Southampton SOLENT University

Global Maritime Weekly Digest

Publishing Director: Prof Minghua Zhao **Editor: Richard Scott**

28 November 2017 **issue 98**

*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.

Contents

Editorial comments

- Development of ***unmanned vessels*** is being hampered by lack of regulations covering key aspects, according to a recent survey of shipping industry executives (item 2).Cyber security threats and collisions are particular matters causing anxiety.
- Global seaborne trade's high dependence upon the health of ***China's economy*** ensures a sharp focus on this subject, and there is good news, according to some observers (item 4). After revising upwards their GDP forecasts for this year, many economists are expecting only a slight deceleration in 2018.
- But there are worries about ***slower international trade*** generally, which has already affected the global shipping markets. Demand for shipping services could be weakened by such changes as production and manufacturing moving nearer to the final destination of use, and the so-called fourth industrial revolution, which have negative implications (item 6).
- Trends in ***ship operating costs*** and their composition provide insights into many aspects of ship management, including the impact of policy-driven changes. Analysis by a major consulting firm suggests that, after a marginal rise in overall costs this year, some larger increases may be ahead in 2018 (item 7).
- Another analysis looks at the overall ***cost of providing bulk transport services*** and the cyclical patterns unfolding (item 1). Generally costs are less changeable than vessel earnings, but over time can vary quite widely.

Richard Scott MA MCIT FICS
editor (email: bulkshipan@aol.com)

(1) Clarksons Research, 17 November 2017

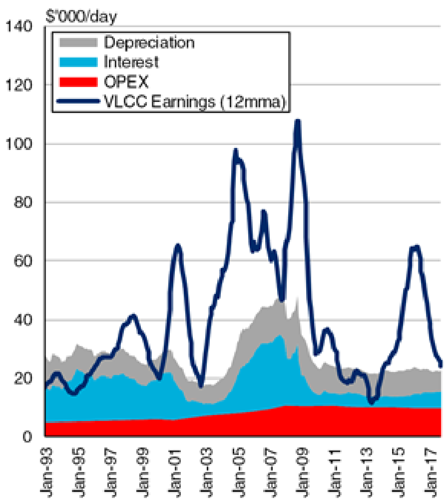
Surfing The Cycle: Watching The Waves Shipping Style

In an industry as volatile as shipping, having the right ship at the right time can bring significant rewards, but the other end of the cycle can be deeply painful. As any surfer knows, to ride the waves good timing is vital, but notoriously tricky. For shipowners, tracking movements is also key; assessing the markets is paramount but carefully watching how the cost base is changing is clearly important too…

Graph of the Week

Riding The Waves: The VLCC Market's Ebb And Flow

The line shows the 12-month moving average of VLCC spot earnings in $/day, while the stacked area shows estimated costs of a new VLCC in $/day on a monthly basis, comprising OPEX, interest (basis 100% finance at LIBOR + 1%) and depreciation (basis 'straight-line' to scrap over 25 years). OPEX series based on data from Moore Stephens and other industry sources. Timeseries of VLCC spot earnings and prices are available on *Shipping Intelligence Network*.



Source : Clarksons Research

On A Firm Footing

In shipping history, managing costs during challenging times has led to a number of successes. In the 1880s, towards the tail end of the revolutionary shift from sail to steam power, profits at the New Zealand Shipping Company were dented by the high cost of spot chartering steam ships. The company, chaired by John Coster, ordered two new steam ships and with five vessels started the first steam liner service from New Zealand to London. The trips were profitable; high freight for refrigerated cargoes (then an emerging market) supplemented income from passenger fares, and one of the new ships traded until 1899 when she was deemed too costly to run compared to more modern ships and was sold.

Tides Keep Turning

Owners today have faced challenging times too after a number of years with market conditions in the doldrums. With vessel income clearly very volatile over time (see graph), cost pressures are still prominent, and there are many moving parts for owners to keep an eye on. For example, trading a VLCC on the spot market in 2010 could theoretically have generated earnings of $12m, but earned net income of just $3m after accounting for OPEX, interest and depreciation.

While costs are generally less volatile than earnings, they still vary over time. VLCC operating costs doubled between 1992 and 2007 with crew costs rising, but operating costs in many sectors have recently fallen, in part reflecting cutbacks in the downturn, with typical OPEX for a VLCC 8% lower in 2016 than in 2008. Meanwhile, theoretical depreciation costs on ships built today have halved since the boom as newbuild prices have dropped, although ships built in the mid-2000s face higher breakeven levels.

Calmer Waters?

Interest payments have also dropped substantially. Lower newbuild prices, combined with a fall in interest rates (with LIBOR for example dropping from c.5% in 2006-07 to below 1% in 2009-15) have helped to reduce costs. Since start 2010, VLCC spot earnings have spent about 60% of the time above

$20,000/day, but only around 30% of the time above $40,000/day, theoretically the level needed to cover costs at 2007 interest rates.

Surf's Up

So vessel costs are liable to change over time, and owners have many factors to monitor. In 1884, John Coster declared that as his company had survived the bad times, he now had "no fear whatever of the future"; this sentiment may feel out of place in today's still tricky markets with much uncertainty, including over future costs. Yet shipping has never been for the faint-hearted; owners willing to take the risks and keep track of all the costs may just manage to catch a good wave.

Source: Clarksons

+++++++++++++++

(2) Lloyd's List, 20 November 2017

Lack of regulation affecting progress in unmanned vessel development

Industry executives surveyed by Clyde & Co raised concerns over cyber security threats and collisions related to autonomous vessels

MEMBERS of the global maritime industry have raised concerns over the problem of who should be held responsible if an autonomous vessel encounters an accident in light of a cyberattack.

Out of 220 industry executives polled by Clyde & Co, nearly two-thirds noted the uncertainty surrounding the abovementioned issue, while 59% said there were no clear-cut regulations defined in that area.

The law firm noted that existing international shipping rules indicated that vessels are required to have a crew meaning that autonomous vessels are not allowed to sail in international waters.

But on a positive note, the International Maritime Organization in June said it would look into the feasibility of updating the International Convention for the Safety of Life at Sea to permit cargo vessels with no crew to sail between nations.

Additionally, the Comité Maritime International has set up a working group to mull how international conventions and laws can be enhanced to allow autonomous vessels' operations at sea.

"The present state of SOLAS and collision avoidance regulations are being over taken by and holding back potentially industry-changing technology from being developed and implemented," said Clyde & Co partner Joe Walsh.

"Fortunately, the IMO, CMI and other industry interests appear to have recognised that there is a real appetite to test the water with unmanned ships at a commercial level. Industry will quickly need some legal clarity around cyber liability and collision regulations before any ground-breaking progress can be made."

David Loosley, Chief Executive, IMarEST says: "Technology is today advancing at an unprecedented rate and promises a host of new solutions for the maritime industry in terms of improved efficiency, safety and environmental performance. However, we should not be blinded by the benefits. We must also remain alert to the potential risks. This joint research report examines these vulnerabilities and how they might be addressed and is an important starting point for the industry to begin preparing for the future."

In the survey, 68% of participants also noted that due to the reliance of autonomous vessels on computers and digital technology for remote operations, there is a greater threat of cyber security risk compared with crewed vessels.

"Marine executives are right to be concerned about the potentially increased threat of cyber attack as a result of the use of unmanned ships. However, it is probably worth mentioning that the maritime industry as a whole has been criticised for being a bit slow in reacting to existing cyber threats, including fully crewed vessels and that the biggest threat to any organisation's cyber security posture is still, in fact, human error," said Mr Walsh.

"It is therefore possible that a transition to unmanned ships might actually reduce an organisation's profile and exposure to cyber risks. The cyber threat should certainly be taken seriously but it should not put the brakes on further exploration of the viability of unmanned ships."

Respondents in the survey said that there was the problem of adequate insurance coverage for unmanned vessels with about 80% saying there is uncertainty over how insurers will handle the issue.

The law firm noted that the International Union of Marine Insurance is currently looking into the matter of insuring such vessels.

"For a business to implement any new technology there is always a certain 'leap of faith' moment, especially when that technology could significantly change the way that organisation operates. Suitable insurance cover can help make this a much more calculated jump into the unknown," said Clyde & Co partner Patrick Murphy.

"The current concern for the marine industry is that few insurers are yet in a position where they can advise on how they are approaching insurance cover for unmanned ships. This is perhaps unsurprising given the lack of legal framework on which to assess and base liability. Insurers are reacting to new cyber risks, so I would expect them to be able to underwrite risks relating to unmanned ships assuming the liability and regulatory framework can be sorted out."

"Currently autonomous cars and drones look to be near the top of insurers' agendas in terms of writing new technology risks. But the marine industry can push unmanned ships up the agenda by speaking with their insurers and asking how they are approaching the issue. As soon as the insurance industry realises there is genuine interest and can see the legalities starting to take hold then it will soon start to consider writing that risk," said Mr Murphy.

Other findings the law firm unveiled from the poll were that about 48% of the participants expect such vessels to come into operation over the next 10-15 years, 63% felt the maritime industry did not have infrastructure in place to handle unmanned vessels, while 51% say crews are not equipped with the skills needed to operate and maintain such vessels at the moment.

"It's clear there is plenty of work to be done but currently it is very much a chicken and egg situation. The marine industry desperately needs more clarity on the legal framework if they're going to invest in the infrastructure and skills needed to roll out unmanned shipping on a commercial level. Meanwhile, regulators are unlikely to invest much time in assessing technology that they don't think the industry is considering for widespread use," said Mr Walsh.

"Of course something will move eventually, so the organisations that are taking a proactive approach towards this new technology are likely to have a competitive advantage once the regulatory landscape becomes clearer."
+++++++++++++++

(3) Hellenic Shipping News, 17 November 2017/ Bloomberg

China's `Hard Bones' Reform-Drive Seen Leaving Expansion Intact

China's reform drive is winning plaudits from economists who are increasingly confident that excesses in the world's second-largest economy can be tackled without derailing growth.

Faced with a debt pile rising toward three times annual output, a property market showing signs of turning, and entrenched interests slowing long-needed reform of state enterprises, China's top officials are signaling that the tough jobs can't be put off much longer.

People's Bank of China research director Xu Zhong said at a conference in Beijing Thursday that after four decades of reform and development, most low-hanging fruit has been picked. What remains involves the hard stuff, like meaningful governance changes to state-owned companies and overhauling how local government is funded.

China must "bite the hard bones," Xu said at the Caixin Summit. Reforms in the new era must break through the "psychological comfort zone," he added, referencing President Xi Jinping's heralding last month of a fresh period in the country's of development in history.

As that sentiment becomes increasingly widespread, economists at Goldman Sachs Group Inc. and Morgan Stanley are nevertheless upbeat that the economy can address its reform challenges without undermining the expansion.

Global investors have been buoyed by the solid year that China's economy has put in, setting it up for potentially the first full-year acceleration since 2010. However, even optimists see a slowdown next year amid efforts to rein in excess borrowing and tame the property sector.

Economists surveyed by Bloomberg estimate real gross domestic product growth of 6.4 percent next year, down from a projected 6.8 percent this year. Just how much debt-slashing goes on next year matters far beyond China, according to Goldman Sachs analysts led by chief Asia economist Andrew Tilton.

"The policy challenge for 2018 will be to move ahead on risk reduction and key reforms without too much of a slowdown," Tilton wrote in a note Thursday. "Given that roughly half the world's investment spending and more than a quarter of global growth occur in China, how its policy makers manage this balancing act remains central to the health of the world economy."

Goldman Sachs forecasts a 6.5 percent gain in 2018, revised higher last month from a prior estimate of 6.3 percent.

In October, Xi conspicuously dropped a previous Communist Party pledge to double 2010 output, signaling a fresh focus on the quality of economic growth rather than the mere adherence to nominal targets. While officials haven't yet detailed economic policy for next year — that's due in December — signs of seriousness of purpose have emerged.

And among other policy makers, the mantra now is that preventing systemic risks in the banking system is the key priority. Data for October also show that the pace of increase in credit aggregates is slowing, with M2 money supply growth now at a record low. While actual deleveraging isn't happening yet, officials point to this as progress.

The PBOC's current focus is still preventing financial risks and supporting the real economy, Yin Yong, a deputy governor of the central bank said in an interview Thursday on the sidelines of the Caixin conference.

China's total debt will increase to 292 percent of output in 2019 and 328 percent in 2022, up from 162 percent in 2008, according to Bloomberg Economics estimates.

Still, Morgan Stanley economists including Chetan Ahya wrote in a report this week that China should nevertheless achieve a "near-stabilization" of its debt-to-GDP ratio by late 2019, and achieve high-income status by 2025.

"Confidence in our thesis has increased over the past few months considering the better-than-expected progress thus far and the continued strong emphasis on ensuring 'sustainability' of growth," they wrote.

Source: Bloomberg

+++++++++++++++

(4) Hellenic Shipping News, 9 November 2017/ Government of China

China: Economy shows bright prospects

China's economic growth rate has maintained the growth range of 6.7 percent to 6.9 percent for nine successive quarters. Last month, the International Monetary Fund (IMF) raised its growth forecast for China's economy to 6.8 percent in 2017 and 6.5 percent in 2018, anticipating that China will retain its unrivaled economic growth rate.

Rising growth forecasts across the board

Aside from IMF, multiple organizations raised their forecasts for China's economy. For 2017, Singaporean Ocbc Bank raised it from 6.5 to 6.8 percent, and 36 economists at Reuters from 6.6 to 6.8-percent; for 2018, Goldman Sachs forecast a 6.5-percent growth rate, up 0.2 percentage points.

Additionally, financial market stakeholders held a positive outlook on China's economic prospects, Bloomberg reported, based on many professional preliminary assessments.

Combination of traditional and new drivers

China's surging new drivers, compounded with the revitalized traditional drivers, jointly propelled its economic growth, said Zhou Jingtong, division head at Bank of China's Institute of International Finance.

According to statistics publicized by the National Bureau of Statistics, the value added growth rate of industrial enterprises beyond designated size reached 6.7 percent in the first three quarters this year, up 0.7 percentage points year-on-year.

The recent accelerating industrial restructuring and upgrade, along with plant equipment transformation and production line upgrade, have contributed to higher productivity. This further lifted China's manufacturing to a mid-high level, with an overall increased efficiency and strengthened competitiveness, said Zhang Liqun, a researcher at the Development Research Center of the State Council.

Consumption contributes to economic growth

Consumption demonstrated its rising momentum in driving China's economic growth. Total retail sales of consumer goods retained a double-digit growth, up 10.4 percent year-on-year. Meanwhile, consumption's contribution rate to economic growth ascended to 64.5 percent, up 2.8 percentage points year-on-year.

China's industry development has hinged upon consumption upgrade since the policy of reform and opening-up. Being the predominant and most lasting driver for the economy, China's ever-growing consumer demands will facilitate a new higher-level industrialization, urbanization, agricultural modernization, and eventually the growth of more profitable investment demands, said Zhang.

Cutting-edge innovation

China has been seeing technological innovation accomplishments coming to the fore and spearheading the global innovation wave, including bike sharing, online transactions, big data, and high-speed rail. Gone are the days when China was merely an imitator, and it is now an exceedingly active player in innovation, credited with its world-class internet-based innovation and other emerging achievements.

Innovation has become a lasting and strong driver for economic growth, said Zhao Ping, a director at CCPIT Academy.

China's economy benefits immensely from its innovative industrial system and expects more development in the long run by virtue of increasingly frequent social innovations, said Wang Ping, executive dean of the Chongyang Institute for Financial Studies at Renmin University of China.

Source: The Central People's Government of the People's Republic of China

+++++++++++++++

(5) Clarksons Research Services, 21 November 2017

Containership Orderbook: Not Just A One Horse Race

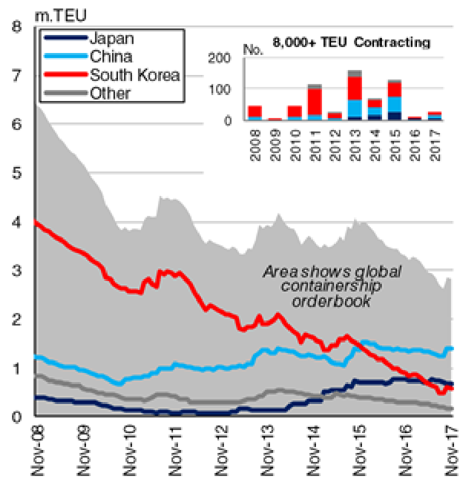
This year has seen a further shake up in the profile of the containership orderbook. A decline in ordering in the larger boxship sector has been a major driving factor, most notably causing a significant reduction in the size of the South Korean orderbook. This month's Shipbuilding Focus takes a closer look at the range of factors impacting the structure of the containership orderbook today.

Racing Downhill
The global containership orderbook stood at 368 vessels of a combined 2.8m TEU as of the start of November, representing a 58% decline in the size of the orderbook in TEU terms since its peak in July 2008, when it stood at 1,370 units of a combined 6.8m TEU. The size of the containership orderbook declined continuously month-on-month this year until October, when it reached 2.6m TEU, its lowest level since December 2003. Meanwhile, the containership orderbook as a percentage of the fleet also declined, to below 13% in TEU terms in September, its lowest level on record.

Graph of the Month

The Containership Orderbook: An Ongoing Shake Up?

The area on the graph shows the size of the global containership orderbook since 2008, in TEU terms. The lines show the development of the orderbook at the 'big 3' and other builder nations, in terms of TEU. The bars on the inset graph show the number of 8,000 TEU and above containership orders each year, split by builder nation. A wide range of containership orderbook and contracting data is available on the *Shipping Intelligence Network*.



Source : Clarksons Research

Pipped At The Post
Traditionally, Korean yards have led boxship sector contracting, taking 49% of global orders in TEU terms from 2008 to 2016, notably receiving 56% of 8,000+ TEU orders in TEU terms in the same period. With the recent slowdown in containership ordering, especially in the 8,000+ TEU sector, the Korean boxship orderbook has shrunk to 0.6m TEU as of the start of November, down 31% since October 2015 in TEU terms. As a result, in May, the Korean boxship orderbook for the first time on record became smaller in size than that of both Chinese and Japanese builders, whose orderbooks stood at 1.4m TEU and 0.6m TEU as of the start of November respectively. Although this shake up has primarily been driven by a decline in larger boxship ordering, Chinese yards have also had an impact by competing in the 8,000+ TEU sector, having taken 36% of orders in 2017 so far, in numerical terms, up from only 18% in full year 2008. Additionally, Chinese yards still dominate sub-3,000 TEU boxship contracting, and have increased their share of orders from 54% in 2008 to 72% in 2017 so far in numerical terms.

Taking A Step Up
The Japanese boxship orderbook increased from c.66,000 TEU in 2013 to 0.7m TEU in 2016 due to domestic orders in the 8,000+ TEU sector in 2014 and 2015, particularly at Imabari, which won 70% of these orders in numerical terms. Whilst the capacity to build bigger units is developed, boxship deliveries have been limited, averaging 0.1m TEU per year in 2015-16 and causing the Japanese boxship orderbook to remain relatively steady in size since 2015. In contrast, deliveries from Korean yards have been consistently high, averaging 0.7m TEU per year from 2015-16.
Overall, the decline in size of the Korean boxship orderbook has been the key driver behind the changing profile at a global level. Meanwhile, further competition has arisen in the 8,000+ TEU sector, where Chinese yards have increased their share of orders. Given the recent limited appetite, a significant new dynamic in big boxship ordering will be needed to generate a significant shake up the profile of the containership orderbook once again.
Source: Clarksons
+++++++++++++++

(6) Hellenic Shipping News, 20 November 2017/ World Economic Forum

International trade is slowing. What does this mean for globalization?

The World Trade Organization predicts a slight recovery in international trade for 2017 and 2018, albeit with many uncertainties.

Historically, the volume of world merchandise trade has tended to grow between 1.5 times to twice as fast as world GDP. But since 2012, trade has only been growing at a rate equal to or below that of GDP. In 2016, 20 of the world's largest shipping companies sold $120 billion, compared to $200 billion in 2012.

The downturn of the Chinese economy and other emerging economies, as well as the contraction of investment in the US during recent years, may explain part of this deceleration – but not all of it. Other technological and political factors could indicate a long-term anti-globalization trend. This would create a world very different to the one we know.

Firstly, technological development is bringing production and manufacturing closer to the final destination of goods – the end user. The most obvious example is energy. We have new technologies for extracting oil. We are making progress in renewable energy to tackle climate change. As technology improves in these areas, the dependence of US and European energy consumers on third-party countries decreases. As a result, so does the need to transport millions of barrels of oil (55% of world trade in 1970) and tons of coal.

Thanks to new shale extraction techniques, the US – the world's leading energy consumer – is becoming energy independent in oil and natural gas. This has a large impact on world trade and geopolitics. Given its growing energy independence, the US may reduce its onerous role as guarantor of maritime security. A large part of its interest in this role, which it has played since 1945, has been to ensure the transport of fossil fuels to the West.

Even more relevant, though still in its infancy, is the impact of robotic development on international trade. As the Fourth Industrial Revolution and its process of extreme automation spreads through our factories, and as robots become more efficient and affordable, practices such as offshoring manufacturing to places with cheap labour will most likely decline. Why relocate a factory to Vietnam or Poland if it can stay in California or Stuttgart with reliable robots that are more accurate, can work 24/7, and are less demanding than human workers? Millions of employees in the East may lose their jobs over the next few decades, substituted by robots in the West.

Advances in 3D printers may soon make it possible to substitute large factories with much smaller ones, closer to the consumer, where the manufacturing process is simplified thanks to the reproduction of models. Other radical changes in artificial intelligence and nanotechnology will come. New materials could be manufactured near the consumer, in order to substitute natural materials that need to be transported from distant mines and deposits. These changes will become more apparent over the next decade and will also influence the contracting process of trade. With less international trade and less maritime security, the price of maritime transport may spiral upwards.

Nevertheless, political reasons are an influencing factor, as evidenced by the latest European and US elections and Brexit. There are important sectors of the Western population that feel that abandoned by globalization.

The process of accelerated globalization, which began with China's entry into the WTO on December 11, 2001, has been extremely positive for humanity as a whole. This model of globalization consists of offshoring manufacturing to countries based on cost efficiency variances, primarily labour costs. It lifted billions of people out of poverty in Asia, Latin America and Africa, and it allowed developing countries to grow significantly.

During the last 17 years, China increased its GDP from $1.2 trillion to $11 trillion, a sign of historically unprecedented growth for a country of this size. A similar phenomenon occurred in India, Vietnam and others. This model of globalization has also supported the growth of large multinational companies that have been able to offshore production processes and increase directors' and shareholders' income, as well as those of their employees and suppliers (including SMEs).

Furthermore, it has been excellent for consumers, enabling everyone to access an endless number of products at competitive prices. However, these benefits are not noted in the industrial communities of the

American Midwest, in the mining and metallurgical areas of Liverpool and Manchester, and in formerly industrialized, rural areas of France. The people of these communities, duly indoctrinated, are starting to form the backbone of western democracies. They are afraid of a world of which they are losing grasp. These people call for tariffs and protectionism. Whether we like it or not, leaders of any political persuasion must make them happy by imposing stricter rules on trade (fair trade) by enforcing tariffs or abandoning certain trade agreements, even if some of us think this will not bring back the jobs as promised.

International trade of goods based on offshore manufacturing will obviously continue to exist, but it will tend to decline below world GDP growth. International organizations that were created after the Second World War will have to focus on the new challenges a different kind of globalization brings. These will require coordinated responses to other issues, such as climate change, migration, major financial crises, investment protection and cybersecurity.

Source: World Economic Forum

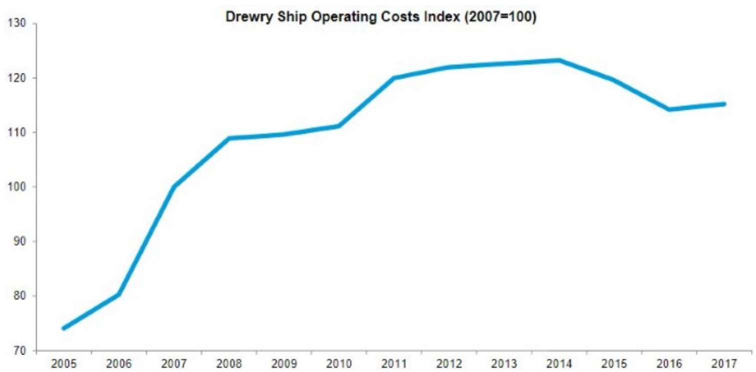
+++++++++++++++

(7) Drewry, 20 November 2017

Ship operating costs stabilise as market recovery lifts pressure

The cost of operating cargo ships rose marginally in 2017 following two consecutive years of falls, but shipowners should prepare for higher costs led by a spike in insurance premiums, according to the latest Ship Operating Costs Annual Review and Forecast 2017/18 report published by global shipping consultancy Drewry.

After two years of marked decline, average vessel operating costs stabilised in 2017 as pressure on owners was lifted by a nascent recovery across most cargo shipping markets. Trends in ship operating costs are heavily linked to developments in the wider shipping market, external cost pressures notwithstanding.



Source: Drewry Ship Operating Costs Annual Review and Forecast 2017/18

But the recovery has not been uniform across all sectors, and risks remain. Despite a brighter economic outlook, the industry is still weighed down by excess capacity, poor profitability and high levels of debt and many owners are struggling to survive. Poor financial returns have kept the pressure on costs and we expect this to remain the case for the foreseeable future.

Drewry estimates that the average daily operating cost across the 44 different ship types and sizes covered in the report rose 0.9% in 2017, following a 7.5% fall over the previous two years (see graph below). Costs rose for most cargo sectors, with the exception of container shipping which achieved a third consecutive year of cost reductions.

The depressed state of shipping markets has forced operators to focus on cost reduction as a means of survival. In the past few years big savings have been achieved in stores and spares, while many owners have been forced to slash repair and maintenance spending, keeping any work to an absolute minimum.

Meanwhile, falling asset values and excess capital for hull insurance have depressed insurance premiums. Finally, owners' largest cost head, manning, has changed little in recent years as wage increases have been kept to a minimum.
"However, there are limits to how long cost cutting can be sustained," said Drewry's director of research products Martin Dixon. "This is evident from the uptick in spending on stores & spares as well as repairs and maintenance in 2017. Meanwhile, the recovery in crude oil prices from the lows of 2015 has forced up the cost of lubricants."
These factors have helped to stabilise overall ship operating costs, while the early signs of a recovery in many cargo markets have given owners some breathing space.
Looking ahead, pressure to restrain costs will continue as many sectors remain overtonnaged and any recovery will rely on fragile fundamentals. Hence, Drewry expect costs under the immediate control of owners, such as manning, spares, repairs & maintenance and management & administration, to be tightly managed.
"But some cost elements are harder to control as they are driven by influences outside an owner's control," added Dixon. "Large losses being booked by reinsurers for a series of natural disasters this year will have the effect of driving up hull & machinery as well as P&I premiums in future years."
However, given the more benign outlook for the remaining cost heads, overall ship operating cost inflation is expected to remain moderate over the next few years.
Source: Drewry
+++++++++++++++

(8) Lloyd's List, 23 November 2017

Dry bulk: Why the Year of the Dog can wag its tail

For the first time in several years, demand and supply equilibrium should be restored

A DELUGE of vessels has meant that the dry bulk shipowners have had to endure years of hardship amid poor freight rates, but a sense of optimism seems to have returned to the segment with the demand for tonnage experiencing a revival.

This newfound hope has been triggered by numerous factors, such as trade in the segment surpassing the global economic growth rate and net fleet growth falling to the lowest levels in the past 13 years. With the Baltic Dry Index close to a three-year high, the owners are betting on further upward momentum.

Call that a trend — if the industry is lucky, 2018 will show better earnings and restore the supply and demand balance in the segment. A Lloyd's List survey shows the consensus among analysts is for freight rates in 2018 to be well above operating costs.

For the owners who invested in cheaper ships in the last few years, the market is sufficiently ripe for harvesting the benefits of low acquisition costs.

China's Year of the Dog
But wait — despite the industry's talk of digitalisation, so much so that BHP (one of the world's largest charterers) is studying gas-powered autonomous ships, it might serve one better to be a little cautious, or even superstitious, when it comes to China — most importantly because China still remains the deciding factor for the dry bulk market.
Next year, the Year of the Dog according to the Chinese horoscope, can appear to be murky for Chinese demand outlook when taking into account Beijing's policies to transform China into a low-carbon economy with cleaner fuels, not to mention the curb on steel production from November this year until March 2018.

On paper, those measures are negative for coal and iron ore imports. But they can also point to more demand from China for high-quality imports of those two types of cargoes to feed its gigantic steel industry.

The closure of domestic iron ore and coal mines amid a pollution crackdown in China will require import substitution of high-grade iron ore from Brazil and Australia as well as better quality coal from Australia, the US, South Africa, Colombia and other exporters far from China, Precious Shipping chief executive Khalid Hashim said.

Another key factor adding to the tonne-miles would be the increase in the supply of Brazilian iron ore as Vale's S11D project is expected to be fully operational in 2018. Additionally, there is also the potential of a restart of the Brazilian Samarco iron ore mine, which was shut by a deadly dam burst in 2015.

The Brazilian miner is seeking permission from Chinese port authorities to allow it to double the amount of iron ore it blends to 46m tonnes in China next year, which clearly shows the growing demand for the longhaul trade. Overall, the tonne-mile demand related to iron ore would be around 8.6bn next year up, from 8.3bn in 2017, Clarksons predicted.

For the long run, President Xi Jinping's Belt and Road Initiative, which aims to build out infrastructure — new ports, roads, railways, power plants and pipelines — along the old Maritime Silk Road across Asia and Europe, would require huge quantities of cement, steel and wood that Mr Hashim points out would be carried in dry bulk ships.

Sexier looks

With the market seemingly poised for further gains as demand is expected to grow by 2%-3% in 2018, the supply side looks even more attractive.

Some analysts even project the fleet to grow by less than 1% in 2018 to around 819m dwt as a wave of scrapping would remove some aged ships.

Banchero Costa Group head of research Ralph Leszczynski expects demolition activity to recover over the next two years on "regulatory pressures and probably a recovery in bunker prices driven by higher crude oil prices, which will put pressure on older, less-fuel efficient ships". Moreover, newbuilding deliveries should be much fewer in 2018 — about 50% down in dwt terms, Mr Leszczynski estimated.

However, slow steaming still remains a concern. The lower fleet growth can be easily spoiled if sailing speeds increase, said BIMCO lead analyst Peter Sand.

Additionally, shipping finance — at this stage, and in the near future — plays a critical role in the industry, Karatzas Marine Advisors chief executive Basil Karatzas warned. "Lack of financing keeps the market in control, but any new sources of financing can drive the market out of control and result in a spike in tonnage."

There remains a lot of idle shipbuilding capacity that begs for new orders, so low offers by shipbuilders plus a hotter freight market with some export credits could lead to a new wave of newbuildings and another phase of an oversupplied market, Mr Karatzas added.

Small but powerful

Capesize and newcastlemax vessels are in riskier markets than others as they can be seen as "one trick ponies" that rely heavily on China trades, while the smaller segments will be the catalyst for improved charter rates next year, according to Mr Karatzas. Modern handysize to ultramax vessels offer most flexibility and economics for trading, while panamax tonnage could benefit from grain shipments in existing and new pattern of trades, such as some Atlantic-Southeast Asia movements, he added.

The Lloyd's List earnings survey provides evidence that the highest growth in freight rates in 2018 would be enjoyed by the panamax segment, whose earnings are expected to rise by 14.9%, followed by supras and handies with an improvement in rates of 11.2% and 10.3% respectively.

Capesizes would show the lowest growth, of 8.4% year on year.

The grain and minor bulk trades, which significantly improved in 2017, will play into the fortunes of the panamax and supramax bulker owners in 2018.

This improvement has been supported by robust demand for grains and soyabeans, as strong population growth and improving living standards across Asia and the Middle East boost food and animal feed requirements that are largely sourced from the Americas, Australia, Ukraine and Russia.

Moreover, grain exports from the US saw spectacular growth of 10% in 2017 on account of strong wheat demand in the Middle East, Africa and Asia, due to US' pricing competitiveness. This is expected to produce further demand in 2018, impacting the overall tonne-miles positively.

Moreover, the emergence of scrap steel exports from China — with the closure of induction furnace capacity — will open up new trades for handies and supras.

Having been a net importer of steel scrap, China could export 5m-10m tonnes of it next year, Maritime Strategies International analyst Will Fray said.
+++++++++++++++