REPORT ON WORLD MERCHANT FLEET AND WORLD TRADE

Patrizia Kern-Ferretti, Chairman IUMI Facts and Figures Committee, Head Marine – Swiss Re Corporate Solutions
THE FACTS & FIGURES COMMITTEE

MEMBERS

- Astrid Seltmann - Nordic, Secr. and Vice Chairman
- David Matcham - U.K.
- Donald Harrell - U.K.
- Erika Schoch - Alsum
- Henry Newman - U.S.A.
- Javier Alonso - Spain
- Jesse DeCouto - Bermudas
- Joachim ten Eicken - Germany
- Laura Uliana - Italy
- Li Zhang - China
- Lisa Yu - U.K.
- Mathieu Daubin - France
- Patrizia Kern - Switzerland, Chairman
- Philip Graham - U.K.
- Tetsuya Watanabe - Japan
- (Vacant)
AGENDA

- Update on committee work
- Macroeconomic development
- Shipping market
- Outlook
UPDATE ON COMMITTEE WORK
Premium volume of all countries covered in 2015:

USD 29.9bn
THE FACTS & FIGURES COMMITTEE
UPDATE ON COMMITTEE WORK

- Update World Fleet & Trade  September 2016
- Update Global Marine Insurance  September 2016
- Fact Sheets  September 2016

- Hull Repair Cost Index Follow up  IUMI Website 2016
- Cargo Index Follow up  IUMI Website 2016

- Cargo & Hull presentation  March 2016
MACROECONOMIC DEVELOPMENT
WORLD ECONOMY IS STRUGGLING TO ACHIEVE SUSTAINED GROWTH...

- US economy continues to expand, although moderately comparing with previous post-recession periods
- Europe is still dealing with the legacy of the financial crisis; high unemployment levels and fragility of banking sector persist in some countries
- Despite stronger private consumption, Japan remains stuck in deflation
- Weak commodity prices hit emerging markets. Moreover, excess debt in China could reduce global demand
PMIs are survey based indicators. Values above 50 indicate economic expansion, values below 50 contraction. However, the China PMI is not calibrated accurately – industrial production is currently up 6% year over year.

... EVEN THOUGH MAIN GLOBAL ENGINES OF GROWTH ARE NOT YET FIRING ON ALL CYLINDERS...
...MOREOVER, BREXIT HAS ADDED UNCERTAINTY

Stock market volatility, monthly data

Latest values as of 06/07/2016:
- US (VIX): 15.0
- Europe (VDAX): 26.9

Source: Datastream
The global recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging markets, as conditions in stressed economies start to gradually improve.

But uncertainty has increased, and growth outlook is subject to substantial downside risks.

Source: IMF
TRADE VOLUMES AFFECTED SIGNIFICANTLY BY SLOW ECONOMIC GROWTH

- 2015 was a very volatile year for world trade; sharp drop in the first half of the year was followed by some recovery in the second half.
- But upward momentum in the second half of 2015 has not been sustained; world trade slowed again in the first few months of 2016.
- Import/export volumes of emerging economies have been especially weak in recent months, mainly due to a very weak performance in Asia.

Source: CPB Netherlands Bureau for Economic Policy Analysis
COMMODITY PRICES REMAIN WEAK, ALTHOUGH ABOVE THE LOWS OF THE EARLY 2000s

Bank of Canada, Commodity price indices, weekly data, (indexed to Jan 2000=100)

Latest values as of 29/06/2016:

- Total: 129.3
- Energy: 155.8
- Metals and Minerals: 190.8
- Agriculture: 134.0

Source: Datastream

Note: Total index includes energy, metals & minerals, agriculture, forestry and fish
DIRECT LONG-RUN RELATIONSHIP BETWEEN GDP AND TRADE WEAKENING

Annual growth in volume of world merchandise trade and real GDP

Average trade growth 1990 - 2015

Average GDP growth 1990 - 2015

Source: IMF
FORECAST INCREASE IN TRADE REMAINS LOW, TRACKING GDP

WTO forecasts for growth in world merchandise trade volume

Source: WTO
FREIGHT RATES REMAIN CLOSE TO ALL TIME LOWS, DUE TO WEAK GLOBAL DEMAND AND CONTINUED EXCESS SHIPPING CAPACITY

- The Baltic Dry index, a measure of global trade in bulk commodities, has been touching historic lows.
- China, which in 2014 overtook the US as the world’s biggest trading nation, reported double-digit fall in both exports and imports in January.
- Brazil imports from China have collapsed, as country is still experiencing worst recession in more than a century.
Total value of Newbuilding orderbook (1st August 2016): US$277.9 bn (at contracted values) = 5% decrease compared to previous year
TANKER, BULKCARRIER, CONTAINERSHIP AND MULTIPURPOSE FLEETS

Source: Clarksons Research, August 2016

Note (1): Includes all vessels in these categories above 100 GT.
Note (2): All fleet totals are on the left-hand axis and deliveries and scrapping figures are on the right hand axis. Fleet totals are as at year end; deliveries and scrapping figures are full year totals.
Note (3): 2016* = year to date.
DEMOLITION AS PERCENTAGE OF TANKER AND BULKCARRIER FLEETS

(in terms of DWT)

Source: Clarksons Research, August 2016

Note (1): 2016* = year to date.

Source: Clarksons Research, August 2016

Note (1): Includes all vessels in these categories above 100 GT.
Note (2): Average age is calculated using number of vessels. Calculations are based on year and month of construction.
OUTLOOK
THREAT FROM GLOBAL FINANCIAL SECTOR

10% =

Medium-term inflation risks: Inflation has been trending upward. Could the US Fed already be "behind the curve"?

Recession in the Euro area: Brexit could destabilise the Euro area and lead to a severe financial crisis. Risks also stem from ongoing fragility in banking systems (e.g. Italy) and unstable political coalitions are in many places, such as Spain.

Oil price collapse – a stabilising force: Recent attempts between oil producers (Saudi Arabia, Russia, Venezuela) to orchestrate an output freeze to stabilise prices seem weak. However, overall the global economy benefits from low oil prices as consumers have more income available to spend on other goods, boosting demand.

20% =

Chinese hard landing: Credit risks from a significant slowdown in the property sector are the greatest downside risk.

15% =

Contagious emerging market crisis: US policy normalisation, and a stronger US dollar could cause problems for countries with large USD-denominated debt. In an adverse scenario, investor panic could lead to a major withdrawal of funds from many Emerging Markets (contagion).

Source: Swiss Re Economic Research & Consulting
Top 10 corporate risks:

- Damage to reputation/brand
- Economic slowdown/slow recovery
- Regulatory/legislative changes
- Increasing competition
- Failure to attract or retain top talent
- Failure to innovate/meet customer needs
- Business interruption
- Third-party liability
- Computer crime/hacking/etc
- Property damage

Insurable:

- Damage to reputation/brand: ✗
- Economic slowdown/slow recovery: ✗
- Regulatory/legislative changes: ✗
- Increasing competition: ✗
- Failure to attract or retain top talent: ✗
- Failure to innovate/meet customer needs: ✗
- Business interruption: ✓
- Third-party liability: ✓
- Computer crime/hacking/etc: ✓
- Property damage: ✓
Not just the biggest container hubs have a high risk of loss, but also smaller ports due to their cargo type and the natural hazards they face.

No strong correlation between port’s size and its catastrophe loss potential.

The modeling takes into account: cargo type (e.g. autos, bulk grains, electronics specie), precise storage location (e.g. coastal, estuarine, waterside or within dock complex), storage type (e.g. open air, warehouse, container – stacked or ground level), dwell time (which can vary due to port automation, labor relations and import/export ratios).
SOFT MARKET CONDITIONS PERSIST

Annual change in risk-adjusted premium rates - marine

Willis prediction for 2016*
- Cargo: flat to -10%
- Hull: flat to -10%
- Liability: flat to -10%

* As of end-December 2015.

Source: Lloyd's of London and Willis
SUMMARY

Global growth is expected to gradually pick up

- The US expansion is supported by consumer spending and low oil prices.
- Underlying factors restraining growth persist in Europe, although monetary policy remains supportive.
- Growth in oil-importing emerging markets will gradually improve.

Risks deviated to the downside

- Europe risks: 1) Brexit - hit to trade and business/household confidence 2) Financial market contagion (e.g. Italian banking sector).
- China hard-landing (20%) on the back of worries about private sector debt build-up as it transitions to a more balanced growth path.
- Capital flight from emerging markets as worries about US policy normalization and strong US dollar intensify.

Monetary policy and interest rates likely to diverge further

- Monetary policy in US is expected to retain a tightening bias. BoE and ECB likely to delay any narrow; economies may in fact, need additional stimulus.
- Yields on US and UK long-term government bonds likely to remain very low in the short term.
- Increased tensions in financial markets reflecting heightened economic uncertainty.

Source: Swiss Re Economic Research & Consulting
Economic and financial market uncertainty remains the only constant.

The global economic recovery is expected to continue, supported by a near-term recovery in key emerging markets, although there are significant downside risks to the outlook.

The accompanying growth in world trade should support marine insurance demand. But marine insurers need to adapt the reality that a structural shift in the trade intensity of production, means lower long-term premium volume growth.

Moreover, although there is some consolidation in the sector, abundant capacity will maintain pressure on insurance pricing, which will consequently slow down premium growth and profitability.

Such intense competitive conditions are likely to determine a further stabilization in the sector, including M&A, as leading players compete for market position and explore ways to re-deploy capital efficiently.
THANK YOU

Special thanks to
Andrea Mazza, Swiss Re Corporate Solutions, Business Analyst Marine
and to
Lloyds List Intelligence, Clarkson Research Service, Swiss Re Economic Research for their statistical input.

Patrizia Kern-Ferretti
Marine Head
Swiss Re Corporate Solutions