



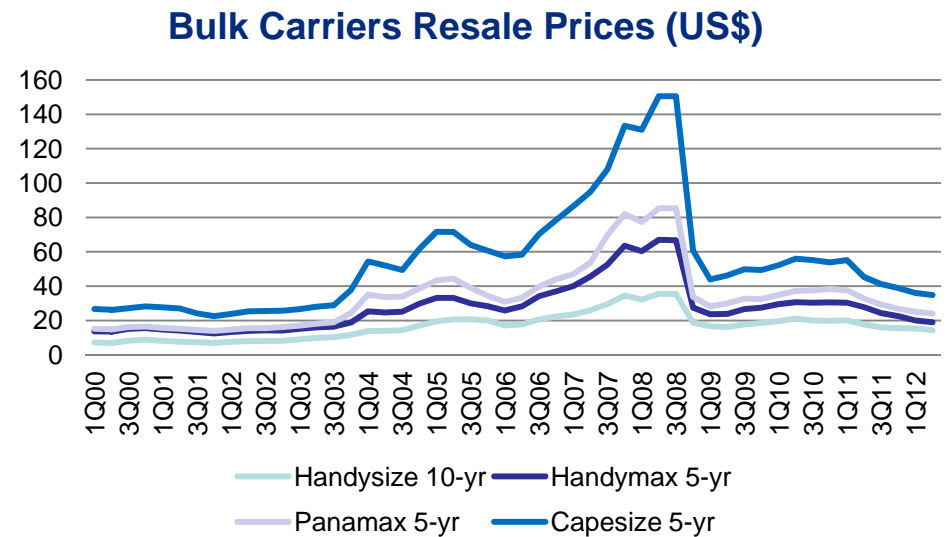
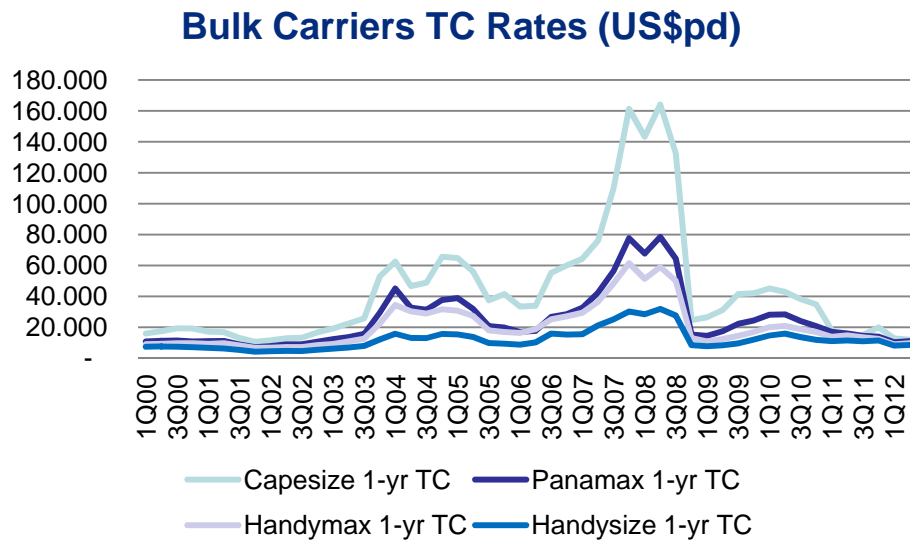
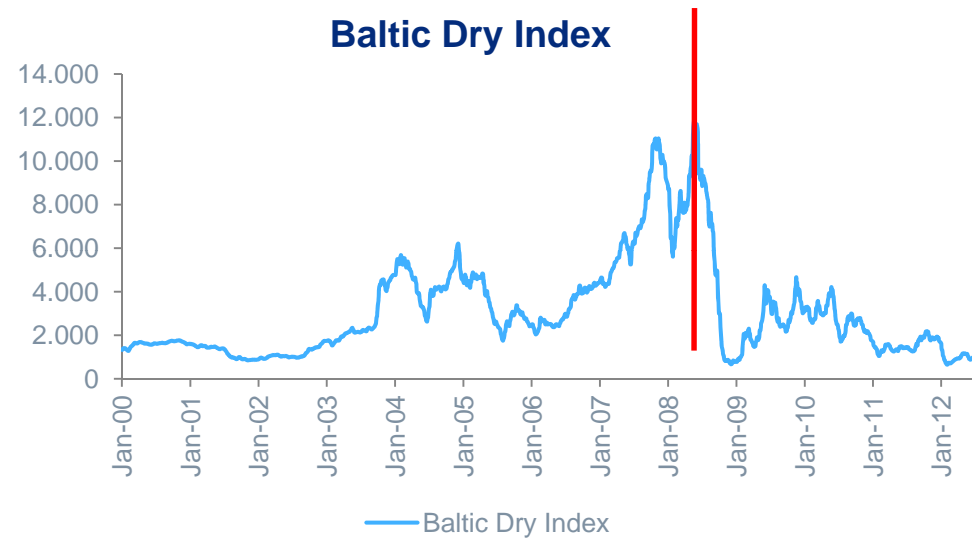
Dry Bulk Shipping- an Opportunity or an Illusion?

4th IRON ORE & COAL “World Shipping Summit 2012”

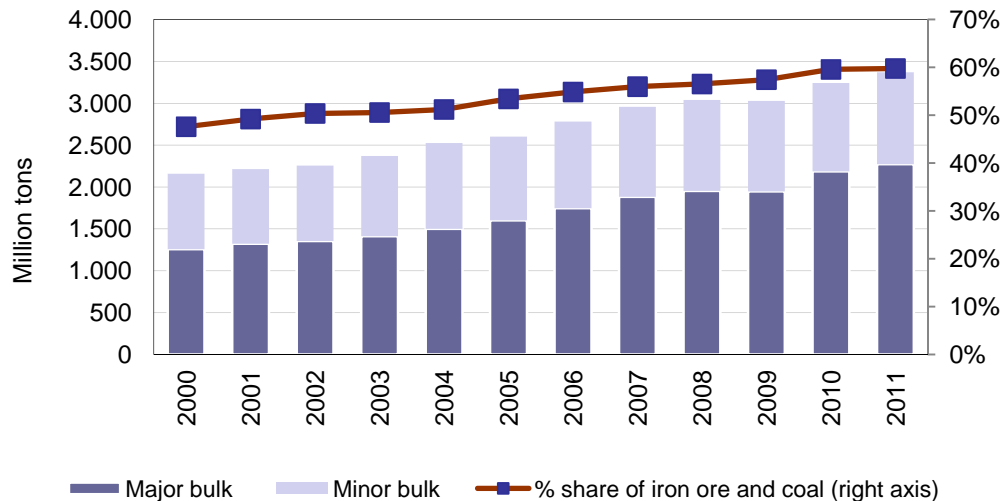
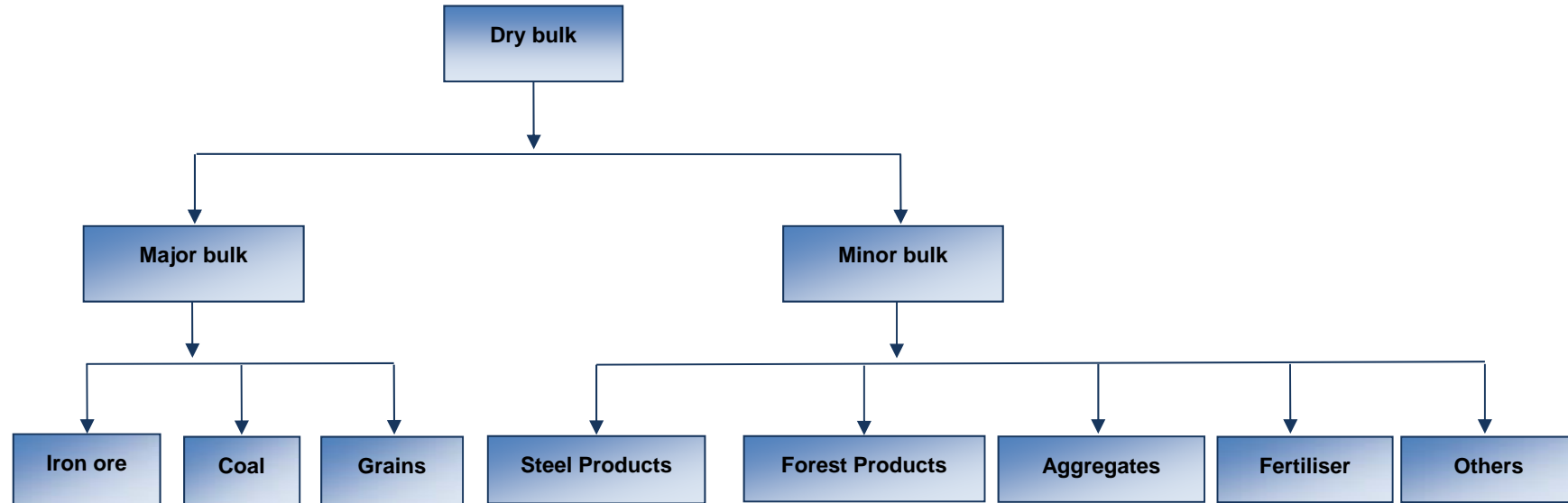
Lisarain Yu Jiang – Senior Consultant

1 October 2012
Athens

The dry bulk market cycle - where are we today



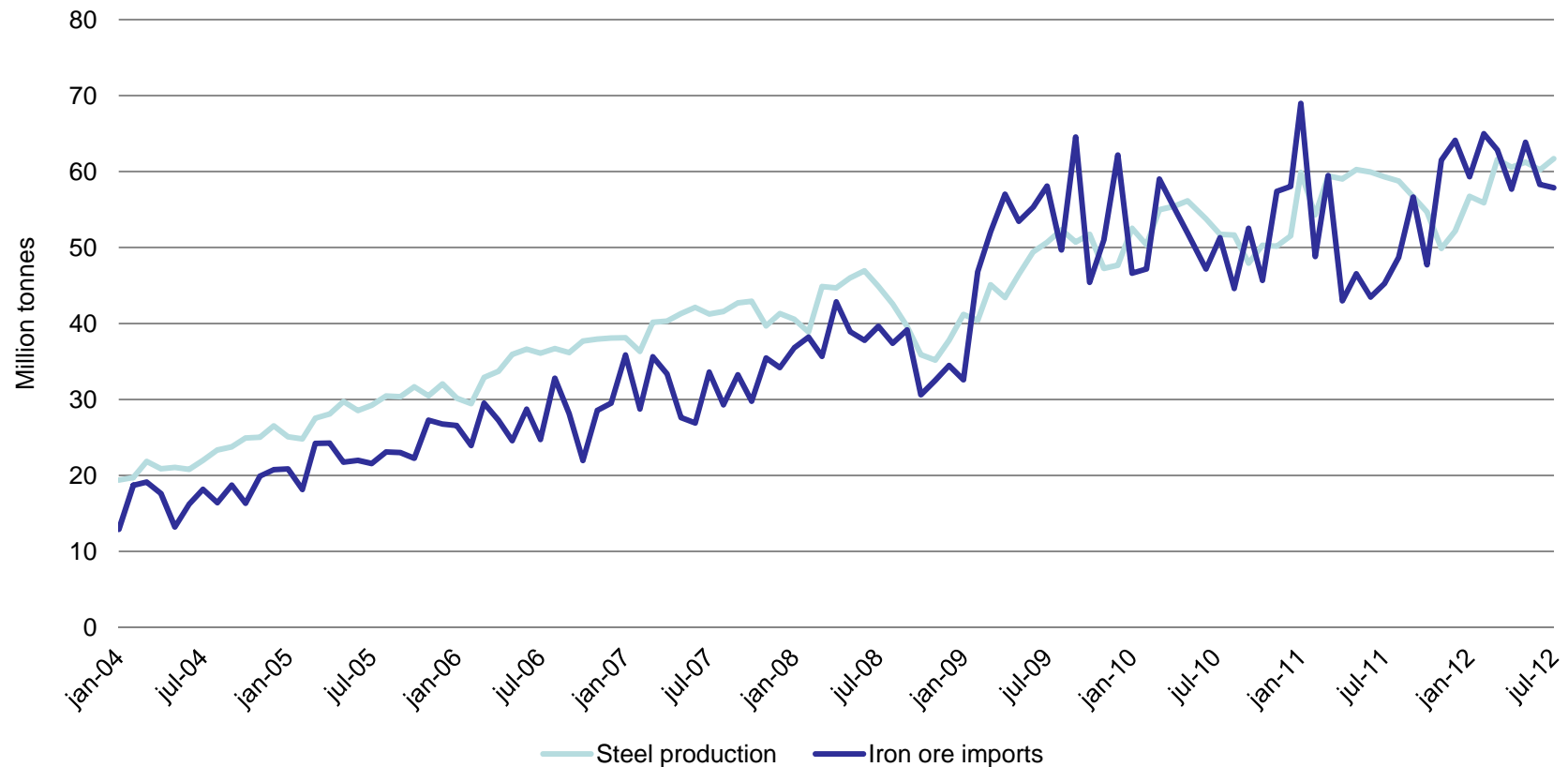
Iron ore and coal contribute to 60% the total dry bulk trade



- Historically, major bulk such as iron ore and coal witnessed higher trade growth than that of the minor bulk cargoes.
- Iron ore and coal contribute to 60% of the total dry bulk trade volume in 2011.
- Major bulk trade is mainly driven by the steel and power sectors in China, and to some extent India

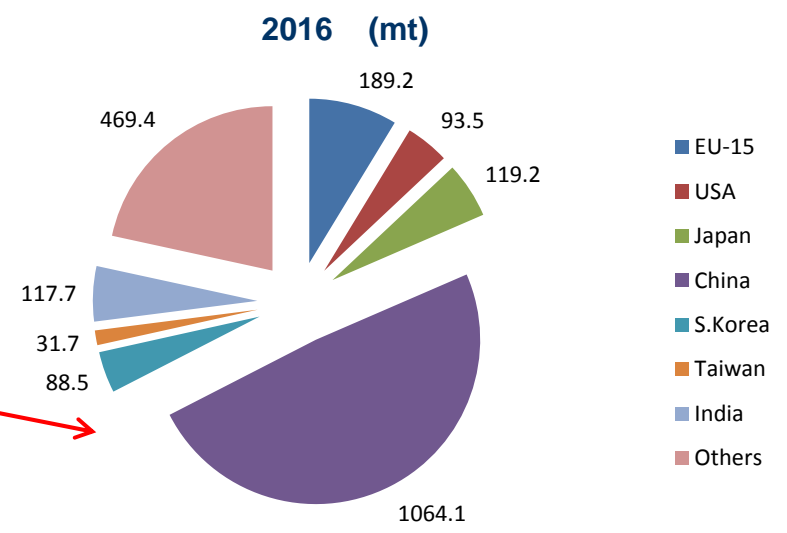
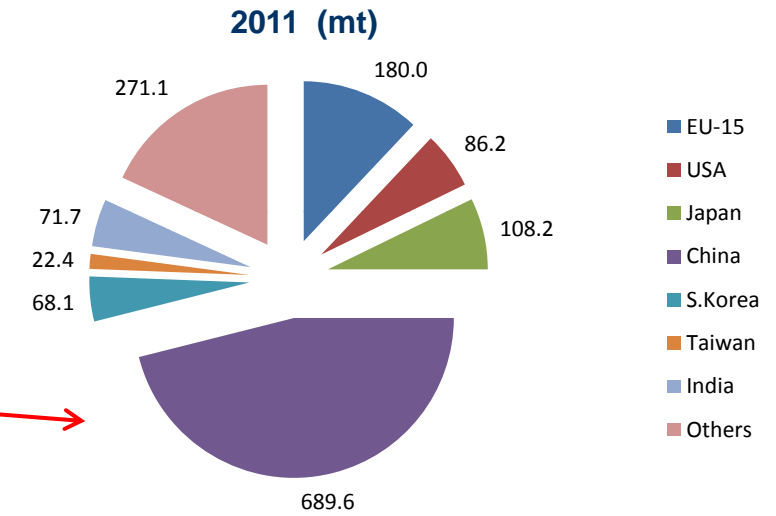
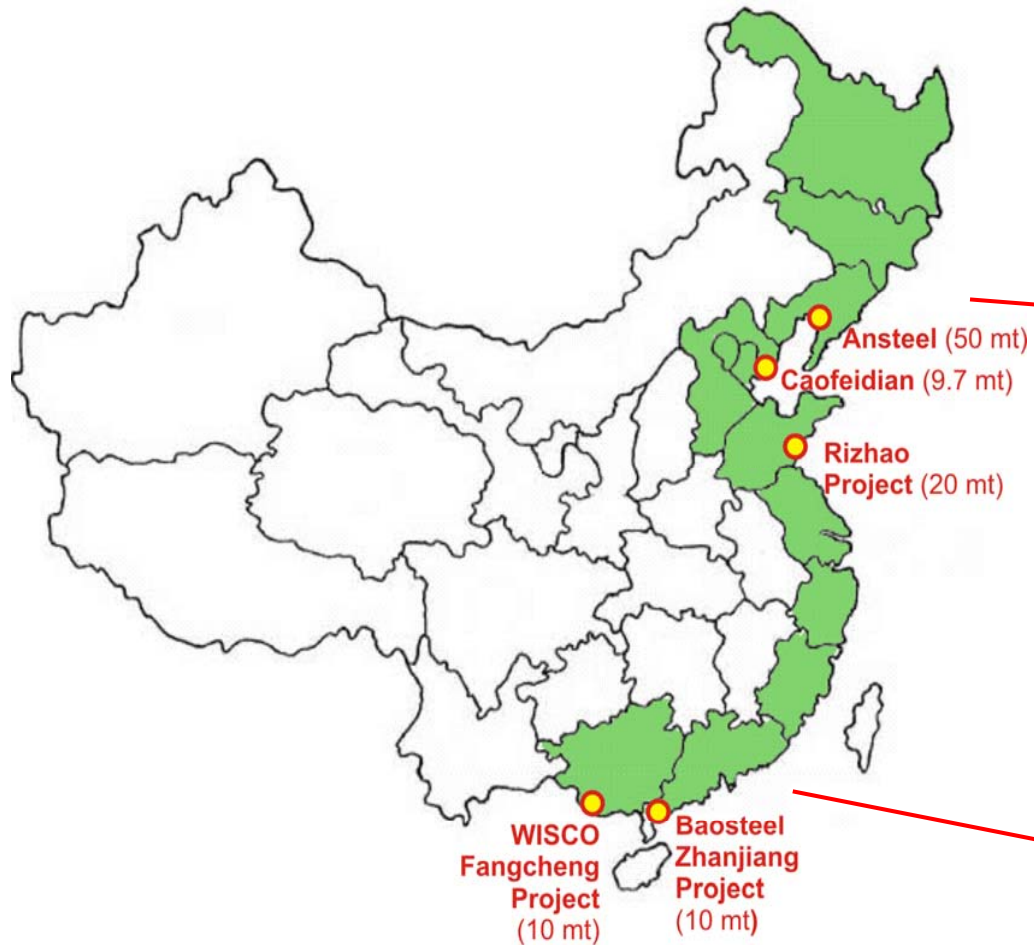
Chinese steel and iron ore market

Monthly steel production and iron ore imports 2004 – 2012 YTD



Source: UNCTAD, ABARE

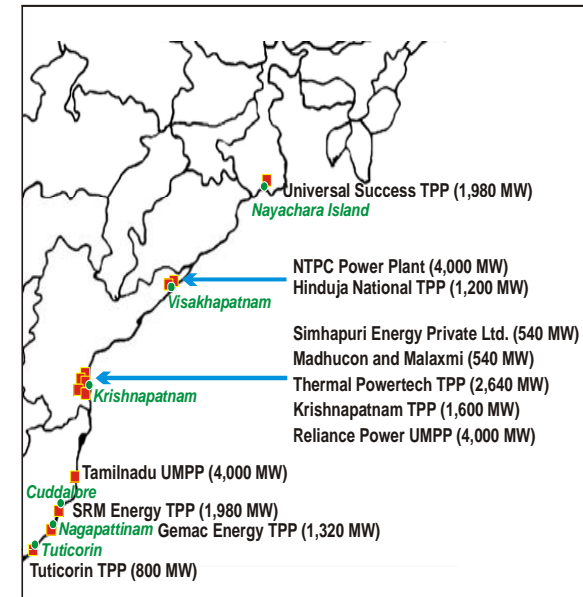
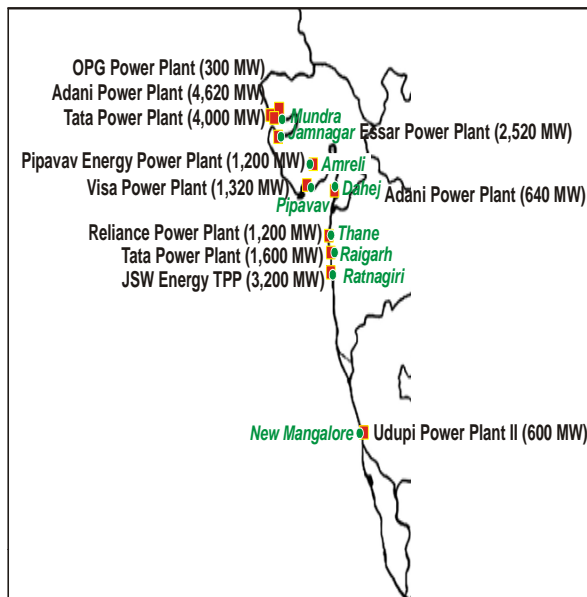
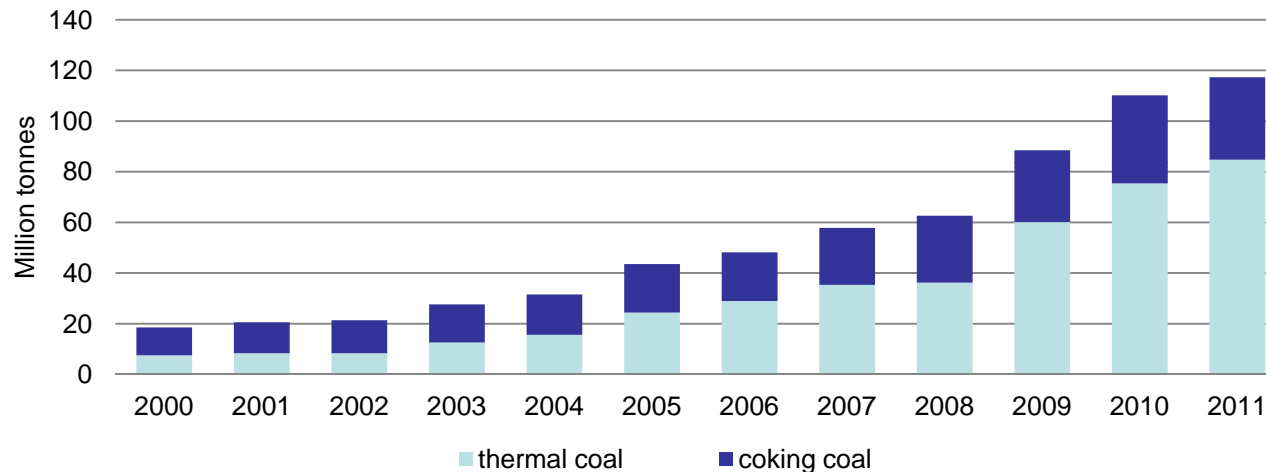
China steel production expected to continue to drive the market



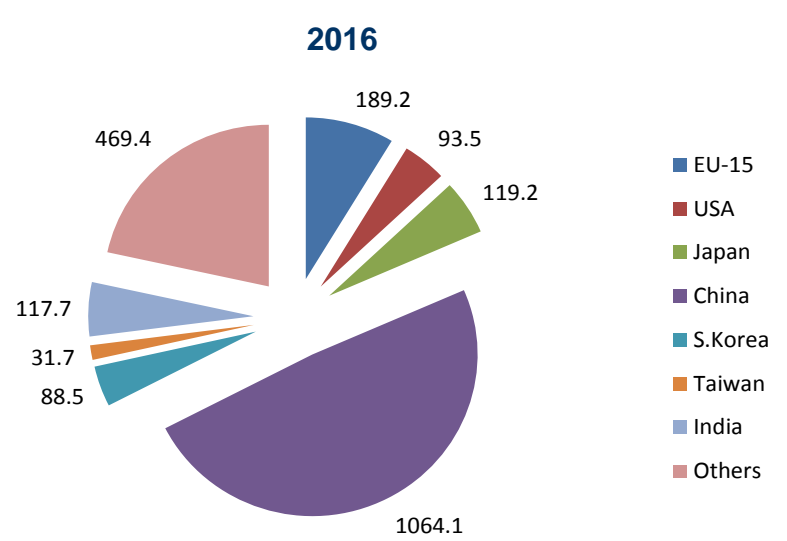
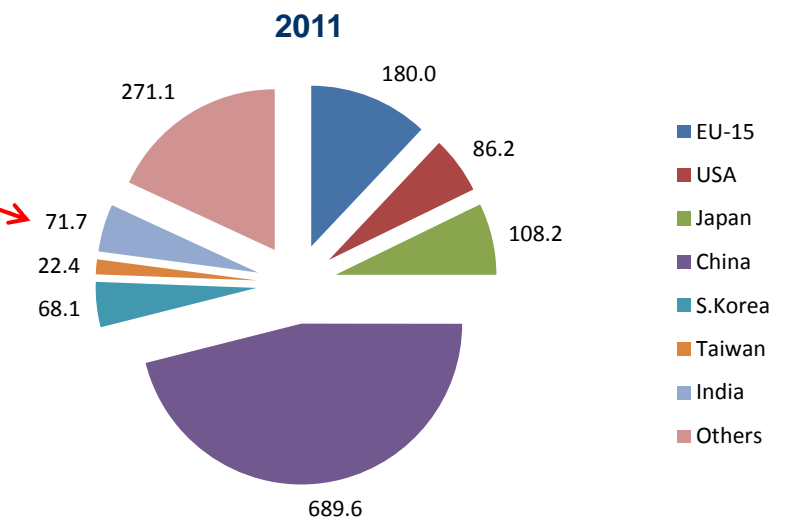
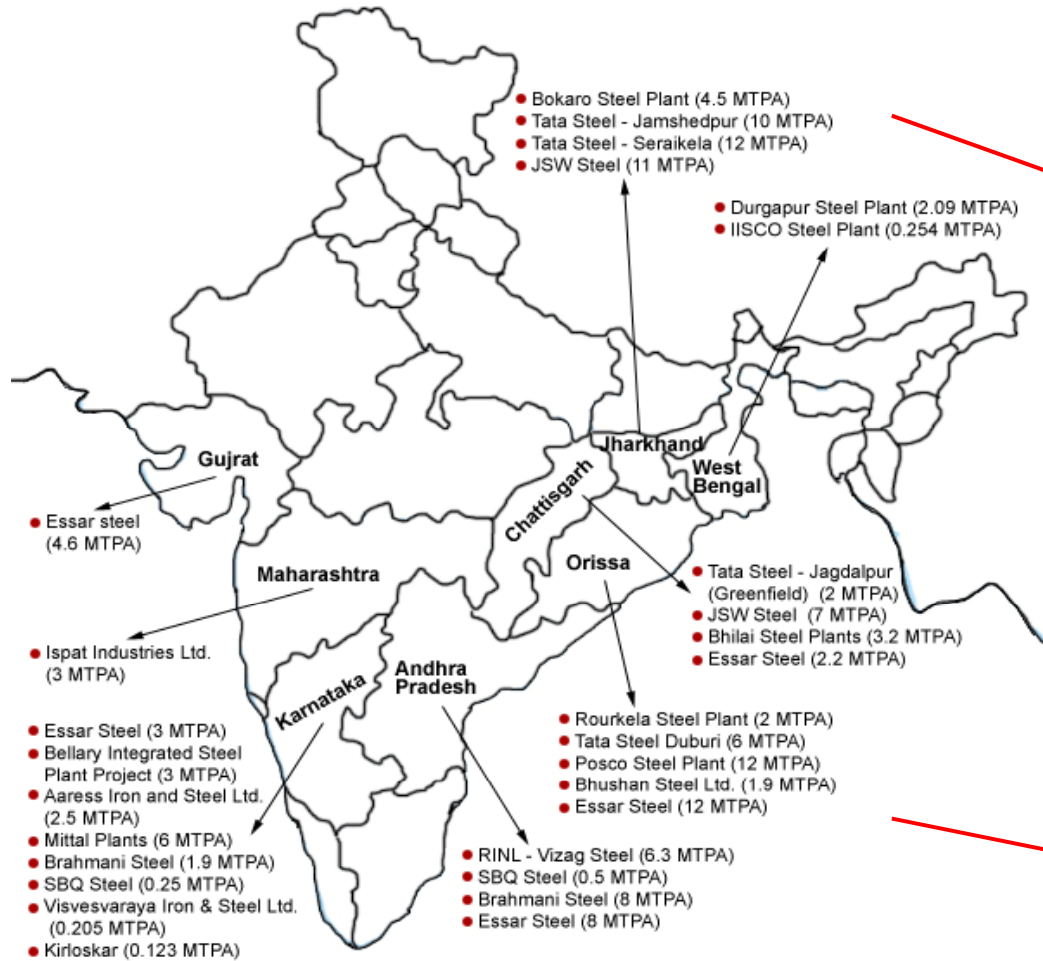
Source : Drewry, MEPS

India coal imports and upcoming coal-fired power plants

Indian coal imports 2004 – 2011



India crude steel production to drive coking coal import



Source : Drewry, MEPS

Overall demand outlook: 2012-2016

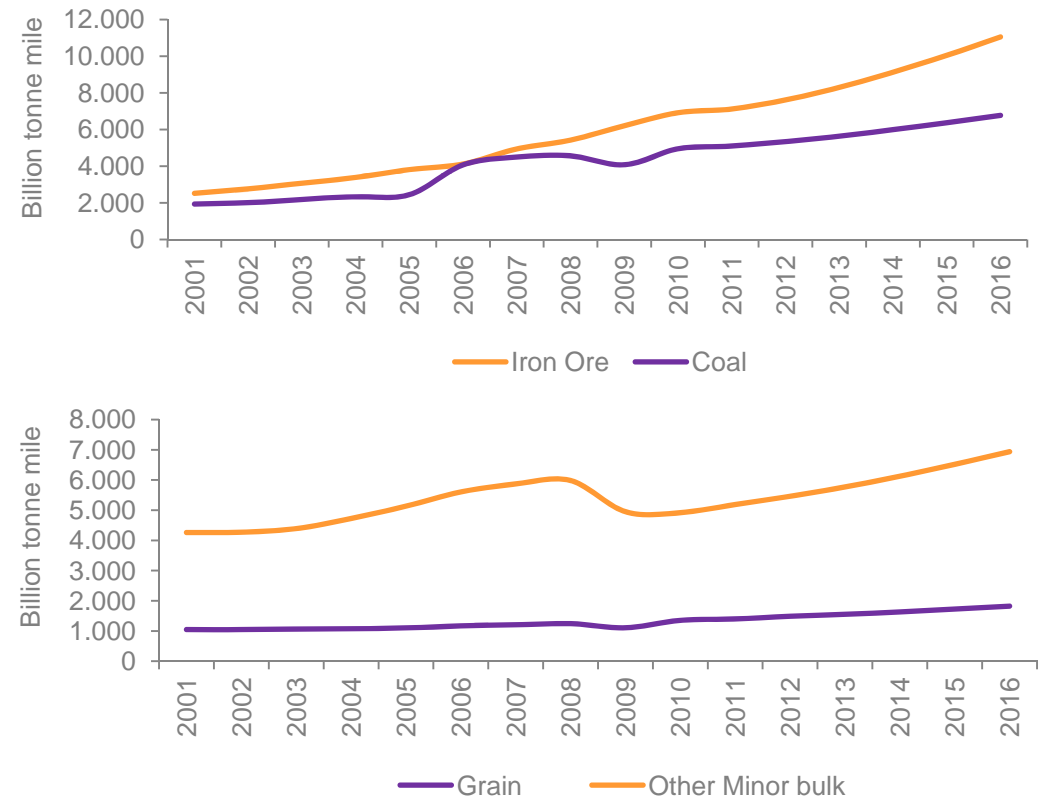
Drewry scenario

	Major Bulk		Minor Bulk	
	Million tonnes	% Growth	Million tonnes	% Growth
2011	1,959	1%	1,243	4%
2012 (f)	2,047	5%	1,292	4%
2013 (f)	2,164	5%	1,340	4%
2014 (f)	2,312	5%	1,400	4%
2015 (f)	2,469	5%	1,465	5%
2016 (f)	2,638	5%	1,534	5%

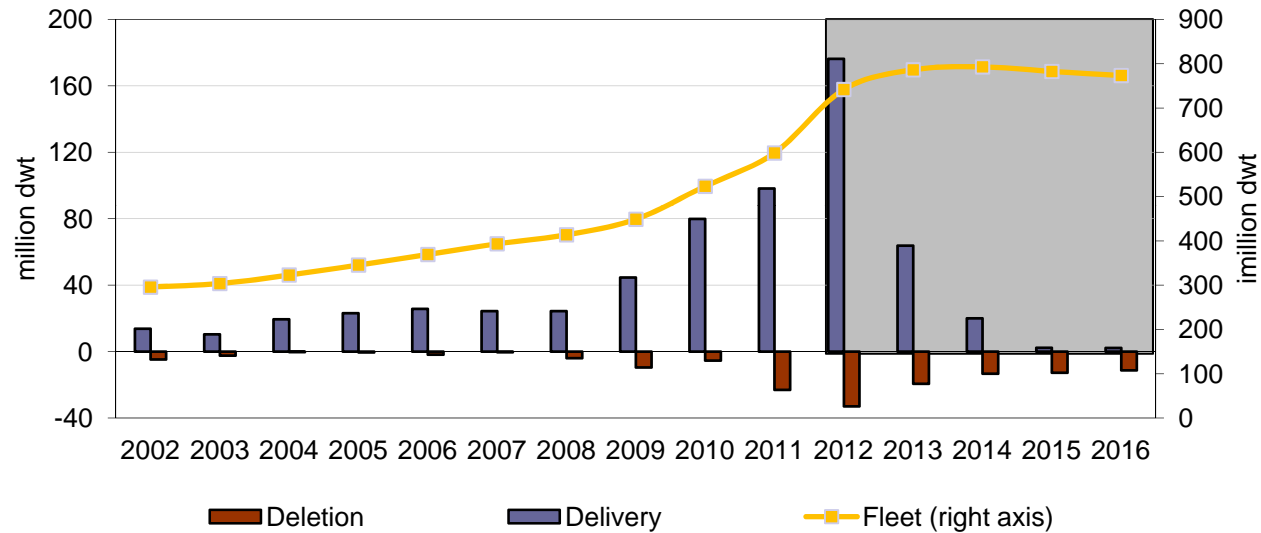
	Billion tonne miles	% Growth	Billion tonne miles	% Growth
	2011	12,212	3%	6,589
2012 (f)	12,964	6%	6,948	5%
2013 (f)	13,932	7%	7,317	5%
2014 (f)	15,125	9%	7,760	6%
2015 (f)	16,415	9%	8,242	6%
2016 (f)	17,826	9%	8,758	6%

- Overall CAGR of trade between 2012 and 2016: 5.2%.
- Overall CAGR in tonne mile demand between 2012 and 2016: 7.9% as distances are increasing.
- Forecasts are subject to current economic uncertainties. A prolonged slowdown in many countries in Europe will lower the growth in dry bulk demand. China and India growth rates are slowing.
- Chinese government policies to consolidate its steel industry, cool down housing market and curb inflation will have direct impact on iron ore trade.
- Whilst our outlook is optimistic, there is some downside risk to the growth in demand.

Dry bulk tonne mile demand (btm)



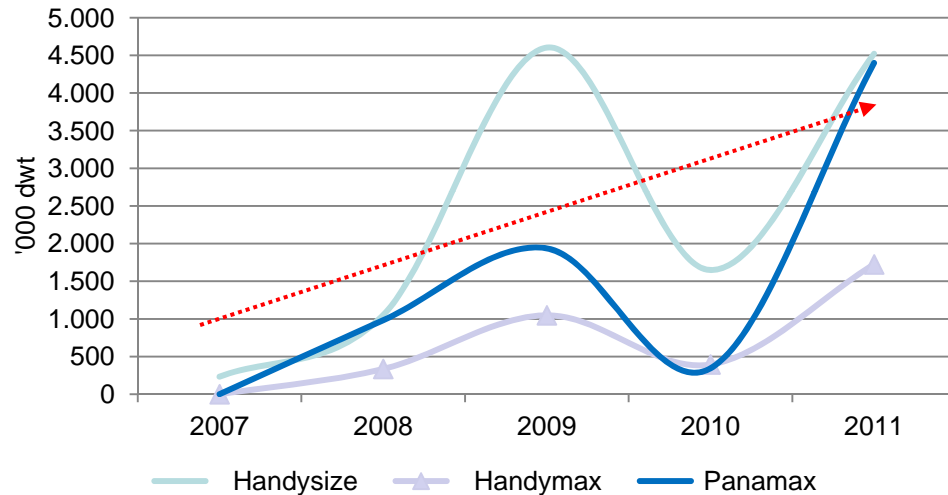
Supply outlook: massive fleet growth continues



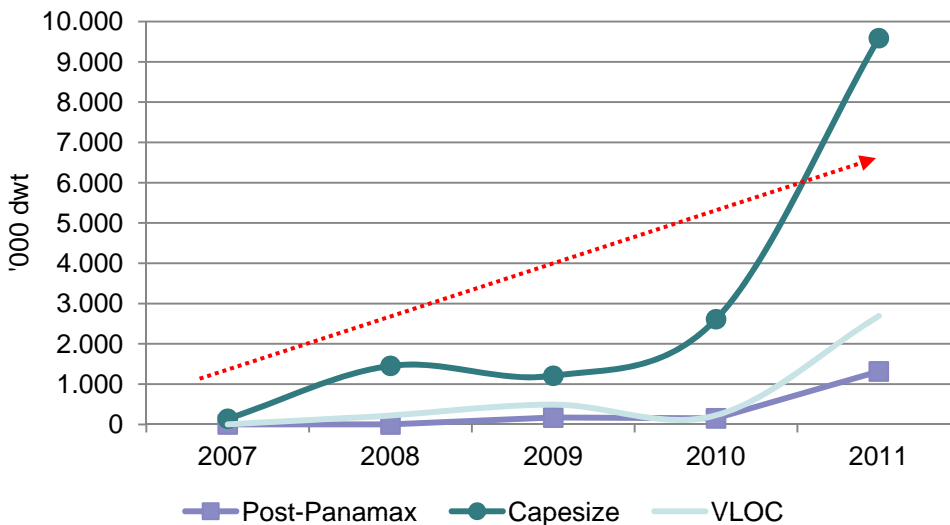
- High delivery growth
- Heavy deliveries as a result of over ordering during the 2006-2008 shipping boom.
- Slippage of new building deliveries
- Fleet growth based on scheduled deliveries and expected demolitions: 31% in 2011-2013

Demolition age falling, economics and regulation putting further pressure

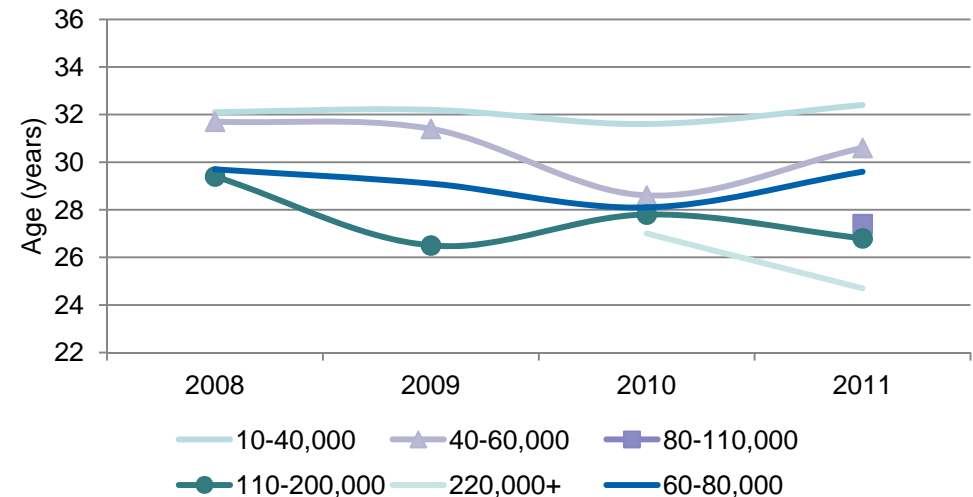
Dry bulk demolition



- Number and dwt of demolition increasing:
 - Total demolition 2009 (9.5 mdwt), 2011 (24.2 mdwt)
- Demolition age falling: Capes being scrapped around 27 years.
- Due to very recent energy efficiency designs, new technology ships would be far cheaper to operate, providing 20-25% higher efficiency. This will further push tonnage around 25 years to scrap yards.
- New environmental regulations on onboard ballast water treatment and emission control areas will put further pressure on older tonnage.

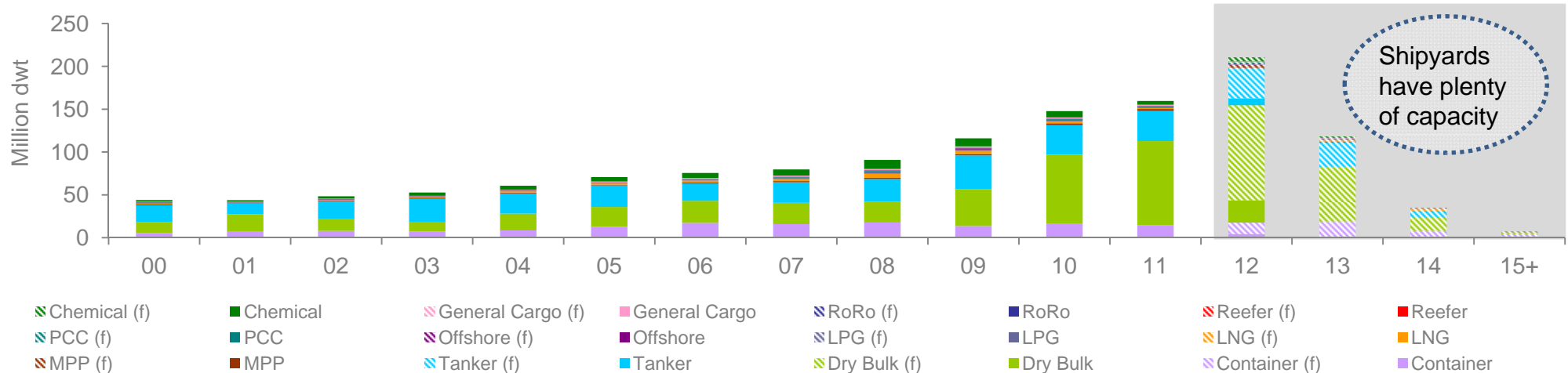


Dry bulk average demolition age by segment



Excess shipbuilding capacity, more so for dry bulk

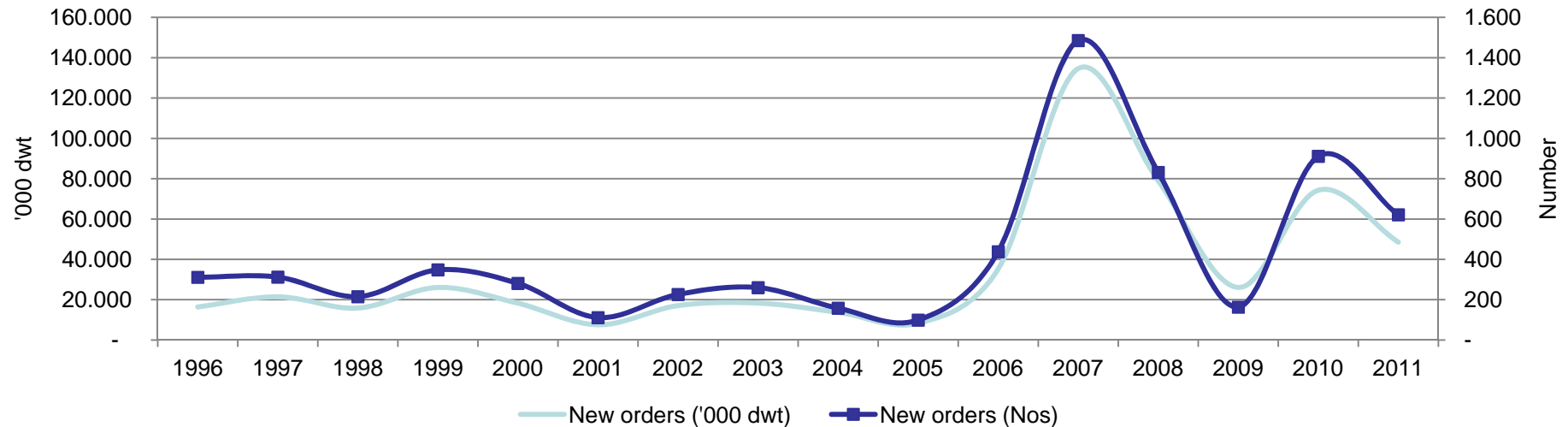
Shipyard output and orderbook



- Shipbuilding capacity (considering all sectors) increased four-fold from 50 mdwt in 2002 to 200 mdwt in 2010.
- On average nearly 30% of the total shipbuilding capacity is involved in dry bulk. For the past three years it has been over 60% of the total capacity
- The majority of yards, both new and established, have increased their productivity and their total production dramatically.
- Consequently, there is excessive shipbuilding capacity and yards are reducing prices to get new orders or resell cancelled orders. A number of new orders were placed in 2010 and 2011 due to falling prices. This will aggravate the problem of oversupply and freight market recovery.
- This will continue to haunt dry bulk freight market as major chunk of low cost Chinese capacity is dedicated to dry bulk.

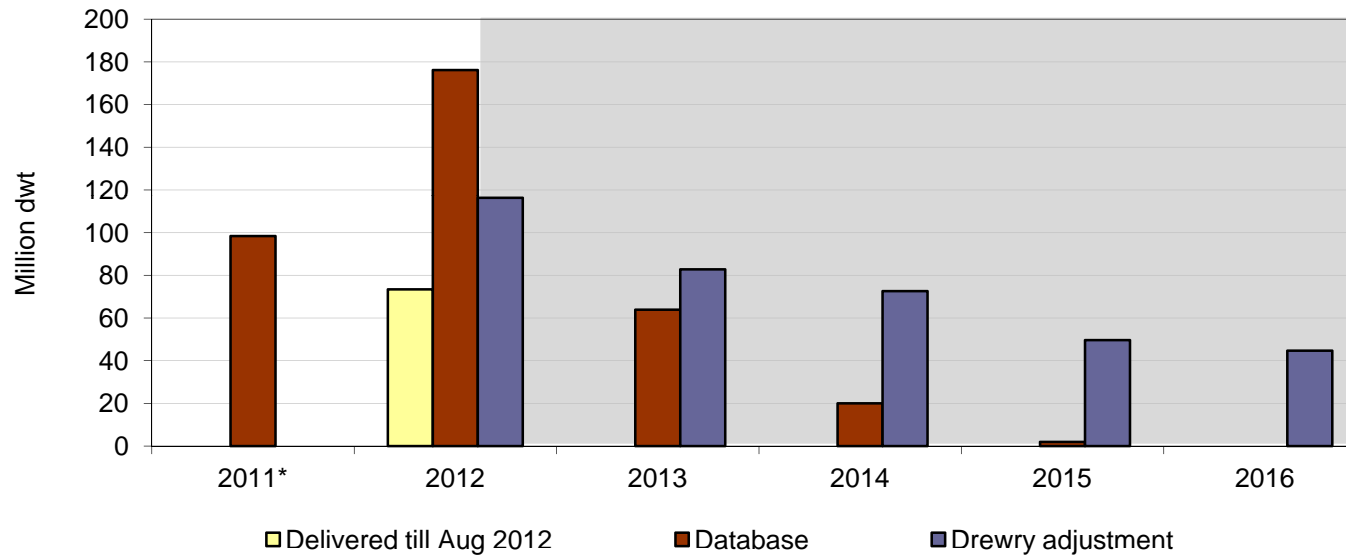
Shipbuilding consolidation

Dry bulk newbuilding orders



- Newbuilding activity going down
- Consolidation in shipbuilding industry: orders drying up beyond 2013.
- China: impending consolidation of Chinese yards.
 - Dalian Oriental Marine & Heavy Industry, Zhejiang Jingang Shipbuilding, Dongfang Shipbuilding filed for bankruptcy in 2012
 - Government aims to consolidate China's shipyards.
- Japan: merger between IHI Marine United and Universal Shipbuilding

Orderbook and expected delivery

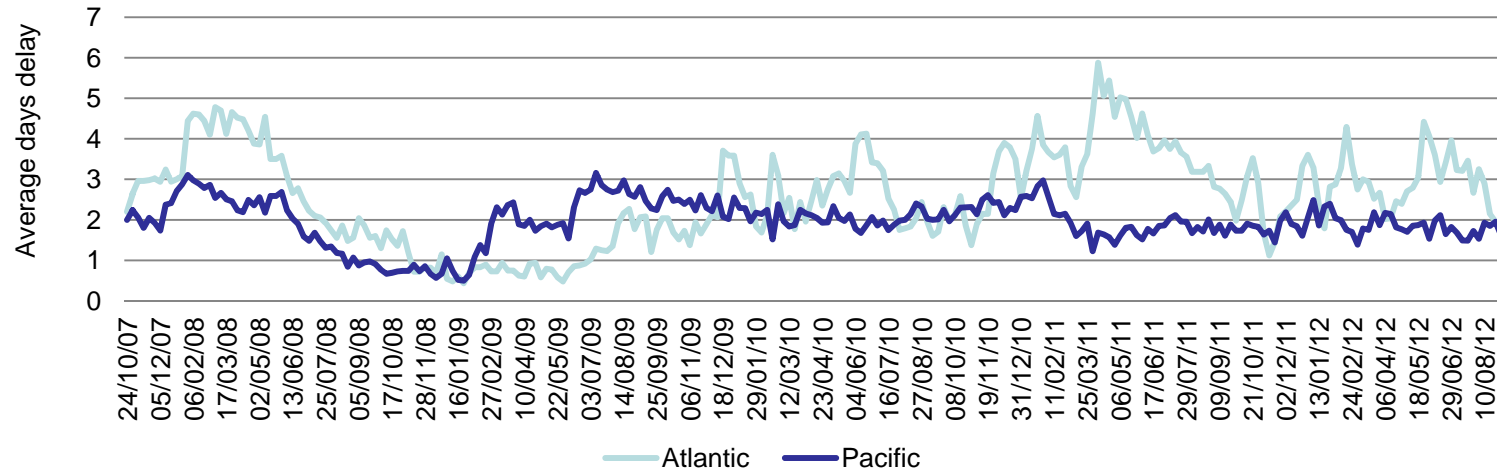


Deliveries assumptions

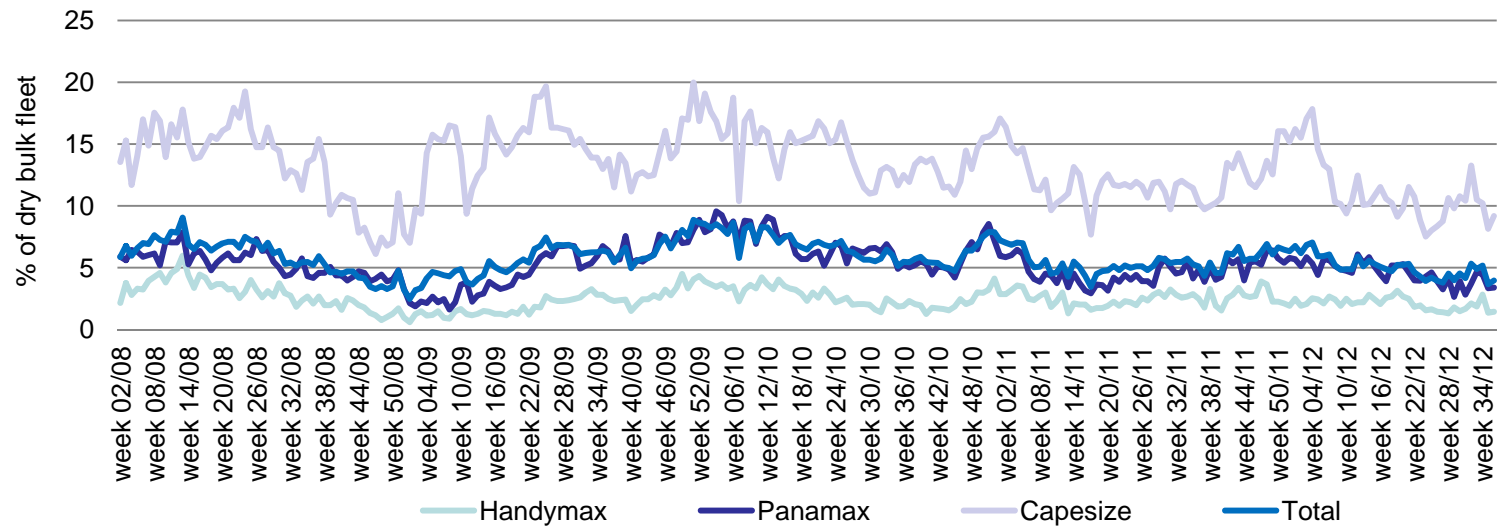
- Newbuilding delivery slippage was 33% in 2011. To August 2012 only 41% of the 2012 order book has been delivered, so clearly there will be further slippage/cancelation of deliveries in 2012.
- Forecast: 116 mil dwt ship deliveries in 2012, 83 mil dwt in 2013.
- Post-2013, deliveries will comprise of slippages from previous years and new orders.

Congestions marginally easing oversupply

Port congestion index

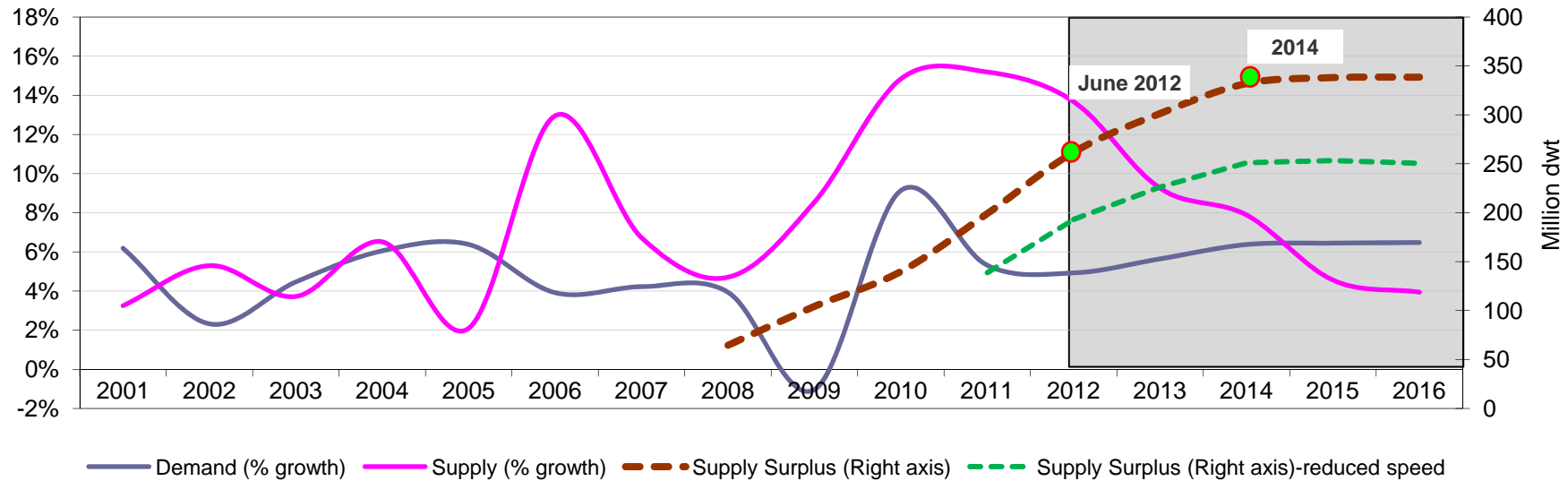


Percentage fleet at anchorage



Demand-supply balance: excess supply continues to grow

Adjusted demand-supply balance: dry bulk



- Demand exceeds supply by more than 250 million dwt at present.
- Reduced speed can ease supply by over 80 mdwt
- Demand-supply balance easing very slowly beyond 2014.
- Demand uncertainties in China, Europe and elsewhere.

Conclusion - where are we heading to

Demand uncertainties and supply overhang

- Global economic uncertainties
- Over-ordering on the back of shipping market boom between 2006 and 2008.

Rays of hope

- Increasing demolition age due to falling earnings
- New energy efficient designs might make older tonnage unviable.
- Regulatory changes for ballast water treatment and emission control areas will be added pressure on older tonnage. These factors will ease supply.
- Slow steaming can alleviate the oversupply problem marginally.
- Port congestion easing oversupply
- Consolidation in shipbuilding might rationalise capacity
- China's continued dependence on iron ore imports
- Rising electricity demand in developing Asia

Drewry was founded in 1970 as a provider of independent information and advice to the global maritime industry. Since then we have worked with over 4,000 clients in more than 100 countries.

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