Intermodal Research & Valuations

Shipping Monthly Recap

Issue: February 2014

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Contents

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Secondhand Market

Total vessels sold this month: 167

Secondhand activity continued to outperform last year's levels despite softening slightly compared to January. Keen buying interest continues to exist in both the dry and wet sectors, however the slower activity coupled with limited market movement in terms of freight levels translated into a slowing down in further asset price rises.

Newbuilding Market

Total new orders placed this month: 138

The deceleration in new orders was fairly prevalent this month, with activity dropping down to a small trickle as many owners start to question the benefits offered by a newbuilding contract compared to the purchase of a secondhand vessel which can start earning hard cash immediately in a market which is proving to be fairly resilient at the moment.

Demolition Market

Total vessels scrapped this month: 77

A further slow down in demolition activity this month, with limited interest amongst owners to scrap the few overage vessels still in active service. The number of vessels over 20 years of age has shrunk to a considerable extent over the past couple of years, fact which when coupled with the improved freight markets during the past six months, has motivated many of the owners of these vessels to keep them trading for just a bit longer rather then take any haste decision regarding their early retirement.

Secondhand Prices of 5 year old vessels (million US$)

Capesize $46.9	VLCC $69.1	Panamax $17.0
Panamax $27.0	Suezmax $47.5	Sub-Pmax $16.3
Supramax $27.0	Aframax $35.8	Feedermax $14.3
Handysize $21.0	LR1 $32.0	Feeder $6.0
	MR $29.6	

Newbuilding Prices (million US$)

Capesize $55.5	VLCC $98.3	Panamax $44.5	LNG $185.0
Panamax $29.2	Suezmax $64.0	Sub-Pmax $31.5	LPG - VLGC $76.4
Supramax $27.4	Aframax $54.0	Feedermax $26.0	LPG - LGC $65.0
Handysize $23.4	LR1 $45.3	Feeder $14.5	LPG - MGC $50.5
	MR $37.2		LPG - SGC $43.0

Scrap Prices	India	China	Turkey	Bangladesh	Pakistan
Average ($/ldt)	$475	$343	$314	$456	$433

Black Sea, Grey Clouds

As the rainy weather here in Athens kept most of us indoors during the recent bank holiday, the bombarding of every single media channel with news surrounding the developments in Ukraine has inevitably monopolized most of our traditional Clean Monday lunch discussions. What kicked off as a protest concerning a trade pact with the European Union, quickly escalated into a full on political crisis involving Russia, the E.U. and the U.S.A. The presence of Russian troops in the Crimea peninsula has ignited the jump of commodity prices last week and some people in our industry have already started wondering whether acceleration of the crisis would affect the freight market as well. As big scale political tensions always push for commodity restocking and with the grain trade in the Black Sea being only a couple of months away from kicking off, good and bad scenarios of how these developments could impact on shipping are in the making. But what are we realistically dealing with here?

Ukraine's location is of key importance on the global chess board. The country is the biggest frontier market between Russia and the E. U. Russia depends on Ukraine to flow its natural gas to the West and Ukraine depends on the heavy discounts it achieves on Russian natural gas, a dependence of much greater importance. At the same time, Europe itself currently gets almost 40% of its natural gas from Russia. E.U. leaders have gathered yesterday for an emergency summit and as it's being reported some of the Eastern Europe members are pressing for firm sanctions against Russia, while Germany appears to support stronger efforts for mediation.

Whatever one might believe should happen, the blunt truth is that with the E.U. being Russia's number one import partner, the economic ties between the two sides are so close that placing sanctions would definitely hurt both. From one side, the EU is still dealing with anaemic growth, mending its own woes caused by the financial crisis, which means that it would be directly opposed to its own interests to alienate one of its top trading partners. Germany itself is very much reliant on Russia to satisfy its energy needs and taking into account Germany's powerful position of influence within the E.U., one cannot simply see steep trade or other sanctions materializing.

At the same time, Russia itself would probably not want this crisis to drag on much longer, as the cost to its economy, while uncertainty still prevails, is not trivial. On Monday alone the central bank of Russia was forced to raise interest rates by 150 points to support its falling currency. While the Ruble was plummeting, so were Moscow's main stock indexes, with the market valuations of most of the companies on the Moscow Exchange left to the mercy of the turmoil. In the light of a further sell-off, the Russian President, in an effort to calm down the markets, was quick to assure that force against Ukraine would only be used as a last resort . Back in 2008 a similar story unfolded between Russia and Georgia, also known as the Five-Day War. The quick resolution with a cease fire agreement is a good indication of what might happen this time as well.

If the crisis isn't resolved soon there are a couple of areas that will have an immediate impact on shipping. The first, as expected involves the LNG trade. If the Russian natural gas supply is threatened (Russia has during past disputes cut off the supply to Ukraine) LNG prices should move up immediately. If there is such development it is not expected to last long. Russia has started shaping its "European face" for a while now. And although the economic power of the country is undeniable, so are its efforts to protect those hard gained ties with Europe and the rest of the world. On the grain trade side, there have been talks that US grain might become more popular should the Black Sea trade is impeded. Currently both P&I clubs and big agricultural houses assure that the main trans-shipment area - ports Odessa, Ilyichevsk and Yuzhny work without any interruptions and that the same holds for Crimean Ports Kerch, Theodosia and Sevastopol.

There are rumours that farmers are holding back shipments but even if this is the case, it will take another couple of months before the trade in the Black Sea is flooded with Ukrainian and Russian cargoes, so the time frame is not as tight and allows for both the crisis and fears to de-escalate. We are in fact already watching CME contracts for corn and wheat erasing most of their recent gains as investors have revaluated the situation.

The current turmoil in Ukraine, the outcome of which is not yet clear, has come to remind us that black swans are ever present and by definition never predicted, and no matter where you find yourself when the ball stops rolling, the reality is that instability caused by events like this creates insecurity and fear in the markets overall. Will this be one of the times that crisis creates "opportunity" or one of the times that diplomacy beats crisis? I would think, and for obvious reasons hope, that it will turn out to be a case of the latter.

Eva Tzima

Research Analyst

Vessel Purchases *(last 12 months)*

	UNITS	OUTLAY ($)	DWT
March-2013	132	$1,397.20m	6,322,574
April-2013	142	$1,672.50m	5,924,207
May-2013	110	$1,210.37m	6,356,293
June-2013	97	$1,249.80m	5,614,535
July-2013	120	$1,333.46m	4,615,025
August-2013	133	$1,677.75m	8,649,809
September-2013	157	$2,596.52m	7,698,244
October-2013	145	$2,193.74m	8,495,329
November-2013	153	$3,382.43m	9,001,520
December-2013	101	$1,593.23m	5,330,439
January-2014	201	$3,921.42m	16,262,339
February-2014	167	$2,986.55m	9,499,009
TOTAL	1658	$25,214.95m	93,769,323

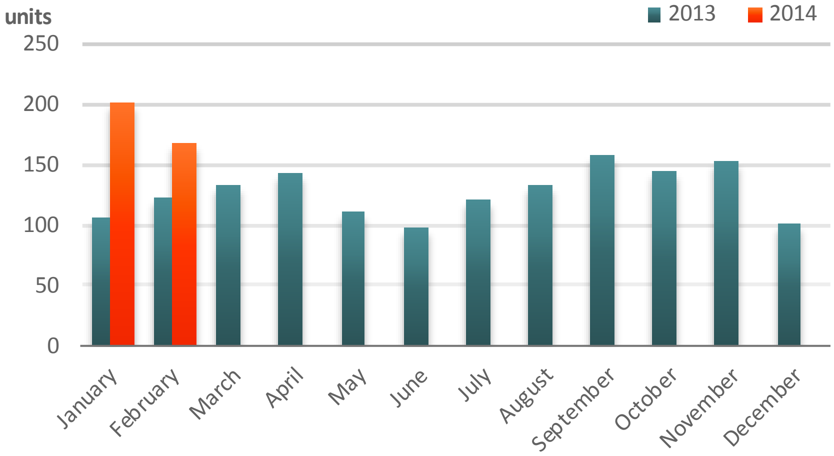
Source: Intermodal Research & Valuations

Summary

Secondhand activity continued to outperform last year's levels despite softening slightly compared to January. Keen buying interest continues to exist in both the dry and wet sectors, however the slower activity coupled with limited market movement in terms of freight levels translated into a slowing down in further asset price rises.

Greek owners continue to take up the lions share accounting for more than a quarter of all purchases reported these past two months. The influx of alternative financing (through new investment vehicles) has supported a lot of these owners to take advantage of what they deem to be opportunistic market levels.

Activity in 2014 Vs 2013



Source: Intermodal Research & Valuations

Seller Statistics *(2014)*

	UNITS	OUTLAY ($)
Germany	37	$329.44m
Greece	36	$673.30m
Japan	28	$610.13m
Denmark	20	$993.46m
Singapore	18	$426.00m
Hong Kong	18	$431.34m
Norway	12	$79.88m
Turkey	12	$119.25m
Italy	9	$225.25m
S. Korea	8	$177.10m
undisclosed	57	$662.88m
all other	113	$2,179.94m
TOTAL	368	$6,907.97m

Source: Intermodal Research & Valuations

Buyer Statistics

	2014						2013		
	UNITS	%	OUTLAY ($)	%	DWT	%	UNITS	OUTLAY ($)	DWT
Greece	99	26.9%	$2,517.60m	36.4%	10,599,395	41.1%	382	$6,781.66m	28,005,727
U. S. A.	34	9.2%	$1,108.50m	16.0%	1,806,867	7.0%	76	$1,423.75m	4,068,041
Italy	18	4.9%	$266.13m	3.9%	1,618,200	6.3%	31	$809.15m	1,743,303
Germany	18	4.9%	$234.25m	3.4%	976,982	3.8%	44	$518.42m	1,289,595
China	15	4.1%	$250.75m	3.6%	918,872	3.6%	103	$1,271.82m	6,606,727
Norway	9	2.4%	$265.80m	3.8%	545,889	2.1%	61	$1,969.40m	3,872,281
Singapore	8	2.2%	$109.92m	1.6%	896,541	3.5%	41	$614.02m	2,868,739
Turkey	8	2.2%	$29.93m	0.4%	123,003	0.5%	34	$428.30m	855,863
U. K.	8	2.2%	$32.40m	0.5%	152,426	0.6%	22	$283.60m	928,953
Canada	8	2.2%	$193.50m	2.8%	707,267	2.7%	4	$216.45m	145,723
undisclosed	63	17.1%	$812.47m	11.8%	2,355,438	9.1%	358	$2,585.08m	10,022,053
all other	80	21.7%	$1,086.73m	15.7%	5,060,468	19.6%	361	$4,126.02m	18,392,428
TOTAL	368	100.0%	$6,907.97m	100.0%	25,761,348	100.0%	1,517	$21,027.66m	78,799,433

Source: Intermodal Research & Valuations

Buyer Statistics *(2014)*

	UNITS	OUTLAY (US$)	DWT
China	39	$1,275.85m	2,509,696
Greece	34	$1,234.82m	3,361,588
Singapore	32	$608.10m	2,649,942
Norway	27	$273.50m	1,732,017
Monaco	19	$817.00m	3,744,000
U. S. A.	18	$2,321.00m	933,860
Japan	17	$0.00m	710,372
Denmark	11	$0.00m	454,225
Bermuda	9	$385.00m	293,800
Hong Kong	9	$60.00m	205,204
undisclosed	148	$1,709.00m	6,086,078
all other	92	$1,407.90m	5,992,931
Total	455	$10,092.17m	28,673,713

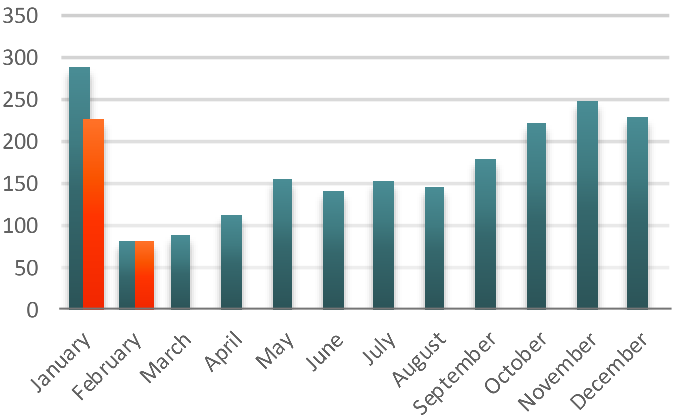
Source: Intermodal Research & Valuations

Summary

The slow down in new orders was fairly prevalent this month, with activity dropping down to a small trickle as many owners start to question the benefits offered by a newbuilding contract compared to the purchase of a secondhand vessel which can start earning hard cash immediately in a market which is proving to be fairly resilient at the moment. Having said that, the major point for many owners at the moment, when it comes to new orders, is to have a delivery date which is less then 24 months down the line. Something which very few shipyards right now have the capacity to offer at current price levels.

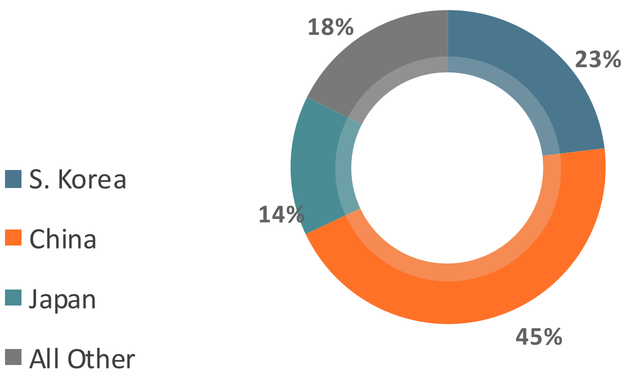
The growth in orderbook as such has started to slow and even shrink for some sectors, leaving a sigh of relief for many owners who had been worrying over an uneven fleet growth which would not reflect the growth in trade which is expected over the next couple of years.

Activity in 2014 Vs 2013 *(incl. Bulkers, Tankers, Containers & Gas)*



Source: Intermodal Research & Valuations

Percentage of new orders secured by each Shipbuilding Nation *(2014)*



Source: Intermodal Research & Valuations

New orders placed *(last 12 months)*

	Bulk Carrier	Tanker	Gas Carrier	Container	Other	Total
March-2013	37	20	8	23	95	183
April-2013	39	37	12	23	54	165
May-2013	99	34	7	13	140	294
June-2013	80	31	11	17	173	313
July-2013	76	16	18	40	67	220
August-2013	55	55	17	18	58	204
September-2013	103	40	16	20	83	262
October-2013	131	46	21	23	197	419
November-2013	135	83	14	16	108	357
December-2013	116	70	18	24	115	345
January-2014	122	53	17	32	90	317
February-2014	28	34	16	1	56	138
TOTAL	1,021	519	175	250	1,236	3,217

Source: Intermodal Research & Valuations

Vessels Scrapped *(last 12 months)*

	UNITS	LDT	DWT
March-2013	215	1,001,227	5,632,947
April-2013	154	858,408	4,320,543
May-2013	115	701,067	4,056,283
June-2013	120	700,419	3,450,641
July-2013	162	892,383	4,569,216
August-2013	112	711,077	3,860,793
September-2013	133	754,043	4,386,926
October-2013	123	773,794	3,696,000
November-2013	115	823,341	4,259,386
December-2013	121	770,066	3,890,519
January-2014	95	571,140	2,227,393
February-2014	77	798,471	3,254,580
TOTAL	1,542	9,355,436	47,605,227

Source: Intermodal Research & Valuations

Summary

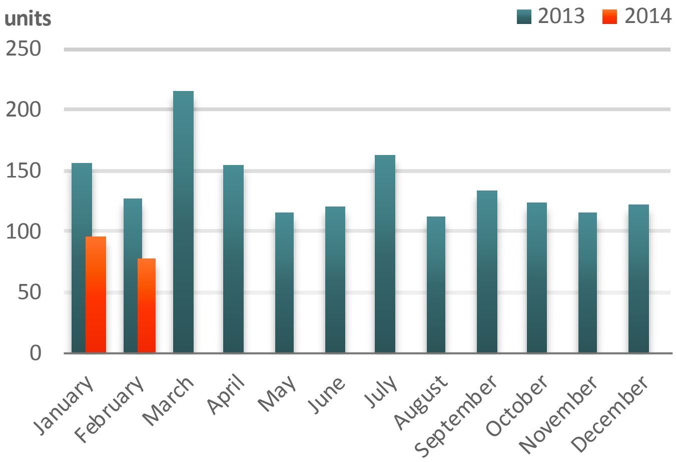
A further slow down in demolition activity this month, with limited interest amongst owners to scrap the few overage vessels still in active service. The number of vessels over 20 years of age has shrunk to a considerable extent over the past couple of years, fact which when coupled with the improved freight markets during the past six months, has motivated many of the owners of these vessels to keep them trading for just a bit longer rather then take any haste decision regarding their early retirement.

Price wise, we have seen fairly strong offers coming out of the Indian Sub-Continent over the past couple of weeks as they try to further promote the scraping option. These increases may have been based on improved performance of the local exchange rates, however with commodities taking a battering over the last couple of months it leaves you to wonder how long these levels can hold.

Demo Seller Statistics

	2014		2013	
	UNITS	DWT	UNITS	DWT
China	21	612,835	195	7,530,029
Turkey	13	106,887	99	1,411,421
Greece	8	212,579	107	5,311,214
India	7	132,772	36	989,806
Russia	7	74,414	68	641,468
U. A. E.	7	147,040	26	1,593,638
Hong Kong	6	701,968	41	2,299,146
Indonesia	6	131,725	17	627,821
Singapore	4	234,935	37	2,707,845
Ukraine	4	15,532	22	296,881
undisclosed	35	1,918,796	163	6,663,129
all other	54	1,192,490	842	20,751,490
Total	172	5,481,973	1,653	50,823,888

Activity in 2014 Vs 2013



Source: Intermodal Research & Valuations

Demo Country Statistics

	2014						2013		
	UNITS	%	LDT	%	DWT	%	UNITS	LDT	DWT
India	58	33.7%	790,706	57.7%	2,361,000	43.1%	358	3,064,278	12,394,631
China	34	19.8%	247,130	18.0%	1,495,099	27.3%	299	1,878,271	10,562,840
Turkey	32	18.6%	51,359	3.7%	165,108	3.0%	187	417,719	1,394,539
Bangladesh	23	13.4%	192,873	14.1%	969,330	17.7%	168	1,849,271	10,560,644
Pakistan	6	3.5%	56,295	4.1%	298,119	5.4%	83	1,159,205	8,056,661
Unk./Other	19	11.0%	31,248	2.3%	193,317	3.5%	558	1,245,781	7,854,573
Total	172	100.0%	1,369,611	100.0%	5,481,973	100.0%	1,653	9,614,525	50,823,888

Source: Intermodal Research & Valuations

Average Prices for scrap *(US$/ldt)*

	India	China	Turkey	Bangladesh	Pakistan
Wet	$497	$369	$318	$457	$438
Dry	$454	$316	$309	$455	$428

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The LNG Market Report 2013

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