Press Report - Business Times

A sustainable upturn for the shipping industry?

That may be so, but senior shipping people also warn of the need to manage issues arising from geopolitics, environmental regulations and technological disruptions

There was a lot of confidence in the air during last week's Singapore Maritime Week. Indeed, according to a panel of senior shipping people, the shipping industry is witnessing a sustainable upturn for the first time in a decade.

However, while reaching that conclusion at the Singapore Shipping Forum, they also warned of the need to manage issues arising from geopolitics, environmental regulations and technological disruptions.

This generally upbeat assessment was shared by Esben Poulsson, chairman of the International Chamber of Shipping and president of the Singapore Shipping Association, when presenting his overview of today's shipping market.

Mick Aw, senior partner of accountants Moore Stephens, told the forum that although the world is currently experiencing fundamental economic and geopolitical changes, traditional shipping sectors are witnessing a possibly sustainable rebound for the first time in many years.

Mention of the word "sustainable" in relation to the shipping markets always makes me feel nervous. Shipping is a classic example of a cyclical market. The conference system used to protect the liner side of the business from the extreme lows and highs but today more or less the whole industry operates in a highly competitive environment and is prone to riding dramatic peaks and falling into deep troughs as well as managing the longer-term cycles.

Potential dangers

Rahul Kapoor, who is the Asia-Pacific transportation analyst at Bloomberg Intelligence, noted that the global economy is shifting back to a strong footing, with the US economy on a cyclical upturn, an almost fully-recovered European Union economy, and a rebalanced Chinese economy shifting towards infrastructural spending and the "new economy". He mentioned potential dangers but thought that shipping returns should improve in 2018, noting improvements in both industry revenues and cash flows, and rising investor appetites.

Many years ago I followed with fascination the early development of a then-new Thailand-based bulker outfit. A couple of decades on, or probably more, Precious Shipping is now a veteran player in the bulker market. So, when its managing director Khalid Hashim speaks, I pay attention. He said at the forum that he was optimistic about the profitability of dry bulk shipping companies in 2018 and 2019. He supported that view with detailed quantitative estimates of forecasted global trade in coal, steel and grain, as well as order books, deliveries and scrapping for bulk carriers.

Press Report - Business Times (Cont'd)

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He concluded that dry bulk demand will exceed supply in both years and that, for the moment, proposed US tariffs on imports were unlikely to affect dry bulk demand. However, sulphur emission regulations taking effect in 2020 could increase fuel costs significantly and were a concern. Another consideration he raised was the rising cost of capital due to rising interest rates, which he thought might dampen future investment in ships.

Mr Hashim has experienced the good and the bad times and his company has survived. One reason for that could be that he focuses on a relatively short time frame. It is possible to predict reasonably well demand and supply curves for two years. On that basis he is optimistic.

Being confident about the next couple of years is not the same as saying we are entering some new prolonged sustainable period of steady growth and high returns in the shipping markets.

Upbeat flavour

Nevertheless, and talking of confidence, Moore Stephens, which together with BNP Paribas sponsored last week's forum, recently published its latest Shipping Confidence Survey which had a distinctly upbeat flavour. It reported that shipping confidence reached a four-year high in the three months to end-February 2018.

The average confidence level expressed by respondents was up from 6.2 out of 10.0 in November 2017 to 6.4 in February. Interestingly the number of respondents expecting higher freight rates over the next 12 months in the tanker market was down by five percentage points on the previous survey to 39 per cent, while those expecting lower rates were unchanged at 13 per cent.

Meanwhile, there was a four percentage-point increase, to 54 per cent, in the numbers anticipating higher rates in the dry bulk sector, accompanied by a four percentage-point fall to 8 per cent in the numbers anticipating lower rates. In the container ship sector, there was a two percentage-point increase to 38 per cent in the numbers expecting higher rates, and a three percentage-point fall, to 12 per cent, in those anticipating lower rates.

One shipping industry insider probably got it about right when he told Moore Stephens: "The shipping market is still characterised by high volatility and excess tonnage in most sectors, particularly bulk carriers and tankers, but there is cause for slight optimism."

Perhaps, on balance, there are good grounds for optimism in the short term but let's not get too carried away just yet.

David Hughes, 2nd May 2018