GLOBAL SHIPPING MARKETS

current developments, outlook & the role of Asia

Martin Stopford,
President Clarkson Research
24th April 2018

Let’s take a look

AGENDA

PART 1: TRENDS
PART 2: DEMAND TRENDS
PART 3: SUPPLY TRENDS
PART 4: MARKET OUTLOOK
PART 5: THE ROLE OF ASIA

THE FIVE ISSUES

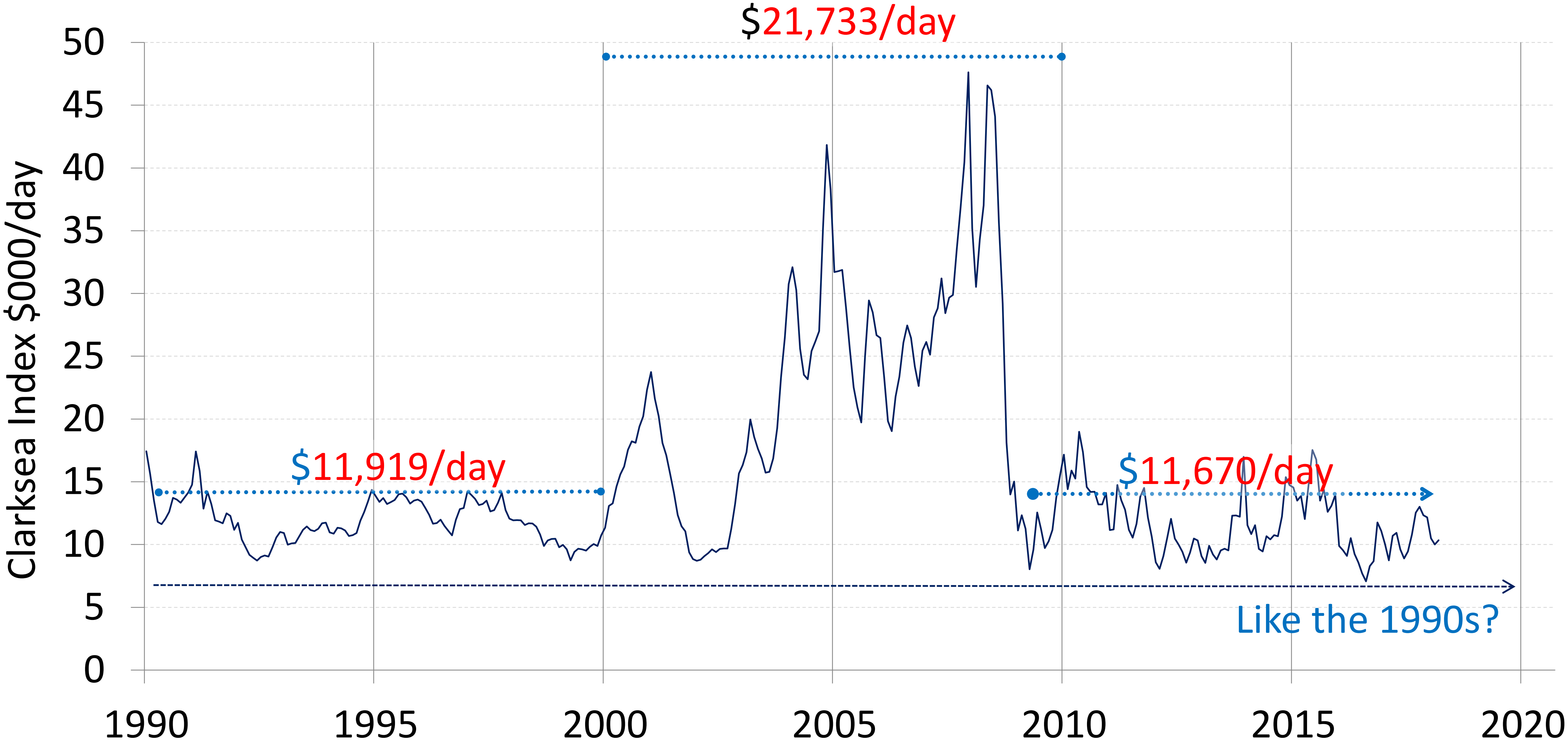
PART 1: CURRENT TRENDS

The main markets past cycle trough, but earnings still weak. Good stuff on demand side - world industrial growth peaking; and trade growing fast. But shipyards still busy (mainly). Asia's never been more exciting.

S1: SUMMARY OF TRENDS

1. Past cycle trough, but still 19% surplus. Not there yet!
2. Clarksea index $10,248/day, below trend, edging up
3. Good news on demand side: –
    a) World industry growing at 4.3% .
    b) Trade up 3.9% in 2017 & 3.4% in 2018
    c) China imports up 8% pa in Dec 2017 - ore worries
4. Not so good news on supply side: -
    a) Ship orders 80 m dwt in 2017, orderbook 10.4% fleet
    b) Deliveries 98 m dwt in 2017, but 78 m dwt in 2018.
    c) Demolition 35 m dwt in 2017, one third of deliveries
5. Fleet growing 3.5% pa, same as trade. But only 2.6% in 2018.

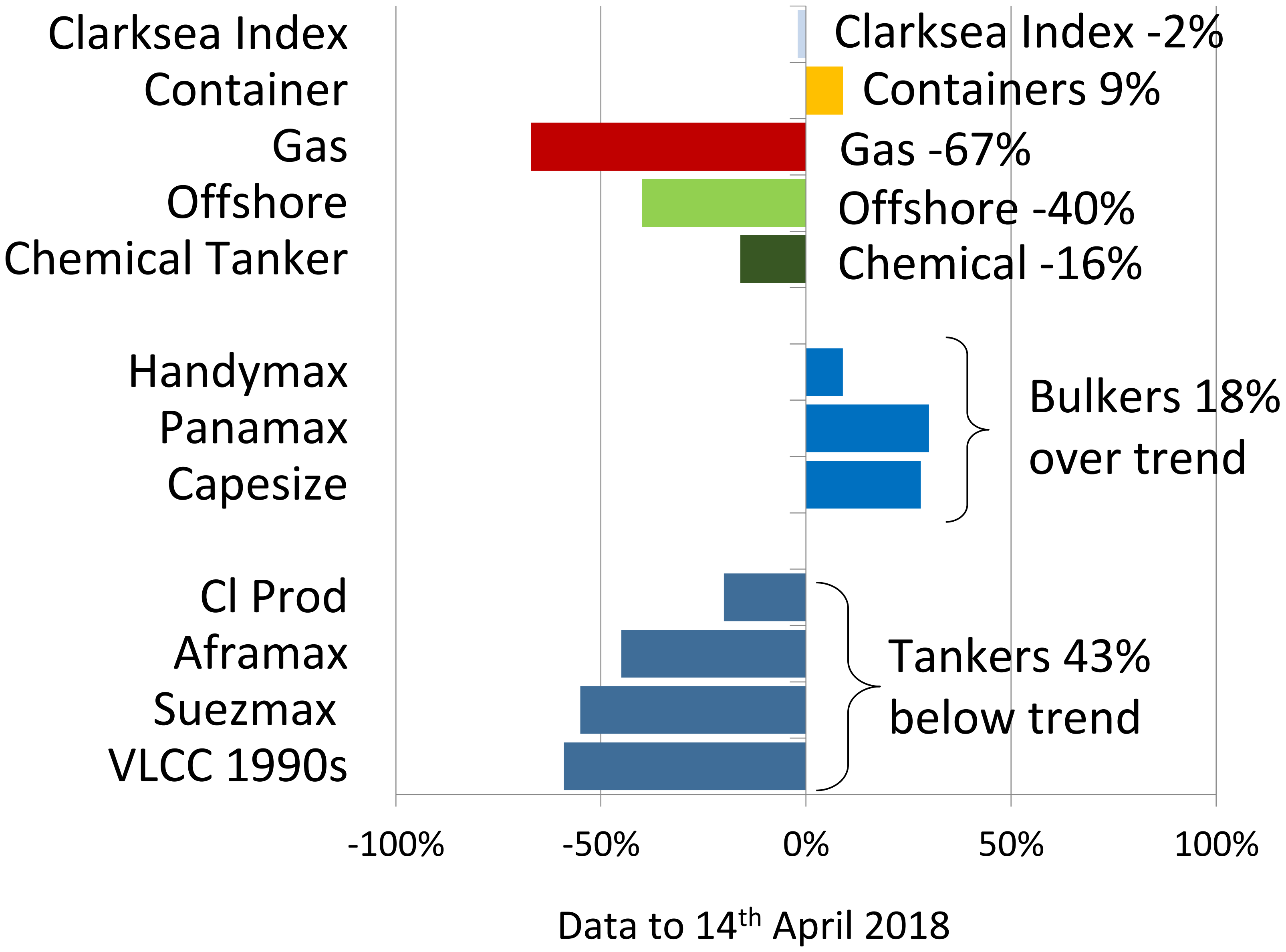
Ship earnings over three decades to April 2018



This chart shows the average earnings of tankers, bulkers, containerships & gas

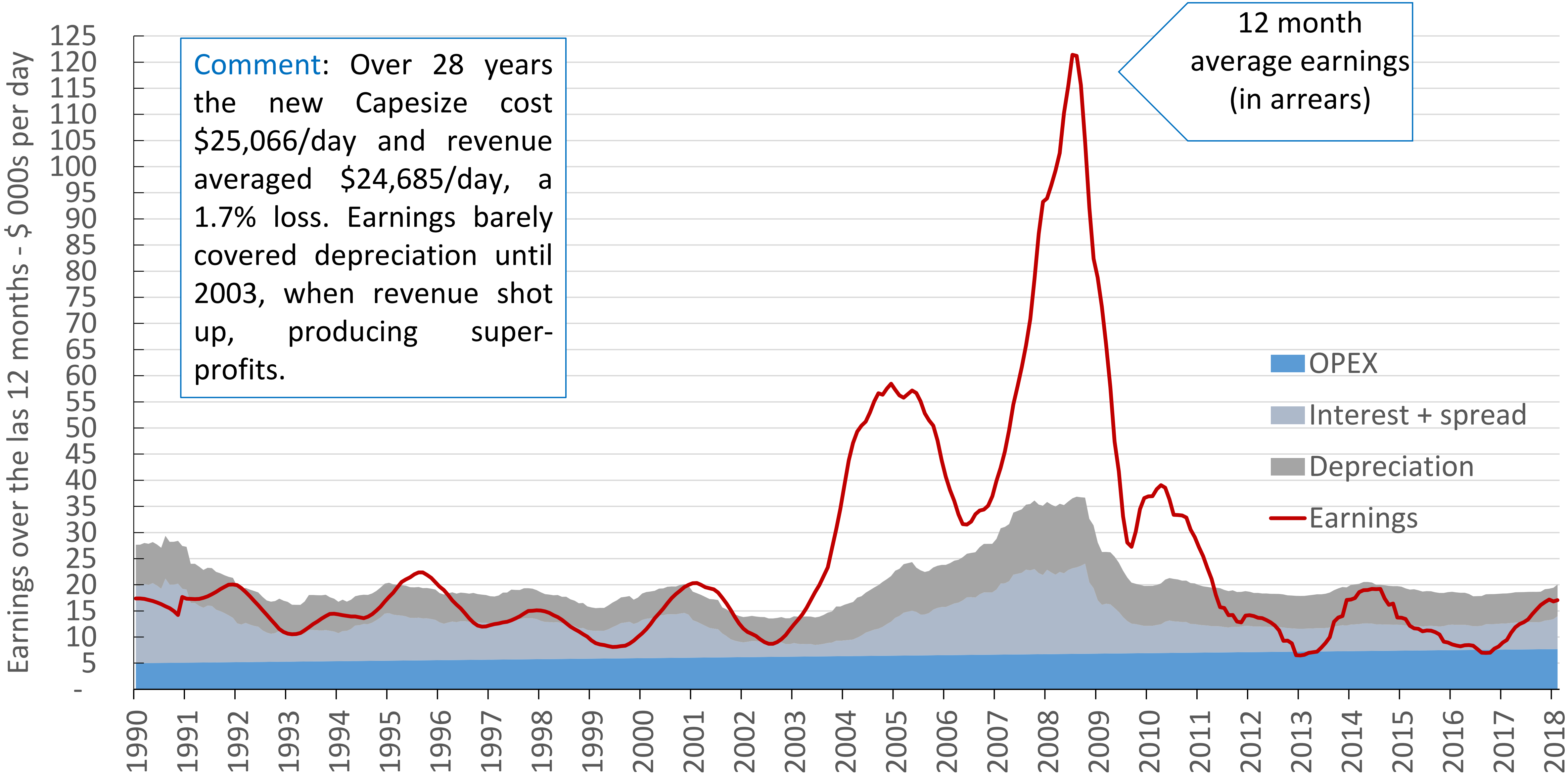
Cycle status in 12 markets: last 12 months as % seven year trend

- Bulk carriers much better than 12 months ago but tankers deterioration
- Tankers still weak
- Gas market now well below trend
- Chart shows average earnings in last 12 months as a % of average earnings in last 7 years May 2011 to April 2018)

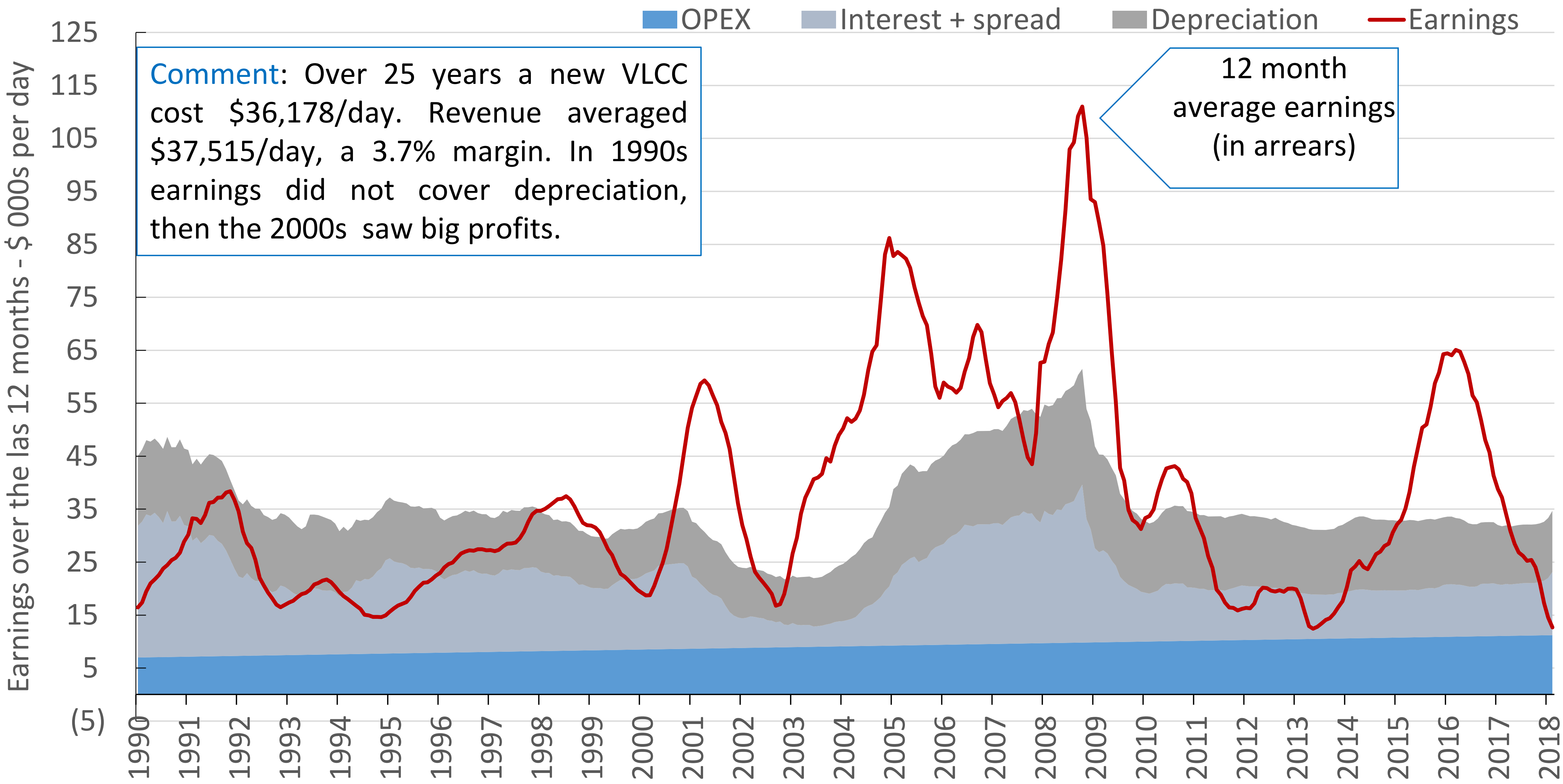


Capesize bulk carrier cost & revenue 1990-2018

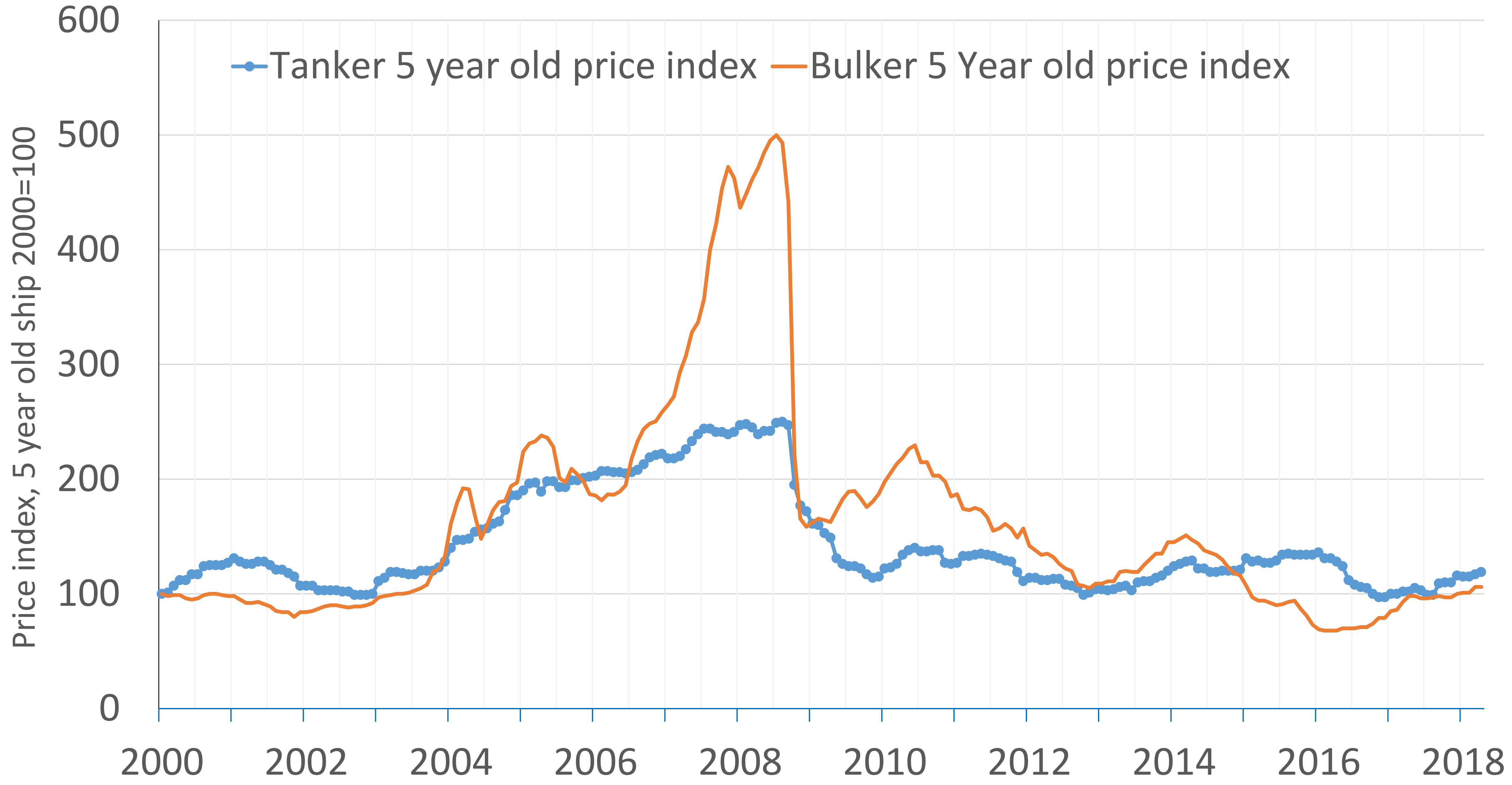
Comment: Over 28 years the new Capesize cost $25,066/day and revenue averaged $24,685/day, a 1.7% loss. Earnings barely covered depreciation until 2003, when revenue shot up, producing super-profits.



VLCC crude tanker cost & revenue 1990-2018



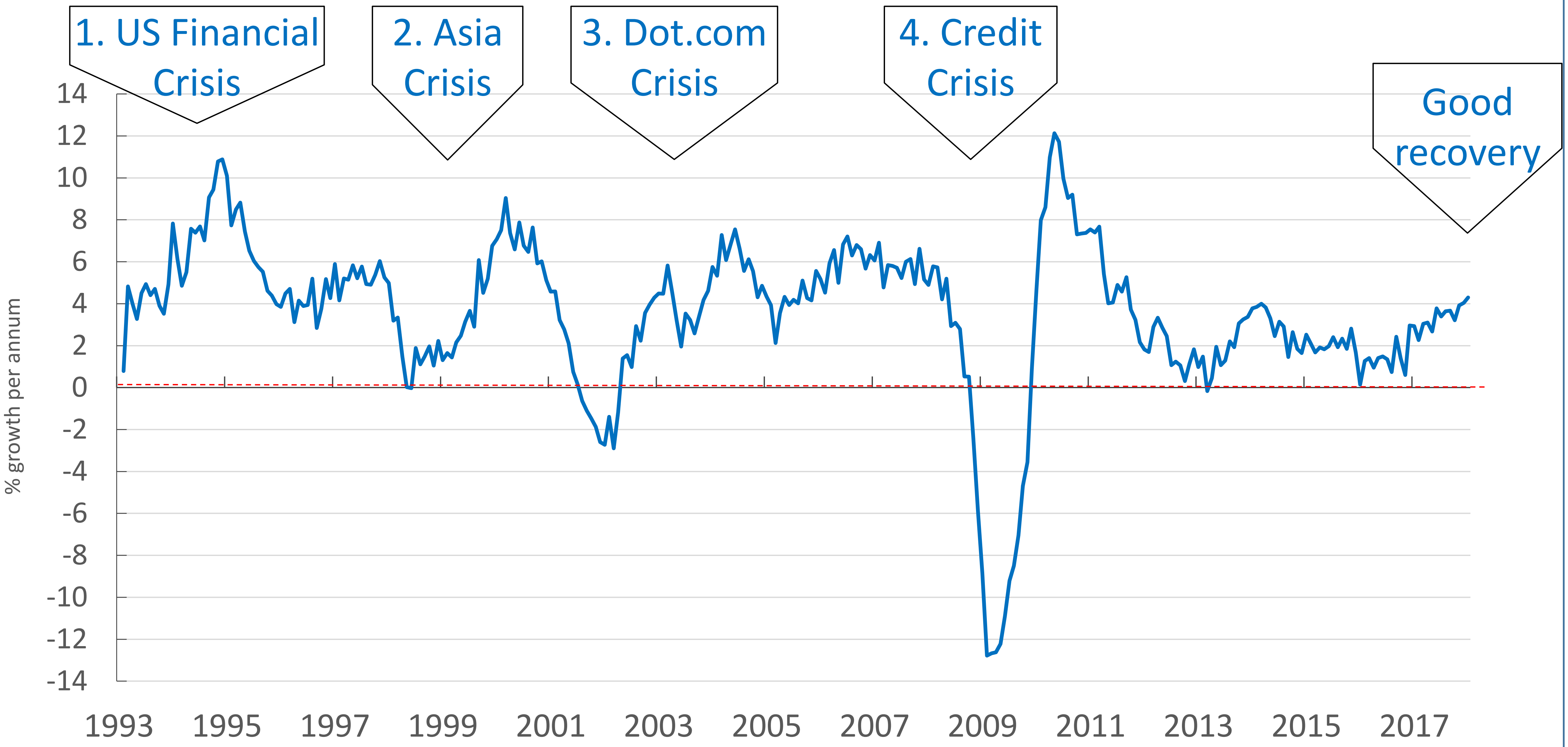
Second hand prices – bulkers just below replacement cost



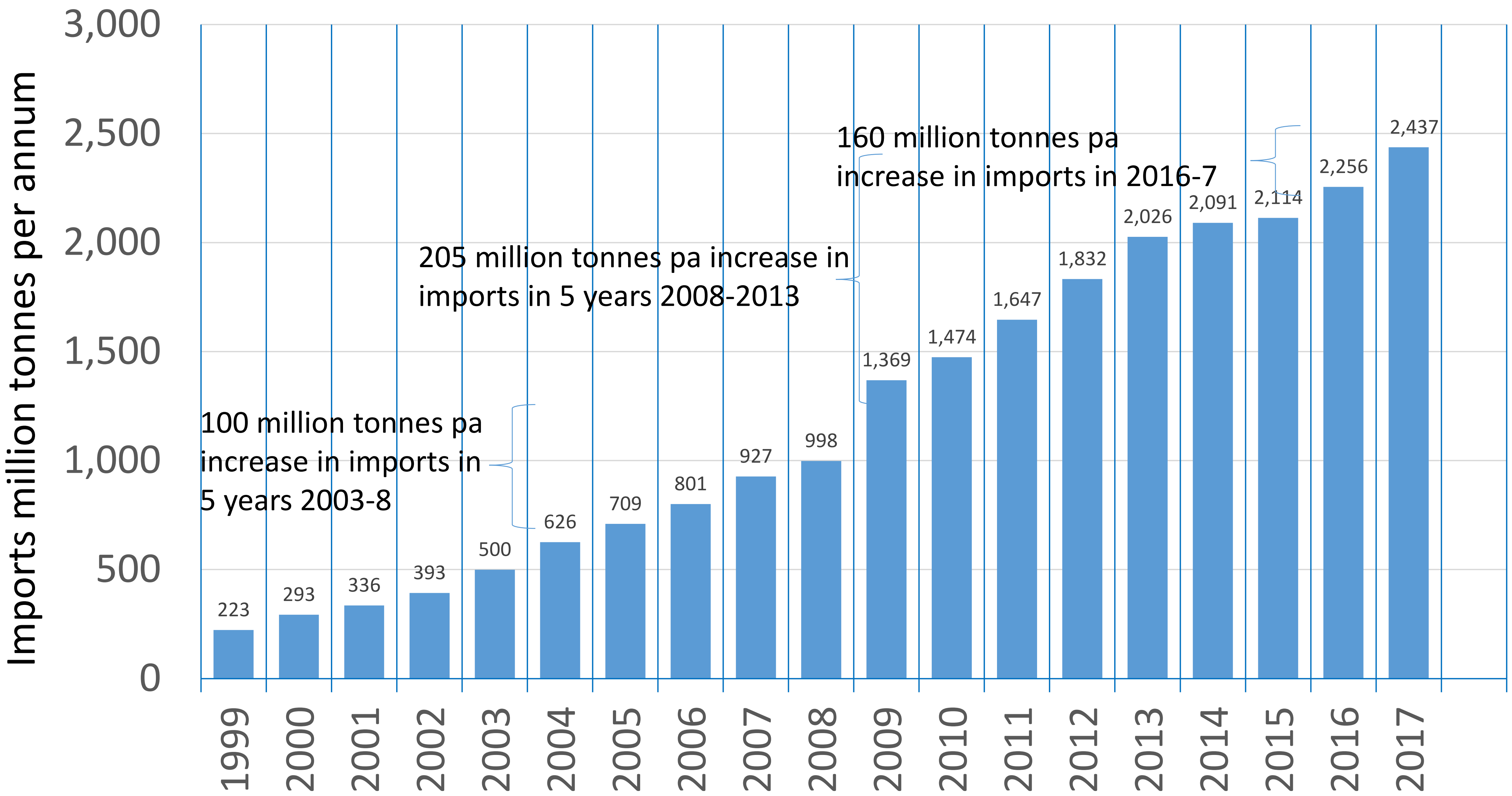
PART 2: DEMAND TRENDS

Demand looking quite good

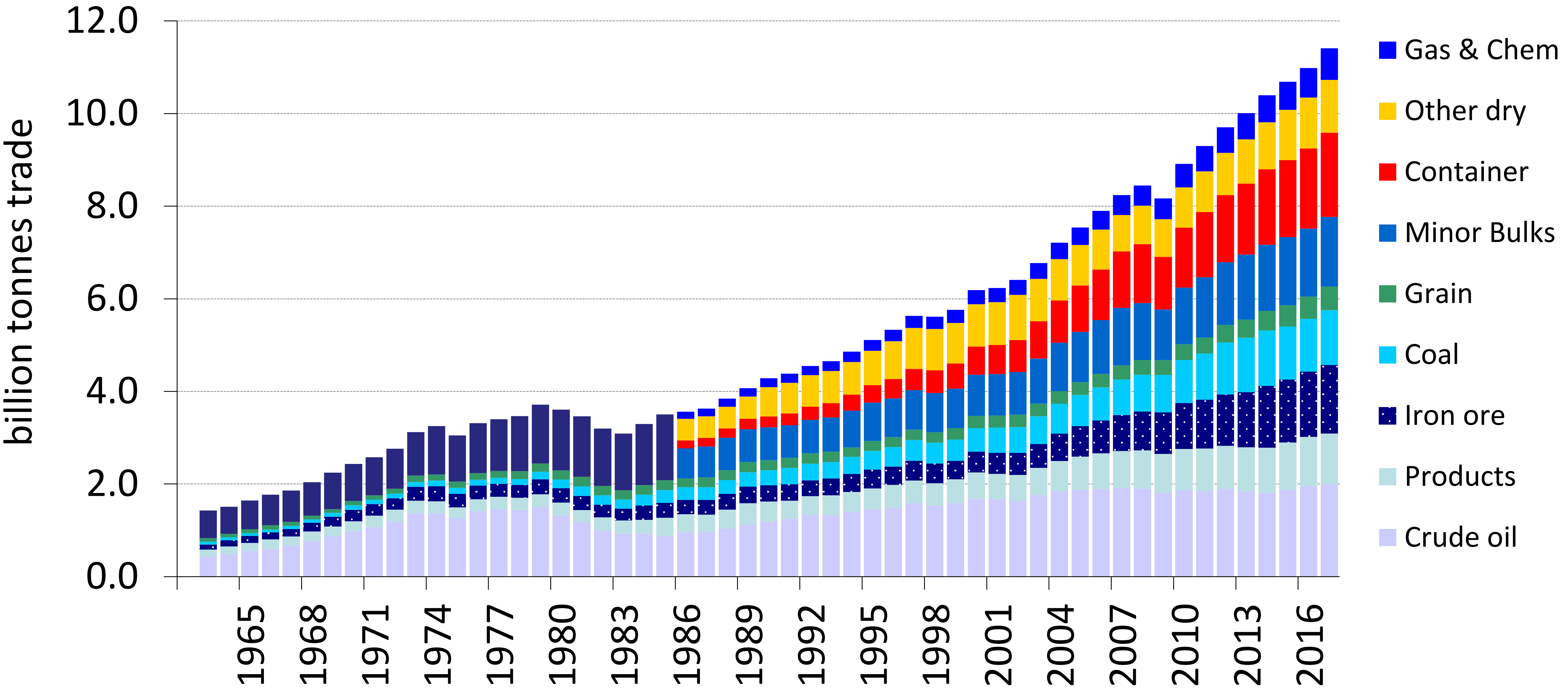
S10: World Industrial Production 1993-2017 (Dec) picking up



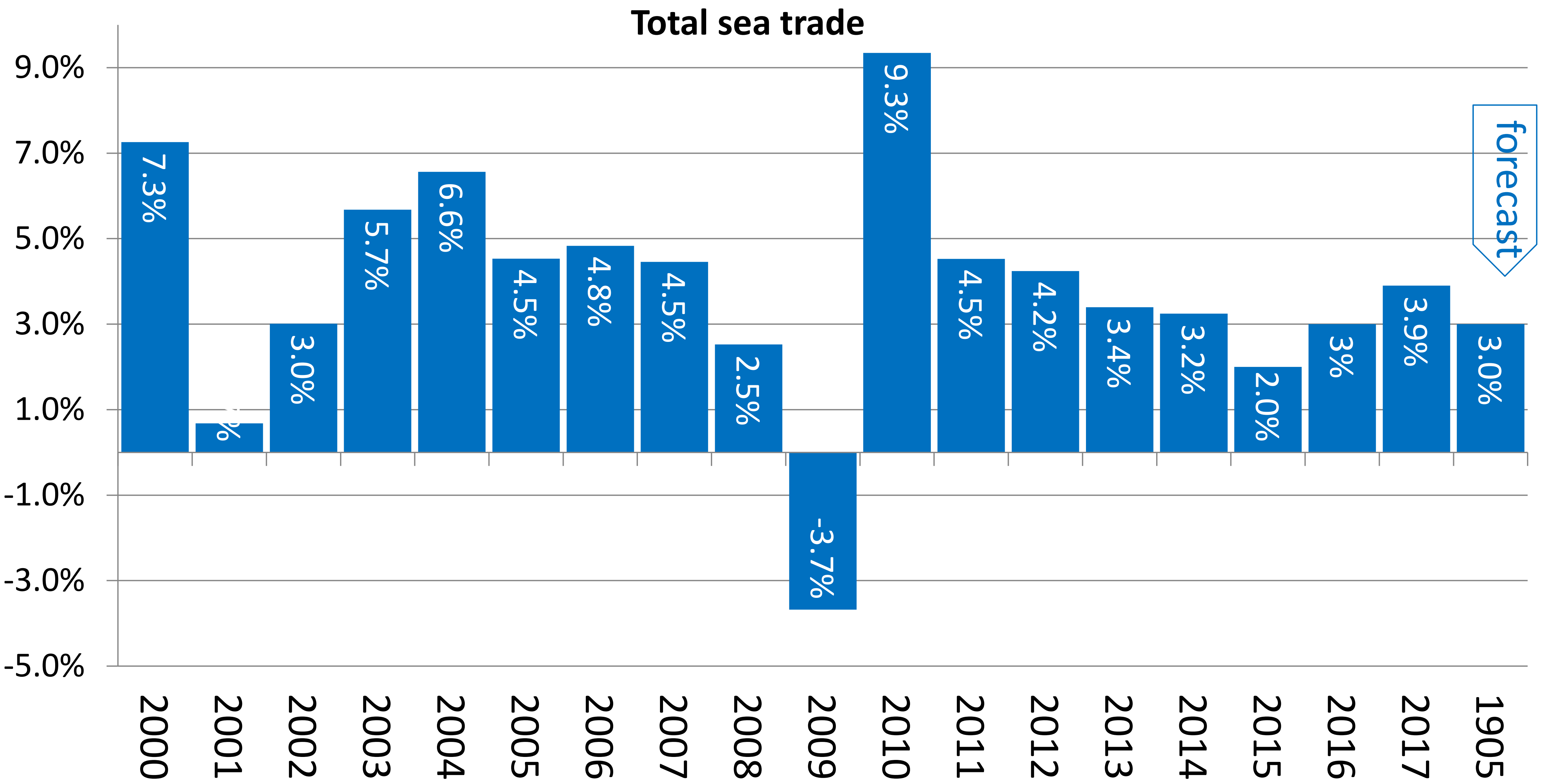
China Trade – imports back on growth trend



seaborne trade - by commodity (tons)



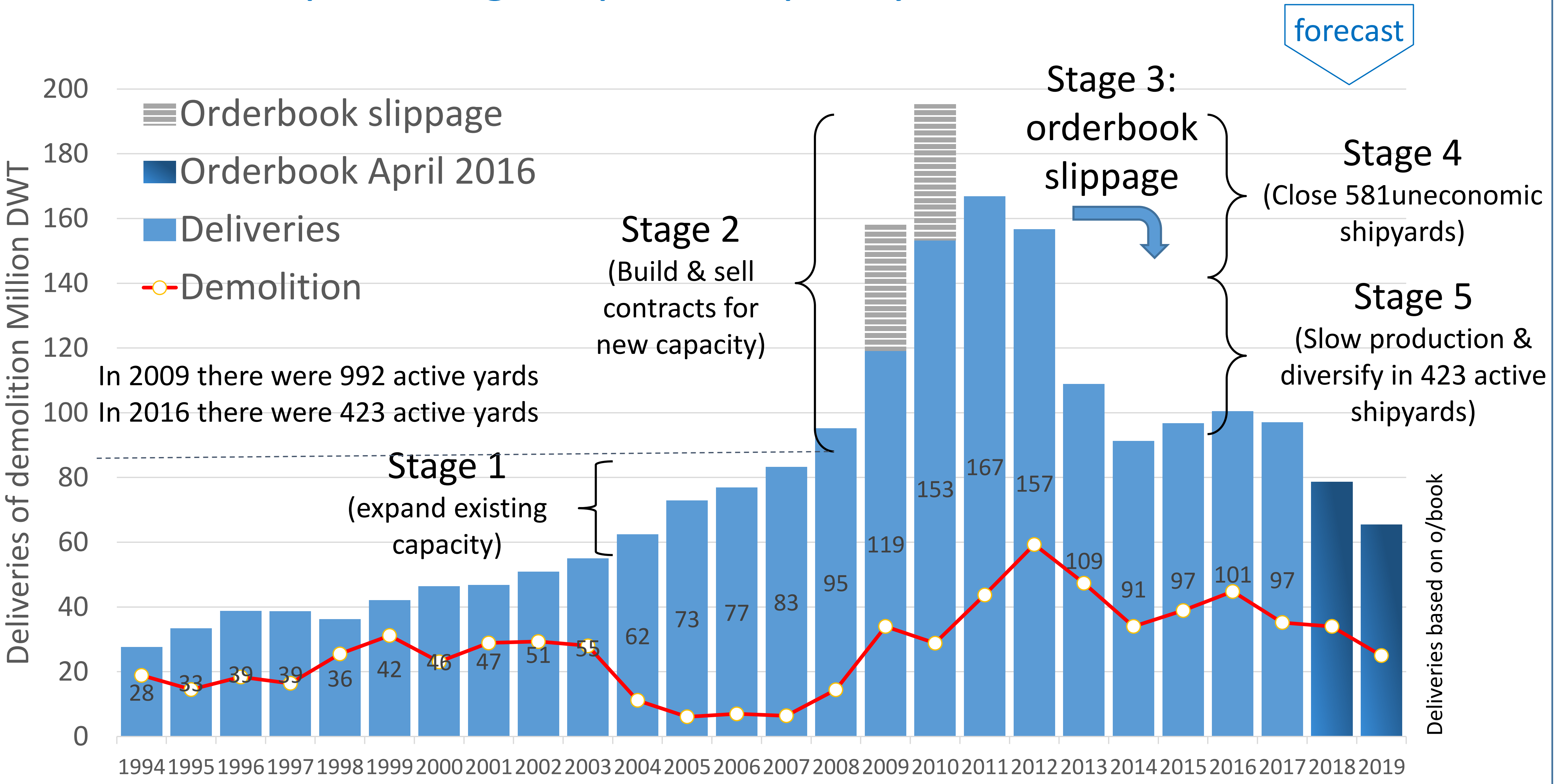
Sea Trade growth 2000-2017 (annual % change)



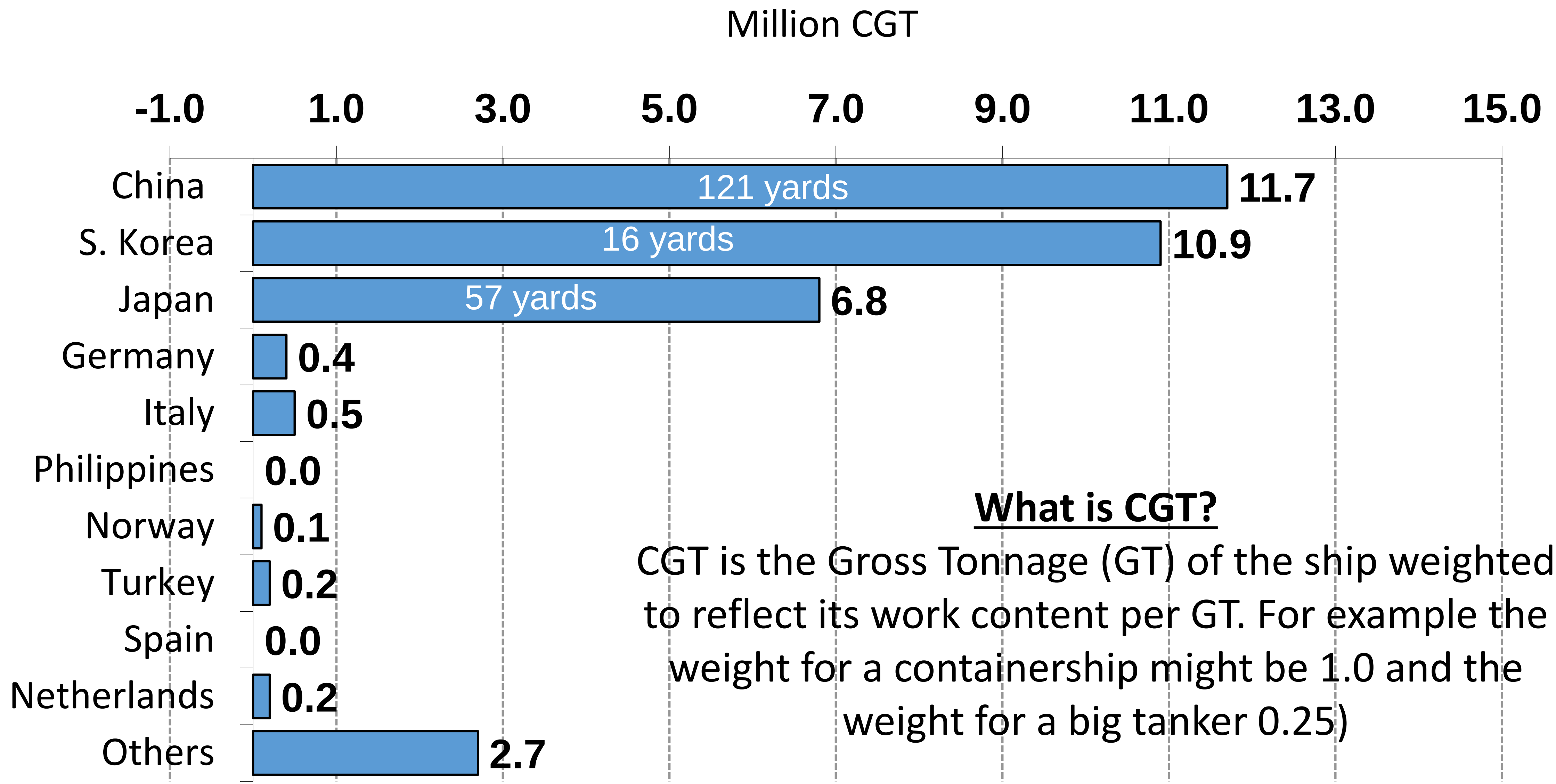
PART 3: SUPPLY TRENDS

Supply could respond faster!

S19: World shipbuilding output & capacity 1994- 2019



Shipbuilding Deliveries by Country 2017

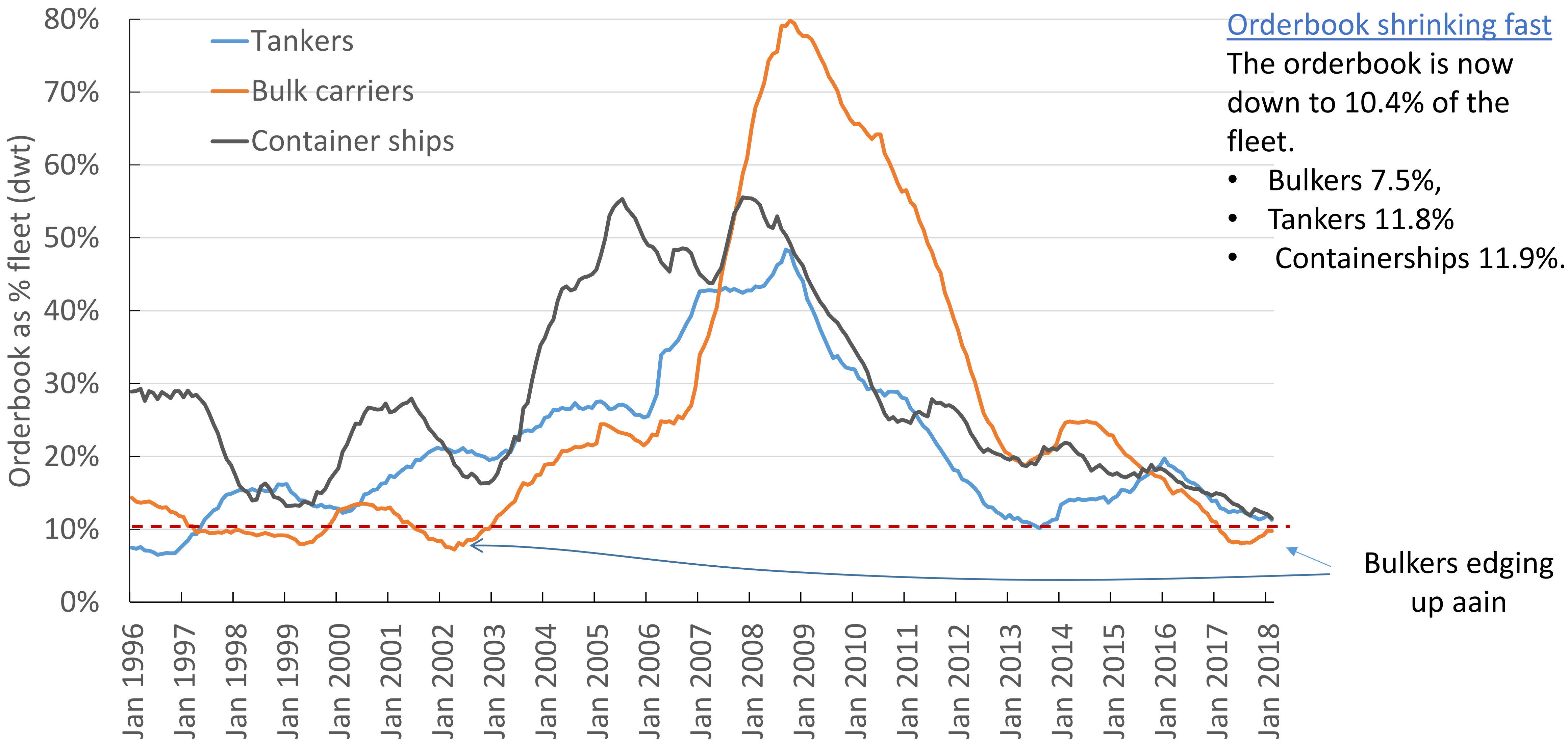


<u>What is CGT?</u>

CGT is the Gross Tonnage (GT) of the ship weighted to reflect its work content per GT. For example the weight for a containership might be 1.0 and the weight for a big tanker 0.25)

Source: Clarkson Research

S15: Merchant Orderbook Feb 2018 as % Fleet

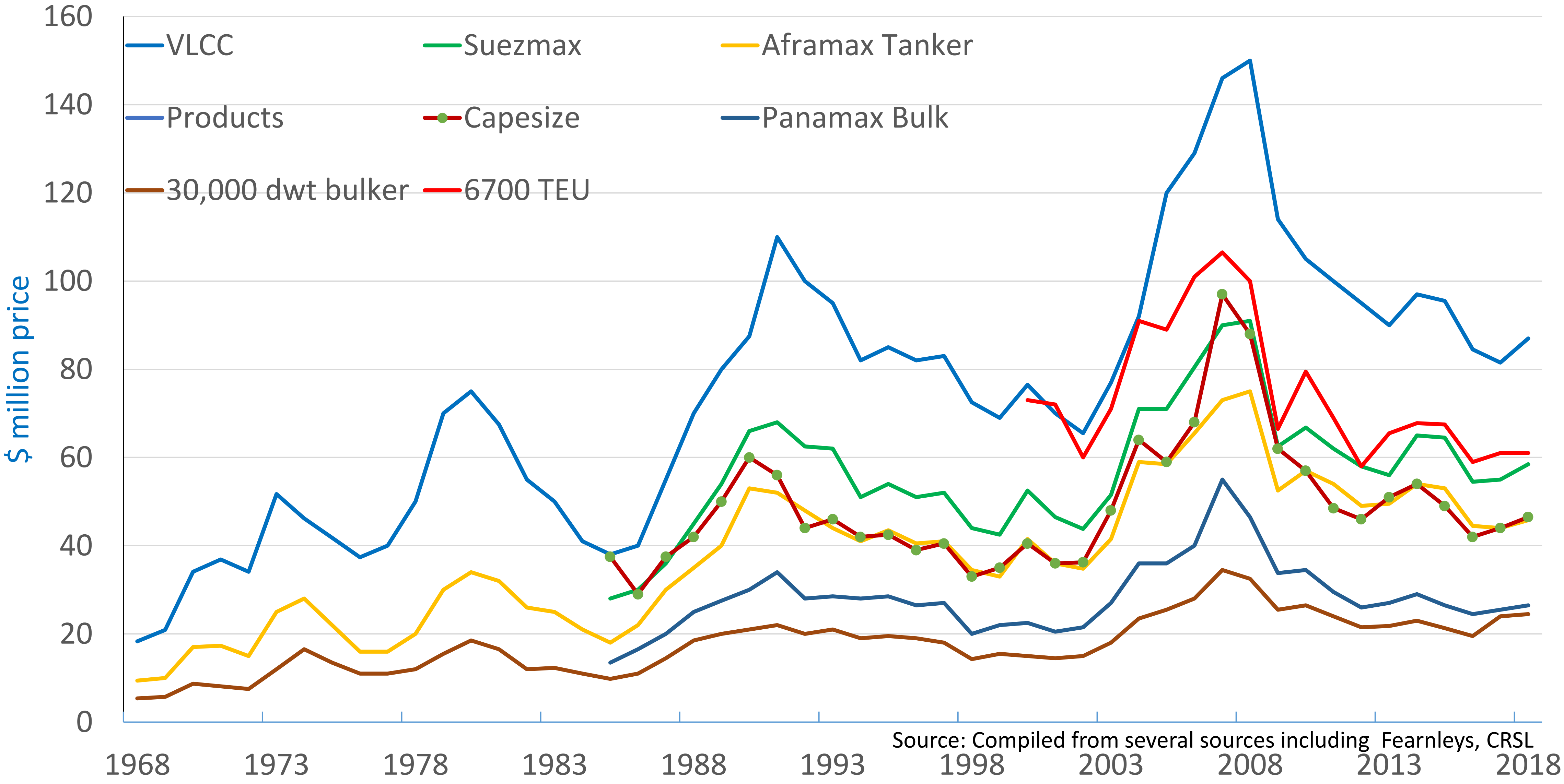


Orderbook shrinking fast

The orderbook is now down to 10.4% of the fleet.

- Bulkers 7.5%,
- Tankers 11.8%
- Containerships 11.9%.

Shipbuilding prices up a few % in April 2018

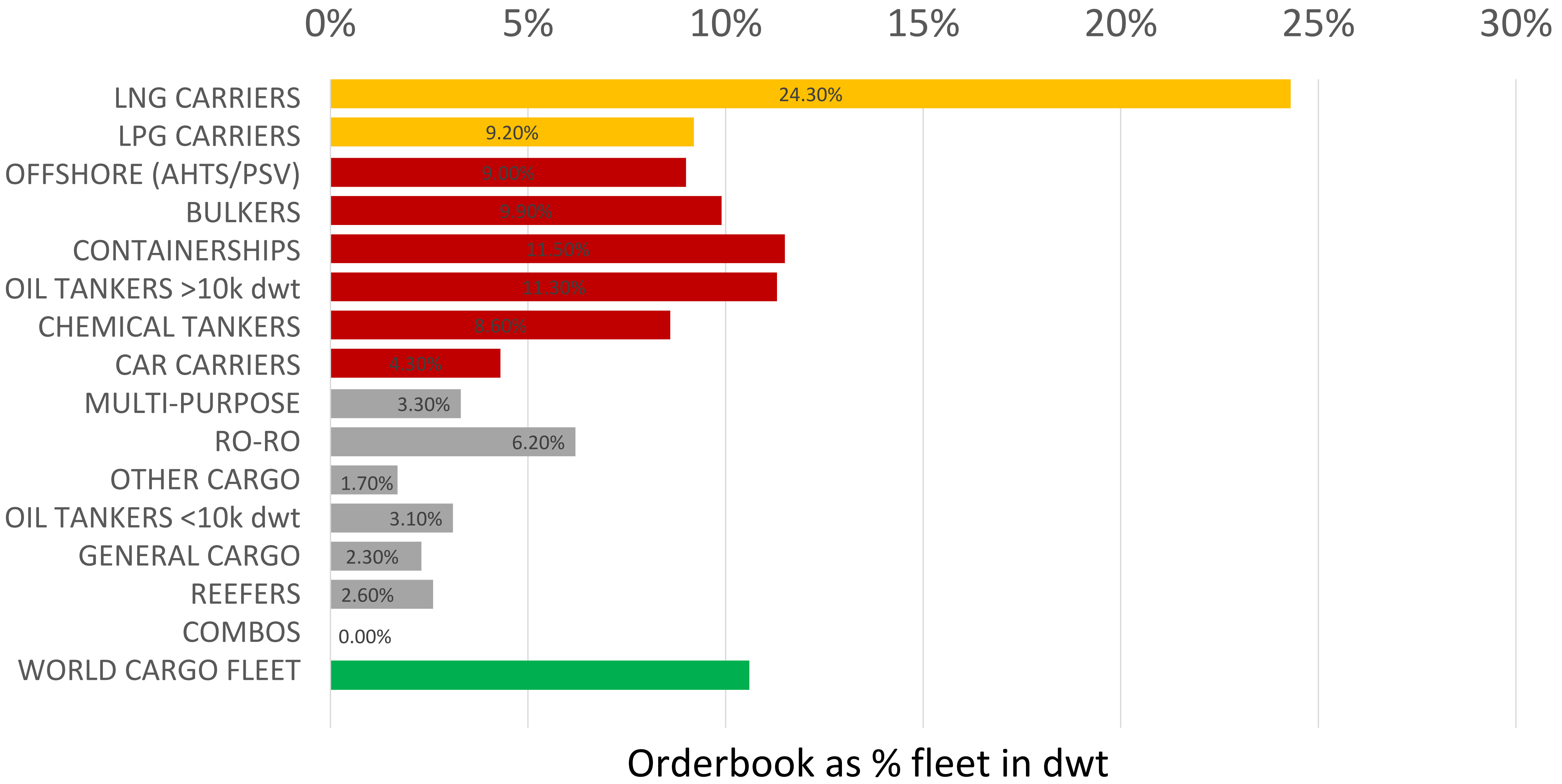


Source: Compiled from several sources including Fearnleys, CRSL

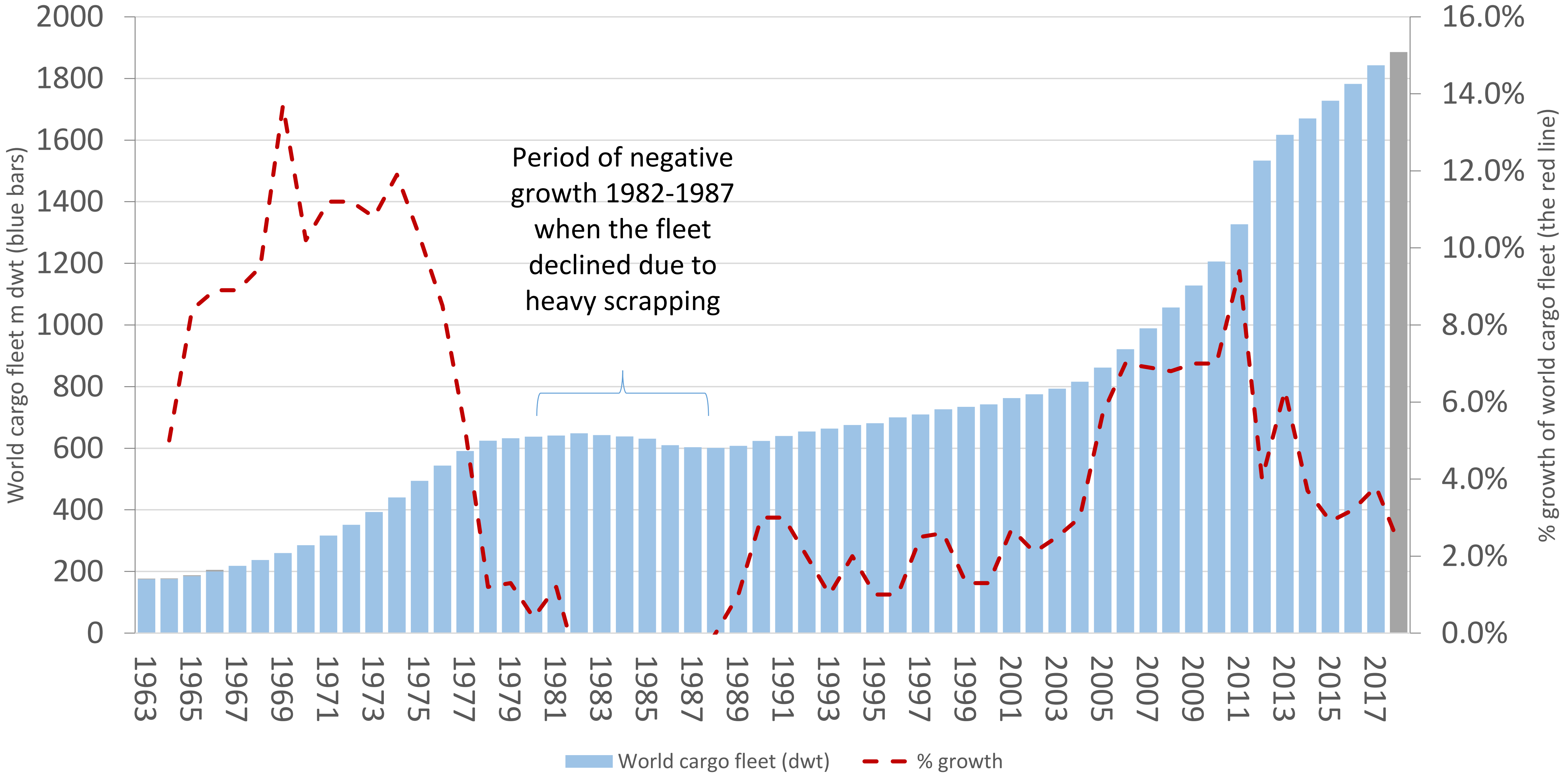
Martin Stopford, President CRSL 20 April 2018

Merchant Orderbook April 2018 by % Fleet

Total cargo orderbook 195.8 m dwt (down 25%) and average is 10.9% of fleet



S17: World fleet growth was 3.7% in2017, and about 2.3% in 2018

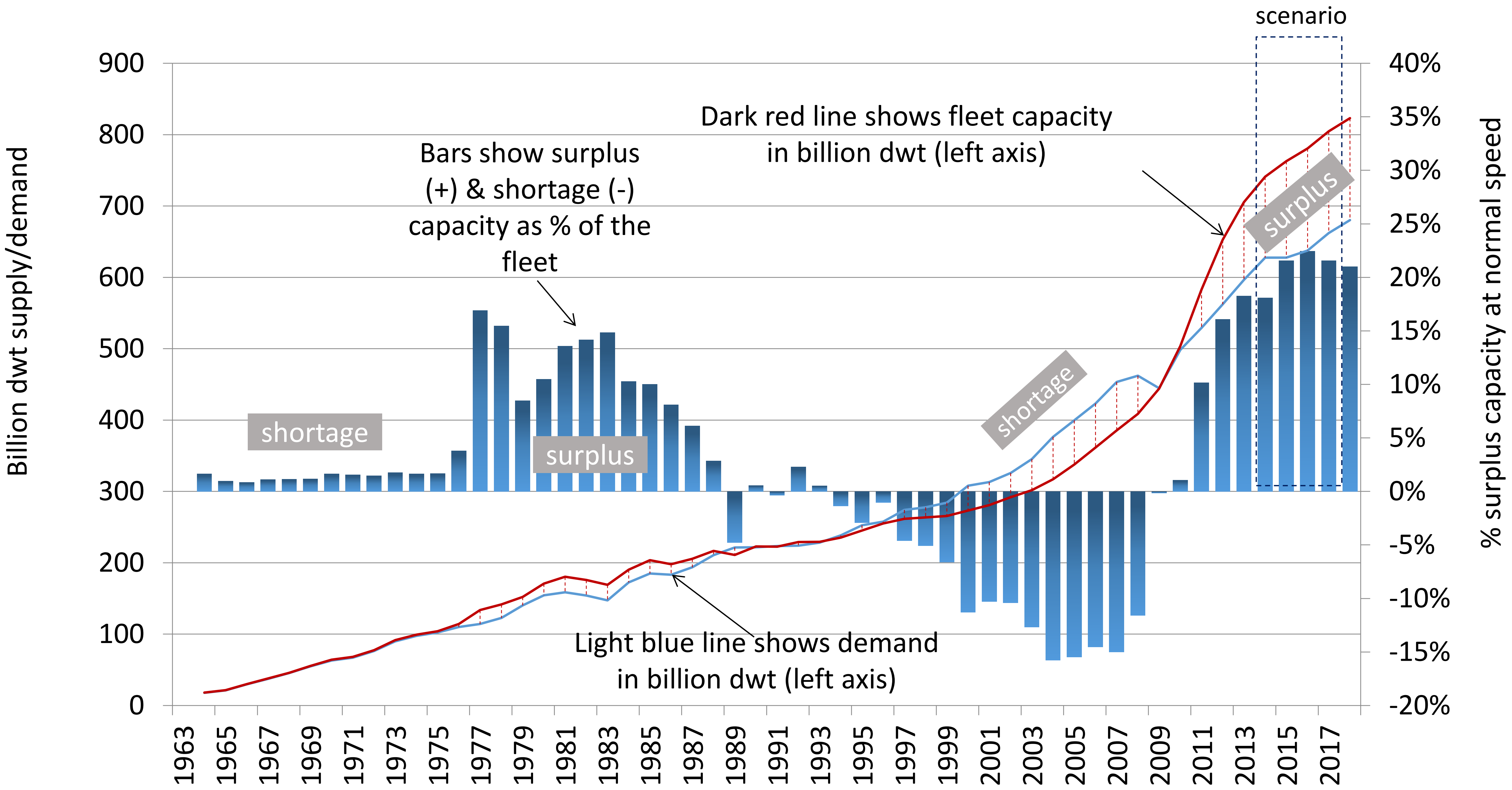


Capital Link Forum

PART 4: MARKET OUTLOOK

Now that we are past the trough of the recession the key issues are the development of the world economic business cycle, China steel, shipbuilding production, scrapping and the dynamics of releasing the surplus capacity. Not easy to weigh up.

S21: Bulk carrier supply demand balance – surplus gradually falling

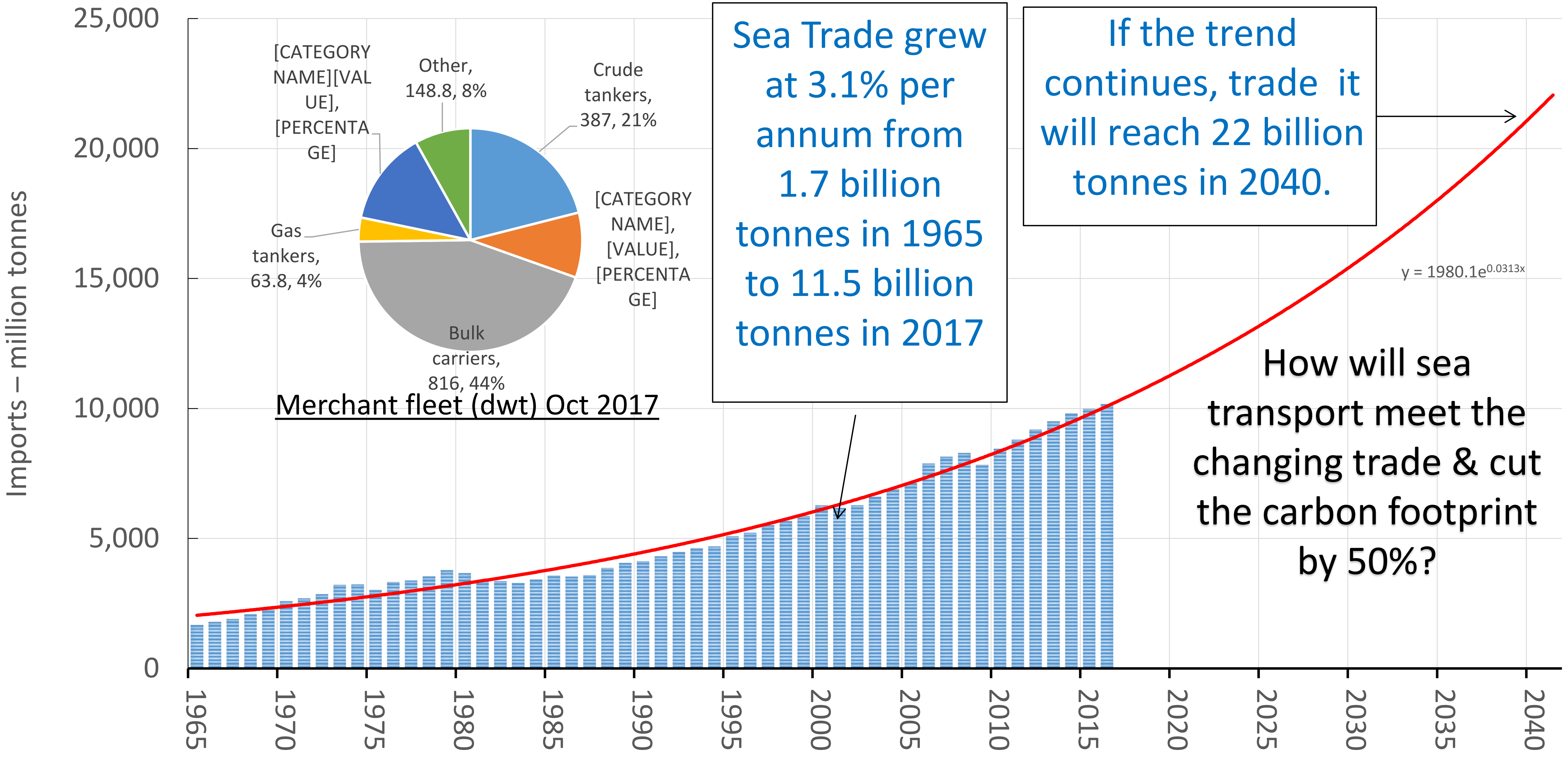


Capital Link Forum April 2018

PART 5: THE ROLE OF ASIA

Exciting possibilities as Asia adapts to its position as top cargo importer

If past trend continues, sea cargo will double by 2040



Source: data collected by martin stopford from various sources, mainly United Nations and UNCTAD

The changing regional trade matrix is creating a new trading matrix

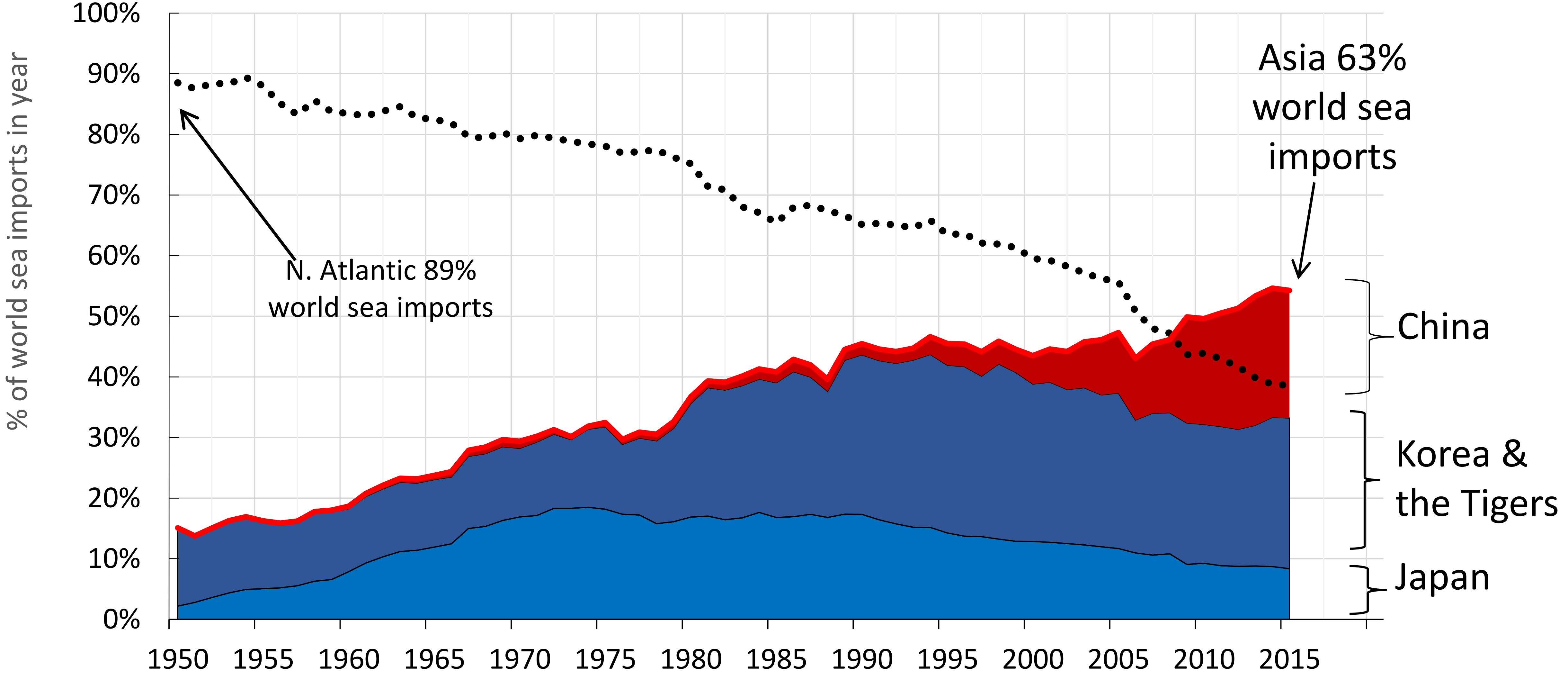
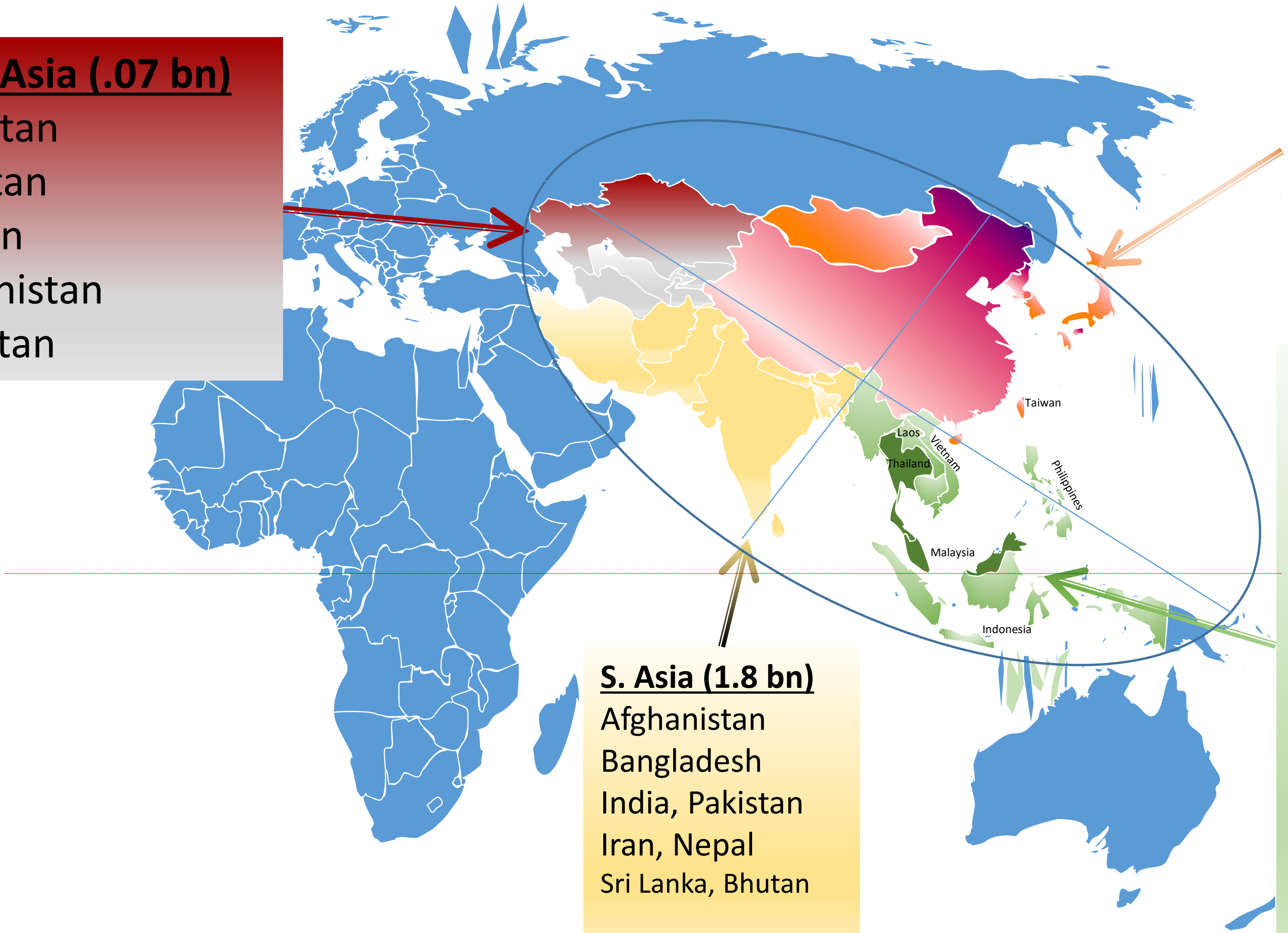


Figure 6: Regional change will be a major feature of the next 60 years

Asia’s Belt and road needs a maritime B2B transport system

<u>Central Asia (.07 bn)</u>
Kazakhstan
Kyrgyzstan
Tajikistan
Turkmenistan
Uzbekistan

<u>E. Asia (1.6 bn)</u>
China
Hong Kong
N Korea
Japan, S. Korea
Mongolia



<u>S. Asia (1.8 bn)</u>
Afghanistan
Bangladesh
India, Pakistan
Iran, Nepal
Sri Lanka, Bhutan

<u>S. E. Asia (.7 bn)</u>
Cambodia
Indonesia
Laos, Brunei
Malaysia
Myanmar
Philippines
Singapore
Thailand
Vietnam

THE END

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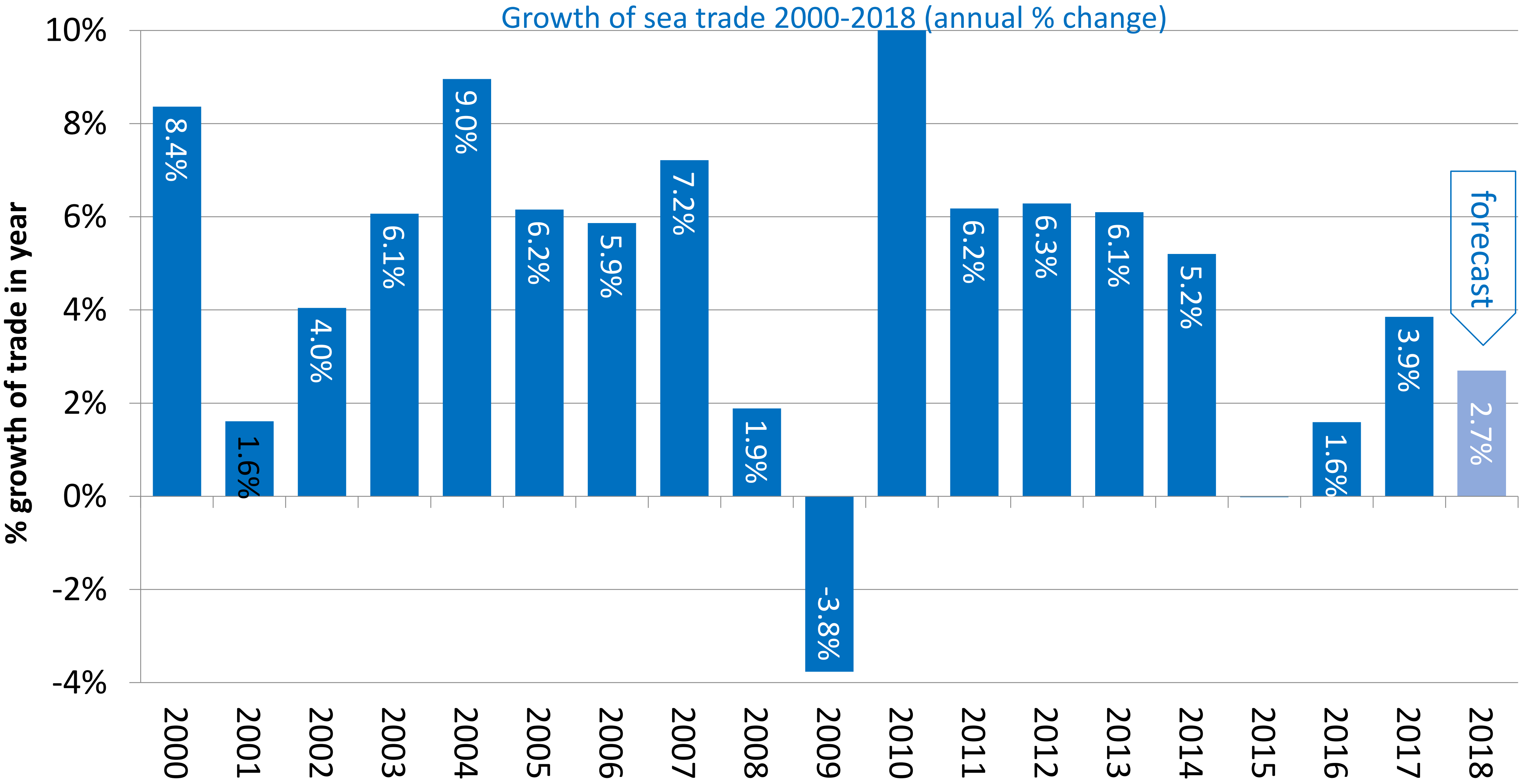
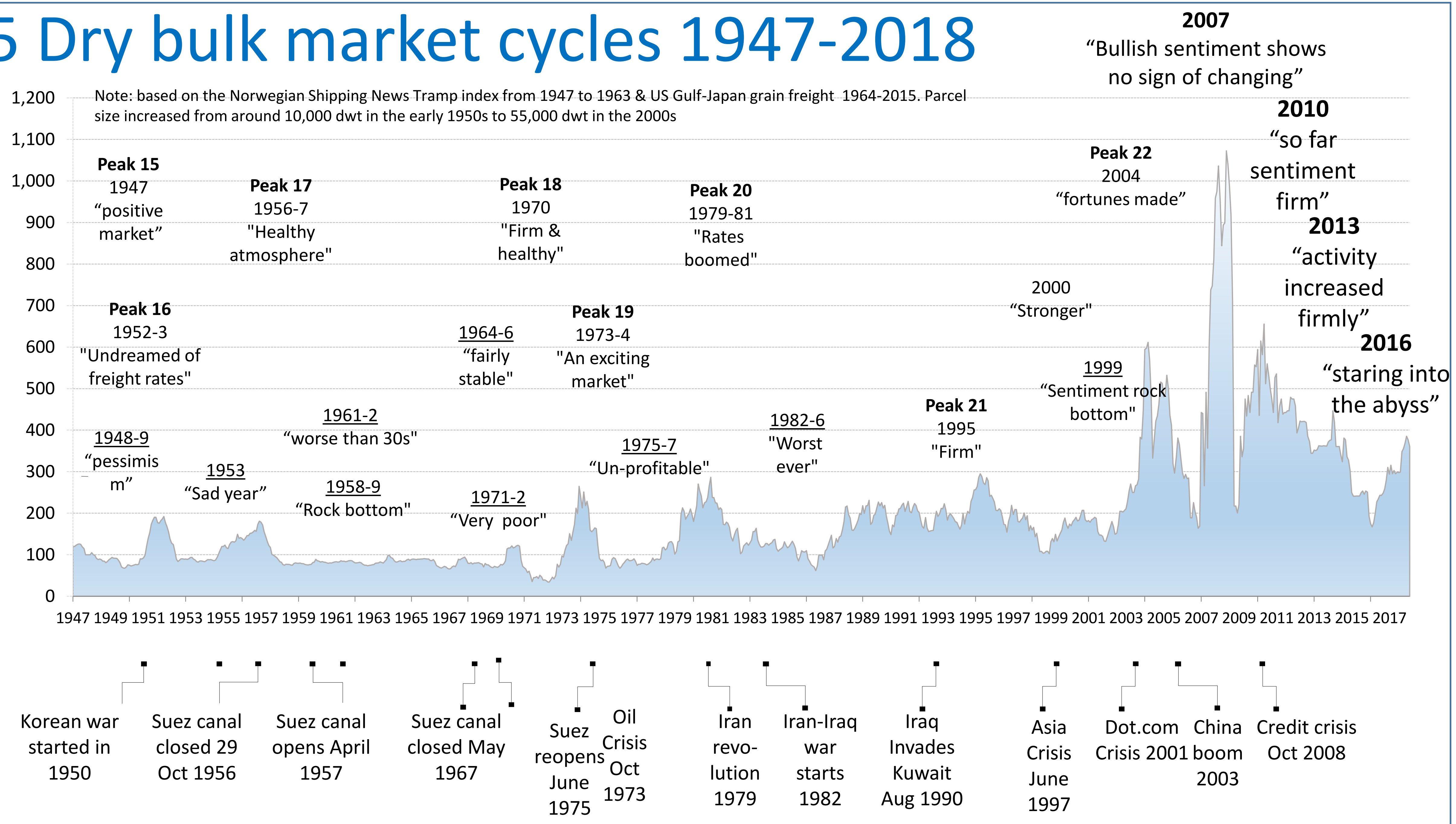
"The statistical, graphical information contained in this paper are drawn from the Clarkson Research Services Limited ("CRSL") database and other sources. CRSL advises that: (i) some information in CRSL's database is derived from estimates or subjective judgments; and (ii) the information in the databases 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

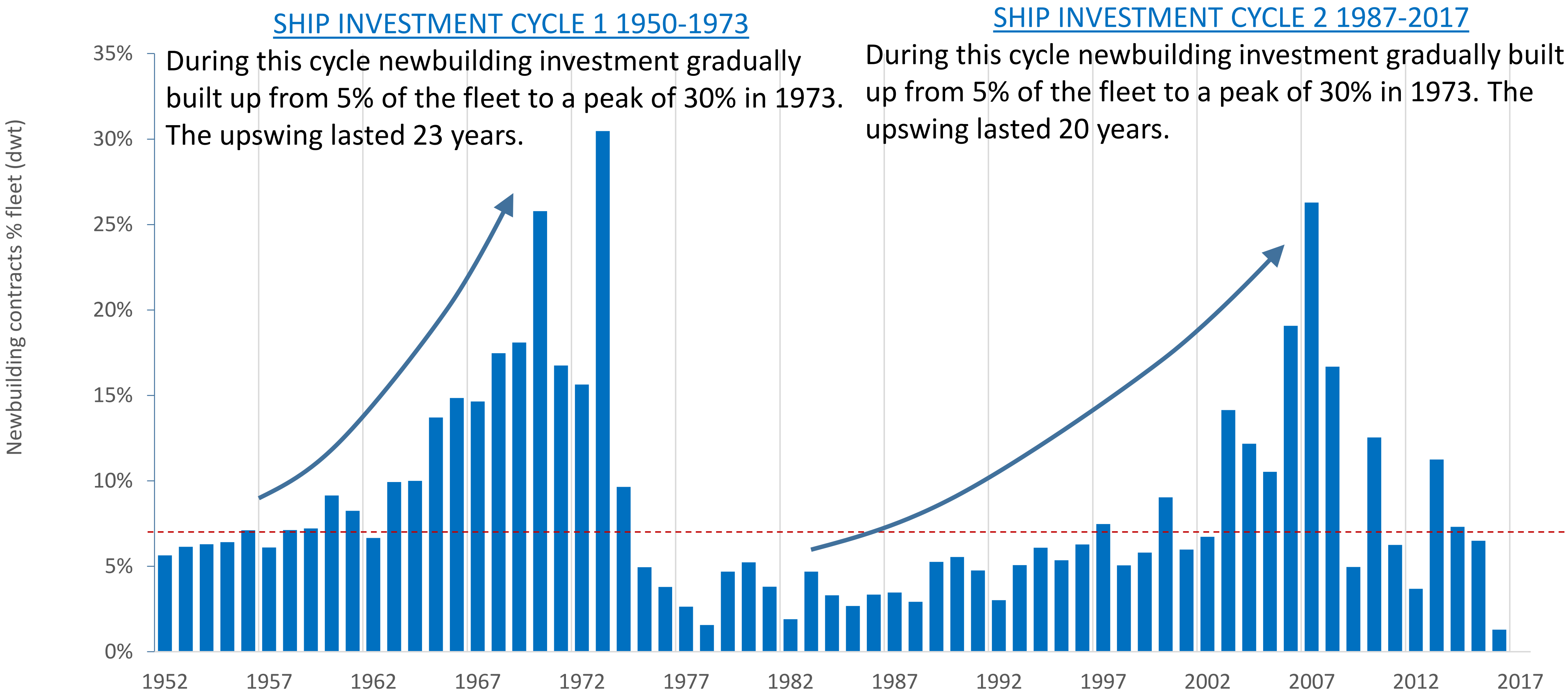
Dry Bulk trade - about 2.7% growth likely in 2018



S5 Dry bulk market cycles 1947-2018



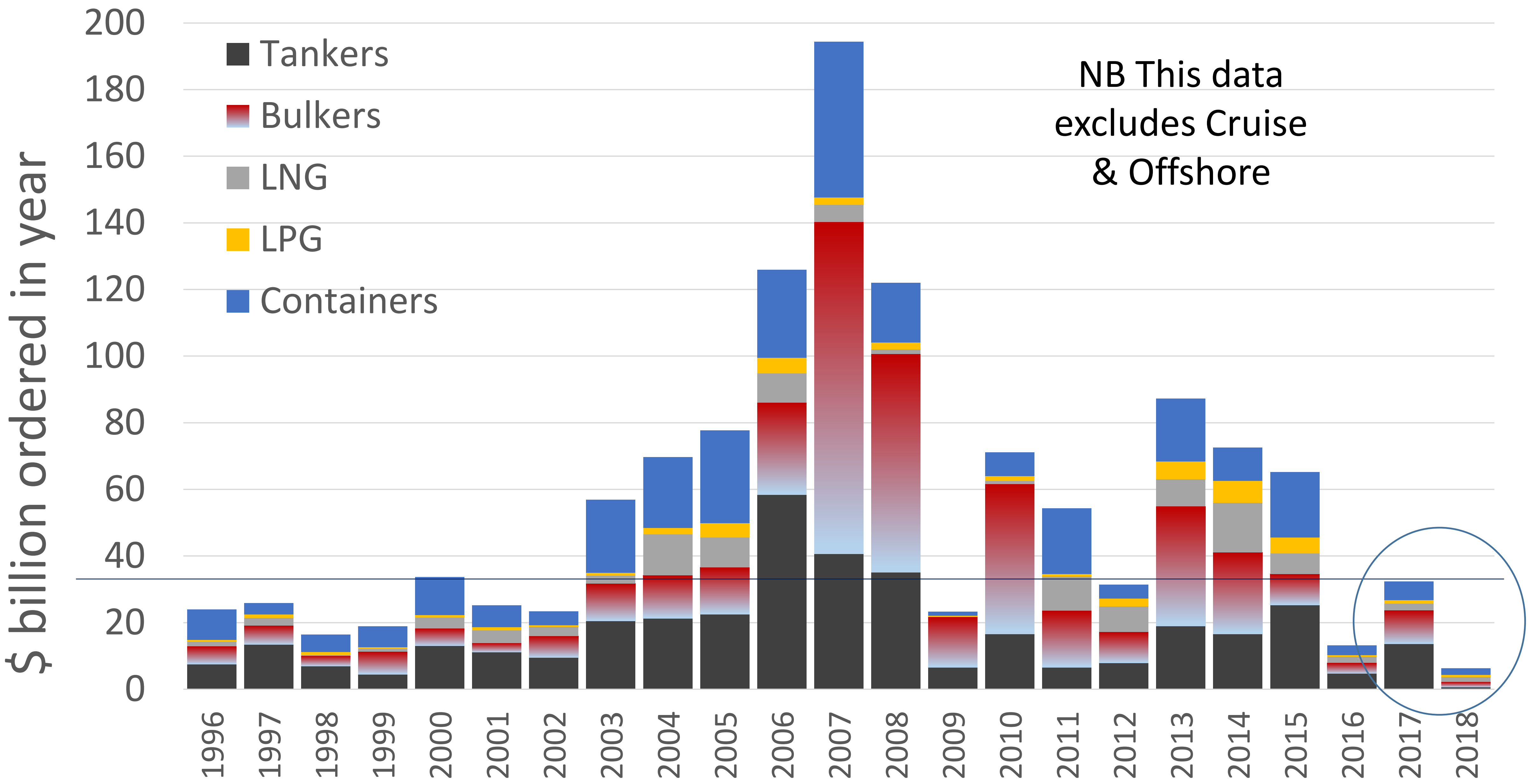
2004-8 Investment super boom still in play



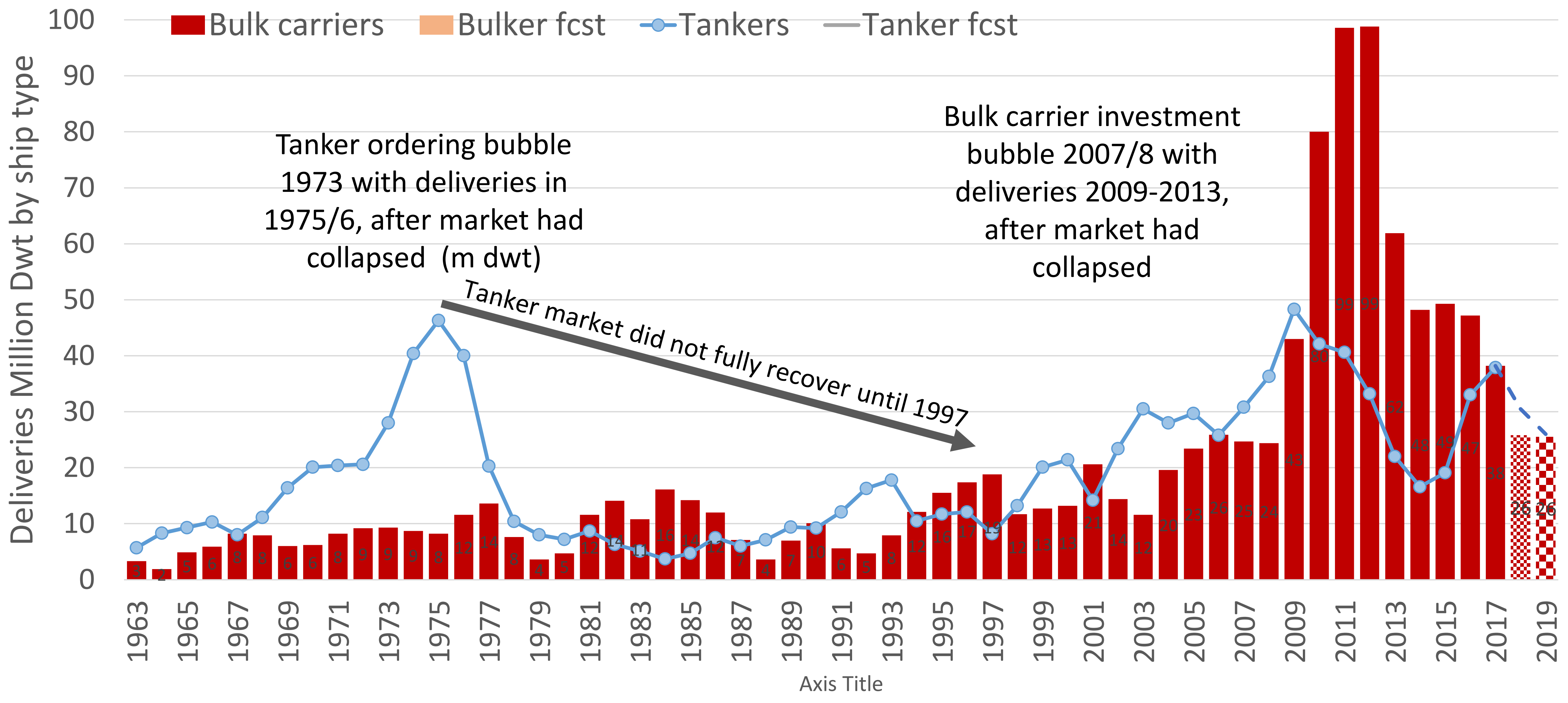
Source: data compiled by Martin Stopford from several sources

Figure 5: The last sixty years was dominated by two super-cycles

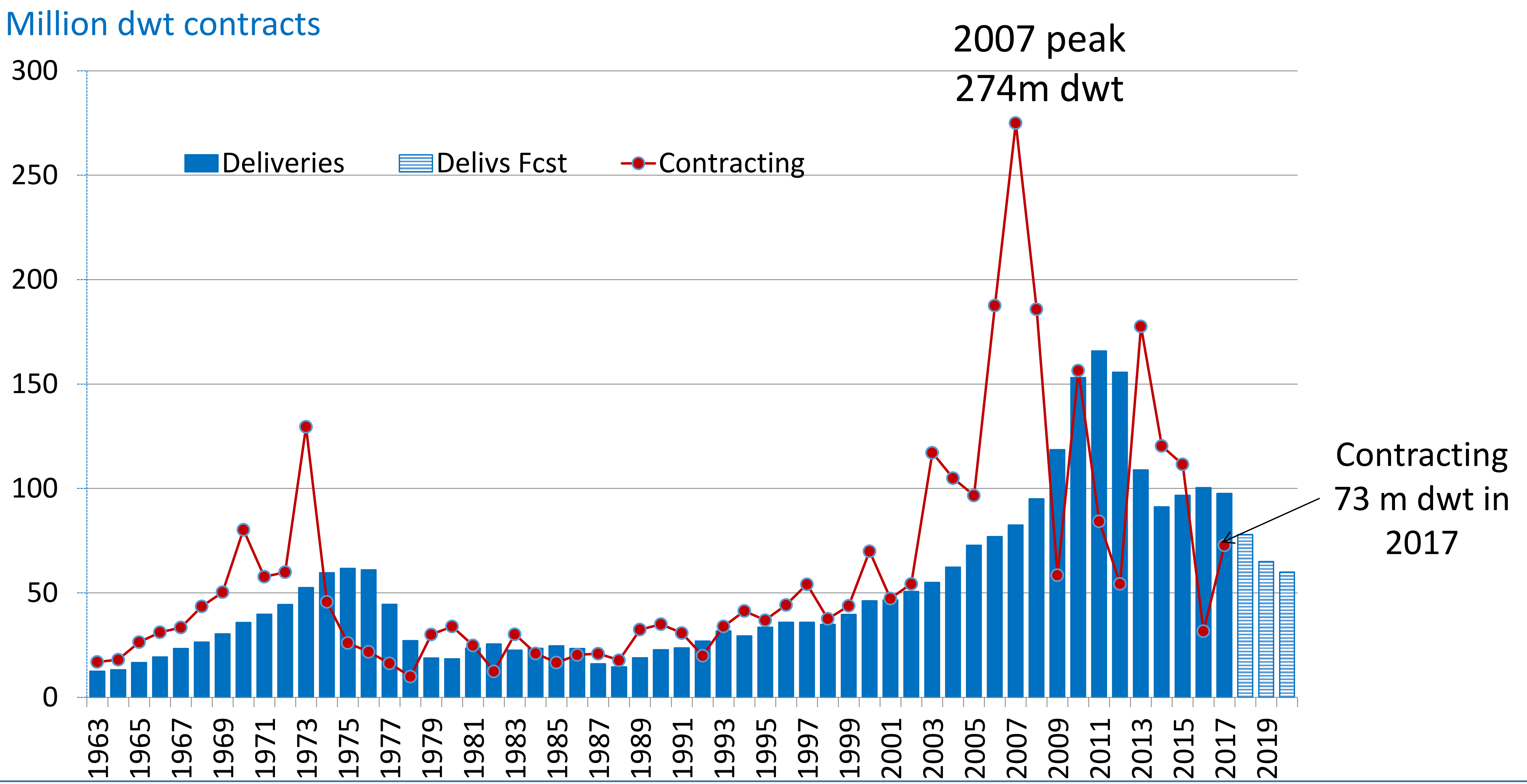
Investment in new ships – doubled in 2017 (from low base)



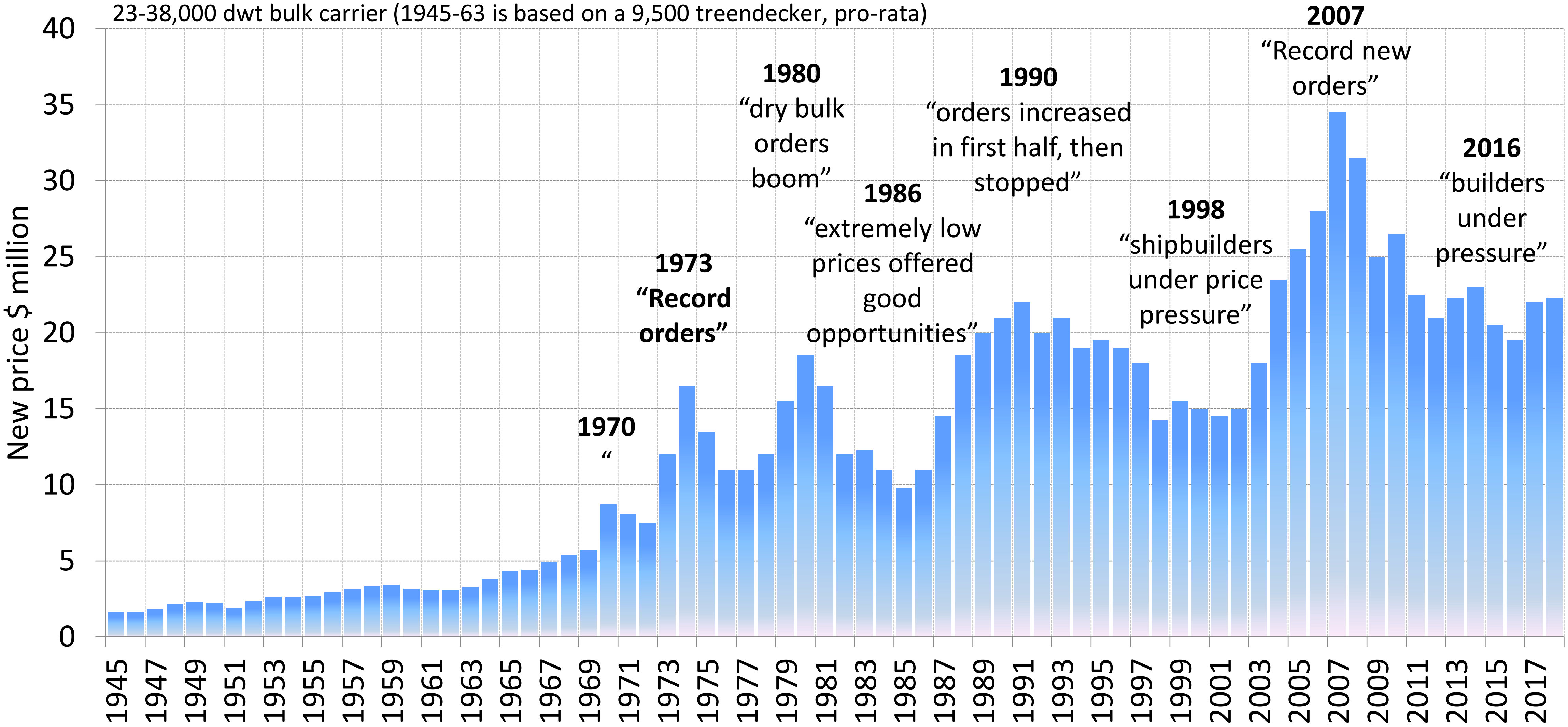
The 1970s bubble was about tankers; the 2000s bubble is about bulkers



S14: Shipbuilding contracts & deliveries 1963-2017 & forecast

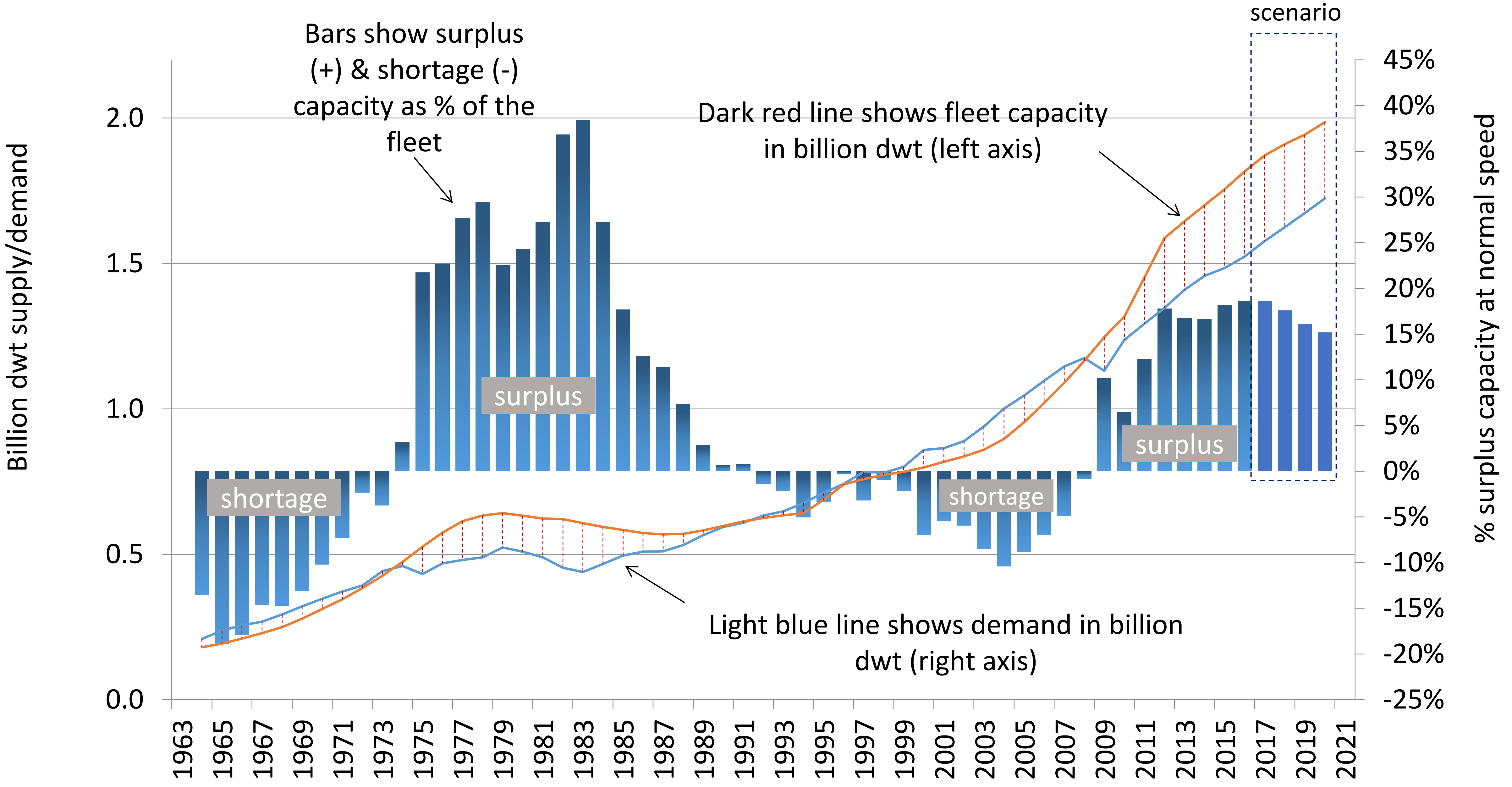


S6 Shipbuilding dry cargo price cycles 1945-2018



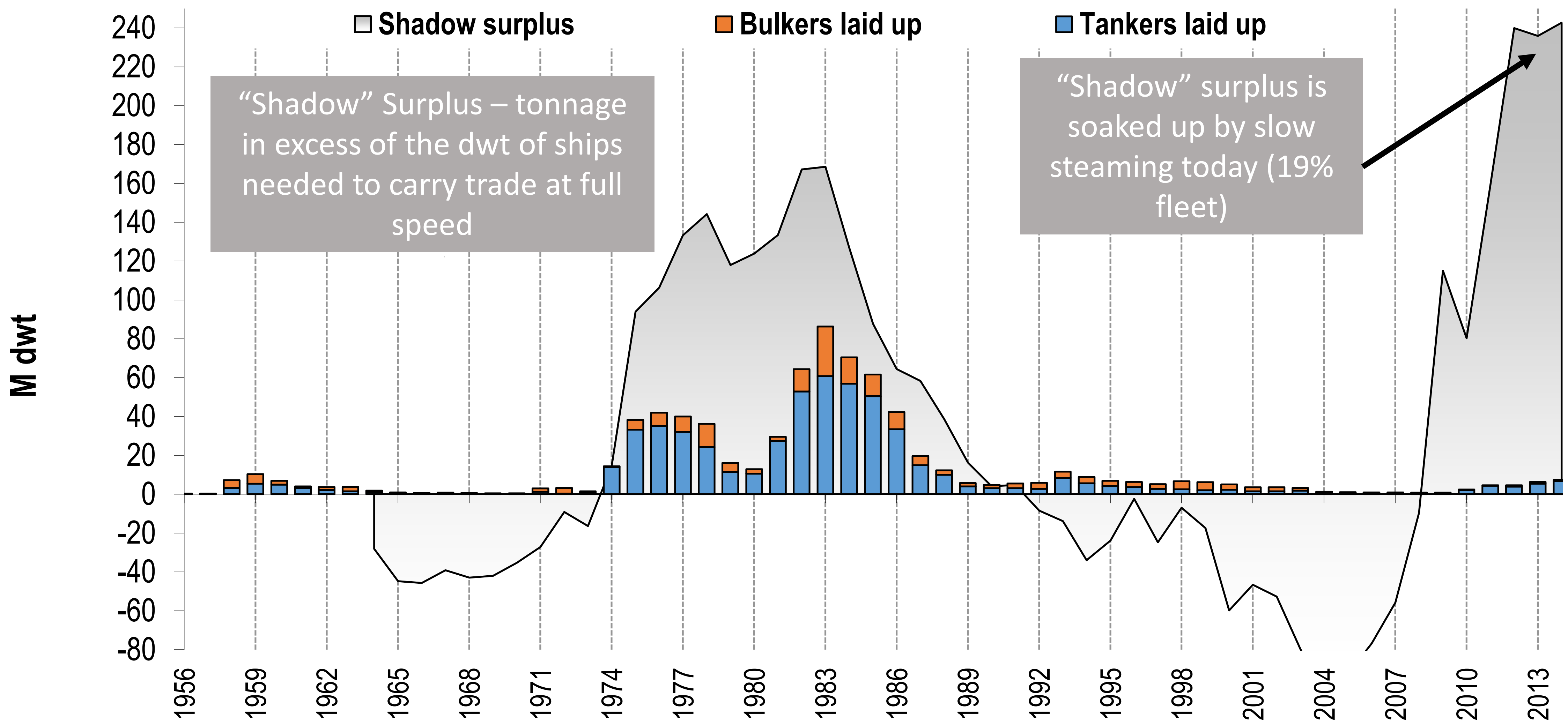
Source: Compiled from several sources including Fearnleys, CRSL , RS Platou Price 1945-1963 based on 9,500 dwt ‘tweendecker

S21: World fleet supply demand balance – surplus gradually falling

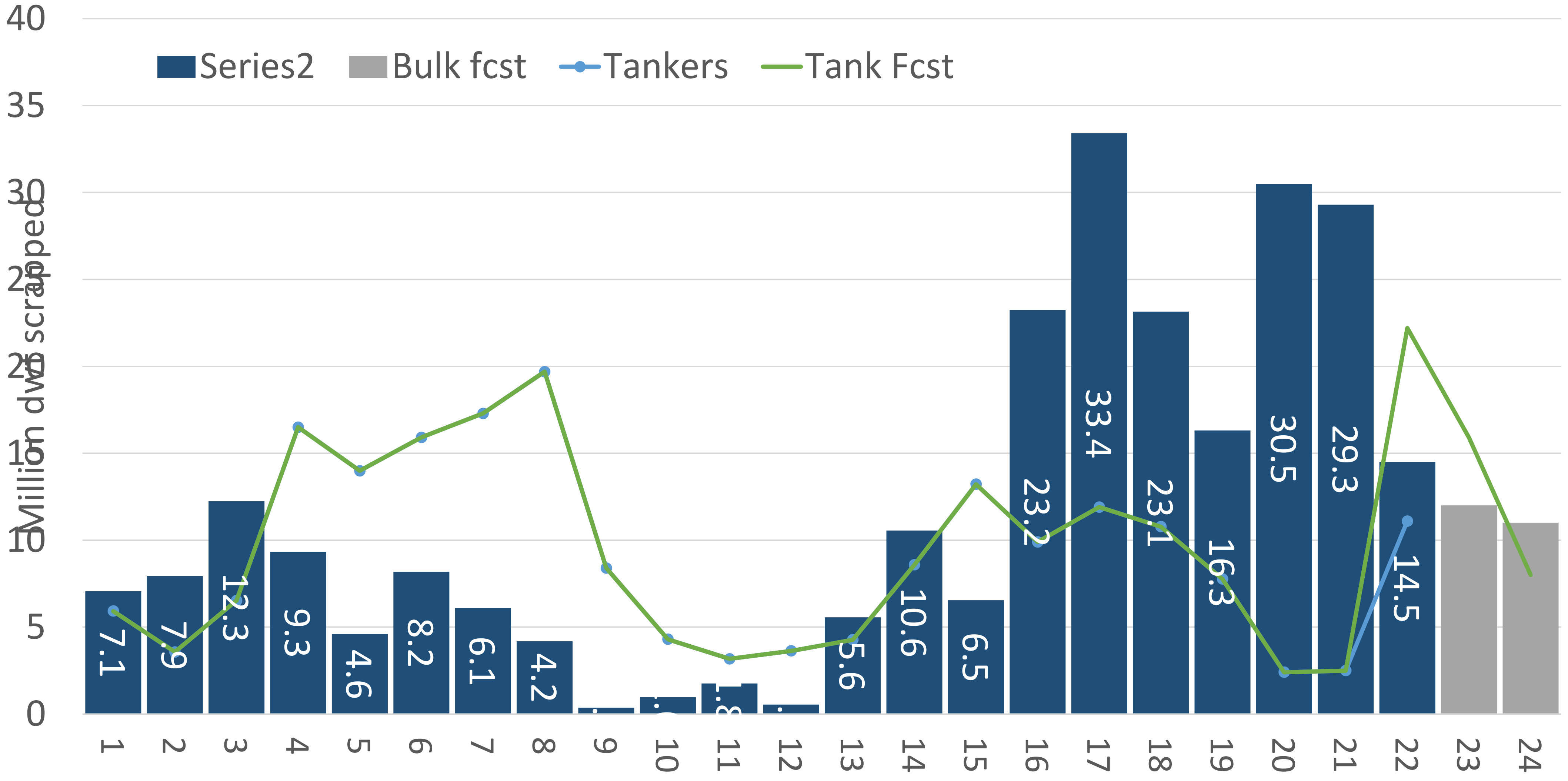


S20: "Shadow" Surplus & Laid Up Tonnage

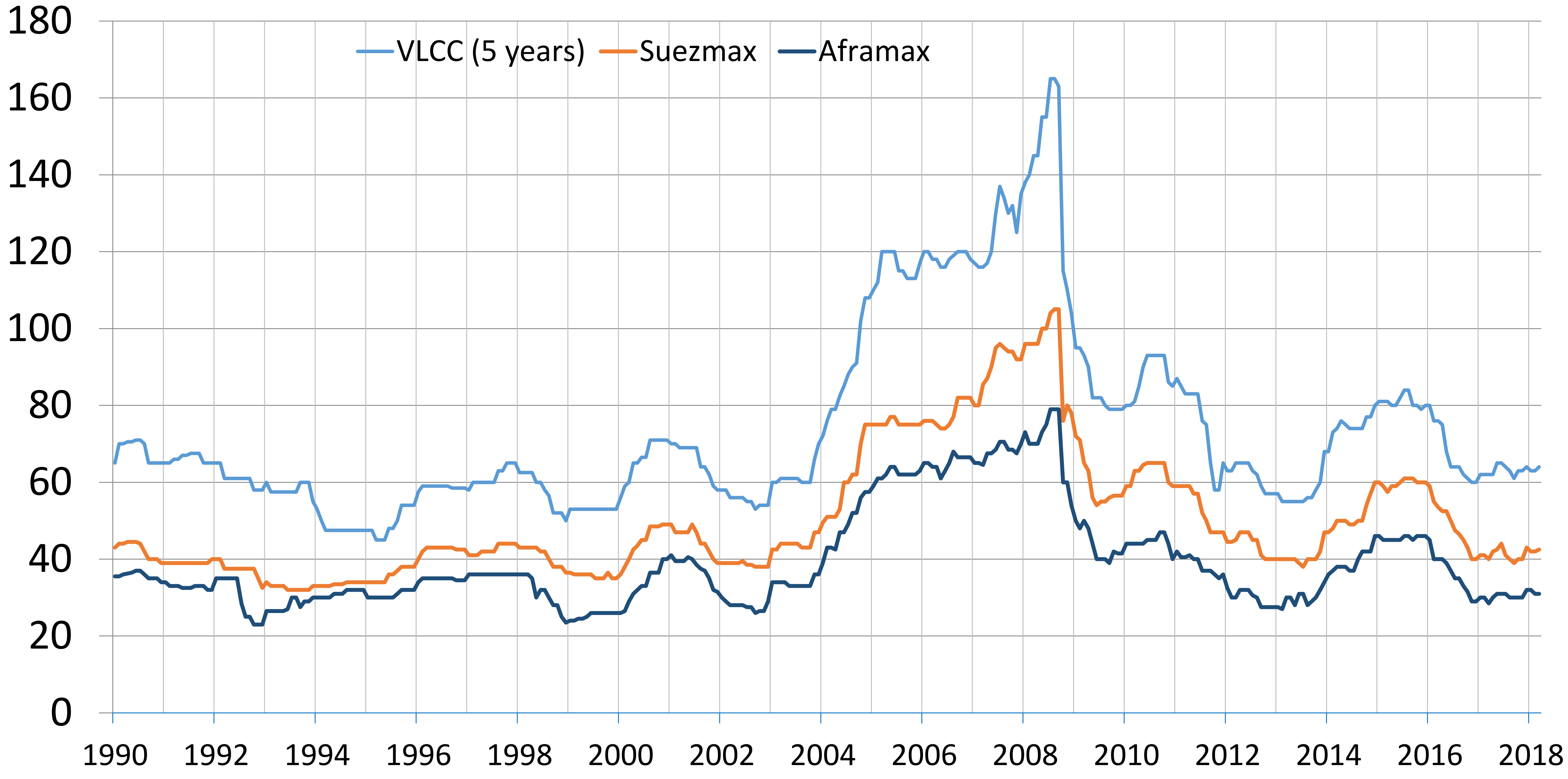
Shows "Shadow" surplus tonnage and the proportion laid up



Tanker & bulk carrier Demolition



Second hand tanker prices – replacement cost (74% new)



Second hand bulker prices – just below replacement cost