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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

- Reportedly, **Filipino seafarers** comprise more than one-quarter of seafarers employed in the global shipping industry (item 3). Last year around 229,000 were working on board merchant ships at any given time.
- China's **One Belt, One Road** initiative developing both overland and maritime trade routes through infrastructure investments presents opportunities for the shipping industry to participate (item 7). But an adviser suggests that shipowners need to identify and target specific geographical regions and cargo flows.
- What is the **outlook for key shipping market sectors** over the next twelve months ahead?
- Analysis published last week by a prominent international shipping organisation, BIMCO, looks at recent trends in, and prospects for the tanker, bulk carrier and container shipping sectors (item 1). **Greatly differing circumstances** are examined in brief reports discussing the main influences affecting the demand for, and supply of, tonnage and the development of freight rates.
- The **offshore oil and gas industry** is a specialised maritime activity which creates employment for numerous ships. Lower oil and gas prices have severely affected demand for drilling rigs and offshore support vessels (item 6).

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(1) Note for **SOLENT GMWD** readers by ***Richard Scott***, GMWD editor

New reports published last week by BIMCO

BIMCO periodically publishes useful analytical commentary on the tanker, bulk carrier and container ship market sectors. The great advantage of these commentaries is that they are **free of charge** to non-members and available on the website. The latest batch was published last week on 6th May. Links for the 3 reports, plus another giving general comments on the global economy relevant to shipping markets, are shown below.

Some sharp contrasts are highlighted in these analyses. The **tanker market** is still doing well (especially in the crude segment) overall and producing good returns for owners. But BIMCO cautions that the accelerating pace of crude tanker newbuilding deliveries "will inevitably put some downward pressure on freight rates".

The **bulk carrier market** is still doing badly, although above its disastrously depressed level of three months ago. BIMCO analysts think that "a multi-year trend of negative fleet growth" (in the global bulk carrier fleet) is needed to correct the chronic demand/supply imbalance prevailing in this market.

In the **container ship sector**, low container freight rates are prevalent. Also, as BIMCO comments, vessel "time charter rates seem to have reached their lowest possible level". Here again "multiple years of negative fleet growth is needed" to enable sustainable freight rates to return to the industry.

These are tough times indeed, unless you are a tanker owner!

URLs for latest BIMCO reports

Container ship market:

https://www.bimco.org/Reports/Market_Analysis/2016/0506_ContainerSMOO_2016-02.aspx

Bulk carrier market:

https://www.bimco.org/Reports/Market_Analysis/2016/0506_DrybulkSMOO_2016-02.aspx

Tanker market:

https://www.bimco.org/Reports/Market_Analysis/2016/0506_TankerSMOO_2016-02.aspx

Global economy background:

https://www.bimco.org/Reports/Market_Analysis/2016/0506_MacroSMOO_2016-02.aspx

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(2) Clarksons Research, 6 May 2016.

Volatility? Variation No Enigma To Shipping…

Along with cyclicality, the other characteristic of the shipping markets which receives frequent mention is volatility. This is so evident that the shipping markets are often reported to be many

times more volatile than the stock markets or other fluctuating economic variables. Here we take a look at some metrics which shine some light on the relative volatility of the industry.

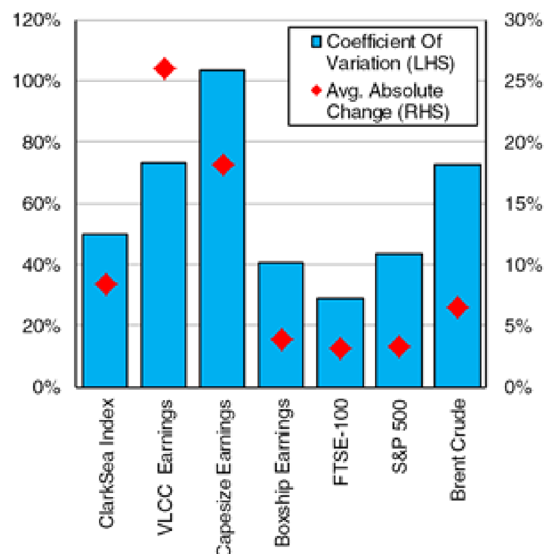
Measuring the Waves

Many metrics can be used to measure aspects of volatility (though none are perfect). A few are calculated here to compare volatility in the shipping markets with that in the stock and commodity markets. One classic measure of volatility is the 'coefficient of variation' which takes the standard deviation of a series over time (a measure of the degree of dispersion of observations in a series) and divides it by the mean (average) level of the series.

Graph of the Week

How Strong Are Shipping Investors' Stomachs?

The graph shows two measures of 'volatility' for a range of shipping market indicators including the ClarkSea Index (a weighted average of tanker, bulker, containership and gas carrier earnings), the FTSE-100, the S&P 500 and the oil price (Brent crude). The data series used are monthly back to start 1990, with shipping market and oil price data based on monthly averages, and stock market data based on start month opening prices. The two measures shown are the 'coefficient of variation' (left hand axis) and the average absolute change as a percentage of the mean (right hand axis).



Source : Clarksons Research

Volatile Business

This metric highlights the degree of volatility present in the shipping markets (see graph). For the ClarkSea Index it stands at 50%, for VLCC spot earnings 73% and Capesize spot earnings 104%. For the FTSE-100 the figure stands at 29% and for the S&P 500 43%. The stock markets, often thought highly capricious, appear to be quite a bit less volatile than shipping on this basis (and given that stock markets generally track a trend rather than a cycle, one might have expected their coefficients to be biased upwards). The oil price compares more closely to shipping; the figure for Brent crude stands at 73%. Another useful metric is the average absolute monthly change as a percentage of the mean. For the ClarkSea Index this stands at 8%, for VLCC spot earnings at 26% and Capesize spot earnings 18%. For the FTSE-100 and S&P 500 this stands at around 3% and for Brent at around 6%, so again much lower. Of course this analysis doesn't capture everything. It excludes week-to-week (or day-to-day) volatility, though one might suppose that this could further emphasise shipping's volatility (for example, see VLCC spot earnings on page 2). Equally it does not handle (or 'de-trend') indicators differently to account for the fact that stock markets typically follow a long-term trend, rather than a cycle like shipping.

Variation On A Theme?

But, even using a regression approach to ascertain variation from simple trend levels, over 60% of the FTSE-100 movement is explained by the trend. In shipping, much more of the variation appears to remain 'unexplained' (less than 10% of the variation of the ClarkSea Index would be accounted for by a simple trend).

Need Good Sea Legs?
So, volatility in shipping easily holds its own against fluctuations in other economic phenomena. It's a competitive business, and rapid changes in pricing can be driven by the steepness of the supply curve at the margins, as well as a range of quite unpredictable factors. This helps make shipping interesting for asset players and short-term speculators but tricky for investors looking for certainty of return and analysts looking for a clear picture. Like seafarers themselves, shipping market players can quite rightly point to having the stomach for ups and downs as much as anyone. Have a nice day.

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(3) Hellenic Shipping News, 3 May 2016/ Manila Times

Filipino seafarers top choice

The country remains to be the world's top source of seafarers, with around 229,000 Filipinos on board merchant shipping vessels around the world at any given time.
Filipino seafarers comprise more than 25 percent of the 1.5 million mariners worldwide, making them the "single biggest nationality bloc" in the global shipping industry according to the Department of Labor and Employment (DOLE).

In a study made by the Commission on Filipinos Overseas (CFO), 358,898 Filipino seafarers were deployed last year, infusing about $5.575 billion to the country's economy through their remittances. Filipinos are the most preferred seafarers in the world because they are better trained and proficient in English, according to the DOLE.

Guiding institution
At the forefront in developing and enhancing the world class competitiveness of Filipino seamen is the Maritime Industry Authority (MARINA), an attached agency of the Department of Transportation and Communications.

As the sole maritime administrative body of the country, MARINA is responsible for the implementation and enforcement of the 1978 International Convention on Standards of Training, Certification (STCW) and Watchkeeping for Seafarers and related international agreements to ensure that Filipino seafarers are up to world standard.

Administrator Maximo Mejia Jr. said that Republic Act 10635 which established MARINA as the sole body in charge of maritime administration, enabled it to establish firm control over all processes and eliminated layers of bureaucracy.

"This development in the Philippine maritime industry is a step towards a stronger maritime nation that moves the world. MARINA is empowered to ensure that the certificates issued to Filipino seafarers are accepted by the maritime administrations and industry stakeholders around the world at its face value, a certificate backed by a credible, responsible, and high quality monitoring system," Mejia said.
Under Executive Order (EO) No.1011, MARINA assumed the quasi-judicial functions of the Board of Transportation (BOT) over the domestic shipping transport.
The agency is also mandated to implement reforms and programs that will accelerate the integrated development of the local domestic shipping industry to global standards.

Performance report

In 2015, Mejia issued 41 key policy issuances for effective supervision of the maritime industry in line with EO No. 43 and the current administration's five-year Philippine Development Plan.
Among the policy issuances is the implementation of the MARINA anti-red tape monitoring system (ARTA) to institutionalize open, transparent, accountable and inclusive governance.
Mejia explained that its objective is to ensure and maintain full compliance with ARTA towards improvement in the delivery of MARINA frontline services.

In terms of revenue collection, meanwhile, MARINA reported that it has surpassed its 2015 target of P872,826, registering revenues amounting to P983,728 or 12.7 percent higher than its target.
For his leadership in advancing the implementation of the STCW Convention, Mejia was included in the Lloyd's List of the world's 100 Most Influential Persons in the Shipping Industry (2013).

Prior to his appointment to MARINA, Mejia was professor at the World Maritime University (WMU), in Malmö, Sweden, and the head of its Maritime Law and Policy program. While at WMU, he also held visiting professorships at the United States Coast Guard Academy and Lund University Faculty of Law. Before joining WMU, Mejia served as a commissioned officer in the Philippine Navy and the Coast Guard. He saw duty on board naval and coast guard vessels as well as shore-based facilities in the Philippines.

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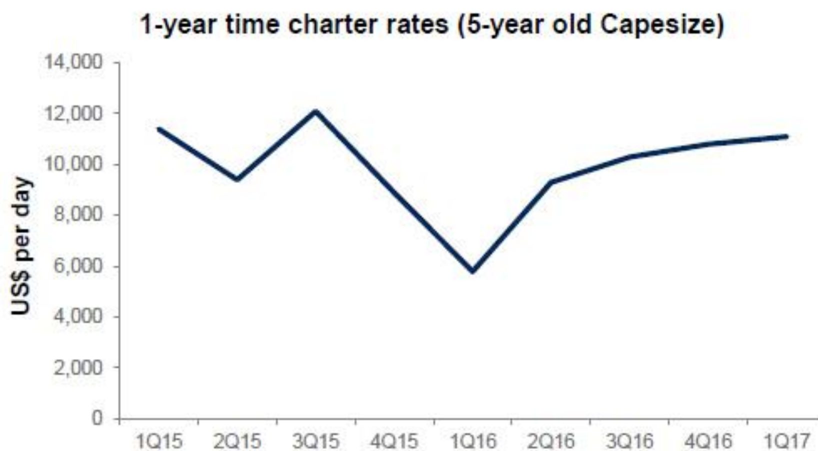
(4) Hellenic Shipping News, 5 May 2016/ Drewry

Recent strength in dry bulk shipping to be short-lived

Drewry forecasts dry bulk freight rates in 2016 will be, on average, lower than in 2015, as the medium-to-long term fundamentals for dry bulk shipping will remain challenging, according to the latest edition of the Dry Bulk Forecaster report published by global shipping consultancy Drewry.

The dry bulk sector has seen a period of recovery in recent months based on higher iron ore, coal and grain trade. The boom in iron ore trade that has resulted in record exports out of Australia and Brazil is expected to be a short term phenomenon as it has mainly been based on iron ore restocking due to low inventories, hence resulting in stronger Capesize engagement particularly in the Pacific basin. Seasonal iron ore restocking activity in China will relax over the next few months as inventories increase.



Source: Drewry Maritime Research

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Demolition activity ramped up in the New Year, especially in the larger vessel segments – 37 Capesize, 49 Panamax and four VLOC vessels – in total amounting to more than 12 million dwt tonnage in just a quarter. This is double the volume compared to the previous quarter, which enabled overall vessel supply to contract (quarter-on-quarter) for the first time in 10 years.

A sharp increase in layups, order cancellations and high demolitions are currently playing a major role in correcting the massive tonnage supply problem in the dry bulk market. This will result in modest improvements in freight rates in the coming quarters. However, the supply of 30 VLOCs ordered by Chinese companies which are scheduled for delivery from 2018 risks depressing rates of the larger vessel segments around 2018/19.

"Drewry forecasts that rates in 2016 will be, on average, lower than those in 2015, though some improvement in rates will be seen in subsequent quarters in the current year. Smaller vessel segments such as the Handysize and Supramax vessels have comparatively better prospects going forward as minor bulk demand is set to firm up in the coming months", said Rahul Sharan, lead analyst for dry bulk shipping at Drewry.

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(5) Hellenic Shipping News, 29 April 2016/ Drewry

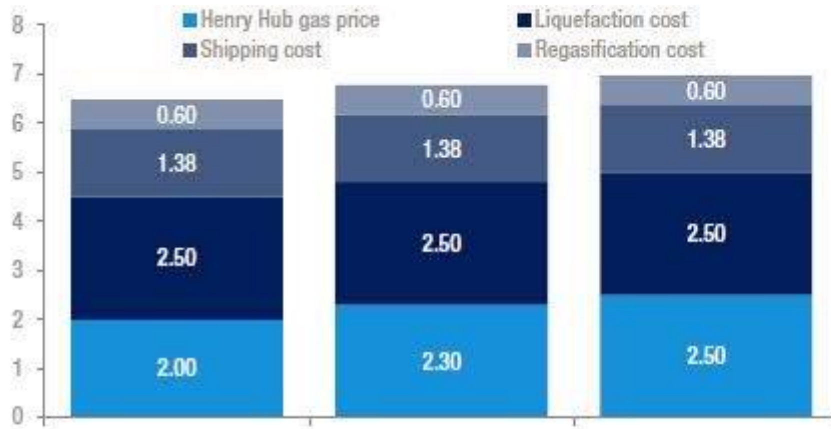
LNG shipping rates to remain under pressure despite rising cargo supply

LNG shipowners will have to wait until 2018 for earnings to improve, when the majority of new US plants are expected to come online, according to the latest edition of the LNG Forecaster report published by global shipping consultancy Drewry.

The first quarter of 2016 was no better than the previous quarter for LNG shipowners as spot rates remained low at around $30,000pd. Two new liquefaction plants, Australia Pacific LNG (APLNG) in Australia and Sabine Pass LNG in the US, began operations in the first quarter of 2016. But freight rates for LNG carriers remain low despite the new liquefaction trains coming online. The ramping up of Australian LNG exports will not bring any respite to LNG shipowners given the short-haul voyage distance between Oceania and Asian markets. Inflated fleet growth over the last few years has led to a supply glut, which will keep the rates under pressure until 2017.

Moreover, the recent commencement of exports from Train 1 at the Sabine Pass LNG terminal in the US is not expected to increase LNG shipping demand as the cost economics of importing LNG into Asia from the US are so unfavourable. The chart below shows the landed cost of US LNG to the Far East under three Henry-Hub price scenarios. The landed cost of US LNG, without mark-up, at current Henry-Hub and bunker prices is around $6.00 per MMBtu, while the spot price in Asia is currently between $4.00 and $5.00 per MMBtu.

US LNG delivered cost to Far-East without mark-up ($ per MMBtu)



“Based on the above considerations, we believe that the majority of the cargo from Train 1 will land up in either Europe or Latin America, for two reasons. First, demand from Far East Asian countries is weak, and second, in the current low-price environment it does not make much sense to import from the US. Thus, if this happens, tonne-mile demand will be one-third of what it would be if exports went to Asia,” said Shresth Sharma, Drewry’s lead LNG shipping analyst.

“All in all, the additional export volume is not expected to have any major effect on LNG shipping rates as this is being matched by vessel deliveries. Therefore, our outlook is that the market must wait till 2018 for more US plants to come online, as only large production capacity will consume inflated vessel supply,” added Sharma.

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(6) Clarksons Research, 27 April 2016

Exploration Boom, Exploration Bust, Exploration Blocks

As a result of weaker oil prices and E&P spending cuts, offshore exploration is severely challenged. This is reflected in the fact that discoveries are down 47% y-o-y on an annualised basis so far in 2016, global rig utilisation has dropped 22 percentage points to 73% in two years, and 29% of seismic units are inactive. But it is also reflected in a perhaps less prominent element of exploration, namely, block awards.

Block Basics
The basic framework for offshore exploration is provided by blocks. Blocks are areas in which specific oil companies (the licensees) have set E&P rights and obligations with respect to one another and the host country over a specified period. As at April 2016, oil companies hold 10,968 offshore blocks (with an average area of 996 km2) globally. As a general rule, each block will have an operator company, but also several more companies with equity in the block. This allows oil companies to spread the risks of E&P.

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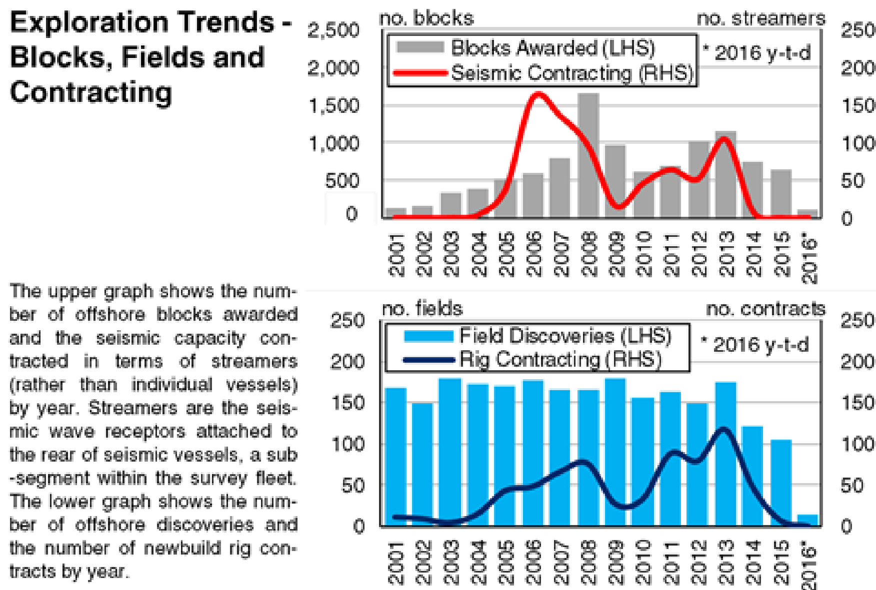
Graph of the Month



Blocks may be awarded to oil companies on a one-off basis but are usually awarded through well-publicised, semi-regular licensing rounds, for example Norway's ongoing '23rd Licensing Round'. Indeed, at present eight offshore rounds are in progress, covering 55 blocks. However, oil company uptake is looking lacklustre and it is expected that, given low levels of interest, a very small percentage of these will be awarded. Just 102 offshore blocks have been awarded so far in 2016, down 38% y-o-y on an annualised basis on a poor 2015. By way of comparison, 1,162 offshore blocks were awarded in 2013.

Acreage Accumulation

In part, this situation reflects reduced E&P spending (exploration budgets are relatively easy to cut). But it also reflects something of a block 'asset bubble' in the 2010 to 2014 period, in which 5.99 million km2 of offshore acreage was awarded. Supported by a high and stable oil price, many oil companies stocked up on frontier acreage, engaging in bidding wars for key blocks, driving up prices. For example, in a battle for a 8.5% share in Area 1 off Mozambique in 2012, the block was implicitly valued at c.$14 billion (and East Africa was just one of several frontiers opened up in this period). Oil companies thus acquired a great deal of relatively costly offshore acreage in a short period.

Exploration Excesses

On the plus side, the exploration boom of 2010 to 2014 yielded 765 offshore discoveries, including many large finds that are likely to drive future offshore production growth. However, block oversupply, analogous to that in segments of the offshore fleet, built up. As the two graphs show, the peak of the latest block awards cycle coincided with a 2013 peak in ordering of rigs (117 units) and seismic capacity (104 streamers). Just as there is a supply-demand imbalance in the seismic and rig markets, so too is there in blocks. Oil companies are now sitting on a backlog of unexplored blocks, with fewer incentives to bid for new acreage (though strategic investment in Iran or deepwater Mexico might still happen). So licensing reflects the broader exploration situation, with block awards and vessel contracting showing similar trends. This being the case, a future rise in block awards could perhaps presage a general recovery in exploration. In gauging exploration sentiment then, upcoming licensing rounds could well be worth monitoring.

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(7) Lloyd's List, 22 April 2016

One Belt, One Road infrastructure projects to present shipping opportunities

CHINA'S One Belt, One Road initiative to create a modern trade route through significant investments in infrastructure will present opportunities for the shipping industry.

But given the broad scope of the globe-spanning project, shipowners will need to target and identify key geographical regions where such growth takes place and also the trade flows that are generated, said ICBC senior advisor Yaseen Anwar at the Singapore Shipping Forum organised by BNP Paribas and Moore Stephens LLP during Singapore Maritime Week.

An example is countries within the Association of Southeast Asian Nations undergoing urbanisation, which present an opportunity for intra-Asia trade for smaller vessels.

Another example is Chinese state-owned investment company CITIC Group Corporation's plans to invest in 300 projects extending from Singapore to Turkmenistan.

The projects include railways, highways, oil and gas pipelines, power grids and other infrastructure links spanning central, west and south Asia to Greece and Russia, which will upgrade China's connections to Europe and Africa and vice versa, and will require building materials to be shipped to those places.

Mr Anwar said that with the shipping industry facing overcapacity issues, shipowners should not only look at trading opportunities in existing maritime routes, but also consider potential new links created by the One Belt One Road initiative.

Vital land routes could also generate shipping opportunities for areas such as Rotterdam in the Netherlands, Piraeus in Greece, Gwadar in Pakistan, and Lithuania, among others.

One Belt, One Road's Silk Road Economic Belt includes countries along the original Silk Road through Central Asia, West Asia, the Middle East and Europe.

"From Gwadar, the Middle East and Africa become more cost effective for transhipment to western China and central Asian republics," he said.

The port at Gwadar is one of the points along the One Belt, One Road initiative where the land and maritime routes intersect. China helped to build and complete its first phase of development in 2006 as one of the projects under the China Pakistan Economic Corridor.

The corridor is a range of projects being undertaken worth around $46bn to enhance infrastructure in Pakistan and increase economic links with China.

Lithuania has been one of the Baltic region's largest recipients of outbound direct investment in recent years due to its container port. It provides a key maritime and distribution link to the western markets within the European Union and Scandinavia, as well as to the eastern markets of Russia and the former Soviet Union.

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State-owned China Cosco Shipping this month clinched its purchase of a majority ownership stake in Greece's largest port, Piraeus. Piraeus has been identified as a key gateway to European markets under China's One Belt, One Road plan.

The Port of Rotterdam in October last year signed a memorandum of understanding with the Bank of China for a strategic long-term business alliance to jointly explore business opportunities in Chinese president Xi Jinping's ambitious One Belt, One Road project. Rotterdam is one of the key points along the One Belt, One Road project's Silk Road Economic Belt land component.

Another possible opportunity for shipowners is to identify One Belt, One Road-supported projects that could generate trade flows from the import and export of certain materials needed for the schemes.

"For example several mega-coal fired power plants costing more than $3bn in Pakistan would result in increased coal imports from South Africa and Indonesia," said Mr Anwar, who is also a former State Bank of Pakistan governor.

"This highlights new and incremental opportunities for ships."

He also noted that the slump in prices of commodities such as crude oil, steel and concrete is a major boon to the One Belt One Road initiative as "this will further lower costs, accelerate implementation and in turn stimulate much needed growth and other shipping opportunities".

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