GOLDEN DESTINY

GDSA WEEKLY SECONDHAND / DEMOLITION / NEW BUILDING MARKET ANALYSIS

Week Ending: 21st September 2012 (Week 38, Report No: 37/12)

(Given in good faith but without guarantee)

The third week of September ends with bulk carriers still holding the lion share of scrapping activity, newbuilding interest showing firmer levels for bulk carriers and tankers and secondhand buying appetite being still there amid the continuous slump of freight rates.

Overall, 34 transactions reported worldwide in the secondhand and demolition market, down by 43% week on week with 40% lower vessel purchases and 43% decline in ordering volumes, while bulk carrier scappings fell this week by 57%. At similar week in 2011, the total S&P activity was standing at 31% higher levels, when 41 transactions had been reported and secondhand ship purchasing activity was 56% lower than the ordering business.

SECONDHAND MARKET

Secondhand vessel purchases continue to be reported at discounted sale prices for bulk carriers and tankers. In the bulk carrier segment, a handysize unit of 30,548dwt built 2007 China reported sold for low/mid $11mil, when in June 2010, a 32,000dwt vessel built 2005 Japan had been reported sold for $28,1mil. In the capesize segment, M/V “RUBIN HOPE” of 170,409dwt built 1999 Japan reported sold for about $15,3mil, when in February 2010, a 171,199dwt built 200 Japan had been reported sold for $42,5mil. In the panamax segment, M/V “BRAVE WIND” of 71,333dwt built 1997 Japan reported sold for about $9,2mil, when in October 2010, a 71,741dwt built 1995 Japan had been reported sold for $24,5mil.

In the tanker segment, M/V “TAIYOH II” 95,666dwt built 1997 Japan reported sold for about $8,5mil, when in October 2010, a 98,743dwt built 1996 Japan had been reported sold for about $14mil. In the MR segment, M/V “RAINBOW QUEST” 46,500dwt built 1999 Japan reported sold for about $12mil, when in October 2010, a 46,168dwt vessel built 1999 South Korea had been reported sold for about $18,5mil.

Overall, 18 vessels reported to have changed hands this week at a total invested capital in the region of US$ 115,85 mil, 1 deal reported at an undisclosed sale price, with bulk carriers and tankers holding 61% and containers 28% of the total S&P activity. In terms of the reported number of transactions, the S&P activity is down by 40% from last week’s activity with 55% lower purchases in dry bulk carrier segment and a 200% rise in the tanker segment, while is down by 18% comparable with previous year’s weekly S&P activity, when 22 vessels induced buyers’ interest at a total invested capital of about $432,35 million, with 27% buyers’ interest in the bulk carrier and 32% for containers. In terms of invested capital, the bulk segment and tanker segment attracted 83% of the total amount invested in the secondhand market, with light activity in the container and liner segments.

NEWBUILDING MARKET

In the **newbuilding market,** the appetite keeps intense from last week’s high business with car carrier segment attracting fresh contracting activity as it seems that exports in car carriers have shown some sings of revival after the fall recorded during the economic turmoil. This week, another established Norwegian owner, Ocean Yield, a subsidiary of Aker ASA, has placed an order for two more 6500 ceu car carriers with Daewoo Mangalia, while Japanese major NYK Line has placed an order for three 7300 ceu car carrier vessels, with an option for three more, at Japanese Shin Kurishima yard, which would be among the car carrier vessels with the biggest capacity worldwide.

Firm newbuilding interest is still recorded in the offshore segment with China Oilfield Service Ltd (COSL), a subsidiary of state owned CNOOC (China National Offshore Oil Corporation), planning to add 50 offshore support newbuilding vessels in its already existing fleet of 114 vessels by 2015. “All of the 50 plus OSV newbuildings will be built in Chinese shipyards and the majority of the newbuildings will be AHTS vessels and PSVs suited for deepwater deployment,” Cai told Seatrade Asia Week on the sidelines of the Offshore Support Vessel World Forum 2012 held in Shanghai. The higher level of offshore oil & gas exploration and production activities in Chinese waters with firm crude oil prices are the main factors encouraging COSL's bold OSV fleet enlargement plan, Cai noted. The demand for the newbuilding construction of offshore support vessels is expected to remain strong in view of strong E&P expenditures by oil refineries and dwindling production capacity from land based oil fields, while Chinese shipyards need to focus on better designs and higher specifications of offshore support vessels for the purpose of deeper waters, Cai said. He added that Chinese yards still have a lot of work to do in terms of the performance and technology of domestically built offshore support vessels compared to those built in Europe.

Furthermore, Pacific Drilling announced that one of its subsidiaries has reached an agreement with Samsung Heavy Industries to extend until December 15th 2012, its existing option to construct an eighth ultra deepwater drillship for delivery in the first quarter of 2015.

Noteworthy is also this week's emerged robust business in the main vessel segments, bulk carriers and tankers, amid fears of vessels' oversupply and the dreadful status of the freight market. The dire financial status of shipyards from the slump of newbuilding demand has stimulated a significant fall in newbuilding prices offered to the owners in the period 2008-2012, with some shipowners seeking to newbuilding investments as expansion to their fleet. In the bulk carrier segment, there was some activity reported this week in the panamax, kamsarmax and post panamax segments, while in the tanker segment a fierce interest from Chinese companies for a pool of 50 very large crude carrier newbuildings pose serious questions for the rationale of investors' newbuilding decision under the current market fundamentals with a wide imbalance in vessels' demand and supply equilibrium and a delayed long term recovery.

Overall, the week closed with 31 fresh orders reported worldwide at a total deadweight of 863,050 tons, posting a 23% decline from previous week, with a 250% and 67% rise in bulk carriers' and car carriers ordering activity respectively and a strong crude tanker appetite for future newbuildings from energy groups and Chinese players. At similar week closing in 2011, the newbuilding business was 38% higher than current weekly levels, 50 fresh orders had been reported with 14 contracts in the bulk carrier segment, 15 in the container, 4 in the tanker, 7 in the liner and only three in the offshore. In terms of invested capital, the total amount of money invested is estimated at region more than $930 mil with 18 orders reported at an undisclosed contract price. In terms of invested capital, the offshore segment is the most overweight by attracting 54% of the total amount of invested capital via the placement of high value contracts for floating accommodation platforms and ice breaking platform supply vessels.

In the **bulk carrier** segment, Chinese shipbuilder Taizhou Kouan is said to have won a new order for two panamax units of 76,000dwt from an undisclosed German shipowner for delivery in June and July 2013. Furthermore, Greek shipowner, Fundador Compania Naviera, is said to have inked an order for two fuel efficient 79,000dwt units in Sasebo of Japan for delivery in 2013 at a price of $30mil each.

In the kamsarmax segment, Oak Maritime, Hong Kong and Kanada, placed an order for two 82,000dwt units, with an option for two more, at Chinese yard, Shanghai Waigaoqiao, at the discounted price of $28mil per vessel, for delivery in March and June 2014. At the end of June 2008, two 82,000dwt bulker newbuildings had been reported in Guangzhou Longxue for a price in the region of $57mil per vessel. In the post panamax segment, Chinese Shipbuilder Jiangsu Eastern HI has announced that it has won a new order for a 94,000dwt by an undislosed German shipowner for delivery during 2014, with an option for one more vessel.

In the **tanker** segment, eco MR designs are still popular; while strong interest emerged this week in the crude segment with rumors circulating that Chinese shipowner Dalian Ocean Shipping is negotiating an order for up to 30 VLCCs at a trio of domestic yards, COSCO Dalian Shipyard, Nantong COSCO KHI and Guangzhou Longxue Shipbuilding. The initial order is said to be for 15 firm units to be divided equally among the three Chinese yards, with option for 15 more units.

In the aframax segment, American Eagle Tanker Holdings is reported to have placed an order for a pair of 120,000dwt DP2 shuttle tankers at an unnamed Korean Shipyard, which is said to be Samsung Heavy Industries, for delivery from 2014 at an undisclosed contract price. AET has already secured long term charters with Statoil of Norway with option for up to 20yrs, while DP2 will be installed and Statoil will employ the vessels in Norwegian sectors of North Sea and Barents Sea. There is an option for LNG propulsion to be employed in the newbuilding shuttle tankers. AET has been in a joint venture with offshore manager OSM and the new joint venture company will be named AET Sea Shuttle.

In addition, South Korean Shipbuilders are in the race of winning 15 crude tanker newbuildings from BP Shipping, at a total value of $700mil, 10 aframax and 5 suezmax tankers, with the order to be finalized till the end of the year.

In the **LNG** segment, market sources suggest that shipbuilders have submitted offers for the construction of 16 world's first icre-breaking LNG carriers to be used for the transportation of cargoes from Novatek to Total's Yamal LNG project in Russia arctic. Four South Korean shipyards, Hyundai Heavy Industries, Daewoo Shipbuilding & Marine Engineering, Samsung Heavy Industries and STX Offshore Shipbuilding, along with two Japanese, Mitsubishi Heavy Industries and Kawasaki, is said to have been originally pre-qualified for the construction. Furthermore, BG Group is seeking LNG newbuildings of 170,000cbm with shipyards bidding their offers with sources suggesting that the group wants to finalize the order for up to five units within the year.

In the **container** segment, Aeolos Management is seeking an order for two post panamax boxship units of 6,700 TEU, with an option for two more, at a South Korean yard. No deal has yet been sealed and the owner is said to be in discussions with Hyundai Heavy Industries, for delivery in 2014. Astonishing rumors for a newbuilding interest for post panamax boxship units of up to 20,000 TEU from United Arab Shipping Co. (USAC) tumbles the current vessels' oversupply picture. Sources suggest that the player is discussing with a South Korean yard for a series of up to 10 units ranging 18,000-20,000 TEU.

In the **car carrier** segment, Aker ASA owned Ocean Yield of Norway has contracted two 6,500 car capacity vessels to be built at Daewoo's Romanian Shipbuilding Facility, Daewoo Mangalia, with deliveries in 2014 at a price of $57mil each. The vessels will be bareboat chartered to Hoegh Autoliners for 12 years. In addition, Japanese major NYK Line has placed an order for three 7300 ceu car carrier vessels, with an option for three more, at Japanese Shin Kurishima yard, which would be among the car carrier vessels with the biggest capacity worldwide.

In the **offshore** segment, PEMEX of Mexico has proceeded with newbuilding contracts for two floating accommodation platforms in Spain's starved shipbuilding yards, Barreros yard in Vigo and Ferrol yard of government owned shipbuilder Navantia, to be delivered within 2015 for a total price of $380mil. In addition, Besiktas Shipyard of Turkey has won an order worth $120mil for the construction of three ice class platform supply vessels for Palmali Shipping with delivery in 2014.

DEMOLITION MARKET

In the **demolition market,** the plethora of vessels for dismantling keeps robust with "2012" proved to be a record year from the outburst of financial crisis, surpassing even the high levels of 2011. The supply of vessels outpaces the demand with scrap prices started to be pushed downwards to levels less than $400/ldt, while still some deals are reported to excess levels. Bangladesh regained its strength from environmental issues that pulled the major ship recycling nation out of the demolition scene in the period 2010-2011. "Now Bangladesh is on the top position in terms of dismantling ships", President of Bangladesh Ship Breakers Association said. He added: "Bangladesh was the top ship buyer for eight times in a row from 2000 to 2010 leaving China, India, Pakistan, Turkey behind, but after 2009 various legal campaigns by environmental groups almost shut down the sector. But now it is back on the track, with ship-breaking sector being vital to Bangladeshi economy as it supplies the much-needed steel and iron to the domestic market." According to industry estimations, Chittagong based ship breakers have imported a record number of recyclable vessels of about 2,1million tons of iron ore plates during the last nine months of the year.

Indian subcontinent region keeps a wide gap with Chinese ship recyclers offering scrap rates at levels below $300/ldt for dry/general cargo the last two weeks, while Pakistan competes hard with Bangladesh in terms of levels offered and India keeps its strength in terms of levels offered and volume of ships secured.

The week ended with 16 vessels reported to have been headed to the scrap yards of total deadweight 954,311 tons. In terms of the reported number of transactions, the demolition activity is down by 47% from previous week's business with a 57% and 60% decline in bulk carriers' and liners scrapping activity respectively and a 50% rise in container removals. In terms of total deadweight sent for scrap, there has been a decline of 49% with the disposal of three large sized units, all in the bulk carrier segment, 1 very large ore cape and two capesize bulkers. India won 7, Pakistan 3 and China 2 demolition transactions, while no activity reported this week in Bangladesh region. In terms of scrap price levels, the highest rate was paid by India for a handysize bulker of 16,530dwt with 4,507ldt built 1978 at $427/ldt.

At a similar week in 2011, demolition activity was 19% higher than today's levels, in terms of the reported number of transactions, when 19 vessels had been reported for scrap of total deadweight 1,679,039 tons with tankers holding 42% of the total number of vessels sent for disposal and 5 bulk carrier disposals. Scrap prices were floating at stronger levels with India and Bangladesh offering $500-$505/ldt for dry and $520-$525/ldt for wet cargo.

GREEK PRESENCE

Greek owners made their presence this week in the newbuilding market with the order of two panamax eco friendly design bulkers in Japanese yard at $30mil each from Fundador Compania Naviera, while in the container market, Aeolos Management, is said to be behind an order for two firm wide beam post panamax boxship units of 6,700 TEU, with an option for two more, at a South Korean yard.

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