

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

INDIA

SHIPPING MARKET OUTLOOK

Joint India/OECD/IISI Workshop, New Delhi (India), 16-17 May 2006.

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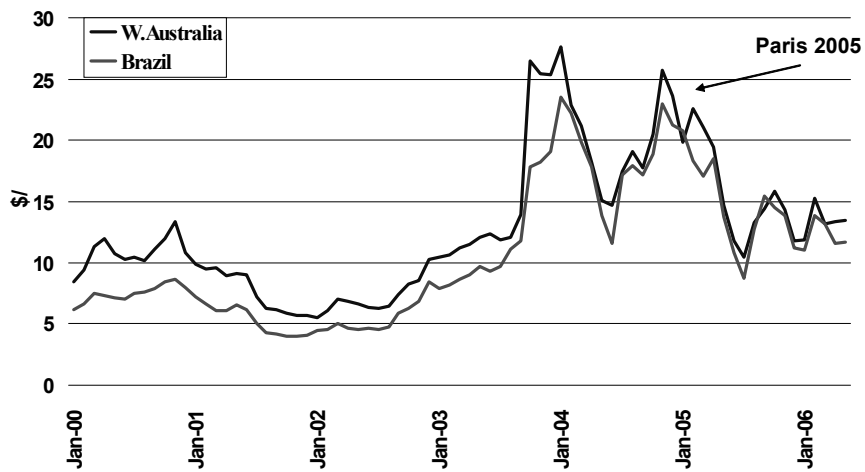
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capesize iron ore spot rates to Europe



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The freight market 2005/06: two powerful opposing forces

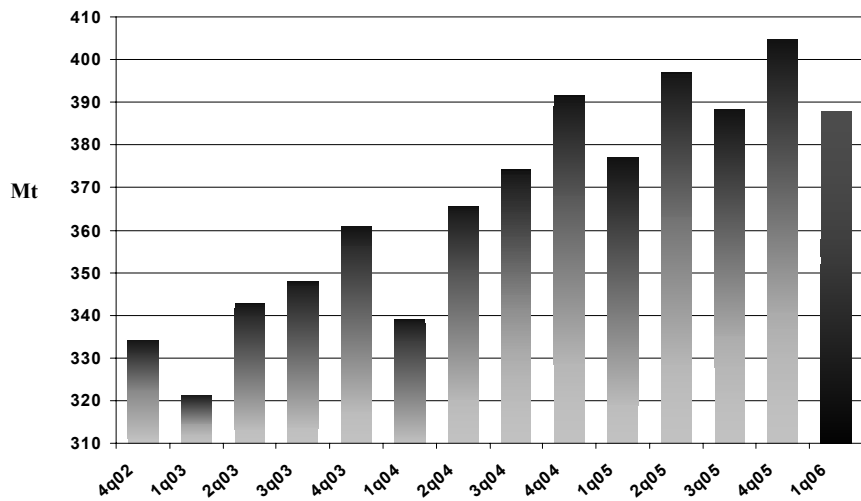
CARGO DEMAND

- new peaks for seaborne trade, which grew by over 6% for the 3rd consecutive year in 2005

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major dry bulk export cargoes



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The freight market 2005/06: two powerful opposing forces

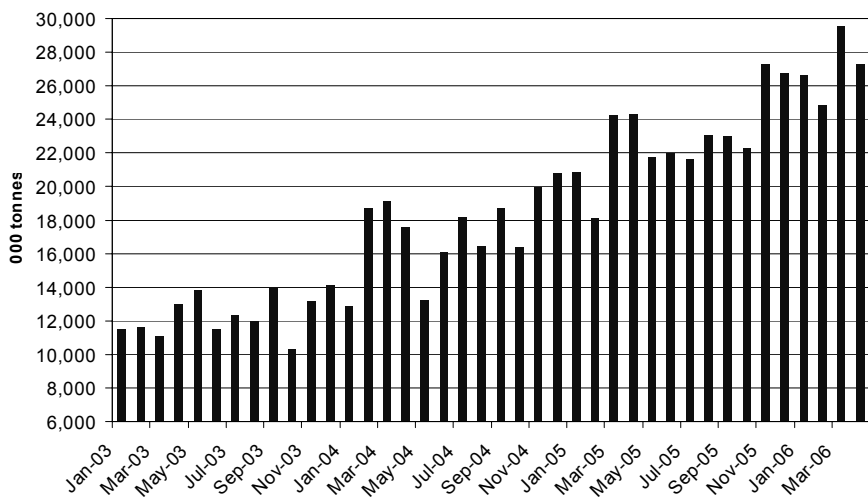
CARGO DEMAND

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- China's buying patterns, port congestion, cargo availability all helped maintain freight rate volatility

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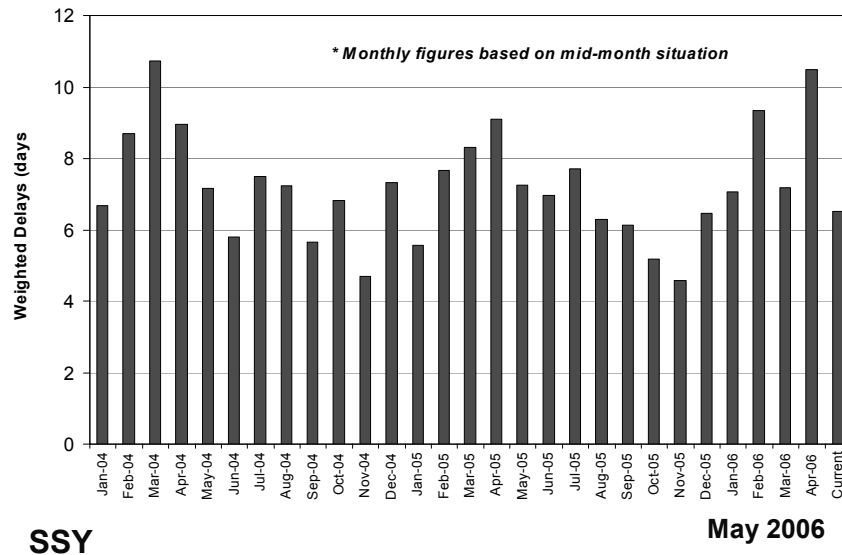
China's iron ore imports



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average Australian coal & ore port delays



The freight market 2005/06: two powerful opposing forces

CARGO DEMAND

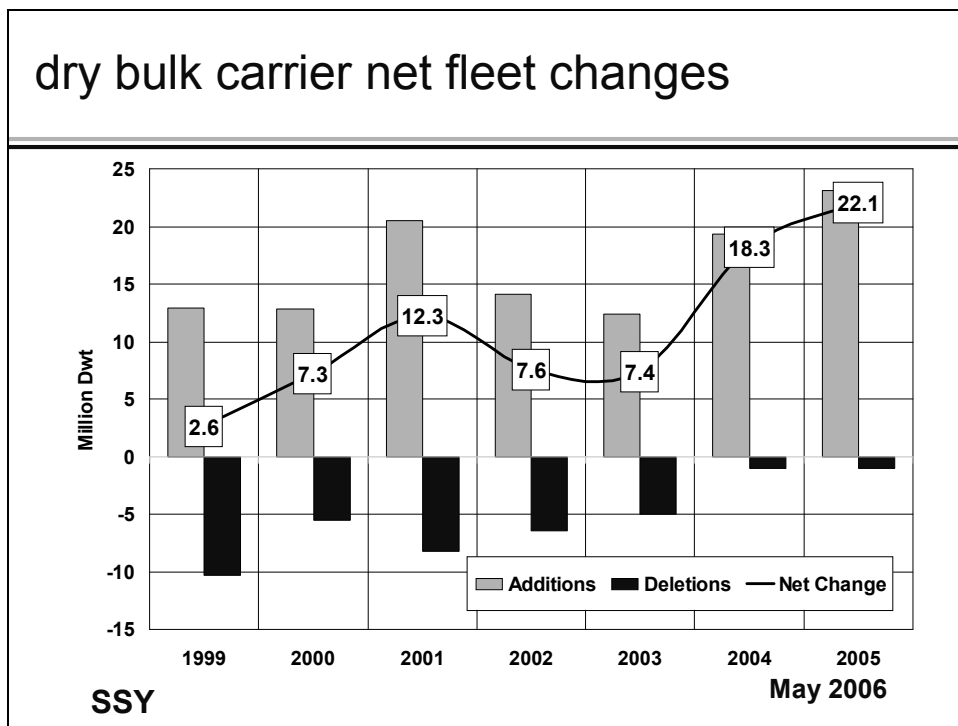
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FLEET SUPPLY

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The freight market 2005/06: two powerful opposing forces

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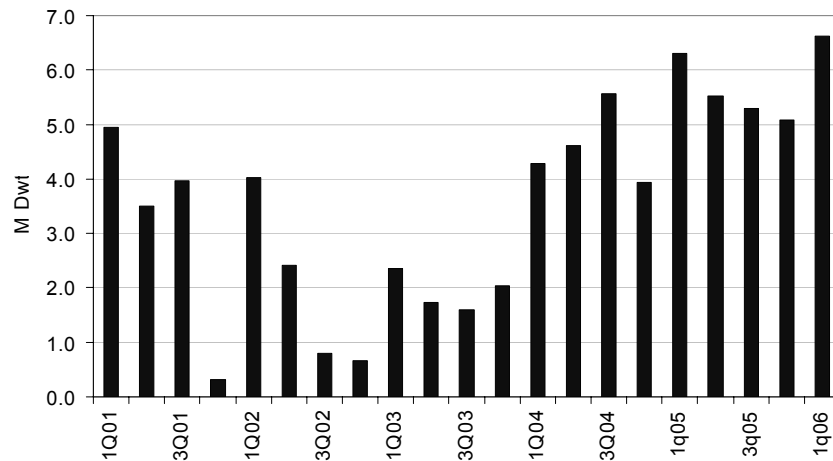
FLEET SUPPLY

- biggest annual increase in fleet capacity (+160 Mtpa approx) in 2005
- 1q06 sees record quarterly net fleet increase

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net fleet change by quarter



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approximate change in carrying capacity (mt/year)

	Cape	Panamax	Handymax	Handy
2002	+15	+19	+32	-11
2003	+31	+9	+25	-12
2004	+51	+44	+31	+10
2005	+60	+53	+41	+12
2006	+62	+52	+39	-1

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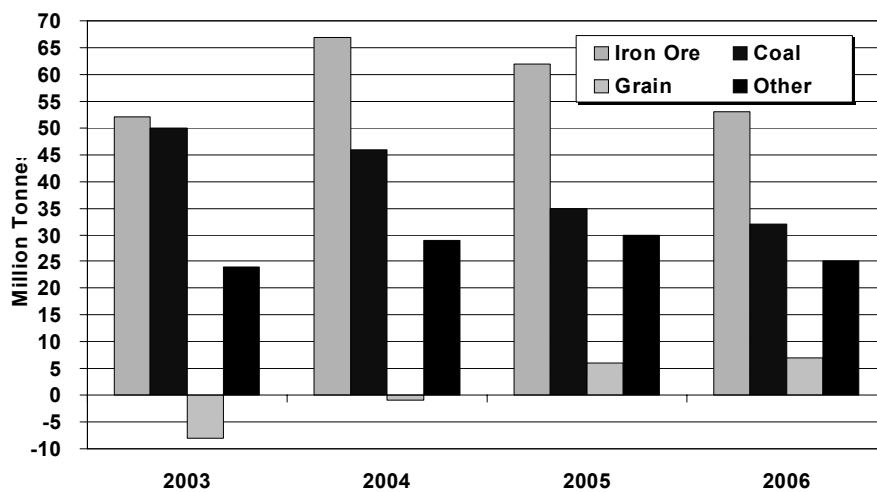
demand outlook - still positive

- high economic growth
- China's iron ore imports are continuing to rise
- broad-based rise in steel prices to support higher global output
- historically firm steam coal prices
- positive tonne-mile implications as Chinese coal export surpluses squeezed

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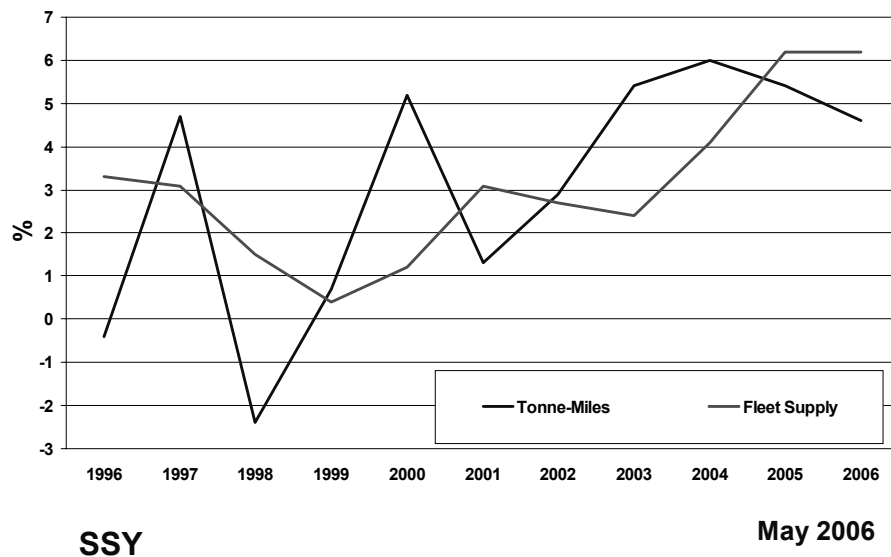
contributions to seaborne dry bulk trade growth



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bulk carrier supply & demand growth: SSY base case



conclusions - short term

- freight rates fell in 2005 in spite of a 130+ Mt rise in dry bulk trade as fleet supply grew faster than demand for the first time in 4 years
- with newbuilding deliveries set to reach a new all-time high and scrapping yet to revive this pattern is set to continue in 2006, so creating negative pressure on annual average earnings
- large scale scrapping unlikely before 2007 unless hard landing in rates from their current levels as fleet utilization still at an historically high rate

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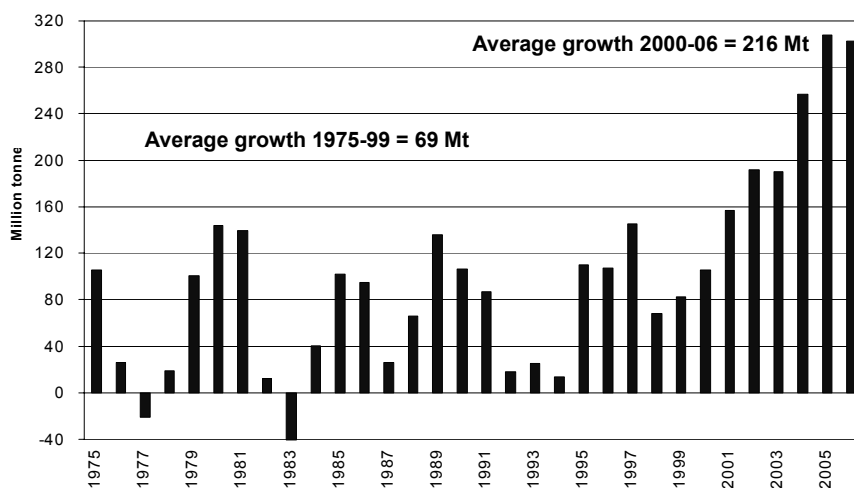
return to past patterns or fundamental change?

- China has raised the underlying growth in seaborne dry bulk trade and
- India to be another source of trend growth
- the age profile of the existing fleet represents another fundamental difference to past cycles
- but expanding shipyard capacity does threaten future market balances

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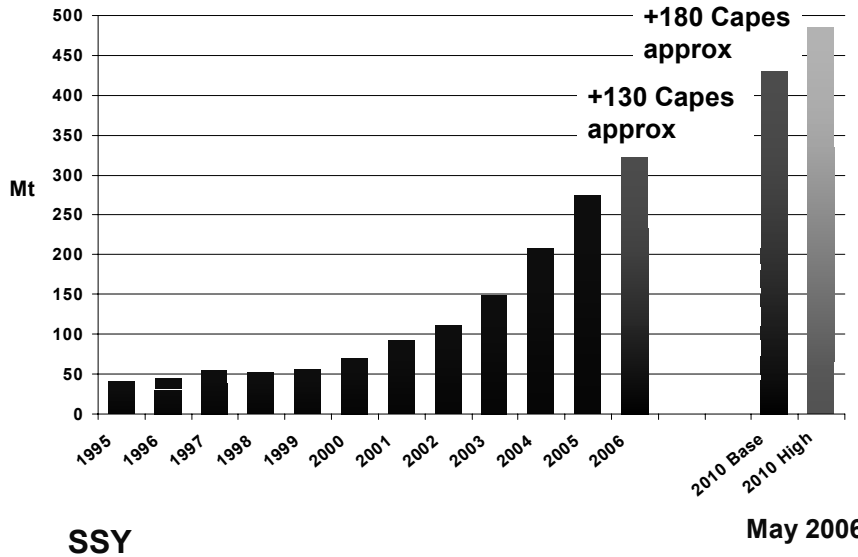
China effect: 3 year growth in seaborne iron ore, coal & grain trade



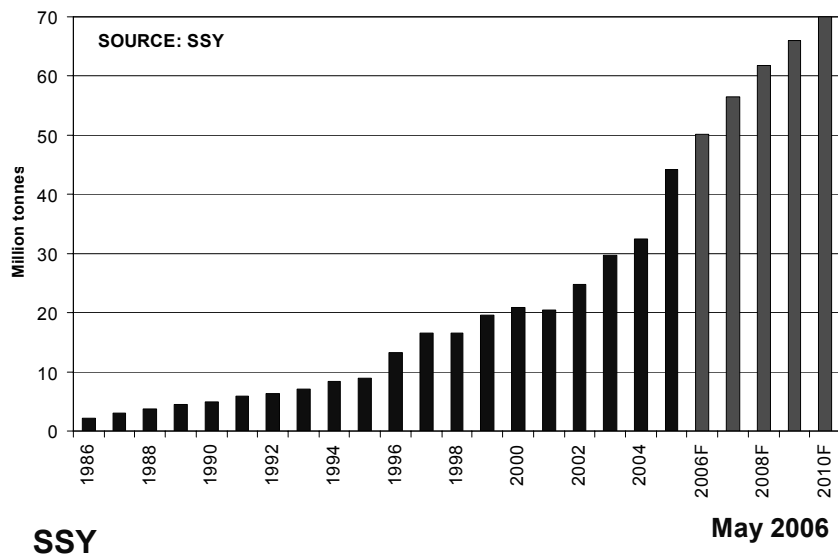
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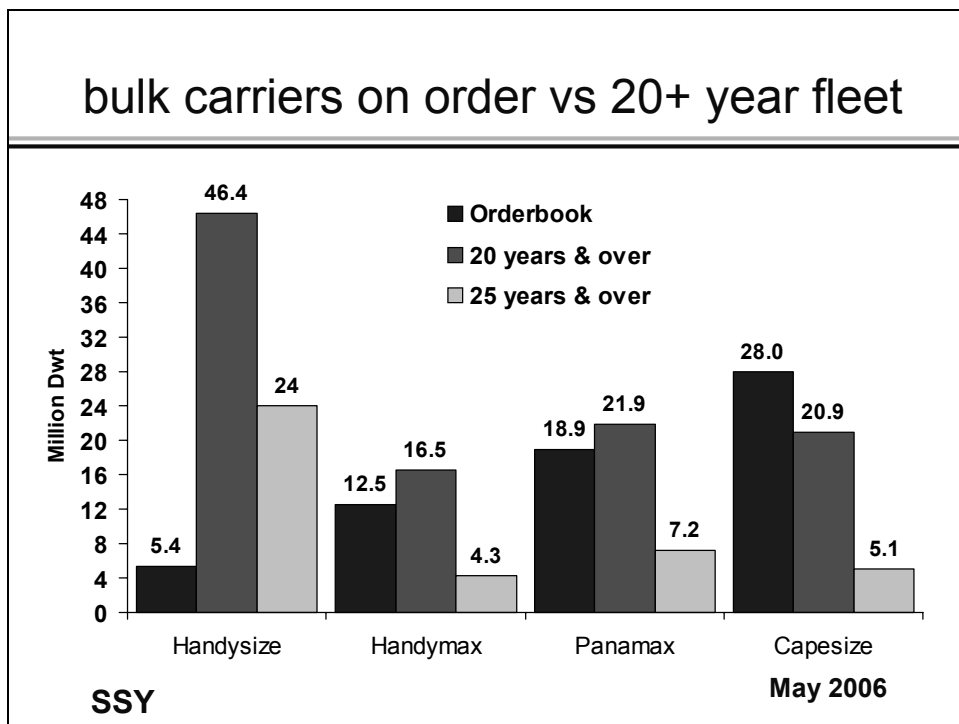
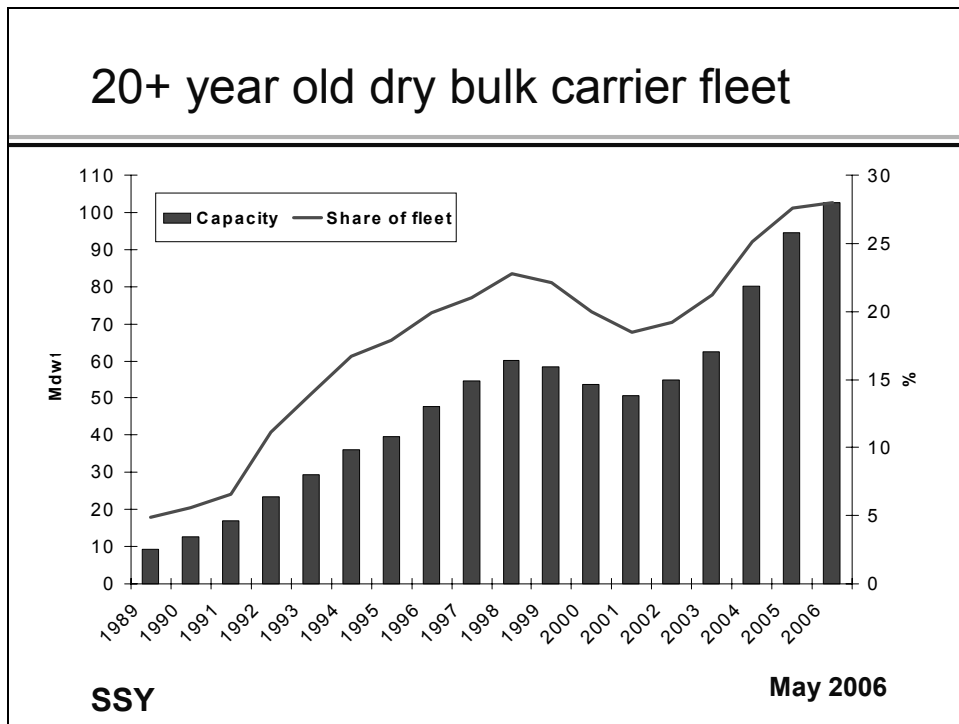
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Chinese iron ore imports



India: moving up a gear steam & coking coal imports





conclusions - medium term

- dry bulk freight markets to remain cyclical
- Chinese iron ore imports have raised underlying rate of ship demand growth with the country's coal and grain trades offering upside potential
- together with deferred scrapping of older tonnage, this decreases the likelihood of a return to the protracted periods of weak freight markets experienced in the 1990s and 1980s

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