A continued recovery

Expectations were running high for a strong year in the dry bulk markets in 2018, as fleet growth levelled and China’s steel market boomed. In the end, markets continued the recovery started in 2017, but failed to hit the peaks many hoped for as technical problems and trade tensions dampened prospects.
Baltic Exchange C5 (Aus-China) Route vs Iron Ore Price (TSI 62% Fe CFR Tianjin/Tianjin) 2012

Brazilian Iron ore exports

Chinese Iron ore imports and domestic production
Post-Panamax (85-99,000 dwt) supply is unlikely to change significantly either, even though some new and interesting designs are emerging: the Sanyoyas 89, Oshima 87 and Tsurumaru 89 are just a few to mention, showing that owners are testing the waters when it comes to the best deadweight draft ratios. Contrary to the niche Babycape market (75-80 ships), the post-Panamax segment remains more liquid (100 ships) and thus less risky.

On the demand side, more volume was shipped out of the US East Coast and US Gulf. Baltic volumes increased as well, but grain exports from East Coast South America declined in the Pacific basin, volume out of East Africa and Australia rose, while West Coast miners preferred to use capesize vessels, taking them back from operators, which led to fewer capesize vessels in the spot market. Volumes from West Africa to China continued to rise, and this remains the main route from the Atlantic to east of Singapore as coal cargoes are going rather to India.

The end of 2018 raised a lot of question marks, especially after the final quarter’s negative correction: are these vessels good candidates for scrubs? It appears a good portion of the Babycape fleet will be fitted with the exhaust cleaning devices but the investment cost for older post-Panamax vessels is not so clear, particularly after the strong market correction seen.

Are the vessels a good fit for the ‘neo-Panama Canal’? Last year we expected the inauguration of the enlarged canal to bring more opportunities for the 85-120,000 dwt niche, and indeed volumes transiting the canal more than doubled in 2018: the total number of voyages reached 49 during the year up from 19 in 2017.

And what returns should post-Panamax owners target versus the Baltic Exchange Cape sizes index? Does the Babycape market move in the shadow of the Panamax market, or does it operate as a standalone market? The market dynamics are changing every day and we do not see this market becoming significantly more standardised in the near future. However, appetites for this segment rose again in 2018 and we believe this will continue.

Panamax (68,800-84,999 dwt)

2018 was a much better year for the dry bulk market than the previous three years, with owners expecting a year of consideration after a year of recovery in 2017. Finally, 2018 was stronger than the previous three years, although Q4 challenged our expectations.

Overall, the 4 Time Charter Average (4TC) of the Panamax routes averaged $11,651 for 2018, versus $9,766 for 2017, $5,561 for 2016 and $5,560 for 2015.

The year was marked by two events: first, the trade war between the US and China. This is still ongoing and is already impacting the export of soybeans from the US to the Chinese, which reached 22 million tons in 2017 and is now being substituted by exports from other countries.

The second event concerned coal into China, with Beijing limiting imports to support domestic prices and encourage local production. Thus in November China stepped importing coal, having reached its quota for the year. A new quota will be set for 2019.

In terms of rates, we did not see the steep increase that many had expected, but solid growth was recorded from Q4-2017 onwards. This growth was accompanied by some much-needed volatility for operators and traders.

2018 maintained the momentum built in the last quarter of 2017, and over the year the 4TC rate averaged well above $10,000 per day in the quarter.

In mid-April, frontal trades to the Far East via East Coast South America with grain were trading at around $15,000 + $500 per ballast bonus, while the North Atlantic market was trading between $13,500 and $15,000. At the same time, the Pacific market was at mid $9,000 for a Pacific round voyage and mid $4,000 for a backhaul trade.

Unlike the previous year, Q3 was stronger than usual, probably on the back of very positive sentiment for the final quarter. For example, the Baltic Exchange P15, the Atlantic route averaged about $15,000 per day in the quarter versus $15,214 in the same period a year before. With a good market in June/July, there were high expectations for a strong market leading into Q4.

Against all odds, Q4 proved to be by far the most challenging due to the aforementioned macroeconomic challenges. This created a huge drop in market confidence and the year ended with a decline in the freight forward paper values, followed by a fall in the spot rates in all segments of the bulk market.

The period market also saw notable volatility in 2018, with one-year contracts setting the year at $22,000 + $170,000 per ballast, up from $15,000 + $100,000 in 2017. The rate was $5,000 in July, there were high expectations for a strong market leading into Q4.

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Supramax and Handysize (25,000-67,999 dwt)

The Baltic Supramax Index (BSI) started the year at 901 points, increasing to an annual high of 1,107 points in the second week of October, before closing at 975 points on 24 December – an average annual increase of 22% versus 2017. The visual seasonal variations were evident but the index remained supported throughout the year. The Baltic Handysize Index (HBI) tracked the BSI, starting at 613 points and climbing to a peak of 676 points in the third week of October, before ending the year at 596 points – a 5% gain on the previous year.

The bulk of the Supramax fleet in 2018 consisted of vessels under 10 years old, and with only 30% of the fleet over 15 years there was limited potential for scrapping. Some 147 Ultramax vessels were ordered in 2018, up 66 from 2017, with minimal changes in the ordering activities of the sub segments, while the number of handysize vessels ordered fell to 6 in 2018, compared to 27 in the previous year. 235 Supramaks and 31 Handysize vessels are scheduled for delivery in 2019, equal to 5.5% and 1.3% of their existing fleets respectively.

The Pacific Basin was adversely impacted from mid-November by the import restriction on both metallurgical and thermal coal imposed in selective ports by China’s National Development and Reform Commission (NDRC). This ushered in a surge of negative sentiment in all bulk segments transporting the commodity, including the Supramax market which is carrying a large portion of China’s coal imports. Combined with the US-China trade dispute, this development could have been expected to push rates for the year sharply down. However, in the event, the tit-for-tat approach between the two super powers saw grain and soybean trade flows shift away from the US and towards Brazil and the Black Sea, supporting the global Supramax market and allowing it to maintain and even increase rates. This was partly a result of vessels ballasting to the Pacific and Indian Oceans earlier in the year, in a bid to benefit from strong Chinese and Indian coal demand, a trend which heightened tonnage supply in the Atlantic.

According to figures from AXSMarine Trade Flows, more grain, soybean and soybean meal exports from Brazil to China were carried on Supramaks in 2018 compared to 2017. During 2018, the Supramax fleet was distributed on aggregate 62% in the Pacific Ocean, 24% in the Indian Ocean and 16% in the Atlantic Ocean. This apparent imbalance of tonnage between the basins was in tandem with the difference that could be seen in the front haul Baltic Exchange route SIC.S8 rates and backhaul Baltic Exchange route S3.S8 rates, which differed by €1,060/day on average during the year. The Pacific Basin benefited from increased trade in nickel ore, bauxite, copper concentrates and other forestry products. Meanwhile, nickel ore exports increased substantially from 2017 after Indonesia relaxed its mineral ore ban.

THE FFA MARKET

FFA volumes were largely flat year-on-year, with 1,200,422 lots traded by year end. Trends were similar to the previous year, with the Panamax segment adding 1% year-on-year, whilst Supramax volumes were down -5% and Capesize volumes were -13% lower.

Capesize numbers would have been even lower yet had it not been for an eventful November, during which 74,234 lots (16% of the year’s volumes) changed hands, a noteworthy month in the year, one we will reflect on in the coming months. The Capesize spot market started the year in good shape with a Q1 high reached on January 9 at $30,800 (+38% from the opening trading day of the year), though it closed March at a low for the quarter of $8,338.75 (60% lower than its peak). Meanwhile, a total of 39,214 lots changed hands over Q1 or 19% of the year’s total.

After a soapy start to April, the year’s low was reached on April 5 at $7,051, before we rallied to $20,001 on May 14 (only $89 off the Q1 high), after which a choppy but largely supported June ensued, and volumes were up 16% on the previous quarter. Q3 was an exciting one for the bulls, as July witnessed a firm ascension and the year’s high was reached on August 6 at $27,283. September was robust, closing just below the $20,000 mark, with Q3 volumes up again on the previous quarter by 10% after a busy month in September as traders placed their length in anticipation of a bullish Q4. October held relatively steady, closing the month at $19,501, before tumulus was unleashed, sending the Capesize spot market down to $7,987 on 14 November, only $936 above the year’s low point. Some liquidation of positions on the paper and redemptions from funds, coupled with a soft broader commodity market, pushed the spot rate to fall 59% over 16 trading sessions from the quarter’s high on 23 October. This move lower was supported in good volume, with lots traded up 32% from the previous quarter and November alone absorbed 16% of the 2018 total volume. The market found its feet and rebounded swiftly at the end of November and into December, closing out the year up 14% from the opening mark, completing another turbulent but exciting Capesize paper market, and ending the year in a supported manner with players positive coming into 2019.

The Panamax market took a little longer to get going compared to the Capesizes, and it was not until 12 March that the Q1 high of $13,027 was reached, up 21% from the opening price of the year and up 24% from the quarter low of $9,866 reached on 13 February during Chinese New Year. As is often the case, bullish expectations were priced into Q2 on Panamax, yet this year the market failed to kick higher and instead the index lost 8% over the quarter – the index dipped into
Volumes dipped ever so slightly in Q3, though rates rose by 26% as the market rallied in September, feeding through to the year's high of $14,395 on October 17, before shedding 24% by 23 November to post a quarter- low of $10,996 after Panama sentiment was affected by the repatriating on the Capesizes. On the whole, Panamax volumes were relatively consistent throughout the year and we closed out up 11% over the opening price of the year.

Supramax volumes recorded a decrease quarter-on-quarter over the year of 2018, with Q1 absorbing 32% of the volume and Q4 only 20%. Rates saw a peak of $13,138 on 11 October, up 40% from the year low of $8,199 on 11 October 2017. The total figure is however well down on 2017, when 33 bulkers over 100,000 dwt were scrapped. Despite a better market sentiment, the approaching IMO 2020 fuel deadline as well as the Ballast Water Management System (BWTS) regulation should still encourage further demolitions throughout 2019 especially among the older uneconomic vessels.

A reasonably balanced fleet and measured optimism may lead to further improvements in values over 2019 provided demand remains at least stable. The latter remains subject to trade tension between the US and China as well as potential stimulus packages from Beijing, and as always global economic conditions.

Panamax to Handysize

During 2018, average one-year charter rates improved by about 25%, 30% and 17% for the Panamax/Kamsarmax, Supramax/Ultramax and Handysize classes respectively. With sentiment always playing an important role in the market, one would have expected to see equivalent if not higher gains in the second hand values of such bulk carriers.

The market is currently seeing an increased uncertainty due to new rules and regulations, in particular the IMO 2020 fuel cap, acted as a brake to any possible overheating of the market. Trade in older tonnage suffered a significant blow when China imposed new rules for importing second hand bulk carriers for Chinese cabotage, effective 1 September. The maximum allowable age a vessel could be at the time of delivery/import passed from 18 years to just 8-9 years old: in fact the ‘new’ rule states that for a vessel to be imported its main engine must be Tier II compliant, effectively banning all vessels built prior to 2010-2011.

Trade in older tonnage suffered a blow when China imposed new import rules
Panamax BPI - TCA
Supramax
Indian subcontinent
Annual review 2019
Panamax
Indian subcontinent
Supramax BSI 58 - TCA
Indian subcontinent
2018
Supramax
0
0
42 43
Dry Bulk Carrier S&P Prices - 5 years
Dry bulk carrier S&P prices 5 year old ships
Million $
Capesize
Panamax
Supramax
2015 2016 2017 2018
Supramax/Ultramax values end 2018
10 year old: At the end of 2018, values remained stable, standing at the same levels as twelve months earlier, in the region of $135-$140 million.
5 year old: The price for this type/age of asset moved slightly upwards, ending the year at $175-$180 million and recording a 2.5% gain over the 12 month period.
Newbuilding re-sale: Values continued the upward trend seen at the end of 2017, albeit at a slower pace: by the end of 2018, Chinese built Handysize vessels were valued at about $25.5 million whereas Japanese units reached $28 million, an increase of about 11% and 7.5%-8% respectively.
Handysize values end 2018
(28,000-43,000 dwt)
10 year old: At the end of 2018, a Japanese built Handysize (28,000 dwt) was worth about $8.25 million, up 13% compared to end 2017, while at the same time larger Handysize (32,000 dwt) saw their values appreciate by almost 15% to reach $11 million by year end.
5 year old: Values for Handysize (28,000 dwt) remained largely stable during the year, and closed at $11 million. Larger units of 32,000 dwt and 37,000 dwt were worth close to $14.0 million and $17.0 million respectively at the end of 2018, appreciating by 7.5% and 13% over the 12 months.
Newbuilding re-sale: No increase in value was recorded compared to the previous year. By the end of 2018, Chinese built vessels were worth about $21.5 million, whereas Japanese built tonnage was valued at about $23 million.
Estimated Values are for Japanese, Korean and top tier Chinese yards - for units built at lower quality Chinese yards, a discount of at least 10%-15% should be expected.

Supramax-Ultramax values end 2018
(43/50,000-52/55-58 500/60-64,000 dwt)
10 year old: At the end of 2018, values remained stable, standing at the same levels as twelve months earlier, in the region of $135-$140 million.
5 year old: The price for this type/age of asset moved slightly upwards, ending the year at $175-$180 million and recording a 2.5% gain over the 12 month period.
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We expect an ‘interesting’ next 12-18 months. The implementation of the IMO 2020 regulations next January, and divides opinion in the shipping community over the best course of action, will undoubtedly create opportunities, and those who dare to grab them will be the winners.
In an ideal world, a slow steaming solution could both reduce emissions and improve freight rates, in turn giving all the players - marine engine designers, fuel suppliers and owners - time to come up with a cleaner solution other than scrubbers and untested fuel blends.

Since the ban imposed by the Chinese authorities on all recycling activity relating foreign flagged vessels, the Chinese demolition market is no longer considered of any significance and thus no price is recorded.
The healthier freight markets continued to put pressure on recycling markets. Total dry bulk (Capesize to Handysize) deadweight removed in 2018 reached just 4.6 million tons, or 52 vessels - a drop of some 67% compared to the 14 million deadweight scrapped in 2017.
The breakdown was as follows: Handysize to Kamsarmax: 33 vessels or about 1.3 million deadweight. Capsizes: 10 vessels or about 3.3 million deadweight.
No significant changes were recorded in demolition prices, which at end 2018 were $425-$430/LT for India, Bangladesh and Pakistan (9%-4% from $420-$435/LT at end 2017).
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Dry bulk carrier demolition prices
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