

WEEKLY 48.2011

Northern lights

Below article will be published in the Norwegian business magazine KAPITAL on December 15th 2011.

The shipping industry is in the midst of one of the most severe downturns in modern history, weighed down by faltering demand and grave oversupply. The boom cycle a few years ago has turned into bust, negatively affecting freight rates, vessel values and share prices. The financial crisis restraining availability of capital is only making matters worse. But, thankfully, there are parts of the industry offering glimmers of light.

This autumn, several LNG carriers have made the voyage from the world's most northern city of Hammerfest in Norway to Japan loaded with cargoes of liquefied natural gas. Since the natural gas field Snøhvit was discovered thirty years ago in 1981 the natural gas has mostly been lying untouched under the seabed in the arctic. However, with the help of new technology and large structural changes in the world's energy mix, the natural gas from the Snøhvit field has become sought-after commodity in distant corners of the world, not least in Asia.

The US has also started to become an exporter of natural gas. About ten years ago the state of California was gripped in an energy crisis, cutting power supply to millions of customers. A liberalized energy market and lack of natural gas led to prices going haywire and large areas loosing electric power over long time. Back then, American production of shale gas accounted for 2 percent of the total natural gas production in the country. Now, that share has increased to 25 percent. By implication, the natural gas production has increased more than the consumption, pressing down the prices. While natural gas has historically been priced at 75 percent of oil based on energy content, the ratio is now a meager 20 percent.

The improved access to natural gas means that the US, and North America for that matter, no-

longer has a dire need for natural gas imports. Instead, plans are being made for natural gas to be exported out of the country, primarily destined for Asia. LNG carriers that were meant to head for the US, such as the BERGE ARZEW, are rather carrying natural gas from Algeria to India. A flurry of the large Qatar vessels designed for US trades have been lying idle in the market, too large dimensioned to be accepted for discharge in Asian ports.

Even though the natural gas prices are significantly higher in Asia than in Europe or the US, natural gas is still cheaper than oil there. Measured in terms of energy content, natural gas is priced at 80 or 90 percent against oil. Development of import facilities is materializing fast and the shipping volumes are rising at a phenomenal rate. With the earthquake in Japan causing widespread shutdowns to nuclear power plants, imports of natural gas have accelerated.

As a result, freight rates for large LNG carriers have gone up from USD 30,000 per day in the summer of 2010 to USD 120,000 per day, and rising. Since there are few capable shipyards competing to build such complicated and specialized vessels, the orderbook is counting only 60 newbuilding contracts. That number should not deter interest for more orders. Granted that the new development projects are panning out, the market should be able to stay strong for at least another couple of years.

These structural changes in the world's energy mix are, of course, also playing into the market for crude oil shipment. Demand for oil is increasing by a slight 1 percent on a world-wide basis per year. Both Europe and the US are experiencing flattening or even declining demands for oil, while the growth is being driven by emerging economies such as China and India. Needless to say, the excess tonnage capacity persists, with indications being sluggish also for next year in terms of market balance. For smaller vessels, meaning product tankers, the outlook is somewhat better with a healthier demand-supply relationship and stronger demand growth from Asia.



The market for bulk carriers continues to be challenging, but fundamental changes are underway. Freight rates for the largest sizes are covering operating and financial costs, finding strong markets in China and Japan. While the main challenge in the crude oil carrier market is a low growth rate, much attention in the bulk carrier market is still being paid to the substantial deliveries of new vessels churned out from the Asian shipyards. Even so, we still believe that the dry bulk vessel market has bottomed out, and that a recovery will be underway in the course of 2012.

We were interviewed about these developments on Hegnar TV on December 2nd. Our conclusion was simple: Full speed in gas shipping!

Have a continued nice week-end!

Nicolai Hansteen

**DRY**

SMX (max. 15 yr. old craned) grabber	Last Week (USD/day)	This week (USD/day)
T/A r/v	11 000	11 000
Pac. r/v	7 000	6 000
Cont./F.East	29 000	27 000
F.East/Europe	3 000	2 500
12 mos T/C 52,000 dwt	12 000	11 500

Supramax Pacific

As we edge into December, the Pacific market see no reason to be jolly. The effects of the bridge collapse in Samarinda led to several Indonesia coal shipments being postponed into January, and put further pressure on a already over-tonnaged market situation. And with the unstable weather in Philippines leading to some minor delays for nickel ore, the market remained fairly unchanged at (for owners) very low rates. As such, we witnessed a lot of owners looking for backhaul cargoes, in order to re-position their vessels in the stronger Atlantic basin.

Indian Ocean remained fairly unchanged, as some port delays in both WCI and ECI helped the tonnage situation to some extent, but the lack of fresh cargo enquiries was imminent. However, a few more cargoes from South Africa saw some owners starting to ballast, in hope of picking up a cargo or worst case re-position themselves for ECSA business.

With the very lacklustre Pacific market in general, period interest diminished as well, with rates dropping down below 10K for 3/5months period.

Fixtures:

'Floral Lake' 2003 50246 dwt dely aps Nopac 10/15 December trip redel Singapore-Japan \$8000 daily + \$320000 bb - Oldendorff

'Poseidon SW' 2008 55688 dwt dely dop Krishnapatnam end Nov/early Dec trip via South Africa redel EC India \$9000 daily - cnr

'Annika N' 2011 53600 dwt dely Xingang end Nov/early Dec trip via Indonesia redel India \$6000 daily - Isaphia

'Port Kelang' 2008 53542 dwt dely aps Maura Satui early December trip redel China \$8250 daily + \$90000 bb - Bulk Marine

'Eleanor D' 2005 53299 dwt dely Caofedian 30 Nov/1 Dec trip via SE Asia redel China intention nickel ore \$4500 daily - cnr

'Doric Samurai' 2010 58500 dwt dely Lanshan 4/5 December trip via Se Asia redel China intention nickel ore \$7750 daily - Phoenix Bulk

'Marylaki' 2010 58470 dwt dely Xingang spot trip via Indonesia redel India \$5000 daily - Siva

'Lorentzos' 2005 53668 dwt dely aps Richards Bay 12/20 December trip redel WC India \$13000 daily + \$350000 bb - cnr

'Eleanor D' 2005 53299 dwt - <fixture as reported 29/11 failed>

'Fantastic' 2010 57005 dwt dely dop Padang spot trip via Indonesia redel PMO-India \$10000 daily - STX Pan Ocean - <corrects report of 30/11>

'Mandarin Sky' 2009 56930 dwt dely WC India 2/4 December trip redel China \$9500 daily - cnr

'Prabhu Mihikaa' 2005 55557 dwt dely Iloilo 3/5 December trip via Indonesia redel India \$8000 daily - WBC

'Eraclea' 2010 55000 dwt dely aps S.Africa mid December trip redel Singapore-Japan \$13000 daily + \$350000 bb - cnr

'Imperial Fortune' 2006 53350 dwt dely aps Nopac mid December trip redel Singapore-Japan \$7000 daily + \$300000 bb - Oldendorff



'Tarsus' 2008 53100 dwt dely dop N China spot trip via Indonesia redel India \$5000 daily - Jaldhi

'Island Green' 2009 28250 dwt dely aps Recalada 13/18 Dec trip redel Algeria \$15000 daily - Pacbasin

Supramax Atlantic

Christmas coming early, with the market sliding further.

'Eraclea' 2010 55000 dwt dely aps S.Africa mid December trip redel Singapore-Japan \$13000 daily + \$350000 bb - cnr

Continent and the USG remains the areas with most activity, although rates and activity are down from last week.

The South Atlantic still rumbling around at lower levels and there seems to be little comforting in the nearest future.

PANAMAX

Fixtures:

'Elegant SW' 2011 37163 dwt dely aps New Amsterdam 8/15 Dec trip redel Black Sea \$17250 daily – Oldendorff

Modern Panamax	Last Week (USD/day)	This Week (USD/day)
Trans Atlantic r/v	15 500	15 300
Pacific r/v	10 700	10 000
Trip Atl./F.East	25 000	25 000
Trip F.East/Atl.	3 300	3 200
12 mos. T/C	13 600	12 000

'Leo Advance' 2007 56000 dwt dely USGulf 7/10 December trip redel Continent approx \$26000 daily - Louis Dreyfus

CAPE SIZE

'Nord Discovery' 2006 52238 dwt dely USGulf spot trip redel Italy approx \$26000 daily - MUR

Capesize	Last Week (USD/mt)	This Week (USD/mt)
Del.Cont.-Med. TCT F.East	52 000	54 000
Del. Gib-Hbg T/A r/v	30 000	31 000
Del.China-Jpn TCT Cont.-Med.	6 000	6 200
F.East r/v	27 000	26 000
One year T/C 170,000 dwt	19 000	16 500

'Star Omicron' 2005 53500 dwt dely aps Vila do Conde 5/11 December trip via PG redel PMO \$23000 daily + \$400000 bb – WBC

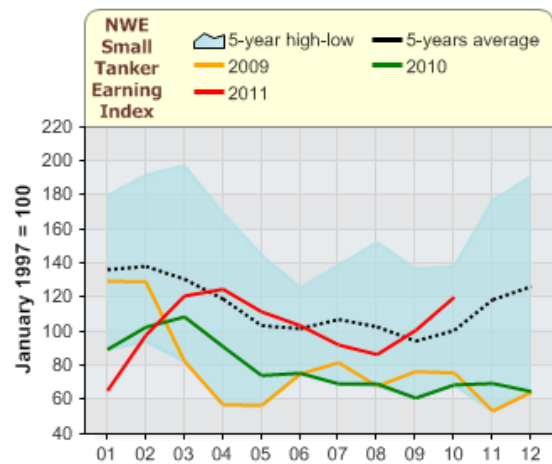
TANKER

'Aeolos' 1997 45736 dwt dely Continent spot trip via Red Sea redel Port Said \$17250 daily - cnr

INTERMEDIATE/FLEXI (10/25,000 DWT) NWE

Outlook: Steady

'Frieda Selmer' 2004 55718 dwt dely USGulf early December trip redel Turkey intention pet coke approx \$26500 daily - Oldendorff



'Christina L' 2003 50380 dwt dely Mobile early Dec trip redel China intention pet coke \$34500 daily - cnr

'Sanko Mercury' 2010 49900 dwt dely Black Sea early December trip redel USGulf approx \$5000 daily - cnr

'Attractive' 1985 41254 dwt dely Black Sea spot trip via Red Sea redel Port Said \$11500 daily - Pegasus

**CLEAN**

Clean outlook: Steady

		Last Week	This Week	Average earnings
Handy/MR		(WS)	(WS)	This week (USD/day)
37.000 CONT/USAC R/V		148	155	7 050
25.000 CROSS UKC R/V		202	220	14 900
27.500 MED/UKCM R/V		180	185	12 400
28.500 CARIBS/USAC R/V		155	160	4 250
33.000 MEG/JAPAN R/V		195	185	9 600
30.000 SPORE/JAPAN R/V		153	158	6 000
LR1/LR2				
70.000 CONT/USAC R/V		123	120	9 400
55.000 MEG/JAPAN R/V		125	127	6 600

DIRTY

Crude outlook: Steady

	Last Week	This Week	Average earnings
VLCC	(WS)	(WS)	This week (USD/day)
MT 290.000 MEG/Continent	43	38	4 600
MT 250.000 MEG/Japan	61	59	8 000
Suezmax			
MT 130.000 WAF/USG	83	83	14 350
MT 130.000 Sidi Kerir/Lavera	75	80	7 950
Aframax			
80.000 N.Sea/USAC	108	108	11 900
80.000 N.Sea/UK-Cont	96	96	2 100
80.000 MEG/Singapore	108	108	11 900
70.000 Caribs/USAC-G	122	104	8 150
Panamax			
50.000 Caribs/USG	130	128	8 900

GAS

For further information on Gas, request a copy of our Weekly Gas Report on e-mail: lorgas@lorstem.no

**SALE & PURCHASE**

BULKERS							
TYPE	NAME	DWT	BUILT	YARD	BUYER	MUSD	COMMENT
CAPE	CAROUGE	149,383	1992	China Shipbuilding	Chinese	10	
KMAX	HYUNDAI MIPO 6062	82,000	2012	Hyundai Mipo	Greek	33,5	
HMAX	NORD MARU	55,745	2006	Oshima	Chinese	10,2	C4x30
HANDY	OJI NEW CENTURY	43,906	1996	Sanoyas	Undisc	11,8	C4x30, Woodchip
HANDY	ST-CERGUE	39,316	2006	Hyundai Mipo	German	23	C4x30, Incl. 9mos TC at usd 8500pd
HANDY	SOUTHERN SPIRIT	29,482	1998	Kurushima Onishi	Undisc	14	C4x30
HANDY	AMBER VITA	29,089	1995	2 Mai	Romanian	5,7	C4x25
HANDY	BLUE SKY	17,825	1985	Shikoku	Undisc	3	
MPP	BELUGA SYDNEY	16,543	2010	Qingshan	Dutch (Braveheart)	35,9	Auction
HANDY	ASIAN HERO	11,432	2006	Higaki	Korean	10,5	

TANKER								
TYPE	NAME	DWT	BUILT	YARD	BUYER	MUSD	IMO	COMMENT
LR1	GULF STREAM	74,999	2005	Hyundai HI	Ultragas	28,5		
LR1	GULF COAST	74,999	2005	Hyundai HI	Ultragas	28,5		
PMAX	ALLORO	69,999	1997	Namura	Eurotankers	5,27		Auction
CHEM	SANKO NATURE	19,999	2011	Fukuoka	Hansa Tankers	28	II	Stst