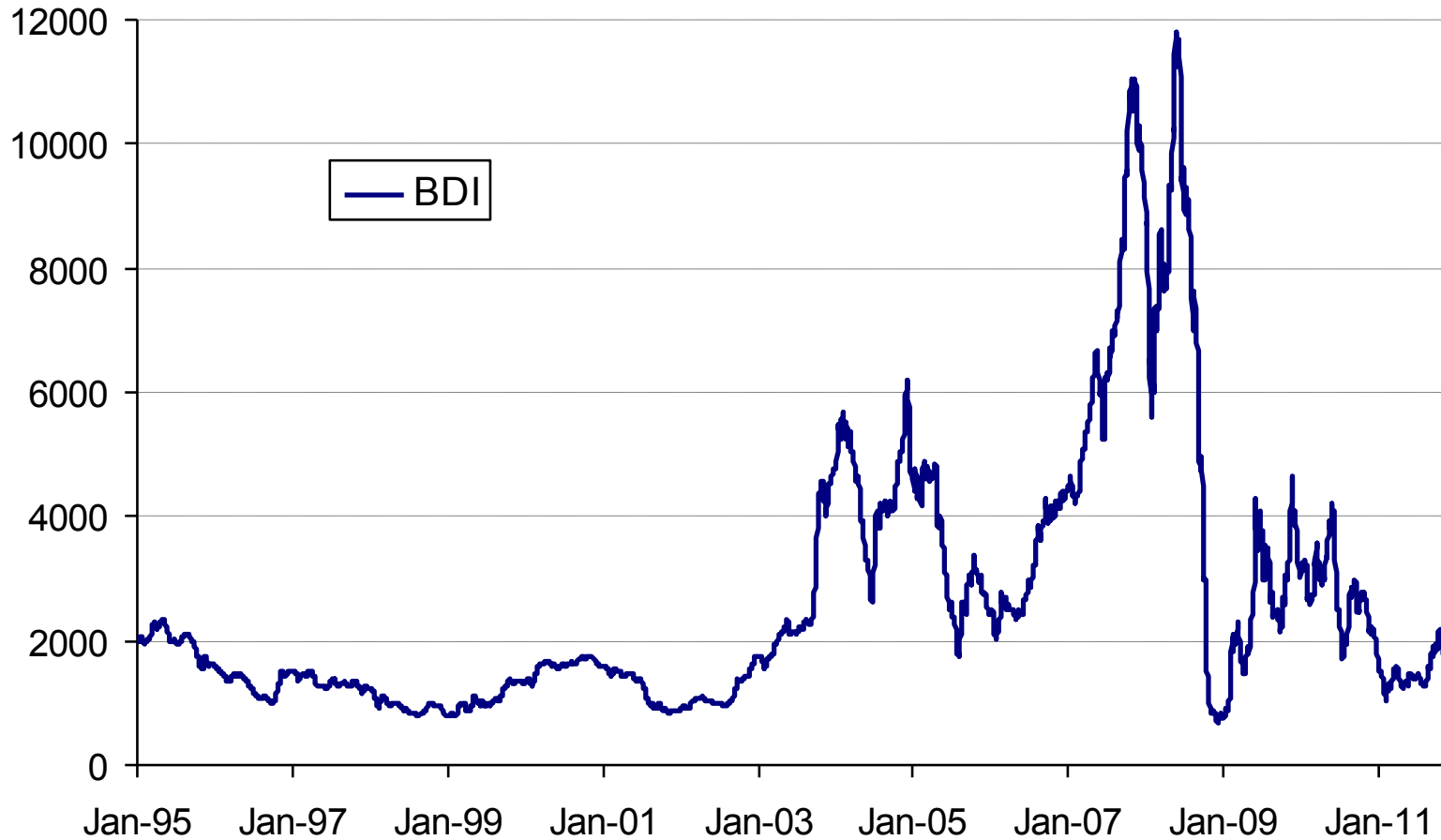

Freight market outlook Global Grain

Geneva, November 2011
Tom Cutler, SwissMarine

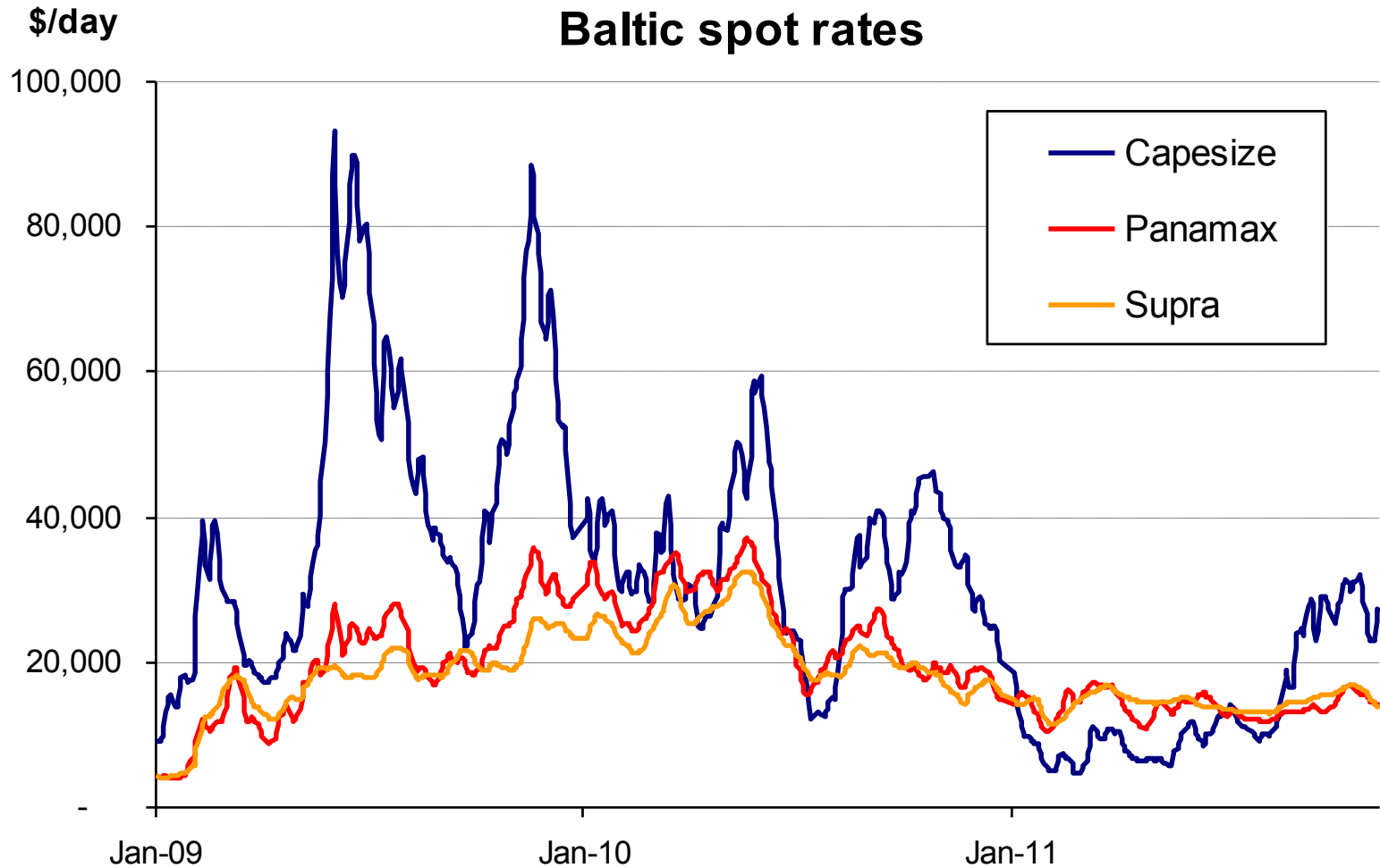


Freight market – still alive & kicking

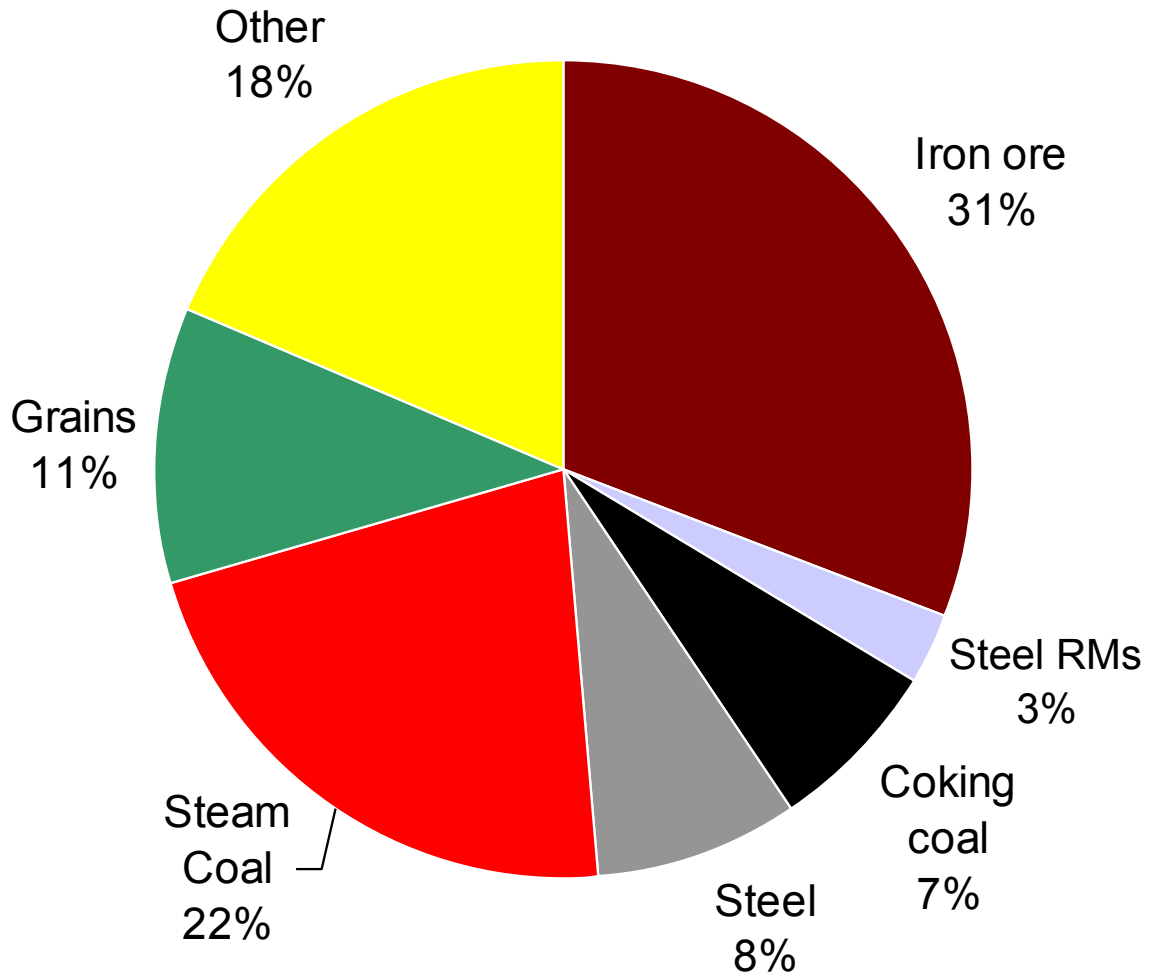
Baltic Dry Index



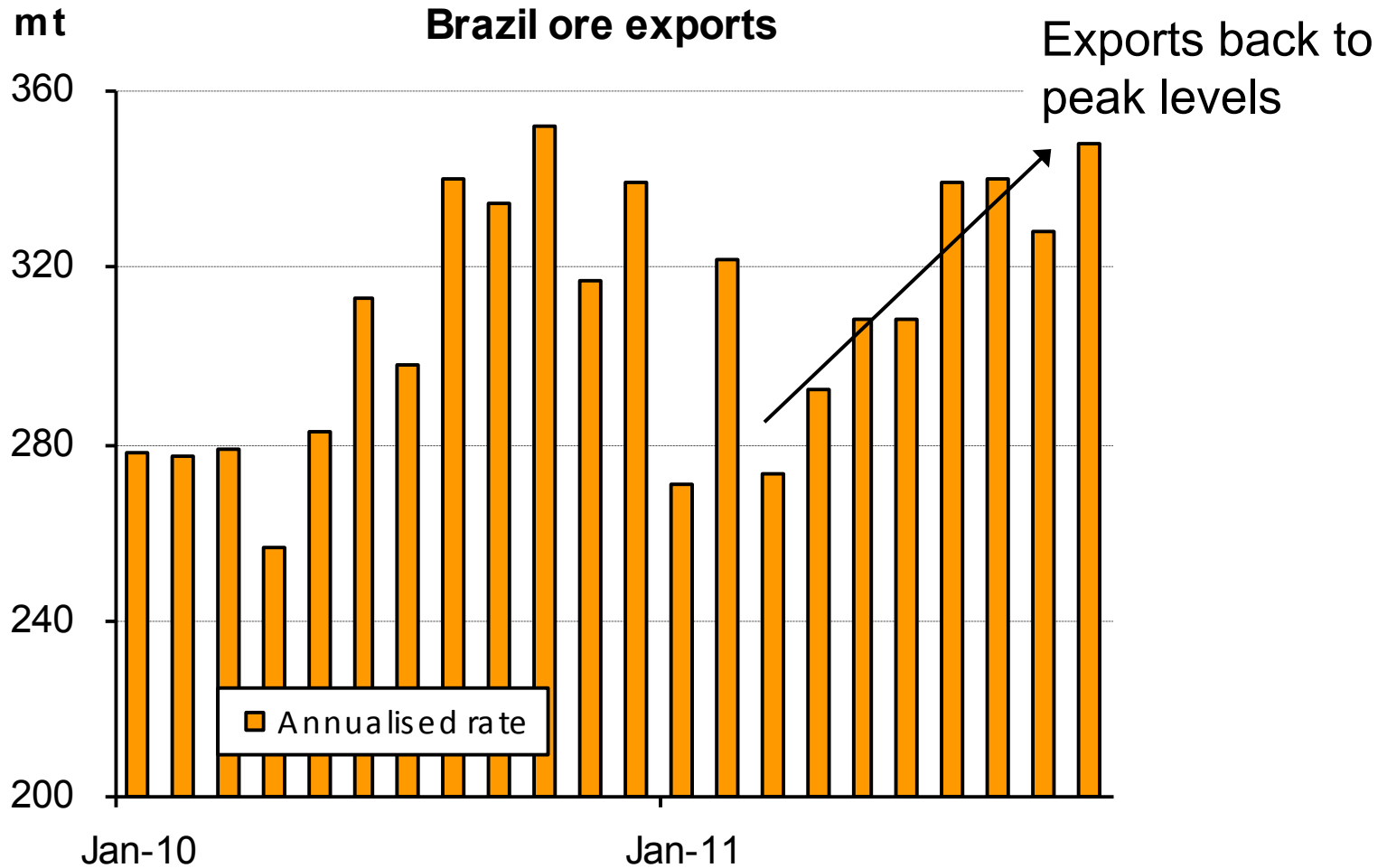
Recovery since mid 2011



Seaborne dry bulk trade 2011



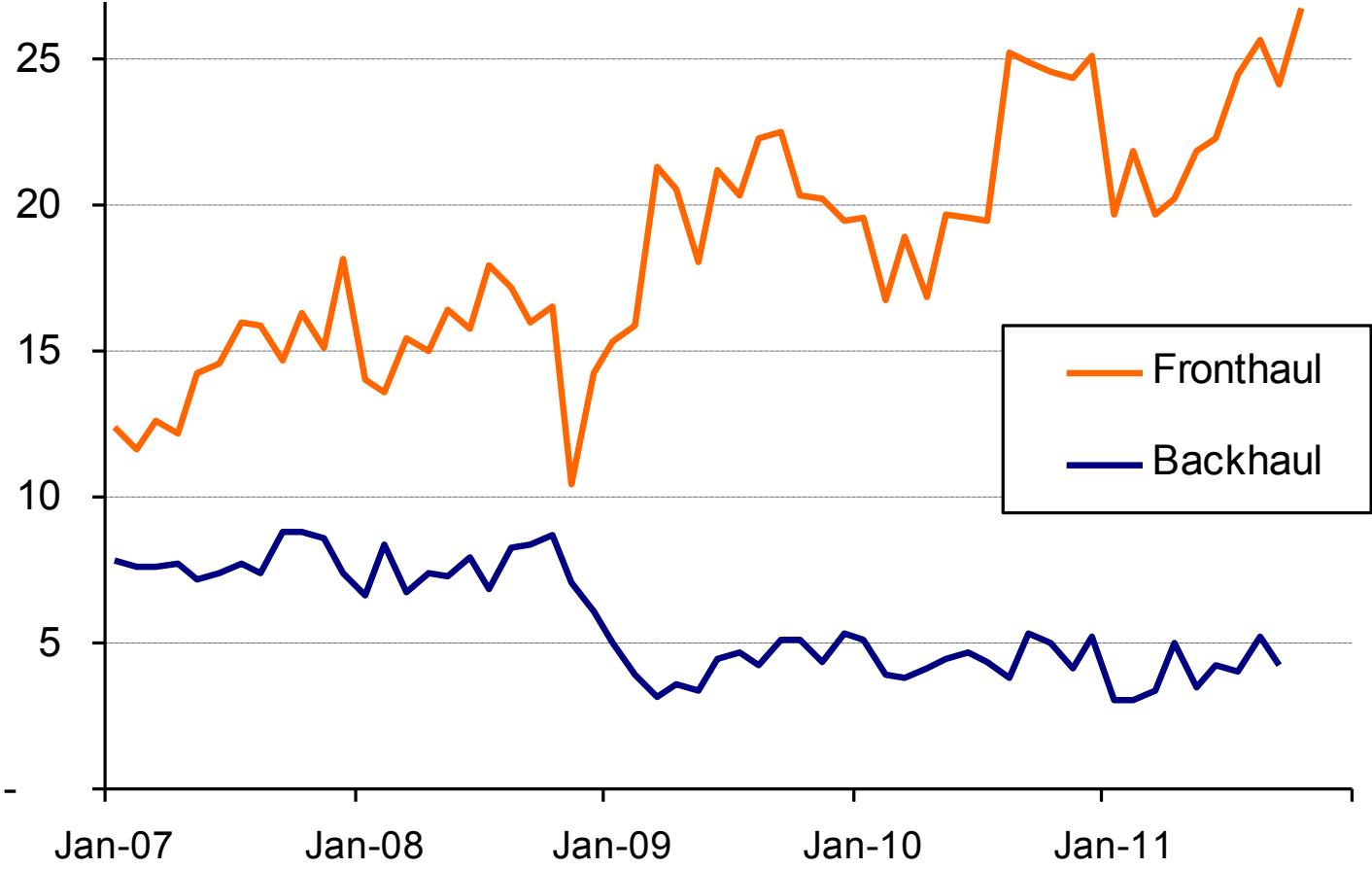
Iron ore trade recovering strongly



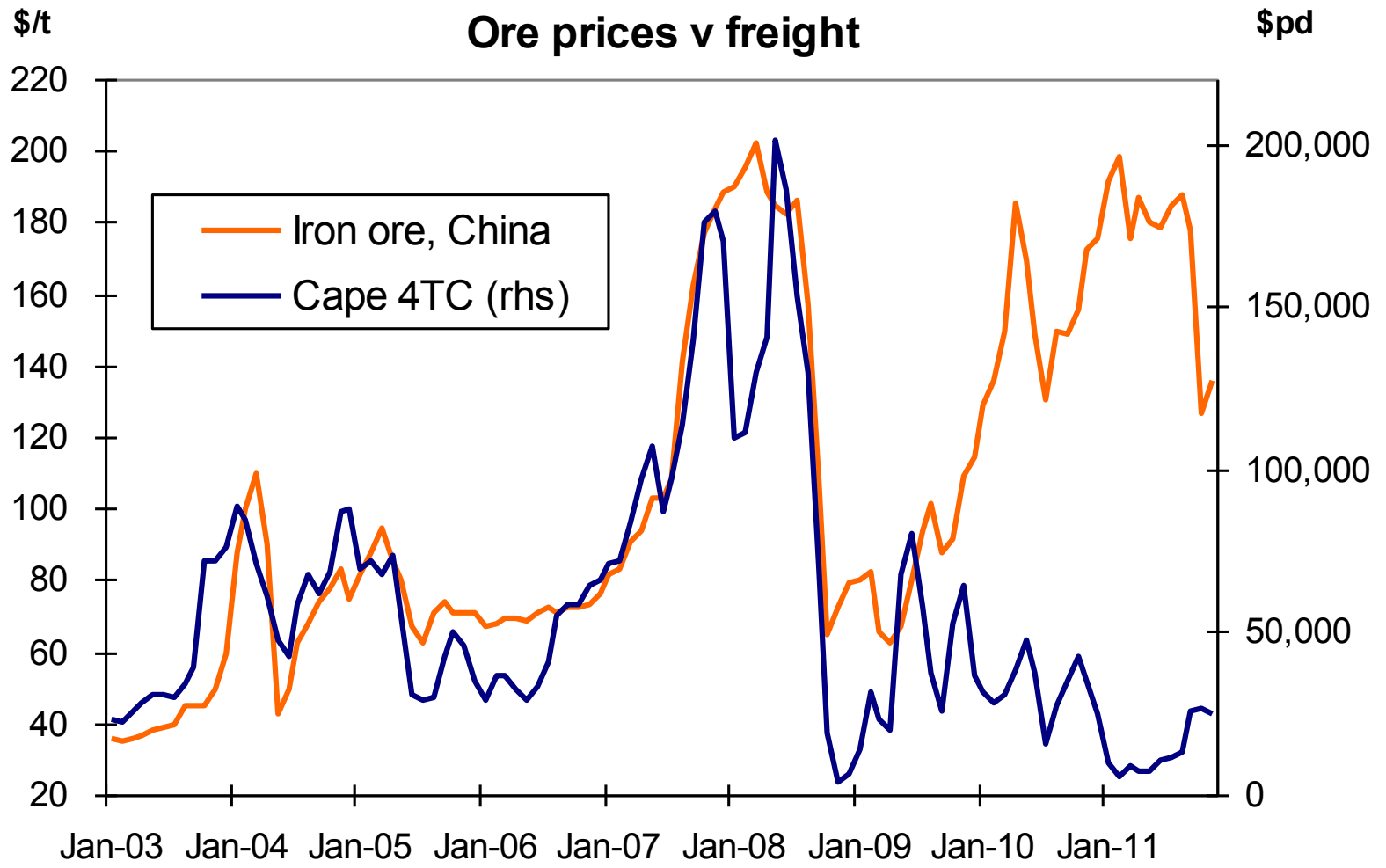
Atl/Pac trade increasing: Long haul, long ballast

mt/mnth

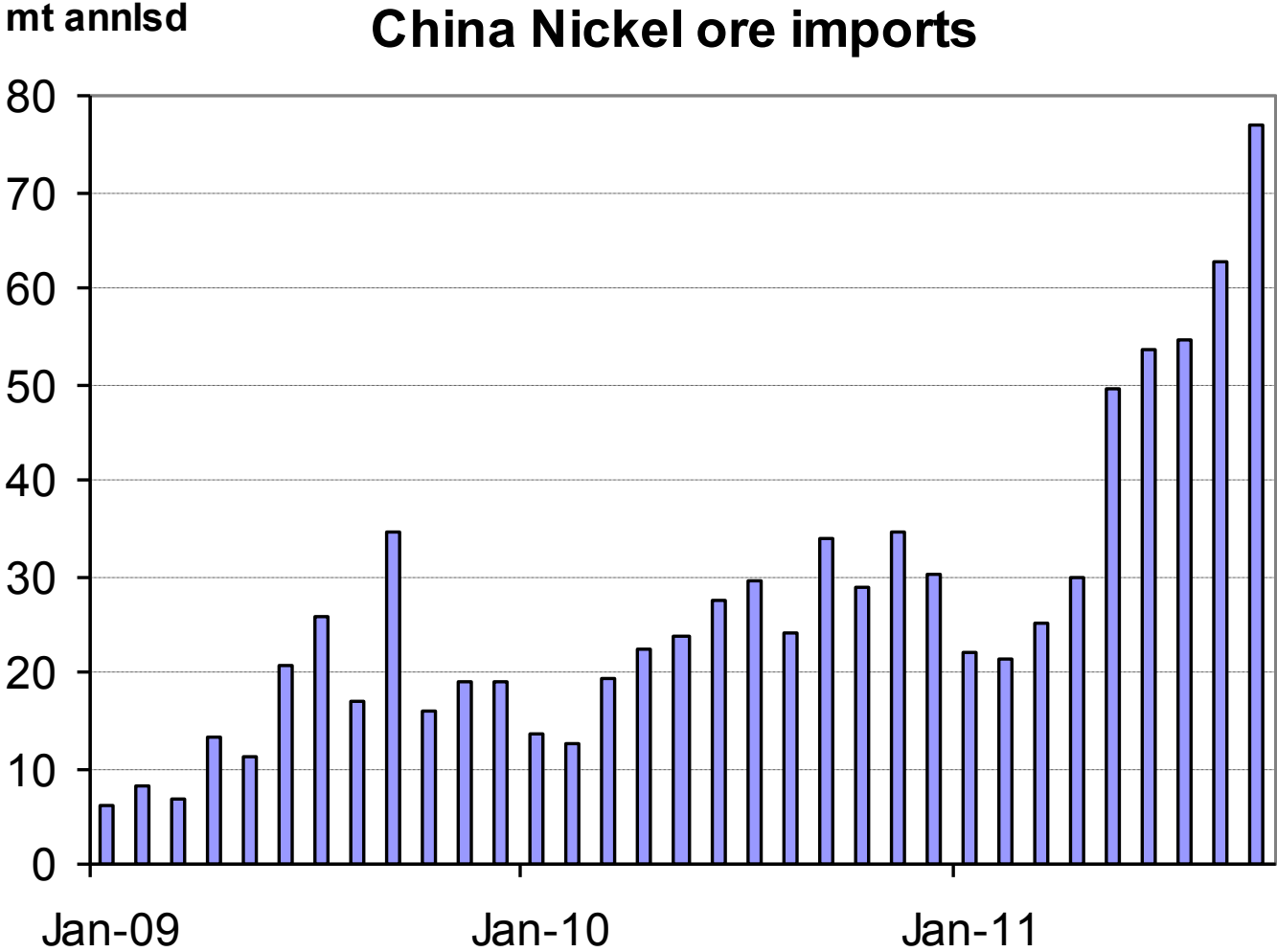
Fronthaul v backhaul cape trade



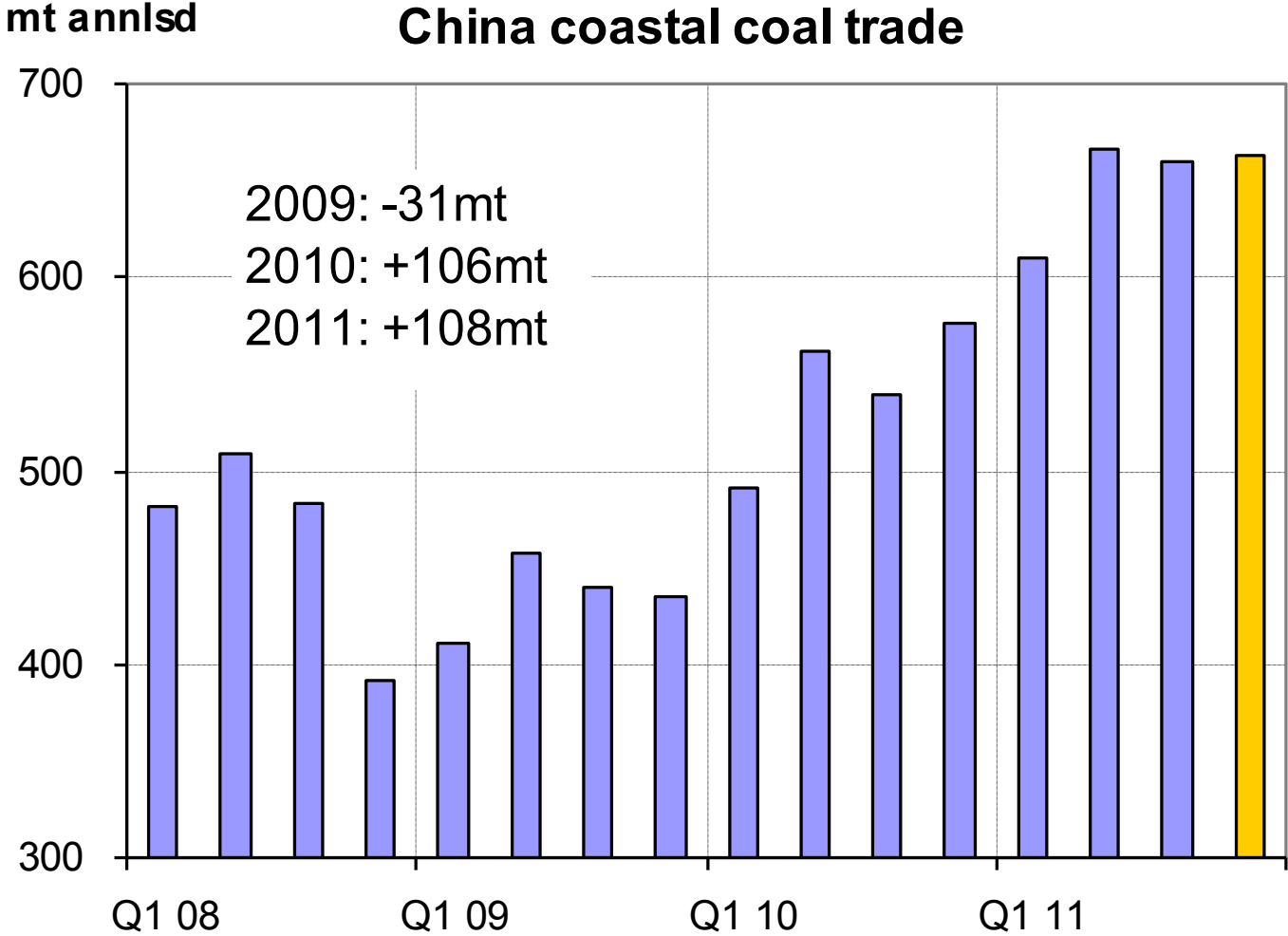
Iron ore & freight lost touch



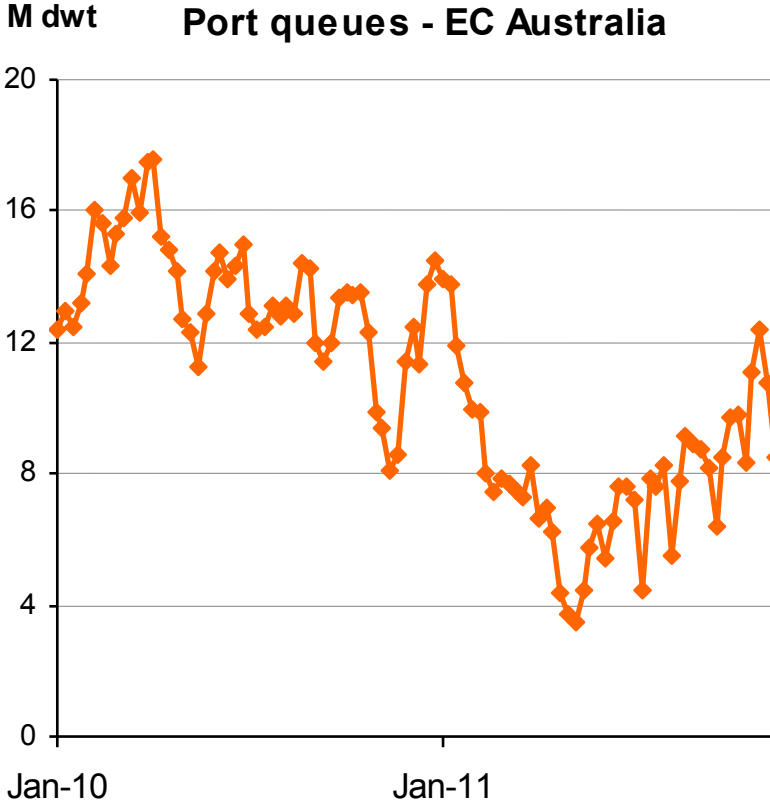
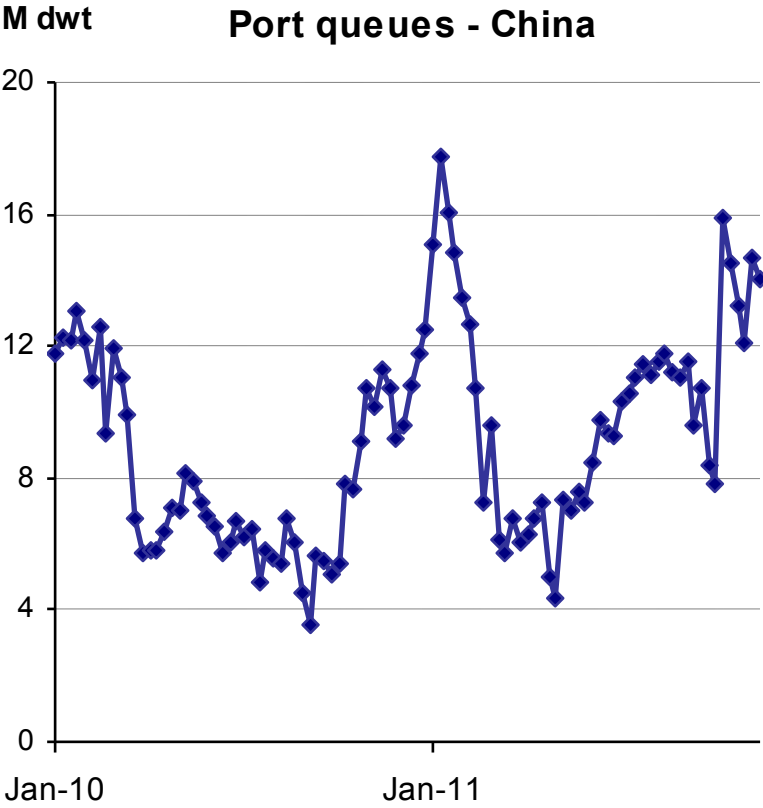
Wildcards: Nickel ore



Wildcards: Chinese domestic coal



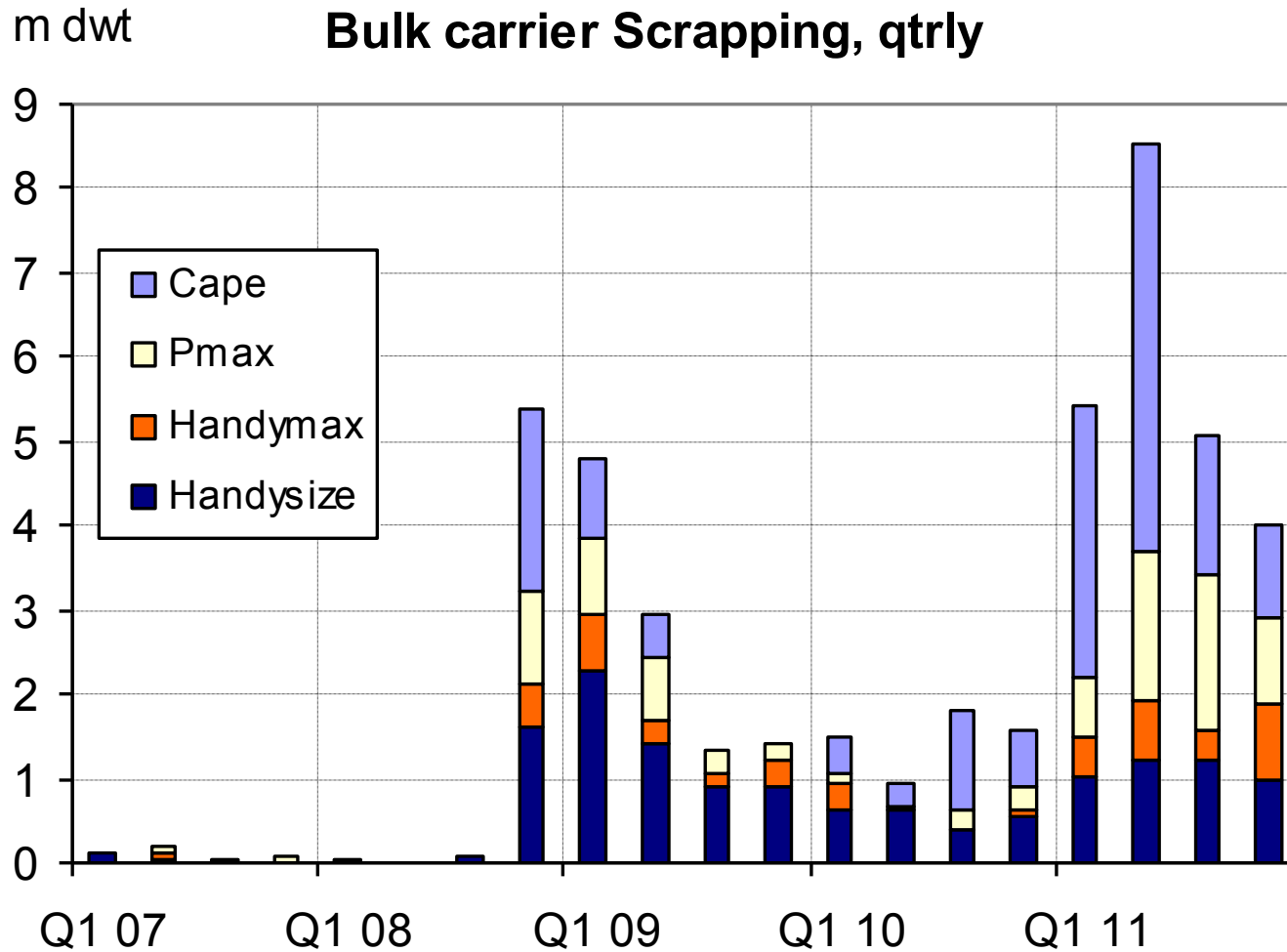
Wildcards: port queues



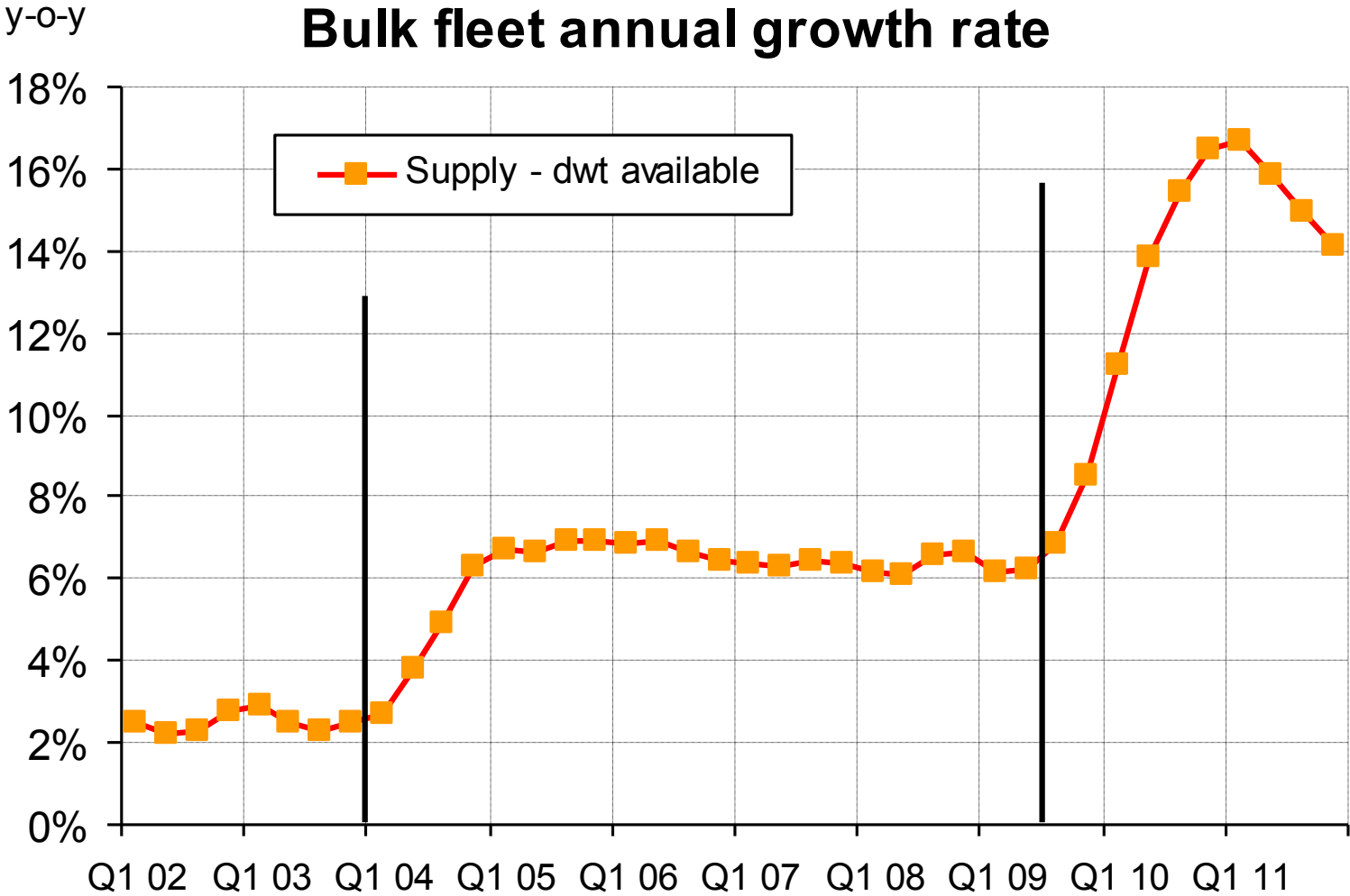
Slow steaming

- Average ship abt 1.5-2kts slower on eco speed, so abt 10-13% capacity loss
- But ships spend 1/3 time in port & not all vessels eco speed all the time, so net loss of fleet productivity abt 7%
- As TC rates rise ships speed up and effective capacity of the fleet will increase,
 - Time lag for this to happen
 - Time for repositioning to Atlantic
- TC rate at which capes return to full speed \$20-30kpd
 - Eg if ship saves 9t/day bunkers by reducing from 15kts to 13.5kts, bunker price \$640/t, the breakeven TC rate is \$21,500pd
 - But if Large variations between vessels over what TC rate makes sense to eco.
 - Depends on bunker price

Record scrapping in 2011

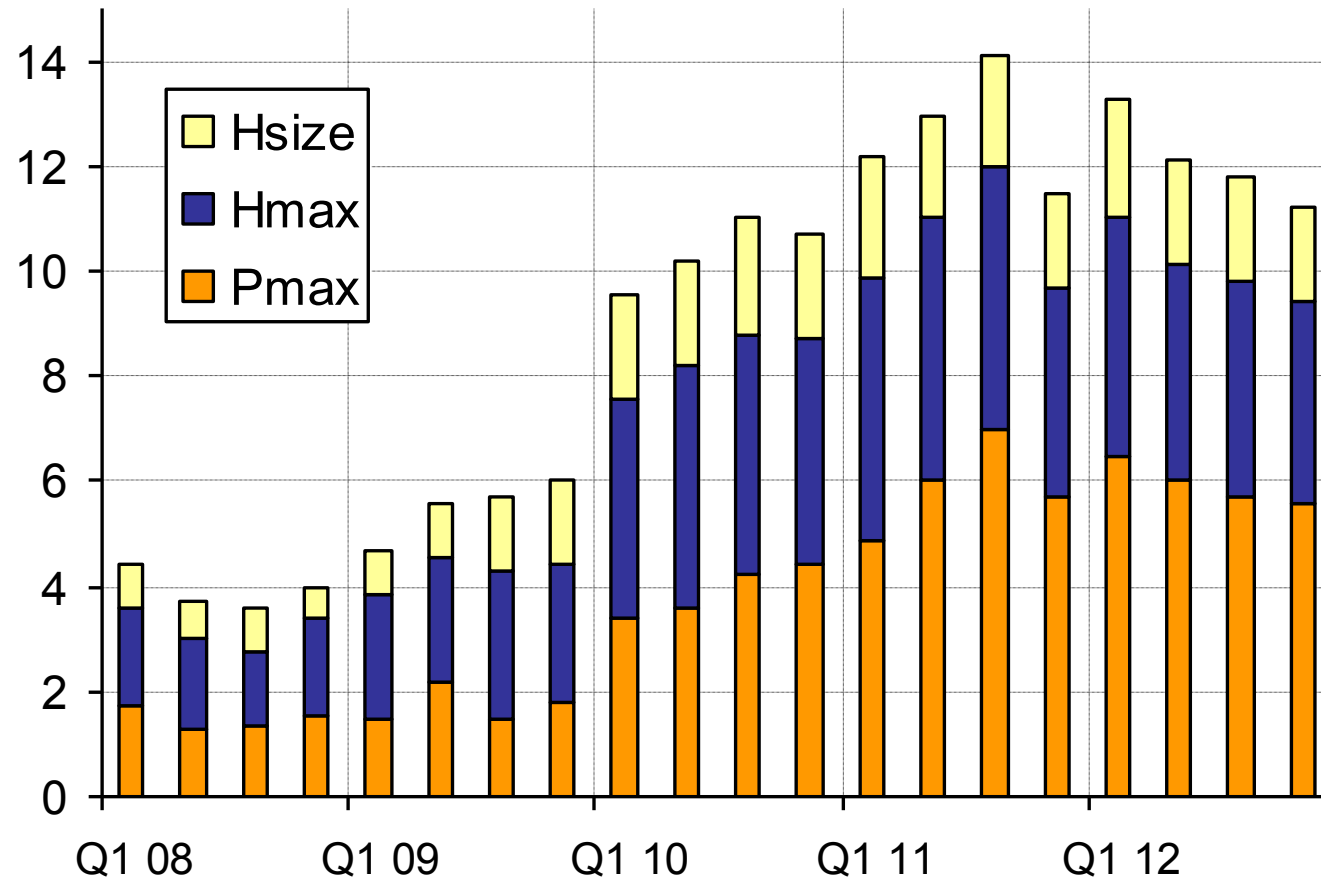


3 stages of growth

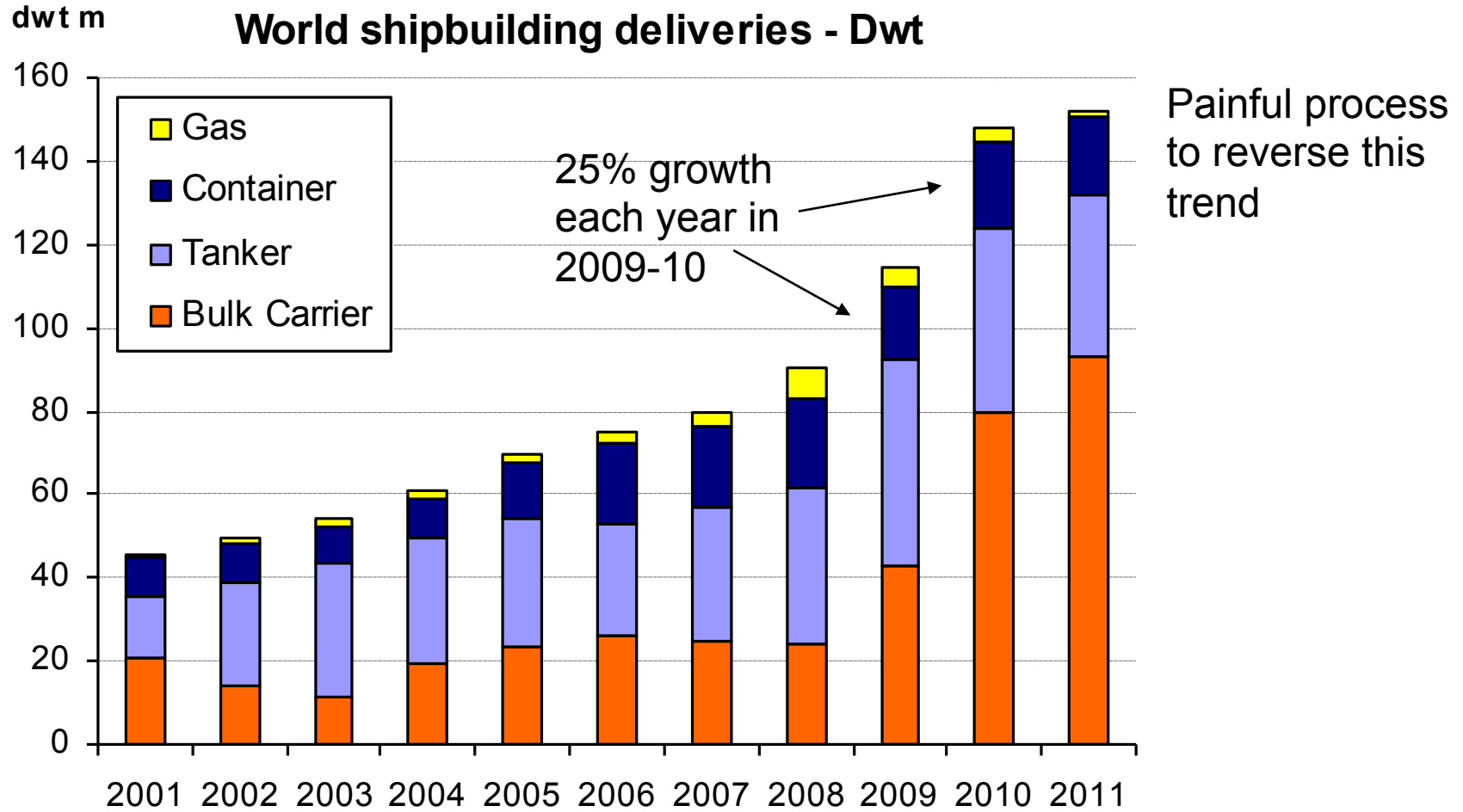


NB deliveries peaking ... but staying at a high level

m dwt **Newbuilding deliveries - pmax/handy**



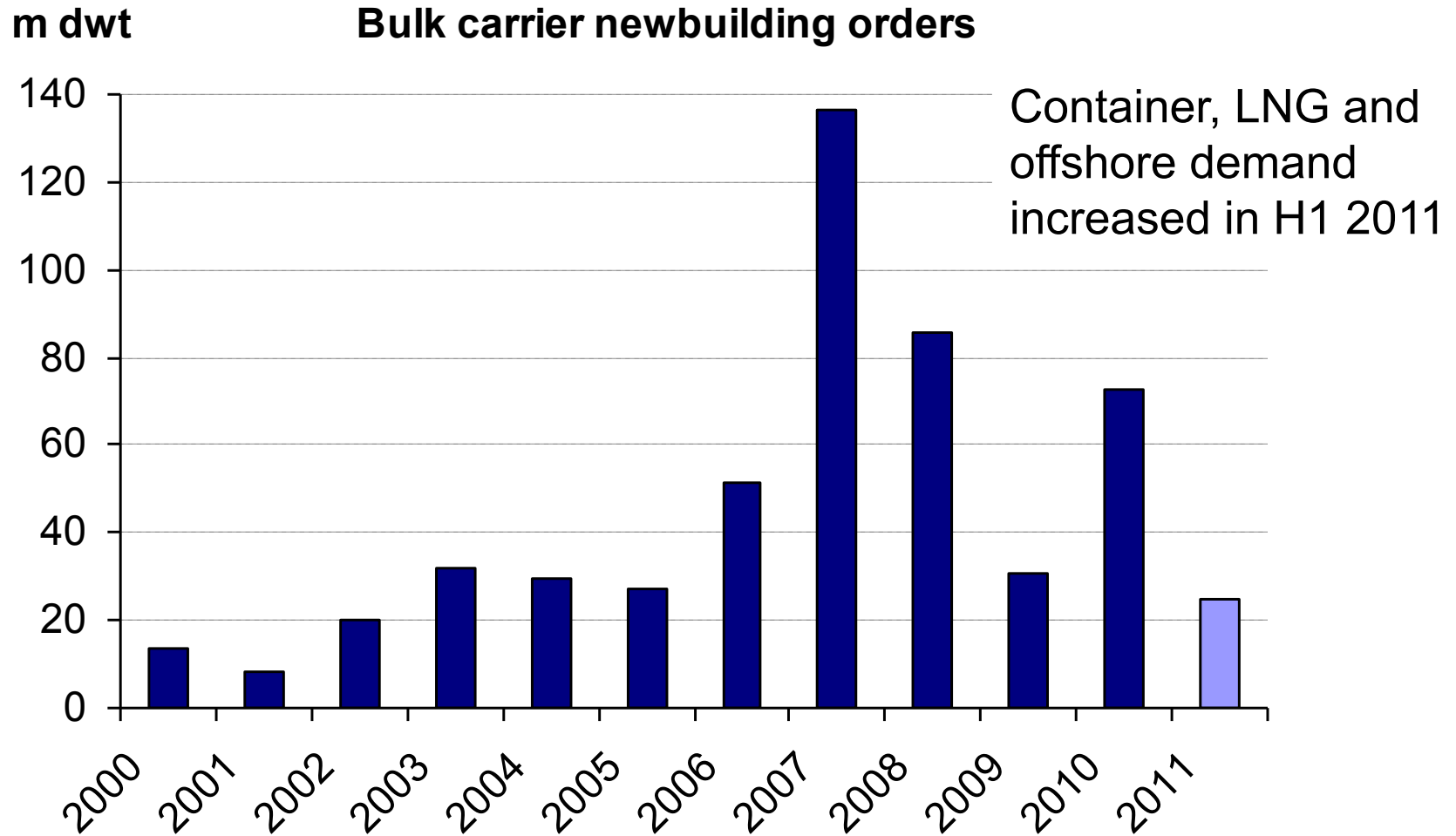
Long run problems: Excess shipbuilding capacity



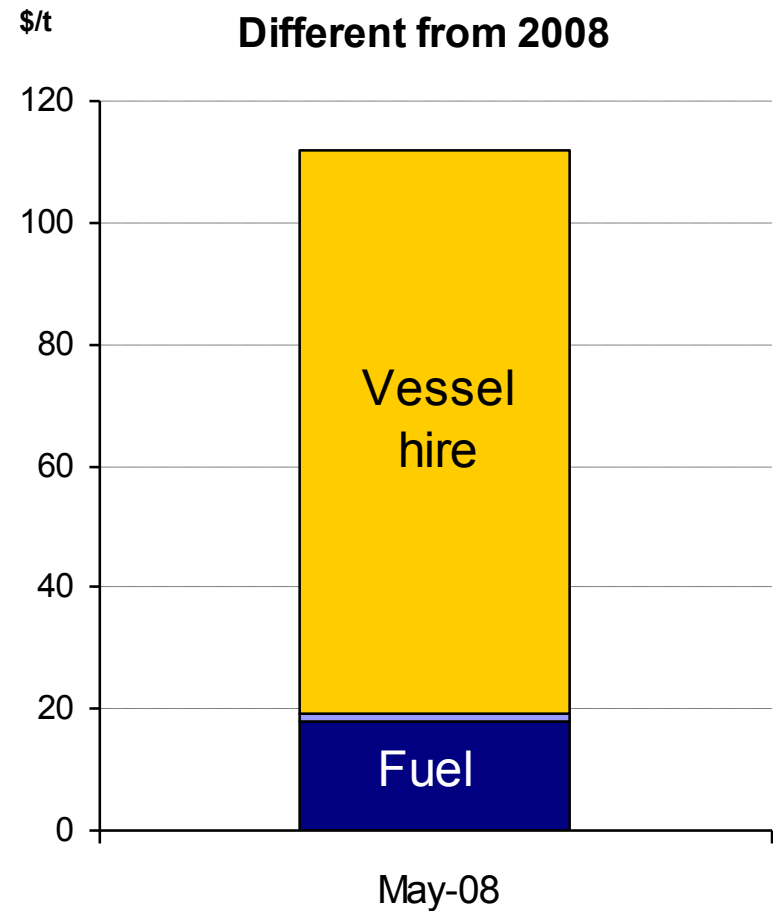
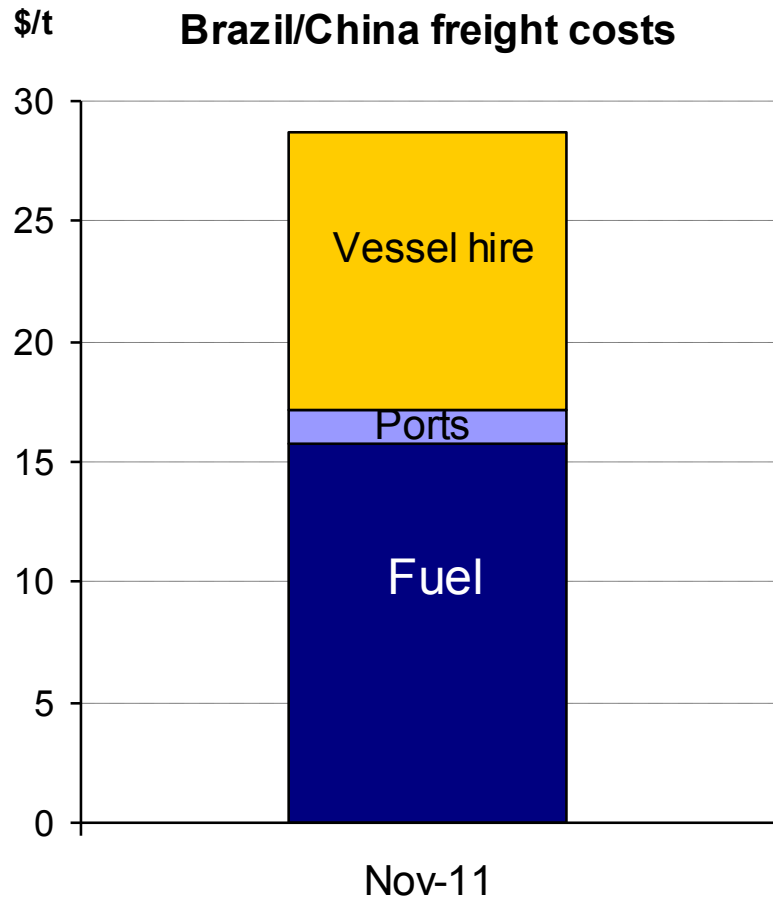
Shipbuilding capacity problems

- Once shipyard capacity exists it is difficult to remove
- Yards attract local/provincial political support
 - labour intensive, important to local economy
- State support – shipbuilding considered important strategic industry
- Domestic owners encouraged to order new vessels
 - soft finance available
- Yards take new orders to maintain cash flow
- But...China recently making noises about reducing shipbuilding capacity

Newbuilding orders finally tailing off



Fuel costs and freight



Long run demand growth

- Significant expansion of iron ore production 2013-16
 - 400+mt expansion within 5 years
 - Australia
 - Brazil
 - W. Africa
 - Canada
- Will China continue to absorb this volume? Yes -
 - 250mt high cost domestic ore to be replaced by imports
 - Continued urbanization/industrialization
- Seaborne coal trade to increase 250mt 2011-15
 - Chinese & Indian demand

Conclusions

- Short run: markets to weaken again before year end
 - Q1 seasonal drop in cargo availability especially from Brazil
 - Continued high rate of newbuilding deliveries
 - Year end push
- Supply continues to grow faster than demand in 2012
 - Fleet expanding 9-10%
 - Seaborne demand up 5-8%
 - Supply more responsive than in the past (speed adjustments, increase or decrease scrapping according to market conditions)
- Long run recovery possible if shipowners exercise restraint with newbuildings

Freight: the most volatile of commodities

Jan 03 =100

Bulk Commodity prices

