Southampton
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Global Maritime Weekly Digest

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19 April 2016 **issue 28**

The ***Global Maritime Weekly Digest***, based at ***Southampton Solent University***, provides a regular flow of maritime news and analysis, of significance in a global context.

Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.

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Editorial comments

- Sixty years ago this month, the first proper **deep-sea container service** was inaugurated in the USA (item 7). The global development of this sector since then, into what we see today, has been a remarkable achievement.
- Another fascinating aspect of the maritime scene, the **superyacht** business (item 4) has also risen to prominence. A thriving charter market for these vessels exists, with time charter rates in a range of $100-200,000 per week.
- A number of contentious issues about **marine environment protection** are being discussed at the IMO this week (item 1). Measures to reduce ships' CO2 emissions, implementation of the ballast water management convention, and compulsory usage of low sulphur fuel outside existing control areas are under discussion.
- The rebound seen in **bulk carrier market** freight rates over the past few weeks (from extremely depressed levels) has encouraged cautious optimism. But is this the start of a sustainable recovery?
- One new analysis acknowledges that there are some **positive elements** affecting the demand for, and supply of bulk carrier tonnage which could support freight rates (item 5). But the fundamental market imbalance is likely to persist this year, based on this view, amid a further increase in global fleet capacity and a decline in world cargo volumes carried. Meaningful recovery still seems some way ahead although, as the report comments, shipping markets have a history of surprising everyone.

Richard Scott MA MCIT FICS

Editor

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(1) Hellenic Shipping News, 14 April 2016/ International Chamber of Shipping

ICS representing shipowner interests at critical IMO Marine Environment Protection Committee (MEPC) Meeting

The International Chamber of Shipping (ICS) has made a number of submissions to a critical meeting of the IMO Marine Environment Committee (MEPC) which begins in London next week (18-22 April). These address further measures to reduce the sector's CO_2 emissions, outstanding problems with the implementation of the IMO Ballast Water Management Convention, and the need for an immediate IMO decision on whether or not ships will have to use 0.5% sulphur fuel in 2020.

CO2 Data Collection System
ICS says its immediate priority is to help ensure that the new global CO2 data collection system is adopted by IMO as soon as possible. This will then facilitate the possible development of additional CO2 reduction measures.

ICS Secretary General, Peter Hinchliffe explained "The data global system now before the MEPC is a workable compromise between governments primarily interested in data on fuel consumption and CO2 emissions and those that wish to collect additional information, for example on so called transport work."

ICS fears that any failure by the MEPC meeting to make progress could result with unilateral action against international shipping. The European Union has already adopted a regional regulation on the monitoring reporting and verification (MRV) of individual ship emissions. This currently uses different metrics to those about to be adopted by IMO. The apparent intention of the European Commission is to develop this into a regional system of mandatory operational efficiency indexing of individual ships, which ICS says will lead to serious market distortion.

"Any possibility of persuading the EU to adjust its regulation to make it compatible with that agreed internationally could be weakened if there is any further delay at IMO. It is disappointing that EU Member States, acting as a block, now wish to reopen discussion on some of the data metrics on which there was seemingly consensus at a recent IMO meeting in which many EU nations participated."
ICS has set out its support for immediate adoption of the CO2 data collection system in a submission made jointly with BIMCO and Intercargo.

CO2 Reduction Commitments
In a separate submission to the meeting, ICS has responded to the Paris Agreement on climate change with a radical proposal that IMO should develop an Intended IMO Determined Contribution for CO2 reduction on behalf of the sector. This would mirror the commitments or Intended National Determined Contributions (INDCs) which governments have made for their national economies, but from which international transport is currently excluded.

However, ICS emphasises that the Paris Agreement recognises that different parts of the global economy, including shipping, will need to decarbonise at different speeds, and that international shipping should not be expected to make the same level of CO2 commitments as developed economies. ICS says its member national shipowners' associations are now developing ideas on what such an IMO commitment might entail, for discussion at a future session of the MEPC.

Ballast Water Convention
Although the IMO Ballast Water Management (BWM) Convention has still not entered into force, it will almost certainly do so before the end of 2017. ICS is hoping that the MEPC meeting will make progress towards addressing a number of outstanding implementation issues. This includes finalising the revision of the IMO type-approval Guidelines for the expensive new treatment systems that shipowners will be

required to install, in order to make them more robust so that shipowners will have confidence that the equipment will actually work to the satisfaction of Port State Control authorities.

In a submission (made jointly with Intertanko), ICS has explained how the BWM Convention's entry into force will present ship operators with a major challenge because of the expected lack of shipyard capacity needed to retrofit the new treatment equipment. ICS says that many shipowners have understandably delayed fitting equipment due to a lack of certainty as to whether it will be regarded as fully compliant. This uncertainty has been increased by the United States which has placed a reservation against an earlier IMO decision not to penalise early movers which, in good faith, have installed equipment that has been approved in accordance with existing IMO Guidelines.

ICS will also be explaining to governments the problems created by the different approval regime that has been adopted by the United States and the need, so far as possible, to make the IMO Guidelines compatible with the U.S. approach, especially with respect to defining what is a 'non-viable' marine organism and the test methods used for approving ultra-violet systems.

Early Decision on IMO Sulphur Cap
The MARPOL Convention requires that ships (outside Emission Control Areas) must use fuel containing no more than 0.5% sulphur in 2020, but leaves open the possibility of postponement until 2025 depending on the outcome of a study into the availability of compliant fuel currently being conducted by IMO.
In a further submission (made with Intertanko) ICS has requested IMO Member States to make a clear decision about whether or not the global sulphur cap will be implemented in 2020, at its next session in October 2016.

"The decision will be significant because the cost of compliant fuel could be over 50% more than the cost of residual fuel that most ships currently burn" said Peter Hinchliffe. "Whatever date is decided by IMO, ship operators and oil refiners will need as much time as possible to prepare for the impact. The refining industry will need to take important decisions to ensure that sufficient quantities of compliant fuel are available. Shipowners will need time to take important decisions about whether to invest in alternative compliance mechanisms such as scrubbers or LNG."

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(2) Clarksons Research, 15 April 2016

Stars Still Shining? Key Importers through the Telescope

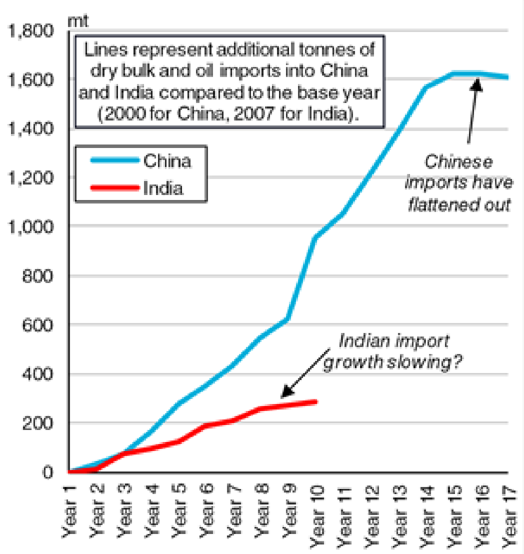
As the pace of growth in Chinese seaborne imports has slowed, and prospects for a return to stronger rates of expansion appear to have diminished, focus on the potential for other countries to help provide impetus to global seaborne trade growth has increased. With an economy expanding at a robust pace, and a population close to China's, India has increasingly featured in the spotlight.

The Big Bang

Graph of the Week

How Are The Bright Stars Of Seaborne Trade Shining?

The graph shows the volume of additional seaborne imports of dry bulk commodities, crude oil, and oil products into China and India, in each year compared to a base year (Year 1). Year 1 for China represents 2000, while for India Year 1 represents 2007. Data for Year 10 for India and Year 17 for China represents latest full year 2016 trade projections.



Source : Clarksons Research

China's dramatic growth and increased raw material demand since the turn of the century propelled world seaborne trade to new heights. By 2014, China's imports of dry bulk goods, crude oil and oil products reached 1,850mt, 1,600mt more than in 2000. China's industry-led development saw unparalleled growth in steel output, whilst refinery capacity and coal imports surged. But with coal demand and steel output falling, imports stalled in 2015.

A Dimmer Light?

This rapid expansion in China's imports occurred fairly quickly, and comparison to a 'base year' shows that Indian imports are tracking behind China's progression. In 2000, China's GDP per capita stood at US$1,000, and the country's dry bulk and oil imports topped 200mt. India reached both of these milestones in 2007, and since then, Indian imports have risen by 280mt to around 500mt, compared to China's 950mt of extra imports between 2000 and 2009. Differing political systems and economies have clearly proved key. Industry accounts for a greater share of China's GDP than India's, whilst 25% of growth in the value of India's trade in the last ten years (in both goods and services) was accounted for by the service sector, compared to 12% for China.

Reaching For The Stars

The concern for some shipping sectors is that the pace of growth in India's import volumes already appears to be slowing, partly as targets for thermal coal self-sufficiency have undermined coal imports since mid-2015. Meanwhile, India is aiming to become a 'global manufacturing hub', with ambitious targets to treble steel production capacity to 300mt by 2025. However, the steel industry globally is currently under severe stress, and it is also unclear to what extent output growth may boost iron ore imports given India's domestic ore reserves.

What Do The Skies Hold?

Nevertheless, India seems to hold plenty of potential in some areas. The outlook for imports of coking coal, crude oil and oil products still appears positive. And at a macro level, in 2015, India's dry bulk and oil imports represented 0.4 tonnes per capita, below the global average of 1.0 tonnes per capita. Bringing India towards this level could generate significant additional import volumes.

So, the stars don't seem to be in a hurry to line up Indian imports for growth on this explosive scale for now, with coal imports likely to fall further. But this may not be the end of the story. Growth in India's refinery capacity, steel production, GDP and population looks set to outpace China's in the coming years. Whilst Indian imports may not dazzle in some areas as brightly as China's have, the shipping industry will still be hoping they may provide some sparkle in others.

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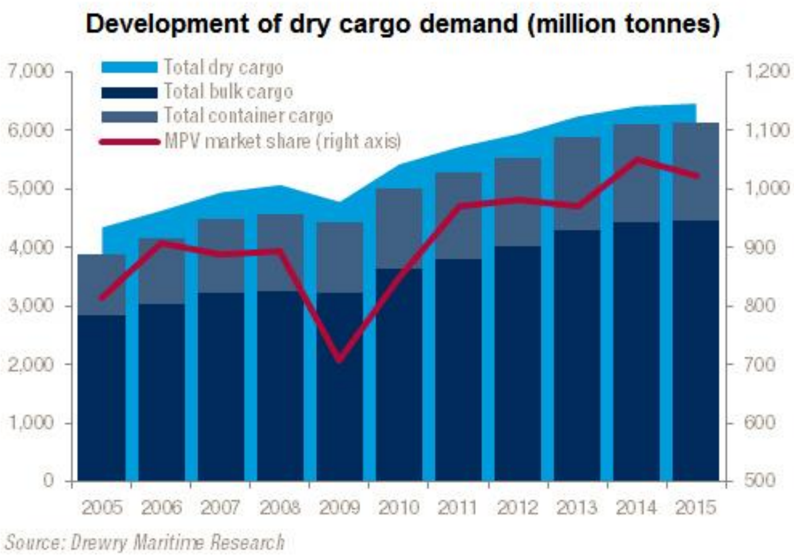
(3) Hellenic Shipping News/ Drewry Maritime Research

Multipurpose shipping awaits an elusive recovery

The multipurpose shipping market is not expected to recover until the end of 2017, when it is anticipated that there will be more bulk demand for the Handy vessels and therefore more breakbulk cargoes for multipurpose vessels, according to the latest Multipurpose Shipping Market Review and Forecast 2016 report published by global shipping consultancy Drewry.

The last 12 months have been dreadful for the multipurpose vessel (MPV) market with rates at rock bottom and competition for cargo from every angle. Weak demand, coupled with falling commodity prices and the oversupply of tonnage in competing sectors has brought rates down to levels not seen since just after the global financial crisis. The demand for multipurpose shipping registered a drop of almost 3% in 2015 as global demand for dry cargo slowed considerably while competition for it increased. The main competition faced by the MPV sector comes from Handy bulk carriers and containerships. The market for the first finished 2015 on its knees with earnings less than half the operating costs for the vessels, whilst the container lines were offering rates at close to zero just to hang on to market share.



Going forward, dry cargo growth is set to improve in 2017 and beyond but the return to growth for the MPV market share will be almost entirely dependent on the competing sectors. Whilst we are confident that both breakbulk and project cargo demand are showing signs that, in the medium term at least, volumes will return to growth trends, we are not confident that the competing sectors will move back to their more traditional cargoes anytime soon. The container market, however, is not expected to show any improvement for two and possibly three years. It is likely that containerships will continue to aggressively target breakbulk and project cargo for the foreseeable future.

In order to estimate the effective demand for the MPV fleet, we assess the demand for all possible commodities and the modal split for these between bulk, breakbulk and container. Susan Oatway, lead analyst for multipurpose shipping comments: “We expect the effective demand for the MPV fleet to return to a positive trend with average annual growth of 2.7% to 2020. However, this growth will be very subdued through 2016 and will not show any significant improvement until the end of 2017. This is due to a combination of the lack of project finance and aggressive competition from the container and Handy bulk carrier sectors.”

The supply of multipurpose vessels to carry this cargo is growing very slowly as well. Drewry has assessed future newbuilding deliveries, potential demolition candidates and slippage at the yards to determine that the future fleet will grow at less than 0.5% a year to 2020. However, more interestingly, the project carrier fleet is expected to grow at almost 4% a year, whilst the ‘simple’ MPV fleet will contract at a rate of almost 3% a year. Owners have borne untenable market conditions for longer than expected but now there is a very real risk for the financial stability for a number of companies.

“All this suggests that for those that can survive 2016 and position themselves with unique qualities – whether that is financial stability, good management, eco-friendly engines or extraordinary lift – there is an end to this recession. While we do not see any sign that, even in the longer term, the market will return to pre-2009 levels, it should see enough improvement to recover to 2011 levels by the end of our current forecast period,” added Oatway.

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(4) Hellenic Shipping News, 18 April 2016/ Bloomberg

The Latest Trend in Superyachts Is Renting, Not Buying

Lounging in the Caribbean aboard a beautiful, 100-foot superyacht sounds pretty great, but it might be hard to relax when you’ve got a hefty engine repair bill to pay and crew payroll paperwork to review. The annual cost of operating a 180-foot vessel is $4.75 million, or about 10 percent of the yacht’s original cost. With high maintenance costs in mind, ultra-high-net-worth individuals looking to explore the high seas are increasingly turning to charters.

According to “The State of Wealth, Luxury and Yachting” report released this week by researcher Wealth-X and yacht management and sales firm Camper & Nicholsons, ultra-high-net-worth individuals, defined as those with a minimum net worth of $30 million, took 21 percent more charters in 2015 than in the year prior.

“Sales vs. charters is always a big discussion with clients,” said Barbara Dawson, a senior charter broker with Camper & Nicholsons. “I think for some, the fact of being able to walk on and experience what that yacht has to offer for one week and go away, leave all the troubles behind, it’s a big plus. They don’t have to worry about the chef needing a month off, the captain needing to go into the yard, the engine has blown. They don’t want to have to manage.”

A week on a superyacht can cost $115,500 to $190,000, on average, the report found, while the average purchase price is a bit more than $10 million—268 superyachts sold in 2015, compared with 271 in 2014 and 242 in 2013. The average charter fee went up slightly, 1.3 percent, from 2014 to 2015.

Ultra-high-net-worth individuals who do opt for purchases end up chartering their yachts out to others to offset the steep maintenance fees, but these vessels are more money sucks than cash cows. For the $10 million superyacht, the annual maintenance comes in around $1 million, meaning the boat will have to spend between six and nine weeks being chartered to reach a break-even point, depending on what it can fetch on the rental market.

"You will help offset maintenance, but that's barring no mechanical breakdowns of major consequence, and it also depends on location and your crew," Dawson said.

If a superyacht is kept in the Caribbean, Dawson estimated it will be chartered only three to five weeks a year. Superyachts in the Mediterranean end up rented eight to 12 weeks a year, she said. With agent fees and value-added taxes cutting into the profit, there's no guarantee that putting a superyacht up for charter will recoup the owner's maintenance costs, despite the growing popularity of chartering.

There are also some ultra-high-net-worth individuals chartering yachts to determine if they're interested in making a purchase, and others who charter to travel to more adventurous destinations. A new wave of superyacht enthusiasts prefers traveling to remote locations. "It's more convenient, in the sense that they can charter where they want to and not have to worry about moving the yacht," Ben Kinnard, a research analyst with Wealth-X, said. "We've seen a trend [to] trying out new destinations. If you want to try out Asia one month and Antarctica the next, there's a lot of hassle if you own the yacht."

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(5) Hellenic Shipping News, 14 April 2016/ Seatrade Research

Dry Bulk Recovery at Hand?

According to Seatrade's February "Shipping Market Assessment – Forecasting for Professionals in Dry Bulk Shipping", the dry bulk market was due for an upside bounce, with smaller ships rising first and capesize ships starting to improve in April. This forecast has been right on target, both in timing and magnitude of the upturn so far in each sector. The latest condensed update shows that rates continue to maintain forecast upward momentum, with capes finally joining the party.

The global economy, and manufacturing, is presently going through a slowdown which may get worse before it improves. China's metals demand has been declining for 2 years, but production started declining sharply in 3Q15. During 4Q15, lower Chinese and Indian coal imports, slowing ex-China steelmaking raw material imports and lower overall Chinese grain imports were combined with fleet growth and faster voyage speeds. These events finally caught up with freight rates by late 2015 = very poor earnings and not enough cargo demand to support the entire fleet. The greatest impact was felt during early 2016.

After exceeding our downside target of 320-340, the BDI bottomed at 290 in mid-February, with earnings at the lowest level in 30+ years. Since then, it has risen 93% to 560. This time driven by panamaxes first, as the ECSA grain export season got underway. February is usually the worst month of each year, and perhaps, with more demolition and layups, will again be the low point in earnings for this year. Global steel production remains very weak, including China, but has recently started to improve. Australian iron ore exports to Asian customers remain strong while a considerable portion of rising Brazilian exports have been channeled through Vale's Malaysian blending terminal. Q1 cargo demand was very depressed, and led to the record low BDI. Q2 cargo demand is improving in all sizes, partially driven by a strong ECSA grain season. Somewhat improved global steel raw material demand in Q2 will also help, but nothing exciting. The fleet is growing, even with very high demolition. Idle ships have artificially reduced fleet supply, especially in capesize sector.

The next 12 months will be affected by potential changes in fleet supply caused by very significant newbuilding (NB) slippage, cancellations, demolition and actual number of ships that enter cold layup, a potentially large decline in Chinese steel exports and volatility in commodity and forex markets that can change established trading patterns. The potential fallout from La Niña and its effect on worldwide weather can alter global grain production, drive up grain trade and reduce hydro power output in China, India, Vietnam and EU that could lead to rising thermal coal imports.

Besides crude oil, large short positions were taken on metals futures during the past 2 years, and especially since last June-July, when the Chinese stock markets imploded. Metals, including aluminum, copper and nickel had record short positions by early February. At some point these shorts will need to be covered and it could cause a fairly large short-covering rally. This will drive up metals prices, similar to crude oil since January, even though actual physical demand has not improved. More market volatility !!!

The pressure on some dry bulk owners is readily apparent as they sell off 2, 3, upto 4-5 ships just to reduce high cash drain – including NB's in various stages of construction. The intensity of such "fire-sales" increased during Q1, driving prices down to near historical lows, inflation adjusted. And is providing an opportunity for owners with strong balance sheets to make some very cheap acquisitions. The key question for buyers is obviously the duration of this downturn, when cashflow on these ships will finally turn positive and if they will ever be profitable. Our new report "To Buy or Not to Buy – that is the $$$ question" analyzes this rare investment opportunity.

The basic issues that have and will impact dry bulk earnings over next 6-9 months:

1. China's end-use bulk commodity demand is slowing sooner and quicker than many had expected. Their rising exports of metals, from aluminum to steel, has caused ROW producers to cut output and is upsetting traditional trade patterns and seaborne dry cargo flows;

2. Overall global grain trade is expected to decline later this year as China reduces imports of corn and corn substitutes. Even so, during Mar-Jul, China and others will significantly increase purchases of soybeans from Brazil, and Argentina will be increasing long-haul grain and soymeal exports for the first time in 2 years. Although short term, it will cause earnings on sub-capes to continue rising during Q2. And perhaps significantly if ECSA port congestion rises more than last year … and idled ships remain idle;

3. Global thermal coal trade has been slowing for past 2 years, with China leading the decline. A hot summer, caused by La Niña, should lead to higher thermal coal import demand over the next several months, mainly by China and north Asian nations. This is a short term situation. Metcoal volumes will remain about flat at 2H15 levels due to relatively weak ex-China pig iron output;

4. Strong Chinese steel exports, at 112mt last year, reduced ROW steel output. We expect their exports will remain relatively high in 1H16, but mounting anti-dumping actions will slow their exports during 2H16. In the meantime, ROW steel output will remain lower than during 1H15. So, even with some seasonal worldwide iron ore and metcoal restocking during Q2, ROW raw material imports will remain generally subdued, at least until Q4;

   The low steel product inventories held by China's mills and traders in Jan-Feb is now leading to higher Q2 steel production and will lead to rising iron ore imports. Better economic growth in China from stimulus measures is expected to gain momentum as the year progresses. If this materializes, a further pickup in iron ore imports should be expected as steel production and ore consumption rise during 2H16. So far, previous stimulus measures have had no effect in stopping the down turn in Chinese steel consumption because building construction and FAI continues to decline faster than any benefits gained from stimulus;

Rising Australian iron ore exports to China plus rising Vale exports to Asia via its Teluk Rubiah terminal will continue to increase polarization of capesize iron ore trades within Asia this year. Remainder for subscribers;

5. The dry bulk fleet increased about 100m dwt from end 2012 until end 2015. Including an estimated 1% decline last year, cargo volume grew only 340mt during this period. Cargo demand should have increased 620mt during 2013-15 to maintain balanced supply and demand equilibrium; however, using our metrics, fleet growth exceeded cargo demand growth by 2:1. The dry bulk fleet will increase 10-15m dwt this year. Unfortunately, we project another year of declining cargo volumes. Consequently, while we expect an increase in dry bulk trade and vessel earnings during Q2, this will be a short term situation partly caused by idle tonnage and should not yet be taken as a sign of hope;

6. Some owners that have NB's under construction now lack enough cash to make scheduled payments to shipyards. Meanwhile banks are exiting the dry bulk lending business … again. If many NB orders are postponed or simply cancelled partway through the building phase, NB deliveries this year may not be much more than demolition;

Problem: Global dry cargo demand has not only slowed faster than many imagined possible, it has, as forecast, turned negative. The fleet, though growth is slowing, continues to expand. Earnings collapsed during Dec-Feb, with many routes showing negative TCE. This imbalance will return later this year, after a seasonal Q2 increase in cargo demand.

Solution: The only short term way out of this dilemma is cold layup of modern tonnage and continued very heavy demolition of older ships. Considering that more container ships, tankers and OSV's will be competing for beach front property in 2H16, there is a physical limit of 40-45m dwt of dry bulk ships that can be scrapped this year. This means that 35-40m dwt of layups will be required by year end so that earnings on the remaining actively trading fleet can return back up to reasonable levels and the BDI to about 1000. Like chartering pools, a "layup pool" would reduce expenses for participants!!!
Capes: The short term seasonal rise in Q2 earnings that we forecast has arrived. But even with the large number of idle capes and high demolition, the overall outlook for capes after this upswing remains poor for the remainder of the year.

Panamax: The recent improvement in grain exports from ECSA has seen panamax rates for ECSA-Asia reach US$8250 daily + US$300,000. While these rates are still awful, it is a great improvement from Jan-Feb. After a short term correction in the next week, we expect rates will continue to slowly increase through May as more cargoes become available and congestion rises. 2H16 will be another pressure point for panamax owners as ECSA demand slows.

Handymax: Ultramax NB deliveries this year will not only impact on existing oversupply of tonnage in the handymax sector, but will also cut into panamax demand as they increasingly compete for many of the same cargoes – as we forecast in our Ultramax Investment Analysis "Taking it to the Max". Eventually ECSA grain exports will decline and during 2H16 some owners will need to make the difficult decision concerning cold layup. Panamax owners will face this same dilemma.
Handysize: Minor bulk trades, a mainstay for handysize sector, have held up reasonably well during the recent downturn. A decline in Chinese steel exports later this year will negatively impact on Pacific handysize and handymax demand. Remainder for subscribers.

General: While this year will remain very difficult, for those owners that can weather the storm, the upside should be quite profitable, though we expect the wait will be longer than many desire.
In the mid-1970's, the tanker market was so poor that some owners took delivery of NB VLCC's from Japan and ballasted them straight to scrap yards in India. These ships never carried a cargo. We don't expect this scenario for dry bulk during this down cycle, but we do expect that the age of bulker demolition will slowly but surely get younger as older tonnage is scrapped away.

With some improvement in global steel prices and output combined with global raw material restocking in Q2, the BCI should reach our target of 850-950 by late May. We expect this will be a short term improvement, unless there are far more laidup capes than we estimate, Remainder for subscribers. Rising capesize rates will provide owners of all sizes with a good reason to improve their outlook, and therefore, sentiment.

Obviously the issue will be idled capes that start trading again when earnings improve, thus capping any recovery in rates. Remainder for subscribers.

Rising sub-cape rates in the Atlantic should also help boost sentiment among owners of all ship sizes by late April, which in itself will lead owners to raise their rates. If ECSA grain exports remain strong through June-July, and Asian coal imports increase on hot La Niña summer demand, the BPI should reach levels of 750-800 and the BSI to 550-600. This will need ECSA grain/sugar exports to rise – remainder for subscribers. The main push for ECSA soybean and soymeal exports will only last 4-6 months.

Handysize rates will see the least overall benefit from increased Q2 cargo volumes. Rates in the Atlantic have increased due to ECSA grain and seasonal fertilizer and steel shipments. But as forecast, the Pacific has not seen the same improvement due to, remainder for subscribers. Overall, we expect the BHSI will reach 300-325 during May, mainly driven by a stronger Atlantic market.

The BDI is expected to trade in a range of 300 to 500-550 this year with seasonal spikes taking it to 600-700. As rates rise we expect idled tonnage to start trading again during April. If this happens, and it surely will, rates in all sizes will reach a peak below our targets and drop again.

Persistently low bunker prices, freight rates and commodity prices should assist some commodity exporters to access new markets. This has been slow to happen, but when it does, it will lead to a return of some longer haul trades not seen for many years and partially absorb excess fleet supply going forward.

At the moment sentiment is very pessimistic. Some catalyst is required to turn it positive. Perhaps stronger grain and iron ore demand from April will help. An improvement in sentiment can raise earnings US$1000-2000 daily without any increase in cargo demand. Perhaps the year will end with better earnings than when it started.

At the end of the day, we expect earnings will try to retest the low point of February sometime later this year. But before then, we expect a continuation of present rise in earnings to, remainder for subscribers

Everyone is presently focused on the dire straits of the dry bulk market, the cash burn everywhere and whether this situation will last 12, 18, 24 months or even longer. We can't disagree with the negatives. However, shipping markets have a long history of surprising everyone and moving 100% in the opposite direction than predicted. We are trying desperately to find that surprise.

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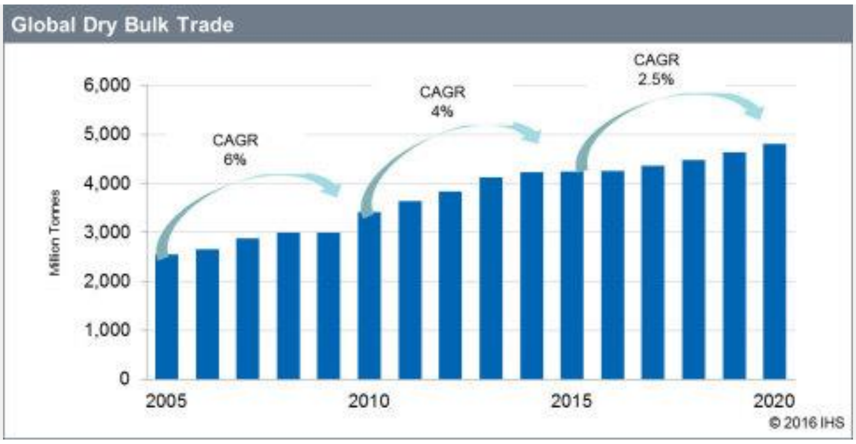
(6) Hellenic Shipping News, 14 April 2016/ IHS

Expect More Volatility in Dry Bulk Freight Rates as a Consequence of Structural Shifts in the World Economy, IHS Says

Shipping rates for vessels transporting commodities such as coal, iron ore and grains racked up impressive gains in the first quarter of 2016 after hitting record lows, but the rally could flatten out into the second half as the macroeconomic outlook remains uncertain, the latest forecasts show from IHS Inc. (NYSE: IHS), the leading global source of critical information and insight.

Freight rates for large Capesize vessels carrying iron ore along Australia-Far East routes reached $2.99 per tonne in Q1, 2016 and are expected to hover at $3.30 per tonne for the rest of Q2, 2016 after an increase of over 11 percent quarter-on-quarter, while average rates for the Transatlantic Brazil-Far East routes reached $5.8 per tonne in Q1, 2016 and will continue its current upward trend averaging at $8.5 in Q2, 2016 as higher earnings are expected in April and going into May and June.



Graph 1: Dry bulk seaborne growth is expected to average 2.5% CAGR from 2015-2020 (Source: IHS Maritime & Trade 2016)

Panamax vessels along the Australia-India route for coal deliveries, where average spot rates hit $6,100 per day in Q1, 2016, are expected to rise to a forecasted $8,000 in Q2 2016, an approximate 30 percent increase. In contrast, however, Panamax routes loading coal from Indonesia will see a 5 percent decrease in Q2, 2016 as compared to the first quarter, counterbalancing the overall average earnings for an increase of 15 percent or $6,900 per day in Q2, 2016.

The latest forecasts from the new IHS Dry Bulk Freight Rate Forecast service launched today factors in key variables and fundamental drivers that affect future freight rates, such as ship availability, ship utilization, macroeconomic developments, oil market fundamentals, trade data, bond yields, short- and long-term interest rates, exchange rates and commodity prices and production.

“Short-lived rebounds will bring occasional relief to the market,” said Luciana Salles, principal trade analyst at IHS Maritime & Trade. “Many questions remain, however, as to when the current situation in the dry bulk markets will give rise to more sustainable rates on the whole, and whether the overall macroeconomic situation and the fundamental drivers can engender enough confidence to see a price recovery for a more prolonged period of time."

After being subdued since 2014, the dry bulk market will face a transitional year in 2017, IHS predicts, as demand will finally outpace supply on the back of calmer financial markets that could reinforce a more stable outlook for global growth. At present, US economic growth is expected to accelerate a little moving through 2016, led by consumer spending and homebuilding, while growth in the Eurozone will improve slightly aided by further monetary stimulus.

For 2016, IHS estimates world GDP growth to reach 2.6 percent with real export growth of 2.8 percent. Then in 2017, IHS forecasts 3.1 percent for world GDP growth with 4.4 percent export growth followed by 2018 with 3.2 percent growth and 4.3 percent in exports (see Table 1).

Table 1: IHS forecasts a transition year in 2017 for the dry bulk market based on projected tonnage supply and demand, world GDP growth and trade exports during 2015-2020.

YoY % Growth	Demand	Supply	World GDP	Exports
2015	0.0%	1.9%	2.6%	2.6%
2016	0.5%	2.3%	2.6%	2.8%
2017	2.4% (increase)	1.3% (decrease)	3.1% (increase)	4.4% (increase)
2018-2020 (avg.)	3.3%	2.3%	3.2%	4.3%

Source: IHS Maritime & Trade 2016

"Freight rates could start to feel the effects of a more balanced market from 2018 onwards if the growth outlook for the world economy is sustained," Salles said. "Meanwhile, we can expect episodic volatility – much like the one we are in now – as supply and demand variables get worked out by the natural order of the markets."

While the usual recessionary triggers – asset bubbles, policy tightening and oil-price shocks – have abated for the global economy, China remains a risk where imbalances in credit, housing and industrial markets could lead to a further slowdown while it re-engineers itself from an export, investment-led economy towards a service-led one. Riskier still are the upcoming European referendum, stagnation in the emerging markets, and conflicts in the Middle East and Africa, any one of which can profoundly impact dry bulk demand should the worst happen, IHS said.

As for global trade, IHS forecasts compounded growth rates (CAGR) to fall from 4 percent to 2.5 percent from 2015 to 2020 when compared to the previous five years (See Graph 1). Such a drop will be mainly influenced by sluggish trade growth of 0.5 percent demand growth in 2016, which will be compensated in the following years when demand growth is expected to average 3.3 percent in 2018-2020.

"That the shipping industry, particularly dry bulk, is prone to cyclicality is well known, and to presume that all cycles are the same is going to prove a very expensive mistake," Salles said. "The dry bulk trade has thrived for the past five decades when global exports consistently exceeded GDP growth. Given the current market conjecture and our macroeconomic predictions, it is clear that the era of rapid globalized-driven growth in world trade is over and will give way to moderate growth for many years to come."

Looking at supply, IHS estimates the vessel orderbook for the rest of 2016 stands at about 60 million dwt (dead weight tonnage) which represents 8 percent of the total dry bulk fleet size. The current oversupply of vessels, which has built up over the past five years, means rates will remain at depressed levels for two more years as the market finds a new equilibrium. Slippages and layups will soften the overall negative impact of fleet growth, but at the cost of potentially delaying further market recovery. Total deliveries for this year are expected to be around 50 million dwt.

Dry bulk shipowners have also reacted to the adverse market conditions by intensifying demolition activity. In Q1, 2016, IHS observed that almost 15 million dwt was removed from the dry bulk fleets. To put this into perspective, this is half of all demolitions that took place last year when the market was also struggling. More than 80 percent of removed capacity this year is constituted of Capesize and Panamax sectors, according to IHS estimates.

“What is interesting for larger vessel types is that number of demolitions actually cancelled fleet growth through deliveries so far,” said Dalibor Gogic, principal analyst on fleet capacity at IHS Maritime & Trade. “The Capesize sector has seen neutral to insignificant growth so far this year, while the Panamax sector fleet actually shrank by about 1 million dwt. Although encouraging, this is less than 1 percent of the total Panamax active fleet capacity and, in the wake of more vessel deliveries and shrinking trade, this will probably not bring substantial upward push for freight rates.”

IHS says until this mismatch rebalances out, and assuming shipowners have no further incentives to increase the global fleet, dry bulk demand should start to rebalance with supply in 2017 followed by stronger pickup in 2018, bringing some positive support to freight rates (see Table 2).

Table 2: IHS Freight Rate Forecasts (Yearly Averages) for all Vessel Types from 2015 to 2018

Yearly Average	Capesize	Panamax	Supramax
(Actual) 2015	$11,000	$7,700	$7,700
2016	$7,800	$5,800	$5,500
2017	$9,200	$6,800	$5,500
2018	$9,800	$6,500	$5,800

Source: IHS Maritime & Trade, April 2016

Note: Calculations are based on current model projections for April 2016 and subject to change. Capesize values based on the following routes: Brazil to Far-East / Australia to Far-East / Brazil to Conti.

Panamax values based on the following routes: Australia to India / Indonesia to India/Indonesia to Far-East

Supramax values based on the following routes: Brazil to Far-East / US-Canada to Far-East

“At present, there is no substitute market to absorb the enormous demand caused by the slowdown and restructuring of China’s economy,” Salles said. “While India is outpacing China in economic growth, policy reforms to open its markets, upgrade infrastructure and raise productivity are expected to move forward slowly. The recent declines in real exports are now raising questions about India’s ability to establish itself as a low-cost manufacturing center.”

"A more promising scenario in the medium term is whether we will see increased demand from Southeast Asia from faster implementation of the Trans-Pacific Partnership (TPP) trade agreement, in which case, member nations including Malaysia, Singapore and Vietnam would be major beneficiaries, as well as Australia and Japan."

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(7) Lloyd's List, 11 April 2016

Containerisation Turns 60

A six-sided metal box changed the course of shipping and trade 60 years ago this month

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WHEN a small group of men met in Hong Kong last month, there would have been plenty to celebrate. For they head up an industry that really has changed the world.

Yet it is unlikely that any would have paid much attention to this success story, given the current plight of the companies they lead and the need to focus all their efforts on costs during one of the most difficult periods their industry has experienced.

Members of the Box Club, which represents the chairmen and chief executives of the world's top container lines, get together twice a year to exchange views on matters of mutual interest — with the exception, of course, of commercial matters such as freight rates, which they are banned from discussing on antitrust grounds.

Whether they added another item to the agenda of this strictly private meeting is unknown, but they would have had good reason to raise a toast to the 60th anniversary of containerisation.

April 26, 1956, is widely regarded as a key date in the history of shipping, when standardised containers were first used to transport cargo by sea.

The converted tanker *Ideal-X* sailed from Newark, New Jersey to Houston, Texas, carrying 58 containers on its decks, along with petroleum in its hold.

The idea of putting cargo into containers — in this case ones that were 35 ft long — was the brainchild of trucking magnate Malcom McLean, who calculated that loading a medium-sized ship the conventional way cost $5.83 a ton, compared with less than $0.16 a ton on*Ideal X*.

Mr McLean went on to found Sea-Land Services, for many years the trailblazer as containerisation opened up new markets and gradually connected just about every corner of the world to the global economy.

Like so many of those early pioneers of container shipping, mostly from the US, Sea-Land no longer exists, except as a small regional brand.

Today — and perhaps somewhat surprisingly — it is European lines that dominate the box trades.

Top of the pile is Maersk Line, which was a relative latecomer to containerisation but nevertheless has a direct link back to that first momentous voyage.

For Maersk has reached its number one spot through a series of acquisitions, including Sea-Land back in 1999, followed later by P&O Nedlloyd, itself the product of a merger between two of the biggest names in container shipping.

Over the years, Maersk has also led the way in ship development, with vessels of up to 20,000 teu now in service, an almost unimaginable size for those who first thought of packing cargo into metal boxes.

These are no longer 35 ft in length, which fitted with standard US truck sizes at the time, but 20 ft, 40 ft or 45 ft.

But that is perhaps another remarkable fact about container shipping. One of the very few global standards is an imperial measure, a legacy of containerisation's roots in the US, one of the few countries in the world not have gone metric.

But it was a former editor of Containerisation International, Richard Gibney, who coined the globally-recognised acronym 'teu' — standing for 'twenty foot equivalent units'. No-one talks about deadweight when measuring the size of a containership. It is the teu capacity that matters.

Container shipping has had a turbulent six decades, with endless price wars, regulatory battles, mergers, takeovers and bankruptcies, and fierce competition.

And it is that competitive spirit that has brought so much prosperity around the world. Antitrust authorities may worry about collusion from time to time and shippers frequently complain about industry practices, but evidence of harmful behaviour is hardly compelling.

Instead, consumers now take it for granted that they can easily afford laptops, smart phones, household appliances and full wardrobes of clothes and footwear. Yet most of what we accept as the norm today would never have been possible without container shipping and its relentless drive to find economies of scale in order to squeeze out costs and, by default, bring down high street prices.

So members of the Box Club, currently chaired by Maersk Line chief executive Søren Skou, have every right to feel proud about what their industry has achieved over the past 60 years. Whether they give it a moment's thought in such turbulent times is another matter.

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