

# Analysis on the Future Development Prospect of Dry Bulk Shipping Market

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## Abstract

The overall power of the shipbuilding market is insufficient, and the cost of construction is hovering at a low level. In 2019, new shipbuilding orders were 282, with 26.66 million deadweight tons, and the deadweight tonnage decreased by 40% year-on-year; the price index of newly-built bulk carriers was 128.03 points, down 2.47 points year-on-year. Uncertainty caused by increased global trade frictions and economic and technological changes brought about by the "sulfur restriction order" have changed investor sentiment, and shipowners have adopted a more conservative attitude to delay new shipbuilding investments. On the whole, no matter the new ship market or the second-hand ship market, the overall transaction volume is at a low level in recent years, and ship owners have been cautious on the sidelines since the beginning of 2020, and the ship market demand lacks upward momentum.

## Keywords

Shipbuilding, Dry bulk, Ship dismantling.

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## 1. Introduction

In recent years, relevant national ministries and commissions have successively issued a series of policy guidance documents, emphasizing the strategic development status of the maritime industry and optimizing the fleet capacity structure, which is an inevitable direction for the development of the energy and shipping industry of dry bulk shipping companies. About the dry bulk ship market has not been involved by too many researchers, this article analyzes the current status of the dry bulk shipbuilding market, the second-hand ship market and the demolition market, and finally concludes that the competition in the shipbuilding industry is intensified and the ship market transactions are light. Under the circumstances, the market prices of newly-built ships and second-hand ships are in a steady downward path, so it is relatively good time for new-build ships.

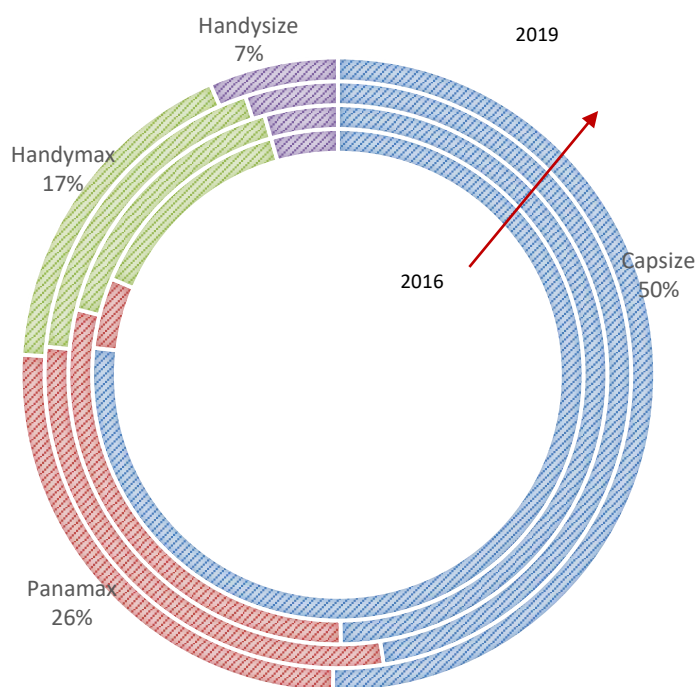
## 2. Analysis on the future development prospect of new shipbuilding market

### 2.1 The heat of dry-bulk new shipbuilding has faded

Global new ship orders have shown a declining trend since reaching a high point in 2007. In 2019, new shipbuilding orders were 282, with 26.66 million deadweight tons, [1]with a 40% year-on-year decrease in deadweight tons. The orders for new ships of various types of ships have dropped significantly, of which the new orders for handysize ships are 4.638 million dwt, down 43.2% year-on-year. In 2019, Handysize ships accounted for 17% of the new ship's deadweight, but there were 81 ships in number, second only to Panamax's 82 ships. The decline in new ship orders ended the trend of the new shipbuilding market picking up for two consecutive years. Even though the average BDI of the dry bulk market in 2019 has performed well, the year-round ups and downs, coupled with the increase in global trade frictions and economic and technological uncertainties brought by the

sulfur restriction order, have changed investor sentiment, and shipowners have adopted Attitude to delay investment in new shipbuilding.

The new shipbuilding price index has fluctuated and declined since reaching a high point in 2007. The recovery of the transportation market in 2017-2018 has increased shipowners' confidence in the market. Shipowners have gradually expanded their fleet capacity, and the ship recycling market has been suppressed. The number of new orders increased sharply each year, and the cost of new shipbuilding continued to rise. In 2019, shipowners were cautious about newbuildings, and the price growth of drybuilding and newbuildings gradually slowed down. According to Clarkson's statistics, the price index of newly built bulk carriers at the end of 2019 was 128.03 points, a year-on-year decrease of 2.47 points. Among them, the price of handysize ships (61-63 thousand DWT) is basically consistent with the new ship price index, which has remained between 24 million and 26 million US dollars in the past two years. As of April 2020, the price of handysize ships was US \$ 25 million.

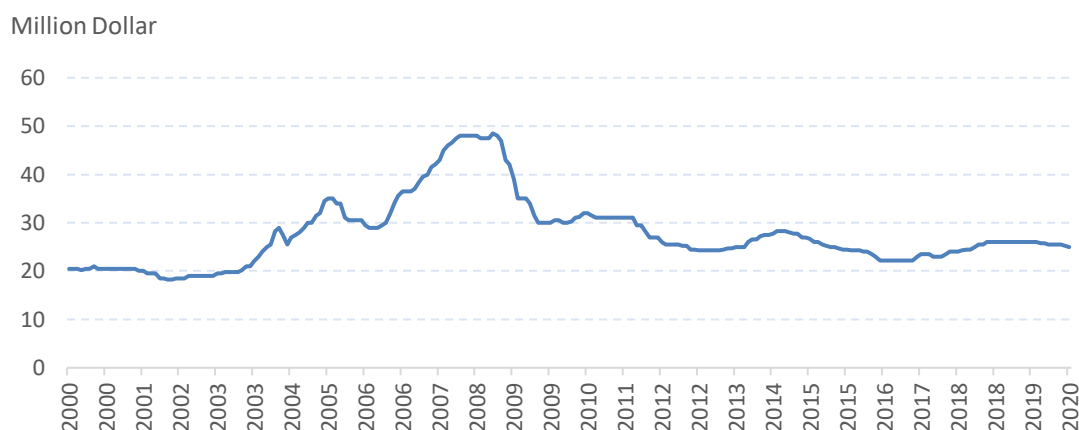


**Figure 1.** 2016-2019 Dry Bulk New Shipbuilding Orders Proportion of DWTs of Each Ship Type

### 2.2 Delivery and shipping capacity stopped falling and callback

Ship delivery capacity began to fall after exceeding 100 million deadweight tons in 2011 and 2012. Affected by the control of new ship orders from 2016 to early 2017, ship delivery capacity continued to decline in 2016-2018. The delayed delivery situation in 2019 has been greatly reduced, and the delivery capacity has stopped falling and rebounded. The annual delivery capacity of 368 ships was 41.32 million deadweight tons, an increase of 45% year-on-year. Among them, 110 handy size ships were delivered in 2019 with 8.15 million dwt, up 44.8% year-on-year.

In 2008, the number of hand-held orders rose sharply to a high level and then fluctuated and declined. By April 2020, the number of hand-held orders fell to 75.68 million deadweight tons, a year-on-year decrease of 24.9%. Among them, the handy order of the Handy size ship was 13.06 million dwt, a year-on-year decrease of 29.9%. [2] The proportion of hand-held orders and tonnages of various ship types in the current capacity continues to decline. In April 2020, the hand-held order capacity of Handy size ships accounted for 6.21% of the existing capacity.



**Figure 2.** 2000-2020 61-63 thousand DWT handyman-type new shipbuilding prices

## 2.3 New shipbuilding orders have fallen sharply

### 2.3.1 Short-term orders for new ships plummeted

In 2019, most ship owners are cautious about new shipbuilding, which affects the turnover of new ships. In 2020, shipowners demand for fleet upgrades increase, or more ships will be converted into desulfurization towers. Capacity will be affected by the installation of desulfurization towers, and a batch of new ship orders will be released. Despite this expectation, the negative impact of the epidemic on world trade and shipping will lower some new ship transactions, and these effects have already begun to show, and orders for new bulk carriers have been hit hard since 2020. According to Clarkson's data, from January to April 2020, there were 54 new bulk ship orders worldwide, with a total of 3.09 million DWT, a tonnage decline of 73% year-on-year. In the short term, shipowners' investment confidence is insufficient, and the demand for new ships lacks momentum; in the long run, the future epidemic situation is still unclear, which will add a lot of uncertainty to the ship market. In terms of ship delivery, in 2020, it is planned to deliver 364 bulk carriers with 36.12 million deadweight tons, while the orders for new ships are not as good as the delivery volume, and the global hand-held orders will further decline.

### 2.3.2 It is difficult for shipping companies to operate

In 2019, China, Japan, and South Korea continue to monopolize global new ship orders, with a combined deadweight tonnage of 97%. The competition among major shipbuilding countries remains fierce. Although the main shipbuilding countries will eliminate backward production capacity, the oversupply situation in the shipbuilding industry will continue in the future. New ship orders will also be more concentrated on a few large shipbuilding companies, and the monopoly competition between shipbuilding companies will be more intense.

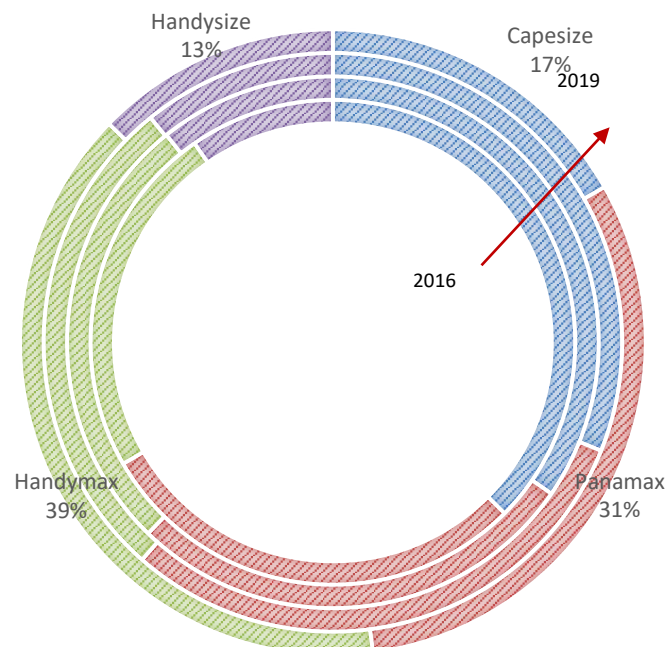
## 3. Analysis of the future development prospect of the second-hand ship market

### 3.1 Trading in the second-hand ship market is getting colder

If From 1995 to 2019, the second-hand ship orders fluctuated significantly. By 2016, the second-hand ship trading market had traded over 40 million DWT for three consecutive years. In 2019, the second-hand ship trading market gradually cooled, and the trading volume dropped to 542 ships, with 33.08 million deadweight tons, down 18.21% year-on-year. Among them, the transaction volume of cape-type second-hand ships decreased the most, with 32 ships, 5.54 million deadweight tons, a year-on-year decrease of 56.0%; however, the transaction volume of handy-size second-hand ships increased against the trend, and the proportion of second-hand ship orders increased rapidly. [3] To 39% became the largest ship type, the transaction volume increased 16.2% year-on-year to 234 ships, 13.01 million deadweight tons.

The second-hand ship transaction price index gradually pulled back and stabilized after experiencing the 2007 high. At the end of 2019, Clarkson's second-hand bulk ship price index was 110.19 points,

a year-on-year decrease of 5.7%. According to Clarkson data, the prices of 4 second-hand handy-size ships of different ages and tonnages are selected for comparison. The price of a 50,000-ton handysize ship with a 3-year age is around US \$ 20 million, and the price of a 10-year ship is Around 10 million US dollars, the price of the ship 20 years old is below 10 million US dollars.



**Figure 3.** 2016-2019 dry bulk second-hand ship orders proportion of each type of deadweight

### 3.2 The second-hand ship transactions are expected to be light

Since 2020, the second-hand ship market as a whole lack momentum, and the trading volume of bulk carriers is relatively sluggish. Faced with the uncertainty of the global economic trade and shipping market affected by the epidemic, shipowners are more cautious and wait-and-see and prefer to retain cash. In addition, how to inspect the ship and hand over the crew during the epidemic has become a problem, and it is difficult for the two parties to reach an agreement. The price of second-hand bulk carriers is also slowly declining like new ship prices. [4] As of May 2020, the Clarkson second-hand bulk carrier price index was 105.32 points, a decrease of 2.85 points from the beginning of the year and a decrease of 11.88 points year-on-year. It is expected that the trading of second-hand bulk carriers will remain low in the short term, and the price index will decline steadily.

## 4. Analysis of the future development prospect of the ship recycling market

### 4.1 Ship dismantling volume rebounded sharply

After a period of peak, the ship dismantling volume dropped to a low level in 2018, and the global old ships entered a new round of dismantling process in 2019. In addition, with the coming of the "sulfur restriction order" in 2020, the structural dismantling was more obvious, and the total dismantling volume was 84 vessels with 7.91 million deadweight tons, an increase of 78.95% year on year. Among them, the major increment was in cape size, which were dismantled for a total of 29 vessels with a load of 5.91 million tons, up 88.44% year on year. [5] A total of 18 hulls were disassembled with 820,000 deadweight tons, up 22% year on year.

### 4.2 It is expected that the dismantling market will become more active

Since 2020, due to the spread of the New Coronary Pneumonia epidemic, major ship recycling facilities in the Indian subcontinent as well as in Asia and Europe have been closed, and it is possible

to extend the time for closure measures. Despite this, some ship recycling facilities have been allowed to restart the ship dismantling business “slowly and responsibly”, and have established a safe social distance to ensure that shipyard staff use appropriate personal protective equipment, so the number of ship recycling operations since 2020 is still considerable, Overall more than in 2019. Correspondingly, the prices of the shipbreaking markets in Bangladesh, India, Pakistan and other places are all going down. In the context of the sluggish shipping market, [6] with the implementation of the sulfur restriction order and the approaching date for the mandatory installation of ballast water, it is expected that the subsequent ship dismantling market will become more active and there is room for continued price dips in the short term.

## 5. Conclusion

On the whole, no matter the new ship market or the second-hand ship market, the overall transaction volume is at a low level in recent years, and ship owners have been cautious on the sidelines since the beginning of 2020. The ship market demand lacks upward momentum. In the case of intensified competition in the shipbuilding industry and light trading in the ship market, the market prices of new and second-hand ships are in a steady downward channel, and the delivery speed of new ships is higher than the speed of new orders, So it is relatively good time to build a new ship.

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