Market Outlook 2019

Dry Bulk Sector

The dry bulk market is in better shape than it has been for several years. Limited fleet growth and steady demand growth have set up an owner-friendly outlook for 2019 Bulk carrier owners and operators face the same geopolitical anxieties as other ship sectors with the additional concern about being heavily dependent on Chinese industrial activity, itself subject to increasingly autocratic policy announcements from Beijing. Still, with the Baltic Dry Index at levels not seen since 2014, nobody is complaining. The task ahead is to build resilience should unexpected political, regulatory or economic events upset the three-year-long upward trend in earnings

Supply

The dry bulk fleet (including specialist types such as lake freighters and limestone carriers) is expected to reach a total capacity of around 824m dwt by the end of 2018. Analysts at Shipping Strategy expect 47m dwt of new deliveries in the year offset by a paltry 5m dwt of fleet removals. In 2017, 37m dwt was delivered and 12m dwt removed. Thus, fleet growth in 2018 is likely to exceed 5%.

The phenomenal size of the bulk fleet suggests that commercial barriers to entry in the dry bulk shipping markets remain low. Nearly 12,000 bulk carriers are controlled by an estimated 2,500 owners. The biggest owners by tonnage include celebrated independent names such as Berge Bulk, Ming Wah, Maran and Oldendorff, attesting to the still varied and international nature of bulk carrier operations.

After a long and difficult five years, the dry cargo freight markets finally began to pick up in 2016 and have been on an upward path ever since. Owners have subsequently rekindled their interest in renewing their fleets, with 2018 likely to match 2017 for total newbuilding orders.

During the first 10 months of 2018, shipowners ordered 182 ships compared with 122 in the first 10 months of 2017 and 199 for the whole of 2017. In both years there has been considerable interest in the largest capesizes — newcastlemax, wozmaxes and valemaxes — which accounted for 27% of all bulk carrier orders by number and 58% by dwt.

These orders have come almost exclusively from Asian owners. For instance, Polaris Shipping of South Korea has 15 325,000 dwt bulkers on order at Hyundai Heavy Industries, all intended to be put into service for Vale, the Brazilian mining company. Vale itself has six 325,000 dwt units on order with China Merchants Energy Shipping and ICBC Financial Leasing, all to be built at Qingdao Beihai. Asian lessors remain interested too, with China Development Bank ordering 10 208,000 dwt newcastlemaxes at Jiangsu at a cost of $48m each.

Traditional leading owners are still in the game. John Angelicoussis has four 210,000 dwt bulkers on order at Shanghai Waigaoqiao. The Chao family’s Foremost Shipping has six 210,000 units on order, also at Shanghai Waigaoqiao. John Fredriksen’s Frontline is reported to have three $45.5m newcastlemaxes on order, two at Bohai and one at New Times.

The Chinese yards now control the market in large bulk carrier newbuildings. And, with 47m dwt booked to deliver in 2019 followed by another 31m dwt already booked for delivery in 2020, there is still room for more contracting with relatively brisk delivery.

Demand

Shipping Strategy estimates 2017 bulk cargoes to have reached a total of 4.76bn tonnes in 2017, a huge 7% increase over 2016. In 2018, that figure stands a chance of increasing to 5bn tonnes for the first time in history. According to TradeViews, a specialist in trade data, total dry cargo trade in 2018 could be up 6% on 2017.

There are three main drivers to demand growth. First is the steady growth in iron ore consumption in China especially, and in particular the government-mandated move towards ores with a higher iron content, which has supported the big three of BHP, Rio and Vale at the expense of domestic Chinese miners and overseas second-tier miners.

TradeViews suggests that iron ore trade in January to August 2018 was 1.04bn tonnes, an increase of 1.2% year on year. The spot market in iron ore is increasingly a Pacific affair as Vale of Brazil continues to grow the share of its exports that move on COAs on massive bulk carriers of 300,000 dwt or more. As these can now trade direct to Chinese ports, and as Brazil stands to benefit from Chinese rules on iron content of ores, owners would seem to believe that their rush to order valemaxes will not fail to provide decent returns on a COA or time charter basis.

Second has been a surprising increase in coal trade in 2018. The hot summer around the Northern Hemisphere drove electricity demand to new peaks, keeping coal-fired electricity generators operating at full capacity. According to TradeViews, coal shipments for the first eight months of 2018 were 941m tonnes, up 10.6% year on year. The coking-coal market feels similarly optimistic. BHP chief commercial officer Arnoud Balhuizen told the Imarc mining conference in Melbourne on October 30, 2018 that new cleaner blast furnaces on the Chinese coast would create strong demand growth for high-grade coke from Australia.

Third is the increasing growth of agriproducts trades.

The International Grains Council forecasts the 2018/2019 global grain trade to reach 369m tonnes, up from 368m tonnes in 2017/2018 and 353m tonnes in 2016/2017. The imposition of trade tariffs on Chinese imports of US soyabeans and wheat has led to a switch in trade, benefiting Latin American exporters to China. Latin American countries have refilled inventories with US exports.

The result has been a big increase in tonne mile demand in agritrades and firm returns for shipowners loading cargoes out of east coast North and South America. The expanded capacity of the Panama Canal has not cut this tonne-mile demand as bulk carriers are the least common users of the isthmus corridor; charterers prefer to direct vessels via Cape Horn.

Freight markets

The Baltic Dry Index benchmark for the dry freight markets has been on an upward trend since the start of 2016 and averages around 1,300 points for 2018 compared with 1,145 points for 2017 and just 673 points in 2016 which marked a cyclical low. Time charter markets for bulk carriers have similarly improved. One-year time charter rates for capesize bulkers bottomed out at around $6,250 in January 2016 and had reached $21,750 a day by October 2018.

For kamsarmaxes, one-year rates stood barely above operating expense in January 2016, at around $5,700 per day, but have since rallied to around $12,500 a day. During the same period, geared supramax bulkers have enjoyed an increase in one-year time charter rates from $5,100 a day to $13,000 a day. Even the humble handysize has demonstrated its resilience. One-year rates for the little workhorses have blossomed from a low of around $4,600 in January 2016 to an estimated $9,100 by September 2018.

With a total orderbook of no more than 12% of the fleet for delivery over three years, the supply response to expected demand growth of 3% to 5% looks muted enough to provoke optimism that the rising market has not yet reached its cyclical peak. Arrow Shipbrokers, dry cargo specialists, suggested in its September 2018 market review that the bulk carrier market cycle was maturing but still had not topped out.

Values

The improvements in the freight market have led to more liquidity in the secondhand sale and purchase market as well as higher values. For example, five-year-old values for a capesize bulker bottomed out at around $22m in the first quarter of 2016 but rated around $37m by the third quarter of 2018. During the same period, a five-year-old kamsarmax price would have improved from about $12.8m to around $23.5m.

A five-year-old supramax price of around $10m in the first quarter of 2016 would have been about par, but the same-age ship would fetch around $18.5m by the third quarter of 2018. Finally, for bargain hunters, a five-year-old handysize bulker would cost only about $8m at the bottom of the market in the first quarter of 2016 but by the end of the third quarter of 2018, a prospective buyer of a five-year-old ship would have had to spend in excess of $15.5m.

VesselsValue suggests that a handysize bulker will represent one of the best asset plays around in the next year. It suggests that the price of a resale example will increase from $19.4m in the third quarter of 2018 to $26.32m in the third quarter of 2019.

If flipping ships is a sign of a bubbly asset market, then the closing months of 2018 are a time for champagne. It was reported in late October that Athens based S Bulkers had sold its 2007-built, 37,000 dwt bulker Sea Bronze for $11.5m, having acquired it in September 2017 for $9m.

Several other owners have been taking advantage of the opportunity to book impressive returns on their middle-aged assets and using their increased funds to place orders at ship yards for new ships able to match post-2020 regulatory requirements around emissions, engine efficiency and ballast water. They are surely sowing the seeds of the next market cycle.

Source: Lloyds List