



## TRENDS IN THE DRY BULK SHIPPING MARKET

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**Trends in the Dry Bulk Shipping Market**

**Robin Thomas**

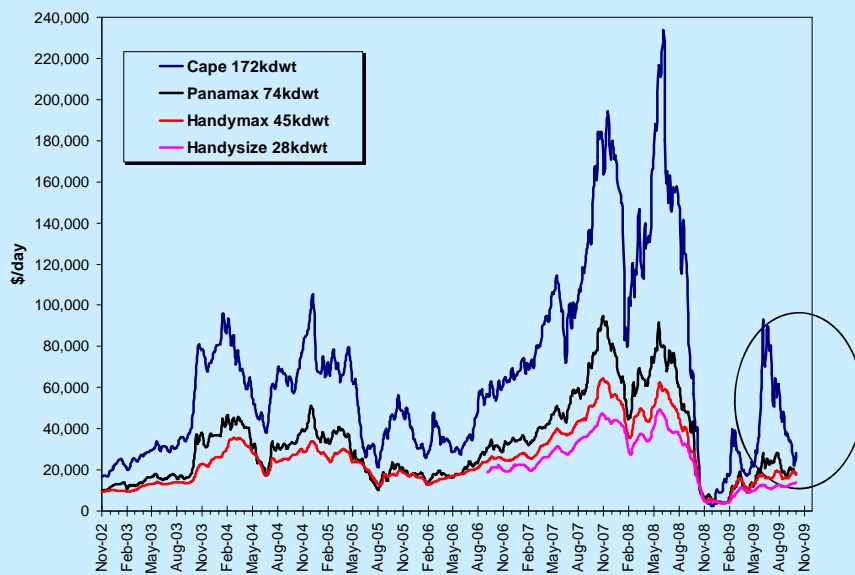
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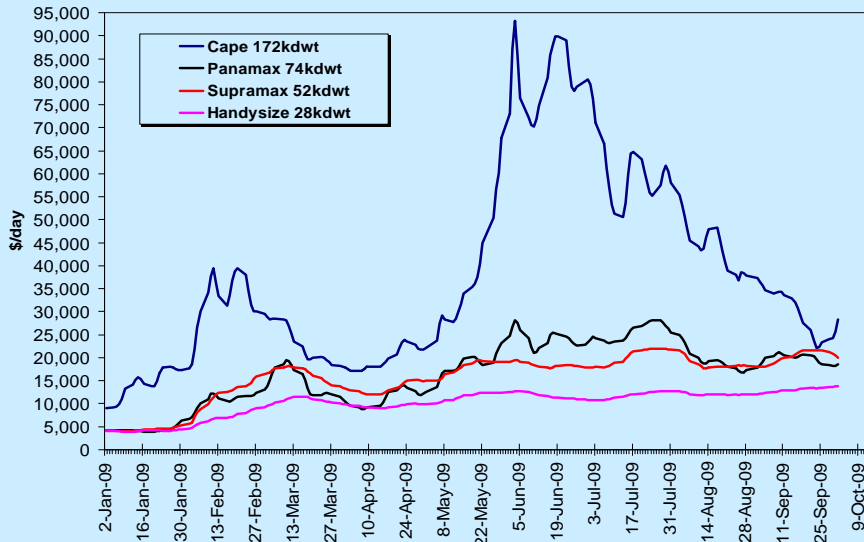
**Baltic Index Average Timecharter Rates**



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**October 2009**

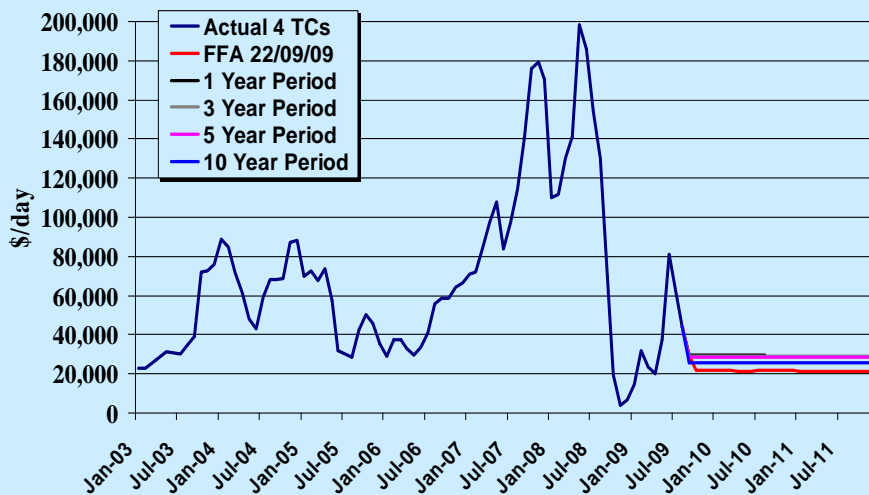
## Baltic Index Average Timecharter Rates



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## Capesize Freight Rates: Spot Earnings & FFA Forward Curve



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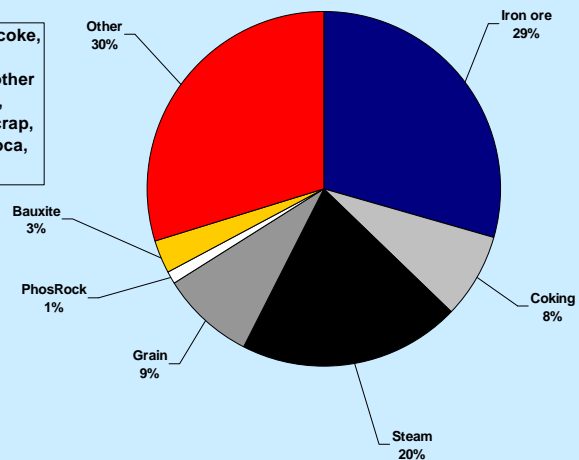
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# Demand

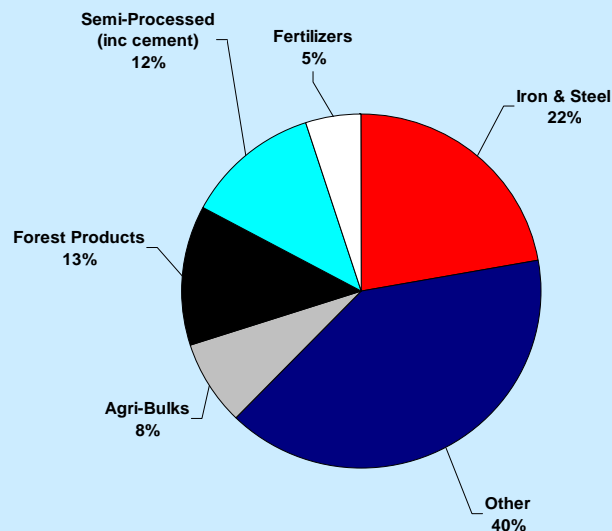
## Dry Bulk Trade by Major Cargo

Total dry bulk seaborne trade estimated at approx 3.0 billion tonnes for 2008

Steel, minor ores, coke, timber, sulphur, potash, urea and other fertilizers, gypsum, cement, ferrous scrap, petcoke, rice, tapioca, sugar, etc.



## Minor Dry Bulk Trade by Cargo



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## How Can Freight Rates be so High and Volatile in a Severe Recession?

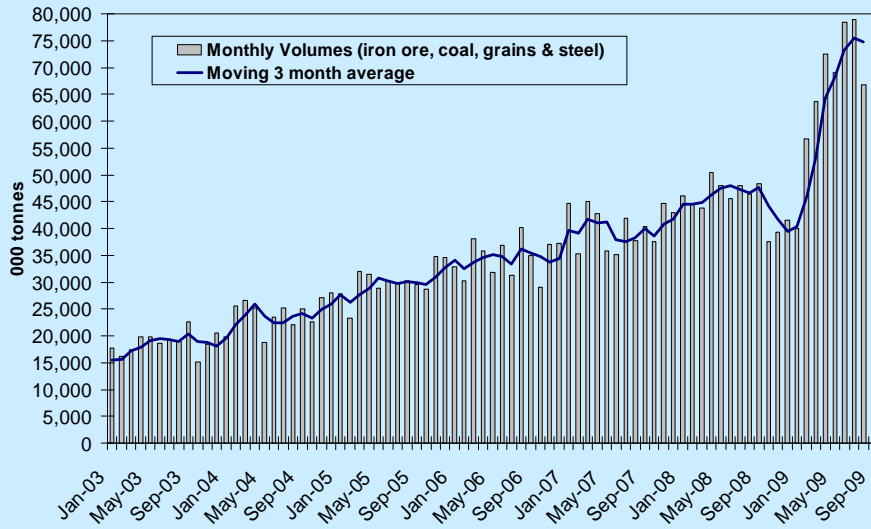
### CHINA...

- Cargoes
  - PRC dry bulk imports jumped by over 85% between 4q08 & 2q09, led by record-breaking iron ore & coal volumes
- Tonne-miles/ballasting
  - increased Chinese reliance on long haul imports
  - reduction in short haul coal exports
- Congestion
  - PRC iron ore discharge queues peak at 85/90 ships *and* Chinese coal demand also contributes to congestion in East Australia

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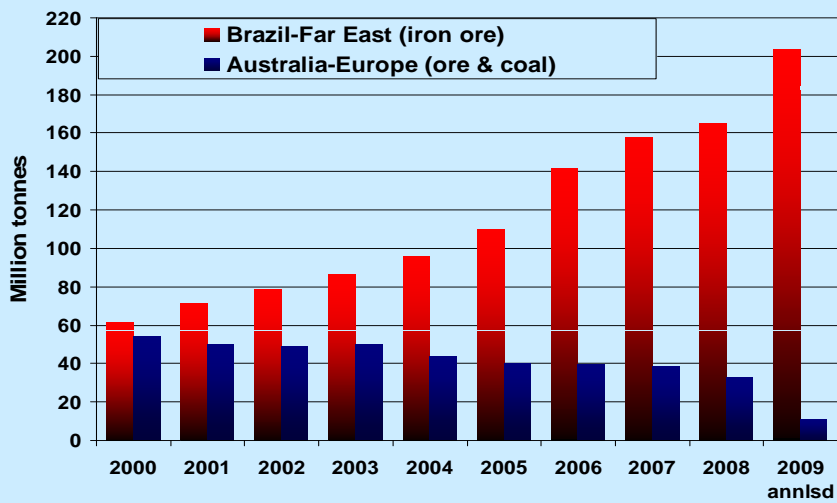
## Chinese Dry Bulk Imports



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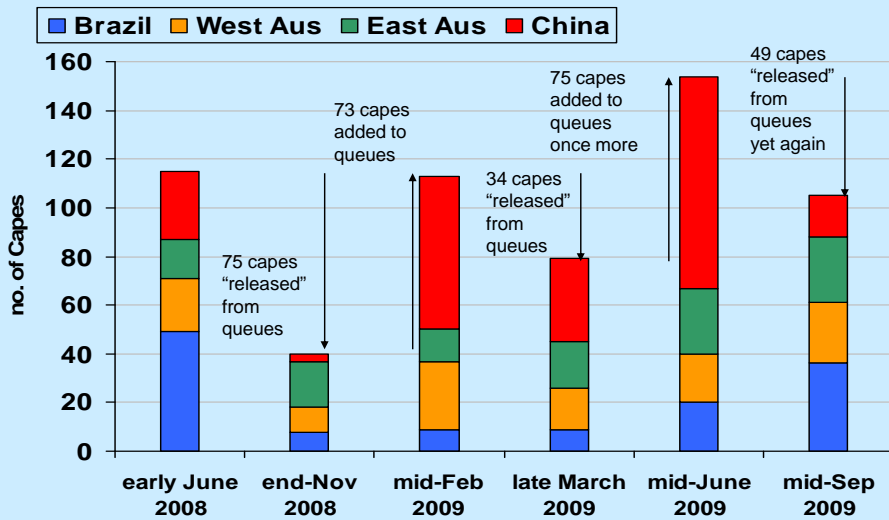
## Widening Trade Imbalances



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## Capesize Vessels Waiting to Berth



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## Congestion Affects Capesize Supply

- Newbuilding deliveries (Jan-Aug) +65 Capes
- Conversions +27 Capes
- Deletions -15 Capes
- Net change (Jan-Aug) +77 Capes
- Cape congestion -67 Capes
- Net availability +10 Capes

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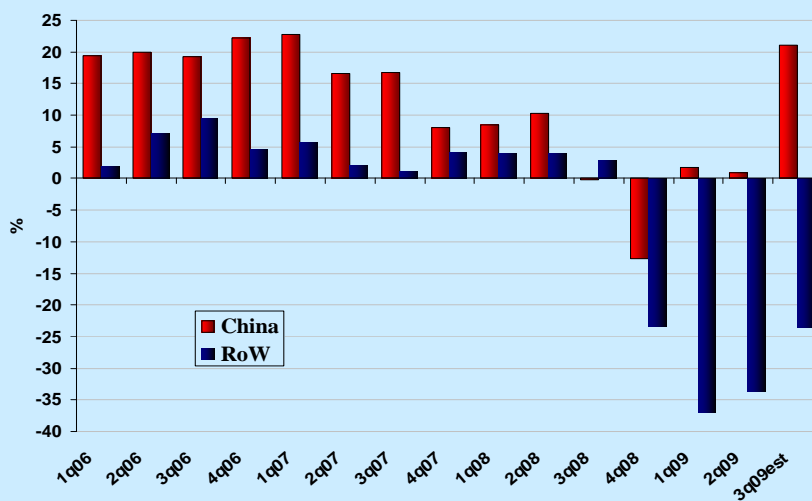
## Where Next for the Freight Market?

- Tentative signs of economic recovery and increases in international steel prices encourage higher steel production and raw material imports outside of China
- But doubts over future pace of Chinese import demand due to role played by import substitution and stockbuilding in this year's boom
- Chinese iron ore port congestion in decline...but problems have grown in Australia
- Fleet supply growth accelerating

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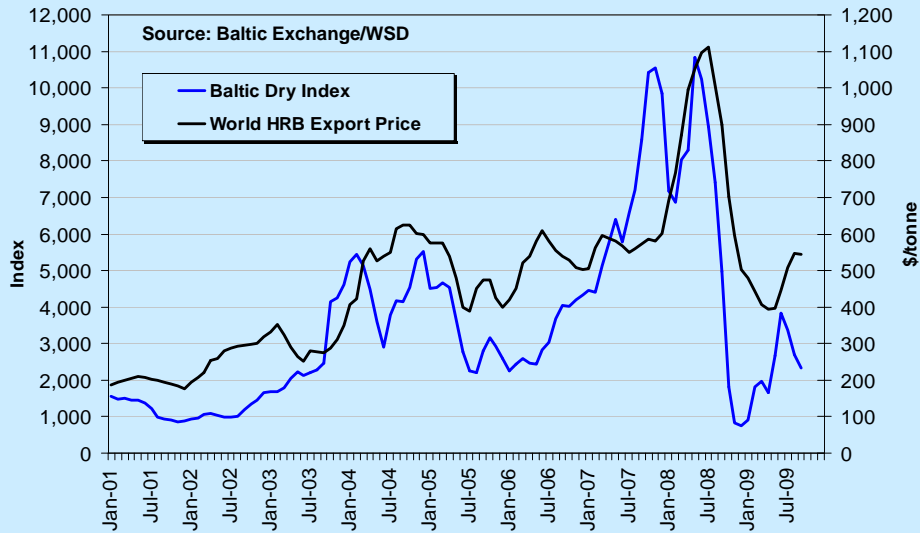
## Percentage Annual change in World Steel Production



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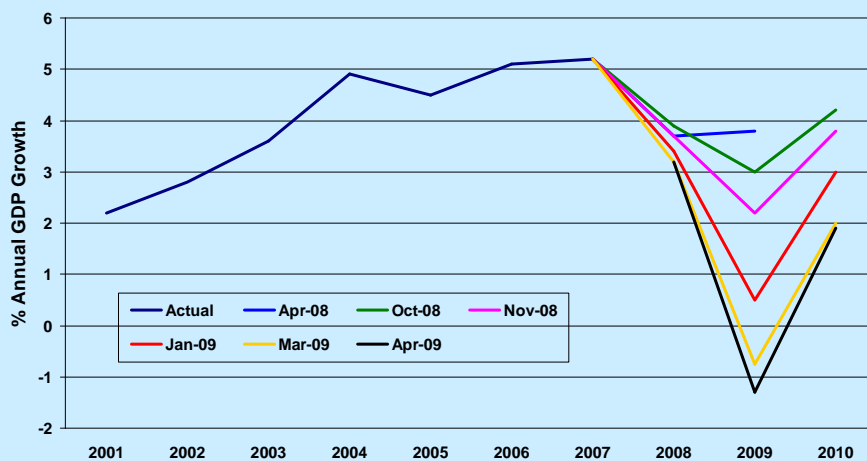
## Steel Prices & the Freight Market



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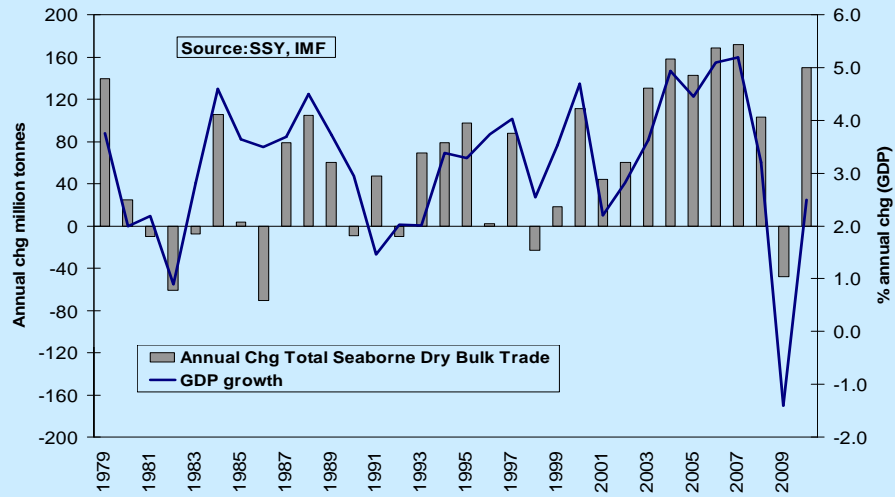
## Changing Economic Growth Expectations: IMF World GDP Forecasts



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## World GDP & Dry Bulk Trade Growth



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Supply

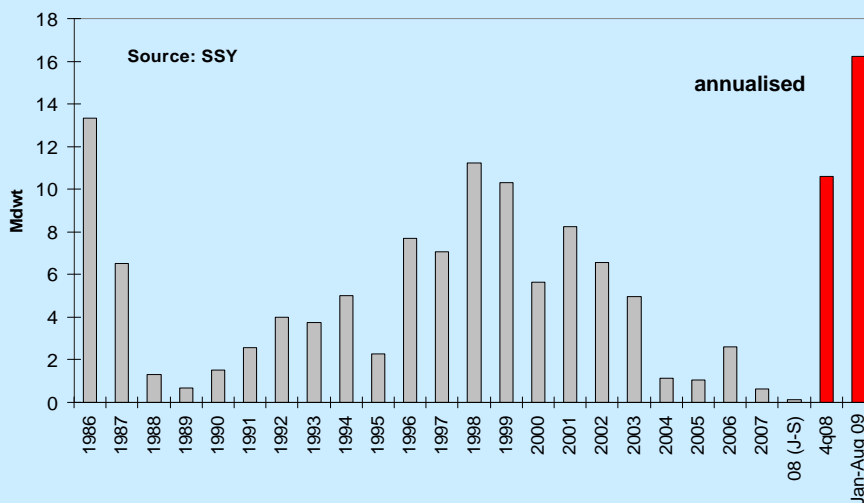
## Supply Side Uncertainties

- Scrapping
  - Brisk start to the year, plenty of old tonnage and historically high demolition prices
  - But firmer charter rates now reducing supply of scrap candidates and competition for shipbreaking capacity
- Newbuildings
  - How solid is the scheduled orderbook given strains on financing of orders and yard developments?
  - State support for Chinese & S.Korean shipyards

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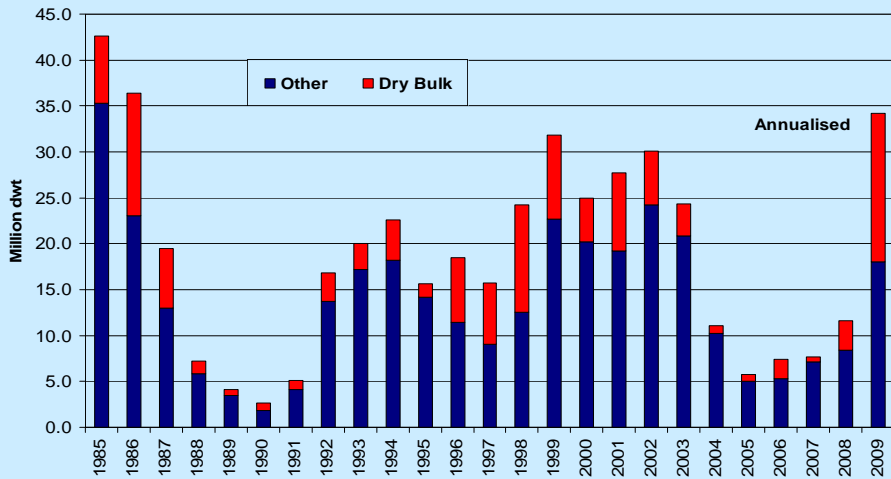
## Annual Dry Bulk Carrier Deletions



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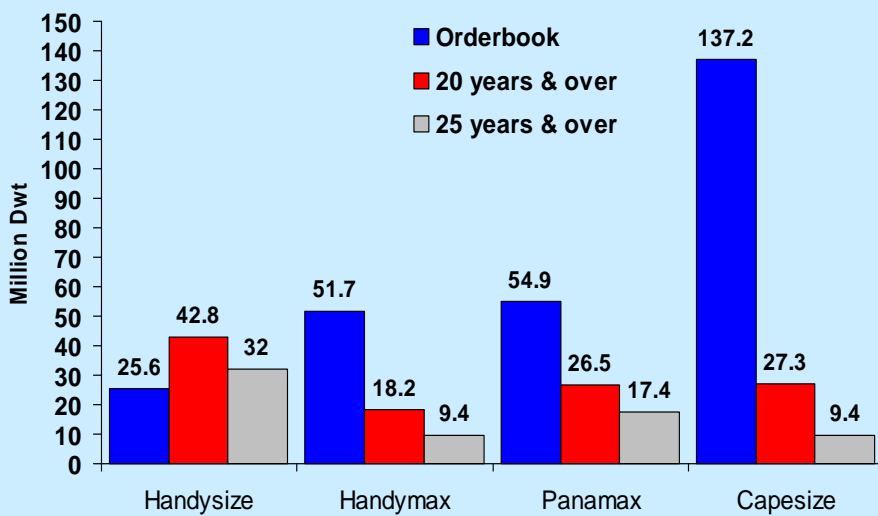
## Is There Enough Shipbreaking Capacity? Historical Scrap Volumes



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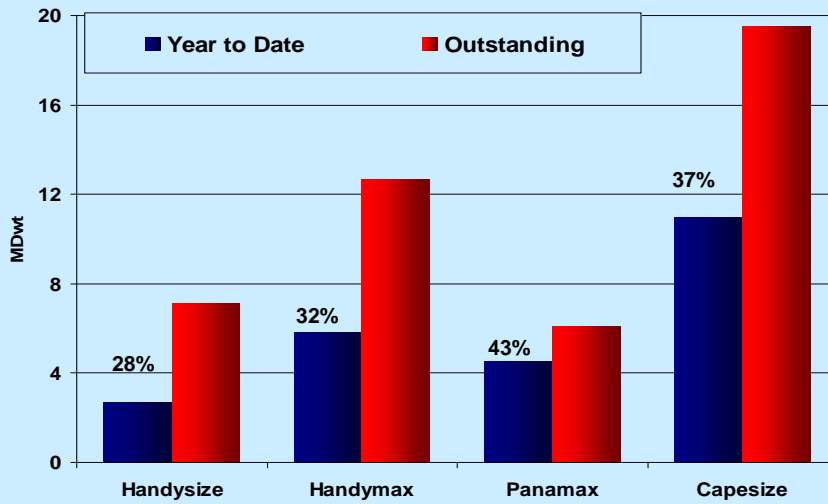
## Bulk Carriers on Order vs 20+ Year Fleet



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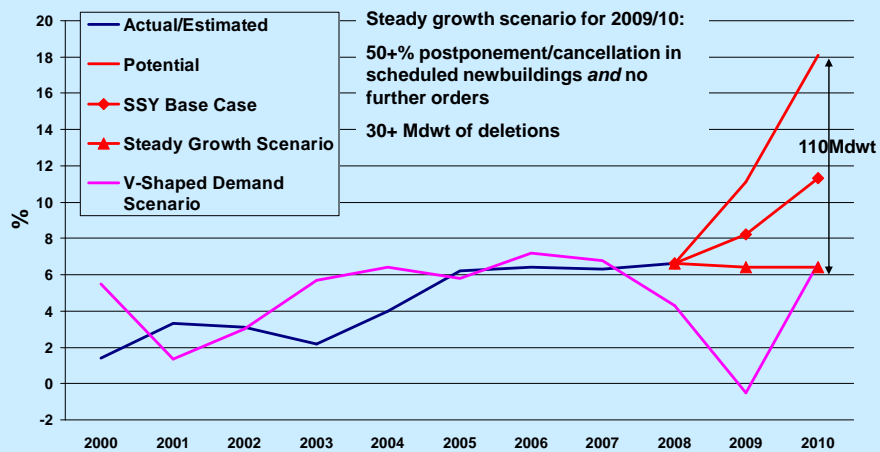
## 2009 dry bulk carrier delivery position



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## Bulk Carrier Fleet Supply Growth: Annual Average Percentage Change



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## Conclusions

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- Freight market's rally supported by record cargo flows into China & associated port congestion...but jump in imports disproportionate to consumption growth
- Potential for further near-term volatility
- Demand fundamentals outside China may have bottomed but remain weak due to global economy ...while rate of expansion in fleet supply set to rise
- Sustained freight market improvement requires both a V-shaped demand recovery *and* a massive shortfall in scheduled newbuilding deliveries

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