

# **19<sup>th</sup> Industrial Minerals International Congress & Exhibition**

## **The Drybulk Freight Market: Trends and outlook**

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# Factors that influence freight rates

- Freight rates are determined through the interaction of supply and demand for shipping services at any point in time.

## Demand

The demand for shipping services is a derived demand, which depend.

- The world economic activity
  - Political events
  - Seaborne trade
    - Tonne-miles
  - Transportation costs

## Supply

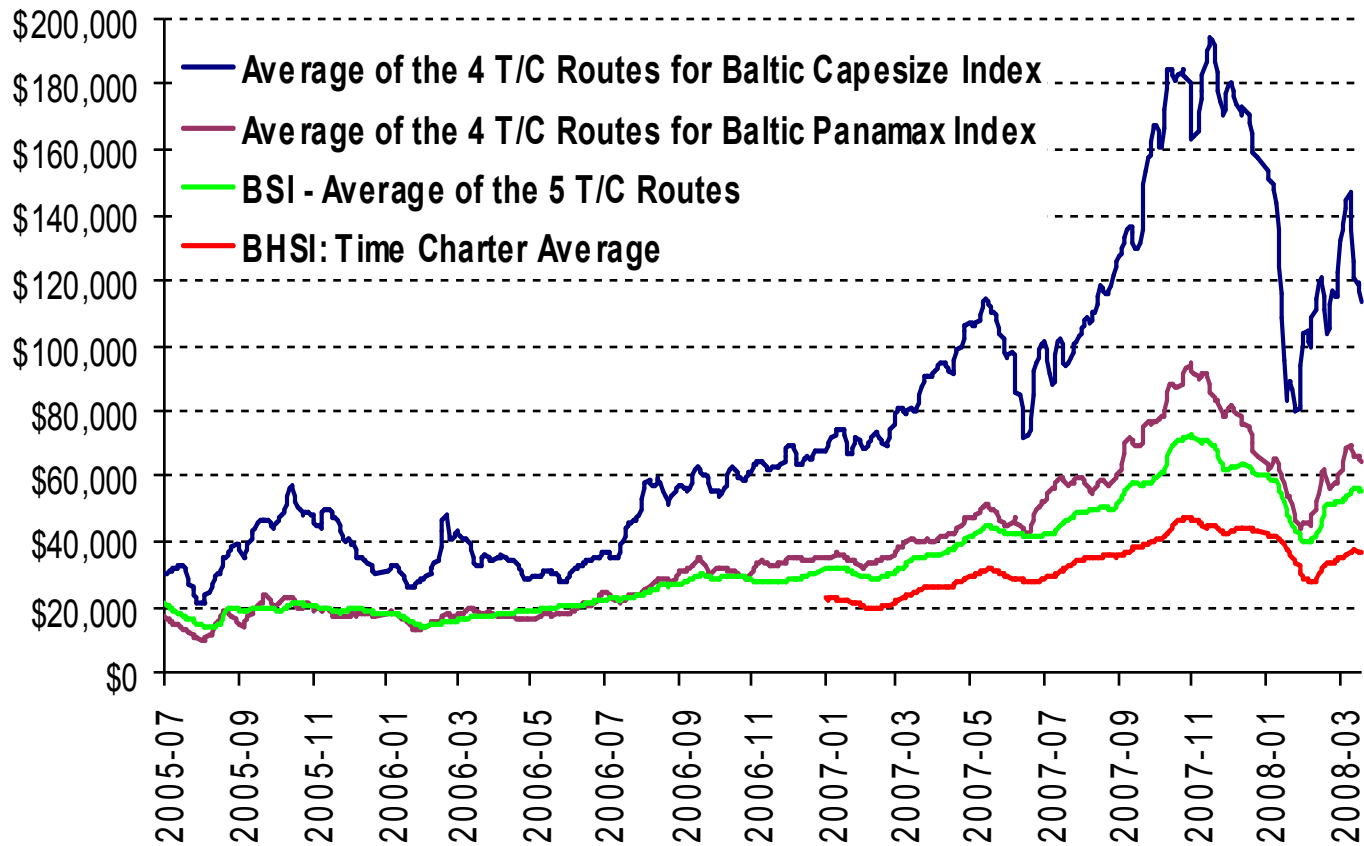
The supply of shipping services is dwt provided by shipowners.

- Existing fleet trading
  - Fleet on order
- Scrapping and losses
  - Fleet utilisation



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Cape market historically sets the trend and it is expected to continue with its role as leading indicator

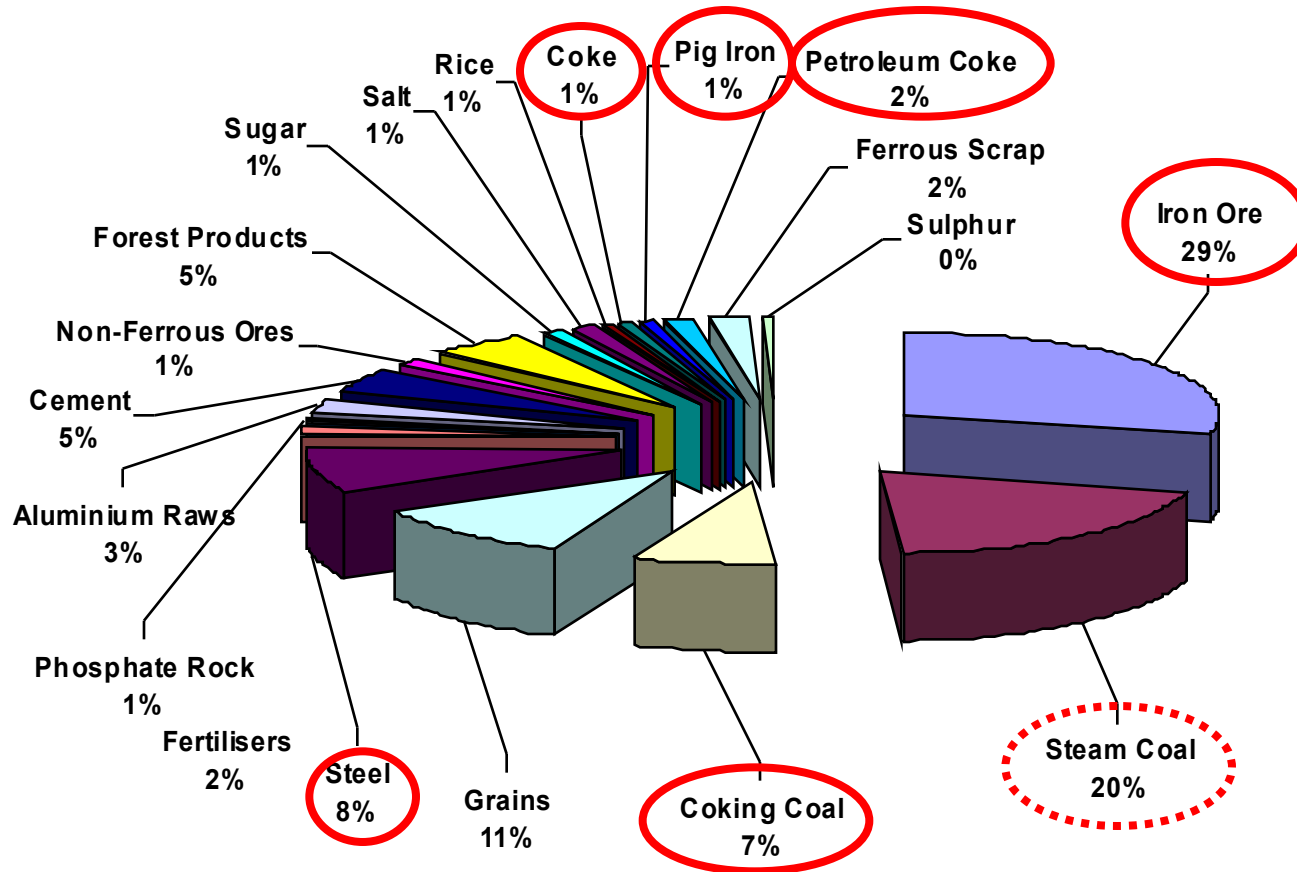


The spread between the Cape freight market and the smaller ship freight markets is a function of the moving balance between demand and supply.



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Drybulk seaborne trade is mostly about steel. The raw materials in steel making are the key determinants of the drybulk freight market.

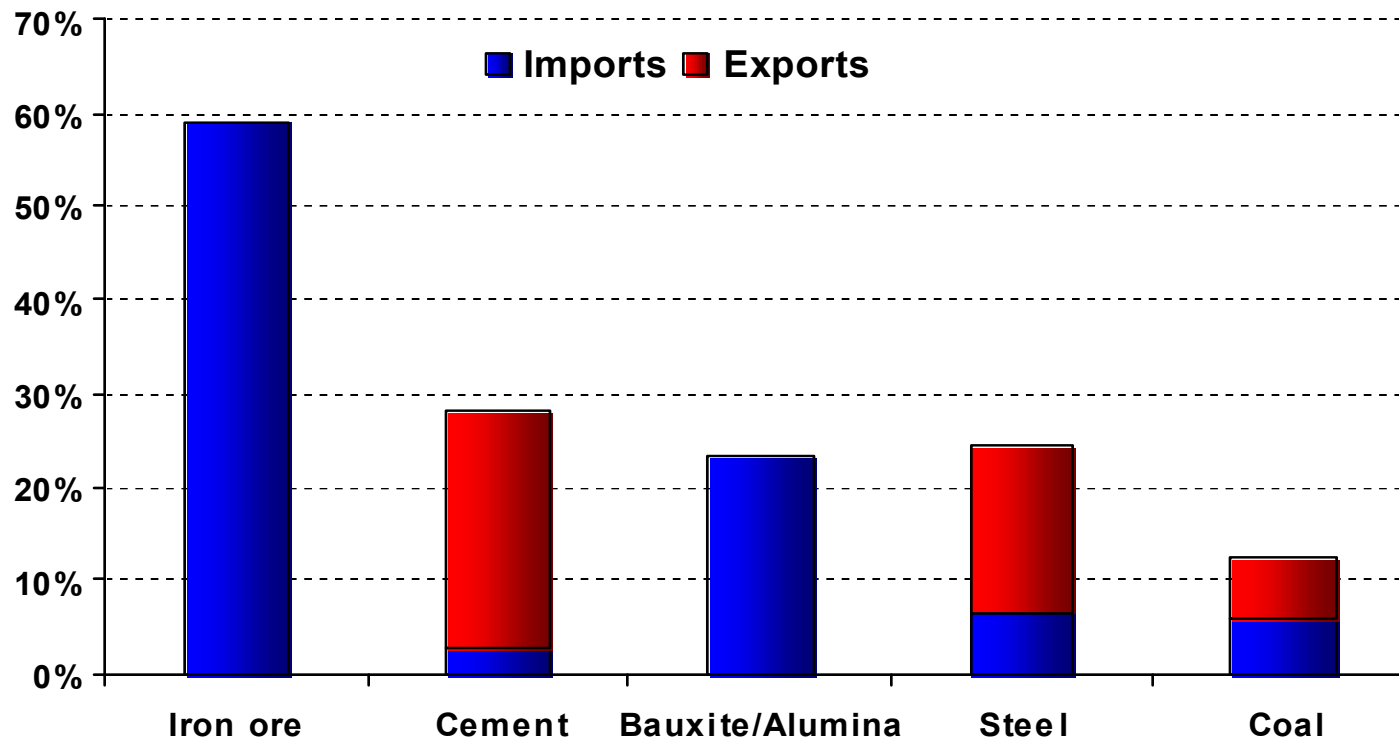


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Smaller commodities alone will not change the freight market trend

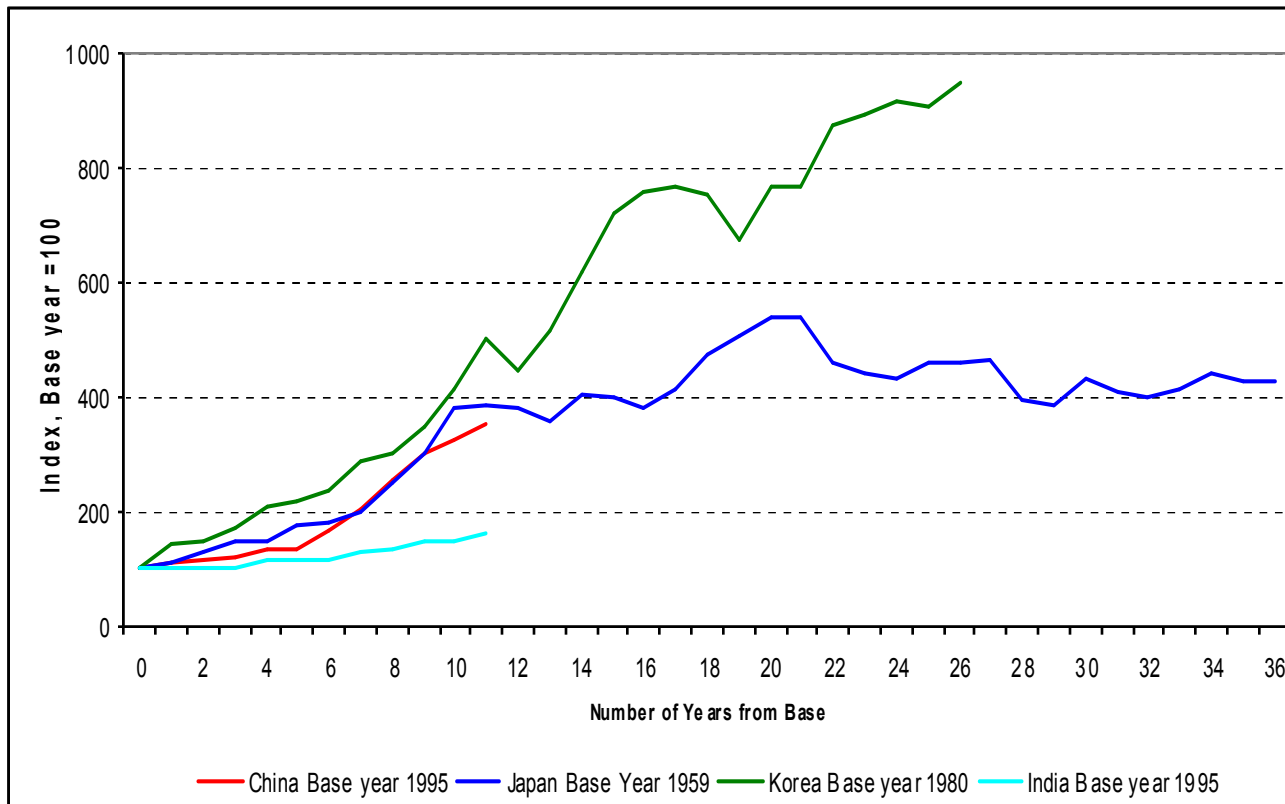
# China's industrial development has been the key driver behind the commodity boom

China's share of world seaborne trade



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# Strong Chinese demand for resources likely to continue

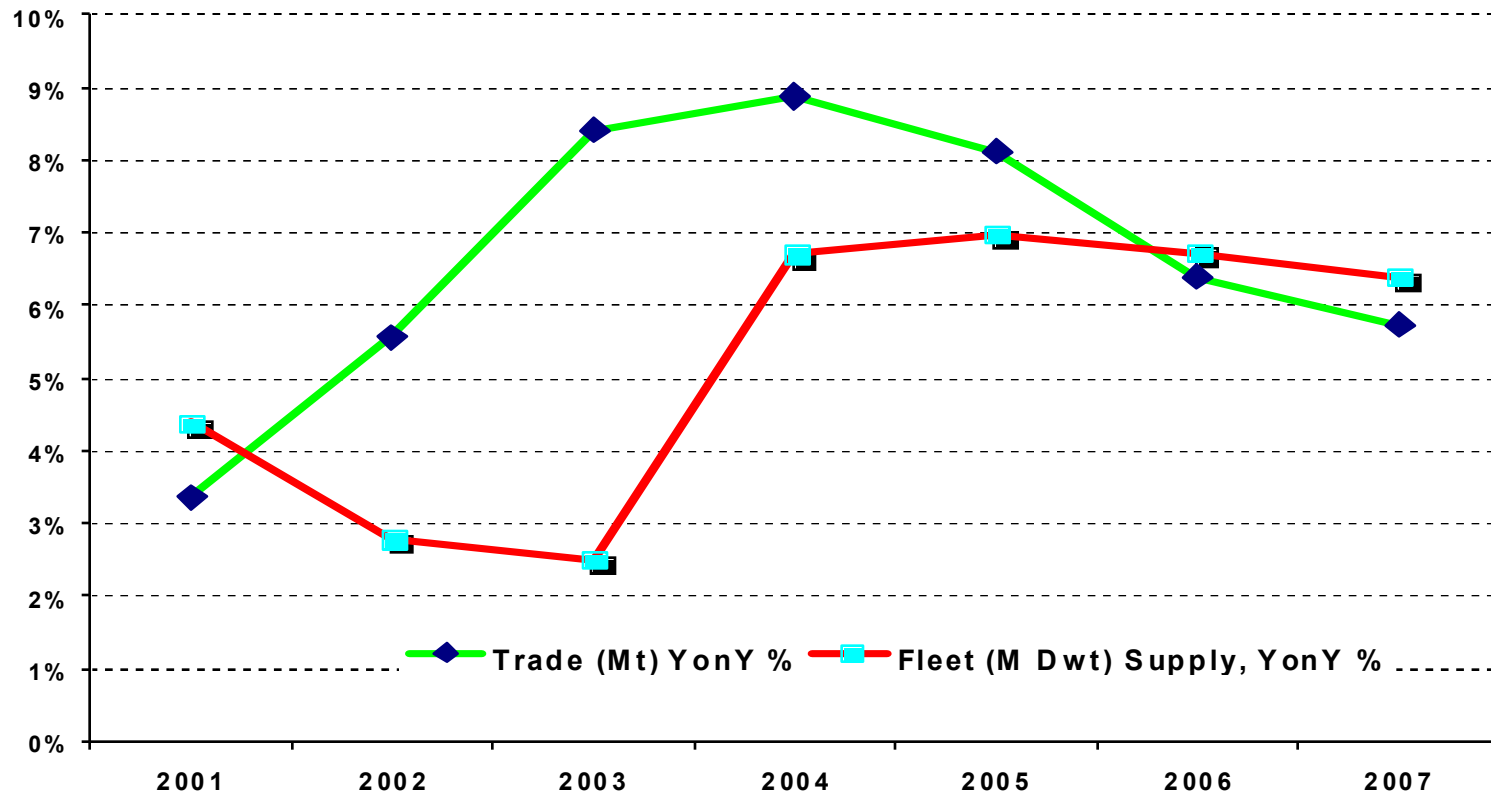


- Steel consumption to grow by 4%\* during 2008.  
*\* IISI forecast*
- China likely to follow the road of Japan or Korea. Consequently still many years of high growth.
- India a lot of potential



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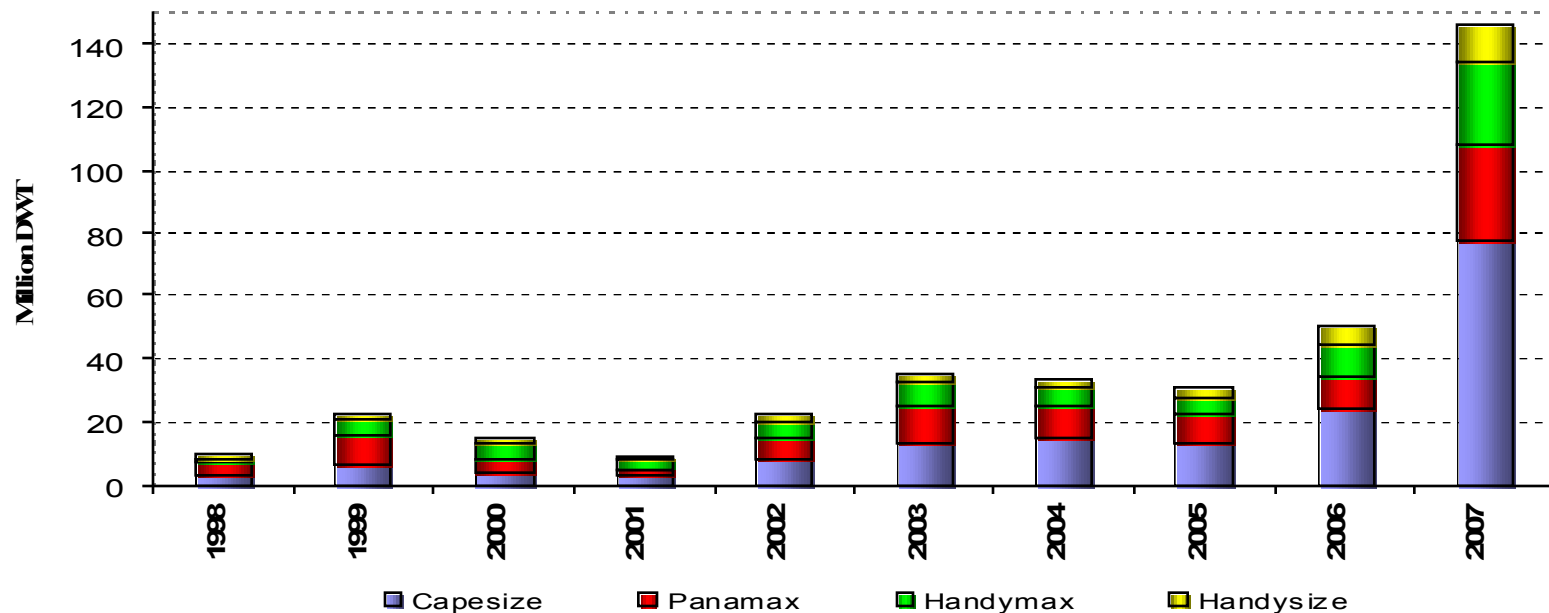
# Growth in world seaborne trade outpaced growth in fleet supply thus far



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# Contracting of new ships reached a record high in 2007

**Bulker Contracting**



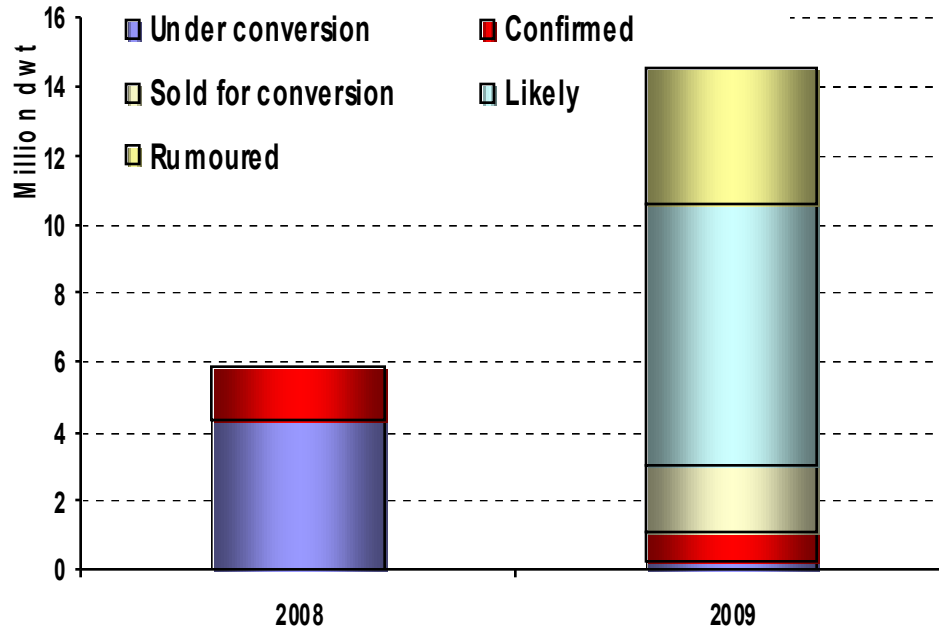
Shipyards were focussed on higher earning tanker and container ships until 2005, but as a result of market changes re-directed its output to the best performing bulker market.



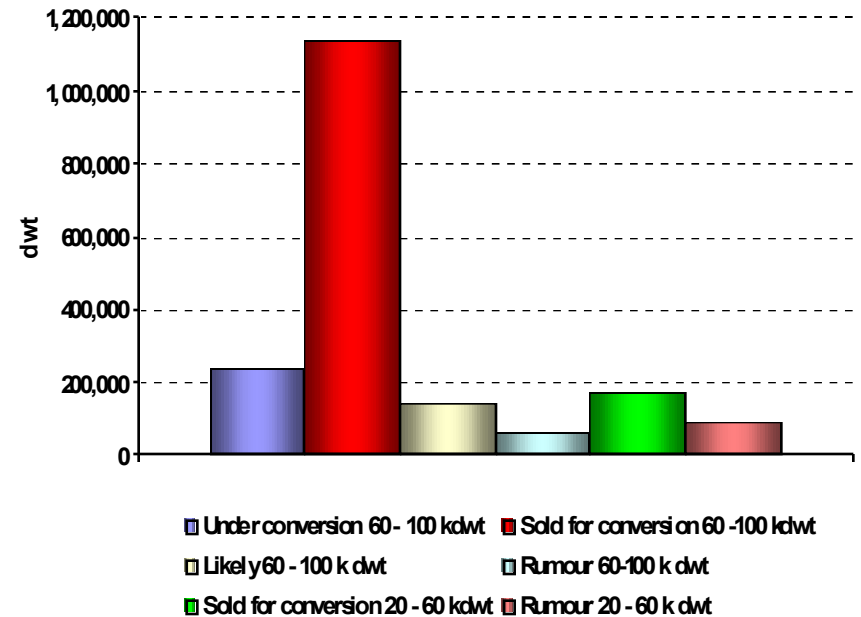
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# Conversions will add substantially to the drybulk fleet

Conversions to Capesize

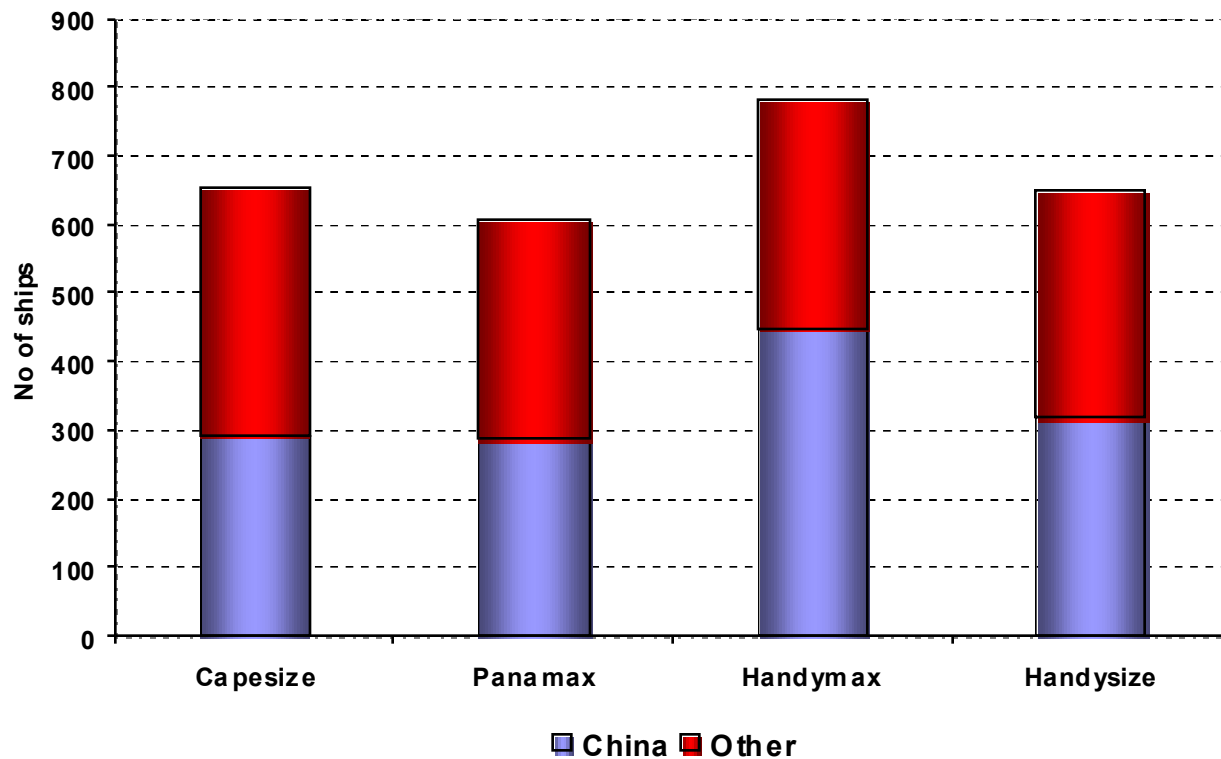


Conversion for Handy and Panamax markets



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# Slippage at yards becomes a concern



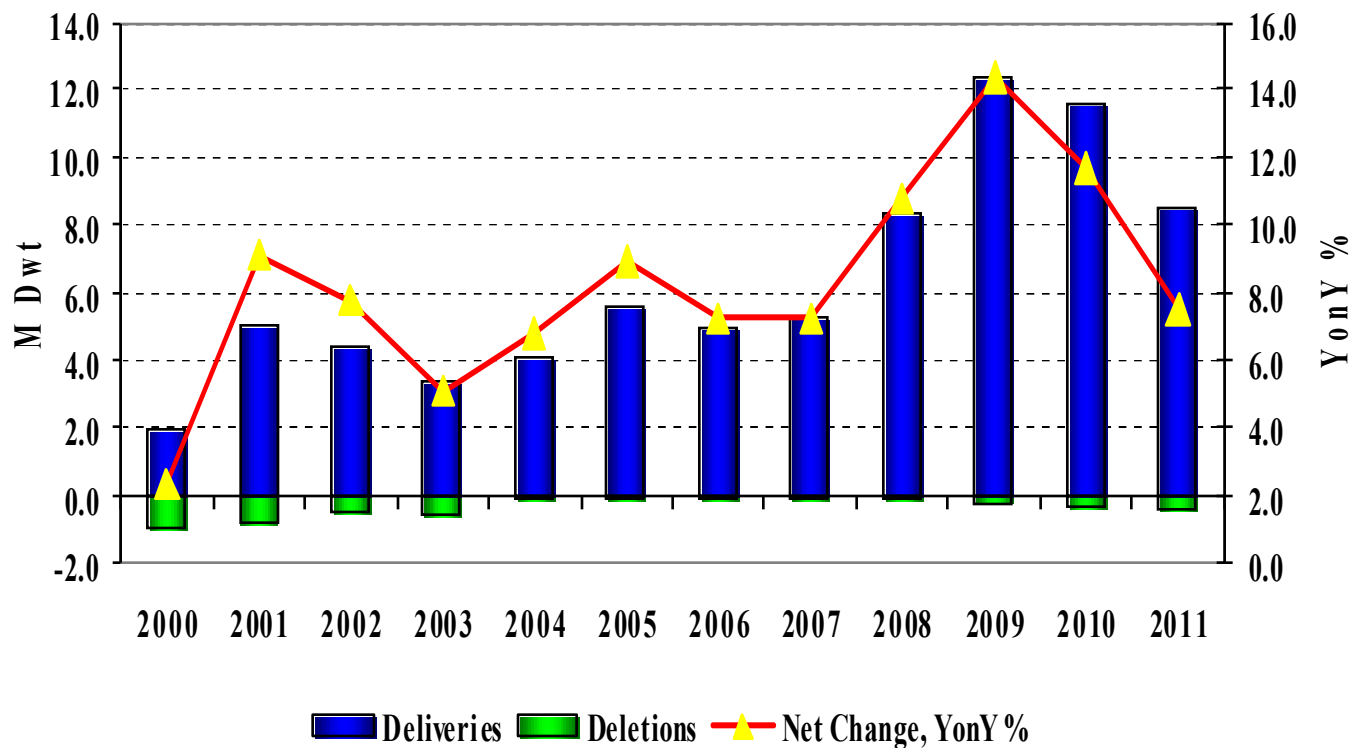
- More than 50% of new orders at Chinese yards.
  - Approximately 45% of those have not yet build drybulk ships before, some yards are not even completed.
  - Main engine and other equipment shortage.
  - Skilled labour also a concern.
- Credit crunch leads to difficult for some in obtaining financial support.



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# Handymax fleet: Adjusted for conversions, potential scrapping and slippage

Handymax: Deliveries, Deletions and Net Fleet Expansion (M Dwt)



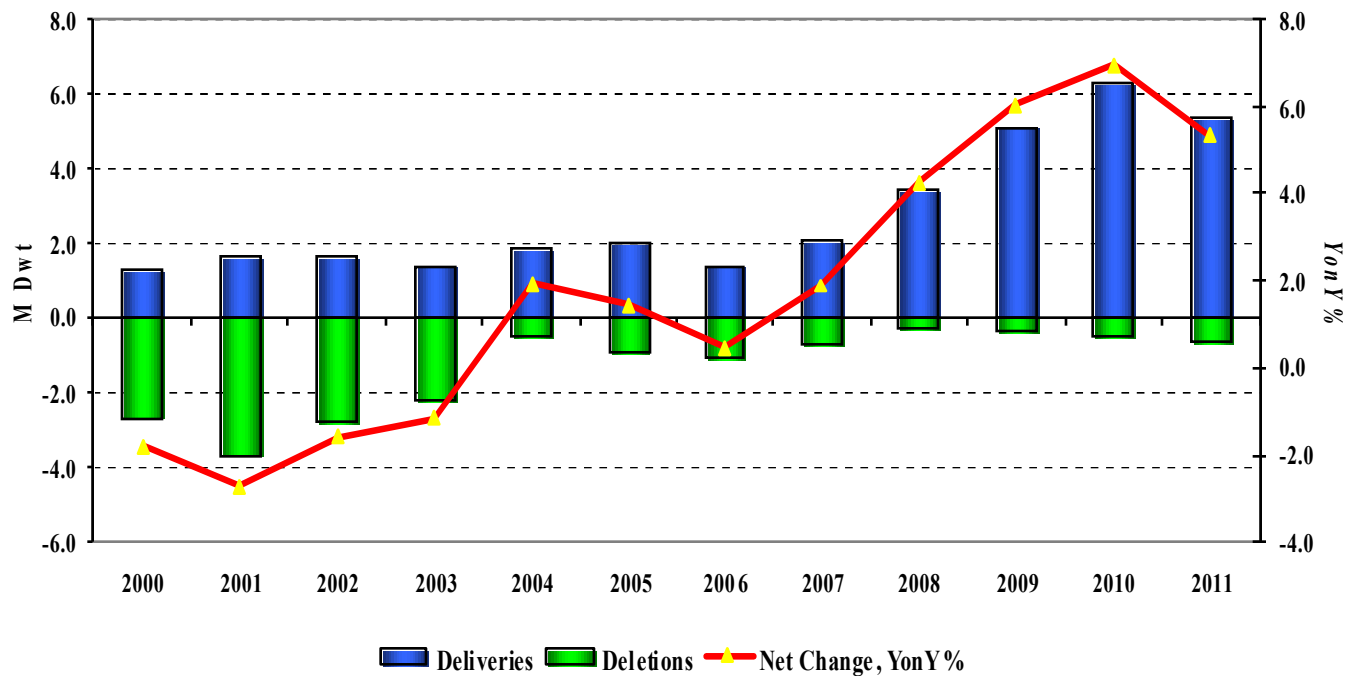
- Scrapping can increase if market falls below operating cost, but not much scope – young fleet.
- Slippage can increase if credit crunch put more pressure on the finance of some deals
- Slippage can increase because of material shortage at yards or production problems, etc.



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# Handysize fleet: Adjusted

Handysize: Deliveries, Deletions and Net Fleet Expansion (M Dwt)

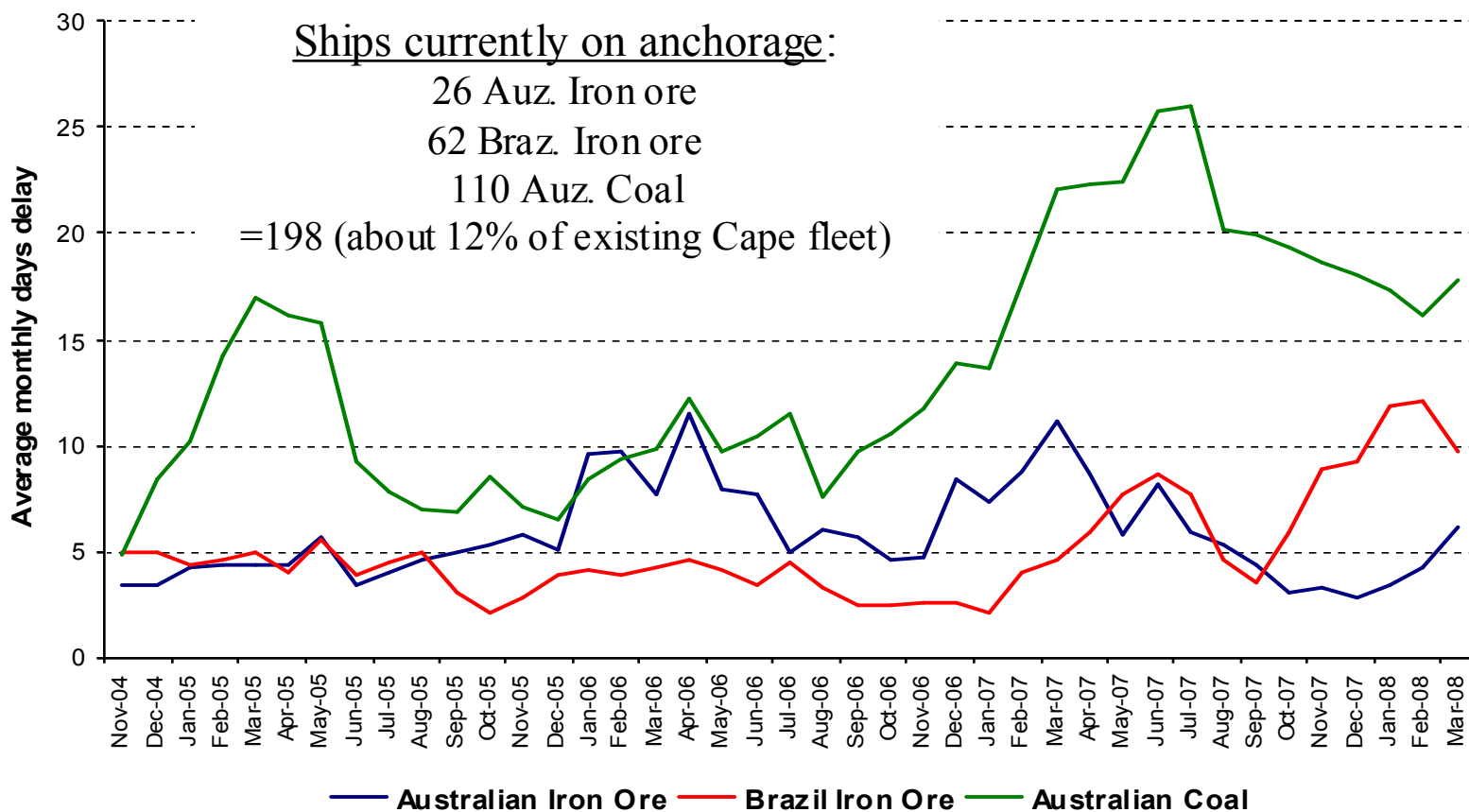


- More potential for scrapping, because it is an ageing fleet, but trading age is higher than others.



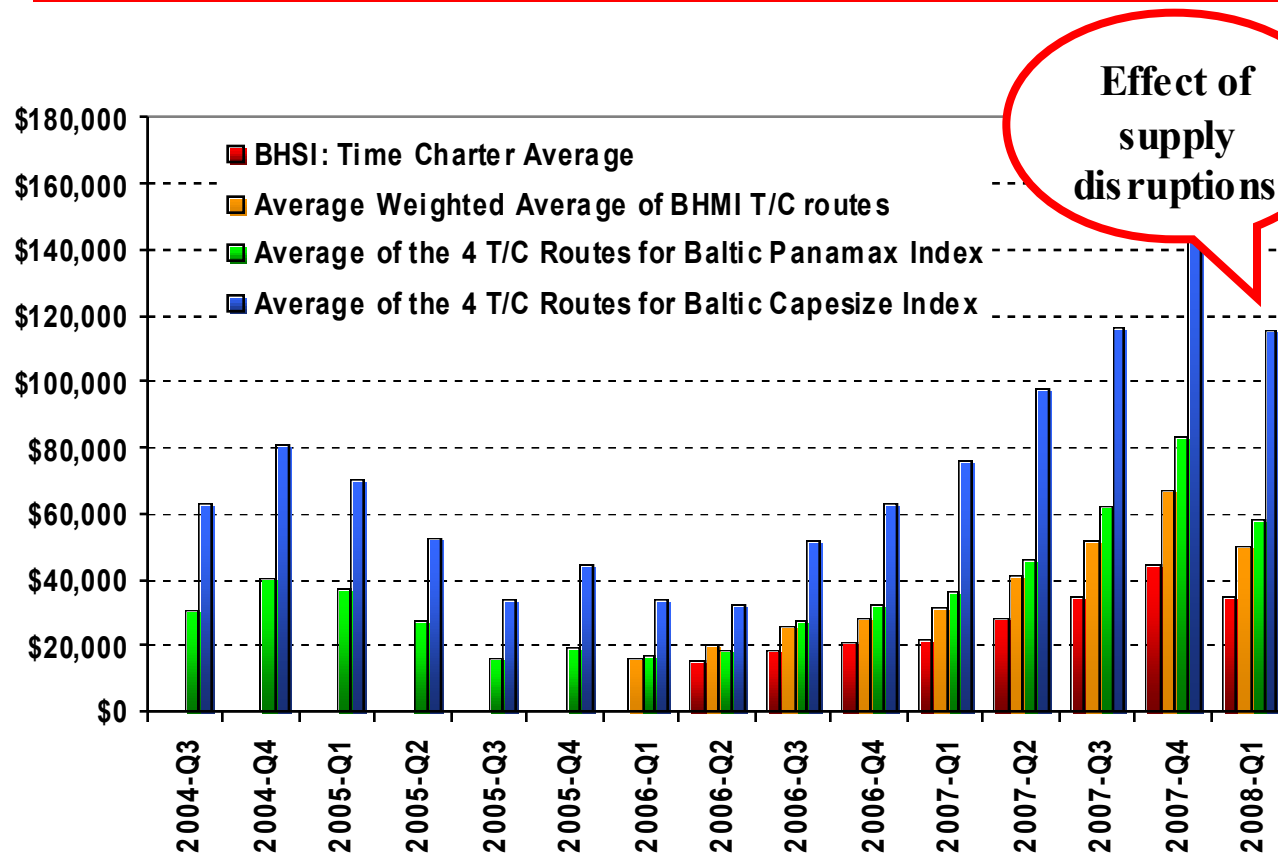
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# Port congestion subtracts from the fleet's efficiency



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# Supply availability and disruptions are a big short term concern



Effect of supply disruptions

This could work its way through in 2 opposing manners.

- If supplies are not going to be available – lesser seaborne trade and lower freight rates.
- If bottlenecks are resolved later on – supplies will be condensed in a shorter period – higher freight rates.



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# Freight Future Market

- High volatility in freight markets have given rise to a growing derivatives market.
- New entrants in the shipping markets: trading houses, investment banks, energy companies and hedge funds.
- Volumes (more than \$150bn in value) - larger than physical market



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# Conclusion

- Drybulk demand fundamentals are still strong as derived from high drybulk raw material prices.
- Short term concerns: Inflation, supply disruptions, logistical problems.
- Freight volatility is high due to the tightness of the demand and supply.
- Continued strength in the freight market during 2008.
- In 2009 the fleet expansion is outpacing the seaborne trade growth.
- In 2010 the fleet expansion is outpacing the seaborne trade growth.



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# Thank you

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