Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

Hot shipping markets could pull banks back in

DEVELOPMENTS SUCH AS the current dry bulk spike and last year's boxship boom could make shipping attractive enough for banks outside China to lend to owners for the first time since the post-financial crisis downturn, an industry audience has been told.

The return to the fray is to some extent happening already, with banks in Germany, Greece and Taiwan recently doing one-ship deals, according to a Marine Money panel.

Much of the discussion centred around MSC's recent discussion to pay the surprisingly full price of $44m for a panama boxship on the back of strong charter rates.

Carl Rehder, vice president of Bocomm Shipping Leasing, said that his firm was interested in securing strategic assets for clients, and is ready to provide finance for long-term, on the basis of structures sustainable at all points in the cycle.

In this way it can provide bareboat rates as good as can be had from alt lenders, with recognition that at the end day, Bocomm is financing an asset backed by corporate spending behind it.

Even a newbuilding could be of interest with sufficient time charter backing, especially where newbuildings are deemed strategic for the trade.

But Bocomm needs to see the numbers first, and it is not willing to inflate residual value, as lenders sometimes did in the frenzy of the last shipping boom.

Sybren Hoekstra, senior investment manager at Northern Shipping Funds, said that his firm was strongly asset-focused and countercyclical in orientation.

NSF acknowledges that there are always shipping markets that are doing well and markets not doing well. It will put up capital against equity, and it can be flexible in schedules to make repayments work.

However, he warned against the tendency of banks to finance shipping in better markets, without factoring in downside risk.

Frithiof Wilhelmsen, director of shipping finance at Macquarie Bank, said he was sceptical about the entry point in today's container market.

"Macquarie entered this space with a countercyclical mentality… an open mind is key to finding good deals We would look at 16- or 17-year-old ships, but there are challenges for us there, mostly reliance on the corporate credit.

"You don't want to be taking a 50%-60 % risk to your credit committee without good reasons."

Nicolas Duran, head of debt advisory at Fearnley Securities, said that he detected increased appetite from banks to lend to shipowners.

"Some of those clients are, from the banks' point of view, quickly climbing up the credit ladder. They wouldn't have touched them two or three years ago, but are now happy to be lending at Libor plus 200 [basis points]."

The bond market will also become a more attractive source of capital to some players as credit comes back in big way, meaning that there will be a solution available for every shipowner in every market at every stage in the cycle.

Fearnleys has been involved in three shipping bond issues collectively worth $800m this year.

"We are seeing a lot of interest from credit investors [and] the few shipping bonds out there have traded up substantially in recent months," he said.

Oslo retains the advantage of being 'documentation lite' where that is an issue, but New York still has greater depth than anywhere else.

Mr Rehder advanced the thesis that better shipping markets would give shipping companies more equity, which means they will require lower loan to value ratios, enhancing their attractiveness to banks.

Mr Hoekstra pointed to banks in Greece, Germany and Taiwan doing one-ship deals. But China is still to place to go to borrow for newbuildings and secondhand tonnage in the five- to ten-year-old age bracket.

But Mr Wilhelmsen countered that he was not seeing market share defect to banks. What is happening is that the middle market is growing nicely. But it is not overstretched and there is no rush of capital into the space.

WHAT TO WATCH:

GoodBulk's Radziwill says slow steaming should be mandatory

A PROMINENT shipowner has said that he supports the idea of mandatory slow steaming for the world's fleet.

"It's a disgrace it has not been done yet," John Michael Radziwill told a Marine Money virtual event. "It saves on bunkers and reduces emissions."

Of course, technology keeps improving, but future fuels development may be some time off yet, the CTM and GoodBulk chief executive said, adding he would implement such a measure if he ran the International Maritime Organization.

Discussing the dry bulk market, Mr Radziwill said there was only upside, with post-pandemic stimulus encouraging seaborne trade.

On the supply side, when the orderbook is less than 8%, it is a "buy signal", although he hoped that owners would refrain from ordering too many ships this time.

US-based Eagle Bulk has been preparing for a market recovery ever since chief executive Gary Vogel joined the company almost six years ago.

Muted supply growth and broad demand growth will support a continued strong market, he said.

The company, which operates in the ultramax/supramax segment, has had a supportive banking group, but it will not be ordering new ships, given yard capacity and uncertainty over regulations.

In the transition to zero-emission fuels, it is unlikely that the mid-sized ships will be the first movers, he said, given challenges with safety and density, among other factors.

In a capital allocation session at the event, Dorian LPG chief financial officer Ted Young said that having an environment, social and governance strategy will lower the cost of equity.

If a company does not embrace ESG, it will "suffer" over time.

The company has ordered a liquefied petroleum gas-fuelled newbuilding and will watch the space for further developments in fuel technology.

Golden Ocean chief financial officer Peder Simonsen said the reallocation of cash to environmental improvements was obvious, given the focus on the climate agenda.

Supply chain change will take time

AS SHIPPERS seek to build up resilience in their supply chains after the disruption of the pandemic, cargo owners are increasingly looking at sourcing their goods closer to home.

But the challenges of bringing manufacturing back form the industrial powerhouses of Asia may be more difficult and take longer than expected.

"We already saw some nearshoring and onshoring before the pandemic but only at a modest scale," said maritime academic Theo Notteboom. "Many industries have reconfigured their production networks around the world in the past 20 years with many heading towards China. Of Apple's 59 assembly plants, 52 are in China."

Prof Notteboom said Asia had become the dominant player in many industries.

"It is important to underline the differences between mature and capital-intensive industries and new industries that may be asset light," he told the International Association of Ports and Harbours' World Port Conference. "Asset-heavy industries are not so portable."

But McKinsey supply chain management practice partner Knut Alicke said nearshoring and regionalised supply chains could ensure the sourcing of critical components.

"Nearshoring is either economics-driven, in that it makes sense because it is cheaper to make it nearby, or it is non-economic, where there is typically some regulation behind it," said Dr Alicke.

For industries such as pharmaceuticals, the pandemic had shown the risk of having 80% of all active pharmaceutical ingredients being produced in India or China. There was a drive to bring some of this production back to Europe and North America.

The semiconductor shortage that was hurting several industries that relied on them as components was another ripe for reshoring, although the cost and complexity of building semiconductor production plants meant is was not something that could be done immediately.

The growth of China's middle class and increasing wages meant that low-cost production in China was no longer as cost competitive as it once was.

"If you look into labour costs and compare Asia to Eastern Europe, it is levelling out," Dr Alicke said. "They are not yet at par, but they are getting there."

And even in Western countries where labour was expensive, increased automation could still see the return of manufacturing being viable, he added.

Vancouver Fraser Port Authority chief executive Robin Silvester said that had been an increased focus on resilience in the supply chain but warned that significant changes would be a long-time coming.

"It remains to be seen how the debate over changing the location of sourcing and reshoring manufacturing plays out," he said. "My view is that it will not have a significant effect on supply chains as the overwhelming driver is still cost."

While some areas, such as vaccine manufacture, would be moved strategically, most supply chains would see a more evolutionary change.

"But resilience will be a big driver of change," Mr Silvester said. "We are now seeing supply chains that are struggling. All of us in the supply chain need to provide solutions to reliability. This needs better coordination, better collaboration and better visibility."

After an "incredibly challenging" 12 to 18 months the fundamentals remained the same, he added. "We're continuing to see demand for trade and creating capacity into the long term to align with the need to trade will continue to be important."

That would remain the case even if reshoring did take off in a big way, Dr Alicke said.

"Companies are now looking at their first-tier suppliers," he said. "They want to have them nearby. But the first-tier supplier is still supplied by the second-tier supplier from a global value chain.

"Global cargo flows will still exist. I don't expect the volume to significantly go down, but I expect the supplier landscape to change and to have more nearshoring and reshoring in the next couple of years."

But Prof Notteboom remains sceptical. "We have been moving to China and Asia for many years and it is very difficult to get it back."

ANALYSIS:

Saadé calls for collaboration to ease terminal congestion

THE congested supply chain is likely to remain disrupted until at least the first quarter of next year, despite the best efforts of container lines to resolve the situation.

"It is difficult to forecast but I believe that normality will eventually happen after Chinese New Year 2022," said CMA CGM chief executive Rodolphe Saadé.

"If we look at the situation today, we are going through a positive economic situation whereby the governments have been supporting the lockdowns, financial institutions are backing governments and at the same time we are seeing more vaccinations taking place in the Western world."

Mr Saadé said that GDP growth had already increased to 6% and that the outlook for next year remained strong.

"For the time being, we see that the economic outlook is good, but at the same time in our industry we believe that the situation will become more normalised after Chinese New Year in 2022," he told the International Association of Ports and Harbours' World Ports Conference.

What that normalised situation would look like was still unclear, but would be different to that which had existed before the pandemic, he said.

"What we have seen following the pandemic is digitalisation being everywhere. We also see the strength of the US economy, backed by strong manufacturing capacity in China, and the climate agenda is becoming important to all of us."

But there would be changes to the supply chain, with customer looking for more resilience following the frustrations felt during the past nine months.

"Customers would like to avoid the just-in-time strategy and look at different options," Mr Saadé said.

He called for more coordination between participants in the supply chain to help reduce the current congestion.

"What we have noticed during the pandemic is that the congestion hitting most of the ports on the US west coast and some parts of Europe is creating significant problems," he said. "What is important is that we see more close coordination between ports and carriers on how to look at the flows of containers.

"If we were to communicate and work more together, we would be in a better position to adapt to the changes we are going through now."

Nevertheless, the industry's ability to have survived the pandemic had been "impressive", he said.

"If you look back two years ago no one would have expected us to change so drastically."

But Mr Saadé admitted container shipping had a significant problem with quality of service.

"Because of the situation, we are upsetting customers and I apologise for that," he said. "We are used to peak seasons, but this time the peak season is lasting for more than just three months. This is what is difficult for us as a shipping line and a logistics provider."

It was a challenge challenging to offer good quality of service while ports remained congested in the US.

"Congestion is staying very high, we have lack of equipment and we have difficulties finding vessels," said Mr Saadé. "This is what is critical today. We still have nine months of this to go and it is going to be a big challenge for all of us.

"The situation is so extreme that we have not been good in terms of quality of service. That being said, I think that if we act together and collaborate, maybe we can be in a position to find good solutions."

Marine insurance meets challenge of remote meetings

MARINE insurance will probably conduct most routine business through online meetings once the pandemic restrictions are lifted, although new and/or more complicated business will still need to conducted face to face, according to participants at a webinar organised by Maritime London.

The cyber risk insurer Astaara managing director James Cooper said that marine insurance had been able to meet the demands of working remotely, but relationships had materially changed as a result.

Indeed, some of the recent hardening in marine markets is probably attributable to underwriters "being less susceptible to brokers charms to keep prices down".

Vanilla business has been little affected, but the new and complicated risk risks that drive a portfolio's performance have been that much harder to do. Luckily, London has been able to rely on its established ecosystem.

Norwegian Hull Club chief business development officer Ole Jørgen Eikanger contrasted the marine insurance culture in Norway where underwriting is less tied to a physical place than London.

"If you have a relationship with a broker and risks were pretty known, it was straightforward to do it on Teams," he said. "If you did not have a relationship or there are more complex risks, it has been much more challenging."

After the pandemic, the market will take a best of both worlds' approach, with straightforward underwriting done via video and more complicated underwriting face to face, making it easier to build trust and for the parties to get to know one another.

"We will see things going in parallel. But the coronavirus has definitely taught us we can do things differently in the Nordic market," he said.

Gard (UK) vice-president Jun Lin said that online interaction is often targeted, with a set agenda and usually limited time.

That can facilitate the education of the younger generation of brokers, by allowing junior staff to be in meetings with clients.

Mr Cooper said that more people are coming into City at lunchtimes to meet each other, after getting bored of being at home during lockdown.

Data provider Concirrus' chief operating officer Nick Roscoe agreed that unfounded resistance to online meetings had now broken down. By cutting down on travel time to routine meetings, it leaves more space for more important conversations.

Mr Cooper said that Lloyd's is marine insurance losing market share, but still benefits the rest of the world by providing coherent common pricing.

"There is a need for a physical marketplace, but that physical marketplace needs to be able to operate virtually and in a digitised way."

IN OTHER NEWS:

Hapag-Lloyd orders six LNG-fuelled boxships with green loan

HAPAG-Lloyd has ordered six new 23,500 teu containerships fuelled by liquefied natural gas and financed with green loans.

South Korea's Daewoo Shipbuilding & Marine Engineering will build the new ships with dual-fuel, high-pressure engines for delivery in 2024.

Hapag-Lloyd's chief financial officer Mark Frese said the ships would cut CO_2 emissions by 15%-25% compared with conventional fuel.

Capital Gas orders two more LNG carriers from Hyundai

CAPITAL Gas, the liquefied natural gas shipping arm of Evangelos Marinakis' Capital Maritime Group, has placed orders for two more liquefied natural gas carriers at Hyundai Heavy Industries.

The 174,000 cu m vessels come on top of an ongoing series of seven newbuildings of this size that HHI has been constructing for Capital.

The third unit in the original series, *Aristarchos* (IMO: 9862918), was delivered just last week and immediately commenced a charter to US operator Cheniere Energy for up to six years.

Union calls to release quarantined crew

AUSTRALIA's maritime union has called on health authorities to release 13 port workers forced to quarantine for alleged breaches of coronavirus protocols, after tests showed they posed no infection risk.

Police detained the stevedores a week ago for allegedly failing to wear sufficient protective gear while unloading the Singapore-flagged containership *Tacoma Trader* (IMO: 9675810) at Darwin, in Australia's Northern Territory.

The Maritime Union of Australia said health authorities in Western Australia had subsequently cleared the ship, finding its crew posed no risk of coronavirus.

Höegh Autoliners explores listing to fund ammonia-ready ships

NORWEGIAN car carrier Höegh Autoliners is considering listing on a public market to fund investments in up to 12 vessels that will be capable of running on ammonia through future modifications.

The company, which has committed to becoming a net zero emitter by 2040, said the multi-fuel and ammonia ready vessels would each have a 9,100 car equivalent unit capacity.

"We are accelerating our decarbonisation efforts to meet our net zero emissions target by 2040 and are committed to build a more sustainable maritime industry," said chief executive Andreas Enger. "The advancement in propulsion technology and digital solutions will significantly strengthen our capabilities to combat climate change."

MOL and K Line to develop liquefied CO_2 carriers

JAPANESE shipping groups Mitsui OSK Lines and K Line have both unveiled separate initiatives to research and develop a vessel to transport liquefied carbon dioxide.

MOL said it has has teamed up with Japan CCS, a firm focusing on carbon sequestration since it was launched in 2008.

Japan CCS has been commissioned by the government's New Energy and Technology Development Organisation to complete a basic design for a large-scale liquefied CO_2 carrier.

Precious Shipping refinances six bulkers

PRECIOUS Shipping, a dry bulk operator, has secured a loan to refinance six dry bulk carriers from Crédit Agricole Corporate and Investment Bank.

The Thailand-based company said in a statement that the $38.4m facility had a term of five years.

Precious Shipping, which has been listed on the Stock Exchange of Thailand since 1993, has a modern fleet of 36 vessels ranging from handysizes to ultramaxes.

Wind power study for shipping enters next stage

MARITIME Research Institute Netherlands and the ABS are starting the second phase of a wind-assisted propulsion project for shipping.

The two-year WiSP2 Joint Industry Project will build on earlier research to find out how much fuel ships can save by using wind power systems.

WiSP2 was started by MARIN, in co-operation with ABS to investigate ways to overcome barriers to wind propulsion uptake.

Classified notices follow


Lloyd's List Intelligence