

Dry Bulk Maritime Freight Market Review & Outlook

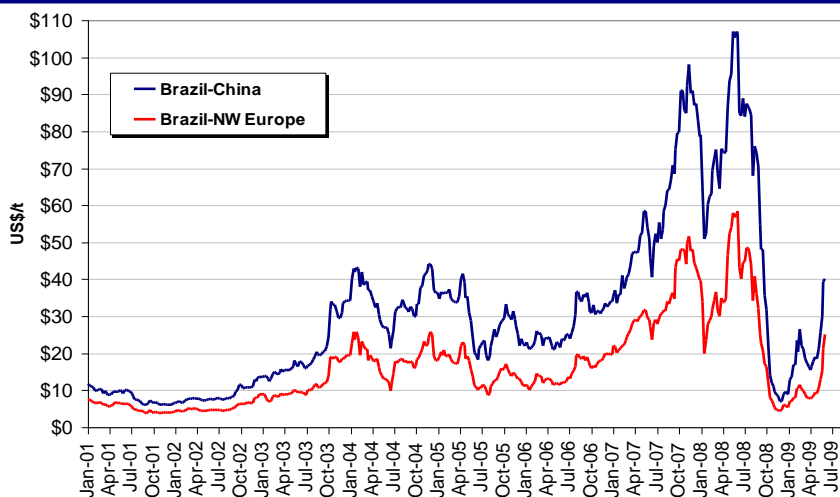
OECD Steel Committee
Paris, 8 June 2009

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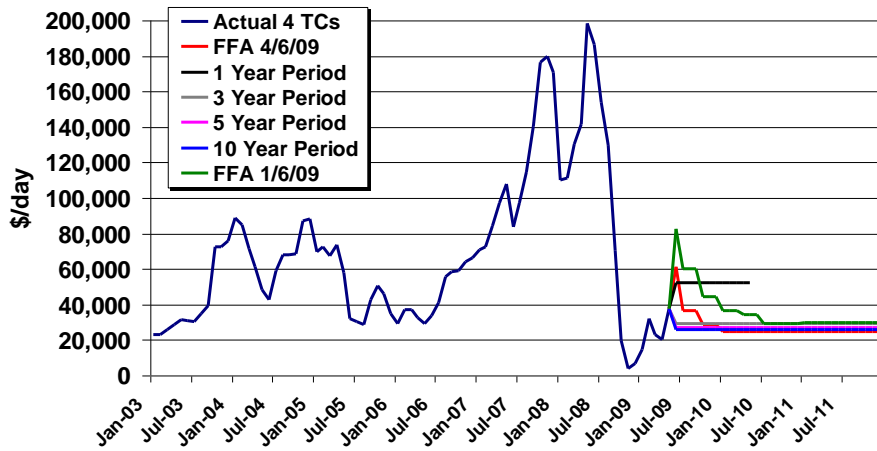
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capsize iron ore freight rates



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capsize freight rates: spot earnings & ffa forward curve



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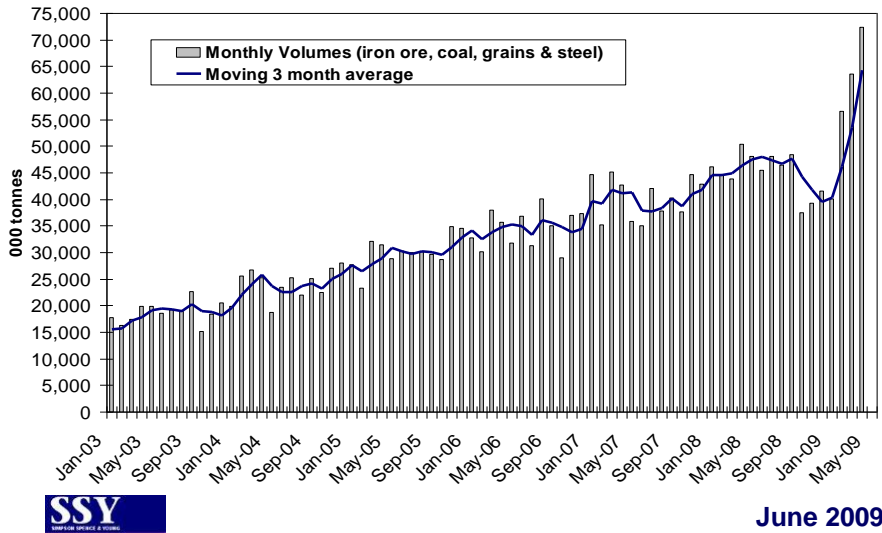
reasons behind market surge

- China-driven import demand
 - dry bulk imports almost double between October 2008 & April 2009, led by record-breaking iron ore & coal volumes
 - Brazil's iron ore exports shift to China, increasing long-haul voyages for Capes
 - emphasis on spot chartering
- Supply-side constraints
 - port congestion & ballasting restrict tonnage supply
 - Currently 78-80 Capesizes are waiting to berth at China's iron ore discharge ports
 - slow pace of newbuilding deliveries in 1h09

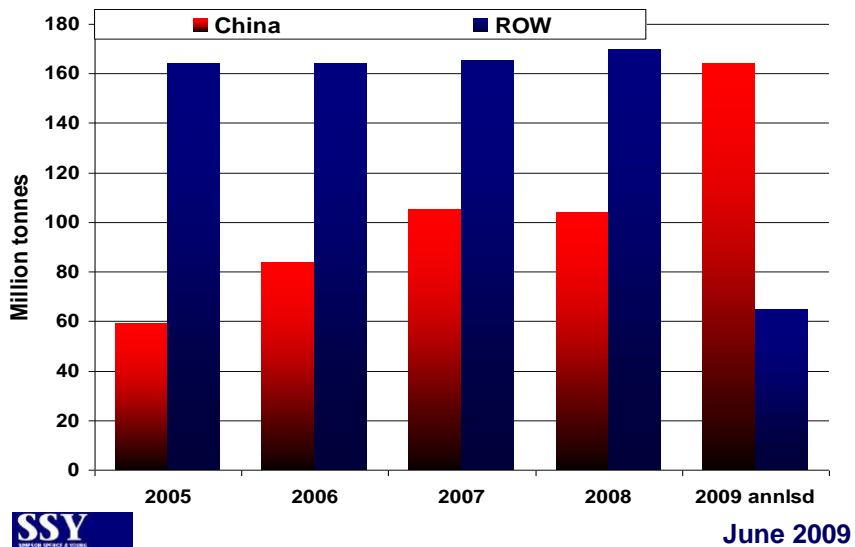


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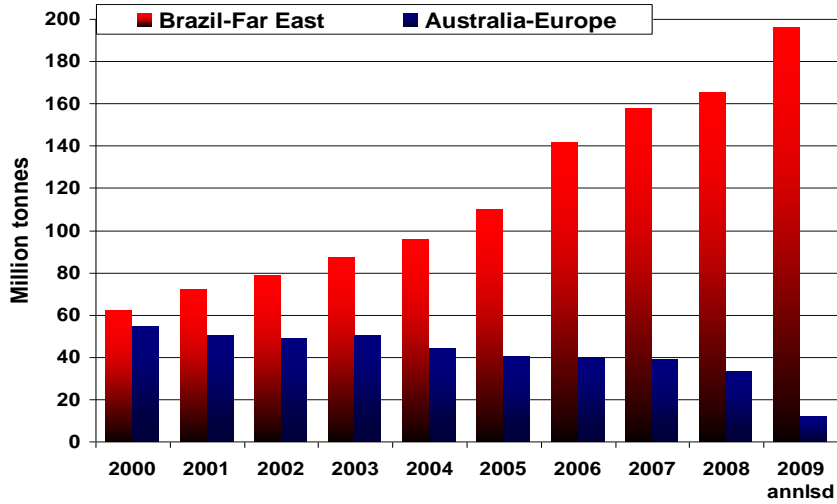
Chinese dry bulk imports



Brazil iron ore exports: shift to China boost to tonne-miles

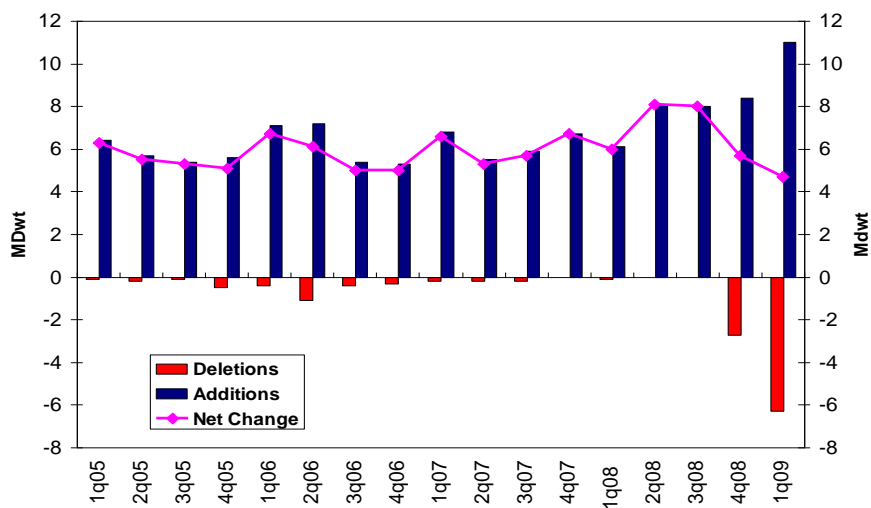


widening trade imbalances



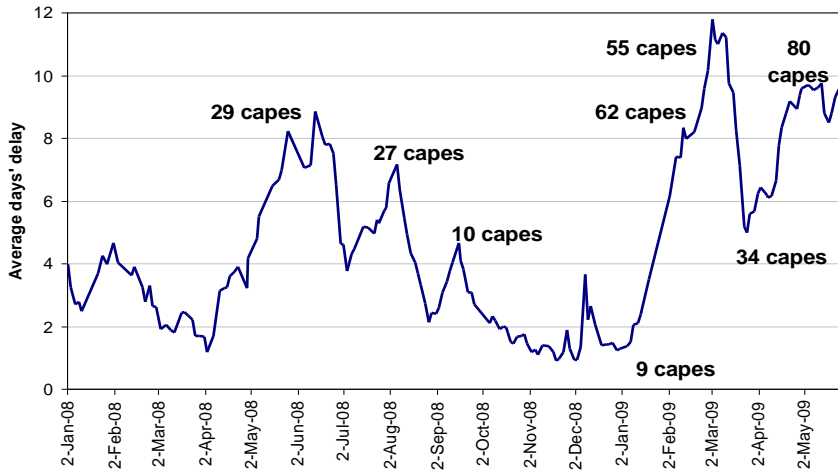
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quarterly changes in the dry bulk fleet



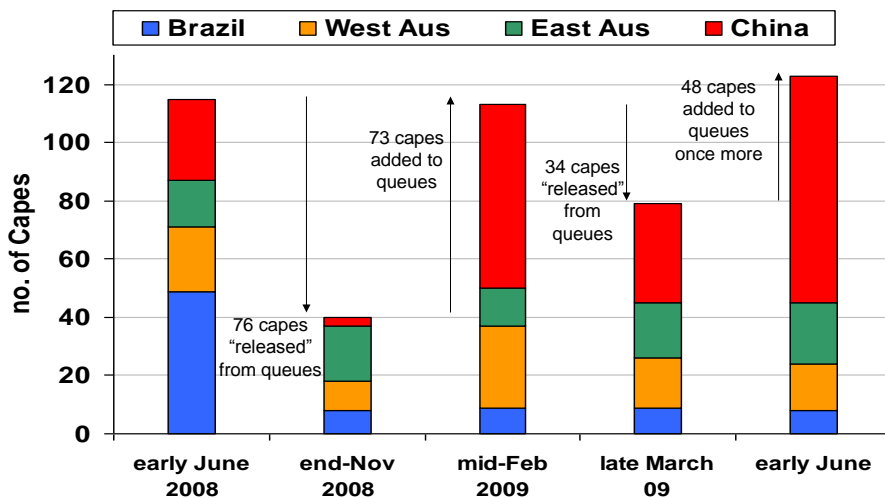
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Chinese iron ore port delays



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capsize vessels waiting to berth



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Congestion squeezes fleet supply

• Newbuilding deliveries (Jan-May)	+22 Capes
• Conversions	+18 Capes
• Deletions	-13 Capes
• Net change (Jan-May)	<u>+27 Capes</u>
• PRC congestion	-70 Capes
• Net availability	<u>-43 Capes</u>



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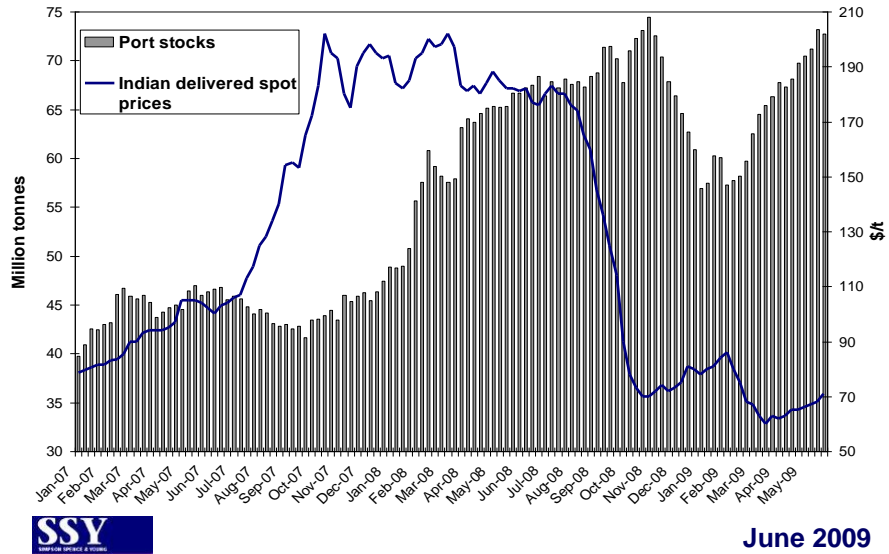
downside correction in sight?

- stockbuilding & import substitution seem to be driving Chinese import growth more than end-user demand
- stimulus package expected to lift Chinese domestic steel demand in 2h09, but export sector remains weak as OECD economies stuck in recession
- port de-congestion a potential source of additional tonnage
- newbuilding deliveries to accelerate...and current freight market upsurge could slow medium-term supply-side adjustment (scrapping deferred, orderbook financed)

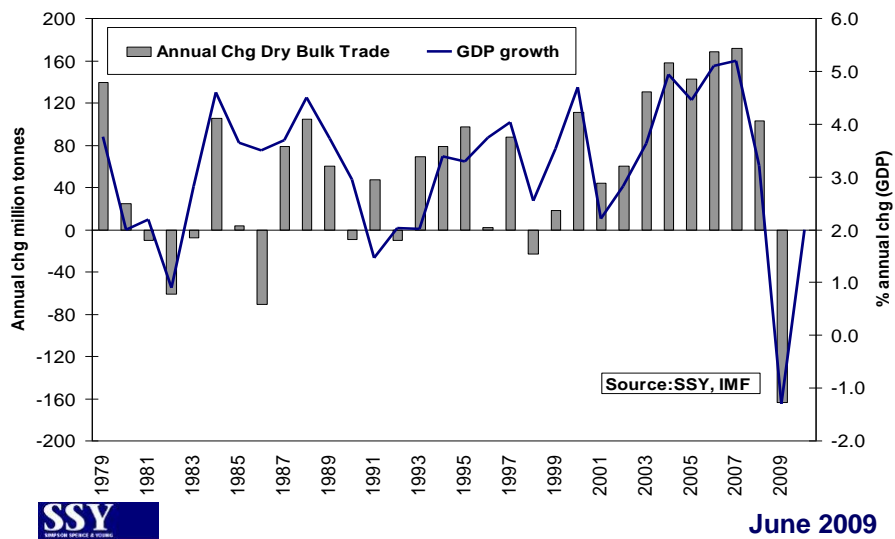


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Chinese iron ore port stocks



world gdp & dry bulk trade growth



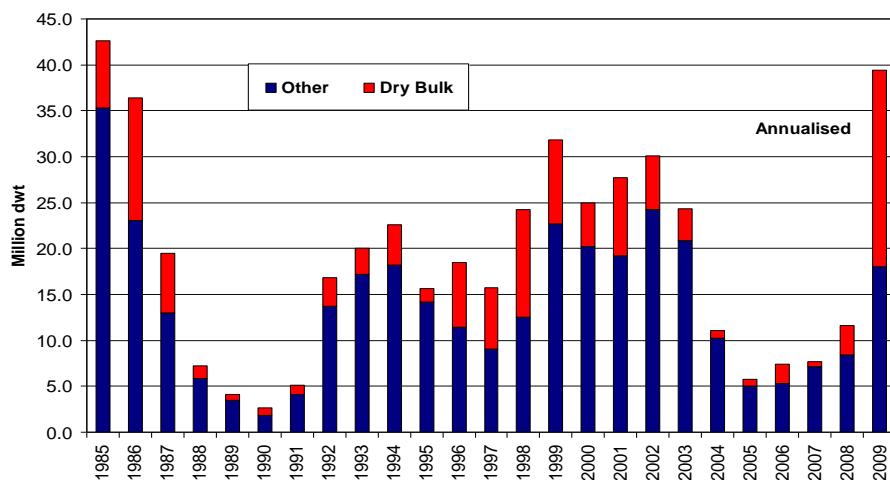
supply side uncertainties

- scrapping
 - brisk start to the year, plenty of old tonnage and historically high scrap prices
 - but doubts over available shipbreaking capacity, especially in Bangladesh and China
- newbuildings
 - how solid is the scheduled orderbook given strains on financing of orders and yard developments?
 - state support for Chinese & S.Korean shipyards



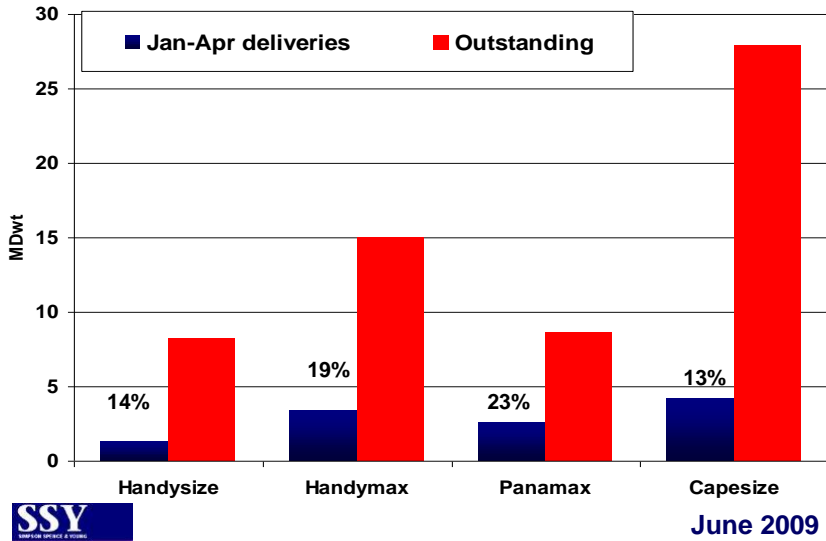
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is there enough shipbreaking capacity? historical scrap volumes

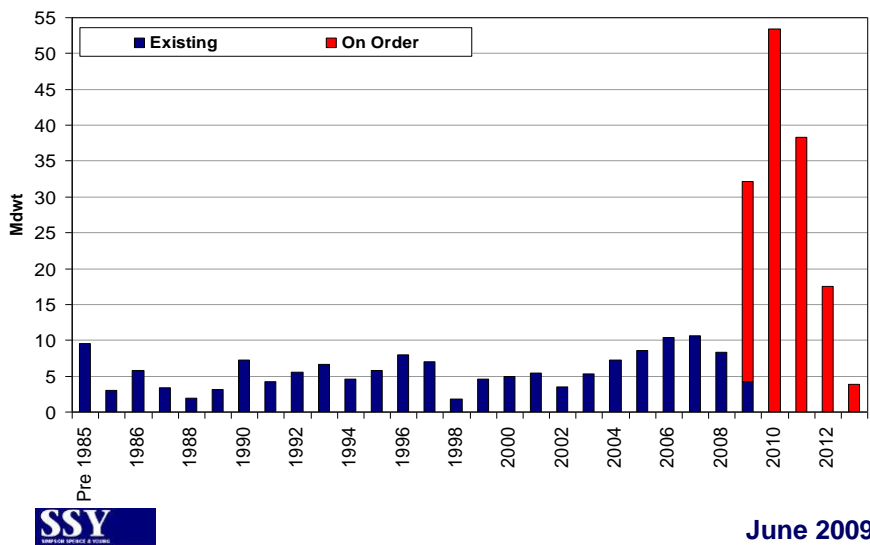


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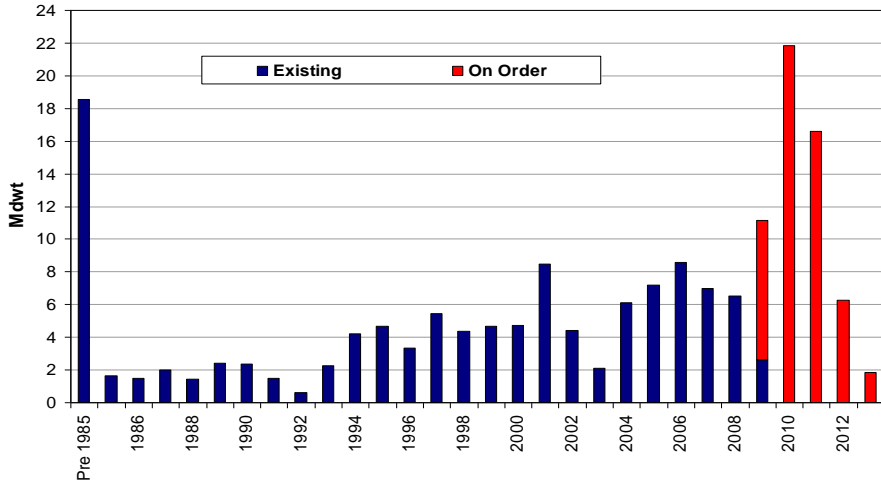
2009 delivery position



capesize fleet by year of build

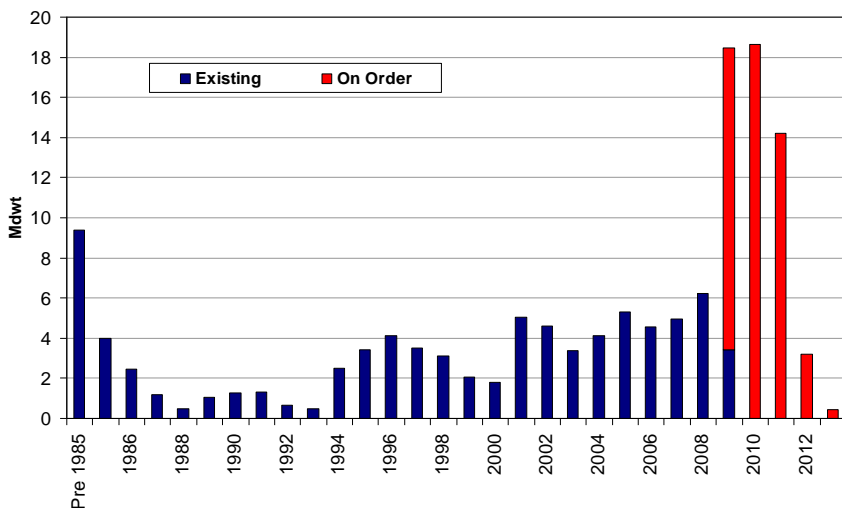


panamax fleet by year of build



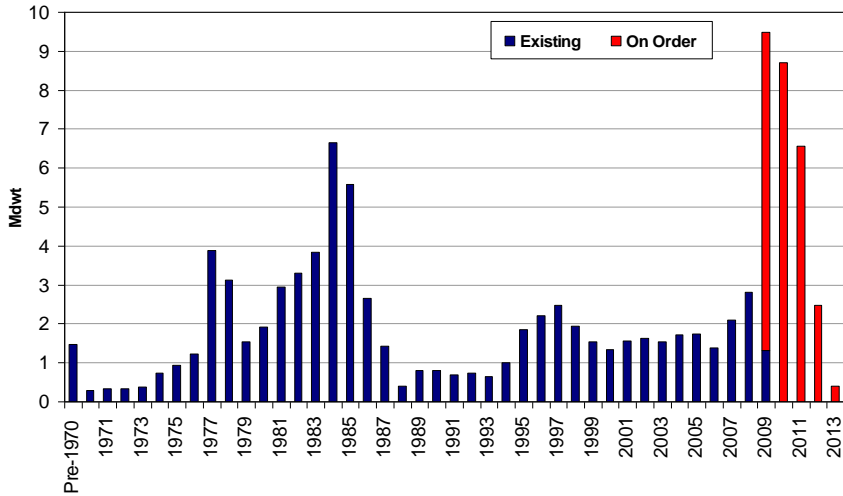
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handymax fleet by year of build



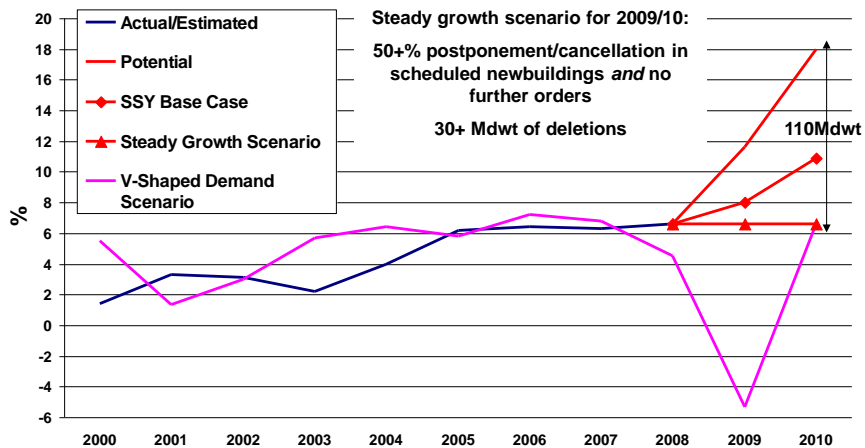
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handysize fleet by year of build



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bulk carrier fleet supply growth: annual average percentage change



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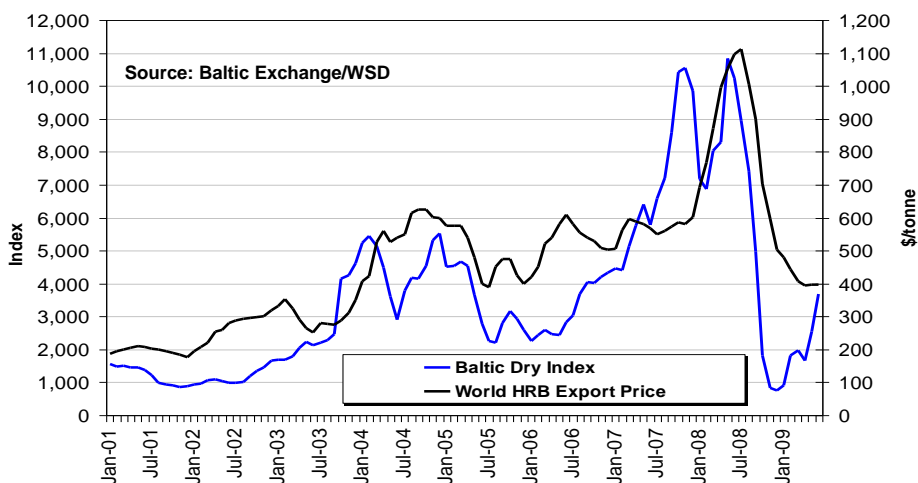
conclusions

- freight market's rally supported by increased iron ore/coal spot chartering activity, seasonal grain movements & port congestion
- but demand fundamentals remain weak due to steel output cuts and deteriorating expectations for economic growth, while fleet supply growth set to rise
- fundamental freight market improvement requires both a V-shaped demand recovery and a massive shortfall in scheduled newbuilding deliveries
- 2-year outlook remains one of fundamental weakness



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steel prices & the freight market



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