INDIA

SHIPPING MARKET OUTLOOK

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Presentation by Mr. Peter Norfolk, SSY Consultancy & Research Ltd.

Contact: Wolfgang Hübner, Head of Structural Policy Division and Steel Unit
Tel: +33 1 45 24 91 32  Fax: +33 1 44 30 62 63  E-mail: wolfgang.hubner@oecd.org

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capesize iron ore spot rates to Europe

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The freight market 2005/06: two powerful opposing forces

CARGO DEMAND

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The freight market 2005/06: two powerful opposing forces

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- China’s buying patterns, port congestion, cargo availability all helped maintain freight rate volatility

China’s iron ore imports

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average Australian coal & ore port delays

*Monthly figures based on mid-month situation

The freight market 2005/06: two powerful opposing forces

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The freight market 2005/06: two powerful opposing forces

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- 1q06 sees record quarterly net fleet increase
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net fleet change by quarter

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approximate change in carrying capacity (mt/year)

Cape  Panamax  Handymax  Handy

2002  +15  +19  +32  -11
2003  +31  +9  +25  -12
2004  +51  +44  +31  +10
2005  +60  +53  +41  +12
2006  +62  +52  +39  -1

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demand outlook - still positive

- high economic growth
- China’s iron ore imports are continuing to rise
- broad-based rise in steel prices to support higher global output
- historically firm steam coal prices
- positive tonne-mile implications as Chinese coal export surpluses squeezed

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contributions to seaborne dry bulk trade growth

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bulk carrier supply & demand growth: SSY base case

conclusions - short term

- freight rates fell in 2005 in spite of a 130+ Mt rise in dry bulk trade as fleet supply grew faster than demand for the first time in 4 years
- with newbuilding deliveries set to reach a new all-time high and scrapping yet to revive this pattern is set to continue in 2006, so creating negative pressure on annual average earnings
- large scale scrapping unlikely before 2007 unless hard landing in rates from their current levels as fleet utilization still at an historically high rate
return to past patterns or fundamental change?

- China has raised the underlying growth in seaborne dry bulk trade and
- India to be another source of trend growth
- the age profile of the existing fleet represents another fundamental difference to past cycles
- but expanding shipyard capacity does threaten future market balances

China effect: 3 year growth in seaborne iron ore, coal & grain trade

Average growth 1975-99 = 69 Mt
Average growth 2000-06 = 216 Mt
Chinese iron ore imports

India: moving up a gear steam & coking coal imports

SOURCE: SSY

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20+ year old dry bulk carrier fleet

Bulk carriers on order vs 20+ year fleet
conclusions - medium term

- dry bulk freight markets to remain cyclical
- Chinese iron ore imports have raised underlying rate of ship demand growth with the country’s coal and grain trades offering upside potential
- together with deferred scrapping of older tonnage, this decreases the likelihood of a return to the protracted periods of weak freight markets experienced in the 1990s and 1980s

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