Sailing windward

What does the year hold for the shipping industry?

Waves asks industry experts for their opinions – and their predictions.

 Whether it is for the demise of Hanjin Shipping, the stagnation of Europe’s consumer demand, or the lowest dry bulk market that anyone can remember, few people will look back on 2016 with great fondness. So, as we consign such events to the record, can we hope for better things in 2017?

Industry surveys by international accountant and shipping adviser Moore Stephens showed that confidence in shipping increased steadily for most of 2016. However, shipping and transport partner at Moore Stephens, Richard Greiner says: “Making predictions about the shipping industry is as volatile an undertaking as the business of shipping itself. Who, for example, predicted that the Baltic Exchange would be sold to Singapore?”

One factor to emphasise is that the amount of cargo being moved in bulk shipping is as high as it has ever been, says Singapore-based Denis Petropoulos, President, Braemar Group Asia.

“Volumes are high and tonne miles on the increase,” he says. “Yet why is the market not that strong? Because it has been oversupplied with ships – these newbuildings, particularly those delivered in 2015-16, were ordered at what appeared to be competitive prices at the time, when the market was a lot higher.”
“Sentiment may be fairly strong when an owner makes an order but when ships are delivered in such volumes, the shipping market is dragged down. Nowadays those ships (at the price paid) would appear expensive.”

There are greater, stronger relationships between Asian shipowners and their customers.

Dry cargo
Most of the dry bulk newbuildings ordered, particularly of capesize, have been delivered, although there are a few more to come. The volumes of cargo being moved are still relatively strong but demand has been swamped by supply. “Deliveries are now slowing down and during the course of 2017 we will probably reach the bottom of the market,” says Petropoulos. “However, whilst there might be signals of improvement, it isn’t going to be fast and it will probably take another couple of years to get back to breakeven levels with these ships. But at least there is light at the end of the tunnel.”

Containers
The container market is very much a consumer-driven one – if the consumer wants more goods, the containers start moving. The US has seen strong domestic consumption in the past few years but in Europe the market remains soft and consumerism has remained low.

As for China, there has been a great deal of talk about a slowdown but Petropoulos says: “If China has actually slowed down, it has been in manufacture – and the reason for that is that consumption has gone down in Europe. It isn’t just down to China, but it is down to the many consumer countries that China manufactures the goods for, and a lot of people miss that point.”

And there are strengths elsewhere, as Richard Greiner points out: “Intra Asia trades are the fastest growing part of the container sector.”

Tankers
Having had some strong periods, in 2015 and the first half of last year, the tanker market’s fortunes for 2017 to a large extent depend on OPEC’s decisions on production, and what the non-OPEC producers do.

“The oil price is not far from double what it was this time last year,” says Greiner. “But there was also a fair amount of tanker tonnage delivered. I suspect demand will continue to grow – but so will supply, so there won’t be a significant upside.”

Denis Petropoulos, President, Braemar Group Asia

Offshore
Of course, in the offshore sector everything hinges on oil price. Overall, the sector will come round although probably not in 2017, says Greiner. “But ultimately there will need to be further fresh offshore production in order to meet increased future demand.”
Oil prices
One blessing in tough times across the shipping industry has been lower bunker prices, which have improved the economics of running large ships long distances. However, other costs — such as maintenance and crewing — remain unchanged, points out Petropoulos.

“In lower freight markets, maintenance can be compromised and the condition of ships will suffer as a result. Most of the major shipowners in the major trade markets will not compromise on maintenance, and safety at sea is still paramount to everybody. But it is question of putting off some of the smaller issues for doing when there is a bit more money in the coffers.”

Legislation
In any case, low bunker prices are rapidly becoming a dream of the past, and the regulations on low-sulphur fuel, brought forward to 2020, will be a game-changer.

“This is not only about the ships — also you need to be able to produce the fuel,” says Petropoulos. “That is a major impact. Inevitably bunker prices will go up, due to the higher grade low-sulphur fuel, and that will impact the economics of the ships. As we go forward and prices increase due to emissions control, there will be even more emphasis on very economical ships.”

The Ballast Water Management Convention will be another impact, with shipowners having to decide whether it is cost-effective to invest thousands of dollars on upgrading older vessels in order to be compliant, or to turn to scrapping once again.

The future
Of course, everyone wants to know when the markets, and healthy returns, will bounce back.

Greiner says: “Predicting shipping’s fortunes in 2017 is as precise a science as foretelling the English weather. But some things are at least more likely to happen than not. Oil prices should continue on an upward trend on the strength of the recent OPEC production cuts. Calls for higher levels of ship demolition will increase significantly, although not ship demolition itself. The cost of meeting regulatory requirements will become clearer as the industry and its financiers grapple with the financial consequences of having to burn lower-sulphur bunker fuel whilst ensuring that their ballast water management systems are fit for purpose.”

In low markets, the relationship between owner and lender, and between owner and customers, becomes ever more crucial, says Petropoulos. “To a great extent, whether an owner will still be around or not depends on those relationships. Here I think Asia has an advantage. There are greater, stronger relationships between Asian shipowners and their customers. There is better employment to be had through good relationships. Shipping is, after all, still a people business, much built on goodwill.”

Richard Greiner, Partner, Moore Stephens

And if he did have a crystal ball? “I would say: dry cargo will be firmer in 2018-19; tankers will restrengthen 2019 from a softer 2017-18. The danger is that any rush to the yards for newbuildings at the first sign of recovery is simply going to constrain any recovery.

“Banks and finance lines of credit will be far harder to negotiate going forward than they have been. Banks will be far more critical about how much and who they lend to, because quite a lot of money has been lost.”

Greiner concludes: “I think the worst is behind us. The order book for newbuildings is at a lower level overall than we have seen for a very long time so that is a good thing. Having said that, for sure, volatility remains throughout and that is both a challenge and an opportunity.”