Dry Bulk Shipping Market Overview & Outlook

Muted fleet growth helps maintain market balance

Q4 2023

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Highlights

Demand

Global GDP could grow by 2.9% in 2024 and by 3.2% in 2025, below the 3.7% average annual growth rate between 2010 and 2019.

Iron ore shipments are estimated to grow 3.0% from 2023 to 2025, supported by growth in global steel demand.

Coal shipments could be 4.0% lower in 2025 than in 2023. Demand in advanced economies may continue to fall and mining in India and China could limit import demand growth.

In 2024, maize shipments are expected to increase and in 2025 wheat volumes could recover. **Between 2023 and 2025, grain shipments may increase by 5.1%.**

Supply

The current orderbook stands at 8.1% of the dry bulk fleet. The supramax segment could grow the fastest, while the capesize orderbook remains small.

Amid low fleet growth and a stable market, **we estimate that only 15.5 mill. DWT may be recycled during 2024-2025.**

Climate regulations could cause **sailing speed to fall 1-2% from 2023 to 2025.** A tighter market in 2025 could keep sailing speeds from falling significantly.

Supply/demand

Supply is forecast to grow 1-2% in both 2024 and 2025. Fleet growth will slow down during this period.

Demand is forecast to grow 1-2% in 2024 and 1.5-2.5% in 2025. Improved economic conditions is expected to stronger demand in 2025.

The supply/demand balance should remain stable in 2024 and tighten slightly in 2025. As such, freight rates may remain around 2023 levels in 2024 and could improve in 2025.

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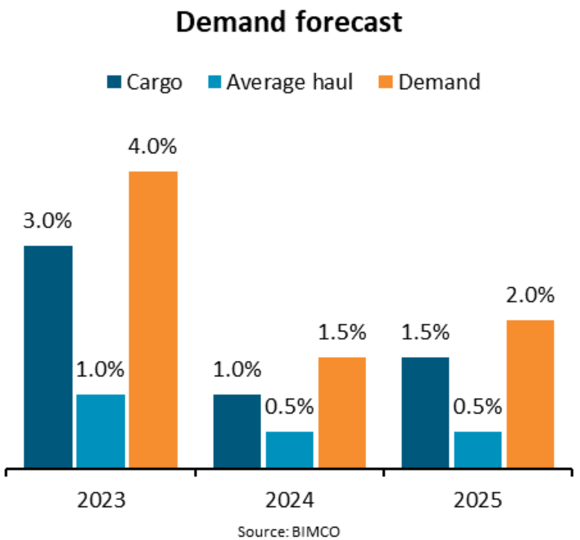
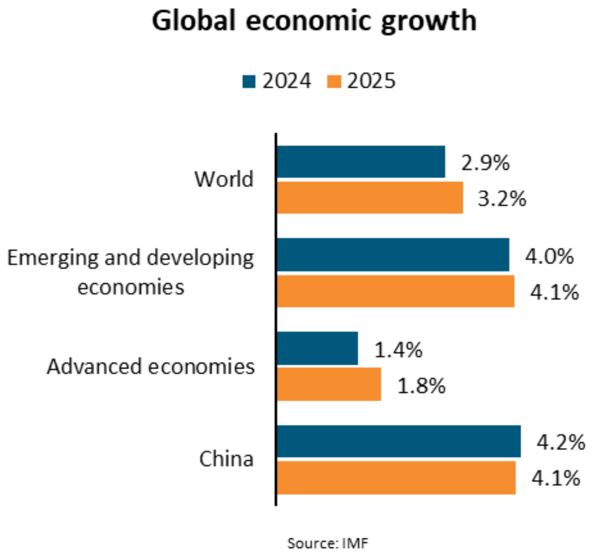
Demand

In our base scenario, we expect cargo demand to grow by 2.5-3.5% in 2023, 0.5-1.5% in 2024 and 1-2% in 2025.



Average haul could increase by between 0.5% and 1.5% in 2023 and between 0% and 1% in both 2024 and 2025. From 2024 onwards, there may be a decrease in shipments of coal, which is a commodity with below average sailing distances. Furthermore, shipments of iron ore and grain from South America and bauxite from Guinea could continue to increase, further boosting average haul.



In October, the International Monetary Fund (IMF) forecast global GDP to grow by 2.9% in 2024 and by 3.2% in 2025, a minor downward revision of 0.1 percentage points for 2024. The fight against inflation in many advanced economies will continue to impact economic growth in 2024. However, the likelihood of global GDP growing by only 2% is estimated by the IMF at only 15%, an improvement over the previous estimation of 25%. The downside risks have eased, and the IMF's projections are consistent with a scenario where inflation declines without a major downturn in economic activity.

In 2025, economic conditions may improve as interest rates in advanced economies ease. However, global economic growth is expected to remain below the 3.7% average annual growth rate between 2010 and 2019.

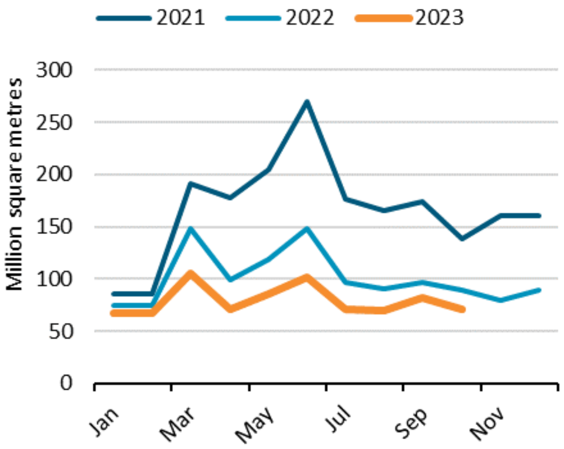
China's economy is expected to grow by 5.0% in 2023, by 4.2% in 2024 and by 4.1% in 2025. The Chinese government recently announced a one trillion Chinese Yuan stimulus, which the IMF believes could cause GDP to grow by 5.4% in 2023 and by 4.6% in 2024. Nonetheless, despite the stimulus, GDP growth is estimated to slow down in 2024 and 2025 due to a weak property market, subdued external demand and low consumer confidence.

The IMF highlights the need for swift and meaningful support to tackle China's real estate crisis and low consumer confidence. Under a negative scenario, they estimate that China's GDP could grow by only 2.5% in 2025. If these negative conditions materialise, we estimate dry bulk demand could grow by one percentage point less than in our base case in both 2024 and 2025.

We estimate global iron ore shipments to increase by 3.5-4.5% in 2023 and by 1-2% in both 2024 and 2025, supported by growing steel demand. In 2024, global steel demand is estimated to increase by 1.9%, according to the World Steel Association. Overall, demand in advanced economies is expected to rebound, but demand growth in China could slow down.

The Chinese real estate crisis is affecting domestic steel demand. In the first three quarters of 2023, new housing starts fell by 23.7% y/y or by 52.5% when compared to the same period in 2021. While the Chinese government has implemented several measures to support property market demand, the IMF believes that further measures are needed to help restructure the supply side.

New real estate starts in China

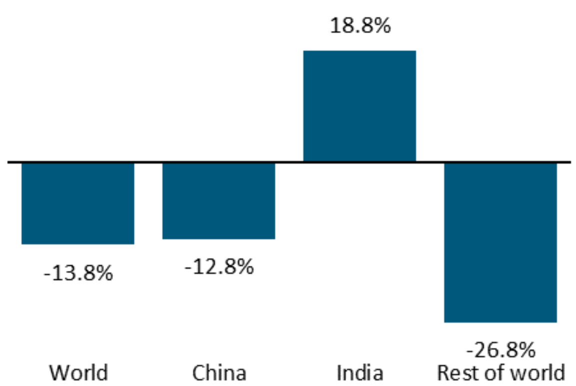


Source: NBS

If the government successfully intervenes, positive effects on steel demand might only be seen from 2025 as current construction projects total a low area, so the effect of intervention will take time to appear. If the intervention is especially successful, iron ore shipments could grow above our current expectations. In 2024, infrastructure, manufacturing, and exports to other Asian markets could drive Chinese steel production.

Coal shipments are estimated to increase 4.5-5.5% in 2023 and to fall by 1-2% in 2024 and by 2-3% in 2025.

Coal demand, stated policies 2030 vs 2022

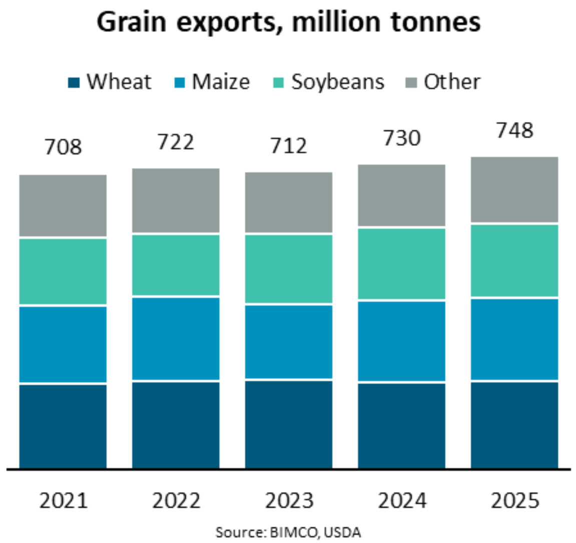


Source: IEA, World Energy Outlook 2023

The International Energy Agency (IEA) projects coal demand to peak in the mid-2020s. The exact year of peak demand is unknown, and it is possible it could be 2023. By 2030, the IEA, in its least ambitious climate scenario, estimates that global coal demand may be 13.8% lower than it was in 2022, based on governments' stated policies. In China, the largest consumer and importer of coal, output from coal-fired power plants could peak around 2025. Moreover, coal demand is already falling in many advanced economies.

Coal mining in China and India has been significantly expanding, threatening imports there. In China, imports have remained competitive with domestic coal and safety concerns in Chinese mines having led to limited mining growth in 2023. Coal imports have benefited from no import tariffs since May 2022. If this measure does not get extended beyond December 2023, it could impact the competitiveness of imports. In India, mining has increased rapidly, but so has demand, keeping imports afloat. We expect Chinese and Indian coal imports could remain stable in the coming years or even grow. Nevertheless, the combined import demand growth in emerging Asian economies might not surpass the decline occurring in advanced economies.

We forecast grain shipments to fall by 1-2% in 2023 and to increase by 2-3% in both 2024 and 2025. In 2024, shipments could be supported by a 9.8% and 4.2% increase in maize and soybean exports respectively, while wheat exports could fall 3.2%. Argentina's wheat, maize and soybean harvests are expected to rebound from last year's drought-affected crop, while El Niño's effects will contribute to a significant reduction in Australia's wheat harvest. In 2025, a recovery in rice, soymeal and wheat volumes could cause shipments to increase.



Despite the positive outlook, risks remain. In Brazil, unusually hot and dry weather in October and November is raising concerns about the size of the upcoming soybean harvest. A record harvest had been expected, but uncertainty is causing future prices to increase. Brazil's maize harvest could also be affected by these conditions as part of it is planted immediately after the harvest of soybeans.

Shipments of minor bulk cargoes are expected to increase by 2-3% in both 2023 and 2024 and by 3-5% in 2025. In 2024, we expect to see continued growth for minor bulks, particularly among the minor ores. The energy transition is expected to continue driving demand for aluminium, bauxite, copper and nickel. In 2025, a recovery in economic conditions in advanced economies could drive additional growth in minor bulk shipments, especially for steel and construction materials.

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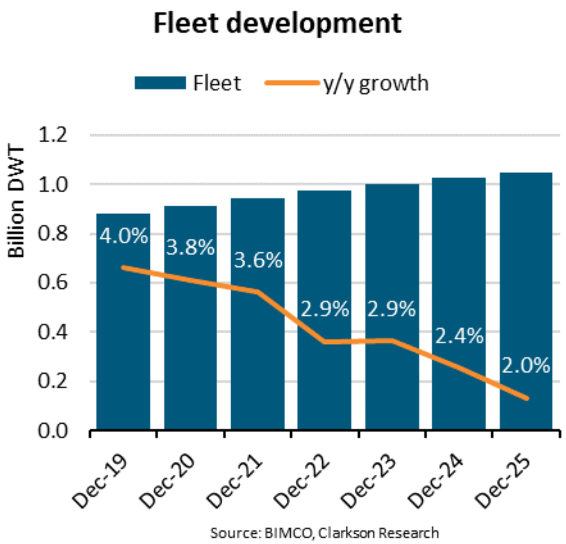
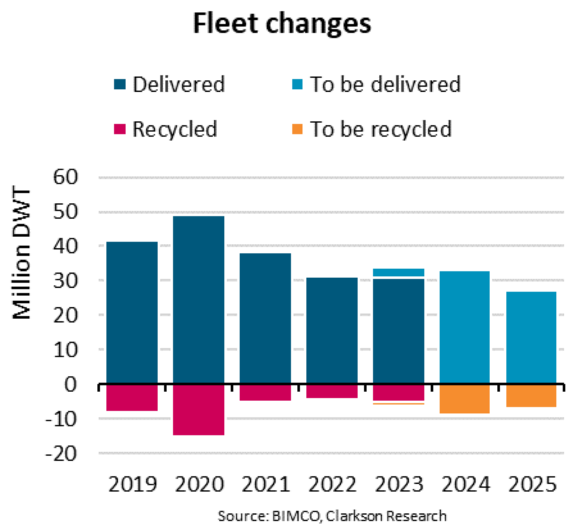
Supply

The dry bulk fleet is estimated to grow by 2.9% in 2023, 2.4% in 2024 and 2.0% in 2025. For 2023, supply is estimated to grow by 2-3%, affected by lower sailing speeds and lower congestion. In both 2024 and 2025, lower sailing speeds could cause supply to only grow by 1-2%.



The order book currently stands at 8.1% of the dry bulk fleet and deliveries are expected to reach 33.2 million deadweight tonnes (DWT) in 2024 and 27.2 million DWT in 2025. The supramax segment is projected to grow the fastest in 2024 and 2025, with estimated deliveries of 13.4 million DWT and 10.0 million DWT respectively. Conversely, the capesize order book stands at only 5.1% of the fleet, with deliveries expected to reach 7.2 million DWT in both 2024 and 2025.



We estimate ship recycling to reach 8.7 million DWT in 2024 and 6.8 million DWT in 2025, a slight increase over the very low levels observed over the past three years. Ship recycling will likely remain limited to older ships that have been made less competitive by climate regulations.

Sailing speeds could fall between 0.5% and 1.5% in 2024 and between 0% and 1% in 2025. Climate regulations could incentivise ships to slow down. In 2024, the first Carbon Intensity Indicator (CII) ratings will be awarded, and shipping's CO_2 emissions will be included in the European Union's Emissions Trading System, impacting 12% of the dry bulk trade. However, the impact on sailing speeds remains uncertain. For example, there are currently no known consequences of low CII ratings. In 2025, a potential increase in freight rates could keep sailing speeds from falling significantly.

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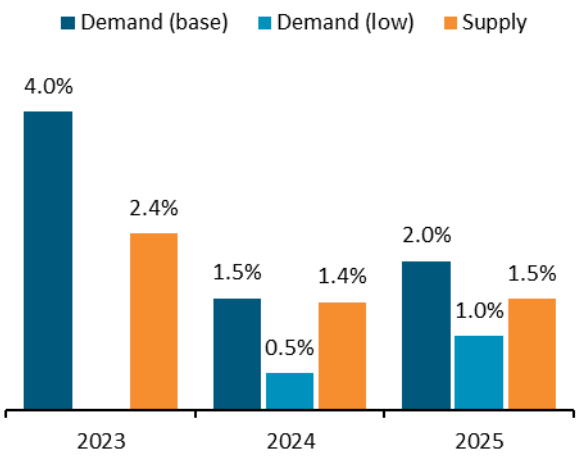
Supply/demand

Overall, we expect the supply/demand balance to tighten in 2023, remain stable in 2024 and tighten marginally in 2025. Supply is expected to grow by 2-3% in 2023 and by 1-2% in 2024 and 2025. Demand is projected to grow by 3.5-4.5%, 1-2% and 1.5-2.5% in 2023, 2024 and 2025 respectively.

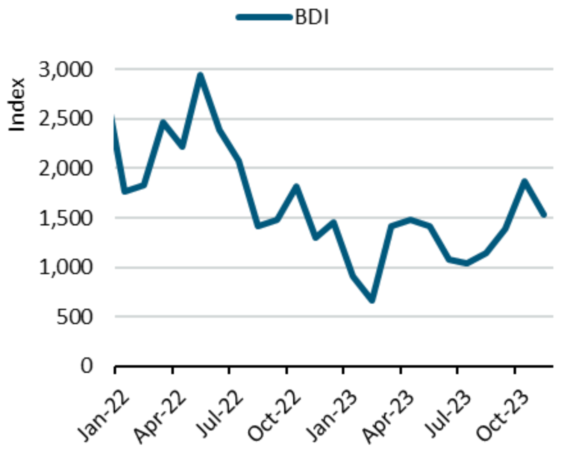
Fleet supply/demand developments



Source: BIMCO

Under our low demand scenario, the supply/demand balance would weaken in 2024 and in 2025. In this scenario, additional ship recycling and speed reductions could occur.

Baltic Dry Index (BDI)



Source: Baltic Exchange

Throughout much of 2023, the Baltic Dry Index stayed low, particularly during the summer months. However, it has recovered significantly since September, led by higher spot rates for capesize ships. This year, overall, the capesize segment fared comparatively better than smaller segments, benefiting from strong demand for iron ore, coal and bauxite.

During the rest of 2023 and in 2024, average freight rates may remain close to those seen so far in 2023 or marginally improve. Forward freight agreements point towards a slight improvement in average freight rates for all segments apart from panamax. In 2025, freight rates may increase as demand strengthens.

The outlook for capesize ships seems positive. Despite only marginal demand growth, the small order book will limit supply growth.

Supramax and handysize ships could benefit from strong demand for grains and minor bulk cargoes. Nonetheless, the large order book for supramax ships may keep supramax rates from rising, particularly in 2024.

Panamax ships may see the worst demand prospects moving onwards. Coal accounts for over half of panamax cargo and we currently assume that coal shipments might already start to fall in 2024. A dramatic decline in freight rates is unlikely, but we may see higher competition from panamax ships for capesize and supramax cargoes.

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