BRAEMAR ACM
SHIPBROKING

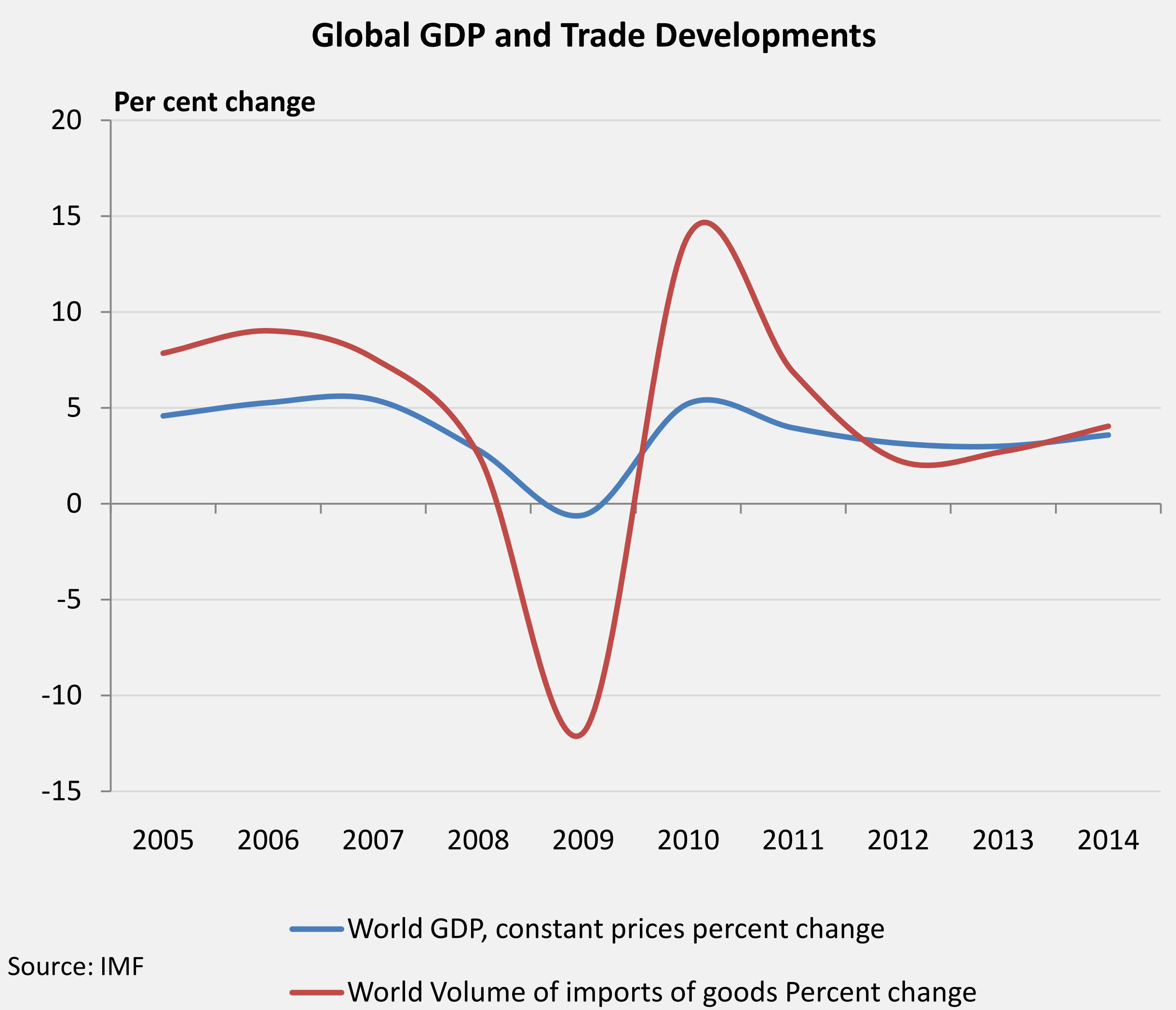
Shipping Markets Summary & Outlook

Mark Williams

Director, Business Development and Consultancy

Braemar ACM Shipbroking

Shipping markets are inextricable from global economic activity…

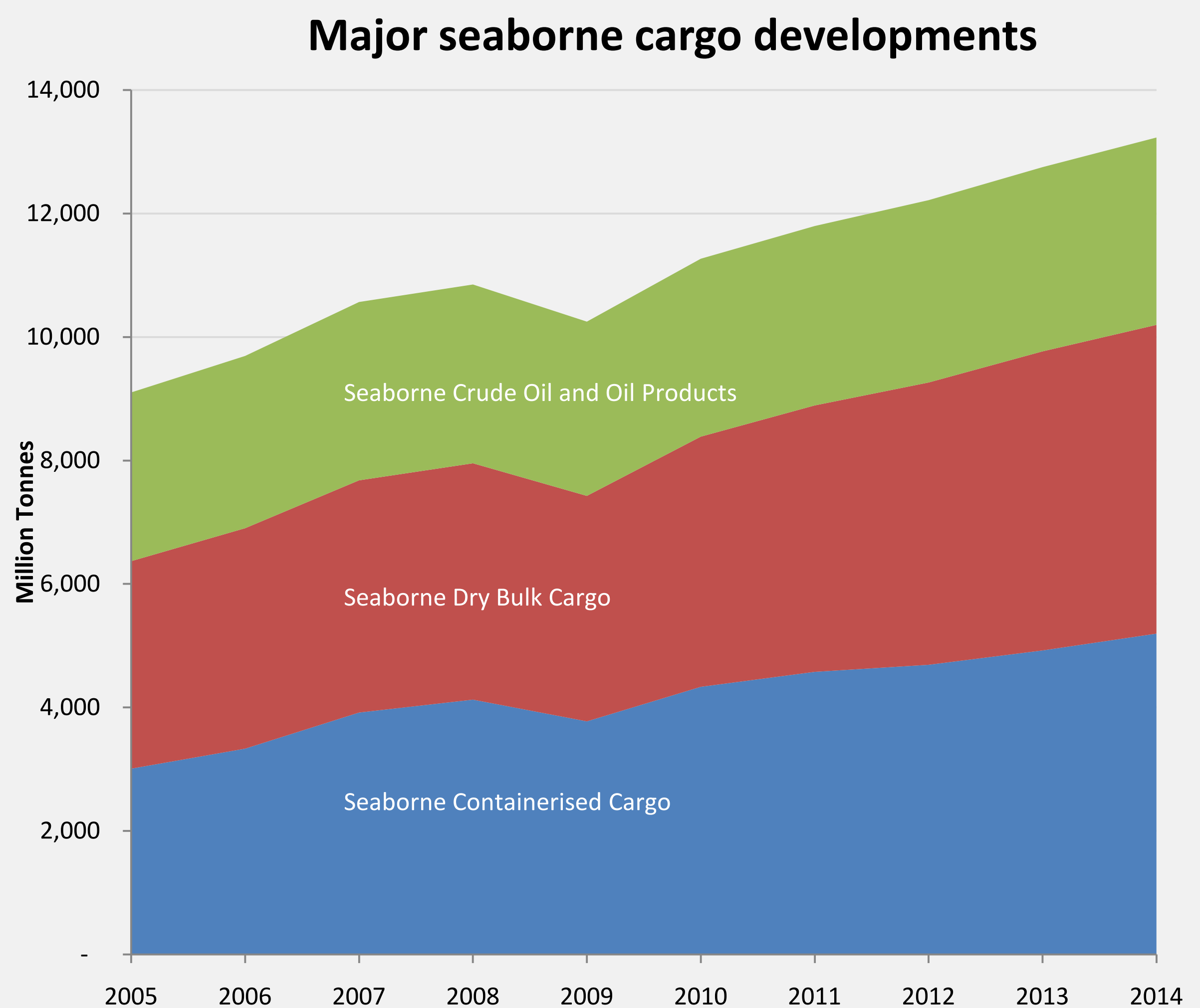


Source: IMF

IMF data show how connected the shipping markets are to global economic activity.

A moderate economic recovery in 2014 should lead to unspectacular growth in global imports by volume, representing shipping demand.

…and seaborne trade grows accordingly.



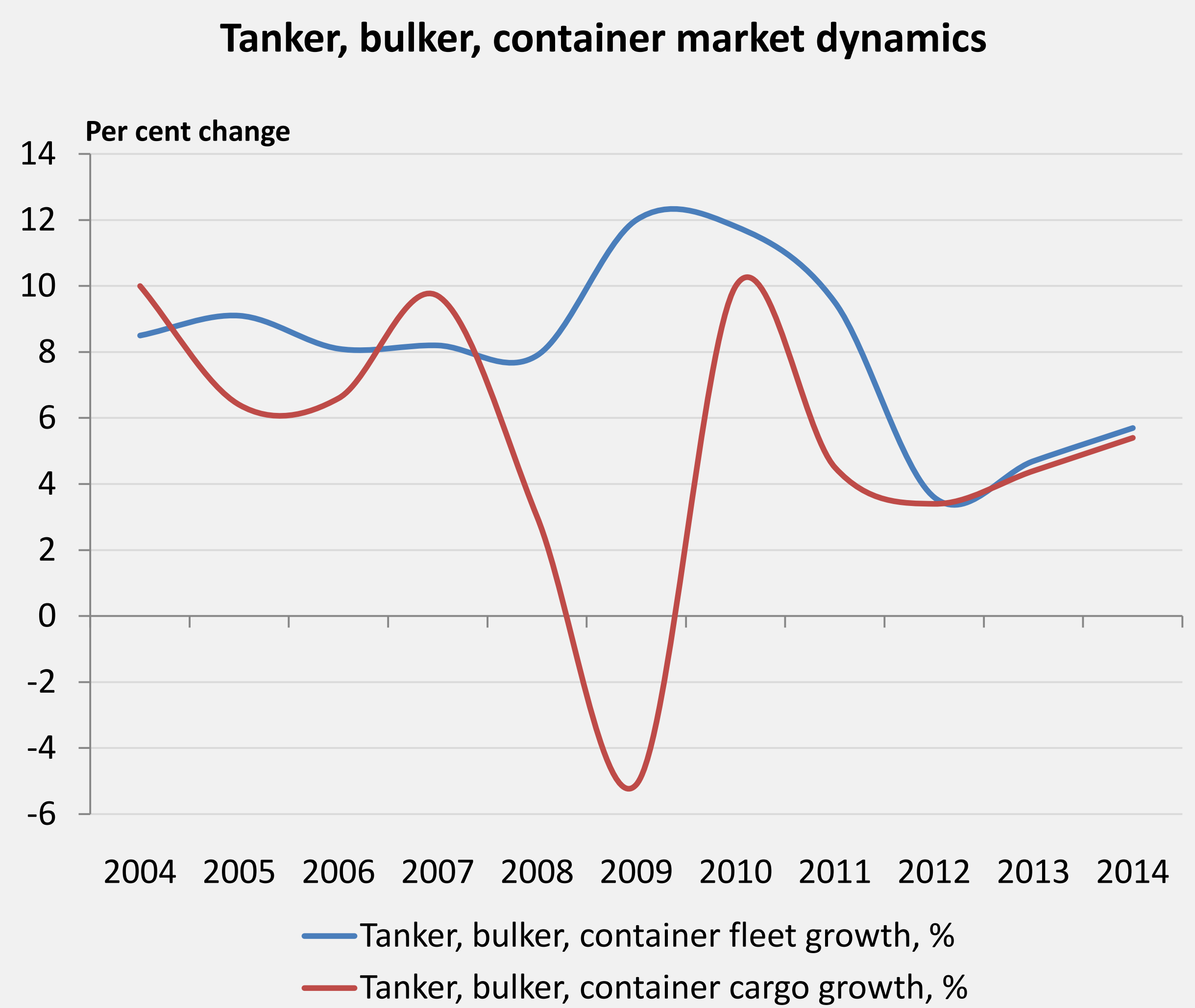
Source: MSI / Braemar ACM Shipbroking

Seaborne trade in crude oil and oil products grew 1.0% in 2013, we expect growth of around 1.2% in 2014 as economic recovery beds in.

Dry cargo trade growth was 5.9% in 2013. We expect a lower growth rate of around 3.2% in 2014 as key emerging markets and middle income economies are growing more slowly than last year.

Containerised cargo trade grew 4.9% in 2013. As the economic recovery continues in key consumer economies, we expect trade to grow by 5.4% in 2014.

Coming out of the recession, fleet & cargo growth are balanced overall…



Source: MSI / Braemar ACM Shipbroking

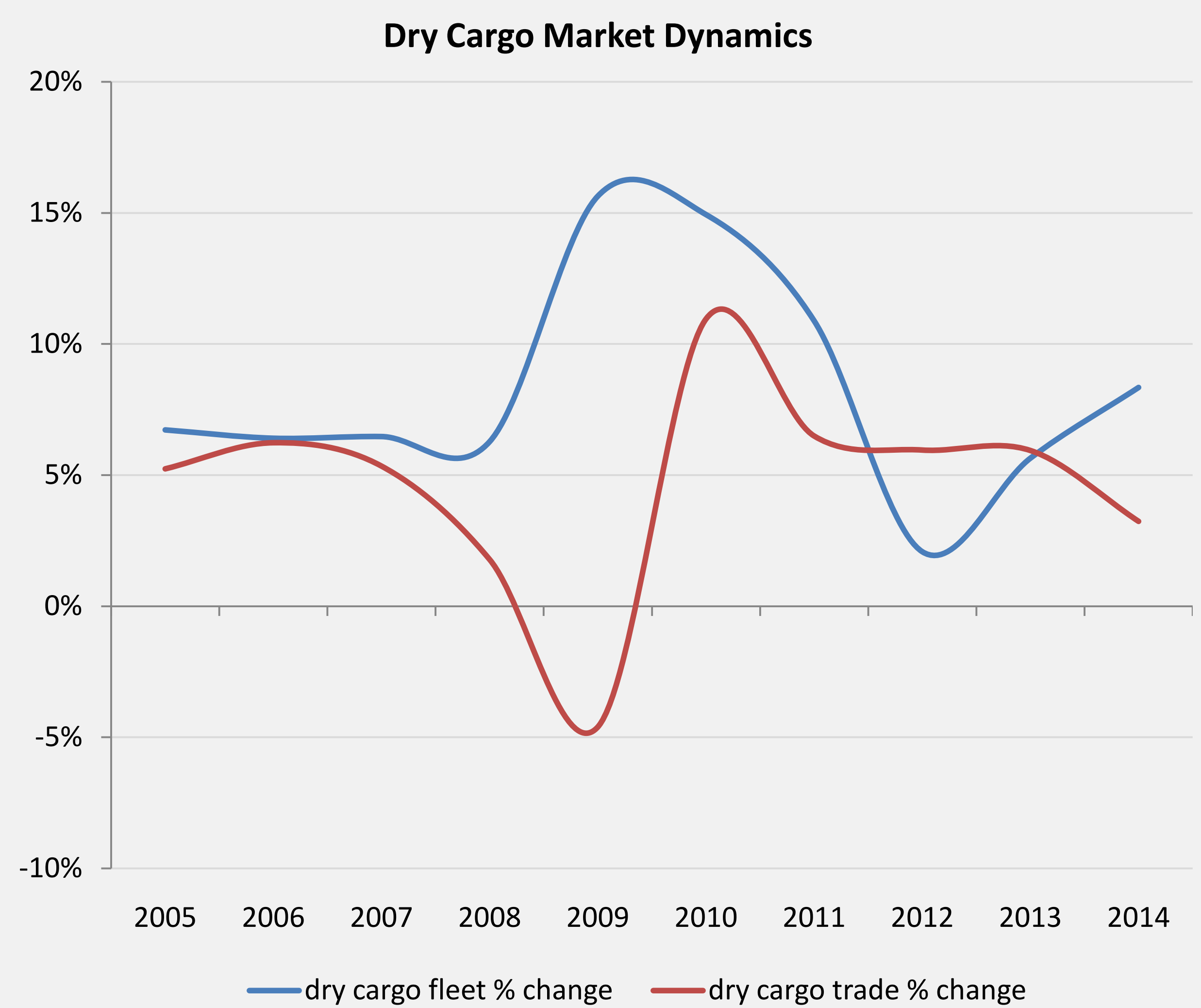
Overall tanker, container ship and dry cargo fleet growth is expected to be 5.7% for 2014 following 4.7% in 2013.

Demand growth for container ships, tankers and bulkers is expected to be 5.4% in 2014 after 4.4% in 2013.

An increase in the rate of cargo growth is welcome as it should result in higher average annual earnings for major ship types.

NB in this presentation we refer to tankers over 27 k Dwt, bulkers over 10 k Dwt, Containerships over 700 Teu.

… though dry cargo balance has downside risks this year…



Source: Braemar ACM Shipbroking

A ban on exports of unprocessed mineral ores from Indonesia which led to inventory building in 2013 is now expected to shave 1% off global dry cargo trade growth in 2014.

Meanwhile large scale investment in modern, fuel efficient tonnage has led to an uptick in fleet growth expectations for 2014.

…not least because of China's influence.

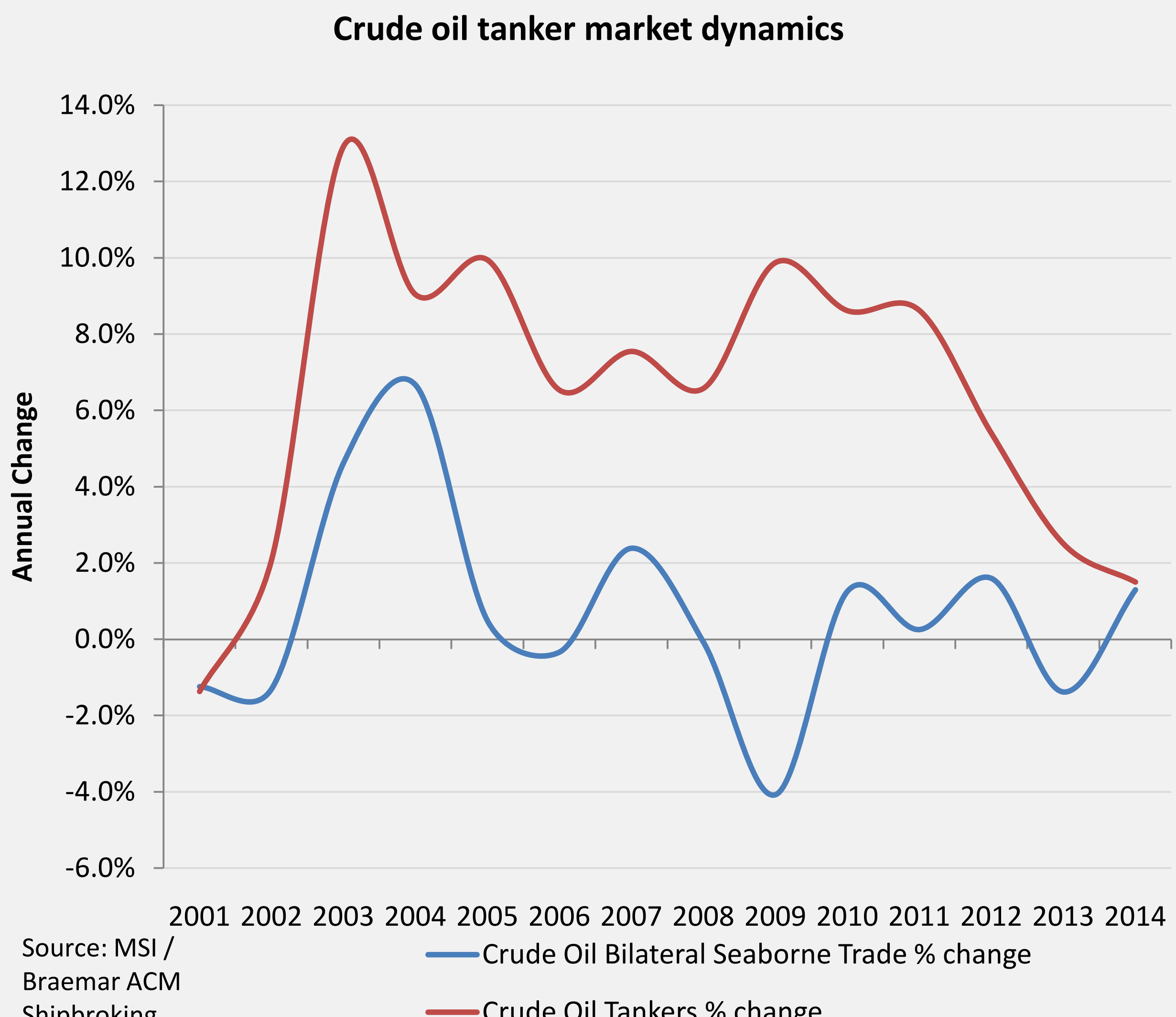
Source: IMF / Braemar ACM Shipbroking

As the largest consumer of raw materials like iron ore and coal, China is a key driver of dry cargo shipping markets. The levelling off of GDP as the economy matures is expected to slow the growth rate of dry cargo trade in 2014.

Cutbacks to excess steel making capacity in China may reduce import demand for iron ore and coal.

There are occasional concerns about trade credit availability in China.

Crude oil tanker owners are optimistic…



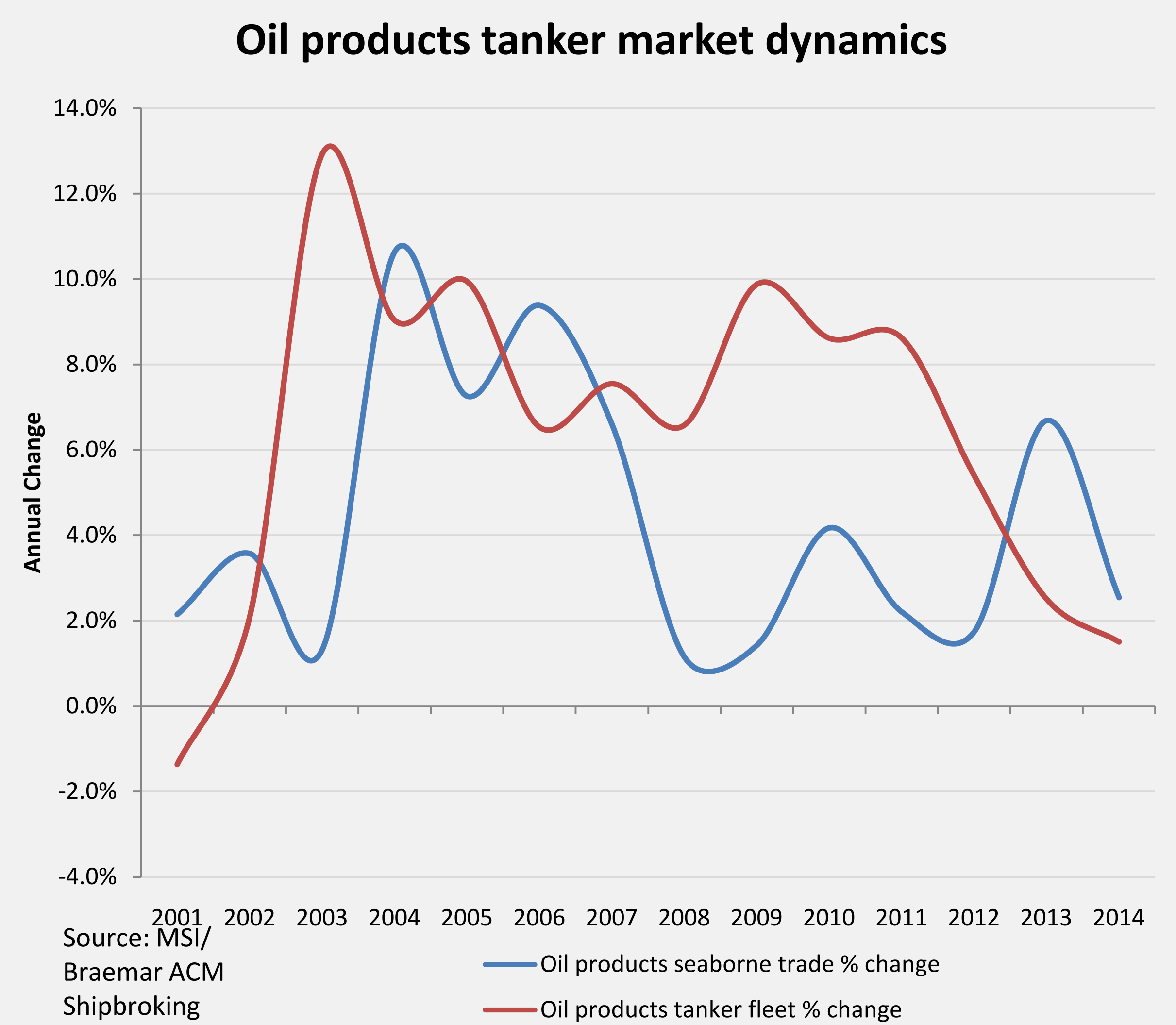
Source: MSI / Braemar ACM Shipbroking

Crude oil tanker owners are optimistic because fleet growth has been moderating now for a few years and is finally coming back into line with low levels of trade growth.

Markets are still oversupplied though, which is why freight rates remain moribund.

Nonetheless by Q4 this year we hope to see some meaningful recovery before the latest eco-designs start to hit the water in 2015.

…while products trades are last year's fashion but should still have a good year.

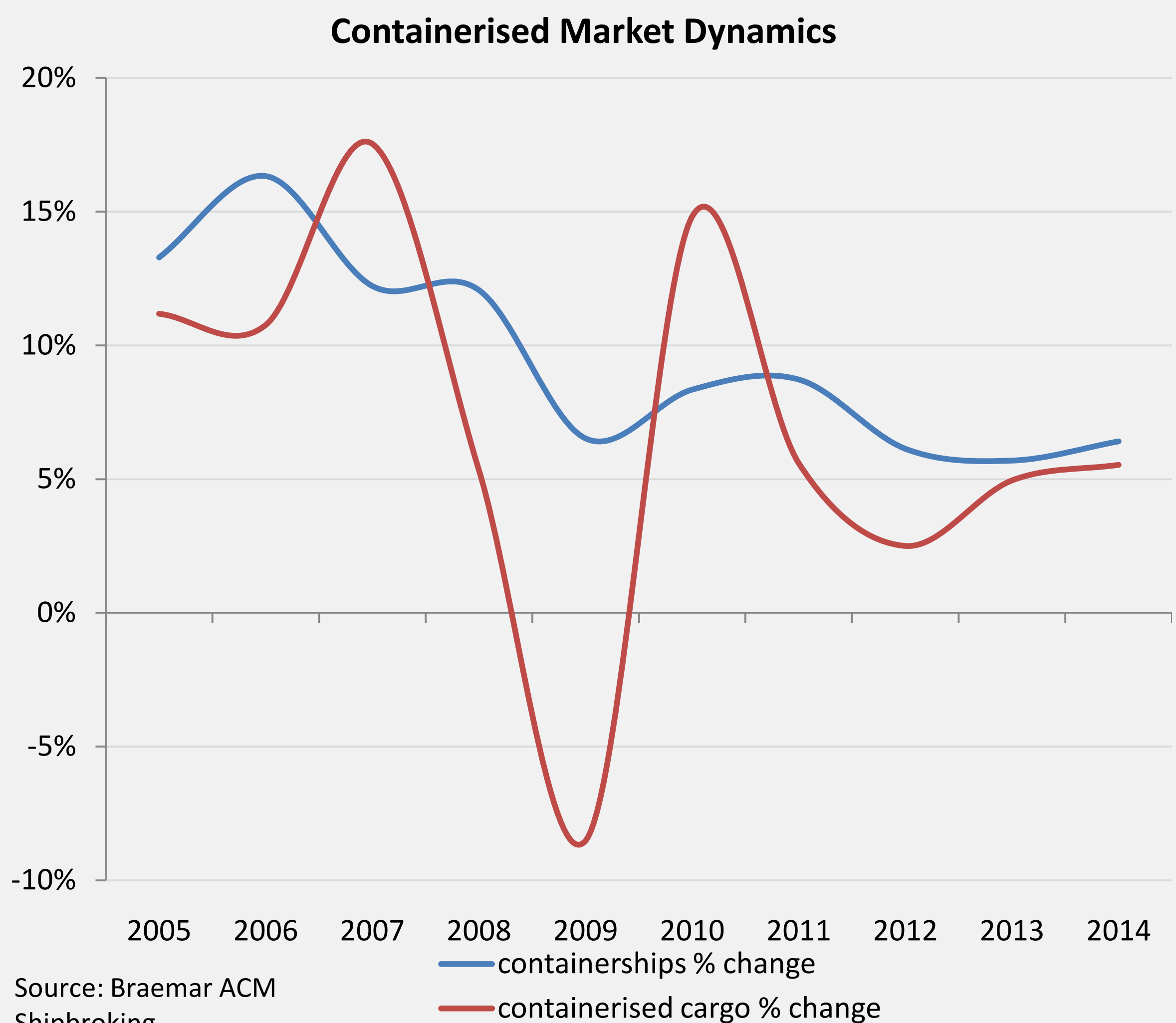


Source: MSI/ Braemar ACM Shipbroking

Product trade growth grew rapidly in 2013 especially as new refinery capacity came on stream at over-sea distances from consumer centres.

In 2014, the slowdown in growth rates in emerging markets and middle income economies might slow cargo trade growth, but a moderation in fleet growth should still assist market balances and therefore ship earnings and values.

And the containership market looks like it might improve….



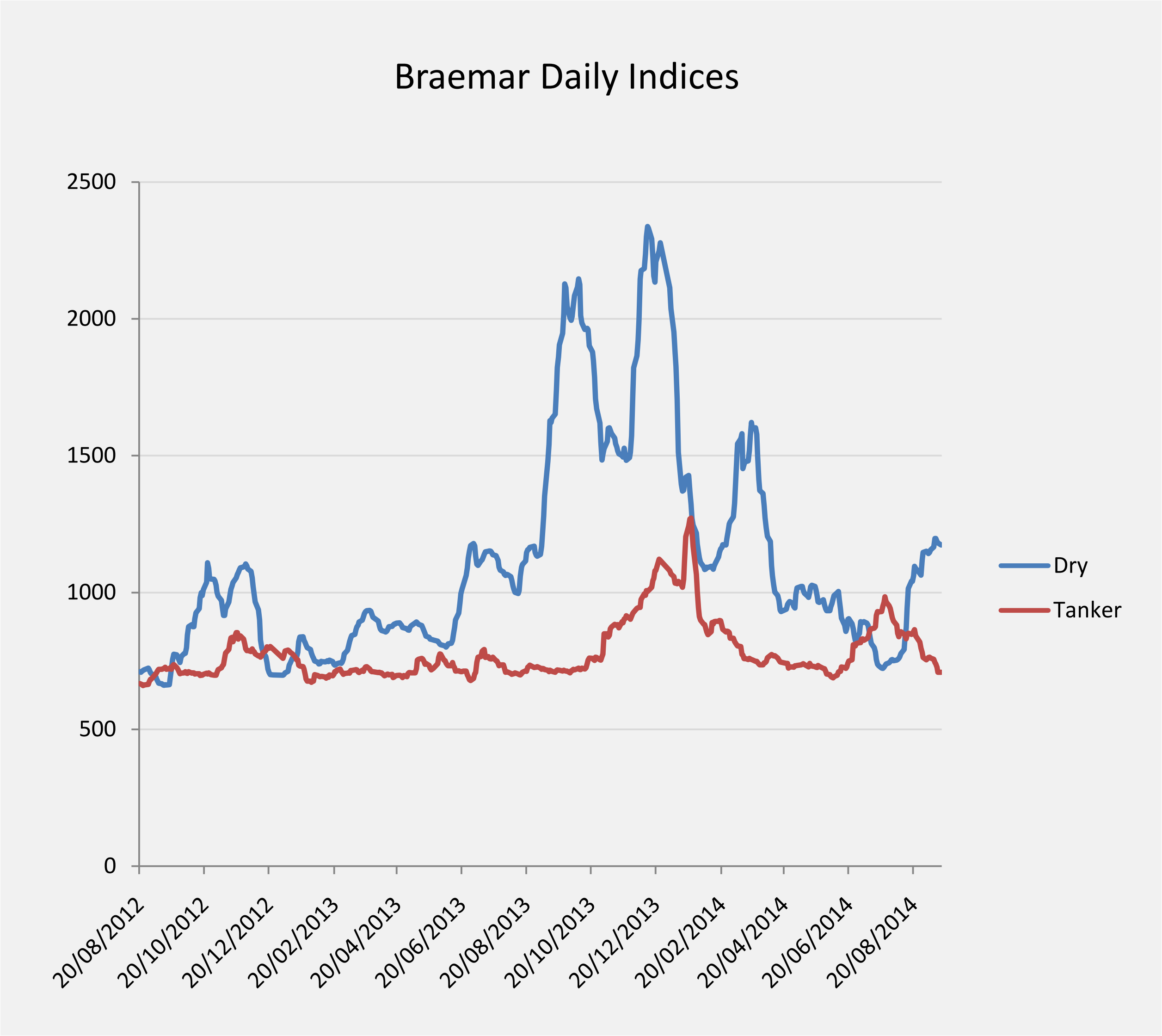
Source: Braemar ACM Shipbroking

Container shipping markets are very closely linked to consumer spending levels in the OECD nations but increasingly also to the fortunes of middle income economies.

Cargo growth is accelerating in 2014, but so is fleet growth.

So while earnings should improve the upside is probably limited.

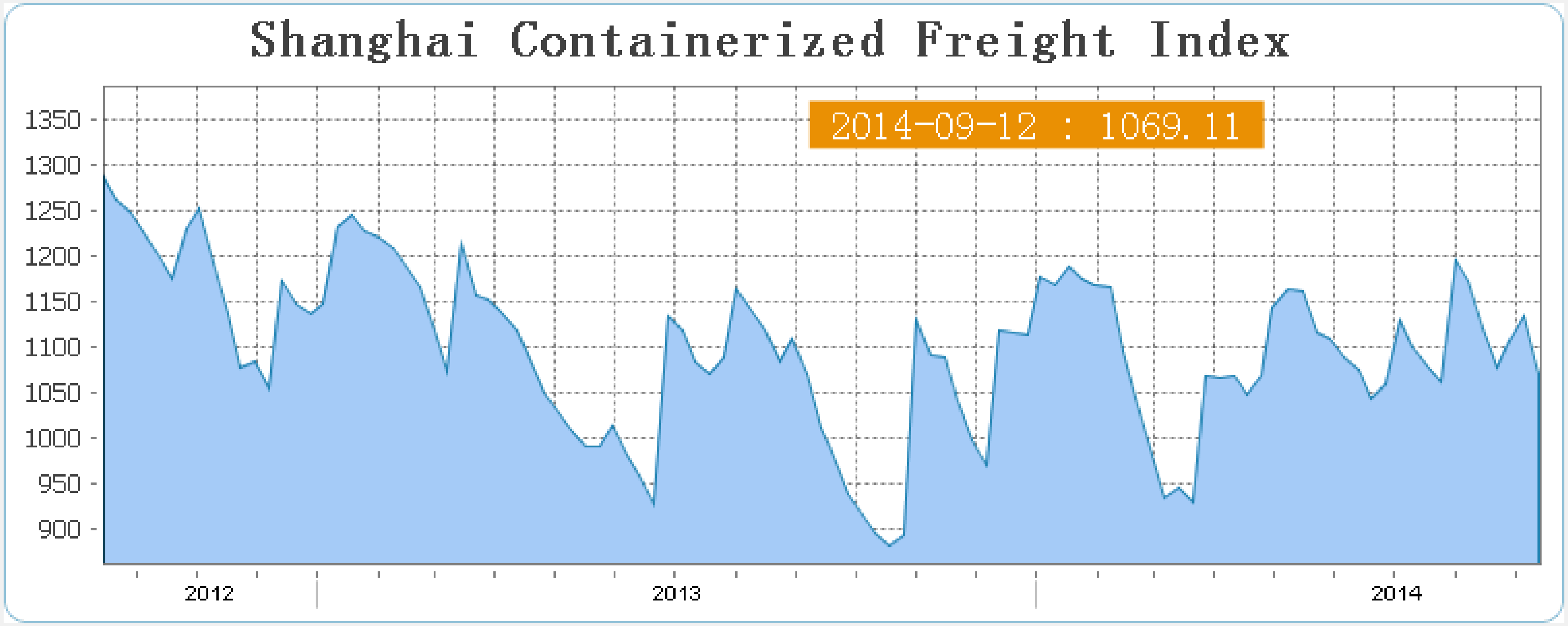
Spot market volatility has returned



In the last 12 months we have witnessed a return of volatility in the freight markets.

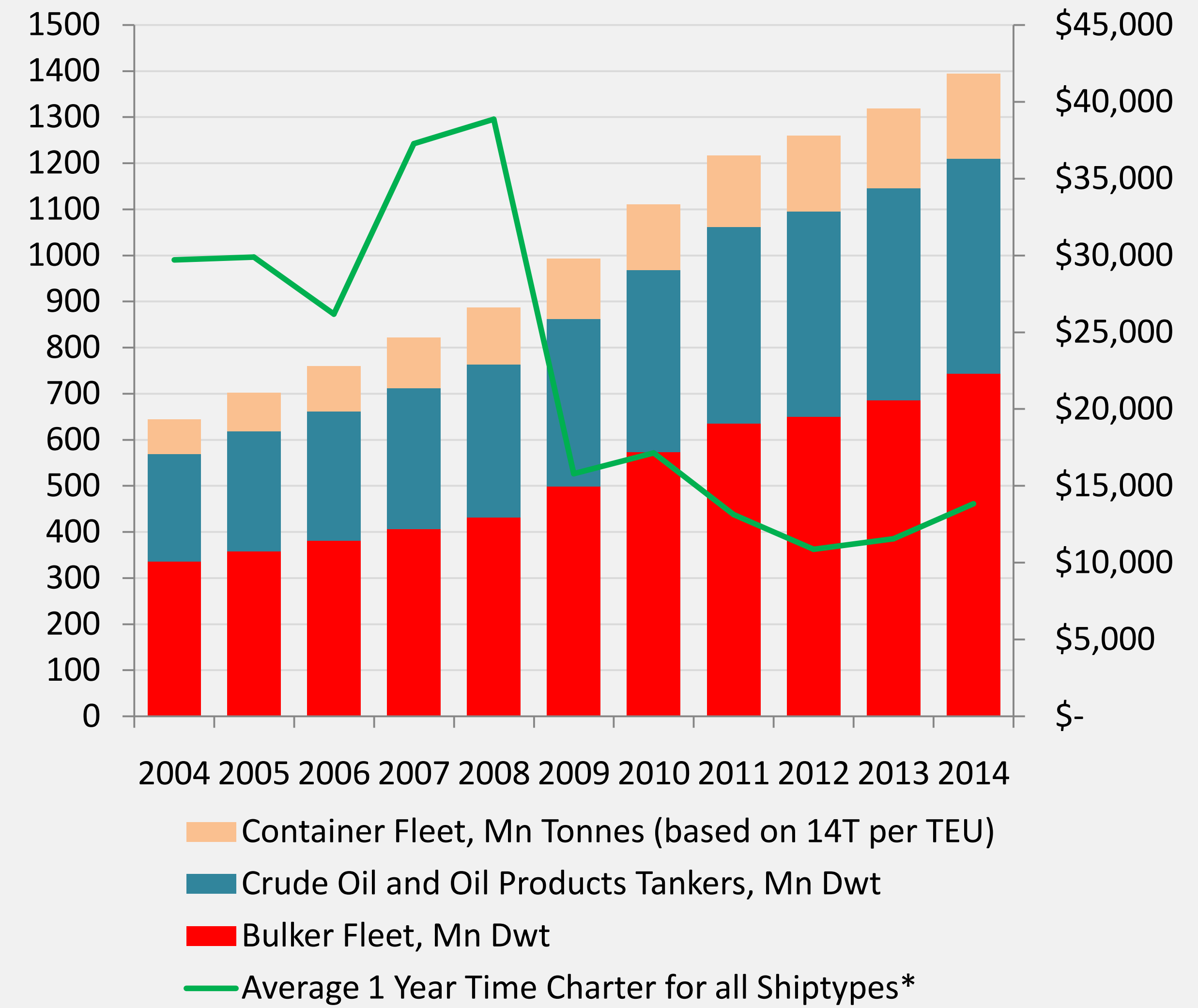
This is good news for ship operators as it suggests greater activity and gives more opportunity to take trading positions with potentially greater returns.

Container freight markets are off their peaks still



Source: http://www1.chineseshipping.com.cn/en/indices/scfi.jsp

Time charter rates on the up overall



Source: MSI / Braemar

Despite a growing fleet of commodity ships, the increase in economic activity and trade has been beneficial for ship earnings.

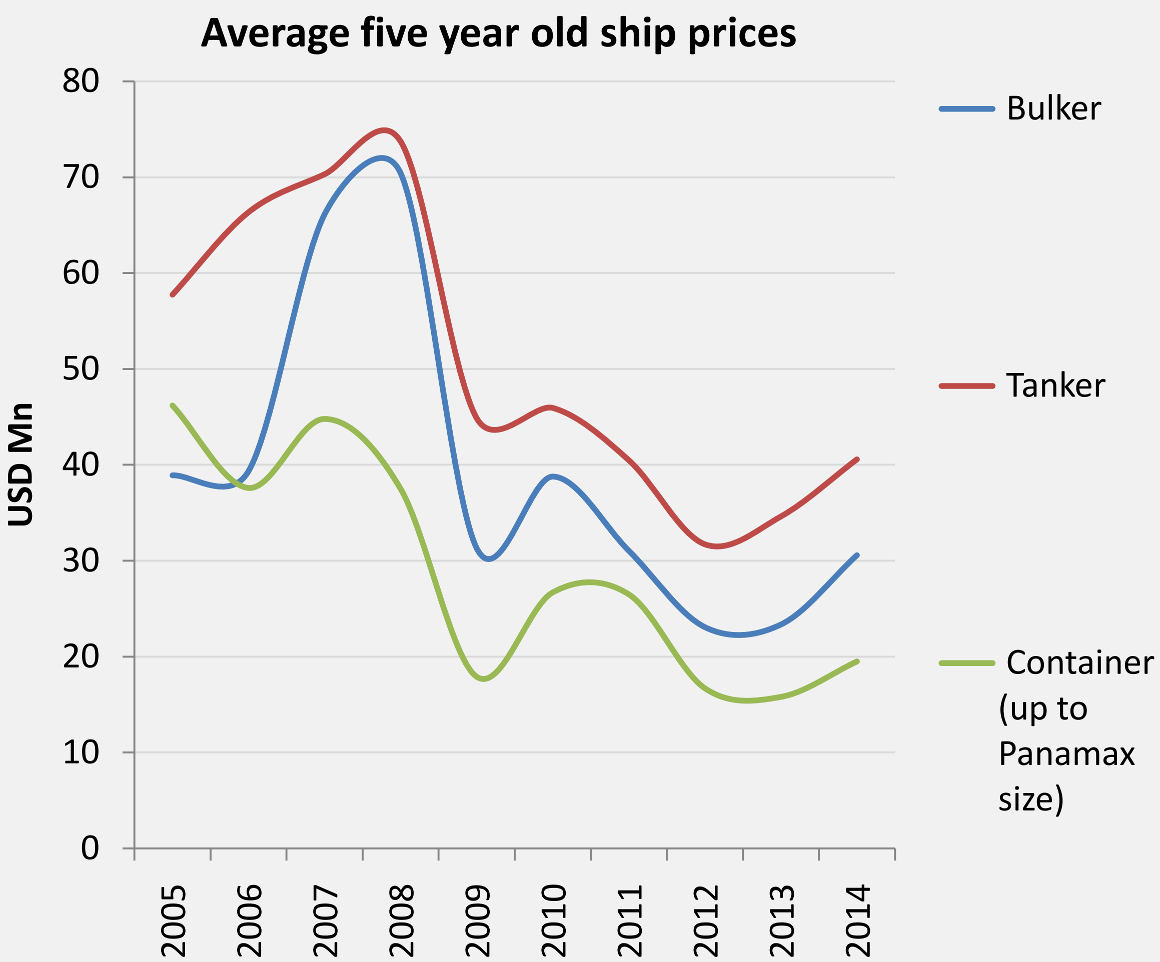
The bottom of the market was reached in 2012.

2013 saw some improvement, mostly in the later stages of the year.

Earnings in 2014 to date have improved further, but it is doubtful that they can recover the peaks witnessed in 2007 and 2008.

* tankers over 27 k Dwt, bulkers over 10 k Dwt, Containerships over 700 Teu.

Second hand prices are rising…

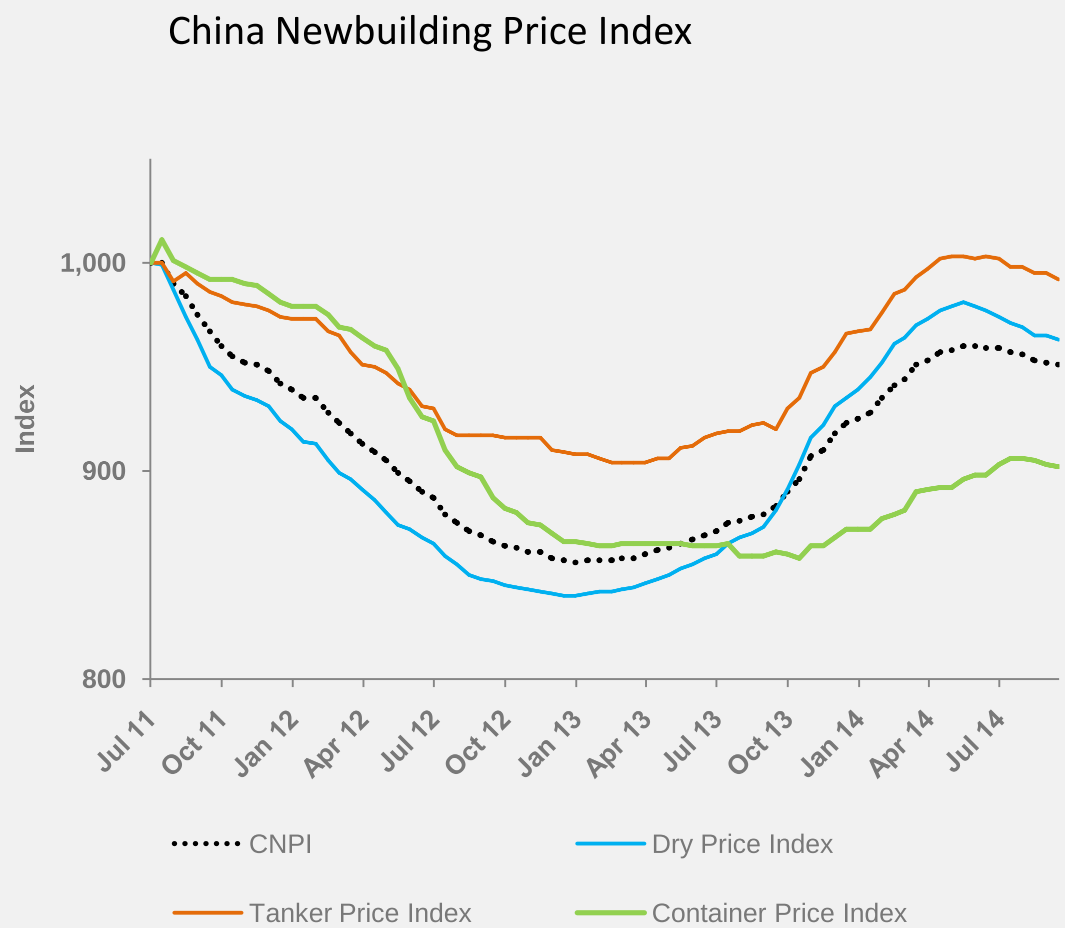


Source: Braemar

Asset values (basis annual averages) bottomed out in 2012 / early 2013, as demonstrated by this chart of simple averages of bulker, tanker and container ship second-hand prices.

The upturn in prices is usually dependent on a positive outlook for earnings

…and shipyards are charging more.

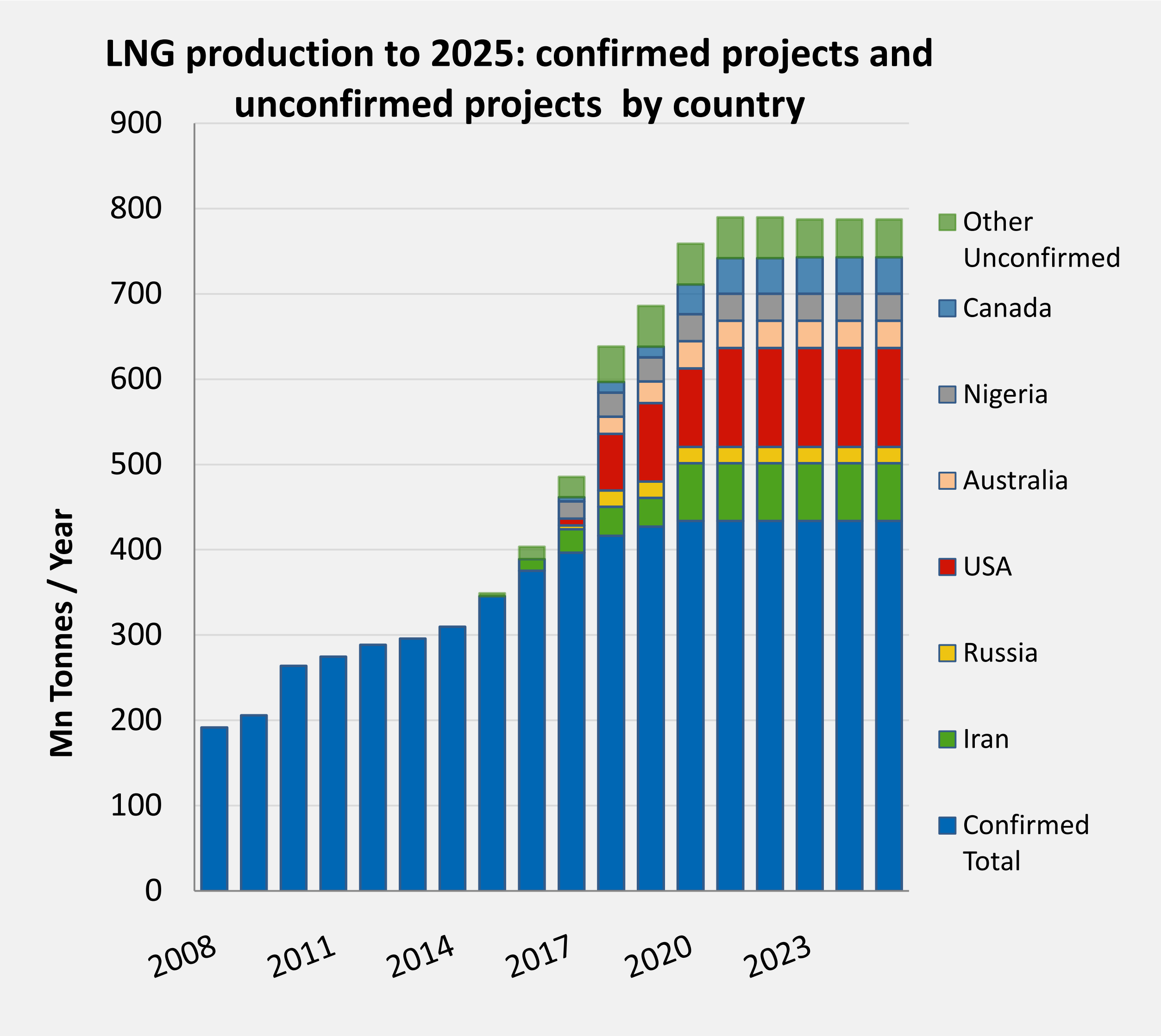


Source: http://cnpi.org.cn/english/

Newbuilding prices increased substantially in 2013 before correcting slightly in 2014 as demand for new, more fuel efficient designs has built up shipyards' orderbooks and extended delivery lead times.

The Chinese newbuilding price index is one example of the upswing in newbuilding prices.

Growth markets: LNG



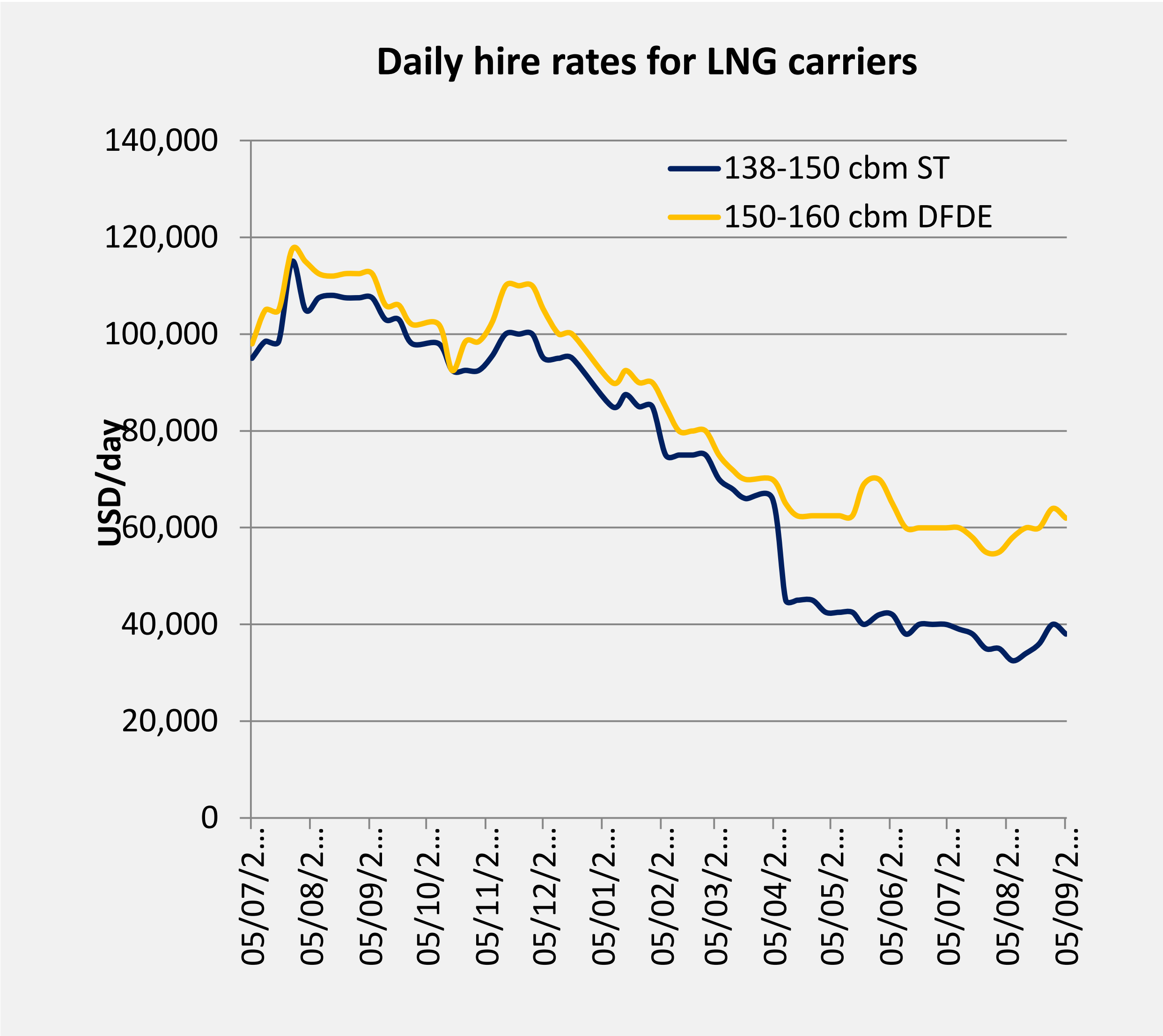
LNG production projects will expand exportable product volumes by 25% between 2014 and 2017.

Thereafter a further 63% expansion output will occur by 2021.

By 2021 global production will be around 800 Mn tonnes compared to 300 Mn tonnes in 2005.

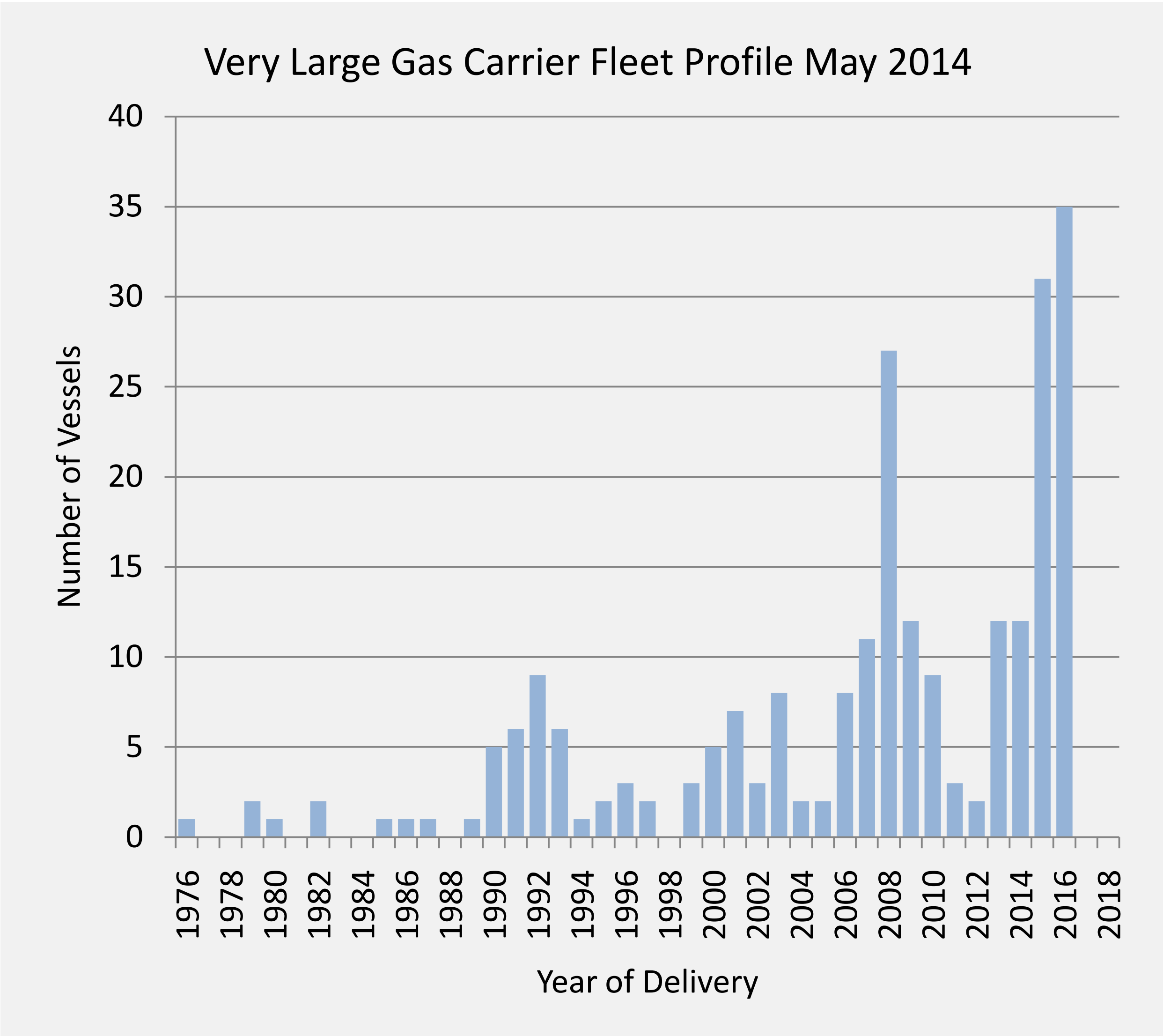
We estimate that nearly 250 new LNG carriers will be required to move the new product to market. The LNG fleet is currently 392 ships with 124 on order.

Growth markets: LNG



Currently LNG carriers are not enjoying strong freight markets due to delays in LNG production schedules at the projects. This has led to a temporary overhang of tonnage, which we expect to be reversed as new export facilities come on stream.

Growth markets: LPG

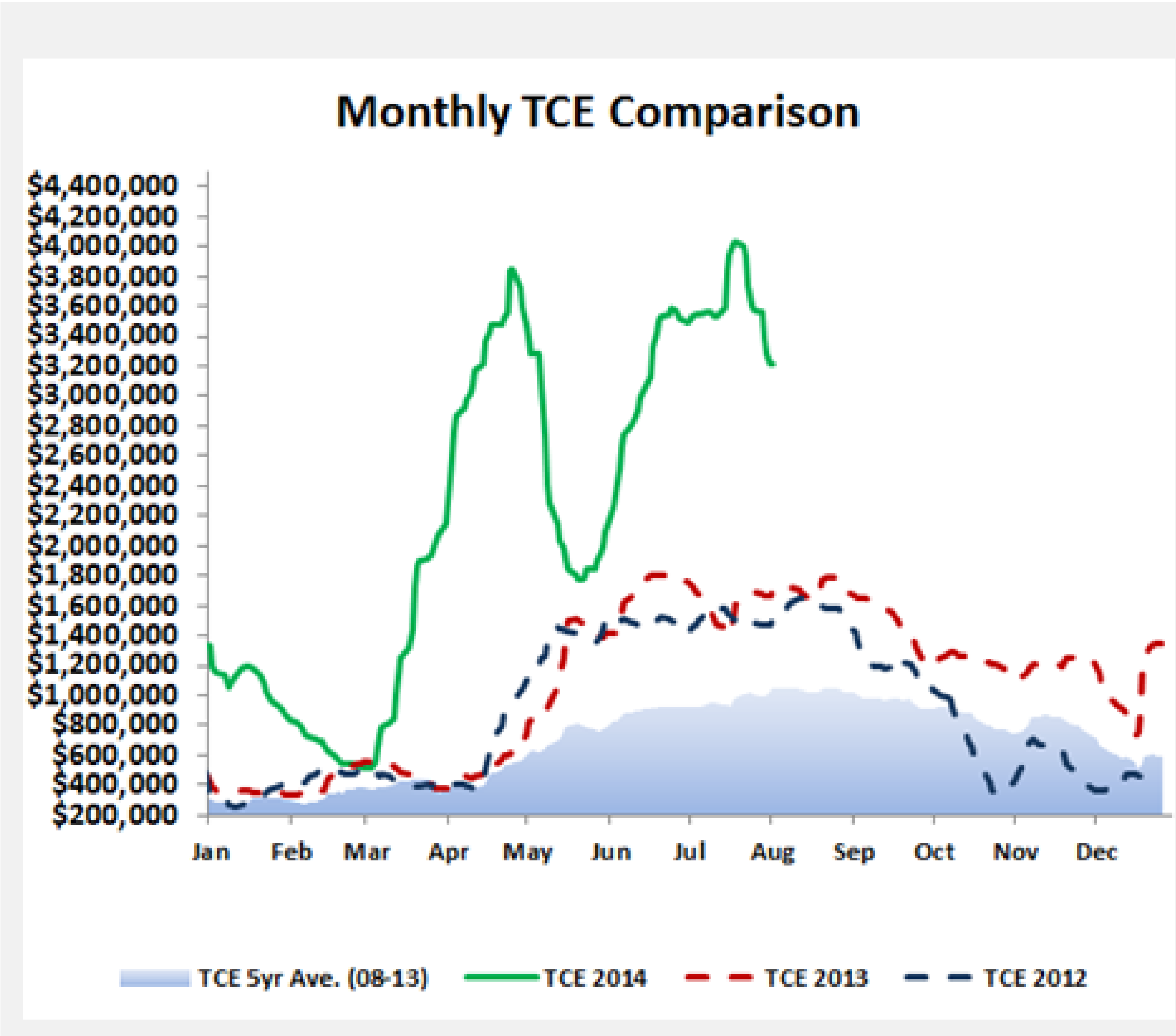


The VLGC fleet is young compared to other commodity ship types at only 10 years on average with 31 units due to deliver in 2015 and 35 in 2016.

The LPG and petrochemical market is entering a new era in terms of growth of both product supply and vessel demand. The main driver for this change is shale gas from the US which will switch from being a net importer to net exporter of LPG to the tune of some 20/25 Mn T by 2017/18.

Also a whole new trade has opened up in **ethane**. To date two major long term US ethane export contracts requiring purpose built vessels have been concluded and both of these contracts have been confirmed via Braemar gas broking desk.

Growth markets: LPG



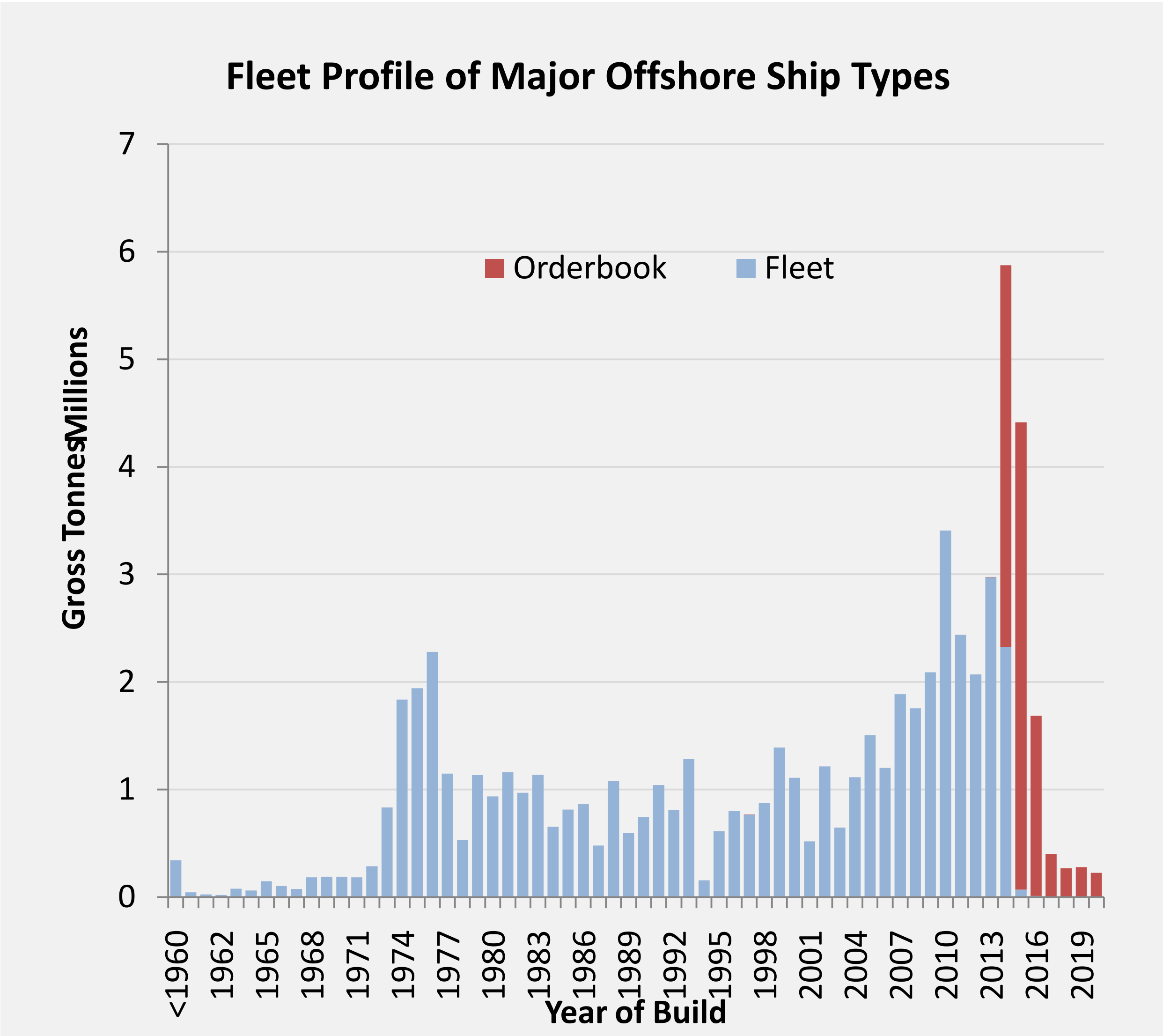
A VLGC built in 2000 would have cost around USD 60 Mn, with a break-even of around USD 600k / Month

By 2008 prices were USD 90 Mn with breakeven rates of around USD 950k / Month

In 2014 newbuilding prices are around USD 78 Mn, with breakeven rates of USD 800k / Month

Recent structural changes to the LPG industry have led to an unprecedented spike in monthly hire rates.

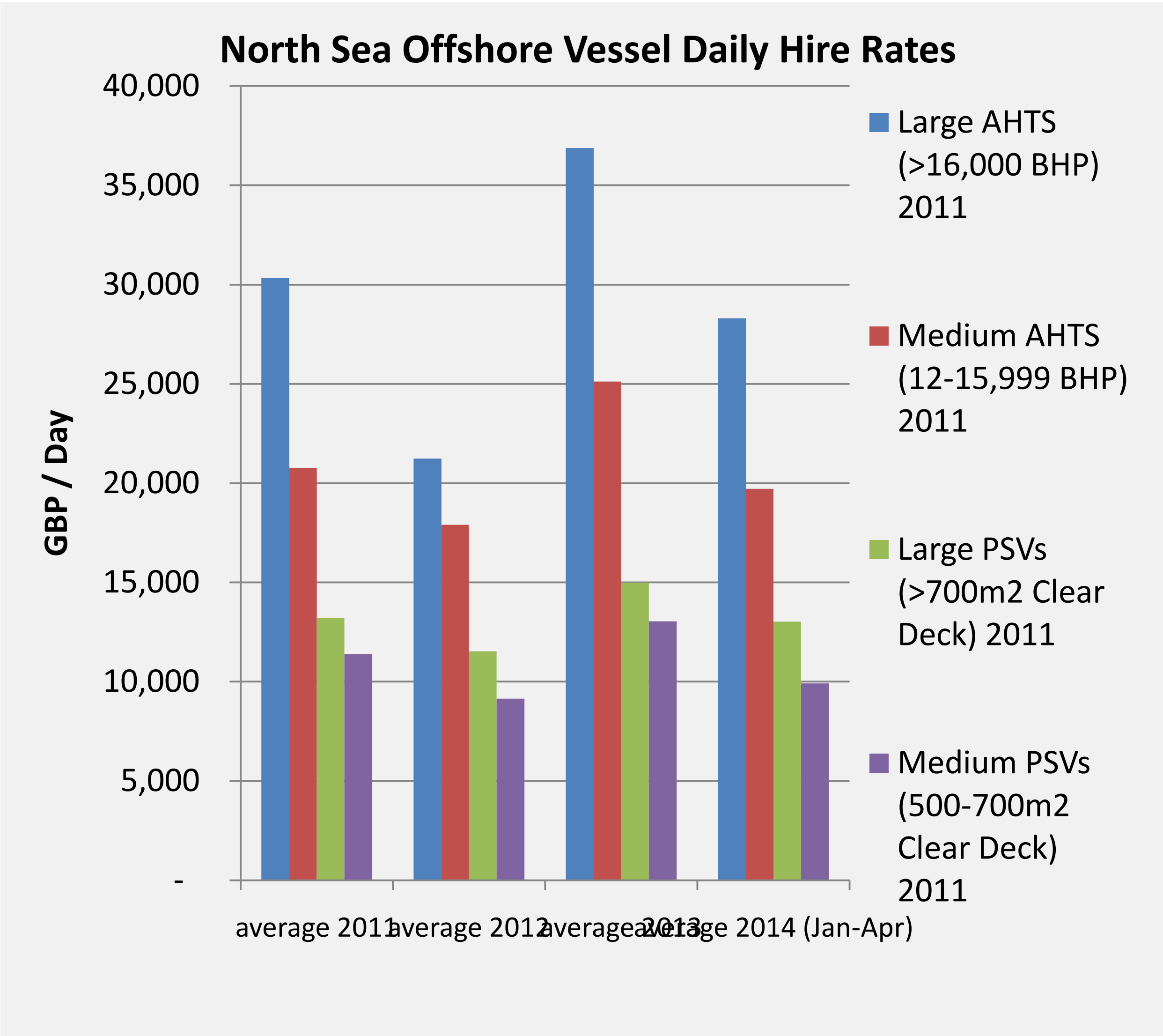
Growth markets: Offshore



Huge global investment in offshore oil and gas production, plus renewables activity, has led to large scale investment in the fleet of offshore support vessels, increasing our customer base significantly.

Chart shows the May-2014 fleet and orderbook of major offshore support vessels, tugs, anchor handlers, accommodation vessels, crew boats, construction and maintenance vessels, FSO, FPSO and rig support vessels, by year of build.

Growth markets: Offshore



Offshore vessel earnings tend to be seasonal, so while 2014 data looks lower than 2013, we have yet to enter the peak season for North Sea activity.

Disclaimer

The information contained within this report is given in good faith based on the current market situation at the time of preparing this report and as such is specific to that point only. While all reasonable care has been taken in the preparation and collation of information in this report Braemar Shipping Services Plc (and all associated and affiliated companies) does not accept any liability whatsoever for any errors of fact or opinion based on such facts.

Some industry information relating to the shipping industry can be difficult to find or establish. Some data may not be available and may need to be estimated or assessed and where such data may be limited or unavailable subjective assessment may have to be used.

No market analysis can guarantee accuracy. The usual fundamentals may not always govern the markets, for example psychology, market cycles and external events (such as acts of god or developments in future technologies) could cause markets to depart from their natural/usual course. Such external events have not been considered as part of this analysis. Historical market behaviour does not predict future market behaviour and shipping is an inherently high risk business. You should therefore consider a variety of information and potential outcomes when making decisions based on the information contained in this report.

All information provided by Braemar Shipping Services Plc is without any guarantee whatsoever. Braemar Shipping Services Plc or any of its subsidiaries or affiliates will not be liable for any consequences thereof.

This report is intended solely for the information of the email recipient account and must not be passed or divulged to any third parties whatsoever without the written permission of Braemar Shipping Services Plc. Braemar Shipping Services Plc accepts no liability to any third parties whatsoever. If permission is granted, you must disclose the full report including all disclaimers, and not selected excerpts which may be taken out of context.

For more information, please contact Research on +44 20 7535 2699 or email us at research@braemar.com

Thank you

Follow us at www.braemaracm.com

And via these media: