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Larger ships in line for long-term recovery

Keith Wallis - Wednesday 9 December 2009

THE resurgence in the shipping markets is set to continue into the first half of next year with a stronger, longer-term recovery in larger ship types, a number of top Asian shipping executives said yesterday, *writes Keith Wallis in Hong Kong* .

But they also highlighted a structural shift in the shipping market that signalled that a renewed boom to the levels seen in the past few years was unlikely.

Speaking at a Macquarie Asia Pacific transport conference Wah Kwong Maritime Transport chief executive Tim Huxley said: "I am pretty upbeat about the first half of next year."

He said continued strong demand for iron ore and coal into China would help buoy the dry bulk market, but the potential for a raft of newbuildings entering the global fleet could be a drag on sentiment.

Mr Huxley said the industry "had seen a lot of shuffling [of deliveries] into next year". But he pointed out that nobody knew the actual size of the shipping orderbook.

"I only know the orderbook of my own company, Wah Kwong," he said, adding that what appeared for Wah Kwong in newbuilding lists prepared by Clarksons and Lloyd's Register-Fairplay was wrong.

Precious Shipping managing director Khalid Hashim agreed, saying that as far as the forward orderbook was concerned: "I do not know what it is like."

But Mr Huxley thought that a "very considerable amount of ships on order will get delivered, especially large-size vessels such as capesize, very large crude carriers and containerships. There will be pain on the supply side".

Tiger Group Investments managing director Julian Proctor added that his company, the investment arm of Seaspan, was "relatively bullish for 2010 and 2011 for large containerships". He said the company was also bullish about the dry and wet bulk sectors, but only for specific shipping lines.

Explaining his confidence, Mr Proctor said super-slow steaming, with a reduction in speed from 25 knots to around 14 knots, would help reduce excess capacity while generating "enormous" fuel savings.

China's growing shift to an urbanised, consumer-focused economy would also benefit the container market.

Mr Huxley said the "apoplectic fall in values" made containership prices "more attractive".

But all three executives thought there would be a structural shift, with more cargo going into China transported on Chinese-owned or controlled vessels. Mr Proctor said that anybody thinking there would be a "second wave of cargo growth should think again". He said that Chinese policymaking bodies such

as the National Development and Reform Commission had decided that an increasing proportion of oil, iron ore and other commodity imports should be carried on Chinese vessels.

This, combined with moves by Vale, the Brazilian iron ore producer, to expand its dry bulk fleet, made him wonder if prospects for independent owners would be squeezed.

Mr Huxley said companies such as BHP Billiton did not want to own their fleets, but instead "want long-term partnerships. The role of the independent shipowner is still there."

Asked by Macquarie Research head shipping analyst Jon Windham whether Chinese banks would increasingly finance foreign owners, Mr Huxley said Chinese banks were "becoming increasingly important".

He said that for new orders Chinese banks would become an integral part of the package, but these banks were not likely to finance existing orders.

Mr Proctor thought that ship finance provided to companies such as National Iranian Tanker Co to support newbuilding orders were linked to wider geopolitical, economic and mineral issues.

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