

The LNG Tanker Market, October 2011

Executive Summary

Global trade developments

On the back of strong demand for LNG in Europe and Asia, and unexpected requirements for additional LNG cargos into Japan in the wake of the nuclear power plant accident at Fukushima, the LNG shipping market staged a strong rally in the winter and spring of 2011. This rally has continued through the summer and fall. Combined with a slowdown in newbuilding deliveries, it has led to a very tight market for free conventional LNG tonnage. Fleet utilization rates have stayed high for most of this year, around 75% for the LNG fleet as a whole and much higher for conventional-size tonnage not committed to long-term project charters. As a result, short-term LNG carrier charter rates have risen to \$95,000/day, with individual fixtures well above \$100,000/day. We expect short-term charter rates to remain strong through the coming year, unless gas demand in Europe and Asia contracts. Such a contraction could result from a second global economic slowdown or the re-activation of significant nuclear generating capacity in Japan.

Because there is relatively little new LNG production capacity scheduled to come on line before 2014, it is possible under high-case demand growth scenarios that LNG supply becomes a binding constraint on global LNG trade in 2013 and 2014. We consider this a remote possibility only.

LNG fleet development and newbuilding activity

The LNGC fleet consists of more than 370 large LNGCs with combined cargo capacity of 52 million m³ or 24 million tons. On today's trade route mix, this fleet is capable in principle of delivering about 330 mt/y of LNG. Fleet growth has slowed to a trickle: only one or two vessels remain to be delivered this year, and only four are due to come out of yards in 2012.

Fleet growth will resume at a stronger pace in 2013, when more than 20 new LNGCs are due to come out of the yards. Summer and fall of 2010 saw a modest return to ordering, and the consistently strong LNG shipping market of 2011 has supported much more robust ordering. As of October, orders placed in 2011 totaled close to 8 million m³, bringing the orderbook close to 15 percent of the existing fleet, up from a low of 5% last year. As shown in Figure 1, we expect to see a few additional orders in the remainder of 2011, and continued ordering into 2012. Strong fleet growth will resume, as a result of these recent orders, in 2013-15.

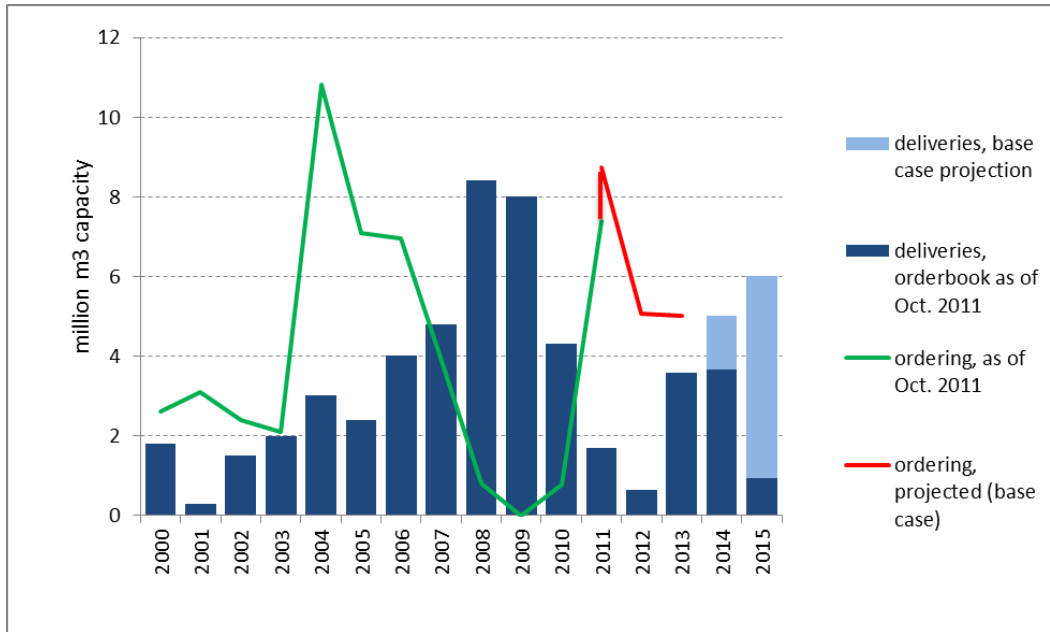


Figure 1: LNGC ordering and deliveries.

Fleet utilization and charter rates

Fleet utilization and charter rates rose dramatically over the course of the winter and spring of 2011 and have remained robust since then. The utilization rate among conventional LNGCs that are not committed to long-term project-based charters is close to 95%.

In the Marsoft base case scenario, fleet utilization will continue to improve gradually through the next year, and then drop slowly as fleet growth resumes in 2013. Under our low case scenario, which assumes a second global economic slowdown and protracted period of low growth with contraction of LNG demand in emerging Asian markets and Europe, fleet utilization will decrease over the course of 2012 and 2013. Under the high case, which requires additional rapid growth in demand for LNG in one or more of the major importing regions, utilization rates will rise more strongly through 2012 and LNG shipping markets will become extraordinarily tight over the next two years.

In line with improved fleet utilization, short term charter rates have risen dramatically to around \$95,000/day for 2-year charters in summer and fall of 2011. We expect average short-term charter rates to remain strong for the coming year and begin to drift downward slowly over the course of 2013. In the high case, average rates will pick up more dramatically and climb to a peak in excess of \$110,000/day by early 2012. In the low case, short-term rates will drop back below \$80,000/day over the course of 2012 and drop further in subsequent years. Whether something like the low case materializes likely depends on the ability of Europe to contain the financial crisis threatening Euro-zone economies, and the ability of the United States to avoid sliding into a second economic contraction.

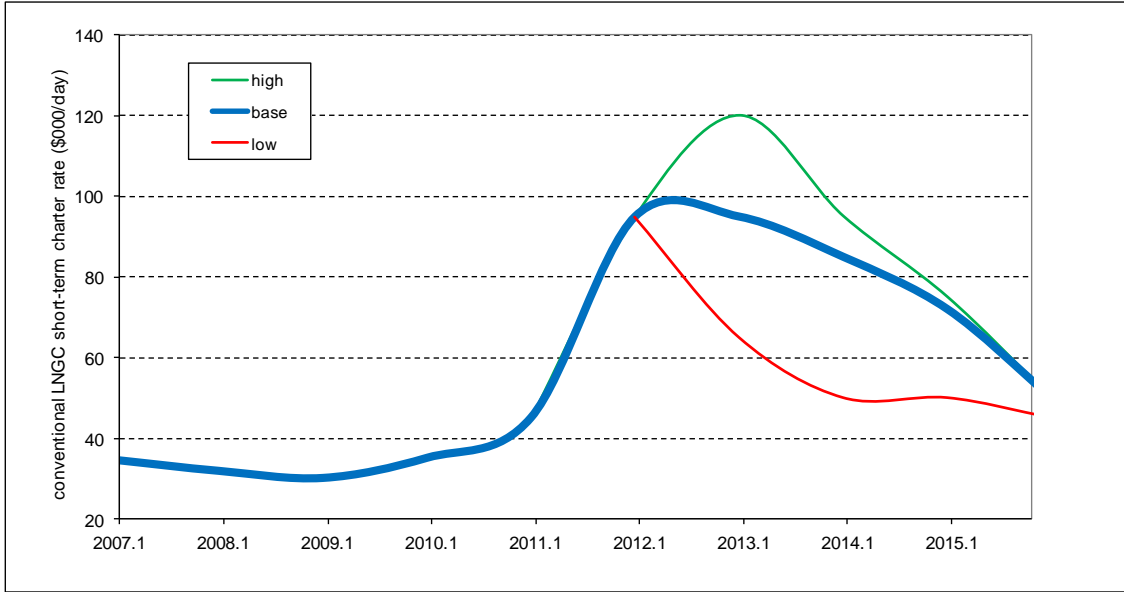


Figure 2: Short Term Charter Rate Forecast for Conventional Size LNGCs