Maritime Forum 1
Tanker and Gas Market Outlook: Market Drivers vs Looming Headwinds

Moderator:

Tim Huxley - Chairman, Mandarin Shipping Limited

Panel Speakers:

Dr Martin Stopford - President, Clarkson Research Services Limited
Domenik Nizet - Senior Vice-President, Shipping Finance Asia-Pacific & Middle East, DVB Bank SE
Andrew Hoare - Chief Operating Officer, Navig8 Group
Wellington Koo - Executive Director, Valles Steamship Company Limited

Tim Huxley, Chairman of Mandarin Shipping Limited, introduced the session by commenting on capacity in the tanker market, asking if it were possible to make a profit operating tankers despite new regulations and overcapacity.

Dr Martin Stopford, the President of Clarkson Research Services Limited, said that while tankers are currently operating 20 per cent below trend and bulkers 10 per cent below trend, containers, gas and offshore face challenges. However, the market is improving. Performance has been better in this recession than in the last one in the 1980s, when rates for tankers were nothing more than operating expenses. The next five years look promising, as tanker owners have proven they are good at managing the market, even with surplus capacity. Given the cost of a new VLCC, the current market is not life-threatening, but nor is it brilliant.

World industrial output has grown by 3.5 per cent this year and US oil imports may increase. Oil demand is growing at a solid rate globally, but mainly in Asia, where China oil imports are steady and product exports are starting to pick up. World growth has been steady for the last three years and 2-2.5 per cent growth is expected this year, which is a solid basis for the tanker business.

There is a surplus capacity on the supply side, which is being dealt with by slow steaming. Stopford added that a combination of surplus capacity, with 40 million tonnes being added this year and 45 million tonnes next year, and falling productivity means the tanker industry has a big challenge to come to grips with logistics rather than speculating on ordering new ships.

The secondary market is weak and the tanker price index is the same as it was in 2000. Ships should be used efficiently and not treated as cheap assets. Stopford advised a return to the attitude that “We trade cargo not ships” and recommended the focus be on building a better business to carry cargo more efficiently.

Domenik Nizet, Senior Vice-President, Shipping Finance Asia-Pacific & Middle East, DVB Bank SE, said he has been in business for 25 years and is still learning. He wonders why Clarksons average tanker earnings were at more or less the same rate in October 2017 as October 1992 and why market rates were similar when the shipping finance world has changed.

He gave an overview of DVB, a specialised transportation bank focused only on asset financing. The lending volume is around €26 billion, half of it invested in shipping. The bank has 602 clients worldwide, with a large stake in Europe but equal stakes in North America and Asia (18.4 per cent). About 50 per cent of the portfolio is tankers. The past couple of years have been a bumpy rollercoaster ride for lenders and their clients.

Nizet turned to overcapacity, commenting that the tanker fleet is extremely young and there isn't much potential for scrapping — the ships that could be scrapped are small product carriers that wouldn't reduce fleet capacity. While over-ordering has stopped, the surplus in the market is driven by shipyard capacity, keenness for new custom and cheap money rather than by commodities. The end of the trough will only come at the end of 2019.

Traditional shipping finance remains around 30 per cent Asian, mostly Chinese leasing companies, with some Western finance and for the first time this year some collaboration between Greek and Chinese players.

Clients are going to find financing more expensive. The 30-year LIBOR is starting to rise. Nizet asked how clients who are barely breaking even now can absorb higher interest and compliance costs, coupled with the higher margins required under Basel III and IV. Compliance may be more expensive and shorter loan tenures may also be an issue because of upticks in interest rates on refinancing.

There needs to be a refocus on efficiency.

Traditional banks are scaling down their lending. Lending capacity will focus on existing clients and credit quality, and not on upgrading older tonnage or ballast water treatment systems. Lenders will be looking at equity and profits, but there is not much profit left from the past two years.

The panel discussion focused on the challenges to profitability in the tanker market:

- World shipbuilding capacity and the pace of technological change
- The impact of environmental regulations
- When would a good time be to invest in tankers and VLCCs