Dry Bulk Shipping Market Overview & Outlook

Normalisation of ship routings could cool dry bulk market

BIMCO

Supply/demand

Supply is forecast to grow 2.5% in 2024 and 2.0% in 2025. Supply growth is slowing due to lower deliveries

Demand is forecast to grow 3.0% in 2024 and stabilise in 2025. Sailing distances have lengthened due to the rerouting away from the Red Sea and Panama Canal.

The supply/demand balance should strengthen in 2024, but weaken in 2025, as ships return to the Red Sea and Panama Canal, shortening sailing distances.

Demand

According to the IMF, **Global GDP is forecast to grow by 3.2% in both 2024 and 2025.** Inflation has cooled, which should allow a gradual easing of interest rates.

Iron ore shipments are estimated to grow 2.5% from 2023 to 2025. China may experience low domestic steel demand, but stronger demand abroad.

Coal shipments are forecast to fall by 4.0% between 2023 and 2025. Fast growth in domestic mining in India and increased renewable electricity production could curb demand.

Between 2023 and 2025, grain shipments are forecast to increase by 3.5%. Grain supply has stabilised since the start of the war in Ukraine.

Supply

The fleet is expected to grow 4.9% between end 2023 and end 2025. That is the slowest it has grown since 2016.

Ship recycling is expected to stay low. However, it may gradually increase from the start of 2025, due to a comparatively weaker market.

Sailing speed could fall by 1.0% between 2024 and 2025. After a couple of years when speed fell significantly, it is now starting to stabilise at current levels.

A reduction in congestion could lead to a 0.5% increase in supply in 2024. It has notably improved in Brazil due to smaller grain harvest.

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April 2024

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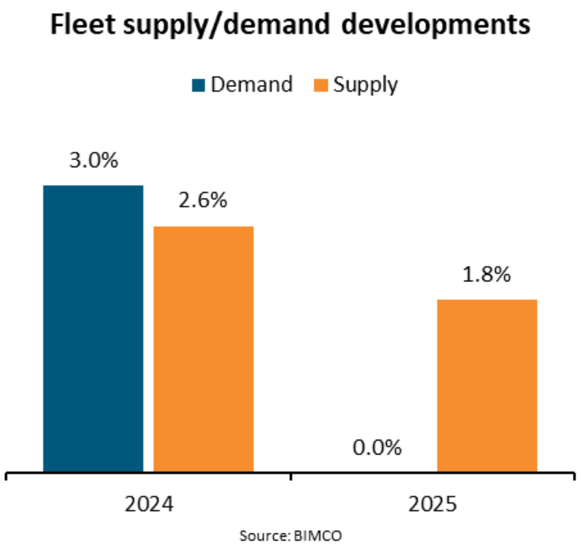
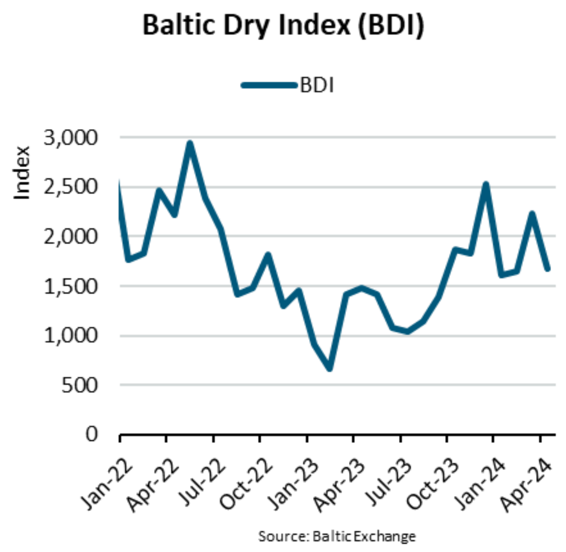
Supply/demand balance

We expect the **supply/demand balance** to strengthen in 2024 and weaken in 2025. Supply is estimated to grow by 2-3% in 2024 and 1.5-2.5% in 2025, while demand is projected to grow by 2.5-3.5% in 2024 and stagnate in 2025. Overall, conditions in the dry bulk market should stay strong in 2024 but could begin to weaken in 2025.



Since September 2023, the **Baltic Dry Index** has firmed on stronger capesize demand. Strong cargo volumes including higher iron ore shipments from Brazil and a build-up of iron ore inventories in China have all contributed to higher capesize freight rates. In the smaller segments, rerouting away from the Red Sea and Panama Canal has helped boost demand. Second hand prices have also surged, as prices for 5-year-old ships approached those of newbuilds.



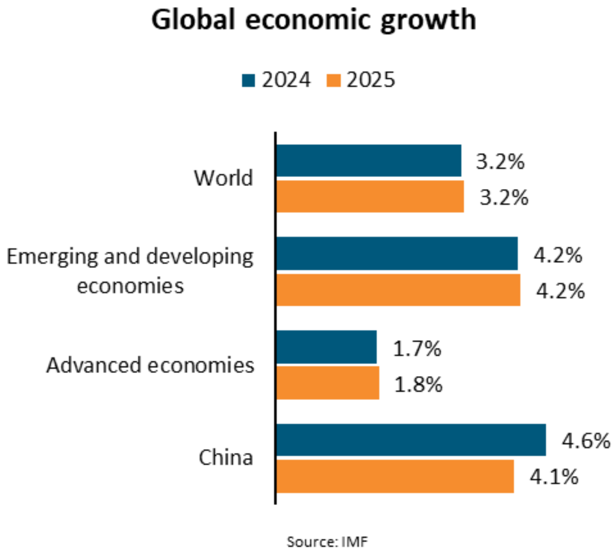
Freight rates are expected to stay strong in the near term but could cool starting in the second half of 2024. As transits through the Red Sea and Panama Canal rebound, sailing distances are expected to shorten. In 2025, freight rates may weaken as supply grows faster than demand.

Capesize ships should fare the best, as the fleet is expected to grow more slowly. Their demand growth has been driven by increasing volumes rather than by longer sailing distances due to rerouting away from the Red Sea and Panama Canal. Panamax and supramax ships may see their earnings pressured by high ship deliveries and low demand growth.

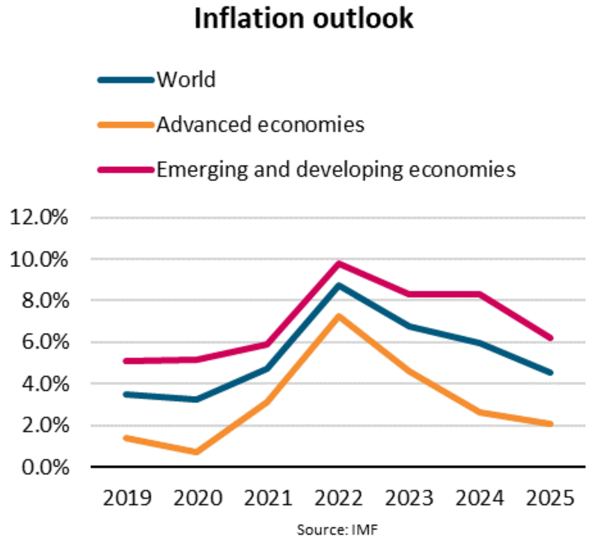
Both upside and downside **demand risks** remain. A longer than assumed crisis in the Red Sea and continued Panama Canal transit restrictions will likely strengthen the market. On the other hand, a deterioration in conditions in China's property or financial sectors would harm demand.

Macro environment

The International Monetary Fund (IMF) forecasts the **global economy** to grow by 3.2% in both 2024 and 2025, the same growth rate as in 2023. That is an upward revision of 0.1 percent points for 2024 since their January update. This is largely due to a sizeable improvement in the economic outlook for the United States and for some emerging and developing economies.



Inflation in advanced economies has responded positively to the rise in interest rates and is expected to fall from 4.6% in 2023 to 2.6% in 2024 and 2.0% in 2025. The IMF now sees a smaller risk of persistent inflation and interest rates are expected to gradually ease, supporting economic growth.



The **Chinese economy** is forecast to grow by 4.6% in 2024 and by 4.1% in 2025. The government has targeted 5% GDP growth in 2024 and has announced both fiscal and monetary policy stimulus. Public debt is expected to continue rising, risking a public finance crisis in the medium to long term.

ANZ, Société Générale, DBS Bank and Deutsche Bank are more positive on China's GDP growth, placing it between 4.9% and 5.2%. All these financial institutions recently revised their forecasts upwards after China's economy grew 5.3% in the first quarter of 2024.

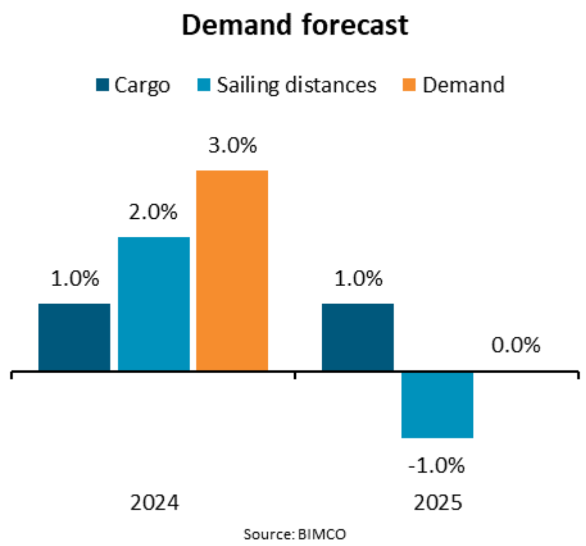
Despite strong economic growth, **China's real**

estate sector has remained weak. In the first quarter of 2024, investment in real estate fell by 15% y/y and the floor area of new real estate starts decreased by 28.3% y/y. Lenders have also started to request the liquidation of Evergrande and other heavily indebted real estate developers. We do not currently expect that the Chinese real estate sector will have a positive and significant impact on dry bulk demand during the forecast period.

Lastly, the IMF warns of **rising geopolitical tensions**. China's economic growth has increasingly come from stronger exports, amid lacklustre domestic demand and a weak property sector. Concerns have emerged from the EU and the US over cheap Chinese exports of electric vehicles, wind turbines and solar panels. If tensions escalate, it could lead to trade barriers, harming global economic growth and affecting demand for iron ore, steel, bauxite and other minor bulks.

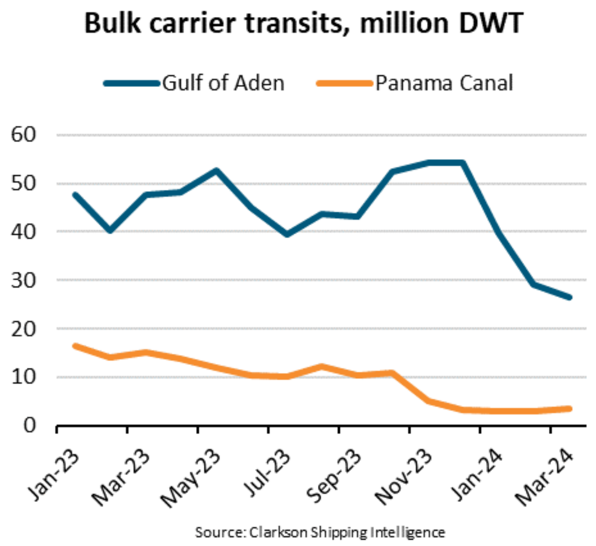
Demand

We forecast dry bulk **demand** to grow by 2.5-3.5% in 2024 and stabilise at between -0.5% and 0.5% in 2025.



Cargo volumes are expected to grow by 0.5-1.5% in both 2024 and in 2025. That is a positive upward revision of 0.5 percentage points for 2024 since our previous report, due to a strong first quarter of 2024.

Average sailing distances are expected to lengthen 1.5-2.5% in 2024 but could shorten 0.5-1.5% in 2025. This is a positive revision for demand in 2024, as ships increasingly sail around the Cape of Good Hope instead of through the Suez Canal. Stronger cargo from the Atlantic basin paired with lower coal volumes should also contribute to longer distances.

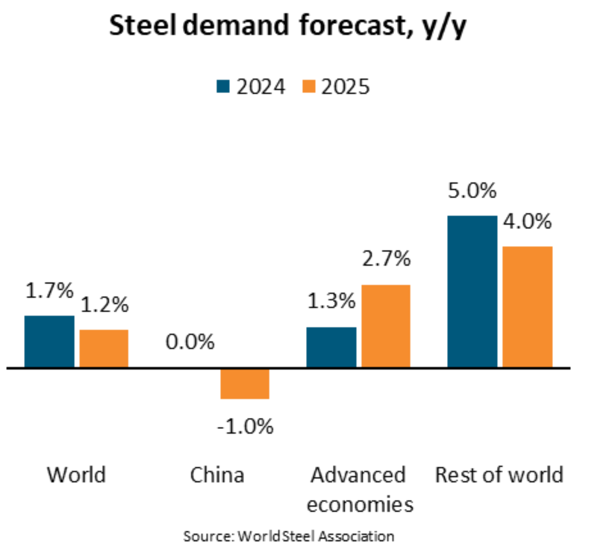


During the first quarter of 2024, **Red Sea and Panama Canal transits** fell by 29.6% y/y and

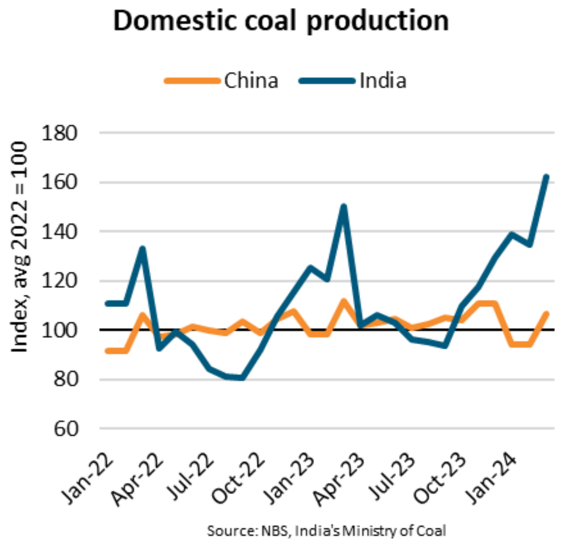
79.1% y/y, respectively. A total of 76 million deadweight tonnes (DWT) less ship capacity sailed through these areas, leading to increased sailing distances and strengthening demand in the panamax, supramax and handysize segments.

We assume that safety in the Red Sea will be restored before the second half of 2024 and transit through the Panama Canal will gradually improve over the rest of the year. This would lead to shorter distances from the second half of the 2024. Should either of these disruptions persist for longer, dry bulk demand will be higher than forecast.

We estimate that **iron ore shipments** will grow by 1-2% in 2024 and 0.5-1.5% in 2025. They will benefit from a 1.7% and 1.2% increase in global steel demand in 2024 and 2025 respectively as forecast by the World Steel Association.



Chinese steel demand is forecast to stagnate in 2024 and fall by 1% in 2025, limiting global demand growth. Despite the negative demand outlook, Chinese iron ore imports grew 5.5% y/y during the first quarter of 2024. It seems that just like in 2023, Chinese steel producers are turning to exports, benefiting from strong demand abroad. However, iron ore inventories in Chinese ports have also increased and are near a two-year high. If domestic demand does not improve, iron ore imports may slow down during the rest of the year.



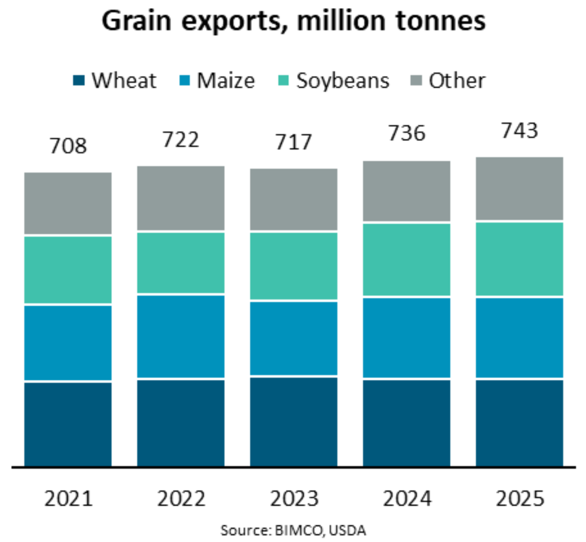
Coal shipments could fall by 1-2% in 2024 and 2-3% in 2025. We now expect a lower decline in coal shipments than in our previous update.

Whereas India has continued to ramp up **coal mining**, China saw its production fall 4.1% y/y during the first quarter of 2024, supporting imports. In Shanxi, one of China's largest mining regions, safety concerns emerged, and officials are now expecting a 4% fall in local output. Overall, Chinese coal mining may therefore increase only 1% in 2024, according to the China Coal Transportation and Distribution Association.

In India, coal imports have stayed strong, due to strong electricity demand and import mandates from the government to ensure sufficient inventories in power plants. Electricity demand is expected to continue growing rapidly in India, but strong domestic mining could limit import demand growth.

Electricity generation from **renewables** is expected to increase in both China and India. Besides new additions, hydro power is likely to recover from low levels.

In April, Australia's Bureau of Meteorology announced the **end of El Niño** and that La Niña could follow sometime from July. This shift is expected to negatively impact coal demand in South and Southeast Asia. Under El Niño, the region typically experiences a warmer and drier climate, boosting electricity demand from air conditioning, and weakening hydro power generation.



Grain shipments are estimated to grow by 2-3% in 2024 and 0.5-1.5% in 2025. In 2024, maize shipments could recover to near 2022 levels, while soybean shipments may reach an all-time high.

Two years after the start of the war in Ukraine, **grain prices and supply** have stabilised, and FAO's cereal price index is at the lowest it has been since September 2020. Therefore, any additional growth in shipments will be primarily driven by changes in import demand.

Year to date, **cancellations of grain shipments** by China have given rise to demand concerns. For wheat, there is an early indication that China's wheat harvest will be stronger in 2024, which would lead to lower imports. As for maize, the Chinese government has cancelled shipments in order to support domestic farmers. Nonetheless, Chinese maize imports are still expected to increase in 2024, due to rising meat consumption in China.

We forecast that **shipments of minor bulk cargoes** will increase by 2-3% in 2024 and by 3-4% in 2025. Easing interest rates in advanced economies and the energy transition are expected to support demand. In particular, a stronger US recovery could boost cement shipments, as housing starts increased by 2.1% y/y and permits for new private housing by 3.8% y/y during the first quarter of 2024.

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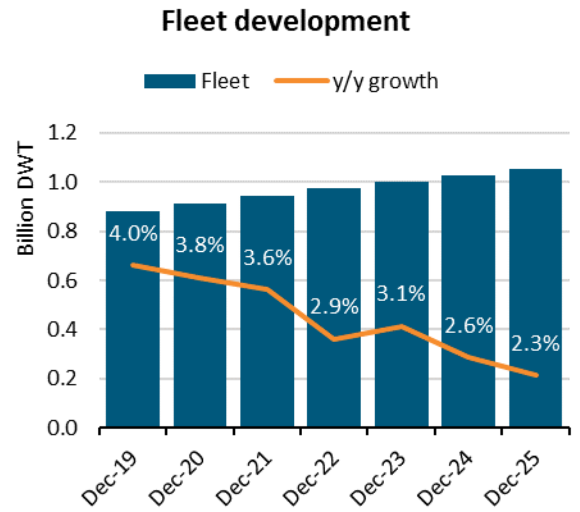
Supply

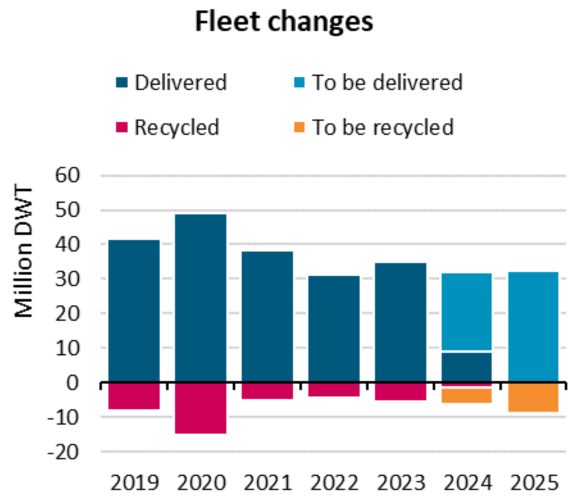
We estimate that dry bulk **supply** will only grow by 2-3% in 2024 and 1.5-2.5% in 2025.

The **dry bulk fleet** is expected to grow by 2.6% in 2024 and 2.3% in 2025, the slowest it has grown since 2016.



Source: BIMCO, Clarkson Research

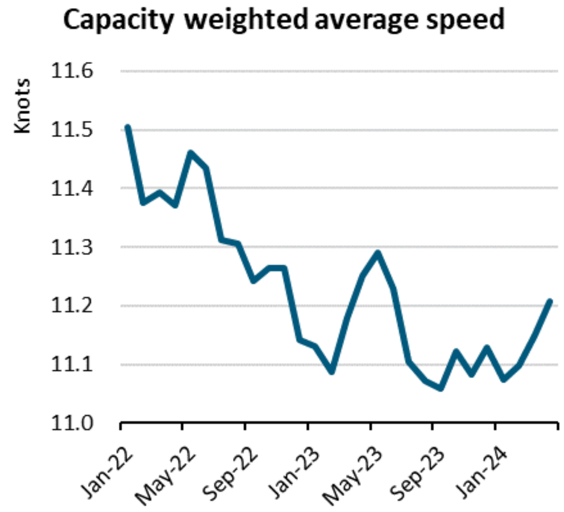
Ship **deliveries** are forecast to reach 32.0 and 32.4 million DWT in 2024 and 2025 respectively. This is a slight upward revision since our last update, primarily among the smaller segments. Supramax is the segment with the highest fleet growth, at 4.4% in 2024 and 4.5% in 2025.



Source: BIMCO, Clarkson Research

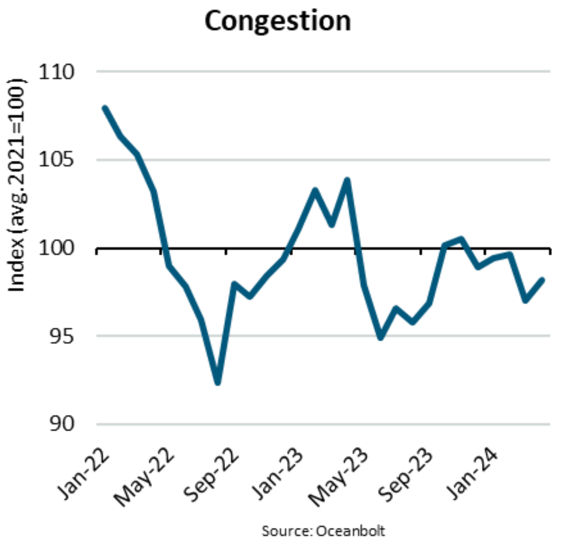
The **dry bulk orderbook** stands at 88.6 million DWT, up 7.4% y/y, equal to 8.8% of the current fleet. Despite an increase in newbuilding contracting during 2023, it was remarkably lower during the first quarter of 2024, at 5.6 million DWT. Any ships contracted during the rest of this year should only be delivered after 2025.

Ship recycling is estimated to reach 6.3 and 8.7 million DWT in 2024 and 2025 respectively. A strong market has kept older ships operating for longer than they normally would have. However, recycling may gradually increase from the start of 2025, due to a comparatively weaker market.



Source: BIMCO, Signal Ocean

Sailing speeds could fall by 0-1% in both 2024 and 2025. After a couple of years when speeds fell significantly, it is now starting to stabilise at current levels. So far in 2024, a surge in freight rates kept sailing speeds stable, only down 0.3% y/y. Climate regulations are expected to continue to incentivise low sailing speed.



We expect that a reduction in **congestion** could lead to a 0-1% increase in supply in 2024. So far in 2024, ship capacity in congestion fell by 3.7% y/y. In Brazil it has notably improved, at least in part due to smaller grain harvests.

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BIMCO publishes Shipping Market Overview & Outlook reports towards the end of each month as follows:

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