

Dry Bulk Market Outlook

15 March 2018

Marine Money: Gulf Ship Finance Forum

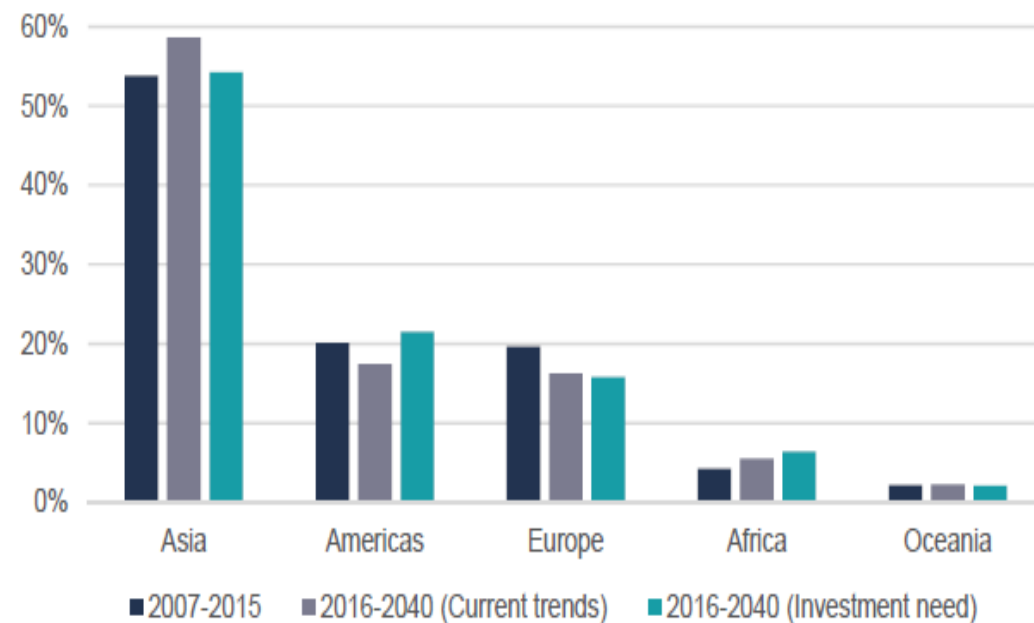
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Dry Bulk Demand Outlook

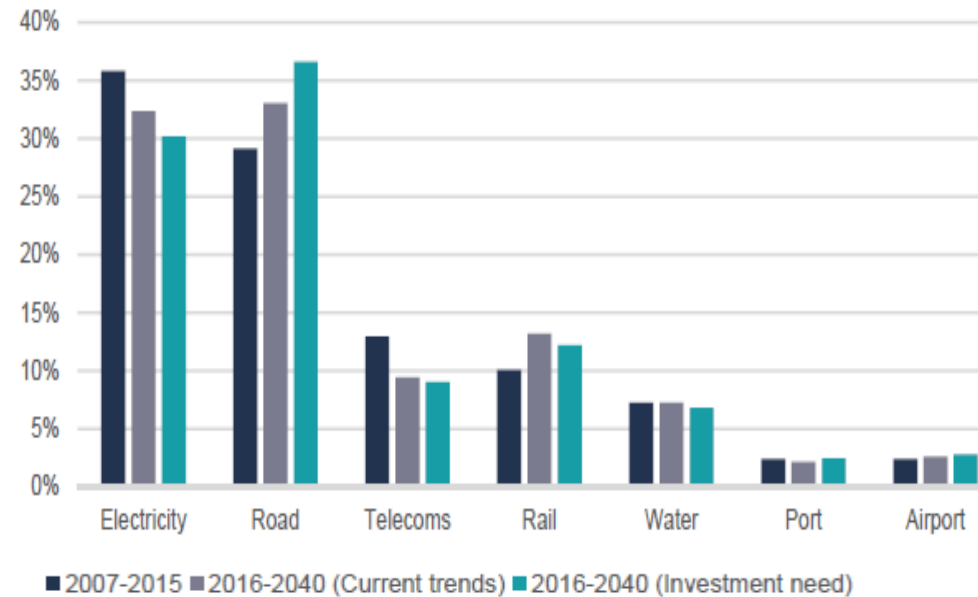
Short term & long term demand

Global infrastructure investment

Regional share of global infrastructure investment, 2007-2040



Sectoral share of global infrastructure investment, 2007-2040



Source Data: Oxford Economics, G20

- ✓ Asia will dominate the global infrastructure market in the years ahead as it does at present.
- ✓ Asia accounts for some 54 percent of global infrastructure investment needs to 2040, compared to 22 percent for the Americas, the next largest region.
- ✓ Indeed, just four countries account for more than half of global infrastructure investment requirements to 2040: China, the US, India and Japan.
- ✓ China alone is estimated to account for 30 percent of global infrastructure needs.

Regions covered by BRI

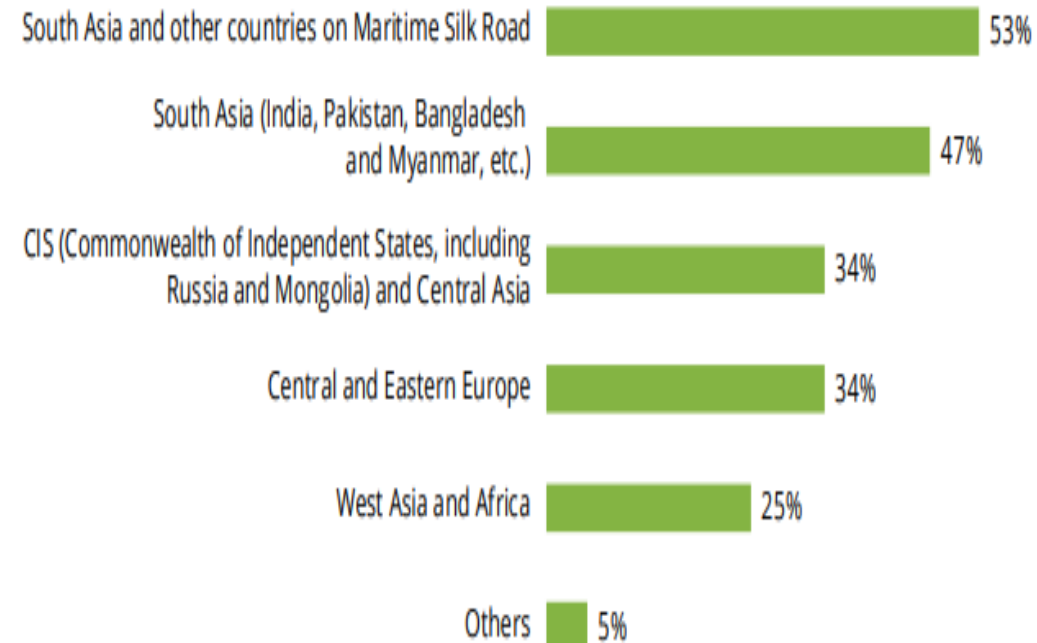


One Belt – One Road (OBOR) – Will it reshape global trade?

Long-term project importance for the Bulk Carrier sector

- ✓ China is seeing a bit of a slowing down in its growth. A lot of people are saying that that's part of **the next growth wave of Chinese exports**, which is that it's going to have its influence and **its infrastructure build-out in many of these countries**, most of them emerging markets, **in lots of things that frankly have fueled the very high growth in China over the past decade**.
- ✓ The project can be replicated in many of these countries in the next ten years – that 's significant as many of these countries are really lacking in this infrastructure.
- ✓ Southeast Asia and South Asia remain key beneficiaries and remain the most favored by SOEs. This is partly due to proximity to China and a higher state of development, and partly due to the demand for better infrastructure.
- ✓ Many projects are underpinned by strong bilateral relationships between China and the countries concerned: investments more secure
- ✓ BRI is a collaborative ecosystem that to date has focused on energy and infrastructure, but that over the next five years and beyond will evolve to concentrate on trade, manufacturing, the internet, tourism and other aspects.
- ✓ "Trade together, build together, enjoy together"

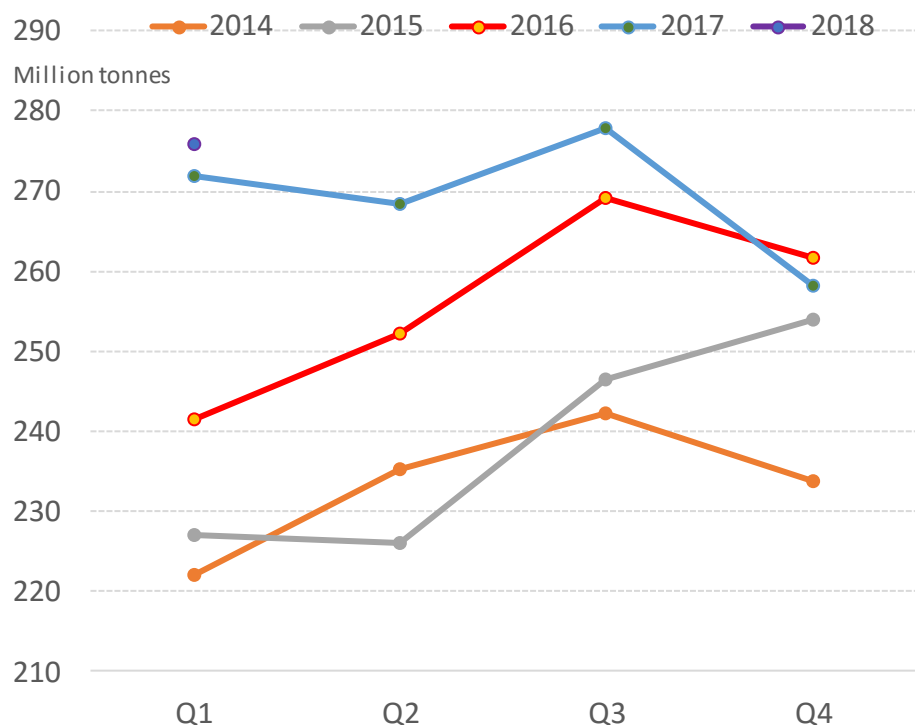
BRI investment destinations for SOEs



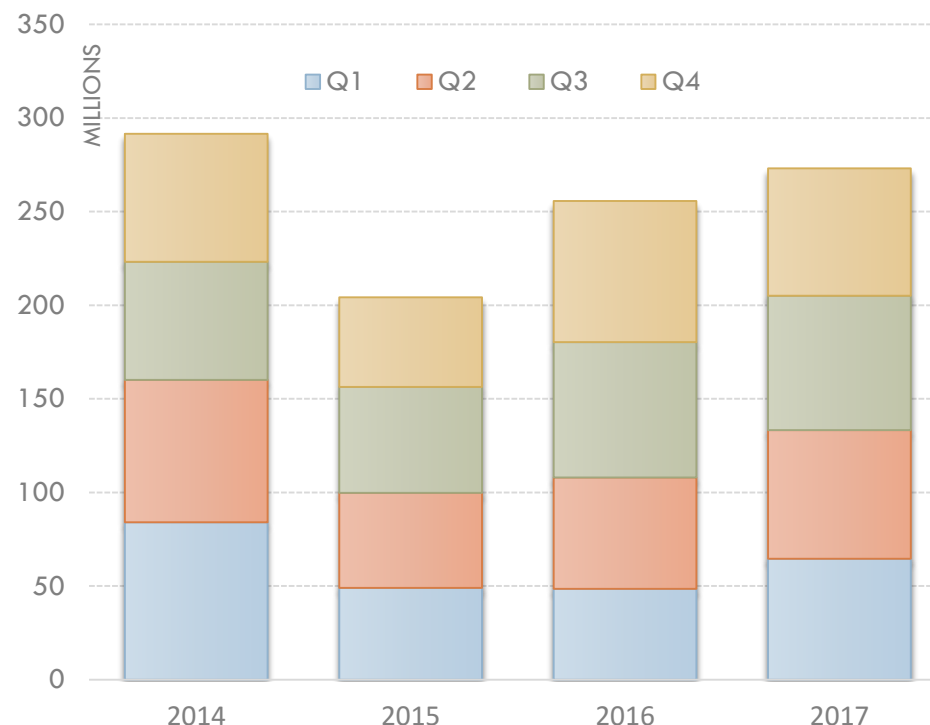
Source Data: Deloitte

China: iron ore & coal imports

China's iron ore imports



Evolution of Chinese thermal coal imports including lignite

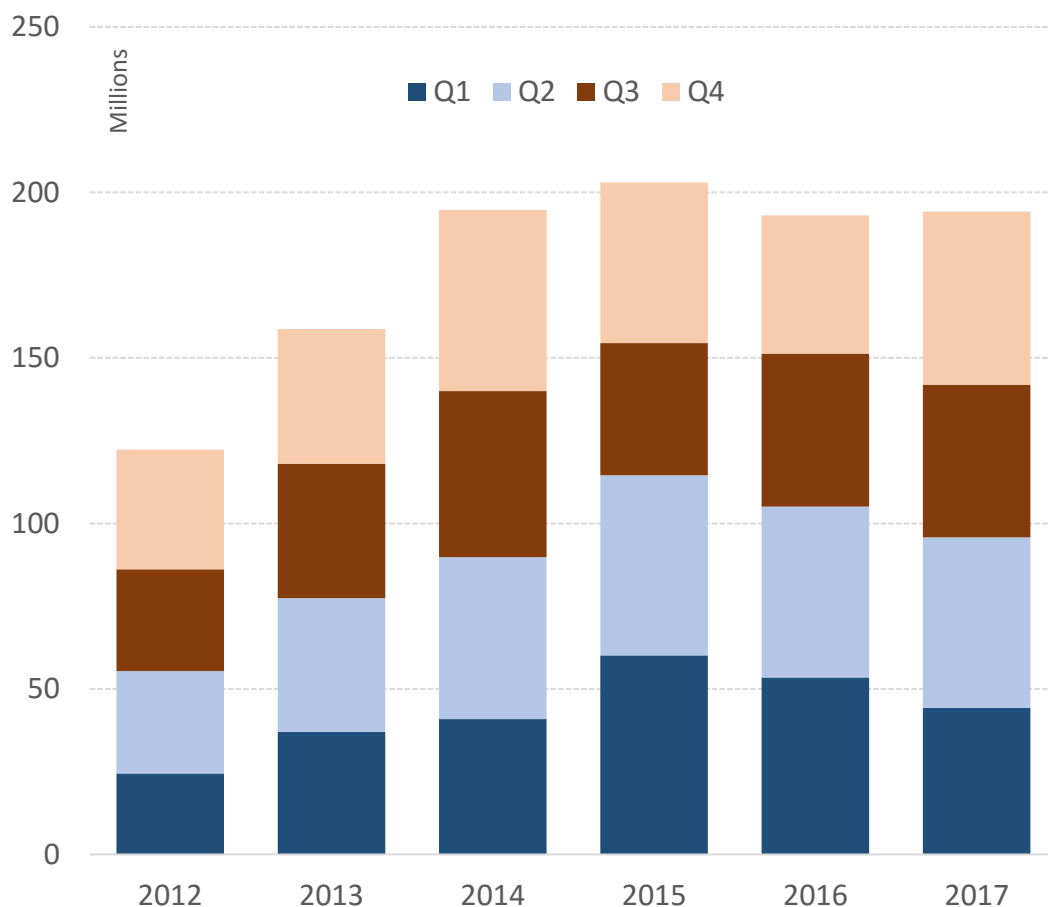


- ✓ China aims to produce 3.7 billion tonnes of coal in 2018, an all-time high and up 7.3% from the previous year - the National Energy Administration
- ✓ Due to price arbitrage with international markets it is likely that in 2018 the level of imports will be close to those in 2017

- ✓ Chinese steel production is expected to remain relatively steady in 2018, although a continued shift to higher quality imported ore is projected to drive 4% growth in the country's seaborne iron ore imports to around 1,125mt.
- ✓ China's macro-economic growth will exceed expectations. The Ministry of Environmental Protection announced -effective from Oct 1, 2018, the special emission limits. Steel mills' demand for high-quality raw materials including iron ore and coal coke products will rise further in 2018, owing to the special emission value requirements. Therefore, the demand for high-grade imported iron ore will increase, while the sales of domestic iron ore with low quality will be narrowed further.
- ✓ Steel mills raise their outputs actively. China's steel capacity in 2018 dropped significantly from 2017 (including the banning of substandard steels). In this case, steel mills have to use more high-grade imported iron ore to produce molten iron as much as possible in the blast furnaces with certain volume to meet the needs of market competition.

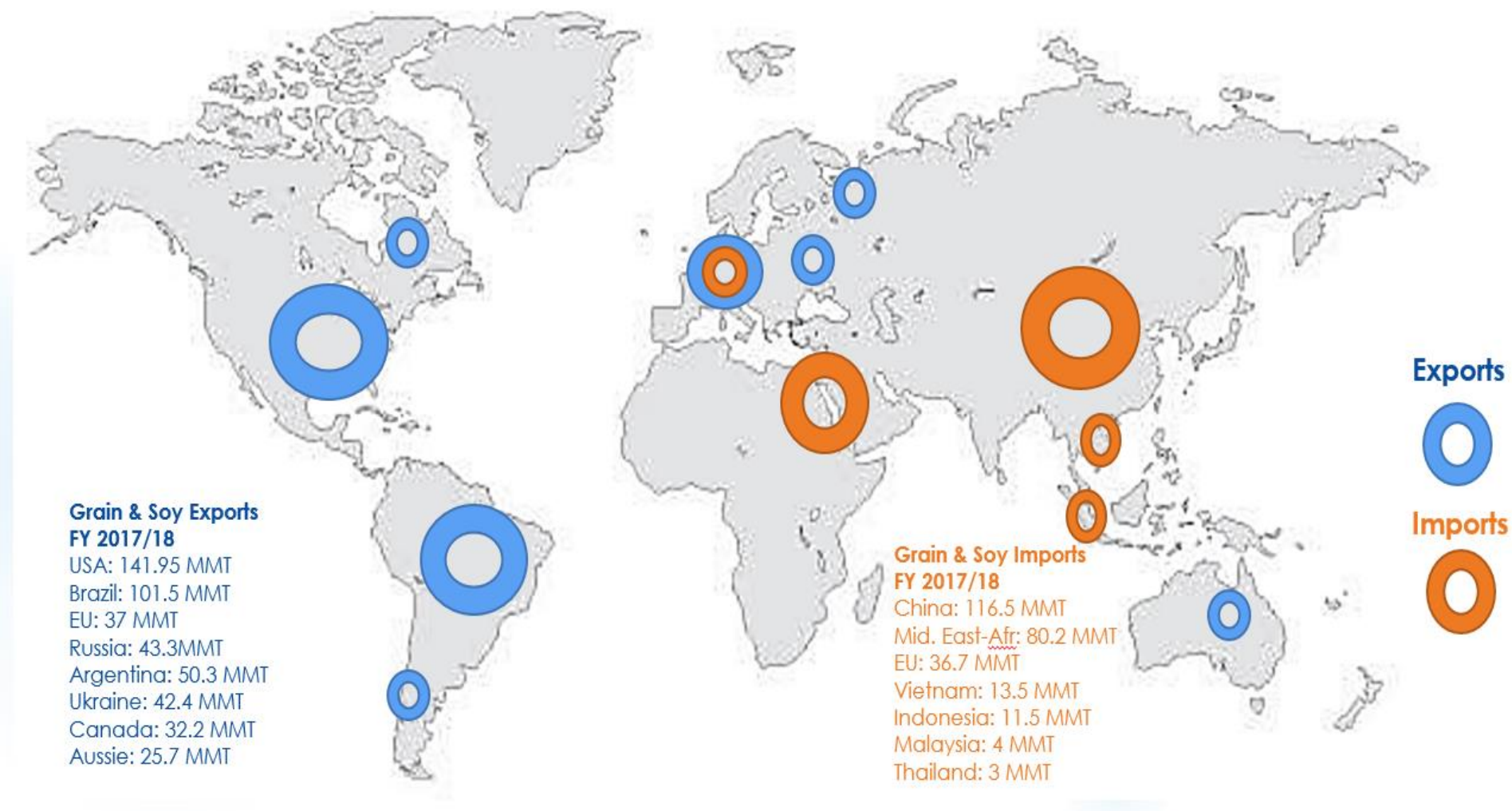
India: Coal imports

Indian Coal Imports



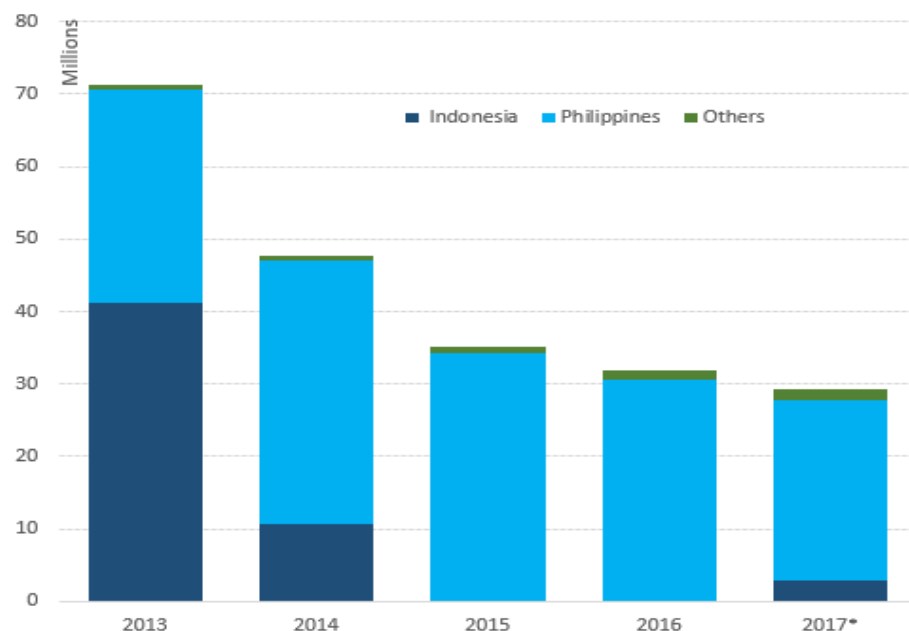
- ✓ Imports seen rising over next 12 mos: World Coal Association
- ✓ Land purchase, environment key challenges before Coal India
- ✓ The company's plan to reach an annual production of 1 billion metric tons has been pushed back by two years to 2022.
- ✓ It has focused on supplies to power stations, while curtailing shipments to buyers including cement and aluminum companies.
- ✓ India's electricity demand grew 6 percent from a year ago in the first ten months of the year ending March 31, double the growth achieved in the same period a year ago.
- ✓ For Met Coal: India Steel Ministry seeks abolition of met coal import tax and seeks zero taxes of ferro-chrome, ferro – nickel
- ✓ Pet Coke import ban & increased import duty: The national capital region alone consumes 2.2 million tonnes of petcoke a year. A country-wide import ban would require replacing 14 million tonnes of petcoke a year with 24 million to 31 million tonnes of coal, most of which has to be imported.
- ✓ a wide-spread petcoke ban is unlikely due to its key role in the production of cement, but many believe that a cap at 7% sulfur could become more widespread in the coming months which could likely translate into opportunistic petcoke trades.

Grain trade: New demand centers | Consolidated long haul trade to China



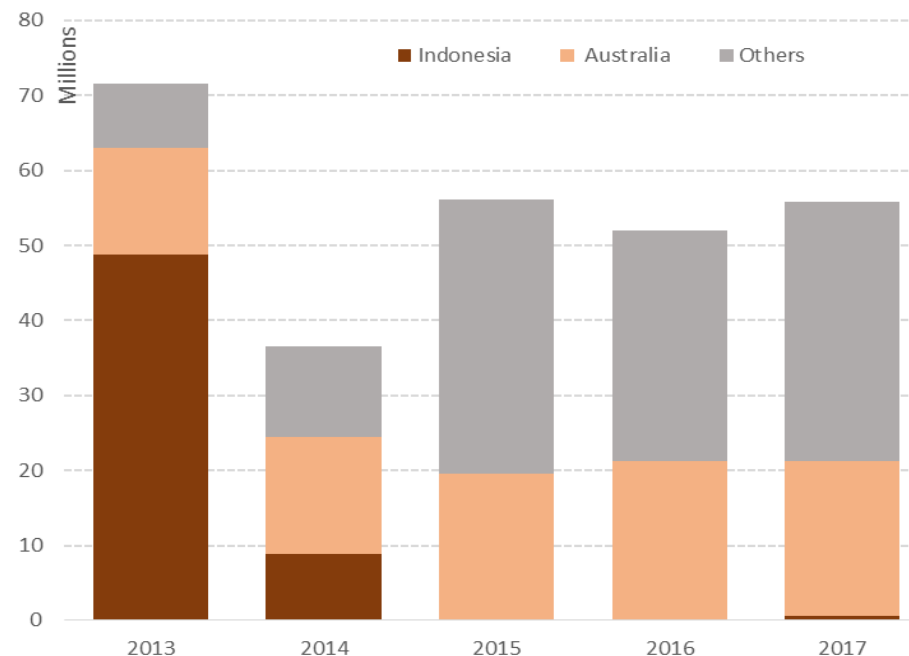
Minor Bulks | Indonesia's turn on ore exports

China's nickel ore imports and sources



Source Data: GTT

China's bauxite imports and sources



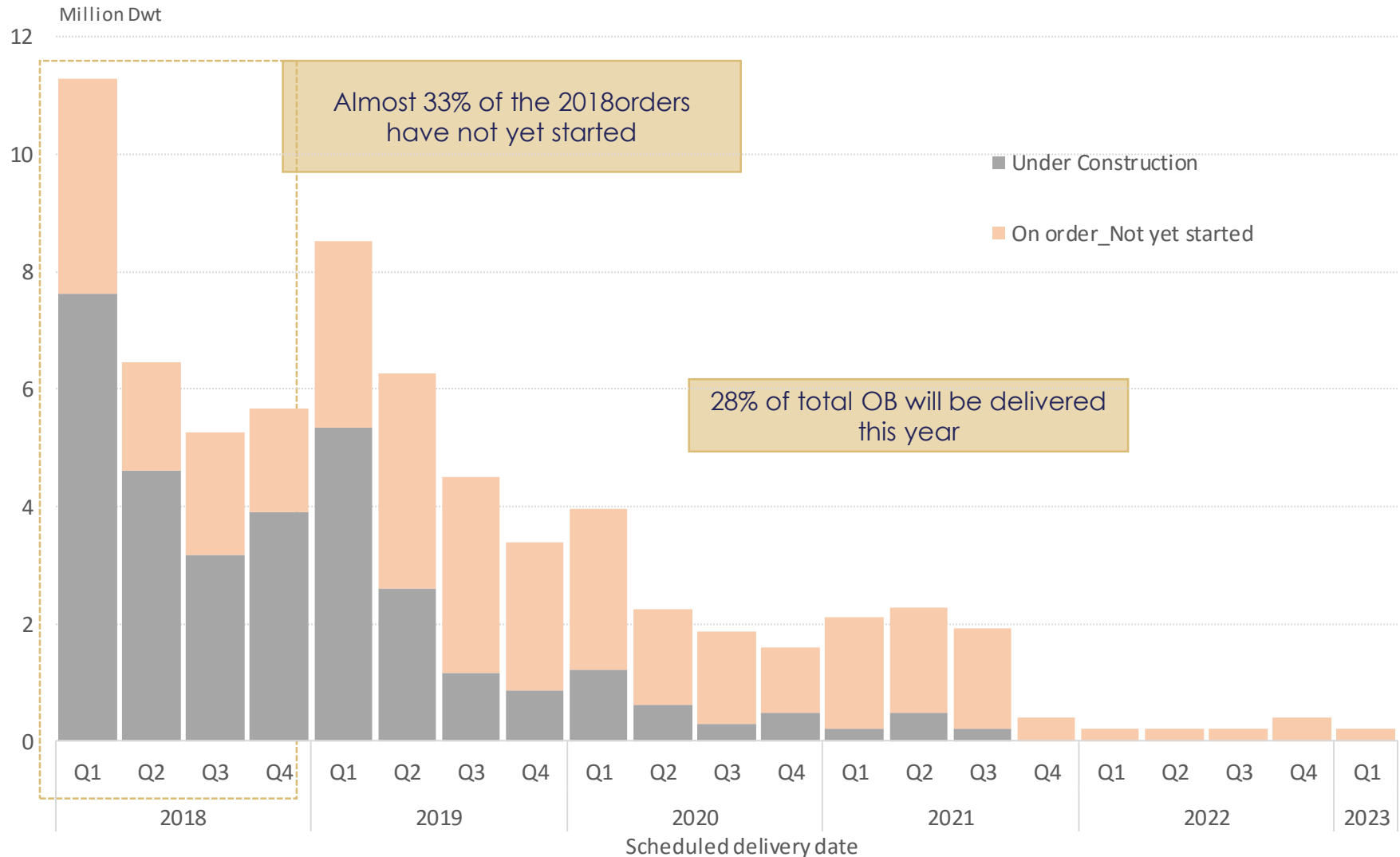
- ✓ the 5 year ban from Indonesia meant a reduction of almost 90 million tonnes of dry bulk trade between Indonesia and China per year compared to 2013 levels. Assuming a round voyage takes 20 days for this trade, 90 million tonnes per annum implies a reduction of tonnage demand for around 80 Supramax vessels or 50 Panamax vessels.
- ✓ Certainly the trade of the processed ore between Indonesia and China as well as the limited extra supply potentials from the Philippines and Australia managed to limit down such a reduction.
- ✓ Ore export shipments are now permitted for the next five years and the Indonesian Mining Ministry suggested that the SE Asian country could export up to 15 million tonnes of nickel ore and 30 million tonnes of bauxite in 2017 as the ban on unprocessed ore was lifted.

Dry Bulk Fleet Outlook

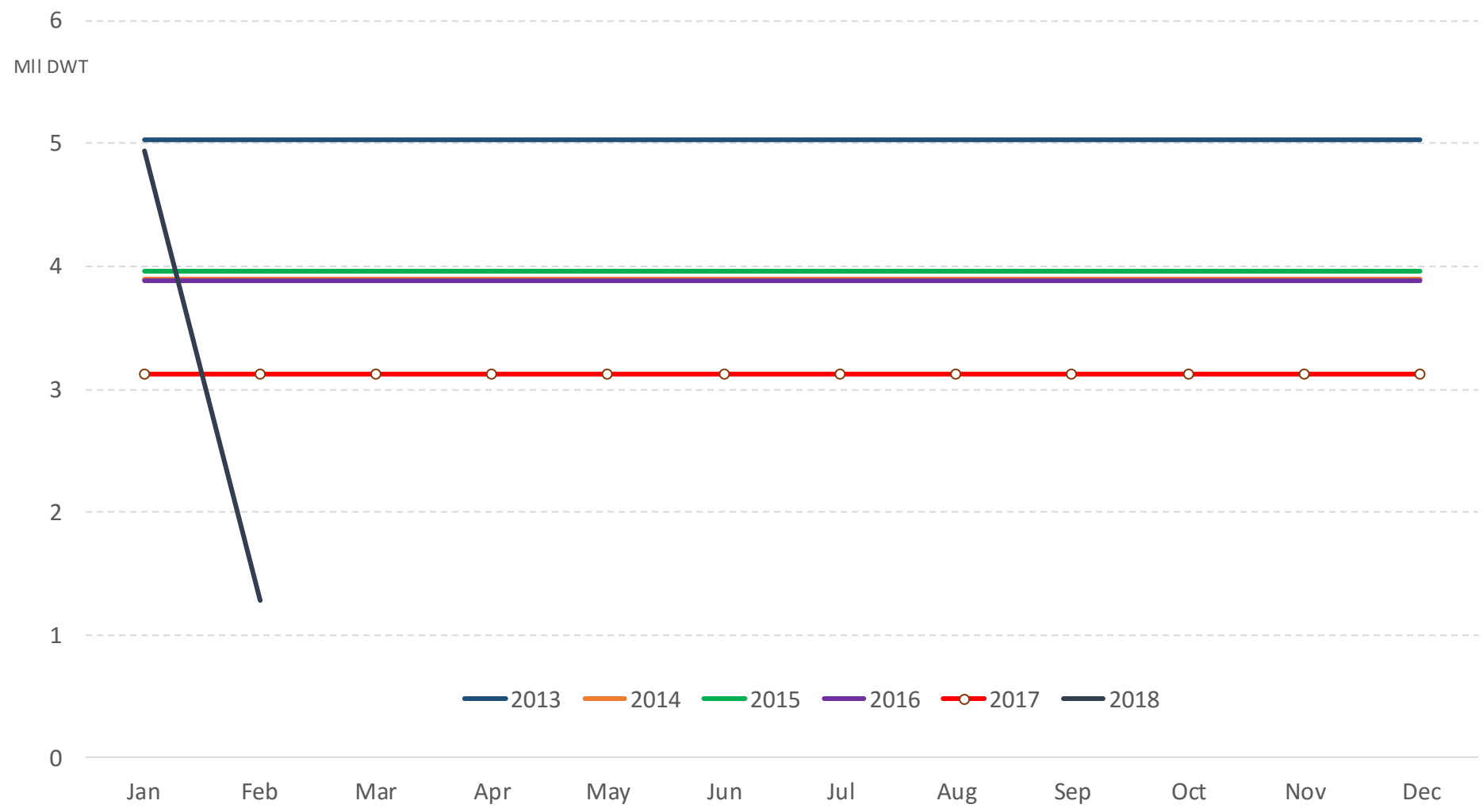
Supply

Scheduled delivery dates and potential slippage

New Building orders under construction vs orders that have not yet started



Dry fleet delivery against historical average levels

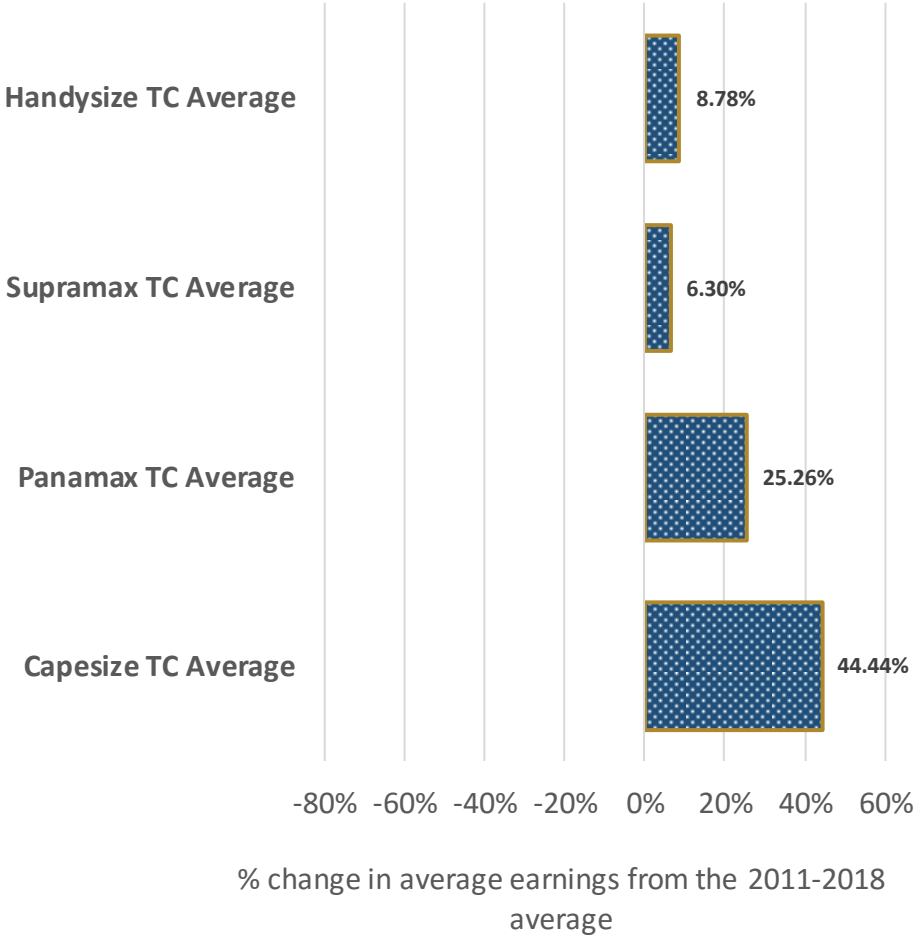


The average delivery pace for 2017 stood at 3.1 million deadweight

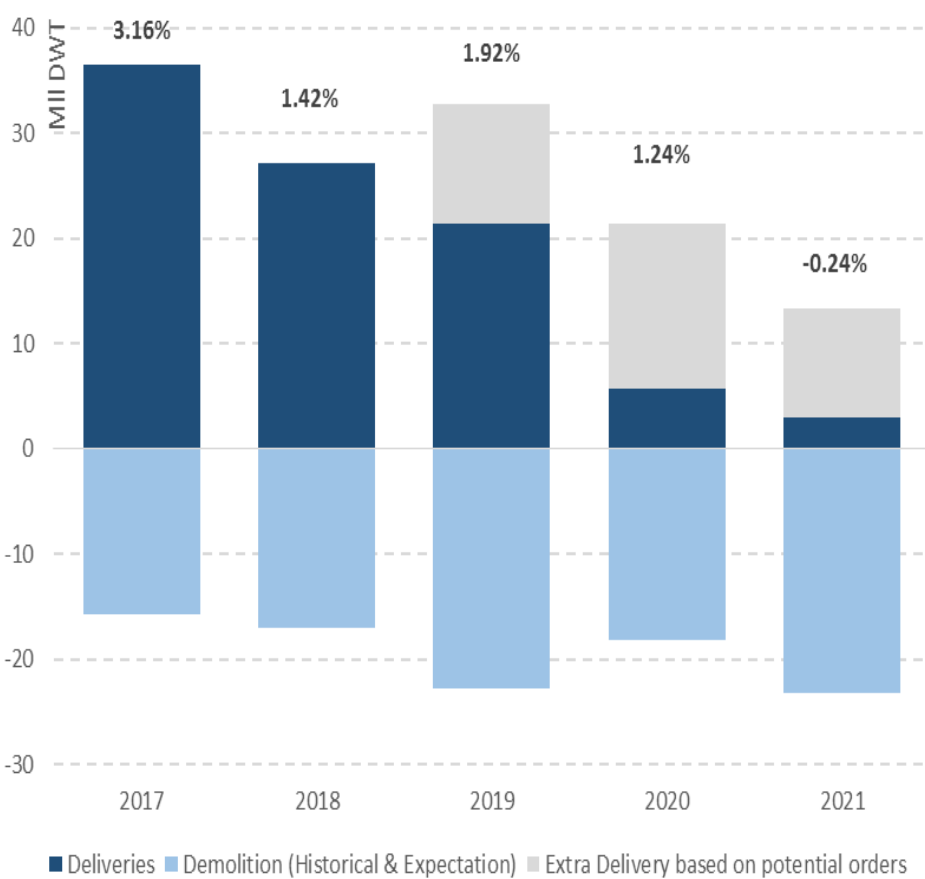
YTD 6.2 million dwt have been added to the market. With the majority being in the Ultramax sector

Bulk Carriers Cycle Position 2018

% deviation from earnings average 2011-2018

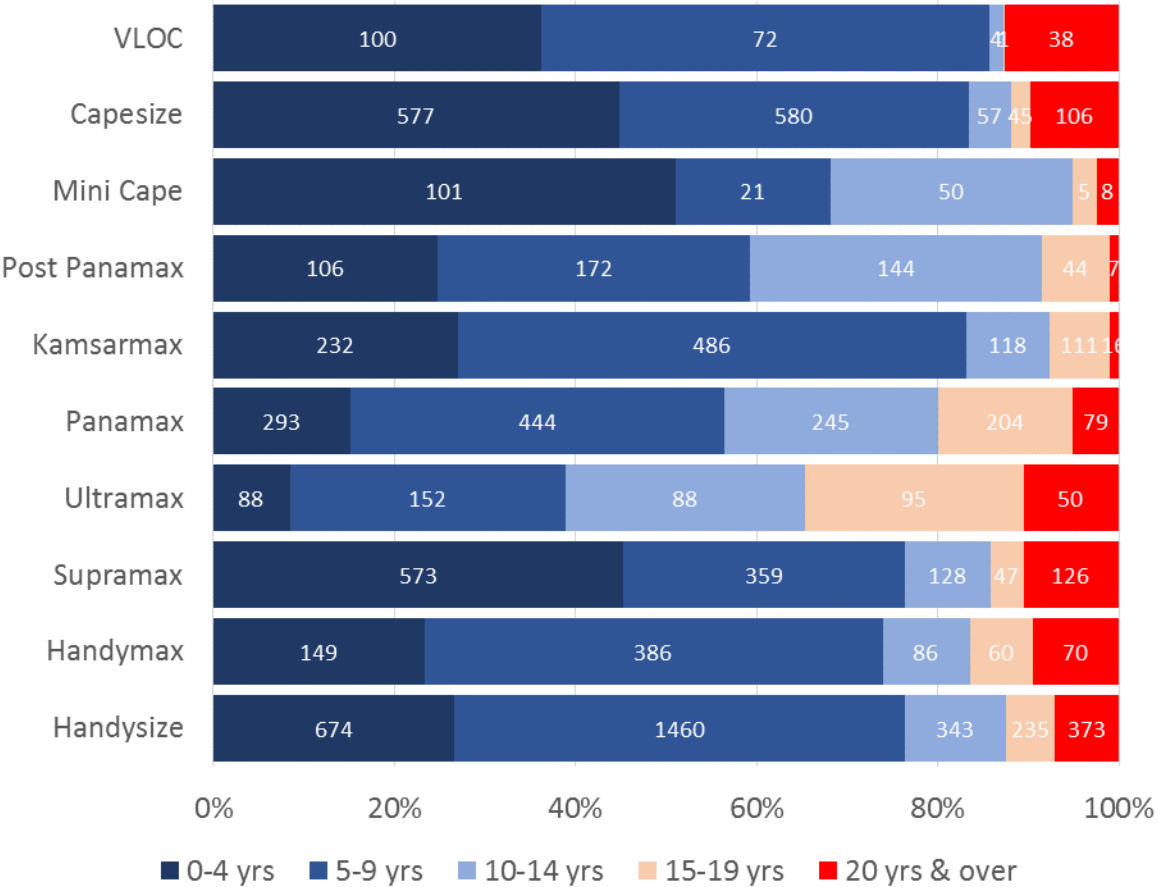


Total dry bulk fleet growth forecast

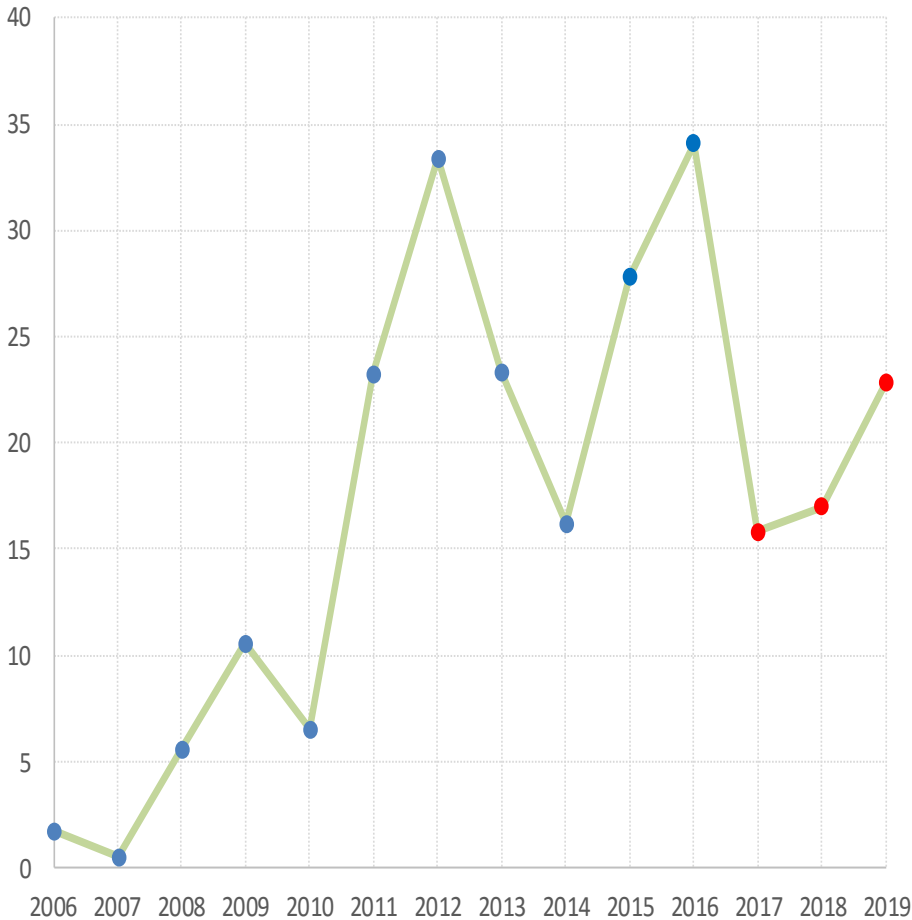


Fleet age profile & demolition

Age profile (mln dwt) YTD

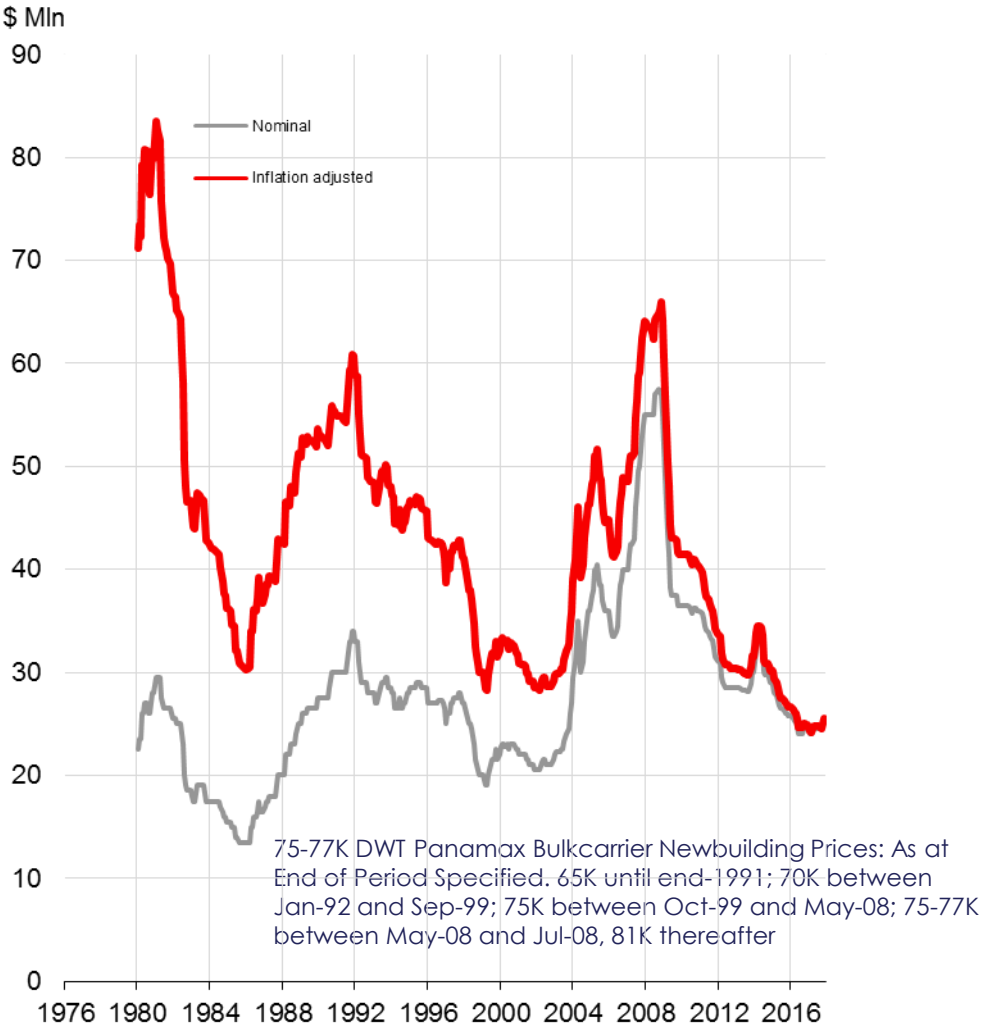


Annual realized demolition volume and projection (mln dwt)

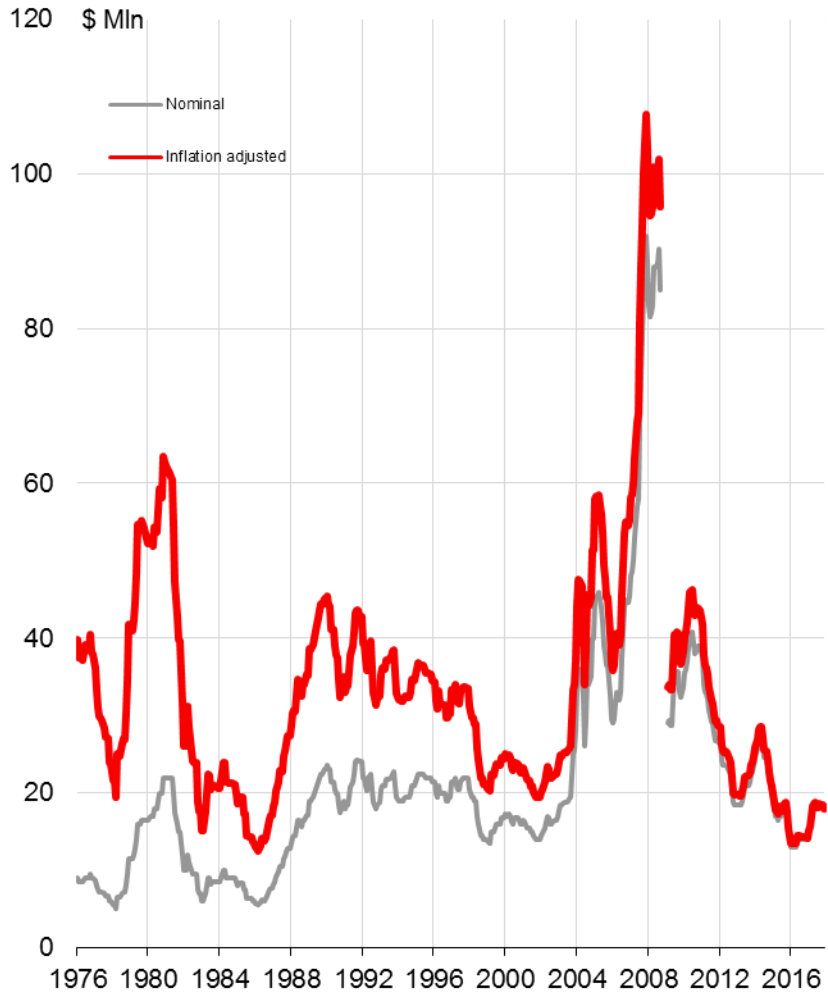


NB vs 5 years old secondhand ship values

75-77K DWT Panamax Bulkcarrier Newbuilding Prices



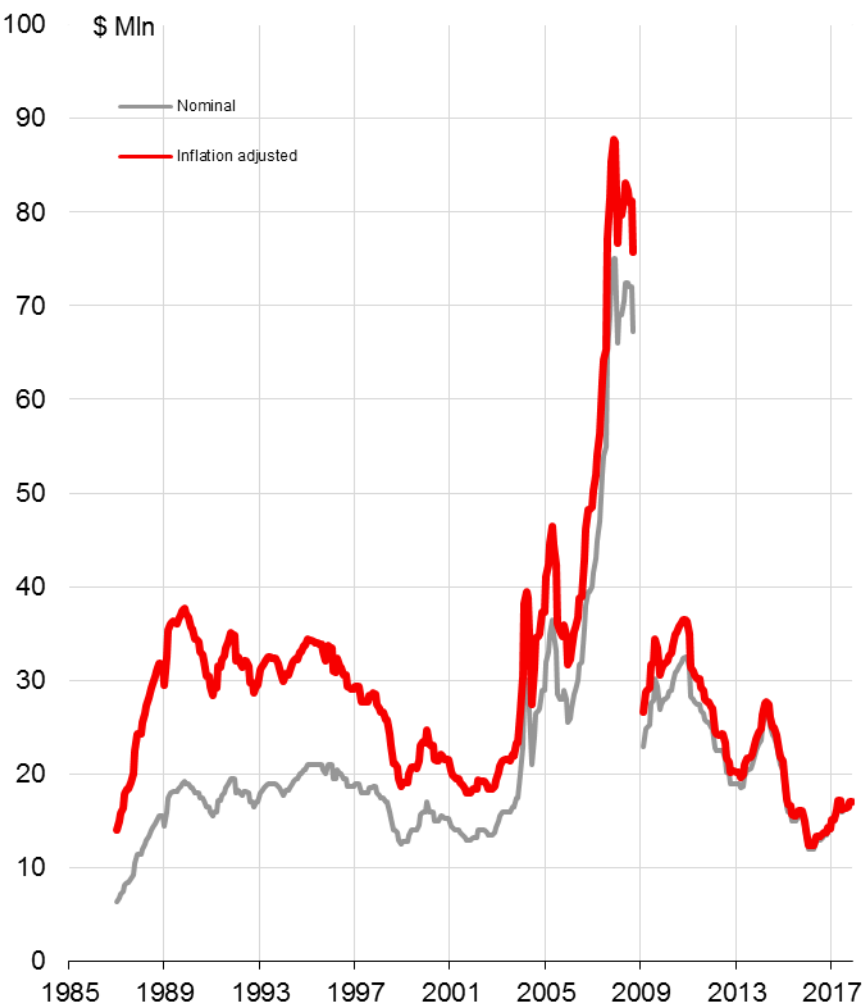
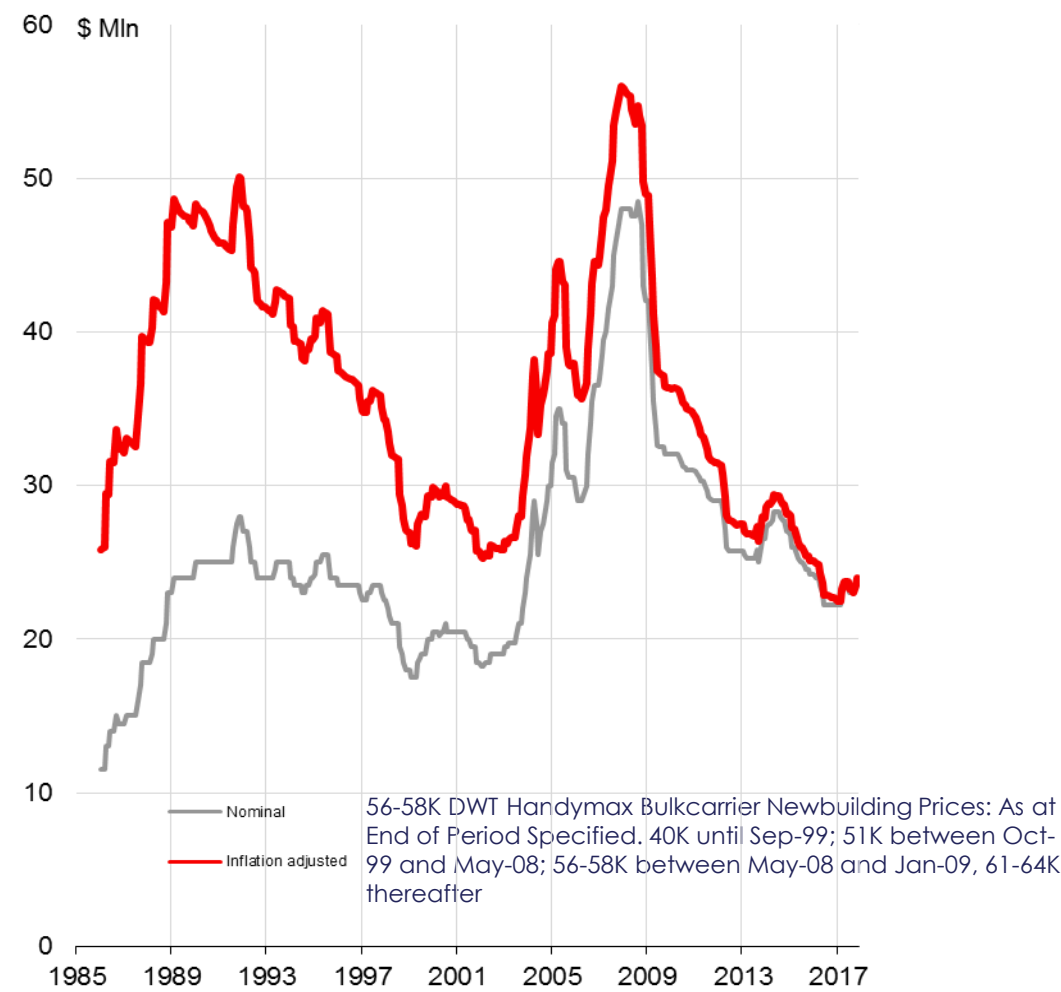
Panamax 76K Bulkcarrier 5 Year Old Secondhand Prices



NB vs 5 years old secondhand ship values

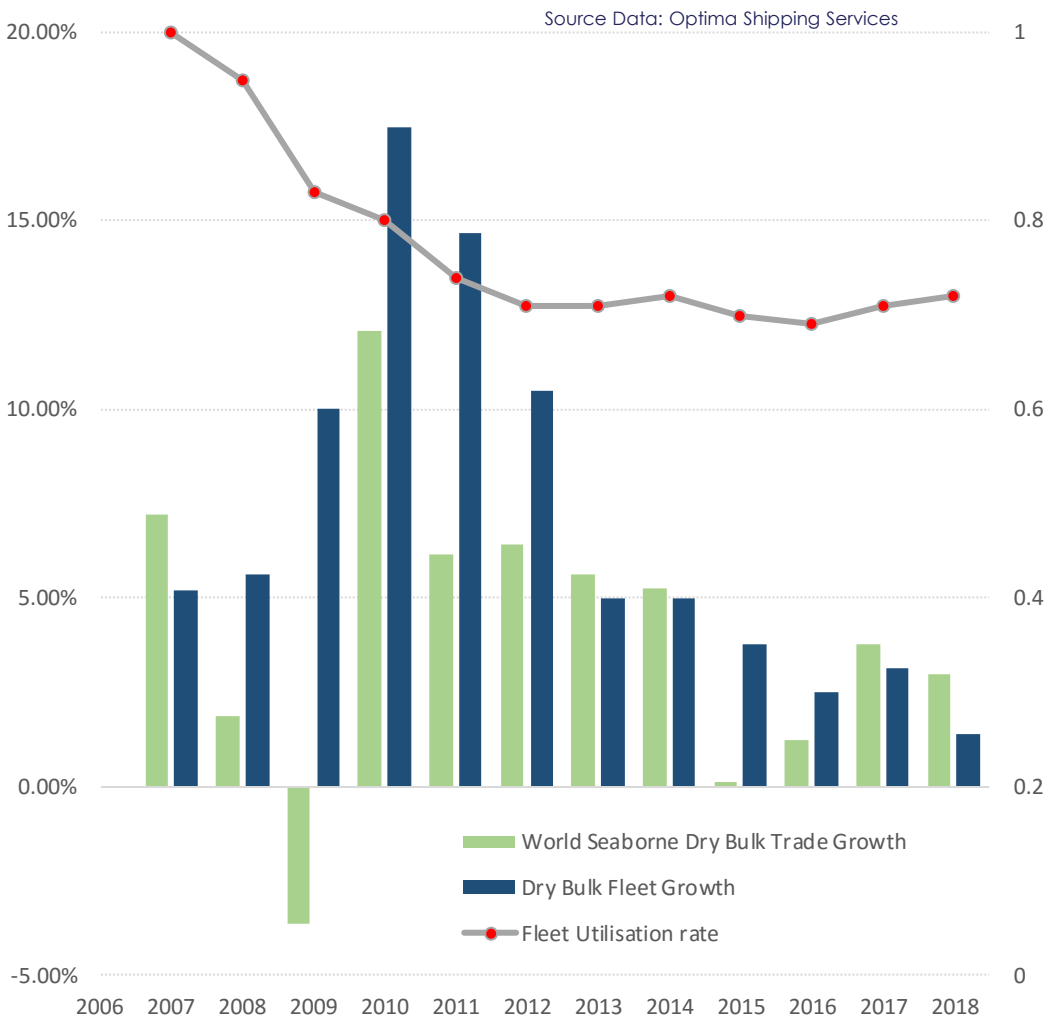
61K DWT Ultramax Bulkcarrier Newbuilding Prices

Supramax 58K Bulkcarrier 5 Year Old Secondhand Prices



Supply, Demand & Utilization rate

Total dry bulk S&D growth and Fleet Utilisation



S&D Commentary

- ✓ The improvement in the market this year has largely reflected strong demand growth, with global seaborne dry bulk trade currently projected to grow by 3.75% in full year 2017.
- ✓ Current projections for 2018 suggest that dry bulk trade growth will slow slightly, but remain relatively healthy at around 3% in terms of tonnes.
- ✓ The bulk carrier fleet is expected to grow by 3.15% in 2017, and by around 1.4% in 2018, with deliveries expected to decline from around 39.5m dwt in full year 2017 to around 22m dwt in 2018.
- ✓ Overall, growth in seaborne dry bulk trade is projected to outpace expansion in fleet capacity for a second consecutive year in 2018. As a result, the supply and demand balance in the bulker sector is expected to continue to gradually improve into next year, although risks should remain.

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