



Clarksons Platou

# Cyprus Maritime Conference

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Freight Market Overview

October 2019



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## Keynotes

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- **Geopolitics**
- **IMO 2020**
- **Freight Market**







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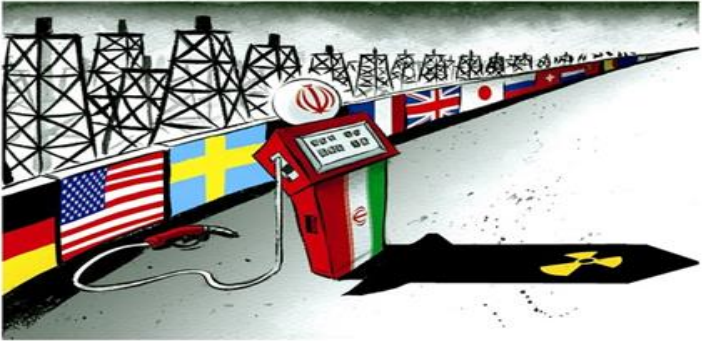
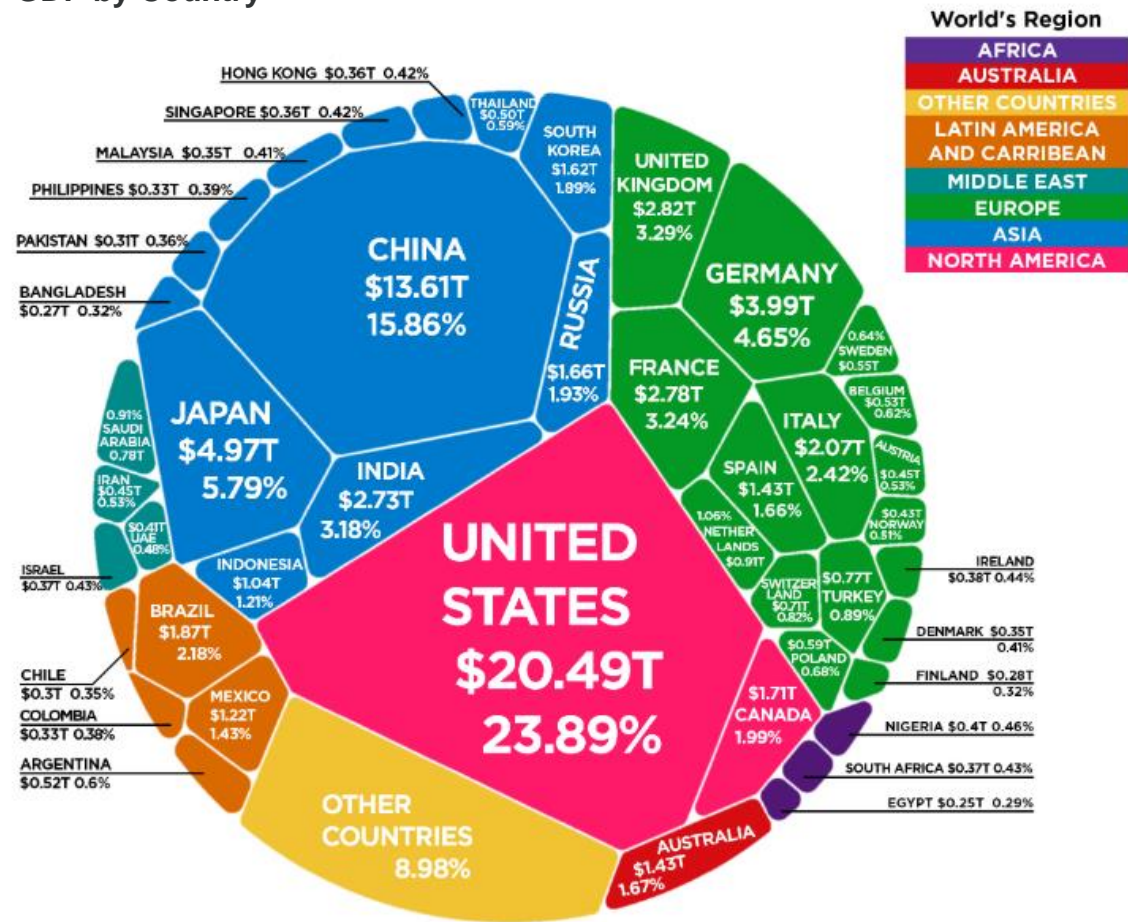
# Geopolitics



# Trade War

## Change in world order

2018 GDP by Country



Source: Howmuch.net, World Bank



# Trade War Implication on Shipping

## A few examples

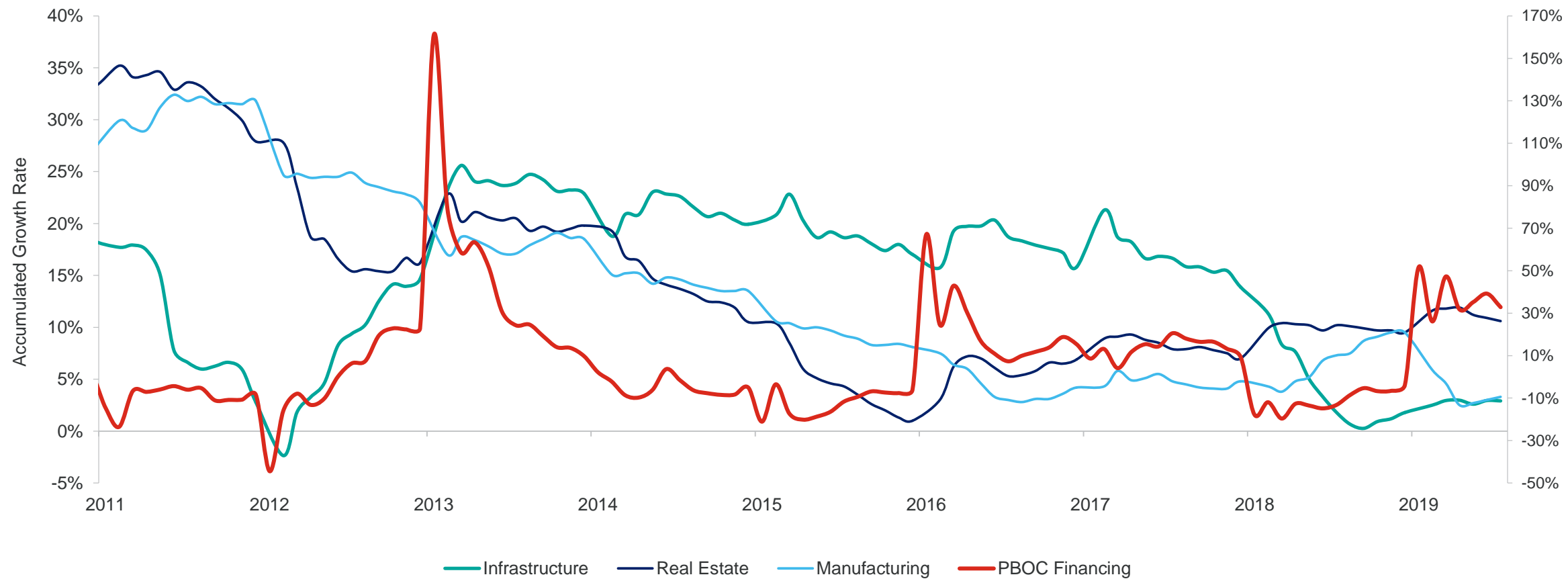
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- Most recent surge in Tanker rates – sanctions on COSCO ships
- Increase in spot contracting - uncertainty and constant changes lead to wait-and-see approach
- Changes to trade patterns - strong dollar opens price arbitrage of weaker currency countries (e.g. ECSCA and Black Sea grain trades)
- Quantitative easing - China's infrastructure related stimulus to buffer weaker economic growth

# China's Economic Stimulus

Selective easing during 2019 to keep GDP around 6%

## PBOC Financing and FAI Growth in Manufacturing, Real Estate, Infrastructure

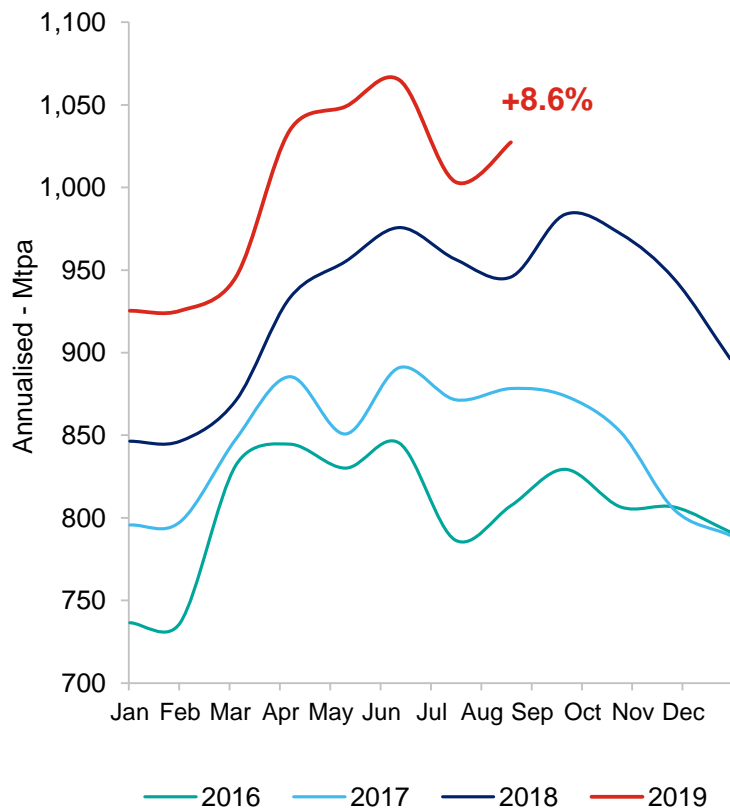


Source: NBS of China, PBOC

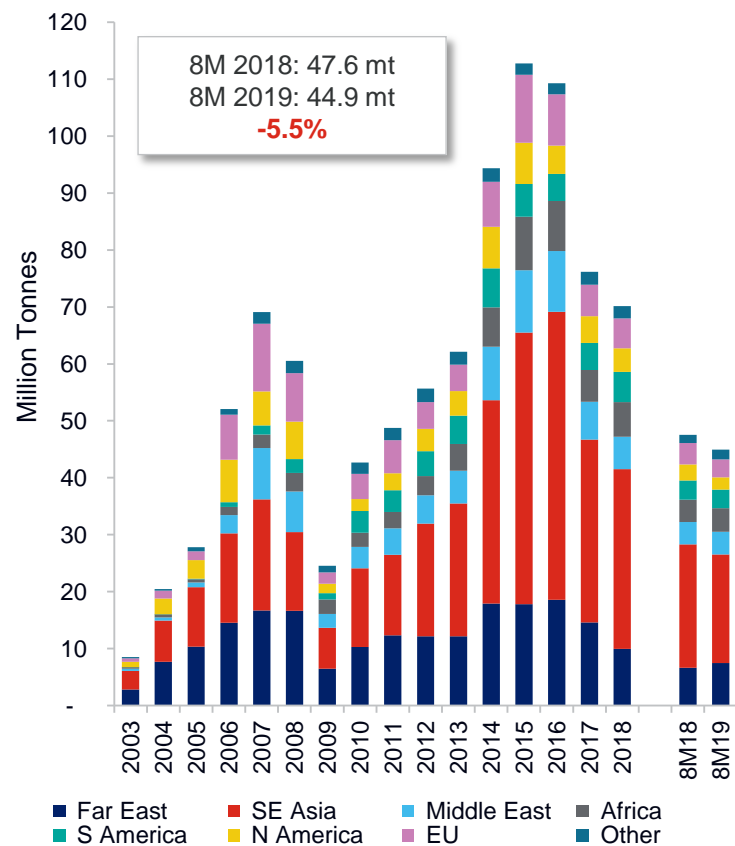
# China Steel Production and Consumption

Implied consumption responded to the stimulus

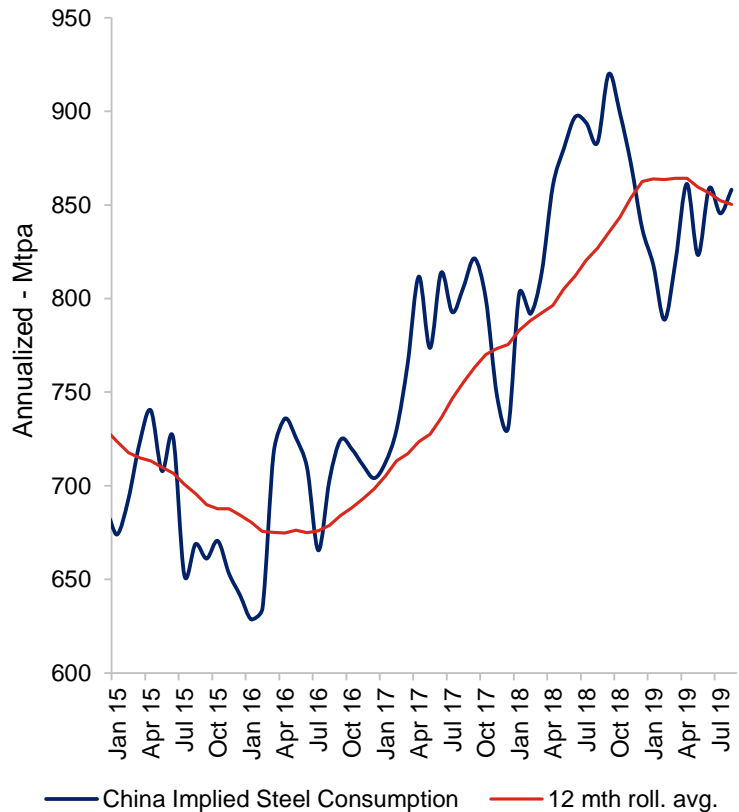
China Crude Steel Production



China Steel Exports



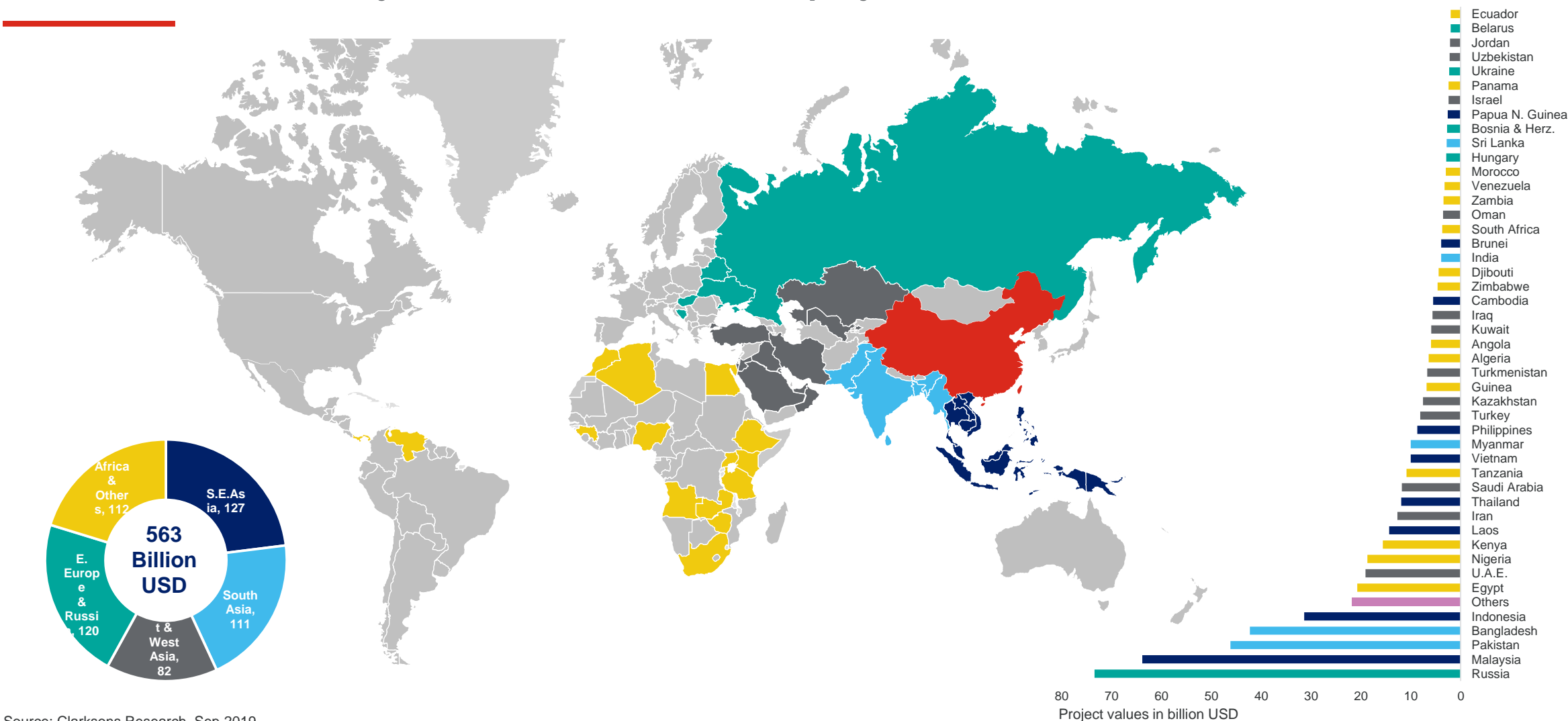
China Implied Steel Consumption





# China's BRI (Belt & Road Initiative)

Belt & Road Initiative major countries and estimated projects value

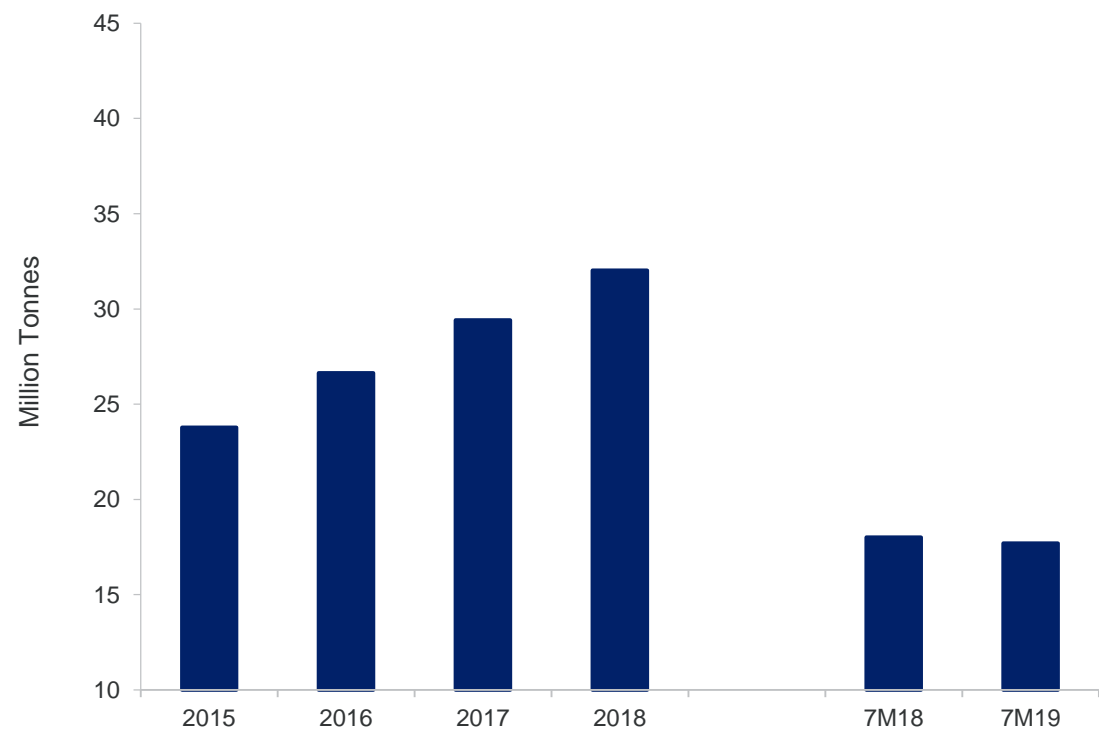


Source: Clarksons Research, Sep 2019

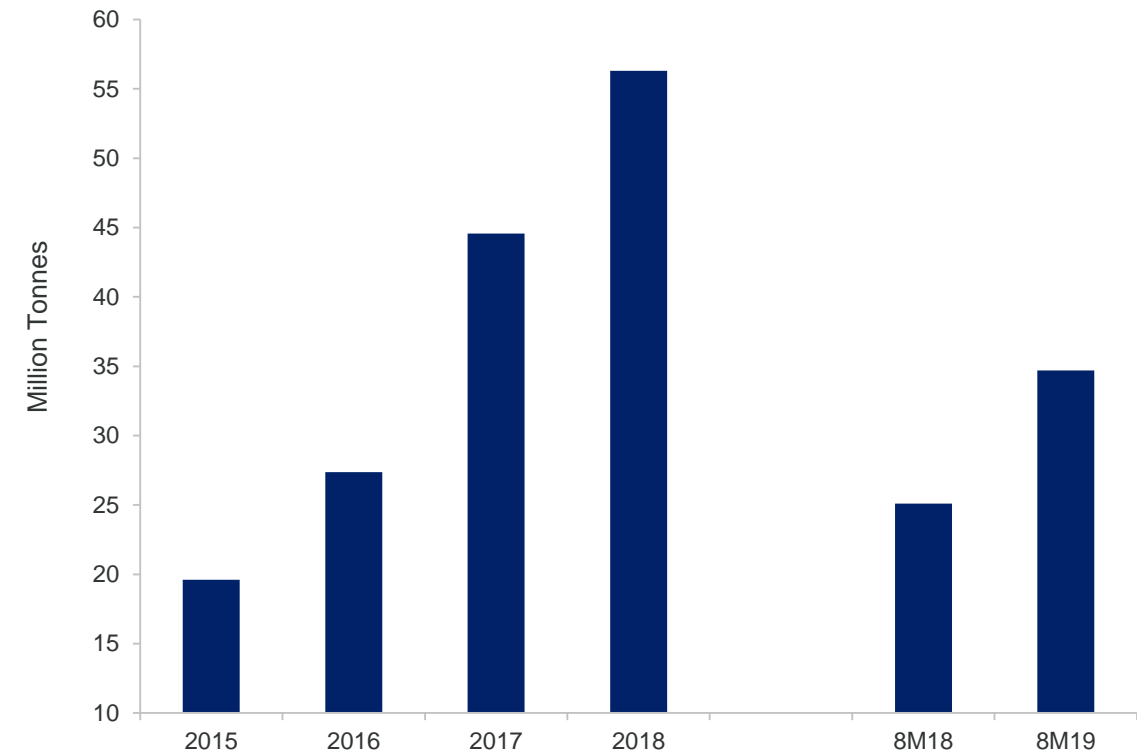
# BRI Related Investments

Vietnam benefit from outsourcing and Guinea bauxite continue to increase

Vietnam Cement and Clinker Exports



Guinea Bauxite Shipments

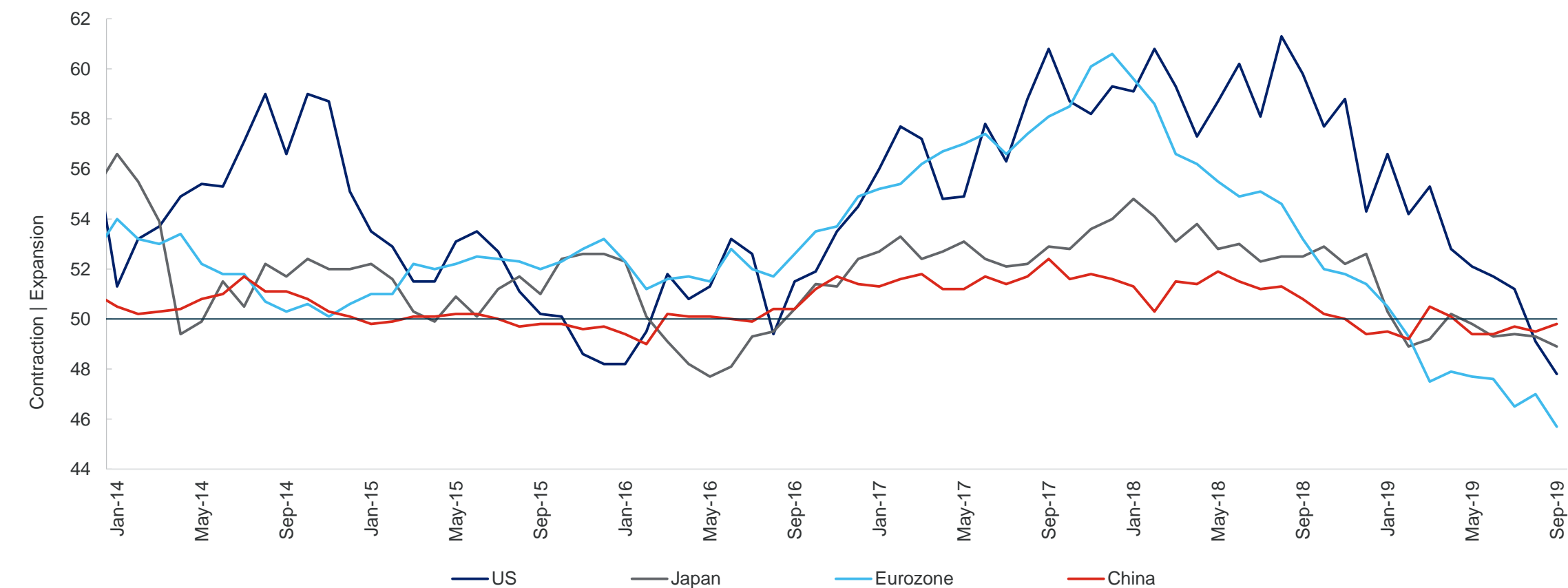


Source: Clarksons Platou AIS tracking; Vietnam Customs

# Slowdown in Manufacturing Activity

Contracting for most of 2019

## Manufacturing PMI's of the Big 4 Economies



Source: HSBC, Markit, Caixin, Refinitiv, Capital Economics





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## IMO 2020

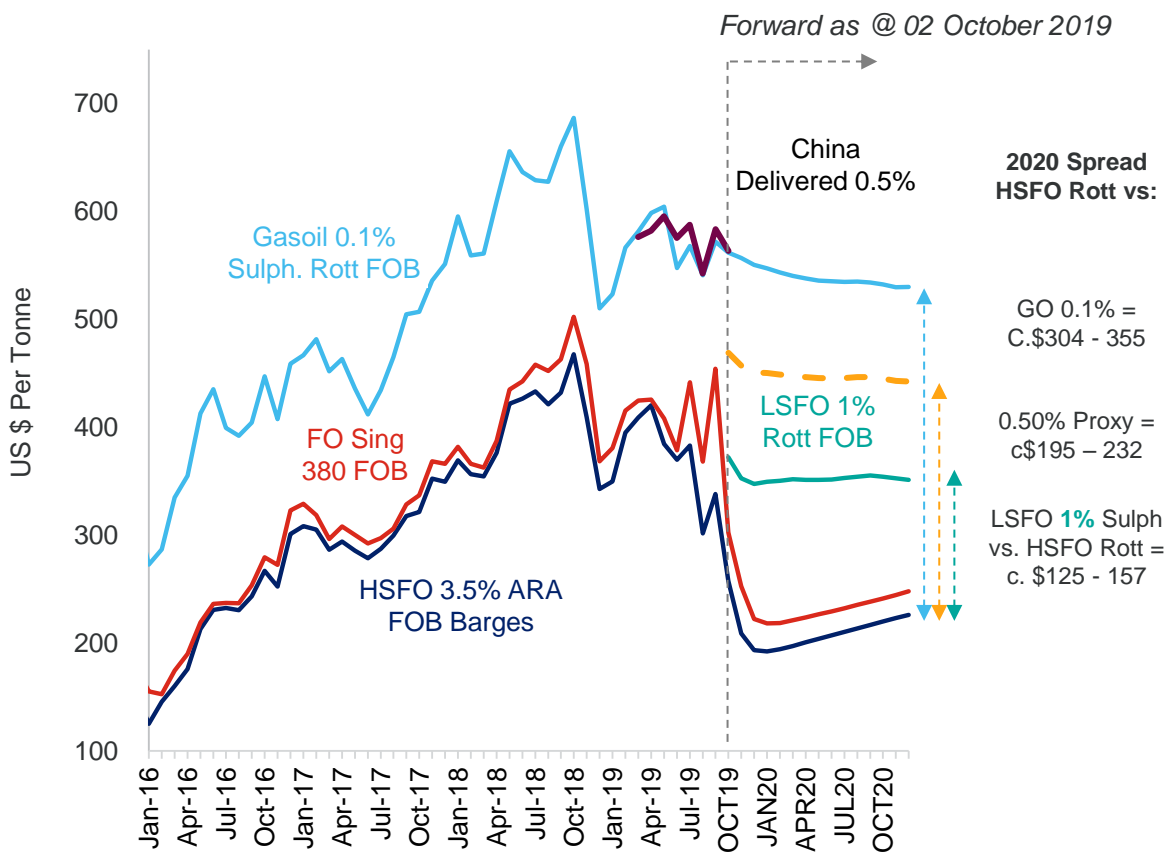
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- **Spreads**
- **Scrubbers**
- **Supply disruptions**

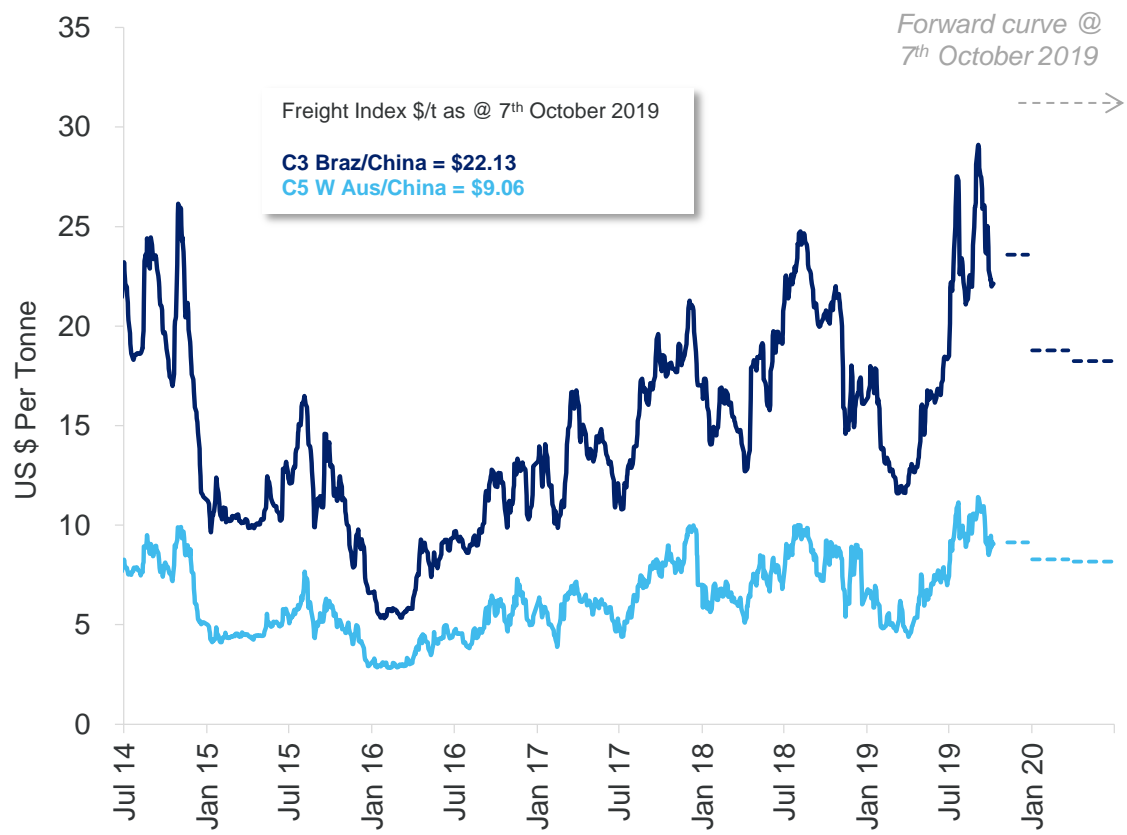


# Bunker Price Spreads

## Bunker Prices and Forward Curve



## Cape Iron Ore Freight Rates to China

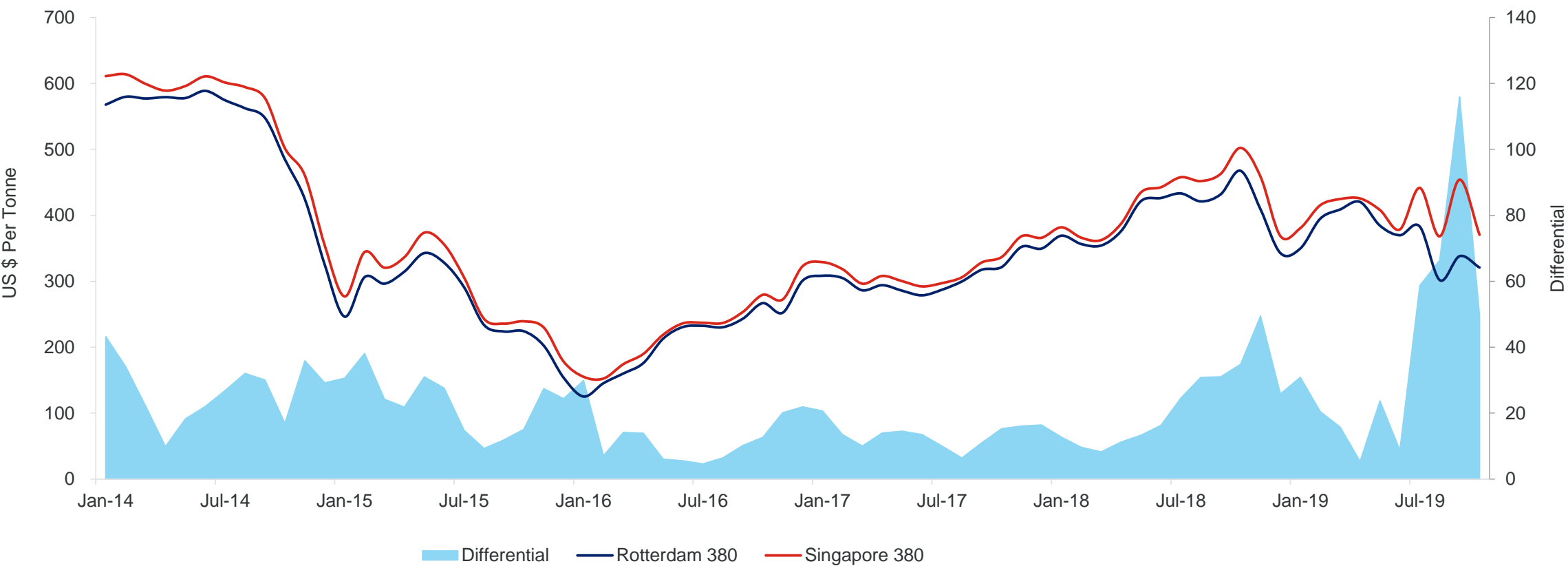


Source: Refinitiv, Clarksons Platou Futures Ltd

# Bunker Price Differentials

## Bunker Prices 2014-2019

### Rotterdam & Singapore HSFO Prices

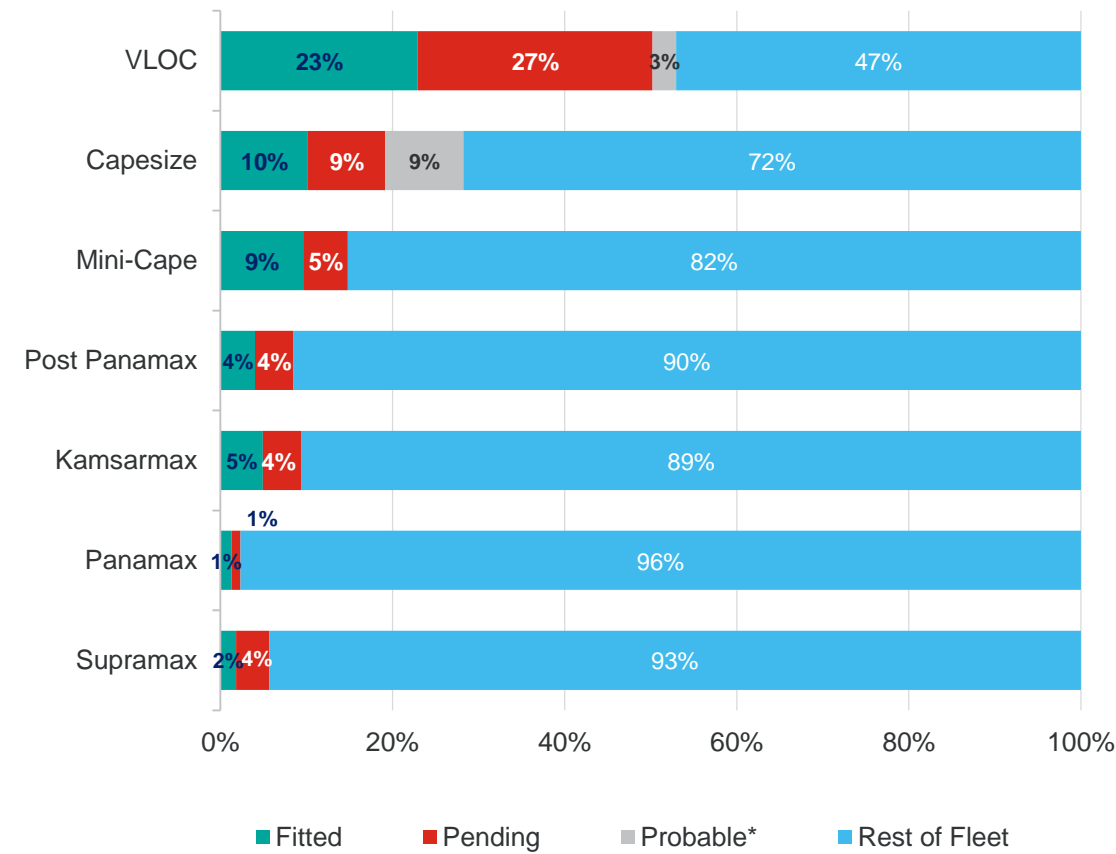


Source: Refinitiv



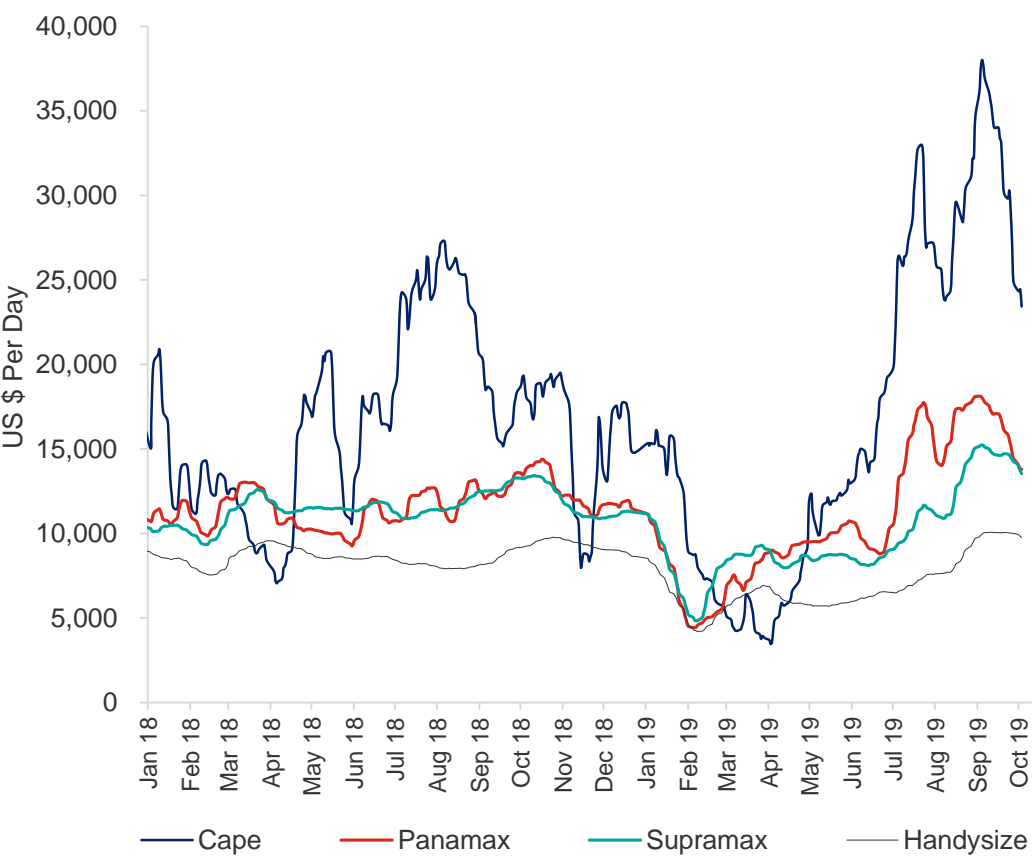
# Scrubber-fitting commoditised

Scrubber Fitting Indication



\* Probable based on SS schedule in 2019 & 2020, younger than 18 years for Capes, industry knowledge.

Baltic Dry Time Charter Earnings per Vessel Type

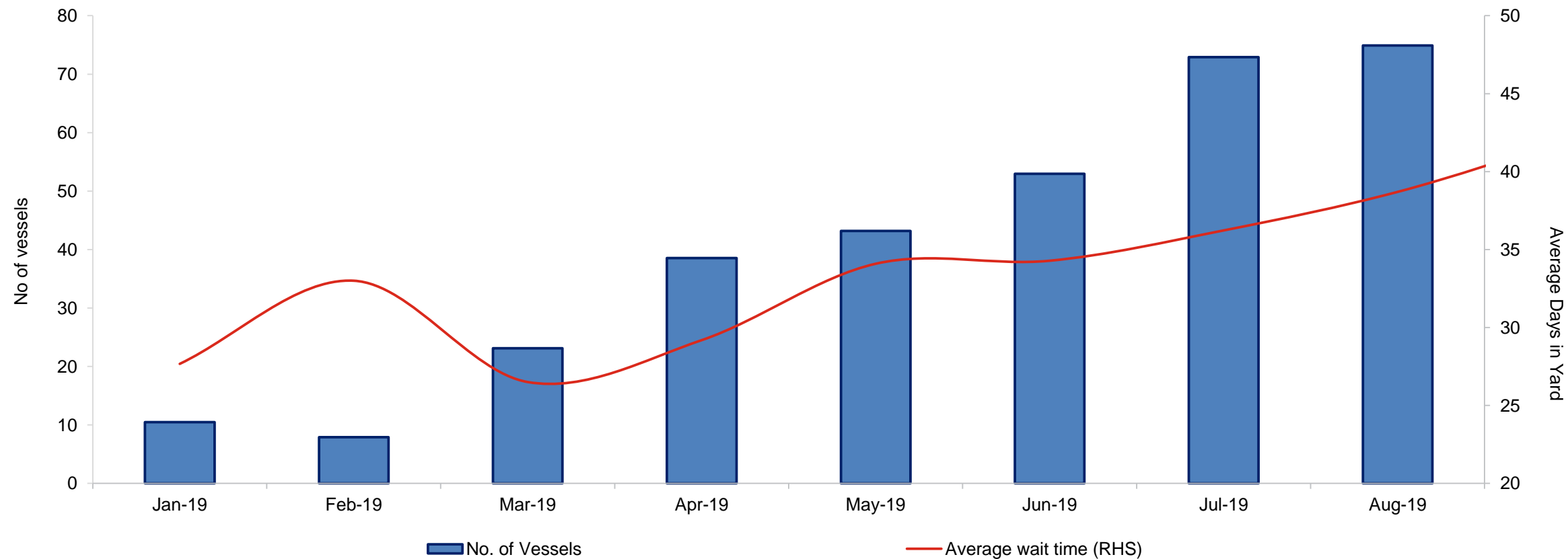


Source: Clarksons Platou @ 26/09/2019

# Supply Disruptions: Off-hire time

Retrofit time at yards increased

## Scrubber-fitting calls at shipyards



Source: Clarkson's Platou Seaset

# Supply Disruptions: Fleet Growth

Off-hire to fit scrubbers

Capesize(100k dwt+) Delivery and Deletion Monthly (No. of ships) – with/without provision for scrubber retrofits

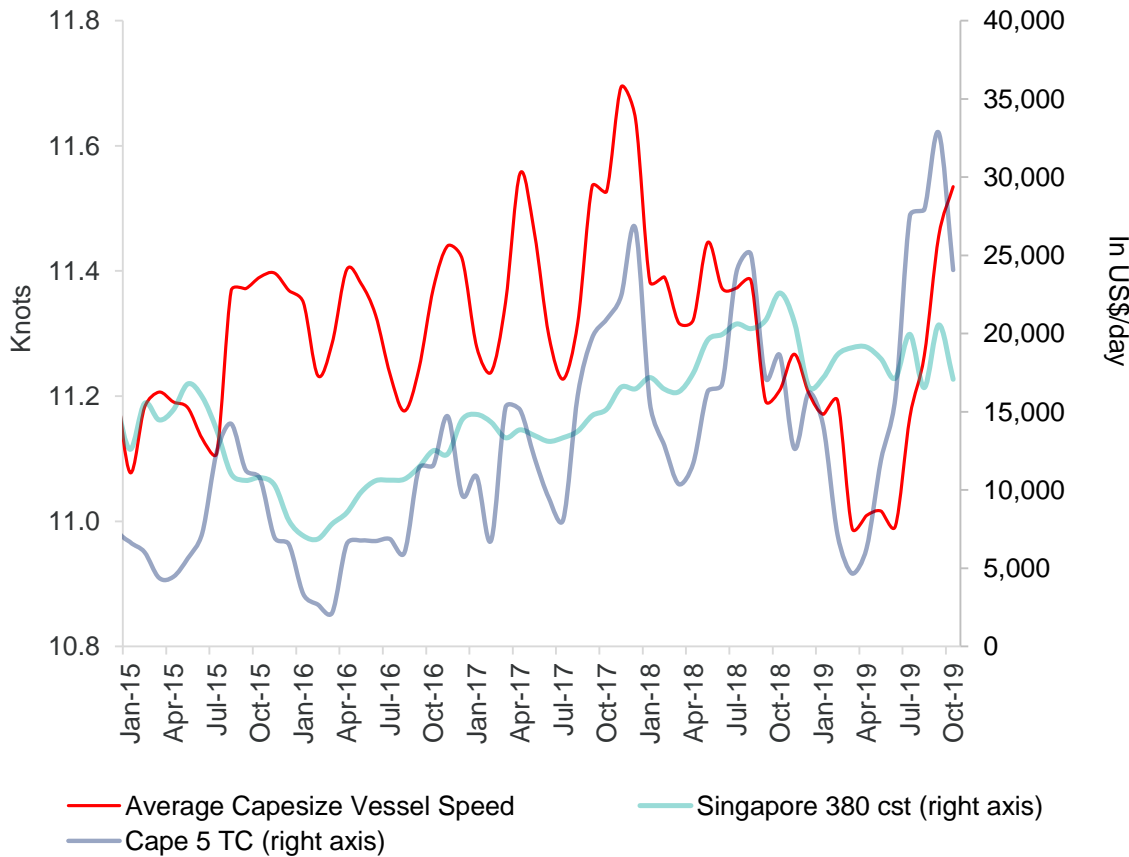




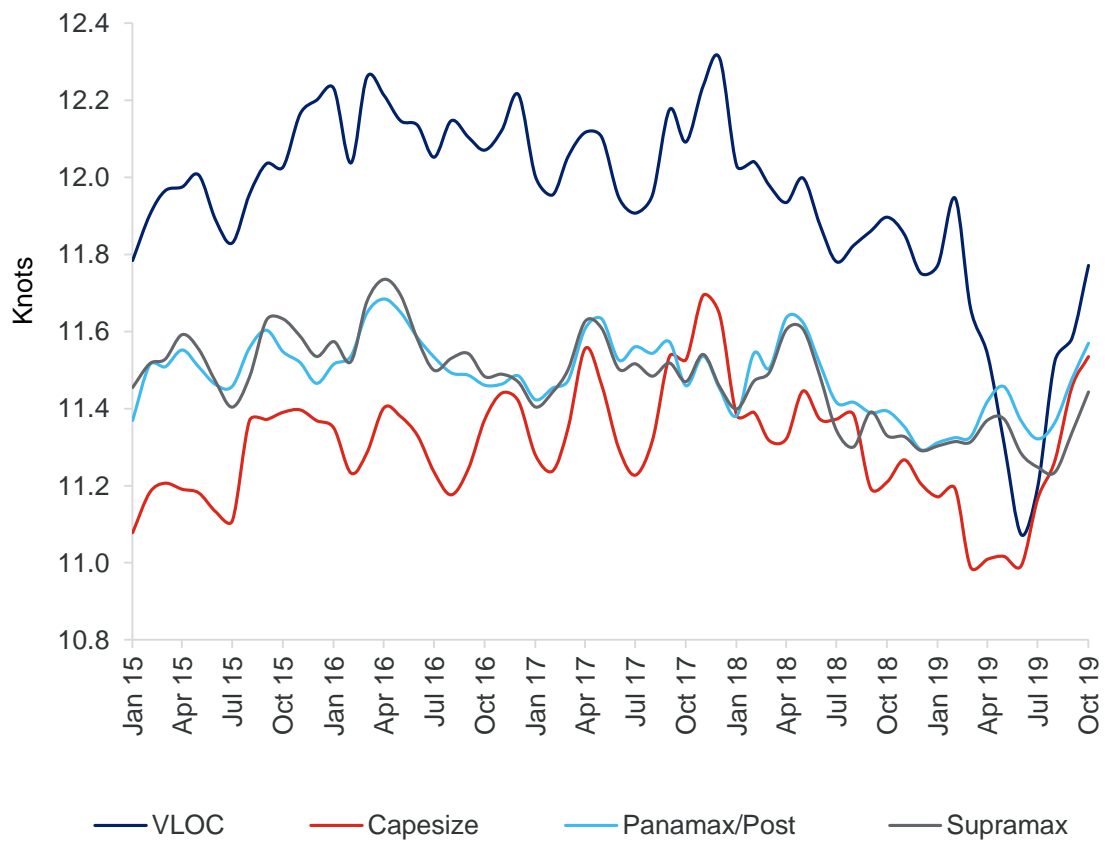
# Supply Disruptions: Speed

Optimum speed is a function of bunker cost, TC hire and operational demands

Average Capesize Speed vs. SG380 Cost & 5TC



Average Bulker Speed by Sector



Source: Clarkson's Seantet, Baltic Exchange, Refinitiv



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## Freight Market

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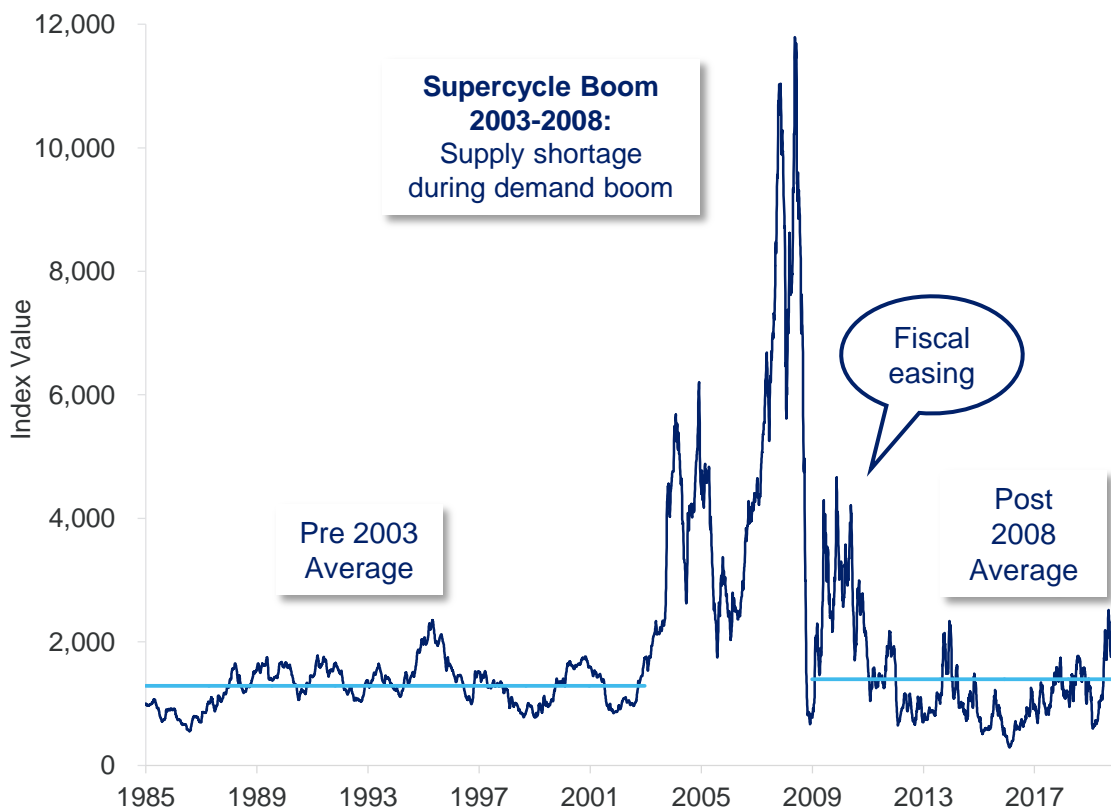
- Overview
- Optimism
- Outlook



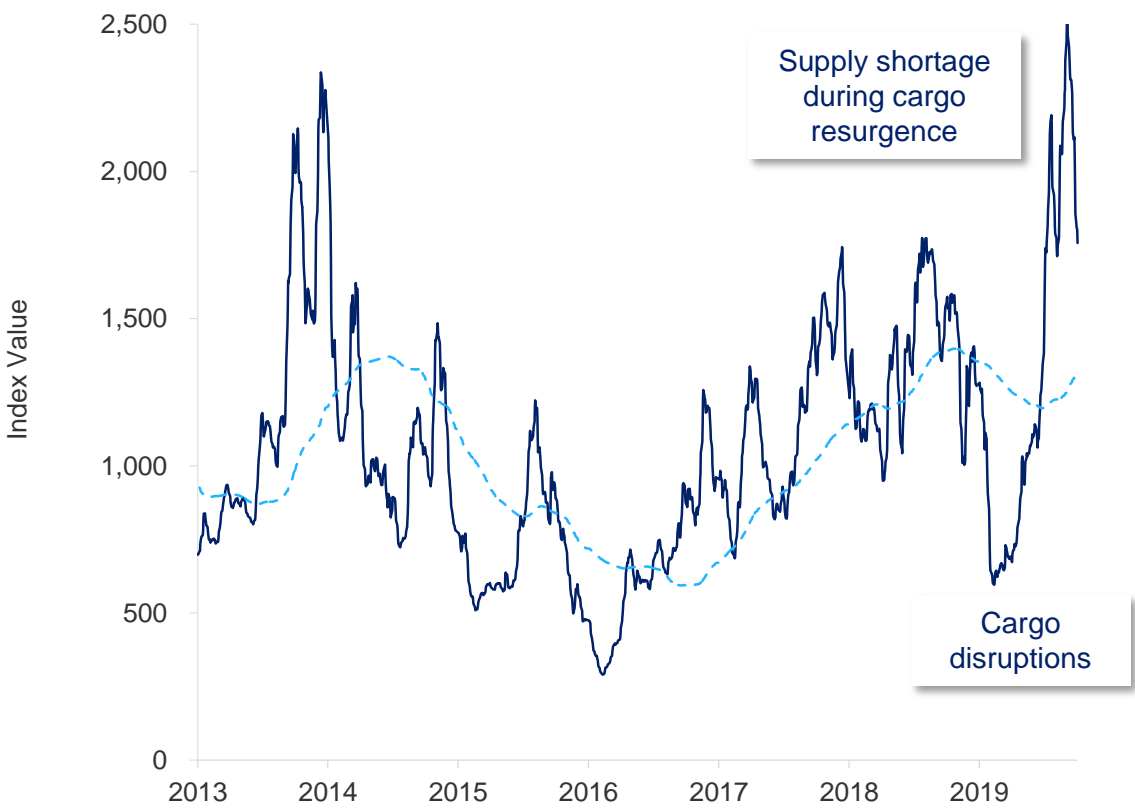
# Dry Bulk Freight Market

Pure economy: Long term vs Short term Cycles

Baltic Dry Index since 1985



Baltic Dry Index from 2016

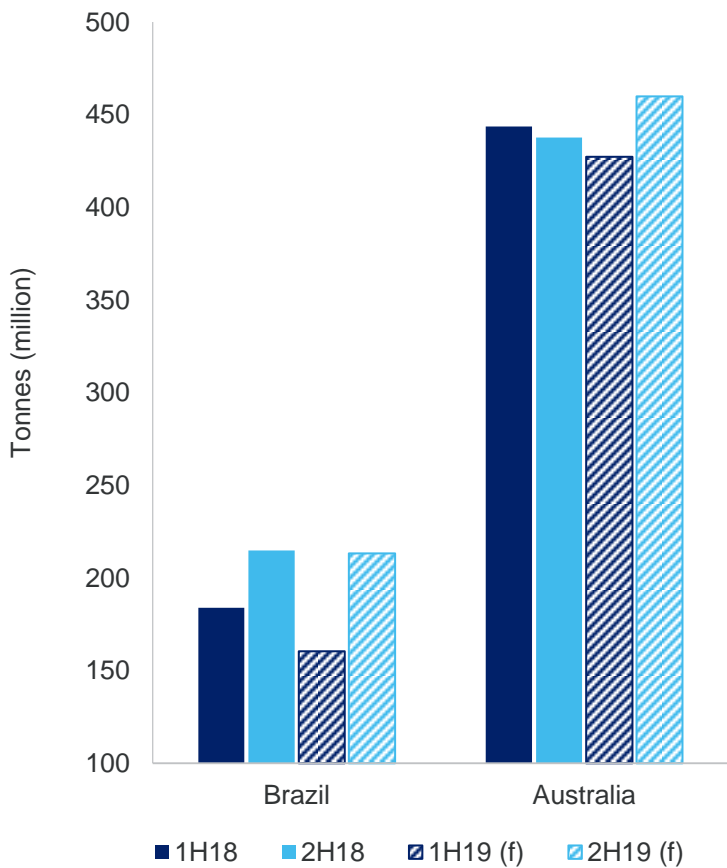


Source: Baltic Exchange

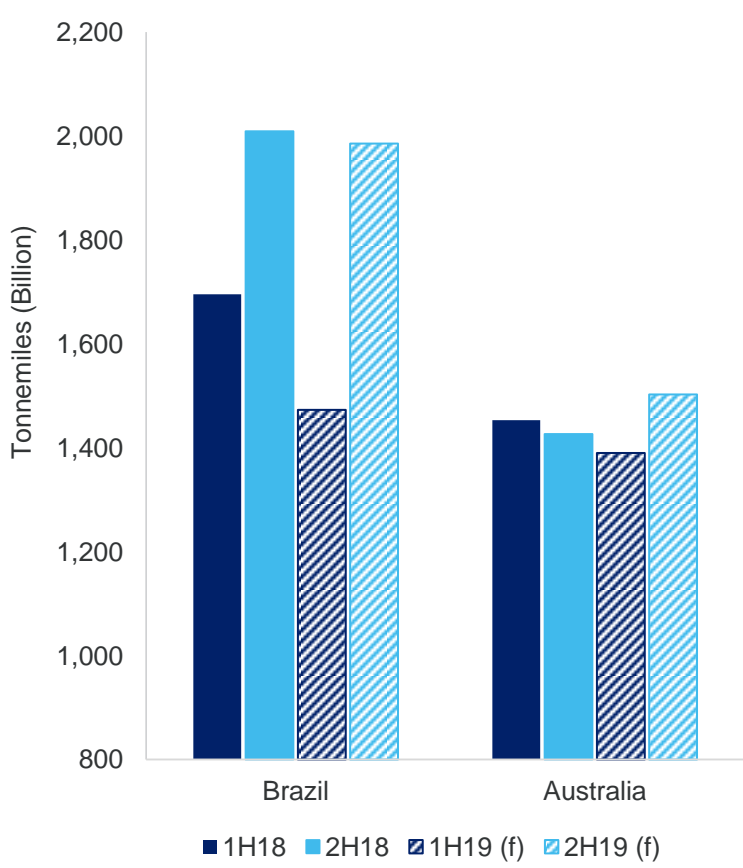
# Short Term Cycle: Iron Ore Shipments Resume

Vale dam incident and severe weather disrupted iron ore shipments during 1H19

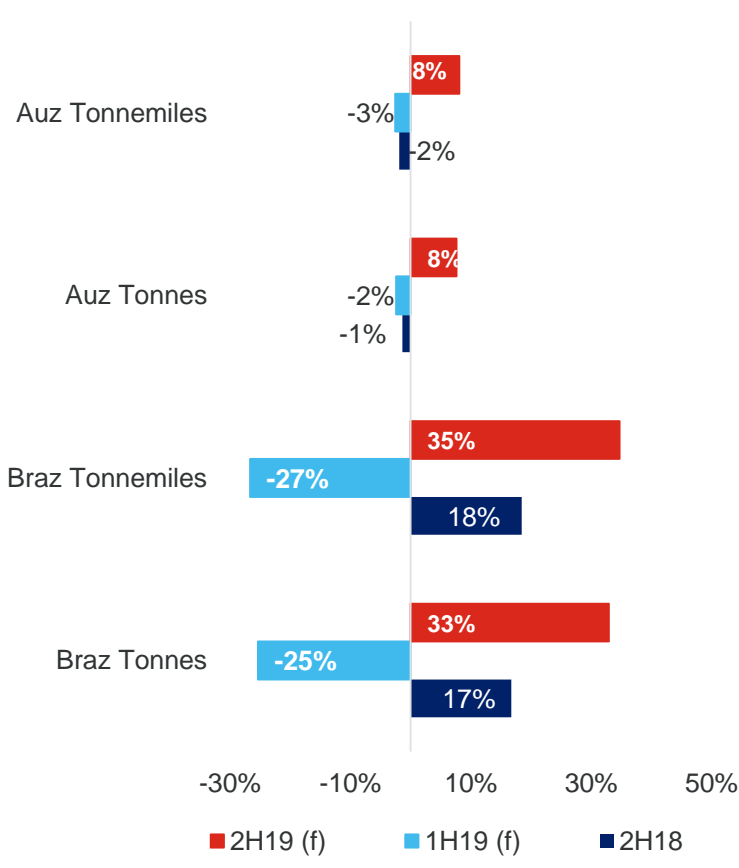
Iron Ore Exports



Iron Ore Tonnemiles



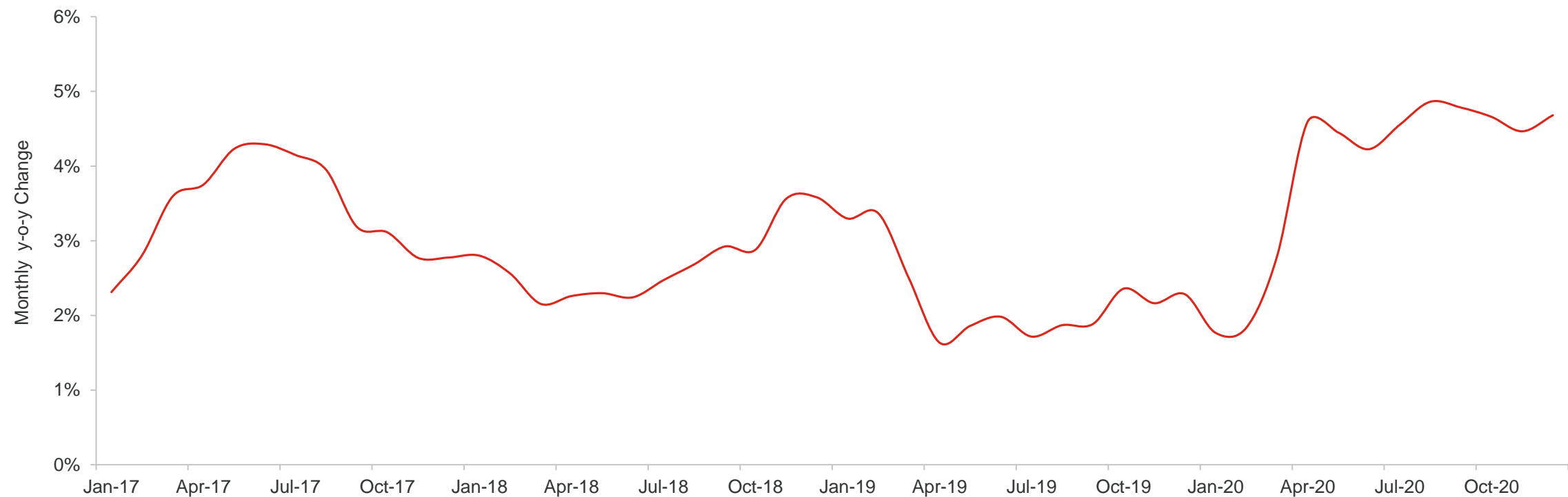
Half Year % Change



# Short Term Cycle: Fleet Supply Growth Constrained

Fleet supply contracted as new build were delayed and off hire increased to fit scrubbers

Capesize Monthly Fleet Growth (Y-o-Y)



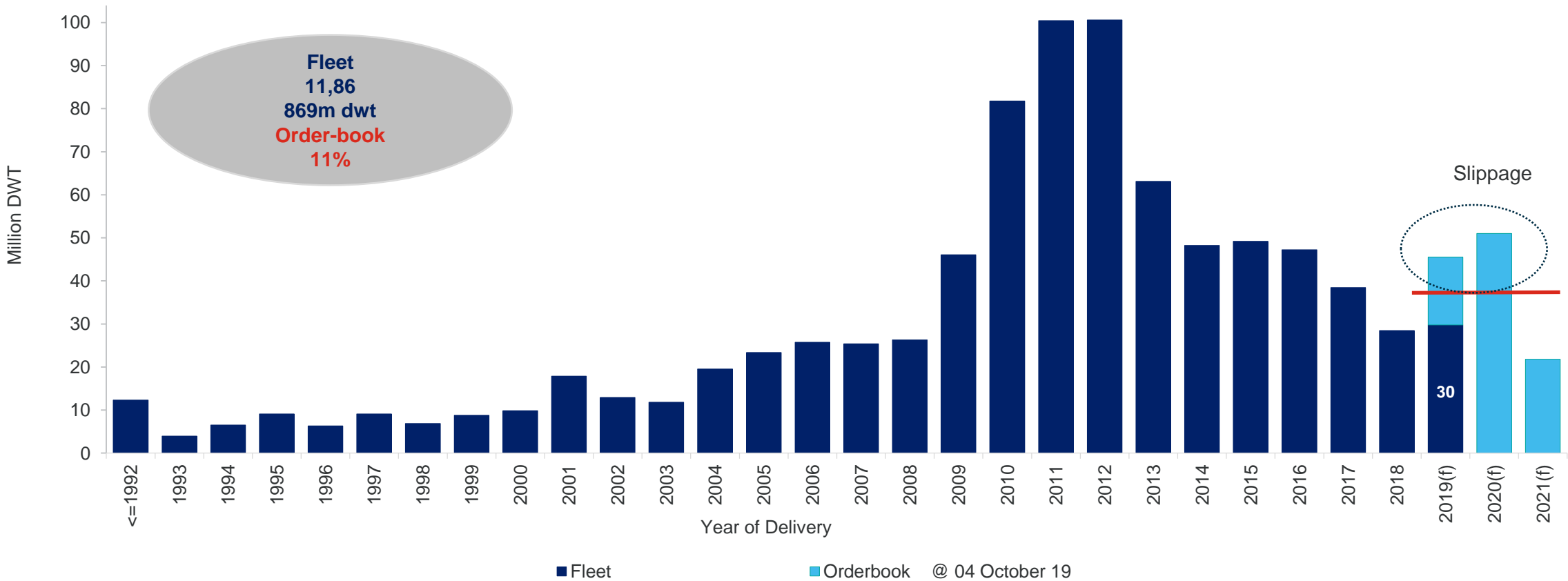
Source: Clarksons Platou



# Long Term: Average Annual Freight Growth Rebalance

CAGR of 3% per annum over the next 3 years

## Dry Bulk Fleet & Order Book

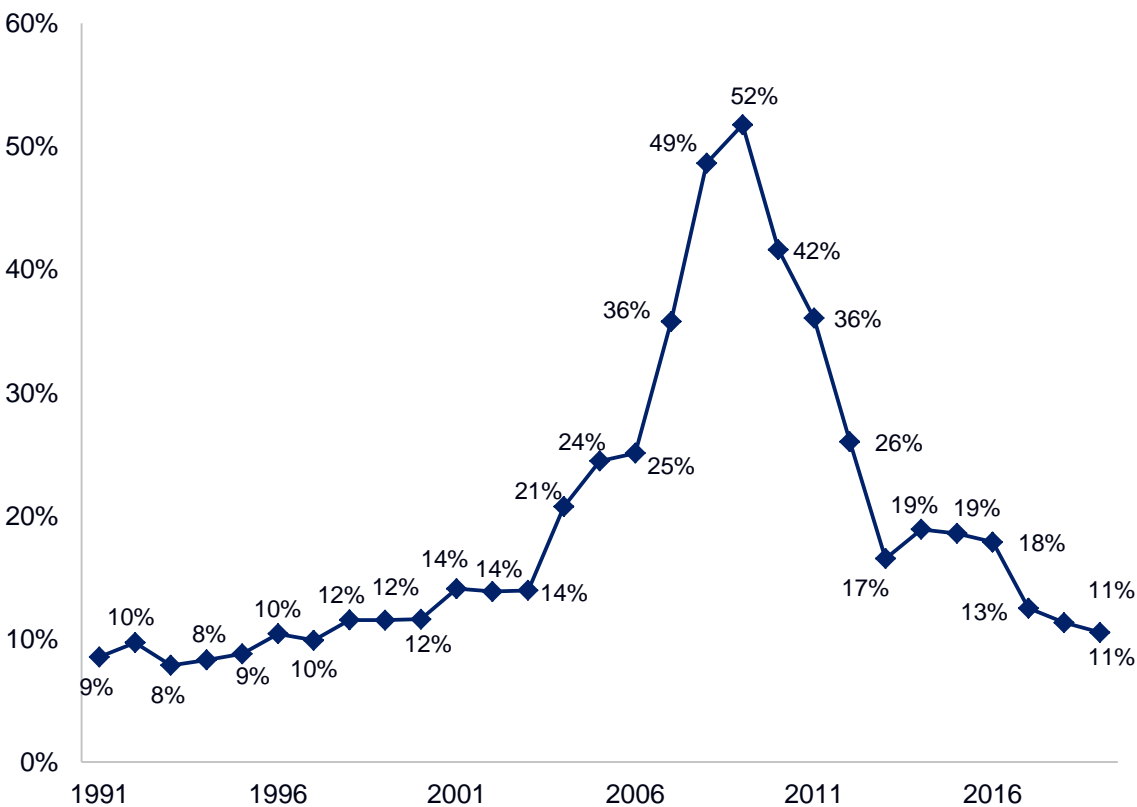


Source: Clarkson's Research Services. Fleet and Orderbook as on 04 October 2019

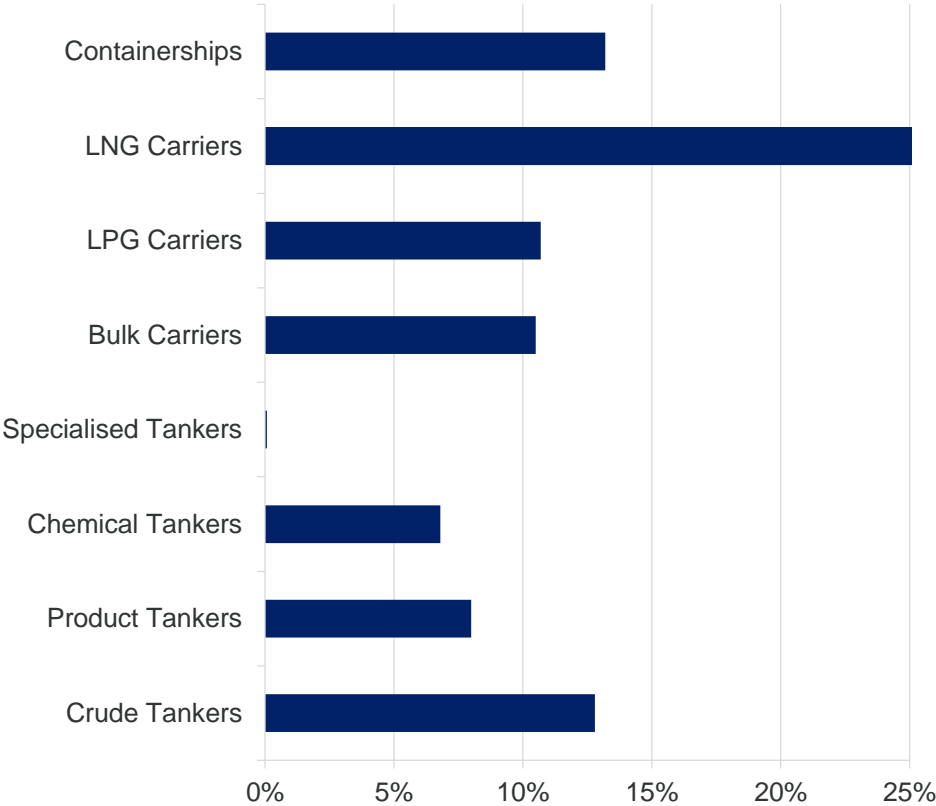
# Optimism: Low Orderbook Scenario

Fleet growth the lowest in 18 years at end of 2018 at 2.6%

Orderbook as % of Fleet



Shipping Sectors Orderbook as % of Fleet

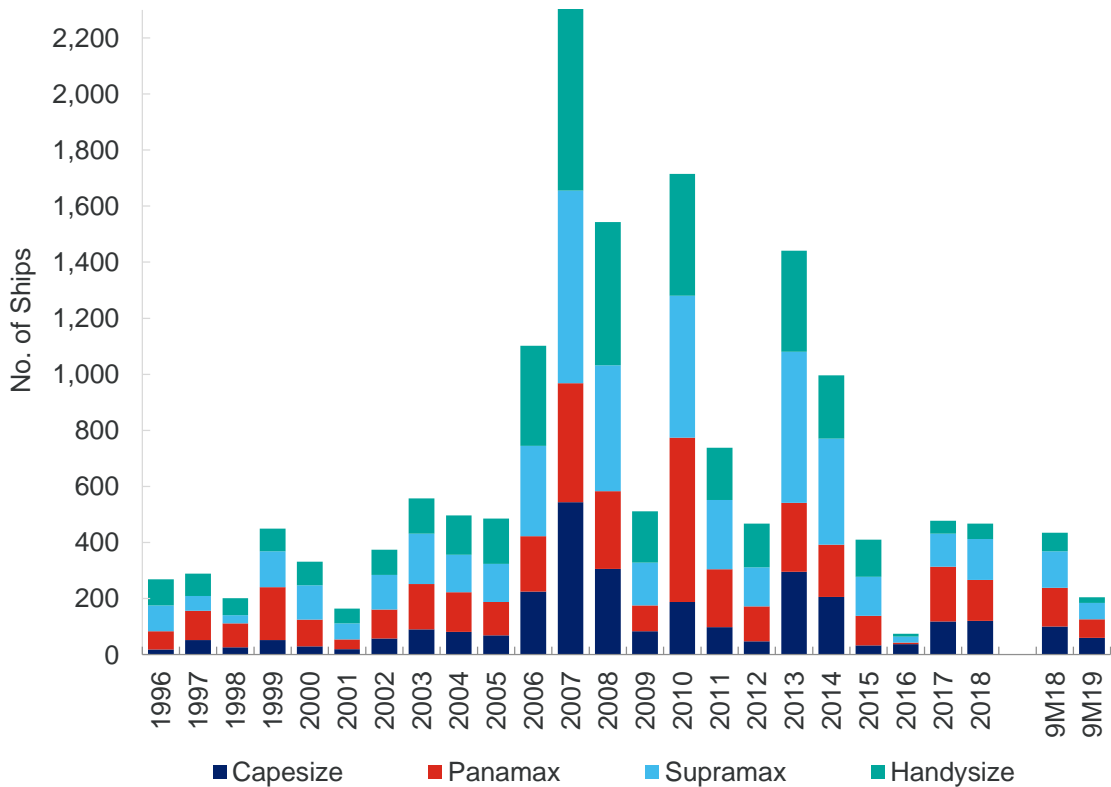


Source: Clarksons. Orderbook as % of fleet based on number of vessels for all merchant vessel types.

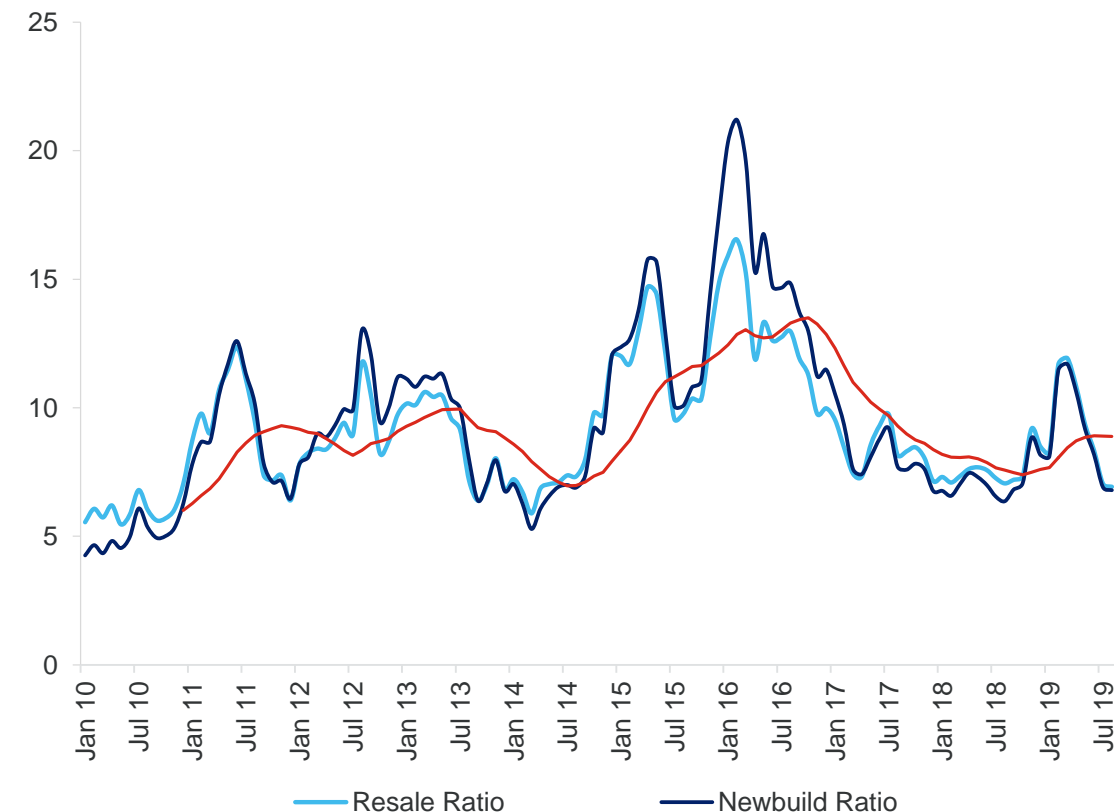
# Asset value/Earnings Multiples

Orderbook responds although new deliveries lag the market

## Bulk Carrier Contracting



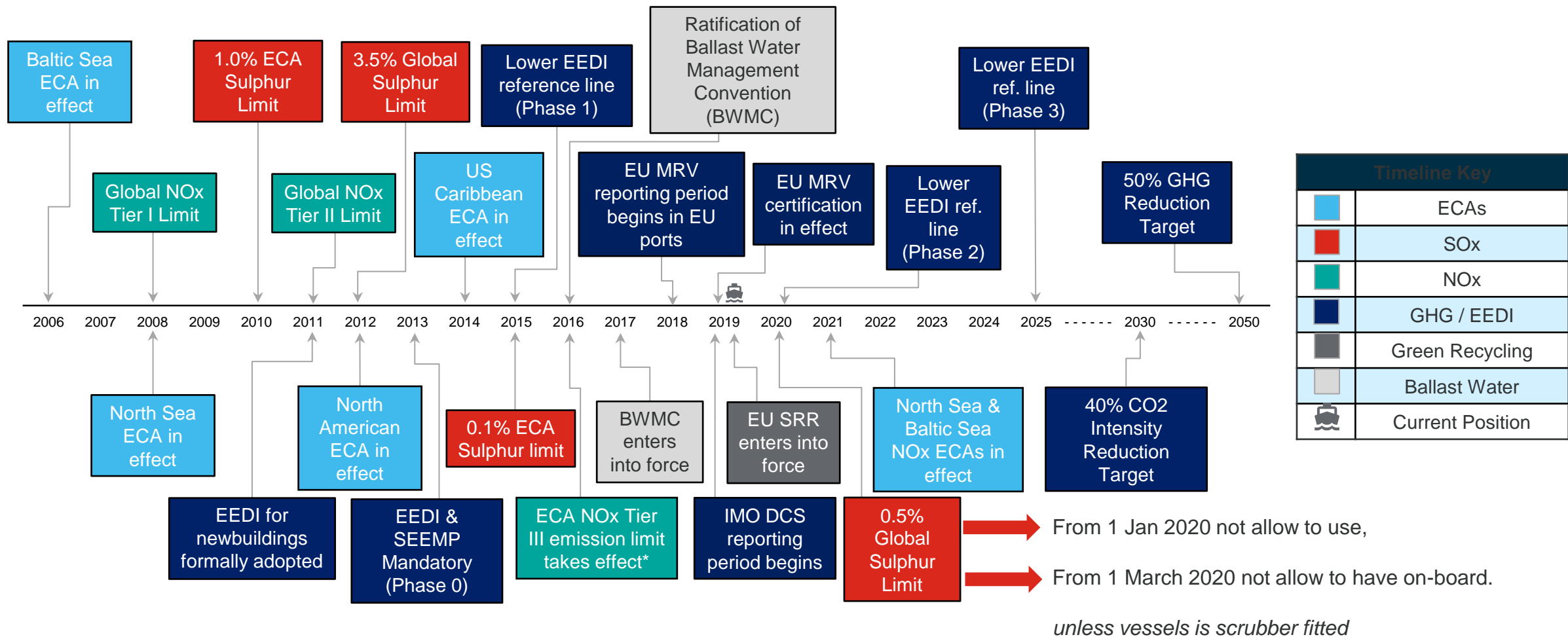
## Capesize Resale & Newbuild Price vs Earnings Ratio



Source: Clarksons

# Environmental Regulation Platform

New ship designs needed for the future? Pricing?

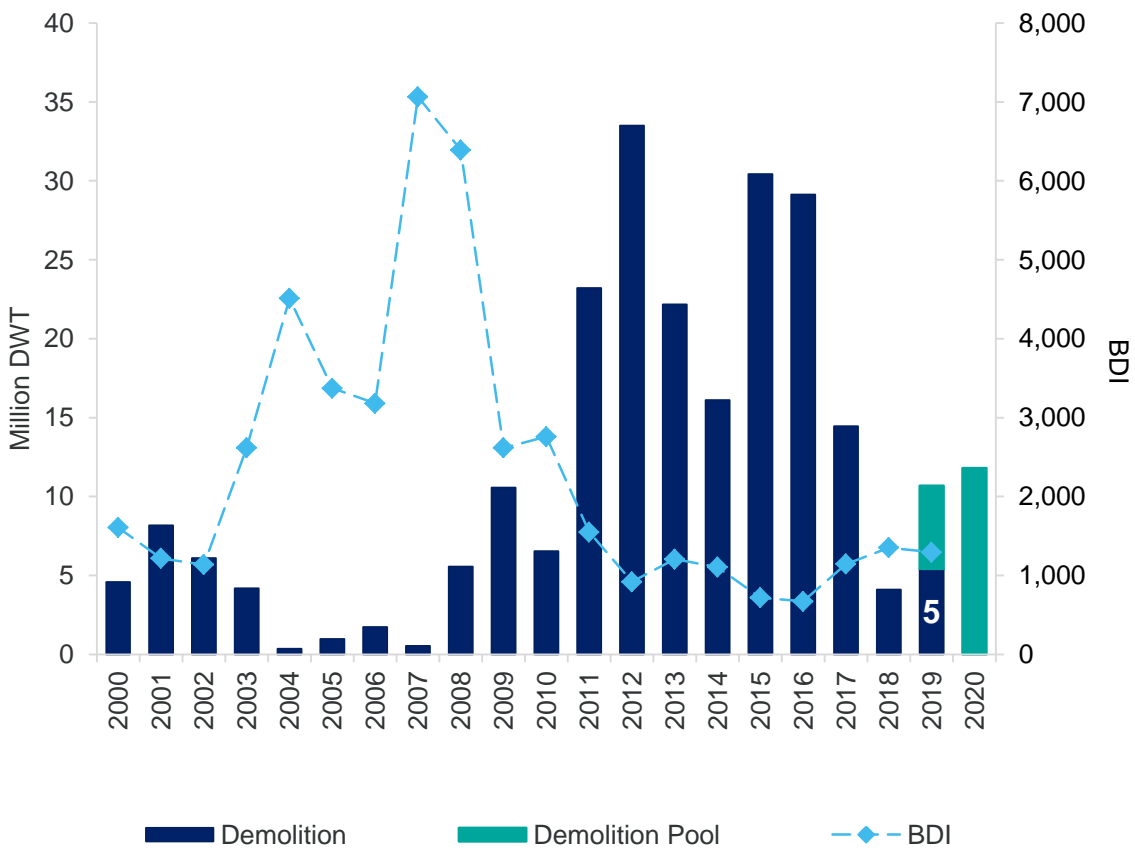


Source: Clarkson's Research, January 2019

# Demolition Candidates

Expensive regulatory requirements, attractive demolition prices & low earnings stimulate demolition

Dry Bulk Fleet Demolition vs Baltic Dry Index



Dry Bulk Demolition Prices per LDT

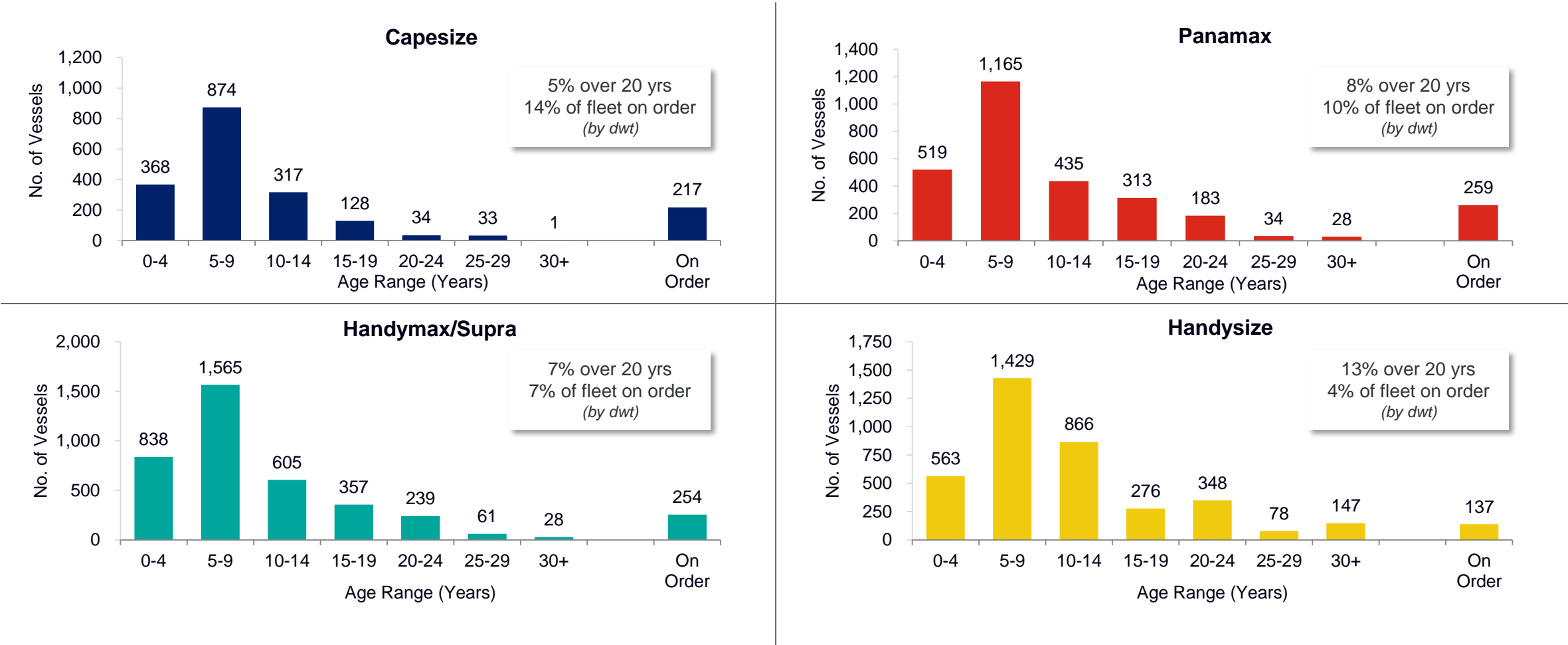


Source: Clarksons Platou



# Dry Bulk Fleet Relatively Young

Economical lifespan of ships

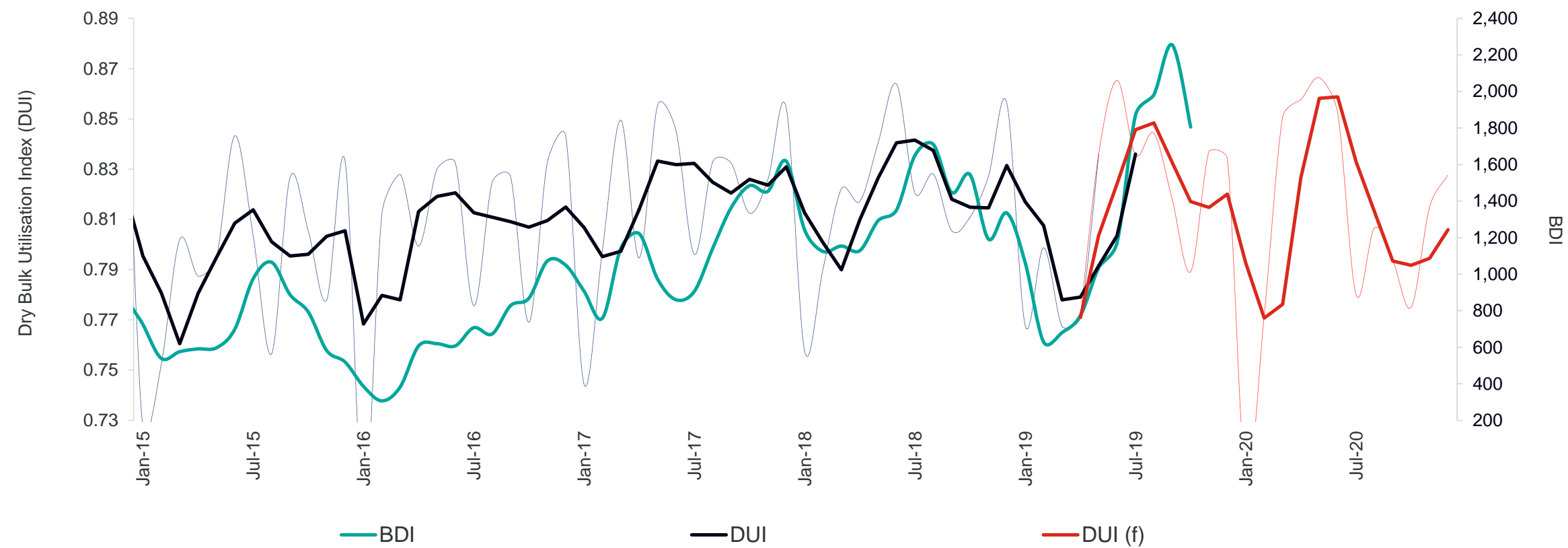


Source: Clarksons Research

# Outlook

Repetition of the trend of the past 3 years

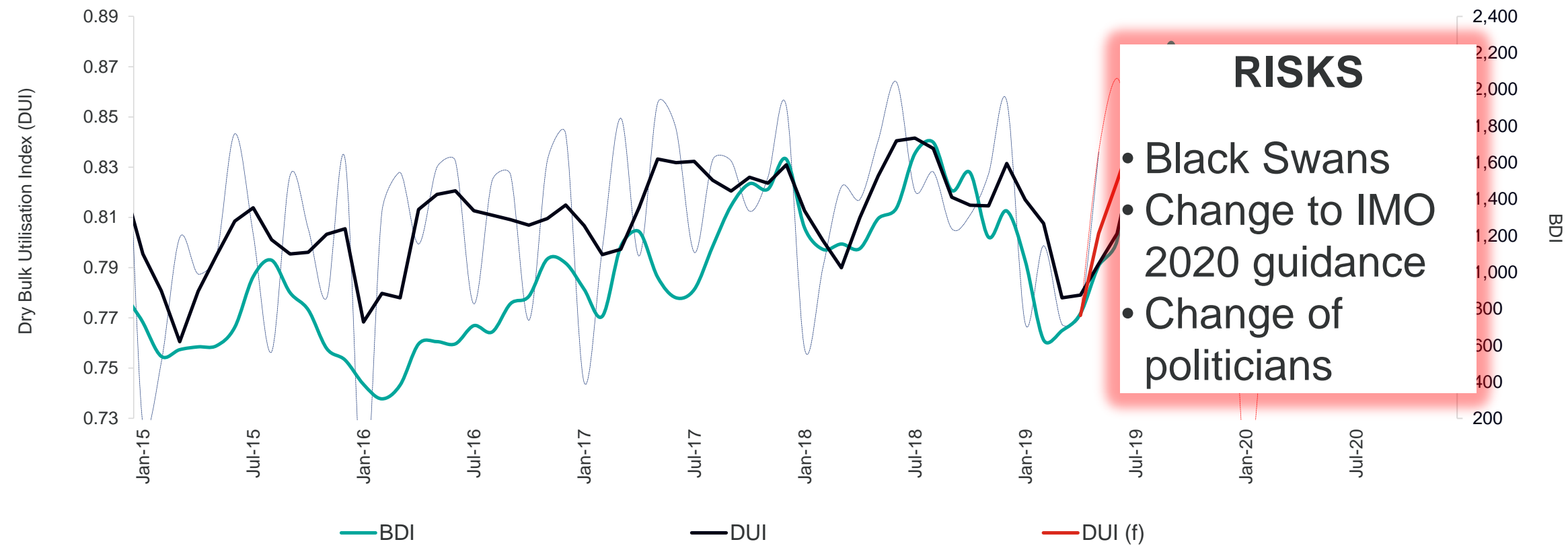
## Dry Bulk Utilisation Index (DUI) vs BDI



# Outlook

Repetition of the trend of the past 3 years

## Dry Bulk Utilisation Index (DUI) vs BDI





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**Thank You**

