Due to the UK's Spring Bank Holiday, the next PDF will be published on Wednesday morning, May 27

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LEAD STORY:
Idle tonnage in deepsea auto trades soars as demand slumps

WHAT TO WATCH:
Collapse of demand for new vehicles bodes ill for shipping

OPINION:
Coronavirus may slow pace of decarbonisation but won't derail it

ANALYSIS:
Maritime leadership needs greater diversity

MARKETS:
Container freight rates remain resilient

IN OTHER NEWS:
UN urged to help 200,000 stranded seafarers

Bahri reportedly puts LNG charter plan on ice

Eagle Bulk supramax suffers engine failure

Pistiolis orders first VLCCs at HHI

Thailand grants first LNG import licence to private sector

Idle tonnage in deepsea auto trades soars as demand slumps

THE DEEPSEA VEHICLE trades are being ravaged by one of the worst slumps the sector has ever experienced, with up to 200 pure car and truck carriers thought to be idle as operators struggle to cope with falling cargo volumes.

The exact amount of surplus tonnage is hard to estimate, given the dynamic nature of the market right now, but that upper figure would represent more than a quarter of the number of PCTCs in the world fleet.

Sailings are being blanked, while ports that handle car imports and exports are clogged with vehicles that cannot be moved because showrooms in many of the big consumer countries remain closed.

The PCTC market was already under pressure even before the coronavirus backdrop forced the shutdown of production in many parts of Asia, and then brought new car sales to a virtual halt across much of Europe and North America.

Regional reports underline the scale of the collapse.

The UK Major Ports Group calculates that the number of vehicles being imported or exported through some of the country's biggest ports was down 85% in the final week of April compared with the same seven-day period in 2019.

Cars, vans and other vehicles that are being stored in port facilities at ABP's Immingham and Southampton, Peel Ports' Liverpool and Medway sites, the ports of Bristol, and Tyne, plus elsewhere, were up

104%, while almost nothing was being transported to car dealerships.

On the Atlantic, one of the smaller trades for PCTCs, most operators have blanked sailings, according to industry sources.

In some cases, weekly services have been reduced to monthly, while others appear to have suspended sailings altogether, although few of the major players are prepared to comment on their PCTC operations right now.

The market is dominated by just a handful of shipping companies, often with close links to links to automobile manufacturers, hence their reluctance to discuss market conditions.

However, Scandinavian operator Wallenius Wilhelmsen recently revealed plans to recycle some vessels and place up to 10 in cold layup.

Japan's Mitsui OSK Lines operated the largest number of PCTCs in 2019, with 68 vessels, followed by NYK, and Hyundai Glovis, according to Clarkson Research's Car Carrier Trade and Transport report. Other operators include Eukor Car Carriers, Hoegh Autoliners, K Line, and Grimaldi, as well as Wallenius Wilhelmsen.

The biggest tonnage provider last year was Ray Car Carriers, followed by Cido Shipping, Shoei Kisen Kaisha, and Zodiac Maritime.

With many more PCTCs on short-term charter than in the past when most were fixed on a relatively long-term basis, lines have been able to return ships to owners in their race to reduce fleet capacity.

But that still leaves the operators with many more inactive units.

Estimates of the total idle fleet vary from about 160 to more than 200 PCTCs currently out of service, depending on how unemployment is defined. This compares with just a handful of idle ships at the start of the year.

The difficulty in pinning down the exact number of inactive PCTCs may reflect the fact that many ships are effectively in the control of motor manufacturers, hence their true status is hard to gauge.

Opaque picture

The numbers also are changing almost by the day in this fast-moving marketplace, making it even more difficult to assess the size of the idle or laid-up fleet with any accuracy.

Some are at anchor in Norwegian fjords, others are sheltering in the River Fal in Cornwall, while more can be spotted in Malaysian and South Korean waters.

"Conditions were already challenging for PCTC operators before the coronavirus outbreak, with worldwide sales of finished vehicles softening, particularly in developed markets," says Martin Dixon, head of research products at Drewry.

"While we expect the reopening of assembly plants and consumption economies to provide some employment for the fleet, the outlook remains very uncertain with considerable headwinds."

The whole sector is in for "a rough ride", the head of a shipping company that moves vehicles has warned. In some major trade lanes, "cars have basically stopped moving. Full stop."

Before the coronavirus crisis, the PCTC sector was grappling with weak demand while charter rates were bumping around at all-time lows. A 6,500 ceu ship would have fetched around $15,000 a day.

That compares with more than $50,000 a day prior to the 2008 banking crisis. For the following few years, daily hire rates traded between $20,000 and $25,000, but since 2016, earnings have sunk below the $20,000 mark.

Now, the charter market has lurched downwards again. As the pandemic took hold in Europe in the early weeks of 2020, the PCTC trades "really collapsed", said one source, with the idle numbers trending steadily upwards.

The global PCTC fleet consisted of 775 ships at the beginning of May, according to data from Clarkson Research, amounting to capacity of 4m car equivalent units.

Ships in excess of 6,000 ceu capacity account for 405 PCTCs of 2.7m ceu.

In 2019, 13 ships were sent to the breakers, removing around 48,000 ceu. Only two have been recycled so far this year, reflecting the closure of many breakers' yards during the coronavirus backdrop.

With the average age of the fleet just over 13 years,

more are expected to be scrapped in the absence of any significant recovery in sight, once recycling activity resumes.

With the sale and purchase market in PCTCs almost non-existent, owners and operators are more likely to scrap older vessels, given the lack of secondhand sale opportunities.

The orderbook remains low, with 24 vessels representing 3.4% of the fleet in the pipeline, according to Clarkson Research.

"So there are the makings of a recovery on the fleet supply side," one analyst noted. "The problem is on the demand side, and that is much harder predict, but it's going to be a slow road back."

WHAT TO WATCH

Collapse of demand for new vehicles bodes ill for shipping

SHIPOWNERS specialising in the transportation of vehicles are facing a crisis with global car sales demand forecast to fall 21.8%.

LMC Automotive, a vehicle industry forecaster, predicts demand to drop to 70.6m units from 90.3m last year. Demand in Europe is set to decline 26.5% to 15m units, while in South America it will fall by 43.9%, according to the forecast.

China will be spared the worst, with a decline of 12% in 2020, while in India sales are expected to fall by half, taking the Asia-Pacific total decline to 17.3%.

Haig Stoddard, senior industry analyst at Wards Intelligence, a sister publication of Lloyd's List, said the steep drop in Europe reflected outbreaks in the region's big markets of France, Italy, Spain, the UK and Russia, where weak oil prices have already slammed the economy and vehicle demand.

"Germany, Europe's biggest market, is a bright spot especially with lockdown measures there easing," Mr Stoddard said.

North America is forecast to drop 22.3% to 15.7m units this year. The US and Canada were set to bounce back with double-digit growth in 2021. But Mexico, with its poor economic outlook and "questionable handling of virus containment", was pegged for only a 9% gain in 2021 from a 25% decline this year.

South America, the smallest region, would see its global share contract from 4.5% to 3.3%, on a 42.2% drop in demand to 2.3m units.

"Volume spikes upward 34.8% in 2021 to 3.1m units, but with share climbing only partially back to where it was in 2019 to 3.8%," said Mr Stoddard. Most demand in South America comes from Brazil, which like Mexico has been criticised for its handling of the virus, he added.

In the UK, new car registrations fell 44.4% in March, when 203,370 fewer cars were sold, according to the Society of Motor Manufacturers and Traders.

In April, demand for new cars fell by around 97%, when 4,000 new cars were registered in the month compared with 161,000 in the same period a year earlier, according to SMMT.

The falls in demand are bad news for the cluster of shipping companies that carry the world's cars.

Scandinavian giant Wallenius Wilhelmsen, which last week posted a $285m quarterly loss, said it expects ocean volumes to fall by half in the second quarter of 2020.

Auto exports declined 20.7% year on year in the first quarter of 2020 and all markets lost significant sales volume, Wallenius Wilhelmsen said in its first quarter of the year earnings announcement. North American sales were down 5% year on year, and 11% on the past quarter, as the US was slower to respond to the virus than Asia and Europe.

Sales in Europe dropped 16.8% year on year, which also reflected changes to emission testing standards and uncertainty over Brexit and diesel vehicles. Chinese light vehicle sales had the biggest fall, down 42.1%, or 50% on the previous quarter.

Exports out of North America were down 14.3% year on year, Wallenius Wilhelmsen reported, reflecting the earlier hit to Asian and European markets. Japanese first quarter of the year exports declined 13.4% year on year.

Wallenius Wilhelmsen also flagged declining exports in the high and heavy trade, with exports of construction and rolling mining equipment down 12% year on year — North America by 25%, and Asia by 9%.

The company said analysts expected global sales by important construction equipment manufacturers to decline 16% in 2020, before rebounding 6% and 4% in 2021 and 2022.

Imports to Australia fell 27% year on year, while the Eurozone construction Purchasing Managers Index "fell to levels not seen in over a decade".

But Mr Stoddard, citing the LMC Automotive forecast, said Europe and South America would record the biggest recoveries in demand by region, with global volume rising 15.6% from 2020.

LMC Automotive forecasted global car sales demand picking up to 81.6m units in 2021, a big uptick but still well below pre-pandemic levels.

"The rebounds in China and South Korea are expected to be sharper than most countries due to their apparent success in containing the spread of the virus," said Mr Stoddard, adding that Japan's market was not hit as hard as most others.

"Asia-Pacific region is expected to fare better in 2020 than the other major regions. If not for India, the year-over-year demand in the region would look much better."

OPINION

Coronavirus may slow pace of decarbonisation but won't derail it

AT the beginning of the year, the World Economic Forum released its Global Risks Report for 2020. The headline was that all the top five risks in terms of likelihood and three (arguably four) of the top five in terms of impact were environmental.

The last time the threat of pandemics was included in the top five lists was in 2008, when chronic disease also made an appearance in the likelihood list, and in 2007.

This is a catalogue of what keeps economists awake at night. It is meant to provoke stimulating discussion at the annual forum in Davos, Switzerland. It invariably does. Not surprisingly, the lists are swayed by recent experience: sabre-rattling among the big hitters in the economic world leads to "weapons of mass destruction" appearing high among the impact chart (highest threat in 2017, 2018 and 2019; second highest in 2016 and 2020).

So it was to be expected that extreme weather, biodiversity loss and environmental disasters both natural and human would be high in the lists for 2020. Four months on, the economists are struggling to tackle the gravest health crisis since the Spanish flu epidemic of 1918-19 and the gravest economic crisis since the Great Depression of the 1930s.

Consequently, the question being raised is whether the push for decarbonisation — in all forms of transport — that has followed so many extreme weather events and natural disasters has been derailed by the developing economic crisis that will follow the coronavirus outbreak.

The WEF report provides evidence to support its risk rankings. Infectious diseases are not very likely, but would have an impact matching cyber-attacks and human-made environmental disasters.

The reason for this, the organisation suggests, is that "changing societal, environmental, demographic and technological patterns threaten to undo the dramatic gains in wellness and prosperity that health systems have supported over the past century".

Progress against pandemics has been undermined for many years by vaccine hesitancy and drug resistance. Killing off pandemics such as polio, tuberculosis and malaria has been thwarted by persistent political instability and community resistance on the perception that the huge sums spent on the final effort could have been used to address other health priorities. The World Health Organization considers reluctance or refusal to vaccinate to be among the top 10 threats to global health.

Shipping is often described as the servant of world trade. If world trade is suffering from the gravest shock since the 1930s, shipping will also suffer. The funds available for investment in new technologies

and new fuels will be in short supply as shipowners take a more cautious and more short-term approach. This suggests there will be obstacles in the road to decarbonisation.

But that is not to say progress will be stopped altogether. Last week, Green Ship of the Future, a public-private collaboration in Denmark seeking to reduce the negative environmental impact of shipping, published the findings of its Retrofit Project.

The conclusion was that significant reductions can be made to emissions and cost simply by retrofitting existing technologies rather than by investing in new systems and processes.

In other words, the economic fallout of the coronavirus pandemic means it will be many years before shipping runs on greenhouse gas-neutral fuels. The industry can either allow decarbonisation to be derailed or, hopefully, focus on what can be done with existing technologies.

The negative impact will be lessened slowly and steadily rather than dramatically and overnight. Evolution instead of revolution.

The push for decarbonisation is, therefore, unlikely to be derailed by the coronavirus. However, the pace of progress will slow and the inevitable pain suffered by the industry will be softened.

A carbon-neutral fuel would be an even better solution, but it is now less likely to be rolled out across the industry for many years.

ANALYSIS

Maritime leadership needs greater diversity

THERE is a severe lack of gender diversity among senior management positions in the maritime industry, a new report has shown.

The preliminary results of the ongoing diversity survey, which is conducted by the Diversity Study Group and focuses on onshore employment, showed imbalances in gender balance, pay gap and workplace environments, but there were also causes for optimism in certain regards.

So far 95% of the survey's respondents working in senior management roles are male, the group reported.

The imbalance is less acute further down the hierarchy, with 34% of respondents in commercial roles being female and 51% of female respondents describing themselves as working in "mid-level roles".

At the same time 42% of female respondents are aged between 25 and 34.

"This could indicate a growing pool of female talent for more senior roles, provided there is a pathway to further progression," the group said in an emailed press release.

Additionally, there was greater balance among the respondents who received a promotion in the past 12 months, with 47% female and 50% being male.

Out of the respondents declaring they received bonuses, 55% were male and 41% were female. Out of those reporting salary increases, 49% were male and 46% were female, while the share of those claiming 2%–4% increases in pay, was 56% male and 41% female.

"Moreover, the survey results reveal further inequality in the size of the bonus, with a higher proportion of male employees receiving larger amounts," the group said.

There were also significant disparities between how male and female employees perceive their working environment.

"By a margin of 2 to 1, women feel less able to raise discrimination concerns, feel less valued for their contribution and believe they lack a supporting peer group at work. This goes to the heart of how diversity and inclusion affects workplace culture and the progress still to be made," said Diversity Study Group co-founder Heidi Heseltine in a statement.

Another positive development is that 61% of respondents said their employer has a diversion and inclusion policy.

"The challenge for shipping is to ensure that there is no glass ceiling when it comes to reaching more senior roles and that they are rewarded fairly for the jobs they are doing today," she said.

The survey is still open for people in the shipping industry working onshore to participate.

MARKETS

Container freight rates remain resilient

CONTAINERISED freight rates have continued to show strength, despite declining volumes as carrier efforts to manage capacity pay off.

Figures from the Shanghai Shipping Exchange show that while rates dipped slightly this week, with the Shanghai Containerised Freight index falling by just under 1%, rates for cargoes ex-China remain 17% higher than where they were this time last year.

Drewry's composite World Container Index reported a 3.3% increase this week to $1,592 per feu. Its average for the year to date stands at $1,600 per feu, $218 higher than the five-year average of $1,382 per teu.

The SSE said that carriers were achieving load factors above 90% on headhaul voyages to European destinations, and noted that the first signs of recovery were emerging as European countries began to ease lockdown measures.

"Export cargo volume has been slowly recovering recently," the SSE said. "Meanwhile, the scale of capacity supply kept low by carriers' continuous blank sailing operations and the market fundamentals have improved."

Backhaul rates have also risen, with Drewry's Rotterdam-Shanghai index increasing by 10% to $1,038 per feu, putting in 88% higher than in the corresponding week last year.

The rates strength comes amid starkly decreased volumes on the major trades.

"Freight rate resilience has largely been maintained over May, which is likely to be the most challenging month in volume terms across major trade lanes," said analysts at Maritime Strategies International.

"While the remarkable fall in bunker prices will surely soon be reflected in freight rate assessments, evidence so far suggests freight rates are likely to continue their recent healthy run."

But MSI warned that this would come at the cost of further capacity reductions.

"While it is true that looking ahead container line companies will face a more complicated set of tradeoffs and variation across trade-lanes when scheduling deployed capacity, we expect that overall the recent practice of trimming capacity quickly and at quite short notice will continue."

A collapse in freight demand has led to vast numbers of sailings being blanked over the past three months, which has helped carriers maintain rates.

IN OTHER NEWS

UN urged to help 200,000 stranded seafarers

THE health of 200,000 seafarers stuck at sea, as a result of health crisis lockdowns, is being put at risk unless measures are introduced urgently to allow crew changes, according to a co-ordinated appeal by shipowners and trade unions to the United Nations.

Governments have been reluctant to facilitate crew changes as part of lockdown policies to prevent the spread of the coronavirus. Similarly, shipping companies have also prohibited crew leaving their ship to avoid them from contracting the virus and the consequent disruption to their operations that would follow.

Bahri reportedly puts LNG charter plan on ice

IN further signs of coronavirus-related knock-on effects on the tanker market, Saudi Aramco shipping unit Bahri has reportedly held back plans to charter up to 12 liquefied natural gas carriers. Reuters cited sources as saying this was linked to Sempra Energy's delayed final investment decision on its Port Arthur LNG project until 2021.

Sempra Energy said in its first quarter of the year results announcement that it was pushing back the final investment decision because of "current market dynamics".

Eagle Bulk supramax suffers engine failure

A SUPRAMAX belonging to

US-listed Eagle Bulk has suffered engine failure while en route to South Africa.

The 2010-built Imperial Eagle is heading to Durban for repairs, with expected arrival on May 23, according to Lloyd's List Intelligence. The Marshall Islands-flagged vessel, which had waited in anchorage since mid-April, departed from Krishnapatnam port in India in early May after arriving on May 1.

The company said the vessel was in ballast from India to South Africa for bunkers when it experienced "a minor issue" with the main engine, which led to reduced power. It has identified the problem, which will be rectified. It is not related to exhaust gas cleaning systems.

Pistiolis orders first VLCCs at HHI

CENTRAL Mare, the Greece-based private shipping arm of TOP Ships chief executive Evangelos Pistiolis, has emerged as the company behind the order for two very large crude carrier newbuildings announced by Hyundai Heavy Industries.

The order marks the Greek owner's debut in the VLCC segment and at the same time is believed to be the South Korean builder's largest firm tanker order so far in 2020.

In a filing the yard gave the value of the contract as Won220bn, equivalent to a price of $89m for each ship.

Thailand grants first LNG import licence to private sector

Thailand has approved the award of the first liquefied natural gas import licence to a private sector player as it steps up efforts to liberalise trading of the supercooled fuel.

A unit of Bangkok-listed Gulf Energy Development PCL has won approval from the Energy Regulatory Commission for the importation of up to 1.4m tonnes of LNG annually.

Hin Kong Power Co, the entity that has acquired the licence, is developing a power plant in Ratchaburi province.

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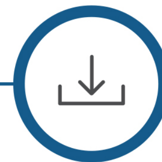

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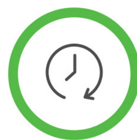

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