Dry Bulk

A long-awaited recovery

After the record lows of 2016, expectations for a better shipping market in 2017 emerged from the beginning. As usual, the Capesize sector closely followed developments in the commodity markets. In particular, higher iron ore prices encouraged miners to ship as much material as possible, as soon as possible, and this created inflationary pressure on freight. With spot cargoes deep in the money, shippers were content to pay a few cents more to secure prompt ships.

ANATOLI
Bulk carrier, 63,457 dwt, delivered in 2018 by Japanese shipyard Imabari Iwagi, operated by Empress Lines.
CHARTERING

Capesize (>120,000 dwt)

After a typically slow February with bad weather in Australia and Brazil the market saw a strong push in March. The Baltic Exchange Capesize S/C Average advanced to $20,657 – higher than recorded in the whole of 2016. At the same time, activity out of Brazil was strong as Vale was busy on the spot market, taking up to 20 ships, within the space of a couple of days at once, and then once more disappointing. Furthermore, with the new $101 iron ore project kicking in, more volume was being shipped out of Ponta de Madeira instead of Tubarao, and this translated into more ton-mile demand (see right page graph Ponta de Madeira and Tubarao loading volumes).

Operators appeared to be happy with the higher market and fourth quarter FFA prices were trading in the $16,000 even during the usual summer lull when iron ore prices were in decline and market fundamentals were more balanced.

The bull run resumed in the third quarter and continued until the end of the year. Interestingly, throughout this period most owners were expecting a correction to lower levels and were ready to sail longer durations cheaper in order to lock in present rates. As an illustration of this, the long haul Brazil round voyage route C14 was generally trading lower than the Pacific round voyage route C10.

The year ended with a bang as December exceeded expectations with strong forecasts. Bad weather in China caused long delays, resulting in multiple vessels missing their cancelling dates at next ports. West Australian miners had to book extra spot tonnage in order to fulfill annual targets and keep port infrastructure fully utilized. Charterers had to pay up to $12,550 on C5 and $21 on C3 – levels unseen since November 2014. Voyage numbers were also influenced by soaring bunker prices, which rose above $400. Time charter equivalents approached $30,000 in the Pacific, while one-year period rates were being agreed in the high $17,000s.

Demand

In 2017 global economic growth was supported by low inflation, government stimulus packages and improved manufacturing conditions. Chinese GDP expanded at 6.9%, however the focus fell more on curtailing pollution and taming financial risk.

Despite some capacity closures, Chinese steel output grew by a strong 6% to 832 million tons. In general, steel mills were aiming to use high quality raw material with higher iron ore content (Fe) and fewer impurities, while numerous domestic mines lost their licenses due to stricter environmental regulations. This was good news for foreign miners as they were able to increase their market share. Total Brazilian and Australian exports both grew by 2.5% to 384 and 339 million tons respectively. This being said, lower grade iron ore was more difficult to sell and occasionally loaded vessels were sitting off discharge zones with no buyers for their cargo.

Overall, Chinese iron ore imports grew by 6% to 1.075 billion tons. Hopes for further expansion are linked with China's Belt and Road initiative, which are performing consecutive voyages between Brazil and the Far East. These ships came under the spotlight in the first half of the year after the Stellar Daisy (256,141 dwt, built 1993) sank fully laden in the Atlantic Ocean. The fleet of older VLGCs will be gradually phased out in the years to come and replaced by newbuildings which are currently under construction.

Higher time charter returns tempted owners to place fresh orders, and ships of a total 1.3 million dwt were contracted in 2017. Consequently the orderbook expanded to 40 million dwt or 1% of the existing fleet. These vessels will hit the water in 2019 at the earliest. However, as such the market will enjoy a window of modest fleet growth for at least another year.

Supply

The Capesize fleet continued to grow moderately in 2017 and at the end of the year comprised 1,569 ships of total 310 million tons (a rise of 34 year-on-year).

Despite earlier speculation that the new Ballast Water Treatment rules would result in more scrapping between 2017 and 2019, practical implementation was delayed, in some cases until 2024.

With the recovery in time charter rates, it came as no surprise that only 29 Capesizes were sent to the scrapyard during the year. This trend is likely to continue in the next couple of years as only 5% of the fleet is above 15 years old.

A large proportion of these vessels are Very Large Ore Carriers (VLOCs), which are performing consecutive voyages between Brazil and the Far East. These ships came under the spotlight in the first half of the year after the Stellar Daisy (256,141 dwt, built 1993) sank fully laden in the Atlantic Ocean. The fleet of older VLGCs will be gradually phased out in the years to come and replaced by newbuildings which are currently under construction.

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Capesize ordering activity (>120,000 dwt)

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Capesize ordering activity (>120,000 dwt)
Pricing has been an art rather than a science

The use of the neo-Panamax Canal transit has been the biggest change in trading, with owners starting to make use of the locks in laden transit and ballast. We are still waiting for more volume to be shipped through, as the Cape of Good Hope option remained cheaper in most cases.

The market remains dominated by Australian exports, with western Australian shipments on Babycape (100-125,000 dwt) and east Australian loads on post-Panamax (87-99,900) making up a third of their respective spot market cargo.

The period market showed this early on with a Tsuneishi built TESS 98 re-fixing for another year in February at the Cape of Good Hope, while IronMark operated by Oldendorff sailed the mid-Atlantic market for various routes, therefore establishing a market in its own right.

Panamax

(68,000-89,999 dwt)

As expected, 2017 saw improvements across the board in the Panamax market. As we predicted in last year’s annual review, both commodity and freight markets saw more volatility compared to previous years, which in turn presented more trading opportunities for market participants, leading to a livelier market.

In particular a swinging market in the second and fourth quarters presented opportunities to traders and owners, as well as operators. All this combined to create a more positive outlook for the year to come.

2017 started in a steady fashion, with the Baltic Exchange Panamax 4 Time Charter Average hovering around the $7,000 mark for a sustained period of time. The end of Chinese New Year and the start of the east coast South America (ECSA) grain season led to a pick-up in rates and increased activity in March, and on April 18, the 4 Time Charter Average reached a temporary high for the year of $12,987. Mid-April fronthauls ex India for trips via ECSA to the Far East were beingCovered at $13,000-$14,000 levels, whilst the Atlantic market was trading in the mid-teens for various routes.

Despite very strong volumes, we will need some more ships. While we wrote in 2016 that Panamax operators would continue to receive improving percentage returns versus the Baltic Exchange Panamax 4TC Average throughout 2017, as firmer commodities markets and macroeconomic uncertainty pose some downside risks.

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outlook remains cautiously optimistic as the expanding orderbook will be large enough to meet the growing demand for 95-120,000 dwt tonnage, with neo-Panamax now becoming period takers in post-Panamax/Babycape, we suspect that the 99 size integrates into the 95-100,000 dwt fleet. With Panamax operators orderbook were also sparse. It will be interesting to see how the new TESS is an optional size, now the sector trades as a Capesize versus Panamax arbitrage. Due to port restrictions, Babycape is the optimal ship on certain routes, therefore establishing a market in its own right. Meanwhile, the Babycape supply is set to become more concentrated. Oostendorf remains the largest sole player, whilst Swissmarine now have a mixed Babycape/post-Panamax tonnage book, like that of Cargill. With no new deliveries joining the market fleet in 2017, the Babycape orderbook remains limited, whilst the post-Panamax 2017 deliveries and orderbook were also sparse. It will be interesting to see how the new TESS 99 size integrates into the 95-100,000 dwt fleet. With Panamax operators now becoming period takers in post-Panamax/Babycape, we suspect that the demand will increase for 95-120,000 dwt tonnage, with neo-Panamax fittings becoming the norm.

During the second half of 2017 the appetite for post-Panamax and Babycape tonnage exceeded the supply. Pricing for such vessels has been an art rather than a science. Changes in the Capesize/Panamax ratio remains a strong driver for this fragile market in transition.

Excluding long-term committed vessels, there are only 85 vessels available from 100,000 to 122,999 dwt, and 250 vessels ranging from 87,000 to 99,999 dwt, counting 27 different designs that could potentially mislead charterers.

To sum up, the Capesize sector saw a long-awaited recovery in 2017. Expectations for the next few months are for a balanced market with healthy rates as iron ore and bauxite volumes continue to increase. Nevertheless, the outlook remains cautiously optimistic, as the expanding orderbook and macroeconomic uncertainty pose some downside risks.

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Although fleet growth did not yet slow (recording a rise of 3.3% in 2017), and demolition was lower than in 2016 (at 46 vessels compared to the previous year’s 110), owners were able to lock away their tonnage on period at decent levels.

Kamsarmax vessels were able to achieve $11,000-$12,000 for one-year period, depending on ship specifications. By the end of May the market had cooled with the east coast grain season unable to provide enough steam to maintain rates.

Quality Kamsarmax vessels were only able to fetch $10,000 + $400,000 ballast bonus arrival pilot station (aps) east coast South America for trips to the east, whilst Atlantic rounds were being concluded between $6,000 and $7,000 a day.

Naturally the summer saw a drop in market activity, though rates were largely stable. Nonetheless, we witnessed some small spikes in activity in mid-July and mid-August, which we had not seen in previous years and which underlined the increased volatility in the market.

As usual, the fourth quarter was a busy period in the Panamax market. US Gulf grains supported the market, though east coast South America grains also remained a strong factor for pricing reasons. Furthermore, stronger coal and iron ore markets in 2017 caused a busy spell throughout the whole of the last quarter of the year, with global iron ore shipments up 6% year-on-year, and coal shipments up 0.5%.

Mid-October saw the Baltic Exchange Panamax Index climb to 1,651. Front hauls were being covered around the $20,000 mark, while transatlantic levels were in the healthy mid-teens. Throughout November, freight markets came off slightly, only to rebound towards the end of November/beginning of December. All in all, we witnessed a very active end-of-year period.

For 2018, we expect to see a similar level of activity with the market continuing to show a sustained recovery. A reduction in newbuildings being delivered, and a healthy amount of activity in commodity markets, should support this outlook.

Volatility presented trading opportunities

To sum up, the Capesize sector saw a long-awaited recovery in 2017. Expectations for the next few months are for a balanced market with healthy rates as iron ore and bauxite volumes continue to increase. Nevertheless, the outlook remains cautiously optimistic, as the expanding orderbook and macroeconomic uncertainty pose some downside risks.

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Volatility presented trading opportunities
Indian coal trade

The Baltic Supramax Index (BSI) started the year at 843 points and steadily increased its way up on the back of surging demand out of China, coupled with the usual grain season in South America, which brought the BSI to a peak of 999 in mid-April before retracting. The seaborne coal trade in the Far East saw a surge as the growth in China’s thermal demand outpaced its domestic coal output. Higher domestic coal prices saw a rise in imports. Iron ore imports, too, were at a record high as the country ramped up steel output on the back of rising steel prices and a growing demand for government infrastructure spending. As a result, the BSI steadily progressed in the second half of the year, giving support to the growing optimism. Although demolition started to be made, we saw 140,980 lots traded in total for Q1, a 26% increase on 2016. Indonesia could almost 4 million tons compared to 1.2 million tons in 2016. Indonesia could meet the country’s growing demand for energy, which could tip the import balance. As usual, sentiment was upbeat for a stronger third and fourth quarters, especially after the market pushed in the Atlantic, before an adjustment saw a return to more usual numbers in both the respective basins.

As a result, the BSI steadily progressed in the second half of the year, reaching a peak of 1,130 on 24 October. As usual, sentiment was upbeat for a stronger third and fourth quarters, especially after the market pushed in September in the Far East, largely due to a lack of tonnage supply in the region. More ships were seen trading in the Atlantic, before an adjustment saw a return to more usual numbers in both the respective basins.

Uncertainty remains over the Indian coal trade

Perhaps the first notable feature of 2017 was the failed expectation for a stronger fourth quarter despite the third quarter push, and the index slipped to a low of 914 by the end of the year, a relatively modest growth of 85 over the year. This weaker growth could be attributed to China’s coal imports restrictions, imposed in an attempt to manage the country’s coal supply and prices. In the process it slowed the push in demand usually witnessed at year-end.

The Baltic Handysize index met with a similar fate, starting the year at 555 and closing at 625; a rise of just under 12%, somewhat lower than expectations at the start of the year. Another surprise feature of the year was Indonesia’s decision to relax its export ban on unprocessed ores. When first imposed, it had required miners to commit to building smaller smelters over a 5-year timeframe. As such, the market started to see an increase in Indonesian seaborne nickel trade. According to figures from AXMarine Trade Flows, 2017 saw a 205% increase in vessels transporting nickel ore from Indonesia, equivalent to almost 4 million tons compared to 1.2 million tons in 2016. Indonesia could export as much as 20 million tons of nickel ore in the near future if expected future quotas are approved.

Shipowners could also take heart from the slowing pace of newbuilding deliveries, giving support to the growing optimism. Although demolition declined in 2017, a considerable chunk of older vessels have now been removed.

Despite disappointment in the fourth quarter, the market moves into 2018 with a positive outlook, even if some economic factors needs to be monitored closely. One factor is the uncertainty over the Indian coal trade. On the one hand, Coal India plans to significantly increase domestic production by 2019 to meet the country’s growing demand for energy, which could tip the import scales for thermal coal. Conversely, there remains a growing demand from India’s steel sector, which might boost seaborne trade for imported coking coal.

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THE SECOND HAND MARKET

Capesize

At the end of 2016 we wrote that second hand Capesize values were likely to hold firm and rise in 2017. And this indeed occurred in quite a marked fashion. We recorded just over 100 sale and purchase transactions during 2017 for bulk carriers over 100,000 dwt. During the year there were many sales of vessels "on list". Plenty were done under pressure from financial creditors, with both opportunistic and traditional buyers, plus dedicated investment funds, stepping in to restructure the fragile state of several shipowners in difficulty. Taking as our reference the value of a theoretical 180,000 dwt five-year-old ship built at a first-tier shipyard as evaluated weekly by the Baltic Exchange Sale & Purchase Assessment (BSNA) panel of brokers, we observe that prices rose by about 48% between the low point seen in early January and the high seen at the end of February, then fell back to around $20.5 million in the first quarter of the year. These more optimistic market prospects for 2018 should allow prices to hold, with a likely bullish trend in the short and medium term.

Panamax to Handy-size

The motto "Who Dares Wins" is often credited to the founder of the SAS, Colonel Sir David Stirling DSO OBE (1915-1990), however he may well have been inspired by a much earlier statement from the Ancient Greek historian and soldier Thucydides (460-400 BC) namely "Fortune Favours the Bold". As stated in our conclusion of last year’s annual review, those bold enough to hold, with a likely bullish trend in the short and medium term.

2017 FFA volumes rose 5% compared to 2016

For the older vessels, a 10-year-old Capesize built in Japan was valued at around $16 million in early 2017, rose by about 50% to some $24 million in the second quarter of the year, then fell back to around $20.5 million at the end of the year (a drop of 14.5%). In addition, we recorded some 33 demolition sales for bulkers over 100,000 dwt, including some 11 units of more than 200,000 dwt. This figure is well down on totals for 2016, when 82 bulkers over 100,000 dwt were scrapped. However, while scrap sales have slowed sharply, a more favorable balance seems to have been found between supply and demand going into the new year. These more optimistic market prospects for 2018 should allow prices to hold, with a likely bullish trend in the short and medium term.

Other noteworthy ‘forced’ sales which were successfully concluded included:

- February-March: the Greenship Bulk Trust (part of Jascot Holdings) - a fleet of 14 modern (built 2012-2015) “Crown-63” type Ultramaxes (financed by China Exim, DVB Bank and Hitit Nordbank) was up for sale. Ultimately nine were sold to Eagle Bulk and five were purchased by JP Morgan.
- May: the 7-strong fleet (Supramaxes, Panamaxes/ Kamsarmaxes, built 2007-2009) of Barita Corp, Greece, was placed in the market in May. By the end of December all had been sold except one Kamsarmax.

The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017. The disposal of the remaining ships in the United Ocean fleet continued, and forced sales continued until the third quarter of 2017.
Panamax-Kamsarmax values end 2017
(20,000-32,000 dwt)

10 year old: Year end values appreciated by a spectacular 65%-70% year-on-year, reaching $14-$14.5 million.
5 year old: At year end, values stood at about $22-$22.5 million, representing a significant increase of 32%-38% over the 12 month period.

Newbuilding resale: For prompt (3-6 month) delivery ex Korean or Japanese yard, Kamsarmax resales (basis NSF contract and 20%/80% payment terms) were pricing in the region of $29-$29.5 million by year end, as opposed to $23-$24.5 million 12 months earlier, a very respectable 25%-28% increase over the year.

Handysize values end 2017 (28,000-43,000 dwt)

10 year old: At the end of 2017 a Japanese built Handysize (28,000 dwt) was worth about $7.5 million, up by 45% compared to end 2016. At the same time, larger Handysizes (32,000 dwt) saw their value appreciate by almost 45% to reach $9.5 million at the end of the year.
5 year old: During the same period, the value of a Handysize (28,000 dwt) corrected upwards by about 37% to reach $11 million. Larger units (32,000 dwt and 37,000 dwt) were worth close to $13.0 million and $15 million respectively at the end of 2017, appreciating by 11.5% and 7% over 12 months.

Newbuilding resale: Chinese-built vessels were worth close to $21 million at year end, appreciating by almost 23% over the period, while Japan-built tonnage was commanding a price of about $23 million, an increase of 28% compared to end 2016.

Supramax asset values steadily moved upward

Values for 5-year old Handysizes rose 37%