



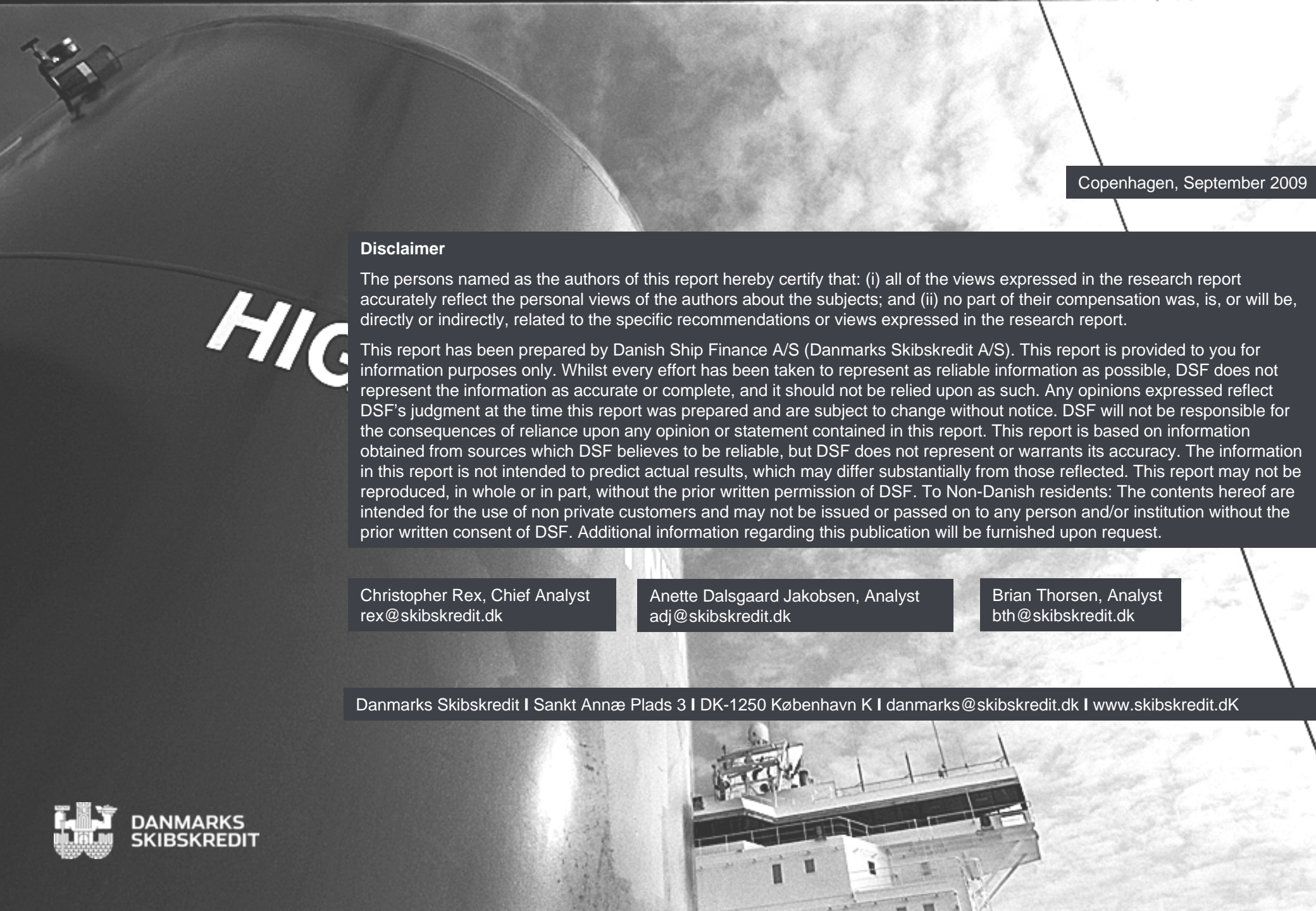
HIGH

SHIPPING MARKET REVIEW SEPTEMBER 2009

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FOREWORD

THIS REPORT REVIEWS THE CENTRAL DEVELOPMENTS IN SHIPPING MARKETS IN THE PERIOD FROM APRIL TO AUGUST 2009 FOR THE MAIN SHIPPING SEGMENTS AND INDICATES POSSIBLE FUTURE MARKET DIRECTIONS.

WORLD DEMAND INDICATORS

In April 2009, when we last published our Shipping Market Review, we were in the eye of the storm. Asset prices were declining, consumer spending waning and credit spreads were wider than now. Many OECD economies were in outright recession.

Today, however, the ogre of the recession seems behind us. The world economy is recovering, supported by an unprecedented use of taxpayers' money – either injected directly into the financial system to support the infrastructure of the banking system or by more traditional fiscal and monetary stimulus programs.

Despite the apparent good news, the IMF nevertheless forecasts (July 2009) that GDP in 'advanced economies' will decline 3.8% in 2009. Such a drop would wipe out all the growth generated in 2007 and 2008, effectively bringing demand back to the 2006-level.

However, while 'emerging and developing economies' are clearly growing faster than 'advanced economies', in terms of trade volumes and sustainability of trade, 'advanced economies' still drive demand. IMF estimates that world trade volumes will decline by 12.2% in 2009.

The capacity of the merchant fleet has expanded greatly in the period 2006-2009. The central topic for ship owners in 2010 will therefore be, whether profound postponement and demolition can create a balance between supply and demand. In the following four chapters, we analyse this question in detail.

For 2010, the IMF predicts that global GDP will grow 2.5%, albeit advanced economies growing a modest 0.6%. Global trade volumes are expected to recover a modest 1% in 2010.

A PROTRACTED AND SLUGGISH RECOVERY

While a positive GDP growth in 2010 indicates that the world economy is stabilizing, the low GDP figure for the advanced economies clearly emphasises that the crisis is far from over, and that recovery is likely to be protracted and sluggish.

THE OUTPUT GAP

Global demand fell not only during the nadir of the crisis, but also in its aftermath – and any recovery is hardly likely to restore levels to the halcyon days of 2007. Unemployment rates were rising further, lowering global demand through reduced consumption and increased savings rates. The drop in global demand created a worrying shortfall in relation to global production capacity. Asset prices have declined accordingly, which surely have undermined consumer wealth and hence reduced the supply of capital within the financial sector.

The combination of declining asset prices and insufficient supply of credit has increased the risk of financial distress across the board. In the banking system, this has raised the impairment charges and the risk of further losses. In combination with a tight or non-existing access to capital, the financial crisis remains a fact. Central banks have responded by launching initiatives to support the banking system. The objective was to bolster the financial system sufficiently to withstand the crisis. The alternative would have been a lower supply of credit, which would hamper economic growth. So far, it seems they have succeeded, but further challenges lie ahead. The real test for the financial sector will come when central banks, probably in 2010, begin to withdraw their support.

SAVINGS, ECONOMIC GROWTH AND TRADE VOLUMES

Consumer spending and asset prices are highly connected through asset-based savings. A decline in asset prices directly impacts the value of the savings. In terms of retirement savings, an asset value drop will most likely require an increased monthly pension contribution, if the future living standard is to be upheld. An increased monthly pension contribution directly reduces the amount available for consumption.

Consequently, lower asset prices are not only troubling banks' balance sheets and the supply of credit but are also lowering consumers' disposable income. The impact on economic growth is likely to be protracted and sluggish, since debt has to be repaid and savings rebuilt. As long as unemployment is rising and consumer spending is depressed, trade volumes seem unlikely to increase without the support of the fiscal stimuli programs.

EXECUTIVE SUMMARY

GENERALLY SPEAKING, THE MERCHANT FLEET IS PRIMARILY SUBJECT TO OVERCAPACITY: FREIGHT VOLUMES ARE EXPECTED TO BE BELOW 2008-LEVEL AND FLEET CAPACITY WILL CONTINUE TO INCREASE IN 2010. THE OUTLOOK FOR FREIGHT RATES AND ASSET VALUES IS THEREFORE BLEAK.

SHIP BUILDING: Lower freight volumes and declining asset prices have reduced owners' appetite for new tonnage to a trickle. Newbuilding prices are now down to the levels of 2004-2006. All measures are being used to postpone or cancel deliveries. We estimate that only 68% of the nominal 150m dwt orderbook of 2009 will actually be delivered in 2009. 2010 is hardly better. We expect that 65% of the nominal 185m dwt orderbook will be delivered. Obviously, delivery times are declining in tandem with lower yard utilization, because deliveries are being postponed or cancelled. Consequently, we expect newbuilding prices to decline further in 2010.

CRUDE TANKER: Crude Tanker demand is falling due to declining global oil consumption. Combined with a record-high

inflow of vessels, earnings have dropped close to OPEX levels. Asset values have declined simultaneously. The outlook for Crude Tankers is ambiguous. On the one hand, 2010 global oil demand is expected to drop to the level of 2006, and scheduled 2010 deliveries are expected to be almost as high as in 2009. This indicates a lowering of freight rates and asset values. On the other hand, distance-adjusted demand might increase the ton-mile demand, despite lower freight volumes, and the IMO-regulation will require significant phase-out of single-hull tankers. The outlook for rates and asset values depends on which scenario will prevail.

CONTAINER: The container market is struggling with low trade volumes and a large inflow of new vessels. The supply surplus is widening further. Owners are combating overcapacity with all supply-cutting measures available to support rates and asset values. Line companies are slow-steaming, laying-up vessels and returning chartered tonnage. To some degree, the strategy is working, as ship owners are raising box rates. Timecharter rates are, however, still declining and are now approaching - or are even below - OPEX levels: a clear reflection of the overcapacity of tonnage. Obviously, owners are struggling to postpone or cancel newbuilding contracts. Scrapping seems insufficient as the entering capacity consists of larger vessels, whereas the scrapping candidates are smaller vessels. For 2010, the outlook is grim. Postponement, cancellation and lay-up appear to be the only way to provide some support for rates and asset values.

DRY BULK: The Dry Bulk market took us by surprise once again. The combination of lower-than-expected deliveries, extensive scrapping and unprecedented Chinese iron ore imports and, consequently, increased Chinese port congestion, supported (Capesize) freight rates beyond our expectations. The 2010-outlook is, nevertheless, still dominated by a large orderbook and a modest growth in demand. Postponement, scrapping and cancellations of newbuilding contracts seem unable to match the scheduled deliveries. Consequently, we expect freight rates and asset values to be heavily under pressure in 2010. ■

SHIP BUILDING

SINCE YARD UTILIZATION AND DELIVERY TIMES ARE DECLINING, NEWBUILDING PRICES ARE FALLING. THIS TREND IS LIKELY TO CONTINUE. POSTPONEMENTS AND CANCELLATIONS OF NEWBUILDING CONTRACTS ARE REDUCING YARD OUTPUT AND HENCE YARD UTILIZATION.

NEWBUILDING PRICES

NEWBUILDING PRICES ARE DECLINING IN TANDEM WITH THE LOWER APPETITE FOR NEW TONNAGE. CURRENT NEWBUILDING PRICES ARE APPROACHING THE LEVELS OF 2004-2006.

It is difficult to give an accurate assessment of newbuilding prices due to the low contracting activity. Still, it is beyond any doubt that the average newbuilding price is declining. On average, newbuilding prices have fallen to the levels last seen in 2004-2006 (fig. 1).

NEWBUILDING PRICES DOWN 35% IN 2009

The combination of the many new shipyards that are about to build Dry Bulk vessels and the increased risk of shipyard overcapacity has sent Capesize newbuilding prices southwards. The average newbuilding price for a Capesize has fallen 38% (USD 38m) in 12 months, from USD 99m in August 2008 to USD 61m in August 2009 (fig. 1).

The average newbuilding price for a 6,500 teu Post-Panamax Container vessel has declined USD 37m from its peak at USD 108m in August 2008 to the current USD 72m August 2009 – a 33% drop in only 12 months (fig. 1).

The average newbuilding price for a VLCC has decreased USD 50m in 12 months. From its peak at USD 162m in August 2008, the newbuilding price has dropped to USD 113m in August 2009.

ASSET VALUES ON AVERAGE USD 30M ABOVE ALL-TIME LOW

Asset values have dropped sharply across the board. On average, the newbuilding price is approximately USD 30m above the 2002-low (fig.2).

Figure SB.1

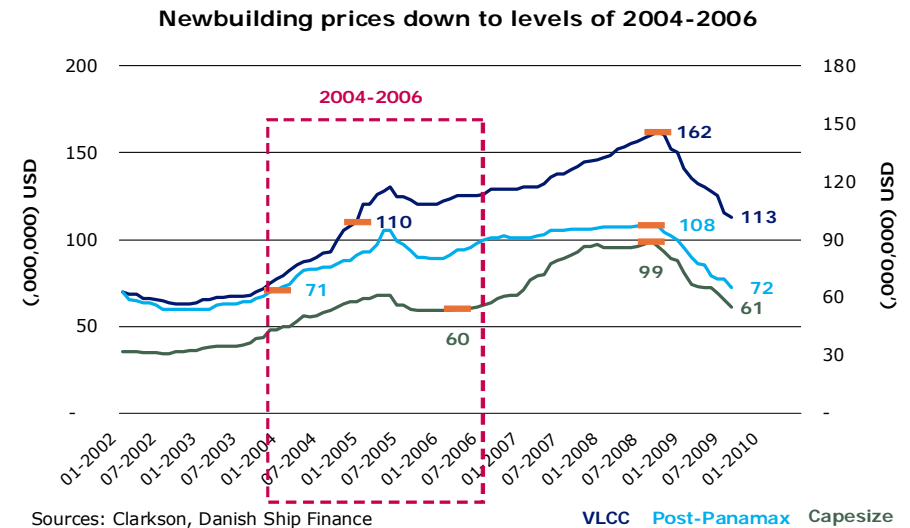
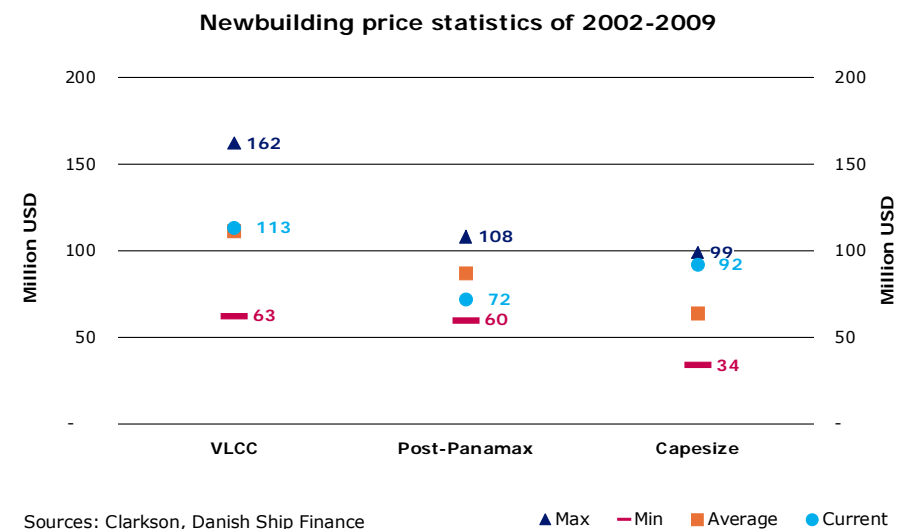


Figure SB.2



THE CONTRACTING HAS FALLEN TO A TRICKLE. DELIVERY TIMES HAVE TEMPORARILY BEEN REDUCED, REFLECTING EXTENSIVE POSTPONEMENTS OF 2010- AND 2011-DELIVERIES. THE DRY BULK SEGMENT IS THE MOST AFFECTED.

Lower freight volumes, declining asset prices and insufficient access to debt financing have reduced owners' appetite for new tonnage to a trickle. New tonnage contracted during the last four quarters is insignificant compared to previous quarters (fig. 3).

SUDDEN DIP IN DELIVERY TIME REFLECTS POSTPONEMENT ACTIVITY

So far, we hardly find any evidence of postponement activity or outright order cancellations, when analysing the orderbook. True, it might be too early to see any confirmed or reported cancellations, as owners and yards might still be negotiating - not to mention the fact that most parties would most likely prefer not to confirm any cancellations in advance. Postponements, however, are more simple to monitor. A sudden drop in delivery time might indicate extensive postponement activity.

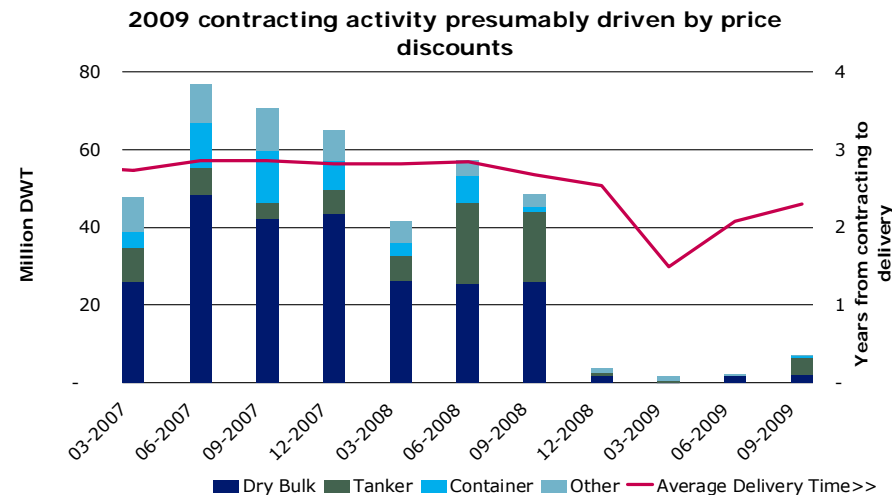
ESTABLISHED YARDS MOST EXPOSED TOWARDS OPEN CAPACITY

Delivery times are declining. Obviously, a lower average delivery time might generally be the first sign of shipyard overcapacity. In this particular situation, however, we do not believe it to be the case. Most yards have an orderbook stretching well beyond 2012. Consequently, the declining delivery time most likely reflects the fact that ship owners are postponing deliveries, thereby leaving shipyards with open positions. What surprises us is that it is primarily established yards that are facing short-term open positions.

MOST POSTPONEMENT ACTIVITY OBSERVED IN DRY BULK SEGMENT

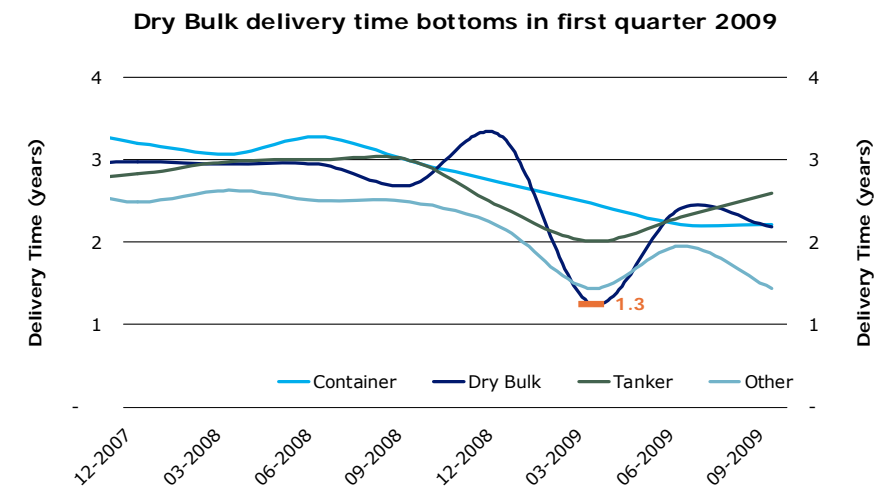
The Dry Bulk orderbook appears to have been the most prone to postponements. As discussed in detail below, 26% of the Dry Bulk orderbook never materialized in the first eight months of 2009. This clearly illustrates that some Dry Bulk owners have succeeded in postponing their deliveries. The impact on shipyards has been equally profound: By first quarter 2009, it was suddenly possible to order a Dry Bulk vessel at an established yard, both in South Korea and China, to be delivered within two years.

Figure SB.3



Sources: Clarkson, Danish Ship Finance

Figure SB.4



Source:Clarksons, Danish Ship Finance

DELIVERY PERFORMANCE

DURING THE FIRST EIGHT MONTHS OF 2009, POSTPONEMENTS AND CANCELLATIONS HAVE REDUCED THE INFLOW OF NEW TONNAGE BY 18%. ESTABLISHED YARDS HAVE BUILT 70% OF THE DELIVERED TONNAGE.

2009-DELIVERIES UP 18.8M DWT COMPARED TO 2008

Aggregated deliveries were up 18.8m dwt during the first eight months of 2009, compared to the same period in 2008. Chinese and South Korean deliveries have increased by approximately 8m dwt (75%) and 10m dwt (58%), respectively (fig. 5).

SOUTH KOREAN DELIVERIES UP 9.9M DWT IN 2009

South Korean shipyard capacity expanded by 9.9m dwt during the first eight months of 2009 (fig. 5). Traditionally, South Korean yards favour building Tankers. Consequently, 75% of the capacity expansion was allocated to building Tankers. The remaining capacity expansion went into building Dry Bulk vessels. The lion's share of the vessels was built at established South Korean yards (fig. 6).

CHINESE YARDS BUILT TANKERS

Chinese shipbuilding capacity increased 8.2m dwt during the first eight months of 2009. Traditionally, China is mostly known for building Dry Bulk vessels. To us, it was quite surprising that Chinese shipyards ended up building more Tankers during the first eight months of 2009 than Dry Bulk vessels. Established yards built about 60% of the vessels (fig. 6).

ACTUAL DELIVERIES 14.9M DWT SHORT OF THE ORDERBOOK

Despite the impressive delivery expansions, actual deliveries are short of scheduled deliveries by approximately 14.9m dwt. This means that owners have been successful in postponing or cancelling 18% of the orderbook scheduled to be delivered during the first eight months of 2009 (fig. 7).

In figure 7, the yellow tip of each bar indicates the expected monthly deliveries (August 2009 orderbook), whereas the blue portion shows the actual deliveries. It is noteworthy that the monthly deliveries peaked in January 2009 and have not been that high until July 2009. This might indicate that some shipyards have

Figure SB.5

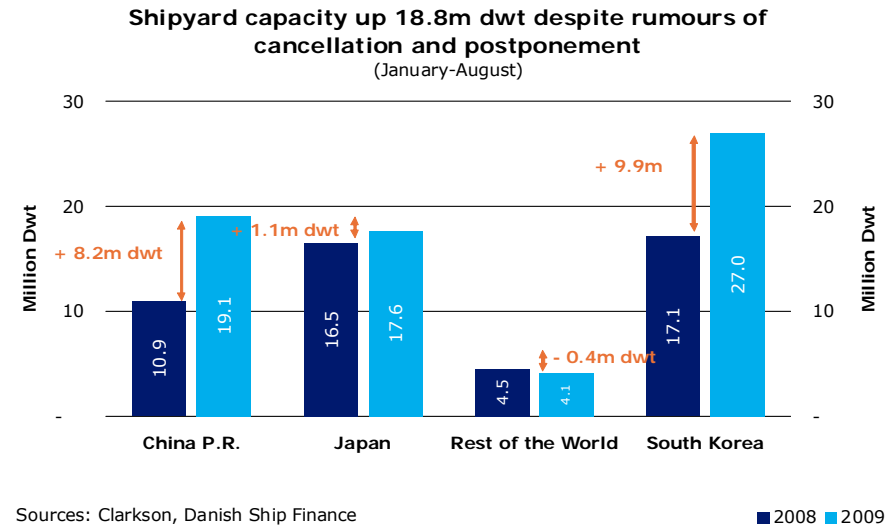
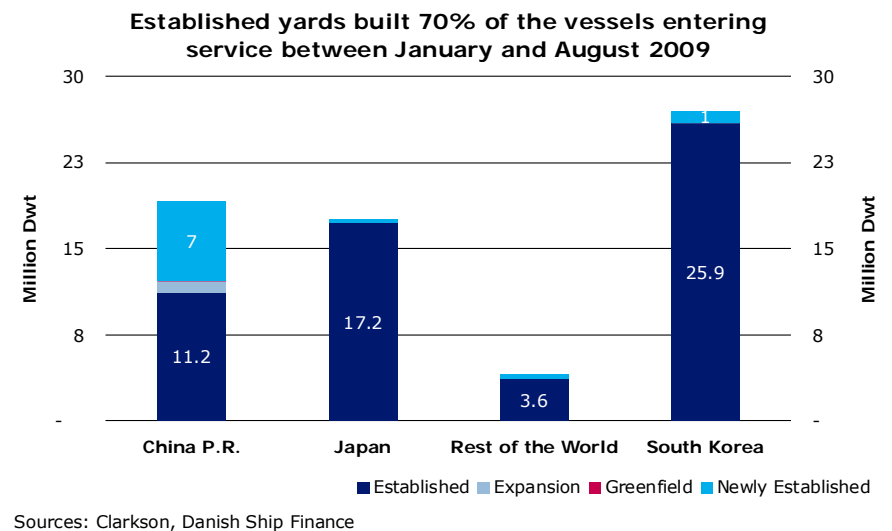


Figure SB.6



been running below maximum capacity during large parts of 2009, and it might explain part of the sudden dip in the delivery time discussed above.

LARGEST POSTPONEMENT ACTIVITY WITHIN THE DRY BULK ORDERBOOK

Taking into consideration the fact that Tanker and Container earnings are more or less depressed, with average earnings close to or below OPEX-levels, it might be a bit surprising that Dry Bulk owners have been the most successful in postponing and/or cancelling newbuilding orders. However, Dry Bulk owners started already in the fourth quarter of 2008 to negotiate postponements due to the sudden drop in earnings. During the first eight months of 2009, Dry Bulk owners have been able to limit the inflow of tonnage to 74% of the nominal orderbook. For Containers and Tankers, this number is 82% and 88%, respectively (fig. 8).

POSTPONEMENT EFFECTIVELY LOWERS YARD UTILIZATION

It might be too early to make any conclusions about postponement and cancellation activity based on August 2009 deliveries. However, based on the July delivery/orderbook ratio, it is clear that the postponement activity, month after month, has effectively lowered the utilization of the yards' capacity (fig. 7). July-deliveries fell 28% below the orderbook and 0.5m dwt below the January-deliveries.

OUTLOOK

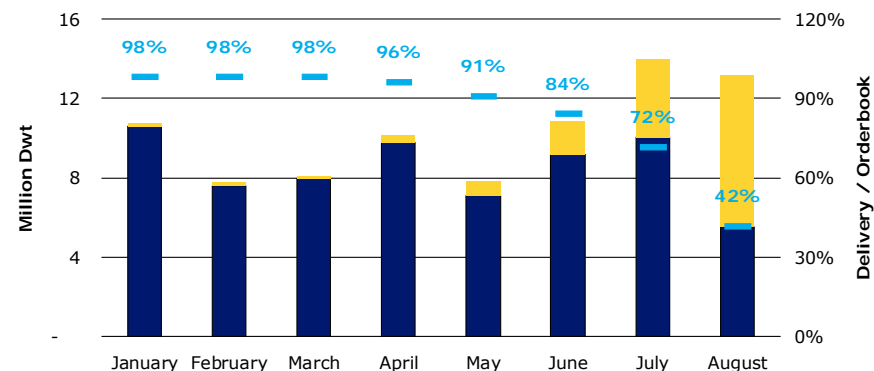
2010-DELIVERIES ARE EXPECTED TO BE APPROXIMATELY 119M DWT BECAUSE 35% OF THE ORDERBOOK WILL PROBABLY BE POSTPONED OR CANCELLED. LOWER-THAN-SCHEDULED DELIVERIES MIGHT LOWER YARD UTILIZATION AND HENCE NEWBUILDING PRICES. WE EXPECT NEWBUILDING PRICES TO DECLINE FURTHER IN 2010.

DELIVERIES AVERAGE 68% OF THE NOMINAL 2009-ORDERBOOK

Above, we saw that the monthly delivery/orderbook ratio deteriorated throughout the year 2009 (fig. 7). We do not know if this trend will continue. However, we do expect that the deliveries of the remaining months of 2009 will average the trend of the previous eight months. That is to say, we assume that the monthly deliveries of the four remaining months of 2009 will average approximately 8.5m dwt. If this turns out to be fairly accurate, 68%

Figure SB.7

During the first eight months of 2009, 82% of scheduled deliveries was actually built.

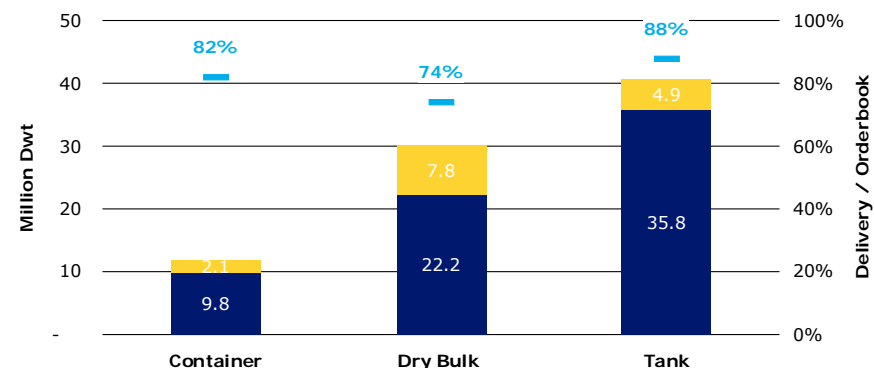


Sources: Clarkson, Danish Ship Finance

■ Delivery ■ Orderbook — Delivery / Orderbook

Figure SB.8

During the first eight months of 2009, 26% of the Dry Bulk orderbook was postponed or cancelled.



Sources: Clarkson, Danish Ship Finance

■ Delivery ■ Orderbook — Delivery / Orderbook

of the nominal 150m dwt 2009-orderbook will have materialized during 2009. In other words, 32% of the 2009 nominal orderbook will be postponed or cancelled (fig. 9).

GREAT UNCERTAINTY ATTACHED TO 2010-DELIVERIES

2009 has taught us that it is almost impossible to predict what will end up being delivered. 2010 seems more shrouded in uncertainty, since some owners and yards are struggling to survive. To make forecasting even more complex, various governments decided to support the industry, either through aid to ship owners, shipyards or to both. Consequently, the transparency of the 2010-orderbook must be called into question.

YARDS MIGHT BE ABLE TO BUILD 141M DWT IN 2010

One thing is certain; no one expects the nominal 2010 orderbook of 185m dwt to be delivered in 2010. The dilemma at the moment is whether it will be feasible for shipyards to deliver the entire 2009-orderbook. By using each country's maximum monthly delivered capacity (between January and August 2009) as a proxy for capacity, we find that the combined capacity of 2010 is approximately 141m dwt (76% of the nominal 2010 orderbook). The fact that the 2010 orderbook has a significantly lower CGT figure than the 2009 orderbook supports our estimate. We therefore conclude that it should be possible for yards to deliver at least 141m dwt by 2010 without further capacity expansions or shipyard shutdowns. However, we do not conclude that shipyards will be fully utilized since owners might not take delivery of all 141m dwt in 2010.

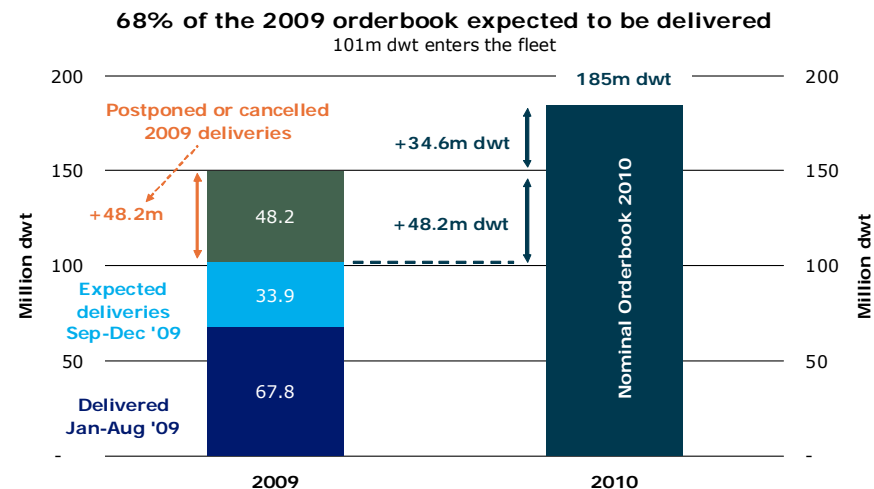
LIMITED YARD CAPACITY EXPANSION EXPECTED IN 2010

The nominal 2010 orderbook indicates an expected capacity expansion of approximately 30% (ex. Japan) (figs. 10 and 11). Japanese yards have a tendency to not report their actual orderbook in advance. Taking into consideration the postponement and cancellation activity, we find it unlikely that the yards will expand their capacity significantly in 2010. Consequently, we assume that the yards' capacity will be around 141m dwt in 2010.

119M DWT LIKELY TO ENTER FLEET IN 2010

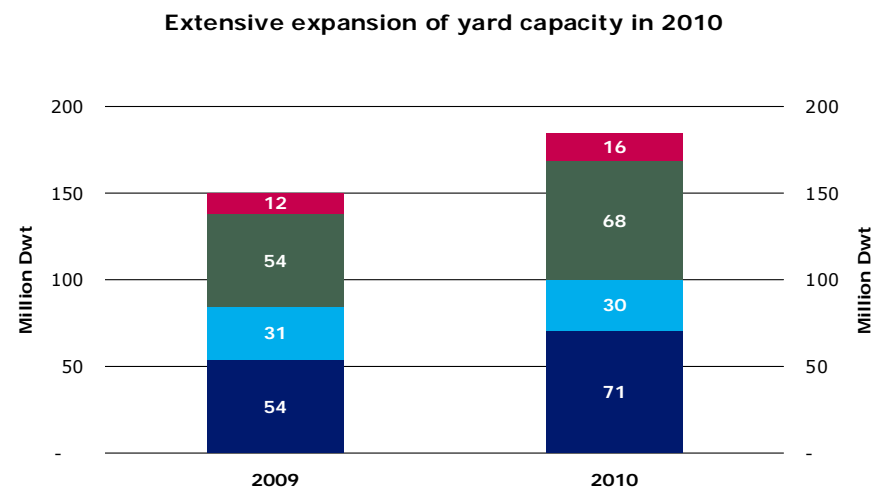
Nobody knows for sure how much tonnage will be delivered in 2010. One scenario could be that the 2010-deliveries will replicate the trend from the second quarter of 2009. Consequently, 2010-deliveries will

Figure SB.9



Sources: Clarkson, Danish Ship Finance

Figure SB.10



Sources: Clarkson, Danish Ship Finance ■ China P.R. ■ Japan ■ South Korea ■ Rest of the World

amount to 119m dwt. In that case, 35% of the nominal 2010 orderbook is postponed or cancelled (fig. 12).

NEWBUILDING PRICES EXPECTED TO BE UNDER PRESSURE

In general, annual deliveries coming in below the maximum annual capacity would put pressure on newbuilding prices. Clearly, an order backlog (i.e. delivery time) of more than three years reduces the effect on newbuilding prices of a single year's postponing activity. Nevertheless, it seems inevitable that newbuilding prices will come under pressure if, for example, 35% of the annual shipbuilding capacity lays idle.

NEW CONTRACTING ACTIVITY UNLIKELY TO EMPLOY IDLE CAPACITY

The combination of the size of the current orderbook and low freight volumes paints an unattractive picture for future contracting activity. If global demand does not improve significantly, profound scrapping is required to absorb the inflow of new vessels. Until then, it seems unlikely that the contracting activity will increase profoundly.

EXTENSIVE SCRAPPING REQUIRED TO OFFSET ENTERING CAPACITY

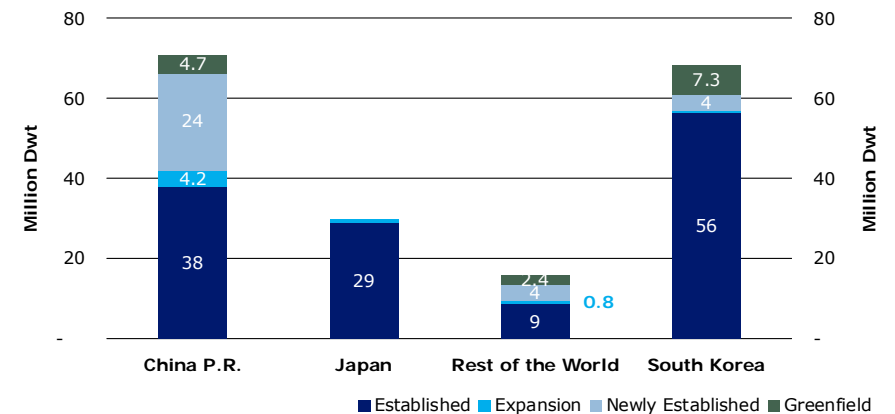
In the three following chapters, we forecast that extensive scrapping will occur. However, we do not know if the assumed demolition activity is within the capacity of global scrap yards. In a historic perspective, the 1980s represented the period where the most tonnage was scrapped. For Dry Bulk and Tankers alone, an astonishing 178m dwt was scrapped during that decade. With an annual demolition record of 35m dwt 1985, in particular, stood out.

Accordingly, for our Dry Bulk and Tanker sections, we assume an aggregated annual scrapping capacity of 35m dwt, since this was the highest scrapping ever seen. For the Container segments, however, we assume that the 2009-record of approximately 200,000 teu scrapped will be beaten in 2010.

Without an extensive scrapping strategy, it is unlikely that demand will be able to absorb supply. High contracting activity is unlikely in a scenario of a widening supply surplus. Consequently, we expect future newbuilding prices to decline if scrapping fails to balance supply and demand. ■

Figure SB.11

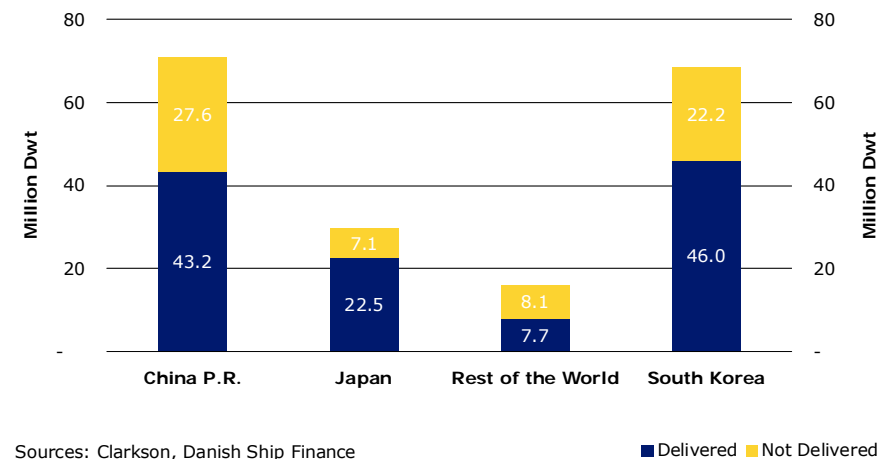
Established yards expected to deliver 132m dwt in 2010



Sources: Clarkson, Danish Ship Finance

Figure SB.12

119m dwt (65%) of the 2010 orderbook to be delivered.



Sources: Clarkson, Danish Ship Finance

CRUDE TANKER

FREIGHT RATES ARE DECLINING IN TANDEM WITH LOWER CRUDE OIL DEMAND. CURRENT RATES ARE FLIRTING WITH OPEX-LEVELS. NOMINAL FLEET GROWTH IS EXPECTED TO OUTPACE FUTURE OIL DEMAND BY A GREAT AMOUNT. EXTENSIVE SCRAPPING AND PHASE-OUT IN COMBINATION WITH LONGER TRAVEL DISTANCES IS REQUIRED IF FUTURE RATES AND ASSET VALUES ARE TO REMAIN AT CURRENT LEVELS.

FREIGHT RATES

OIL DEMAND SEEMS INSUFFICIENT TO FILL THE TANKER FLEET WHILE OECD OIL CONSUMPTION CONTINUES TO DECLINE. CRUDE TANKER EARNINGS AND TIMECHARTER RATES ARE DECLINING ACCORDINGLY. NEVERTHELESS, WE ARE STILL ABOVE THE 2002-LOW.

In our previous Shipping Market Review, we predicted moderate overcapacity in 2009, and that fundamentals would put further pressure on rates. It turns out that we were right: Earnings and timecharter rates have declined during the last 12 months.

CRUDE TANKER EARNINGS CONTINUE THE TRAIL SOUTHWARDS

Second-quarter Crude Tanker earnings continue to decline week after week, hitting a five-year record-low in May. Average VLCC earnings have declined more than USD 100,000 per day from July 2008 to their current level of USD 24,000 per day (fig.1). VLCC earnings are approximately USD 10,000 per day above the 2002-low and USD 6,000 per day above OPEX (August 2009).

TIMECHARTER RATES FALL 45% IN TWELVE MONTHS

Three-year timecharter rates have declined eight months in a row. VLCC rates have fallen 24% from January to August 2009; the same picture appears for Suezmax and Aframax. Compared to the same period last year, timecharter rates have dropped approximately 30% (fig.2). The bubbling optimism of last summer has clearly evaporated.

Figure T1

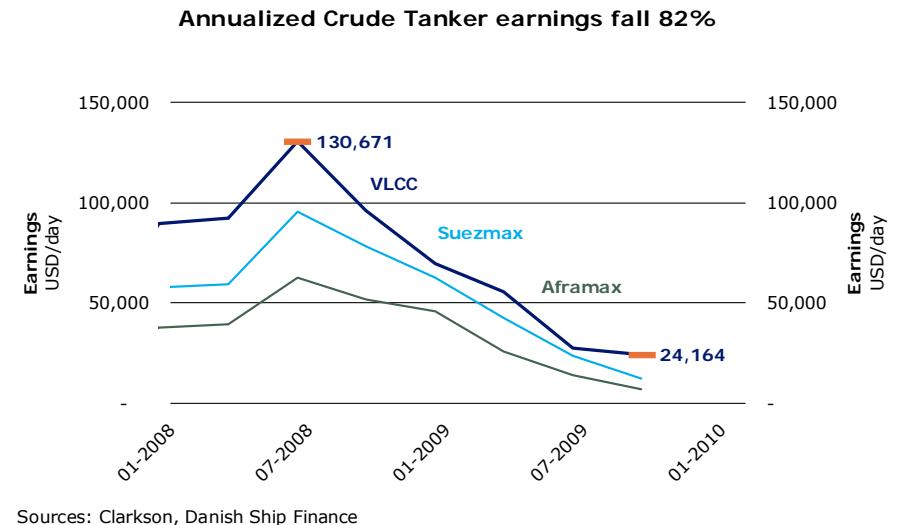
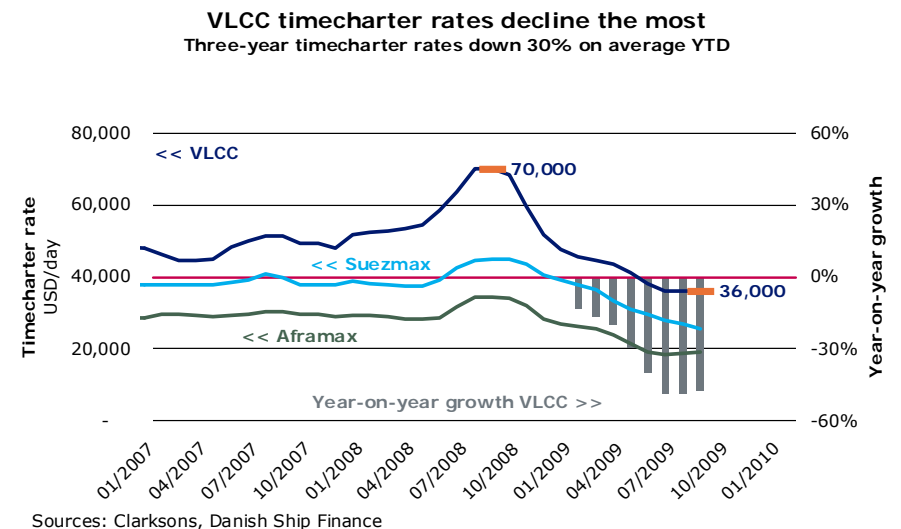


Figure T2



A RECORD-HIGH ENTRY OF NEW TONNAGE AND ALMOST NO SCRAPPING HAVE RAISED FLEET AVAILABILITY TO NEW HEIGHTS. IN COMBINATION WITH LOWER OIL PRODUCTION AND WANING OIL DEMAND, IT IS HARDLY SURPRISING THAT RATES ARE DECLINING.

35.2 MILLION DWT ENTERED SERVICE IN 2009

The Tanker fleet increased by 6% during the first eight months of 2009 with 35.2m dwt entering service. Let us put the 35.2m dwt into context: In 2008, a record-high 36m dwt entered service: In just eight months, 2009 has almost reached the same level. And so far, few 2009-deliveries have been postponed or cancelled.

A MODEST 3.3M DWT SCRAPPED IN 2009

To absorb 35.2m dwt would require a high scrapping activity or a large surge in demand if rates and values are to remain stable. Scrapping has remained modest – with only 3.3m dwt scrapped during the first eight months of 2009, and thus absorbing less than 10% of the entering capacity.

OIL PRICE TELLS LITTLE ABOUT OIL DEMAND

We expect Crude Tanker demand and the oil price to be closely correlated. The apparent logic is obvious (but wrong): A higher oil price is a reflection of improved oil demand, which in turn is expected to generate increased Crude Tanker demand. This causality assumes that the oil price is increasing in tandem with larger demand. Unfortunately for Crude Tanker demand, there is also a supply-side explanation to the higher oil prices. The oil price also increases in tandem with lower oil production. Consequently, an oil price increase might reflect lower oil production rather than improved oil demand. This is exactly the story behind the 70% increase in the WTI oil prices during the last eight months.

GLOBAL OIL PRODUCTION DOWN 2 MILLION BARRELS PER DAY IN 2009

OPEC's oil production was approximately 2.3m barrels per day lower (-6%) in the first eight months of 2009 than in the same period last year. Non-OPEC oil production was up a modest 0.2m barrels per day (+0.5%) during the same period. Consequently,

Figure T3

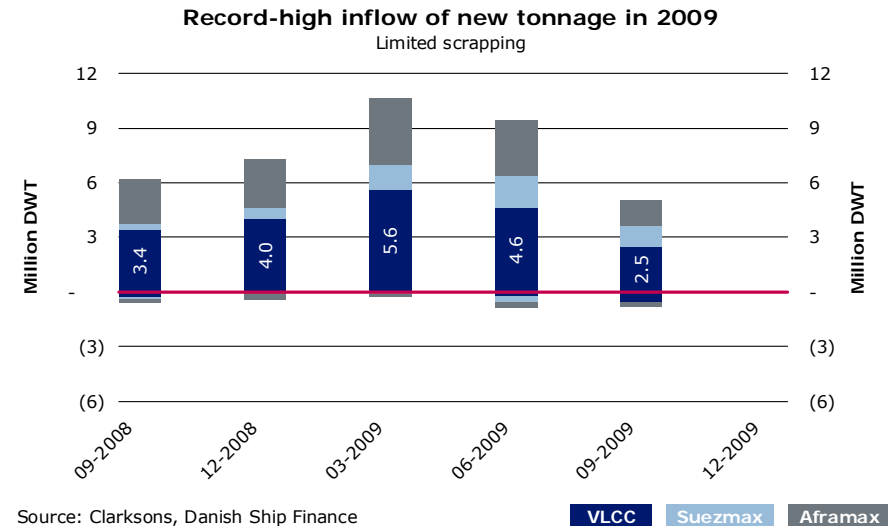
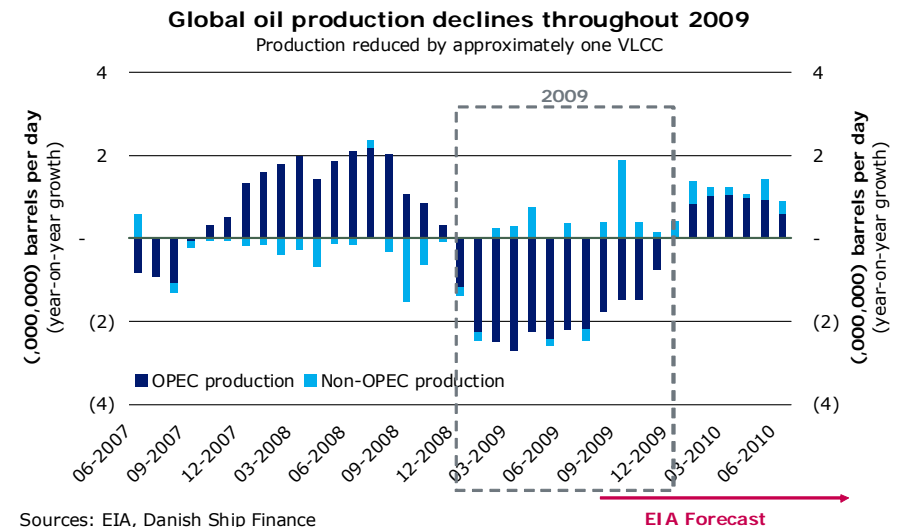


Figure T4



global oil production was approximately 2.1m barrels per day lower (-2%) in 2009 than in 2008.

GLOBAL OIL CONSUMPTION 3 MILLION BARRELS PER DAY BELOW 2008

Global oil consumption on average fell 2.8m barrels per day (-3%) during the first eight months of 2009 compared to the same period in 2008. OECD oil consumption (54% of global consumption) declined 2.6m barrels per day (-5%) during that same period (fig. 5), while non-OECD oil consumption held almost steady, declining a modest 0.2m barrels per day (-0.5%) during the first eight months of 2009. Interestingly, although Chinese oil consumption was stable during the period, Chinese imports actually increased by 235,000 barrels per day (8%).

NORTH AMERICAN OIL CONSUMPTION DOWN TO VOLUME OF 1998

Among the OECD countries, North American (largest oil consumer within OECD) and Japanese consumption (third-largest oil consumer within OECD) declined the most. North American oil consumption declined on average 1.1m barrels per day (-5%) during the first eight months of 2009. North American oil consumption has not been that low since 1998. European oil consumption (second-largest oil consumer within OECD) has remained more stable, declining a modest 0.2m barrels per day (-2%). Japanese oil consumption declined on average 600,000 barrels per day (12%). Japanese oil imports declined approximately 630,000 barrels per day (-15%), reaching a 20-year low.

LOWER TON-MILES DEMAND

The combination of lower OECD and non-OECD oil consumption despite increased Chinese imports reduced ton-miles demand for Crude Tankers.

OECD INVENTORIES UP 20 MILLION BARRELS

OECD commercial inventories are at a 10-year record-high level. They have increased a modest 20m barrels (+1%) during the first six months of 2009, albeit with the oil forward premium heavily in favour of inventory build-up (i.e. contango). Therefore, on-shore inventory build-up has had a limited impact on Crude Tanker demand (fig. 6).

Figure T5

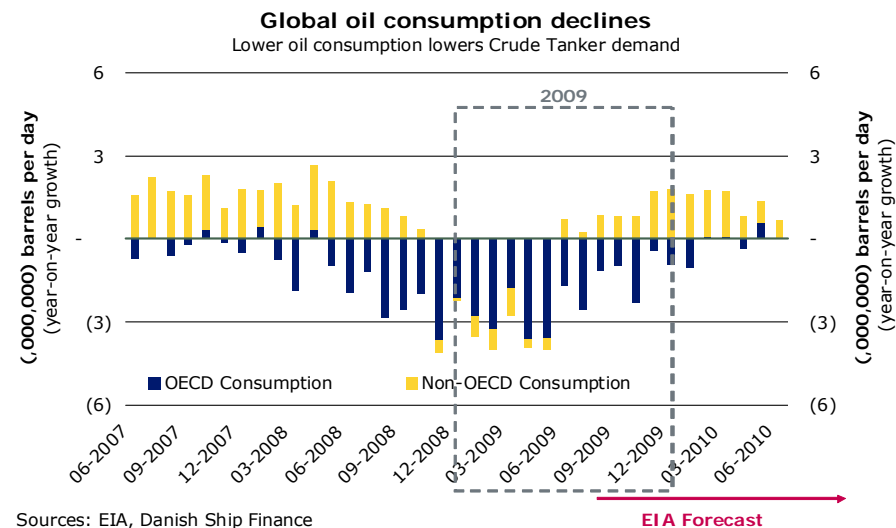
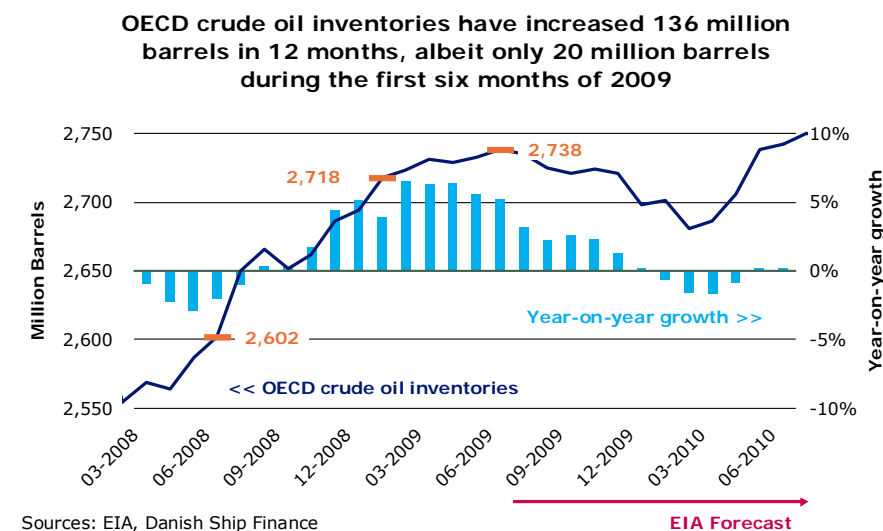


Figure T6



The use of VLCCs as floating storage will limit the availability of VLCC tonnage. By April 2009, as many as 40-45 VLCCs were used as floating storage. By August 2009, this number has been reduced to approximately 25-30 vessels.

CONTRACTING & SHIP VALUES

THE UNEXPECTED ORDERING OF TWELVE VLCC TANKERS DOMINATED THE CONTRACTING SCENE DURING THIRD QUARTER 2009. NEWBUILDING PRICES AND SECONDHAND PRICES ARE DECLINING IN TANDEM WITH LOWER RATES AND INCREASED RISK OF OVERCAPACITY.

Crude Tanker asset values peaked in September 2008. Since then, rates and asset values have been declining significantly. Declining asset values and rates often reflect a looming or present supply surplus. Waning global oil consumption is lowering fleet utilization and is thus threatening future asset values.

UNEXPECTED CONTRACTING ACTIVITY

Taking into account the large orderbook, expected to enter the fleet during the next couple of years, we are surprised to see additional orders being placed. One explanation could be a significant price discount.

NEWBUILDING PRICES DOWN 30% IN 12 MONTHS

In August 2009, twelve VLCCs were contracted at established Chinese yards for delivery in 2011 and 2012 (fig. 7). The official contract price was USD 100m.

According to Clarksons, the average newbuilding price is currently USD 113m. This is a USD 50m reduction of the newbuilding price in 12 months (fig. 8).

Figure T7

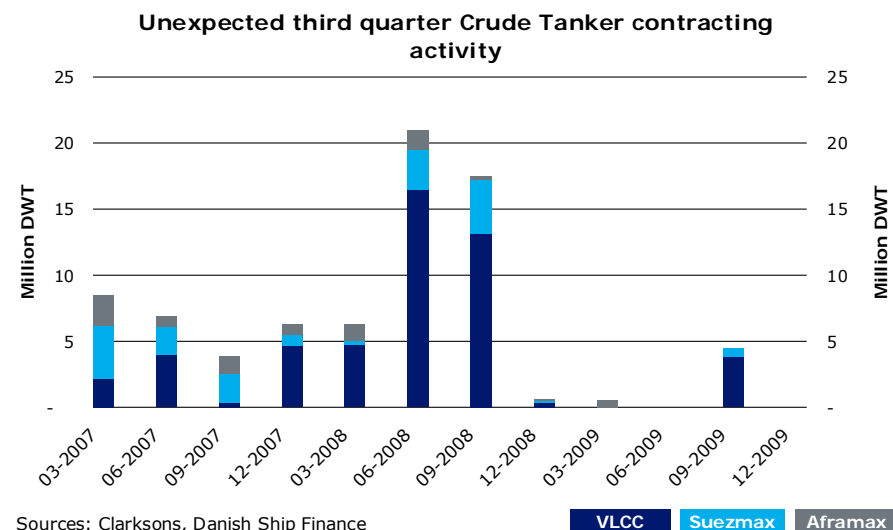
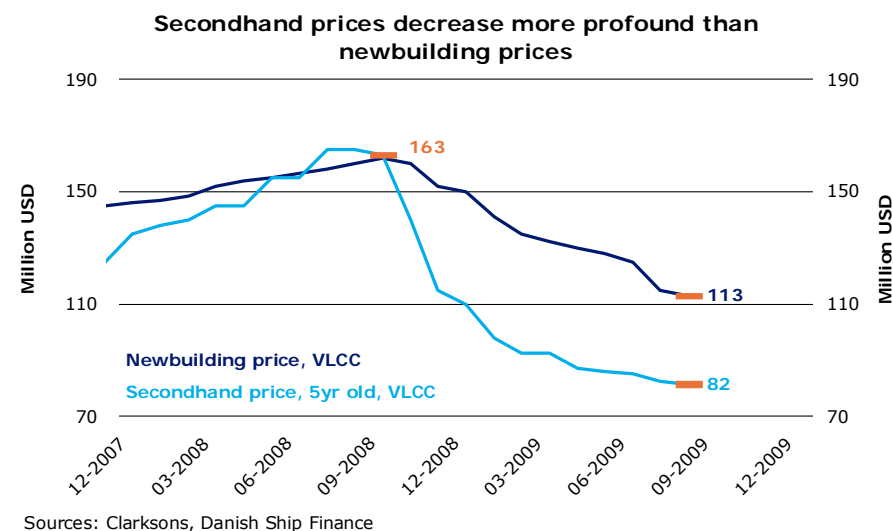


Figure T8



SECONDHAND PRICES DOWN 50% IN 12 MONTHS

The value of a five-year-old VLCC has declined USD 81m in 12 months to USD 82m (fig. 8). In the same period, the three-year timecharter rate has dropped from USD 70,000 per day to USD 36,000 per day (fig. 2). This drop can explain approximately USD 30m of the USD 81m drop in the secondhand price. The remaining USD 50m is to be found in significantly lower expectations of the long-term earning potential. The implicit expectation to long-term earnings has dropped USD 20,000 per day in 12 months from USD 45,000 per day to the current (August 2009) USD 25,000 per day, enabling a balance between daily earnings requirement for a newbuilding VLCC and a five-year-old.

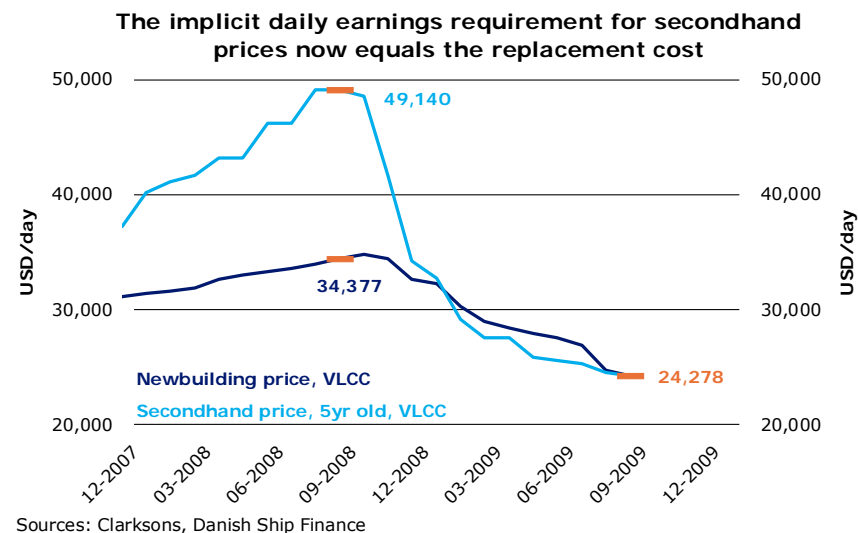
Consequently, the current long-term earnings requirement is in line with the implicit daily earnings requirement dictated by current newbuilding prices (fig. 9). This indicates equilibrium between newbuilding and secondhand prices.

LOW SHORT-TERM RETURN ON INVESTMENTS

At the current timecharter rates and asset prices, the short-term return on investment is a modest 5%.

For short-term accumulated earnings (i.e. timecharter income minus OPEX and debt-servicing) to generate a 15% return on investment, current five-year-old secondhand prices and newbuilding prices would both have to decline a further USD 20m. Alternatively, the three-year timecharter rate will have to increase to USD 44,000 per day.

Figure T9



OUTLOOK

IN 2010, NOMINAL SUPPLY IS EXPECTED TO OUTPACE CRUDE TANKER DEMAND SINCE GLOBAL OIL DEMAND IS DOWN TO 2006-VOLUMES. OECD DEMAND IS DECLINING WHEREAS NON-OECD DEMAND IS ANTICIPATED TO CONTINUE TO INCREASE DRIVEN, IN PARTICULAR, BY LARGER CHINESE CRUDE OIL CONSUMPTION.

The macroeconomic outlook is improving. Several OECD economies are expected to be out of recession during second half 2009. The outlook for Crude Tanker demand volumes is improving accordingly. It is, however, important to remember that import volumes are expected to be significantly lower than the 2008-demand. Global oil consumption in 2010 is expected to equal the level of 2006. OECD oil consumption for 2010 is expected to be stable, but at a low 2002-level. Non-OECD consumption is, on the other hand, expected to increase by 1 million barrels per day to a record-high level.

Therefore, with global oil consumption running at 2006-volumes and a large inflow of new tonnage approaching, we need significantly longer travel distances and extensive scrapping to balance supply and demand.

SEMI-ANNUAL ENTRY OF NEW TONNAGE TO REACH 16.5M DWT

From August to December 2009, the Crude Tanker fleet is expected to increase by 16.5m dwt (fig. 10). In terms of monthly deliveries, the last months of 2009 are expected to be 9% lower than the previous months' deliveries in 2009. Consequently, a lower-than-previous-month's delivery of tonnage is expected to support rates and asset values. Furthermore, scrapping is expected to increase during the last part of 2009.

SECOND-HALF 2009 GLOBAL OIL CONSUMPTION UP 2%

Crude Tankers are approaching peak-season. Fourth quarter 2009 global oil consumption is expected to be 1.6m barrels per day higher than in second quarter 2009 (fig. 11).

Figure T10

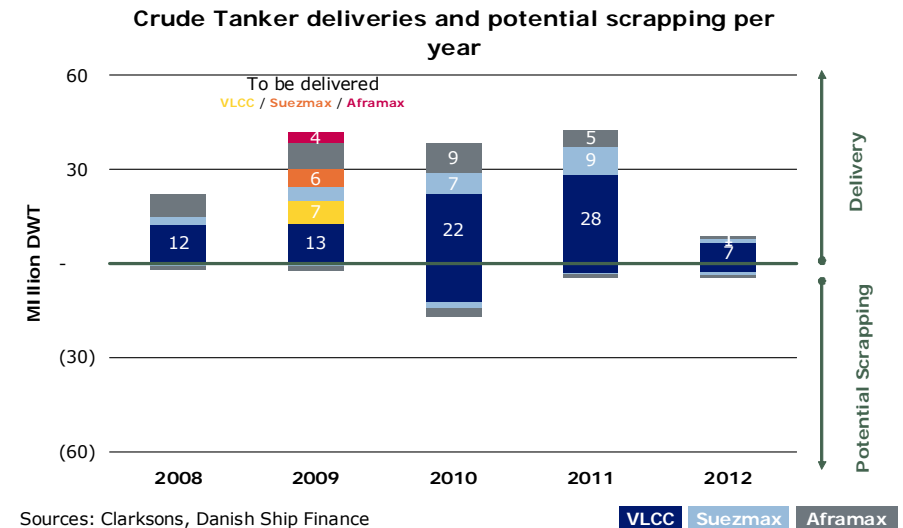
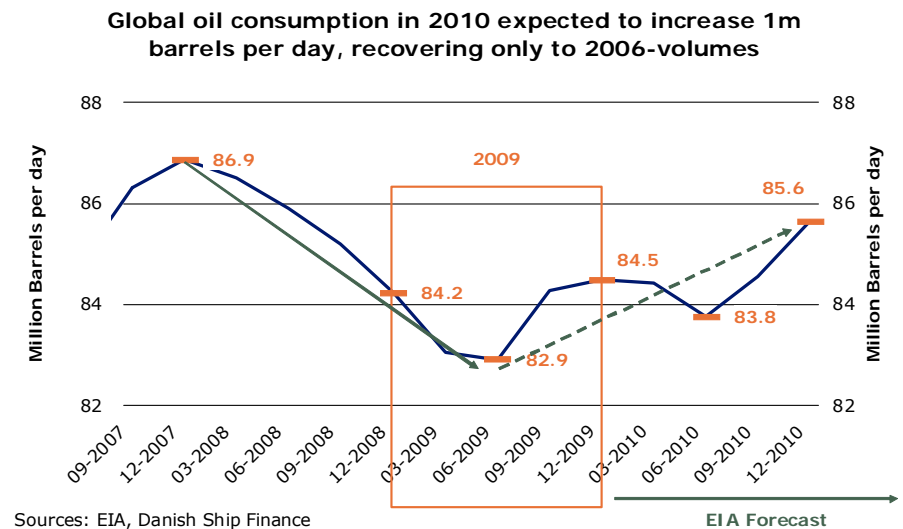


Figure T11



OECD OIL CONSUMPTION UP 1.6M BARRELS PER DAY

The OECD oil consumption is expected to increase during the remaining months of 2009, from approximately 44.4m barrels per day during the second quarter to 46m barrels per day in the fourth quarter of 2009. In the same period, the OECD oil stock is expected to decline by 27m barrels. Non-OECD consumption is expected to peak in third quarter at 39.1m barrels per day (+0.6m), but lose the gained territory in the fourth quarter, when consumption is expected to reach 38.4m barrels per day. In line with this trend, Chinese oil consumption is expected 0.3m barrels lower in December 2009 than in August 2009.

FREIGHT RATES MIGHT IMPROVE IN 2009

The trend of lower global oil consumption (i.e. Crude Tanker demand) is expected to reverse during the third and fourth quarter of 2009. In volume terms, global oil consumption is expected to increase 2%. The nominal quarterly fleet entry is expected to be below previous quarters', whereas scrapping is expected to intensify. Generally, this is expected to support Crude Tanker rates. However, as we all know, freight rates might increase despite lower demand volumes if distance-adjusted demand increases.

THE OUTLOOK FOR 2010

2010 is characterized by an expected oil demand equivalent to the volume of 2006 and a large inflow of new tonnage. The challenge of 2010 is therefore to restrain supply to balance demand.

The aggregated capacity of the combined VLCC, Suezmax and Aframax fleet in 2006 was approximately 270m dwt. By year-end 2010, the capacity is expected to reach 350m dwt. Consequently, 80m dwt needs to be absorbed or phased-out for Crude Tanker demand to absorb the supply. Approximately 37m dwt is expected to be phased-out or scrapped between 2010 and 2015 (i.e. due to the IMO-regulation). However, the 37m dwt only offsets the deliveries scheduled to enter the fleet in 2010 (fig. 10). The rest would have to be absorbed by longer travel distances or postponements. It seems almost an impossible challenge. If demand fails to absorb the fleet growth, the outlook for rates and values is gloomy.

Figure T12

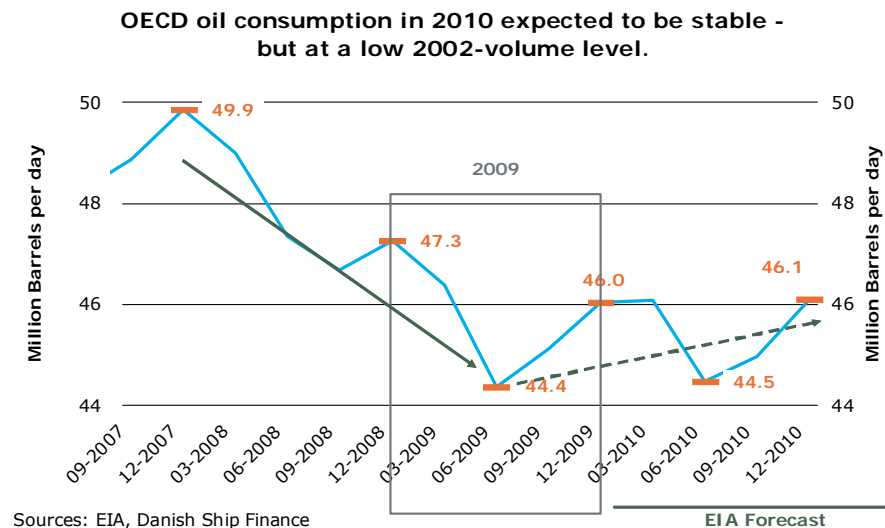
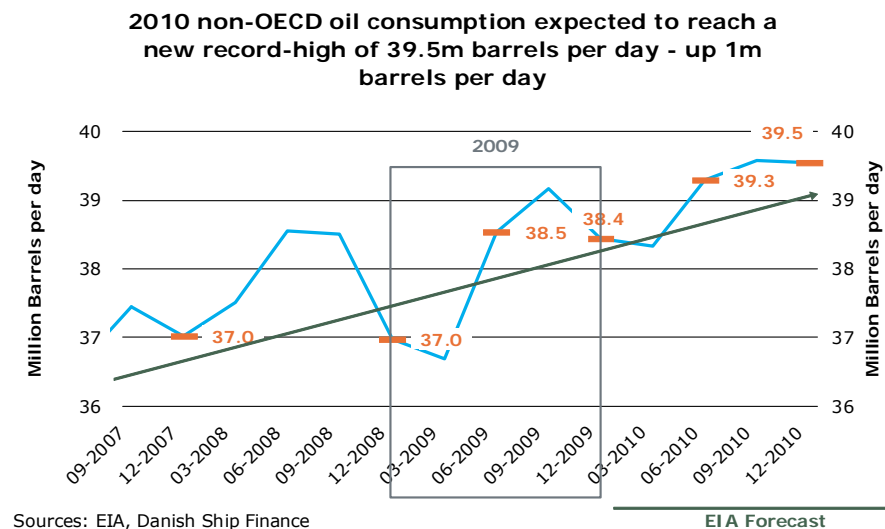


Figure T13



ASIAN IMPORTS INCREASE WHEREAS OECD CONSUMPTION DECLINES

2010-demand is characterized by modest OECD consumption-growth at low volumes, but also a steadily increasing non-OECD consumption, driven by increased Chinese (and Indian) imports of crude oil (figs. 11-13).

For Crude Tanker earnings and asset values to remain stable in this demand-scenario, and with the Tanker fleet growing 7%, travel distances will have to increase significantly.

CHINESE TRADE AGREEMENT MIGHT INCREASE TRAVEL DISTANCES

China has signed an oil trade agreement with Venezuela. Consequently, Venezuela has agreed to increase oil shipments from 380,000 barrels per day to approximately 1m barrels per day. This agreement is expected to increase the travel distances of the oil trades - not only because of this specific trade, but also as Venezuela's traditional trading partners will have to import their crude oil over longer distances. Similar agreements have been reached with Brazil, although on a much smaller scale - approximately 100,000 barrels per day. These agreements will add ton-miles on both the front-haul and the back-haul leg.

ON AVERAGE 3% LESS TON-MILES DEMAND FROM ASIAN IMPORTS

Generally speaking, Asian crude oil imports are travelling longer distances than their European and North American counterparts. Therefore, as long as lower global oil consumption consists of 1) lower North American and European oil consumption but 2) rising Asian (ex. Japan) consumption there is a chance that the ton-miles demand might increase despite lower volumes. Figure 15 illustrates differences in travel distances on specific VLCC routes. Figure 15 shows us that Asian imports from Latin America add significantly longer ton-miles to the Crude Tanker demand, than for example Middle-Eastern Gulf (MEG) oil exports to Asia.

FREIGHT RATES LIKELY TO DECLINE FURTHER IN 2010

We do not know what to expect about freight rates in 2010. On the one hand, the nominal gap between supply and demand seems to dictate lower rates and declining asset values. On the other hand, we cannot reject the scenario where longer travel distances make up the difference between supply and demand. ■

Figure T14

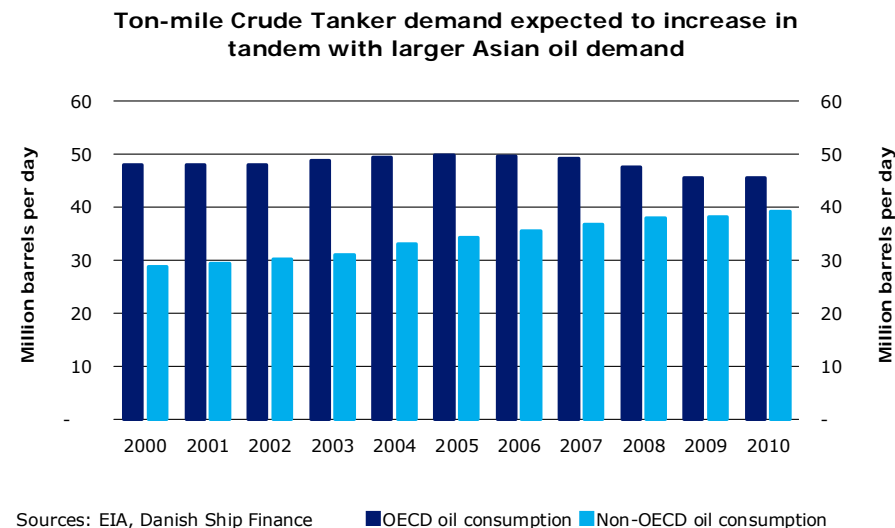
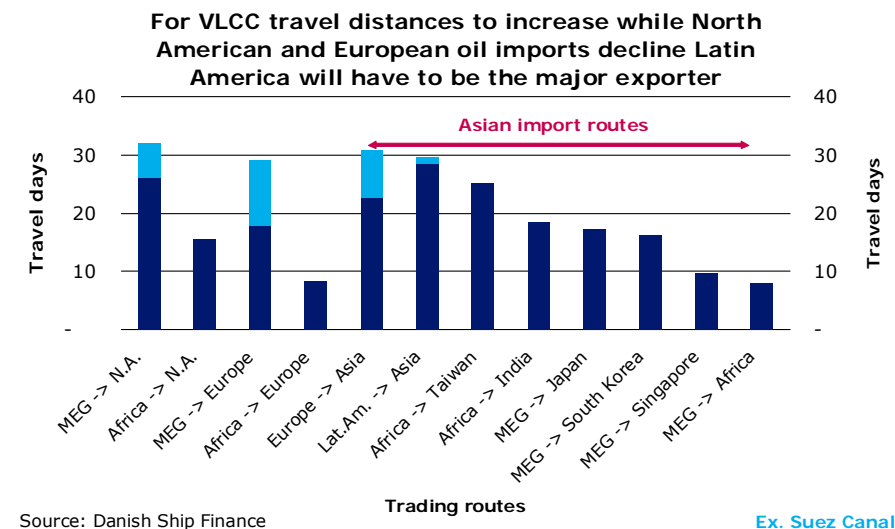


Figure T15



CONTAINER

THE CONTAINER MARKET IS STRUGGLING WITH LOW TRADE VOLUMES AND A LARGE INFLOW OF NEW CAPACITY. TIMECHARTER RATES ARE AT A RECORD LOW WHICH IS WHY ASSET VALUES ARE DECLINING. THE OUTLOOK IS BLEAK, PRIMARILY BECAUSE THE SUPPLY SURPLUS IS EXPECTED TO WIDEN IN 2010. TONNAGE PROVIDERS ARE EXPECTED TO SUFFER THE MOST AS LINER COMPANIES FAVOUR THEIR OWN TONNAGE.

FREIGHT RATES

TONNAGE OVERCAPACITY SENDS TIMECHARTER RATES PER TEU TO NEW RECORD-LOWS. NEVERTHELESS, BOX RATES ARE BEING RAISED TO SUPPORT OPERATIONS.

In our previous Shipping Market Review, we predicted substantial overcapacity and that fundamentals would put significant pressure on timecharter rates. Still, we expected box rates to be determined by factors beyond the fundamental supply-demand balance. The last six months' market trends support our expectations.

BOX RATES OUT ARE FINALLY RISING AGAIN

Second-quarter box rates continued their journey southwards, setting new minimum rates week after week. A few weeks into the third quarter, several liner companies decided to raise box rates to compensate for the negative cash flow from operations.

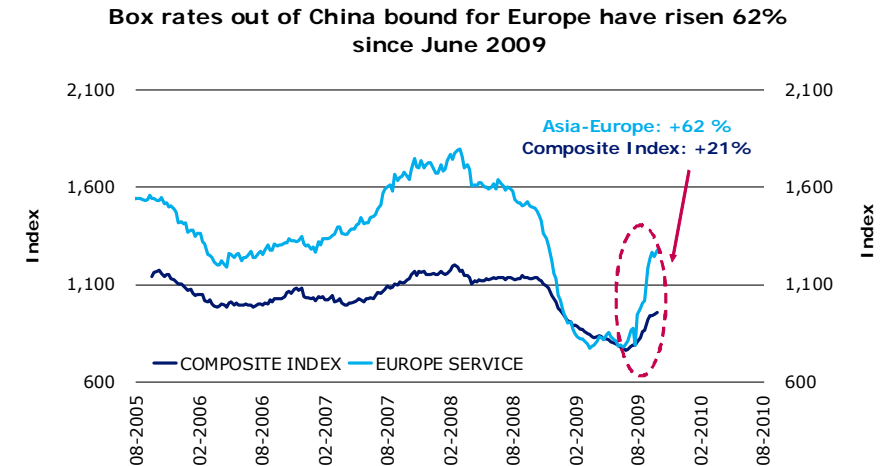
The general box spot index (composite) out of China has increased by 21% during the third quarter of 2009. The box spot index out of China bound for Europe has increased by 62% throughout the third quarter of 2009 (fig.1).

TIMECHARTER RATES ARE DECLINING AS OVERCAPACITY EXPANDS

Timecharter rates per teu have tumbled throughout 2009. The 2002-low had already been surpassed in December 2008. Ever since, monthly timecharter rates have tested new lows and – so far – settled at a record-low of USD 33.6 per teu (August 2009) (fig. 2).

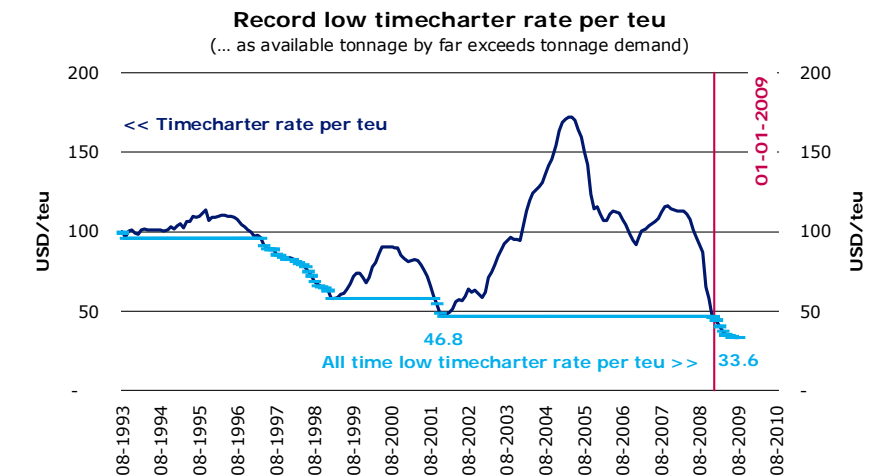
This trend clearly emphasizes the escalating over-supply of tonnage available to charterers.

Figure CS.1



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

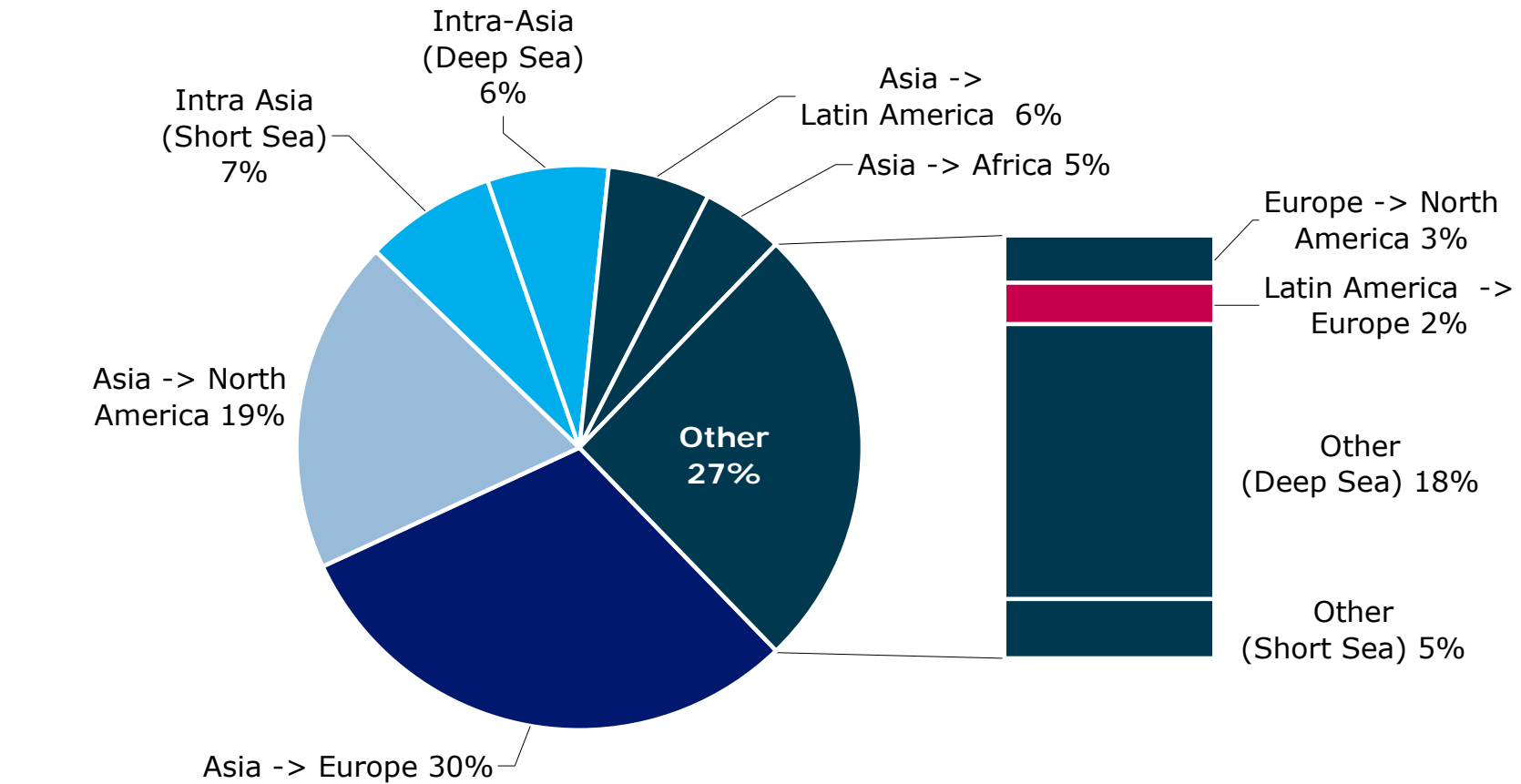
Figure CS.2



Sources: Clarksons, Danish Ship Finance

Total Head-Haul Container Routes 2009

(measured in teu-nautical miles)



Sources: Global Insight, Danish Ship Finance

SUPPLY AND DEMAND

AGGREGATED HEAD-HAUL DEMAND VOLUMES HAVE FALLEN BACK TO THE 2006-LEVEL. WITH 780,000 TEU ENTERING SERVICE DURING THE FIRST EIGHT MONTHS OF 2009, SUPPLY GROWTH SURPASSED 11%. SCRAPPING AND POSTPONEMENT OF NEWBUILDING CONTRACTS WERE INSUFFICIENT TO BALANCE SUPPLY AND DEMAND. FURTHER LAYUP ACTIVITY SEEMS INEVITABLE.

In times, where demand volumes struggle to fill the container fleet, all supply-cutting measures are being used to support rates and asset values. Present times are no different.

RECORD-HIGH SCRAPPING ACTIVITY DURING FIRST HALF 2009

Container owners are scrapping record-high volumes of smaller and older vessels, in an attempt to bring rates back above OPEX levels. During the first eight months of 2009, 111 vessels or 187,000 teu were scrapped - this is 89% more scrapped capacity than in 2008, itself a year of record-high scrapping activity. Unfortunately, no scrapping activity was seen within the larger segments, where the overcapacity is most profound.

21% OF EXPECTED FIRST HALF 2009 DELIVERIES NEVER MATERIALISED

The postponement of newbuilding contracts acted as the first line of defence, alleviating overcapacity during the first half of 2009. Although postponement provides only a temporary refuge against overcapacity, it does give owners some additional room for manoeuvre.

As much as 21% (180,000 teu) of expected first half 2009 deliveries never materialised either because of postponement or cancellation. However, one might argue that since almost 80% of the postponements are expected to enter the fleet by third quarter 2009, this was of little importance.

Obviously, the postponements have not worked miracles, but it has given liner companies a chance to reorganise trade lanes and optimize the composition of the operating fleet.

Figure CS.3

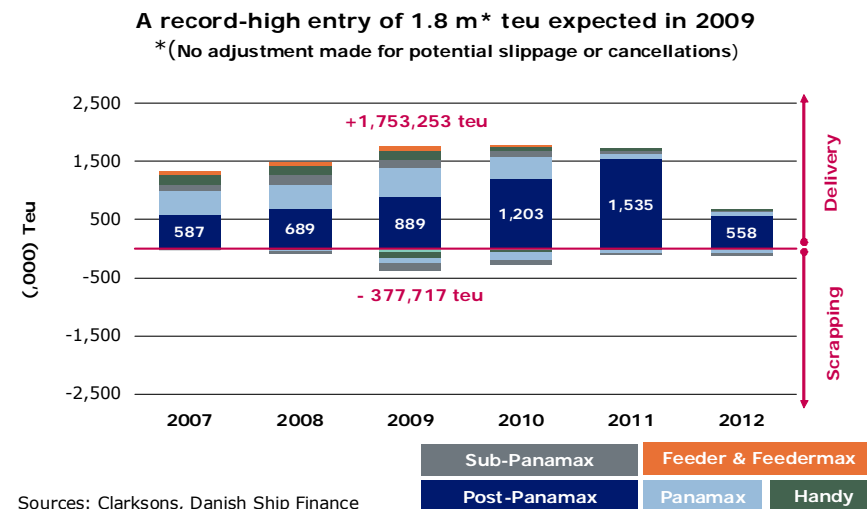
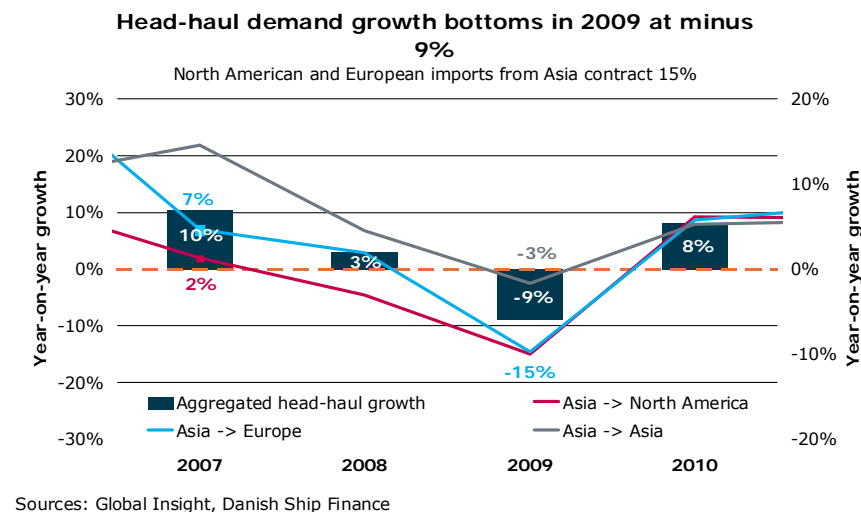


Figure CS.4



780,000 TEU ENTERED SERVICE DURING THE FIRST EIGHT MONTHS OF 2009

Despite all efforts to reduce the inflow of new tonnage, an alarming 780,000 teu (+11%) entered the container fleet during the first eight months of 2009. Panamax and Post-Panamax deliveries almost reached the levels from first half 2008, with a semi-annual inflow of 200,000 teu and 340,000 teu, respectively. Laid up capacity has increased accordingly.

CONTAINER DEMAND BACK TO VOLUMES OF 2006

The financial crisis has drained global consumer wealth, lowered consumer spending and significantly reduced momentum in the world economy. The impact on the container market has been profound.

The severity of the crisis is clearly illustrated by the fact that container head-haul demand is down to the volumes of 2006. In the last 12 months, declining asset values in general and insufficient supply of credit in particular have effectively wiped out the container demand generated by the economic growth of 2007 and 2008.

10% OF THE CONTAINER FLEET LIES IDLE – LAY-UP INEVITABLE

Before we go into detail with head-haul demand figures, let us put the 2006 demand volume into a supply perspective: 201 Post-Panamax vessels entered the fleet from January 2007 to August 2009. The combined capacity of these 201 vessels exceeds 1.6 m teu. Approximately 500,000 teu has been scrapped within this period (non on these Post-Panamax vessels).

It is therefore not surprising that Drewry (June 2009) estimated that as much as 10% of the combined Container fleet (1.3 m teu) lies idle waiting for the next charter. Obviously, a large number of these vessels are experiencing some degree of lay-up despite extensive exploitation of a slow-steaming strategy.

HEAD-HAUL CONTAINER DEMAND EXPECTED TO DECLINE BY 9% IN 2009

The return to 2006 demand volumes drove annual demand-growth heavily into the red. On an annual basis, head-haul demand is expected to contract 9% (teu-NM) in 2009 (fig. 4). The large drop has primarily been driven by lower North American and European Container imports, though also by lower Intra-Asian trade. Below, we look at the monthly figures behind this development.

Figure CS.5

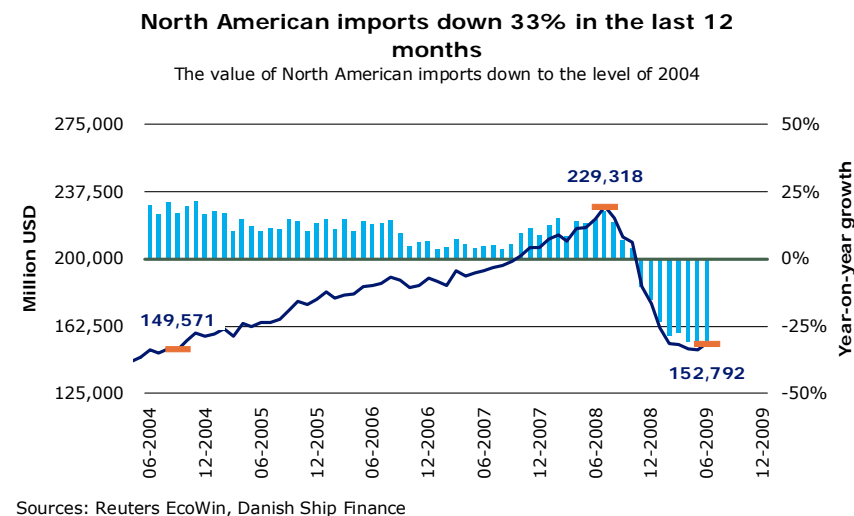
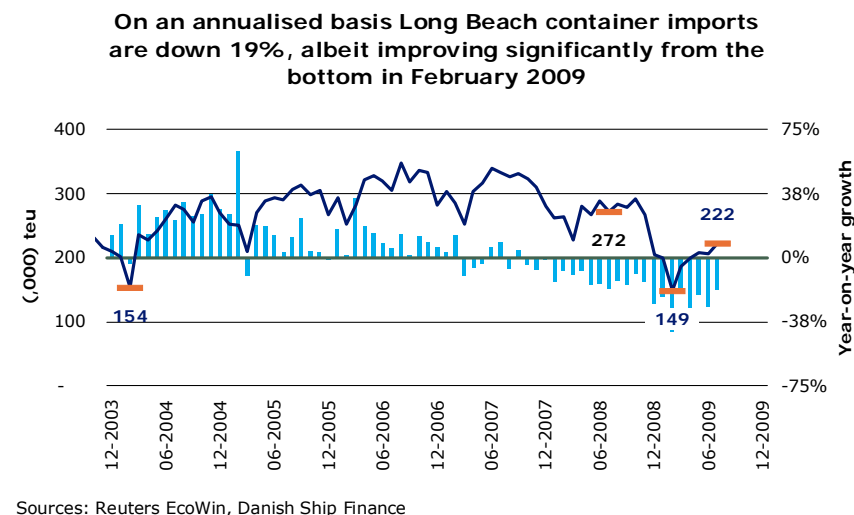


Figure CS.6



NORTH AMERICAN IMPORT VOLUMES CONTRACTED 15% IN 2009

As the financial crisis was deepening late last year, North American imports began to slip and have lost momentum ever since. In value terms, North American imports have now returned to the level of 2004, after a 33% drop in the previous 12 months (fig. 5). In volume terms, Long Beach container import figures (used as a proxy for North American imports) have dropped 19% (yoy) (fig. 6).

We warn against any optimism triggered by the recent surge in Long Beach import figures. To a great extent the improved import volumes reflect an end to the extreme inventory withdrawal. An import volume drop of 19% (yoy) clearly indicates significantly lower consumer demand. Thus, the surge from February 2009 to July 2009 reflects a return to traditional inventory levels rather than significantly improved consumer spending.

The fact that North American imports have declined more in value terms (fig. 5) than in volume terms (fig. 4) is simply a reflection of lower consumer spending, and hence driving down producer prices. The Chinese producer price index (fig. 7) has dropped 14% during the last 12 months, closing July 2009 at a record-low Index 93.

NORTH AMERICAN HEAD-HAUL DEMAND BACK TO THE VOLUMES OF 2005

On an annual basis, North American head-haul imports for 2009 are expected to decline 15% measured in teu-NM. In 2008, North American head-haul import dropped 4.5%, removing most of the gained demand from 2006 and 2007. A 15% drop in 2009 has to date taken away all demand generated in the period 2006-2009 and sends North American head-haul volumes back to the levels of 2005.

EUROPEAN IMPORT VOLUMES CONTRACT 15% IN 2009

European imports look only slightly better. In value terms, European imports are down 30% from July 2008 to May 2009 (fig. 8). In volume terms, annual European head-haul imports for 2009 are expected to decline 15% measured in teu-NM (fig. 4). European head-haul demand, however, has fallen only to the level of 2006, supported by European imports, which were still growing in 2008.

Figure CS.7

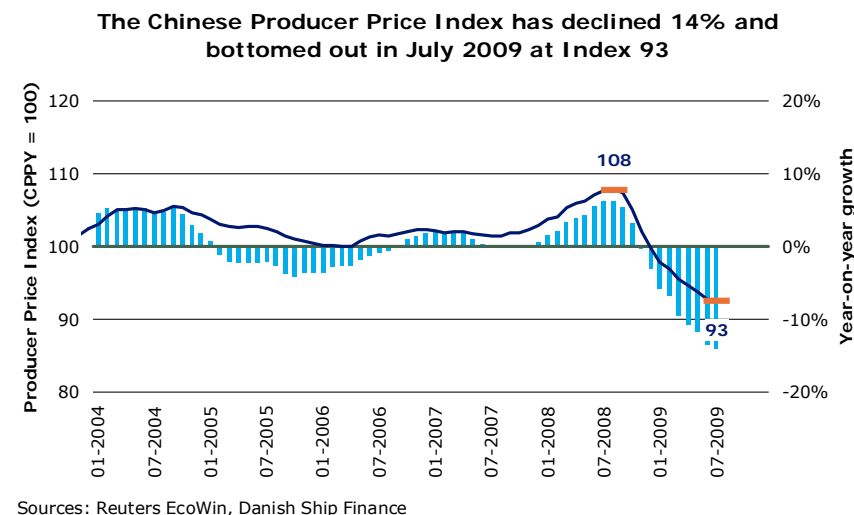
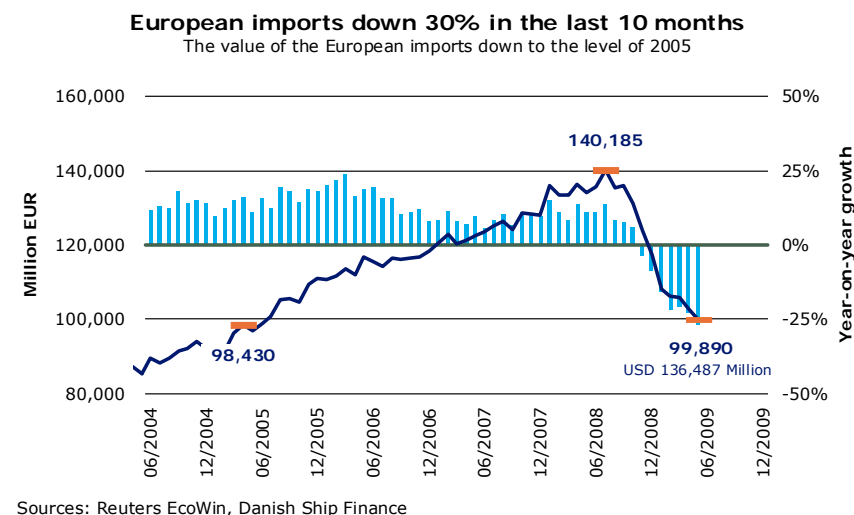


Figure CS.8



INTRA-ASIAN TRADE DOWN 3% IN 2009

Intra-Asian trade is shrinking in tandem with lower North American and European imports. To illustrate the connection between Intra-Asian trade and Asian exports to North America and Europe, we use Chinese imports from Asia as an approximation for Intra-Asian trade and Chinese exports to North America and Europe as an approximation for Asian exports. Figure 9 clearly illustrates how Intra-Asian trade is driven by Chinese exports to North America and Europe.

Generally speaking, the Asian economies are export-driven. That is to say the decline in North American and European imports is being transmitted not only into the Chinese economy, but to the broader region. That is the most likely explanation for the abrupt collapse in Intra-Asian trade (i.e. Chinese imports from Asia) as North American and European demand declined. Therefore, as long as the Asian economies are primarily export-driven, the prosperity of Intra-Asian trade eventually depends on North American and European demand.

In volume terms, 2009 Intra-Asian head-haul demand is expected to decline 3%, measured in teu-NM (fig. 4).

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CONTAINER OVERCAPACITY MIGHT BE AS HIGH AS 1.3 MILLION TEU

To sum up, container supply has increased 11% during the first eight months of 2009. At the same time, 2009 annualized demand has plummeted 9%, sending global head-haul demand down to the volumes of 2006. Overcapacity might be as high as 1.3 million teu. In such a market, deliveries are likely to go more or less directly into some sort of lay-up.

SCRAPPING AND POSTPONING NOT ENOUGH TO BALANCE SUPPLY AND DEMAND

Accordingly, balancing supply and demand in the current market is almost an impossible challenge. Individual owners might succeed through extensive scrapping activity and postponement of newbuilding contracts. In aggregate, however, there seems to be no other alternatives than extensive cancellations of newbuilding contracts and layup of new tonnage. Tonnage providers may be hit the hardest.

Figure CS.9

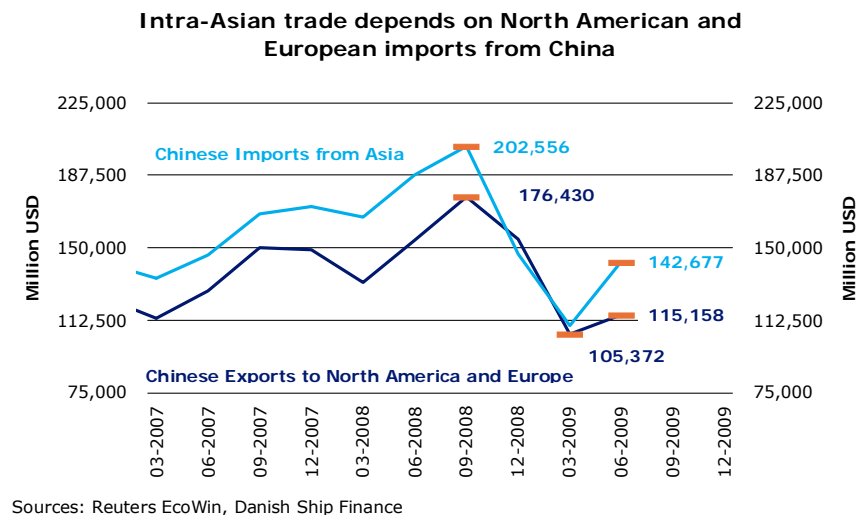
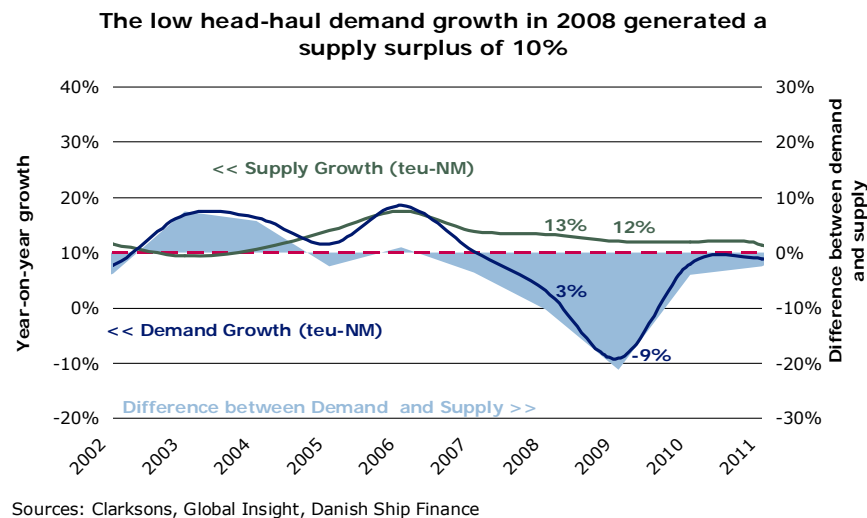


Figure CS.10



IN A PERIOD WHERE SUPPLY OUTPACES DEMAND AND RATES ARE INSUFFICIENT TO COVER OPERATING EXPENSES, CONTRACTING ACTIVITY AND THE APPETITE FOR SALE AND PURCHASE ACTIVITIES ARE IN THE DOLDRUMS.

Generally speaking, the appetite for new tonnage is a reflection of 1) the balance between supply and demand; 2) the combined daily running cost of a secondhand vessel versus building a new vessel; and 3) the implicit debt servicing ability of current earnings net of operating expenses.

As reviewed above, timecharter income (per teu) is testing record-low levels one month after the other while the supply surplus seems ever increasing. Secondhand values are declining accordingly and are now below the 2002-low in many segments.

SECONDHAND VALUES DOWN 53% IN 8 MONTHS

A five-year-old Panamax (3,500 teu) has lost 53% in market value, declining from USD 48m in January 2009 to USD 23m in August 2009. The newbuilding price seems to have declined 30% during the same period. There is little evidence to pinpoint the newbuilding price as almost no new contracts have been placed within the container segments within the last 12 months (fig. 11).

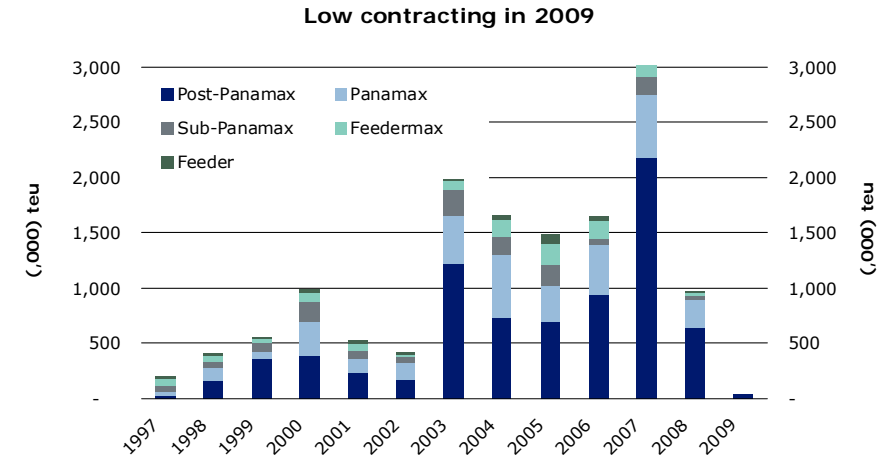
REQUIRED EARNINGS PER DAY HIGHEST FOR NEW TONNAGE

The apparent stickiness in newbuilding prices has further lowered owners' appetite for new tonnage. The implicit daily earnings requirement for a newbuild vessel is now 60% higher than the daily earnings requirement for secondhand tonnage (fig. 12 (right hand side)).

LOW TIMECHARTER RATES DRIVING DOWN SECONDHAND PRICES

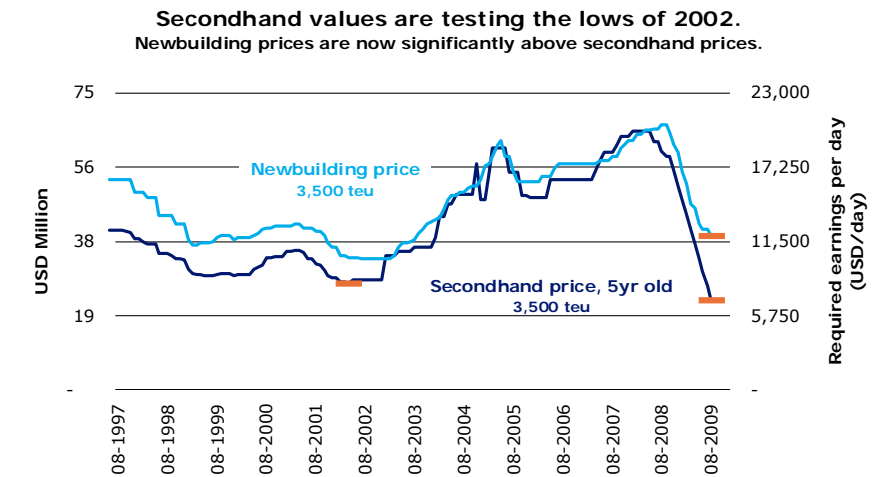
As discussed above, secondhand values have been declining in tandem with lower timecharter rates. In many segments, current timecharter rates are now flirting with, or have even dipped below, operating expenses (excluding debt service). That is to say charter income is insufficient to cover operating expenses. In such a situation, owners add capital to daily operations to keep the investment afloat.

Figure CS.11



Sources: Clarksons, Danish Ship Finance

Figure CS.12



Sources: Clarkson, Danish Ship Finance

If the situation is maintained over a period, the secondhand price is expected to decline even further. This is what has happened to many container segments over the last 12 months. Clearly, the ability to service debt seems long gone, and the return on investment has entered negative territory. At current prices, cash rich buyers might find it the right time to enter the market. The critical point is, of course, whether they will be able to employ them or not.

OUTLOOK

THE OUTLOOK FOR THE CONTAINER MARKET IS DOMINATED BY ONE FACTOR: OVERCAPACITY. EXPECTED FREIGHT VOLUMES SEEM INSUFFICIENT TO FILL EXISTING AND FUTURE TONNAGE. LINER COMPANIES FAVOUR THEIR OWN TONNAGE, WHICH IS WHY TONNAGE PROVIDERS (AND HENCE T/C RATES) MAY BECOME THE VICTIMS OF OVERCAPACITY.

LATEST FIGURES INDICATE THAT WE ARE OUT OF RECESSION

The latest figures for the major OECD countries indicate that the worst of the economic crisis is behind us. Economic growth is approaching positive territory, albeit still growing modestly. The tonic has been a combination of a profound injection of taxpayers' money into the financial system, as well as fiscal stimuli in the form of either tax cuts or government spending. The question is, what impact the stimuli will have on head-haul Container demand. The jury is still out: many stimuli programs stretch into 2010, the overall effect thus shrouded with uncertainty.

GLOBAL HEAD-HAUL DEMAND EXPECTED TO GROW 8% IN 2010

Global Insight expects global head-haul container demand to grow 8% in 2010. That is expected to bring 2010 head-haul container volumes back to the level of 2008 (fig. 16). The three major head-haul importers (i.e. North America, Europe and Intra-Asia) are expected to increase their imports by 8-9% in 2010 (fig. 17).

THE CONTAINER FLEET EXPECTED TO GROW BY 11% IN 2010

According to the nominal 2010 orderbook, the total net inflow of new container tonnage is expected to peak at 1.5 m teu in 2010. The 1.5 m teu reflects an inflow of approximately 1.8 m teu and expected scrapping of 300,000 teu (fig. 3). The Post-Panamax segment accounts for 2/3 of the 1.8 m teu and none of the 300,000 teu (fig. 15). Actual deliveries might be significantly smaller than dictated by the nominal orderbook as owners are currently negotiating to postpone or outright cancel newbuilding orders.

EXTENSIVE SCRAPPING ACTIVITY MIGHT UNBALANCE SUPPLY

Supply and demand balance in 2010 seems highly unlikely. The supply surplus is beyond any reasonable scrapping and/or cancellation potential for 2009 and 2010. Only half of the delivered capacity of 2010 (900,000 teu) will be absorbed if we make the dramatic assumption that all vessels older than 20 years will be scrapped before year-end 2010. And that does not make up for difference in size for vessels leaving and entering the fleet: The scrapping candidates are all smaller vessels, where the entering capacity are predominantly larger vessels. We are concerned that the feeder logistic to the Post-Panamax services will be in a supply shortage, if too much capacity below 3,500 teu is scrapped. Nevertheless, by scrapping 900,000 teu, the projected 2010 fleet growth will be reduced to 7%.

FREIGHT RATES DETERMINED BY FACTORS BEYOND SUPPLY AND DEMAND

In the last few months, we have seen box rates increases beyond the supply and demand balance. We expect future box rates still to be affected by factors beyond the supply surplus. However, we do not know if current levels are sustainable. The struggle for market share (i.e. high fleet utilization) is expected to be too powerful to allow much further box rate increases without starting another price war.

TIMECHARTER RATES STILL UNDER PRESSURE AS THE SUPPLY SURPLUS WIDENS

The pressure on timecharter rates per teu is expected to intensify as new vessels enter the fleet and the supply surplus widens. The puzzle is therefore to determine which vessel sizes will be the preferred choice for liner companies. Clearly, although liner companies will first of all prefer their own tonnage, they will still need to charter some in.

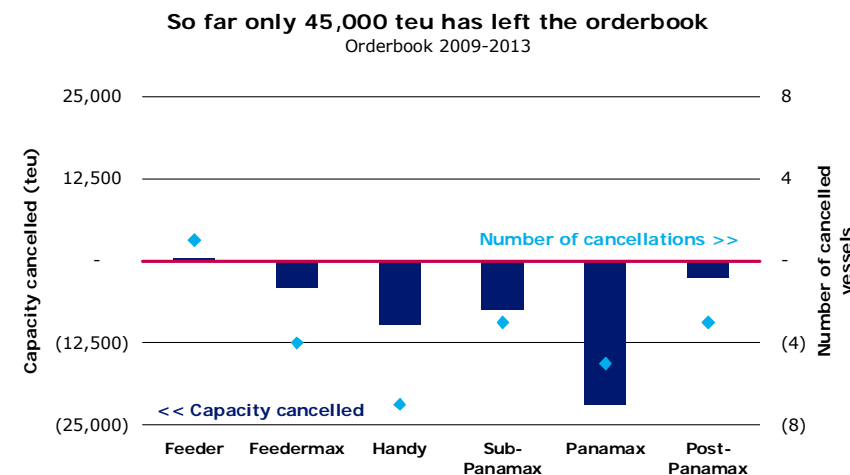
Solely determined from a mathematical perspective, we would expect the smaller Post-Panamax vessels (i.e. approximately 6-8,000 teu) to be the optimal capacity option for liner companies at current freight volumes. However, taken into account: 1) the small difference in OPEX levels and 2) the extensive investment programs in larger Post-Panamax vessels (and associated infrastructure) we change this conclusion. Leaving debt servicing out of the equation, the cost of running a 8,000 teu vessels and a 14,000 teu vessel is basically the same. Consequently, the daily running cost is the same whether you move 8,000 containers at a 8,000 teu vessel or at a 14,000 teu vessel. Accordingly, we expect future trade routes to be defined by the largest Post-Panamax vessels. The rest of the container fleet will then be deployed to optimize the operation of these vessels.

If it turns out that we are right, it will be difficult times for the smaller Post-Panamax vessels. Our logic is that these vessels are too small to minimize the marginal cost per teu and too large to keep a high utilization. We might be wrong, but for current trade volumes and given the fact that the largest vessels are part of a logistic supply chain, we find it highly unlikely that the liner companies will not use these vessels.

TONNAGE PROVIDERS ARE EXPECTED TO SUFFER THE MOST

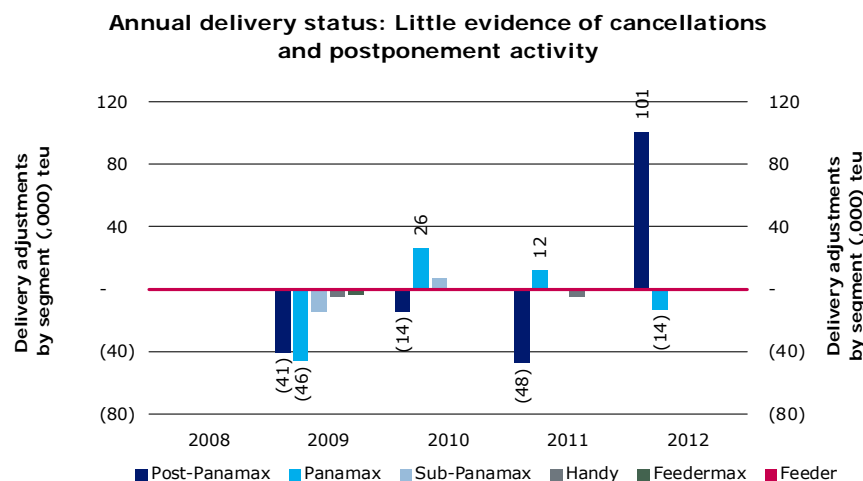
The impact of such a strategy could easily turn out to be devastating for many tonnage providers. Significant layup activity might be the first line of defence, but if the demand situation does not improve, the outlook for tonnage providers is bleak. Taking the argument to the extreme, we could end up in a situation where vessels without employment might force tonnage providers into financial distress and ultimately cause a (forced) sale. Unfortunately, a vessel sold under distress does not change market conditions. It simply enters the market again, with a new owner that is most likely able to run the vessel at very low costs.

Figure CS.13



Sources: Clarkson, Danish Ship Finance

Figure CS.14



Sources: Clarksons, Danish Ship Finance

ASSET VALUE MIGHT DECLINE FURTHER

Accordingly, any Post-Panamax sales activity is very unattractive for all Post-Panamax owners. We expect most market participants will look for alternative solutions. Hence, should sales activity increase, the outlook for future asset values is very bleak indeed.

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LITTLE EVIDENCE OF OUTRIGHT CANCELLATIONS

Despite all the smoke, it seems to be only a small fire. So far, we hardly find any evidence of outright order cancellations in the container orderbook. True, 2009 and early 2010 deliveries could hardly be cancelled as most were in some stage of construction when the financial crisis gained momentum. For 2011 and 2012 deliveries, it might be too early to see any confirmed or reported cancellations. Owners and yards might still be negotiating - not to mention the fact that most parties would most likely prefer not to confirm any cancellation in advance. That could leave us with late-2010 deliveries as the only cancellation candidates to monitor.

We compare Clarkson's container orderbook from April 2009 with the one from August 2009. By doing that we learn that a modest 45,000 teu left the orderbook (fig. 13).

LESS THAN 1% OF THE ORDERBOOK HAS BEEN POSTPONED TOWARDS 2012

Some ship owners have been successful in postponing their newbuilding program. It is, however, more the exception to the rule. Overall, only 1% of the 2009-2013 orderbook has been postponed. As illustrated by figure 14, it is primarily Post-Panamax deliveries initially intended to be delivered in 2009-2011 that are being postponed into 2012 or later.

Our cancellation and postponement analysis might underestimate the actual figures. Our research is no better than the accuracy of available orderbook data.

THE CONTAINER FLEET SET TO GROW 7% IN 2010

As discussed above, a traditional scrapping scenario for 2010 gives us a modest scrapping potential of 300,000 teu. This is too little by far to absorb the enormous delivery program. Assuming that all vessels older than 20 years will be scrapped, approximately half the capacity

Figure CS.15

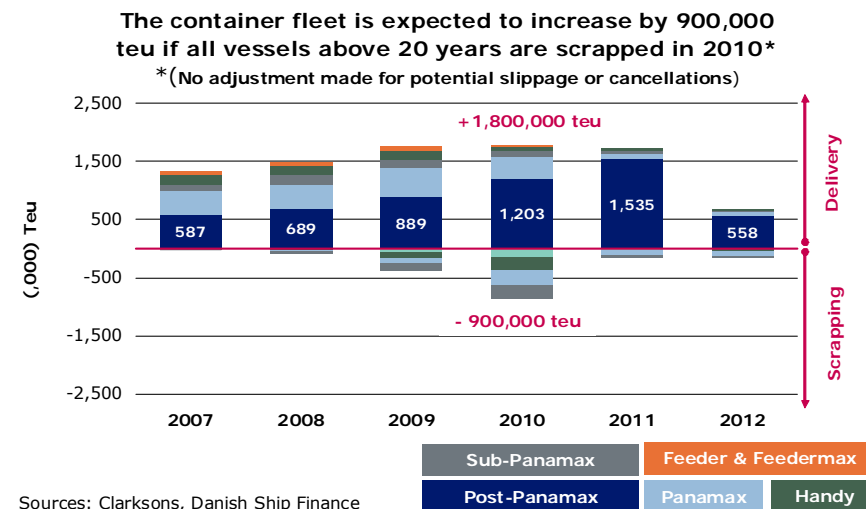
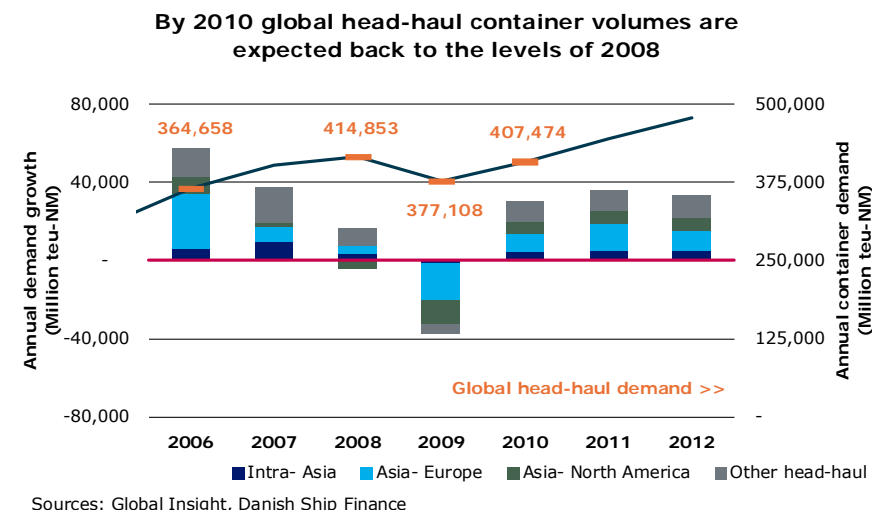


Figure CS.16



expected to be delivered in 2010 will be offset. In growth terms, the container fleet is set to grow 11% using the traditional scrapping scenario and, more feasibly, 7%, if all vessels older than 20 years end up being scrapped. Again, it is important to remember that this is solely a fleet capacity consideration. At the individual segment level, such a scrapping scenario might easily turn out to create a shortage of vessels in some of the smaller segments – without necessarily having a great impact on the supply surplus within the Post-Panamax segment.

That being concluded let us now turn to the outlook for container head-haul demand in 2010.

CONTAINER TRADE GROWTH IS DRIVEN BY GLOBAL CONSUMPTION

Before we address head-haul container demand let us recall what container trade is all about: The container fleet connects consumers in the west with producers in east. Container demand is therefore ultimately driven by consumers in the west.

INTRA-ASIAN TRADE IS LITTLE WITHOUT NORTH AMERICA AND EUROPE

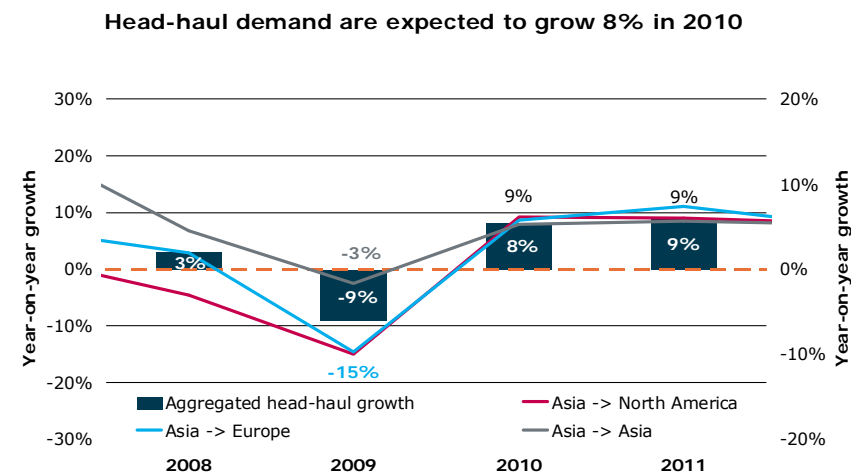
Obviously, the prosperity of the Asian economies has increased the Intra-Asian container demand bound for Asia. But as long as the Asian economies are primarily driven by exports, the Intra-Asian container demand is highly dependent on North American and European consumption. That is to say, a lower North American and/or European import from Asia will impact Intra-Asian trade through two channels: Lower component trade volumes which will again spill-over into the lower regional trade through lower regional GDP growth.

FISCAL STIMULI MIGHT NOT NECESSARILY GENERATE DEMAND

Several observers have argued that the extensive fiscal stimuli programs initiated in many economies will support global GDP growth and global trade. Certainly it will, and it already has. Without these fiscal stimuli programs, it is unlikely that many OECD economies would have been heading for positive growth figures already in 3Q2009.

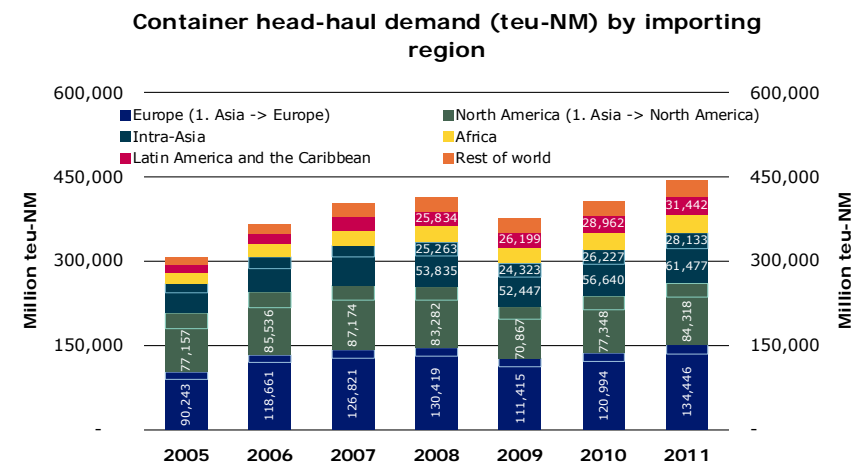
The impact on head-haul container demand is more complex. Obviously, the objective for fiscal stimuli is to boost GDP growth through increased domestic demand (few politicians would appreciate exporting taxpayers' money). The critical question for container demand is, therefore, whether increased domestic demand implies more or less head-haul

Figure CS.17



Sources: Global Insight, Danish Ship Finance

Figure CS.18



Sources: Global Insight, Danish Ship Finance

container imports into the region. We look at the three main importers, one by one.

FISCAL STIMULI GENERATES LITTLE INTRA-ASIAN DEMAND

Let us start in Asia. As discussed above, the majority of the Asian economies are export driven and hence dependent on North American and/or European demand. So when the Chinese government, for example, supports GDP growth through fiscal stimuli (to offset lower Chinese exports) it is primarily through fixed asset investment. Fixed asset investment is often the preferred choice, as it quickly generates jobs and GDP growth. Unfortunately for regional container demand, fixed asset investment primarily generates Dry Bulk demand. Therefore, a high Chinese GDP figure is not necessarily good news for Intra-Asian container trade volumes.

Consequently, in times when North American and European imports are weak, container demand becomes even more dependent on these two regions, as Intra-Asian container trade (and regional GDP growth), to a large extent, depends on North American and European imports.

FISCAL STIMULI SUPPORTS NORTH AMERICAN AND EUROPEAN DEMAND

North American and European container demand is all about consumer spending. The fiscal stimuli initiated in both countries is intended to stimulate GDP growth and consumer spending. The preferred channel has been a combination of tax cuts and increased government spending (fixed asset investment). In relation to head-haul container demand, there is not much new to say. Increased consumer spending is expected to increase container head-haul import volumes directly. As such, the success of governmental intervention into the economies is great news for container head-haul volumes.

GLOBAL HEAD-HAUL CONTAINER VOLUMES BACK TO 2008 LEVELS

Global Insight expects global head-haul demand to increase 8% in 2010. Such growth will bring global head-haul container volumes back to the levels of 2008. That said, the two major

head-haul routes, Asia to Europe and Asia to North America, are expected to drop to only freight volumes of 2006 and 2005 respectively (fig. 18). North American imports from Asia are expected to increase 9% in 2010, whereas the combined North American head-haul imports are expected to increase 8%. The same growth figures are expected for European imports.

To us, it is rather alarming that global head-haul import volumes are expected back to 2008 levels already in 2010, whereas North American and European import volumes are expected to reach only the levels of 2005 and 2006 respectively. It implies that world trade is expected to become more independent of North America and Europe.

Recall the causality between Intra-Asian trade and North American and European imports (fig. 9). A lower dependence on North American and/or European imports is only expected possible, if the Asian economies change their growth engine from being export-driven to being more dependent on private consumption. This is basically what China has been trying to achieve for years, but the process is long and costly.

Let us take a closer look at the fourth largest head-haul route: Asia to Latin America. Import volumes are expected to grow 11% in 2010. For Latin America to increase its imports from Asia by such magnitude, the economies are inevitably expected to show strong economic growth. That is pretty close to assuming that the economies of Latin America remain relatively unaffected by the financial crisis, in general, and lower North American growth in particular. We do not subscribe to such forecasts as we have a healthy scepticism towards the decoupling hypothesis.

We are therefore surprised to see that many experts expect Latin American imports from Asia, African imports from Asia as well as Intra Asian trade (head-haul volumes top 3 to 5, see fig. 3) to be back at, or above, 2008 volumes by 2010. Accordingly, we expect actual head-haul demand volumes to undershoot the current forecast.

A MISMATCH BETWEEN REGIONAL IMPORT AND VESSEL SIZE

If Global Insight's forecast turns out to be more or less correct, the primary volume growth in 2010 will come from outside the two major east-west trades. For the utilization of the largest Post-Panamax vessels this is not necessarily the best news. If these vessels enter for example Asia-Latin America it will, at best, be difficult to maintain current utilization at the trade route.

LARGE SUPPLY SURPLUS IN 2010

Where does this leave us? Head-haul demand is expected to grow 8% in 2010. An aggressive scrapping profile might limit the supply growth to 7%. Nominal fleet utilization is expected low. Our model expects nominal fleet utilization to average at 64% in 2010.

Actual fleet utilization, on the other hand, is as much a question of how good liner companies are to optimizing their fleet and thus deliver back chartered tonnage. That is to say, it might be possible for liner companies to increase fleet utilization, but it will certainly be at the expense of the tonnage providers. ■

DRY BULK

THE DRY BULK MARKET HAS BEEN HELD UP BY LOWER-THAN-EXPECTED FLEET GROWTH AND LONGER TRAVEL DISTANCES. THE FUTURE FOR RATES AND ASSET VALUES IS ONCE AGAIN DEPENDENT ON A PROFOUND CHINESE DEMAND GROWTH AND SIGNIFICANTLY LOWER THAN SCHEDULED SUPPLY GROWTH. IN ALL OTHER SCENARIOS, THE SUPPLY SURPLUS WILL FORCE RATES AND VALUES DOWNWARDS.

FREIGHT RATES

EARNINGS AND TIMECHARTER RATES HAVE IMPROVED STRONGLY DURING THE FIRST EIGHT MONTHS OF 2009

The Baltic Dry Index (BDI Index) stood at approximately Index 2,000 when we published our previous Shipping Market Review in April 2009. We clearly anticipated that the Index would remain low because we expected low demand growth and hence a supply surplus. It turned out that we were right about demand, but we did not foresee the strength which owners scrapped tonnage and vessels kept pilling up at Chinese seaports.

AVERAGE SPOT EARNINGS TRIPLED IN EIGHT MONTHS

Capesize earnings have increased USD 12,000 per day in January 2009 to USD 35,000 per day in August 2009. Panamax earnings have increased even more, from USD 4,700 per day in January 2009 to USD 19,000 per day in August 2009. Handymax earnings have increased from USD 4,000 per day in January 2009 to more than USD 16,000 per day in August 2009 (fig. 1).

TIMECHARTER RATES INCREASE 30% IN SEVEN MONTHS

Capesize timecharter rates have increased USD 15,000 per day from their bottom in November 2008 (when the BDI Index stood at Index 715). The golden days when owners generated USD 40-50 Million by chartering out a Capesize carrier for three years have clearly passed. Still, a three-year timecharter rate of USD 33,000 per day for a Capesize is not low. In comparison, the average of 1992-2002 is approximately USD 15,000 per day (fig. 2).

Figure DB.1

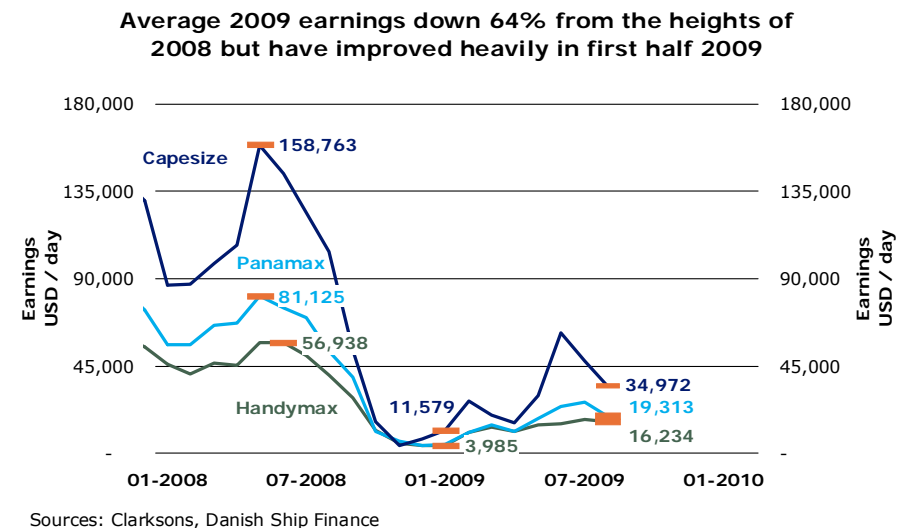


Figure DB.2

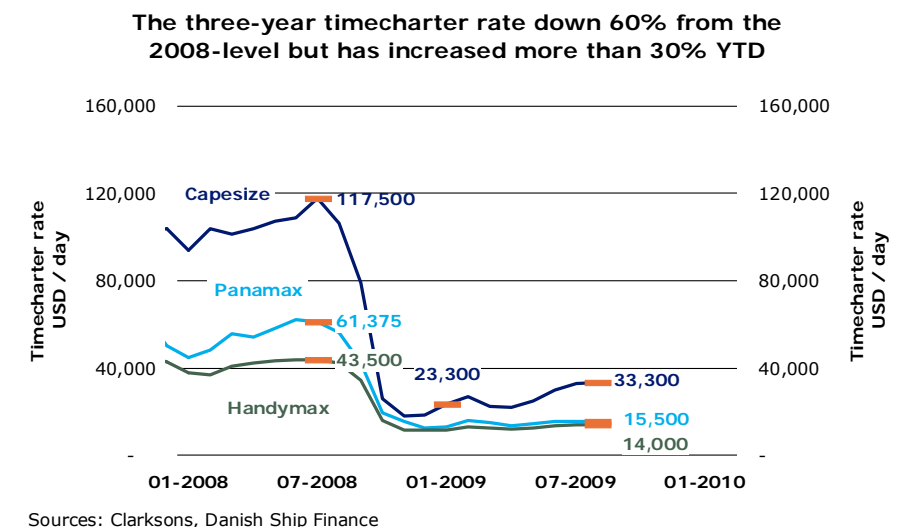
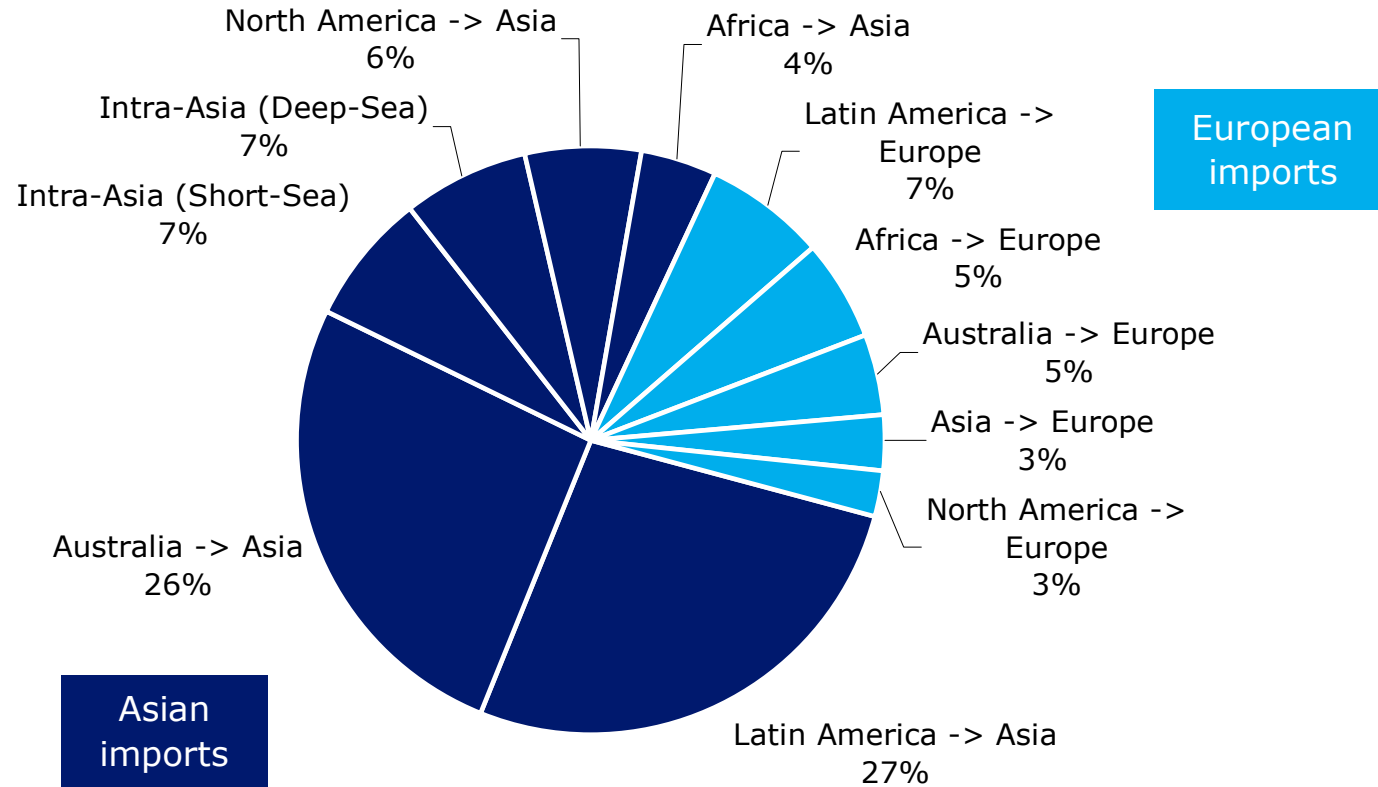


Figure DB. 3

Asian and European demand dictate Capesize demand

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



Sources: Global Insight, Danish Ship Finance

THE DRY BULK MARKET HAS BEEN HELD UP BY TEMPORARY FACTORS SUCH AS LONGER TRAVEL DISTANCES, EXTENSIVE SCRAPPING AND LOWER-THAN-EXPECTED SUPPLY GROWTH.

WORLD STEEL PRODUCTION DOWN 21%

For 2009, we expected Dry Bulk demand to decline in tandem with lower global growth in general and lower OECD growth in particular. In terms of world steel production, we were right. First-half 2009 world steel production was 21% below the volume produced in first-half 2008.

TON-MILES DEMAND MIGHT INCREASE DESPITE LOWER FREIGHT VOLUMES

Aggregated world steel production, however, tells us little about Dry Bulk travel distances. First-half 2009 has taught us that fleet availability might decline even if cargo volumes decline. Lower import volumes in one region might be offset by even minor import volume increases in another region if aggregated travel distances increase.

LONGER TON-MILES DEMAND OFFSET LOWER IMPORT VOLUMES

In all its simplicity, this was what happened to Dry Bulk demand during the first half of 2009: Lower European and Japanese imports of iron ore (Europe: -31% or -15m ton and Japan: -38% or -27m ton), respectively) were offset by larger volumes of Chinese imports (+30% or +67m ton). Consequently, distance-adjusted Dry Bulk demand increased (fig. 11).

Clearly, in our previous Shipping Market Review, we failed to appreciate that significantly lower demand volume in, for example, Europe and Japan easily can be offset by even smaller volume increases in Chinese imports. Chinese imports of iron ore are much larger than their European and Japanese counterparts and travel longer than European imports. Previously, we focused solely on the expected impact of lower GDP growth on steel consumption.

FACTORS BEYOND UNDERLYING DEMAND INFLUENCE CHINESE IMPORTS

Chinese imports of iron ore and coal have increased with a ferocity not seen since the boom days of 2005. First-half 2009 imports increased 48% compared to the same period in 2008. This is far

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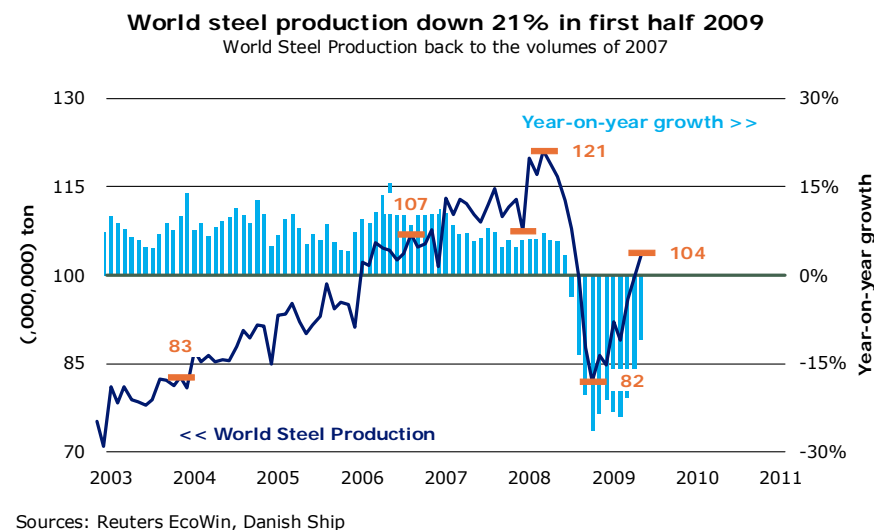
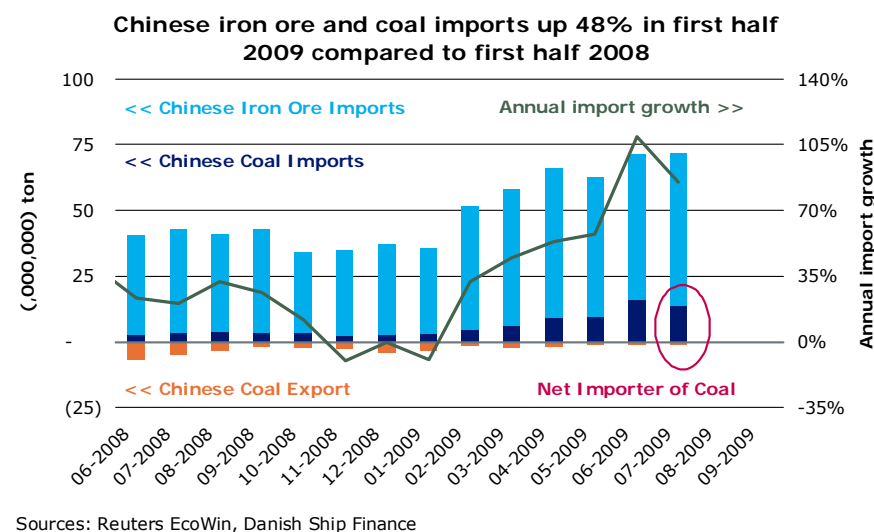


Figure DB.5



beyond what would be expected due to solely underlying demand: Chinese GDP grew 8% (2Q09) and Chinese steel production increased 5%, running close to full capacity. Thus, it seems most likely that the Chinese authorities decided to build up inventories by soaking up large quantities of raw materials at reduced prices.

CHINESE IRON ORE IMPORTS CAUSE SIGNIFICANT PORT CONGESTION

The larger-than-consumed import volumes of iron ore have caused unprecedented iron ore inventory levels at major Chinese ports. Infrastructural bottlenecks became visible since the cargo-handling capacity at Chinese ports was insufficient to meet the load. Port congestion accelerated in tandem with increased iron ore import volumes. At its peak, Capesize vessels waited on average more than 16 days to unload cargo at major Chinese ports.

THE SHIFT IN TRADE PATTERNS SPARKED AN INCREASED SPOT ACTIVITY

Lower European and Japanese import volumes forced many vessels into the spot market. Without increased Chinese imports many of these vessels would most likely have remained idle.

LOW DRY BULK RATES IF CHINESE IMPORTS HAD NOT INCREASED

Besides increasing the spot activity, higher Chinese import volumes increased the Dry Bulk fleet's travel distances, leading to significantly lower fleet availability. We therefore argue that without the massive surge in Chinese imports of iron ore, there is little evidence that Dry Bulk earnings would have improved from the low levels seen in the last months of last year.

TWENTY-SIX PERCENT OF THE ORDERBOOK FAILS TO MATERIALIZE

Besides longer travel distances, lower than expected deliveries contributed significantly to the improved market conditions. Only 78% of the scheduled Capesize orderbook actually reached the sea between January and August 2009. At the aggregated level, 74% of scheduled deliveries entered service during this period (fig. 6).

LARGE SCRAPPING RESTRAIN FLEET GROWTH

Extensive scrapping largely offset the inflow of new tonnage (fig. 7). Thus, Dry Bulk earnings and timecharter rates have increased as temporary factors have improved the supply and demand balance. We do not expect these transitory dynamics to support rates and values in the months to come.

Figure DB.6

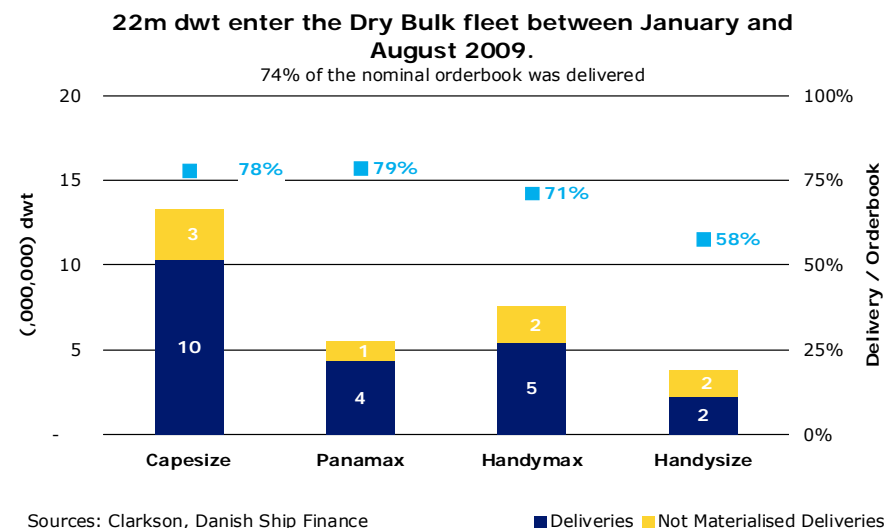
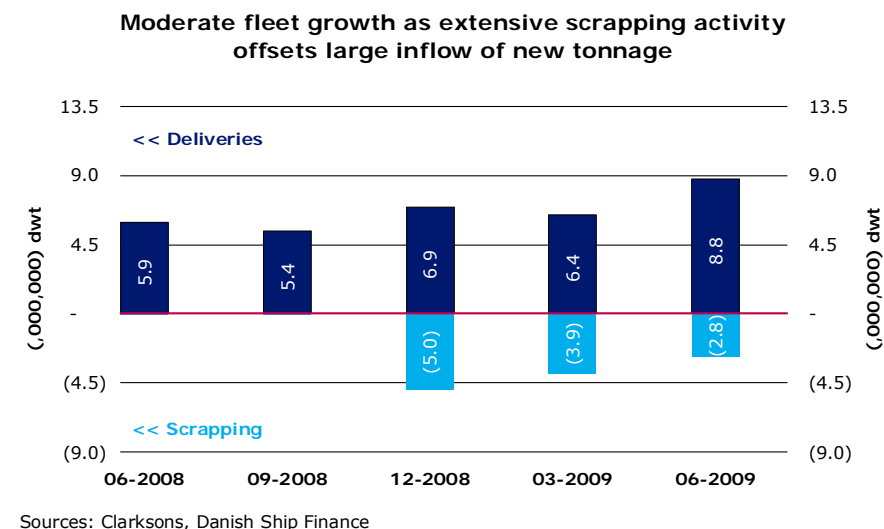


Figure DB.7



VERY FEW OWNERS SEEM TEMPTED TO ORDER NEW VESSELS DESPITE THE DECLINING NEWBUILDING PRICES. SECONDHAND VALUES ARE DECLINING IN TANDEM WITH LOWER EARNINGS.

The long-term outlook for the Dry Bulk market is bleak. The combined cargo carrying capacity of the current fleet and the nominal orderbook are expected to exceed future demand by a large magnitude. The larger segments are exposed the most. We are therefore surprised to see new contracts being closed (fig. 8).

LOWER NEWBUILDING PRICES TEMPTS OWNERS TO CONTRACT

According to Clarkson, newbuilding prices for a Capesize vessel average USD 61m (fig. 9). In comparison, latest resale prices for 2010 or 2011 deliveries average USD 82m. In August 2009, four Capesize vessels were ordered at a contract price of USD 58m. Contracted at a 30% discount to current prices, it is not difficult to understand the motivation. However, for the market equilibrium in general and future asset prices in particular, further contracting activity is not necessarily the best news.

SECONDHAND PRICES RISE AGAIN

The secondhand price of a five-year-old Capesize vessel has increased USD 14m from its bottom in January 2009 to its current level of USD 57m (August 2009). The timecharter rate has increased USD 10,000 per day in this period. This can explain USD 9m of the USD 14m increase. The remaining USD 5m has to be found in an increased long-term earning requirement. We are puzzled by the fact that the long-term earning requirement for secondhand prices is now above what is dictated by the newbuilding price. Traditionally, the long-term earning requirement has been determined by the newbuilding price.

THE SECONDHAND PRICES SEEM UNSUSTAINABLE

The higher long-term earnings requirement for secondhand tonnage implies that it requires approximately USD 3,000 per day (for 20 years) more to run a 5-year old vessel than a new vessel (fig.9). In a market faced with overcapacity, this is unsustainable. We therefore expect secondhand prices to decline over the coming months.

Figure DB.8

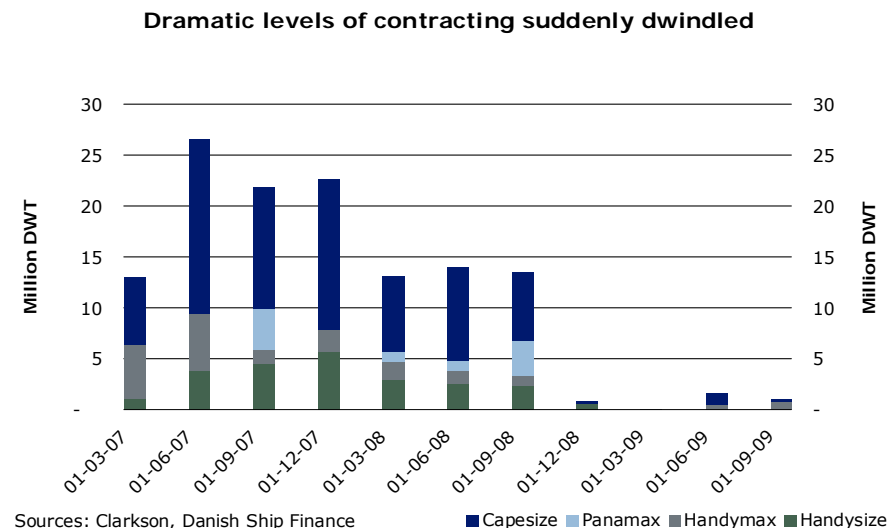
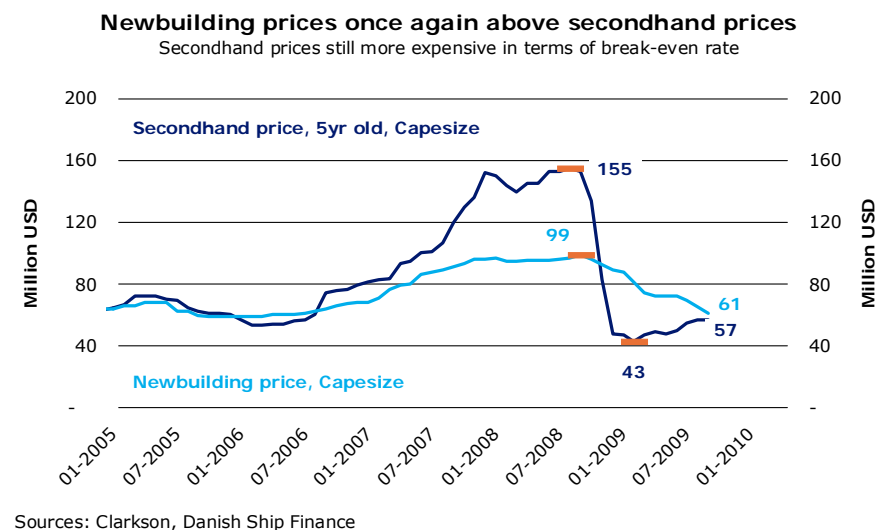


Figure DB.9



OUTLOOK

FREIGHT RATES AND ASSET VALUES ARE EXPECTED TO BE UNDER HEAVY PRESSURE, DUE TO WANING DEMAND AND EXCESSIVE SUPPLY. OWNERS ARE USING ALL MEASURES TO CURB THE SUPPLY GROWTH.

Earlier, we concluded that Dry Bulk demand in the period January to August 2009 has been held up by temporary factors. Extensive postponements and cancellation activity have kept a tight rein on new tonnage entering the market. Supply growth has therefore been kept below expected levels.

A CONSIDERABLE SUPPLY SURPLUS APPEARS LATE 2009

Monthly deliveries are expected to average an astonishing 6.5m dwt during the last 4 months of 2009. That indicates an inflow of approximately 26m dwt between August and December 2009. To put this number into context, the largest quarterly scrapping peaked at record-high 5m dwt (fig. 7). That is to say, if quarterly scrapping repeated the record-high level, quarterly net inflow of new tonnage will average 14.5m dwt. This is a very large inflow of new tonnage by any standards.

TON-MILE DEMAND TO DECLINE BY 3% IN 2009

According to Global Insight, demand is expected to contract 3% in 2009. The combination of a large fleet growth and negative demand growth is unlikely to benefit rates and values. Anyway, there might be lurking a positive quarterly story, in these negative annual growth figures. Let us take a closer look at the three major importers, one by one.

EUROPEAN DRY BULK DEMAND DOWN 14% IN 2009

With expected annual iron ore imports of 66.6m tonnes, Europe is the smallest of the three main iron ore importers. In the past eight months, European import volumes have declined 32% while the recession was affecting the major European economies. Annual European Dry Bulk demand is, according to Global Insight, expected to decline approximately 14% on a ton-miles basis in 2009. This might indicate that third and fourth quarter imports will improve in tandem with expected positive regional GDP growth (fig. 13).

Figure DB.10

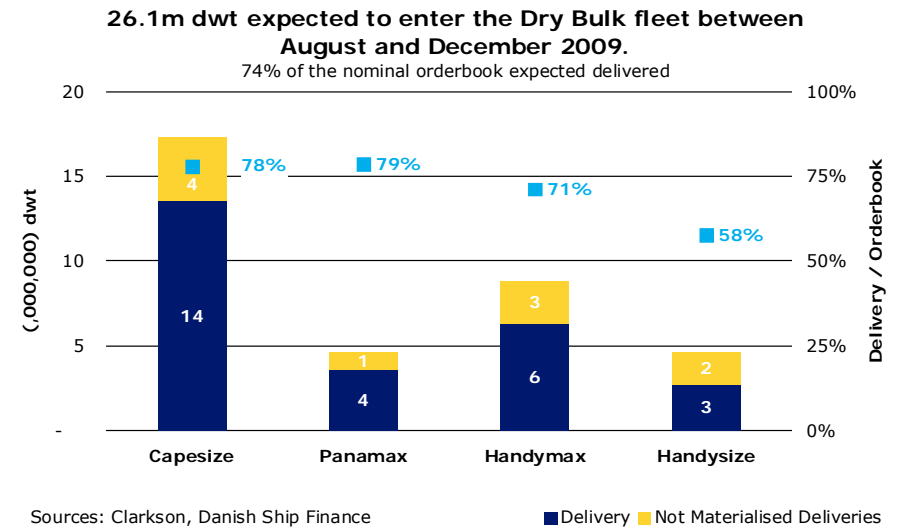
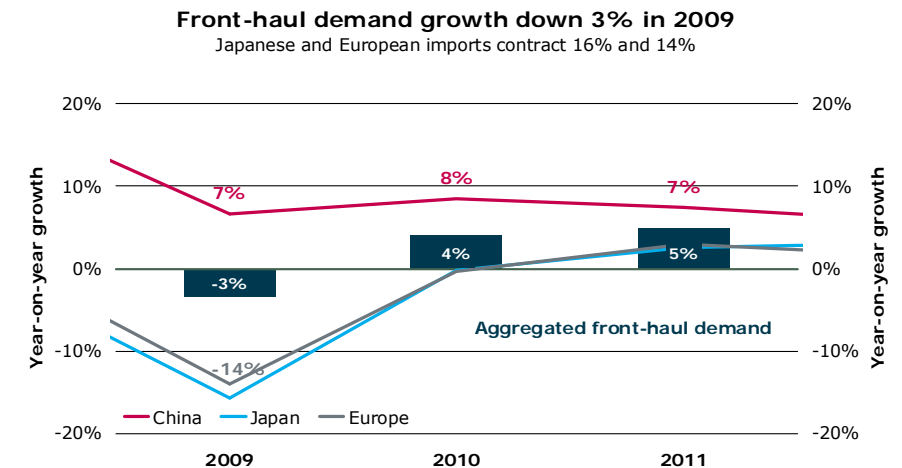


Figure DB.11



JAPANESE DRY BULK DEMAND DOWN 16% IN 2009

Japan is the second largest importer of iron ore with expected annual import of 92.4m tonnes. Japanese Dry Bulk demand is expected to contract 16% (ton-miles) in 2009. In volume terms, Japanese iron ore imports have dropped by 37% during the first seven months of 2009. This might indicate that the worst is behind us and hence that Japanese Dry Bulk demand might increase during the last months of 2009 (fig. 13).

CHINESE DRY BULK DEMAND EXPECTED UP 7% IN 2009

China is by far the largest importer of Iron Ore with an annual imports volume of 582 million ton. Chinese Dry Bulk demand is expected to increase 7% (ton-miles) in 2009. If this forecast turns out to be fairly accurate the outlook for Dry Bulk demand during the last four months of 2009 is bleak. Chinese Iron Ore imports for the first two quarters of 2009 were up 30% (fig. 5). Therefore, for annual growth to average 7% import volumes for the last two quarters have to decline (fig. 13). The impact on Capesize demand might be profound, potentially replicating the market conditions from fourth quarter 2008.

LOWER PORT CONGESTION AS CHINESE IRON ORE DEMAND FADES

Port congestion at Chinese iron ore ports has been a significant factor behind the previous months' high freight rates. Lower Chinese Iron Ore imports will inevitably reduce, if not completely remove, this short-term contributor to lower fleet availability.

RATES AND VALUES EXPECTED TO DECLINE IN 3Q AND 4Q2009

Consequently, even though we do expect to see increased iron ore import volumes into Japan and Europe, it is not enough to offset the potential drop in Chinese iron ore imports. We therefore expect third and fourth quarter 2009 to be a particular tough period for rates and asset values as supply is and will continue exceeding demand by a large magnitude.

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THE OUTLOOK FOR 2010

110M DWT IS SET TO ENTER THE FLEET IN 2010

The nominal orderbook expected to be delivered in 2010 stands at 110m dwt. This amounts to 25% of the existing Dry Bulk fleet. However, as we all know, there is a lot of uncertainty attached to the accuracy of the (2010) orderbook.

EXTENSIVE SCRAPPING IS A MUST –28M DWT SCRAPPED PER YEAR

Even the most optimistic demand scenario would hardly be able to absorb this much inflow of new tonnage into the fleet. Extensive scrapping is required. The question is how much is feasible. We expect the maximum scrapping capacity to average approximately 28m dwt per year. Accordingly, we expect 28m dwt to be scrapped in 2010.

18% FLEET GROWTH IN 2010

If all tonnage is to be delivered and 28m dwt is scrapped, the Dry Bulk fleet will increase by 18% in 2010. However, as we have already discussed, there is a lot of uncertainty attached to the accuracy of the orderbook.

EACH DELIVERY QUARTILE ADDS 6%-POINTS TO FLEET GROWTH

As a rule of thumb, 2010 nominal fleet growth will increase by 6%-points for each 25% of 110m dwt orderbook delivered above 25% of the nominal orderbook (still assuming that annual scrapping reaches 28m dwt).

Many analysts have given their estimate for capacity entering the fleet by 2010. We ask the other way around: how much additional fleet capacity can 2010 demand absorb if rates and values are to be maintained at current levels?

DEMAND SET TO ABSORB A MODEST 40% OF 2010 ORDERBOOK

2010 front-haul demand volumes are expected to increase 4%, bringing 2010 demand volumes back to the level of 2008 (fig. 12). In this situation, we estimate that demand can absorb 40% of the 2010 orderbook (assuming 28m dwt scrapped) if rates and values are to remain at current levels. In any other case, the supply surplus will escalate, directly impacting freight rates and secondhand values.

Now let us take a closer look at the demand expectation.

Above, we briefly mentioned that the major OECD economies are expected to be out of recession already by the third quarter of 2009. Japanese and European GDP growth are accordingly expected to rise during the last months of 2009. The Chinese 'recession' was in fact manifested by GDP growth of 7% throughout the first and second quarter of 2009. The question is, of course, how steel intensive (i.e. dependent on iron ore imports) the growth is expected to be.

EUROPEAN DEMAND BACK TO VOLUMES OF 2003

The smallest of the three main front-haul importers – Europe – is expected to maintain the distance-adjusted iron ore import volume from 2009 in 2010 (fig. 11 & 12). That is to say, distance-adjusted European iron ore demand is back to the level of 2003. Nevertheless, the quarterly figures indicate a minor increase in first quarter European iron ore imports (fig. 13).

JAPANESE DEMAND VOLUMES BACK TO THE LEVEL OF 1999

Something similar could be said about Japanese iron ore demand in 2010. Japanese iron ore imports are expected to be stable in 2010 (fig. 12) at a distance-adjusted demand scenario that equals the level of 1999. Japanese demand is, however, expected to increase during the first quarters of 2010, albeit hardly offsetting any of the decline in imports from 2009 (fig. 13).

ONCE AGAIN IT IS ALL ABOUT CHINESE DEMAND

With both Japanese and European Dry Bulk demand below 2008 volumes, it is once again up to China to fill the capacity of the fleet.

EUROPEAN IMPORT VOLUMES EQUALS 15% OF CHINESE IMPORTS

In volume terms annual European iron ore imports amounts to 15% of Chinese iron ore imports. On a ton-miles basis, Chinese front-haul demand is approximately 2 times the European demand and approximately 3 times the Japanese demand. Chinese front-haul demand accounts for approximately one-third of aggregated front-haul demand in 2010.

CHINESE DRY BULK DEMAND UP 8.5% IN 2010

Chinese demand for Dry Bulk commodities is expected to increase 8.5% on a ton-mile basis. China's imports of iron ore are also expected to increase 8.5% in 2010. This is slightly more than the

Figure DB.12

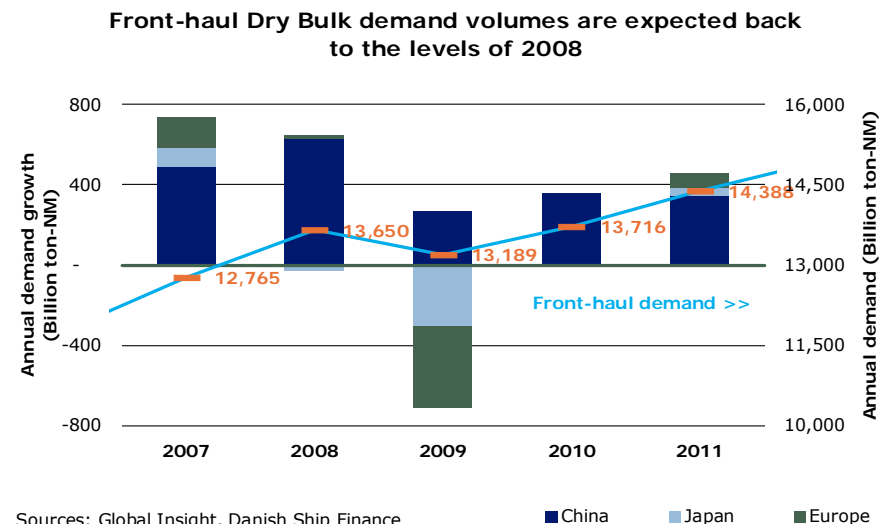
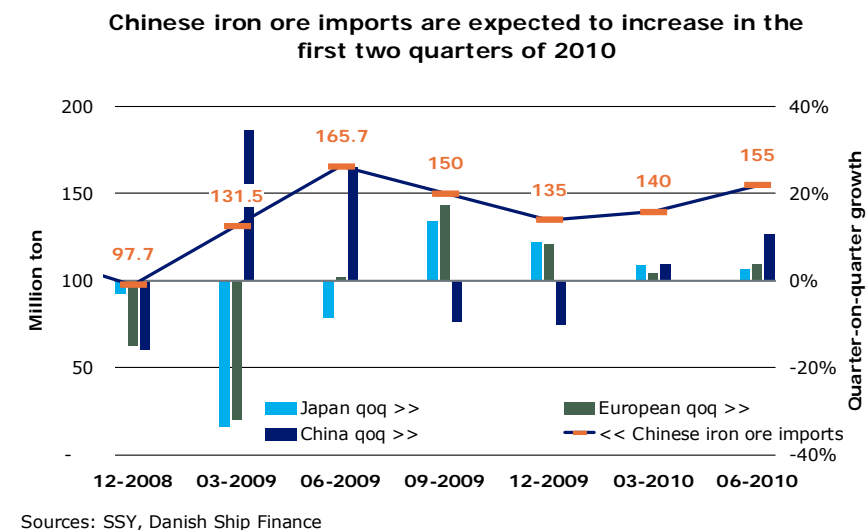


Figure DB.13



growth rate for 2009 (+7%). Nonetheless, first half 2010 iron ore imports are expected to be 1% below first half 2009.

The Chinese Dry Bulk demand growth of 8.5% in 2010 is therefore expected to be almost the only factor supporting the Dry Bulk demand volumes (ton-miles) (fig. 12). This greatly emphasises the Dry Bulk market's dependency on Chinese (iron ore) imports. For Capesize owners, let us hope that Chinese demand will at least sustain current levels until a larger part of the Capesize fleet is ready to be scrapped.

WILL CHINESE DEMAND BE SUSTAINED?

In our previous Shipping Market Review, we discussed in detail our fundamental understanding of the Chinese economy in terms of GDP growth and steel intensity. We have not changed our basic expectations: China's steel intensity per capita will eventually decline in tandem with diverting economic growth towards private consumption. However, we have become much more uncertain about the timing, for the Chinese government seems determined to continue its' reliance on fixed asset investments. Nevertheless, we expect the changed growth model to be identifiable in the numbers already in 2010. It is, however, more uncertain when it will gain sufficient strength to lower the steel intensity per capita and hence lower Chinese Iron Ore demand.

FREIGHT RATES AND ASSET VALUES UNDER PRESSURE IN 2010

With aggregated front-haul demand growing 4% in 2010, it is highly unlikely that supply and demand will balance in 2010. Such demand growth can only absorb 40% of the 110m dwt 2010 orderbook. If supply growth exceeds 40% of the orderbook, freight rates and asset values are expected under pressure.

CAPE SIZE RATES AND VALUES EXPOSED THE MOST

40% of the orderbook amounts to an annual inflow of more than 44m dwt, of which Capesize deliveries are expected to account for 23m dwt (nominal orderbook equals 57.6m dwt). Translated into annual segment growth figures, the Capesize fleet is expected to grow 10% in 2010 if only a modest 40% is delivered (opposite 31% if entire 57m dwt enters).

Even with a Capesize fleet growth of 10%, we consider it unlikely that current rates and values can be maintained in 2010. Only time will tell if the smaller segments will maintain healthy earnings and asset values if Capesize rates and values decline significantly. ■

GLOSSARY

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

	in a fixed position in relation to the seabed.	<i>Imarex:</i>	International Maritime Exchange. www.imarex.com
<i>EIA:</i>	Energy Information Administration. A subsidiary of the US Department of Energy. www.eia.doe.gov	<i>IMO:</i>	International Maritime Organization. An organisation under the UN.
<i>E&P:</i>	Exploration and Production.	<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>Fearnleys:</i>	Norwegian ship brokering and research company. www.fearnleys.no	<i>Chemical tanker:</i>	Tanker with coated or stainless steel tanks (IMO I-III).
<i>Feeder:</i>	Small container carrier.	<i>LOOP:</i>	Louisiana Offshore Oil Port. A deepwater port in the Gulf of Mexico off the coast of Louisiana. LOOP provides tanker offloading and temporary storage services for crude oil transported on some of the largest tankers in the world of which some are too large for U.S. inland ports.
<i>FPSO:</i>	Floating Production Storage Offloading unit. Vessel used in the offshore industry to process and store oil from an underwater (sub-sea) installation.	<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>Geared:</i>	Indicates that a vessel is equipped with a crane or other lifting device.	<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 50,000—80,000 dwt.
<i>Gearless:</i>	Indicates that a vessel is not equipped with a crane or other lifting device.	<i>LR2, product tanker:</i>	Long Range 2. Product tanker too large to pass through the Panama Canal and larger than approximately 80,000 dwt.
<i>Global Insight:</i>	American economic consulting company. www.globalinsight.com	<i>Medium, tanker (MR):</i>	Medium Range. Product tanker of between 25,000 and 50,000 dwt.
<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>MEW:</i>	Mortgage Equity Withdraw. Defined as equity extracted from existing homes via cash-out refinancing, home equity borrowing, and/or housing turnover.
<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>Head-haul:</i>	The leg of the trade route that has the highest container volumes is often called 'head-haul, whereas the return leg is often referred to as 'back-haul'. On routes where there is a great trading volume mismatch between head-haul and back-haul, the head-haul demand will most often determine the freight rate level.		
<i>IEA:</i>	International Energy Agency. A subsidiary of the OECD. www.iea.org		

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

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