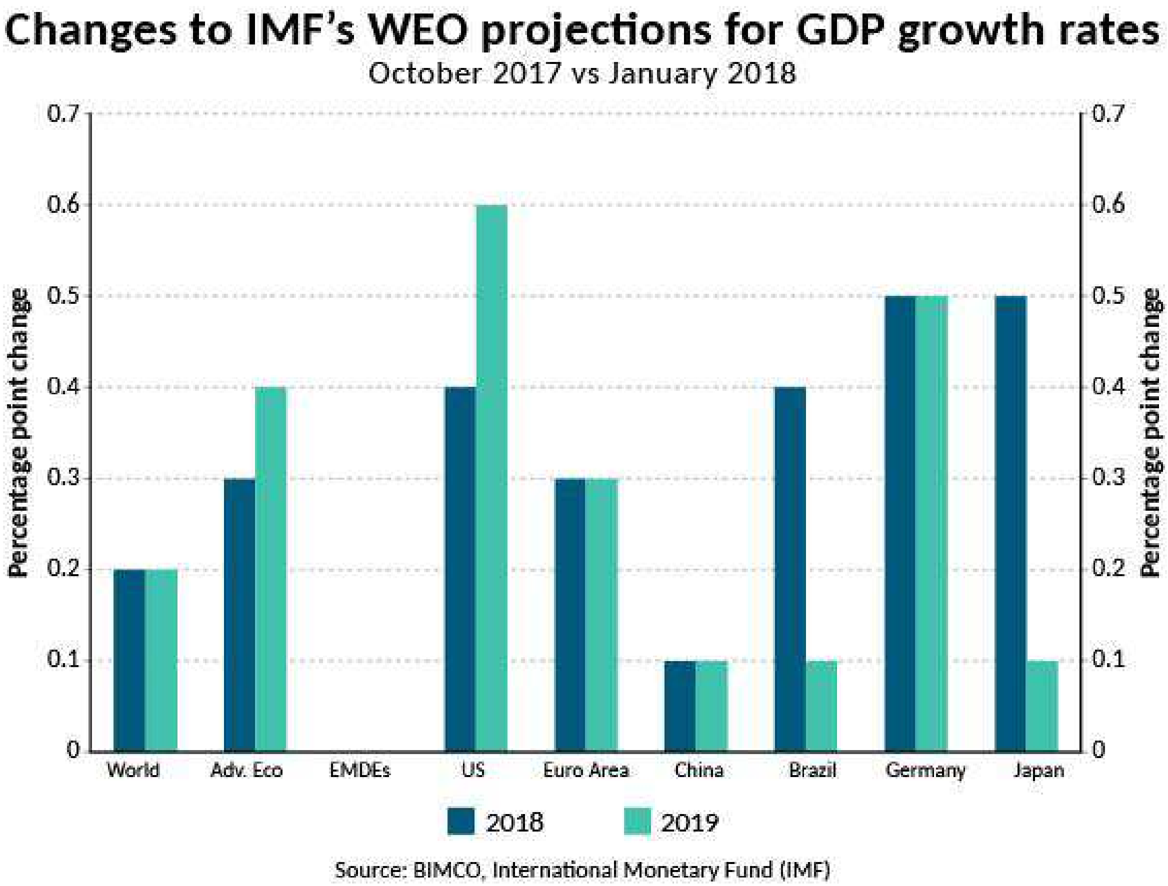
MACROECONOMICS: ECONOMIC GROWTH AROUND THE WORLD IS SUPPORTING SHIPPING

Overview

It has been quite some time since macro-economic development has looked this positive and as supportive of shipping.

The International Monetary Fund (IMF) has published its World Economic Outlook for January 2018 and has subsequently revised its original forecast for global growth in 2018 and 2019 - up by 0.2 to 3.9% for both years.

The development in global growth is driven by a higher growth from advanced economies than first anticipated. The IMF now expects the GDP for advanced economies to grow by 2.3% in 2018 and 2.2% in 2019, which is an upward revision of 0.3 percentage points for 2018 and 0.4 for 2019. This is the highest upward cumulative revision for advanced economies since January 2010, when we saw a false dawn for an improvement in the global economy. If this growth materialises, it will be highly beneficial for the container shipping industry, as growth in advanced economies generates the highest trade-to-GDP multiplier.



Amid strong growth in the Euro area and the US, the IMF has maintained its projection for the emerging markets and developing countries (EMDEs) of 4.9% growth in 2018 and 5% in 2019. The IMF expects the global economy to maintain its momentum in the short term, unless a significant correction in the financial markets derails it.

When navigating such a strong global economy, it is essential that countries reap the opportunities this "window" provides and undertake critical reforms. With global long-term growth projected to rise only moderately in the coming years, it is essential that nations implement structural reforms to unleash any additional growth potential. Improving the economic growth potential through structural reforms supports productivity, and thereby improves the medium and long- term derived demand for the shipping industry.

Europe

Manufacturing in Europe is currently running at full throttle according to the Manufacturing Purchasing Managers' Index (PMI). In our previous analysis of global macroeconomics, we focused on strengthening manufacturing PMIs with the growth from the Euro area. This growth has continued and reached the highest level ever recorded in December 2017. While the Manufacturing PMI for January 2018 has dropped slightly from the record high, it remains well above the threshold level at 50. Therefore, the Euro area has signalled expansion in every consecutive month over the past 55 months.

Despite a high manufacturing PMI for the Euro area, core inflationary pressure remains low and together with subdued wage growth, there is indication of a further opportunity to squeeze the labour market. However, IHS Markit (The PMI data provider) has emphasised that both input costs and output prices are currently rising at faster rates. The input costs have increased because of shortages due to demand outstripping supply. This provides a rising demand for container shipping, as the shortage mainly comes from partly finished goods (and equipment used for production of consumer goods).

In line with a surge in manufacturing, the IMF has increased its expectations for the Euro area output by 0.3 for 2018 and 2019, which amounts to a growth rate of 2.2% in 2018 and 2% in 2019. This is primarily due to a stronger momentum in both domestic and foreign demand.

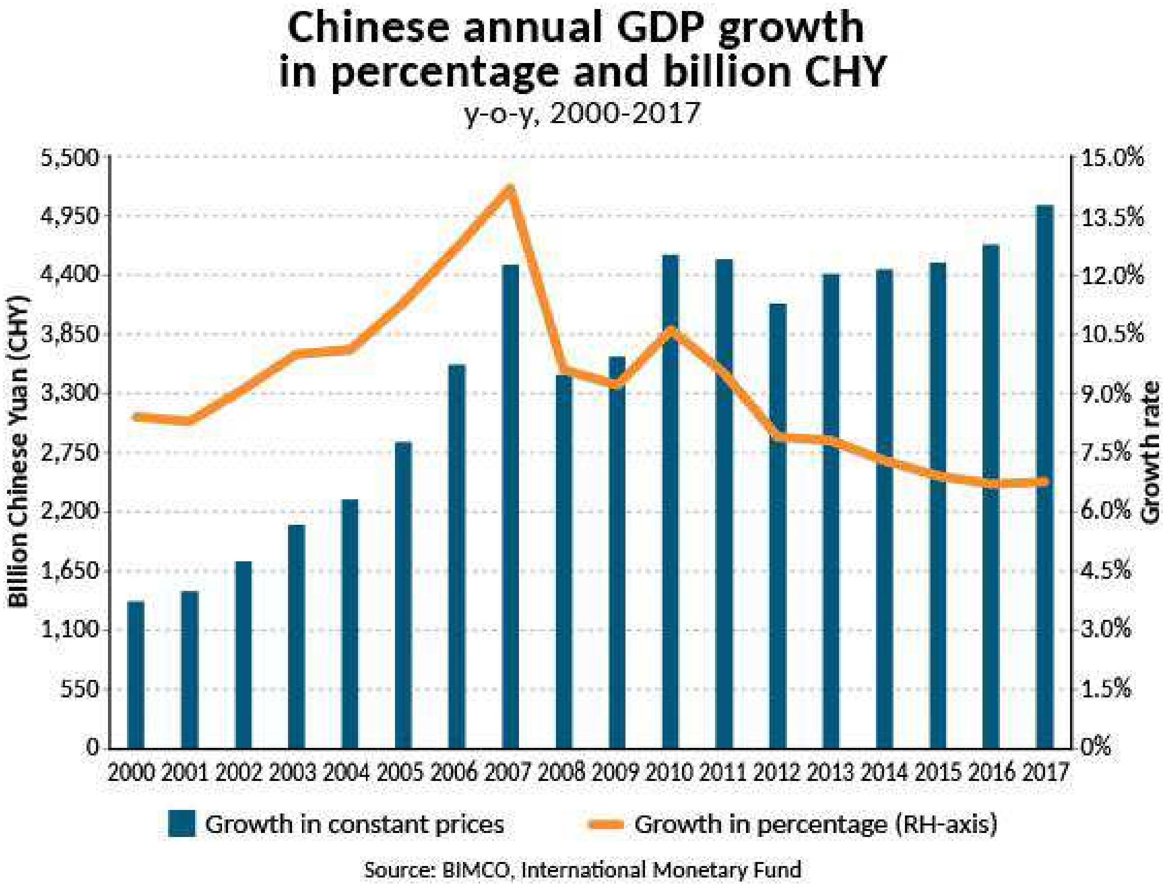
The United States

It is evident that the IMF expects the US tax bill to generate plenty of activity after hiking the growth for the US by 0.4 percentage points for 2018 to 2.7%, and by 0.6 for 2019 to 2.5%. They estimate that half of the upward revision for the global growth projection for 2018 and 2019 will be driven by US output and the positive effect it may have on its trading partners. For shipping, a possible boost in investment will lead to higher demand and increased trade, if it is not absorbed by inward looking policy requirements.

For the container shipping industry, the economic picture in the US is favourable with a possible pick up in wages boosting consumer demand. In January 2018, the US achieved the highest increase in average hourly earnings since June 2009, together with a 17-year low unemployment level, elevating consumer and business confidence.

Asia

Unsurprisingly China reported a GDP growth of 6.8% for the full year in 2017, as this has been the new normal growth rate for the Chinese economy. Despite not growing by a two-digit figure, it must be emphasised that this is still a significant growth rate and, in absolute terms, adds more to the Chinese economy than previous growth levels such as 14.2% in 2007.



While the pace of economic expansion in China slows down, it is important still to remember that China grew its GDP by USD 705bn in 2017. This is equal to the entire Swiss economy, measured at USD 680bn in 2017, or two times the size of the entire South African economy (USD 344bn) (source: IMF).

The growth rate in the Chinese economy for 2018 is expected to slow moderately with the focus shifting towards relative financial tightening after years of aggressive expansionary fiscal and monetary policies. This is dampening investments in construction and infrastructure, which in turn leads to lower demand growth for dry bulk commodities imported by China.

The IMF has revised its expectations for Chinese GDP - up by 0.1 for both 2018 and 2019. The expected growth is now 6.6% in 2018 and 6.4% in 2019. This increase is mainly due to stronger external demand.

In December 2017 Japan achieved the highest recorded seasonally adjusted industrial production level since October 2008. This corresponds to the significant increase in the IMF's projection for Japan's GDP as expectations have been lifted by 0.5 to 1.2% GDP growth for 2018, and by 0.1 to 0.9% GDP growth for 2019.

Outlook

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Political events can undermine the development, but 2018 appears to bring fewer economic growth "derailing" events compared to 2017. The most important factors to potentially derail growth are likely to be the US midterm elections in November, the renegotiation of the NAFTA and the negotiation of the Brexit deal. Notwithstanding, the sustainability of the all-important Chinese economy.

For sustained economic growth, the political deals resulting from these events need to decrease the number of trade barriers and ensure regulatory alignment. This will help to encourage potential growth as restrictive trade measures can discourage trade flows and have negative knock-on effects on economic growth and job creation.

The World Trade Organization (WTO) has asked all nations to resist from adopting inward-looking policies and urged its members to show leadership by committing to open and mutually beneficial trade. According to the most recent trade monitoring report this has been embraced. In the period from mid-October 2016 to mid-October 2017, 128 measures were implemented to facilitate trade, compared to 108 trade-restrictive ones.

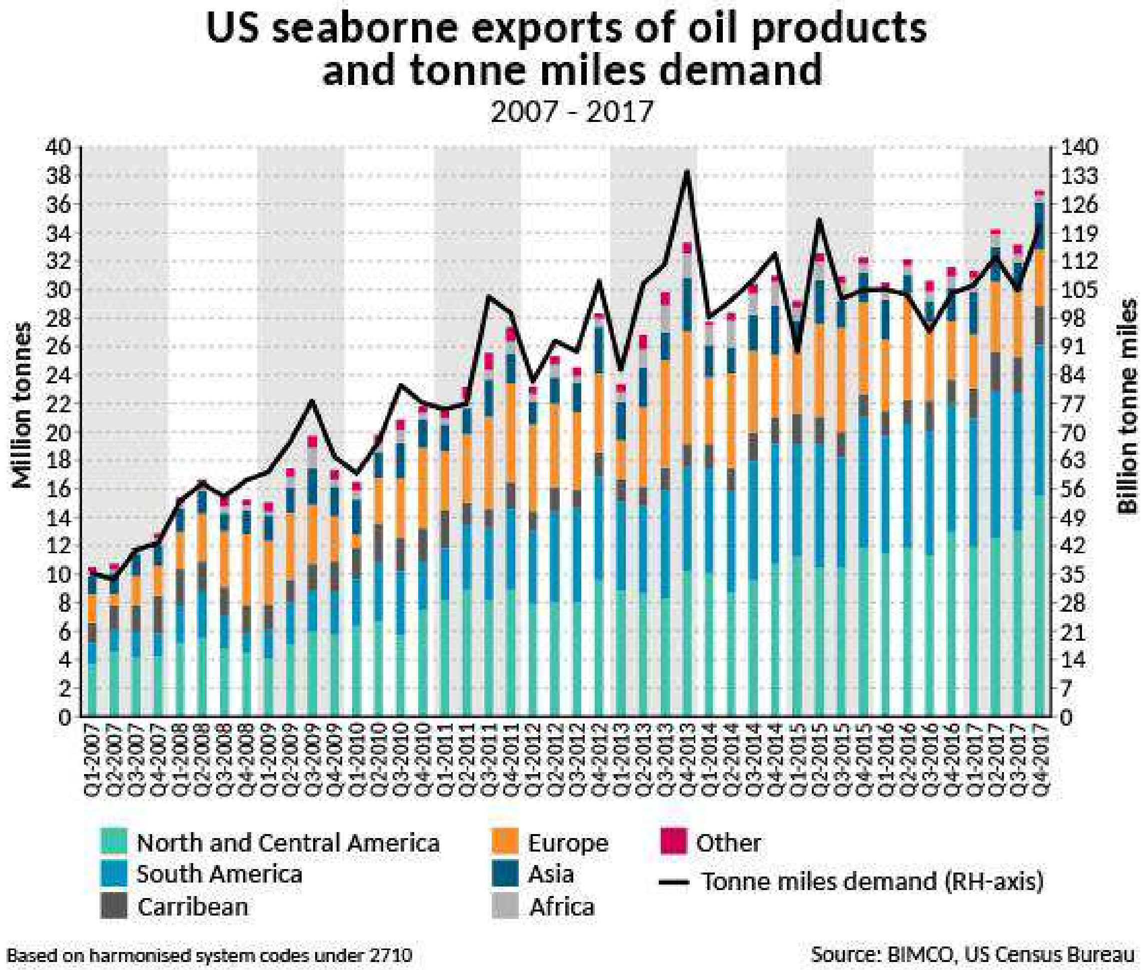
According to the WTO, world merchandise trade has rebounded strongly as volumes grew by 3.6% in 2017 compared to 1.3% in 2016. It is expected that this will drop moderately to 3.2% in 2018 due to a downside risk arising from trade policy measures and geopolitical tensions.

US SEABORNE EXPORTS OF OIL PRODUCTS AT AN ALL-TIME HIGH

Overview

Following a seasonal surge in December 2017, the US seaborne export of oil products (materials derived from crude oil) reached the highest annual level ever, in terms of volume and tonne miles demand. An increase in volume, combined with a marginal increase in the average sailing distance, caused the total annual tonne miles demand to surpass the previous high set in 2013.

The development in US seaborne exports of oil products during the last 10 years have been highly beneficial for the oil product tanker shipping industry, as a larger share of the total US oil products is transported via the sea. Since 2010 the volumes have tripled and now amounts to 10% of the world seaborne oil product trade.



The recent development in exported oil products from the US provides the oil product tanker shipping industry with steady growth in volumes and yet again growth in tonne miles demand. Overall, we see oil product tankers operating in an improving market in 2018, with better market fundamentals for both demand and supply.

Still, the oil product tanker sector may only break-even in 2018, if demand growth is low throughout the year. Both average sailing distance and volumes increased in 2017

Volumes of US seaborne exports of oil products has increased by 9% in 2017 compared to 2016. This amounts to an additional export of 10.8 million tonnes - equivalent to 80 million barrels. The average seaborne exports of US oil products in 2017 was 2.7 million barrels per day, compared to 2.5 million barrels per day in 2016.

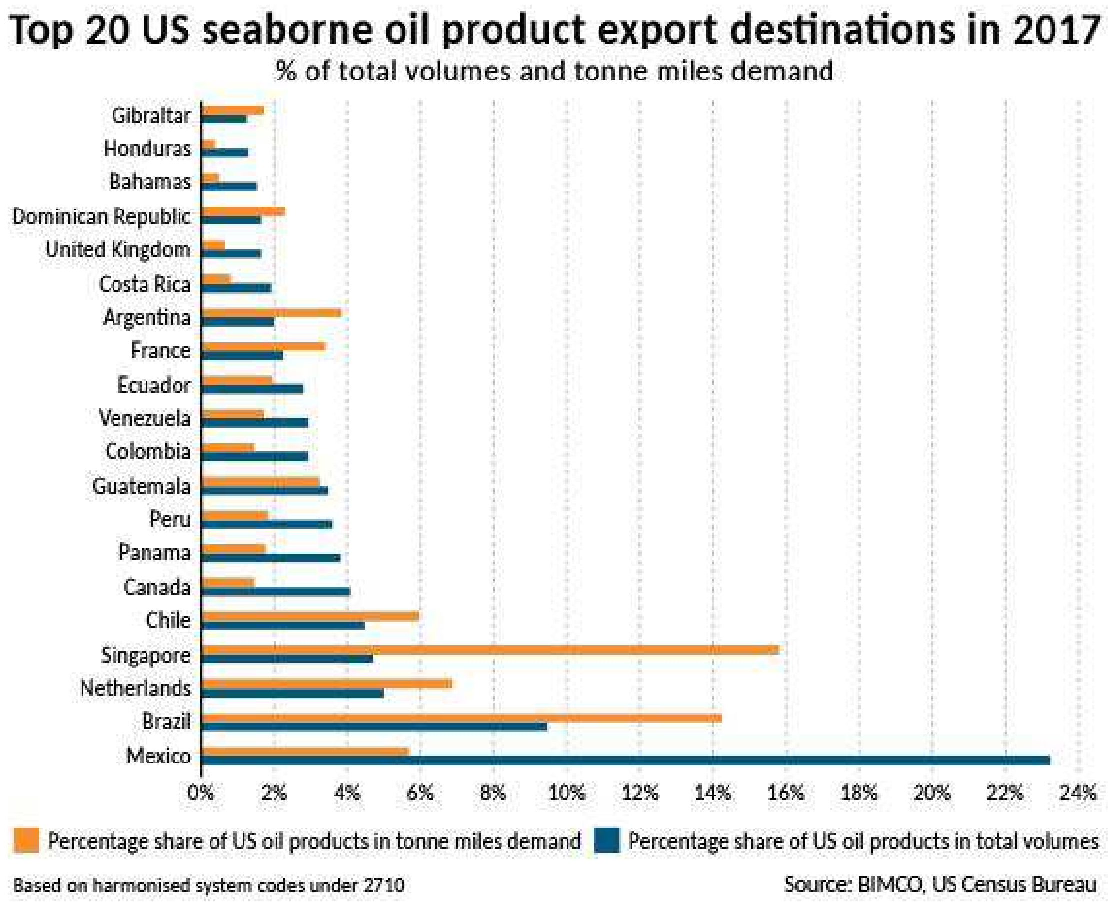
The volume of seaborne exports of US oil products has increased every year since 2007 except for 2016, which was marginally down from the previous year.

BIMCO's Chief Shipping Analyst comments: "*By exporting more to countries with closer geographical proximity, the additional exports of oil products do not benefit the tanker shipping industry as much as the increase in US exports of crude oil does. For the US seaborne exports of crude oil the average sailing distance grew by 65% and the volumes grew 151% for the first 10 months of 2017 compared to same period in 2016*".

The US seaborne exports of oil products saw an annual decrease in tonne mile demand for 2014, 2015 and 2016, as the average sailing distance decreased more than the volumes increased. However, for 2017, the tonne mile demand is up 9% compared to 2016, as both volumes and average sailing distances are increasing.

15 of the top 20 importers are from the Americas

With 15 out of the top 20 importers based in the Americas, 76% of all oil products exported via the sea are bound for destinations on the American continent, which is underlined by the short average sailing distance of 3,270 nautical miles.



Mexico’s share of the imports benefits the oil product tanker shipping industry to a limited degree. Mexico imports 23% of all US seaborne exports of oil products, however it only generates 5.7% of the total tonne miles.

Singapore, the top 20 importer with the furthest sailing distance from US ports exporting oil products, generates 15.8% of the total tonne miles, despite only importing 4.7% of all US seaborne exports of oil products.

The Gulf Coast exports 80% of all seaborne oil products

Houston-based ports are responsible for 27% of all exports of US seaborne oil products. The Houston ports have averaged around 27% for the previous three years. Ports in New Orleans are exporting the second highest volumes with 12% of all seaborne oil product exports. Corpus Christi ports have emerged as the third biggest oil product exporting ports with 10% of all US seaborne oil products being exported from there. In 2014, the Corpus Christi ports were the fifth biggest oil product exporting ports in the US.

Ports based in Texas and Louisiana on the US Gulf Coast, are responsible for 80% of all seaborne oil products exported in 2017. This level s remained close to the average in 2016 and 2015, where the level was 79% for both years.