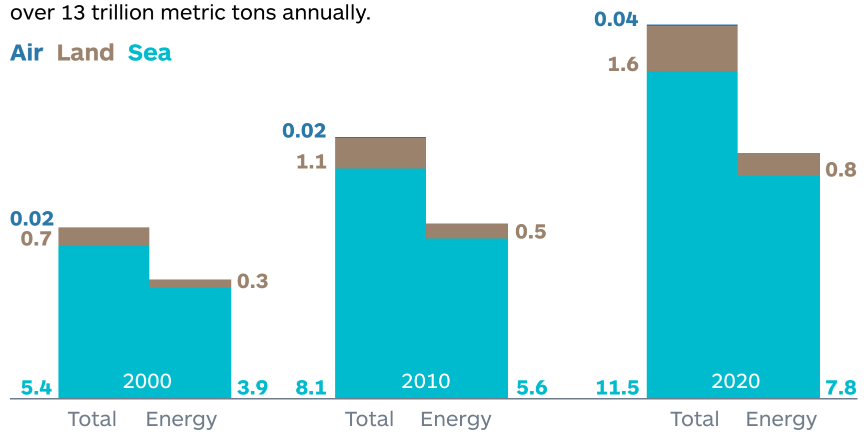
The dynamics of trade

Approximately 70% of global trade, as measured in metric tons, was transported by ship in 2014. Energy and mining commodities—liquefied natural gas, oil, coal, and minerals—accounted for 70% of all shipborne trade and will grow by 2.2 trillion tons by 2020. Successfully managing trade and capital investment requires keen insight into future commodity prices, supply and demand dynamics, cargo and insurance rates, and many other variables. New scenario-based analytical models are combining diverse data with deep multidisciplinary expertise to create accurate long-term forecasts of trade dynamics.

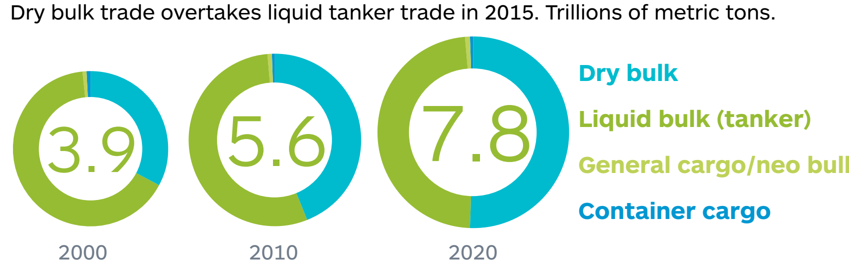
1 SEABORNE TRADE IS BIG AND GETTING BIGGER

Global trade is expected to more than double between 2000 and 2020 to over 13 trillion metric tons annually.



2 ENERGY AND MINING TRADE GROWS AND MARKETS SHIFT

Dry bulk trade overtakes liquid tanker trade in 2015. Trillions of metric tons.



3 FORECASTING AND MANAGING TRADE IN A DYNAMIC MARKET ARE COMPLEX AND RISKY

Energy and mining companies, ship operators, insurance brokers, banks, shipyards, ports, and others make big decisions daily.

Questions...

From and to which ports?

What will be shipped?

What infrastructure is needed?

In what type of ship?

Who will ship it?

Factors to consider...

Ship and cargo risk, physical and financial risk

Trade, arbitrage, market trends

Finance, infrastructure, insurance risk

Market opportunity, assets, fleets, customers, pricing

Fleet strategy and operational control

4 POTENTIAL EXTERNAL SHOCKS ADD MORE RISK: WHAT IF CHINA'S ECONOMY TANKS?

Companies must consider economic and geopolitical shocks. IHS scenario of a hard landing for China's economy, conducted in Q3 2014.

- China's 2015 GDP growth declines by nearly **3%**
- The **¥** depreciates
- Construction of new ships in China may **slow** temporarily
- **Shipping** rates and capacity utilization would drop
- China's 2015 industrial production falls by **3.6%**
- Global **commodity** prices would slump
- Import and export **growth** declines sharply
- China's fixed investment growth drops by nearly **5%** in 2015

5 FACTORING IN A CHINA HARD LANDING ON TRADE AND SHIPPING DECISIONS

By connecting the right economic, energy, shipping, manufacturing, and other relevant data with the appropriate expertise, analytics can be used to forecast the impacts of specific scenarios on the key industries concerned with trade. For example, how might a hard landing in China impact trade dynamics and decision-making?

Insurance companies

Revenues slow as a consequence of lower trade activity. Companies trim costs as they anticipate insuring fewer ships and shipments of cargo.

Energy and mining companies

As trade slows, commodity prices fall, squeezing margins. Companies will prepare to trim costs, including renegotiating shipping rates.

Ship brokers

Business will suffer as commissions drop due to trade slowing and fewer ships being bought and sold. Fluctuations in exchange rates will adversely impact operating costs. Brokerage houses will see more consolidation and M&A activity.

Shipyards

With a decline in the demand for shipping, some orders may be canceled. But unless the scenario develops into a full-fledged global recession, the impact on global shipbuilding should be minimal as the long-term expectations of an increase in global trade will muffle the effect of the short-term slowdown. On the positive side, if the yuan depreciates, it will make China's shipyards more competitive internationally.

Shipowners

No option but to cut freight rates as the situation goes from bad to worse, especially in commodity fleets, such as crude oil tankers and bulk carriers. If industrial production slowdown persists, the container sector will also suffer.

Banks

A fall in freight rates means lending slows. Investment in shipping would decline, prompting consolidation. As shipping asset values decline, private equity may invest at the bottom of the market to capture higher long-term returns.

Source: IHS. Data excludes intra-European trade.