Dry Bulk Shipping Market Overview & Outlook

Market uncertainty due to slowdown in China

Q3 2023

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Highlights

Demand

China's GDP could grow by an average of 4.9% during 2023-2024, but the outlook remains uncertain amid a recent economic slowdown.

Iron ore shipments are estimated to grow 4.5% from 2022 to 2024. In 2024, growth may slow due to weaker Chinese demand.

Coal shipments could be 2.4% higher in 2024 than in 2022. In 2024, lower demand in advanced economies and high mining in India could drive a 1-3% drop in volumes.

In 2024, grain shipments could recover by 3-4%, as supply improves. **Between 2022 and 2024, grain shipments may increase by 1.8%.**

Supply

The current orderbook stands at 7.7% of the dry bulk fleet. Weak rates and fuel uncertainty are keeping investment in new builds low.

Amid low fleet growth and a stable market, **we estimate that only 14 mill. DWT may be recycled during 2023-2024.**

Lower freight rates than in 2022 and climate regulations are expected to cause **sailing speed to fall 2-3% from 2022 to 2024.**

Supply/demand

Supply is forecast to grow 1-2% in both 2023 and 2024. Lower sailing speed is expected to limit supply growth.

Demand is forecast to grow 2-3% in 2023 and 1-2% in 2024. Longer sailing distances will add to tonne miles growth in 2023.

The supply/demand balance may marginally tighten in 2023 and stabilise in 2024. As such, freight rates in 2024 could remain around 2023 levels.

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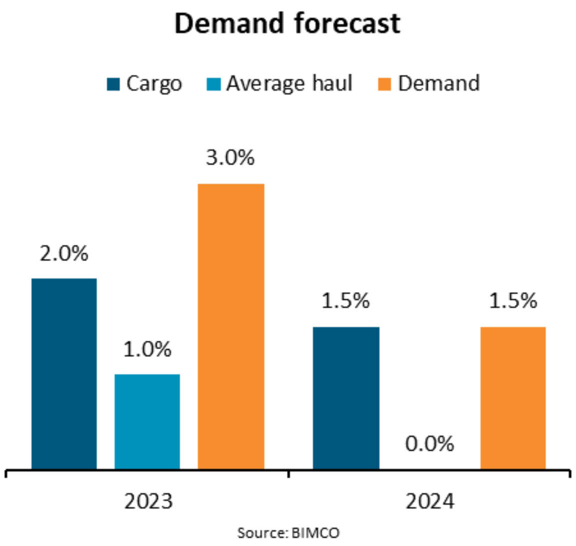
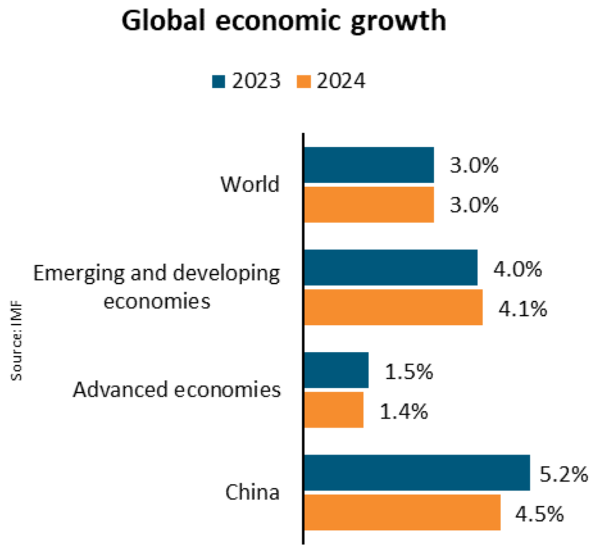
Demand

In our base case scenario, we expect global dry bulk cargo volume to grow between 1.5% and 2.5% in 2023 and between 1% and 2% in 2024.

Average haul is expected to increase between 0.5% and 1.5% in 2023, driven by sanctions on Russian coal and higher iron ore and grain shipments from Brazil.



In July, the IMF forecast the global economy to grow by 3% in both 2023 and 2024. This is a slight improvement over their previous forecast, but still well below the 3.7% average annual growth seen in the 2010s. Inflation remains a key challenge in several economies, forcing central banks to increase interest rates, slowing down economic growth.



The IMF forecast GDP in China to grow by 5.2% in 2023 and 4.5% in 2024, above the Chinese government's target of 5% for 2023. Since June economic conditions in China, however, began to deteriorate, giving rise to concerns. Several banks have cut their forecasts to below the government target, Barclays going as low as 4.5%.

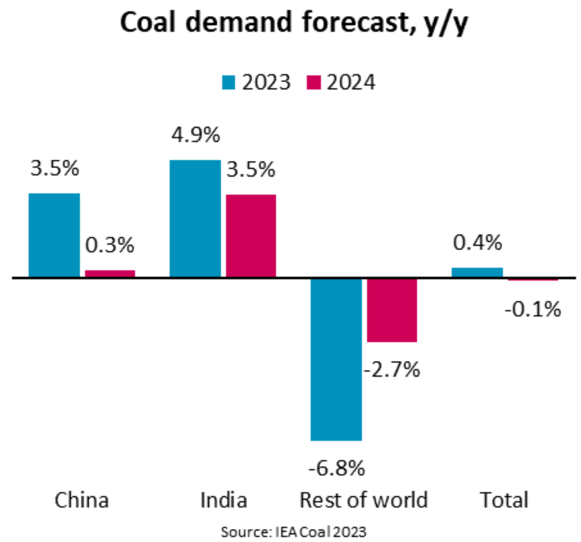
China's economy is plagued by a real estate crisis, high youth unemployment, deflation, and low consumer spending. This, alongside weaker exports due to worse economic conditions abroad, caused the Caixin manufacturing PMI to fall into contraction territory in July. To aid the Chinese economy, the government has announced support measures and lowered interest rates further. However, it is yet unclear whether this stimulus will be enough to halt the economic slowdown. In a low scenario where the government's stimulus is ineffective, we forecast dry bulk demand to grow by 0.5 percentage points less than in our base case in 2023 and 1 percentage points less in 2024.

A more positive demand scenario could occur if China were to substantially increase economic stimulus. However, given China's high debt after years of boosting public spending, we consider such a scenario unlikely.

We estimate global iron ore shipments to grow between 2.5% and 3.5% in 2023 and between 1% and 2% in 2024. So far this year, steel production has increased 3.5% in China, driven by higher steel exports, and causing a small build-up in steel inventories. Domestic steel demand has remained weak, as an increase in demand from manufacturing and infrastructure was not enough to make up for a dwindling volume of new real estate projects. Chinese domestic steel demand could fall further during the rest of 2023 and in 2024 if construction activity continues to weaken.

This year, iron ore import demand in China has outpaced steel production. Between January and July, Chinese iron ore imports grew 6.9% but iron ore inventories in Chinese ports declined. The production of new steel increased, as the availability of scrap steel in China diminished due to weaker construction activity. Over the second half of 2023, some iron ore inventory rebuilding may occur in China, thus supporting capesize ships.

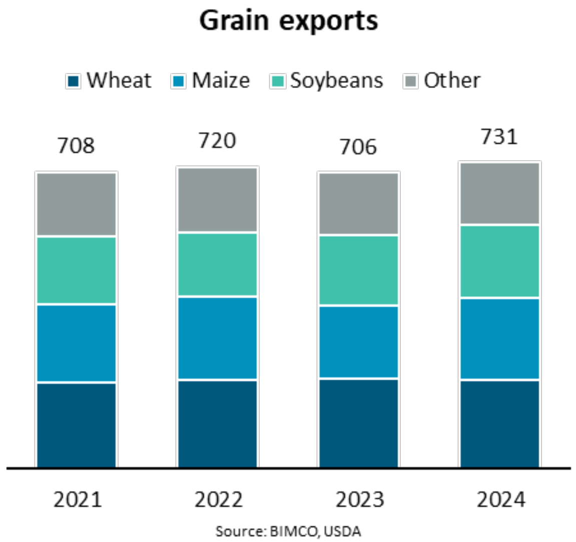
Global steel production excluding China fell 3.3% y/y between January and July, limiting growth in iron ore shipments. Production in steel exporting countries such as Japan and South Korea dropped amid lower import demand from China and higher competition from Chinese steel exports. Furthermore, steel production in Europe continued to struggle due to high energy prices and low domestic demand.



In our base case, we estimate coal shipments to grow between 4% and 5% in 2023 and to fall between 1% and 3% in 2024. According to the International Energy Agency, global coal demand could rise 0.4% in 2023, reaching a new peak, before falling 0.1% in 2024. For advanced economies in 2024, the agency expects coal demand to decline faster than it increases in China, India, and Southeast Asia combined. Up until now in 2023, China has driven the increase in global coal shipments. Strong economic growth at the start of the year followed by heatwaves in the late spring and summer have caused fossil fuel electricity production to rise 5.3% y/y. However, coal inventories have increased amid both higher imports and mining. As such, coal shipments into China could grow at a slower rate in the second half of 2023. In 2024, China's coal imports may continue to grow, since prices for imported coal are lower than for domestically mined coal. Safety concerns in some coal mines in China have also emerged, which could limit growth in domestic mining.

The outlook for India, the second largest coal importer, also remains uncertain. So far in 2023, higher coal mining has caused imports to fall, even as electricity demand has increased. If India continues to successfully boost domestic supplies, it could accelerate the decline in global coal shipments in 2024.

Based on estimates from the United States Department of Agriculture, we estimate grain shipments to fall between 1.5% and 2.5% in 2023 and to recover between 3% and 4% in 2024. In 2023, maize exports are expected to drop 12.4% before growing 11.1% in 2024, as exports from Argentina and the United States recover. Soybean exports are estimated to grow by 10.2% in 2023 and by 4.3% in 2024.



Volumes of wheat and other smaller grains are expected to marginally decline in both years amid limited supplies. The war in Ukraine will result in another year where yields from the grain harvests in Ukraine decline. The movement of Black Sea grains has also become more challenging since the end of the grain agreement, although negotiations for alternative solutions are ongoing. In India, restrictions on rice exports, including a ban on non-basmati rice exports starting in July are further tightening global grain supplies.

Lastly, we expect minor bulk shipments to grow between 0.5% and 1.5% in 2023 and between 2% and 4% in 2024. Since the second half of 2022, minor bulk shipments have come under pressure from weaker global economic conditions. In recent months, however, volumes have started to strengthen.

Minor ore shipments have increased due to due to increased production of aluminium and manufacturing of cars. Fertilizer prices have gradually fallen since the start of the war in Ukraine and demand could start to recover. If China's economy significantly weakens during the second half of 2023, a more negative minor bulk demand outlook could ensue.

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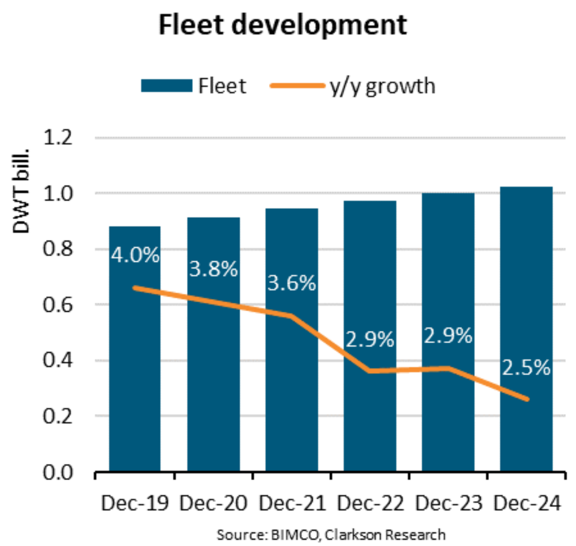
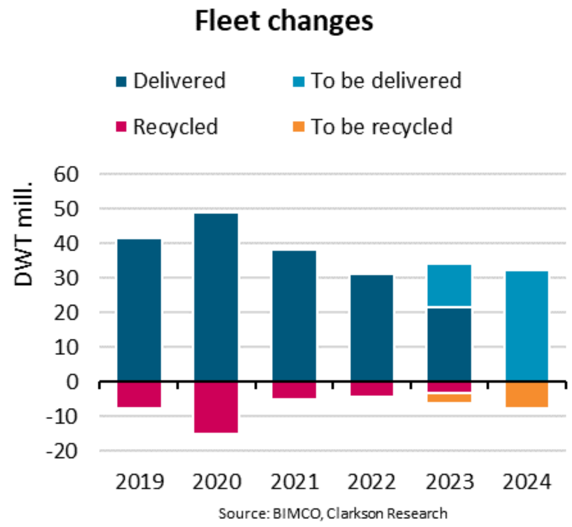
Supply

The dry bulk fleet is expected to grow by 2.8% in 2023 and by 2.1% in 2024. However, supply might grow by only 1-2% in 2023 and 2024 due to lower sailing speeds.

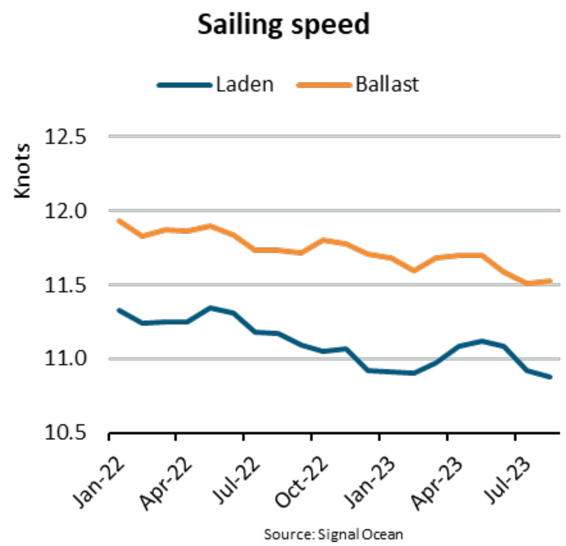


Between January and July, bulk carrier newbuilding contracting fell 10.7% y/y, which caused the orderbook to slip to 7.7% of the dry bulk fleet. Uncertainty concerning alternative fuels and weaker freight rates contributed to the lower investment in newbuilds.



Deliveries are expected to reach 34.4 million Deadweight Tonnes (DWT) in 2023 and 32.3 million DWT in 2024, slightly above 2022 levels. Since our last update, expected deliveries for 2024 have increased by 3.9 million DWT to include handysize and supramax ships that were previously unaccounted for. As a result, supramax deliveries are estimated at 13.3 million DWT in 2024, making it the fastest growing segment that year.

Over 3.1 million DWT have been recycled since the start of the year, a 47.5% y/y increase, however recycling remains a small fraction of the dry bulk fleet. We expect recycling to reach 6.1 million DWT in 2023 and 7.5 million DWT in 2024. Ship recycling will most likely remain limited to older ships that have been made less competitive by environmental regulations.



Due to lower sailing speeds, fleet productivity is estimated to decrease by 1-2% in 2023 and 0.5-

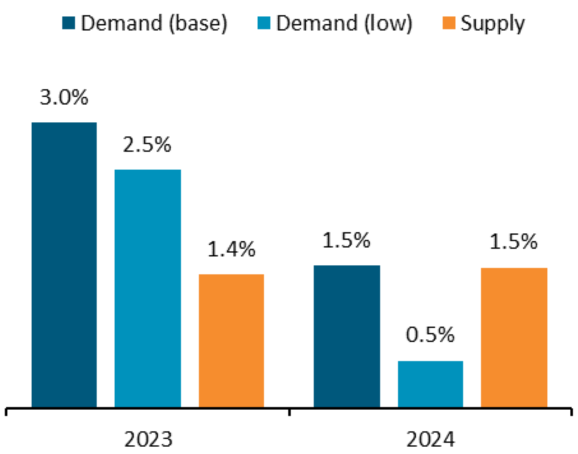
1.5% in 2024. Since the beginning of the year, laden and ballast sailing speeds are down 2.5% and 1.8%, respectively. Ships have been gradually slowing down since the start of 2022 due to a mixture of high bunker prices, lower freight rates and climate regulations.

We estimate congestion to remain close to the 2022 average in both 2023 and 2024. So far in 2023, congestion has marginally eased, and it is tying up 0.3% less of the dry bulk fleet. However, low water levels in the Panama Canal and typhoon season in the Pacific could slightly increase congestion during the rest of 2023.

Supply/demand balance

Overall, we expect a marginal tightening of the supply/demand balance until the end of 2024. Supply is expected to increase by 1-2% in 2023 and in 2024, while demand growth is predicted at 1.5-2.5% in 2023 and 1-2% in 2024. Under our low demand scenario, the supply/demand balance could weaken, particularly in 2024.

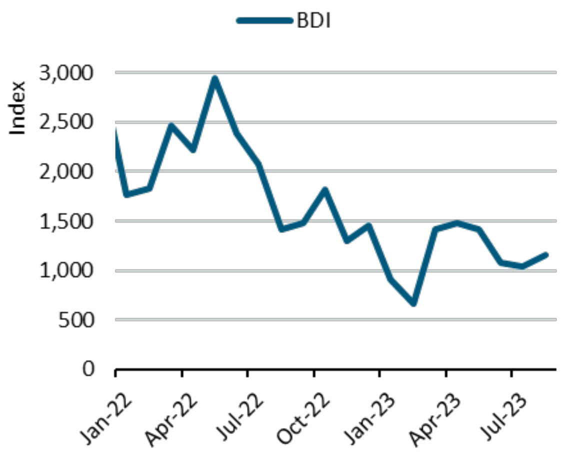
Fleet supply/demand developments



Source: BIMCO

Average dry bulk freight rates have weakened since the second half of 2022. In August, capesize was the only segment where freight rates improved compared to a year ago. These were supported by stronger iron ore and bauxite shipments, both in volume and average haul, and by a low 2.2% y/y growth in the capesize fleet. Across all other smaller segments, rates slipped due to a decline in grain volumes, low growth in minor bulk volumes and an average 3.5% y/y fleet growth.

Baltic Dry Index (BDI)



Source: Baltic Exchange

Spot rates could marginally increase during the rest of 2023, compared to August levels, provided that the Chinese economy does not weaken further. The forward freight agreements point towards slightly higher rates during the rest of the year across all segments. However, it is possible that freight rates will not rebound to the levels observed during March and April 2023, particularly among smaller segments. Cargo volume growth is expected to weaken during the second half, compared to the first half, limiting gains.

In 2024, freight rates could remain around 2023 levels or even weaken as demand growth slows. We expect lower growth in iron ore shipments, and we believe coal volumes could begin to fall. However, unlike in 2023, grains and minor bulks could drive demand, supporting the smaller segments. Lastly, rates for supramax ships may get pressured as a significant number of new ships are due to be delivered.