Dry Bulk Freight Market: Prospects For Recovery

Platts 9th Steel Markets Europe Conference

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freight story in the year to date

- capes experience major seasonal plunge in earnings for fourth consecutive year due to reduced cargo availability and re-acceleration in newbuilding deliveries
- panamax spot earnings briefly reach 10-month high as congestion exaggerates Latin America grain effect
- soft start to the year for geared vessels before seasonal upswing re-establishes supras as highest earning sector in year to date
- uneven shift in sentiment
capesize iron ore spot rates to China: monthly averages

May 2013
freight’s share of delivered iron ore prices to China
freight’s contribution to $/t steel production costs

May 2013
W. Australia-China capesize iron ore rates

Jan-09  Jul-09  Jan-10  Jul-10  Jan-11  Jul-11  Jan-12  Jul-12  Jan-13  Jul-13  Jan-14  Jul-14  Jan-15  Jul-15

$/t

Actual  FFA (23 May 13)

May 2013
does freight have any more surprises for the steel and iron ore industry?

- dry bulk market overwhelmed by excess newbuilding deliveries…
- but positive Chinese-led trade growth continues
- with planned influx of additional iron ore export capacity planned adding to upside for dry bulk trade
- depressed freight rates have triggered supply-side responses - slower steaming, record scrapping and reduced newbuilding orderbook
- port congestion remains a feature of the iron ore trades and potential source for future volatility

May 2013
quarterly dry bulk carrier deliveries by size

May 2013
panamax has highest net fleet growth in year to date

<table>
<thead>
<tr>
<th>Size Range</th>
<th>Additions</th>
<th>Deletions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handysize</td>
<td>0.1 Mdwt</td>
<td>0.1%</td>
</tr>
<tr>
<td>Handymax</td>
<td>2.8 Mdwt</td>
<td>+1.9%</td>
</tr>
<tr>
<td>Panamax</td>
<td>6.8 Mdwt</td>
<td>+4.1%</td>
</tr>
<tr>
<td>Capesize</td>
<td>7.0 Mdwt</td>
<td>+2.5%</td>
</tr>
</tbody>
</table>

New size range changes:
Handymax=40-64,999dwt  Panamax=65-99,999dwt

May 2013
SSY capesize iron ore port congestion index for China

Weighted average delays (days)


87 Capes = 10% of fleet

60 Capes = 4% of fleet

44 Capes = 3% of fleet
Chinese dry bulk imports: sustained upward trend

"Other" comprises steel products, bauxite/alumina, pulp, fertilizers, ferrous scrap, nickel, copper, chrome and manganese ores

Source: SSY
Brazilian iron ore exports & Capesize earnings

May 2013
tonne-mile demand growth fails to match expansion in iron ore trade volumes

Index (2000 = 100)

Cargoes
Tonne-miles

May 2013
is fleet supply growth finally coming under control?

• dry bulk carrier demolition set a new annual record of 34 Mdwt in 2012 and ship scrap prices remain at relatively firm levels

• falling asset values are expanding the demolition pool beyond 25+ years for Panamaxes, as well as Capes

• newbuilding orderbook has fallen to a 5 year low with financing of new orders a constraining factor

• …but with shipbuilding prices at lowest since 2003 and yards marketing eco-designs, more Capesize newbuilding contracts are emerging

May 2013
capesize (100+ kdwt) fleet by year of build
panamax (65-99 kdwt) fleet by year of build

May 2013
dry bulk carrier demolition

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May 2013

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SSY

May 2013
scrapping potential & tonnage on order

New size range changes:
Handymax=40-64,999dwt  Panamax=65-99,999dwt

May 2013
projected net fleet change in 2013

New size range changes:
Handymax=40-64,999dwt  Panamax=65-99,999dwt

May 2013
annual change in seaborne iron ore trade & capesize supply: new phase?

May 2013
conclusions

- by 4q13 rate of growth in seaborne iron ore trade set to outpace increases in dry bulk fleet supply, reversing trend of last 5 years
- prospect for divergence in relative rates of supply-side growth to widen in 2014, adding to potential freight rate volatility and raising freight’s share of delivered iron ore prices
- but only if (1) record scrapping, (2) slower deliveries and (3) sustained trade growth (requiring increased cargo availability, as well as end-user demand)