Capital Link 1
12 September 2017
Global Shipping & Shipbuilding Markets
Overview & Outlook

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Global Shipping & Shipbuilding Markets

ISSUES IN THIS PRESENTATION

PART 1: MARKET OVERVIEW
PART 2: MARKET CYCLE TODAY
PART 3: MARKET PRICES TODAY
PART 4: THE DEMAND SIDE OF THE MARKET
PART 5: THE SUPPLY SIDE OF THE MARKET
PART 6: SUPPLY-DEMAND ANALYSIS
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PART 1: MARKET OVERVIEW

The main markets are now past the trough of the cycle and, despite continuing low freight rates, there should be a gradual improvement ahead as the world industrial growth picks up and the growth rate of the cargo fleet slows. But the trough is not over yet and the pace of recovery will depend on whether the economic upswing can be sustained in a turbulent world, and how effectively the industry manages the slow down of the world cargo fleet.
S1: SUMMARY OF TOPICS TO COVER

1. Clarksea index $10,806/day, still well below trend
2. World industry cycle upturn – now growing at 3.8%
3. Sea Trade growth 3.5% in 2017, up from 2.7% last year
4. China imports growing at 8% pa in year to May
5. Shipyard orderbook down to 9.5% fleet
6. Deliveries steady at 100 m dwt, but set to fall 40%
7. Fleet growth 2017 about 3.7% pa, but slower in 2018
8. Expect “bumpy” improvement over next three years
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PART 2: THE SHIPPING MARKET CYCLE TODAY
S2: The Shipping Cycle – 12 month average falls below $10,000/day

The Clarksea index shows the average earnings of tankers, bulkers, containerships & gas

12 month moving average in arrears

Clarksea Index 12 month average $9,900/day

25 year average $15,582/day

25 year trend
S3: Crude tankers market ... close to 25 year low.

The freight earnings for crude oil tankers 1990-2017 (average over last 3 months)

Note: the line shows the 3 month average spot earnings of VLCCs, Suezmaxes, Aframax & MRs over the previous 3 months.
S4: Dry Bulk market 3 month average 27% below trend

Average bulk carrier (Cape, Panamax and Handy) over last 3 months

3 month average spot rate last week $9,393/day, 40% below 27 year average

25 year trend $15,882 per day earnings
S5: Where the Containership market is now – about 40% below trend

The earnings of average smaller containerships (1,000;1700; 2500; 4400)) over last 3 months

25 year average $12,399 per day earnings

3 month average spot rate last week $7,630/day, a 39% below 27 year average
S6: Cycle status in 12 markets: last 12 months as % seven year trend

- Chart shows average earnings in last 12 months as a % of average earnings in last 7 years Sept 2010 to September 2017)
- Improvement since 2016
- Bulk carriers and tankers much better than 12 months ago
- Gas market now well below trend

Data to 26th September 2016
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PART 3: SHIPPING MARKET PRICES TODAY
S7 Tanker & Bulker second hand price index – wandering around 100
### S8: Second hand Bulk carrier price change Sept 2016-August 2017

<table>
<thead>
<tr>
<th></th>
<th>Size</th>
<th>Age</th>
<th>Sep-16</th>
<th>Aug-17</th>
<th>$m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape</td>
<td>180,000</td>
<td>Resale</td>
<td>36.5</td>
<td>45</td>
<td>8.5</td>
<td>23%</td>
</tr>
<tr>
<td>Cape</td>
<td>170,000</td>
<td>5 yrs</td>
<td>24</td>
<td>33</td>
<td>9.0</td>
<td>38%</td>
</tr>
<tr>
<td>Cape</td>
<td>170,000</td>
<td>10 yrs</td>
<td>14</td>
<td>21</td>
<td>7.0</td>
<td>50%</td>
</tr>
<tr>
<td>Cape</td>
<td>170,000</td>
<td>15 yrs.</td>
<td>8</td>
<td>15</td>
<td>7.0</td>
<td>88%</td>
</tr>
<tr>
<td>Panamax</td>
<td>82,000</td>
<td>Resale</td>
<td>24.5</td>
<td>28.5</td>
<td>4.0</td>
<td>16%</td>
</tr>
<tr>
<td>Panamax</td>
<td>82,000</td>
<td>5 yrs</td>
<td>14</td>
<td>21</td>
<td>7.0</td>
<td>50%</td>
</tr>
<tr>
<td>Panamax</td>
<td>73,000</td>
<td>10 yrs</td>
<td>8</td>
<td>13.5</td>
<td>5.5</td>
<td>69%</td>
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<tr>
<td>Panamax</td>
<td>73,000</td>
<td>15 yrs.</td>
<td>4.5</td>
<td>9</td>
<td>4.5</td>
<td>100%</td>
</tr>
<tr>
<td>Supramax</td>
<td>61,000</td>
<td>Resale</td>
<td>21.6</td>
<td>26.5</td>
<td>4.9</td>
<td>23%</td>
</tr>
<tr>
<td>Supramax</td>
<td>56,000</td>
<td>5 yrs</td>
<td>13.3</td>
<td>16.3</td>
<td>3.0</td>
<td>23%</td>
</tr>
<tr>
<td>Supramax</td>
<td>56,000</td>
<td>10 yrs</td>
<td>8.5</td>
<td>12.5</td>
<td>4.0</td>
<td>47%</td>
</tr>
<tr>
<td>Supramax</td>
<td>52,000</td>
<td>15 yrs.</td>
<td>4.5</td>
<td>8.5</td>
<td>4.0</td>
<td>89%</td>
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<tr>
<td>Supramax</td>
<td>45,000</td>
<td>20 yrs.</td>
<td>2.8</td>
<td>5</td>
<td>2.2</td>
<td>79%</td>
</tr>
<tr>
<td>Handy</td>
<td>37,000</td>
<td>Resale</td>
<td>17.6</td>
<td>21.5</td>
<td>3.9</td>
<td>22%</td>
</tr>
<tr>
<td>Handy</td>
<td>32,000</td>
<td>5 yrs</td>
<td>9.5</td>
<td>14</td>
<td>4.5</td>
<td>47%</td>
</tr>
<tr>
<td>Handy</td>
<td>32,000</td>
<td>10 yrs</td>
<td>6.8</td>
<td>8.5</td>
<td>1.7</td>
<td>25%</td>
</tr>
<tr>
<td>Handy</td>
<td>28,000</td>
<td>15 yrs.</td>
<td>4</td>
<td>5</td>
<td>1.0</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,399,000</strong></td>
<td></td>
<td><strong>222.1</strong></td>
<td><strong>303.8</strong></td>
<td><strong>81.7</strong></td>
<td><strong>37%</strong></td>
</tr>
</tbody>
</table>

- Top $: 5 yr old Capesize
- Top %: 15 yr old Panamax
- Total Profit of $81.7 m
### S9: Second hand Tanker price change Sept 2016-August 2017

<table>
<thead>
<tr>
<th>Size</th>
<th>Age</th>
<th>Sep-16</th>
<th>Aug-17</th>
<th>$m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLCC</td>
<td>310,000</td>
<td>Resale</td>
<td>86</td>
<td>83</td>
<td>-3%</td>
</tr>
<tr>
<td>VLCC</td>
<td>310,000</td>
<td>5 yrs</td>
<td>62</td>
<td>63</td>
<td>2%</td>
</tr>
<tr>
<td>VLCC</td>
<td>300,000</td>
<td>10 yrs</td>
<td>41</td>
<td>39</td>
<td>-5%</td>
</tr>
<tr>
<td>VLCC</td>
<td>300,000</td>
<td>15 yrs.</td>
<td>26</td>
<td>21.5</td>
<td>-17%</td>
</tr>
<tr>
<td>Suezmax</td>
<td>160,000</td>
<td>Resale</td>
<td>58</td>
<td>55</td>
<td>-5%</td>
</tr>
<tr>
<td>Suezmax</td>
<td>160,000</td>
<td>5 yrs</td>
<td>45</td>
<td>40</td>
<td>-11%</td>
</tr>
<tr>
<td>Suezmax</td>
<td>150,000</td>
<td>10 yrs</td>
<td>32.5</td>
<td>25</td>
<td>-23%</td>
</tr>
<tr>
<td>Aframax</td>
<td>105,000</td>
<td>15 yrs.</td>
<td>48</td>
<td>44</td>
<td>-8%</td>
</tr>
<tr>
<td>Aframax</td>
<td>105,000</td>
<td>Resale</td>
<td>33</td>
<td>30</td>
<td>-9%</td>
</tr>
<tr>
<td>Aframax</td>
<td>105,000</td>
<td>5 yrs</td>
<td>21</td>
<td>20</td>
<td>-5%</td>
</tr>
<tr>
<td>Panamax</td>
<td>73,000</td>
<td>10 yrs</td>
<td>44</td>
<td>39</td>
<td>-11%</td>
</tr>
<tr>
<td>Panamax</td>
<td>73,000</td>
<td>15 yrs.</td>
<td>31.5</td>
<td>26.5</td>
<td>-16%</td>
</tr>
<tr>
<td>Panamax</td>
<td>70,000</td>
<td>Resale</td>
<td>21</td>
<td>17</td>
<td>-19%</td>
</tr>
<tr>
<td>MR</td>
<td>51,000</td>
<td>5 yrs</td>
<td>34</td>
<td>33</td>
<td>-3%</td>
</tr>
<tr>
<td>MR</td>
<td>47,000</td>
<td>10 yrs</td>
<td>23</td>
<td>23.5</td>
<td>2%</td>
</tr>
<tr>
<td>MR</td>
<td>45,000</td>
<td>15 yrs.</td>
<td>16.5</td>
<td>16</td>
<td>-3%</td>
</tr>
<tr>
<td>MR</td>
<td>45,000</td>
<td>resale</td>
<td>11</td>
<td>9</td>
<td>-18%</td>
</tr>
<tr>
<td>Handy</td>
<td>37,000</td>
<td>5 yrs.</td>
<td>20</td>
<td>21</td>
<td>5%</td>
</tr>
<tr>
<td>Handy</td>
<td>37,000</td>
<td>10 yrs.</td>
<td>15</td>
<td>13</td>
<td>-13%</td>
</tr>
</tbody>
</table>

Total loss of $50 m

Best performer $5 yr old VLCC

Worst performer 10 year old Suezmax
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PART 3: THE DEMAND SIDE OF THE MARKET
S10: World Industrial Production 1993-2017 (June) picking up (patchy)

1. US Financial Crisis
2. Asia Crisis
3. Dot.com Crisis
4. Credit Crisis

Modest recovery
S11: China Trade – imports back on more gentle growth trend

- 100 million tonnes pa increase in imports in 5 years 2003-2008
- 205 million tonnes pa increase in imports in 5 years 2008-2013
- 87 million tonnes pa increase in imports in 3 years 2013-2016
S12: Sea trade growth edges up - about 3.7% growth likely in 2017

Growth of sea trade 2000-2016 (annual % change)

% growth of trade in year

% growth of trade in year


-3.7% 7.3% 3.0% 5.7% 6.6% 4.5% 4.8% 4.5% 2.5% 9.3% 4.5% 4.2% 3.4% 3.4% 2.1% 2.7% 3.7%
S13: Oil weaker & dry cargo trades firmer in 2017

Growth of sea trade 2000-2017 (annual % change)

% growth of trade in year

-15% -10% -5% 0% 5% 10% 15%

Total oil Dry bulk

forecast


13/09/2017 Maritime Lectures – Guest Lecture 2: Shipping & Shipbuilding Market Outlook
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PART 4: THE SUPPLY SIDE OF THE MARKET
Million dwt contracts

- Deliveries
- Delivs Fcst
- Contracting

2007 peak
274m dwt

Contracting 31 m dwt to July 2017
S15: Merchant Orderbook September 2017 as % Fleet

Orderbook shrinking fast

The orderbook is now down to 9.6% of the fleet.
- Bulkers 7.5%,
- Tankers 11.8%
- Containerships 11.9%.

Bulkers lowest since April 2002
S16: Demolition about 45 m dwt pa, about 40% of 2016 deliveries

[Diagram showing the number of million dwt scrapped from 1996 to 2017, with categories for Tankers, Bulkers, Containers, and Other.]

- Tankers
- Bulkers
- Containers
- Other

- Tankers (light blue)
- Bulkers (dark blue)
- Containers (gray)
- Other (light blue)


Million dwt scrapped

- 1996
- 1997
- 1998
- 1999
- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017

Legend:
- Tankers (light blue)
- Bulkers (dark blue)
- Containers (gray)
- Other (light blue)
Period of negative growth 1982-1987 when the fleet declined due to heavy scrapping.
S18: Merchant Orderbook September 2017 by % Fleet

Total cargo orderbook 176 m dwt (down 25%) and average is 9.6% of fleet

Orderbook as % fleet in dwt

In 2009 there were 992 active yards
In 2016 there were 423 active yards

Stage 1: (expand existing capacity)
Stage 2: (build & sell contracts for new capacity)
Stage 3: orderbook slippage
Stage 4: (close 581 uneconomic shipyards)
Stage 5: (slow production & diversify in 423 active shipyards)

Deliveries based on orderbook

Orderbook slippage
Orderbook April 2016
Deliveries
Series4

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PART 5: THE BALANCE OF SUPPLY & DEMAND
Billion dwt supply/demand

Bars show surplus (+) & shortage (-) capacity as % of the fleet

Dark red line shows fleet capacity in billion dwt (left axis)

Light blue line shows demand in billion dwt (right axis)

% surplus capacity at normal speed

Surplus

Shortage

THE END
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