Where do we go from here?

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Shipping Markets – Current trends & outlook
Heaven or hell?

IMO 2020 AT A GLANCE
A NEW REGULATION ENFORCING A 0.5% GLOBAL SULFUR CONTENT CAP FOR MARINE FUELS, DOWN FROM THE CURRENT 3.5% LIMIT

WHAT THE REGULATION MEANS
- Increase in freight transportation costs
- Uncertainty over monitoring, compliance and enforcement standards
- Lower environmental impact

WHAT SHIPPERS CAN CHOOSE TO DO
- Switch to IMO-compliant fuels with lower sulfur content
- Install scrubbers on ships to reduce sulfur oxide emissions
- Use LNG or other alternative fuels

The fundamental balance will continue to set the course for shipping markets.

GOOD NEWS *(the light in the dark)*: 2019 is 2\textsuperscript{nd} lowest on NB orders since 2010

But demolition is the lowest since 2008...
Synchronized slowdown of the global economies

Manufacturing PMI
2018 – 2019

Source: BIMCO, IHS Markit, NBS China

Contribution to global imports and industrial production
Three-month moving averages

Source: BIMCO, IMF
Barriers to trade are BAD for shipping
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So much “last year”
Barriers to trade are BAD for shipping

Only gone from bad to worse

So much “last year”
Only EM are set to grow faster in 2020

**Growth in goods trade volumes**

*goods only, 2015 - 2019*

**IMF Real GDP Growth Forecast**

*2015 - 2024*

*Growth rates for 2019 and 2020 are projections*
Refinery maintenance and IMO 2020

US crude oil exports in volumes
2017 - 2019

Crude oil tanker earnings
2015 - 2019

Source: BIMCO, US Census Bureau

Note: On 18 December 2015 the US Congress lifted the 41 year old ban on crude oil exports
Believe no one, and keep asking questions

World liquid fuels production and consumption balance
million barrels per day

Source: Short-Term Energy Outlook, October 2019
Notoriously good at “getting ready”
It’s the steel production, stupid

Chinese imports and steel production
Accumulated year-on-year growth

- Steel production growth
- Total coal import growth
- Total iron ore import growth

Source: BIMCO, Worldsteel, GACC
Capesize comeback

Brazilian iron ore exports
2017 - 2019

Capesize profit and loss
2018-2019

Source: BIMCO, ComexStat
Source: BIMCO, Clarksons
Capesize fleet vs Agriculture exports

Dry bulk ship fleet growth
2015A-2021E

Million DWT

-40 -30 -20 -10 0 10 20 30 40 50


Growth p.a.

-4% -3% -2% -1% 0% 1% 2% 3% 4% 5%

To be delivered p.a. Demolition Growth rate (RH axis)

Corn exports from US, Brazil and Argentina
Total yearly difference, 2018-2019

Source: BIMCO, US Census, Conexa Not, Comex Index
Global and local = low demand growth

Global container shipping demand 2017 - 2019

Source: BIMCO, CTS

US containerised imports 2017 - 2019

Source: BIMCO, US Census Bureau

Note: frontloading was clearly visible in January
Has Santa moved to Cambodia?

US seaborne imports of Christmas tree lights

- World Total
- China
- Cambodia
- Rest of Asia

Source: BIMCO, US Census Bureau

127 million lighting set
IMO 2020 – a risk to manage

Hong Kong bunker fuel prices
2018-2019

IMO2020 Sulphur Cap scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Convergence</th>
<th>Status quo</th>
<th>Disruption</th>
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<tbody>
<tr>
<td>Spread (HSFO - MGO)</td>
<td>Minor widening of spread with fuel oil prices remaining steady. Smooth transition.</td>
<td>HSFO price declines significantly and MGO price increases initially but tapers off as production starts to match demand. Bumpy transition.</td>
<td>Massive dive in HSFO price and MGO price is hiked up due to non-availability. Spread widens to a level above HSFO price. Rough transition.</td>
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<tr>
<td>Availability</td>
<td>Widely available and able to match demand.</td>
<td>Outages in minor ports and significant premiums required by bunker suppliers.</td>
<td>Massive non-availability and disruptions of compliant fuels. Heavy price premiums. Frequent cases of FONAR.</td>
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<tr>
<td>Opportunities and challenges</td>
<td>The commercial markets all benefit from the soft transition. Owners opting for compliant fuels might be in a better position due to a lower spread.</td>
<td>Scrubber-fitted ships have an advantage. Owners must manage and bunker their ships in ports with high availability.</td>
<td>Scrubber-fitted ships will have a massive advantage. Owners operating on compliant fuels will incur significant losses due to higher fuel costs.</td>
</tr>
<tr>
<td>Market implications</td>
<td>The industry is adequately prepared and can easily cushion against the minor impact. Potential losses are of minor significance. Short-term disruption.</td>
<td>Pressured operating margins for companies operating on compliant fuel. Medium-term disruption of ordinary market conditions.</td>
<td>Potential bankruptcies or consolidation of companies in distress. Long-term disruption of ordinary market conditions, where cost-cutting will remain key.</td>
</tr>
</tbody>
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Source: BIMCO, Marine Bunker Exchange (MABUX)
Basic supply-demand is still KING

The fundamental balance will continue to set the course for shipping markets, this is what to watch out for and what shipowners can influence through their ordering.
Thank you!

Contact BIMCO at
www.bimco.org

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