CARE Research

Growing fleet size to continue affecting vessel freight rates

The Shipping industry being highly co-related to the developments in global trade, therefore any adversities in the global economic growth adversely affects the prospects of global shipping fraternity thereby explaining the cyclical nature of the industry.

A study undertaken by **CARE Research** reveals the world GDP (at constant prices) to be historically related to the sea-borne trading volumes (tonne miles) with co-relation coefficient of 0.9. With the global economic growth remaining subdued during CY11 on the backdrop of the fiscal and financial instabilities experienced in the developed nations especially in the US and Euro region, the global GDP growth during CY11 is estimated at 4%. With the global economic gloom expected to prolong, CARE Research expects the sea borne trading volumes to remain affected growing in the range of 4.4-4.7% on y-o-y basis during CY12-14. Further to add to the worsening situation of declining trading volumes and over-capacity of existing vessels, CARE Research expects the global fleet size to surge from 1,030.7 mn GT as on December 31, 2011 to 1,200.8 mn GT as on December 31, 2013 implying a CAGR of 7.9%. This in turn would affect the utilisation rates of vessels ultimately resulting in decline of freight rates. CARE Research expects the said growth in fleet size to be primarily driven by the orders in the dry bulk segment accounting for 35.5% of the total dry bulk fleet size as on November 30, 2011.

World Fleet size Projection				
Vessel Segment	Order book as % of existing fleet*	Fleet Size – mn GT		
		CY11	**CY13E**	**CAGR (%)**
World Wet Bulk fleet	17.5	254.6	286.6	6.1
World Dry Bulk fleet	35.5	326.1	410.0	12.1
World Containership fleet	28.1	170.0	204.1	9.6
Total World fleet	**23.3**	**1,030.7**	**1,200.8**	**7.9**
*orderbook as on November 30, 2011 #figures of fleet size at end of the year				
Source: CARE Research estimates				

CARE Research expects the shipping volumes in the dry bulk segment to continue to remain driven by the Chinese demand for coal and iron-ore. In addition, the Japanese import demand for coal and iron-ore for the nation's re-building efforts post the natural disasters is expected to propel the dry bulk trading volumes. However, with the dry bulk vessel deliveries as a % of existing fleet expected to average 25.5% and 6.8% for CY12 & CY13, the additions to the already excess capacity of dry bulk fleet is expected to affect the freight rates. Correspondingly, CARE Research expects the BDI is to remain range-bound ranging from 1,500- 3,000 levels during CY12 & CY13.

With the world economic growth expected to remain sluggish during CY12, CARE Research expects the global oil demand at 88.9 mb/d recording y-o-y growth of 1%. CARE Research estimates the oil demand from the OECD nations to remain subdued during CY12 recording y-o-y de-growth of 0.3% primarily due to fiscal and financial instabilities experienced by these economies. In addition, the increasing focus on use of non-conventional source of energy like ethanol and biofuels to reduce carbon emissions and at the same time improve fuel efficiency is also expected to lower the oil demand. However, oil demand from the non-OECD nations is expected to increase posting y-o-y growth of 2.4% during CY12. CARE Research expects the deliveries as a % of existing fleet in this vessel segment to average 10.7% and 5.2% during CY12 & CY13 respectively. This in turn is expected to add to the already existent over-capacity of vessels thereby adversely affecting the vessel freight rates.

With the developed economies of the globe faced with the threat of economic slowdown, CARE Research expects the EXIM volumes across the major container trading routes i.e. Asia – Europe and Asia-U.S to remain subdued in the near term. Notably, with the expected slowdown in import demand from the developed nations in Europe and the U.S., the containerised trading volume originating from the Asian nations especially China is expected to remain adversely affected in view of the fact that 6 of the top-10 global container terminals are located in China. The deliveries in this vessel segment too, expected to account for 10.7% & 9.9% of the existing fleet is expected to further worsen the over-supply situation of containership fleet globally. Correspondingly, the lower utilisation of the existing containership fleet globally is expected to exert downward pressure on the vessel freight rates thereby compelling the container fleet operators to suspend services on some container trading routes wherein the trading volumes have either declined considerably or are negligible.

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About CARE Research

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