SHIPPING MARKET REVIEW

MAY 2011

DANMARKS SKIBSKREDIT

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EXECUTIVE SUMMARY

THIS REPORT REVIEWS KEY DEVELOPMENTS IN SHIPPING MARKETS AND THE MAIN SHIPPING SEGMENTS DURING THE PERIOD FROM OCTOBER 2010 TO MAY 2011 AND INDICATES POSSIBLE FUTURE MARKET DIRECTIONS.

SHIPBUILDING

Shipyards' order cover continues to decline as more tonnage is being delivered than contracted. During 2010 and the first quarter of 2011, 44 million cgt was contracted while 64 million cgt left the shipyards. Global yard output increased to 52 million cgt (16%) in 2010. Still, we estimate that global yard output could have been 8 million cgt higher if capacity had been fully utilized. South Korean shipyards in particular are believed to have been running below capacity in 2010. Significant postponement and cancellation activity across the board is believed to be part of the explanation for the relatively low global shipyard utilization in 2010. For 2011 and beyond, we expect it will be difficult for shipyards to utilize their current capacity Not even very extensive postponement activity is likely to support current yard capacity beyond 2013.

CONTAINER

The container market continues to recover as the oversupply of tonnage is being absorbed by extensive use of slow steaming and increased demand. In 2010, head-haul demand growth increased by 12% while nominal supply grew by 10%. Although remaining low, timecharter rates have benefitted from the improved market conditions. Box rates have failed to reflect the improved market situation, as Liners have been focusing on market share rather than box rate increases. The increased focus on gaining market share has apparently led to an increased appetite for new, large and more fuel-efficient vessels. Contracting activity and asset values have increased accordingly. The outlook for 2011 and 2012 is dominated by the challenge of absorbing the large inflow of Post-Panamax vessels. Although, distance-adjusted demand is expected to increase by 6-7% during the next two years, we doubt that this will be enough to absorb the Post-Panamax deliveries. Rates and values might decline in 2011 and 2012.

CRUDE TANKERS

The crude tanker market is struggling to obtain higher freight rates even though demand expanded faster than supply. Vessels previously employed in floating storage increased fleet availability as they returned to the spot market. In 2010, distance-adjusted crude tanker demand increased by 7%, while the crude tanker fleet expanded by 3%. However, owners' appetite for new tonnage seemingly was not spoiled by the low freight rates. In 2010, 32 million dwt was contracted while 28 million dwt was delivered. Asset values remained somewhat stable in 2010 and the first quarter of 2011. The outlook for 2011 and beyond is dominated by the massive inflow of new tonnage expected to be delivered. The crude tanker fleet is expected to grow by 10% in 2011 while distance-adjusted demand is predicted to advance by 9%. If this turns out to be fairly accurate, the outlook for rates and values is not bright.

PRODUCT TANKERS

Despite strong growth in demand for refined oil products, the product tanker market is still struggling to absorb the large inflow of tonnage seen in 2008 and 2009. This may continue well into 2012. In 2010, the product tanker fleet grew by 5% while distance-adjusted demand increased by 6%. Fleet availability increased by more than nominal supply growth as vessels previously employed in floating storage returned to the spot market. Rates and values remain low as demand fell short of supply in the product tanker fleet. For 2011, distance-adjusted demand is expected to advance 6% and the product tanker fleet is expected to grow by 5%. This might support rates and values, but we fear that demand might continue to struggle matching the fleet capacity.

DRY BULK

The Dry Bulk market is characterized by an oversupply of tonnage despite strong growth in demand. The Dry Bulk fleet expanded by 17% during 2010 and the fleet continued to grow fast in the first quarter of 2011. Distance-adjusted Dry Bulk demand saw large growth rates of up to 13% during 2010. However, the growth in demand was not enough to offset the inflow of new tonnage. Rates and values remained low. For every ten vessels at sea, the fleet is expected to grow by an additional five during the next few years. Demand is not expected to absorb such an inflow of new capacity. We therefore maintain a cautious outlook for the Dry Bulk market for the next couple of years, especially for the larger vessels.

LPG TANKERS

The LPG tanker market has largely recovered from the financial crisis and is beginning to see improving market conditions. Although still below the highs of 2008, the Baltic LPG index gained 60% during 2010 and has so far shown solid growth during 2011. Substantially longer trading distances and increasing trade volumes led distance-adjusted LPG demand to increase by 5-6% in 2010. The LPG fleet grew by a modest 3% in 2010. Contracting activity resurged in 2010 after the record-low contracting activity in 2009. Nonetheless, newbuilding and secondhand prices waned during 2010 and into 2011. However, the outlook is bright as the fleet is expected to remain stable during the next couple of years whereas distance-adjusted demand is expected to increase by 3-4% in 2011 and 2012.

WORLD DEMAND INDICATORS

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WORLD DEMAND INDICATORS

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THE WORLD ECONOMY IS RECOVERING FASTER THAN PREVIOUSLY ANTICIPATED. GLOBAL TRADE VOLUMES ARE INCREASING ACCORDINGLY. THE OUTLOOK FOR WORLD TRADE LOOKS BRIGHT, BUT WE FEAR THAT WORLD DEMAND MIGHT FAIL TO FULLY ABSORB THE CAPACITY OF THE MERCHANT FLEET IN 2011 AND BEYOND.

The world economy has largely recovered from the financial crisis of 2008. The remedy has, so far, primarily been to pump money into the global economy on an unprecedented scale. The Asian growth locomotive continues to pull global GDP growth while several of the major OECD economies are struggling to recover the lost territory.

The long-term consequences of the recovery remain to be seen. A concern could be that global recovery will take more than simply pumping money into the system. The global savings imbalances imply that several of the initiated stimuli programs are debt financed. Effectively, one problem has been addressed by escalating another.

From our perspective, four factors, in particular, add uncertainty to the sustainability of the recovery. If these four issues continue to expand, we fear that future world trade volumes may fall short of predictions.

1. HIGH UNEMPLOYMENT

The economic recovery has so far not reduced unemployment significantly. Although employment is usually lagging during a phase of recovery, the fact that unemployment remains high is continuously inhibiting the recovery.

2. HIGH AND RISING DEBT BURDEN

For several advanced economies, much of the injected monetary and fiscal stimuli programs have been publicly financed. In several countries this has brought sovereign debts to unsustainable levels. The eurozone fringe economies have in particular been hit by a sovereign debt crisis, as countries such as Greece, Ireland, Portugal and to a lesser extent Spain and Italy are struggling under the impact of their debt burdens. For these countries, credit spreads have widened accordingly. Whether these countries will be able to repay their sovereign debt still remains to be seen. Alternatively, an IMF supported restructuring of their debt could be necessary. Such a restructuring is unlikely to be beneficial for private consumption and economic growth and could fuel a revival of the crisis in the financial sector.

3. HIGH AND INCREASING COMMODITY PRICES

High economic growth in several emerging markets has been the main driving force in the recent commodity price rally. In the short run, rising commodity prices are expected to lower the potential for economic growth, as the purchasing power is being eroded. If commodity prices continue to increase, and they take root in inflationary expectations, rising commodity prices may become a more direct problem for GDP growth as central banks will most likely respond by hiking interest rates. To make matters worse, rising interest rates in turn, will most likely be harmful for the housing markets, the very source of the financial crisis, in advanced as well as emerging countries.

4. TIGHTER FUTURE BANKING REGULATION

The extensive use of taxpayer's money in response to the financial crisis has generated public demand for tighter financial regulation in several advanced economies. This tightening is expected to require banks to increase their capital and liquidity ratios. A lower and more costly supply of credit is expected to reduce the growth potential of the global economy.

WORLD GDP PROJECTED TO EXPAND BY 4.4% IN 2011

Nonetheless, the global recovery continues to grow faster than previously expected. From October 2010 to January 2011, the IMF forecast for the global recovery was revised upwards by ¼%. By doing so, the IMF is predicting that the world economy will expand by 4.4% in 2011 (5% in 2010). This reflects stronger-than-expected economic growth during the second half of 2010 combined with new fiscal stimuli initiatives.

WORLD TRADE VOLUMES INCREASED 15% IN 2010

The stronger than expected economic growth during the second half of 2010 was also reflected in world trade volumes. By October 2010, the WTO expected world trade volumes to increase by 13.5% in 2010, implicitly assuming a levelling off in world trade volumes during second half 2010. World trade volumes did actually level off but managed to grow 13% during the second half of 2010 (17% during the first half of 2010). Consequently, world trade volumes increased 15% in 2010 and thus returned to pre-crisis levels (fig. 1). In 2011, world trade volumes are expected to expand by 6.5%, according to the WTO.

WORLD INDUSTRIAL PRODUCTION UP BY 10% IN 2010

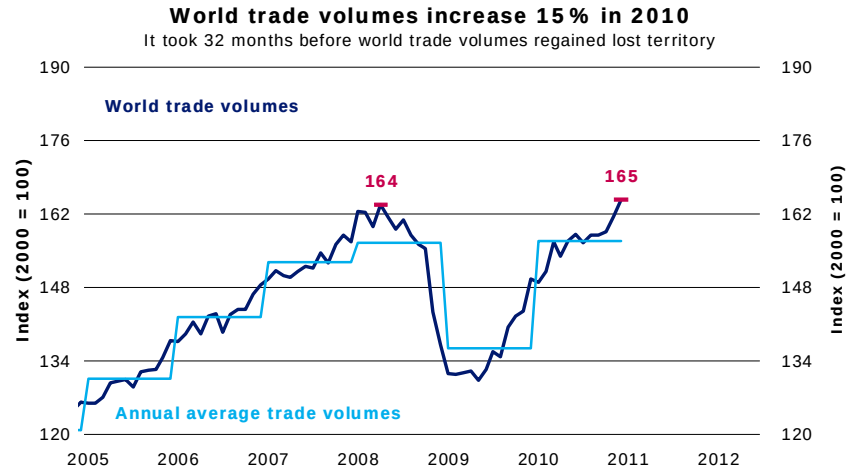
World industrial production returned to pre-crisis territory after gaining 10% in 2010. However, growth was not equally distributed among regions. On the one hand, Asian industrial production did not suffer a decline during the financial crisis. Asian industrial production increased by 15% during 2010 and is now 23% above the 2008 level. On the other hand, the primary OECD countries reduced industrial production greatly during the financial crisis, but still produced positive growth figures during 2010 (fig. 2). The growth in world industrial production levelled off in tandem with lower trade volumes during 2010.

WORLD STEEL PRODUCTION INCREASE BY 16% IN 2010

In 2010, world steel production grew faster than world industrial production. World steel production increased by 16% in 2010.

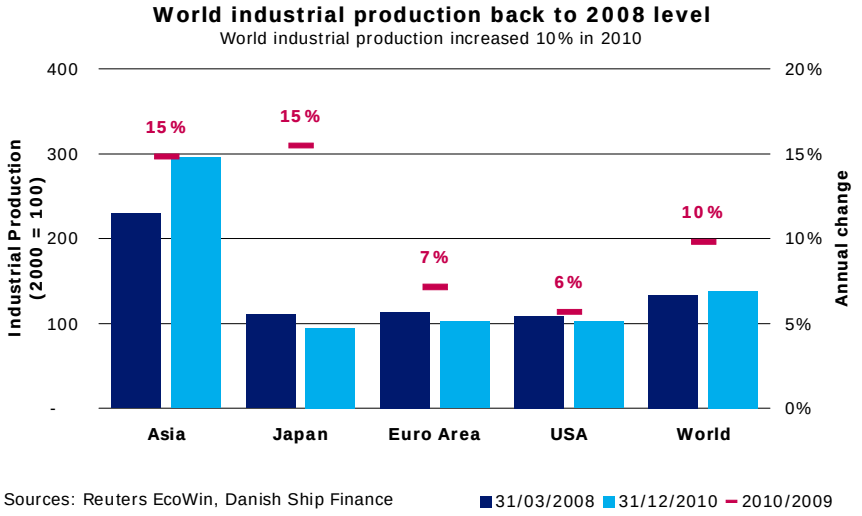
Japanese and European steel production resumed some of the lost activity by increasing production 25% in 2010. In volume terms this is

Figure WDI.1



Sources: Reuters EcoWin, Danish Ship Finance

Figure WDI.2



Sources: Reuters EcoWin, Danish Ship Finance

approximately equal to the annual increase in Chinese steel production (+10%). In absolute terms, however, Japan and Europe can muster about half of China's steel production output (fig. 3).

WORLD OIL CONSUMPTION UP BY 3% IN 2010

World oil consumption increased by 3% (2.4 million barrels per day) in 2010. OECD oil consumption increased by 1% (half a million barrels per day) while non-OECD oil consumption rose by 5% (1.8 million barrels per day). OECD oil consumption is nonetheless almost 4 million barrels per day below the peak consumption of 2005. Non-OECD oil consumption level has not declined during the financial crisis.

THE CAPACITY OF THE WORLD MERCHANT FLEET INCREASED BY 10% IN 2010

After two years, aggregate demand for the world merchant fleet seems finally to have exceeded the 2008 pre-crisis demand. The capacity of the merchant fleet has in the meantime increased almost 30% (320 million dwt) of which capacity increased by approximately 10% (137 million dwt) in 2010. It is therefore hardly surprising that various segments are struggling to utilize available capacity and hence to obtain rates above break-even levels.

RISK OF FURTHER OVERSUPPLY

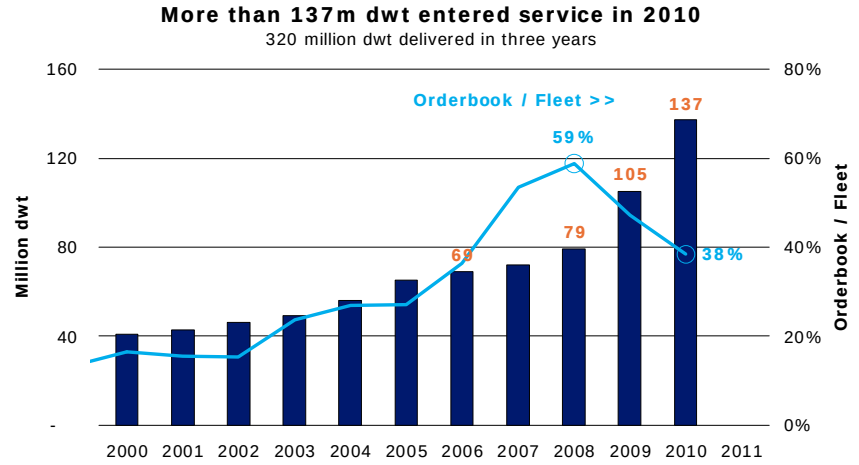
The future is shrouded in uncertainty. Clearly, demand volumes are back above pre-crisis levels and are expected to increase during 2011 and the coming years. Shipyards, on the other hand, are scheduled to flood the merchant fleet with new tonnage in 2011 and 2012. For each 10 vessels currently at sea, an additional three are expected to be delivered during the next couple of years. Therefore, the supply-demand balance for several segments in 2011 and 2012 is expected to worsen heading towards a significant nominal supply surplus. A severe outlook for rates and values seems to be building for 2011 and beyond unless demand exceeds expectations.

Figure WDI.3

Sources: Reuters EcoWin, Danish Ship Finance

Quarterly figures

Figure WDI.4



Sources: Clarksons, Danish Ship Finance

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SHIPBUILDING

GLOBAL SHIPYARD CAPACITY SEEMS BEYOND THE POINT OF SUSTAINABILITY. NEWBUILDING PRICES ARE CURRENTLY STABLE, ALTHOUGH THE GLOBAL ORDER COVER CONTINUES TO DECLINE. SHIPYARD PROFITABILITY MAY COME UNDER PRESSURE AND SOME YARDS ARE EXPECTED TO REDUCE CAPACITY OR CLOSE DOWN DURING THE NEXT FEW YEARS.

NEWBUILDING PRICE

NEWBUILDING PRICES HAVE STABILIZED AT USD 1,100 PER DWT, A PRICE LEVEL LAST SEEN IN 2004. NEWBUILDING PRICES ARE 15-20% HIGHER THAN OUR EXPECTATIONS.

By February 2010, the average newbuilding price had fallen to just below USD 1,100 per dwt. From February 2010 to March 2011, newbuilding prices remained fairly stable at around USD 1,100 per dwt, a price level last seen in 2004.

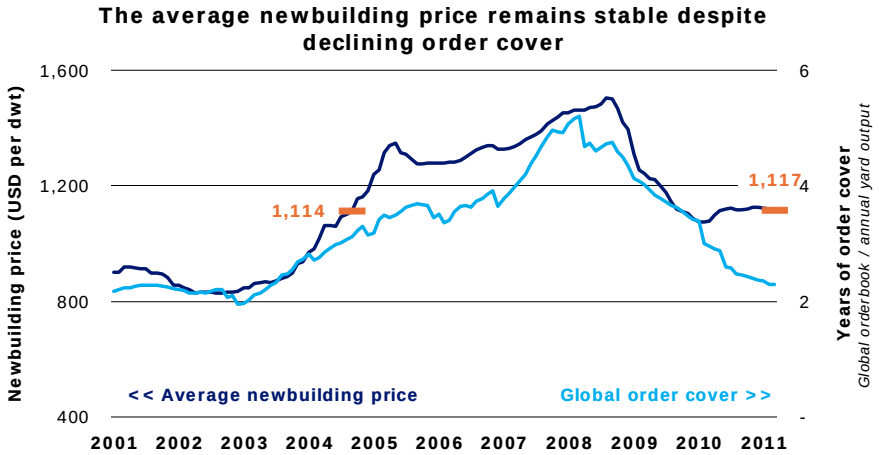
In general, newbuilding prices are expected to rise when more tonnage is being contracted than delivered and vice versa. Global yard output has more than doubled since 2004 to an annual delivered capacity of 52 million cgt in 2010. From August 2008, global contracting activity has fallen short of annual yard output. Consequently, the global order cover has fallen from 4 years to approximately 2.3 years. Therefore, it was hardly surprising that the average newbuilding price per dwt declined from August 2008 to February 2010. The surprising part was that 36 million cgt of new contracts (i.e. 30% less than the delivered capacity) was enough to stabilize newbuilding prices.

NEWBUILDING PRICE 15-20% OVERVALUED

To us this might indicate that the current newbuilding price of USD 1,100 per dwt could be overvalued. We would expect current newbuilding prices to be in the range of USD 850-950 per dwt.

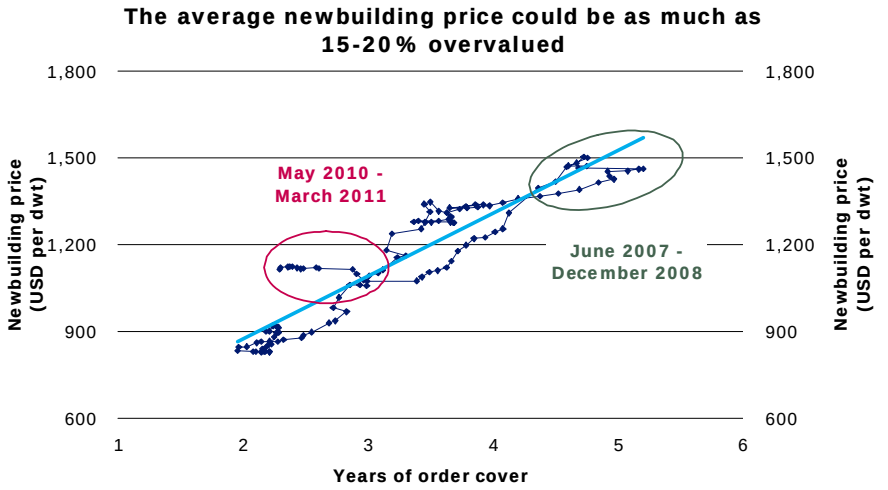
Clearly, our approach gives little more than a general trend perspective to newbuilding prices. We have not taken account of the individual yard situation, the recent developments in steel and other component costs, or of foreign exchange issues.

Figure SB.1



Sources: Clarksons, Danish Ship Finance

Figure SB.2



Sources: Clarksons, Danish Ship Finance

THE CONTRACTING ACTIVITY WAS SURPRISINGLY STRONG IN 2010 AND THE FIRST QUARTER OF 2011 WITH 42 MILLION CGT CONTRACTED IN THE 15–MONTH PERIOD. JAPANESE YARDS STRUGGLED TO OBTAIN NEW ORDERS BUT CHINESE SHIPYARDS MAINTAINED MOMENTUM. NEVERTHELESS, THE AVERAGE ORDER COVER CONTINUED TO DECLINE.

44 MILLION CGT CONTRACTED IN 2010 AND 2011

Shipowners contracted 37 million cgt during 2010. This is more than 20 million cgt above the 2009-level, but significantly less than in the preceding years. What is perhaps more interesting, in relation to shipyard capacity and newbuilding prices, 36 million cgt is 15 million cgt less than the 2010 global shipyard output. Consequently, the global order cover was, on average, reduced by six months in 2010. During the first three months of 2011, global contracting reached 7 million cgt. This is 7% less than in the same period of 2010. Of the 44 million cgt contracted in 2010 and 2011, we estimate that between 15-20% could be purchase options.

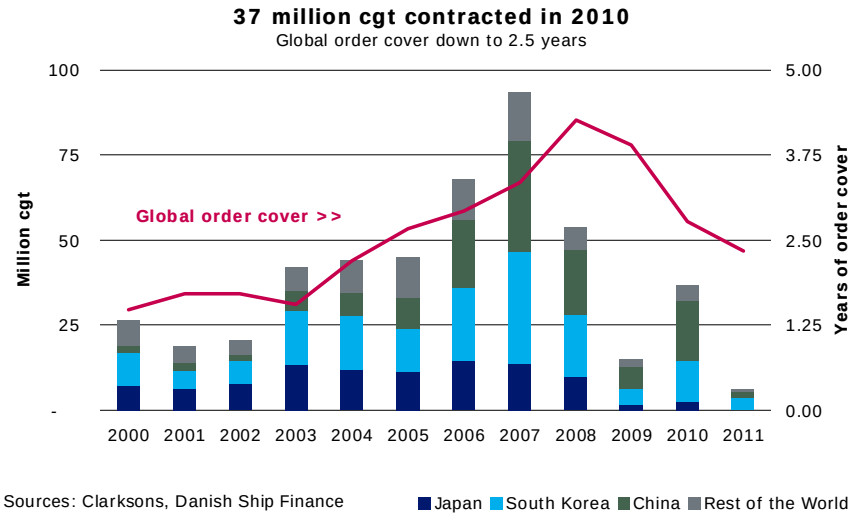
GLOBAL ORDER COVER BELOW 3 YEARS AND DWINDLING

Japanese shipyards appear to have suffered the most. Japanese shipyards' order cover dropped to 22 months (i.e. a reduction of eight months in 2010) as yards failed to secure new orders to match the annual delivered capacity. The strong yen may be the key challenge for Japanese shipyards. Chinese shipyards, on the other hand, recorded new contracts of 17 million cgt in 2010. This is almost the same volume as registered in 2008. Despite the fact that Chinese shipyards' output increased by 50% between 2009 and 2010 (additional 6 million cgt delivered), the Chinese order cover only fell by a few months during 2010. By January 2011, Chinese shipyards had an order cover of 2.7 years. The global order cover fell by six months in 2010 and is now approximately 2.5 years.

DRY BULK AND TANKERS REMAIN THE FAVOURITE CANDIDATES

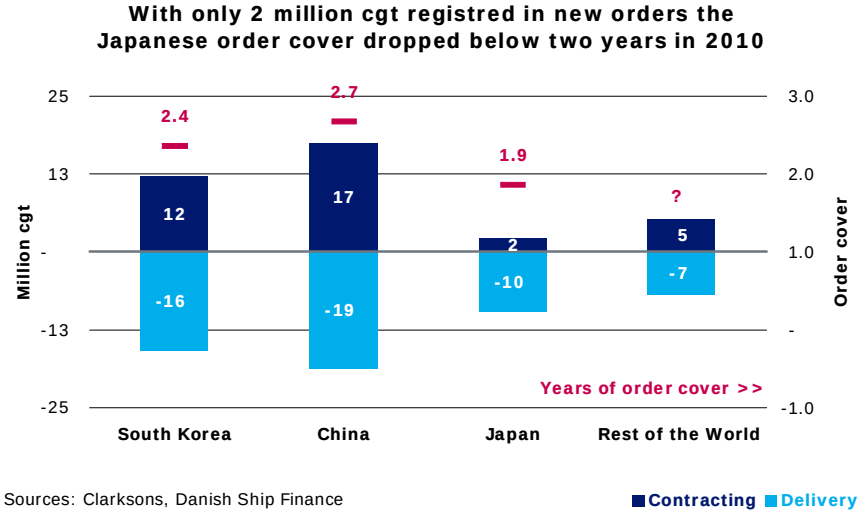
Despite the risk of an oversupply, shipowners continued to favour Dry Bulk and Tankers when placing new orders in 2010 and during the first quarter of 2011.

Figure SB.3



Sources: Clarksons, Danish Ship Finance

Figure SB.4



Sources: Clarksons, Danish Ship Finance

52 MILLION CGT WAS DELIVERED IN 2010, WHILE 69 MILLION CGT WAS SCHEDULED FOR DELIVERY. 13 MILLION CGT OF THE 69 MILLION CGT COULD BE REGARDED AS PURCHASE OPTIONS. NINE OUT OF TEN OF THE FIRM ORDERS SCHEDULED FOR DELIVERY IN 2010 WAS ACTUALLY DELIVERED. SOUTH KOREAN YARDS WERE THE POOREST PERFORMERS.

NINE OUT OF TEN FIRM ORDERS DELIVERED IN 2010

At the beginning of 2010, a total of 69 million cgt was scheduled for delivery in 2010. Obviously, there is always uncertainty attached to the size of the orderbook. Our approach to the global orderbook is to distinguish between *firm orders* and *purchase options*. Firm orders are orders with delivery agreed by month and year. A purchase option is an order with an expected delivery year but no firm delivery month. In figure 5, we illustrate the 69 million cgt scheduled for delivery in 2010 by builder country and the nature of the order.

52 MILLION CGT DELIVERED IN 2010

In the October 2010 edition of our Shipping Market Review, we predicted that as much as 51 million cgt could be delivered during 2010. It turned out that our prediction was fairly accurate. 52 million cgt was actually delivered during 2010.

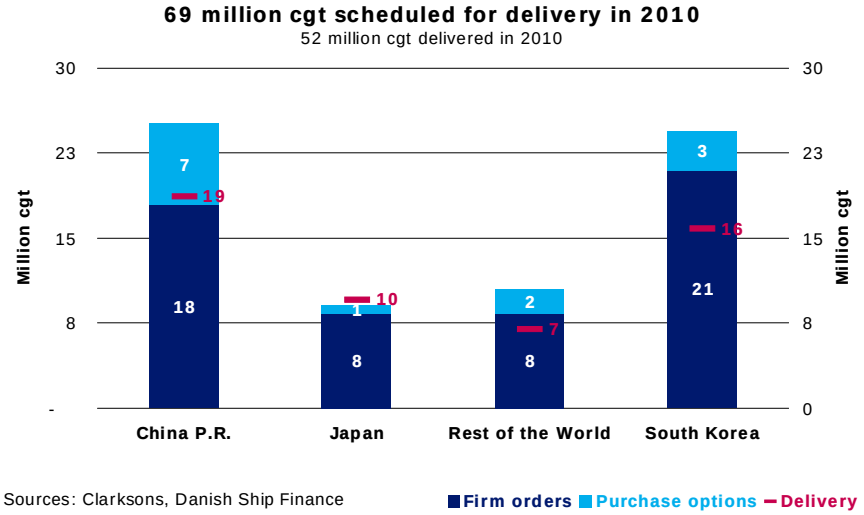
SOUTH KOREAN YARDS BUILT TWO OUT OF THREE FIRM ORDERS IN 2010

Figure 5 illustrates that most shipyards mainly built firm orders in 2010. The surprising element is that South Korean shipyards only built 16 million cgt, although they had 21 million cgt registered as firm orders for delivery in 2010. For the present purposes, we merely take note of this surprising underperformance. In the next section, we will study yard capacity and utilization.

TANKER DELIVERIES PERFORMED THE WEAKEST IN 2010

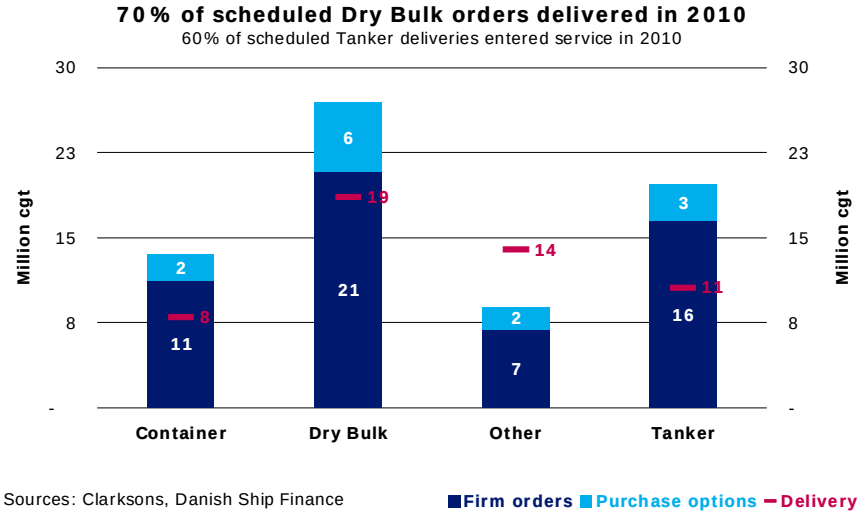
Of the four major segments (specialised tonnage such as Offshore Supply Vessels is part of the Other segment), Tanker deliveries performed the lowest. Only six out of ten tankers scheduled for delivery in 2010 were delivered. Seven out of ten Dry Bulk orders scheduled for 2010 entered service in 2010 (fig. 6).

Figure SB.5



Sources: Clarksons, Danish Ship Finance

Figure SB.6



Sources: Clarksons, Danish Ship Finance

GROWING BY 6 MILLION CGT IN 2010, CHINA'S SHIPYARD OUTPUT LED THE INCREASE IN GLOBAL YARD OUTPUT. DESPITE THE LARGE ORDERBOOK, THE AVERAGE SHIPYARD UTILIZATION RATE REMAINED STABLE AT AROUND 85%. SIGNIFICANT POSTPONEMENT AND CANCELLATION ACTIVITY COULD BE PART OF THE EXPLANATION.

GLOBAL YARD OUTPUT INCREASED 16% IN 2010

Global yard output reached 52 million cgt in 2010. This is an increase of almost 7 million cgt (16%) in one year. The primary output increase came out of China where annual output increased by 50% (6 million cgt) in 2010. Yard output remained stable in the three other regions. The interesting part is whether global yard capacity actually increased by more than 7 million cgt in 2010. In other words, could the shipyards actually have built the 69 million cgt scheduled for delivery in 2010?

GLOBAL YARD OUTPUT COULD HAVE BEEN 8 MILLION CGT HIGHER IN 2010

We estimate that global yard capacity could have been as high as 60 million cgt in 2010. Therefore, all firm orders plus one third of the purchase options could have been delivered in 2010, if all yards had performed to their maximum capacity (fig. 7).

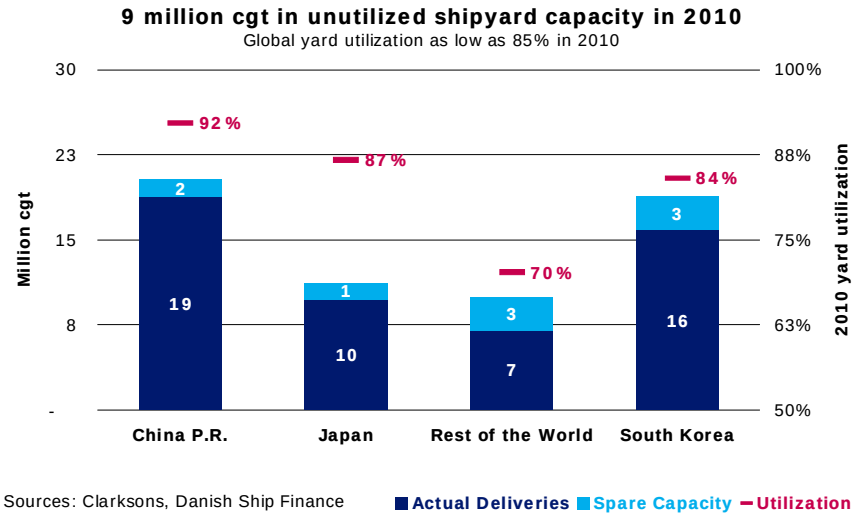
GLOBAL YARD UTILIZATION OF 85% IN 2010

However, circumstances turned out differently. Shipyards did not run at maximum capacity as owners seemed to have been successful in postponing deliveries and cancelling orders. According to our calculations, global yards capacity was utilized 85%, on average, in 2010. Despite the strong output growth, Chinese yards achived an average utilization rate of 92%. Japanese shipyards utilized 87% of their capacity, while South Korean yards ran at 84% in 2010 (fig. 7).

12 MILLION CGT CANCELLED IN 2010

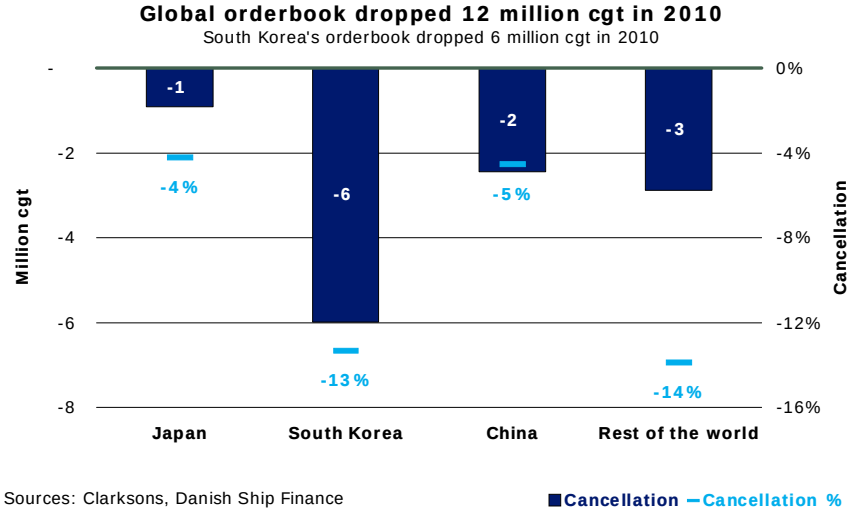
At the beginning of 2011, the aggregate global orderbook stood at approximately 141 million cgt. Based on the contracting and delivery activity during 2010, we estimate that as much as 12 million cgt (9% of the orderbook) might have been cancelled during 2010. In particular, South Korean yards seem to have been experiencing order cancellations. We calculate that 6 million cgt (13% of the aggregate orderbook) was cancelled in 2010.

Figure SB.7



Sources: Clarksons, Danish Ship Finance

Figure SB.8



Sources: Clarksons, Danish Ship Finance

POTENTIAL FUTURE OVERCAPACITY OVERSHADOWS THE OUTLOOK FOR GLOBAL SHIPYARDS. AN ALARMING 110 MILLION CGT IS REQUIRED TO BE CONTRACTED IF CURRENT CAPACITY IS TO BE UTILIZED BEYOND 2013. FOR THE NEXT COUPLE OF YEARS WE EXPECT INSUFFICIENT CONTRACTING ACTIVITY, DECLINING YARD PROFITABILITY AND HENCE LOWER GLOBAL YARD CAPACITY.

POTENTIAL FUTURE YARD OVERCAPACITY

The global yard capacity is large and will most likely exceed future demand for new tonnage. The essential questions to ask are obviously related to which yards will reduce their production capacity or eventually close down. Answering such questions is beyond the scope of this report, but we will try to assess the size of the problem by estimating how much new capacity is required to be ordered before the current yard capacity is fully utilized. We take a fairly optimistic view, assuming significant postponement activity from one year to the next. By doing so, we extend the global order cover by more than a year. Alternatively, the outlook for global shipyards would look even more severe.

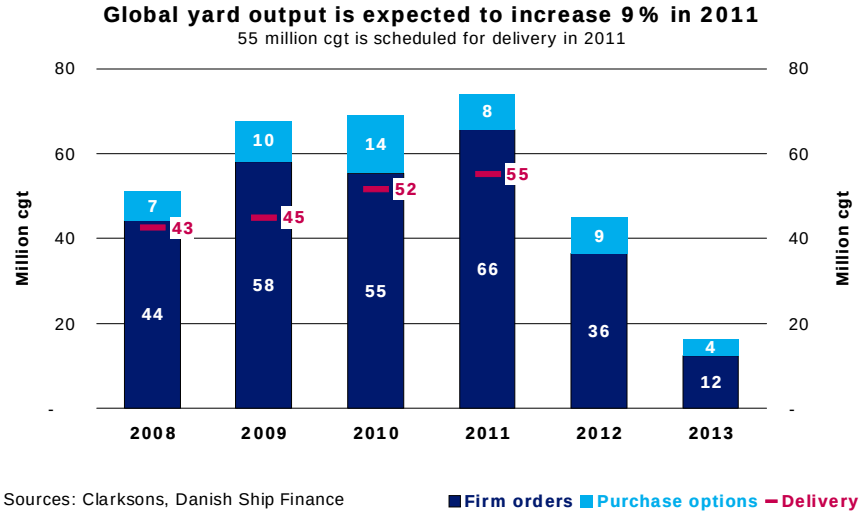
55 MILLION CGT TO BE DELIVERED IN 2011

Figure 9 illustrates the current orderbook by the annual volume scheduled for delivery during the next couple of years. An alarming 74 million cgt is scheduled for delivery in 2011. Clearly, global yard capacity is expected to be insufficient to build such a volume. We do not expect yard capacity to expand in 2011, although we do expect global yard utilization to increase to 91% (+5 percentage points) in 2011. Therefore, we estimate that 55 million cgt (+3 million cgt or 9%) will be delivered in 2011.

24 MILLION CGT POSTPONED FROM 2011 TO 2012

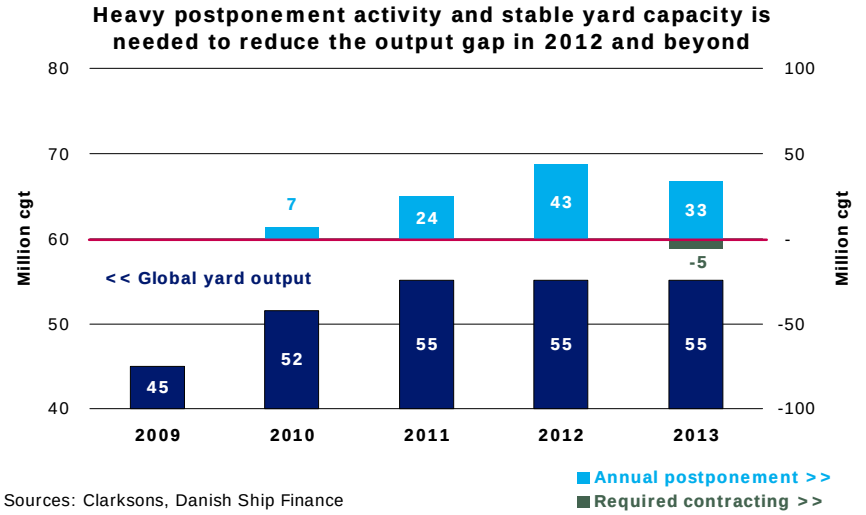
We continue to assume that capacity not delivered according to schedule is postponed one year forward. This implies that as much as 24 million cgt is expected to be postponed from 2011 into 2012 and beyond (fig. 10). Thus, we expect global yard capacity to be fairly well utilized in 2012 despite the apparent overhang of spare capacity. Critical to this scenario is the assumption that the majority of the shipyards actively building today stay in business in 2012.

Figure SB.9



Sources: Clarksons, Danish Ship Finance

Figure SB.10



Sources: Clarksons, Danish Ship Finance

SPARE SHIPYARD CAPACITY IN 2013

Based on the present orderbook, it might be possible to maintain relatively high utilization of the current shipyard capacity until 2013 if orders are heavily postponed from one year to the next. However, in 2013, global yard capacity is expected to outpace the remaining part of the current orderbook. Assuming no further cancellations, at least 5 million cgt (10% of capacity) of new orders scheduled for 2013 delivery needs to be contracted, if shipyards are to maintain a fairly high utilization rate in 2013 (fig. 10).

NEW CONTRACTS OF 110 MILLION CGT REQUIRED BEFORE 2013

By following this methodology, we estimate that as much as 110 million cgt of new contracts will be required, if current shipyard capacity is to be utilized in 2014 and 2015. Based on the contracting activity of the first three months of 2011, we estimate that an additional 19 million cgt (25 million cgt in total) could be contracted in 2011. The remaining 91 million cgt is assumed to be evenly distributed between 2012 and 2013 (fig. 11).

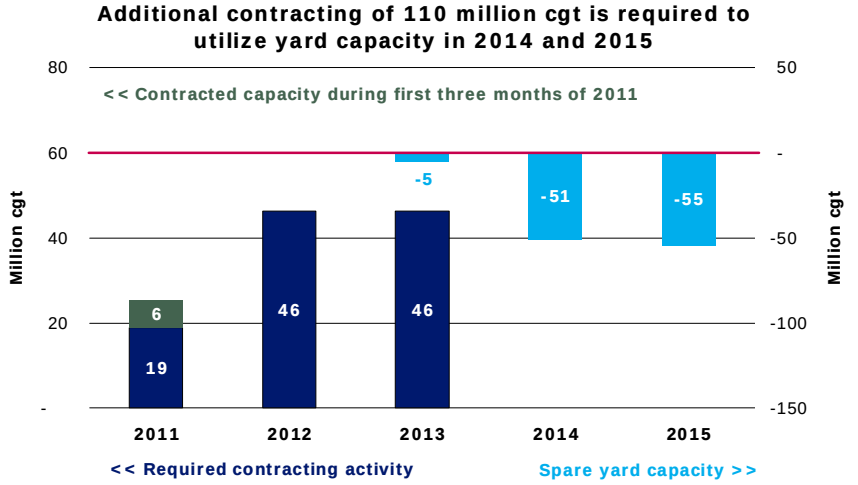
LIMITED NEED FOR FURTHER CONTRACTING

Above, we analysed shipyards' need for further tonnage without taking into consideration whether shipowners could be expected to contract the capacity. In figure 8, we illustrated that as much as 12 million cgt of capacity was cancelled in 2010. This trend could persist, if demand continues to struggle to absorb the new tonnage. The aggregate scrapping potential is unlikely to save the day for the shipyards, as only 17% of the aggregate merchant fleet is older than 20 years, whereas the current orderbook stands at 32% of the current fleet. Looking at the age distribution of the merchant fleet, in general, it is difficult to see a great potential for future contracting activity. The need for fleet replacement seems to be more than covered by the current orderbook.

NEWBUILDING PRICES EXPECTED TO DECLINE

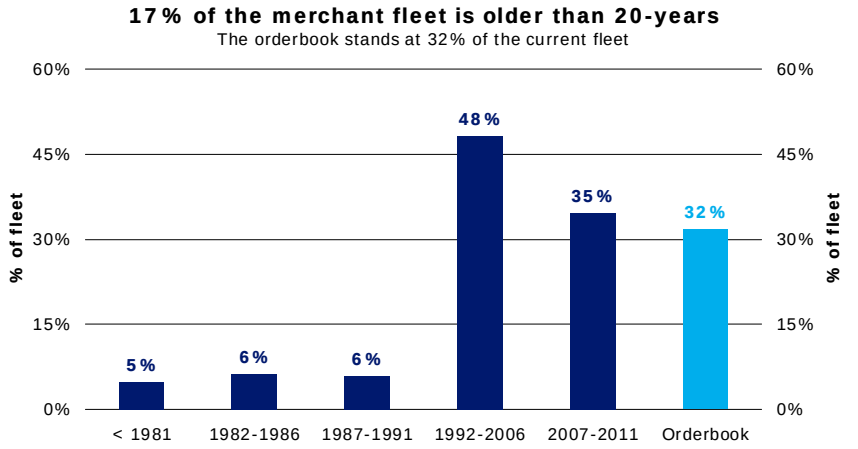
We therefore doubt that actual future contracting activity will be sufficient to sustain current yard capacity. Consequently, we expect global yard capacity to decline in 2012 and 2013. Newbuilding prices – or at least shipyard profitability – are expected to decline in tandem with lower utilization until a new equilibrium between supply and demand has been reached.

Figure SB.11



Sources: Clarksons, Danish Ship Finance

Figure SB.12



Sources: Clarksons, Danish Ship Finance


CONTAINER
DANMARKS
SKIBSKREDIT

CONTAINER

THE ORDERBOOK/FLEET RATIO STANDS AT 30%, BUT THE MASSIVE POST-PANAMAX ORDERBOOK DOMINATES THE OUTLOOK. WE EXPECT TIMECHARTER RATES AND SECOND-HAND VALUES TO DECLINE GRADUALLY IN TANDEM WITH LINERS TAKING DELIVERY OF POST-PANAMAX TONNAGE. BOX RATES MIGHT INCREASE.

FREIGHT RATES

THERE HAS BEEN A DECOUPLING OF BOX RATES AND TIMECHARTER RATES. BOX RATES HAVE DROPPED 18% SINCE AUGUST, WHEREAS TIMECHARTER RATES ARE UP BY 21% DURING THE SAME PERIOD.

BOX RATES DOWN 18% SINCE AUGUST

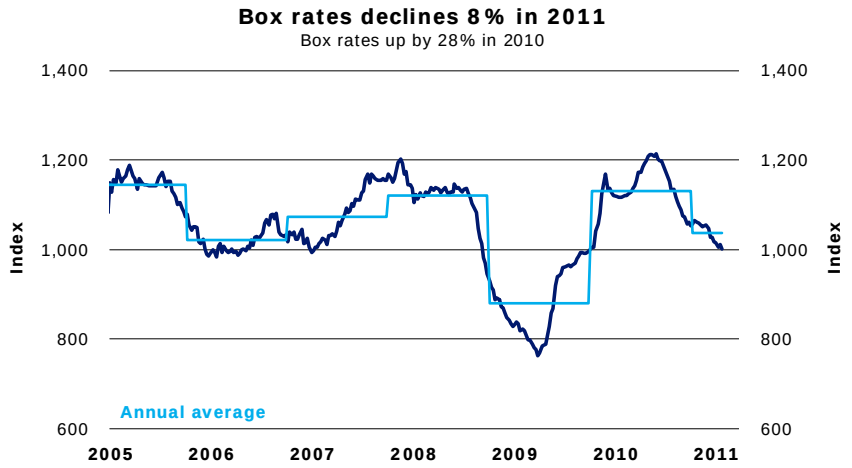
Box rates out of China peaked in August 2010 at index 1,215 and have declined ever since. By April 2011, the index had fallen 18% to index 1,002. The average 2010 box rate was 28% above the 2009 average while first quarter 2011 rates are 8% below the 2010 average (fig. 1).

Liners' apparent willingness to compromise the utilization rate on the primary trading routes, in order to gain (or at least maintain) market share, has impacted box rates negatively. This strategy has, however, decoupled timecharter rates from box rates.

TIMECHARTER RATES ON THE RISE

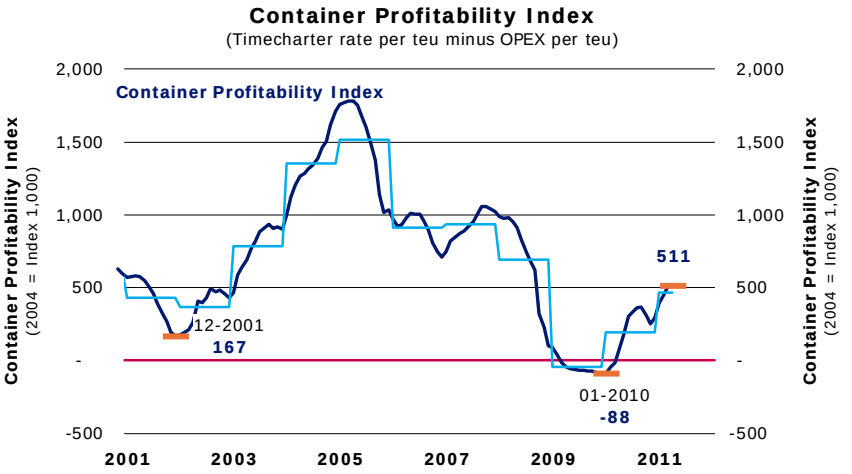
The Container Profitability Index bottomed out at below zero (index minus 88) in December 2009 and has been increasing since. By April 2011, the index stood at 511 after increasing 31% during the first four months of 2011 (fig. 2). Compared to historical rates, the current level is low. Nevertheless, the recovery in timecharter rates is clearly welcome news for tonnage providers although the recovery seems rather fragile.

Figure CS.1

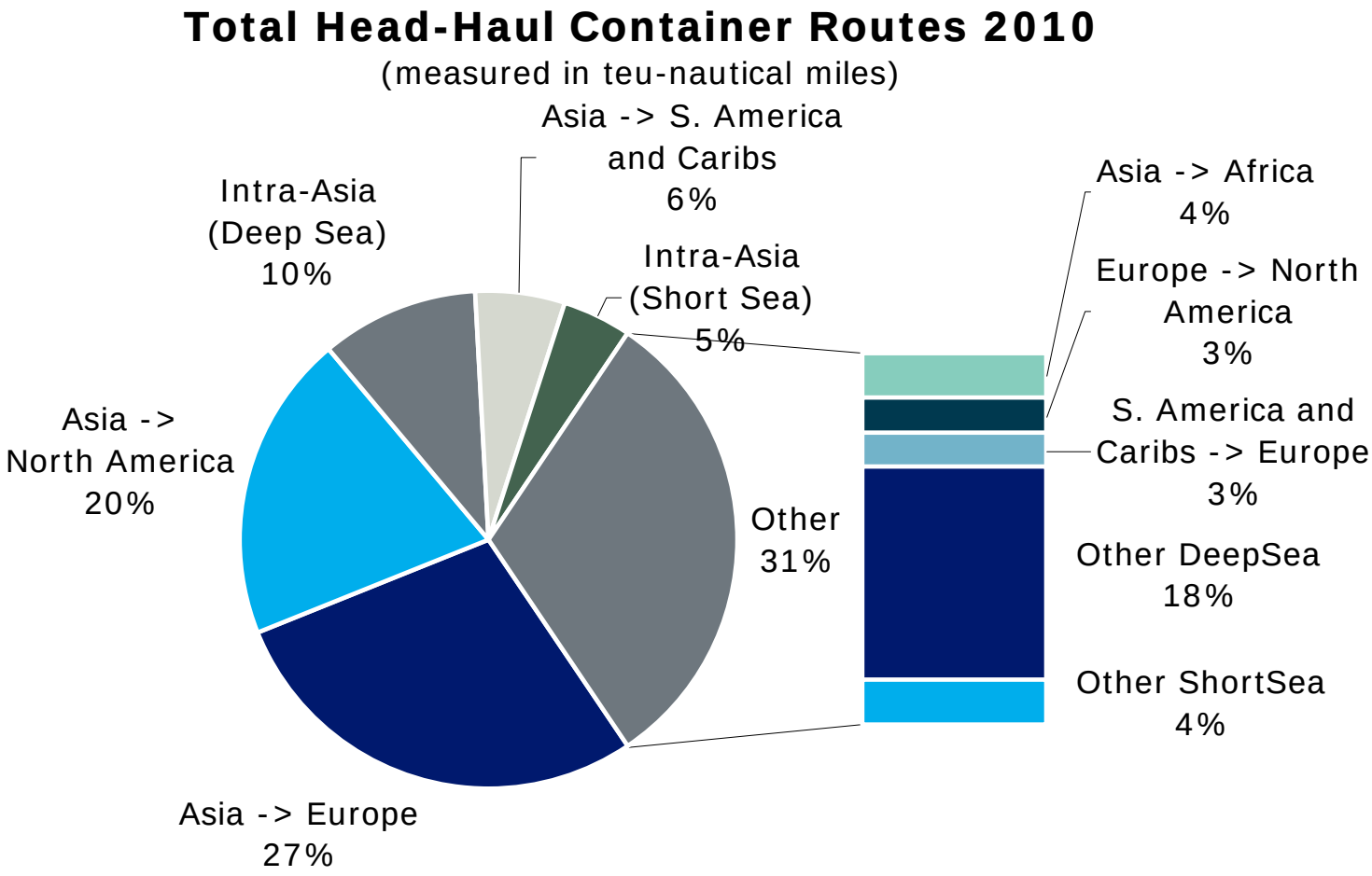


Sources: China's Ministry of Commerce, Danish Ship Finance

Figure CS.2



Sources: Clarksons, Danish Ship Finance



Sources: IHS Global Insight, Danish Ship Finance

THE NOMINAL SUPPLY-DEMAND GAP TIGHTENED IN 2010 AS THE CONTAINER FLEET GREW BY 10%. HEAD-HAUL DEMAND EXPANDED BY A SURPRISING 12%. WE ESTIMATE THAT SLOW STEAMING IS CURRENTLY ABSORBING AS MUCH AS 25% (3.5 MILLION TEU) OF THE FLEET.

At the beginning of 2010, a record high 1.8 million teu was scheduled to be delivered during the year. Fortunately for timecharter rates and asset values, less was delivered.

10% FLEET GROWTH IN 2010

The Container fleet grew 10% in 2010 as 1.4 million teu was delivered and 130,000 teu was scrapped. The Post-Panamax segment grew 18% in 2010 as 900,000 teu entered the fleet while only one vessel (4,651 teu) was scrapped (fig. 4). During the first quarter of 2011, 230,000 teu was delivered of which Post-Panamax accounted for 200,000 teu. Limited scrapping activity was registered during the period.

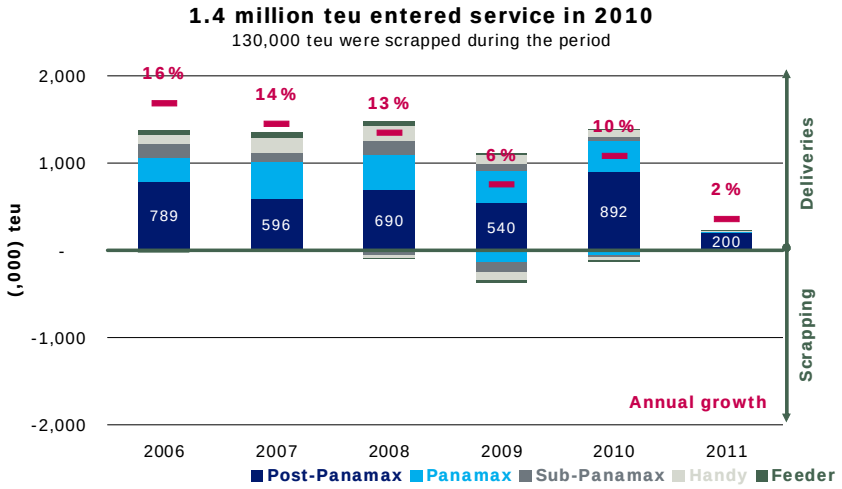
25% OF ORDERS SCHEDULED FOR DELIVERY IN 2010 POSTPONED

Owners continued their efforts to postpone (Post-Panamax) orders, despite the lasting, successful slow steaming strategy that has absorbed the oversupply. In 2010, approximately 25% (500,000 teu) of orders scheduled for delivery in 2010 was postponed. In the Panamax segment, however, we saw more tonnage delivered than initially scheduled for delivery (fig. 5).

130,000 TEU SCRAPPED IN 2010

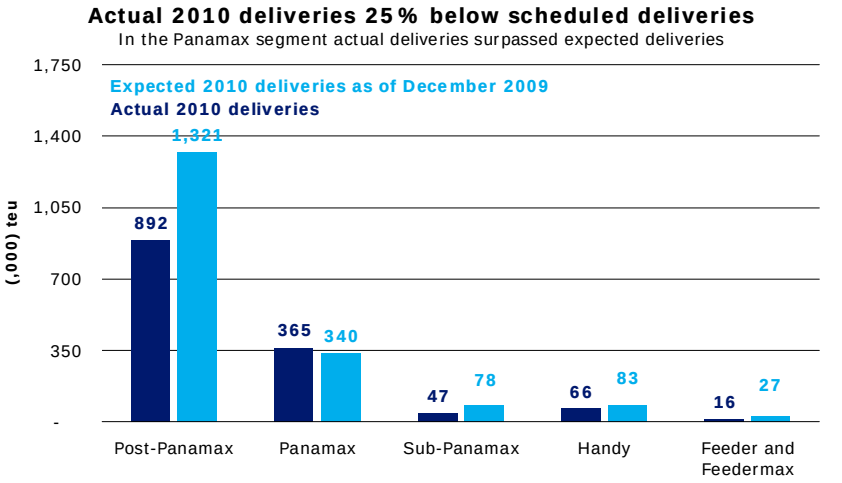
As mentioned above, 130,000 teu was scrapped in 2010, primarily in the Handy and Panamax segments. Compared to the record scrapping activity of 2009 when 377,000 teu was scrapped, 130,000 teu does not seem much. Still, in a historical perspective, the capacity scrapped in 2010 was substantial as a total of 127,000 teu was scrapped between 2002 and 2006 (fig. 4).

Figure CS.4



Sources: Clarksons, Danish Ship Finance

Figure CS.5



Sources: Clarksons, Danish Ship Finance

HEAD-HAUL CONTAINER DEMAND UP BY 12% IN 2010

When we published our previous Shipping Market Review six months ago, we predicted that distance-adjusted head-haul demand would grow by 9% in 2010. However, both European and North American imports exceeded expectations. Distance-adjusted head-haul demand was up by 12% in 2010 (fig. 6).

EUROPE HEAD-HAUL DEMAND UP 13% IN 2010

Distance-adjusted European head-haul imports grew by 13% in 2010. This was approximately 3 percentage points ahead of the estimates of six months ago (fig. 7). However, the pace of the recovery in Europe has varied within the region. Eurozone GDP growth was 1.8% which was primarily driven by the German growth locomotive. German GDP grew by 3.6% in 2010. Still, there are threats to European GDP growth. The financial turbulence is not yet history. It re-emerged in the euro-peripheral area in the fourth quarter of 2010, this time triggered by the situation in Ireland.

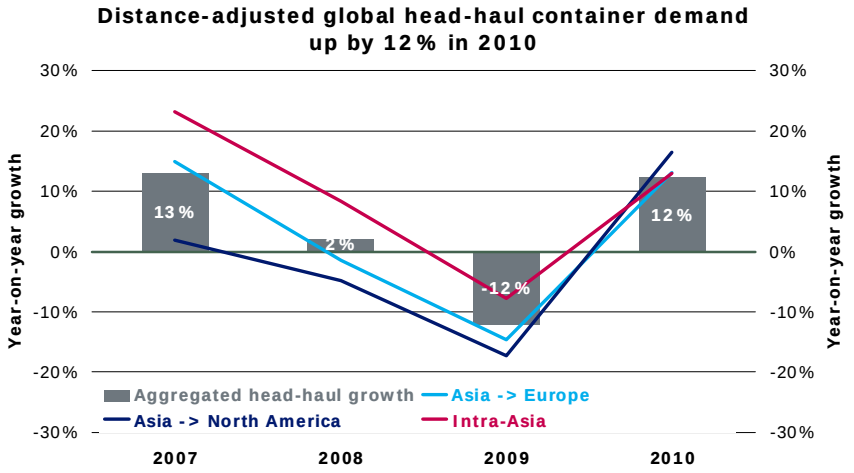
NORTH AMERICA IMPROVED MARKEDLY IN 2010

North American imports improved markedly in 2010. Distance-adjusted head-haul demand rose by 16% in 2010 (fig. 6). This was almost 4 percentage points higher than the forecast of six months ago (fig. 7). Both the underlying private consumption and industrial investments were ahead of expectations, and growth was no longer driven primarily by inventory build-ups. However, the recent spike in food and oil prices could reduce future growth.

INTRA-ASIA DEMAND UP 13%

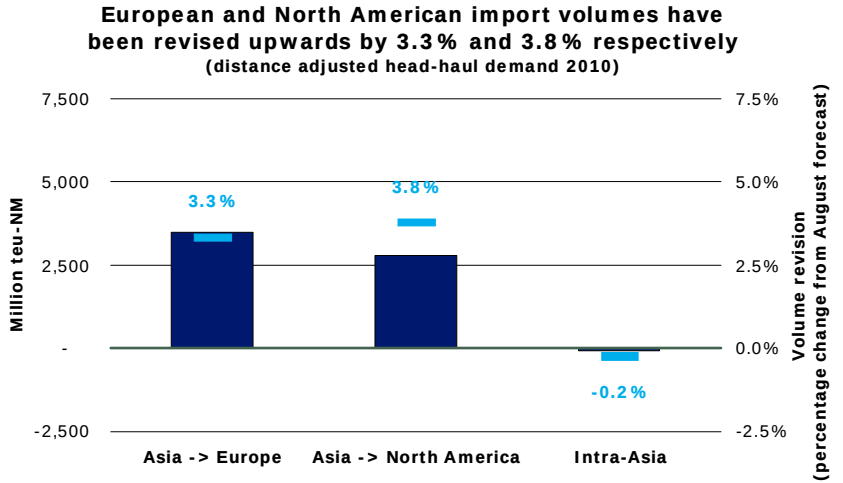
Intra-Asian head-haul growth increased 13%, mainly driven by the two largest exporters, China and Japan. Especially Japan rallied in 2010 with a 22% growth rate, after a 24% setback in 2009. Growth in intra-Asian demand was revised downward by 0.2% since August.

Figure CS.6



Sources: IHS Global Insight, Danish Ship Finance

Figure CS.7



Sources: IHS Global Insight, Danish Ship Finance

NOMINAL OVERSUPPLY 3.5 MILLION TEU IN 2010

When we last published our Shipping Market Review, 26% of the fleet (3.7 million teu) was estimated to be in excess supply in 2010. Demand was a positive surprise and fewer vessels entered the fleet than had been expected. This reduced the nominal overcapacity to 3.5 million teu (24% of the total fleet) in 2010 (fig. 8). Accordingly, almost 90% of the tonnage delivered between 2008 and 2010 is currently in nominal excess supply.

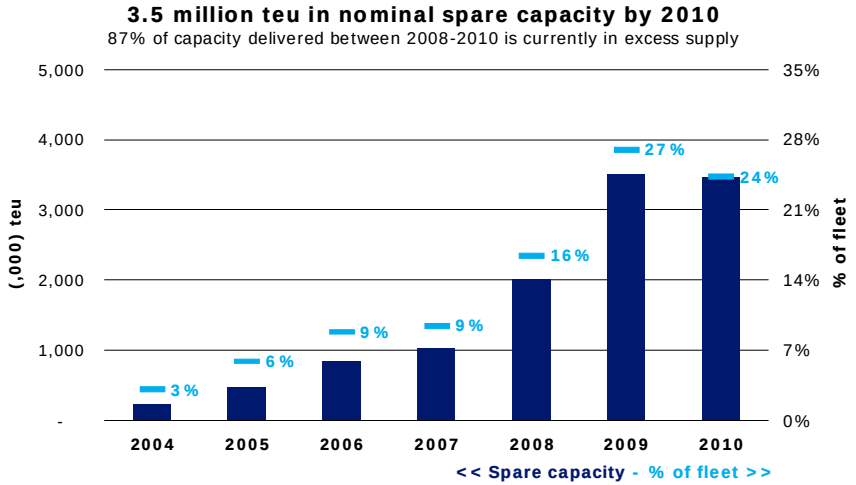
EXTENSIVE USE OF SLOW STEAMING

With a nominal oversupply of tonnage in the range of 3-4 million teu and the high bunker prices, slow steaming is likely to stay. By reducing the average Post-Panamax speed across routes to 17.2 knots, we estimate that slow steaming currently absorbs 3.5 million teu.

SUPPLY-DEMAND GAP TIGHTENED IN 2010

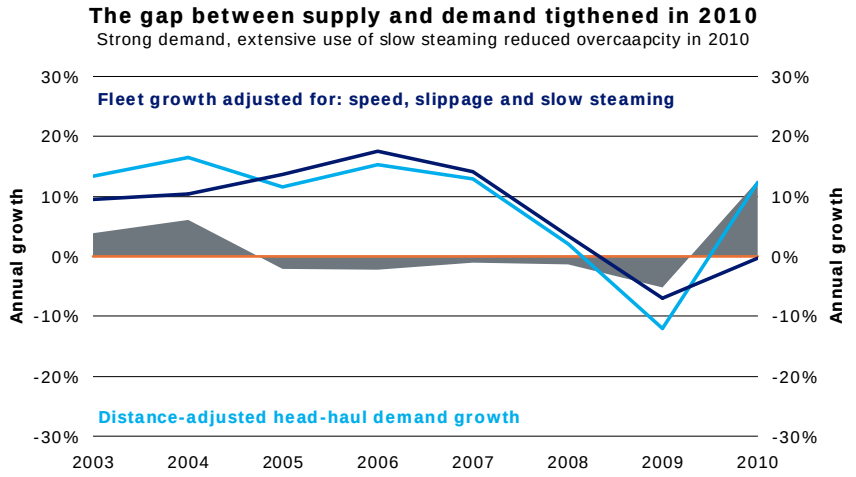
The gap between supply and demand tightened in 2010 as extensive use of slow steaming and larger-than-expected growth in head-haul demand absorbed much of the excess supply (fig 9).

Figure CS.8



Sources: IHS Global Insight, Clarksons, Danish Ship Finance

Figure CS.9



Sources: IHS Global Insight, Clarksons, Danish Ship Finance

STRONG CONTRACTING ACTIVITY WITHIN THE POST-PANAMAX SEGMENT HAS SUPPORTED NEWBUILDING PRICES WHILE SECOND-HAND PRICES HAVE BENEFITTED FROM INCREASED TIMECHARTER INCOME.

The extensive use of slow steaming has now begun to impact the contracted tonnage. There has been a growing tendency for owners to contract vessels with smaller engines. The smaller engines are more fuel-efficient and have a lower optimal speed of 20 knots.

CONTRACTING ACTIVITY REGAINING MOMENTUM

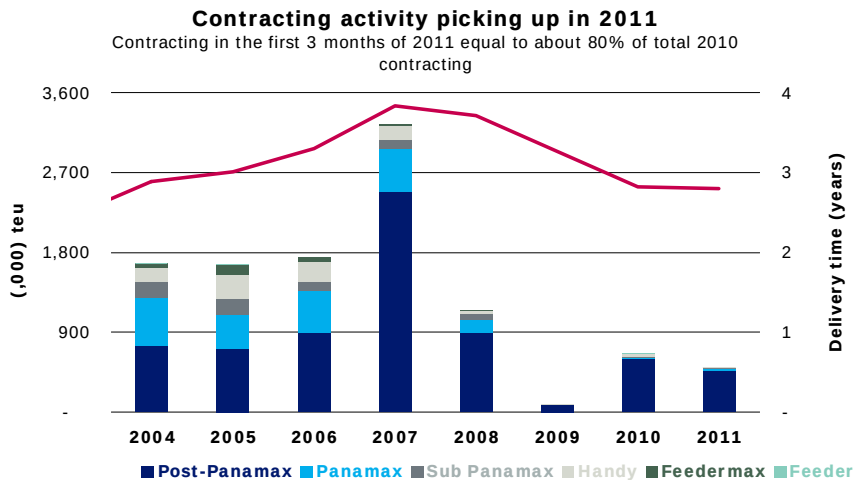
The memory of the harsh market conditions of 2009 seems long gone. Owners' appetite for new tonnage, and in particular Post-Panamax vessels, took off during the second half of 2010 and continued to accelerate during the first quarter of 2011. A total of 650,000 teu was contracted in 2010, of which 600,000 teu was Post-Panamax tonnage. During the first quarter of 2011, 500,000 teu has been contracted of which Post-Panamax contracts accounted for 450,000 teu. Extrapolated from first-quarter contracting activity, as much as 2 million teu could be contracted during 2011 (of which Post-Panamax contracts could account for 1.8 million teu) (fig. 12).

From our viewpoint, the motive behind the recent contracting activity is not completely clear in all cases: A scenario about future demand and lowering the marginal cost per moved teu is presumably at the centre of the decision. However, rates and values tend only to prosper when capacity utilization is high. Obviously, the North American and European markets are expected to remain among the largest trading routes within the foreseeable future. Nevertheless, we expect that many of the large Post-Panamax vessels will be delivered before demand has increased enough for these vessels to be utilized. We wonder, therefore, what the rest of the supply chain will look like when the logistics surrounding the largest Post-Panamax vessels have been optimized? Will we need additional Post-Panamax vessels or, perhaps more likely, smaller vessels supporting a feeder structure around these vessels? We expect the latter.

ASSET PRICES FLATTENED IN THE BEGINNING OF 2011

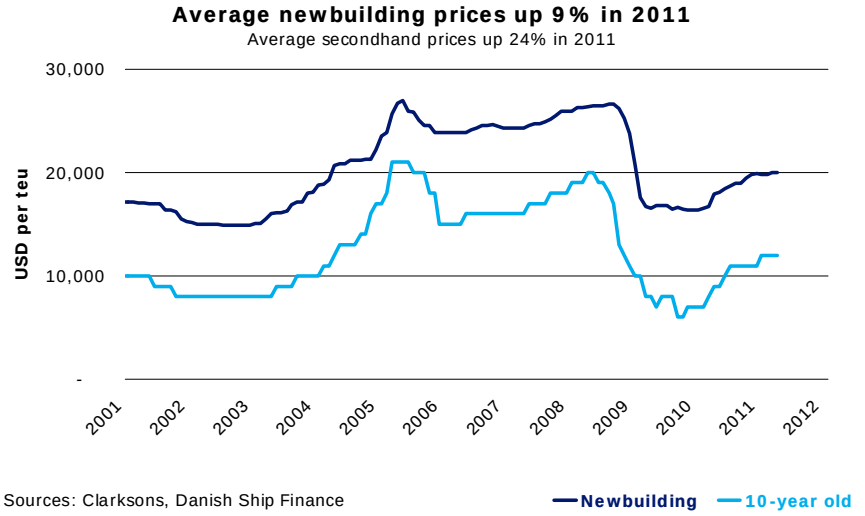
The combination of strong contracting activity and increasing timecharter rates has supported asset values. Newbuilding prices have increased by 9% in the first quarter of 2011 while the average

Figure CS.12



Sources: Clarksons, Danish Ship Finance

Figure CS.13



Sources: Clarksons, Danish Ship Finance

secondhand price is up 24% (fig. 13). We question the sustainability of this trend.

OUTLOOK

POST-PANAMAX DELIVERIES DOMINATE THE OUTLOOK FOR THE CONTAINER INDUSTRY. HEAD-HAUL DEMAND IS EXPECTED TO GROW AT A STABLE 6-7% DURING THE NEXT TWO YEARS. WE DOUBT IF THIS WILL BE ENOUGH TO ABSORB THE POST-PANAMAX ORDERBOOK. RATES AND VALUES MIGHT DECLINE IN 2011 AND 2012.

NORMALIZATION OF THE ORDERBOOK / FLEET RATIO

The orderbook currently represents about 30% of the total fleet (fig. 14). This might lead to the conclusion that the worst is over, as the orderbook/fleet ratio has returned to normal. However, this is not necessarily true. The orderbook is dominated by Post-Panamax vessels: The Post-Panamax fleet has expanded by more than 20% annually during the last 15 years. The annual growth rate is expected to drop to around 15-18%, but that would indicate an annual net inflow of more than 1 million teu between 2011 and 2013. Few segments can absorb such capacity expansion.

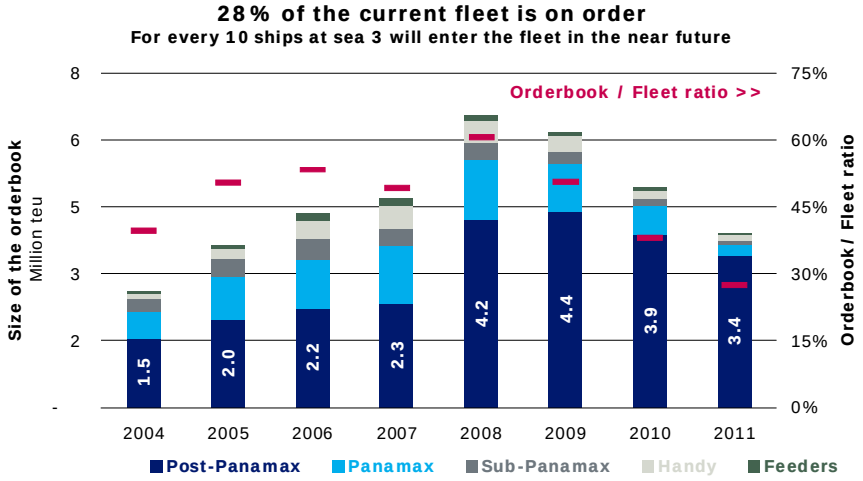
7% FLEET GROWTH IN 2011

The container fleet is scheduled to grow by 7% or approximately 1 million teu in 2011 since 1.4 million teu is scheduled to enter service and approximately 400,000 teu is expected to be scrapped. During the first three months of 2011, 230,000 teu entered service (Post-Panamax accounting for 200,000 teu). Accordingly, 1.1 million teu is scheduled for delivery during the last nine months of 2011. Post-Panamax deliveries are expected to account for 0.9 million teu (fig. 15).

400,000 TEU QUALIFIES FOR SCRAPPING IN 2011

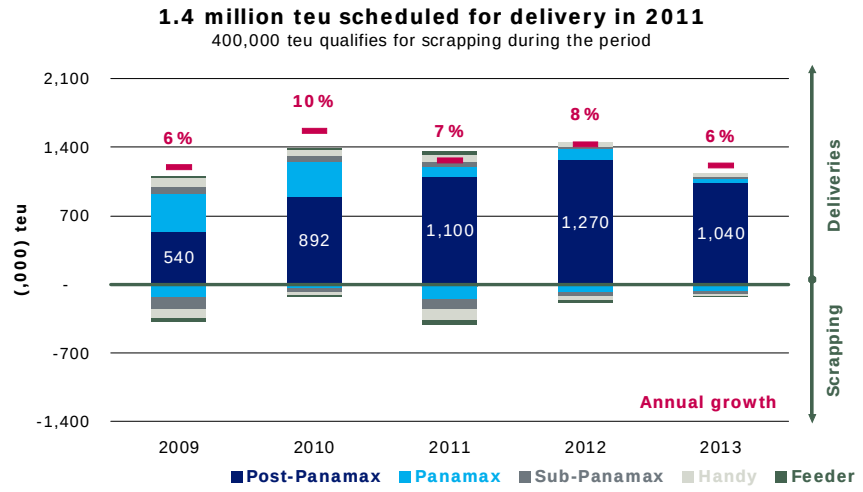
While the Post-Panamax segment dominates the orderbook the smaller segments provides the majority of the scrapping candidates. For 2011, we expect between 350,000 teu and 400,000 teu to be scrapped. From the Panamax and the Sub-Panamax segments approximately 200,000 teu is expected to be scrapped in 2011. Another 100,000 is expected to come from the Handy container segment while the Feeder segments are expected to scrap 50,000 teu. A modest 20-30,000 teu is expected to leave the Post-Panamax fleet in 2011 (fig. 15).

Figure CS.14



Sources: Clarksons, Danish Ship Finance

Figure CS.15



Sources: Clarksons, Danish Ship Finance

300,000 TEU COULD BE POSTPONED FROM 2011 TO 2012

Significant postponement activity may reduce the supply growth further. First quarter 2011 deliveries are 130,000 teu behind schedule indicating that 25-30% of scheduled deliveries have been postponed. If this trend continues, 250-350,000 teu could be postponed from 2011 to 2012 (fig. 16).

DISTANCE -ADJUSTED CONTAINER DEMAND UP 6% IN 2011

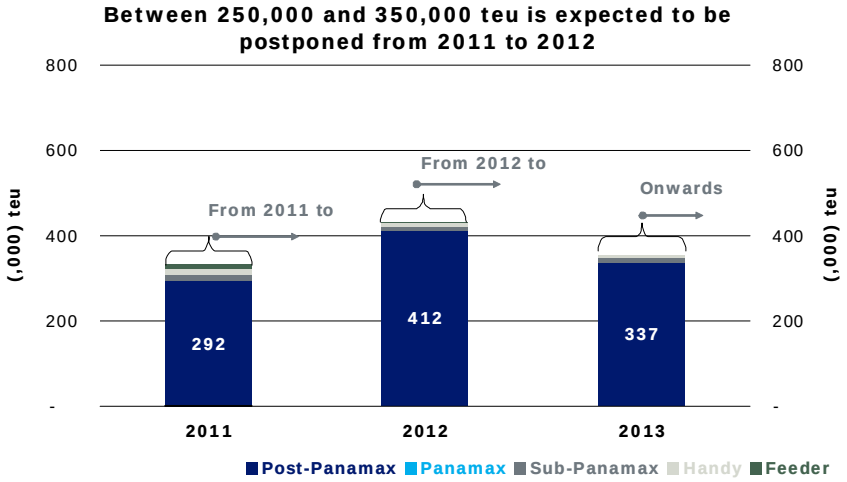
For 2011 and 2012, growth in distance-adjusted head-haul container demand is expected to slow down in tandem with lower global GDP growth. Between 2011 and 2013 distance-adjusted head-haul demand is expected to grow between 6% and 7% annually (fig. 17). The slowdown is primarily driven by lower European economic growth.

In 2011, demand on the major head-haul trading routes from Asia to Europe and North America is expected to grow by 6% and 8% respectively. North America is expected to grow faster than Europe, mostly due to a new fiscal stimuli package passed in late 2010. The stimuli package is expected to boost GDP growth by 0.25% to 3% in 2011. European GDP growth is expected to slow down to 1.5% (1.8% in 2010) in 2011. The German growth locomotive is expected to continue supporting European GDP growth, but the looming escalation of the debt crisis reduces the potential. Developing Asia continues to generate the highest growth rates. Growth in Asian head-haul imports is expected to be 9% in 2011.

EXCESSIVE POST-PANAMAX SUPPLY IN 2011 AND 2012

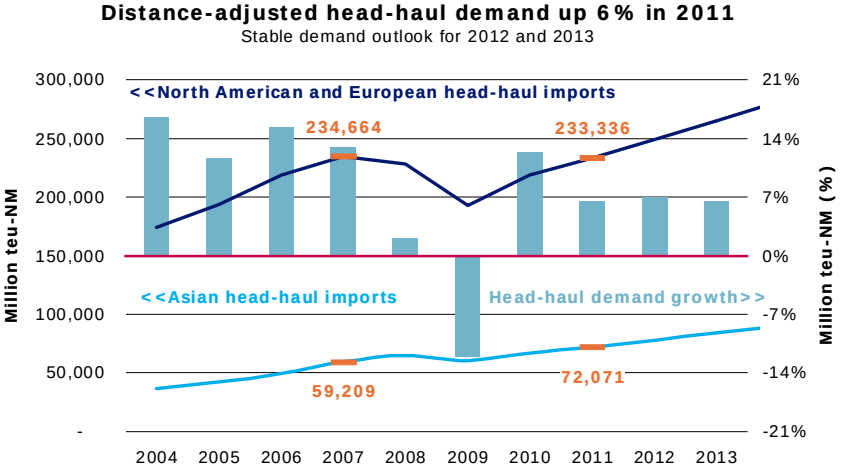
Nevertheless, at the aggregate level, the supply growth seems to be balanced by growing demand in 2011. However, taking a closer look reveals that the situation is actually more complicated than that. Higher import volumes into North America and Europe are expected to contribute 60% to the annual increase in distance-adjusted head-haul demand volumes. This is, unfortunately, not enough to absorb the entering Post-Panamax tonnage. In 2011 and 2012, the Post-Panamax fleet is scheduled to increase by 15-18%. These vessels are primarily intended to enter the major East-West trades. Therefore, we fear that the East-West trades will be oversupplied with Post-Panamax vessels during the next couple of years.

Figure CS.16



Sources: Clarksons, Danish Ship Finance

Figure CS.17



Sources: IHS Global Insight, Danish Ship Finance

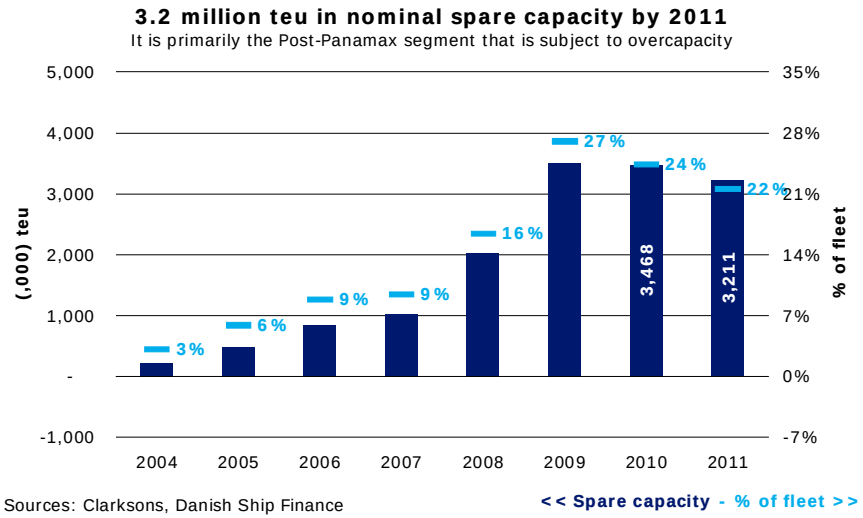
22% OVERSUPPLY IN 2011

In 2011, we expect as much as 22% (3.2 million teu) of the current fleet to be in nominal excess (fig. 18). We expect most of the capacity to be absorbed by the lasting effects of slow steaming. However, we do not expect further speed reductions to be part of a future strategy for fleet managements (fig. 19). The large inflow of Post-Panamax vessels might therefore complicate the optimization of trade routes as perfect cascading is not possible.

RATES AND VALUES IN 2011

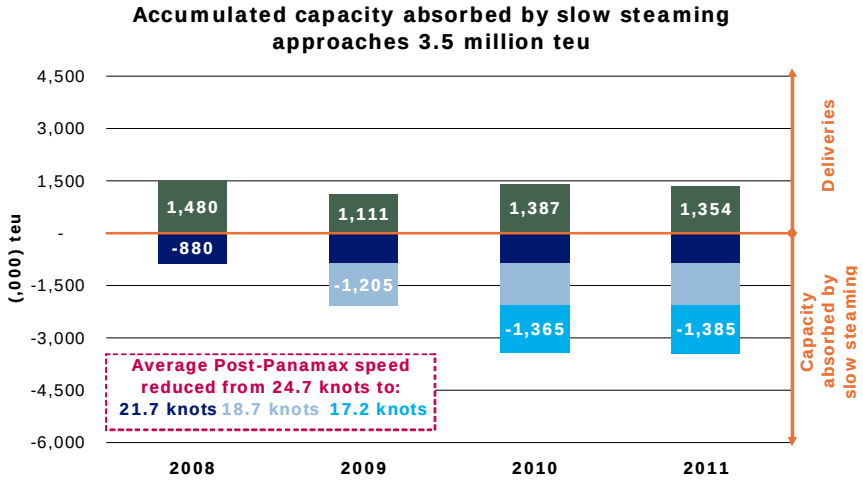
The primary challenge for 2011 and 2012 is therefore how to employ the Post-Panamax vessels scheduled for delivery. As discussed above, box rates have been declining as more capacity has been introduced than absorbed by demand. So far, this tactic has supported timecharter rates but we do not expect Liners to continue their market share focus for long. If Liners abandon their market share focus, which they presumably will in 2011, timecharter rates (and second-hand prices) are expected to suffer. Whether box rates will rise again is a question of supply-chain optimization. Will Liners be able to insert their newly delivered Post-Panamax vessels into service without compromising the overall utilization of the East-West trade? We hope so, but we are not convinced. It might be necessary for Liners to return some chartered tonnage to the tonnage providers if box rates are to increase during 2011. This could easily lead to new lay-ups and lower timecharter rates.

Figure CS.18



Sources: Clarksons, Danish Ship Finance

Figure CS.19



Sources: IHS Global Insight, Clarksons, Danish Ship Finance

CRUDE TANKERS

DANMARKS SKIBSKREDIT

CRUDE TANKERS

IN 2010, THE CRUDE TANKER MARKET EXPERIENCED A STRONG FIRST HALF AND A WEAK SECOND HALF. THE WEAKENING WAS CAUSED BY THE RETURN OF VESSELS IN FLOATING STORAGE AND INFLOW OF NEW TONNAGE. THE OUTLOOK IS DOMINATED BY HIGH FLEET GROWTH EVEN WITH DEMAND EXPECTED TO BE BRISK IN 2011.

FREIGHT RATES

RATES DECLINED IN 2010 DESPITE STRONG GROWTH IN THE SEABORNE OIL TRADE. THIS TREND CONTINUED IN THE FIRST QUARTER OF 2011.

Market sentiments worsened throughout the second half of 2010 as many vessels left floating storage and became available in the spot market. The increased availability continued throughout the first quarter of 2011 with the largest vessels impacted the most.

THE BDTI DROPPED 9% IN THE FIRST QUARTER OF 2011

The Baltic Dirty Tanker Index (BDTI) remained low in 2010, although it almost doubled from 2009 to 2010. The index dropped 9% in the first quarter of 2011 compared to the annual average of 2010. By March 2011, the BDTI stood at index 1004 (fig.1).

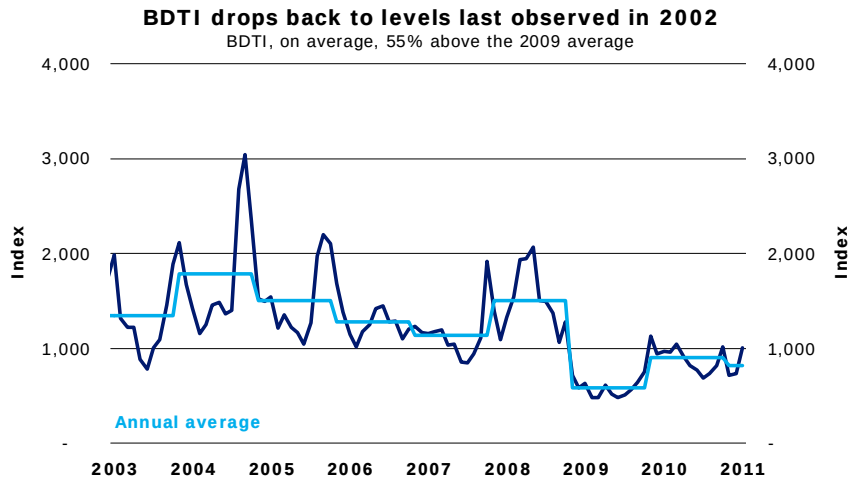
NO PEAK-SEASON SURCHARGE SUPPORTING RATES

Crude tanker rates are traditionally expected to gain a peak-season surcharge during the winter season. In 2010 and 2011, no revival was observed during the peak season. Average peak-season earnings were 39% lower than the previous peak season of 2009 and 2010 respectively (fig.1).

TIMECHARTER RATES DOWN TO LEVELS LAST SEEN IN 2003

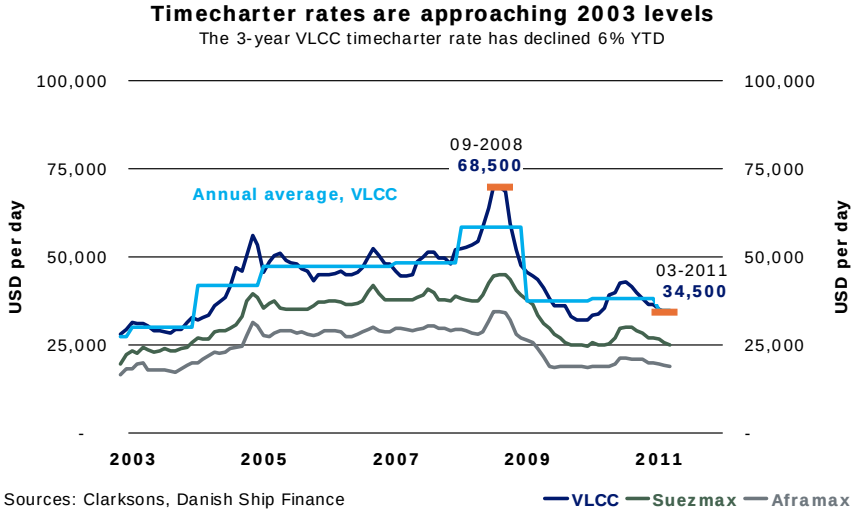
Current timecharter rates are low compared to historical rates. In 2010, the annual timecharter rates rose by a modest 2% compared to the 2009 level. However, deteriorating market conditions put timecharter rates under pressure during the first quarter of 2011. By March 2011, three-year VLCC timecharter rates stood at USD 34,500 per day, 10% below the 2010 average (fig.2).

Figure T.1



Sources: Clarksons, Danish Ship Finance

Figure T.2

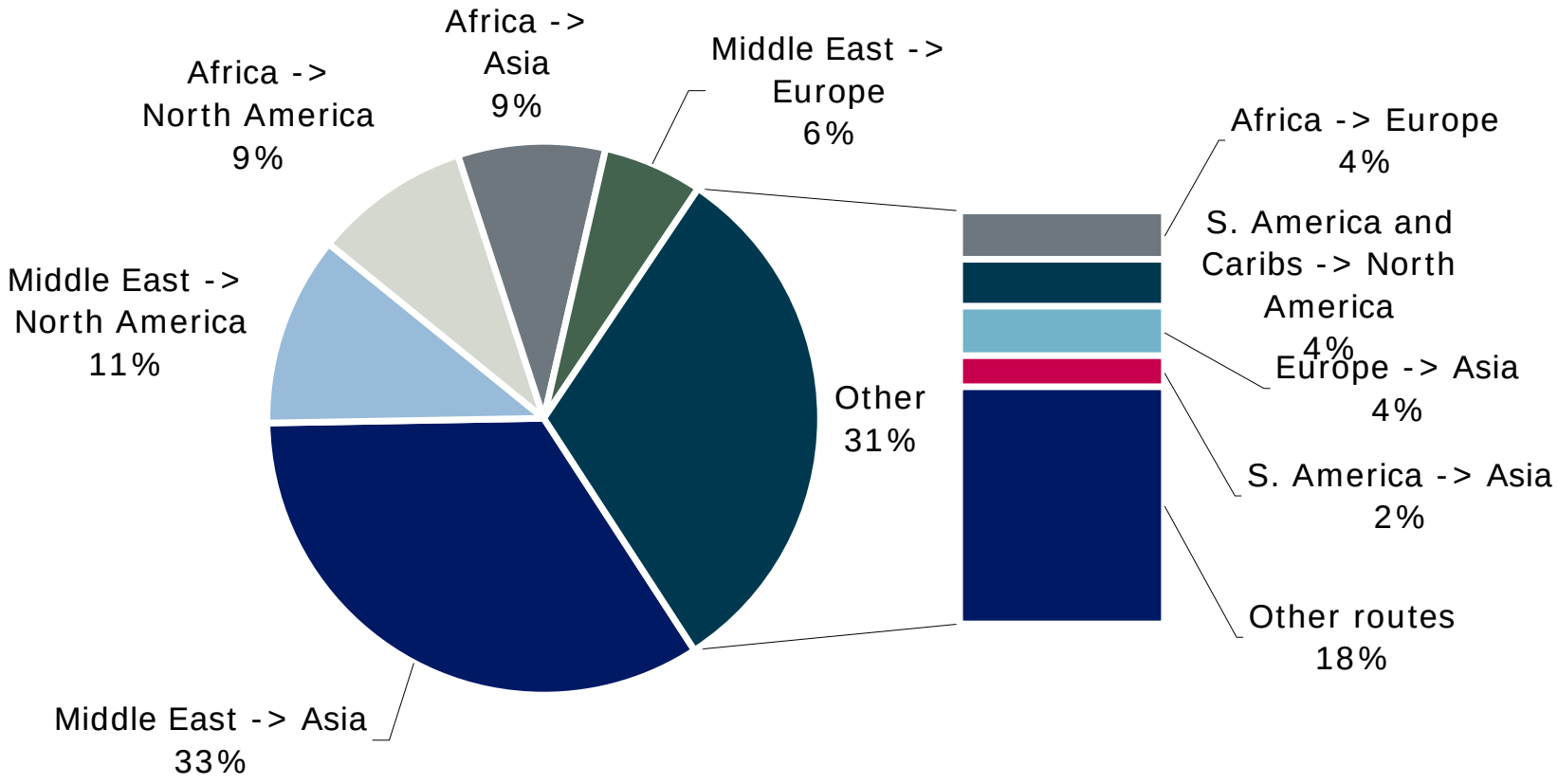


Sources: Clarksons, Danish Ship Finance

Figure T.3

MAJOR FRONT-HAUL CRUDE TANKER ROUTES

(MEASURED IN BILLION TON-NAUTICAL MILES, 2010)



Sources: IHS Global Insight, Danish Ship Finance

NOMINAL SUPPLY GREW BY 3% DURING 2010 AND DISTANCE-ADJUSTED DEMAND WAS UP 7%. TRADITIONALLY, RATES INCREASE WHEN DEMAND OUTGROWS SUPPLY, BUT THIS DID NOT HAPPEN IN 2010 AND IN THE FIRST QUARTER OF 2011. FLEET AVAILABILITY OUTGREW NOMINAL SUPPLY GROWTH AS VESSELS PREVIOUSLY EMPLOYED IN FLOATING STORAGE BECAME AVAILABLE IN THE SPOT MARKET.

THE CRUDE TANKER FLEET GREW 3% IN 2010

The crude tanker fleet grew 3% (11.5 million dwt) in 2010 as 28 million dwt was delivered and 16.5 million dwt exited the fleet. Growth was not evenly distributed across the segments, as the VLCC segment only grew 2% in 2010 and Suezmax and Aframax both expanded by 5%. During the first quarter of 2011, 8 million dwt entered service while 2.5 million dwt left the fleet (fig. 4).

20% OF ORDERS SCHEDULED DELIVERY IN 2010 POSTPONED

In 2010, 20% (7 million dwt) of scheduled orders never materialized. Whether these orders were cancelled outright or just postponed is difficult to establish. Clarksons' orderbook indicates that they were most likely postponed into 2011, while only few have been outright cancelled (fig. 5).

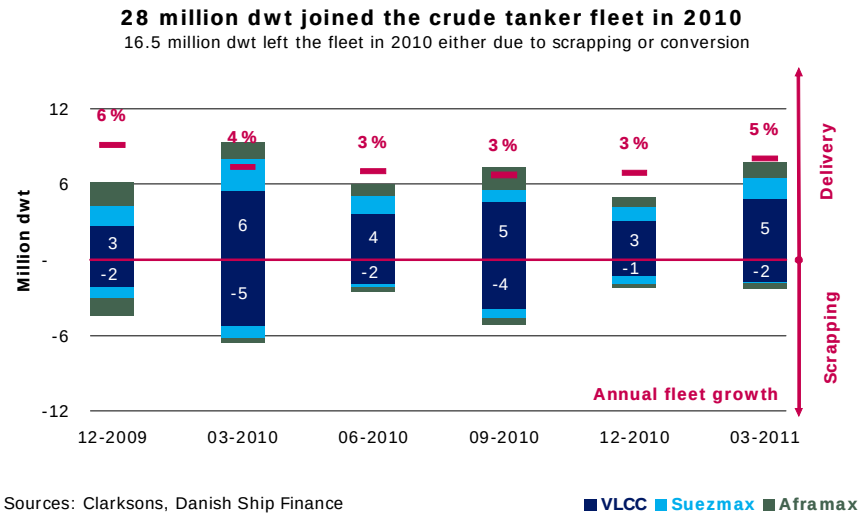
6.5 MILLION DWT SCRAPPED IN 2010

6.5 million dwt was scrapped in 2010. In a historical perspective, such scrapping volume is not remarkable. However, the 2010 scrapping activity was 41% higher than the 2009 activity. The volume scrapped in 2010 offset approximately 24% of the capacity delivered (fig. 4).

9.9 MILLION DWT CONVERTED FROM CRUDE TANKERS INTO OTHER SEGMENTS

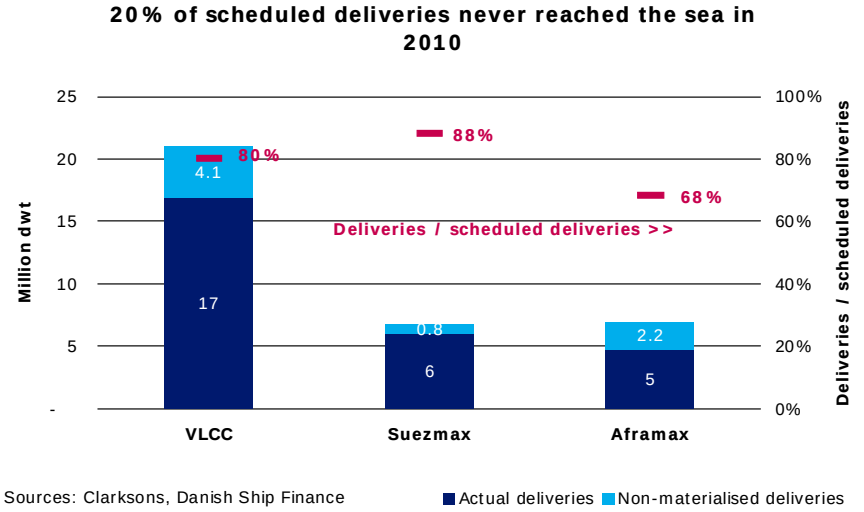
A total of 9.9 million dwt (3% of the fleet) was converted from tankers into other vessel types in 2010, slightly less than in 2008 and 2009. Once again, the preferred conversion was from crude tankers into dry bulk vessels while offshore-related segments came second. As seen in the past, most converted tankers were single-hull vessels (fig. 4).

Figure T.4



Sources: Clarksons, Danish Ship Finance

Figure T.5



Sources: Clarksons, Danish Ship Finance

FLOATING STORAGE FELL DURING THE SECOND-HALF OF 2010

The use of crude tankers for floating storage continued from 2009 into 2010. The use of tankers for floating storage became less attractive in 2010 as oil prices moved into backwardation (i.e. the situation when the forward price is below the spot price). We estimate that 4-6% of the fleet was employed in floating storage during the first half of 2010 and that many of these vessels rejoined the fleet during the second half of 2010. This trend continued during the first months of 2011.

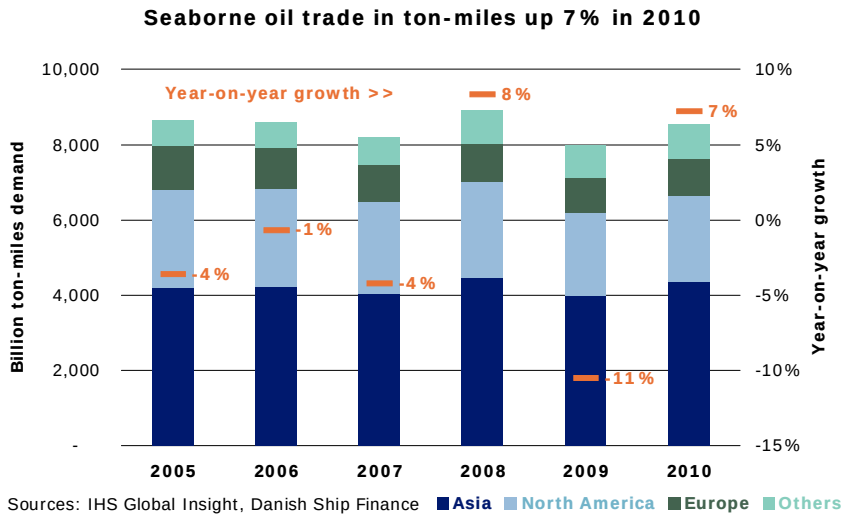
DISTANCE-ADJUSTED CRUDE OIL DEMAND UP 7% IN 2010

Distance-adjusted crude tanker demand increased by 7% during 2010. Global seaborne crude oil imports increased by 4% while changed trading patterns increased travel distances by 3% in 2010. Travel distances increased, mostly due to greater export volumes out of West African and South American ports bound for India and the Far East. Nonetheless, distance-adjusted crude tanker demand remains slightly below pre-crisis levels (fig. 6).

SEABORNE CRUDE OIL TRADE UP 4% IN 2010

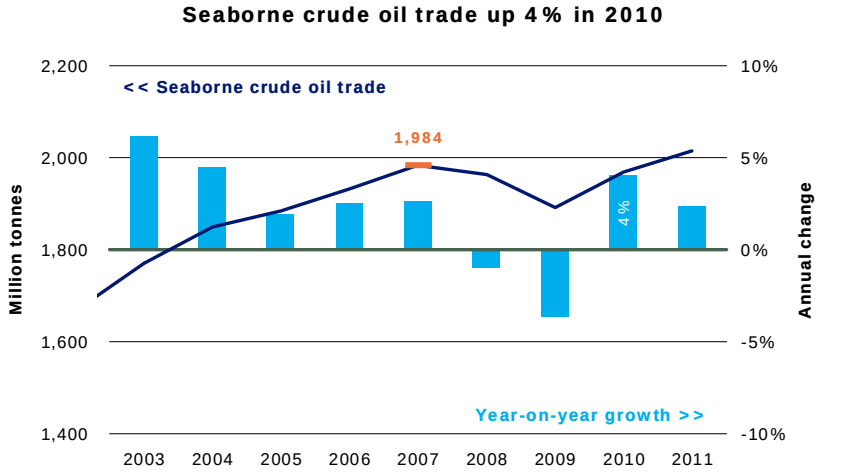
Seaborne crude oil volumes increased 4% in 2010 bringing volumes slightly above the 2008 levels but slightly below the 2007 level. Increased Asia imports were the main driver of the trade growth, with China as the largest single contributor. However, most of the main oil importers increased import volumes during 2010. Seaborne North American oil imports remained at 2009-volumes, because of strong growth in domestic production. North American oil production was little impacted by the hurricane season in 2010. Preliminary data for 2011 indicates that first quarter seaborne crude oil trade was up 2% compared to 2010 (fig. 7).

Figure T.6



Sources: IHS Global Insight, Danish Ship Finance

Figure T.7



Sources: Clarksons, Danish Ship Finance

HIGHEST OIL CONSUMPTION GROWTH SINCE 2004

Global oil consumption increased by 2.3 million barrels per day in 2010 (fig. 8). The strong growth was in particular due to higher economic growth than previously expected and also supported by exceptionally harsh weather conditions in 2010. North American oil consumption surprised on the upside with an increase of 2% in 2010.

CHINESE OIL CONSUMPTION UP 10% IN 2010

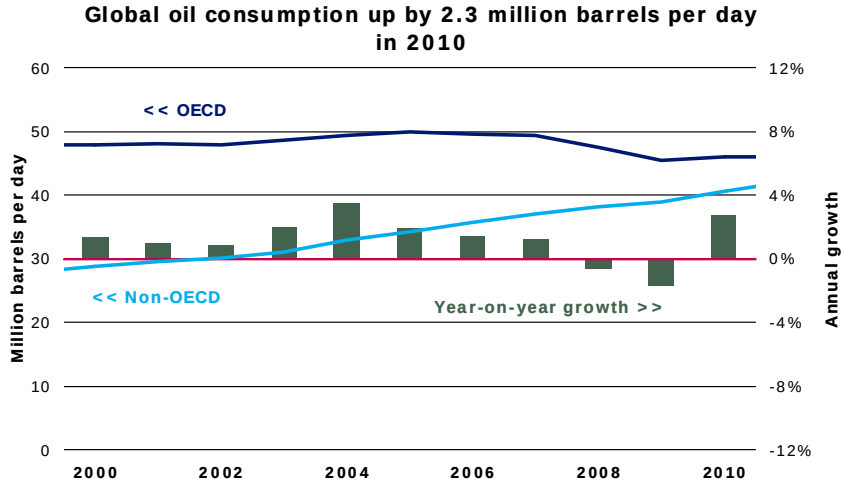
After North America, China is the second-largest oil consumer in the world. Chinese oil consumption increased by an astonishing 10% (0.9 million barrels per day) in 2010. This was the largest annual increase in oil consumption since 2004 and the single largest increase in oil consumption in 2010.

Together, the increases in Chinese and North American oil consumption accounted for 57% of recorded oil consumption growth in 2010. The remaining OECD countries only contributed an increase of 0.2 million barrels per day in 2010. For the fifth year in row, European oil consumption continued to decline.

WHY DID RATES DROP IN 2010 WHEN DEMAND OUTGREW SUPPLY?

Nominal supply grew 3% during 2010 and distance-adjusted demand grew 7%. Traditionally, rates increase when demand outgrows supply, but this did not happen in 2010 and in the first quarter of 2011. The fact is that fleet availability grew faster than nominal supply growth as vessels previously employed in floating storage became available in the spot market.

Figure T.8



Sources: Reuters Ecowin, Clarksons

INCREASED CONTRACTING ACTIVITY WAS NOT ENOUGH TO KEEP NEWBUILDING PRICES FROM FALLING IN 2010. NEWBUILDING PRICES DROPPED 9% AND SECOND-HAND PRICES WERE UNCHANGED IN 2010.

CONTRACTING ACTIVITY PICKED UP IN 2010

Surprisingly, shipowners ordered more new tonnage than they took delivery of. In 2010, 32 million dwt was contracted while 28 million dwt was delivered. Measured by number of vessels, the contracting activity was almost evenly distributed between the segments (fig. 9).

CONTRACTING DROUGHT DURING THE FIRST FOUR MONTHS OF 2011

As rates deteriorated during the first quarter of 2011 few new orders were placed. Only 0.9 million dwt was contracted during the first quarter of 2011 (fig. 9).

DELIVERY TIME NOW APPROXIMATELY TWO YEARS

Average delivery time dropped by approximately six months from 2009 to 2010. Delivery time is unchanged compared to 2010 levels. However, average delivery will most likely trend downwards in the upcoming quarters. The current average delivery time for crude tankers is 2.1 years (fig. 9).

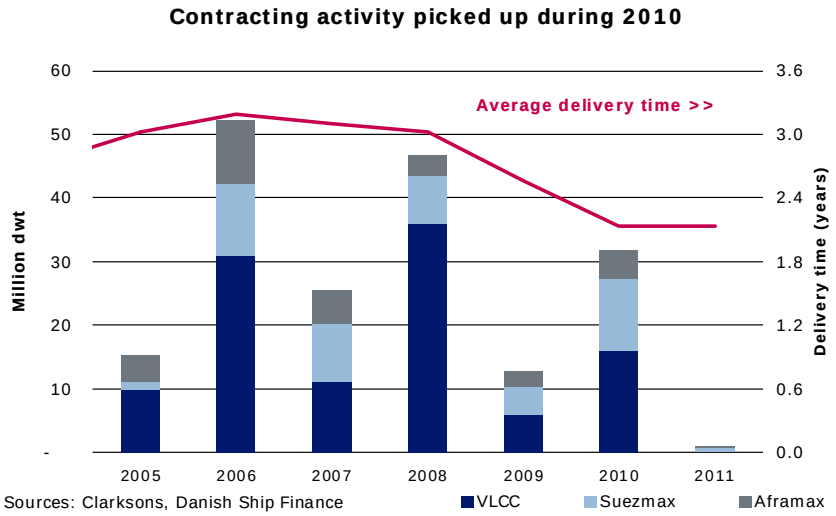
NEWBUILDING PRICES DECLINED BY 9% ON AVERAGE IN 2010

Newbuilding prices declined by 9% on average from 2009 to 2010. No further price developments have been recorded for the first quarter of 2011 (fig. 10). VLCCs saw the steepest decline, as asset prices dropped by an average of 14%.

SECONDHAND PRICES LARGELY UNCHANGED FROM 2009

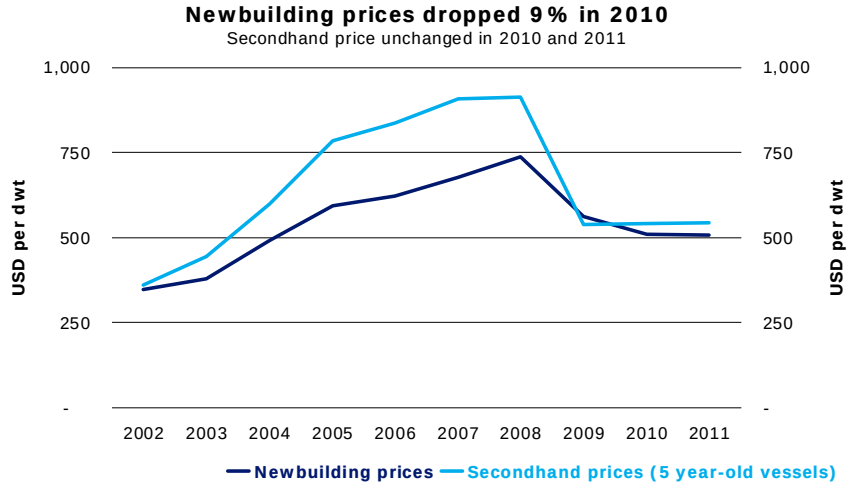
The average secondhand prices remained stable during 2010 and 2011. By the first quarter of 2011, however, the average price of a five-year old VLCC vessel had risen 5% in 12 months (fig. 10).

Figure T.9



Sources: Clarksons, Danish Ship Finance

Figure T.10



Sources: Clarksons, Danish Ship Finance

OUTLOOK

THE MAIN THEME FOR THE OUTLOOK IS NET FLEET GROWTH. MOST SEGMENTS WILL BE CHALLENGED BY THE DEVELOPING TONNAGE SURPLUS EVEN THOUGH OIL DEMAND IS EXPECTED TO BE BRISK IN 2011. ACCORDINGLY, RATES AND VALUES ARE LIKELY TO REMAIN DEPRESSED.

Tanker owners have been expecting (or maybe simply hoping) that the phase-out of single-hull tankers would save the day for rates and values by balancing supply and demand. Approximately 45 million dwt has been scrapped or removed from the crude tanker fleet in the last three years. However, as discussed above, owners have not been sitting on their hands waiting to see what would happen after 2010. Orderbooks are large and in some segments they seem more than sufficient to satisfy future demand for crude tanker capacity.

THREE NEW VESSELS FOR EVERY TEN AT SEA

By April 2011, the orderbook stood at 84.2 million dwt and the fleet accounted 304 million dwt. Consequently, for every ten vessels at sea, an additional three is scheduled to enter service within three years. VLCC orders account for 62% of the orderbook.

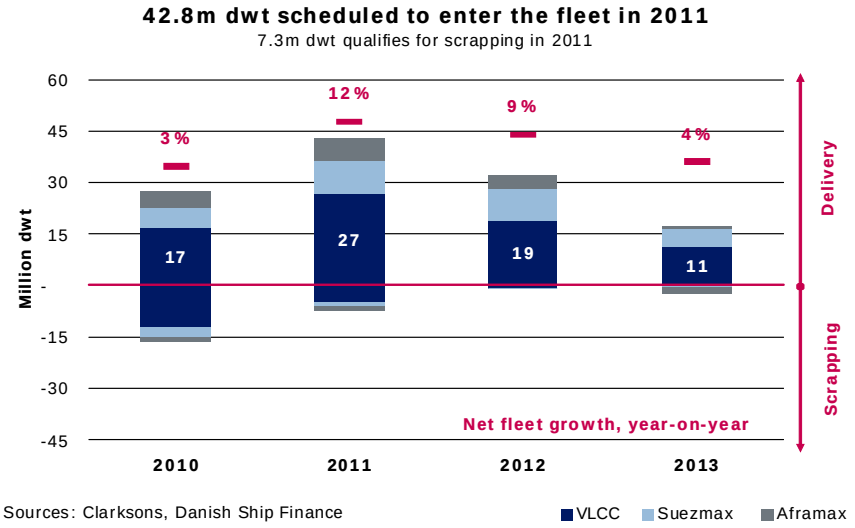
FLEET GROWTH EXPECTED AT 10% IN 2011

In 2011, the crude tanker fleet is set to expand by 10% (28.5 million dwt) after scrapping and postponement. For 2012, we expect the fleet to increase by another 10% (31.7 million dwt) after taking scrapping and postponement into consideration. Obviously, our fleet forecast may be understated if postponements fall short of projections. However, our forecast could also overestimate future supply growth if there are further delivery delays, cancellations and/or if more tonnage exits than we expect.

42.8 MILLION DWT TO ENTER THE CRUDE TANKER FLEET IN 2011

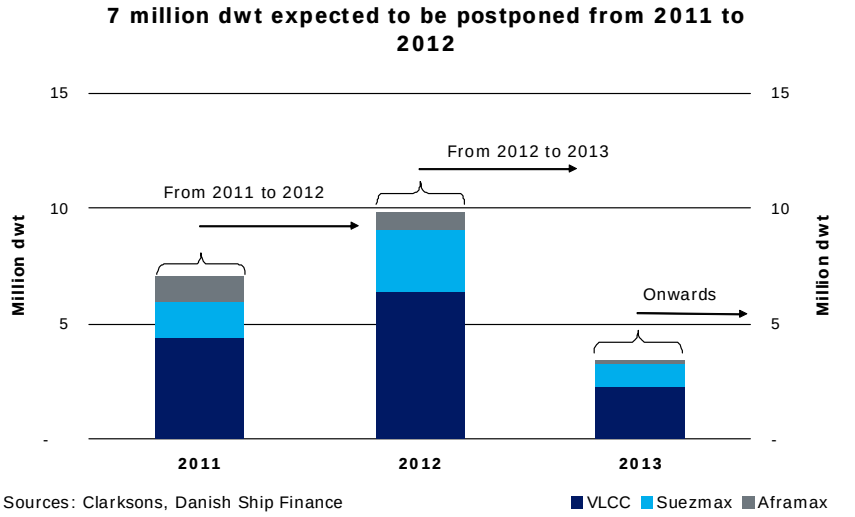
Almost 43 million dwt is scheduled to enter the crude tanker fleet in 2011. Already, 7.7 million dwt has been delivered (at 31 March 2011), so 35.1 million dwt remains to be delivered (fig. 11). As discussed above, approximately 20% of deliveries scheduled for 2010 were postponed. Assuming that this trend is replicated in 2011, deliveries in 2011 are expected to amount to 35 million dwt with 7-8 million dwt postponed to 2012 (fig. 12). After taking postponement into

Figure T.11



Sources: Clarksons, Danish Ship Finance

Figure T.12



Sources: Clarksons, Danish Ship Finance

consideration, 2011 deliveries are expected to outpace 2010 deliveries by 15 million dwt.

7.3 MILLION DWT EXPECTED TO LEAVE THE FLEET IN 2011

A total of 7.3 million dwt is expected to exit the fleet during 2011 as vessels will be either scrapped or converted into other vessel types (fig. 11). By the end of the first quarter, 2.4 million dwt had already been taken out of the fleet. For the rest of the year, we expect that 2.2 million dwt will be scrapped while as much as 2.7 million dwt will be converted into other types of vessels. Thus, scrappings and conversions are expected to offset approximately 20% of the tonnage expected to be delivered in 2011.

DISTANCE-ADJUSTED DEMAND UP 9% IN 2011

Distance-adjusted crude tanker demand is expected to increase by 9% in 2011, driven by increased global oil consumption and, in particular, longer travel distances. Higher Asian oil consumption is expected to contribute the most to crude tanker demand as the additional volumes are expected to travel longer distances (fig. 13).

NORTH AMERICAN IMPORT PATTERNS CHANGING IN 2011

North America is also expected to increase ton-mile demand, not primarily because of larger volumes but rather due to longer travel distances of imported crude oil (fig. 13). In 2011, North American oil imports are expected to travel longer distances as more crude oil is expected to be sourced from West Africa and the Middle East. This change in import patterns is expected to add significant ton-miles to the crude oil trade (fig. 13).

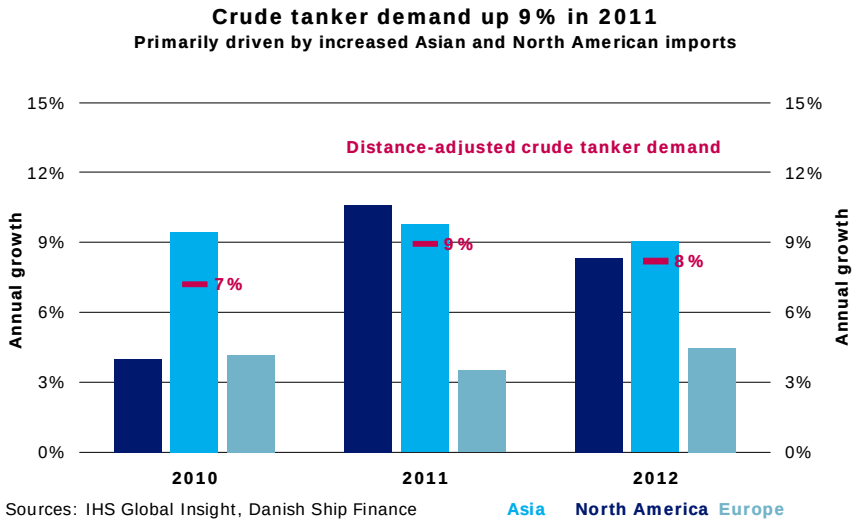
GLOBAL OIL CONSUMPTION UP 2% IN 2011

Global oil consumption is expected to increase by 1.5 million barrels per day in 2011 (up 2.3 million barrels per day in 2010). Global oil consumption has already regained the lost territory from the financial crisis and is projected to increase to 90 million barrels per day in 2012.

OECD OIL CONSUMPTION LARGELY UNCHANGED IN 2011

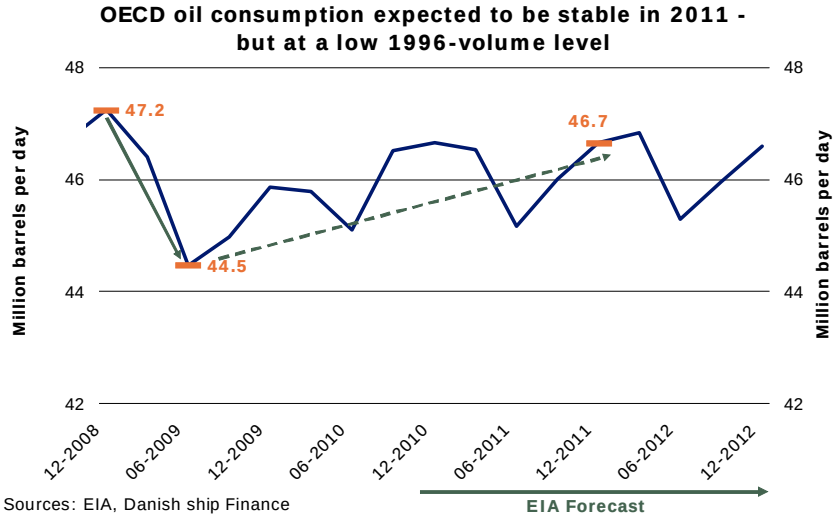
In 2011, OECD oil consumption is expected to remain at the same volumes as in 2010 as economic growth is expected to be weaker in 2011 (fig. 14). North America is expected to increase oil consumption by 200,000 barrels per day (1%) in 2011; European oil consumption is

Figure T.13



Sources: IHS Global Insight, Danish Ship Finance

Figure T.14



Sources: EIA, Danish ship Finance

expected to continue to decline in 2011, as energy substitution (natural gas and renewables) and modest economic growth lowers demand for oil. Japanese oil consumption is expected to decline by a further 2% in 2011.

NON-OECD OIL CONSUMPTION UP 1.5 MILLION BARRELS PER DAY IN 2011

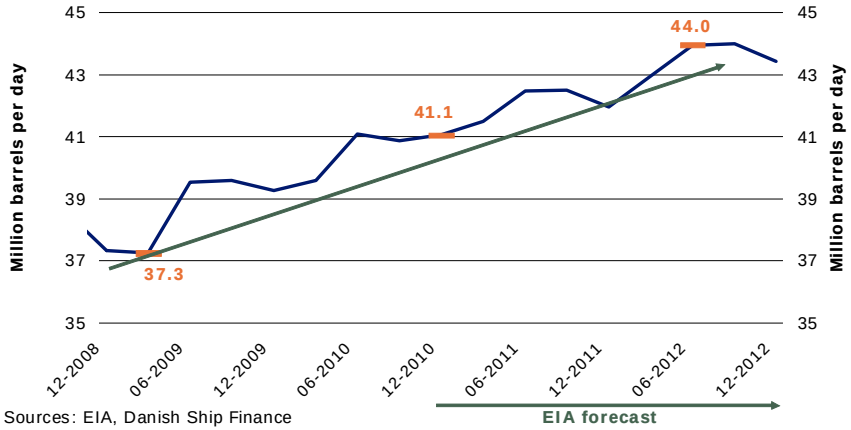
Non-OECD oil consumption is expected to increase by 1.5 million barrels per day in 2011 (fig. 15). Of this increase, Asian oil demand accounts for 0.9 million barrels per day. Chinese oil consumption is expected to increase by 0.6 million barrels per day (6%) in 2011 down from 0.9 million barrels per day in 2010. These figures are based on EIA estimates. However, EIA might be too bearish about the potential of Chinese oil consumption as new crude distillation capacity comes on stream and the build-up of China's strategic petroleum reserves continues to be an issue.

RATES AND VALUES IN 2011

The crude tanker fleet is expected to grow by 10% in 2011, based on our assumptions of postponement and scrapping activity. Distance-adjusted crude tanker demand is expected to grow by 9% in 2011. This indicates that supply will outgrow demand. If this turns out to be fairly correct, we expect rates to remain depressed in 2011.

Figure T.15

2011 non-OECD oil consumption expected to reach a new record-high of 42.1 million barrels per day



Sources: EIA, Danish Ship Finance

DANMARKS SKIBSKREDIT

PRODUCT TANKERS

DESPITE STRONG GROWTH IN DEMAND FOR REFINED OIL PRODUCTS, THE PRODUCT TANKER MARKET IS STILL STRUGGLING TO ABSORB THE LARGE INFLOW OF TONNAGE FROM 2008 AND 2009. THIS MAY CONTINUE WELL INTO 2012.

FREIGHT RATES

PRODUCT TANKER RATES HAVE BEEN IMPROVING OVER THE LAST SIX MONTHS AND MARKET SENTIMENTS ARE RECOVERING. HOWEVER, TIMECHARTER RATES DECLINED DURING THE FIRST QUARTER OF 2011.

In September 2010, when we last published our Shipping Market Review, product tanker earnings and timecharter rates were declining. Fleet availability increased fast as new vessels were delivered and vessels previously used as floating storage became available in the spot market. The Baltic Clean Tanker Index (BCTI) closed the third quarter of 2010 at index 733.

THE BALTIC CLEAN TANKER INDEX INCREASING SLIGHTLY IN 2011

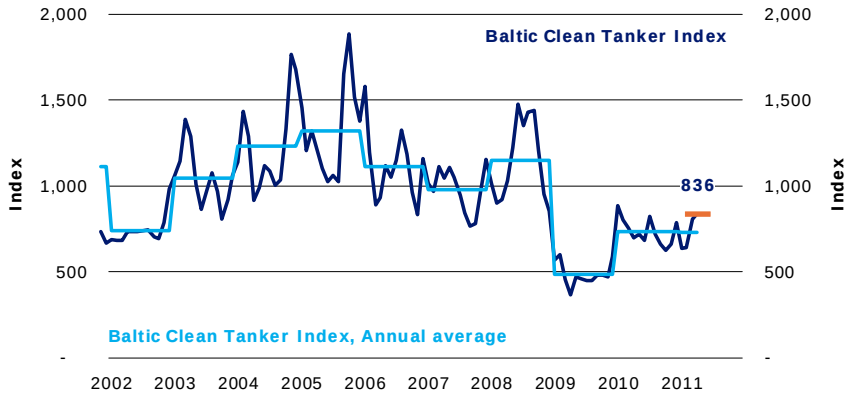
The BCTI index remained low in 2010, although it almost doubled from 2009 to 2010. The index fell 6% from the first to the second half of 2010 but recovered the lost territory during the first four months of 2011. By April 2011, the BCTI stood at index 836 (fig. 1).

TIMECHARTER RATES FELL DURING FIRST QUARTER 2011

Timecharter rates are low and have been declining during the last four years. By March 2011, the three-year timecharter rate for a 47,000 dwt MR tanker stood at USD 14,400 per day. This is almost as low as in 2002 and 2003 (fig. 2).

Figure P.1

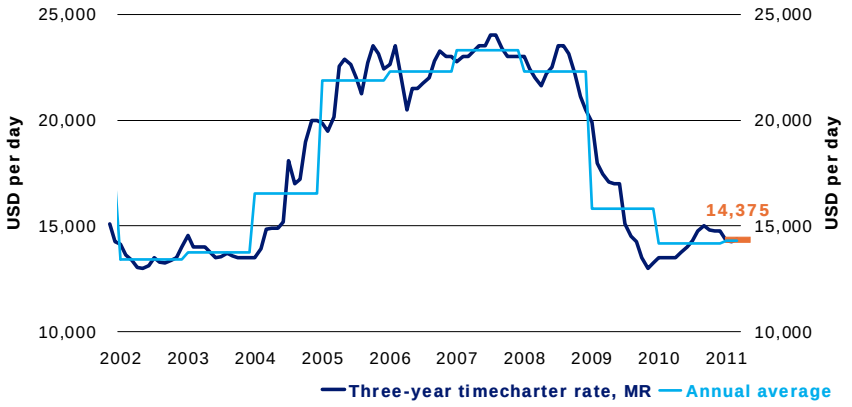
Baltic Clean Tanker Index almost back to 2002-levels



Sources: Clarksons, Danish Ship Finance

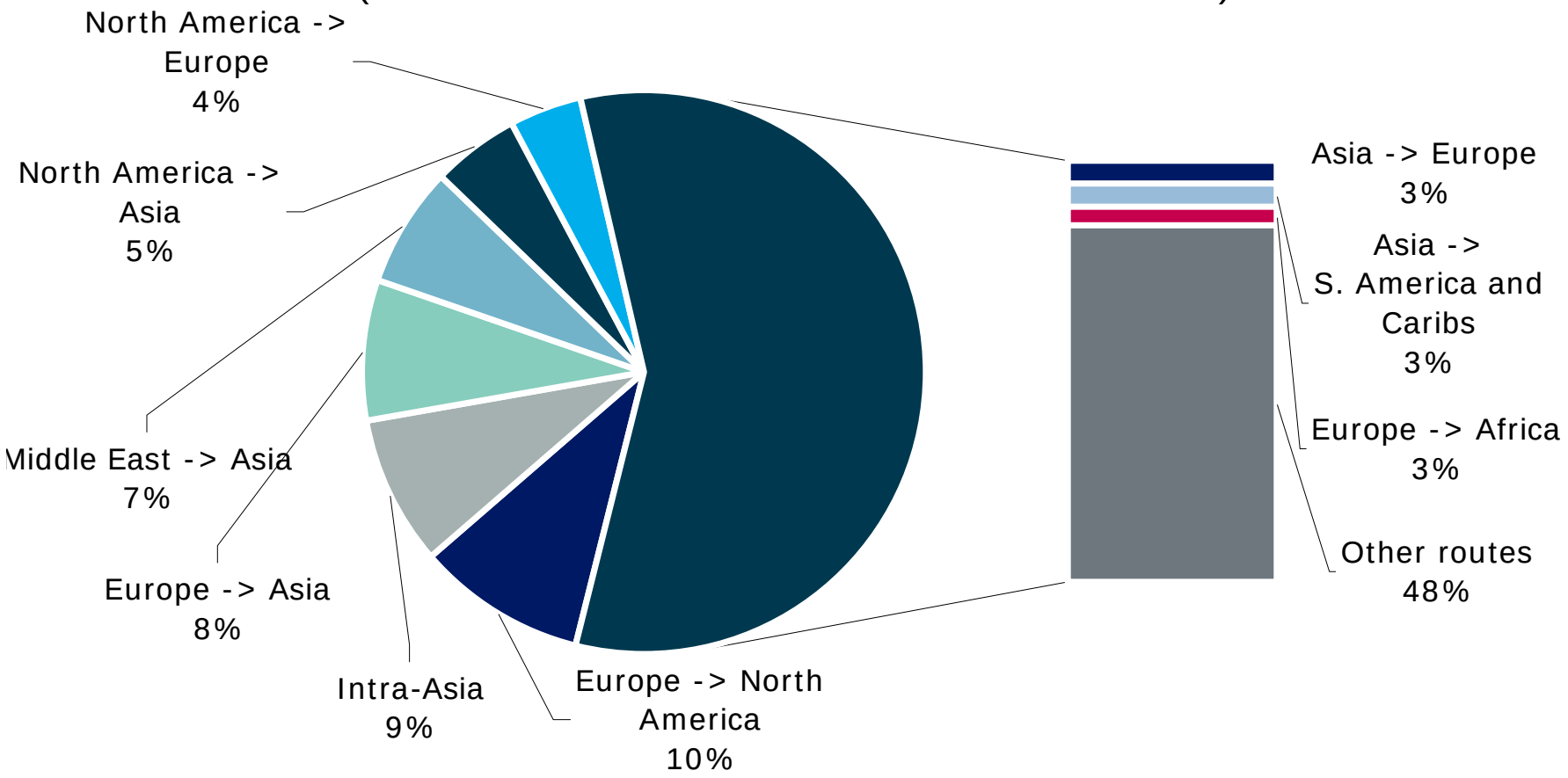
Figure P.2

Timecharter rate continuing to decline in 2010 and 2011



Sources: Clarksons, Danish Ship Finance

MAJOR PRODUCT TANKER TRADES IN 2010
(MEASURED IN BILLION TON-NAUTICAL MILES)



Sources: IHS Global Insight, Danish Ship Finance

DISTANCE-ADJUSTED PRODUCT TANKER DEMAND GREW 6% IN 2010, WHILE THE PRODUCT TANKER FLEET GREW 5%. THE OVERHANG OF TONNAGE FROM PREVIOUS YEARS AND VESSELS LEAVING FLOATING STORAGE KEPT FREIGHT RATES LOW DURING 2010 AND IN THE FIRST QUARTER OF 2011.

5% FLEET GROWTH IN 2010

The product tanker fleet grew 5% in 2010 as almost 8.5 million dwt entered the fleet and 4 million dwt left the service. The LR2 and LR1 segments saw the largest increases (10% and 7%, respectively) while the MR fleet grew by only 2% in 2010. During the first quarter of 2011, 1.5 million dwt entered the fleet while 400,000 dwt was scrapped (fig. 1).

10% OF ORDERS SCHEDULED FOR DELIVERY IN 2010 POSTPONED

9.5 million dwt was scheduled to enter the fleet in 2010, while 8.5 million dwt actually entered service. These numbers conceal a large degree of diversity. Approximately 30% of all MR tankers scheduled for delivery in 2010 were not built. It could be that some of the orders were transformed into LR1 or LR2 orders, as more tonnage was delivered than scheduled in these two segments (fig. 5).

SCRAPPING PICKED UP IN 2010

Scrapping activity almost doubled from 2009 to 2010. A total of 4 million dwt left the product tanker fleet in 2010 while a little more than 2 million dwt was scrapped in 2009. Three quarters of the 4 million dwt was MR tankers (fig. 4).

FLEET AVAILABILITY OUTGREW SUPPLY IN 2010

The extensive scrapping activity effectively reduced fleet growth by 4 percentage points. Consequently, 2010 was a year with relatively low supply growth compared to previous years. However, the market struggled with the sudden increase in fleet availability in 2010, as vessels previously employed in floating storage returned to the spot market. This could effectively have increased fleet availability by as much as 2-3 percentage points, thereby lifting supply growth to approximately 7-8% in 2010.

Figure P.4

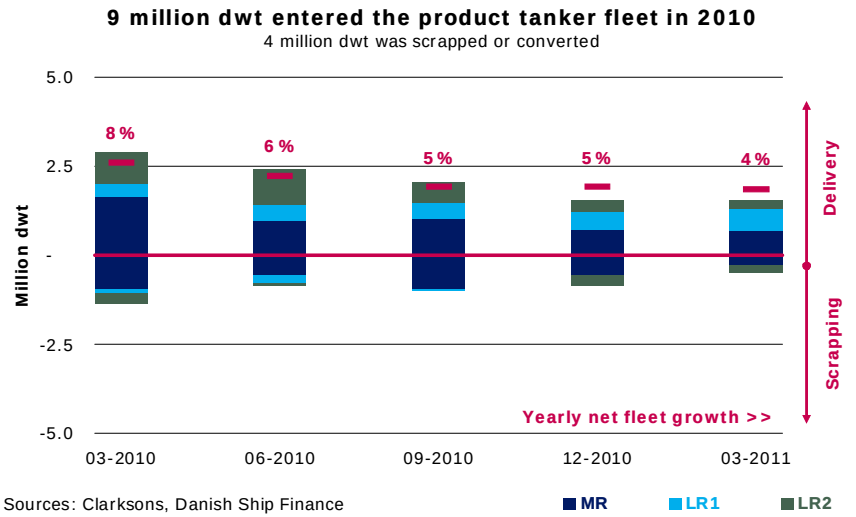
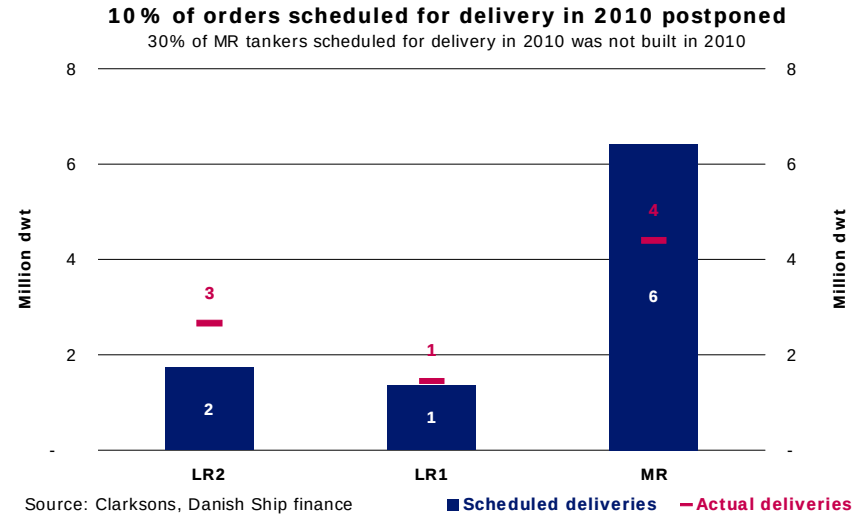


Figure P.5



DISTANCE-ADJUSTED DEMAND INCREASED 6% IN 2010

Distance-adjusted product tanker demand increased by 6% in 2010. Global seaborne imports of refined oil products increased by 4% while changed trading patterns increased travel distances by 2% in 2010 (fig. 6 & 7). Distance-adjusted product tanker demand is now 3% above the pre-crisis level of 2008.

Asia was once again the locomotive pushing product tanker demand forward. Distance-adjusted demand for product tankers in Asia increased by 11% in 2010 as new refinery capacity came on stream. Distance-adjusted European demand for product tankers was up by 5% during 2010 (fig. 6).

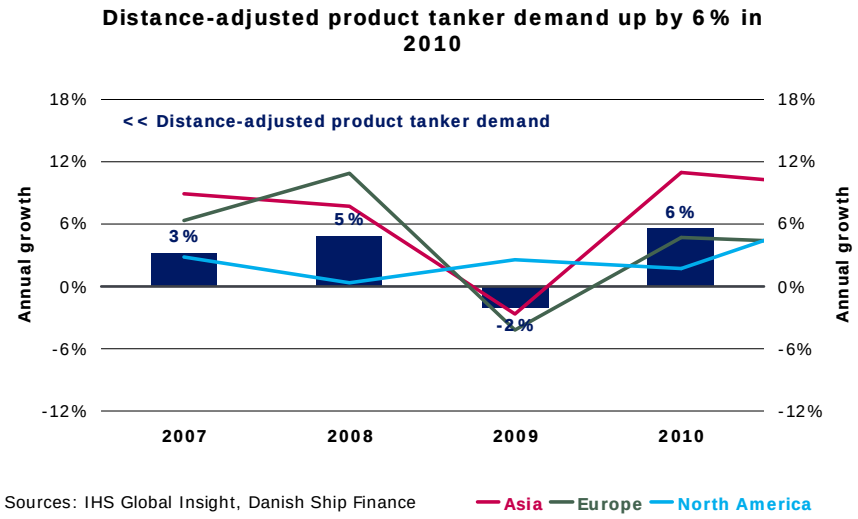
DISTANCE-ADJUSTED NORTH AMERICAN DEMAND UP 2% IN 2010

North American demand for refined oil products increased by 2% in 2010. By volume, North American imports of oil products declined 3% as increased demand was met by inventory drawdowns and increased domestic production. Distance-adjusted North American imports declined 4% in 2010. North American exports of refined oil products, on the other hand, were up 30% in 2010 as exports to emerging economies boomed and transatlantic movements increased due to arbitrage opportunities. Distance-adjusted exports increased by 9%. In aggregate, distance-adjusted North American demand for product tankers increased by 2% in 2010 (fig. 6).

ENHANCED SUPPLY-DEMAND BALANCE IN 2010

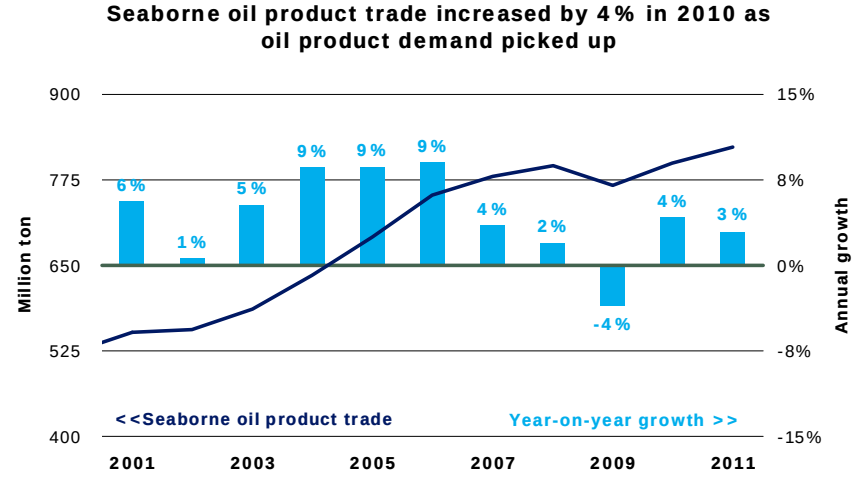
To sum up, the product tanker fleet grew 5% while distance-adjusted product tanker demand increased 6%. Consequently, market sentiments improved slightly during 2010. However, the overhang of tonnage from previous years and a reduction of floating storage kept haunting the product tanker market.

Figure P.6



Sources: IHS Global Insight, Danish Ship Finance

Figure P.7



Sources: Clarksons, Danish Ship Finance

A PICKUP IN CONTRACTING ACTIVITY IN 2010 WAS NOT ENOUGH TO KEEP NEWBUILDING PRICES FROM FALLING. NEWBUILDING PRICES DROPPED 12%, ON AVERAGE, AND IN THE FIRST QUARTER 2011 SECOND-HAND PRICES WERE SLIGHTLY UP FROM JANUARY 2010-LEVELS.

CONTRACTING ACTIVITY PICKED UP IN 2010

In 2009, shipowners contracted a modest 1.7 million dwt. However, the appetite for new contracts returned in 2010 as shipowners contracted 3.7 million dwt of new vessels. The resurgence in new contracting mainly targeted MR tankers. However, the digestion of 2008 and 2009 supply inflows kept fresh ordering down to more moderate levels than previously.

CONTRACTING DROUGHT DURING FIRST QUARTER 2011

Shipowners' appetite for new tonnage seems to have evaporated during the first quarter of 2011. Only two vessels were contracted during the first quarter of 2011.

DELIVERY TIME REMAINED UNCHANGED IN 2010

The average delivery time was more or less unchanged in 2010 at approximately two years. However, average delivery times will probably trend downwards in the upcoming quarters as more tonnage is being delivered than contracted.

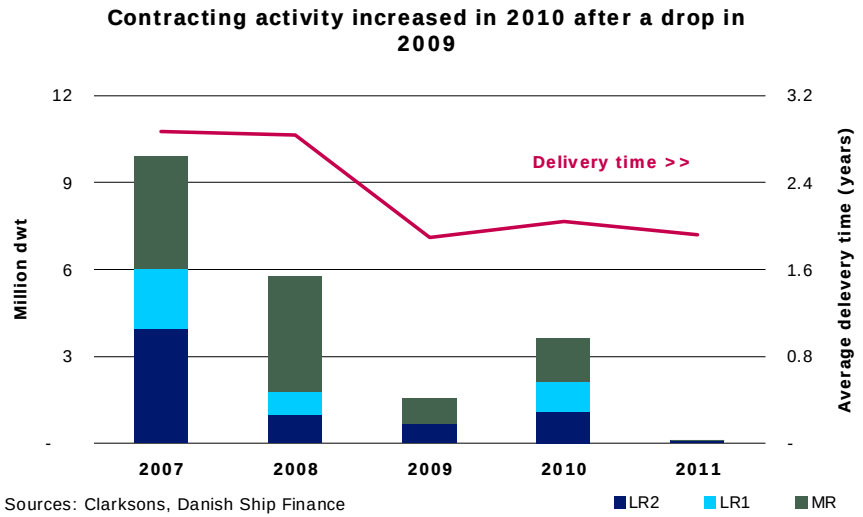
NEWBUILDING PRICES DECLINED 12% IN 2010

Newbuilding prices declined 12% in 2010 as low freight rates and insufficient appetite for new tonnage edged prices downwards. In the first quarter of 2011, the average newbuilding price of an LR1 tanker was on average 2% below the 2010 average.

SECONDHAND PRICES MOVING SIDEWAYS IN 2010

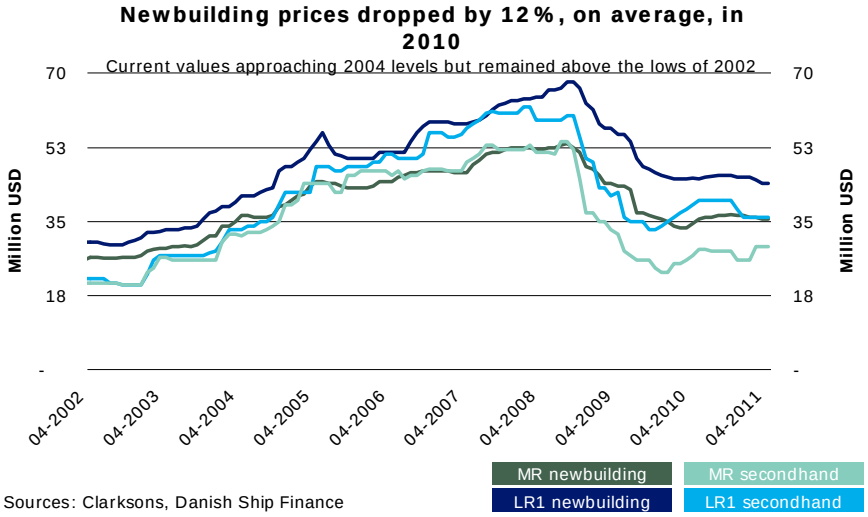
The market for large vessels saw a slight improvement in 2010 as rates improved. However, during the first quarter of 2011 second-hand prices for large product tankers fell back to the levels of January 2010. The trend was exactly the opposite for MR tankers, as average second-hand prices in that segment fell by 4% in 2010. However, this decline was reversed in the first quarter of 2011 when prices rose by 5% compared to the 2010 average.

Figure P.8



Sources: Clarksons, Danish Ship Finance

Figure P.9



Sources: Clarksons, Danish Ship Finance

FREIGHT RATES ARE EXPECTED TO REMAIN LOW AS DEMAND CONTINUED TO STRUGGLE TO ABSORB THE TONNAGE THAT HAS ENTERED THE PRODUCT TANKER FLEET DURING THE LAST COUPLE OF YEARS. DISTANCE-ADJUSTED DEMAND IS EXPECTED TO INCREASE BY 6% IN 2011 WHILE THE FLEET IS EXPECTED TO INCREASE 5%, THUS MIRRORING 2010.

TWO NEW VESSELS SCHEDULED TO BE DELIVERY FOR EVERY TEN AT SEA

By April 2011, the aggregate orderbook volume was 17.5 million dwt. With a current fleet of approximately 107 million dwt, there are almost two vessels scheduled for delivery for every ten at sea. 87% of the orderbook is scheduled for delivery in 2011 and 2012.

5% FLEET GROWTH IN 2011

In 2011, the product tanker fleet is expected to grow by 5% (5 million dwt) after allowing for scrappings and postponements (fig. 10). In 2012, the product tanker fleet is expected to expand by 4% (4.8 million dwt). Unfortunately, fleet growth is not evenly distributed between the segments. In 2011, the LR2 and LR1 segments are expected to grow by 8% and 10%, respectively, while the MR fleet is expected to increase by 2%.

11 MILLION DWT SCHEDULED FOR DELIVERY IN 2011

A total of 11 million dwt is scheduled for delivery in 2011. In the first quarter of 2011, a total of 1.5 million dwt was delivered. Accordingly, 9.5 million dwt is scheduled to enter the fleet during the rest of 2011. We expect low postponement activity in 2011. For the MR tanker segment we expect 1 million dwt to be postponed from 2011 into 2012. In 2012, a total of 5.5 million dwt is scheduled for delivery.

5 MILLION DWT IS EXPECTED TO BE SCRAPPED IN 2011

In 2011, a total of 7.5 million dwt qualifies for scrap, if all vessels older than 25 years are taken out of service (fig. 11). MR tankers account for 68% of the scrapping potential. In 2011, as much as 8% of the MR fleet could be scrapped. Taking the age distribution and the size of the fleet of each segment type into consideration, we estimate that 5 million dwt will be exiting the fleet in 2011. For 2012, only 1% of the product tanker fleet qualifies for scrapping.

Figure P.10

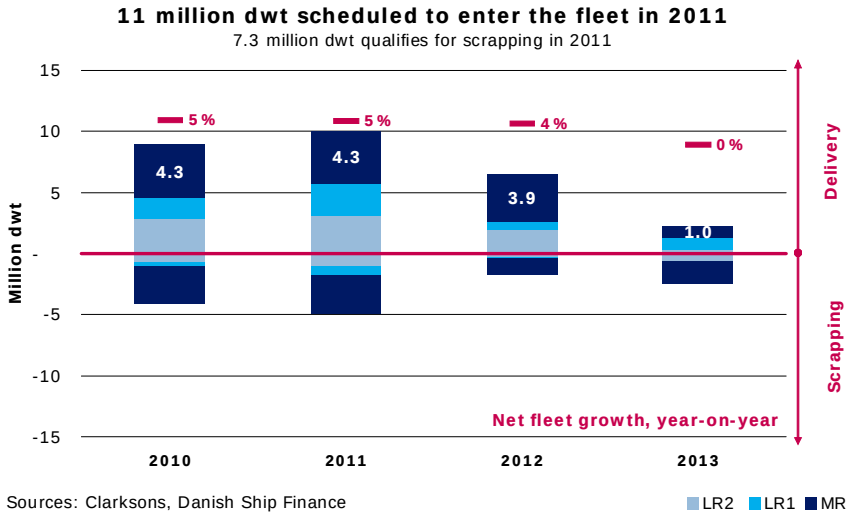
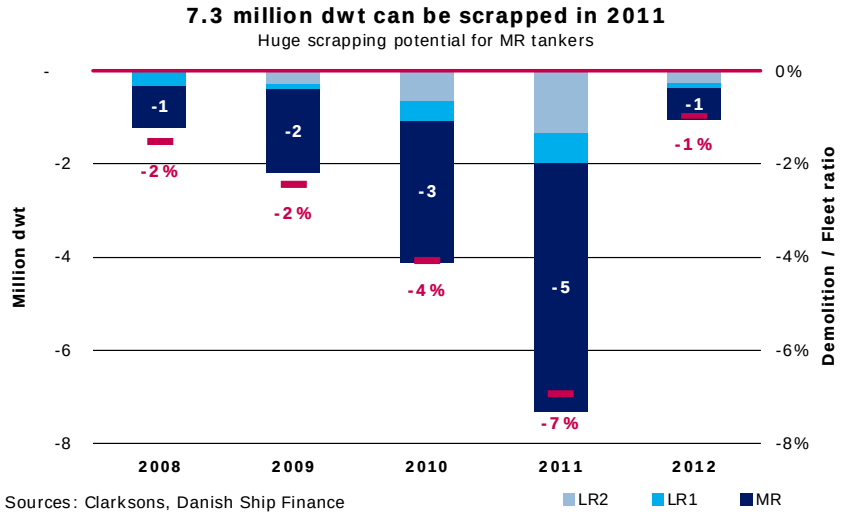


Figure P.11



DISTANCE-ADJUSTED DEMAND UP 6% IN 2011

On the back of higher global oil consumption growth and longer travel distances, distance-adjusted product tanker demand is expected to increase by 6% annually in 2011 and 2012 (fig. 13).

GLOBAL OIL CONSUMPTION UP 2% IN 2011

As already mentioned in the crude tanker section, global oil consumption growth is expected to level off in 2011 compared to 2010. Global oil consumption is expected to increase by 2% in 2011 and 2012.

STRONG PETROCHEMICAL PRODUCTION GROWTH IN ASIA

The Asian petrochemical industry is expected to continue expanding the number of plants. This will certainly lead to greater demand for naphtha which most likely will have to come from the Middle East. Combined with increased consumer spending and overall industrial production increases we expect the LR2 and LR1 fleets to benefit from these developments in the naphtha trade in 2011 and beyond. In 2012 and 2013, we expect further ethylene capacity to come on stream and further support the naphtha trade especially from the Middle East.

GROWING DIESEL DEMAND IN EMERGING ECONOMIES

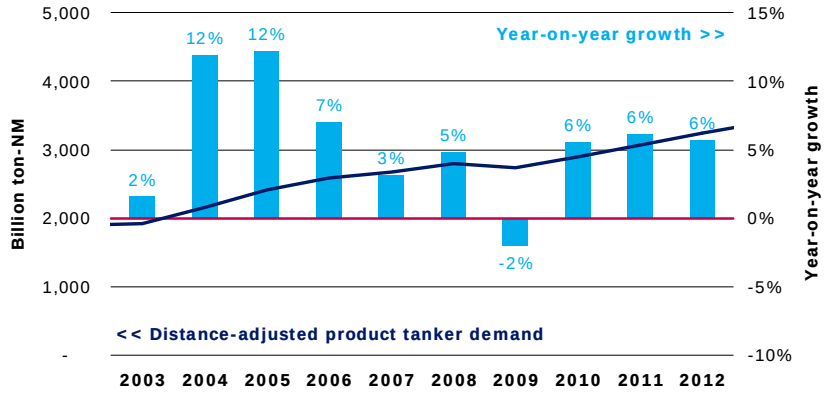
Demand for diesel is expected to increase during the next couple of years. In particular, China is expected to increase its imports of diesel as the country tries to achieve the pollution targets of its latest five-year plan. As new sophisticated refineries with strong diesel production capabilities are being planned in the US and on Aruba (an island in the southern Caribbean), these new refineries will compete for diesel exports to South America and China for the benefit of both the MR and LR1 segments, mostly in terms of longer ton-mile voyages.

THE US SUMMER DRIVING SEASON MIGHT WELL DISAPPOINT ONCE AGAIN

The US summer driving season in terms of gasoline demand needs to recover before we will see any real revival in the MR market in the Atlantic. After two years of moderate growth (0.9% and 1.3%) in US gasoline demand during the driving season, the EIA estimates that US gasoline demand this season will grow by as little as 0.5% (fig. 13). US gasoline consumption this summer will be hampered by the relatively high unemployment rate which most likely will not be reduced significantly during the next six months. If oil prices remain high it may prove to be poison for the US driving season as gasoline prices will continue rising and with moderate income growth for US consumers, US

Figure P.12

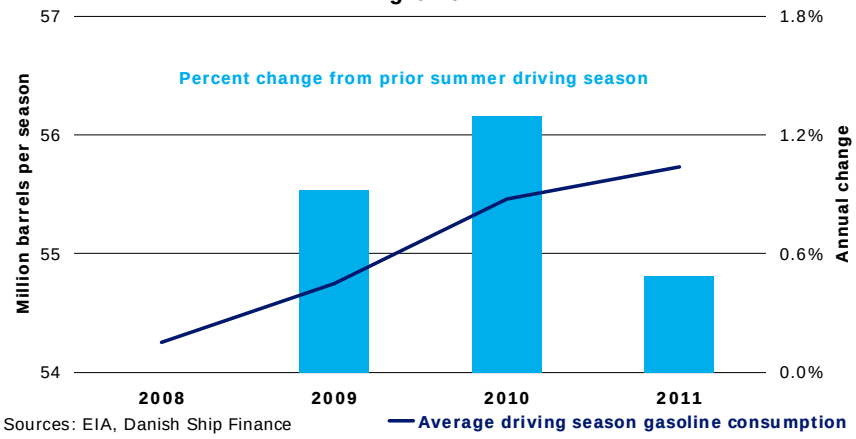
Distance-adjusted product tanker demand is expected to increase 6% in 2011 and 2012



Sources: IHS Global Insight, Danish Ship Finance

Figure P.13

Higher US gasoline prices and relatively high unemployment restrain US gasoline consumption growth

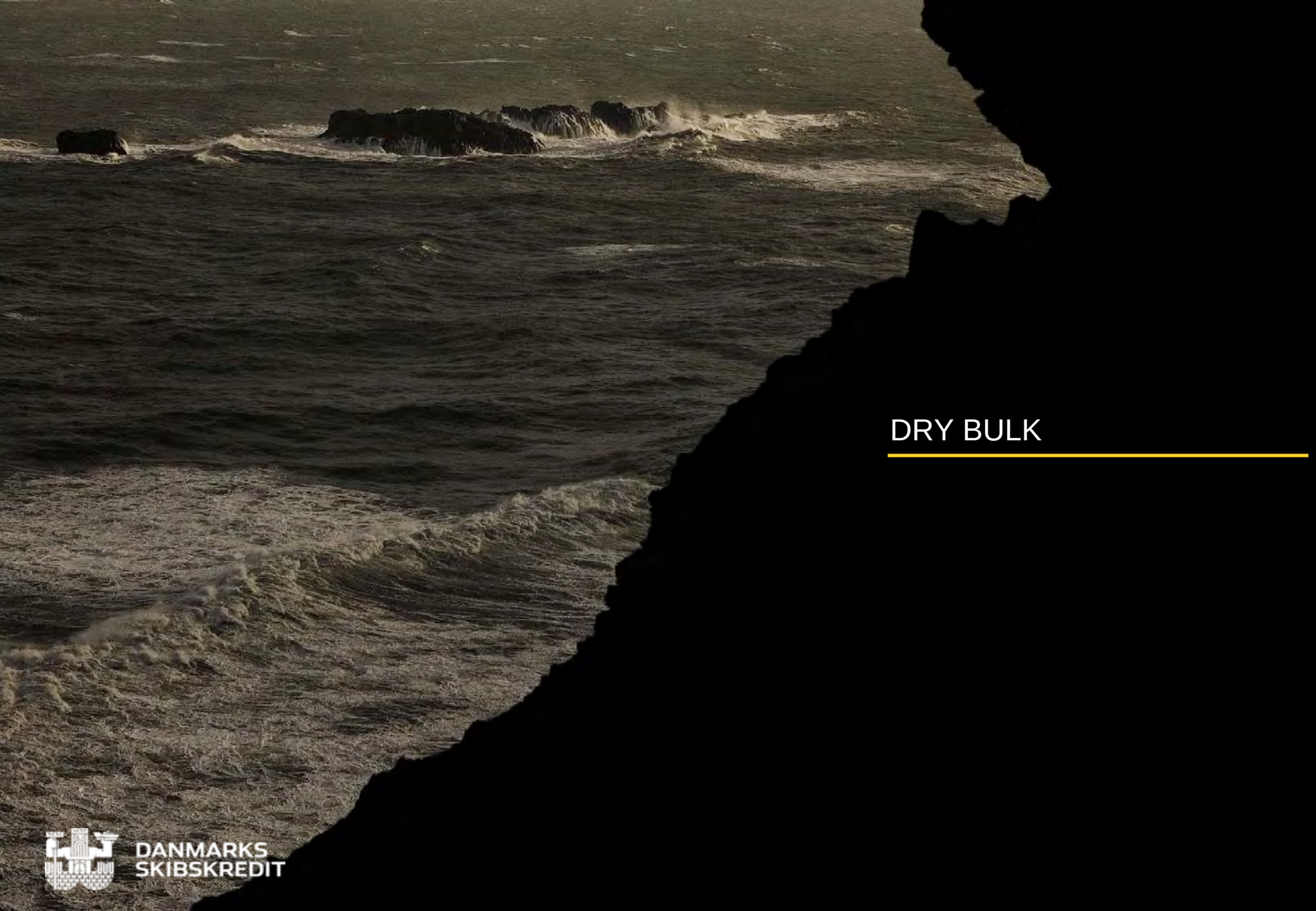


Sources: EIA, Danish Ship Finance

gasoline consumption might well fall short of EIA projections. However, US gasoline consumption is expected to resume growth rates of above 1% in 2012.

RATES EXPECTED TO REMAIN LOW AT LOW LEVELS IN 2011

The product tanker market in 2011 is expected to continue to struggle to absorb the overhang of tonnage that has entered the fleet in recent years. The overhang of tonnage is expected to be gradually absorbed over the next couple of years as demand improves. If our predictions turn out to be fairly correct, we expect rates to gradually improve in late 2011 and 2012. However, this forecast is based on a scenario where scrapping and postponement activity remains strong in 2011. We will most likely have to wait until 2013 before freight rates return to historical levels.



DRY BULK

DANMARKS SKIBSKREDIT

DRY BULK

THE DRY BULK MARKET IS CHARACTERISED BY AN OVERSUPPLY OF TONNAGE DESPITE STRONG GROWTH IN DEMAND.

FREIGHT RATES

DRY BULK RATES HAVE BEEN DRIFTING DOWNWARDS OVER THE LAST SIX MONTHS AND MARKET SENTIMENT CONTINUES TO WORSEN.

After a slight recovery in rates during the first quarter of 2010, rates declined as cyclones, and floods closed down production at several Australian mines at the end of 2010 and at the beginning of 2011. The earthquake and the resulting power shortage in Japan have pushed rates further downwards.

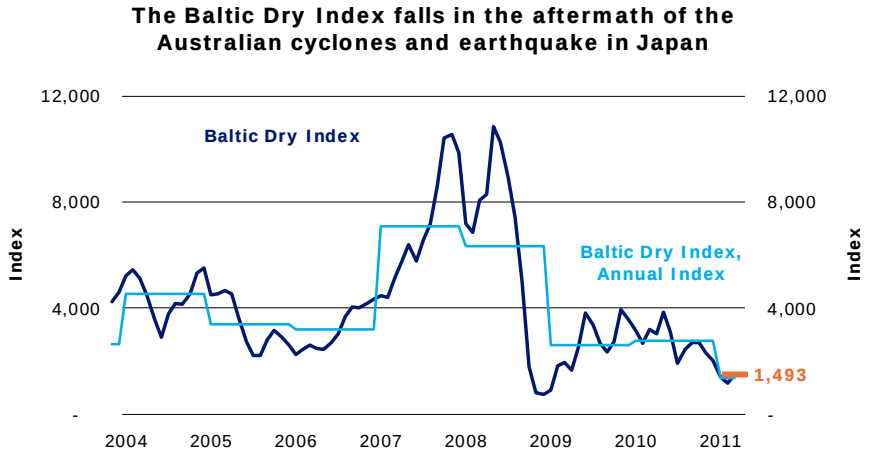
THE BALTIC DRY INDEX DRIFTING DOWNWARDS DURING 2010

The Baltic Dry Index began to slide during the autumn of 2010. The index fell from a monthly average of 2,719 in September to 2,031 by December 2010. Since then, market conditions have deteriorated further and the index hovered around 1,500 during the first quarter of 2011. Nevertheless, the annual index of 2010 increased by 6% compared to the annual index of 2009. However, in the first quarter of 2011, rates fell by more than 40% compared to the fourth quarter of 2010.

CHARTER RATES DOWN AND FIXTURE PERIODS SHORTENED

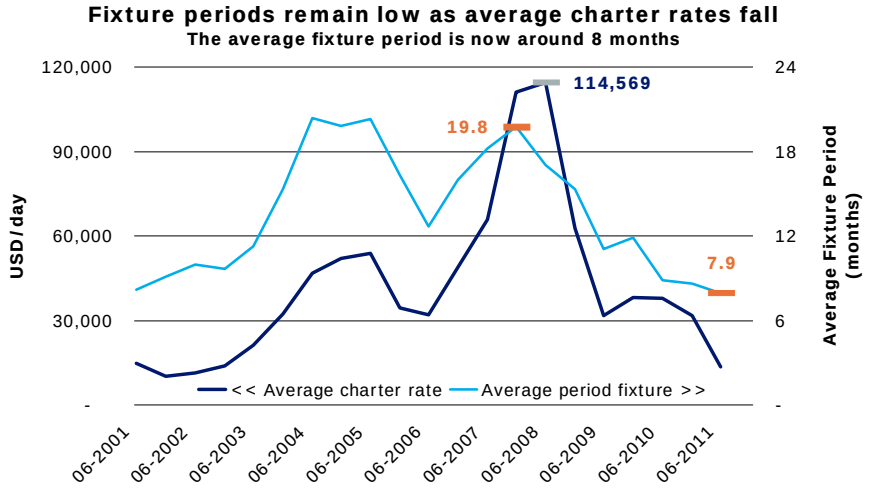
Charter rates have fallen by some 60% over the past quarter. The average charter rate was USD 13,500 per day during the first quarter of 2011 compared to USD 32,400 per day in the previous quarter. At the same time, the average fixture period drifted downwards. The average fixture period stood at 7.9 months in the first quarter of 2011, whereas the previous quarter had an average fixture period of 9.5 months. This indicates that market sentiments cooled somewhat in the first quarter of 2011.

Figure DB.1



Sources: Reuters EcoWin, Danish Ship Finance

Figure DB.2

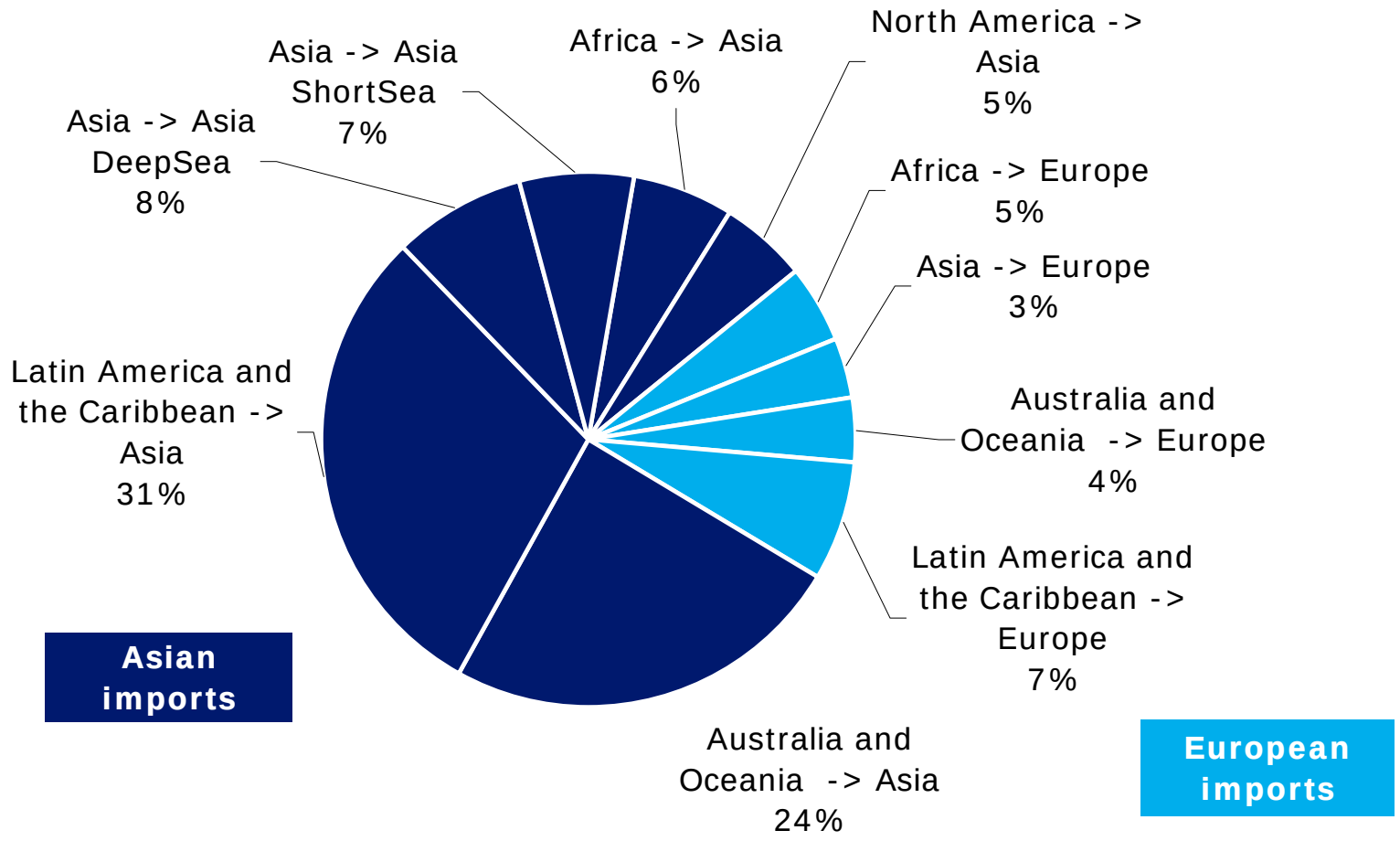


Sources: Clarksons, Danish Ship Finance

Figure DB.3

ASIAN DEMAND DICTATES CAPESIZE DEMAND

TOP 10 FRONT-HAUL CAPESIZE ROUTES



Sources: IHS Global Insight, Danish Ship Finance

DRY BULK CAPACITY INCREASED BY 17% IN 2010 WHILE DISTANCE-ADJUSTED DEMAND GREW 13%. SCRAPPING ACTIVITY REMAINED LOW, DESPITE THE TUMBLING FREIGHT RATES.

84 MILLION DWT DELIVERED IN 2010

An alarming 84 million dwt joined the Dry Bulk fleet during 2010. This corresponds to an increase in delivered capacity of more than 60% compared to delivered capacity in 2009. Of the 84 million dwt entering service approximately 4 million dwt was tonnage converted from other segments into Dry Bulk tonnage. The Capesize segment accounted for approximately 50% of the delivered capacity. In the first quarter of 2011, an additional 21 million dwt was delivered. That is a further delivery increase of 2% compared to the first quarter of 2010 (fig. 4).

70% OF SCHEDULED 2010 DELIVERIES BUILT IN 2010

Owners continued their efforts to mitigate the effects of the massive orderbook by postponing and cancelling capacity. A total of 119 million dwt was scheduled for delivery in 2010. 92 million of these orders were orders with a fixed delivery date (we denote these as firm orders) whereas the remaining 27 million dwt had a delivery year but no firm delivery month (we denote these as purchase options). From this we conclude that owners were able to postpone or cancel as much as 30% or the orders scheduled for delivery in 2010 (fig. 5).

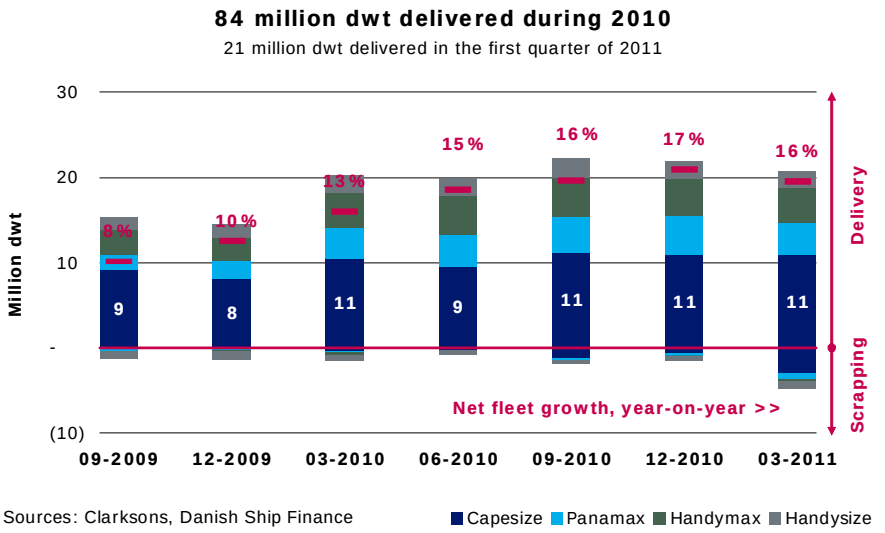
SCRAPPING ACTIVITY PICKING UP IN THE FIRST QUARTER OF 2011

A total of 6 million dwt was scrapped during 2010 (10.5 million dwt scrapped in 2009) while an astonishing 5 million dwt was scrapped during the first quarter of 2011. The majority of the vessels scrapped in 2010 were Capesize or Handysize vessels (fig. 4).

DRY BULK FLEET INCREASES 17% IN 2010

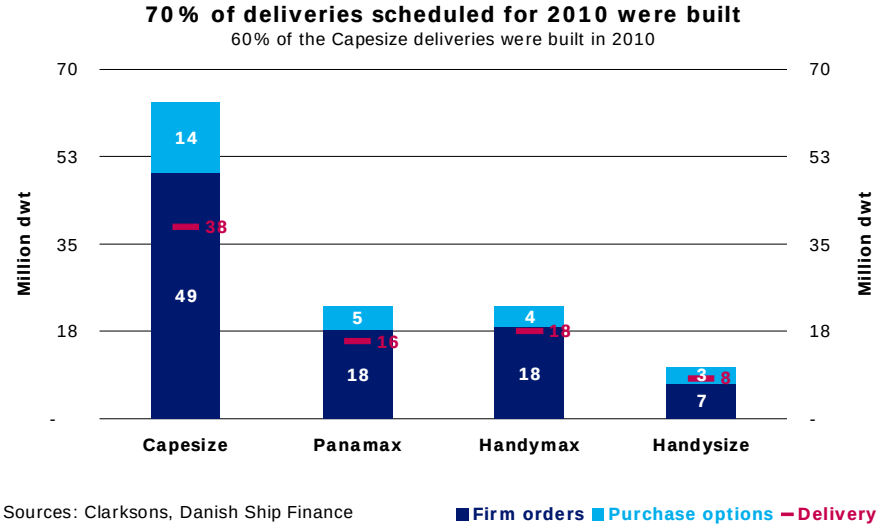
The large increase in delivered capacity and the slowdown in scrapping activity led to a 17% increase in the supply of Dry Bulk capacity (i.e. a net increase of 78 million dwt) in 2010. The Capesize fleet and the Handymax fleet saw the largest increases, at 23% and 19% respectively.

Figure DB.4



Sources: Clarksons, Danish Ship Finance

Figure DB.5



Sources: Clarksons, Danish Ship Finance

SEABORNE DRY BULK TRADE UP 12% IN 2010

2010 was a year with a remarkable 12% increase in transported Dry Bulk volumes. The growth was primarily driven by: 1) the return of European and Japanese demand, 2) growth in Other Asia (excl. China and Japan) and, to a lesser extent, 3) growth in China. Demand volumes are now following a trend similar to the pre-crisis development. However, trade volumes dropped by 8% in the first quarter of 2011 compared to the previous quarter, and are now in line with the volumes of the first quarter of 2010 (fig 6).

SEABORNE COAL TRADE EXPANDED BY 16% IN 2010

The seaborne coal trade expanded by 16% in 2010. Coking coal trade saw the biggest increase compared to 2009 at 24%. The 2010 increase in coking coal trade was to a large extent driven by Chinese demand. Steam coal trade volumes were up by 14% in 2010, as energy demand increased in China as well as in other developing countries (fig. 7).

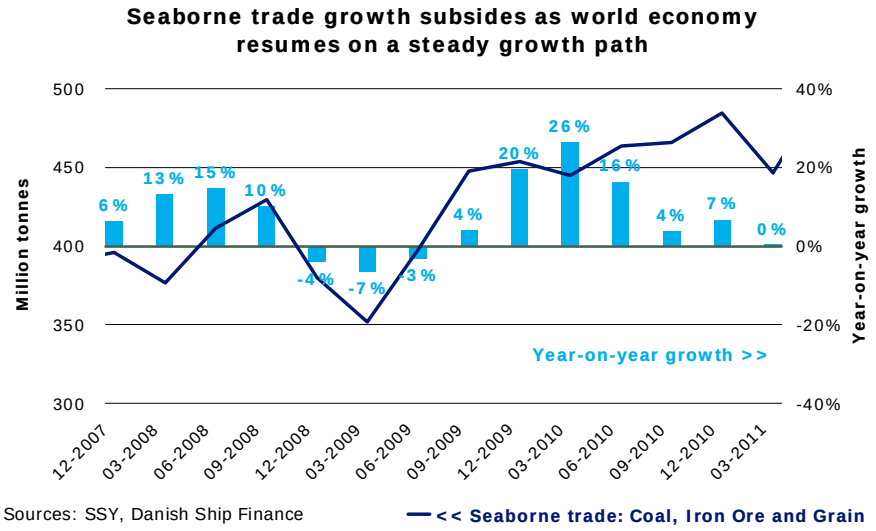
IRON ORE TRADE EXPANDED 10% IN 2010

World steel production recovered in 2010, expanding by 16%. Seaborne demand for iron ore responded immediately with an annual increase of 10% to 1,020 million tons. Again, it was Asian demand that drove the trend, in particular during the fourth quarter of 2010. Japanese and South Korean iron ore imports contributed strongly to the improvement, growing 28% and 24% respectively. These increases, however, only occurred because steel mills returned to normal production. Seaborne iron ore volumes fell 13% during the first quarter of 2011 compared to the fourth quarter of 2010 (fig. 8).

CHINESE IRON ORE INVENTORIES INCREASED 14% IN 2010

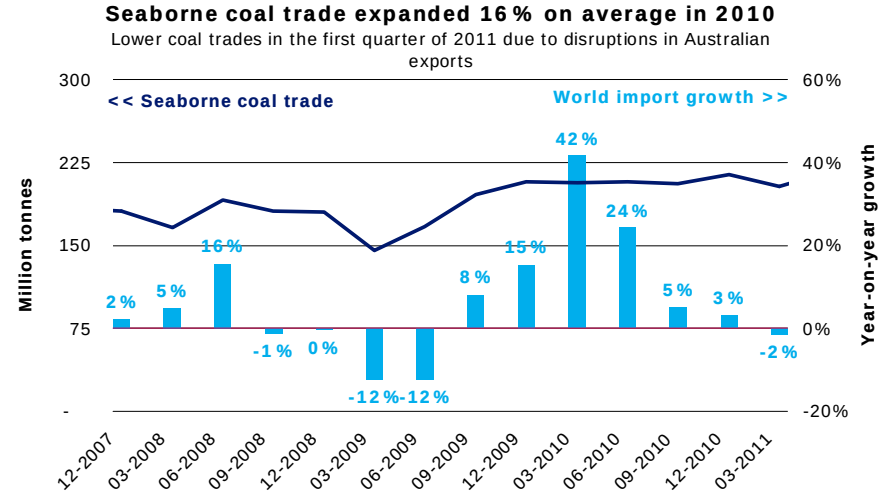
Chinese iron ore imports dropped by 1% in 2010 overall as domestic Chinese iron ore production replaced imports from overseas. In the last quarter of 2010, China once again increased its imports as domestic production stalled and inventories were restocked. Chinese iron ore inventories increased by 14% in 2010.

Figure DB.6



Sources: SSY, Danish Ship Finance

Figure DB.7



Sources: SSY, Danish Ship Finance

AUSTRALIAN MINING DISRUPTED IN 2010 AND 2011

Cyclones and heavy rainfalls caused disruptions to Australian exports in December 2010 and in first quarter of 2011, as mining equipment and supply lines were damaged. The disruptions have affected both coal and iron ore exports and have reduced demand for Dry Bulk vessels.

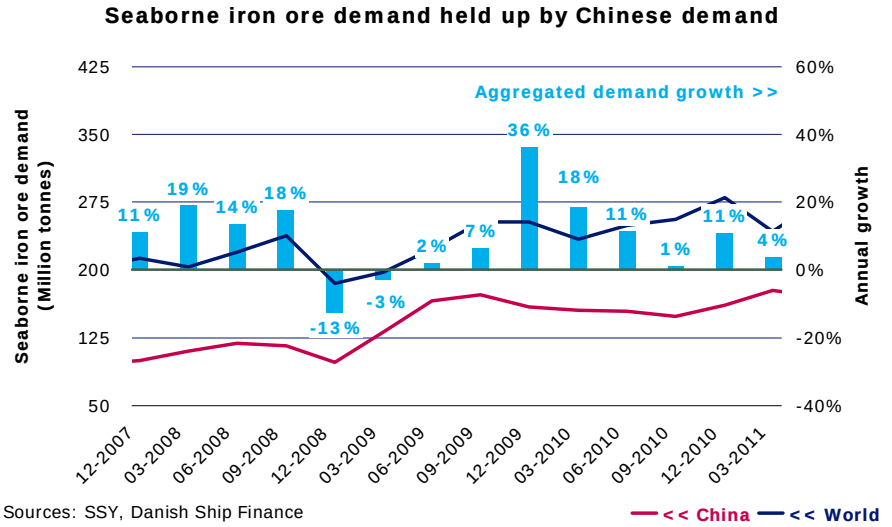
PORT CONGESTION ON THE WANE

The disruptions in Australian exports initially increased port congestion markedly, as ports closed down in response to the harsh weather conditions. At the latest peak in January, 16% of the Capesize fleet was waiting in line off the ports in Australia, China or Brazil. Following the opening of the ports of Western Australia in March port congestion has taken a dive with only 10% of the Capesize fleet lying at anchorage. On average 14% of the Capesize fleet and 7% of the total Dry Bulk fleet was occupied by port congestion in 2010 (fig. 9).

IMBALANCE BETWEEN SUPPLY AND DEMAND WORSENING

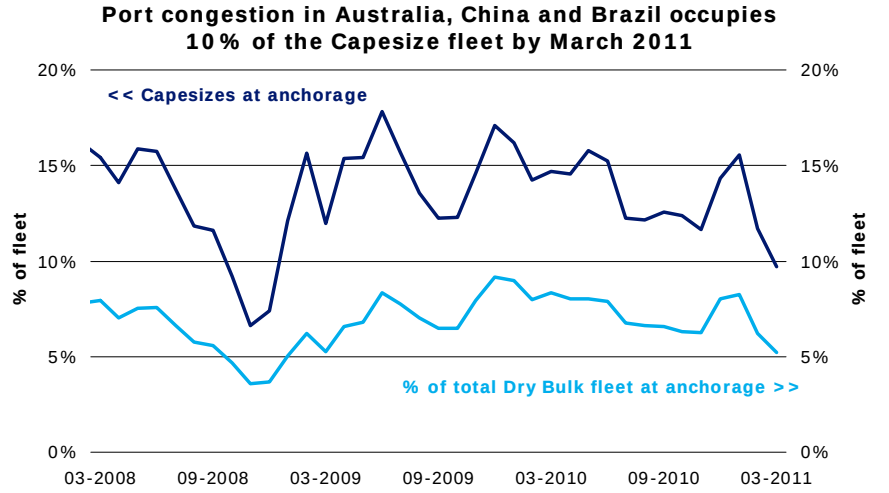
To sum up, the balance between supply and demand for Dry Bulk tonnage continued to worsen during 2010 and the trend continued in the first quarter of 2011. This imbalance is the primary factor pulling rates downwards. Further easing of port congestion can only make the outlook worse.

Figure DB.8



Sources: SSY, Danish Ship Finance

Figure DB.9



Sources: Global Ports, Clarksons, Danish Ship Finance

CONTRACTING AND SHIP VALUES

INSUFFICIENT APPETITE FOR NEW VESSELS AND LOW FREIGHT RATES CONTINUE TO DETERIORATE THE POTENTIAL FOR INCREASING ASSET VALUES. NEWBUILDING AND SECOND-HAND PRICES DECLINING ACCORDINGLY.

CONTRACTING ACTIVITY INCREASED IN 2010

After having contracted a modest 33 million dwt in 2009, shipowners contracted a total of 79 million dwt in 2010. The renewed appetite for tonnage seemed to be directed at Panamax vessels rather than Capesize vessels. Contracted Panamax vessels accounted for 41% of the contracted tonnage in 2010 (20% in 2009).

MODERATE CONTRACTING ACTIVITY DURING THE FIRST QUARTER OF 2011

Shipowners' almost insatiable appetite for new tonnage seemed to come to a halt in the first quarter of 2011, as 7 million dwt was contracted during this period (fig. 10).

DELIVERY TIME REMAINS STEADY

The average delivery time continues to appear steady, slightly above two years. We are unsure about the sustainability (and accuracy) of this trend as globally more tonnage is being delivered than contracted (fig. 10).

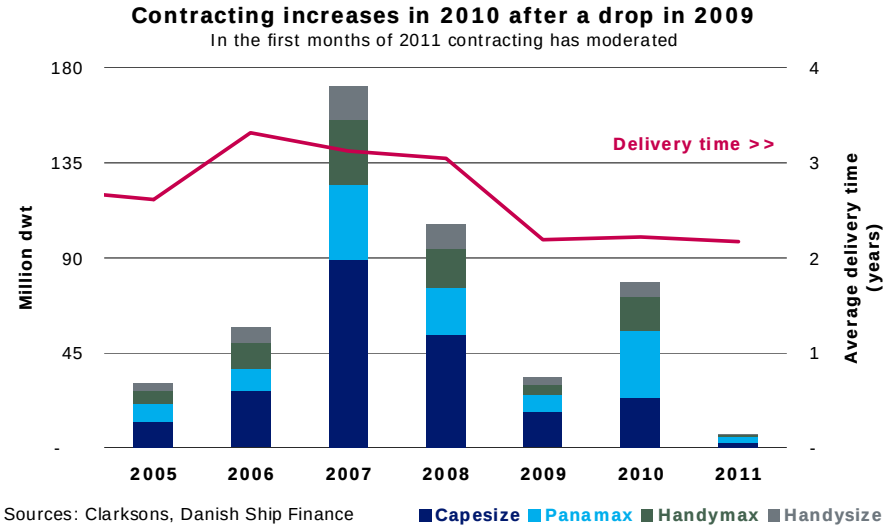
SECONDHAND PRICES FALL 6% IN THE FIRST QUARTER OF 2011

The secondhand market saw a slight improvement in the beginning of 2010 as rates recovered. However, as rates began to fall, secondhand prices declined accordingly. From the third to the fourth quarter of 2010 secondhand prices fell by 3%. In the first quarter of 2011, the decline continued with a fall of 6% compared to the previous quarter (fig. 11).

NEWBUILDING PRICES WANING

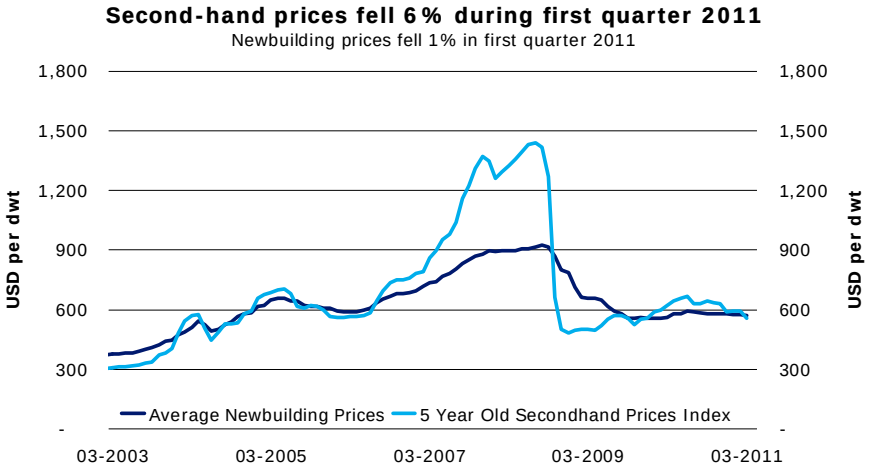
Newbuilding prices remain fairly stable, but show a declining trend. In the first quarter of 2011, average newbuilding prices of a Capesize vessel were 1% below the 2010-average (fig. 11).

Figure DB.10



Sources: Clarksons, Danish Ship Finance

Figure DB.11



Sources: Clarksons, Danish Ship Finance

OUTLOOK

FREIGHT RATES ARE EXPECTED TO REMAIN LOW AS WORLD SEABORNE TRADE GROWTH IS NOT KEEPING PACE WITH THE ASTONISHING TONNAGE INFLUX. DISTANCE-ADJUSTED DEMAND IS EXPECTED TO INCREASE BY 8% IN 2011 AND THE FLEET IS EXPECTED TO INCREASE BY 14%.

FIVE NEW VESSELS SCHEDULED TO BE DELIVERED FOR EVERY TEN AT SEA

By April 2011, the aggregate orderbook contained a total of 260 million dwt. With a current fleet of 550 million dwt there are almost five new vessels scheduled for delivery for every ten vessels at sea. The majority of the vessels are scheduled to enter the fleet between 2011 and 2013 (fig. 12).

130 MILLION DWT IS SCHEDULED FOR DELIVERY IN 2011

A total of 21 million dwt was delivered in the first quarter of 2011. According to the latest orderbook tally an additional 109 million dwt is scheduled for delivery in 2011. Together, a total of 130 million dwt is expected to enter service during 2011. These deliveries correspond to a record 24% gross fleet growth (i.e. before scrapping) in 2011. The orderbook for 2012 is no less staggering, with another 104 million dwt scheduled for delivery. We discuss the outlook for delivery postponement later in this section.

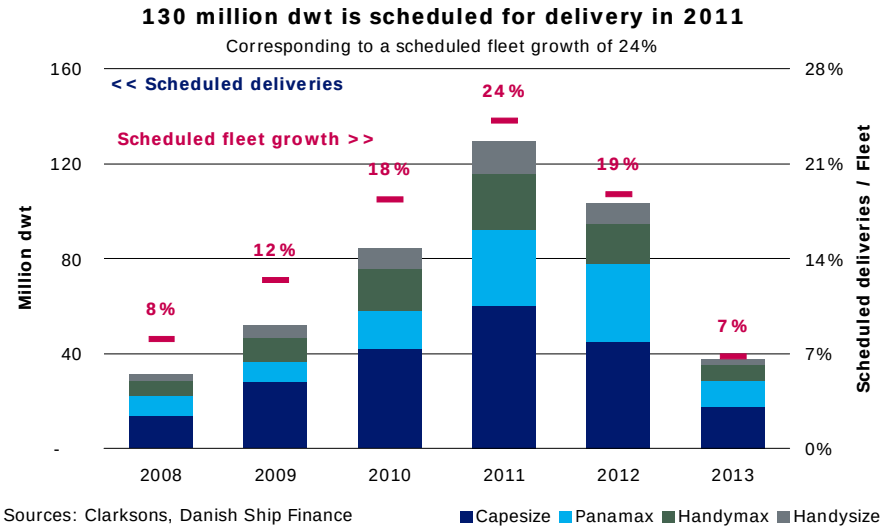
CAPESIZE VESSELS ACCOUNT FOR 46% OF SCHEDULED DELIVERIES

The Capesize segment accounts for a total of 46% (60 million dwt) of the orders scheduled for delivery in 2011. This is the equivalent of one new Capesize vessel entering the fleet every working day of 2011. For 2012, the picture is not much different with 230 Capesize vessels (45 million dwt) scheduled for delivery.

SCRAPPING ACTIVITY EXPECTED TO PICK UP IN 2011

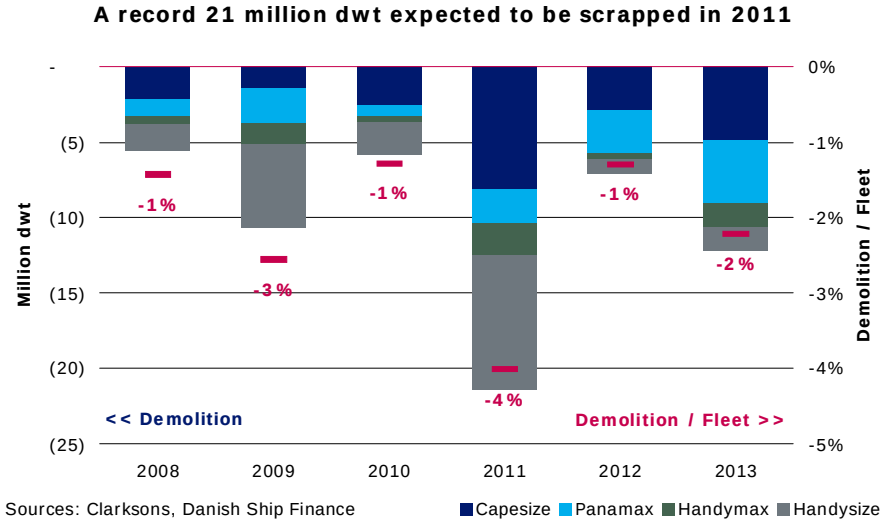
Increased scrapping activity seems inevitable, as charter rates are hovering around operating costs, fixture periods are being shortened and–to make matters worse–an astonishing amount of new capacity is expected to enter service during the year. We regard the scrapping activity of first quarter of 2011 as a clear indication of what can be expected during the rest of the year: 5 million dwt was scrapped in the first quarter alone. Taking the age distribution and the size of the current orderbook of each segment into account, we expect that 21

Figure DB.12



Sources: Clarksons, Danish Ship Finance

Figure DB.13



Sources: Clarksons, Danish Ship Finance

million dwt will be scrapped in 2011. This corresponds to slightly more than 4% of the fleet. Obviously, this calculation is subject to quite a lot of uncertainty, and seen in retrospect, we have previously had a tendency to overestimate scrapping volumes. Nevertheless, it would surprise us, if scrapping activity does not pick up considerably over the next 12 months.

POSTPONEMENTS EXPECTED TO RESTRAIN FLEET GROWTH

In 2010, approximately 30% of scheduled deliveries were postponed one year forward. Assuming that this trend is repeated in 2011, between 30 and 40 million dwt of the 130 million dwt scheduled for delivery in 2011 could be postponed into 2012. And from 2012, between 40 and 50 million dwt could be postponed into 2013. Clearly, this has the potential to restrain fleet growth substantially (fig. 14).

14% FLEET GROWTH IN 2011

Taking expected scrappings and postponements into account, we expect a total net fleet addition of 81 million dwt in 2011. For 2012, the fleet is expected to expand by a further 90 million dwt. This corresponds to net fleet growth of 14% in both 2011 and 2012, slightly less than the 17% net fleet growth of 2010. Obviously, this scenario assumes that no new contracts are being registered for delivery in 2011 and 2012. In 2013, we expect net fleet growth of 10%. However, by then new contracts could have contributed to the 2013 orderbook, so this figure might underestimate the potential (fig. 14).

DISTANCE ADJUSTED FRONT-HAUL DEMAND TO INCREASE 8% IN 2011

In tandem with a slightly lower target for Chinese GDP growth, distance-adjusted Dry Bulk demand volumes are expected to drop to single-digit growth rates. In 2011 and 2012, distance-adjusted demand is expected to increase by 8-9% annually (fig. 16).

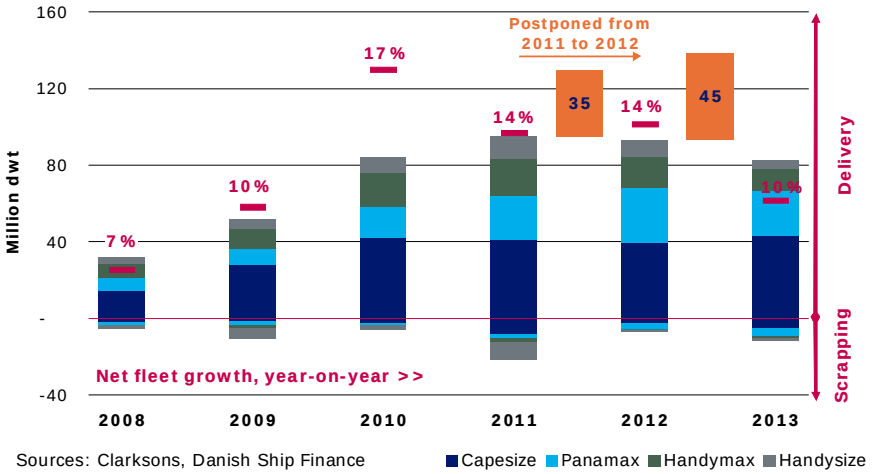
CHINESE DEMAND GROWTH SUPPORTS DRY BULK TRADE VOLUMES

The latest Chinese five-year-plan reduces the GDP growth target to 7% annually (from 7.5%). Although only half a percentage point, the reduction is clearly a signal from the government, that it is aware of the risks facing the Chinese economy if growth is allowed to continue unrestricted. This awareness could easily lower Chinese Dry Bulk demand. Chinese Dry Bulk demand currently accounts for one-third of the aggregate seaborne trade volumes. On the other hand, the good news is that the plan continues to focus heavily on strengthening

Figure DB.14

Postponements expected to restrain fleet growth in 2011

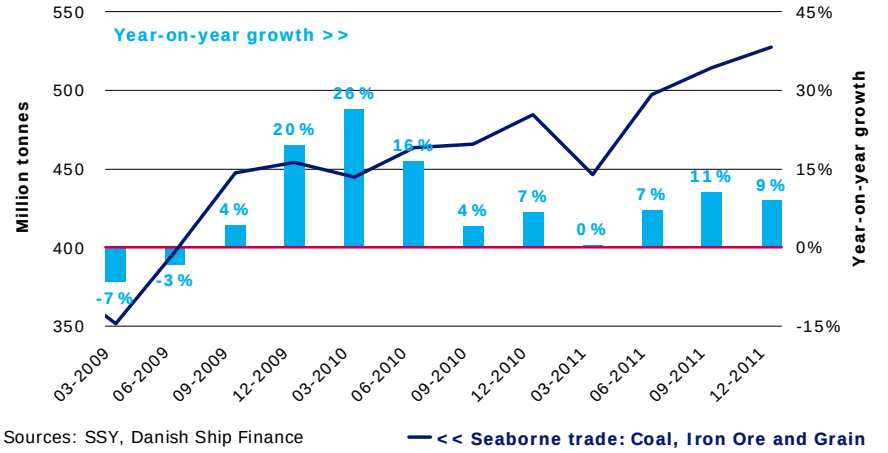
35 million dwt expected to be postponed into 2012



Sources: Clarksons, Danish Ship Finance

Figure DB.15

Seaborne capesize trade growth expected to increase from second quarter 2011 as Australian mines reopen



Sources: SSY, Danish Ship Finance

Chinese infrastructure. This could provide some support to the Chinese Dry Bulk demand. Although projected to slow down a bit, distance-adjusted Chinese demand is still expected to show a positive growth figure in the range of 11-13% over the next couple of years (fig. 16).

WORLD CAPESIZE DEMAND EXPECTED TO INCREASE BY 9% IN 2011

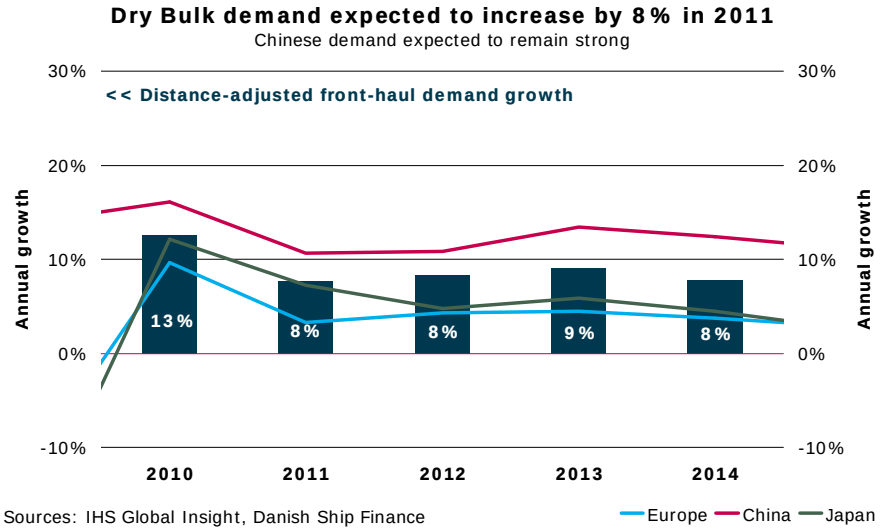
After a drop in Capesize demand volumes in the first quarter of 2011, trade volumes are expected to increase from the second quarter onwards, as the damage to Australian mining equipment is expected to be repaired and production to resume to a normal pace. A 9% increase in Capesize trade volumes is expected for 2011.

Distance-adjusted iron ore demand is expected to increase in 2011 and 2012, as China seeks to diversify its imports further. This means that more iron ore is expected to be imported over longer distances, from places such as from Brazil and small African suppliers, although Australia is still going to be the major iron ore supplier to the Chinese (Asian) market in the years to come. The distance-adjusted coal trade is expected to grow at a modest 5-6% in 2011 and 2012. Asian coal imports are expected to travel shorter distances as Indonesia is stepping up its share of demand for coal (fig. 17).

RATES EXPECTED TO REMAIN LOW IN 2011

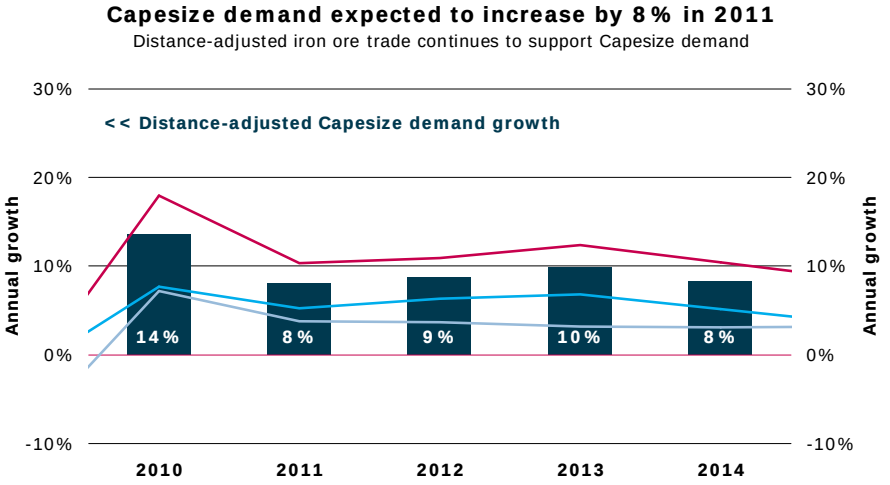
The Dry Bulk market is expected to struggle to absorb a large inflow of new tonnage entering service in 2011 and 2012. The overcapacity is expected to worsen throughout the next two years. If our predictions turn out to be fairly accurate, we expect rates to remain very low during 2011 and 2012. Such market developments will most likely cause asset values to depreciate further. Clearly scrapping activity could surprise positively but much scrapping is required to balance supply and demand. We maintain a cautious outlook for the dry bulk market.

Figure DB.16



Sources: IHS Global Insight, Danish Ship Finance

Figure DB. 17



Sources: IHS Global Insight, Danish Ship Finance


LPG TANKERS
DANMARKS
SKIBSKREDIT

LPG TANKERS

THE LPG TANKER MARKET GRADUALLY RECOVERED IN 2010. RATES IMPROVED IN THE LATTER PART OF THE YEAR AND ASSET VALUES STABILIZED. THE 2011 OUTLOOK IS RELATIVELY BRIGHT AS DEMAND IS EXPECTED TO OUTGROW SUPPLY.

FREIGHT RATES

IN THE AFTERMATH OF THE FINANCIAL CRISIS, EARNINGS AND TIMECHARTER RATES SUFFERED DUE TO LOW LPG DEMAND. STILL, THE BALTIC LPG INDEX RECOVERED STRONGLY IN 2010 AND DURING FIRST MONTHS OF 2011. TIMECHARTER RATES ARE GENERALLY STRUGGLING TO RECOVER THE LOST TERRITORY.

In 2009, the economic recession caused a significant reduction in LPG demand. Combined with a large inflow of new tonnage, rates came under pressure as the supply-demand gap widened. In 2010, seaborne LPG demand recovered partly, narrowing the gap between supply and demand.

BALTIC LPG INDEX UP 22% IN 2011

After a strong recovery in 2010, the average Baltic LPG Index had gained 60% to stand at USD 35 per Mt (megaton). Further improving to an average of USD 43 per Mt, the index recovered another 22% during the first quarter of 2011 relative to the 2010-average.

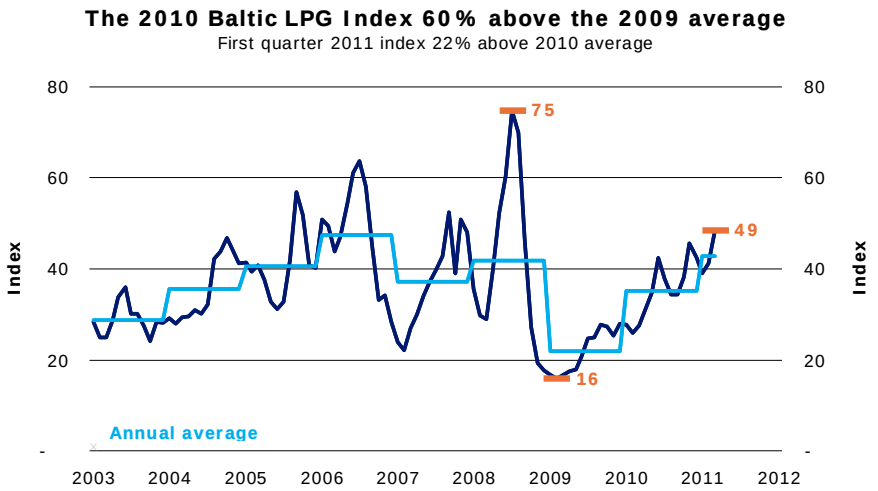
BALTIC LPG INDEX 35% BELOW THE 2008-HIGHS

By March 2011, the Baltic LPG Index stood at USD 48.5 per Mt (fig. 1). This is 35% below the peak-level of July 2008 when the Baltic LPG index stood at USD 75 per Mt. The index bottomed out at an all-time low of USD 16 per Mt. in February 2009.

TIMECHARTER RATES BACK TO PRE-2004 LEVELS

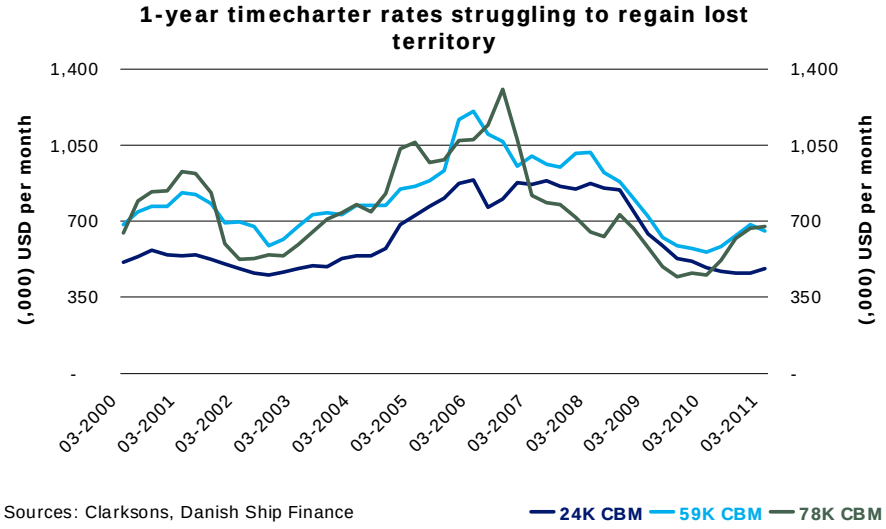
Timecharter rates have been increasing during the last two quarters. In a historical perspective, timecharter rates are still low (fig. 2).

Figure LPG.1



Sources: Reuters EcoWin, Danish Ship Finance

Figure LPG.2



Sources: Clarksons, Danish Ship Finance

IN 2010, THE LPG TANKER FLEET GREW 3%, WHILE SEABORNE LPG DEMAND INCREASED BY 3% AND DISTANCE-ADJUSTED DEMAND GREW 5-6%. THE LPG TANKER MARKET GRADUALLY IMPROVED DURING 2010 AND CONTINUED THE TREND IN THE FIRST QUARTER OF 2011.

THE LPG FLEET GREW 3% IN 2010

The LPG fleet grew by 3% in 2010. In the first quarter of 2011, fleet growth was close to zero percent, as scrappings and deliveries almost matched up. The combination of extensive scrapping and modest inflow of new vessels in the Very Large Gas Carriers (VLGC) and Small Gas Carriers (SGC) segments held fleet growth in these segments at relatively modest levels. Medium gas carriers (MGC) experienced 10% fleet growth in 2010, mostly due to a heavy inflow of new tonnage and limited scrapping activity during the year (fig. 3).

1.3 MILLION CU.M. ENTERED THE LPG FLEET IN 2010

1.3 million Cu.M. entered the fleet during 2010. In the first quarter of 2011, 0.2 million Cu.M. was delivered (fig. 3). This was significantly less than the delivery performance of the first quarters of 2009 and 2010 when 0.9 and 0.4 million Cu.M. were delivered. VLGC accounted for 58% of deliveries in 2010.

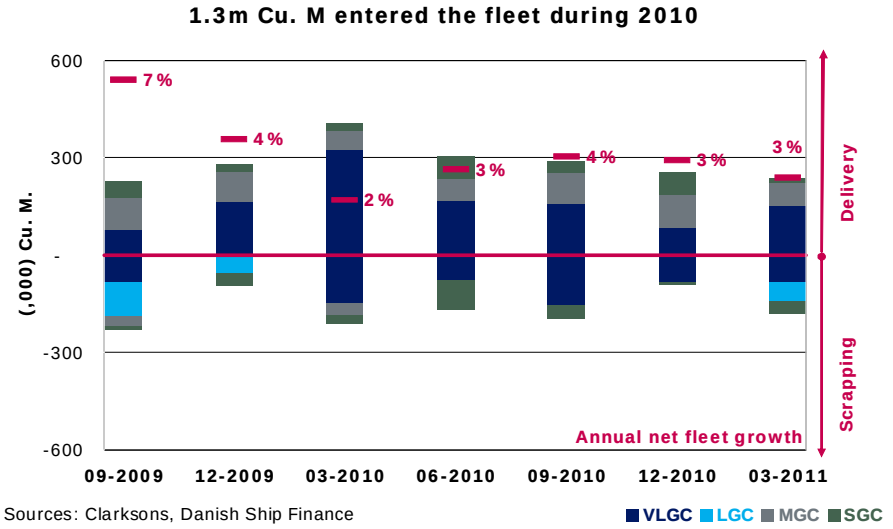
ACTUAL DELIVERIES SURPASSED SCHEDULED DELIVERIES IN 2010

Actual deliveries exceeded the capacity scheduled to be delivered by 10% (0.1 million Cu.M.). The explanation might be remnants from the 2009 orderbook which transcended into the 2010 orderbook (fig. 4).

0.7 MILLION CU.M. SCRAPPED IN 2010

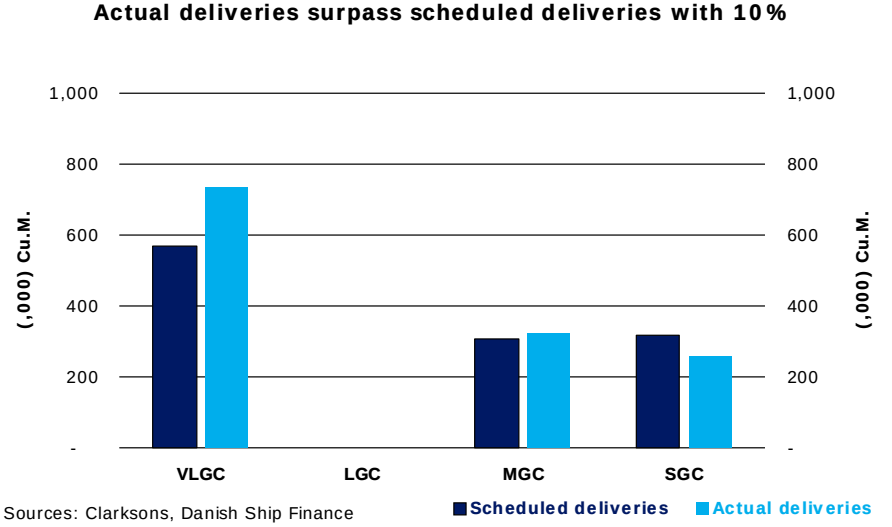
0.7 million Cu.M. was scrapped during 2010 while almost 0.2 million Cu.M. was scrapped during the first quarter of 2011. Compared to the inflow of new tonnage, the scrapped capacity absorbed half the delivered capacity during the period. However, scrapping was not evenly distributed among the segments: VLGCs accounted for 70% of the scrapped tonnage while the remaining vessels were primarily SGCs.

Figure LPG.3



Sources: Clarksons, Danish Ship Finance

Figure LPG.4



Sources: Clarksons, Danish Ship Finance

DISTANCE-ADJUSTED SEABORNE DEMAND ROSE 12% IN 2010

In 2010, the demand for LPG tankers increased in tandem with higher consumption, and longer trading patterns. Japanese imports actually fell but distance-adjusted demand increased. India and Europe increased their LPG consumption, the latter adding significant ton-miles to the trade as imports came from the Middle East. We estimate that aggregate global distance-adjusted demand for gas increased by 12% in 2010 and that LPG tanker demand grew by approximately 5-6%.

SEABORNE LPG DEMAND UP 3% IN 2010

Recent figures suggest that seaborne LPG trade increased by 3% in 2010. Especially, export volumes from the Middle East to the Far East expanded heavily in 2010. Middle East exports to Europe also increased heavily last year. However, seaborne LPG trades are still not back at 2008-levels (fig. 7).

JAPANESE LPG IMPORTS CONTINUED TO SHRINK IN 2010

In the face of a stagnant economy, Japan's LPG market continued to decrease in 2010. LPG imports into Japan stood at 12.1 million tons in 2010, down 1%. Although LPG imports into Japan were heavily subdued in 2010, average travel distances actually increased in 2010 over the previous year, as Middle East exports continued to grow in 2010.

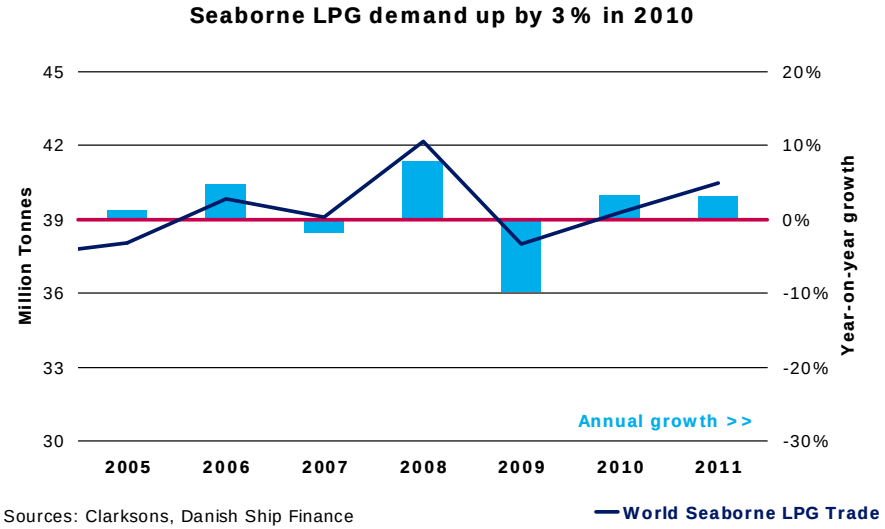
CHINESE LPG IMPORTS PLUNGED A STAGGERING 22% IN 2010

Chinese LPG imports reached 3.2 million tons in 2010 a drop of 22% (0.9 million tons) compared to 2009. Chinese LPG imports fell as a result of increasing domestic production from the new local refineries.

INDIA'S LPG IMPORTS UP 69%

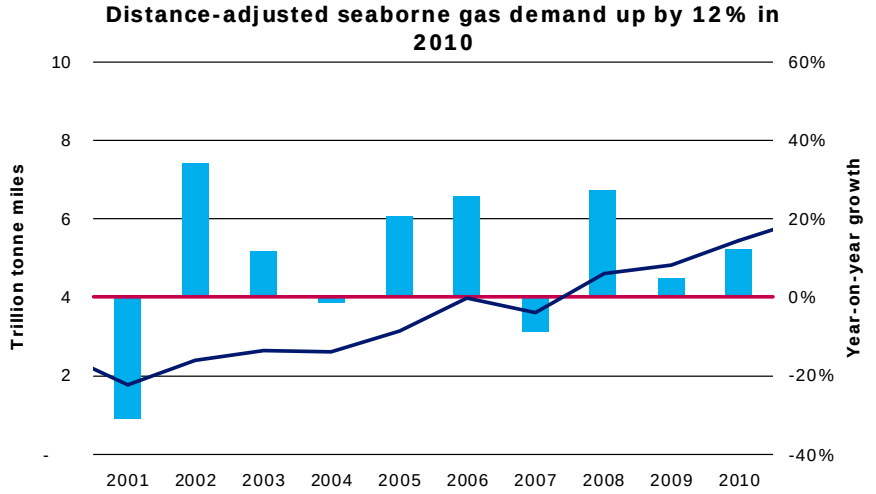
Indian LPG imports rose from 2.3 million tons in 2009 to 4 million tons in 2010, or by 69%. This increase was largely reflected by an increase in demand for autogas in India. In terms of distance-adjusted demand, the large increases in Indian LPG imports were unfortunately not enough to offset the decline in Chinese imports (fig. 6).

Figure LPG.7



Sources: Clarksons, Danish Ship Finance

Figure LPG.8



Sources: IHS Global Insight, Danish Ship

A RECOVERY IN CONTRACTING ACTIVITY WAS NOT ENOUGH TO KEEP PRICES FROM FALLING IN 2010. NEWBUILDING PRICES WERE ON AVERAGE REDUCED BY 8% IN 2010, WHILE SECOND-HAND PRICES DECLINED BY SLIGHTLY MORE THAN 10%. SECOND-HAND PRICES ARE DOWN TO LEVELS LAST SEEN IN 2003.

CONTRACTING ACTIVITY PICKED UP IN 2010

After reaching a record low in 2009, contracting activity resurged in 2010. A total of 41 new orders (700,000 Cu.M.) were placed in 2010 (fig. 9). However, contracting activity is still not back at pre-crisis levels. Owners seem to favour the SGC or the VLGC segments and only very few orders were placed in LGC or MGC. Most new contracts were placed in the second half of 2010 as a result of improved rates and market sentiments.

DELIVERY TIME JUST UNDER TWO YEARS

Despite rising contracting activity, the average delivery time continued to decline, falling to approximately two years in 2010, the lowest observation in seven years. During the first quarter of 2011, delivery times continued the trend and the average delivery time is now as short as 1.8 years (fig. 9).

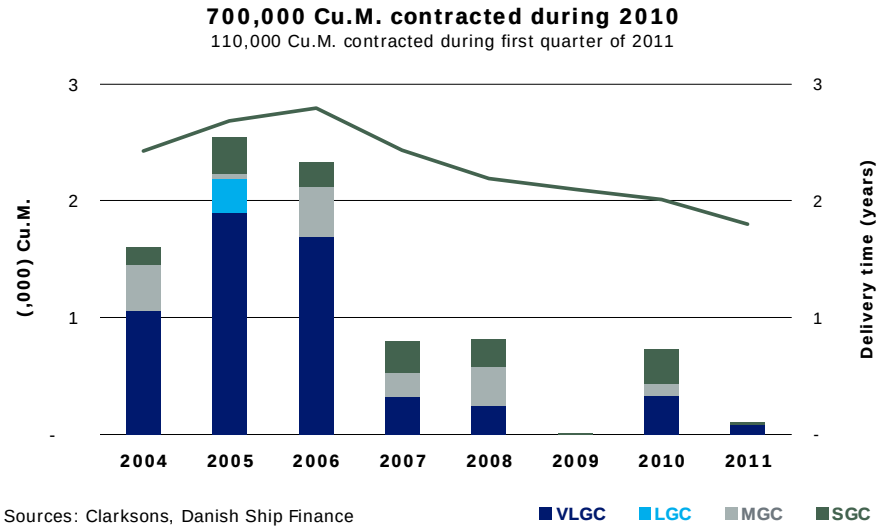
NEWBUILDING PRICES CONTINUE TO DECLINE

Newbuilding prices have continued to decline through 2010 and the first quarter of 2011. The average newbuilding prices declined by 8% in 2010 (fig. 10). Newbuilding prices are down to levels last seen in 2003.

SECONDHAND PRICES DECLINE 12% IN 2010

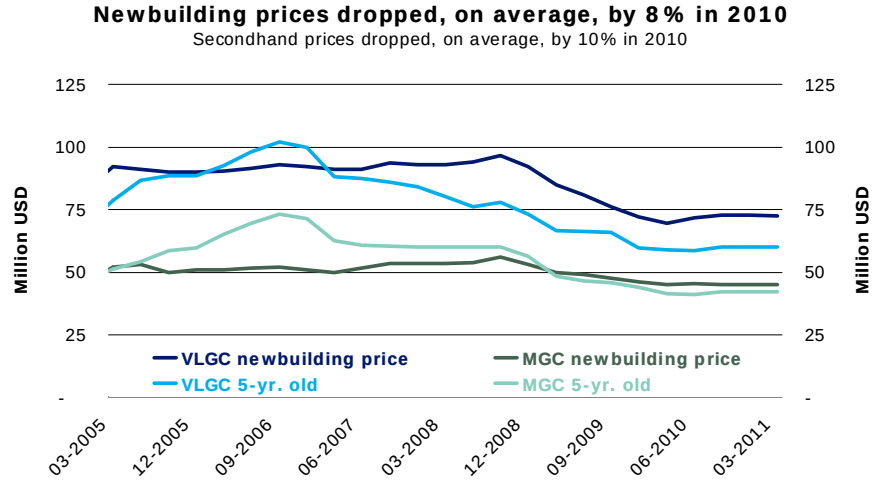
Secondhand prices declined in tandem with declining timecharter rates and earnings during the first half of 2010. Secondhand prices stabilized in the second half of 2010 as a result of improved market conditions.
In total, secondhand prices fell by 12% in 2010 and average secondhand prices are now also at levels last observed in 2003.

Figure LPG.9



Sources: Clarksons, Danish Ship Finance

Figure LPG.10



Sources: Clarksons, Danish Ship Finance

THE OUTLOOK FOR LPG TANKERS IS RATHER BRIGHT. DISTANCE-ADJUSTED LPG DEMAND IS EXPECTED TO INCREASE BY 3-4% IN 2011 WHILE THE FLEET IS EXPECTED TO REMAIN STABLE. WE EXPECT DEMAND TO OUTPACE SUPPLY IN 2011.

IMPROVED MEDIUM TO LONG-TERM OUTLOOK

The short-term outlook may continue to be turbulent, as VLGC demand, in particular, has been impacted by the earthquake that hit Japan on 11 March 2011. At the moment, it seems that only some ports and a single storage terminal have been affected by the catastrophe. In the medium to long term, the market outlook for LPG tankers is quite good. Demand is expected to increase by 3-4%, not least supported by expectations that Japan will need to rebuild its inventories. Supply on the other hand is expected to stabilize in 2011, as scheduled deliveries are expected to be almost absorbed by scrapping.

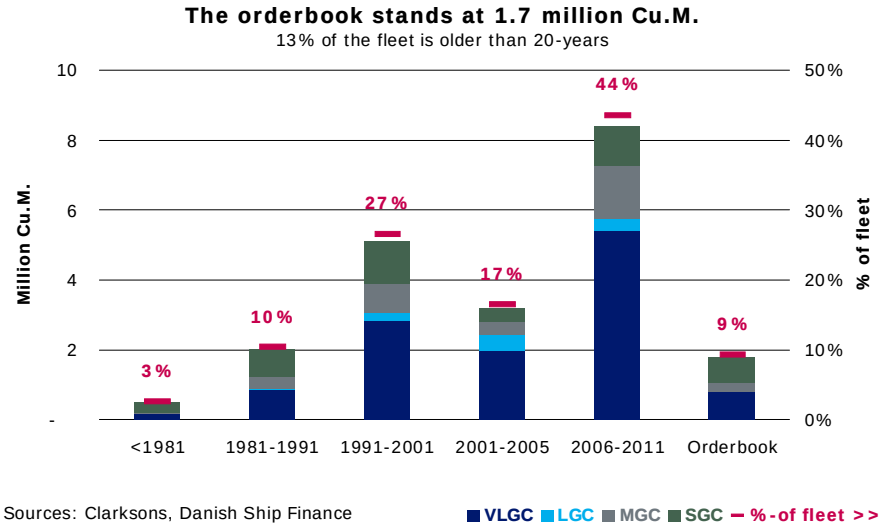
THE LPG ORDERBOOK ACCOUNTS FOR 9 % OF THE FLEET

By March 2011, the aggregate orderbook stood at 1.7 million Cu.M., which expressed in number terms means that 125 vessels are set to join the fleet between 2011 and 2014. The orderbook as a percentage of the current fleet is now down to 9%. The orderbook/fleet ratio is the lowest observed since 2004 (fig. 11).

MODEST FLEET GROWTH IN 2011 AFTER SCRAPPING

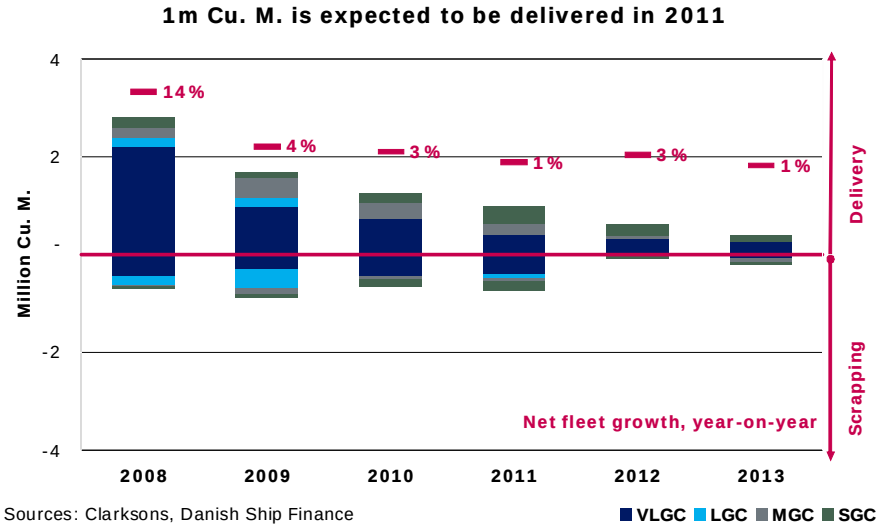
We expect that net additions to the fleet will be 0.3 million Cu.M. This will bring annual fleet growth in 2011 to approximately 1%. This is considerably less than in previous years, when annual growth figures at the peak reached double digit figures (14% in 2008). Even if no vessels are scrapped, fleet growth will be 6% in 2011. In 2012, fleet growth is expected to reach 3%, although considerable uncertainty attaches to this number (fig. 12). However, the fleet is most unlikely to increase by more than that.

Figure LPG.11



Sources: Clarksons, Danish Ship Finance

Figure LPG.12



Sources: Clarksons, Danish Ship Finance

0.9 MILLION CU.M. SCHEDULED TO ENTER THE FLEET DURING 2011

Over half of the total orderbook (1 million Cu.M.) is scheduled for delivery in 2011 (fig. 12). This is approximately 21% less than the capacity delivered in 2010, and even less when compared with 2008 or 2009. As discussed above, no notable signs of postponement activity were observed in 2010, which is why we find it most likely that all scheduled deliveries will be delivered in 2011.

0.7 MILLION CU.M. SCRAPPED IN 2011

A total of 0.7 million Cu.M. is expected to be scrapped in 2011, if vessels older than 29 years are scrapped in 2011 (Fig.12). This is approximately the same capacity as was scrapped in 2010. In 2011, scrapping activity is primarily expected in the SGC and VLGC segments. However, scrapping activity may fall short of expectations if rates (i.e. demand) improve by more than anticipated.

DISTANCE-ADJUSTED GAS DEMAND UP 11% IN 2011

Aggregate distance-adjusted gas demand is expected to increase by 11% in 2011, excluding demand for natural gas, growth rates for LPG will probably be about 3-4% in 2011 (fig. 14).

The increase in distance-adjusted demand is expected to come from long-haul Asian and European imports from the Middle East. Europe is expected to increase distance-adjusted imports by 12% in 2011 and Asia is expected to increase by 7%. These two regions accounted for 32% of global distance-adjusted gas demand in 2010.

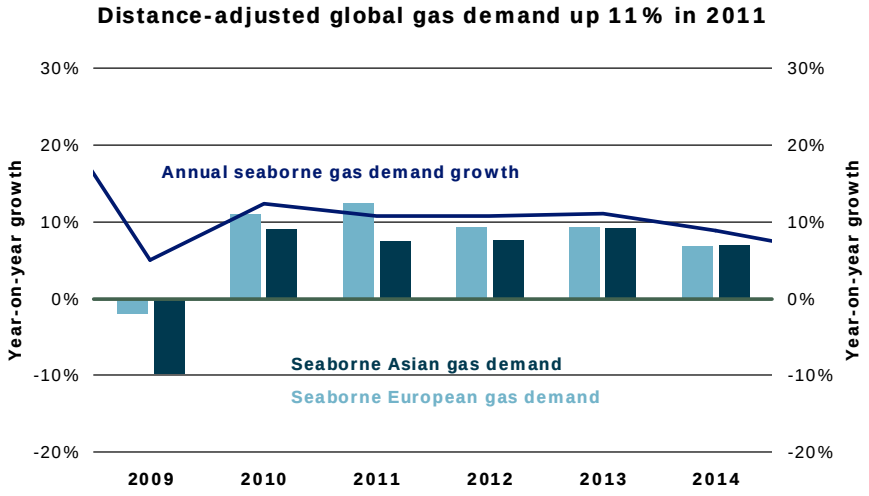
MIDDLE EAST EXPORTS UP 11% IN 2011

IHS Global Insight predicts that the Middle East will be a major exporter of feedstock in 2011 and beyond. Accordingly, distance-adjusted Middle East exports are expected to increase LPG tanker demand by 11% (fig. 13) in 2011. Pure LPG-tanker-related exports will probably be lower than 11%, since demand for natural gas is included in this figure.

JAPANESE AND CHINESE IMPORTS HOLD THE KEY FOR REVIVAL

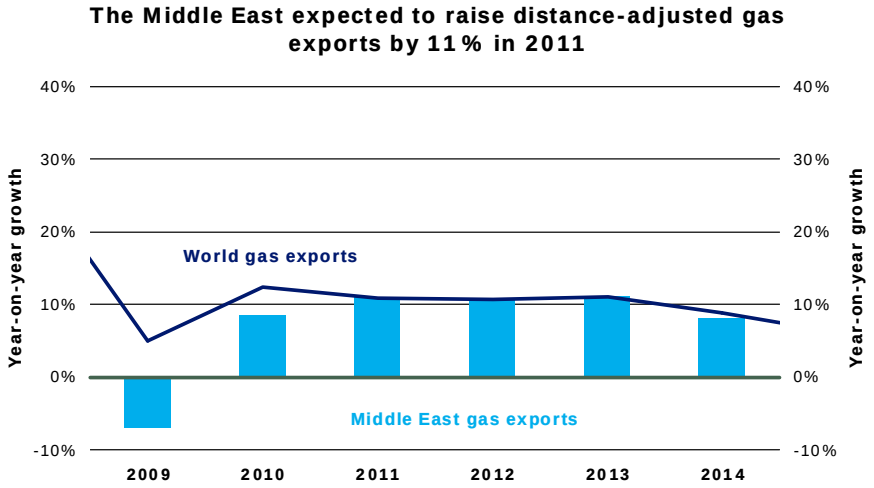
The Chinese and Japanese LPG imports dictate the long-haul trade. Even though Chinese and Japanese imports fell in 2010, the Middle East increased its export share to the Far East in 2010 which increased ton-miles for the VLGC segment. We believe this trend will continue. Additional volumes will come from the Middle East as additional production capacity comes on stream over the next couple of years.

Figure LPG.13



Sources: IHS Global Insight, Danish Ship

Figure LPG.14



Sources: IHS Global Insight, Danish Ship

TRADE PATTERNS MIGHT CHANGE IN 2011 OR 2012

In 2010, European production of petrochemical gases increased as the global economy stepped out of recession. However, European production might face tough competition from the Middle East over the next couple of years, as the Middle East is expected to become a low-cost supplier of feedstock to the petrochemical industry. In isolation, this may boost distance-adjusted demand for LPG tankers. However, the US petrochemical industry is also expected to compete for market share as cheap feedstock becomes available by way of shale gas discoveries. On the other hand, the impact on LPG demand of Middle East production might disappoint expectations, if the feedstock is used for domestic upstream facilities, instead of being exported.

RISING FOOD PRICES MAY FURTHER SUPPORT RATES IN 2011

The LPG trade could benefit if the high food prices continue to increase during 2011. An increase will support the seaborne trade of ammonia for fertilizers as farmers seek to take advantage of the rising prices by increasing production. This will support rates for large and medium gas carriers in 2011, since ammonia constitutes approximately 20% of the seaborne LPG tanker trade.

RATES AND VALUES IN 2011

In our base case scenario, the LPG tanker fleet is expected to grow by 1%, while distance-adjusted demand is expected to grow by around 3-4% in 2011. Thus, we expect that the supply-demand gap will narrow further in 2011. If this turns out to be fairly accurate, we expect rates and values to improve in 2011.

GLOSSARY

DANMARKS SKIBSKREDIT

GLOSSARY

Aframax: Crude oil tanker or product tanker too large to pass through the Panama Canal and of less than 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 reset 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 less non-OPEC supply less OPEC natural gas liquid supply.

Capesize: Dry bulk carrier of more than approximately 80,000 dwt; too large to pass through the Panama Canal.

Cu.M: 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 a shipping company and a 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 to a higher standard, thus enabling the ships to trade for longer periods of time.

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 a ship to position itself in a fixed position in relation to the seabed.

GLOSSARY

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 Off-loading 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.

GLOSSARY

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 Foot 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.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