THE MARKET OUTLOOK

Martin Stopford,
President Clarkson Research

Capital Link

25 September 2018

Global Shipping, Shipbuilding and Trade: Overview & Outlook

Dr Martin Stopford
Non- executive President, Clarkson Research

Global Shipping, Shipbuilding & Trade

ISSUES IN THIS PRESENTATION

PART 1: MARKET OVERVIEW
PART 2: MARKET CYCLE TODAY BY SECTOR
PART 3: BUNKER PRICES – WHO PAYS?
PART 4: SECOND HAND PRICES
PART 5: SHIP DEMAND, SANCTIONS & TARIFFS
PART 6: THE SUPPLY SIDE OF THE MARKET
PART 7: SUPPLY-DEMAND ANALYSIS

THE SEVEN ISSUES

Global Shipping & Shipbuilding Markets

PART 1: MARKET OVERVIEW

The main markets have passed the trough of the cycle. But freight rates still below trend and world industrial growth has peaked out. The pace of recovery will depend on whether the economic upswing can be sustained in a turbulent world. Right now it looks as though it has peaked out, as has sea trade. Cargo fleet is slowing, but still growing. .

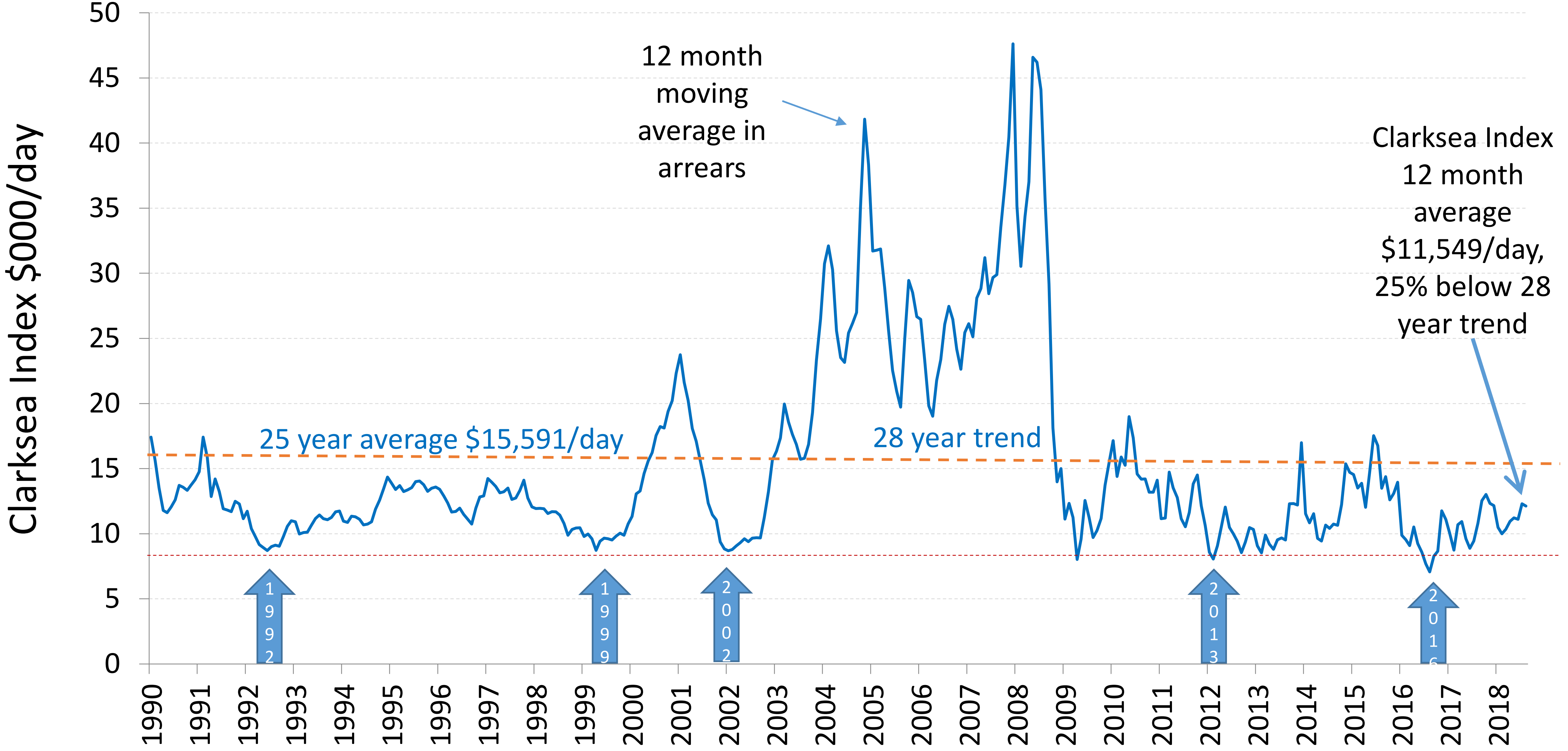
S1: QUICK OVERVIEW OF MAIN CONCLUSIONS

1. Clarksea index $12,000/day, but still below trend
2. World industry cycle over top – slipped to 3.2%
3. Sea Trade grew 4.2% in 2017, but down to 3% in 2018
4. Asset values pretty sluggish, newbuildings up a bit.
5. China imports growing - but something's up
6. Shipyard orderbook edged up again to 10.4% fleet
7. Deliveries slip 20% to 80 m dwt in 2018, similar next year.
8. Fleet growth 2018 about 2.6% (3.8% last year)
9. Bottom line: market at risk of getting stuck in a rut.

Global Shipping & Shipbuilding Markets

PART 2: THE SHIPPING MARKET CYCLE TODAY
“busy going nowhere”

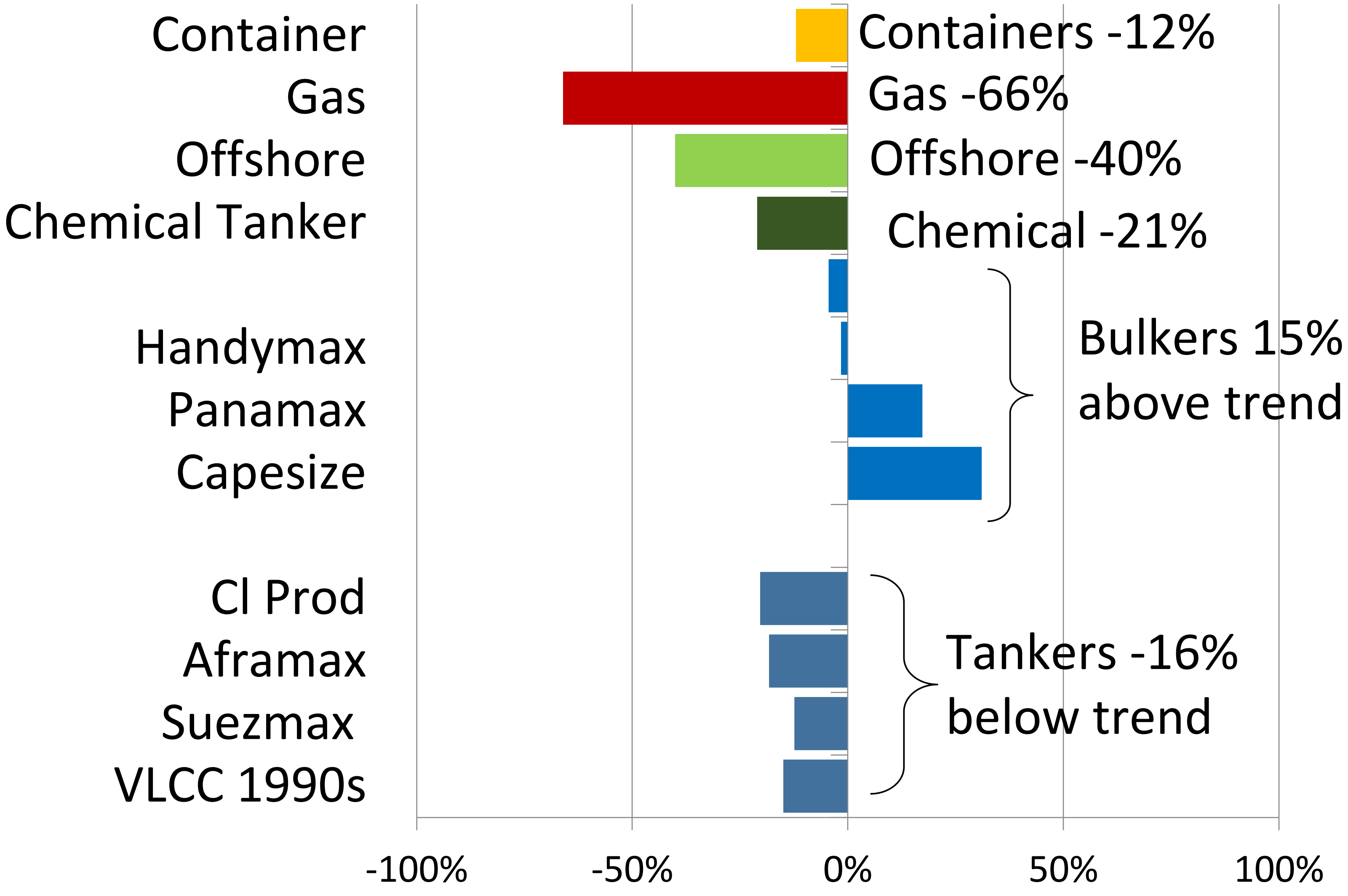
S2: The Shipping Cycle – 12 month average to $11,500/day in Sept



The Clarksea index shows the average earnings of tankers, bulkers, containerships & gas

S6: Cycle status in 12 markets: last 12 months as % seven year trend

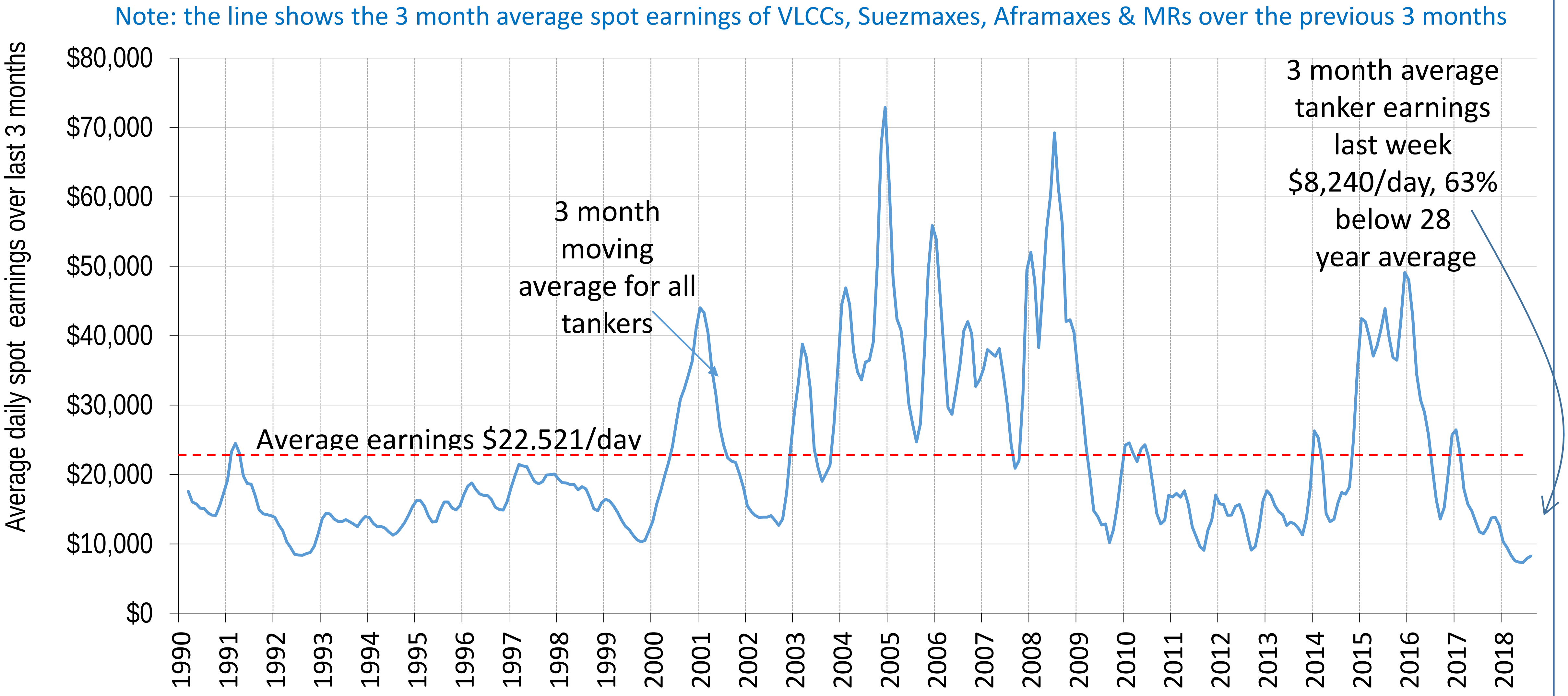
- Chart shows average earnings in last 12 months as a % of average earnings in last 7 years Sept 2010 to September 2017)
- Bulk carriers are above the 7 year trend (but it was an easy target to beat)
- Tankers below trend
- Gas market now well below trend



Data to 20th September 2018

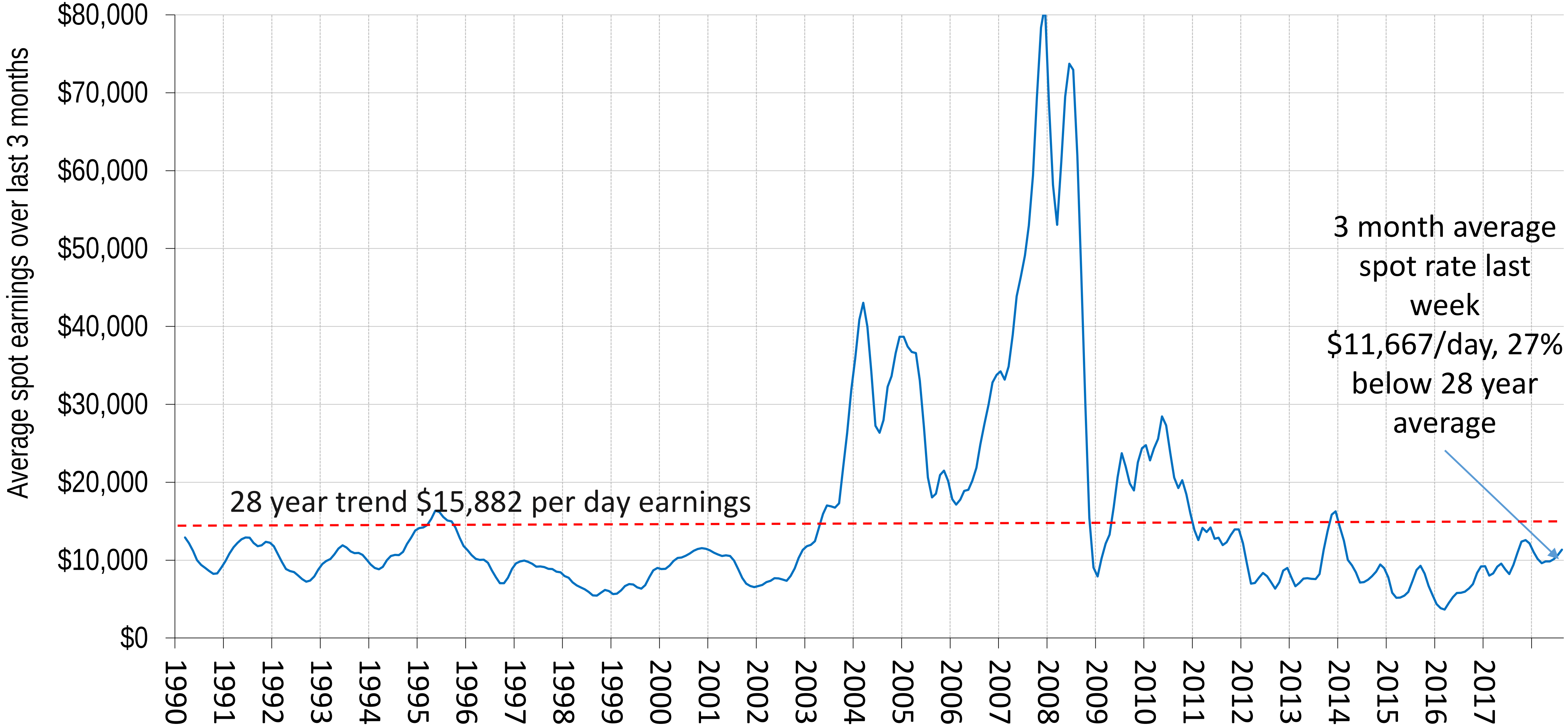
S3: Tanker market … close to 25 year low.

The freight earnings for all oil tankers 1990-2017 (average over last 3 months)

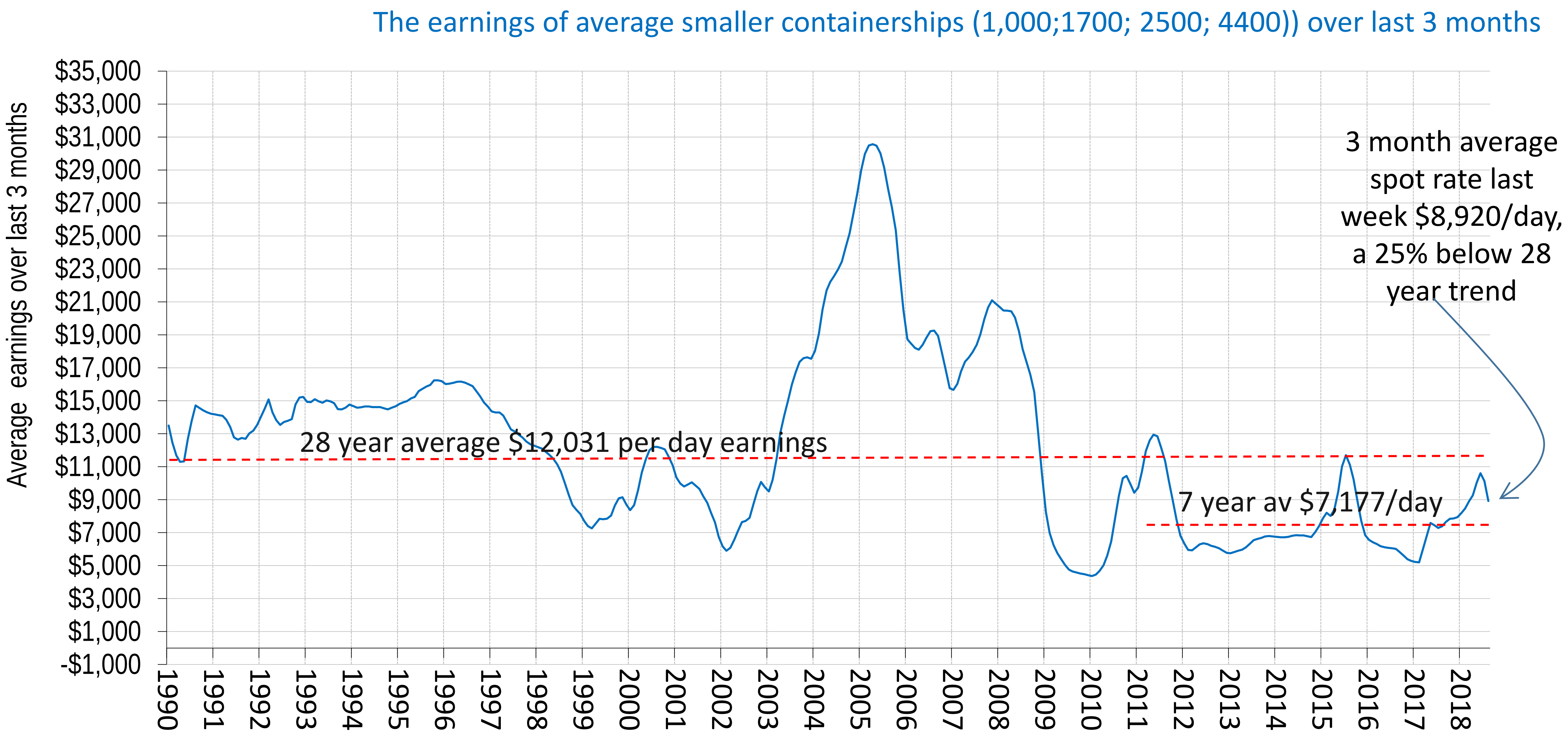


S4: Dry Bulk market 3 month average 27% below trend

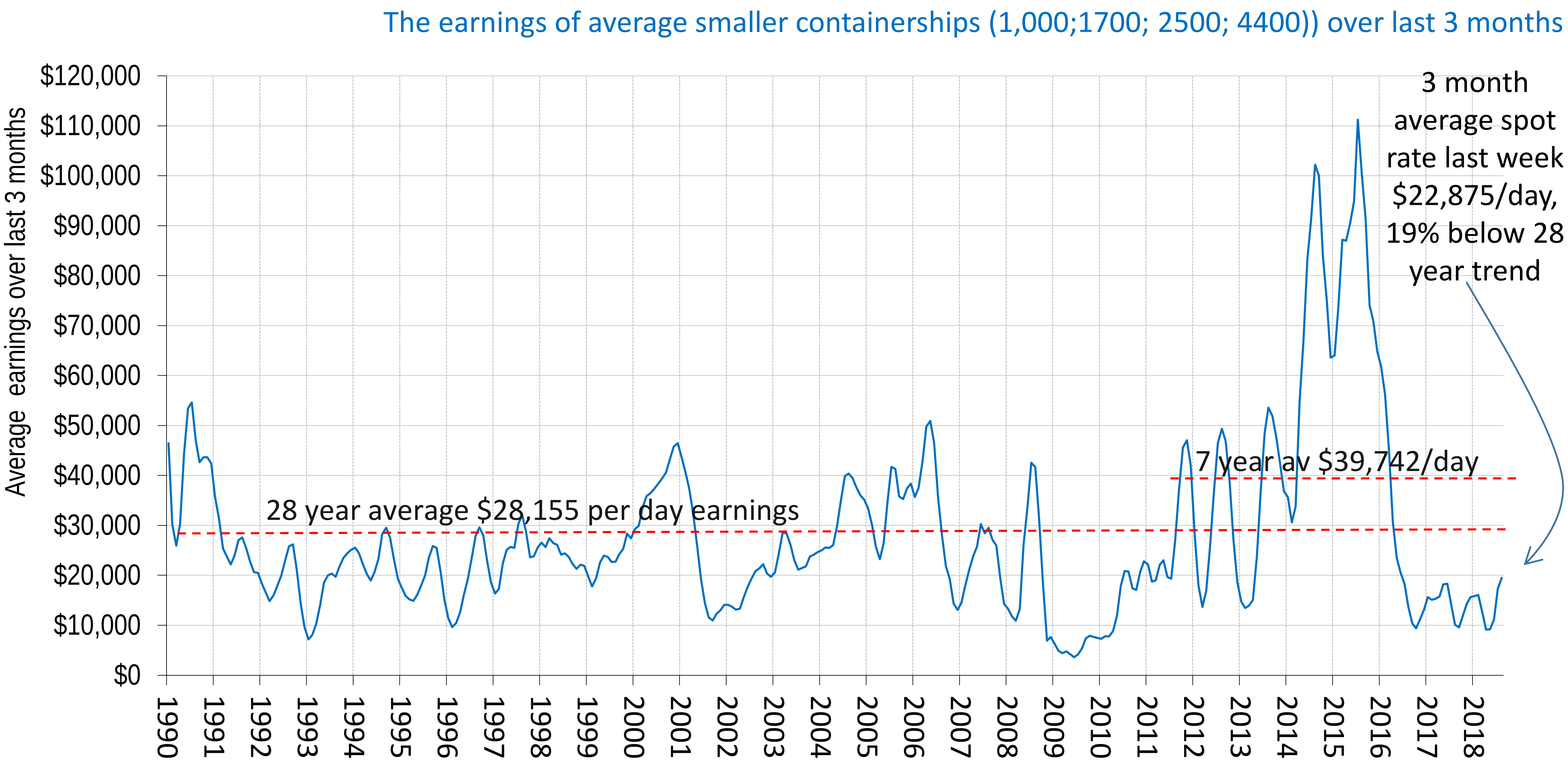
Average bulk carrier (Cape, Panamax and Handy) over last 3 months



S5: Where the Containership market still 25% below trend



S%: Where the LPG market is - still well below trend

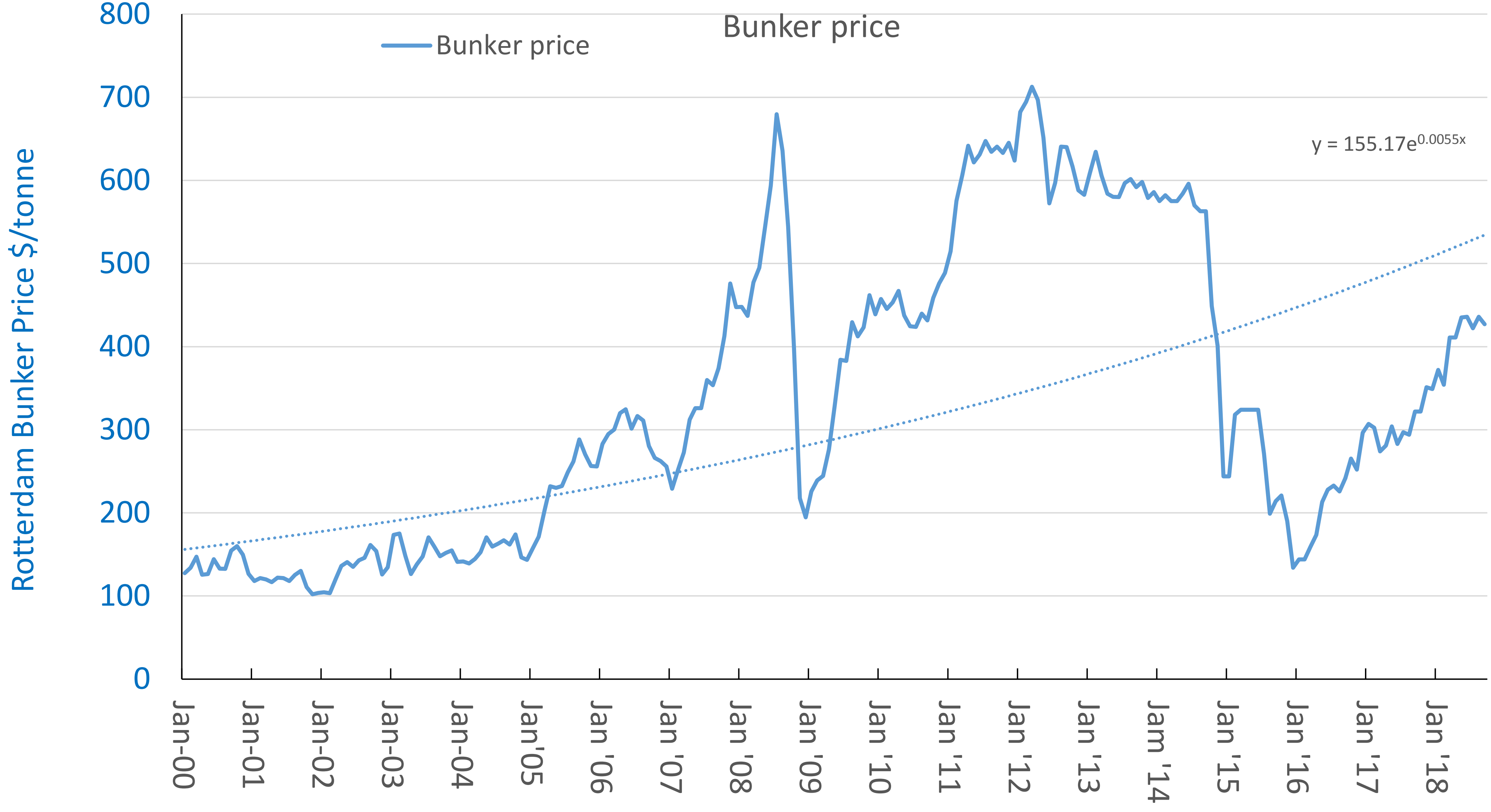


Global Shipping & Shipbuilding Markets

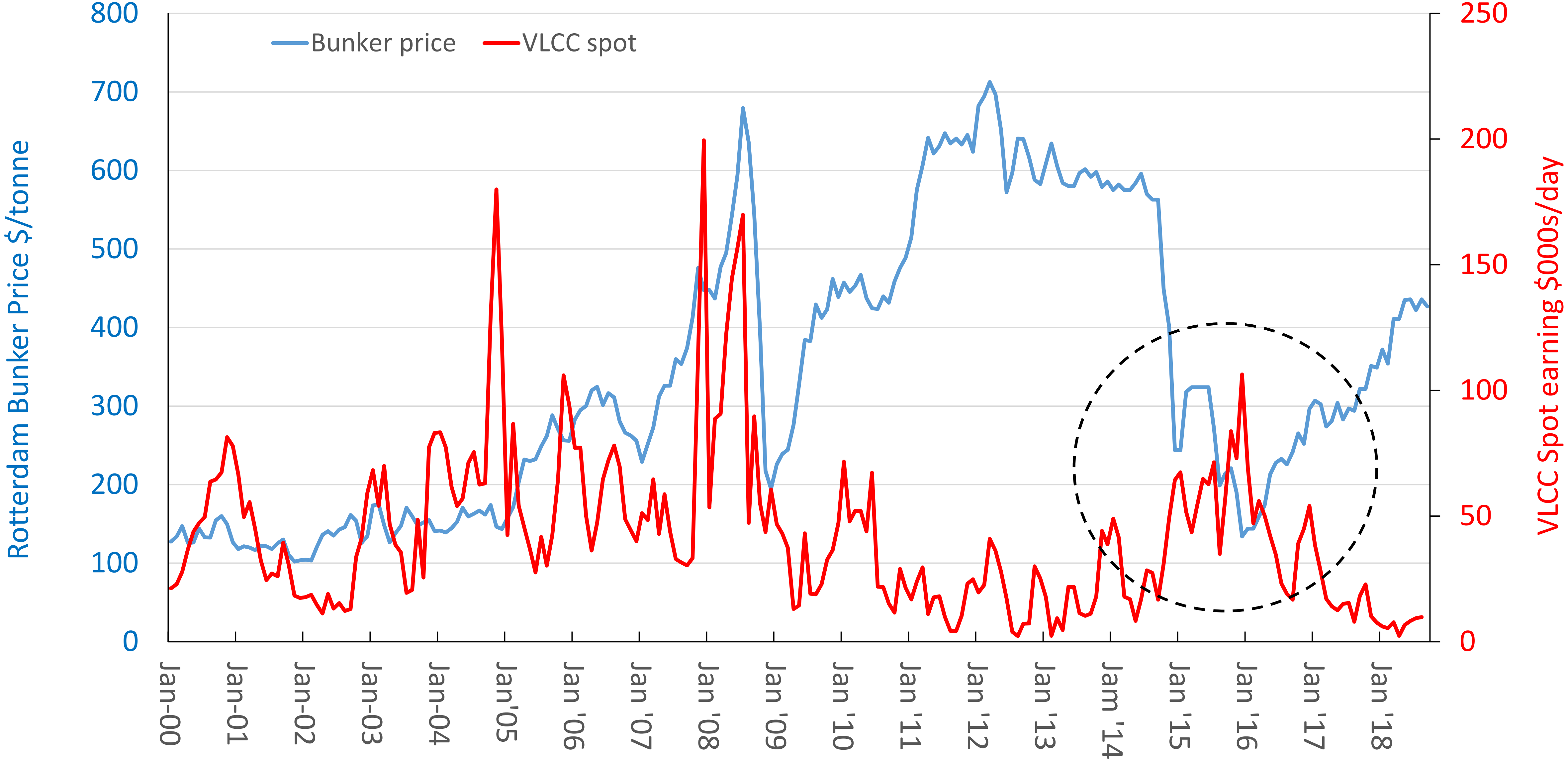
PART 3: BUNKER COSTS & WHO PAYS THEM

The battle lines for 2020 are now drawn up, with 1000 ships retrofitted with scrubbers and 30% of newbuildings. The big question now is who pays.

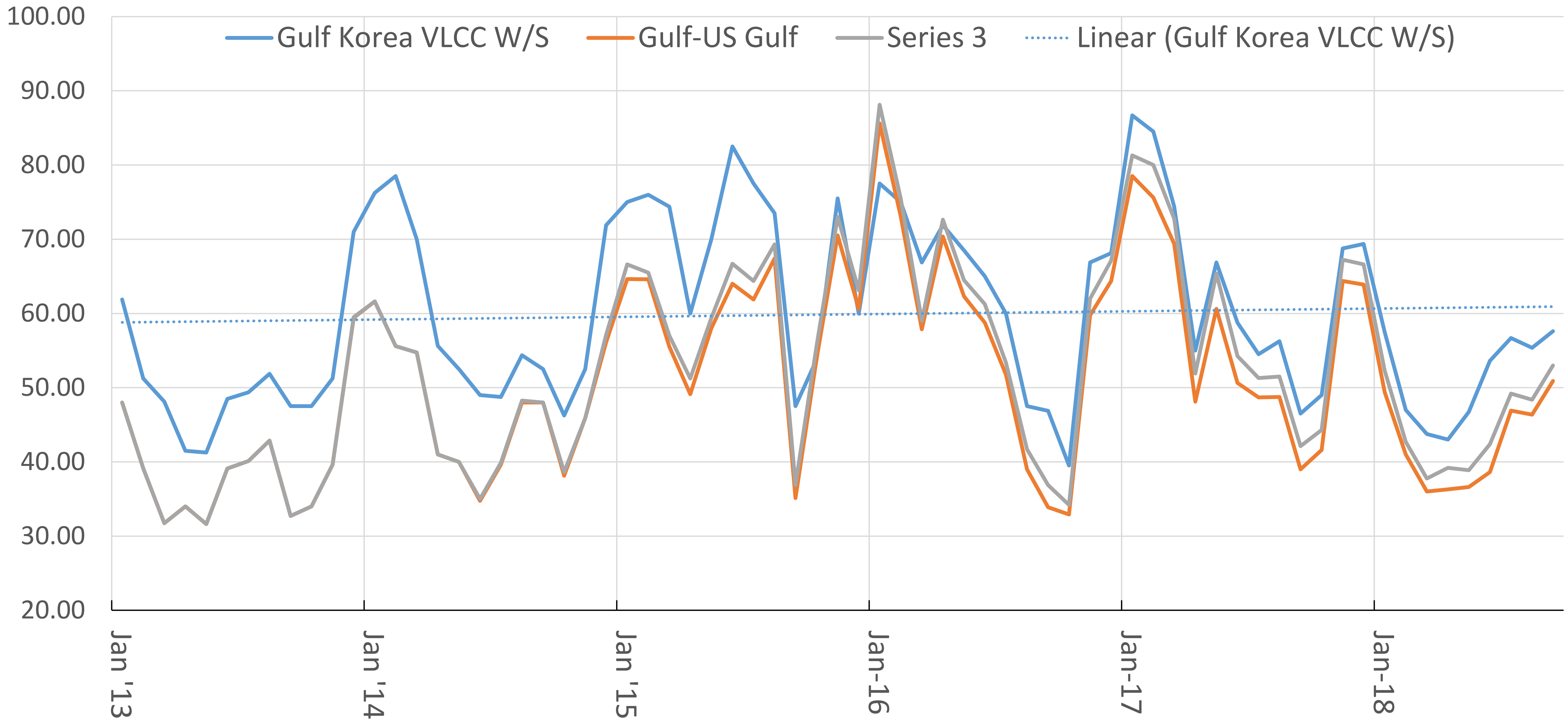
Bunker price Rotterdam $/tonne- very volatile



Bunkers and VLCC spot earnings in $/day



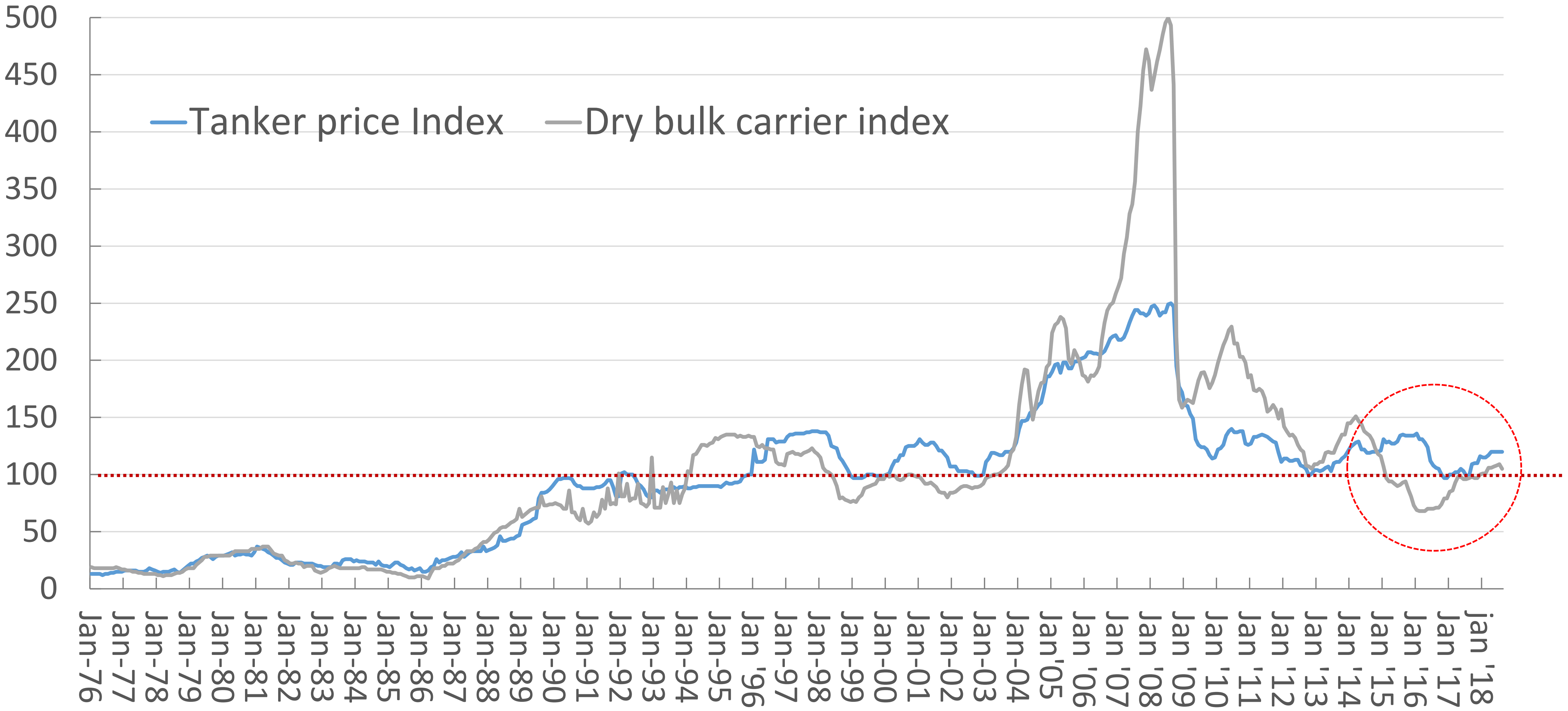
VLCC spot earnings in W/S – no sign of a tanker boom here – boom was driven by bunker prices



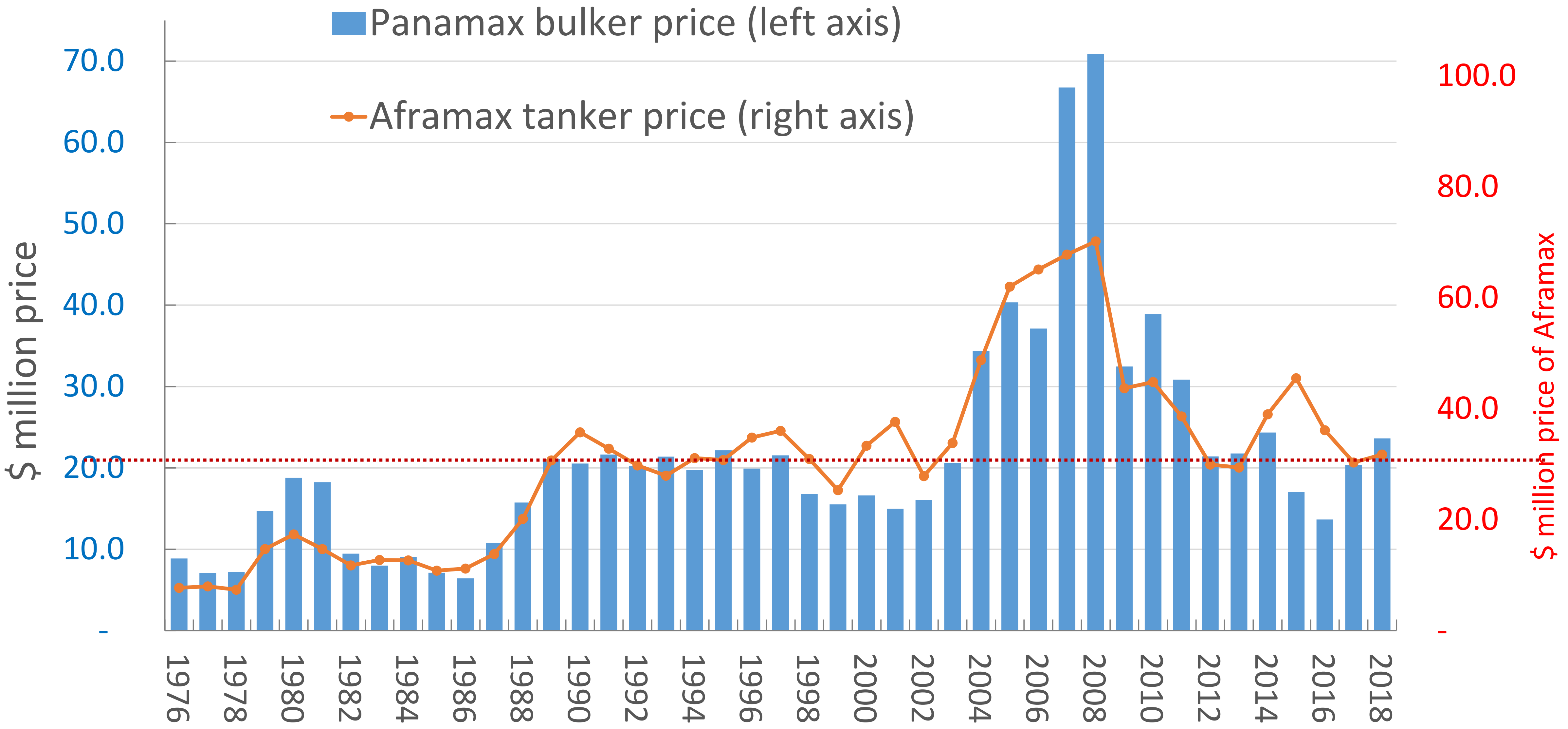
Global Shipping & Shipbuilding Markets

PART
4: SHIPPING MARKET PRICES TODAY

S7 Tanker & Bulker second hand price index – wandering around 100



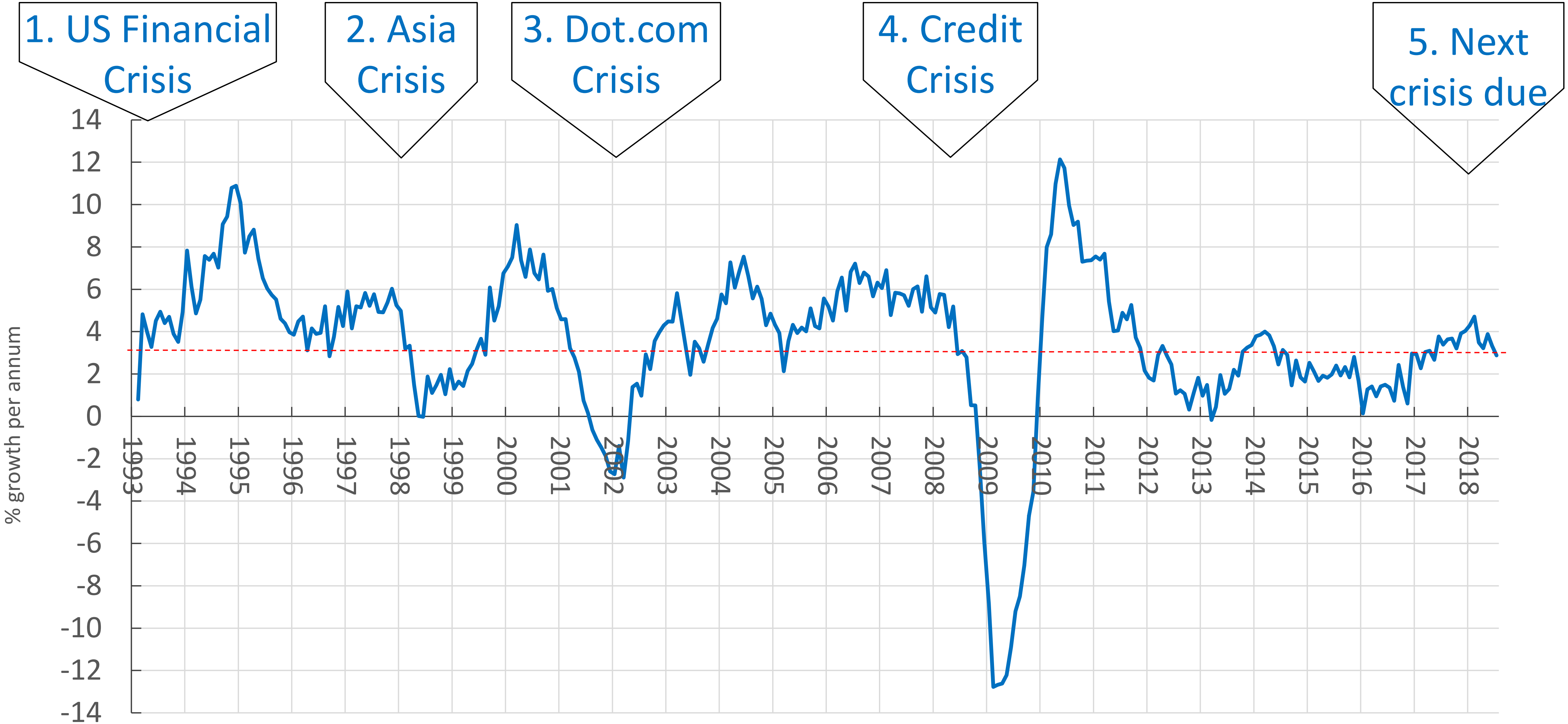
Panamax bulker, Aframax tanker 5 year old price – not really a bargain



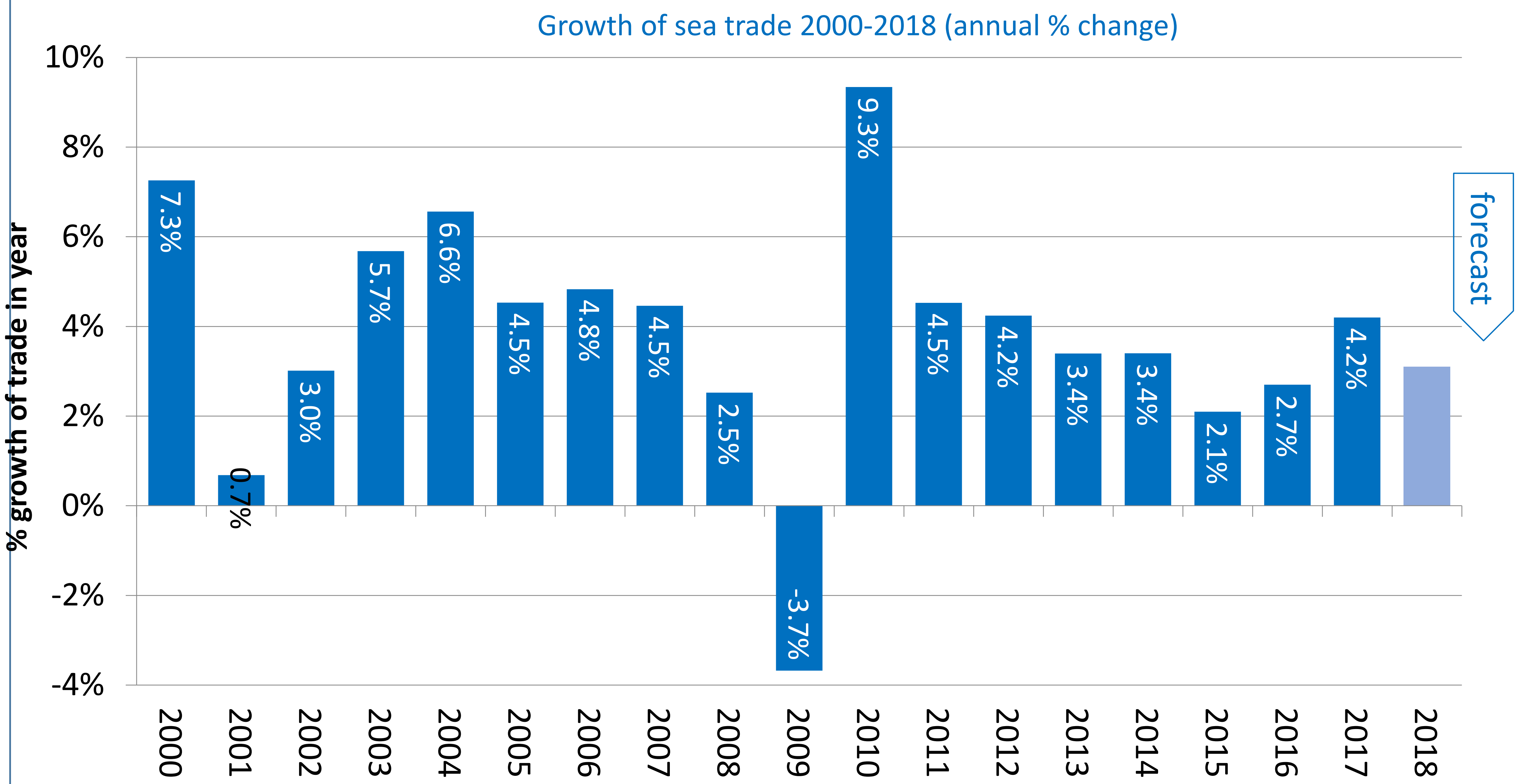
Global Shipping & Shipbuilding Markets

PART 5: THE DEMAND SIDE OF THE MARKET

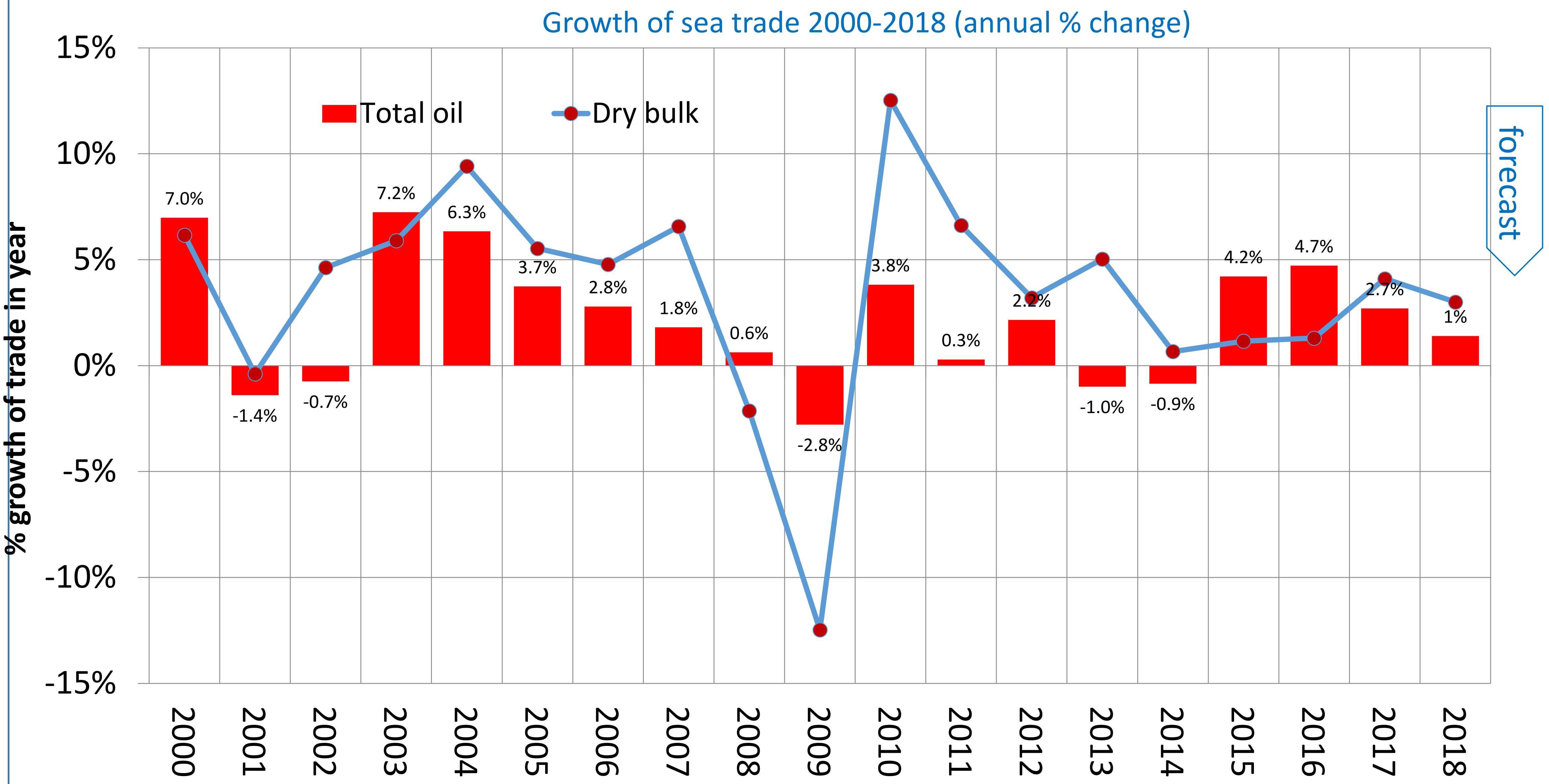
S10: World Industrial Production 1993-2018 (July) slowing



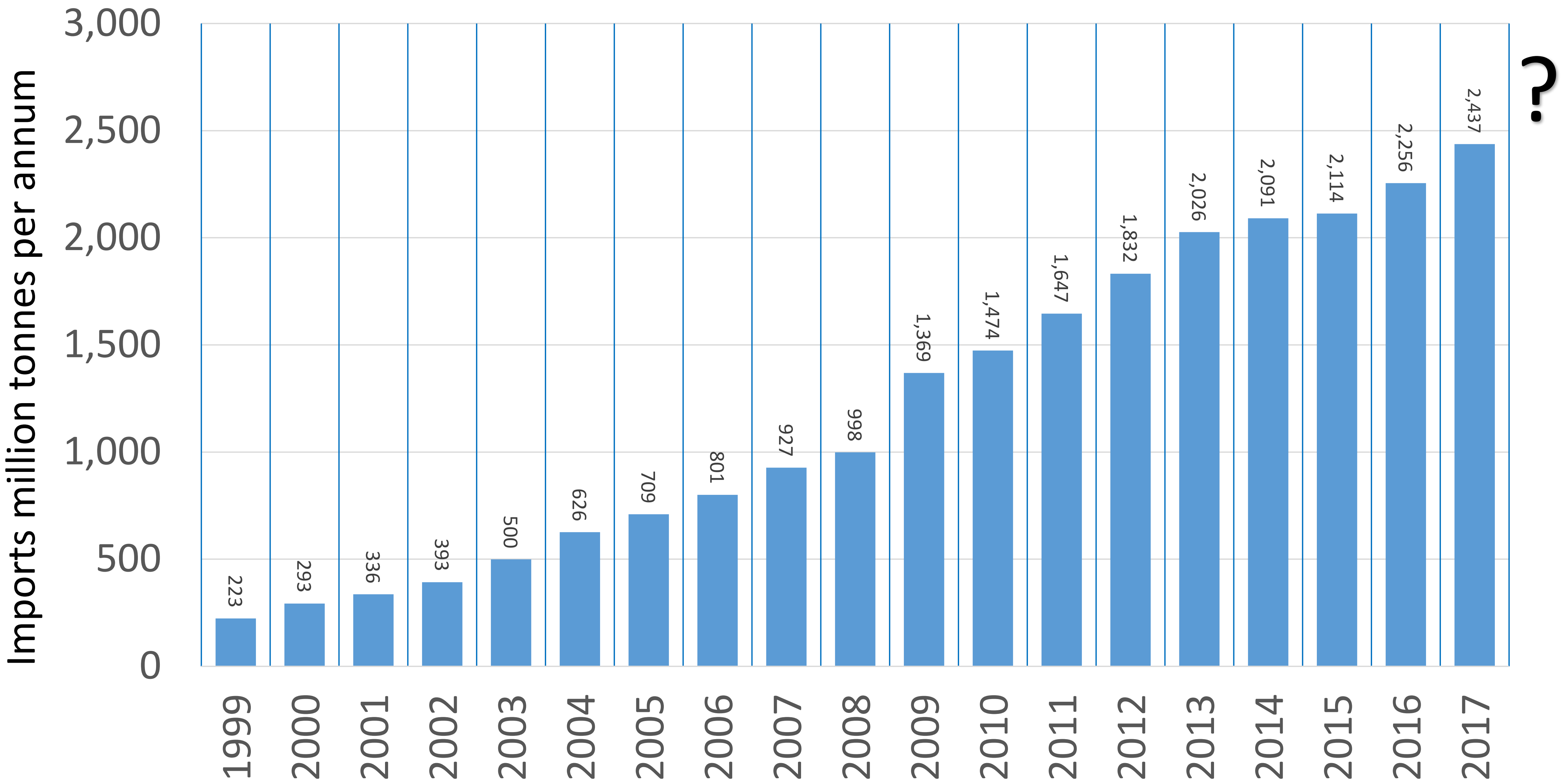
S12: Sea trade growth edges down - about 3.1% growth likely in 2018



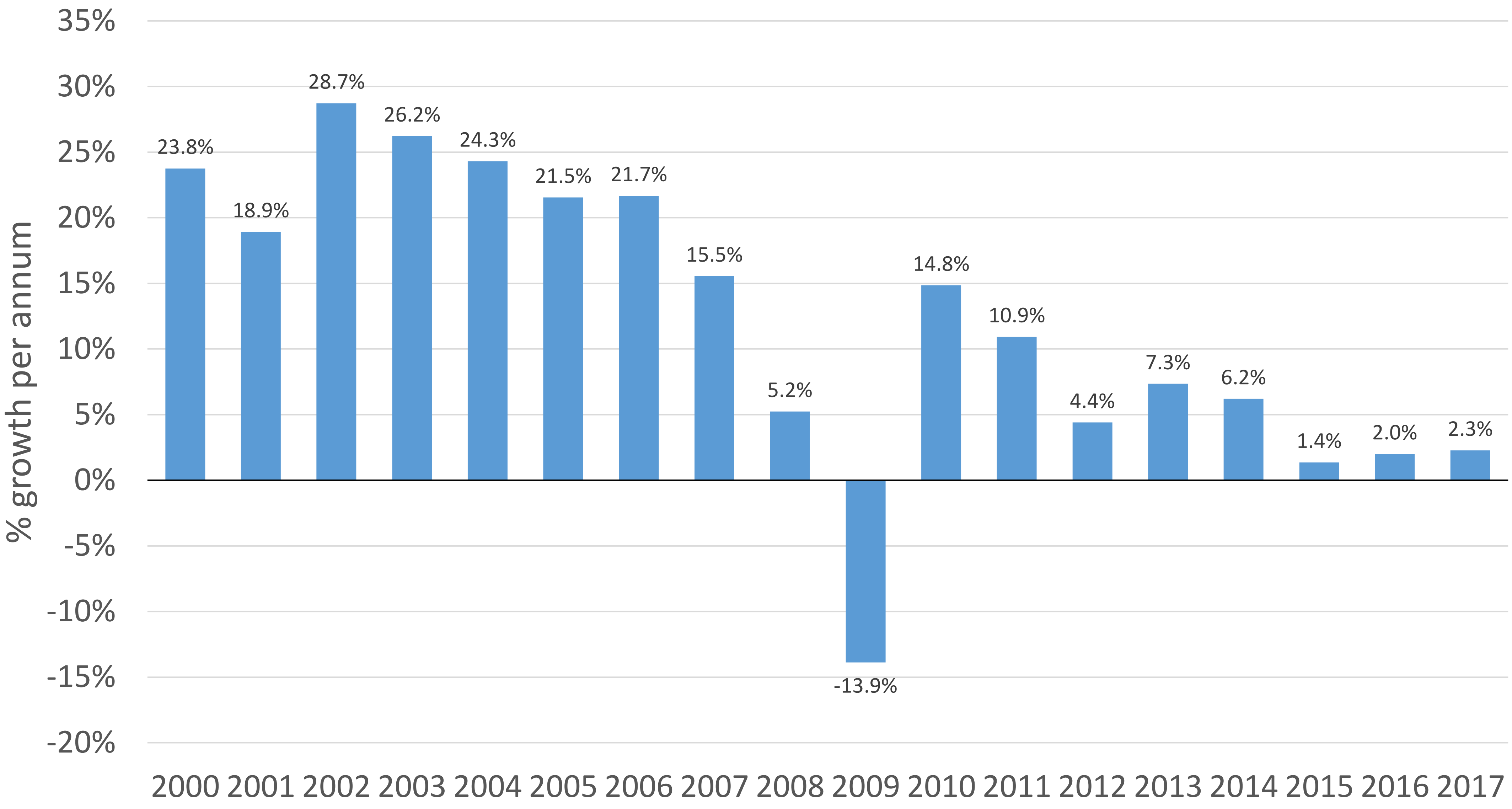
S13: Oil & dry cargo trades weaker in 2018



S11: China Trade – imports on more gentle growth trend



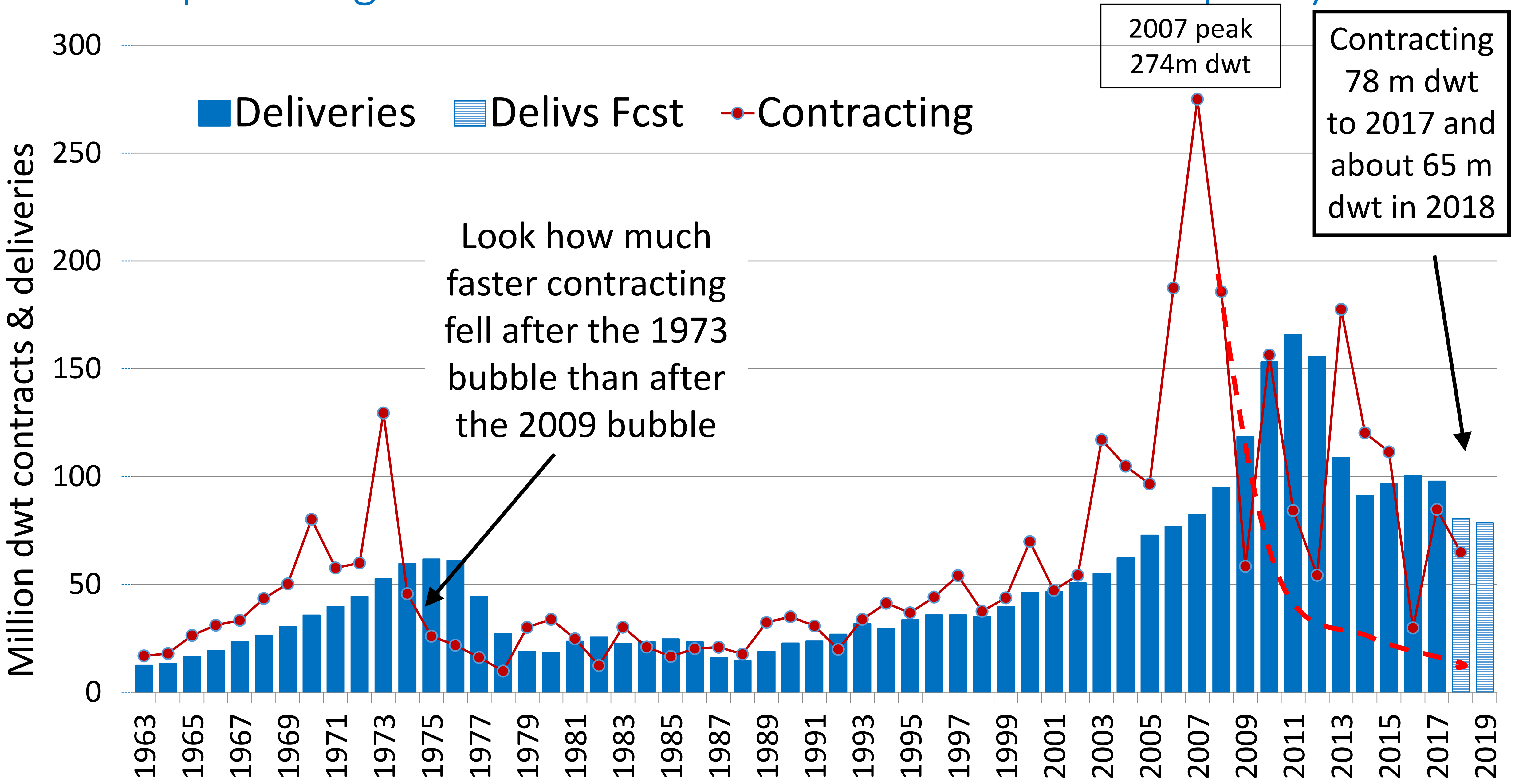
China's exports of containerisable cargo



Global Shipping & Shipbuilding Markets

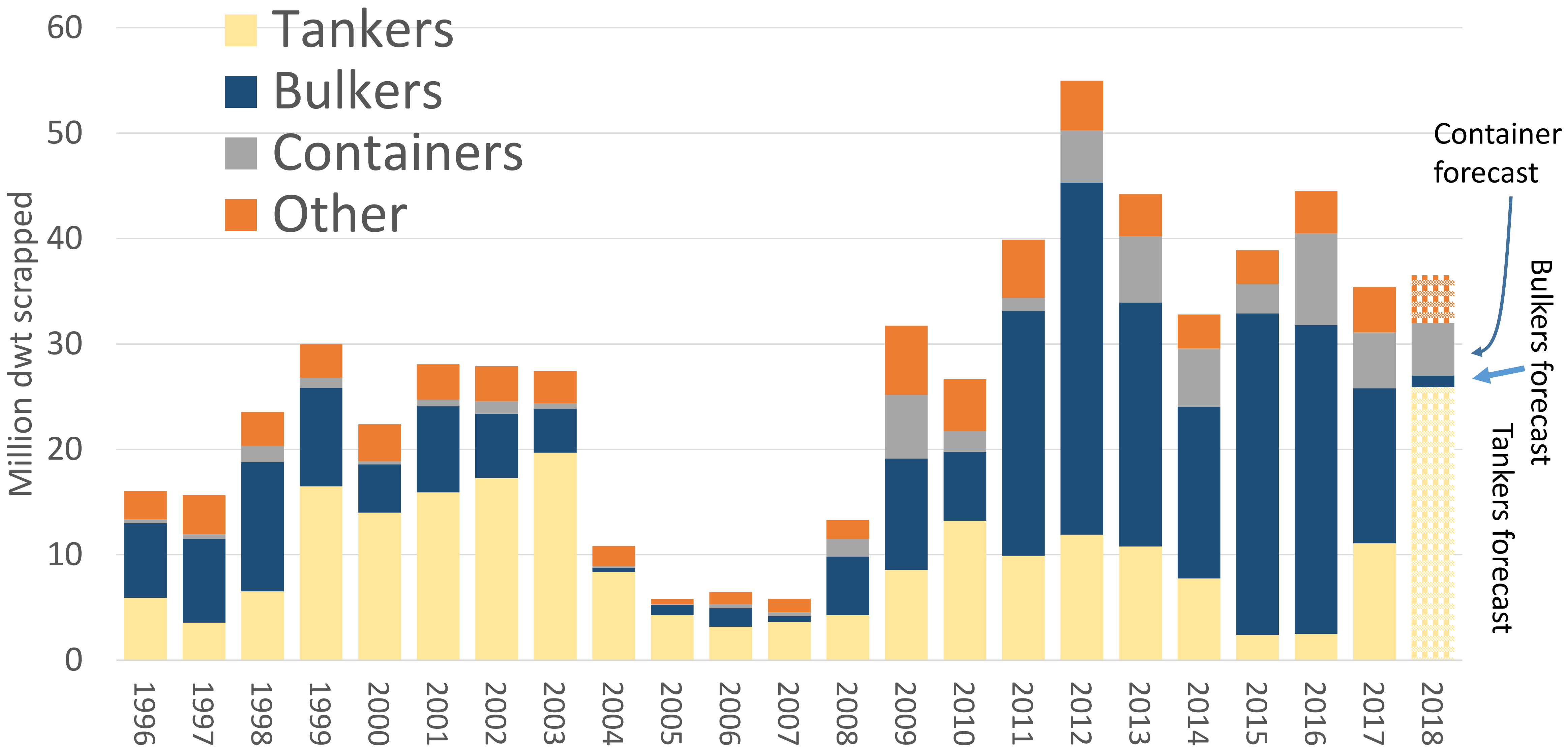
PART 6: THE SUPPLY SIDE OF THE MARKET

S14: Shipbuilding contracts & deliveries 1963-2017 – sill pretty robust

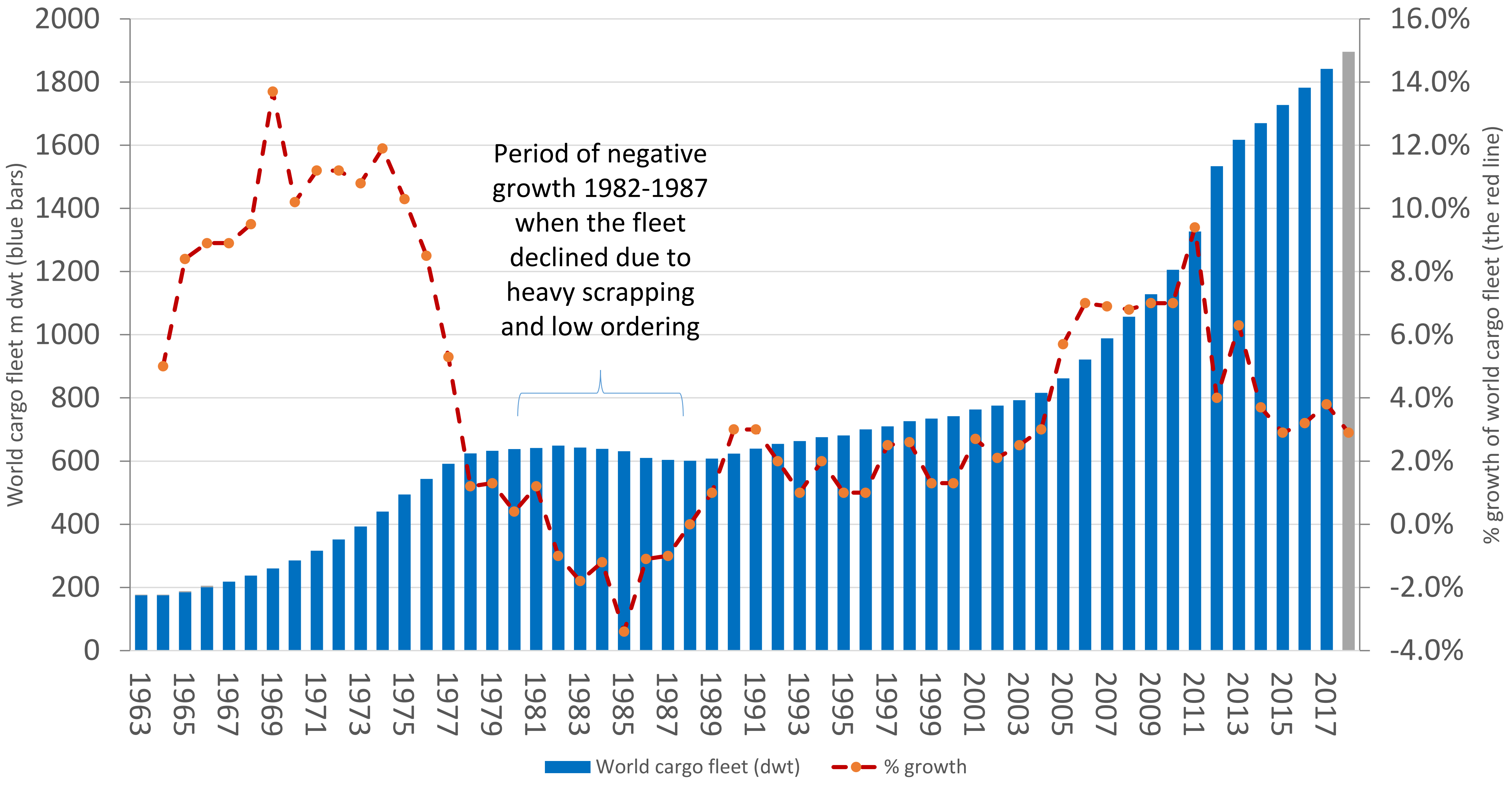


S16: Demolition about 36 m dwt pa, about 45% of 2018 deliveries

This level of demolition leaves the cargo fleet growing at about 2.5% pa



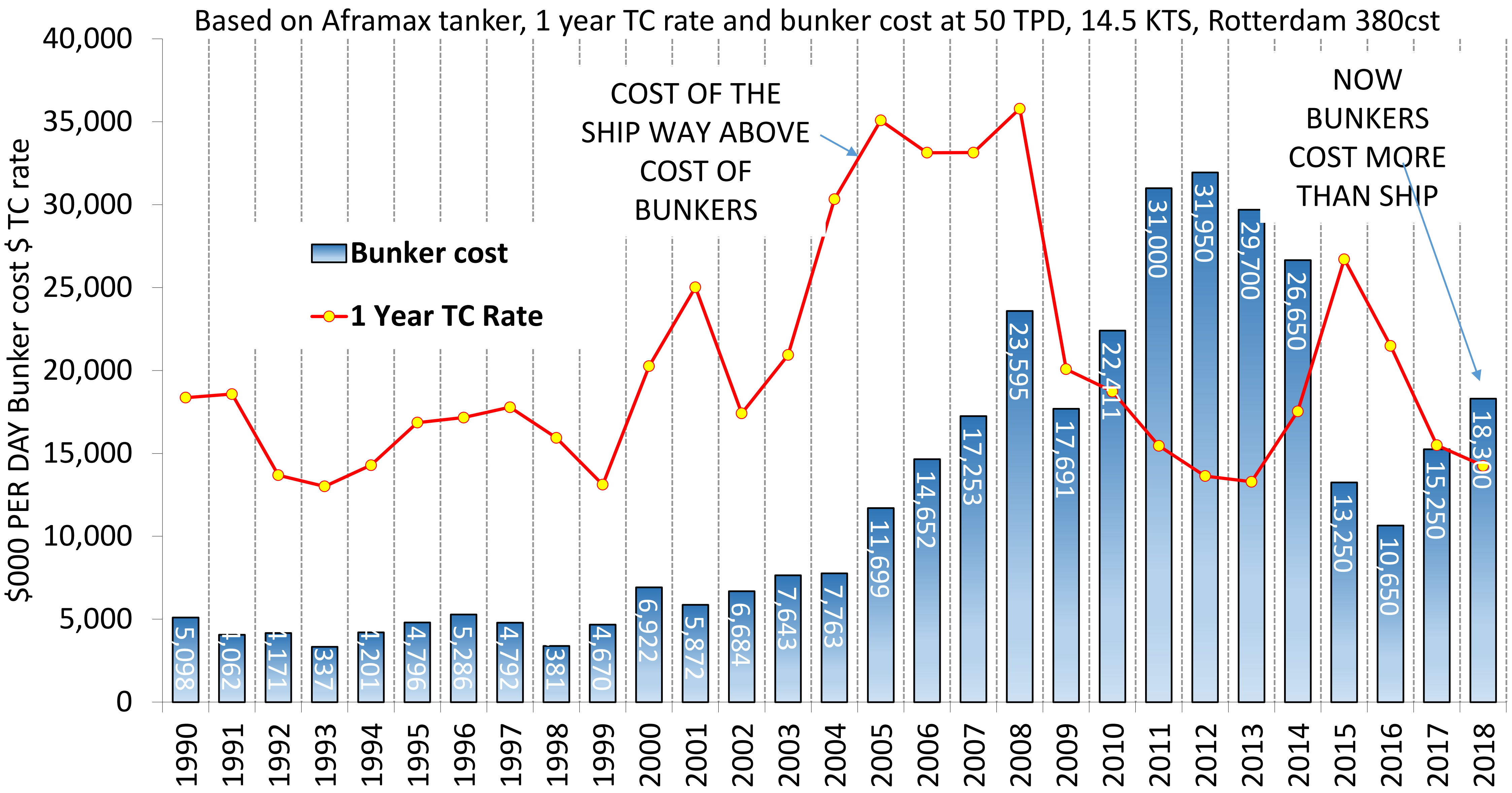
S17: World fleet – growth up 3.8% in2017, and 2.9% pa in 2018



Global Shipping & Shipbuilding Markets

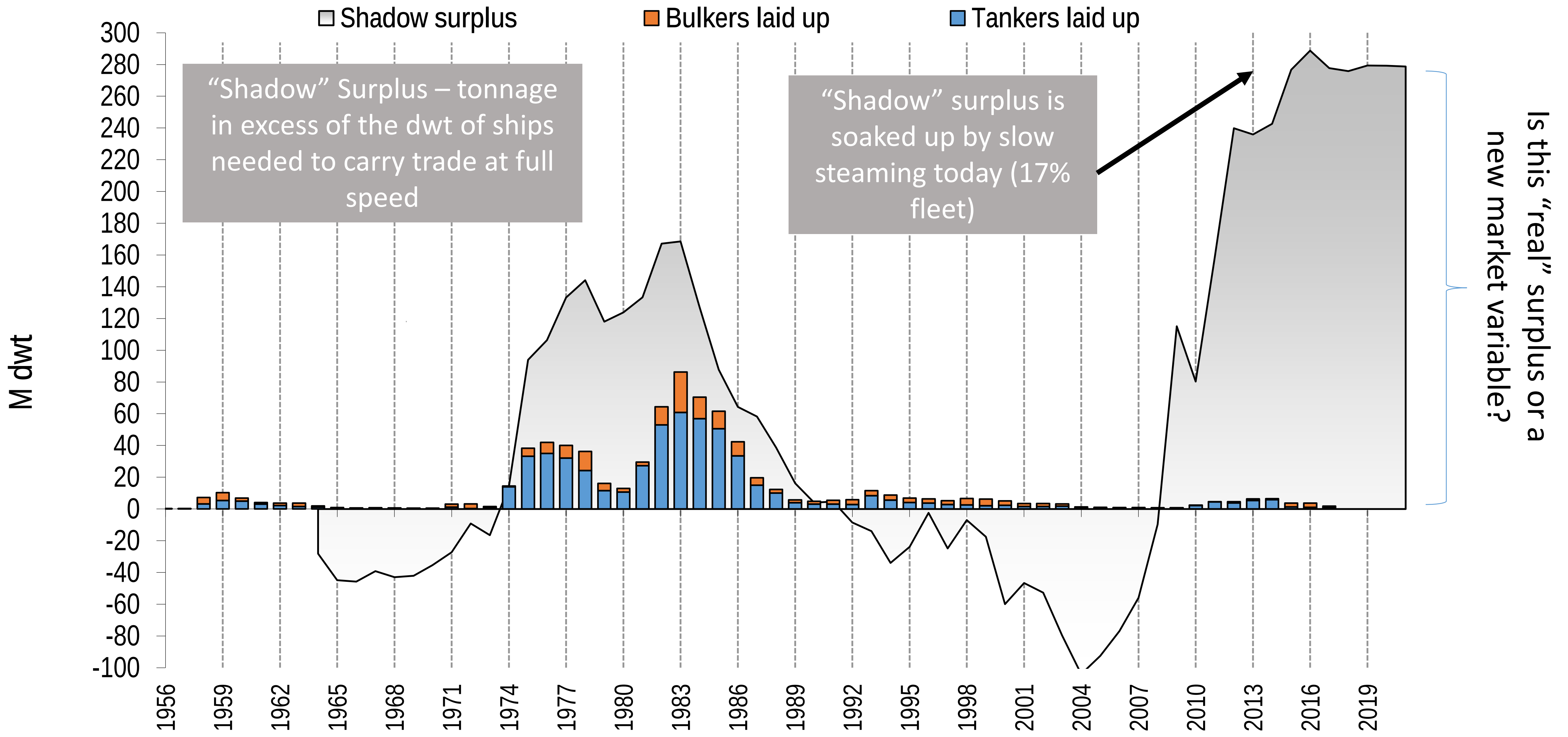
PART 2: THE BALANCE OF SUPPLY & DEMAND

Until 2010 the ship cost 4X the bunker cost... Now bunkers cost more than the ship!



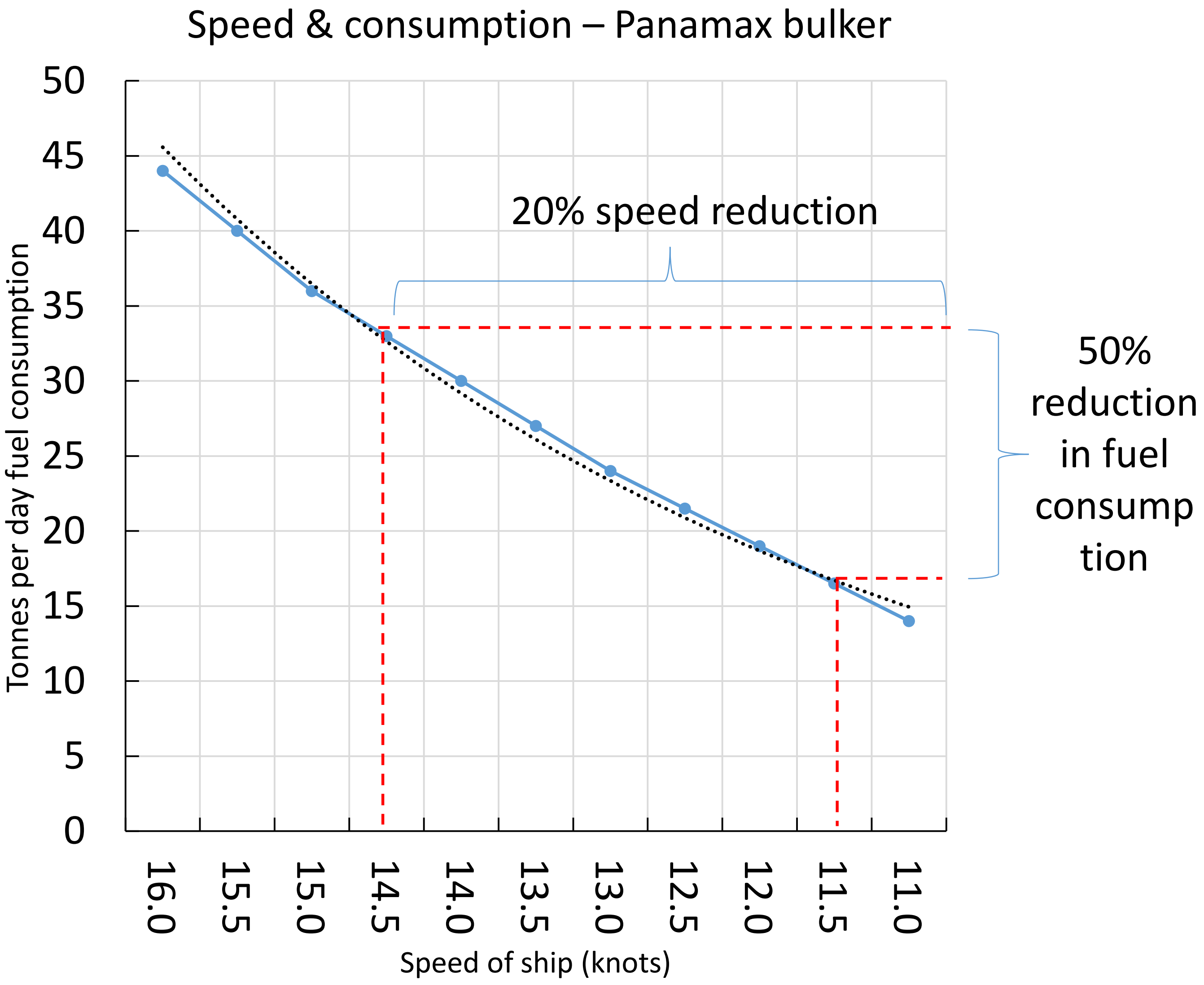
S20: "Shadow" Surplus & Laid Up Tonnage

Shows "Shadow" surplus tonnage and the proportion laid up

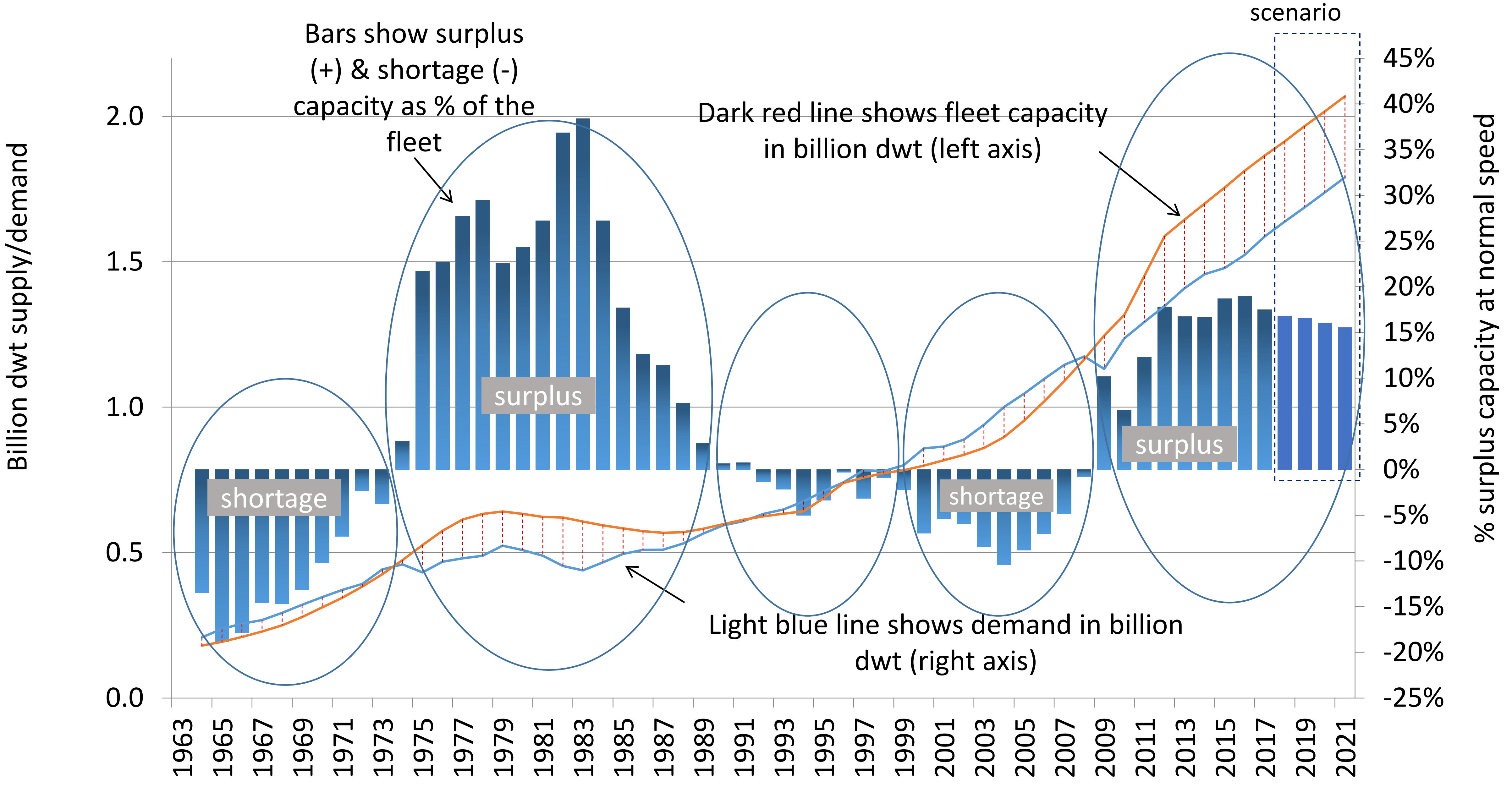


Slow steaming, carbon footprint, sulphur emissions and the financial performance of shipping assets

- The economic importance of ship speed has changed radically in the last decade, for two reasons:-
- The first is the increased cost of bunkers. At design speed the ship used to cost four times as much as the bunkers. Today the bunkers cost more than the ship.
- The second is the greenhouse gas issue. In April 2018 IMO took the decision to cut carbon emissions by 50% in 2050, compared with 2008.
- On a typical ship that target can be met by slowing down 20%. Since the fleet is carrying 17% shadow surplus it is probably almost there.
- Speed will also effect the cost of compliant fuel when the sulphur regulations start in 2020.



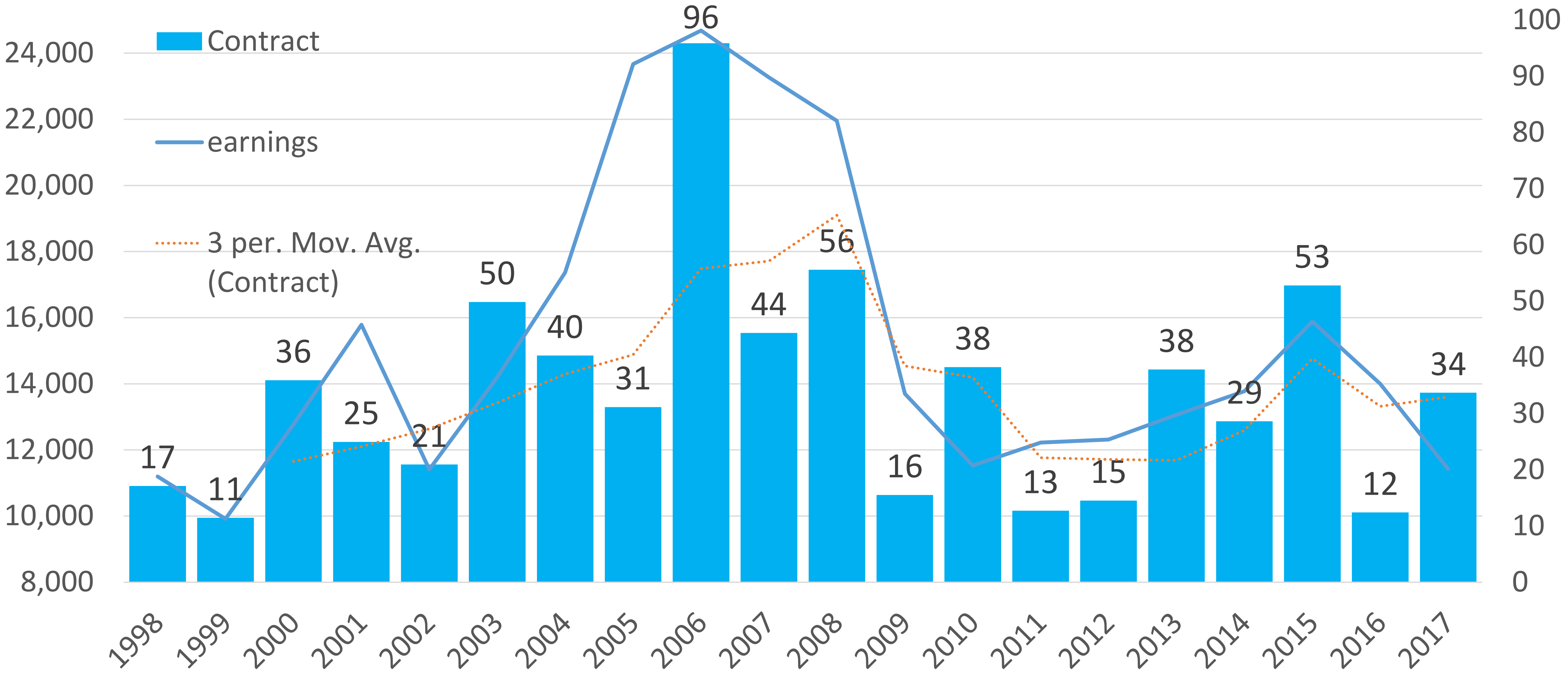
S21: World fleet supply demand balance – surplus not reducing much



THE END

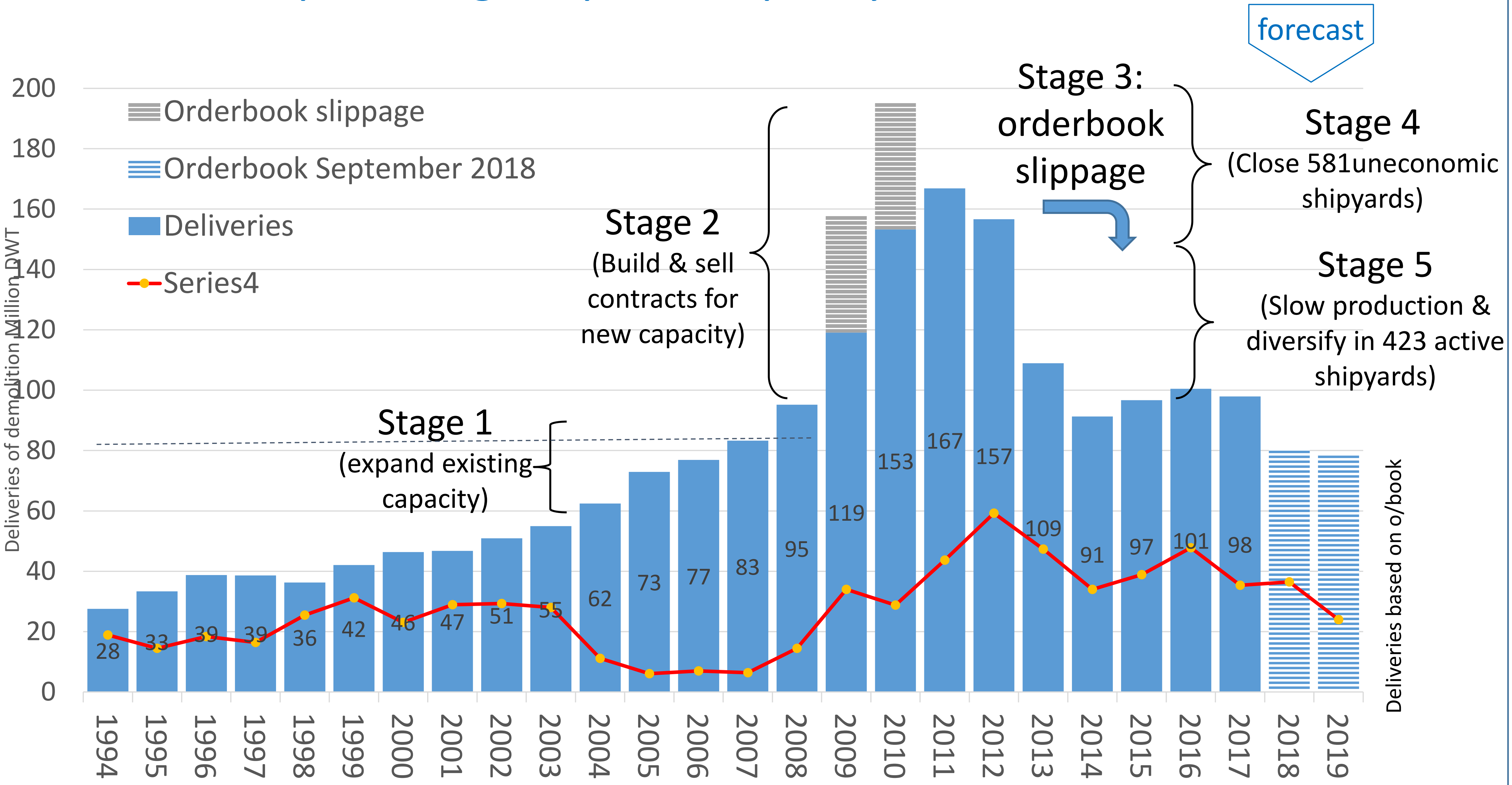
Disclaimer

“The statistical, graphical information contained in this paper are drawn from the Clarkson Research Services Limited ("CRSL") database and other sources. CRSL advises that: (i) some information in CRSL's database is derived from estimates or subjective judgments; and (ii) the information in the databases of other maritime data collection agencies may differ from the information in CRSL's database; and (iii) whilst CRSL has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures and may accordingly contain errors; and (iv) CRSL, its agents, officers and employees do not accept liability for any loss suffered in consequence of reliance on such information or in any other manner; and (v) the provision of such information does not obviate any need to make appropriate further enquiries; (vi) the provision of such information is not an endorsement of any commercial policies and/or any conclusions by CRSL; and (vii) shipping is a variable and cyclical business and anyone who thinks they can forecast it needs their head examining. Where views are expressed they are in the context of this general presentation and should not be used or relied on in any other context without appropriate investigation, validation and the written permission of the author



Source: SROK Tanker rates 43

S19: World shipbuilding output & capacity 1994- 2019



7. Until 2010 the ship cost much more than its bunkers…but that's changed!