THE MARKET OUTLOOK

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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
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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)
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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)

Note: the line shows the 3 month average spot earnings of VLCCs, Suezmaxes, Aframaxes & MRs over the previous 3 months.
S4: Dry Bulk market 3 month average 27% below trend

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

28 year trend $15,882 per day earnings

3 month average spot rate last week

$11,667/day, 27% below 28 year average
S5: Where the Containership market still 25% below trend

The earnings of average smaller containerships (1,000;1700; 2500; 4400)) over last 3 months

- 28 year average $12,031 per day earnings
- 7 year av $7,177/day

3 month average spot rate last week $8,920/day, a 25% below 28 year trend
The earnings of average smaller containerships (1,000; 1700; 2500; 4400) over last 3 months

28 year average $28,155 per day earnings

7 year av $39,742/day

3 month average spot rate last week $22,875/day, 19% below 28 year trend
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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

\[ y = 155.17e^{0.0055x} \]
Bunkers and VLCC spot earnings in $/day

- Bunker price
- VLCC spot

Rotterdam Bunker Price $/tonne

VLCC Spot earning $000s/day
VLCC spot earnings in W/S – no sign of a tanker boom here – boom was driven by bunker prices
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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

Panamax bulker price (left axis)

Aframax tanker price (right axis)
PART 5: THE DEMAND SIDE OF THE MARKET
S10: World Industrial Production 1993-2018 (July) slowing

1. US Financial Crisis
2. Asia Crisis
3. Dot.com Crisis
4. Credit Crisis
5. Next crisis due

% growth per annum
Sea trade growth edges down - about 3.1% growth likely in 2018

Growth of sea trade 2000-2018 (annual % change)
S13: Oil & dry cargo trades weaker in 2018

Growth of sea trade 2000-2018 (annual % change)

% growth of trade in year

-15% -10% -5% 0% 5% 10% 15%


Total oil

Dry bulk

forecast
S11: China Trade – imports on more gentle growth trend
China’s exports of containerisable cargo

% growth per annum

% growth per annum

PART 6: THE SUPPLY SIDE OF THE MARKET
Look how much faster contracting fell after the 1973 bubble than after the 2009 bubble.
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

- Tankers
- Bulkers
- Containers
- Other

Container forecast
Bulkers forecast
Tankers forecast

Demolition about 36 m dwt pa, about 45% of 2018 deliveries.
S17: World fleet – growth up 3.8% in 2017, and 2.9% pa in 2018

Period of negative growth 1982-1987 when the fleet declined due to heavy scrapping and low ordering.
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PART 2: THE BALANCE OF SUPPLY & DEMAND
Until 2010 the ship cost 4X the bunker cost... Now bunkers cost more than the ship!

Based on Aframax tanker, 1 year TC rate and bunker cost at 50 TPD, 14.5 KTS, Rotterdam 380cst

COST OF THE SHIP WAY ABOVE COST OF BUNKERS

NOW BUNKERS COST MORE THAN SHIP

$000 PER DAY Bunker cost $ TC rate

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

“Shadow” Surplus – tonnage in excess of the dwt of ships needed to carry trade at full speed

“Shadow” surplus is soaked up by slow steaming today (17% fleet)

Is this “real” surplus or a new market variable?
**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 bunker. 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

Bars show surplus (+) & shortage (-) capacity as % of the fleet.

Dark red line shows fleet capacity in billion dwt (left axis).

Light blue line shows demand in billion dwt (right axis).

Scenario
THE END
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Contract earnings

3 per. Mov. Avg. (Contract)

Source: SROK Tanker rates 43

Orderbook slippage
Orderbook September 2018
Deliveries
Series4

Stage 1: (expand existing capacity)
Stage 2: (Build & sell contracts for new capacity)
Stage 3: orderbook slippage
Stage 4: (Close 581 uneconomic shipyards)
Stage 5: (Slow production & diversify in 423 active shipyards)

Deliveries based on o/book

Stage 4

Deliveries of demolition Million DWT
Orderbook slippage
Orderbook September 2018
Deliveries
Series4

Stage 3: orderbook slippage

Stage 4: (Close 581 uneconomic shipyards)
Stage 5: (Slow production & diversify in 423 active shipyards)

Deliveries of demolition Million DWT

Deliveries based on o/book

Stage 1: (expand existing capacity)
7. Until 2010 the ship cost much more than its bunkers...but that’s changed!