Dry Bulk Shipping Market Overview & Outlook

Stronger dry bulk market outlook but recovery is fragile

Q2 2023

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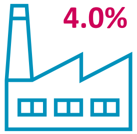
Q2 2023 Highlights

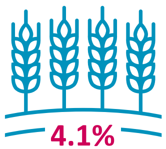
Demand

The IMF forecasts **China's GDP to grow by an average of 4.9% during 2023-2024**, after only growing 3.0% in 2022.



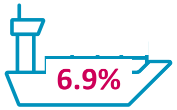
Global steel demand is estimated to grow 4.0% from 2022 to 2024. This should lead to an increase in iron ore and steel shipments.

Coal shipments should be 2.3% higher in 2024 than in 2022 after rising 5-6% in 2023, but falling 2-4% in 2024. Higher electricity production from renewables trims demand.



In 2023, weak grain supplies could lead to a 0.9% drop in exports. In 2024, volumes should recover and rise 5.0% for a **total increase in grain shipments of 4.1% between 2022 and 2024**.

Supply

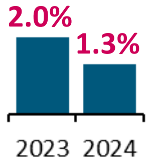


The current orderbook stands at 6.9% of the dry bulk fleet, the lowest ratio in over 25 years.

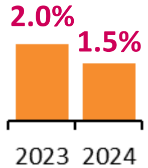
Amid low fleet growth and a stable market, **only 14mn DWT is forecasted to be recycled during 2023-2024.**

Climate regulations is expected to cause **sailing speed to fall 1-2% from 2022 to 2024.**

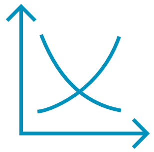
Supply/demand



In total, **supply is forecast to grow 1.8-2.3% in 2023 and 1.1-1.6% in 2024**. Lower sailing speed limits supply growth.



In total, **demand is forecast to grow 1.5-2.5% in 2023 and 1-2% in 2024.** Growth could slow down in 2024, due to lower coal volumes.



The supply/demand balance will marginally strengthen until the end of 2024. However, the development of China's recovery could still upset this balance.

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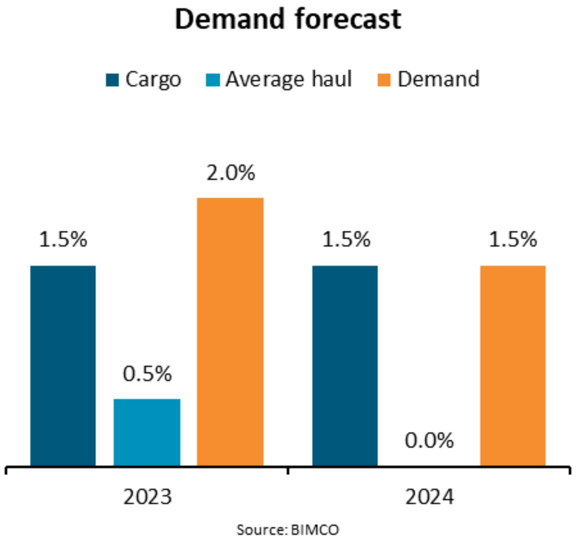
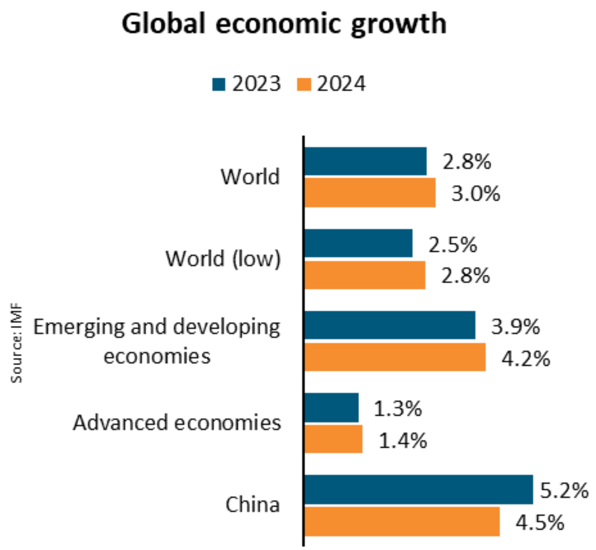
Demand

We predict that global dry bulk demand will grow between 1.5% and 2.5% in 2023, and between 1% and 2% in 2024.



Average haul is estimated to increase slightly, contributing between 0% and 1% tonne miles in 2023. Sailing distances for coal increased due to sanctions on Russian coal, which came into effect in August 2022. Average haul for iron ore and grains could also rise as Brazil increases exports.

According to the International Monetary Fund (IMF), global GDP growth is expected to slow down to 2.8% and 3.0% in 2023 and in 2024, respectively. High inflation, tighter monetary policy and the resulting deterioration in financial conditions are some of the factors limiting economic growth.



The IMF forecasts China's GDP to grow by 5.2% in 2023, slightly above the government's target of 5.0% and an improvement over the 3.0% growth in 2022. However, concerns over the strength and speed of China's economic recovery remain. While China's GDP increased by 4.5% in the first quarter of 2023, it was followed by a slight weakening in domestic demand during the following two months. Consumer prices stagnated in April, and producer prices fell due to an oversupply of industrial goods. Despite this short-term imbalance, we still expect a gradual improvement in China's economy.

The global outlook for steel demand remains positive, according to the World Steel Association, who forecast a 2.3% and 1.7% demand increase in 2023 and 2024, respectively. In 2023, Chinese steel demand should improve due to infrastructure projects and high automobile production. Demand from the real estate sector could also improve in the second half of this year, driven by government support measures. In 2024, Chinese steel demand could stagnate if the government limits additional stimulus.

In line with what has happened in previous years, the Chinese government could cap steel production at or below 2022 levels to reduce industry emissions. Under this scenario, Chinese iron ore imports would fall in the

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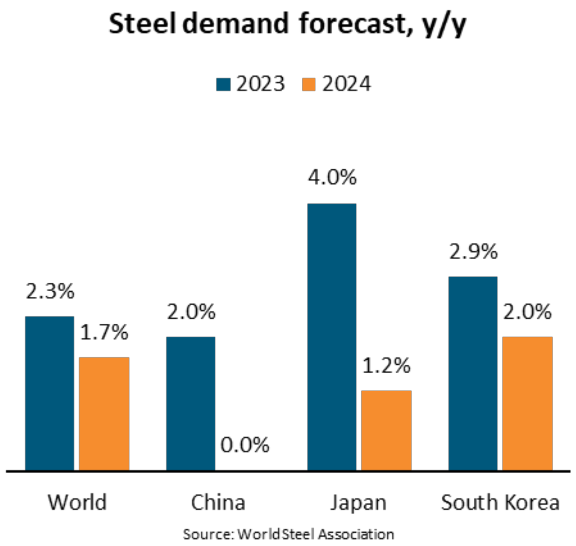
second half of 2023 and steel imports would increase to meet demand. The impact of such a measure on demand growth will depend on the origin of the replacement steel imports. Demand growth would be determined by sailing distance and whether the steel exporter imports its production inputs (iron ore, scrap steel and/or coking coal) or instead relies on domestic supplies.

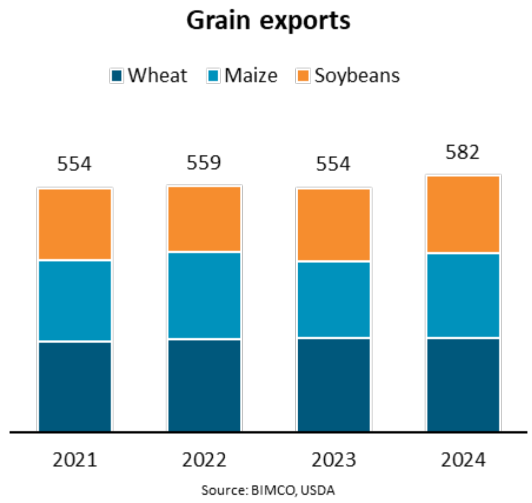


Though global coal demand will only grow marginally in 2023, we estimate that coal shipments could increase between 5% and 6% in 2023 but fall between 2% and 4% in 2024.

Coal shipments into China and India have surged year-to-date, despite these countries' push to reduce import dependency by increasing domestic coal mining. However, electricity demand in both countries has risen due to growing economic activity, while unseasonably high temperatures have added further demand. Coal prices have also fallen, boosting its attractiveness to price sensitive importers.

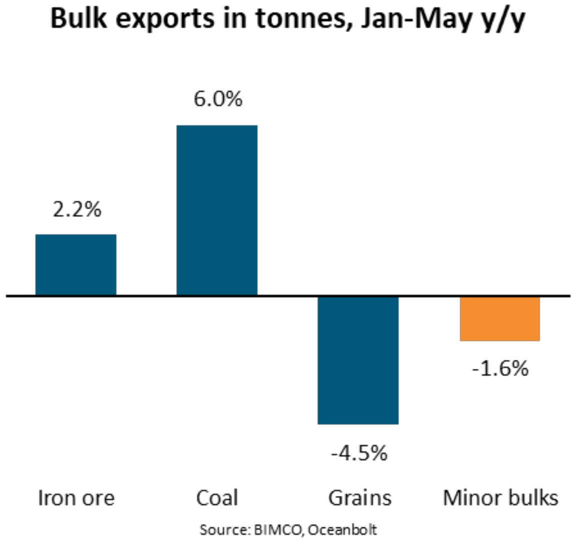
In 2024, coal shipments to the EU could fall further, due to a mixture of weaker demand and a push to transition to renewable energy. An increase in electricity production from renewables and higher domestic coal mining in India and China will also trim demand.

Based on figures from the United States Department of Agriculture, we estimate that grain export volumes will fall 0.9% in 2023 and grow 5.0% in 2024. Wheat exports are expected to slightly increase in both years, driven by higher exports from the EU and Russia. Maize exports could drop by 12.0% in 2023 before recovering by 11.4% in 2024. A lower risk of drought in Argentina and the US should support this recovery. Lastly, soybean exports could rise 10.5% and 4.4% in 2023 and 2024, respectively. Brazil is expected to continue boosting exports, while exports from the US could fall, due to higher competition from Brazil.



On 18 May, the Black Sea grain agreement was renewed for two additional months. It has seemingly become more difficult for the parties to commit to a longer time horizon. As such, an end to the agreement remains a potential

downward risk to grain shipping.

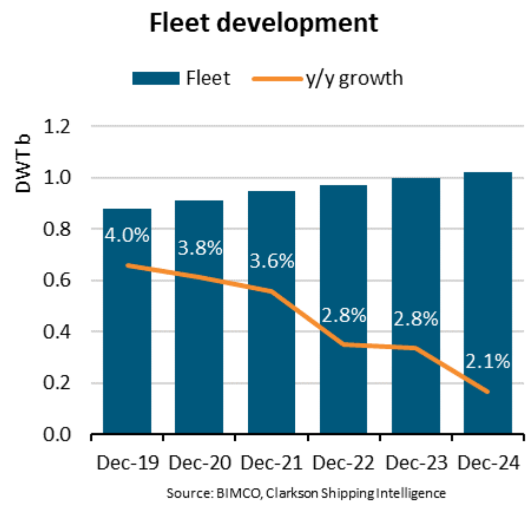


Year-to-date, minor bulk demand fell 1.6% in 2023, due to lower global economic growth. Cement and clinker shipments have dropped the most, as construction activity in China fell and the earthquake in Turkey caused a reduction in exports. Fertilizer shipments have stabilised compared to 2022, but they remain lower than pre-war levels. Bauxite on the other hand has continued to grow due to higher aluminium production in China. In 2024, we expect an improved global economic outlook to boost demand for minor bulk commodities.

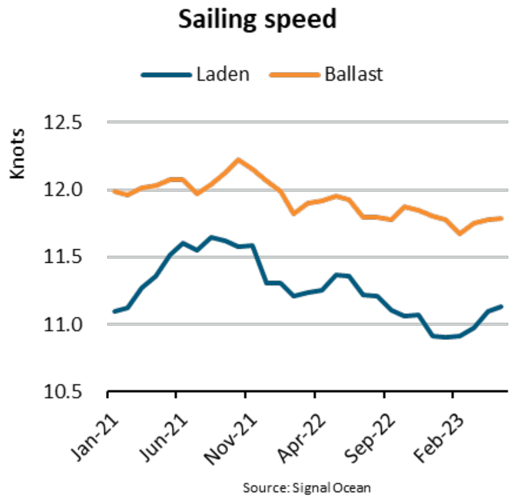
Given China's role as a key import market for dry bulk commodities, major developments in its economy could significantly alter our demand outlook. As previously discussed, China's economic recovery has not so far been linear or predictable. Since our last update, some positive signs have emerged from China's real estate sector, however the crisis remains unresolved and is still hindering dry bulk demand.

The shift in climate patterns from La Niña to El Niño could also impact dry bulk demand. Higher rainfall in the US and Argentina could improve grain yields, while dry conditions in India, Australia and Brazil could threaten grain exports. Temperatures and dryness in India and Southeast Asia could also increase. This could boost coal import demand through an increase in energy demand and a reduction in electricity generated from hydropower. The likelihood of mining disruptions due to flooding in Australia and Brazil should meantime diminish.

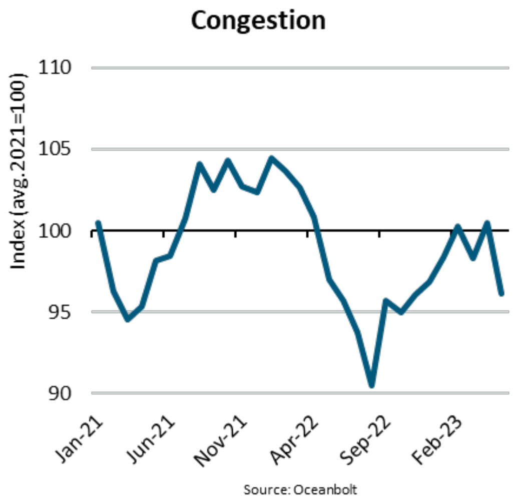
Supply



The dry bulk fleet is expected to grow by 2.8% in 2023 and by 2.1% in 2024, as both deliveries and ship recycling remain low. However, supply is expected to grow by 0.5-1% less than the fleet in 2023 and in 2024, due to the impact of EEXI/CII regulations on sailing speed. The current orderbook stands at 6.9% of the dry bulk fleet, the lowest ratio in over 25 years. As a result, deliveries should slow down to 33.7 million deadweight tonnes (DWT) in 2023 and 28.4 million DWT in 2024. Ship recycling is expected to remain under 10 million DWT in both 2023 and 2024 and limited to older ships that have been made less competitive by environmental regulations.



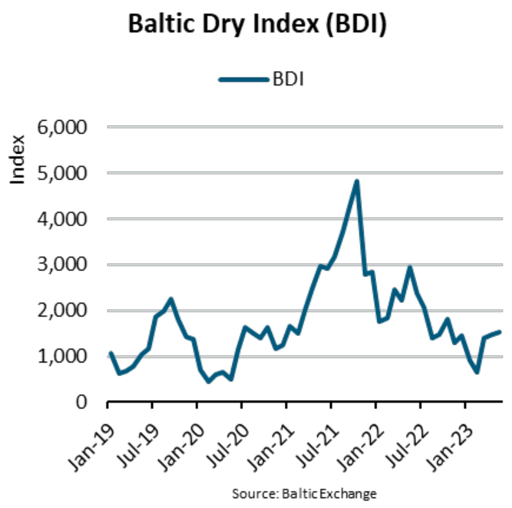
During the first five months of the year, laden and ballast average sailing speeds were down 2.4% y/y and 1.3% y/y respectively. Ships have been gradually slowing down over the past twelve months, due to a mixture of high bunker prices, lower freight rates and climate regulations. We expect that the latter will contribute to a 1-2% reduction in sailing speeds. We have assumed half the impact will come in 2023 and the other half in 2024 when the first CII ratings will be awarded. Congestion has gradually increased since September 2022 and is currently around 2022 levels. We estimate congestion to remain close to the 2022 average in both 2023 and 2024, given a moderate increase in cargo volumes.



Supply/demand balance

Average freight rates weakened in the second half of 2022 but have begun to recover during the last three months. Since the first quarter, earnings for capesize ships have significantly increased, although earnings for smaller bulk carriers have slightly decreased. Nonetheless, spot rates remain above pre-covid levels for all ship sizes. Weaker grain and minor bulk shipments have contributed to the deterioration of freight rates in the smaller segments. Higher coal shipments have provided some support to Panamax and Supramax ships, but freight rate increases have been small, and the rates remain firmly behind last year at the same time.

Spot rates could increase during the coming months due to seasonal factors, such as higher coal demand during the summer months and the grain harvests in the northern hemisphere starting in July. Stronger Chinese demand could also emerge as the economy strengthens and the government continues to work towards a resolution of China's real estate crisis.



In 2024, a rebound in demand for grains and minor bulks could aid panamax, supramax and handysize rates. However, panamax rates could still come under pressure if our expectations come true and coal shipments start being phased out. Out of all segments, panamax ships are the most exposed to a decline in coal shipments, as coal accounts for over half of the cargo they transport.

Overall, we expect a marginal tightening of the supply/demand balance until the end of 2024.

Supply is expected to increase by 1.8-2.3% in 2023 and by 1.1-1.6% in 2024, while demand growth is predicted at 1.5-2.5% in 2023 and 1-2% in 2024. However, it will not take much to upset this improvement and as previously detailed several demand side risks do exist, not least a potential weaker recovery in China.

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