

SHIPPING MARKET REVIEW

MAY 2014

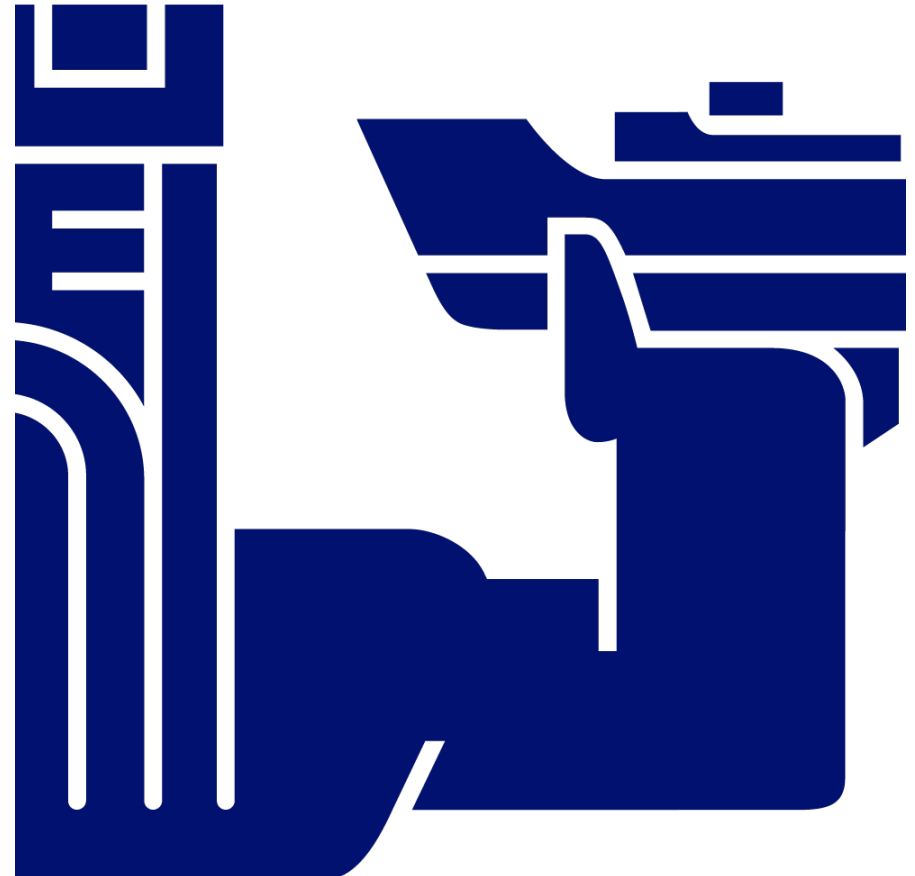


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TABLE OF CONTENTS

SHIPPING MARKET REVIEW – MAY 2014

EXECUTIVE SUMMARY, 1

GENERAL REVIEW AND OUTLOOK, 4

SHIPBUILDING, 13

CONTAINER, 19

CRUDE TANKER, 26

PRODUCT TANKER, 34

LPG TANKER, 43

DRY BULK, 50

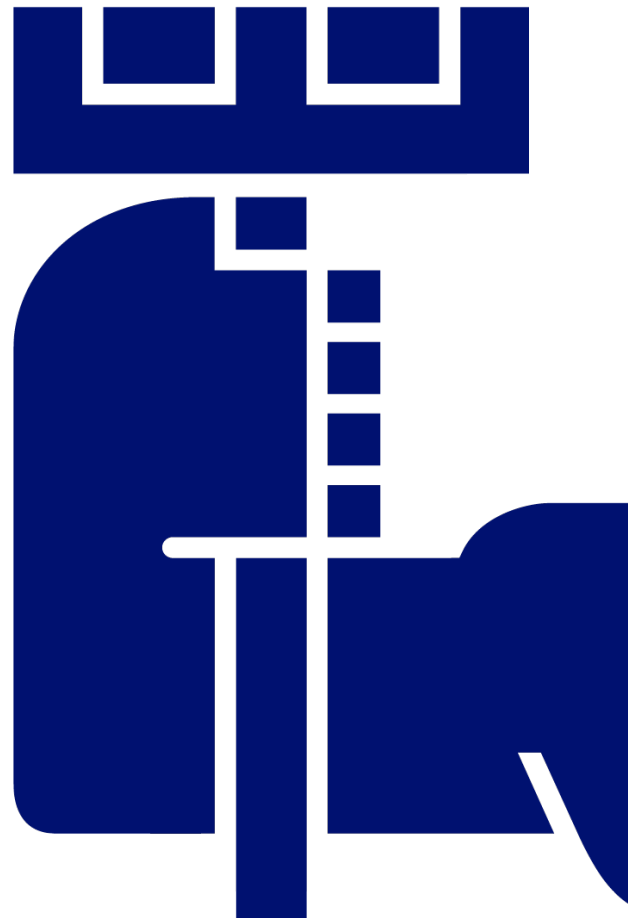
GLOSSARY, 58



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EXECUTIVE SUMMARY

SHIPPING MARKET REVIEW – MAY 2014



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EXECUTIVE SUMMARY

Please read the disclaimer at the beginning of this report carefully. The report reviews key developments in shipping markets and the main shipping segments during the period January 2013 to April 2014 and indicates possible future market directions.

THE SHIPPING INDUSTRY IS UNDERGOING A PROCESS OF TRANSITION DRIVEN BY A COMBINATION OF TECHNOLOGICAL ADVANCES RELATED TO FUEL EFFICIENCY AND ENVIRONMENTAL REQUIREMENTS. WE EXPECT SEVERAL SHIPPING SEGMENTS TO FACE SIGNIFICANT HEADWINDS FROM FUTURE SUPPLY UNTIL A NEW BALANCE BETWEEN SUPPLY AND DEMAND HAS BEEN ESTABLISHED. FREIGHT RATE VOLATILITY MAY INTENSIFY IN THIS PERIOD AND OLDER VESSELS ARE EXPECTED TO BE SCRAPPED PREMATURELY IN SEVERAL SEGMENTS. SECONDHAND VALUES ARE EXPECTED TO MIRROR THE MARKET FRAGMENTATION BETWEEN FUEL EFFICIENT VESSELS AND OLDER VESSELS, AND OLDER VESSELS MAY FACE UNUSUALLY HIGH VALUE DEPRECIATIONS. THESE EXTRAORDINARY CHANGES REPRESENT NOT ONLY A THREAT BUT ALSO AN OPPORTUNITY FOR THE SHIPPING INDUSTRY.

GENERAL REVIEW AND OUTLOOK

The landscape of the global economy has been in transition in recent decades. The growing global economic dependence on the Chinese economy is the most obvious, but not the only, major transformation during the last ten to 15 years. The globalisation in general and the insatiable demand for energy and raw materials, in particular, have effectively reshaped international trade flows during the last decade. Most shipping segments have benefited substantially, as we all know. But in the aftermath of the global financial crisis, global trade volume growth has slowed substantially, mirroring the stronger than expected decline in economic growth across the globe. This deceleration has fuelled questions about whether international trade will remain an engine of global growth. We truly believe so, but the short to medium-term outlook for the global economy suggests that world trade volumes will grow on a par with world GDP rather than by a multiple, as in the past. This is not cause for alarm in itself, but in combination with several oversupplied

shipping markets and strong contracting activity, risk seems to be building up.

Buying low and selling high has always been the recipe for good investments. In today's shipping markets, investors and traditional shipowners are taking advantage of historically low prices to purchase both new ships and secondhand vessels.

Their investment strategy varies but, as we know, many roads lead to Rome. Some are investing in fuel-efficient newbuildings, compliant with tomorrow's standards today, while others are choosing to buy and maybe retrofit older vessels. Owners with a portfolio of expensive and highly leveraged vessels are struggling to find opportunities. Shipping is not a team sport and never will be, but everyone is vulnerable to unexpected value depreciations.

We expect premature scrapping to be the new norm until a new balance between supply and demand has been re-established. The value implication of premature scrapping could easily turn out to be a shorter cash-flow period. If this filters through to the valuation of the vessels, secondhand prices for older and inefficient vessels could be subject to unexpected depreciations.

Up to now, it has primarily been the tanker segments that have attracted new investors' attention. But the Post-Panamax container segment and some of the offshore supply segments seem equally exposed to future oversupply issues. The dry bulk market's belief in future Chinese commodity demand is a story of its own. We share this optimism from a short to medium-term perspective, but we remain sceptical about the long-term prospects. We argue that China is on the brink of a transition to a service-based economy. The rebalancing exercise is about switching China's growth model away from investment and more towards private consumption. Lower investments may eventually reduce Chinese commodity consumption, and hence reduce the growth in China's dry bulk demand. In our view, this process will happen before the vast majority of the Capesize fleet become obvious candidates for scrapping.

It is important to remember that some segments are currently maintaining a reasonably good balance between supply and demand. These segments are in particular gas carriers, some off-shore supply segments and some of the smaller niche markets (e.g. car carriers). But the general market recovery that seemed within reach six to 12 months ago is about to evaporate with investors' continued appetite for vessels. A cooling of the contracting activity would be welcoming. But when taking into account the vast shipyard capacity, the low newbuilding prices and the support from local export credit agencies, it seems almost too much to hope for – particularly for the commoditised segments of shipping.

SHIPBUILDING

The global yard industry is in the midst of a consolidation process whereby inefficient yards are closing and capacity is gradually adjusting to lower future demand. Newbuilding prices have been on a structural decline during the last five years and are expected to remain low until the consolidation process has come to an end. Still, the high contracting activity in 2013 has blurred the picture, as it has enabled newbuilding prices to increase at yards that have attracted new orders. To us, the price increases simply reflect the ongoing selection process whereby inefficient yards go out of business and sustainable yards attract new orders. By 2016, we expect global yard capacity to have returned to the 2008 levels. We argue that as long as global yard capacity has not adjusted to a lower future demand, newbuilding prices will remain on a structurally declining trend. Clearly, yard capacity varies greatly between ship segments, but for the low-spec vessels, we find it possible that newbuilding prices could decline as soon as in 2015.

CONTAINER

The container market remains highly fragmented between modern and old tonnage, smaller and larger vessels and liners and tonnage providers. The supply surplus is massive and everyone is struggling to optimise operations. In some segments tonnage providers are, to some extent, being penalised by the liners for the overcapacity, as trade routes are being optimised through

operational consolidation and extensive cascading of larger vessels onto smaller vessels' trade routes. The timecharter market remains depressed, reflecting the miserable situation many tonnage providers are facing.

Extensive scrapping within the Panamax-transitable segments has brightened expectations for some of these. However, the outlook for the Post-Panamax segment remains highly challenging, as the fleet is too young to provide an adequate number of scrapping candidates. Supply remains several years ahead of demand – and there are more vessels to come.

Still, liners have managed to keep box rates fairly high. It is difficult to imagine how the current box rate level can be sustained in the future. However, the last few years have shown that box rates can be maintained at high, albeit volatile, levels despite a significant supply surplus.

Timecharter rates are expected to remain low and the number of vessels idle or laid-up is expected to increase. Consequently, tonnage providers and owners with older and less efficient vessels will continue to suffer.

Post-Panamax secondhand values are expected to decouple from newbuilding prices. Secondhand prices have already started to reflect the fact that some sizes, ship designs and engine types are more suitable for the future market than others. But the issue to consider for future secondhand prices is how and when the market will factor in that many vessels are eventually expected to be scrapped prematurely. We expect to see extraordinary value depreciations for the more inefficient vessels within the next year or two.

CRUDE TANKERS

The crude tanker market is currently suffering from massive oversupply, as it did for most of 2013 as well. In 2013, freight rates plummeted to their lowest level in many years. However, towards year-end, a combination of record-high Chinese demand, weather-related delays and a slower fleet growth caused rates to soar and the Baltic Dirty Tanker Index surged above index 1,000. Consequently, positive sentiment returned to the

market and so did contracting. In total, 17 million dwt was contracted in 2013, of which 9 million dwt was ordered in December alone, pushing both newbuilding and secondhand prices upwards. The unexpected contracting boom at the end of 2013 dampened the market outlook. The crude tanker fleet is young and premature scrapping seems inevitable if future supply outperforms demand by a large margin. However, changing trade dynamics and longer travel distances could potentially absorb the increasing inflow of vessels.

PRODUCT TANKERS

After a very tough 2012, the product tanker market improved in 2013. Freight rates gained momentum, especially at the beginning of the year when a very cold and long winter in the northern hemisphere drove MR spot earnings to a level not seen since the heyday of 2008. However, around autumn the market turned and rates began to slide. This has been further exacerbated by the large number of newbuildings currently hitting the water at a rapid pace. Nevertheless, the massive inflow of new vessels is expected to continue, due to the substantial ordering activity that took place in 2013. Overall, close to 14 million dwt was contracted, more than in the past five years combined. Consequently, the market balance remains extremely fragile, but the growth in distance-adjusted demand seems capable of absorbing the fleet growth if older and inefficient vessels are scrapped.

LPG

The LPG market remains very tight. Spot rates are at record highs and asset values are increasing. Contracting activity soared in 2013: more capacity was contracted last year than during the previous six years combined, adding 4.4 million Cu.M. to the orderbook. Consequently, fleet growth is expected to reach double digits in 2015. Part of the fleet growth may be absorbed by the increase in long-haul trade between the US and Asia, as growth in the production of shale oil and shale gas has created a significant surplus of LPG in the US. However, at the beginning of 2016 the expansion of the Panama Canal is expected to be finalised, with the result that distances between

the Atlantic and the Pacific will be reduced, consequently increasing cargo-carrying capacity. On the positive side, the expansion will also lower transportation costs, and thus may result in a higher frequency of trade between the two regions. It therefore remains to be seen if distance-adjusted demand will benefit from the expansion.

DRY BULK

The dry bulk market remains oversupplied. Freight rates are low, but secondhand values are climbing, as strong contracting activity supported newbuilding price increases in 2013. Supply outgrew demand, but fleet growth was significantly lower than in previous years. For the first time in years, we see a glimmer of hope for the dry bulk market, as supply may grow less than distance-adjusted demand. Consequently, in a fleet growth scenario below 3%, freight rates and secondhand values could improve in 2014. But if improved market conditions motivate owners to increase speeds, the recovery could be short-lived. The outlook beyond 2014, however, is still dominated by a large orderbook and an uncertain outlook for Chinese dry bulk demand. Even though we do find evidence of potential market improvements, we remain sceptical about the long-term prospects.

GENERAL REVIEW AND OUTLOOK

SHIPPING MARKET REVIEW – MAY 2014



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GENERAL REVIEW AND OUTLOOK

THE RECOVERY IS STRENGTHENING BUT REMAINS UNEVEN. INVESTORS CONTINUE TO ORDER NEW VESSELS TO AN ALREADY OVERSUPPLIED MARKET. WE EXPECT PREMATURE SCRAPPING TO BE THE NEW NORM UNTIL BALANCE BETWEEN SUPPLY AND DEMAND HAS BEEN RE-ESTABLISHED. IN THIS PERIOD OF TRANSITION, INVESTORS, OWNERS AND THEIR BANKS MAY FACE UNEXPECTED VALUE DEPRECIATIONS EVEN ON RELATIVELY YOUNG VESSELS. THE MARKET RECOVERY THAT SEEMED WITHIN REACH SIX TO 12 MONTHS AGO IS ABOUT TO EVAPORATE WITH INVESTORS' CONTINUED APPE-TITE FOR NEW VESSELS.

WORLD DEMAND INDICATORS

THE REPERCUSSIONS OF THE FINANCIAL CRISIS ARE SLOWLY DIMINISHING AND THE RECOVERY IS TAKING HOLD IN AD-VANCED ECONOMIES. BUT IT SEEMS INEVITABLE THAT THE COSTS OF THE CRISIS HAVE BEEN HIGH. IN COMBINATION WITH AN AGEING POPULATION, THE STRUCTURAL ISSUES RE-LATED TO HIGH UNEMPLOYMENT, LOW INVESTMENTS, PERSIS-TENT OUTPUT GAPS, TIGHT CREDITS AND LARGE LEVELS OF DEBT HAVE LOWERED THE FUTURE GROWTH POTENTIAL IN MANY – BOTH EMERGING AND ADVANCED – ECONOMIES. EVEN THE GROWTH POTENTIAL OF THE CHINESE ECONOMY SEEMS REDUCED.

SEABORNE TRADE VOLUMES INCREASED BY 2.7% IN 2013

Global growth picked up in the second half of 2013, averaging 3.6% — a notable uptick from the 2.6% during the preceding six months. According to the IMF, the stronger-than-expected acceleration in global activity in the latter part of 2013 was partly driven by short-term increases in inventories. The reinforced activity was instantly mirrored in global trade volumes. Sea-borne trade growth almost doubled in the second half of 2013, averaging 3.6% — another noteworthy uptick from the 1.8% during the preceding six months. On average, seaborne trade volumes grew by 2.7% in 2013.

GLOBAL GROWTH IS STRENGTHENING

Global growth is projected to strengthen from 3% in 2013 to 3.6% in 2014 and 3.9% in 2015, according to the IMF. In ad-vanced economies, growth is expected to increase to about 2.2% in 2014-15, an improvement of about 1 percentage point compared with 2013. With supportive monetary conditions and a smaller drag from fiscal consolidation, annual growth is project-ed to rise above trend in the United States and to be close to trend in the core euro area economies. In Japan, fiscal consoli-dation in 2014–15 is projected to result in some growth mod-eration. Emerging market economies continue to contribute more than two-thirds of global growth. In emerging markets and developing economies, growth is expected to pick up gradually from 4.7% in 2013 to about 5% in 2014 and 5.2% in 2015. Growth will be supported by stronger external demand from ad-vanced economies. In China, growth is projected to remain at about 7.5% in 2014 as the authorities seek to rein in credit and advance reforms while ensuring a gradual transition to a more balanced and sustainable growth path. Seaborne world trade volumes are expected to increase by 3.8% in 2014 and by 3.6% in 2015. It should be emphasised that, despite improved growth prospects, the global recovery is still fragile and significant downside risks, including geopolitical risks, remain.

DEMOGRAPHIC CHANGES MAKE REFORMS EVER MORE URGENT

In this edition we take a closer look at the Chinese economy. Impending demographic changes make reforms ever more ur-gent. We maintain the view we have had since 2006: that the timing and characteristics of the rebalancing exercise remain the cornerstone of our outlook for the global economy in general and the shipping industry in particular. China is on the cusp of a demographic shift that will have profound consequences for its economic landscape. Within a few years the working-age popu-lation will reach a historical peak, and will then begin a precipi-tous decline. The core of the working-age population, those aged 20–39 years, has already begun to shrink. As this hap-pens, the vast supply of low-cost workers — a core engine of China's growth model — will dissipate, with potentially far-reaching domestic and external implications.

CHINA IS THE KEY DRIVER OF GLOBAL SEABORNE DEMAND

China has retained its role as a key driver of global growth despite weak external demand. Today, the outlook for most shipping segments is heavily dependent on future Chinese demand as major exporters of commodities, parts and components have been sending an increasingly larger fraction of their exports to China during the course of the decade. This change in trade flows reflects, to some extent, the fact that supply chains have more frequently been routed through China for the final stage of assembly. Therefore, the vulnerability of today's global macroeconomic environment and the global shipping markets stems from the imbalanced global economic growth in general and the dependence on China in particular.

CAN CHINA CONTINUE TO GROW DESPITE WEAK EXTERNAL DEMAND?

China's continued reliance on investments as the single most important contributor to its GDP creation has raised the question of whether its current growth model is sustainable in an environment with weak domestic and external demand. The high Chinese rate of investment has been a significant contributor to growth in seaborne demand over the last few decades. But today, the cost of generating dollar growth in China has become very high. Chinese imports have become more closely linked to commodities and minerals, for which supply is relatively inelastic and global prices have been rising. At the same time, Chinese exports have become increasingly tilted towards machinery and equipment, for which supply is relatively elastic, competition is significant and relative prices have been falling. Consequently, it seems appropriate to ask how long China can sustain such a high rate of investment.

DOMESTIC IMBALANCES ADVANCE AS EXTERNAL ONES RETREAT

The risks of persistent overcapacity, deflationary pressure and large financial losses have continued to build since 2008, as issues related to over-investment have caused problems of underutilised capacity in several key sectors of the Chinese economy. In fact, the average capacity utilisation in key industries such as steel, cement, automobiles and shipbuilding declined from just below 80% before the crisis to about 60% in 2013. In

other words, domestic imbalances seem to be on the rise just as external imbalances appear to be receding.

SOFT LANDING

The likelihood of a hard landing in China after over-investment and a credit boom continues to be small, because the authorities should be in a position to limit the damage from large-scale asset quality problems with policy intervention. However, credit continues to rise rapidly. Risks associated with asset quality-related balance sheet problems in the financial sector are thus accumulating.

THE REBALANCING PROCESS COULD BE ACCELERATED PREMATURELY

We are all painfully aware of the macroeconomic consequences of the global financial crisis. But it would be a mistake to expect similar consequences in China in the event that the Chinese authorities need to recapitalise major parts of the banking sector. It should be kept in mind that, less than ten years ago, the Chinese authorities restructured the four largest state-owned banks through a clean-up of non-performing loans and through public capital injections. The negative spill-over effects from the recapitalisation appeared to be far less damaging for China's growth potential than for many of the advanced economies after the global financial crisis. However, that is not to say that a potential recapitalisation of major Chinese banks will come at no cost to GDP creation. The point is that China seems positioned to limit the damage if necessary. The true risk associated with a potential recapitalisation of the Chinese banking sector is that it may prematurely accelerate the rebalancing process.

SPILL-OVER EFFECTS TO COMMODITY EXPORTERS

Basically, the rebalancing exercise is about switching China's growth model away from investment and more towards private consumption. Lower investments may eventually reduce Chinese commodity consumption, which may in turn lower commodity prices, including oil prices. Lower commodity prices hold the potential to create adverse spill-over effects for commodity exporters. Hence, the spill-over effects from an investment slowdown in China could significantly lower the growth potential for China's major trading partners. These spill-over effects are

expected to be important for the global macroeconomic outlook. Since emerging market economies play a growing role in the global economy, the severity of a downturn will only be exaggerated. During the past half century, emerging market economies have moved from being peripheral players to systemically important trade and financial centers. In today's global economic landscape, economic links among advanced and emerging market economies are strong. Economic activity in advanced economies is exposed to lower economic activity in emerging market economies.

CHINA IS ON THE BRINK OF A TRANSITION

The Chinese government is aware of these risks and envisages in its 12th Five-Year Plan a set of reforms to rebalance economic growth away from exports and investment towards private consumption. And we are beginning to see changes. Recently, we have seen shifts in the composition of China's commodity consumption that are consistent with early signs of domestic demand rebalancing. Private consumption has started to pick up, while infrastructure investment has slowed. Chinese commodity consumption has been rising and is predicted to continue to do so, but at a slower pace for low-grade commodities (e.g. iron ore and coal) and at an accelerating pace for higher-grade commodities (e.g. aluminium, tin and zinc). Specifically, within primary energy, the growth rate of natural gas consumption has risen faster than that of other fuels (e.g. coal).

PUTTING IT ALL TOGETHER

China faces considerable domestic and international pressure to rebalance its export and investment-oriented economy towards a more consumption-based one, with a greater share of growth coming from private consumption and the service sector. But the stakes of the domestic rebalancing are high for China and for the world economy. In 2011, China offered a glimpse of its potential to act as an engine for final demand when it became the single largest contributor to global consumption growth. Rather than being a result of an appreciable increase in China's household consumption as a share of the national economy, the sharp rise in global consumption was the result of China's over-

all economy growing much faster than other economies.

LOWER GROWTH POTENTIAL FOR SEABORNE TRADE VOLUMES

A successful rebalancing of the Chinese economy will arguably make China's growth model both more stable and sustainable and it will most likely improve the medium-term global economic prospects. While this may be good news from a macroeconomic perspective, it may be less positive for the growth potential of Chinese seaborne import volumes in general and of Chinese dry bulk demand in particular. Chinese dry bulk import volumes could reach their short-term maximum potential within the next few years.

WE ARGUE THAT ONLY 83% OF THE WORLD FLEET IS CURRENTLY IN DEMAND AFTER ADJUSTING FOR SPEED AND TRAVEL DISTANCES. FREIGHT RATES AND ASSET VALUES REMAIN LOW AND VESSELS ARE BEING SCRAPPED PREMATURELY.

SUPPLY CONTINUES TO OUTPACE DEMAND

Seaborne trade volumes increased by 2.8% in 2013 (fig. 1), while the world fleet grew by 3.7%. Even so, there is much to indicate that the effective balance between supply and demand improved during the year. Effective seaborne demand is not only determined by import volumes, but also by the travel distances between suppliers, consumers and inventories. We estimate that travel distances, trade imbalances, slow steaming and general market inefficiencies slightly improved the balance between supply and demand by approximately 1 percentage point in 2013.

FREIGHT RATE INDEX ALMOST DOUBLED IN 2013

The composite freight rate index, the ClarkSea Index, almost doubled during 2013, ending the year at USD 16,500 per day. However, the index fell back below USD 12,000 per day during the first few months of 2014. The average secondhand price index improved by 12% between June 2013 and March 2014. Still, we should put this into perspective: freight rates came down 70% from 2008 to 2013, while secondhand values declined by 40% in the same period (fig. 2).

OPTIMISM DRIVEN BY SENTIMENT RATHER THAN FUNDAMENTALS

Several of the major shipping segments have benefited from the improved balance between supply and demand. In particular, crude tankers and dry bulk witnessed an unexpected rally in freight rates during the second half of 2013. This led to optimism that overcapacity issues are not as alarming as many have feared. We acknowledge the improved market balance in several segments and a situation where short-term spikes can emerge in a market with severe overcapacity. However, we reject the idea that these temporary spikes, driven by regional imbalances and inventory changes, verify that the market bal-

Figure GRO.1

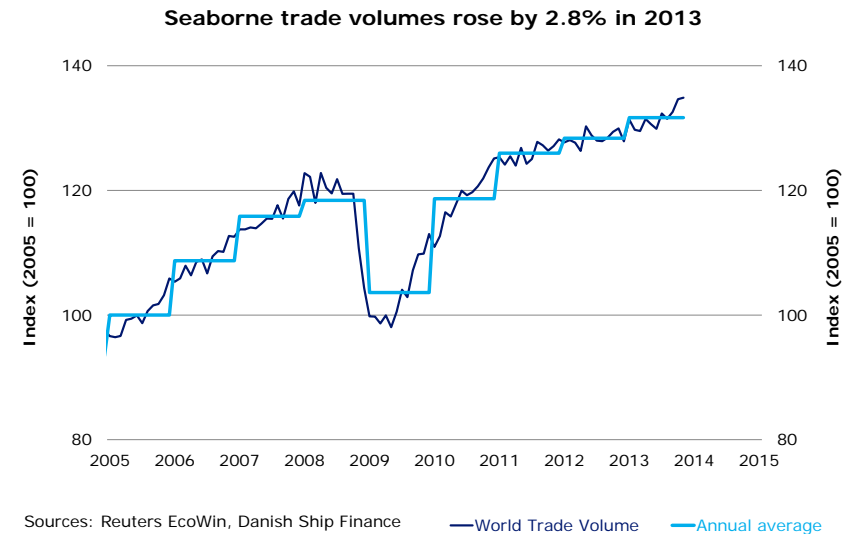
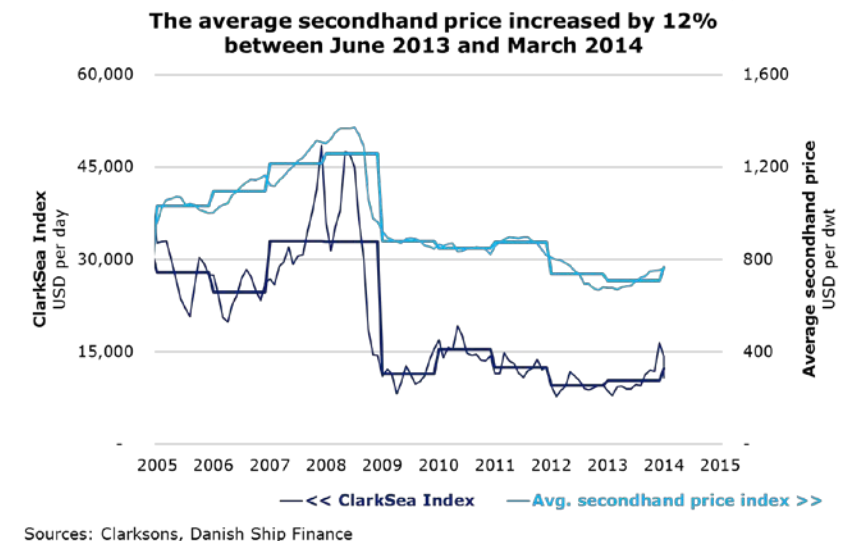


Figure GRO.2



ance between supply and demand is about to be re-established. Since short-term supply is relatively inflexible, any change in demand is expected to impact freight rates. If demand unexpectedly increases in an undersupplied region, freight rates will spike until demand is met by sufficient supply.

ONLY 83% OF THE WORLD FLEET IS CURRENTLY IN DEMAND

The low levels of freight rates and asset values clearly emphasise that the current market is oversupplied. In fact, the world fleet increased by 44% between 2008 and 2013 (fig. 3), while seaborne trade volumes only increased by 18%. These figures indicate a nominal gap between supply and demand above 25 percentage points, while we estimate the current effective output gap to be closer to 17%. Nevertheless, it is important to remember that some segments maintain a reasonably good balance between supply and demand. These segments are in particular gas carriers, offshore supply vessels and some of the smaller niche markets (e.g. car carriers).

45 MILLION DWT SCRAPPED DURING 2013

The combination of low freight rates and high scrapping prices continues to support a high level of demolition activity. 45 million dwt was scrapped during 2013. After five years of high demolition activity, many of the obvious candidates have already been scrapped. Today, less than 5% of the world fleet is older than 25 years (fig. 4). Accordingly, the average demolition age continues to decline. So far in 2014, the average scrapping age has dropped to 27 (fig. 5).

THE COST OF OVER-ORDERING COULD BE A SHORT OPERATING LIFE

The average scrapping age becomes an issue if vessels are scrapped before they reach the age of their expected technical operating life. Standard vessels are expected to operate until the age of 25 years, while specialised vessels are expected to trade until the age of 30 years. If a vessel is scrapped prematurely, it simply has fewer years to generate the expected income. Consequently, in segments where few old vessels remain, the cost of over-ordering could be a significant reduction in the remaining operating life of older vessels.

Figure GRO.3

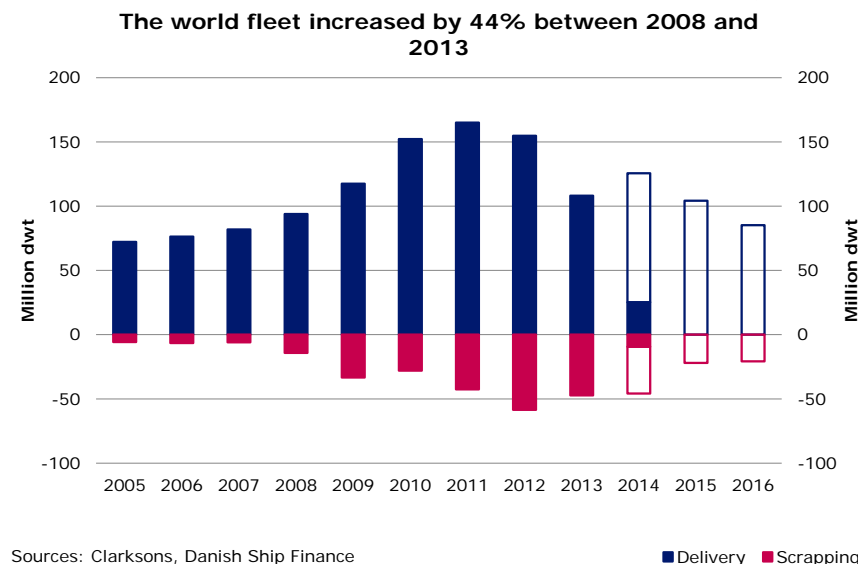
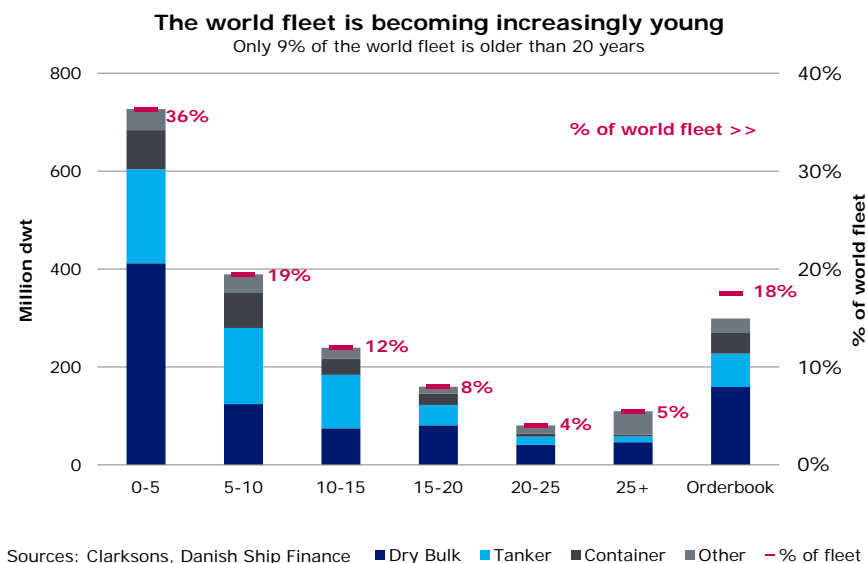


Figure GRO.4



A MASSIVE 150 MILLION DWT ORDERED DURING 2013

The rising – but historically low – newbuilding prices seem to have convinced many investors that 2013 and 2014 are the right time to invest. More than 150 million dwt was contracted during 2013. Clearly, we recognise that individual investments may seem appropriate, but from an industry perspective, such ordering activity is worrying in an already oversupplied market. The problem is that almost no shipping segments have the age profile to absorb the orderbook by means of regular fleet replacement (i.e. scrapping) and annual demand growth. The current orderbook-to-fleet ratio stands at 18%, while less than 10% of the world fleet is 20 years or older. It therefore seems inevitable that younger vessels will become scrapping candidates.

STRUCTURAL ISSUES ARE DEPRESSING THE VALUE OF OLDER VESSELS

The shipping markets will become more fragmented. While investors, and traditional shipowners, that have contracted new vessels are expecting to take advantage of low-priced vessels, compliant with tomorrow's standards today, with presumably lower fuel consumption, owners with an existing fleet are exposed to the risk of overcapacity through both premature scrapping and low freight rates. In several sub-segments, the average age of vessels scrapped in 2013 was below the expected operating life. For instance, in the case of VLCCs, the average age of vessels scrapped was 18 years. This implies that the value of older vessels was reduced by the net present value of seven years of cash flows, compared with a scenario where VLCCs were scrapped at the age of 25 years or older. This trend is evident in several sub-segments and is expected to intensify during the next few years.

Figure GRO.5

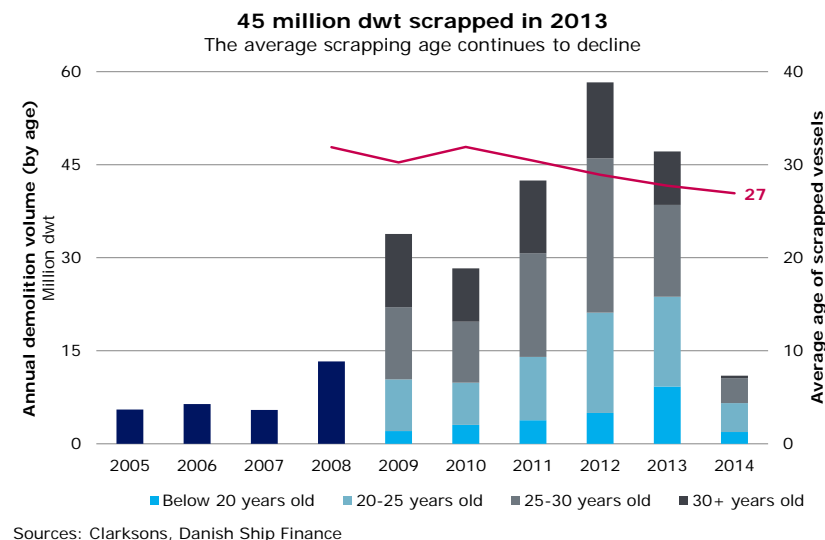
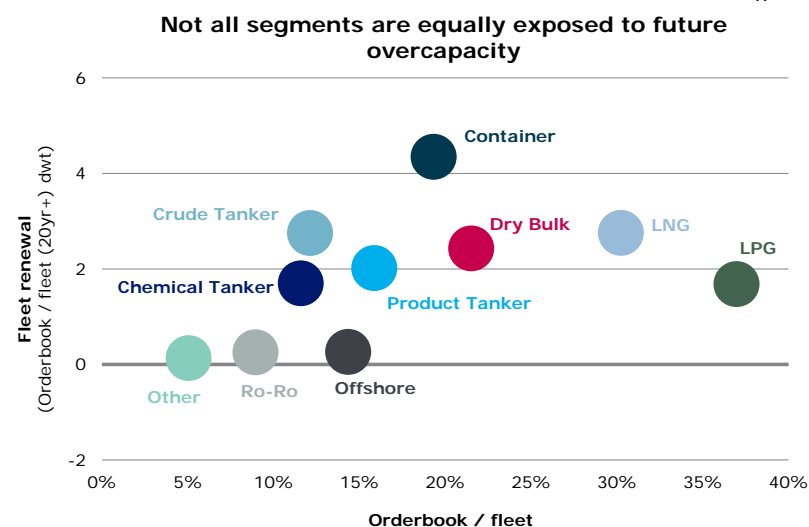


Figure GRO.6



OUTLOOK

THE ROAD TO RECOVERY IS EXPECTED TO BE LONG AND BUMPY, SINCE THE COST OF THE RECENT OVER-ORDERING COULD TURN OUT TO BE MORE DAMAGING THAN TEMPORARILY LOWER FREIGHT RATES IN AN OVERSUPPLIED MARKET. WE EXPECT PREMATURE SCRAPPING TO BE THE NEW NORM UNTIL BALANCE BETWEEN SUPPLY AND DEMAND HAS BEEN RE-ESTABLISHED. INVESTORS PLAYING A SHORT-TERM ASSET GAME COULD BE TRAPPED BY THE REDUCED OPERATING LIFE, AS A SHORTER CASH FLOW PERIOD COULD LOWER THE VALUE OF THEIR INVESTMENT. INVESTORS, OWNERS AND THEIR BANKS MAY FACE UNEXPECTED VALUE DEPRECIATIONS EVEN ON RELATIVELY YOUNG VESSELS IN THE PERIOD OF TRANSITION.

Buying low and selling high has always been the recipe for good investments. In today's shipping markets, investors and traditional ship owners are taking advantage of historically low prices to purchase both new ships and secondhand vessels. Their investment strategy varies but, as we know, many roads lead to Rome. Some are investing in fuel-efficient newbuildings, compliant with tomorrow's standards today, while others are choosing to buy and maybe retrofit older vessels. Owners with a portfolio of expensive and highly leveraged vessels are struggling to find opportunities. Shipping is not a team sport and never will be, but everyone is vulnerable to unexpected value depreciations.

Above, we have argued that only 83% of the world fleet is currently in demand after adjusting for speed and travel distances. And more vessels are yet to enter the market. With less than 10% of the fleet older than 20 years and an orderbook-to-fleet ratio of 18%, the world fleet is poorly positioned to absorb the incoming capacity through ordinary fleet replacements. We expect premature scrapping to be the new norm until a new balance between supply and demand has been re-established. The value implication of premature scrapping could easily turn out to be a shorter cash-flow period. If this turns out to be reflected in the valuation of the vessels, secondhand prices for older vessels could be subject to unexpected depreciations.

Figure GRO.7

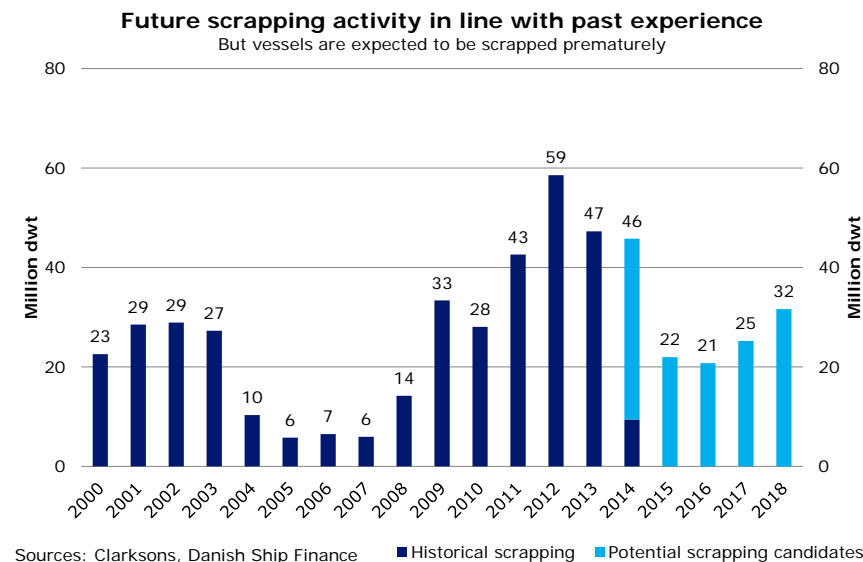
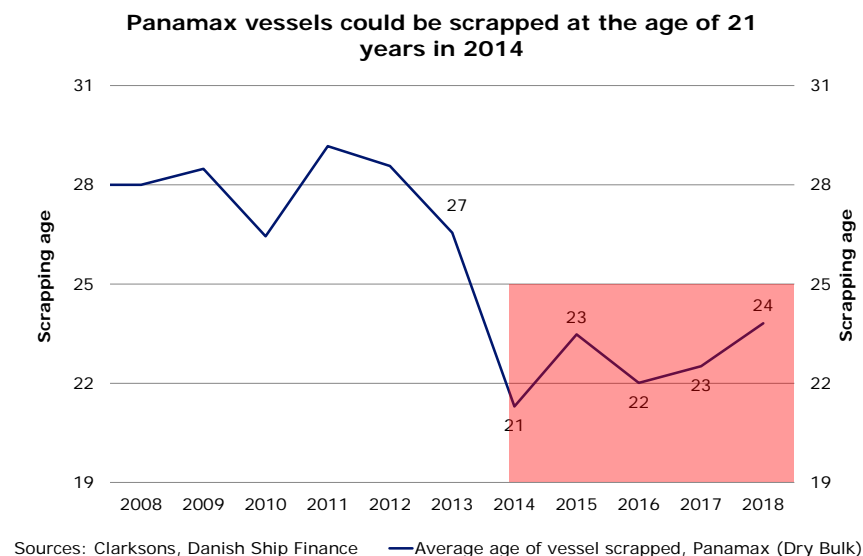


Figure GRO.8



5% FLEET GROWTH IN 2014 AND 2015

We project that the high level of scrapping activity seen in 2013 will continue in 2014. A total of 46 million dwt is expected to be demolished during the year (fig. 7). In our fleet projections we apply a scrapping scenario where vessels become scrapping candidates immediately before they are due for a special survey (beginning from the third special survey for some standard vessels but more commonly from the fourth special survey). Consequently, the high scrapping activity comes at the cost of younger vessels being scrapped prematurely, as most segments have already scrapped their oldest vessels. In 2015, scrapping activity is expected to halve, but the operating life of vessels is expected to remain shortened. The world fleet is expected to increase by 5% annually in 2014 and 2015.

THE SUPPLY SURPLUS COULD WIDEN FURTHER

The supply surplus is likely to widen further in 2014 and 2015, as seaborne trade volumes are expected to grow less than 4% in 2014 and 2015. However, if allowing for extensive postponements and cancellations, the growth figure of the world fleet could drop below 4% annually. Before drawing the comforting conclusion that the supply surplus is about to narrow and the shipping industry is about to recover, we should look at the underlying figures. Supply and demand have developed at different paces over the last five years, growing 44% and 18% respectively. Hence, in today's shipping markets, a 1% increase in the world fleet's cargo-carrying capacity will not be absorbed by a 1% increase in world trade volumes, but more likely by a 1.3% increase.

FREIGHT RATES WILL REMAIN LOW IN 2014 AND 2015

Accordingly, the cargo-carrying capacity of the world fleet is expected to increase faster than seaborne demand volumes in 2014 and 2015. In itself, this implies that freight rates will remain low. On the other hand, in the past, we have seen that longer travel distances, lower speeds and lower fleet efficiency (driven by the growing global imbalances and hence more ballasting time) have supported the supply and demand balance significantly. The importance of these factors should not be un-

derestimated. We should remember, though, that although they have supported freight rates in the past, and potentially will continue to do so in 2014 and 2015, they could easily contribute less if, for example, China accelerates its efforts to re-balance its economy.

SHIP VALUE FORMATION

Secondhand values are traditionally driven by three parameters: short-term earnings, the long-term earnings potential and the expected operating life of a vessel. The short-term earnings are closely connected to freight rates, while – in theory – the long-term earnings potential is related to the newbuilding price. The operating life of the vessel is assumed to be anchored to the technical lifetime of the vessel, although the demolition age of individual vessels varies greatly across cycles. In times when vessels are scrapped prematurely, a shorter operating life has a significant negative impact on older vessels' secondhand values. We expect this mechanism to dominate the value formation for older vessels in the years to come.

A SHORTER OPERATING LIFE ABSORBS FREIGHT RATE INCREASES

We illustrate the strength of these dynamics with an example. Let us look at Panamax bulk carriers. In 2013, the average Panamax bulk carrier was scrapped at the age of 27 years. Due to the age profile of the fleet and the nature of our scrapping scenario, the average scrapping age for Panamax bulk carriers could drop to 21 years in 2014 (fig.8). If this turns out to be reflected in the valuation of the vessels, secondhand prices for older vessels could be subject to unexpected and potentially steep depreciations. Potentially, their value could be reduced by as much as the net present value of four years of income. Consequently, even in a scenario where demand growth more than counterbalances supply growth, significant freight rate increases are required for secondhand values to remain unaffected by the shorter operating life.

SHIP VALUES DECOUPLED FROM EARNINGS

Ships are not always priced based on earnings. In today's markets, where new professional investors, in particular within the

tanker segments, are playing a short-term asset game, ship values seem to have decoupled from earnings. This clearly represents a risk, as it would be a mistake to interpret the price increases as confirmation that the underlying market fundamentals have already improved. To us, the price increases simply reflect the fact that a lot of investors are currently buying into the idea of a new and greener standard for ships – at the expense of older vessels' value. The market has become more fragmented.

NEWBUILDING PRICES MAY DECLINE

The global yard industry is in a consolidation process where inefficient yards are closing and capacity is gradually adjusting to lower future demand. Newbuilding prices have been on a structural decline during the last five years and are expected to remain low until the consolidation process has come to an end. But the surprisingly high contracting activity during 2013 has enabled newbuilding prices to be increased at yards that have attracted new orders. These yards represent 84% of the global yard capacity in 2013. The 12% increase in newbuilding prices has contributed to a higher assessment of younger vessels' long-term earnings potential. But does this increase reflect a short-term asset bubble which is expected to run out of steam almost before the ordered vessels are delivered? We believe so and assert that today's shipping market remains excessively supplied by the current fleet and the vessels on order in the foreseeable future. In fact, we expect to see declining newbuilding prices – maybe as soon as 2015 for less sophisticated vessels.

A LONG AND BUMPY ROAD TO RECOVERY

The road to recovery is expected to be long and bumpy. Clearly, the shipping markets will eventually balance and vessels will once again be both traded and valued based on an operating life of 25 years (30 years for specialised vessels). But until then, investors, owners and their banks may face unexpected value depreciations even on relatively young vessels. A great degree of uncertainty persists, as the global economy in general and shipping in particular have become increasingly dependent on

China. The greatest hindrance to recovery by far would be an acceleration of the Chinese rebalancing process. That said, continued over-ordering, higher speeds and inadequate scrapping activity also have the potential to significantly jeopardise and postpone the recovery.

A stylized graphic of a ship's hull, composed of several overlapping geometric shapes in light blue and dark blue, extending from the left side of the page towards the right.

SHIPBUILDING

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

SHIPBUILDING

THE GLOBAL YARD INDUSTRY CONTINUES ITS CONSOLIDATION PROCESS, WITH INEFFICIENT YARDS GOING OUT OF BUSINESS AND THE INDUSTRY GRADUALLY ADJUSTING TO LOWER FUTURE DEMAND. YET, THE SURPRISINGLY HIGH CONTRACTING ACTIVITY IN 2013 ENABLED NEWBUILDING PRICES TO RISE. HOWEVER, WE DO NOT EXPECT THESE INCREASES TO BE SUSTAINABLE AND PREDICT A DECLINE IN PRICES DURING 2015 OR 2016.

NEWBUILDING PRICES

IN CONTRAST TO OUR INITIAL EXPECTATIONS FOR 2013, THE AVERAGE NEWBUILDING PRICE IS CURRENTLY 12% ABOVE THE LOW OF MARCH 2013, SUPPORTED BY A SIX-MONTH INCREASE IN THE GLOBAL ORDER COVER TO 24 MONTHS.

GLOBAL ORDER COVER GREW BY 19% IN 2013

In previous years, the global order cover has gradually shortened. Since late 2008 the combination of excessive global yard capacity and insufficient demand for new vessels from already oversupplied shipping markets has put pressure on newbuilding prices. Consequently, yard margins have shrunk and since 2012 the global yard industry has undergone a gradual adjustment process, reflecting the lower demand. But, to our surprise, global order cover increased during 2013 and the first quarter of 2014, driven by the high contracting activity in some segments.

NEWBUILDING PRICES CURRENTLY 12% ABOVE THE LOW OF 2013

The global yard industry has become more fragmented. Part of the industry is about to go out of business, while another part is strengthening its position. For the viable part of the shipbuilding industry, order cover has increased from 18 months to 24 months during the past 15 months. Still, order cover varies significantly across builder regions and among yards (fig. 2). The newbuilding price to a certain extent mirrors the order cover. In March 2013, the average newbuilding price reached a ten-year low of USD 1,730 per cgt, but climbed to USD 1,852 per cgt at the end of the year. In March 2014, the average newbuilding price was 12% above the low of March 2013 (fig. 1).

Figure SB.1

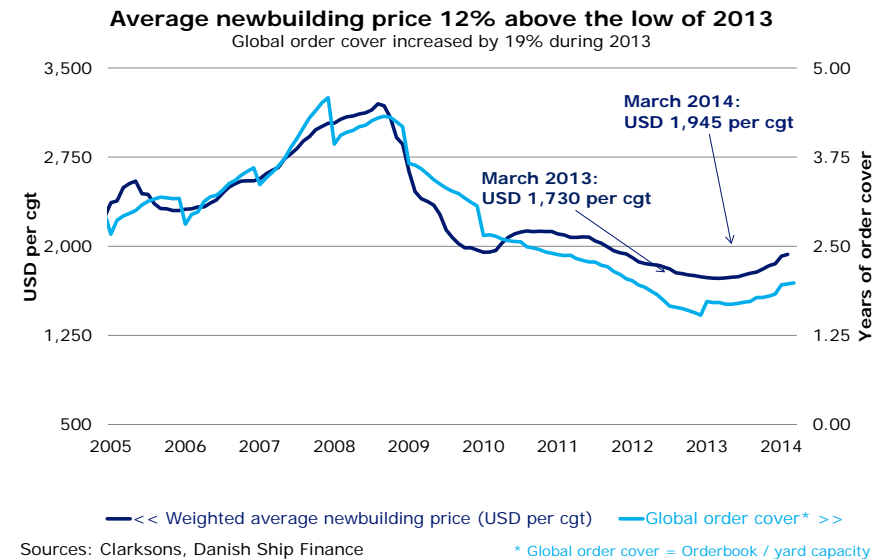
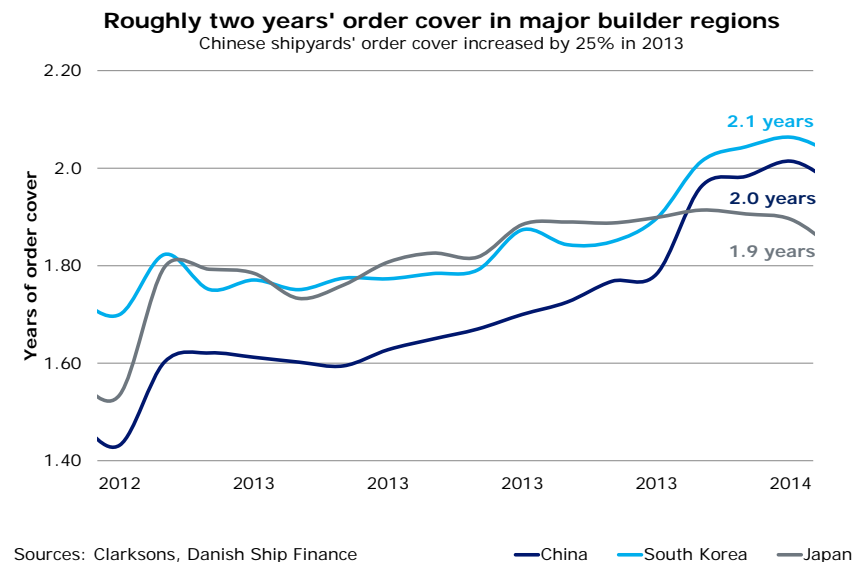


Figure SB.2



CONTRACTING MORE THAN DOUBLED FROM 2012 TO 2013, AS 53 MILLION CGT WAS CONTRACTED DURING THE YEAR.

In 2013, contracting activity went through the roof, although most shipping segments already seemed amply supplied for the future. In total, more than 53 million cgt was contracted in 2013 (fig. 3). The combination of tighter environmental regulations (i.e. the revised MARPOL annex VI) and the low but rising new-building price has presumably been behind investors' sudden appetite for new vessels.

GLOBAL CONTRACTING MORE THAN DOUBLED IN 2013

Despite the massive contracting activity, the selection process shaping the viable part of the shipbuilding industry continues. Of all the yards building new vessels in 2013, less than half of them received new orders during 2013 or the first quarter of 2014. The combined capacity of the latter constitutes 84% of the estimated 2013 global yard capacity. This means that 16% of the global yard capacity was not in demand throughout the last 15 months.

CHINA SEEMS TO BE STUCK WITH DRY BULK CONTRACTS

Chinese yards managed to attract new orders of almost 22 million cgt in 2013, which was in line with the estimated 2013 yard capacity. But less than half of the 200 yards building new vessels in 2013 received new orders during the 15-month period. More than half of the orders were dry bulk orders (fig. 4). Future capacity reductions or a climb up the complexity ladder seem to be a prerequisite for the future success of China's shipbuilding industry.

SOUTH KOREA RECEIVED ORDERS OF 17 MILLION CGT

South Korea remains the most sophisticated builder region in Asia. In 2013, South Korean yards received new orders of 17 million cgt, widely diversified among the more high-spec segments (fig. 4). South Korean yards built primarily for non-domestic owners.

Figure SB.3

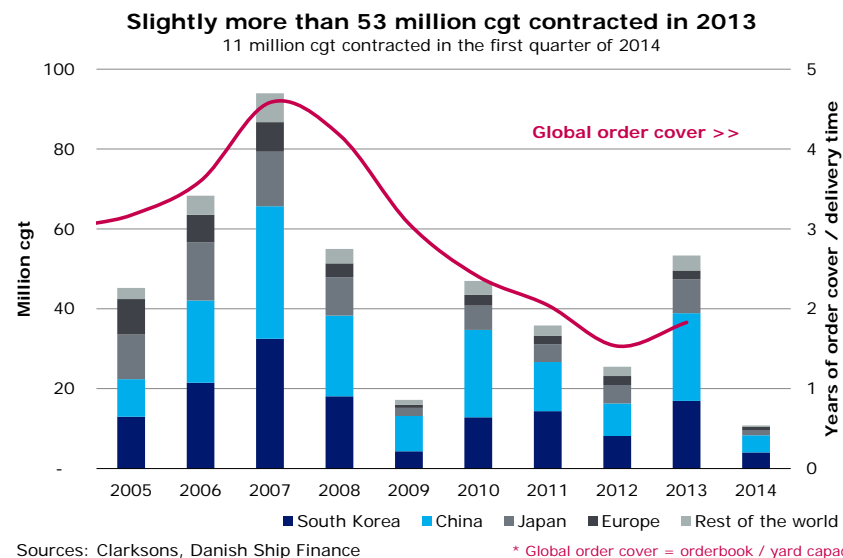
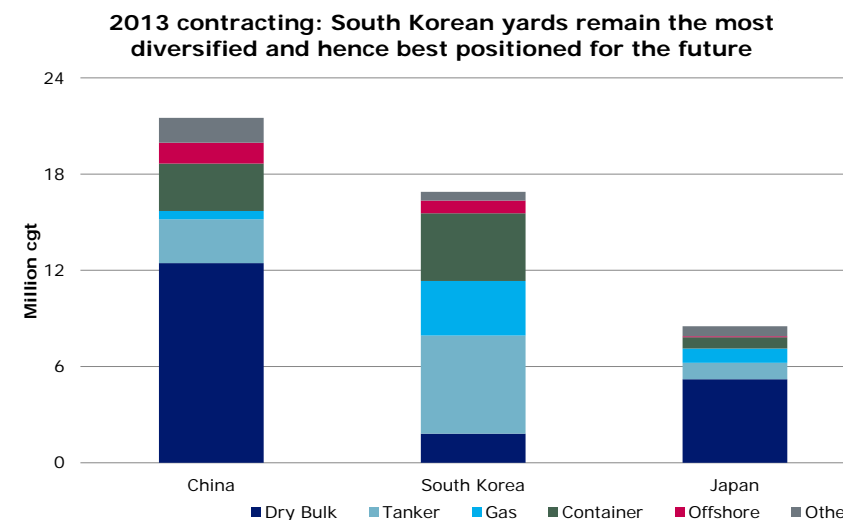


Figure SB.4



THE GLOBAL SHIPBUILDING INDUSTRY SUFFERED ANOTHER TOUGH YEAR IN 2013. DESPITE A SIZEABLE ORDERBOOK, ANNUAL DELIVERIES DROPPED BY 22% TO 38 MILLION CGT AS ONE OUT OF FOUR ORDERS WAS POSTPONED TO 2014 OR LATER.

38 MILLION CGT DELIVERED IN 2013

While 56 million cgt was scheduled for delivery in 2013, only 38 million cgt was actually delivered during the year (fig. 5). Of the outstanding 18 million cgt, we estimate that 15 million cgt was postponed to 2014 or later (fig. 6). The remaining 3 million cgt (i.e. 5%) initially on order for delivery in 2013 is thought to have been cancelled outright. This basically means that every fourth vessel scheduled for delivery in 2013 was postponed.

CHINA DELIVERED ONLY 58% OF SCHEDULED DELIVERIES IN 2013

Last year was a bloody one for the Chinese shipbuilding industry. Considerable restructuring activity and tightened credit lines for the industry led to order cancellations and delays in deliveries. A total of 23 million cgt was scheduled for delivery, but only a little more than 13 million cgt was actually delivered during the year. Almost 9 million cgt was postponed, while just over 1 million cgt is considered cancelled. Half of the 10 million non-delivered cgt should have been added to the dry bulk fleet. In total, Chinese output was down by 34% from 2012 to 2013.

SOUTH KOREAN OUTPUT ALMOST EQUALLED CHINESE OUTPUT

South Korean yards maintained a high delivery performance. As much as 81% of all orders scheduled for delivery in 2013 were actually delivered. While 15 million cgt was scheduled, 12.5 million cgt was actually delivered. The remaining orders were postponed to a later delivery date. No orders appear to have been cancelled in 2013.

Figure SB.5

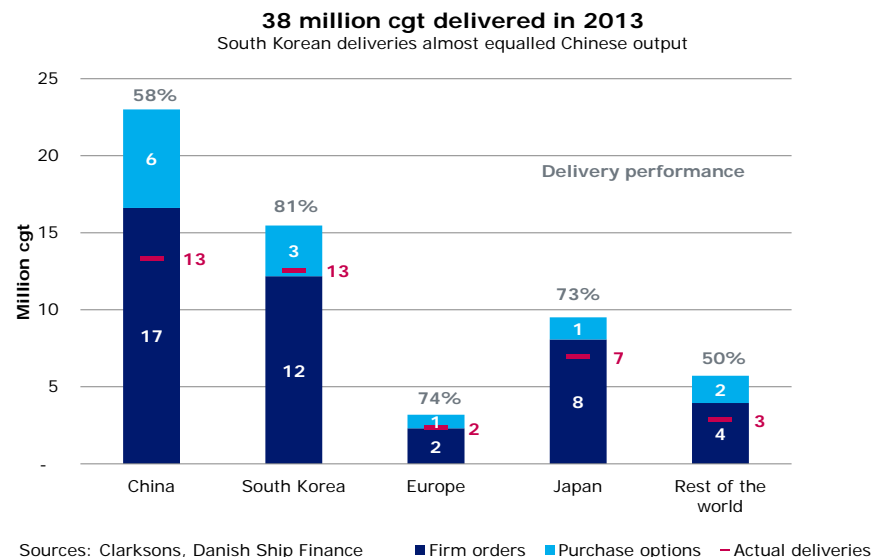
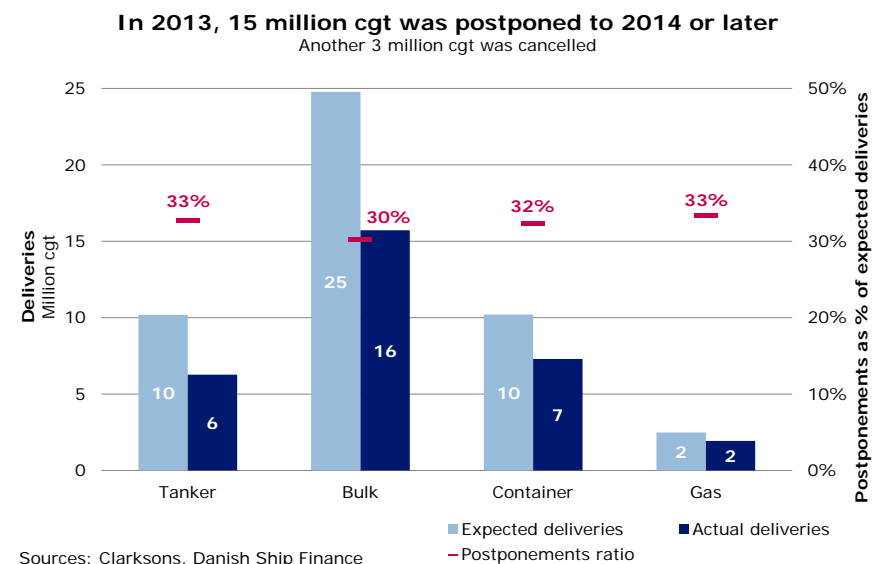


Figure SB.6



YARD CAPACITY AND UTILISATION

GLOBAL YARD CAPACITY WAS REDUCED BY MORE THAN 10% (7 MILLION CGT) IN 2013. CHINESE YARD CAPACITY SHRANK BY 11% AND HENCE CONSTITUTED 42% OF THE GLOBAL REDUCTION IN CAPACITY.

GLOBAL YARD CAPACITY AND YARD UTILISATION DOWN IN 2013

The consolidation process of the global yard industry continued during 2013. We estimate that global yard capacity was reduced from 64 million cgt in 2012 to 57 million cgt in 2013 (fig. 7). Global yard capacity is now back at a level that resembles 2009. Nonetheless, global yard utilisation decreased by 11 percentage points to 66%, as the extensive postponements of 15 million cgt caused annual deliveries to drop by 22% to 38 million cgt (fig. 7).

CHINA IS SUFFERING FROM PAST YEARS' CAPACITY EXPANSION

In recent years, Chinese yard capacity expansion has outpaced demand. We estimate that Chinese yard capacity was reduced by 2.8 million cgt (11%) to 22 million cgt in 2013 (fig. 8). Still, Chinese yard utilisation dropped from 80% to 60% from 2012 to 2013. The Chinese capacity reduction represented 42% of the global reduction in capacity. It is, however, important to remember that the Chinese yard industry remains highly fragmented in terms of yard size and building capability. Thus, the capacity adjustments reflect a selection process whereby inefficient yards go out of business.

LARGE YARDS PULL THE LOAD IN SOUTH KOREA

South Korean yards have maintained fairly stable capacity and operate at a utilisation rate around 80%. Only 3% (600,000 cgt) of South Korea's yard capacity turned idle during 2013 (fig. 8.), and the region now has aggregate yard capacity of 16.7 million cgt. The industry is becoming increasingly consolidated. Eight large yards currently constitute 92% of total South Korean yard capacity.

Figure SB.7

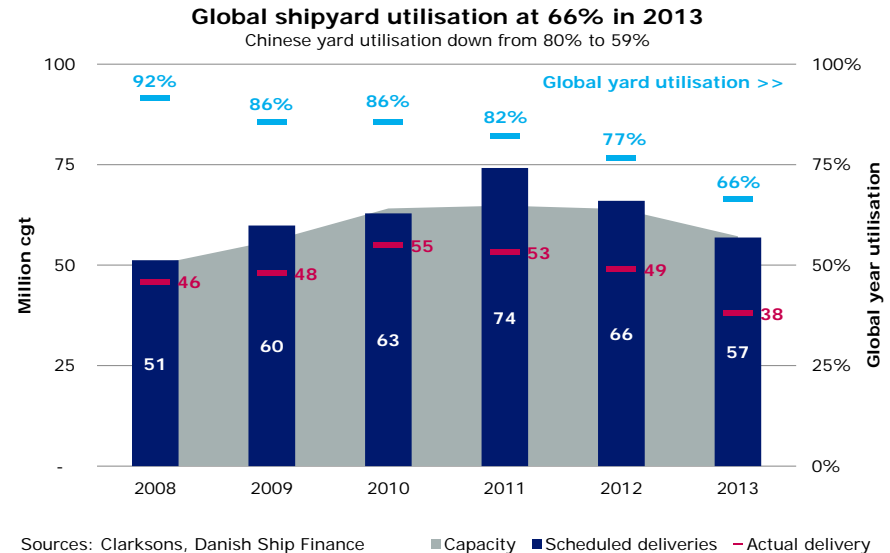
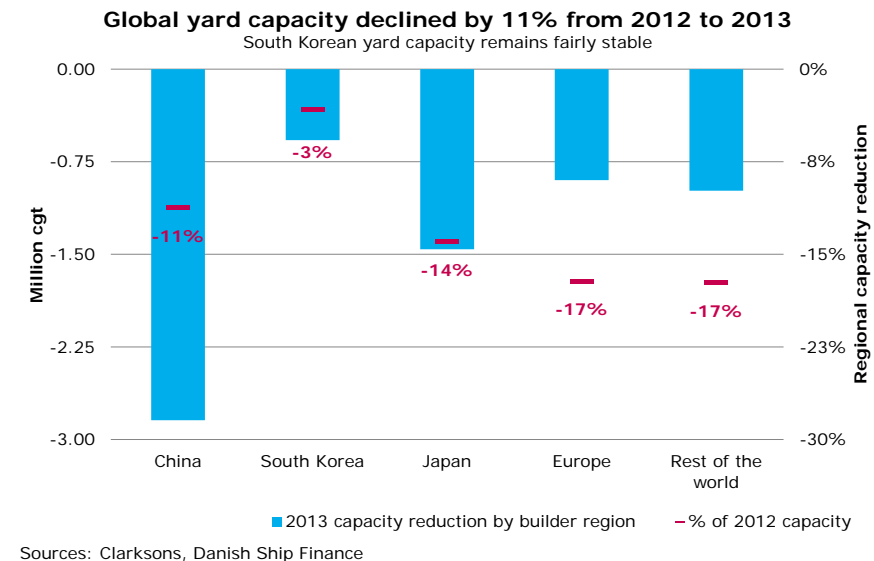


Figure SB.8



OUTLOOK

THE SHIPBUILDING INDUSTRY WILL CONTINUE ITS CONSOLIDATION PROCESS IN THE YEARS TO COME, AS SEVERAL YARDS WILL GO OUT OF BUSINESS. NONETHELESS, WE ARGUE THAT THE NEWBUILDING PRICE MAY DECLINE IN SOME SEGMENTS IN 2015 OR 2016.

The global yard industry is in a consolidation process whereby inefficient yards are closing and capacity is gradually adjusting to lower future demand. By 2016, we expect global yard capacity to have returned to the 2008 levels. But Chinese and South Korean yards are expected to account for 73% of global yard capacity, in contrast to 54% in 2008.

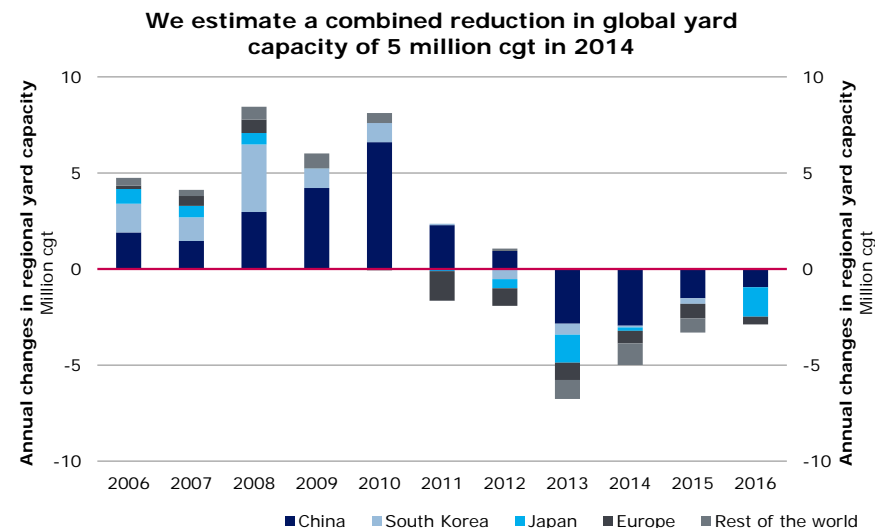
NEWBUILDING PRICES ON A STRUCTURAL DECLINE

Newbuilding prices have been on a structural decline during the last five years and are expected to remain low until the consolidation process has come to an end. Still, the surprisingly high contracting activity during 2013 has enabled newbuilding prices to be increased at yards that have attracted new orders. Note that only yards receiving new orders are part of the process of determining prices. Accordingly, the increase in newbuilding prices should not be interpreted as evidence of a market in balance. It simply reflects the ongoing selection process whereby inefficient yards go out of business and sustainable yards attract new orders.

2014 CAPACITY DOWN BY 9% TO 52 MILLION CGT

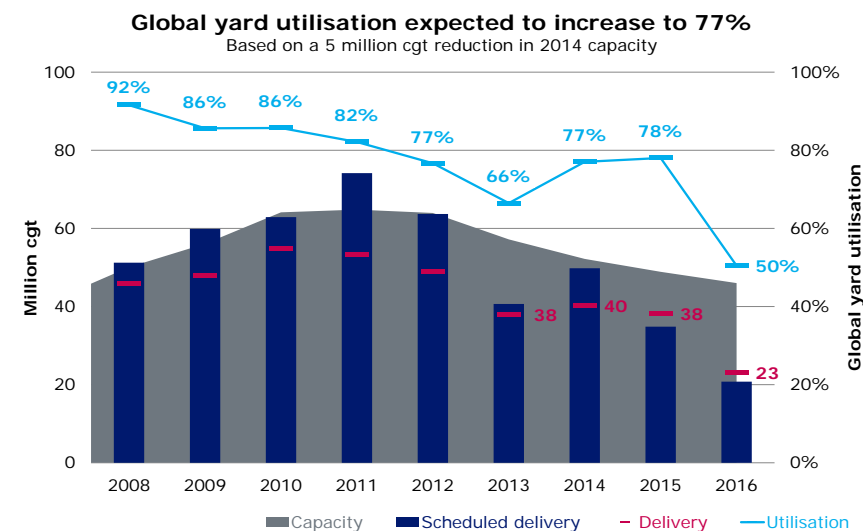
More than 550 yards built the capacity delivered during 2013, but fewer than 250 received new orders during 2013 and the first quarter of 2014. The latter represented 84% of the global yard capacity in 2013. Consequently, yards representing 16% of the global yard capacity (i.e. 9 million cgt) were not able to attract a single new order over a period of 15 months. These yards were operated at a utilisation rate below 60% in 2013 and have an average order cover of less than ten months. We estimate that more than half of these yards will go out of business and therefore reduce our estimate for global yard capacity by 5 million cgt to 52 million cgt by year-end 2014 (fig. 9). Chinese

Figure SB.9



Sources: Clarksons, Danish Ship Finance

Figure SB.10



Sources: Clarksons, Danish Ship Finance

yards are expected to account for 60% of the annual reduction in global yard capacity. If these projections turn out to be fairly accurate and the orders scheduled for delivery are delivered, global yard utilisation is expected to peak at 95% in 2014. However, in previous years, extensive postponements have taken place. In 2013, every fourth vessel scheduled for delivery was postponed. Consequently, it would be more realistic to assume that global yard utilisation will settle at 77% in 2014 (fig. 10).

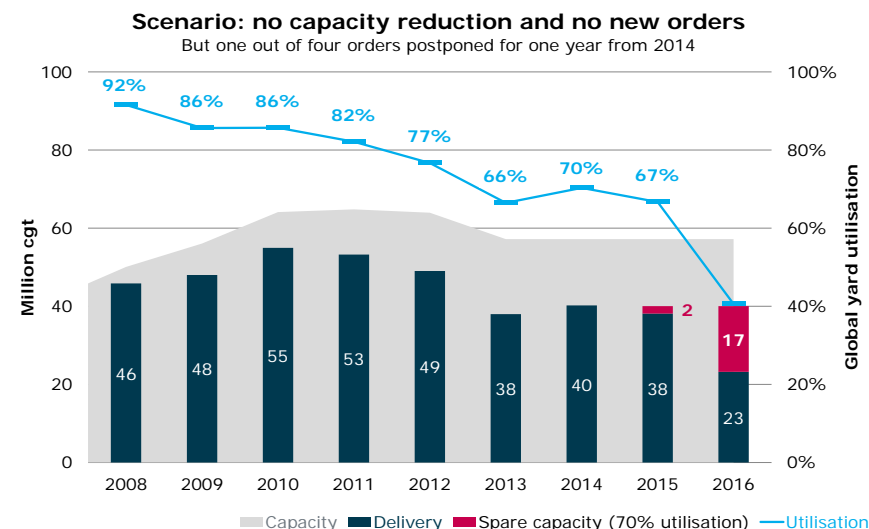
2015 CAPACITY DOWN BY 6% TO 49 MILLION CGT

The outlook for 2015 remains subject to future contracting activity. It should, however, be clear that the window of opportunity for placing orders with expected delivery in 2015 is coming to an end. Assuming that it takes 18 months to build a vessel, the window will close in two months. Nevertheless, some yards, particularly in China, do offer significantly shorter delivery times. In 2013 and 2014, some vessels were contracted with a delivery time of only eight to ten months. For such short delivery time to make sense, it is plausible that yards had started building these vessels before the owner was found. Anyway, based on the current orderbook and after allowing for order postponements, 38 million cgt is expected to be delivered during 2015. Global yard capacity is projected to continue to decline. We estimate that global yard capacity will fall to 49 million cgt, a reduction of 3 million cgt or 6%, in 2015. Based on this, global yard utilisation will be at 78%, which will obviously be a slight improvement from 2014 (fig. 10).

LESSONS LEARNED FROM HISTORY

History has taught us that yard closures are often a long process. So, what if global yard capacity does not adjust as quickly as we forecast? What if current capacity is maintained until 2016? In terms of global yard utilisation, not much will change prior to 2016 as long as we allow one out of four orders to be postponed for one year. Global yards will need to secure new orders of 17 million cgt to be delivered in 2016. That seems clearly possible in view of the contracting activity of the last few years (fig. 11).

Figure SB.11



Sources: Clarksons, Danish Ship Finance

NEWBUILDING PRICES COULD DECLINE ALREADY IN 2015

Newbuilding prices increased during 2013 as a result of the massive contracting activity, in particular due to the orders placed for 2014 delivery. Of the 2013 orders, 17% were scheduled to be delivered in 2014. If these orders had been scheduled for later delivery, global yard utilisation would decline by 2 percentage points from 66% in 2013 to 64% in 2014. Newbuilding prices are, generally speaking, unlikely to increase with lower utilisation rates. We can extend this reasoning and consider the 2015 utilisation rate's dependence on postponements. It seems realistic to envision a scenario where newbuilding prices for low-spec vessels decline already in 2015. This would particularly be the case if yard capacity adjusts more slowly than we predict.



CONTAINER

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

CONTAINER

IN 2013, THE CONTAINER MARKET HAD ANOTHER CHALLENGING YEAR. THE NOMINAL SUPPLY SURPLUS WIDENED 4 PERCENTAGE POINTS AND AVERAGE BOX RATES DECLINED AFTER A TURBULENT YEAR. SHIP VALUES REMAINED AT LOW LEVELS AND SHIPOWNERS CONTINUED TO ORDER LARGER VESSELS. THE OUTLOOK FOR THE POST-PANAMAX SEGMENT REMAINS VERY DIFFICULT. THE FLEET IS TOO YOUNG TO BE SCRAPPED BUT SUPPLY REMAINS SEVERAL YEARS AHEAD OF DEMAND. WE EXPECT TO SEE VALUE DEPRECIATIONS FOR OLDER, INEFFICIENT POST-PANAMAX VESSELS IN THE YEARS TO COME.

FREIGHT RATES

SHIPOWNERS MADE SEVERAL ATTEMPTS TO ARTIFICIALLY INCREASE BOX RATES IN 2013, BUT WITHOUT MUCH SUCCESS. THE ALREADY DEPRESSED TIMECHARTER MARKET REMAINED UNDER PRESSURE.

AVERAGE BOX RATES DOWN BY 8%

Shipowners struggled to keep box rates up in 2013 and ended the year with an average rate, out of China, 8% lower than in 2012. The service to the US West Coast was the only one that increased (1%) as the US economy improved. The composite index averaged 1,082 after a year with considerable fluctuation. In contrast, 2014 started off strongly with rising rates. In particular, rates between China and Europe improved, and starting in late December they rose by 20%, reaching index 1,696 in mid-February, 10% above the highest peak of 2013. Rates did, however, begin to decline after that in conjunction with the Chinese New Year and in April they were back at the December level (fig. 1).

THE TIMECHARTER MARKET REMAINS DEPRESSED

The timecharter market suffered from the overcapacity issues. Rates grew by 7% in 2013, but this was from a very low level. The harsh conditions are further emphasised by our Container Profitability Index, which demonstrates the very limited earnings potential for tonnage providers in the current market. However, fuel efficient vessels may perform better than indicated by the index. The index kept relatively stable with an average index value of around 106 in 2013, up from 88 in 2012 (fig. 2).

Figure CS.1

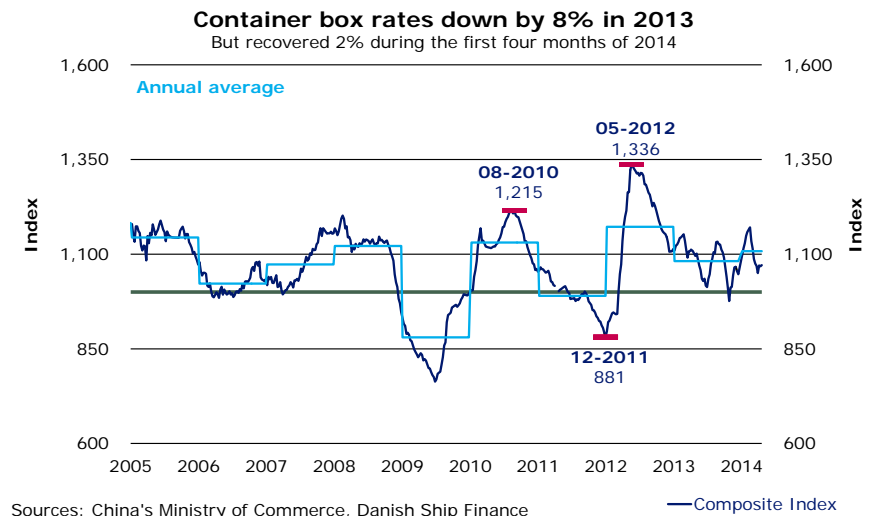
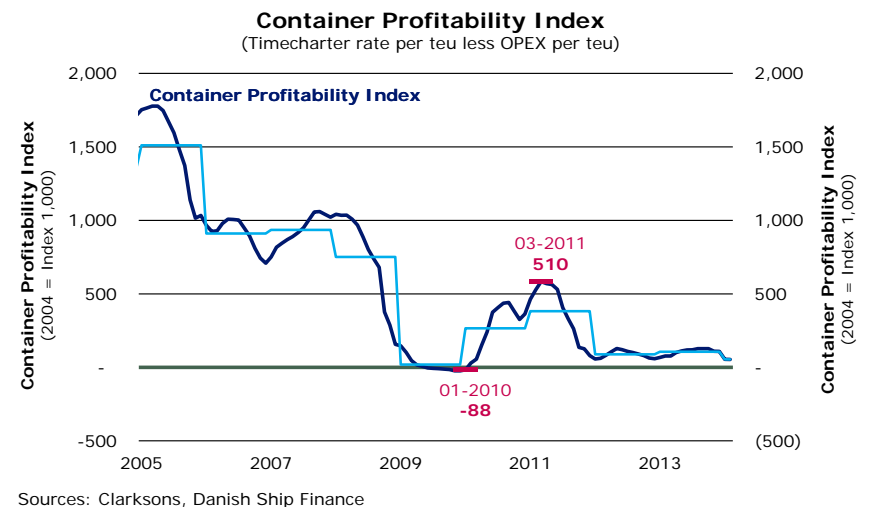
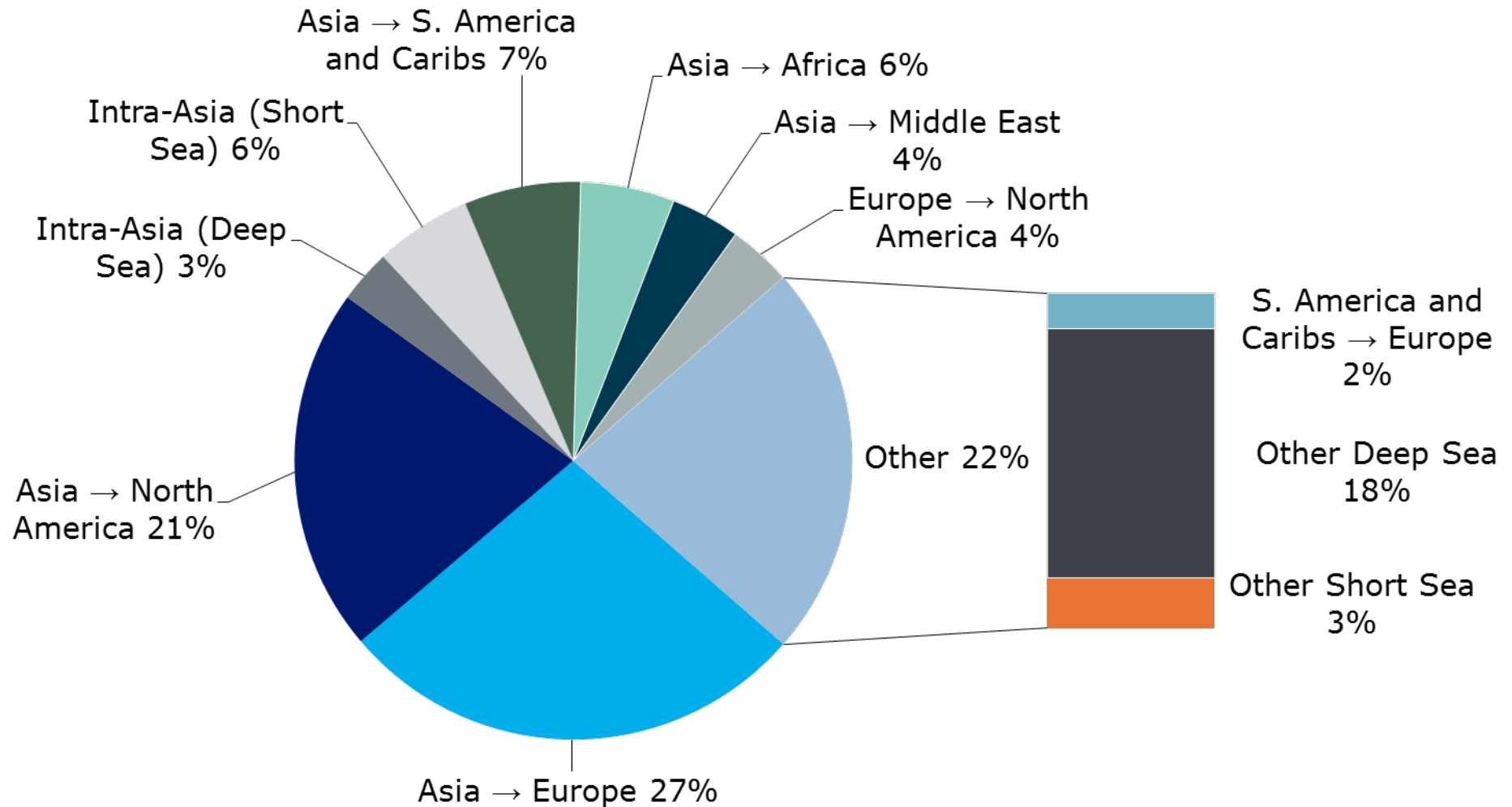


Figure CS.2



Total Head-Haul Container Routes 2013 (measured in teu-nautical miles)

Figure CS.3



Sources: IHS Global Insight, Danish Ship Finance

DEMAND AND SCRAPPING PICKED UP IN 2013 BUT NOT ENOUGH TO ABSORB THE 6% SUPPLY INCREASE.

The container industry continues to be characterised by an over-supply of tonnage. While only around 4.5% of the fleet was idle, a significant share of the fleet is being utilised at low levels, and vessels continue to slow steam. It seems that the industry is being shaped by a saving strategy that minimises the marginal costs per moved teu through huge investments in large cost-efficient vessels. This strategy seems currently to be adding capacity to an already oversupplied market. Liners are cascading larger vessels to smaller vessels' trades to employ a bigger part of their fleet. Besides, we are seeing a tendency towards operational consolidation as they aim to make their combined operations more cost-efficient. Consequently, tonnage providers are losing ground and many are suffering severely.

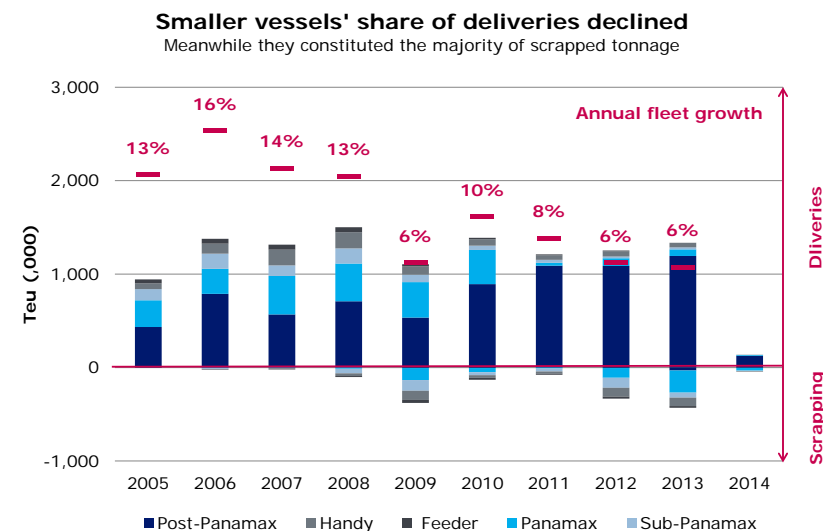
THE FLEET INCREASED BY 6%

While an alarming 1.8 million teu was scheduled to enter the fleet in 2013, a still massive 1.3 million teu entered the fleet, led by the Post-Panamax segment, with a net fleet growth of 15%. The remaining 30% was postponed for later delivery. Even though fleet growth has slowed over the last couple of years, and the fleets of the smaller segments are contracting, the inflow of larger Post-Panamax vessels continues to increase. 2013 was the eighth successive year where the total fleet experienced an average nominal inflow of 1.3 million teu (fig. 4). Today, approximately every fourth container vessel at sea is a Post-Panamax vessel, equal to 55% of total capacity.

SCRAPPING REACHED ALL-TIME HIGH

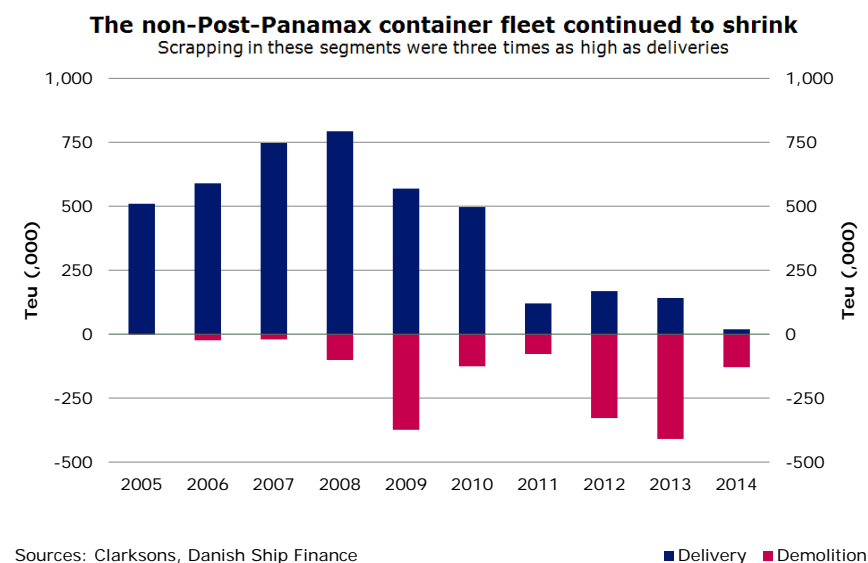
The poor market conditions triggered record-high scrapping activity within the Panamax transitable segments. A total of 440,000 teu was scrapped during 2013. The high demolition activity combined with a modest inflow of new vessels within these segments resulted in a slightly improved market outlook, and several of the smaller segments witnessed negative fleet growth during the year (fig. 5). During the first four months of 2014, ten Post-Panamax vessels of 5,000 teu with an average age of 18 years were scrapped.

Figure CS.4



Sources: Clarksons, Danish Ship Finance

Figure CS.5



Sources: Clarksons, Danish Ship Finance

YOUNGER VESSELS BEING SCRAPPED

The average age of vessels scrapped continued to decline during 2013. The average age of vessels scrapped was 22 years, which was a one-year drop compared with the average age in 2012. Two of the Post-Panamax vessels scrapped so far in 2014 were just 16 years old, which was extraordinary.

CONTAINER DEMAND UP BY 2% IN 2013

Seaborne container import volumes increased by 2% in 2013. Asian container imports remain the biggest driver of volume growth, contributing 42% to growth in 2013. The Middle East and Africa contributed 15% and 20%, respectively, while North America and Europe contributed 6% and 9%, respectively. The average travel distance remained fairly constant during 2013, which meant that distance-adjusted container demand resembled the growth in volumes (fig. 6).

ASIAN DEMAND INCREASED BY 3%

Asia continues to be the biggest importer of containerised goods in volumes and demand grew by nearly 3% in 2013 (fig. 7). The Middle East has doubled its exports to the region since 2005, but North America, followed by Europe, continues to constitute the biggest share of Asian imports

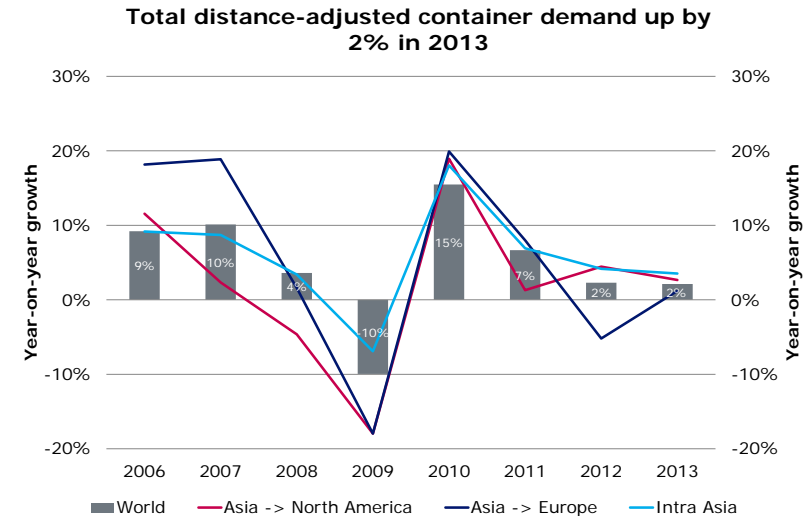
ASIAN EXPORTS TO NORTH AMERICA INCREASED BY 3%

The United States increased its overall imports by 1% in 2013 and is now back at pre-crisis levels. Its imports constitute 86% of the North American region's total imports from Asia. However, this share has declined from a level of 92% over the last ten years, whereas Canada and Mexico have both gained 2%.

EUROPE BACK ON TRACK WITH POSITIVE IMPORT GROWTH

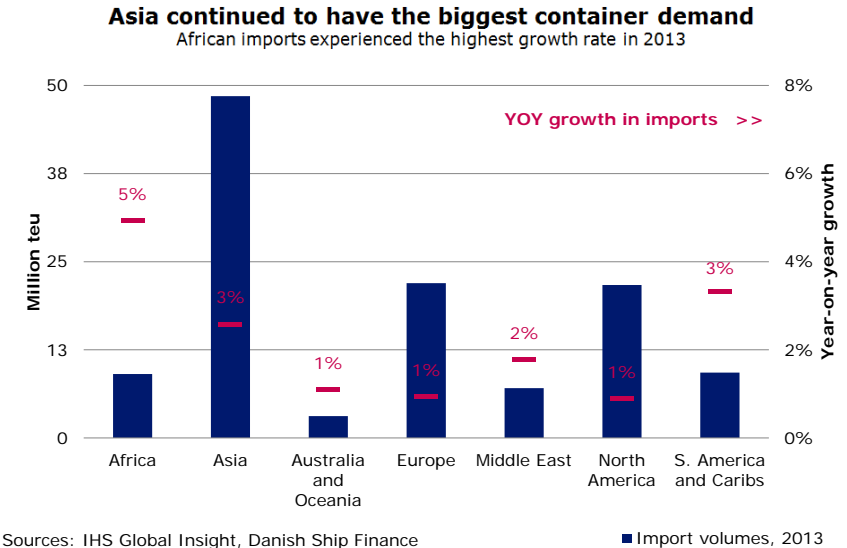
Containerised imports into Europe increased by 1% after a tough 2012 with negative growth, indicating that the region is slowly fighting its way out of the slump. The main contributors to the growth were found in Eastern Europe, led by Russia and Turkey. Some of the biggest losers of the recession are still battling with negative growth, especially Greece, Italy and Ukraine. The improved market fundamentals meant that the main trade route from Asia and Europe also increased by 1%.

Figure CS.6



Sources: IHS Global Insight, Danish Ship Finance

Figure CS.7



Sources: IHS Global Insight, Danish Ship Finance

THE CONTAINER SEGMENT REGAINED SOME CONFIDENCE IN 2013 AND CONTRACTING ROSE TO THE HIGHEST LEVEL SINCE 2007. THIS RESULTED IN INCREASING NEWBUILDING PRICES FOR ESPECIALLY LARGER POST-PANAMAX VESSELS.

CONTRACTING REACHED 2 MILLION TEU IN 2013

After a year with low contracting activity, shipowners seemed to regain confidence over the course of 2013, contracting 1.9 million TEU (242 vessels) with an average size of 8,200 TEU. This was the largest contracting volume since the boom in 2007. With 88% of all contracts for vessels of 8,000 teu or more, the industry seems to be gearing up for the anticipated 2016 opening of the enlarged Panama Canal. The expansion of the Canal has left the current Panamax segment severely threatened and no contracts were made in this segment in the entire year. The delivery time was on average 26 months, but it proved to be very volatile and some of the big Post-Panamaxes are scheduled to be delivered in a little over 14 months (fig. 7).

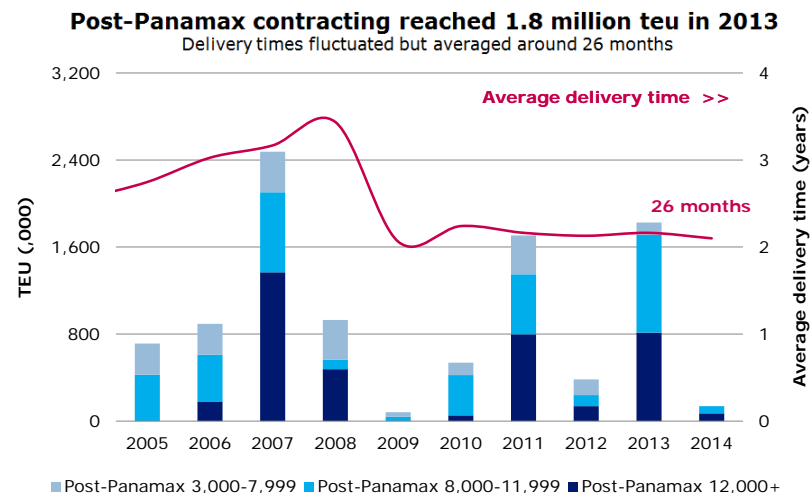
NEWBUILDING PRICES INCREASED BY 15%

Newbuilding prices increased across the board as demand for new vessels intensified once again. The price of an 8,500 teu Post-Panamax vessel increased by 15% between January 2013 and April 2014, reflecting shipowners' appetite for more cost-effective vessels (fig. 8).

SECONDHAND PRICES WENT UP BY 8%

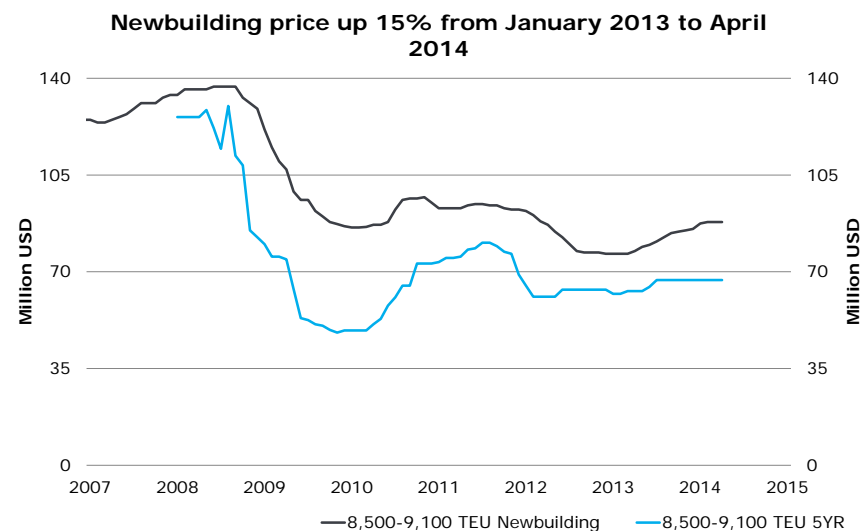
Selling and purchasing activity remained low for Post-Panamax vessels, especially for the larger vessels. Even though the massive ordering in combination with the already oversupplied market should be expected to lower secondhand values, at least for less fuel efficient vessels, we find little evidence of this. In fact, the value of a five-year old 8,500 teu vessel seemed to increase by 8% from January 2013 to April 2014. High expectations for future earnings are built into these values. Let us hope that these vessels will be trading long enough to benefit from a future recovery (fig. 8).

Figure CS.8



Sources: Clarksons, Danish Ship Finance

Figure CS.9



Sources: Clarksons, Danish Ship Finance

OUTLOOK

THE SIZE OF THE CURRENT ORDERBOOK LEAVES NO IMMEDIATE HOPE FOR AN IMPROVEMENT OF THE SUPPLY AND DEMAND BALANCE IN 2014 AND BEYOND. EVEN THOUGH DEMAND IS EXPECTED TO PICK UP, WE BELIEVE THAT THE CONTAINER MARKET IS IN FOR A MORE PROLONGED RECOVERY PROCESS.

The outlook for the Post-Panamax container segment is bleak. The fleet is young, the orderbook stands at 36% of the fleet and the demand outlook is characterised by lower future growth potential in many – both emerging and advanced – economies. Structural issues related to high unemployment, low investment, persistent output gaps, tight credits and large levels of debt constrain the future growth outlook for container demand. Moreover, unlike other ship segments, we see little possibilities for new major trade lanes to emerge because the incremental growth of container trade is so meticulously linked to global GDP in general and national GDP in particular. Please read the General Review and Outlook for a comprehensive discussion.

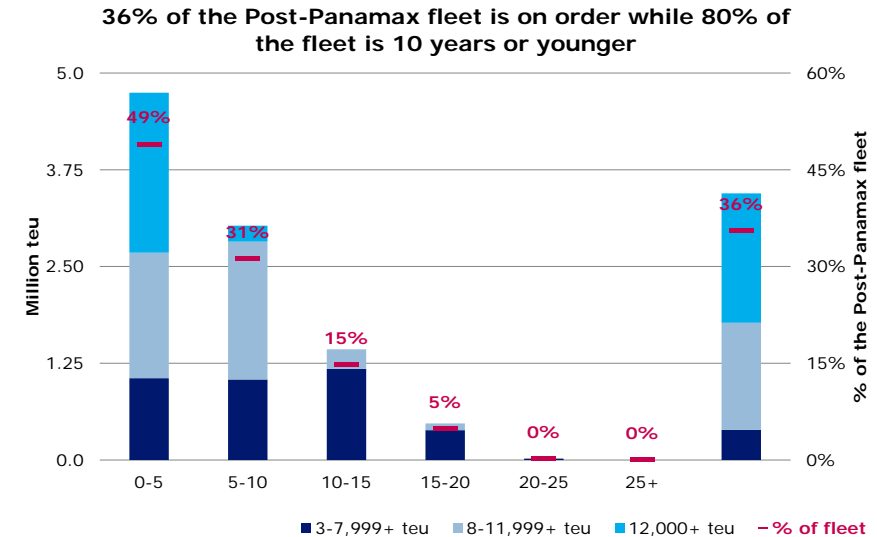
ASIA REMAINS THE HEART OF GLOBAL CONTAINER TRAFFIC

Asia remains the heart of global container traffic. In 2013, Asian container exports accounted for more than 50% of total export volumes and contributed two-thirds of the growth in export volumes. Asian container imports accounted for almost 40% of total import volumes and contributed 42% to the growth in volumes.

CHINESE GROWTH DRIVES MUCH OF ASIAN CONTAINER DEMAND

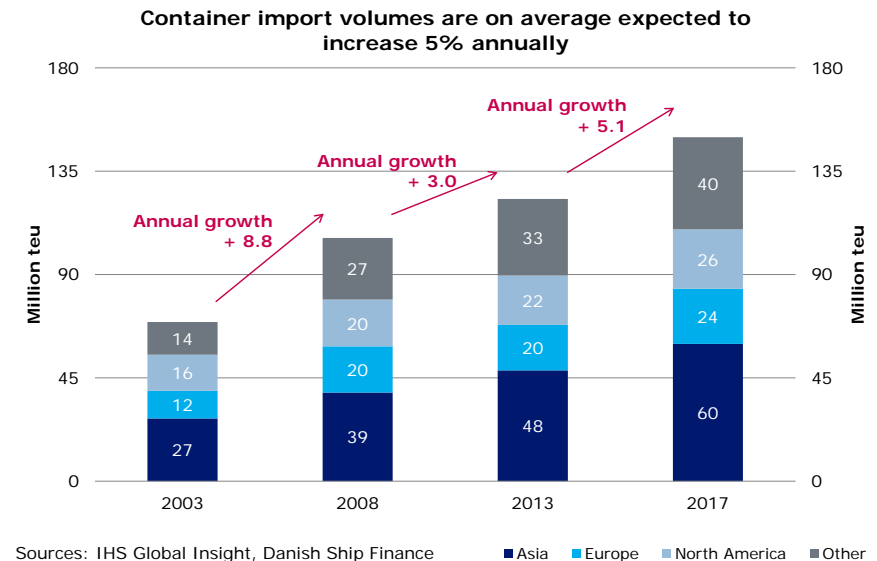
There is a close correlation between the outlook for Asian container demand and the Chinese economy. The rise of China as a leading exporter has been closely linked to the rapid growth of supply-chain networks in Asia (i.e. those that are centred in China). According to the IMF, China accounted for about 50% of all intra-Asian trade flows of imported inputs in 2013. For many of its Asian trading partners, China has become the single most important destination for intermediate goods, since supply-chains have more frequently been routed through China for the final stage of assembly. But Chinese imports from its Asian trad-

Figure CS.10



Sources: Clarksons, Danish Ship Finance

Figure CS.11



Sources: IHS Global Insight, Danish Ship Finance

ing partners are to a large extent mirroring China's external demand, in particular from North America and Europe.

CONTAINER DEMAND UP BY 5% ANNUALLY UP TO 2017

Accordingly, the outlook for the container industry is ultimately expected to be driven by the growth potential in North American and European container imports from Asia (i.e. the two largest distance-adjusted head-haul importers). European and North American demand is, on average, expected to increase by 5% annually up to 2017. Global seaborne trade volumes are also expected to increase by 5% annually on average up to 2017 (fig. 10).

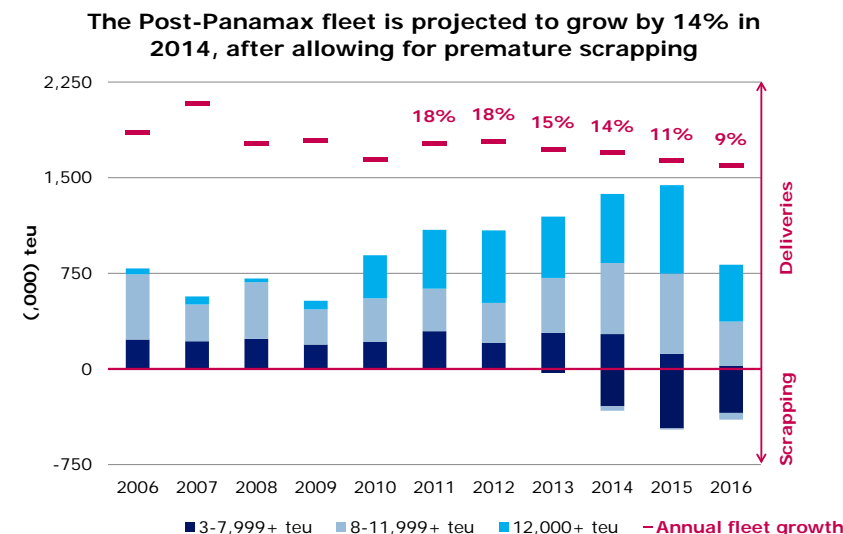
THE POST-PANAMAX FLEET SET TO INCREASE BY 15% IN 2014

The Post-Panamax fleet is expected to increase by 15% in 2014. Almost 1.4 million teu is scheduled to enter the fleet, of which 400,000 teu was delivered during the first three months of 2014. It appears almost absurd to consider the scrapping potential for a fleet where only approximately 5% of the vessels are older than 15 years. True, vessels as young as ten years have been prematurely scrapped in the smaller segments, but those have been extraordinary cases, not a new norm. Still, in a scenario where all vessels are scrapped immediately before a special survey, starting from the third special survey, approximately 300,000 teu could be demolished in 2014. This reduces the annual Post-Panamax fleet growth by 1 percentage point to 14% (fig. 11). If the level of postponement seen in 2013 is repeated in 2014, and 30% of the orderbook is postponed one year forward, annual fleet growth could come down to 11%. A similar trend applies for 2015 and 2016.

FREIGHT RATES

Consequently, the nominal gap between supply and demand is expected to widen further in 2014 and beyond. Box rates are expected to be highly volatile in this market. Liners will struggle to cut costs and to secure acceptable utilisation on their new and larger vessels. Based on the supply-demand outlook, it is difficult to imagine how the current box rate level can be sustained. However, the last few years have shown that box rates

Figure CS.12



can be maintained at high, albeit volatile, levels despite a significant supply surplus. Tonnage providers and owners with older vessels will continue to suffer. Timecharter rates are expected to remain low and the number of vessels idled or laid-up is expected to increase.

POST-PANAMAX SECONDHAND VALUES ARE EXPECTED TO DECLINE

It is only infrequently that Post-Panamax vessels are up for sale. The low selling and purchasing activity makes it difficult to put a market price on these vessels that diverges significantly from the newbuilding price (i.e. the replacement cost). However, secondhand prices have already started to reflect the fact that some sizes, ship designs and engine types are more suitable for the future market than others. But the issue to consider for future secondhand prices is how and when the market will factor in that many vessels are eventually expected to be scrapped prematurely. We expect to see value depreciations for the more inefficient vessels within the next year or two.

CRUDE TANKER

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

CRUDE TANKER

2013 STARTED WITH LOW SPOT RATES, CREATING A GLOOMY MARKET OUTLOOK. HOWEVER, AT YEAR-END, POSITIVE SENTIMENT RETURNED AND RATES INCREASED. UNFORTUNATELY, CONTRACTING DID AS WELL, WHICH SIGNIFICANTLY LOWERED THE POSSIBILITY OF A NEARBY MARKET RECOVERY.

FREIGHT RATES

DURING 2013 THE MASSIVE OVERSUPPLY CAUSED RATES TO DESCEND TO NEW LOWS. HOWEVER, JUST WHEN RECOVERY SEEMED TO BE OUT OF REACH, RATES SOARED AND THE BALTIC DIRTY TANKER INDEX SURGED ABOVE INDEX 1,000.

The high fleet growth at the beginning of the year in combination with China's decision to destock crude oil sent VLCC rates plummeting to their lowest level in many years. However, as China began restocking later in the year, at the same time as the Atlantic market was suffering from weather-related delays, the market turned. Subsequently, the market seemed more balanced than initially assumed.

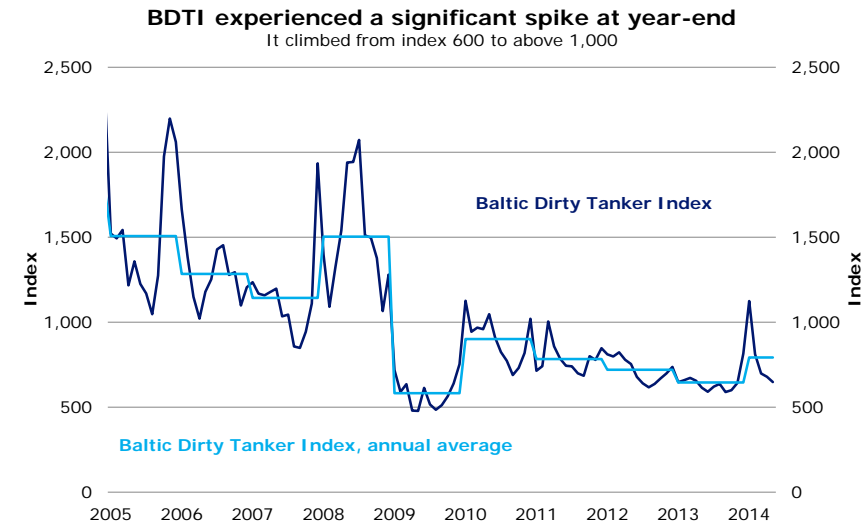
SUDDEN SPIKE IN SPOT RATES

During 2013, the crude tanker market continued its downturn and the Baltic Dirty Tanker Index (BDTI) hovered around index 600 for most of the year. However, around the beginning of November, the market soared and the BDTI climbed above index 1,000 (fig. 1). The increase started in the VLCC segment, but spread to the other segments shortly afterwards. Going into 2014, VLCC spot rates began to slide once again, while Suezmax and Aframax rates maintained their upturn a little longer.

NEW TROUGH IN TIMECHARTER RATES

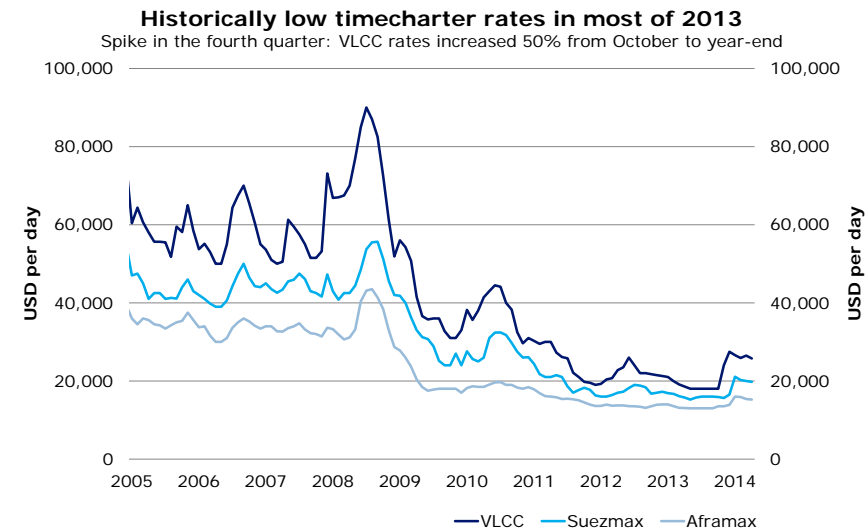
Timecharter rates have never been lower than in 2013, reflecting the overcapacity in the market. The average 1-year timecharter rate for VLCCs was as low as USD 18,000 per day for the majority of 2013, while Suezmaxes' remained around USD 16,000 per day. Later in the year, the decline was halted by increased tonnage demand. Consequently, 1-year timecharter rates increased, first in the VLCC segment and then in the Suezmax and Aframax segments. VLCCs experienced the sharpest increase, growing more than 50% from October to year-end.

Figure T.1



Sources: Clarksons, Danish Ship Finance

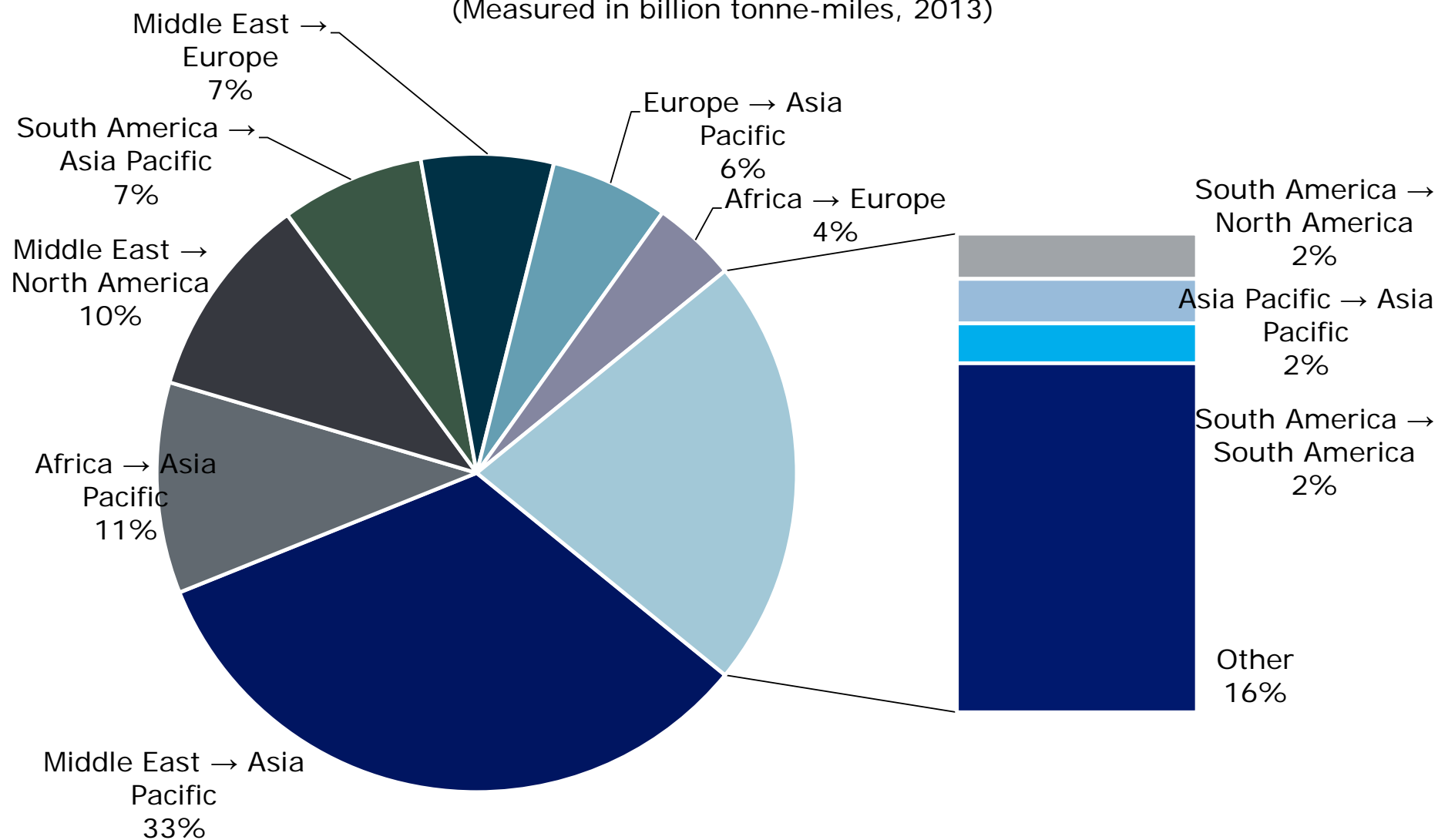
Figure T.2



Sources: Clarksons, Danish Ship Finance

Major crude tanker trades

(Measured in billion tonne-miles, 2013)



Source: IHS Global Insight, Danish Ship Finance

THE CRUDE TANKER MARKET REMAINED UNDER PRESSURE FOR MOST OF 2013. YET TOWARDS YEAR-END, RATES SPIKED AS A CONSEQUENCE OF RECORD-HIGH DEMAND FROM CHINA COMBINED WITH SLOWER FLEET GROWTH. STILL, FLEET GROWTH EXCEEDED DISTANCE-ADJUSTED DEMAND GROWTH AND THE OVERSUPPLY CONTINUES TO BE A MAJOR ISSUE.

CRUDE TANKER FLEET GREW BY 2% IN 2013

After years of being relatively high, fleet growth came down to just below 2% in 2013 – the lowest growth rate since 2002 (fig. 4). Growth was concentrated in the first six months, where after fleet growth turned negative.

DECREASING NUMBER OF DELIVERIES

Overall, the crude tanker fleet experienced a decrease in deliveries compared with previous years. In 2013, roughly 16 million dwt entered the fleet, almost 10 million dwt less than the year before. At the same time, the poor market environment in the first three quarters led to 10 million dwt leaving the fleet during the year, of which 8 million dwt was scrapped – the highest level since 2003. The remainder constituted vessels removed from the fleet primarily conversions. Up until 2010, removed vessels represented at least two-thirds of the total number leaving the fleet; however, this has changed over the last two years with significantly more scrapping than removals.

HIGH LEVEL OF POSTPONEMENTS AND CANCELLATIONS

Besides scrapping, the low fleet growth was a result of a high level of postponements and cancellations, amounting to approximately 50% of orders scheduled for delivery in 2013. In total, deliveries scheduled for 2013 constituted about 30 million dwt at the beginning of the year, of which 18 million dwt was VLCCs, 10 million dwt Suezmaxes and 2 million dwt Aframax. Around 6 million dwt was rescheduled for later delivery and another 9 million dwt was cancelled (fig. 5). Non-deliveries in the Suezmax and Aframax segments were almost equally divided between postponements and cancellations, while two-thirds were cancelled in the VLCC segment.

Figure T.4

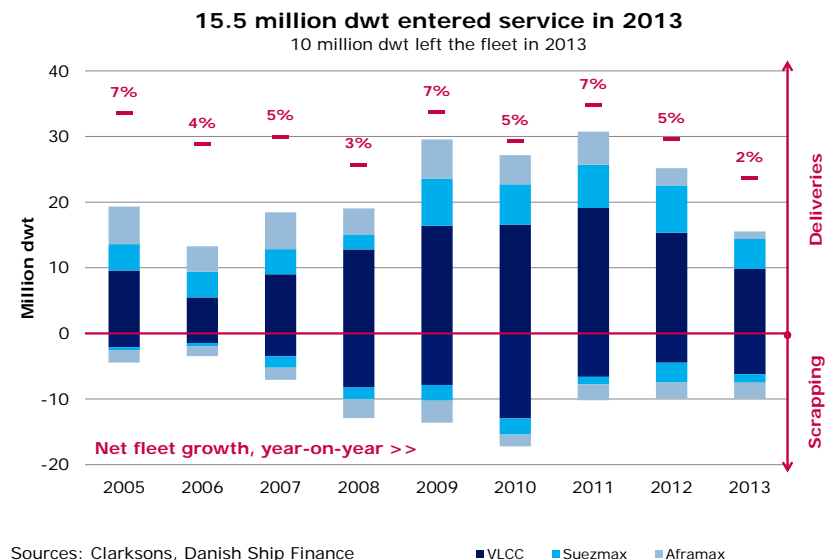
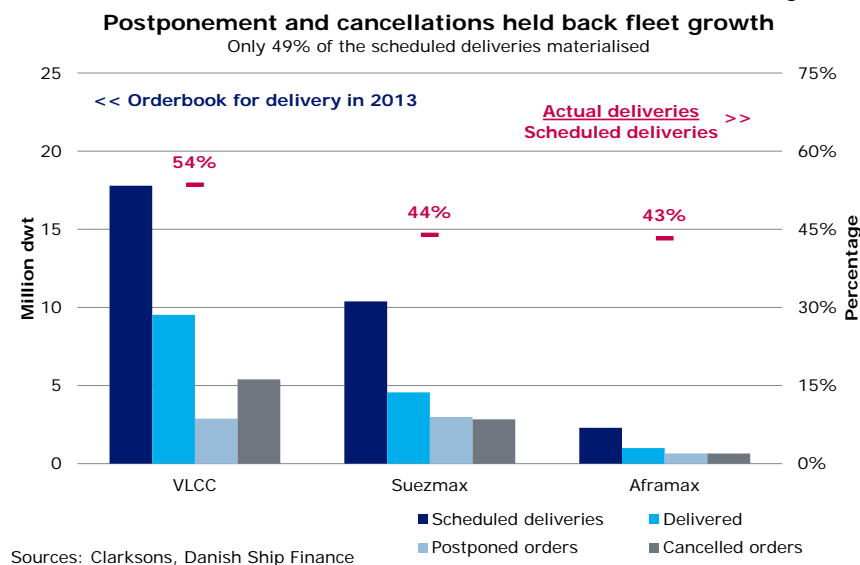


Figure T.5



SEABORNE CRUDE OIL TRADE DECLINED 1% IN 2013

Over the year, seaborne crude oil trade declined by 1% to a total of 1.8 billion tonnes (fig. 6). The main reason for this decrease was that both North America and Europe reduced imports of crude oil, albeit for very different reasons.

US CONTINUES TO REDUCE IMPORTS

The production of shale oil, a very light/sweet type of crude oil, has grown rapidly in the US, and domestic crude oil production is now at its highest annual average since 1989. This has reduced the amount of light/sweet crude oil imports needed by US refineries, primarily at the expense of medium-haul West African and North Sea exports, as they produce a similar type of crude oil. However, as US refineries are configured to run on a medium crude oil grade that can be obtained by mixing light/sweet crude oil with a heavy/sour crude oil, the US has increased imports of the latter. This has primarily been sourced from Canada and Saudi Arabia. Saudi Arabia is a long-haul trade route, which has offset some of the decline in distance-adjusted demand resulting from Canadian crude oil being transported to the US via pipelines.

EUROPEAN REFINERIES ARE SUFFERING

Europe is scaling back production of refined products as a consequence of global competition and waning domestic demand. In 2013, seaborne crude oil volumes into Europe fell by 12 million tonnes, equivalent to a drop of 4%, as a result of refineries curbing utilisation rates and the shutdown of the UK-based Coryton refinery.

INCREASE IN LONG-HAUL WEST AFRICAN TRADE

The decrease in US and European crude oil imports from West Africa has made the crude oil available to the Asian market instead. Asia is a keen recipient of West African crude oil as it can be mixed into its normal crude slate. The inclusion of a light/sweet West African crude oil results in more production of high-quality products. Consequently, in 2013 Asia increased its crude oil imports from Africa by 9 million tonnes, 44% of its total import increase. The long distance of this particular route contributed positively to distance-adjusted demand. Overall,

Figure T.6

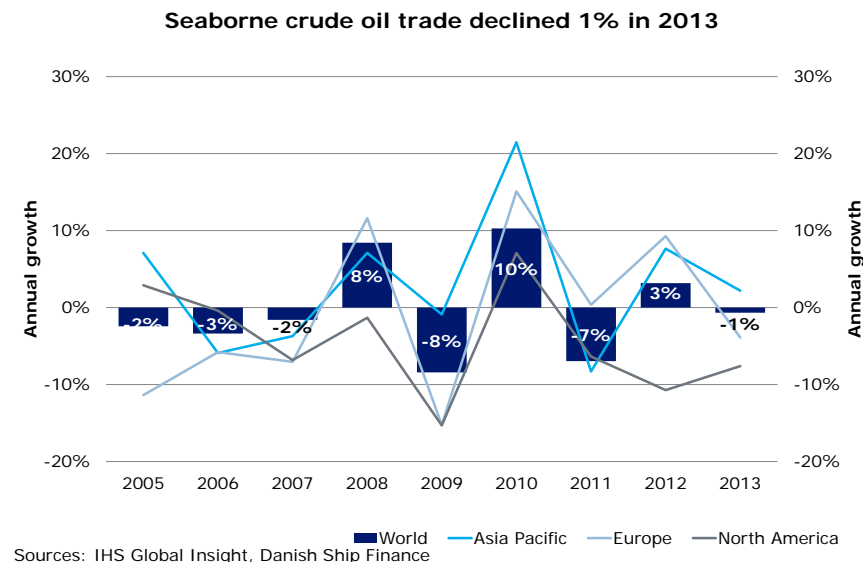
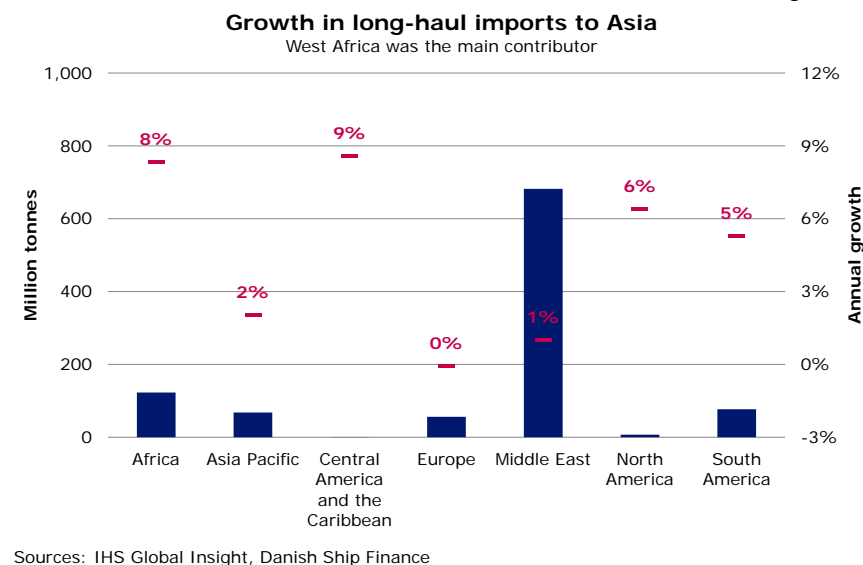


Figure T.7

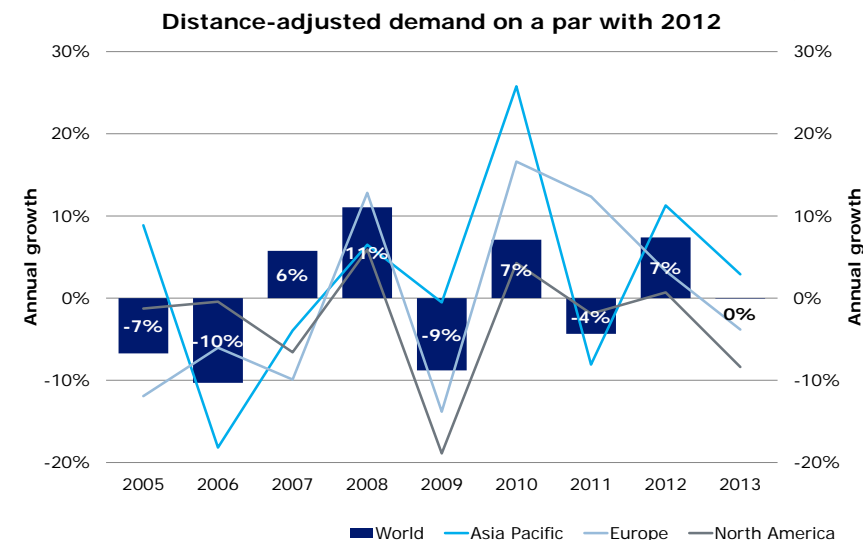


Asia Pacific increased its crude oil imports by 22 million tonnes, primarily from Africa, the Middle East and South America (fig. 7). The bulk of this was driven by China, which continues to expand its refinery capacity and crude oil inventories.

DISTANCE-ADJUSTED DEMAND REMAINED AT 2012 LEVEL

Overall, the market showed negative growth in seaborne crude oil trade in 2013, particularly in the first half of the year. Distance-adjusted demand remained on a par with 2012 due to more long-haul imports from both China and the US (fig. 8). This was on the back of 2% fleet growth, which was skewed towards the beginning of the year. Consequently, market fundamentals improved during the second half of 2013 and resulted in a temporary spike in spot rates. However, the crude tanker market remains oversupplied.

Figure T.8



Sources: IHS Global Insight, Danish Ship Finance

AFTER RELATIVELY LOW ORDERING ACTIVITY OVER THE YEAR, CONTRACTING SUDDENLY PEAKED IN DECEMBER. 9 MILLION DWT WAS ORDERED IN THAT MONTH ALONE, PUSHING BOTH NEWBUILDING AND SECONDHAND PRICES UPWARDS.

VLCC CONTINUES TO BE THE PREFERRED VESSEL TYPE

Ordering has been sparse over the past two years with less than 10 million dwt contracted annually. However, the spike in spot rates during the last two months of 2013 whetted investors' appetite for crude tankers. A total of 17 million dwt was contracted in 2013, of which 9 million dwt was ordered in December. Going into 2014, the high level of ordering has continued and more than 6 million dwt was contracted in the first quarter – approximately twice as much as in the same period in 2013 (fig. 9).

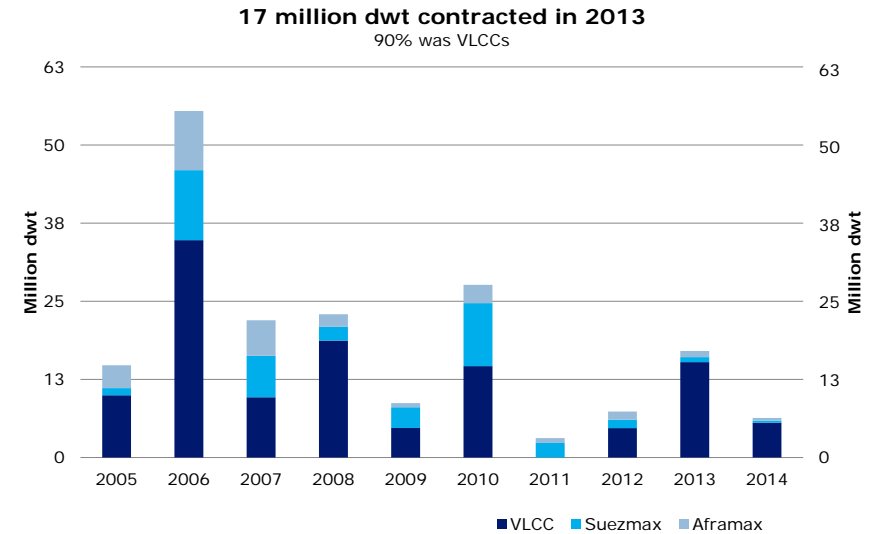
NEWBUILDING PRICES HIT ALL-TIME LOW IN 2013

At the beginning of 2013, newbuilding prices continued their decline and reached an all-time low by May (fig. 10). The price of a newbuild VLCC dropped as low as USD 89.5 million, down 7% compared with the same period in 2012. Thereafter, the price of an Aframax newbuilding slowly began to climb, followed by Suezmaxes and by September also VLCCs. However, the surge in asset prices really took off in November as a result of the increased ordering activity driven by the soaring spot rates. From the lows of 2013 to the current price level in April 2014, newbuilding prices have increased by USD 8-10 million or approximately 15% across all segments.

SECONDHAND PRICES DROPPED 10% IN 2013

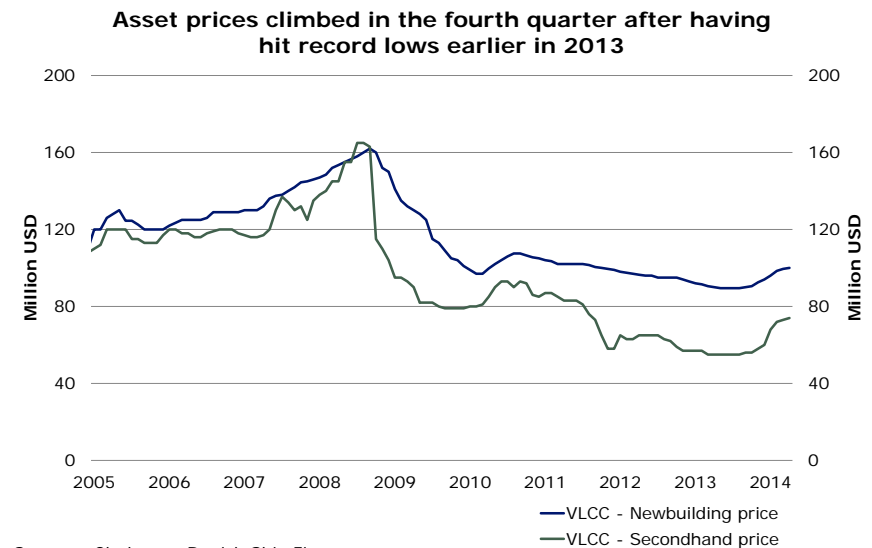
Secondhand prices followed a similar trend but faced a steeper descent during the first part of 2013, with prices on average falling more than 10% across all segments. By November, they started to recover, and during the first quarter of 2014, the increase was even sharper (fig. 10).

Figure T.9



Sources: Clarksons, Danish Ship Finance

Figure T.10



Sources: Clarksons, Danish Ship Finance

OUTLOOK

THE CRUDE TANKER MARKET CONTINUES TO SUFFER FROM MASSIVE OVERSUPPLY, AND DESPITE EXPECTATIONS OF FAIRLY POSITIVE DEMAND, ORDERING ACTIVITY IN 2013 HAS DAMPENED THE MARKET OUTLOOK.

MASSIVE RISE IN CONTRACTING IS OF INCREASING CONCERN

At the beginning of 2013, the orderbook seemed manageable and fleet growth was expected to fall in the coming years. However, the unexpected boom in contracting at the end of 2013 naturally caused the orderbook to increase, currently constituting 12% of the fleet (fig. 11). With the current market suffering from the massive oversupply, an orderbook/fleet ratio of 12% raises doubts about a recovery in the near future. Moreover, slow steaming has been used extensively to minimize overcapacity, but additional speed reductions seem unlikely at this point. However, if the market improves, vessels may once again resume to design speed.

FLEET GROWTH TO BE LIMITED BY SCRAPPING

To offset the increasing amount of deliveries, scrapping has to play a larger part in the equation. The age distribution of the fleet limits the obvious scrapping potential, but the low freight rates could encourage owners to scrap more vessels prematurely. If vessels, on average, are scrapped at the age of 20 years, net fleet growth could potentially average 1.5% over the coming three years (fig. 12). Postponements and cancellations have the potential to drag fleet growth down even further. Hence, if vessels contracted prior to 2010 are either postponed or cancelled, this would bring fleet growth down to a level just above 2% in 2014.

GROWTH IN SEABORNE OIL TRADE EXPECTED AROUND 2-3%

To counterbalance fleet growth and remove some of the current oversupply in the crude tanker segment, demand has to grow significantly. Under the current circumstances, seaborne crude oil trade is expected to increase by about 2-3% over the coming years, up from -1% in 2013 (fig. 13). This development is expected to be driven primarily by Asia, China in particular, as it is expanding its refinery capacity and its strategic petroleum re-

Figure T.11

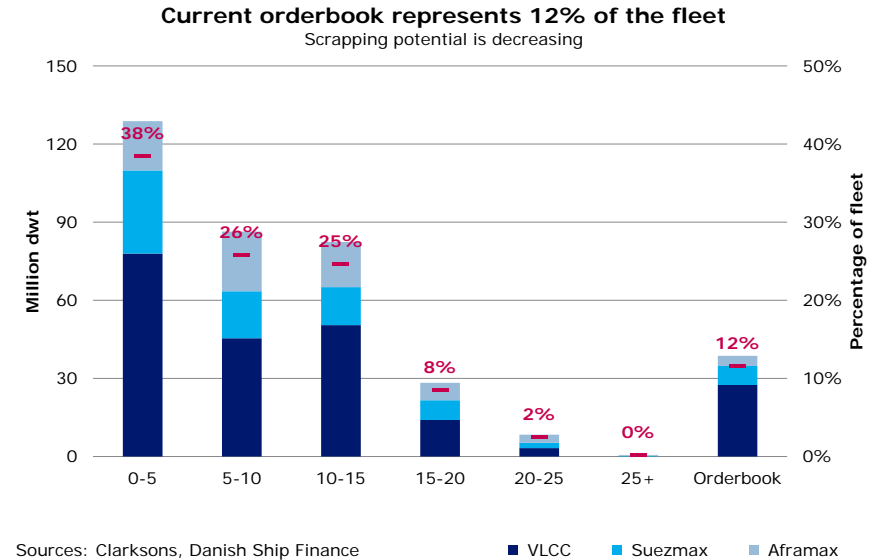
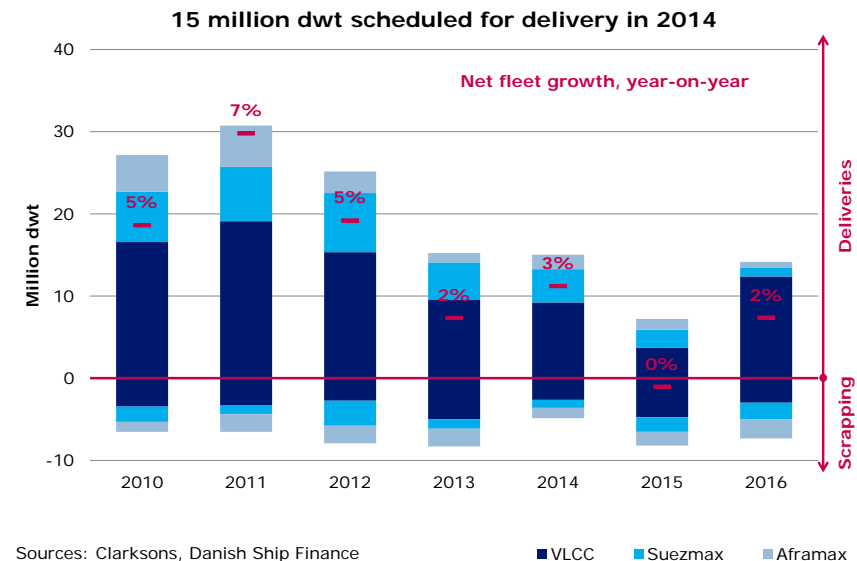


Figure T.12



serves significantly.

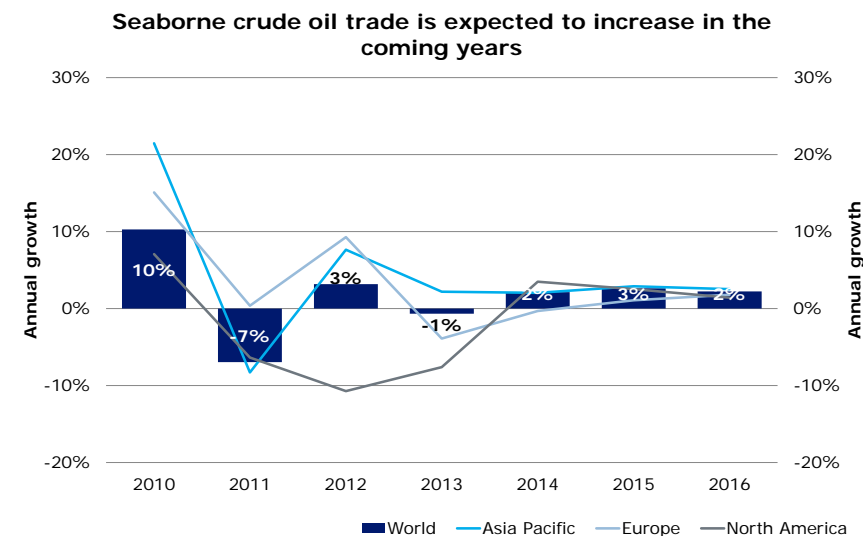
MORE LONG-HAUL CRUDE OIL TRADE FROM WEST TO EAST

China, along with several other Asian countries, is currently experiencing a rise in crude oil imports as a consequence of new refinery capacity coming online. The majority of its crude oil imports stem from the Middle East. Consequently, the development of Middle Eastern refineries will have an effect on trade patterns. At present, the Middle East acts as a major export hub for crude oil. However, over the coming years, its refinery capacity will expand by 2.5 million barrels per day and its crude oil exports will decline as a result. Part of this will have to be replaced by Atlantic Basin crude oil, particularly from West Africa and to some extent also from South America. This will result in more long-haul crude oil trade and thus will contribute positively to distance-adjusted demand growth.

THE JOKER IS NORTH AMERICA

Another way to support rising Asian crude oil demand is for North America to increase its crude oil exports. However, the US has banned all crude oil exports and Canada is suffering from infrastructure constraints. Canada is therefore currently considering developing the Enbridge pipeline. This would enable it to transport crude oil from Alberta, mid-Canada, to the west coast, where it could be shipped to Asia. If the project is approved and construction begins in 2014, the pipeline is expected to be completed in 2018 and thereafter reduce travel distances for Asian imports. The US, on the other hand, is already able to push out relatively large amounts of crude oil, and a lifting of the current ban on exports would have an immediate effect on the crude tanker market. In 2013, there was extensive debate on the subject, as US crude oil producers were selling their crude oil at a discount. Should the US decide to lift its ban, this would have a positive effect on distance-adjusted demand, as it is expected that much would be sold to Asia. However, the US seems to value its energy independence, and thus an outright removal of the ban is highly unlikely, but some waivers may be added over the coming years.

Figure T.13



DISTANCES MAY PROVIDE SOME SUPPORT TO THE MARKET

All in all, longer distances may provide some support to the market in the coming years. However, in 2014 fleet growth is still expected to be on the high side of tonnage-demand. Consequently, the market will remain under pressure in 2014 as a result of overcapacity, whereas 2015 may see some improvements.

PRODUCT TANKER

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

PRODUCT TANKER

IN 2013 THE PRODUCT TANKER MARKET IMPROVED AS THE COMBINATION OF LOW FLEET GROWTH AND NEW, HIGHLY COMPETITIVE EXPORT HUBS BOOSTED MARKET FUNDAMENTALS. HOWEVER, MASSIVE ORDERING ACTIVITY AND POTENTIALLY SHORTER DISTANCES REDUCE THE CHANCES OF A MARKET RECOVERY.

FREIGHT RATES

THE SPOT MARKET PICKED UP IN 2013 AS A RESULT OF FAVOURABLE MARKET CONDITIONS, AND SPOT RATES REACHED A LEVEL NOT SEEN SINCE 2008. TIMECHARTER RATES, HOWEVER, WERE A LITTLE SLOWER TO ADAPT BUT STARTED TO INCREASE IN THE SECOND HALF OF THE YEAR.

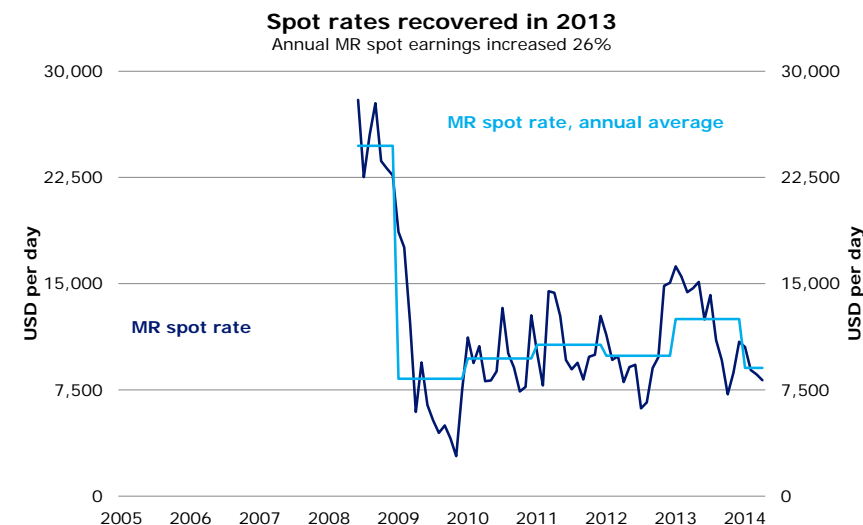
MR SPOT RATES UP 26% IN 2013

The product tanker market improved in 2013 after a 2012 with tough conditions and low freight rates. MR spot earnings increased by around 26% over the year and reached a level not seen since the heyday of 2008 (fig. 1). The strong start to the year was largely a result of Hurricane Sandy hitting the US East Coast in late 2012 and the very cold and long winter that followed in the northern hemisphere. Thereafter, the market was primarily supported by increasing US exports of petroleum products, which once again hit a record high of close to 4 million barrels per day. The market turned in September and spot rates plummeted due to a mild US hurricane season and low European demand for heating oil. During the last few months of the year, spot rates regained some strength, but continued to be subdued by the mild winter. This was further exacerbated by the large number of newbuildings hitting the water at a rapid pace.

TIMECHARTER RATES TRENDING SLIGHTLY UPWARDS

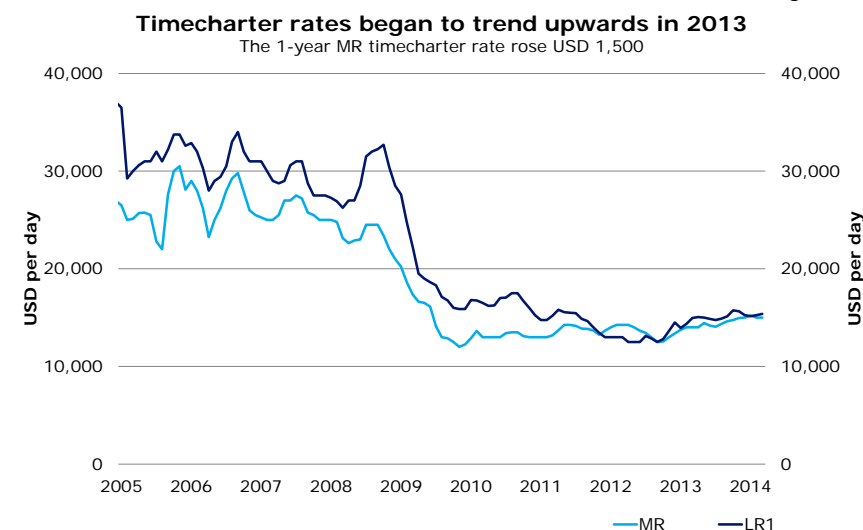
The improved market sentiment was also felt in the timecharter market, where rates slowly but steadily began to trend upwards. In particular, the 1-year timecharter rates for LR1s and MRs increased by 9% and 11%, respectively, both ending the year just above USD 15,000 per day (fig. 2). LR2 rates, however, experienced a slight decline.

Figure P.1



Sources: Clarksons, Danish Ship Finance

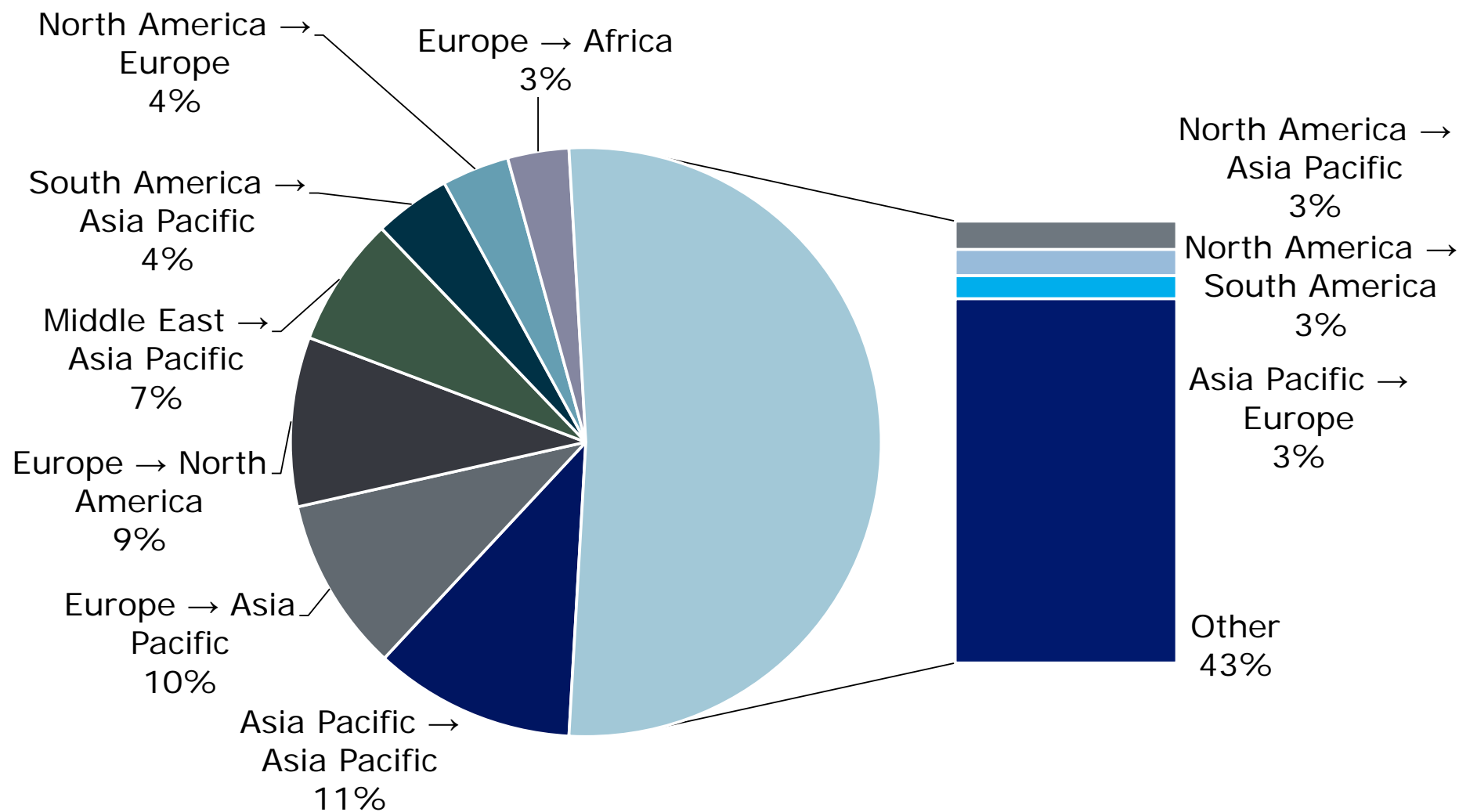
Figure P.2



Sources: Clarksons, Danish Ship Finance

Major product tanker trades

(Measured in billion tonne-miles, 2013)



Source: IHS Global Insight, Danish Ship Finance

IN 2013, SUPPLY GROWTH EXCEEDED DISTANCE-ADJUSTED DEMAND, BUT OVERALL THE MARKET SHOWED SIGNS OF IMPROVEMENT. HENCE, THE PRODUCT TANKER MARKET SEEMS IN BETTER SHAPE THAN EXPECTED.

There continues to be an oversupply of tonnage in the product tanker market, holding back timecharter rates. There was little to rectify this imbalance in 2013, as fleet growth once again exceeded distance-adjusted demand. Nonetheless, rates began to improve as a result of lower fleet productivity. This was due to a shift in underlying factors spurring more ballast time, longer waiting time and vessel substitution. In general, additional ballast time may occur as a consequence of the development of more export hubs, since only vessels in ballast arrive at these terminals. Hence, this could reduce the implications of oversupply. Moreover, many of the vessels operating in the product tanker market are able to switch to crude and some chemical trades if market conditions become too unfavourable, thus helping to balance the market.

THE PRODUCT TANKER FLEET GREW BY 2% IN 2013

In 2013 the product tanker fleet expanded by around 2%, one of the lowest growth rates seen in the past ten years (fig. 4). As of April 2014, the fleet amounted to 116 million dwt.

HISTORICALLY LOW DELIVERIES

Total deliveries in 2013 were at their lowest level since 2002, only amounting to a little more than 5 million dwt — two-thirds being MRs. Even though the MR segment had the most deliveries, it also had a large number of non-deliveries. In total, only 47% of all MR orders scheduled for 2013 were actually delivered, while 25% were postponed for later delivery and another 28% were cancelled (fig. 5). It appears that a number of orders contracted before 2009 continue to be deferred to a later point in time.

SCRAPPING INCENTIVE WAS LOW IN 2013

The improved spot market during the first part of 2013 reduced owners' incentive to scrap. In 2013, a little more than 2.1 mil-

Figure P.4

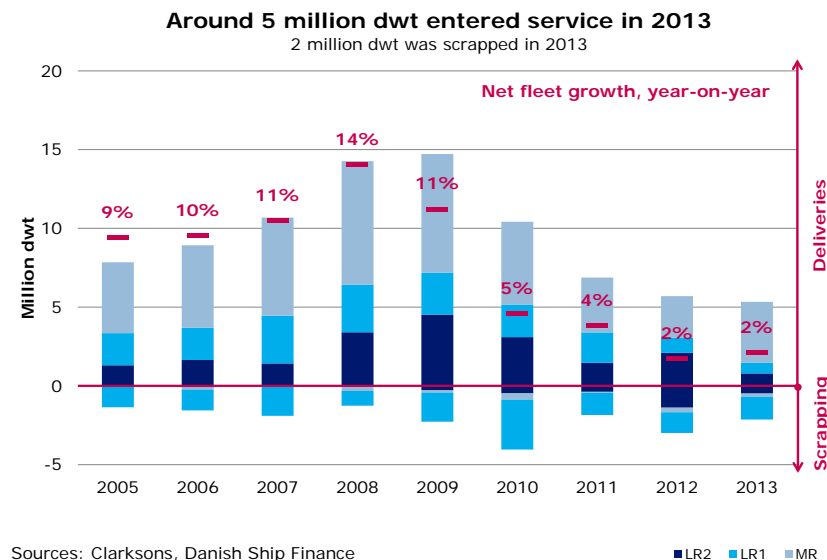
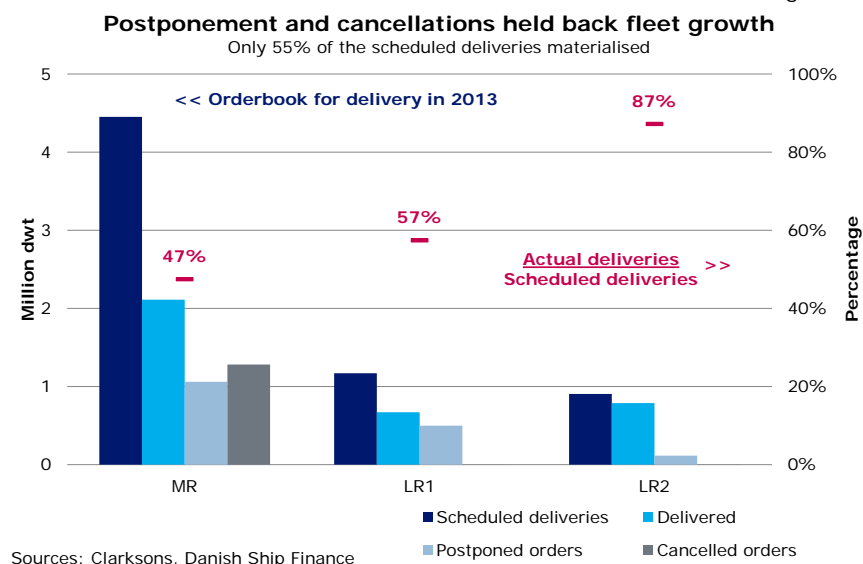


Figure P.5



lion dwt was scrapped, equivalent to 1.5% of the fleet. The majority was scrapped in the second half of the year. Compared with previous years, scrapping was close to 1 million dwt lower than in 2012, but only slightly lower than the ten-year historical average of 2.2 million dwt.

SEABORNE PRODUCT TRADE GREW 1% IN 2013

Seaborne trade with petroleum products grew 1% in 2013. Measured in volumes, the total trade increased by approximately 7 million tonnes, equivalent to 150,000 barrels per day. This small increase was in line with 2012, but much lower than the growth seen in 2011, when seaborne petroleum products trade grew by 47 million tonnes or 6% (fig. 6).

SOUTH AMERICA WAS THE MAIN CONTRIBUTOR TO SEABORNE GROWTH

In previous years Asia Pacific has been the main driver of growth in seaborne product tanker trade, but in 2013, the region was surpassed by South America and Africa. Both regions saw import increases of around 3 million tonnes, equivalent to 60,000 barrels per day. On average, South America received over half of its imports from North America and the share is increasing. As a consequence, distances on imported volumes were shorter and thus the growth rate in tonne-miles was less than the growth rate in volumes. However, as volumes were minimal on the back-haul leg from South America to North America, the trade added ballast days and reduced fleet productivity. Nevertheless, the trade has become increasingly important for the MRs, as parcel size, port size and distances match the characteristics of this trade.

US EXPORTS OF PETROLEUM PRODUCTS HIT ANOTHER RECORD HIGH

US exports reached new heights in 2013 after continuous growth throughout the year. That resulted in annual growth of 10% with exports of petroleum products exceeding 4 million barrels per day at year-end (fig. 7). Conversely, US imports decreased slightly compared with 2012. In previous years, it has been the norm for vessels to ballast to Europe in search of US-bound cargoes. However, as a result of the US's growing importance as an exporter, this tendency has been reversed and more vessels are now ballasting to the US Gulf to find cargoes.

Figure P.6

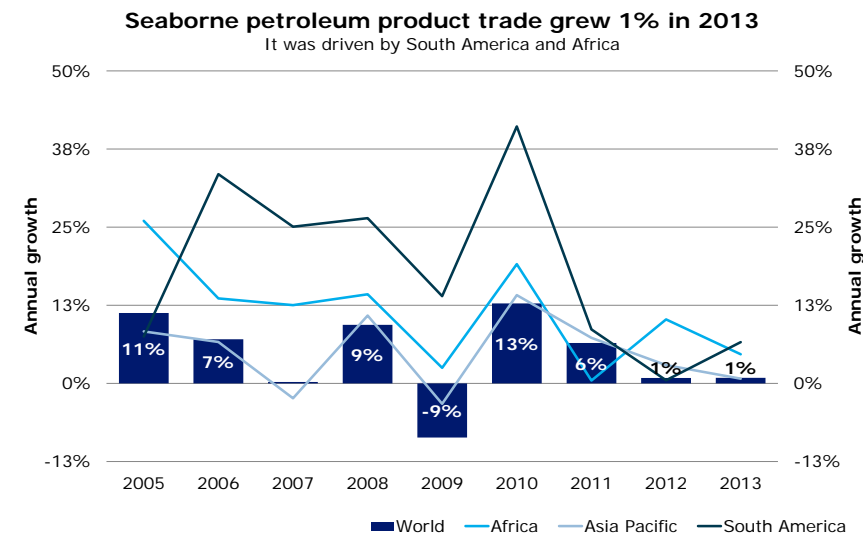
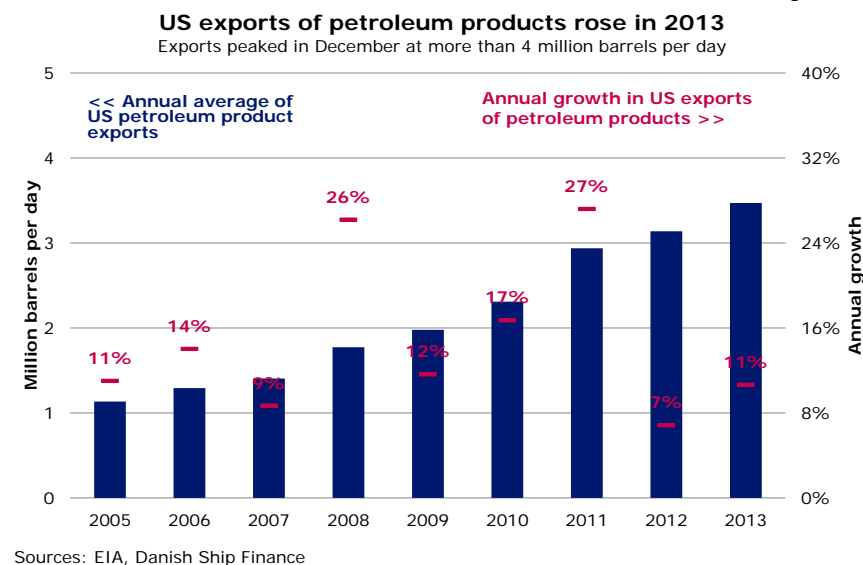


Figure P.7



AFRICAN IMPORTS ROSE 5% IN 2013

Africa has more than doubled its imports of petroleum products since 2005, and now represents more than 8% of total world imports, equivalent to 65 million tonnes. In 2013, African imports of petroleum products grew by 5%, or just below 3 million tonnes. The region took advantage of the increasing exports of petroleum products from North America, and although North America only represents 5% of African imports, it is the fastest-growing African trade (fig. 8). It can be argued that the geopolitical situation in Africa hampered import growth, as the growth rate in 2013 was only half that of 2012. Thus, there is potential for further growth in the coming years.

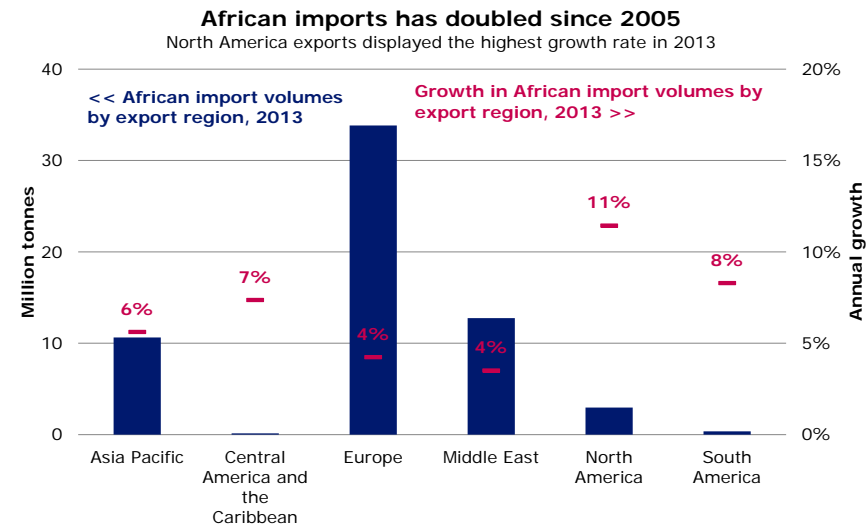
AVERAGE TRADING DISTANCES ROSE SLIGHTLY IN 2013

Distance-adjusted demand for petroleum products increased slightly more than seaborne trade in 2013, indicating a rise in average distances for seaborne petroleum products (fig. 9). Growth in distance-adjusted demand was primarily driven by Asia Pacific, led by North American naphtha exports. Besides this, intra-regional trade supported the region's increasing consumption. Indonesia, for example, became the world's largest importer of gasoline in 2013. Its gasoline deficit is primarily met by importing surpluses from neighbouring countries. However, as all parties have growing domestic demand, Indonesia will have to look further afield to satisfy its demand in the future. This may present an opportunity for the European gasoline surplus, as it needs to find new customers due to the US becoming increasingly self-sufficient. Despite refinery shutdowns and lower utilisation rates, Europe will continue to produce a surplus of gasoline seeing that domestic demand is stagnating and its refineries are configured to produce a high quantity of gasoline. Should Indonesia import the surplus from Europe, it would increase distances and thereby support distance-adjusted demand growth.

THE PRODUCT TANKER MARKET IS GETTING CLOSER TO A BALANCE

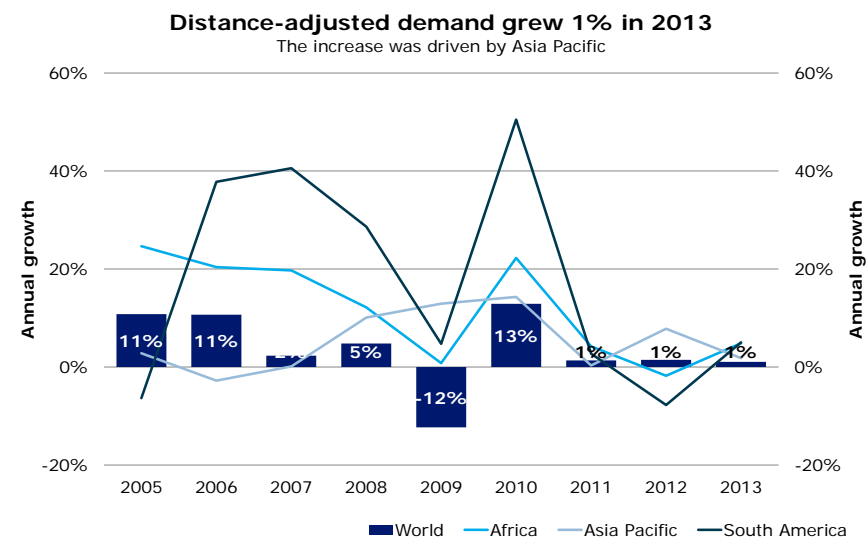
Overall, fleet growth slightly exceeded distance-adjusted demand growth in 2013. However, as tonnage demand was supported by changes in underlying factors, the cargo-carrying capacity diminished, resulting in an overall market improvement.

Figure P.8



Sources: IHS Global Insight, Danish Ship Finance

Figure P.9



Sources: IHS Global Insight, Danish Ship Finance

ORDERING ACTIVITY IN 2013 INCREASED SIGNIFICANTLY TO A LEVEL NOT SEEN SINCE 2006. THIS LED TO INCREASING ASSET PRICES, PARTICULARLY SECONDHAND PRICES, IN THE SECOND HALF OF 2013.

THE ORDERING BOOM CONTINUES

Ordering activity in 2013 went through the roof, only exceeded by 2006, a time when the market was highly expansionary. In total, close to 14 million dwt was ordered, which was more than in the past five years combined (fig. 10). The primary reason for the high ordering activity was historically low newbuilding prices and optimistic market expectations. Going into 2014, ordering activity has come down a notch, with less than 1.5 million dwt contracted in the first quarter, compared with more than 3 million dwt in the same period in 2013. In 2013, contracting was almost evenly split between MRs and LR2s, while no LR1s were ordered. However, in 2014 owners have turned towards LR1s and more than 1 million dwt has already been contracted, while contracting in the MR and LR2 segments has been minimal.

NEWBUILDING PRICES INCREASED SLIGHTLY IN 2013

Asset prices increased as a consequence of the contracting boom, and in 2013, newbuilding prices gained around 8-9% in most product tanker segments (fig. 11). The increase was mostly reflected in MRs. While an increase in asset prices often puts a lid on buying activity, it can also have the opposite effect as ship owners begin to fear missing out on the trough.

SECONDHAND PRICES ROSE MORE THAN 15% IN 2013

Secondhand prices also rose in 2013, by more than 15% (fig. 11). However, this was from a very low level after unexpectedly dropping by 20% in 2012. Subsequently, ship owners saw an investment opportunity for secondhand vessels, which resulted in significant price increases not yet justified by higher earnings.

Figure P.10

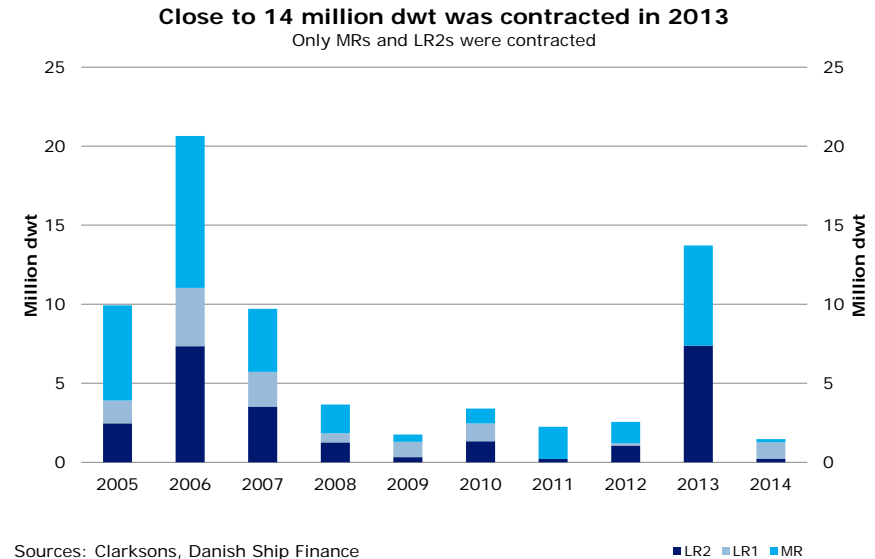
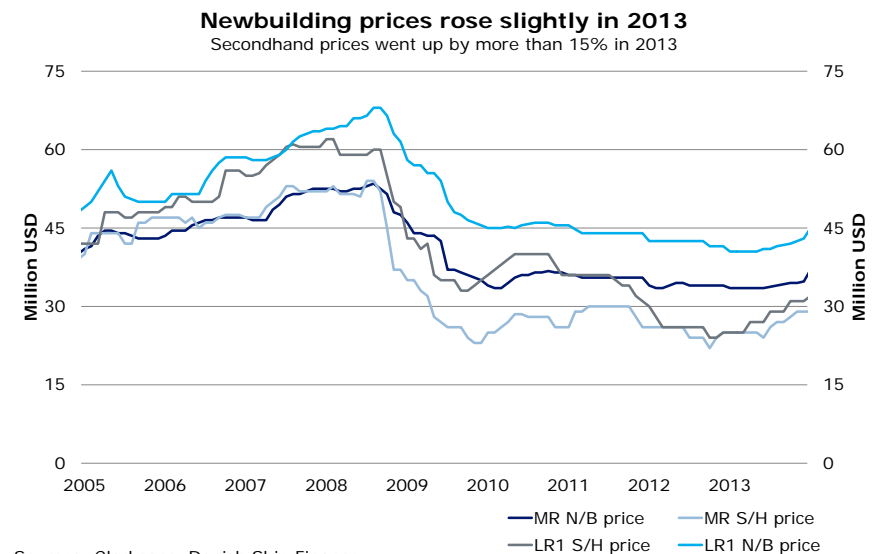


Figure P.11



THE MARKET BALANCE REMAINS EXTREMELY FRAGILE, BUT THE GROWTH IN DISTANCE-ADJUSTED DEMAND SEEMS CAPABLE OF ABSORBING THE FLEET GROWTH IF OLDER AND INEFFICIENT VESSELS ARE SCRAPPED

THE 2013 ORDERING SPREE MADE A CLEAR MARK ON THE ORDERBOOK

During 2013, spot rates were high compared with previous years, which led to a massive ordering spree of close to 14 million dwt. At the beginning of 2014, the entire orderbook contained around 19 million dwt or 17% of the fleet (fig. 12). A little more than 6 million dwt is scheduled for delivery in 2014, resulting in estimated gross fleet growth of 5%. The majority of the orderbook, 7 million dwt, is scheduled to be delivered in 2015 and another 5 million dwt in 2016.

SCRAPPING WILL BE OF IMMENSE IMPORTANCE

For the market to remain in balance scrapping will be of utmost importance; yet the age distribution of the fleet limits the number of obvious scrapping candidates (fig. 12). However, premature scrapping may occur as a consequence of the market's growing focus on fuel efficiency and more demanding vessel requirements from oil majors. Consequently, owners may choose to scrap vessels prior to their fourth special survey at the age of 20, or in some cases even prior to their third special survey. This could result in scrapping of 9 million dwt over the next three years and fleet growth of 3-4% in 2014. Postponements and cancellations may also help bring down fleet growth. Roughly 1 million dwt of the orderbook was contracted prior to 2010 and if these orders continue to be postponed, fleet growth could drop from the estimated 5% in 2014 to below 3% (fig. 13).

DISTANCE-ADJUSTED DEMAND EXPECTED TO BE AROUND 2-3%

Over the next couple of years, distance-adjusted demand is expected to grow roughly 2.5%, compared with 1% over the past three years (fig. 14). As in previous years, the main driver is expected to be Asia Pacific imports with a growth rate of around 2%.

Figure P.12

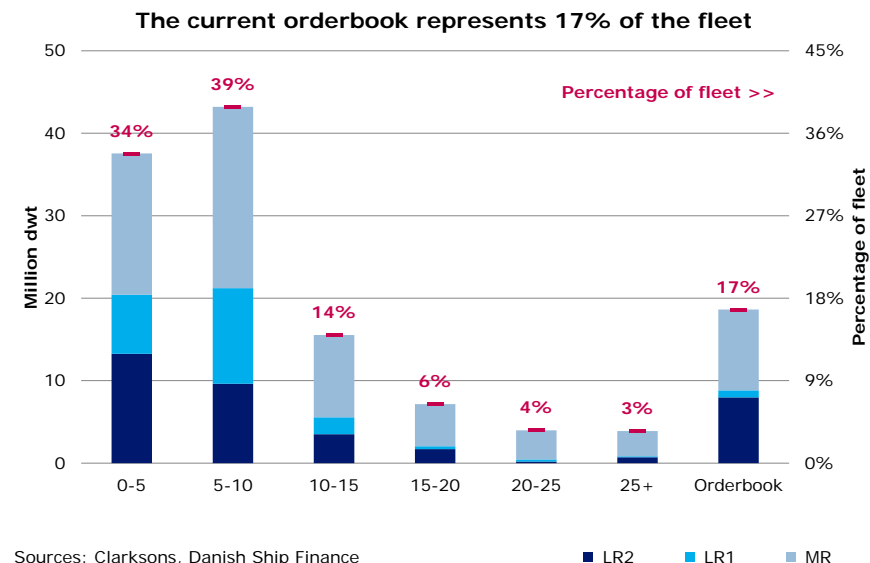
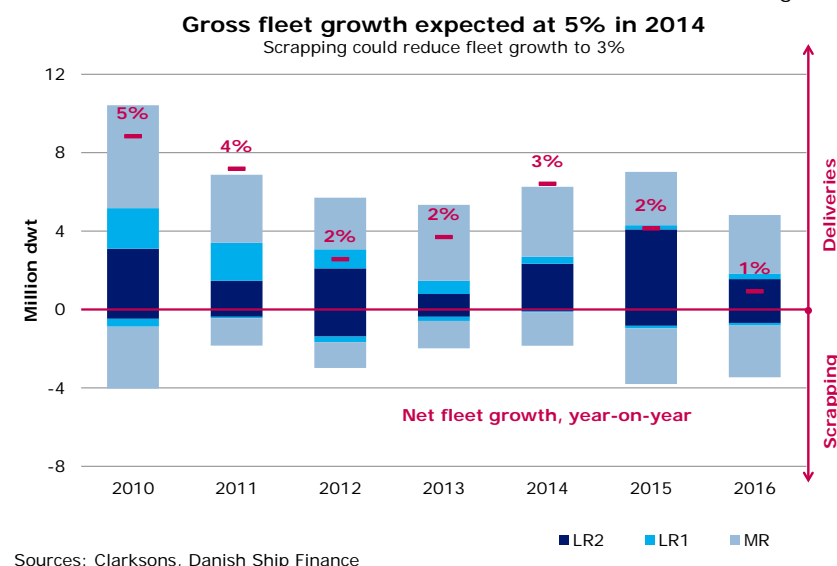


Figure P.13



INTRA-REGIONAL TRADE DOMINATES GROWTH IN ASIA PACIFIC

The increase in demand for petroleum products in Asia Pacific will primarily be sourced by intra-regional trade as refinery capacity in the region continues to expand. This is especially the case in China, where excess production is becoming available for export as domestic demand for petroleum products cannot keep up with domestic refinery capacity expansions. While China is currently experiencing an increasing surplus of petroleum products, Australia and Japan are facing a rising deficit, as they are shutting down refineries due to unprofitable production. Consequently, they have to increase imports of petroleum products in order to sustain domestic consumption.

MIDDLE EAST A NEW EXPORT HUB

Demand for petroleum products in Asia Pacific will also be supported by Middle Eastern exports, especially as the region's new refinery capacity becomes fully operational over the coming period from 2014 to 2017 (fig. 15). This will provide an extra 2.5 million barrels per day of refinery capacity to the world market. The majority of the new capacity is being built in Saudi Arabia and the United Arab Emirates. According to the Nelson complexity index, all new Middle Eastern refineries are highly complex and thus expected to comply with future world fuel standards. The Nelson complexity index measures the secondary conversion capacity of a petroleum refinery relative to the primary distillation capacity. An example of secondary conversion capacity could be a catalytic hydrocracker or a coking unit, where the refinery's complexity is reflected by the units ability to produce high-quality petroleum products. The Middle East itself has few quality requirements for domestically consumed petroleum products, and while Saudi Arabia accepts a diesel with a maximum sulphur content of 2,000 parts per million (ppm), Europe only accepts a maximum of 10 ppm. Subsequently, the Middle East could increase profits by exporting the bulk of its high-quality production to western countries while importing poorer-quality petroleum products at a lower price. If this trade occurs, product tanker demand could increase as a consequence of rising Middle Eastern exports and imports. The result would be a higher level of seaborne trade than is currently expected. More-

Figure P.14

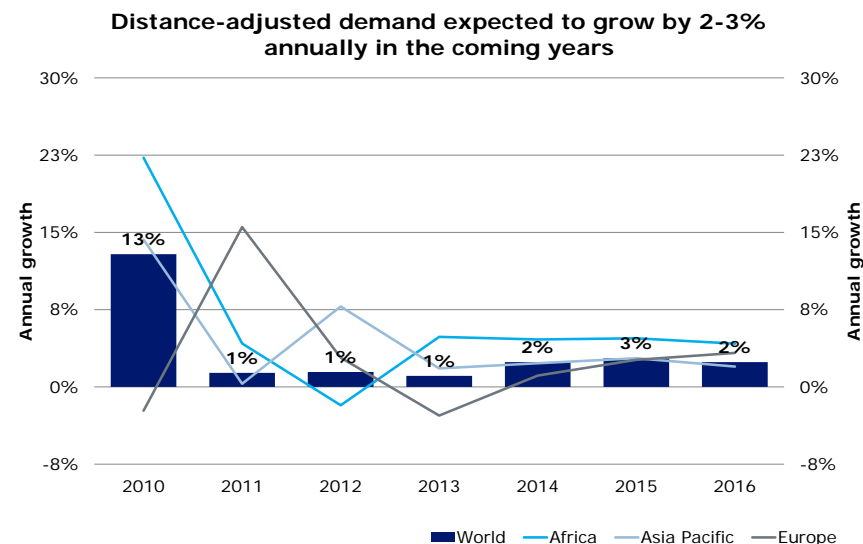
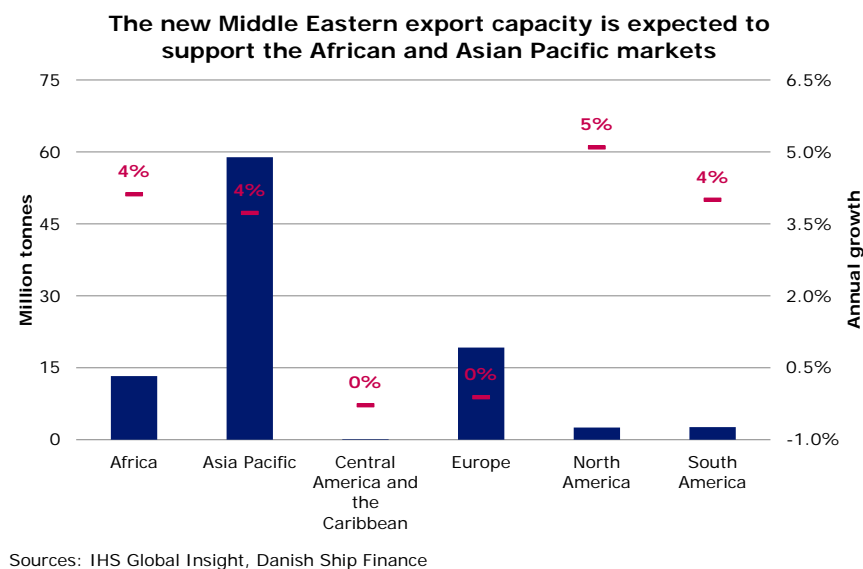


Figure P.15



over, the current forecast does not include any significant increase in Middle Eastern exports to Europe. However, if Europe begins shutting down more refineries or curbing utilisation rates even further, as a consequence of the low refinery margins, significant Middle Eastern exports to Europe may materialise. This would have a major effect on distance-adjusted demand, as it is a long-haul trade.

FREIGHT RATES REMAIN UNDER PRESSURE

In 2014, freight rates are expected to remain under pressure, as fleet growth is anticipated to exceed demand growth. However, if orders placed prior to 2010 continue to be postponed and if scrapping increases, fleet growth could drop to a level on a par with demand. This could balance the market and help to maintain the freight rate levels of 2013.

LPG TANKER

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

LPG TANKERS

THE LPG MARKET IS IN BALANCE AND FREIGHT RATES ARE AT RECORD HIGHS. THIS IS EXPECTED TO CONTINUE IN 2014. HOWEVER, A MASSIVE INFLOW OF VESSELS IS SCHEDULED FOR DELIVERY IN 2015, POSING A THREAT TO THE MARKET EQUILIBRIUM. INCREASED ACTIVITY ON THE LONG-HAUL ATLANTIC-PACIFIC ROUTE COULD MITIGATE THE SITUATION, THOUGH.

FREIGHT RATES

SPOT RATE VOLATILITY INTENSIFIED DURING 2013, BUT THE ANNUAL AVERAGE REACHED A RECORD-HIGH LEVEL. TIMECHARTER RATES ALSO EXPERIENCED AN UNUSUALLY LARGE DEGREE OF VOLATILITY, BUT ENDED THE YEAR ON A HIGH NOTE, ON A PAR WITH DECEMBER 2012.

HIGHLY VOLATILE RATES CHARACTERISED 2013

In January 2013, spot rates plummeted to USD 39 per tonne. This was a level not seen since October 2010, a time when rates were climbing after having reached an all-time low in 2009. However, by April 2013, spot rates had soared by as much as USD 20 per tonne before reaching a new record-high level in August of more than USD 76 per tonne (fig. 1). Much of the volatility in the market during 2013 was caused by seasonal events such as refinery maintenance curbing LPG production.

TIMECHARTER RATES GAINED MOMENTUM

In 2013, the 1-year timecharter rate for VLGCs experienced a high degree of volatility (fig. 2). This was a reaction to a drop in market sentiment during January and February. The 1-year timecharter rate for VLGCs declined to less than USD 770,000 per month in February before ascending to more than USD 1 million per month in June. Thereafter, it levelled off at a rate between USD 1 million and USD 1.1 million per month. In the MGC segment, the 1-year timecharter rate declined as well, though less dramatically. In September, MGCs' 1-year timecharter rate began to increase and consequently ended the year on a par with December 2012. So far in 2014, rates have continued their climb, particularly for VLGCs, for which rates increased by more than 10% during the first three months.

Figure LPG.1

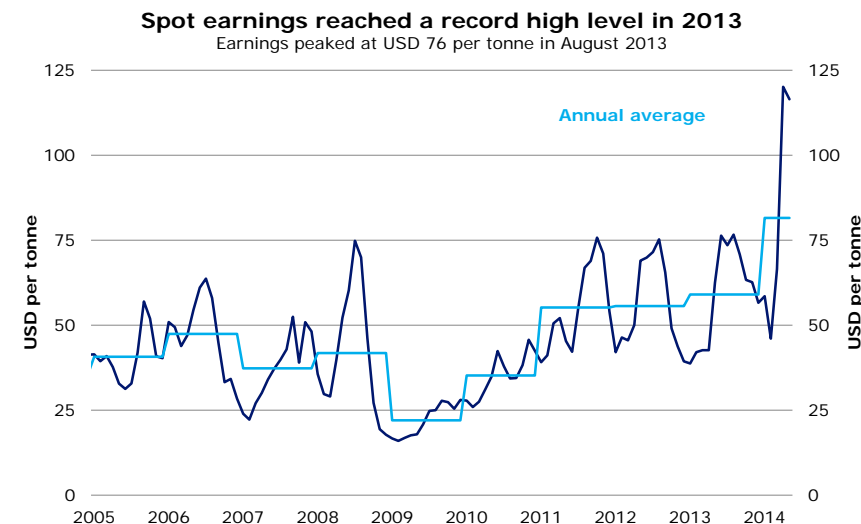
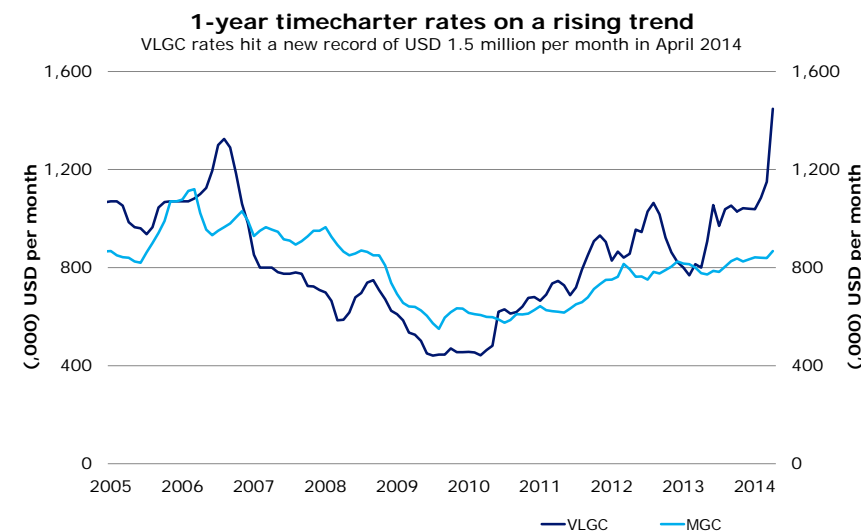
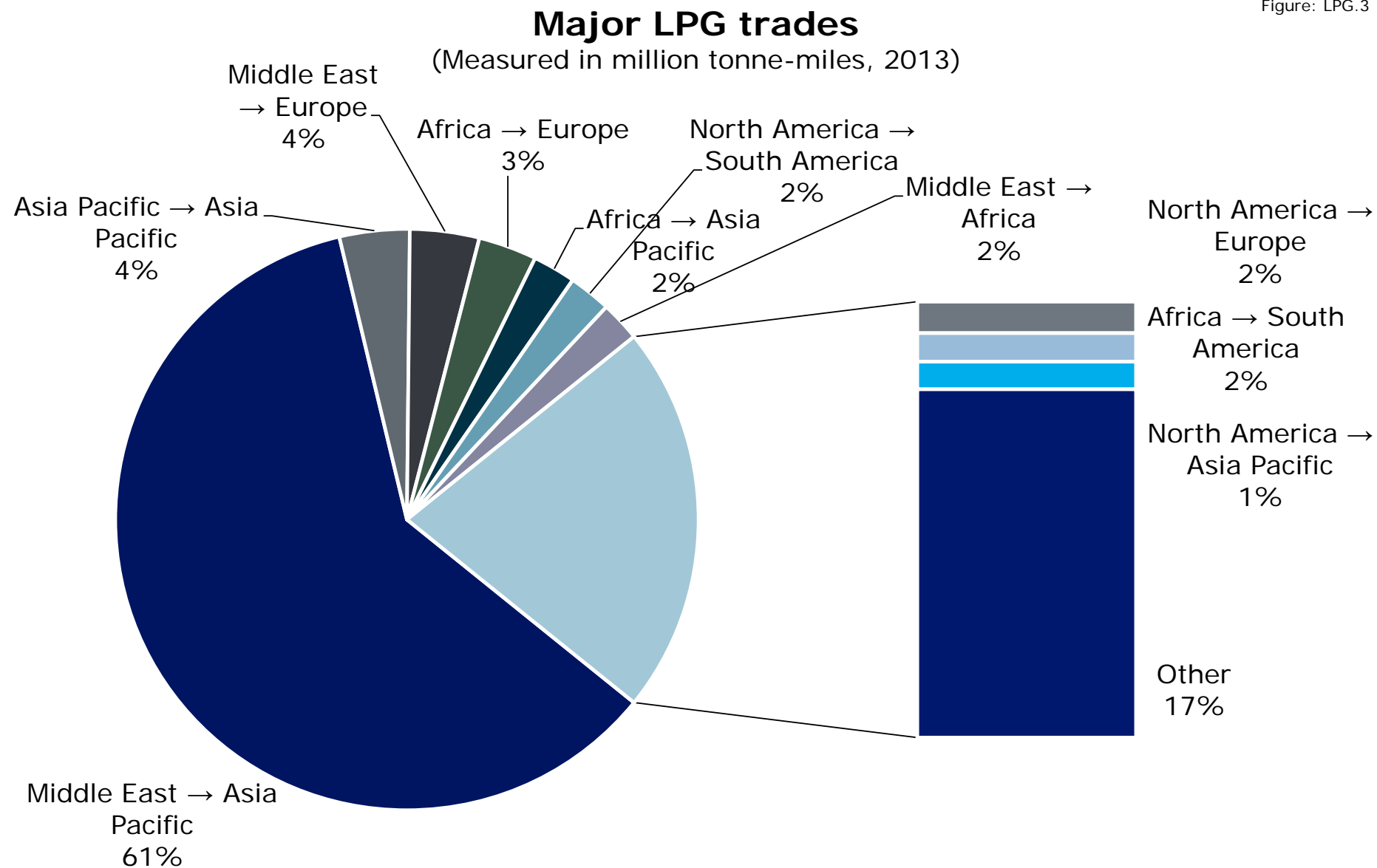


Figure LPG.2





Source: IHS Global Insight, Danish Ship Finance

IN 2013, FLEET GROWTH EXCEEDED DISTANCE-ADJUSTED DEMAND. HOWEVER, AS THE LPG MARKET IS NOT SUFFERING FROM OVERSUPPLY, IT WAS ABLE TO ABSORB THE VESSELS AND STILL DELIVER RECORD-HIGH SPOT RATES.

REMARKABLE RISE IN DELIVERIES COMPARED WITH 2012

Compared with 2012, when the number of new vessels entering the fleet was historically low, deliveries rose significantly in 2013 and totalled just over 1.4 million Cu.M., or around 8% of the fleet (fig. 4). The largest contributor to the LPG fleet growth was VLGCs, where more than 1 million Cu.M. entered the fleet, equivalent to 13 vessels. In each of the MGC and SGC segments, less than 0.2 million Cu.M. was delivered. However, measured by the number of vessels, only six MGCs were delivered, compared with 22 SGCs. The LGC segment has not had any deliveries since 2009, as ship owners' primary focus has been on VLGCs and MGCs.

SCRAPPING CONTINUES TO BE SUBDUED

Despite relatively high scrap prices, the improved market conditions and the age distribution of the fleet (fig. 5) have deterred owners from sending many vessels to the scrap yards. In total, 0.06 million Cu.M. was scrapped in 2013, more or less evenly split between MGCs and SGCs – although the ratio was 1:3 measured by the number of vessels. The scrapping age remained fairly high at 28-30 years, in line with previous years.

SECOND-HIGHEST LEVEL OF FLEET GROWTH IN RECENT YEARS

The large number of deliveries in combination with the very low degree of scrapping resulted in the second-highest level of fleet growth seen in recent years. The LPG fleet grew by 8% in 2013, only exceeded by the fleet growth in 2008.

DISTANCE-ADJUSTED DEMAND INCREASED BY 6% IN 2013

Distance-adjusted demand for seaborne LPG trade continued its stable path from the preceding years with a growth rate of around 6% in 2013 (fig. 6). The LPG market remains centred around Middle Eastern exports and Asian imports, while US LPG exports are rising significantly.

Figure LPG.4

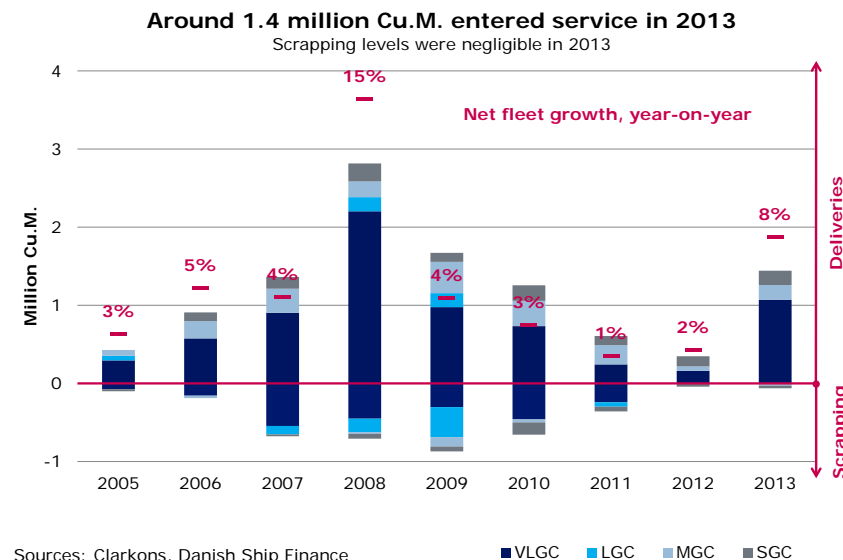
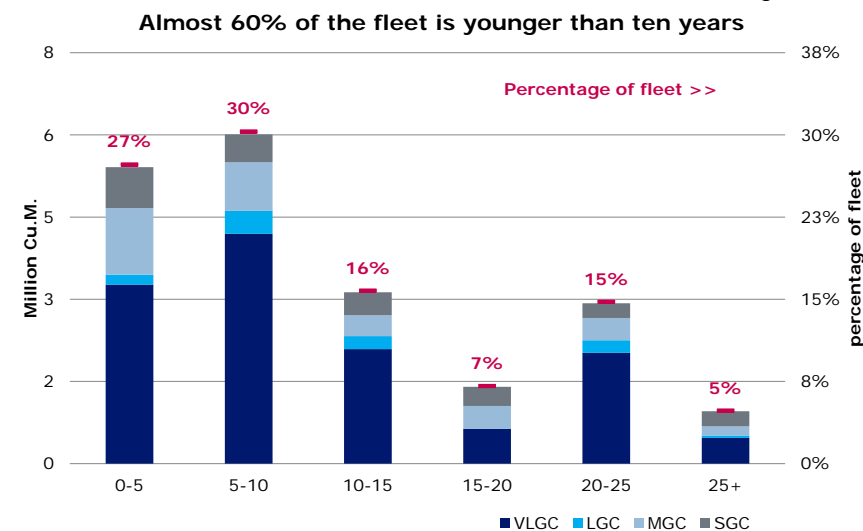


Figure LPG.5



ASIA PACIFIC IS BY FAR THE LARGEST LPG IMPORTER

Asia Pacific is the largest importer of LPG in the world. In 2013, the region imported some 37 million tonnes of LPG, 65% of the world's total seaborne LPG trade. Asia Pacific was also the main contributor to the annual increase in seaborne LPG trade, as roughly 2 million tonnes, out of a total increase of 3 million tonnes, was imported by the region. Close to 90% of Asia's LPG imports are supplied by the Middle East.

THE MIDDLE EAST CONTINUES TO BE THE BIGGEST EXPORTER

Middle Eastern LPG exports have experienced an annual average growth rate of around 6% since 2005. Currently, the Middle East supplies 38 million tonnes of LPG to the market, 66% of the total seaborne LPG trade. Consequently, the LPG market is highly sensitive to changes in Middle Eastern production.

US EXPORT ON THE RISE

North American LPG exports, driven by the US, increased by an average of 25% per annum from 2005 to 2013. For the past two years, the region has been the third-largest LPG exporter in the world, only exceeded by the Middle East and Africa. North American LPG production has risen in tandem with the strong growth in production of shale oil and shale gas as well as increasing refinery utilisation. However, currently US LPG exports are hindered by infrastructural constraints, and thus more export facilities are needed in order for exports to increase significantly. This situation was marginally improved in 2013, as a new LPG export facility helped increase exports (fig. 7).

CURRENTLY NO OVERSUPPLY IN THE LPG MARKET

Unlike most of the shipping markets, the LPG market is not suffering from oversupply. The market was therefore able to absorb the high fleet growth of 2013 even though it exceeded distance-adjusted demand.

Figure LPG.6

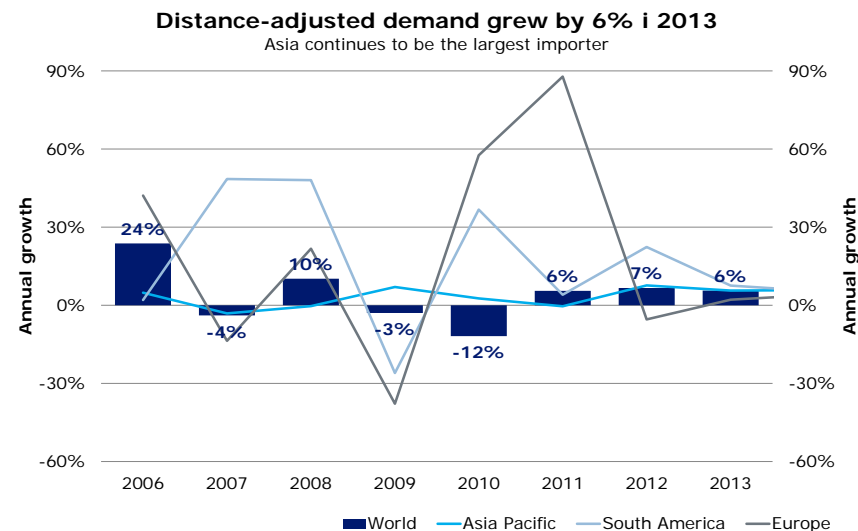


Figure LPG.7



THE LPG MARKET EXPERIENCED RECORD-HIGH CONTRACTING IN 2013, ESPECIALLY IN THE VLGC SEGMENT. THIS WAS A CONTRIBUTING FACTOR TO THE INCREASE IN BOTH NEW-BUILDING AND SECONDHAND PRICES DURING THE LAST THREE QUARTERS OF 2013.

RECORD-HIGH CONTRACTING IN 2013

Contracting has never been higher than in 2013. In total, 4.4 million Cu.M. was ordered, more than in the previous six years combined (fig. 8). The majority of the ordering activity was in the VLGC segment, where 75% of the capacity was ordered. The heavy ordering activity stems from the increasing optimism surrounding US production of LPG and rising Asian consumption. With the expansion of the Panama Canal, all VLGCs will be able to pass through the canal, which increases the probability of US LPG exports to Asia. The high level of ordering activity has continued into 2014, with roughly 2.5 million Cu.M. contracted in the first quarter alone. There is a risk of over-ordering.

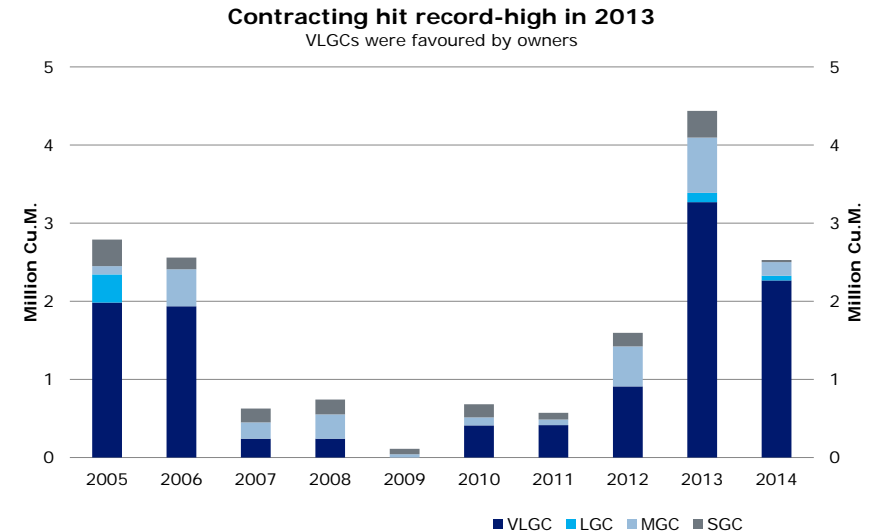
NEWBUILDING PRICES INCREASED DURING 2013

After having dropped slightly in the first quarter of 2013, newbuilding prices began to increase as a result of the massive contracting (fig. 9). Over the year, the VLGC segment saw the biggest increase, 4% on average, while the increase in LGCs and MGCs was more moderate at around 1%.

VLGCs EXPERIENCED HUGE INCREASES IN SECONDHAND PRICES

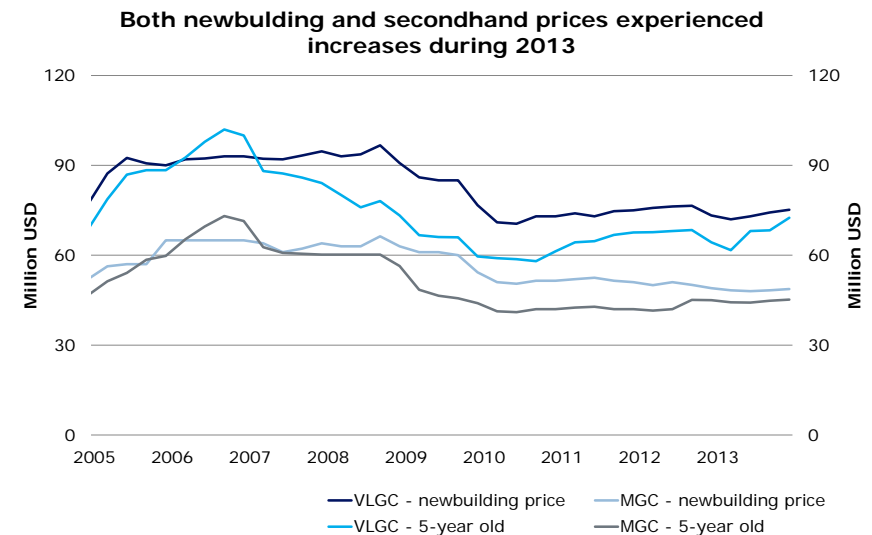
Secondhand prices experienced a small drop in the first quarter of the year, but then began to trend upwards during the rest of 2013 (fig. 9). Secondhand prices for VLGCs rose by as much as 17% from the low in the first quarter to year-end, driven by owners' appetite for vessels. The LGC and MGC segments stayed more stable with an increase of only 2%.

Figure LPG.8



Sources: Clarksons, Danish Ship Finance

Figure LPG.9



Sources: Drewry, Danish Ship Finance

OUTLOOK

THE MARKET IS EXPECTED TO REMAIN STRONG IN 2014. HOWEVER, DOUBLE-DIGIT FLEET GROWTH IN 2015 IS OF INCREASING CONCERN, PARTICULARLY AS THE EXPANSION OF THE PANAMA CANAL IN 2016 MAY CUT AVERAGE SAILING DISTANCES AND CURB TONNAGE DEMAND.

HUGE JUMP IN THE ORDERBOOK/FLEET RATIO

The LPG market is currently not suffering from oversupply, but the market remains severely affected by seasonality and additional risk is building up. In 2013, record-high freight rates led to a massive inflow of new orders, which had a clear impact on the orderbook, now constituting 38% of the total fleet (fig. 10). The majority is scheduled to be delivered in the coming three years with 1.5 million Cu.M. in 2014, a massive 3 million Cu.M. in 2015 and so far another 1 million Cu.M. in 2016.

HIGH FLEET GROWTH POSES A THREAT TO MARKET BALANCE

If the orderbook is delivered according to schedule, gross fleet growth will exceed 7% in 2014 and 15% in 2015, thus challenging the current market balance. To offset the potential negative effects of the massive inflow of vessels in the coming years, scrapping has to increase. The technical operating life of LPG vessels is 30 years. However, in a scenario where vessels are considered scrapping candidates the moment they are due for their fifth special survey or higher, net fleet growth could decrease to 3% in 2014, while still being double-digit in 2015 (fig. 11).

GROWTH IN DISTANCE-ADJUSTED DEMAND TO SLOWLY DECLINE

Growth in distance-adjusted demand for seaborne LPG trade is expected to slowly decline to 4% in 2016. Without significant scrapping activity, demand will not be sufficient to employ the inflow of vessels, and with expected double-digit fleet growth in 2015, the market outlook is fragile. However, 2014 may offer further freight rate improvements.

ASIAN IMPORTS DRIVING DEMAND

Future growth in seaborne LPG trade is expected to come from Asian imports. Asia is currently the largest buyer of LPG with a market share of 65%, the bulk being consumed by Japan, South

Figure LPG.10

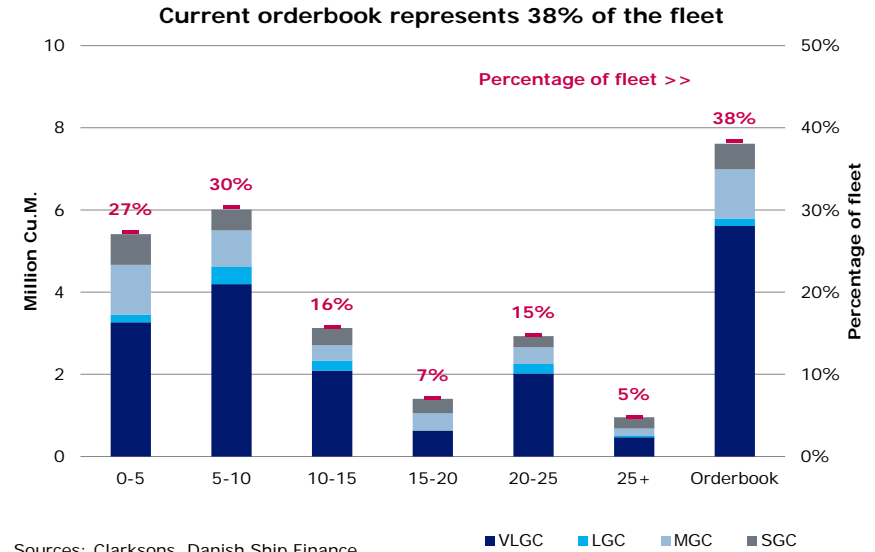
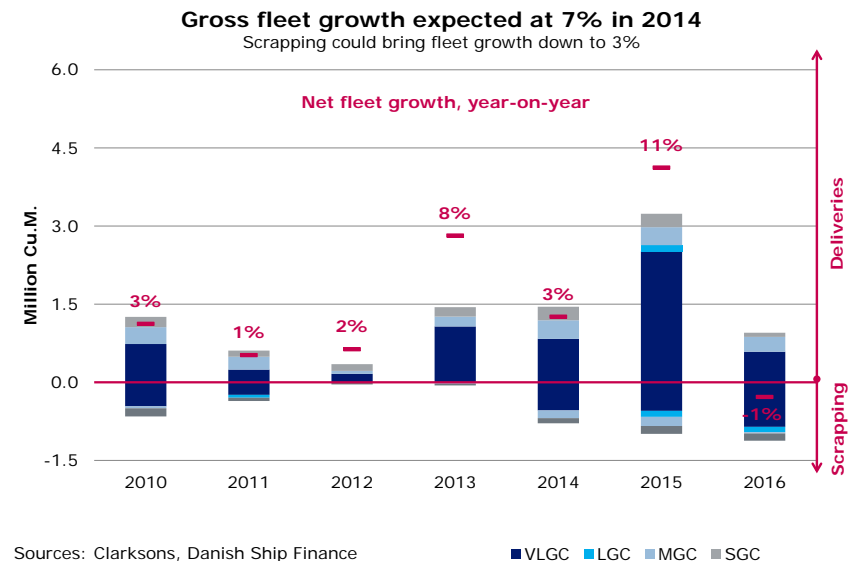


Figure LPG.11



Korea, India and China. For the majority of these countries, imports are expected to grow by about 5% per year, whereas China is expected to experience more substantial growth over the coming three years (fig. 12). The reason for this is that China is currently developing several propane dehydrogenation plants for converting propane into propylene. Propylene is then used for manufacturing plastics and other petrochemical products. Most of these plants are expected to come on line by 2015 and provide China with a competitive advantage, as propane prices are expected to remain much lower than propylene prices. In addition, China is expanding its refinery capacity and thereby increasing its need for feedstock. Usually, refineries prefer using naphtha; however, LPG can be used as a substitute. Consequently, demand may depend on the price spread between LPG and naphtha.

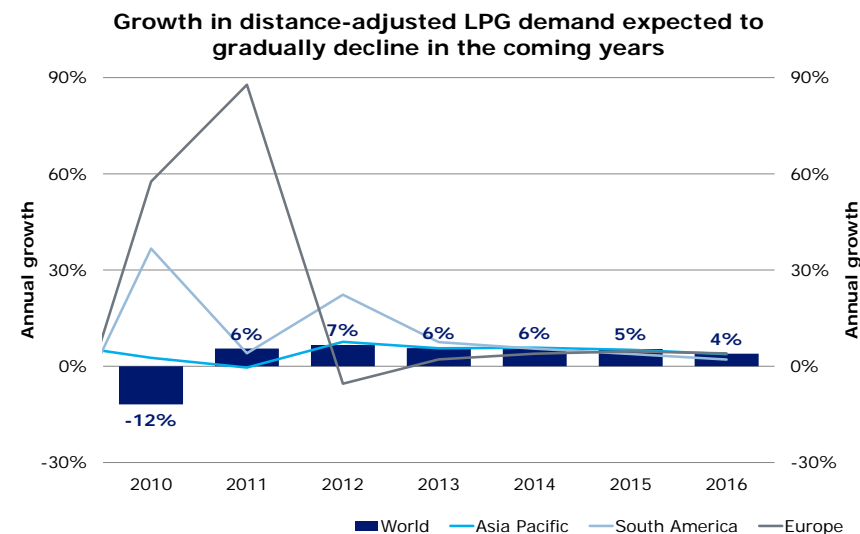
US LPG EXPORTS ARE ON THE RISE

An increasing share of Asian imports is expected to be sourced from the US, where the growth in production of shale oil and shale gas has created a significant surplus of LPG. In the Middle East, LPG prices have traditionally been linked to crude oil prices, while they in the US are determined by the supply-demand balance. This creates price spreads between the two regions, and therefore the extra transportation costs required for shipping cargoes from the US to Asia can at times be offset. As previously stated, US exports are currently suffering from a lack of export facilities, but various export projects are nearing completion and several others are on the drawing board. Consequently, US LPG export volumes are expected to increase significantly and hence contribute positively to distance-adjusted demand.

PANAMA CANAL OFFERS NEW OPPORTUNITIES

On the positive side, the expansion of the Panama Canal is expected to minimise the transportation costs on cargoes transported from the Atlantic to the Pacific. Lower transportation costs in combination with increased availability of LPG cargoes are expected to increase seaborne trade volumes, in particular on the route from the US to Asia. However, it comes at the expense of shorter travel distances, which increases the cargo-

Figure LPG.12



Sources: IHS Global Insight, Danish Ship Finance

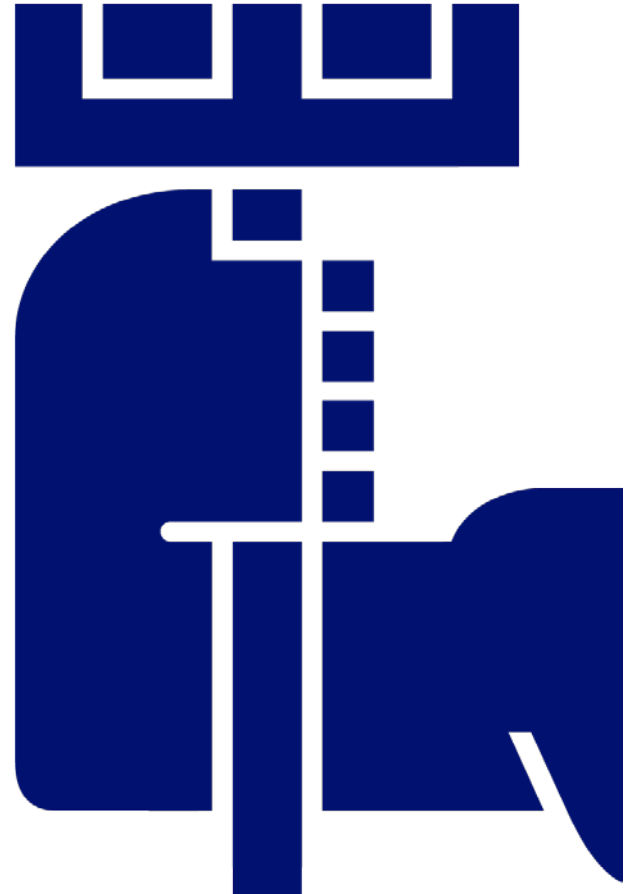
carrying capacity per vessel. It therefore remains to be seen if distance-adjusted demand will benefit from the expansion. Nonetheless, it seems evident that the expansion of the Panama Canal, when finalised in January 2016, will change trade flows substantially. Until then, distance-adjusted demand is expected to be supported by longer travel distances as a result of increased US LPG export volumes.

BALANCE IN THE LPG MARKET

At the moment, the LPG market is relatively balanced. In 2014, tonnage may in some periods fall short of demand, causing the market to tighten even further and potentially creating freight rate spikes. However, the massive inflow of new vessels scheduled to enter the fleet in 2015 could put downward pressure on rates and disturb the market balance. Nonetheless, if owners put a lid on contracting for the remainder of 2014, the market should be able to recover from the vessel inflow fairly quickly.

DRY BULK

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

DRY BULK

EVEN THOUGH WE SEE EVIDENCE OF POTENTIAL MARKET IMPROVEMENTS, WE REMAIN SCEPTICAL ABOUT THE LONG-TERM PROSPECTS. THE OUTLOOK IS DEPENDENT ON EXTENSIVE ORDER POSTPONEMENTS, CONTINUING SLOW STEAMING AND A FIRM CHINESE DEMAND OUTLOOK.

FREIGHT RATES

FREIGHT RATES WERE DEPRESSED IN THE FIRST PART OF 2013, AND THE BDI FLIRTED WITH THE LOWS OF 2008. HALF-WAY THROUGH THE YEAR, MARKET SENTIMENT IMPROVED, SUPPORTING FREIGHT RATES. HOWEVER, BY APRIL THIS YEAR RATES HAD COME DOWN TO INDEX 1,484.

BALTIC DRY INDEX UP BY 31% ON AVERAGE

Dry bulk freight rates had one of their worst ever years in 2012 and halfway through last year, it looked as though 2013 was going to be even worse. However, in June freight rates began to increase and by December, the Baltic Dry Index (BDI), which started the year around index 750, exceeded 2,100 – a level not seen since November 2010. The spike was primarily led by the Capesize segment, which once again soared as China began to restock coal and increase iron ore imports. The rates in the smaller segments increased too, but at a slower and more constant pace. The positive sentiment from December did not last, though, and the BDI ended March 2014 at index 1,484.

TIMECHARTER RATES IMPROVING

Timecharter rates followed suit and rose in the second half of 2013, albeit from a low level. The average six-month and one-year timecharter rates for Capesize almost doubled over the year, closing around USD 22,500 per day. Long-term charters for the smaller segments saw the smallest increases: 16% for Handymax and 7% for Handysize. In the second and third quarters, average Panamax rates dropped below Handymax rates, but regained some strength from the fourth quarter onwards.

PERIOD FIXTURE ACTIVITY SLOWLY BEGAN TO PICK UP

Fixture periods for the Handy segments stayed around five months, whereas the average Capesize fixture period increased from eight months in 2012 to 11.5 months in 2013. In number terms, activity was mainly focused on Panamax and Handymax.

Figure DB.1

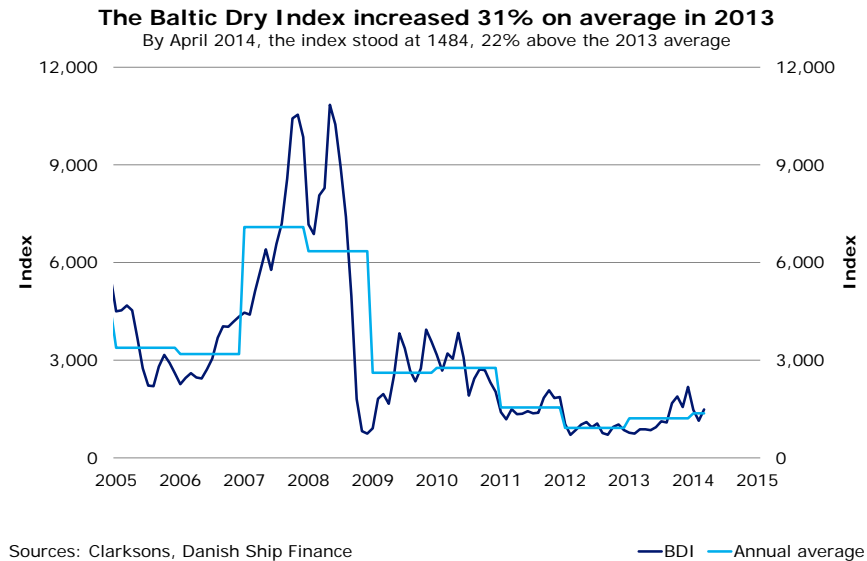
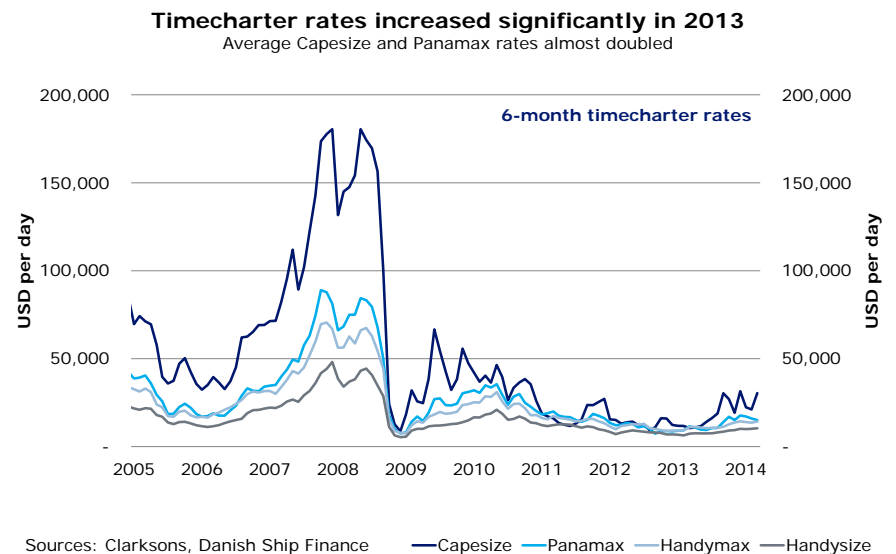
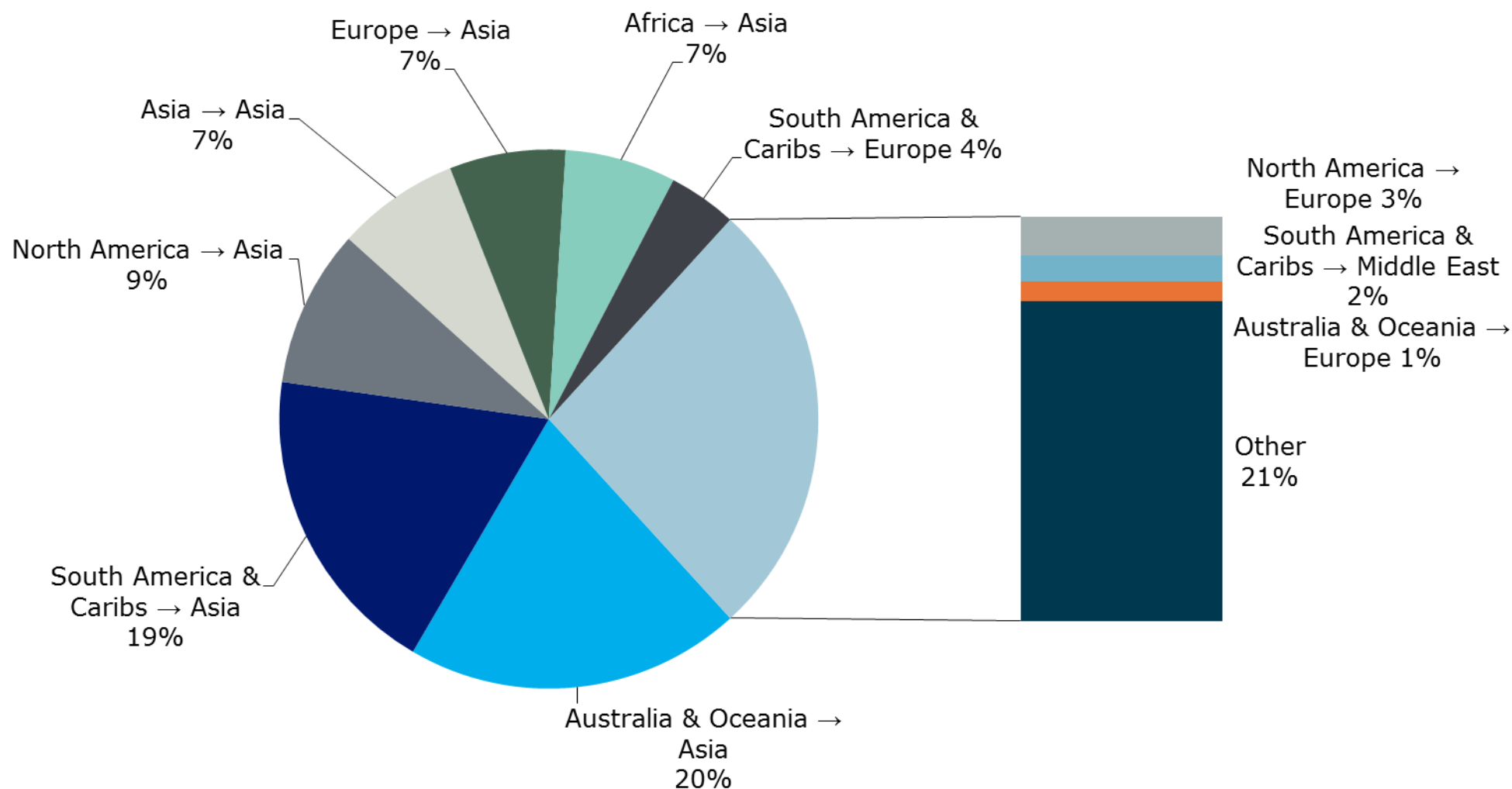


Figure DB.2



The major dry bulk trades in 2013 (tonne-miles)

Asian demand drives 69% of total dry bulk trade



Sources: IHS Global Insight, Danish Ship Finance

SUPPLY AND DEMAND

SUPPLY OUTPACED DEMAND ONCE AGAIN, BUT FLEET GROWTH IN 2013 WAS SIGNIFICANTLY LOWER THAN IN PREVIOUS YEARS.

THE FLEET GREW BY 6%

After four consecutive years with double-digit fleet growth, the fleet expanded by 6% in 2013 (fig. 4). This was primarily led by the Panamax fleet, which grew 9%, whereas the Handysize segment contracted by 0.5%. As of April 2014, the fleet consists of 721 million dwt, of which Capesize constitutes 41% in dwt.

DELIVERIES DECLINED

Deliveries amounted to 62 million dwt, 38% lower than in the previous two years, when close to 100 million dwt was delivered. At the beginning of the year, 100 million dwt was scheduled to enter the fleet. However, during the year 28% was postponed and another 10% was cancelled. This meant that only 62% of vessels scheduled to be delivered found their way to the sea (fig. 5). More than two-thirds of deliveries were postponed or cancelled in the second half of the year.

23 MILLION DWT SCRAPPED IN 2013

Scrapping activity declined in 2013, to 23 million dwt. The average scrapping age was 28 years; hence, the dry bulk segment still retains a relatively high scrapping age. However, when looking at the scrapping age per segment, the average scrapping age of a Capesize vessel declined to 23 years, as the large inflow of Capesize vessels resulted in a long period of low rates. On the other hand, the average scrapping age of a Handysize vessel remained high at 30 years, as many of the vessels were preoccupied with intra-regional and cabotage trade, and thus, the segment was under less pressure.

SEABORNE DRY BULK DEMAND UP BY 4.4% IN 2013

Overall, dry bulk demand went up by 4.4% in 2013, a significantly lower rate than in the last three years (fig. 6). Furthermore, distances contributed very little to tonnage demand, and consequently growth in distance-adjusted demand was on a par with dry bulk demand.

Figure DB.4

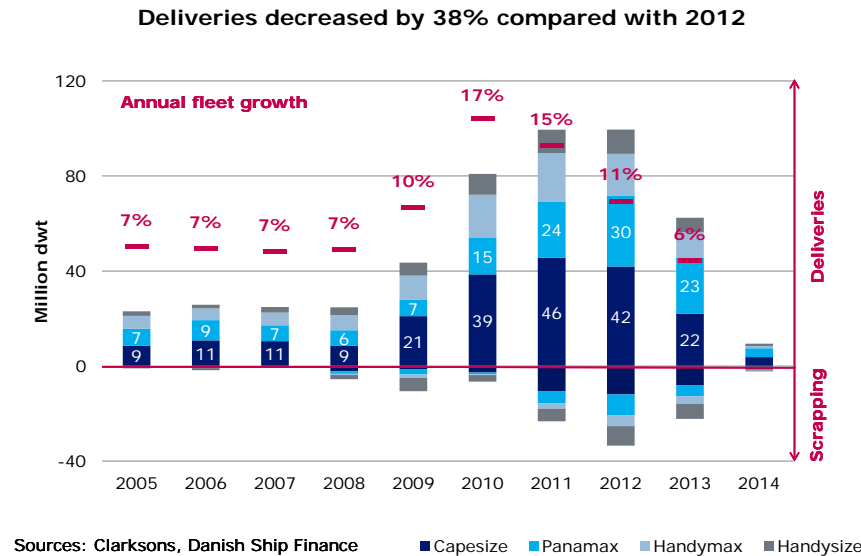
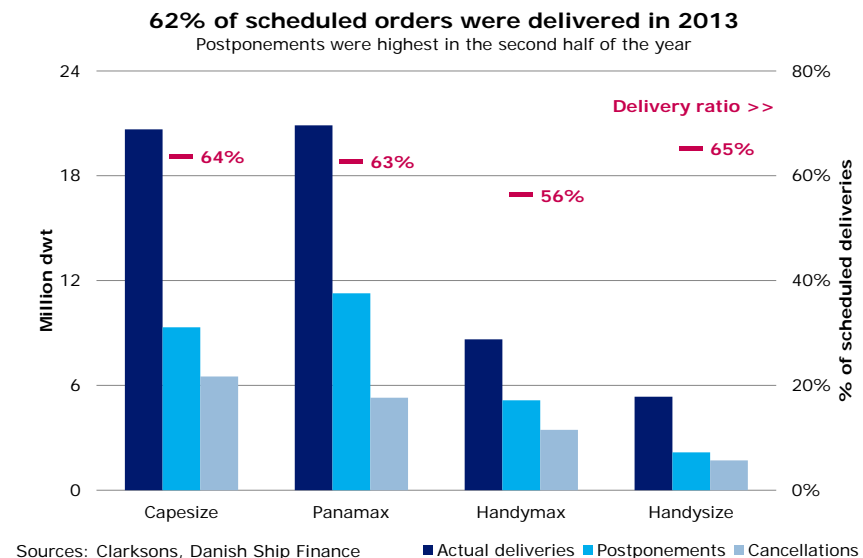


Figure DB.5



7% INCREASE IN IRON ORE TRADE

The iron ore trade expanded by 7% and Asia, led by China, remained the main driver of the trade, importing 86% of total iron ore trade, equal to 1.1 billion tonnes. Growth was strongest in the second half of the year, when China consistently imported new record-high levels of iron ore. A new record was also set in January 2014, when almost 87 million tonnes was imported prior to the Chinese New Year. Europe, the second-largest import region, importing 103 million tonnes per year, increased demand by 3% after negative growth in 2011-12. However, distance-adjusted demand to the region declined by 6%, as long-haul imports from India, Brazil and Venezuela were replaced by more short-haul Canadian iron ore.

INDIA HAS REDUCED IRON ORE EXPORTS WHILE INCREASING IMPORTS

For a long time, India was one of the four largest exporters of iron ore, but since 2009 it has reduced exports by 85% and now exports 18 million tonnes per year, making it the seventh-largest exporter. The reason for this massive decrease was a mining and shipping ban, put in place to clamp down on illegal mining. However, the ban has increased India's need for foreign imports and consequently iron ore imports have quadrupled since 2009 to a little more than 9 million tonnes in 2013. Iron ore has primarily been sourced from southern Africa, Bahrain and Australia, all increasing exports to India by around 30%.

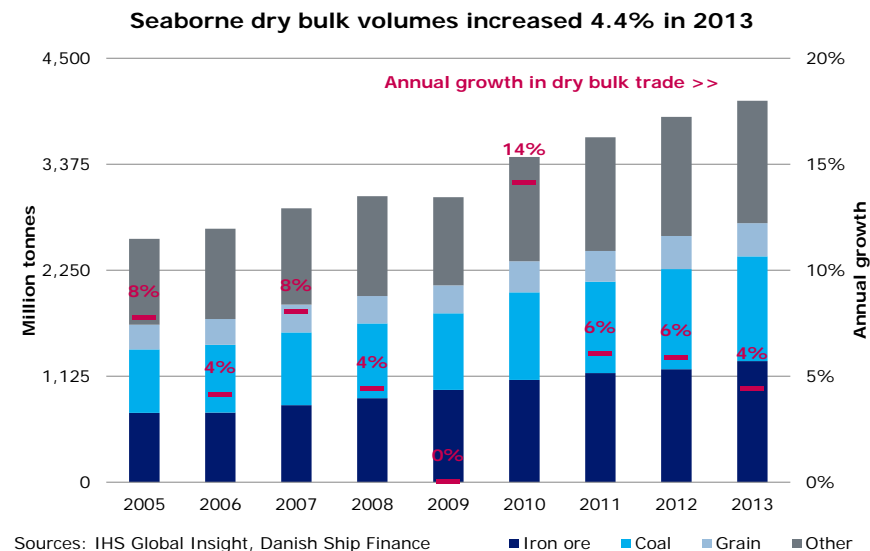
AUSTRALIA AND BRAZIL CONTINUE TO EXPORT THE MOST IRON ORE

Australia and Brazil are still by far the largest exporters of iron ore, and their mining expansions helped them to achieve export growth of around 10% in 2013. The dry bulk market benefited especially from the expansion in Brazil, as this was the main driver behind the 7% growth in distance-adjusted demand.

SEABORNE DEMAND FOR COAL INCREASED BY 4.4% IN 2013

Seaborne coal trade grew by 4.4% in 2013. China, followed by India and Japan, remains the main drivers of coal demand. In 2013, India increased its imports by 15%, overtaking Japan as the second-largest importer. This was mainly due to a domestic shortage of coal and difficulties gaining approval for expanding mines and opening new ones. The increase was met primarily by imports from Indonesia, Australia and South Africa. Europe's demand for coal contracted by 6% after three consecutive years of growth. This was mainly at the expense of Colombian ex-

Figure DB.6



ports, which declined by 4%, and US exports, down by 9%. The US has begun to export substantially more thermal coal in the last couple of years, as domestic demand to a large extent is met by the growing production of shale gas. Exports did, however, decline in 2013, as several contracts between coal miners and the railway companies ended. Miners are hesitant about renewing the contracts because of the current low coal prices, which have created an incentive for them to lower their outputs.

GRAIN TRADE IMPROVED SLIGHTLY IN 2013

The 2012-13 grain trade season was characterised by lower production and consumption of grain products, resulting in an overall decline of 1.4%. US exports declined by approximately 30% after the devastating drought in the summer of 2012, which resulted in a disappointing harvest and record-high grain prices. The Black Sea region also had a disappointing harvest. The 2013-14 season has had a promising start and is forecast to grow by 10% in total as a result of strong outputs of wheat and corn. The US regained the lost volumes from last season, as did Ukraine and Russia. China showed strong demand for wheat and corn in the second half of 2013, as its harvest suffered from heavy rainfall.

CONTRACTING PEAKED AS MARKET SENTIMENT IMPROVED. THE INCREASED APPETITE FOR VESSELS PUSHED BOTH NEW-BUILDING AND SECONDHAND VALUES UPWARDS.

CONTRACTING EXPLODED IN THE LARGER SEGMENTS

Contracting declined significantly in 2011-12, sparking hopes that market balance was within reach. However, contracting activity once again peaked in 2013 and new orders of 90 million dwt were added to the orderbook (fig. 7). 40% of the contracts were made in the fourth quarter, as market sentiment improved on the back of short-lived spikes in spot rates. The average expected delivery time for the contracts made in 2013 remained around 27 months, as in 2012.

7% INCREASE IN NEWBUILDING PRICES

Newbuilding prices increased across all segments in 2013. After prices hit rock-bottom in the last quarter of 2012 and well into the first quarter of 2013, they slowly but steadily began to increase during the rest of the year (fig. 8). Average Capesize newbuilding prices experienced an annual increase of 21%, ending the first quarter of 2014 at USD 57 million, up from USD 46 million at the beginning of 2013. Panamax prices gained 17% on average, while prices in the two smaller segments climbed 12%.

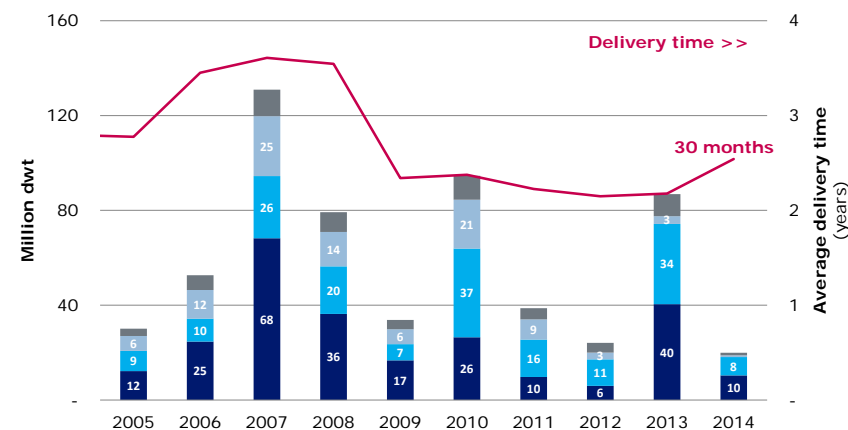
SECONDHAND PRICES UP BY 29%

The increased appetite for vessels had a spillover effect on the secondhand market, where values on average increased by more than 29% in most segments during 2013, returning to the 2010 levels. In particular, the sharp rate increases in the Capesize segment in the last quarter resulted in substantial value increases. By April 2014, a five-year old Capesize vessel on average traded at USD 53 million – a price spread of only USD 4 million compared with a newbuilding. Similarly, the Handymax price spread was only USD 0.5 million. This highlights owners' sudden urge to add vessels to their fleets in response to improved market sentiment.

Figure DB.7

Contracting of new vessels increased sharply in 2013

Increase spurred by Capesize and Panamax contracting



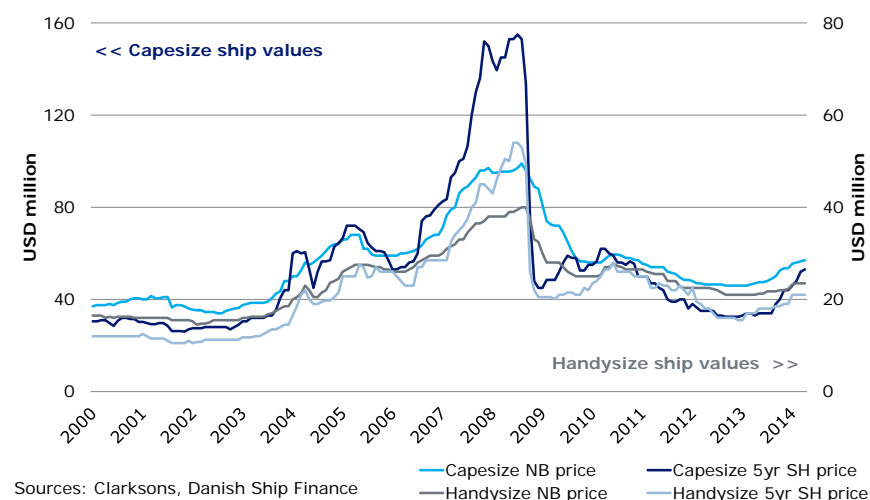
Sources: Clarksons, Danish Ship Finance

■ Capesize ■ Panamax ■ Handymax ■ Handysize

Figure DB.8

Average newbuilding prices up by 7% in 2013

Average 5yr secondhand prices up by 29%



Sources: Clarksons, Danish Ship Finance

— Capesize NB price — Capesize 5yr SH price
— Handymax NB price — Handysize 5yr SH price

PREMATURE SCRAPPING AND EXTENSIVE ORDER POSTPONEMENTS COULD, HYPOTHETICALLY, IMPROVE THE BALANCE BETWEEN SUPPLY AND DEMAND IN 2014 AND BEYOND.

54 MILLION DWT SET TO ENTER THE FLEET IN 2014

During 2014, 54 million dwt is scheduled to be delivered, primarily Panamax vessels, constituting 43% of the 2014 orderbook (fig. 9). In the next four years, 158 million dwt is scheduled to enter the fleet, 80% of this in the Capesize and Panamax segments. In the first quarter of 2014, 15 million dwt was delivered. Of this, 12% was originally scheduled for delivery in the fourth quarter of 2013.

EXPECTED SCRAPPING OF 14 MILLION DWT

The current overcapacity is pushing the average vessel life downwards, as the number of obvious scrapping candidates is diminishing (fig. 10). Today, vessels as young as 15 years are being scrapped. In our fleet projections, we apply a scrapping scenario where vessels become scrapping candidates immediately before they are due for a special survey (beginning from the fourth special survey). In this scenario, more than 34 million dwt will become scrapping candidates in 2014 (fig.9). In the event that these vessels are scrapped and the entire orderbook scheduled for 2014 is delivered, the fleet would grow by 5%. However, if the significant postponement activity of 2013 is repeated in 2014, the fleet growth could be a lot smaller. In a scenario where only 60% of scheduled orders are delivered and all vessels qualifying for scrapping are demolished, fleet growth could drop to 1% in 2014.

SEABORNE DEMAND TO GROW BY 4% IN 2014

Seaborne dry bulk trade is forecast to grow by 4% in 2014. This growth will primarily be spurred by Asian demand. In the coming years, Africa is expected to have the biggest growth potential in percentage terms, increasing its demand for seaborne dry bulk trade by 19% between now and 2017. Overall demand is expected to grow 3.3% annually until 2017 on average (fig. 11).

Figure DB.9

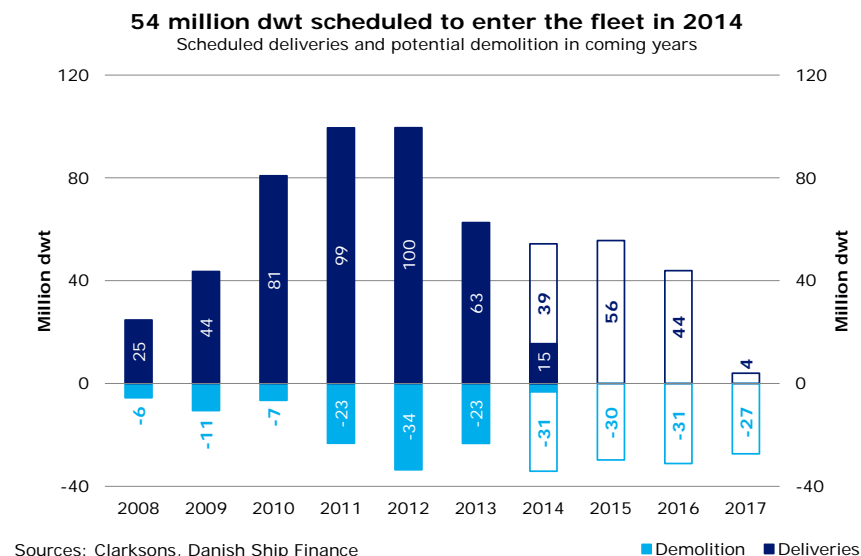
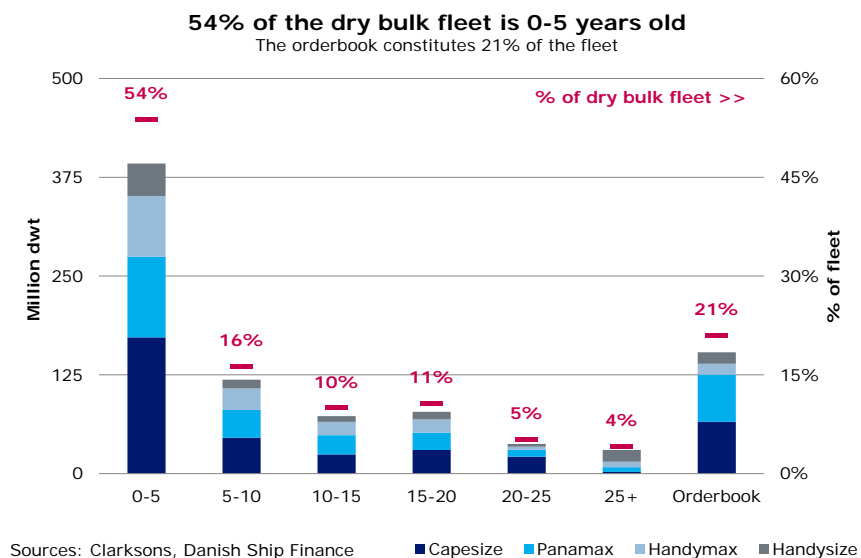


Figure DB.10



IRON ORE TRADE DEPENDENT ON CHINESE DEMAND

Demand for iron ore is expected to be strong in 2014 and grow by 5%. Growth will be driven by increased Australian output as the country completes several mine expansions over the next two years. China will remain the biggest buyer of iron ore; hence, if Chinese demand begins to slow, it would leave a noticeable mark on the dry bulk market. To keep the economy going, the Chinese government has introduced stimulus packages with the goal of spurring heavy investments in expanding the railways in the western part of the country. This may have a positive effect on dry bulk demand. Despite the lower steel output in China, it is still expected to increase iron ore imports in 2014 due to lower domestic production.

IRAN IS BECOMING A LARGER PLAYER IN THE IRON ORE TRADE

Iran has taken over where India left off and replaced it as one of the biggest exporters of iron ore into China. Iran is currently opening several new mines and investing heavily in the sector, as it is one of the only profitable industries in the country not yet sanctioned. The question remains whether the iron ore sector will become subject to international sanctions; however, at the moment there is nothing to indicate this. Some of the existing sanctions on Iranian exports were eased at the beginning of 2014. However, India's Supreme Court has lifted the ban in Goa and other mining areas, thus it might not be long before India regains its position as one of the main exporters of iron ore.

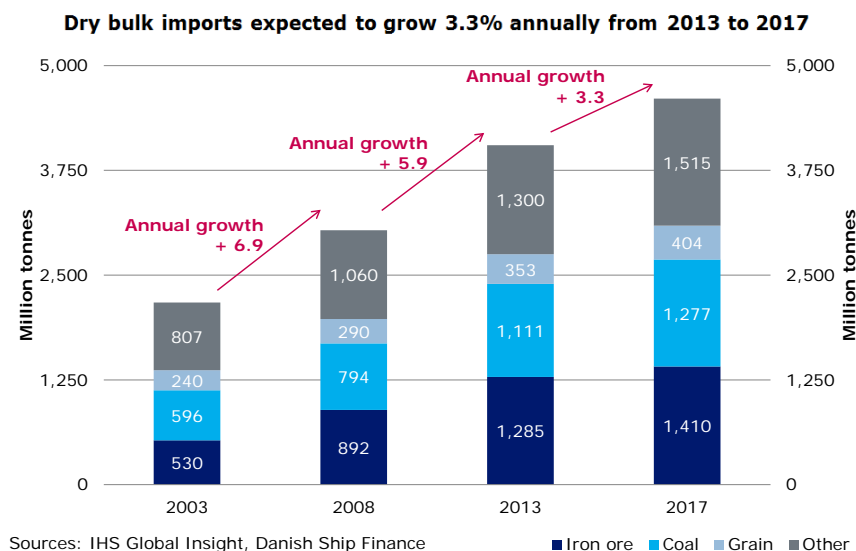
AFRICA EXPECTED TO INCREASE IRON ORE OUTPUT

Africa is expected to scale up its exports of raw materials to China, in particular iron ore. Sierra Leone, Mozambique, Liberia and Guinea are projected to expand production of iron ore, coal and bauxite.

COAL TRADE UP BY 4% IN 2014

Despite a general oversupply of coal and declining prices, the trade is expected to experience firm growth of 4% in 2014. Coal prices are expected to decrease slightly in 2014. This is a result of producers expanding capacity, especially in Australia, South Africa and Colombia, while emerging markets are showing weaker demand. On top of this, the fact that China is focusing more on clean energy further clouds the outlook. For instance, the Chinese government has announced a 3% tax on imports of thermal coal with a low calorific value. This could hit Indonesia,

Figure DB.11



as it is the biggest exporter of low-quality coal into China. On the positive side, if the Indonesian coal is substituted by Australian coal, distances would increase and thus also distance-adjusted demand.

COKING COAL DEPENDENT ON CHINESE DEMAND

Coking coal (i.e. coal used in steel production) is also dealing with falling prices as a consequence of an oversupply in the market, as well as in the steel market. China is the biggest importer of coking coal and its imports are estimated to grow by 12%, although this is dependent on the price spread between domestic and foreign coking coal.

CRIMEA CRISIS COULD LEAD TO ADDED COAL IMPORTS INTO EUROPE

The recent geopolitical turmoil in the Crimea could potentially result in added imports of thermal coal into Europe. Europe is currently building up huge inventory levels of natural gas, in preparation for a potential escalation of the situation. However, from a longer-term perspective, Europe may begin to consider reducing its energy dependence on Russian gas. In such a scenario, the consequences could be a potential rise in European coal imports and/or an increasing share of gas from the US. The latter could however be a costly solution.

STRONG US GRAIN HARVEST REJECTED BY CHINA

The Crimea crisis might not only have an effect on the coal market, but also on the grain trade from the Black Sea region (Russia, Ukraine and Kazakhstan contribute significantly to the grain trade). However, the actual effects will not be visible until later in the year after the harvesting season ends. As mentioned earlier, Chinese demand has started this season strongly and is expected to double grain imports in 2014, as the Chinese harvest has been damaged. However, China is currently rejecting a huge quantity of wheat cargoes from the US, because they contain a genetically modified organism that has not been approved in China. The US producers have so far lost a lot of revenue on this account, due to price decreases on the cargoes as well as fewer sales. Consequently, they will have to find other destinations for the record-high outputs.

A POTENTIALLY IMPROVED MARKET IN 2014

For the first time in years, we see a glimmer of hope for the dry bulk market, as supply may grow less than distance-adjusted demand. However, as discussed in the General Review and Outlook section, we should always apply caution when comparing growth figures, particularly when supply and demand have developed at significantly different paces over the last five years. The dry bulk fleet has increased by 84%, while dry bulk demand increased by 33% from 2008 to 2013. Therefore, in today's dry bulk market, a 1% increase in supply will not be absorbed by a 1% increase in demand. A 1% increase of the fleet's cargo carrying capacity will most likely require a demand growth of 1.3-1.4%. Adjusting for slow steaming, this factor could be reduced to 1.2%. That is to say, a 4% increase in demand could absorb supply growth of 3-3.5%. In a fleet growth scenario below 3%, freight rates and secondhand values could improve in 2014. But if improved market conditions prompt owners to increase speeds, the recovery could be short-lived. The outlook beyond 2014, however, is still dominated by a large orderbook and an uncertain outlook for Chinese dry bulk demand. Even though we see evidence of potential market improvements, we remain sceptical about the long-term market prospects, unless new ordering is reduced to a fraction of the current levels.



GLOSSARY

SHIPPING MARKET REVIEW – MAY 2014



**DANISH
SHIP FINANCE**

GLOSSARY

<i>Aframax:</i>	Crude oil tanker or product tanker too large to pass through the Panama Canal and with a capacity of from 80,000 to 120,000 dwt.	<i>Chemical tanker:</i>	DSF's definition: IMO I or IMO II tanker with stainless steel, zinc, epoxy or Marineline coated tanks.
<i>Back-haul:</i>	The leg of a trade route that has the lowest container volumes is often called 'back-haul, whereas the return leg is often referred to as 'head-haul'.	<i>Clarksons:</i>	British ship brokering and research company. www.clarksons.net
<i>Barrel:</i>	A volumetric unit measure for crude oil and petroleum products equivalent to 42 U.S. gallons, or approximately 159 litres.	<i>Clean products:</i>	Refers to light, refined oil products such as jet fuel, gasoline and naphtha.
<i>BHP:</i>	Break Horse Power. The amount of engine horsepower.	<i>CoA:</i>	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.
<i>Brent:</i>	Term used for crude oil from the North Sea. Brent oil is traded on the International Petroleum Exchange in London, and the price of Brent is used as a benchmark for several other types of European oil.	<i>Coating:</i>	The internal coatings applied to the tanks of a product or chemical tanker. Coated tanks enable the ship to transport corrosive refined oil or chemical products and it facilitates extensive cleaning of the tanks, which may be required in the transportation of certain product types.
<i>Bulk vessel:</i>	Description of vessels transporting large cargo quantities, including coal, iron ore, steel, corn, gravel, oil, gas, etc.	<i>Deep sea:</i>	Refers to trading routes longer than 3,000 nautical miles.
<i>Bunker:</i>	Fuel for vessels.	<i>Deep Sea, chemical:</i>	A chemical tanker larger than or equal to 20,000 dwt.
<i>Call on OPEC:</i>	Defined as total global petroleum demand less non-OPEC supply less OPEC natural gas liquid supply.	<i>Dirty products:</i>	Refers to heavy oils such as crude oil or refined oil products such as fuel oil, diesel oil or bunker oil.
<i>Capesize:</i>	Dry bulk carrier of more than approximately 100,000 dwt; too large to pass through the Panama Canal.	<i>Drewry:</i>	Drewry Shipping Consultants Ltd. British shipping and transport research company. www.drewry.co.uk
<i>Cu.M:</i>	Cubic Meter.	<i>Dwt:</i>	Dead Weight Tons. Indication of a vessel's cargo carrying capacity (including bunkers, ballast, water and food supplies, crew and passengers).
<i>Ceu:</i>	Car equivalent unit. Unit of measure indicating the car-carrying capacity of a vessel.	<i>Dynamic Positioning:</i>	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.
<i>Cgt:</i>	Compensated Gross Tonnage. International unit of measure that facilitates a comparison of different shipyards' production regardless of the types of vessel produced.		

<i>EIA:</i>	Energy Information Administration. A subsidiary of the US Department of Energy. www.eia.doe.gov	<i>Head-haul:</i>	The leg of a 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.
<i>E&P:</i>	Exploration and Production.	<i>Heavy distillates:</i>	This oil type includes fuel oils and lubes.
<i>Feeder:</i>	Small container carrier with a capacity of less than 500 teu.	<i>IEA:</i>	International Energy Agency. A subsidiary of the OECD. www.iea.org
<i>Feedermax:</i>	Small container carrier with a capacity of 500-1000 teu.	<i>IHS Global Insight:</i>	American economic consulting company. www.globalinsight.com
<i>FPSO:</i>	Floating Production Storage Off-loading unit. Vessel used in the offshore industry to process and store oil from an underwater (sub-sea) installation.	<i>IMO:</i>	International Maritime Organization. An organisation under the UN.
<i>Front-haul:</i>	The leg of a trade route that has the highest cargo volumes is often called 'front-haul' whereas the return leg is often referred to as 'back-haul'.	<i>IMO I-III:</i>	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.
<i>Geared:</i>	Indicates that a vessel is equipped with a crane or other lifting device.	<i>Inorganic chemicals:</i>	A combination of chemical elements not containing carbon. The three most common inorganic chemicals are phosphoric acid, sulphuric acid and caustic soda. Phosphoric acid and sulphuric acid are used in the fertilizer industry, whilst caustic soda is used in the aluminium industry. As these chemicals are corrosive to many metals, they are transported in stainless steel tanks.
<i>Gearless:</i>	Indicates that a vessel is not equipped with a crane or other lifting device.	<i>Intermediate:</i>	Medium-sized chemical carrier with a capacity of between 10,000 and 20,000 dwt.
<i>Global order cover:</i>	Global order is the global orderbook divided by annual yard capacity.	<i>LGC:</i>	Large Gas Carrier. LPG ship with a capacity of between 40,000 and 60,000 Cu.M.
<i>Gt:</i>	Gross Tons. Unit of 100 cubic feet or 2,831 cubic meters, used in arriving at the calculation of gross tonnage.	<i>Light distillates:</i>	This oil type includes gasoline, naphtha and solvents.
<i>Handy, container:</i>	Container vessel of between 1,000-1,999 teu.		
<i>Handy, tank:</i>	Crude oil tanker, product tanker or chemical tanker of between 10,000 and 25,000 dwt.		
<i>Handymax, dry cargo:</i>	Dry bulk carrier of between approximately 40,000 and 60,000 dwt.		
<i>Handysize, dry cargo:</i>	Dry bulk carrier of between approximately 10,000 and 40,000 dwt.		

<i>LPG vessels:</i>	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.	<i>Panamax, tanker:</i>	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 60,000—79,999 dwt.
<i>LR1, product tanker:</i>	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 60,000-74,999 dwt.	<i>Panamax, dry cargo:</i>	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—100,000 dwt.
<i>LR2, product tanker:</i>	Long Range 2. Product tanker too large to pass through the Panama Canal and larger than approximately 75,000 dwt.	<i>Post-Panamax:</i>	Container vessel of approximately 5,100-9,999 teu that is too large to pass through the Panama Canal.
<i>Medium, tanker (MR):</i>	Medium Range. Product tanker of between 10,000 and 60,000 dwt.	<i>Product tanker:</i>	Tanker vessel with coated tanks used to transport refined oil products.
<i>MGC:</i>	Medium Gas Carrier. LPG ship with a capacity of between 20,000 and 40,000 Cu.M.	<i>PSV:</i>	Platform Supply Vessel. Offshore vessel serving the offshore oil installations.
<i>Middle distillates:</i>	This oil type includes diesel, kerosene and gasoil.	<i>Refinery turnarounds:</i>	A planned, periodic shut down (total or partial) of a refinery process unit or plant to perform maintenance, overhaul and repair operations and to inspect, test and replace process materials and equipment.
<i>Multi-Purpose:</i>	Dry bulk carrier with multiple applications, mainly as a feeder vessel or for special cargo.	<i>Ro-Ro:</i>	Roll On – Roll Off. Common description of vessels on which the cargo is rolled on board and ashore.
<i>Nautical Mile:</i>	Distance unit measure of 1,852 meters, or 6,076.12 ft.	<i>Short sea:</i>	Refers to trading routes shorter than 3,000 nautical miles.
<i>Offshore vessel:</i>	Vessel serving the offshore oil industry.	<i>Short Sea, chemical:</i>	Chemical tanker smaller than 10,000 dwt.
<i>OPEC:</i>	Organisation of Petroleum Exporting Countries.	<i>Small gas carrier:</i>	LPG ship smaller than 20,000 Cu.M.
<i>Organic chemicals:</i>	Contain carbon and are also referred to as petrochemicals. Are used to produce virtually all products made from plastics or artificial fibres.	<i>SSY:</i>	Simpson Spence & Young, British ship brokering and research ny. www.ssy.co.uk
<i>Panamax, container:</i>	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—5,100 teu.	<i>Sub-Panamax</i>	Container vessel of approximately 2,000-2,999 teu.
		<i>Suezmax:</i>	Crude oil tanker with the maximum dimensions for passing through the Suez Canal (approximately 120,000—199,999 dwt.).

Super Post-Panamax: Newest type of container vessel of approximately +10,000 teu.

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 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.

Tight oil: Tight oil (also known as light tight oil) is a petroleum play that consists of light crude oil contained in petroleum-bearing formations of relatively low porosity and permeability

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".

Town gas: A mixture of gases produced by the distillation of bituminous coal and used for heating and lighting; consists mainly of hydrogen, methane, and carbon monoxide.

ULCC: Ultra Large Crude Carrier. Crude oil tanker of more than 320,000 dwt.

Vegetable oils: Oils derived from seeds of plants and used for both edible and industrial purposes.

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 a capacity of more than 60,000 Cu.M.

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