May 2026

Shipping Market Review

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Foreword

The shipping industry has built its fleet and priced its vessels on a single premise: that the demand trajectory of the past 20 years will continue. If the premise is wrong, the prices fall structurally, not cyclically.

This edition focuses on the segments that serve the fossil fuel trade – roughly 35-40% of seaborne volumes. It does not analyse the Strait of Hormuz in isolation; others will, at length. We are concerned with its ripple effects: how quickly electrification is displacing the fossil fuel cargoes that sustain the fleet, and whether the fleet has been sized to a demand reality that still exists. The cargo is not replaced one-for-one: hundreds of recurring fuel voyages can disappear when renewable energy installations replace them.

Ship prices across the segments serving fossil fuel trade are at decade highs. The earnings that justify those prices owe more to Hormuz and sanctions rerouting than to cargo growth. A vessel bought today is priced against 10 to 20 years of forward earnings. Weaker demand shortens the window: the vessel priced against 15 years of earnings can be scrapped after 10. A short hold does not shorten the exposure; it transfers it to the next buyer, who prices the same window against the same premise.

Every previous correction in shipping markets has been supply-driven. The fleet was too large, but the cargo was there. Rates recovered because demand recovered. The memory of those recoveries is the most powerful force in shipping capital allocation; it has rewarded patience in every cycle within living memory. The forces examined in this review operate on the demand side: five independent forces, each pointing in the same direction. Reversing the thesis of a shrinking cargo base requires all forces to be reversed simultaneously. Repricing the fleet requires only one to hold.

These forces are not loud. They do not produce the freight rate collapses or orderbook surges that command attention. They surface as import volumes that quietly fall short of projections, and by the time the structural cause is identified, the displacement is irreversible. Pakistan moved from peak LNG imports to a projected cargo surplus in under 4 years. No major forecaster saw it coming.

This is not a forecast. The pace is uncertain; the direction is not. Current earnings are cyclical. The structural question is not. Asking now whether the fleet has been sized to a demand reality that still exists costs caution on new commitments; asking later costs capital that has already been committed.

Christopher Rex
Head of Sustainability & Research

> *“Demand decline does not arrive as a price collapse. It arrives as a vessel that scraps early. The residual value goes with it.*

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Executive summary

This edition focuses on the segments that serve the fossil fuel trade

Freight rates and ship prices owe more to temporary factors than to underlying demand. Hormuz and sanctions rerouting account for more of current earnings than cargo growth. Neither support is durable. Beneath them, structural shifts are eroding the cargo base. The shifts operate independently and reinforce each other where they meet. Seaborne fossil fuel volumes face absolute decline. *The question this Review asks is when ship prices begin to reflect that.*

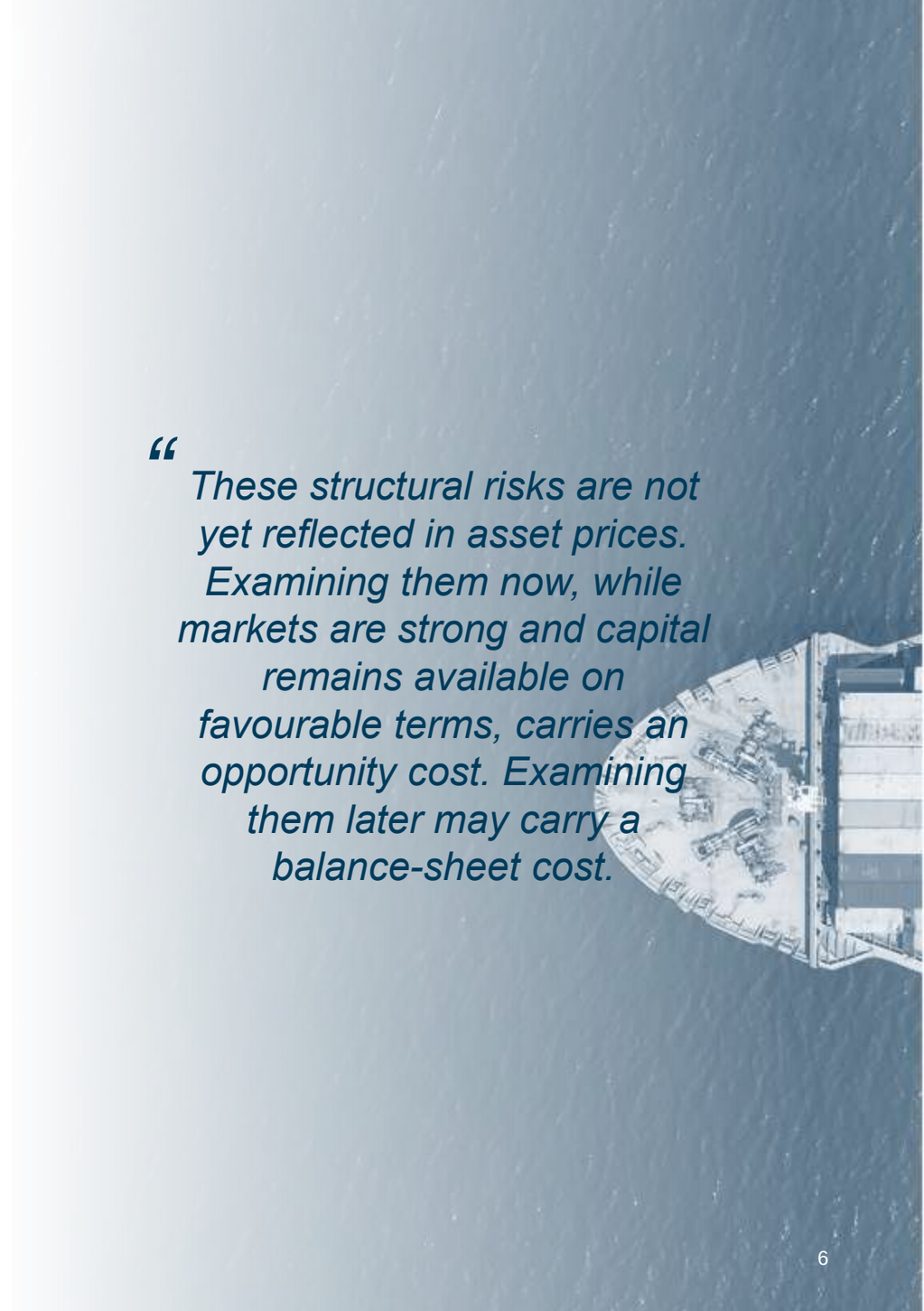
Five structural forces are changing the relationship between economic activity and seaborne cargo. Fiscal recomposition. The energy transition's shift from fuel imports to equipment imports. China's transition from importer to gatekeeper. The exhaustion of distance as a buffer. Demographic shift towards services. Each operates through a different mechanism and each reduces the volume of cargo that a unit of GDP growth carries. The forces are independent. They reinforce each other where they meet. The historical link between global economic growth and seaborne demand is loosening, segment by segment, on different timelines. Fossil fuel trades face the steepest exposure.

China's 15th Five-Year Plan shows that the China-related forces are not merely trends; they are policy. The plan supports pipeline capacity that displaces LNG cargoes, electric vehicle infrastructure that displaces crude, renewable installations that displace coal, and a domestic energy production floor designed to reduce dependence on seaborne imports. At the same time, Chinese shipyards are designated strategic infrastructure: they dominate the global orderbook, and the plan directs state capital towards their expansion. The demand side is set to weaken. The supply side is being held open.

The implications for ship prices follow. Secondhand prices embed a single assumption: that the future will resemble the past. The assumption manifests in two ways. The current earnings cycle persists, and vessels reach their full economic lifetime. When the assumption fails, both fail together. History shows the speed at which economic lifetimes can compress – LNG demolition ages fell from 43 to 21 years in four years. When lifetime compresses, repricing spreads across age brackets. Younger vessels are currently priced against replacement cost. Under structural overcapacity, vessels reprice against earnings capacity. The gap between the two is the loss.

The financial risk frameworks that have governed shipping investment for three decades – earnings anchoring, residual value, amortisation profiling, liquidity assessment – have all been shaped by structural demand growth. If that growth is no longer the baseline, each framework becomes systematically too optimistic. The risk is not that any single dimension fails. It is that all are calibrated to the same assumption and fail in the same direction at the same time. Investors in fossil fuel segments are exposed to all four at once.

These structural risks are not yet reflected in asset prices. Sell now, while buyers are paying decade-high prices, or sell after the structural shift has reached the price. The first cost is bounded. The second is not.



> *“These structural risks are not yet reflected in asset prices. Examining them now, while markets are strong and capital remains available on favourable terms, carries an opportunity cost. Examining them later may carry a balance-sheet cost.*

Shipping markets at a glance

Shipping Market Review – May 2026

Earnings and vessel prices

Headline strength, narrow base

Shipping markets entered 2026 from a position of strength. Freight rates across most segments have remained well above long-term historical averages and secondhand prices are close to cyclical highs. The gains have accrued to holders of existing tonnage, through both elevated earnings and capital appreciation. But the conditions producing these returns – disrupted trade routes, longer sailing distances and geopolitical frictions – are episodic, while the capital now being committed to new tonnage is priced against demand that is assumed, not assured.

Record earnings, narrow base

The ClarkSea Index reached an all-time high of USD 48,600 per day in early April 2026, up 60% from USD 30,400 in January. The headline obscures more than it reveals. Virtually all of the increase has been concentrated in a single segment. The average secondhand price index has also moved higher and is within the top 15% of observed levels since 2000. Freight rates reflect the current disruption. Secondhand prices already assume some normalisation. The pricing curve still points to mean reversion.

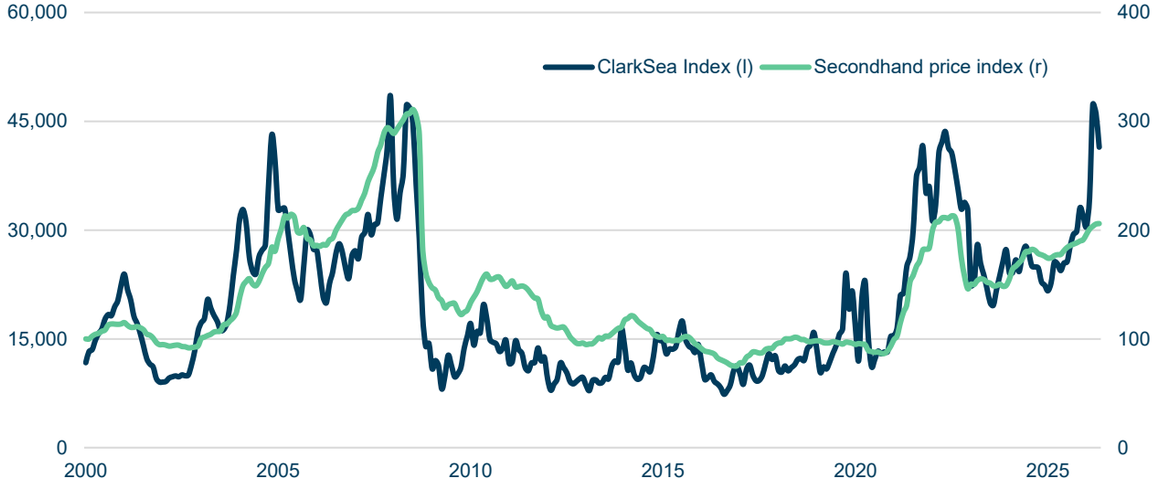
Tanker earnings reflect access, not demand

Tanker earnings rose from USD 51,600 per day in January to USD 143,200 by April – a near tripling driven by the closure of the Strait of Hormuz, which became inaccessible to most of the commercial fleet. The one-year timecharter rate, at roughly a third of the spot rate, is the truer measure of what the fleet actually earns.

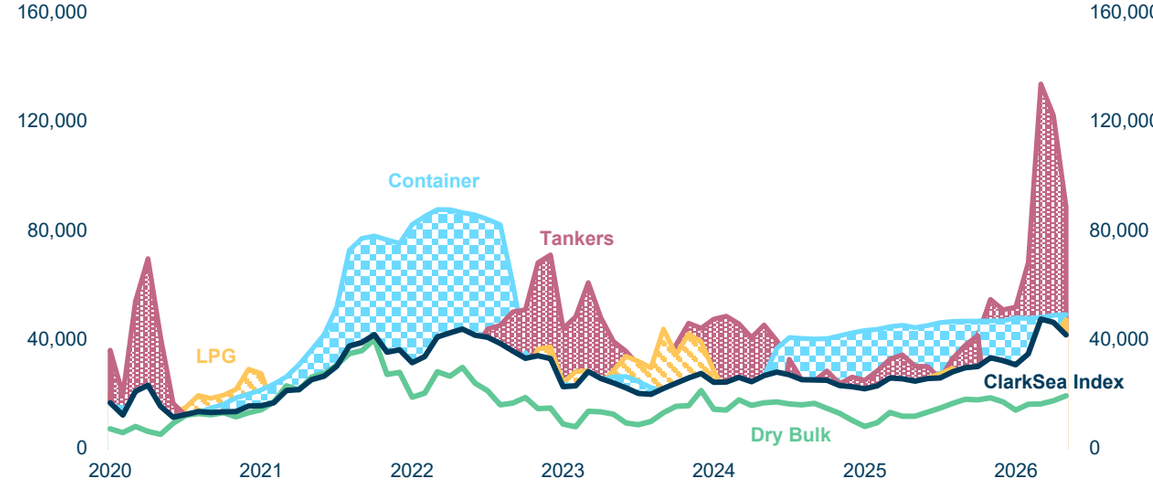
Same index, different composition

Containership and LPG earnings remained stable at very high levels from January to April 2026. Dry Bulk earnings remained below peers but improved by approximately USD 1,800 per day, or 13%, to USD 15,600 per day. The composite index is trading at levels last seen during the post-pandemic freight boom of 2021-22. The composition could not be more different. Then, Container and Dry Bulk earnings led; today, Tankers account for the majority of the uplift – and the Tanker uplift itself is being driven by an access disruption that is inflating reported rates beyond what most of the fleet can capture.

Rates and vessel prices (USD per day and index)



ClarkSea Index (USD per day)



Source: Clarksons, Danish Ship Finance

Market outlook

Surplus capacity is building

Supply is set to run materially ahead of underlying demand up to 2028. The orderbook alone, at 20% of the fleet, looks like it will be difficult to absorb. The composition of the orderbook compounds the challenge: deliveries are concentrated to Tankers, Gas Carriers and Container vessels, where the incoming capacity will be most difficult to absorb.

Surplus delayed, not absorbed

Longer sailing distances have been absorbing additional fleet capacity since 2020, with voyages lengthening by 18% for Product Tankers and 7% for the world fleet. If those distances normalise, the capacity released will compound the orderbook overhang. The question for the market is not whether demand grows, but how excess capacity is cleared. For segments exposed to fossil fuel demand, the downside looks structural rather than cyclical.

How the surplus will be cleared

Freight rates are likely to carry the first and largest part of the adjustment, but the pressure will be felt across multiple channels. Demolition, lay-ups, slower steaming and delivery delays are all likely to play a role. The mix will differ by segment, but the direction is the same: if supply continues to outgrow market absorption, the surplus will increasingly have to be cleared.

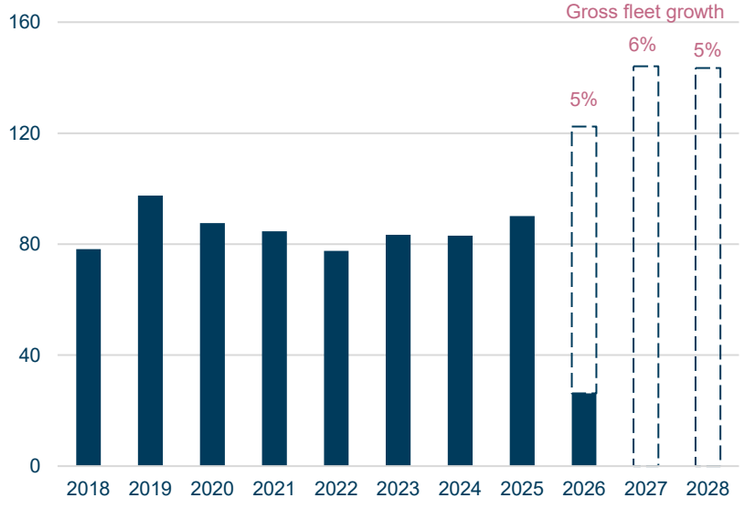
The retirement pool has grown

High freight rates have kept older tonnage employed, and the share of the fleet above the age of 20 has grown from 7% in 2020 to 13% in 2026 – a meaningful pool of candidates for scrapping once conditions normalise.

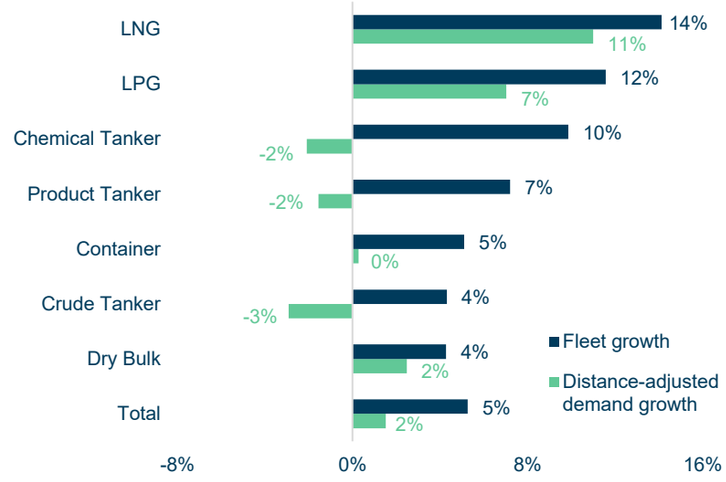
The surplus reaches secondhand prices

It is not enough to balance the fleet expansion now in progress. The orderbook has grown from 7% of the fleet in 2020 to 20%. If sailing distances also shorten, the surplus will increase further. In several segments, demolition would need to extend into younger, economically viable tonnage for the fleet to contract in line with demand. Whether that happens depends on freight rates, not on age. As that adjustment broadens, secondhand prices are likely to come under growing pressure not only from lower freight rates, but also from shorter economic lifetimes.

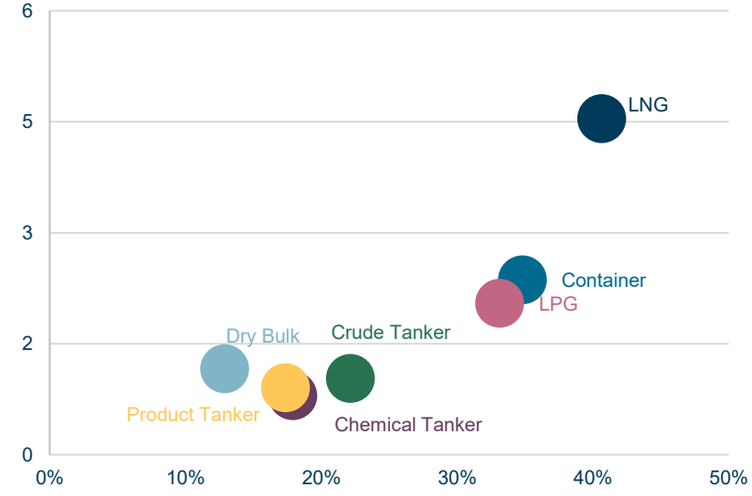
Total deliveries (million dwt)



Expected fleet utilisation, 2026



Orderbook-fleet-ratio



Source: Clarksons, Danish Ship Finance

What secondhand prices assume

Lifetime is the variable

Demolition age not only describes when vessels leave the fleet; it is an input into how the market prices every vessel in it. When demolition ages rise, the assumed remaining life of older tonnage extends, and secondhand values rise as a result. When demolition ages fall, remaining life compresses and values follow.

The premium above scrap

The effect is most visible in older vessels. An older vessel's value is close to its scrap price, with the premium above scrap representing what buyers will pay for its remaining trading years. That premium is sensitive to how many years the market expects the vessel to trade.

Lifetime and earnings explain the premium

A 15-year-old VLCC illustrates this. The premium above scrap sat around USD 17 million in 2022 and has since risen above USD 60 million. Most of the expansion reflects a lengthening expected trading life rather than a proportional rise in earnings expectations.

Young vessels are shielded – for now

Younger tonnage is affected differently. A longer assumed life extends the earnings window over which a newbuilding's price is justified; a shorter one compresses it. The sensitivity is there, but it is masked at the new end of the curve by replacement cost, which sets a floor tied to yard economics rather than to forward earnings. When that floor holds, shifts in the lifetime assumption leave newbuilding prices largely unchanged; the sensitivity is only revealed in the secondhand market.

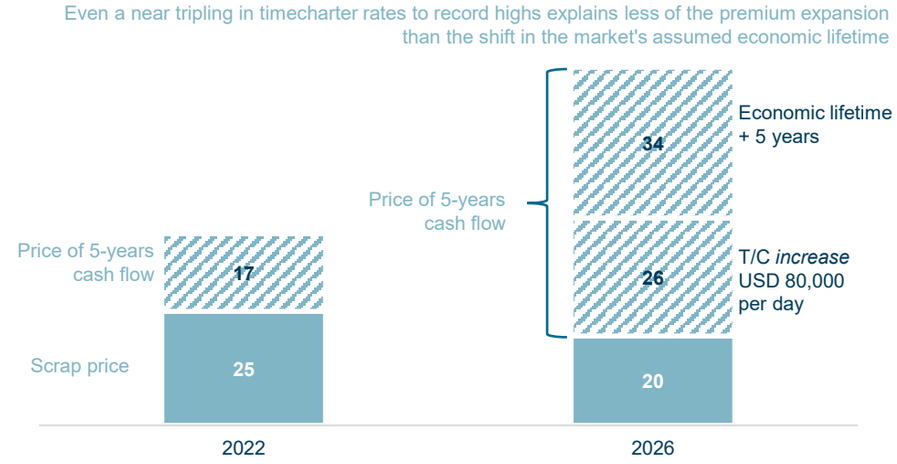
Economic lifetimes have moved by more than a decade

Economic lifetimes are dynamic, and the historical record shows large moves. The Containership demolition age fell from 30 years in 2011 to 19 years in 2016 – an 11-year decline over five years. VLCCs moved on a similar path earlier, from 29 years in 2007 to 18 years in 2013. LNG Carriers have done the same more recently and more sharply, falling from 43 years in 2022 to 21 years in 2026 – the most rapid compression on record. The mechanism works in both directions. VLCC demolition ages have risen from 22 to 27 years over the same period, extending the assumed remaining life of older tonnage and lifting secondhand values with it. The assumption underpinning secondhand values can shift by more than a decade within a few years.

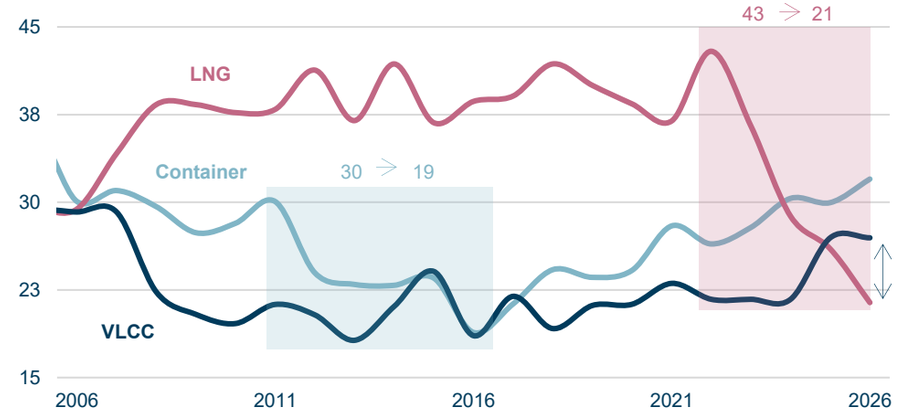
The adjustment ahead

The current strength is real but narrowly sourced and episodic in nature. Behind it, the arithmetic of supply is hardening against a demand environment that is unlikely to absorb the orderbook up to 2028. For vessels exposed to fossil fuel trade, the downside looks structural rather than cyclical. Secondhand values are close to cyclical highs on two assumptions: that current rates will persist, and that vessels will trade until their assumed retirement age. Both can move, and they can move together. Younger tonnage is exposed differently. Its price is supported by what it costs to build a new vessel – a link that holds as long as yards are busy and new orders keep flowing. With overcapacity, that link can weaken, and the price falls towards what the vessel can earn rather than what it cost to build. The focus of the following chapters is the demand environment in which the capital now being committed will actually be earning.

VLCC secondhand price – 15-year-old (USD million)



Average demolition age (years)



Source: Clarksons, Danish Ship Finance

Macroeconomic outlook

Shipping Market Review – May 2026

The macroeconomic foundations of seaborne demand

A structural reassessment

The shipping industry has long been built around the assumption that global GDP growth would translate into at least comparable growth in seaborne trade. That relationship underpinned fleet sizing, asset pricing and ship finance. The data now point to a weaker relationship. Stripping out the 2009 crisis outlier, the multiplier has generally sat below 1 and has recently moved closer to 0.5. Forecasts remain volatile, but they do not point to a return to the old growth model. The world economy is still expanding; it is simply generating less seaborne trade per unit of growth than before.

In this chapter, we examine the reasons for this. There is no single cause; five structural forces – each operating through a different mechanism – are converging to reshape the relationship between economic activity and seaborne trade. Together, they indicate that absolute seaborne volumes face a realistic prospect of decline from current levels within a ten- to 15-year horizon.

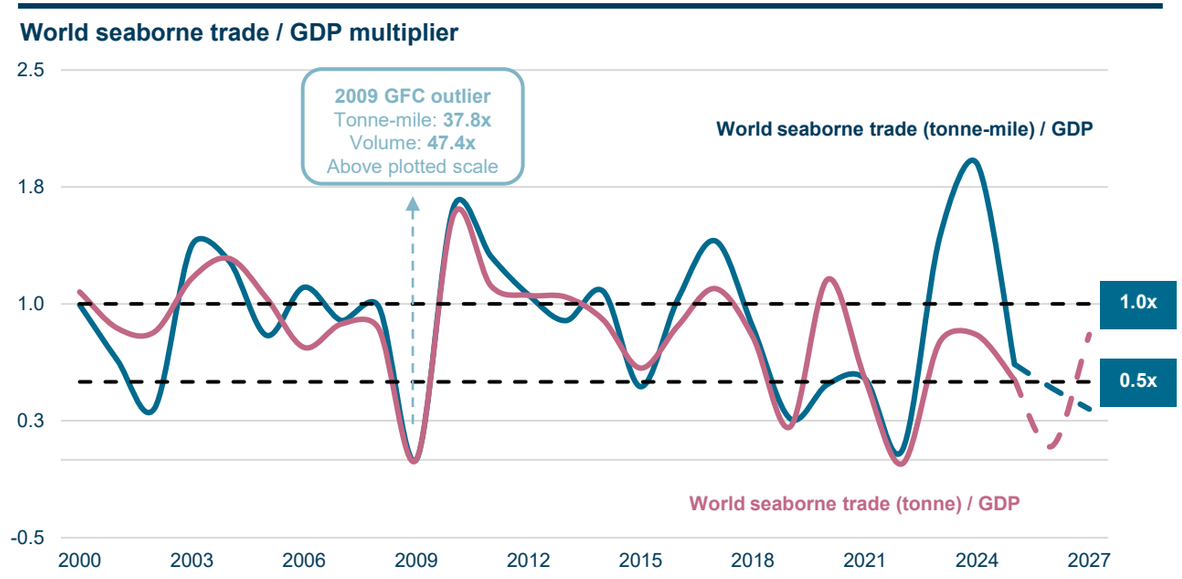
The arithmetic of energy transition

Shipping's relationship with fossil fuels is built on repetition. A coal plant needs coal every week for 30 to 40 years, and a gas-fired power station needs LNG cargoes month after month. The first delivery and the last are identical in commercial terms. Fossil fuels account for approximately 35 to 40% of annual seaborne trade volumes, and demand will persist until fossil fuels are replaced by alternative power sources. Within that envelope, the thesis applies to power-sector coal and LNG – the bulk of the volume – where renewables and distributed generation operate directly on fuel demand. Petrochemical feedstock trades (NGLs, naphtha, ethane and LPG) are structurally different and carry no comparable displacement mechanism; we treat them separately.

The increased uptake of renewable energy sources is transforming this model. Vessels transporting fossil fuels now face demand that contracts year by year. A solar farm needs steel, silicon, copper and concrete – shipped once, during construction. When the panels are in place and the turbines are turning, the shipping requirement ends. There is no fuel to deliver, because sunlight and wind are not commodities. The cargo is not replaced one-for-one: hundreds of recurring fuel voyages can disappear for every one-off construction voyage that replaces them.

New cargo flow will emerge

New cargo flows will emerge. Take green steelmaking as an example. The steel industry is decarbonising by replacing blast furnaces, which run on coking coal, with electric arc furnaces fed by a cleaner iron input. That cleaner input requires a different, purer grade of iron ore than the industry has consumed for a century. Australia has dominated the seaborne iron ore trade for decades, but it does not produce that grade at scale. Brazil, West Africa and Canada do. So, as green steelmaking expands, a new long-haul trade builds – from different origins and on different routes. Copper for grid infrastructure and critical minerals for batteries follow a similar logic. These flows are real and growing. They are also an order of magnitude smaller than the fossil fuel volumes being cancelled: copper ore moves in tens of millions of tonnes per year and critical minerals in single-digit millions, while seaborne coal and crude oil move in billions. The transition is recomposing seaborne trade; it is not replacing it.



Source: Clarksons, IMF, Danish Ship Finance

The macroeconomic foundations of seaborne demand cont.

The arithmetic of the energy transition

There is a feedback loop that accelerates the process, as illustrated by the EU gas crisis. After Russia's invasion of Ukraine, EU gas imports fell substantially in three years, not because of recession, but because the price spike made switching to renewables economically compelling. The demand that disappeared did not return when prices normalised. The scenarios that generate the highest short-term freight rates are simultaneously those that lead to the most long-term cargo being cancelled.

The reset is real

The behind-the-meter channel – millions of private solar installations, invisible in official statistics – is accelerating this to a greater extent than what can be captured by any utility-scale model. We examine this mechanism in the following chapter. There is a partial offset worth naming. Data Centre electricity demand is projected to add roughly 500 TWh globally by 2030, overwhelmingly concentrated in the United States and met domestically with no seaborne implication. A smaller, structurally persistent fraction lands in LNG-importing hubs: Japan, Korea, Singapore, Ireland and Taiwan. At 30 to 40% gas share, the incremental LNG demand is of the order of 4 to 5 Mtpa against a 420 Mtpa global base – a rounding error in aggregate, a non-trivial floor in specific markets. Hyperscaler procurement commitments are themselves tightening: a shift from annual-matched to hourly-matched renewable procurement would halve the gas share of that incremental load. In Japan, the demographic force described later in this chapter is already absorbing part of the lift. Data centres create a real but regional offset, but do not change the broader direction of seaborne fossil-fuel demand.

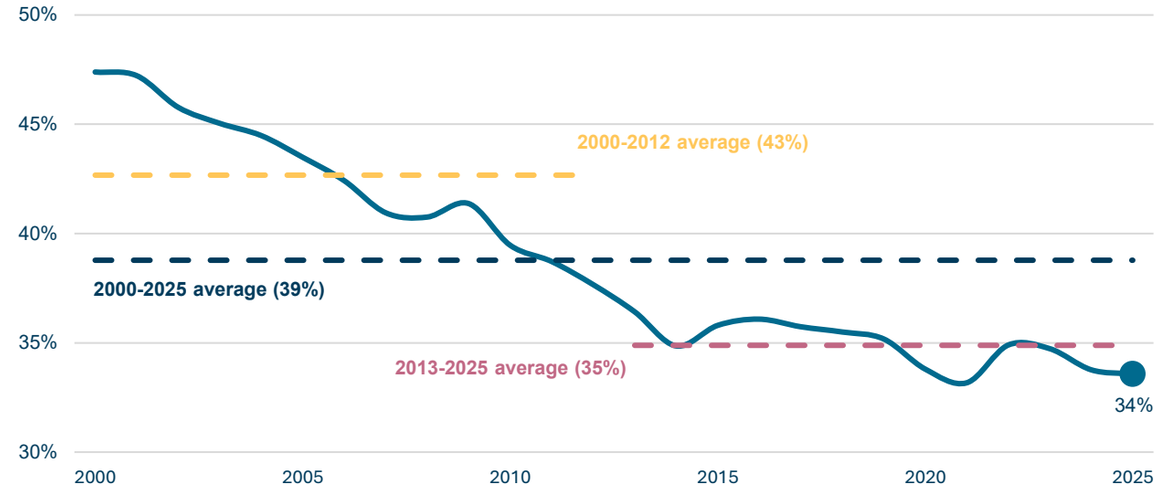
The natural objection is that cheaper energy should support growth, and growth should generate trade. That was true when growth required more coal, oil and gas to be moved by sea. It is less true when growth is powered by solar, wind and batteries, because once the infrastructure is built, there is far less recurring cargo to move. As the share of the latter grows, the multiplier compresses – not because trade is waning, but because the economy is progressively decoupling from the physical commodity flows that have been sustaining it.

China: the end of the commodity supercycle

Over two decades, China rewrote the rules of shipping. A country of one billion people decided, in the space of a generation, to build everything at once: cities, roads, railways, factories, power plants and hundreds of millions of apartments. The commodity intensity entailed by that decision is without precedent. Iron ore, coal and oil arrived in volumes the rest of the world had never seen, and the seaborne trade multiplier did not just stay above 1; it pulled away from 1. China has not simply been a large economy growing. It has been an economy consuming seaborne commodities at a rate the rest of the world has never seen.

That era is ending – not in a crisis, but in a transition that is already visible in the data. The apartment towers stopped filling up before they stopped going up. China has built more housing than required by its demographics, and the property sector that has driven steel and cement consumption for a generation has entered structural decline. Urbanisation, which pulls millions of rural households into goods-intensive city life every year, is plateauing. The government has redirected investment towards semiconductors, artificial intelligence and advanced manufacturing – industries that are capital-intensive but that do not require bulk commodities to be moved by sea.

Fossil fuels as a % of total world seaborne trade



Source: Clarksons, IEA, Danish Ship Finance

The macroeconomic foundations of seaborne demand cont.

The end of the commodity supercycle

The energy transition is compressing the timeline. China installed almost as much solar and wind capacity in 2024 than the rest of the world combined. Electric vehicles surpassed 50% of new passenger car sales in 2025. Battery costs have fallen by more than 90% in 15 years. The country that drove the oil demand growth story for a decade is now the country most aggressively dismantling the conditions that created it.

Iron ore trade is changing beneath the surface

Even the iron ore trade – the most durable of China's seaborne commodity relationships – is changing beneath the surface. The steel industry is beginning to shift away from blast furnaces towards electric arc furnaces, which require a cleaner, higher-grade ore. Australia built an entire export economy around the blast furnace grade, and does not produce the new grade at scale. Brazil does. West Africa does. China Baowu, the world's largest steelmaker, has secured majority control of the Simandou deposit in Guinea, the largest untapped high-grade iron ore reserve on the planet. The Australia-to-China Capesize trade is not collapsing; it is being rerouted before volumes begin to fall.

There is no successor in waiting. India will grow. Southeast Asia will grow. Africa will grow. But they will build with solar panels, electric vehicles and digital infrastructure, not with the coal-fired, steel-framed, cement-heavy development model that made China so extraordinarily trade-intensive. The multiplier the next wave of economies generates will be structurally lower. There will be no replacement for what China was.

China as strategic gatekeeper

China is no longer just the world's largest commodity importer. It is the gatekeeper of the global energy transition. Over two decades, it cornered every supply chain the world would need to transition away from the commodities it was consuming. It started from almost nothing in solar manufacturing in 2006 and now controls virtually the entire global production capacity. It did the same in batteries, in rare earth refining and in the permanent magnets that go into every wind turbine and every electric vehicle motor built anywhere in the world. The rest of the world failed to notice until the dependency was complete.

The same domestic competitive dynamics that have given China control of these supply chains – manufacturing overcapacity sustained by local government fiscal incentives, margin compression that no individual producer can escape – are simultaneously driving the cost of transition technologies below the threshold at which fossil fuel demand begins to erode. China is both the gatekeeper and the accelerant. No other country in modern history has held this combination of positions simultaneously – dominant buyer of the old economy's commodities and dominant supplier of the new economy's building blocks.

> *"China is both the gatekeeper and the accelerant of the energy transition.*

The macroeconomic foundations of seaborne demand cont.

China as strategic gatekeeper

China impose export controls

In April 2025, China began to use what it had built. It imposed export controls on rare earth elements and processing technology. Praseodymium-neodymium oxide – the input that goes into the permanent magnets in every wind turbine and every EV motor – was priced at CNY 412 per kilogram before the announcement. By February 2026, it had reached CNY 890. China's status as gatekeeper is not a theoretical construct. The country is already repricing the global energy transition.

The response from China's trading partners has been substantial but structurally insufficient. The United States, the European Union and Japan have each launched industrial policy programs designed to build alternative supply chains in critical minerals, battery manufacturing and solar production. The ambition is real, but so is the gap. Building a rare earth refinery takes a decade, while building a battery supply chain from scratch takes even longer. In the meantime, the tariffs and trade barriers these economies are erecting to protect nascent domestic industries are causing the clean energy supply chain to fragment along geopolitical lines, forcing trade flows onto longer, less efficient routes, and introducing a layer of political risk into every seaborne cargo that touches these materials. For shipping, trade flows that were once driven by market economics are increasingly being driven by political decisions. Political decisions are less stable, less predictable and less durable.

Walls around supply chains

The adjustment is larger than a trade dispute or a supply chain rebalancing. The free trade system that generated the shipping boom of the past 30 years was built on the premise that economic integration would gradually align interests between major powers. That premise has been abandoned – simultaneously, and without agreement – by the United States, the European Union and China itself. Each region is now building walls around the supply chains it considers strategically essential, walls that shorten some trade routes, eliminate others and introduce a category of political risk that did not exist when the global shipping industry was sized and financed. China can reduce the volume of transition-critical materials entering global trade simply by deciding to do so. Where trade barriers force rerouting through intermediary countries, distances lengthen in the short term; but the pressure for local manufacturing builds in parallel, and where that manufacturing succeeds, the seaborne flow disappears permanently.

> *"China is already repricing the global energy transition.*

The macroeconomic foundations of seaborne demand cont.

The recomposition of demand

The composition of spending – in terms of both government budgets and household consumption – is shifting away from the categories that generate seaborne trade and towards those that do not. On the fiscal side, governments across the developed world are caught between two competing claims for public money. The first is defence: NATO members are committed to spending levels not seen since the Cold War, and the rearmament cycle has only just begun. The second is demographics: ageing populations generate pension and healthcare obligations that grow automatically, year after year, regardless of the economic cycle. Over the past decade, defence and social protection have absorbed a growing share of public spending across OECD economies, while government capital investment has flatlined. Japan has shown where this trajectory ends: public works spending was flat in nominal terms from 1990 to 2024, while social security nearly doubled its share of the central budget. Japan is not an outlier; it is the precursor.

Spending becomes less seaborne intensive

On the household side, the same demographic force operates through consumption patterns. Young households are the most goods-intensive economic units in any society. They buy homes and fill them, generating demand for steel, cement, timber and consumer goods that are moved by ship. As the share of young households shrinks and the share of older households grows, spending shifts towards healthcare, services and experiences. Less is shipped per unit of GDP. This is not a forecast. The people who will form households over the next two decades have already been born, or have not yet been born. The consumption pipeline is fixed.

China is now seeing this force firsthand. Its population peaked in 2022, and the country that sustained the seaborne trade multiplier above 1 for a decade is ageing faster than almost any economy in history. Demographics have not caused China's commodity slowdown alone, but they are the force that ensures it cannot be reversed.

Driving the seaborne trade multiplier below 1

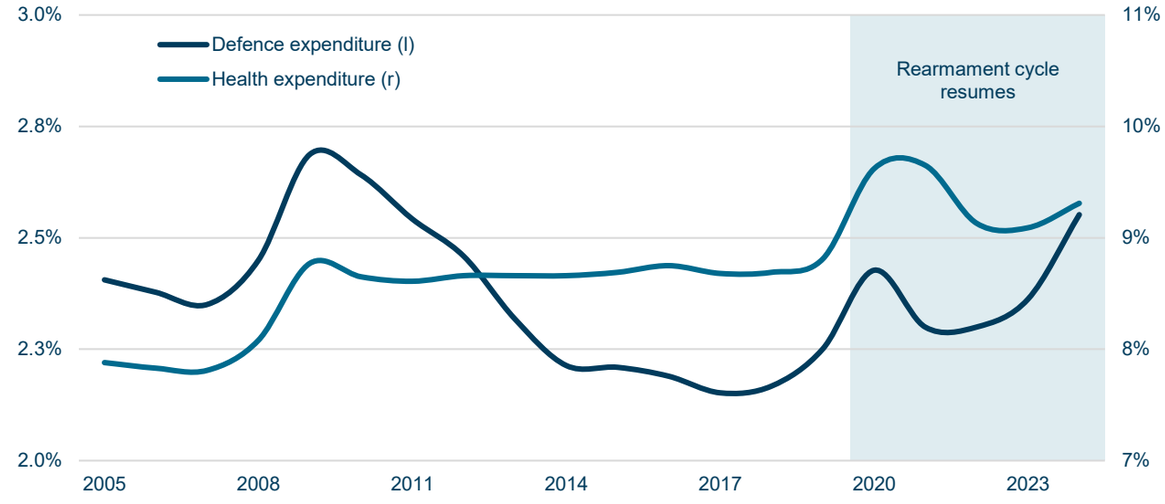
A dollar spent on a missile system or a pension transfer entails little transport by ship. Defence equipment may move by sea, but it does not create a recurring cargo flow. A dollar spent by a retiree on healthcare does not either. The reallocation between these categories and the infrastructure, construction and manufacturing that do generate seaborne demand is already large enough to matter – and it is still accelerating. This reallocation is one of the forces driving the seaborne trade multiplier down below 1, the shift the data has been recording since 2014.

The convergence

Five forces, each operating through a different mechanism, all pointing in the same direction. Their significance is not that any one of them is decisive – it is that they compound. Reversing the thesis requires every force to reverse at once. That is not a scenario; it is a fantasy.

The forces reinforce each other through channels that are already observable. Fiscal pressure from defence and demographics limits the industrial policy response to Chinese supply chain dominance: the governments that need to subsidise domestic battery plants and rare earth refineries are the same governments whose budgets are being consumed by pension obligations and rearmament.

OECD government spending (% of GDP)



Source: Clarksons, OECD, Danish Ship Finance

The macroeconomic foundations of seaborne demand cont.

The convergence

The budget constraints are binding. Governments cannot do both at the scale required, and the gap between ambition and disbursement is already visible in every Western cleantech industrial policy programme launched since 2022. Demographic ageing compounds the fiscal pressure by lifting mandatory spending every year. The energy transition narrows the commodity base that the supercycle depended on. China's gatekeeper status shapes the routes along which the materials of the new economy can flow. None of the five forces can be reversed without reversing the conditions that sustain the others.

Shipowners have experienced structural demand decline before

Shipowners have experienced structural demand decline before. The VLCC fleet was massively overbuilt in the early 1970s on the expectation of ever-growing Middle East oil exports; the 1973 oil crisis, non-OPEC supply from the North Sea and Alaska, and the Iranian revolution left the fleet grossly oversized, and the correction took the best part of a decade. A generation later, the Dry Bulk fleet expanded by 76% between 2008 and 2012 on supercycle ordering, and then took almost a decade to work through the surplus as Chinese growth decelerated from double digits to low-single figures.

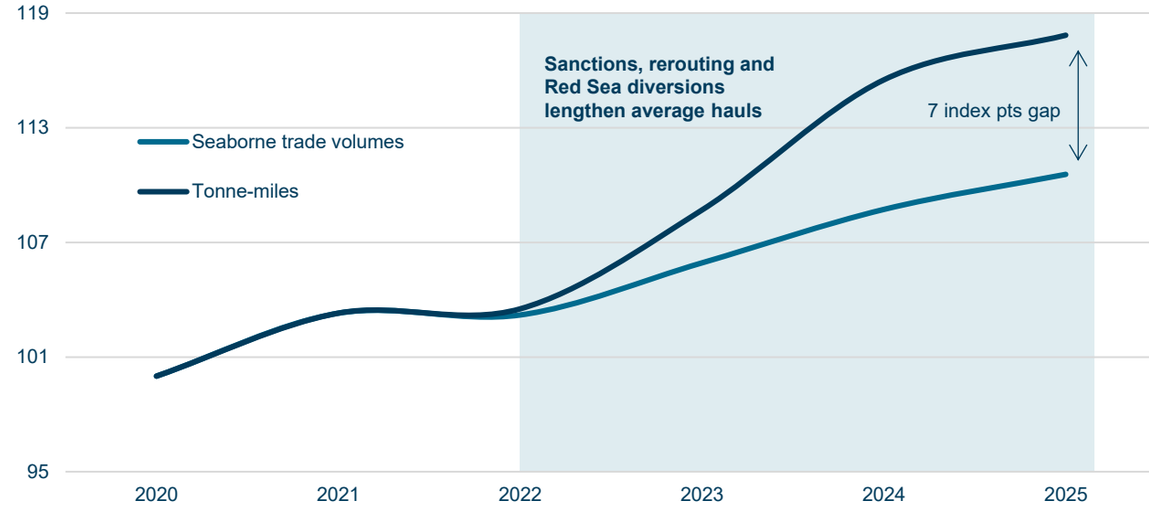
Each episode was devastating, but each time the market recovered. The memory of recovery is the most powerful force in shipping capital allocation. The distinction matters: each of those episodes involved one, at most two, forces – and in every case they were supply-driven. The fleet was too large relative to the demand that still existed. The corrective mechanism worked because the cargo came back. This time, five forces operate on the demand side at once, reinforcing each other through the channels described above. The industry's experience of cyclical recovery is not evidence against structural decline. The industry has not previously faced structural decline – and therefore has no template for recognising it when it arrives.

The world that generated a century of seaborne trade growth was built on integration, industrialisation and fossil fuels. All three are now in structural retreat, simultaneously and for the first time in modern history. That is what convergence means.

Digital growth is not seaborne growth

Even if artificial intelligence, automation and digital services accelerate global GDP growth materially beyond consensus, as some technology investors now project, the incremental output is overwhelmingly non-physical. Software, digital transactions and productivity gains from machine intelligence do not entail cargo. The physical infrastructure that supports them – data centres, semiconductor fabrication, subsea cables – does generate seaborne cargo, but at a fraction of the commodity intensity per dollar of GDP that the industrial model it is displacing required. The growth that would need to materialise to reverse the decline in seaborne fossil fuel volumes is not faster growth. It would need to be a return to goods-intensive, commodity-heavy, infrastructure-led growth – and no major economy is building that way.

Seaborne trade volumes vs. tonne-mile development (index 2020=100)



Source: Clarksons, World Bank, Danish Ship Finance

The macroeconomic foundations of seaborne demand cont.

This is not a supply cycle

Record volumes, broken multiplier

Seaborne trade reached record volumes in 2024 and 2025. LNG trade is growing at rates that would have seemed implausible a decade ago. Oil volumes through major maritime chokepoints have not declined. Tonne-mile growth has been stronger still, driven by a sharp increase in average haul distances since 2019. But that increase is primarily attributable to geopolitical factors: sanctions rerouting, Red Sea diversions and trade fragmentation pushing cargoes onto longer routes. These forces are contingent and will eventually resolve.

The structural thesis does not mean that any of this should be ignored. It requires a distinction to be made between the level of trade, which remains high, and the relationship between trade and the economic activity generating it. That relationship has already changed. The seaborne trade multiplier has fallen from above 1 throughout the 2000s to roughly 0.5 today. The pace of further decline is genuinely uncertain; fossil fuel volumes may fall by 1% per year or by 3%. What does not waver across these outcomes is the direction.

This is not a supply cycle

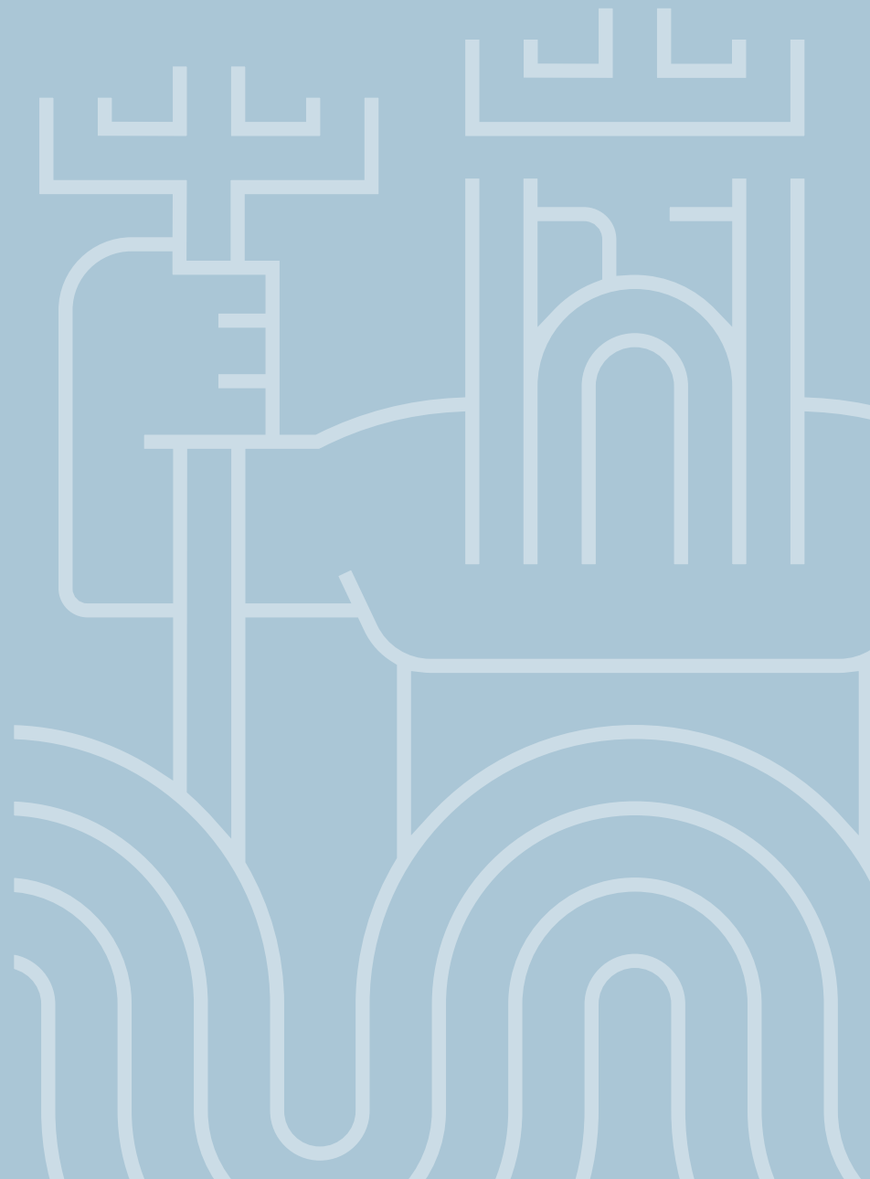
The implications for ship prices are materially different from those of previous corrections. In a supply-driven downturn, the fleet adjusts and values recover; the asset retains its long-term earnings capacity because the demand base is intact. In a demand-driven environment, the earnings capacity of the asset itself is impaired. The capital structure of the replacement energy system ensures that what is lost is not recovered – there is no recurring fuel shipment to resume, because the replacement generates power without one.

Capital committed on the assumption that the demand environment of the past two decades will persist over the next two decades carries risk that the industry's standard frameworks – built for supply-led cycles – are not designed to identify. In the following chapters, we examine how that risk is transmitted – at different speeds and through different mechanisms – across the vessel segments, asset valuations, collateral structures and counterparty exposures that define the ship finance portfolio.

> *"The industry's experience of cyclical recovery is not evidence against structural decline. It is evidence that the industry has not previously faced structural decline.*

Behind the meter

Shipping Market Review – May 2026



Behind the meter

Where seaborne fossil fuel demand is already disappearing

The displacement mechanism

Among the structural forces described in the preceding chapter, the transition from flow-based fossil energy to stock-based renewable energy has a faster and less visible channel than utility-scale deployment: distributed, behind-the-meter solar generation, accumulating through millions of private investment decisions, bypassing the grid entirely, and reducing fossil fuel import demand before it appears in any official statistics.

The speed is inherent in the form factor. A utility-scale renewable project requires environmental assessment, grid connection studies, land acquisition and, in most jurisdictions, competitive procurement processes that extend across several years. A rooftop installation requires a site survey, a purchase order and a weekend. Once the economics turn favourable, adoption proceeds through millions of decentralised decisions, each individually small, collectively capable of shifting import demand faster than any infrastructure-led model would imply.

Standard forecasting models work from GDP to electricity demand to generator dispatch to fuel procurement to import volumes. None captures what happens when a household or business stops drawing from the grid and generates its own power. The demand disappears, but no fuel switch is recorded. The effect shows up only as import volumes falling short of every projection – and by then the shift is already embedded.

Pakistan: From growth market to cargo surplus in four years

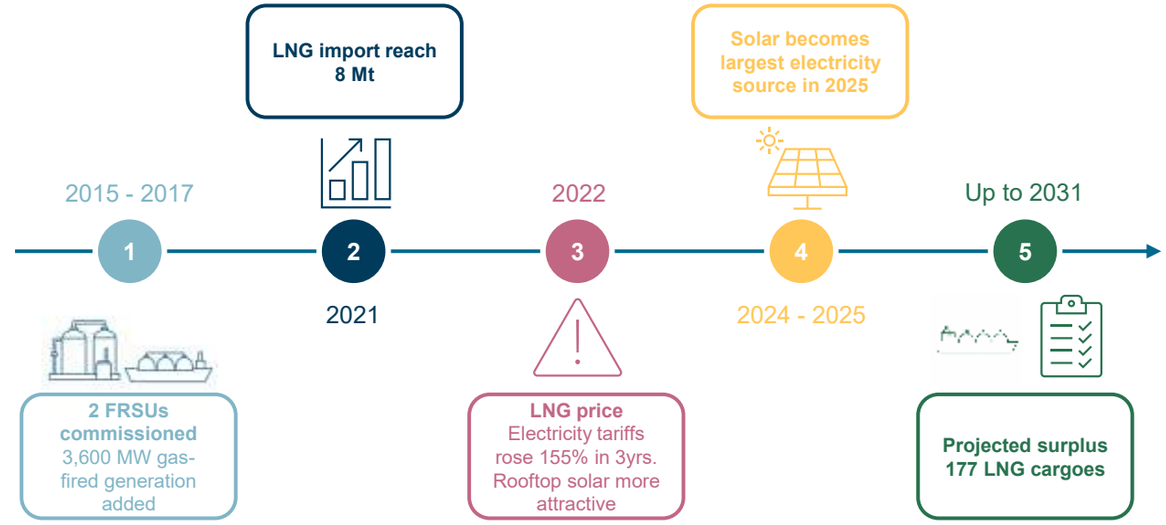
Pakistan is not a country typically associated with the leading edge of the energy transition. It is a lower-middle-income economy with persistent fiscal pressures, a history of energy shortages, and a power sector characterised by chronic underinvestment in transmission infrastructure. And yet it has become one of the clearest illustrations of how behind-the-meter solar can structurally erode seaborne fossil fuel demand.

Facing acute gas shortages as a result of declining domestic production, Pakistan moved quickly to establish floating LNG import capacity. Between 2015 and 2017, two floating storage and regasification units were commissioned alongside approximately 3,600 MW of gas-fired generation capacity. By 2021, annual LNG imports stood at approximately 8 million tonnes. With every major forecast projecting continued growth, the infrastructure was sized for expansion.

The 2022 LNG price shock changed the trajectory. Pakistan could not compete for spot cargoes at post-Ukraine prices. Simultaneously, electricity tariffs rose 155% in three years under IMF conditionality, the retail grid became expensive, and diesel self-generation – the alternative millions of businesses were already relying on – became an even costlier fallback. Rooftop solar undercut both. At those spreads, a typical commercial installation pays for itself in under two years. No government subsidy was needed, and Chinese panel exporters provided the supply chain at scale.

Pakistan imported 17 GW of solar panels in 2024 – more than any other country. Solar became Pakistan's largest single electricity source in 2025, supplying over 25% of total production.

Pakistan: Buildout to cargo surplus timeline



Source: Clarksons, IEEFA, Danish Ship Finance

Behind the meter cont.

From Pakistan to the region

The scale of what official statistics miss is the mechanism in its purest form. International agencies recorded Pakistan's total solar PV capacity at 3.7 GW at the end of 2025, whereas on-ground surveys and Chinese export data put the actual installed base above 27 GW. Official reporting captures roughly one-seventh of the true total. The Pakistani government's projected surplus up to 2031 is 177 LNG cargoes – roughly 2.5 cargoes per month that the domestic market can no longer absorb. Pakistan has begun deferring deliveries and negotiating cargo diversions with Qatar, but under contractual terms that leave it bearing the economic loss. The contracts that were signed to guarantee energy security have become a financial liability that the country cannot exit without cost. Pakistan has gone from infrastructure buildout and growth market designation to structural surplus in under four years.

The scale is now global

The conditions that produced the Pakistan outcome – high retail electricity tariffs, widespread diesel self-generation, falling panel costs, and weak grid infrastructure that makes self-generation attractive – are present across a significant share of Asia's fossil fuel import markets.

The strongest near-term parallel can be seen in the Philippines. Household tariffs average around USD 0.21 per kWh, while new utility-scale solar can be generated at a fraction of that cost – creating one of Southeast Asia's widest retail-to-solar spreads. Over half of the country's power generation currently comes from imported coal or LNG. Diesel self-generation is already embedded in commercial operations. The preconditions for a Pakistan-style acceleration are fully in place.

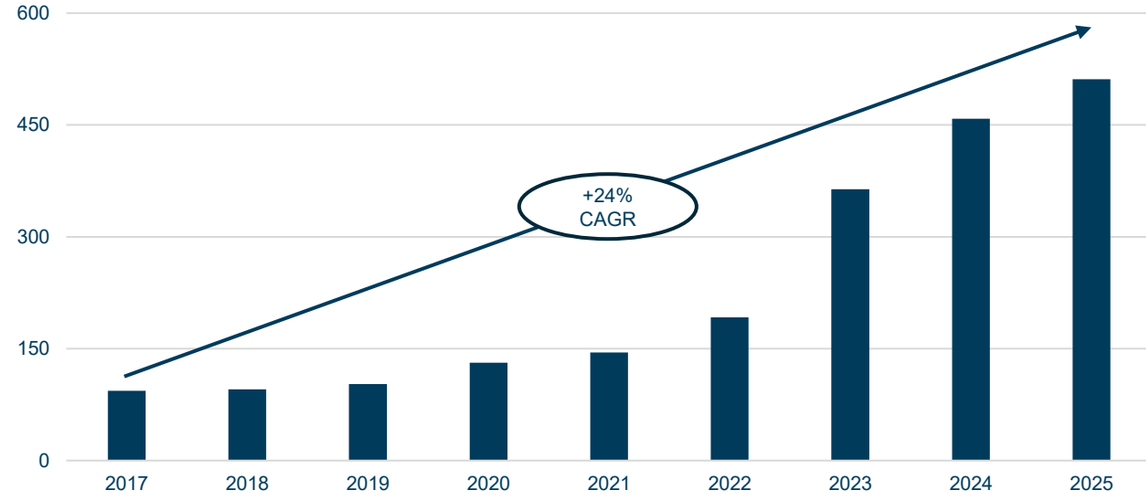
India, Vietnam, Thailand and Bangladesh present the same dynamics, albeit at earlier stages: retail tariff spreads widening against falling solar costs, with coal or LNG import dependence that distributed solar is beginning to erode. India's coal-fired generation fell approximately 3% in 2025 – only the second full-year decline in at least half a century.

The displacement extends to coal

China is the scale confirmation. China added 120 GW of distributed solar in 2024 alone. Coal generation fell in early 2025, while electricity demand rose. It is now highly probable that China's peak annual coal consumption has already passed. The behind-the-meter mechanism is not confined to Gas Carrier markets. It extends to Dry Bulk trades serving thermal coal, which accounts for a substantially larger share of seaborne volumes.

The upstream economics ensure that the pressure will intensify. The key input cost for solar modules – polysilicon – has collapsed from its 2022 peak, driven by Chinese manufacturing overcapacity. That overcapacity is no longer abstract but measurable: Chinese factories can now produce roughly 1,200 GW of solar panels per year, against 511 GW installed globally in 2025. Under normal market conditions, losses on this scale would force capacity out and allow prices to stabilise. Instead, production has continued despite deep losses across leading manufacturers, with local incentives and state support weakening the normal market-clearing response. Module costs are now below 2020 levels, and there is no credible market-driven floor yet in sight. Wright's Law (the principle that costs tend to fall by a predictable percentage each time cumulative production doubles) has held for solar for four decades, with no empirical evidence of a cost floor. Each additional terawatt of global installation brings the adoption threshold closer for the next wave of markets.

Global annual solar additions (GW)



Source: Clarksons, IRENA, BloombergNEF, Danish Ship Finance

Behind the meter cont.

Why the forecasts have missed it

Why the forecasts have consistently missed this

Actual solar additions in 2024 reached a level the IEA's 2022 Net Zero scenario did not project until the late 2030s. The gap between officially reported solar additions and the best available estimates – including behind-the-meter capacity that never reaches national statistical offices – has widened each year since 2022. The demand projections on which shipping investment decisions are based were not designed to capture generation that never reaches the grid. Distributed solar appears in the data only as unexplained weakness in fuel procurement and import volumes, classified as cyclical until the evidence becomes irrefutable. Pakistan's 177-cargo surplus constitutes this evidence.

The consequences for shipping

Vessels and fuel supply chains are financed against demand curves extending ten to 25 years ahead. Behind-the-meter displacement is reshaping these curves in just four years. The erosion is diffuse at first. Import volumes soften, spot cargo availability tightens at the margin, and charter rates weaken. The available data shows the consequence – lower volumes – without identifying the cause. By the time distributed solar is recognised as the structural driver, the repricing is abrupt.

For owners with earnings exposure to LNG trades serving high-tariff power markets in Asia, or to coal trades in markets where solar payback periods are now less than three years, the pertinent question is not whether this mechanism is operating. It is whether the charter coverage, the asset values and the long-term contracts underpinning the business have been assessed against a demand trajectory that accounts for it.

> *"By the time the structural cause is identified, the displacement is irreversible.*

What Beijing is building

Shipping Market Review – May 2026

What Beijing is building

How China’s 15th Five-Year Plan is rewiring the demand premise for seaborne fossil fuel trade

In the preceding chapters, we described five structural forces converging on seaborne fossil fuel demand. We identified each from external evidence – energy data, fleet economics, demographic trends, fiscal trajectories. In this chapter, we add a different kind of evidence: the investment and policy architecture of the world’s largest commodity importer from the inside – through the primary text of China’s 15th Five-Year Plan, adopted in March 2026.

The plan is not a forecast; it is a capital allocation directive that governs where state investment flows, which projects receive permits, which industries receive subsidised credit, and which enterprises are protected from market discipline. It covers 2026 to 2030 – but the infrastructure it mandates will shape trade flows for decades beyond this. For a shipping investor whose vessels carry Chinese imports of crude oil, LNG, coal and petroleum products, the plan is the single most authoritative forward-looking document on the structural trajectory of those trades.

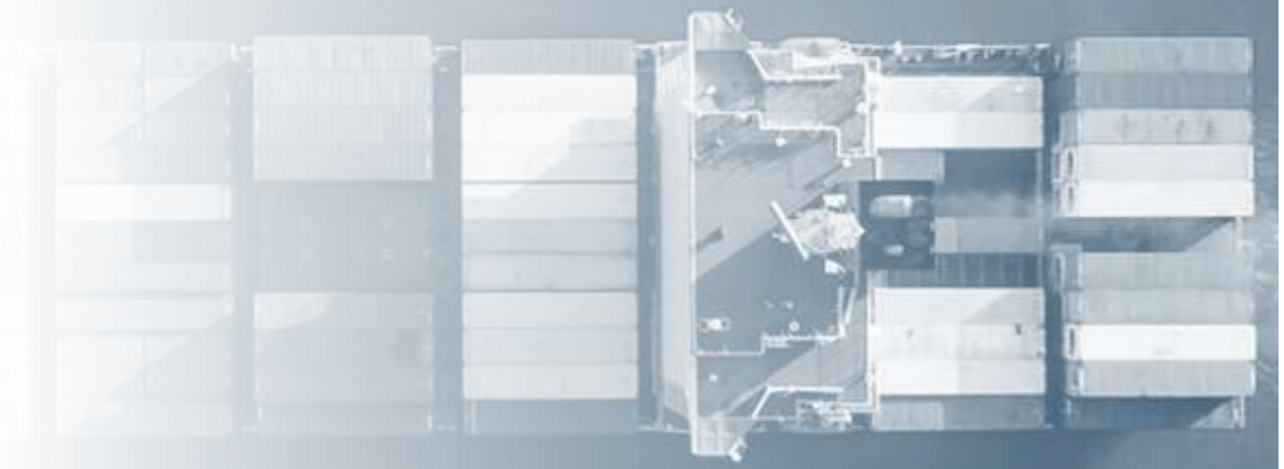
What it reveals is not ambiguous. The plan systematically reduces China’s dependence on seaborne fossil fuel imports across every major commodity class – not as an aspiration, but as a binding national security objective backed by the state apparatus that has delivered on over 90% of its binding targets for two decades. The structural forces described in the preceding chapters are not merely observable trends. They are written into Chinese policy.

How Five-Year Plans Work

Western analysts frequently misread Chinese Five-Year Plans as aspirational rhetoric – the kind of document governments produce but do not execute. The execution record says otherwise. The 13th Five-Year Plan achieved 24 of 33 quantitative targets a year early, with seven more on track; only two were missed. The 12th Plan hit all 28. The 14th Plan, which concluded in 2025, delivered on most binding indicators including renewable capacity, urban employment and grain production.

> *“ The plan is not a forecast; it is a capital allocation directive that governs where state investment flows, which projects receive permits, which industries receive subsidised credit, and which enterprises are protected from market discipline.*

> *The structural forces described in the preceding chapters are not merely observable trends. They are policy.*



What Beijing is building

The energy production floor

It is crucial to distinguish between binding targets and anticipatory ones. Binding targets, concentrated in energy, environment, resources and security, are incorporated into cadre performance evaluations. Provincial officials' careers depend on meeting them. This transform planned objectives into bureaucratic incentives with consequences. State-owned enterprises, which control approximately 60% of all assets in the economy, serve as primary execution vehicles. State Grid Corporation's announcement of CNY 4 trillion in investment over the 15th Plan period, a 40% increase from the 14th, illustrates how plan language translates into capital deployment within months of adoption.

For the shipping industry, the transmission mechanism has an immediate impact. When the plan designates shipbuilding as a strategic industry, yards receive subsidised land, below-market credit and guaranteed orders. When it names pipeline routes, construction begins within the plan period. When it sets a domestic energy production floor, provincial governments compete to build the capacity that meets it. The gap between stated policy and executed investment is far narrower than the industry assumes.

The energy production floor

The plan's most important number for the shipping industry is also among its least discussed. Binding Indicator 20 sets a comprehensive energy production capacity target of 5.8 billion tonnes of standard coal equivalent by 2030 – up from 5.1 billion in 2025. This is not a consumption forecast. It is a domestic production floor: a sovereign guarantee that China can produce this much energy internally regardless of what happens to import routes.

Four coal-to-liquid technology bases are named – Ordos, Yulin, Zhundong and Hami – with combined capacity projected to reach 29 to 52 million tonnes per year by 2030, from approximately 11 million today. At the conservative end, that represents nearly 600,000 barrels per day of synthetic liquid fuel – meaningful insurance against crude supply disruption. This is more than industrial policy. It is a way to reduce China's exposure to a crude import disruption. Every tonne of coal-to-liquid capacity built is a tonne of crude oil that does not need to board a Tanker.

What Beijing is building – LNG Carriers

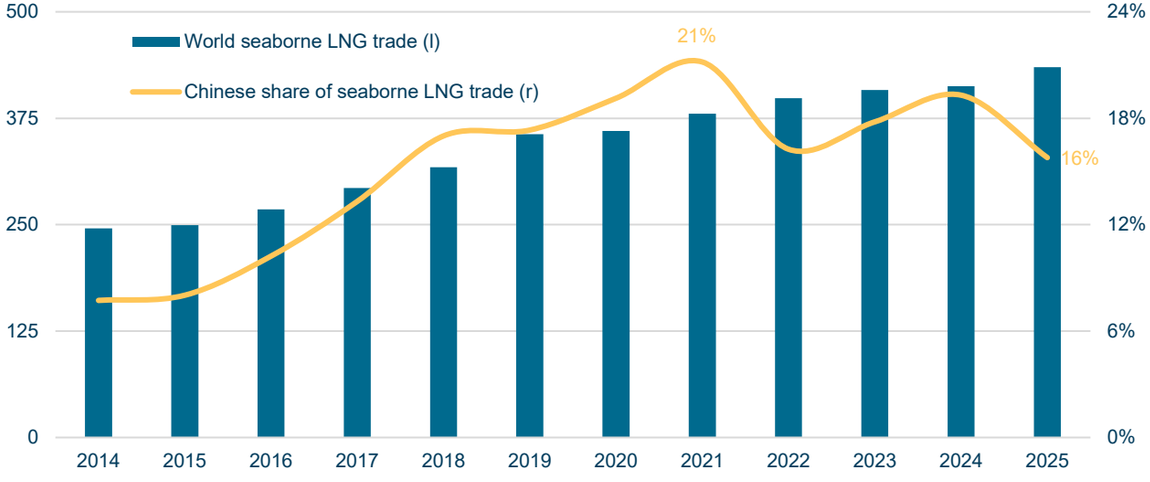
Pipeline substitution at scale

The most immediate vessel-class impact is borne by LNG Carriers. Three Russia-China gas pipeline routes, if fully realised, would deliver 106 billion cubic metres per year – equivalent in energy terms to China's entire 2024 LNG import volume of approximately 77 million tonnes, or roughly 1,100 standard cargoes. Power of Siberia 1 reached its 38 bcm design capacity in December 2024, one month ahead of schedule. An expansion to 44 bcm was agreed in September 2025. The Far East Route, at 12 bcm capacity, began construction in early 2024, with first gas scheduled for 2027. Power of Siberia 2, the transformative project, would deliver 50 bcm per year from the same Western Siberian fields that previously supplied Europe. The final agreement remains unsigned, but Gazprom and CNPC signed what Gazprom describes as a legally binding memorandum in September 2025, with first supply expected by end-2030 or 2031.

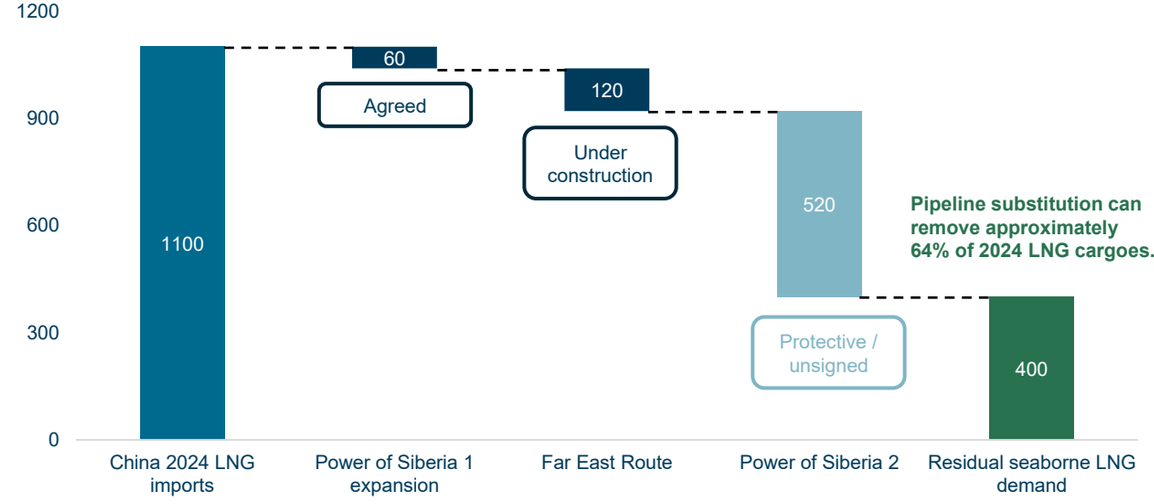
The displacement arithmetic is stark. Incremental pipeline capacity beyond the current 38 bcm would remove the equivalent of roughly 700 LNG cargoes per year from seaborne trade – approximately 64% of China's 2024 LNG imports. Simultaneously, the Sichuan-to-East China Gas Pipeline Phase II, with 20 bcm capacity and full completion expected in 2027, will connect rapidly growing domestic shale gas production to coastal markets. Every billion cubic metre of pipeline gas that reaches a coastal city directly will substitute a seaborne LNG cargo. The plan does not quantify the combined effect. It does not need to: the structural direction is unambiguous.

This is not the only force operating on LNG Carrier demand from China. The behind-the-meter solar displacement described in the previous chapters operates on the same trade from the demand side – reducing the power-sector gas requirement that generates the import call in the first place. Pipeline substitution and solar displacement are independent mechanisms, each sufficient to erode LNG import volumes on its own. Together, they will compress the structural demand outlook for long-haul LNG Carrier employment to and from China throughout the late 2020s and into the 2030s.

World Seaborne LNG trade (million tonnes)



The Russia-China gas pipeline (number of standard cargoes)



Source: Clarksons, IEA, BloombergNEF, Danish Ship Finance

What Beijing is building – Crude Tankers

Peak demand is compressing

> *“The China crude trade is becoming structurally less VLCC-intensive.*

China’s electric vehicle revolution has moved from policy to market reality faster than any major forecast predicted. Sales of electric and plug-in hybrid vehicles, classified in Chinese policy as new energy vehicles, reached 48% of total vehicle sales in 2025, with passenger cars surpassing 53%. The government’s original target was 20% by 2025.

The fleet-level transformation is now accelerating. Of China’s 366 million vehicles at end-2025, 44 million were electric – 12% of the total on-road fleet. The internal combustion fleet has effectively peaked. By mid-2025, cumulative electric vehicle displacement exceeded 1 million barrels per day of oil demand. Gasoline consumption peaked in 2023. Diesel peaked in 2019. The convergence of these forces has produced a consensus that Chinese oil demand for combustion fuels will peak in 2027 or that it has already done so. Total crude imports fell 1.9% in 2024 to 553 million tonnes – the first annual decline outside the pandemic years.

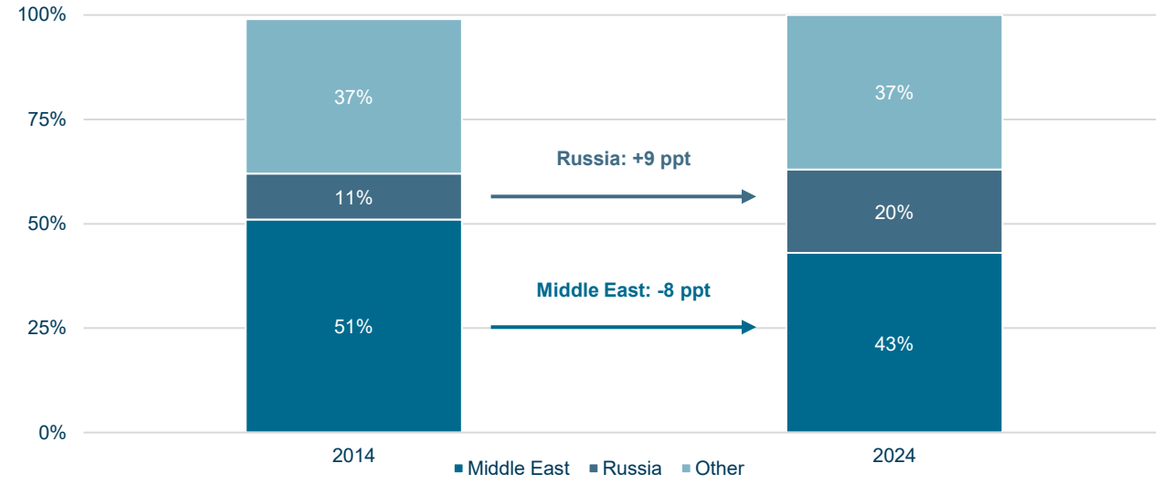
The plan did not create the EV transition; it reinforces it. China’s EV market is no longer mainly subsidy-driven, but increasingly self-sustaining. By keeping intelligent connected new-energy vehicles within the strategic emerging industries framework, Beijing is signaling that the sector remains a policy priority. Infrastructure mandates, procurement targets and industrial policy now make the direction harder to reverse.

Crude Tanker routes: Tonne-miles are compressing

Even where volumes hold, the composition of the trade is shifting against long-haul Tanker employment. Russia has displaced Saudi Arabia as China’s top crude supplier, delivering a record 109 million tonnes in 2024 – nearly 20% of total imports. The Middle East’s share has fallen from over 50% a decade ago to approximately 40%.

The tonne-mile consequences are direct. The Kozmino-to-China Pacific route covers roughly 1,200 nautical miles versus 6,300 from the Middle East Gulf – an 80% reduction in tonne-miles per barrel. The ESPO pipeline spur to Daqing, operating near its 30 to 35 million tonne capacity, eliminates seaborne tonne-miles entirely for 600,000 to 700,000 barrels per day. Russian Pacific crude moves predominantly on Aframax and Suezmax tonnage, because no Russian Pacific port can accommodate a VLCC. The China crude trade is becoming structurally less VLCC-intensive – declining volumes and shorter hauls compounding on the same trade simultaneously.

China crude import sources (%-share)



Source: Clarksons, GACC, BloombergNEF, Danish Ship Finance

What Beijing is building – Coal Bulkers, Product Tankers and LPG

The downstream cascade

Coal Bulkers: The renewable overshoot

China installed 357 GW of solar and wind capacity in 2024 and an estimated 434 GW in 2025 – nearly twice as much as every other country combined. Total installed solar and wind capacity exceeded 1,800 GW by end-2025, meeting the 2030 target of 1,200 GW five years early. Coal's share of electricity generation has fallen to approximately 55%. For the first time, renewable generation growth has exceeded total electricity consumption growth in a full year.

Coal imports reached a record 543 million tonnes in 2024, but the structural decline has begun. Projected imports are falling at roughly 2.5% per year up to 2030. The plan calls for coal and oil consumption to be driven towards their respective peaks – a softening of earlier language, but one that still encodes the directional commitment. Domestic production now covers roughly 97% of consumption, reducing the import requirement to 150 to 200 million tonnes, which is increasingly being sourced from shorter-haul Indonesian and Mongolian origins rather than long-haul Australian or South African routes.

For Dry Bulk vessels carrying thermal coal to China, the trade is transitioning from structural growth to managed decline – on a slower timeline than LNG, but along the same trajectory. The thousand-cuts mechanism operates here, as in every other fossil fuel segment: each GW of renewable capacity installed permanently displaces coal burn that would otherwise have generated an import call. The cargoes are not deferred; they are cancelled.

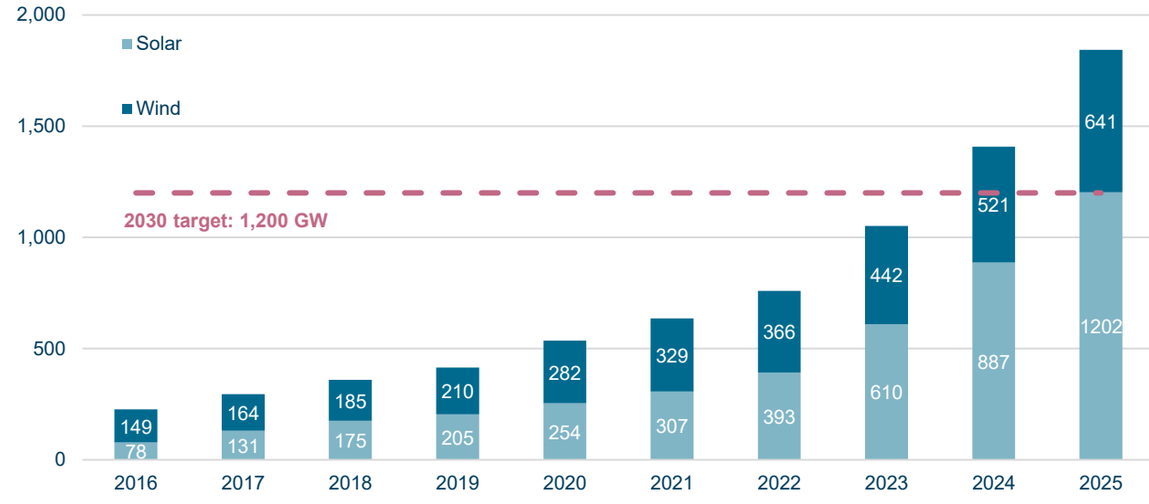
Product Tankers and LPG: The downstream cascade

A crude demand peak does not stay in crude. It cascades through the refining chain. When the gasoline requirement declines, refinery throughput rationalises. When throughput falls, product exports follow – and China has already shifted from being a structural product importer to a net exporter of refined products in several categories. The plan accelerates the next stage: domestic petrochemical self-sufficiency in ethylene and propylene, reducing the seaborne chemical trade requirement further. For Product and Chemical Tankers on China routes, the direction of travel mirrors Crude Tankers on a lagged timeline. The vessel that carried gasoline imports five years ago is now competing for export cargoes in a market where refinery capacity is being rationalised.

Volume recovers, tonne-mile does not

LPG is following a different path to the same destination. China now holds 23.4 million tonnes per year of propane dehydrogenation capacity – roughly two-thirds of the global total. That build-out has been the primary driver of VLGC demand growth over the past five years. Capacity has now overshot, and utilisation rates have fallen to 70%. Margin compression has caused further expansion to stall. Retaliatory tariffs on US propane, which supplied 56% of China's LPG imports, cut US-China flows by approximately 30%, and the replacement volumes from the Middle East are arriving from shorter-haul distances. Tonne-mile demand is contracting even where volumes are partially recovering.

China solar and wind cumulative installed capacity (GW)



Source: Clarksons, IRENA, Danish Ship Finance

What Beijing is building – The supply correction that will not come

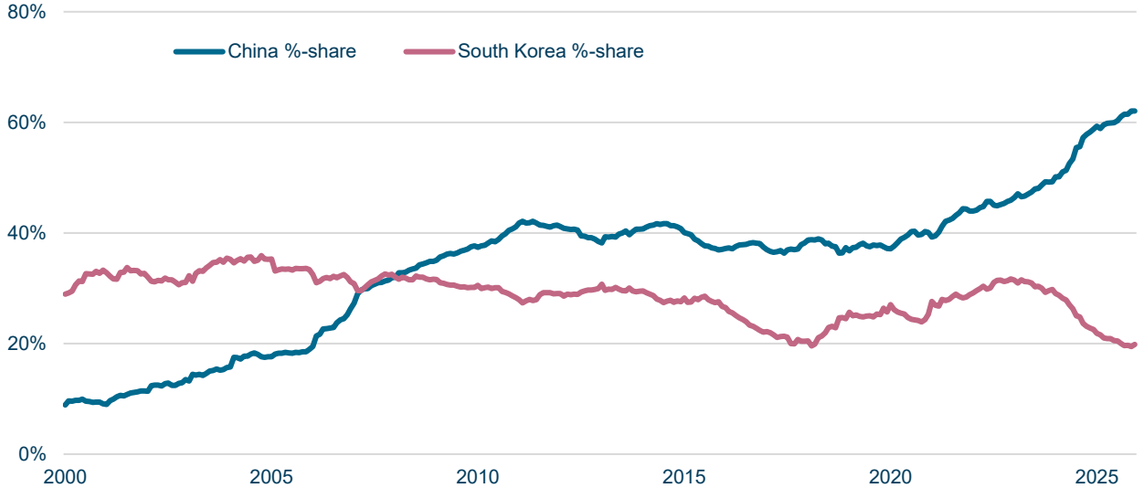
Yards as strategic infrastructure

The plan's demand-side provisions would be significant enough on their own. However, the supply-side provisions are equally consequential – and they interact with the demand story in a way that amplifies the structural risk. Chinese shipyards held over 60% of the global orderbook by compensated gross tonnage at end-2025. Seven of the top ten yards by orderbook are Chinese. In the VLCC segment, the shift has been dramatic: China holds approximately 72% of the current orderbook, compared to the historical concentration in which seven Korean yards have built 51% of the fleet. In LNG Carriers, China has broken Korea's near-monopoly with roughly a 25% to 30% market share, offering a 10% to 15% price advantage. In Container vessels, China accounts for approximately 80% of orders.

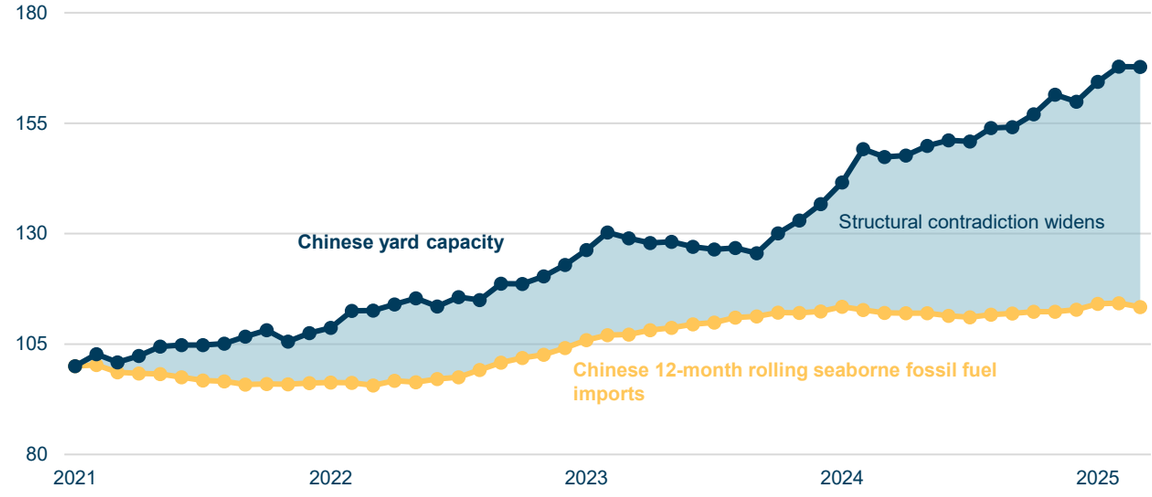
The plan explicitly designates shipbuilding as a strategic industry, directing state capital towards high-end shipbuilding and marine engineering equipment bases. The military integration chapter – Chapter 56 of the plan – states that all major infrastructure facilities must meet national defence requirements. That single sentence means that every shipyard built or expanded under the plan is simultaneously a commercial and a military asset. Yards designated as strategic cannot be allowed to cut back operations, regardless of commercial demand. The standard market correction mechanism – yards going idle, slots being cancelled, orderbooks deflating – will not apply for the largest single source of global newbuilding supply.

The plan names the structural contradiction without resolving it. One section addresses vicious competition through capacity regulation and industry self-discipline. Another simultaneously directs state capital towards the same industries. In competitive logic, this does not hang together. State subsidy sustains supply that market pricing would remove. For the vessel segments, this means the supply correction that the industry assumes will eventually balance the market is structurally impaired at the source. The orderbook will continue to grow, even as the cargo base it was built to serve contracts

%-share of the total orderbook, by builder



Chinese yard capacity and fossil fuel demand (Index Dec 2021 = 100)



Source: Clarksons, Danish Ship Finance

> *This is not an aspiration. It is **policy**.*

What Beijing is building

Fiscal sovereignty - the architecture was already in place

Chapter 51 of China's 15th Five-Year Plan is explicit: the cross-border payment system will be built to operate outside dollar reach. It calls for domestic control, sanctions resilience, and an RMB settlement architecture insulated from long-arm jurisdiction. This is not an aspiration. It is policy.

The infrastructure to execute this already exists. The Cross-Border Interbank Payment System (CISP) processed roughly USD 26 trillion in 2025, with 193 direct participants across 124 countries. The China Classification Society classifies the world's fifth-largest fleet by deadweight tonnage. Chinese state-owned enterprises operate port terminals in over 90 countries. Chinese banks finance the majority of Chinese-built tonnage. Construction, classification, insurance, port access, settlement – every layer of the maritime value chain can now be executed within Chinese institutional reach.

The architecture broke in days

The infrastructure was not built for a crisis, but when the crisis came, it was ready. The Strait of Hormuz closure that began on 28 February 2026 fractured the dollar-denominated maritime architecture within days. By 5 March, transit through the strait had been priced shut for Western-flagged tonnage: hull war risk premiums spiked from approximately 0.2% to between 1% and 7.5% of vessel value, P&I Clubs cancelled charterers' liability war risk extensions and Western-flagged transits collapsed by more than 80%. The conventional enforcement chain that underpins every cross-border shipping contract – dollar settlement, international insurance, flag state compliance – broke at multiple points simultaneously.

A parallel system, operational

Iran-linked, sanctioned and shadow-fleet tonnage continued to move. On 5 March, the bulk carrier Iron Maiden transited the strait with its AIS destination signal set to "CHINA OWNER"; Sino Ocean followed two days later, signalling "CHINA OWNER_ALL CREW". Iran formalised the terms: passage was available, escorted by the IRGC through a northerly route in Iranian waters, for vessels from non-adversary states, at tolls of up to USD 2 million per transit, payable in Chinese yuan or dollar-pegged stablecoins. Iran's National Security Committee subsequently legislated the toll structure into law. By mid-March, approximately 12 million barrels of Iranian crude had moved from Iranian ports to Chinese refineries, settled entirely outside the dollar system. Access to the world's most critical maritime chokepoint was explicitly conditioned on non-dollar settlement – and the infrastructure to execute it was already in place.

What Beijing is building

Financial sovereignty - two ecosystems, one fleet

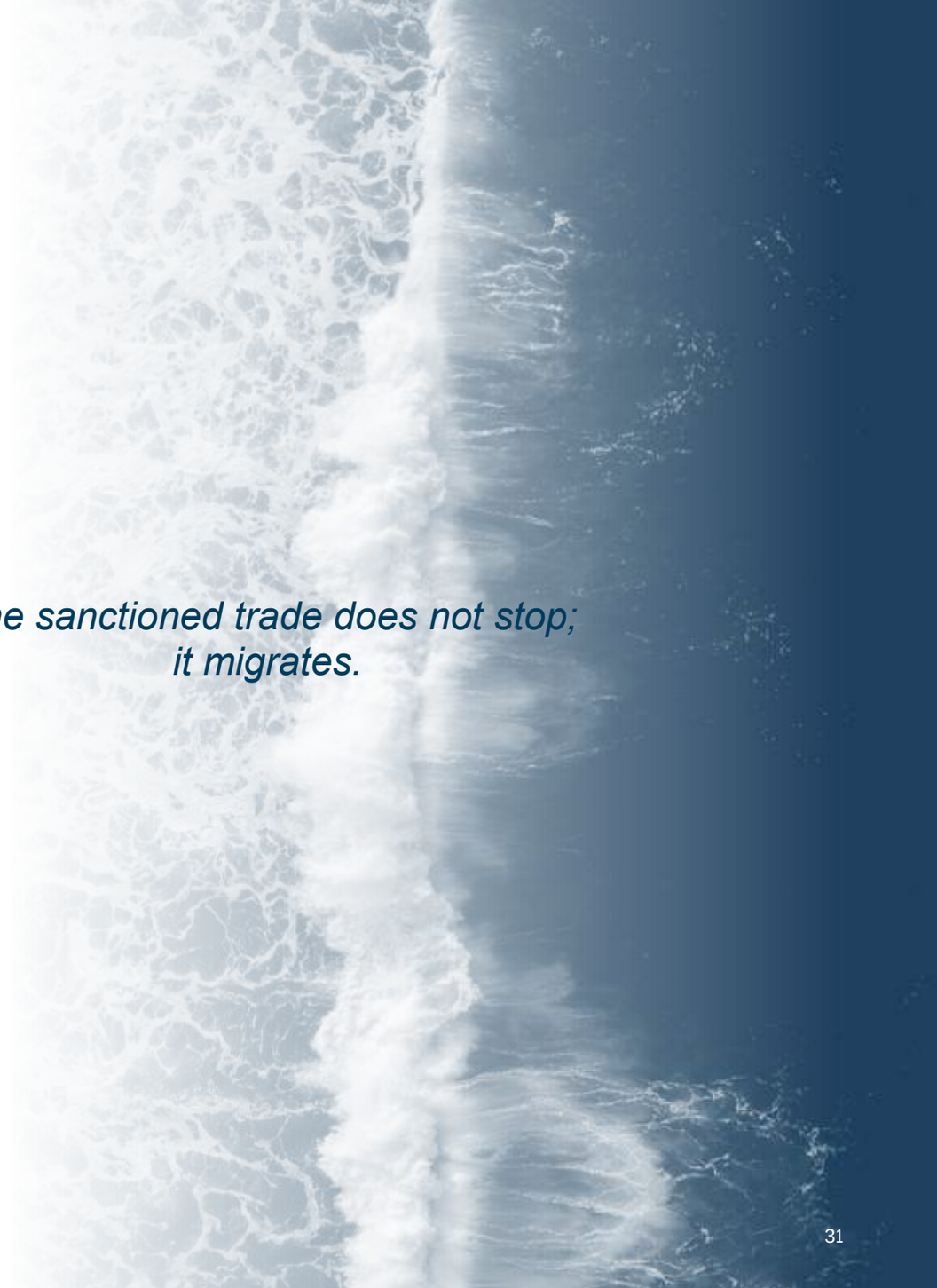
The mechanism did not appear from nowhere. China purchases approximately 90% of Iran's seaborne crude exports. Payments flow through intermediary institutions that finance Chinese infrastructure contractors working in Iran: Sinosure, China's state export credit insurer, and a financial vehicle called Chuxin route an estimated USD 8.4 billion through this barter-like arrangement in 2024 alone. Iranian oil is delivered to Chinese buyers; the corresponding payments fund Chinese contractors building infrastructure inside Iran; the international banking system is bypassed at every step. By 2024, approximately 90% of Russia-China bilateral trade had shifted to national currency settlement, and Russian crude and LNG continued flowing to Chinese buyers throughout the sanctions period.

The 2019 lesson

The institutional learning runs deeper than the commercial flows. In September 2019, the US Treasury's Office of Foreign Assets Control sanctioned two subsidiaries of COSCO, China's largest state-owned shipping group, for transporting Iranian oil. Approximately 50 COSCO-controlled VLCCs were blacklisted by Western charterers within days; one-third of the affected fleet went dark on AIS; VLCC rates tripled within weeks, from approximately USD 40,000 per day to over USD 100,000 per day. Within four months, Washington had narrowed the sanctions, removing one of the two designated entities from the sanctions list while retaining the other as continued leverage. The episode taught Beijing a usable lesson: when sanctions on Chinese maritime entities disrupt global oil markets in ways that are difficult to control, Washington recalibrates. Each episode has built a layer of the parallel system. The 15th Plan's anti-sanctions provisions are the institutional consolidation of what was learned.

Two ecosystems, one fleet

The implications for the Western shipowner are not that a future crisis will come, but that the consequences of a crisis have already been demonstrated. With the parallel architecture operational, any escalation that triggers sanctions on Chinese maritime entities would bifurcate the global fleet into two ecosystems: one dollar-denominated and Western-institutionalised, the other RMB-denominated and Chinese-institutionalised. The sanctioned trade does not stop; it migrates into a system where the Western financier’s security package – dollar charter income, London arbitration, flag state arrest rights – has diminished reach. Residual value, which depends on the liquidity of the resale market, is impaired when the buyer universe fragments along institutional lines. A vessel confined to one ecosystem is worth less than a vessel that can operate in both.



> *“The sanctioned trade does not stop; it migrates.*

What Beijing is building - The plan is the demand premise

Engineered, not forecast

The bifurcation does not require a crisis to deepen; it is already underway. As the Chinese-built share of the global fleet grows, as transaction volumes through CIPS's compound, and as the China Classification Society gains acceptance among major charterers, the economic gravity of the Chinese maritime ecosystem strengthens. Each yard delivery, each CIPS-settled cargo transaction and each port concession granted to a Chinese state-owned operator adds a layer. The process is gradual, commercial and rational. It does not announce itself; however, it compounds – and it structurally narrows the resale universe for tonnage that cannot operate within both systems.

What would have to be wrong

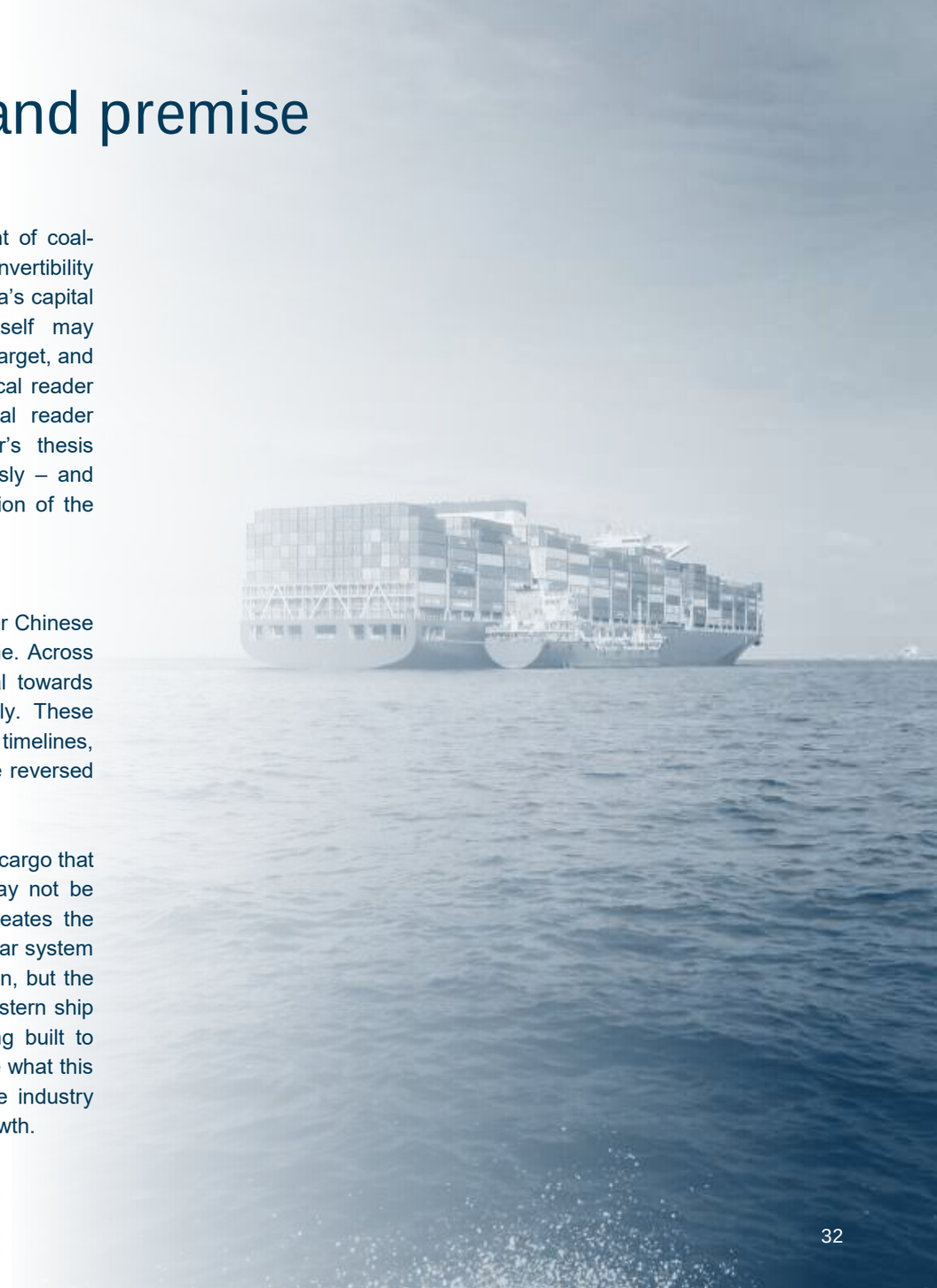
Three things remain genuinely uncertain: whether the parallel architecture reaches full self-sufficiency or remains a supplement – used selectively for sanctioned trades but not displacing the dollar system for mainstream commerce; whether the RMB achieves the convertibility and liquidity depth needed to sustain large-scale commodity settlement – China's capital account remains partially closed, and that is a binding constraint the plan acknowledges but does not resolve; and whether Western counter-measures – secondary sanctions, restrictions on China Classification Society acceptance, alternative port infrastructure – limit the architecture's reach before it matures. What is not uncertain is that the capability exists, that it has been tested under stress, and that the plan is building more of it.

The thesis has conditions. Power of Siberia 2 may never be built – the final agreement remains unsigned and the project faces construction timelines that extend well beyond the plan period. Electric vehicle penetration could plateau if battery mineral supply tightens or grid infrastructure lags. Renewable curtailment in China's western provinces could slow the displacement of coal-fired generation. The RMB may never achieve the convertibility needed for large-scale commodity settlement while China's capital account remains partially closed. And the plan itself may underperform: the 14th Plan missed its energy intensity target, and execution rates, while high, are not perfect. The sceptical reader will recognise these qualifications. What the sceptical reader should also recognise is that reversing the chapter's thesis requires most of these conditions to hold simultaneously – and requires them to hold for 25 years, which is the duration of the capital commitment the thesis questions.

Engineered, not forecast

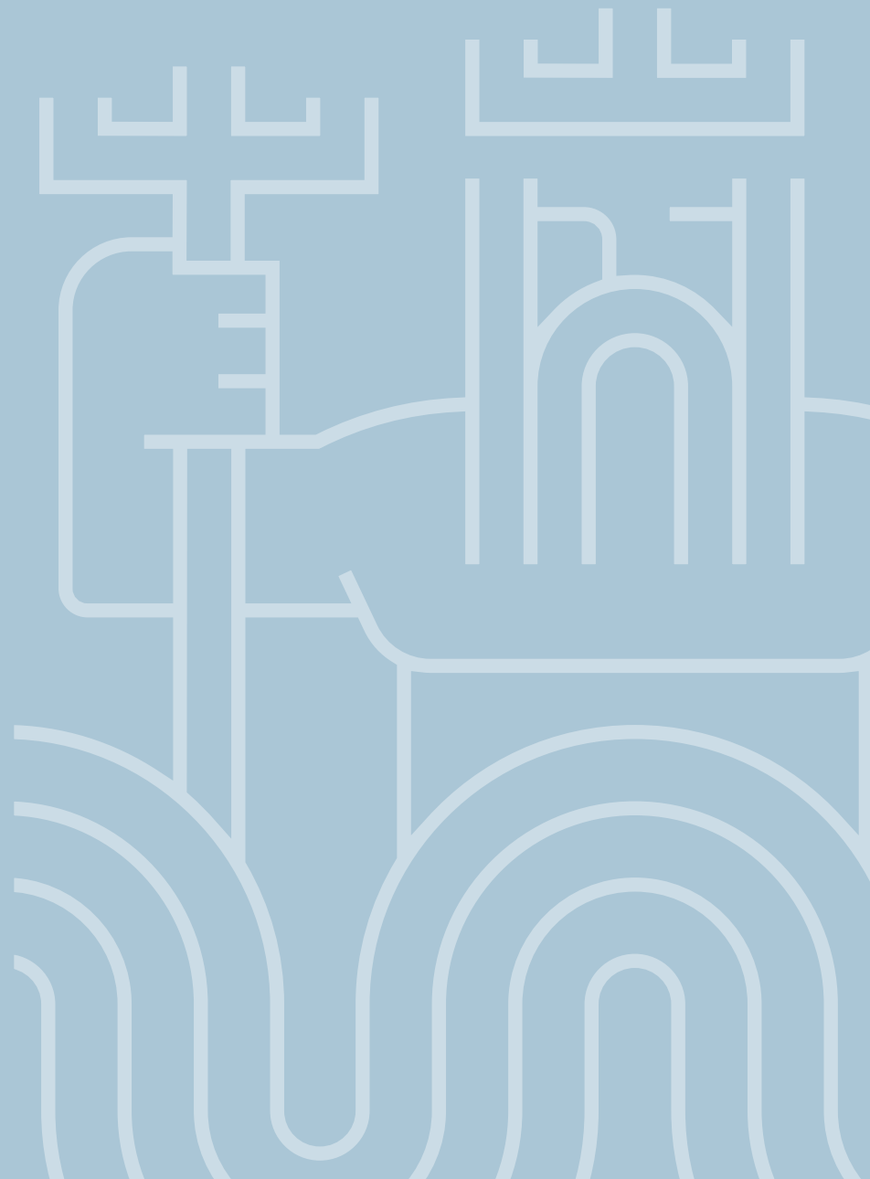
The 15th Five-Year Plan does not merely anticipate lower Chinese seaborne fossil fuel imports. It helps create that outcome. Across energy, transport and industry, the plan directs capital towards infrastructure that reduces reliance on maritime supply. These measures operate in different segments and on different timelines, but they point in the same direction. None is likely to be reversed within the commercial life of a vessel ordered today.

The plan also supports the fleet that will compete for the cargo that remains. Because that fleet is backed by policy, it may not be forced to shrink when markets are oversupplied. It creates the financial architecture to operate that fleet outside the dollar system if circumstances require it. The demand side will weaken, but the supply side will not. The institutional framework that Western ship finance depends on now faces a parallel system being built to function without it. In the following chapters, we examine what this means for the assets, earnings and valuations that the industry has built on the premise of continued Chinese import growth.



Capital at risk

Shipping Market Review – May 2026



Capital at risk - the framework

The price curve is a yield curve

Current orderbooks are sized for the assumption that fossil seaborne demand will continue to grow. The preceding chapters offered reasons to question it – not as a forecast, but as a reading of the structural forces reshaping fossil seaborne demand.

Readers will evaluate that evidence in different ways, but the question this chapter asks does not require agreement on direction. It requires only a willingness to consider the implications: if seaborne demand does not grow, if it contracts gradually over the coming decade, what will that do to ship prices, earnings expectations, and the assumptions that underpin every newbuilding commitment and secondhand transaction in the market today?

A fleet sized for growth but that encounters a structural demand decline will not simply cycle through a weak market. It will enter a period of sustained overcapacity with no demand recovery to absorb the surplus. The cycle will continue – but around a lower midpoint, with weaker peaks and a scrap floor that starts to matter earlier in a vessel's life. The earnings on which owners have built their investment cases will not disappear overnight, but they will erode. This chapter examines how that erosion will move through the market and where it is likely to materialise first.

The price curve is a yield curve

A vessel is a tradable asset with a finite economic life. Every secondhand transaction sets a price on what remains of that life. The secondhand market is not an opinion about current freight rates; it is a term structure of implied forward earnings, built from scrap upwards through each age bracket.

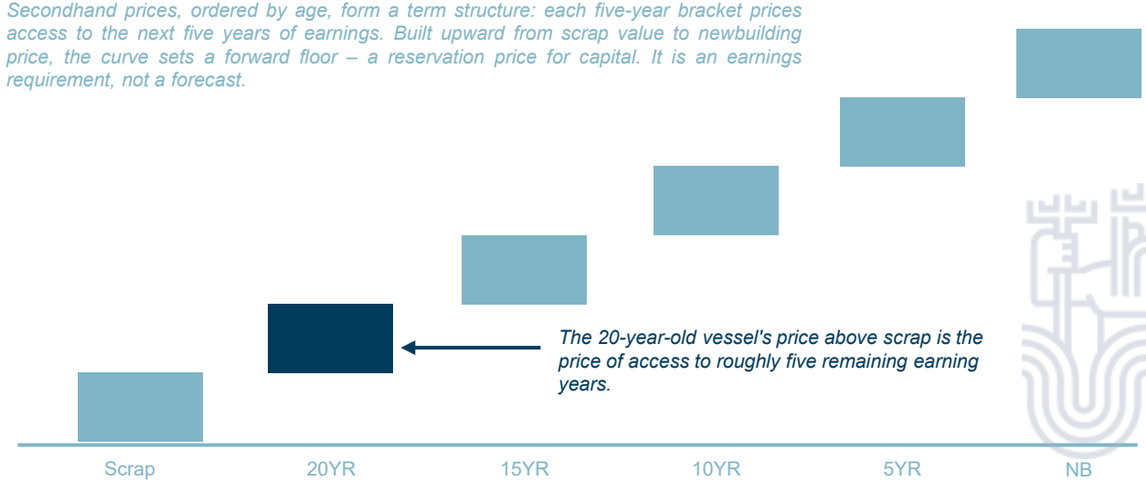
Starting at the bottom, scrap value is the hard floor – the price of the steel, independent of any market view. Everything above scrap is a payment for future earnings. A 20-year-old vessel's price above scrap is the price of access to roughly five remaining earning years. A 15-year-old's premium to the 20-year-old is the price of access to the next five-year tranche. A ten-year-old's premium to the 15-year-old prices access to the one after that. The full curve from scrap to newbuilding is a yield curve for vessel earnings, with each age bracket pricing a different maturity band.

The minimum daily earnings rate

Where the S&P market is liquid, this is not speculation; it is what buyers have actually paid. The framework is most reliable where transaction volumes are highest. At the edges, the signal is weaker: newer tonnage is influenced by replacement cost, while older tonnage can be affected by thin trading and proximity to demolition. The price difference between two age brackets shows what buyers are paying for the additional earning years. That allows us to infer the minimum daily earnings needed to justify the extra price. It is not a forecast; it is the earnings level implied by actual transactions.

Secondhand prices as a term structure

Secondhand prices, ordered by age, form a term structure: each five-year bracket prices access to the next five years of earnings. Built upward from scrap value to newbuilding price, the curve sets a forward floor – a reservation price for capital. It is an earnings requirement, not a forecast.



Source: Clarksons, Danish Ship Finance

Capital at risk cont.

The downside is not linear

The curve still assumes growth

If seaborne fossil fuel demand is structurally declining, the long end of the curve – the implied daily rate for years 15 to 25 of a newbuilding's life – should be lower than the short end, because the demand environment in those years will be weaker than today. A flat or upward-sloping curve at the long end still embeds a growth assumption.

The framework rests on a fixed economic lifetime – roughly 25 years for most major segments. That lifetime is itself a market variable, and the following chapter examines what the historical record shows about its actual range. Every maturity band prices earnings within that window. But if the economic lifetime shortens, the old end of the curve does not decline gradually; it collapses. A 20-year-old vessel priced based on a 25-year lifetime has five remaining earning years. Compress the life to 20 years and it has zero, and its price falls to scrap immediately. That repricing cascades leftwards through the curve – most severe at the old end, weakening as it moves towards the new end, because the percentage of remaining life lost is greatest for the oldest vessels.

Two markets, not one curve

The newbuilding price and the secondhand price are not points on the same curve. They are set by two different markets. The newbuilding price is yard-driven – a function of steel costs, equipment availability, labour and slot demand across all segments. It does not respond to a freight rate spike in a single sector. The secondhand price is earnings-driven – a function of current and expected charter rates, trade route economics and vessel-specific employment. The two can diverge for extended periods. When they do, the gap is not an arbitrage opportunity, but is a signal that the yard market and the freight market are pricing different futures.

The downside is not linear

Where secondhand prices sit in the range matters for the scale of the correction. When prices are in the middle of historical bands, the replacement cost provides a ceiling and the scrapping cost provides a floor, and the distance between them is contained. When prices move into the top percentiles, as they have done now, they detach from the replacement cost entirely. The price is supported only by earnings expectations. The distance between where the price sits and where the next solid anchor lies – replacement cost, the historical median, scrap – is far greater than when prices are mid-range. The capital exposed to a correction is not proportional to the percentile; it accelerates as prices move higher.

“ The newbuilding price and the secondhand price are not points on the same curve. They are set by two different markets.

“The timing will differ across fossil fuel segments, but the direction will not.

Capital at risk cont.

When the cargo does not come back

When the cargo does not come back

Supply-driven overcapacity is part of the cycle that is familiar to the industry. The market has always recovered, and commercial judgment across the industry has been shaped by that experience. Demand-driven overcapacity is different. The fleet is not too large because too much was ordered, but because the cargo that justified it is no longer there. The corrective mechanism is not scrapping into a recovery, but rather a permanent fleet contraction against a declining demand base. Supply adjusts downwards – but so does the level around which it settles. There is no recovery to wait for, but instead a lower steady state must be accepted.

This distinction matters most for residual value. With supply-driven overcapacity, the vessel retains residual worth because underlying demand exists and will return. The owner who holds the vessel through the cycle recovers value. With demand-driven overcapacity, residual value is progressively impaired as each successive buyer faces a weaker demand outlook than the last. Periods of regional disruption or unexpected supply tightness will produce temporary recoveries – they always have. But each recovery returns to a lower baseline than the one before. The owner who mistakes a disruption-driven recovery for a cyclical turning point is waiting out a market that will not come back to where it was. In this instance, patience – previously a key virtue in the industry – can become the very attribute that causes losses to accumulate

When the cure becomes the disease

Economic lifetime compression sharpens the distinction. Amid supply-driven overcapacity, lifetime shortening is the cure: older vessels become uneconomic, they are scrapped and the fleet heals. With demand-driven overcapacity, lifetime shortening is the disease. It is permanent, it does not reverse and it operates in two dimensions simultaneously: fewer years to earn and lower earnings per year. These are not independent risks. They are driven by the same force – structural demand decline – acting on the same asset at the same time.

A flat curve is consistent with orderly contraction: demand declining, the fleet shrinking to match, and surviving vessels earning a sustained rate. However, orderly contraction requires scrapping to keep pace with the demand decline. The industry has never managed this voluntarily. In every previous downturn, tonnage has been held too long, and the fleet has overshot demand on the way down. There is no reason to expect behaviour to be any different in the next one. Forced scrapping from economic lifetime compression may eventually impose the fleet discipline that the market will not produce on its own – but it will do so by destroying the value of whoever holds the oldest tonnage. What appears orderly at the fleet level will be ruinous at the vessel level.

Capital at risk cont.

The cargo, not the counterparty

When renewal outpaces the trade

Even within orderly contraction, replacement ordering can create demand-driven overcapacity via a different route. Owners ordering newbuildings to replace ageing tonnage for environmental or regulatory compliance are responding to fleet requirements, not to cargo demand. If the cargo base is shrinking at the same time, the replacement vessel is not adding capacity because the market needs it. It is being ordered because regulation requires a different fleet. The fleet renews, but the trade needed to support that renewal is no longer there.

The cargo, not the counterparty

Counterparty analysis in shipping has traditionally centred on one question: can the counterparty pay? Credit quality, balance sheet strength, covenant compliance – these are the standard tools. Structural demand decline introduces a second question that may prove more important: will the counterparty still need the cargo? A counterparty that no longer needs the volume does not have to default. The response is commercial, not legal. The counterparty may still pay. At renewal, contracts become shorter, options move in the charterer's favour, and rates reset lower – or the contract is not renewed at all. There is no default and no obvious early warning. The loss appears gradually, through normal contract terms. By the time it shows up in vessel earnings, it has already affected the asset's residual value.

Disruption is not recovery

Geopolitical disruption can delay this recognition. A trade route temporarily inflated by sanctions or rerouting produces charter terms that appear to confirm the vessel's earning power. But the charter was drawn up against a disrupted market. When the disruption fades, the renewal reflects the structural demand environment – not the one the original contract priced.

> *"There is no credit event to trigger an early warning.*

Capital at risk cont.

When the contract holds but the trade does not

Even where the charter performs in full, the risk is not eliminated – it is deferred. When the vessel is ordered or purchased, the investment case assumes that it can be rechartered on similar terms, or sold at a price that reflects its remaining earning life. If the underlying trade flow weakens during the charter period, those assumptions no longer hold. The charter has not failed. It has simply ended in a weaker market than the owner expected.

When the contract holds but the trade does not Pakistan illustrates the point. As discussed earlier, its long-term LNG contracts with Qatar remain in force, but distributed solar has reduced power-sector gas demand enough to leave the country with a projected surplus of 177 LNG cargoes up to 2031. Pakistan is now seeking to renegotiate or defer volumes. The counterparty has not defaulted, but the trade flow has weakened below the level assumed in the contracts. Credit analysis would not have identified this risk; demand analysis would have.

The same concern applies to the cargoes expected to replace fossil fuel volumes. New transition-related cargoes are emerging, but not at a scale that offsets the fossil fuel volumes at risk. Since 2020, roughly 105 million tonnes of near-zero emissions steel capacity have been announced globally, but less than 5% has reached final investment decision. The replacement demand that might support residual asset values is therefore arriving more slowly than the industry assumes. A charter-backed valuation that does not test the durability of the underlying cargo flow is only measuring part of the risk.

Capital at risk cont.

The repricing will be concentrated

The transition between phases

Structural risks do not reprice in real time. They accumulate while the evidence builds up and correct abruptly when it becomes undeniable. The transition between these phases is where capital is most exposed.

Current asset prices across fossil fuel segments do not reflect the structural forces described in this chapter. The market is pricing cyclical strength, not structural decline. The gap between current valuations and the valuations implied by the structural thesis is wide – and widening every year the evidence builds without the ensuing repricing. The displacement mechanisms described in the preceding chapters are compounding annually. Each percentage point of penetration permanently removes volume from seaborne trade – not for a cycle, but for the operating life of every unit installed. The structural forces will not pause while the market reprices.

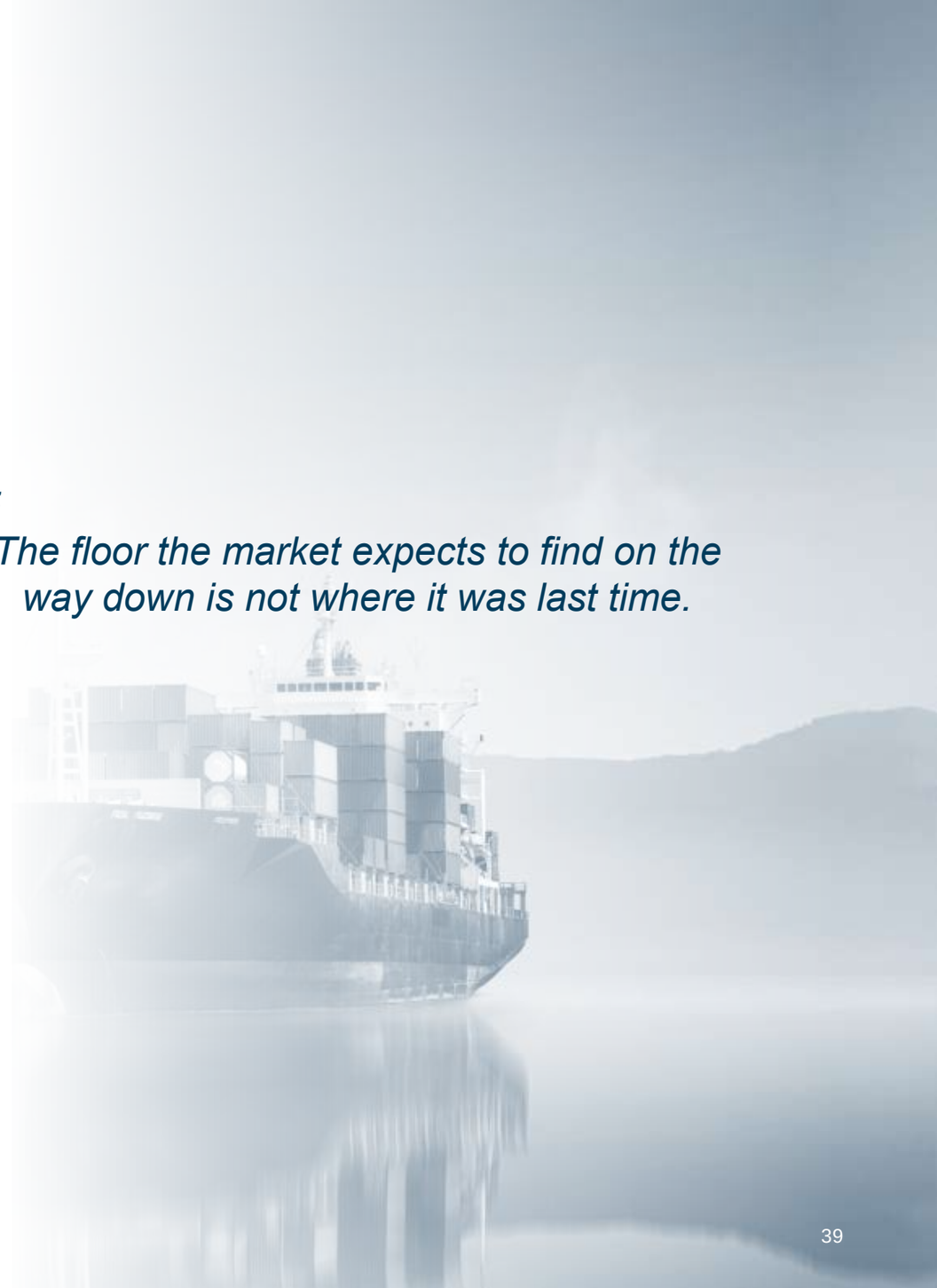
Even the floor is in question

When prices correct from elevated levels, the correction is historically sharp, because earnings-driven valuations have to fall back to replacement cost before they find a stable floor. The following chapter documents this dynamic in the 2008 episode. Under the structural thesis, even that floor is in question. Replacement cost holds as a valuation anchor only if the vessel is to be replaced, which assumes the cargo will still be there. In a demand-driven contraction, it may not be.

What makes the current position different from 2008 is the structural dimension. A cyclical correction towards the historical median is painful but recoverable. If cyclical mean reversion and structural demand repricing occur simultaneously, they compound and the cyclical correction reverts towards an equilibrium. In contrast, the structural shift lowers the point of equilibrium itself. The repricing accelerates its own adjustment. Each transaction at a lower price resets the comparable for the next, pulling the entire age-price curve downwards. The repricing is not only a consequence of structural change. It is part of the mechanism by which the fleet adjusts to it. The evidence has been building for a decade, but the repricing has not yet followed. The floor the market expects to find on the way down is not where it was last time.

When prices correct from elevated levels, the correction is historically sharp, because earnings-driven valuations have to fall back to replacement cost before they find a stable floor. The following chapter documents this dynamic for the 2008 episode and tests its applicability to current conditions

> *“The floor the market expects to find on the way down is not where it was last time.*



Rethinking financial risk

Shipping Market Review – May 2026

Rethinking financial risk

What today’s vessel prices assume about tomorrow's demand - read the curve

For many that invest in vessels that transport fossil fuels, long-term value creation is not tied to cargo movement. It is linked to the value of the asset. The traditional business model is the asset game – buying vessels when prices are low and selling them when prices recover. It works because periods of excess fleet capacity are eventually balanced by increases in cargo demand. The vessel retains value through the downturn because the cargo that justified it still exists and is fundamentally growing. Patience is rewarded. The cycle turns. The fleet expands to meet it.

The model just paid out

The instincts behind this model have just delivered again. VLCC one-year timecharter rates doubled between 2021 and 2025 on supply-side tightening alone, before the Hormuz crisis took them higher still. Asset values are near all-time highs. The owners who held their nerve through the downturn have been spectacularly rewarded. The Hormuz crisis has, however, demonstrated to every importing nation a vulnerability that previously seemed too remote to act upon. Each disruption episode reinforces the incentive to diversify away from chokepoint-dependent seaborne crude – and the longer the current crisis persists, the more permanent that diversification becomes.

This chapter does not argue that the market is mispriced today. It asks what today’s prices assume about the next 15 to 20 years – and whether the business model that produced those prices will still work across that horizon. Every secondhand transaction implicitly answers a question about how far a vessel’s earnings extend. The following section compares those answers with the market’s own prices and tests them against the structural forces described in the preceding chapters. The data is drawn primarily from the VLCC market, but the same forces operate across segments on different timelines, and those parallels are drawn where they sharpen the point.

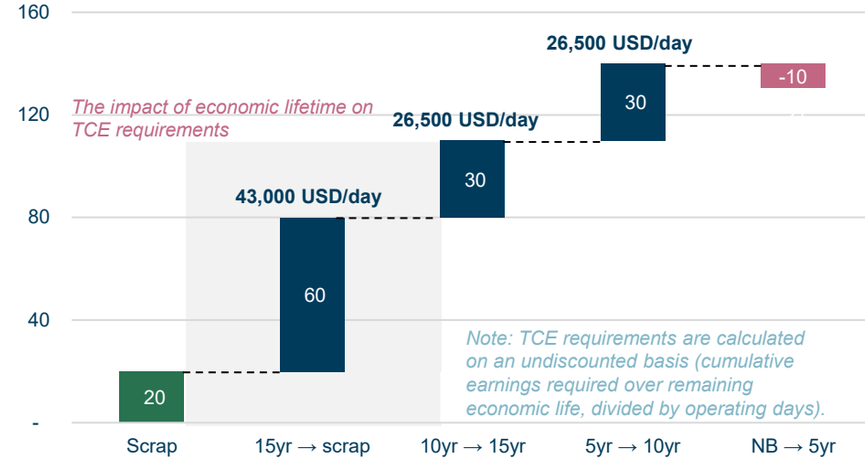
Read the curve

Applying the yield curve framework described in the preceding chapter to the VLCC market produces a striking shape.

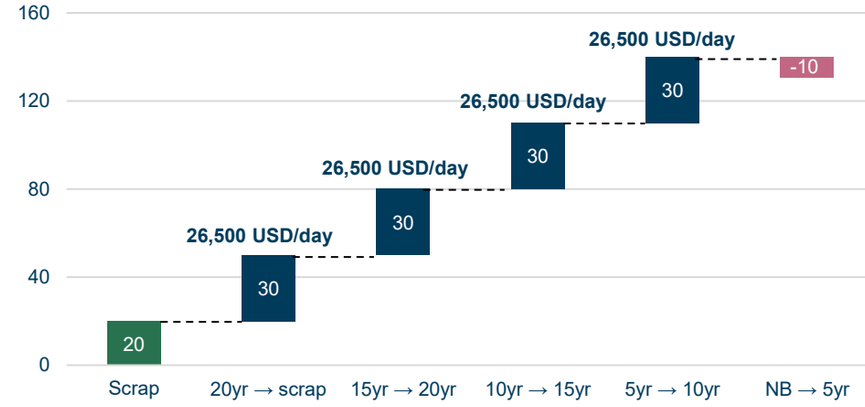
In April 2026, the age-price curve revealed three regions. The newbuilding (USD 130.5m) traded below the 5-year-old (USD 140m) – a USD 9.5m prompt-delivery premium. The middle (5- to 15-year-olds) added USD 26,500/day above the scrap base, flat across both brackets and implying deep mean reversion. The tail differed sharply: the 15-year-old added USD 43,000/day above the scrap base – the curve's highest increment, on its shortest runway. Total TCE at each tier = scrap base + age increment. Value was concentrated at the oldest end, precisely where structural risk is most acute.

> *“The very disruption elevating VLCC earnings is accelerating the infrastructure that will eventually erode them.*

The VLCC yield curve (assuming 20-year economic lifetime)



The VLCC yield curve (assuming 25-year economic lifetime)



Source: Clarksons, Danish Ship Finance

Rethinking financial risk cont.

What the tail is actually pricing

What the tail is actually pricing

A 15-year-old VLCC priced at USD 80 million with scrap at USD 20 million embeds USD 60 million of residual value above the steel. That is more than four times the average premium this bracket carried between 2010 and 2022. The premium has not drifted upwards; it has surged in tandem with the episodic rate environment, not in response to any structural improvement in the demand outlook.

What does that USD 60 million assume? If the vessel has five remaining earning years – which is what the commercial baseline suggests, given that oil major vetting restrictions effectively end top-tier employment by ages 18 to 20 and special survey economics create a scrapping inflection at 17.5 years – the implied daily rate is USD 43,000. That exceeds the average VLCC timecharter rate for the entire post-2008 period. The tail of the curve is priced against boom-era earnings extending to the end of the vessel's life.

If the vessel has ten remaining earning years instead of five, the implied rate drops to roughly USD 26,500 per day – more defensible, but only if the structural demand environment holds for a full decade, and only if the vessel achieves a 25-year economic lifetime. As the next section will show, that lifetime has been the exception, not the norm.

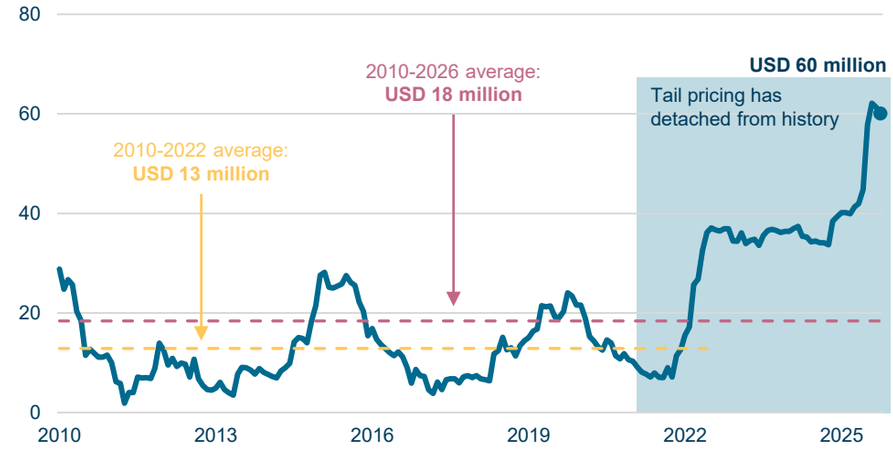
What LNG already shows

The LNG market shows what happens when the confidence underpinning the tail collapses. LNG Carrier demolition ages have fallen from 43 years in 2022 to 21 years in 2026 – the most dramatic lifetime compression event on record. The vessels are physically capable and the aggregate cargo is still moving. But a massive newbuilding wave, technological obsolescence, and the structural weakening of gas import demand described in a previous chapter have dismantled the commercial architecture that kept older tonnage alive. The cargo did not disappear overnight; the willingness to commit capital to the assumption that it would still be there in ten years did. This is the mechanism that the structural thesis predicts for Tankers and, on a longer horizon, for the coal-exposed portion of Dry Bulk.

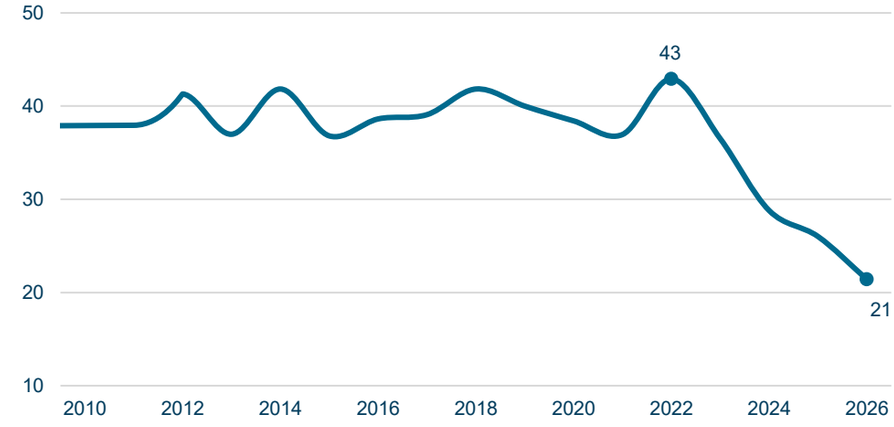
Not all LNG routes are equal

The consequence is not uniform across LNG routes. Vessels locked into power-sector importers most exposed to behind-the-meter displacement (e.g. Pakistan, India, parts of Southeast Asia) face the steepest repricing. Vessels serving, for example, data centre markets, described in Chapter 1, sit on a more durable demand base. Counterparty analysis that treats LNG as a single trade class misses this heterogeneity.

15-year old VLCC premium (million USD)



LNG average demolition age (years)



Source: Clarksons, Danish Ship Finance

Rethinking financial risk cont.

The 25-year life was the exception

The yield curve's tail is priced against an economic lifetime that the historical record does not support. The average VLCC has been scrapped below the age of 25 in three quarters of all observable years. The median demolition age is just under 22. The only period when it exceeded 25 was 2000 to 2005 – the peak of the China commodity supercycle – and the single data point of 2025, inflated by the Hormuz-driven boom and the near-total suspension of VLCC scrapping during the shadow fleet era.

The history of VLCC economic lifetimes is not a story of gradual decline. It is a story of three distinct forces arriving in sequence, each compressing the commercial life of the fleet, and none of them reversing.

The first force: regulation

The first was the MARPOL single-hull phase-out, which forced roughly 170 VLCC out of service between 2005 and 2015 – many well below the age of 20. This was a one-off regulatory cull that eliminated 38% of the fleet. The reader who remembers it will rightly attribute the low demolition ages of that period to regulation rather than to any demand signal. But the phase-out ended. The last single-hull VLCC was scrapped in 2015, and demolition ages did not recover.

The second force: the commercial baseline

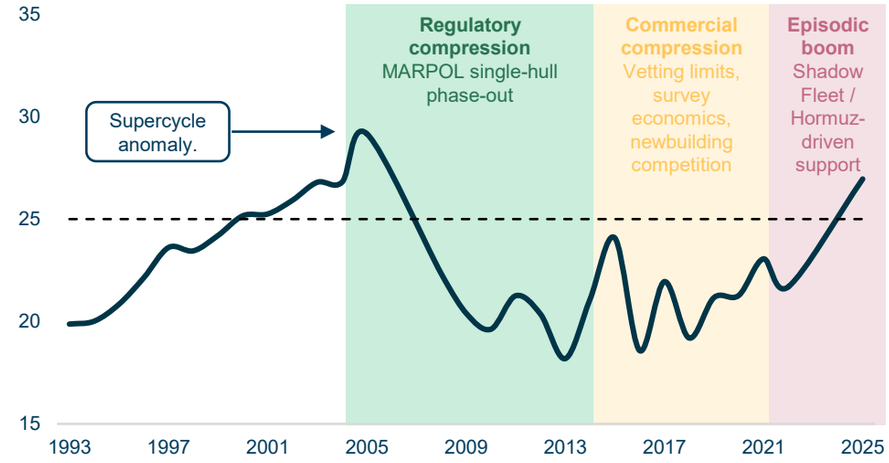
They did not recover because a second set of forces had already taken hold. Oil major vetting now imposes an effective age ceiling for top-tier employment well below the vessel's physical capability. Special survey economics create a natural scrapping inflection at the fourth intermediate survey. And the massive newbuilding wave that followed the supercycle – over 250 VLCCs ordered between 2008 and 2018 – made older double-hull tonnage commercially uncompetitive even when structurally sound. These forces are not cyclical. They are permanent features of the post-supercycle market, and they have established a commercial baseline for VLCC economic life of roughly 20 to 22 years.

The third force: structural decline

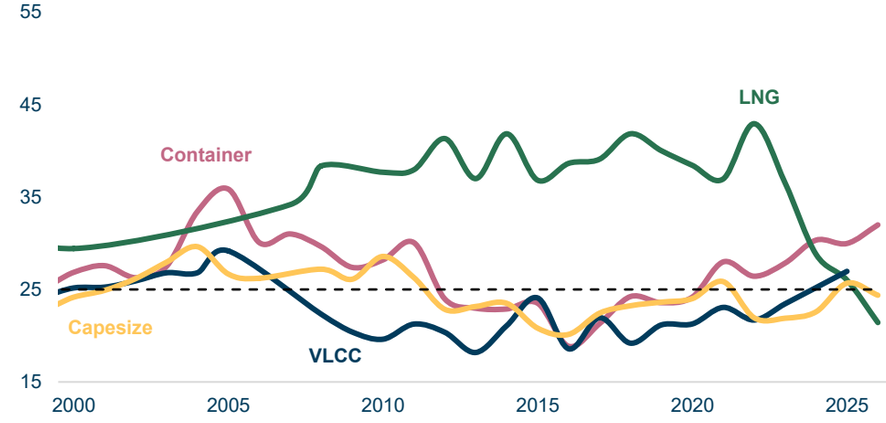
The structural thesis adds a third layer. If seaborne demand for crude is structurally declining, the commercial compression that has already shortened VLCCs' lives will deepen further, not because of a new force arriving, but because the demand recovery that has historically restored longer economic lives during booms will not materialise. The 25-year life is not the norm from which the market has deviated. It is the anomaly that the supercycle temporarily created – and that the structural shift will not recreate.

The pattern is not confined to Tankers. Capesize, Containership and LNG demolition ages have all converged below 25 years – each on a different timeline, each driven by a different proximate trigger, but all consistent with the same underlying dynamic: the cargo that built the fleet is the cargo most exposed to structural decline.

Average VLCC demolition age (years)



Average demolition age (years)



Source: Clarksons, Danish Ship Finance

Rethinking financial risk cont.

Decomposing the tail

The yield curve framework treats each age bracket as a fixed five-year window. That is a simplification. The bracket between the 15-year-old and scrap does not represent five years. It represents whatever remaining economic life the market currently assigns to the vessel – and that assignment is itself a function of the market cycle.

When demolition ages rise to 26 years, the 15-year-old has 11 remaining years, not five. The implied daily rate of USD 43,000 – calculated against a five-year window – falls to approximately USD 25,000 when spread across the actual implied remaining life. When demolition ages compress to 18 years, the same bracket shrinks to three years. The premium may fall in absolute terms, but the implied daily rate per remaining year rises.

If we benchmark each version against the monthly VLCC timecharter distribution from 2000 to 2026, under the fixed five-year assumption, the tail bracket in April 2026 requires approximately the 60th percentile of historical timecharter earnings to justify itself – the highest reading outside the 2008 peak. Under the dynamic adjustment, the timecharter equivalent falls to approximately USD 25,000 per day – the lower fifth of the 26-year distribution. The gap between those two readings – nearly 40 percentile points – is entirely attributable to the lifetime extension from the structural norm of approximately 21 years to the current episodic level of nearly 26. These percentile readings are measured against a 26-year distribution generated under structural demand growth. If the demand environment described in the preceding chapters is correct, the future distribution will be lower. Every bracket's implied cycle position is more aggressive than the historical benchmarking suggests.

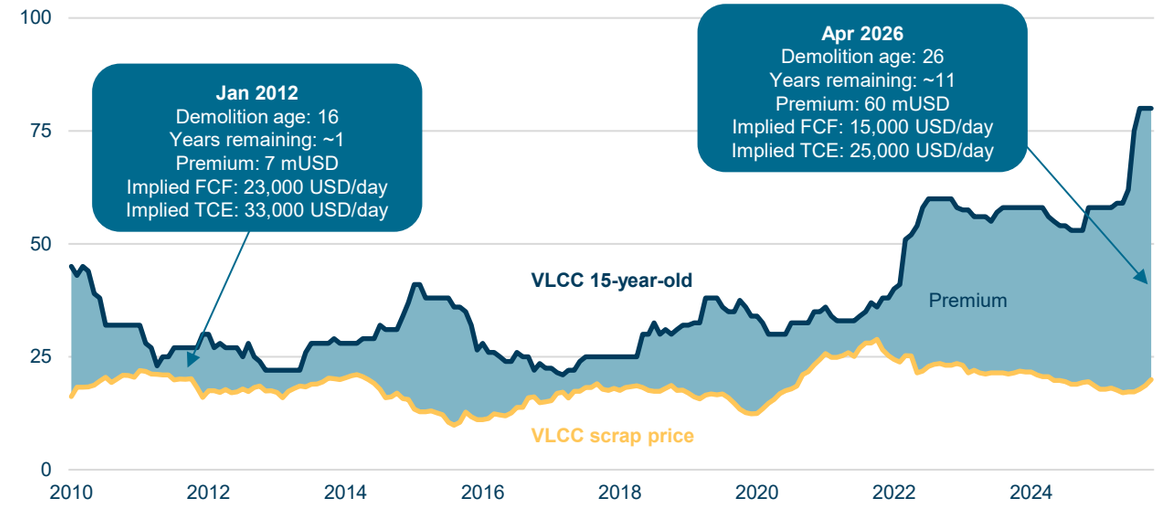
Premium and window compress together

The mechanism is reflexive. High freight rates extend economic lifetimes by making older tonnage employable. Extended lifetimes widen the bracket, which lowers the per-day implied rate, which makes the tail premium appear defensible. The premium looks internally consistent because the same market strength that elevates it also extends the window over which it is earned. But that coherence depends on the rate environment persisting. When rates normalise, two things happen simultaneously: the premium contracts and the bracket shrinks. The daily rate implied by the tail does not decline by one factor. It declines by the product of two.

January 2012 illustrates the mechanism in reverse. Demolition ages had fallen to 15.9 years. A 15-year-old VLCC had approximately one remaining year of economic life. The premium above scrap was USD 7 million. This was modest in absolute terms, but spread across a single remaining year, it implied USD 33,000 per day: the market was not pessimistic about daily earnings, but it was realistic about how few earning days remained. The premium was small because the window was small, not because expectations were low.

This is the pattern the structural thesis predicts will become permanent for fossil fuel vessel segments: not a collapse in daily rates, but a compression of the window over which those rates are earned. The tail premium does not need to fall to zero. The bracket needs only to shorten – as it has in every previous downturn and as the demolition age record confirms it will – for the capital embedded in that bracket to be at risk.

VLCC scrap price and 15-year-old premium (million USD)



Source: Clarksons, Danish Ship Finance

Rethinking financial risk cont.

The breakeven misses the path

The template every owner uses

The 2008 correction is the reference point for every owner. Five-year-old VLCC values more than halved in 14 months, but the market recovered – because the underlying demand for crude tanker capacity was structurally growing. The China supercycle was interrupted but did not end. That recovery is what taught an entire generation to hold. The structural question is whether the next correction will recover to the same level. If the demand floor is lower than last time, the instincts that rescued the previous generation may not rescue the next. The previous recovery rested on two supports: demand growth and yard capacity withdrawal. Neither can be assumed for the next. The first fails for structural reasons; the second fails because the dominant source of yard capacity is no longer market-disciplined.

The anchor has moved

Every historical earnings average used to size debt, assess coverage ratios, and value collateral in the VLCC market now contains six consecutive years of earnings elevated by factors unrelated to structural demand: Covid disruption, Suez rerouting, sanctions-driven tonne-mile inflation, Hormuz. These were powerful, real earnings – they paid real dividends and reduced real debt. But they were episodic, and their inclusion in the historical average systematically overstates what the structural demand environment alone will deliver. A five-year-old VLCC at current prices needs to earn less than USD 32,000 per day over a 20-year economic lifetime to justify its price above scrap. That looks comfortable against almost any historical average. It is comfortable – the breakeven is not the problem.

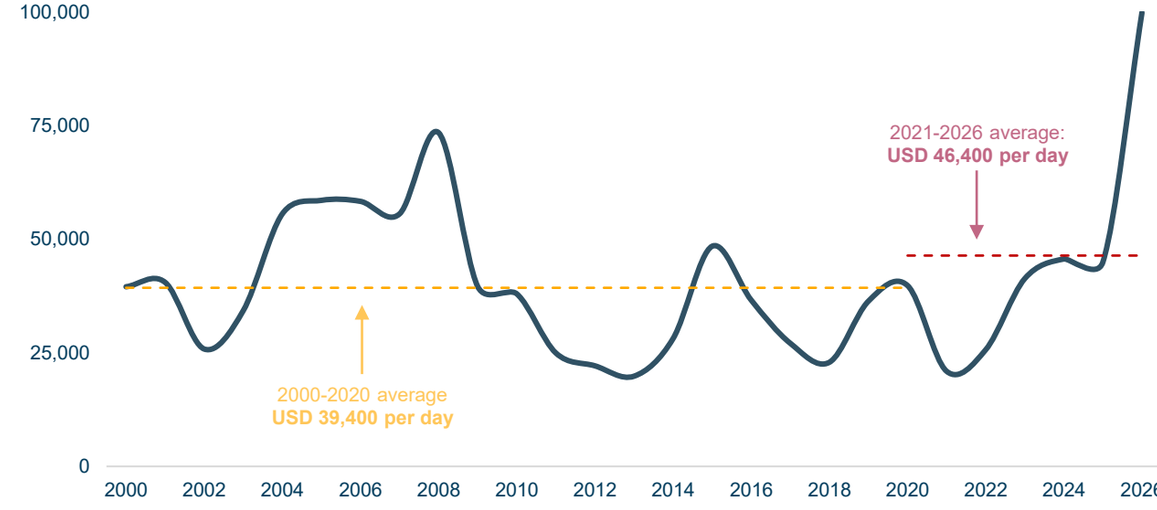
The breakeven misses the path

The problem is what happens along the way. The breakeven measures whether the investment recovers its cost over the vessel's full life. It says nothing about the path. Between 2011 and 2018, a ten-year-old VLCC traded at USD 40-65 million. Today's ten-year-old is valued at USD 110 million. The gap between those two figures is not a forecast – it is a measure of how much the current market has moved beyond what the structural demand base has supported for most of the last decade. If even a portion of that gap closes over the next five years, the owner of a five-year-old purchased at USD 140 million today will be holding a ten-year-old worth USD 60-70 million. The vessel may have earned above its daily breakeven every year, but it will have lost USD 70-80 million in capital value. That is the path the breakeven does not capture.

Cash-flow test passes, capital test fails

A vessel that earns above its daily breakeven but loses a third of its resale value has met the cash flow test but failed the capital test. The owner who financed against the asset discovers the difference at refinancing. The owner who planned to sell in year ten discovers it in the sale-and-purchase market. Both are exposed not because the vessel underperformed, but because the price they paid embedded a structural assumption about the demand environment that the market subsequently revised.

VLCC one-year timecharter-rate (USD per day)



Source: Clarksons, Danish Ship Finance

Rethinking financial risk cont.

The dimensions fail together

There is a simple test that can be done. At current timecharter rates, the five-year-old costs roughly six years of current earnings – well within the historical range. The vessel looks fairly priced only because earnings are extraordinary. If earnings normalise, the price must follow – or the ratio will be telling the market something it never has done before.

The dimensions of financial risk all fail together

Each of the preceding sections examines one dimension of financial risk. Each, on its own, is manageable. What makes them dangerous is that they are not independent. They are all calibrated to the same underlying assumption: that the long-term demand environment will resemble that of the past three decades.

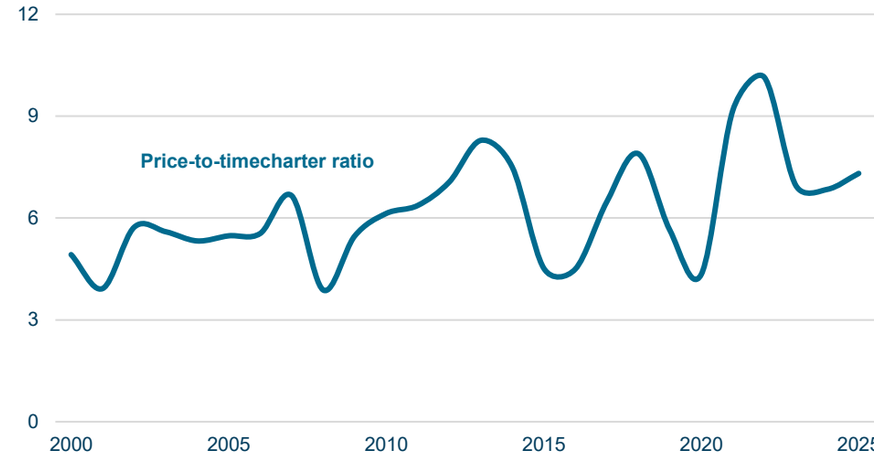
The structural forces described in the preceding chapters do not operate within a single segment. They are present across Tankers, Gas Carriers and the coal-exposed portion of Dry Bulk simultaneously, on different timelines. What appears to be diversification across the fleet may in fact be concentration to a single structural premise: that fossil fuel trade flows will persist at or near current levels. The more segments that share exposure to the same underlying dynamic, the less protection conventional segment diversification provides.

If that assumption is wrong – if seaborne fossil fuel demand is entering a period of structural decline rather than cyclical fluctuation – the risk is not that one dimension breaks and the others compensate. It is that the dimension that was supposed to provide the safety net – selling the vessel to cover the cash shortfall, refinancing against the collateral, waiting for the recovery that restores the earnings anchor – is calibrated to the same structural premise and fails in the same direction, at the same time. The supply-side response of yards withdrawing capacity in the face of declining returns has historically restored that safety net. In the present configuration, that mechanism operates with reduced force, leaving more of the adjustment to the asset side itself. The industry has never tested its financial architecture against this scenario, because structural demand growth has been the one constant across every cycle, every correction and every recovery in the modern history of shipping. It is the assumption that has made every other error forgivable. If this changes, the errors will compound.

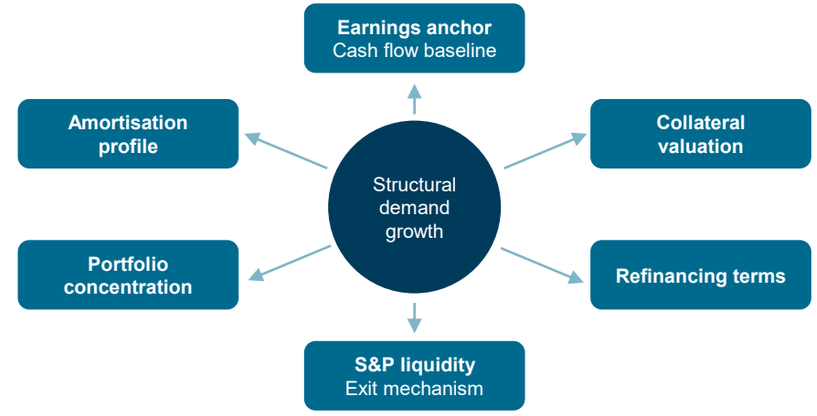
Asymmetric costs

The cost of testing these assumptions now – while markets are strong, asset prices are elevated and capital is available on favourable terms – is an opportunity cost. It is visible and manageable. The cost of discovering they should have been tested after the structural shift has arrived in asset prices is a capital loss that compounds through every dimension described in this chapter, because every dimension is calibrated to the same premise. One of these costs is the price of prudence. The other is the price of conviction. They are not symmetric.

Five-year-old VLCC, price-to-timecharter ratio



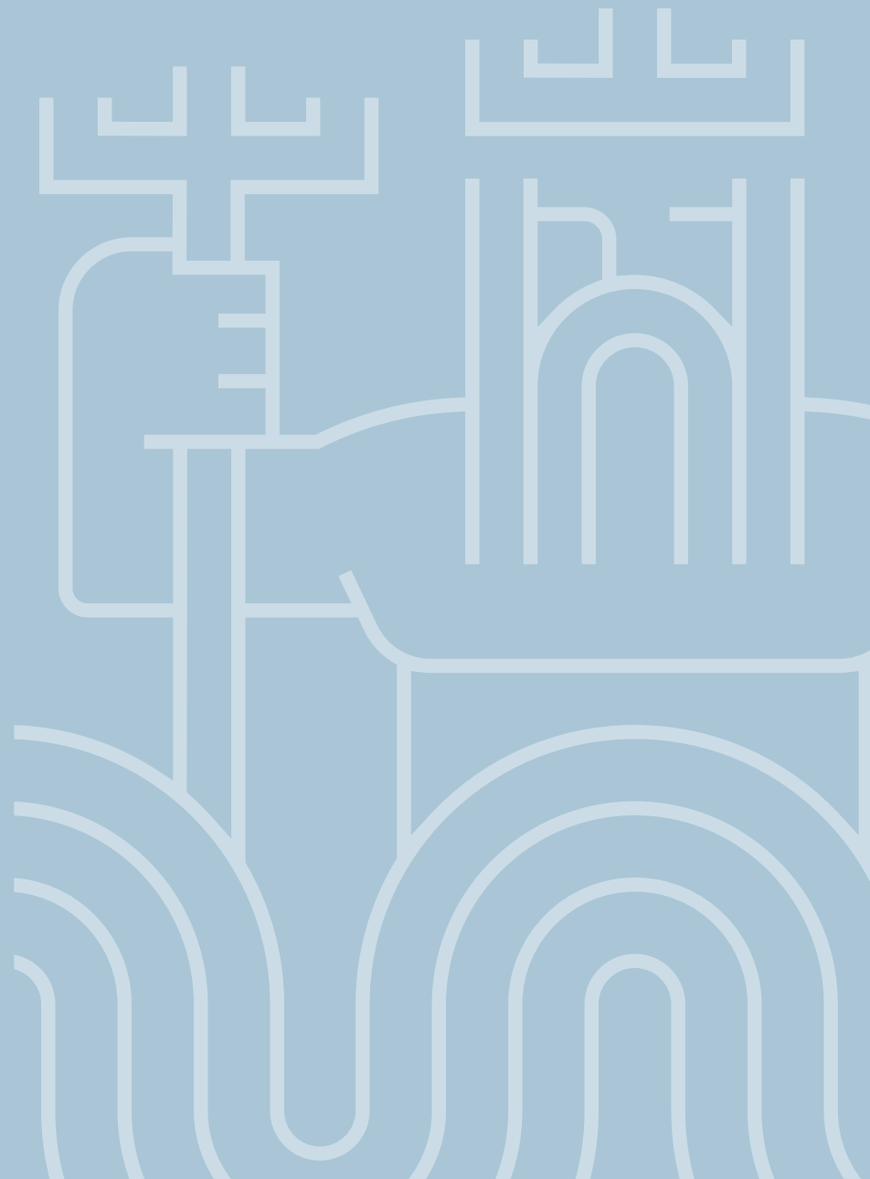
Structural demand growth assumptions



Source: Clarksons, Danish Ship Finance

What would have to be true?

Shipping Market Review – May 2026



What would have to be true

Inverting the question

Up to this point, the analysis has focused on demand. We have argued that seaborne fossil fuel trade faces a secular decline within a ten- to 15-year horizon, and that current vessel prices embed forward earnings assumptions inconsistent with that trajectory. We have examined how the risk is transmitted through the yield curve, how it reprices residual value and how it reshapes the asset game itself.

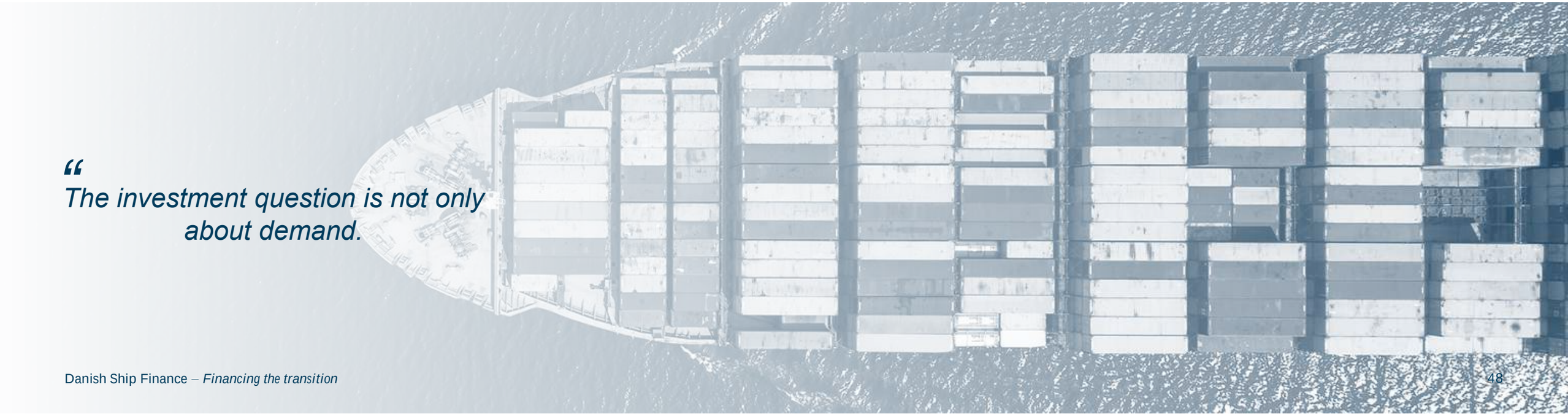
The investment question is not only about demand. A fleet that contracts faster than the cargo it carries can reward its owners even as the underlying trade erodes. This is the arithmetic that has sustained shipping through previous demand adjustments. The experienced shipowner does not need demand to grow. The shipowner needs the fleet to shrink faster than demand falls.

What would have to be true on the supply side

In this chapter, we examine the conditions under which capital can still be rewarded under a sunset demand outlook. We invert the question the earlier chapters have asked. Rather than asking whether demand is declining, we ask what would have to be true on the supply side for the repricing we describe to be absorbed by fleet discipline rather than by asset values. We set out the single condition that has to hold, the mechanisms through which it would have to hold and the observable tests that allow the reader to track whether it is holding.

The preceding chapter has already narrowed the ground. The newbuild side of the fleet equation has been shown to be structurally protected; Chinese yards, the largest single source of global newbuilding supply, have been designated strategic and cannot be allowed to contract under commercial pressure. The mechanisms through which fleet discipline might still operate are therefore narrower than the supply thesis would ordinarily assume, and the burden of contraction now rests on the tonnage already in the water.

The analysis that follows is not a counter-argument to the earlier chapters. It is a stress test of our own case. The demand thesis and the supply thesis are independent; each can hold without the other. The investor's task is to form a view on both.



"The investment question is not only about demand.

What would have to be true cont.

The supply-side condition for the demand thesis to be survivable

The condition

For capital to be rewarded under a sunset demand outlook, one condition has to hold: the fleet must shrink at least as fast as the cargo base it serves. The arithmetic is unforgiving. If demand contracts by 20% over a decade and fleet capacity contracts by 10%, utilisation falls, earnings compress and asset values follow. If fleet capacity contracts by 25%, the surviving tonnage trades into a tightening market and earnings support asset values even as the underlying trade erodes.

The contraction has to come from somewhere. In an ordinary adjustment, it would come from both sides of the fleet equation: yards slowing deliveries as orders thin out, and older tonnage scrapping as earnings compress. The preceding chapter has removed the first of these mechanisms from the toolkit. Chinese yards will continue delivering tonnage into a weakening market, and the state architecture behind them will sustain a flow that market pricing would ordinarily have arrested.

Two levers remain

The burden therefore falls on the two remaining mechanisms, each of which has to do more work than the supply thesis would ordinarily require. Scrapping would have to accelerate materially, with vessel lifetimes compressing towards the younger retirement ages seen in earlier structural adjustments – not cyclically, but sustained across the horizon. The shadow fleet across Tankers, Gas Carriers and Dry Bulk would have to be permanently retired rather than reintegrated into compliant trading once sanctions pressure eases.

Neither mechanism is guaranteed. The shadow fleet has suspended scrapping entirely since 2022 and now carries an age profile that would ordinarily have been demolished years ago. With newbuild discipline foreclosed, these are the only two levers the supply side retains; neither is automatic, and neither has historically delivered contraction at the pace a structural demand adjustment would require.

What would have to be true cont.

The new discipline

What could defeat it

Two forces work against the contraction the supply thesis requires. The first is sanctions relief. If the frameworks that are currently isolating the shadow fleet relax, a portion of that tonnage will return to compliant trading rather than to the demolition yard. The reintegration would be gradual and partial; it would not require the full shadow fleet to return. It would require only enough tonnage to defer the scrapping cycle the supply thesis depends on.

The second is recency bias in newbuild contracting. Earnings across several segments have recovered in recent years on episodic supply factors rather than on structural demand strength. Tanker earnings have responded to route dislocations, Gas Carrier earnings to trade reconfiguration and Dry Bulk earnings to stockpiling cycles. Each of these is real. None of them validates the demand assumption embedded in a 25-year newbuild order. Orderbooks placed against recovered earnings seed the next oversupply. The memory of recovery, which we have described as the most powerful force in shipping capital allocation, is also the force most likely to scupper the contraction the supply thesis requires.

The observable tests

The tests are simple and can be tracked from public data. Newbuild orderbook growth relative to trade growth: An orderbook expanding faster than underlying trade volumes is the clearest single indicator that the contraction mechanism is failing. The ratio matters more than the absolute level. The trajectory of the shadow fleet as sanction frameworks evolve: Reintegration into compliant trading, rather than demolition, is the failure mode. The age profile of reintegrated tonnage is the diagnostic. The age profile of vessels retired measured against the age profile of vessels ordered: Lifetime compression, meaning younger retirement ages, is consistent with the contraction the thesis requires. Lifetime extension is consistent with its failure.

The new discipline

If the fleet shrinks, capital is rewarded. If it does not, the demand thesis and the supply thesis compound, and the repricing described in earlier chapters moves from being a conditional outcome to a central one. The discipline the market now demands of the capital allocator is not a view on whether demand will decline, but a view on whether supply will contract fast enough to meet it.

Long duration, more conditions

For continued holding of the longest-dated tonnage to outperform a strategy of shorter-duration exposure, three conditions must hold across the 20–25 year economic life of the asset. First, demand growth must continue at a rate sufficient to maintain high utilisation throughout the full holding period. Second, fleet contraction must keep pace with any demand softening, preserving rate volatility and the option value that gives long-dated tonnage its premium. Third, no successor segment-level repricing event must occur during the holding period. The first two conditions are addressed in chapters 1 to 4. The third is unobservable in advance. The strategy of long-dated holding is therefore a bet that all three conditions will hold simultaneously over the longest holding period in shipping. The strategy of shorter-duration exposure requires fewer of these conditions to hold and over a shorter window.

> *“ The discipline the market now demands of the investor is not a view on whether demand will decline, but a view on whether supply will contract fast enough to meet it.*

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