Analysis of the Development Trend of World Shipbuilding Market

China Shipbuilding Economy Research Centre

2008.11

~Prepared by China Shipbuilding Economy Research Center~
I. Financial Crisis has brought huge strikes to the shipbuilding market.

II. The environments of shipbuilding market are deteriorating rapidly.

III. World shipbuilding market might step into more than 3 years recession.
I. Financial Crisis has brought huge strikes to the shipbuilding market

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航运费率出现大跳水
Freight market dropped sharply

Trends of Clarksea Index in 2008

Trends of BDI in 2008

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Secondhand prices began to fall obviously

Trends of Secondhand Prices in Recent 12 Months

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新船成交量急速萎缩
Contracting are shrinking drastically

Contracting in last 12 months

~Prepared by China Shipbuilding Economy Research Center~
新船价格全面松动，散货船率先下跌

New building prices in all sectors weakened

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>VLCC-T[320K DWT]</td>
<td>156.5</td>
<td>158</td>
<td>160</td>
<td>162</td>
<td>161</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Suezmax-T[157K DWT]</td>
<td>96</td>
<td>97.5</td>
<td>99.5</td>
<td>100</td>
<td>98</td>
<td>-2.0%</td>
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<tr>
<td>Aframax-T[115K DWT]</td>
<td>77.5</td>
<td>78.5</td>
<td>82</td>
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<td>-0.6%</td>
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<tr>
<td>Handysize-T[51K DWT]</td>
<td>52.5</td>
<td>53</td>
<td>53.5</td>
<td>52.5</td>
<td>51.5</td>
<td>-3.7%</td>
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<tr>
<td>Capesize-B[180K DWT]</td>
<td>96</td>
<td>97</td>
<td>99</td>
<td>96</td>
<td>93.5</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Pamamax-B[76K DWT]</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>54</td>
<td>51</td>
<td>-7.3%</td>
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<tr>
<td>Handymax-B[57K DWT]</td>
<td>47.5</td>
<td>47.5</td>
<td>48.5</td>
<td>48</td>
<td>47</td>
<td>-3.1%</td>
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<tr>
<td>Handysize-B[35K DWT]</td>
<td>39</td>
<td>39.5</td>
<td>40</td>
<td>40</td>
<td>38.5</td>
<td>-3.8%</td>
</tr>
<tr>
<td>LPG Carrier[82k M³]</td>
<td>93.5</td>
<td>93.5</td>
<td>96.5</td>
<td>96.5</td>
<td>95</td>
<td>-1.6%</td>
</tr>
<tr>
<td>LNG Carrier[160k M³]</td>
<td>220</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>0.0%</td>
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<tr>
<td>Container Ship[3500TEU]</td>
<td>65.5</td>
<td>66</td>
<td>67</td>
<td>67</td>
<td>66</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Container Ship[1100TEU]</td>
<td>27.5</td>
<td>27.5</td>
<td>27.5</td>
<td>27.5</td>
<td>27</td>
<td>-1.8%</td>
</tr>
<tr>
<td>New Building Price Index</td>
<td>186</td>
<td>187</td>
<td>190</td>
<td>190</td>
<td>186</td>
<td>-2.1%</td>
</tr>
</tbody>
</table>

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II. The environments of shipbuilding market are deteriorating rapidly
Sub-prime crisis in USA has turned to be a “once-in-a century” global financial crisis; Advanced economies have already or be about to weaken, Emerging economies would not insulated from global recession although they might maintain some growth; IMF downgraded global economy again, and the actual global economy growth might be lower than expected; The recovery time would be much longer.

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There exists strong positive correlation between the sea-borne trade and the world economy; weak world economy would result in weak growth of global sea-borne trade directly. Based on the correlation and the world GDP forecast of IMF, the growth of global sea-borne trade in 2009 would drop to 1.0%, much lower than 5% in recent years.

Data source: CSERC.

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More than 600 M.DWT newbuildings would be delivered in next 2-3 years,
The fleet growth would exceed 10% per annum in next 2-3 years, and the fleet would reach about 1400 M.DWT in 2010.
All of these would bring great pressure on the shipping market.
As the demand decreasing and supply increasing, the balance of world shipping market would get worse obviously.

- Seriously surplus fleet would appear during 2009 and 2010.

Data source: CSERC.

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The deterioration of shipping market balance would make freight rates drop directly;

- In 2009, The Clarksea Index is forecasted to fall to the level of 2001, that is 15,000 $/day;
- In 2010, the Clarksea Index would go down further and touch the bottom, to 14,000 $/day, which would be 56% lower than that of 2007.

Data source: CSERC.
III. Shipbuilding market might step into more than 3 years recession
Our opinions on the development of shipbuilding market

- Wait-and-see is expected to continue before the start of 2009
- After that, it would turn into “buyer’s market”
The recession, brought forward by the crisis, might go on more than 3 years.

- The financial crisis sweeping the world now is much serious than Asia crisis in 1997, and the world economy may need more time to recover.
- We estimate that the recession may last more than 3 years.

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There exists strong positive correlation between new orders and freight rates; the downtrend of freight rates would directly make the newbuilding requirements less in the following years.

The relationship between contracting and Freight rate

\[ y = 0.9969x - 7959.3 \]

\[ R^2 = 0.9386 \]

Data source: CSERC.
Newbuilding orders are expected to be about 70 M. DWT in 2009, which is 50% lower than that of 2008;

By 2010, new orders would have reached the bottom, may be 60 M. DWT;

And, contracting would not exceed 100 M.DWT until 2012.

Data source: CSERC.
Great changes of current balance of shipbuilding are expected

- The balance of the shipbuilding market would be changed from capacity insufficient to capacity surplus in next few years.
- But consolidation and reorganization may remove some capacities from the market.

Data source: CSERC.

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New building price faces more pressure from downward tendency

- New building price faces more and more pressure of downwards, **but it would still keep relatively high level in short term**;
- The Clarkson New Building Price Index might drop to 120 points in 2010, which 35% lower than current historical top;
- Afterward, it might increase again as the demand begin to recover.

Data source: CSERC.

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The market is always in boom and slump.

If winter comes, can spring be far behind?

Thanks for your attention
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