



MEDIOCREDITO ITALIANO








[shipping update]

maritime
economy

June 2014

Index

	Synthetic framework	2
	Dry Bulk	3
	Liquid Bulk	7
	Container	11
	Offshore	13

“Shipping Update”

è has been produced by
Medio Credito Italiano’s Desk Shipping.

Available at
www.srm-maritimeconomy.com
the Permanent Observatory on
the Maritime Economy.

Elaboration and analysis
Teresa PUGLIESE

Graphic design and publishing development:
Marina RIPOLI

The data contained has been
updated at different stages.
The consultation of sources
has been updated
in May 2014.

The use or reproduction
of this publication
is only allowed for
scientific and analytic purposes
with a specific mention.

Contacts:
SRM communication department
m.ripoli@sr-m.it

Trend of the major segments of maritime transport in 2013 with an update to the first months of 2014

The first semester of 2013 has been marked by a further economic slowdown and by a substantial expansion of the world fleet, with negative consequences on the major shipping segments.

By contrast, in the second semester of 2013, the US economy showed some positive sign along with the rise in Chinese imports, it has led to an increase in the demand for ships. However, fewer ship deliveries than expected have slowed the growth of the world fleet with an increase in the demand for ships by 6% and an average usage rate of the fleet of 85% (+1% compared to 2012).

As regards 2014, on the 30th of April for the first time since 2011, Moody's changed its outlook on the maritime industry from negative to stable, on the basis of an expected growth of EBITDA in the maritime transport sector. In addition, Moody's affirms that despite the cargo hold capacity oversupply, the ratio between supply and demand in maritime transport is not going to deviate from the point of balance by no more than 2%.



Dry Bulk Segment

The spot and time charter freight rates have risen compared to the more than modest levels recorded in 2012 with an increase in the demand for ships by 9% due to the Chinese import boom and to the recovery of the world grain trade in the second half of 2013. The increase of the fleet was slightly less than 8% and the rate of utilisation of the vessels amounted to 85%.

In the first semester of 2013 the use of large stocks of iron materials by China and the export slowdown from Brazil towards Asia has had a negative impact on the level of freight rates of the capesize vessels, while the low-volume trade in grain and other commodities have produced similar reflections over the other ship's sizes.

The revival of Chinese imports and of the trade in grain marked a reversal of this tendency in the second semester.

The first four months of 2014 have seen freight rates lower than those of the end of 2013, but livelier if compared with the values of the first quarter of the previous year.

The weak conditions of the sector would be largely due to temporary factors such as; the Chinese oversupplied markets; the drop in the export of coal due to a very cold winter in the U.S. and Canada and to the delays in adapting the port facilities at Puerto Drummond (Colombia); from January of 2014, the prohibition for Indonesia to export bauxite, nickel and other minerals; longer times of maturation of the new crop of corn in South America due to both the passage of crops from corn to soy and to the drought.

Since metal traffic accounts for almost 50% of the total world bulk traffic and 60% of this volume is attributable to China, we understand how some of these factors can greatly affect the global market.

According to Banchero & Costa, the rebalancing between supply and demand will continue in 2014 (they actually forecast a further growth of the world fleet) and China will keep playing a key role in the import of raw materials. Over the next two-year period 2015/2016 new problems may arise in view of the new deliveries for the 2013 orders and for the first months of the current year.

VSL expects a recovery in freight rates for 2014 and 2015, although the growing number of construction contracts might provide a significant impact in the opposite direction. On the other hand, the slow steaming due to the high cost of the bunker, however, is expected to generate a positive effect on the tonnage supply on the market.

In 2013, new ships were delivered for cpl 59 million DWT and scrapping amounted to approximately 23 million dwt. This was the order book in February:

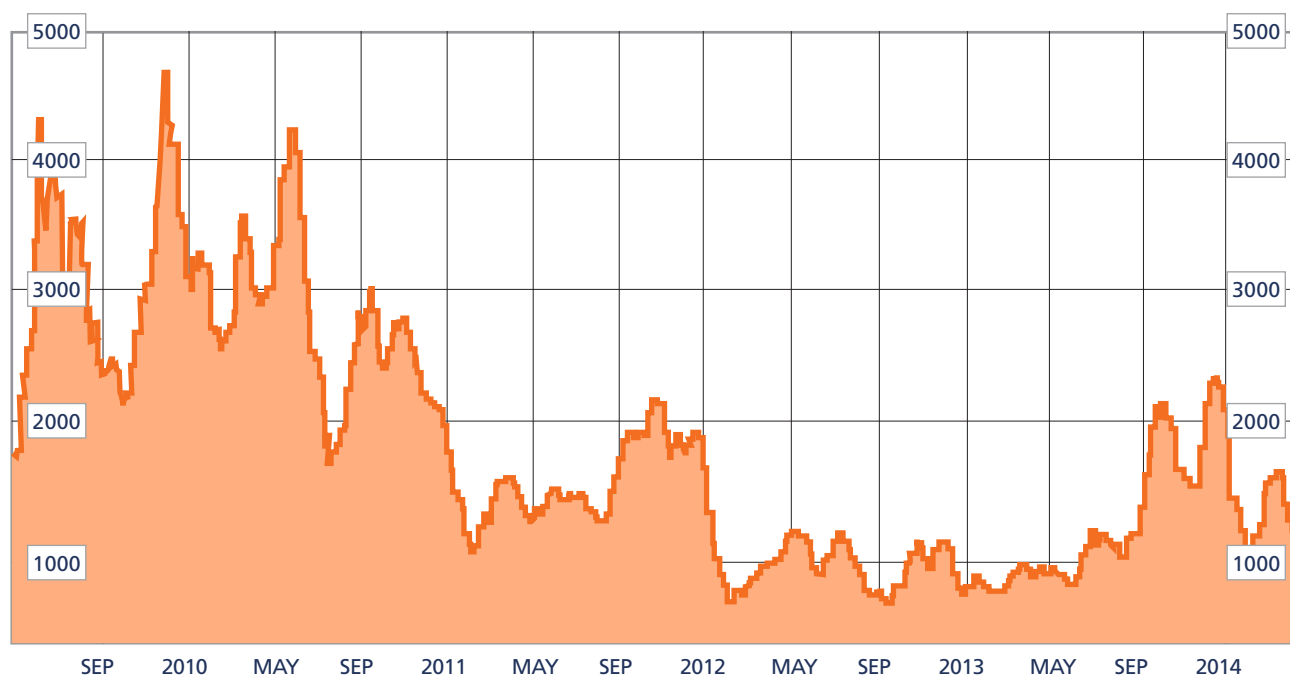
Dry Bulk Orderbook 07/02/2014 (Number of ships)

	2014 (deliv.)	2014	2015	2016	2017	2018	2019	Total on order
VLOC	1	19	13	9	0	0	0	41
Cape	13	87	104	77	3	0	0	271
Small Cape	3	30	18	4	1	0	0	53
Panamax	29	191	120	72	3	0	0	386
Supramax	18	218	245	118	24	2	0	607
Handysize	22	195	163	53	1	0	0	412
Total	86	740	633	333	32	2	0	1770

Source: BRS

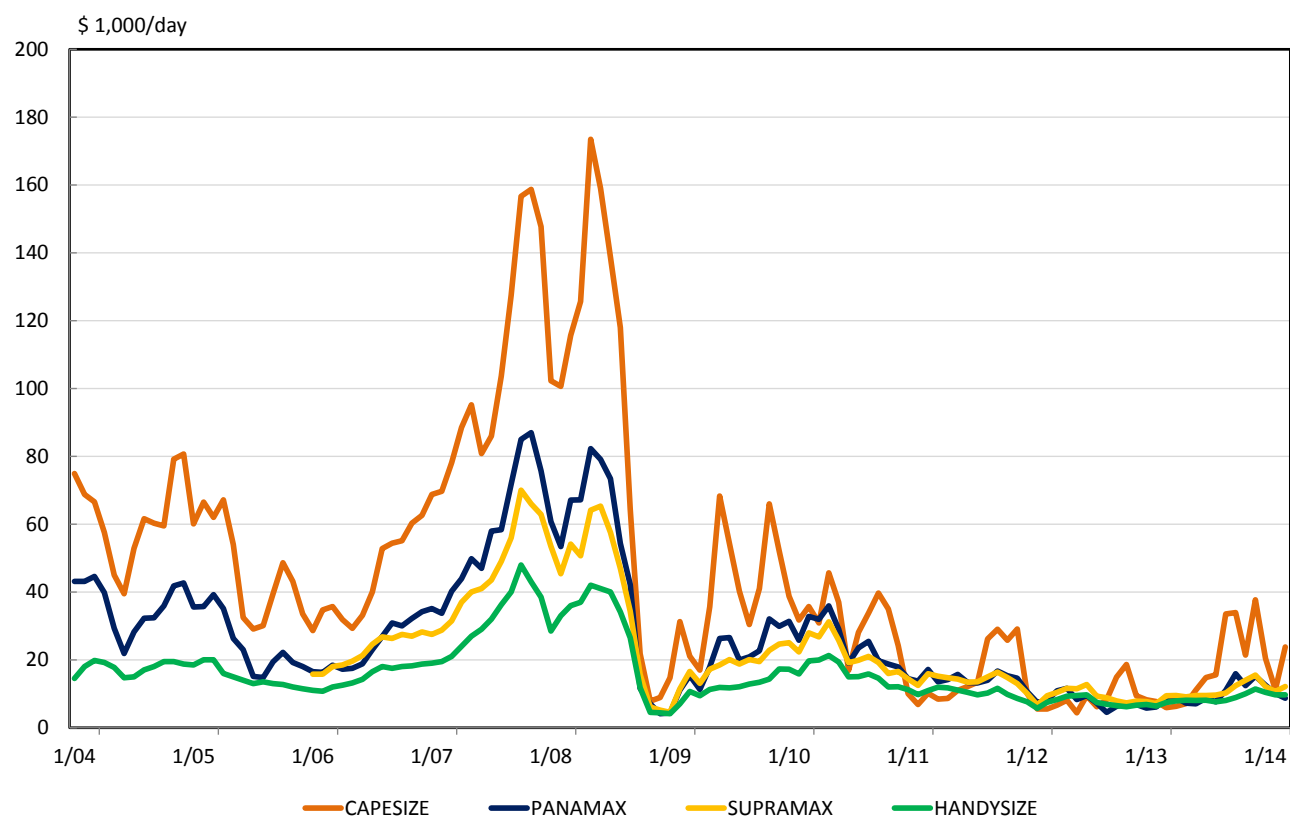
The performance of the Baltic Dry Index, of the time charter and spot charter rates and new building prices follow.

Baltic Dry Index BDI - The Weighted Composite Index of BCI/BPI/BSI (last five years)



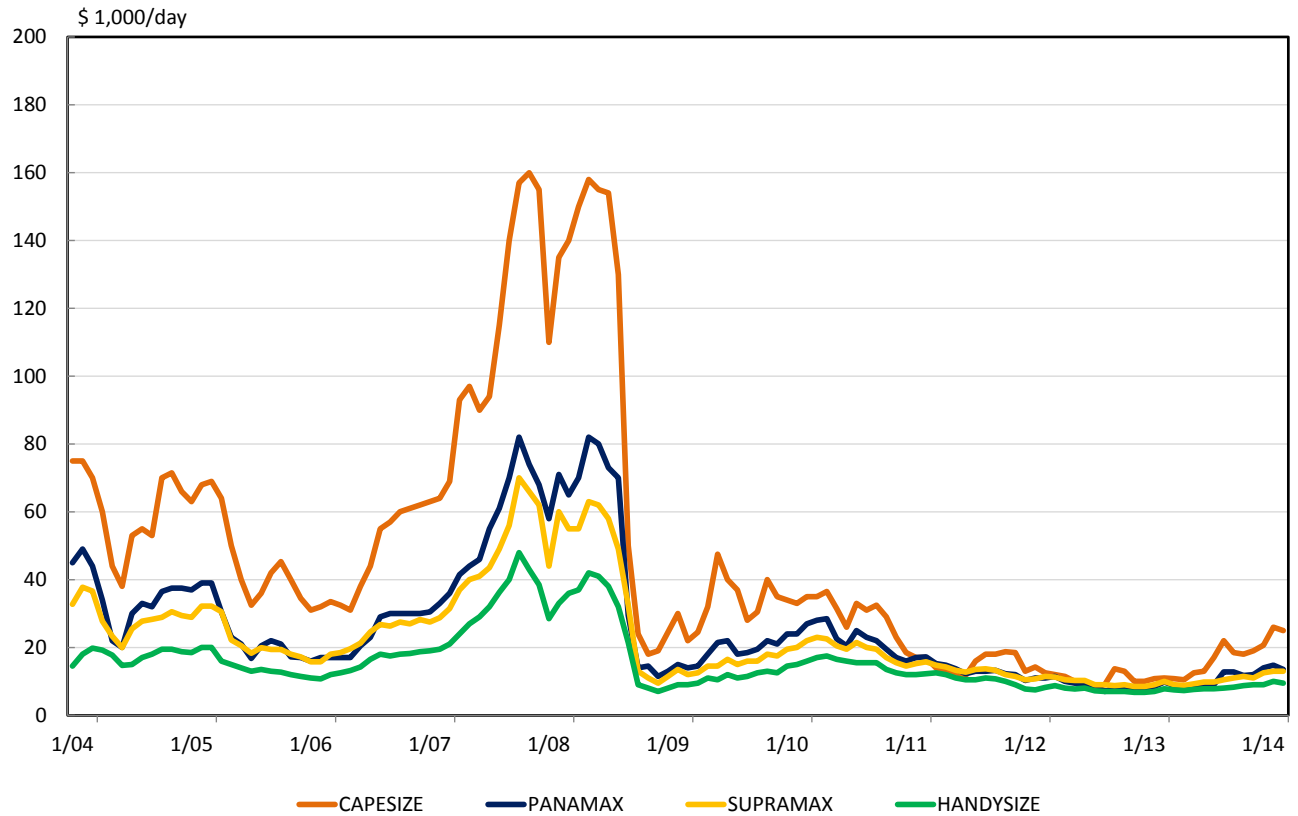
Source: Bloomberg

Spot rates for bulk carriers - monthly



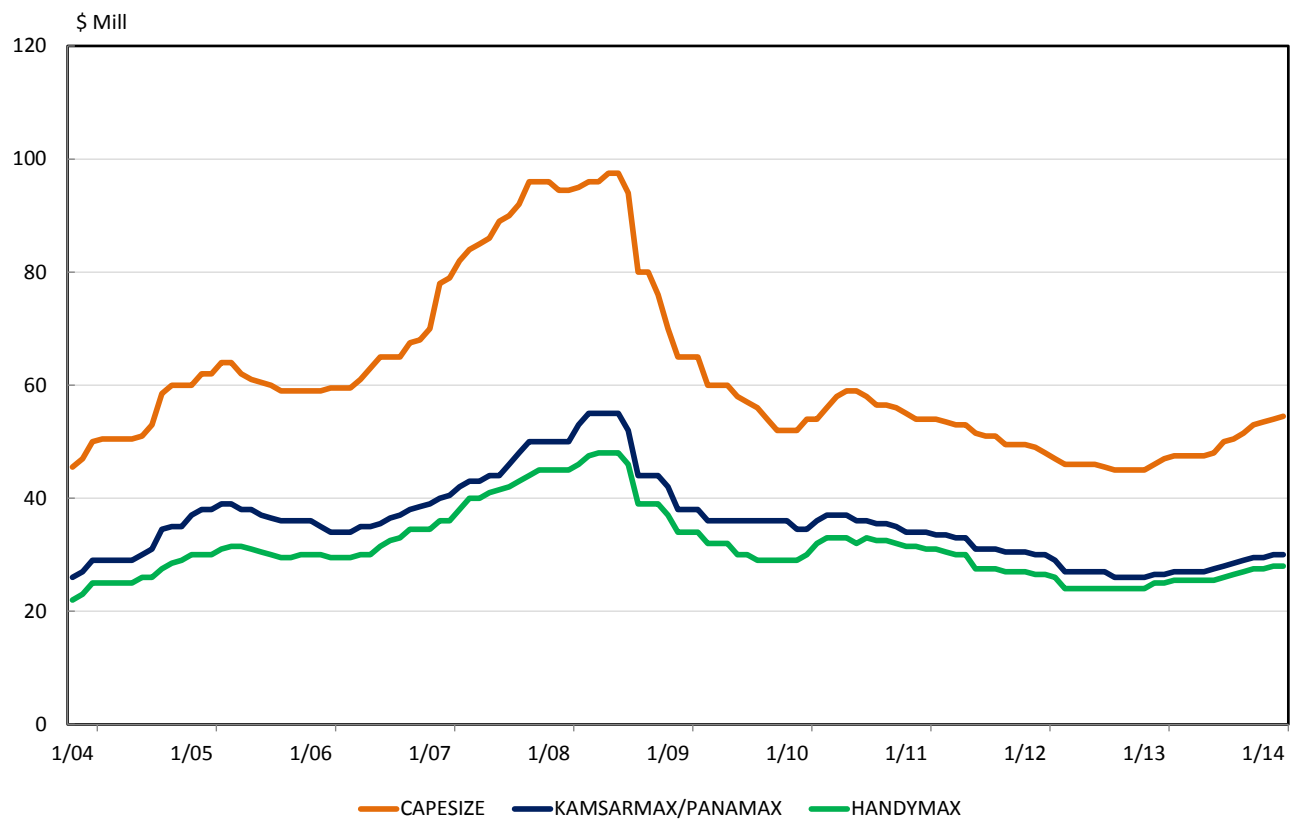
Source: RS Platou

12 months t/c rates bulk carriers



Source: RS Platou

Building prices for bulk carriers



Source: RS Platou



Liquid Bulk Segment

In 2013, the drastic reduction of U.S. imports of crude petroleum and the considerable growth of the fleet have been a major obstacle to the recovery of the level of freight rates. On an annual average basis, the growth of the fleet has been higher than the increase in the demand for tonnage. However, the market of refined products has recorded a substantial stability in freight rates, consistent with those of 2012.

As regards crude oil, the first nine months of 2013 were characterised by freight rates among the lowest in the last twenty years. However, in the last four months of the year, there was a clear reversal of the trend with freight rates reaching the good levels of 2010. Nevertheless, the rate of vessels' utilisation on an annual basis has decreased by 1%, compared to 2012, reaching 83%. Freight rates for refined products have had a better trend in the first part of 2013 recording an increase in trade, while in recent months, as a reflection of the crisis of crude oil, there has only been moderate growth.

Crude oil tankers could enjoy a recovery in freight rates in 2014, after the crisis that has lasted over 5 years in which the tonnage oversupply affected the market. The first new factor is the hastened deletion of the sanctions to Iran, which could add about 1 million barrels of crude oil per day to exports mainly towards India and China. In addition China could boost its imports from other areas for a further 300-400,000 barrels / day. According to a report from the ICAP of London, in 2014 world seaborne crude oil traffic has the potential to grow by 0.3% whereas it decreased by 5.6% in 2013. Furthermore, this year the growth of the tankers fleet should slow down even though the market is continually being inflated with ships, and the only weapons in the hands of the owners remain slow steaming and scrapping. A slightly different outlook is that regarding product carriers; here the good levels reached in 2013 misled the operators who ordered new vessels. With the spot market still below U.S.\$ 10,000 a day (in spite of the winter season), the time charter rate of these ships, which had risen in 2013 to 14/14.500 U.S. \$/day, came to a halt with the exception of isolated cases, it does not show any signs of improvement compared to the previous year.

According to VSL, the outlook seems to be better for the sector of refined products, due to the increase of the production of refineries in Asia and the Middle East compared to that of crude oil, whose trades decreased. In this regard, the tonnage oversupply and the number of new orders are still influential. In any case, the new rules on emission limits, which will come into force in 2015 in the (ECA) areas and in 2020 for the rest of the world, will contribute to an increase in scrapping and investment in eco-friendly ships.

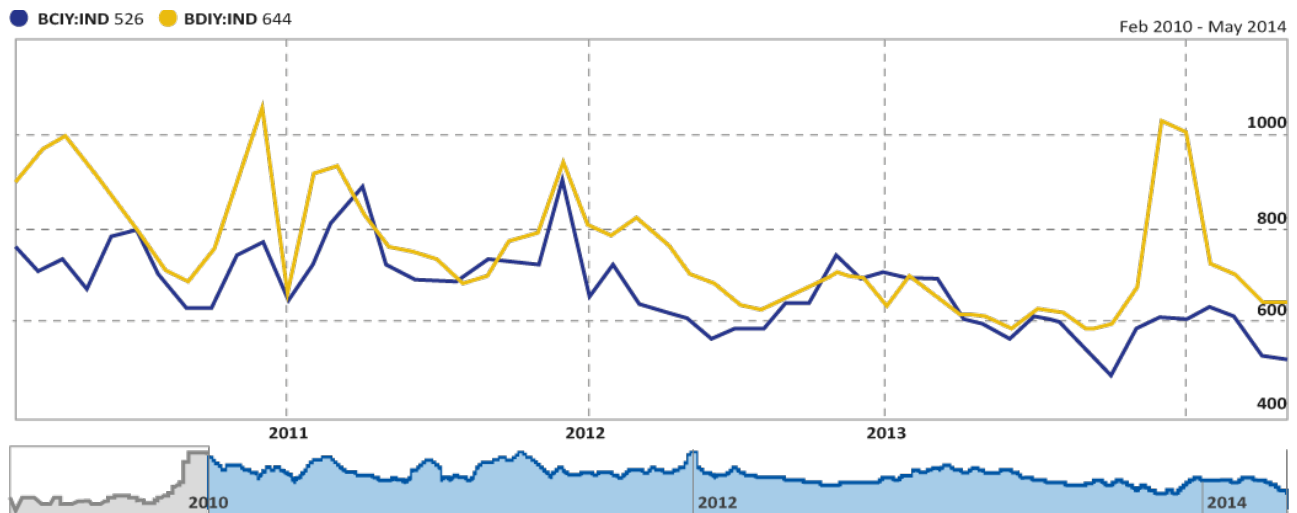
For Banchemo & Costa the drop in the demand for crude oil is only partially offset by imports from emerging economies like China and India; a positive factor could be the lengthening of the distance and of the sea lanes, such as West Africa to China, instead of the U.S.; in both segments, the crucial element to focus on continues to be the number of new vessels. Here is the order book in February:

Tanker Orderbook 07/02/2014 (Number of ships)

	2014 (deliv.)	2014	2015	2016	2017	2018	2019	Total on order
VLCC	2	32	21	22	4	0	0	79
Suezmax	1	31	15	7	0	0	0	53
Aframax	0	38	45	28	1	0	0	112
Panamax	1	11	5	0	0	0	0	16
Mr product	13	114	139	75	8	0	0	336
Handy Product	0	21	32	3	3	2	0	61
Total	18	247	257	135	16	2	0	657

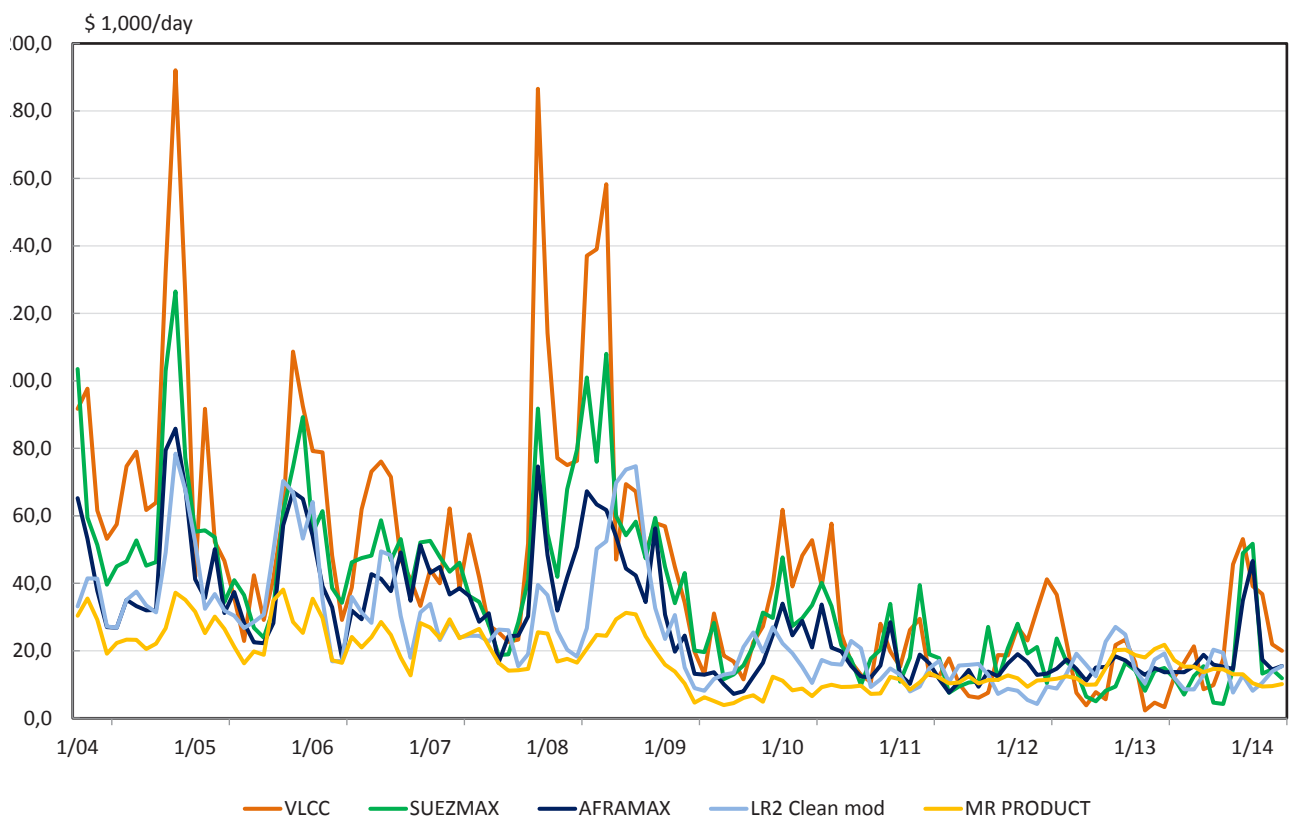
Source: BRS

These days the Baltic Dirty Index and the Baltic Clean index stand at 644 and 526, respectively.



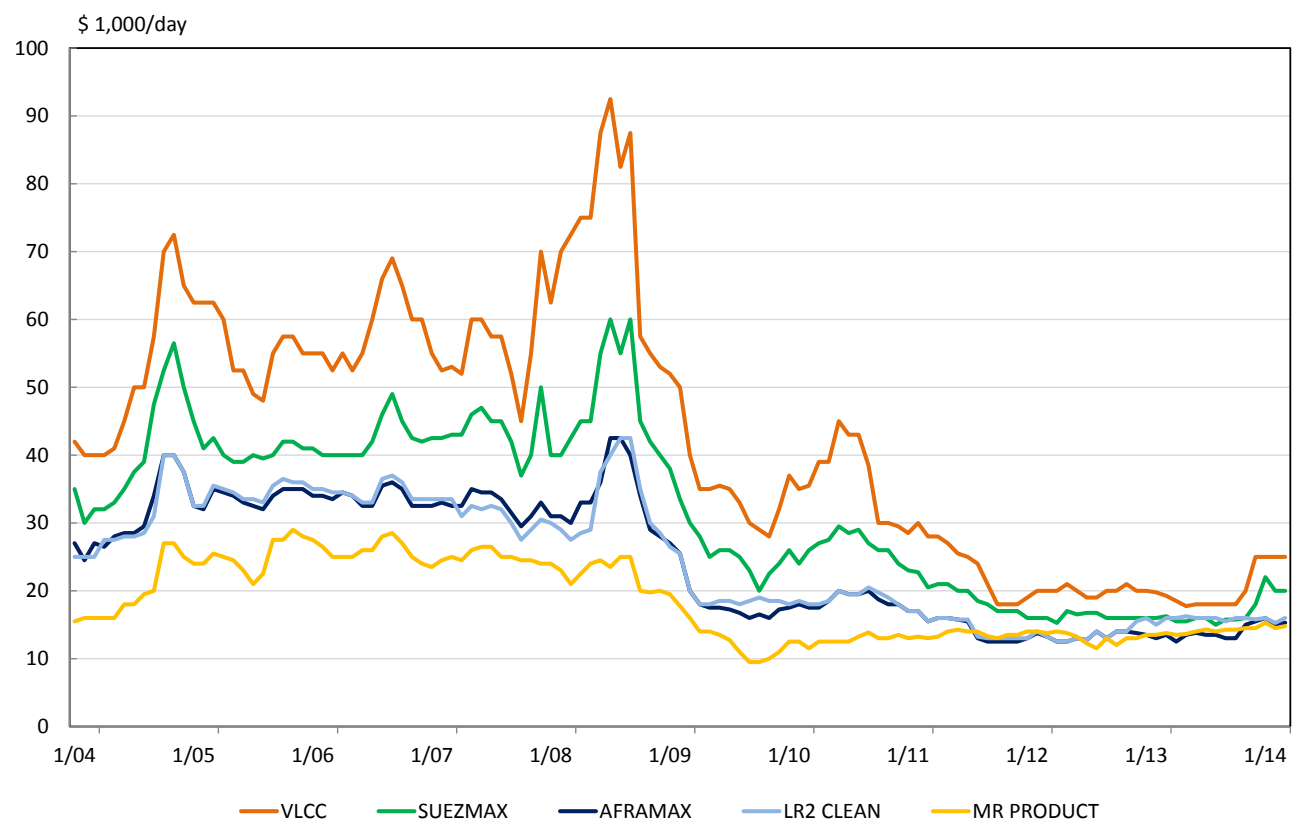
The following graphs show the trend of spot and time charter freight rates over the last decades:

Spot rates for tankers - monthly



Source: RS Platou

12 months t/c rates for tankers



Source: RS Platou



Container Ships Segment

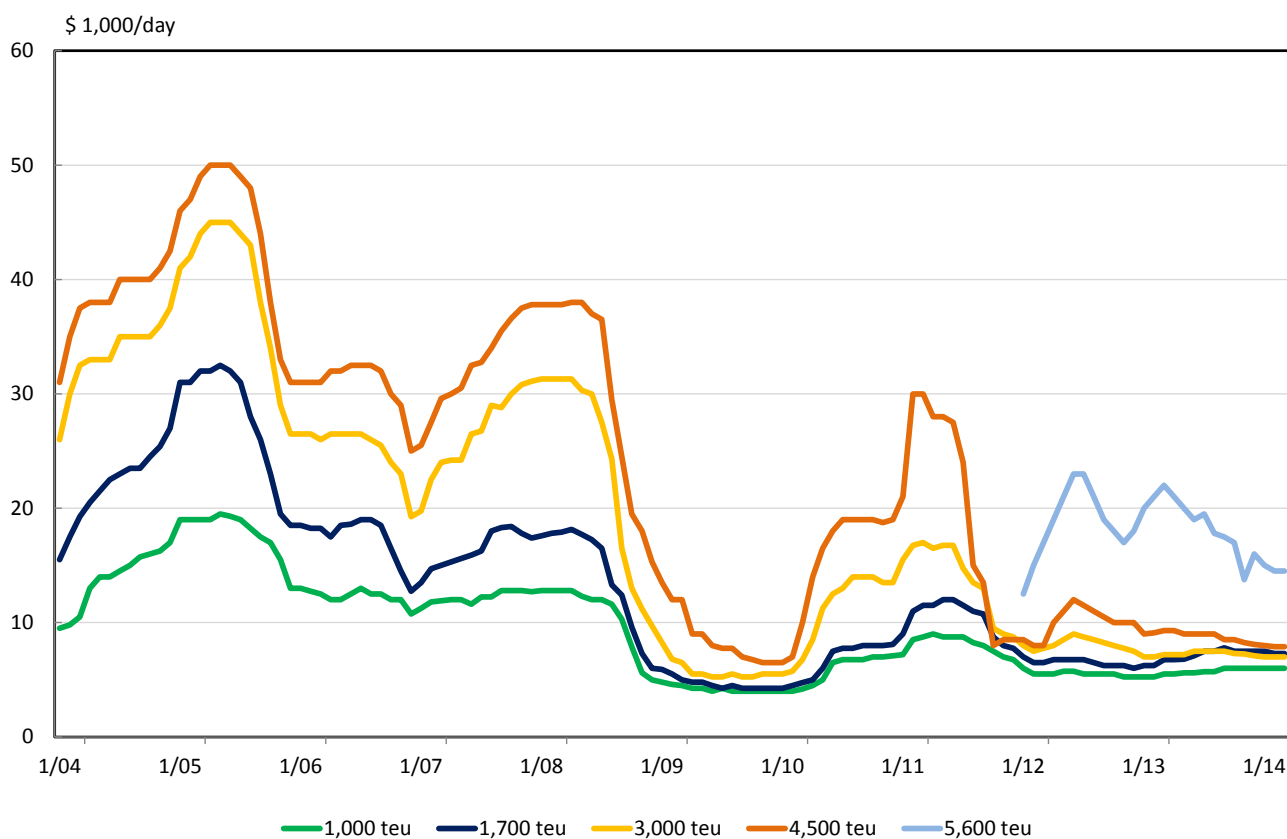
The container ships segment has recorded a constant freight rates downward trend for most of 2013 with a revival, only seen in the last two months of the year, due to an increase in the tonnage demand offset by a considerable oversupply. The remarks to make for smaller vessels are different; in fact this is the segment whose demand has kept strong whereas the fleet growth rate was slumping.

In 2013 the tonnage demand increased by 6%, while the net expansion of the fleet amounted to 6.6%: in fact, vessels for about 1.4 million TEUs have been operated (500,000 TEU less compared to the forecasts) while and 435,000 TEUs have been scrapped. 4.5% of the world fleet appeared unused at the end of 2013.

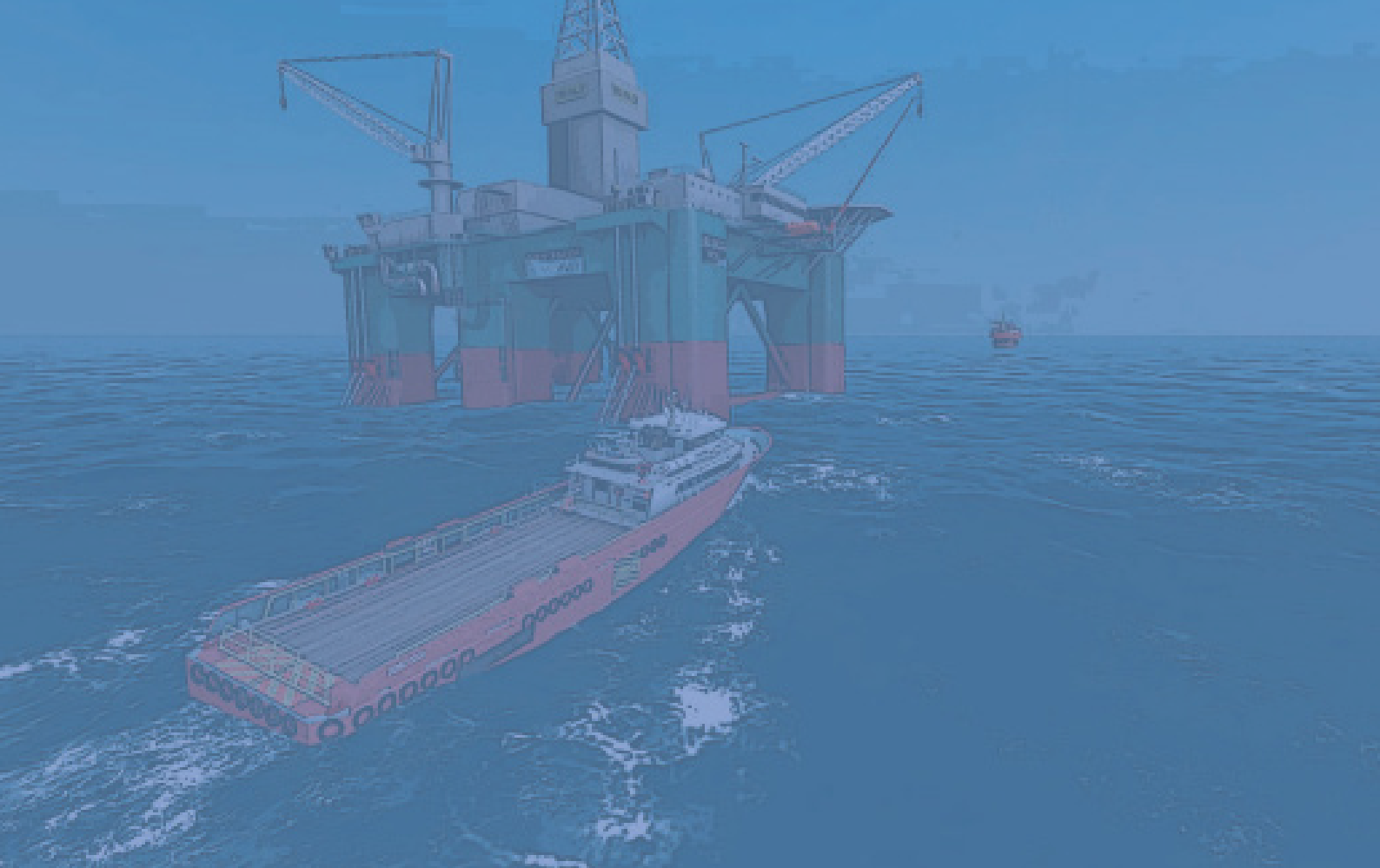
Forecasts for 2014 indicate an increase in the world trade of container s about 6-7%, and deliveries of new vessels of around 1.8 million TEUs, most of which are large in size, with a net increase in the fleet of about 5-6%.

The following graph shows the trend of charter freight rates over the last decades:

12 months t/c rates container ships



Source: RS Platou



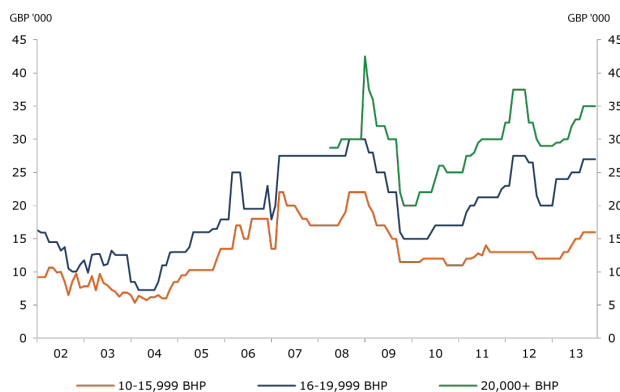
Offshore Segment

In 2013 the offshore segment (Anchor Handling Tugs and Platform Supply Vessels) showed an improvement in freight rates compared to 2012 that had seen a substantial increment of the fleet.

The Offshore Supply Vessel demand was supported by the intense offshore activity worldwide, while the price of oil was high and consequently assuring a good freight rate in the principal areas of extraction such as North Sea, Brazil, Gulf of Mexico, South East Asia and West Africa as shown by the graphs on the following page.

North Sea AHTS Fixtures per Week vs Spot Rate

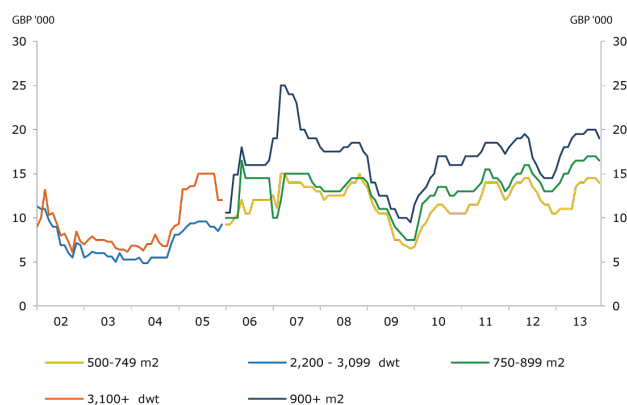
GBP Rates	FY Ave 2010	FY Ave 2011	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
AHTS 10-15,999 BHP	11,625	12,463	12,667	14,167	16,000	16,000
AHTS 10-15,999 BHP	16,083	20,250	24,208	24,917	27,000	27,000
AHTS 10-15,999 BHP	23,250	28,543	33,083	32,167	35,000	35,000



Source: RS Platou

North Sea PSV Average Term Fixture Rates

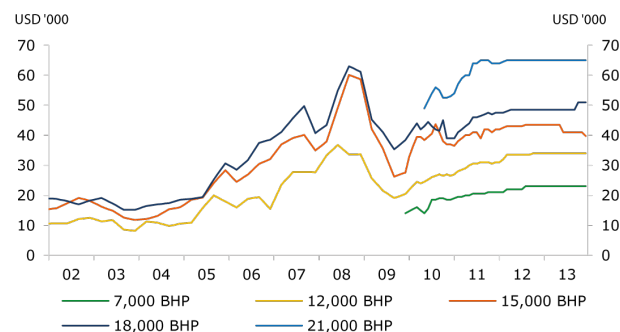
GBP Rates	FY Ave 2010	FY Ave 2011	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
PSV 500-749 m2	10,021	12,417	12,917	12,917	14,500	14,000
PSV 750-899 m2	12,008	13,875	14,375	15,875	17,000	16,500
PSV 900+ m2	14,917	17,563	17,025	18,750	20,000	19,000



Source: RS Platou

South America AHTS Average Term Fixture Rates

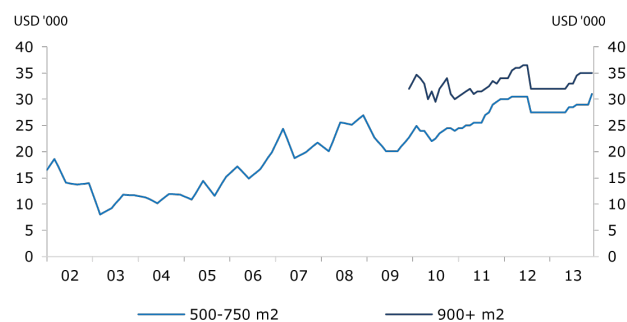
USD Rates	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
AHTS 7,000 BHP	22,250	23,000	23,000	23,000
AHTS 12,000 BHP	33,292	34,000	34,000	34,000
AHTS 15,000 BHP	43,083	41,938	41,000	39,750
AHTS 18,000 BHP	48,292	49,125	51,000	51,000
AHTS 21,000 BHP	64,875	65,000	65,000	65,000



Source: RS Platou

South America PSV Average Term Fixture Rates

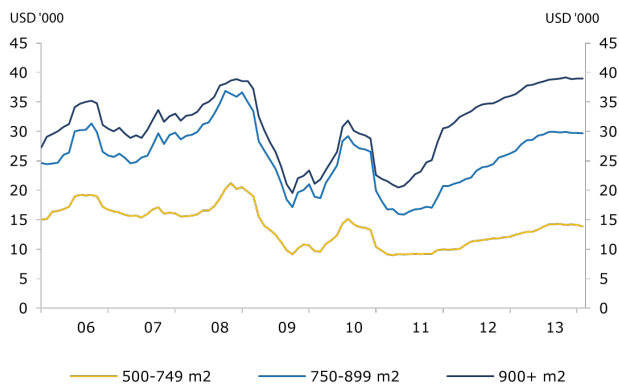
USD Rates	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
PSV 500-750 m2	29,167	28,458	29,500	31,000
PSV 900+ m2	34,042	33,375	35,000	35,000



Source: RS Platou

US Gulf PSV Average Term Fixture Rates

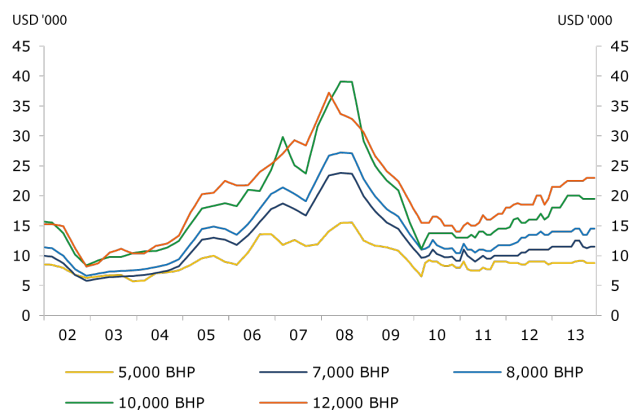
USD Rates	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
PSV 500-749 m2	11,411	13,740	14,100	13,900
PSV 750-899 m2	23,888	29,375	29,750	29,700
PSV 900+ m2	34,314	38,516	39,000	39,000



Source: RS Platou

SE Asia AHTS Average Term Fixture Rates

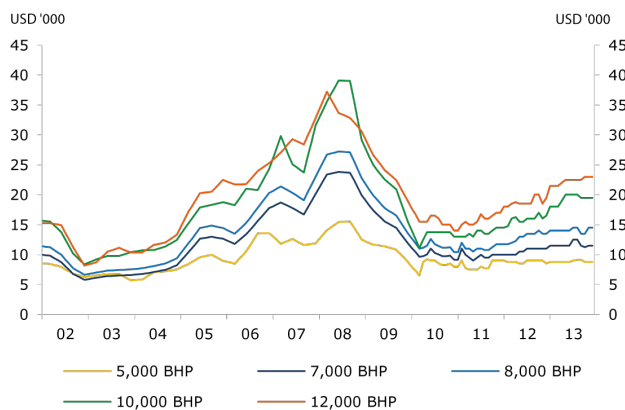
USD Rates	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
AHTS 5,000 BHP	8,813	8,813	8,750	8,750
AHTS 7,000 BHP	10,583	11,646	11,500	11,500
AHTS 8,000 BHP	12,938	14,083	14,500	14,500
AHTS 10,000 BHP	15,833	19,250	19,500	19,500
AHTS 12,000 BHP	18,771	22,333	23,000	23,000



Source: RS Platou

West Africa AHTS Average Term Fixture Rates

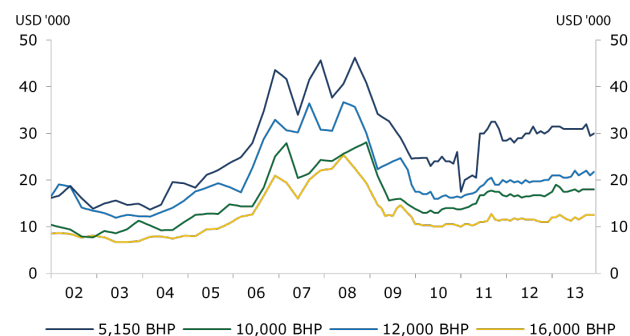
USD Rates	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
AHTS 5,150 BHP	11,375	12,021	12,500	12,500
AHTS 10,000 BHP	16,646	17,938	18,000	11,500
AHTS 12,000 BHP	19,729	21,167	21,000	21,750
AHTS 16,000 BHP	29,667	31,000	29,500	30,000



Source: RS Platou

West Africa PSV Average Term Fixture Rates

USD Rates	YTD Ave 2012	YTD Ave 2013	Nov 2013	Dec 2013
PSV 500-750 m2	25,125	23,167	23,000	25,000
PSV 900+ m2	-	32,167	32,000	33,000



Source: RS Platou

I The price levels reached by oil and a gradual erosion of the more accessible reserves justify even very costly investments in research and in the exploitation of deposits further away from the coast, within the range defined as “deep water” or “ultra deep water”, which is expected to grow strongly in the coming years.

Brazil is a region greatly expanding and yet still with enormous potential available for the coming years, despite the fact that its deposits have been exploited for many decades now.

As regards the Gulf of Mexico, the energy reform, approved at the end of the last year and which put an end to the oil monopoly which lasted 75 years, will allow private national and foreign companies to perform exploratory programs. In this regard, a significant increase of oil platforms in the next two years has been forecast.

The following graphs show the oil trends over the last five years with the deviation from the prices of the previous day.

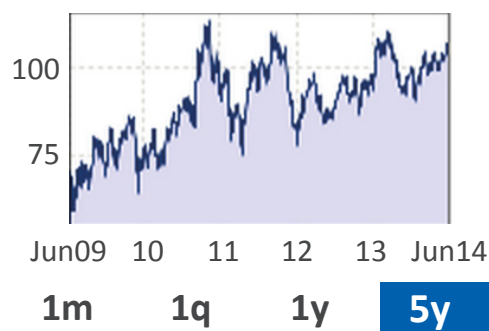
The two most common types of oil are WTI and Brent.

The former is extracted in the US, especially in Texas (from which its name derives; West Texas Intermediate), the latter comes from the North Sea.

WTI Crude Oil

\$ 105.97 ▼ **-0.39** **-0.37%**

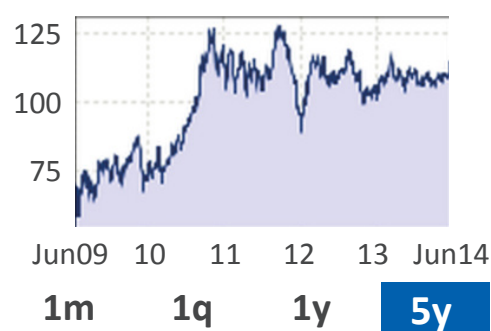
2014.06.18 end.of.day



Brent Crude Oil

\$ 114.26 ▲ **0.81** **-0.71%**

2014.06.18 end.of.day



In the first two months of 2014 the average freight rates for AHTS > 18,000 BHP amounted to £ 45,522 with the average spot freight rate of the last six months higher than the previous semester. During the same period the average spot freight rates for large PSV (> 800 m²) amounted to £16,485. The outlook for 2014 is positive for the entire OSV segment.

Up to the 1st March 2014 the overall fleet (AHTS and PSV) counted 5,112 units aside from the 645 units under construction, representing 18.28% of the operating fleet. For the years 2014-2015 an expansion of 3.4% and 1.3% is expected for AHTS while for PSV it is 8.1% and 7.7% respectively. The outlook for the tonnage demand is positive, especially for the large AHTS and for the medium term for large PSV.

	End - 13	Mar - 13	+ / - this year
Spot Charter Rtes (£ /day)			
AHTS 13-18k Bhp	£ 32,272	£ 23,478	-27.3%
PSV > 800 sq.m.	£ 10,487	£ 20,409	94.6%
1 Yr TC Rates (\$ / day)			
AHTS Large (200t BP)	\$ 35,000	\$ 35,500	1.4%
PSV Large (4,000 dwt)	\$ 29,500	\$ 29,500	1.7%

Sources: Dry Ships Inc. - Platou - Burke & Novi - Ship2Shore - BRS - Genoa Sea Tankers – VSL Venice Shipping & Logistics - Banchemo & Costa – Clarkson Research Services

maritime
economy