The Great Rebound

After experiencing 2 successive black swans in 2019 and 2020, namely the Vale dam incident and the Covid pandemic, 2021 was expected by most industry players to be characterised by a modest recovery. Entering 2021, such expectations were blown out of the water, as freight rates across all vessel sizes skyrocketed, with even the Handysize index, HSI TC, averaging $25,702/day (+221% y-o-y). At certain occasions, we even witnessed geared bulkers outperforming Capesizes, thereby providing bottom-up support. The drybulk fleet enjoyed numerous tailwinds throughout 2021 on the back of a harsh winter induced by LaNina, a ban on Australian coal that realigned coal trade flows, rallying commodity prices, firm FFA rates, unprecedented Chinese port congestion and bullish container rates. To cap things off, shipowners managed to exercise considerable discipline in keeping a lean orderbook against a backdrop of decade-high rates. As such, as we enter 2022, regardless of minor fluctuations of seaborne commodity demand, we anticipate that the long-term prospects of the drybulk market will be anchored by limited fleet deliveries.
C5 - West Australia to Qingdao

Open ships and paid big premiums for any unit they volumes, competed for an ever-shrinking number of y-o-y at the time) despite high commodity prices. As global steel production also boomed (+14% factor for overall ton-mile demand. Poor weather and accordingly, saw more cargoes from Richards Bay to fuel a rapid recovery on all the main rates. The early containership rates rallied to record levels, supporting forecasted by robust fundamentals.

This slump brought an end to an exceptional year, with Q202 looking rather bearish due to Beijing’s efforts to curb air pollution ahead of the Winter Olympics while significant rainfalls and cyclones were impacting Brazil and Australia. Ominous remains a qualified marquee too, as both China and Western Australia seem willing to fiercely maintain a strict Covid policy, leading to port closures and quarantines.

Supply

Fleet (120+ dwt): 1,768 ships of 360.7m dwt – an increase of 3.6% year on year. The orderbook stands at only 8% of the current fleet, which is one of the lowest over the past few years. Uncertainty surrounding fuel technology options and environmental regulations are making it difficult for owners to confidently place new orders. Most slots in yards have been booked until 2025 (mainly by containership owners. Owners are also keeping in mind EEXI and CII regulations that are coming into force in 2023. This should make some of the older and inefficient ships obsolete, thus reducing supply.

Demand

- Australian iron ore exports totalled 898.8 mln mt in 2021 which was 4.2 mln mt over the financial year. Furthermore, high VLOC congestion in China bearish due to Beijing’s efforts to curb air pollution ahead of the Winter Olympics.

- Chinese Steel production was 1,033 mln mt in 2021 which was 3% lower than the previous year.

- Brazil exported 344.7 mln mt of iron ore in 2021 which was 15.0 mln mt lower y-o-y.

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- China’s share of global steel production dropped to 54% in 2021 from 58% in 2019.

- China imported 285 8 mln mt of coal in 2021 which was 36.7 mln mt higher year-on-year despite the aforementioned restrictions.

Capesize (>120,000 dwt)

Nearly one year into the pandemic and Q21 started with rather unusual strength. The rapid deployment of vaccines fuelled strong hopes for a global demand recovery. Additionally, major stimulus packages and increased GDP growth prospects led to a robust forecast for global commodity markets, with many specialists talking about a decade-long super cycle in the making.

From a shipping perspective, congestion in Chinese ports due to bad weather tightened the supply of ships available in the market. With iron ore prices reaching new highs, Brazilian and Australian miners increased their exports, volumes up by 12 mln mt and 6 mln mt, respectively, compared with 2020. Capesize rates were also supported by the smaller vessels, especially the red-hot Panamax market which allowed Capes to price in better on smaller stems and charterers to combine or increase Panamaxes. Some larger vessels were also seen transported on Capes from ECOA China’s ban of Australian coal and India’s coal imports picking up in 2021 also absorbed a substantial amount of ships on long duration trips from Colombo, US East Coast and even Asia.

The second quarter saw the typical seasonal recovery, with the CTC hitting a 20-year peak of $44,817/day in early May. However, the volatility remained equally strong and several events worth noting erasing most of the gains achieved in the Atlantic strikes at Ascari level in Canada and DMC in Colombia not nearly notched the demand for spot ships. In Western Australia, unplanned maintenance and labour shortages damped iron ore exports, which were solely higher up to May before the end of the financial year. Furthermore, high VOCL congestion in Brazil exacerbated the lack of demand for market transporters and some events of tariffs to a record $32.90/mt. Consequently, the index more than halved to reach an unusually low $20,000/day, considerably below expectations for the quarter. This also created a perfect opportunity for FFA traders to accumulate long positions for a Q3 which was dominated by strong, high fundamental forecasts.

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Panamax (68,000-84,999 dwt)

The Panamax segment experienced a largely positive year in 2021, driven by increased coal and grains demand, port congestion and a year-on-year deceleration in fleet growth. Coal continued to play a significant role with ships required to adhere to new government regulations in numerous countries whilst shore-based outbreaks also led to port restrictions and even shutdowns in some cases.

The average of the 5 Time Charter indices (TC) ended 2021 at $25,015/day, having started the year with an average of $12,722/day. The large increase in the index does not, however, reflect the height the market saw in 2021. The TC average peaked at $38,990/day on 25 October before sharp losses in the freight futures market saw the index lose over 45% of its value over the following three weeks. It is worth noting that the average of the TC index between 25 June and 25 October was $34,205/day, reflecting the strength in the second half of the year prior to the sharp decline. As we finish the year the index was starting to increase again although was still short of the full year average of $28,998/day.

At the start of 2021, the average waiting time in Chinese ports for Panamax tonnage was just over 30 days. This figure was inflated by numerous vessels laden with Australian coal unable to discharge since the Chinese Government introduced its ban on 20 October 2020. Congestion in China did gradually decline throughout the year and the 2021 average of 18.4 waiting days was down on the 2020 average of 24.1 days, but still comfortably above the 2019 average of 14.2 days.

On 29 August 2021, Hurricane Ida made landfall in the US Gulf causing damage to several grain elevators and resulting in flooding and cleaner outages in the region. Whilst there was a period of downtime and a slowing of exports while repair work was completed, the overall effect on total US Gulf grain exports were reasonably minimal. A total of just over 90 million tons of grains was loaded across all sizes in 2021 from the US Gulf, a drop of 17 mln tons year on year. From this total, just under 36.3 million tons was loaded on Panamax tonnage compared with around 37.8 million tons in 2020. During repairs to US Gulf infrastructure, there was an increase in grains being moved via the North Pacific and around 44.2 million tons were loaded from the region on Panamaxes in 2021, an increase from 39.2 million tons in 2020. However, this did go against the overall flow of grains shipped from the region with total North Pacific volumes falling from around 75.4 million tons in 2020 to just over 70.5 million tons in 2021. East Coast South America grain exports suffered a muted start to harvesting as a result of heavy rains. Worldwide seaborne grain movements across all vessel sizes (including capesize) is circa 551 million tons in 2021, a loss of around 12 million tons from the previous year. This loss in volume was offset by an increase in ton-miles from US/China corn shipments and Chinese port congestion issues that tightened tonnage availability.

Despite ongoing discussions involving governments and environmental groups, notably at COP26, to try and limit the usage of coal, global coal movements by Panamaxes in 2021 remained stagnant. As we finished the year, the index was starting to increase again although was still short of the full year average of $12,272/day. The large increase in the index does not, however, reflect the heights the market saw in 2021. The Panamax index during 2021 was around 5.9 million tons, significantly lower than the total of circa 420 million tons comfortably exceeding 2020’s 5.427 million voyages and 186 million tons. While Australian coal exports into Panamaxes increased by 8 million tons year on year, the biggest increase was from Southeast Asia, where just over 26 million additional tonnes of coal were shipped on Panamaxes compared with 2020. The main recipient of this increased coal was China, as on-going trade tensions with Australia saw coal remain on the list of banned products. Coal exports carried on Panamax tonnage from the US Gulf in 2021 with around 30 million tonnes less shipped from the US East Coast (just under 18 million tons) versus 2020. However, coal exports on Panamaxes from the US Gulf increased by 1.4 million tonnes to 1.5 million tonnes.

The Panamax fleet continued to grow in 2021 and now sits at 2,458 ships, an increase of over 940 voyages compared with 2020. The 2021 total accounts for around 17.5% of all dry bulk cargo carried across all dry bulk segments. Export wise, a total of just over 912 million tons of cargo across all dry bulk segments were loaded on Panamaxes. The main recipient of this increased cargo tonnage was China, as ongoing trade tensions with Australia saw coal retain its dominant role in dry freight. Around 1.25 billion tons of coal was loaded on dry-bulk ships in 2021 for exports, of which almost 34% was carried on Panamax tonnage. This is up from 1.19 billion tons in 2020 when 32% was carried on Panamaxes. Last year saw 5.9 million coal laden Panamaxes international voyages with the total of circa 420 million tons comfortably exceeding 2020’s 5.427 million voyages and 186 million tons. While Chinese coal exports increased by 8 million tons year on year, the biggest increase was from Southeast Asia, where just over 26 million additional tonnes of coal were shipped on Panamaxes compared with 2020. The main recipient of this increased coal was China, as on-going trade tensions with Australia saw coal remain on the list of banned products. Coal exports carried on Panamax tonnage from the US Gulf in 2021 with around 30 million tonnes less shipped from the US East Coast (just under 18 million tons) versus 2020. However, coal exports on Panamaxes from the US Gulf increased by 1.4 million tonnes to 1.5 million tonnes.

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The Panamax fleet continued to grow in 2021 and now sits at 2,458 ships, with 55.9% accounted for by Kamsarmaxes and 44.1% by Panamaxes. Last year only saw 8 Panamaxes demolished, totalling 55,923 dwt. Meanwhile, unsurprisingly, no Kamsarmaxes were scrapped. Although 33% of the current Panamax fleet is new over 26 years old (357 ships) and 24.8% within the 15-20 year age bracket (669 ships). It is not expected we should see any significant increase in demolition activity in 2022, with the market considered to be sufficient to support these older units. The orderbooks for 2022 shows a slight increase in deliveries from 2021 with 8 Panamaxes (932,099 dwt) and 106 Kamsarmaxes (8,732,276 dwt) due to be delivered. So far, only 2 new Panamaxes (134,484 dwt) and 93 Kamsarmaxes (7,670,450 dwt) are scheduled for delivery in 2023. Considering that shipyards be delivered. So far, only 2 new Panamaxes (134,484 dwt) and 93 Kamsarmaxes (7,670,450 dwt) are scheduled for delivery in 2023. Considering that shipyards...
Firstly, it was the return of ‘King’ Coal following a lacklustre 2020, courtesy of Covid-related lockdowns. As the global economy recovered, some semblance of normality, coal demand worldwide rebounded in 2021. While participants had initially expected scepticism and fears over China’s ban on Australian coal, the reality was that the coal freight market did not skip a beat. In fact, China’s appetite for seaborne coal surged by 16% on the back of heightened industrial activity and tight domestic supplies. With China utilities cut off from Australian supplies, they had to rely mainly on coal from Indonesia and Russia (both are shorter hauls) which benefitted Supramaxes. In addition, Australian grain exports doubled in 2021, which further fuelled Pacific demand for these smaller sized vessels.

Secondly, another godsend came in the form of sky-high container rates, induced by supply chain chaos. This resulted in the unintended diversion of box volumes onto breakbulk vessels and geared bulkers. Furthermore, with breakbulk tonnage busy scooping up container vessels and geared bulkers, it seems likely that owners of Supramaxes and Handysizes can enjoy another fruitful year in 2022, container rates will have to maintain their current momentum. As of writing, according to Alphaliner, container liner rates are anticipated to remain strong until at least 2022, as the chronic shortage of container ships persists. With China still pursuing a ‘Zero Covid’ strategy, further disruptions to port operations seem more likely than not.

Turning our attention to the supply-side, drybulk shipowners across all sizes, displayed extraordinary restraint in keeping the orderbook relatively lean. Specifically concerning the 25,000 – 68,000 dwt range, 375 vessels were delivered over 2019-21. In contrast, there are 308 deliveries slated for 2022, a drop of 34% compared with the earlier period. This tight load on freight growth coupled with potential upside from container freighter will likely mean that owners of Supramaxes and Handysizes can enjoy another fruitful year ahead. That said, in recent times, drybulk trade flows have been increasingly dictated by the whims of policy makers. A prime example is the hasty ban of coal exports from China that owners of Supramaxes and Handysizes can enjoy another fruitful year. As of writing, according to Alphaliner, container liner rates are anticipated to remain strong until at least 2022, as the chronic shortage of container ships persists. With China still pursuing a ‘Zero Covid’ strategy, further disruptions to port operations seem more likely than not.

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2021 saw the long-awaited recovery of the drybulk markets, presenting charter rates and S&P prices not seen in some 12 years. As the world’s economies rebounded from the pandemic, the resulting surge in demand combined with restricted supply due to the inherent inefficiencies in global trade. Add to this modest orderbook/active fleet ratio of 7.5% entering 2021, the consequence was a boom in freight rates across all drybulk sectors. This newfound profitability brought a flood of cash that would prove to be tinder to the S&P markets.

The beginning of the year was off to a modest, but positive, start as participants reserved some scepticism that the positive sentiment seen in late 2020 would support improving rates over the longer term. By the end of the first quarter confidence had grown and buyers were now pushing into the marketplace instigating a surge in sales. This demand and its associated competition supported improving rates over the longer term. By the end of the year, Capesize and Kamsarmax prices stood about 70% higher than one year earlier.

For 2022, a recovery-fuelled demand increase and low fleet growth (2.8%) contrast, by the end of the year, Capesize and Kamsarmax prices stood about 50% higher than end-2020 where values ranged between $19 - $20 million.

5 year old: Eco-type (180,000 dwt) Capesize values stood at $46 - 47 million by end-2021, a rise of 30.5 - 31.5% from 2020 values of $35 – 36 million.

Newbuilding re-sale: The value of a Capesize re-sale built in Japan posted an increase of 18 - 20%, ending 2021 around $59 - 60 million.

Panamax-Kamsarmax values end-2020
(76,000-82,000 dwt)

10 year old: At the end of 2021, Panamax (76,000 dwt) and Kamsarmax (92,000 dwt) values gained a lot of ground compared with 2020 with prices finishing 2021 in the region of $22 million (+6%) and $24 (+66%), respectively.

5 year old: Kamsarmax (eco-type) values closed out the year at about $22 million which indicates a reduction of 43% versus end 2019 values of $32 million.

Newbuilding re-sale: For prompt (3-6 month) delivery ex-Japanese yards, Kamsarmax re-sales based on an NSF contract and 20/80% payment terms were priced at around $40 - $41 million as opposed to $26.5 - 30 million 12 months earlier (+36%). Similarly, Chinese-built Kamsarmax re-sale values appreciated from $26 million in 2020 to $36 - 37 million in 2021 (+40%).

Supramax-Ultramax values end-2020
(56-58,000/60-64,000 dwt)

10 year old: The price for this type/age of asset (56,000 dwt) experienced exponential growth in 2021, rising by 90% over 12 months and ending the year in the region of $47 - 50 million.

5 year old: Japanese eco type Ultramax (60,000 - 63,000 dwt) values ended the year at around $29 - $29.5 million, thereby posting an average increase of 65% from the previous year.

Newbuilding re-sale: By the end of 2021, Chinese-built Ultramaxes were priced at about $33 million, whereas Ultramaxes built in Japan were priced at about $36 – $36.5 million, a very decent year-on-year appreciation of 37.5% and 33%, respectively.

Handysize values end-2020
(32,000-43,000 dwt)

10 year old: A Japanese-built Handysize (32,000 – 33,000 dwt) was worth about $16.5 - 17 million at end 2021 which represents a substantial escalation of close to 100% in the values of this asset class when compared with end-2020 values of $8.5 million.

5 year old: The larger eco-type units of 37 tons dwt ended the year with values in the region of $24.5 - 25.5 million, an improvement of 63% - 70% in 12-months.

Newbuilding re-sale: At the end of 2021, the values of 38,000 dwt Japanese-built units were in the region of $30 - 31 million, 45 - 47% higher than 2020.

The Handysize segment took the crown of the biggest year-on-year gain. Prices achieved for 10-year-old vessels managed to gain 100% from January to December.
A combination of general post-Covid economic resurgence, government infrastructure projects and ongoing supply chain disruption led to a major hike in steel prices in 2021. By July the price for hot rolled steel had reached $1,825/mt, up 200% on March 2020. Sub-continent ship scrap prices rose steadily but less steeply, increasing by about $150-200/ldt by July compared with the end of 2020 to reach $550-600/ldt, an increase of 50%. They have remained there ever since.

While this 50% price increase was significant, it did not mirror the meteoric rise of the Baltic Dry Index over the same period and consequently failed to tempt owners to scrap their older bulkers which morphed from demolition candidates into lucrative cash cows earning rates that no-one previously thought possible.

Last year, 66 bulkers versus 112 in 2020 were scrapped totaling 7,185,099 dwt versus 13,285,709 dwt in 2020 – a 46% decline in deadweight terms. Half of the total deadweight erased from the dry bulk fleet in 2021 was in the form of VLOCs (265,000–365,000 dwt) while Capesizes (150,000–172,000 dwt) accounted for another 20% of the total deadweight scrapped. The remaining 30% of deadweight scrapped took the form of 1 Kamsarmax, 8 Panamaxes, 3 Ultramaxes, 19 Handymaxes and 14 Handy sizes. The percentage breakdown by type of bulker bears a strong resemblance to 2020, where 50% of the bulkers scrapped were VLOCs and 17% were Capes. No Supramaxes were scrapped in 2021 (versus two in 2020), their earning potential too strong to even contemplate sending them to the beach.

Cash buyers and recycling yards found themselves in a position ‘on paper’ to offer prices not seen before – except that the bulkers to offer on were few and far between.

The lion’s share of VLOC and Capesize tonnage went to Bangladesh, with India claiming 2 Capes and one VLOC and Pakistan one VLOC out of a total of 21 Capes or VLOCs. From a total of 66 bulkers, 38 went to Bangladesh, 11 to Pakistan and only 9 to India. This shows that among dry bulk owners and/or cash buyers, recycling as per Hong Kong Convention Standards remained some way down the priority list. Or perhaps HMC aspirations were simply trumped in 2021 by the need to demonstrate strong returns on demolition tonnage in the heady further trading markets of the year.