May 2024

Shipping Market Review

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Foreword

As we present our latest edition, Shipping Market Review – May 2024, we would first like to address a temporary change in its scope. This change is a direct consequence of the ongoing integration of the Sustainability department into our Research team. To ensure a seamless transition while maintaining the high standards of our output, we have found it necessary to refine the scope of our research temporarily. Consequently, we may give less coverage to some topics that we have previously explored in depth until the integration is complete.

This integration is more than a mere structural change; it represents a significant shift towards embedding sustainability at the core of all our activities. By combining our expertise in ship finance with cutting-edge shipping research and sustainability insights, we aim to offer our customers, investors and other stakeholders a comprehensive understanding of the industry's journey towards net zero while continuing to finance the transition.

We appreciate your understanding and patience as we undertake this important endeavour. The changes underway are designed to enhance the relevance and depth of our offerings, thereby providing greater value to all our stakeholders.

Thank you for your continued support.

Christopher Rex, Sustainability & Research, Danish Ship Finance

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Unlock. Earn. Decarbonise.

Shipping Market Review – May 2024

Executive Summary

Meeting the 2030 climate targets will require the introduction of new income models, while the business model for vessel ownership will be up for review towards 2050

The shipping industry is progressing on its decarbonisation journey, closely guided by a global regulatory framework. The industry will meet the 2030 targets by optimising the current fleets and their commercial structures, whereas reaching the 2050 targets will require new vessels burning new sustainable fuels. The ability to innovate income models will play a critical role towards 2030, while fundamental changes to the strategic imperative of the industry's commercial structure will be needed before 2050. To reach net zero by 2050, we may need to rethink how value is created from vessel ownership. Vessels as an asset class may begin to reward investors with a stable long-term yield on invested capital.

The commercial architecture of the shipping industry is hindering access to significant pockets of energy efficiency. The massive potential for emission reductions will only be released with a systemic integration of environmental targets into commercial contracts. Once industry actors are financially rewarded for energy efficiency beyond just fuel savings, they will have an incentive to change their behaviour. The commercial landscape could be about to consolidate from the bottom up.

How to meet the 2030 climate targets

The shipping industry is currently highly fragmented. Market leaders are rare, and few, if any, have a strong enough position to change the market offering. Customers seem to regard ocean transportation as a commodity. The lack of transparency and benchmarking makes it difficult to commercialise a premium product.

We propose introducing a voyage-based fuel budget that dictates fuel payments from A to B. The fuel budget should reflect the median fuel consumption performed on that voyage by comparable vessels. Operators that consume less fuel should be allowed to pocket the value of fuel not consumed, whereas underperformance will represent a cost for the operator.

Fuel not consumed will offer an additional income stream or an equity kicker that rewards investments in energy-saving upgrades. By tightening fuel budgets annually, it will become possible to guide the industry towards meeting the 2030 climate targets.

Shrinking seaborne trade volumes towards 2050

Signs are that seaborne trade volumes will likely shrink between the 2030s and 2050, and that they will primarily consist of cargo that is more feasible to transport than to produce locally. This suggests a decoupling of seaborne trade volumes and global economic growth.

Volumes of many of the larger seaborne cargo types will continue to increase alongside the global economy. Still, vessels transporting fossil fuels, chemicals, iron ore and long-haul container volumes are projected to reach peak demand sometime in the 2030s. Primary front-haul volumes may unexpectedly evaporate if the trend of production facilities being relocated accelerates.

> **"Investments in fuel offtake agreements including ships present a very different proposition for investors**

Shrinking seaborne trade volumes would support the industry's aim to reduce absolute emissions. For investors that intend to renew their fleets, this may pose a challenge if it leads to a prolonged period of low freight rates.

Long-term contracts: A foundation for net zero

New vessels burning sustainable shipping fuels will be needed for the shipping industry to reach net zero by 2050. Many shipowners are actively working to renew fleets, and many newbuilding contracts have some kind of dual-fuel capabilities, but few seem to have a plan to translate the dual-fuel vessels into a decarbonisation strategy.

It seems inevitable that the availability of sustainable shipping fuels will only scale if cargo owners are willing to commit to long-term offtake agreements. This is an important observation since the asset game seems unlikely to play a major role in a future where vessels and cargo are bundled and pre-booked for ten to 15 years.

Investments in ships – or maybe more correctly in fuel offtake agreements, including ships – present a very different proposition for investors than traditional vessel investment. The fuel side will dominate the combined cost of ownership and operation. The long and fixed contracts will place more importance on counterparty risk, which is subject to the cargo owner's credit quality.

Many existing players will likely find such an outlook extremely unattractive, since many shipping investments thrive in times of high volatility. The good news, though, is that it will allow the industry to drive down absolute emissions to net zero by 2050.

A Global Infrastructure Adapting to Climate Targets

Industry dynamics are being redefined by transparency and benchmarking

Global climate targets are transforming industry dynamics, introducing new perspectives and metrics that are reshaping industries worldwide. The shipping industry is at the centre of this. Predictions suggest a decrease in seaborne trade volumes as early as the 2030s. Enhanced transparency and benchmarking will likely change value creation and consolidate the competitive landscape. Energy-efficient vessels are expected to earn more per dollar freight rate, while less efficient vessels will find it increasingly challenging to earn a profit. The 2050 climate targets cannot be met without the introduction of sustainable shipping fuels, but it remains to be seen how these fuels will be supplied to the market.

Ocean transportation is a pivotal infrastructure within the global economy, facilitating the conveyance of 85% of worldwide trade. It connects economies, industries, sectors and people. It is crucial in enabling global goods, food, energy, and people flows.

Maritime transport represents the most cost-effective and energy-efficient method for the bulk movement of goods across vast distances. The shipping industry emits 2.2% of global emissions. For the industry to reduce emissions in alignment with the Paris Agreement (1.5 degrees), absolute emissions must be reduced by 45% by 2030 and reach net zero by 2050.

Challenged by megatrends

Ships are built to trade for between 20 and 30 years. The industry is well positioned to handle regional shifts and global imbalances, but the life expectancy of its fleet exposes it to megatrends such as decarbonisation and electrification.

In the shipping industry, the call to decarbonise the global economy means rising fuel costs and higher newbuilding prices. At the same time, critical seaborne volumes are likely to be phased out even during periods of economic growth.

All industries find it challenging to adapt to higher costs. This is especially the case if it coincides with demand shrinking. Several vessel segments are likely to face such a commercial landscape as early as the 2030s. Vessels transporting fossil fuels (representing close to 40% of seaborne trade volumes) and chemicals, large container vessels and those transporting iron ore are likely to be significantly exposed.

Fleet renewal in shrinking markets

Freight rate volatility will likely increase in these segments when supply adapts to shrinking demand. Periods of surplus vessel capacity and low freight rates will likely become more frequent. For shipowners, it will be challenging to renew fleets and adapt to higher costs during periods of low earnings.

Still, new vessels are likely to be contracted. Many will be earmarked for long-term cargo contracts, which may expose the remaining fleets to more surplus vessel capacity and lower freight rates.

Fleets servicing long-term cargo contracts create value for investors through their cash flow yields, while vessels trading spot are more likely to create value through the asset game.

A shift in yields and volatility is likely to demand a change in the investor landscape. Vessels employed on long-term cargo contracts are more likely to be owned by institutional investors with longer investment horizons than many traditional shipping investors.

2050 targets are all about sustainable fuels

Today, traditional owners continue to dominate newbuilding markets. Many owners are recycling some of their excess earnings from previous years into orders for new vessels. Few seem to have a clear fuel decarbonisation strategy, but many of the orders have some dual-fuel capabilities.

> **“A shift in yields and volatility is likely to demand a change in the investor landscape.**

Fleet renewal without access to sustainable shipping fuels does not represent a decarbonisation strategy. Initially, it will be little more than an investment with good intentions and lower carry, although it could become profitable if another investor with access to sustainable shipping fuels aims to scale a fleet more quickly than the shipyard capacity allows.

The 2050 target cannot be met without a significant part of the future fleet burning sustainable shipping fuels. The future ownership landscape will likely be dominated by entities that can offer vessels and access to sustainable shipping fuels. These entities are not necessarily part of the current competitive landscape. We anticipate a significant push for asset consolidation as early as the 2030s.

Climate Regulation is Transforming the Shipping Industry

Contractual changes and income model innovation are required before the industry can meet its 2030 targets

The 2030 targets are for existing vessels burning existing fuels. New technologies are clearly part of the solution, but technology alone will not reduce emissions by 45% before 2030. The industry needs to change its behaviour and innovate business dynamics to access the enormous but untapped potential currently encapsulated in fleets. New environmental measures will need to be introduced in commercial contracts to allow industry dynamics to change. We propose four levers that may propel the transition while generating a yield on investments.

The 2030 targets will not be reached simply by introducing new technologies and retrofitting existing vessels: operational, technical, and commercial practices will need to change if emissions are to be reduced.

The introduction of new technologies and energy-saving devices will increase costs. To benefit from these investments, the industry will need to innovate business models, allowing for new revenue streams.

> **“We argue that it is possible to move more cargo while continuing to reduce emissions, even without systematically decreasing speeds.**

The solution is within reach

Seaborne trade volumes will likely continue to increase towards 2030, meaning that trade volumes and emissions will have to decouple. We argue that it is possible to move more cargo while continuing to reduce emissions, even without systematically decreasing speeds. This will require some quite fundamental changes to the commercial architecture of the industry, though.

The industry must align incentives between stakeholders to harvest the abatement potential currently encapsulated in fleets. Accessing the massive potential for emission reductions will require a systemic integration of environmental targets into commercial contracts. We point to four levers that need to be activated:

1. Reinvent industry dynamics
2. Introduce benchmarking
3. Change commercial contracts
4. New revenue stream

By activating these four levers, the shipping industry will likely meet the 2030 targets (Paris Agreement, 1.5 degrees). New regulations or a global tax on carbon may help supercharge the transition but may not be a prerequisite for meeting the 2030 targets.

Income models are up for review

These changes are likely to transform the industry. The business model of operating other people’s vessels on short-term contracts seems particularly exposed. The constant push to improve energy efficiency requires long-term alignment between the cost savings from fuel optimisation and the costs of upgrading vessels. Such alignment is less easy to maintain if vessels are frequently shifted between employers.

Traditional pool structures seem challenging to manage in the age of climate targets. The pool manager does not control investments in individual vessels’ energy efficiency beyond the allocation of pool points. Still, the pooling mechanism under the FuelEU Maritime regulation provides pools with some leverage. Pools as a concept seem unlikely to disappear, but individual pools may begin to be more aligned on specific climate targets in the coming years.

Ownership may consolidate from the bottom up. The ability to maximise the energy efficiency of fleets is not only about retrofitting vessels but also about digitalising operations. Smaller owners are likely to find it difficult to justify the required investments, since the size of their fleets caps their upside potential.

Increased focus on cash flow yields

Value creation in the shipping industry will likely transform away from the asset game towards cash flow yield. Speculating on asset price fluctuations could become a niche activity, primarily for older and less efficient vessels. Younger, efficient vessels will likely be employed on trades that reward their high energy efficiency.

Four Levers May Unlock Significant Value from Decarbonisation

How to increase profits and supercharge commercial decarbonisation towards 2030

Few cargo customers currently prefer one ocean carrier over another based on environmental performance metrics. It is hard to blame them. Ocean transportation is often perceived as a commodity. Customers' willingness to choose carriers based on environmental performance will increase when transparency and benchmarking allow identification. Then, it will become possible to introduce market-based measures that financially reward the operation of energy-efficient vessels.

1 Reinvent industry dynamics

The first lever relates to the income models that define the commercial landscape. Too few owners make their money from serving their customers; they do so by speculating on asset value fluctuations.

The nature of the asset game limits owners' willingness to invest in upgrades with long repayment periods. This has created large fleets of vessels that emit significantly more greenhouse gases than necessary.

For the industry to meet its 2030 targets, its dominant income models must reward energy efficiency. The new environmental regulations introduced by the IMO and the EU will likely increase charterers' demand for more energy-efficient vessels.

2 Introduce benchmarking

The second commercial lever relates to transparency and benchmarking. The industry must establish transparency and benchmarking before anyone can innovate their market offering. Most people clearly understand energy consumption per distance travelled when driving a car. That is not always the case for ocean transport.

For the shipping industry to be allowed to harvest the energy-efficiency potential currently encapsulated in the fleet, we should establish a fuel benchmark per voyage.

The fuel benchmark for individual voyages, defined as the median performance on a particular journey, would set the fuel budget for that voyage. The fuel budget would then serve as a standard against which a vessel's actual fuel consumption during the voyage could be compared to assess its environmental performance. Ideally, the voyage budget would be adjusted for weather conditions above and below sea level.

3 Change commercial contracts

The third lever of action is to enhance differentiation. Many operators have trouble distinguishing themselves in the market due to customers' homogenised perception of ocean transportation as a service and its environmental performance. The service provided is frequently viewed as a commodity, which likely contributes to the industry's persistent fragmentation.

The market value of the world fleet is currently close to USD 1.3 trillion, or less than half the market value of Apple. The fleet consists of more than 108,000 vessels owned by more than 27,000 owners, meaning the average owner controls three to four ships.

Some players are considerably larger; however, few – if any – possess a market position that enables them to innovate their market offering significantly. Environmental performance metrics need to be included in commercial contracts to allow the most energy-efficient operators to financially benefit from lower emissions.

4 New revenue stream

The fourth lever is about innovating the income model. To drive change and harvest the untapped energy-efficiency potential, we need to weaponise fuel budgets. These need to be built into the commercial contracts that guide commercial decisions. When fuel budgets become part of the contractual framework, it will be possible to introduce an additional revenue stream for operators.

By allowing the fuel budgets to dictate the voyage fuel payment and enable operators to pocket the value of fuel not consumed, operators will become incentivised to optimise operations to the highest degree possible.

Underperformance will represent an additional cost, as the contract will not cover fuel consumption above the fuel budget. High performance will increase operators' return on invested equity, since the value of the unused fuel will be earned under the contract.

Fuel not consumed will become an equity kicker that rewards investments in energy-saving upgrades. By tightening fuel budgets annually, it will become possible to guide the industry towards the climate targets.

Outlook for Seaborne Trade Volumes

Seaborne trade volumes will likely shrink from the 2030s

Seaborne trade volumes and trading patterns are likely to change alongside the decarbonisation of the global economy. Signs are that seaborne trade volumes and global economic growth will decouple in the age of decarbonisation. On the one hand, this is good news for absolute emissions, but, on the other, it may pose a challenge to shipowners if it leads to a prolonged period of low freight rates and high newbuilding prices (break-even rates). The need for fleet renewal is difficult to assess. Seaborne trade volumes are likely to shrink in some segments, while it will clearly be much more challenging to drive down absolute emissions in segments where seaborne trade volumes continue to grow.

The shipping industry plays an essential role globally, not only in connecting supply chains, but also in sustaining the supply of essential resources such as food and energy. This role will continue, but seaborne trade volumes could decline when cargo customers and end consumers double down on their call to reduce emissions across all three emission scopes.

The global energy supply is switching to renewables, production is becoming more local, and material flows are becoming circular. These factors collectively suggest a potential decrease in the dependence on seaborne trade per dollar growth.

Arguments for trade are changing

Throughout history, seaborne trade volumes have increased in parallel with global economic growth. This long-standing trend might be approaching a pivotal change. The climate agenda is dictating the revision of supply chain and production strategies. Global GDP is increasingly shifting towards the service sector, which is inherently less reliant on seaborne trade than the primary and secondary sectors.

Seaborne trade volumes will likely shrink towards 2050, primarily to encompass only cargo that is more feasible to transport than to produce locally.

In many vessel segments, seaborne trade volumes, trading patterns and parcel sizes are on the cusp of a significant transformation as we head towards the 2040s and 2050s.

Many of the larger seaborne cargo types will continue to increase alongside the global economy, but vessels transporting fossil fuels (representing close to 40% of seaborne trade volumes), chemicals, iron ore (in the context of the emerging green steel industry) and long-haul container volumes are projected to reach peak demand sometime in the 2030s. Primary front-haul (spot) volumes may unexpectedly evaporate if production facilities are relocated.

Production can be relocated to increase supply chain resilience while reducing emissions. One example could be mine output being processed close to mines, while energy supply is shifted from imported fossil fuels to locally produced renewable energy sources. Similar dynamics may be seen for chemicals and manufactured goods.

Life expectancy of assets less of a consideration

The **life expectancy** of production facilities may unexpectedly shorten if customers change suppliers or if production moves elsewhere. The same dynamic will apply to vessels. These trends could significantly lower seaborne volumes and reduce travel distances for entire vessel segments.

How will the shipping industry **renew fleets** in such an environment? Shrinking demand is likely to reduce freight rates (and increase volatility), while new vessels will be more expensive to build and operate. Few investors would appreciate a deflationary income environment combined with higher costs.

> **“ Seaborne trade volumes will likely shrink towards 2050, primarily to encompass only cargo that is more feasible to transport than to produce locally.**

Net Zero by 2050

A fragmented industry journeying towards net zero without a clear market leader to drive change

The long-term climate targets of the shipping industry are all about eliminating carbon emissions by 2050. The solution sounds simple: build new vessels that burn sustainable fuels. That is clearly the end goal, but the commercial levers that are used to pilot the industry require massive changes to cost structures, business models and value drivers. Shipping is currently scouting a lonely journey that aims to build an earmarked but sectorally isolated fuel supply to a fragmented industry. There is much that could go wrong, but brave forerunners are pushing to create a market. We do see a commercial pathway towards net zero in 2050, but the industry is likely to be significantly transformed along the way.

The commercial product, ocean transportation, will not become obsolete, even though seaborne trade volumes will likely shrink. However, with the current market offering, the industry will quickly prove unable to deliver on the climate targets beyond 2030. The main challenge is not about the vessels but about the fuels.

No market leader to drive change

The shipping industry is scouting a journey that no one else has undertaken. There are currently no plans in the oil and gas industry to build a global decarbonised fuel supply of ammonia and methanol that can serve an extensive range of industries and sectors, including shipping.

> **“ The shipping industry’s decarbonisation strategy for 2050 is built on a fuel mix for which availability is low, energy density is low, capital requirements are high, prices are high, consumer signals are weak, and the ownership structure is fragmented, with no clear market leader to drive the new market offering.**

The shipping industry does not seem to have the power to drive the production of sustainable fuels on its own. As an industry, shipping is a relatively small customer of the oil and gas industry. Ocean transportation accounts for less than 5% of global oil consumption.

To establish a supply of sustainable shipping fuels, at a global scale that allows the green premium to be driven down, it currently seems that it will be necessary to collect demand signals across several sectors and industries of the global economy.

The introduction of a global carbon tax would help narrow the green premium but might not be enough in isolation. The shipping industry’s energy demand will not increase with higher prices, even though transported fuel volumes could grow, since sustainable shipping fuels' energy density is lower than that of traditional fuels.

The shipping industry’s decarbonisation strategy for 2050 is built on a fuel mix for which availability is low, energy density is low, capital requirements are high, prices are high, consumer signals are weak, and the ownership structure is fragmented, with no clear market leader to drive the new market offering. No other industry has successfully decarbonised with such a mix.

It is easy to identify barriers to success, but the strategy will work where no other alternatives are available. Ocean transportation may not cease, but seaborne volumes are likely to contract when countries, industries and sectors reduce emissions across all three scopes.

Limited access to mass markets

A decarbonised seaborne transportation offering is currently a niche product. This is particularly the case for tramp shipping. Access to dual-fuelled vessels is not the issue; access to sustainable shipping fuels is the key challenge.

Only a handful of shipowners in the shipping industry have sufficiently robust balance sheets to engage in long-term offtake agreements with fuel producers beyond pilot schemes and green corridors. Even fewer, if any, have the strength to move beyond this.

Still, the industry is progressing. A number of bold forerunners are ordering dual-fuel vessels and are investing in sustainable shipping fuels to secure a future supply for some of their vessels. They are working to mature markets and amplify the demand signal from cargo owners. This is a risky path, with many potential pitfalls. We acknowledge the risk they take on behalf of the shipping industry.

Shipping Markets at a Glance

Shipping Market Review – May 2024

Shipping Markets at a Glance

Strong freight markets mask deteriorating fundamentals

Supply has been running ahead of demand in several of the main shipping segments for large parts of the 2020s. Still, geopolitical tensions, sanctions and climate-related disruptions have resulted in longer travel distances and created infrastructural inefficiencies across many ship segments. These effects have reduced the cargo-carrying capacity of the world fleet and kept fleet utilisation high.

Strong freight rates and secondhand prices

Shipping markets are performing well, and most segments have experienced prolonged periods of high freight rates and secondhand prices since the early 2020s. Market activity is high, and many vessels have been transacted, both newbuildings and secondhand vessels. Orderbooks are generally at low or moderate levels, apart from in the Container and Gas Carrier segments.

Freight rates are among the highest 20% since 2000

The ClarkSea Index continues to show rates among the highest 25% observed since 2000. The index ended April 2024 at USD 24,206 per day, representing a 5% drop or USD 1,213 per day below the April 2023 level. The leading indices for Tankers, Dry Bulk, LPG and Containers are all trading among the highest 35%-20% observed. The Dry Bulk index gained almost USD 2,200 per day, or 17%, between April 2023 and April 2024, whereas the other segments reduced earnings.

Secondhand prices are among the highest 30%

Average secondhand prices are among the highest 30% observed since 2000 and have increased by 9% over the past 12 months. The price levels between 2021 and today have not been seen since the heydays of 2004-2008 and briefly in 2010. From a price-earnings perspective, the pricing of secondhand vessels is currently more balanced than in 2008.

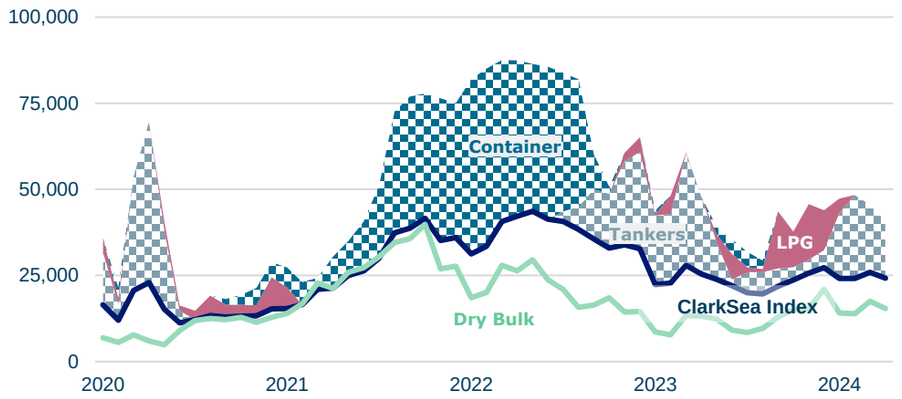
Supply is expanding ahead of demand

The strong freight rate and secondhand price environment is remarkable if we look at the underlying balance between supply and demand. The fleet expanded by an annual average of 3.4% between 2019 and 2023, compared to just 0.6% growth in seaborne trade volumes. Seaborne trade volumes dropped not only in 2020 but also in 2022, but then grew somehow in tandem with global economic growth in 2021 and 2023. Longer travel distances added the equivalent of 1 percentage point to vessel demand per year during the period.

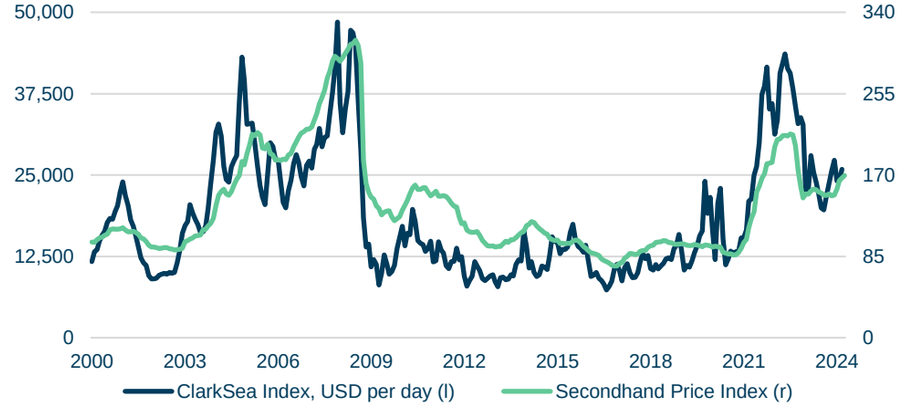
Geopolitical tensions mean longer travel distances

Geopolitical tensions have resulted in longer travel distances while reducing the cargo-carrying capacity of the fleet. Longer travel distances are as effective as volume growth in terms of utilising fleets, even though they may prove less resilient over time if they are not driven by fundamentals (e.g. end-user demand, refinery locations, mines, chemical plants, etc.).

ClarkSea Index, USD per Day



Freight rates and secondhand prices



Source: Clarksons, Danish Ship Finance

Global GDP is Producing Less Seaborne Trade

Markets are currently being powered more by longer travel distances than larger volumes

The high freight rate and secondhand price environment experienced between 2020 and today masks an underlying shift that shrouds the medium- to long-term outlook in uncertainty.

Global dependencies are recalibrating

Megatrends such as demographics and decarbonisation are silently recalibrating the relationship between global economic growth and seaborne trade volumes. Combined with technological innovations, these factors are reducing the potency of the engines that fuel structural growth in seaborne trade volumes.

Short-term factors are dictating the current market development

Structural changes are slow but are continuing to develop in the shadow of the more visible short-term effects stemming from geopolitics, the pandemic and infrastructural inefficiencies. The latter have supported freight rates and secondhand prices since the early 2020s by creating regional imbalances that have led to trading routes being reshuffled and longer travel distances. These effects are currently outgunning the less visible structural changes being propelled by the megatrends.

Global GDP and seaborne trade used to grow in tandem

Seaborne trade volumes expanded by an annual average of nearly 3% between 2000 and 2020. This translated into a global GDP multiplier of approximately 1, meaning that seaborne trade volumes, on average, grew in tandem with global economic growth. The applied relationship between global economic growth and seaborne trade volumes is essential when forecasting freight rates and demand for shipyard capacity (future fleet renewal), and determining the actions required to decarbonise the shipping industry.

It will be more difficult to decarbonise if seaborne volumes continue to increase, but…

From a technical perspective, it is much less challenging to reduce absolute CO2 emissions if seaborne trade volumes are declining than in a situation where cargo volumes are continuing to grow. Still, from a financial perspective, declining freight volumes are likely associated with declining and volatile freight rates, which may not be investors' preferred environment for fleet renewal.

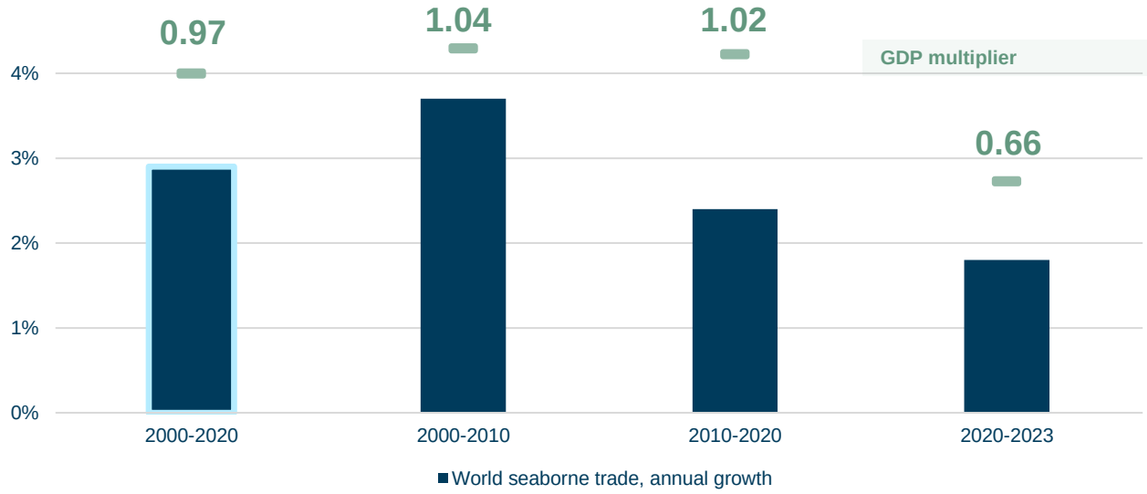
…megatrends are silently changing the shipping industry

Today's dominant narrative in the shipping industry concerns a scenario where seaborne trade volumes continue to grow and where shipyard capacity may become a constraint for a timely decarbonisation process. We see a significant risk that the assumptions fuelling these discussions fail to take account of how the megatrends are silently changing the industry's underlying demand dynamics.

Economic growth is becoming less seaborne-intensive

Global economic growth and seaborne trade volumes have increased since 2000, but the relationship has changed over the years. China's entry into the WTO in December 2001 fuelled strong growth in seaborne trade volumes. The GDP multiplier averaged 1.04 between 2000 and 2010 (peaking at 1.28 in 2004) and 1.02 between 2010 and 2020 (peaking at 1.12 in 2012), but subsequently fell to 0.66 between 2020 and 2023 (peaking at 0.79 in 2023). The multiplier is predicted to average 0.75 in 2024, which suggests that the pandemic effects are over but that the dynamics in play between 2010 and 2020 have significantly weakened.

Less growth in seaborne trade volumes per dollar growth



Source: Clarksons, Danish Ship Finance

A Transformative Shift is Under Way

Demand for shipyard capacity may decline by 25% towards 2040

We argue that a transformative shift in the relationship between global economic growth and seaborne trade volumes is evolving. The ageing consumers globally are shifting global GDP towards the service sector (e.g. health care), which does not generate meaningful seaborne volumes. The climate agenda is not only leading the seaborne-intensive fossil fuel industry to be phased out (fossil fuels account for approximately 35-40% of seaborne trade volumes) but is also recalibrating the logic across global supply chains by putting a price on carbon. There are many indications that seaborne trade volumes will likely decline as early as the 2030s. Please see the first chapter of this report for a more detailed discussion of the outlook for seaborne trade volumes towards 2050.

Shrinking trade volumes will demand less shipyard capacity

Vessels are built to trade somewhere between 20 and 30 years. This means that if the size of the world fleet is simply to be maintained, new vessel capacity corresponding to 3-5% of the current fleet needs to be ordered annually. In periods of growing seaborne trade volumes, more capacity is required, while the opposite is true if demand declines.

Lower demand for new vessels

Seaborne trade volumes have increased by an annual average of 3% since 2000, while yearly contracting as a percentage of the fleet has increased by 6-7%. Longer travel distances and reduced speeds have worked to balance supply and demand. Still, as with the relationship between global economic growth and seaborne trade volumes, contracting as a percentage of the fleet has trended downwards since the early 2020s (see graph).

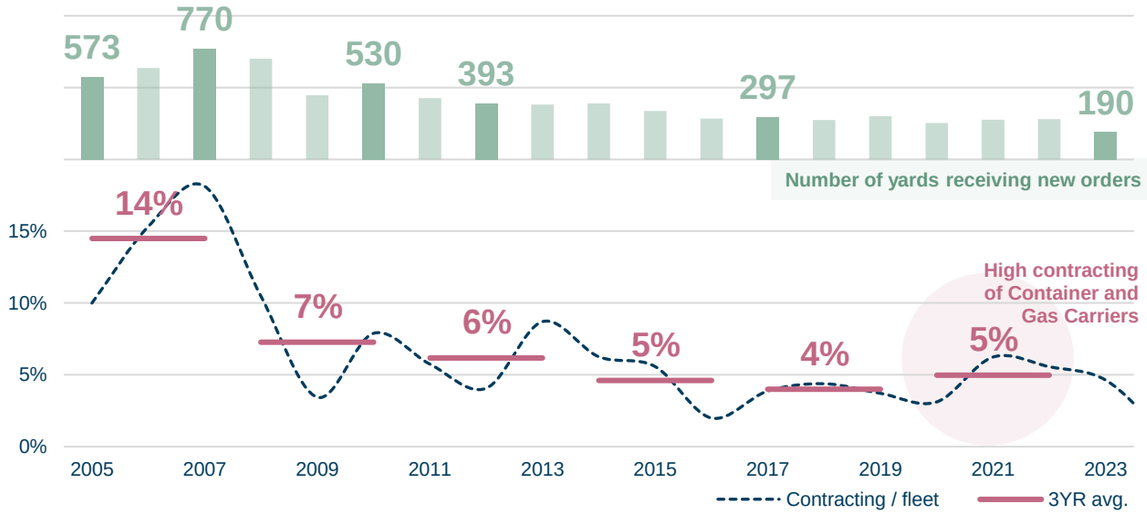
25% drop in global yard capacity

The industry's need for fleet renewal and thereby demand for shipyard capacity will be significantly reduced in a scenario where seaborne trade volumes begin to decline during the 2030s. The Tanker segments (Crude, Product and Chemical Tankers) currently represent 31% of the world fleet, measured in dwt, while the Gas Carrier fleet (LNG and LPG) accounts for another 4%. Other segments will also experience lower demand and, thereby, lower demand for fleet renewal. New orders will still be placed in the coming years, but we argue that demand for shipyard capacity is structurally declining. For the sake of example, let us assume that global demand for yard capacity drops by 25% towards 2040.

Gloomy outlook for second-tier yards

Global yard capacity is estimated at 59 million cgt distributed between 314 yards. A group of around 100 first-tier yards control 65% of global yard capacity but 90% of the orderbook. The second-tier yards control 35% of global yard capacity but only 10% of the orderbook. Many second-tier yards are due to deliver their last orders this year or in 2025. The timing of yard closures is challenging to predict, but the conclusion seems relatively straightforward. In the scenario where global demand for yard capacity declines by 25%, equivalent to almost 15 million cgt, only one-third of second-tier yard capacity will be in demand during the 2040s. The impact on the broader shipping ecosystem will be severe.

Fleet renewal on a declining trend across fewer yards



Source: Clarksons, Danish Ship Finance

Newbuilding Prices May not Decline

Surplus yard capacity may not be enough to reduce newbuilding prices

Newbuilding prices continue to increase despite surplus yard capacity. Clarksons' newbuilding price index is currently at levels among the highest 5% observed since 2000 and has increased by 11% since March 2023. Still, we argue that nearly 38% of global yard capacity is running low on capacity utilisation.

Prices are settled between winners

Prices are only settled between participating parties. This means that yards that do not end up bidding for an order do not influence the price development. The current yard capacity is distributed between 314 yards, while only 188 yards received new orders in 2023, and 278 yards delivered at least one vessel. The 126 yards that did not receive any new orders during 2023 are unlikely to have impacted the newbuilding price development.

Low price transparency

Construction costs are not very transparent. It is difficult to gauge whether higher new building prices reflect higher yard profitability, component costs, slot availability or vessel specs. Many ships on order are more advanced (e.g. equipped with energy-saving devices or dual-fuel engines) than previous orders, which warrants higher prices.

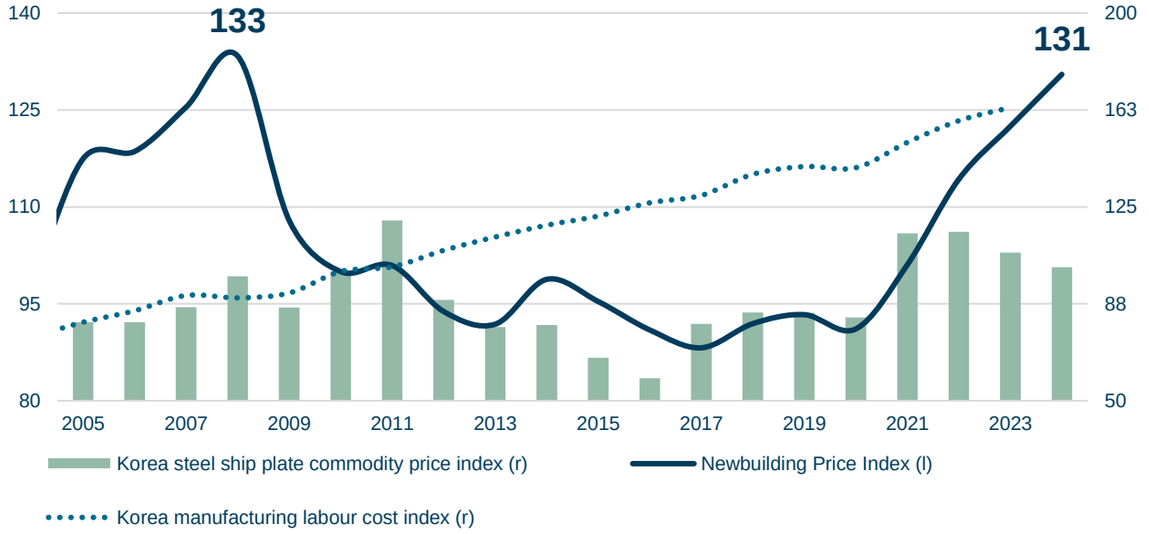
High cost structures

Moreover, steel prices are high (among the highest 20% observed since 2000), even though they have declined by 7-9% during the last 12 months in Japan and South Korea (measured in USD per tonne). Labour costs are historically high and have increased over the last 12 months.

Newbuilding prices are set to stay high

The outlook for the newbuilding price index may not be affected by the declining yard utilisation among second-tier yards. It seems unlikely that newbuilding prices will begin to come down in the short to medium term, even though yard utilisation is expected to decrease. Surplus yard capacity may keep price increases in check but may not create much deflationary pressure. This may even be the case if yard capacity is structurally reduced by, for example, 25% towards 2040.

Strong increase in newbuilding prices (Index 100 = 2010)



Source: Clarksons, Danish Ship Finance

Shipbuilding

Shipping Market Review – May 2024

Shipbuilding

Positive short-term outlook

The outlook for the shipbuilding industry looks positive in the short term, with the global utilisation rate scheduled to peak in 2024 before (potentially) softening in the following two years. Meanwhile, continuously firm contracting activity and limited yard availability are pushing newbuilding prices ever closer to an all-time high. Chinese and South Korean yards are the main beneficiaries, as they are securing the lion's share of new orders. Chinese yards will deliver most new Tanker vessels, while the top South Korean yards will be busy building large LNG and Container vessels for years to come – though not forever.

By segment

Container
The already record-high orderbook (in terms of capacity) held contracting activity at the ten-year-average in 2023 (6% of the fleet). The orderbook of around 800 vessels is distributed between 80 yards, but it is concentrated at large first-tier yards in China and South Korea. The top ten yards are building 55% of vessels on order. Container orders occupy 23% of the global orderbook, measured in cgt.

Dry Bulk
Contracting in the Dry Bulk segment has stayed around the median level since 2017. Last year, new orders amounted to 5% of the fleet. Current orders (around 1,200 vessels – 9% of the fleet) are split between 100 yards, with the top ten yards building 50%. The Dry Bulk orderbook is currently at an all-time low and accounts for 17% of the global orderbook.

Gas Carriers
With the orderbook already at around 55% of the fleet, LNG Carrier ordering eased last year (to 10% of the fleet). Meanwhile, orders for LPG Carriers reached record highs (18% of the fleet). 32 yards are building the almost 600 Gas Carriers on order, with the top three claiming 60% and the top ten 90%. 29% of the global orderbook is dedicated to Gas Carriers.

Tankers
Following the historically low level in 2022 (1% of the fleet), new Tanker orders resurged in 2023 (5% of the fleet). Around 500 newbuild orders were placed, the majority at Chinese yards. The 800 vessels on order are spread across around 100 yards, with the top ten building 50%. Tanker orders represent 14% of the global orderbook.

By fundamental

Since the start of 2023, annual **yard capacity** has increased by 6 million cgt to 59 million cgt. Active yard capacity is currently split between around 314 yards building vessels larger than 2,000 dwt, compared to 290 yards in 2022. Additional active second-tier yards in China have been the main contributor to this growth.

278 yards delivered 35 million cgt (1,500 vessels) last year, reflecting a 60% global **yard utilisation** rate, up from 56% in 2022. The increase was driven by higher utilisation rates at both first-tier and second-tier yards. Yard utilisation at first-tier yards increased from 63% in 2022 to 70% in 2023, while utilisation at second-tier yards grew slightly, from 52% to 54%. First-tier yards accounted for around 75% of total deliveries in 2023, while the year-on-year increase was almost solely driven by first-tier yards in China. The last time annual deliveries were at 2023 levels (measured in cgt) was in 2016. In 2016, however, deliveries were spread between 360 yards, compared to just 278 in 2023. Meanwhile, global yard utilisation has only surpassed 60% twice in the last ten years – in 2021 and 2023.

Contracting activity remained above the historical (2000-2023) average at 43 million cgt (74% of global yard capacity) in 2023, despite softening by 12% and 20% from the multi-year peaks of 2022 and 2021, respectively. 1,800 additional vessels were ordered last year, divided between 190 yards – of which 75 are first-tier. As of ultimo April 2024, the orderbook amounts to 127 million cgt.

Source: Clarksons, Danish Ship Finance

Market Dynamics in the Last Six Months

There are the Chinese and South Korean shipyards – and then there are the rest

Around 85% of the newbuild orders placed last year were won by either Chinese or South Korean shipyards. While South Korean yards have been busy building large Gas and Container Carriers, China has stepped in to secure a record-high share of new orders.

Newbuilding prices are close to an all-time high

The newbuilding price index remains on the upward trend that commenced in 2021 and is now close to the all-time high observed in 2008. The increase is being dictated by firm contracting activity (measured in cgt) and limited availability at the first-tier yards. In addition, newbuilding prices are being settled between ever fewer yards that are not utilising their full capacity. In 2008, prices were settled between 600 yards, compared to just 190 last year.

Firm contracting activity – mainly at Chinese yards…

The end of 2023 concluded three consecutive years with above-average global contracting activity (measured in cgt), comparable only to two other periods on record – 2013-2015 and 2006-2008. In all three years, this meant almost historically high contracting at Chinese shipyards – surpassed only by the levels in 2006 and 2008. Throughout 2021-2022, all ten of the active South Korean yards also had elevated order levels. But in 2023, these ten yards saw new orders drop by 40% and their market share of new orders fall from 32% to 24%. Meanwhile, 60% of last year's total orders were secured by 100 (out of 145) Chinese yards, up from 50% in 2022. Before last year, no yard nation had attracted more than 50% of the annual amount of newbuild orders.

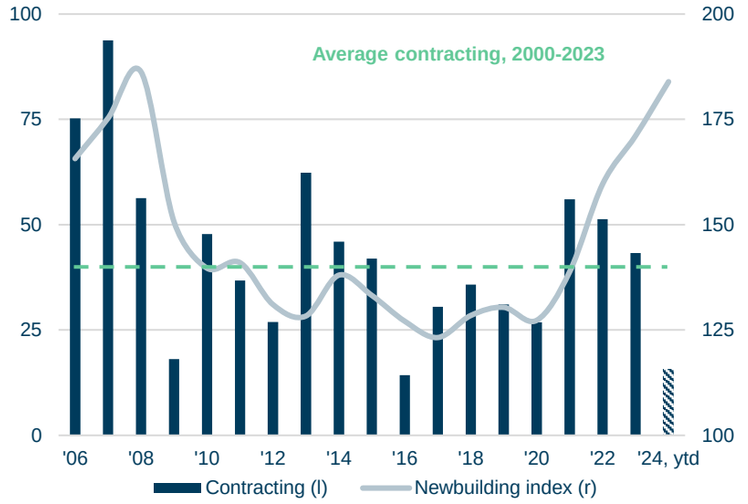
…as they have taken a larger share of new Tanker orders…

Chinese yards had not won more than 45% of annual Tanker orders until last year. But with traditional Tanker-building yards in South Korea busy building large LNG and Container Carriers, 46 Chinese yards secured three out of every four orders (65% in the first few months of 2024). A substantial 50% of the current Tanker fleet has been built in South Korea, while 20% has been constructed in China.

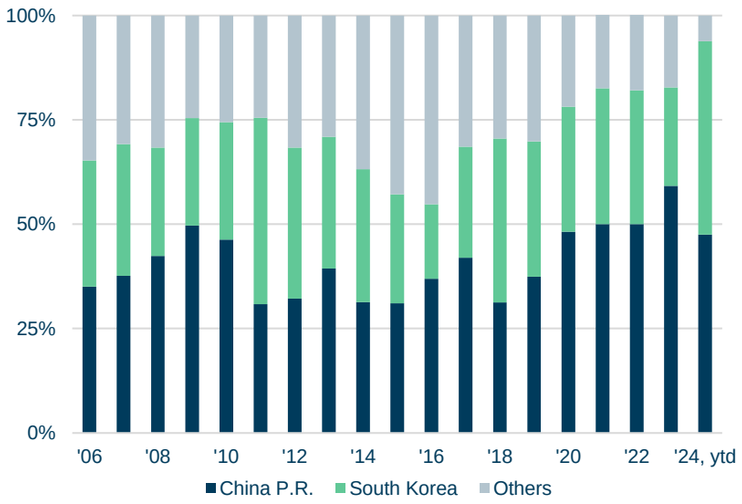
…while maintaining a solid presence in new Dry Bulk orders

Chinese yards remain dominant in the Dry Bulk segment, winning 70% of orders last year and 90% so far in 2024. In contrast, Japanese yards are struggling to compete. Their annual share of new Bulk orders has dropped from 35% to a decade-low 20%, while utilising less than half of their delivery capacity in the next few years.

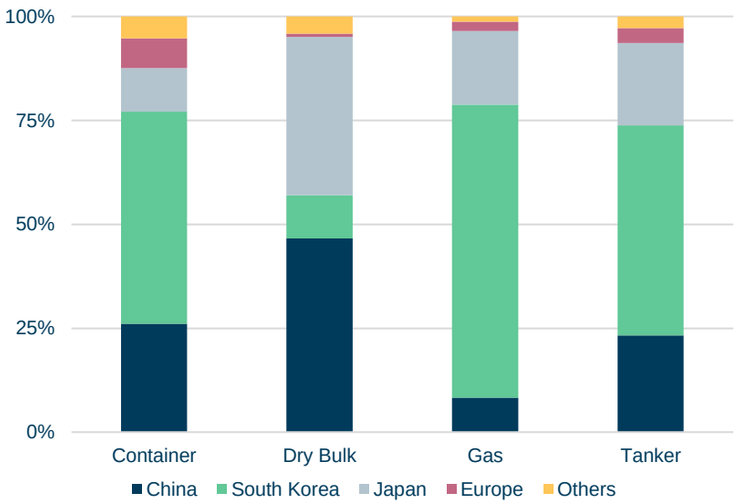
Annual contracting (million cgt) and newbuilding price index



Share of annual contracting by builder region/country (% of cgt)



Share of fleets by builder region/country (% of segment unit)



Source: Clarksons, Danish Ship Finance

Shipbuilding Outlook (1/2)

Global yard utilisation is expected to reach a record high in 2024

The near-term shipbuilding outlook is positive, with global utilisation rates expected at a record 73% this year. A large Tanker orderbook is backing employment at Chinese first-tier yards, while the top four South Korean yards (currently) are building LNG carriers.

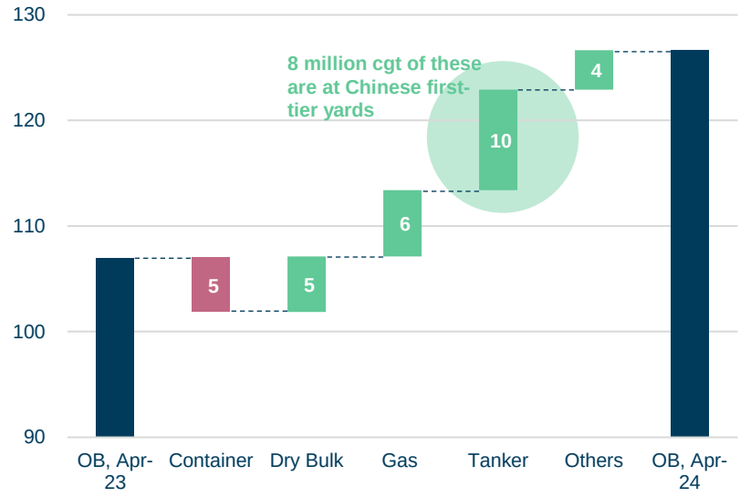
Larger orderbook, backing utilisation at Chinese first tier yards

Due to a persistent imbalance between deliveries and newbuild orders since 2021, the global orderbook has almost doubled over the last three years, to 127 million cgt (14% of the fleet). During the last 12 months, the orderbook has expanded by 20 million cgt, mainly due to a resurgence in the Tanker segments. Tanker orders more than tripled in 2023 (albeit from a record-low level in 2022) and currently make up 14% of the global orderbook, compared to 8% a year ago. 36% and 32% of the Tanker orderbook is scheduled for delivery in 2025 and 2026, respectively. In those years, the 32 (out of 50) first-tier yards in China that are building around 60% of the current Tanker orderbook will likely benefit the most, as they are expected to utilise around 50% of their capacity, on average, on Tanker deliveries alone. Historically, utilisation rates at Chinese first-tier yards have relied heavily on Dry Bulk and Container deliveries, while Tanker deliveries have amounted to just 20-25% of the output capacity of delivering yards.

Yard utilisation expected at a record 73% this year

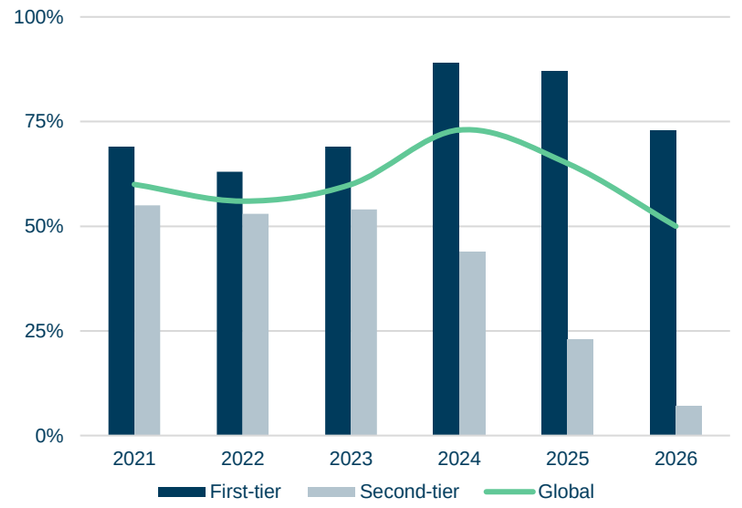
Around 30% of the total orderbook is due for delivery in the remaining nine months of 2024, 60% by the end of 2025, and 85% by 2026. As such, global yard utilisation is expected to peak at 73% this year, before slowing to 65% in 2025 and 50% in 2026, affected by high and robust utilisation at top-tier yards but swiftly declining rates at second-tier yards. The group of around 100 first-tier yards, which represent 65% of global yard capacity but 90% of the orderbook, are expected to increase utilisation from 70% in 2023 to 90% both this year and next. Even in 2026, first-tier yard utilisation is not expected to drop below 70%. In contrast, the remaining group of 214 second-tier yards, representing 35% of global yard capacity and just 10% of the orderbook, could soon run out of orders. Their capacity utilisation is expected to drop from 54% in 2023 to 44% this year, and may deteriorate further to 23% and 7% in 2025 and 2026, respectively, if they attract no new orders.

Orderbook (OB) growth by segment (million cgt)



Chinese first-tier avg. yard utilisation from Tanker deliveries (%)

Yard utilisation – current projections (%)



Source: Clarksons, Danish Ship Finance

Shipbuilding Outlook (2/2)

Utilisation rates may outpace projections – the top four South Korean yards could eventually run out of LNG orders

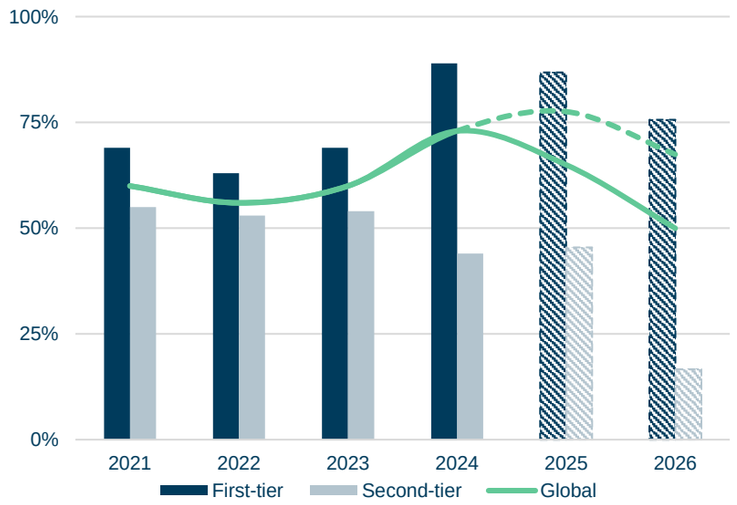
The number of active yards may be reduced to 200 by end-2024

There are currently 314 active yards globally (divided between 230 yard groups) with a combined annual delivery capacity of 59 million cgt. The number of active yards has hovered around 300 for the last three years, but – in line with the industry's ongoing consolidation into fewer and larger yards – this is likely to have been transitory. 112 out of 214 second-tier yards (18% of global yard capacity) are are already set to run out of orders in 2024, and half of these 112 yards only received their first order within the last three years. Assuming all yards shut down operations the same year they deliver their last orders, we may see utilisation rates grow beyond current projections. Based on the current orderbook, global rates could increase to 78% and 67% in 2025 and 2026, respectively. Utilisation at second-tier yards may benefit the most, growing from 23% to 45% in 2025, and from 7% to 17% in 2026.

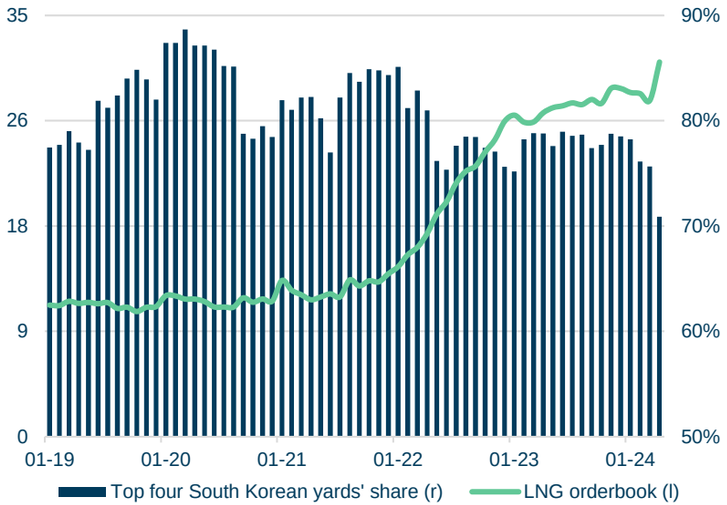
Strained future utilisation at top four yards in South Korea?

The LNG orderbook has seen almost uninterrupted growth since the beginning of 2018 and recently reached new highs due to increased European energy security concerns amid the Russia-Ukraine war. The orderbook is currently at a record 31 million cgt (55% of the fleet), following unprecedented contracting activity during 2022 (30% of the fleet) and 2023 (10%). First-tier yards in South Korea continue to attract the lion's share of new LNG Carrier orders, securing high utilisation rates. The top four South Korean yards currently account for 22 million cgt of the LNG orderbook, which translates into two years of order cover for these orders alone (before adding the equally cgt-intensive Container newbuildings). Still, the heavy reliance on the small LNG segment (3% of the global fleet) may represent a challenge. Beyond 2026, orderbooks for large LNG vessels are thinning. And although seaborne LNG trade is projected to grow by 250 million tonnes to 650 million tonnes from 2023 to 2030, the current orderbook is likely more than sufficient to meet this demand. If new LNG orders are significantly reduced (or absent), the top four South Korean yards will have to build other vessel types. Crude and Product Tankers may serve as substitutes due to their low orderbooks and ageing fleets, but the necessary amount of such orders may not be realistic. On average, 980 MR2 (57% of the fleet) or 500 VLCC orders (55%) would be required to reach 22 million cgt.

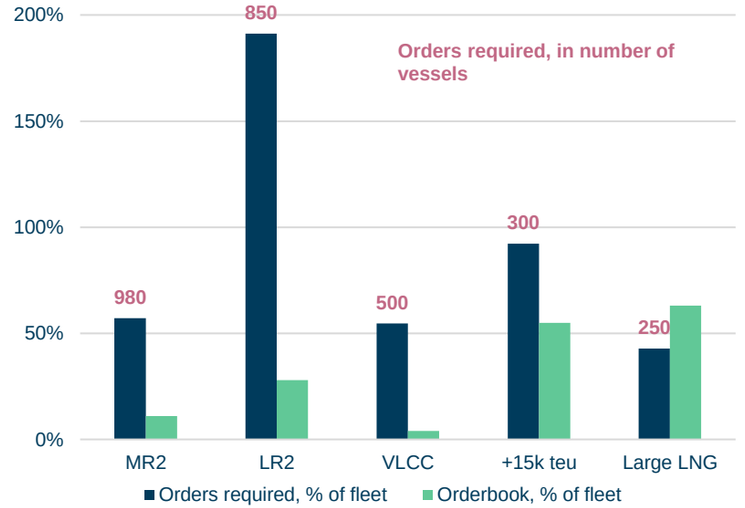
Yard utilisation – if yards close (%)



LNG orderb. (million cgt) and % at top four South Korean yards



Orders required to reach 22 million cgt by selected subsegment



Source: Clarksons, OECD, DNV, McKinsey, IEA, Danish Ship Finance

Container

Shipping Market Review – May 2024

Container

The Container market is heading for a bumpy ride despite strong freight rates

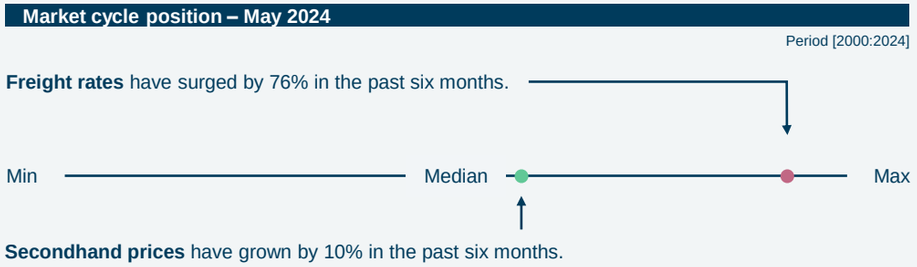
Supply has consistently outpaced demand for large parts of the past ten years. Yet, international incidents, from the Covid-19 pandemic and low water levels in the Panama Canal to geopolitical tensions in the Red Sea have intermittently tightened supply chains and propelled freight rates to unprecedented levels. The fleet capacity doubled between 2010 and 2023, while seaborne Container volumes witnessed a 49% increase. Distance-adjusted Container demand rose by only 40% during this period, reflecting a reduction in the average distance travelled. Surplus vessel capacity is set to grow during the second half of 2024. This will likely create significant pressure on box rates and secondhand prices.

Market dynamics

Container volumes shrank not only in 2020 but also in 2022, while the fleet continued to increase. Operators lowered the average speed of the fleet from 17.3 knots in 2010 to 13.9 in 2023 in order to reduce the fleet's cargo-carrying capacity and improve fleet utilisation. The combination of slow-steaming tactics, infrastructural bottlenecks and disruptions has absorbed the excess capacity during the early 2020s.

The recent rerouting of vessels deployed on services via the Suez Canal to around the Cape of Good Hope resulted in an 8-10% uplift in global distance-adjusted demand in the first quarter of 2024. This uplift is most notable for the larger vessels trading between the Far East and Europe, with nearly 85% of ships having been rerouted.

Cascading and demolition will intensify when short-term effects are no longer able to mask the underlying gap between supply and demand. This is likely to happen as early as the second half of 2024. Massive ordering during the pandemic has pushed the orderbook-to-fleet ratio above 20%. The larger vessels (above 15,000 teu) are positioned for fleet expansion above 50% during the next few years. Only 24 vessels are older than ten years in the segment, while the segment's orderbook contains 182 ships. Operators will return surplus vessel capacity to tonnage providers and cascade larger ships to smaller ships' trade lanes. The Container market looks to be heading for a bumpy ride.



Freight rates and secondhand prices

Container freight rates, represented by the SCF Index, are among the highest 15% seen since 2009. Freight rates peaked at Index 5,000 in January 2022 but dropped to Index 915 in March 2023. Freight rates have regained some of the lost territory and stood at Index 1,800 as of April 2024 (85th percentile). The average secondhand price peaked in 2005 at Index 161 but experienced a 14-year high in February 2022 when it reached Index 128 (90% percentile). Secondhand prices lost 68 index points, or 53%, between February 2022 and April 2024.

Downside risk

The outlook for freight rates and secondhand prices is burdened by the extraordinarily large inflow of new vessels planned to be delivered in 2024 and 2025. Segment dynamics are as much a question of cascading and Liner operators' capacity management as they are about fleet expansion. Previous periods of surplus capacity have shown that freight rates can drop by 80% over 12 months, whereas secondhand prices can drop by 63%. Freight rates could drop from their current cycle position at the 85th percentile to an all-time low during the next 12 months, whereas secondhand prices could drop from their current 52nd percentile cycle position to an all-time low.

Source: Clarksons, Danish Ship Finance

Supply dynamics

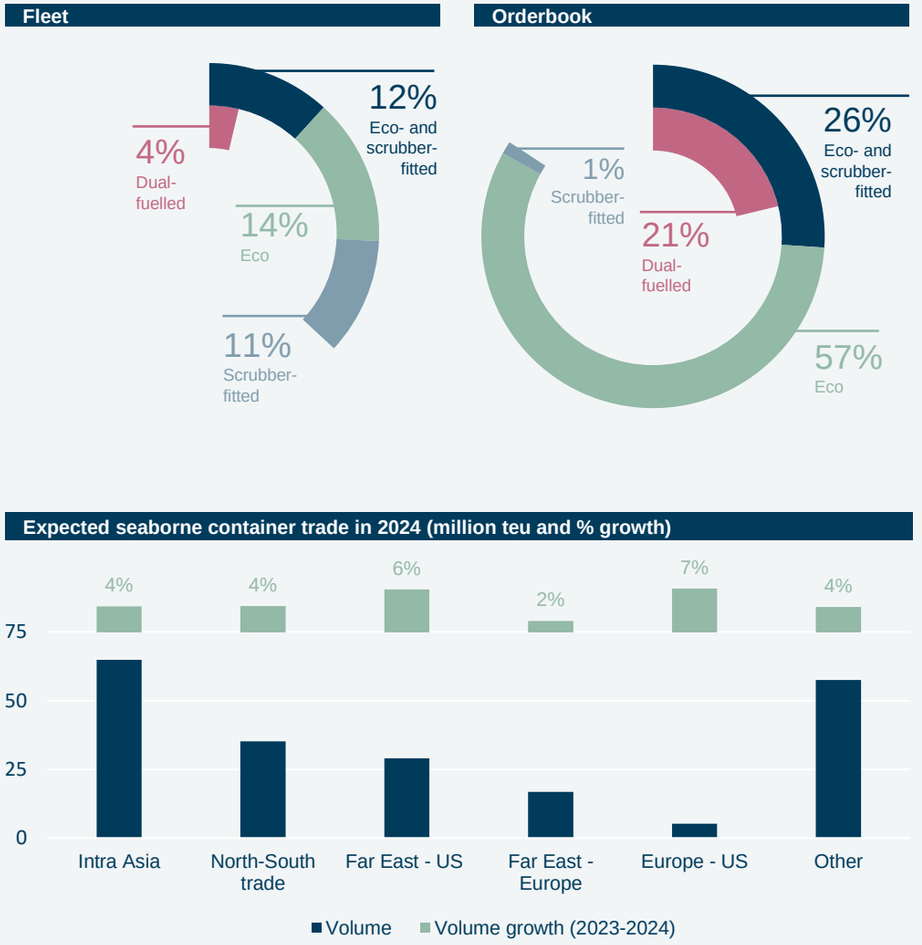
The Container fleet is scheduled to see new capacity added corresponding to 23% of the fleet during the next four years. This will expand a fleet that structurally is already running ahead of demand. Two vessel segments will dictate the rhythm for cascading and scrapping in the next four years: vessels between 6,000 and 8,000 teu and those above 12,000 teu. The incoming vessels are significantly more energy-efficient than the older tonnage, which is likely to lead to a boost in early retirements or significant retrofitting, even among relatively young vessels (aged ten to 15 years). Alternative fuel capabilities may not be as important as energy efficiency during the next four years, even though 70% of vessels on order are to varying extents prepared for alternative fuels.

Demand outlook: What to expect

Seaborne container volumes are expected to grow by 4.1% in 2024, but longer travel distances are expected to propel distance-adjusted demand above 9%. The intra-Asian trades are predicted to expand by 3.9%, contributing one-third of the volume growth, while routes between the Far East and the US are estimated to grow by 6.5%. US import volumes are expected to drive most of the increase in travel distances. The main routes for the largest vessels, from the Far East to Europe, are predicted to grow by little more than 1% in both 2024 and 2025. The 15,000+ teu segment is projected to expand by 23% before scrapping during 2024 and by another 13.5% in 2025.

Market outlook: What to keep an eye on

Surplus vessel capacity is set to grow during the second half of 2024. This will likely create significant pressure on box rates and secondhand prices. Box rates reflect operators' capacity management in relation to tonnage providers. Box rates could drop to all-time lows during the next 12 months if capacity is not carefully managed. Operators are likely to opt for short charter periods, and capacity is expected to be reshuffled between operators and owners while operators optimise route capacity. Tonnage providers are facing an earnings cliff that may call for some challenging trade-offs between lay-ups, early retirements and costly retrofits. The introduction of the EU ETS will likely create a two-tier market across segments, whereby the highly energy-efficient vessels, many with some degree of dual-fuel capability, will lead the European market.



Source: Clarksons, Danish Ship Finance

Dry Bulk

Shipping Market Review – May 2024

Dry Bulk

Is bigger always better?

Market fundamentals in the Dry Bulk segment seem balanced in the short to medium term. Positive supply-side dynamics will limit fleet growth in the coming years. However, structural changes and decarbonisation of the global economy make for a gloomy demand outlook for two of the largest Dry Bulk commodities – iron ore and coal.

Market dynamics

Global seaborne demand for Dry Bulk commodities increased by 0.4% in the first four months of 2024. Longer travel distances due to weather-related disruptions at the Panama Canal and escalating tensions in the Suez Canal added another 0.3% to demand growth during the period. The Dry Bulk fleet expanded by 0.6% in the first four months of 2024, while average vessel speeds remained fairly steady. Consequently, fleet utilisation strengthened marginally during this period.

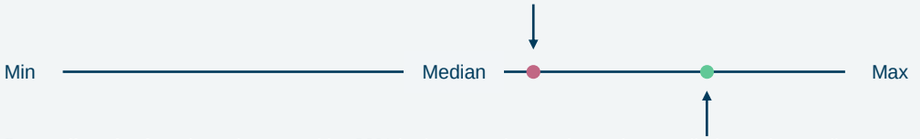
The Dry Bulk market has been supported by various events in the past four months. Most notably, the escalating situation in the Middle East has prompted many shipowners to divert vessels around the Cape of Good Hope. The number of Suez Canal transits by Dry Bulk vessels decreased by around 25-30% in the first three months of 2024 compared to the same period last year (corresponding to around 4% of the fleet). Although this was evident across all subsegments, the Ultramax segment saw a particularly large drop in the number of Suez Canal transits. A severe drought in the Panama Canal has also forced the authorities to limit the number of transits through the canal, which was down by around 80% in the first three months of 2024 compared to the same period last year. The disruption has lent support to freight rates in the larger segments in particular.

The weak property sector in China lowered real estate investments in 2023 by over 20% compared to 2021 (when they reached record levels). However, the spillover effects from the property sector have not impacted iron ore imports yet. Chinese imports of iron ore were up by 3.5% in the first three months of 2024, as steel mills kept furnaces running. Consequently, the excess supply of steel in China sent steel prices down by 10% compared to last year, while steel exports reached a seven-year high.

Market cycle position – May 2024

Period [2000:2024]

Having decreased by 5% in the past six months, **freight rates** are slightly above the median.



Secondhand prices have increased by 20% in the past six months and are well above the median.

Freight rates

The Baltic Dry Index started the year off at a seasonal high, buoyed by robust freight rates in the Capesize segment. However, lower activity in the Capesize and Panamax segments has driven the index down, placing it right above the median level observed since 2000. The Baltic Dry Index for the Supramax and Handysize segments has in the first four months of 2024 largely followed the seasonal average in the past five years.

Secondhand prices

Secondhand prices have oppositely continued their upward trajectory, reaching the top 20% seen since 2000. This increase is primarily attributable to the prices of newer secondhand tonnage, with the five-year-old price index only 4% below the newbuilding index. The price-to-earnings ratios in all subsegments have risen correspondingly.

Source: Clarksons, AXS Marine, National Bureau of Statistics of China, IMF, IEA, Danish Ship Finance

Supply outlook

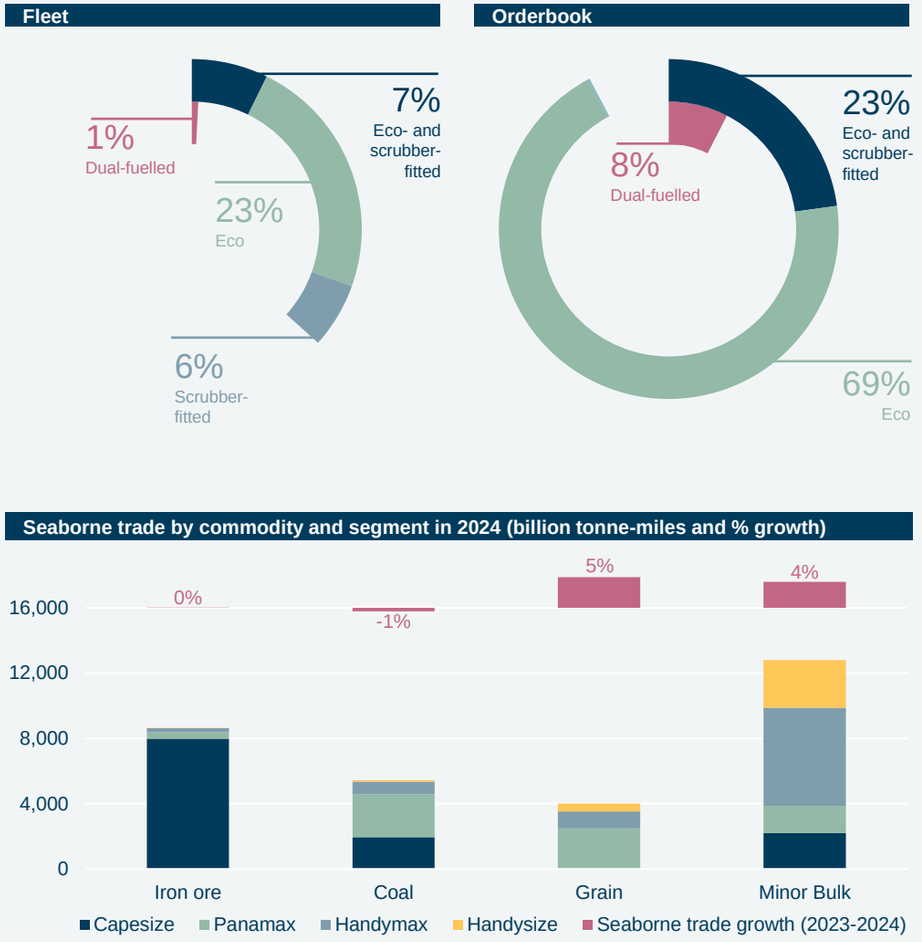
The current orderbook remains stable and low, hovering around 9% of the fleet. However, there has been a significant shift in its composition. Previously, Capesize vessels were the preferred choice among shipowners, constituting the majority of the orderbook. Now, they only represent 30%, while representing 40% of the Dry Bulk fleet. Shipowners have instead turned to Kamsarmax and Ultramax vessels, which now make up 46% of the orderbook. The aim is for these vessels to replace older and smaller Panamax and Supramax vessels, while still offering the port and commodity flexibility that Capesize vessels lack (iron ore trade accounts for 70% of Capesize demand). While dual-fuel capabilities for vessels on order are still limited, the incoming vessels are expected to be more energy-efficient than older tonnage. Based on the current orderbook, the fleet is set to expand by 3.3% in 2024, 3.0% in 2025 and 2.1% in 2026. Upcoming hull surveys and scrubber retrofits may periodically offset fleet growth by 1.5% annually between 2024 and 2026.

Demand outlook

Dynamics on the demand side are mixed. The Chinese economy, which accounts for over 40% of global seaborne Dry Bulk imports, continues to struggle. The IMF expects Chinese growth to decline from 5.2% in 2023 to 4.6% in 2024. The lower growth rate can be attributed in part to the weakening property sector, along with ongoing challenges for domestic retail demand. The demand outlook for the two largest Dry Bulk commodities, iron ore and coal, is weak. China's continued imports of iron ore from Brazil and Australia have primarily resulted in a buildup of steel inventories and a rise in exports. This is not sustainable in the medium to long term. As such, we expect seaborne iron ore trade to decline by 0.5% annually up until 2025. Global coal trade is projected to decline by around 12% by 2026, propelled by increasing domestic production in coal-intensive nations, as well as coal phase-out initiatives in the EU and the US. Conversely, seaborne grain trade is expected to increase, driven by higher exports from the US, Ukraine and South America. Minor Bulk trade is also expected to remain strong, partly supported by longer travel distances for steel and fertilisers.

Market outlook: What to keep an eye on

Fundamentals seem to be balanced in the short to medium term. However, larger segments (that are iron ore- and coal-intensive) may experience a decline in demand, resulting in lower freight rates and premature scrapping of vessels. The emerging popularity of Kamsarmax vessels might not only replace older and smaller Panamax vessels. but also encroach upon the smaller Capesize market. The outlook seems more resilient for smaller segments.



Source: Clarksons, AXS Marine, National Bureau of Statistics of China, IMF, IEA, Danish Ship Finance

Crude Tanker

Shipping Market Review – May 2024

Crude Tanker

The Crude Tanker market is riding high on the wave of distance growth

Despite a prolonged period of low growth in global oil demand, the Crude Tanker market is seeing high freight rates and secondhand prices. From 2019 to 2023, global oil demand has increased by only 0.5%, while seaborne crude oil volumes increased by 1%. Longer travel distances have lifted distance-adjusted Crude Tanker demand to 3%, compared to a fleet expansion of 17% between 2019 and 2023. Yet, the ripple effects from sanctions, OPEC+ production cuts, reshuffling of trading routes, and the expansion of the "grey fleet" have driven freight rates and secondhand prices in the "open fleet" to very high levels. Geopolitics are creating profound challenges. The current market is built on a basket of inefficiencies some of which may evaporate as quickly and unexpectedly as they appeared.

Market dynamics

The increased earnings in the past two years have boosted owners' liquidity. However, with newbuilding slots in short supply, there is high demand for secondhand vessels. Acquiring a ship now, rather than waiting two years or more for a newbuilding, has become a significant factor in the S&P market. This is reflected in the cost of a five-year-old Aframax vessel having surpassed the newbuilding price for the first time since 2008.

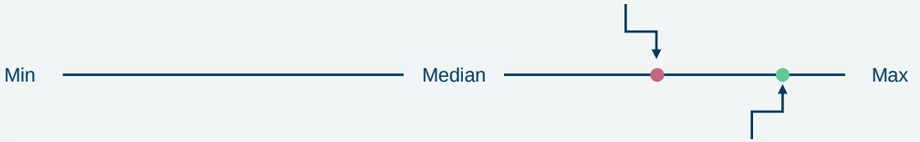
Market players' eagerness to tap into the hot Crude Tanker market is further illustrated by the significant growth in secondhand prices since 2019, ranging between 60% and 210%, compared to newbuilding price increase of 40-48%. Moreover, the resale market for older vessels has boomed, reaching price levels not seen since 2008. Their premium valuation relative to their recycling value has surged to multi-year highs, with the premium for a 15-year-old vessel to its scrap value increasing sharply following the introduction of price caps on Russian oil products in early 2022. Specifically, the premium across subsegments has increased from an average of USD 7 million in January 2022 to range between USD 35 and 38 million by April 2024.

Over the past two years, Russia has become India's top crude oil supplier, with its crude seaborne import share jumping from 2% in 2021 to 30% in 2023. Following voluntary OPEC+ cuts, Russia-India trade, employing Suezmax and Aframax Tankers, has partly replaced Middle East-to-India VLCC trade. Concurrently, China's post-Covid economic resurgence has driven increased import volumes, with Russia's share of China's seaborne crude imports rising from 6% in 2021 to 10% in 2024, amid reduced OPEC+ volumes.

Market cycle position – May 2024

Period [2000:2023]

Freight rates have increased marginally in the past six months, and are well above the median



Secondhand prices have increased over the past six months and have increased by 8% on average.

Freight rates and secondhand prices

Freight rates, as reflected by the BTD index, soared in 2022, reaching a peak of Index 2,130 in November. Rates dropped to Index 755 in September 2023 but have since rebounded to Index 1,142 as of April 2024, placing them in the top 30% observed since 2000.

Secondhand prices have been steadily increasing since the end of 2021, with average secondhand prices across all ages currently among the highest 10% observed since 2000. Average secondhand prices for 15-year-old vessels are currently at multi-year highs across all subsegments, with prices ranging between USD 41-58 million.

Downside risk

Since mid-2023, demand growth has been largely fuelled by increased travel distances, initially triggered by sanctions on Russian barrels and compounded by OPEC+ cuts and the Red Sea conflict. While sanctions on Russia are expected to remain in place for the foreseeable future, an unwinding of OPEC+ cuts and an easing of the Red Sea conflict are expected to reduce travel distances in the short to medium term. In a situation where distances and efficiencies return to previous levels, freight rates could drop by 75% over a 12-month period, while secondhand prices could fall below the 20th percentile.

Source: Clarksons, AXS Marine, Tradewinds, IEA, Danish Ship Finance

Supply dynamics

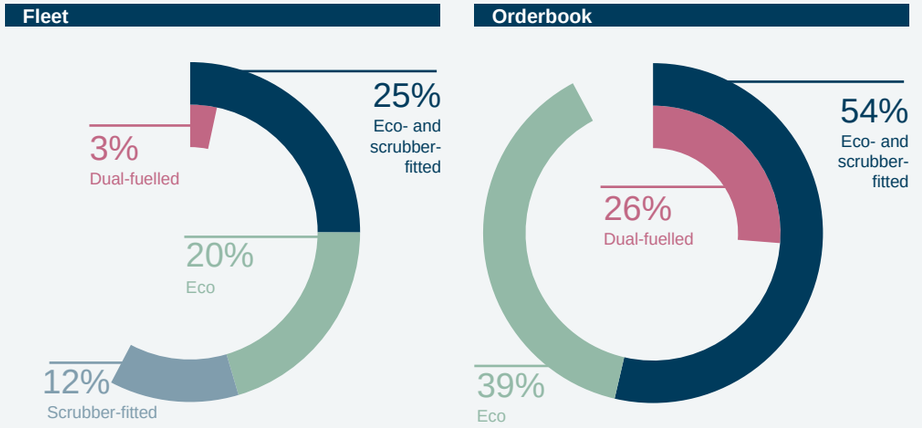
Since 2022, deliveries have plummeted and are projected to hit a record low in 2024. As of the first four months of 2024, 0.9 million dwt have been added to the fleet, with an additional 2.7 million dwt expected to be delivered by the end of the year. The fleet is set to expand by just 1% before scrapping in 2024. However, contracting surged in 2023, with 16 million dwt contracted, significantly up from 3.3 million dwt in 2022. This upward trend has continued into 2024, with an additional 11 million dwt already contracted. The orderbook currently represents 7% of the fleet, with 46 VLCCs and 98 Suezmaxes contracted, compared to only 25 Aframaxes. While scrapping hit historical lows in 2023, the prospect of increased demolitions is looming on the horizon. This potential uptick in scrapping in 2024 and 2025 may be a result of the challenges faced by the "grey fleet" in re-entering regular trade. However, for scrapping to increase, freight rates will have to come down, and the price gap between a 15-year-old vessel and its scrap value would need to narrow.

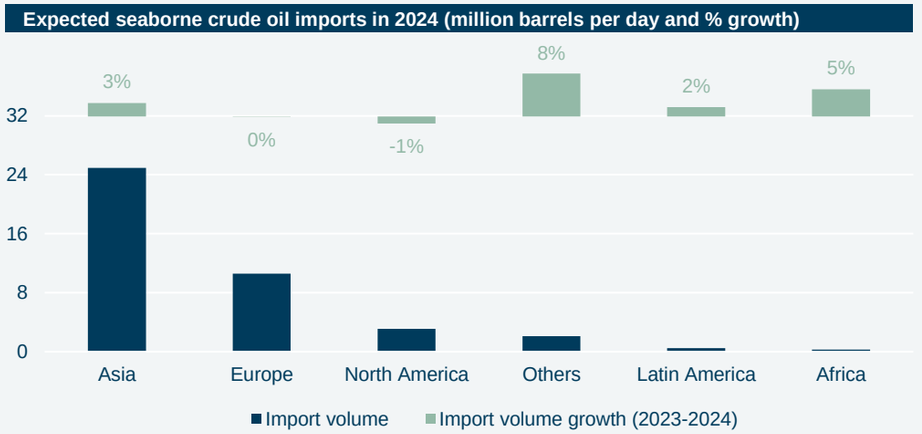
Demand outlook: What to expect

Seaborne crude imports to Asia are expected to increase by 3% during 2024, owing to relatively meagre growth in China contrasted with stronger growth in India. Volumes transported to Europe are predicted to show zero growth during 2024 and 2025, due to tightening of European economies. Global seaborne crude oil volumes are expected to increase by 1.5% during 2024. Distances are expected to add another 1.7% to tonne-mile demand, propelling distance-adjusted demand growth to 3.2% this year.

Market outlook: What to keep an eye on

A favourable outlook for 2024 currently defines the Crude Tanker market across all subsegments, fuelled by longer travel distances being sustained coupled with very limited fleet growth. Specifically, fleets are set to expand by just 1% before scrapping in 2024, which compares to a projected 3.2% growth in distance-adjusted demand. Looking ahead, a sustained increase in travel distances, if deemed structural, could uphold the current elevated rates and values. Conversely, if increased travel distances are driven primarily by temporary geopolitical or production-related factors, volatility may loom. While G7 countries are unlikely to lift sanctions on Russia in the near term, sustaining increased Americas-Europe and Russia-Asia trade, a possible resolution to the Red Sea conflict and the unwinding of OPEC+ voluntary production cuts could decrease travel distances, potentially dampening tonne-mile demand. Increased scrapping in 2024 and 2025 could support fleet utilisation, provided that “grey fleet” vessels do not re-enter open trade.





Source: Clarksons, AXS Marine, Tradewinds, IEA, Danish Ship Finance

Product Tanker

Shipping Market Review – May 2024

Product Tanker

The outlook remains positive for 2024, but slightly weaker for 2025

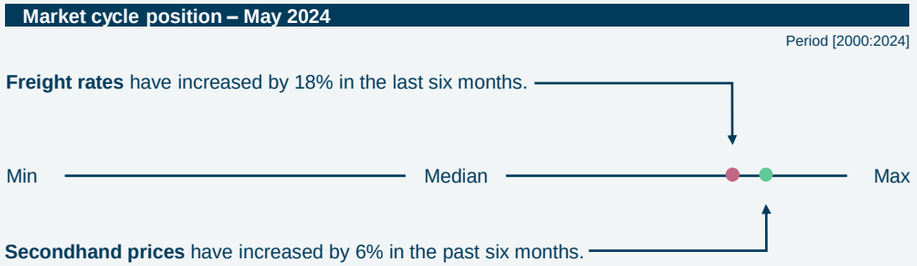
In 2024, fleet utilisation in the Product Tanker market is expected to improve from already solid levels. Specifically, fleets are set to expand by just 2%, which compares to a projected 7% growth in distance-adjusted demand. Increased long-haul shipments from the Middle East to Europe are likely to define the demand outlook this year. Next year, the market may soften: a 2% increase in seaborne volumes is projected to be offset by shorter distances (relative to the high levels of 2024), while the fleet is expected to grow at a more rapid pace of 5%. Still, older and less efficient vessels may be scrapped from 2025 onwards. This could support fleet utilisation, even if headwinds were to escalate.

Market dynamics: Fleet utilisation continues to improve

Product Tanker fleet utilisation strengthened during 2023 and the first few months of 2024, with supportive developments in both vessel demand and supply. Last year saw seaborne volumes surpass 2019 levels by 1%, while longer voyage distances added another 7%. In the first three months of this year, total seaborne demand for refined oil products outpaced the levels recorded in the same period for the past six years. Relative to the first quarter of 2023, volumes have increased by 5%, while longer travel distances have added another 5% to Product Tanker demand growth. This should be seen against a net 2% fleet expansion, although this has been partially offset by more time spent on ballast voyages. Average vessel speeds have, so far this year, only slowed slightly.

Secondhand prices

The high freight market is steadily pushing secondhand prices towards the all-time highs of 2008. In the last six months, the price for an average five-year-old Product Tanker has risen by 4%, while the increase has been slightly higher for older tonnage, around 10%. Secondhand prices are currently in the top 10-15% across ages and subsegments. It is notable that the price difference between an average ten-year-old MR Tanker in today's market and its newbuilding price a decade ago implies that the ten-year-old vessel has in fact gained value relative to its original newbuilding cost. This is the first time on record this has happened. Around 30 MRs were contracted in the first half of 2014, distributed among 15 owners.



Freight rates

The Baltic Clean Index has been on an upward trend since the end of 2020, despite a few downturns along the way. The index has risen by 18% in the last six months and is currently within the top 30%. The elevated freight rates are being driven steadily by longer average sailing distances (recently influenced by vessels being rerouted away from the Suez Canal), growing seaborne CPP volumes, and low fleet growth.

Downside risk

Previous periods of surplus capacity and other market disruptions have proved that freight rates, in a worst-case scenario, could be subject to a 70% drop over the course of one year. Should this become a reality in the current Product Tanker market, rates could fall to an all-time low. The market in 2024 is likely sheltered from this risk. In 2025, the fleet is projected to expand faster than distance-adjusted demand, increasing the risk of larger freight rate drops compared to the past 16 months and the levels we expect for the rest of 2024**.**

Source: Clarksons, Alphatanker, Danish Ship Finance

Supply outlook

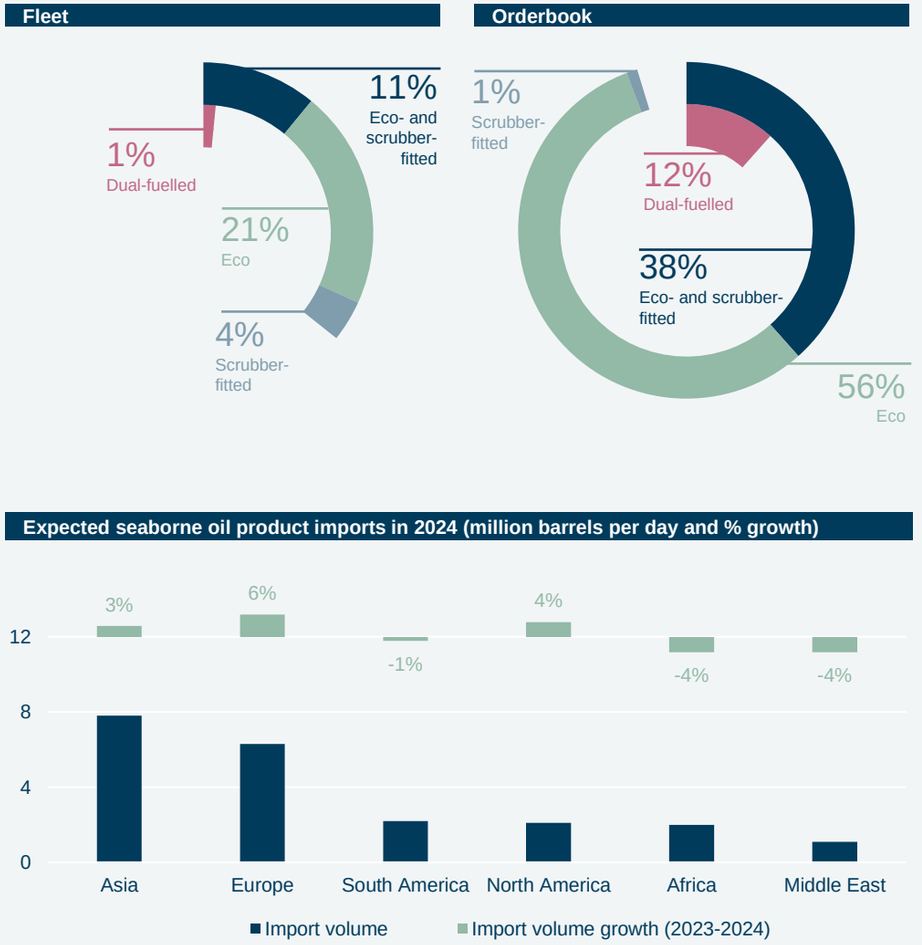
The strong market coupled with an ageing fleet has encouraged more investments in newbuildings. The Product Tanker orderbook has seen uninterrupted growth since year-end 2022, rising from a record low of 5% to 14% of the fleet as of April 2024 – a level not seen since 2016. Fleet growth is expected to be low in 2024, at 2%, mainly due to the delivery of the limited number of orders placed in 2022. In 2025, 40% of the current orderbook is due for delivery, resulting in more rapid fleet expansion of 5%. Product Tanker fleet growth may be periodically offset by upcoming hull surveys and scrubber retrofits, which could reduce growth by around 2% in both 2024 and 2025. Additionally, owing to minimal scrapping activity over the last two years (all-time low in 2023), nearly 20% of Product Tankers will be over 20 years old by 2025. If more Product Tankers are demolished, this will also limit the future net expansion of the fleet.

Demand outlook

Distance-adjusted Product Tanker demand is expected to grow by 7% in 2024. Seaborne volumes are predicted to increase by 3%, with longer distances adding another 4%. Seaborne CPP trade is set to be driven by European imports (accounting for 25% of total demand), which are expected to grow by 0.4 million barrels per day (6%) versus 2023. With continued sanctions on Russia, the additional European demand may be supplied by long-haul seaborne imports from the Middle East, where refinery expansion is expected to outpace growth in domestic demand. LR Tankers will likely benefit the most, as they carry 90% of volumes transported on this route. Should shipments from the Middle East slow, Europe may source more CPP from the US, increasing demand for MR Tankers.

What to keep an eye on: Russian exports and lower fleet utilisation beyond 2024

Along with the US, Russia is one of the main seaborne exporters of refined oil products and was the largest contributor to growth in distance-adjusted CPP trade in 2023. In 2024, Russia has suffered attacks on domestic refineries, affecting 15% of its total capacity. Should this translate into lower seaborne exports, it may have a negative impact on MRs. Meanwhile, by 2025, the impact of the current rerouting away from the Suez Canal to around the Cape of Good Hope is expected to have worn off. If this scenario materialises, next year's distance-adjusted demand will stall. A 2% increase in seaborne volumes will be offset by a 2% drop in distances. This, coupled with fleet expansion of 5%, may reduce Product Tanker utilisation – albeit likely from high levels.



Source: Clarksons, Alphatanker, Reuters, Danish Ship Finance

LPG Carrier

Shipping Market Review – May 2024

LPG Carrier

The LPG Carrier outlook remains firm for 2024, but overcapacity is looming

Fleet utilisation in the LPG Carrier market is projected to remain firm in 2024. While seaborne LPG volumes are expected to increase by only 2.8%, increased travel distances are set to boost distance-adjusted demand to 5.7%. This compares to a projected net fleet growth of 6.1%. LPG imports increased in 2023, primarily driven by firm Chinese demand and supported by strong US production and favourable US-Asia price arbitrage. However, towards year-end, the global LPG market faced challenges from weak petrochemical margins and logistical bottlenecks at crucial maritime chokepoints. This set the stage for heightened volatility in the spot-driven VLGC market, where even slight changes in vessel supply can trigger drastic fluctuations in freight rates.

Market dynamics: Historical highs and multi-year lows in nine months

Over the past nine months, the VLGC market has seen rates soar to record highs before plummeting to multi-year lows. The effects of drought-induced restrictions at the Panama Canal drove spot rates to peak at USD 167,000 per day in September 2023, at the backbone of wide US-Asia arbitrage and a recovery in Asian petrochemical production. Rates were further bolstered by the onset of the Red Sea conflict, which necessitated additional rerouting of vessels, in turn maintaining elevated rate levels. These disruptions trickled down, elevating MGC time charter rates by 22% to USD 33,000 per day by December 2023 – up from USD 27,000 per day in September 2023.

In late 2023, the Panama Canal Authority unexpectedly increased the daily transit limits from 22 to 24. Other shipping sectors that tend to primarily use the Panama Canal opted for the longer route, allowing more VLGCs to use the canal, significantly boosting vessel supply. Meanwhile, an Arctic freeze lowered US LPG production and caused a spike in domestic demand, driving up US LPG prices and weakening the US-Asia arbitrage. Consequently, VLGC spot rates crashed by February 2024, with rates seeing values as low as USD 8,000 per day - below daily operating costs, revealing the fragile equilibrium of the market.

As the industry considers a future where these cyclical and geopolitical pressures could ease, the concerns are shifting towards managing the emerging challenge of overcapacity, particularly highlighted by a large VLGC orderbook, including Very Large Ethane Carriers (VLECs) and Very Large Ammonia Carriers (VLACs).

Market cycle position – May 2024

Period [2002:2024]

While well above median levels, **freight rates** have decreased by 42% in the past six months.

Secondhand prices have remained stable over the past six months, with prices well above the median

Freight rates and secondhand prices

Freight rates, as reflected by the BLPG index, soared in 2023, reaching an all-time high at Index 158 in September. Rates dropped to Index 56 in February 2024 but rebounded to Index 64 as of April 2024, placing them in the top 30% observed since 2002.

Secondhand prices have increased in the past year, with prices for the larger segments ranging amongst the highest 30% seen since 2004. Ongoing contracting for dual-fuel vessels has pushed newbuilding prices to historical highs.

Downside risk

While temporary supply inefficiencies and trade disruptions have masked the building overcapacity in the LPG Carrier market, these cyclical elements are likely to wane in the coming years, potentially depressing freight rates and exposing more fundamental vulnerabilities. When distances and efficiencies return to previous levels and if scrapping remains low, freight rates could drop by 80% over a 12-month period, pushing rates to an all-time low. Secondhand prices could fall below the 20th percentile.

Source: Clarksons, AXS Marine, Tradewinds, IEA, Drewry, Danish Ship Finance

Supply dynamics

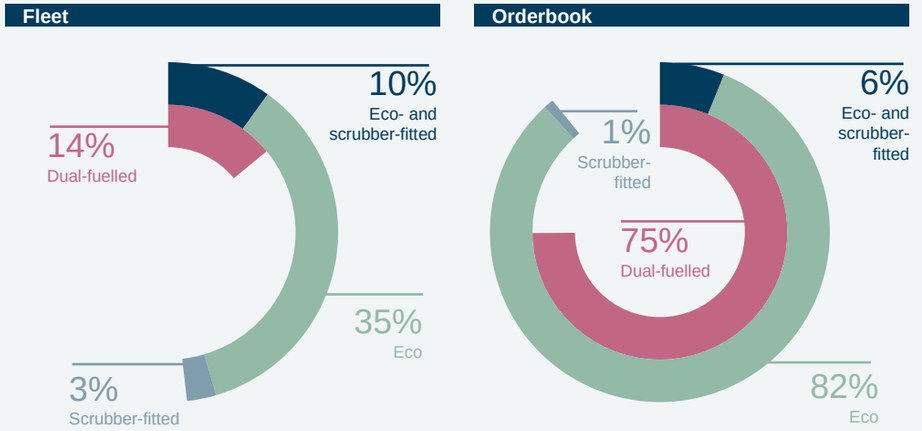
The LPG Carrier fleet is expected to expand by 6.1% in 2024 after adding 4.6 million cbm in 2023. Early 2024 has already seen the addition of 1.1 million cbm, with another 1.7 million cbm anticipated by year-end. The orderbook stands at 13.8 million cbm, or 30% of the fleet, featuring 126 VLGCs, 50 MGCs and 31 SGCs. Among the new VLGCs, 40 are VLECs, which will boost the VLEC fleet from 25 to 65 vessels by 2027, mostly on fixed-term charters. Also, 45 new VLACs are slated for delivery between 2026 and 2027 to meet growing ammonia trade demand. However, these will tap into the LPG market until the ammonia market matures. Scrapping activity has been minimal despite the influx of new vessels, with only four larger vessels having been scrapped since 2020.

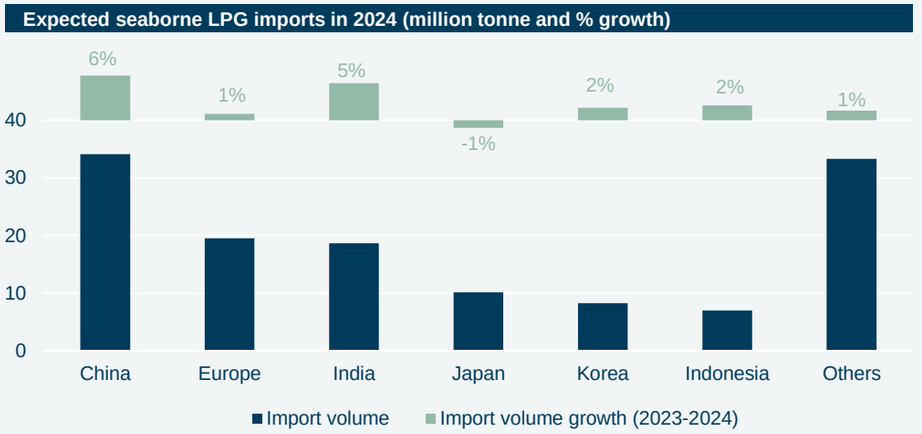
Demand outlook: What to expect

Growth in seaborne LPG imports to Asia is expected to decelerate to 3.7% in 2024, down from 7.1% in 2023. This slowdown is primarily attributable to more modest growth in LPG demand in China, which is forecast to increase by 6% in 2024, a significant reduction from the 21% growth observed in 2023. Conversely, India is anticipated to experience a rebound in its LPG import growth rate by 5% in 2024, recovering from negative growth in 2023. In Europe, growth in seaborne LPG volumes is predicted to slow to just 0.9% in 2024, a decline from the 1.4% growth rate seen in 2023. Global demand for seaborne LPG is set to increase modestly by 2.8% in 2024, with longer distances boosting distance-adjusted demand to expand by 5.7% in 2024.

Market outlook: What to keep an eye on

The LPG Carrier market has faced significant volatility due to temporary cargo supply disruptions and geopolitical tensions, which are expected to persist in 2024, supporting current freight rates. However, it is becoming apparent that overcapacity is building, particularly among VLGCs, as these transient factors wane. The fleet expansion includes numerous VLECs and VLACs, targeting nascent ethane and ammonia markets. The VLECs are tied to fixed-term ethane projects due online by 2027, while the VLACs will temporarily serve the VLGC market until ammonia demand matures. If growth in these specialised markets falls short of expectations, excess capacity could pressure freight rates further. To counteract potential overcapacity, an increase in vessel scrapping is essential.





Source: Clarksons, AXS Marine, Tradewinds, IEA, Drewry, Danish Ship Finance

LNG Carrier

Shipping Market Review – May 2024

LNG Carrier

Short-term pressure – medium-term resilience?

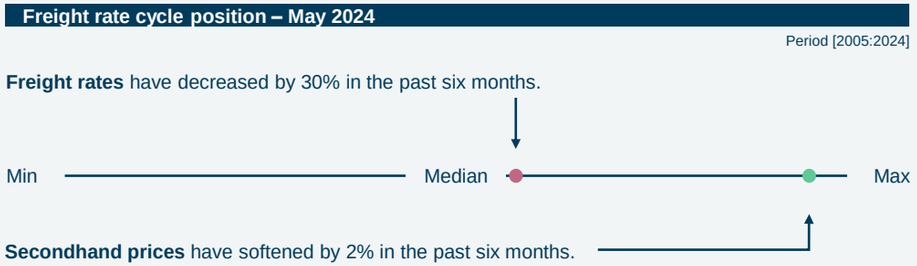
A large inflow of new LNG Carriers is expected to stifle the firm growth in demand in the next two to three years. From 2027 to 2030, the balance between supply and demand may tip in favour of growing fleet utilisation and higher freight rates. For this to materialise, the economic lifetimes of less efficient (steam turbine) vessels will likely have to shorten significantly to compensate for the surplus capacity that will have built up over the years.

Market dynamics

Seaborne LNG trade has increased continuously since 2012. Still, average LNG fleet utilisation has remained lacklustre. Seaborne LNG volumes grew by 65% (60% in tonne-miles) from 2012 to 2022, but this was more than offset by a doubling of the fleet size during the same period. The Middle East and Australia supplied most of the seaborne export volumes, while Asia and Europe accounted for 90% of imports on average.

LNG fleet utilisation continued to weaken in 2023, despite firm growth rates in seaborne LNG demand. Last year saw seaborne volumes surpass the 2022 level by 2%, while longer voyage distances contributed an additional 2%. However, for the tenth year in a row the LNG fleet expanded by more than 4%.

After years of deteriorating utilisation, the balance between vessel demand and supply shifted in the first three months of this year. Total seaborne demand for LNG outpaced the levels recorded for the same period in the past six years, while also expanding ahead of fleet growth. Relative to the first quarter of 2023, volumes increased by 3%, while longer travel distances brought distance-adjusted LNG Carrier demand growth to 12%. This should be seen in the context of net fleet expansion of 2%. The escalating situation in the Middle East has been a contributing factor to the recent growth in tonne-miles, forcing large LNG Carriers en route from the US Gulf to Asia to detour around Africa via the Cape of Good Hope. Accounting for 6-8% of total seaborne LNG volumes in 2023 and the first few months of 2024, vessels carrying US LNG to Asia contributed to around half of the increase in distance-adjusted demand in the first quarter of 2024. LNG Carriers transporting Qatari LNG to Europe have also rerouted but with less impact on total tonne-miles, as Europe has replaced most of the lost Russian pipeline supplies with seaborne LNG from the US. Despite recent upticks in seaborne demand, the supply of vessels has evidently been more than sufficient to cover this without applying significant upward pressure on freight rates.



Freight rates and secondhand prices

The disruption of the supply of pipeline gas from Russia to Europe (due to the Russia-Ukraine war) and the scramble to secure supply ahead of the winter resulted in all-time-high freight rates by year-end 2022. Since then, demand has cooled off (due to higher gas storage levels) and coupled with ample vessel capacity this has led to a 70% drop in the one-year timecharter rate for the average 160,000-170,000 cbm LNG Carrier over the last 12 months. Still, freight rates are currently around the median level seen since 2005.

Secondhand prices have softened by 4% to USD 240 million in the last 12 months but are not far from all-time highs. Meanwhile, amid easing contracting activity, the average newbuilding price for a 170,000 cbm LNG Carrier has remained unchanged at the record high of USD 265 million since August last year.

Downside risk

The outlook for freight rates from 2024 to 2026 is burdened by the extraordinarily large inflow of new vessels scheduled, which is set to exceed growth rates for seaborne LNG demand. Recent periods of surplus capacity have proved that freight rates, in a worst-case scenario, can drop by as much as 70% over the course of one year. Time will tell if this will happen again in the next few years and push the one-year timecharter rate to much lower levels.

Source: Clarksons, Alphatanker, Danish Ship Finance

Supply outlook

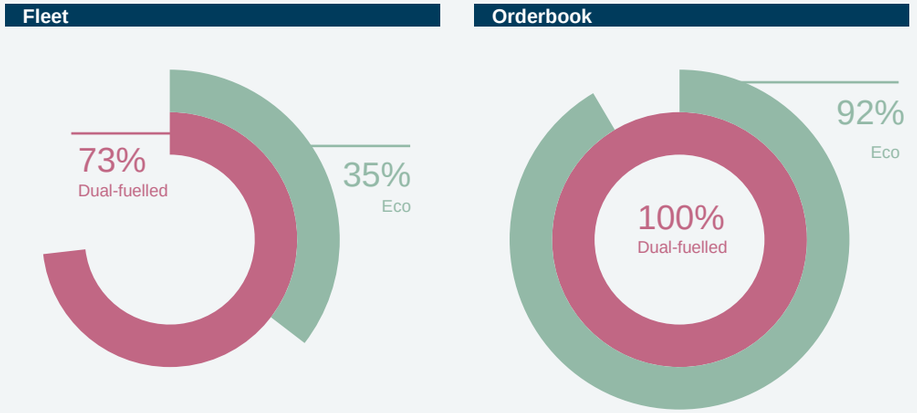
The LNG Carrier orderbook has reached an all-time high of 360 vessels (55% of the fleet), following unprecedented contracting activity in 2021 (14% of the fleet) and 2022 (30%). Since then, the appetite for new vessels has waned – though only slightly – amid saturated orderbooks, low yard availability at the top LNG-building shipyards (top four yards in South Korea) and record-high newbuilding prices. In the first four months of this year, around 50 vessels were ordered (with some deliveries due as far out as 2030-2031), compared to 60 in the same period in 2022. During the next four years, the fleet is scheduled to see new capacity corresponding to 47% of the fleet. Vessels with cargo capacity of 140,000-180,000 cbm are generally the preferred choice of shipowners, representing 75% of the number of LNG Carriers in the fleet and 97% of vessels on order.

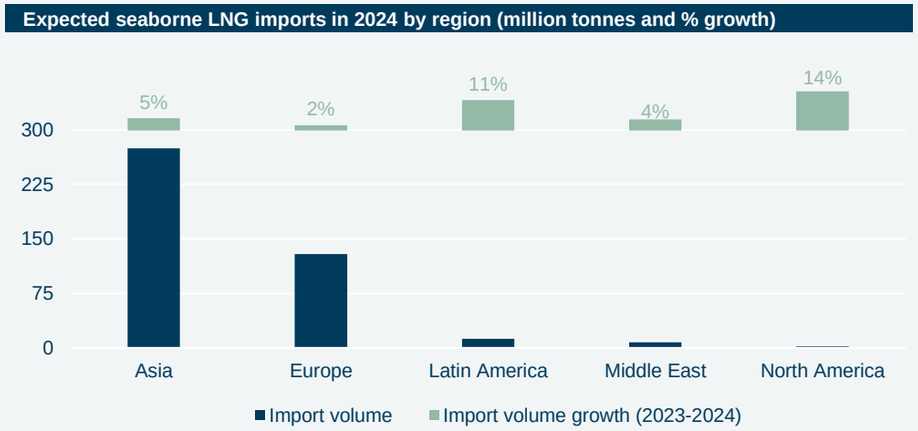
Of the 570 large LNG Carriers in the fleet 128 are propelled by less efficient steam turbine engines. Along with 90 medium-sized steam turbine vessels (100,000-139,999 cbm), these may be the most likely candidates for scrapping. If all of these vessels were to be demolished, this could help balance around half of the current orderbook. However, this would require significantly reduced economic lifetimes, as 80% of these vessels are at least 15-20 years from their five-year-average scrapping age (40 years). Upcoming hull surveys may periodically reduce the projected 8-12% annual fleet growth between 2024 and 2027, but only by around 1% annually.

Demand outlook

Distance-adjusted LNG Carrier demand is expected to grow by 7% in 2024. Seaborne volumes are predicted to increase by 4%, with longer distances adding another 3%. Seaborne LNG trade is set to be driven by Asian and European imports, accounting for 65% and 30% of total demand, respectively. Asia's seaborne LNG imports are expected to grow by 12 million tonnes (5%) versus 2023, while European imports could increase by 3 million tonnes (2%). Most of the additional demand in Asia will likely be met by Qatar and Australia based on existing long-term contracts. More long-haul 30-day voyages via the Panama Canal or 40-day routes across the Atlantic Basin to Asia from the US (marginally ahead of Qatar and Australia as the largest seaborne LNG exporting country) could boost overall LNG Carrier tonne-miles. However, Europe will likely remain the largest buyer of US LNG, importing 65% of total US exports in 2023 on voyages lasting 15 days on average.

Fundamentals seem set to be under increased pressure at least until 2026. The pressure may ease beyond 2026, but it will require a combination of the group of steam turbine vessels being retired early and current projections for seaborne LNG trade being met. These projections likely hinge on growing Asian demand (Chinese demand in particular) and scheduled production capacity expansions in Qatar and the US.





Source: Clarksons, Alphatanker, Reuters, Danish Ship Finance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