



# Bulk Shipping Market Outlook

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# Agenda

1. Introduction to IHS Markit
2. Economic and Commodity Market Outlook
3. Bulk Shipping Market Outlook
4. Disruptive Forces

# Introduction to IHS Markit

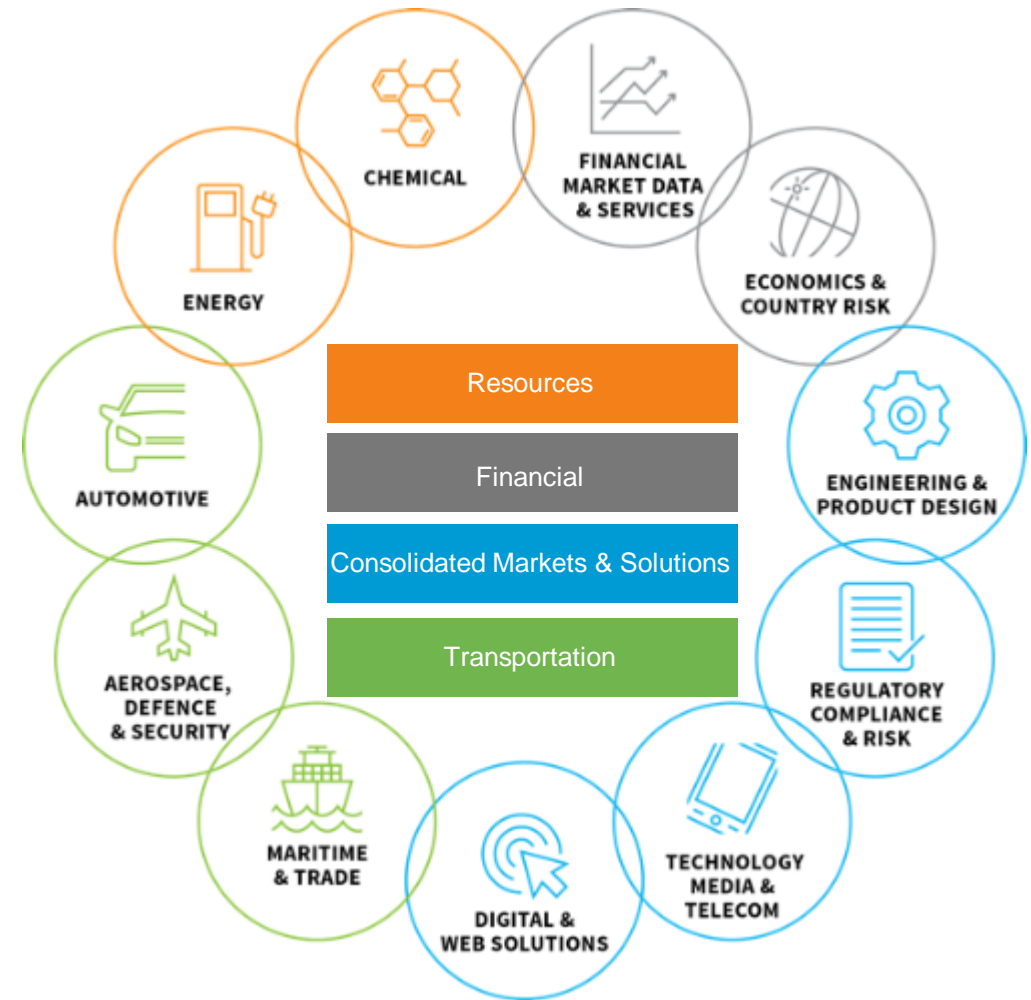
# IHS Markit is in a unique position to support governments and companies in order to enhance global competitiveness

We are a global information and analytics company addressing strategic customer challenges with our interconnected capabilities

**US\$ 3.6bn revenue**

**13,000 staff**

**120+ offices**

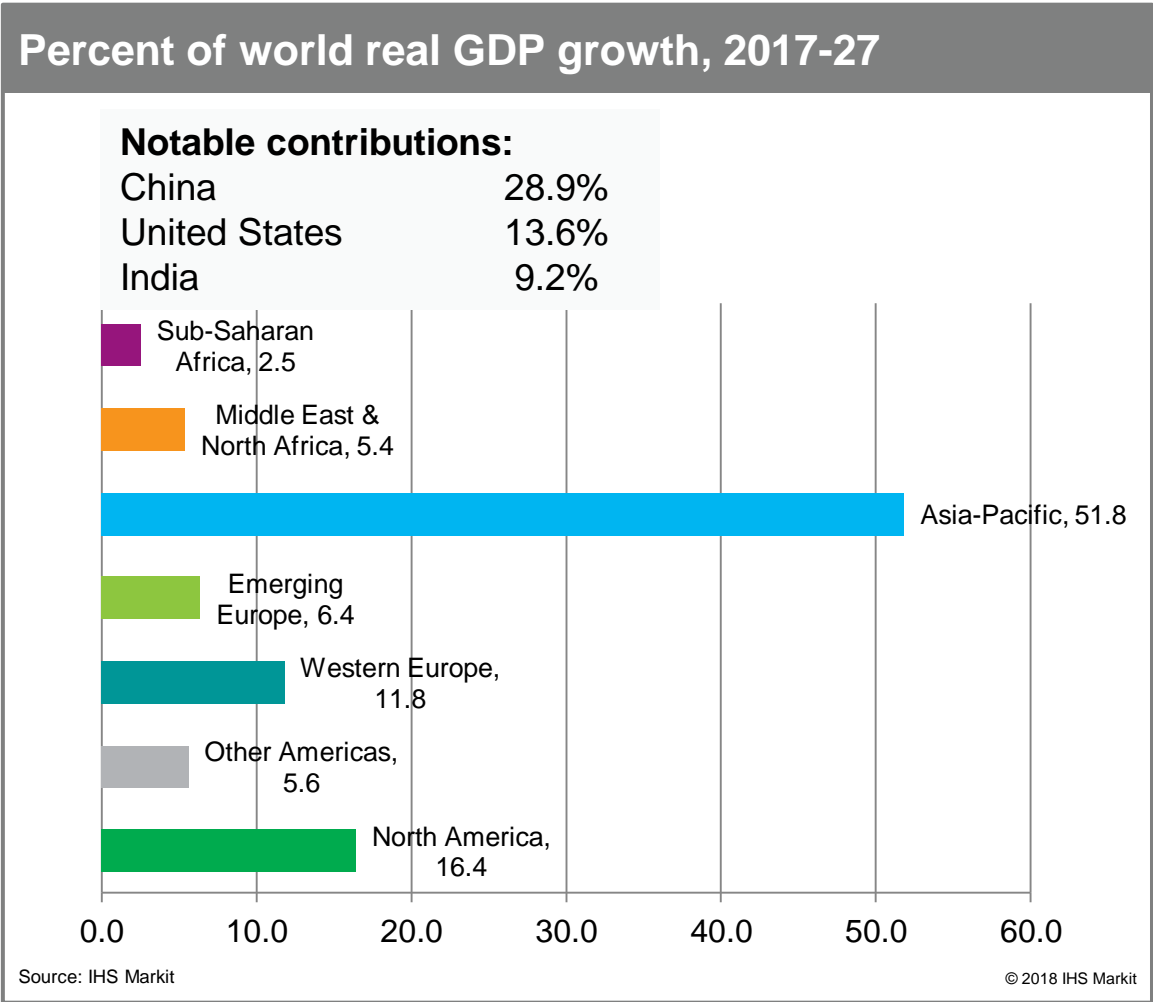
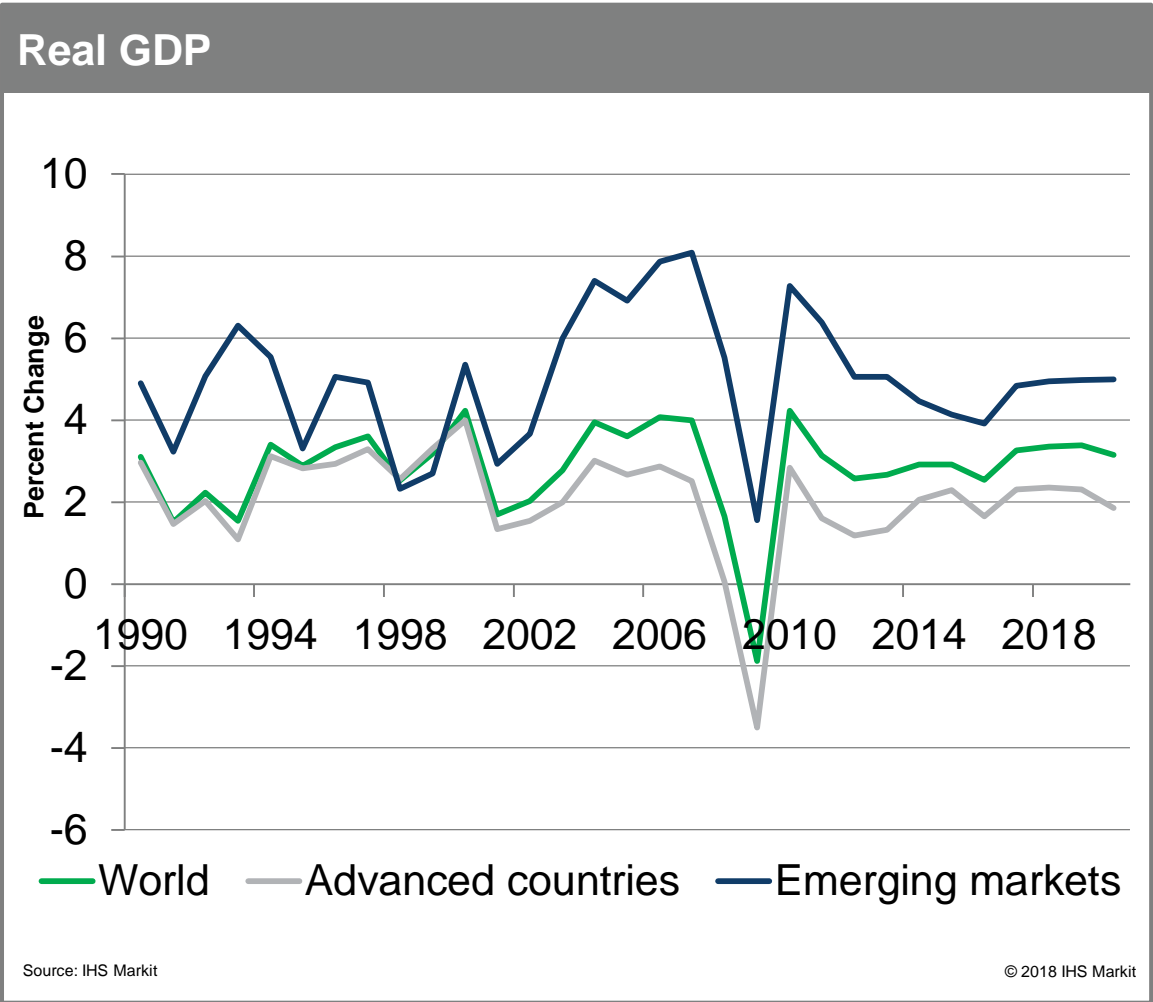


# Our Maritime & Trade data and analytics address strategic challenges by linking maritime operations and commodity movements

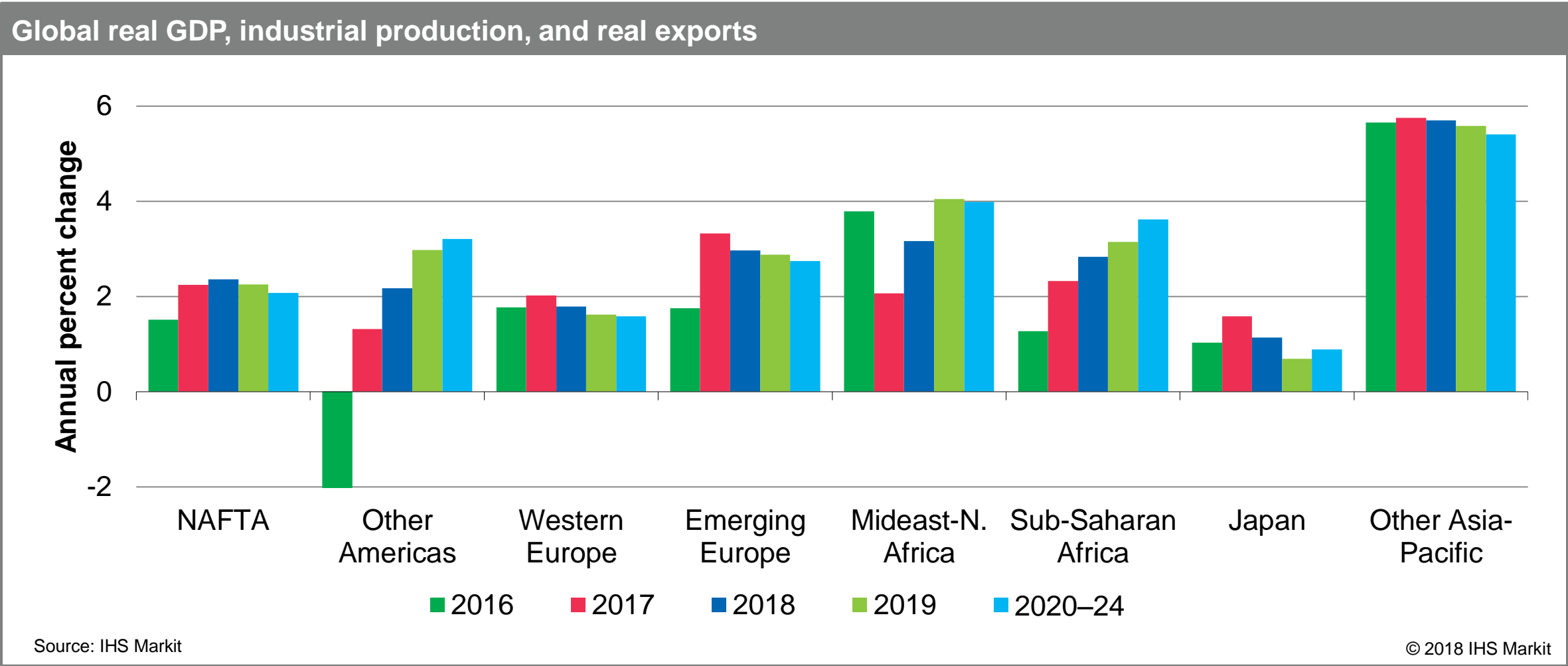


# Economic & Commodity Market Outlook

# Emerging markets are leading global real GDP growth



# The Asia-Pacific region will contribute the most to global economic growth, despite slightly slower growth in China



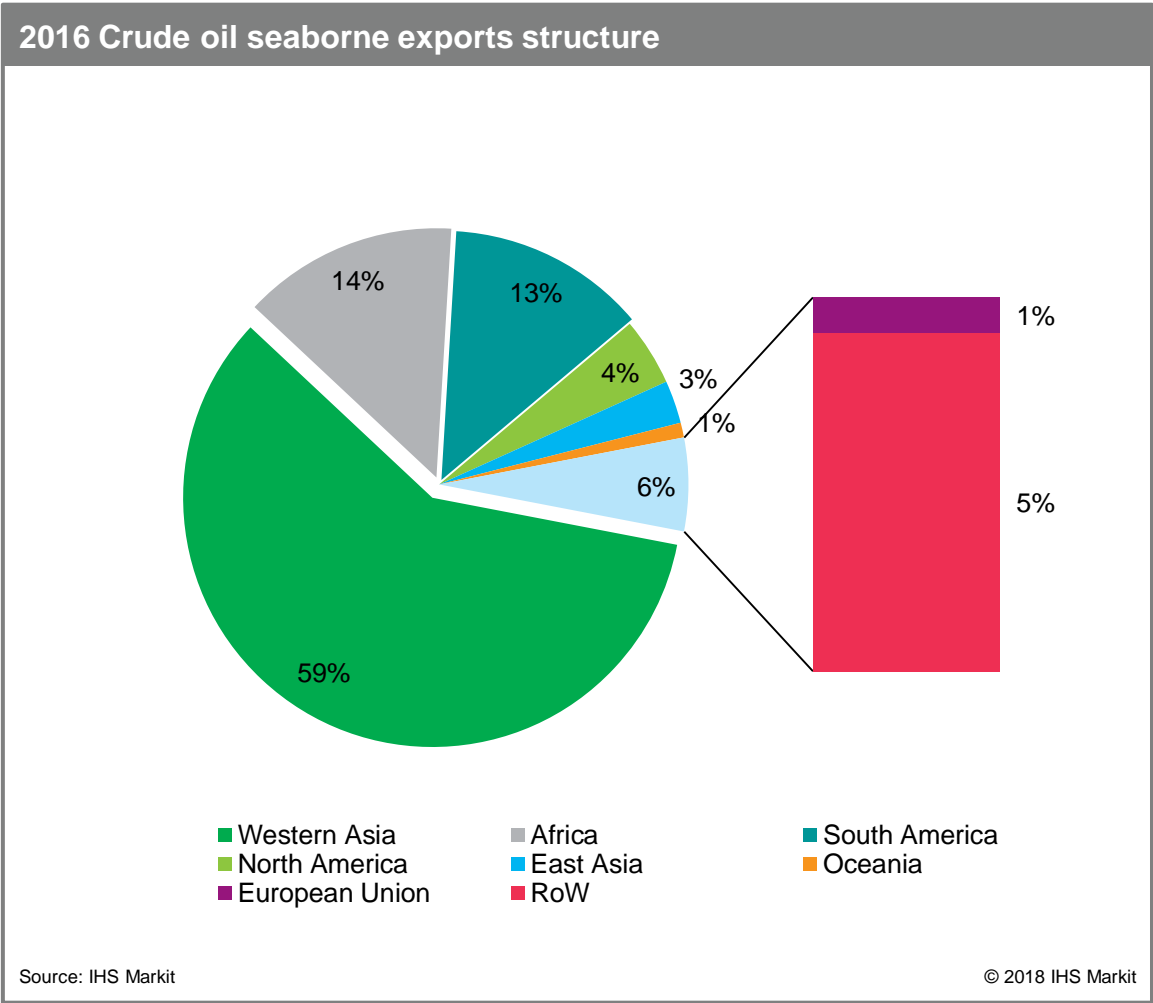
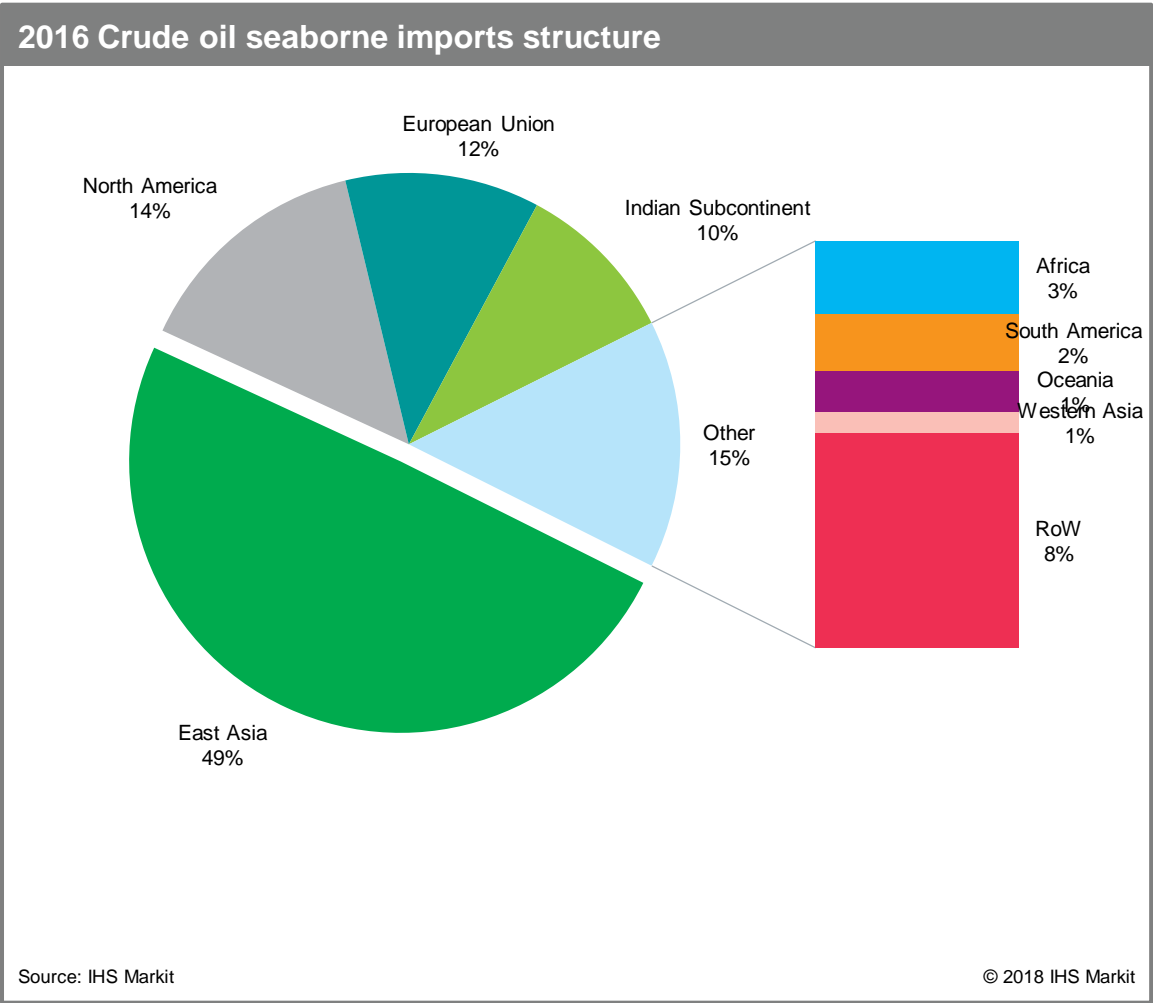


## The era of rapid growth in world trade is over. However, seaborne trade will continue to grow in years ahead

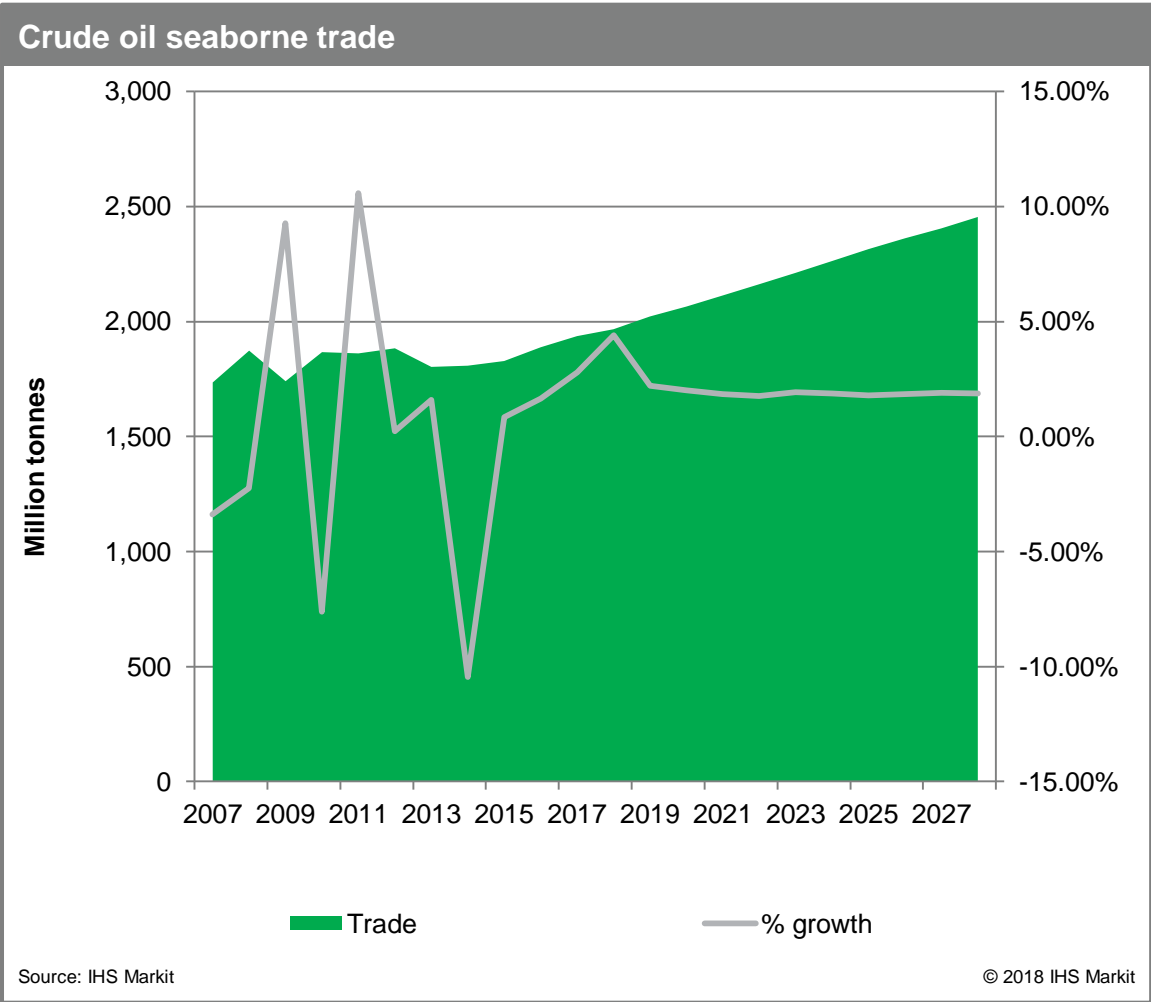
- New technology is promising to reduce supply-chain costs, increase information aggregation, and allow for enhanced operational efficiencies;
- New business models such as buying versus leasing
- Advances in automation – in combination with higher trade barriers and higher shipping operational costs due to regulations – could lead to a secular reduction in the globalisation of supply chains, curbing ocean-going shipping demand;
- Despite concerns about trade, the overall demand scenario for shipping is still positive, as global markets experience synchronous GDP growth. Shipping volume is generally correlated to GDP growth.



# Asia dominates seaborne imports while Middle East and Africa dominate exports of Crude Oil



Crude oil trade is expected to remain relatively unchanged in the next decade, with commodities flowing mostly towards Asian non-OECD countries



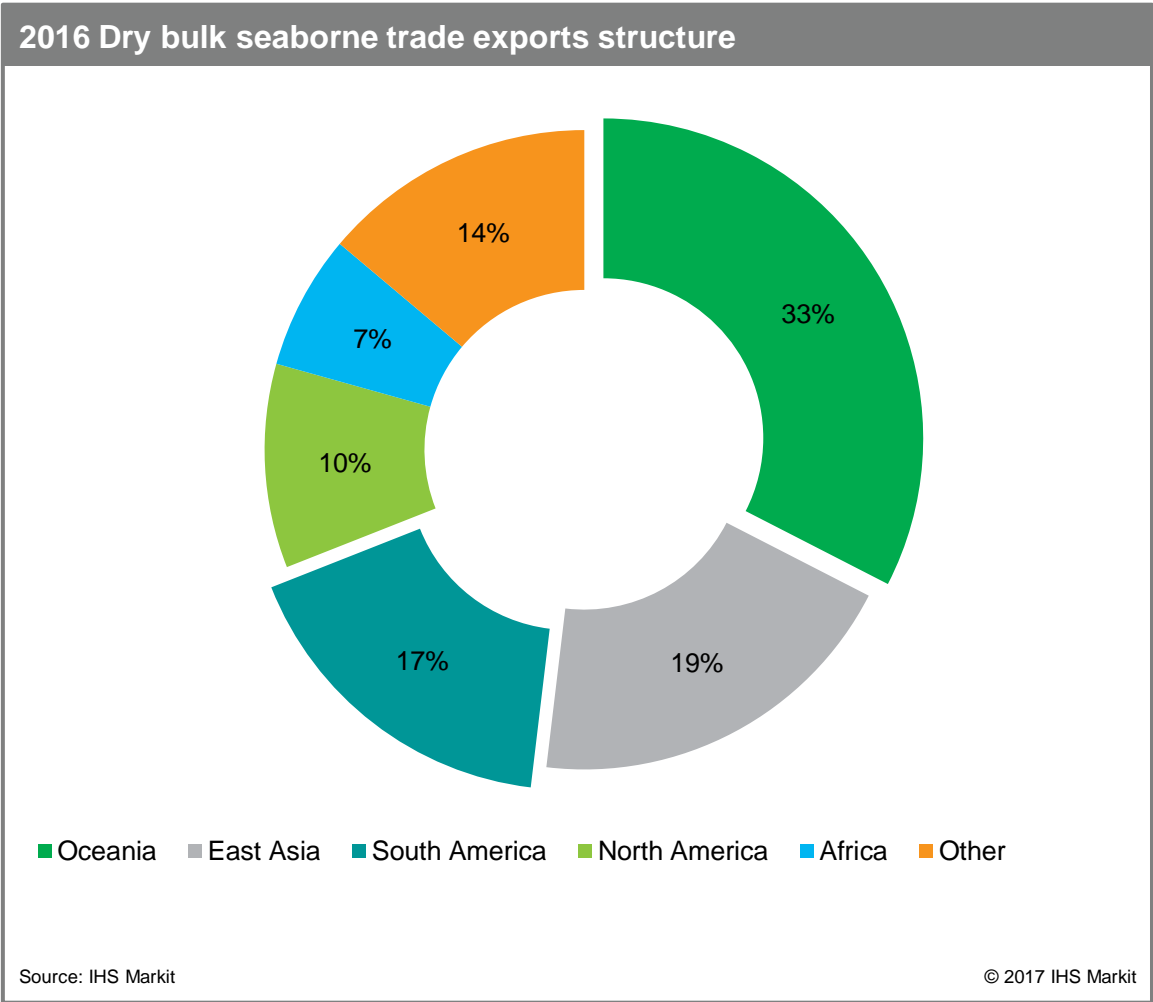
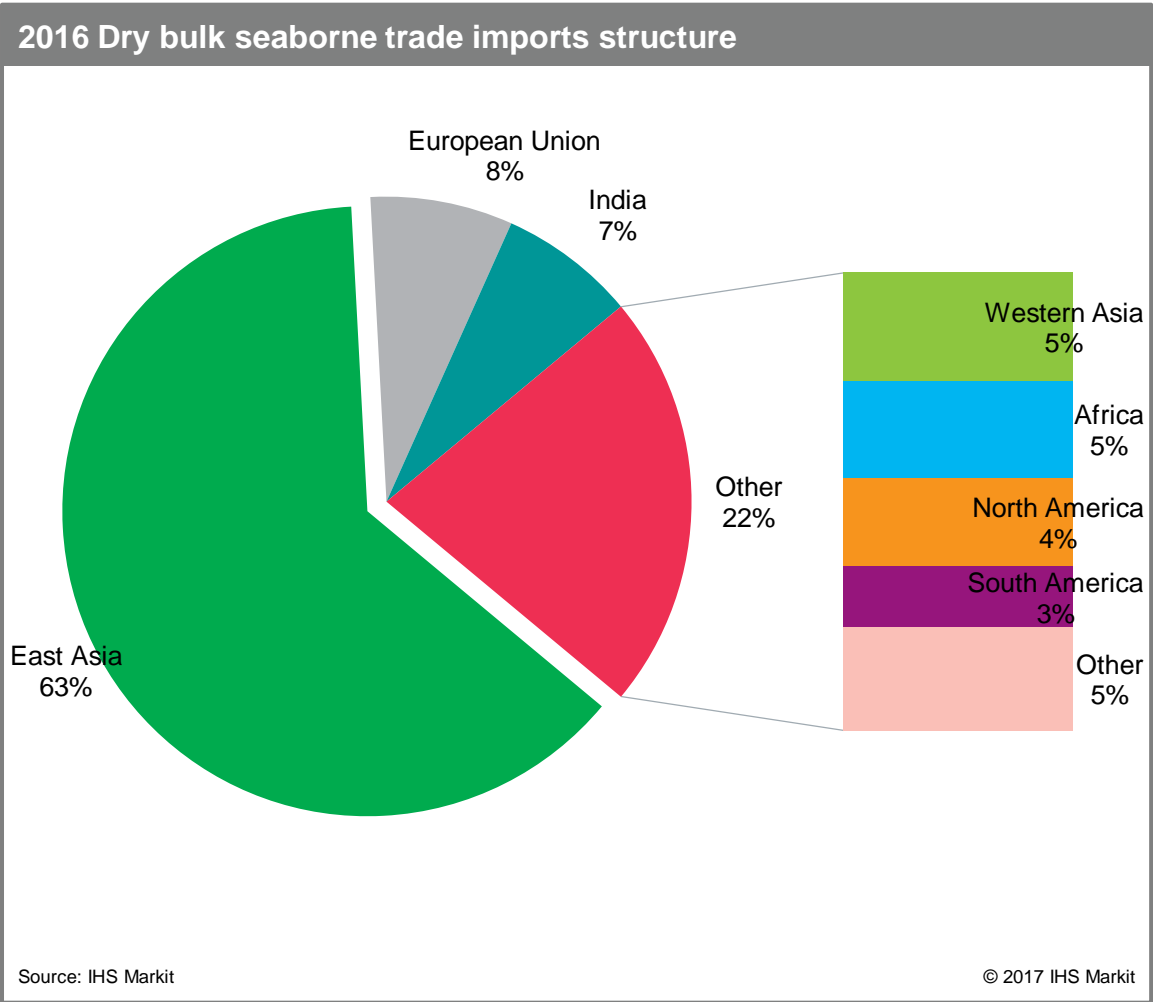
- Demand for crude oil is expected to remain healthy in the next decade because of expected sustainable economic growth.
- Political and economical uncertainties as well as possible changes in crude oil prices remain major risks for crude oil demand.
- US tight oil production has shown resilience so far and US production is expected to push crude oil prices downward.
- Major seaborne exporting regions are expected to remain in the Middle East and west Africa, with tonnage destined mostly for non-OECD countries and major demand markets of east Asia and the Indian subcontinent.
- Major import areas for seaborne tonnage are expected to remain within east Asian countries and the Indian subcontinent. These places are expected to make up the majority of economical growth in the next decade and non-OECD countries are expected to be a major part of crude oil demand growth.
- There is an expectation of some diversification of trade lines, with South and North America looking towards east Asia.

Crude oil seaborne trade – average yearly growth				
Metric	2007–17	2018–23	2023–28	2018–28
%	0.97	2.11	1.99	2.05
Million tonnes	16.2	43.3	45.7	44.4

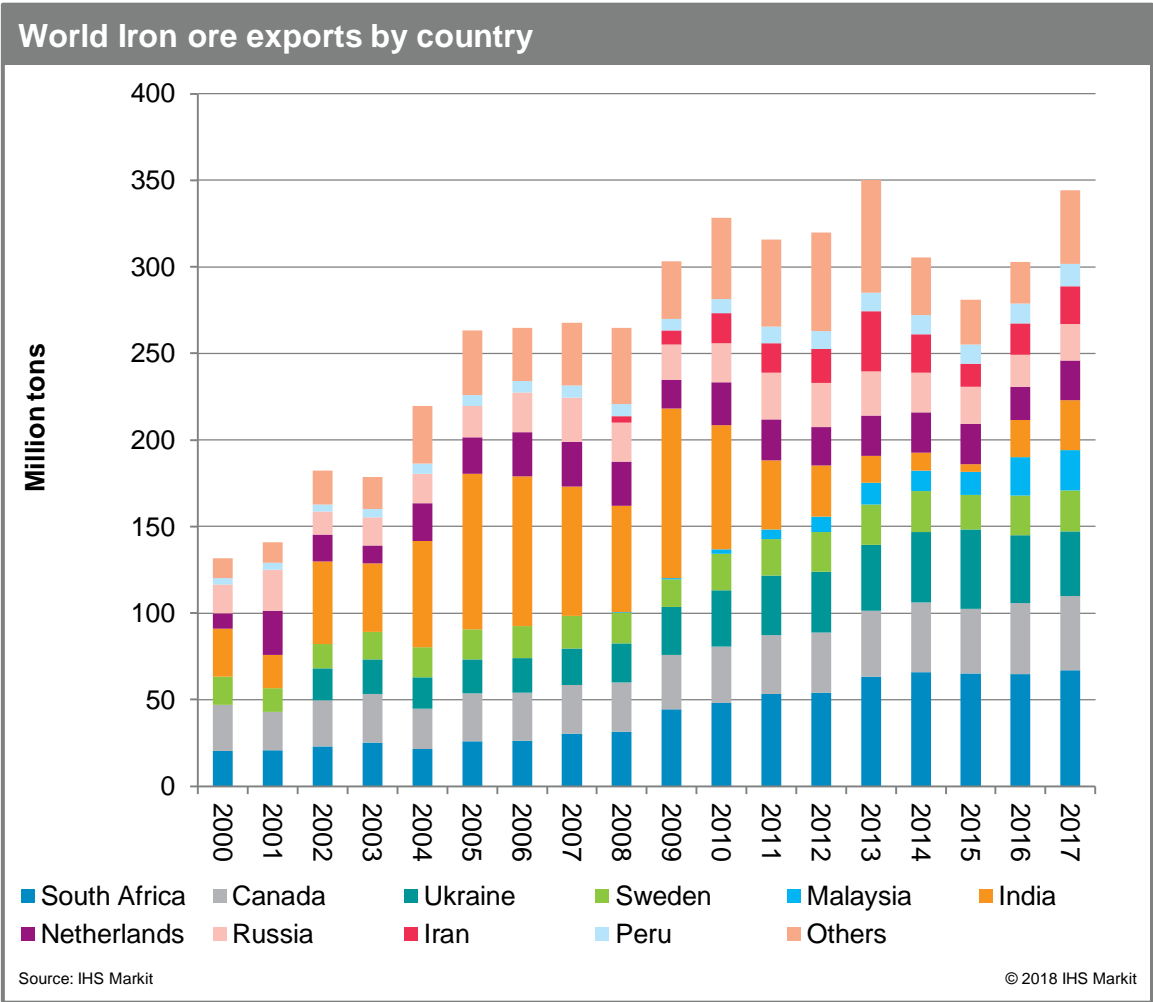
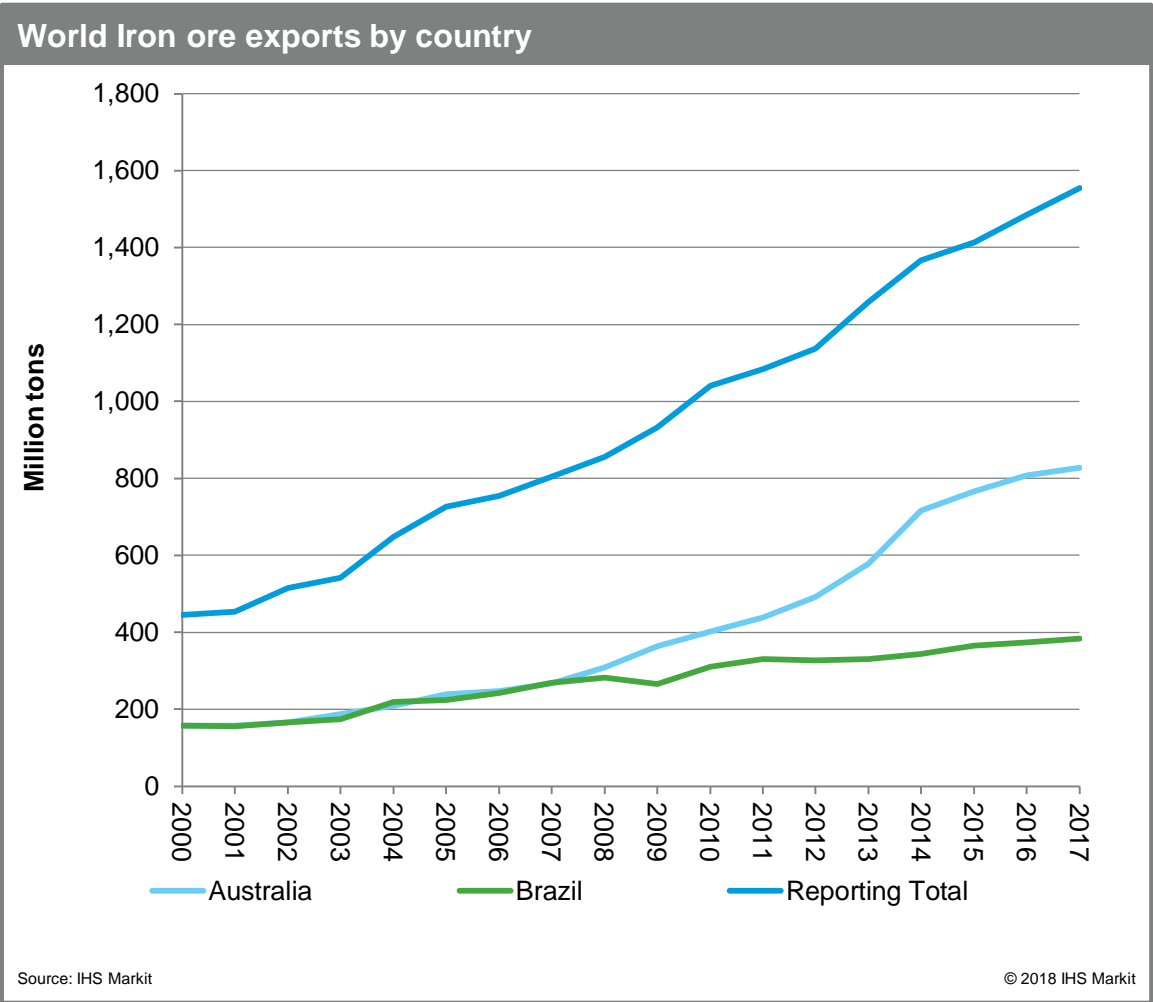
Source: IHS Markit

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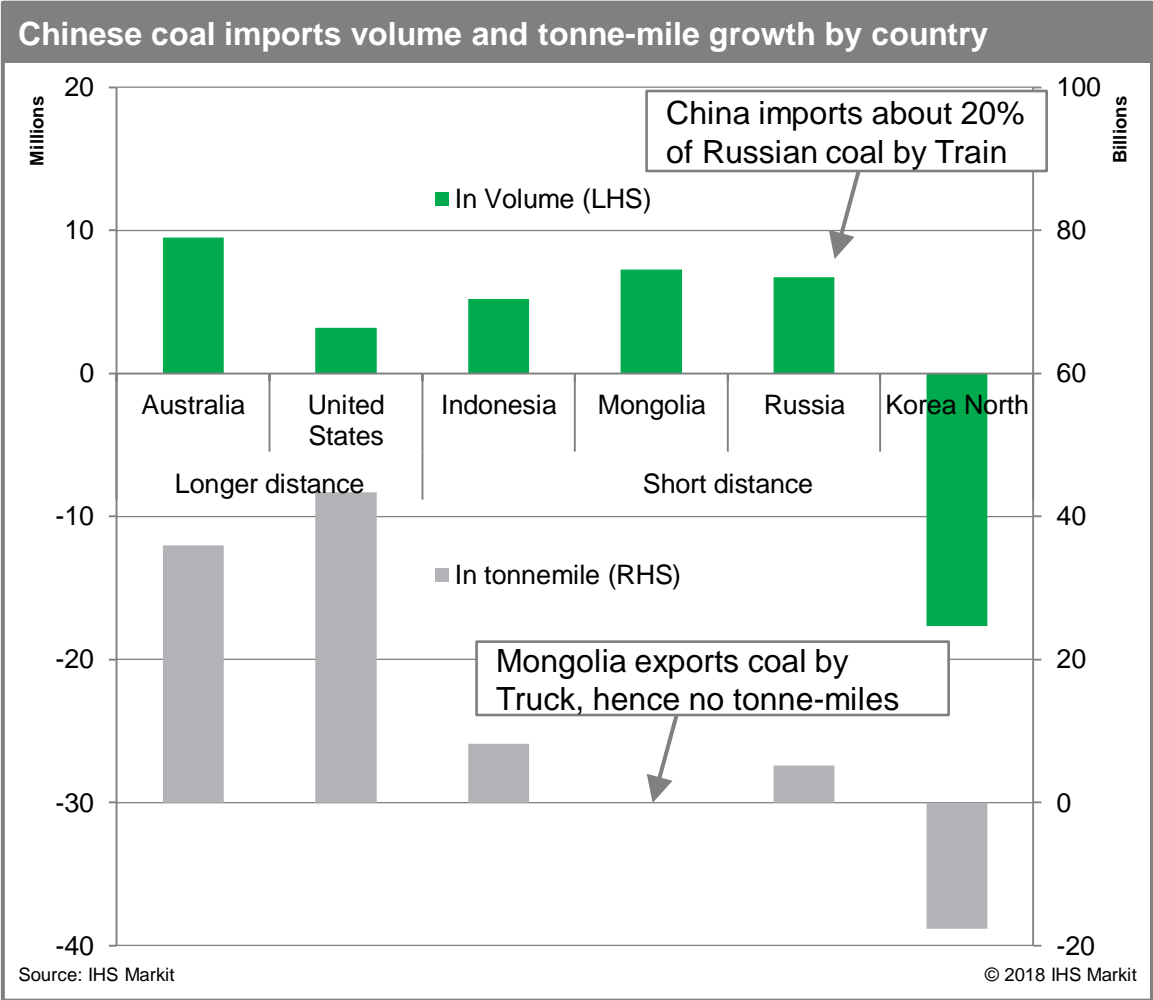
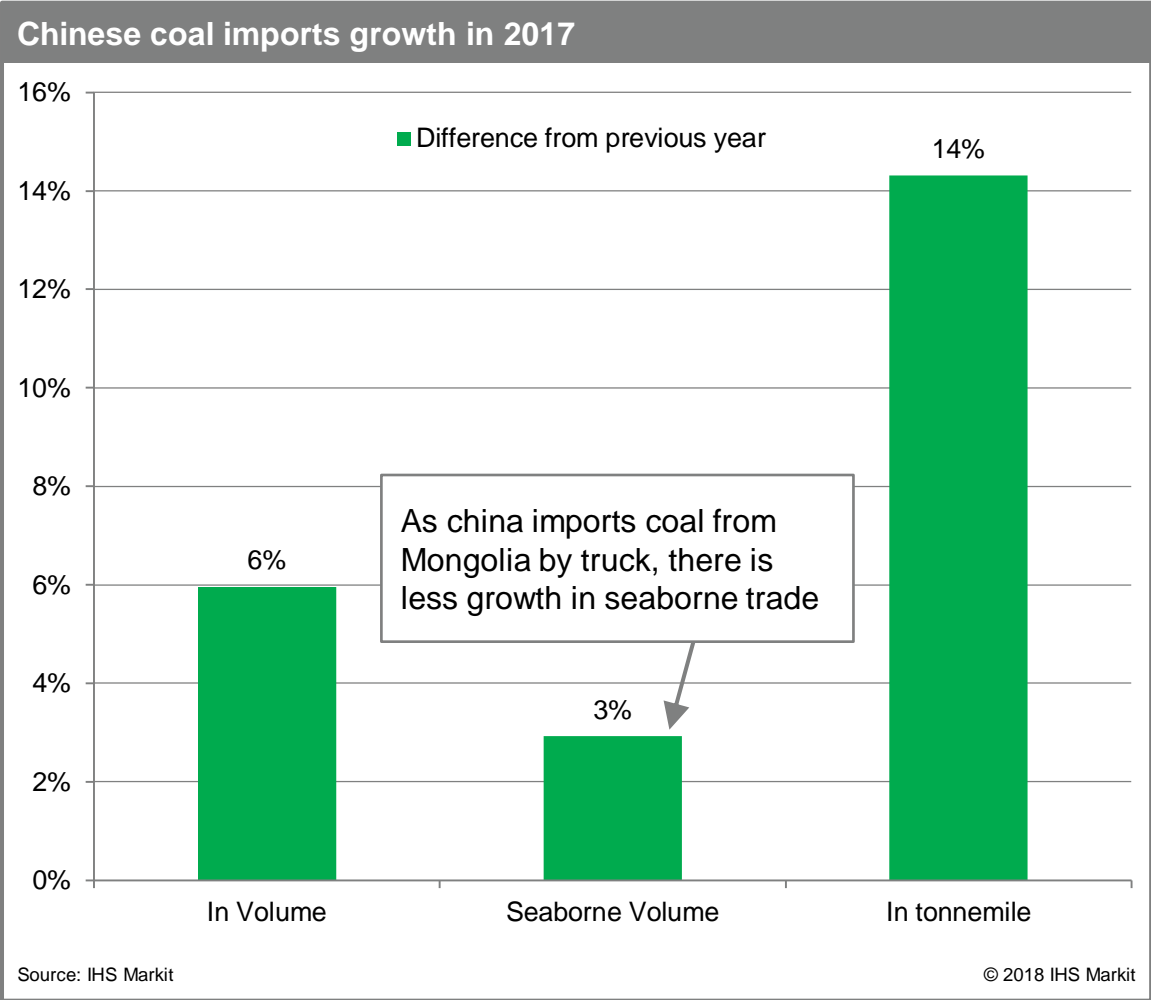
Asian countries dominate dry bulk imports while Oceania and South America dominate exports and these areas are defining major trade routes



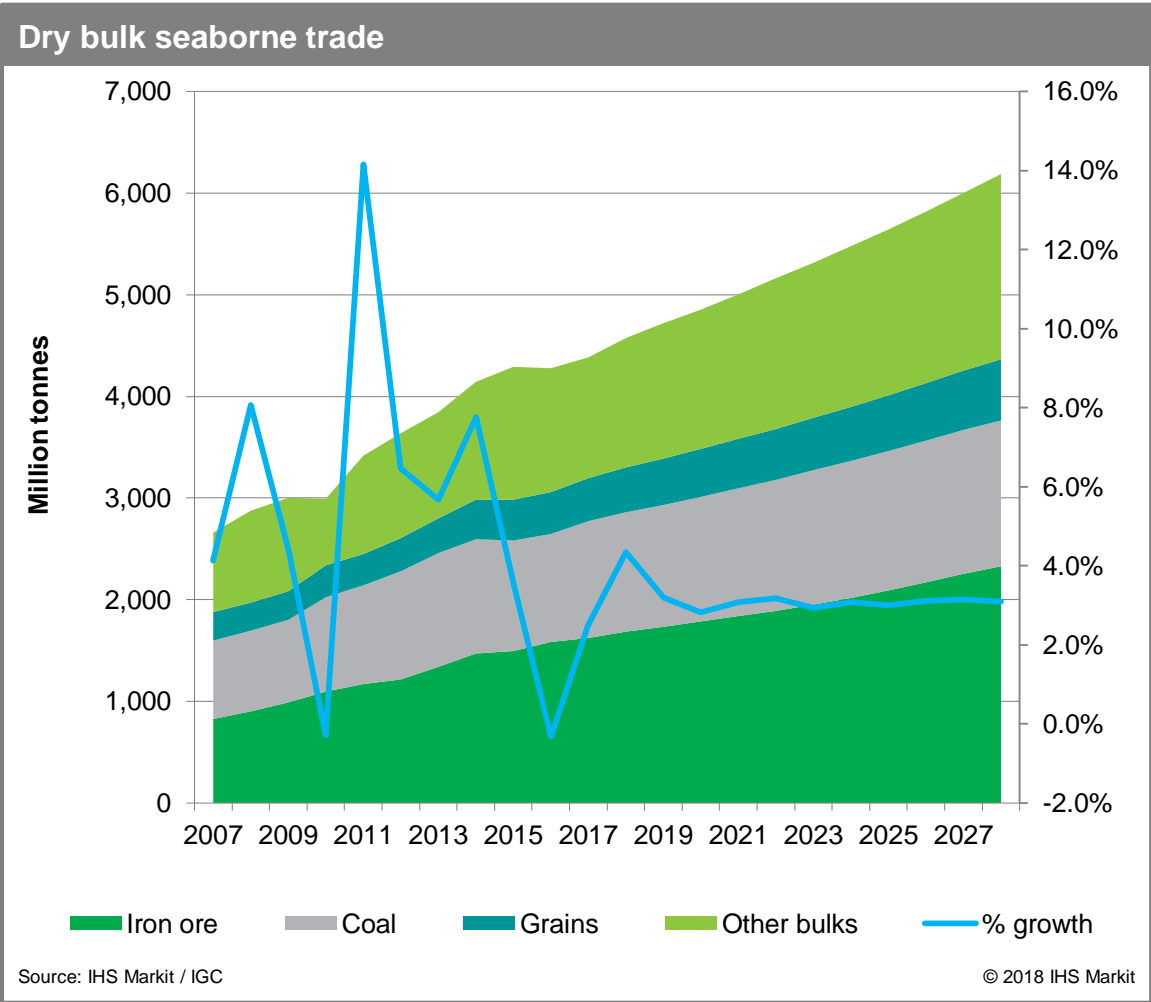
Australia and Brazil iron ore have increased their market share to China while the other smaller competitors lost their export volume to China.



Chinese seaborne coal imports in 2017 increased around 3% while actual shipping demand increased 14% as longer haul trade gains market share.



# Stronger Dry Bulk trade growth expected in the next decade, but commodity supercycle seems to be over – at least for now



- Globally, the dry bulk trade is expected to start recovering from the dip in 2015 and anaemic growth in 2016 in the next few years.
- This prediction seems feasible as the world economy entered recovery in the past year or so and is forecast to expand over the next few years. Political and economic policy uncertainties still remain a risk factor for recovery.
- The recent forecast stating that dry bulk trade will grow more than 4% in 2018 seems to herald a recovery for dry bulk shipping market. Although dry bulk trade recovery is expected to be a bumpy ride, there are some encouraging signs, particularly when looking at iron ore and exports from Brazil and Australia to China and overall growth in commodity prices and trade particularly flowing to Far East.
- Growth in the next decade is expected to be much slower compared with last decade's 5% average growth that was spurred largely by demand from East Asia, particularly China. However, average growth in cargo quantities is still expected to be significant, averaging 162 million dwt, compared with 174 million dwt in the previous decade.

Dry bulk seaborne trade – Average yearly growth				
Metric	2007–17	2018–23	2023–28	2018–28
%	4.59	2.97	3.03	3.00
Million tonnes	174.0	150.6	175.8	162.1

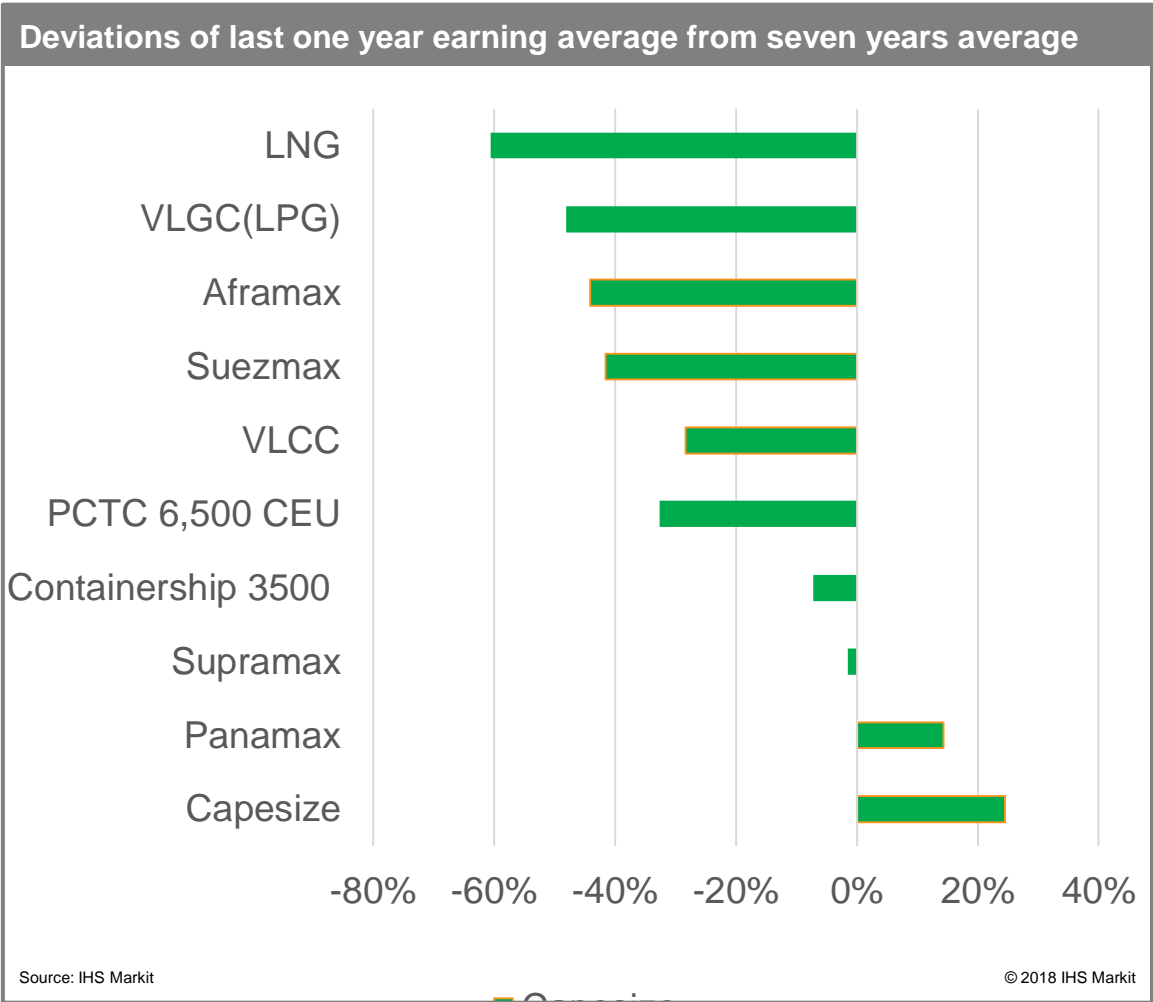
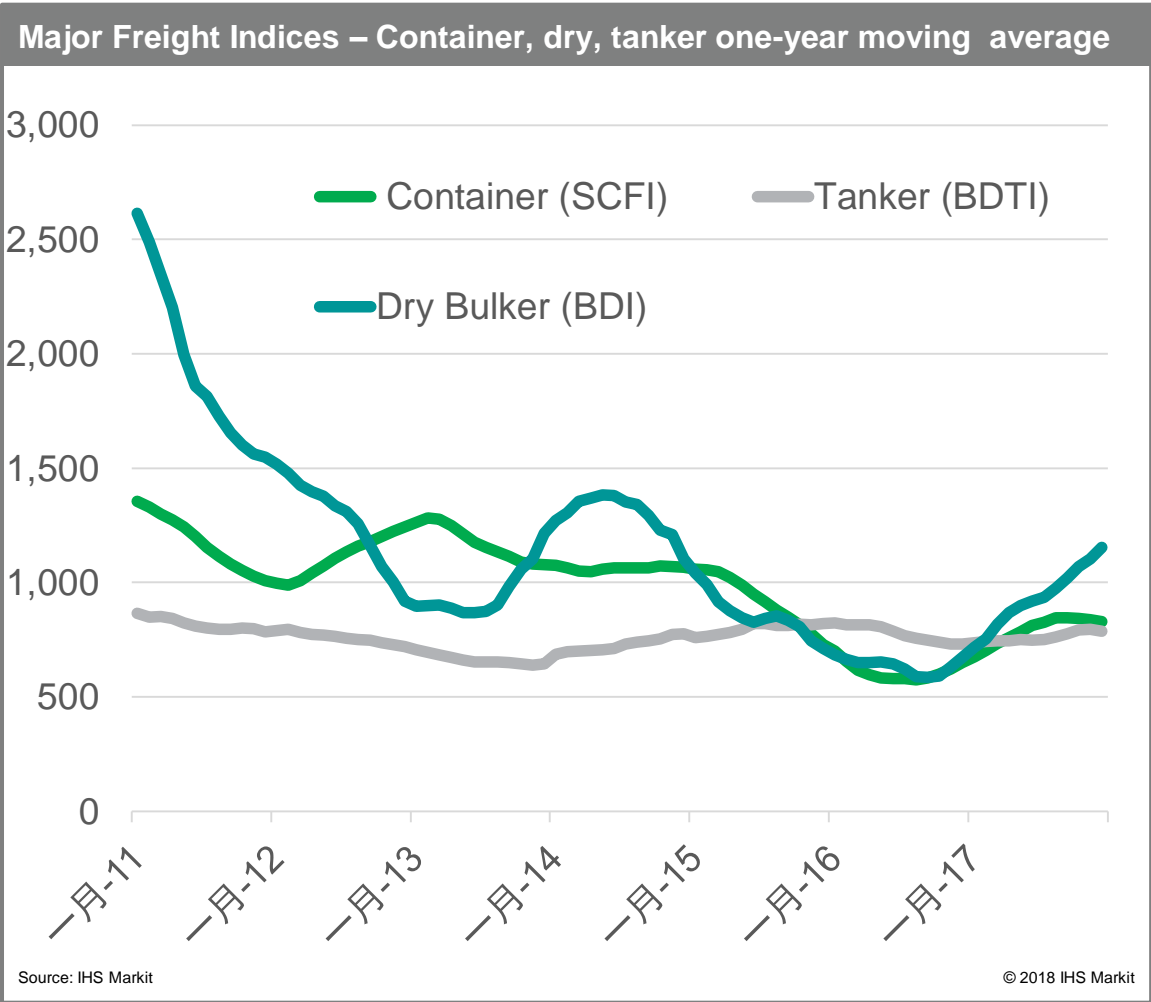
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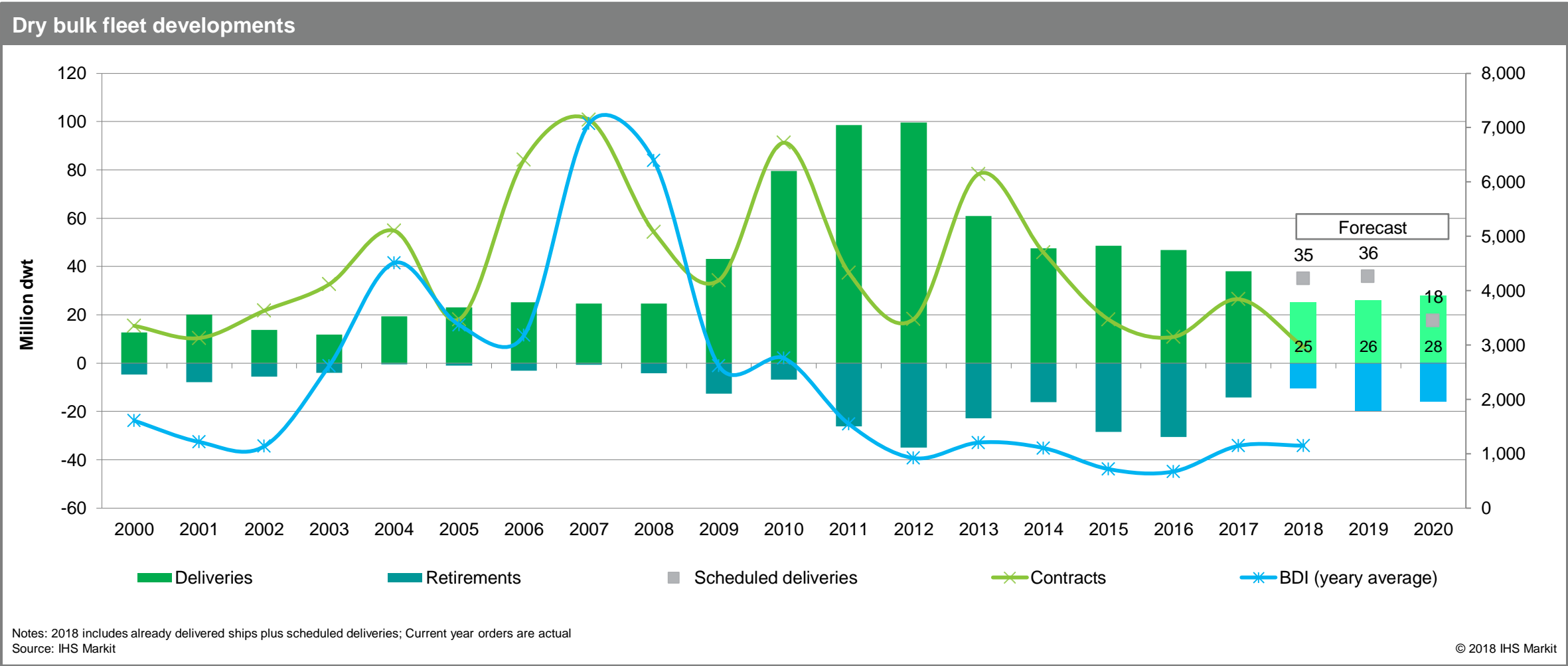
# Bulk Shipping: Market Outlook



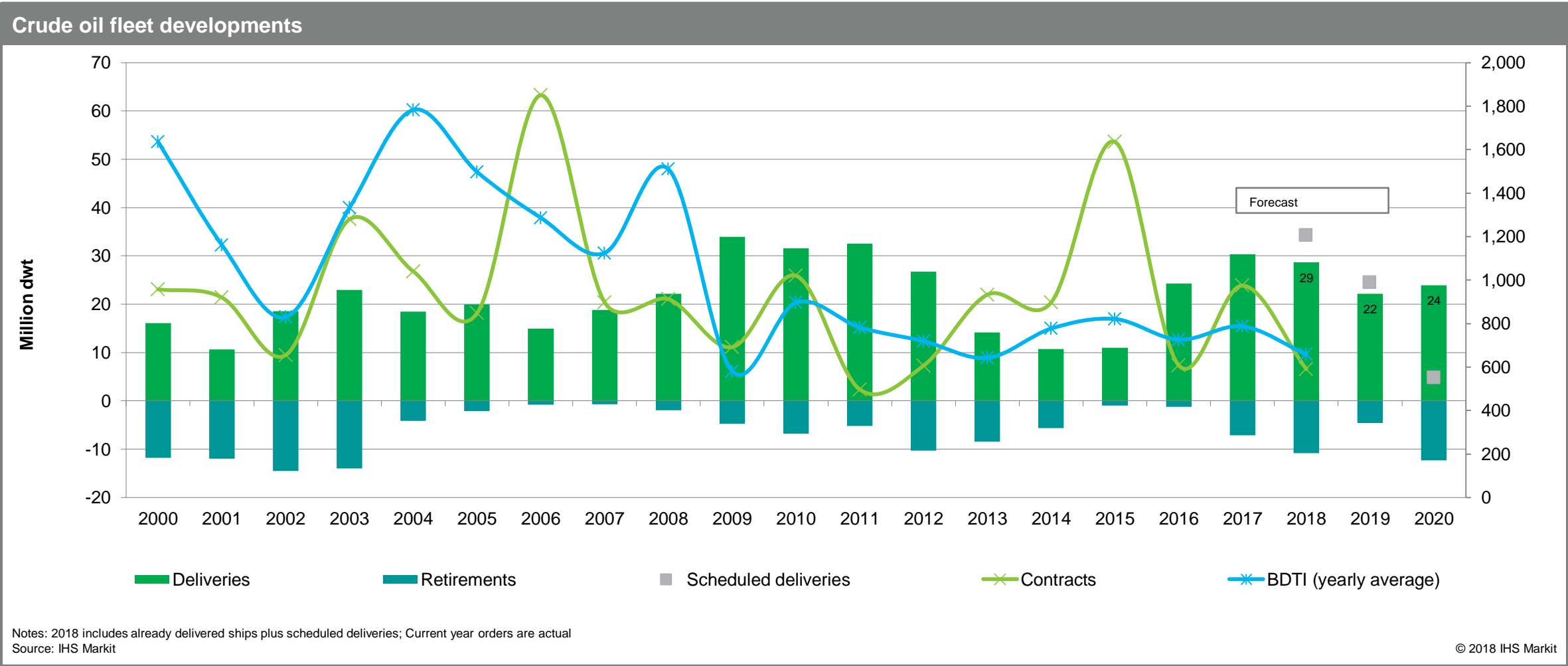
The general consensus is that dry market has passed the floor while liquid sectors are still under pressure



Dry Bulk deliveries are expected to slow down with slippage activity expected to remain strong and demolitions pick up from 2019 onwards



Strong deliveries of Crude Tankers expected for the next 24 months period likely to push demolitions higher and postpone market recovery post 2020

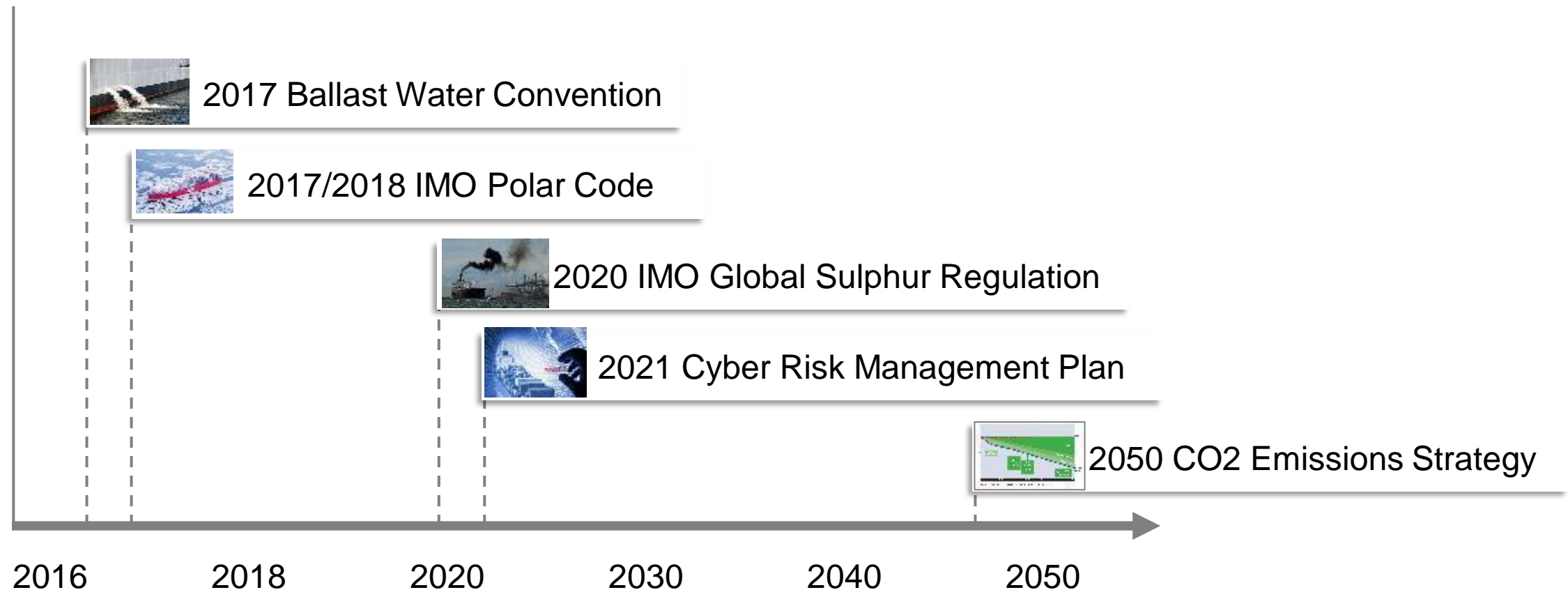


## Bulk shipping outlook: cautious optimism for Dry Bulk but too early for Tankers

Vessel type	Key message	+ -	Outlook
Dry Bulk	Dry bulk market recovered in later part of 2017 which reflected in higher freight rates and some stronger ordering activity – shipowners still seem to be under control!	+ Chinese imports started strong this year  - Sensitivity to Chinese economy and potential fleet growth	Stable
Crude Oil	Oversupply and lower earnings increased pressure on demolitions – incentivizing removals of younger ships and lowering economic life of some ships.	+ Longer routes/diversification of trade  - OPEC cuts/fleet growth	Weak

# Disruptive Forces

# Environmental regulations are a challenge for the maritime industry and will have a significant impact on its future structure



**With low scrubber adoption, new Sulphur regulation compliance will drive a strong shift towards gasoil/diesel quality components.**

1

Install scrubbers



2

Switch to LNG  
(or other alternative fuel)



3

Switch to compliant fuel

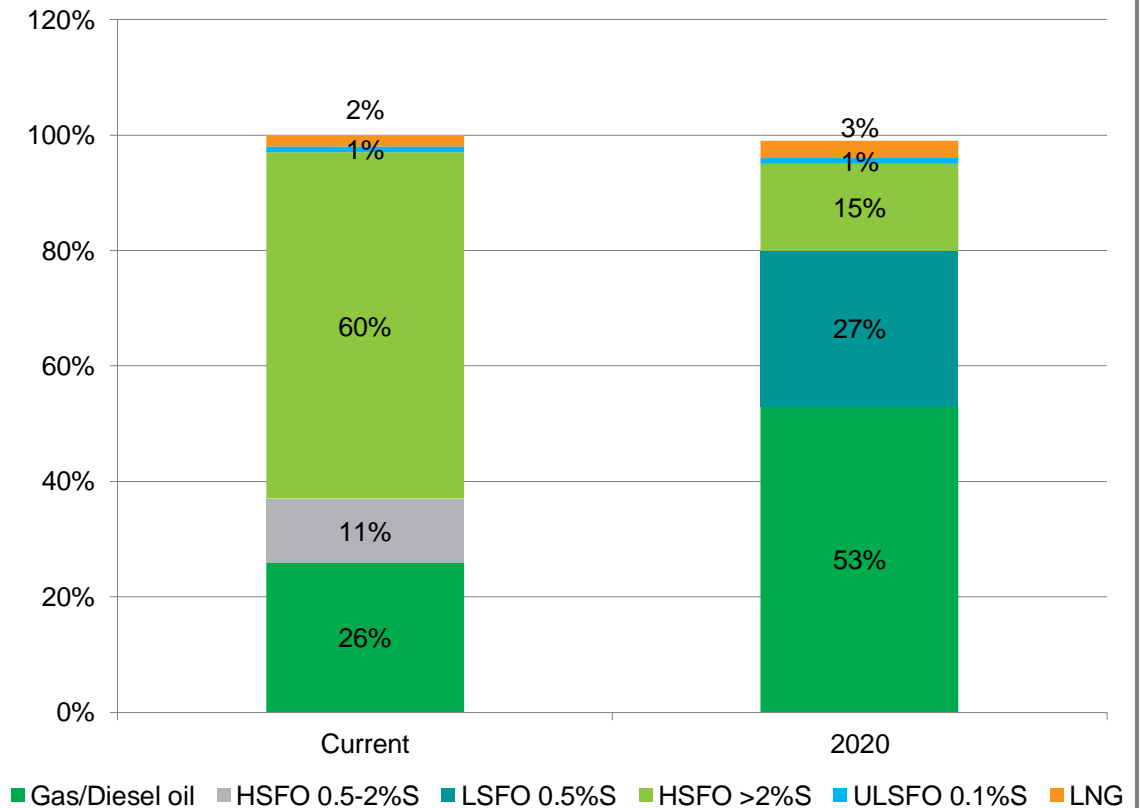


4

Non-compliance



Global Bunker balances post IMO specifications



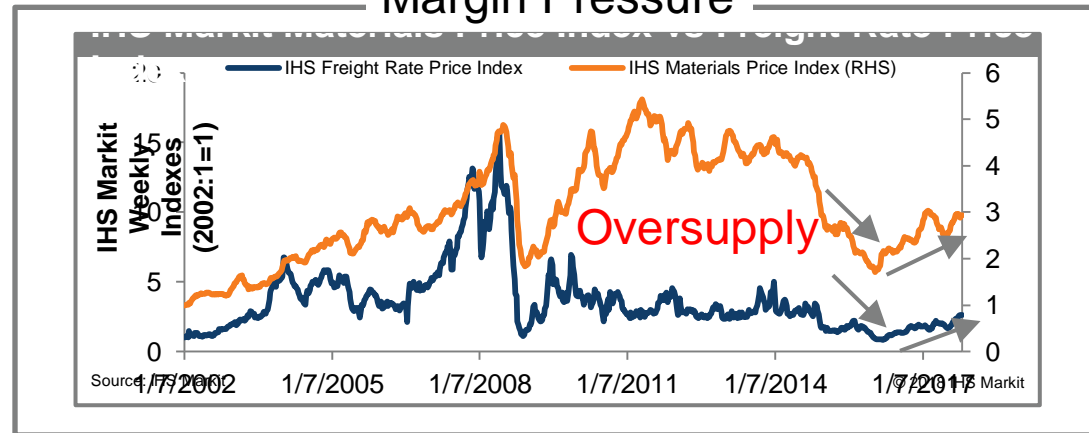
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## Regulation will not be the only disruptive force – enhanced technology will drive market transparency and opportunity for margin gains

### Margin Pressure



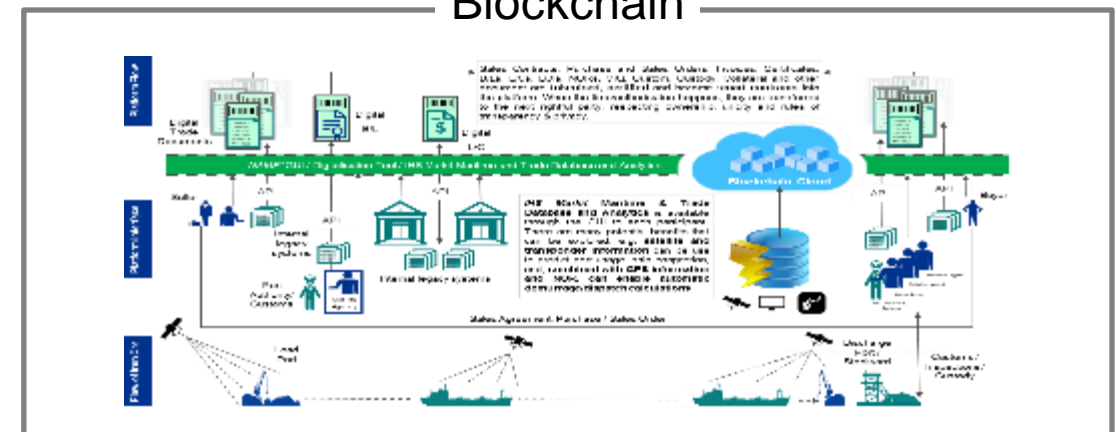
### Market Transparency



### Digitization



### Blockchain



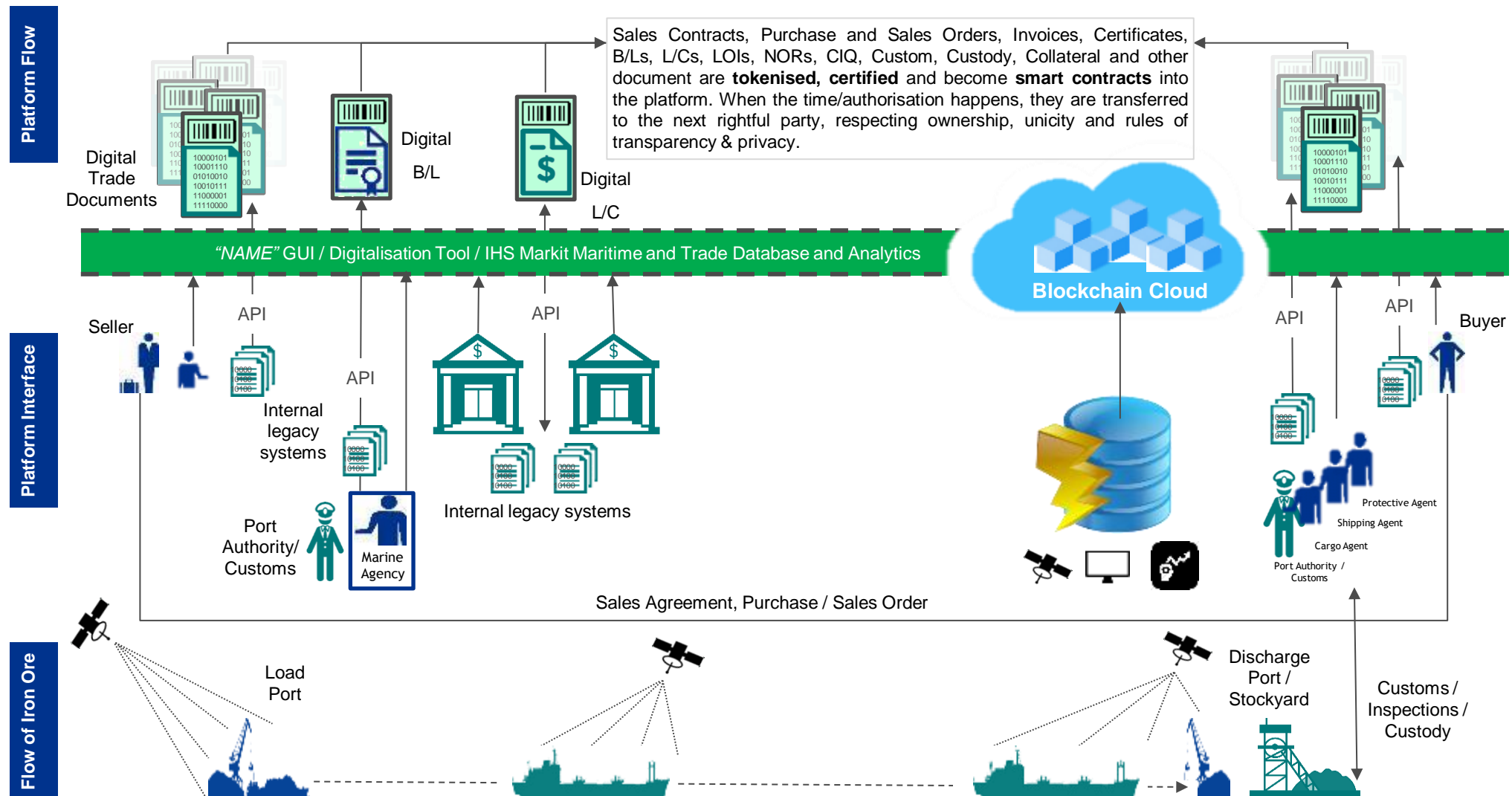


# Big data technologies are increasing industry transparency, for example forecasting freight rate volatility in Dry Bulk sector

- IHS Markit has developed a forecast model that uses econometric modelling, industry expertise & advanced analytics techniques to predict dry bulk freight rates on a monthly basis up to 3 years.

<b>Vessel Types &amp; Routes</b>	<b><u>Capesize:</u></b> 5TC + C2, C3, C4, C5, C7, C15, C17, C8, C9, C10, C14, C16 <b><u>Panamax:</u></b> 4TC + P1A_03, P2A_03, P3A_03, P4_03, P3A-IV <b><u>Supramax:</u></b> 10TC + S1B, S1C, S4A, S4B, S5, S9, S2, S3, S8, S10
<b>Charter Rates Type</b>	Voyage charter (\$/ton) and Time charter (\$/day)
<b>Forecast Horizon</b>	Freight rates are provided on a monthly basis up to 3 years.
<b>Model Inputs and Drivers</b>	Baltic Exchange indices and more than 3,000 industry-related drivers
<b>Model Methodology</b>	Models are trained with historical data from 2010 to 2016 to generate the monthly forecast for testing purposes against Baltic's actual results. Only models with >80% accuracy will be used to produce the 2018-21 forecast results
<b>Forecast Results</b>	Unbiased data analytics modelling can be more reliable than FFA as basis for commercial decision-making

# Blockchain can bring efficiency as well as security into the global supply chain



# Summary

## Summary

- The demand outlook for liquid and dry bulk commodities is positive with 2-3% growth over coming decade indicating continued demand growth for shipping
- For dry bulk tanker markets the recovery is underway and expected to continue, but oversupply in crude oil tankers is expected to continue to depress rates
- Regulation, digitisation and new technologies such as big data analytics and blockchain have the potential to bring significant disruptive impact on current shipping market landscape



# Thank you

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