cargo carrying capacity of the dry bulk fleet. We estimate that as much as 20% of the capesize fleet was temporarily queued up in some kind of port congestion during 2009. Adding port congestion to the supply and demand equation, we might actually be able to explain why rates improved during 2009.

Figure DB.8



Sources: Bloomberg, Danish Ship Finance

Figure DB.9



Sources: Global Insight, Danish Ship Finance

ALMOST NO CONTRACTING ACTIVITY WAS SEEN IN 2009. NEWBUILDING AND SECONDHAND PRICES DROPPED ACCORDINGLY.

As discussed above, the fundamental balance between supply and demand is shifting towards overcapacity. It is therefore not surprising that owners' appetite for new tonnage has been modest in 2009.

14 MILLION DWT CONTRACTED IN 2009

A mere 14 million dwt was contracted in 2009. This is by far the lowest contracting activity in 10 years. During the first three months of 2010, 9 million dwt was contracted (fig. 10).

DELIVERY TIME DROPPED ONE YEAR IN 2009

The average delivery time dropped approximately one year, due to 14 million dwt entering the orderbook and 52 million dwt entering the fleet (i.e. leaving the orderbook) in 2009.

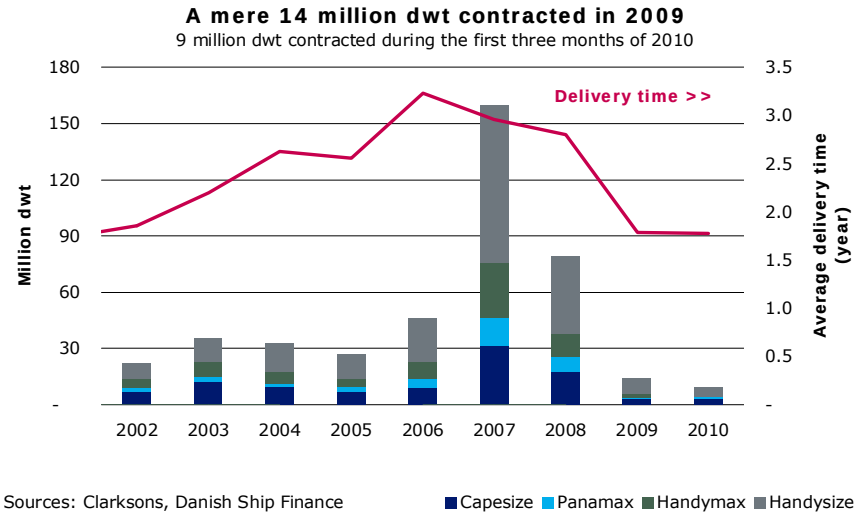
NEWBUILDING PRICES DROPPED 30% IN 2009

Taken together, the low contracting activity, a declining orderbook and a much lower delivery time significantly reduced the average newbuilding price. The newbuilding price (per dwt) dropped from USD 885 per dwt in 2008 to USD 614 per dwt in 2009. This is a 31% drop in the newbuilding price. The trend continued but levelled off during the first months of 2010, as contracting activity, albeit at a low level, resumed. The average newbuilding price dropped to USD 558 per dwt (-9%) during the first three months of 2010 (fig. 11).

SECONDHAND PRICES DECLINED 56% IN 2009

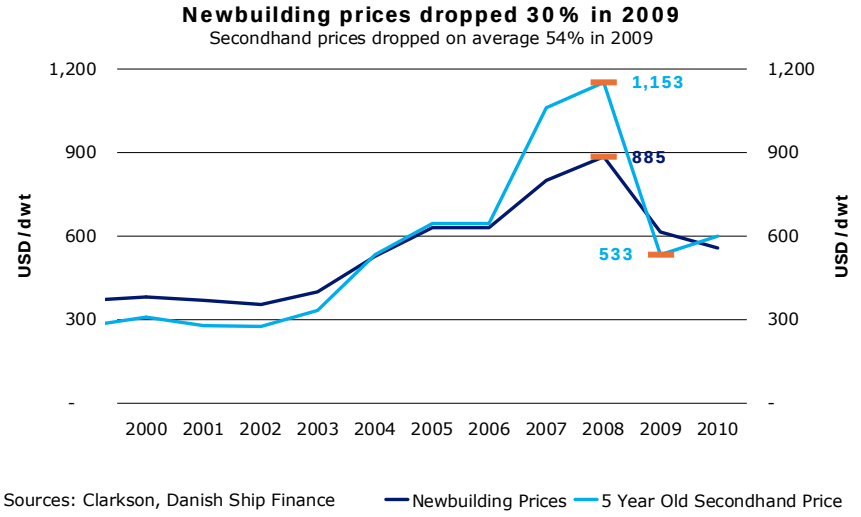
The secondhand price should reflect the value of short-term earnings and the market expectations for long-term earnings. Long-term earnings are traditionally represented by the newbuilding price's implicit daily required earnings. The short-term earnings measured by the Baltic Dry Index dropped 56% during 2009, but recovered 5% in early 2010. The secondhand price dropped 54% in 2009, but has recovered 12% in 2010 (fig. 11). This would seem to indicate that the secondhand price is currently driven by short-term improvements in earnings rather than a fundamental optimism for long-term earnings. This presents a gloomy outlook for asset values if rates cease to be supported by temporary factors such as port congestion.

Figure DB.10



Sources: Clarksons, Danish Ship Finance

Figure DB.11



Sources: Clarkson, Danish Ship Finance

OUTLOOK

THE DRY BULK MARKET OUTLOOK IS CHARACTERIZED BY A MASSIVE INFLOW OF NEW TONNAGE AND THE EXPECTATION OF YET ANOTHER YEAR OF RECORD-HIGH CHINESE (IRON ORE) DRY BULK DEMAND. POTENTIALLY, DEMAND MIGHT BALANCE SUPPLY, BUT MANY CHALLENGES LIE AHEAD.

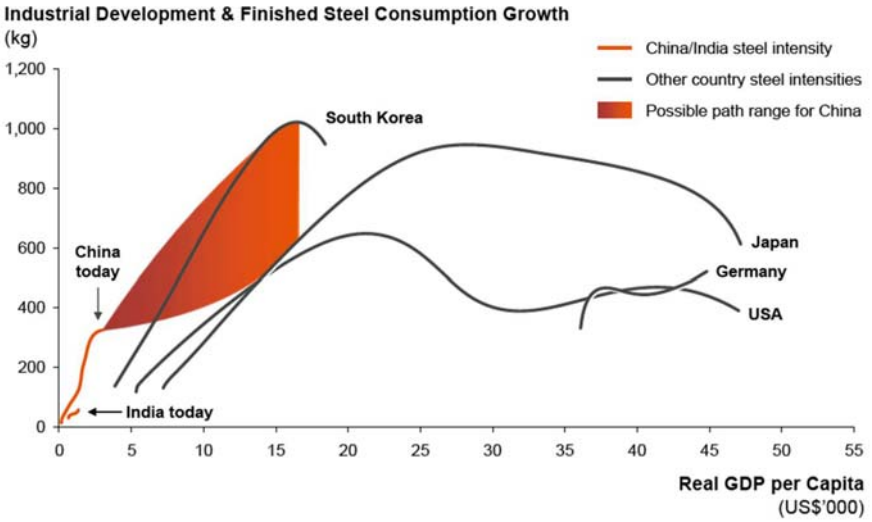
The unprecedented large orderbook, scheduled for delivery in 2010, dominates the outlook. As discussed above, freight rates (and asset values) were in 2009 supported by the unexpected and exceptional surge in Chinese iron ore demand. In 2010, a similar strong surge in dry bulk demand is required to balance supply and demand. China is, once again, the only candidate capable of generating such an increase in dry bulk volumes. Whether to expect that Chinese iron ore demand will increase massively is basically a question of expectations for Chinese steel consumption per capita in 2010 and beyond.

CHINESE STEEL CONSUMPTION PER CAPITA MAY NOT BE THAT LOW

Many dry bulk owners seem to expect that China will follow a path similar to, for example, Japan's in terms of steel consumption per capita. Figure 12 summarizes this market expectation regarding China's future steel consumption per capita. Clearly, if fulfilled, the outlook for Chinese iron ore demand in 2010 and beyond seems positive. However, the critical question to ask is whether it makes sense to look at China as an undifferentiated entity in this matter. Several economists have started to argue that although China might be one country, it is in fact comprised of several different economies.

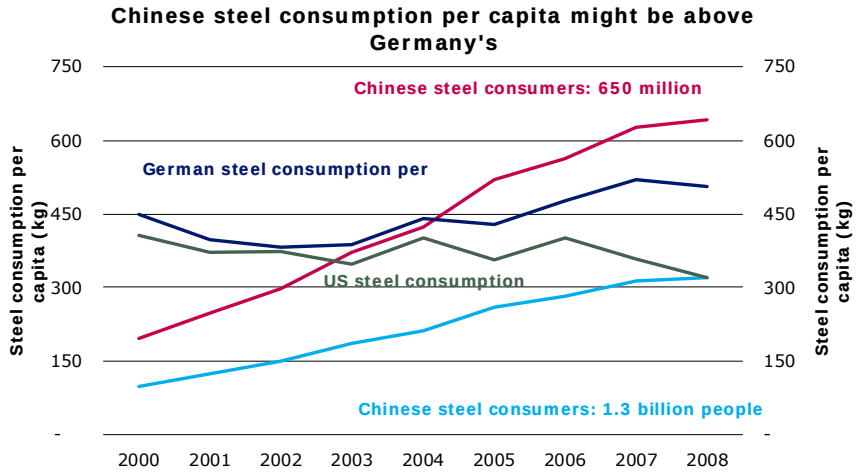
Let us for example make the assumption that China can be divided into an urban and a rural economic zone: For simplicity, let us assume that approximately 650 million people, of the Chinese population of 1.3 billion people, lives in the urban region and that the remainder lives in rural China. In rural China, food expenditures account for a relativity large share of the disposable income. With approximately 650 million people living in rural China – of which 150-200 million people are living in poverty (using the internationally accepted one USD per day guideline), there is still a long way to go before these individuals increase their steel intensity to a level close to that of the urban regions. Therefore, we consider it unlikely that the rural regions will develop their steel intensity extensively as long as food expenditure represents a

Figure DB.12



Source: CISA; WMM; Global Insight; BHP Billiton Analysis.

Figure DB.13



Sources: Reuters EcoWin, Danish Ship Finance

considerable share of their income. The current food inflation exacerbates the situation and suggests that it will be a long time before the rural provinces increase their steel intensity per capita.

The future potential for Chinese iron ore demand is highly sensitive to this issue. Let us, for example, assume that the Chinese population, in terms of steel consumers, does not consist of 1.3 billion people but rather the 650 million people living in the urban region. Such a change will obviously double the Chinese steel consumption per capita from its current level of 320 kg per capita (the same as the US) to 650 kg per capita (larger than Germany). If Chinese steel consumption per capita is 650 kg, few will expect a massive surge in Chinese iron ore imports (fig. 13).

In the following paragraphs, however, we will base our demand analysis on external data and accept the scenario of a large future upside for China's steel consumption per capita (i.e. iron ore demand).

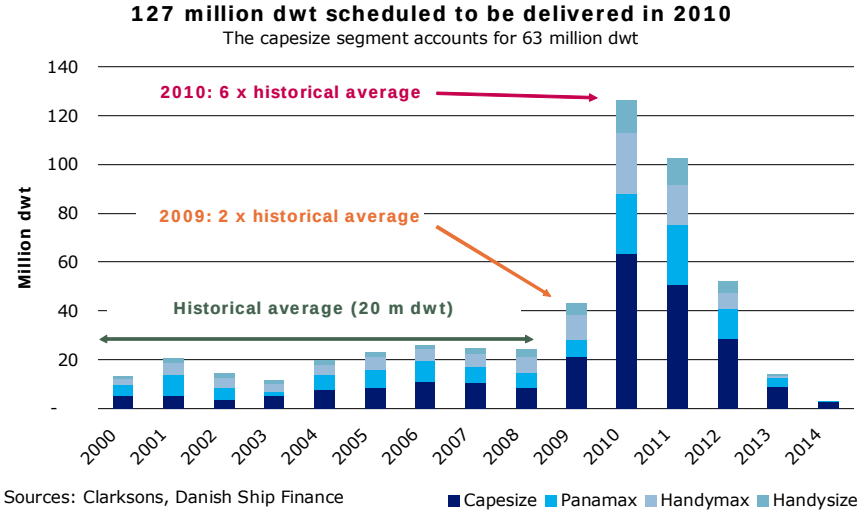
127 MILLION DWT SCHEDULED FOR DELIVERY IN 2010

In 2010, a record-high fleet growth of 127 million dwt (+28% fleet growth, before scrapping, cancellation and postponement) is scheduled for delivery. 127 million dwt constitutes more than 6 times the average annual inflow of new tonnage from 2000 to 2008. Before questioning whether shipyards are actually able to build all these new vessels in one year, let us conclude that such inflow is seriously bad news for rates and values in almost any demand scenario. If 127 million dwt ends up being delivered in 2010, the dry bulk market will be flooded by excessive tonnage – particularly in the capesize segment (fig. 14).

96.5 MILLION DWT EXPECTED TO BE DELIVERED IN 2010

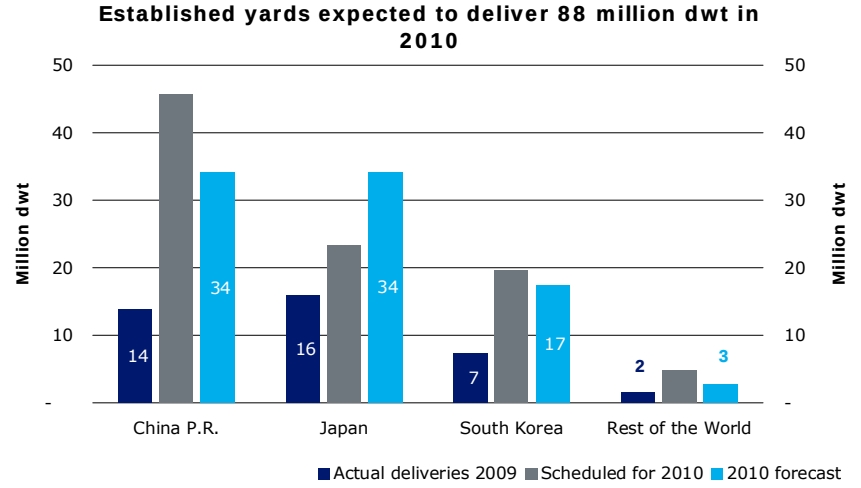
Clearly, there is unprecedented uncertainty attached to the current orderbook. For illustrative purposes, we apply the 2009 delivery performance by builder country and yard experience level to the 2010 orderbook. By doing so, we expect that approximately 96 million dwt will be delivered in 2010. This equals 76% of the orderbook scheduled for delivery in 2010. The remainder of the scheduled 2010 deliveries are postponed one year.

Figure DB.14



Sources: Clarksons, Danish Ship Finance

Figure DB.15



Sources: Clarksons, Danish Ship Finance

ESTABLISHED YARDS EXPECTED TO DELIVER 88 MILLION DWT IN 2010

In 2010, established yards are scheduled to deliver 94 million dwt of the 127 million dwt. By applying the 2009 delivery trend, we expect that established yards will deliver 88 million dwt in 2010. This is almost 50 million dwt above what they delivered in 2009. The explanation is simple: Several established yards that where not building dry bulk vessels in 2009 are expected to do so in 2010 (fig. 15).

51 MILLION DWT EXPECTED TO ENTER THE CAPESIZE FLEET IN 2010

The capesize segment dominates the orderbook. The nominal capesize orderbook scheduled for delivery in 2010 amounts to 63 million dwt (38% of the current fleet). We estimate that 51 million dwt will be delivered in 2010 (fig. 16).

DRY BULK DEMAND MUST INCREASE MORE THAN 30% IN 2010

Howe Robinson estimates that a capesize vessel carries its deadweight capacity, on average, 6.5 times per year. Accordingly, annual iron ore demand, for example, will have to increase 1.1 million tons to employ one additional capesize vessel per year. If 51 million dwt is delivered, capesize demand will have to increase by 331 million tons per year to employ the delivered vessels (fig. 16). In 2009, seaborne iron ore volumes amounted to 920 million tons. An entry of 51 million dwt capesize capacity will therefore require an increase in seaborne iron ore demand of more than 30%. And this has only employed the capesize vessels entering the fleet.

26 MILLION DWT SCRAPPED IN 2010

More or less irrespective of whichever delivery scenario we apply to 2010, one thing is certain: The annual inflow of new tonnage is expected to be spectacular. Extraordinary scrapping is therefore required to absorb some of the entering tonnage. The age distribution among the segments is highly uneven. The smaller vessels have a higher average age than the larger vessels.

We assume that all capesize vessels older than 26 years will be scrapped in 2010. For panamax, handymax and handysize we scrap at the age of 28, 30 and 32 respectively. By doing so, we expect that 26 million dwt will be scrapped in 2010 (fig. 17). Compared to previous years' scrapping, 26 million dwt scrapped in 2010 is considerable. Compared to last year, it is more than twice as large as the 10 million dwt scrapped in 2009. The impact on capesize fleet growth is, however,

Figure DB.16

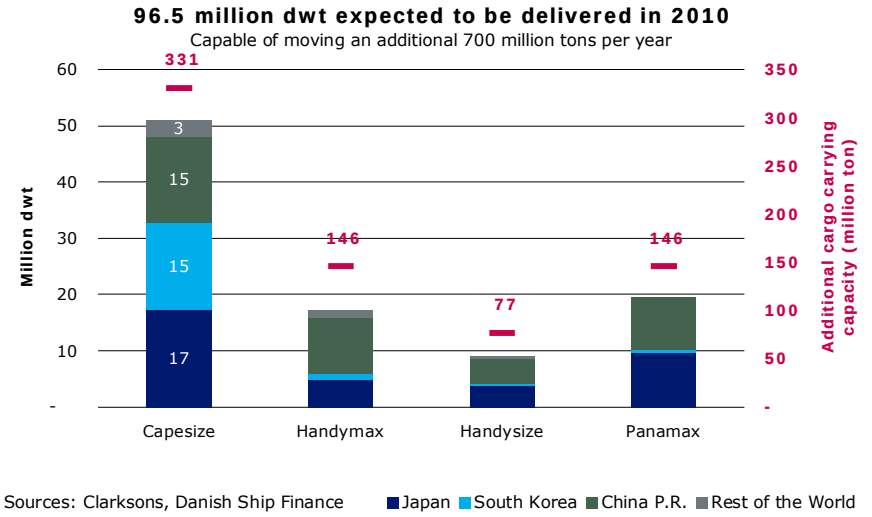
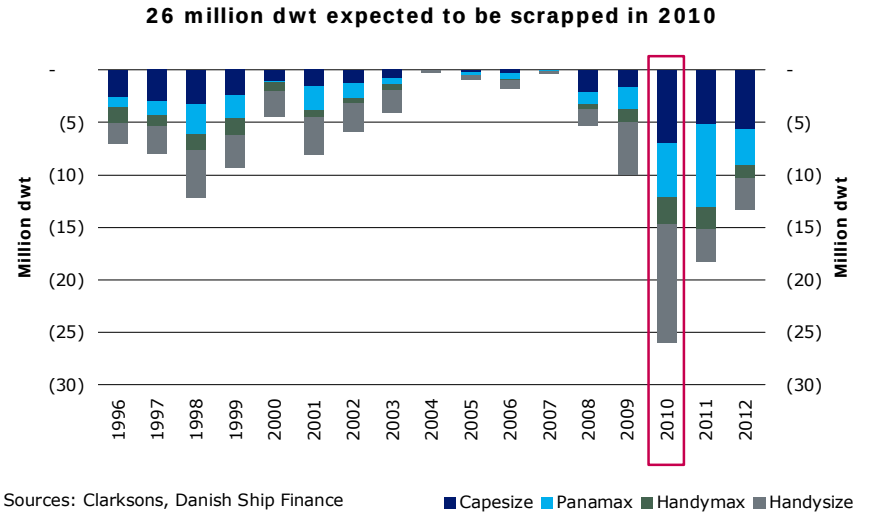


Figure DB.17



insignificant. Despite 7 million dwt scrapped within the capesize segment, capesize supply is still expected to grow 30% in 2010.

TON-MILES DRY BULK DEMAND TO INCREASE 13% IN 2010

Consequently, with a net supply expansion of more than 70 million dwt (16%) in 2010, there is great need for a significant surge in ton-miles demand if rates and values are to remain at current levels. Global Insight estimates that distance-adjusted front-haul demand will increase by 13% in 2010. The dependence on Asian imports continues. By 2010, Asia (ex. Japan) is expected to account for 57% of distance-adjusted front-haul demand. By including Japan in Asia, Asian imports are expected to comprise 69% of all distance-adjusted front-haul demand in 2010 (fig. 18).

ASIAN DRY BULK DEMAND UP 21% IN 2010

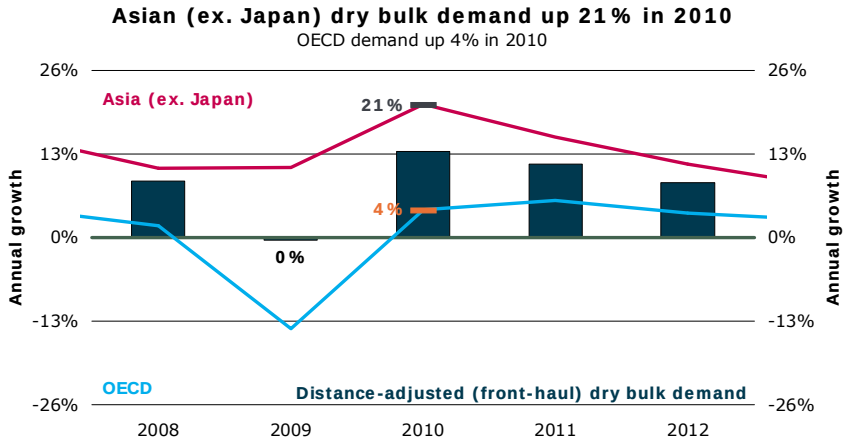
Distance-adjusted front-haul Asian (ex. Japan) dry bulk demand is expected to increase 21% in 2010 (+11% in 2009). China dictates the Asian demand. In 2010, Chinese dry bulk imports are expected to grow 28%. OECD dry bulk demand is expected to recover some of the lost territory by increasing 4% in 2010 (-14% in 2009). Japanese distance-adjusted front-haul demand is expected to grow 5%, whereas European distance-adjusted front-haul demand is expected to grow 3% in 2010 (fig. 18).

CAPESIZE DEMAND UP 15% IN 2010

Distance-adjusted front-haul Capesize demand is expected to increase 15% in 2010. Once again, China is expected to be the major growth contributor. Global Insight expects Chinese capesize demand to increase 31% in 2010, driven by a 32% increase in iron ore imports and a 14% increase in coal imports. European and Japanese imports of iron ore and coal are expected to recover further in 2010 (fig. 19).

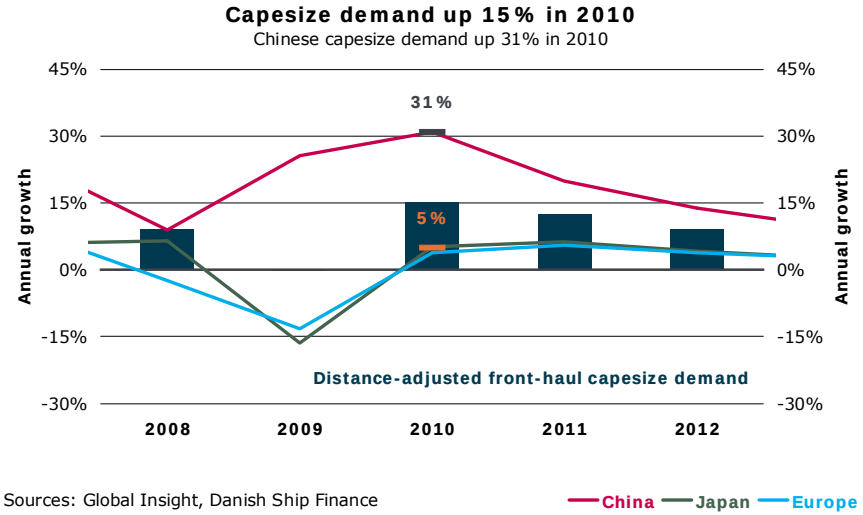
Above, we estimated that the demand for capesize commodities would have to increase by more than 330 million tons to fill the entering capesize vessels in 2010. The 15% demand increase in capesize-borne commodities is expected to generate a volume increase of approximately 310 million tons in 2010. Chinese iron ore imports is expected to contribute approximately 200 million tons, whereas Chinese coal imports is expected to increase 7 million tons.

Figure DB.18



Sources: Global Insight, Danish Ship Finance

Figure DB.19



Sources: Global Insight, Danish Ship Finance

A POTENTIAL BUT HIGHLY FRAGILE BALANCE BETWEEN SUPPLY AND DEMAND

Consequently, if Global Insight's predictions on Chinese iron ore and coal imports in 2010 turn out to be fairly accurate, there is a potential, but highly fragile, balance between supply and demand. To our regular readers, it might sound surprising that we are suddenly slightly optimistic about the dry bulk market, and, in fact, we are not. Nevertheless, we do acknowledge that if Chinese dry bulk demand remain unaffected by what we expect to be core fundamentals (for example, the growing steel and iron ore inventories), a balance between supply and demand is not at all entirely out of the question, albeit, in our opinion, both an irrational and unlikely outcome in 2010. What further supports the hypothesis of a balance between supply and demand in 2010 is the likely increase in port congestion, if Chinese iron ore imports increase in accordance with Global Insight's forecast. In such a scenario, 2009 has shown us how unpredictable yet profitable the dry bulk market can be in terms of both rates and values. ▪

OFFSHORE SUPPLY VESSELS

TOUGH TIMES ARE AHEAD FOR THE OFFSHORE SUPPLY VESSEL MARKET, AS A MASSIVE NUMBER OF NEWBUILDINGS ARE EXPECTED OVER THE YEAR. ALTHOUGH DEMAND IS EXPECTED TO PICK UP DURING THE YEAR, THE SUPPLY SIDE WILL MOST LIKELY OUTSTRIP THE DEMAND SIDE. RATES AND ASSET VALUES ARE EXPECTED TO DETERIORATE FURTHER IN 2010, UNLESS HEAVY LAYUP OF OLDER VESSELS, POSTPONEMENT AND SCRAPPING IS CONDUCTED.

FREIGHT RATES

AS RIG MOVES DWINDLED IN LINE WITH THE ECONOMIC RECESSION, SPOT RATES WENT SOUTH DURING 2009.

2009 has been a hard year for owners of offshore supply vessels. Spot rates have been trending downwards since the financial crisis hit the world in fourth quarter 2008. This was the first major decline in spot rates for offshore supply vessels since the market began to rally in 2004.

NORTH SEA SPOT RATES DECLINED 66% IN 2009

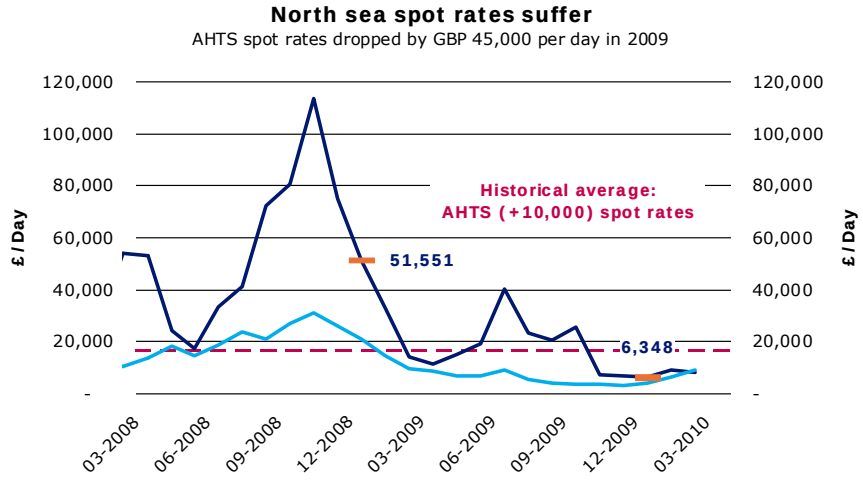
Spot rates plummeted in 2009. AHTS (+10,000 BHP) spot rates started January 2009 at approximately GBP 51,000 per day, dropped by GBP 40,000 per day during the first quarter and ended fourth quarter slightly above GBP 6,000 per day. This is GBP 4,000 per day above the all-time low (January 1989). PSV (+2,000 dwt) spot rates followed a similar path, closing at GBP 4,400 per day in 2009 (fig. 1). This is GBP 2,200 per day above the all-time low recorded in August 1992.

During the first quarter of 2010, a modest pickup in spot rates was seen for all vessels types.

NUMBER OF WORLD RIG MOVES DECLINED 31% DURING 2009

The number of rig moves has dwindled in the wake of the financial crisis. Exploration and production spending were downsized accordingly. The demand for offshore supply vessels declined correspondingly. Rig moves in Africa and the Far East have remained stable during 2009, whereas activity weakened in Europe and the US. Total rig moves declined 31% during 2009 (fig. 2).

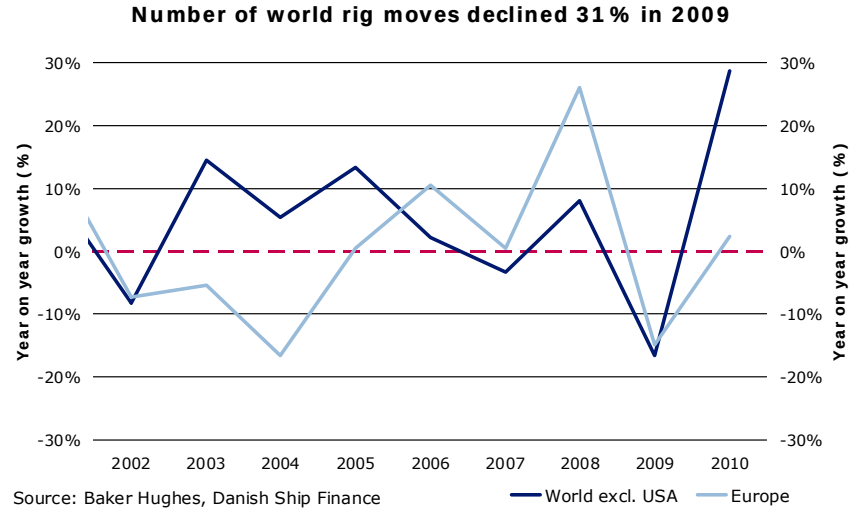
Figure OS.1



Sources: Clarksons, Danish Ship Finance

PSV (+2000 dwt) AHTS (+10,000 BHP)

Figure OS.2



Source: Baker Hughes, Danish Ship Finance

OFFSHORE VESSEL RATES WERE LARGELY DEPRESSED DUE TO LOWER RIG UTILIZATION AND DELAYS OR CANCELLATIONS OF OFFSHORE DEVELOPMENT PROGRAMS. THE MAIN REASON FOR DECLINING RATES AND VALUES IS, HOWEVER, ROOTED IN OVERSUPPLY. IN TOTAL, THE OFFSHORE SUPPLY FLEET GREW 13% DURING 2009.

A WAVE OF NEWBUILDINGS HIT THE OFFSHORE FLEET IN 2009

An incredible number of newbuildings joined the fleet during 2009. A total of 437 vessels were scheduled to enter the fleet during 2009, whereas, luckily for owners, only 304 vessels actually reached the sea (fig. 3). A total of 218 AHTS vessels joined the AHTS fleet, of which more than 50% comprised vessels below 8,000 BHP. 48 PSV vessels below 3,500 dwt joined the PSV fleet, equivalent to 13.5% of the existing fleet. The deliveries in first quarter of 2010 are far below the levels of 2009 with only 12 vessels delivered during the first quarter (fig. 3).

ONE THIRD OF SCHEDULED DELIVERIES POSTPONED

Of the scheduled deliveries in 2009, 31% never reached the sea due to heavy postponement activity (fig. 4). Most of these postponements were rolled over to late 2010. However, Clarksons' orderbook estimates that few vessels were actually cancelled outright in 2009.

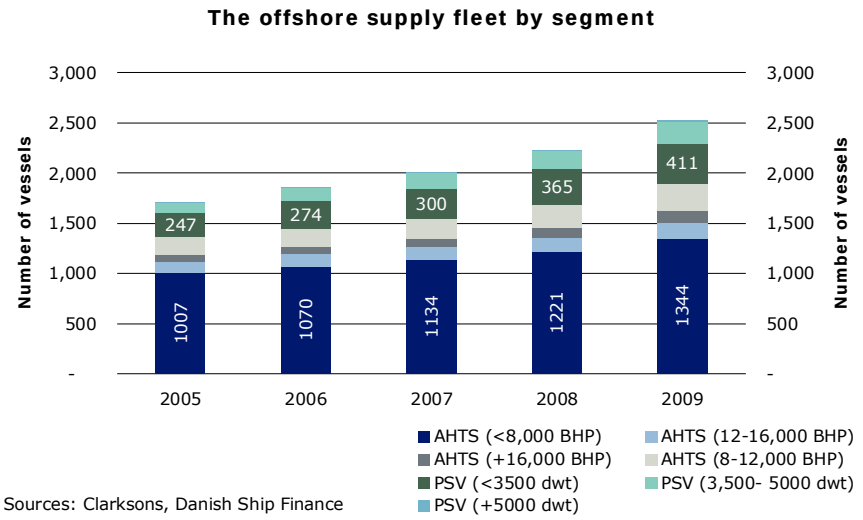
SCRAPPING ONLY A TRICKLE COMPARED TO NEW TONNAGE

All in all, an insignificant number of vessels were demolished in 2009. Only 12 vessels were scrapped, of which 10 were old and small AHTS vessels. This amount does not even account for one percent of the AHTS fleet. Hence, scrapping did not contribute to any welcome news for offshore vessel owners in 2009.

THE OFFSHORE SUPPLY FLEET GREW 13 PERCENT IN 2009

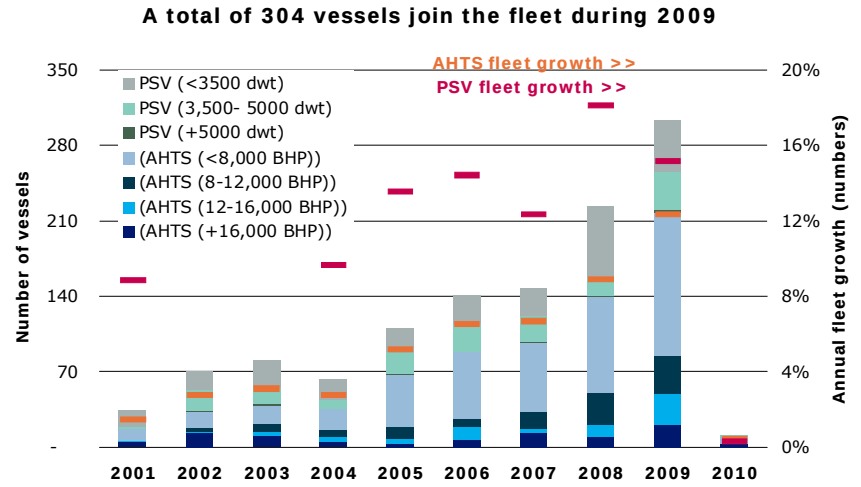
Consequently, scrapping did not offset much of the heavy inflow of new tonnage during 2009. Postponement, on the other hand, reduced fleet growth by 6%-points to 13% that year (fig. 4). The AHTS fleet grew by 12% during 2009, whereas the PSV fleet grew 15%. 2009 was yet another year of high deliveries into the offshore fleet in line with 2008, which was also a year of record-high deliveries (fig. 3).

Figure OS.3



Sources: Clarksons, Danish Ship Finance

Figure OS.4



Source: Clarksons, Danish Ship Finance

WANING DEMAND FROM OIL COMPANIES AND DRILLING OPERATORS

Market sentiments were in the doldrums. Many rig operators and oil companies seemed to have little confidence in the sustainability of the 2009 rise in oil prices. The 2009 rise in oil prices was largely a result of OPEC oil production cuts rather than improved oil demand. Rig operators and oil companies may fear that the oil price may bottom out again (as it did in the autumn of 2008) if OPEC decides to raise production.

Rig utilization fell as demand from major oil companies was lowered in tandem with the global recession. At its peak, rig operators delayed or even cancelled offshore development programs. The impact on demand for offshore supply vessels was profound.

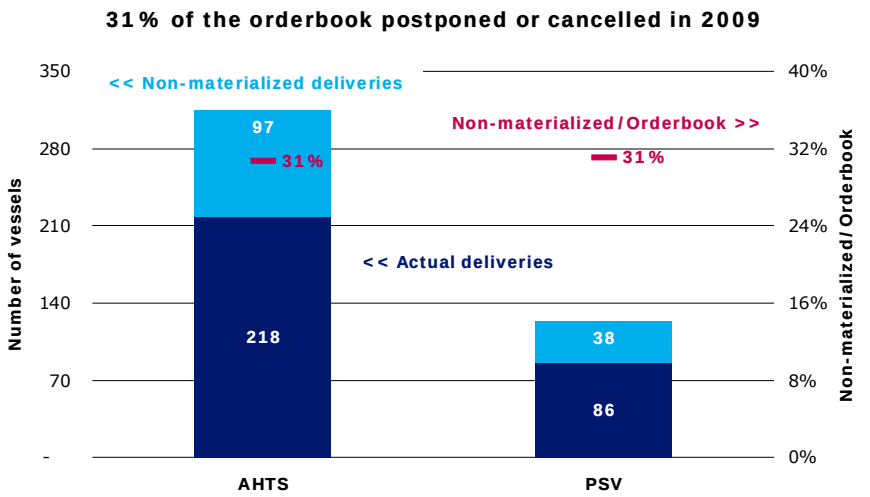
LOW RIG UTILIZATION DURING 2009

Global rig utilization fell from approximately 87% to slightly above 75% during 2009. In the first quarter of 2010, rig utilization recovered 4%-points. Accordingly, demand for offshore supply vessels declined during 2009, but has improved somewhat during first quarter 2010 (fig. 6).

SUPPLY OUTPACED DEMAND IN 2009

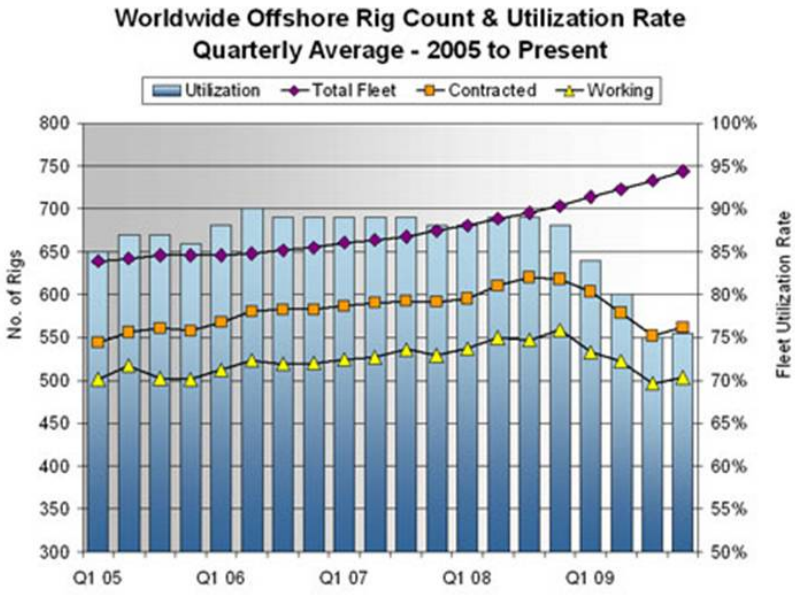
To sum up, world demand for offshore supply vessels dwindled in 2009, while supply grew 13%. As discussed above, this combination made the rally in spot rates fizzle out in 2009.

Figure OS.5



Sources: Clarksons, Danish Ship Finance

Figure OS.6



Source: ODS-PetroData

LOW CONTRACTING ACTIVITY AND YARDS' RELUCTANCE TO LOWER PRICES HAVE KEPT NEWBUILDING PRICES FAIRLY STABLE DURING 2009, WHILE SECONDHAND PRICES, ON AVERAGE, DECLINED 20% DURING THE YEAR.

LIMITED CONTRACTING ACTIVITY IN 2009

Contracting activity almost came to a complete standstill in 2009 compared to previous years. Only 31 vessels were ordered in 2009 compared to 162 vessels in 2008. In 2007, as many as 315 vessels were contracted. 2010 has yet to offer evidence of any end to this trend. Only 7 PSV vessels and no AHTS vessels were ordered during the first quarter of 2010 (fig. 7 & 8).

DELIVERY TIME SHORTENED WITH FEW NEW ORDERS

Approximately 304 vessels left the orderbook during 2009, while only 31 vessels entered the orderbook. The average PSV delivery time dropped only 10%, while the insignificant AHTS contracting activity shortened delivery time by as much as 35%. However, due to the low number of contracts determining such a figure is fraught with difficulty (fig. 6 & 7).

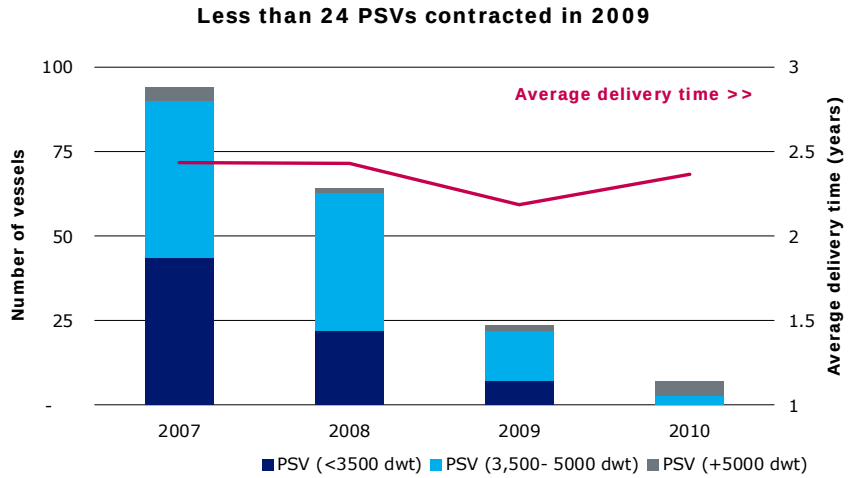
NEWBUILDING PRICES REMAINED RELATIVELY STABLE DURING 2009

Newbuilding prices remained relatively stable during 2009, even as the number of new orders dwindled to almost nothing. However, the high orderbook may have held a supporting hand under the market in 2009 and the beginning of 2010. Furthermore, yards may be reluctant to lower prices, fearing that such a move may kick-start a round of price renegotiations. This trend may, however, be found fairly difficult to maintain in 2010.

SECONDHAND PRICES DECLINED ON AVERAGE 20% IN 2009

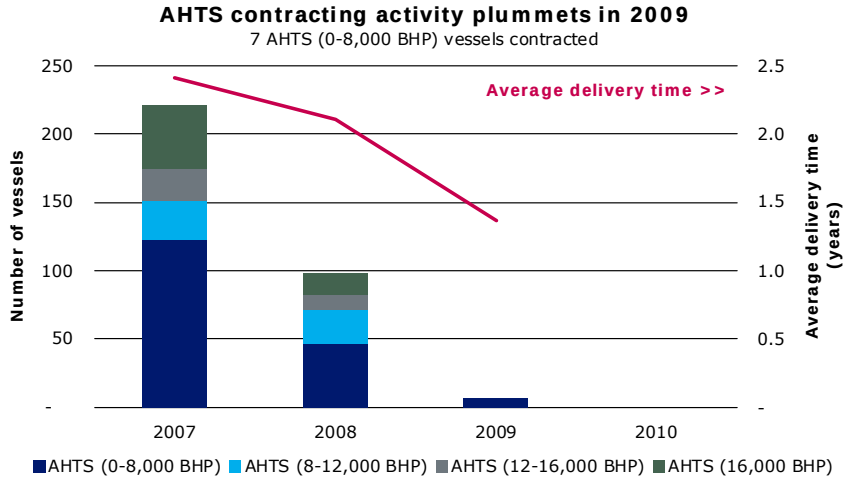
According to our assessments, secondhand values decreased, on average, 20% during the course of 2009. We estimate that asset values declined the most in the PSV segments. However, when considering the dramatic drop in spot rates during 2009, one would have suspected asset values to have dropped further. This may indicate that there is a great gap between what a willing buyer is willing to pay and the price a willing seller is willing to accept. Accordingly, few deals were closed in 2009. Reported sales were largely seen in the smaller segments. However, this tendency is not likely to continue in 2010 if freight rates remain depressed.

Figure OS.7



Sources: Clarksons, Danish Ship Finance

Figure OS.8



Sources: Clarksons, Danish Ship Finance

EVEN THOUGH DEMAND IS EXPECTED TO PICK UP IN 2010, THE OUTLOOK FOR OFFSHORE SUPPLY VESSELS IS DOMINATED BY A MASSIVE OVERSUPPLY OF VESSELS. ACCORDINGLY, WE EXPECT RATES AND VALUES TO TREND FURTHER DOWNWARDS DURING 2010.

THE OFFSHORE SUPPLY MARKET FACES DIFFICULT TIMES

The outlook for offshore supply vessels is dominated by a massive orderbook and a still fragile economic recovery as low exploration activity, oil production cuts and a weak drilling rig market still dominate the picture. What will happen in 2010 and beyond is fraught with difficulty. We shall nevertheless approach this by taking a closer look at the individual components one by one.

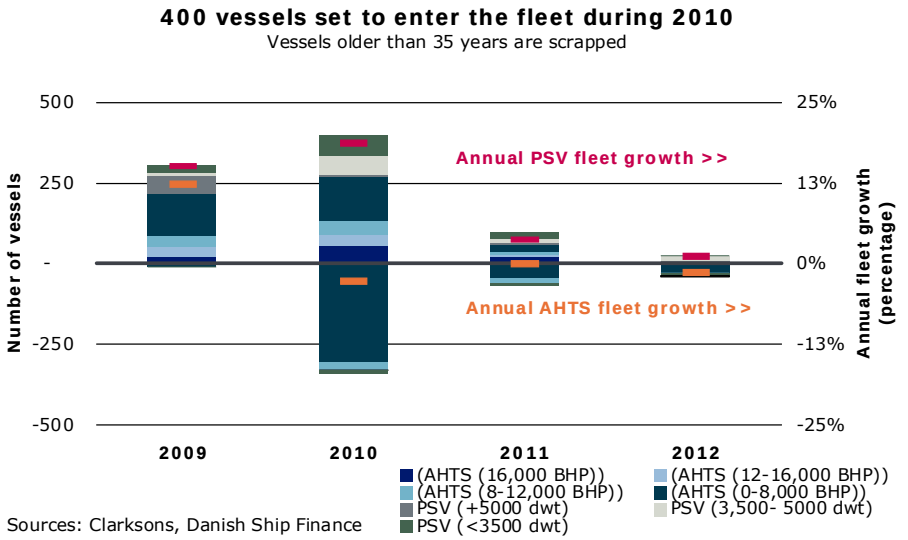
A WAVE OF NEWBUILDINGS EXPECTED TO FLOOD THE MARKET IN 2010

A total of 402 vessels are set to enter the offshore fleet during 2010, assuming that all vessels will be delivered as planned (fig. 9). Compared to the 2009 deliveries, this entails almost 100 extra vessels which are expected to enter service in 2010. 2010 is therefore likely to be yet another year of record-high deliveries. Of the 402 vessels scheduled to enter the fleet, 270 vessels are AHTS vessels, while 132 are PSVs (fig. 9). As discussed above, approximately 31% of the scheduled deliveries in 2009 were postponed to a later date or outright cancelled. We use this trend as a benchmark and postpone 31% (127 vessels) of the scheduled deliveries into 2011 or beyond. This reduces the inflow of new vessels to 275 in 2010 (fig. 10).

HUGE SCRAPPING POTENTIAL IN THE SMALLER SEGMENTS

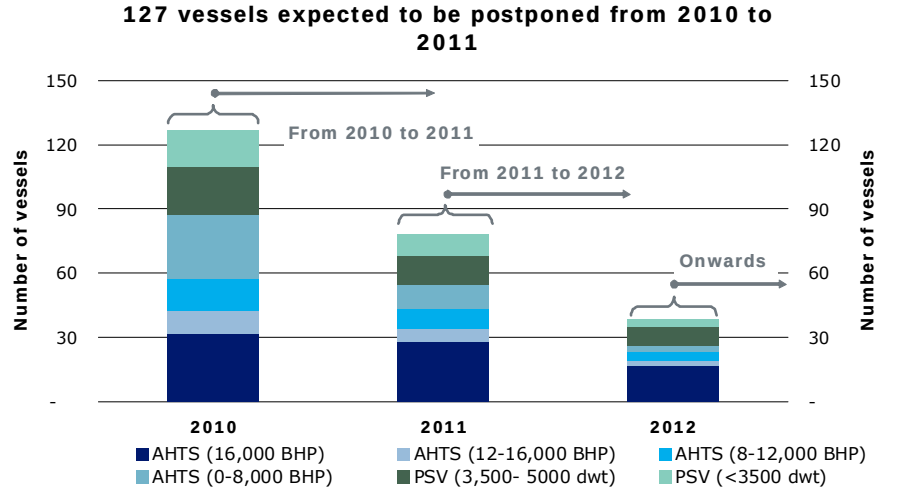
The scrapping potential of the offshore supply fleet is very unequally distributed and only worth considering for the smaller AHTS (<8,000 BHP). In the AHTS (<8,000 BHP) fleet, as many as 429 vessels are older than 30 years (fig. 10). For the larger segments and for PSVs the scrapping candidates are no match for the entering vessels. The larger vessels entering service are constructed to support deep sea oil exploration. However, these vessels will also be able to service shallow waters and therefore compete with smaller vessels, albeit smaller vessels are unable to carry out deep sea operations. Demolition of the smaller segments is therefore required if demand fails to employ the entering fleet.

Figure OS.9



Sources: Clarksons, Danish Ship Finance

Figure OS.10



Sources: Clarksons, Danish Ship Finance

POSITIVE FLEET GROWTH IN ALL SEGMENTS EXCEPT ONE

Even with heavy postponement activity and extensive scrapping of all vessels older than 35 years, most segments will experience positive fleet growth in 2010. AHTS vessels below 8,000 BHP are the only exception (fig. 11). Here, fleet growth is expected to turn negative, despite the fact that 145 vessels are scheduled to enter the fleet. The reason is simply that this segment has the largest scrapping potential, which is why we forecast that as many as 307 vessels will be scrapped during 2010 (fig. 9). The overall PSV fleet is expected to grow by 13%. The scrapping potential is limited as the fleet average age is low (fig. 11).

All in all, even when allowing for extreme postponement activity and intensifying breakup of vessels older than 35 years, the supply side for offshore supply vessels does not provide much ground for optimism during 2010. As illustrated by figure 11, even younger vessels need to be scrapped if demand fails to absorb the tonnage entering in 2010. But what about the outlook for demand?

A RECOVERY IN THE WORLD ECONOMY SUPPORTS DEMAND IN 2010

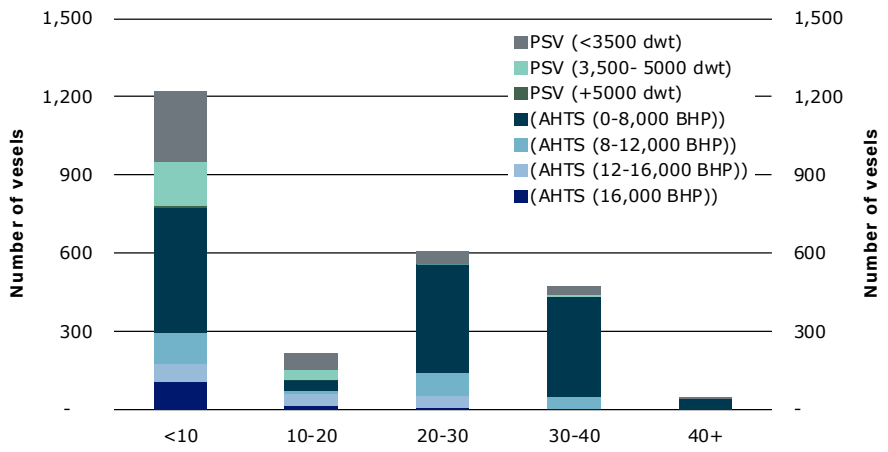
As the world economy slowly advances from the worst recession in many decades, oil demand is expected to recover accordingly (fig. T.16). Oil prices tend not to decline when oil consumption increases. The combination of a firm oil price and increased oil consumption is expected to encourage further drilling activity and attract oil companies to charter more offshore supply vessels. However, a dark horse could be OPEC deciding to increase oil production or, alternatively, a lower than expected global economic growth. Both of these factors could potentially harm demand for offshore supply vessels in 2010.

EXPLORATION EXPECTED TO INCREASE DURING 2010 AND BEYOND

In spite of this, we expect demand to pick up during 2010 as many new drilling rigs are being delivered and further exploration activity is planned to commence in Brazil and South East Asia. In Brazil, Petrobras is launching a major deepwater offshore program. In addition, US offshore activities are expected to increase in 2010 as a result of new offshore licences having been approved. Clearly, this will not directly benefit all international players because the Merchant Marine Act of 1920 (the "Jones Act") prohibits foreign companies from operating in the US. However, it can potentially reduce the presence of US operators elsewhere.

Figure OS.11

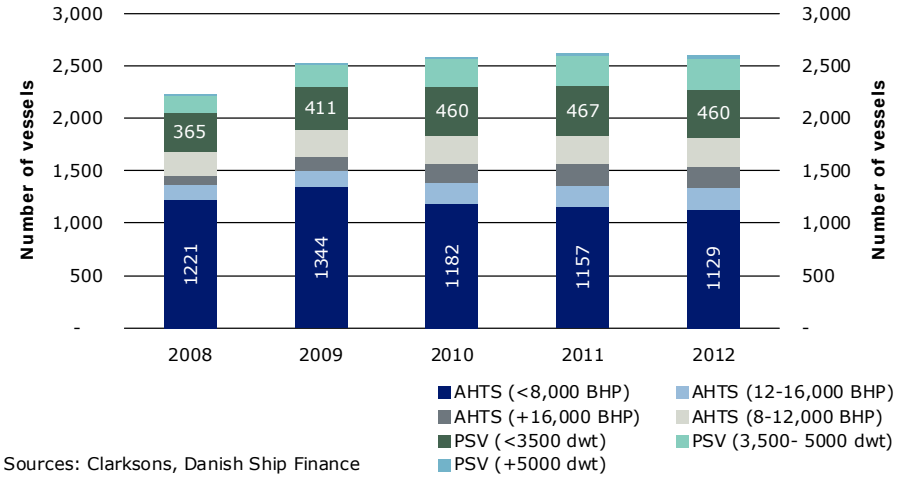
Large scrapping potential among the smaller segments



Sources: Clarksons, Danish Ship Finance

Figure OS.12

The offshore supply fleet by segments



Sources: Clarksons, Danish Ship Finance

RATES AND VALUES IN 2010

Even so, in relation to rates and values we are still not optimistic when it comes to 2010. We still believe that supply will outpace demand in 2010, unless some extraordinary supply cutting measures are taken up. Utilization rates for the offshore supply vessel fleet are most likely to decrease in 2010. This will most probably depress rates further, especially within the AHTS segments. With regard to asset values, we believe that newbuilding prices will decline in 2010, as yards will probably be trying to obtain new orders by lowering prices. However, we expect the decline to be fairly modest. Secondhand values are expected to decrease in tandem with lower rates.

If the market is to regain balance quicker than anticipated, it will be compelled to lay up vessels, experience more cancellations and instigate heavy scrapping. The main challenge in today's market is therefore to absorb the gigantic inflow of new tonnage.

GLOSSARY

Aframax:	Crude oil tanker or product tanker too large to pass through the Panama Canal and below 120,000 dwt.
AHTS:	Anchor Handling Tug Supply. Offshore vessel used for jobs such as the relocation of oil rigs and anchors of the oil rigs.
ARM:	Adjustable Rate Mortgage. Mortgage loan with a variable interest rate that is being adjusted on a regular basis.
Back-haul:	The leg of the trade route that has the lowest container volumes is often called 'back-haul, whereas the return leg is often referred to as 'head-haul'.
Barrel:	A volumetric unit measure for crude oil and petroleum products equivalent to 42 U.S. gallons, or approximately 159 litres.
BHP:	Break Horse Power. The amount of engine horsepower.
Brent:	Term used for crude oil from the North Sea. Brent oil is traded at the International Petroleum Exchange in London, and the price of Brent is used as a benchmark for several other types of European oil.
Bulk vessel:	Description of vessels transporting large cargo quantities, including coal, iron ore, steel, corn, gravel, oil, gas, etc.
Bunker:	Fuel for vessels.
Call on OPEC:	Defined as total global petroleum demand minus non-OPEC supply minus OPEC natural gas liquid supply.
Capesize:	Dry bulk carrier of more than approximately 80,000 dwt; too large to pass through the Panama Canal.
Cbm:	Cubic Meter.
Ceu:	Car equivalent unit. Unit of measure indicating the car carrying capacity of a vessel.
Cgt:	Compensated Gross Tonnage. International unit of measure that facilitates a comparison of different shipyards' production regardless of the types of vessel produced.
Clarksons:	British ship brokering and research company. www.clarksons.net
Clean products:	Refers to light, refined oil products such as jet fuel, gasoline and naphtha.
CoA:	Contract of Affreightment. Contract between shipping company and shipper concerning the freight of a predetermined volume of goods within a given period of time and/or at given intervals.
CSR:	Common Structural Rules. A common set of construction rules agreed by the leading international classification societies to be applied to all new construction contracts from April 1, 2006 between shipyards and shipowners for tankers of 150 m or more in length and bulk carriers of 90 m or more in length. The CSR require the ships to be built at a higher set of standards thus enabling the ships to trade for longer.
Dirty products:	Refers to heavy oils such as crude oil or refined oil products such as fuel oil, diesel oil or bunker oil.
Drewry:	Drewry Shipping Consultants Ltd. British shipping and transport research company. www.drewry.co.uk
Dwt:	Dead Weight Tons. Indication of a vessel's cargo carrying capacity (including bunkers, ballast, water and food supplies, crew and passengers).
Dynamic Positioning:	Special instruments on board that in conjunction with bow thrusters and main propellers enable the ship to position itself

	in a fixed position in relation to the seabed.
EIA:	Energy Information Administration. A subsidiary of the US Department of Energy. www.eia.doe.gov
E&P:	Exploration and Production.
Fearnleys:	Norwegian ship brokering and research company. www.fearnleys.no
Feeder:	Small container carrier.
FPSO:	Floating Production Storage Offloading unit. Vessel used in the offshore industry to process and store oil from an underwater (sub-sea) installation.
Geared:	Indicates that a vessel is equipped with a crane or other lifting device.
Gearless:	Indicates that a vessel is not equipped with a crane or other lifting device.
Global Insight:	American economic consulting company. www.globalinsight.com
Gt:	Gross Tons. Unit of 100 cubic feet or 2.831 cubic meters, used in arriving at the calculation of gross tonnage.
Handy, tank:	Crude oil tanker, product tanker or chemical tanker of between 10,000 and 25,000 dwt.
Handymax, dry cargo:	Dry bulk carrier of between approximately 40,000 and 60,000 dwt.
Handysize, dry cargo:	Dry bulk carrier of between approximately 10,000 and 40,000 dwt.
Head-haul:	The leg of the trade route that has the highest container volumes is often called 'head-haul, whereas the return leg is often referred to as 'back-haul'. On routes where there is a great trading volume mismatch between head-haul and back-haul, the head-haul demand will most often determine the freight rate level.
IEA:	International Energy Agency. A subsidiary of the OECD. www.iea.org
Imarex:	International Maritime Exchange. www.imarex.com
IMO:	International Maritime Organization. An organisation under the UN.
IMO I-III:	Quality grades for tankers for the permission to transport different chemical and oil products. IMO I are the most hazardous products, IMO III the least hazardous.
Chemical tanker:	Tanker with coated or stainless steel tanks (IMO I-III).
LOOP:	Louisiana Offshore Oil Port. A deepwater port in the Gulf of Mexico off the coast of Louisiana. LOOP provides tanker offloading and temporary storage services for crude oil transported on some of the largest tankers in the world of which some are too large for U.S. inland ports.
LPG vessels:	Liquefied Petroleum Gas. Vessels used to transport ammonia and liquid gases (ethane, ethylene, propane, propylene, butane, butylenes, isobutene and isobutylene). The gases are transported under pressure and/or refrigerated.
LR1, product tanker:	Long Range 1. Product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 50,000—80,000 dwt.
LR2, product tanker:	Long Range 2. Product tanker too large to pass through the Panama Canal and larger than approximately 80,000 dwt.
Medium, tanker (MR):	Medium Range. Product tanker of between 25,000 and 50,000 dwt.
MEW:	Mortgage Equity Withdraw. Defined as equity extracted from existing homes via cash-out refinancing, home equity borrowing, and/or housing turnover.

Multi-Purpose:	Dry bulk carrier with multiple applications, mainly as a feeder vessel or for special cargo.
Nautical Mile:	Distance unit measure of 1,582 meters, or 6,076.12 ft.
Offshore vessel:	Vessel serving the offshore oil industry.
OPEC:	Organisation of Petroleum Exporting Countries.
Panamax, container:	Container carrier with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres, length of 291 metres) of approximately 3,000—5,000 teu.
Panamax, tanker:	Crude oil tanker or product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 50,000—80,000 dwt.
Panamax, dry cargo:	Dry bulk vessel with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 60,000—80,000 dwt.
PCC:	Pure Car Carrier. Car carrier built exclusively to transport passenger cars.
Post-Panamax:	Container vessel of approximately 4,000+ teu that is too large to pass through the Panama Canal.
Product tanker:	Tanker vessel with coated tanks used to transport refined oil products.
PSV:	Platform Supply Vessel. Offshore vessel serving the offshore oil installations.
Ro-Ro:	Roll On – Roll Off. Common description of vessels on which the cargo is rolled on board and ashore.
SSY:	Simpson Spence & Young, British ship brokering and research company. www.ssy.co.uk
Suezmax:	Crude oil tanker with the maximum dimensions for passing through the Suez Canal (approximately 120,000—200,000 dwt.).
TCE:	Time Charter Equivalent.
Teu:	Twenty Feet Equivalent Unit. Container with a length of 20 feet (about 6 metres) which forms the basis of describing the capacity of a container vessel.
Teu-knots:	Unit of measure that takes account of the speed of the ships when estimating the actual supply of ships within a segment.
Teu-nautical mile:	Unit of measure indicating the volume of cargo, measured in teu, and how far it has been transported, measured in nautical miles.
Ton-nautical mile:	Unit of measure indicating the volume of cargo, measured in ton, and how far it has been transported, measured in nautical miles.
Tonnage:	Synonymous with "vessel".
ULCC:	Ultra Large Crude Carrier. Crude oil tanker above 320,000 dwt.
VLCC:	Very Large Crude Carrier. Crude oil tanker of between approximately 200,000 and 320,000 dwt.
VLGC:	Very Large Gas Carrier. LPG ship with capacity above 60,000 cbm.
WTI:	West Texas Intermediate. Oil price benchmark in the USA.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