Shipping Markets in the 2020s:
Lessons from the Life and Music of Bob Dylan

David K. Jordan – Maritime Strategies International (MSI)
Marine Money Week Asia 2019 – 25th September 2019
Shipping in the 2020s

1. Demanding Complexities
2. Supply Side Easing
3. Market Cycles
4. Looking to the HORIZON

You should always take the best from the past, leave the worst back there and go forward into the future.

- Bob Dylan
Demanding Complexities

For the times they are a-changin’
Let’s Talk about Trade

Positive demand growth for LNG & containers
Chinese dynamics continue to change
Iron Ore: Peak Levels on the Immediate Horizon

Chinese peak iron ore import demand driven by:
1. Peak steel consumption reached in 2019
2. Domestic Iron Ore substitution reaching max.
3. Increasing % steel produced via scrap / EAF

Iron ore will no longer drive growth in the dry bulk market
Grains & Minor Bulks: Not so Minor After All

- Minor Bulks
- Grains
- Soybean and Meal

MnT


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Container Trade: A New Chapter has Already Started

![Graph showing trade to GDP ratio from 1981 to 2029.]
Oil Production – Oil Consumption = Net Position

In Deficit... ...now an increasing surplus

Oil: The Great Reversal

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Saudi crude production accounts for about 10% of global oil demand

Production levels immediately after attacks - reduction of 5.7 Mn b/d

Source: MSI, IEA
Oil Products: Refinery Capacity Development

The location of refineries is key.
Supply Side Easing
Beyond here lies nothing’ but the mountains of the past
2010s: The Impact of Oversupply

**Crude Tankers**
- VLCC 1 Year TC Rate
- Oil Price (RHS)
- Supply

**Product Tankers**
- 40/50k Dwt Tanker 1 Year TC Rate
- World Refinery Op. Rate (RHS)
- Supply

**Containerships**
- 1.1k TEU 1 Year TC Rate
- World GDP, % Ch (RHS)
- Supply

**Bulkcarriers**
- Cape 1 Year TC Rate
- China Ore Import (RHS)
- Supply

**Oil Price (RHS)**
Supply Growth Restraint…Finally!

2019 onwards includes MSI’s explicit assumptions on contracting, deliveries, scrapping, cancellations and slippage.
2020s will see a reduction in capacity before increasing towards the end of the decade.
Market Cycles

The only thing I knew how to do was to keep on keepin’ on
Where on the Earnings Cycle Are We?

Schematic for illustrative purposes only
1H 2020s: Supply-Demand Balance

A delicate balance for most sectors
Both Carbon but with different structural modifications

Looking to the HORIZON
May you have a strong foundation, when the winds of changes shift
**MSI HORIZON** is our new online platform.

Bringing together all of MSI’s services onto [one centralised portal](#), it offers unparralled insights into the shipping & offshore markets.

Enhanced functionality includes:

1. Enhanced data reporting
2. Simultaneous, cross-sector model forecast simulations
3. Integration of MSI’s forecasting models with FMV

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• MSI Forecast Marine eValuator (FMV) is the first web-based tool to provide forecast and historical price data covering virtually all of the deepsea shipping fleet along with offshore vessels and units.

• Data includes forecasts of newbuilding, second-hand prices, 1 year timecharter rates and operating costs for specific assets.

• MSI FMV draws on MSI's proven, proprietary models and a consistent cross-sectional view across all principal shipping and offshore sectors. It puts asset values in the context of both historical averages and the near term market to enable reliable, consistent benchmarking.
2020s: Placing Bets on 5 Year Old Ships

IRR (%)

<table>
<thead>
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<th>Ship Type</th>
<th>IRR (%)</th>
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<tbody>
<tr>
<td>5/8 k cbm SR LPGC</td>
<td>21%</td>
</tr>
<tr>
<td>25/27 k Dwt Coated Chem</td>
<td>16%</td>
</tr>
<tr>
<td>1.6/1.8 k TEU Grd FCC</td>
<td>16%</td>
</tr>
<tr>
<td>Handysize Bulker</td>
<td>12%</td>
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<tr>
<td>160/170 k cbm DFDE LNGC</td>
<td>12%</td>
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<tr>
<td>78/85 k cbm FR LPGC</td>
<td>10%</td>
</tr>
<tr>
<td>13/14 k TEU Gls FCC</td>
<td>9%</td>
</tr>
<tr>
<td>Capesize Bulker</td>
<td>9%</td>
</tr>
<tr>
<td>Aframax Tanker</td>
<td>9%</td>
</tr>
<tr>
<td>VLCC</td>
<td>8%</td>
</tr>
<tr>
<td>LR2</td>
<td>8%</td>
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<tr>
<td>Handysize Prod Tanker</td>
<td>6%</td>
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Scenarios and “What if Questions?” can be answered.

What is the impact on 5 year old VLCC price if Chinese GDP is $100 basis points on base case?
For over 30 years, MSI has developed integrated relationships with a diverse client base of financial institutions, ship owners, shipyards, brokers, investors, insurers and equipment and service providers.

MSI's expertise covers a broad range of shipping sectors, providing clients with a combination of sector reports, forecasting models, vessel valuations and bespoke consultancy services.

MSI's team is comprised of professionals with extensive academic credentials, deep industry knowledge and many years experience of delivering successful client projects.

MSI balances analytical power with service flexibility, offering a comprehensive support structure and a sound foundation on which to build investment strategies and monitor/assess exposure to market risks.

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