

THE END OF THE WORLD as we knew it..??

The year is nearly over, and what a year that was...

We started off the year with the fear of the unknown. Everyone had to “write” his own “instruction book”, as there was no literature in the world that could guide us not even just describe vaguely what we were all encountering!

The common fear that it could be “*the end of the world as we knew it*”, to rephrase the REM song was eminent to everyone on this planet! And was it the end of the world? The answer is **definitely not**. At least not for our Shipping industry, as it was not even close to the devastation that was predicted and feared.

This time last year, and when the year was just starting, psychologically all of the world was facing a *never encountered global and complete market devastation*, with the Finance world in a practical and not just a theoretical collapse. Adding to this we stress that world trade was on a mere stop and most exchanges were put on a halt, with the necessary LCs being out of the question and with liquidity and trust needed to keep the goods flowing and “shipped” being non-existent.

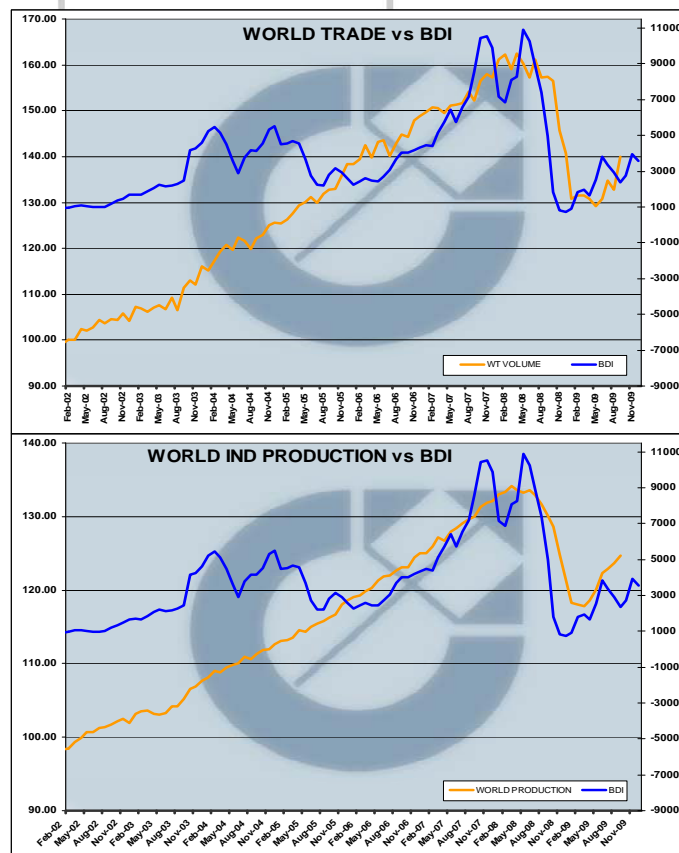
Topping to this we had all Banks fearing that not only their portfolios were “killed & slashed” in value, but mainly their own future existence was in serious doubt. Our Shipping industry was seeing all ship values “hitting the ground” loosing up to 75% of their previously peaked highest levels, with actual rumored ship Charters being reported at even “0” dollars per day just to keep a vessel in the market. It was around the same time that we received some alarming signals from prudent owners of such great magnitude always known to take cautious and timely decisions, that were seen to take a voluntary action of laying up a great number of new vessels so to minimize daily losses and non-profitable operation/exposure.

With all these negative and alarming signs in front of us we all feared of the worst for 2009. And “luckily” the worst never actually hit us. The question still arises as to will the worst eventually come face to face with us in the new

decade? Will our initial fears end up surfacing or in actual fact the worst as expected was just in our minds and was just a *direct result of the bad psychology*, and the *negativity surrounding the world trade as a whole*? Did we manage to sweep the dust under the carpet really or have we got rid of some of the choking dust during these 12 months of 2009?

What is encouraging is that the World trade and World Industrial output seem to be recovering from the Oct 2008 crash. Both the volume of world trade and the world trade prices are steadily regaining in numbers, and have been on a constant up-rise which can be seen in the charts on our left.

What is more important for our shipping industry is the fact that Emerging economies Industrial Output/ production is not only increasing but has reached the highest figures of the last 19 years, which at least shows that the effect of Developing countries is going to be of greater importance during the next 3-5 years. What is also a good point to stress out is that the trend and slope of increase of the World Industrial output is now greater than the per annum rate of increase that was existing before the drop that started after



June 2008. So we can safely say that business in terms of WIO is back to normal again and it is “*business as unusual*”!!!!

So let's take a quick view from the Captain's bridge and see what the *Ship's Log* recorded for 2009?

INDICES

The Baltic **Dry** Index gained 290% during the year. It opened the year at 773 points on Jan 2nd 2009, and closed the year Dec 24th 2009 at 3005 points. It peaked 4661 points on Nov 19th 2009. The Baltic **Cape** Index gained 185% during the year. Opened at 1361 points and closed at 3887 points. The Baltic **Panamax** Index gained 560% as it opened the year with just 540 points and closed with 3567 points. The **Supramax** Index gained 440% opening at 411, closing at 2224, while the **Handymax** index gained 315% opening at 279 and closing at 1159 points.

INDEX	Dec-09	Jan-09	% CHANGE	POINT DIFF	TREND
BDI	3005	773	288.75%	2232	▲
BCI	3887	1361	185.60%	2526	▲
BPI	3567	540	560.56%	3027	▲
BSI	2224	411	441.12%	1813	▲
BHI	1159	279	315.41%	880	▲

TIME CHARTERS

Charter levels for **Capex** opened the year at 10,000 per day and closed at \$55,700 usd per day (460% increase), while **Panamax** rates opened at \$5,800 and closed at \$29,500 usd per day gaining (408% increase), **Supramax** rates opened the year at \$7,000 and closed at \$26,300 (264% increase) while **Handymax** rates opened the year at \$5,600 and closed at \$26,000 usd per day.

DRY BULK TIME CHARTER EARNING OUTLOOK					
VSL TYPE	Dec-09	Jan-09	% CHANGE	DIFF	TREND
CAPEX	\$55,769	\$9,958	460.06%	\$45,812	▲
PANAMAX	\$29,500	\$5,802	408.46%	\$23,698	▲
SUPRAMAX	\$26,308	\$7,214	264.66%	\$19,093	▲
HANDYMAX	\$26,800	\$5,650	374.34%	\$21,150	▲

SALE AND PURCHASE

It is surprising to see that when prices had seemed to have bottomed out in Nov 2008, these same prices continued to be pressed hard for the first quarter of 2009 too. After that very hesitantly there were some price increases and in reality ship prices followed closely the index increases. The number of ship transactions that occurred during 2009, were growing on a monthly basis slowly but surely, as the confidence from buyers was improving and we finally saw a total of **1032** dry cargo vessels that were sold during this past year. The amount of units sold, is seriously considered as unexpectedly high and makes one think of its greater importance, as the **\$13billion** usd spent on these deals came mainly from cash and even if there were bank loans involved the bank's participation in these must have been limited to much lower percentages than 60-70 or even 80% finance that was readily available in the past, before the Oct 2008 crisis struck the world!

A typical 5 year old dry cargo vessel and let's take a *Capesize* vessel as an example, was worth about \$45mil in Jan 2009 and has reached abt **\$50mil** today an increase of 12%, while a *Panamax* vessel started the year at \$33mil and today could fetch **\$33mil** an increase of 27% and a *Handymax* was valued at \$24 in Jan 09, and today can be sold at **\$27mil** an increase of 13%.

5Y Ship prices	Dec-09	Jan-09	% CHANGE	DIFF	TREND
CAPEX	\$50	\$45	12.36%	\$6	▲
PANAMAX	\$33	\$26	27.45%	\$7	▲
HANDYMAX	\$27	\$24	13.62%	\$3	▲

NEWBUILDING ORDERS

What a year to be a builder!!! “Bob the builder” should apply for the “dole”...!! Yards have faced the worst year in their history as new orders were practically non-existent all through this year. We understand and have reports of few orders that were placed this year but the total number of **230** orders of **720** units is not just few... it is simply very-very-very low!!! Last year in 2008, we had **1157** orders of **3500** new units and in 2007 we had **1500** orders of **4800** new units!

Where are all these new units ordered way back in 2006, 2007 and 2008? Are they being constructed? Are they going to eventually hit the waters? And when they do so will these new additions over-flood the existing active capacity of vessels? The answers to our questions can be all theories and pure speculation, however the observed and studied numbers say that we have only **434** cancellations so far out of the total dry bulk order book. These 434 cancellations represent only 27million tones of carrying capacity and that is just a poor 10% of the total Dry Bulk orderbook which presently consists of 4266 units of a total of approximately 299million tones of carrying capacity.

	On Order/Projected/Under con		Cancelled / aborted /		Scrapped / Total Loss	
	units	Total dwt	units	Total dwt	units	Total dwt
Dry bulk	4,266	298,955,609	434	27,008,678	711	19,928,309

593 vessels were to be delivered in 2009, a heavy **1812** are to be delivered in 2010, **1255** in 2011, and **476** in 2012, **101** in 2013

If we look at the 5 main size sectors the picture is quite alarming. Let’s just concentrate and look into the next 4-5 year delivery horizon, say until 2014-2015. It is eminent that a rather gloomy picture is forecasted, with the greatest impact being mainly in the Supramax range with the Cape sector coming second in potential overcapacity.

The **Capes** have 705 units expected to be delivered with of a total of 141,771,098 tones – Existing fleet is comprised of 896 units with a total of 161,729,321 tones. (Deliveries are expected and calculated for all orders until 2015)

The **Panamaxes** have 674 units to be delivered of a total of 54,416,936 tones – Existing fleet has 1525 units of 111,903,820 tones

The **Supramaxes** have 900 units to be delivered of a total of 50,899,439 tones – Existing fleet has 868 units of 46,837,000 tones

On the other side the **Handymaxes/Handies** have only 67 units to be delivered of a total 2,800,000 tones. Existing fleet has 768 units of 54,718,303 tones

Bulkers greater than 20,000 tones in dwt and less than 37,000 tones dwt, have 742 NB units of a total of 23,061,330 tones on order - Existing fleet is 2078 units of 57,892,904 tones

	Existing		NB Orders		diff	
	units	total dwt	units	total dwt	units	dwt
Cape	896	161,729,321	705	141,771,098	78.68%	87.66%
Panamax	1,525	111,903,820	674	54,416,936	44.20%	48.63%
Supramax	868	46,837,000	900	50,899,439	103.69%	108.67%
Handymax	768	54,718,303	67	2,800,000	8.72%	5.12%
Bulkers	2,078	57,892,904	742	23,061,330	35.71%	39.83%

SCRAP MARKET

This was the year to be a “scrapper”!!! 1244 units were scrapped in 2009. This number represents a never seen before record figure. To understand its size, just by summing up the units scrapped in 2004+2005+2006+2007 & 2008 we end up with a total figure close to what just exited the market alone in 2009.

Average prices were for the whole year around the \$270 per tone mark, and that number includes the price offered by Turkey. If we see the totals per sector we can say that 600 dry cargo units were scrapped this past year, 206 containers, 103 car carriers, 42 reefers and 204 tankers of which 28 were gas carriers. 34.6million tones of carrying capacity were removed from the active fleet and 10.2million tones of steel was cut for recycling.

For 2009, India got the Lion’s share in terms of units taken with 473 units, China 2nd with 271 units, Bangladesh 3rd with 211 units and Turkey 4th with 105 units.

Scrap activity was really strong this year and this was a great help for our industry. Ship values during 2009, remained severely lower from the over inflated and extravagantly high levels we had seen to reach a peak by the end of first half of 2008. It was the case in some deals during the past year 2009 that some older ladies being traded for second hand were on riding along the thin line of being sold for scrap or at nearly similar levels for further trading? Many deals we had encountered were nearly decided by the “toss of a coin” to go to the breakers or to mainly Chinese new owners!

BREAKER - STATISTICS FOR 2009				DRY		WET	
BREAKER	UNITS	LDT TAKEN	av \$	UNITS	LDT	UNITS	LDT
CHINA	271	2,661,703	\$242	260	2,577,856	11	83,847
INDIA	473	3,857,234	\$271	417	3,315,272	56	541,962
BANGLADESH	211	2,373,104	\$295	122	1,196,962	89	1,176,142
TURKEY	105	219,447	\$177	95	206,429	10	13,018
PAKISTAN	85	709,451	\$273	68	539,012	17	170,439
OTHER/CASH/AS IS	99	392,037		63	205,443	19	113,230
TOTAL	1244	10,212,976	\$251	1,025	8,040,974	202	2,098,638

We still see that these scrap levels can definitely be of great help to the industry, and in view of the potential overcapacity that might actually enter the active fleet given the huge newbuilding order book, we can say that the deletions from the active fleet are essential as a temp remedy but not as a final cure. But still even if it is just considered by many as “an aspirin for our headache...” it is still more than welcome because no one can dispute that one less headache for all can help keep every one’s mind clear for some constructive thinking and strategic planning!!

And if 2010 is the beginning of a new decade, trying to predict the market should follow two main premises:

- 1) “If you are going to forecast, forecast often” as John Kenneth Galbraith once said and,
- 2) Study your history and know your facts

Plenty of work for our analytics team processing the data of the last decade.

