

# Effects of the conflict in Ukraine on grain markets

Bulk Terminals 2022, Riga



11-12 Oct 2022

PRIVATE & CONFIDENTIAL

[www.drewry.co.uk](http://www.drewry.co.uk)

# Who we are

**Drewry** is the leading international provider of research and consulting services to the maritime and shipping industry with unrivalled experience and expertise across all market sectors from containers and ports to tankers and dry bulk.

From our origins in 1970 London to a 21st century maritime and shipping consultancy, **Drewry** has established itself as one of the most widely used and respected sources of impartial market insight and industry analysis. This in-depth understanding and objectivity provides our clients with the actionable advice and recommendations they need to achieve their ambitions and stay ahead of the market.

We provide our services through four business units: Drewry Maritime Advisors supporting the needs of shipping and financial institutions; Drewry Supply Chain Advisors providing seafreight procurement support to retailers and manufacturers; Drewry Maritime Research publishing market-leading research on every key maritime sector; and Drewry Maritime Financial Research delivering a truly independent equity and credit research service on companies operating in the industry.



# About Drewry Maritime Advisors

While research is in our DNA, we do not stop there. We are passionate about applying this insight to provide actionable, practical and timely advice. The combination of understanding and expertise in the markets we serve allows our clients, whether shippers, carriers and port operators, banks, investors and financial intermediaries, to make the right commercial decisions at the right time.

Our team of Maritime Advisors offer a wealth of experience across the maritime sectors and lead the industry in their respective areas of specialisation. They include a mix of industry veterans and operational, financial and technical specialists with extensive project-based advisory experience.

## **1** *IMPARTIAL*

We understand our clients' need for sound, **evidence-based, independent** advice. Drewry Maritime Advisors has a reputation for pertinent, rigorous, and objective analysis backed by deep experience of the industry.

## **2** *THOROUGH*

Recognition as a **leading authority** on maritime economics, with an ever-growing international reputation for the thoroughness and reliability of its work, and the integrity of its client relationships.

## **3** *PRACTICAL*

Our advisory team contains senior executives who have wealth of **hands-on personal experience** of all aspects of the maritime sector and whose people work on ports and related assignments every day, combining practical experience with strategic thought and a detailed knowledge of global port markets

# Our four Business Units

## Maritime Research

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Our research provides the robust analysis and balanced opinion those within shipping, finance and logistics need to make informed business decisions.

The range of titles and reports we publish keep our clients up to date on every key maritime sector, from dry bulk to chemicals and from LPG to ferries, with detailed analysis and insightful commentary on past, present and future sector performance.

## Maritime Advisors

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**Our Maritime Advisors** offer a wealth of experience across the maritime sectors and lead the industry in their respective areas of specialisation. Our sector expertise covers; ports, bulk shipping, liner shipping, shipyards, ferry and RoRo, technical ship management. Our combination of deep sector understanding, technical expertise and market leading insight enables us to be confident in our actions and ability to deliver the right results for our clients.

## Supply Chain Advisors

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We focus on advising users of international multi-modal transport services, taking our extensive understanding of the industry and applying it to all stages of the supply chain.

Through our supply chain research catalogue and industry knowledge, we offer a range of procurement support services that empower importers and exporters, providing them with the tools, resources and tailored advice they need to more effectively manage their transport service provider and international supply chains.

## Maritime Financial Research

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Leveraging our extensive market knowledge and understanding, we have extended our portfolio to deliver a truly independent investment research and advisory service on companies operating within the maritime industry.

Authorised by the UK Financial Conduct Authority (FCA) to provide investment advice, we are uniquely positioned to provide a product that offers robust and unbiased analysis.

# Agenda for the presentation

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## Drewry's sneak peek view

- Business cycle
- Trend and outlook

## Effects of the conflict on grain markets

- Grain shipping
- Fertiliser shipping

## IMO regulations

- Impact of IMO regulations
- EEXI
- Impact on speed

## Demand and forecast

- Scenarios
- Demand
- Forecast

## Supply

- Orderbook
- Supply
- AIS

## Earnings and risks

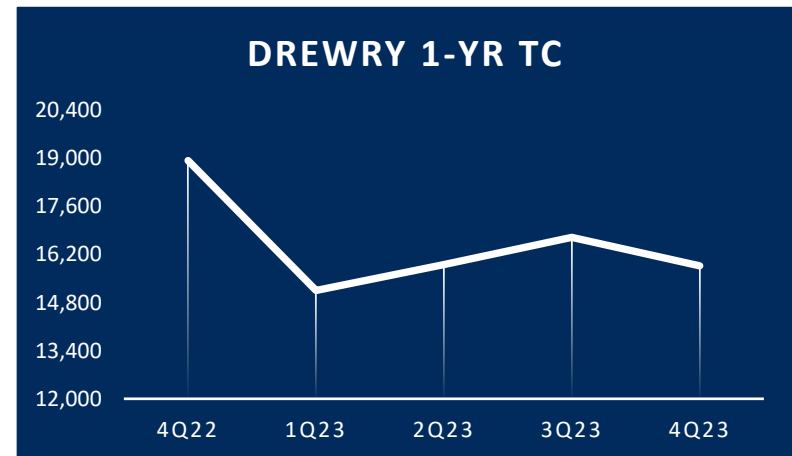
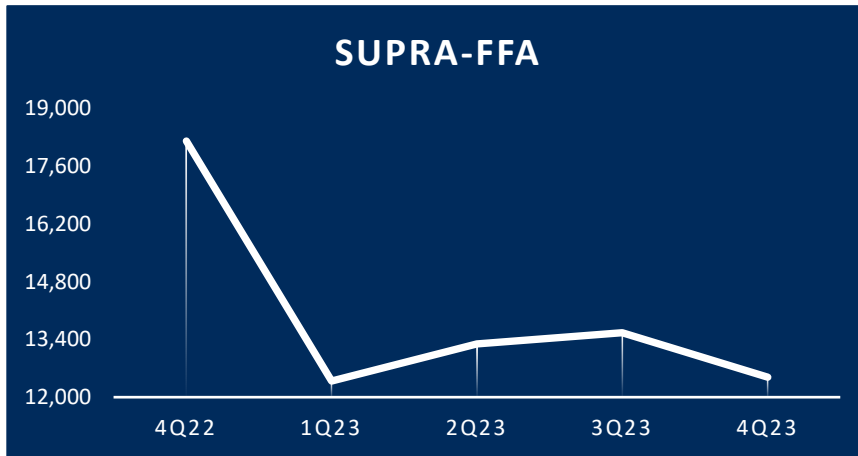
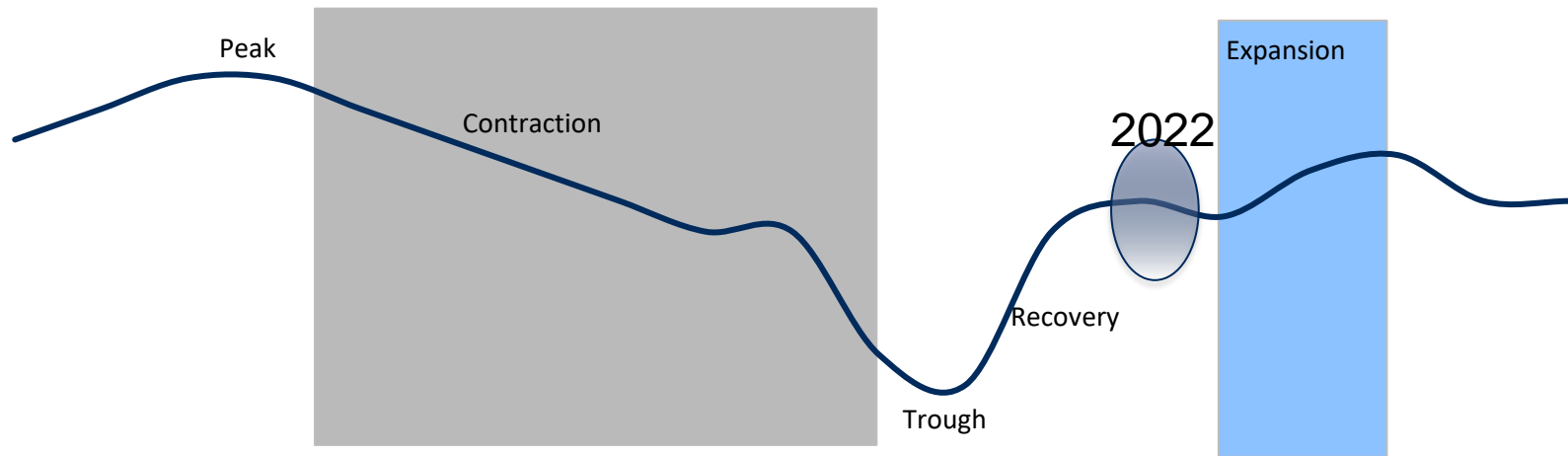
- Charter rates
- Downside risks
- Upside potentials

# Drewry's sneak peek view

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# Dry bulk market is expected to recover in 2024



Sources: Drewry Maritime Research, Baltic exchange

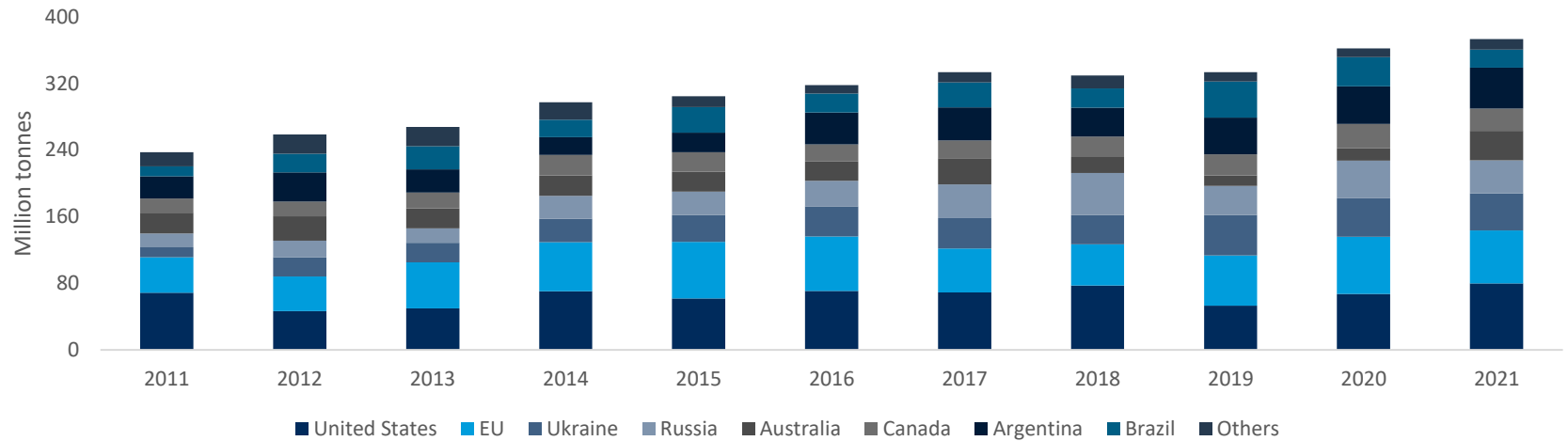
# Exports from the war zone

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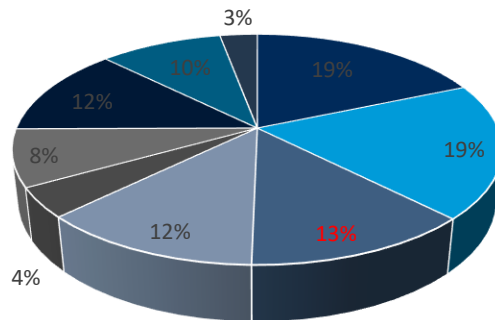


# Global grain trade

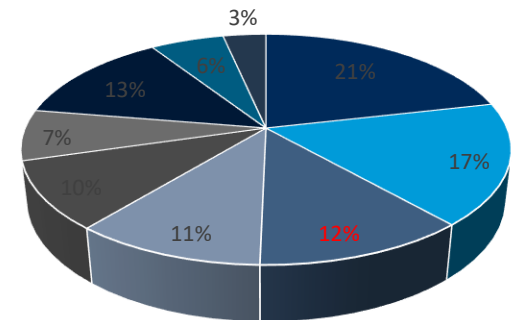
## Global grain trade - exporters



### 2020



### 2021

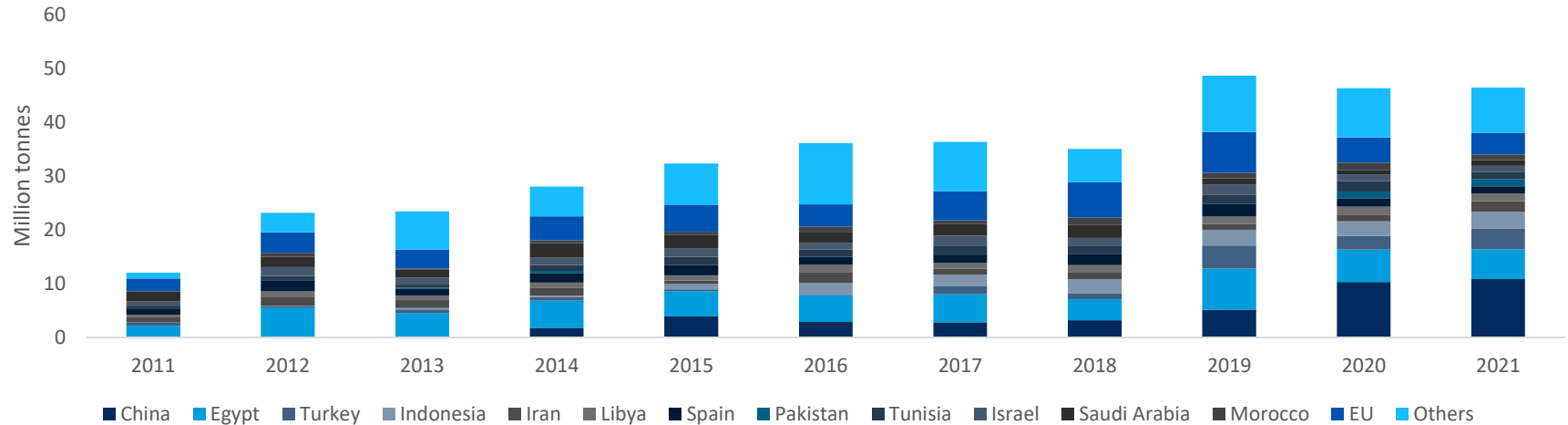


- United States
- EU
- Ukraine
- Russia
- Australia
- Canada
- Argentina
- Brazil
- Others

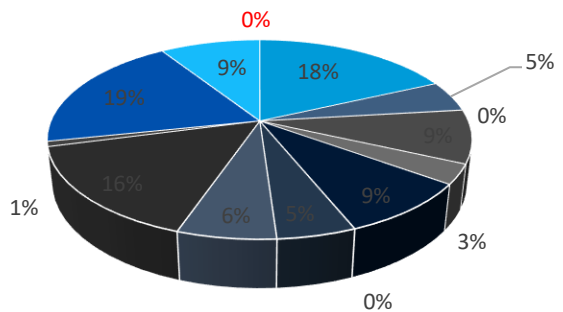
- United States
- EU
- Ukraine
- Russia
- Australia
- Canada
- Argentina
- Brazil
- Others

# Ukraine's grain exports

Ukraine's grain exports

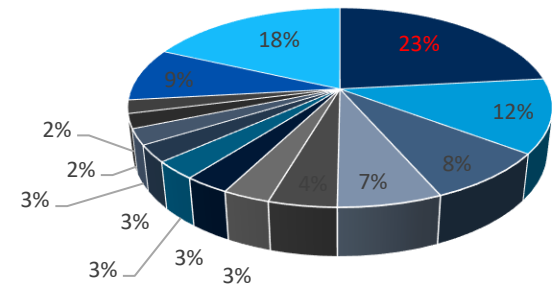


2011 - total exports - 12 million tonnes



- China
- Egypt
- Turkey
- Indonesia
- Iran
- Libya
- Spain
- Pakistan
- Tunisia
- Israel
- Saudi Arabia
- Morocco
- EU
- Others

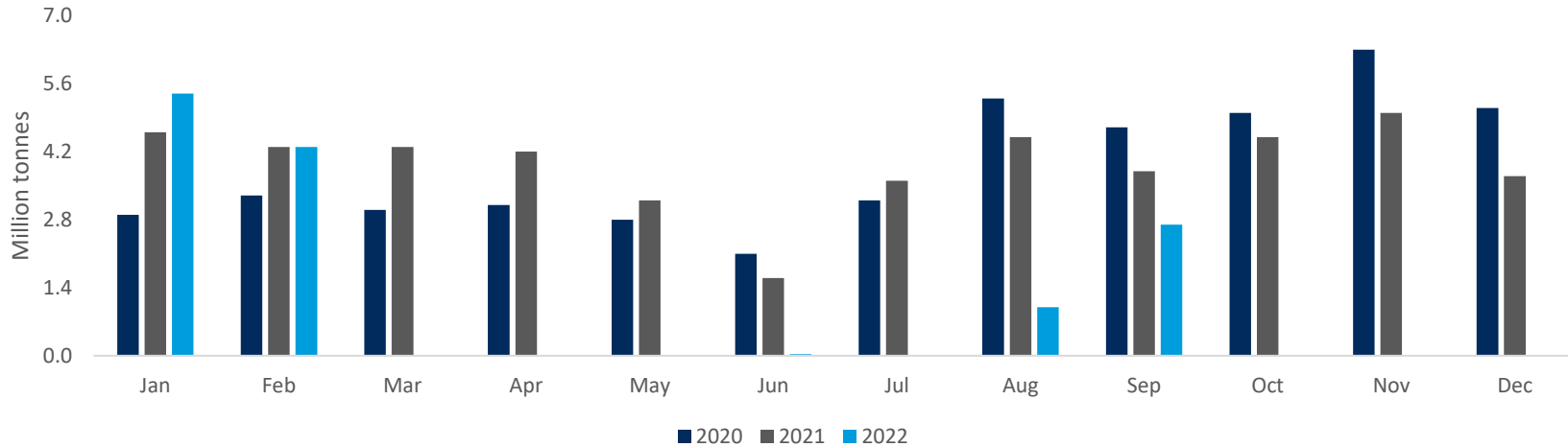
2021 - total exports - 46 million tonnes



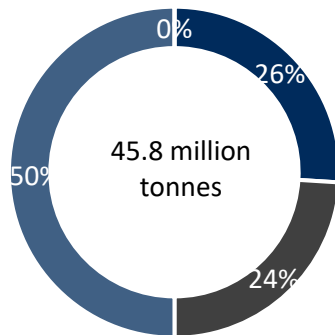
- China
- Egypt
- Turkey
- Indonesia
- Iran
- Libya
- Spain
- Pakistan
- Tunisia
- Israel
- Saudi Arabia
- Morocco
- EU
- Others

# Ukraine's exports – impact of war

Ukraine's grain exports

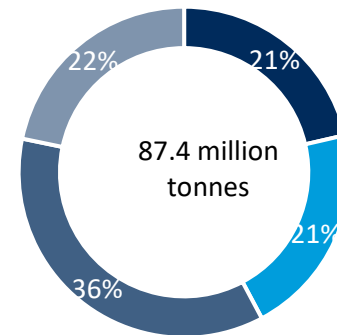


Grain-2021



■ Handysize ■ Supramax ■ Panamax ■ Capesize

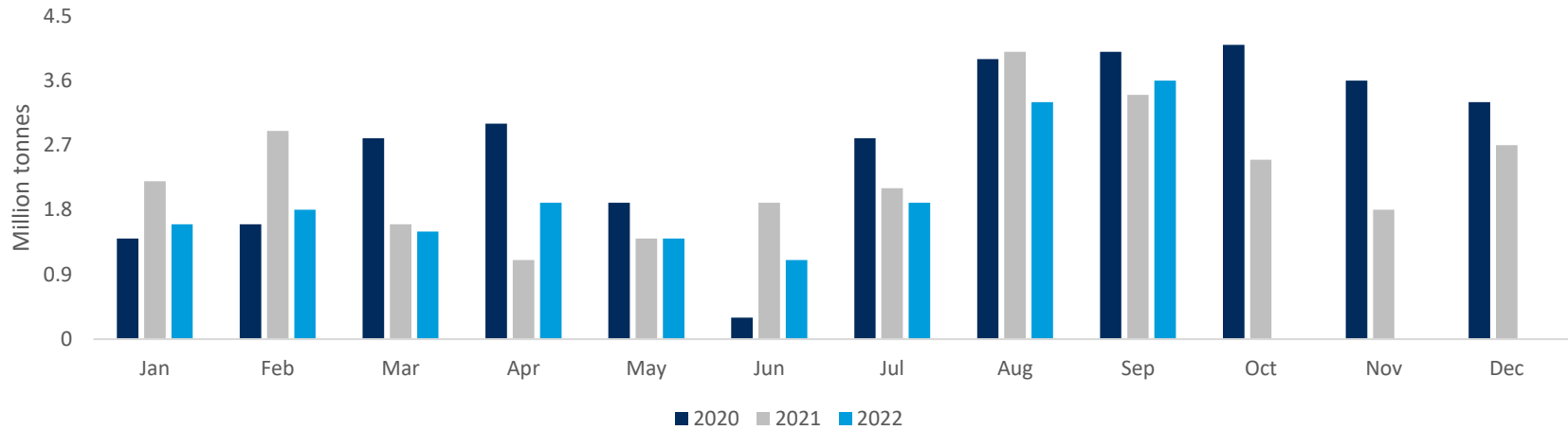
Dry bulk-2021



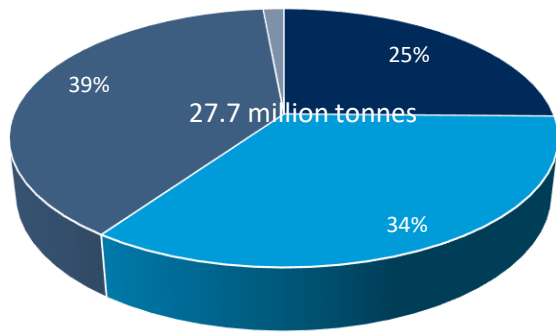
■ Handysize ■ Supramax ■ Panamax ■ Capesize

# Russia's grain exports

Russia's grain exports

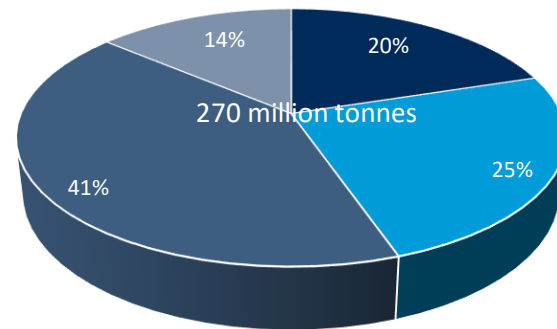


Grain - 2021



■ Handysize ■ Supramax ■ Panamax ■ Capesize

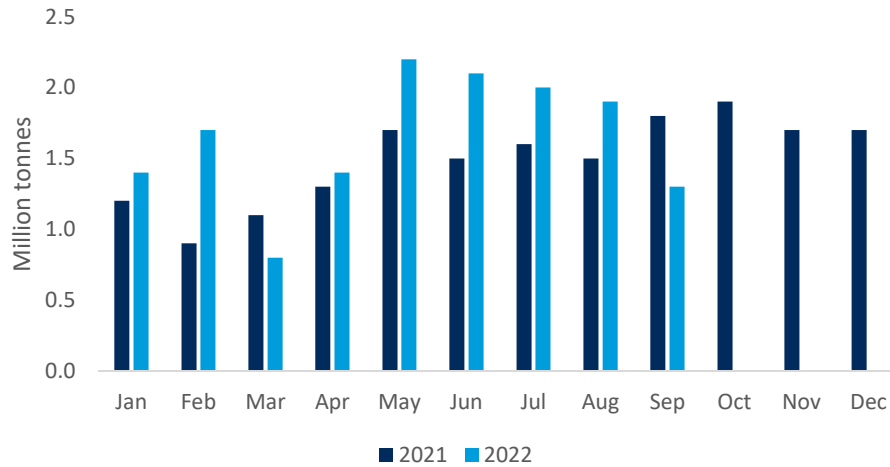
All dry bulk - 2021



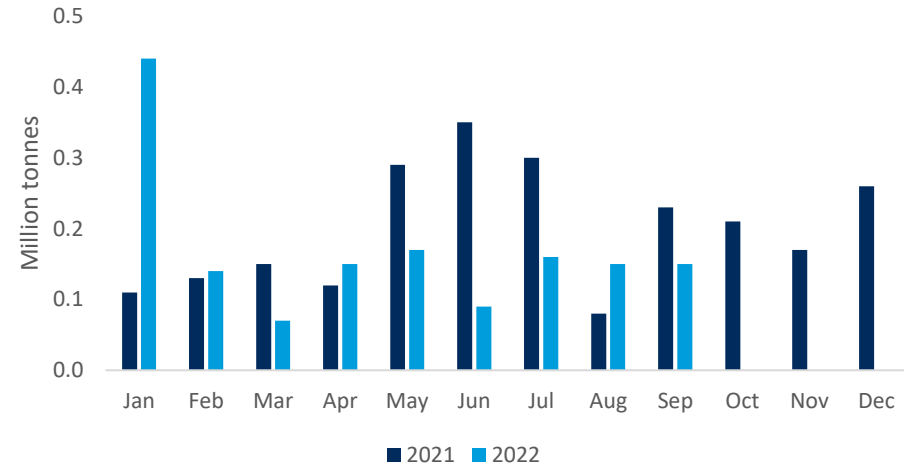
■ Handysize ■ Supramax ■ Panamax ■ Capesize

# Russia's fertiliser exports

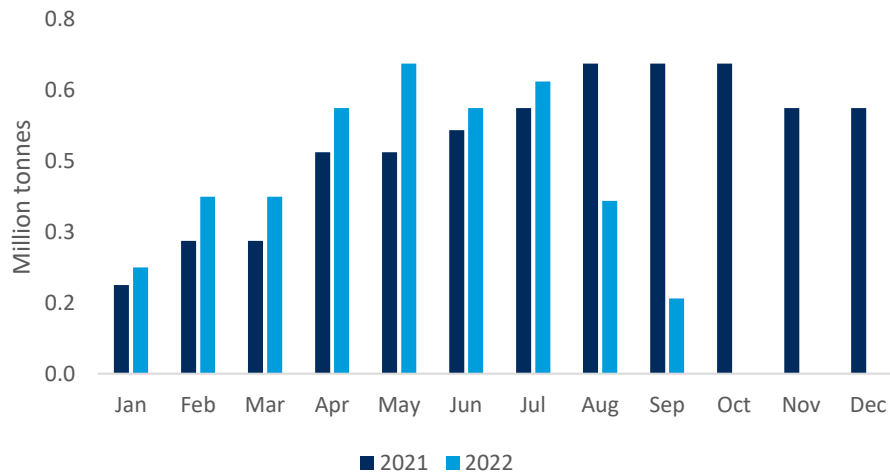
## Russia's global fertiliser exports



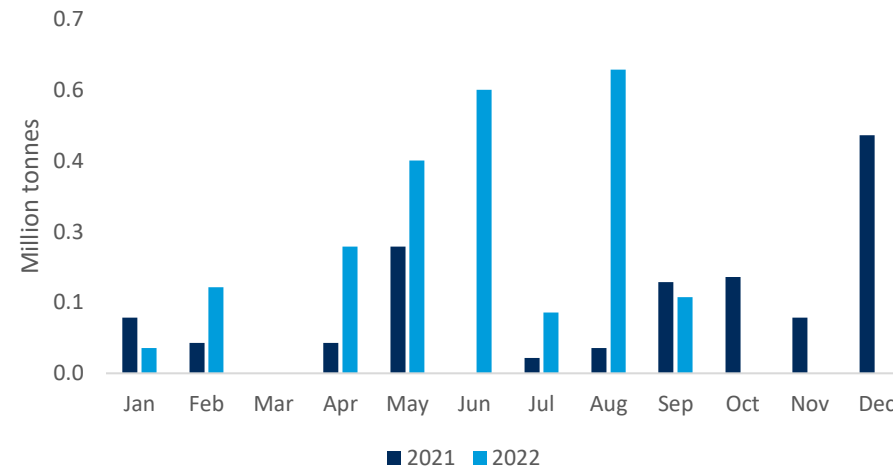
## Russia's fertiliser exports to the US



## Russia's fertiliser exports to Brazil



## Russia's fertiliser exports to India



# IMO regulations

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# Impact of the EEXI regulations on dry bulk supply

The impending IMO regulations will affect dry bulk shipping, in turn, hampering supply over the next few years. The regulations kick in late 2022; the two regulations - EEXI and CII - will have different impacts on supply, affecting average vessel speed and demotions. Drewry has analysed the impact of the EEXI regulations on the dry bulk supply (the report is available on demand). Meanwhile, a synopsis of the analysis is as follows:

Most of the dry bulk vessels are operating at below maximum capped speed. Therefore, practically most of the vessels are compliant, and contrary to the popular belief there will not be any substantial reduction in speed when the EEXI regulations are implemented

Most bulkers are non-compliant at 75% MCR. Therefore, all of them will have to operate at below 75% MCR.

Sources: Drewry Maritime Research

# Impact of the EEXI regulations on dry bulk supply

The following number of dry bulk vessels, under each segment, are operating at speed above the maximum capped speed and they might reduce their speed:

Small Handysize (6)

Mid Handysize (19)

Large Handysize (13)

Handymax (5)

Traditional Supramax (16)

Ultramax (8)

Traditional Panamax (10)

Kamsarmax(4)

Mini Capesize (0)

Standard Capesize (1)

Large Capesize (0)

Sources: Drewry AIS, Drewry Maritime Research



# Dry Bulk Demand

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# Dry bulk trade - scenarios

## Assumption

### LOW CASE

- China's crude steel production in 2022 to reach the 2020 levels
- A flurry of new orders to be recorded during 2023-24
- Quarantine restrictions will be lifted and congestion will ease, leading to a sharp fall in inactivity in 2023
- The IMO 2023 regulations will have no impact on vessel speed and demolitions

### BASE CASE

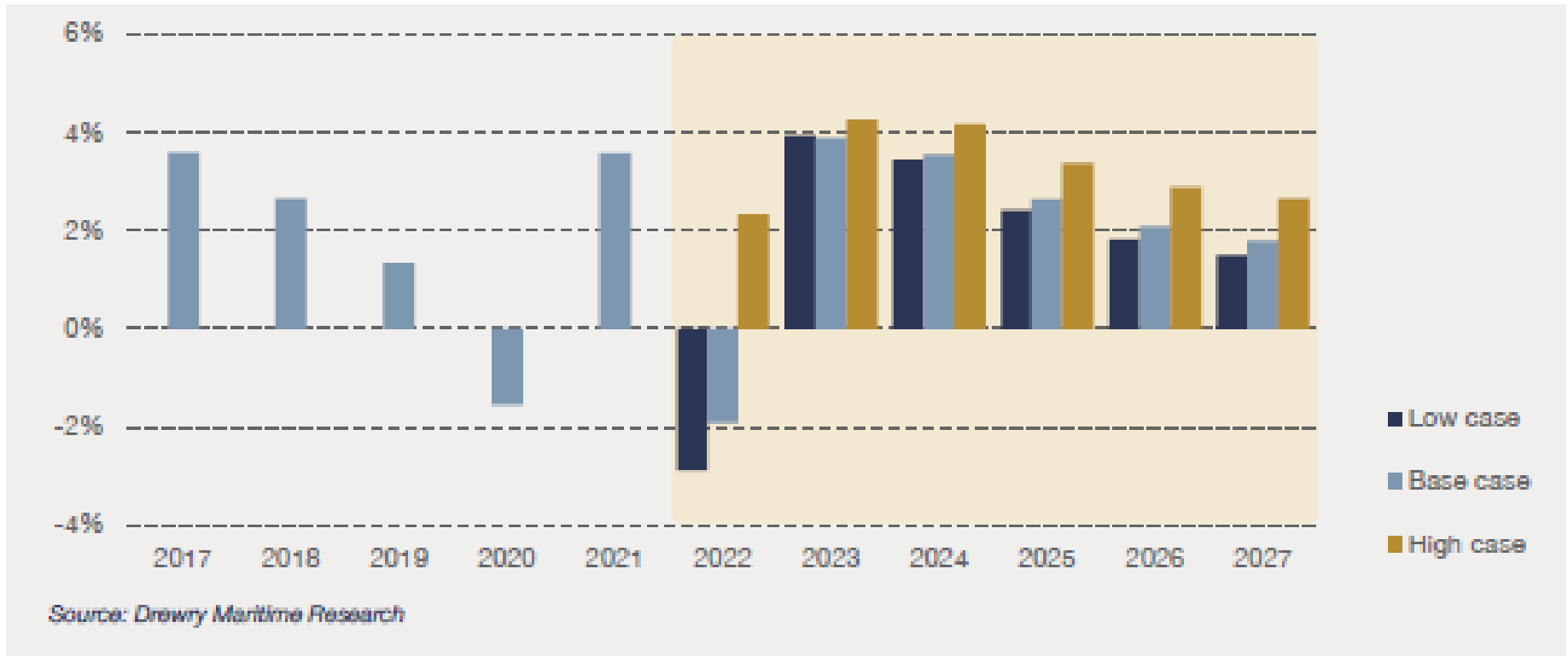
- Consistent moderate growth in China's crude steel production
- A moderate increase in new orders during 2023-24
- Inactivity will decline at a moderate pace in 2023
- The IMO 2023 regulations to reduce vessel speed moderately and discourage the use of non-eco engine vessel

### HIGH CASE

- Robust growth in China's crude steel production as observed before 2021
- A moderate uptick in new orders during 2023-24
- High inactivity will persist in 2023
- The IMO 2023 regulations will reduce vessel speed at a higher rate than the base case and lead to a rise scrapping of non-eco engine vessels

Sources: Drewry Maritime Research

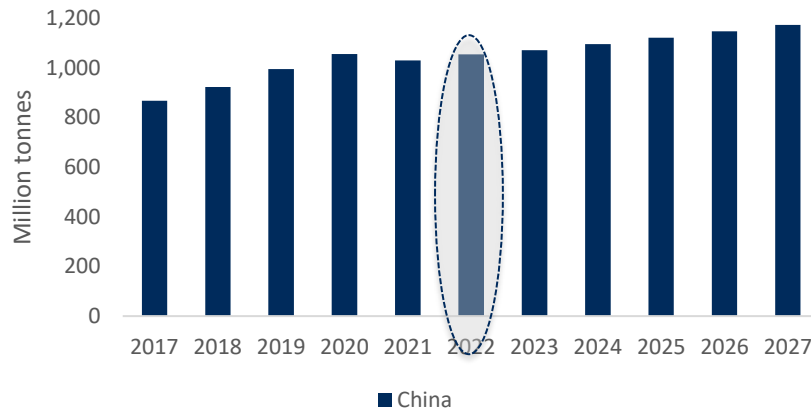
# Dry bulk trade - growth



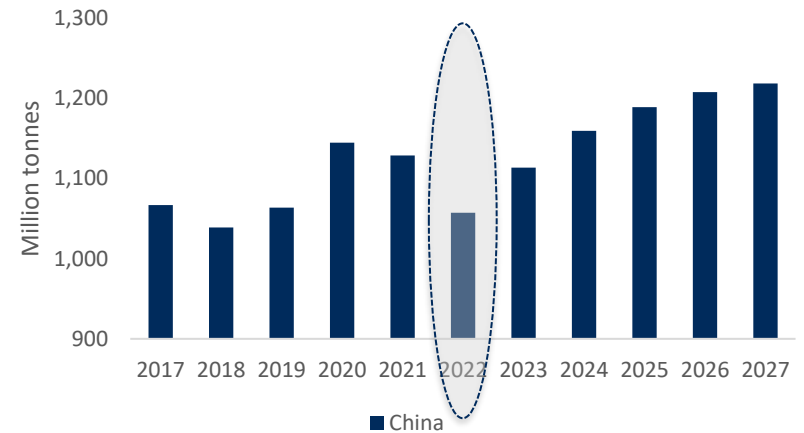
Sources: Drewry Maritime Research

# Steel production and iron ore trade

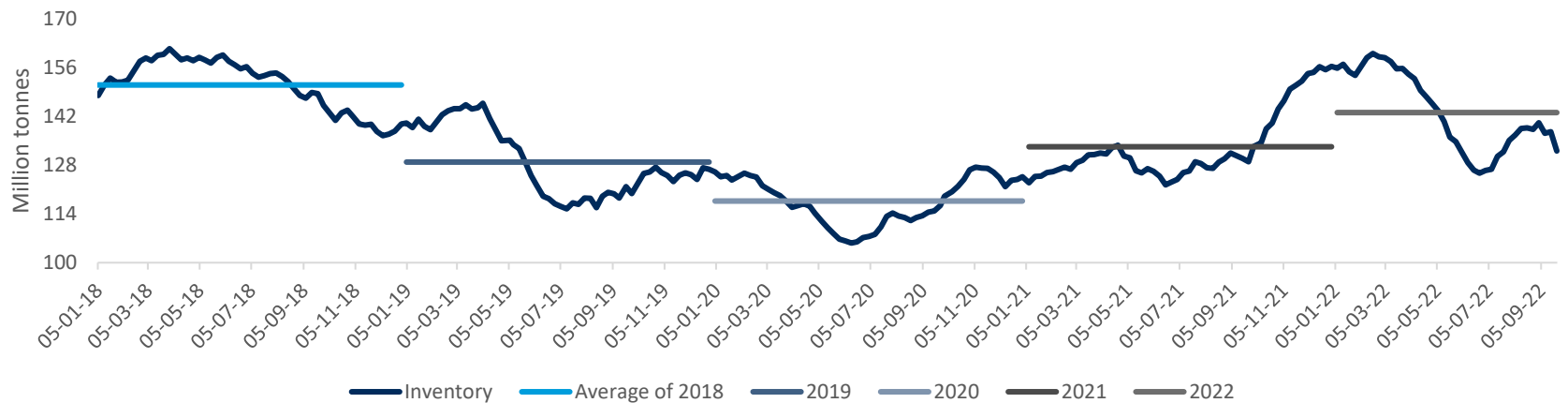
Steel production - China



Iron ore imports - China



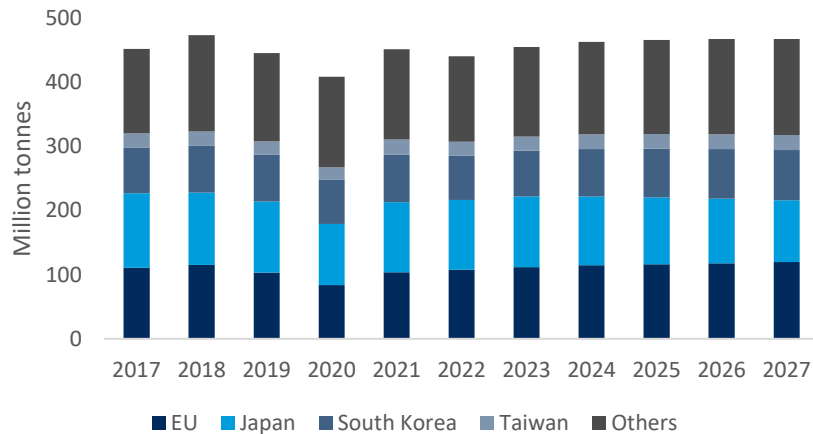
Iron ore inventories at Chinese ports



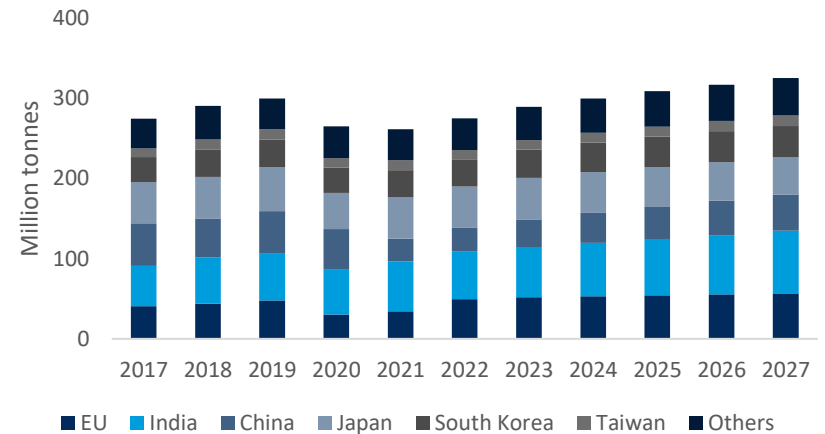
Sources: Drewry Maritime Research

# Dry bulk trade

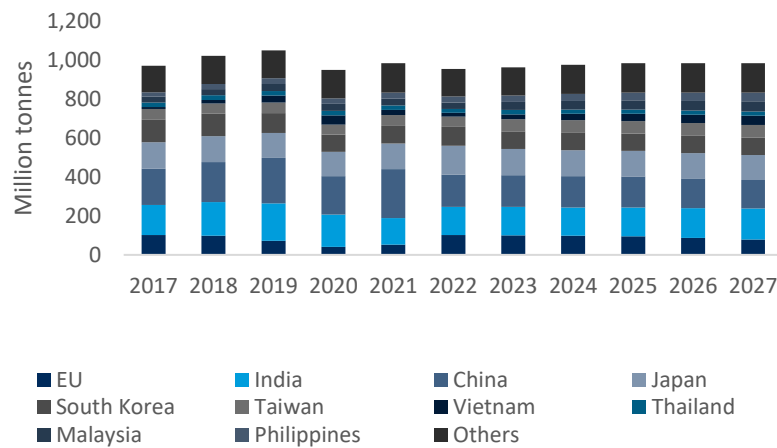
## Iron ore imports (ex China)



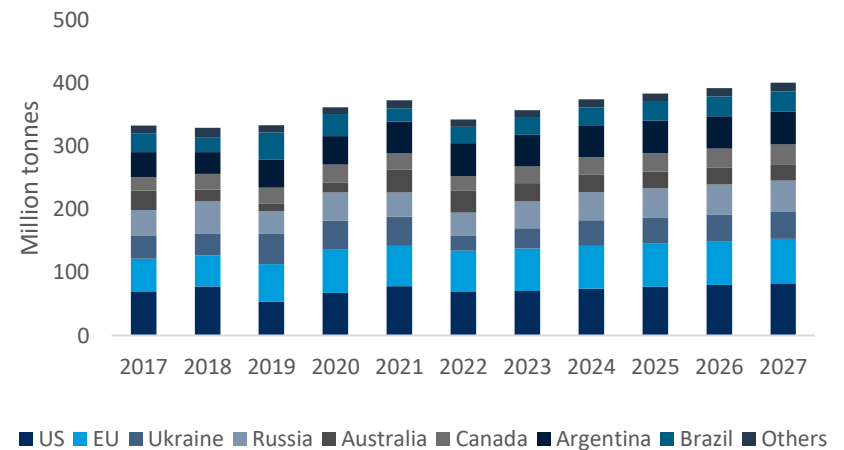
## Coking coal imports



## Non-coking coal imports



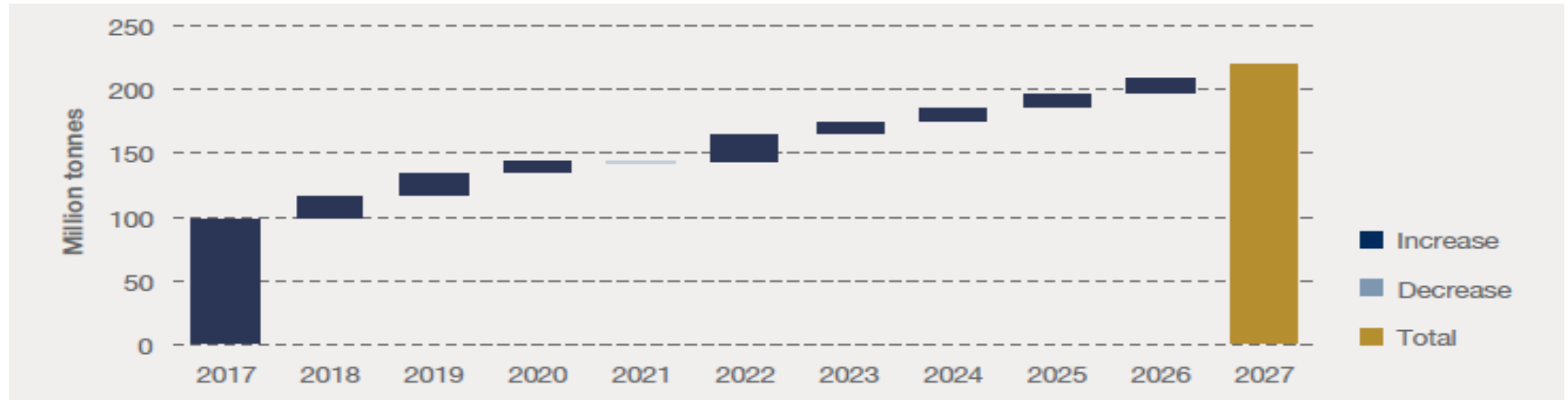
## Grain exports



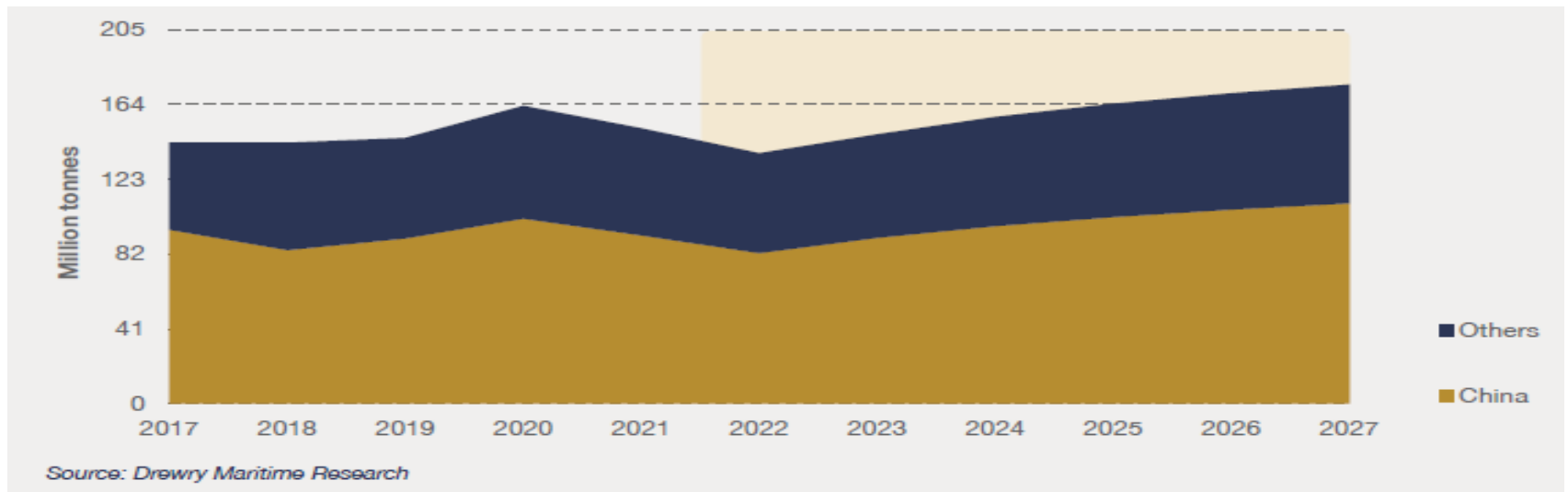
Sources: Drewry Maritime Research

# Minor bulks

## Global bauxite trade



## Global soyabean imports

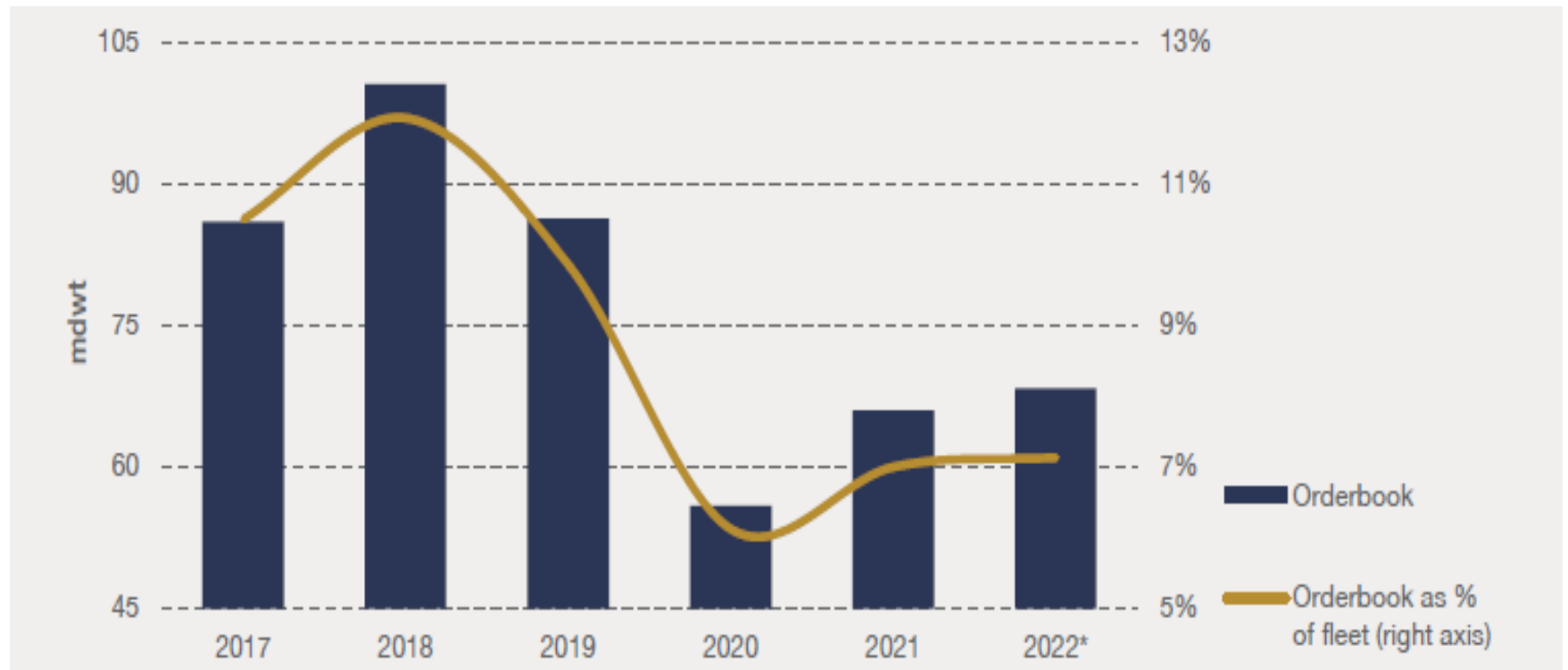


# Dry Bulk Supply

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# Orderbook to fleet ratio

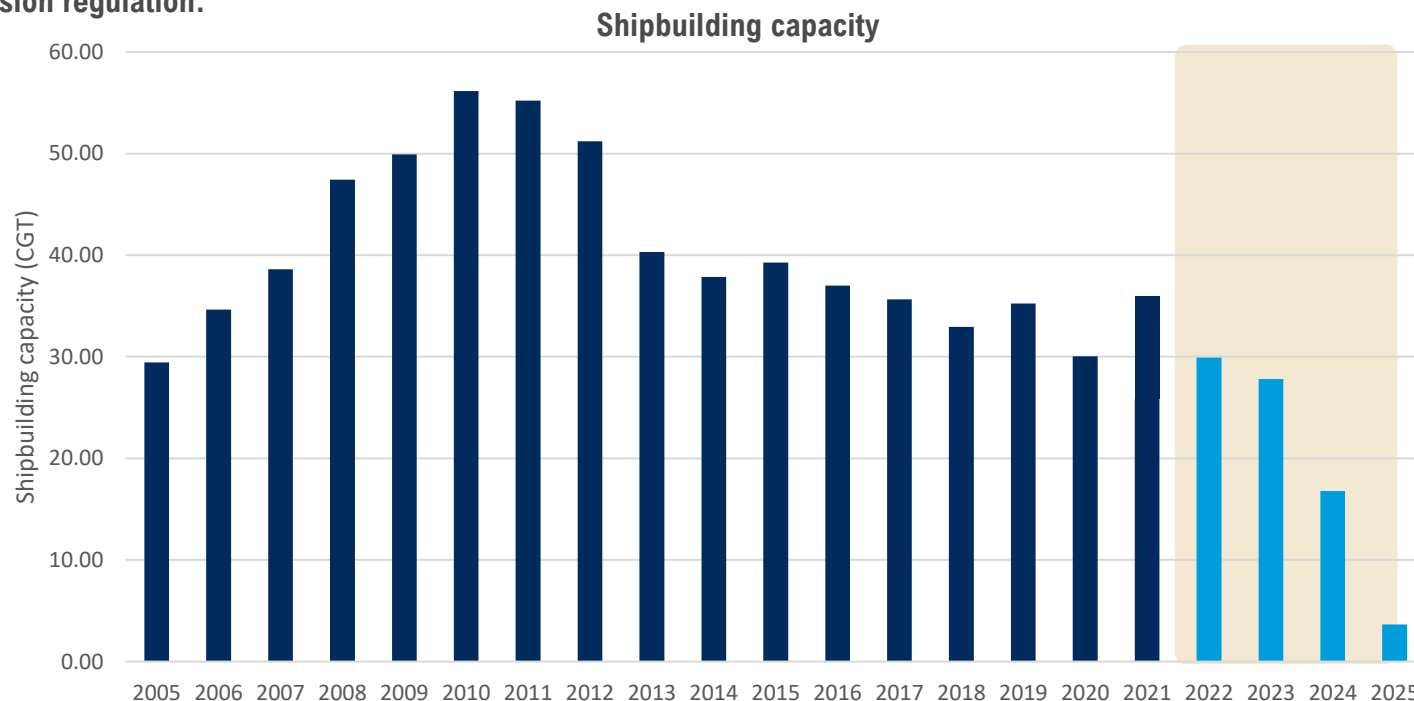


Sources: Drewry Maritime Research



# Shipbuilding capacity tight though new orders low in most sectors

There has been a significant surge in ordering of containerships on the back historical high freight rates. It has led to shipbuilding capacity constraint for the next two years. 2024 and 2025 slots are also filling up fast. Large vessels and LNG ships may have difficulty finding slots in coming years. The demand from other sectors have remained subdued due to uncertainty with regard to GHG emission regulation.

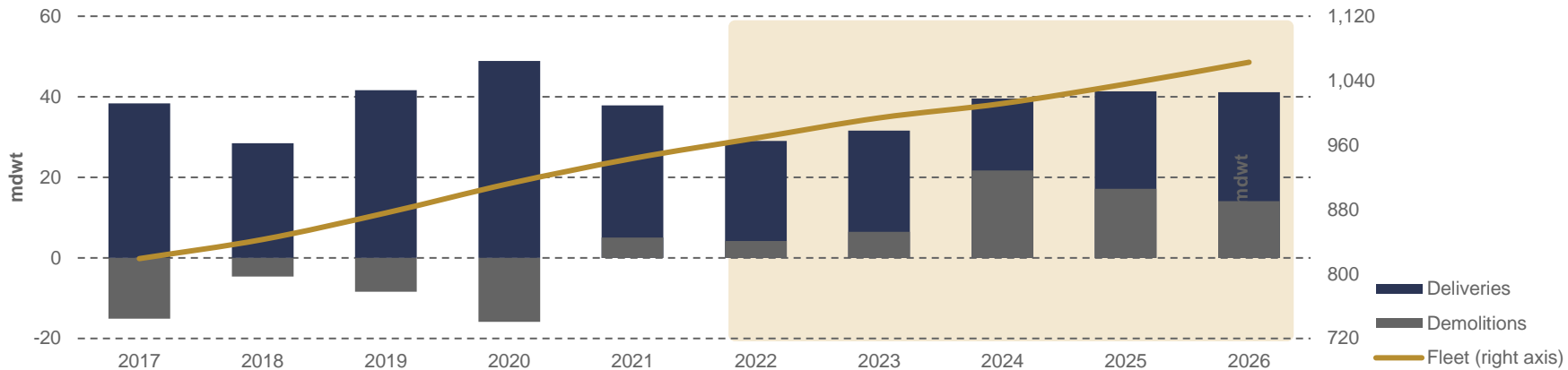


Source: Drewry

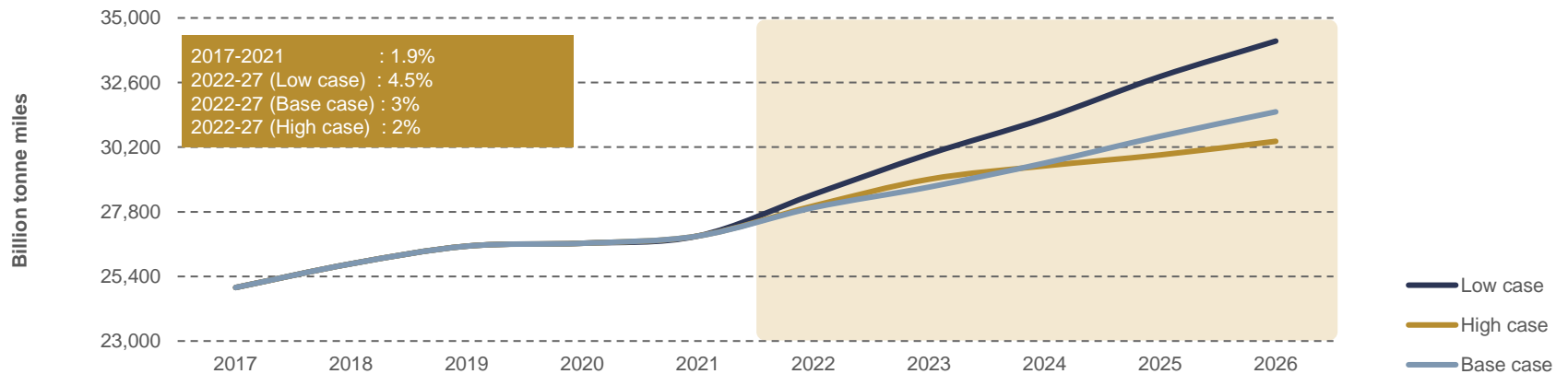
- *There is an uncertainty with regard to long term environmental regulation which has kept new orders in check.*
- *Rapid increase in ordering from the container sector due to over 300% rise in freight rate last year.*
- *Shipbuilding capacity constrained.*

# Supply

## Fleet development

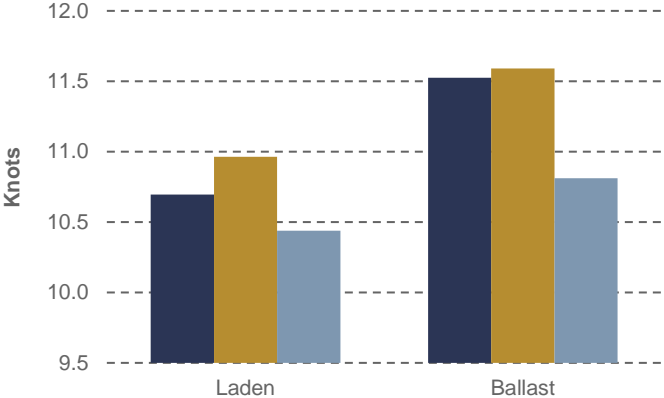


## Effective supply

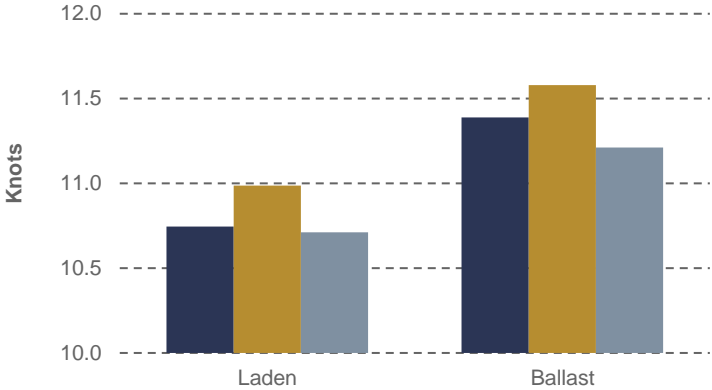


# Vessel speed

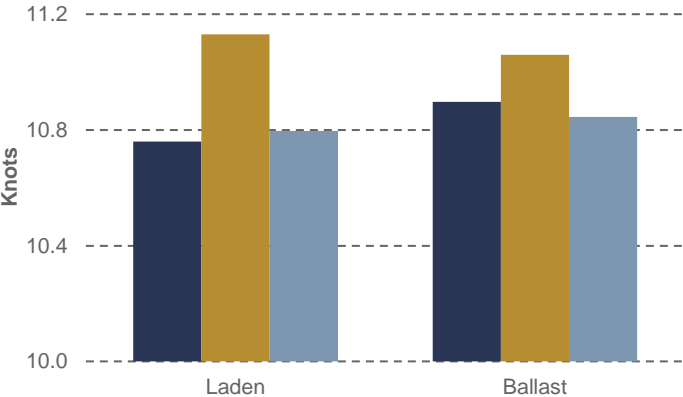
## Capesize



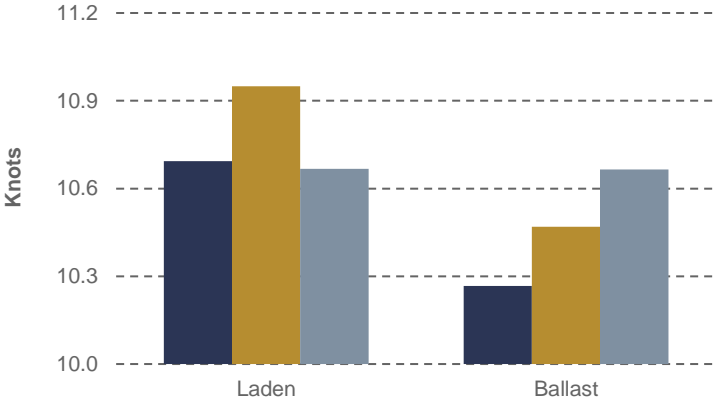
## Panamax



## Supramax



## Handysize

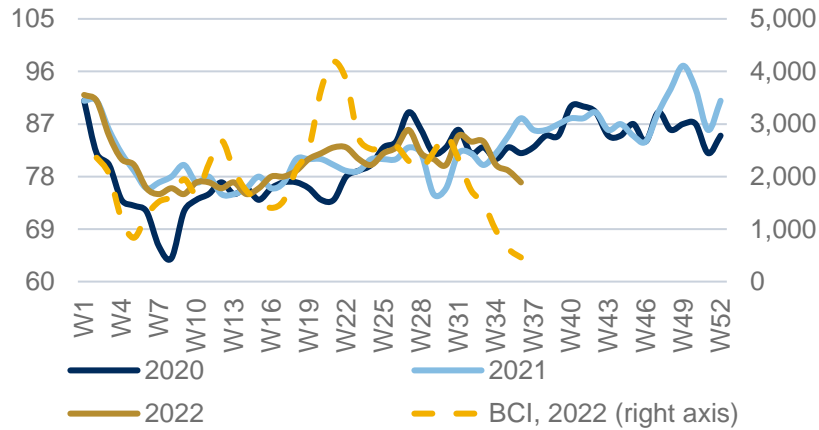


■ 2020 ■ 2021 ■ 2022

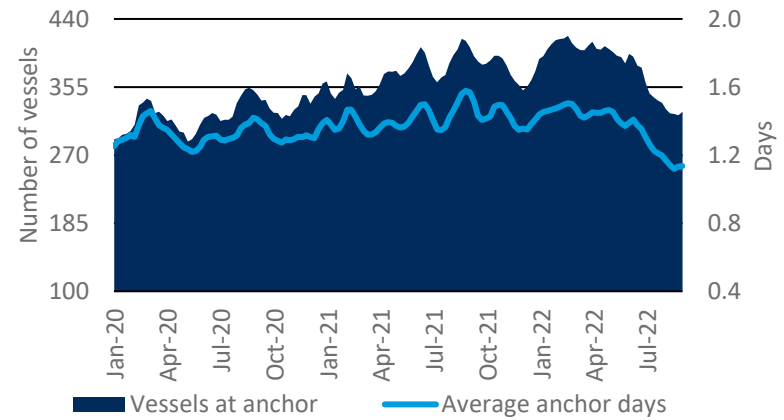
Sources: Drewry AIS

# Fleet performance - Capesize

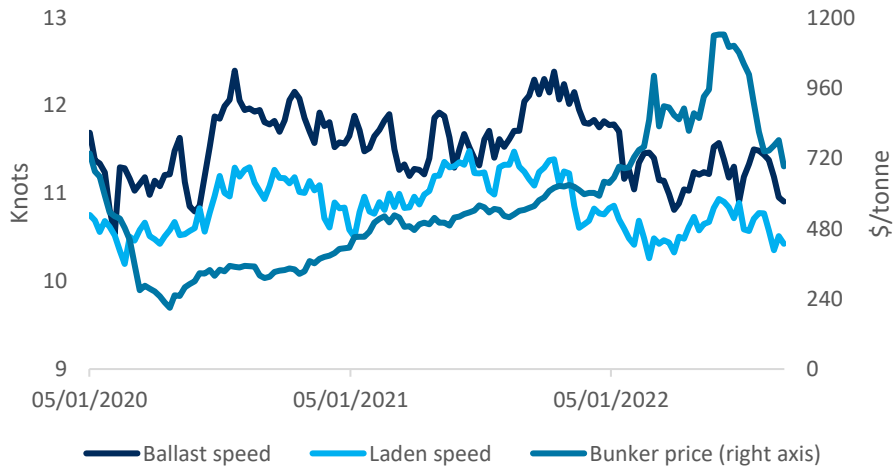
Laden Dwt miles (Index: Week 1, 2019=100)



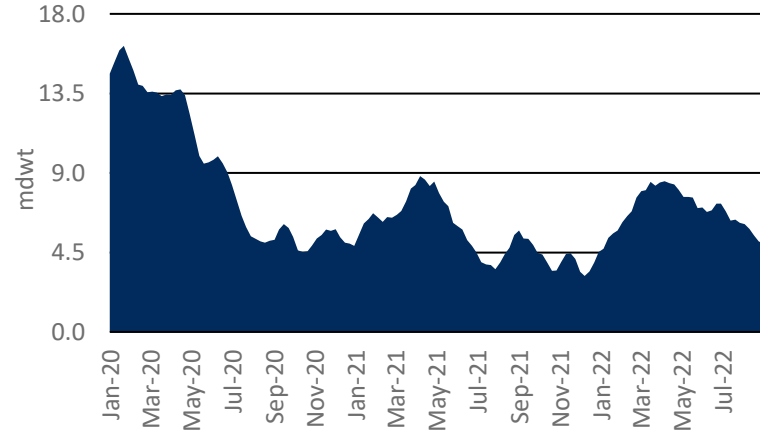
Global - At Anchor- 4 week moving average



Speed vs bunker price



Global - Repairs- 4 week moving average



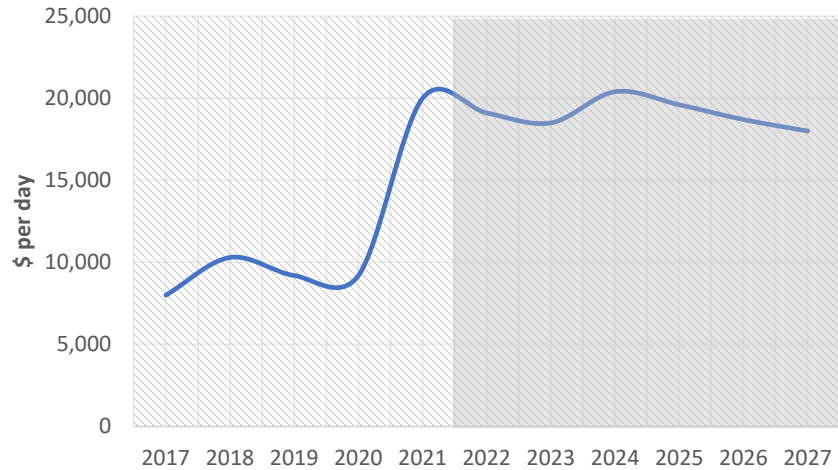
Sources: Drewry AIS

# Dry Bulk Earnings

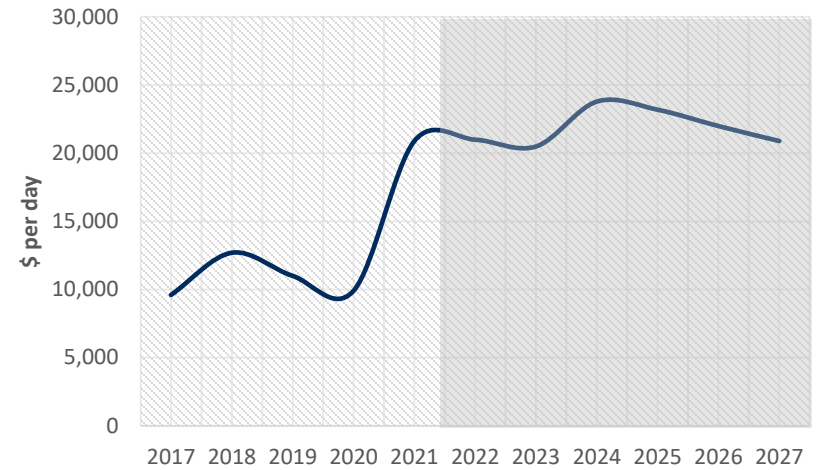
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# Charter rates

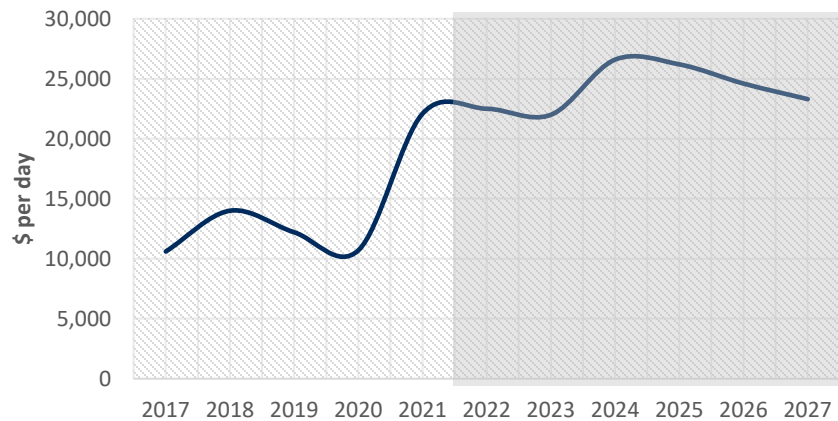
## Handysize



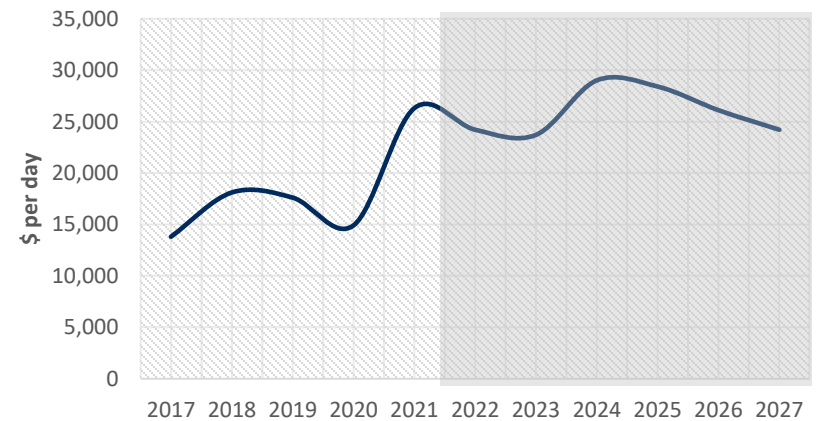
## Supramax



## Panamax



## Capesize



# Risks

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# Key risks to our forecasts

## Upside potential

- ❖ Strong government support in 2023 in order to ward off the economic uncertainty could lead to a spike in commodity demand
- ❖ Environmental issues in China could dent domestic coal production and lead to a substantial rise in the country's coal imports in 2023
- ❖ Low vessel speed will squeeze effective supply of vessels from 2023 and also aide demolitions
- ❖ Quick recovery in iron ore production in Brazil will lift employment of Capesizes/ VLOCs on long-haul routes, improving shipping demand

## Downside risk

- ❖ A possible continued threat of the pandemic in China in 2023 will inhibit recovery in commodity trade, further lifting oversupply
- ❖ Several governments are still struggling to contain the possible impending economic recession which might impact the demand and supply of commodities
- ❖ Worsening geopolitical issues across globe could slow down economic recoveries, affecting demand for steel production;
- ❖ An increase in new orders owing to better earnings prospects in the long term will impact supply in the long run



# Dry bulk forecaster

The above mentioned information are covered in detail in our quarterly report – *Dry Bulk Forecaster*

<https://www.drewry.co.uk/maritime-research-products/dry-bulk-forecaster-annual-subscription>

Please click on the link above for information on *dry bulk forecaster* or else you can write directly to : [rahul@drewry.co.uk](mailto:rahul@drewry.co.uk)

The above link also provides information on sample report and the content of the report





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