

The Impact of China on the Dry Bulk Market

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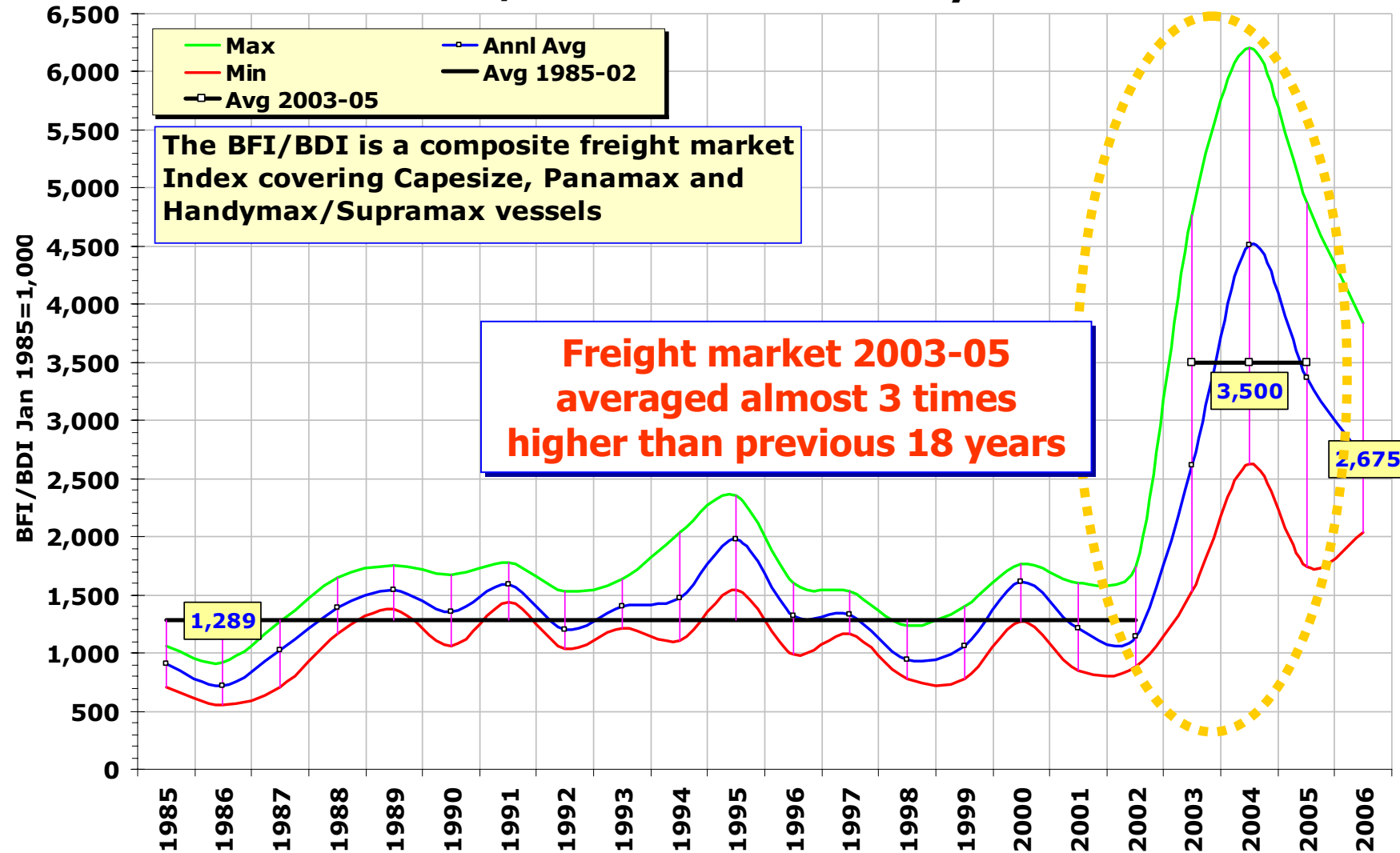
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Freight Market over past 20+ years

Source: Baltic Exchange

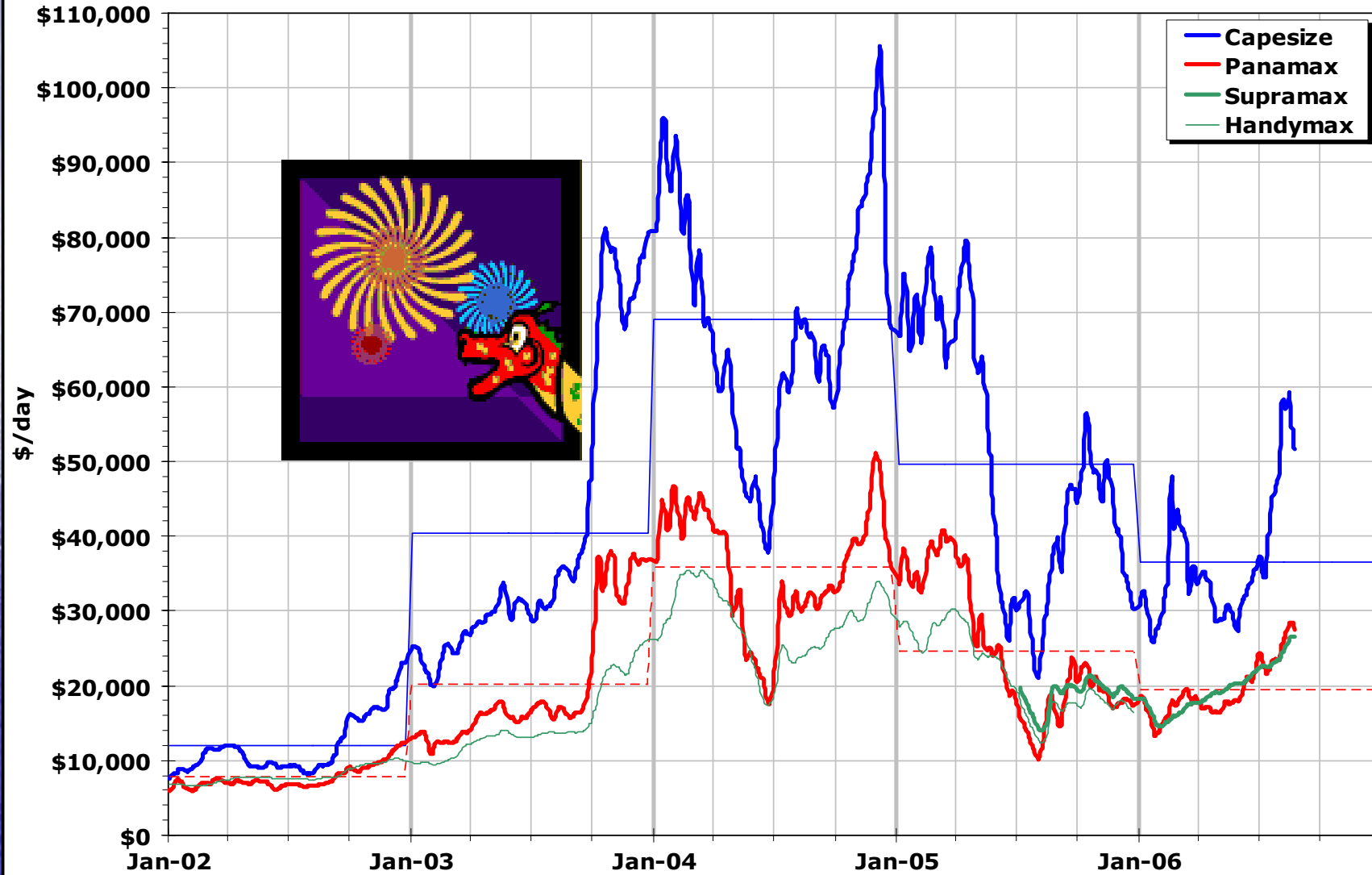
BFI/BDI Annual Summary



Market in 2006

Source: Baltic Exchange

Average Basket TC Rates



Market Characteristics Wet & Dry (1)

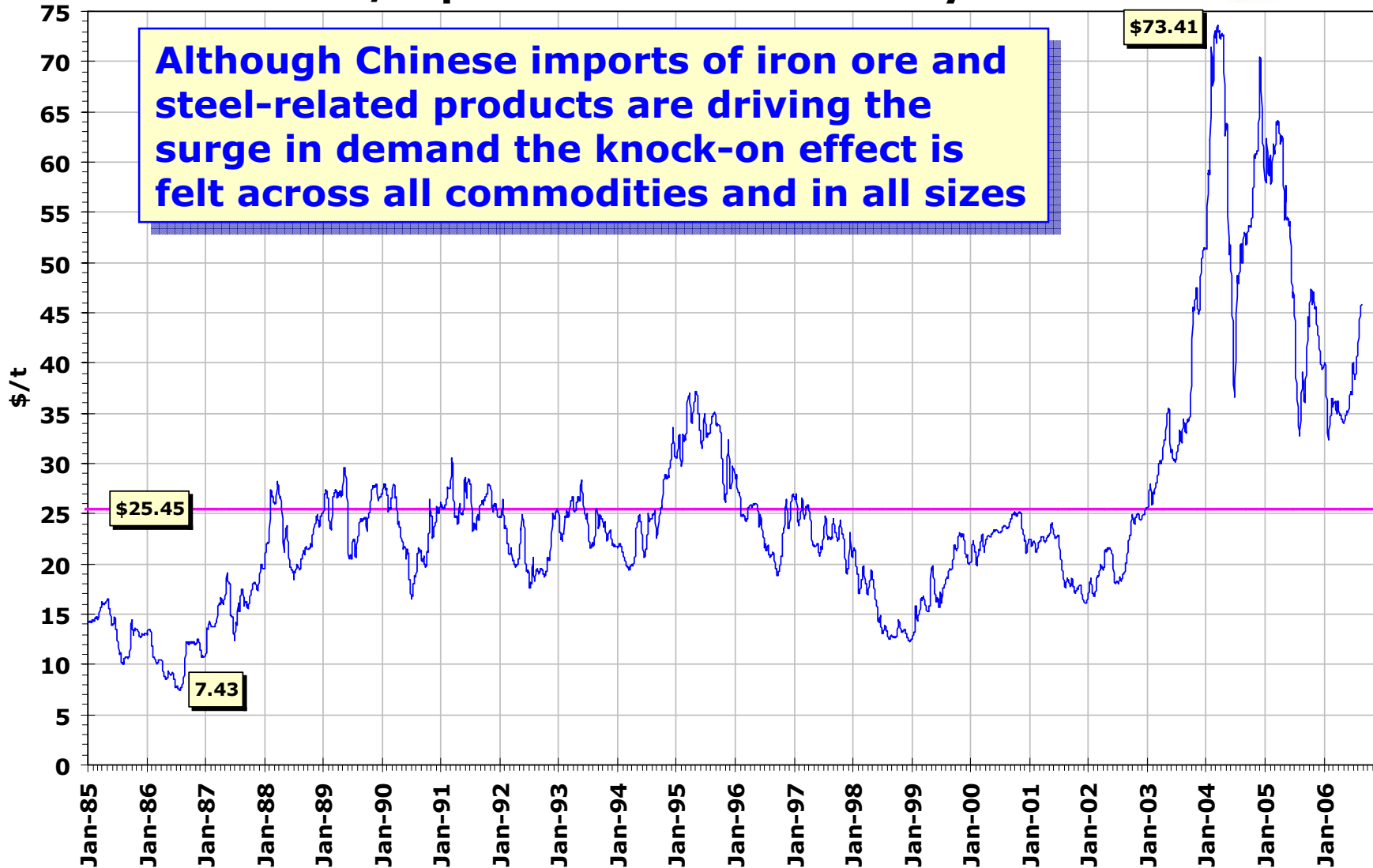
- Driven by:
 - **fleet supply**
 - Deliveries, scrappings, productivity, etc
 - **trade demand**
 - Trade growth/decline
 - Length of haul of laden voyage
 - **sentiment**
 - Volatile and wide ranging opinion but:
 - Group or “herd” mentality often evident

Market Characteristics Wet & Dry (2)

- **“Traditional” Freight Market Cycles**
 - *Perceived* as 7 years: typically 1-2 years of peak rates followed by ± 5 years of slump
 - In fact cycles of 5~11 years but no “law” that this will continue indefinitely and recent indications that “cycles” are becoming shorter
- **BUT**
 - 1,000s of participants so many “views” result
 - Innumerable demand variables
- **Conclusion**
 - **Analysis of the forward market by consideration of supply/demand factors plus sharp focus on market sentiment**

Source: Baltic Exchange

US Gulf/Japan Panamax Grain Daily from 1985



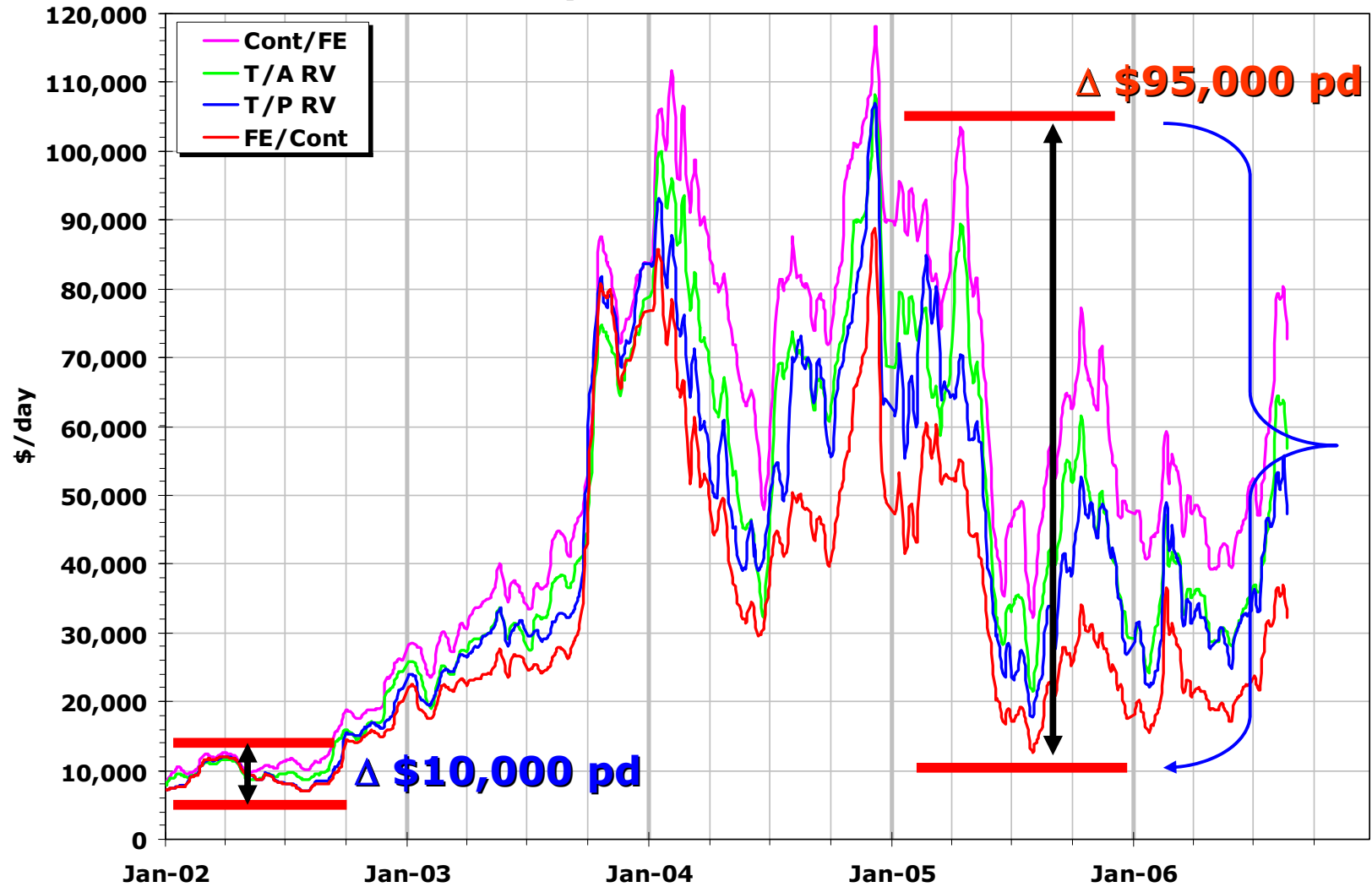
Freight Summary August 2006

- After a partial revival in 2H05 freight market eased downwards in 1Q06 despite some erratic jumps by Capesizes; since mid-2Q06 all rates have been firming steadily
- Demand has continued to expand (+2~4%) albeit not quite so rapidly as last year
- Fleet supply (+5~7%) is currently outpacing demand growth significantly (but rates rising)
- Some 70 MDwt added to the fleet over the past 5 years \cong 500 million tonnes of cargo
- Long-haul effects of iron ore trade (e.g., Brazil to F.East) compounding Cape demand

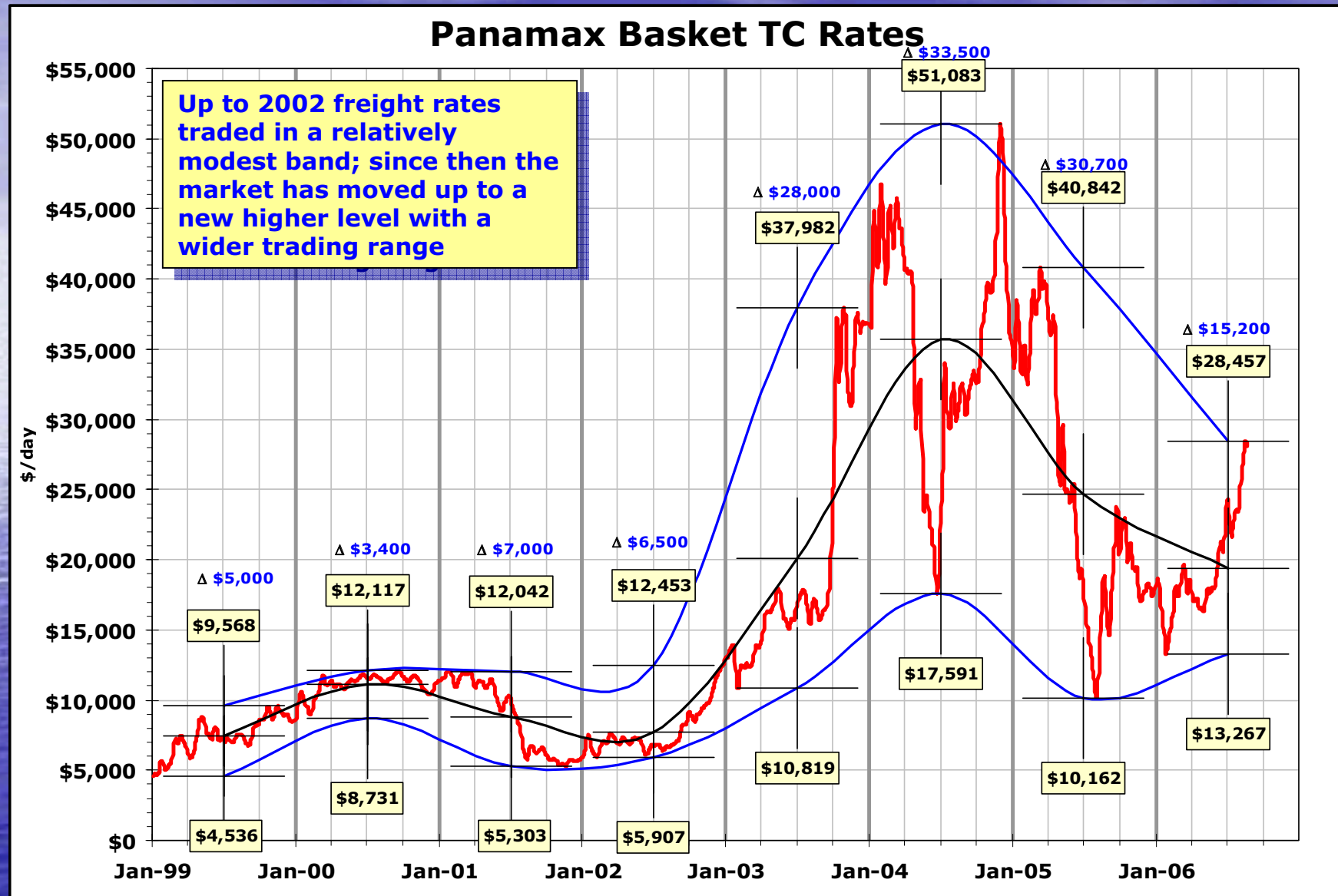
Increase in volatility over past four years

Source: Baltic Exchange

Capesize TC Rates



Same story for Panamax

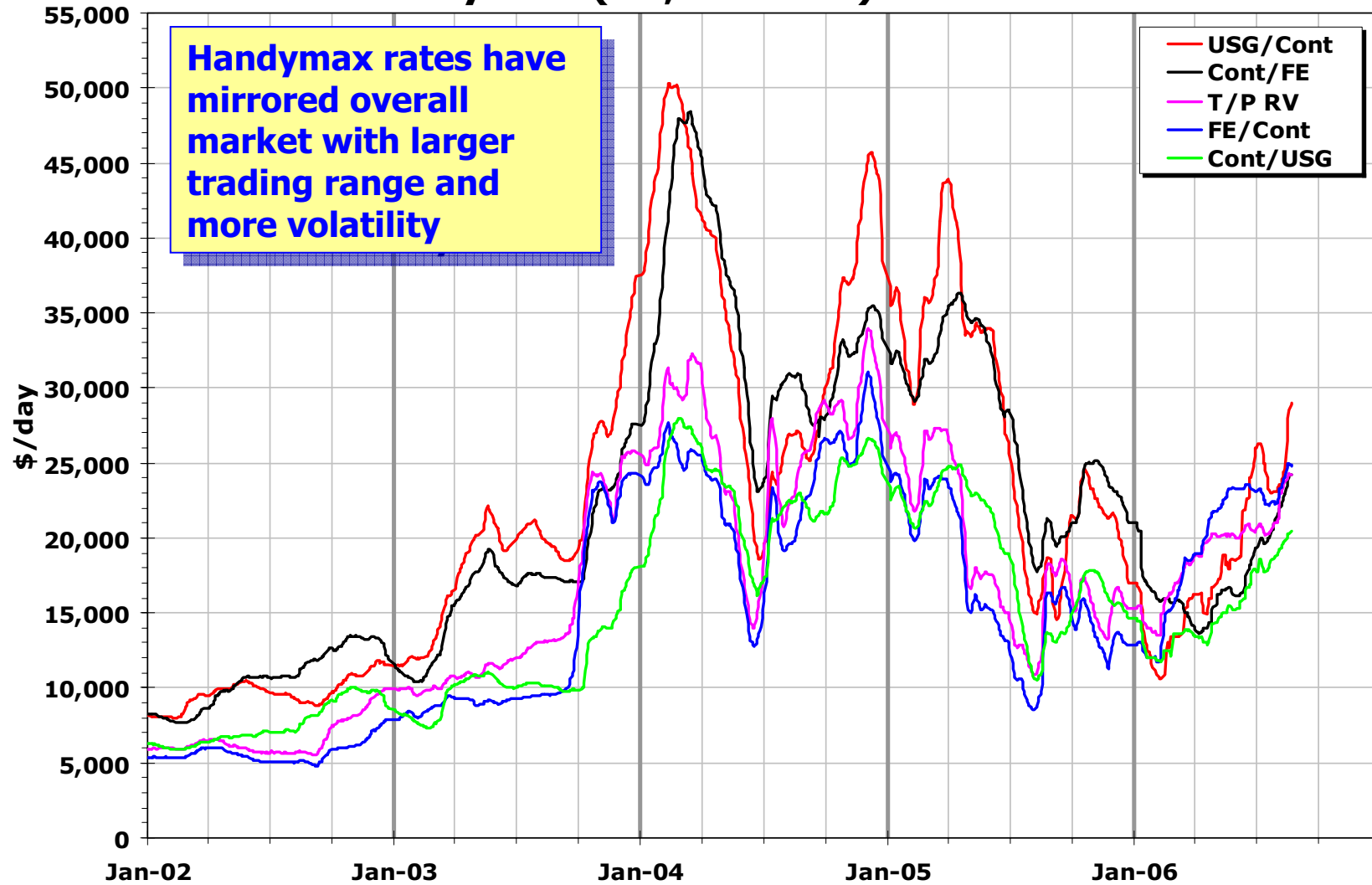


More volatility on Handymax as well



Source: Baltic Exchange / Galbraith's Ltd

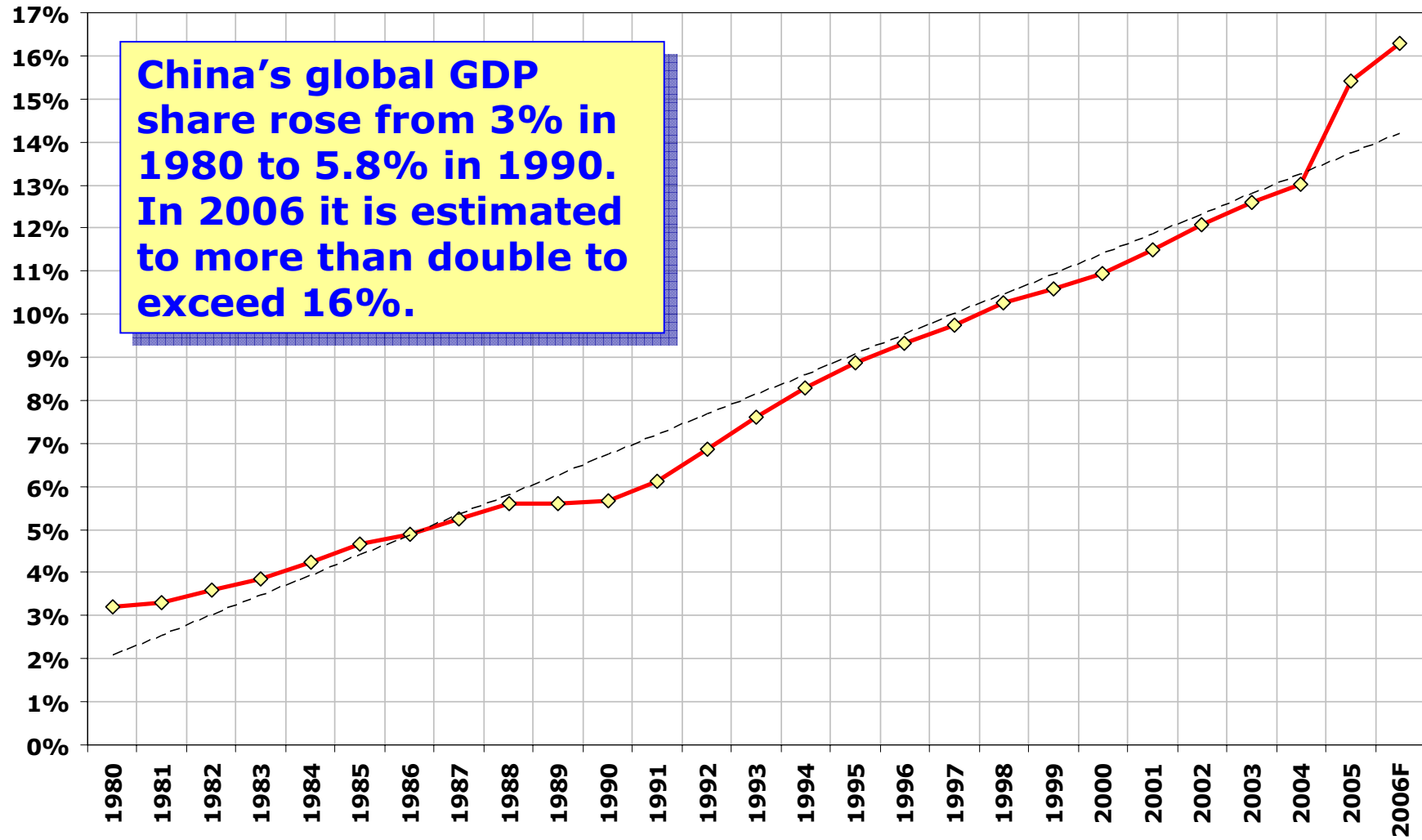
Handymax (45,500 Dwt) TC Rates



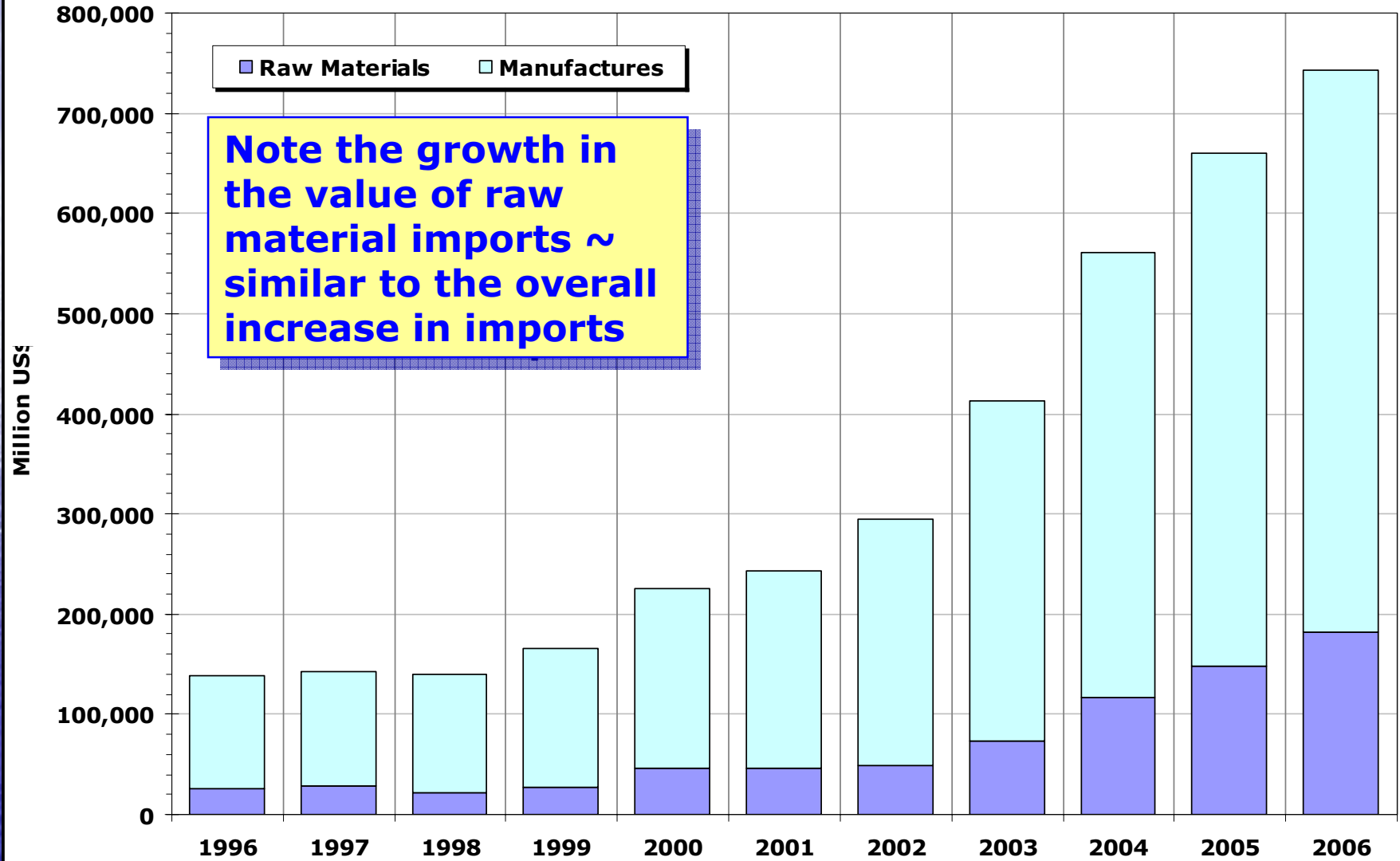
Economic Impact

China's GDP Share of World total

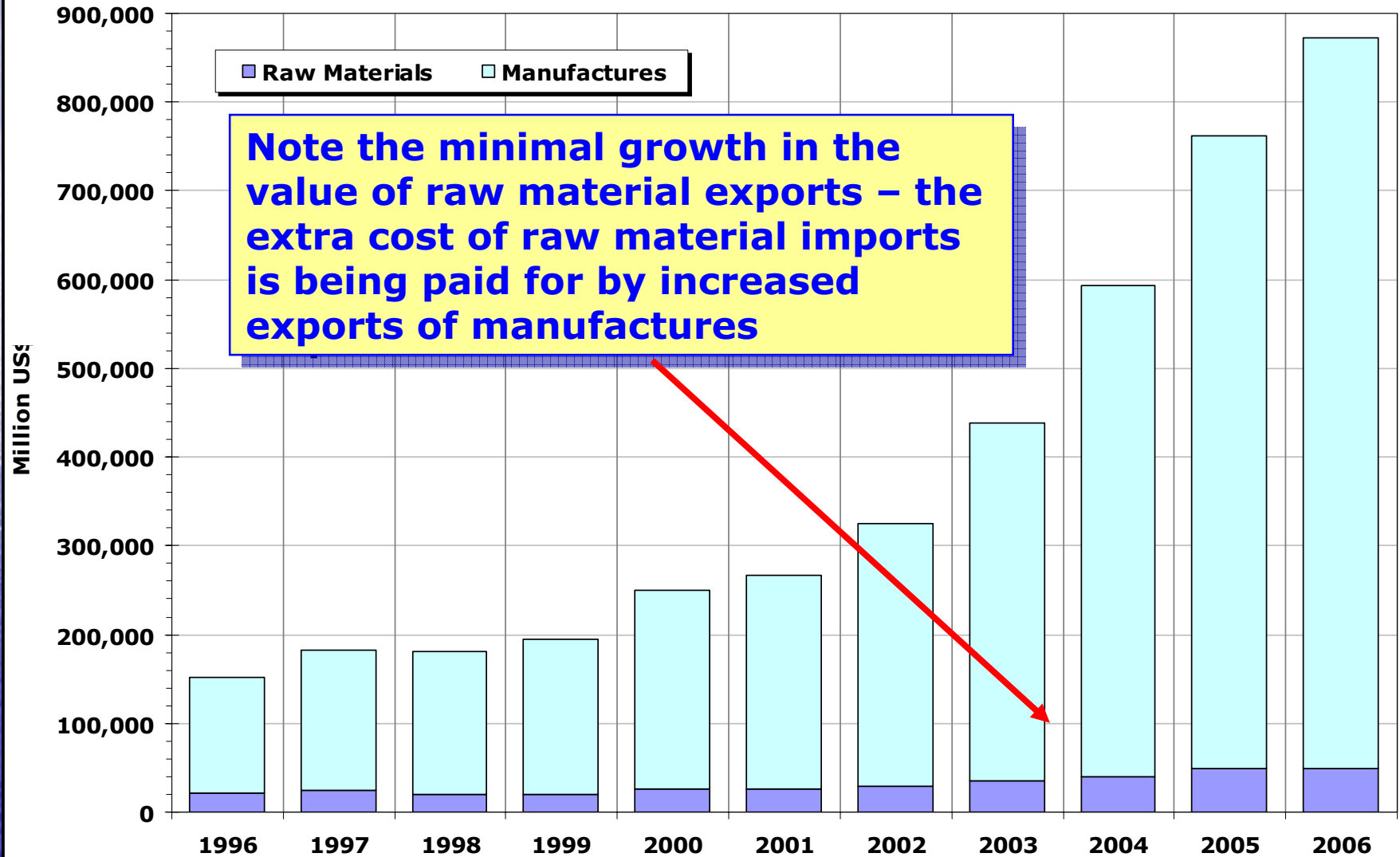
(Based on Purchasing Power Parity)



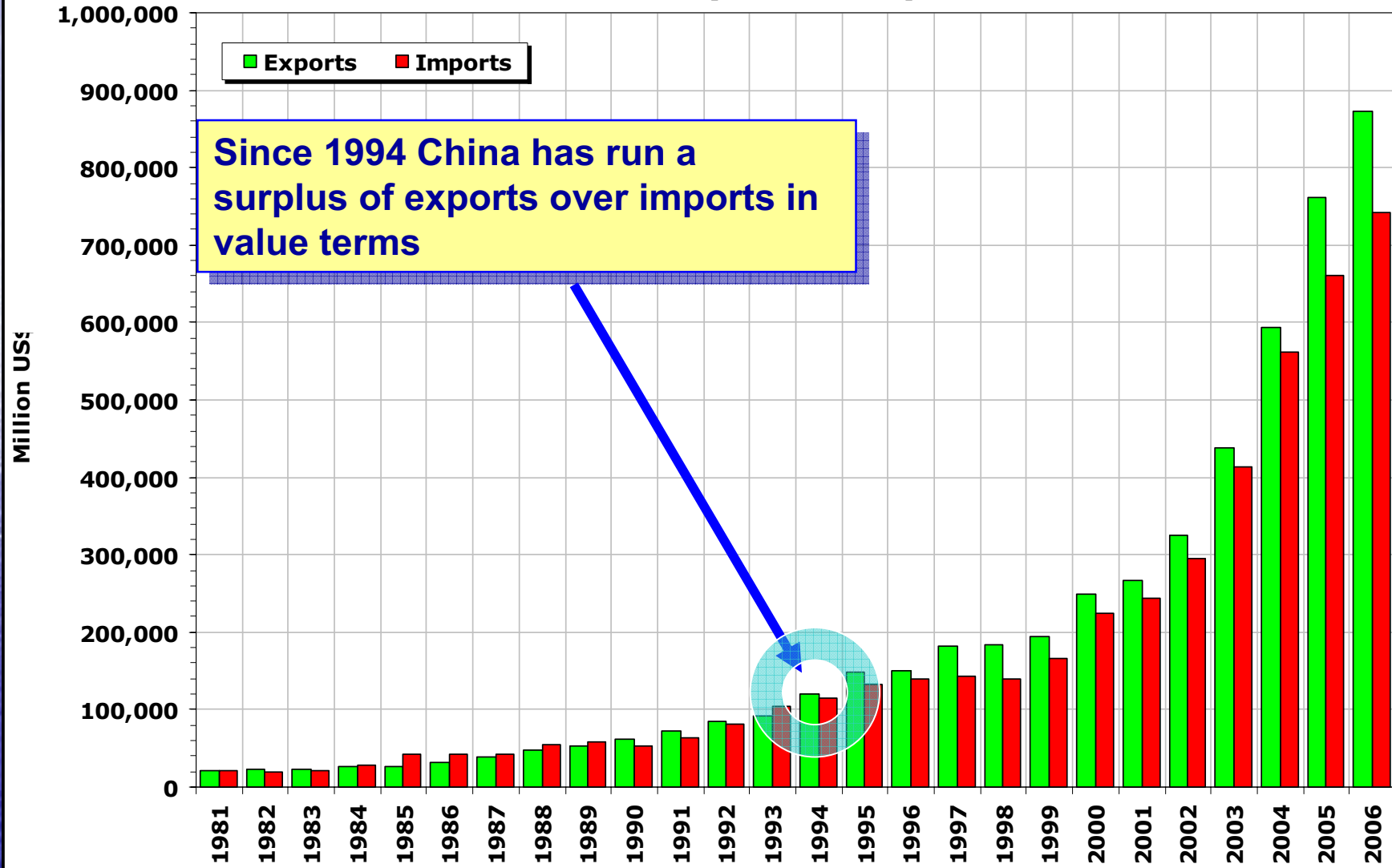
China Imports of Raw Materials and Manufactures



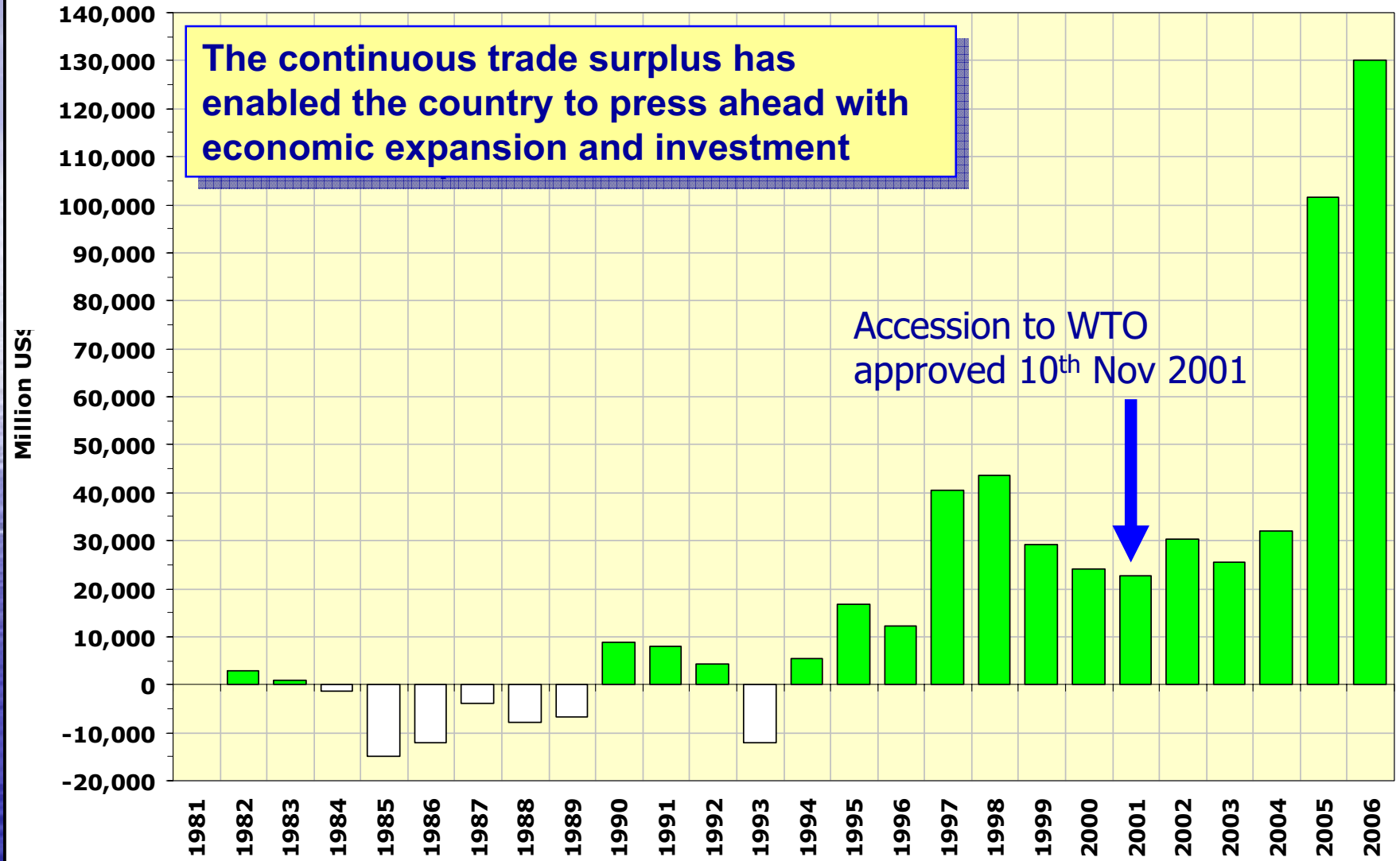
China Exports of Raw Materials and Manufactures



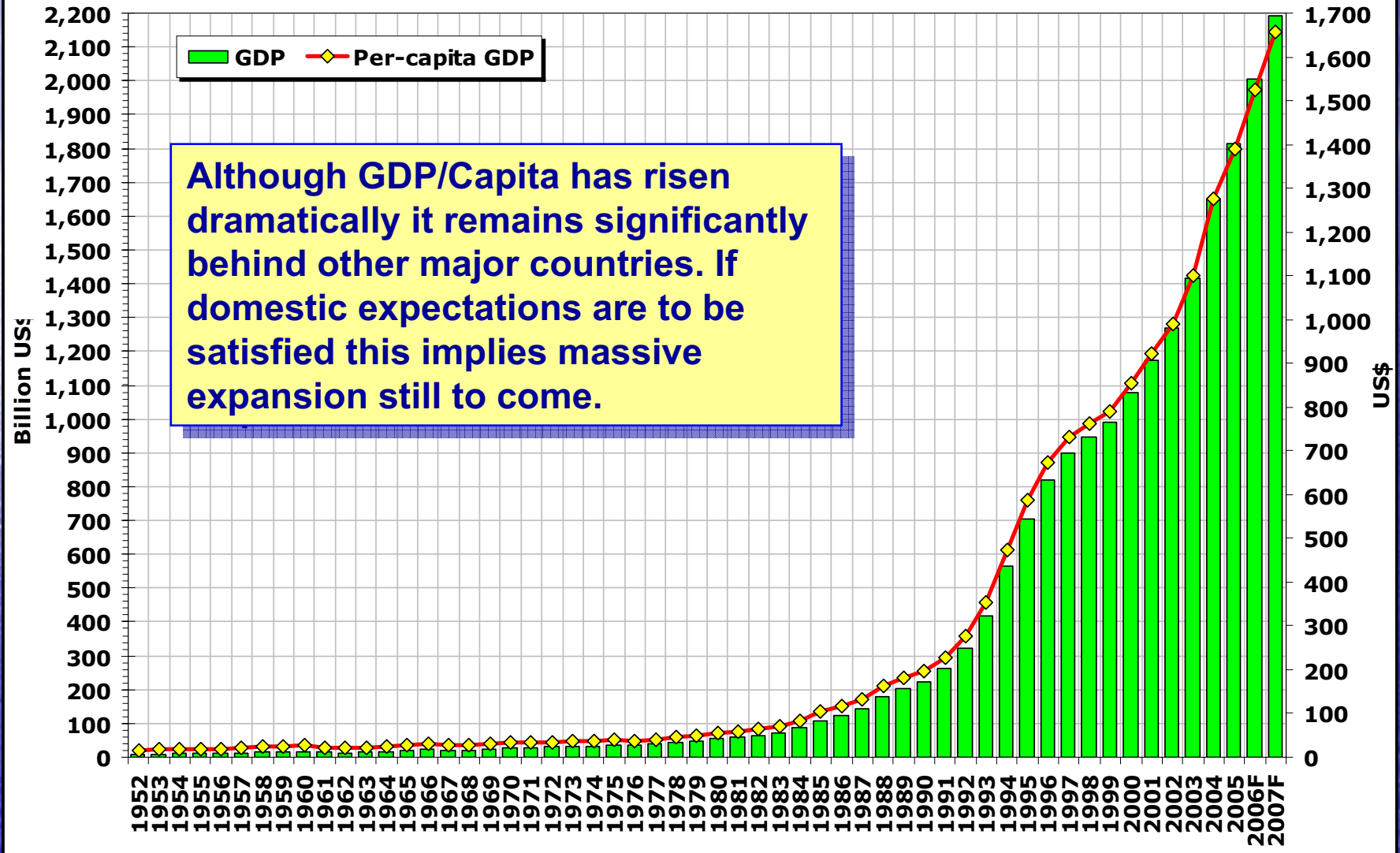
China Total Exports/Imports



China International Trade Balance



China's GDP/Per-capita GDP

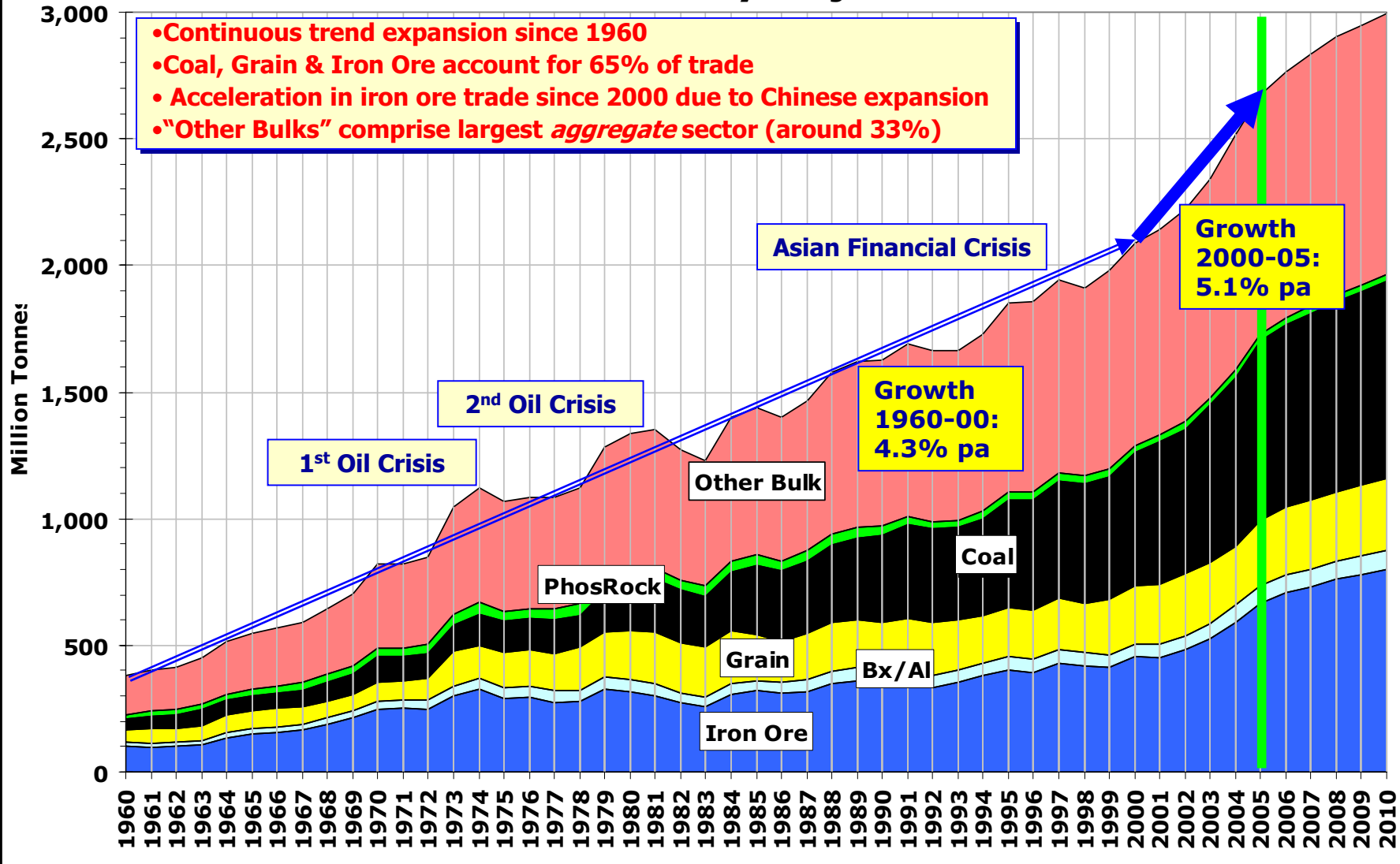


Dry Bulk Demand



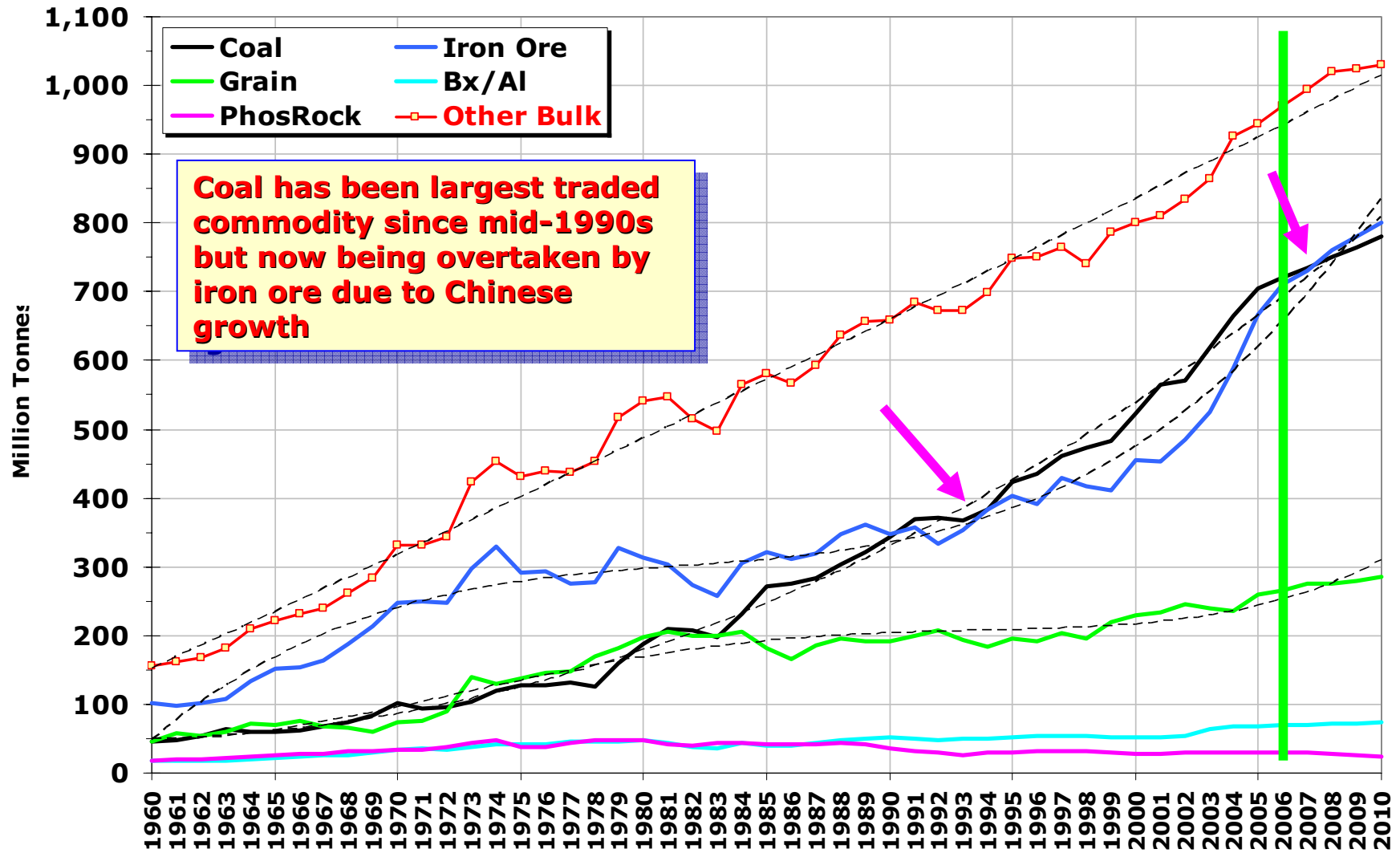
Accelerated trade growth since 2000

World Seaborne Trade by Major Commodities

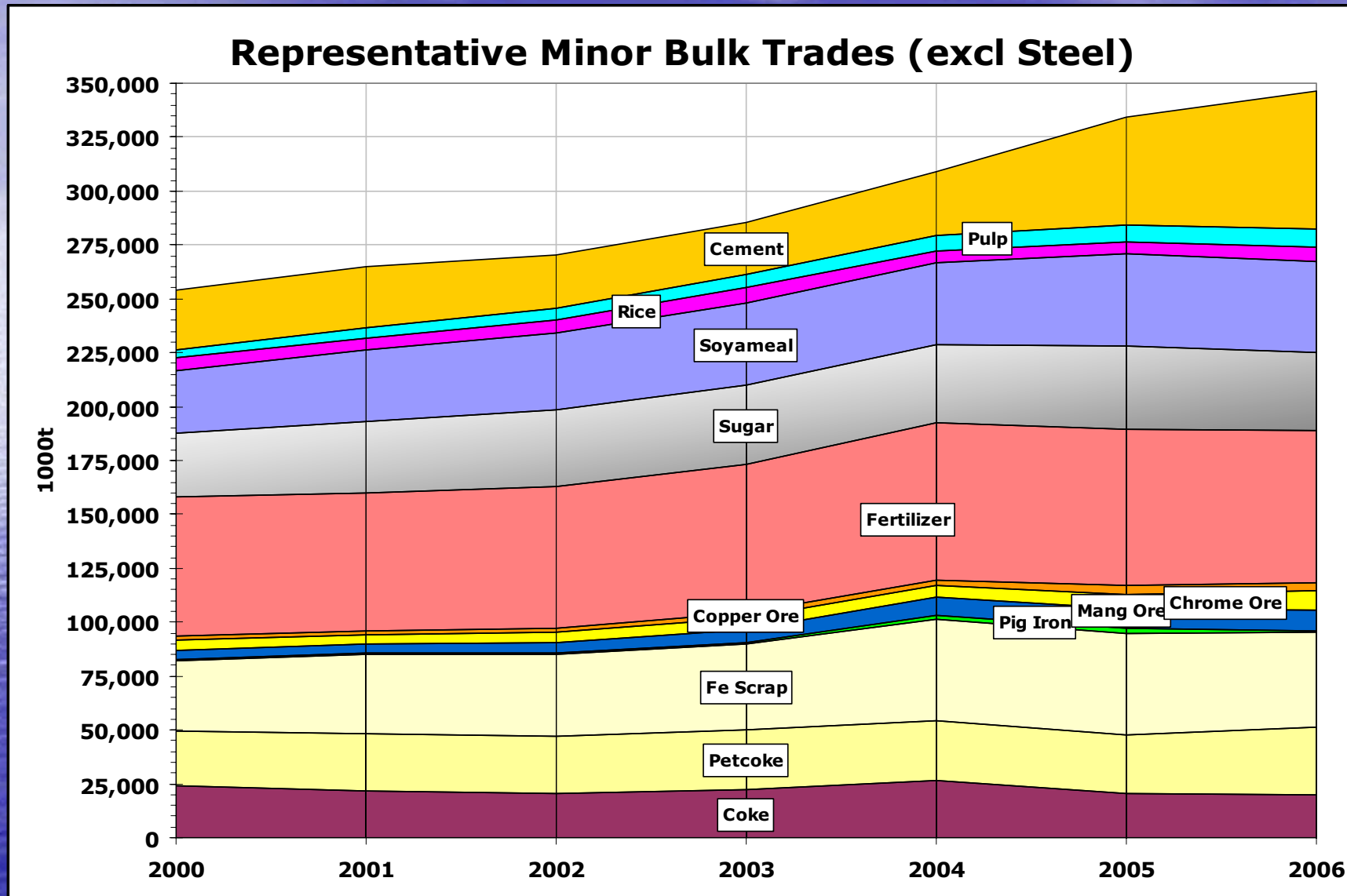


Future growth in iron ore, coal & minor bulks

World Seaborne Trade by Major Commodities



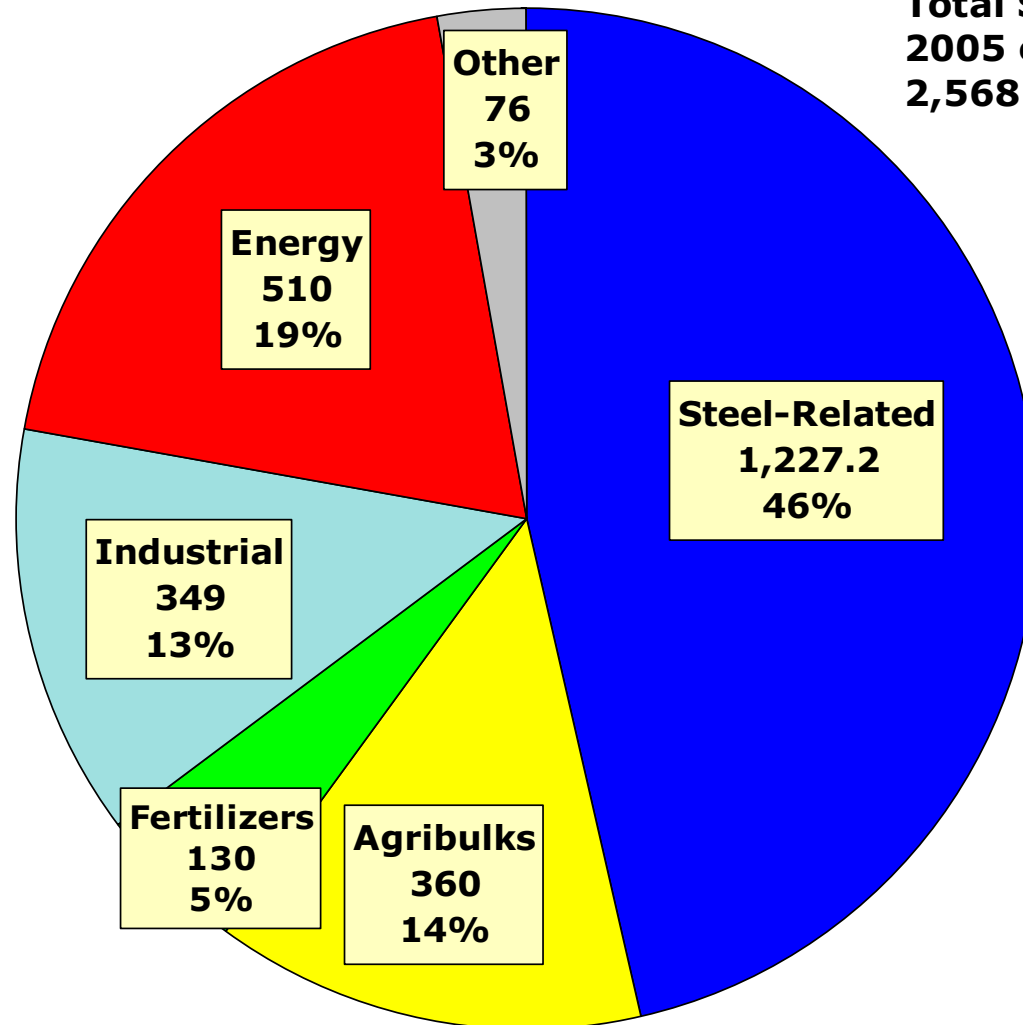
Representative Minor Bulk Trades (excl Steel)



Five main cargo types

Seaborne Trade 2005 Million tonnes (Mt)

Total Seaborne trade
2005 estimated at
2,568 Mt \pm 30Mt

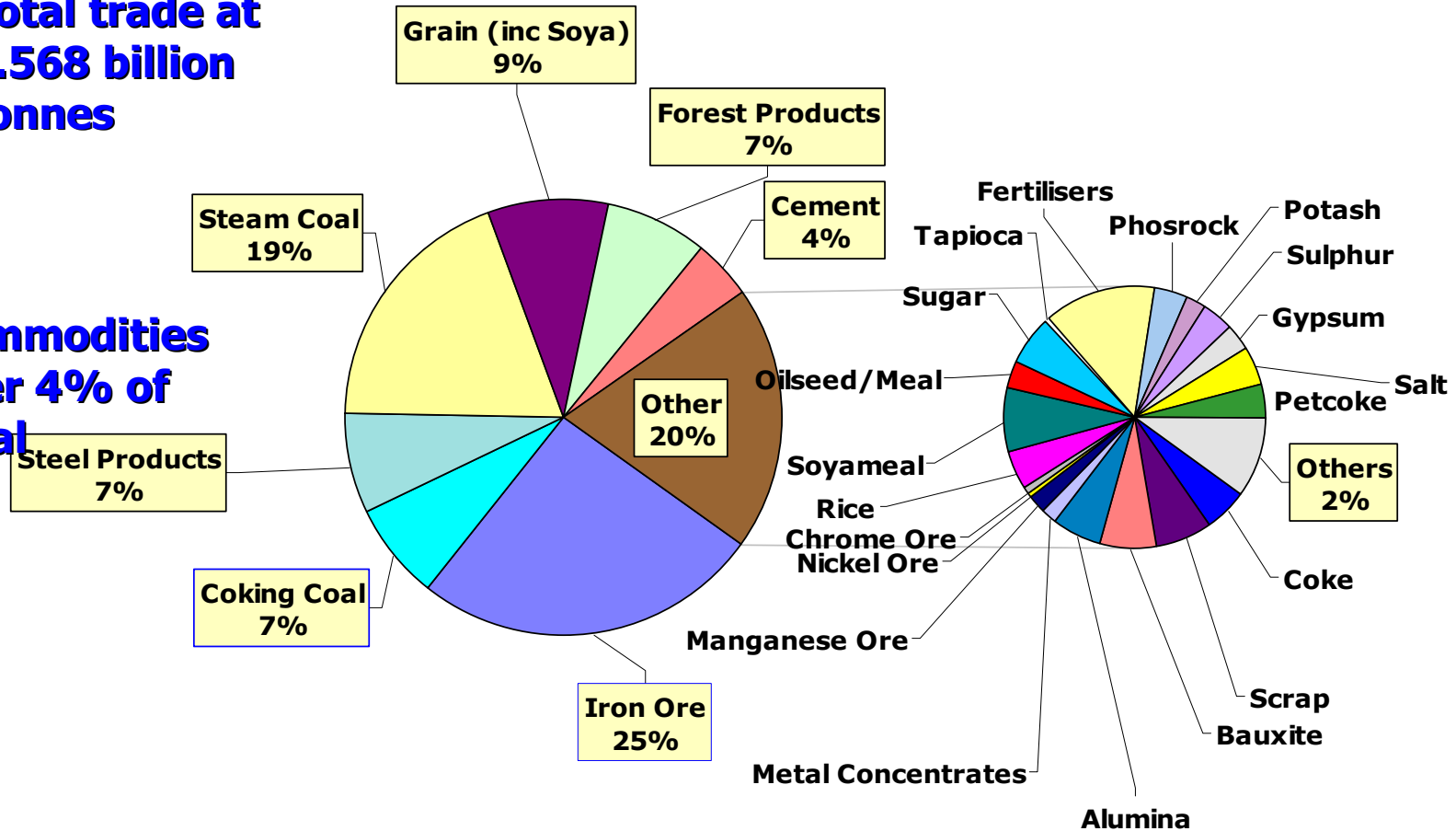


Seaborne Dry Bulk Trade ~ 2005

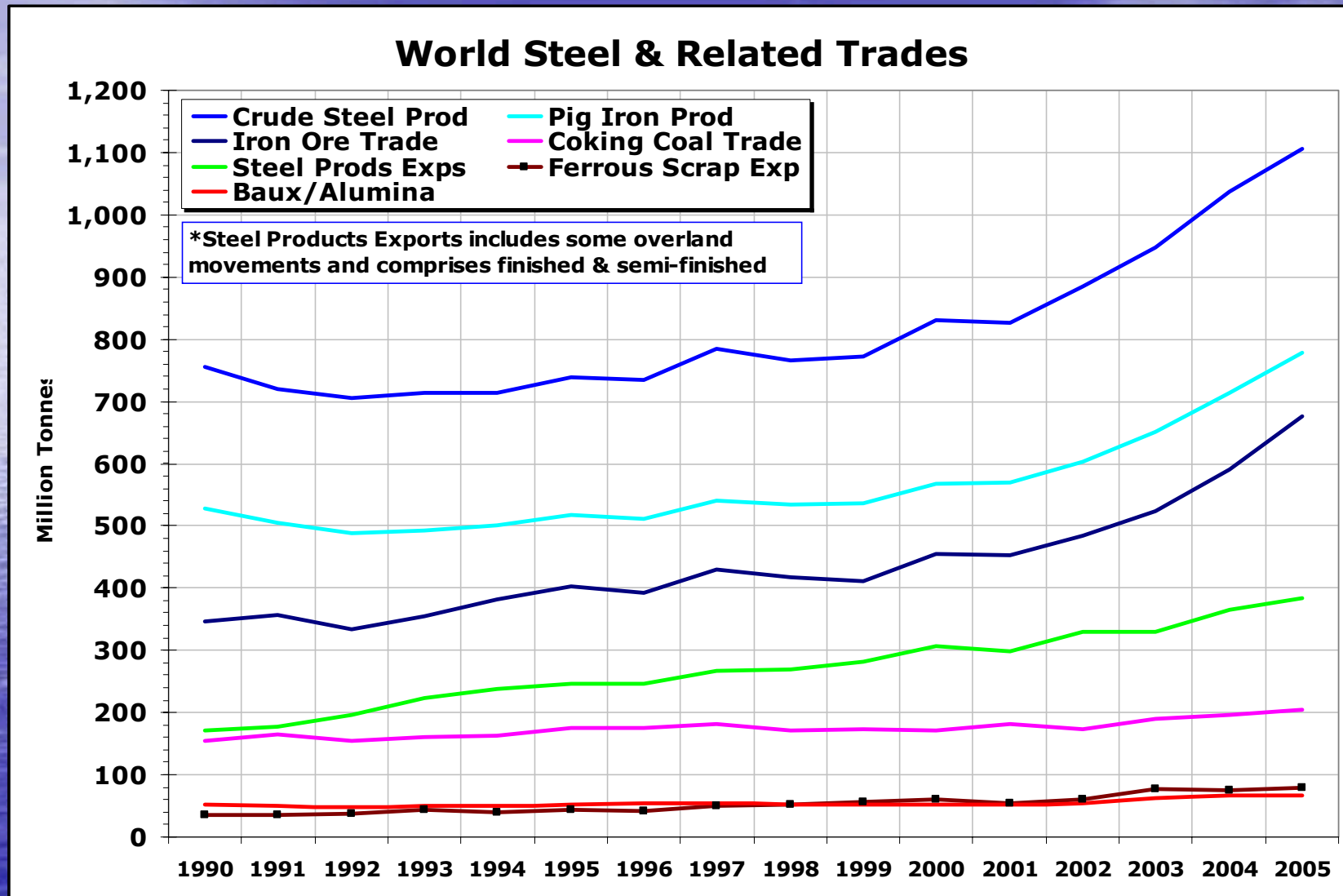
Total trade at 2.568 billion tonnes

Commodities over 4% of total

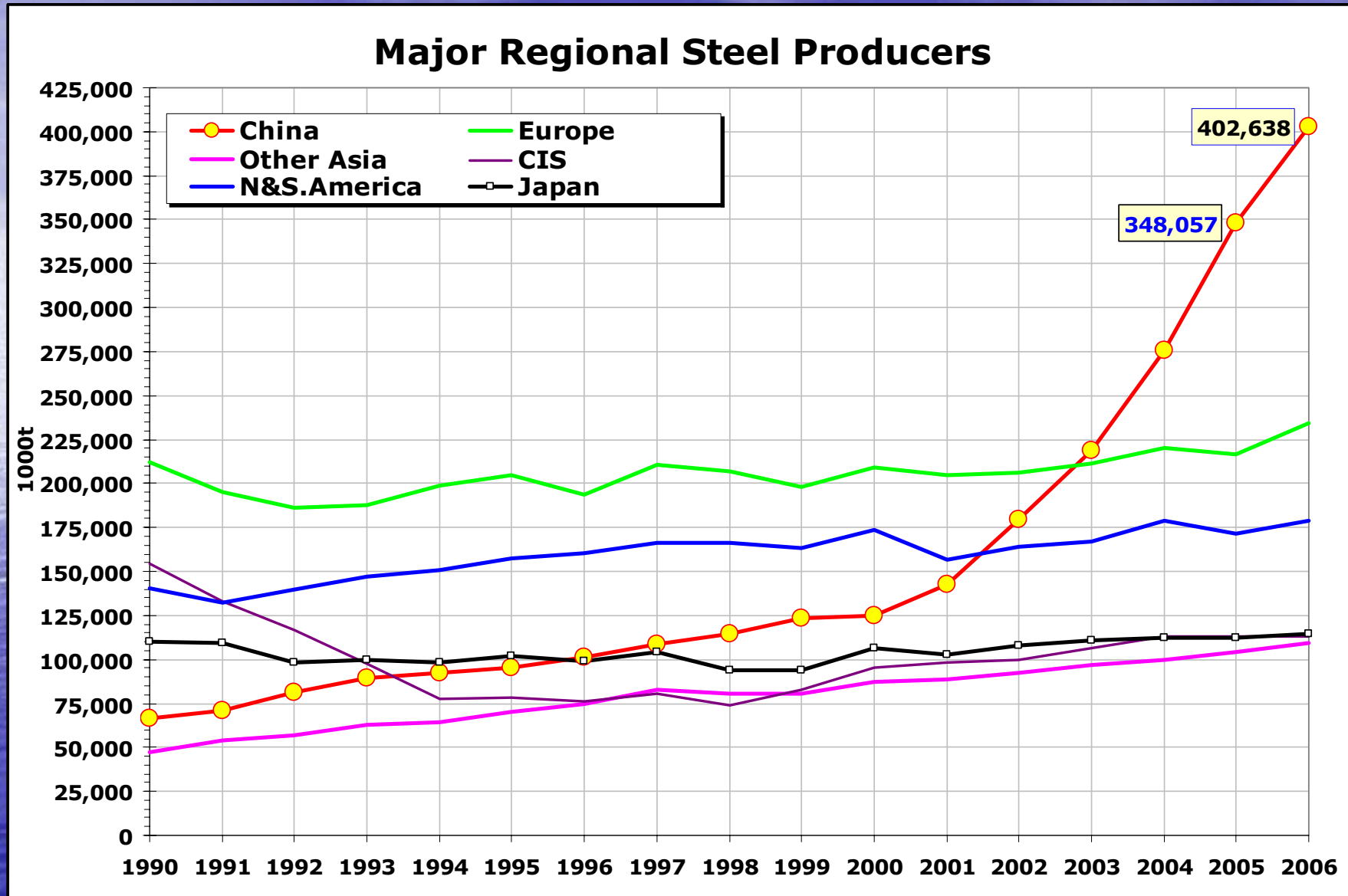
Just under half of all Dry Bulk Trade is related - either directly or indirectly - to the steel industry



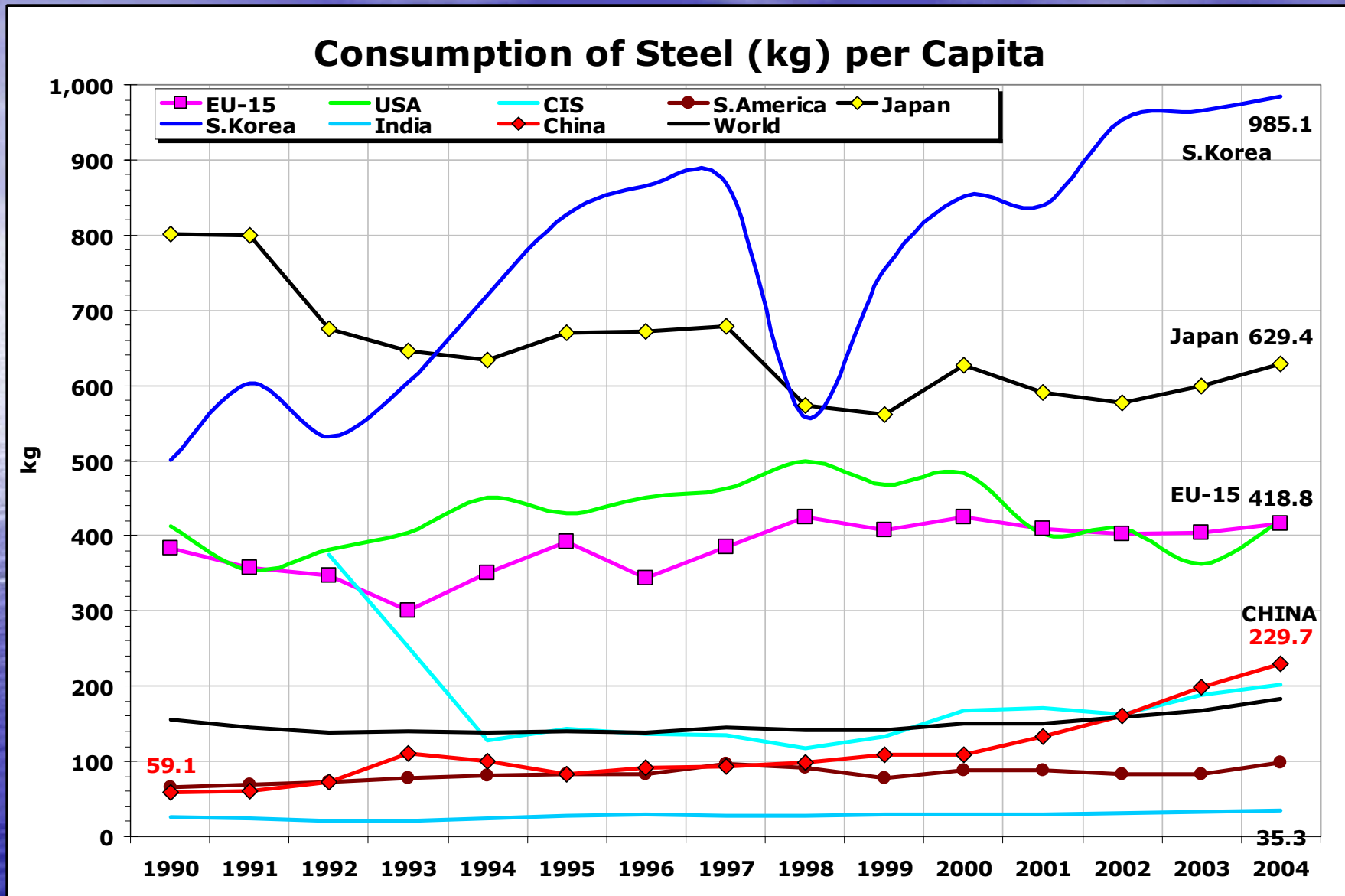
Many trades related to Steel Production



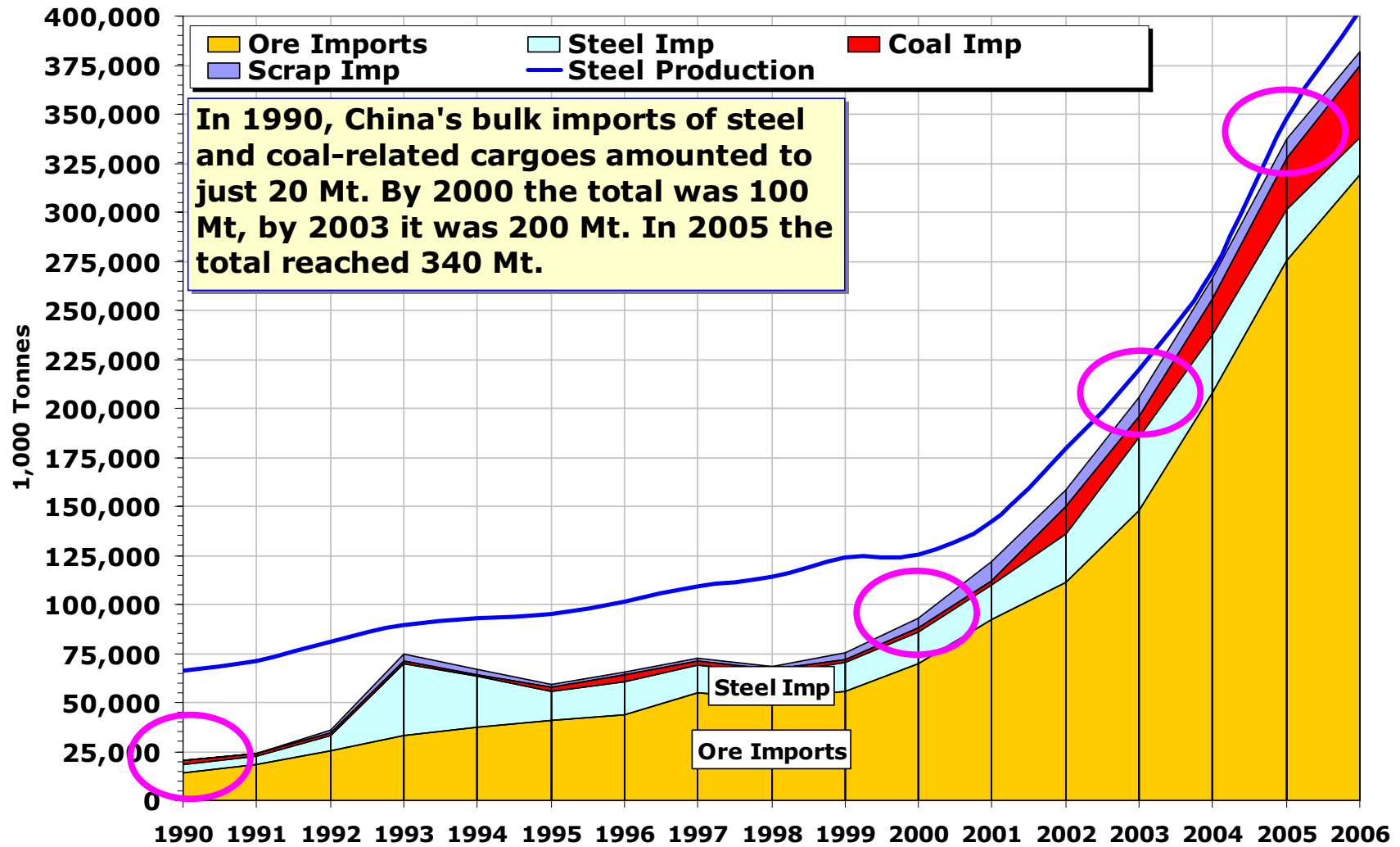
Besides China other regions have flat output



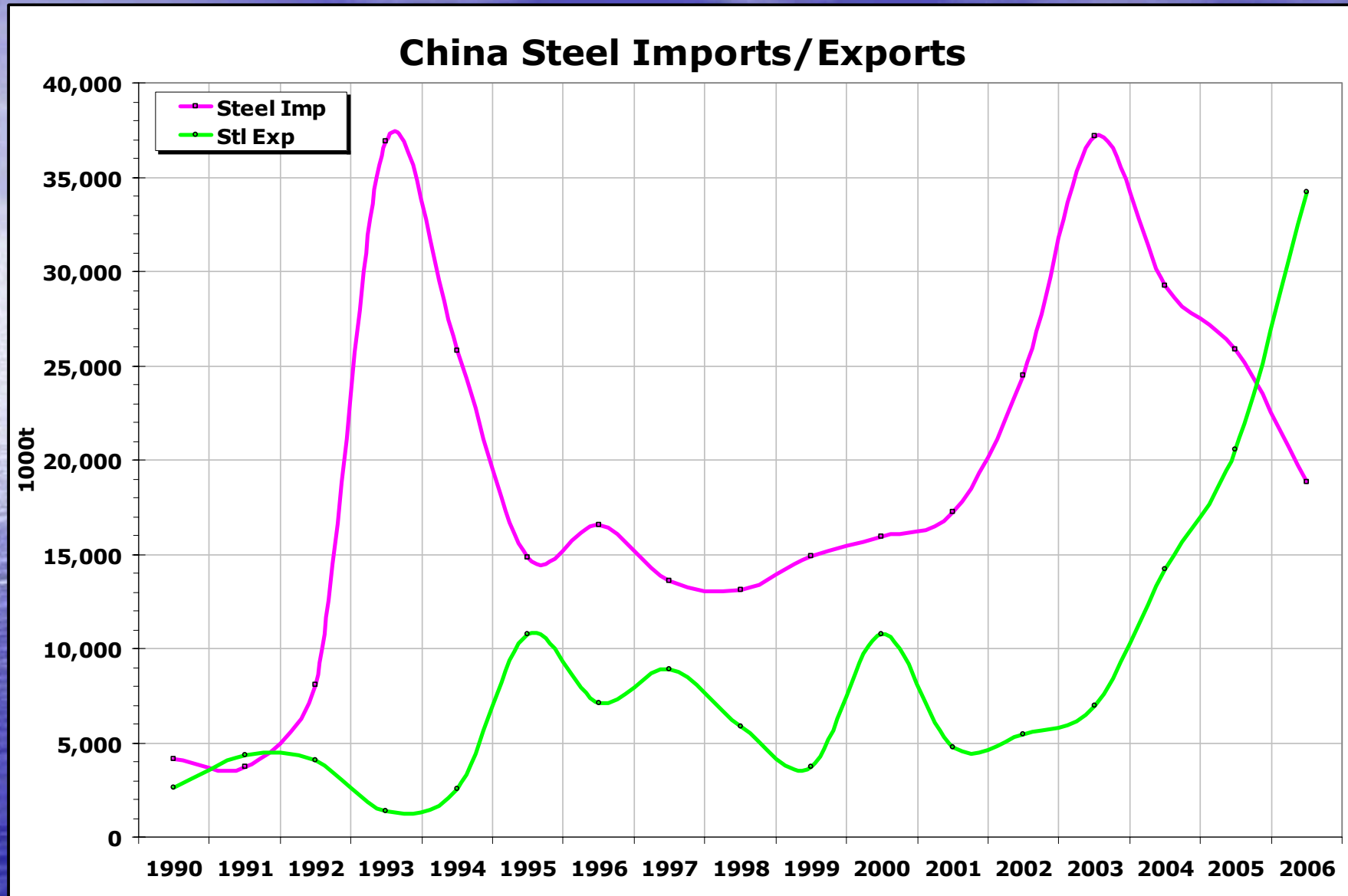
China has huge potential for increased consumption



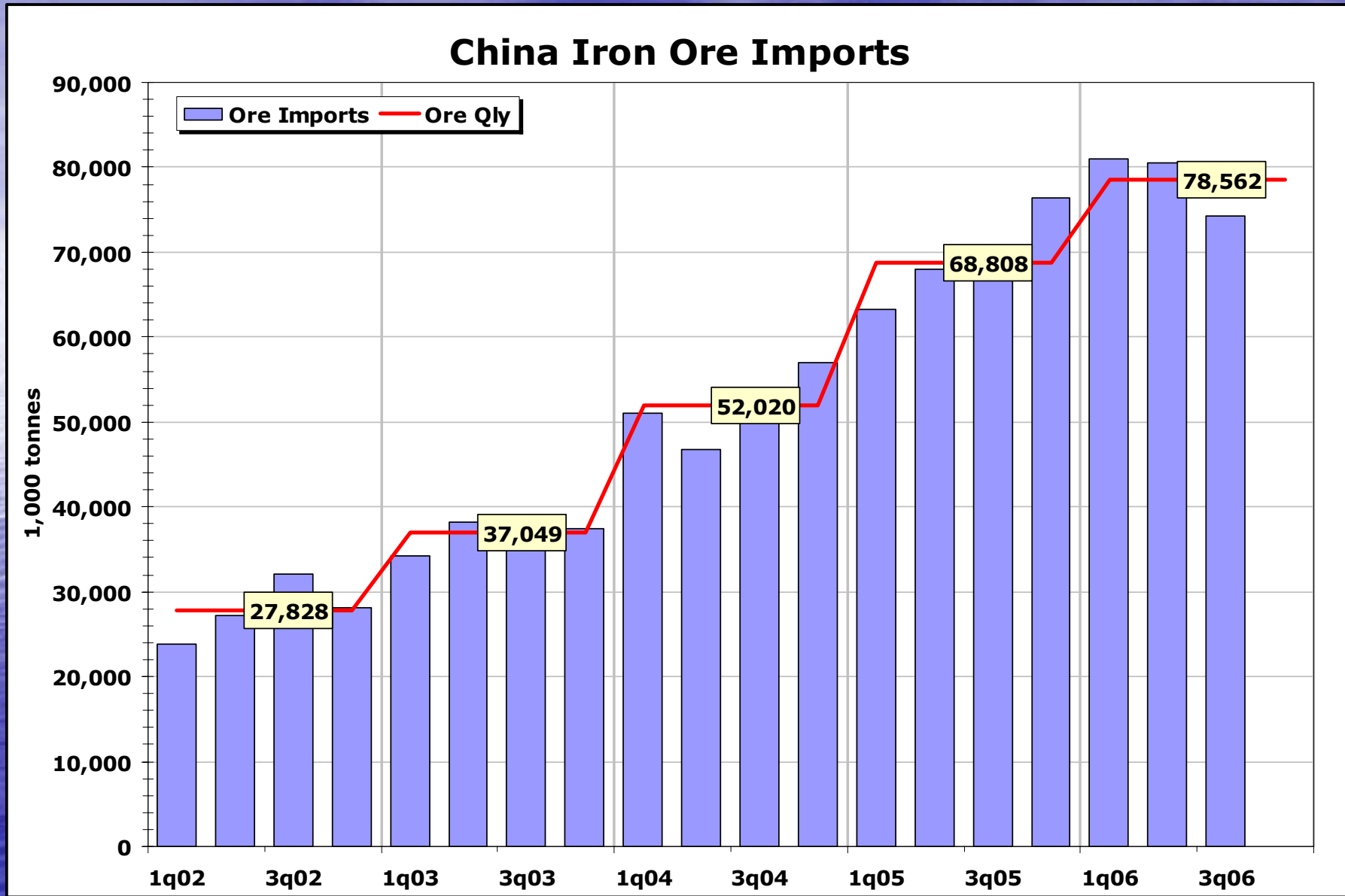
China Bulk Imports

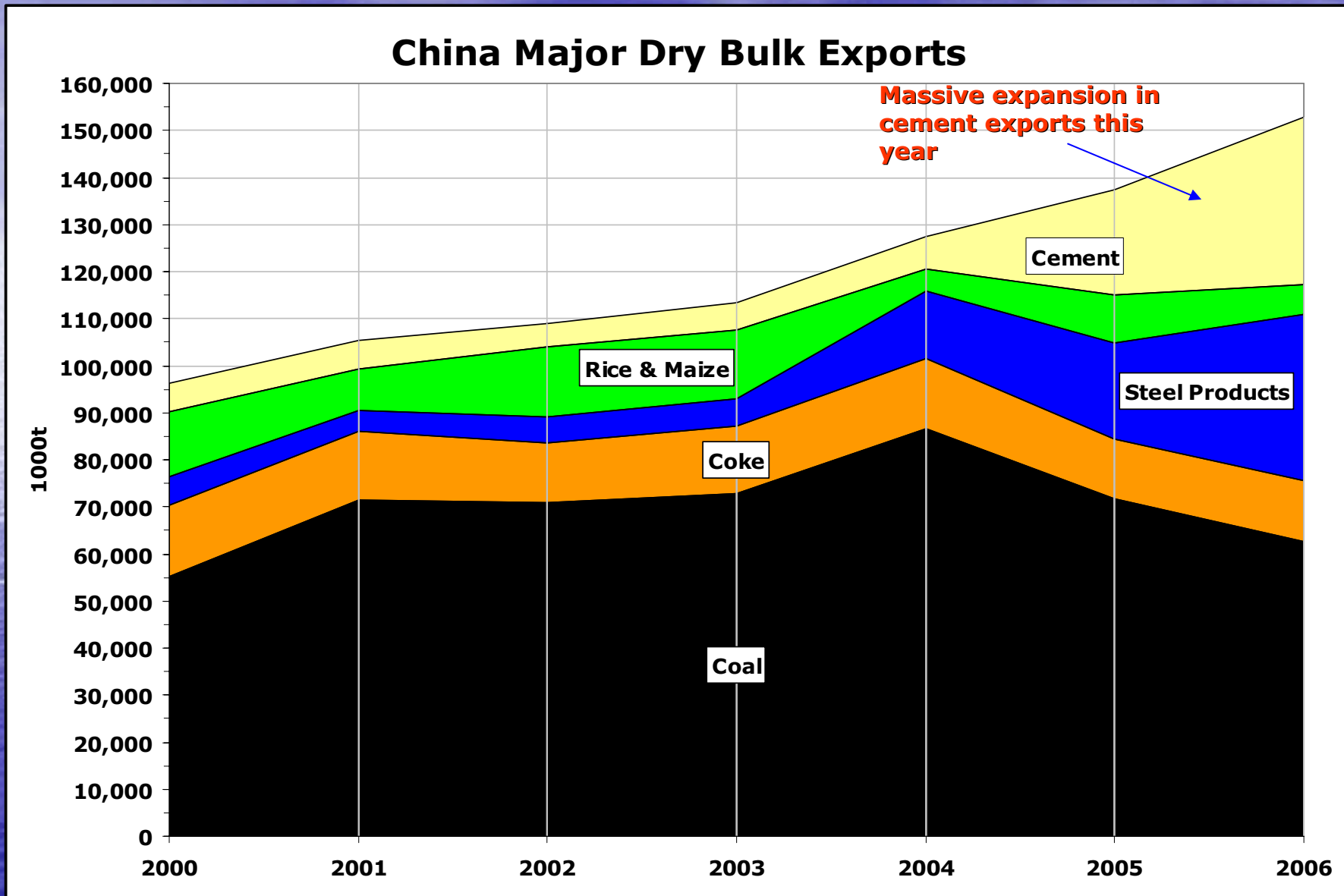


Steel Imports Declining as Exports take off

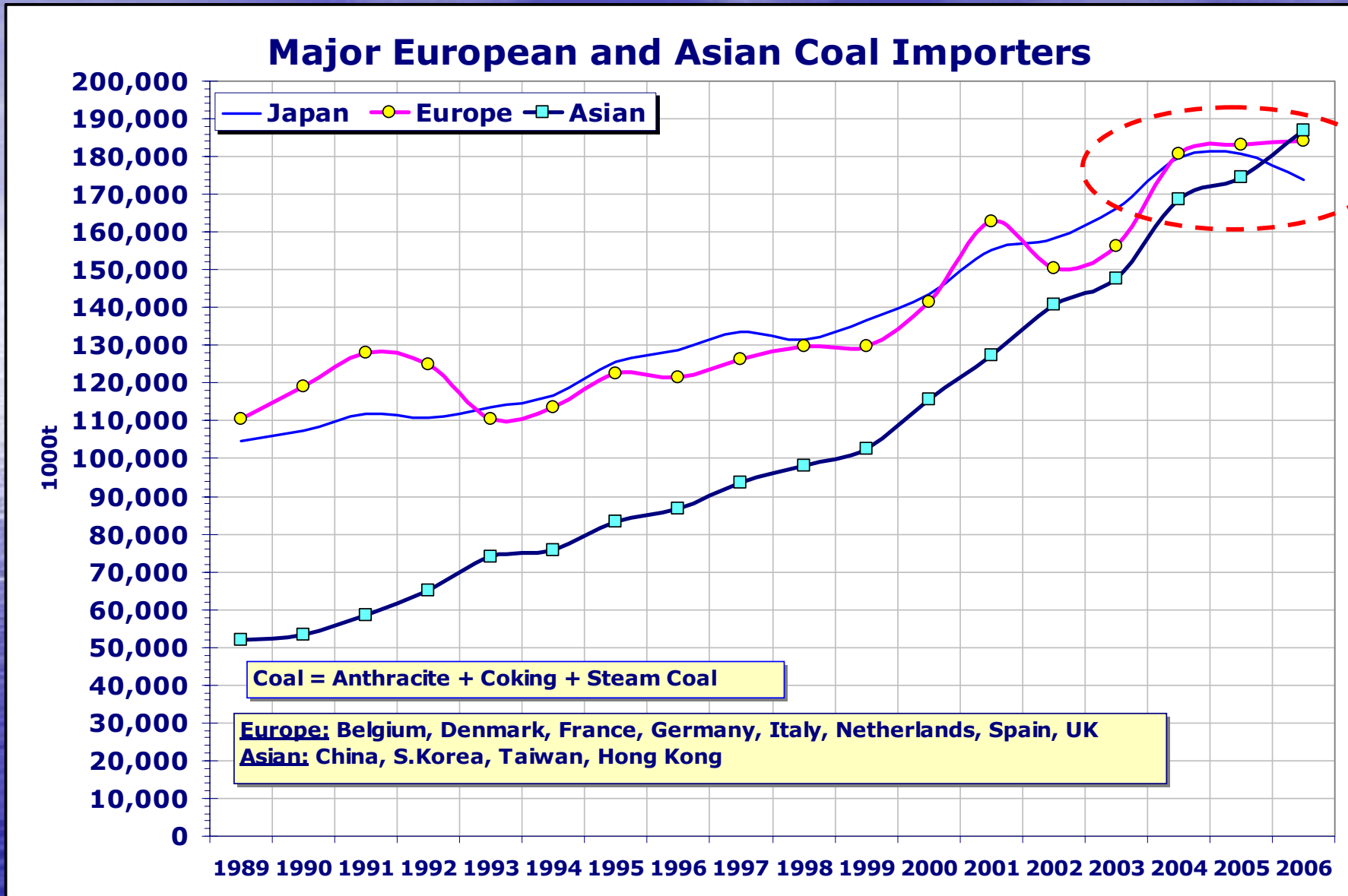


Step jumps in Chinese iron ore imports

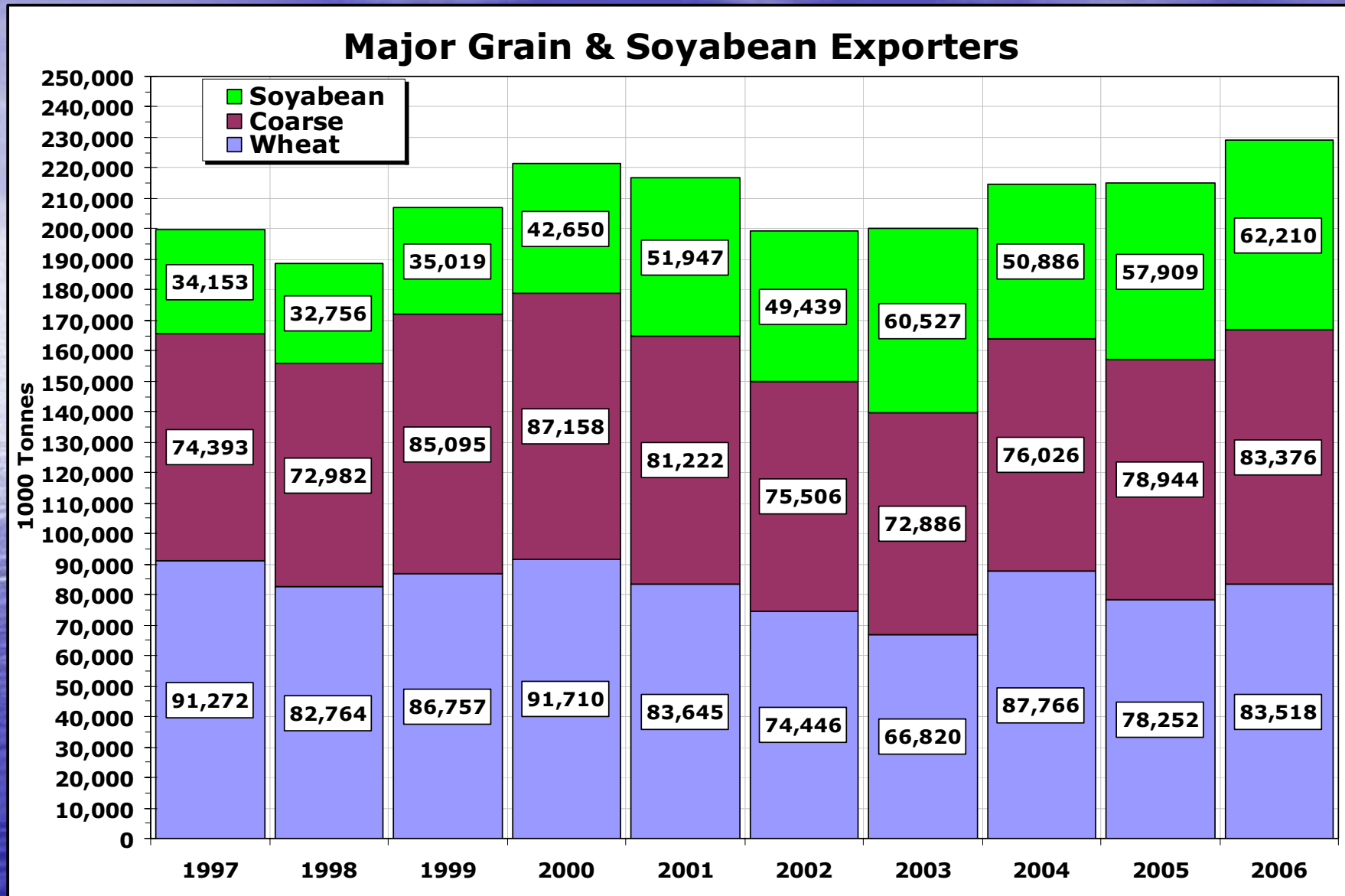




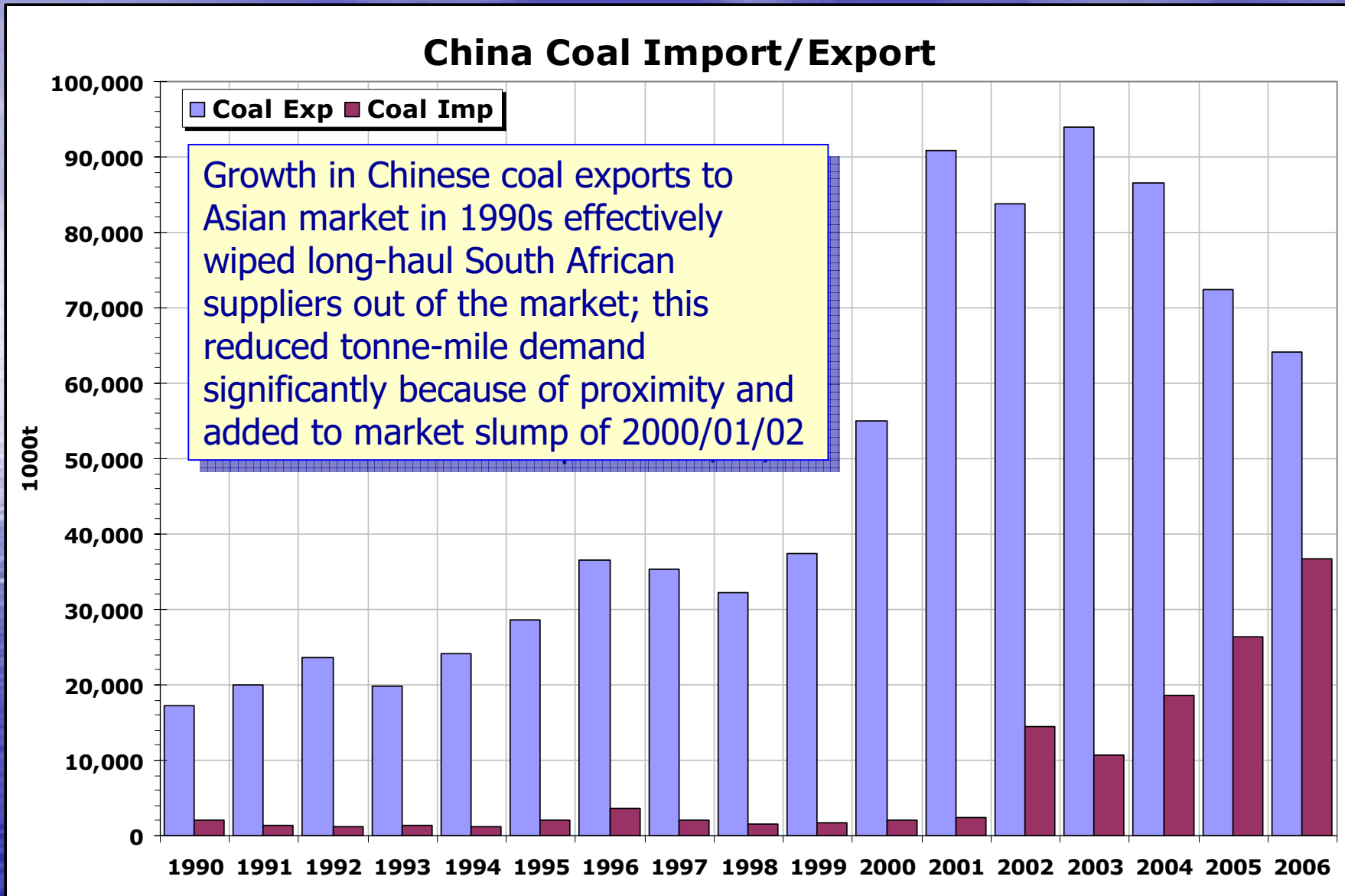
Coal: Long term growth slowing...



Significant growth in Soyabean trade

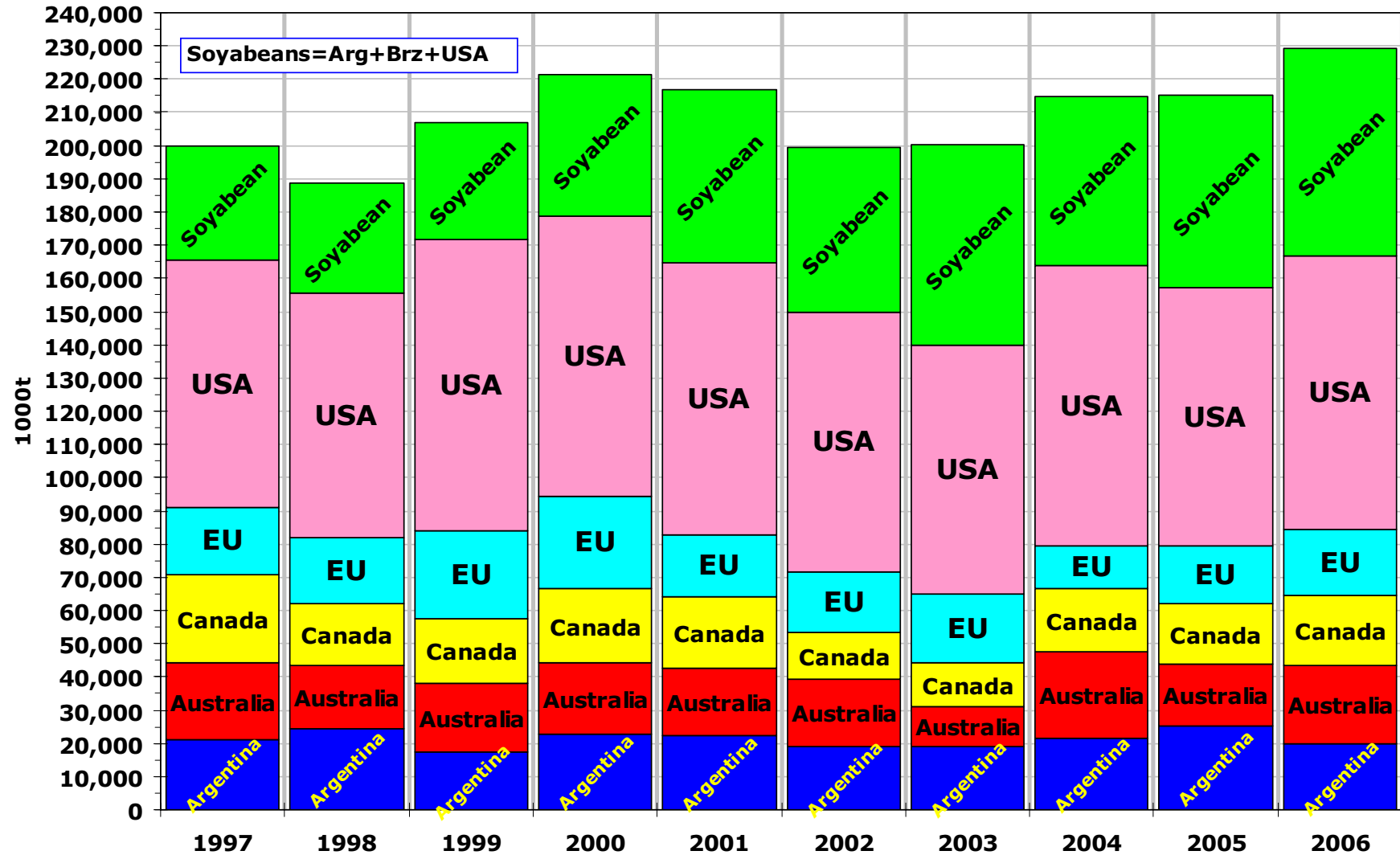


Chinese Coal Exports Declining/Imports Increasing

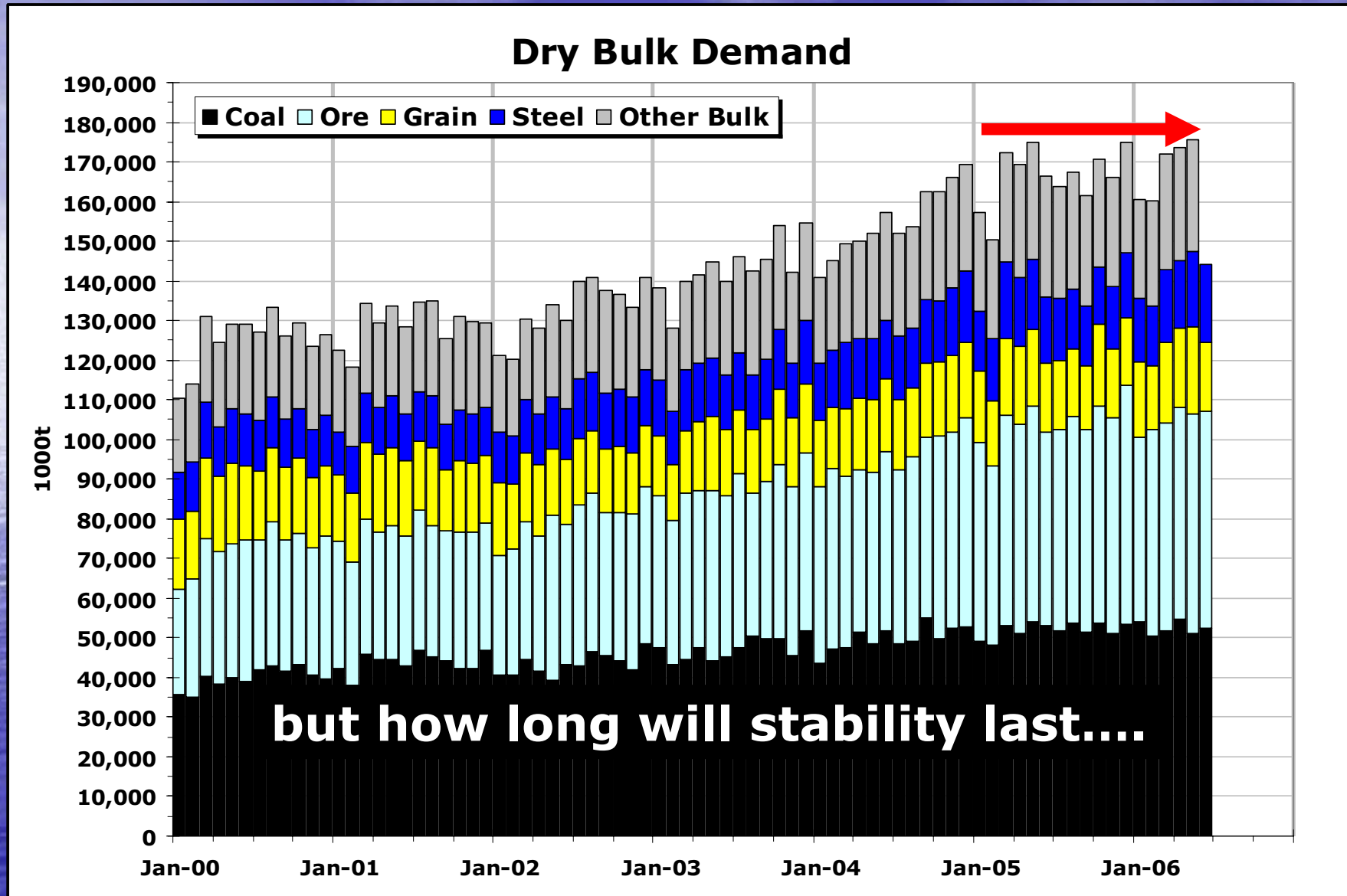


Grain trade: has been relatively flat for many years

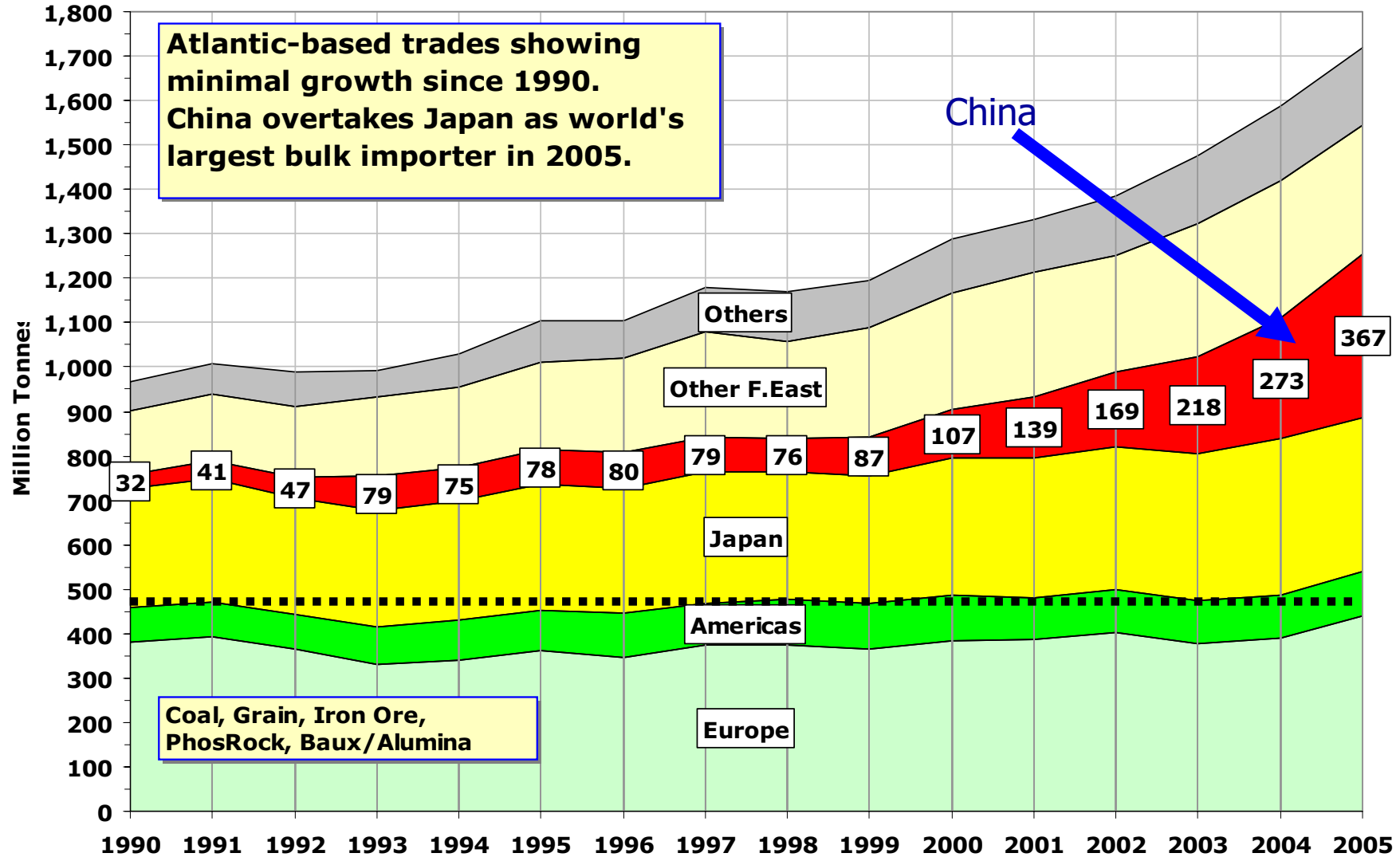
Major Grain Exporters



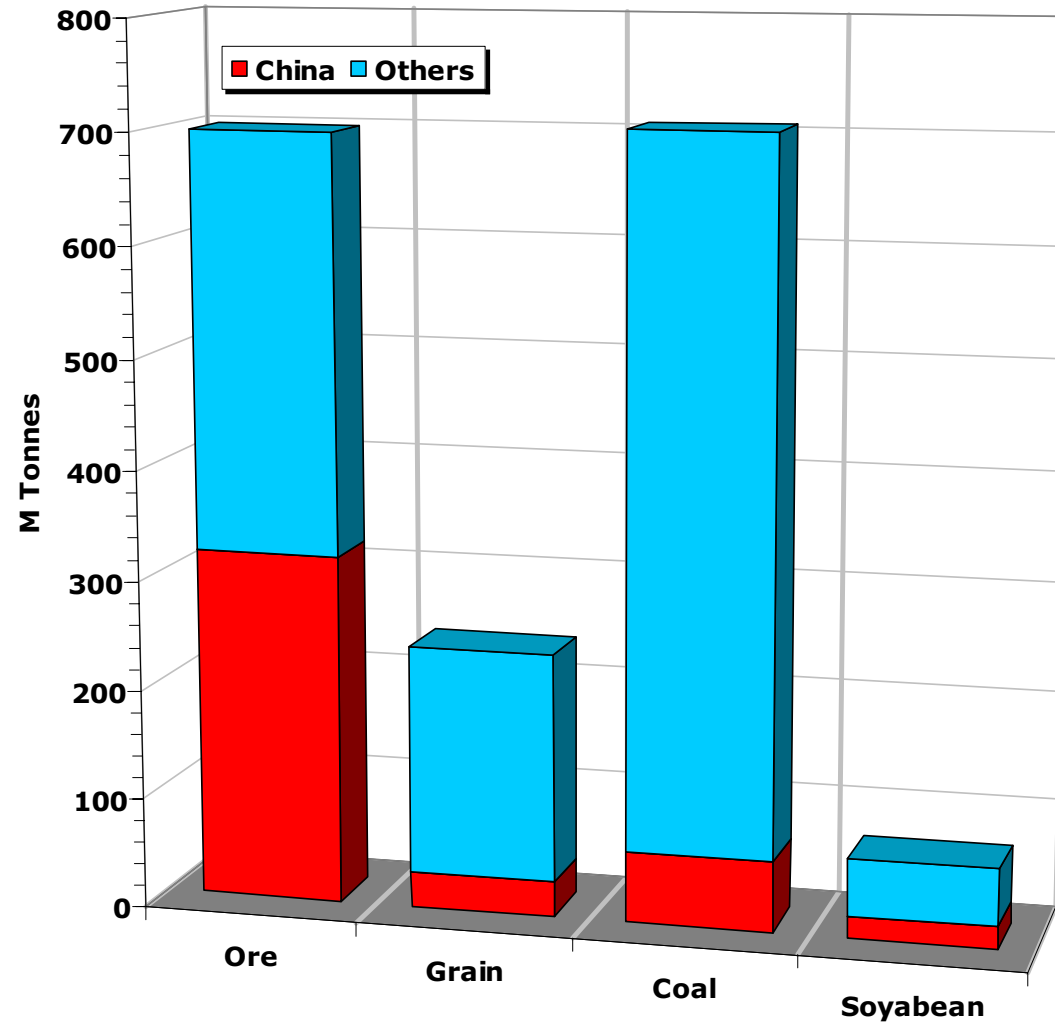
Demand has stabilised since March '05...



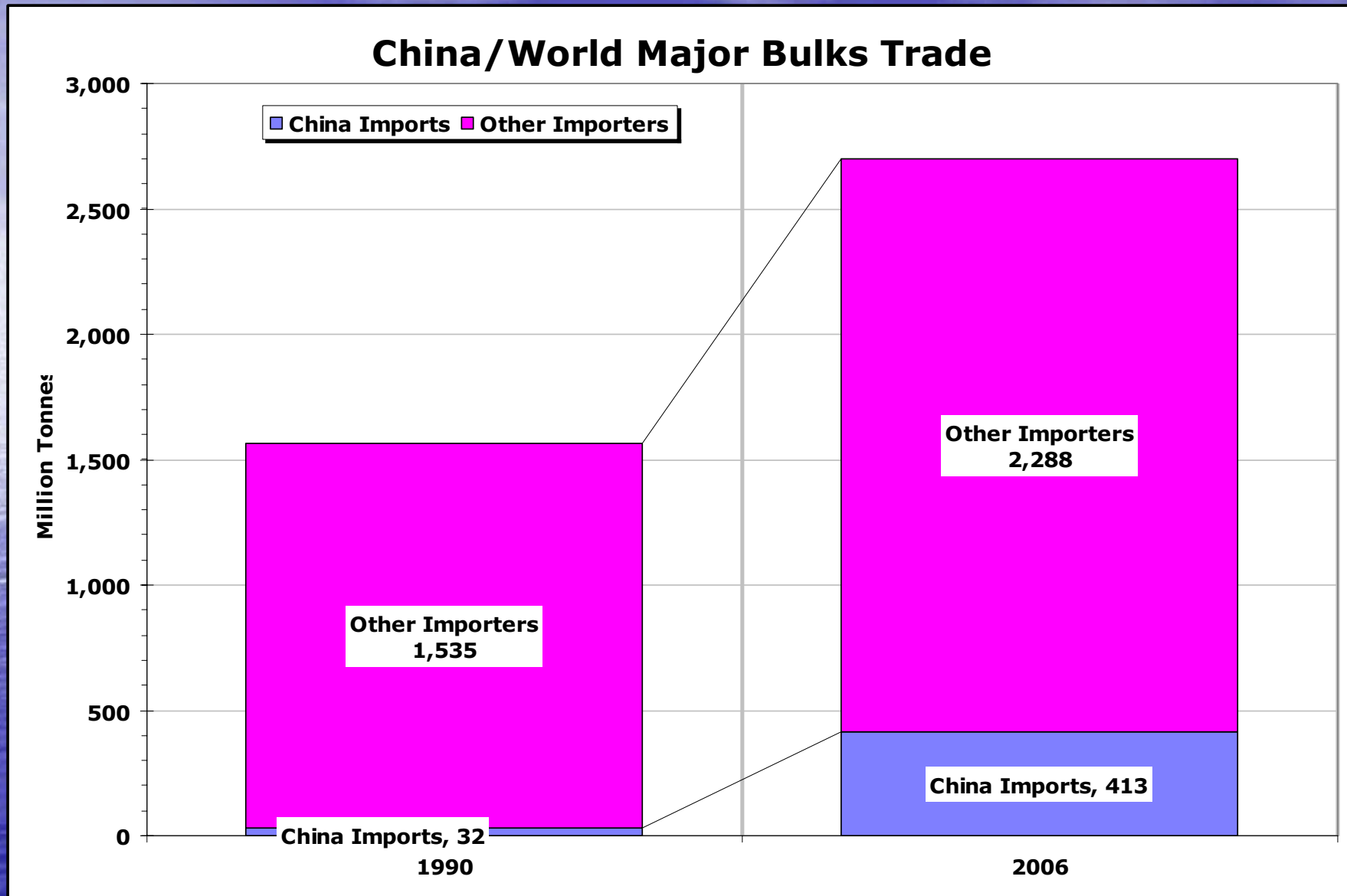
Major Import Regions



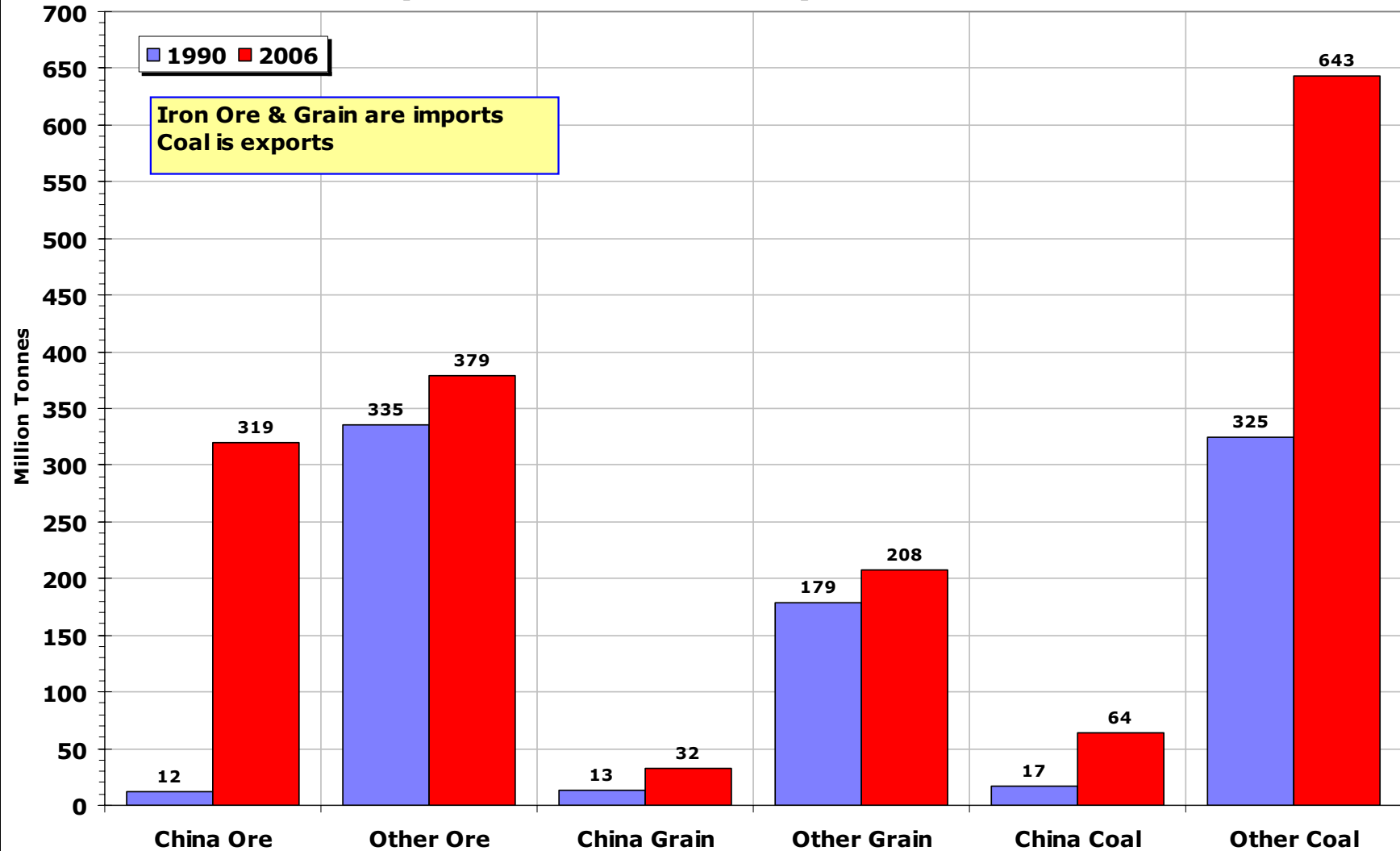
China Share of Main Bulk Commodities 2006



China/World Major Bulks Trade



Impact of China on Dry Bulk Trades



Demand Summary

- Since mid-2003 demand has been dominated by all things Chinese
- Since 2002 China's iron ore imports have jumped from 111 Mt to 320 Mt; steel exports have risen 7-fold from 5 Mt to 34 Mt and coal imports have risen from 14 Mt to 37 Mt. This year cement exports have been featured rising from 5 Mt to 33 Mt
- In other countries (to generalise) only steam coal imports have continued to rise consistently

Dry Bulk Fleet Supply

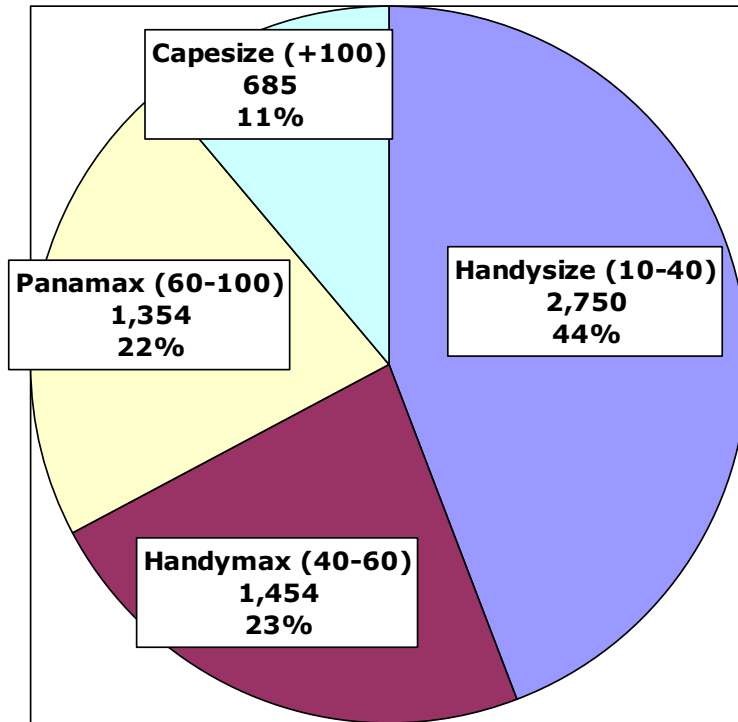


**"Bai Sha Ling" 30,881 dwt 1984 4x25t
Cr Owner: Shenzhen Shekou (China)**

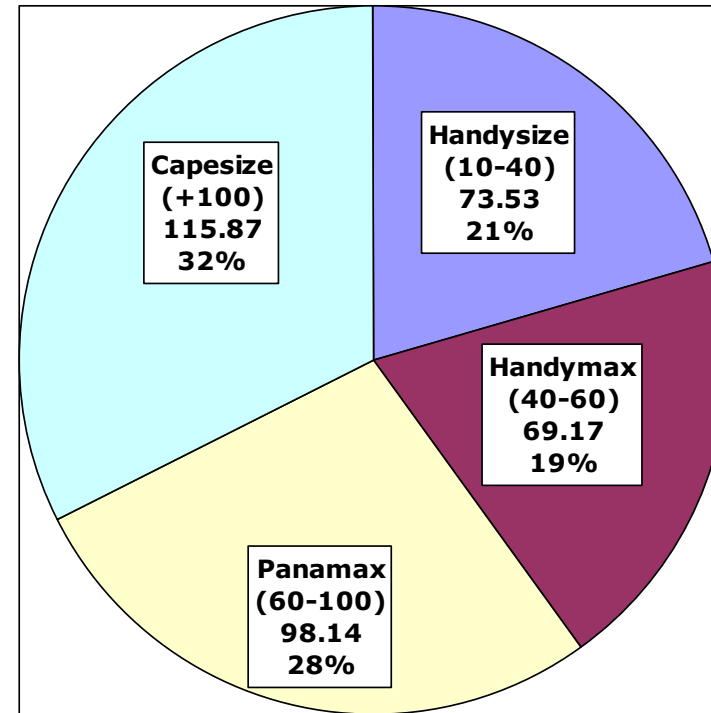
Structure of Dry Bulk Fleet by Size

Bulk Carrier Size Distribution at 1-Aug-06

No.

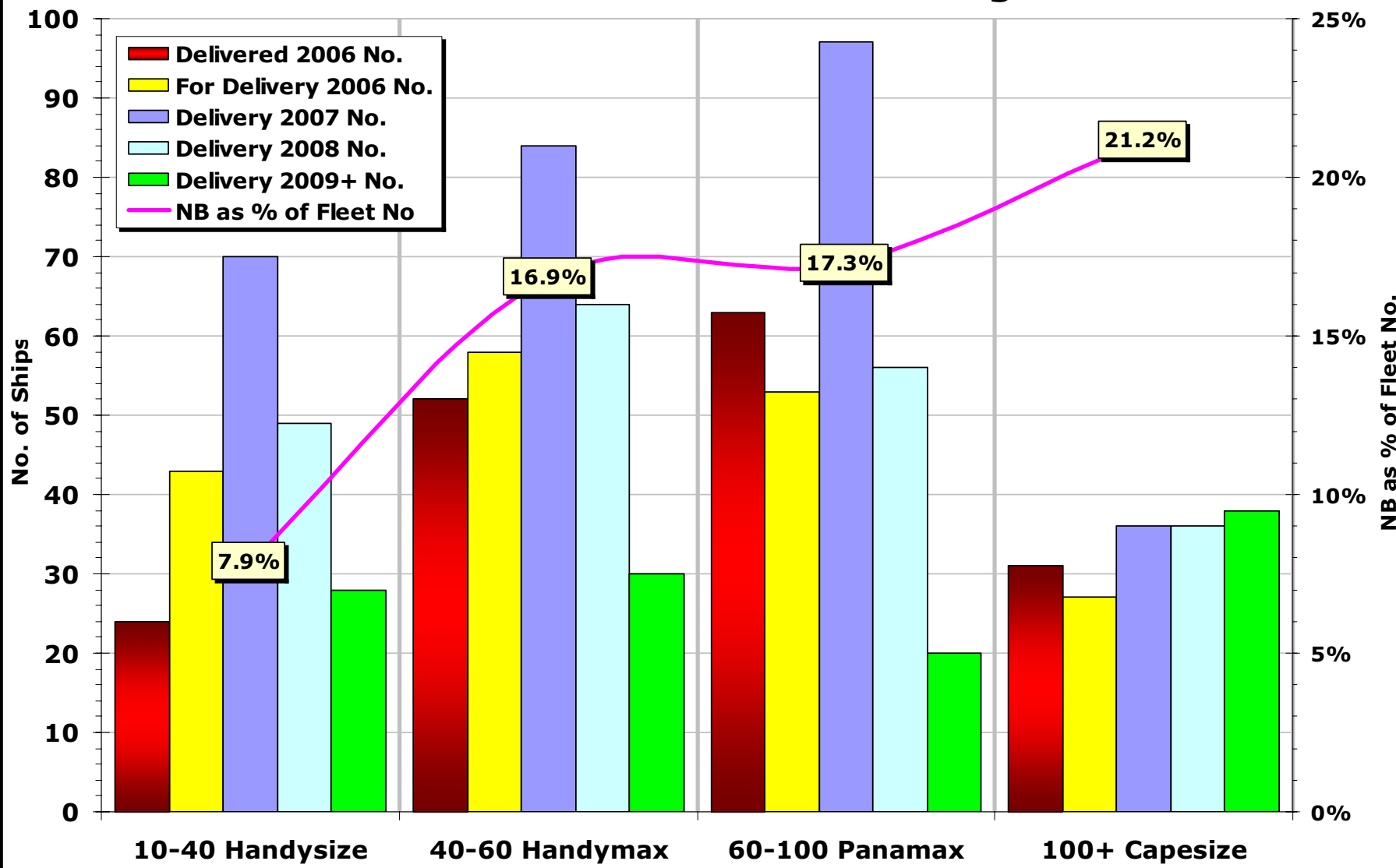


MDwt

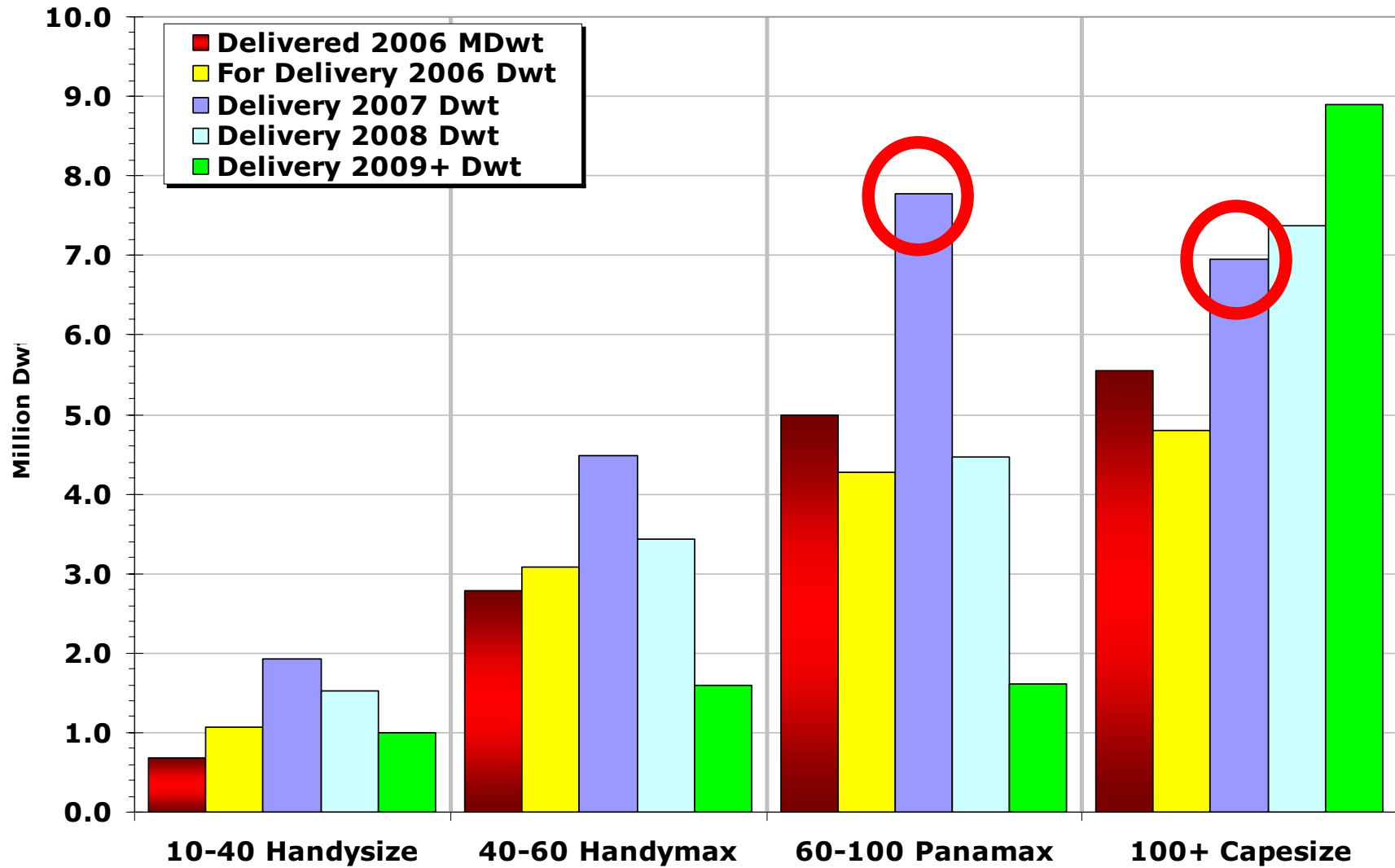


Total No: 6,243 / MDwt: 356.7

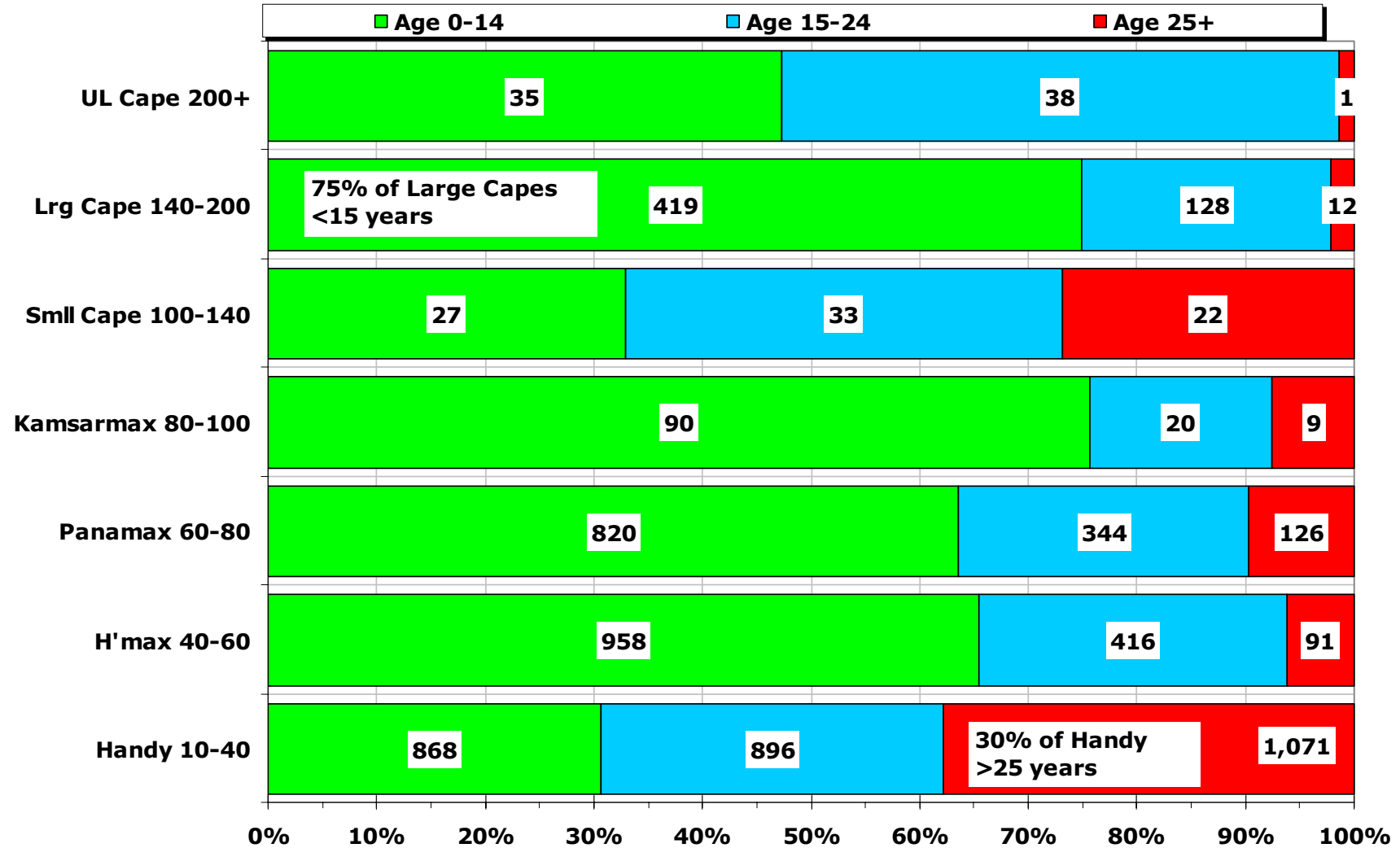
Bulk Carrier Orderbook at 1-Aug-06



Bulk Carrier Orderbook at 1-Aug-06

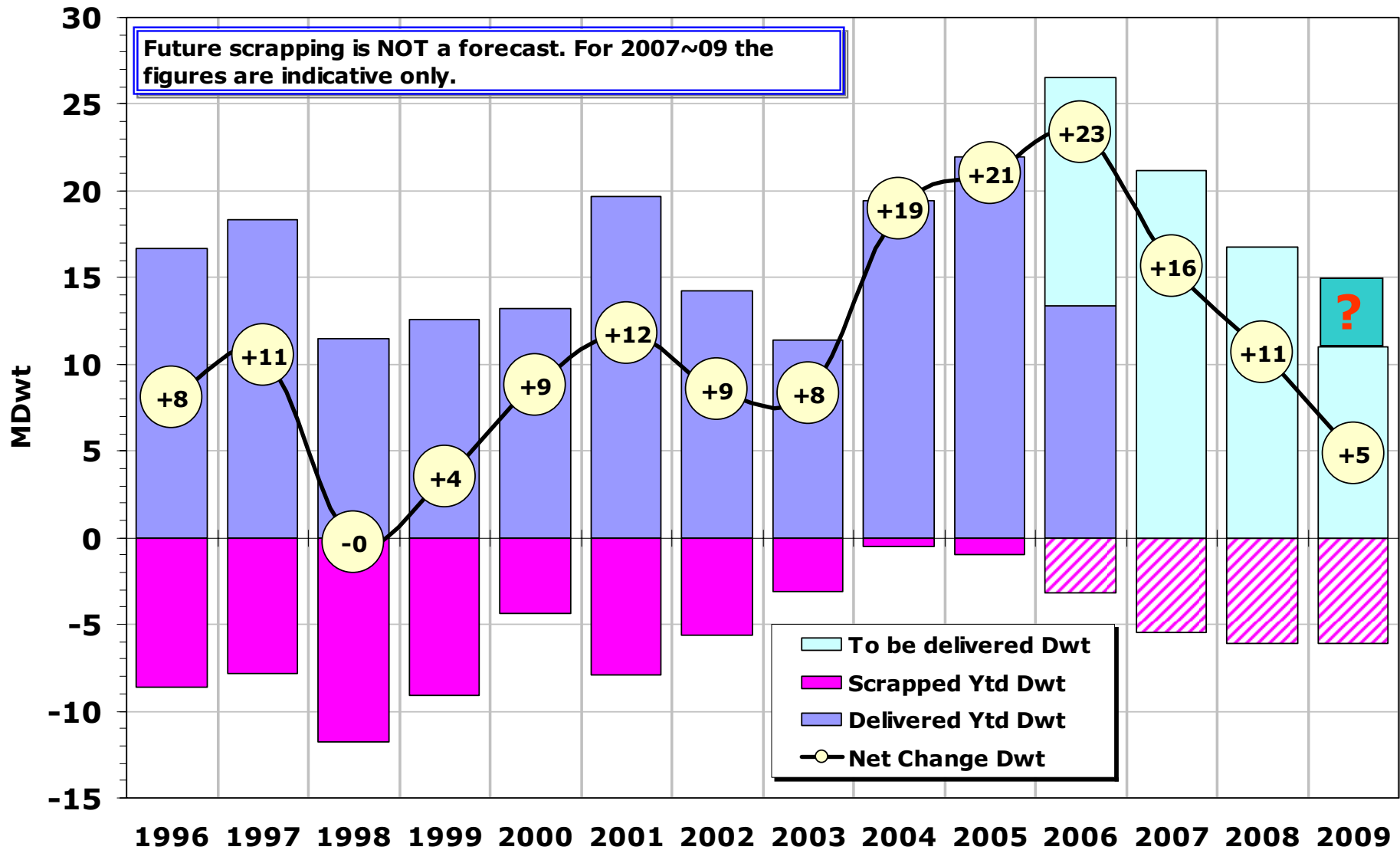


Age Profile Bulk Carrier Fleet @ 1/7/06



Bulk Carrier Fleet Changes

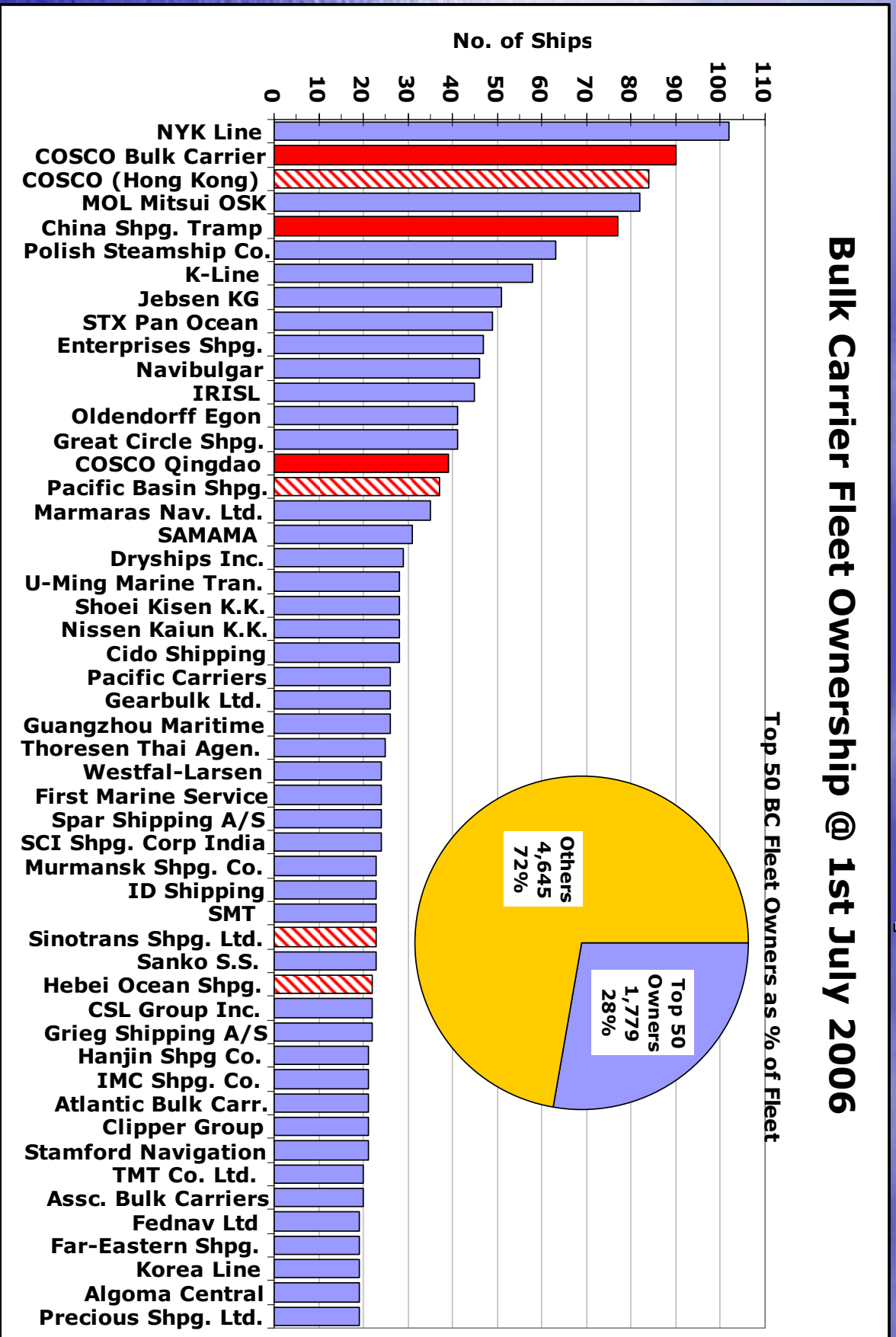
Future scrapping is NOT a forecast. For 2007~09 the figures are indicative only.



7 Chinese Owners in top 50

Bulk Carrier Fleet Ownership @ 1st July 2006

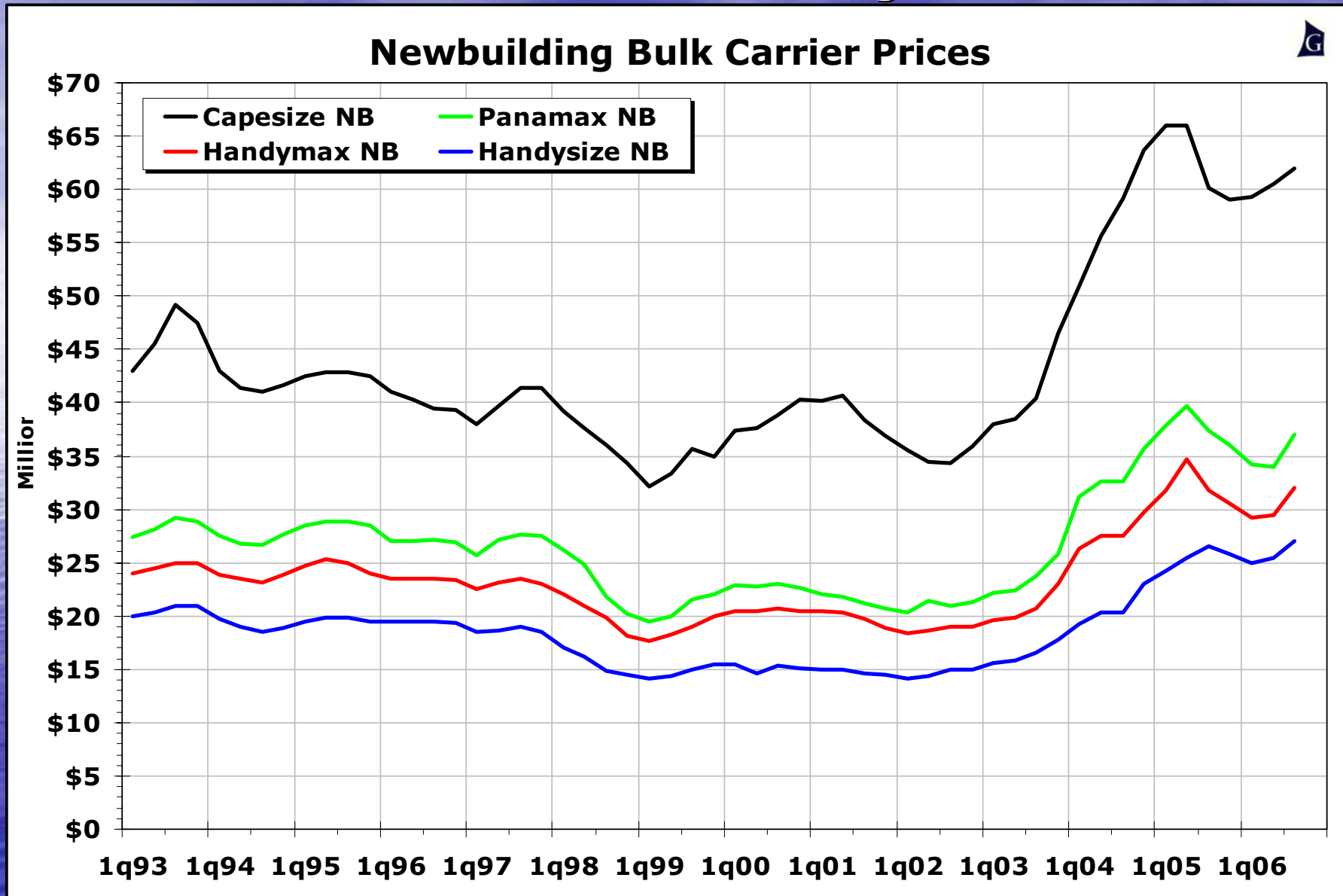
Top 50 BC Fleet Owners as % of Fleet



Fleet Supply ~ Summary

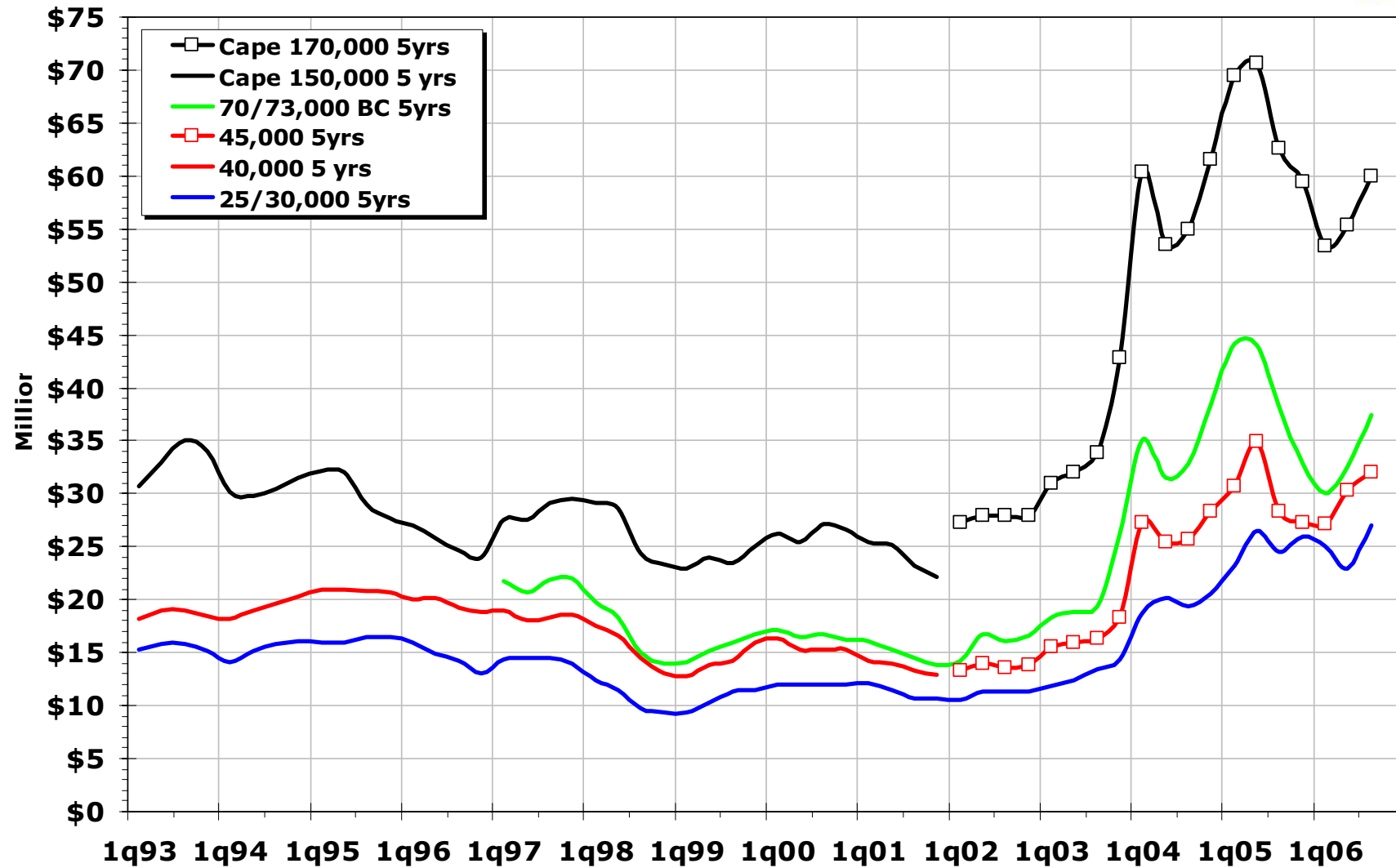
- Although the fleet continues to expand and vessels are, on average, larger as designs are optimized and economies of scale prevail, these vessels are added to the fleet at a steady pace
- The current orderbook is large and dominated by Panamax & Cape tonnage
- Currently the fleet is expanding faster (+6.5%) than demand (+3.2%) rising hence rates *should* be falling, but this has only occurred in past week or so due to strong sentiment

NB Prices have mirrored freight market



Secondhand Prices remain buoyant

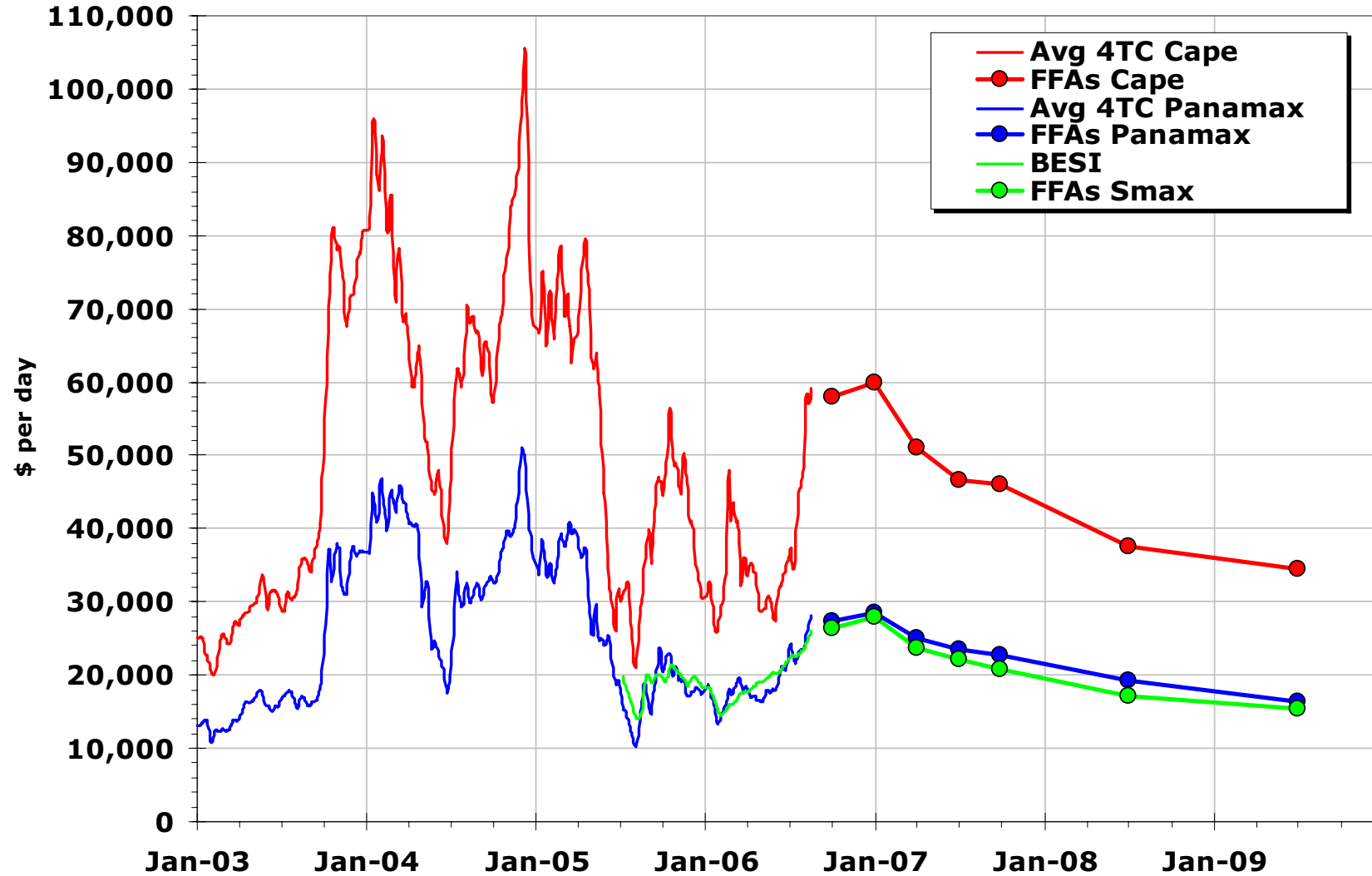
5 Year Old Bulk Carrier Prices



FFA rate ideas heading downwards....

Source: Baltic Exchange

Forward Freight Agreements



Conclusion ~ Dry Bulk Supply/Demand

- Overall long-term growth (continuous upward trend for more than 40 years)
- Chinese demand remains at exceptional levels and is expected to grow further
- Fleet supply *appears* more than adequate to cope with dry bulk demand growth in next 2~3 years but sentiment is creating some irrational market movements
- Freight market *expected* to fall to more modest levels this year but no collapse in market anticipated and no guarantee this will happen due to the unusual market circumstances

Conclusion: Impact of China

- Unprecedented event in shipping industry
- Greater uncertainty in freight market
- Greater reliance on China as a generator of demand
- Greater volatility in rates
- Impact has stretched across ship values, shipbuilding and steel prices
- Changes in trade routes: cement and steel exports instead of imports; coal displacing others (South Africa) but now in turn being displaced by Indonesia

One Question remains...

How sustainable is Chinese expansion?

- China remains a control economy and Government intervention always possible
- China produced 5.7 million motor vehicles in 2005 – exactly the same as Germany –and more than the population of Denmark!
- Per capita steel consumption still low
- More poor people than any other country: >150 million have less than \$1 per day
- Low cost base has led to global success
- Expectations and aspirations remain high but social cost has its price...

Changing Images of China



