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Shipping confidence rises for fourth successive quarter

Overall confidence levels in the shipping industry increased in the three months ended May 2012, to reach their highest level since February 2011, according to the latest Shipping Confidence Survey from leading accountant and shipping consultant Moore Stephens. This is the fourth successive quarter in which there has been an improvement in confidence, leading to an increased expectation of new investment on the part of respondents, despite an anticipated increase in the cost of finance over the next twelve months.

In May 2012, the average confidence level expressed by respondents in the markets in which they operate was 5.7 on a scale of 1 (low) to 10 (high), compared to the figure of 5.5 recorded in the previous survey in February 2012, and to the 5.6 recorded one year previously, in May 2011. The survey was launched in May 2008 with a confidence rating of 6.8.

The biggest increase in confidence was recorded by ship managers, up from 5.2 to 6.0 this time, the highest figure for this category of respondent since February 2011. Confidence among owners and charterers remained unchanged this time, at 5.6 and 5.0 respectively. Brokers (down from 5.6 to 5.2) were alone among all respondents in being less confident about the market than they were in February 2012. Confidence was up in Europe for the fourth successive quarter, from 5.3 to 5.6, stable in Asia at 5.7, and down in North America from 5.6 to 5.5.

A number of respondents were upbeat about prospects for the market, despite admitting that any recovery would have to start from a comparatively low base. “If we are still alive now, after all the vessels that have entered the market and all the banks that have pulled out, there is a good chance that better times await us,” said one. Some suggested that a recovery in the markets was achievable in the short term, typified by the comment from the respondent who noted, “The volume of business activity is expected to increase in the next quarter.” Most, however, were taking the longer view. “We will see the imbalance between tonnage supply and demand corrected in early 2014,” said one. “Until then, we hope to see ship operators, cargo interests and charterers exercising good supply-chain values based on reasonable freight and time charter rates in order to get the industry through these tough times”.

Respondents to the survey expressed a high level of concern about the global economy, and particularly about problems within the eurozone. One said, “The European economic crisis is worsening, leaving ship financing at the crossroads”. Two familiar causes of concern were again evident in the responses to the survey, the first of which was summed up by the respondent who emphasised, “There are too many ships coming onto the market”. One respondent foresaw a different kind of problem arising from the surfeit of tonnage, warning, “For the first time in a long while, shipping could face a situation where newbuildings currently being delivered may be rendered technically obsolete in five years’ time by new ships being ordered today which, due to technical innovations, may be up to 20 per cent cheaper to operate.”

Meanwhile, despite the recent fall in global oil prices, and consequently in the price of bunkers, fuel costs continued to occupy the thoughts of respondents. “The ultimate squeeze nowadays really comes from the cost of bunkers,” said one respondent. “On top of the high price of oil, refineries are producing less and less marine product, putting further pressure on bunker prices”.

The overall number of respondents expecting to make a major investment or significant development over the next twelve months rose, on a scale of 1 to 10, from 4.9 to 5.3, the highest figure since the 5.6 recorded in May 2011. All categories of respondent were more confident in this regard than in the previous survey, most notably charterers, whose expectation rating in respect of major investments was up from 4.9 to 5.8. The rating for owners was up from 5.2 to 5.6, and for managers from 5.2 to 5.5. Forty-five per cent of charterers, and 40 per cent of both owners and managers, assessed the likelihood of their making an investment at 7.0 out of 10.0 or higher. Expectation levels of major investments were up in all geographic areas covered by the survey, with the exception of North America (down from 5.0 to 4.5). The biggest increase was in Europe (up from 4.8 to 5.3).

One respondent said, “There will be excellent opportunities for cash buyers over the next 12 to 18 months, as banks increasingly foreclose or as distressed owners are forced to sell in order to survive”. Another noted, “There is an opportunity to invest in eco-friendly vessels at very low cost.”

Demand trends, competition and finance costs were the top three factors cited by respondents overall as those likely to influence performance most significantly over the coming twelve months. But the numbers in each category were down - in the case of demand trends from 22 per cent to 21 per cent, competition (down from 20 per cent to 18 per cent) and finance costs (down one percentage point to 16 per cent). Fuel costs featured in fourth place, up from 12 per cent to 14 per cent, the second highest figure achieved in the life of the survey, behind only the 16 per cent recorded one year ago, in May 2011. Meanwhile, operating costs were cited by 12 per cent of respondents as a factor likely to influence performance significantly over the coming year, a three percentage-point increase on last time, and equal to the highest figure recorded for operating costs since the survey was launched in May 2008.

Fuel costs were in fact the most significant performance-influencing factors for charterers, up to 26 per cent from 23 per cent in February 2012, pushing demand trends (down from 24 per cent to 21 per cent) into second place. Competition – down significantly from 23 per cent to 16 per cent – was in third place.

Demand trends remained the number one performance-affecting factor for owners, unchanged at 21 per cent. Finance costs (unchanged at 18 per cent) were in second place, followed by competition, down one percentage point to 16 per cent. For managers, meanwhile, competition and demand trends (both down one percentage point this time to 18 per cent) occupied the top two places, with finance costs up one percentage point to 17 per cent in third place.

Geographically, demand trends remained the most significant factor for respondents in Asia (up from 22 per cent to 24 per cent) and in Europe (down from 22 per cent to 21 per cent). In Asia, fuel costs (16 per cent) supplanted finance costs in third place, behind competition (down from 21 per cent to 18 per cent) in second

position. Fuel costs were also a significant factor in North America, where they were cited by 18 per cent of respondents. In Europe, finance costs (up from 18 per cent 19 per cent) featured in second place, ahead of competition, unchanged at 18 per cent.

There was a 2 percentage-point increase (from 49 per cent to 51 per cent) in the number of respondents overall who expected finance costs to increase over the next twelve months. The number of respondents who thought that finance costs would decrease over the coming year remained unchanged, meanwhile, at 8 per cent. The number of charterers who expected finance costs to rise was down 14 percentage points to 34 per cent, an all-time low in the life of the survey, not only for charterers but across all main categories of respondent. There was, however, greater expectation of higher finance costs on the part of owners (up from 46 per cent to 54 per cent) and managers (up from 45 per cent to 52 per cent). The number of brokers anticipating costlier finance was meanwhile down 7 percentage points to 47 per cent. One respondent complained, “We are completely hamstrung by banking and finance constraints”, while another emphasised, “The banks postpone much-needed action and keep on protecting bad owners by focusing on short-term cashflow”. More respondents in both Asia and Europe were anticipating an increase in finance costs compared to last time (up from 49 per cent to 50 per cent, and from 48 per cent 52 per cent, respectively). The same was true of North America (up from 38 per cent to 48 per cent).

There was generally good news about the prospects for higher tanker and container ship rates over the coming year, even though one respondent - without specifying any particular sector - complained, “Brokers are not fighting for the best rates. They need to fix so many vessels per day that they no longer care about the levels at which they fix, and owners are suffering.”

The survey revealed an increased level of expectation of higher rates in the tanker sector than was the case three months previously. Overall, 40 per cent of respondents thought that rates would increase, as opposed to 35 per cent last time. Charterers were the notable exception. Just 18 per cent anticipated that rates would go up, compared to 35 per cent last time. Only once before in the life of the survey (12 per cent, in February 2009) has a lower figure been recorded across all main categories of respondent. The number of owners anticipating higher tanker rates was up from 34 per cent to 41 per cent, and of managers from 36 per cent to 41 per cent. Just 7 per cent of managers expected tanker rates to fall, a new survey low for this category of respondent. The expectation of higher rates was common across all the main geographical areas covered by the survey.

It was a similar story in the container ship market, where 34 per cent of respondents overall expected rates to go up, compared to 31 per cent in the previous survey. The number of respondents anticipating higher rates over the coming year was up in all categories, in the case of charterers by 15 percentage points to 41 per cent. For owners, the increase was from 28 per cent to 35 per cent, and for managers from 30 per cent to 31 per cent.

It was a different story in the dry bulk sector, however, where most of the indicators were down, in contrast to the previous survey, which saw a surge of optimism on the part of all respondents that rates would increase. Overall, 35 per cent of respondents this time expected dry bulk rates to go up over the coming year, as

against 38 per cent in February 2012. Owners (up one percentage point to 36 per cent) were alone in being more confident of rate increases. The number of charterers of like mind, meanwhile, dropped 29 percentage points to just 15 per cent, the second-lowest figure in the life of the survey, behind only the 8 per cent recorded in August 2011. In fact, the number of charterers who thought that dry bulk rates would go lower over the coming year was greater, at 23 per cent, than the number anticipating that they would go higher.

Moore Stephens shipping partner, Richard Greiner, says, “Is there a more resilient industry than shipping? It seems unlikely. Despite the financial woes in Europe, notwithstanding the slump in the freight markets, and irrespective of tonnage overcapacity, our latest survey records an increase in confidence in the shipping sector for the fourth consecutive quarter. Indeed, 40 per cent of owners rate their prospects of making a new investment over the next twelve months at 7 out of 10, or higher – this despite the fact that the cost of finance is expected to go up over the same period. This is encouraging, although, if intent translates into action, it will do nothing to address the tonnage overhang.

“It is true that the increased level of confidence recorded in the survey owes something to the conviction on the part of some respondents that the bottom of the market has now been reached. But a number of respondents nevertheless saw the beginnings of a recovery in the markets for more positive reasons, not least the continuing, indispensable role that shipping has to play in the conduct of global trade. Shipping is not an industry that will come and go. Nothing is going to replace shipping, at least not in the lifetimes of those involved in the industry today, or even of their great-great-grandchildren. So long-term players are looking to navigate a way through the difficulties currently besetting the industry, to emerge in calmer – and more profitable – waters.

“There is little new about the problems, which range from political and economic crises to the price of a good second mate. What is unusual is the severity of those problems, and their confluence at one period in time. And, as is so often the case, each possible remedy brings with it the potential for another difficulty. Fuel costs are a major expense, which shipping can do little to influence for the better. What it can do – and is doing already – is starting to explore the possibility of a future based on eco-friendly ships powered by fuel other than diesel oil. But, as more than one respondent noted, that places a potential cloud over some of the ships now being built and delivered, which could be made redundant by new technology long before they have served a useful working life. Furthermore, some owners are claiming that eco-friendly designs are being advanced by shipyards as a marketing gimmick to persuade companies to order more ships at a time when we already have too many.

“The number of respondents to our survey who cited operating costs as a significant performance-influencing factor is as high now as at any time in the past four years. Such cost increases, which are expected to continue for the next two to three years, can be ameliorated to a certain extent by good husbandry and sound business planning, and will of course be more easily borne in a profitable freight market. The same cannot be said, however, of some of the other issues affecting shipping. There is no end in sight, for example, to the political and economic strife that is today’s eurozone. And new finance is very hard to come by. Shipping is going to need the continuing support of the banks as it struggles to emerge from its current difficulties. Some argue that the banks have not done – and are not doing – enough. One

leading operator has gone so far as to say that shipowners will have to become bankers in order to survive. He has even coined a name for this new hybrid being – the ‘shanker’.

“For those for whom this is a development too far, going to the bank with a sound business plan is likely to remain the preferred option. The banks, of course, will not want to see shipowners who lack confidence, any more than a gourmet likes to see a thin chef. Fortunately, on the evidence of our survey, confidence is something the industry does not lack. Nor does it lack the will to put its best foot forward in times of trouble, as evidenced by the recent Posidonia exhibition in Piraeus. Here, the great and the good of shipping gathered in their thousands, as indeed they have done every two years for the past forty years and more, come metaphorical rain or shine. In shipping, the show must go on.”

- The Moore Stephens Shipping Confidence Survey includes responses from key players worldwide in the international shipping industry to a targeted, web-based survey by the Moore Stephens Shipping Industry Group. Responses were received from owners, charterers, brokers, advisers, managers and others. Editors can apply for a copy of the survey by emailing chris@merlinco.com

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For more information:
Richard Greiner, Moore Stephens LLP
Tel: +44 (0)20 7334 9191
email: richard.greiner@moorestephens.com

Issued by:
Chris Hewer, Merlin Corporate Communications
Tel: +44 (0)1903 50 20 50
email: chris@merlinco.com