

# Cyclical Newbuilding ?

## Past, present & future

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# “Balder is one of the the biggest and most thrilling wooden coaster in the world”



## Facts about Balder:

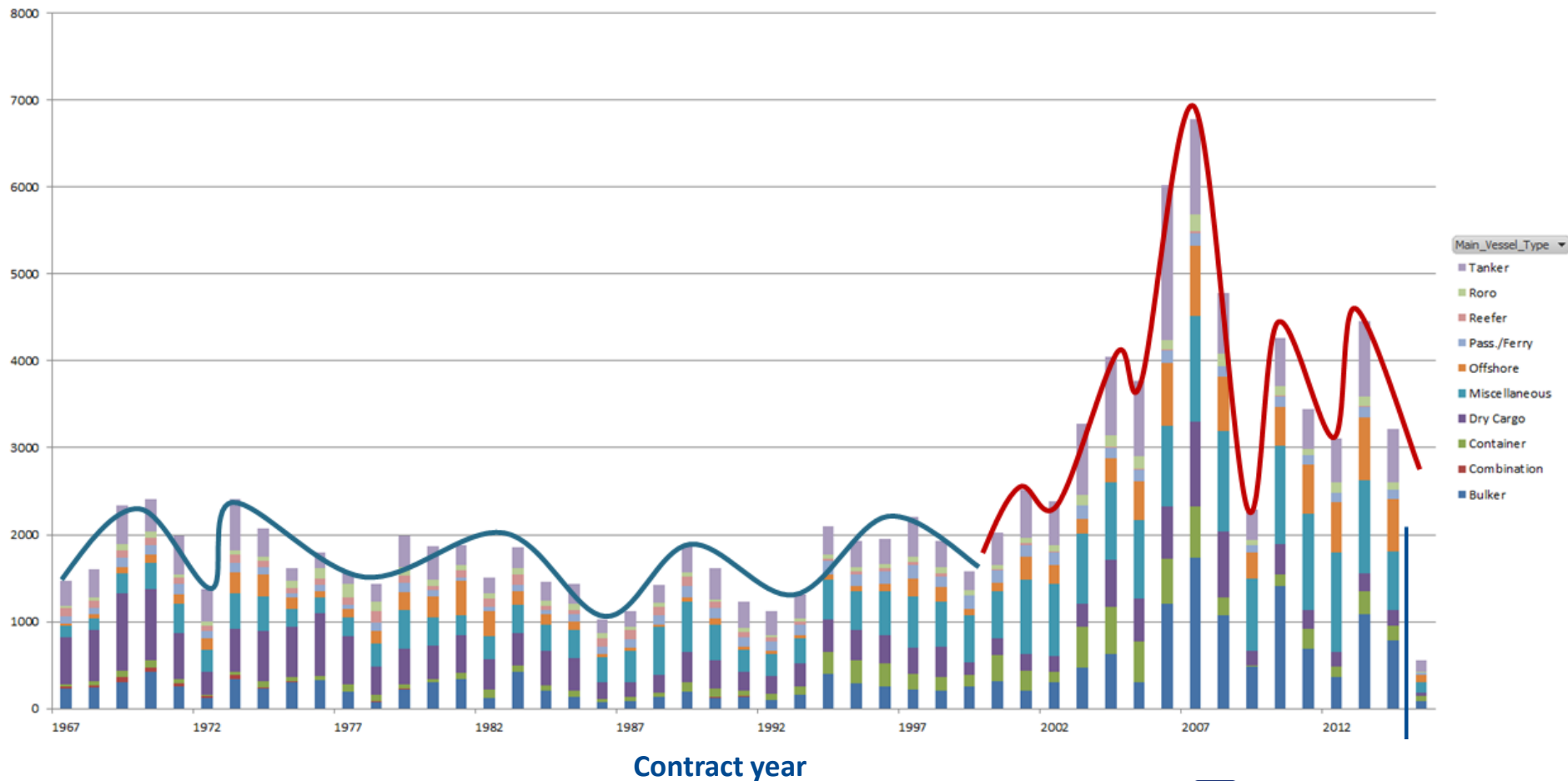
- Manufacturer: INTAMIN, Switzerland
- Total attraction height: 36 metres
- Total track length: 1 070 metres
- Steepest drop: 70 degrees
- Negative G-forces: experienced 10 times during the ride
- Length of ride: 2 minutes 8 seconds
- Top speed: 90 km/h
- Number of trains: 2
- Passengers per train: 30
- Capacity: 1 200 persons/hour



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# Contracting vessels history 1967-2014

## Number of vessels

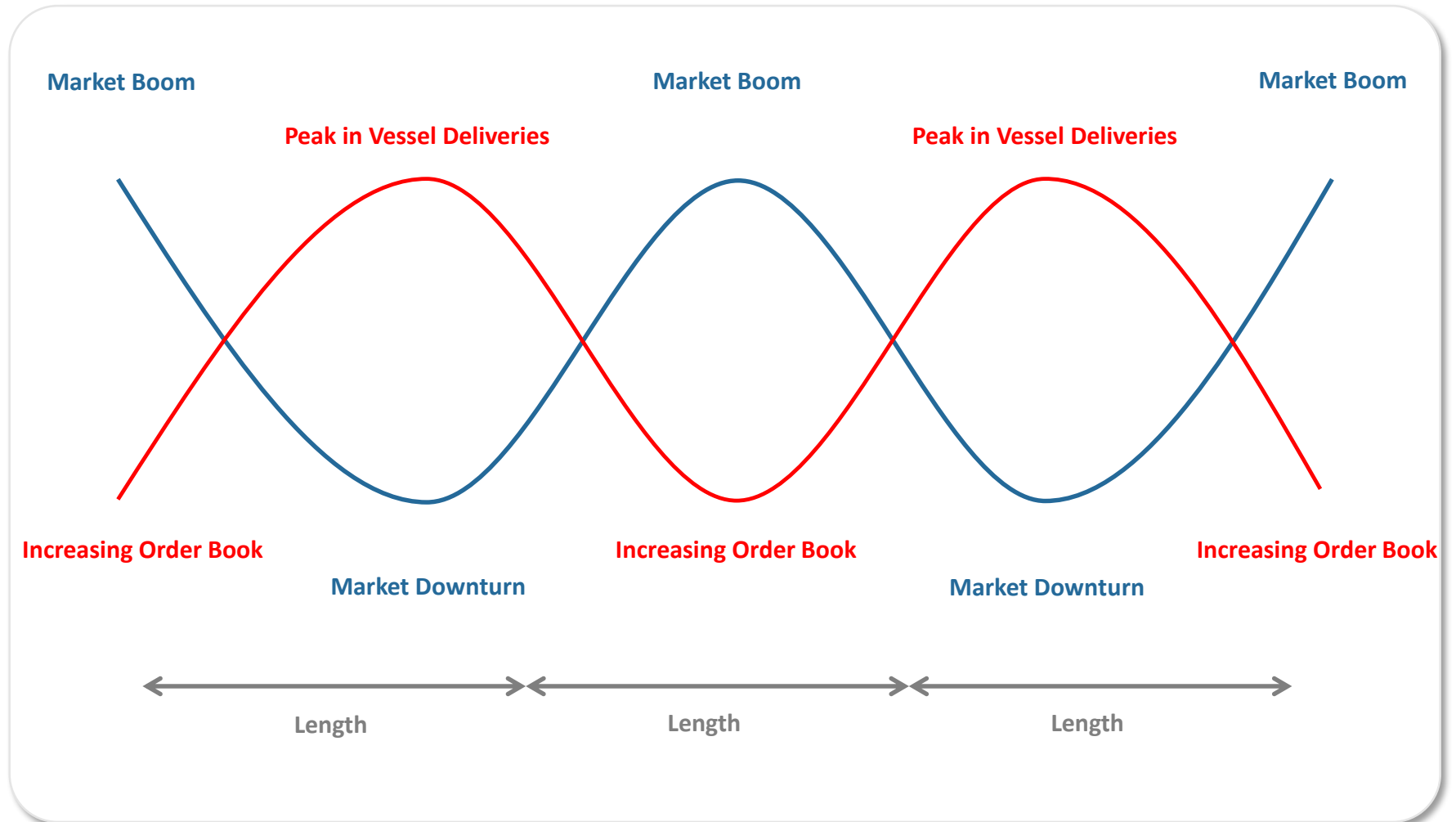


Source : IHS data , vessels with IMO number.  
Scrapped vessels may have been removed.



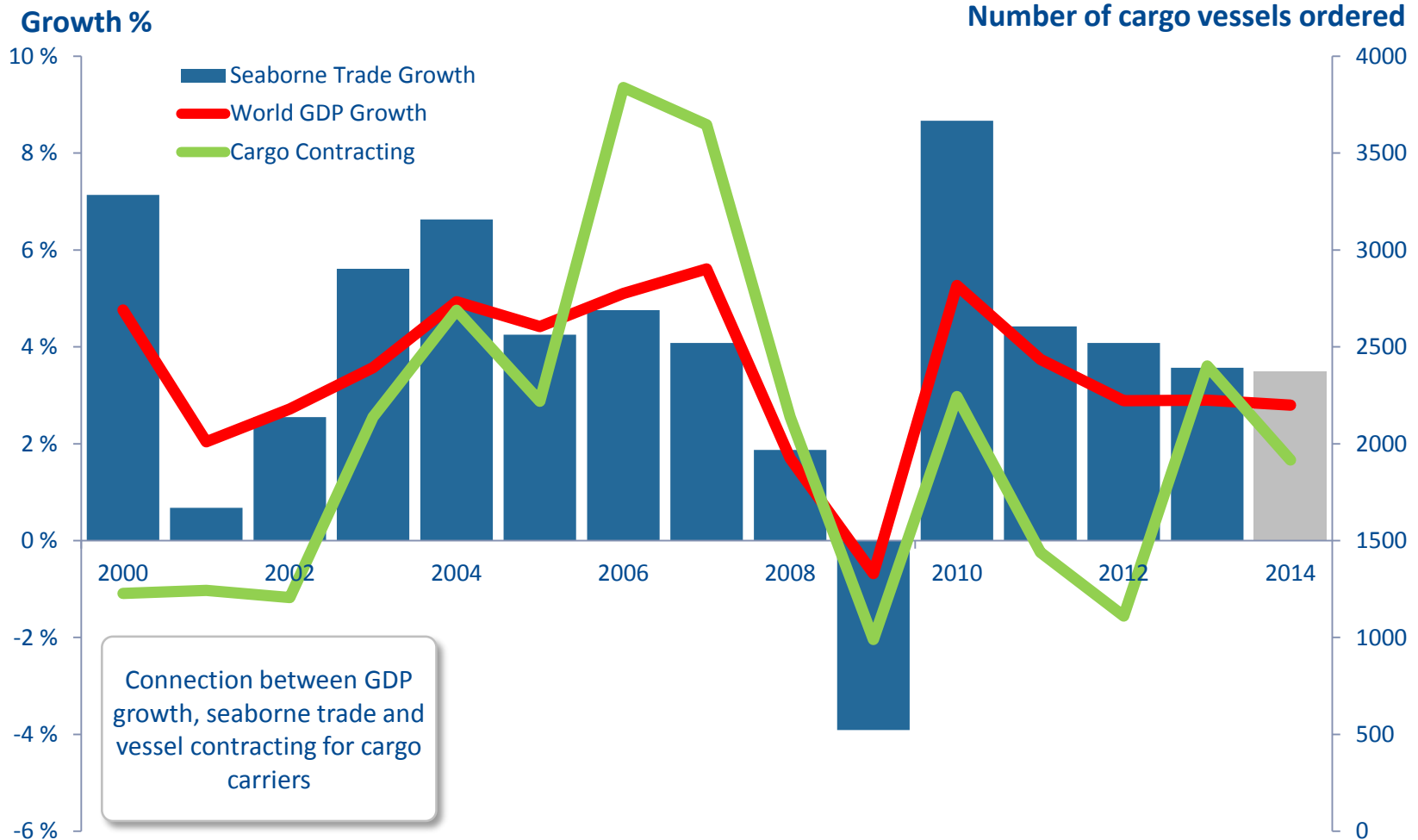
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# Most shipping markets are volatile



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# GDP and seaborne trade a key driver for cargo



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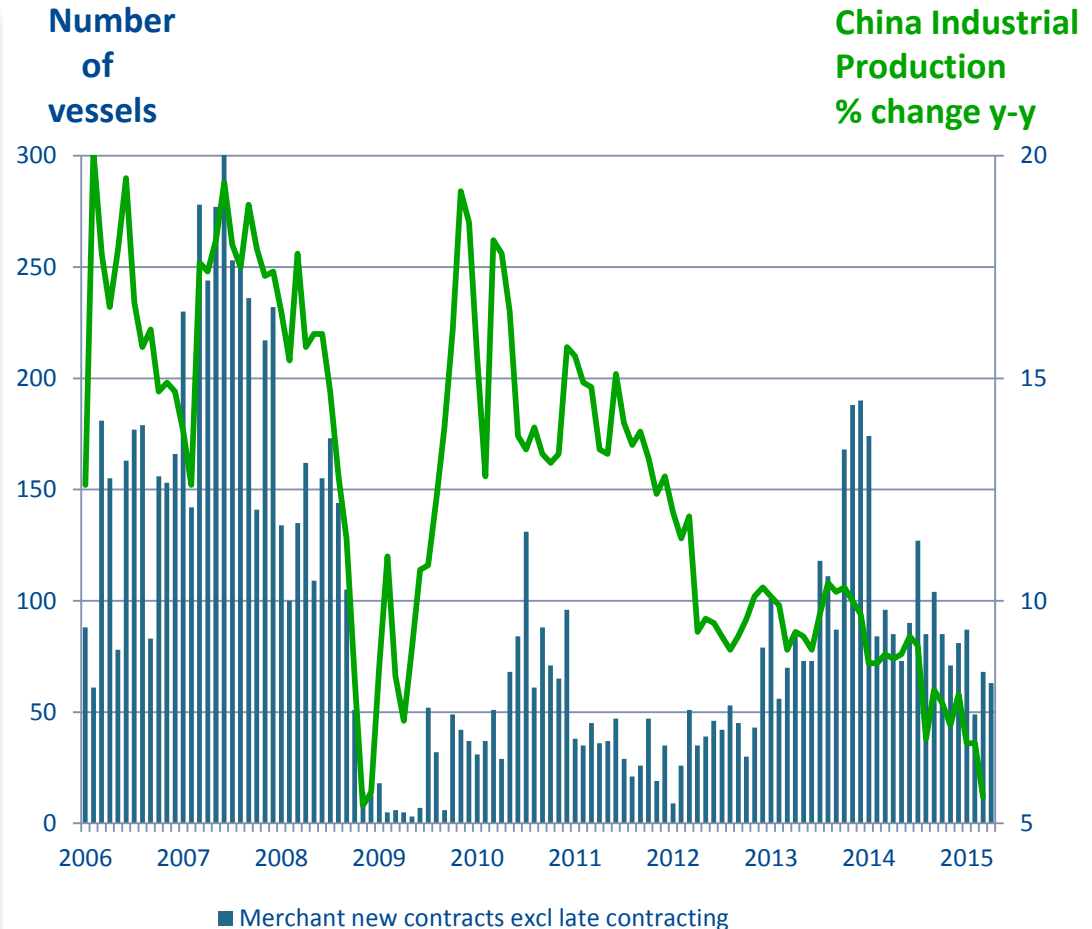
# China slowing growth vs Merchant contracting

## ● China industrial production - slowing growth

- Q1 2015 Weakest growth in 6 years. Growth slows more than expected
- In 2012 service share of GDP passed manufacturing . The service growth have continued to gain marketshares since then.
- Policy & plans from government may help to balance future.

## ● Correlation with monthly newbuild contracting.

- Industry production is strongly linked to Chinese shipping and trade.
- Import to China benefit bulk & tank, while export demand fill containers.
- Bulk & tankers important vesseltypes built in China - those are also the most exposed types that yards losing orders in.



“mini cycles” appears in washed monthly

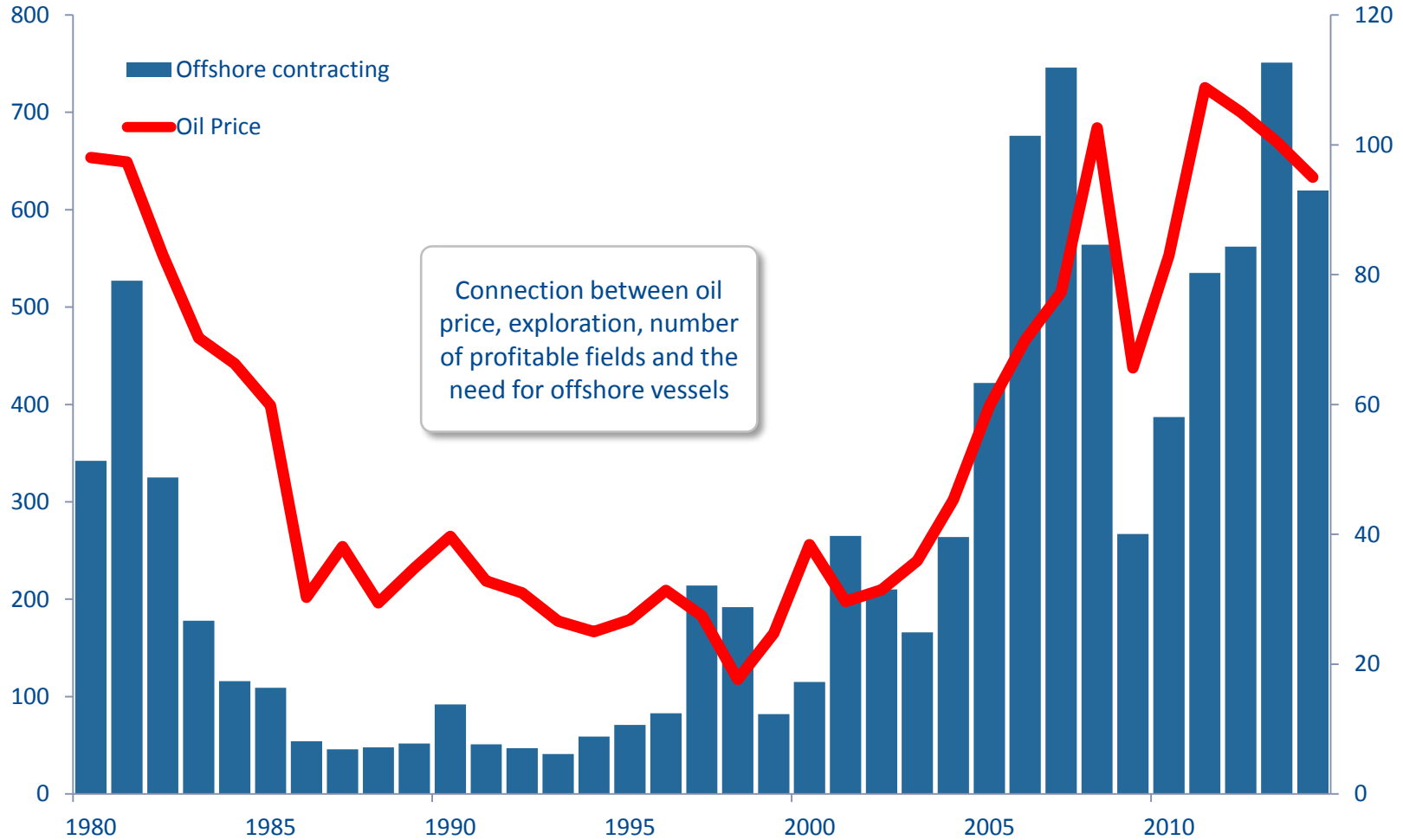


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# Oil price as key market driver for offshore

Number of vessels

\$/bbl real terms (2014)



NOTE: including all Offshore vessels with IMO number

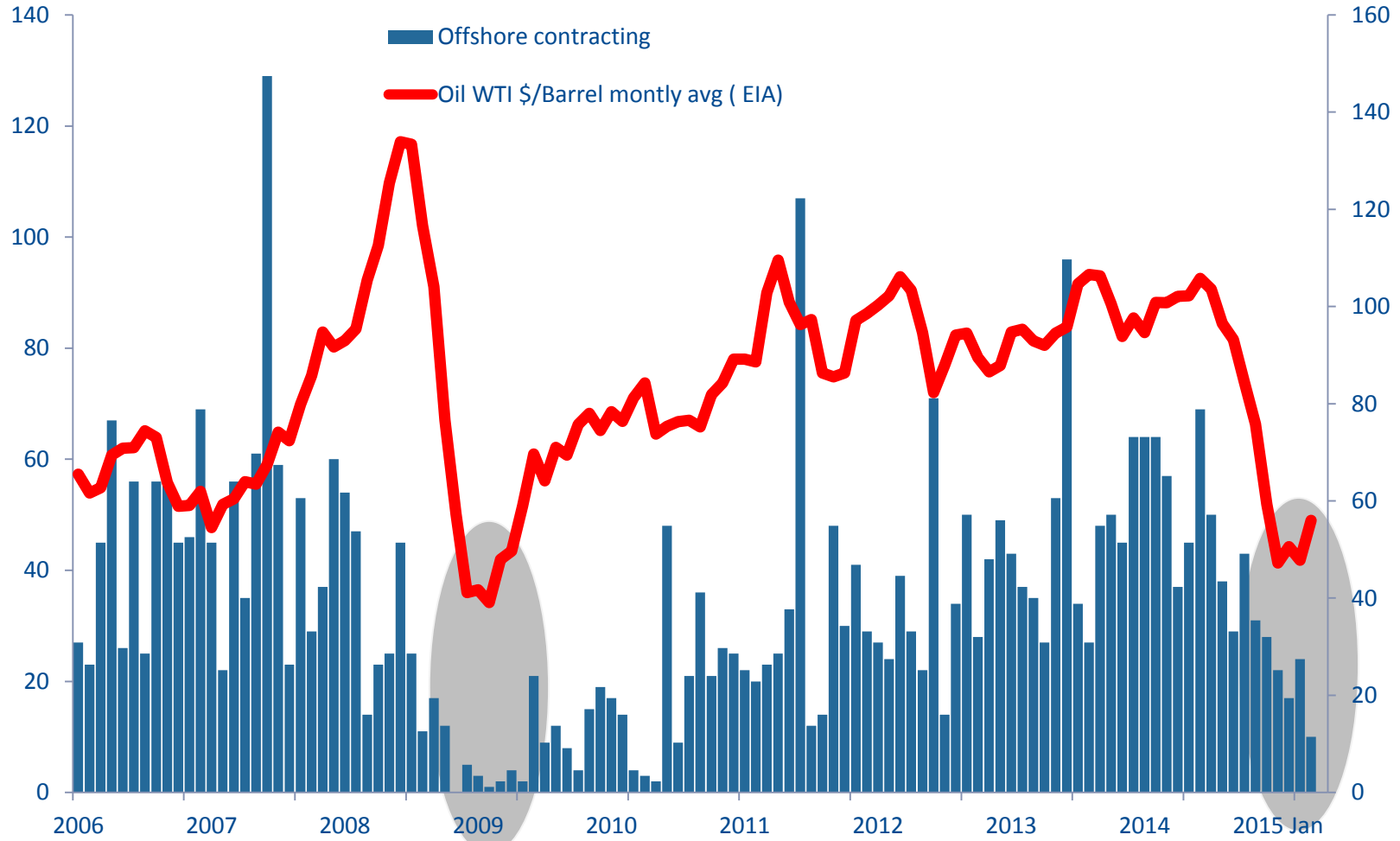


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# Oil price as key market driver for offshore

Number of vessels



NOTE: Excl late contracting, Jan data is build on avg of Des & Feb figures.



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# 76,8 % drop in China new orders in Q1

## Lloyd's List Asia



**Case for the south:** Europe's southern gateways aim to challenge the northern ports giants

- HOME
- NEWS
- WORLD
- MARKETS
- AWARDS
- Containers
- Dry Cargo
- Finance
- Insurance
- Ports & Logistics

**HIGHLIGHTS:** [The Lloyd's List topics page](#) [Tanker fixtures](#) [Dry fixtures](#) [T](#)

### Yard Talk | Newbuilding orders collapse but in price war mode

Monday 20 April 2015, 09:25

LATEST quarterly newbuilding figures suggest the shipbuilding industry has for collapses being witnessed across most sectors and nations. Yet against the backdrop of seeing few incentives in cutting newbuilding prices with...

#### April 2015:

Acc China Association of National Shipping Industry, orders dropped 76,8% in dwt compared with same period last year.

#### April 2015

Acc Clarkson data April, orders for 211 vessels placed Jan- Mar, huge drop from 832 ships same period last year.

#### May 2015:

Acc Clarkson year on year trend newbuilding activity is running at 53% negative.

- Bulk -87%
- Offshore -53%
- Tanker +34%

Acc ship equipment suppliers, their marine business ordering is down around 25-30% in Q1 compared same period -14. "2014 Q4 in terms of yard contracting"



Julian Bray  
Editor-in-Chief

Comment



## Yard orders drought reflects severe crisis

A sharp slowdown in newbuilding contracts creates problems for shipbuilders but hope for owners

**Y**ou can almost smell the burning rubber and hear the squeals on the road as brakes are slammed in the newbuilding market.

If the scale of the slowdown was not obvious enough earlier in year, recently released figures from shipbrokers now very clearly reveal the rate at which the market has decelerated.

In April, just six bulkers were ordered, and those were handysize vessels totalling just 200,000 dwt, says RS Platou Economic Research in its monthly market analysis.

That brought the total number of bulkers ordered in the first four months of 2015 to 80 (of which half were handysizes). That is just one-tenth of the 809 bulkers booked in 2014, which included 138 capesizes. So far this year, orders for just three capesizes have been confirmed, Platou says.

Even in the buoyant tanker sector, this year has seen 55 vessels ordered compared with 299 in the 12 months of 2014, says Platou.

Overall the market trends are gloomy for yards, current figures from Platou's new colleagues at Clarkson Research Services (CRS) reveal. It suggests the year-on-year trend for newbuilding activity is running at

negative 53%, understatedly described as "weak".

For bulkers, the trend is negative 87% and offshore is negative by 53%, although tanker orders are "firmer" at 34% positive.

Such statistics back up hearsay comment from newbuilding brokers who, at times in recent weeks, have been struggling even for contracts to populate their weekly reports, let alone transactions to sign.

Inevitably, weak interest in newbuildings is undermining yards' best efforts to maintain price discipline. Shipbuilders are under intense pressure to maintain margins due to their own stretched finances, which in many cases have still not stabilised since the impact of the global banking crisis.

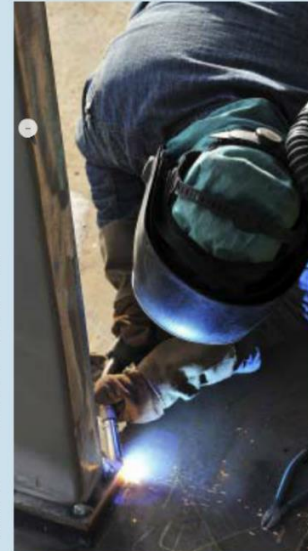
#### INDICATORS DOWN

Clarkson's newbuilding price index now stands at 133 – the same as in 2013 – down from 138 last year. The price trend is weaker, down 2.1% over the last months. Even VLCCs are cheaper today than last year, despite the strong market.

Some shipowners see opportunity in such a low price environment, especially if they are financially strong and their trades demand fleet renewal. AP Moller-Maersk's decision to go-ahead with new boxships when prices are low is an ironic reversal of their past status among brokers as a bellwether for over-priced deals made at the top of the market.

In the context of the newbuilding market, it is no surprise that attention has swung decisively towards the secondhand sale-and-purchase (S&P) market. Bargain hunters are thought to be ready and eager to pounce on any distressed asset sales in the dry bulk market, in particular.

CRS figures indicate that a total of just 301 vessels have been ordered this year versus 1,953 last year



**FEWER SPARKS FLYING:** It is lean times for yards and newbuilding brokers. Photo: SCANPIX

and 3,025 in 2013. While that will cause problems for builders, it signals a much-needed start to a cyclical shake-out that will limit vessel supply in the medium term.

That will be welcome news to shipowners – especially in dry bulk – who are having to ride out far more challenging trading conditions than most expected. As Bruce Karsh, co-chairman of major shipping private-equity investor Oaktree said this week: "We think this is going to be a cycle just like other cycles, and it will turn." ■

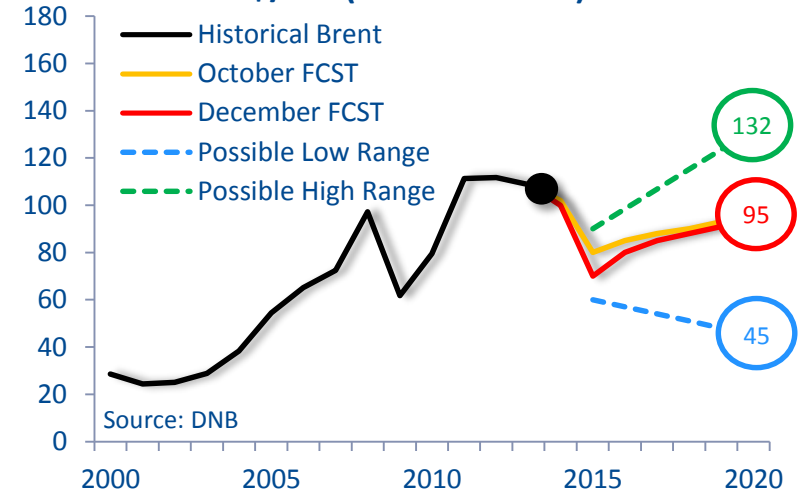


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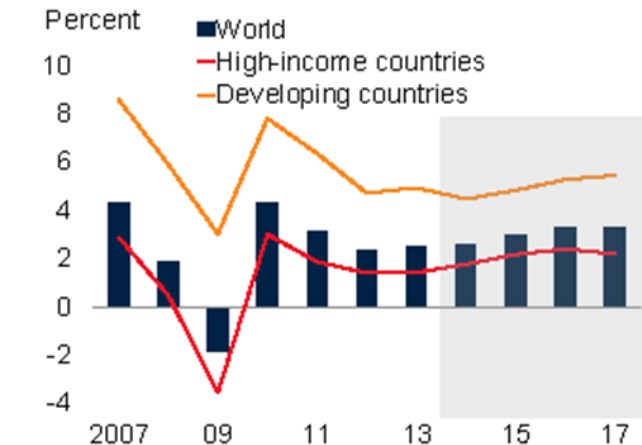
# Future projection of Oil prices & World GDP

- Challenging short term outlook
- The oil price is under pressure
  - Weaker global economic growth
  - Higher oil supply growth than usual (shale)
  - No OPEC unity around cutting supply so far
- May drop further with overproduction
- Falling oil prices will help GDP growth
  - -25% in the oil price → +0.5% in global GDP
  - Oil production growth is slowing
  - May lead to a new shortage, but when?
- Higher GDP growth will lift demand for oil.
  - Global growth is expected to rise moderately.
  - Acc growth in advanced economies
  - Decelerating in emerging countries

Brent Nominal \$/bbl (DNB Dec 2014)



GDP (World Bank Jan 2015)



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# Promising long term outlook

- Longer term outlook is more promising

- Lower oil price will help on GDP growth
- This is positive for most merchant markets
- Higher GDP growth will drive demand for oil
- The oil price will recover, but level is uncertain

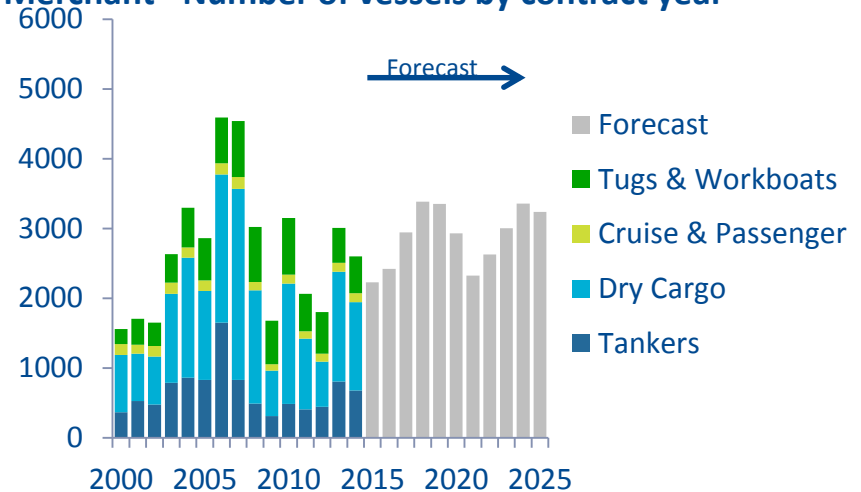
- Drivers are not only about supply and demand

- Efficiency, new regulations, replacement
- There will always be opportunities

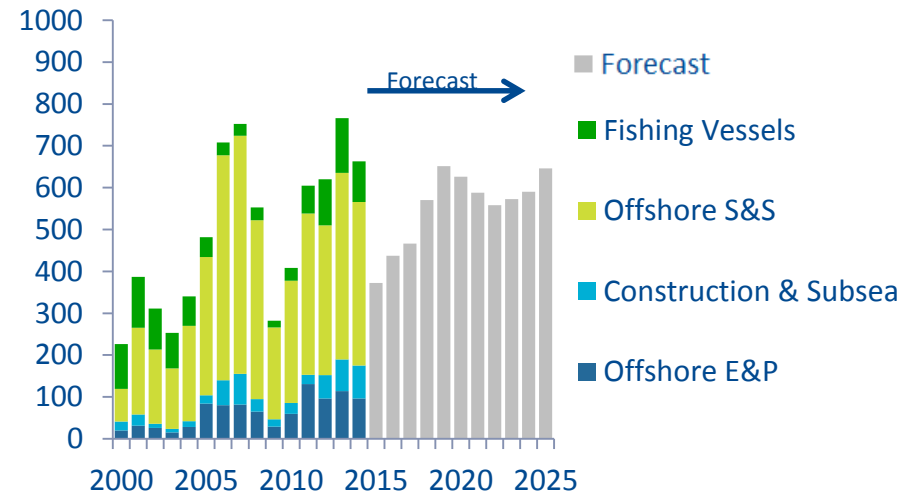
- Volatile future

- Difficult to predict peaks.
- Difficult to predict the level of the peaks.
- Next peak in 2018-19 ?
- Will time between peaks be shorter than in the past ?

Merchant - Number of vessels by contract year



Offshore - Number of vessels by contract year



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# Shipping, Offshore market cycle by DNB

Shipping & offshore markets are cyclical – where are we now?

