

**The shipping
and charter market**
for container and
tanker ships

as of: December 2011

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The global economy

For three years the global economy has been in a financial and economic crisis. The economic and growth policy measures of the industrial- and emerging nations to stabilize the world economy first lead to a fast recovery so that the global economic production reached the pre-crisis level in the course of the year 2010 and the world trade recovered. The sharp increase in oil price resulting from the political upheavals in the Arabian region, the earthquake in Japan and especially the escalation of the debt crisis in the Euro-zone paralysed the world economic situation again in spring 2011.

According to the latest publications of the International Monetary Fund (IMF) the global economy will grow less than initially forecasted: The fund corrected his expectations from June for 2011 of 4.3 % and for 2012 of 4.5 %, both to 4.0 %. The growth forecast for the world trade was adjusted accordingly and is supposed to be just at 7.5 % (-0.7 %) in 2011 respectively 5.8 % (-0.9 %) in 2012 (*Source: IMF Database, September 2011*).

Considering the unsolved sovereign debt problems in the Euro-zone in 2011 the IMF forecasts an economic growth for Germany of 2.7 % which are 0.7 % percentage points less than initially expected. They count with a clear slowdown of the economic growth in 2012. In its autumn expert report the IMF prognosticates a growth of just 1.3 % for 2012. At the same time the report refers to significant uncertainty of this forecast, since at an acute increase of the Euro-crisis and spreading on the world economy an economic recession is not to be excluded. In its annual report 2011/2012 the expert advisory board (Sachverständigenrat) on the other hand assumes an economic growth in Germany in 2012 of just 0.9 % (*Source: IMF Database, September 2011; Jahresgutachten 2011/2012 Sachverständigenrat, November 2011*).

The forecast for Europe shows a continuing growth slowdown. In 2010 the economic growth was still at 1.8 % and is calculated at 1.6 % in 2011. For 2012 the IMF-outlook states only 1.1 % expected growth. Causally for this is the continuing debt crisis in the Euro-zone and the uncertainty about the future as well as the resulting general market uncertainty (*Source: IMF Database, September 2011*).

The IMF also corrected their expectations for the growth forecast for the USA significantly downwards in comparison to the June-forecast (2011 by 1.0 percentage points to 1.5 % and 2012 by 0.9 percentage points to 1.8 %). This is attributable to the fact that in the USA the growth was mainly borne by the investments and exports, the private consumption was considerably weaker than expected – consumer spending constitutes round about two thirds of the economic performance of the USA – and the rate of unemployment has been constant at over 9 % since the end of the recession two years ago (*Source: IMF Database, September 2011*).

In view of the current economic weakness of the industrial nations, the emerging nations more and more appear to be the most important driver of the global economy, simply because of their steady economic development. After a short crisis-related slowdown in growth two years ago, the average growth of these countries was significantly higher than the growth of the industrial nations and stated more than half of the growth of the world production. In particular China and India provide vital impetus whereas Brazil and the rest of Latin-America became more important as well (see overview on page 4).

The growth of the Chinese and Indian economy reported a slight downturn but is still estimated clearly positive by the experts of the IMF. They expect this year's economic growth in China to be at approx. 9.5 % and in India at 7.8 %. The reason for this is the increasing investment expenditure because of the high capacity utilization and necessary infrastructural measures, the continuing domestic development of demand as well as the low rate of unemployment. On top of that productivity gains and increasing wage rates support the private consumption. The IMF forecasts an economic growth of 9 % for China and 7.5 % for India for 2012 (*Source: IMF Database, September 2011*).

Following the earthquake in March 2011, the Japanese economy was hit hard but is now starting to recover. The reconstruction supports the economy and the global chains of production have been mostly restored. Mainly the export and the private consumption contributed to the recovery. The IMF expects a minus growth of 0.5 % for 2011 but a growth of 2.3 % is prognosticated for 2012. A risk factor for the economic recovery and the development of the export is the strength of the Japanese Yen (*Source: IMF Database, September 2011*).

Overview of development

Economic growth (gross domestic product)	2009	2010	2011*	2012*
USA	- 3.5 %	+ 3.0 %	+ 1.5 %	+ 1.8 %
China	+ 9.2 %	+ 10.3 %	+ 9.5 %	+ 9.0 %
Japan	- 6.3 %	+ 4.0 %	- 0.5 %	+ 2.3 %
India	+ 6.8 %	+ 10.1 %	+ 7.8 %	+ 7.5 %
Russia	- 7.8 %	+ 4.0 %	+ 4.3 %	+ 4.1 %
Brazil	- 0.6 %	+ 7.5 %	+ 3.8 %	+ 3.6 %
European Union	- 4.3 %	+ 1.8 %	+ 1.6 %	+ 1.1 %
Germany	- 5.1 %	+ 3.6 %	+ 2.7 %	+ 1.3 %
Latin America	- 1.7 %	+ 6.1 %	+ 4.5 %	+ 4.0 %
World total	- 0.7 %	+ 5.1 %	+ 4.0 %	+ 4.0 %
World trade	- 10.7 %	+ 12.8 %	+ 7.5 %	+ 5.8 %

* Forecast

Source: IMF Database, World Economic Outlook, September 2011

The global container ship fleet

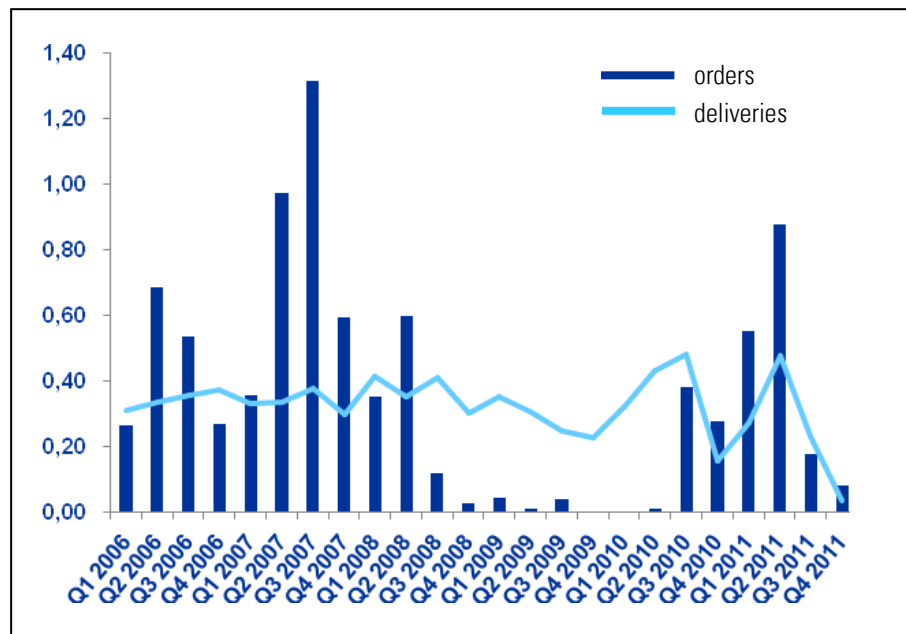
As a result of the global financial crisis hardly any notable newbuilding orders for container ships were placed since the second half of 2008 for the following two years. In 2010 this changed with the recovery of the global economy and the resulting positive developments in container shipping. In 2011 nearly 200 container vessels with a total capacity of round about 1.27 million TEU will be delivered – 47 vessels of them have a capacity of more than 10,000 TEU and cover 47 % of the whole capacities being delivered in 2011 (*Source: ISL, October 2011 and Alphaliner, November 2011*).

In November 2011 the fleet of container vessels consisted of 4,932 units with a total capacity of round about 15.3 million TEU. About 52 % of the fleet are owned by tramp shipping companies and is therefore available for liner shipping companies as charter tonnage (*Source: ISL, October 2011 and Alphaliner, November 2011*).

According to the order book orders exist for a total of 115 newbuildings for the segment of the 4,000 TEU class with a total capacity of 525,329 TEU. Out of these orders, eleven vessels meet today's panmax-criteria, 70 ships are the so-called wide-beam-containerships and for 34 orders, the beam is not yet known. In comparison to existing ships with a comparable size, the so-called wide-beam-containerships have a bigger beam and can carry more containers. Their main advantage is that due to their modified design they have a shallower draught and therefore consume less bunker at a comparable speed and the number of ports that they can call at increases since a lot of ports have restrictions regarding the draught of vessels. At the moment these wide-beam-containerships of the panmax-class cannot yet pass through the Panama canal. In 2014 this will change due to its expansion. Whether the announced deliveries will take place remains to be seen (*Source: Alphaliner, September 2011*).

The following graph gives an overview of the orders placed and deliveries per quarter in million TEU.

Development of container fleet



Source: Clarkson, October 2011

Despite the current developments and threatening overcapacities there still is a small rise of scrapping for container vessels currently even with a declining trend. In 2010 ships with a capacity of about 131,000 TEU in total were scrapped. Clarkson alerts a scrapping capacity of only 46,500 TEU for 2011 and only 38,600 TEU in 2012 (*Source: Clarkson, November 2011*).

The charter market for container ships

In 2011 the charter market was characterised by extreme ups and downs.

In the first quarter of 2011 the charter and freight rates developed in different directions. Whereas the liner shipping companies had to struggle with falling freight rates and increasing bunkering prices, the charter rates initially continued their upward trend because of the good demand. The tramp shipping companies were able to profit from this in new transactions in all size segments, especially in the case of larger ships as from 3,500 TEU. The short peak was reached in mid-April. After that the demand declined considerably.

Nevertheless the charter rates maintained at this level till the beginning of June and then decreased severely within a short period of time.

In 2011 a lot of large newbuildings (until the end of the year 47 vessels of 10,000 TEU and bigger) will be delivered which caused a so-called "cascading down"- effect that however set in after a certain time. The new, big vessels are mainly employed on the main route Asia-Europe and suppress the smaller vessels that were deployed on that route before. Because of the extreme increase in capacity the freight rates came under increasing pressure which in turn led small liner companies like PIL and Wan Hai to close down their Asia-Europe services. The vacant tonnage was offered in the charter market and started in competition to the tramp owner vessels.

Added to this the cargo volumes developed weaker than expected. This is why the Asia-Europe service will finalise 2011 with a plus of only 5 %. The volumes in the transpacific were even negative over a longer period of time. The uncertainty of the global economy and the financial crisis in Europe shocked the liner companies' trust and led to a negative chartering policy. New or additional tonnage was only taken up in single cases and led to a fast increase of available tonnage and thus to an imbalance in the market with the consequence of falling charter rates. Because of the good availability it was the liners' choice and so they preferred modern ships with low consumption both with new contracts and replacements of older tonnage. It became harder for old tonnage to find employment.

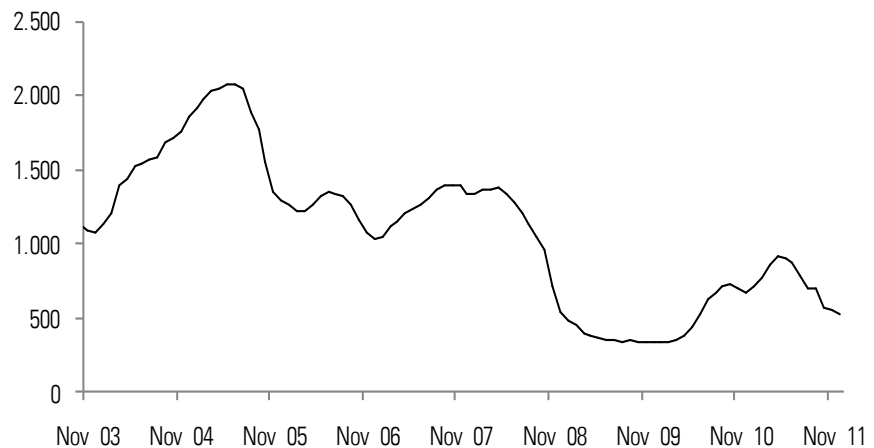
The world's largest container shipping line, Maersk Line, initiated a destructive competition launching "Daily Maersk" (daily cut-offs and guaranteed transit times in six Europe-Asia services with 70 vessels). Because of the "Daily Maersk" service new vessels could interlope to the charter market since other container lines might not be able to stand the price competition and might have to deactivate their services.

The ruinous price competition between the three largest liner shipping companies in the Asia-Europe trade led to the fact that liners like MISC, Malaysia's biggest liner shipping company, will go out of business and that others like CSAV (Compañía Sud Americana de Vapores), Chile, ZIM, Israel, China Shipping or NYK (Nippon Yusen Kaisha), Japan are thinking about a venture. In the beginning of December, MSC (Mediterranean Shipping Company), Switzerland and CMA/CGM, France announced their cooperation which will start in March 2012 for at least two years and includes the Asia-Northern Europe, Asia-Southern Africa and South America trades. Together, the two liner shipping companies share a capacity of more than 3.9 million TEU which makes them bigger than Maersk Line who has a capacity of 2.6 million TEU.

Between June and the beginning of November the unemployed fleet rose from 60 to 185 vessels with an increasing trend. Proportionally more tramp ships are affected than in the crisis in 2009, since there were only few long-term charters concluded since 2010.

The following data from the Howe Robinson Containership Charter Hire Index taken together reflect the development of rates for container ships up to and including the panmax size class. The Index started the year 2011 at 695 points. Since then it went up gradually whereby it reached its peak at the end of March at 916 points. In the following 10 weeks it remained stable and varied between 900 and 910 points. Since 8 June 2011 (910 points) the Index fell steadily and reached only 514 points on 7 December, which complies a minus of 44 %. This number of points is far off the 10-years-average of 1,018 points (*Source: Howe Robinson, December 2011*).

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



Source: Howe Robinson, Containership Weekly update, December 2011

The average length of the agreed charter periods in 2010 over-all size classes was 207 days. This figure could be slightly exceeded in the first half of 2011 (221 days). However, the length of periods has been sinking since then so that the number will probably be 10 % up to 20 % less than the average of 2010.

The development of charter rates

As Hanseatic Lloyd Chartering is not only responsible for chartering out the Hanseatic Lloyd Panmax container ships but is also exclusively responsible for chartering out the Hansa Mare fleet, this charter market report takes a closer look at the development of the ships starting from the Panmax class and going down to the 1,000 TEU class.

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

From February 2011, the demand for panmax tonnage initially rose. Since the supply was limited, there were clear increases in rates, starting at USD 24,000 gross per day in February to more than USD 27,000 gross per day in March. The average periods rose from twelve months to two-year, sometimes three-year periods. From the end of March the upward trend stopped. The demand of the liner shipping companies was reduced due to overcapacities in the Asia-Europe services and surplus tonnage was offered additionally to the tramp vessels in the charter market. Primarily this led to only slightly falling charter rates. At the beginning of June occasionally rates of approx. USD 25,000 gross per day with a period of twelve months could be achieved.

In the second half of the year more and more ships came into the market. While CSAV (Compañía Sud Americana de Vapores), Chile, practiced an aggressive charter-expansion-policy – and with that made a strong contribution to the recovery of the charter market in 2010 – they did not only reduce this expansion drastically in 2011, but also closed down several services. This affected the container vessels disproportionately since CSAV took up several ships of this size in 2010 and tried to repel these to the charter market. Other liners also closed down services of this size segment and offered their redundant panmax container vessels in the market.

Due to the resulting oversupply the charter rates declined in the further course of the year. Despite the tramp shipping companies' strong resistance the rates fell below the 20,000 US-Dollar mark already in the beginning of August. The awaited stronger demand of the liners during the "peak season" in July/August stayed away and the charter rates fell down drastically. The market participants undersold each other for the little existing business. After only a short time a charter level of USD 12,000 per day was reached and fell to USD 8,000 per day in September. The temporarily lowest point was at USD 7,500 per day by the end of October. At the same time the charter periods decreased by six to twelve months, ships were often even chartered in for round trips for one to two months to cover the short term demand.

Currently 709 ships of the size class from 3,900 to 5,100 TEU are in operation worldwide, of which 3 ships are not chartered out at present and another 32 vessels are without employment. Of 115 ordered newbuildings which will be delivered by the year 2014, 32 are without a charter at the moment (*Sources: Alphaliner; HLL Database, November 2011*).

The 2,400 to 2,900 TEU class (Sub Panmax class)

In this ship segment the increase in rates starting in the summer 2010 lasted until fall 2010 and continued from February 2011 on. Whereas, rates of about USD 11,750 per day were achieved in January and rose until the end of the first quarter up to about USD 15,000 per day and stayed on this level until the beginning of July. The average rates were at approx. USD 14,500 per day in the first half of the year and the average charter period was twelve months.

From July the charter rates fell drastically, albeit not as fast as larger vessels with over 4,000 TEU. However, the rates fell by approx. 30 % within three months. At the beginning of October the rates fell below the 10,000 USD mark and already at the beginning of November the market was at only USD 8,000 per day. Also the periods got shorter to one up to three months and because of the oversupply of tonnage the liner shipping companies acted only at short notice. Most of the contracts were extensions, new contracts became less. Primarily modern ships with little consumption were asked for. Overall the demand was significantly below a level which could have absorbed the high supply in the third and fourth quarter.

The number of layed-up vessels in this segment increased clearly, especially older ships were included. Furthermore the differences in rates in the 3,000 TEU segment between modern, economical and older tonnage are particularly pronounced because of the high bunkering prices.

The number of ships in service in the size class 2,400 up to 2,999 TEU is currently 555, of which 17 ships are not chartered out and another 27 ships are at present without employment. Of 28 newbuildings scheduled for delivery by the year 2014, 16 ships are still without charters to date (*Sources: Alphaliner; HLL Database, November 2011*).

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

The first quarter in 2011 followed the positive developments of 2010, the rates could be increased and reached approx. USD 8,000 per day. With this the rise in rates of 15 % was moderate in comparison to larger ships. The charter market was stable for the 1,000 TEU vessels between March and July 2011. Supply and demand were relatively balanced. The charterers, however, often preferred young and modern tonnage with low consumption and paid higher rates in comparison to older ships. The average periods were six months, sometimes twelve months for modern vessels.

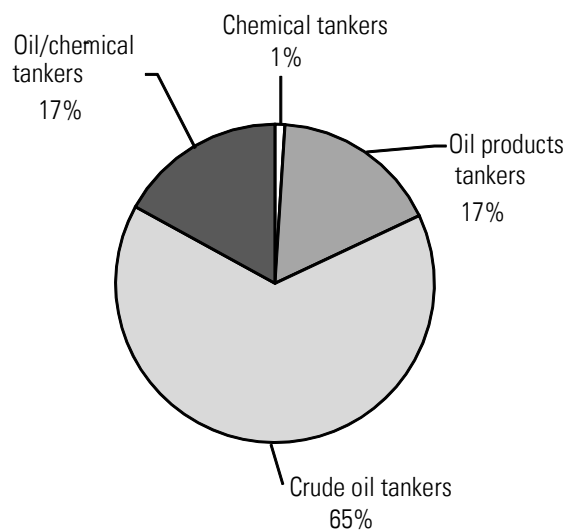
From the end of July 2011, the picture was clouded. The liners' uncertainty and the drastic reductions in rates for bigger vessels led to a more careful agitation of feeder operators also in the 1,000 TEU segment. The demand decreased and was made in short notice. The daily charter rates initially were reduced to USD 7,000 per day at the end of August and fell to USD 6,200 per day at the beginning of October. In the course of the last quarter the demand was as strongly reduced so that it was outnumbered by the supply of available tonnage. Especially for older ships it got harder to find and ensure employment. Mainly short periods were contracted (sometimes only for a few weeks) and the rates continued to decline to below USD 6,000 per day.

The number of ships in service in the size class 830 up to 1,199 TEU is currently 736, of which 44 are not chartered out and another 65 are at present without employment. Of 62 new-buildings due for delivery by the year 2014, to date 30 ships are still without charters (Sources: Alphaliner; HLL Database, November 2011).

The global tanker fleet

The capacity-building of the oil and oil-products tanker fleet still continues due to the delivery of newbuildings and only minor scrapping of old tonnage. According to Clarkson Research the number of tankers worldwide > 10,000 tdw was increased by 188 to 5,629 units with a total carrying capacity of 470 million tdw during the last twelve months. The fleet's average carrying capacity therefore is 83,700 tdw (Source: Clarkson Research, November 2011).

In terms of deadweight tonnage (tdw) the tanker fleet breaks down into the major types as follows:



Source: Clarksons Shipping Intelligence Network, November 2011

With many ships being launched and a high rate of scrapping, the age of the tanker fleet in service is decreasing further in comparison with the prior year. At the end of the third quarter of 2011, the age structure of the tanker market is as follows: 9 % of all tankers in operation worldwide are older than 20 years. In the segment of the Small-Handy-Size tankers (15,000 up to 20,000 tdw) ships of this age have a share of 14 % and in the segment of the Panmax tankers a share of only 5 %. With a share of 80 % the ships in this segment are 9 years old or even younger. The average age of the whole tanker fleet is 8.5 years (Source: Clarkson Oil & Tanker Trades Outlook, November 2011).

Of 571 tankers in the Small-Handy-Size-class, 78 ships are still operating as single-hull tankers which are hardly used anymore by the oil majors and are thus no longer available to this market. In addition, the fleet of the Small-Handy-Size tankers still includes 14 double-hull tankers that are more than 20 years old. Of 410 tankers in the Panmax class, 15 ships are still operating as single-hull tankers. Furthermore this fleet still includes eleven double-hull tankers that are more than 20 years old. Economic reasons as well as the IMO regulations result in the scrapping potential shown in the following table.

1		VLCC & ULCC	Suezmax	Aframax	Panmax	Handy	Small-Handy
2	Deadweight tonnage in tdw	> 200,000	120,000-200,000	80,000-120,000	60,000-80,000	30,000-60,000	15,000-20,000
3	Total number of tankers	569	442	906	410	1,836	571
4	- of which with double hull	554	432	880	395	1,724	493
5	- of which single-hull tankers	15	10	26	15	112	78
6	- of which with double hull, older than 20 years	1	15	30	11	82	14
7	Scrapping potential <small>(ratio \sum from lines 5+6 to line 3)</small>	3 %	6 %	6 %	6 %	11 %	16 %
8	Orderbook	142	122	99	55	221	82
9	Replacements <small>(ratio line 8 to \sum from lines 5+6)</small>	888 %	488%	177 %	211 %	114 %	89 %
10	Forecast class growth until 2014	22 %	22 %	5 %	7 %	1 %	-2 %

Source: Clarkson Research, November 2011

The order book for tankers shows that newbuilding orders exist for all segments.

In the field of Panmax tankers, the number of new orders is not significant and, taking account of the above-mentioned scrapping potential, predicted growth in this class works out to 7 % until the end of 2014, which means approximately 2.3 % p.a.

In the field of the Small-Handy-Size tankers (15,000 up to 20,000 tdw.) the number of new orders is also moderate and, taking account of the above-mentioned scrapping potential, predicted growth in this class until 2014 is even negative at -2 %. In the Small-Handy-Size segment 15 single-hull tankers and two double-hull tankers, that were more than 20 years old, were scrapped only in the past 12 months. After a full recovery of the tanker markets and a realisation of the scrapping potential, the employment opportunities for this segment may be seen as good.

The charter market for tankers

For a short while the charter rates in the tanker market could improve in the first quarter of 2011. The outlooks of a recovering global economy ensured increasing employment. Additionally, the early onset of winter in Northern Europe triggered higher demand for fuel oil and thus the additional need for transport.

Unfortunately, the positive mood in the market did not last long, but was slowed down strongly because of the debt crisis in Europe and the USA for instance. Since the second quarter of 2011 a further rate decline in tanker shipping is listed.

The consumption of mineral oil and products in 2011 is stated by the experts of the International Energy Agency (IEA) to be 89.2 million barrels per day (bpd) and thus some 0.2 million bpd lower than it was still predicted for this period in April 2011. The experts expect a slight rise in consumption in the year 2012 and are forecasting requirements of approx. 90.5 million bpd.

The gap between available tonnage and demand for transport for crude oil and oil products is currently growing greater. Worldwide, the little increase in demand for these liquid goods, the delivery of already ordered new tonnage, the small number of scrapping of old tonnage and the existing single-hull tanker fleet including 400 vessels of all size classes worldwide are a burden for the tanker market and do not allow a balance between supply and demand.

The development of charter rates for Panmax tankers

In the first months of 2011 the charter market was characterised by strong fluctuations. From January to May, it was initially possible to achieve charter rates of USD 15,000 per day in comparison to the low results in February of USD 10,000 per day. The higher winter demand for mineral oil products led to an increase of charter rates in April to USD 17,500 per day as well as to rates of approximately USD 14,000 per day in May.

As a result of the crisis in Lybia the oil export in this country collapsed from March and came to a complete standstill from July to September. The former integrated tonnage led to additional transport capacities on the tanker markets. The mineral oil export from Lybia has been starting since October and could already be increased from former 1.54 million bpd. to 0.75 million bpd. until November. This development nearly led to normalisation and increased demand for tanker tonnage in this trade. From June until October it should be noted that in the Panmax tanker segment only charter rates between USD 6,900 and USD 8,800 per day could be earned and in November earnings of approximately USD 10,000 per day could be reached.

The development of charter rates for Small-Handy-Size tankers

In the market of the Small-Handy-Size tankers slight increases in transport volumes of liquid cargoes met a well-established tanker fleet. Under these conditions the charter rates could not develop in this tanker segment. This leads to the fact that the charter rates of the Small-Handy-Size tankers are still under a lot of pressure.

In the first quarter of 2011 the Small-Handy-Size tankers initially reached higher charter rates on the spot market in comparison to the fourth quarter of 2010. The average charter revenues were at approximately USD 10,000 per day. Starting in the second quarter of the year a decreasing demand stressed the tanker market and led to falling charter rates of lower than USD 8,400 per day in June 2011. In the summer months July to September the demand strongly decreased again and the charter rates fell to up to USD 5,200 per day. The charter rates in the Small-Handy-Size tanker spot market have recovered slightly since then and were at approximately USD 8,200 per day in October and November.

Prospects

The great uncertainty which currently predominates on the financial markets again, underlines how instable the global economy still is. In the first half of 2011 the surge in oil prices, the political turmoil in the Arabian region, the earthquake in Japan and the escalation of the debt crisis in the Euro-zone firstly influenced the positive development of the world's economic situation. Added to this was the temporarily threatening illiquidity of the USA. In particular, the intensification of the debt problem of a lot of industrial nations still cause insecurities on the global markets.

In the wake of current developments on the world market, in particular the shipping markets, international shipping has to face great challenges again. Because after just a short period of recovery, the ongoing global financial crisis and the resulting uncertainty regarding the progress of the global economy and world trade put our industry under pressure.

The container segment is burdened by a disproportionate expansion of the capacities in the upper size classes as well as the ongoing predatory competition between the liner shipping companies in the freight and charter market.

Therefore, the current developments in the container market, however, do not result from the market conditions in the first place, but from the irrational behaviour of some market participants. The markets still have general conditions which are positive. Even after the current corrections, the expected growth rates of the global economic and the world trade still remain significantly higher than the long-term average level. This is why one would hope that the ruinous predatory competition will be stopped fast. The earlier this is going to happen, the faster the markets are going to recover.

Since shipping is a cyclical industry, the tanker markets will recover as well. In October 2011, the International Energy Agency (IEA) reports that the oil consumption will increase stronger than expected despite the increasing oil prices in the long-term: In their newest energy report, the US-authority Energy Information Administration (EIA) they expect an increase in consumption to 112.2 million barrel per day by 2035 (2011: 89.2 million barrel per day). With a recovering global economy the demand for chemicals will also pick up again. In the past, the transport of chemicals by sea increased by approximately 4.3 % p.a. With a recovering global economy, analysts expect it to increase to up to 7.6 % by 2013.