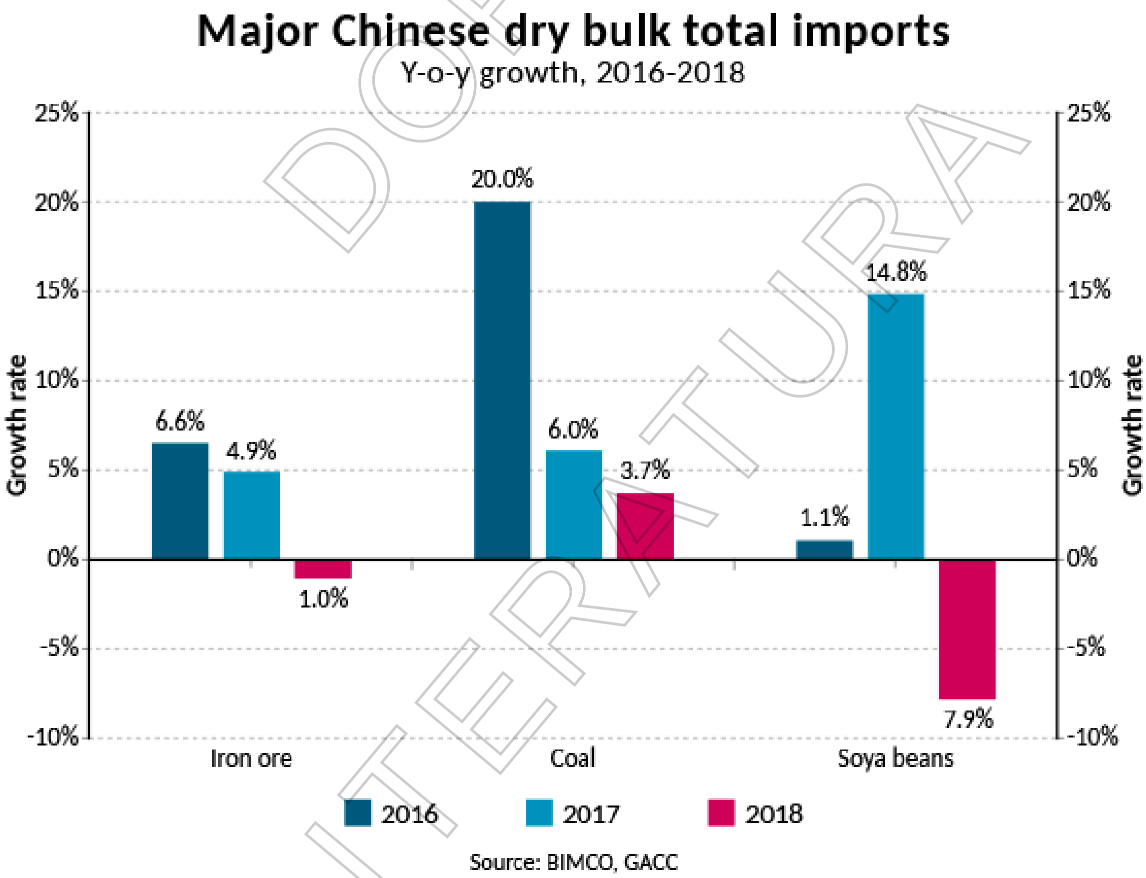
Chinese dry bulk imports showed signs of distress in 2018

Total imports of iron ore and soya beans were lower in 2018 than in 2017, down 1% and 7.9% respectively, and although imports of coal grew 3.7% in 2018, this was slower than the growth in 2017.

Chinese bulk imports have become increasingly important as the world's second largest economy has grown at a high rate. However, with more and more indicators pointing to a different Chinese growth going forward and increasing trade tensions with the world's largest economy, things may be changing. China is not isolated in facing difficulties, global manufacturing PMI fell to 51.5 in December, and the IMF predicts global growth will fall from 3.7% in 2018 to 3.5% in 2019.

"Slower growth and outright declines in Chinese bulk imports will harm the shipping industry and the many shipowners who for years have relied on China's growing imports to ensure employment for their ships" Peter Sand, BIMCO's Chief Shipping Analyst, says.



Iron ore imports still over a billion tonnes despite falling

Total annual iron ore imports to China fell in 2018 compared to 2017, totalling 1.06 billion tonnes. Despite it being a small decline, just 1% lower than imports in 2017, this likely marks a turning point in Chinese iron ore imports. 2018 was the first time since 2010, that annual imports were lower than the previous year, and given new policies and more efficient steel mills, 2017 may have been the peak year for Chinese iron ore imports. Even though imports fell in 2018, it was still the third year in which China has imported over a billion tonnes of iron ore (2017: 1.08 billion tonnes, 2016: 1.02 billion tonnes).

Lower iron ore imports have not however translated into lower steel production. Instead more efficient mills and in particular electric arc furnaces, which use scrap to produce steel have been able to increase production while reducing demand for iron ore. The authorities have also set targets to increase the use of scrap in steel production to reduce pollution.

“Iron Ore imports may start to drop at an even faster pace than we saw in 2018. Therefore, what is usually a mega-driver for dry bulk shipping demand may start to fade and dry bulk ships will have to look for new cargoes” Peter Sand says.

Government policies heavily influence coal imports

Chinese coal imports grew 3.7% in 2018 to reach 281.2 million tonnes, but this growth disguises a year of two halves. The month with the highest imports in 2018 was July (29.01 million tonnes), at which point accumulated growth was at 14.7%. After July imports fell on a monthly basis culminating with only 10.2 million tonnes in December. For comparison, December 2017 saw China import 22.7 million tonnes of coal.

Anecdotal evidence suggests that the Chinse customs authorities stopped clearing coal shipments in December. High domestic supplies, a lower growth in electricity demand combined with high stocks led the authorities to wanting to keep imports below the 2017 levels, during which China imported 271 million tonnes of coal.

“Chinese coal imports rely heavily on government decisions and policies and therefore remain a swing factor in 2019” Peter Sand says.

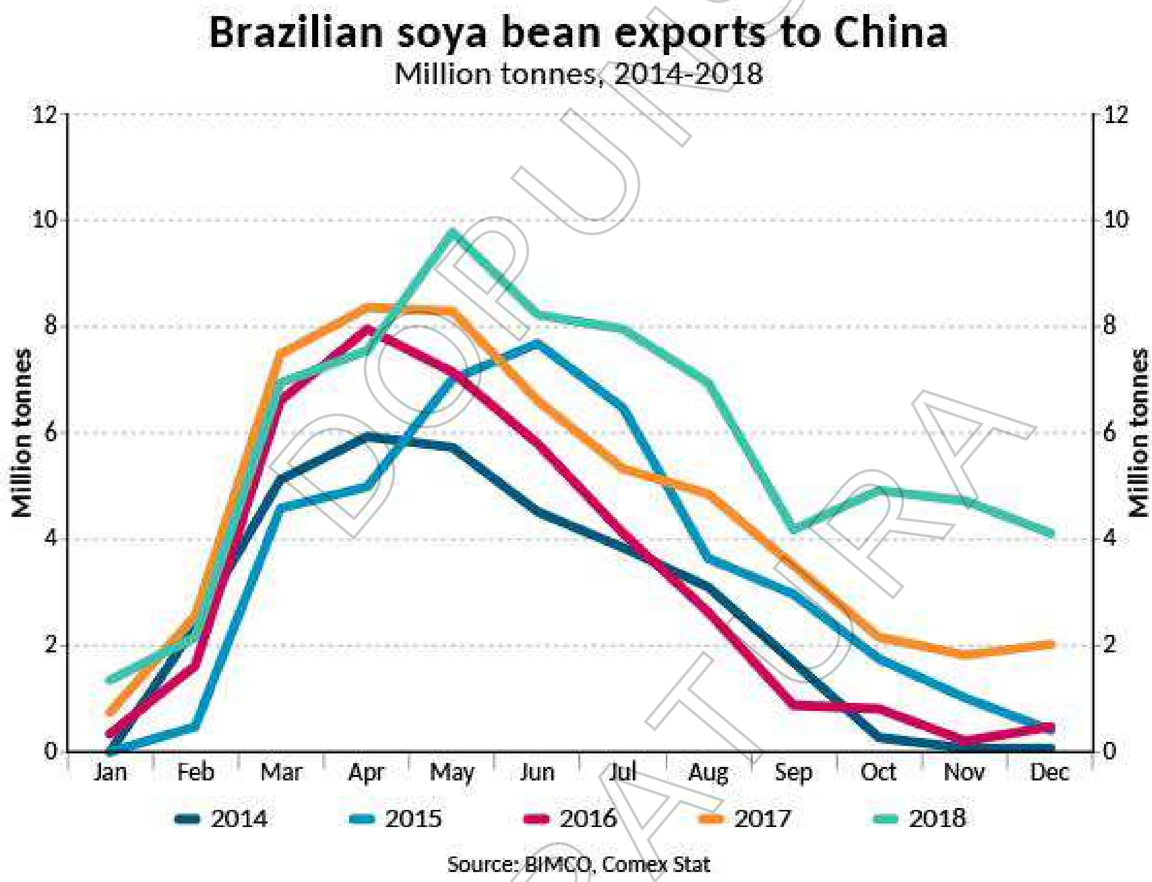
Trade war hurting the transpacific soya bean trade

Chinese soya bean imports fell to 88 million tonnes in 2018, down 7.9% from 2017. A 25% tariff on US soya beans arriving in China in place since July and increased hostilities between the two nations is behind much of this fall.

In past years China has relied heavily on US soya beans from September through to the end of the year, with Brazilian soya beans more important during the first half of the year. In 2017 China imported 32.9 million tonnes of soya beans from the US, this fell to just 16.6 million tonnes in

2018. This means a loss of 218 Panamax loads (75,000 tonnes) of soya bean loads from the US to China in 2018.

Brazil managed to meet some of the additional Chinese demand for non-US soya beans during the fourth quarter despite its normal export season running from March through to July. In Q4 2018 Brazilian soya bean exports to China were 131.2% higher than those in Q4 2017. In the full year 2018 an extra 15.3 million tonnes of soya beans were exported by Brazil to China, the equivalent of an additional 204 Panamax loads compared to 2017.



"Lower soya meal content in pig feed to reduce demand for soya beans, tapping into stocks and increased imports from elsewhere have allowed China to shy away from US soya beans for the whole of 2018.

Ongoing trade talks and an apparent Chinese promise to increase imports from the US have led to Chinese buyers slowly increasing their imports of US soya beans in the last few weeks of 2018 and into 2019. But the result of this round of trade talks will likely set the tone for this trade in 2019" Peter Sand ends.

Despite much talk in the US that China had started buying large amounts of US soya beans, data from BullPositions suggests that only 545,000 tonnes were shipped from Pacific ports to mainland China in the first four weeks of January.

Trade war cease-fire is good news for the dry bulk sector

Following an almost total halt in exports of soya beans to China in the last quarter of 2018, the new year has brought new hopes for American farmers and the dry bulk shipping sector.

The USDA reported that in the first four weeks of 2019 754,609 tonnes of soya beans were ready to be shipped in China, up from only 25,347 tonnes in December.

In addition to the ready shipments, on 5 and 6 February, the USDA reported sales totalling 3.2 million tonnes of soya beans to China, the majority of which is to be delivered between now and 1 September 2019, the start of the next marketing year.

At the beginning of December 2018, the US and China agreed to delay planned tariff hikes to allow for a period of negotiation with the aim of ending the trade war. As part of this China allegedly promised to resume its purchases of US soya beans, and during the latest round of talks, China offered to buy 5 million tonnes.

“Political promises are beginning to materialise in a trade that has faced huge uncertainty since the start of the trade war. This is good news for the struggling dry bulk market as it generates a much-needed increase in tonne-mile demand.

The ongoing negotiations between the US and China are now approaching the 2 March deadline at which point either some tariffs will rise, the ceasefire will be prolonged, or tariffs will be removed. Only the last option would allow US soya beans to be able to compete with the Brazilian soya beans expected to arrive in the market in a few weeks,” says Peter Sand, BIMCO’s Chief Shipping Analyst.

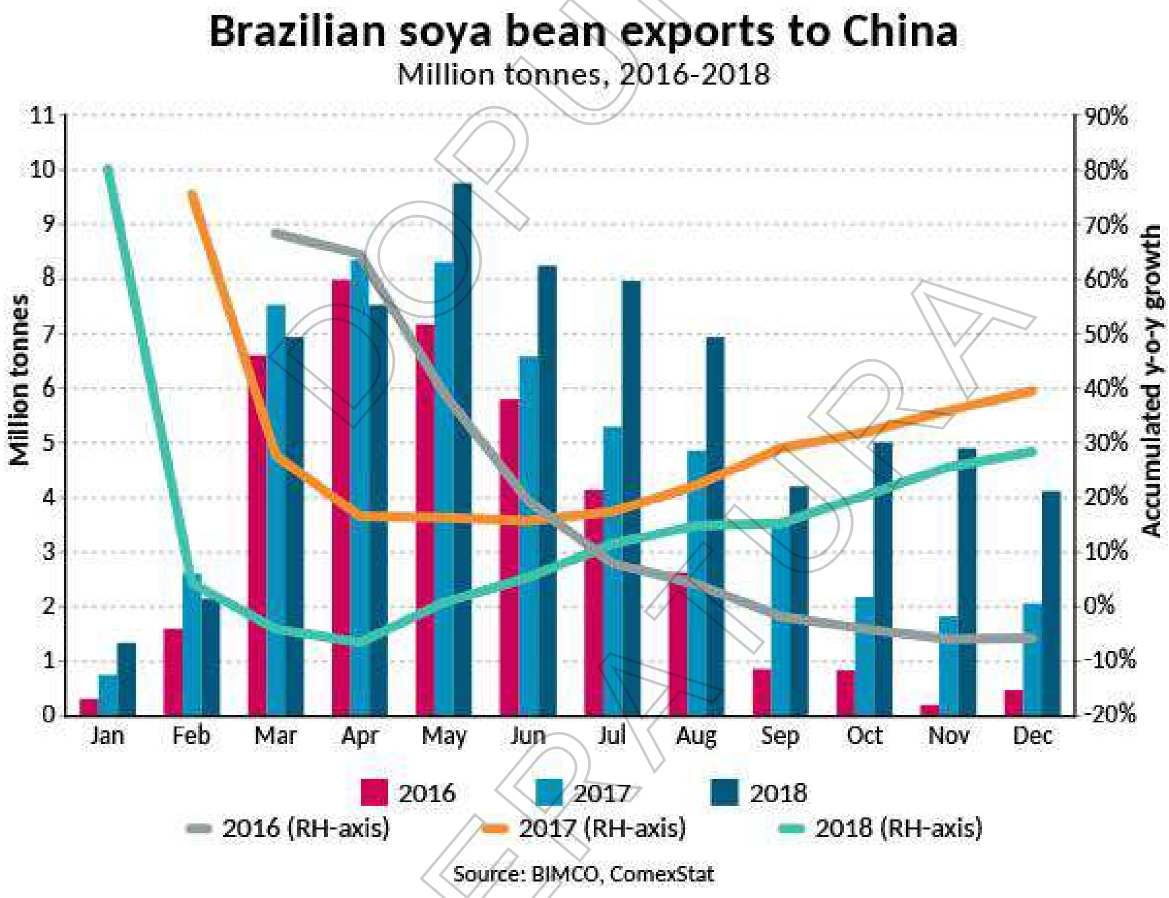
“In a politically unstable environment, uncertainty for the future of this trade remains high and US farmers therefore face difficult decisions as to what to plant for next season,” he says.

Chinese imports of US soya beans had all but ground to a halt in Q4 2018 following the implementation of 25% tariffs on soya bean imports from the US in July 2018. The US exported 98.2% fewer soya beans to China in the first seventeen weeks of the 2018/2019 marketing season, which started on 1 September 2018, compared to the same period of the last season.

Normal seasonality disrupted by trade tensions

As of 31 January 2019, the USDA reported inspections of 21.5 million tonnes of soya beans for export in the 2018/19 marketing year, down from 34.7 million tonnes in the same period of the last marketing year. This represents a loss of 13.3 million tonnes, or 177 Panamax loads (75,000 tonnes), and shows how important the Chinese market is for US soya bean exporters.

Total Chinese imports of soya beans in 2018 were down 7.9% from 2017. Reduced soy meal content in pig feed and using previously built up stocks, as well as increasing imports from other countries, allowed China to avoid US soya beans and the 25% tariffs.



Brazil is the largest exporter of soya beans to China and in 2018 met much of the extra Chinese demand for non-US soya beans. Its total exports to China were 28.4% higher than those in 2017. Much of this came from an increase in exports in Q4 2018. The last three months of the year are usually peak time for US soya bean exports, with lower exports from Brazil as its exporting season runs from February to August. In Q4 2018 Brazil exported 13.9 million tonnes of soya beans to China, over two times as much as the 6.1 million tonnes in Q4 2017.

“We expect to see soya beans from Brazil on the market earlier than usual this year, beginning in the second half of February. These soya beans will compete with those from the US, with sellers likely to continue exporting through their off-season,” Peter Sand says.