

Owners ordering larger container ships

Tramp box ship owners return to the new-building market

Following the lead taken by Taiwanese liner operator Evergreen (*Fairplay* 30 September) in ordering ultra-large container ships, tramp box ship owners also appear to be returning to the newbuilding market for some serious investments in larger capacity vessels.

Last week, Greek box ship specialist Costamare and German owner Bernhard Schulte both contracted a series of 9,000teu ships from the Chinese shipyard Shanghai Jiangnan Changxing HI. Costamare placed an order for three firm ships for delivery

between 4Q12 and 1Q13. There are options for a further three units of this design. Bernhard Schulte has contracted six firm ships of the same design and holds options for three more. Delivery is scheduled for between 4Q12 and 4Q13. Priced at around \$101M each, in dollar terms they are between 25-30% cheaper than similar vessels ordered during the 2006-2008 ordering boom.

In the market for box ships London shipbrokers told *Fairplay* that Geneva-based liner operator Mediterranean Shipping Co is in discussions with both shipowners to charter all of the vessels, although confirmation of their fixture had not been given at

the end of the week.

Shanghai Jiangnan Changxing has built larger container ships before and is currently working on five 8,500teu ships for Greek owner Danaos. They were ordered in 2007 with delivery during 2011. Also in the market for large box ships is Sammy Ofer's London shipowning company Zodiac Maritime, which is in talks with South Korean shipyard STX.

Zodiac is understood to be discussing up to ten 13,000teu vessels at a price of \$130M each, with contract signing reported to be taking place very soon.

According to the IHS Fairplay database, Zodiac has five vessels of similar capacity that were ordered during 2007. The first vessel from

this order is due for delivery later this year, with all five ships time-chartered to Maersk Line for a minimum of five years.

Meanwhile, Hyundai HI has reported to the Korean Stock Exchange that it has accepted a request by a European owner to trim an existing box ship newbuilding order. The undisclosed order was placed in 2007 for eight vessels. This has now been cut to four ships at the request of the owner "because of difficulty in ship financing".

According to the IHS Fairplay database, the only current newbuilding order for eight box ships placed in 2007 is for 8 x 13,000teu ships. They were ordered by Germany's ER

Rates revive but pessimism persists

Despite a revival in tanker rates, market analysts remain cautious for 4Q10

The prognosis for the tanker market has deteriorated during early October. Securities analyst Scott Burk from Oppenheimer & Co framed the case as follows: "the consensus for a seasonal rally in tanker rates seems to be changing to a consensus that there won't be any recovery for the tanker market in 4Q10 or in 2011."

Calculations show dismal timecharter equivalents on major routes. The Baltic Exchange's assessment of the bellwether TC3 route (a VLCC Gulf to the East) shows rates deteriorated to W44, producing an equivalent of about \$2,400/day. Suezmaxes have seen improvement, with the TD5 run (West Africa to US

Atlantic) now showing spot TCEs around \$14,000/day, based on a spot rate of W92.5.

One sign of the times has been the defensive posturing at General Maritime Corp. When organising its charter portfolio around 2007 and 2008, the company had bet on a shrunken vessel supply (due to mandated single-hull phase-outs) in 2010. In accordance with this view, it staggered its commitments so that multiple vessels would be open. The premise was actually correct: consultant Drewry forecasts that the tanker fleet at the end of 2010 will be unchanged from the 371.6M dwt it showed at the end of 2009.

However, supply is only part of the story; the context has changed dramatically. Demand fell precipitously, well after General Maritime's period charters were booked. Drewry

estimates a 4.2% drop for tanker deadweight tonnage in 2009. In 2010, although recovering from the recession, increased oil movement has failed to sustain the hoped-for spot rate environment. In the case of General Maritime specifically, its successes in sourcing attractively priced vessels, in advance of a market recovery, prompted a need for funding. The owner drew down bank lines, raising \$372M of debt from a Nordea-led syndicate, to support its \$620M purchase of seven vessels (five modern VLCCs and two newbuilding Suezmaxes) from Metrostar, earlier this year.

News of General Maritime's recent financial manoeuvrings surrounding this debt has overshadowed what can be viewed as a shrewd chartering move announced by the company in late September. Two VLCCs, two



Suezmaxes and two Aframaxes were all put onto one-year charters with Trafigura, each expected to commence in mid-October. Just as a good financial trader will play the yield curve, savvy chartering strategists play the forward curves. Although General Maritime does not reveal

Newbuilding orders in 2010

Month	Bulk carrier	Container	Tanker	MPP	Others
January	42	0	25	8	99
February	65	0	25	25	52
March	52	4	34	11	84
April	52	3	15	2	44
May	148	0	35	14	109
June	104	3	51	28	80
July	147	26	47	17	85
August	90	7	54	44	145
September	121	16	31	12	67
October*	55	9	4	0	26

*Data as at 8 October

[Source: IHS Fairplay]

Forward cover needed

Owners are feeling their way into the box ship newbuilding market after a two-year absence, attracted by low prices and re-emerging tonnage interest from charterers. However, with many problems still unsolved, including lack of financing and supply-side pressure, it will be a slow and tentative process. Speculative ordering by German tramp owners is expected to be the exception, given their strained balance sheets. The contract for 9,000teu ships placed by Bernhard Schulte fits that picture. Brokers say it required a seven-year charter at \$43,000/day with MSC to get the deal done. Any material increase in ordering activity from non-disponent owners in future will depend on the availability of such forward period cover. Opportunities should increase as container lines, after pulling away from the brink, are resuming their fleet renewal and development programmes beyond 2013. It will be interesting to see whether Zodiac's plan to contract ten 13,000teu vessels will defy that logic since brokers believe the project remains 'charter free'.

Schiffahrt and were understood to have been long-term chartered to liner operator MSC.

In the larger tanker sector, SK Shipping of South Korea has ordered a pair of VLCCs from compatriot shipbuilder Hyundai HI. The 319,000dwt vessels are due

for delivery during 2H12 and have been priced at \$105M/vessel. Earlier this year SK Shipping contracted two VLCCs from Chinese shipyard Dalian Shipbuilding. HHI itself is also understood to be in discussion with an undisclosed shipowner for up to three coated

Aframax tankers. Either two or three 114,000dwt ships are believed to be under negotiation for delivery during 2012.

Also in the tanker sector, Shipping Corp of India is thought to be at an advanced stage to order up to four VLCCs from Chinese yard

Jiangsu Rongsheng HI. The potential order includes options for a further two 318,000dwt vessels. SCI recently confirmed an order for four Kamsarmax bulk carriers placed at Chinese shipyard Jiangsu Eastern which are due for delivery in 2012. ■



\$22,000/day

Imarex assessment of daily earnings for VLCCs over the next year

Genmar Vision: upward sloping forward curves characterised the tanker market throughout 3Q10

[Photo: Southern Cross Maritime]

the exact rates on its one-year timecharters, the upward sloping forward curves, mirroring a strong period charter market, characterised the tanker market throughout 3Q10.

Consider *Genmar Hercules*, a 2007-built VLCC recently acquired from Metrostar, which had been

fixed in mid-September on a spot charter yielding \$16,000/day. Another newcomer to the General Maritime fleet, *Genmar Atlas* (another three-year-old VLCC), was faring a bit better on business earning \$27,000/day. In a recent weekly tanker report, New York broker CR Weber, pegged the one-

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year period market at \$36,000/day, showing the advantages of moving up the forward curve. Yet, even forward rates have softened – the same CR Weber report from early September (when these VLCCs would presumably have been fixed) estimates the one-year VLCC term rate to have been \$38,000/day. The analogous Suezmax rate was then assessed at \$27,500.

The pervasive gloom has impacted the forward (paper) markets, which are quicker to react than the period physical market. The normal discount in the FFAs, below the period timecharter markets, has been exacerbated by the negative sentiment. Assessments on Imarex, over

the next year, have put traders' expectations at around \$22,000/day for VLCCs, and \$19,000-\$20,000/day on Suezmaxes.

General Maritime, running a fleet with very high standards, has estimated daily operating expenses on its VLCCs and Suezmaxes at \$12,100/day and \$8,300/day, respectively. The present spot VLCC market shows negative contributions to both operating and capital expenses. Suezmaxes, on the other hand, are covering operating expenses, and making a significant dent into capital expenses, rewarding the owners who have purchased their ships at opportune times in the cycle. ■