



POTEN LNG QUARTERLY NEWBUILDING REPORT

COMMENTARY

GENERAL NEWBUILDINGS: The third quarter saw healthy levels of oil tanker contracting and LPG carriers experienced a record month with 12 vessels added to the orderbook in September. Newbuilding demand for container vessels, on the other hand, slowed down after the summer and demand for offshore tonnage remained limited due to the weak prospects of an improved oil price. The latter, however, provided continued lucrative conditions for the tanker market prompting orders in all segments from MR to VLCC. Newbuilding price levels remained steady across the board with ample shipbuilding capacity to cater for demand. The exception seems to be in China, where builders have successfully lowered tanker newbuilding prices to restore competitiveness and this trend might get further support from the recent devaluation of the Yuan (see Currencies).

LNG NEWBUILDINGS: LNG ordering continued at a humble rate in Q3 with seven LNG carriers and one FSRU signed. Chubu Electric ordered a total of four LNG carriers at MHI and KHI, respectively, which will lift volumes from U.S. export project Freeport LNG. DSME bagged three MEGI orders from BW Gas and Chandris, while Golar was behind an FSRU order at SHI. The limited demand kept newbuilding prices in check, with DSME continuing to outcompete other yards on ships with 2-stroke engines combined with partial reliq. Repsol's LNG shipping tender for 1+1 vessels for Cameron LNG closed on 16 September, and the winning combination of Owner and Shipyard will be announced Q1-16.

TECHNOLOGY TRENDS: The propulsion technology and capacity of first generation LNG carriers are making them increasingly uncompetitive, but the old ladies can still be useful if converted. In July Golar announced another FLNG conversion of the GANDRIA, (126,000 m³, 1977 built) making it the third steam vessel to be converted to an FLNG at Keppel Shipyard for Golar. GANDRIA will serve Ophir Energy's LNG project offshore Equatorial Guinea from 2019 pending FID. Korean container giant Sinokor acquired another six steam ships during Q3 bringing their LNG vintage fleet to seven old ladies, which may be FSRU/FSU conversion candidates.

METAL PRICES: The doom and gloom continued this quarter for steel producers with Asian steel plates dropping to \$430/tonne in September (2015 AVG \$475). Iron ore prices initially rebounded in July but the rally was short-lived. Goldman Sachs issued a report in August stating that iron ore prices may tumble 30% over the next 18 months as supply is likely to diverge further from demand. Chinese aluminium producers have not curbed their output despite the metal's price slump to a six-year low, down 13% since beginning of the year, suggesting aluminium still has some way to go before finding a floor. Nickel didn't deliver much upbeat news either, down 18% year to date.

CURRENCIES: China's devaluation of its Yuan in August led to a sharp selloff in emerging market currencies and impacted equity markets across the globe. The Yuan will fall to 6.5 against the dollar by the end of this year and 6.9 at the end of 2016, bringing it close to a 10% depreciation, according to Bank of America Merrill Lynch. Investors fled to safe havens such as the Japanese Yen and German bonds. End of September U.S. Fed Chair Janet Yellen reiterated her previous statement from June that an interest rate increase in 2015 remains "appropriate". This triggered the Korean Won to drop to the weakest level in four years on concerns the nation's export outlook is worsening as the U.S. moves closer to raising interest rates.