

The charter and shipping market

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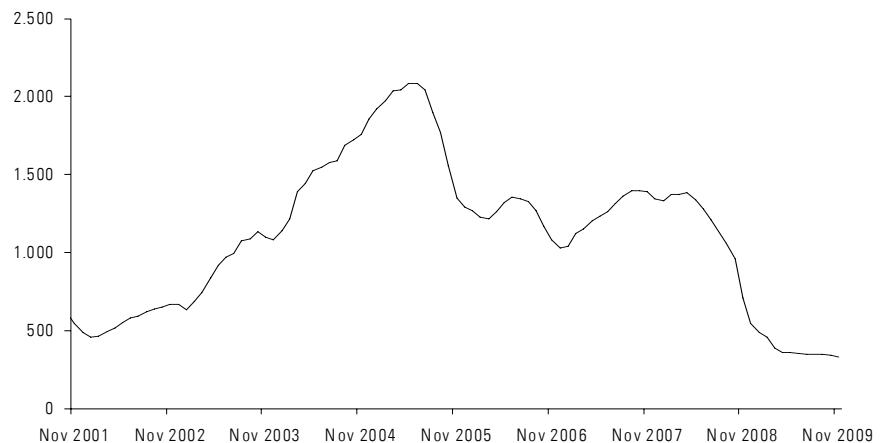
The charter market – general

The charter market for container ships went into steep decline from September 2008. This trend continued until mid-2009. Since then the pit of the slump appears to have been reached, even if charter rates have again marginally weakened. In this situation rates developed at a level below the operating costs.

The 20 % drop in seaborne goods traffic, deliveries of new ships and ships already without employment exerted further pressure on the charter rates. The Howe Robinson Containership Index reflects the summarised development of charter rates for container ships up to and including the Panmax size class. The charter rates of the different ship sizes between 1,000 TEU and 4,000 TEU have simultaneously strongly converged.

The Howe Robinson Containership Charter Hire Index started the year 2009 at 487 points. Since then the index fell by more than 30 % and in November it reached its provisional all-time low at 329 points. The coming year is expected to bring only small changes with a slight improvement in charter rates only appearing at the end of the year (*Source: Howe Robinson; Clarkson, November 2009*).

Howe Robinson, Containership Charter Hire Index of the last 8 years



Source: Howe Robinson, Containership Weekly update, November 2009

At present 572 container ships with a capacity of 1,520,000 TEU are without employment, which corresponds to a total capacity in the fleet of approx. 11.7 %. 70 % of the ships affected are operated by tramp shipping companies and 30 % by liner shipping companies (*Source: AXS-Alphaliner, December 2009*).

The duration of the agreed charter periods in the first half of the year on average over all size classes was 135 days. The previous all-time low of average charter periods at 125 days dates back to the 1st half-year of 2002.

The development of charter rates

As, in addition to chartering out the Panmax container ships owned by Hanseatic Lloyd, Hanseatic Lloyd Chartering is also exclusively responsible for chartering out the Hansa Mare fleet, the development of rates from the Panmax class down to the 1,000 TEU class is looked at in detail in this charter market report.

The 3,900 to 5,100 TEU class (Panmax class)

Since the beginning of the year only a very small number of contracts were concluded in this size class due to the low demand. The charter periods fluctuated between one and max. six months and the charter rates were at a low level between USD 5,800 and USD 6,500 gross per day. A real market currently does not exist; the liner shipping companies are allowing charter contracts to expire to be able to employ their own tonnage.

At present, 608 ships in the size class from 3,900 to 5,100 TEU are in operation world-wide, of which four ships are currently not chartered and a further 54 are without employment. Of 181 newbuildings that are due to be delivered by the year 2012, 40 ships are currently without a charter. The question hanging over the newbuildings in general is whether there will be cancellations of orders or whether later delivery dates will be agreed (*Sources: AXS-Alpha-Liner; HLL Database, November 2009*).

The 2,400 to 2,999 TEU class (Sub Panmax class)

Since the beginning of the year only a very small number of contracts were concluded in this size class due to the low demand. The liner shipping companies were allowing more and more charter contracts to expire to be able to employ their own tonnage, which led to a constant increase in the number of unemployed ships. The charter periods were extremely short at up to six months. At the beginning of the year the charter rates initially reached a level of approx. USD 8,000, which then weakened to approx. USD 5,000 gross at mid-year. Since then a sideways movement has set in with the chartering brokers demanding and obtaining more flexible contract periods of two to twelve months or chartering ships for individual round trips. The charter rates dipped as far as USD 4,500 gross.

Currently 541 ships in the size class 2,400 to 2,999 TEU are in operation world-wide, of which 88 ships are without a charter at the moment and a further 123 are unemployed. Of 49 newbuildings that are scheduled for delivery by the year 2012, 31 ships are currently without charters. The question hanging over the newbuildings in general is whether there will be cancellations of orders or whether later delivery dates will be agreed (*Sources: AXS-Alpha-Liner; HLL Database, November 2009*).

The 1,500 to 1,799 TEU class

The low level of demand also caused a drastic drop in charter rates in the 1,700 TEU class. At the beginning of the year, rates of USD 5,000 to 6,000 were being achieved, but this level of freight rates sank as low as approx. USD 4,100 at the end of the year. The contract periods were very short at one to six months.

At present, 492 ships are in operation world-wide in the size class from 1,470 to 1,799 TEU, of which 65 ships are currently not chartered and a further 78 are without employment. Of 40 newbuildings that are scheduled for delivery by the year 2012, 30 ships are currently without a charter. The question hanging over the newbuildings in general is whether there will be cancellations of orders or whether later delivery dates will be agreed (*Sources: AXS-Alpha-Liner; HLL Database, November 2009*).

The 900 to 1,199 TEU-Class (Handy-Size class)

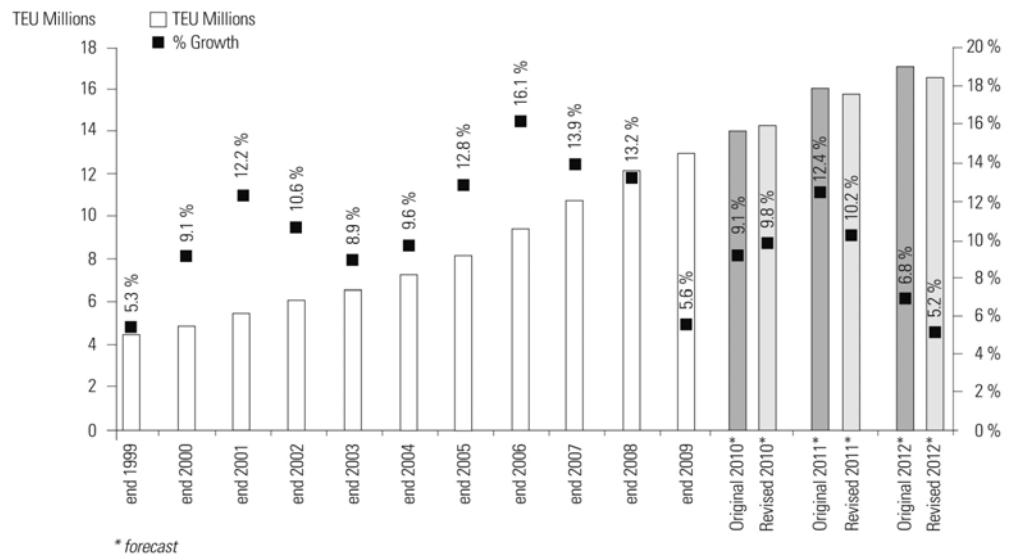
The low demand for tonnage in the 1,000 TEU class led to a drastic decline in charter rates at the end of the year 2008. This development continued into 2009. Whereas at the beginning of the year 2009 it was still possible to achieve daily charter rates of approx. USD 4,000 to 4,250 per day, at the end of the year rates crumbled to approx. USD 3,600 per day. The charter periods were extremely short at one to six months and in some cases contracts only covered single short trips. In view of the huge supply, the charterers were able to choose the tonnage entirely in accordance with their requirements and gave preference to young tonnage, with frequently more favourable operating costs in comparison with the older ships. The number of unemployed older ships soared.

Currently 737 ships in the size class from 830 to 1,199 TEU are in operation world-wide, of which 54 ships are without a charter at the moment and a further 71 are unemployed. Of 75 newbuildings that are due for delivery by the year 2012, at present 64 ships are without charters. The question hanging over the newbuildings in general is whether there will be cancellations of orders or whether later delivery dates will be agreed (*Sources: AXS-Alpha-Liner; HLL Database, November 2009*).

The global merchant fleet

More than 95 % of intercontinental trade moves by sea. At the end of 2008, a total of more than 52,924 ships were in service world-wide that are bigger than 100 gt and are not fishing vessels, tugs or other water craft. Across all ship types, the world merchant fleet grew by only 2.7 % as compared with the prior year a total deadweight tonnage figure of almost 1,155 million tdw.

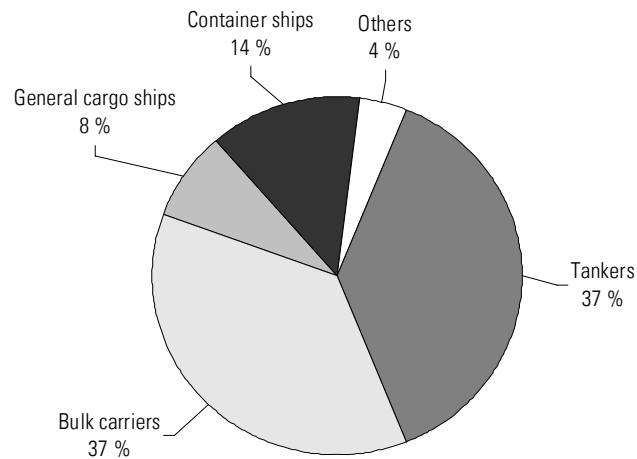
The global merchant fleet has grown continuously in the past few years together with the volume of cargo. From the first quarter of 2008, the quantities of cargo slowly started to shrink and then fell drastically from the third quarter, especially in the container sector. The direct consequence of this was that since September 2008 no more container ships have been ordered from the shipyards (see following chart). In order to ease the problems in the charter market, a growing number of old ships are being scrapped, shipbuilding orders are being converted, delivery deadlines for newbuildings are being postponed or, if possible, orders are being completely cancelled.



Source: AXS-AlphaLiner, February 2010

In terms of the number of ships, the tankers and bulk carriers account for the largest shares of the world merchant fleet. In terms of deadweight tonnage (tdw), tankers currently lead the fleet with 37 % (see following chart).

Global merchant fleet 2009 by deadweight tonnage



Source: Clarkson Shipping Intelligence Weekly – November 2009

The growth of the container ship fleet

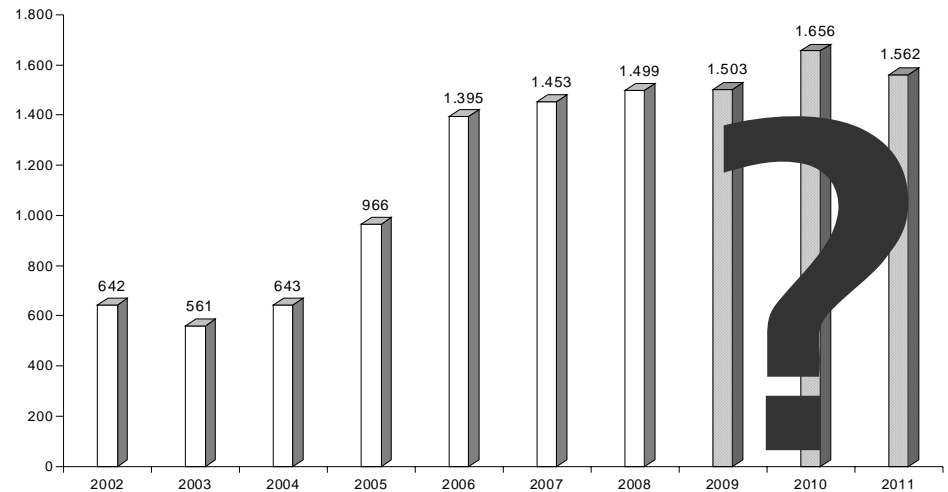
After a very high fleet growth rate of 13.2 % in the year 2008 it was initially assumed that the growth of container ship tonnage in 2009 would, at 14.5 %, exceed the previous year's figure. As a result of the sharp dip in global trade and the target of the liner shipping companies to reduce overcapacity, growth of the fleet in 2009 was only some 8.7 % (Source: AXS-Alpha-Liner February and October 2009).

Besides cancellations, delayed deliveries as well as conversions of newbuilding orders at the shipyards, scrapping is a further aspect for a market shake-out. This was higher in 2009 than ever before and is destined to continue in 2010. In the first eight months of the year alone, a total capacity of approx. 292,000 TEU had been scrapped and by the end of 2009 the experts of Maersk Broker expect the figure to have reached 400,000 TEU (Source: Maersk Broker, September/October 2009). Despite these measures, the global oversupply of container tonnage will increase further in 2010 as a result of deliveries of new ships.

It can be seen from the development of the global container ship fleet that the trend towards ever bigger ships is continuing. The average size of the ships in service is some 2,745 TEU; in contrast the ships now under construction have an average size of approx. 5,887 TEU. In this context the overall capacity of the newbuildings on order corresponds to some 39 % of the global fleet in service (Source: AXS-AlphaLiner, October 2009). With the exception of two relatively small feeder ships, since the end of September 2008 no more orders for container ships have been placed with the shipyards world-wide.

The following chart provides an overview of the upcoming deliveries of container ships in the coming years. For this, an average value was calculated from the published figures of the six leading analysts, whose assessments deviate from each other by up to 515,000 TEU for the year 2010 alone. The coming years have deliberately been furnished with a question mark as it is questionable whether the ordered capacities will actually be delivered.

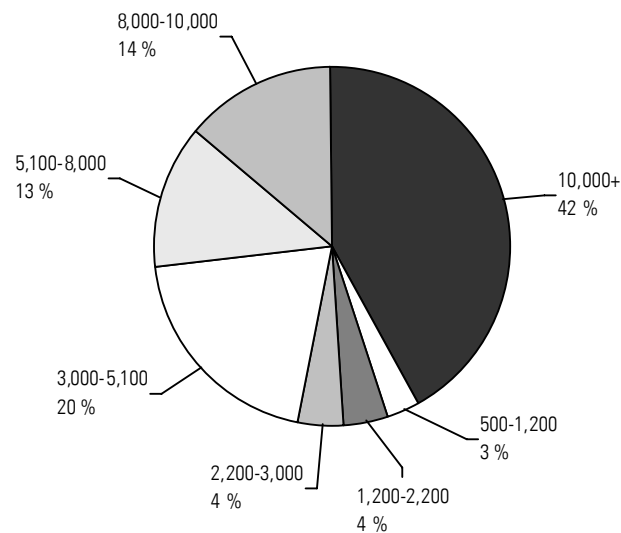
Container ship deliveries in 1,000 TEU



Source: Synopsis of analysts by average values – Clarkson, ISL, AXS-Alphaliner, Braemar, Maersk, Howe Robinson, October 2009 (2009-2011 forecasts)

Deliveries of tonnage

Shares of the size classes (in TEU) in the order book



Source: ISL, October 2009

The orders for container ships are dominated by the classes with higher transport capacities. At almost 70 %, most orders are accounted for by the size class of the Post Panmax ships (5,100 TEU and more).

Prospects container market

The strong effects of the financial and economic crisis are also reflected in the sharp decline in global trade in 2009. Initial positive signs of an economic recovery were seen in the second half of the year in the USA as well as in Europe. Governmental stimulus programmes started to take effect and were accompanied by low interest rate policies of the national central banks. In October the IMF states the figure of 3.1 % for growth for the global economy in the year 2010, a significant correction as compared with the previous forecast of 2.5 %. For 2009, the IMF foresees a minus of 1.1 % (*Source: IMF Database, October 2009*).

The probable decline of 11.9 % in global trade has led to overcapacities in the shipping sector as a result of the sharp drop in the demand for tonnage. This resulted in large losses for the liner shipping companies, which shipping experts put at some USD 20 billion for 2009. To save costs, loss-making liner services were discontinued, departure frequencies were stretched and frequently charter contracts with the tramp shipping companies were either not renewed or only extended for short periods. Slow steaming, in other words a reduction of the cruising speed of ships, is also actively practised by the liner shipping companies in order to counteract overcapacities. In October, it was observed for the first time that cargo was again having to seek transport capacity, which in turn argues for a rise in freight rates. Were freight rates in fact to again achieve sustained increases, this would be an important sign for a recovery in the shipping markets.

In the end downswings are always again followed by upswings. In this context it is well to remember in the past ten years the recoveries after the Asia crisis (1999) as well as after the terrorist attacks of 11th September 2001. Although we today find ourselves in the middle of a crisis there can be no serious doubt but that shipping, as an important part of the globalisation process, will in future continue to grow again in the long term.

The market for tankers

In 2009, approx. 2.7 billion tons of crude oil and oil products will have been transported by tankers. In the past, the transport volumes of these liquid goods grew on average by approx. 3.0 % per year (in 2008: + 1.2 %) corresponding to global economic growth. For 2009, for the first time since 2002 the analysts expect a decline in the transport quantities of crude oil and oil products of some 3.0 % (*Sources: International Energy Agency [IEA], Clarkson Research, October/November 2009*).

The Organisation of Petroleum Exporting Countries (OPEC) last raised its production volumes in September to the present quantity of 29 million barrels a day due to the slight rise in demand. On balance this corresponds to a decrease in the production volume of 8 % in comparison with the prior year. In the course of the reporting year, this reduced production impacted oil prices in the world markets. Since January 2009, the price for crude oil in the world markets again rose from some USD 40 a barrel to approx. USD 75 a barrel (*Source: IEA and Tecson, October 2009*).

The industrial nations took advantage of the favourable price of petroleum to steadily stock up their national oil and oil product reserves from September 2008. Thus for example the reserves of the USA, the world's biggest consumer of crude oil, grew until August by 11.6 % year-on-year. In conjunction with a predicted approx. 2 million barrels a day decrease in consumption in 2010, it is not possible to discern any easing of the situation in the spot market for tankers to the USA. The development of demand in other major trades of the Panmax tankers could also not escape the effects of the global economic crisis. Consequently, the experts at Clarkson estimate tonnage requirements in the Panmax tanker segment for 2009 as being 4.2 % lower overall than for the corresponding year-earlier period (*Source: Clarkson Oil & Tanker Trades Outlook, October 2009*).

The massive decrease in the demand for crude oil and oil products as a result of the global economic crisis is also putting strong pressure on the global charter markets of the small handy-size tankers. The supply of tonnage is encountering low demand in the market and the imbalance between deliveries of newbuildings and scrapping additionally increases overcapacity in the charter market. There are today still no signs of a recovery of charter rates in the spot market of this ship segment. In the North and Baltic Sea trades, charter revenues for tankers have fallen to or even below the level of operating costs. Although there is a stable market in the outward bound transatlantic trades, this is only possible in conjunction with low charter rates. The cargo volumes in South America for such products as bio-ethanol or vegetable oils slumped by 30 % year-on-year in October 2009. The reason for this was also the extreme weather conditions that had a negative effect on agriculture in South America.

Tanker shipping

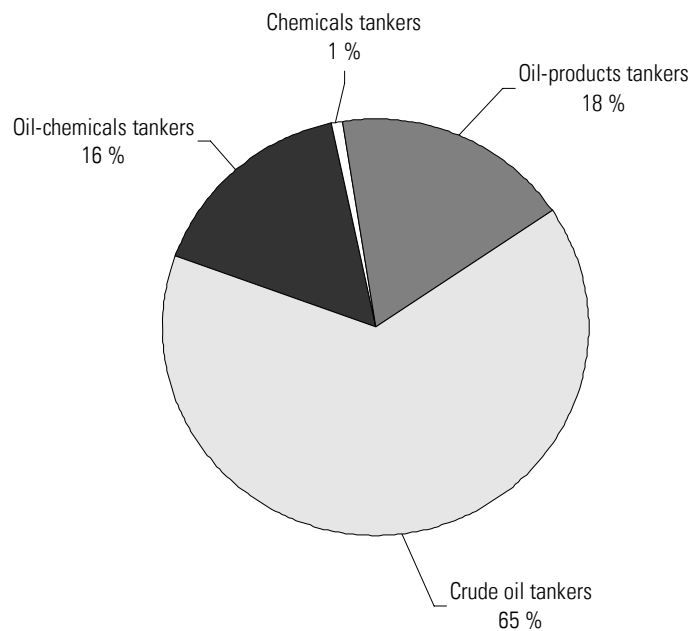
Throughout the world liquid cargoes are the goods that, in terms of quantity, are transported most. To reduce costs, for example, crude oil is transported in tankers that are as large as possible. In the transport context, as a rule the size of the ships steadily decreases from the producing country to the destination or after processing. On the other hand the requirements to be fulfilled by the equipment of a tanker when carrying already processed oil products are becoming more stringent.

Over long distances, crude oil is transported in so-called ULCCs and VLCCs (= Ultra Large Crude Carriers and Very Large Crude Carriers). These ships have a deadweight tonnage of 200,000 tdw and more. The medium transport distances are served by Suezmax (120,000 to 200,000 tdw) and Aframax ships (80,000 to 120,000 tdw). On the short-sea connections, Panmax tankers (60,000 to 80,000 tdw) and smaller types of ship (Handy-Size or Small-Handy-Size) are used.

The tanker fleet breaks down into crude oil tankers, products tankers, chemicals tankers and gas tankers. But there are no rigid demarcations for cargoes of a particular tanker type. Depending on the nature of the cargo hold of the ship, already "refined products" can also be transported. Here a distinction is made between "clean products" such as naphtha, kerosene, gas oil, diesel oil and "dirty products" such as heavy oils and bitumen.

The following charts show the breakdown of the tanker fleet by major types as well as in terms of deadweight tonnage (tdw). As crude oil is a mass product, crude oil tankers account for the greatest share in terms of the deadweight tonnage of all tankers at 65 %. Ships with a large carrying capacity are especially in demand for transports from the producing country to the refinery.

In terms of deadweight tonnage (tdw), the structure of tankers in major types breaks down as follows:



Source: Clarkson Oil & Tanker Trades Outlook, November 2009

The growth of the tanker fleet

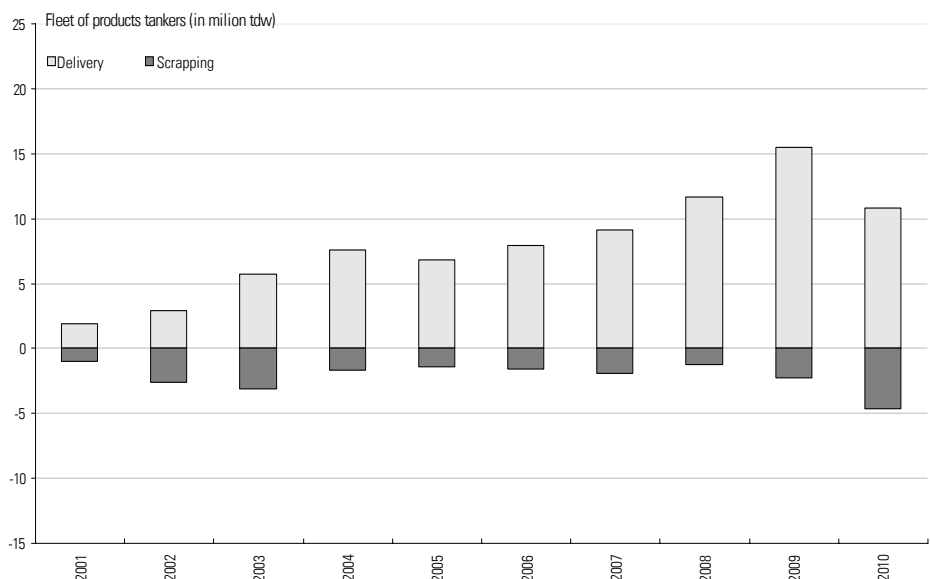
In October 2009, the fleet of the tankers with more than 500 gt carrying capacity consisted of 7,563 ships with a total of more than 451 million tdw. In terms of tonnage, the crude oil and oil products tankers with more than 377 million tdw account for largest part of the tanker fleet (Source: Clarkson Oil & Tanker Trades Outlook, October 2009).

The MT "W-O Ashley Sea" and the MT "W-O Sharon Sea" belong to the segment of the Panmax tankers, which is subdivided into two sub-segments. The first segment covers tankers of 60,000 to 69,999 tdw, that second segment includes younger ships (average age: 3.8 years) of between 70,000 and 79,999 tdw (Source: Clarkson Oil & Tanker Trades Outlook, October 2009). In the segment of the Panmax tankers, 48 out of 396 tankers are currently still operating as single-hull tankers, most of which may only still be used in the year 2010. 83 newbuilding orders in this segment are currently on the order books world-wide, which corresponds to 21 % of the fleet in service.

The Small Handy-Size segment is divided into four sub-sizes. The four tankers of the HLL Tanker Fleet Fund I and the MT "W-O Noroc" belong to the group of ships with a dead-weight tonnage of 15,000 to 19,999 tdw (further sub-divisions according to tdw: 10,000 to 14,999, 20,000 to 24,999, 25,000 to 29,999).

The age structure of the tanker market in the third quarter of 2009 is as follows: 15 % of all tankers in operation world-wide are more than 20 years old. Ships of this age account for 13 % of the segment of Panmax tankers. In the segment of the Small Handy-Size tankers, ships of this age have a share of 24 %. The age of the tanker fleet as a whole averages 9.4 years, the age of the Panmax size averages 7.8 years and the age of the Handy-Size tankers averages 11.1 years (Source: Clarkson Oil & Tanker Trades Outlook, October 2009).

Despite the high number of scrappings in the years 2009 and 2010 of the mostly single-hull tankers, the newbuilding programme for double-hull tankers does nothing to ease the over-capacity situation but on the contrary means a further increase. The exemptions granted by some countries have no effect on the employment of our ships in the international transport business as single-hull tankers are categorically rejected by our customers – the oil majors. The following side-by-side comparison of newbuilding deliveries and scrappings represents the annual development of the global products tanker fleet of 10,000 tdw and bigger:



Source: Clarkson Oil & Tanker Trades Outlook, November 2009

International regulations in tanker shipping

The IMO (International Maritime Organization, a sub-organisation of the UNO) has in the past few years imposed increasingly stringent requirements on the construction and operation of tankers in international waters. The reason for tightening these regulations was a series of tanker accidents which led to devastating environmental pollution on many coasts. The safety regulations of the IMO that evolved from this have led to the so-called "Phase-Out Program" under which the single-hull tankers are to be scrapped in the next few years.

According to a ruling adopted by the IMO in the spring of 2001, taking account of certain age criteria single-hull tankers must be replaced by double-hull tankers by the year 2010. In the case of any damage it is assumed that the double hull will greatly reduce the risk of the cargo leaking out. At the same time the double hull contributes to a further stiffening of the ship's body and thus to a generally higher safety standard of the ship.

With the MARPOL Convention (framework resolution of the European Council with reference to criminal law), a further regulation for the protection of the marine environment and the avoidance of pollution of the seas through ships that has world-wide applicability has now been passed. Here, contamination through harmful substances that are being transported in bulk as well as through operation of the ship is to be avoided. The greatest importance is attached to preventing contamination through oil. But not only oily residues should now be properly disposed of in suitably designed collecting facilities in the port; these regulations have been extended to also cover cargo residues of chemicals tankers as well as household waste (Annex V). A further important objective of the MARPOL Convention is the reduction of air emissions (Annex VI).

Prospects tanker market

The strong effects of the financial and economic crisis are also reflected in the sharp decline in global trade in 2009, which is predicted to be -11.9 %. Initial positive signs of an economic recovery were seen in the second half of the year in the USA as well as in Europe. Governmental stimulus programmes started to take effect and were accompanied by low interest rate policies of the national central banks. In October the IMF states the figure of 3.1 % for growth for the global economy in the year 2010, a significant correction as compared with the previous forecast of 2.5 %. For 2009, the IMF predicts a minus of 1.1 % (*Source: IMF Database, October 2009*).

For 2009, the analysts today expect to see a drop in oil consumption of approx. 1.7 million barrels a day. This has impacted the charter markets so that tanker shipping is no longer unaffected by the global economic crisis. In some trades, the level of freight rates has plummeted by more than 70 %. Moreover, an imbalance in the volumes of goods discharged and taken on board in the transport routes as well as waiting times that are now being incurred are having a negative impact on revenues.

The forthcoming deliveries of tanker newbuildings as a consequence of the MARPOL regulations exceed the volume of tonnage scheduled for scrapping. Only a recovery in the global economy and the resultant growth in global trade could eliminate these imbalances and restore relatively normal market conditions.

In the end downswings have always been followed by upswings. In this context it is well to remember in the past ten years the recoveries after the Asia crisis (1999) as well as after the terrorist attacks of 11th September 2001. Although we today find ourselves in the middle of a crisis there can be no serious doubt but that shipping, as an important part of the globalisation process, will in future continue to grow again in the long term.