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Global Maritime Weekly Digest

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*The **Global Maritime Weekly Digest**, based at **Southampton SOLENT University**, provides a regular flow of maritime news and analysis, of significance in a global context.*
Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.

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Editorial comments

- A fresh ***confidence survey for the global shipping industry*** reveals that the average has been maintained at the higher level seen three months earlier (item 1). Some respondents identified signs of recovery and potential for further improvement, but others expressed less enthusiasm and much uncertainty persists, according to the consultants compiling the survey.
- One feature of changing patterns of ***activity in the ship recycling market*** is the downturn in volumes seen in 2017 (item 2). Global bulk carrier and container ship demolition sales, in particular, were greatly reduced compared with the previous year, amid indications pointing to stronger employment and earnings trends for these vessels.
- Over the past twelve months, ***China's role as a global supplier of shipping finance*** has grown rapidly, based on a recent report. Leasing deals, the preferred financing method, many of which provide funds for foreign ship operators to order newbuildings, are helping to fill the gap created by withdrawal of European shipping banks in the past few years (item 5).
- The number of ships being installed with ***sulphur emissions reduction equipment***, commonly known as scrubbers (flue-gas desulphurisation technology) has risen (item 6). But the proportion of new ship orders with this equipment specified is still small, despite the approaching tougher global regulations due to be implemented two years ahead.
- Is it clear whether or not ***shipping markets are warming up?*** An index looking at both freight rates and investment activity tentatively suggests an improving overall trend (item 4)

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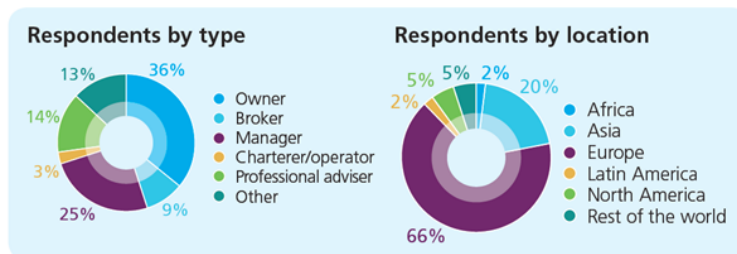
(1) Moore Stephens, 19 December 2017

Shipping confidence at highest level for three-and-a-half years

Shipping confidence held steady at its highest rating in the past three-and-a-half years in the three months to end-November 2017, according to our latest Shipping Confidence Survey.
The average confidence level expressed by respondents was unchanged at the level of 6.2 out of 10.0 recorded in the previous survey in August 2017. Confidence on the part of charterers was significantly up, from 4.7 to 7.7, the highest rating recorded for this category of respondent since the survey was launched in May 2008 with an overall rating of 6.8. Managers (up from 5.8 to 6.1) were also more optimistic, while brokers' confidence was unchanged at 6.3. The rating for owners, however, fell from 6.5 to 6.4.
Confidence levels were down in Asia, from 6.4 to 5.7, and unchanged in Europe and North America, at 6.3 and 5.8 respectively.
Confidence levels were significantly up in Asia from 5.6 to 6.4, their highest level since May 2014. Confidence was also up in Europe, from 6.2 to 6.3, but down in North America, from 6.4 to 5.8.



The likelihood of respondents making a major investment or significant development over the next 12 months was down from 5.4 to 5.3 out of 10.0. Charterers' confidence, however, was up from 4.0 to 6.2. Expectations on the part of owners and brokers were up from 5.8 to 5.9 and from 4.4 to 5.3 respectively, but down from 5.4 to 5.3 for managers. Asian respondents (down from 5.9 to 5.0) were less confident in this regard, but in North America the rating was up from 4.9 to 5.4. In Europe, expectations held steady at 5.2.
Although overall expectations of making major investments over the next 12 months were marginally down on the three-year high recorded in the previous survey, several respondents saw encouraging signs of recovery, and potential for further improvement, particularly in the dry bulk sector. One respondent said: "Undeniably, things are a little better, but there is not such a significant improvement that we can break out the champagne and celebrate a recovery."
59% of respondents expected finance costs to increase over the coming year, up from 50% last time to equal the highest figure since October 2008. Owners' expectations were up from 48% to 54%, while the increase for charterers was from 67% to 83%, and for brokers from 42% to 60%. Managers, meanwhile, recorded a fall from 62% to 61%.

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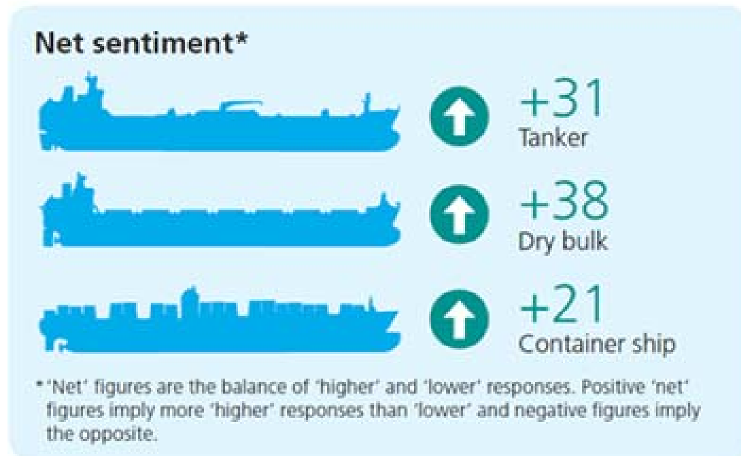
Despite a fall from 27% to 23%, demand trends continued to be the factor expected to influence performance most significantly over the coming 12 months followed by competition and finance costs. One respondent said: “Shipping continues to be volatile and unstable, with an oversupply of tonnage, and new finance continuing to pour in, while geopolitical issues and new regulations are causing disruption.” The number of respondents expecting higher freight rates over the next 12 months in the tanker market was down by 1% on the previous survey to 44%, while there was a one percentage-point fall, to 13%, in those anticipating lower rates. There was a six percentage-point fall, to 50%, in the numbers expecting higher rates in the dry bulk sector, and a five percentage-point increase to 12% in the numbers anticipating lower rates. In the container ship sector, the numbers expecting higher rates dropped by four percentage points to 36%, while there was a two percentage-point fall, to 15%, in those anticipating lower container ship rates.



Net sentiment was positive in all the main tonnage categories. It was unchanged in the tanker market at +31, but down in the dry bulk market from +49 to +38, and in the container ship sector from +23 to +21. In a stand-alone question, respondents were asked to estimate where the US Federal Reserve’s Federal Funds Rate would stand in 12 months’ time. 35% put the figure at 1.50%, with 24% opting for 1.75%. While 6% of respondents thought the figure would be 2.00%, 19% opted for 1.25%. Levels of 1.00% and less than 1.00% were each cited by 8% of all respondents, just 1% of whom expected the rate to be more than 2.00%. One respondent said: “Increased economic uncertainty, relations with North Korea, and Iran trade restrictions are among the factors which will increase the risk level in the market and lead to higher interest rates.” Another simply said: “Rates will continue to rise until there is a market correction.”

Richard Greiner, partner, Shipping & Transport, says, “Confidence is at its highest level for three-and-a-half years, testament to the industry’s remarkable durability.

“Charterers are leading the way in terms of improved confidence and appetite for new investment. There is optimism in the dry bulk trades, and evidence of continuing improved confidence in the gas sector. The Baltic Dry Index, meanwhile, has risen by over 50% in the past six months, and net sentiment in all three main tonnage categories remains positive.

“Not all our respondents were upbeat and uncertainty persists, for example, over how and when to comply with the Ballast Water Management Convention and the true extent of cyber-crime. But the portents, overall, are encouraging.

“A slowdown in newbuilding activity has started to redress the imbalance in supply and demand, and that should be reflected in improved freight rates. There is an appetite for investment, and finance is available. The shipping recovery might not yet be fully under way, but 2017 may come to be regarded as the year when the downward spiral was halted.”

Source: Moore Stephens

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(2) Clarksons Research, 18 December 2017

Re-Cycling: Taking A Tour Around Demolition Trends

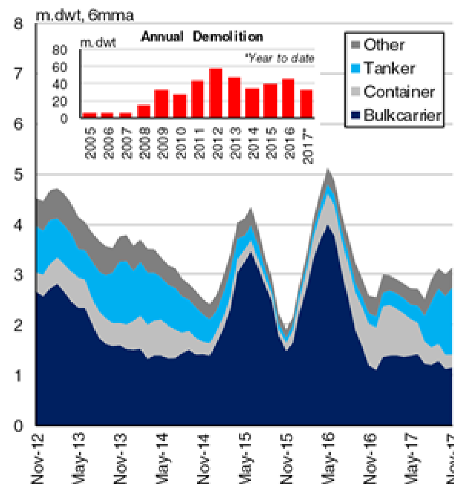
In 2017 so far, as some sectors have begun to move away from the bottom of the shipping market cycle, demolition levels have declined year-on-year. However, with a range of factors at play, many believe recycling volumes are likely to remain at elevated levels in the medium term. This month's Shipbuilding Focus takes a look at how recent demolition trends have panned out across the key sectors.

High Altitudes

From 2007 to 2009, annual demolition increased five-fold in tonnage terms to 33.3m dwt, against a backdrop of sharply declining earnings. Recycling activity has remained elevated since, reaching 58.4m dwt in 2012, the highest annual level on record. In the year to date, 743 vessels of a combined 32.7m dwt have been sold for scrap. In tonnage terms, demolition volumes have declined year-on-year by 20% on an annualised basis, from a firm total of 44.5m dwt in 2016, despite an increase in scrap prices. This reflects an improvement in market sentiment, with some sectors beginning to move away from the bottom of the cycle.

Graph of the Month

Recycling Volumes: Up And Down The Peaks And Valleys



The graph shows the six month moving average of global monthly demolition volumes in dwt terms over the last 5 years, split by vessel sector. The bars on the inset graph show total historical annual demolition in dwt. A wide range of demolition data is available on the *Shipping Intelligence Network*.

Source : Clarksons Research

Mountain Stages

Bulkcarriers have been a key driver of overall demolition trends in recent years, accounting for 52% of the total in dwt terms since the start of 2009. In 2012, 590 bulkers of a combined 33.4m dwt were sold for scrap, the largest annual total on record. Recycling levels have declined following an extremely strong 1H 2016, when 22.6m dwt was sold for scrap, compared to 211 units of a combined 14.1m dwt in 2017 so far. This represents a 50% year-on-year decline in dwt terms, against a backdrop of improving bulkcarrier earnings.

A New Leader Of The Pack?

Meanwhile, annual demolition in the tanker sector peaked at 13.1m dwt in 2010. Recycling volumes then declined to pre-2008 levels in 2015 and 2016, averaging 2.5m dwt per year as earnings improved significantly. However, due to a weaker earnings environment in 2017 so far, demolition has since picked up, increasing four-fold year-on-year to stand at 95 vessels of 9.5m dwt in the year to date.

King Of The Mountains?

Containership demolition in 2016 reached 194 vessels of a combined 0.7m TEU, the largest annual volume on record in capacity terms, driven in part by continued weak boxship earnings. In TEU terms, 46% of containerships recycled last year were 'old Panamax' vessels, rendered less competitive following the opening of the expanded Panama Canal locks in June 2016. Recycling levels in the sector have

declined year-on-year by 35% in TEU terms to 137 units of a combined 0.4m TEU in the year to date, but remain historically high.
So, global demolition volumes have generally declined year-on-year, driven primarily by the bulkcarrier and containership sectors. However, scrapping activity remains at historically elevated levels, and the costs of complying with upcoming environmental regulation are likely to sustain this trend in the medium term. This could continue to drive supply side rebalancing, potentially helping shipping markets to transition into the next stage of the cycle.
Source: Clarksons
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(3) Tradewinds, 28 December 2017

Takeover tussles, mystery tycoons and all-action newcomers: the most read shipping stories of 2017

Shipping never sleeps and 2017 was a year full of activity.
New names and familiar faces made the headlines in a year which ended on a more positive note than it started for many markets. Below were the most popular articles among readers of TradeWinds.

Toronto real estate tycoon is behind $450m DryShips deals
George Economou's DryShips spent big in 2017. A string of sale and purchase deals spanning the tanker, dry cargo and LPG markets were backed at first by fundraising alongside the mysterious Kalani Investments. The veil of secrecy was lifted in April when the front page of TradeWinds reveled the Toronto-based Bistricer family - related to New York property mogul David Bistricer - was the force behind the Kalani throne. The drama did not stop there. Some DryShips investors later resisted, launching law suits against the shipowner for some transactions with Kalani. Eventually, ties were cut and DryShips ended up as a major investor in Heidmar instead.

Surfing the cycles: what can history teach us about the next shipping market upturn?
Shipping has a habit of repeating its successes and failures, on average around every seven years, as owners battle for supremacy. "The whole game is a game of pass the parcel," cycles expect Martin Stopford told TW+ in March. "Your aim is to sell ships to your competitor expensively and then buy them back cheaply when he goes bankrupt." Economou, Harry Vafias, John Hadjipateras, Trygve Munthe and Svein Moxnes Harfjeld shared their secrets for how to operate in such a volatile environment.The article looked for triggers of the next upturn, with has since showed glimmers of arriving. The dry cargo market has hit multi-year highs in the fourth quarter this year and LNG rates are in a sweeter spot. Product tanker owners now also have a more positive outlook, but crude tankers still face some choppy waters

John Fredriksen drops legal bombshell in DHT takeover twist
In a year packed with consolidation, it was a deal that didn't happen thatprovided perhaps the most theater. Fredriksen's Frontline chased a takeover of Oslo rival DHT Holdings through the first few months of the year. With a string of offers rejected and DHT's own combination with the BW Group VLCC fleet announced, Frontline took the battle to the court room. The move failed and by the end of the first half Frontline was looking else where, with Gener8 Maritime its reported next target. The discussions were less concrete and reputedly short-lived. Come the end of the year, Gener8 was instead swept up in a share-for-share deal with Euronav.

Greek sisters lead family move into S&P business
A string of new brokerages popped up in Athens in a cluster of activity during the fourth quarter. Xclusiv Shipbrokers emerged in early November, with Dimitris Ioannou unveiling Parallax just a few days later.

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It was a move by the fifth generation of the Matsas family that caught the most readers of TradeWinds, however. Loukia Matsa, Ioanna Matsa and Marina Doukas took the family into the S&P business as the next step in its 137-year history. Best known for the Loucas G Matsas Salvage & Towage business, the group has been involved in both dry cargo and offshore support vessel ownership and operation in the past.

Hull crack blamed for loss of VLOC
The year was not without tragedy, with the sinking of the 266,000-dwt Stellar Daisy (built 1993) costing the lives of 24 crew members onboard. The VLOC was carrying a load of iron ore from Brazil to China when the crew issued a distress call reporting that the vessel was taking on water 2,500km from Uruguay's coast. The disaster led to huge scrutiny about the safety of other converted VLOCs and now the replacement of the ships is well underway. Vale has backed a number of VLOC newbuildings since the Stellar Daisy was lost.

Kassidokostas-Latsis launches dry bulk shipping venture
New shipowning ventures were a defining theme of 2017. MPC Container Ships, Navios Maritime Containers and GoodBulk are just some of the names that spring to mind. Paris Kassidokostas-Latsis's launch of Ivy Shipping in late summer caught the most attention as the Greek shipping dynasty moved back into the market with a vehicle targeting the supramax and panamax sectors. Ivy Shipping is backed by Kassidokostas-Latsis and two major investors and will grow in a different way to the expansion undertaken by Latis vehicle Latsco, which favoured newbuildings in the tanker and gas markets. "We don't believe newbuildings are the way to go at this juncture," said Paris Kassidokostas-Latsis, "Investment in dry bulk for us is not an end to itself but rather a means to an end," he added.

Party time at Nor-Shipping 2017
Come rain or shine, shipping likes a party. This summer it was Oslo's turn in the sun, after Posidonia the previous year. While disruption was a major theme of the week, the threat of rain did not stop shipowners, executives and other industry leaders clinking glasses with TradeWinds on board the historic sailing ship Christian Radich. Shipowners including Westie Hoegh, Herbjorn Hansson, Leon Patitsas and Age Remoy climbed on board for the event, which has been a fixture on the Nor-Shipping calendar since the early 1990s. DHT Holdings co-chief executives Trygve Munthe and Svein Moxnes Harfjeld, Clarksons Platou executives Peter Anker and Erik Helberg and Anette Olsen were among those from the Norwegian market to walk the decks. Henning Oldendorff, large delegations from National Iranian Tanker Co (NITC) and Oman Shipping, Ridgebury Tankers executive Hew Crooks and Gibsons managing director Nigel Richardson brought an international flavour to the event.

Shipping seeing 'best value opportunity in over 30 years'
Disproving the mantra that good news is no news this year is Clarksons Platou Securities. Analysts Herman Hildan, Frode Morkedal and John Gandolfo argued in October the industry was looking at the best value opportunity in more than 30 years. Low newbuiding activity, struggling shipyards, low second hand prices and demand growth racing ahead of expectations were behind their headline-grabbing optimism. They were not alone, Scorpio president Robert Bugbee a few weeks later predicted a multi-year upturn in products tankers amid a positive overall view. "In total shipping I can't remember a time the orderbooks, since 1985, have been in such good shape from the shipowners' point of view across many sectors of shipping," he said.

Scorpio reveals offshore ambitions following anchor handler debut
Emanuele Lauro's Scorpio enjoyed another busy year. Scorpio Tankers bought Navig8 Product Tankers in a $1bn plus move and Scorpio Bulkers was back in growth mode, after sweeping up a suite of ultramaxes from Golden Ocean to launch a fresh round of expansion. It was a private move into the anchor handler and crew boat market, uncovered by TradeWinds in October, which caught the most

online attention. “We are definitely looking at building a position,” Lauro said. “Once we reach the critical mass necessary, we will be looking at opening up to either going public, or to capital providers and other avenues.

SeaOne forges LOI with Samsung for 12 pioneering CGL ATBs
The LNG news ticker was running hot in 2017. Spot markets sprang into life, Golar LNG’s Hilli Episeyo FLNG unit made it onto the water and Prelude FLNG, was towed into position off the northwest coast of Australia, and CMA CGM added LNG fuelling to the largest boxships ever ordered. SeaOne’s letter of intent with Samsung Heavy Industries for up to 12 articulated tug barges was the surprise favourite package from the TradeWinds LNG file, however. The order could cost more than $1.5bn, SeaOne Holdings president Bruce Hall told us.
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(4) Clarksons Research, 22 December 2017

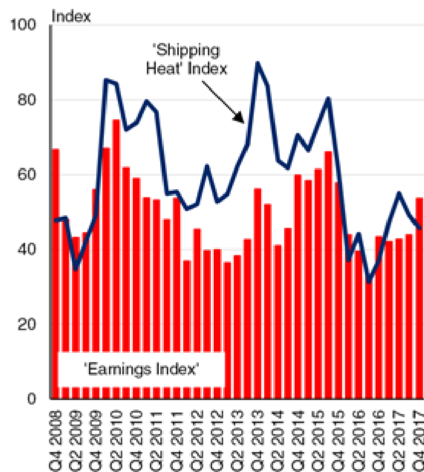
Shipping Heat Index: Time For A Winter Warmer?

At this time of year, icy conditions are not uncommon, but the warmth of the festive season is usually enough to melt even the coldest of hearts. Going into this year, shipping market activity might have still felt pretty iced up for many, but increased activity in a number of core areas in 2017 has seen the shipping market temperature rise a little…

Graph of the Week

It’s The Festive Season - Heading Into The Warm?

The ‘Earnings Index’ represents the quarterly average ClarkSea Index (basis average Jan-00 to Q3-08=100). The ‘Shipping Heat Index’ is derived by creating a quarterly index of newbuild and reported secondhand transaction value (on the same basis), and then taking the (geometric) average of that index and the ‘Earnings Index’. Q4 2017 earnings data up to and including 15th December, Q4 2017 newbuild investment data basis October and November run-rate, secondhand sales data basis Q4 run-rate up to 15th December 2017.



Source : Clarksons Research

Checking The Thermometer
In general, our ClarkSea Index provides a helpful way to take the temperature of industry earnings, measuring the performance of the key ‘volume’ market sectors (tankers, bulkers, boxships and gas carriers). Since the start of Q4 2008 it has averaged $11,816/day, compared to $23,667/day between the start of 2000 and the end of Q3 2008. However, earnings aren’t the only thing that can provide ‘heat’ in shipping. Investor appetite for vessel acquisition has often added ‘heat’ to the market in the form of investment in newbuild or secondhand tonnage, even at times when earnings have remained challenged. To examine this, we revisit the quarterly ‘Shipping Heat Index’, which reflects not only vessel earnings but also investment activity, to see how much hotter or colder 2017 has really been.
Not Quite So Cold Now?
This year, the Shipping Heat Index (see graph description) shows us that things, though still chilly, have been warming up a little. In 2016 the quarterly index averaged 37.4. This year it has averaged 49.4, an

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increase of 32% on 2016, and in Q4 stands at 46.1, up 25% year-on-year. Q3 2016 saw the lowest reading in the featured period. This year's peak at 55.0 in Q2 was still some way below 'hotter' levels seen sporadically since the financial crisis, with newbuild investment in particular still limited, but was much closer to the average since Q4 2008 of 59.6.

Thaw Goodness Sake

One factor behind this has been that, on a broad basis, earnings have started to improve this year. The ClarkSea Index has averaged $10,718/day, up 14% on its average level in 2016 (the lowest since the 1980s); there have been marked improvements away from the bottom of the cycle in the bulker and boxship markets.

Hot Money?

Meanwhile, the investment side has seen an even more positive, if still mixed, picture. Contracting, although more than 40% up on full year 2016 in value terms, remained limited at $53bn in the first eleven months of 2017. S&P investment meanwhile has seen an active year. Around $19bn so far is an improvement of nearly 55% on 2016 (and the fourth highest annual level since 2008), reflecting that, albeit with many distressed assets out there, investors perhaps harbour warmer feelings towards the markets.

Still Wintry, But Warmer

So, the shipping markets still look like a chilly environment. However, although earnings alone suggest a slight thawing in conditions, a wider view of the temperature of the shipping markets points towards a greater degree of heat, with S&P investors in particular helping to bring back some much-needed warmth. Have a nice holiday season.

Source: Clarkson Research Services Limited

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(5) Hellenic Shipping News, 27 December 2017/ Dow Jones

China, Flush With Cash, Sets Sights on Shipping

China poured $20 billion into ship financing this year, reflecting the country's ambition to become the world's dominant maritime player as European banks have scaled back their investments.

That is 33% more than Chinese banks invested in 2016, according to the leasing arm of Industrial & Commercial Bank of China Ltd. It dwarfs China's financing as recently as 2008, when its lessors lent just a few million to shipowners that built their vessels in the country's shipyards.

ICBC's numbers only include leasing deals, China's preferred financing method. Bilateral loans, ship mortgages and private placements aren't reported, but research firm Marine Money estimates that Chinese financiers such as ICBC, China Minsheng Banking Corp., Bank of Communications Co. and China Merchants Bank Co. account for as much as one-quarter of a ship-financing sector it values at $200 billion a year.

European banks like Norway's DNB ASA, Sweden's Nordea and France's BNP Paribas still hold some of the world's biggest shipping portfolios, but China's growth has drawn notice.

"It's an unprecedented shift in ship financing," said Basil Karatzas, a New York-based maritime adviser who has arranged many such deals. "We've come from export credits, to a few Western owners, to China becoming a mainstream financier in both new and used vessels."

Three of China's biggest leasing firms, ICBC Financial Leasing Co., Minsheng Financial Leasing Co. and Bank of Communications Financial Leasing Co., own more than 800 vessels, valued at $23.6 billion.

ICBC's shipping portfolio has grown to $10 billion this year from around $600 million in 2009, while Minsheng Financial Leasing has doubled its shipping assets in the past three years to $6 billion, or more than 300 ships, Chief Executive Jerry Yang said.

In contrast, European financiers that were once heavyweights in the industry, including Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC, have withdrawn from shipping. Others, like Germany's HSH Nordbank AG and Nord/LB Group, are looking to divest themselves of part or all of their shipping portfolios. HSH has cut its portfolio to EUR12 billion in September from around EUR17 billion at the end of last year, while Nord/LB has shrunk its holdings to EUR13.3 billion from EUR16.8 billion over the same period.

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“The traditional financiers have either eliminated or drastically reduced their exposure,” said Soren Skou, chief executive of A.P. Moeller-Maersk A/S. “It’s more or less impossible to raise significant amounts of finance from European banks, so others like the Chinese have stepped in a big way.”
European firms are pulling back because of shipping’s long down cycle, in which overcapacity kept freight rates low and made investments risky. Chinese banks are rushing in, but they too may reconsider if the economics don’t improve, said Marine Money President Matthew McCleery.
“As the portfolios of Chinese leasing companies grow, so too will the likelihood that they will have some defaults, which are inevitable in a cyclical industry like shipping,” he said. “How Chinese leasing companies will manage these defaults, especially when bankruptcy is involved, has yet to be seen.”
ICBC Financial Leasing’s executive director, Bill Guo, said the bank is working with established operators such as Denmark’s Maersk Line, Swiss-based Mediterranean Shipping Co. and France’s CMA-CGM SA, which “makes default risk lower.”
People in the industry expect China to play an increasing role in ship financing in the coming years. Its banks are flush with cash, they expect a strong industry recovery and if things go wrong, they can deploy their ships to state-owned operators or scrap them in exchange for government subsidies.
“China controls up to 40% of the global shipbuilding capacity, and that’s a natural metric of where they want to be in the financing business,” said Arlie Sterling, president of Boston-based shipping consultancy Marsoft Inc., which works with Chinese financiers.
China’s ship leasing typically entails lending enough to pay for up to 85% of a vessel, then charging a 5.5% average annual interest rate. Traditional bank loans usually consist of lower upfront loans and interest rates. The country’s banks are quicker than their European counterparts to recover ships if payments are missed.
“The Chinese own the vessel, so the cargo is unloaded at the first port of call and the ship is seized,” said George Lazaridis, of Athens-based Allied Shipbroking. “It keeps operators on their toes, because if they can’t deliver the cargo, their reputation gets a big blow.”
Scorpio Tankers Inc., one of the world’s biggest operators of petroleum tankers, leased five vessels from Bank of Communications in September. Company President Robert Bugbee said the Chinese banks are lending “at great rates.”
In shipping, where personal relationships between bankers and owners remain an important part of doing business, industry watchers say some shipping companies could relocate to Asia to build those ties with Chinese lenders.
“You no longer have your banker a short distance away so that you can meet up for coffee and talk business,” Martin Kroger, managing director of the German Shipowners’ Association said at a shipping conference in Hamburg in November. “That’s a total mind-set change.”
Source: Dow Jones
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(6) Clarksons Research, 27 December 2017

SOx Emissions: Time For Shipping To Have A Clean Up?

With SOx emissions coming into focus as the 2020 global sulphur cap approaches, owners have a number of compliance options, including the fitting of scrubbers. While uptake of SOx scrubbers in the fleet has so far been limited mainly to vessel types that already spend a large proportion of time in Emissions Control Areas (ECAs), the proportion of new contracts for scrubber-fitted ships appears to be on the rise.

In Need Of A Bath
In recent years the regulation surrounding sulphur oxide gases (SOx) has been rapidly extended. Since 2015, 0.1% limits have been imposed on the sulphur content of fuel, closely linked to SOx emissions, within a number of Emissions Control Areas (ECAs). The first global sulphur cap was imposed in 2012, initially set at 3.5%, but in 2020 this will be sharply reduced to 0.5%, necessitating significant change in the operation of vessels.

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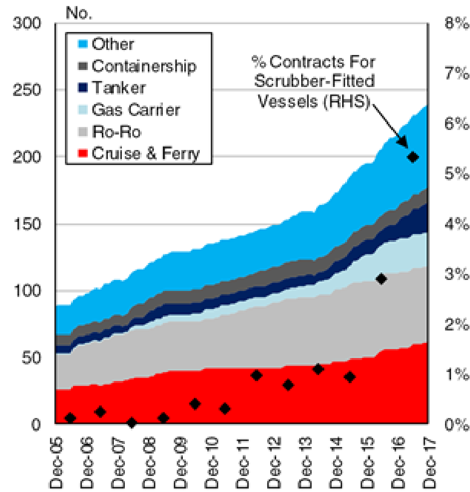
Shipowners have three main options for complying with sulphur limits. The first is to use low sulphur petroleum-based fuels such as marine gasoil (MGO) or certain blends with fuel oil. Another is to use alternative fuels with a low sulphur content, with LNG the most high-profile of these. The third option is to use a scrubber system to ‘clean’ SOx particles from the ship’s exhaust gases, allowing owners to use conventional fuel oil.

Graph of the Month

Taking A Dip: Growth In The Scrubber-Fitted Fleet

The area on the graph shows the number of vessels in the fleet reported to be fitted with SOx scrubbers, split by vessel sector. The markers show the proportion of total contracts in each year (2006-2017ytd) for vessels reportedly fitted or scheduled to be fitted with SOx scrubbers. Further data on scrubbers and other types of environmental equipment is available on the *World Fleet Register*.



Source : Clarksons Research

Who’s In The Tub?
The number of vessels reported to be fitted with scrubbers has risen steadily, reaching 240 as of 1st December 2017. This included 57 Ro-Ros, as well as 62 cruise and ferry units. Meanwhile, 25 gas carriers and 23 tankers also featured in the total. Whether vessels are scrubber-fitted appears to be closely related to the time they spend in ECAs, with most vessels that less frequently enter these areas opting to switch temporarily to MGO. In 2016, an estimated 27% of ferries and 26% of Ro-Ros spent more than 50% of their time in ECAs, while almost a third of cruise ships spent more than 30% of their time in ECAs (see September Analysis).

Owners Taking The Plunge?
However, growth in the scrubber-fitted fleet looks set to accelerate, with the proportion of new contracts for scrubber-equipped vessels increasing from roughly 1% in the period 2012-15 to around 5% in 2017 so far. Despite the trend, this remains a small proportion of total ordering (which has itself been limited), with many owners appearing to adopt a ‘wait and see’ policy. Although scrubbers can eventually reduce costs by allowing vessels to burn cheaper fuel, high installation costs mean that owners installing equipment today face a long payback period. There also remains uncertainty over how the refining industry will meet the growing need for low sulphur fuels, and over the costs of competing technologies such as dual-fuel LNG engines, leading owners to remain cautious.

While growth in the scrubber-equipped fleet has begun to pick up, this has largely been confined to sectors in which vessels spend more time in ECAs. Although high costs and uncertainty mean that scrubber-fitted vessels still make up a low percentage of new contracts, this proportion is increasing. With the 2020 sulphur cap fast approaching, owners still face an important decision on whether scrubbers are the right option for their vessels.
Source: Clarkson Research Services Limited
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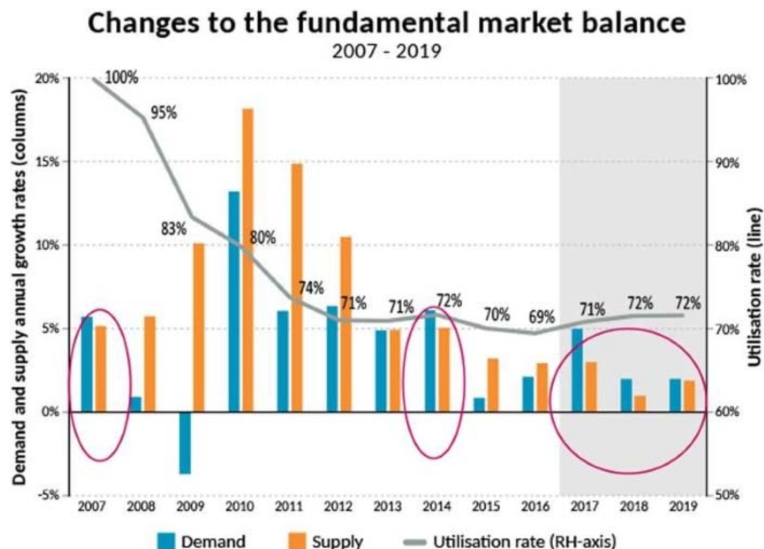
(7) BIMCO, 20 December 2017

Will the dry bulk industry become profitable in 2018?

As the dry bulk fleet is already expected to grow at a pace that matches demand growth expected in 2019, focus must be on improving the fundamental balance ahead of that.
China's imports, particularly of coal and iron ore, grew tremendously in 2017, and the second half of the year has been profitable for several bulk owners and operators. If 2018 delivers similar demand growth (+5%), the bulk industry will see profitable business for the full year.
"But, be aware that 2018 may not be quite as strong as 2017, and profits may not come around until 2019, if the ongoing recovery is not handled with care". says BIMCO's Chief Shipping Analyst Peter Sand.
Particularly, the level of growth in the fleet and the extent of demolition of excess capacity are key factors in the 2018 market.
"Unfortunately, we see weakening demolition activity, and the bulk fleet keeps growing, which can hinder market recovery. As the nominal fleet growth in 2018 is expected around 1%, focus now turns to maintaining slow steaming. If we get notably higher average ship speed the pace of recovery will slow down, if not go directly into reverse", Sand says.



Source: BIMCO estimates (2017-), BIMCO utilisation est. (2007-2019), Clarksons demand growth rates (2007-2016)
Note: Net supply growth of 24 million DWT in 2017 (+3%). Demand growth rate of 5% in 2017.
Note: The circled years are where demand growth outstrips supply growth – improving the fundamental market balance.

In dry bulk shipping, transported volumes follow a seasonal cycle throughout the year – first quarter volumes being the lowest and fourth quarter volumes the highest. For Q1 2018, transported volumes will be significantly lower than those of Q4 2017. It is likely that the transported volumes in Q4 2017, will not be exceeded in 2018 until Q3.
"The industry has got its work cut out to avoid a prolonged dip in freight rates during the first half of 2018 as volumes seasonally decline. Therefore, ship speed needs to be the main focus", Sand says.
The caveat here being that we are at the mercy of China's appetite for dry bulk commodities. China's economic growth remains the absolute key factor for the bulk shipping market, he says.

China responsible for 2017 growth
An unexpected market development in 2017 was China becoming even more dominant in the dry bulk sector. China grew its imports – of essentially all commodities – by a hefty margin. Most importantly, iron ore is expected to end in 2017 with a growth of 6.5% and coal surges with 19% growth. All due to a stronger than expected substitution of domestically mined ore and coal for higher quality imports of the commodities.

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"Demand growth in 2017 has surely been a positive surprise. Growing at almost double the pace of our initial expectations, a demand growth rate of 5% is a three-year-high", says Sand.
Some of the key reasons include, a faster substitution of China's own low-quality iron ore towards seaborne imports of a higher quality. As well as continued strong coal imports despite the suspension of the 276-working-days limitation (a reform plan put in place to limit the number of smaller high-cost miners and cut the supply glut).
An early indication of 2018 demand growth in Chinese iron ore imports is positive, up by 3%, whereas coal is likely to remain steady.
While demand growth has improved the fundamental market conditions, the increased fleet growth has meant that the economic benefits of such a strong demand growth rate has not been fully earned, adds Sand.

2017 improvements lowered by fleet growth
The dry bulk industry is on the road to recovery and maintaining that recovery is now the key challenge. Recovery is achieved by targeting improvements in profitability via improvement in the fundamental balance. This is done by continued demolition activity (short-term) and careful placement of new orders (long-term).
During the third quarter of 2017, freight rates turned profitable for all sizes of dry bulk ships. That means ships deployed in the spot market have been fixed at a level covering operational expenditure, and financing costs include repayment of debt. It's the first time since 2012 that it has happened at industry average level.
The industry is clearly feeling optimistic in the wake of profitable freight rates. But rates could have gone even higher. At the start of 2017, there was only a slim improvement in the market (0.2 percentage points) as the demand growth rate (+2.2%) was forecasted to outstrip the fleet growth rate (+2%) by a small margin.
BIMCO now forecasts 2017 will reach a demand growth rate as high as 5% and a fleet growth of 3%, improving the fundamental market balance by two percentage points. Nevertheless, had the fleet growth rate remained at the initial 2%, it would have improved the market by three percentage points, a strong level not seen since 2004. Back then, the fundamental balance improved by 3.7 percentage points (2004: demand growth rate: 10.5% – supply growth rate: 6.8%).
Source: Peter Sand, Chief Shipping Analyst; BIMCO
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(8) Clarksons Research, 22 December 2017

Picking Up Speed: Car Trade Hits The Gas Again

The car carrier sector has experienced very challenging market conditions over recent years, partly reflecting an estimated 2% decline in global seaborne car trade between 2013 and 2016. However, in common with a number of other shipping sectors, 2017 so far has seen an encouraging return to notably more positive trends on the demand side.

Under The Speed Limit
The car carrier sector was probably one of the hardest hit by the global economic downturn, with seaborne car trade declining by more than 30% in 2009. Unlike in most other shipping sectors, where demand bounced back fairly quickly, it has taken ten years for seaborne car trade volumes to return to pre-downturn levels, with trade only expected to exceed the 2007 peak this year. The recovery from the downturn has partly been hampered by disappointing volume growth since 2013; seaborne car trade fell by 2% in 2014, and declined again last year to reach an estimated 20.4m cars. The car carrier sector has been highly exposed to sluggish growth in the world economy in recent years, and the impact from the lower commodity price environment on consumer demand in key developing regions last year was especially pronounced. Trends towards relocation of car production to regions closer to major importers have also been unhelpful.

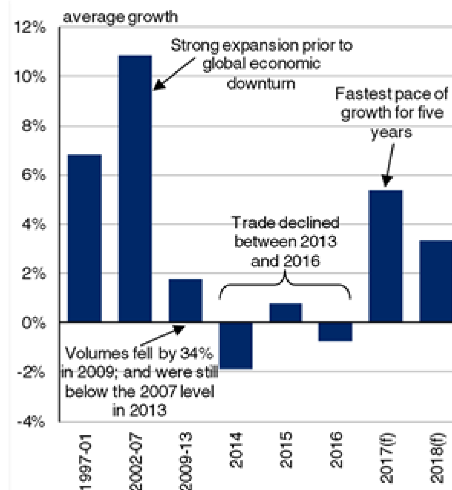
Foot To The Floor
However, some improvement in commodity prices this year, combined with a broad pick-up in global economic growth, has supported a return to faster expansion in seaborne car trade so far in 2017,

outperforming initial expectations. Volumes are currently projected to have grown by around 5% in full year 2017 to total 21.5m cars, representing the fastest pace of growth since 2012. Seaborne imports into North America and Europe are expected to have increased by a robust 5% and 10% respectively, whilst exports from key producers Japan and South Korea are projected to have grown by around 3-4%. Imports into key developing regions also appear to have stabilised somewhat after sharp falls in 2016.

Graph of the Week

Shifting Up A Gear: Car Trade Powers Back To Growth

The graph shows average annual growth in estimated seaborne car trade in selected periods back to 1997. Figures includes new and secondhand cars, and excludes intra-EU trade. Full year 2017 and 2018 figures are projections. Timeseries of seaborne car trade are available on *Shipping Intelligence Network*, along with the 2017 edition of *Car Carrier Trade & Transport*.



Source : Clarksons Research

Turning Corners

Meanwhile, difficult car carrier market conditions in recent years have led to key developments on the supply side. 2016 and 2017 will go down as two of the four highest years for car carrier recycling on record, whilst contracting has slowed to a trickle, with just five ships ordered since start 2016. Alongside slow fleet growth, more positive demand trends finally supported limited improvements in the charter market in the final quarter of 2017.

The Road Ahead

So, demand growth in the car carrier sector appears to have finally moved back into a more positive phase. Trends in the world economy appear supportive, whilst rapid uptake of electric cars could also provide some upside going forwards. Risks on the demand side remain, and market conditions are still under clear pressure, but this year has at least seen some more positive indications. In our annual Car Carrier Trade & Transport report, we look at the latest developments in detail. This year’s report is now available on Shipping Intelligence Network. Have a nice day.

Source: Clarkson

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