



# Developments in the Shipping Cycle & the Impact on Revenues & Asset Values

**Dr Martin Stopford,**  
**Managing Director, Clarkson Research Services Ltd**  
**IUMI Hull Underwriting Committee Workshop**  
**“Mastering Rough Seas-The Hull Underwriting Puzzle**  
**15<sup>th</sup> September 2009**

**Clarksons**

# The Agenda

This is..not the beginning of the end, but it might be the end of the beginning

- ❖ Three decades, three markets
- ❖ The shipping market today
- ❖ The economy – bottoming out
- ❖ Supply Armageddon at hand?
- ❖ The next stage



# 1. Three Decades, Three Different Markets

The last 30 years saw very different markets

Bankrupt  
ed by my  
bankers



1980s Depression

Can't afford a  
decent lunch



1990s Recession

I LOVE  
SHIPPIN  
G

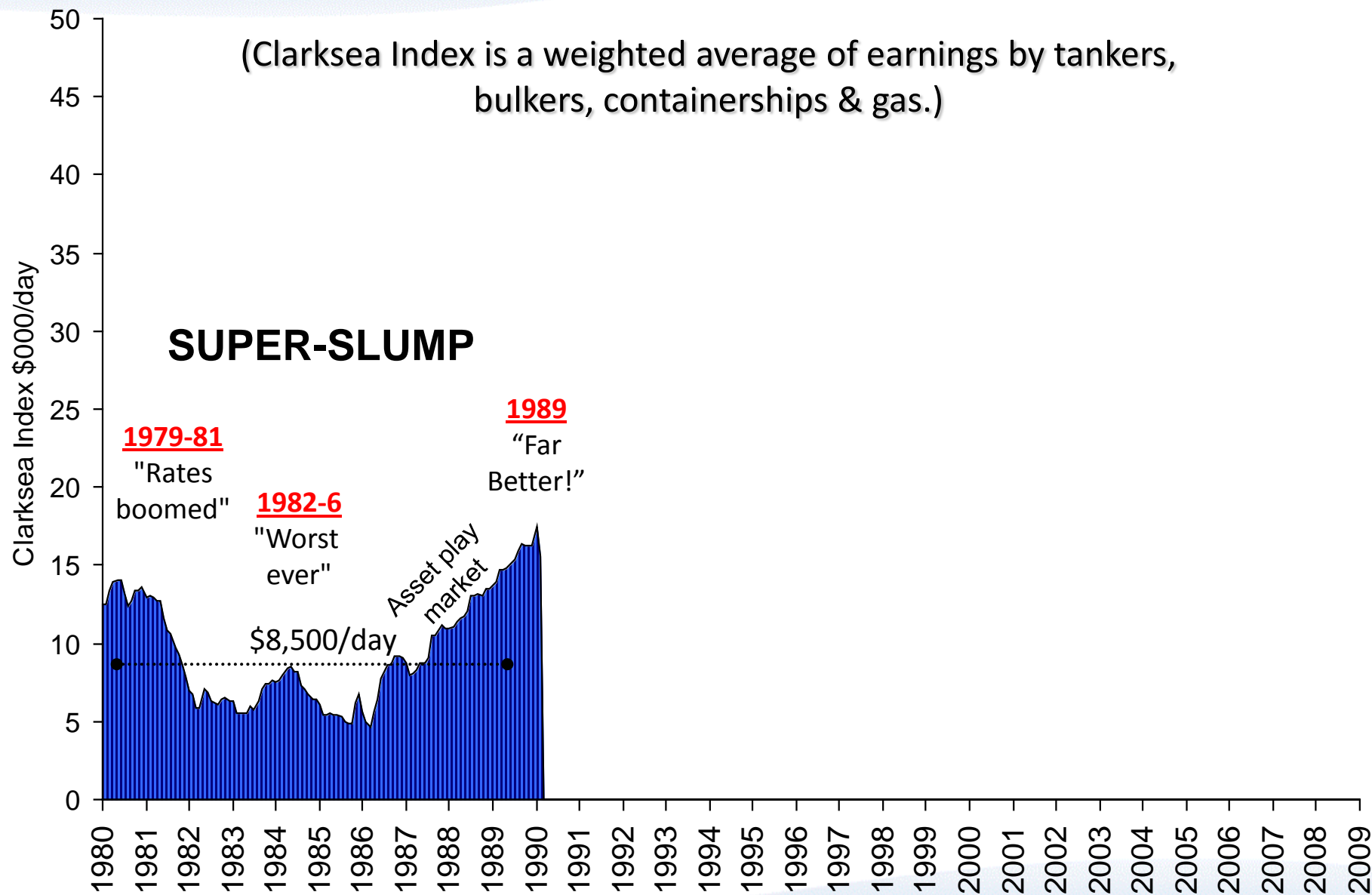


2000s Boom



# Deep Slump in 1980s

(Clarksea Index is a weighted average of earnings by tankers, bulkers, containerships & gas.)



Source: Clarkson Research Services Ltd

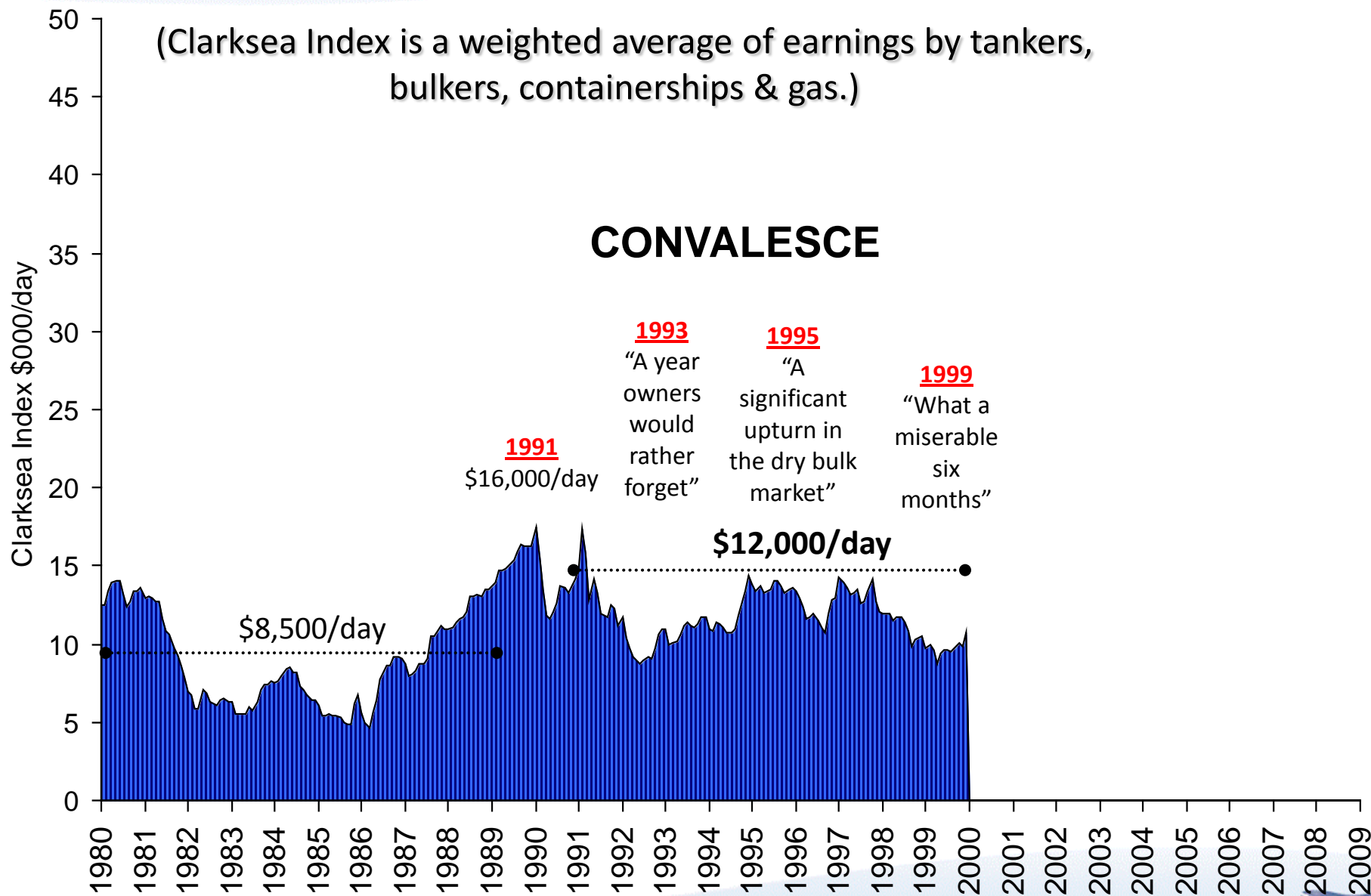
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# Weak Market in 1990s

(Clarksea Index is a weighted average of earnings by tankers, bulkers, containerships & gas.)



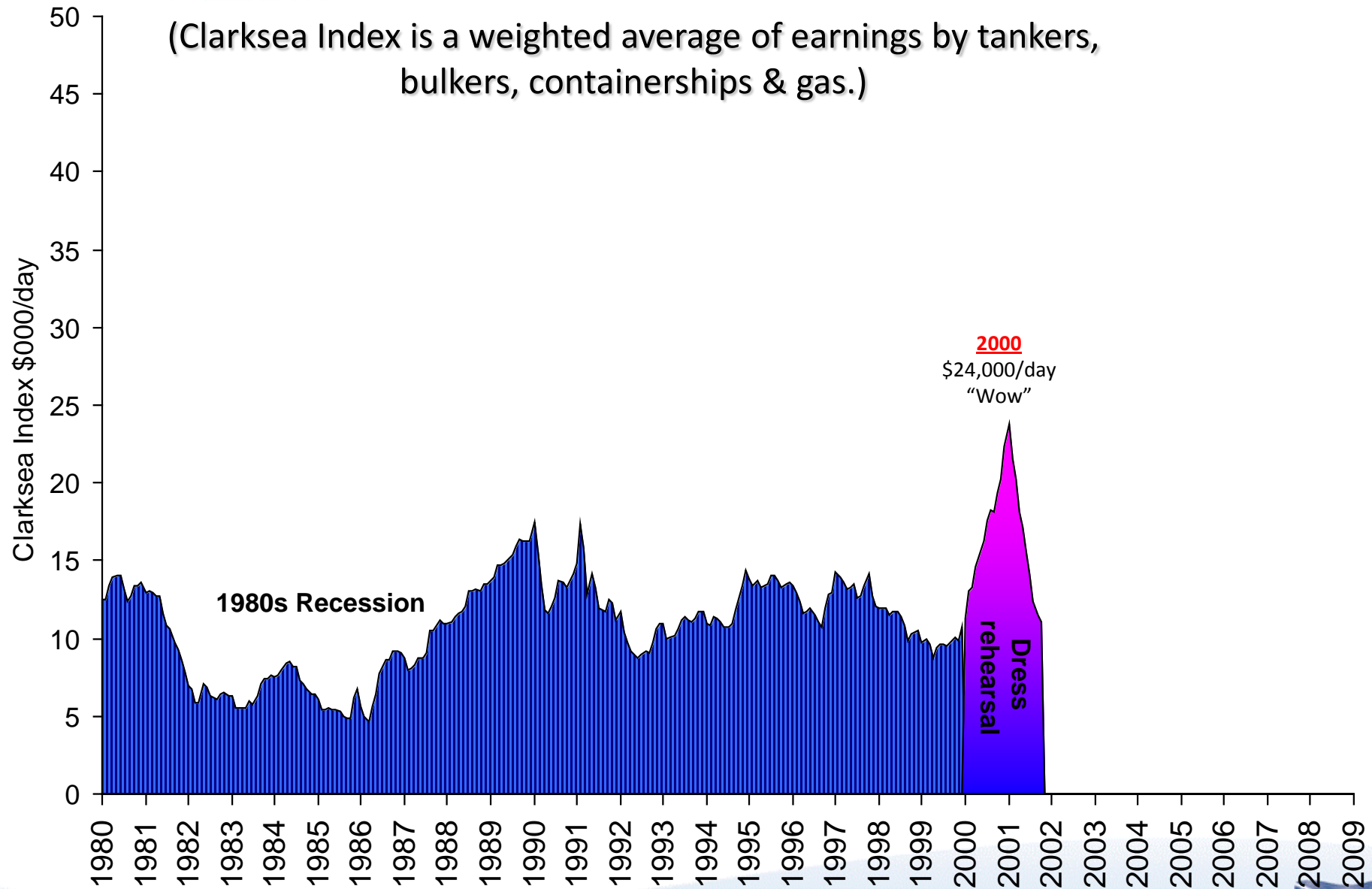
Source: Clarkson Research Services Ltd

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# Super-boom 1: 2000

(Clarksea Index is a weighted average of earnings by tankers, bulkers, containerships & gas.)

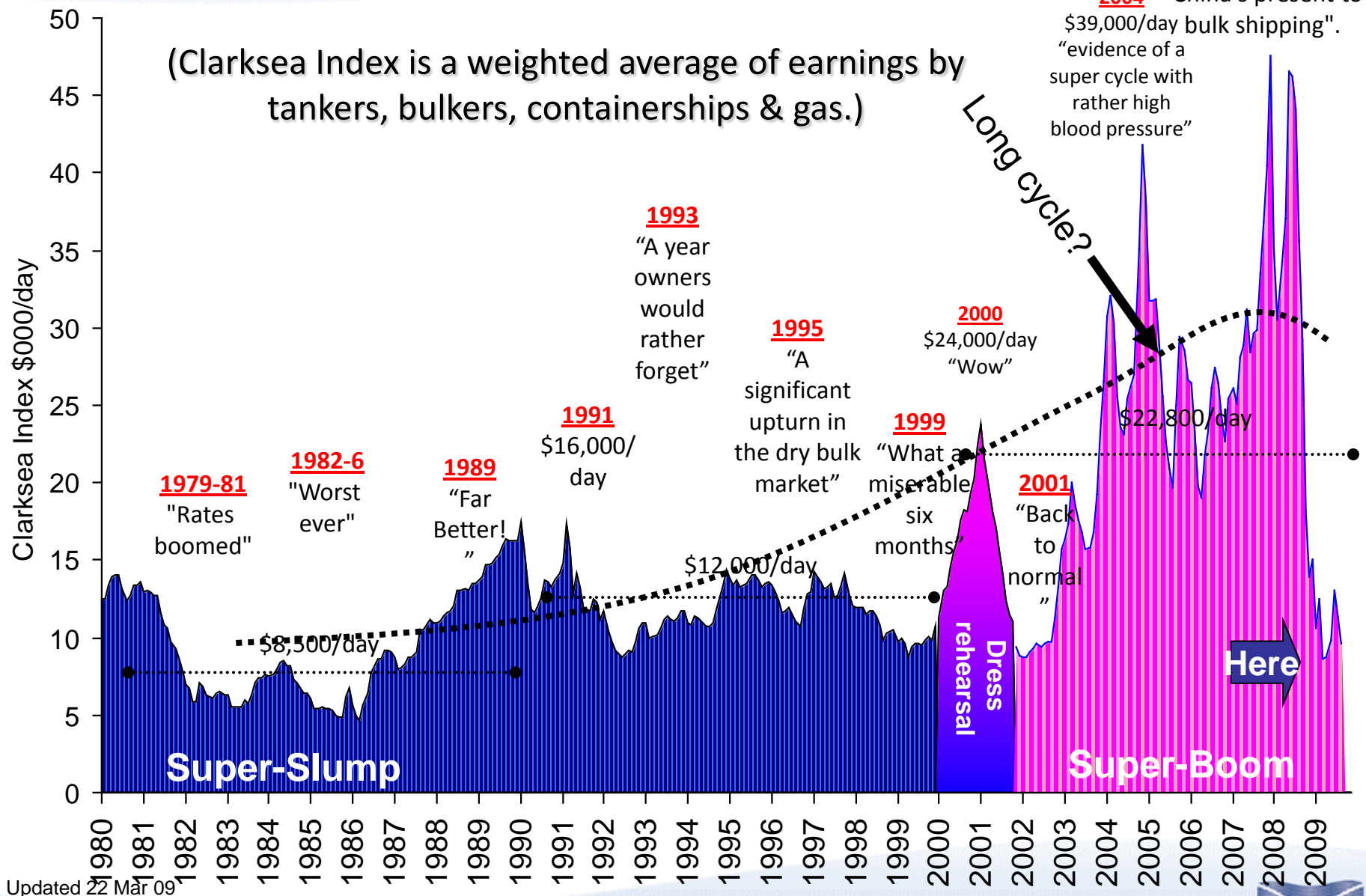


Source: Clarkson Research Services Ltd

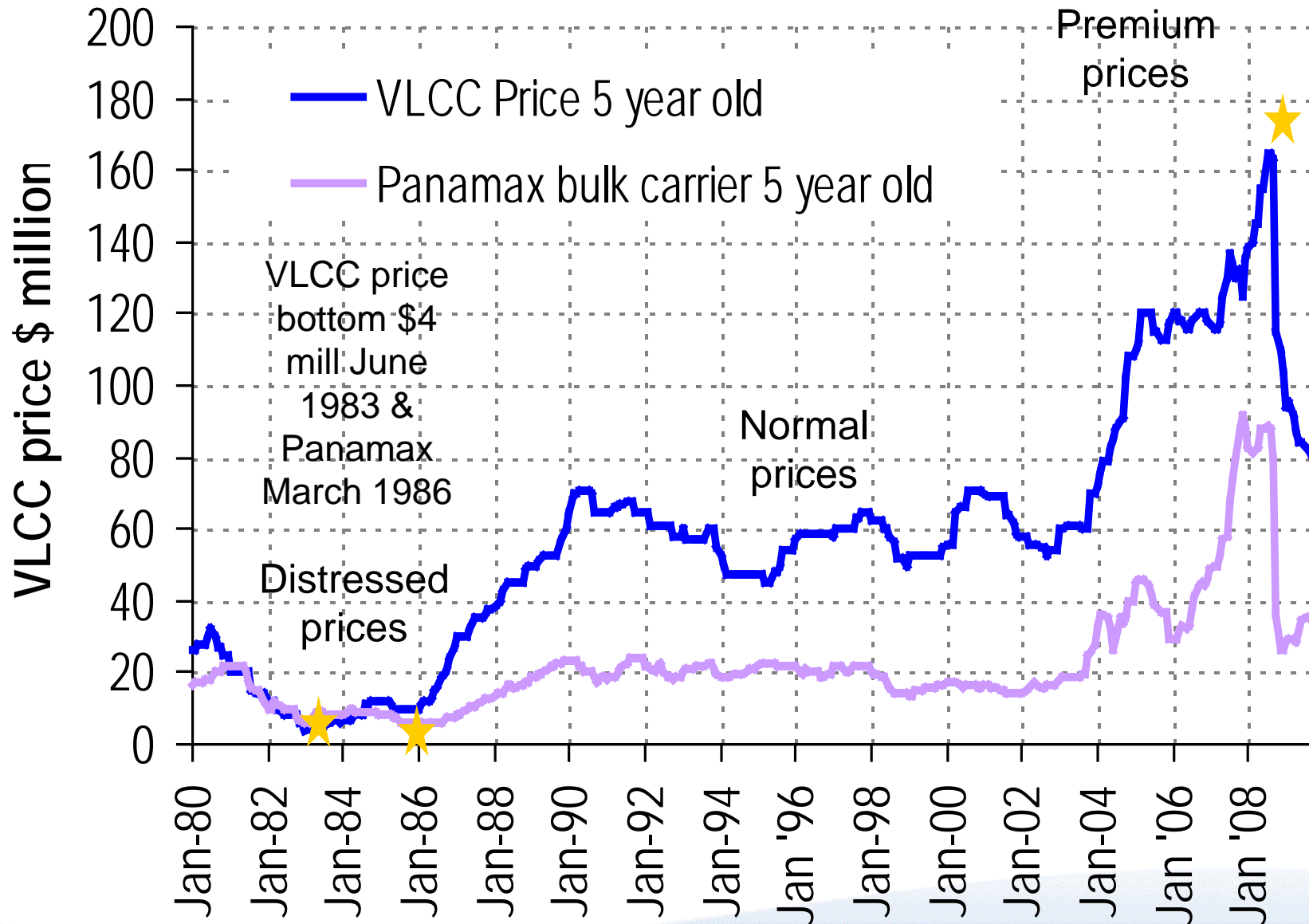
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# Super-Boom from 2003 to 2008



# Market price of VLCC & Panamax Bulker



Source CRSI & Baltic Exchange

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# Laid Up Tonnage

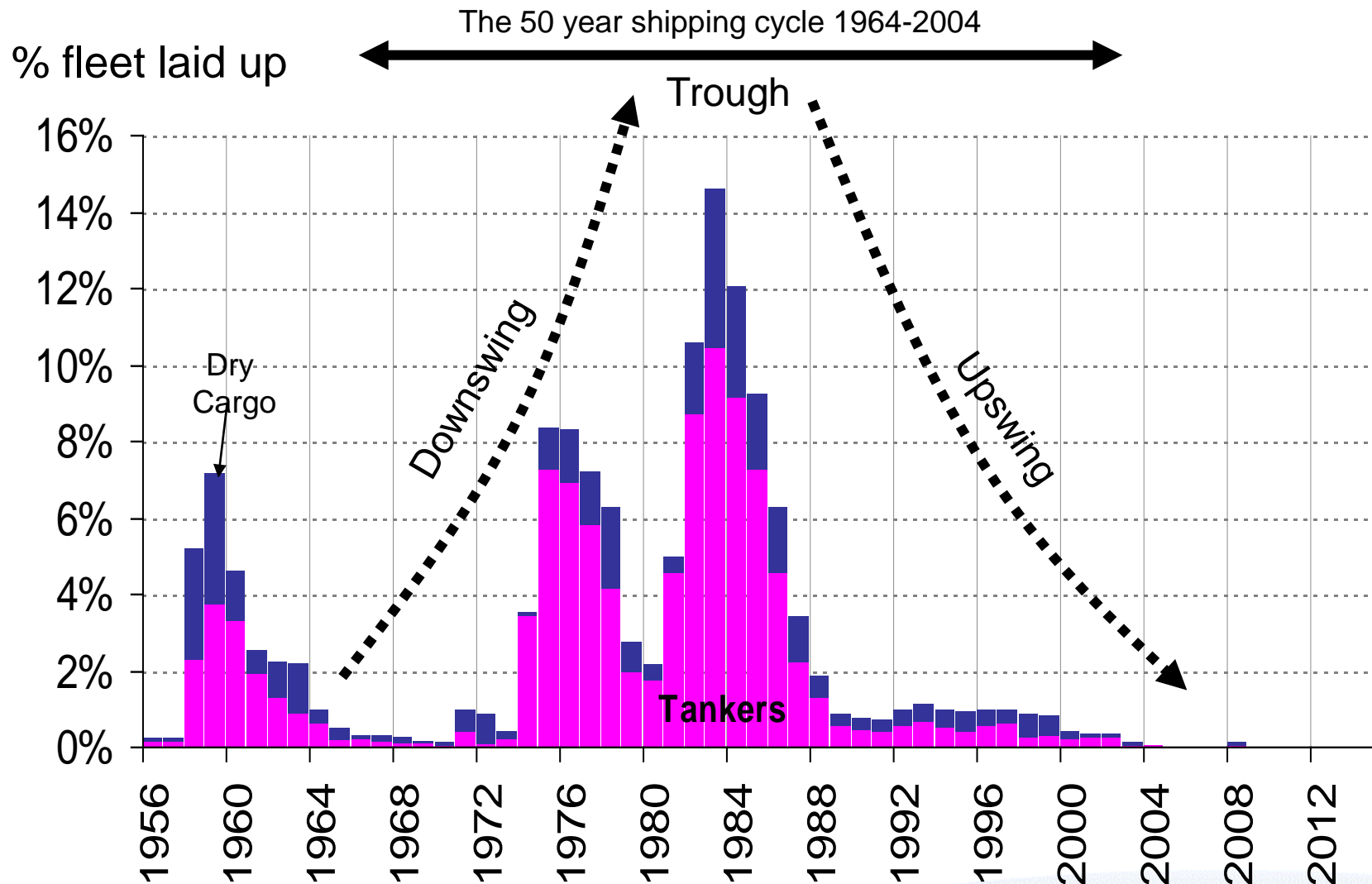


Figure 2: This shows the surplus tankers and dry cargo laid up 1956-2009



# 2. The Shipping Market Today & Tomorrow

Business cycle is slumping



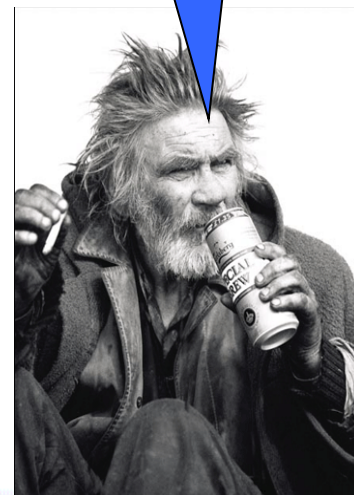
Credit crisis's slowing growth



It's all getting nasty



Down and out?



Economy

Banking

Shipyards

2010s?

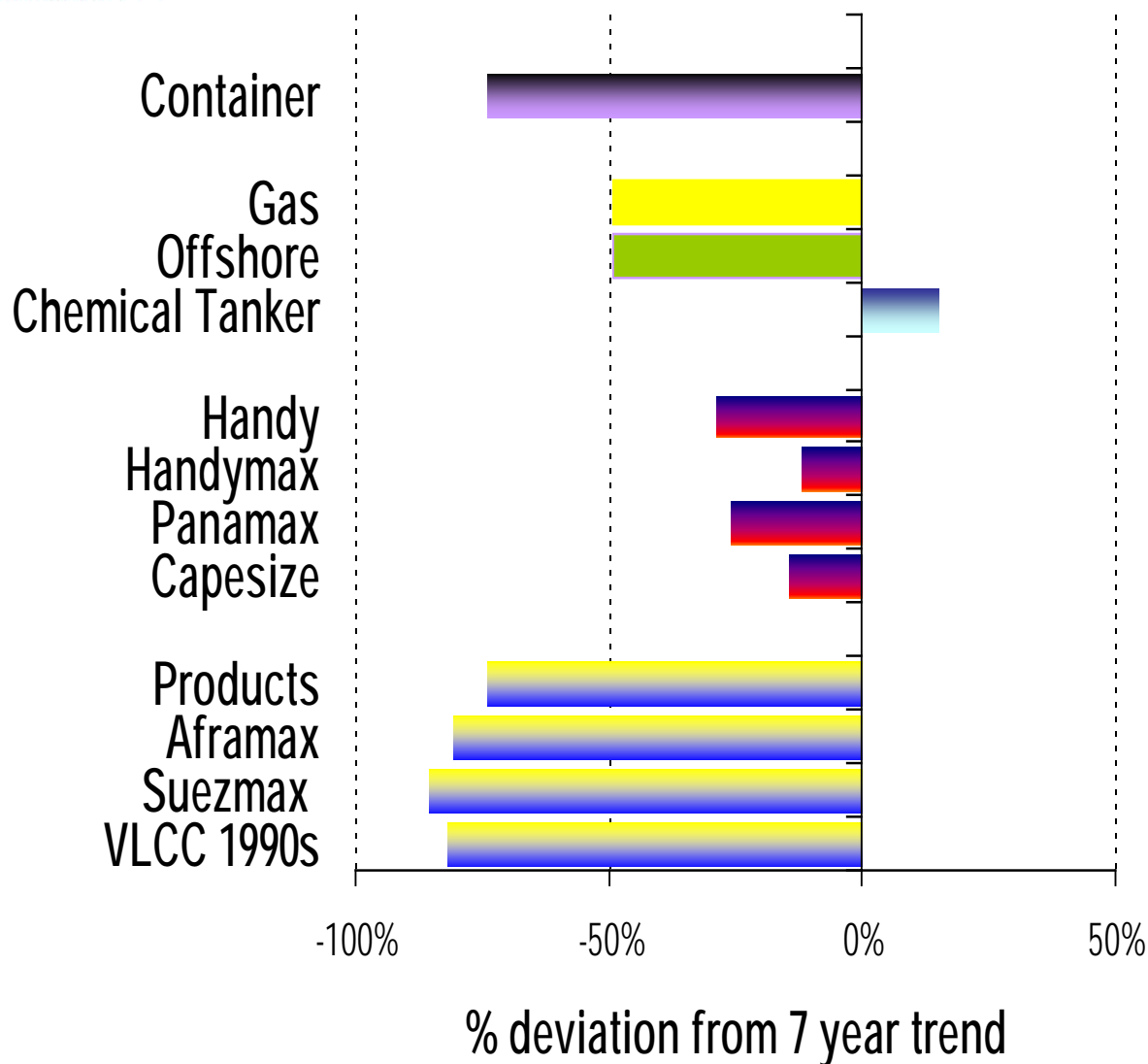


# Key Issues Going Forward

1. Now coming to the end of the transitional phase between boom and bust.  
Economic indicators improving but still very weak.
2. Orderbook now 44% of the fleet compared with 11% in 2000 (double the “normal” requirement based on 4% pa trade growth)
3. Newbuilding cashflow becoming very pressing, leading to increasingly complex and unpleasant situation



# Market Sector Cycle Position Aug 09



This chart shows average earnings today for the ship type, as a % of the average earnings during the last 7 years





# Tanker Earnings Monthly Trend

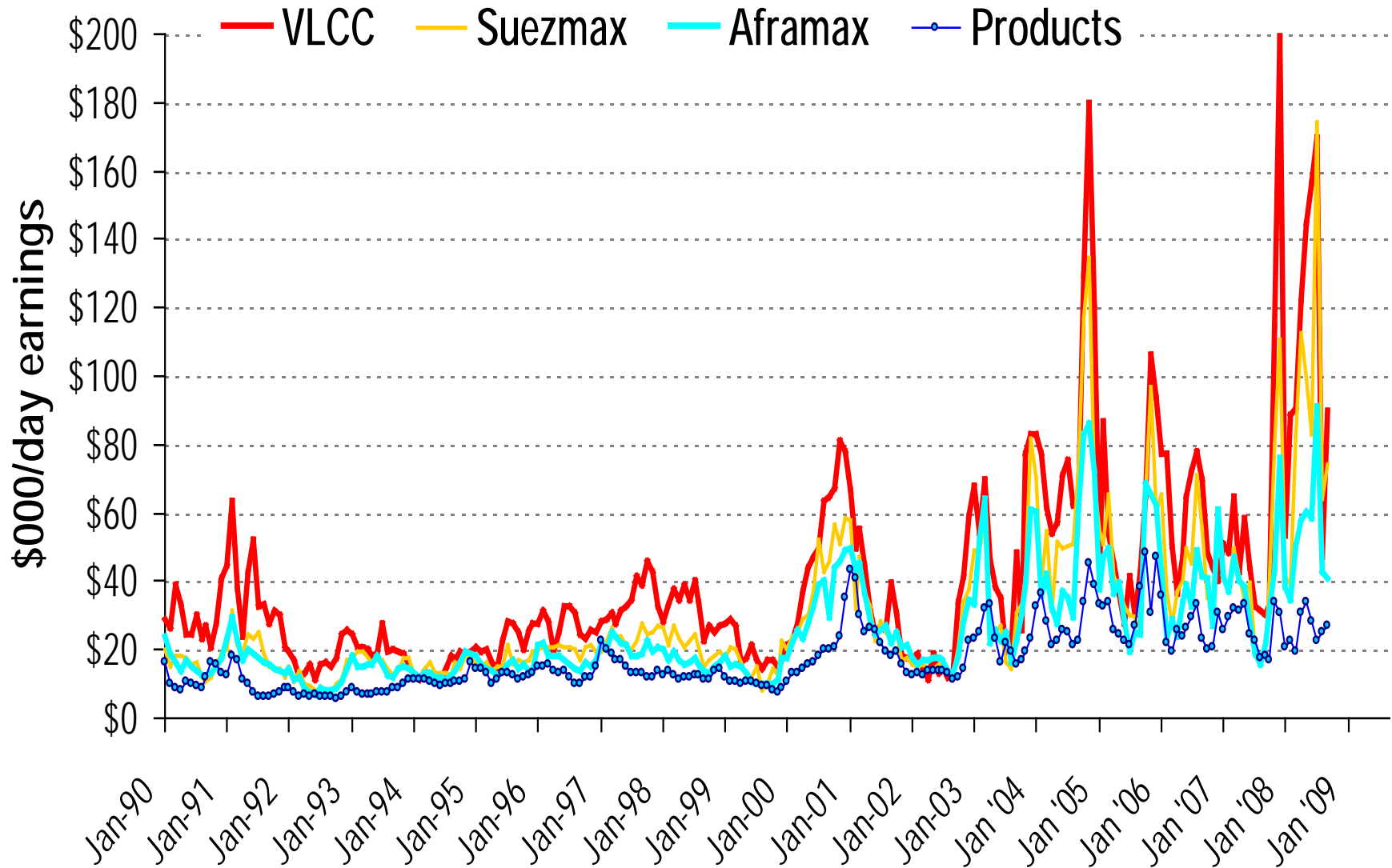


Figure 11 Tanker earnings trends 2004 to 2008



# Tanker Earnings Monthly Trend

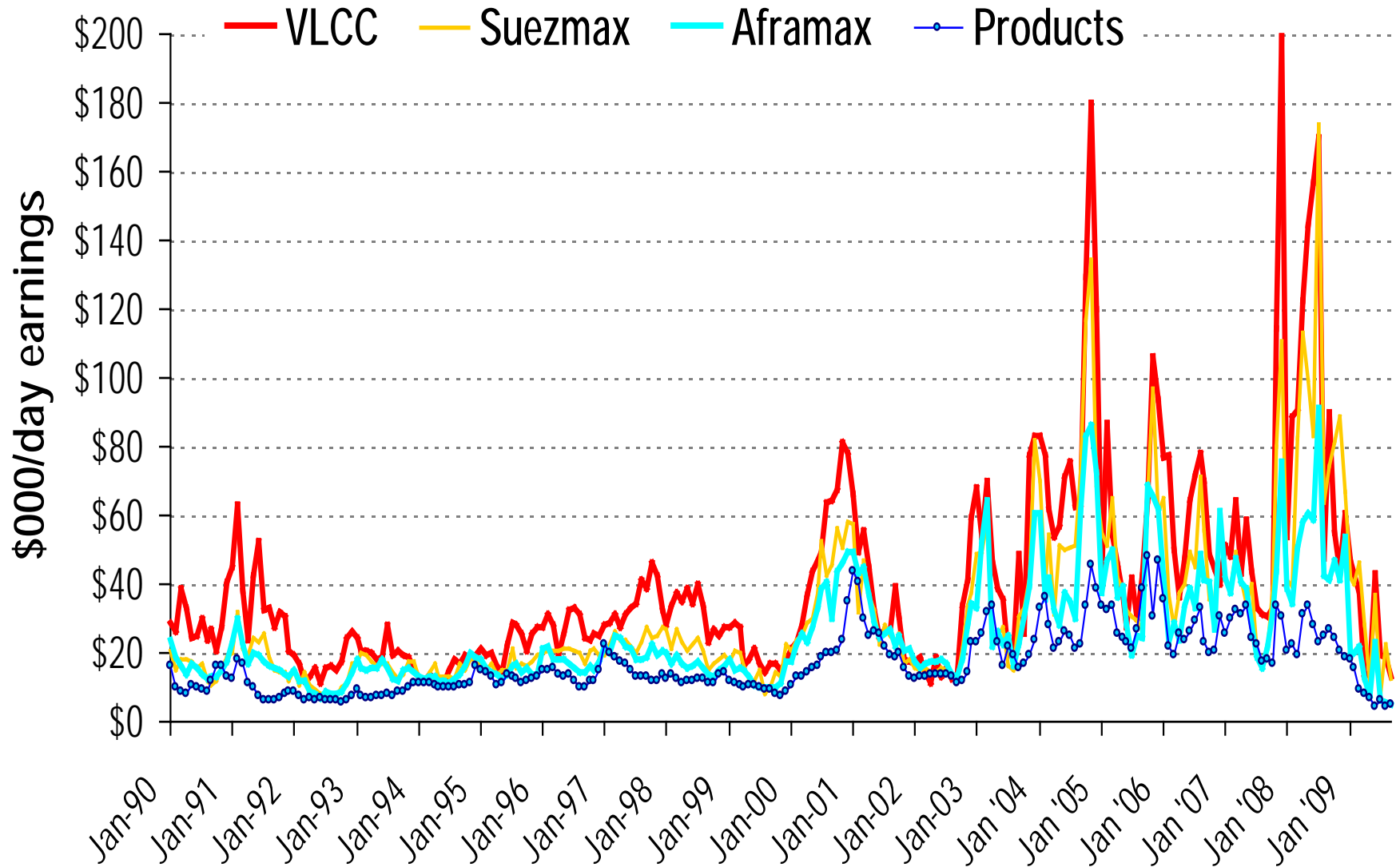
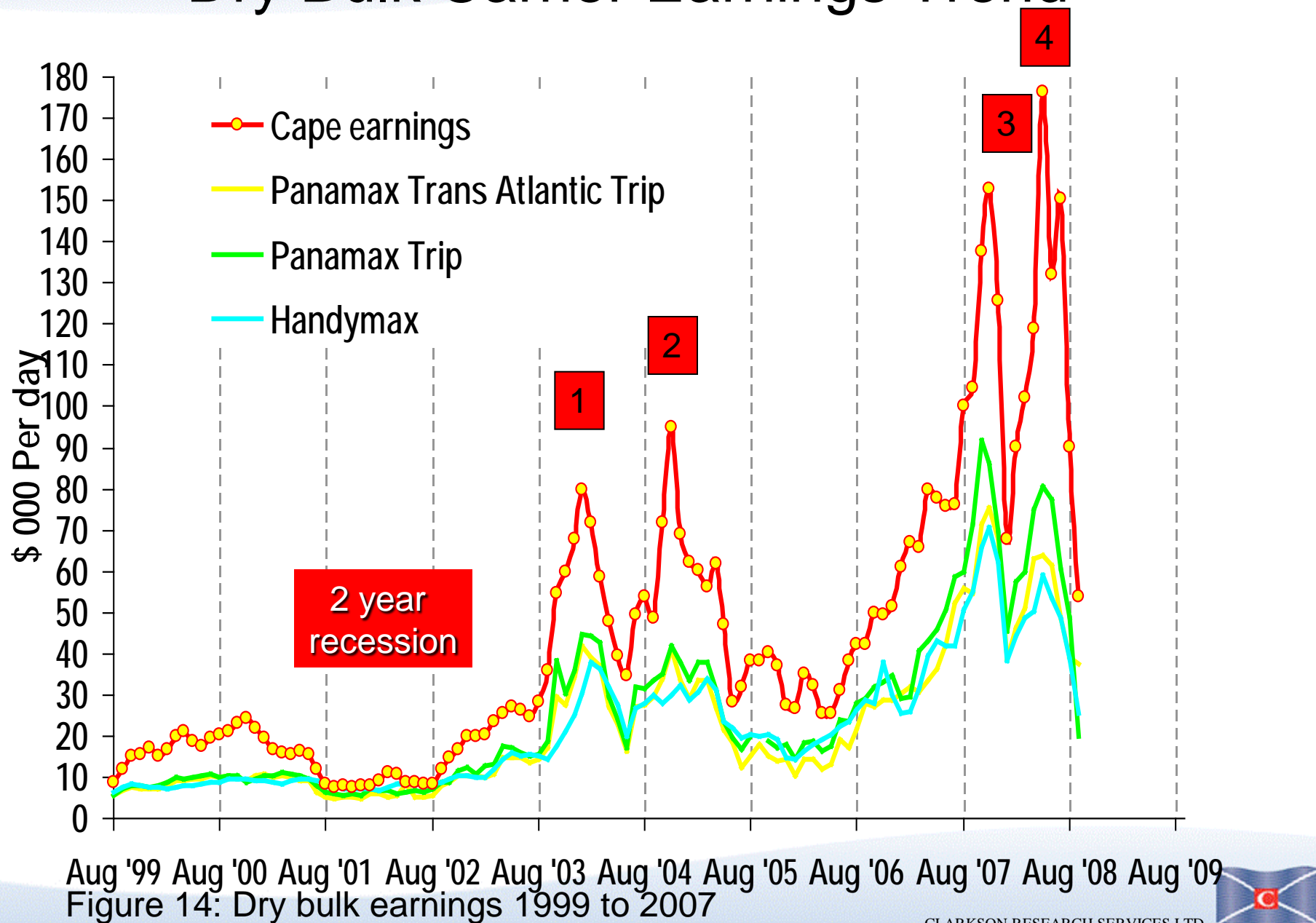


Figure 11 Tanker earnings trends 2004 to 2008



# Dry Bulk Carrier Earnings Trend

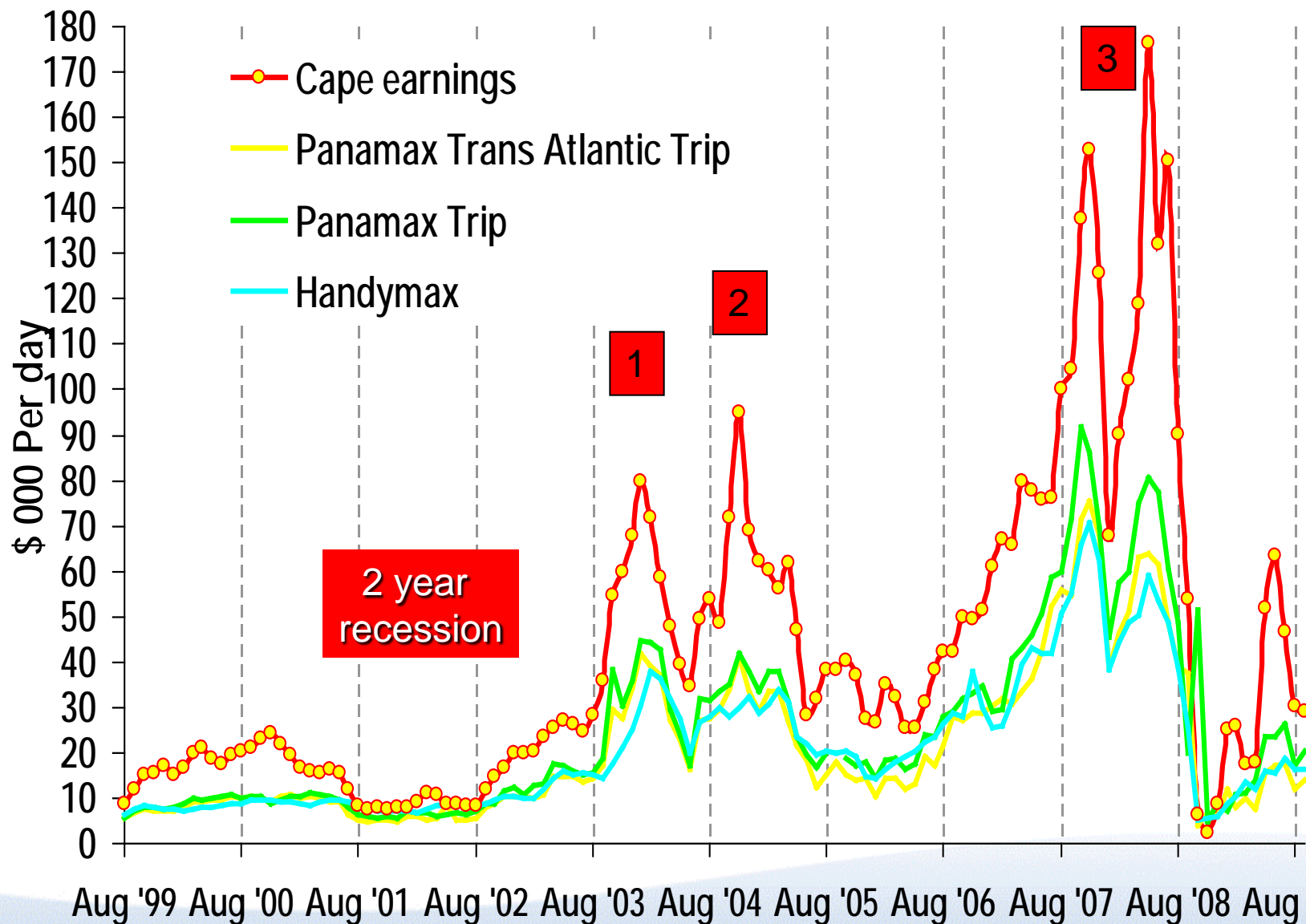


Aug '99 Aug '00 Aug '01 Aug '02 Aug '03 Aug '04 Aug '05 Aug '06 Aug '07 Aug '08 Aug '09  
Figure 14: Dry bulk earnings 1999 to 2007



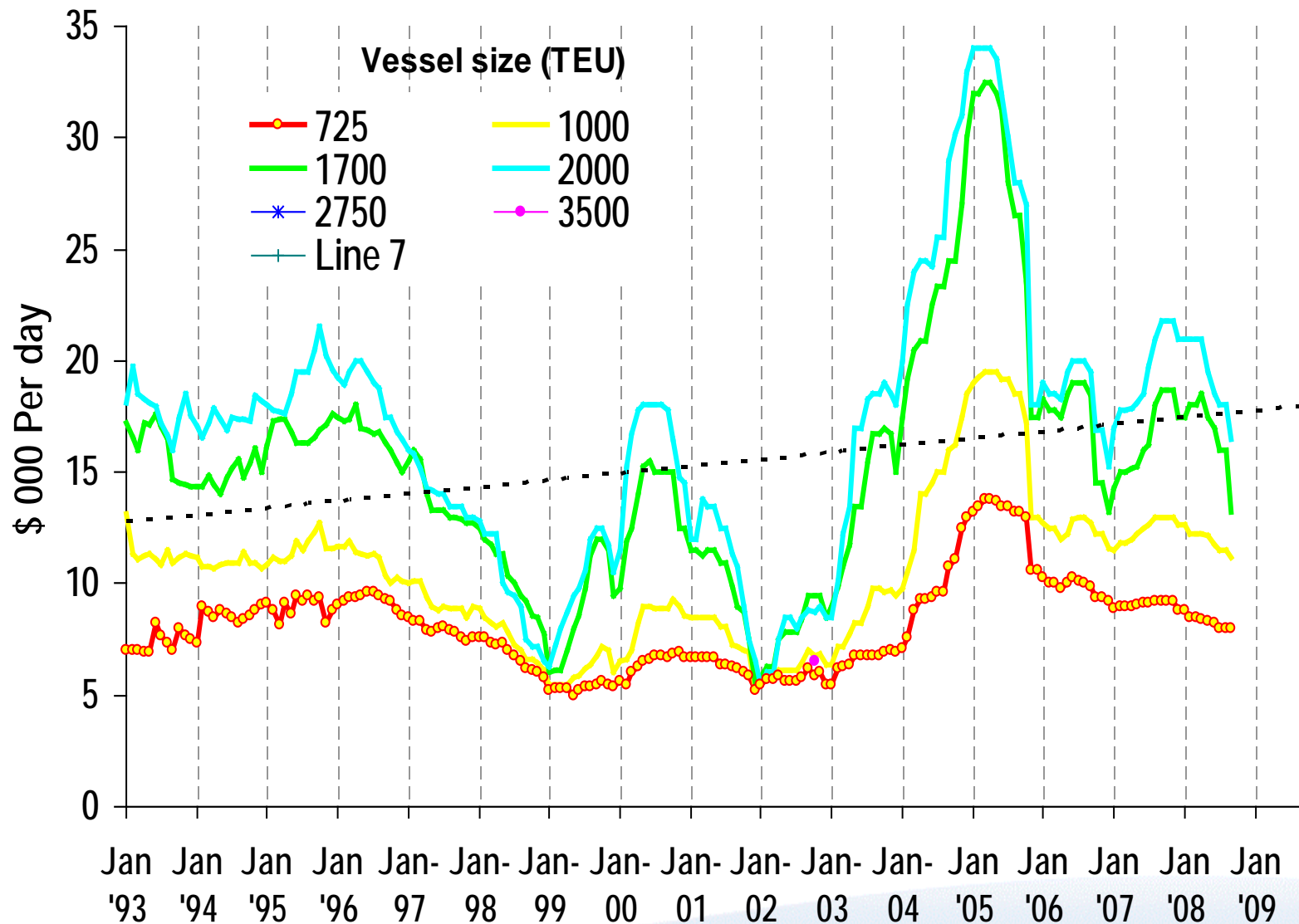
# Dry Bulk Carrier Earnings Trend

4

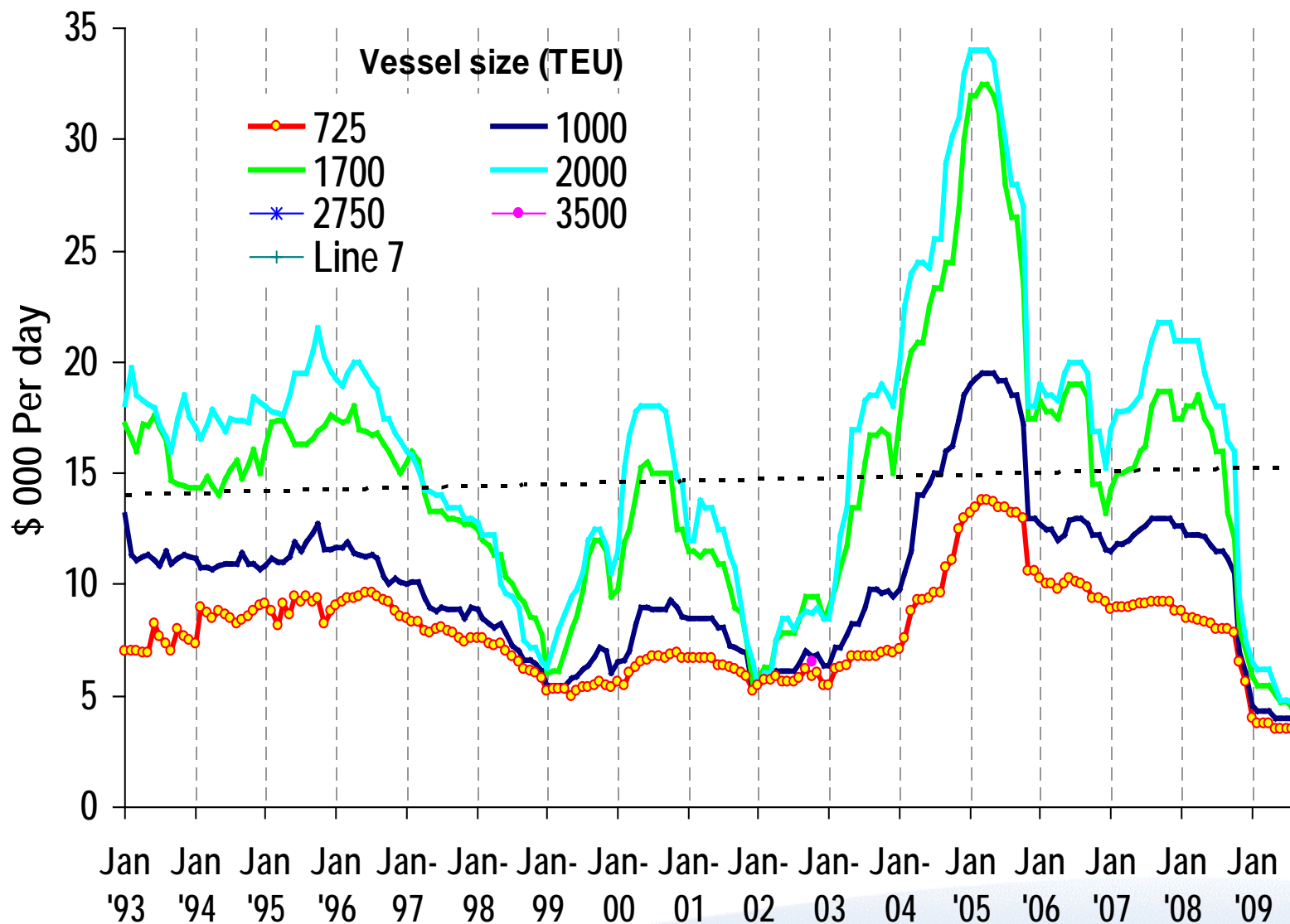




# Containership TC Rate



# Containership TC Rate



# 4. The Economy - Bottoming Out

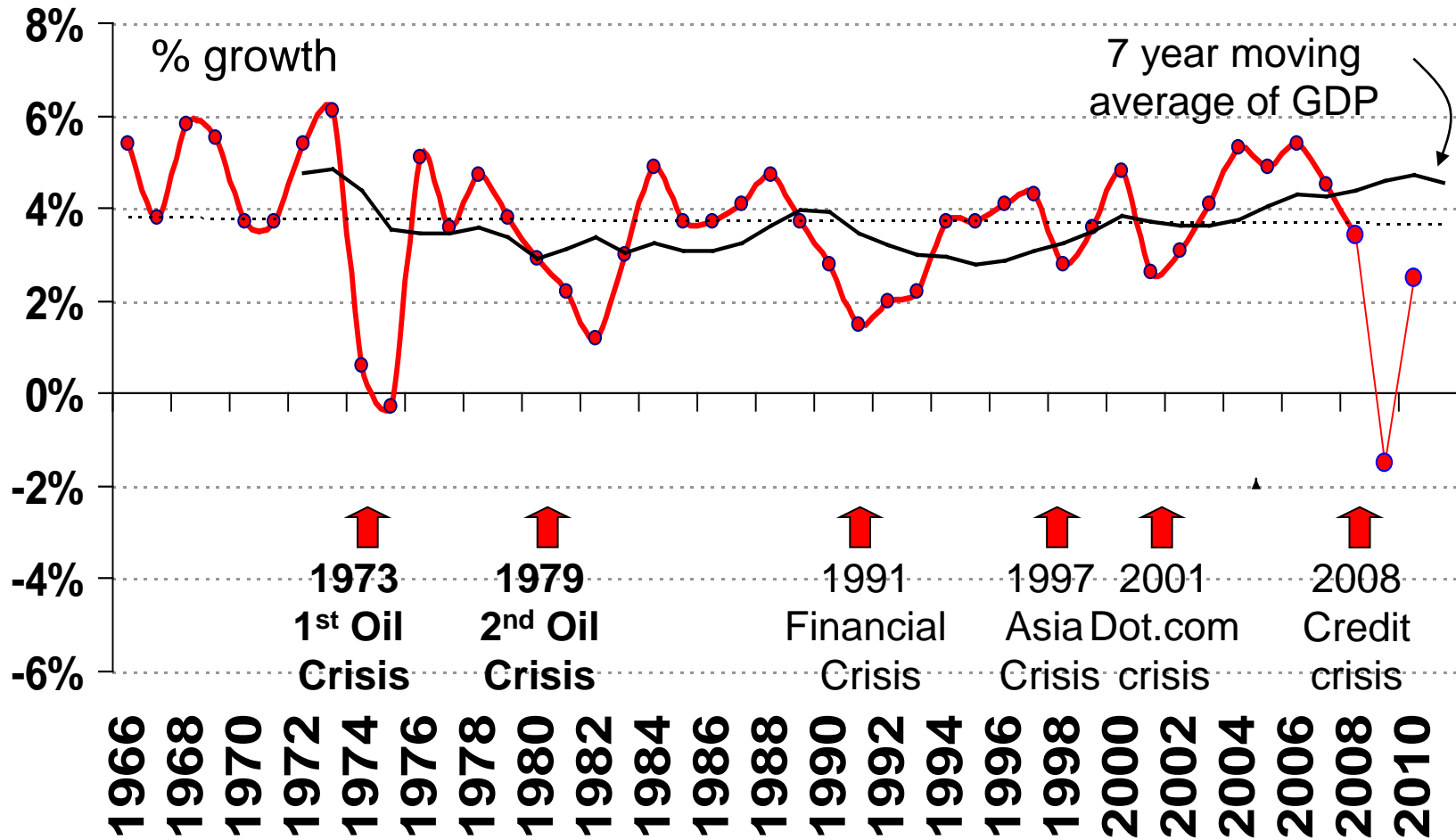
- Just like the 1970s we have an economic shock. This time it's a banking crisis as well as high oil prices
- After the unprecedented fall in economic output in the Atlantic and the Pacific we are now seeing a recovery
- The recovery could be due to restocking and run out of steam due to lack of consumer confidence.
- Or will it all be over by Christmas?

I warned  
you about  
“irrational  
exuberance  
”



# World GDP: In Shock

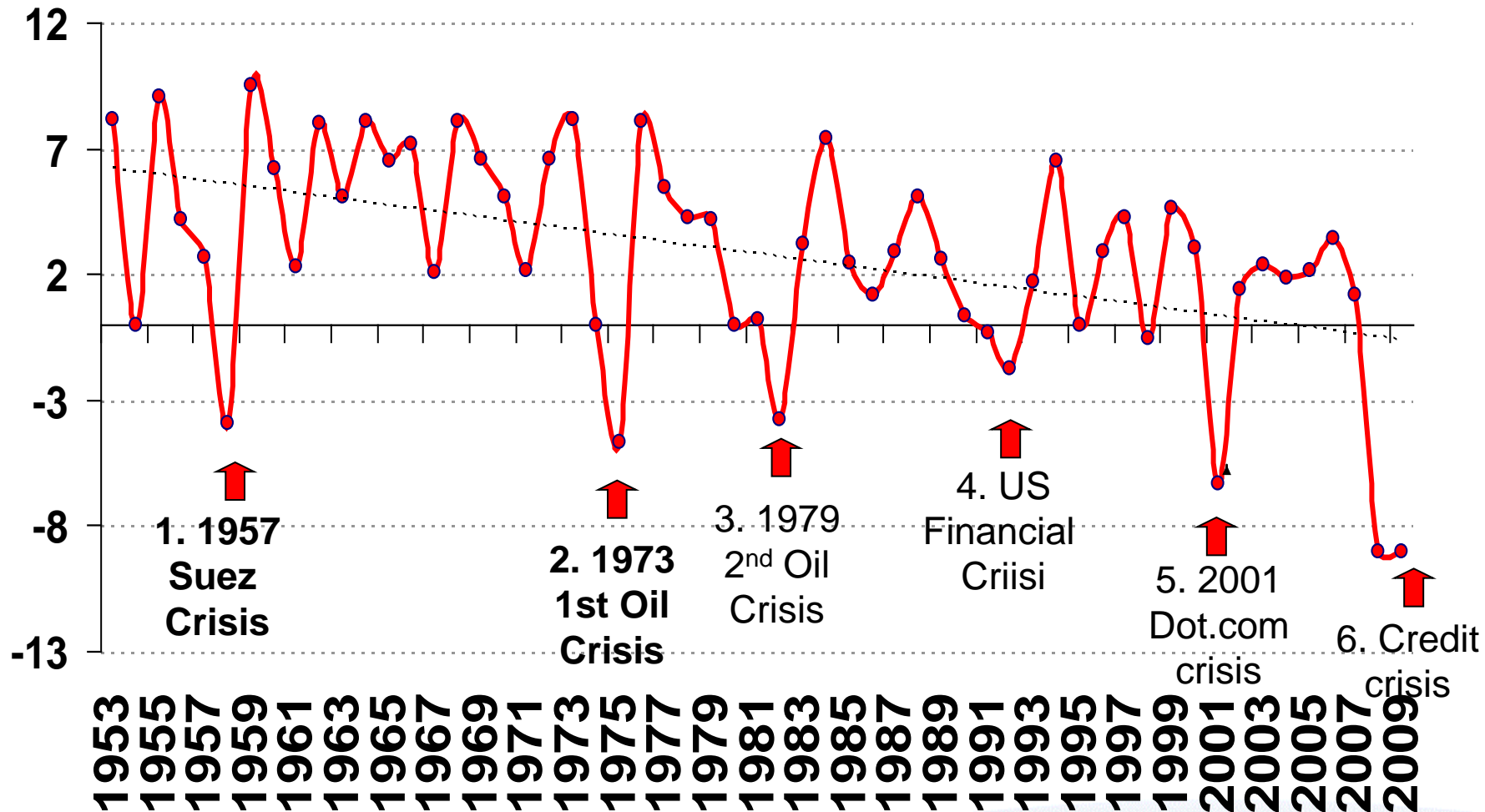
Figure 7: World GDP showing boom 2003-8 and forecast 2009





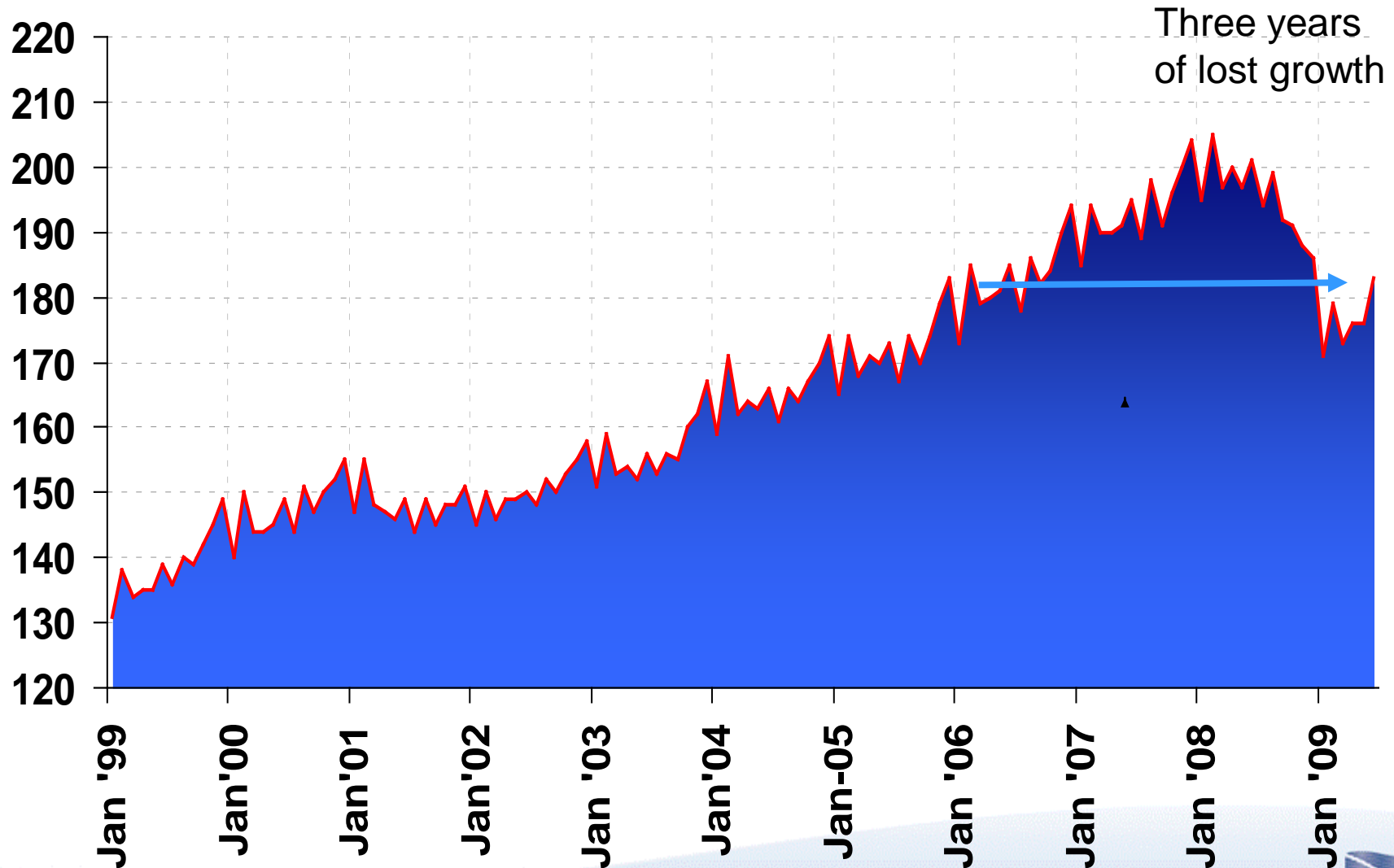
# World Industry: Rebound due

Figure 6: World industrial production growth rate since 1953  
% growth

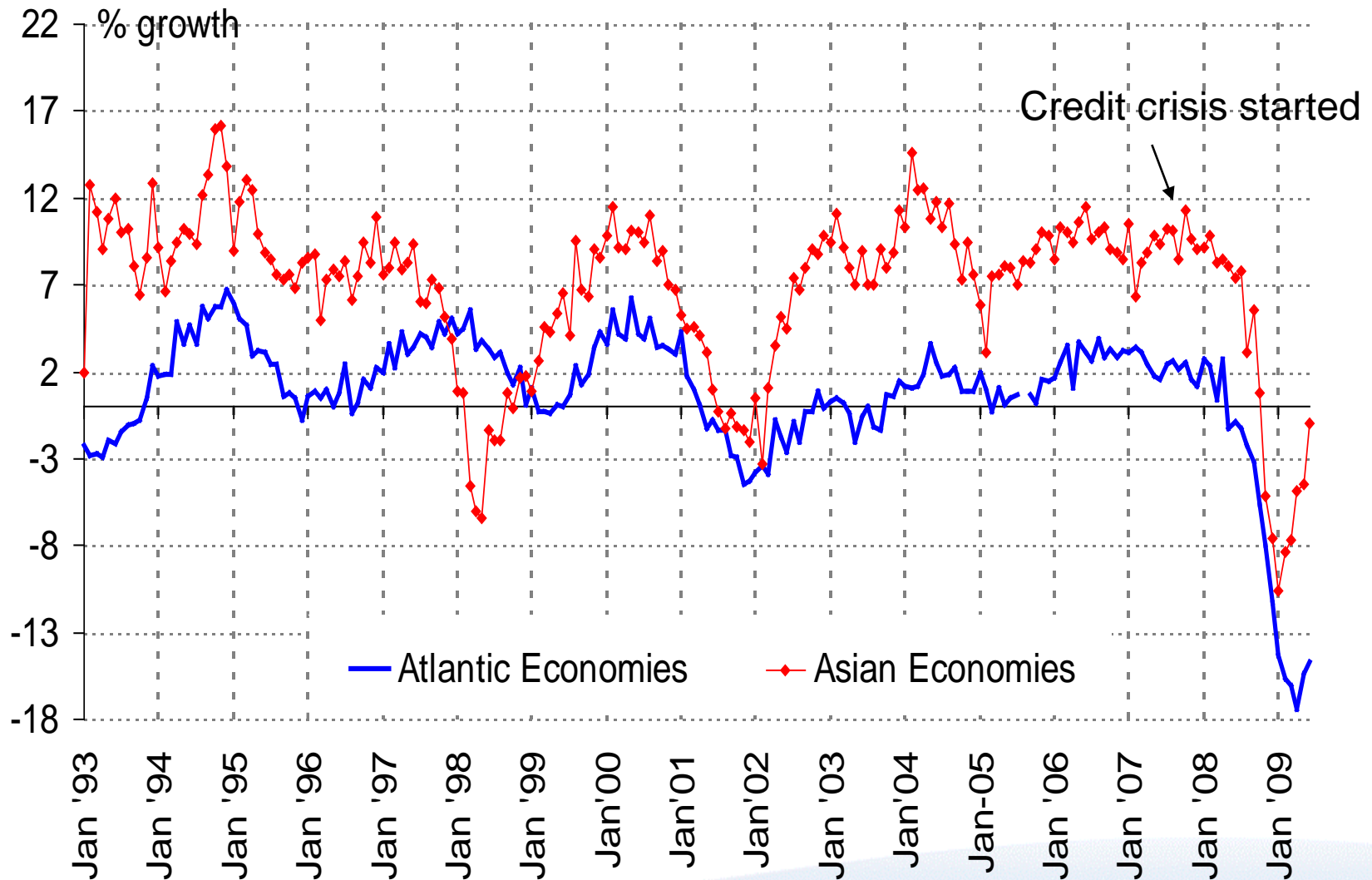


# World Industrial Output – Volume

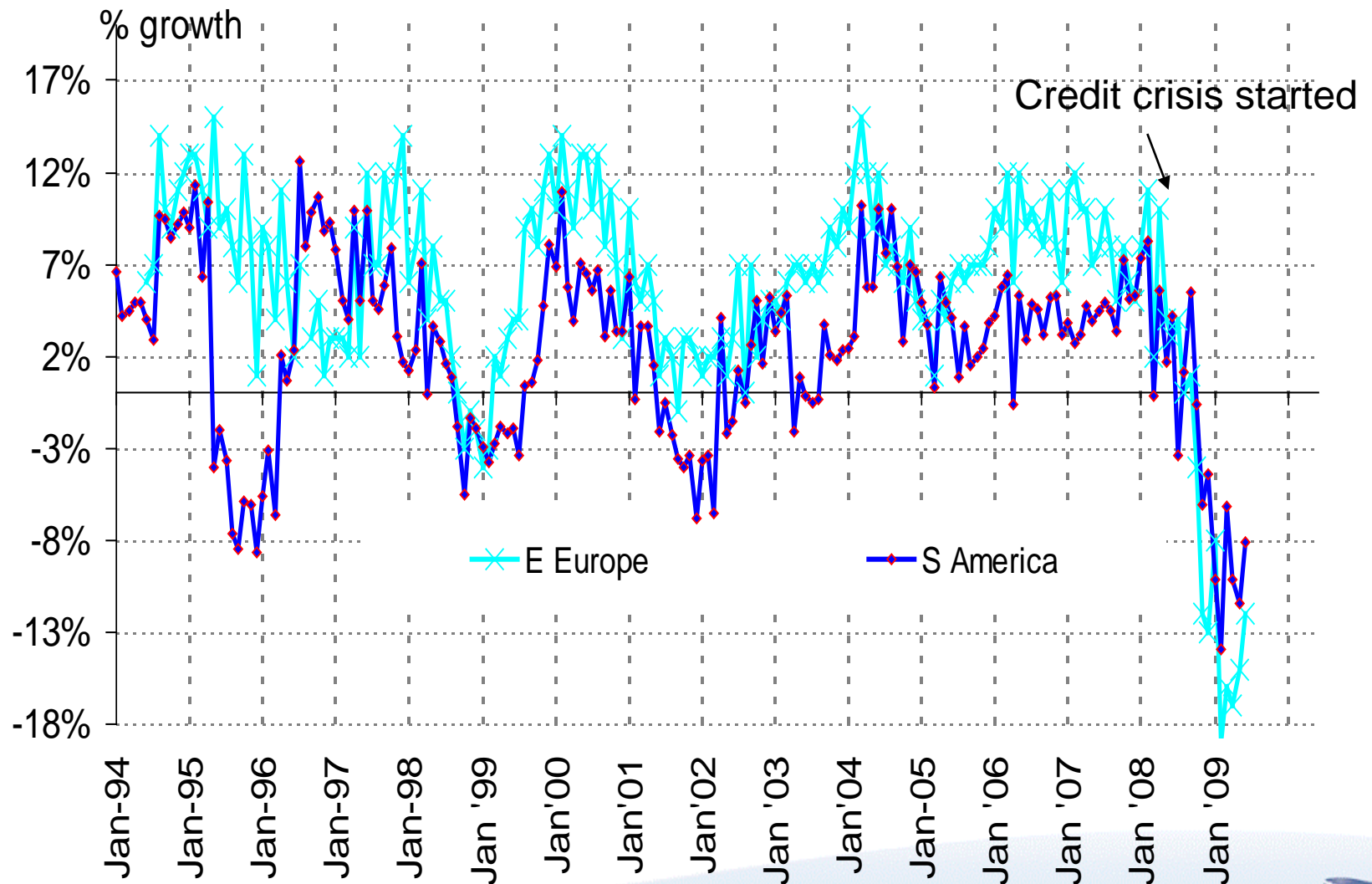
Index 1992=100



# N. Atlantic & Asia



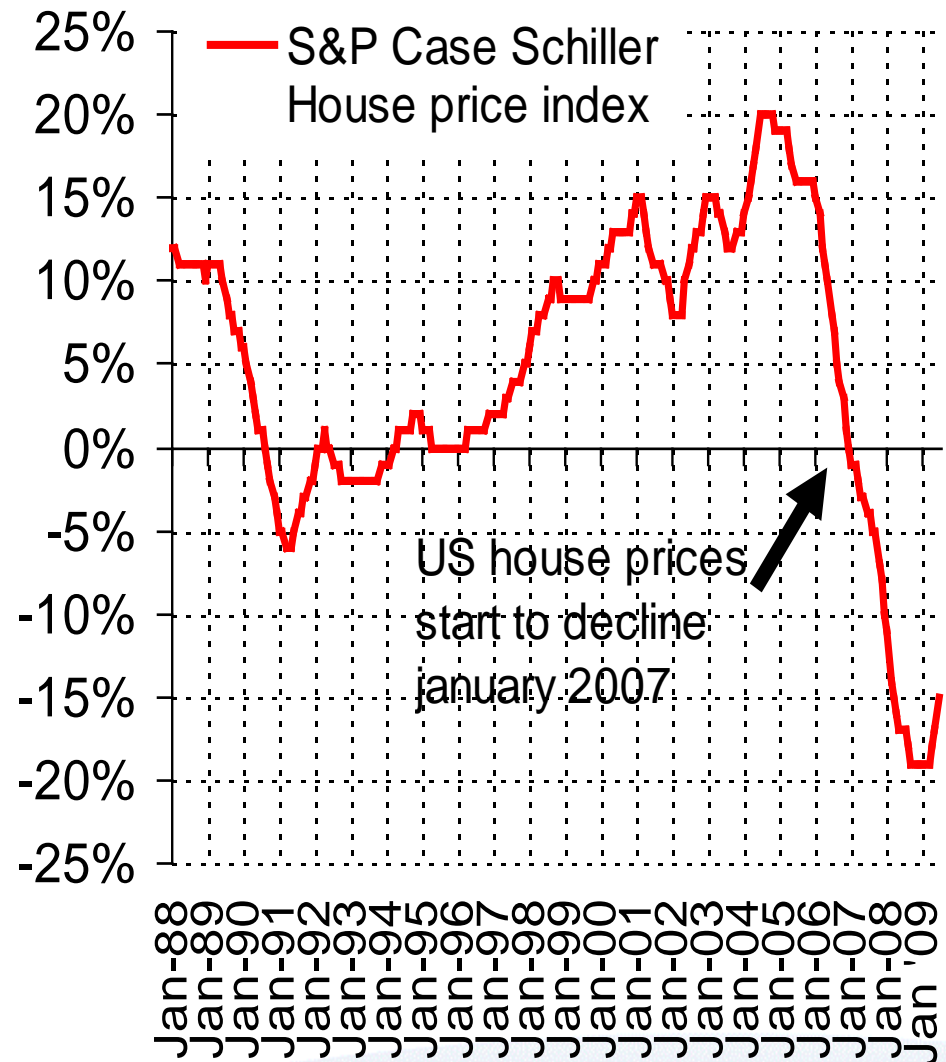
# E Europe and S America





# The US Real Estate: Turning up

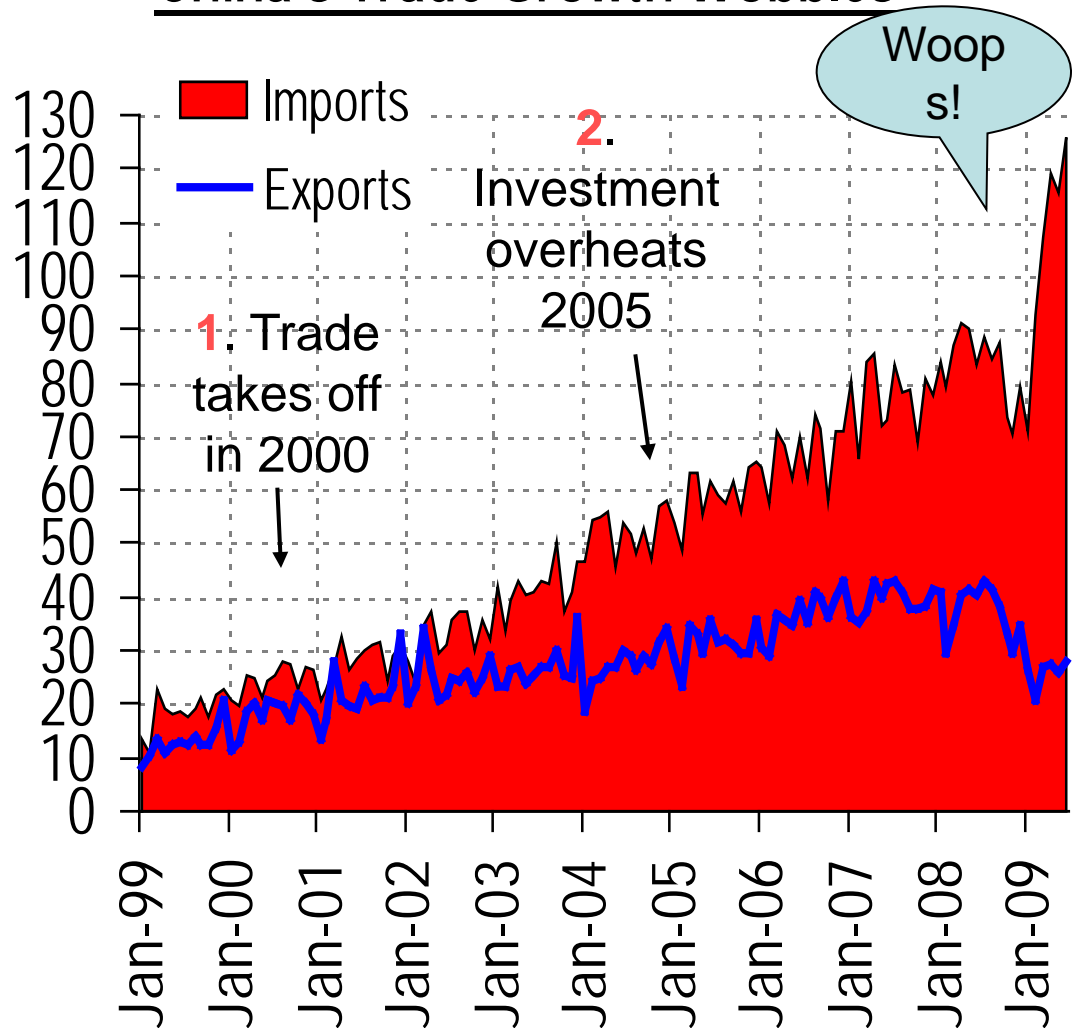
- The US real estate boom started in 1993 and peaked in early 2005. Prices first started to decline in January 2007
- This triggered the “Sub-Prime” crisis



# China Trade: Wobbly and Bouncy

- China's imports added 1 billion tonnes in a decade
- They had their first big wobble late last year
- But bounced back last 6 months due to iron ore
- Correction likely

Mt China's Trade Growth Wobbles

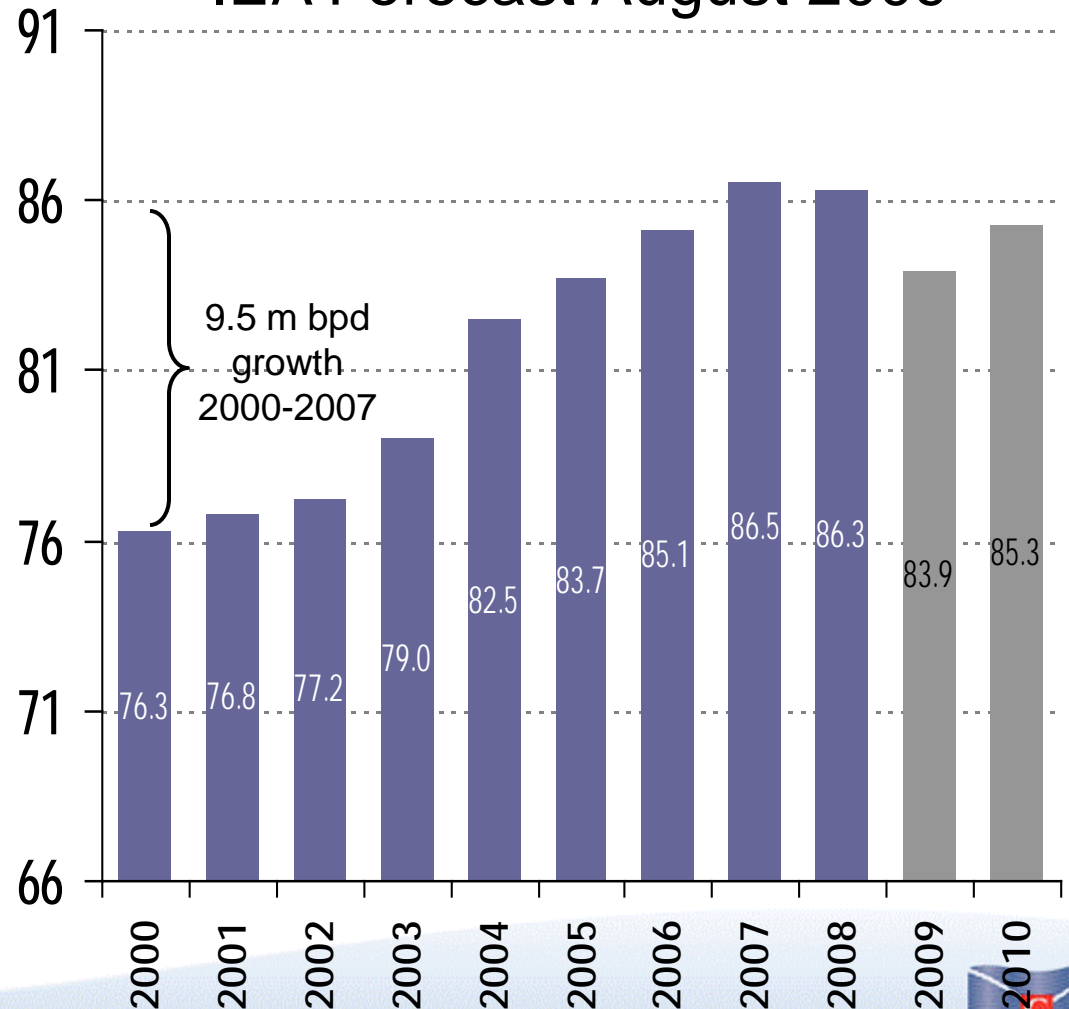


# World Oil Demand: Slumping

Million barrels per  
day increase

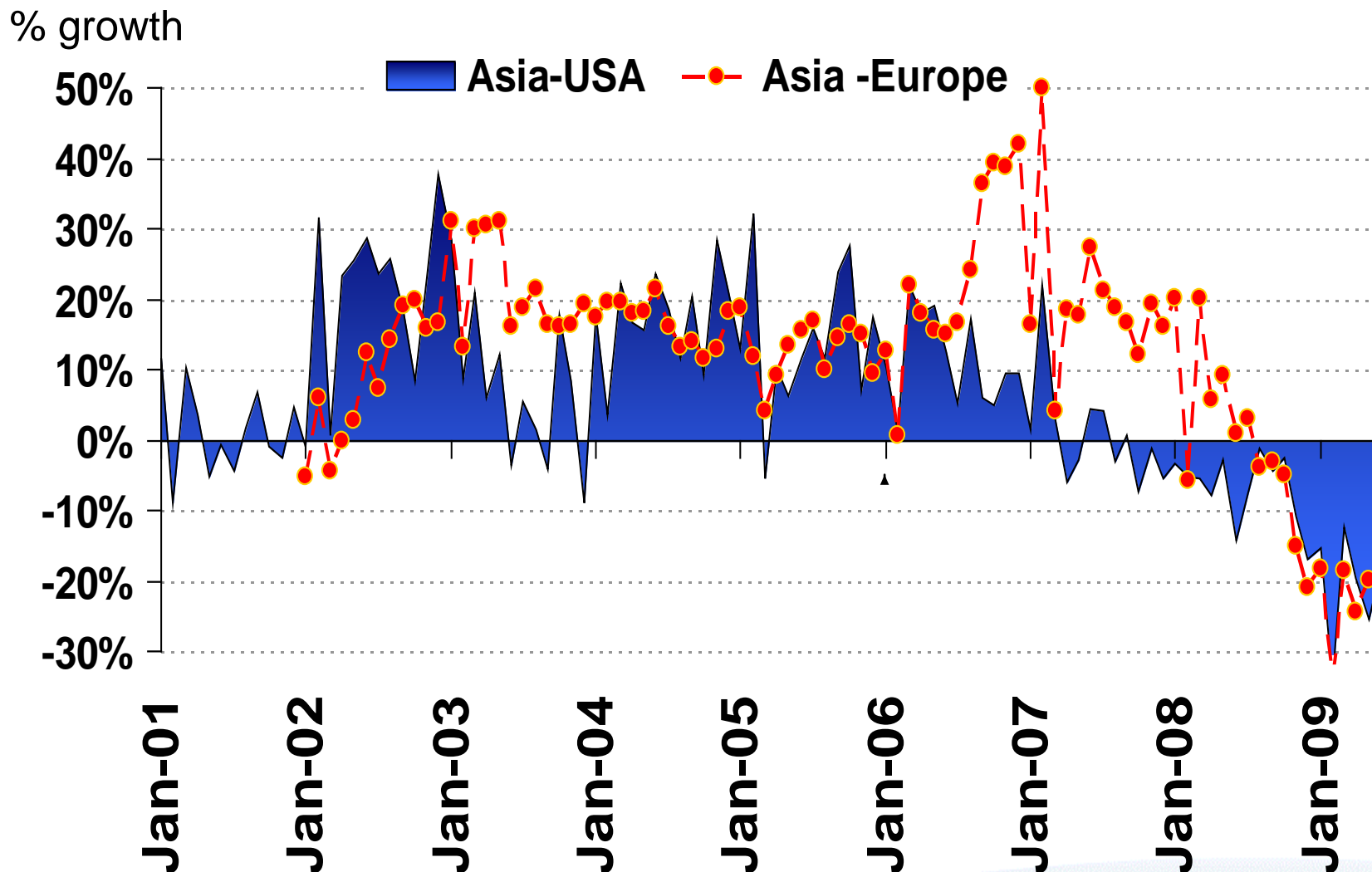
IEA Forecast August 2009

- Between 2000 and 2007 world oil demand grew by 9.5 m bpd, creating demand for about 48 million dwt of tankers
- Demand fell by .3 m bpd in 2008
- IEA predicts 2.5 m bpd fall in 2009 bpd in 2009
- The IEA is usually over optimistic



# Container Trade: biggest slump ever

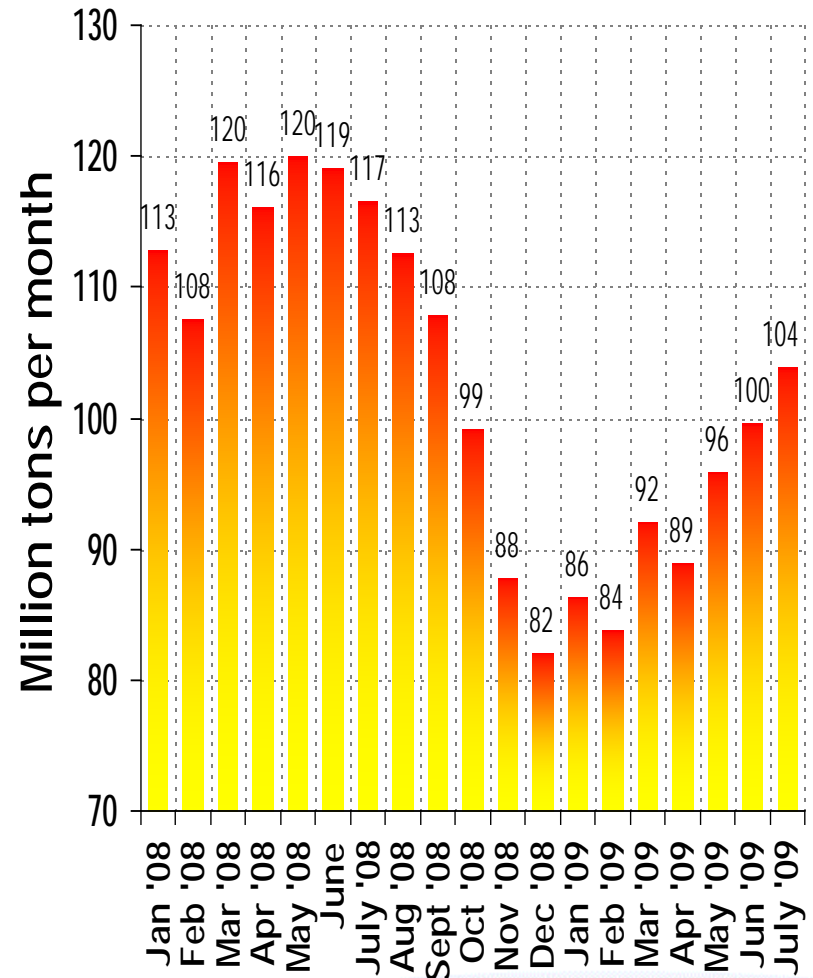
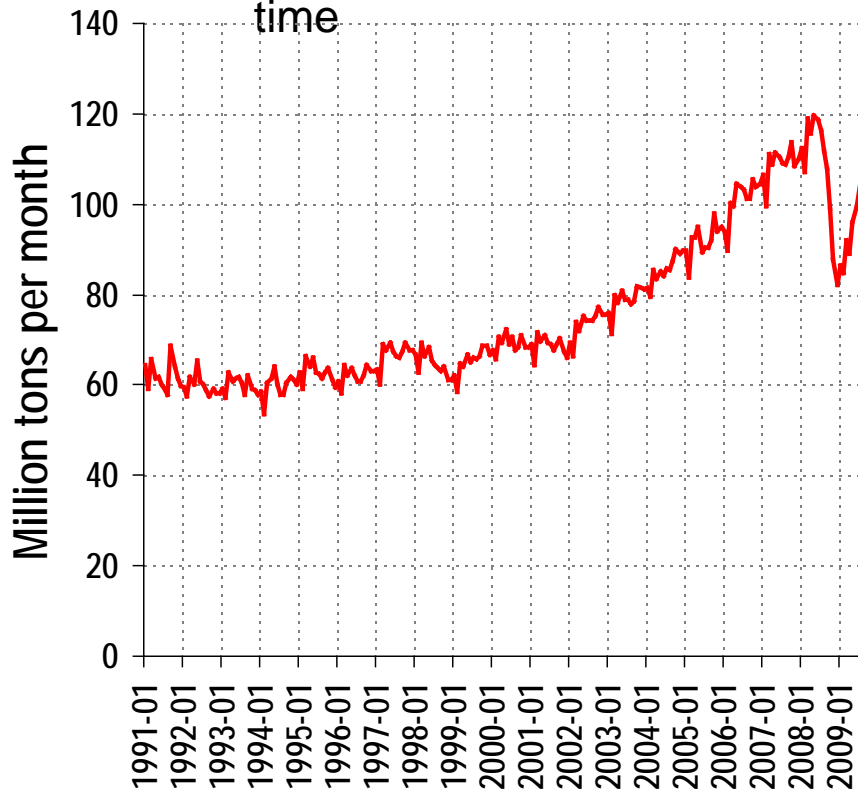
Shows container movements on the two biggest arterial routes





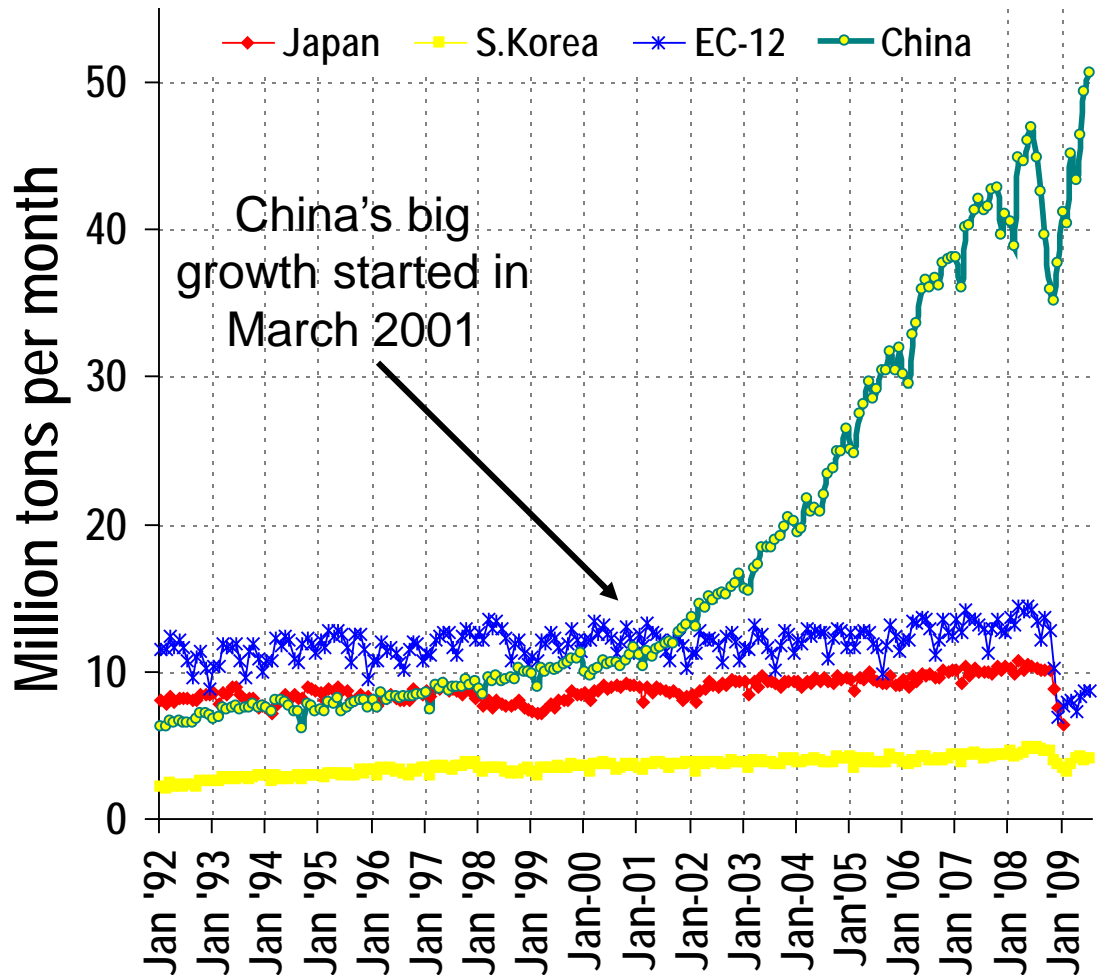
# World Steel Production

World steel production has fallen by 35% since June 2008. It may not reach 120 mt a month again for some time



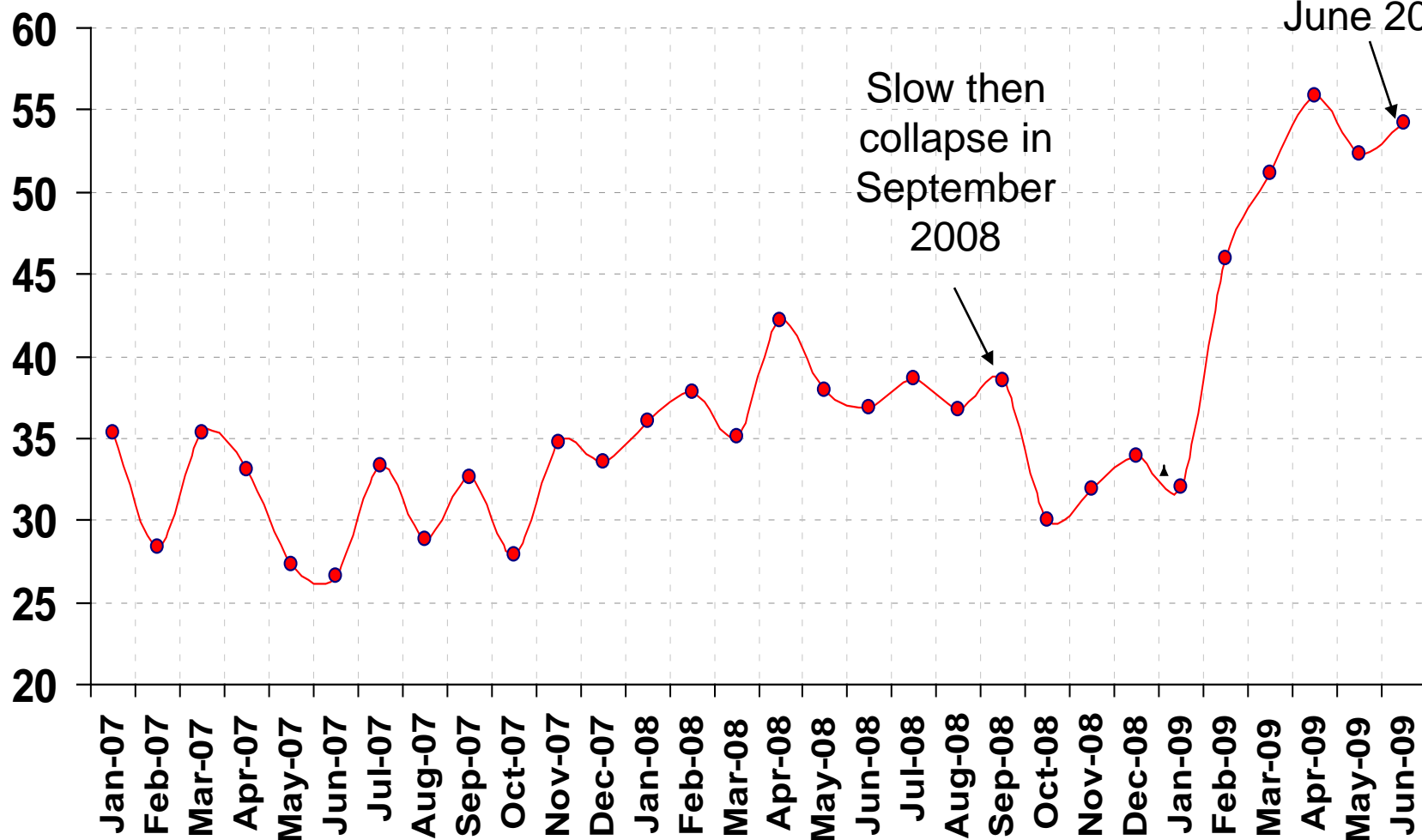
# Steel Collapse: Recovery In Progress

- China produced 47 mill tons steel in Mar 2008, falling to 40 Mt in Feb 2009
- Production in 2008 was 502 mt
- The recovery started in March and has been strong in China but muted elsewhere



# China Ore Imports

M tonnes



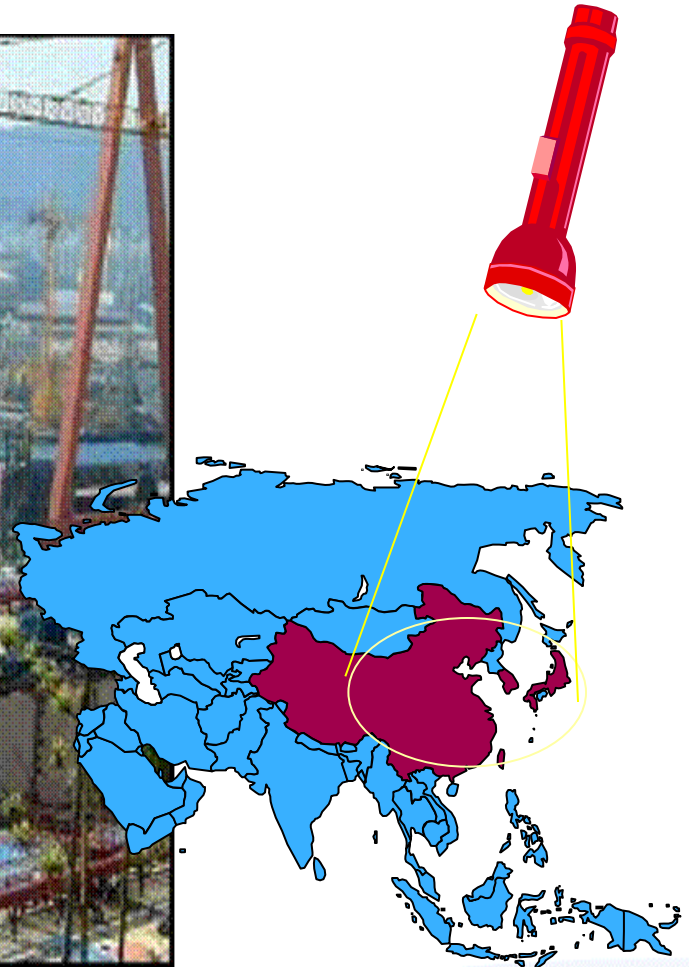
Imports double  
between  
February and  
June 2009

Slow then  
collapse in  
September  
2008





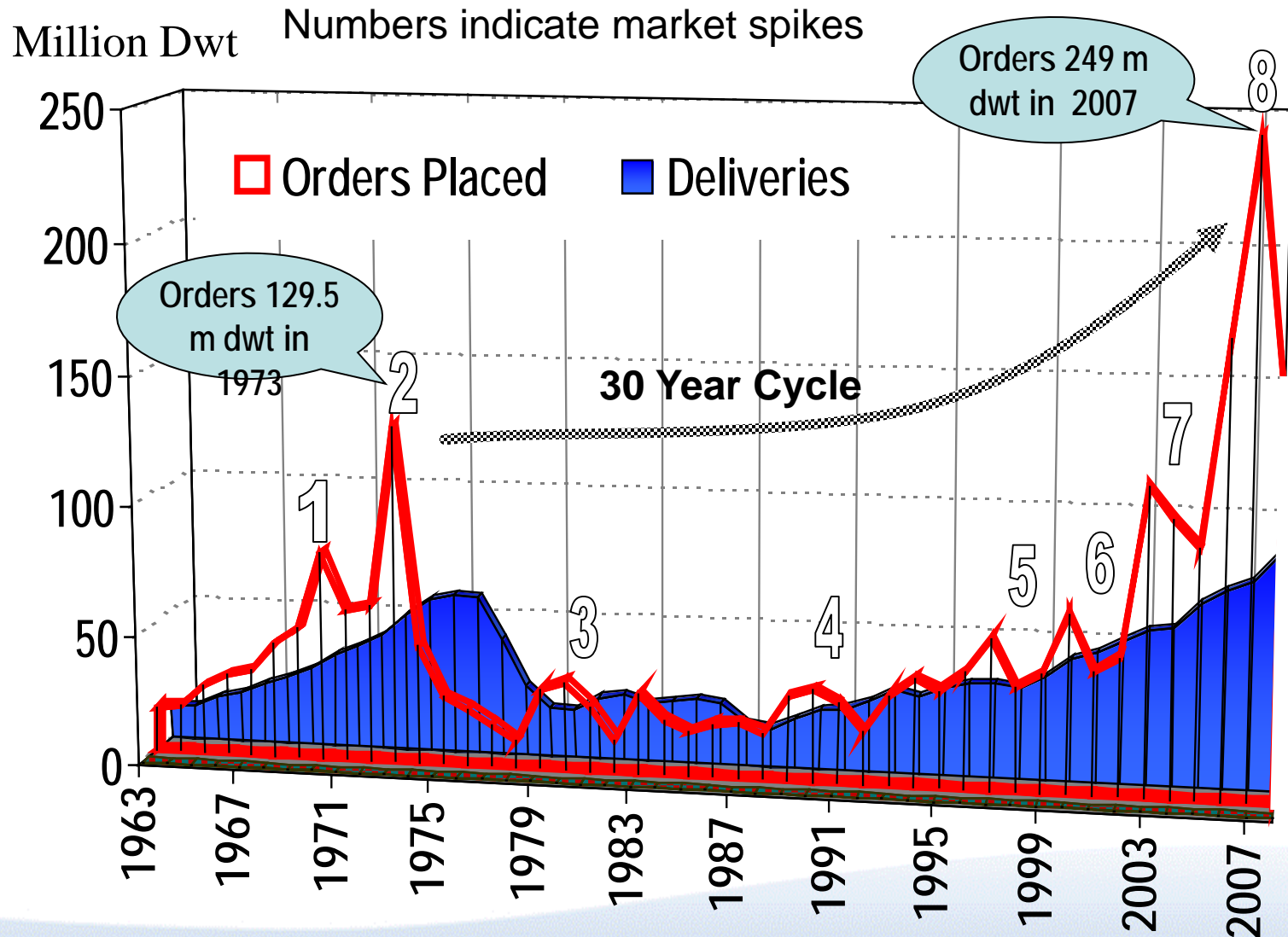
# 5. Supply - Armageddon Approaching?



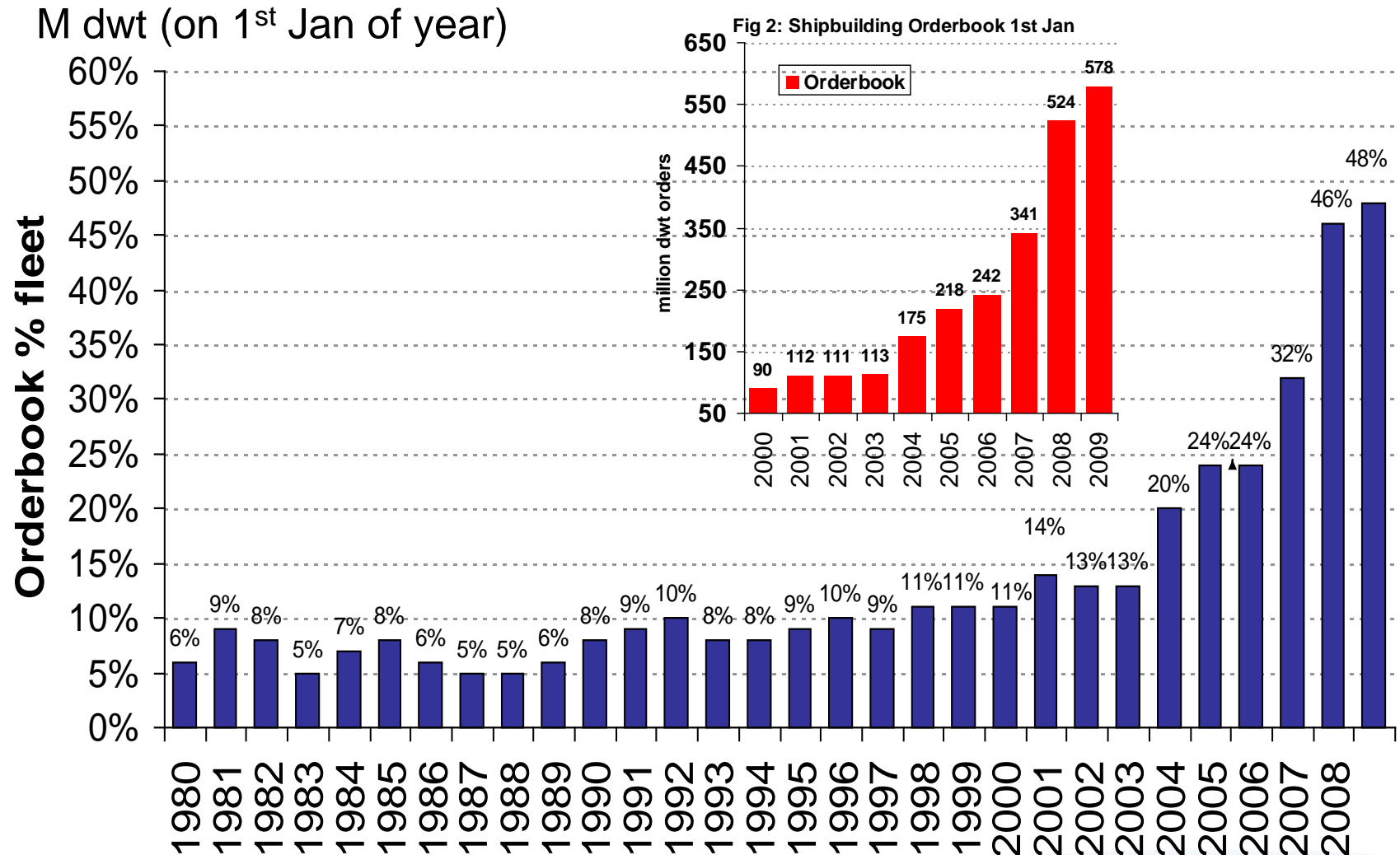


# World Shipbuilding Orders & Deliveries

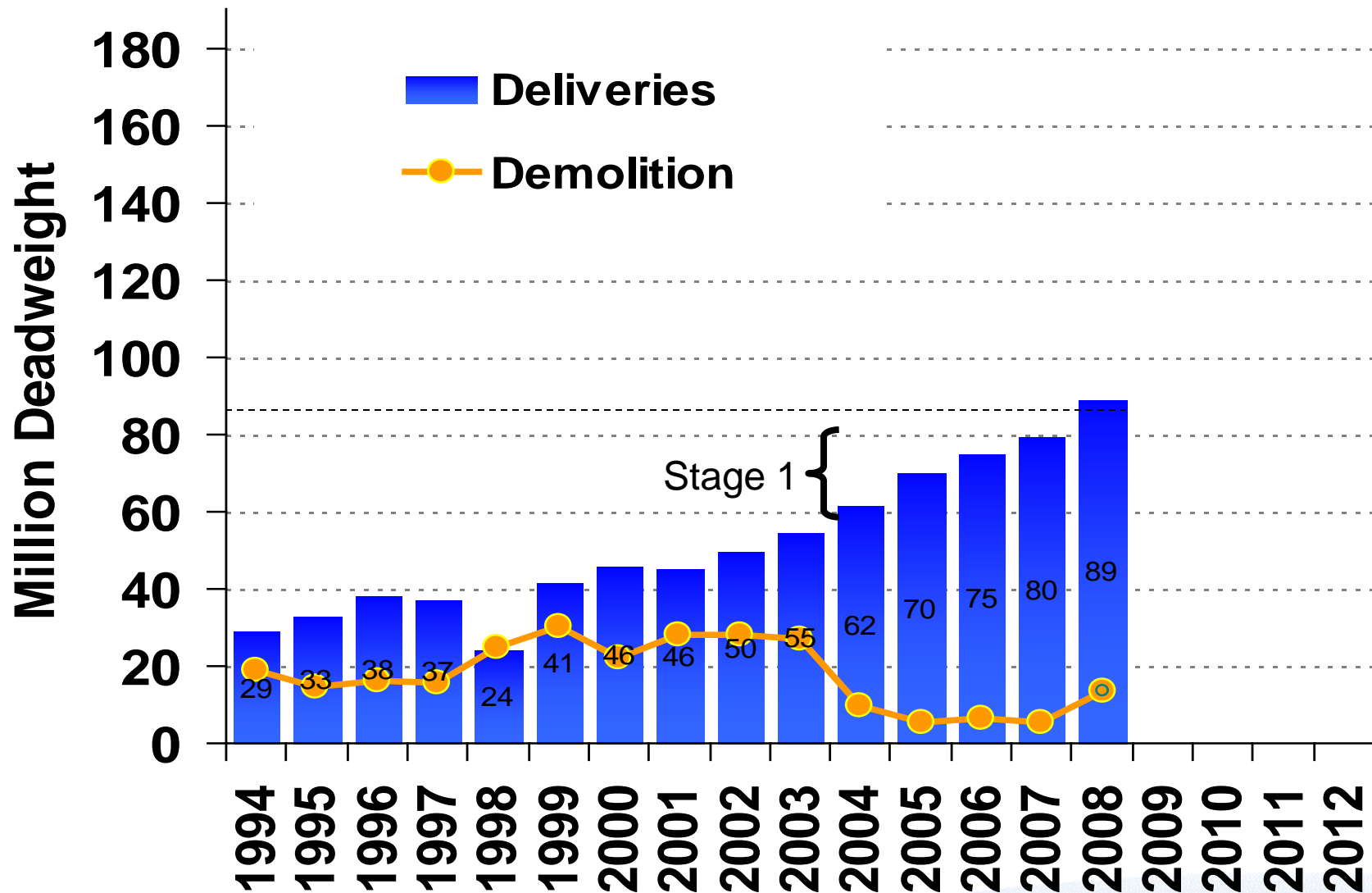
Figure 7: Shipyards expand in the 1970s boom & the 2000s Boom



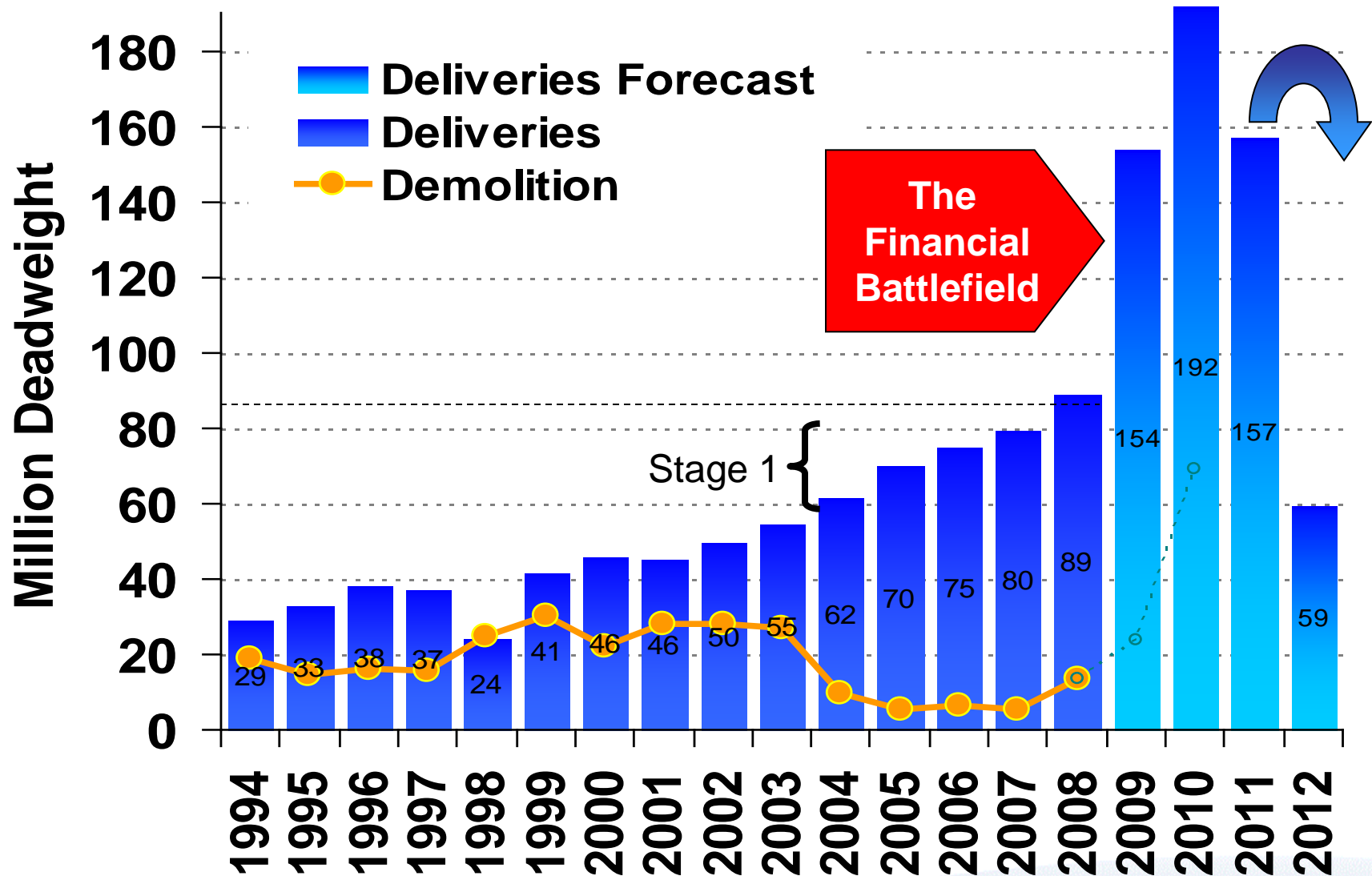
# Shipyard Orderbook % Fleet



# Shipyard Deliveries – Stage 1

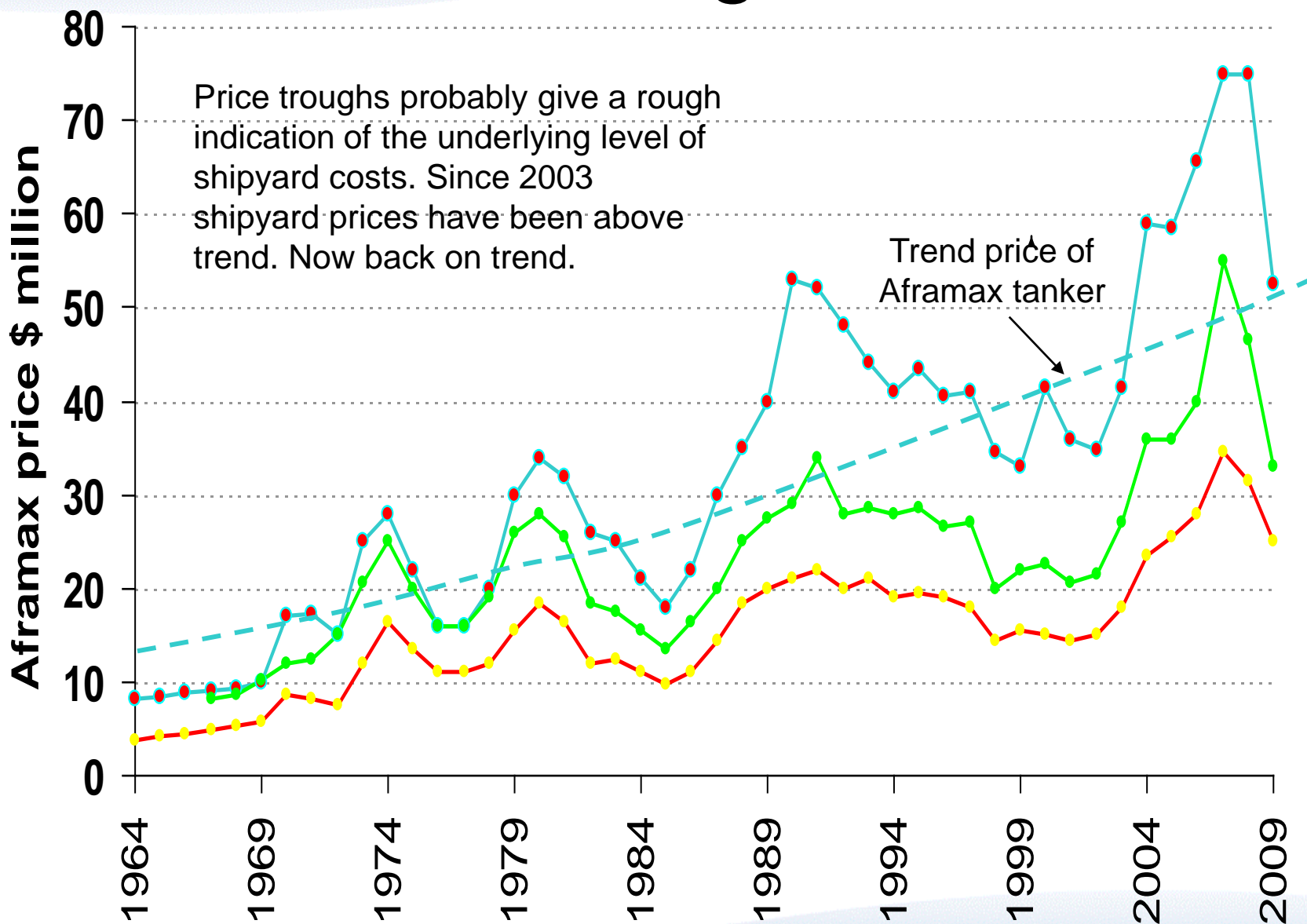


# Shipyard Deliveries – Stages 1&2





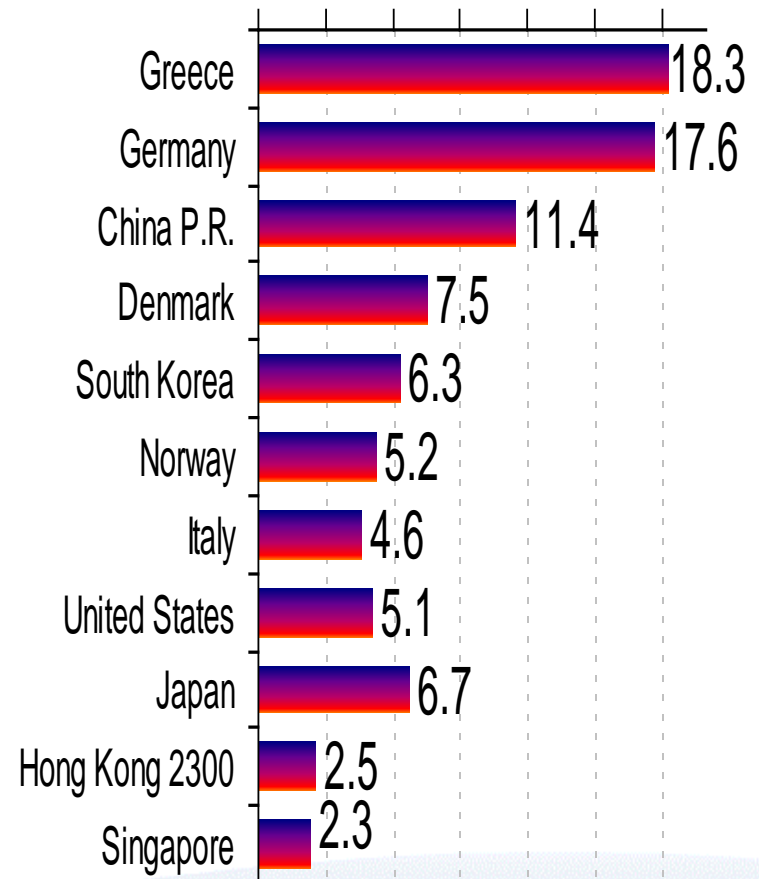
# Newbuilding Prices



# Orders by Country in \$ Billion 2008

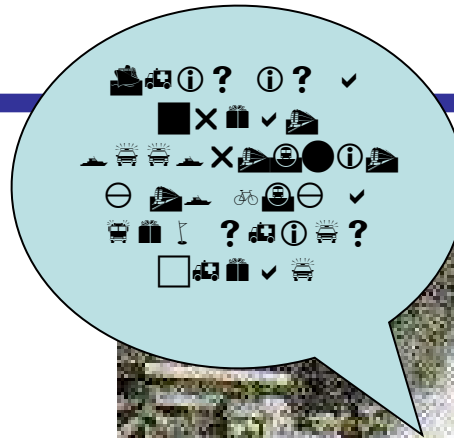
\$ Billion orders  
0 3 6 9 12 15 18

- The chart shows the new orders placed by country in 2008
- Europe accounted for 50%, Asia 25% and M. East 8%
- The big issue is how they will respond to the crisis and the interplay with the shipyards



# 6. The Next Stage

*“We must start out  
with the premise that  
forecasting is not a  
respectable human  
activity and not  
worthwhile beyond the  
shortest of periods”  
Peter Drucker*



Translations  
only \$500



## THE ORACLE'S FORECAST



# Shipping Supply/Demand Imbalances

M. Dwt  
Fleet

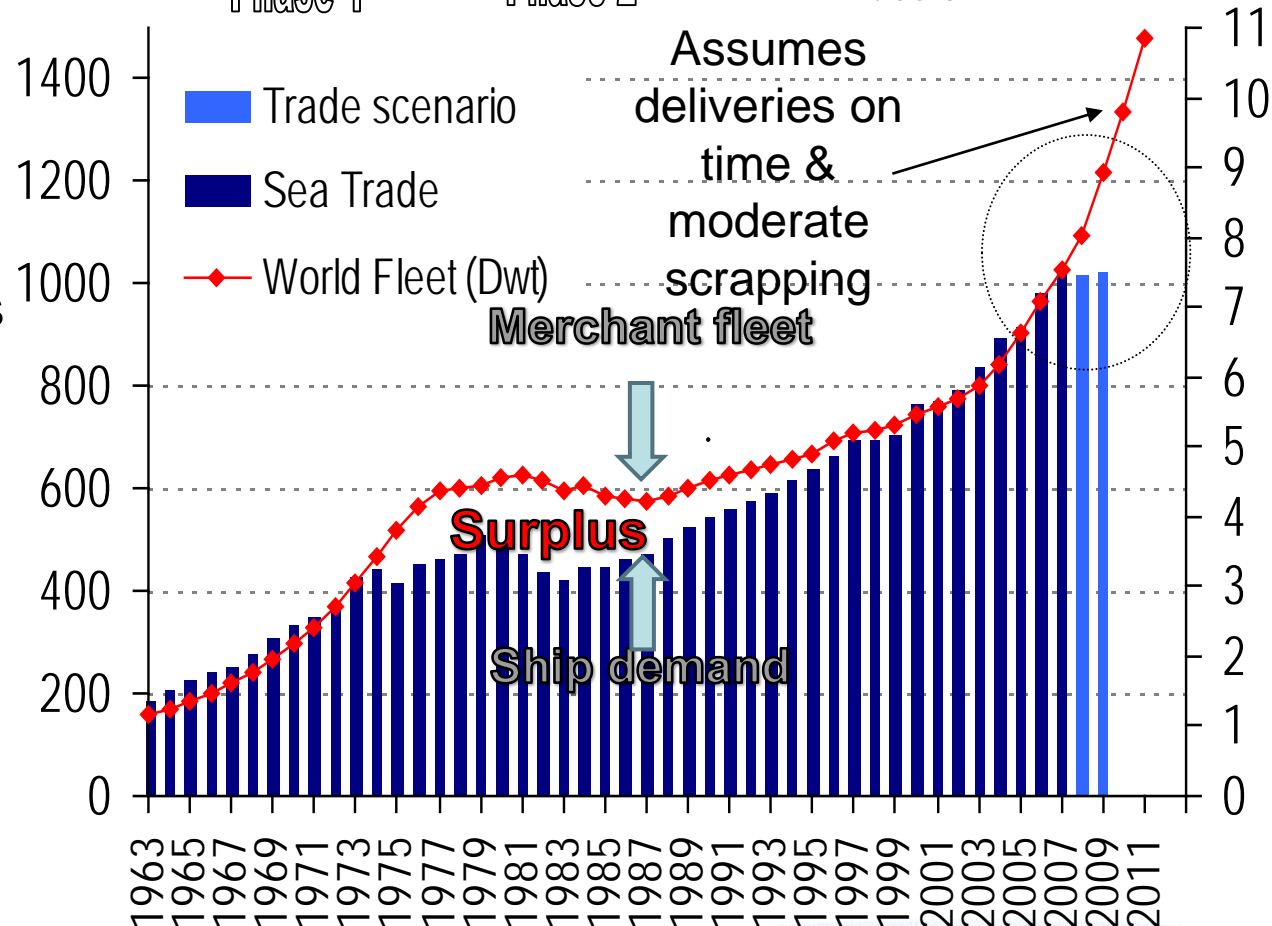
Bill.  
Tons  
Cargo

Phase 1

Phase 2

Phase 3

Phase 4?



- **Phase 1:** Trade and fleet closely coordinated in the 1960s
- **Phase 2:** massive dislocation in the 1970s and early 1980s
- **Phase 3:** Tight market from 1997
- **Phase 4:** Growing surplus now likely (but this depends on how demand develops and how capacity is managed over next 3 years)





# Revealed: The ghost fleet of the recession

The 'ghost fleet' near Singapore. The world's ship owners and government economists would prefer you not to see this symbol of the depths of the plague still crippling the world's economies

**The biggest and most secretive gathering of ships in maritime history lies at anchor east of Singapore. Never before photographed, it is bigger than the U.S. and British navies combined but has no crew, no cargo and no destination - and is why your Christmas stocking may be on the light side this year**

**Source Daily Mail**

**"It's OK. The recession is over, the stock market is rocketing upwards, house prices are recovering, bonuses are back, the world has a rosy future. These ships are just resting while their crews are on holiday getting blitzed out of their brains in Ibiza. The world's awash with money. Gordon will confirm what I say."**

-

**Source** eric campbell, harrogate

© Richard Jones / Sinopix



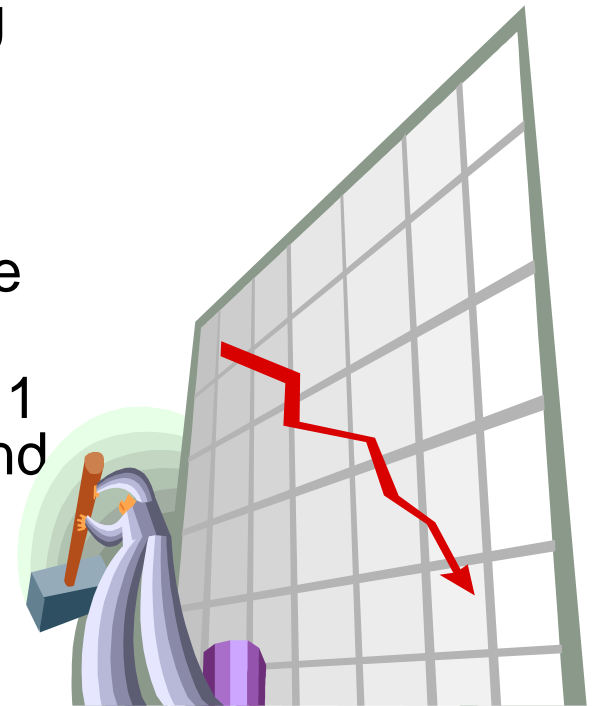
# High Case Scenario

- It turns out that the worst is behind us in world economy. Asset prices stop falling; the banks regain confidence and consumers start spending
- The world economy recovers in 2010 & 2011,
- China steel remains firm and Asia consumers pick up spending
- Strict tanker phase out complied with and there is heavy cancellation of shipbuilding orderbook
- The shipyards have massive problems and many contracts not built. It would all get very unpleasant
- This scenario would still mean a couple of tough years but the impact of the new ships Tsunami would be moderated



# Low Case Scenario

- World economy very weak as financial crisis deepens with major corporate crises in late 2009 and Sovereign risk becoming problematic
- Trade growth rate falls in 2009 and 2010 as the recession deepens
- Some single hull tankers continue to trade
- Shipyard orderbook slippage but cancellations much less than in Scenario 1 as governments step in to help owners and yards
- Yards drop prices and more counter cyclical orders placed
- Result: Market recession drags on for a long time





# Conclusion

- Coming to the “end of the beginning”
- Very unpleasant economic shock but so far not as bad as 1970s
- Containers hit first in early 2008, followed by bulkers in September and Tankers in Spring 2009
- All markets face declining demand, but smaller orderbook and single hull phase out will help tankers
- Shipyards moving into 2<sup>nd</sup> stage of their development with step up in output but “toxic orderbook” problems are increasing.
- Asset and newbuilding prices still high and downward pressure expected
- Tough times ahead, but remember what a fantastic time we’ve had

We have a lot of problems. What are you going to do?

Buy your ships cheap



# BACK TO NORMAL?

SHIPBROKER'S REPORT 31<sup>ST</sup> December 1884 :-

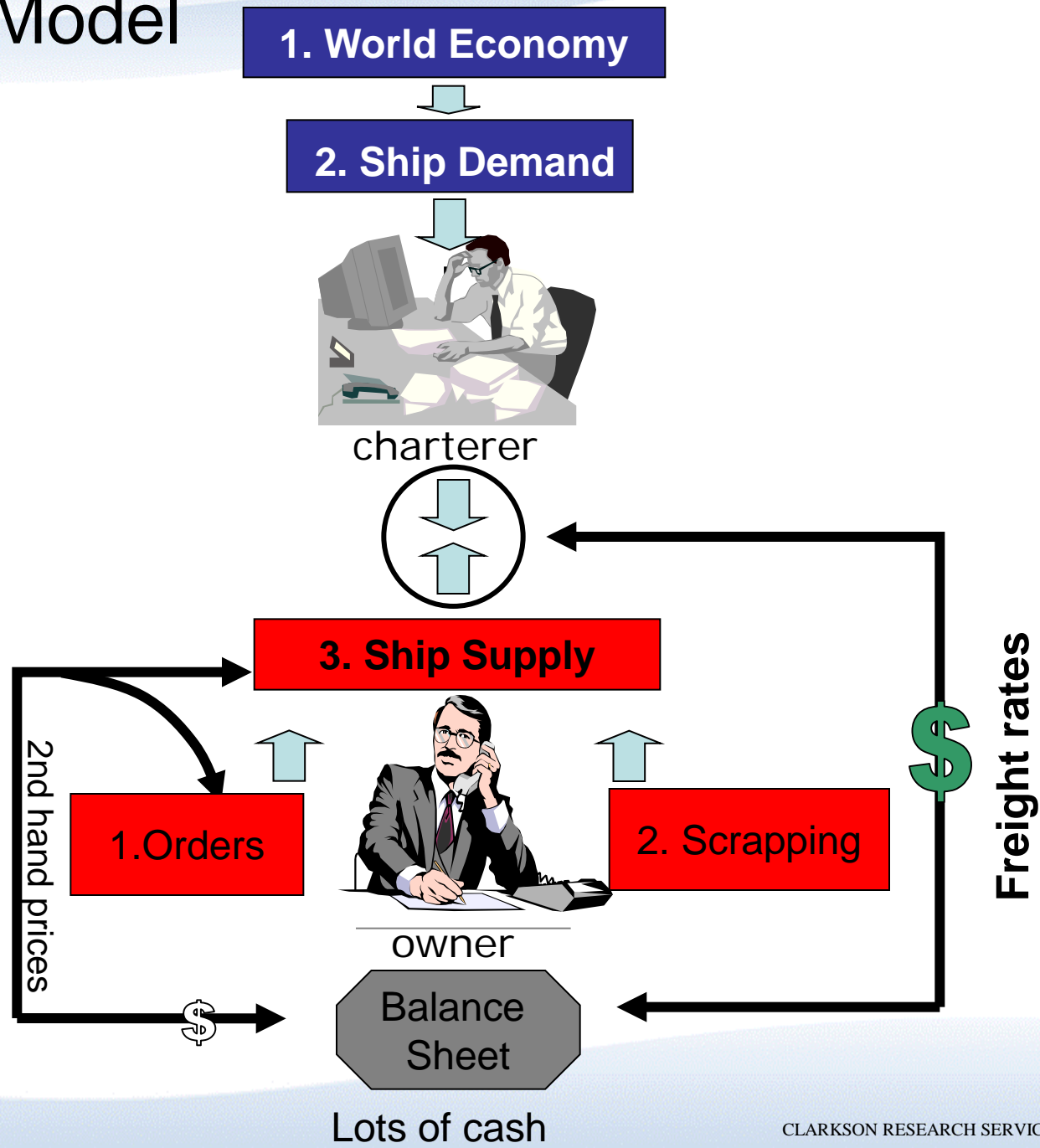
*"In almost every trade the lowest points reached during the year at which steamers have been chartered are lower than have ever before been accepted.*

*This state of things was brought about by the large overproduction of tonnage during the previous three years, fostered by reckless credit given by the banks and builders, and over speculation by irresponsible and inexperienced owners."*



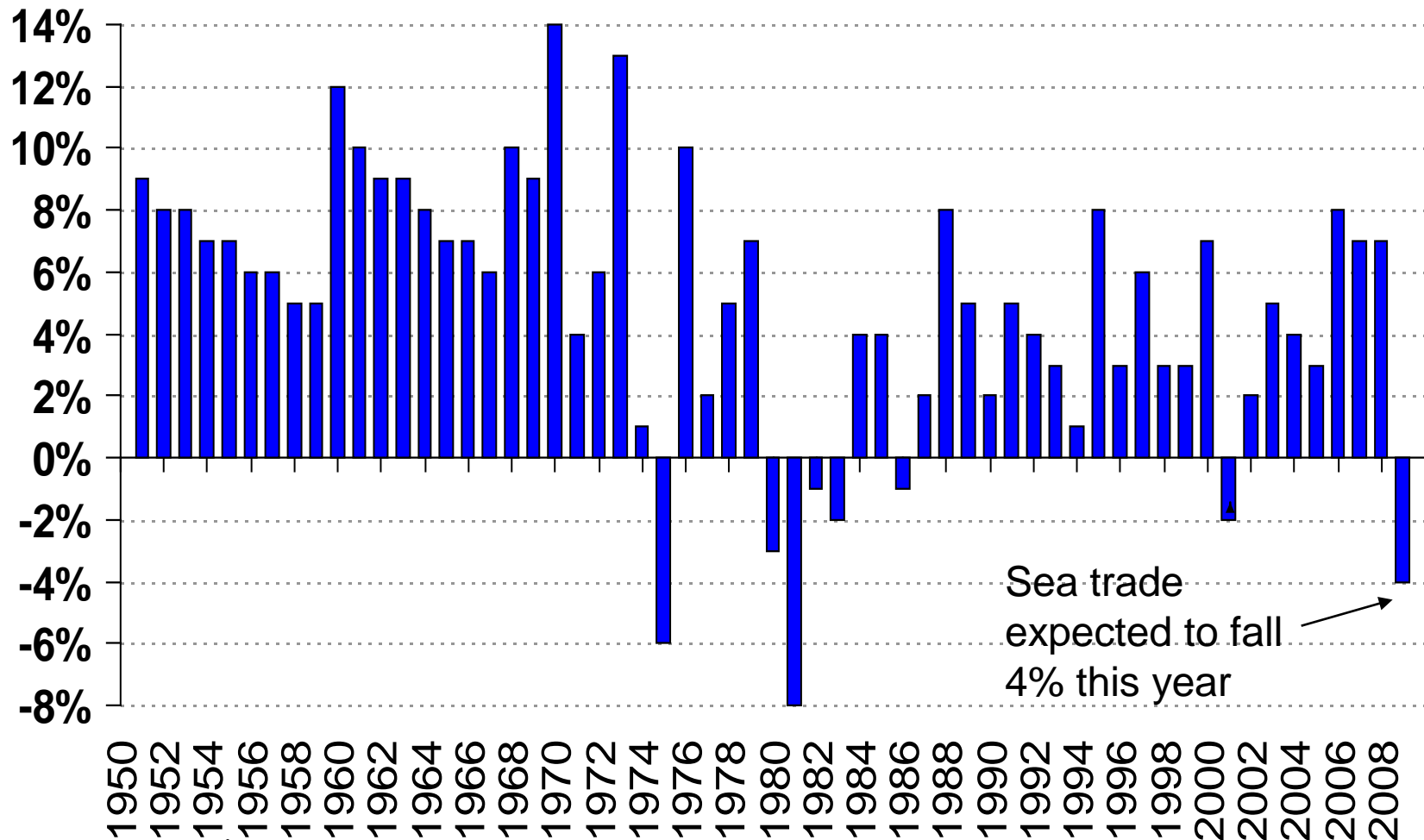


# Shipping Model



# Sea Trade Growth Cycles

% growth



1958  
World  
Recession

1973  
1<sup>st</sup> Oil  
Crisis

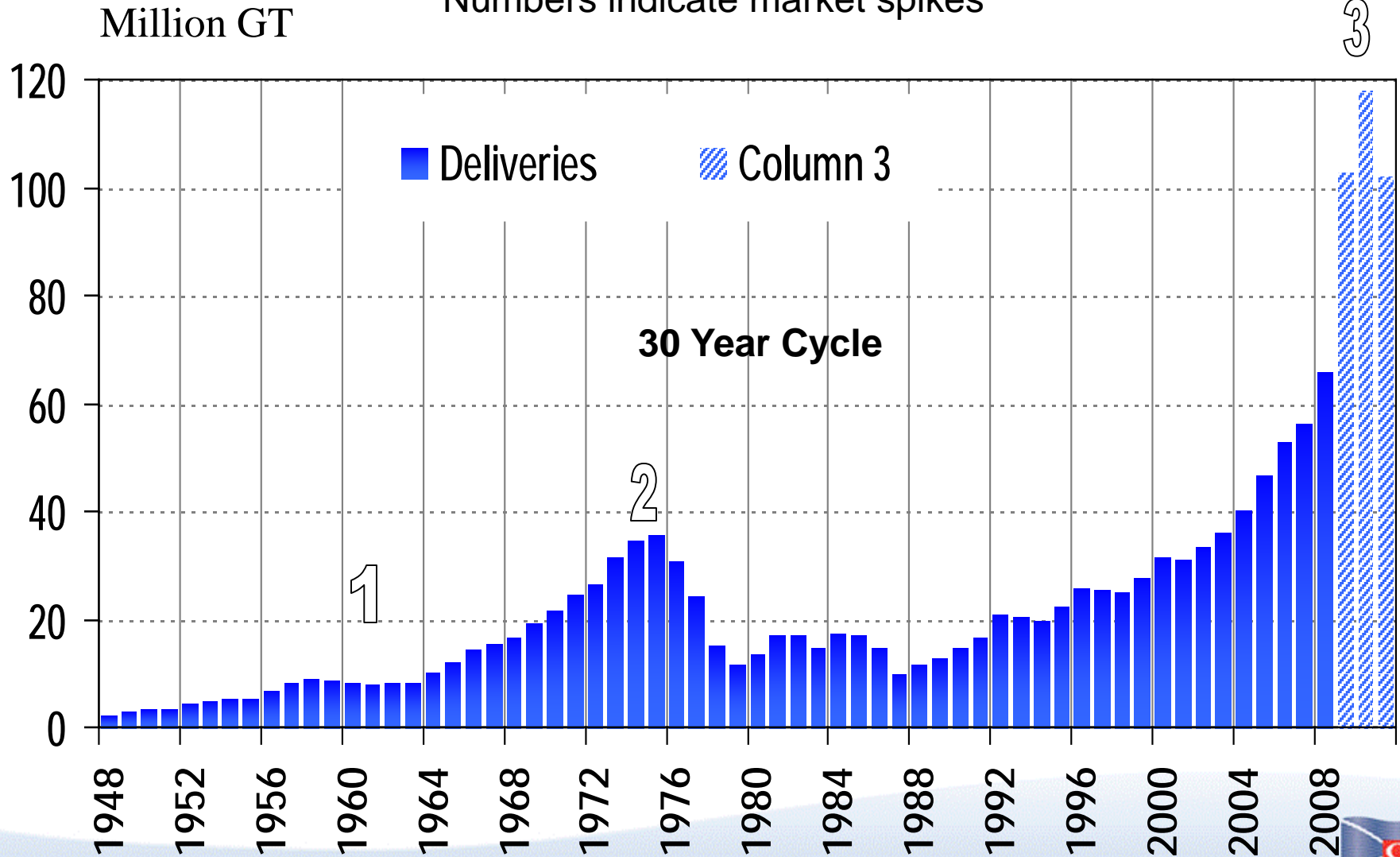
2008  
Credit  
crisis



# Shipyard Cycle

Shipyards expand in the 1970s boom & the 2000s Boom

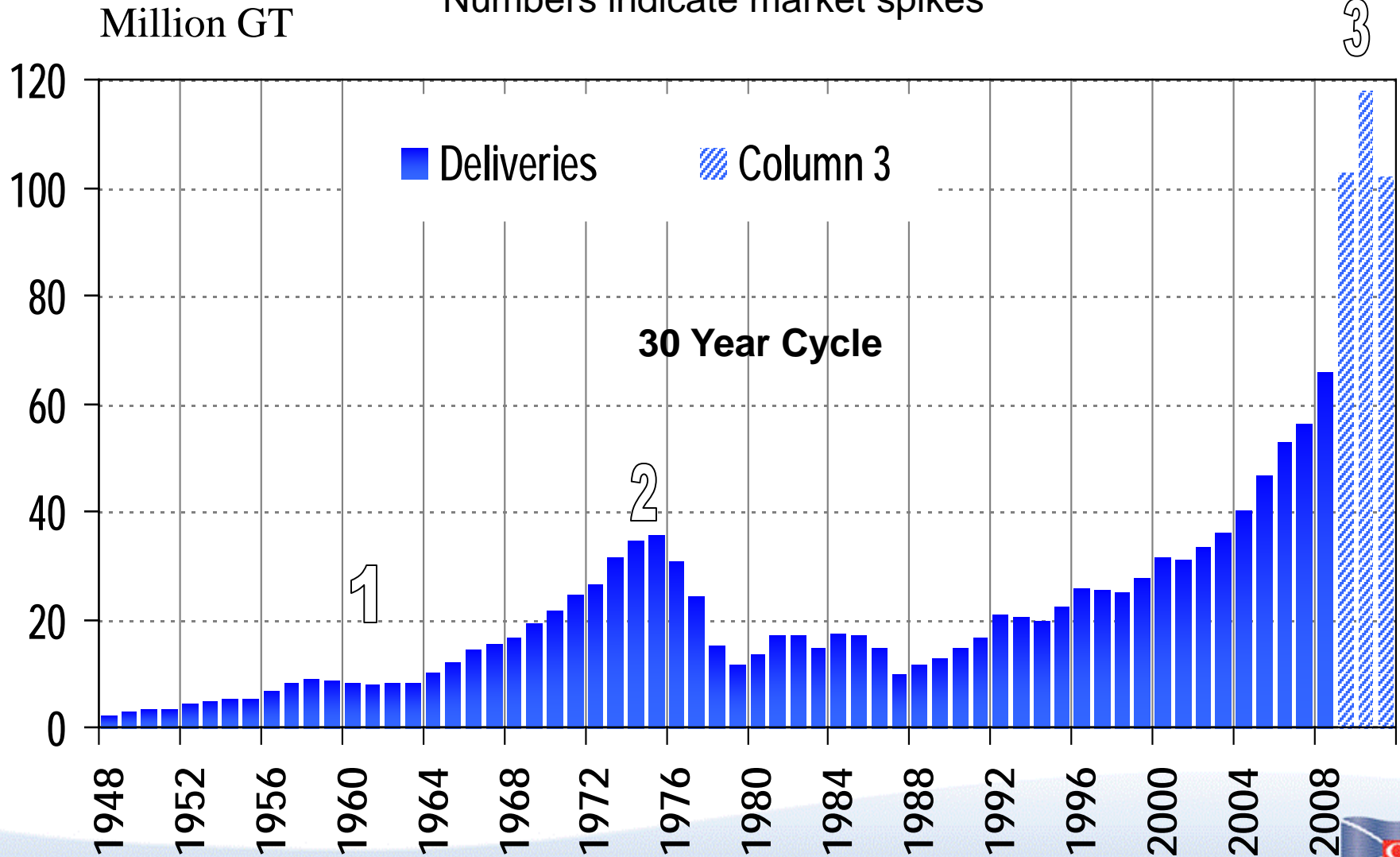
Numbers indicate market spikes



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