Shipping

MOORE STEPHENS

Shipping Confidence Survey

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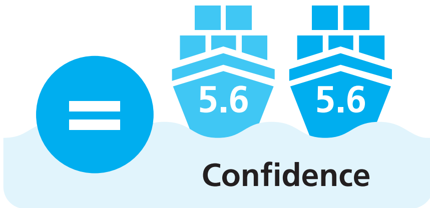
Confidence holds steady despite industry and political pressures



In February 2017, the average confidence level expressed by respondents was 5.6 out of 10.0, unchanged from the previous survey in November 2016 and equal to the highest rating since August 2015. Owners were the only main category to show an improved level of confidence, up from 5.4 to 5.6. Confidence on the part of charterers was down from its all-time survey high of 6.8 to 5.9, while that of managers fell from 6.4 to 6.0. Confidence levels in the broking sector, meanwhile, dropped from 5.6 to 4.6. The survey launched in May 2008 with an overall confidence rating of 6.8.

"Competition is so intense at the moment that you either accept what is offered or a competitor will take the cargo."

Confidence was up in Europe and North America, from 5.4 to 5.5 and 5.9 to 6.1 respectively, but down from 5.7 to 5.6 in Asia.

Respondents generally felt that competition was running at very high levels. Other familiar concerns included overtonnaging and geopolitical uncertainty. Most respondents saw 2017 as a year of retrenchment rather than improvement.

"If owners can maintain their discipline and resist the blandishments of shipyards desperate for business, there is hope that 2018 will see a return of market equilibrium, in which continued scrapping remains a key element."

Business performance factors

23% Demand trends

22% Competition

17% Finance costs

Demand trends overtook competition as the factor expected to influence performance most significantly over the next 12 months, followed by finance costs and tonnage supply.

"The current state of most shipping markets, coupled with the weakness of banks, means that conditions should be more attractive for alternative lenders."

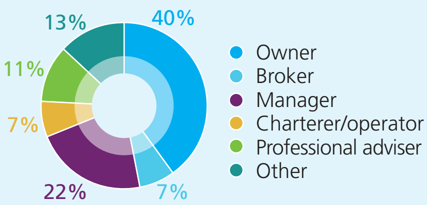
"The dry bulk freight market will continue to be tough, with returns not much above break-even."

Survey analysis

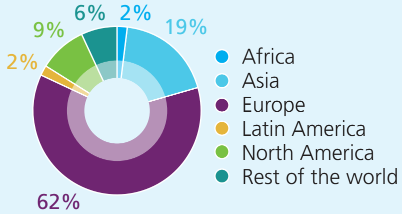
The likelihood of respondents making a major investment or significant development over the next 12 months was unchanged for the fourth successive quarter, at 4.9 out of 10.0. Managers' expectations were up from 5.2 to 5.6, its highest level since August 2015. Owners' expectations were also up, from 5.0 to 5.1, but those of charterers and brokers were down, from 6.4 to 5.8 and 3.8 to 3.4 respectively.

The number of respondents expecting finance costs to increase over the coming year rose by one percentage point to 54%, the highest level since November 2011. Owners' expectations of increases fell from 58% to 57%, while the figures for brokers were also down, from 53% to 41%. Managers were of a different mind, with 61% expecting increases as opposed to 52% in December 2016.

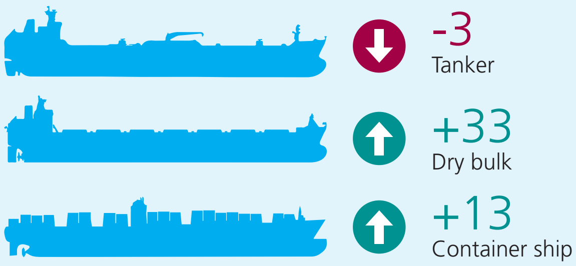
Respondents by type



Respondents by location



Net sentiment*



*'Net' figures are the balance of 'higher' and 'lower' responses. Positive 'net' figures imply more 'higher' responses than 'lower' and negative figures imply the opposite.

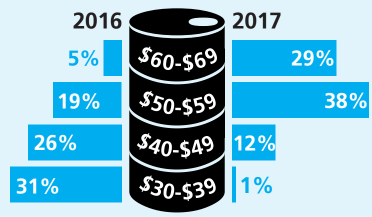
Freight markets

The number of respondents expecting higher rates in the tanker market over the next 12 months fell by eight percentage points to 25%, while the number anticipating lower tanker rates rose from 24% to 28%. Meanwhile, there was a three percentage point rise, to 44%, in the numbers anticipating higher rates in the dry bulk sector. In the container ship sector, the numbers expecting higher rates rose from 27% to 31%, while there was a three percentage point fall, to 18%, in those anticipating lower container ship rates.

Crude oil prices

In a stand-alone question, respondents were asked to identify the price range they expected crude oil (per-barrel) to be in 12 months' time. The most popular estimate was the $50-$59 range, identified by 38% of respondents, as opposed to 19% in the February 2016 survey. Meanwhile, 12% of respondents opted for the $40-$49 range compared to 26% last time. The $60-$69 price range was favoured by 29%, as opposed to just 5% one year ago. In February 2016, 31% predicted crude oil prices to be in the $30-$39 price range, whereas just 1% did so this time.

Crude oil price predictions
(12 months, per-barrel)



Conclusion

After three successive quarterly increases, shipping confidence has held steady. This is encouraging given the continuing political uncertainty in the US and Europe. Shipping is vulnerable to changes in the political landscape, and a slew of elections in leading industrialised nations will render it particularly so this year.

Elsewhere, the issues facing the industry include an over-supply of ships and insufficient demolition. Freight markets are dragging along the bottom in many sectors, with net rate sentiment in the tanker market being particularly low. Add to this the expectation of higher ship finance costs, the mounting cost of regulation, the threat of cyber-crime and the projected increases in operating costs and it is evident that shipping will not be a picnic for the foreseeable future.

"For those who can effectively manage risk and volatility, shipping is still the place to be."

But shipping is not a natural fit for the pessimist, and those with meaningful experience of the industry will be looking with some justification for a re-strengthening of rates in the tanker and dry-bulk trades, supported by continued rationalisation of newbuilding plans and accelerated recycling levels. Meanwhile, oil prices will continue to go up, which is mixed news for the shipping industry. For those who can effectively manage risk and volatility, shipping is still the place to be.

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