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Daily Briefing

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Expect further consolidation and rate rises as a result of cleaner fuel

THE 2020 deadline for new low-sulphur fuel requirements is going to force consolidation in all shipping sectors and shake out some of the smaller owners. It will also add costs specifically to container shipping that will ultimately be borne by end users.

In two separate interviews with Lloyd's List, Frontline's Robert Macleod and APL chief executive Nicolas Sartini have both warned that the looming international requirements for ships to use marine gasoil with less than 0.5% sulphur content from 2020 will start to have a material impact on company strategies.

"There are several ways of dealing with the sulphur cap, but they all have a cost to the industry that will run into billions of dollars," said Mr Sartini, talking in Singapore.

"Shippers need to know that by 2020 freight rates will rise," he said in what will likely be received as an unwelcome warning by shippers already reeling from rate hikes of 130% between the first quarter of last year and the second quarter of this year.

For the tanker sectors, the 2020 deadline will ultimately mean that smaller owners will struggle in comparison to larger, better capitalised owners and we should anticipate a further wave of consolidation as a result, Frontline chief executive Robert Macleod told Lloyd's List's Markets Editor.

In an emailed interview with Lloyd's List, Mr Macleod said regulatory changes like that would promote fleet renewal efforts across sectors, eventually leading to further consolidation among owners.

"The age profile of the current fleet, and ageing going forward, will stimulate owners to retire older tonnage and invest in newer, fuel efficient ships," Mr Macleod said.

NEWS

Ultra large containerships at risk from regionalisation of manufacturing

CHANGING demographics and the automation of manufacturing pose existential threats to container shipping's model of reducing costs through increased vessel sizes.

That was the view from Singapore this week as the box sector settled down to discuss the medium- to long-term prospects for container lines at the Global Liner Shipping conference.

Leading the argument for a generational shift, Danish Ship Finance head of research Christopher Rex held that ageing consumers in many advanced economies required the industry to adapt to new demographic models.

Buying a large ship today is a long-term bet on manufacturing locations staying where they are now, rather than the regionalisation of container flows, he anticipates.

"If you are ordering 15,000 teu-20,000 teu vessels you are making a bet that manufacturing locations will stay in one place and that importing regions are also relatively centred; otherwise these ships are too big," he said.

The economics of scale of these vessels would not work if they were not filled, so anything below 80% utilisation would be a problem.
additional concentration comes additional risk and potentially far worse consequences.

COMMENT

Future of containerisation is linked to generational change

"Container ships are being ordered to meet the demands of the endless summer of Baby-Boomer consumption"

Buying a large container ship "is a long-term bet on manufacturing locations staying where they are," warns Christopher Rex, head of research at Danish Ship Finance, speaking at the Global Liner Shipping Conference in Singapore. The question financiers need to address is how long is long-term.

The days of measuring the commercial life of any vessel at 25 years are history. External events such as the opening of new locks at the Panama Canal or the collapse of the offshore oil exploration sector – both happening in the past two or three years – have crashed prospects for old-panamax box ships and the offshore support vessels. Meanwhile, containerisation has been eating into the refrigerated cargo vessel sector. Evolution is part of our industry.

The concern is not the nature of change but that shipping is continually playing catch-up. We plod along slowly and ponderously, waiting for someone else to demand more transformation. This conference has heard that the future will see additive manufacturing, artificial intelligence, near-shoring, autonomous navigation, and the mass introduction of robots removing cheap labour. Will all this occur in the next five years? No. In the next 10 years? Unlikely? In the next 15 years? Probably.

It's more than likely that by 2032 (a decade and a half away – well within the careers of today's Next Generation), manufacturing will not resemble today's upgraded 19th-century mass production underpinned by cheap labour. Before 2032, the consumerist Baby Boomer generation will have retired and stopped demanding shipping acts as a segment of a conveyor belt linking manufacturer with shopping mall. Buying habits will have been transformed, concern for the environment will drive investment decisions, and demand for shipping services will evolve.

So newbuilding containerships, especially those of larger size, are very unlikely to have a 25-year operational span; and even the 15-year span could be thought optimistic. These ships are being ordered to meet the demands of the endless summer of Baby-Boomer consumption, rather than for the more challenging lives of Generation X and Millennials. Lending for the construction of mega ships already makes little financial sense; lending for acquisition of an existing ship makes more sense provided it is understood there is limited time to recoup that investment.

So how long is long-term? At the most, it's 15 years.

IN OTHER NEWS FROM THE GLOBAL LINER SHIPPING EVENT:

Digital advancements threaten to eclipse box shipping

CONTAINER shipping and perhaps even the shipping industry as a whole may be in danger of being eclipsed by the advent of digitalisation as consumer patterns change and as new and more efficient forms of cargo transportation come into operation. As such, shipping needs to define its digital vision in this new era of technological advancement, termed the 'e-naissance' by futurist KD Adamson at the Global Liner Shipping Asia event in Singapore.

Liner alliances are raising operational concerns for customers

Consolidation in the container shipping industry and the alliance reshuffle are affecting customers when it comes to schedule reliability.

"It is a concern but not from a pricing standpoint. The concern arises from the operational side," Bjorn Vang Jensen, vice-president for global logistics at home appliances maker Electrolux, said a panel discussion at the Global Liner Shipping conference.

"Schedule reliability is quite frankly atrocious and I think the alliances had a big part to play in that," he said at the discussion moderated by Lloyd's List Containers editor James Baker.

Chinese yards are struggling to raise newbuild prices despite increasing costs

Shipyards are facing a dilemma: steel and the Chinese yuan are getting much more expensive, but their bargaining power is still weak amid a buyer's market.

Shipowners looking for a bargain are likely to be disappointed given that several Chinese yards are trying to perk up prices for fresh tonnage amid inflated cost. Over the past the eight months, the Chinese yuan has strengthened about 6% against the US dollar, while the country's steel price in general has jumped more than 20%.

Nevertheless, the upside potential seems compromised by the fragile market, where room for price recovery at Chinese yards is under pressure from South Korean competition, where the Won is relatively stable against the dollar and Chinese yards are left dependent on selling cheaply to win new orders.

Box freight rates fail to move on increased demand

GROWTH in container shipping demand has shot up this year at a rate that has taken the industry by surprise, but carriers are yet to reap the rewards in the form of increasing freight rates.

The reason behind that may well lie in the overcapacity that is still hampering the beleaguered sector, despite improving conditions.

According to container shipping's controversialist-in-chief, Alphaliner analyst Hua Ju Tan, that's because we are only now entering the post-Hanjin world as the last of the failed carrier's tonnage comes out of layup, but excess capacity is still holding down rates despite improved demand.

"We are operating in an industry where things are changing rapidly and it is hard to predict things easily," he told the Global Liner Shipping Conference in Singapore. "We are starting to see optimism about the state of the industry, but this optimism comes with additional capacity aspirations."

After a slowdown in ordering in the last two years when no big ships were ordered, there are moves afoot for more ultra-large tonnage that threatens to put a hold to any potential freight rates rises next year, he argued.

LNG is more consolidated than its tanker cousins

The liquefied natural gas shipping sector is the most consolidated within the oil and gas seaborne transport spectrum when judged by the capacity owned by the top three players, according to a new study published by Lloyd's List Intelligence.

In the September Shipbuilding Outlook, LLI revealed Qatar Gas Transport Co, Mitsui OSK Lines and Nippon Yusen Kaisha together own 93 ships, with a total capacity of 16.7m cu m, equivalent to 24.3% of the total capacity on the water.

Coming second is the liquefied petroleum gas sector, where the three largest owners — BW Group, Dorian LPG and Petrdec — have 93 ships totalling 6.5m cu m, or 20.1% of total capacity.

"Gas carriers have always been considered as working in a more 'industry shipping' setting and this is illustrated by the fact the top three LPG owners hold 20% of the tonnage," the Shipbuilding Outlook said. "In the LNG sector, which is smaller, with only 389 ships in the fleet, the capacity concentration is even higher."

Strong crude tanker fleet growth to pressure earnings, says Lloyd's List Intelligence

Fleet growth in the crude tanker sector will accelerate in the next five years owing to limited scrapping and a large orderbook, according to the latest forecast from Lloyd's List Intelligence, sounding an alert for bullish market participants who predict an earnings recovery next year.

MARKETS

AFRAMAX

Harvey puffs up aframax rates

The aframax tanker segment is benefiting for the second straight week from disruptions in the energy supply chain caused by the earlier Hurricane Harvey.

The benchmark aframax time charter equivalent on the Baltic Exchange was up 73.4% on week at $5,447 per day on Monday's close, from $3,140 per day a week ago.

The congestion means delays in tanker operations could be stretched out for weeks and the extended waiting time will keep the large number of vessels off the market, supporting spot rates.

The outages have a dual impact on crude shipping as refineries that rely on imported crude have pent-up demand for incoming tankers, and crude that is meant for exports gets accumulated, leading to pent-up demand for outgoing tankers.

SUPRAMAX

Supramax bulker earning hit four and half month high

Average supramax bulker earnings trended upwards in the Baltic Exchange on the back of more chartering activity in the Pacific even as grain and petroleum coke shipments remain suspended in the US Gulf. Although port conditions in Houston has been recovering faster than expected, overall loadings and coke output at several refineries still remain disrupted

IN BRIEF

Dry dockings and hire rejig push Dynagas into the red

CALM reigns at US-listed LNG carrier owner Dynagas Partners, despite a lurch into the red in the second quarter. Management of the previously profitable partnership had already signalled that the quarter would be an unusual blip and this was borne out in earnings reported on Tuesday. Revenues in particular suffered due to special surveys and dry dockings for three of its six vessels, a one-time refinancing write-off and the expiry of Shell's charter for the 2007-built Clean Energy, which nonetheless will next year start an eight-year charter to Gazprom.

Seafarer wages unlikely to rise despite shipping recovery

SHIP manning expenses are unlikely to see an uptick anytime soon, despite the market recovery witnessed so far as shipowners and operators continue to face financial headwinds. What is more, wage rates have been affected as more personnel enter the industry to alleviate an officer shortfall, said shipping consultancy Drewry in its Manning 2017 report.

NSB takes managed fleet to 96 after Indonesia lash-up

BUXTEHUDE-based NSB has taken its managed fleet to 96 vessels, after unveiling a joint venture with Indonesia's Temas Line that will bolster its books by 31 units.

The new company, known as Asia Marine Temas, will be headquartered in Jakarta.

The move is part of NSB's masterplan to transform itself from a standard German company managing KG-owned ships into an international operator. The changes have included pulling its vessels from the German register, a move that has attracted a certain amount of flak back home, after 500 European seafarers lost their jobs as a result of the decision.

Oldendorff revives handysize newbuilding orders

WHAT a difference five years makes in the life of a shipyard. The German dry bulk owner and operator Oldendorff has resurrected a contract to build two new eco handysize vessels at a yard in China, having cancelled the order back in 2012. The contracts for four 36,000 dwt bulkers had originally been placed in 2012 at the Weihai-based Samjin Shipbuilding, but were cancelled due to financial restructuring at the yard that resulted in excessive delays. Last year, Samjin was taken over by Shanghai's Zhouji Group, and Oldendorff now believes the yard is once again building "excellent quality vessels".

Ukraine expects its first ever US coal shipment by mid-September

UKRAINE is expected to receive its first thermal coal shipment from the US by mid -September as President Donald Trump ramps up efforts to fulfill his promise to revive his nation's coal industry.

The 63,577 dwt supramax vessel Ocean Ambitious was loaded in the port of Baltimore, Maryland on August 22 and is expected to deliver the Pennsylvania-sourced coal to the Ukrainian port of Yuzhny in mid-September. According to Lloyd's List Intelligence, the vessel's last port of call was Gibraltar. It is likely to reach Ukraine by September 11. Meanwhile, a second shipment of 120,000 tonnes is set to arrive in Ukraine in early October.

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