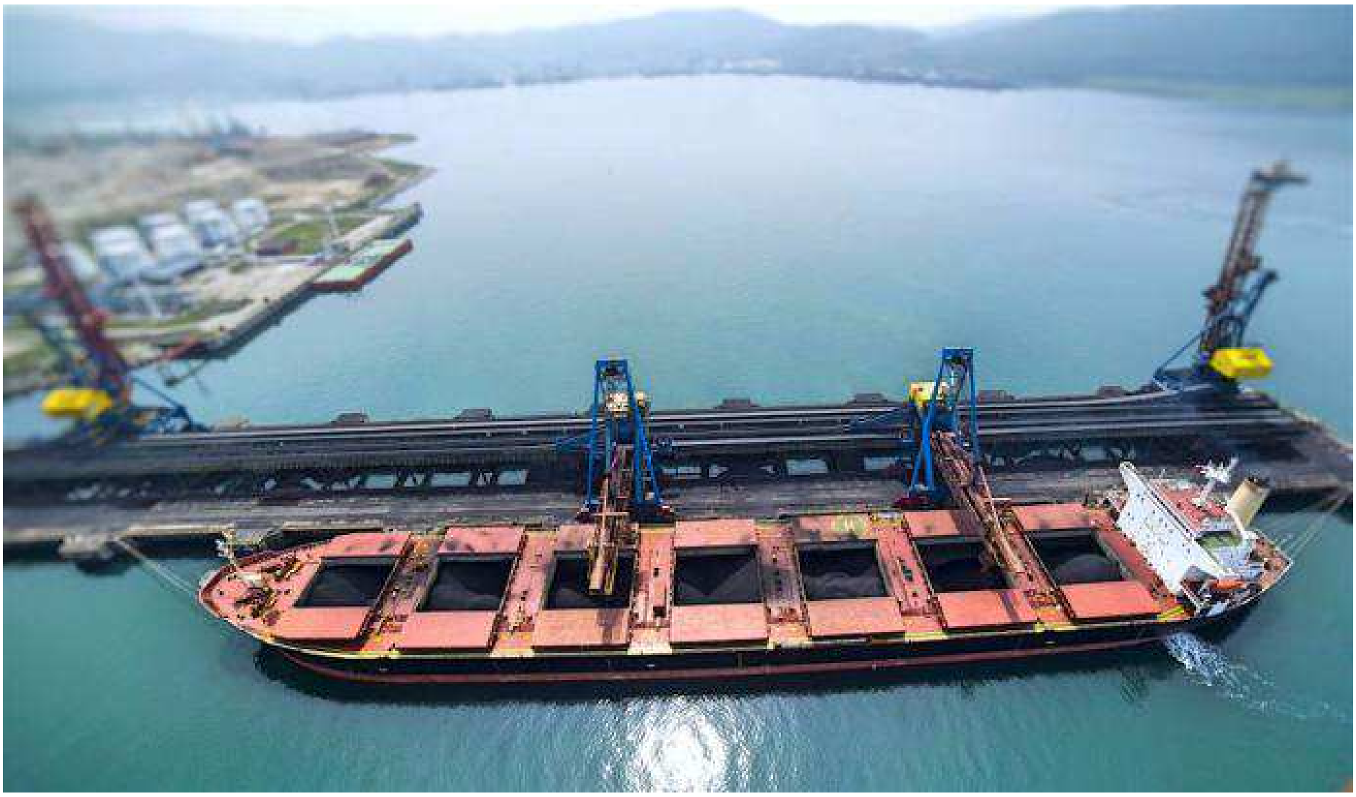
DRY BULK MARKET – FORECAST & DEPENDENCIES, 2018



After witnessing a slump, followed by a moderate growth in the past couple of years, the dry bulk sector anticipates a revival in the next 12 months. As per forecasts, three factors will assist the sector to surge in 2018.

With the strengthening of Asian iron ore demand, the dry bulk shipping charter rates are expected to recover from the second quarter of 2018. Besides, Chinese steel production is also showing good signs of recovery by the end of winter, in the second quarter of next year, by which time production curbs will be relaxed. A robust infrastructure and construction show will further strengthen steel consumption.

Meanwhile, the Chinese government is closing down inefficient and highly polluting mills. This will pave way for efficient millers to produce high quantity steel, strengthening demands for high-grade imported ore. Growing grain consumption in African and Asian countries will support grain trade.

However, the cut down on steel production by the Chinese government between November 2017 and March 2018 will have an adverse impact demand for iron ore in the short term.

Supply Vs Fleet Growth

On the supply side, the dry bulk fleet will grow at a moderate pace in the coming years. Though improving charter rates are reviving the interest of shipowners in the newbuild market, fleet growth will remain in check because of the thin orderbook and IMO regulations. Hence, a big chunk of the orderbook will be replacement tonnage.

Nonetheless, there is a downside for the short term. To tackle pollution caused by high coal consumption in the winter months, the Chinese government is planning to cut down steel production. As per the proposed policy, the government might impose a 50 per cent cut on existing steel production of 40 million tonnes.

On the supply side there will possibly be a low fleet growth in 2018 as the order book is very limited. In the best case the industry expects a fleet growth of 0.7 per cent to 1.0 per cent in 2018. To what extent the fleet growth lowers, will depend on the function of the freight market. Scrapping, slippage and cancellations will be elastic to the demand growth and effective supply growth will also depend on the speed of the fleet.

New Ballast Water and Bunker Fuel Regulations

The ballast water and bunker fuel regulations are not going to have a major impact on scrapping in the next couple of years. An investment cost of USD 400,000 to USD 500,000 for ballast water treatment systems, will not be a decisive factor for the scrapping of a relatively younger vessel. Bunker fuel regulations will not impact scrapping in the next couple of years but may have an impact in 2019, if the implementation date of 2020 is maintained.

It will also depend on whether refineries are able to produce enough low Sulphur fuel, in which case most of the cost will be transferred to the end user of the transported products.

If scrubber technology is widely adopted, then the majority of the cost will be carried by the owners. If this is the outcome and the cost of scrubbers remain high than this can lead to higher scrapping, but only in a low freight market.

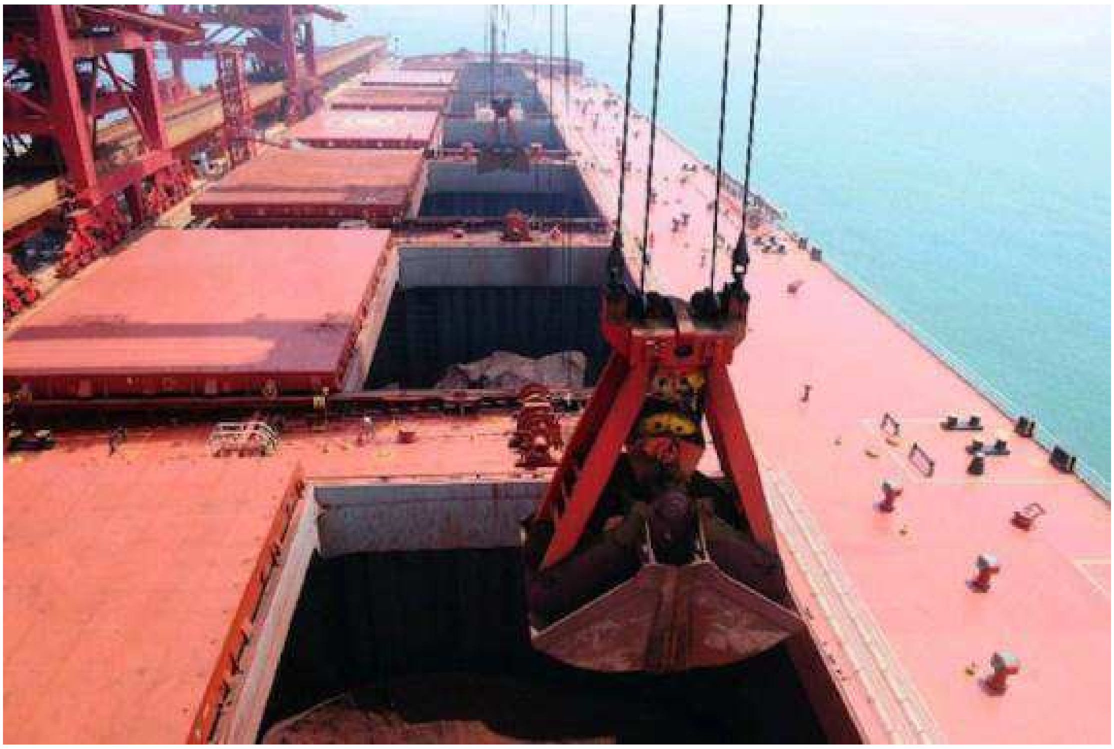
Revival of Dry Bulk Carrier Orders

With the current spread between new build and second hand prices, it is very unlikely that the industry will see a substantial tick up in newbuilding ordering any time soon.

While the coal outlook in the next 3 to 5 years looks moderate, the outlook is far more challenging on a 15 to 20 years' horizon. Such an uncertainty should make potential investors think twice before ordering new vessels, or at least use a high discount factor on future earnings to reflect the risk when they make their investment decisions.

Dry Bulk Trade – Import & Exports

The dry-bulk seaborne trade in 2018 is expected to grow steadily at about 3.3 per cent and experience a slight rebound. Also the world imports and exports, which have recently experienced a heavy slowdown (growth of about 3 per cent in 2016 vs about 14 per cent growth in 2010) have shown some signals for improvement especially from 2018 onwards, with the forecasts of IMF to talk for growth at levels of around 4.50 per cent.



Bulker Segment's 2018 Tarmac

Taking into consideration that there are no positive signs from the demand side, the market may see an increase of the demolition activity, cancellation of new orders and delay of expected deliveries. This will be a natural response of the industry to establish equilibrium and avert latent losses during the second half of 2018.

In case China's slowdown continues in 2018 and imports do not materially increase, there are no positive signs that the demand will assist the recovery of the dry bulk shipping.

In this case, the demand will be higher than supply and it will improve Baltic Dry Index (BDI) from the 2nd half of 2018 at levels similar to 2015, though still at low levels. The prospects will look more positive for 2018, provided that China will not experience a further slowdown and the world economy will not face any new jolt.

The BDI is a measure of daily charter rates for a range of dry bulk shipping carrier sizes, including handysize, supramax, panamax and capesize. Bulkers carry raw materials, such as coal and iron ore, overseas. While BDI itself is not a security that traders can buy or sell on the market, it is a bellwether for what traders can expect from shipping stocks.

"Even though iron ore demand will remain strong in other Asian countries, such as South Korea and Taiwan, we do not expect this demand to be strong enough to offset the impact of reduced demand from China," global shipping consultancy Drewry's lead analyst Rahul Sharan said.

Even if the Chinese economy remains at about the same levels maybe with some small increase on the growth of its imports, the bulk seaborne trade will improve during 2018.