Dry Bulk Shipping Market Overview & Outlook

Energy transition curbs demand growth

January 2024

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Highlights

Demand

Global GDP could grow by 2.9% in 2024 and by 3.1% in 2025. Economic conditions are expected to improve in 2025 as interest rates fall in advanced economies.

Iron ore shipments are estimated to grow 3.0% from 2023 to 2025, supported by growth in global steel demand.

Coal shipments are forecast to fall by 6.9% between 2023 and 2025. Fast growth in renewables and more hydro power in India and China could curb demand.

In 2024, maize shipments are expected to recover, driving growth in grain shipments. **Between 2023 and 2025, grain shipments are forecast to increase by 3.0%.**

Supply

The current orderbook stands at 8.7% of the dry bulk fleet. Panamax and supramax ships will account for 71% of deliveries during the next two years.

Amid low fleet growth and a stable market, **we estimate that only 15.5m DWT will be recycled during 2024-2025.**

Climate regulations are estimated to cause **sailing speed to fall 1-2% from 2023 to 2025.** Sailing speeds could rise temporarily during periods of stronger freight rates.

Supply/demand

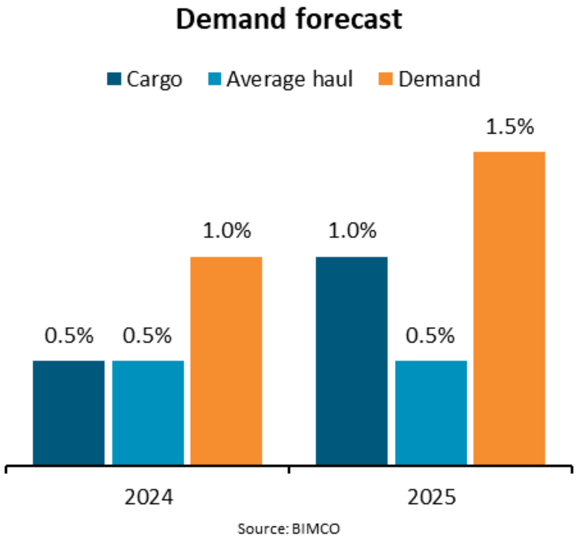
Supply is forecast to grow 1-2% in both 2024 and 2025. We estimate that fleet growth will slow down during this period.

Demand is forecast to grow 0.5-1.5% in 2024 and 1-2% in 2025. Demand growth is expected to slow down as coal volumes decrease.

The supply/demand balance should marginally weaken in 2024 and stay stable in 2025. Overall, we believe that the dry bulk market can look forward to two years similar to 2023.

Demand

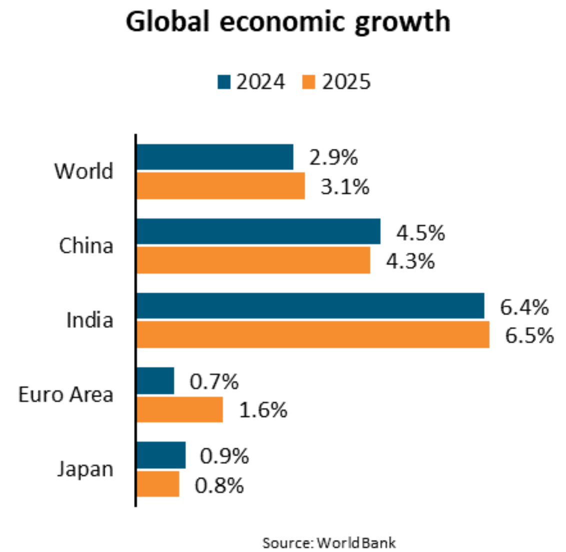
In our base scenario, we expect cargo demand to grow by 0-1% in 2024 and 0.5-1.5% in 2025. This is a 0.5 percentage point reduction for both 2024 and 2025 compared to our previous forecast due to a weaker outlook for coal as renewable electricity production accelerates.



Average sailing distances are expected to lengthen 0-1% in 2024 and in 2025. From 2024, we expect a decrease in shipments of coal – a commodity with below average sailing distances. Conversely, iron ore, bauxite and grain shipments from South America and Guinea, which have above average distances, could continue to rise.

Disruptions in the Panama Canal and the Red Sea could also lead to longer sailing distances, primarily in the first half of 2024. In the Panama Canal, the expected end of El Niño could help water levels recover in the second half of 2024, the busier half for dry bulk shipping. In the Red Sea, while only 4% of bulk cargo is estimated to traverse it, tonne miles could increase by up to 5% if all ships are rerouted around Africa. In the first half of January, the number of bulk carriers transiting the Suez Canal fell by only 6% y/y. We therefore assume that this disruption will only have a minor impact on demand and that the situation will be resolved in the short term.

Like in the International Monetary Fund's (IMF) latest forecast, the World Bank forecasts the global economy to grow by 2.9% in 2024 but expects growth in 2025 to end at 3.1%, 0.1 percentage points lower than IMF's forecast. In 2024, high interest rates from tight monetary policies in many advanced economies will continue to impact economic growth. In 2025, economic conditions may improve as interest rates in advanced economies fall.



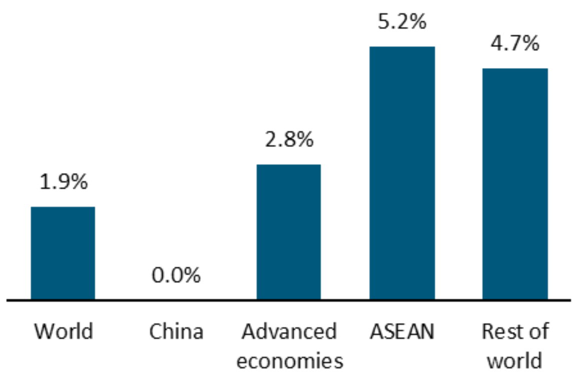
Several downside risks to the economic outlook exist, which could lead to a low cargo demand scenario. An escalation of the conflict in the Middle East would pose a significant risk to the global economic outlook, as it would lead to a surge in energy prices and high inflation, causing further monetary policy tightening. Other risks include financial stress from high interest rates, weaker than anticipated growth in China and trade fragmentation.

China's economic growth is estimated to slow from 5.2% in 2023 to 4.5% in 2024 and 4.3% in 2025. Weak consumer sentiment and a continued downturn in the property sector will contribute to lower economic activity. Despite significant government intervention in the property sector, construction activity has yet to increase. Furthermore, Chinese public debt continues to mount, which could restrict stimulus policies in the medium term.

We estimate that iron ore shipments will grow by 1-2% in both 2024 and 2025, in line with our previous forecast. They will benefit from a 1.9% increase in global steel demand in 2024, as estimated by the World Steel Association.

In China, steel demand could stagnate in 2024 and recover in 2025 if significant improvements are seen in the property sector. In the short term, steel producers will continue to benefit from high steel exports and strong demand from car manufacturing.

Steel demand forecast, 2024 y/y

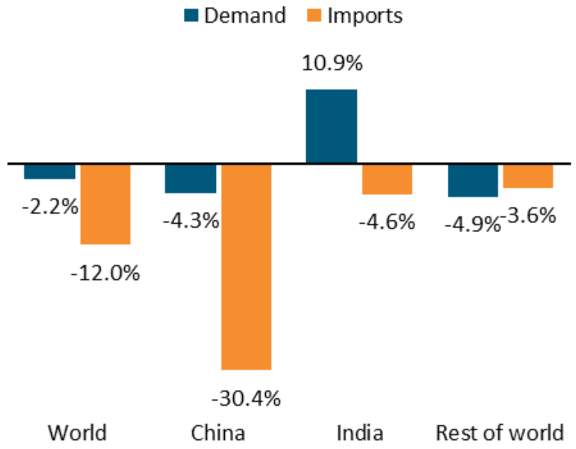


Source: World Steel Association

Steel demand in Asia is expected to continue growing, supporting steel exports from China, Japan, and Korea. In advanced economies, demand could start to recover in 2024, after two years of contraction.

Coal shipments could fall by 3-5% in 2024 and 2-4% in 2025. We have substantially revised our outlook downwards to align with the outlook from the International Energy Agency (IEA). However, we are more conservative in our estimate and expect a more moderate and gradual decline in the coal trade. We believe shipments could remain strong during the first half of 2024, before hydro power recovers significantly.

Coal outlook 2026 vs. 2023



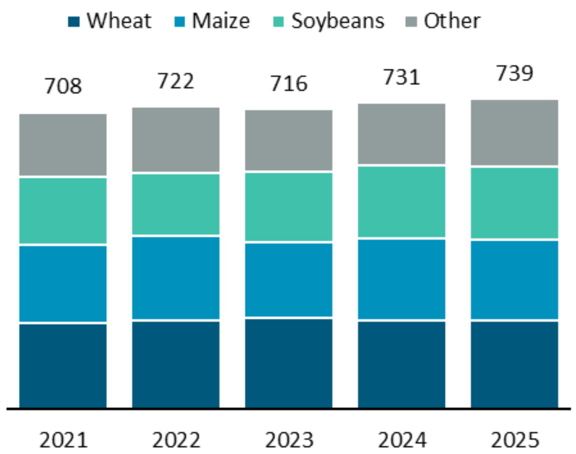
Source: IEA Coal 2023

The IEA states that coal demand may have peaked in 2023, both globally and in China, and that in 2025, renewable energy could replace coal as the largest source of electricity generation worldwide. As such, they estimate that coal demand could fall by 2.2% and imports by 12% between 2023 and 2026. They claim that a large share of this decline in both demand and imports could already occur in 2024 due to a recovery in hydropower in India and China.

According to the National Oceanic and Atmospheric Administration, El Niño has a 73% chance of ending between April and June. This could support stronger monsoons from May, leading to a recovery in hydro power in India. In China, the impact of El Niño on rainfall is mixed, but hydro power already started to recover in August and could further improve during the rainy season starting in May.

The rise of domestic coal mining in India and China remains another core obstacle to coal imports. In China, safety concerns in mines led to slower growth in 2023, yet mining remains at an all-time high. In the coming years, the IEA expects that Chinese mining could ultimately decline as demand falls. The rate at which both imports and production fall will likely be determined by the extent of government intervention. In India, mining has expanded at a rapid pace, and we expect this will continue during the next two years.

Grain exports, million tonnes



Source: BIMCO, USDA

Grain shipments are estimated to grow by 1.5-2.5% in 2024 and 0-2% in 2025. In 2024, Argentina is expected to drive a 9% increase in global maize shipments, while global wheat shipments could fall due to tight supply. The outlook for Ukrainian grain shipments has also improved. Since the end of November, bulk shipments increased to above the levels seen when the UN brokered agreement was in place.

The end of El Niño will affect weather conditions in the several exporting countries and could have a net positive effect on grain supply starting around September 2024. Conditions could improve for Indian rice, Australian wheat, US maize and wheat and Brazilian grain and worsen for US soybeans and Argentinian grains. However, large uncertainty remains for grain shipments in 2025.

We forecast that shipments of minor bulk cargoes will increase by 2-3% in 2024 and by 3-5% in 2025. The energy transition is expected to continue driving demand for bauxite, copper and nickel. Additionally, an improvement of economic conditions in advanced economies in 2025 could support minor bulk import demand.

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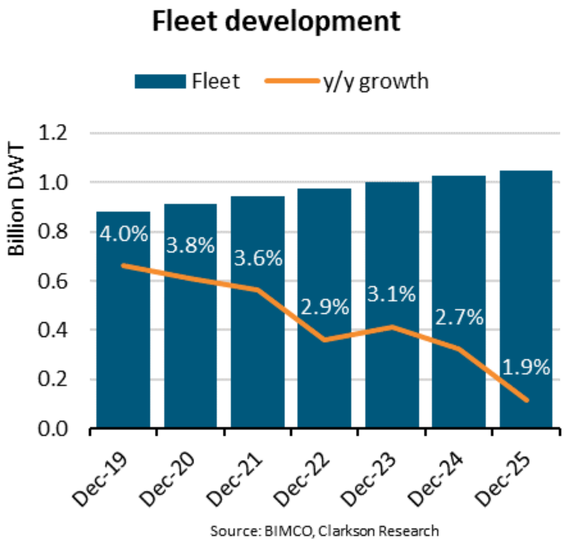
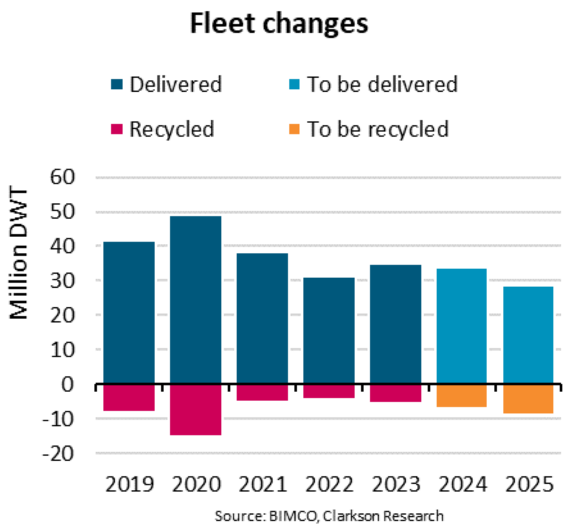
Supply

The dry bulk fleet is estimated to grow by 2.7% in 2024 and 1.9% in 2025. However, lower sailing speeds could cause supply to only grow by 1-2% in both 2024 and 2025.



The dry bulk orderbook stands at 86.8 million deadweight tonnes (DWT), up 4.1% y/y, equal to 8.7% of the current fleet. This has been supported by a substantial 12% surge in newbuilding contracting in 2023, half of which is expected to be delivered after 2025. Consequently, deliveries are estimated to only reach 33.9 million DWT and 28.7 million DWT in 2024 and 2025, respectively.



We estimate ship recycling to reach 6.8 million DWT in 2024 and 8.7 million DWT in 2025, a slight increase over the very low levels observed over the past three years. Ship recycling will likely remain limited to older ships that have been made less competitive by climate regulations.

The panamax and supramax fleets are expected to see the largest growth during 2024 and 2025. We estimate that these two segments will account for 71% of deliveries during the two years. As such, this may lead to comparatively higher ship recycling in these segments.

Sailing speed could fall by between 0.5% and 1.5% in 2024 and between 0% and 1% in 2025. Climate regulations could continue to incentivise ships to slow down. However, speed could remain stable or even increase during periods of stronger freight rates.

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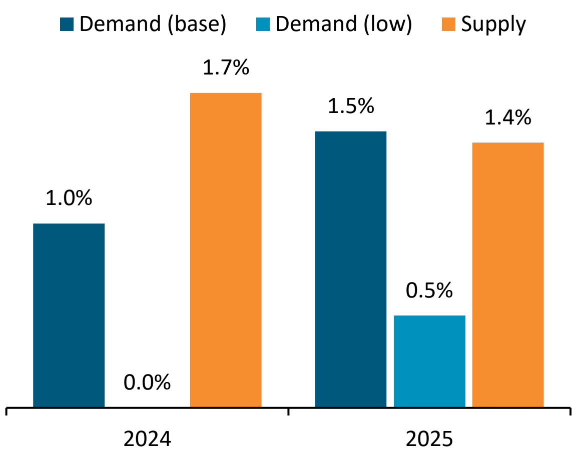
Supply/demand

We expect the supply/demand balance to marginally weaken in 2024 and remain stable during 2025. Supply is expected to grow by 1-2% in both 2024 and 2025, while demand is projected to grow by 0.5-1.5% in 2024 and 1-2% in 2025. Overall, we believe that the dry bulk market can look forward to the next two years being similar to 2023.

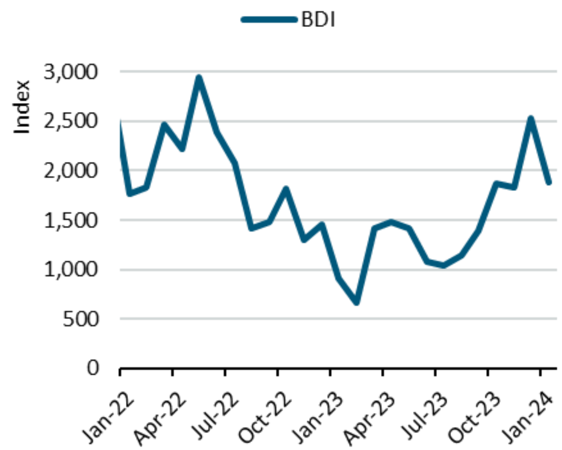
Fleet supply/demand developments



Source: BIMCO

The risks to the demand outlook remain tilted to the downside. In a low demand scenario, the supply/demand balance could weaken in both 2024 and 2025. Lower than expected economic activity in China and a faster decline in the coal trade than forecast are the two largest downside risks for the sector. Conversely, upside risks include increased avoidance of the Red Sea and a smaller than expected decline in coal volumes.

Baltic Dry Index (BDI)



Source: Baltic Exchange

Throughout most of 2023, the Baltic Dry Index weakened compared to 2022 levels, but freight rates firmed towards the end of the year. Forward freight agreements currently indicate that freight rates in 2024 could on average be higher than in 2023 across all segments.

We are slightly more cautious on the outlook for freight rates, as we currently expect limited demand growth. This would particularly impact the panamax segment, where a significant decline in coal shipments could lead to weaker freight rates. We estimate that over half of the cargo transported by panamax ships in 2023 was coal.

Low fleet growth in the capesize and handysize segments could support freight rates during 2024 and 2025. On the contrary, high panamax and supramax deliveries could pressure freight rates in these segments.

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BIMCO is the world's largest international shipping association, with over 2,000 members in more than 130 countries, representing 62% of the world's tonnage. Our global membership includes shipowners, operators, managers, brokers, and agents. BIMCO is a non-profit organisation.

Contact

Niels Rasmussen
Chief Shipping Analyst
nr@bimco.org

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About Shipping Market Overview & Outlook

Starting in 2024, BIMCO will release its Shipping Market Overview & Outlook reports monthly instead of quarterly. Each monthly report will cover one market sector and will usually be published in the last week of the month.

The planned publication schedule is as follows:

Dry bulk: January, April, July, and October
Tanker: February, May, August, and November
Container: March, June, September, and December