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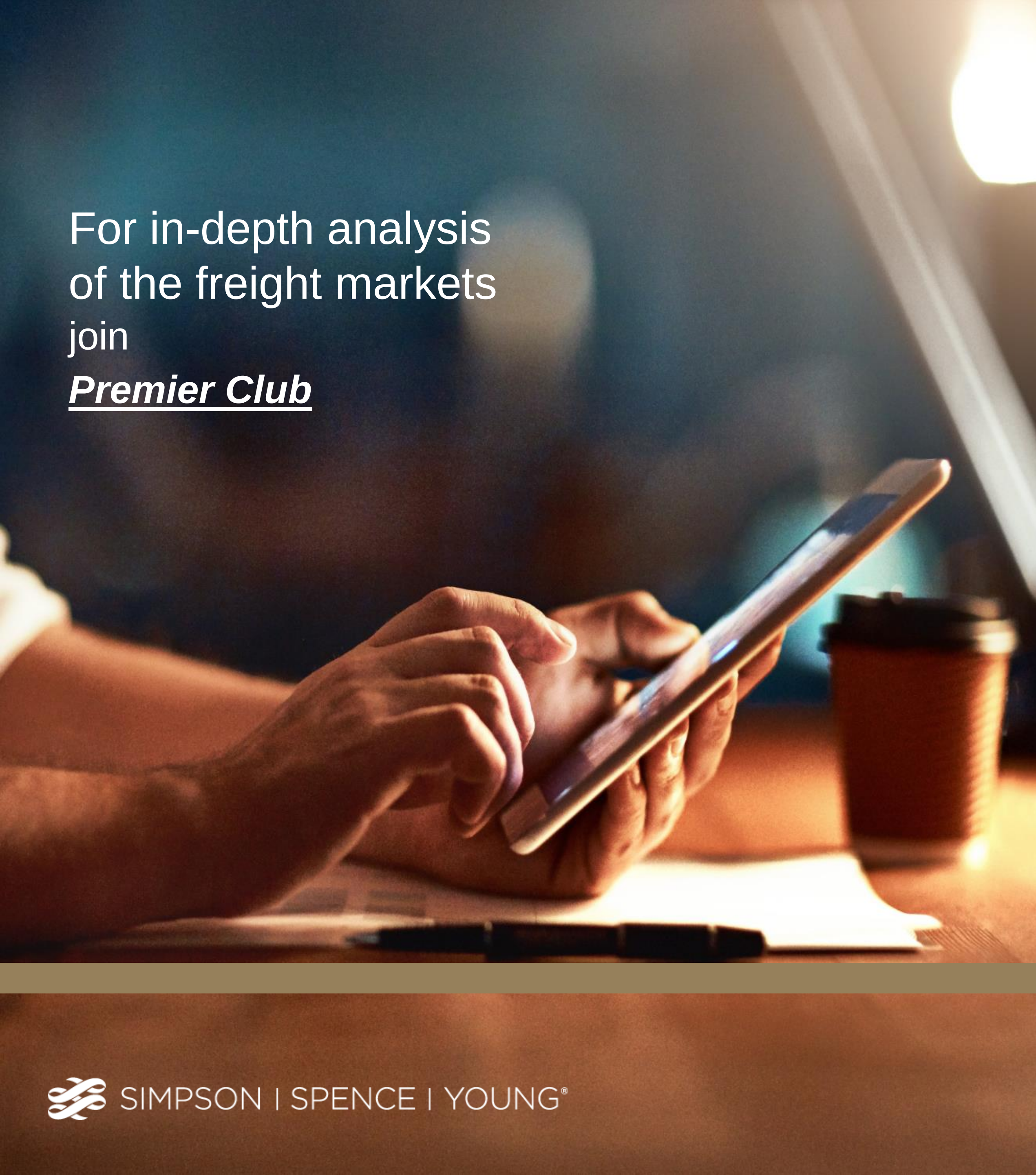
# DRY BULK FREIGHT MARKET REVIEW & OUTLOOK

3RD KALLANISH ASIA STEEL MARKETS 2019
HO CHI MINH CITY

APRIL 2019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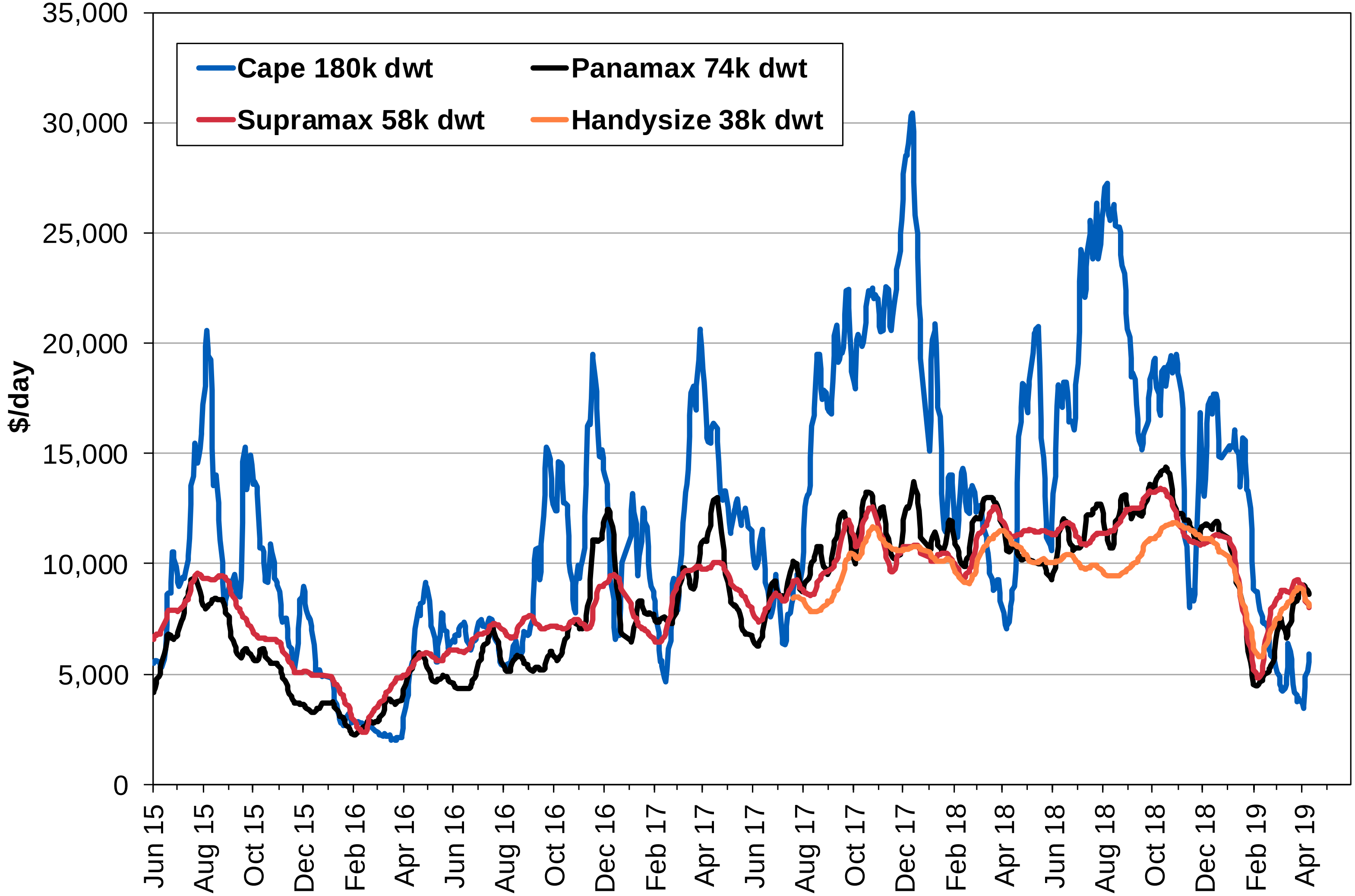
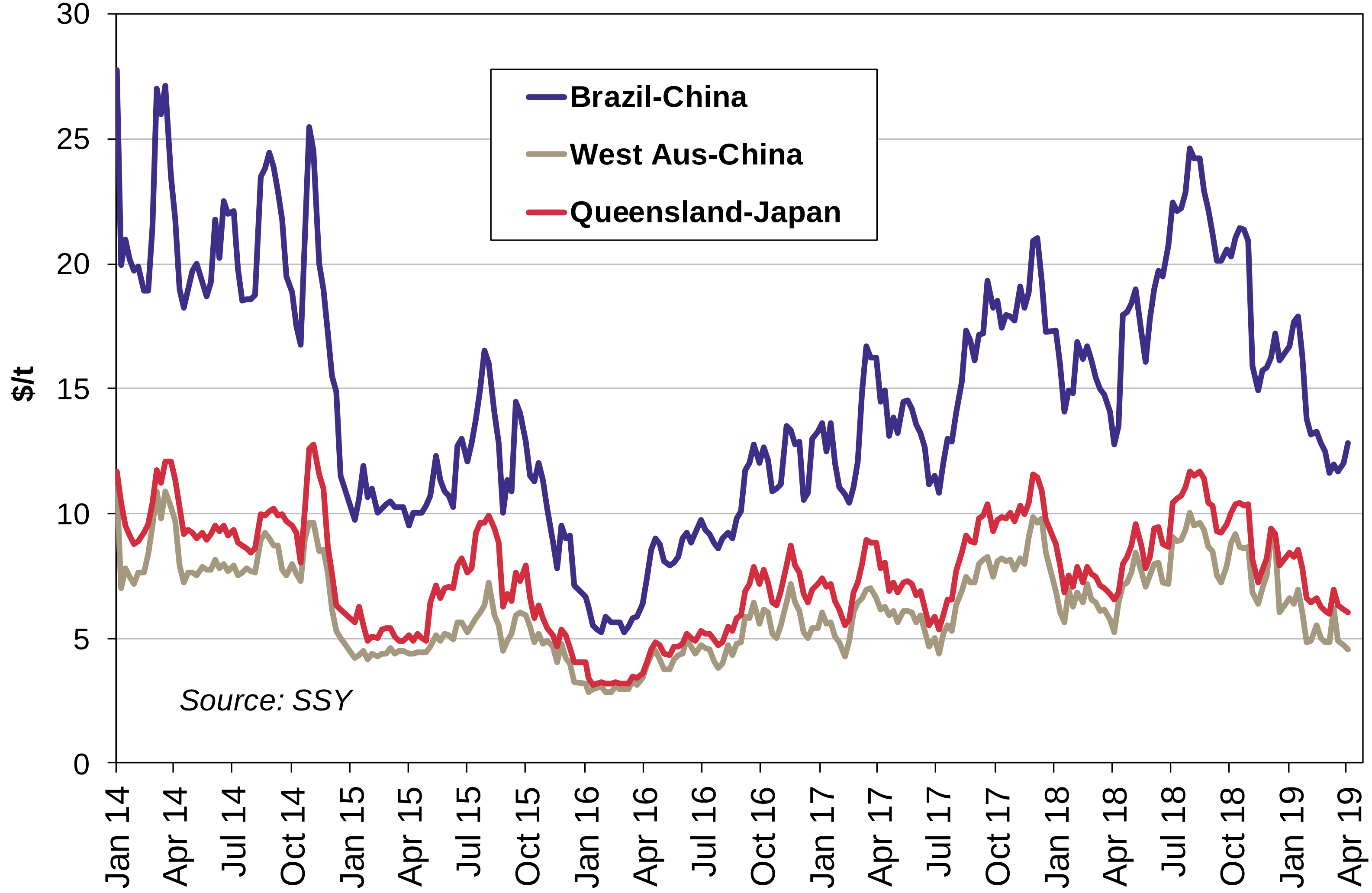
# PRESENTATION STRUCTURE

- why the 1q19 crash in freight rates?
  - combination of seasonal, exceptional and cyclical factors
- how can the freight market recover?
  - potential demand-side drivers
  - supply-side adjustments
- impact of IMO 2020 regulations

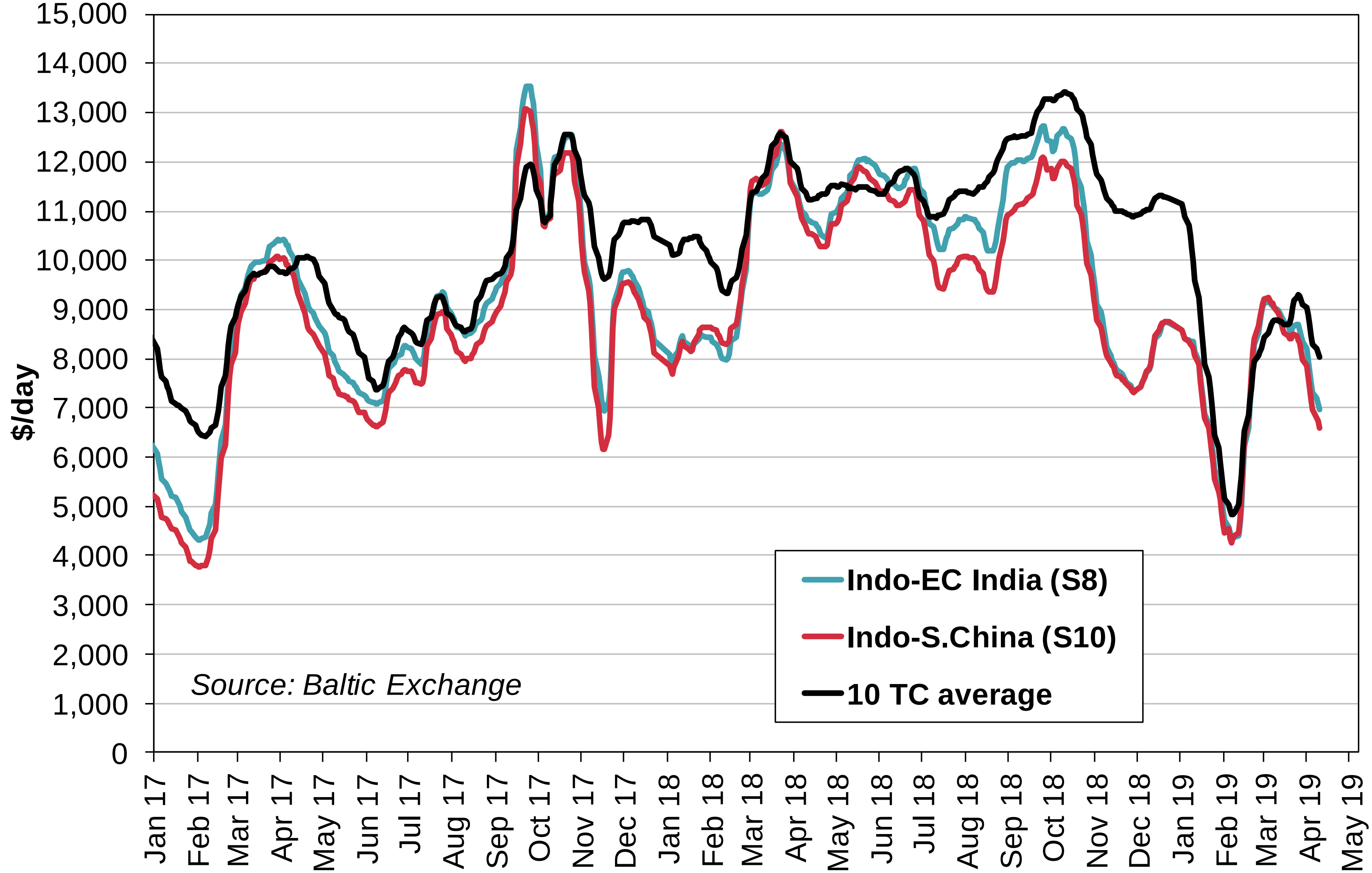
# BALTIC EXCHANGE AVERAGE TIMECHARTER RATES: CAPES FALL TO LOWEST OF ALL SIZES



# CAPESIZE IRON ORE & COKING COAL FREIGHT RATES



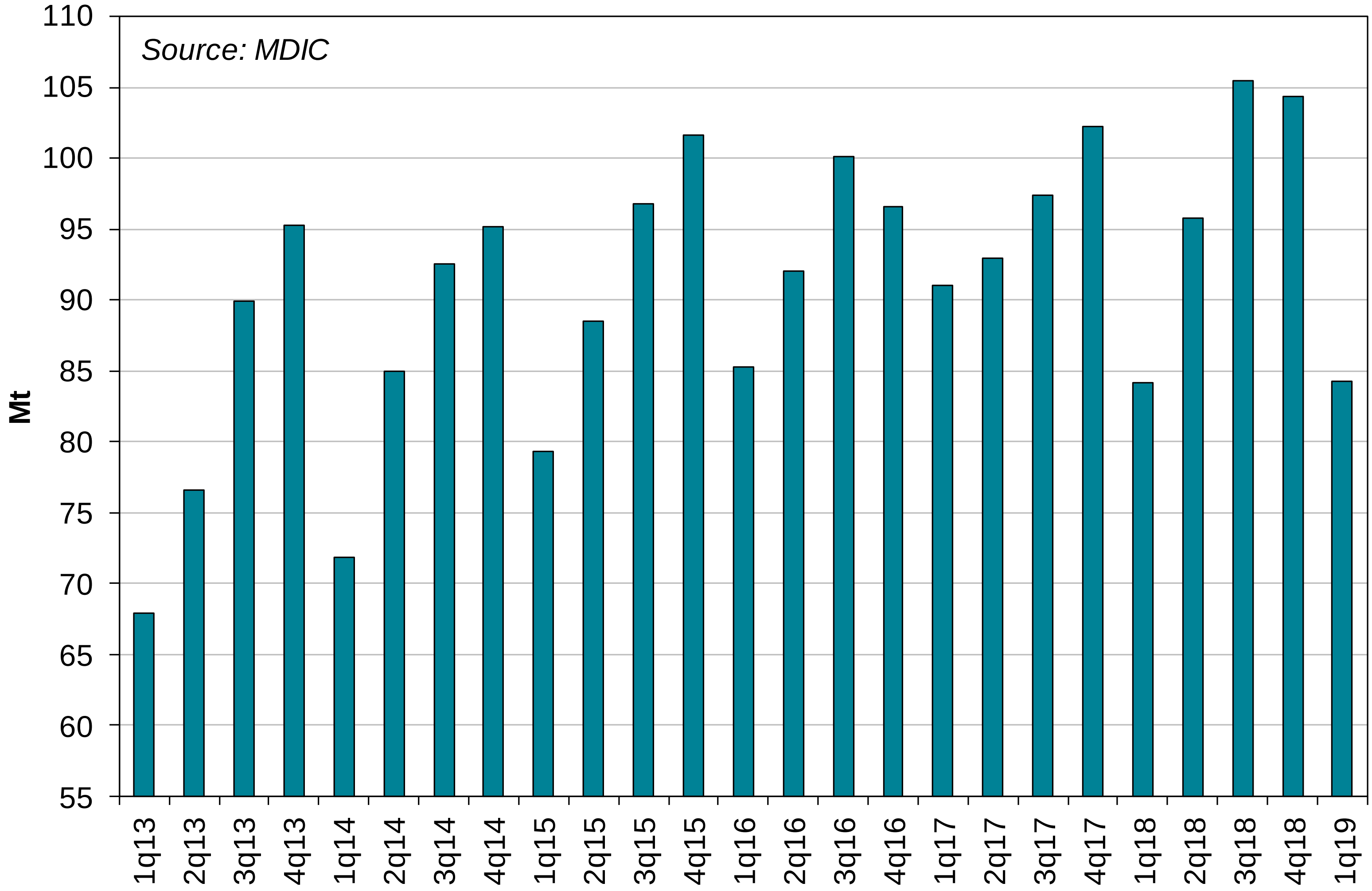
# SUPRAMAX MARKET VOLATILITY: INFLUENCE OF REGIONAL COAL IMPORT DEMAND



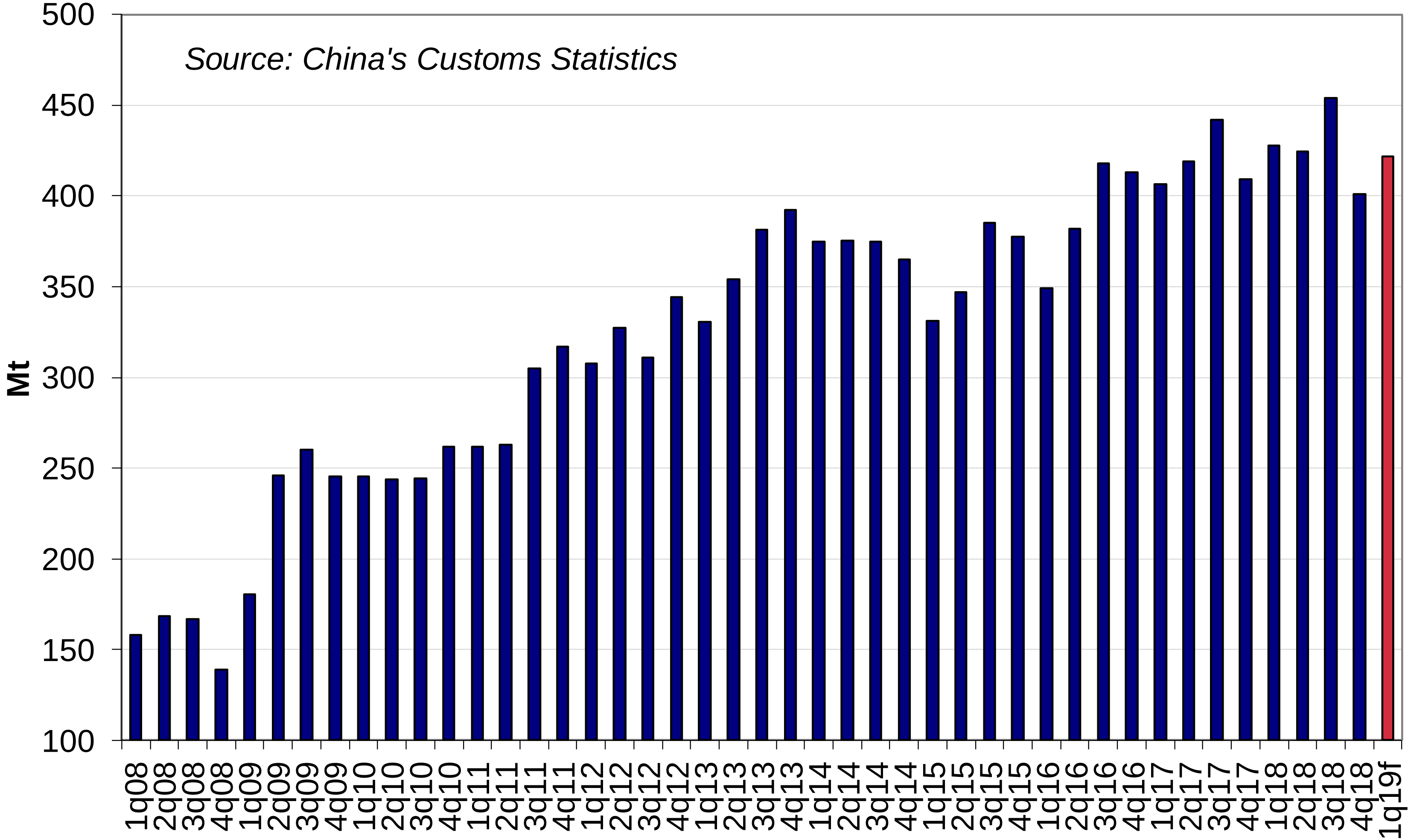
# WHY SUCH A CRASH IN FREIGHT RATES?

- seasonal
  - dry bulk trade usually drops in the 1q
  - Chinese winter curtailment measures
- exceptional
  - clampdown on coal imports into China
  - trade war continues to distort grain trade patterns
  - disruptions to Australian dry bulk exports
  - Brazilian iron ore tailings dam disaster
- cyclical
  - economic slowdown the most fundamental risk of all

# BRAZILIAN IRON ORE EXPORTS



# QUARTERLY CHINESE IMPORTS: IRON ORE, COAL & SOYABEANS

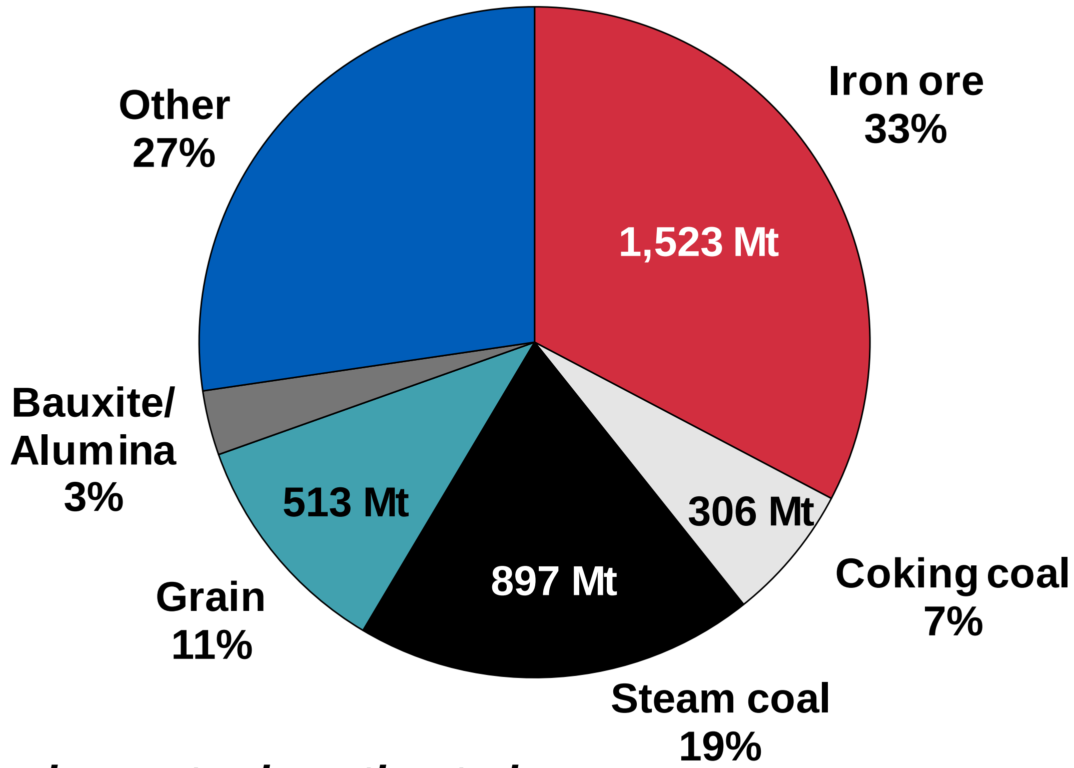


# HOW CAN THE FREIGHT MARKET REVIVE?

- no hard landing for world economy and especially steel sector demand
- an easing in the US-China trade war
- increased Chinese stimulus measures in response to economic slowdown to bolster import demand
- growth in fronthaul cargo availability (grains, coal & bauxite, as well as iron ore)
- revival in demolition critical to keeping fleet supply growth in check as newbuilding deliveries set to re-accelerate in 2019, led by Panamaxes
- IMO regulations add new dimension in 2h19, but uncertainties over scale of impact on s&d balances

# SEABORNE BULK TRADE BY CARGO

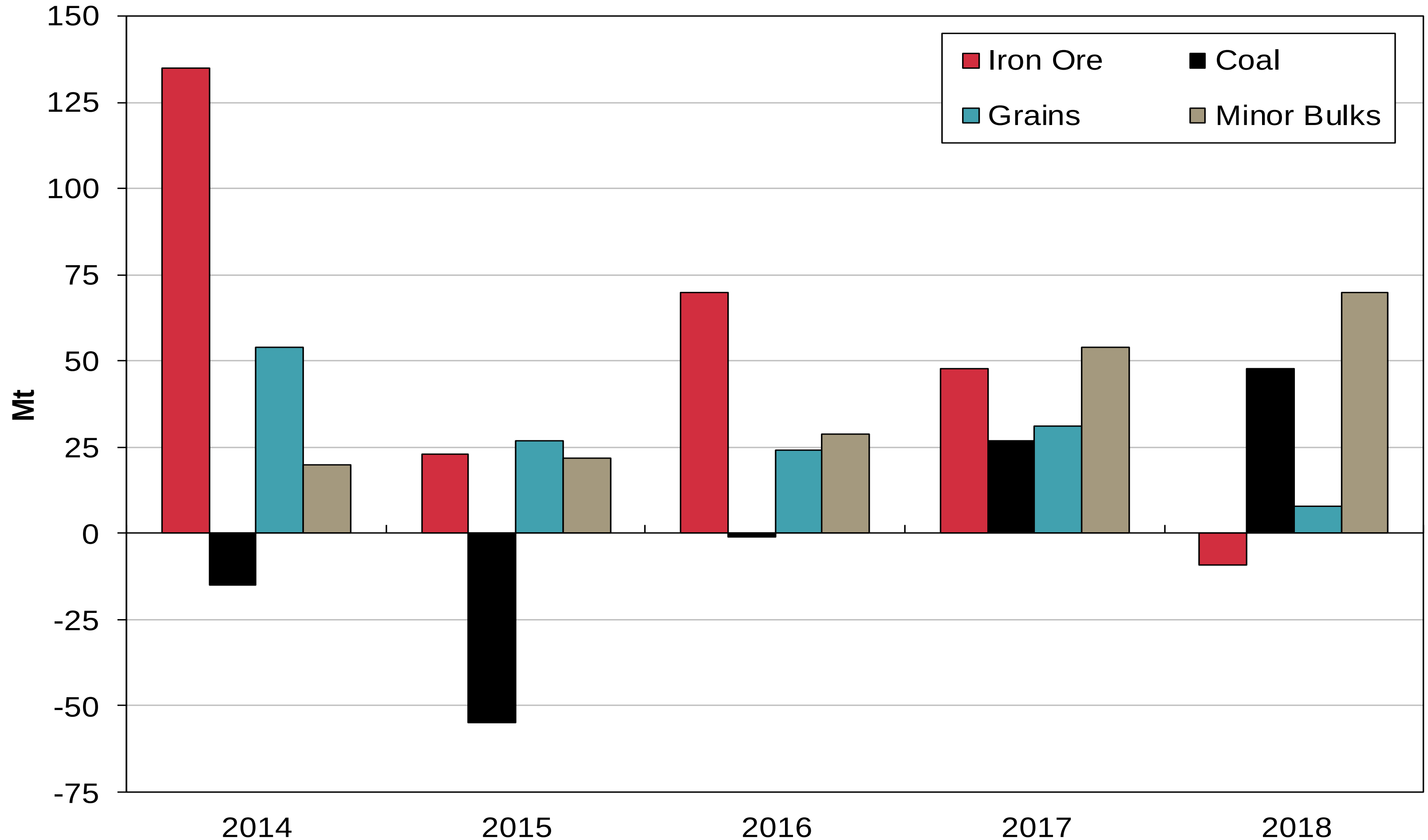
**Other includes steel products, forest products, fertilisers, minor ores, cement, ferrous scrap, petcoke, rice, sugar etc.**



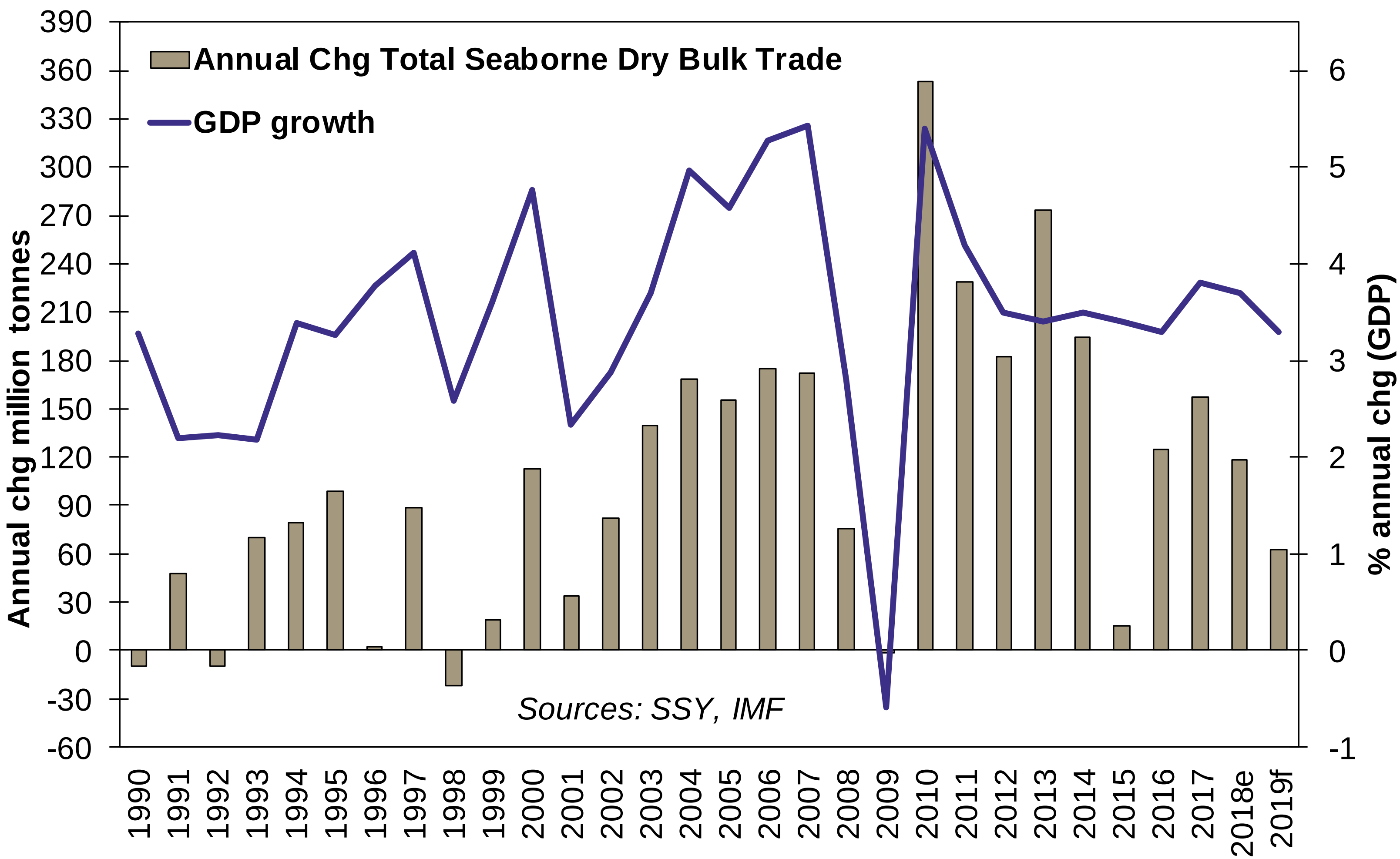

***Total dry bulk seaborne trade estimated at approx <u>4.66 billion tonnes</u> in 2018***

***Source: SSY***

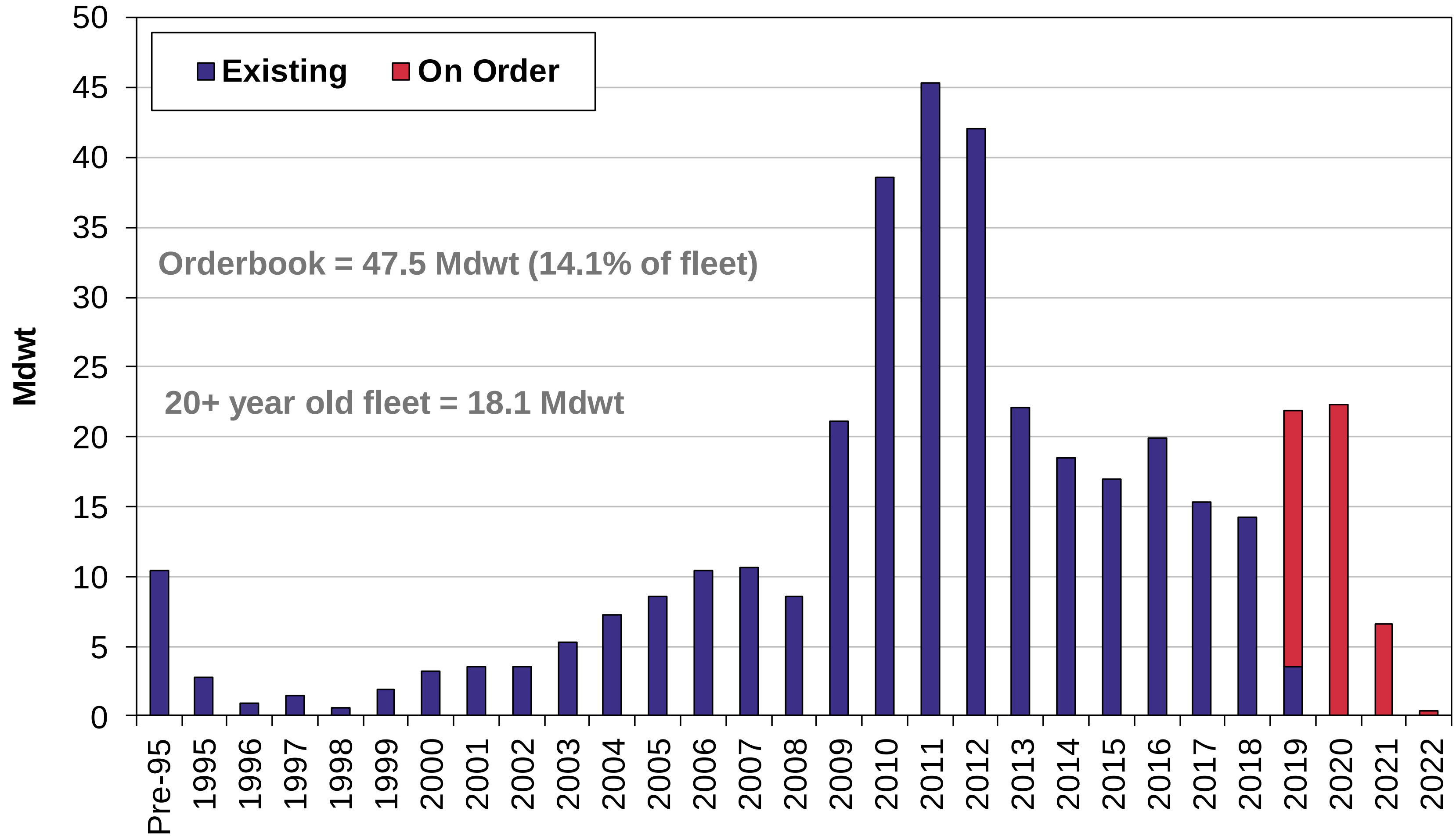
# SOURCES OF DRY BULK TRADE GROWTH



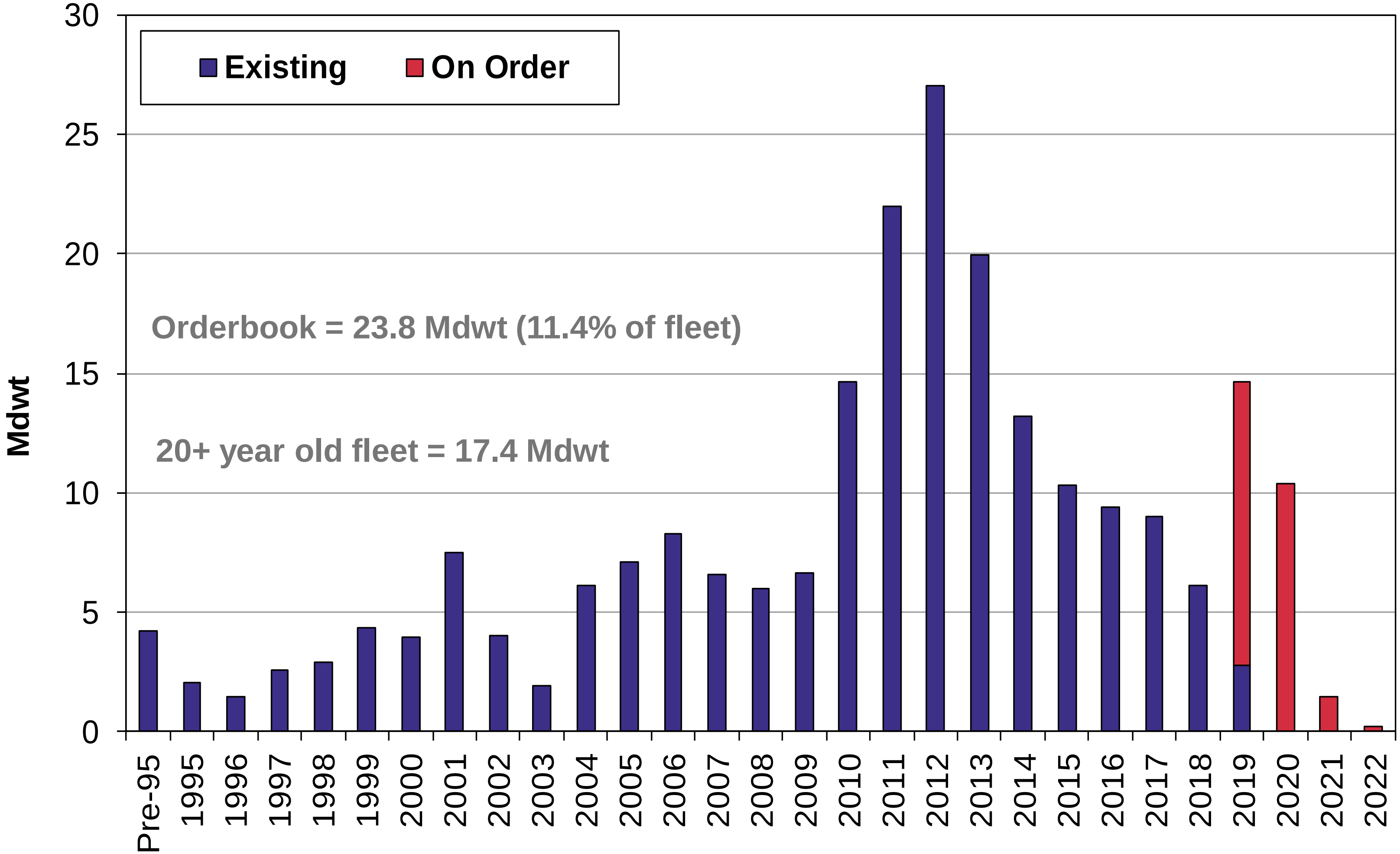
# GROWTH IN WORLD GDP & DRY BULK TRADE



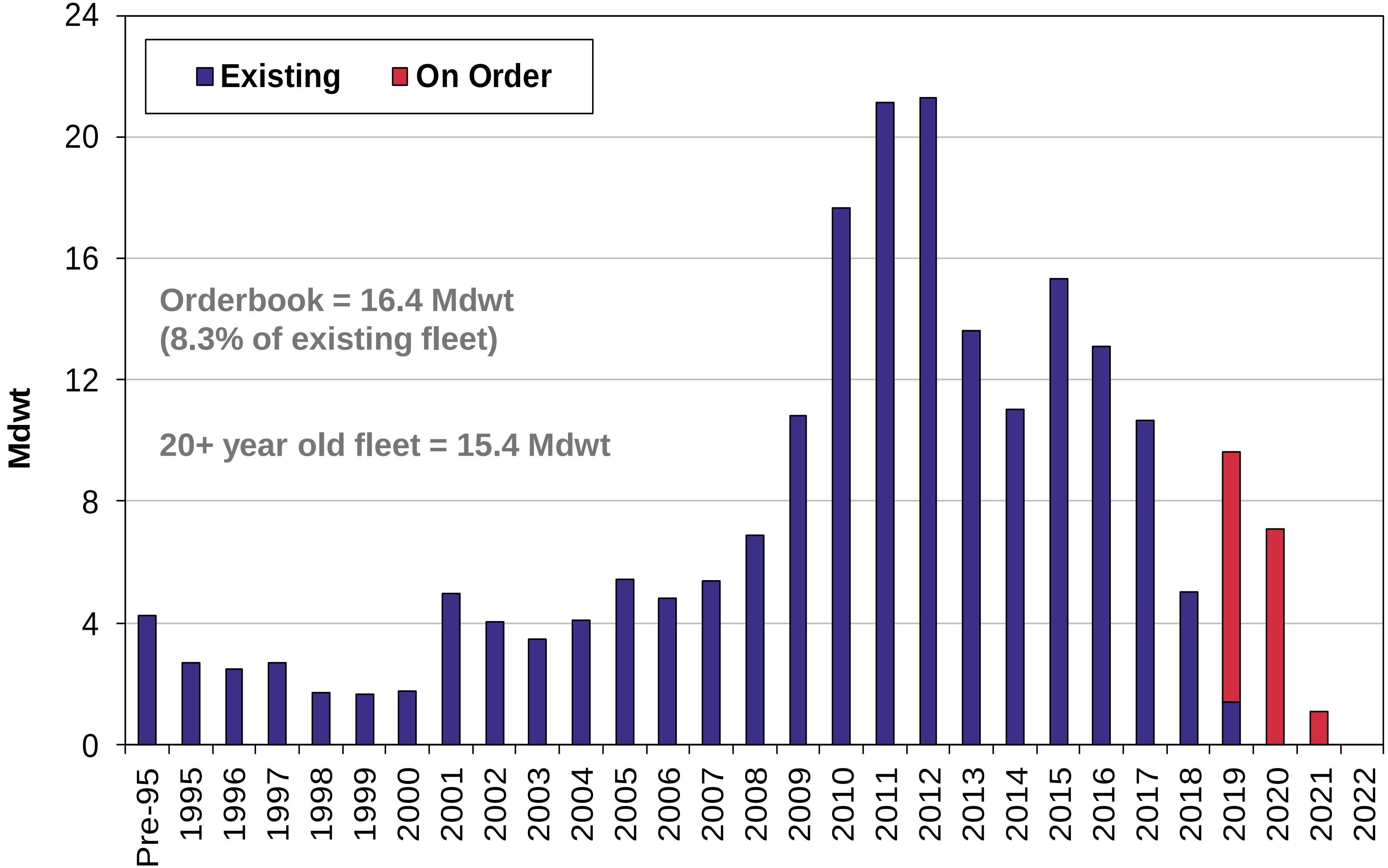
# CAPESIZE (100+ KDWT) FLEET BY YEAR OF BUILD



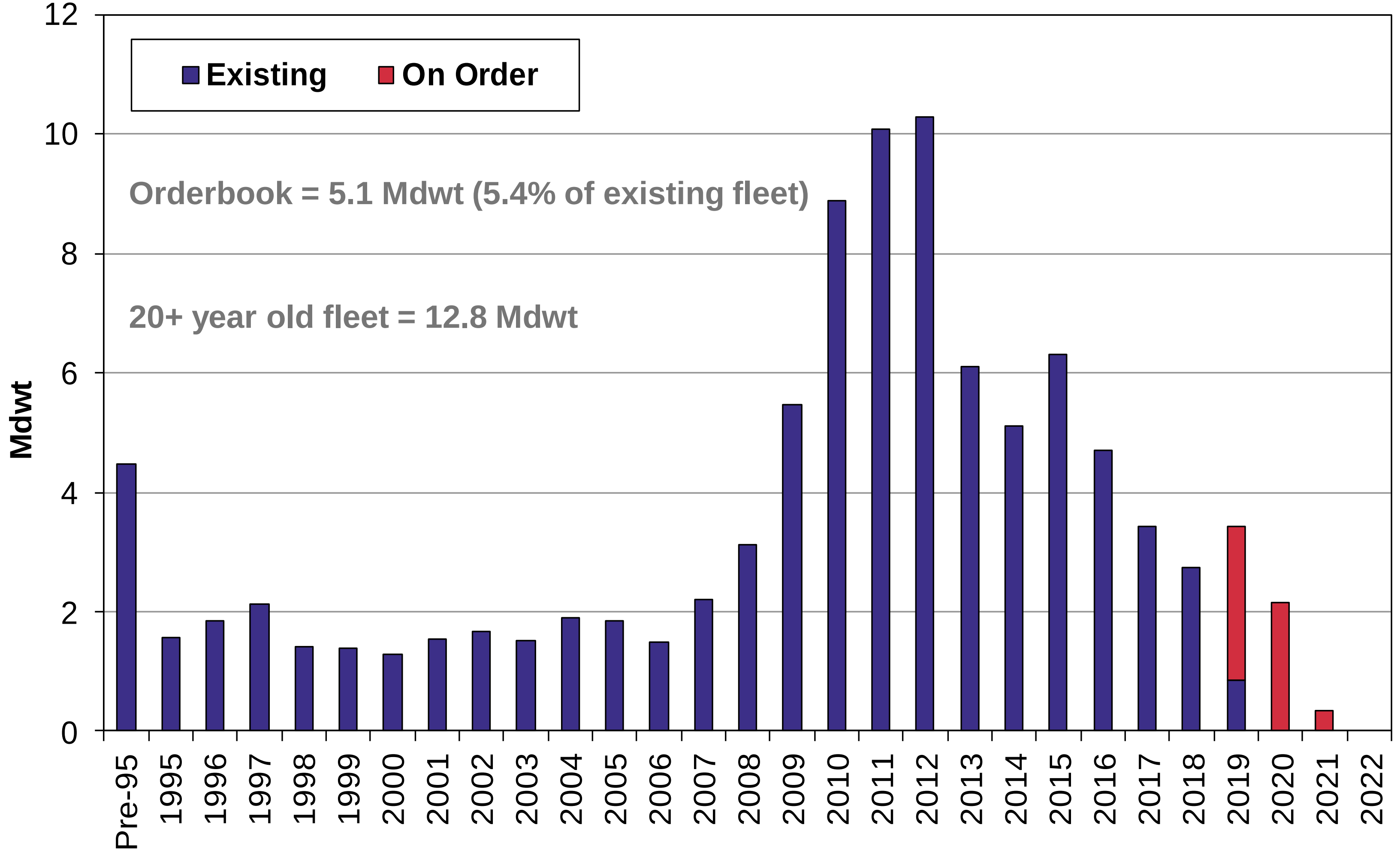
# PANAMAX (65-99,999 DWT) FLEET BY YEAR OF BUILD



# HANDYMAX (40-64,999 DWT) FLEET BY YEAR OF BUILD



# HANDYSIZE (10-39,999 DWT) FLEET BY YEAR OF BUILD



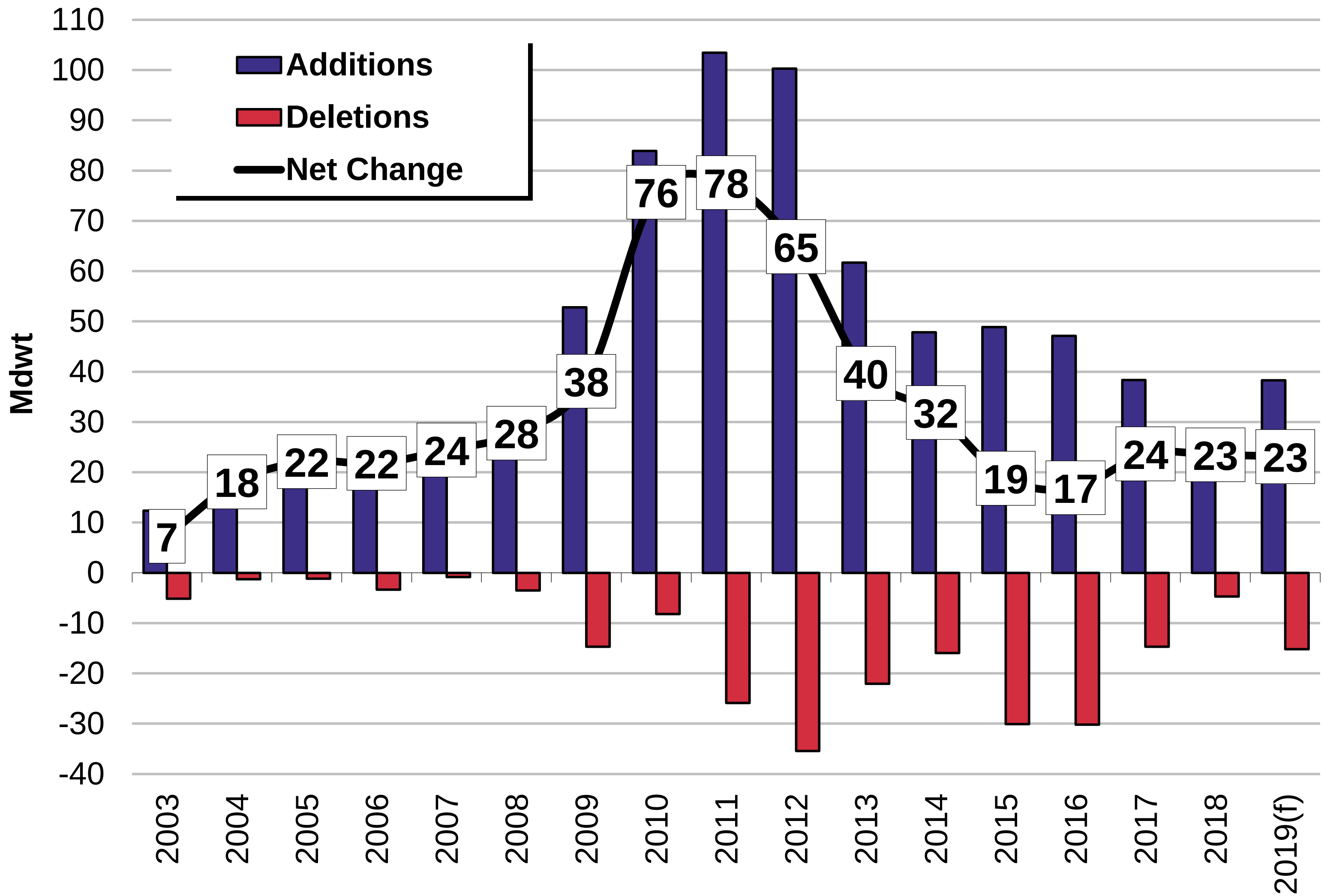
# IMO 2020: OPTIONS FOR COMPLIANCE

- global cap on marine bunker sulphur content to be cut from 3.5% to 0.5% on 1 Jan 2020…plus prospect that carriage of high sulphur fuel oil may be prohibited from March 2020 for non scrubber-fitted ships
- compliance requires either fuel switching
  - very low sulphur fuel oil (uncertainties over composition, compatibility & availability of new VLSFO grades for 2020)
  - marine gasoil (much more costly than existing fuel oil)
  - LNG (limited availability of gas-ready ships & bunkering)
- or installation of exhaust gas cleaning systems (scrubbers)
  - cost of $2+ million for Capesize newbuilding with higher costs for retrofits

# IMO 2020: MARKET IMPLICATIONS

- wave of scrubber-fitting to increase off-hire in 2019
- further potential constraints in carrying capacity in 2020 through (1) a cap on vessel speeds, (2) increased waiting times for bunker fuels and (3) rising demolition of less fuel-efficient vessels
- widening in voyage rate differentials
- premia for fuel-efficient/scrubber-fitted vessels to widen in the period charter and secondhand markets
- CO2 reduction targets to reinforce trend towards greater fuel efficiency

# DRY BULK CARRIER NET FLEET CHANGE



# CONCLUSIONS

- spot market crash due to a combination of seasonal, exceptional and cyclical factors
- trade growth projections downgraded and subject to macroeconomic risks
- major uncertainties over government interventions (trade wars, Chinese coal import quotas, potential stimulants to infrastructure spending and extent of curbs at Brazil's iron ore mines)
- fleet growth set to rise this year, led by Panamaxes, but the newbuilding orderbook is not "out of control" and there is the potential for increased demolition and a supply-side impact from new IMO 2020

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