Lloyd's List

Half-year Outlook 2024

A special report

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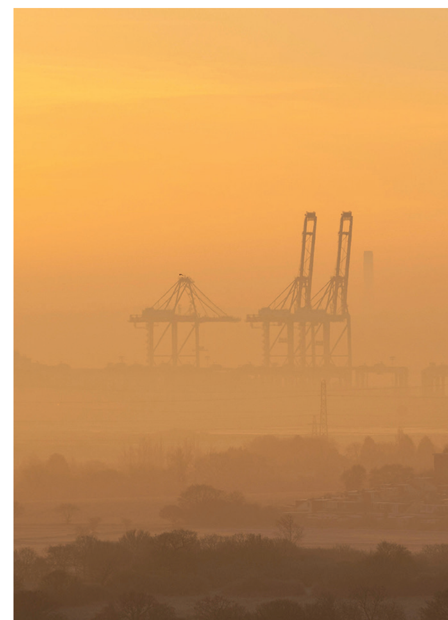
Half-year outlook

The growing orderbook and rising prices are not deterring cash-rich owners or hungry yards, as all core markets continue to perform strongly at the same time, while the global disruption fuelling record tonne-miles shows no sign of abating. But is it really different this time round?



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Unusually for shipping, nearly every single market is positive right now, with very few signs of an immediate end to the party in sight.

Short-term outlook is golden, but uncertainties loom large

The shipping market is being driven by a fear of missing out, but will the orders being placed today be profitable in the long term — and are they the right orders for tomorrow's markets? **Richard Meade** reports

Global disruption is good for business. The maritime sector is booming. Unusually for shipping, nearly every single market is positive right now, with very few signs of an immediate end to the party in sight.

In the box sector, successive disruptions are driving rates towards levels not seen since the Covid pandemic.

Lines are projecting triple-digit income increases, reflecting the time charter equivalent earnings that are now in the triple-digit thousands of dollars range.

A bifurcated market and record tonne-miles has seen tanker earnings exceed already high expectations, with analysts openly announcing a "golden era" for tanker takings.

Asset values for chemical tankers are approaching all-time highs, thanks to the same story playing out across most asset classes right now: years of underinvestment, held back by uncertainty.

The numbers are massive. The sentiment is reaching fever pitch. The market is — to quote one shell-shocked shipowner still recovering from the industry's recent Posidonia gathering — "absolutely bloody nuts".

In this febrile atmosphere, cash-rich owners preaching optimistic forecasts of sustained market fortunes have been beating a path to the shipyards' doors amid record high newbuilding prices.

The big names are all back in: Marinakis, Idan Ofer, Procopiou, Döhle, MSC, CMA CGM, Maersk... the list goes on.

The yards, meanwhile, desperate to cash in, are seeking to expand capacity.

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Yangzijiang Shipbuilding is rumoured to be planning a new dock. New Times Shipbuilding, one of China's largest privately owned yards, is awaiting government approval for similar plans.

Even South Korea's Hanwha is said to be considering a new floating dock order, while yards previously consigned to repairs are being looked at as possible expansion opportunities.

How much of this will materialise is not yet clear, but the market been struck by an acute case of FOMO (fear of missing out).

In the short term, all this makes sense.

Even an easing of tensions in the Middle East is not likely to bring about a quick cessation of the assaults that have, for some lines, absorbed 20% of capacity in the resulting disruption and rerouting.

Tanker analysts have been rapidly re-readjusting their market forecasts this week, based on modelling that assumes Red Sea disruption will continue into 2025 in the wake of the latest deadly attacks.

But the rush to order now amid constrained yard capacity comes at a cost, with more than just financial implications to worry about.

The current sky-high newbuilding prices beg the obvious question of whether owners can win in the long term.

Buying an 8,000 teu dual-fuelled boxship at $140m assumes earnings of more than $50,000 a day for 15 years. If you are buying very large crude carriers at $140m, you are making bets in excess of $60,000 a day.

Amid the excitement, there are those questioning how many people ever make money at these rates in the long term.

Newbuild prices are up 40% compared to pre-pandemic levels. This is not yet anywhere near the shirt-losing heights of the 2006-2008 ordering supercycle that preceded the financial crash, but high enough to make more conservative owners with a long enough memory, nervous.

There are enough people around this market who remember capesize bulkers being bought for $120m that even amid today's elevated prices can be bought for $70m.

The ill-fated phrase "this time it's different" has already been deployed and the numbers back that up.

The orderbook today is less than 50% of what it was in 2008: 290m dwt versus 660m dwt.

At least one-quarter of that orderbook was never completed, as shipowners cancelled orders following a consequent slump in shipping markets. The other factor the last time was that shipyards were being driven to bankruptcy.

Sipa US / Alamy Stock Photo

South Korea's Hanwha is said to be considering a new floating dock order.

> *In this febrile atmosphere, cash-rich owners preaching optimistic forecasts of sustained market fortunes have been beating a path to the shipyards' doors amid record high newbuilding prices... The yards, meanwhile, desperate to cash in, are seeking to expand capacity*

FOMO is fleeting, but the ships being ordered at pace today are going to be with the market for the next 20 years, which raises the other consequence of this race to order.

The current ordering boom has hit before there is any certainty over green fuel supply or regulation.

Despite an initial appetite from owners to ready themselves for the incoming supply of green methanol and ultimately ammonia choices, the current safer bet for many has been liquefied natural gas.

Even Maersk, the vanguard pioneer of green methanol, is now rumoured to be looking at LNG dual-fuelled newbuilds, having failed to secure the support it was anticipating from some stakeholders.

While there are perfectly good reasons behind a swing back towards the proven efficiency of LNG — not least the options for fuel blending and biofuel pathways — even the most eco-friendly owners concede such decisions are driven more by cost and pragmatism than any ideological environmental factors.

"It has nothing to do with the environment," commented one owner with several dual-fuelled orders in train.

"It's purely cost. It's going to be cheaper. And, as long as the EU continues to pump carbon costs up on conventional fuel while ignoring the methane slip from LNG, you're going to make things worse for the environment again, and put more money into the shipowners' pockets."

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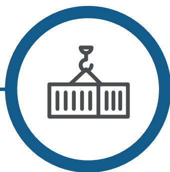

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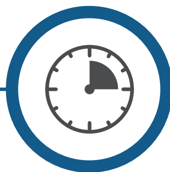

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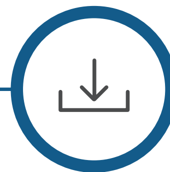

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A congestion problem also occurred in Asia, where vessels had to wait for a week to berth outside ports such as Singapore.

Generation [bo]X: tales of an accelerated cycle

The sector entered the year on a downcycle and looks likely to end it in the black, as congestion comes back to haunt, **James Baker** reports

Along with death and taxes, another certainty in life is container shipping's boom-and-bust cycle.

Historically, carriers go through a period of irrational exuberance when times are good, overorder vessels to take advantage of the high demand and freight rates — then spend the next few years rueing their mistakes and struggling to cover their cost of financing.

As recently as the end of last year, major carriers were warning that the downside of the cycle was well and truly with us.

After the record profitability driven by the Covid pandemic boom in box shipping, lines warned that 2024 would see the re-emergence of loss-making quarters, overcapacity and weak demand.

"Six months ago, we were looking at a 2024 that was a long walk in the desert," said Xeneta chief analyst Peter Sand. "Then along came the Red Sea [crisis]."

After the initial shock, the Red Sea crisis was considered to be different from the disruptions of the pandemic.

Freight rates shot up as container lines went through the process of rerouting their services around the Cape of Good Hope, adding between 20-30 days to an Asia-Europe round trip.

But by the end of February — and after getting through the annual demand surge ahead of the Chinese New Year — most carriers and analysts thought the worst was over.

Freight rates remained elevated but fell by more than one-fifth between the end of January and the beginning of April.

It appeared that the overcapacity in the market would serve its purpose and be absorbed into the longer schedules that would be required to take ships around the Cape of Good Hope.

And, as soon as those schedules fell into a regular weekly pattern, the only impact would be slightly longer lead times for goods ordered from Asia to reach Europe.

But then something happened.

Firstly, there was a spike in demand. Volume figures from Container Trades Statistics show that in April — the most recent month for which data is available — volumes were only 200,000 teu lower than their record high for April in 2021, at the peak of the pandemic surge.

That should not have mattered. More than 1m teu of capacity has been delivered into the market this year alone, which should have easily absorbed any additional cargo.

But that surge was matched by an increase in congestion at key ports around the world. Again, this was no worse than had been seen at the worst of the supply chain crisis in 2021-2022, but it proved to be the straw that broke the camel's back.

"We had exactly the right capacity to go around Africa at the start of the Red Sea crisis," said Vespucci Maritime chief executive Lars Jensen.

"Imagine if the carriers had not created overcapacity, we would have been in a world of hurt. But that meant we had zero excess capacity in the system. There is no way we can deal with any other crisis on top of this."

Red Sea calls

Previously, when carriers sailed via the Red Sea, they would use ultra large tonnage to make port calls en route, stopping in the Red Sea, the central and western Mediterranean before making their ultimate calls in northern Europe.

Now, however, those Red Sea and Mediterranean calls have stopped.

Instead, cargoes destined for the Red Sea and eastern Med are offloaded for transhipment in the western Mediterranean so the ships can speed back to Asia in an attempt to maintain schedules.

"That is part of what is overwhelming ports," Jensen said.

"As long as the Red Sea is driving the port congestion, there is no hope this is going to be solved either."

A similar problem occurred in Asia, where vessels had to wait for a week to berth outside ports such as Singapore.

The outcome of all this has been to push up freight rates.

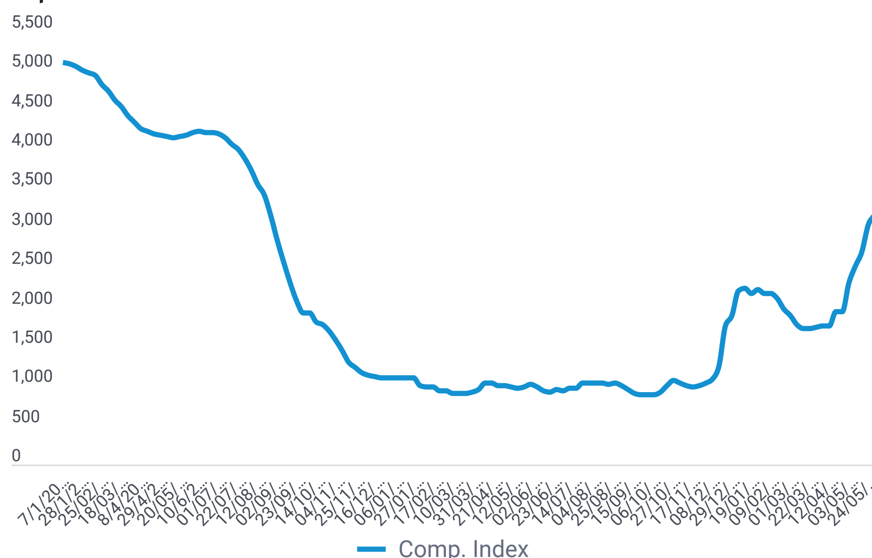
"Shippers saw the ugly days of the pandemic disruptions returning, so have decided to restock inventories to avoid running out of inventory," Sand said.

But doing so when capacity was already tight just made capacity tighter — and tight capacity means high rates.

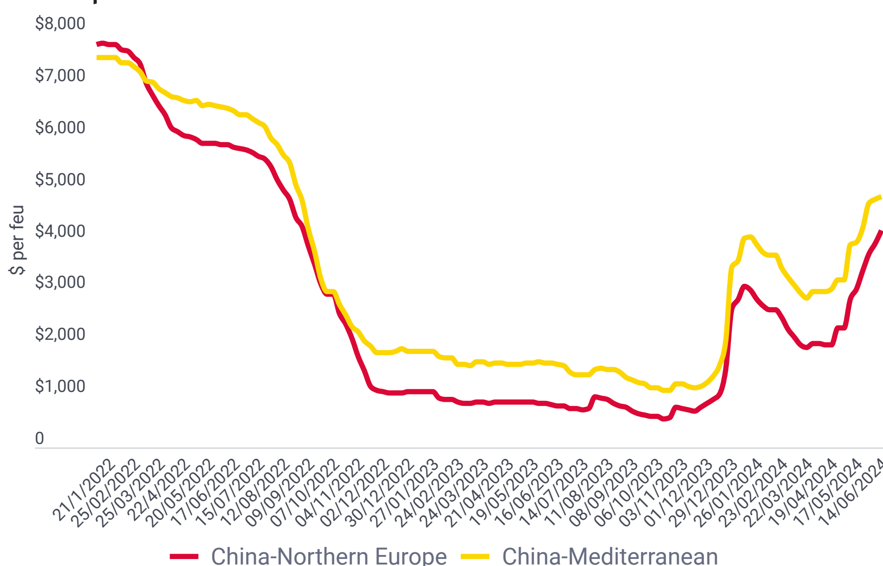
The outcome for carriers is the shortest downcycle in the sector's history.

Shanghai Containerised Freight Index January 2022–May 2024

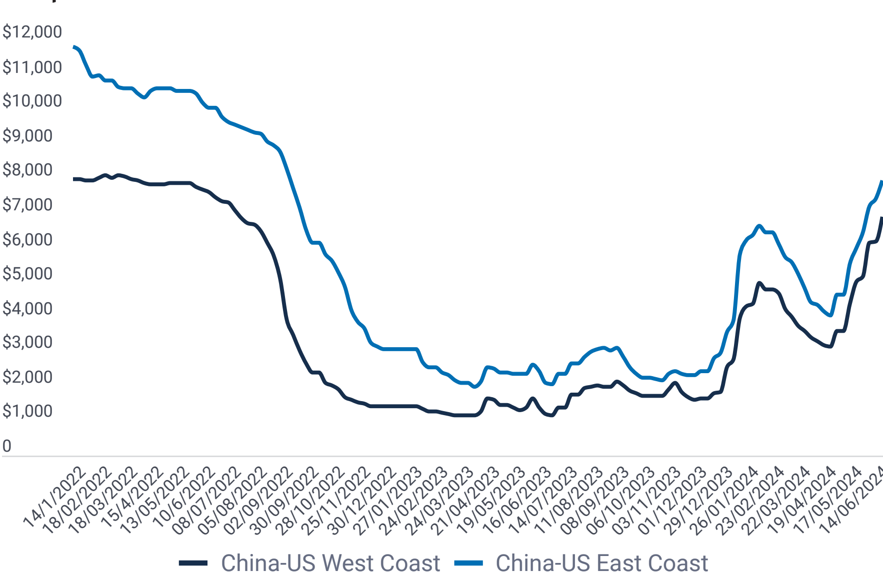
Comprehensive index



Asia-Europe



Transpacific



Note: Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange

Maersk, the second-largest carrier by deployed capacity, said at the beginning of the year that its full-year 2024 earnings before interest and tax was to be -$5bn to zero.

That is, it hoped to break even at best. By May, however, it estimated full-year ebit of -$2bn to zero.

But by June, even its worst-case scenario had risen to a positive $1bn ebit.

"On the back of continued strong container market demand and disruptions caused by the ongoing crisis in the Red Sea, Maersk now also sees signs of further congestion, especially in Asia and the Middle East, and additional increases in container freight rates," the carrier said.

"This development is gradually building up and is expected to contribute to a stronger financial performance in the second half of 2024."

But there are additional costs in both the fuel consumed and the charter hire of the additional vessels needed to provide capacity.

Containership charter rates have more than doubled across most size segments since December on the back of the capacity crunch. This has been good news for tonnage providers, many of whom were facing the end of long-term, high-cost charters from the pandemic era.

The last boom cycle was launched by the black swan event of the pandemic. This one has been launched by the black swan event of the Houthi attacks on shipping. Science fixed the first, but it will take politics to fix the second.

Where now?

At the moment, all bets are off. There is simply no way to know how long shipping will be rerouted around the Cape of Good Hope.

On the demand side, however, some guesses can be made. While there are arguments over whether or not the current boom reflects a genuine need to restock inventories, or is simply shipper fears of delays and rates getting worse, the economic situation in most developing markets does not indicate any great surge in demand for containerised goods. Europe's economies are pedestrian, at best — and even the US is only expected to grow by 2.5% this year. Hardly boom times.

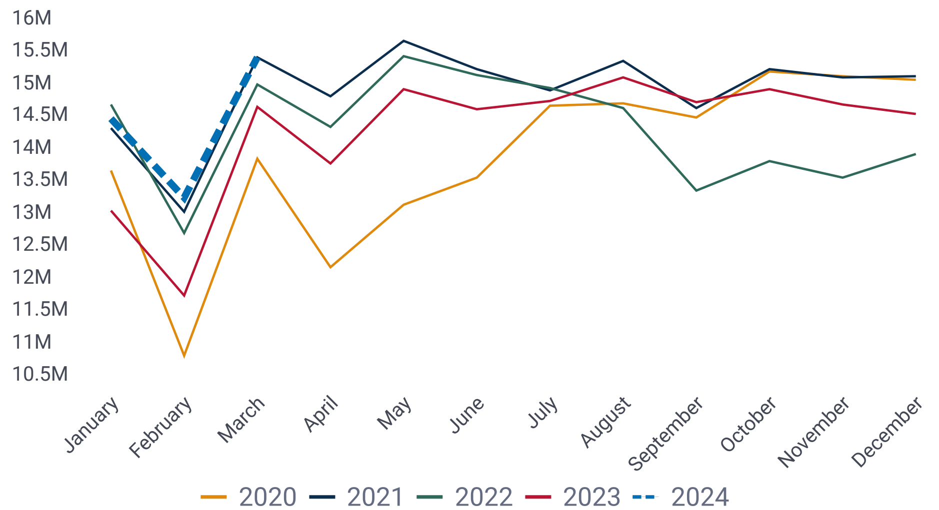
That means the demand could well tail off quite soon. In effect, we will have seen an early peak season, but nothing out of the ordinary. And, as soon as demand drops, so too will rates.

The other impact of falling demand will be to allow carriers to finally get their schedules back in order, and to ease pressure on the transhipment hubs that are delaying that now.

That, in turn, will open up capacity — which, along with the 2m teu still to be delivered this year, will go a long way to matching supply and demand.

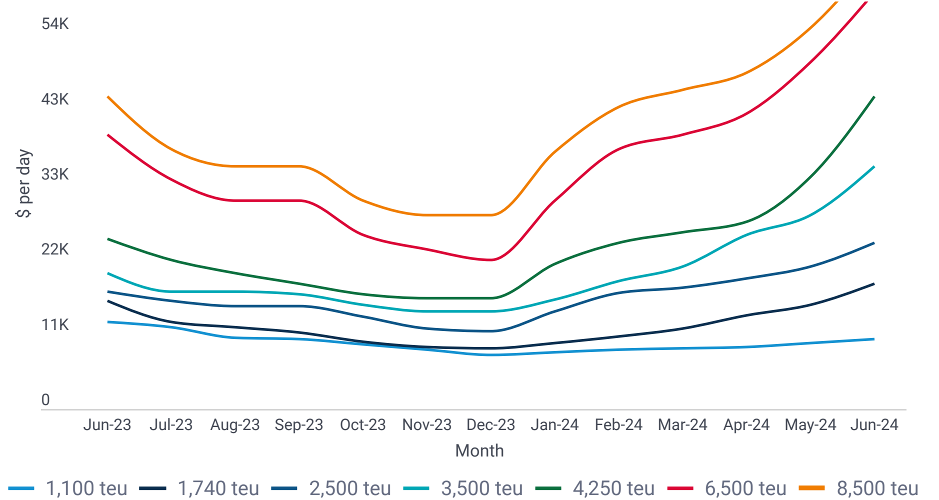
If that is the case — and if carriers lose the 'bailout' of the Red Sea — the shortest downcycle in the sector's history could be followed by the shortest boom.

Global container trade volumes 2020-2024



Source: Container Trades Statistics

Containership average one-year time charter rates



Source: Alphaliner, June 2024

> *As long as the Red Sea is driving the port congestion, there is no hope this is going to be solved*
>
> **Lars Jensen**
> Chief executive
> Vespucci Maritime

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Golden period: a bifurcated market and record tonne-miles are lengthening the long-anticipated recovery in the tanker market.

Good times roll into 2025

Geopolitical turmoil drives an extended golden period for tankers, even with peak oil on the horizon, newbuilding prices at a record high, and uncertainty over decarbonisation and future fuels, **Michelle Wiese Bockmann** reports

World peace is the biggest threat to the continued good health of the tanker market.

Western sanctions on Russia first recalibrated oil trades two years ago. Houthi attacks on merchant shipping in the Red Sea since December changed flows a second time.

The result is 11bn tonnes of oil a year sailing longer distances on around 6,500 tankers — supporting higher spot rates.

A bifurcated market and record tonne-miles are undoubtedly lengthening the long-anticipated recovery in the tanker market that began in early 2022.

The recovery relies on supply-side scenarios that could not have been foreseen four years ago, as the world's economy emerged from the Covid pandemic and recession.

Instead of being scrapped, tankers aged over 20 years have found second lives working in parallel, sanctioned Iranian, Venezuelan and Russia trades.

Asian shipyards, bloated with post-pandemic orders for containerships and gas carriers, are expected to deliver fewer than 25 crude tankers and 45 coated tankers in 2024, estimates from shipbroker Braemar show. That's the lowest in records going back at least 15 years.

This year remains a golden period for tankers, even with peak oil on the horizon, newbuilding prices at a record high, and uncertainty over decarbonisation and future fuels.

Only the cessation of Russia's war on Ukraine and Israel's war on Hamas in Gaza, which motivated Houthis to attack commercial shipping in the Red Sea, threaten this rosy outlook.

Even then, US sanctions — which have now been in place for five years on Iran and Venezuela — alongside Western sanctions imposed 18 months ago on Russia would take time to unwind, if or when they are lifted.

Consider this: exports from Venezuela, Iran and Russia averaged just under 6.8m bpd since July 2023, comprising 17% of all seaborne crude flows, according to data from London-based energy analytics provider, Vortexa.

This discrete trade is dominated by a so-called 'dark fleet'* of about 640 elderly, anonymously owned tankers operating largely outside Western jurisdictions, representing about 14.5% of the internationally trading fleet.

China is the destination for nearly three-quarters of Iranian oil exports, now at around 1.4m bpd. Sanctioned and heavily discounted crude from the Islamic republic, as well as Russia and Venezuela, comprise as much as one-fifth of all China's seaborne imports.

As well as providing a readymade market for older tonnage that has distorted values for secondhand tankers, the dark fleet has led to scrapping falling to record lows.

To evade sanctions, the transport of oil is inefficient and logistically challenging.

Cargoes are shipped on as many as four different tankers via a series of ship-to-ship transfers to obfuscate origin and destination.

On the other side of the sale and purchase market, the shortage of tanker newbuildings (although orders for 2027 delivery have recently escalated) has seen the resale market for slots also accelerate.

"China is the destination for nearly three-quarters of Iranian oil exports, now at around 1.4m bpd. Sanctioned and heavily discounted crude from the Islamic republic, as well as Russia and Venezuela, comprise as much as one-fifth of all China's seaborne imports"

So far, 175 tankers of more than 20,000 dwt have been ordered during the first five months of 2024, with most for delivery from 2027 onwards.

Mergers and acquisitions are among the few viable options to acquire modern tonnage.

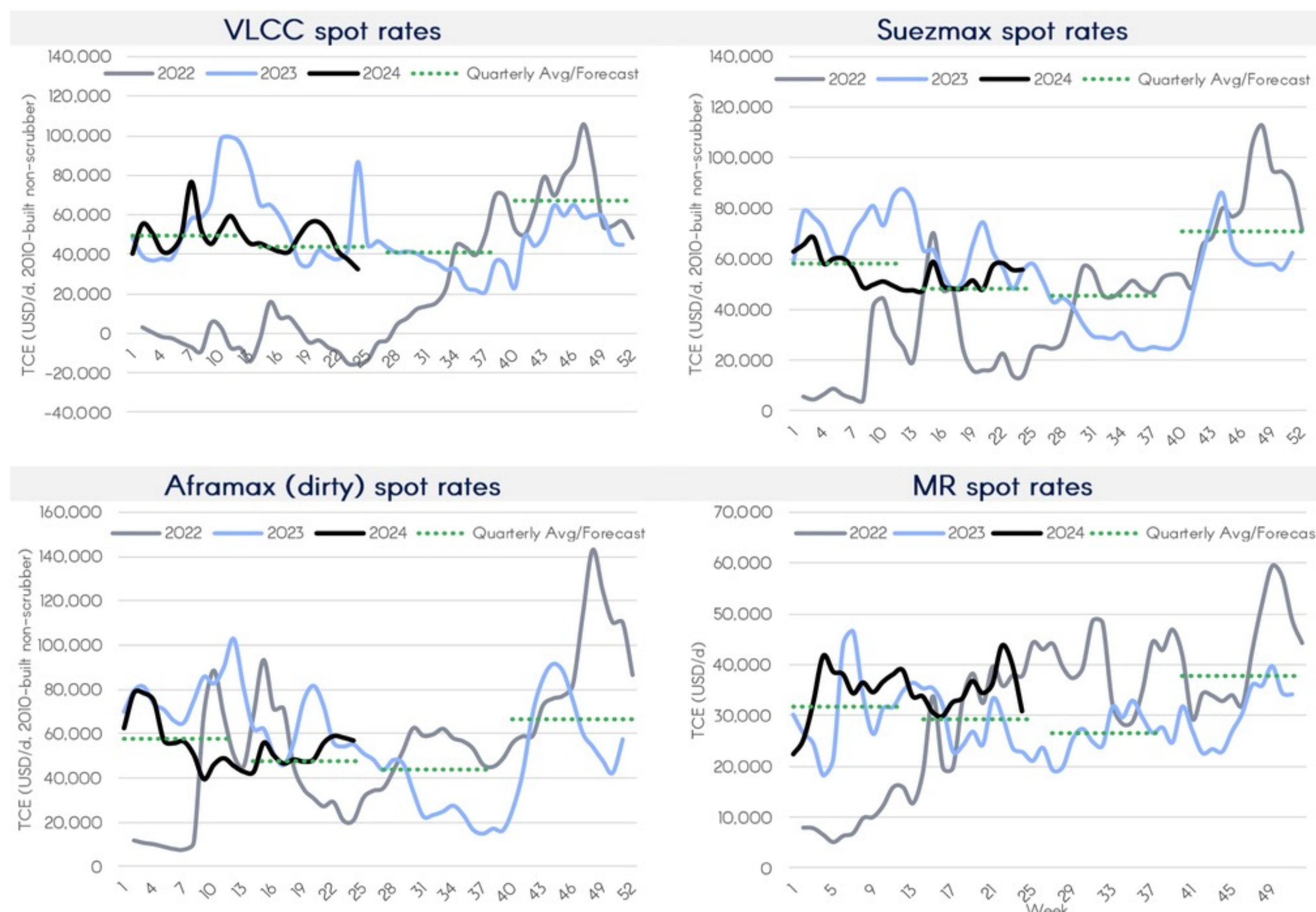
Adnoc Logistics and Supply's $1bn purchase of Navig8 announced in early June is the most recent iteration of this strategy.

Crude tanker transits through the Red Sea are down by 53% year on year, while product tanker transits are 49% lower, weekly data from Lloyd's List Intelligence shows.

Longer voyages as tankers divert around the Cape of Good Hope continue to alter crude flows.

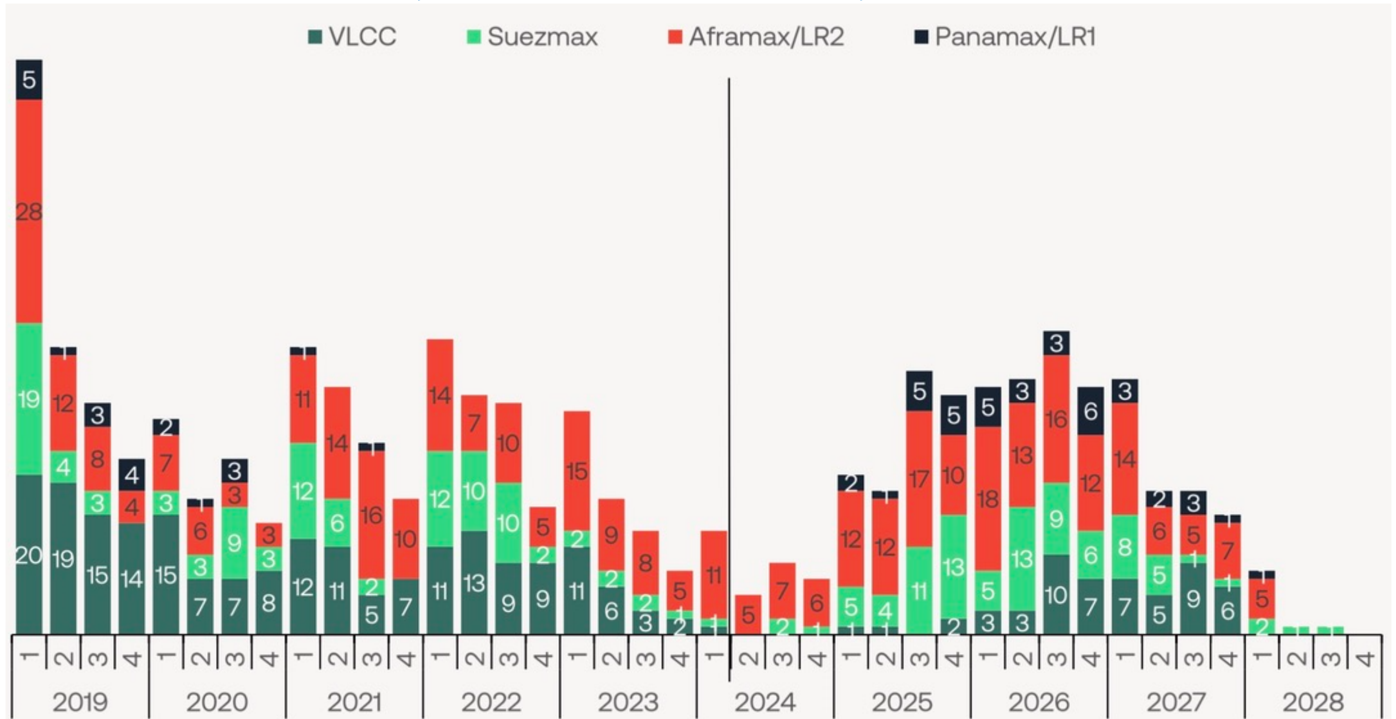
European refiners imported record volumes of US oil from the Gulf on aframax or suezmax tankers in past months, while volumes from Iraq have slowed on higher freight prices to circumvent the Red Sea.

Average tanker timecharter equivalent rates



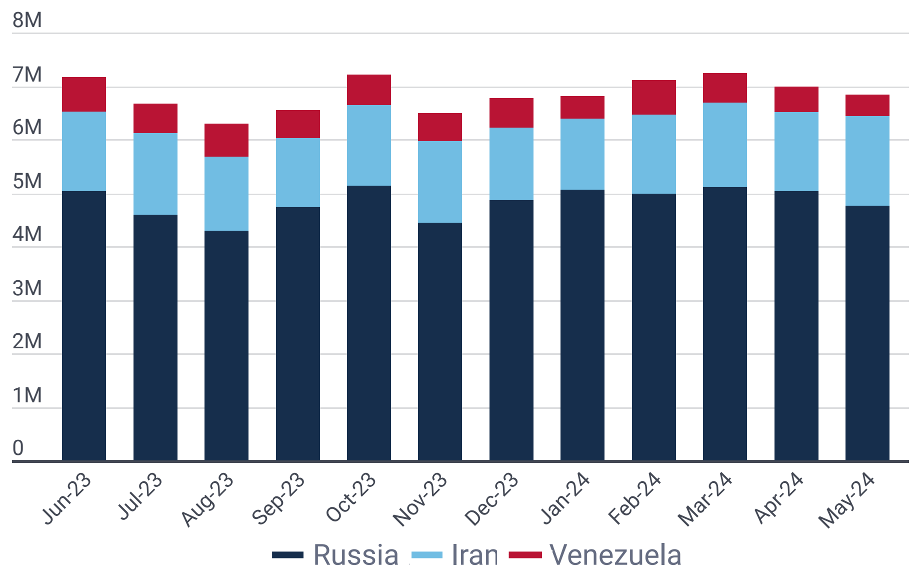
Source: Cleaves

Scheduled deliveries of crude-capable newbuildings (number of ships)



Source: Braemar

Seaborne crude exports (m bpd)



Source: Vortexa

Typically, slowing middle distillate demand in Europe — the largest regional importer of seaborne diesel and jet fuel — would translate to lower demand and freight rates for product tankers.

But sanctions on Russia, which previously supplied the EU27 and UK with 40% of imported diesel, resulted in more shipments from alternative exporters from the Middle East. These tankers now sail an additional 14 days to reach northeast Europe and the Mediterranean.

Geopolitics also offset extended crude production cuts from the Organisation of Petroleum Exporting Countries cartel and slowing oil demand growth from China. These were previously the two biggest drivers of freight costs.

For now, the latest peak oil demand estimate from the International Energy Agency is 2029.

Western economies — including those in Europe and North America — already face peak gasoline and diesel consumption, thanks to the uptake of electric vehicles.

Longer term, growth in oil supply is emerging from countries including Brazil, the US and Guyana, while demand growth is strongest in India, China and emerging economies.

For now, the most recent 12-month period fixtures for suezmaxes are seen at $42,500 daily, with three-year deals for aframaxes at the same level.

That is well above daily cash break-even levels for $35,299 and $30,284, respectively, based on calculations by Norwegian investment bank Cleaves for a five-year-old ship.

Shipbroker BRS assessed year-to-date average tanker earnings from very large crude carriers to medium range tankers as 25% higher year on year, largely thanks to the dark fleet, which has removed tankers from mainstream trades.

This raises the inevitable question: is this as good as it's ever going to get? Only the foolhardy would attempt to answer.

** Lloyd's List defines a tanker as part of the dark fleet if it is aged 15 years or over, anonymously owned and/or has a corporate structure designed to obfuscate beneficial ownership discovery, solely deployed in sanctioned oil trades, and engaged in one or more of the deceptive shipping practices outlined in US State Department guidance issued in May 2020. The figures exclude tankers tracked to government-controlled shipping entities such as Russia's Sovcomflot, or Iran's National Iranian Tanker Co, and those already sanctioned.*

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Dynagas

The 200,000 cu m Clean Vitality, the fifth in a series of 14 LNG carrier newbuildings for Dynagas, was delivered in March.

Challenging freight rate environment expected to prevail

Spot and period rates in the liquefied natural gas sector have remained subdued throughout most of 2024 so far, **Rob Willmington** reports

Spot and period rates in the liquefied natural gas sector are at their lowest level in four years as high storage volumes and limited new production have impacted demand for LNG carriers.

"For the remainder of 2024, the rate environment is likely to remain challenging and below 2023 and 2022 levels," said EA Gibson LNG market analyst Matt Coates.

"By how much remains to be seen, but it is likely they will be between 20%-30% lower than last year, barring any unexpected developments in the third and fourth quarters."

Both spot and period rates have remained subdued throughout most of 2024 so far, as the repositioning of ships between regions has resulted in position lists in the Atlantic and east of Suez not seeing a significant cleardown for much of the year.

"Position lists are keeping spot rates lower than we saw at this time last year," said Coates.

"On the period side, rates are also significantly lower than the same period last year and are trading at the bottom of their five-year range, especially for two-stroke and tri-fuel diesel electric tonnage."

However, Coates notes that one-year time charters of steam turbine units — which typically earn far lower rates than modern tonnage — have not seen the same level of weakness.

Since mid-May, rates surpassed the levels seen in May 2023, despite the negativity that high fuel consumption and high gas boil-off steam-powered ships face from an environmental perspective.

On the supply side, projects such as BP's delayed Tortue, West Africa project and New Fortress Energy's Altamira, Mexico project are due to start during 2024.

Additional import facilities in Europe, Brazil and China are also expected to come online this year.

The market is now gearing up ahead of winter stockbuilding, with Europe having stocks in excess of 70% presently, while levels in much of northern Asia are described as "comfortable".

"Europe appears to be in a good position right now in terms of meeting its overall gas demand through LNG imports, in addition to pipeline flows from suppliers such as Norway," said Coates.

Energy security and climate concerns continue to drive growth in the LNG sector, with new importers emerging recently in Southeast Asia, such as the Philippines and Vietnam.

Coates said the market is closely watching changes to the EU's stance towards Russian LNG.

Nevertheless, this could easily be replaced by US cargoes, while there appears little appetite for a full ban of Russian LNG in Europe.

While water levels at the Panama Canal appear to be improving, the volume of US cargoes heading through the canal to the Far East remains minimal.

The bulk of US Gulf LNG heading east is transiting the Cape of Good Hope and avoiding the Suez Canal/Red Sea region, given the ongoing security risks in the area.

Coates said this is helping to support tonne-mile demand and although intra-basin spot rates have risen in recent weeks for USG/NE Asia, these have not risen to the extent many had been anticipating, given current supply and demand balances in both Europe and Asia.

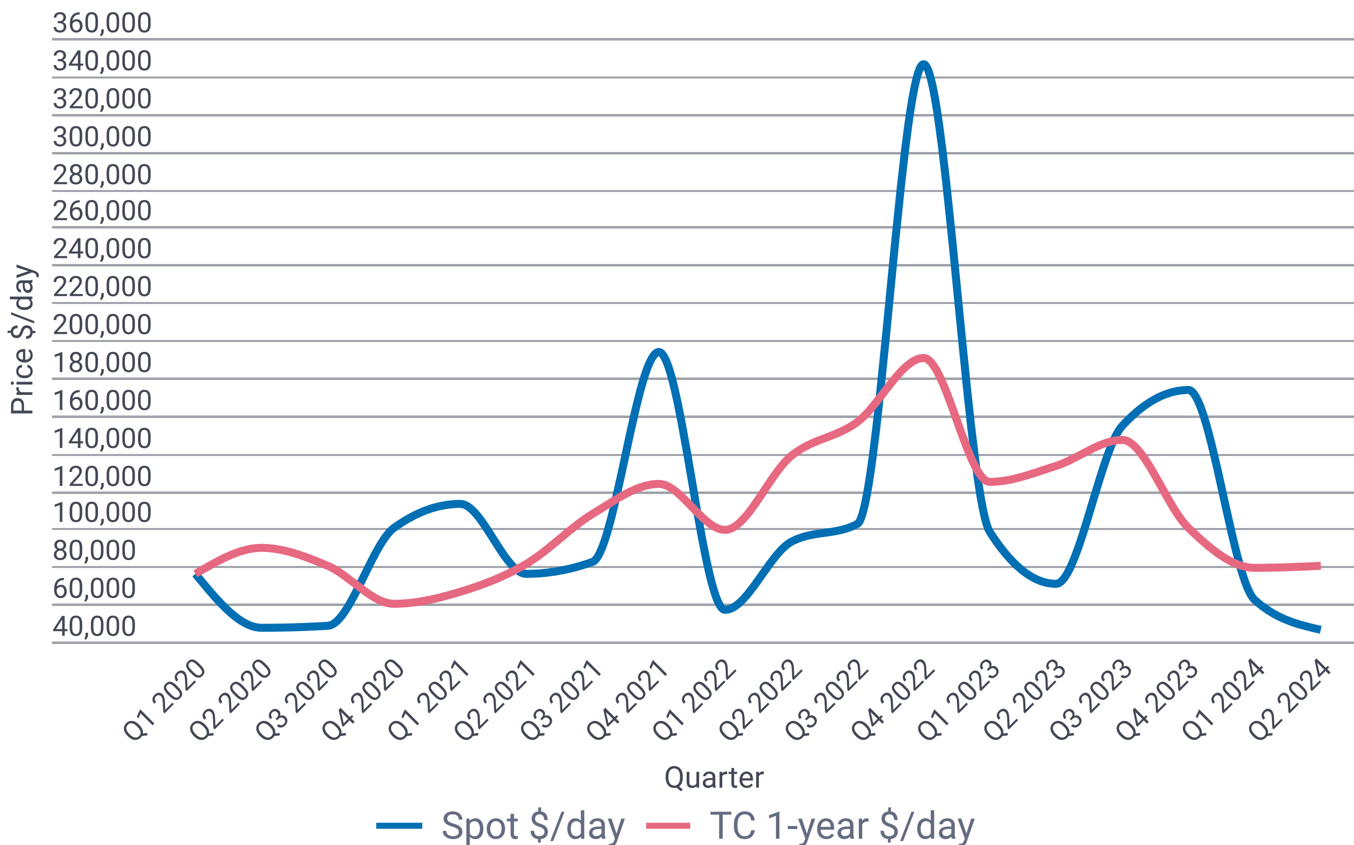
"This has created challenges for repositioning of tonnage between regions, keeping rates flat for most of the year," said Coates.

> *Europe appears to be in a good position right now in terms of meeting its overall gas demand through LNG imports, in addition to pipeline flows*
>
> **Matt Coates**
> LNG market analyst
> EA Gibson

"Meanwhile, we are expecting the next wave of LNG export projects to start coming online in the US from 2026-2028, which will provide a significant boost for LNG carrier demand, with the market likely to remain tight for this period, boosting rates."

The large orderbook for LNG carrier newbuildings has been boosted in 2024 by the Qatari newbuild programme for 270,000 cu m ships. More newbuilding orders are expected to be placed to service new US export projects.

LNG charter rates* since 2020



*160,000 cu m two-stroke engine vessel

Source: EA Gibson

With the exception of Qatar's new QC-class giants, the majority of the orderbook is provided by 174,000 cu m ships built to standard designs in China and South Korea. The exception is a series of 200,000 cu m capacity vessels ordered by Greece's Dynagas.

The fifth ship in the series — all built by HD Hyundai Heavy Industries — the LNG carrier *Clean Vitality* was delivered in March, with a further nine vessels due to be delivered between 2024 and 2026.

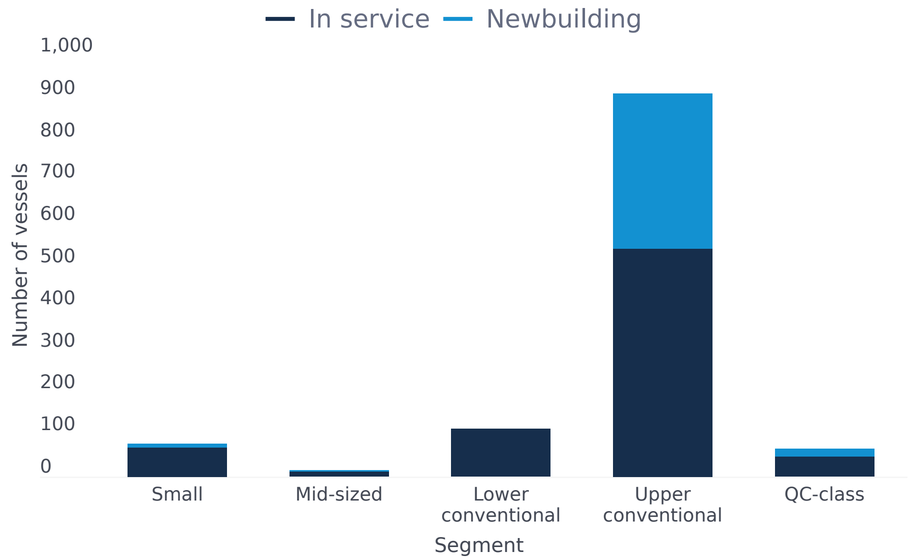
Newbuild activity to remain lower

Coates believes newbuild activity is expected to remain lower in 2024 and 2025, compared to the previous two years, due to high newbuilding pricing and a lack of available shipbuilding slots.

Despite the already large orderbook for new LNG carriers, he says concerns about overtonnaging are unfounded.

"We estimate that significant tonnage is still required to service the anticipated volumes coming onto the market in the second half of this decade — the tonnage supply and demand balance will remain tight, even should all anticipated orders materialise."

LNG fleet in service and on order



LNG carrier size segments:
Small: Up to 30,000 cu m
Mid-sized: 40,000 - 80,000 cu m
Lower conventional: 120,000 - 144,999 cu m
Upper conventional: 145,000 - 199,999 cu m
QC-class: Plus 200,000 cu m

Source: EA Gibson

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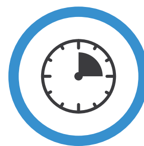
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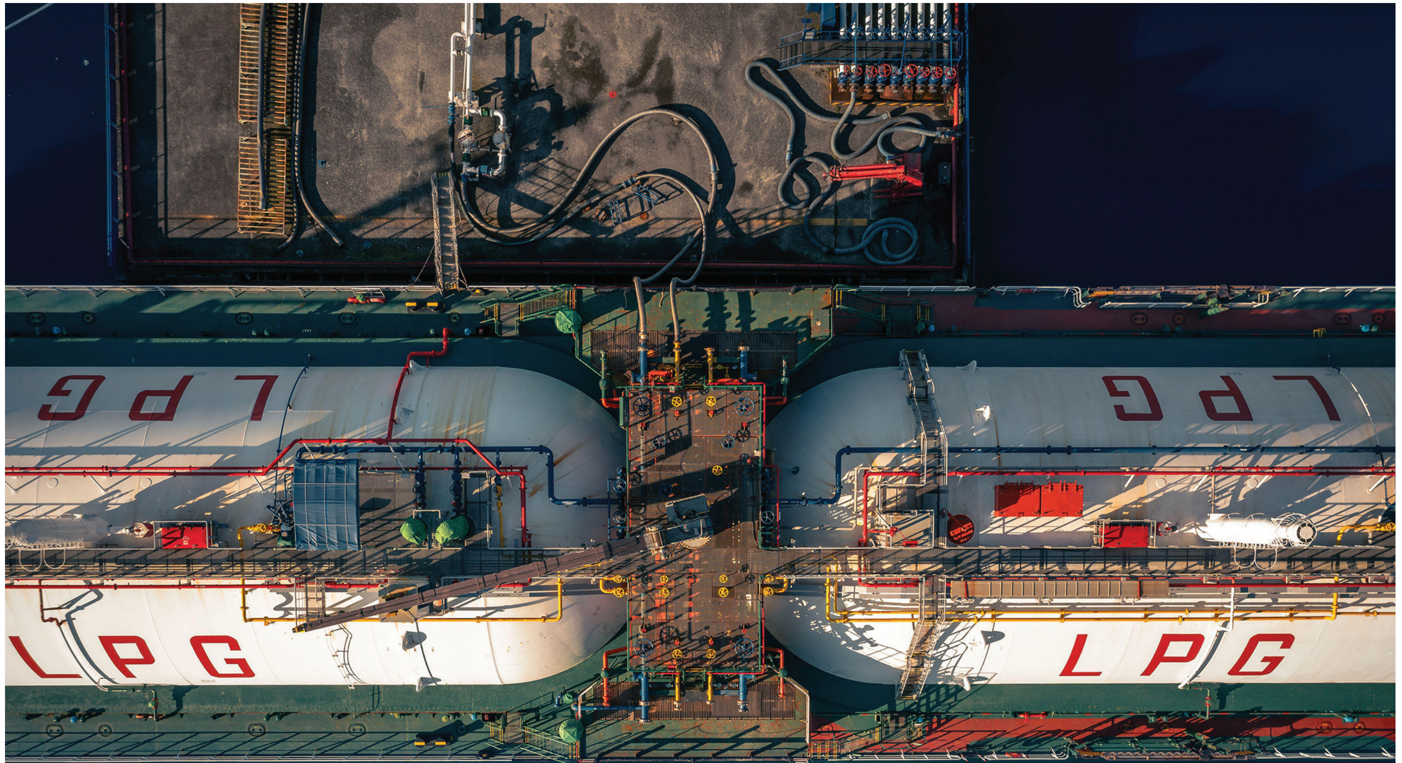

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Sailing towards summer stability?

A narrowing US-Asia propane price arbitrage in June has reversed some of the very large gas carrier freight rates' comeback.

Very large gas carrier rates are set to remain stable in the coming months, barring black swan events or dramatic US-Asia arbitrage changes, **Tomer Raanan** reports

Spot rates for very large gas carriers should remain stable in the coming months — barring any black swan events — as the sector's volatility cools during the summer months before picking up in the autumn.

"The market looks pretty stable; spot earnings have recovered from the seasonally characteristic rate drop," said Jamie Aldridge, European LPG/Freight analyst at Opis, a Dow Jones company.

"And if you look at the freight future agreements, the market looks pretty stable around the low- to mid-$60,000s/day for the remainder of the year," he told Lloyd's List.

VLGC freight rates crashed when the year began, as frosty weather swept through the US, increasing domestic propane prices and narrowing the US-Asia arbitrage — a key driver of VLGC tonne-mile demand.

Rates on the US Gulf to Asia route fell from $221 per tonne in early January to a low of $71.10 per tonne just a month later, according to Baltic Exchange assessments.

Earnings on that route fell from around $140,000 per day to about $17,000 per day over the same period.

Since then, VLGC earnings have staged a slow but steady comeback.

The narrowing of the US-Asia arbitrage in the second week of June, however, saw them shed some of those gains.

Jefferies assessed VLGC spot rates at $57,700 per day on June 13, down more than 10% on the previous day.

While earnings are down around 25% on this time last year, they are still well above breakeven levels, generating healthy profits for owners.

"Rates remain strong from a historical perspective, but have come under pressure recently on tighter propane price arbitrage," said Jefferies shipping analyst Omar Nokta.

"Spot rates continue to be very sensitive to the price differential between US propane and that of the international markets."

Last year was an exceptionally strong year for VLGCs, despite plenty of newbuildings joining the fleet.

The VLGC delivery schedule for 2024 is far tamer, and most vessels have already been delivered.

By mid-June, there were 15 VLGCs delivered so far this year, according to Clarksons' data, with six more slated for the remainder of 2024.

Limited potential upside

While fleet growth will be minimal in the coming months, volume growth is also expected to be subdued, with limited potential for additional cargoes out of both the US and Middle East — the two main liquefied petroleum gas export regions.

US propane exports are up 9% so far this year, according to data from the US Energy Information Administration, but prospects for further growth is restricted in the near term.

"Looking ahead, outflows from the US are expected to stay capped, with dock capacity maxed at around 1.8m barrels per day until planned waterfront expansions come online in 2025-2026," Aldridge said.

In the Middle East, the decision by Opec+ to continue with production cuts will hamper the volumes from the region, he added.

On the demand side, imports to China — the world's largest importer of LPG — started the year strong, but further upside could be constrained due to negative propane dehydrogenation margins.

China's imports were up 12% year on year in April, according to data from commodities and analytics provider Vortexa.

This was largely due to two new PDH plants coming online; the switching of cracker feedstock to LPG; and seasonal refinery maintenance, Vortexa's head of APAC analysis Serena Huang explained in a May report.

However, she cautioned that negative PDH margins will continue constraining plant utilisation in the coming months.

Still, Aldridge noted that additional PDH capacity is set to come online.

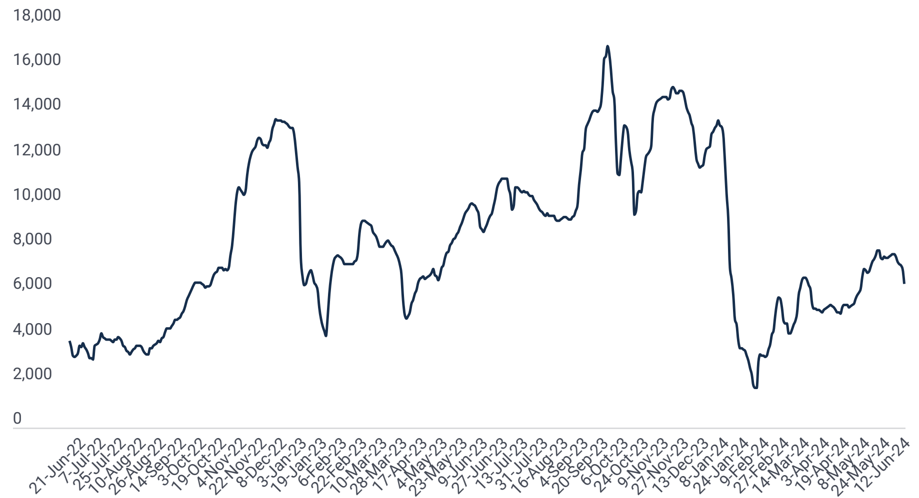
"Asian petrochemical demand will be a major determining factor in global LPG export flows in the year ahead," he said.

"Propane dehydrogenation margins in the East have been negative since 2021, but additional PDH capacity is poised to come online in the year ahead in China," added Aldridge.

Chinese PDH plant operating rates in the mainland were estimated to average 71.3% in May, up from 62.2% in April, while the projected PDH operating rates are 73.2% in June and 69.7% in July, according to data from Chemical Market Analytics by Opis. The increasing PDH run rates were mainly attributed to PDH units starting up after completing turnarounds, according to CMA.

BLPG index

VLGC rates have climbed back from their winter lull, but remain susceptible to the US-Asia propane price arbitrage



BLPG Index is an average of TCE rates on BLPG1, BLPG2, BLPG3, divided by 10 *Source: Baltic Exchange*

Canal uncertainty

The Panama Canal remains a key area of uncertainty for VLGCs, Aldridge said.

After its driest October on record, the Panama Canal Authority (ACP) planned to limit daily transits to 20 in January and 18 in February, but better-than-expected rainfall in November led it instead to raise levels to 24 in January, with more slots added in March.

The ACP announced in May that it would gradually increase the number of bookable transits and maximum allowable draughts. It has since hastened the timeline amid favourable weather conditions.

Congestion and inefficiencies in the waterway have historically boosted tonne-miles for VLGCs. The impact of improving conditions in the canal on gas carrier traffic is still playing out.

VLGC transits through the crucial waterway rose to a six-month high of 72 in April but fell to 64 in May, while containership transits rose.

> *Asian petrochemical demand will be a major determining factor in global LPG export flows in the year ahead*
>
> **Jamie Aldridge**
> European LPG/Freight analyst
> Opis

EU to replace Russian cargoes

In December, the EU announced its 12th sanctions package on Russia, which included a ban on imports of Russian LPG, starting in December 2024.

Russian imports comprise about 6% of the EU's LPG intake, totalling about €1bn ($1.1bn) per year, according to the European Commission.

"It's going to be significant for a number of players in that market, particularly Poland, where a number of logistical challenges lie ahead," Aldridge said.

EU countries imported about 56,500 tonnes of LPG during the first quarter of 2024, according to Vortexa data, down from 71,200 tonnes in the same period in 2023.

Meanwhile, EU imports from the US more than tripled, from 2.5m tonnes in 2021 to 8.5m tonnes in 2022, before falling slightly to 8.4m tonnes last year.

Alan Holding / Alamy Stock Photo

Panama Canal drought restrictions forced widespread rerouting of US grain cargoes around the Cape of Good Hope.

Panama upside likely to fall, while Guinea upside to rise

While the low orderbook is positive for bulker rates, Chinese demand remains uncertain, **Greg Miller** reports

Dry bulk vessel supply, measured in dwt on the water, is firmly in check, courtesy of unattractive financials for newbuildings at today's sky-high prices.

The bigger supply variable is effective supply, given diversions due to the Panama Canal drought and Red Sea attacks, longer sailing distances caused by the Russia-Ukraine war, and new cargo sourcing by Asian buyers in the Atlantic Basin.

Panama Canal effect could dissipate

Panama Canal drought restrictions forced widespread rerouting of US grain cargoes around the Cape of Good Hope, hiking voyage distance to Asia by up to 50%.

Bulker transits through the Panama Canal collapsed from 164 in October to 54 in January, the steepest fall of any vessel segment.

With water levels now rising, bulker transits of the Panama Canal are increasing, and a full recovery is predicted by year-end — a negative for panamax rates.

The return of panamaxes to the Panama Canal from the Cape of Good Hope route "will push up supply because tonne-miles will drop", said Andrey Telegin, a senior dry bulk analyst for price-reporting agency Argus, in an interview with Lloyd's List.

"I do not expect significantly higher rates for panamaxes, because tonne-miles will be down, [effective] supply will be higher, and demand doesn't look so great in the second half either."

On the demand front, he cited negative developments in multiple grain-producing regions this year.

Geopolitics: Ukraine and Red Sea

The two big geopolitical disruptions — the Russia-Ukraine war and the Houthi attacks in the Red Sea — are connected in the dry bulk sector, because virtually all remaining bulker traffic through the Red Sea is carrying Russian or Ukrainian cargoes from the Black Sea or returning on the ballast leg.

Bulkers in these trades traverse two war zones, earning premiums for the double risk. As in sanctioned tanker trades, this creates profit opportunities for older tonnage that would otherwise be scrapped.

"When you're going into risky waters, you will probably send overage vessels," said Telegin.

"The age of vessels calling in Russian coal terminals has increased hugely since the war. Shipowners are buying overage panamaxes and capesizes just to call in Russian and Ukrainian ports."

Meanwhile, Europe's ban on Russian coal following the invasion of Ukraine has led to more tonne-mile demand, due to longer voyages, with more Russian coal headed to India, China and elsewhere in Asia.

"But Europe had already been phasing out coal before the war, so this process was already under way," noted Telegin.

"Long before the war, we had already seen significant volumes of Russian coal heading to China. Because of the war, Europe phased out Russian coal faster than expected."

Looking at how reversals of the various disruptions could affect dry bulk, the changing situation in the Panama Canal appears more significant to rates than either the Ukraine-Russia war ending or the Red Sea reopening.

The largest dry bulk impact from the war in Ukraine has been on Russian coal and Ukrainian grain, but the Russian coal rerouting was happening anyway (and will persist in peacetime), and Ukrainian grain has already recovered after the initial drop.

In the case of an Israel-Hamas ceasefire and cessation of Houthi attacks in the Red Sea, dry bulk faces much less tonne-mile fallout than other sectors such as container shipping and long range product tankers.

Only 7% of global dry bulk trade in 2023 traversed the Red Sea prior to diversions, according to ship brokerage Braemar (Clarksons Securities put it even lower, at 5%), and the majority of dry bulk cargo transiting prior to diversions was Black Sea grain and Russian coal — flows that have persisted despite Houthi attacks.

Guinea's rise a plus for capesizes

Dry bulk is also seeing major changes in trade patterns (and average voyage distance) due to new cargo supply, particularly for capesizes loading bauxite in Guinea — and, starting next year, iron ore in Guinea.

Capesize rates have significantly outperformed panamax and supramax rates over the past nine months, after underperforming previously.

Capesize rates in 1Q24 were the highest for the traditionally weak first quarter in 14 years, driven by dry weather in Brazil that allowed stronger-than-usual iron ore exports, together with bauxite exports from Guinea to China.

According to ship brokerage BRS, Guinea shipped 36.1m tonnes of bauxite during the first four months of this year, with exports "expected to experience several years of rapid growth before reaching a plateau".

Prospects for Atlantic capesize demand look even more promising going forward, given the start-up of the Simandou iron ore project in Guinea next year.

What used to be more of a Brazil story "is becoming more of a Brazil-Guinea story", said Telegin.

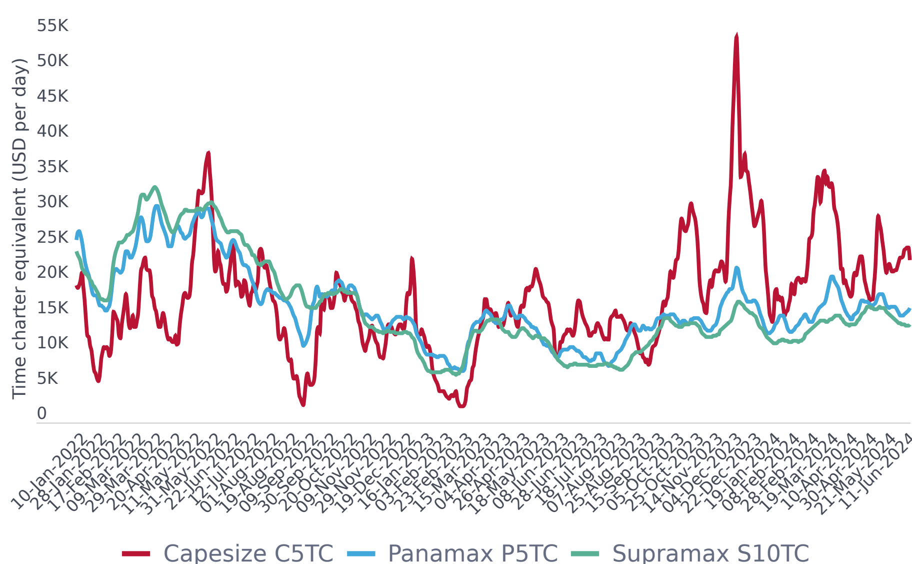
"When cargoes begin from Simandou, that volume will fuel the Atlantic capesize market even more."

Clarksons Securities analyst Frode Mørkedal estimated that if the two Simandou iron ore mines reach full capacity in 2028, "the project has the potential to tie up 170 capesizes annually".

And what happens in the Atlantic impacts the Pacific. "The two basins are pretty connected," said Telegin.

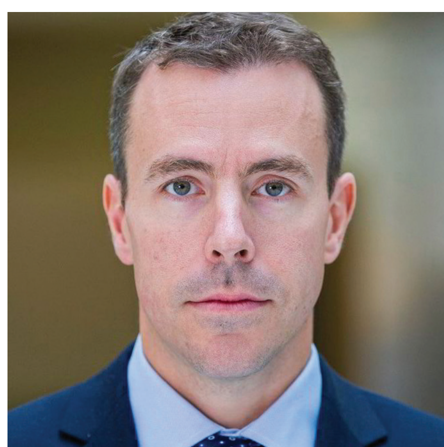
"In the first quarter, when rates in the Pacific were seasonally low, a lot of shipowners decided to move to the Atlantic to find cargoes, and Pacific rates jumped almost to the point where charterers started to think about switching to panamaxes for Western Australia.

Dry bulk freight rates: January 2022-June 2024



Source: Baltic Exchange

> *The [Simandou iron ore mines] project has the potential to tie up 170 capesizes annually*
>
> **Frode Mørkedal**
> Analyst
> Clarksons Securities


Clarksons

"The Pacific market is hugely dependent on what's going on in the Atlantic — and, of course, on the Chinese economy," said Telegin, who noted that of the 81m tonnes of iron ore exported by Australia in May, 68m tonnes went to China.

Headwinds to Chinese demand

The problem with Chinese demand is that it is "not what it used to be when it comes to commodities", said Breakwave Advisors, which oversees the BDRY dry bulk exchange-traded fund.

"The argument of peak mass construction in China seems to be gaining traction, as the historical inventory cycles that drove prices seem to be out of synch, and underlying demand has little momentum, irrespective of stimulus or government measures.

"The steel export market is strong because of domestic weakness, but cannot sustain the historical growth rates by itself, let alone the political pressure from flooding the global markets with cheap steel.

"The period of massive construction might be over — and, given the relatively high inventories and elevated iron ore import run rates, it will take some time before iron ore fundamentals return to a more favourable balance."

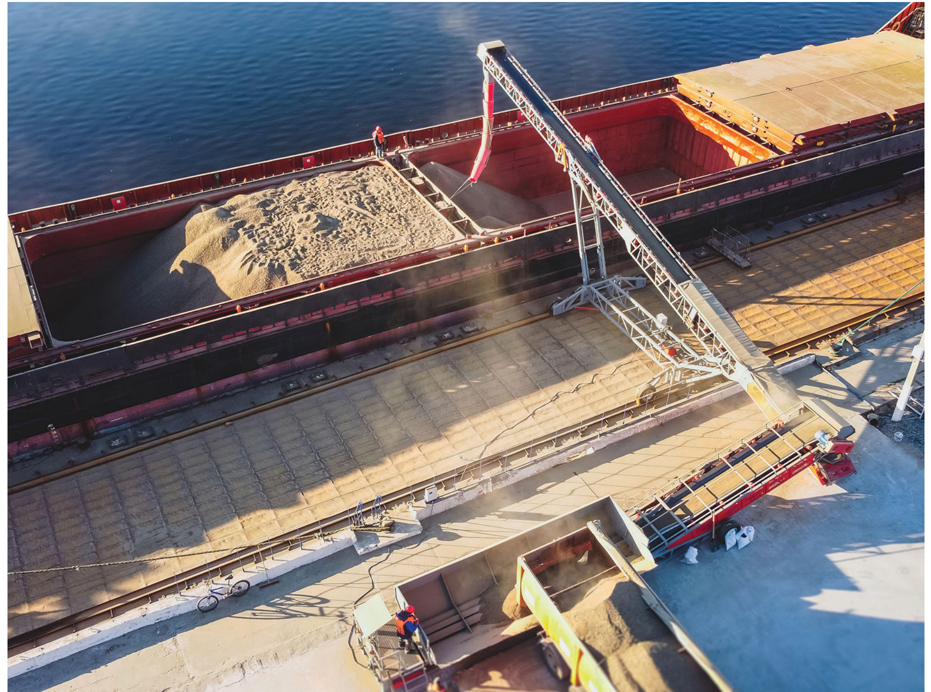
In a report on May 29, Braemar said: "Measures to support the real estate market have yet to deliver substantial improvement.

"There has been little upward move in Chinese steel prices to suggest a firm shift in market fundamentals.

"Prices of rebar, a construction steel, may have edged higher in May, but still lag February's levels. Steel-mill margins have been squeezed."

With no imminent demand driver in China, recent forward freight agreement moves imply some pessimism on second-half rates.

> *The Pacific market is hugely dependent on what's going on in the Atlantic — and, of course, on the Chinese economy*
>
> **Andrey Telegin**
> Senior dry bulk analyst
> Argus



Evgeniy Alyoshin / Alamy Stock Photo

The largest dry bulk impact from the war in Ukraine has been on Russian coal and Ukrainian grain, but the latter has already recovered after the initial drop.

"In the past few days, the futures curve has inverted and now sits below spot, demonstrating some scepticism among traders as it relates the progression of rates for the first time in a while," said Breakwave on June 11.

Owners focus on secondhand deals

On the supply side of the equation, dry bulk newbuilding activity remains depressed amid very high yard pricing.

Clarksons Securities calculates a time-charter equivalent rate that is an acceptable "hurdle rate" to make investors comfortable with a newbuilding investment — one that provides an 11.5% unlevered return, which, depending on leverage, is equivalent to a roughly 15% return on equity.

As of June 11, Clarksons Securities put the price of a newbuilding capesize at $76m, equating to a hurdle rate of $33,000 per day — double the trailing 10-year average of capesize rates.

Argus Media

The hurdle rate for panamaxes was 48% higher than the 10-year rate average. For supramaxes, it was 54% higher.

It is no surprise that bulkers orders are low with numbers like that. The capesize orderbook-to-fleet ratio is at just 6.1%, with the panamax ratio at 12.6%, according to Clarksons Securities.

Instead, most of the action has been in the sale and purchase market.

According to a report by Xclusive Shipbrokers on June 3, there were 386 secondhand bulker transactions during the first five months of 2024 — significantly higher than the 212 transactions for secondhand tankers.

Greek buyers were the most active, with 89 bulker purchases, compared to 75 Chinese purchases. There were 75 bulker sales by Greek owners, compared to 48 Chinese sales.

Greek buyers increased bulker purchasing by $450m or 60% year on year, while Greek bulker sales proceeds rose by $350m or 23% year on year.

With newbuilding prices so steep, bulker owners are using the S&P market to renew fleets, selling older ships and buying newer ones.

Newbuilding prices are widely expected to remain elevated for the foreseeable future, so the outsized emphasis on the S&P market should continue, keeping dry bulk fleet growth constrained.

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International Maritime Organization

The next meeting of the IMO's Marine Environment Protection Committee will be held at the end of September.

IMO carbon price negotiations to set the scene

Member states must make progress on mid-term measures, including proposals for a green shipping levy and a global marine fuel standard, **Enes Tunagur** reports

The International Maritime Organization will be on top of shipping's regulatory agenda during the second half of 2024, as its member states will try to inch closer to an agreement over a greenhouse gas pricing mechanism and a fuel standard.

The IMO's Marine Environment Protection Committee meeting at the end of September could make or break key negotiations taking place at the UN agency over emissions-reduction measures to put the shipping industry on the right path to hit net-zero targets in 2050.

IMO member states will try to reach consensus on the so-called mid-term measures at MEPC82 between September 30 and October 4, as this will be the last MEPC meeting before states need to approve measures at MEPC83 in Spring 2025.

The IMO agreed to adopt mid-term measures at an extraordinary MEPC meeting in Autumn 2025.

In previous discussions on the type of the greenhouse gas pricing mechanism, two camps emerged among member states, with China, Brazil and South Africa, among others, firmly coming out against a green levy that is backed by some Pacific Islands and European states.

Some poorer countries have been vocally against a global IMO levy, arguing that a tax on shipping would hurt their economies more than rich states.

A group of countries, including China, Brazil and Norway, proposed a technical measure along with a flexibility mechanism, arguing that a separate economic measure was not needed.

Certain states held talks on the sidelines of this June's UN Climate Meetings in Germany to find convergence on the economic measure, although it was not clear whether they were able to move the two camps closer.

Delegates will carefully analyse the findings from the IMO's Comprehensive Impact Assessment that aims to predict the potential impact of the proposed economic measures on the global shipping fleet and respective member state economies.

The impact assessment report will be submitted to the IMO before MEPC82.

There is widespread agreement among most member states to adopt a global fuel standard as the technical mid-term measure.

The EU-backed fuel standard is the frontrunner between different proposals, raising expectations that the IMO will adopt a global version of the FuelEU Maritime legislation.

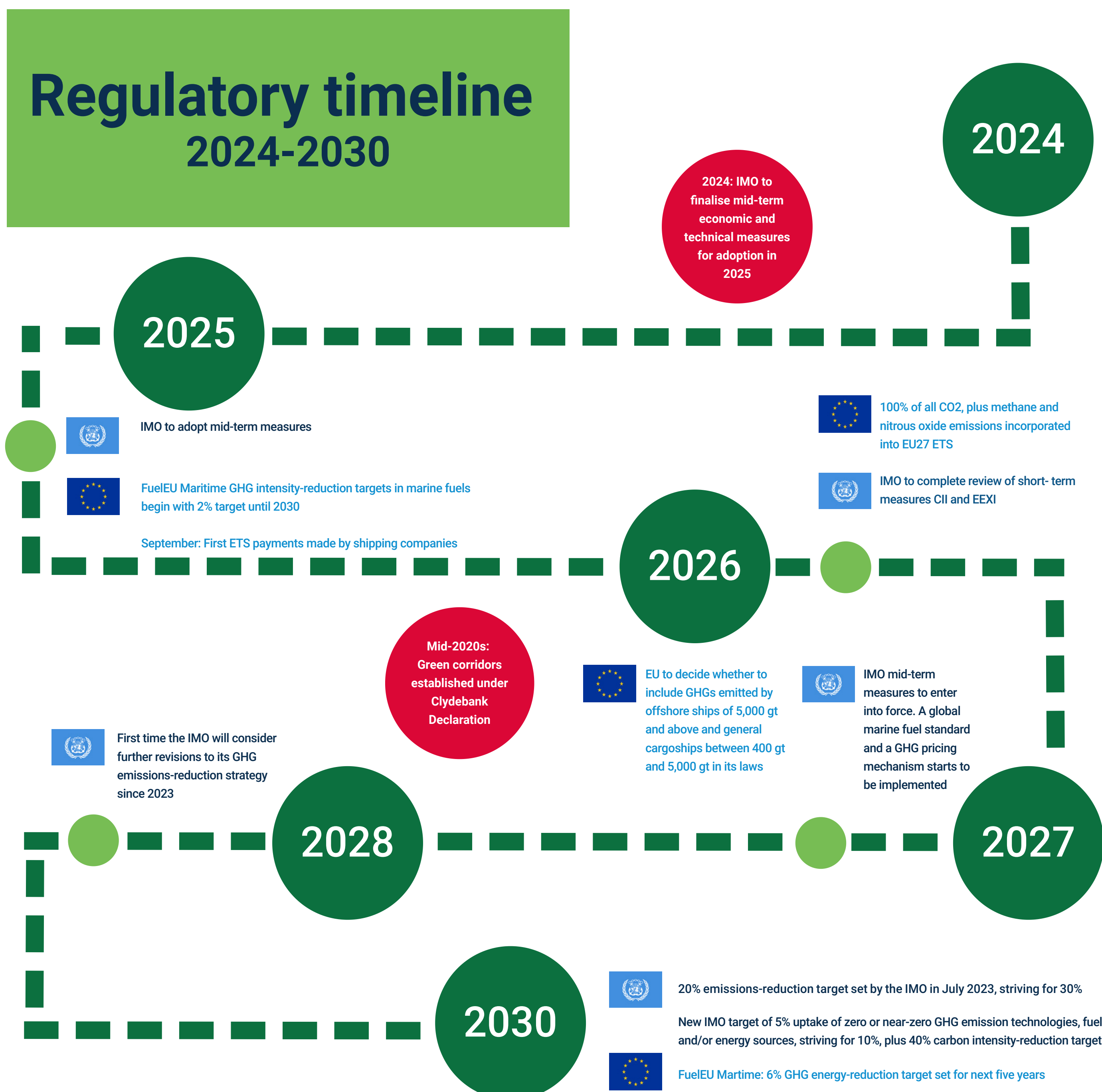
Compliance strategies

Shipping companies will be rushing to prepare their compliance strategies with FuelEU Maritime during the second half of this year, as they must submit official monitoring plans to their verifiers by September.

Biofuel-blended bunkering and pooling will be the primary compliance methods, while a significant number of vessels will likely opt to pay the penalty if other methods prove more expensive.

In the US, the 2024 election result may have serious repercussions for the nation's plans to become a hub for green hydrogen and e-fuel producers, as key elements of the Inflation Reduction Act could risk being overturned if Donald Trump wins the election.

The spending package, in its current form, offers the most generous subsidies for green hydrogen and e-fuels such as green ammonia and methanol.



Maersk

Alternative-fuel vessels, such as the methanol dual-fuel containership Ane Maersk, are adding complexity to shipbuilding production.

Newbuilding prices edge up but no return to 2000s levels

Prices for new ships look cheap when compared to the last newbuilding ordering supercycle between 2006 and 2008, **Rob Willmington** reports

Orders for new merchant vessels gathered pace during the first half of 2024, pushed along by the dry cargo and tanker sectors, where business has picked up amid a period of low orderbooks for both sectors.

Nevertheless, despite talk of a new shipbuilding supercycle, most shipbuilders appear unable to operate without government support.

Meanwhile, the sector faces significant challenges, including a labour shortage and a strong US dollar, during a period of strong demand for new ships as the industry gradually switches to alternative-fuel newbuildings.

"Shipbuilding is extremely labour-intensive and attracting a labour force has been a major challenge, while labour costs have become inflated," BRS senior analyst Tamara Apostolou told Lloyd's List.

Major shipyards in Asia, particularly in South Korea, have been importing labour from nations such as Thailand and the Philippines, according to BRS — albeit with mixed success, due to language barriers and the resentment of long-serving employees on foreign recruitment.

"Local currencies depreciation in major shipbuilding nations is another challenge, increasing imported inflation in raw materials and pressuring margins," said Apostolou.

She also noted that shipyard capacity has not increased significantly to meet demand. In turn, this could lead to increased delivery slippage, without a rise in production efficiency measures.

More complex

This comes when ships are becoming more complex following the adoption of numerous fuel-reduction measures and more demand for alternative-fuel vessel designs.

Newbuilding contracts for crude oil and product tankers have provided the lion's share of orders so far in 2024.

Some 35% of all orders placed, in ship number terms, were provided by the tanker sector, according to data tracked by Lloyd's List.

Apostolou said looking forward into the second half of this year, ordering activity is expected to stem from vessel sectors where the forward freight earnings signal is high.

"The sector with the best growth potential at this point seems to be tankers, where period earnings levels are more convincing for newbuilding investment, with long-term charters also becoming more liquid," she said.

"However, BRS assesses the availability for newbuilding slots before the second half of 2028 is limited, and any earlier berths will be marketed at premium prices."

This suggests that further demand could come from smaller ships operating in more niche vessel segments where newbuilding investment has been limited in the past few years.

"BRS sees the case for ordering activity to potentially concentrate in future-proof projects in niche markets, such as dual-fuel feeder containerships and chemical tankers, where there is also more potential for shipbuilding capacity to increase in the short term."

While newbuilding prices have risen by an average of 40% since pre-pandemic levels, with the exception of the liquefied natural gas sector, pricing has yet to reach the dizzy heights of the 2006-2008 ordering supercycle (see graph, right).

During this period, capesize bulk carrier newbuilding pricing hit a peak of $120m. Conventional fuel capesizes can be ordered today for around $70m.

BRS highlights that top-tier Japanese and South Korean yards have been leading on value over volume, with South Korea still dominating the most capital-intensive LNG sector.

Despite inroads in the LNG segment, Chinese shipyards have attracted higher volumes from traditional shipping sectors of relatively lower value.

Apostolou says prices have not risen to match the previous supercycle's highs, despite shipyard consolidation over the past decade and a surge in new orders over the past three years.

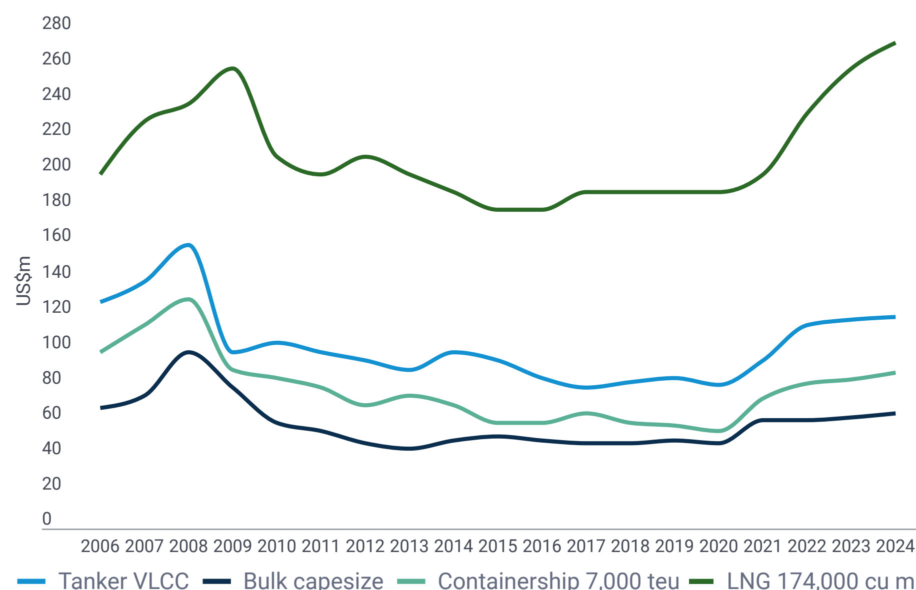
"Contracting activity across shipping segments compared to deliveries is currently much lower compared to between 2006 and 2008. World fleet contracting activity in dwt terms back in 2006-2008 was, on average, double that of vessel deliveries, with 2007 marking a record high of three times delivery levels."

She argues that capacity constraints on shipbuilding were higher in the previous supercycle, due to overwhelmingly high levels of new orders compared to shipyard productivity, driven primarily by bulk carriers.

Shipbuilding production since 2006*

*Note: *includes vessels of 10,000 dwt and above* *Source: Lloyd's List/Lloyd's List Intelligence*

Newbuilding pricing since 2006



Source: Lloyd's List/Shipbrokers

Today, global contracting levels across sectors are estimated at 1.5 times more than shipbuilder deliveries, and this may be a fundamental reason why shipyards have less room to raise newbuilding prices.

Furthermore, second-tier Chinese shipyards are attracting more market share, as top-tier shipyards have full orderbooks stretched out to at least 2027. Second-tier yards are pricing competitively, especially for medium range tankers.

This segment was traditionally dominated by South Korean yards. The emergence of second-tier shipyards in tanker construction is also keeping newbuilding prices from surging further.

> *"BRS assesses the availability for newbuilding slots before the second half of 2028 is limited, and any earlier berths will be marketed at premium prices"*
>
> **Tamara Apostolou**
> Senior analyst
> BRS

Horizon International Images / Alamy Stock Photo

The South Korean government has announced a number of financial support packages for its shipbuilding industry.

"As most recent orders are attracted to Chinese yards with a lower cost base, the impact on top-tier newbuilding contract prices could be less pronounced in the medium term, as the former gradually cover the gap to meet top-tier price levels," said Apostolou.

Historically high levels of newbuilding deliveries following the previous ordering supercycle means there is a large pool of secondhand vessels available for shipowners that might have previously ordered newbuildings.

"The secondhand market has offered shipowners the opportunity to immediately capitalise on high earnings in certain sectors," said Apostolou.

She added that there would need to be either much higher newbuilding ordering levels for prices to approach previous supercycle highs, or dual-fuel vessels increasing their share of the orderbook.

"In the latter development, the move to more expensive dual-fuel newbuildings would see the newbuilding price curve move structurally higher."

Meanwhile, the US government and the European Union have become increasingly concerned about China's dominant share of shipbuilding.

Apostolou believes that investigations into China's shipbuilding practices by the US will take some time before any potential action is taken.

"China's competitive advantage in this industry will be hard to erode with potential protectionist policies, such as the imposition of tariffs — at least in the short term — and would trigger inflationary pressures to trade if it took place.

"Therefore, we believe that probabilities for immediate action to be taken are low."

At the same time, the South Korean government has announced a number of financial support packages for its shipbuilding industry.

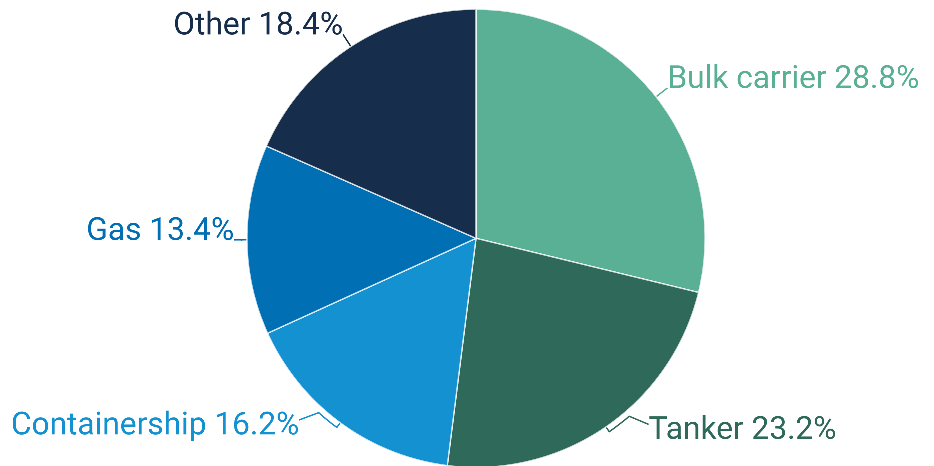
On June 18, it confirmed $10.8bn in funding to cover refund guarantees over the next four years, in efforts to maintain South Korea's place as the world's second-largest shipbuilding nation.

Given the increasing risk of delivery delays due to labour shortages and other pressures on shipbuilding production, such a measure could come at a high cost to South Korean taxpayers.

Nevertheless, it indicates the level of support that South Korea's government is willing to provide to one of its most strategic industries.

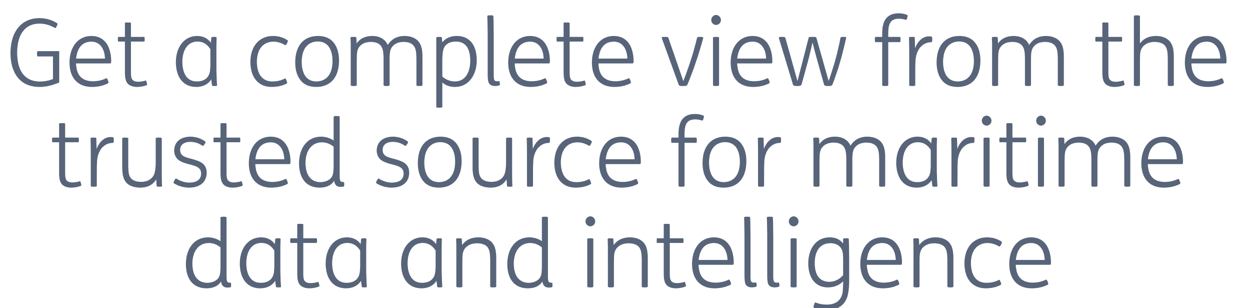
This comes during a period when governments in the US and Europe may lament decisions to withdraw subsidies in the 1980s and 1990s to their respective merchant shipbuilding industries — just as demand for new, high-technology ships is on the rise.

Orderbook % by vessel sector (number of vessels)



Source: BRS

Lloyd's List Intelligence



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On March 26, the boxship Dali struck one of the piers of the Francis Scott Key Bridge in Baltimore, bringing the structure down.

Baltimore bridge incident is gamechanger for rates

All classes are set to harden in a world beset by wars and climate change, **David Osler** reports

Hull and machinery renewals were done on '1/1', as underwriters like to call January 1. Protection and indemnity renewals were completed to their traditional historic deadline of February 20.

Everything looked set for another year of business as usual in the marine insurance sector. Then, on March 26, the boxship *Dali* struck one of the piers of the Francis Scott Key Bridge in Baltimore, bringing the structure down.

The term 'gamechanger' is often a meaningless buzzword, but if any event justifies its use, this one certainly did.

Put succinctly, marine insurance now enters a period of uncertainty, with the potential for liabilities running to anything up to $3bn on the basis of best guesses.

The worst might not come to the worst. The vessel's owners and managers have filed for limitation of liability, which would cap exposure at a more manageable $44m or so.

Wrangling in courts

The legal action has good prospects of success, lawyers insist. But the wrangling in the courts will take years.

Until the matter is settled, insurers still have to make pricing decisions on the information available.

In a recent interview with Lloyd's List, Tokio Marine HCC International chief underwriting officer Ben Kinder predicted that the fallout from Baltimore will push up marine liability rates — both commercial and mutual — by something like 10%-15% in the year ahead.

Given that Kinder is the man with the largest single line on the International Group pool scheme and an eight-figure liability book, his words carry obvious weight.

The *Dali* casualty came just as P&I had emerged from four lean years of high combined ratios, substantial rate hikes and sometimes unhealthy deficits, and looked as if it was returning to an even keel.

The average of general and target increases at the 2024 renewal was 6.5% for P&I and 6.1% for freight, demurrage and defence, within a range of 5% to 7.5%.

By way of comparison, modal average P&I increases came in at 7.5% in 2020, 10% in 2021, 12.5% in 2022 and 10% in 2023, compounding out at around 46%.

Clubs will start unveiling their 2025 pricing strategies around October. But given that they will inevitably face higher reinsurance rates and inflationary pressures, the bet has to be another round of substantial general increases.

The H&M market was a perennial underperformer for the first two decades of this century and is believed not to have made any money in aggregate until a return to profitability in 2019.

Islandstock / Alamy Stock Photo

The war risk segment of H&M has been a major money-spinner of late, thanks to the additional premiums payable by vessels using the Black Sea or Red Sea.

Positive factor

Claims frequency — particularly large claims frequency — has been an additional positive factor for both insurers and vessel operators.

But considerable new capacity has entered the market in the past year or two, particularly via managing general agents.

This has put rates under pressure, ramping up competition as underwriters slugged it out for market share. At 1/1, pricing was described as flat or even soft.

What happens now will depend in part on the war risk segment of H&M, which has been a major money-spinner of late, thanks to the additional premiums payable by vessels using the Black Sea or Red Sea.

So long as war risk is profitable, that will tend to prop up hull books across the board. But that could change if the Russians get more aggressive, or the Houthis manage to take out a string of ships, landing insurers with big losses.

In the cargo market, the largest niche in marine insurance, rates remain subdued for good business. The downside risk here is the hurricane season, with early indicators pointing to a high frequency and consequent aggregation exposure.

> *Clubs will start unveiling their 2025 pricing strategies around October. But given that they will inevitably face higher reinsurance rates and inflationary pressures, the bet has to be another round of substantial general increases*

Data from the Baltic Investor Indices estimate the daily cost of insuring an aframax on April 18 at $660, up from $610 on April 20 last year. That equates to a rise of 8.1% and an annual outlay of $241,560.

Very large crude carriers are up from $983 to $1,026 between the same two dates, a jump of 4.3%, representing $375,516 a year. Suezmaxes also moved higher, from $653 to $698 a day. That's an increase of 6.8% to $255,468.

For medium range tankers, the rise was from $534 to $577, with an annual bill of $211,182 and an increase of 8%.

For bulk carriers, capesize owners can expect to fork out $692 a day, up from $667. That's 3.7% higher and works out at $253,272 annually. Panamaxes are up from $513 to $516, 0.6% more and $188,856 a year.

Supramaxes have risen from $413 to $432, up 4.6% and hitting an annual bill of $158,112. Handies went from $369 to $388, an increase of 5.1% and a cost of $142,008.

Debt margins drop as owners slash leverage

Pineapple Studio / Alamy Stock Photo

Shipowners are rapidly paying down existing debt and lenders are competing on price to place new debt as shipping portfolios shrink.

Lower capex spending lets tanker and bulker owners pay down debt, **Greg Miller** reports

A decade ago, shipowners worried that there would not be enough debt finance at the right price to go around.

The tables have now turned. Shipowners are rapidly paying down existing debt and lenders are competing more on price to place new debt as their shipping portfolios shrink.

The de facto business model of bulk commodity shipping in the 2000s and early 2010s — high financial leverage and high spot exposure amid highly cyclical markets — was a recipe for disaster.

Now, whether by accident or design, low leverage is in.

Part of that shift may be due to lessons learned on the part of shipowners and lenders — but a lot of it could be due to circumstance.

Interest rates are much higher, newbuild prospects are limited (outside container shipping and liquefied natural gas), and freight rates are profitable, leaving shipowners with more cash for debt service.

Drivers of deleveraging

"The cashflow in some sectors, particularly tankers, is so robust that owners' only choices, in the absence of a lot of capex [for newbuildings], are dividends or paying down debt," said Mark Friedman, senior managing director at Evercore.

According to Kevin O'Hara, managing director at AMA Capital Partners: "With most of the subsectors doing well, and with few new orders [outside of container and LNG shipping] to speak of until recently, companies have excess cashflow that they need to find something to do with.

"The public companies have been leading the charge, putting some towards dividends and share repurchases, but deleveraging has been a key use of that excess cashflow," said O'Hara.

"We also had quite a string of years with poor markets and pretty consistent restructuring going on, and lenders have kind of learned their lesson and imposed it on the companies to keep lower leverage.

"It's a combination of that and the fact that asset prices are higher, so there's a lot of downside there — and for new deals, by definition, lenders have to be a bit more conservative on their initial LTV [loan-to-value ratio]."

According to Friedman: "My instinct is shipowners reflected on the fact that you ought not to have such a highly levered capital structure in a business that's as volatile as shipping.

"A lot of shipowners have migrated toward lowering their leverage, which lowers their cash break-even, including debt service, and improves their dividend capacity."

O'Hara added: "You also have to take into consideration that interest rates are up.

"For a long time, people were used to Libor being de minimis, but with SOFR [the new base rate, replacing Libor] now up in the 5%-5.5% range, paying off 7%, 8%, 9% debt [SOFR plus margin] is not a bad use of excess cash."

Debt margins have fallen

The rapid deleveraging in certain shipping asset classes has led to smaller loan books for some commercial lenders — who are competing more, allowing owners to secure lower spreads over SOFR.

"What I'm hearing from my clients is that it's highly competitive right now. Shipowners — particularly the larger public companies — have been experiencing spread compression," said Friedman.

That said, margins have not gone back to the sub-1% levels seen during the 2000s shipping boom.

"For many of the top lenders, under 200 basis points [2%] is a highly competitive level, but we can't go back to the days of Libor plus 75. We'll never get back to that," said Friedman.

O'Hara said: "We've certainly seen that margins have compressed a bit, especially for top-tier credits, but I would be quick to add that margins are not nearly as low as they used to be 10-15 years ago, when you could see shipping companies with margins below 1%."

According to Carlos Balestra di Mottola, chief executive and former chief financial officer of product tanker owner D'Amico International Shipping: "Margins have come down substantially. We're finding financing today for our vessels at much lower margins than in the recent past.

"But, of course, interest rates are higher, which is creating an incentive for shipowners to deleverage their balance sheets, so the overall financing costs have fallen, because leverage has fallen."

Smaller field of European banks

Numerous European banks exited shipping after the global financial crisis. Those that remain now face an environment where shipowners are accelerating amortisation payments and replacing legacy facilities with lower-margin debt.

"Anecdotally, you hear about plenty of lenders being repaid early and struggling to maintain their loan books," said O'Hara.

"There has been a pretty dramatic shift over the past 10 or 15 years, where mostly European banks have stepped away due to a combination of getting burned in bad markets and increased capital requirements under the various Basel regimes.

"Other than some of the very high-quality banks like DNB or Credit Agricole, you've seen a big departure, and the banks that are still around have much smaller loan portfolios."

> *The public companies have been leading the charge, putting some toward dividends and share repurchases, but deleveraging has been a key use of that excess cashflow*
>
> **Kevin O'Hara**
> Managing director
> AMA Capital Partners

Marine Money

> *A lot of shipowners have migrated toward lowering their leverage, which lowers their cash break-even, including debt service, and improves their dividend capacity*
>
> **Mark Friedman**
> Senior managing director
> Evercore

PE shift from equity to debt

The slack created from commercial bank departures has been taken up by private credit providers and leasing houses.

Private equity initially entered shipping in force in the early 2010s on the equity side.

PE firms created joint ventures with shipowners that acquired tonnage — including through eco-design newbuilding orders — on the premise that post-financial-crisis rates would revert to the mean.

They also acquired shares in public owners that went bankrupt, and bought distressed loan portfolios from exiting European banks in a "loan to own" strategy, forcing debtholders into prepackaged bankruptcies wherein the PE firms' newly acquired shipping debt was converted to equity.

PE firms' initial foray into shipping on the equity side was widely considered to be a failure. It took too long to get out of their positions (several are still in them, a decade later).

The PE firms have since changed tack and switched more towards private structured credit products at higher margins than commercial bank debt. This move was a success.

"I think you see as much of it today as you ever have," said O'Hara.

"If anything, the larger private equity — or, in a broader sense, asset management — firms have moved even more towards structured credit products and away from straight equity.

"As the banks' share has shrunk, private credit — and, to some extent, the leasing houses — have really stepped into the void."

Even if the commercial banks are offering lower margins to top-tier owners, there is still room in the shipping market for private credit providers offering more expensive debt.

According to Friedman: "It may be difficult for them to compete for what I'd call the Tier A credits, but there are a lot of non-Tier A credits that are still good companies that just happen to be smaller.

"The alternative lender universe is going to be very impactful. I've actually talked to a bunch of folks who are thinking about entering that business and being capital providers, because the risk-adjusted returns are likely to be pretty attractive."

Marine Money

Future role of PE on equity side

Prospects on the equity side of ship finance are more challenging, with private equity more focused on credit, and public equity much more difficult to raise than in previous eras.

Friedman pointed to one area where private equity is still playing a big role in shipping: take-private transactions, where public companies are bought out by PE funds and insiders.

Take-private transactions involving investment funds have included privatisations of shipowners GasLog Partners, GasLog Ltd, Seacor, Atlas Corp (Seaspan), Teekay LNG, Teekay Offshore, Hoegh LNG Ltd, Hoegh LNG Partners, and Ocean Yield, as well as privatisations of container-equipment lessors Textainer, Triton International, and CAI.

And, despite the challenges in exiting equity positions, Friedman believes PE funds could still be active in future ship acquisitions, as well.

"Private equity has had mixed outcomes on shipping equity, and right now, they're probably not as well positioned as the strategics — the existing public companies — when it comes to bidding for assets, but I do think there will be points in time when they'll step in.

"I don't think they're going to be a big part of the acquisition cycle, but I do think they'll be there sporadically," said Friedman.

Offerings of public equity

When it comes to shipowners raising cash by selling public equity, the US market has seen very few shipping initial public offerings and non-dilutive follow-on offerings over the past decade.

"I don't see it happening on a large scale," said O'Hara of future US shipping IPOs.

> *Margins have come down substantially. We're finding financing today for our vessels at much lower margins than in the recent past... But, of course, interest rates are higher*
>
> **Carlos Balestra di Mottola**
> Chief executive
> D'Amico International Shipping

Helios LPG

The underwritten, overnight follow-on offering by Dorian LPG had not been seen in years: a large, well-valued, US-listed shipowner selling public equity from a position of strength.

"If you think about the various reasons why you would want to list publicly, one of them would be for liquidity for the shares.

"As we've seen over the past couple of years, there have been large investors in publicly traded shipping companies that have had real difficulty in getting out in any organised way without taking a discount.

"That lack of liquidity really takes away one of the main reasons to be a public company."

Friedman said of shipping IPOs: "I think the bar is high — and it should be high.

"There are already a lot of very good, investible shipping companies to choose from in the various sectors.

"So if you were to go public, you need something that is large and differentiated — at least in the US market."

Regarding follow-on offerings by existing public players, virtually all of the activity in recent years has been by microcap Greek owners selling highly dilutive equity to raise small sums via direct offerings of shares and warrants, or larger shipowners doing time-to-time sales.

The underwritten, overnight follow-on offering by Dorian LPG, which priced on June 6, was something that had not been seen in years: a large, well-valued, US-listed shipowner selling public equity from a position of strength.

"When you look at Dorian, it was trading at very large NAV [net asset value] premium, so even with the relatively healthy discount, it still made a lot of sense for them," said Friedman.

"I understand the logic. It's very hard for cyclical companies to raise money when they have a greater use of proceeds" — i.e. in weak markets when asset values are low.

"So, it makes sense to improve your financial footing when the market is actually receptive to buying your equity.

"We're in an extremely strong shipping equity market now, which I don't say very often. This is providing opportunities you rarely see."

D'Amico International Shipping