BARRY ROGLIANO SALLES

SHIPBROKERS SINCE 1856

GLOBAL MARITIME INDUSTRIES

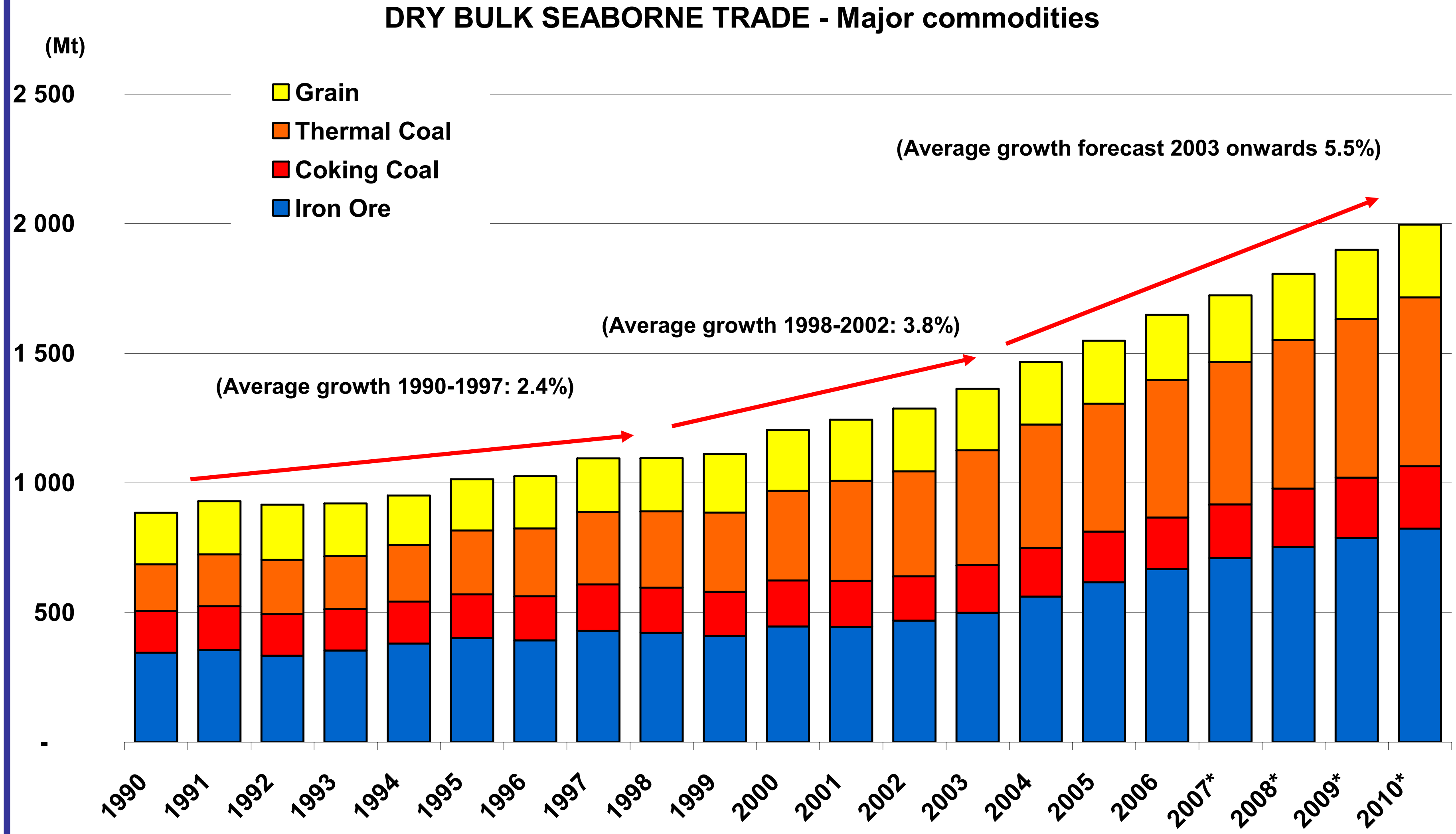
- QUO VADIS? -

“WHAT NEXT FOR THE DRY BULK MARKET?”

Jean-Bernard RAOUST

November 14th, 2007

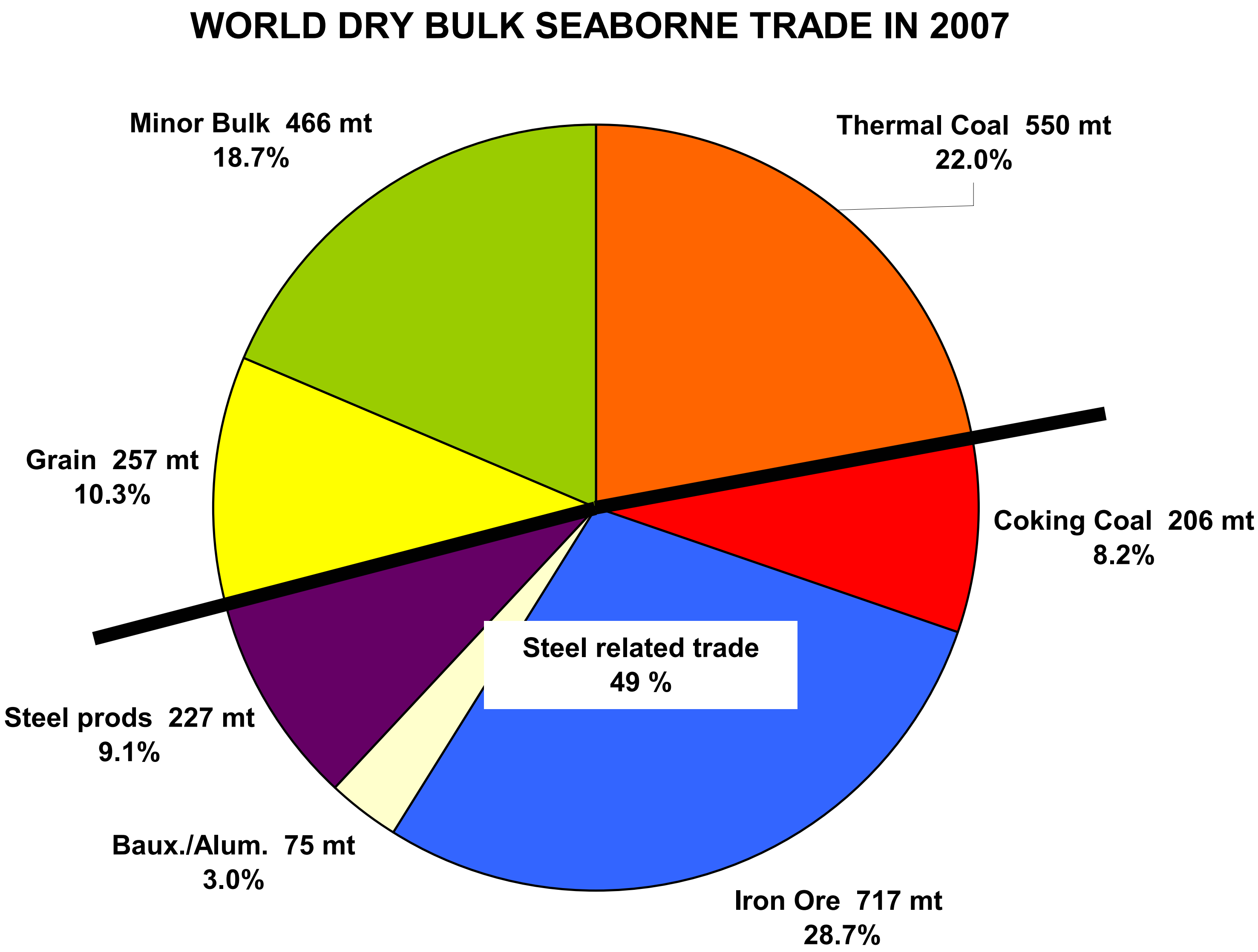
Dry bulk demand trend



(Source: IGC, IISI-Ramco, World Energy Council)

(* - Provisional)

What are we talking about?

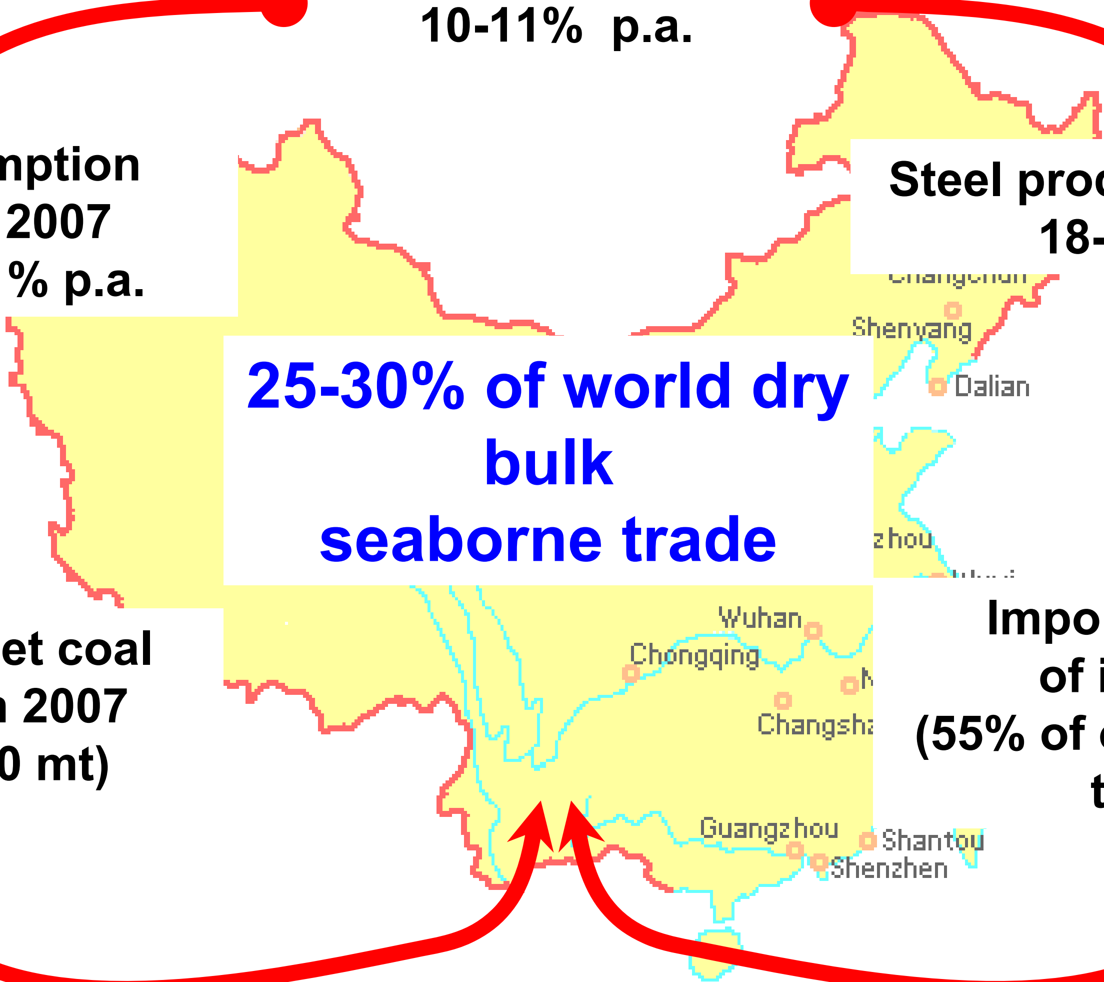


THE BEATING HEART OF THE INDUSTRY - CHINA

G.D.P. growth
10-11% p.a.

Coal Consumption
2,500 mt in 2007
growth 10-11% p.a.

Steel production Growth
18-20% p.a.

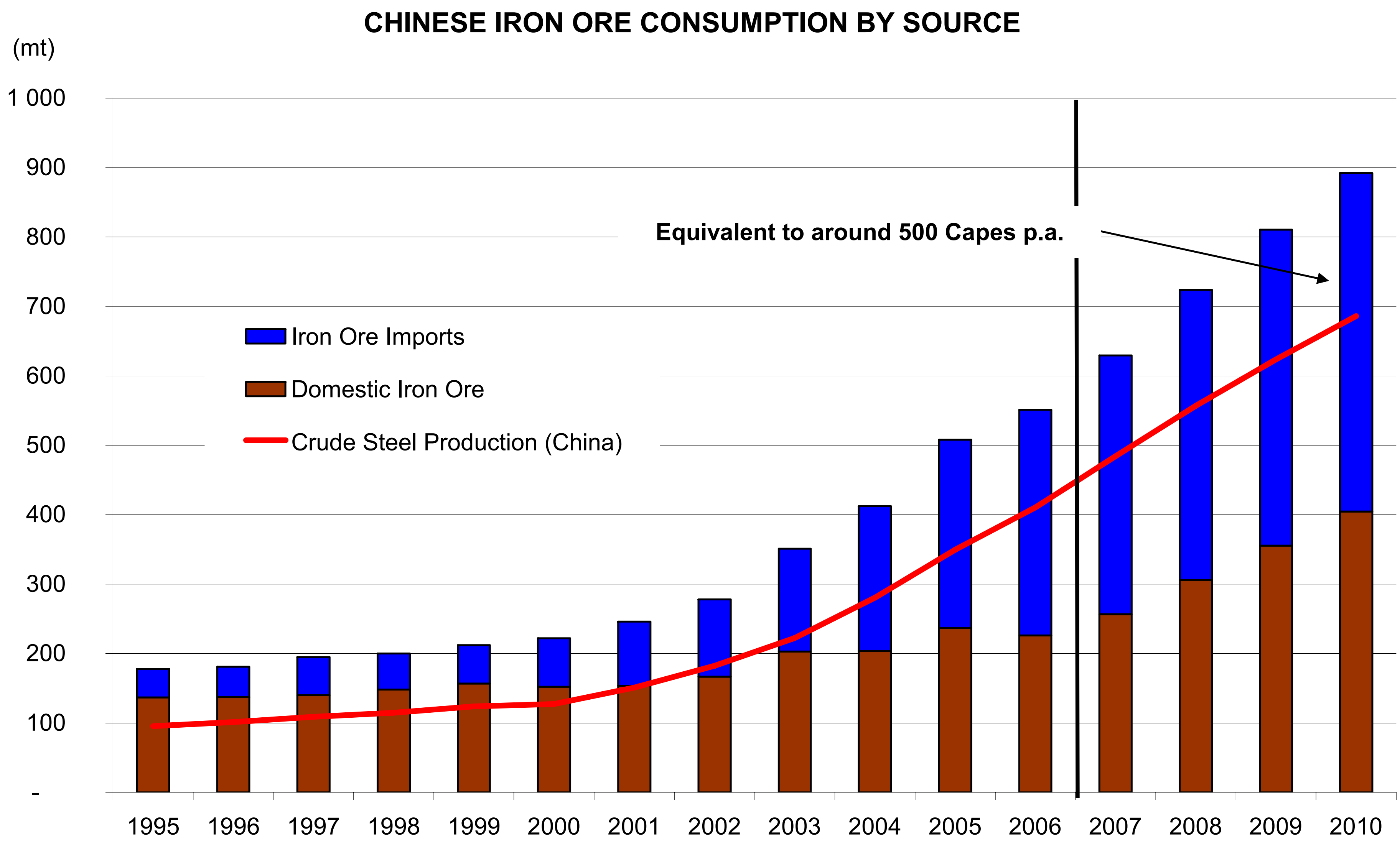


25-30% of world dry bulk seaborne trade

Became a net coal importer in 2007 (around 50 mt)

Imports 400 mt of iron ore (55% of ore seaborne trade)

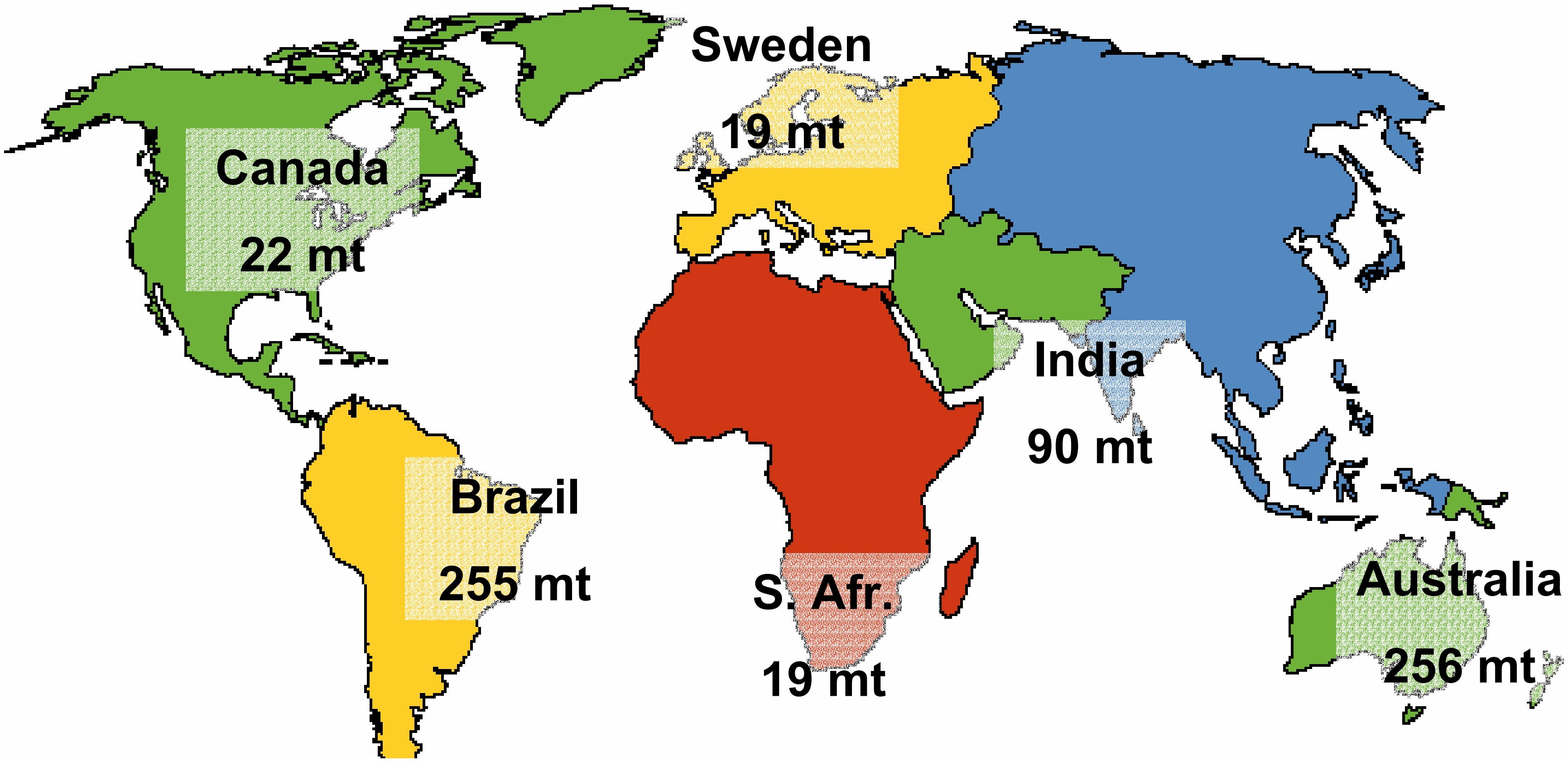
China's Steel Industry



China produces 40% of World Crude Steel – Growth rate is 20% p.a.

THE POWER OF THE MINES

(est. tons of **IRON ORE** shipped in 2007)

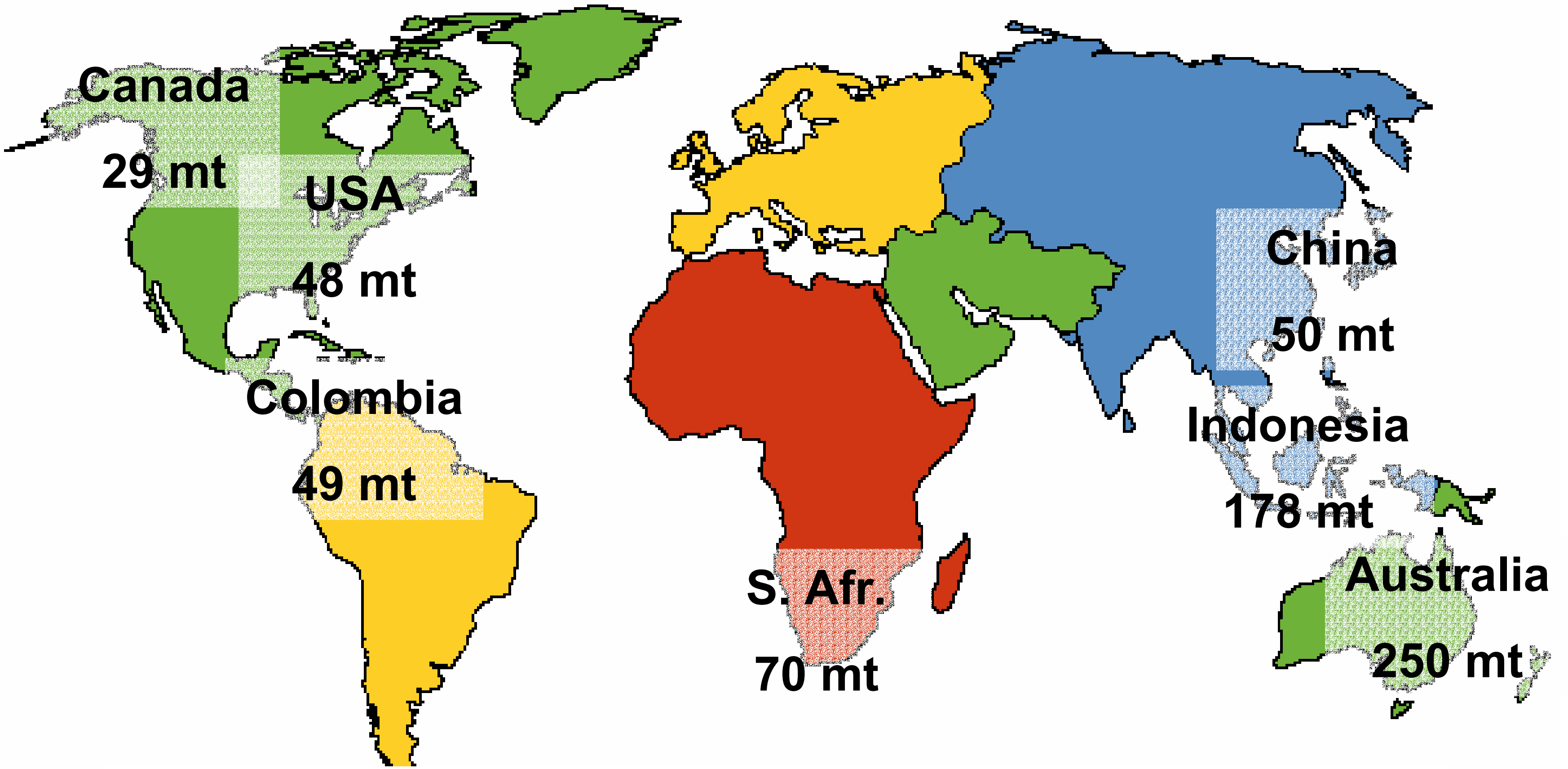


The 3 largest mining groups control

70% of iron ore shipments

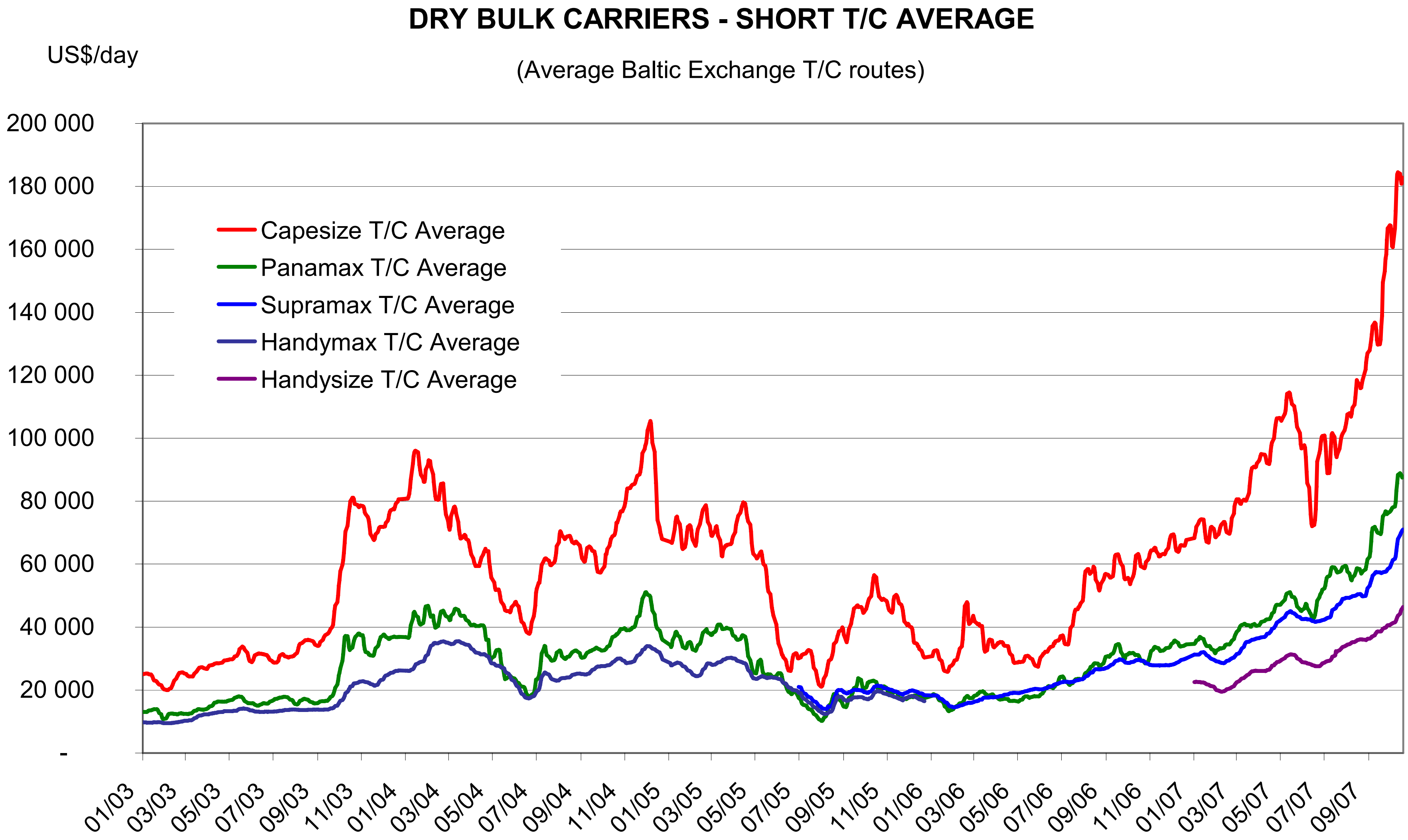
COAL: ASIA/PACIFIC DOMINATION

(est. tons of **COAL** shipped in 2007)

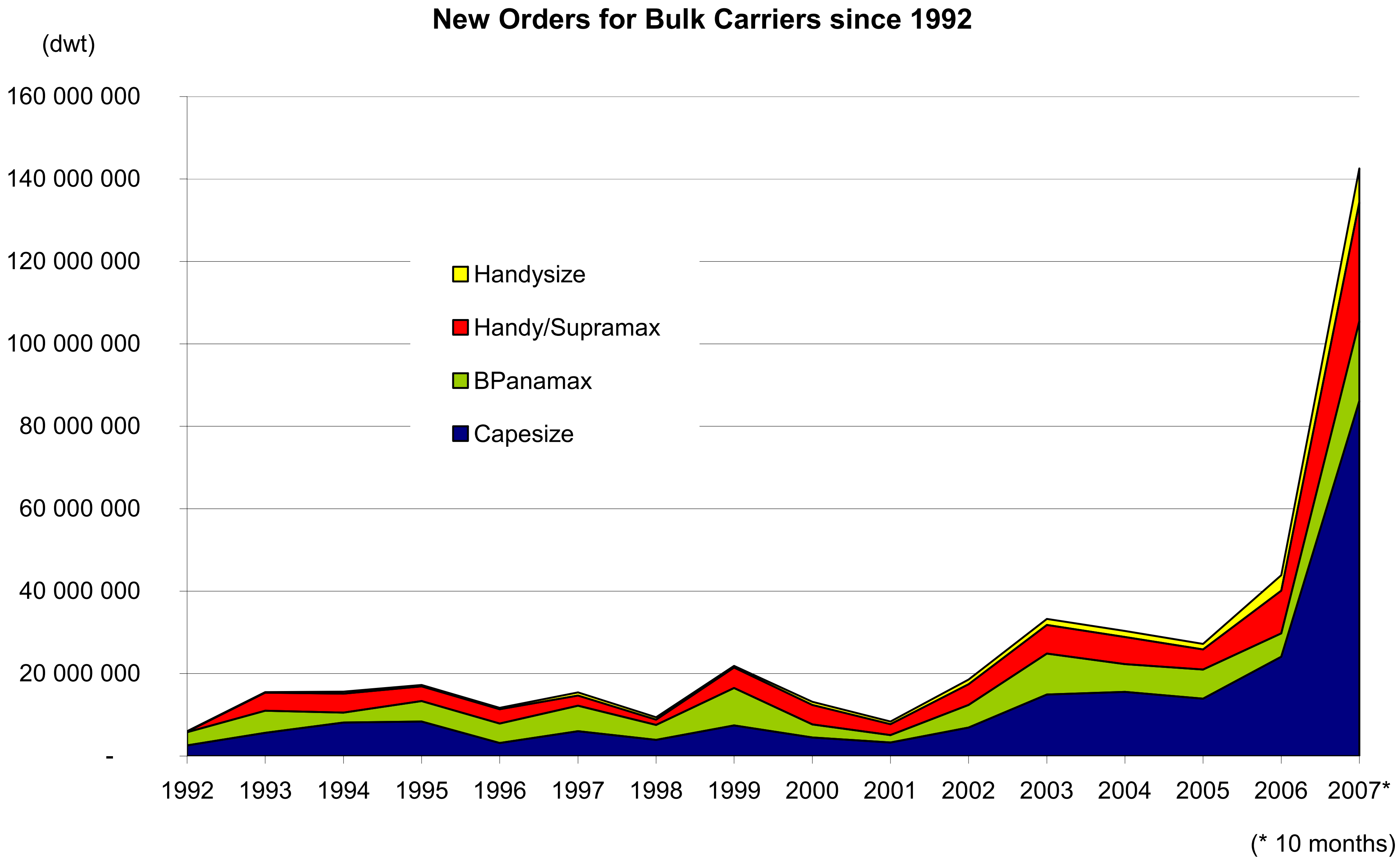


Asia/Pacific area represents 65% of the coal market

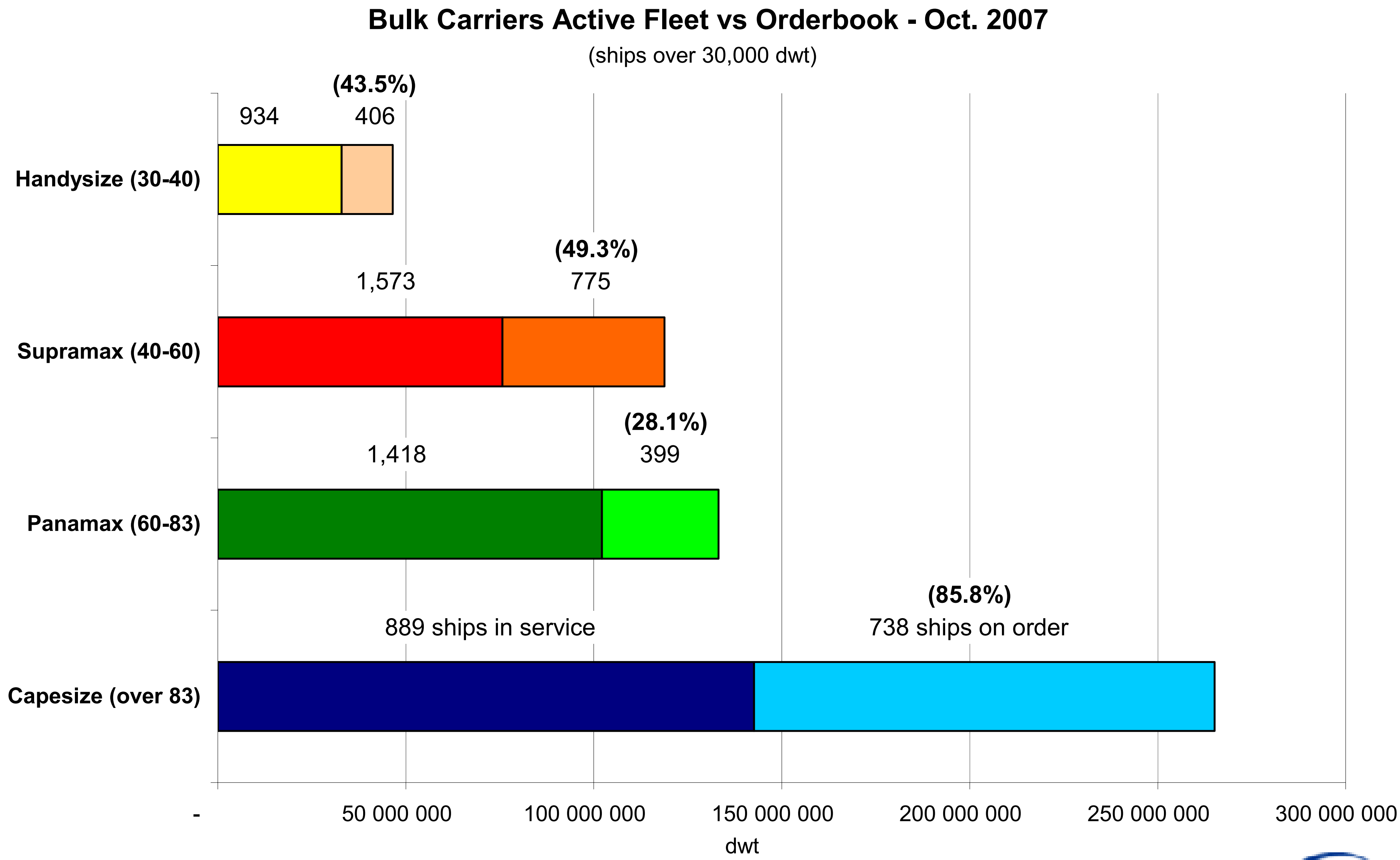
Dry Bulk Freight Rates



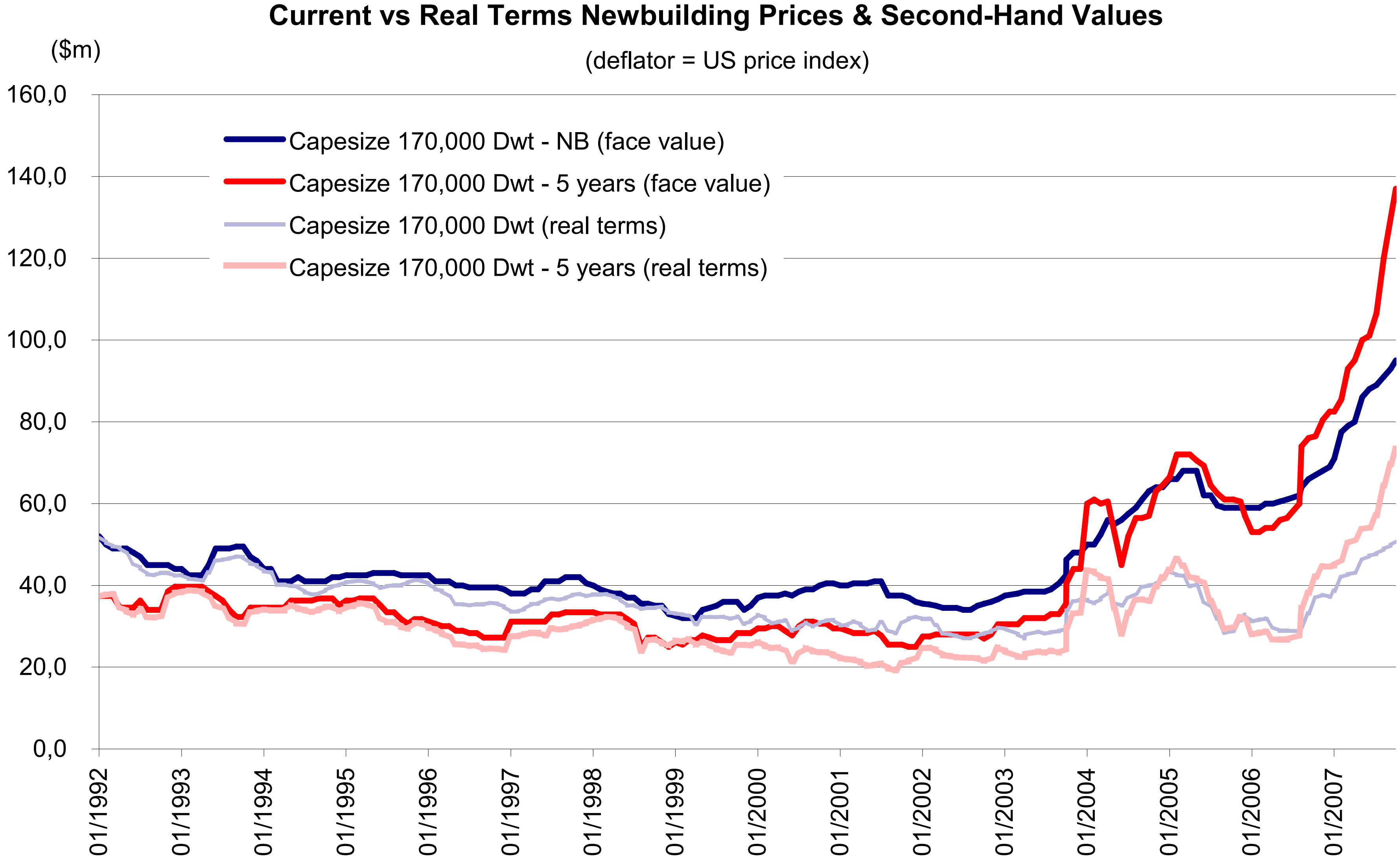
NEW ORDERS BOOMING…



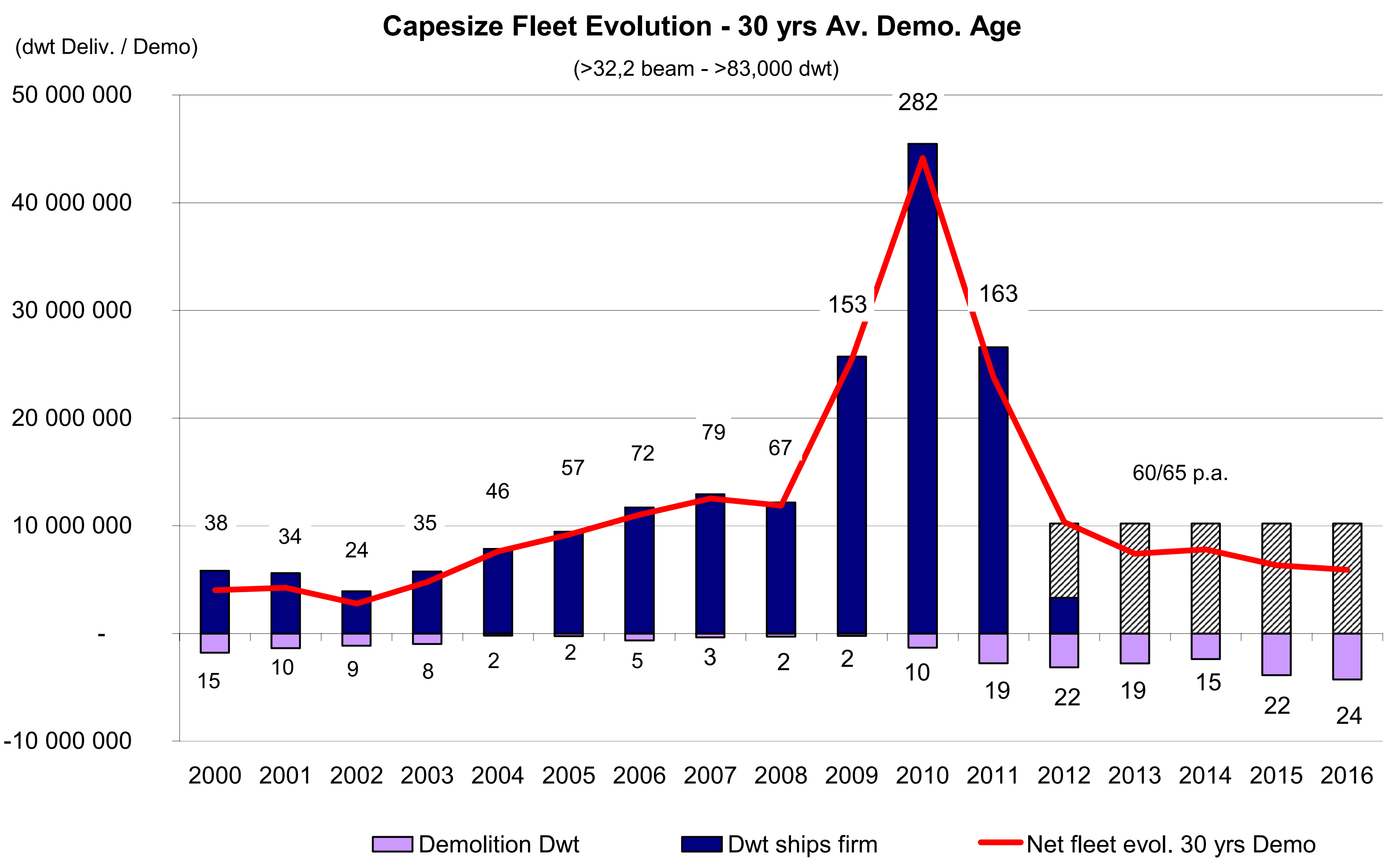
Supramax & Capes first!



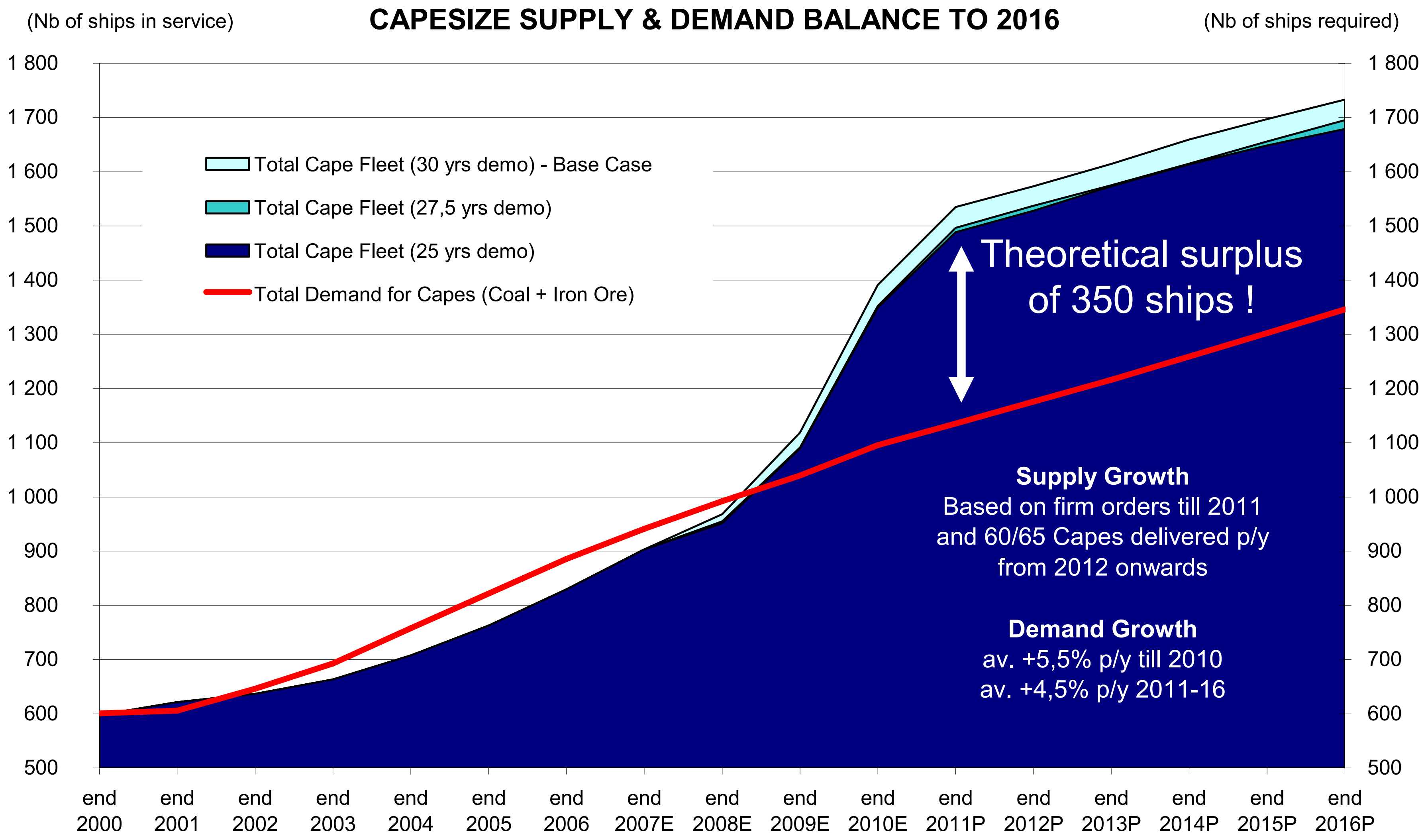
Asset Prices



Scrapyard blues…



Oversupply?



(Nb of ships in service)
CAPESIZE SUPPLY & DEMAND BALANCE TO 2016
(Nb of ships required)
1 800
1 700
1 600
1 500
1 400
1 300
1 200
1 100
1 000
900
800
700
600
500
Total Cape Fleet (30 yrs demo) - Base Case
Total Cape Fleet (27,5 yrs demo)
Total Cape Fleet (25 yrs demo)
Total Demand for Capes (Coal + Iron Ore)
Theoretical surplus of 350 ships !
Supply Growth
Based on firm orders till 2011 and 60/65 Capes delivered p/y from 2012 onwards
Demand Growth
av. +5,5% p/y till 2010
av. +4,5% p/y 2011-16
end 2000
end 2001
end 2002
end 2003
end 2004
end 2005
end 2006
end 2007E
end 2008E
end 2009E
end 2010E
end 2011P
end 2012P
end 2013P
end 2014P
end 2015P
end 2016P

The Bullish view…

• With today's predicted deliveries the market in 2008 could remain very tight and **port congestion** in Australia will not be completely solved before new loading capacity comes fully on-stream in 2009.

• Bulk shipping demand will rise over 5.5% p.a. to reach 6% or 7%, with other countries such as **India, Brazil** or **Vietnam** etc. adding to China.

• Current dry bulk tonnage on order is **overestimated**: delays, refund guarantees not in place, lack of skilled management, greenfield yards never starting production, could affect 30% of the ships on order.

A manageable oversupply of tonnage

Market fundamentals remain excellent

No panic

The Bearish view…

- Demand growth cannot reasonably double to 12% p.a. (production and port capacity expansion take time) to absorb new ships.
- Delivery of new tonnage + tanker **conversions** will drive rates down sharply as from next year.
- China's steel sector will **consolidate**, leading to a rationalization of iron ore supply.
- China to take stronger measures to **control overheating** after the Olympics in 2008.
- A Japan-like **integration** of China's shipping requirements by domestic interests will reduce market opportunities.
- Existing yard capacity will produce shipping overcapacity for a long time. (**the 1980s syndrome**)
- Long term charterers might **re-negotiate** their contracts, threatening sustainability of high priced shipping investments

Our view…

… rough seas ahead

• Current rate levels are far from “break-even” and **can drop** significantly without hurting owners.

• Traditional owners are **cash-rich** and not heavily indebted: they can sustain a period of lower returns.

• Numerous vessels are tied up on **long term contracts**.

• Positions taken on derivative markets might increase nervousness on the physical and increase **volatility**.

• 2008 should come back to more **reasonable levels**, both for freight rates and number of orders.

• 2009/2010 will be very tough years for late players having invested at today’s levels.

BUT

The fundamentals of the world economy remain excellent and will need the support of sea transportation.

“The future belongs to that which has the longest memory. ”

(Friedrich Nietzsche)

Thank you.