



SIMPSON | SPENCE | YOUNG

DRY BULK FREIGHT MARKET OUTLOOK

MJUNCTION INDIAN STEEL MARKETS CONFERENCE

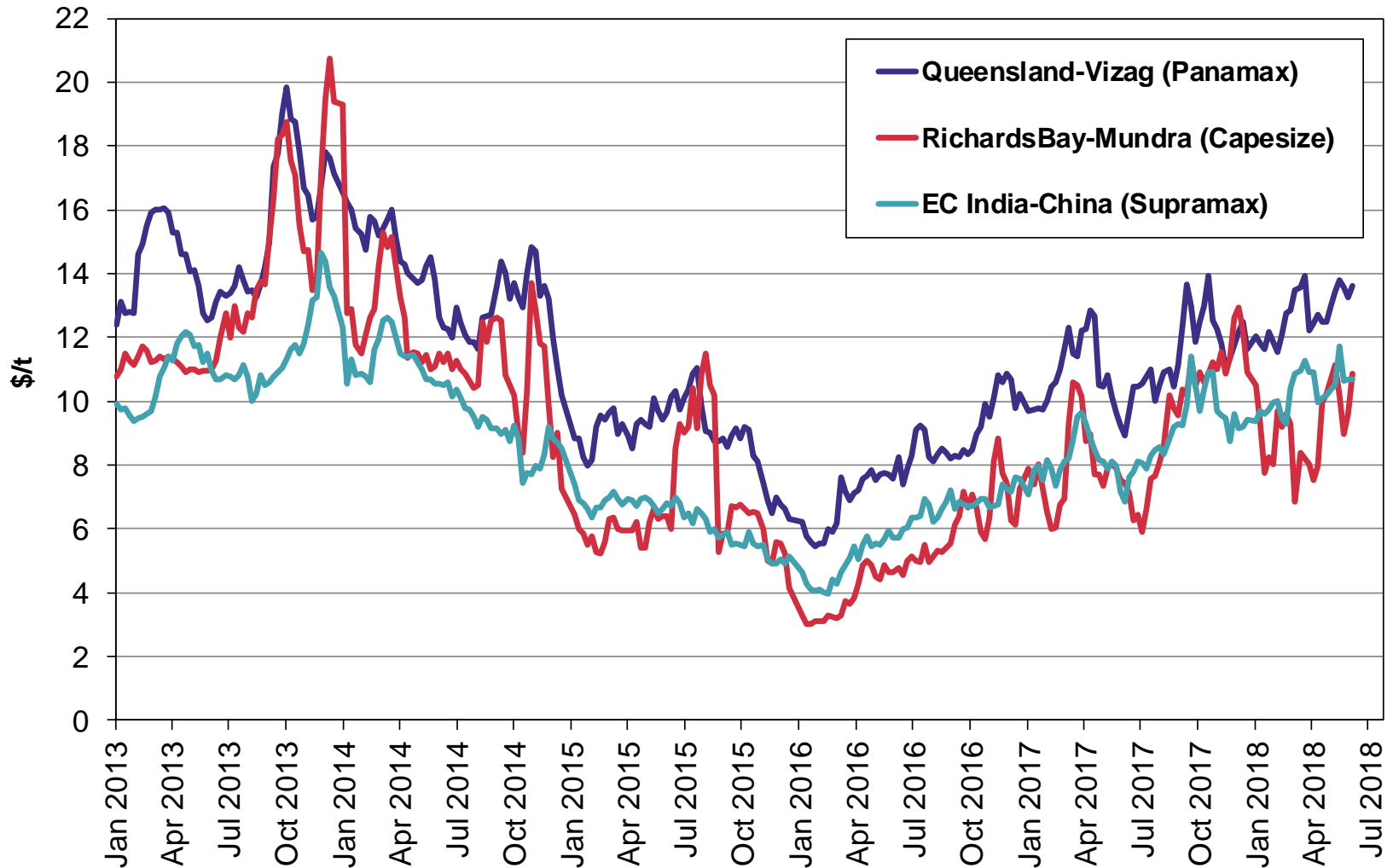
JUNE 2018

PRESENTATION STRUCTURE

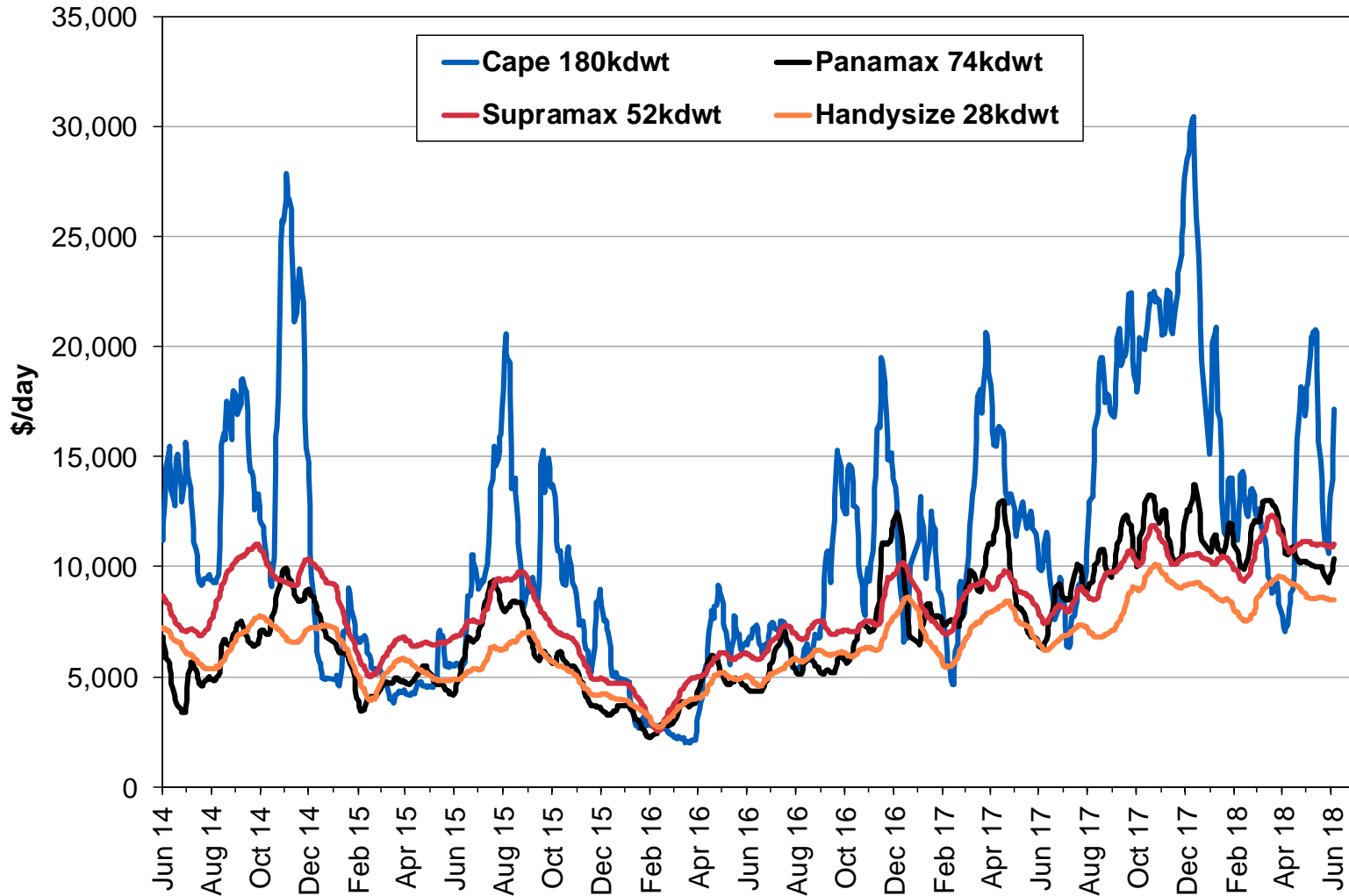
- where are we in the dry bulk freight market cycle?
 - current freight rates in perspective
 - fundamental drivers
- risks to trade growth posed by tariffs and sanctions
 - steel/aluminium/bauxite/alumina/grains
- structural oversupply to persist or fundamentally different framework for the dry bulk shipping market?
 - role of new environmental regulations

Whilst care and attention has been taken to ensure that the information contained is accurate, it is supplied without guarantee. SSY Consultancy & Research Ltd can accept no responsibility for any errors or omissions or consequences arising therefrom.

INDICATIVE INDIAN DRY BULK SPOT RATES



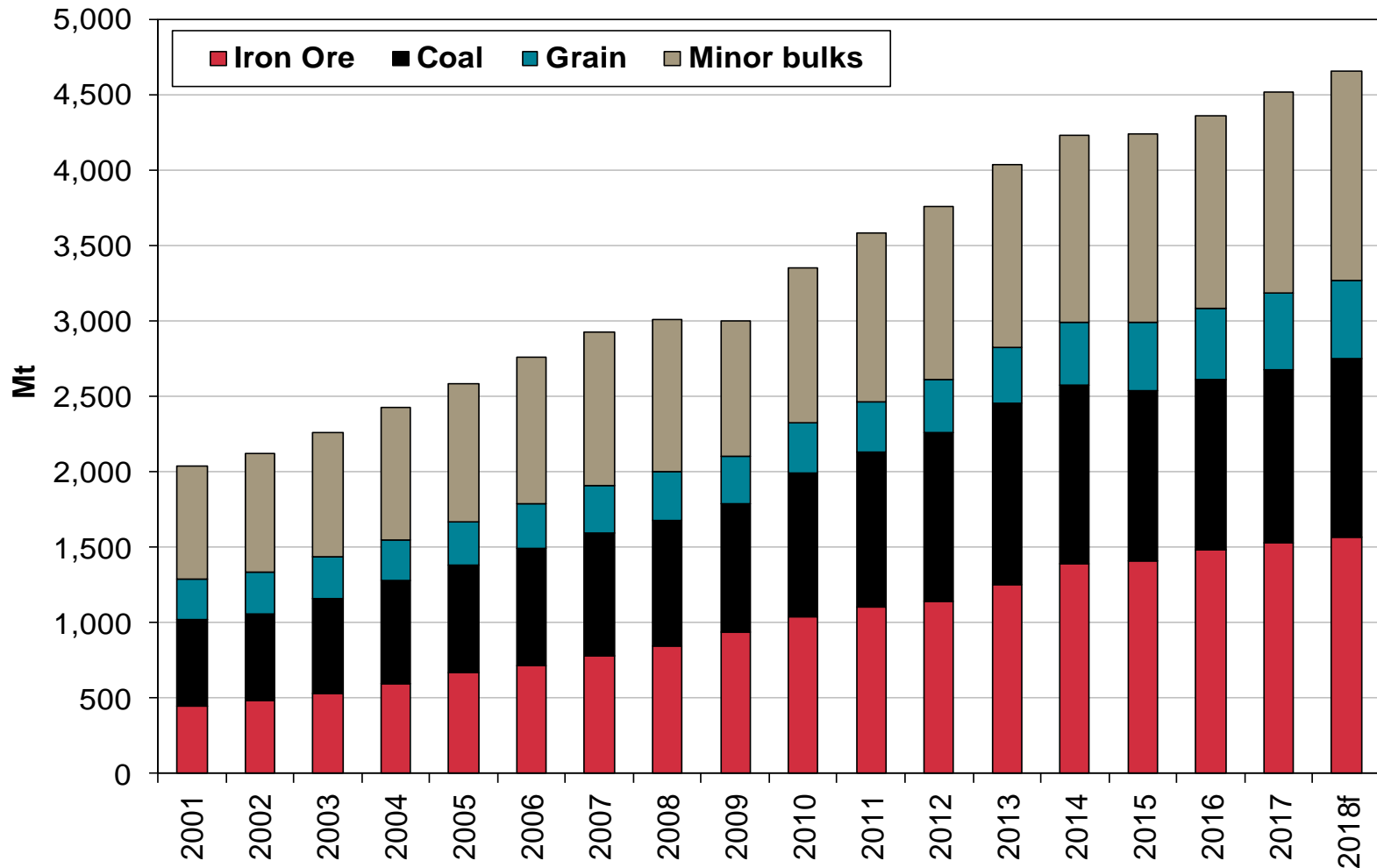
BALTIC EXCHANGE AVERAGE TIMECHARTER RATES



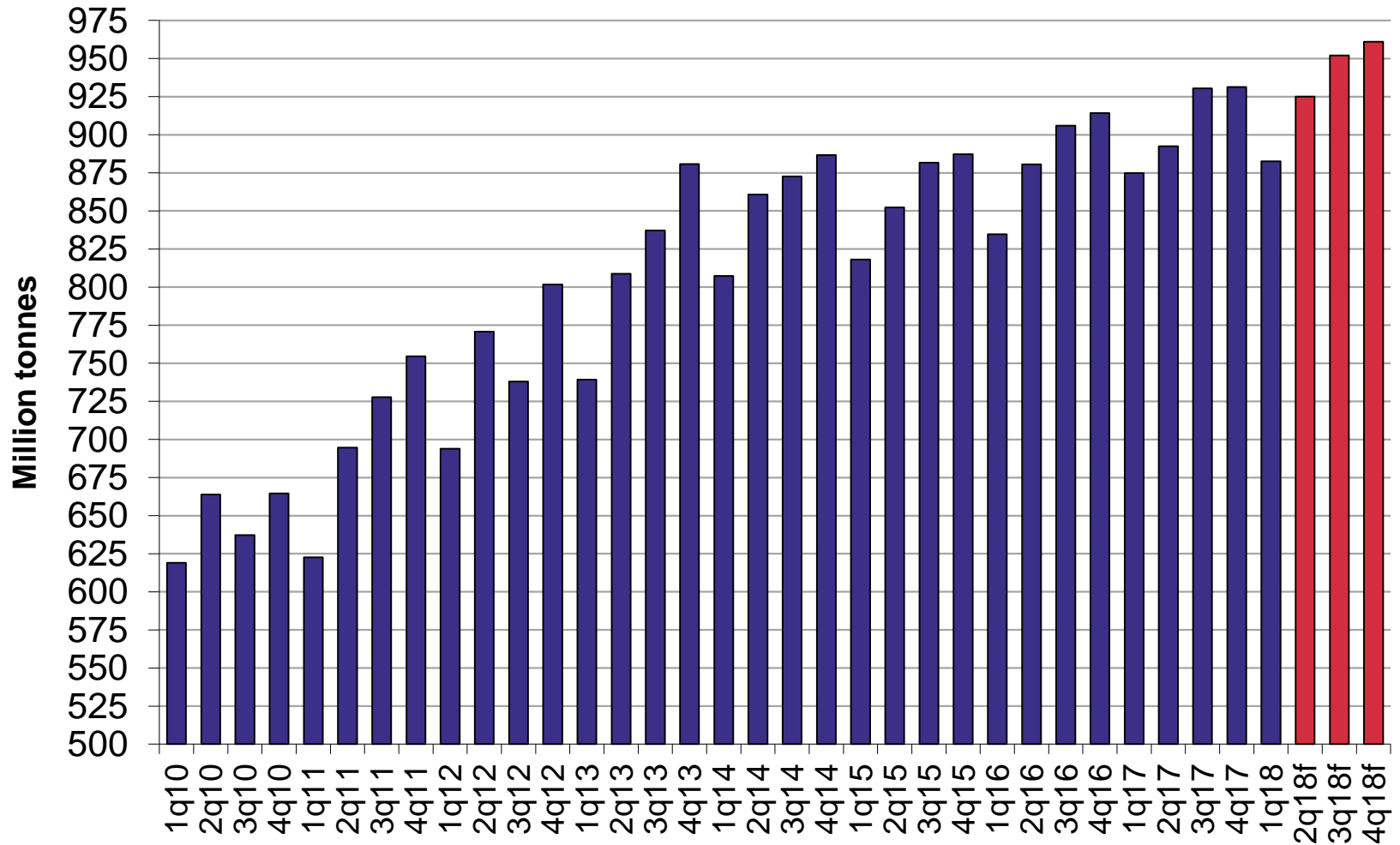
WHAT'S SHAPING THE DRY BULK RECOVERY?

- new highs for international dry bulk trade with cyclical strength in steel markets a key factor
- combination of cargo disruptions and government interventions set to restrain trade growth
- 2018 to see lowest annual newbuilding deliveries for 10 years, which should restrict annual rate of expansion in fleet supply to below 2.5%
- surplus shipbuilding capacity and rising sentiment create the potential for a repeat of past over-ordering...but new IMO regulations create doubts over optimal ship design and threaten the viability of existing, less fuel-efficient vessels

INTERNATIONAL SEABORNE DRY BULK TRADE



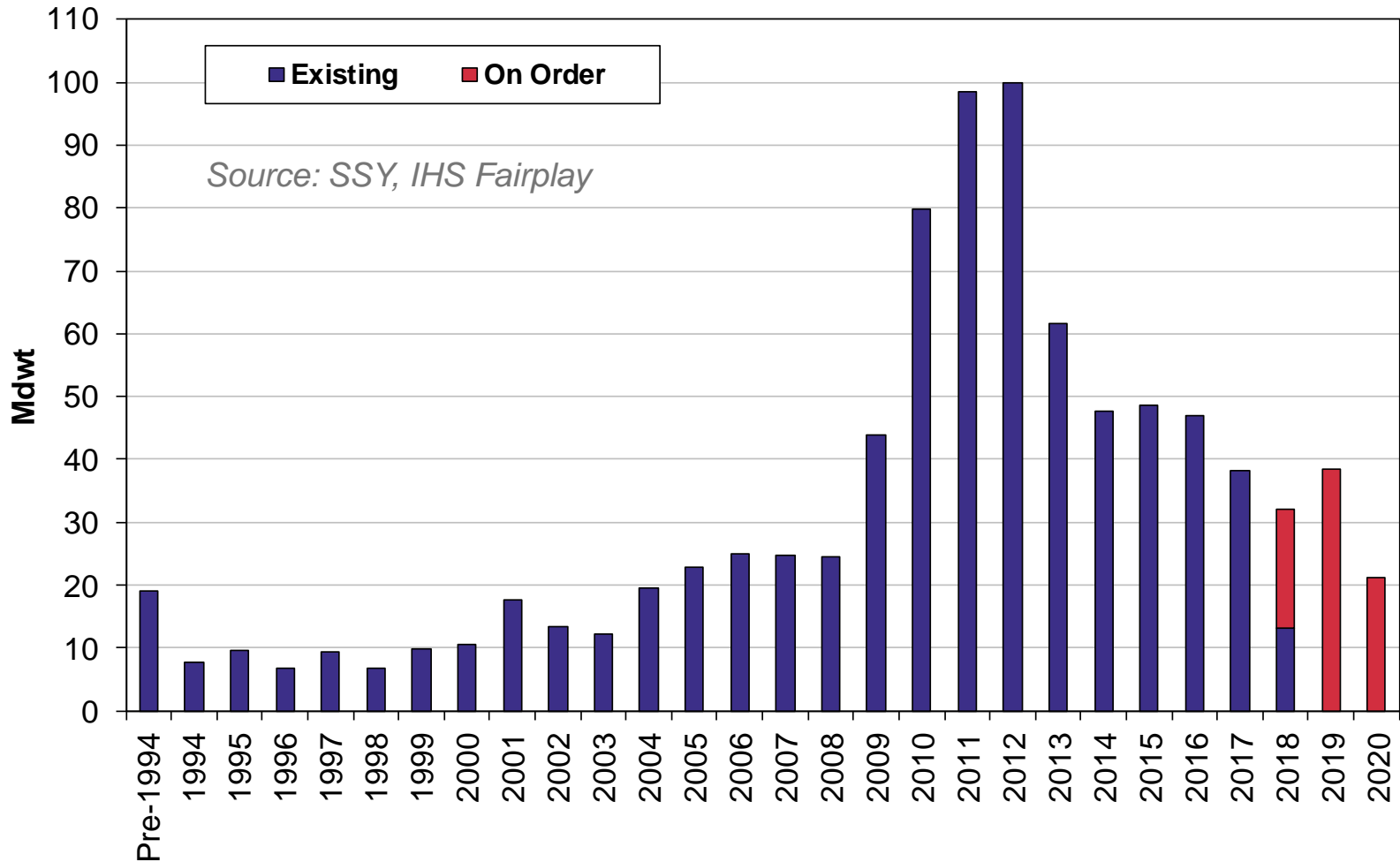
MAJOR DRY BULK & KEY MINOR BULK TRADES BY QUARTER



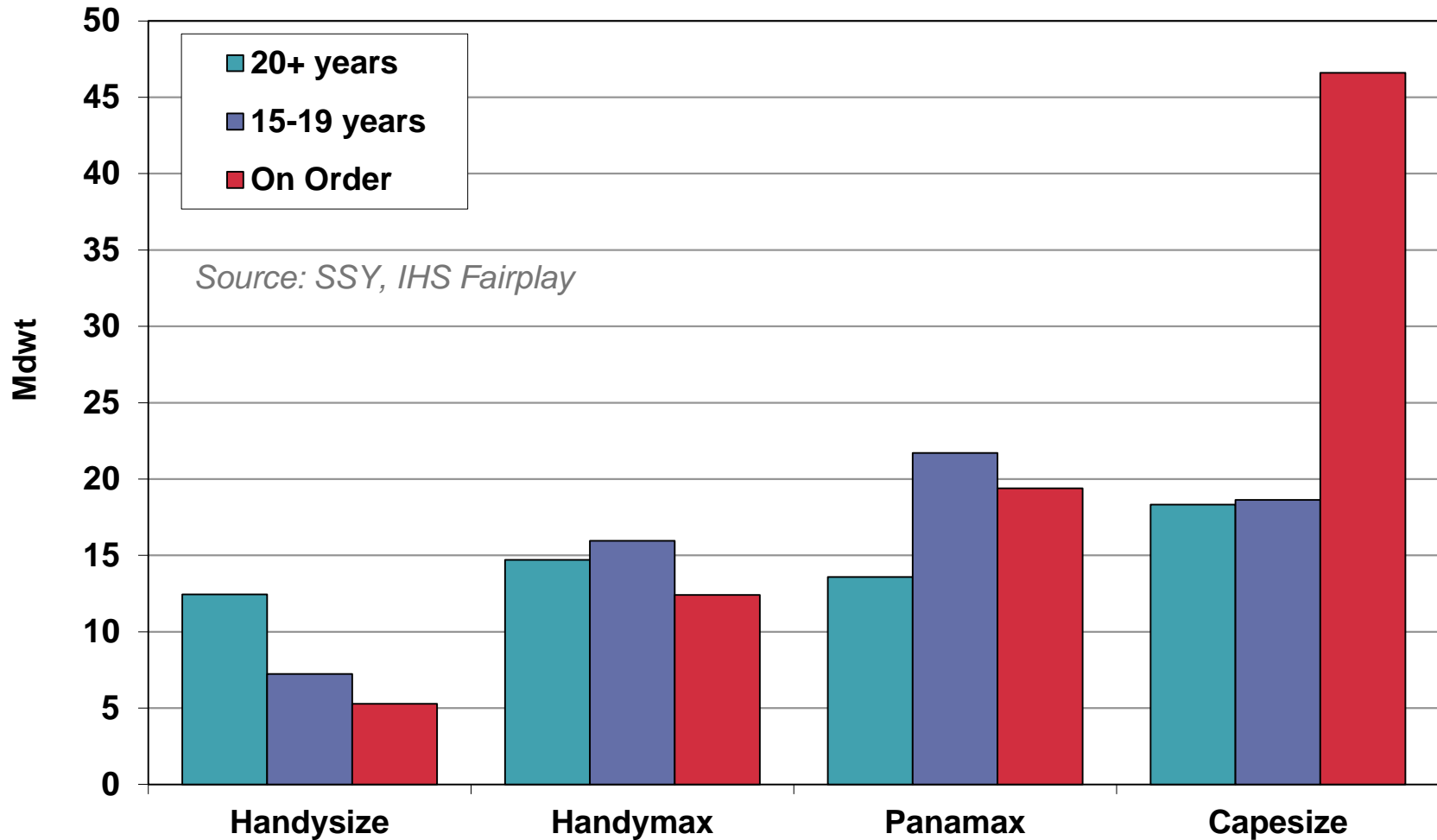
DRY BULK TRADE TARIFFS AND SANCTIONS

- US tariffs/quotas on steel imports
 - how much cargo could be displaced?
 - implications for US coking coal and scrap exports?
- Chinese retaliatory measures
 - soyabeans in focus
- US sanctions on Russia
 - disruption to bauxite and alumina trade?

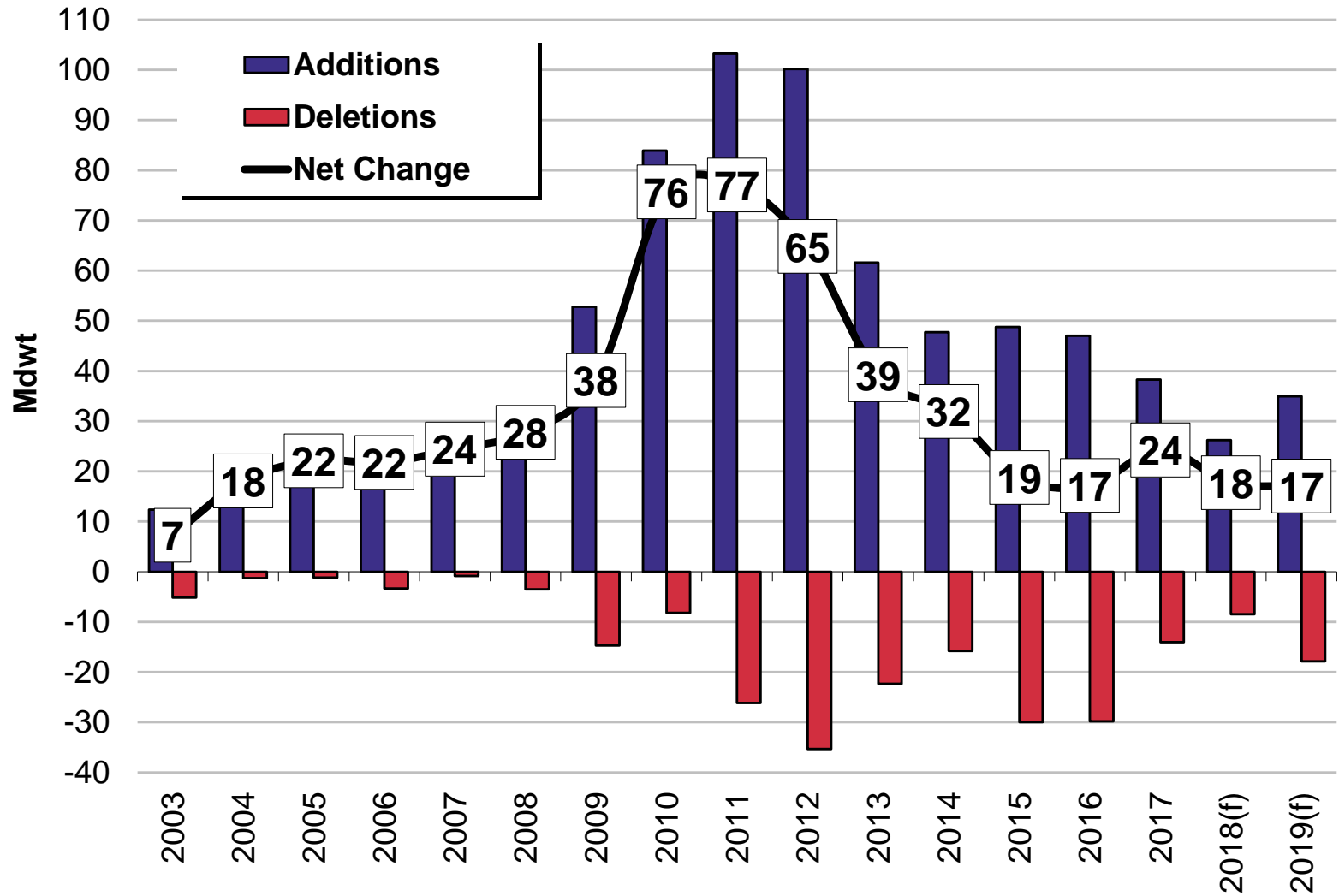
DRY BULK CARRIER (10+ KDWT) FLEET BY YEAR OF BUILD



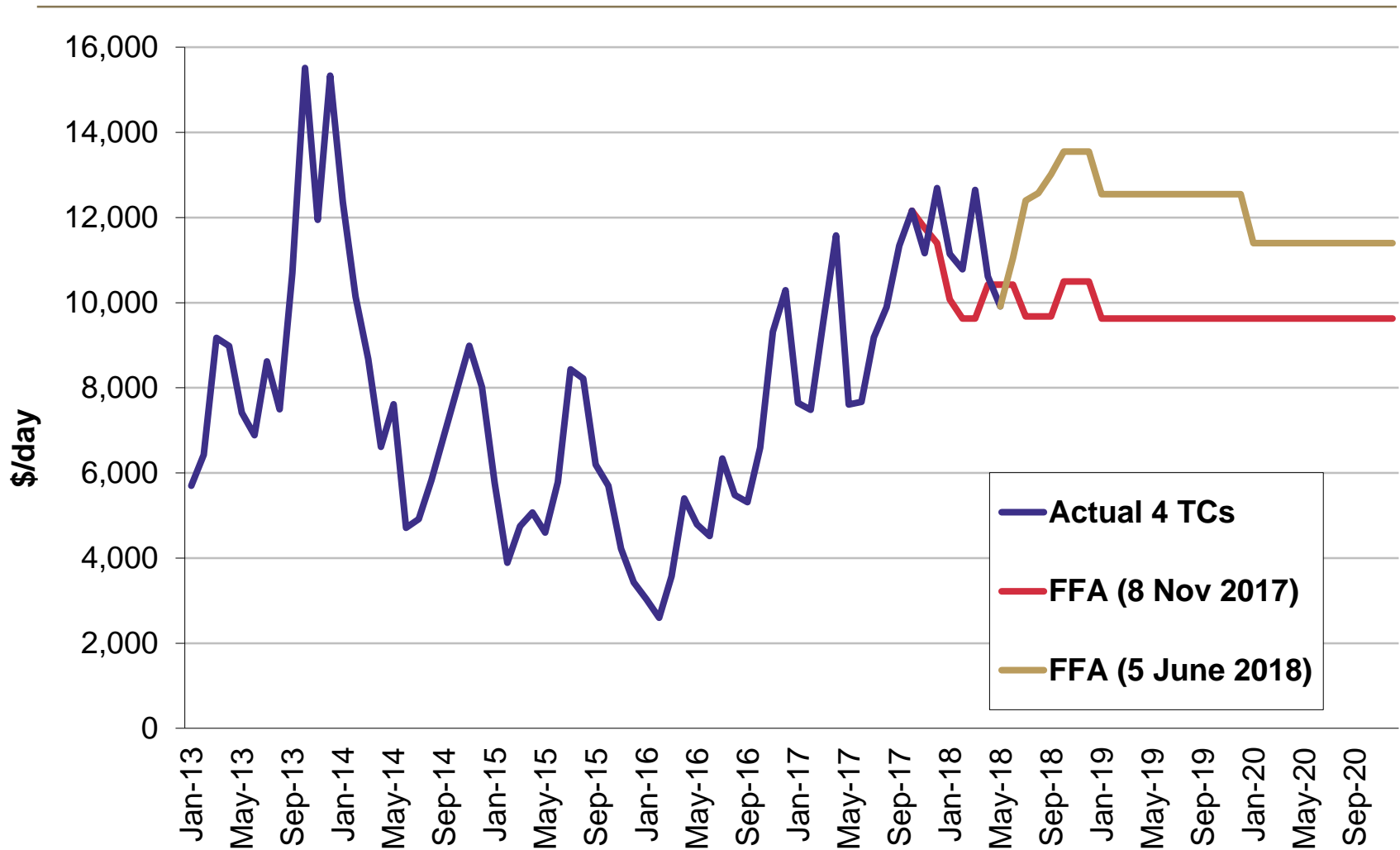
DRY BULK CARRIER ORDERBOOK VS OLDER TONNAGE



DRY BULK CARRIER NET FLEET CHANGE



PANAMAX 4 TC EARNINGS: ACTUAL & FFA



IMO 2020: CURRENT SITUATION

- global cap on marine bunker sulphur content to be cut from 3.5% to 0.5% on 1st Jan 2020
- compliance requires either fuel switching
 - ultra low sulphur fuel oil/marine gasoil/LNG
- or installation of exhaust gas cleaning systems (scrubbers)
 - cost of approx \$2.0 million for Capesize newbuilding with higher costs for retrofits
- majority of dry bulk carriers set to switch fuels
 - interest in scrubbers rising, but few examples to date and restricted equipment availability plus significant capex
 - uncertainties over both (1) composition of future bunker fuel supply and (2) future legislation

IMO 2020: MARKET IMPLICATIONS

- scrubbers most viable for larger vessels with higher asset values and fuel consumption, but payback calculations should allow for “pass-through” economics
- switch to low sulphur alternatives will raise bunkering costs, widen oil price spreads, create potential bottlenecks, cap vessel speeds and stimulate demolition of less fuel-efficient vessels
- premia for fuel-efficient vessels to widen in the period charter and secondhand markets
- CO2 reduction targets to reinforce trend towards greater fuel efficiency in new vessel designs

CONCLUSIONS

- positive economic growth forecasts, limited newbuilding orderbook and profitable steel industry remain supportive for freight market sentiment
- but (mainly temporary) shortfalls in cargo availability restraining recovery
- and government interventions have created potential damage to the dry bulk trade outlook
- rising newbuilding orderbook for 2019/2020...
- ...but potential for supply-side impact from new IMO bunker fuel regulations



SIMPSON | SPENCE | YOUNG

London T: +44 20 7977 7404

E: research@ssy.co.uk

ssyonline.com