Dry bulker freight rates to remain firm with rosy demand, says Platts

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- by Cichen Shen

Trade volume in both steel-related commodities and coal is on the rise and has major potential to grow further.

But supply-side headaches might put a damper on sentiment

THE current recovery in dry bulk freight markets could continue for the next one to two years, bolstered by a rosy outlook on the demand side, said Platts Asia Freight senior managing editor Pradeep Rajan.

Plenty of good news was presented by Mr Rajan, who spoke at Intercargo's biannual meeting in Hong Kong on Tuesday.

Trade volume in both steel-related commodities and coal, which comprise the bulk of dry cargo shipping, is on the rise and has major potential to grow further.

At the same time, the rise in commodity prices is fuelling arbitrage deals, pushing tonne-mile demand even higher.

Steel side

Steel production in China and India, both of which reported growth last year, is expected to continue to grow in 2017, Mr Rajan said.

This will not only drive steel exports but also the import of raw materials, especially iron ore.

For the Chinese, a decent steel output level will be backed by ongoing demand for urbanisation and the One Belt, One Road initiative.

The globe-spanning OBOR plan has translated into more concrete action on the ground recently, according to Mr Rajan, with projects like the multi-billion-dollar railway network being built by China in Africa.

As a result, an increasing amount of Chinese steel is now being consumed by Chinese construction companies engaged in overseas infrastructure projects.

India, the world's most populous democracy, also has huge potential.

With a 7.4% year-on-year expansion in steel output to 95.6m tonnes in 2016, India may soon surpass Japan as the second largest steel exporter globally.

Although domestic consumption growth has lagged behind, a large part of the surplus will be exported, according to Mr Rajan.

US President Donald Trump's $1trn urban renewal agenda, if realised, will provide another fillip to demand, leading the US to import a considerable amount of steel and other dry bulk commodities. And import tariffs will not be a big concern.

"[The] US can impose any amount of safeguard duties or import duties on imported steels, but there is always a way that the market will figure out how cargo gets re-exported from regions where [the] US has not imposed duties," said Mr Rajan.

Positive steel prospects will hence provide firm support to iron ore trade, pushing up rates for capesize carriers.

"We have seen companies like Koch Carbon increasing their capesize [fixtures]. There is perhaps something that the Koch brothers know and the rest of the people are trying to figure out," Mr Rajan said.

Coal side

He was also optimistic on the coal market during the presentation.

Last year, Chinese coal imports increased by almost 40m metric tonnes, equivalent to 800 extra supramax fixtures or 500 panamax ones, Mr Rajan said.

The Philippines and Vietnam also recorded strong growth.

According to S&P Global Platts, the former's coal imports jumped 42% year on year to 20.6m metric tonnes in 2016, while the latter's soared 84% to 12.6m metric tonnes.

India's imports dropped 3.5% to 220m metric tonnes, but Mr Rajan expects the seaborne import volumes to remain stable in the next three to four years as most Indian coastal power plants are designed to use imported low-ash coals.

In addition, rising exports from Russia and Colombia will add to tonne-mile demand.

Freight rates in the supramax and panamax segments have already risen, and the momentum will not stop any time soon.

A supramax going from Indonesia to India via Singapore was fixed at $10,000 per day on Tuesday, the same rate as for a panamax to south China, according to Mr Rajan.

He added that rates would only climb further, with grain export from South America expected to pick up in March and April.

Objections

With more players taking a long position in the forward freight agreement market, upbeat sentiment seems to be prevalent.

"My personal take is that we will have a steady and stable dry bulker freight market for the next one to two years, provided [there is] discipline as far as newbuildings is concerned," Mr Rajan said.

Not everyone is convinced, however.

Vale general manager for shipping Pietro Allevato said that while freight markets were "quite exciting" at the moment, the vessel supply side deserves a closer look.

One example he gave was the nearly 100 capesize vessels scheduled for delivery in 2017.

Meanwhile, scrapping has also slowed, according to Clarksons data.

Only 3m dwt of dry bulkers were demolished for the first two months of 2017, compared with 9.1m dwt during the year-ago period.

"You guys please enjoy the freight market as it is now, because it is not going stay like this for long, I am sorry to say that," Mr Allevato said.

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