



Danish
Ship Finance

Shipping Market Outlook

Forum for Shipping
Economy and Strategy

February 22, 2007



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Agenda

Dry Bulk & China

Container

Tankers

Shipyards

February 22, 2007



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Additional information

Read our semi-annual market report Shipping Market Review at www.shipfinance.dk.

This presentation is available for download at www.shipfinance.dk.

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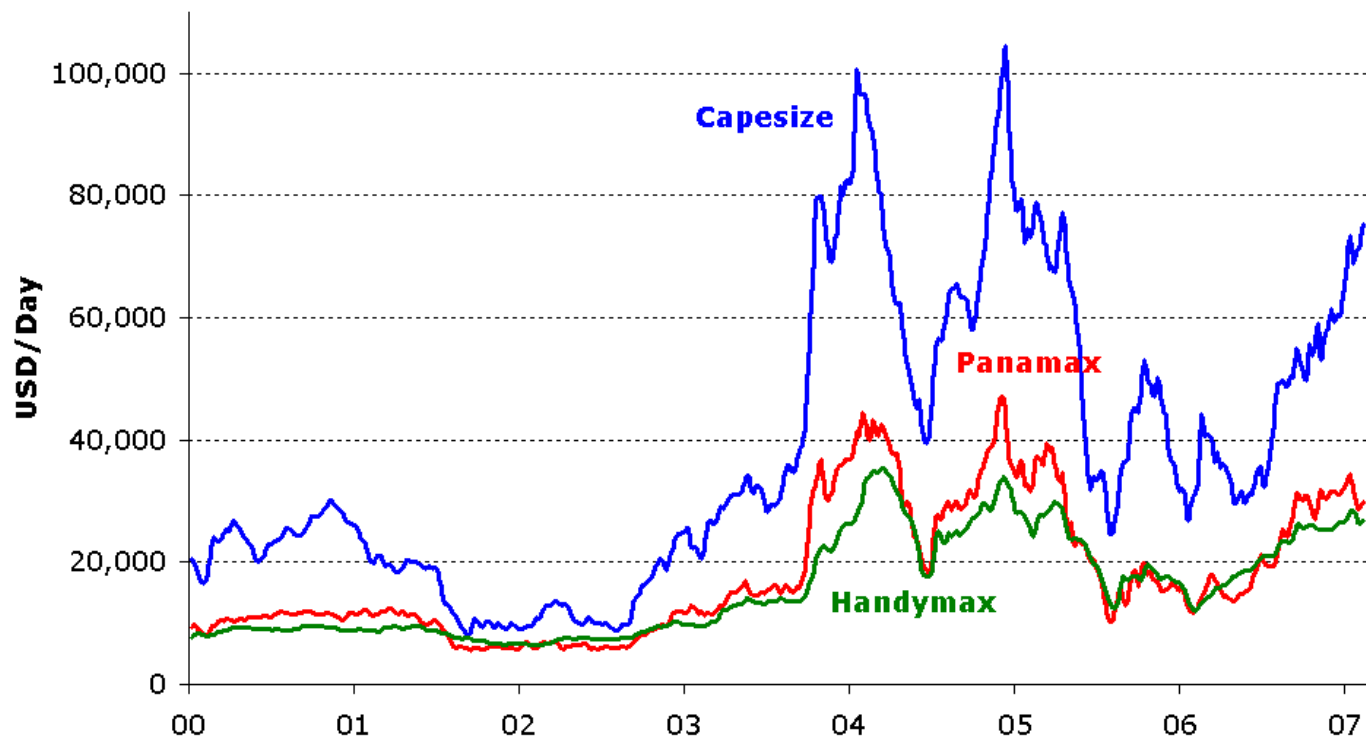
Shipyards

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Dry bulk rates in clear turnaround – how much further?

Dry Bulk Spot Earnings



Source: Clarksons



Short term dry bulk ship outlook

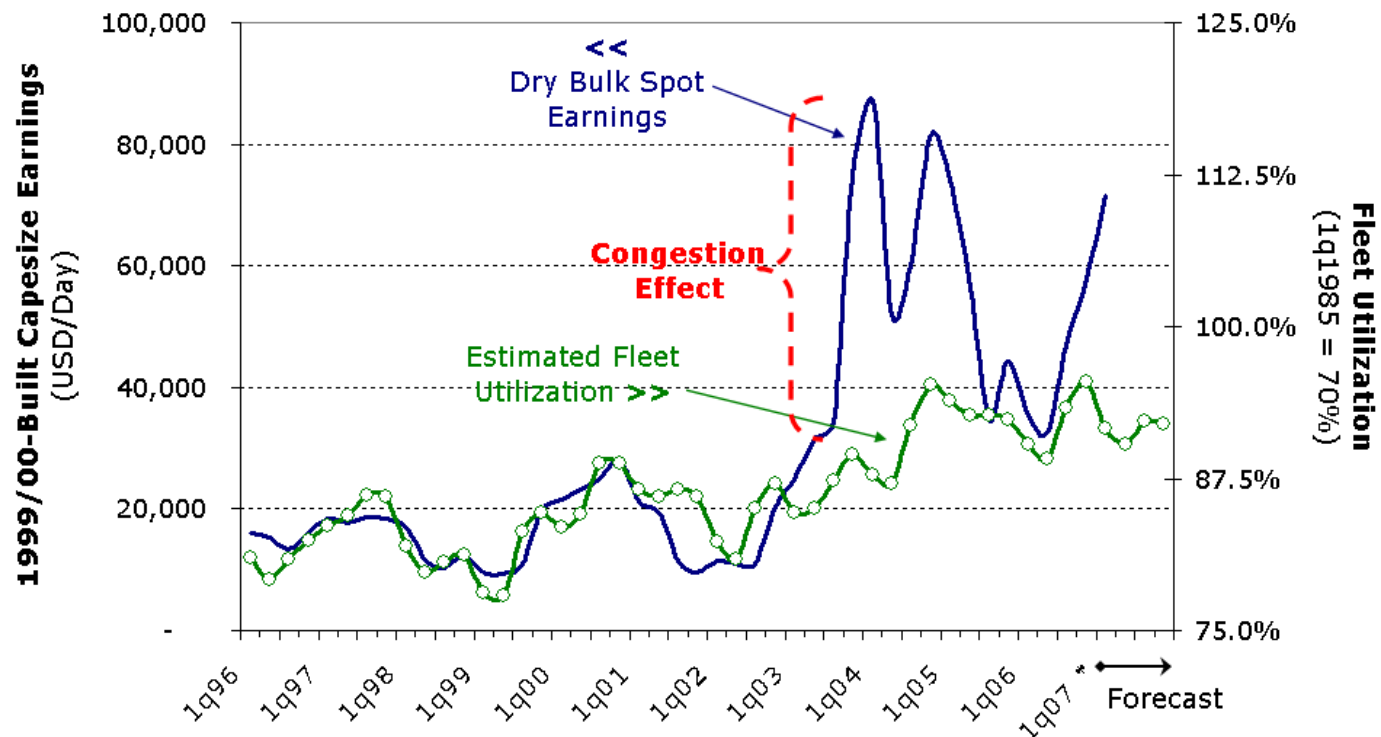
Theme 1: port congestion

Theme 2: China's iron ore price negotiations



High demand and port congestion

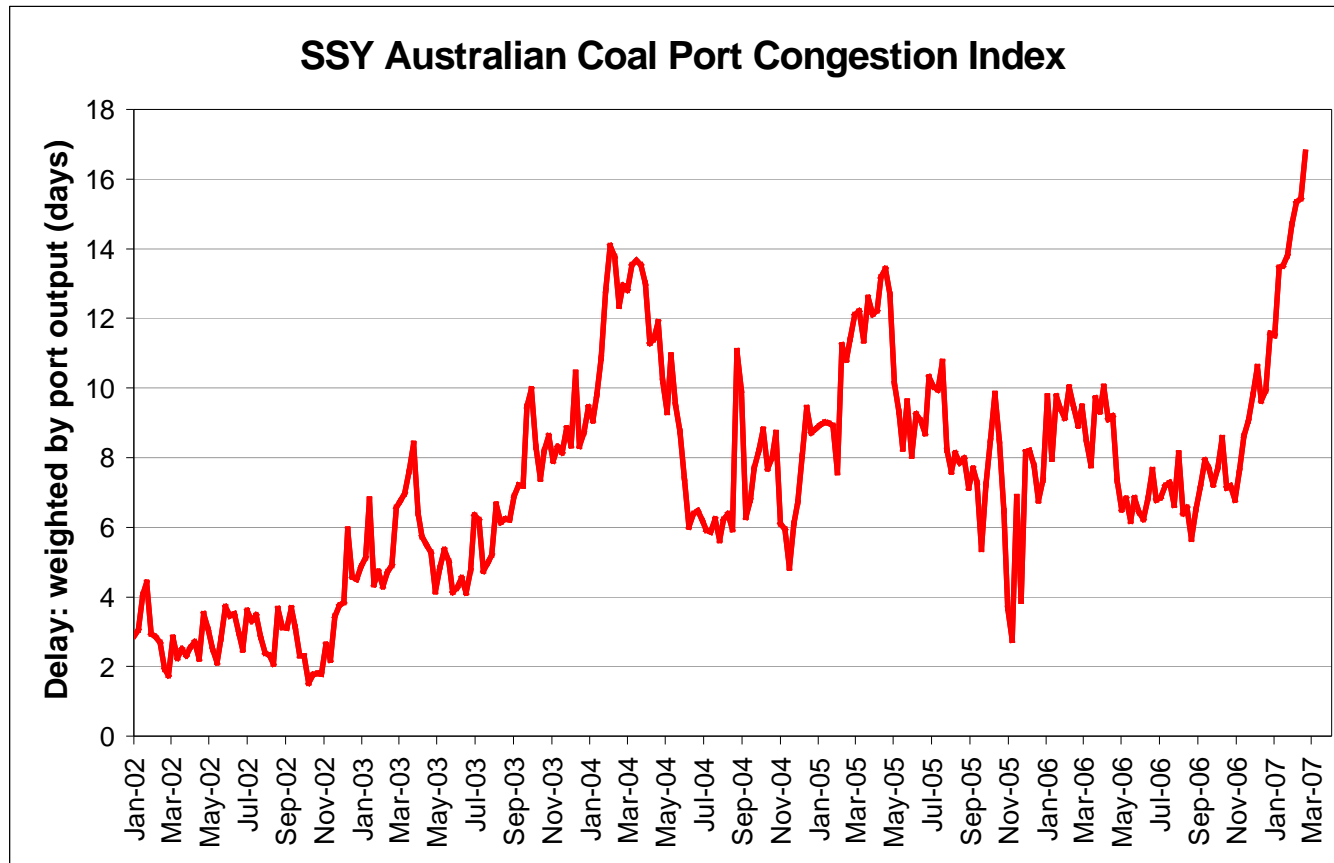
Capesize Spot Earnings & Dry Bulk Fleet Utilization



Sources: Danish Ship Finance, SSY, Clarksons * 1q07 as per February 16.

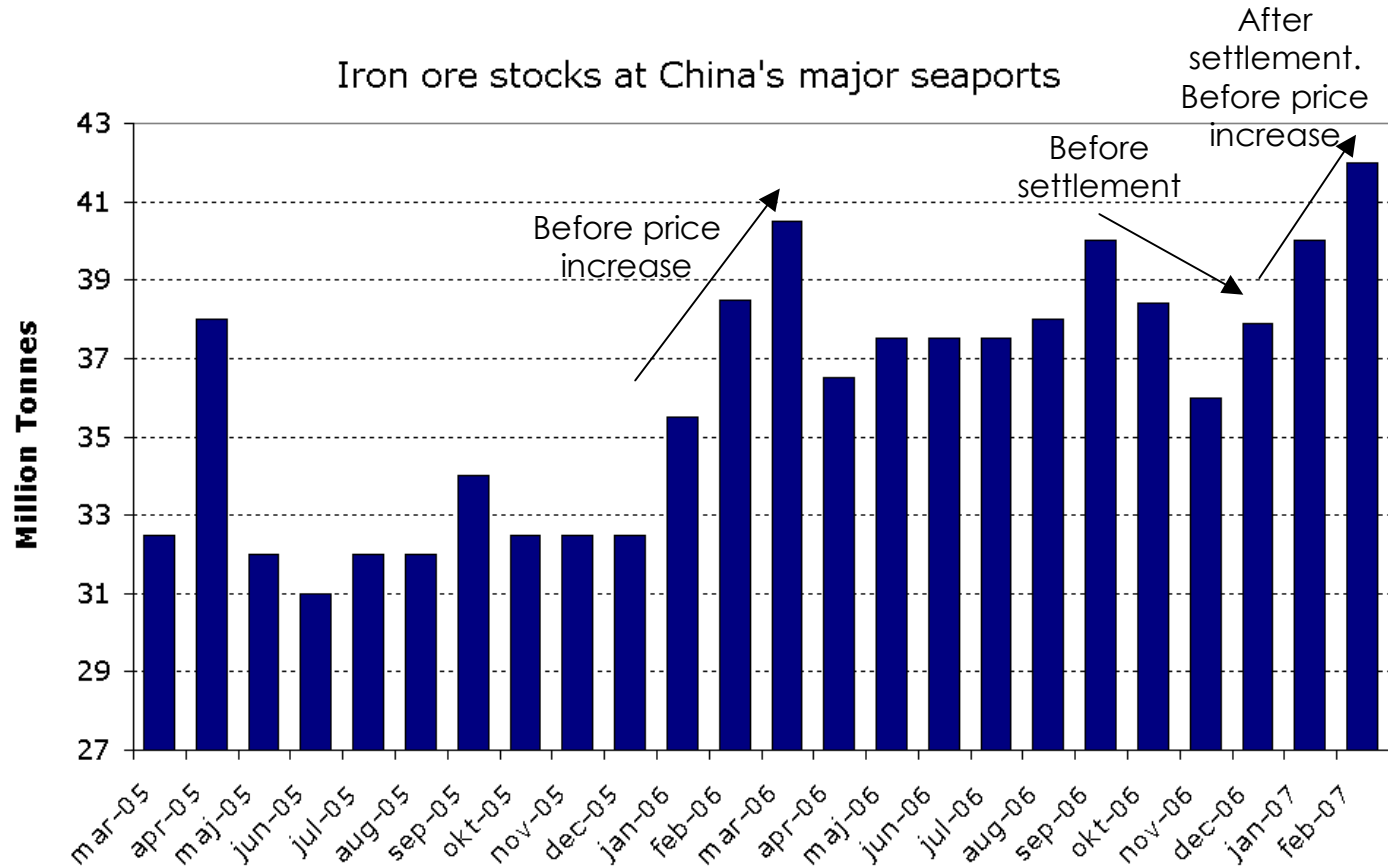


Port congestion as primary boost factor





Iron ore traders, steel mills in preemptive stock-building



Source: Steel Business

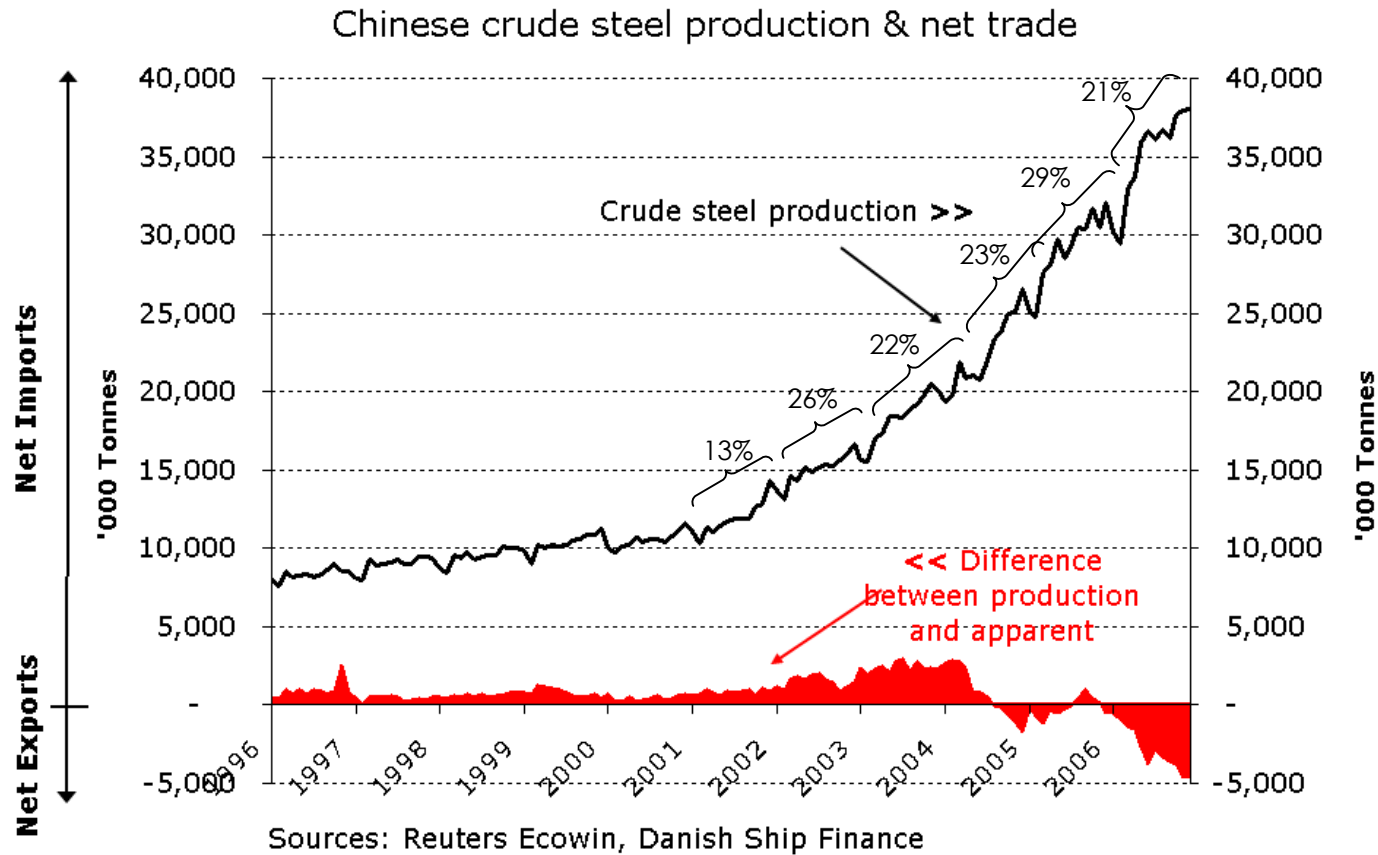


Medium term dry bulk ship outlook

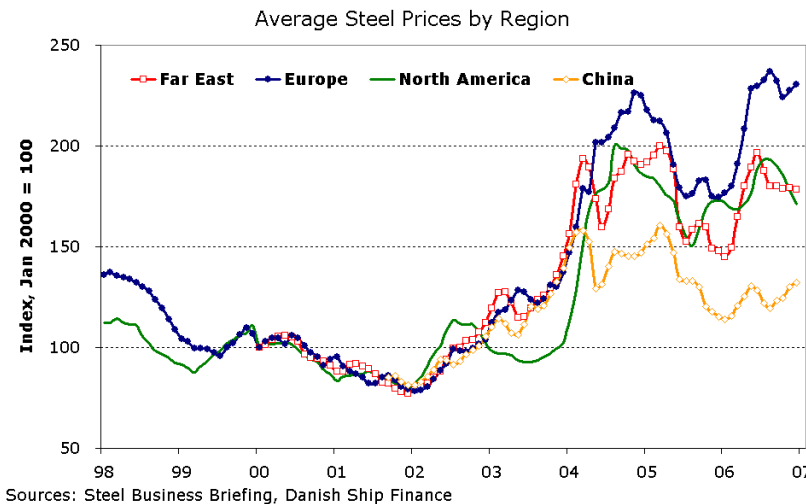
Theme 1: how effective is the squeeze on steel exports/production and iron ore imports?

Theme 2: will we see a slowdown in China's housing construction activity?

China's production increasingly depends on exports



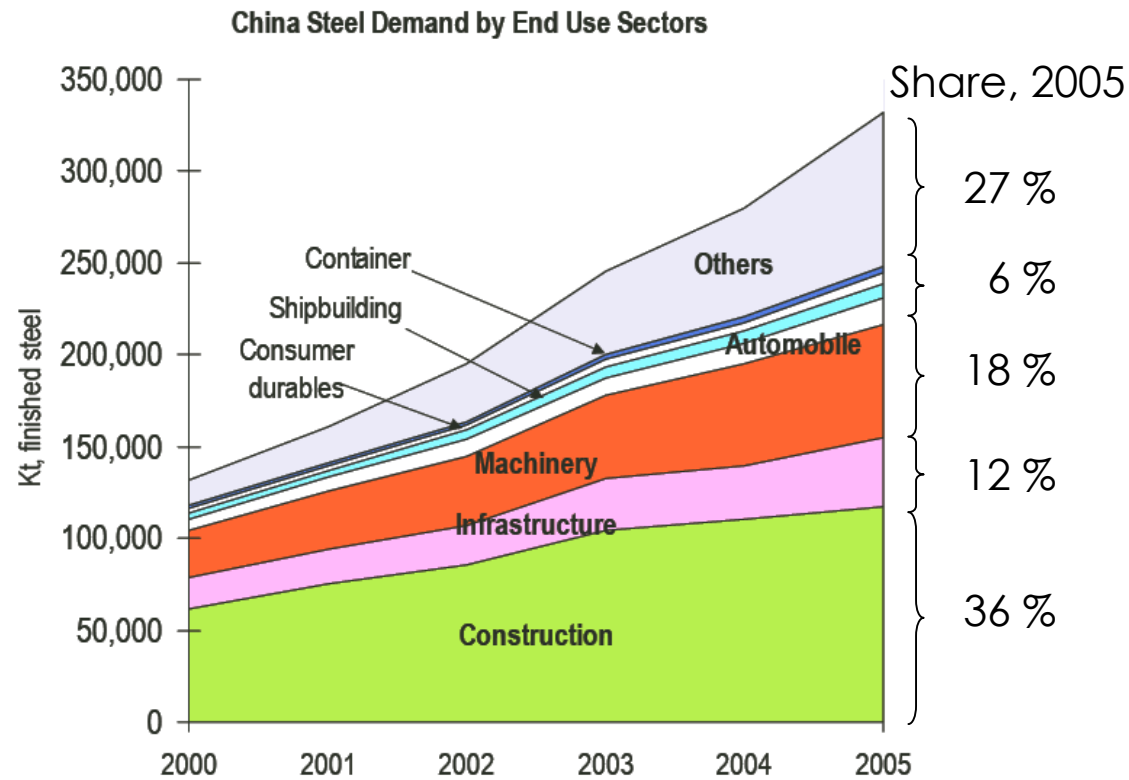
Will the squeeze on the Chinese steel industry be effective in limiting steel output and exports?



- Increased/new export taxes on steel products;
- Reduction in number of authorized iron ore importers;
- Higher input costs and limited capability to raise output prices because of overcapacity domestically;
- Stop to approval of new steel mills (but there are still being new mills constructed that were approved ahead of the new regulations);
- Forced closure of small steel mills by end of 2007 (previous deadline: end 2006);
- Lower export tax rebates (from about 11-13% to about 8%).



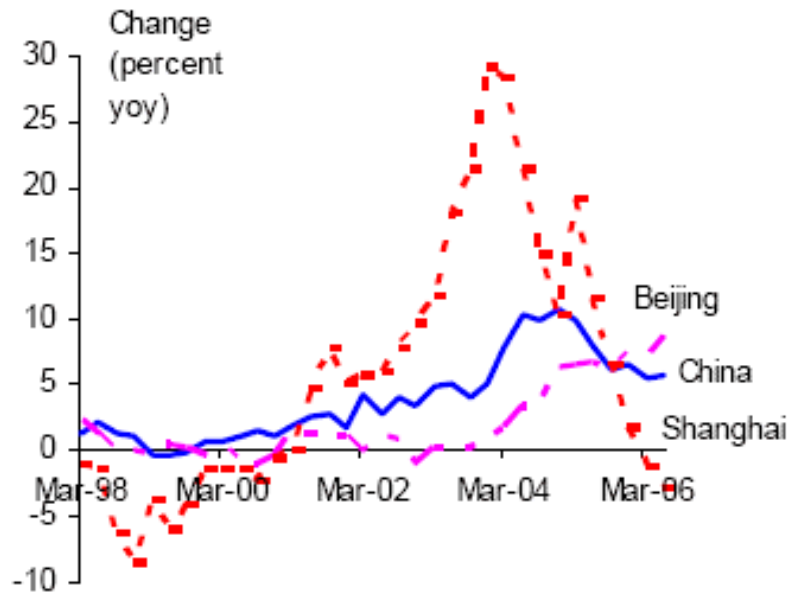
Construction and manufacturing exports are all-important drivers of Chinese steel demand!



Sources: BHPBilliton, CISA

Government concerns over housing bubble

Chinese real estate prices by region



Source: World Bank

- Down-payments for residential units bigger than 90 square meters will be raised to 30% from the current 20% by June 2006;
- If the house is sold after five years of occupation the seller must pay a 5.5% tax on the capital gain;
- If the house is sold before the 5-year period the seller must pay a 5.5% tax on the total sales price;
- Restrictions on foreign ownership of Chinese real estate.
- Enforcement of a longstanding 20% capital gains tax on real estate.
- Restrictions on unoccupied properties as loan collateral.
- Enforcing a land tax of 30-60 percent of developers' net gains from property deals depending on the size of their profit



Long term dry bulk ship outlook

Theme 1: China's new growth model

Theme 2: steel consumption per capita

Theme 3: after China, then what?



What if China succeeds in changing its growth model?

Consequence:

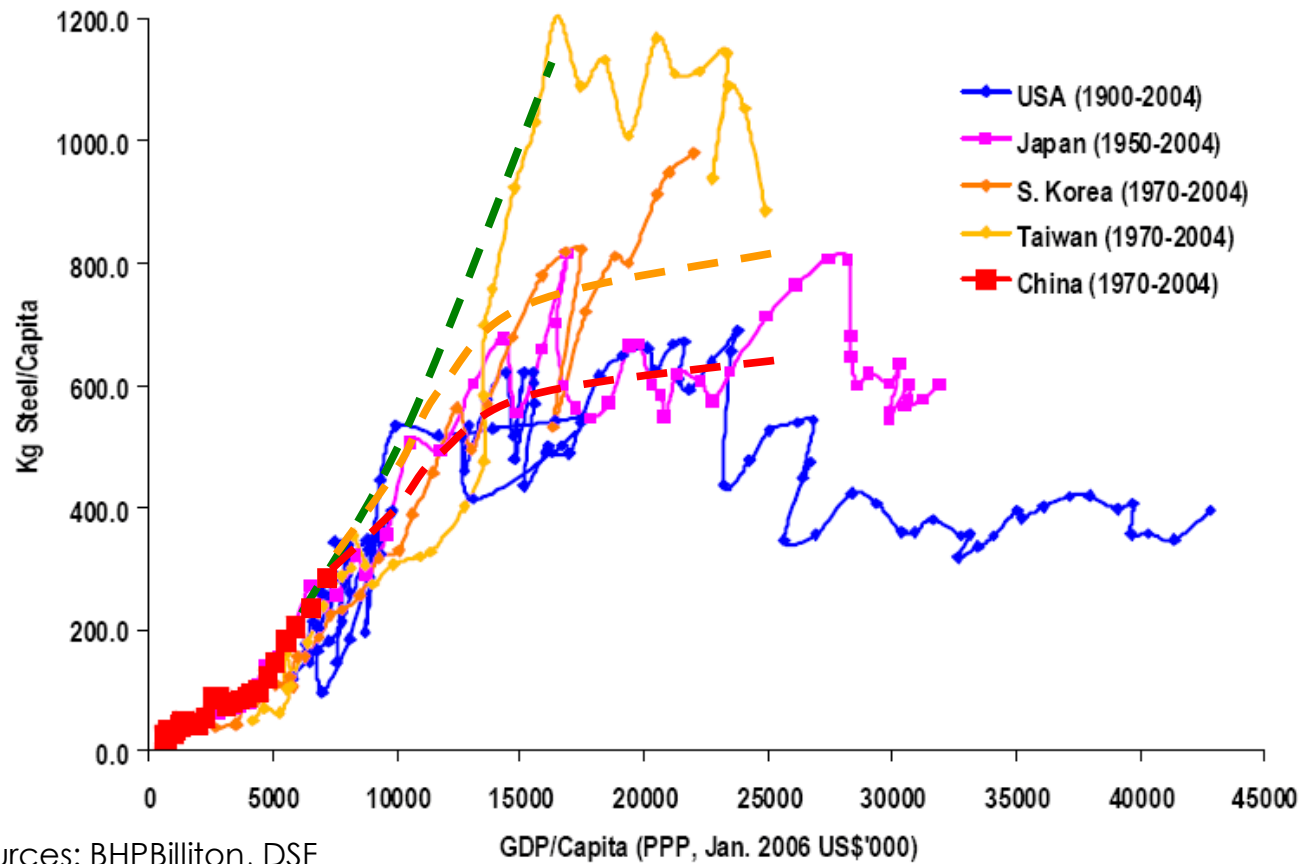
- Despite increased domestic consumption, a less export and trade dependent growth model will significantly slow China's steel production growth!

Timing:

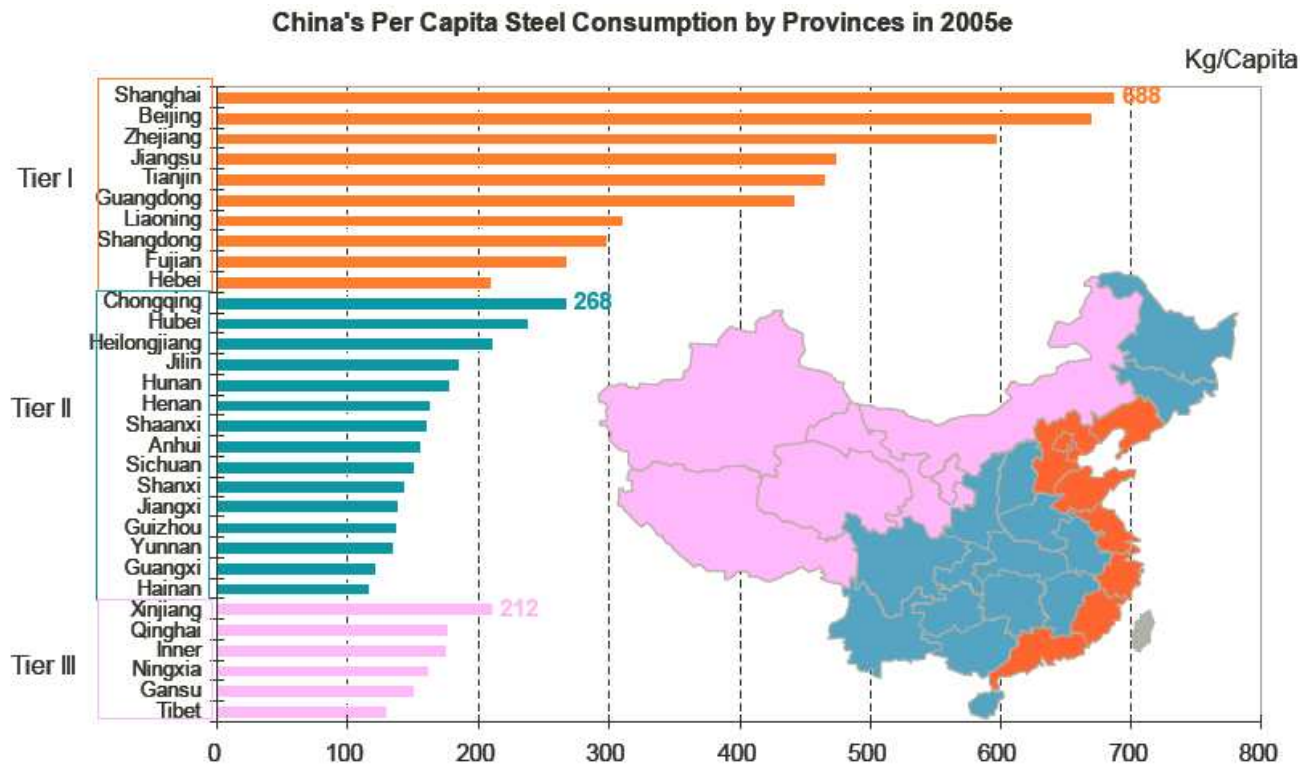
- Boosting/sustaining consumption growth will take time. If other sectors (investments & exports) slow, it may be even harder...
- Local and central governments still have large incentives to continue a construction, manufacturing, and trade dependent growth model – leading to continued high growth in China's steel production;
- However, new/pending property bill (the protection of state, collective and private property) may restrict local government's from selling off land to raise revenue.



The optimists: China is far from fully developed!



However, it's increasingly reliant on an economic, export-driven take-off in the inner regions of China...

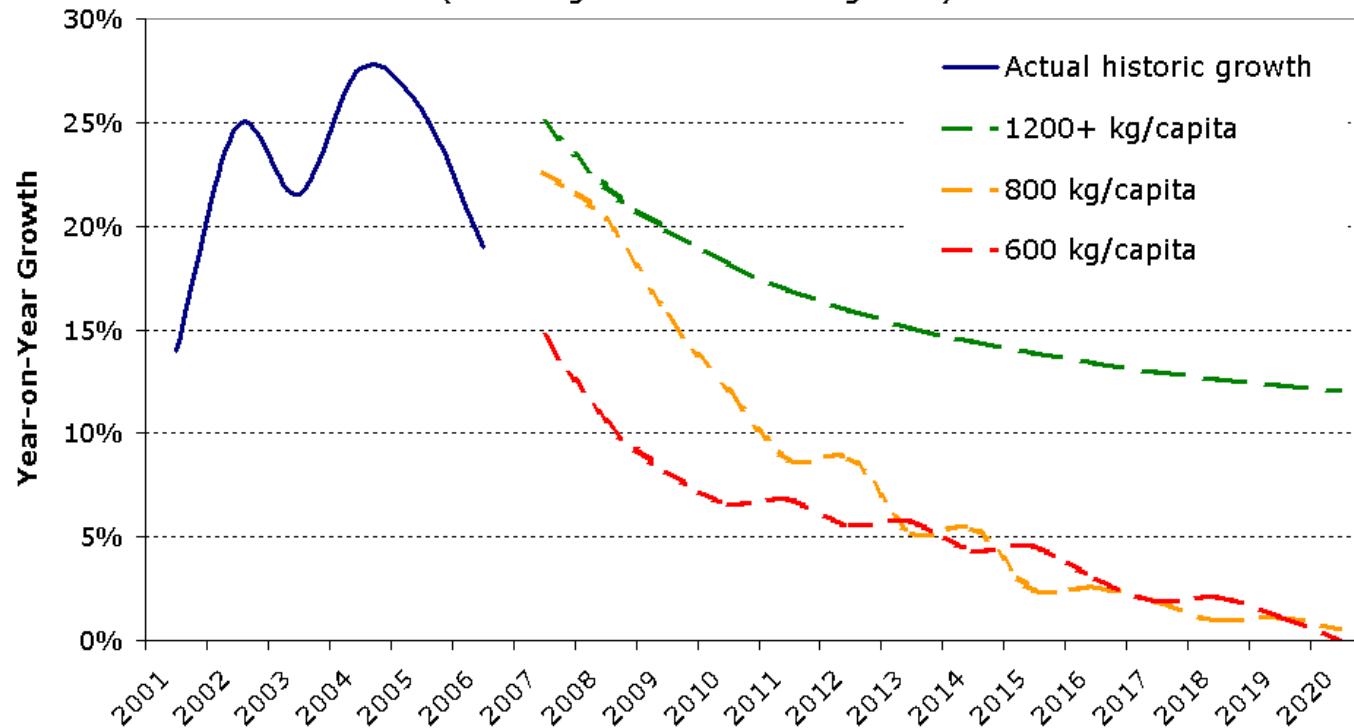


Sources: BHPBilliton, Danish Ship Finance



The steady-state consumption level indeed matters!

China's Steel Production by Final per Capita Consumption
(assuming 10% annual GDP growth)

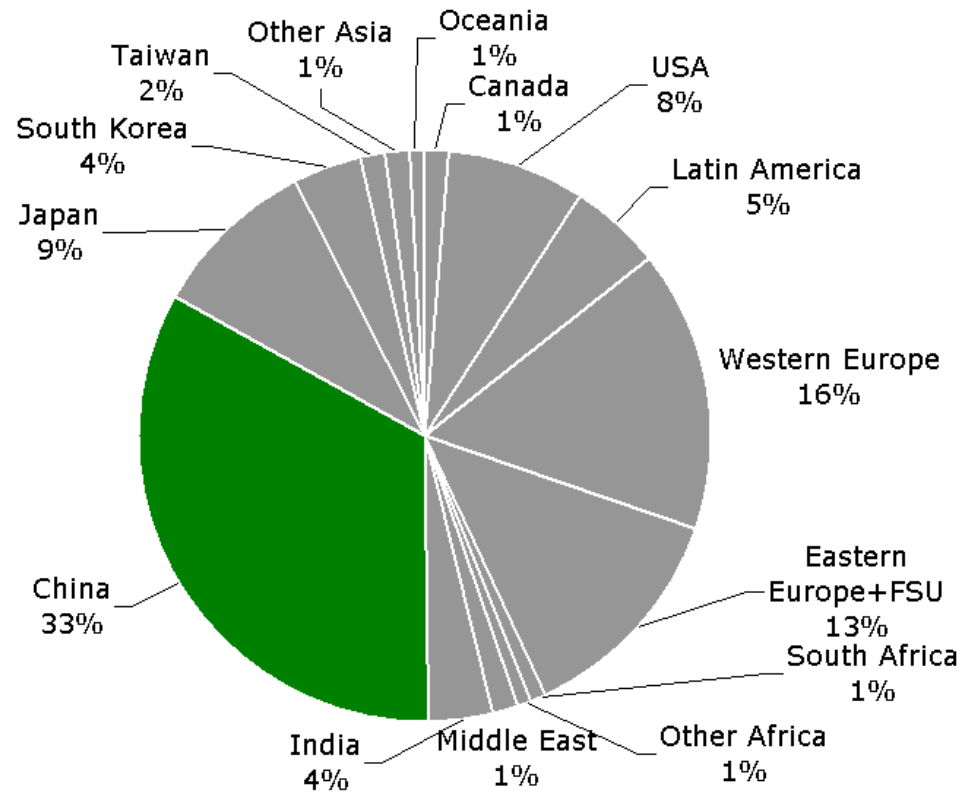


Source: Danish Ship Finance



India? Or Eastern Europe / FSU instead?

2006 world crude steel production by region



Source: MSI

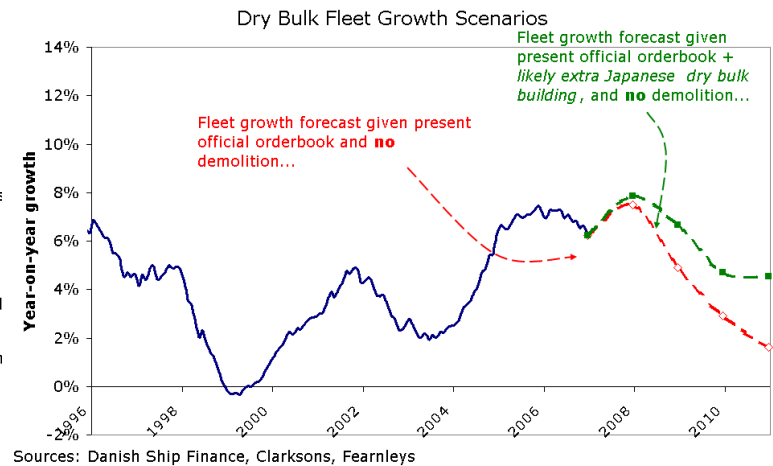
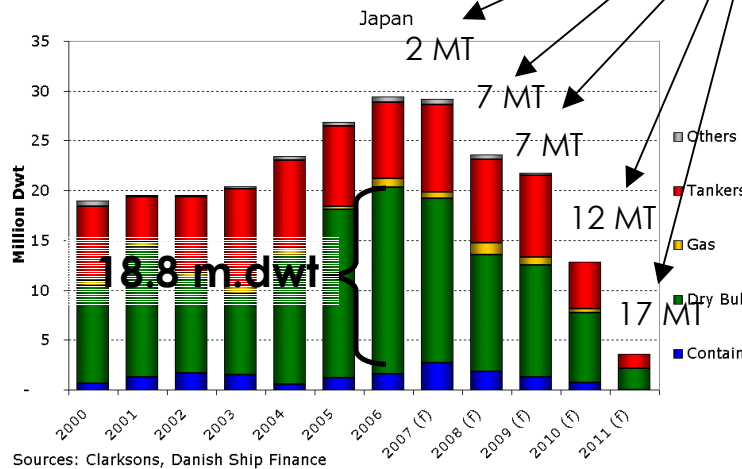


Dry bulk ship **supply**

What about availability at Japanese yards?

Japanese yards have a tendency not to officially register their orders until shortly before the actual shipbuilding takes place. The Japanese orderbook thus may appear smaller than it actually is.

- Likely minimum available dry bulk ship building capacity...





Freight rate **expectations**



Dry bulk & China outlook summary

Short term:

- Abating port congestion and falling freight rates by 2Q07

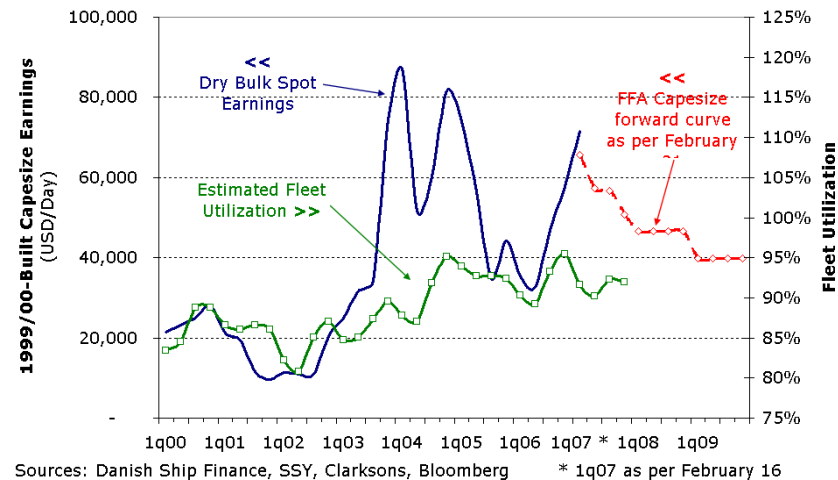
Medium term:

- Slowing Chinese steel production as steel exports and housing construction slow.

Long term:

- Clear Chinese dry bulk slowdown – even despite still strong GDP growth.
- India may, so far, not be large enough to take up the growth baton.

Capesize Spot Earnings, Fleet Utilization & FFA curve





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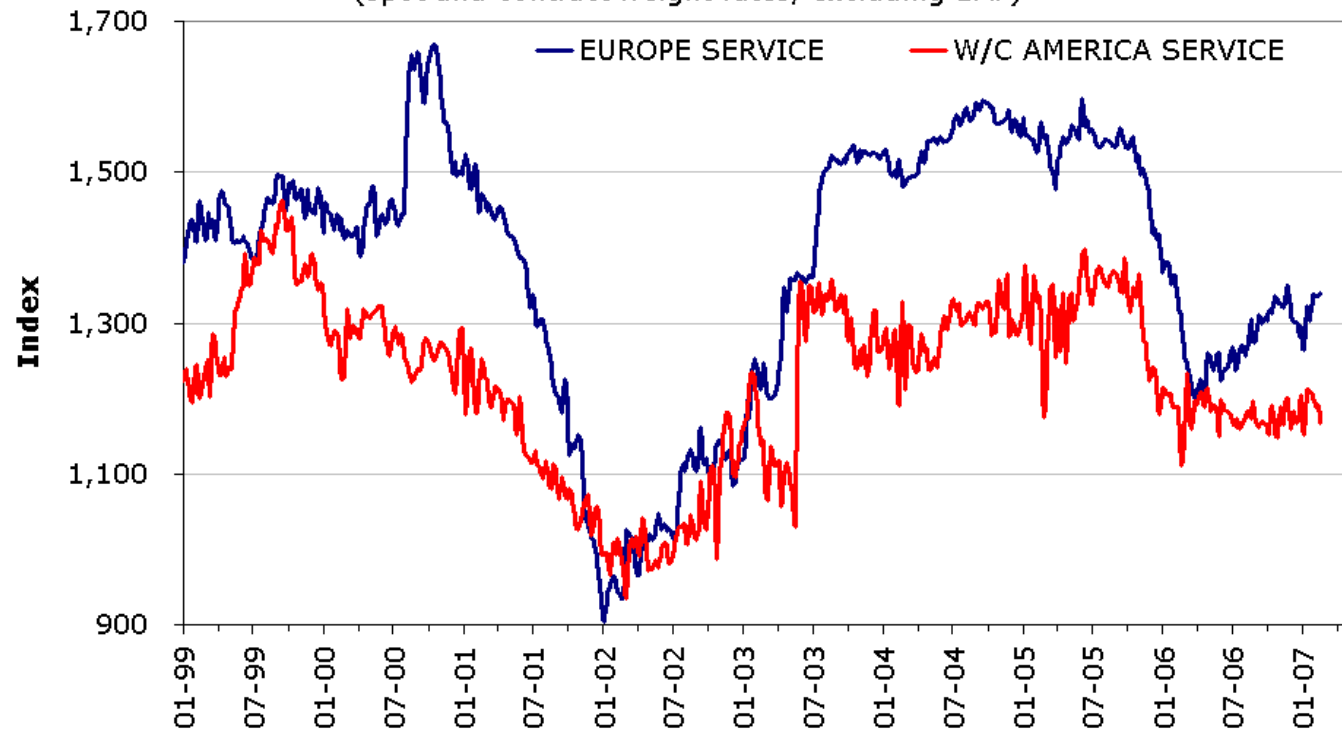
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Will freight rates maintain recent gains?

Freight rate indices per TEU on Chinese container exports
(spot and contract freight rates, excluding BAF)



Source: Ministry of Communications of the People's Republic of China



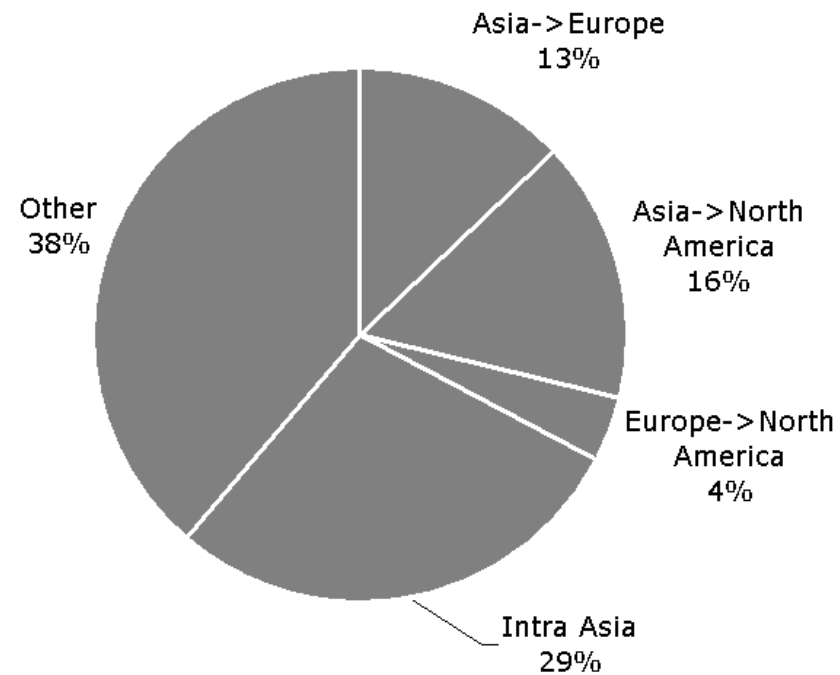
Containership **demand**

- Theme 1: which economies determine containership demand?
- Theme 2: will intra-Asian trade replace the US?
- Theme 3: threats to US imports



How to measure containership demand?

Total Container Trade in 2006 by Route

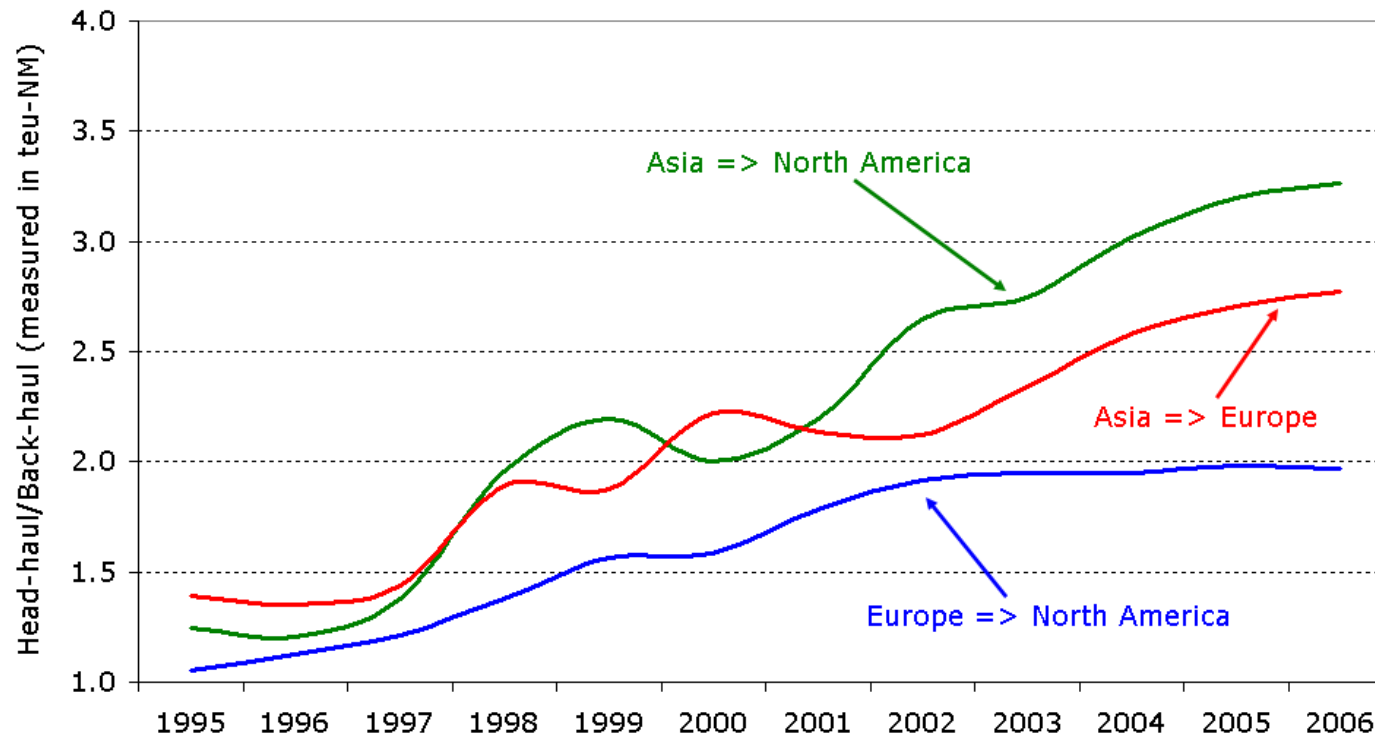


Sources: Danish Ship Finance, Global Insight



...according to the dominant (head-haul) leg...

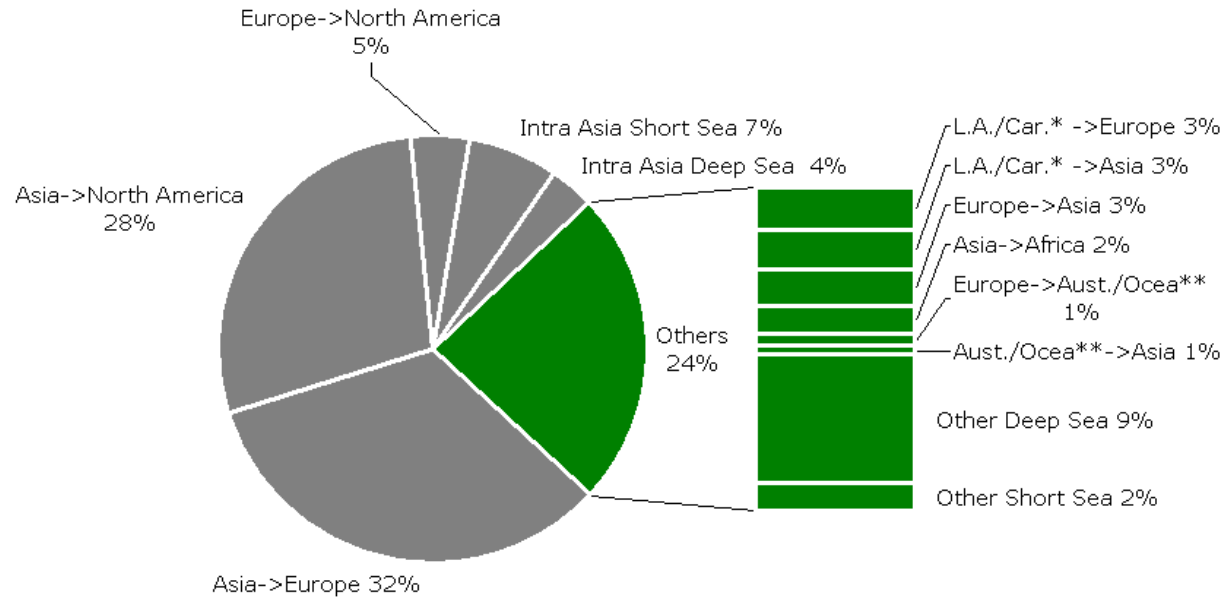
Head-haul / Back-haul Ratio by Major Route



Sources: Danish Ship Finance, Global Insight

...and adjusted for travel distance (teu nautical miles)!

Total Head-Haul Container Ship Demand in 2006 by Route
(Measured by teu-Nautical Miles)



Sources: Danish Ship Finance, Global Insight

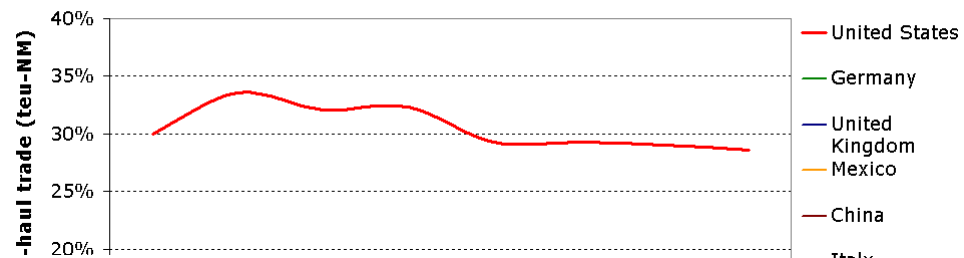
** Australia and Oceania
* Latin America and the Caribbean



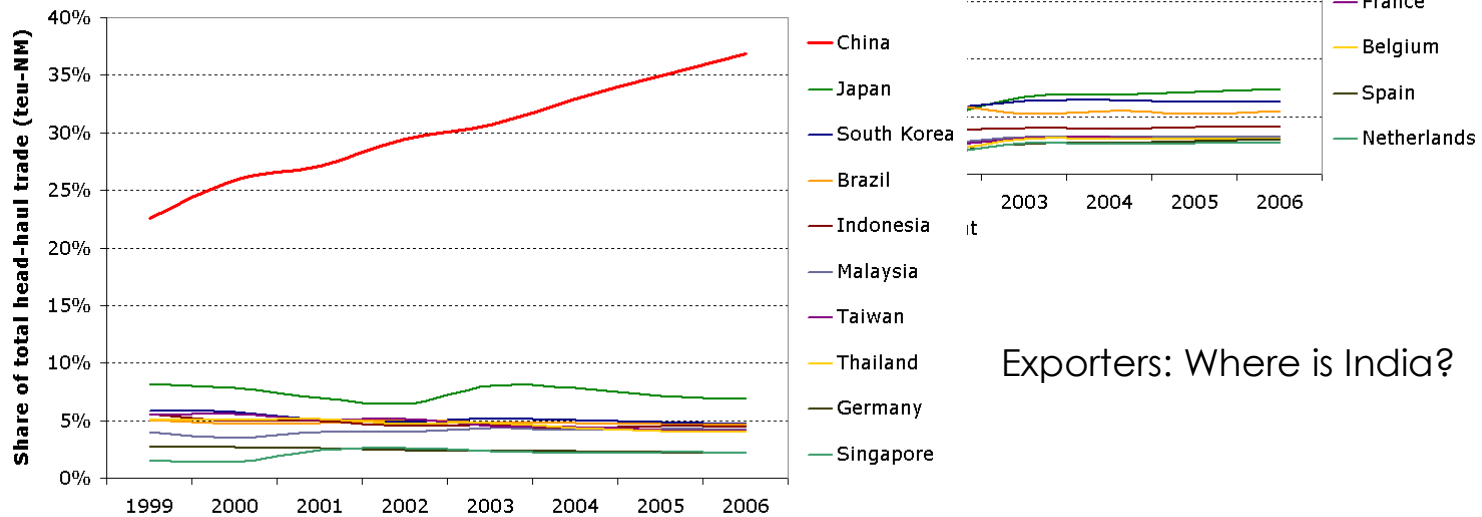
Trade growth is moving in favor of the **back-haul** leg

Importers: Where is Africa, Middle East, and India?

Top-10 Head-haul Importing Countries



Top-10 Head-haul Exporting Countries

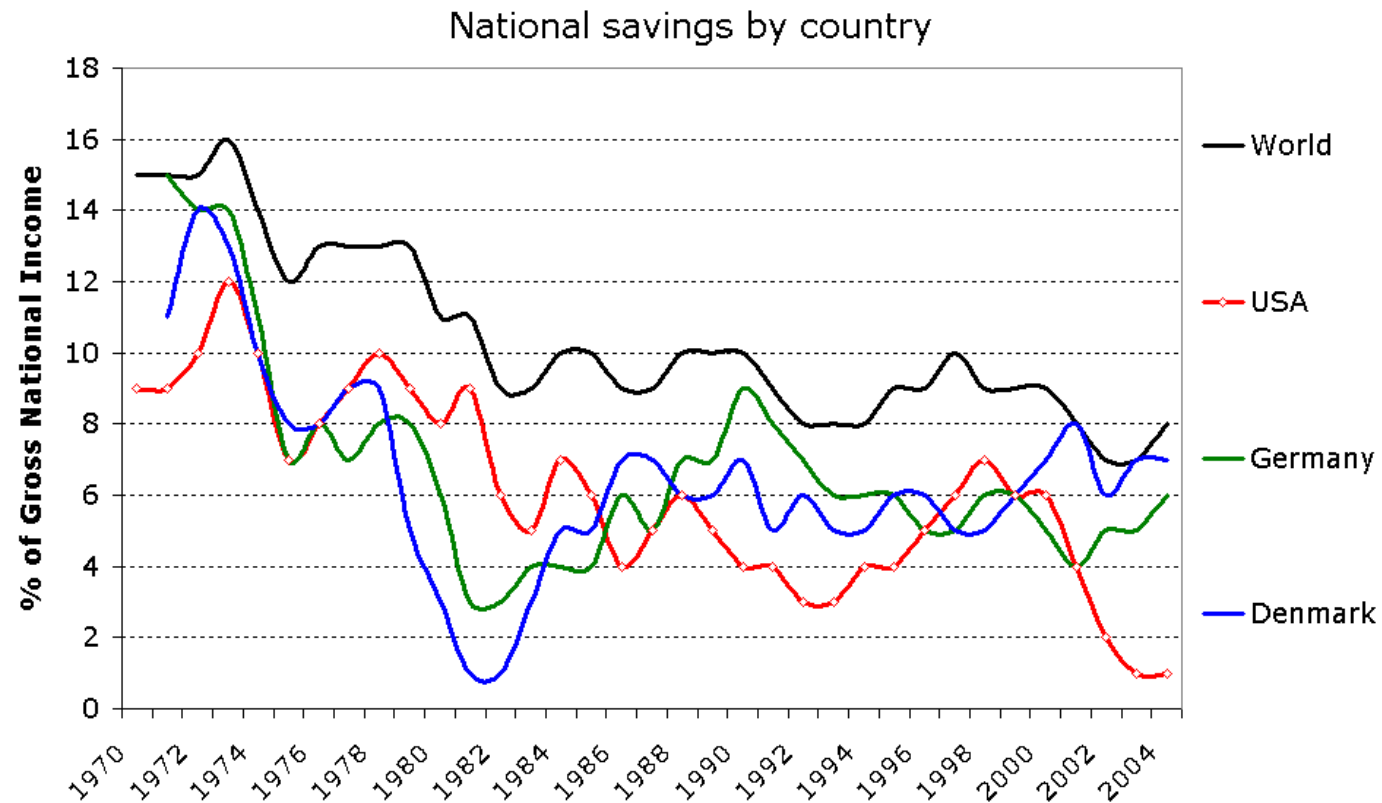


Sources: Danish Ship Finance, Global Insight

Exporters: Where is India?



Trade threatened by a return to positive US savings...

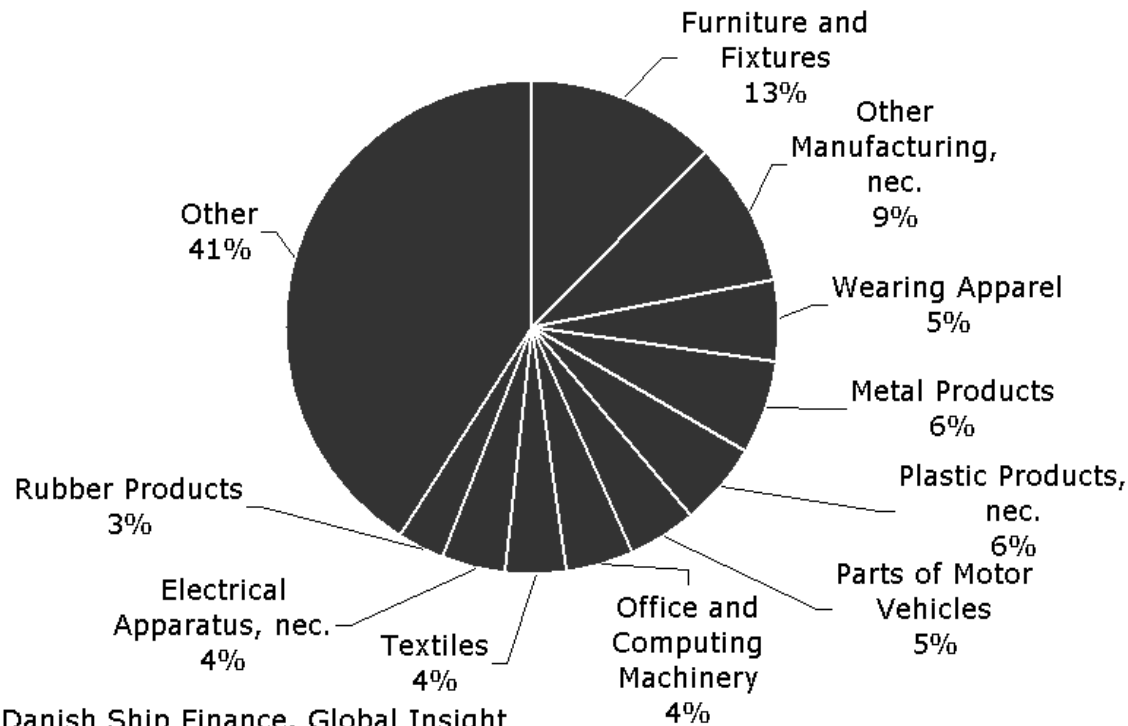


Source: World Bank



...and a housing slowdown!

Top 10 Commodities
Asia to North America

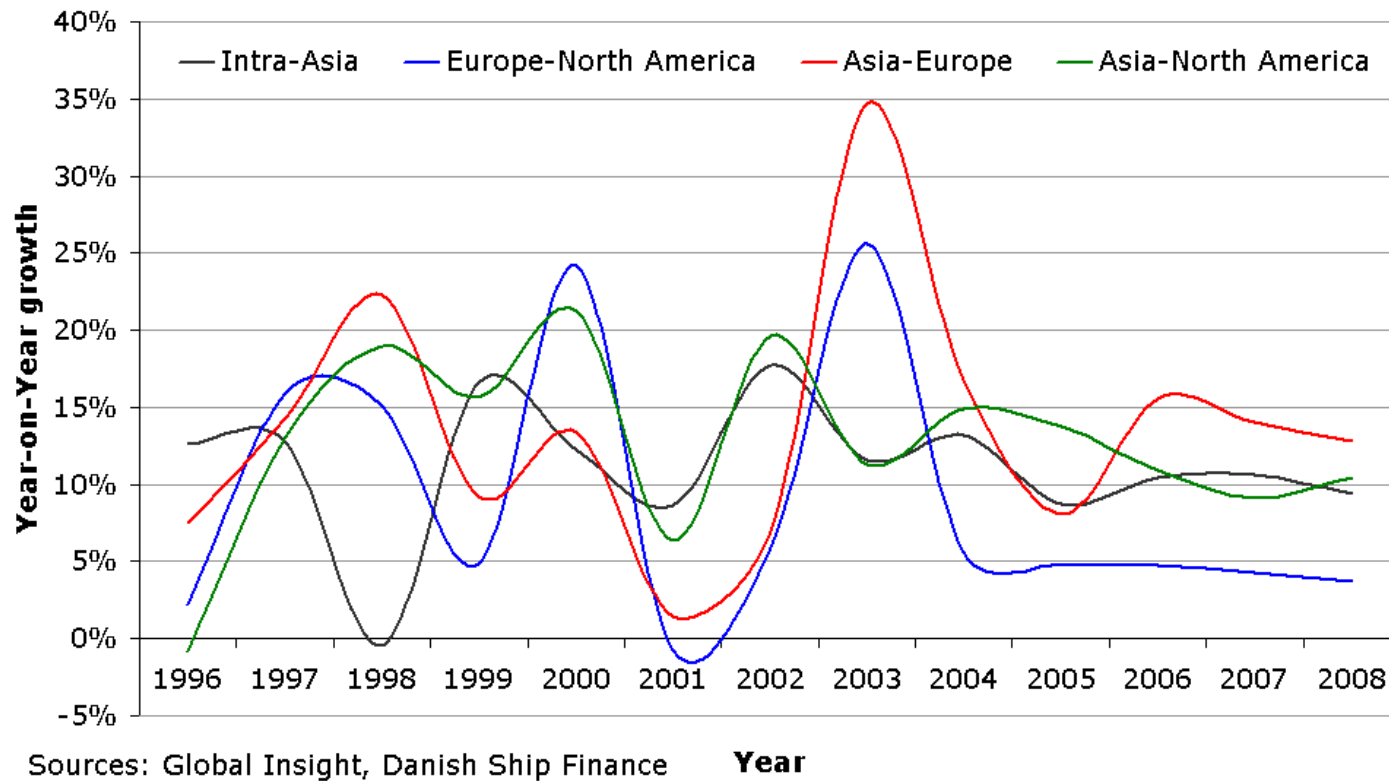


Sources: Danish Ship Finance, Global Insight



Will Europe outshine a slowing US?

Trade Growth by Major Head-Haul Route





Containership **supply**

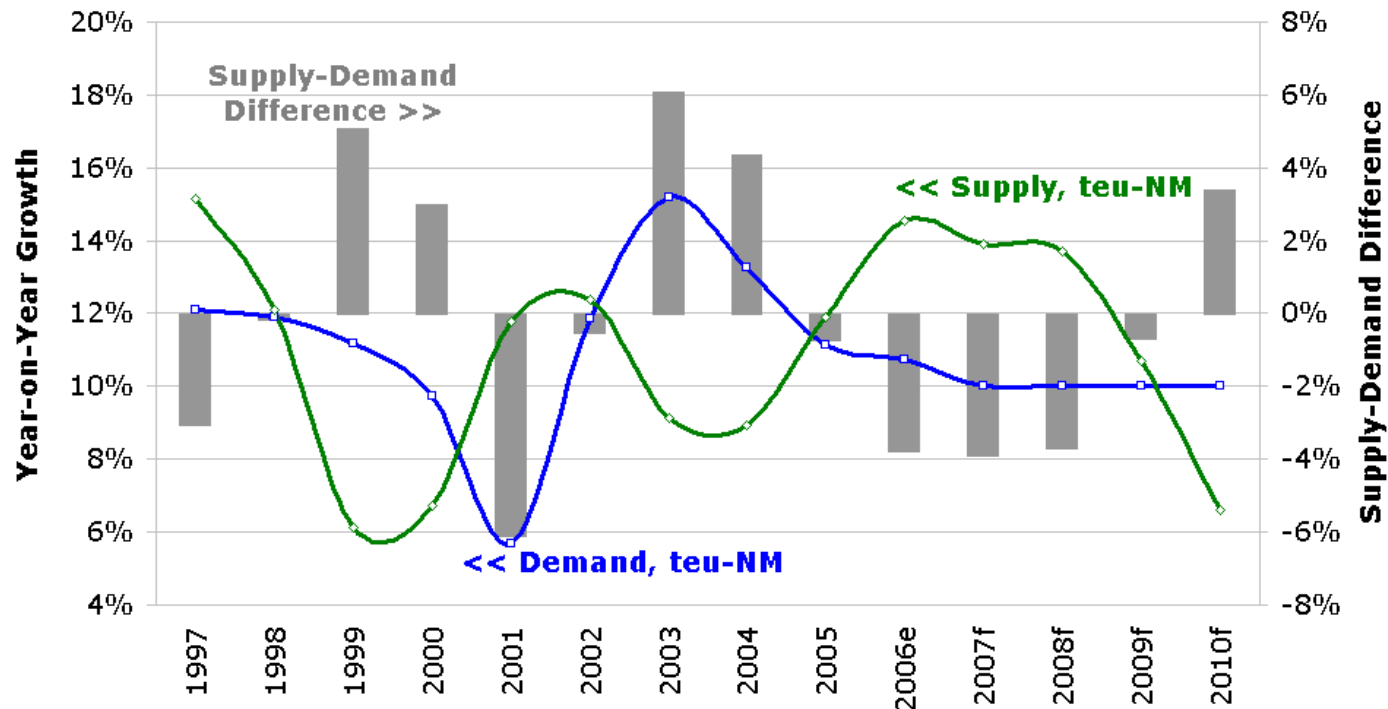
Theme 1: liner market or charter market oversupply?

Theme 2: are we too optimistic or too pessimistic?



Oversupply for years ahead...

Head-Haul Demand Growth & Containership Supply Growth
 (Forecast assumes no further newbuildings than current orderbook)

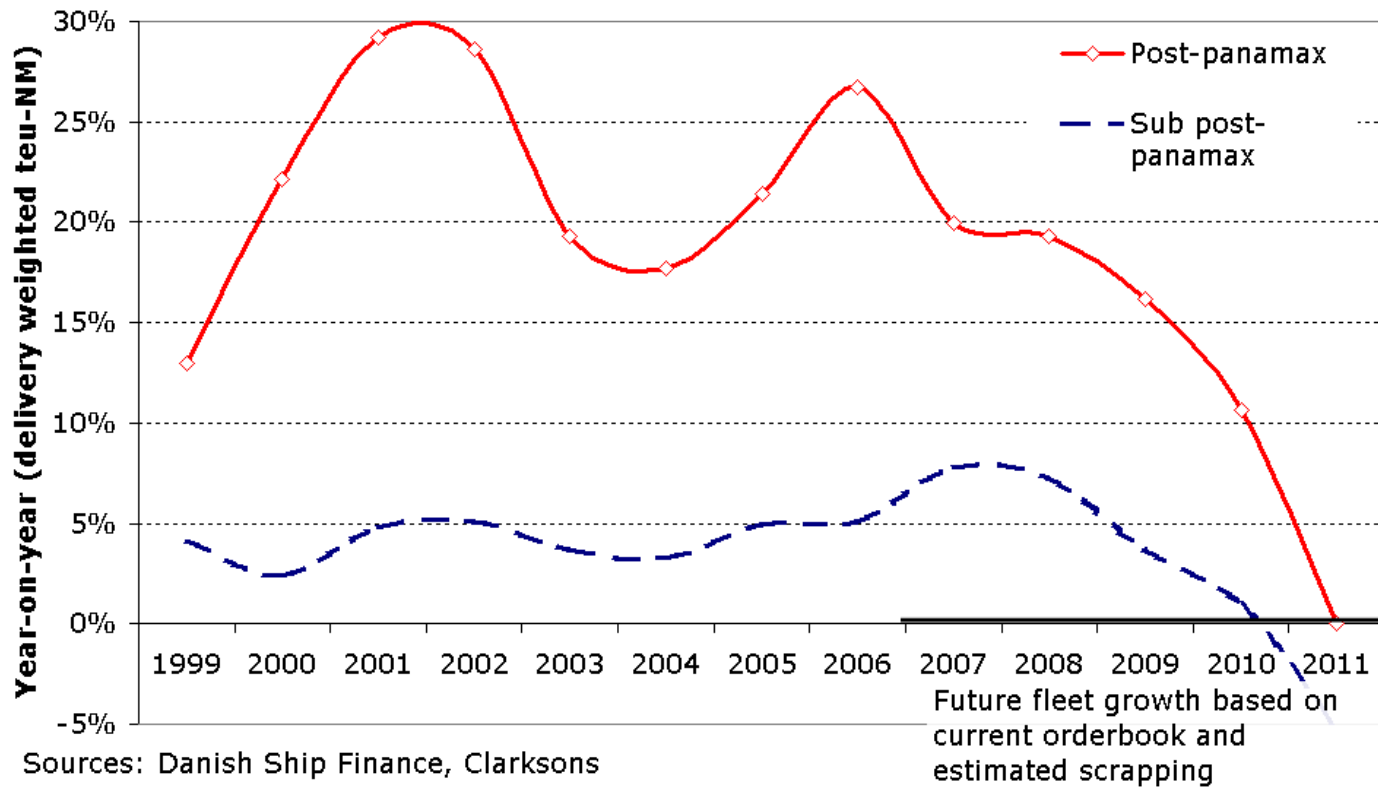


Sources: Danish Ship Finance, Clarksons, Global Insight



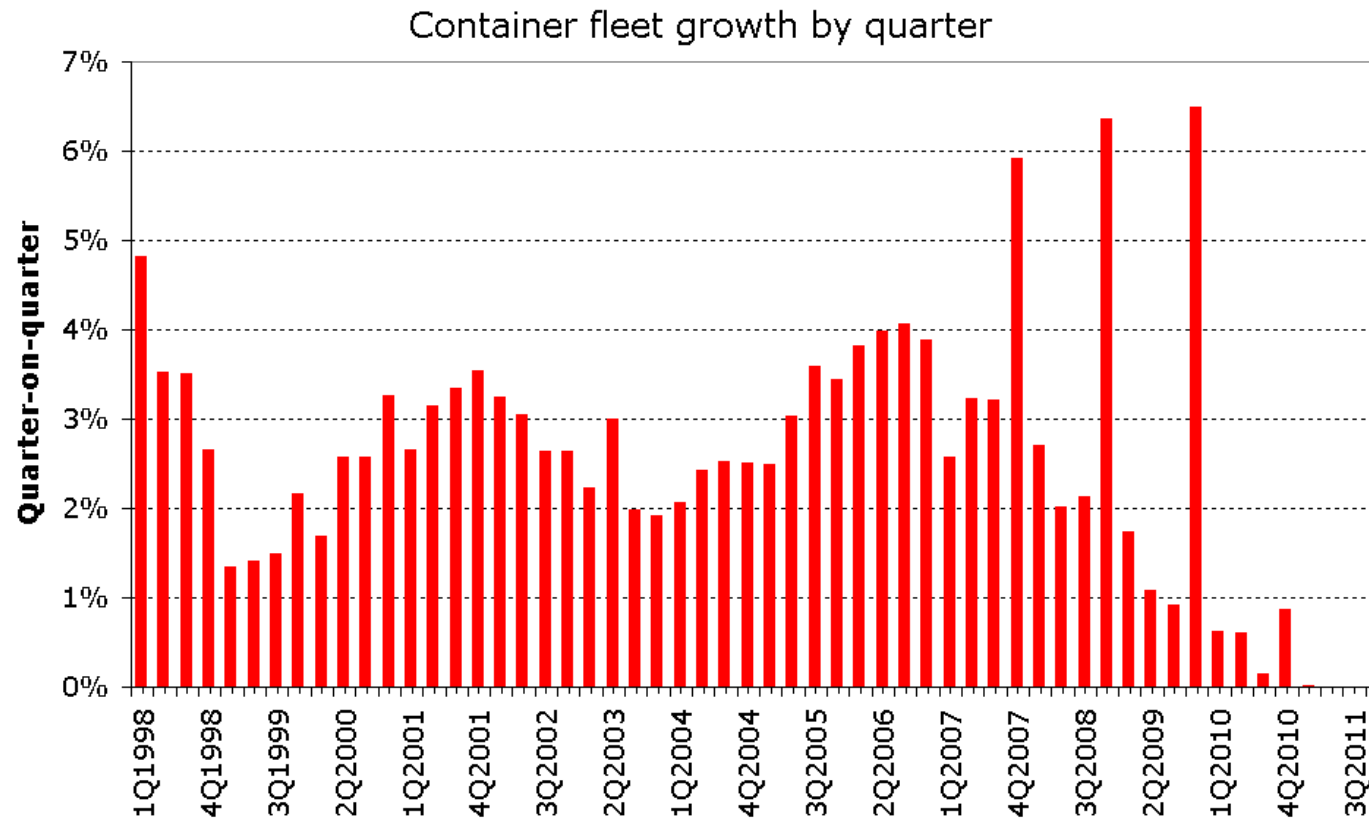
Not even strong European imports can soak up supply

Estimated containership fleet growth by segment





Will fleet growth surprise again in 2007?



Sources: Danish Ship Finance, Clarksons



Dry Bulk & China

Container

Tankers

Shipyards

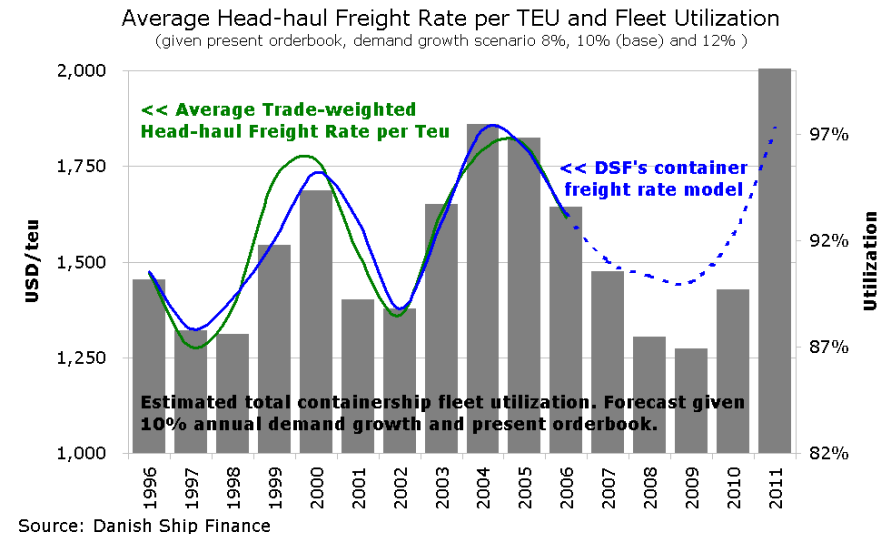
Summary

Freight rate **expectations**



Containership outlook summary

- Supply may outgrow demand for the next two-three years: falling fleet utilization and freight rates in 2007-2009!
- A potentially large correction in US savings and imports.
- Trade growth moving to short-sea or back-haul routes.





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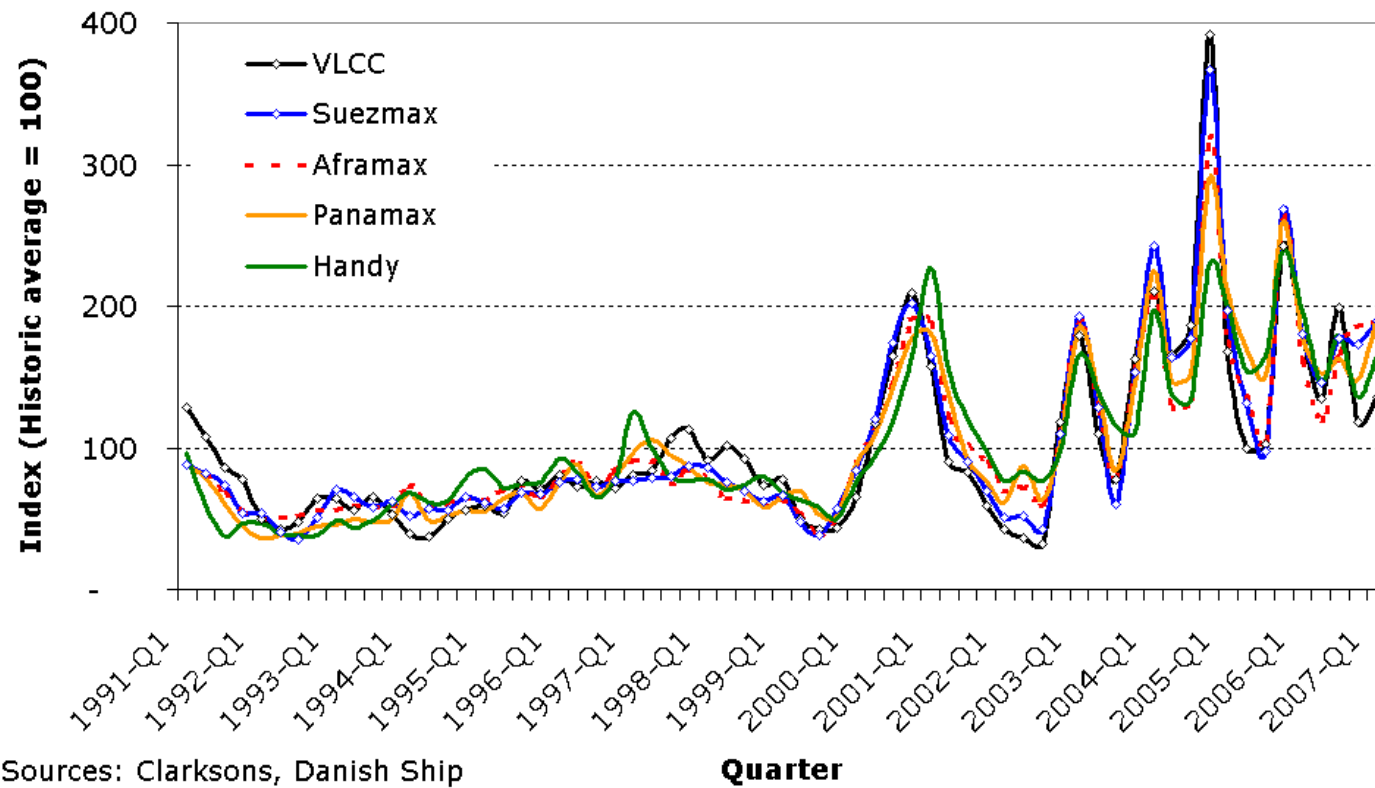
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Oil tankers = crude + product

Crude and Product Tanker Quarterly Average Earnings



Sources: Clarksons, Danish Ship



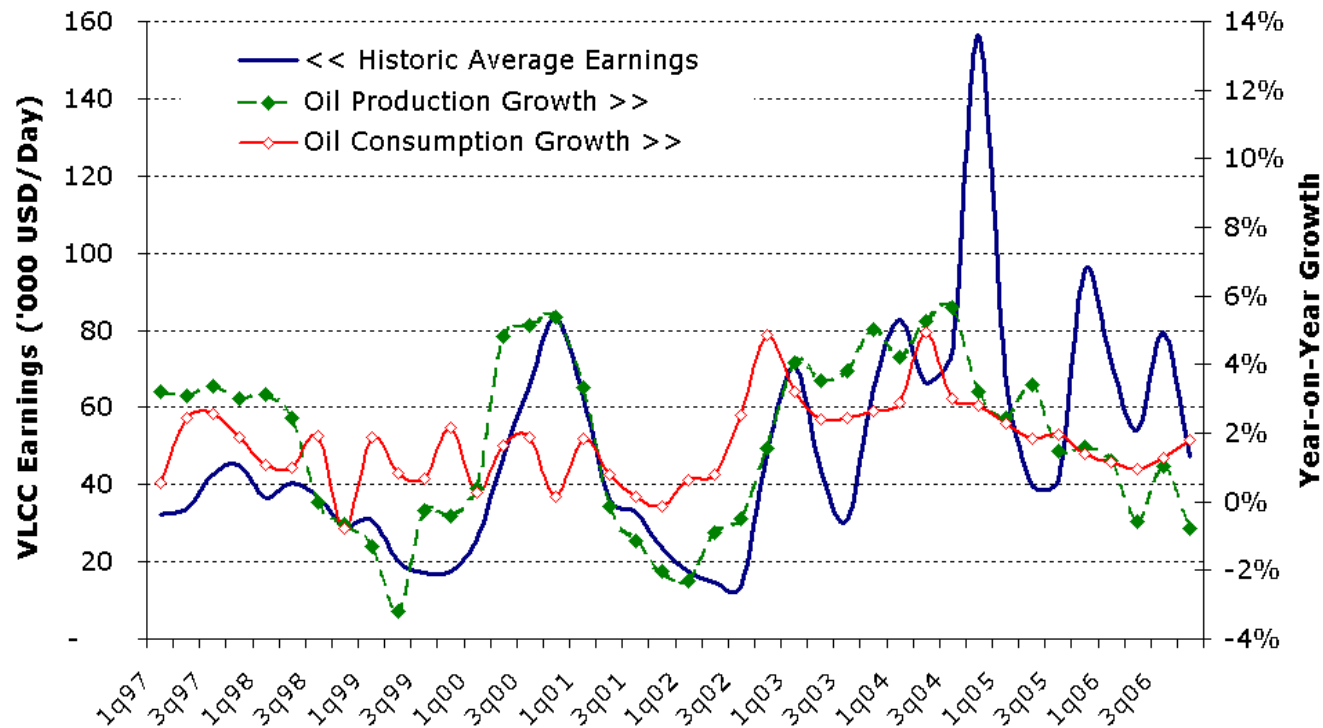
Tanker demand

Theme 1: oil inventories vs. tanker demand

Theme 2: US seaborne imports

Is it petroleum consumption or petroleum production that controls tanker demand?

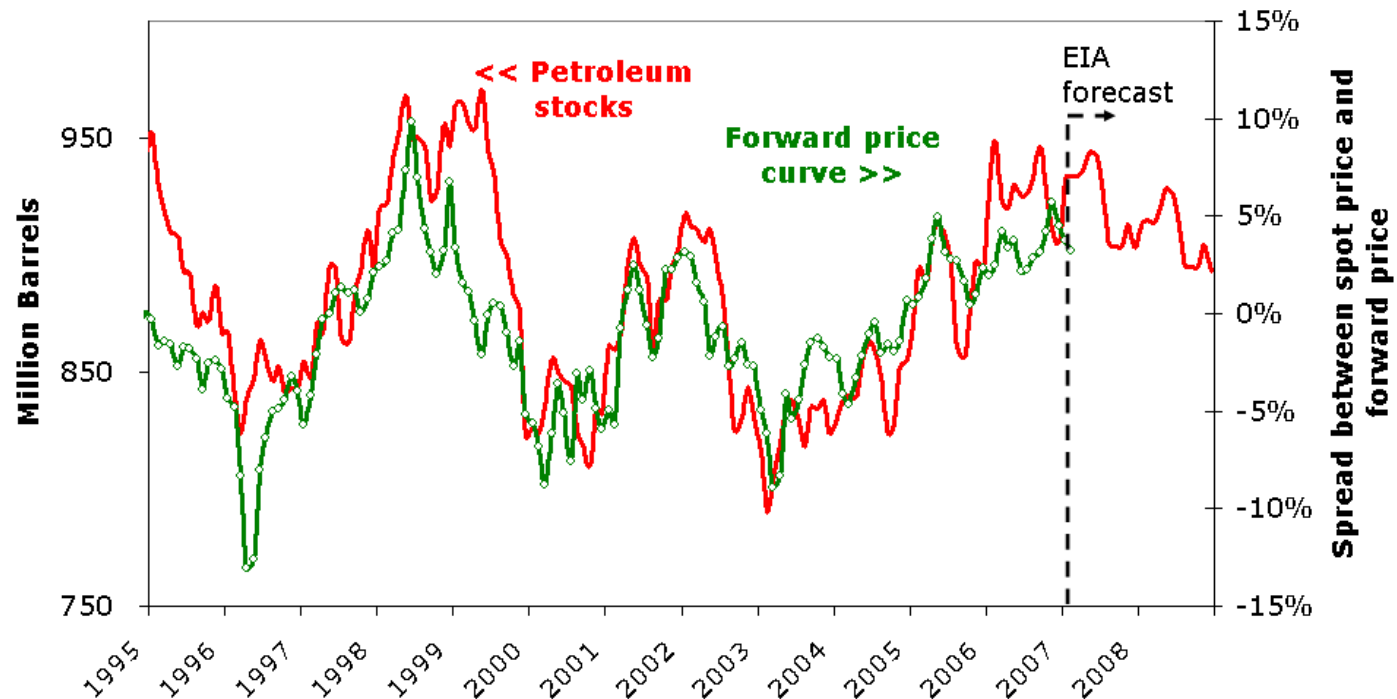
VLCC spot earnings vs. global petroleum demand and supply



Sources: Danish Ship Finance, Clarksons, EIA

...or is it inventory adjustments?

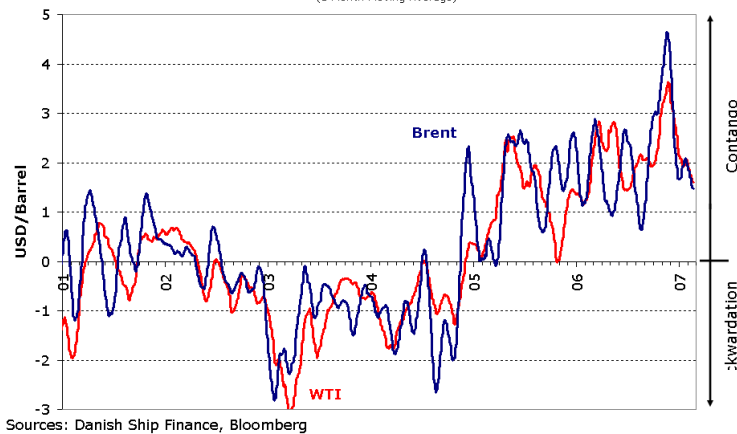
Total US petroleum stocks (ex. Strategic Petroleum Reserves)
vs. WTI crude price forward spread



Sources: EIA, Bloomberg, Danish Ship Finance

Will oil prices continue to encourage stock-building?

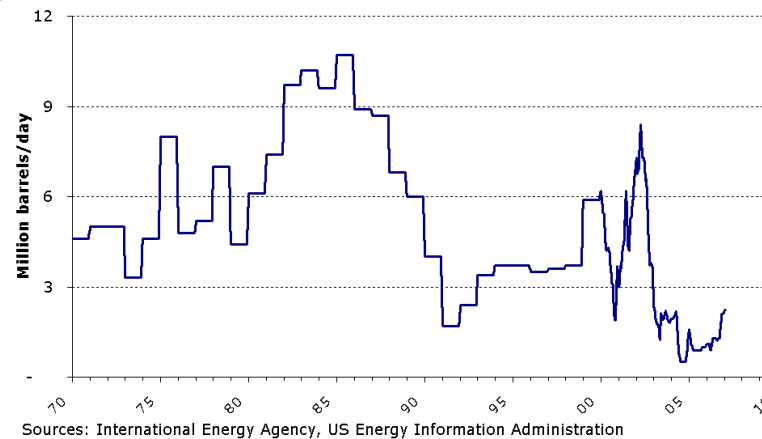
Spread Between 3-Month Future and Spot Crude Oil Price
(1 Month Moving Average)



When the forward premium falls (and it is NOT because spot prices rise) then tanker demand may reduce as well!

- Uncertainty cover
 - Weather (hurricanes)
 - Geopolitics (terrorism)
 - Technical problems
- Logistical considerations
- Investment bet

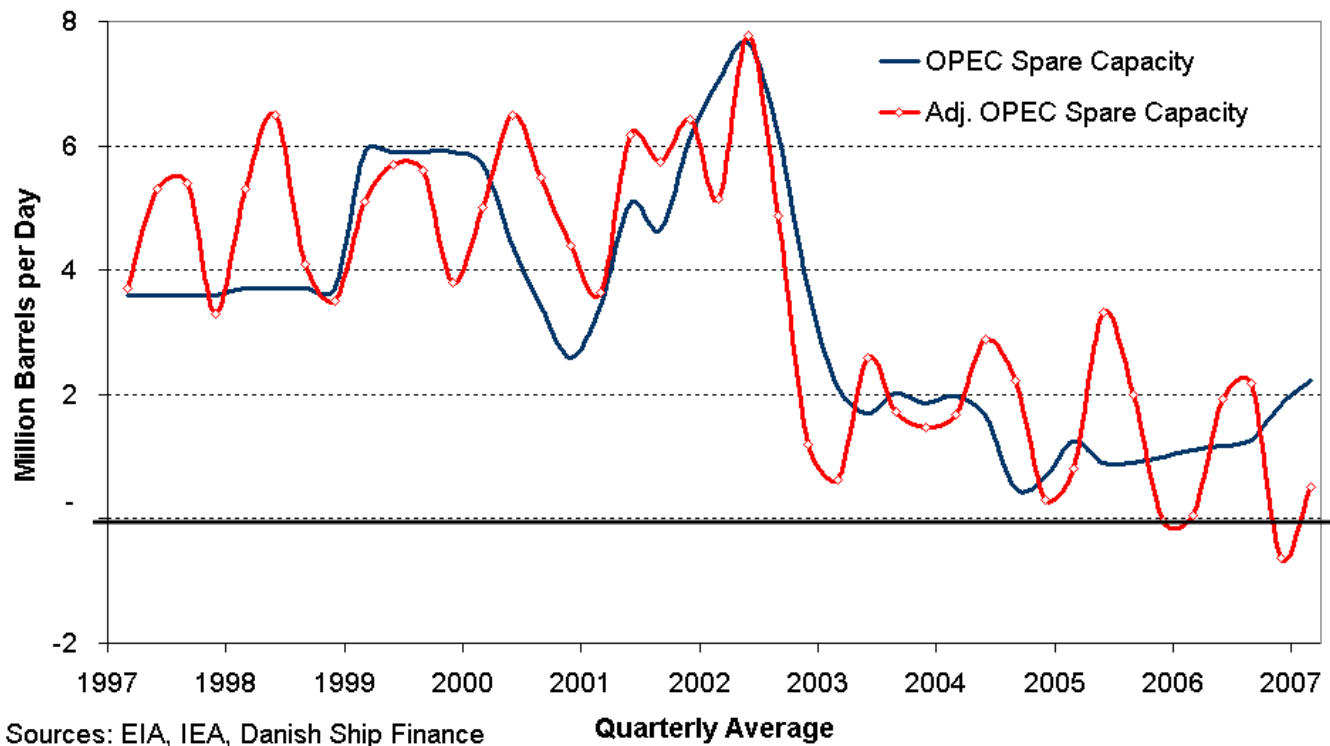
OPEC Spare Production Capacity





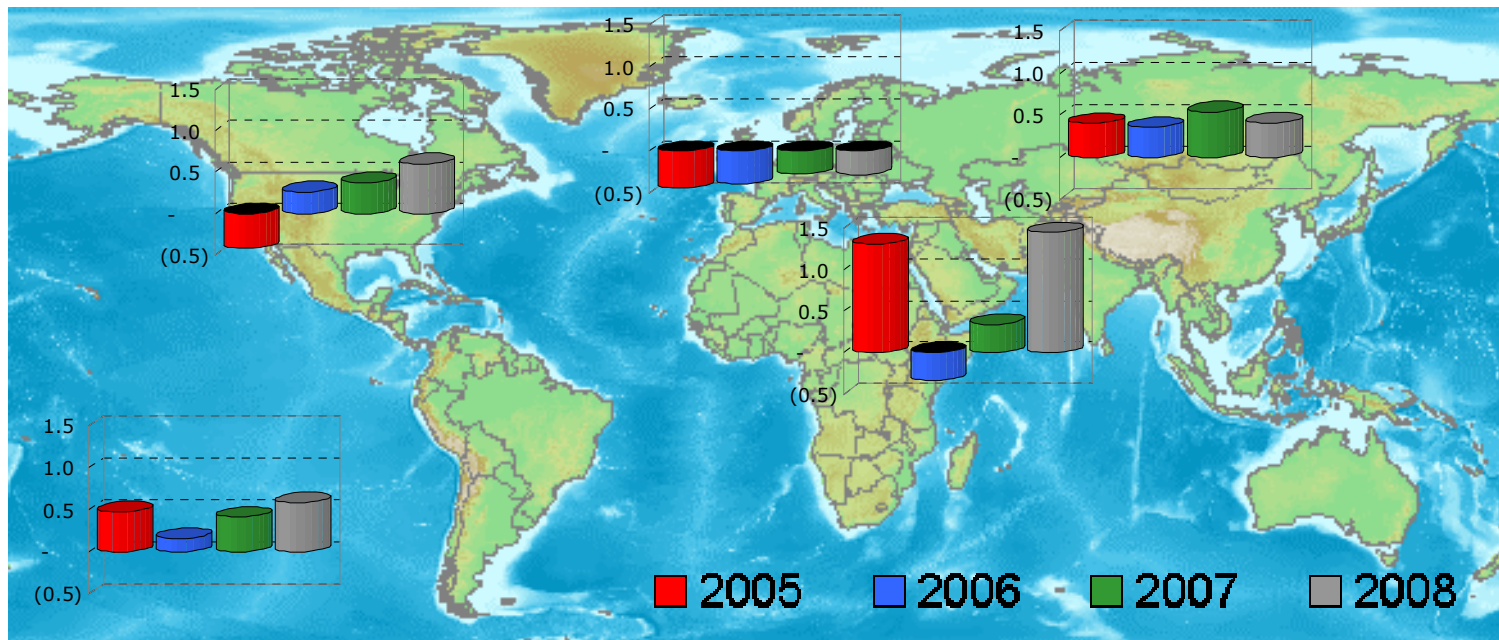
Despite cutting back on production, OPEC's spare capacity may actually not have increased after all...

OPEC/World Spare Production Capacity



North American oil production in brisk revival...

Annual petroleum **production** growth (million barrels per day)

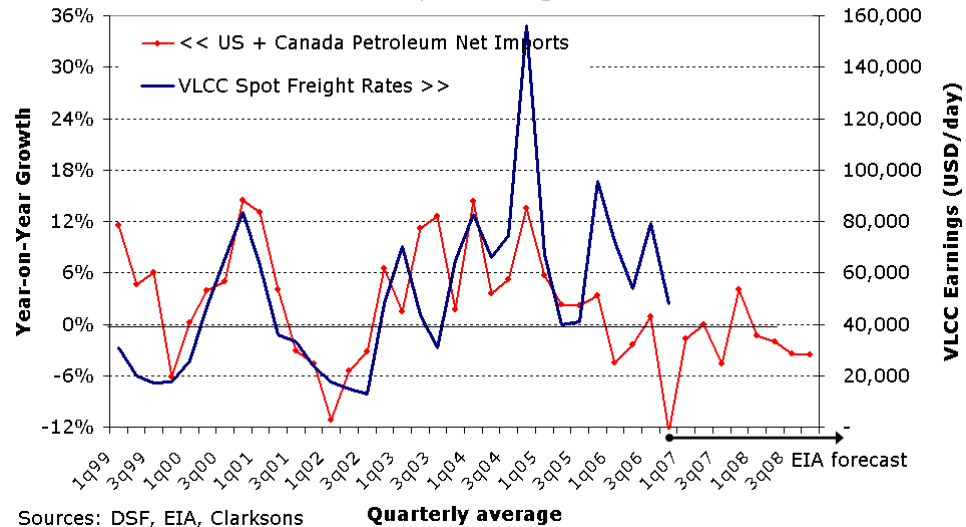


Source: EIA, Short-term Energy Outlook, February 12, 2007

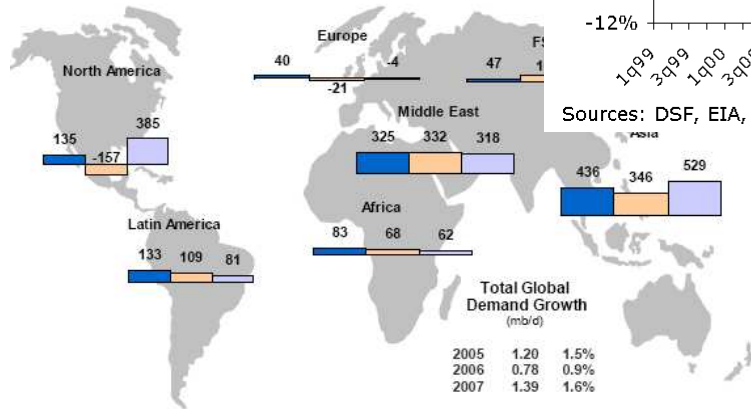


...leading to falling North American seaborne imports!

American and Canadian petroleum net imports versus VLCC spot earnings



Global Demand Growth 2005/2006/2007
 thousand barrels per day





Dry Bulk & China

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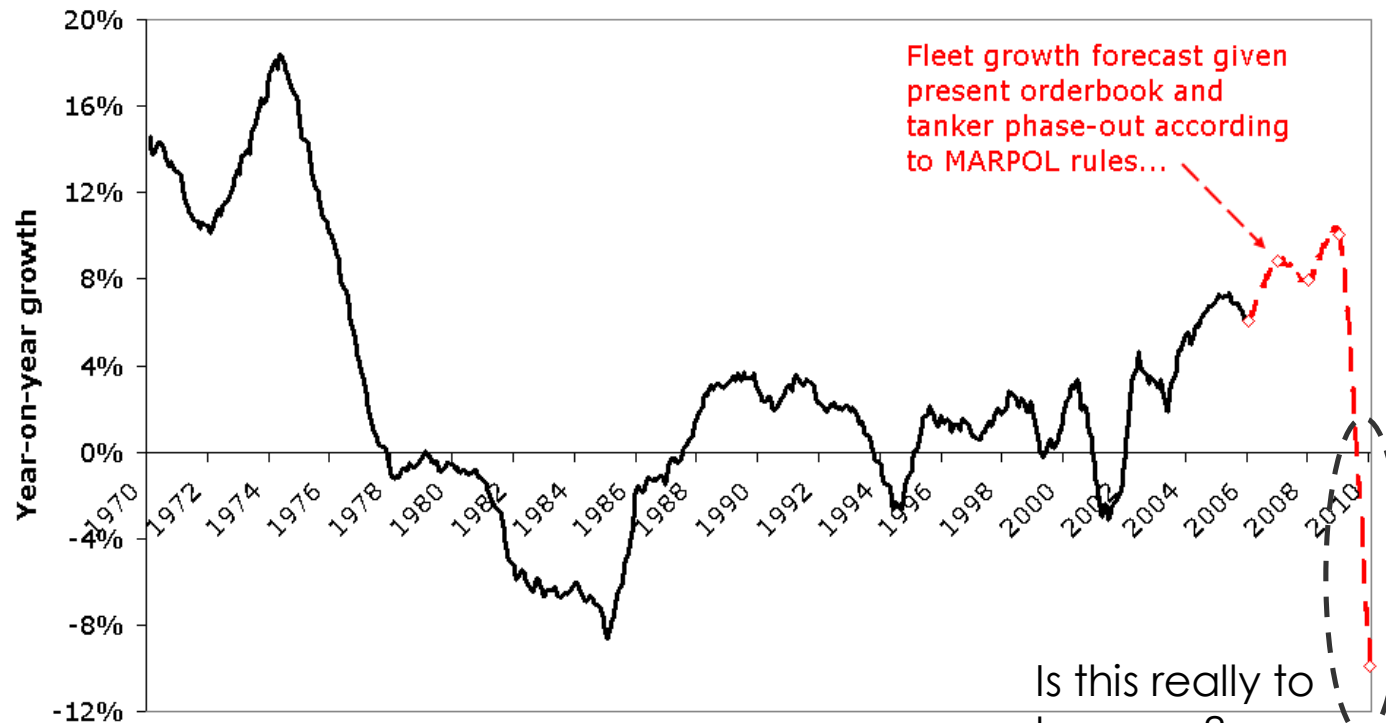
Summary

Tanker ship **supply**



Historically high fleet growth for years to come...

Total Crude and Product Tanker Fleet Growth



Sources: Danish Ship Finance, Clarksons, Fearnleys

Is this really to happen?



Freight rate **expectations**

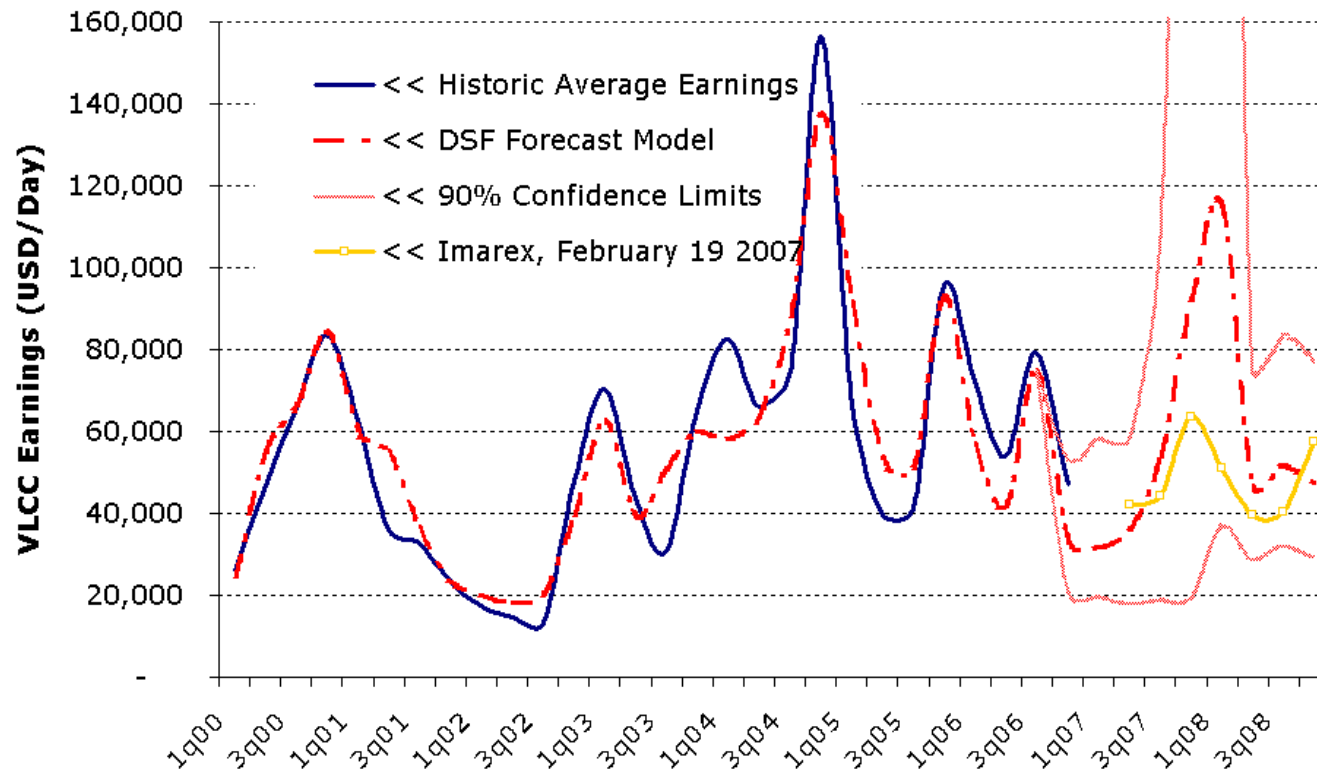
Theme 1: changed seasonality?

Theme 2: continued 'irrational' market behavior?



Will “contango” shift winter to summer?

DSF forecast model of quarterly average VLCC spot earnings

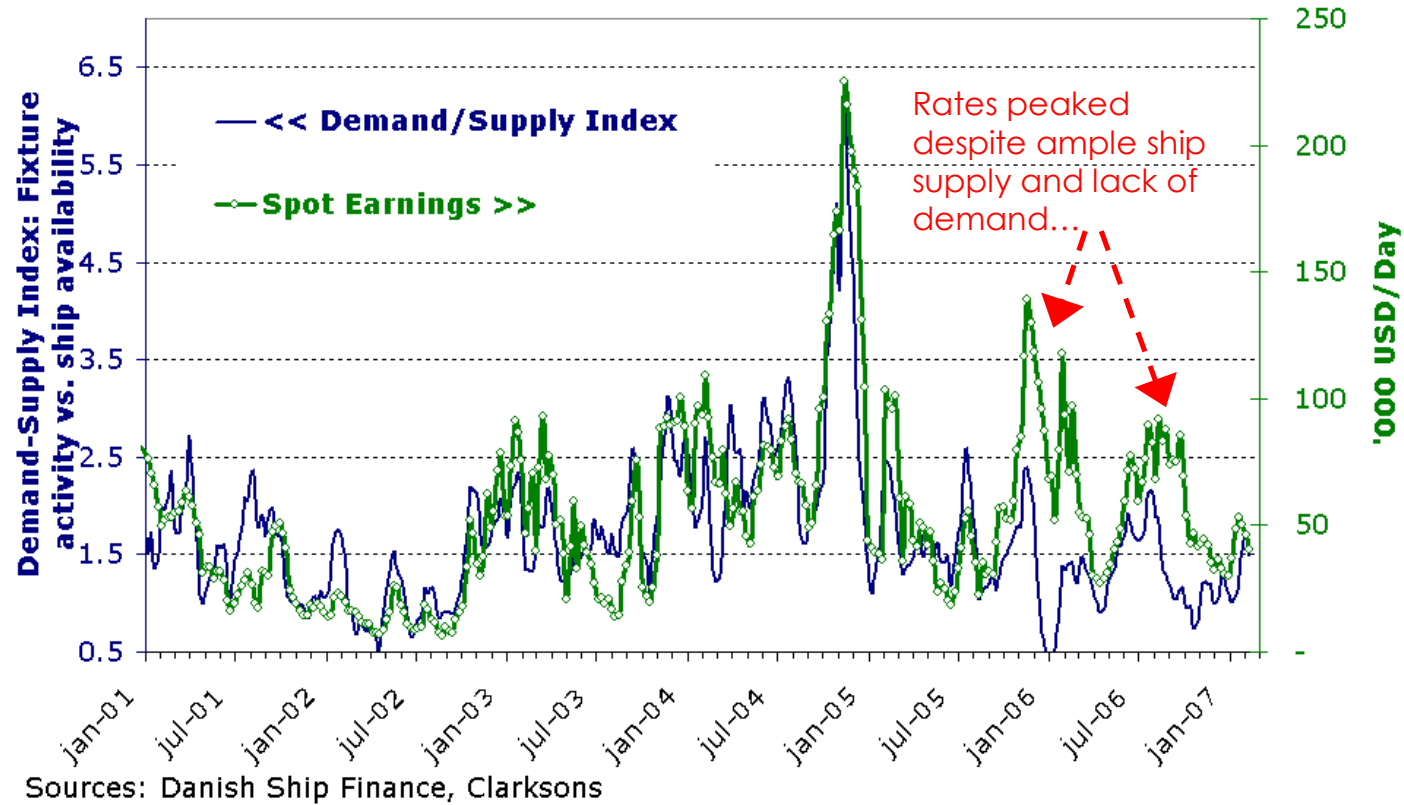


Sources: Danish Ship Finance, Clarksons, EIA, Imarex



Are we back to normal?

VLCC spot earnings & Arabian Gulf VLCC supply/demand ratio





Tanker outlook summary

- Will the oil market's 'uncertainty premium' fall in 2007?
- If not, tanker demand may be much stronger in early/middle of 2007 than the normal seasonality prescribes.
- US seaborne oil imports are estimated to fall for the next two years.
- Fleet growth in 2007-2009 at very high levels, and the 2010 phase-out may not be as high as anticipated.
- Can Asian demand counteract all of the above?



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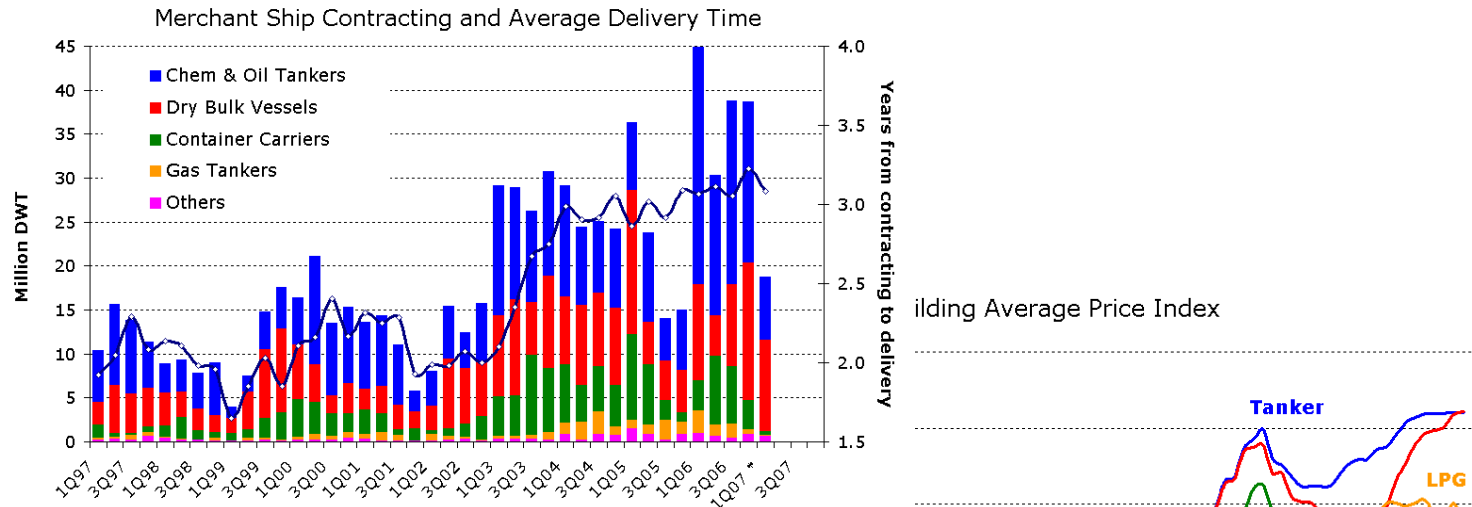
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Clear revival in contracting volumes and prices



Sources: Clarksons, Danish Ship Finance

* 1q07 as per February 19.

Annual contracting:

2006: 152 m.dwt
 2005: 89 m.dwt
 2004: 103 m.dwt
 2003: 115 m.dwt
 2002: 52 m.dwt

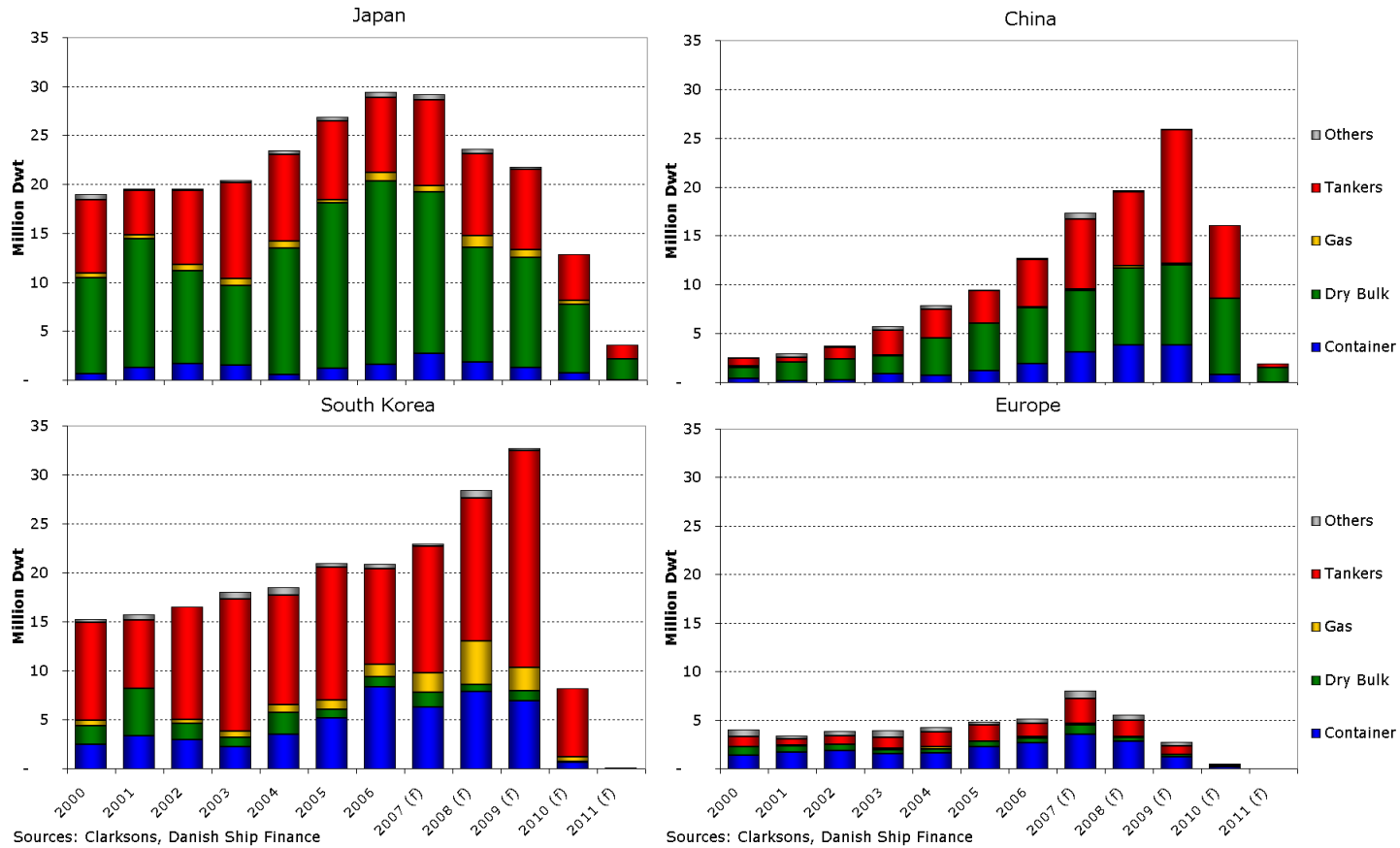
Sources: Clarksons, Fearnleys, Danish Ship Finance



Current Fleet & Orderbook by Region of Build and Year of Delivery

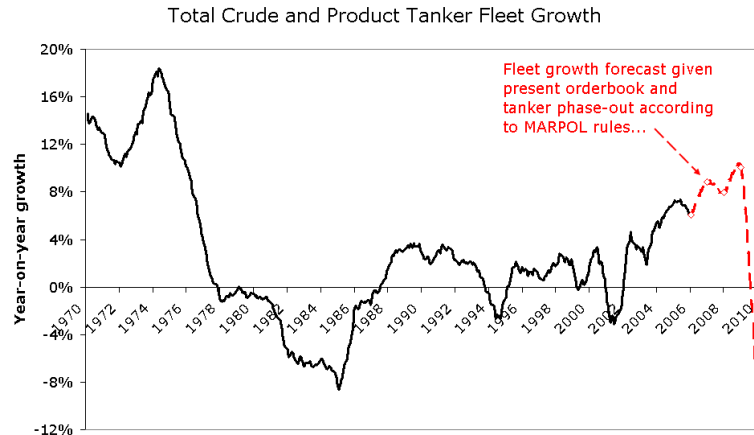
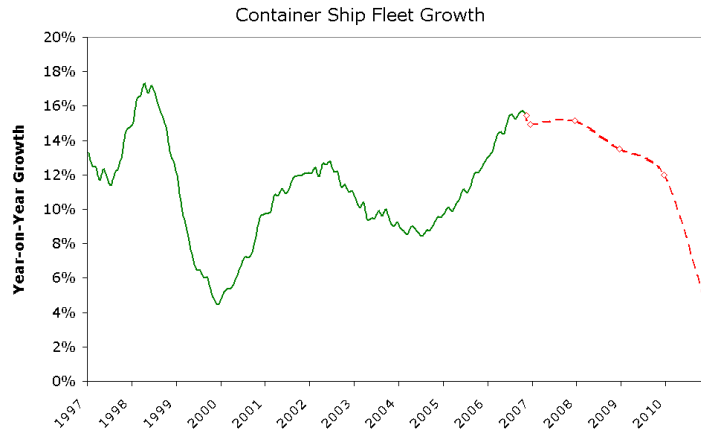
(Excludes allowances for possible slippage from scheduled delivery dates)

So far, pricing power is still in hands of shipyards...

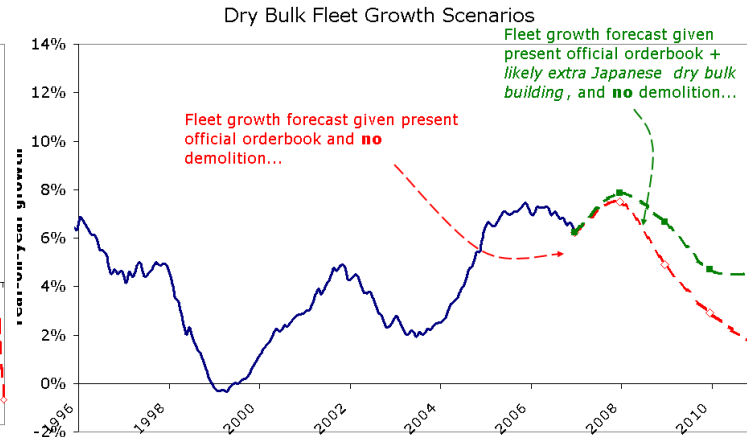




But can yards uphold a high or increasing order intake?



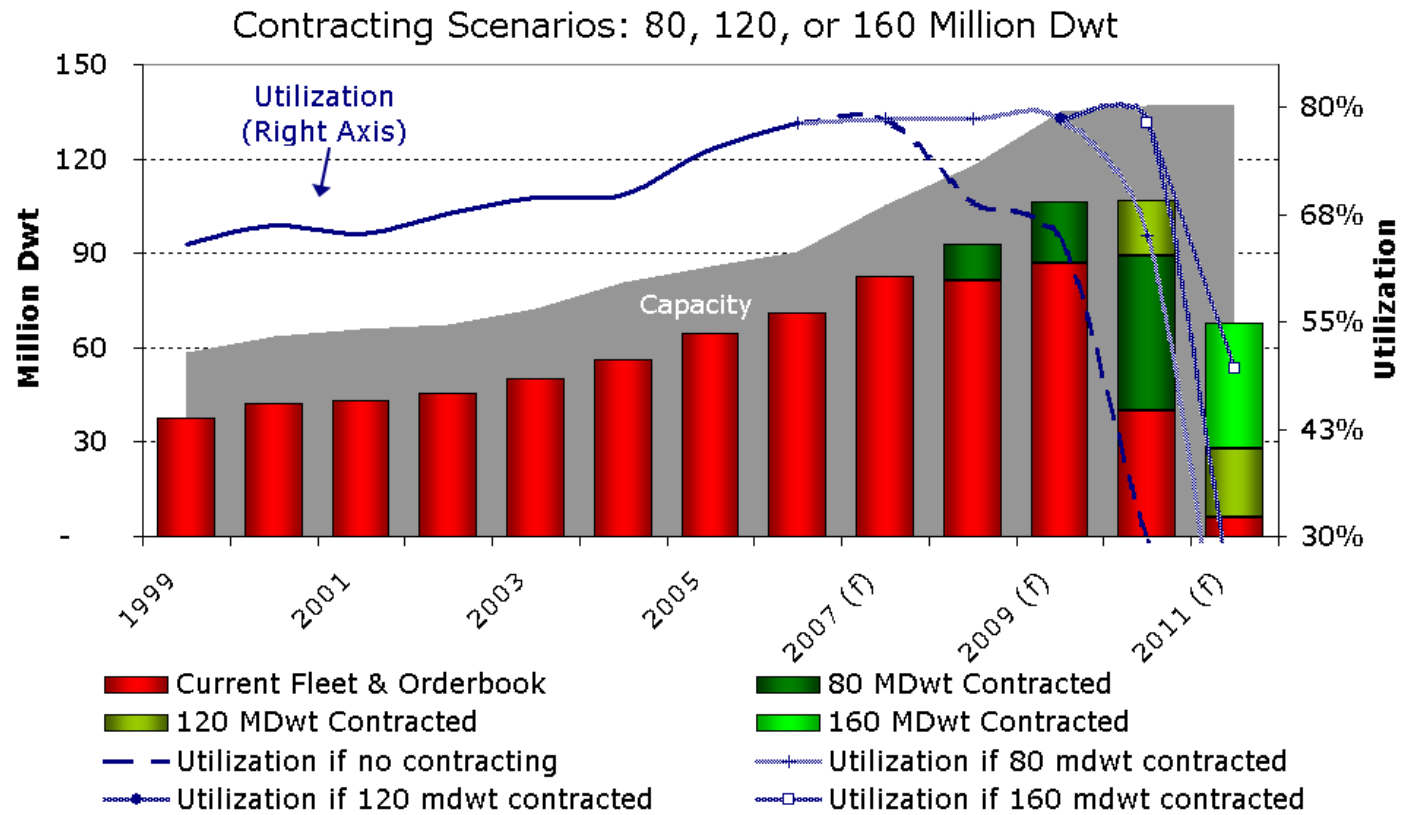
Sources: Danish Ship Finance, Clarksons, Fearnleys



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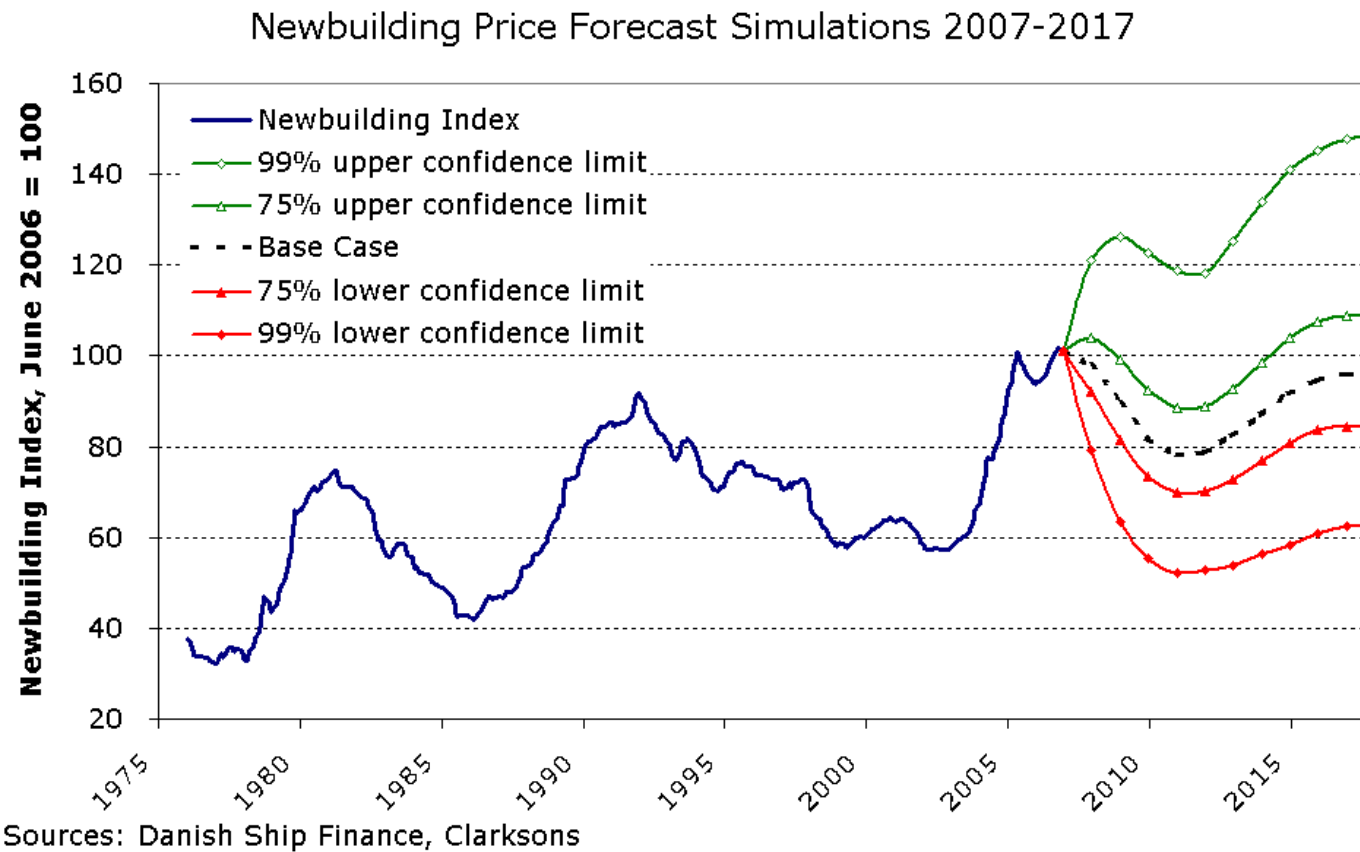


At least 110 m.dwt are needed to uphold status quo!





Eventually, newbuilding prices will fall (gradually)





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Summary

Dry bulk & China: strong growth, but not necessarily carried by sustainable demand factors...

Containerships: clear oversupply for the next 2-3 years...

Oil tankers: market uncertainty is still supportive of high stocks or even of further stock-building and good demand for oil tankers...

Shipyards: increasing overcapacity...



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Thank you for your attention

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