

Forecasting the Dry Bulk, Tanker and Container Markets

Maritime Cyprus, 23rd September 2001

*Dr Martin Stopford, MD Clarkson
Research*



Martin Stopford,
H. Clarkson,
Research
Sunday, 09 September 2001

Summary & Conclusions

- We face a difficult time in the tanker, bulk carrier and containership business. The world economic outlook was gloomy before the terrorist attacks on the United States on 11th September, and that particular event raises a whole host of additional problems.
- From an economic viewpoint we are barely one-third of the way into an world industrial recession, and in all probability it will be a year before we see evidence of the industrial growth needed to pull the market forward.
- In the tanker sector the supply demand balance remains very tight. Although the weakening economic outlook suggests that a repetition of the high freight rates of 2000 is unlikely for at least the next couple of years, we can never be sure. With a heavy delivery schedule for tankers over the next two years, and owners reluctant to scrap their 1970s vessels until they are confident that there will be a tanker recession, the most likely outcome seems a weak but volatile market over the next year. A sort of stop-go market like the early 1990s in bulk.
- The bulk carrier market has paid a heavy price for its investment boom in 1999. Despite record growth of Dry Bulk cargo last year the market remained relatively weak, and has already moved into recession. The order book will start to wind down over the next 12 months, which is positive news. However there seems every likelihood that bulk trade will decline during 2002, and this suggests that the sector faces a very difficult 12 month. The bottom line is "somewhere between dim and a dismal".
- Finally the containership market ordered a million TEU in 2000, so the fleets will expand by 30% over the next two years. Even in a good market such a large increase would cause problems, but in the anticipated recessionary scenario there seems little hope. A dismal outlook, for the a time being at least.
- Not a happy conclusion, but if you do not like a recessions, you should not be in shipping ! Remember the advice of the Greek writer Horace who said "adversity reveals genius, prosperity conceals it". So it is time to get that genie working!

Forecasting the Dry Bulk, Tanker and Container Markets

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B 1. The Introduction

September is a time of year when the shipping market is traditionally "on the move". Shipowners and cargo owners come back from their holidays, takes stock of the trends they have been pondering over during the summer, and at last act.

My task today is to review how the main segments of shipping are likely to develop over the next two years. This is a particularly difficult time because in 2000 we experienced a one of the best shipping markets since the great boom of 1973. The Clarksea index in Figure 1 puts it into perspective. This index, which covers 14 shipping segments, went from a trough of \$9422/day in August 1999 to a peak of \$25,575/day in December 2000. As a result shipping was extraordinary profitable in that year. During 2001 market came down again and the Clarksea index is pretty well back where it started. That leaves me with the tricky task of advising you on whether this is a temporary downturn or the beginning of one of those tedious and long drawn-out recessions of the sort we saw in the early 1990s, or worse still, the early 1980s.

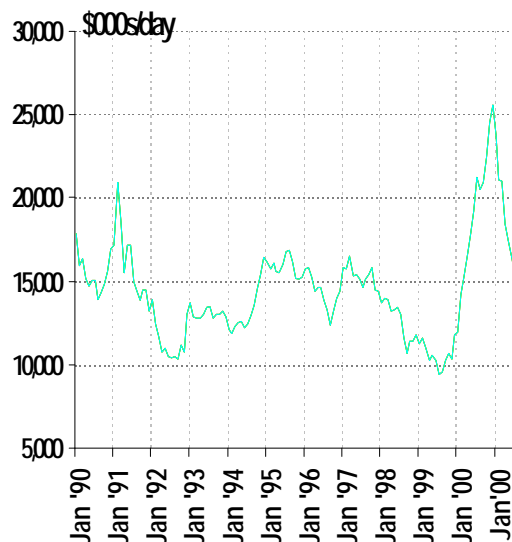


Figure 1 The Clarksea Index covers 14 sectors

I will try to answer this question by looking at the broad economic factors which "set the scene" for developments over the next two years, and then discuss the specific outlook for each of the main trading segments.

2. The World Economy

We are well into an industrial recession. Over the last six months economists have become increasingly gloomy about the future of the world economy. Since the beginning of the year the Atlantic economies have slipped into industrial recession and the Pacific is not far behind them (Figure 2). By region the position is as follows:

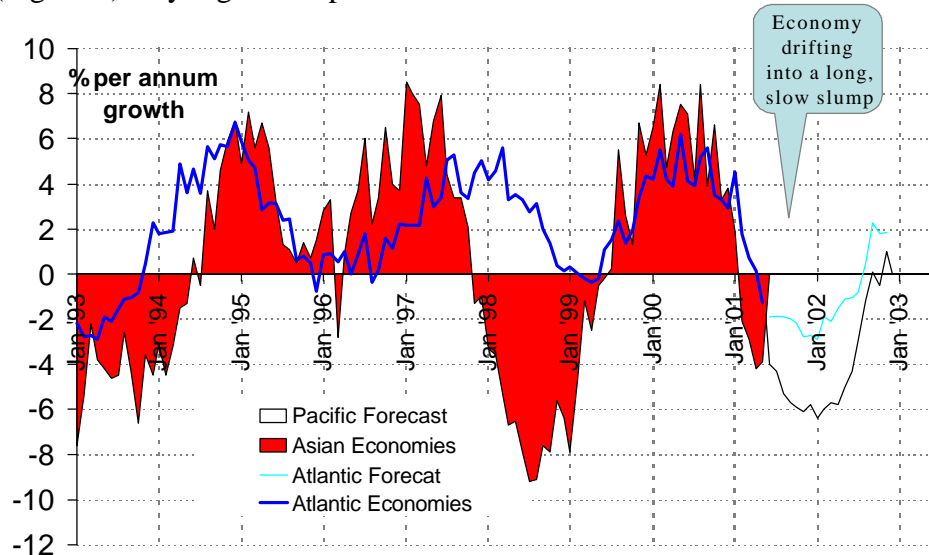


Figure 2 Industrial production of Atlantic & Pacific

- ❖ **The Atlantic:** US industrial output declined by 3.2% in the year to July. At long last the “bubble” economy has burst, and nobody is quite sure how long the trough will last. Many of the forecasts are still predicting a recovery next year, but watch out for setbacks. European industry fell by .3% in the first half of 1999, with Germany slightly above zero growth. Signals are still mixed. Although the European industrial economy is probably sliding into recession it is less vulnerable than the USA.
- ❖ **The Pacific :** Japanese industry has plunged into recession, reporting a –8.5% decline in the year to July. Although Japan is a troubled economy, its industrial sector is capable of spurts of growth and is capable of turning round quickly. The latest figures show Korean industry is declining by 5.9%, which must be helping to drag Asia into of recession. The S. E. Asian area is slumping, with Taiwan, and Malaysia reporting negative growth. China continues to grow at around 8% pa.

Looking ahead today the key questions are "how deep and how long?" There are three negative factors to take into account. Firstly the bursting of the dot com bubble has had a disruptive effect which is for more widely felt than the IT industry. Secondly oil prices today are twice as high as they were two years ago, and this is having a deflationary effect on oil demand and the tanker sector. Thirdly this is a co-ordinated downturn, with both the Atlantic and the Pacific economies moving down in

synchronisation. On a more positive note interest rates are down at 3.5% and inflation is very low, giving financial managers room for manoeuvre.

On balance we must expect the excesses of the last few years to “shake out”. My best guess, shown in the graph, is that the recession bottoms out during early 2002 and then moves slowly into a recovery phase in the second half of 2002. If this forecast is correct we have some difficult times to get through over the next year.

This recession suggests that the growth of sea trade could slump from 4% growth last year to 1% this year. That would generate demand for about 5 million dwt of merchant ships, which is not enough, in a year when we are expecting 49 million dwt deliveries.

3. Shipbuilding Deliveries & Demolition

On the supply-side of the shipping market we face a complex situation, The events of 2000 showed just how tight the supply demand balance had become during the 1990s, and when looking ahead we need to take a view on demolition and deliveries as illustrated in Figure 3.

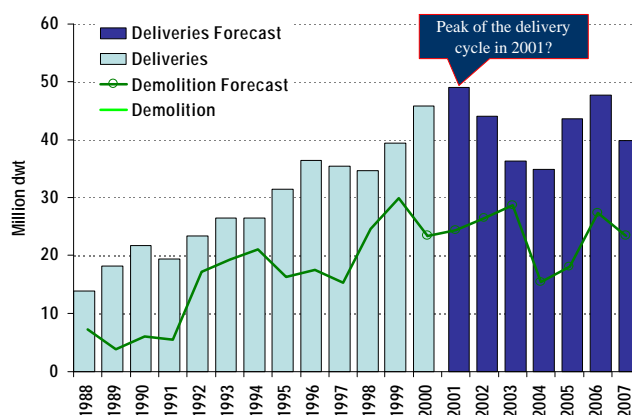


Figure 3 Deliveries and demolition 1988-2007

- ❖ **Demolition:** In 2000, with its spectacular freight rates, 22 m. dwt of ships were scrapped, though most of this was early in the year when rates were low. So far in 2001 we have seen this level of scrapping continuing, and if today's difficult market persists for another year we can expect at least 30 million deadweight of merchant ships to be scrapped. (see Figure 3)
- ❖ **Deliveries:** We expect Shipbuilding deliveries to reach 49 million deadweight in 2001 and 45 million deadweight in 2002 (see Figure 3). This is a new post 1973 record and probably marks the peak of the shipbuilding cycle. Since it is well above the anticipated level of scrapping and makes the market particularly vulnerable to the downturn in world industry. Secondly the 1970s tanker replacement "bulge" is now 80% over and demand for merchant ships will sink back to its "trend" requirement of 30-35 million

deadweight. So we have over capacity in Shipbuilding and that suggests prices could move downwards over the next year as the yards compete to fill capacity.

- ❖ Orders: In the first seven months of 2001 38m dwt of ships were ordered – 20 m dwt of tankers, 7 m dwt of bulk carriers and 8.8 m dwt of containerships. A massive surge of supply which will show up some time in 2003.

Summarising, although the scrapping outlook is positive, excessive ordering ensures that if shipowners take a "wait and see" approach to the future of their old tankers and bulk carriers, we will see the recession drag on.

4. The Tanker Market

In 2000 the tanker market had its 10th “boom” since 1945 (Figure 4). The tall thin peak looks more like the booms of the 1950s than the more “triangular” peaks of the 1990s. Even now when we look back at the figures for the 2000 it is hard to understand exactly what propelled the Tanker market to heights not seen since the early 1970s.

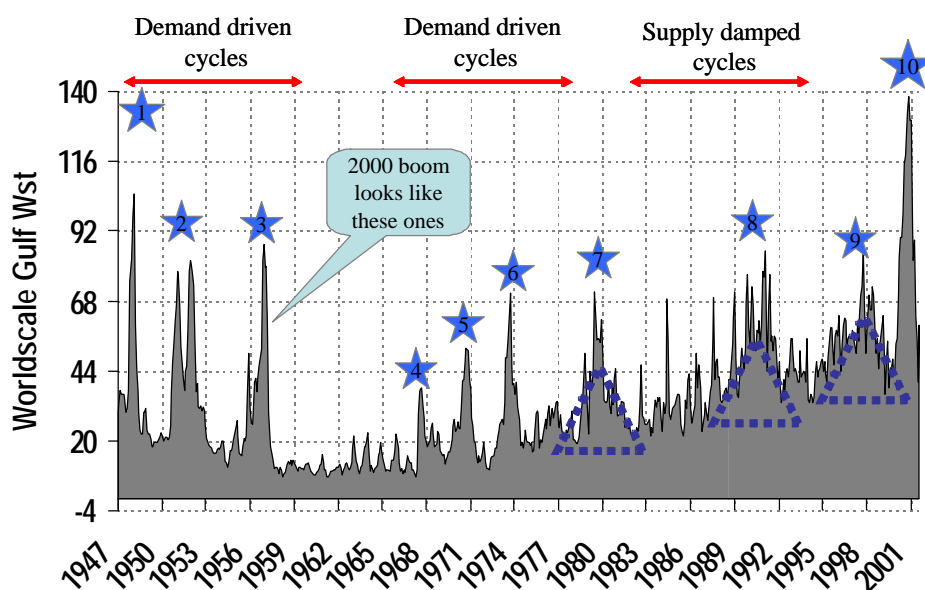


Figure 4 Ten Tanker cycles since 1947

The explanation is that during the 1990s the market became gradually tighter, with demand growing about 23 m dwt more than supply during the decade. However the demand slump after Asia Crisis in 1997 disguised this development.

The second trigger was the heavy scrapping in late 1999. 24 VLCCs were scrapped in three months. This coincided with a pick up in chartering, as the world economy recovered sharply and the US had a mini energy crisis in 2000 which sucked in extra crude and products for use in power stations. This created a classic supply/demand squeeze where supply and demand both tightened at the same time.

Tanker demand outlook

It looks as though world oil demand, which grew by about 1 million barrels per day in the last decade, will grow more slowly over the next couple of years. Forecasts suggest that the negative economic outlook will slow world oil demand growth to only 0.5 m bpd in 2001 and 0.8 m bpd in 2002.

As far as tankers are concerned, after a year of positive trade growth in 2000, when demand for crude tankers grew by 9 million dwt, tanker demand is likely to fall by about 2m. dwt (Figure 5) in 2001. Note that this is a smaller decline than happened in 1998 after the Asia crisis.

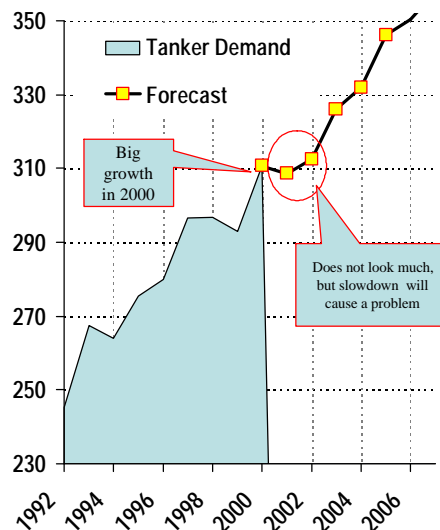


Figure 5 Tanker demand forecast

Several factors will contribute to this “no growth” scenario. Asian imports, which added 1 m. bpd in 2000 have almost ground to a halt in 2001 and we will be lucky to see 300,000 bpd in 2001, and possibly about the same in 2002. Given recessionary economic scenario in Europe, we expect no growth in oil imports this year or next and the same is true in Japan. That leaves the USA. Last year’s energy crisis in the USA was driven by escalating gas prices, and the switch to relatively low cost oil, especially by utilities, sucked in crude and products imports over the winter of 2000. Things have now settled down. US gas prices are back to normal, demand has moderated, stocks have recovered and production is slightly up. In these circumstances we do not see any significant increase in imports in 2002.

4.2 Tanker supply outlook

On the supply-side, the oil tanker fleet grew from 252.6 m dwt in 1990 to 294.8 m dwt in 2001 (Figure 6), an increase of 42.2 m dwt in eleven years, or about 3.8 m dwt a year. Over the next seven years the tanker industry has to replace 83 million deadweight of tankers which will be phased out under IMO Regulation 13 G by first to January 2007, whilst ordering about 45 million deadweight tons of new ships (6 m dwt pa) to meet demand growth. These scenarios are both shown in (Figure 6).

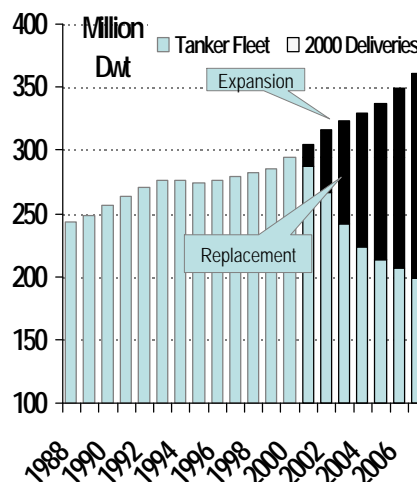


Figure 6 Tanker replacement & expansion demand

As far as a replacement goes, tanker investors are well ahead of the game. There is an orderbook of 60.8 million deadweight (Figure 7) which covers 80% of the replacement demand (after allowing for the greater efficiency

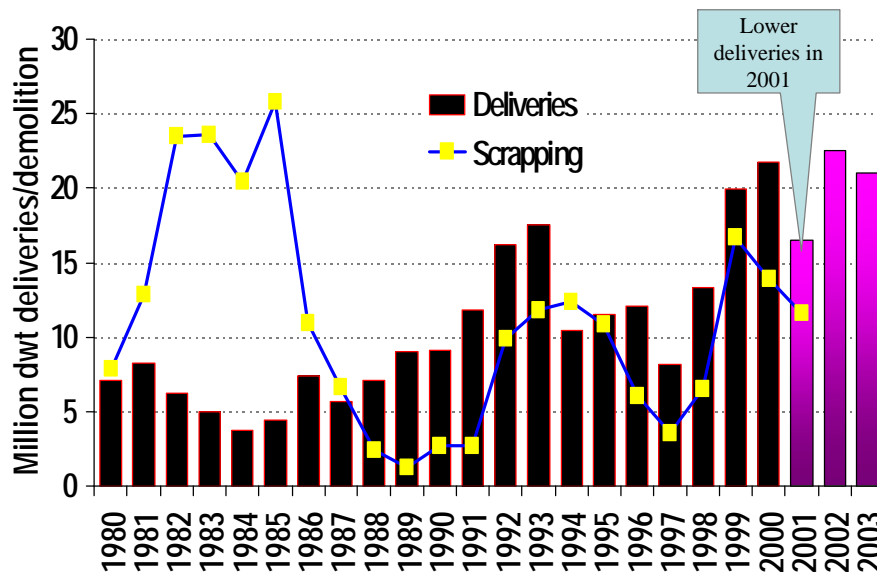


Figure 7 Tanker demolition and deliveries, including orderbook at 1st Sept 2001

of the new shgips). The order book is heaviest in VLCCs which have 21% of the fleet on order, whilst Suezmaxes have 26%, Aframaxes 25%, Panamaxes 19% and handy tankers 16% crude tankers. Figure 7 shows that deliveries will be heavy over the next two years, reaching 22.7 m dwt in 2002 and 22 m dwt in 2003 (though this could be substantially higher). Since demand growth is unlikely to soak up the volume of deliveries shown in Figure 7, we need 30 million dwt of scrapping to bring the market into balance. When tanker rates fell in the early summer there was an immediate surge in scrapping, which hit 2 million deadweight per month in May 2001, but since then the demolition market has been very quiet.

It may be that this is its just a summer lull, or possibly investors are weighing up the chances of a boom in the near future. Unfortunately if they stick with that this strategy, and many owners of old ships can easily afford to do so, it will be self defeating. One of the main driving forces in the 2000 tanker boom was the fact that investors became very depressed during autumn of 1999 and started scrapping tankers. If we are to a kick-start the market in 2002, it will need investors to take an equally realistic view.

4.3 The freight rate outlook for tankers

My guess is that owners will take their time over scrapping, and the recession will deepen in the short term (Figure 8). This will result in a weak tanker markets during 2002, leading into a recovery in the spring of 2003 driven by the upturn in the world economy discussed in section 2. This is a rather favourable forecast for tanker owners. Although next year

looks miserable, the recovery in the following years takes us into another round of higher freight rates, sustained by heavy scrapping as the 1970s ships are terminated.

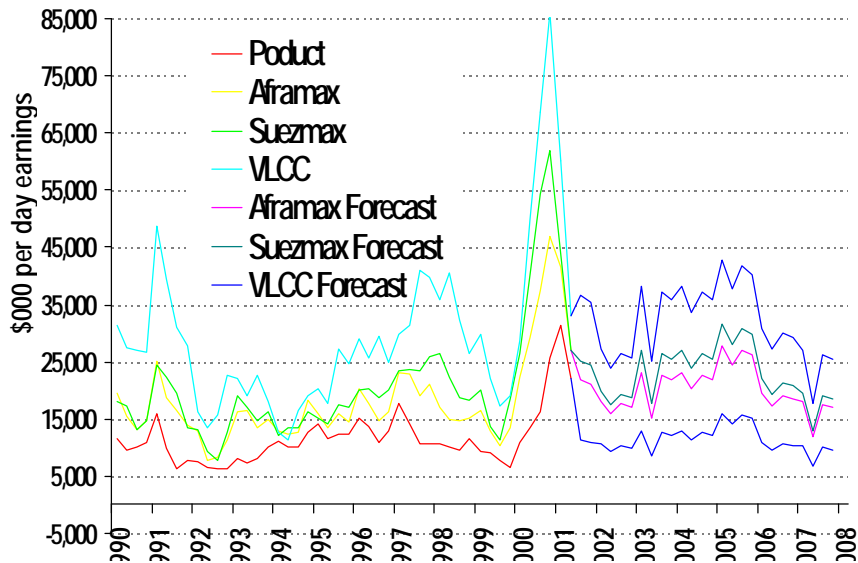


Figure 8 Tanker quarterly earnings scenario assuming moderate scrapping

Unfortunately there is absolutely no guarantee things will turn out this way. There are two major obstacles. One is the temptation to hang on to the 1970s built tankers until the bitter end. Figure 9 illustrates what happens if this strategy is executed. It plots the orderbook (the top line) on top of the existing tanker fleet. With no scrapping this takes the tanker fleet up to 350 m dwt in 2003, which is way ahead of the high demand growth scenario. Tanker supply shoots ahead of demand driving the tanker business into a protracted recession. I doubt if anything this extreme will happen, but it illustrates the risk.

As I mentioned earlier, the other risk is that the shipyards will face a capacity problem as the orderbook runs down in 2002. One tempting strategy for them is to drop tanker prices by, say 15%, in the hope that this triggers a round of counter-cyclical ordering. If the tanker market were to book another 32 million deadweight of new orders next year, all bets would be off.

However you do not need me to tell you about these risks. This is a road we have all travelled along before. When the time comes, if it does, investors will be reluctant to pass up the opportunity to acquire a cheap ship of modern specification. After all these opportunities do not come often, so if they get

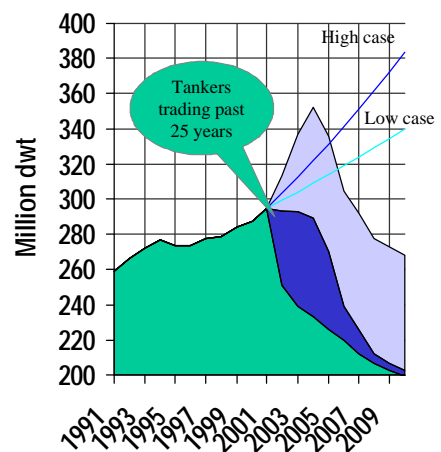


Figure 9 The "no scrapping" scenario

the chance I dare say they will want to go for it, and who can blame them. My only point is that you cannot “have your cake and eat it”.

5.The Bulk Carrier Market Outlook

When we turn to the dry bulk market, we find the traditional story of sluggish but highly cyclical demand growth, combined with a investment cycles which swing from over-confidence to despair.

Like Tankers, the dry bulk market has been through a series of cycles over the last 30 years (Figure 10). There were well-defined cycles in 1974, 1980 1990 and 1995. Between the cycles were recessions, except during the early 1990s when, for once, the market remained very nervous about the future. As a result bulk carrier deliveries shrunk to only 4 million deadweight in 1992, ensuring that the bulk carrier market came through

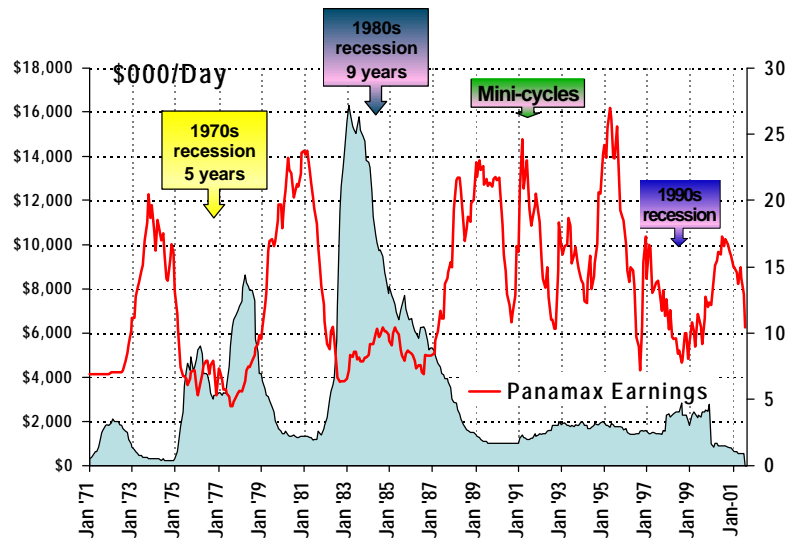


Figure 10 Dry bulk cycles since 1970

the recession of the early 1990s with flying colours. Instead of a deep trough, there was a series of fluctuating spikes.

Unfortunately this run of tight investment control ended in the mid 1990s and compared with previous cycles, the dry bulk market had a very disappointing year in 2000. Earnings for a Panamax crept up to \$10,000 per day, and hovered there for about nine months (Figure 11). The Capesize market did somewhat better, with earnings reaching \$24,000 a day in September 2000. However after a slight recovery in early 2001 rates dropped at one of the fastest rates on record. So dry cargo investors, unlike their counterparts in the tanker business, missed out on a year of profits in 2000 and now face a far more distressed market in 2001. So what went wrong? The main explanation is that they could not resist those cheap Panamaxes in 1999.

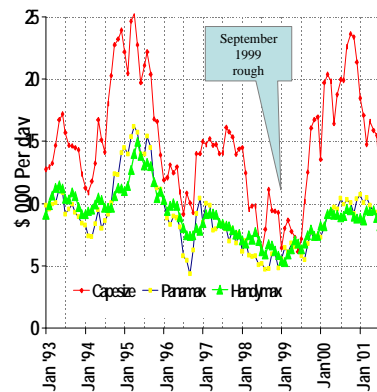


Figure 11 Dry bulk earnings

But before dealing with that particular issue we need to examine demand trends.

5.1 Bulk Trade Growth to 2 billion Tons in 2007

When we examine trends in the dry bulk trade it does not seem as though this carries much of the blame for the market's poor performance over the last two years. After a sharp dip in 1999 trade made a record recovery in 2000, growing by 6% (Figure 12). This took it back on trend and was much better than most forecasters expected. In 2001 it looks as though there will be another small increase of about 1-2%, followed by a decline in trade next year.

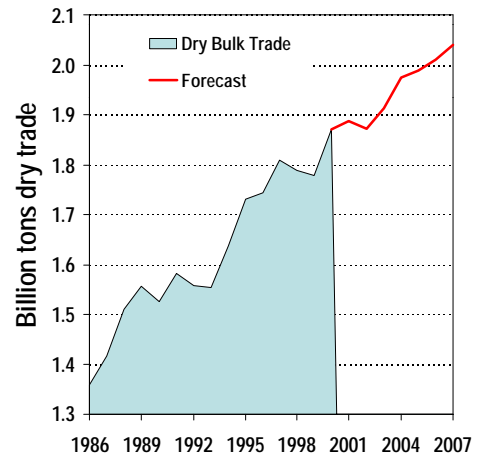


Figure 12 Dry bulk trade & forecast to 2007

Looking further ahead to the next development phase for the bulk carrier business, it seems likely that the slow growth trend of the 1990s (roughly 1.5% per annum on average) will continue. My projections to 2007 are shown by the line in Figure 12. However the growth path of the dry bulk commodities is obviously not smooth and we need to look carefully at this aspect of the business to see how future cycles may develop.

5.1.1 The Iron Ore Trade Prospects

The iron ore trade, which in 1980 was 300 mt has now grown to 450 million tons (Figure 13). Along the way it has been through a series of fairly extreme cycles, and the volatility of this trade is very clear. The timing of the cycles is one of the most important influences on the bulk carrier market, especially the Capesize sector, since the peaks and troughs coincide with the peaks and troughs in the bulk carrier market.

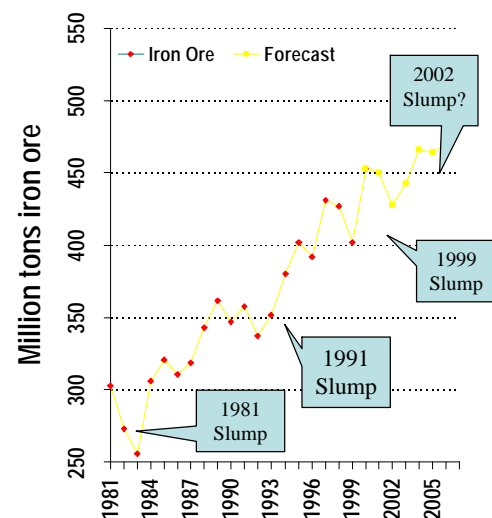


Figure 13 Iron ore trade & cycles

Much of this volatility originates in W.Europe and Japan, where the cycle in industrial output is very noticeable. The iron ore trade had an extraordinary year in 2000, increasing by 53 million tons or 13%. This was a bigger increase than the previous nine years. There was a spectacular upswing in 2000 as the steel mills were taken by surprise at the speed of the economic recovery.

Looking ahead it seems likely that there will be a correction over the next year and a significant fall in the ore trade in 2002.

5.1.2 The Coal Trade Prospects

Coal trade splits into steam coal for use in power stations and metallurgical coal for the steel industry. Steam coal has been growing very rapidly in the last two decades since the 1979 oil crisis when power stations in Europe and Asia switched from oil to coal as their primary fuel source (Figure 14). The trade has more than quadrupled from 74 mt in 1980 to 312 mt in 2000, with Europe accounting for 32% of imports, Japan 23%, and other Asia 31%.

Today the main driving force behind the growth of steam coal is the electricity industry in Asia. In the last eight years Asian imports have doubled from 91 mt in 1992 to 176 mt in 2000, generating about 14 m dwt of demand for bulk carriers. South Korea and Taiwan are the biggest importers, with smaller projects in India, Thailand, Malaysia and the Philippines. Despite the recent problems over coal prices we expect further growth of this trade to 395 mt by 2007. Although this trade is less volatile than iron ore, the forecast includes a moderate slowdown in 2002/3, reflecting weaker economic conditions.

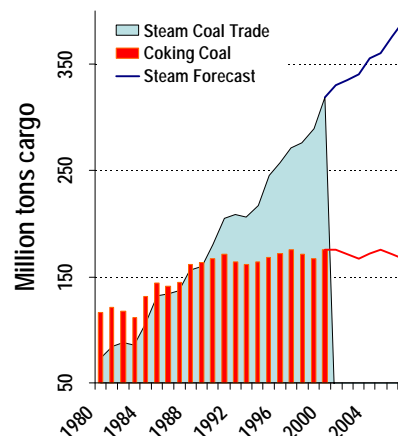


Figure 14 Steam and coking coal trade

The coking coal trade has not grown over the last decade, as can be seen from Figure 14. For most of the decade the trade has been static at around 175 mt, of which 50 mt (28%) was into W. Europe, 68 mt (39%) was into Japan and the remaining 31% into S. Korea, India, Taiwan and Brazil. European and Japanese imports have not increased during the 1990s and even S. Korea has not increased its imports significantly. We expect the trade to remain at the present level.

Combining these trends, by 2007 the coal trade will have reached 562 million tons, making it easily the biggest dry bulk cargo commodity trade. In the shorter term we expect growth of about 5% in 2001 but only 2% in 2002.

5.1.3 Grain Trade Prospects;

Grain accounts for 9% of total dry cargo. After a period of rapid growth in the 1970's, during the 1980's and 1990's the trade fluctuated around 200 million tonnes pa. Figure 15 shows that there were some significant changes in the regional structure of imports. The most important was the cut back in imports by

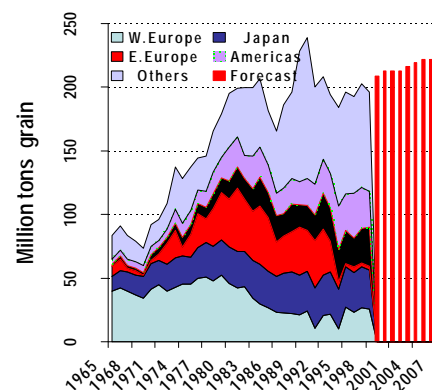


Figure 15 The grain trade & forecast

E. Europe at the beginning of the 1990s, following the break up of the Soviet Union. From a peak of 35 mt in 1992, imports fell to 15 mt in 1993 and stayed around this level.

Asian imports, which grew in the 1980s have been pretty static. China's imports peaked at 17mt in 1995, but recently have fallen below 5 mt. The main growth of trade has been into the Middle East, particularly Iran and Iraq, N. Africa, particularly Egypt, Algeria and Morocco and S. America where Brazil and Columbia have become active importers. The rapidly growing trade in Soya beans increased from 27mt in 1990 to 49 million tonnes in 2000.

The grain trades depends on harvests and weather patterns, so significant changes in trade patterns are possible in over the next few years. The forecast in Figure 15 shows the trade edging up to 235 mt in 2007, though I am not keen to be specific about precisely which countries will import more grain.

5.1.4 Minor Bulk Trades;

There is a wide range of minor bulk commodities traded, as shown in Figure 16 opposite. These include agri-bulks (Soya meal, rice, sugar, fertilisers), which totalled 160 million tonnes in 1999; metal industry related bulks (manganese, coke, scrap, and steel products), which accounted for 260 million tonnes of trade in 1999 and cement and forest products. Although this is a very diversified trade, it has not shown a great deal of growth in the 1990's. The two biggest trades, steel products and forest products, both around 160 million tonnes, were static.

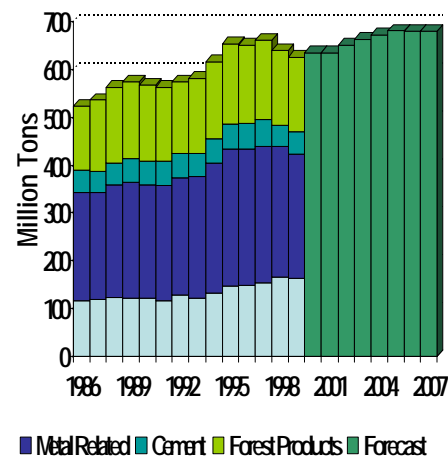


Figure 16 The minor bulk trades

Looking ahead we forecast a modest increase from 626 mt in 1999 to 679 mt in 2007. This slow growth reflects the ad hoc nature of some of the major trades such as cement or steel products and the trend to refine products before shipment. Many of these commodities are subject to intense competition from the container services.

5.1.5 Summary of bulk trade outlook

In the 1990s the dry bulk trade grew by 1.5% per annum from 1.5 bn tons to 1.76 bn tons. The forecasts discussed above suggest that this "slow growth" will continue and by 2007 bulk trade will have grown to 1.95 bn tons, an average annual rate of 1.5% per annum. Such slow growth will make the industry very vulnerable to cycles in demand. In the 1990s, annual growth rates ranged from -1% in 1998 to 6% in 1995. This

volatility was caused by the world business cycle, stock building, and economic shocks such as the Asia Crisis in 1997, the 1990 financial crisis and the Oil Crisis in 1979.

5.2 Bulk Carrier demand

To meet the forecast trade growth the bulk carrier fleet will need to grow by about 25 m dwt of bulk carriers by 2007. That works out at only 3.6 million dwt each year, as shown in Table 1. In individual years the experience of the 1990s tells us that the change in demand could vary from -11 m dwt to +13 m dwt, reflecting the volatility of the business cycle and economic shocks.

Table 1 Long term analysis of the annual growth of the bulk fleet

Bulk Carrier Fleet Growth					
End	Fleet	Combos	Layup	Active Fleet	Increase
	M dwt	M dwt	M dwt	M dwt	M. dwt/pa
1970	63.8	3.4	1.2	66.0	See note
1980	144.4	31.2	13.2	162.4	9.6
1990	211.2	14.3	2.5	223.0	6.1
2000	273.1	2.8	1.4	274.5	5.2
2007	296.0	3.8	0.0	299.8	3.6

Note: Col shows the average fleet increase p.a. in the preceding decade

This shows the annual increase in the bulk fleet. Note the declining trend

3.6 m dwt a year may seem rather a low requirement, but Table 1 shows that the growth rate of the bulk fleet has been slowing over the last three decades. The fleet grew by 9.6 m dwt pa in the 1970's, 6.1 million dwt pa in the 1980's but only 5.2 million dwt pa in the 1990's, demonstrating that there has been a declining trend in the additional tonnage of bulk carriers required to meet trade growth. To put it bluntly, this trade is now very mature.

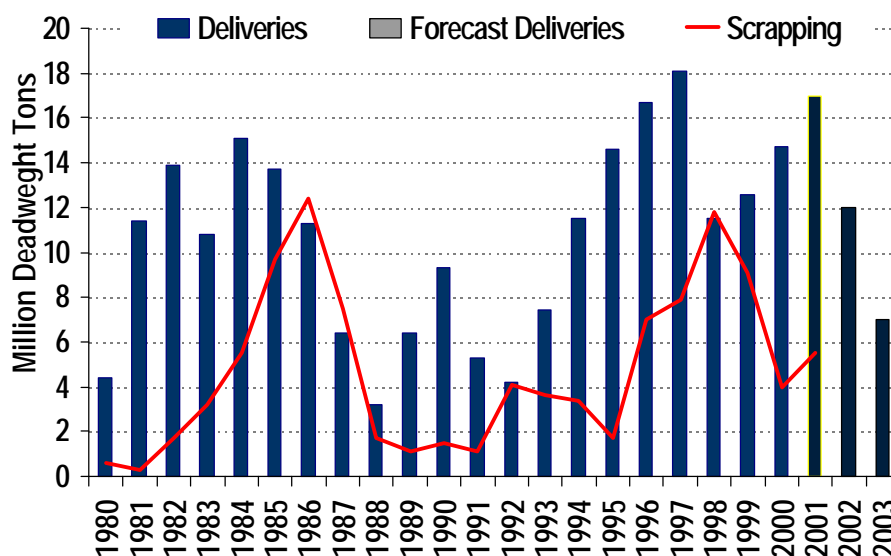


Figure 17 Bulk carrier scrapping, deliveries & orderbook

There will be an additional requirement for bulk carriers to replace old tonnage. My estimate, based on cyclical factors and the age profile of the

fleet, is that 68 m dwt of bulk carriers will be scrapped between 2000 and 2007, an average of 8.2 m dwt per annum. This is similar to the level experienced in the period 1995-9, when annual average scrapping was 7.6 m dwt per annum. Adding the replacement requirement of 8.2 m dwt pa to the 3.6 m dwt pa to meet growth gives an average annual requirement for 11.8 m dwt of new bulk carriers.

Future freight earnings and vessel prices will depend on how effectively the industry manages supply. In 1999 the bulk shipping industry has got off to a bad start, ordering 25 m dwt of bulk carriers, which is far more than are likely to be needed over the next two years,

Currently there is an orderbook of 17 m dwt of bulk carriers for delivery in 2001 and another 12 m dwt for 2002. The delivery profile is shown in Figure 17. As far as scrapping is concerned, this hit 9.1 m dwt in 1999, which is above trend. However in 2000 it has fallen to an annual rate of less than 5 m dwt, which is 40% below trend.

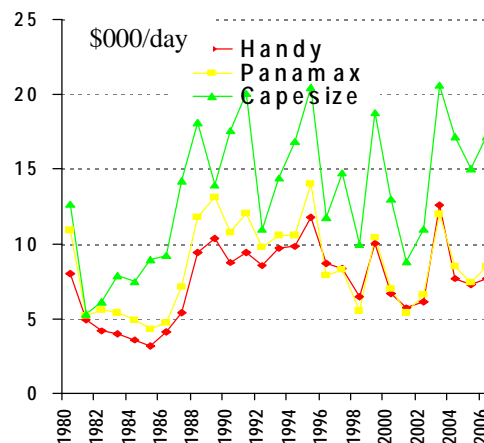


Figure 18 Bulk carrier rate forecast

Freight Rate Outlook

Pulling all this together, the outlook for the next two years is somewhere in the range “Dim” to Grim”. Demand looks unlikely to grow significantly, but 30 m dwt of ships will be delivered. This combination usually results in lower freight rates to stimulate scrapping so my guess is that we will see a slump in earnings. Just how severe this slump is depends on the world economy and how soon scrapping starts, but the sort of scenario which might develop is illustrated in Figure 18.

6. The Containership Market

6.1 Introduction

The container ship business is very different from the two other segments of the shipping industry discussed in this paper. Unlike the tanker and bulk carrier business, containerships operate in structured services working to schedules. However it is now 30 years since the business started and it has become a mature industry. In particular there is now a sizable charter market for containerships and most of the major liner operators prefer to charter a large

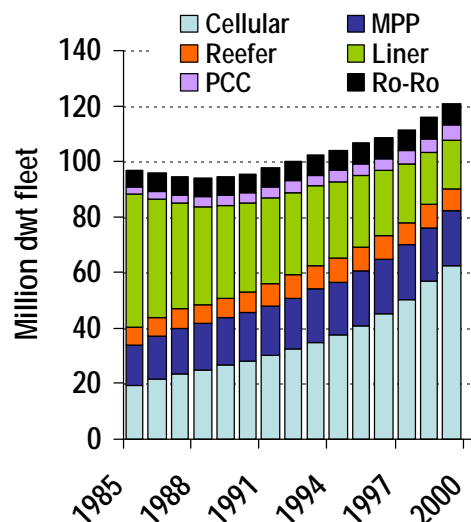


Figure 19 The liner fleet by type

proportion of their tonnage rather than owning it themselves.

As a result we can analyse the container business using the same supply and demand economics which we use in bulk shipping. However it is important to remember that there are still other types of General Cargo ships besides containerships. Figure 19 shows the main types of liner vessels during the period 1985 to 2000. The containerships now account for about half the fleet and continue to grow rapidly. However the total fleet is only growing at about two per cent per annum, and this provides a reminder that at some stage the headlong growth of the container business must slow to the pace of the total market.

6.2 Container trade and cargo movements

When we examine the regional distribution of container cargo, we find a surprisingly consistent pattern. During the six years from 1994 to 2000 container lifts grew by about 60 per cent. We see some interesting trends

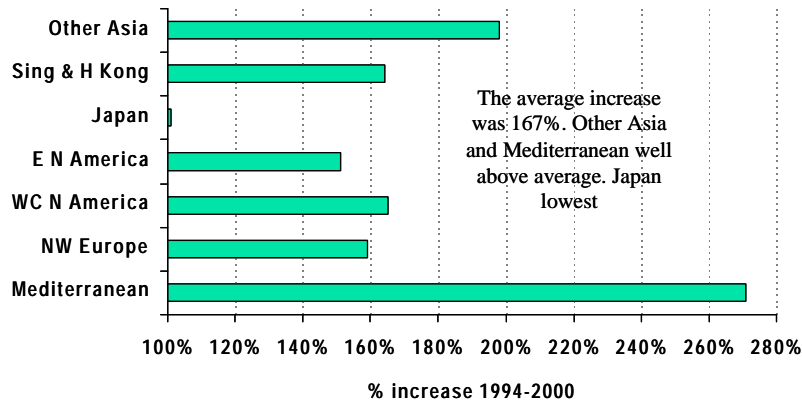


Figure 20 Growth of container lifts by region

- Other Asia's trade grew by a around 90 per cent, reflecting the opening up of the direct services to China and the Asian tiger countries.
- Singapore and Hong Kong both grew at 60 per cent, indicating that they are no longer widening their position as transit shipments centres
- Japan did not grow at all. This follows the exporting of Japan's cargo and manufacturing interests of two overseas locations in the 1980s.
- Overall Asian trade grew by 60 per cent, which confirms that the global trend
- Atlantic trade also grew by a around 60 per cent.
- That most rapidly growing area was the Mediterranean, which grew by 270 per cent .

These figures confirm that the world has now become a relatively homogeneous in terms of container growth.

The last two years saw exceptionally rapid growth of container lifts, which increased by 9% in 1999 and 10% in 2000. Even by the standards of the containership business this was exceptionally rapid growth (see Figure 21). Generally the growth rate has been 6-8%. It is always difficult to predict future growth, but our forecast suggests that container lifts will grow by only 5% in 2001 and possibly as little as 4% in 2002. The rationale is that with all the major economic regions moving into recession together, that will be less scope to prop up ailing economies by exports to more buoyant parts of the world. This was an important contributory factor in supporting container volume in 1999 as the depressed Asian economy is exported their way out of recession.

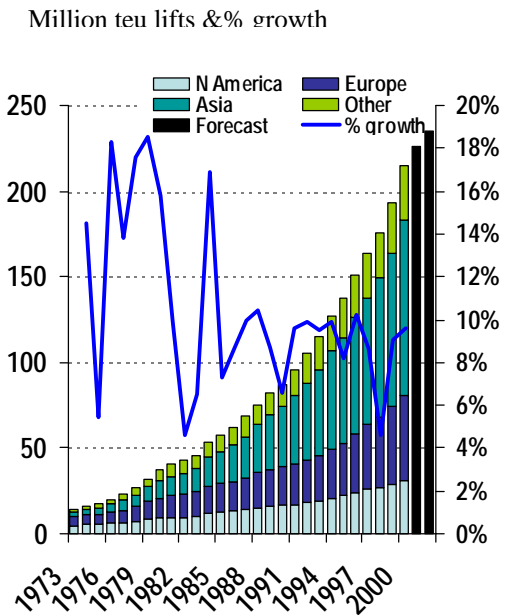


Figure 21 Container lifts by region

6.3 Container Supply

On at the supply side of the market, the last two years were a period of exceptional investment, even by the standards of the liner industry. In 1999 container investors ordered 600,000 TEU of new ships, and followed this with a orders for 1 million TEU in 2000. Figure 22, which shows trends in containership deliveries and orders since 1980, confirms that this was two years of exceptional ordering.

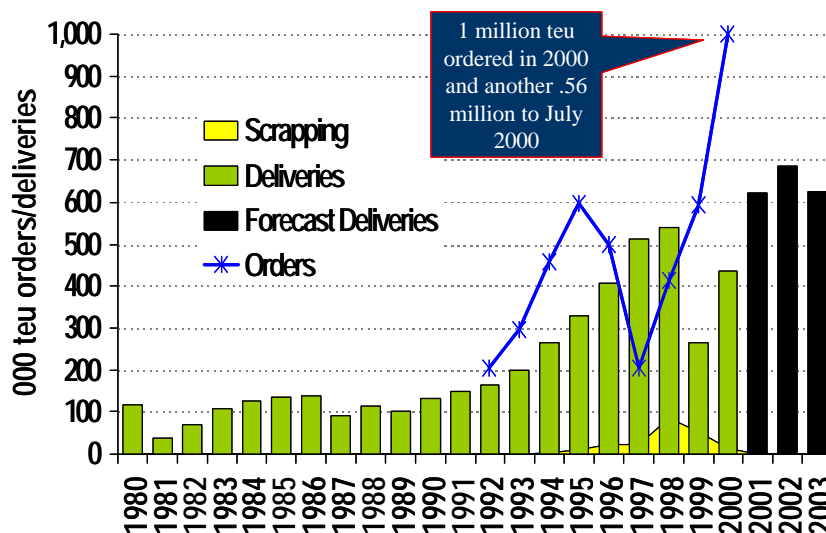


Figure 22 Containership orders, deliveries & scrapping

Projected deliveries, also shown in Figure 22, suggest that approximately 600,000 TEU of containership capacity will be delivered in each of the

next three years. This means that 1.8 million TEU of capacity will be added to the fleet, which will reach 6 million TEU in January 2003 and 6.6

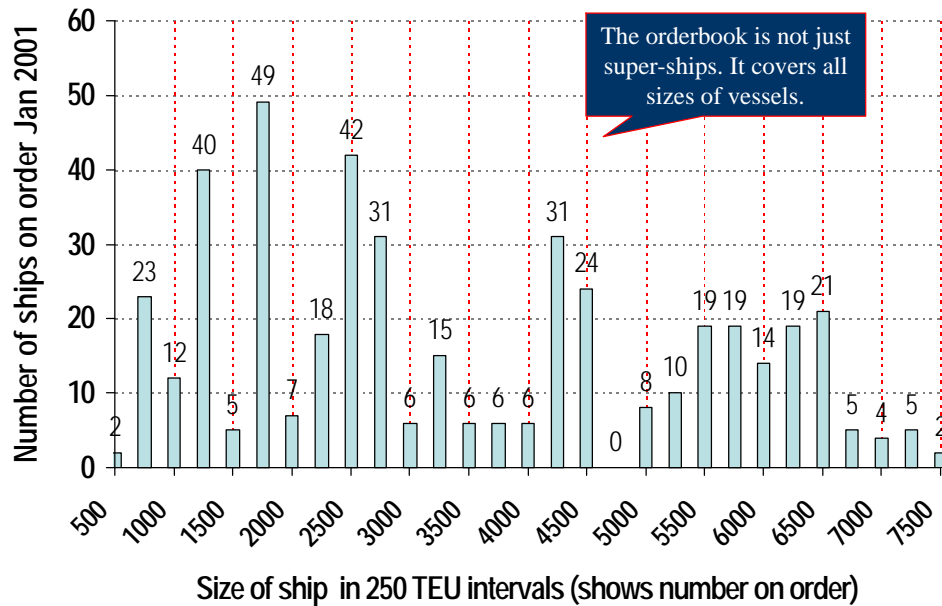


Figure 23 The containership orderbook by size of vessel

million TEU in January 2004, a 30% increase in just over two years. This is an impossible target, and there is little prospect of demand matching this supply growth.

Although very large containerships over 3000 TEU account for approximately half of the orderbook, the size of the vessels on order of very widely spread. This can be seen in Figure 23 which shows the number of vessels in each size group on the orderbook. Vessel size ranges from 500 TEU to 7500 TEU. The most frequently ordered size category is the 1500-2000 TEU vessel group, of which there are 49 on order. Most of the "super ships" are in the range 5500 to 6500 TEU.

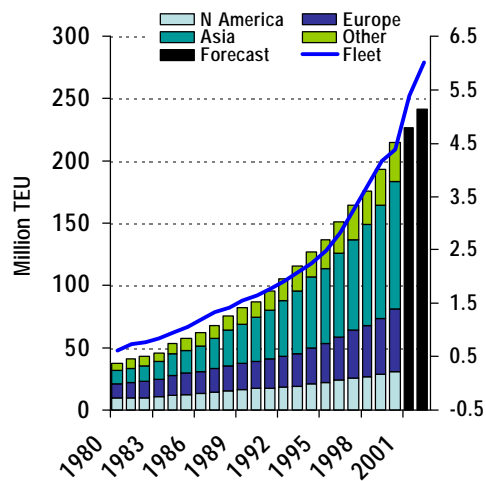


Figure 24 Containership fleet & container lifts

A perspective on the future supply demand balance is provided by Figure 24 which compares the projected growth of the containership fleet (the line) with the growth of demand (the bars). Our analysis suggests that a supply demand gap will open over the next 18 months. In these circumstances there is every prospect that containership Charter rates will fall sharply, as will ordering activity.

7. Summary & Conclusions

In conclusion, we face a difficult time in the tanker, bulk carrier and containership business. The world economic outlook was gloomy before the terrorist attacks on the United States on 11th September, and that particular event raises a whole host of additional problems. However from an economic viewpoint we are barely one-third of the way into an industrial recession, and in all probability it will be a year before we see evidence of the industrial growth needed to pull the market forward.

In the tanker sector the supply demand balance remains very tight. Although the weakening economic outlook suggests that a repetition of the high freight rates of 2000 is unlikely for at least the next couple of years, we can never be sure. With a heavy delivery schedule for tankers over the next two years, and owners reluctant to scrap their 1970s vessels until they are confident that there will be a tanker recession, the most likely outcome seems a weak but volatile market over the next year. A sort of stop-go market like the early 1990s in bulk.

The bulk carrier market has paid a heavy price for its investment boom in 1999. Despite record growth of Dry Bulk cargo last year the market remained relatively weak, and has already moved into recession. The order book will start to wind down over the next 12 months, which is positive news. However there seems every likelihood that bulk trade will decline during 2002, and this suggests that the sector faces a very difficult 12 month. The bottom line is "somewhere between dim and a dismal".

Finally the containership market ordered a million TEU in 2000, so the fleets will expand by 30% over the next two years. Even in a good market such a large increase would cause problems, but in the anticipated recessionary scenario there seems little hope. A dismal outlook, for the a time being at least.

Not a happy conclusion, but if you do not like a recessions, you should not be in shipping ! Remember the advice of the Greek writer Horace who said "adversity reveals genius, prosperity conceals it". So it is time to get that genie working!

Martin Stopford
MD Clarkson Research
e-mail mstopford@clarksons.co.uk
Tel +44 (0) 20 7334 3142