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Dry Bulk Freight Market

2016 review & 2017 outlook

Roma - March 30th, 2017

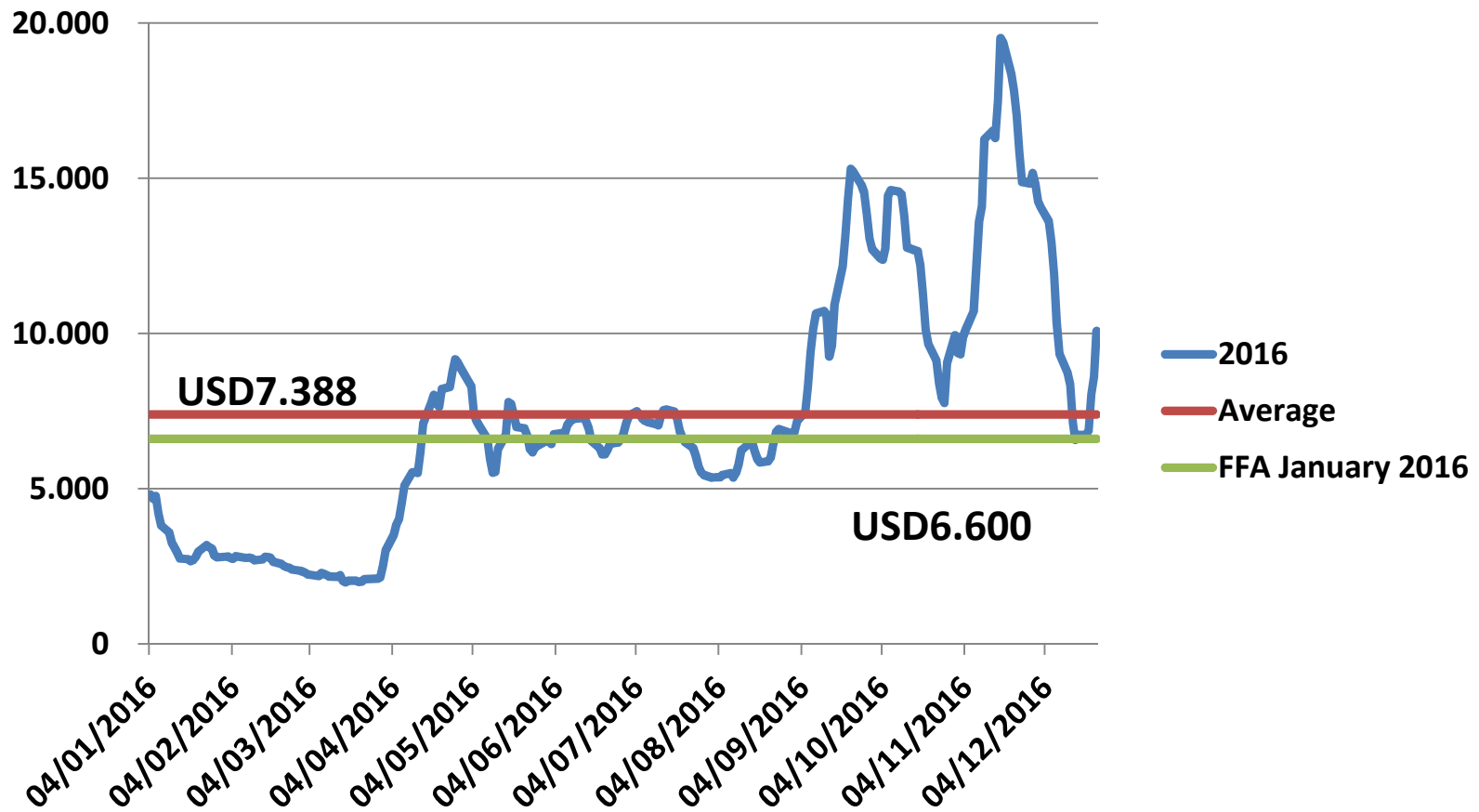
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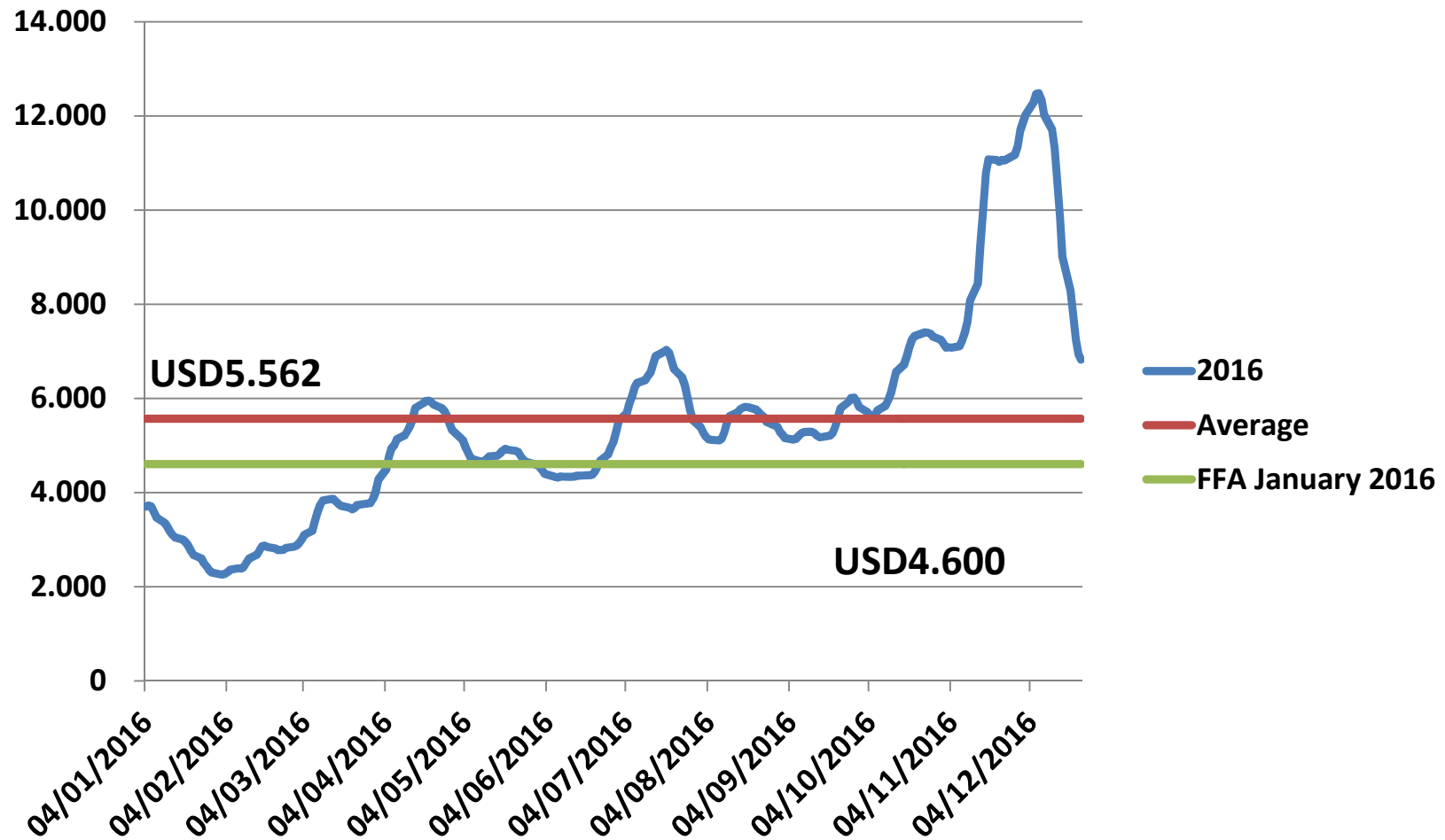
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2016 Market – Cape Size daily average 4 TC routes BCI



2016 Market – Panamax Size daily average 4 TC routes



SEABORNE TRADES (SSY source)

Commodity	Volumes		
	Actual		change
	2015	2016	
coking coal	294	295	1
steam coal	833	823	-10
iron ore	1,414	1,482	68
grain wheat/coarse	283	302	19
Total	2,824	2,902	78
Minor commodities	459	460	1
of which steel	241	235	-6
Grand Total	3,283	3,362	79

FLEET**(40 – 100,000+ DWT BULKERS)**

2015 :	679 MILL. DWT	
SCRAP	25 MILL. DWT	
2016 :	695 MILL. DWT	(+ 2,3%)
	315 MILL. DWT CAPES	(+ 1,9%)
	96 MILL. DWT PANAMAX	(+ 0,8%)
SCRAP	27 MILL. DWT	

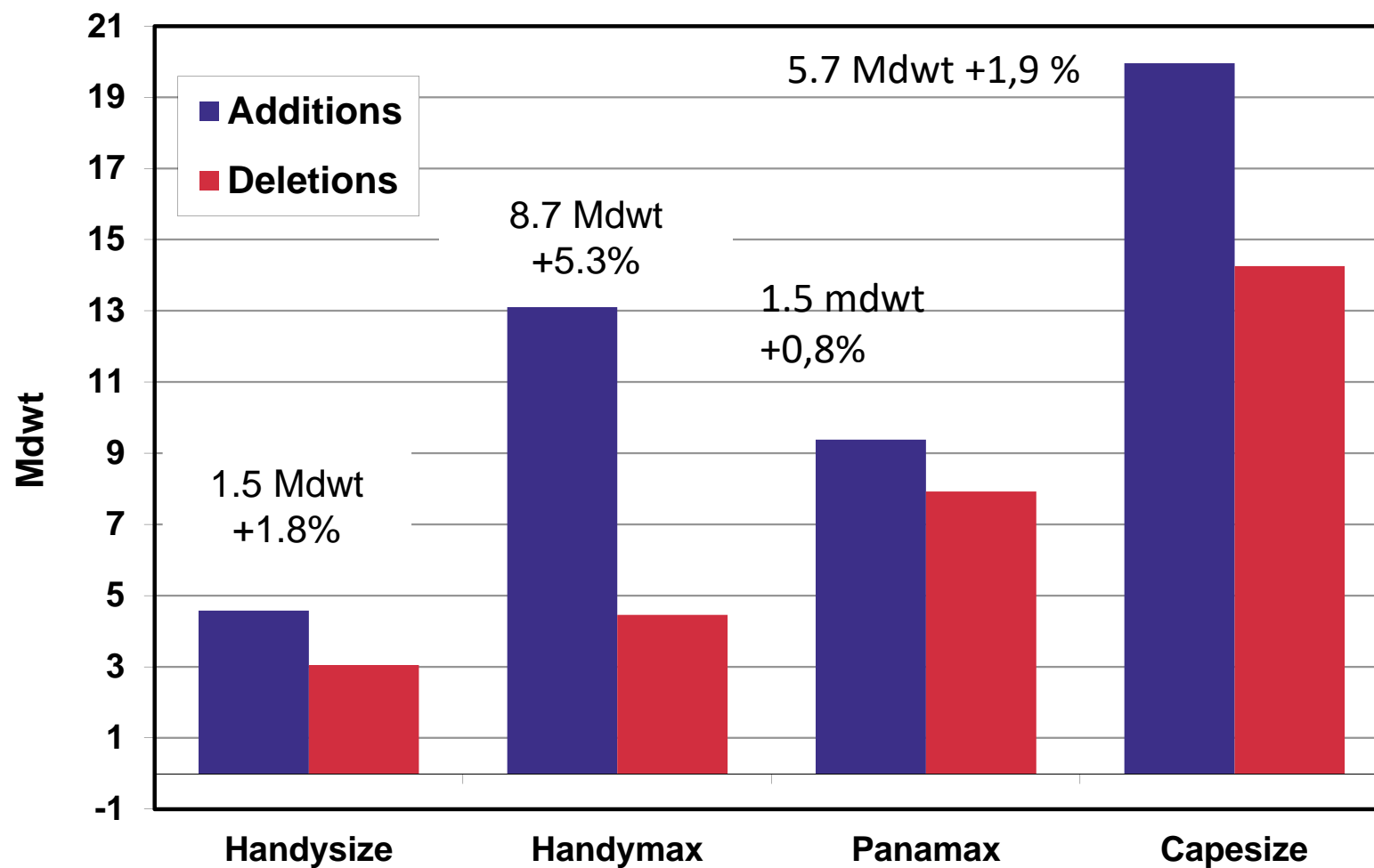
AS PER SSY's DRY BULK FORECASTER MAR 2017



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Net fleet change in 2016



Supply / Demand

TRANSPORT GROWTH	2016/15	79 MILL. (+ 2,4%)
FLEET NET GROWTH	2016/15	17 MILL. (+ 2,3%)
CAPE		2 MILL. (+ 1,9%)
PANAMAX		4 MILL. (+ 0,8%)

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What's Next?.....



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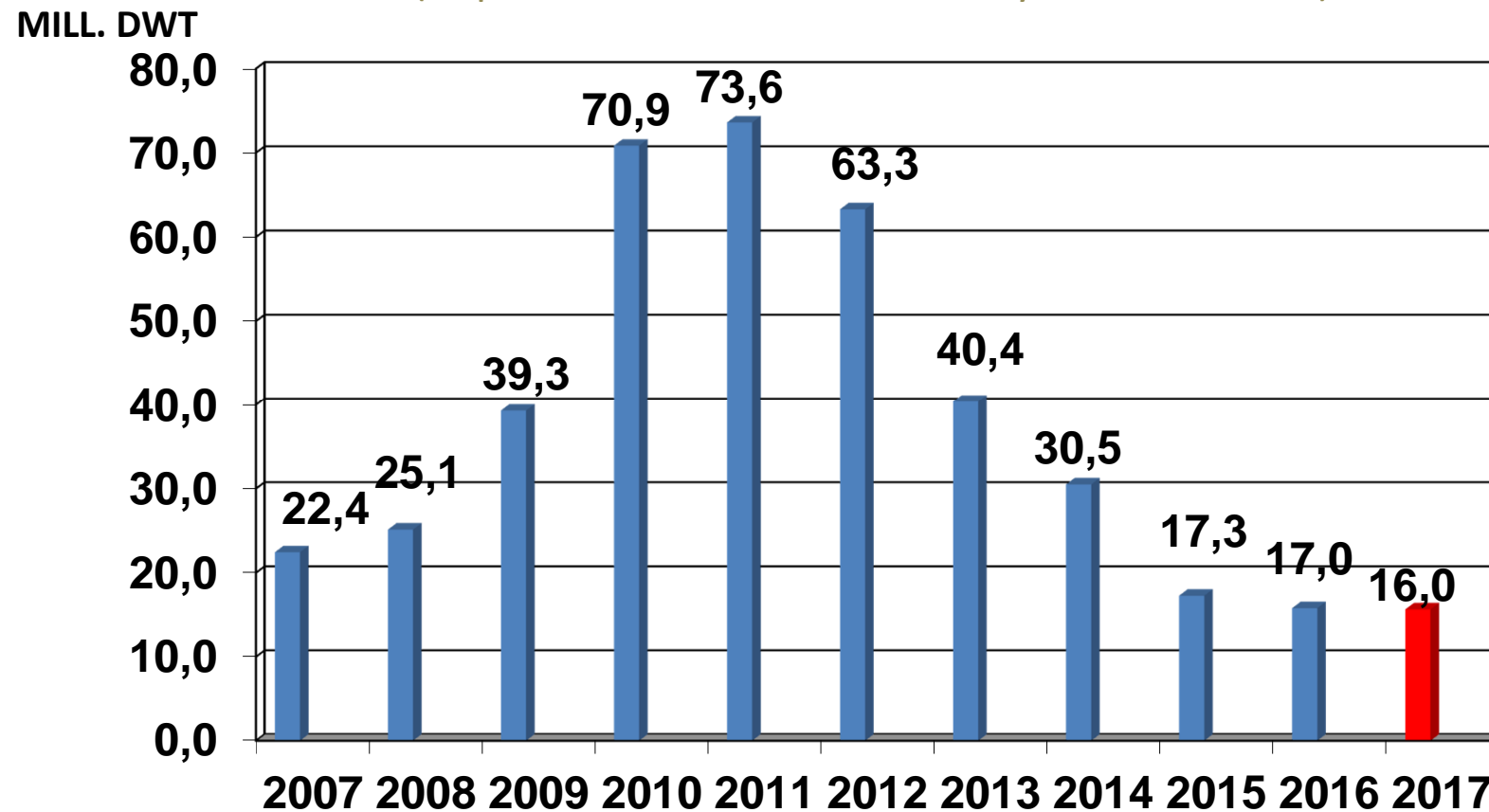
SEABORNE TRADES (SSY source)

Commodity	Volumes		
	Actual	estimate	change
	2016	2017	
coking coal	295	309	14
steam coal	823	818	-5
iron ore	1,482	1,543	61
grain wheat/coarse	302	298	-4
Total	2,902	2,968	66
Minor commodities	460	470	10
of which steel	235	232	-3
Grand Total	3,362	3,438	76

FLEET NET GROWTH

(40 – 100,000+ DWT BULKERS)

(as published on Mar 17 SSY's Drybulk Forecaster)



2017 EXPECTED SCRAP 17,06 MILL DWT

2016 SCRAP 26,65 MILL DWT

Supply / Demand

TRANSPORT GROWTH	2016/15	79 MILL. (+2,4%)
EXPECTED	2017/16	76 MILL. (+2,3%)
FLEET NET GROWTH	2016/15	17 MILL. (+2,3%)
EXPECTED	2017/16	16 MILL. (+2,3%)
CAPE		5 MILL. (+1,7%)
PANAMAX		4 MILL. (+1,8%)

Demand side main topics

- Positive annual growth in world steel production and improved margins.
- Chinese policy uncertainties dominate steam coal.
- Indian coal imports remain under pressure from domestic production and political developments.
- US coal exports supported by higher shipments to Asia.
- Record Latin American grain exports in prospect.
- Relaxation of Indonesian unprocessed ores export ban.
- Historically low steam coal stockpile in China

Fleet supply outlook

➤ **Orderbook.**

- surge in dry bulk deliveries following record rates of slippage in 2016.
- potential for further postponements/cancellations in 2017 but signs of revival in new ordering.

➤ **Demolition.**

- firming freight market expectations to limit activity.

➤ **Regulations.**

- new IMO rules on ballast water treatment and bunkers.

Why are we bullish ?

➤ Short term:

- ECSA season impacted on a market with more solid fundamentals.
- Market is up despite much improved congestion in almost all areas.
- Steam coal stock piles in China very low despite record import.
- Psychology is playing its part.

➤ Medium/long term:

- Orderbook at historical low.
- New IMO regulations on BWT and Sulphur reduction in fuel.
- 2016 recovery on volumes mainly concentrated on back end of the year
- Steady growth to start possibly as from 2019 onwards.

New 2020 IMO fuel requirements

- As from Jan 2020, vessels will have to burn fuel with max 0,5% sulphur instead of 3,5% as today, even outside SECA/ECA areas.
- Two solutions: A) new type of fuel or B) The “scrubber”.
- New type of fuel probably not economical for refineries to produce.
- Scrubber retro-fitting is estimated to cost in the region of 1,0 million usd.
- Impossible to think that the industry shall be able to provide the required number of “scrubbers” for the 60/70 thousand ships over 3,000 t. in the water.
- It is realistic to think that older vessel shall have to use LSMGO.

New 2020 IMO fuel requirements

- Modern K-max units performs at 13,5 Kn on 25 MT fuel.
- Older Japanese Panamax perform at 13,5 Kn on 32 MT fuel.
- If we assume HSFO @ usd 300 pmt, then LSMGO is @ about usd 500 pmt.
- The modern ship fitted with “scrubber” has a fuel cost at sea of abt usd 7,500 daily.
- The older one has a fuel cost (LSMGO) at sea of abt usd 16,000 daily
- A voyage from Continent via ECSA to China with grains lasts about 85 days, out of which abt 55 days at sea.
- So the difference in fuel cost alone between the two units on same voyage will be $(\text{usd } 16,000 - 7,500) \times 55 = \text{usd } 467,500 \dots\dots$

FFA CAPE 4TC ROUTES

➤ DECEMBER 16	:CAL 17	USD	9,200
➤ JANUARY 31	:CAL 17	USD	10,650
➤ MARCH 28	:Q 2 to 4	USD	15,465
	:CAL 18	USD	13,800
	:CAL 19	USD	14,025
	:CAL 20	USD	14,560
➤ SPOT RATE		USD	20,657
➤ YEAR TO DATE		USD	9,683
➤ OPEX DAILY COSTS		USD	7,400

FFA PANAMAX 4TC ROUTES

➤ DECEMBER 16	:CAL 17	USD	8,100
➤ JANUARY 31	:CAL 17	USD	7,950
➤ MARCH 28	:Q 2 to 4	USD	10,550
	:CAL 18	USD	9,400
	:CAL 19	USD	9,600
	:CAL 20	USD	9,800
➤ SPOT RATE		USD	9,786
➤ YEAR TO DATE		USD	8,176
➤ OPEX DAILY COSTS		USD	6,000

CONCLUSIONS

- Firming up medium-term market sentiment with sustained push in spot rates.
- Positive signals from steel industry and strength in grains...but major uncertainties over outlook for steam coal.
- Highest monthly newbuilding deliveries in 4 years plus subdued scrapping spur renewed fleet growth...
- But orderbook remains close to multi-year lows despite some revival in new ordering,
- New regulations weigh on prospects for older vessels.
- Transitional year for freight? Are we heading for yet another perfect storm?



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