

# Forecasting: Developments in the Shipping Cycle, Revenues & Asset Values

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**Clarksons**

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# The Agenda

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

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




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# 1. Three Decades, Three Different Markets


The last 30 years saw very different markets

**Bankrupted by my bankers**




**1980s Depression**

**Can't afford a decent lunch**




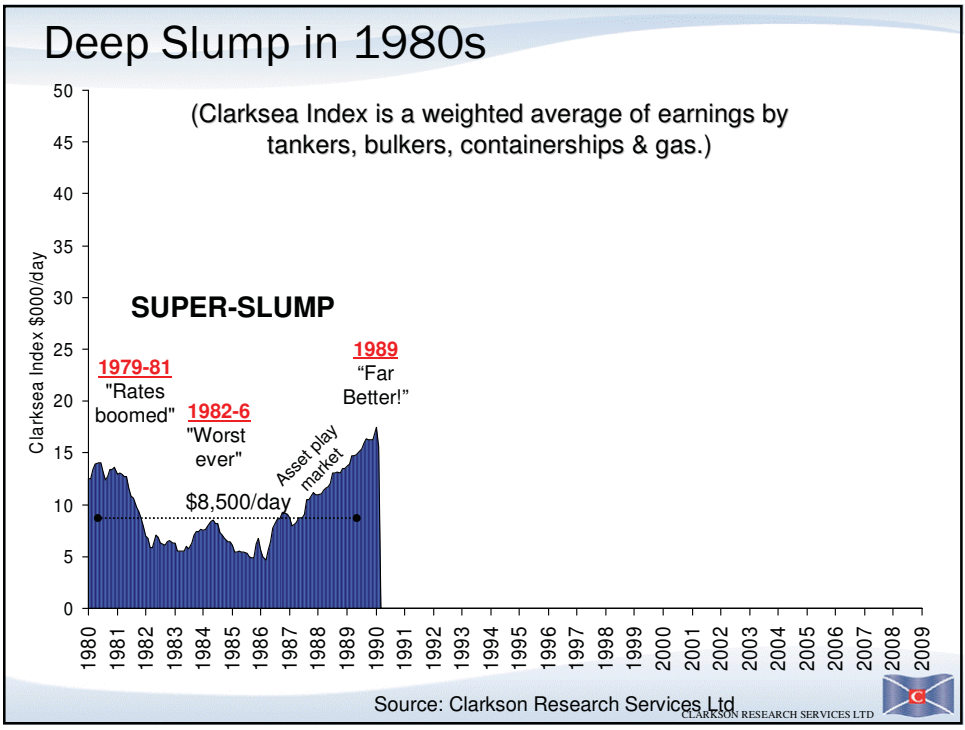
**1990s Recession**

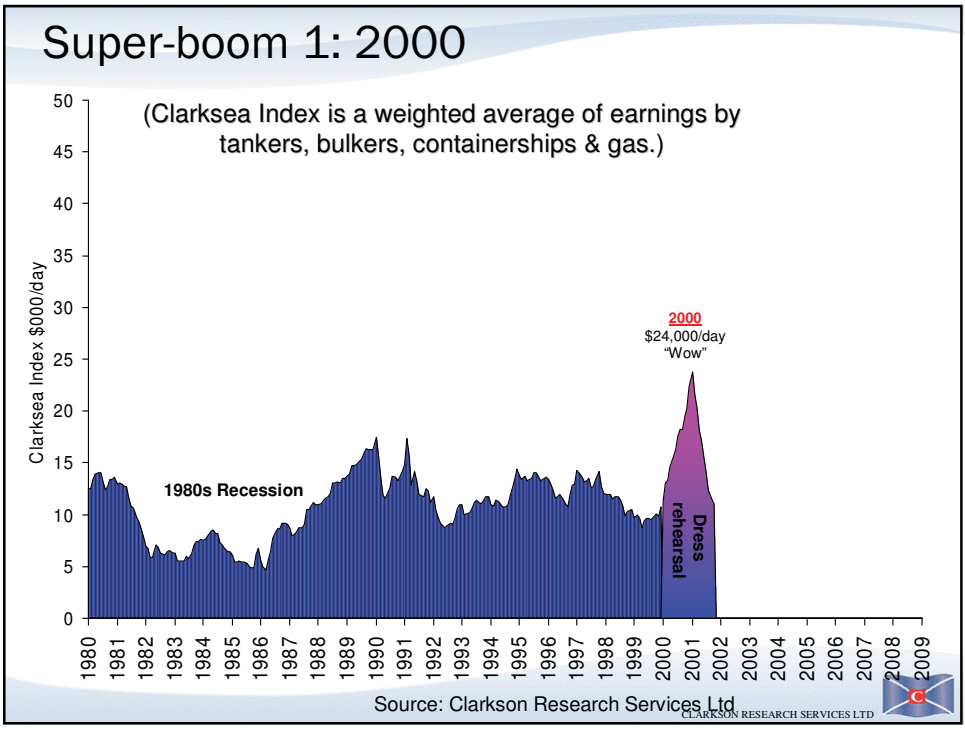
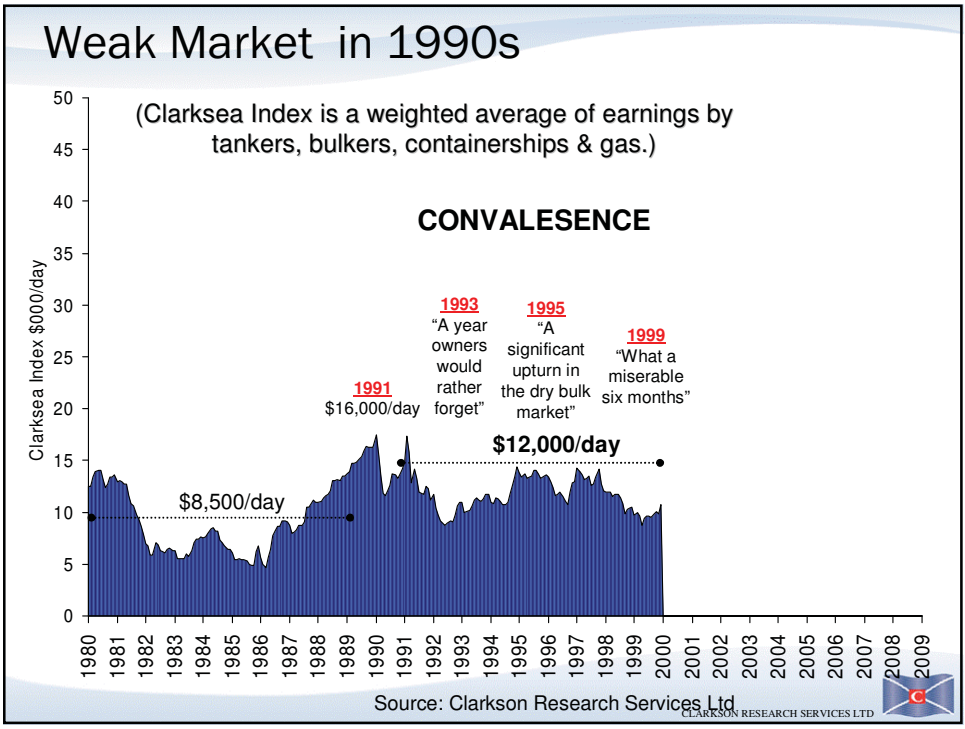
**I LOVE SHIPPING**



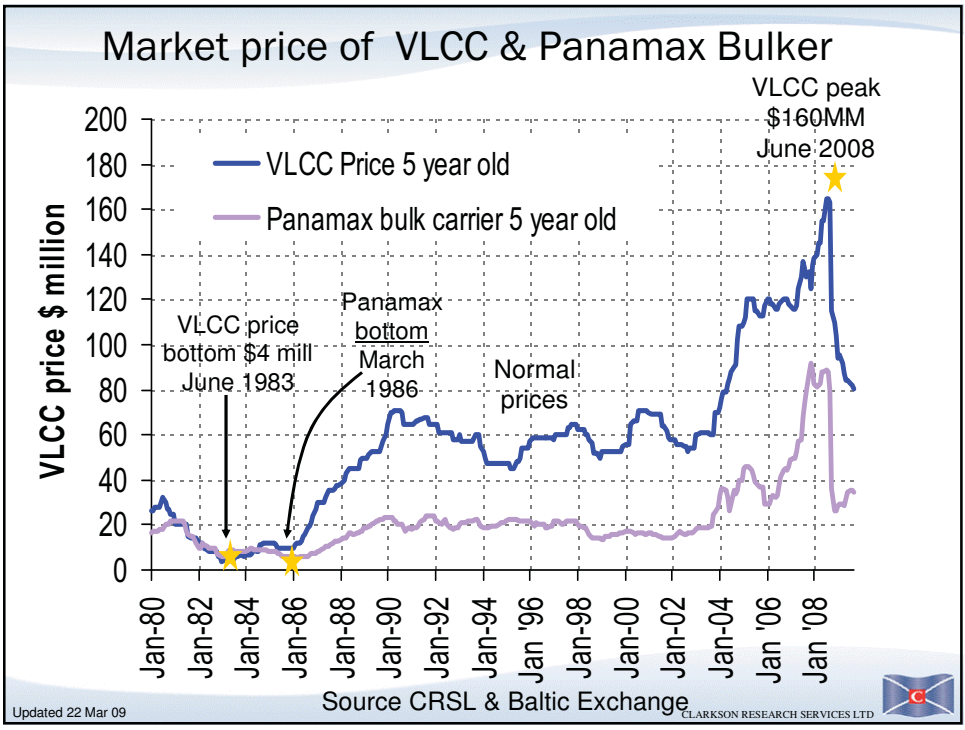
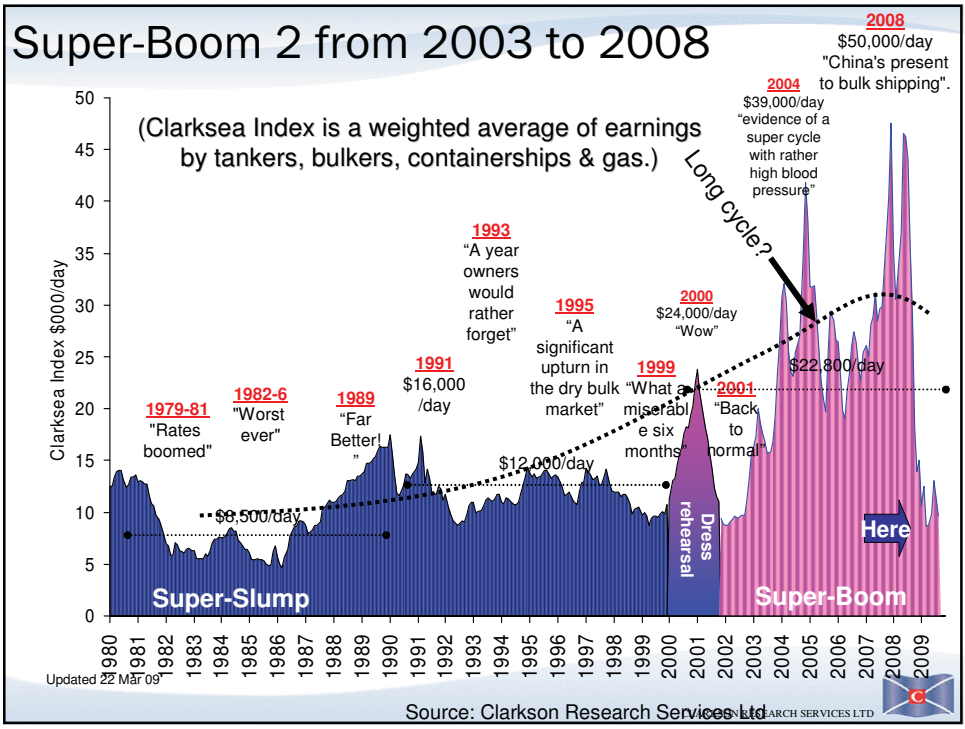
**2000s Boom**

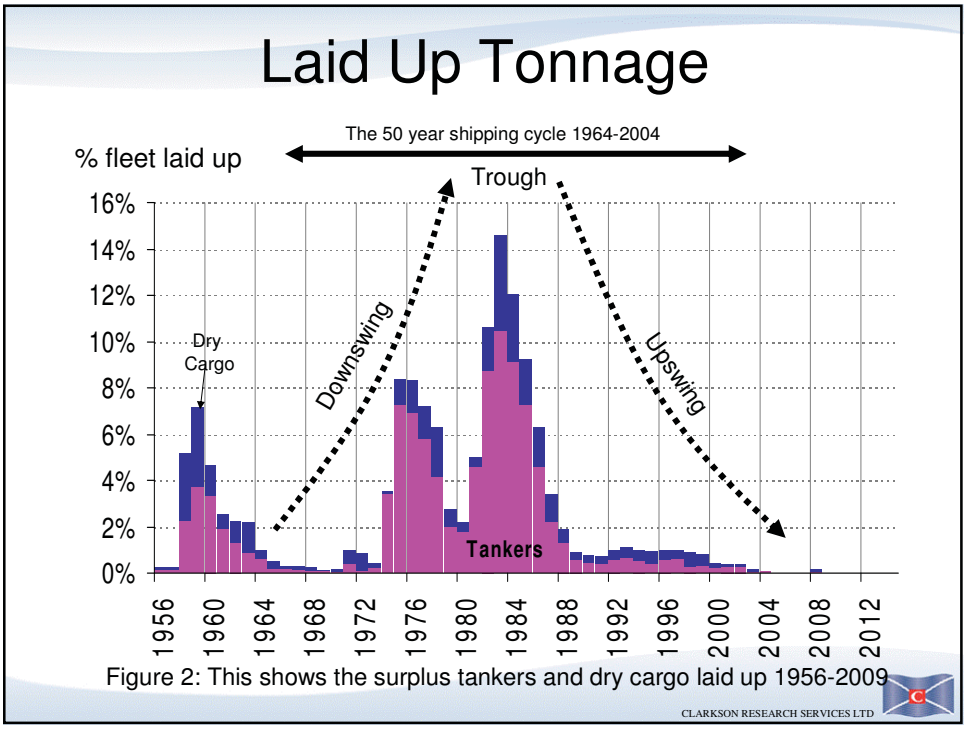
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# Developments in the Shipping Cycle & the Impact on Revenues & Asset Values





## 2. The Shipping Market Today & Tomorrow

Business cycle is slumping

Economy

Credit crisis's slowing growth

Banking

It's all getting nasty

Shipyards

Down and out?

2010s?

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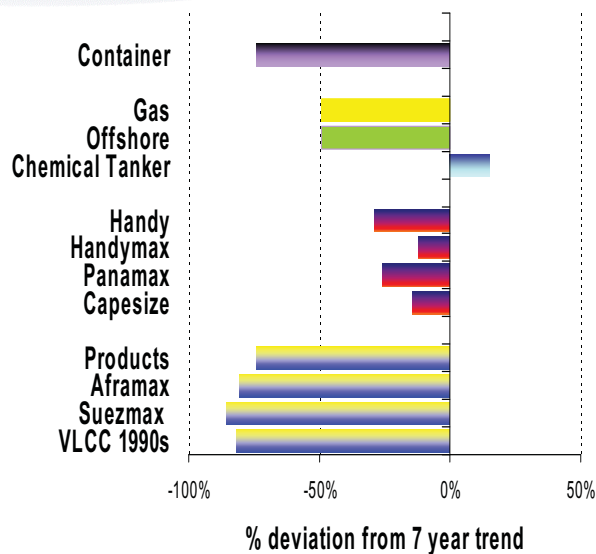
## Key Issues Going Forward

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
4. Major recessions often change the maritime industry

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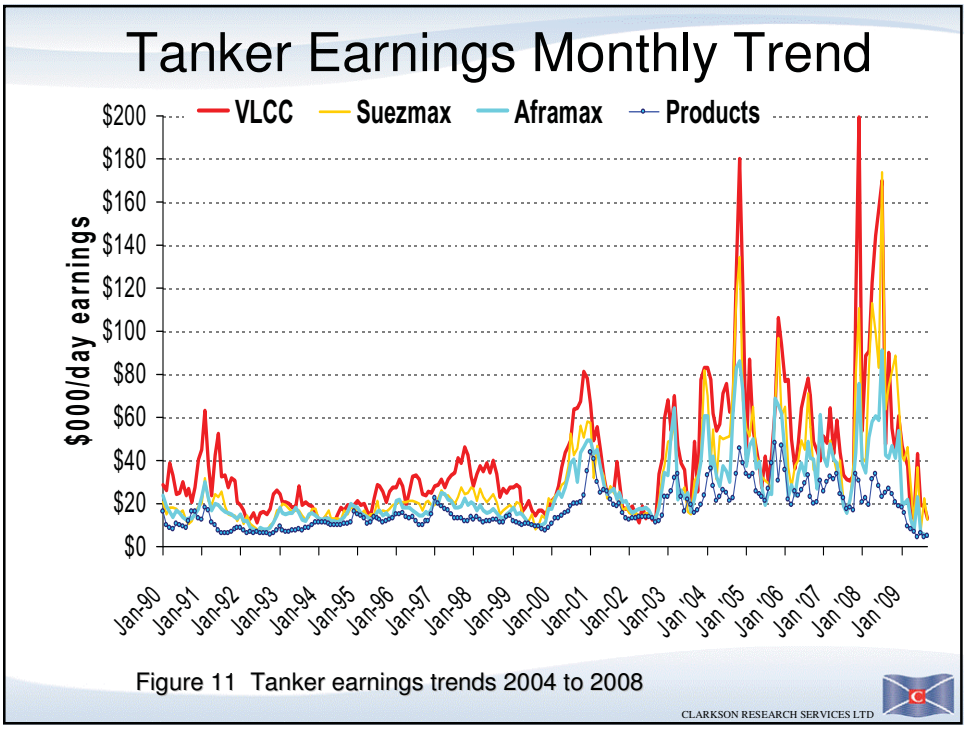
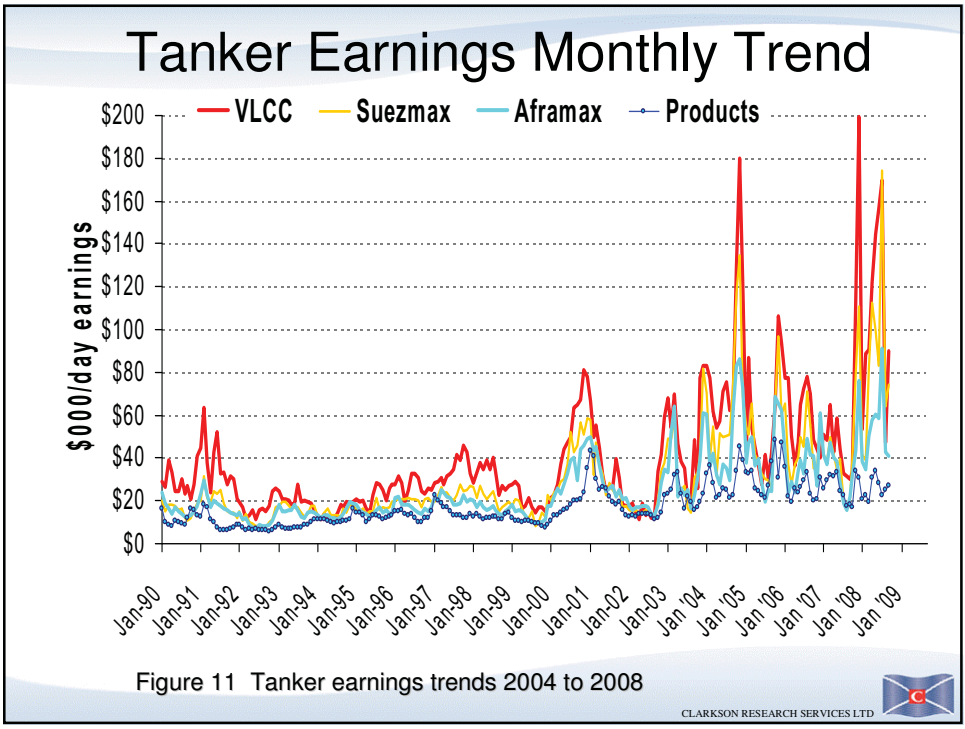
## Market Sector Cycle Position Sept 09

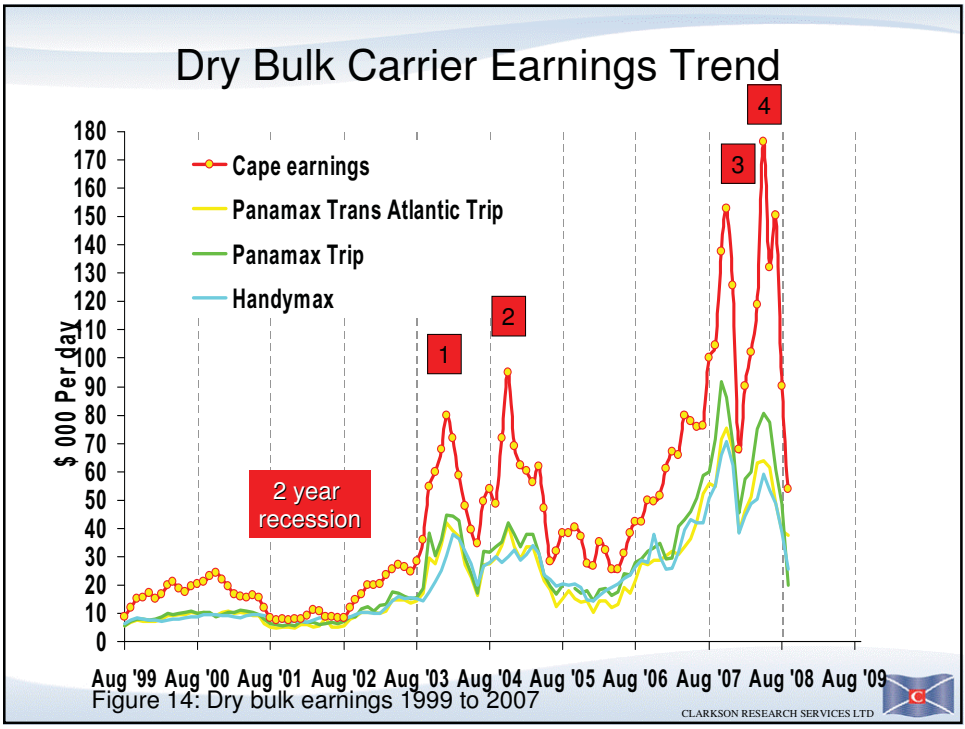


This chart shows average earnings today for the ship type, as a % of the average earnings during the last 7 years

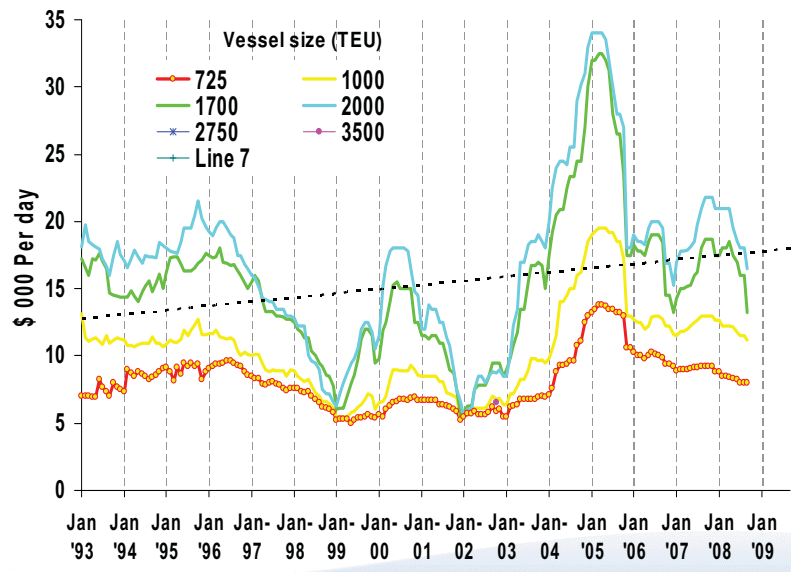
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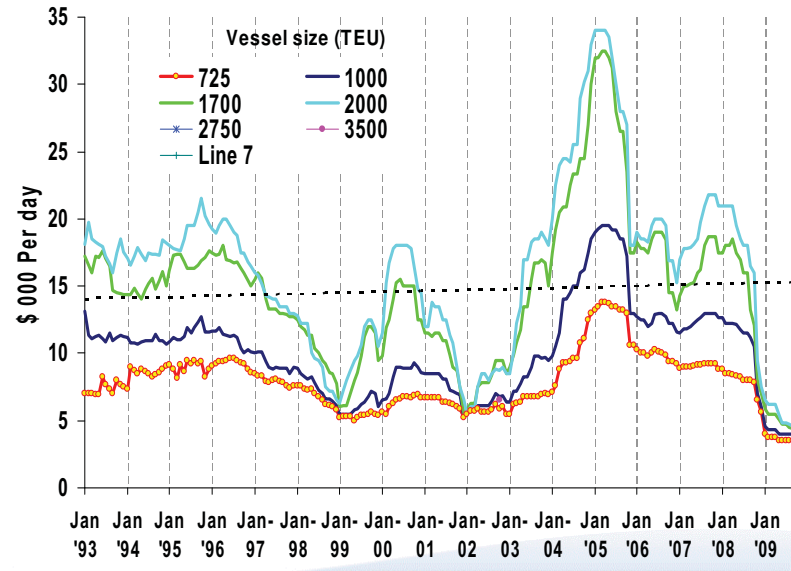


### Containership TC Rate



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### Containership TC Rate



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## 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"

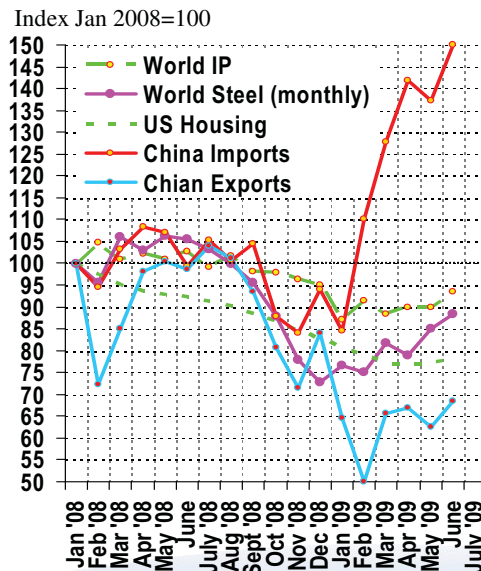


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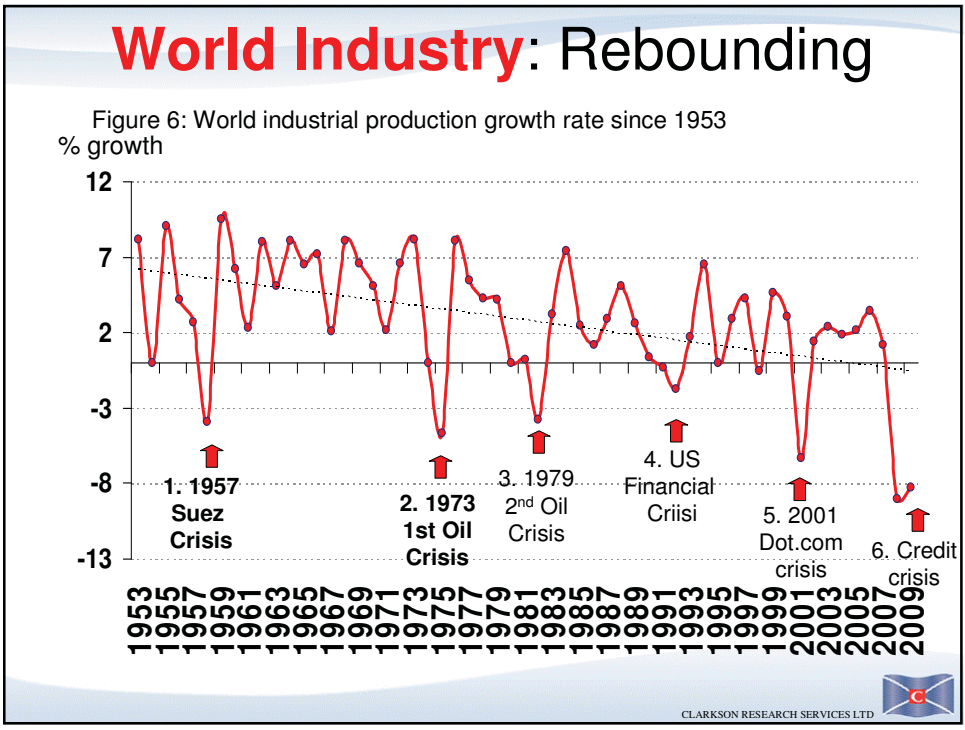
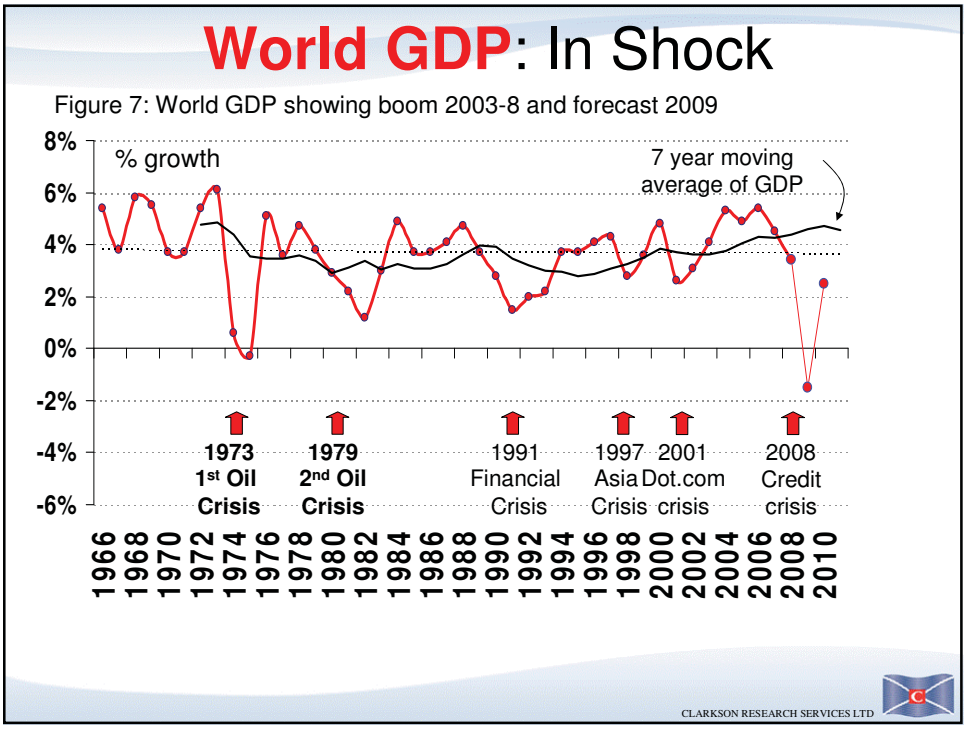
## The Big Economic Bounce Back

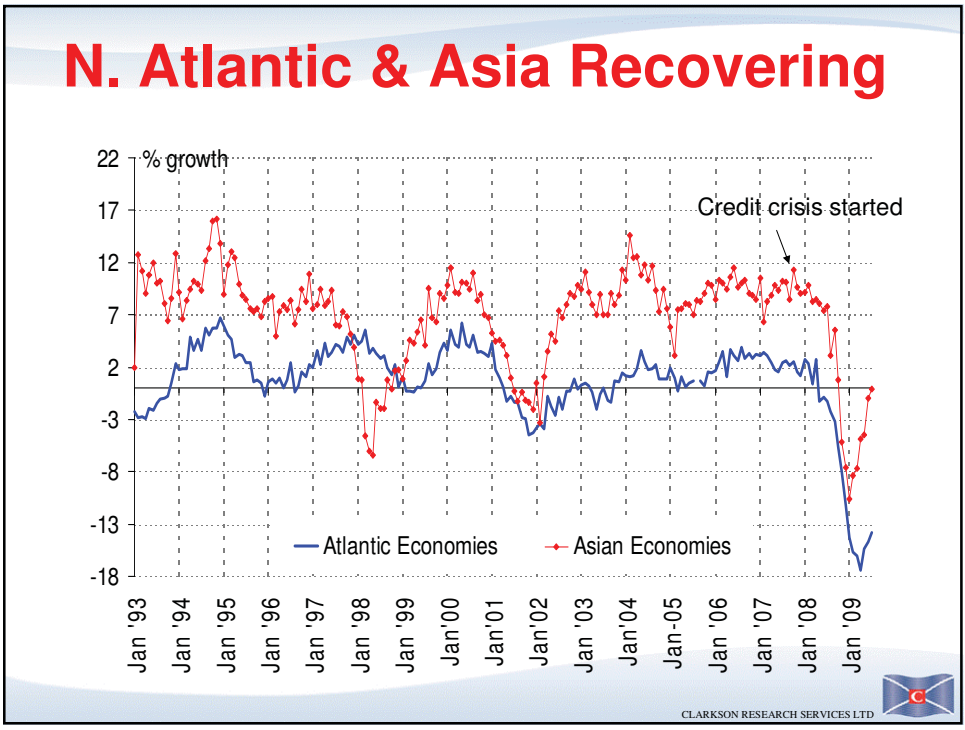
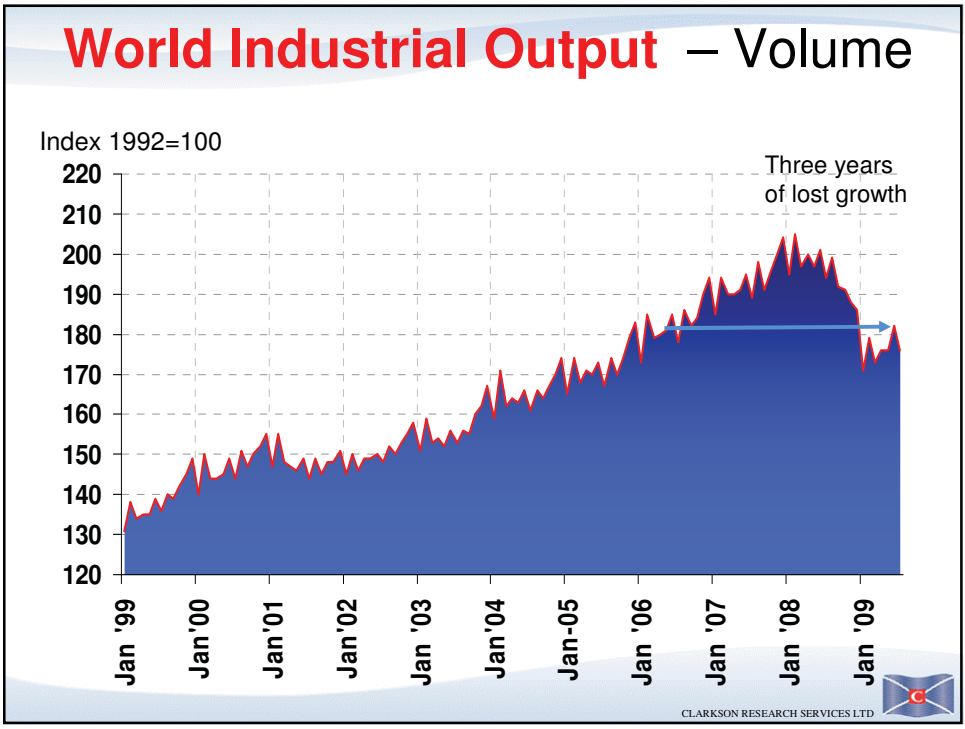
- The world economic shock which started in August 2009 produced a severe decline in industrial output, steel, housing, and Chinese trade
- A bounce back started in the spring and a better second half is expected
- But the index shows that output levels are still well down on last year.
- The exception is Chinese imports which are well ahead



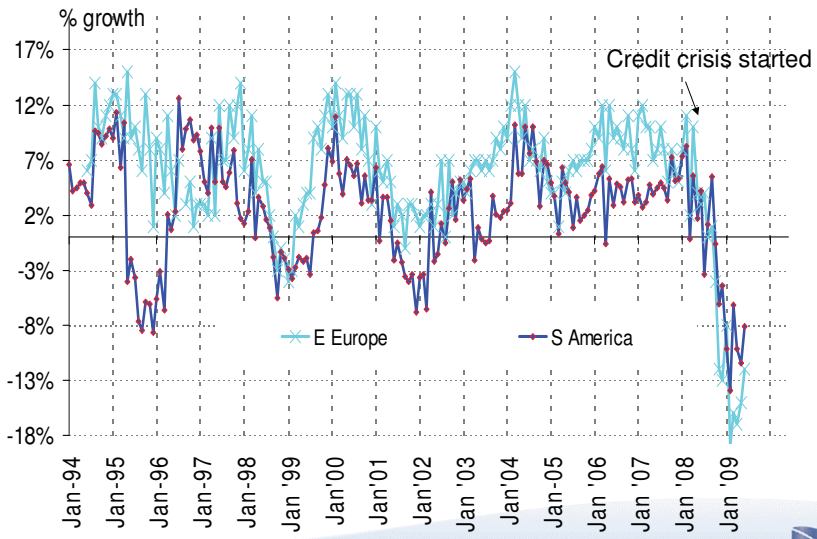
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## E Europe and S America

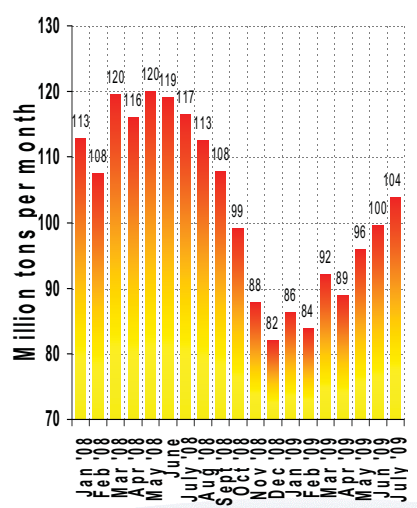
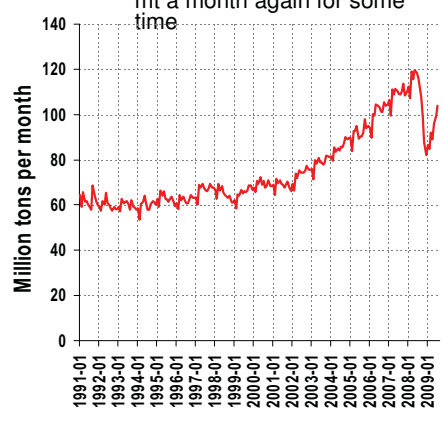


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## World Steel Production

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

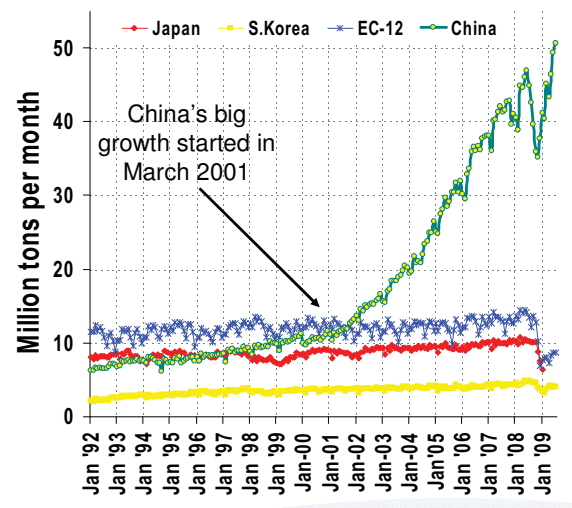


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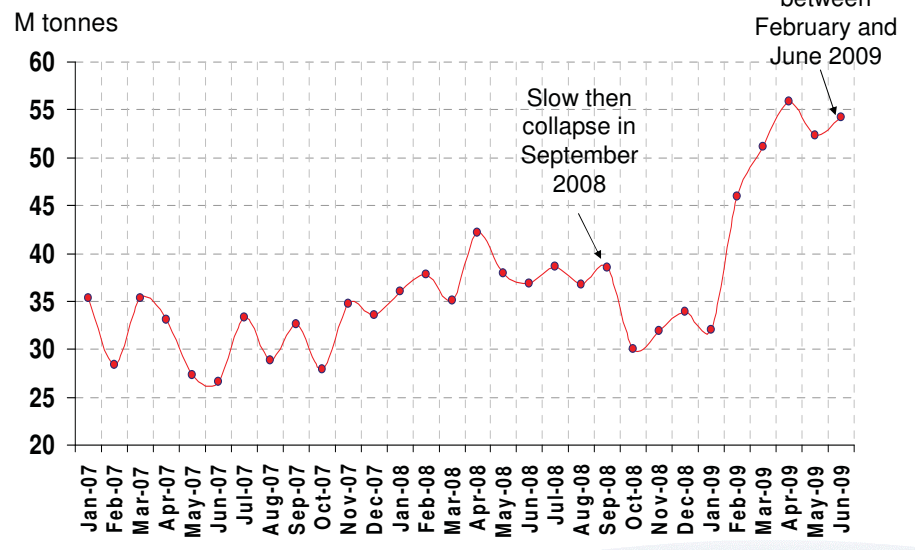
## Steel Collapse: Recovery In Progress

- 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



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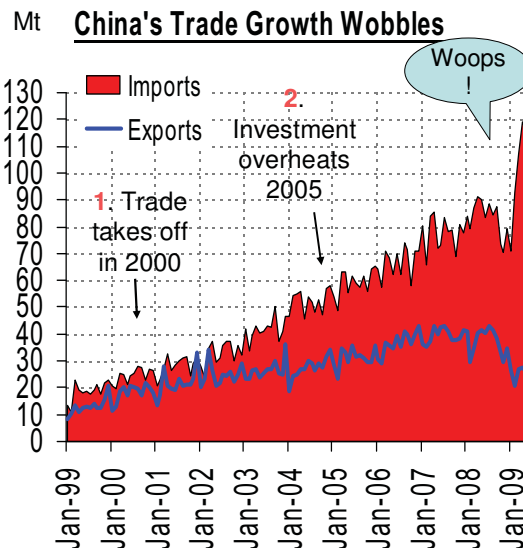
## China Ore Imports



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## 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

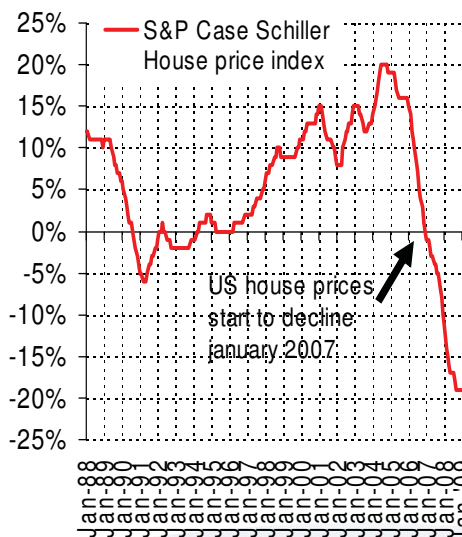


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## The US Real Estate: Turning up

- 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

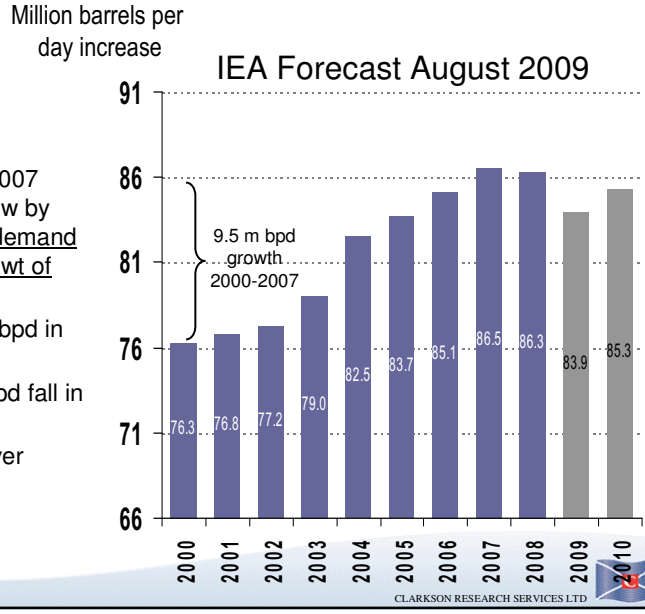


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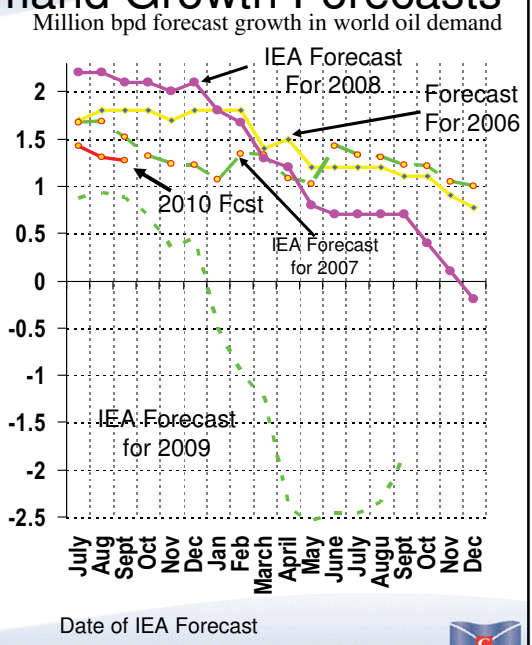
# World Oil Demand: Slumping

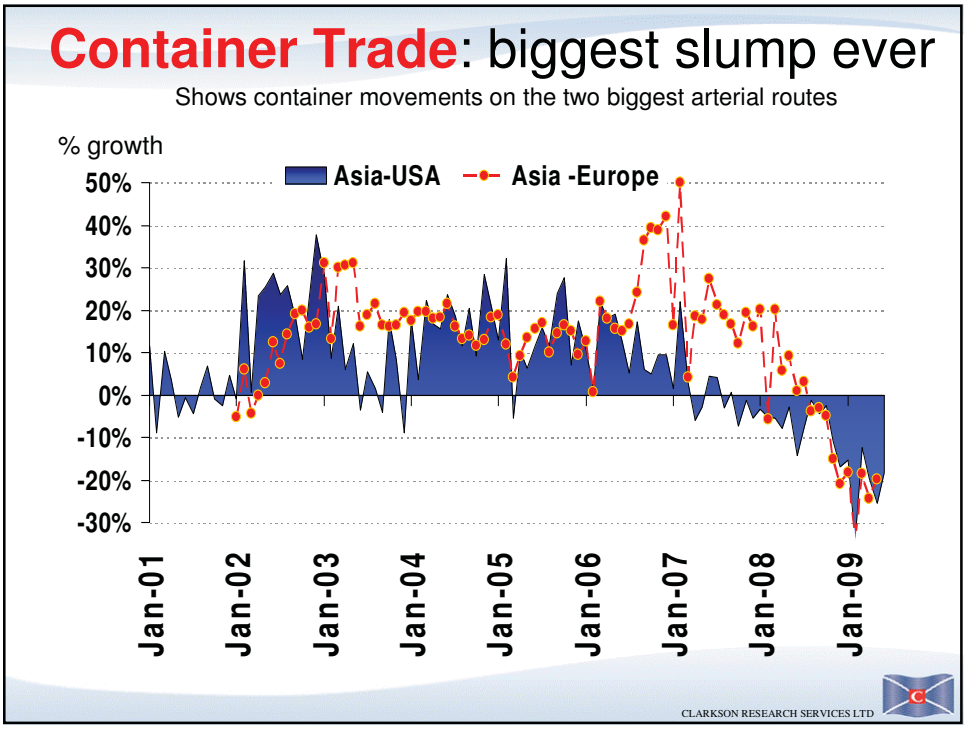
- Between 2000 and 2007 world oil demand grew by 9.5 m bpd, creating demand for about 48 million dwt of tankers
- Demand fell by .3 m bpd in 2008
- IEA predicts 2.5 m bpd fall in 2009 bpd in 2009
- The IEA is usually over optimistic



# IEA World Oil Demand Growth Forecasts

- This shows the IEA monthly forecast of the growth of world oil demand
- In 2006 and 2007 demand forecast revised down each month as it became more obvious that high prices were effecting demand.
- The same thing happened in 2008 which started with a prediction of 2.1 m bpd growth and ended with a decline of 200,000 bpd
- The 2009 forecast follows a very different pattern,



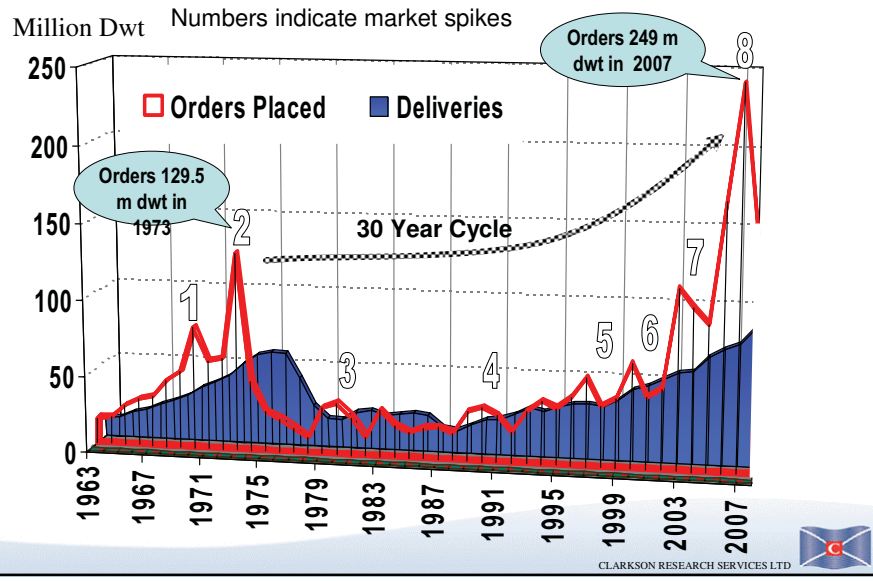


## 5. Supply - Armageddon Approaching?

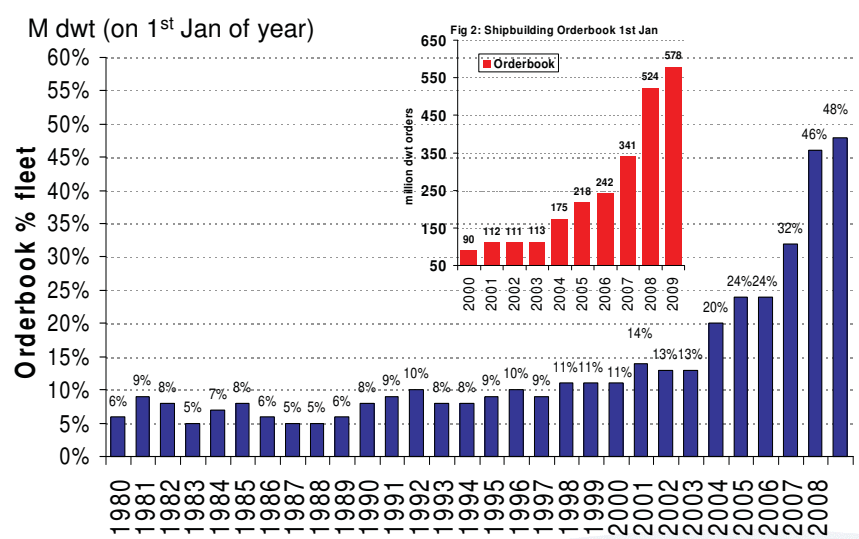
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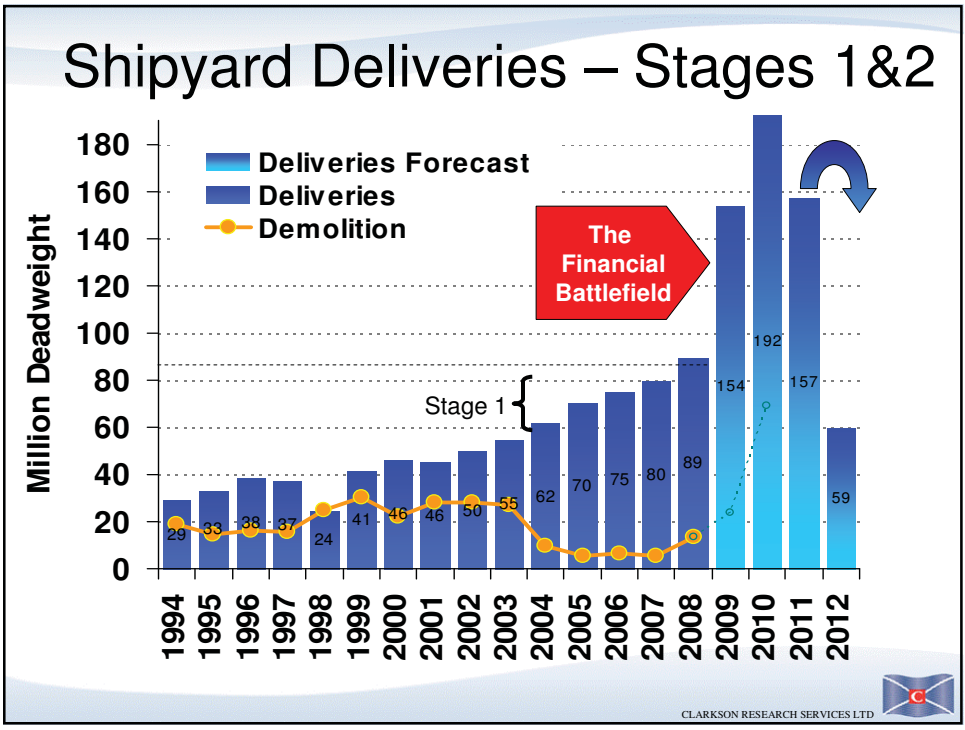
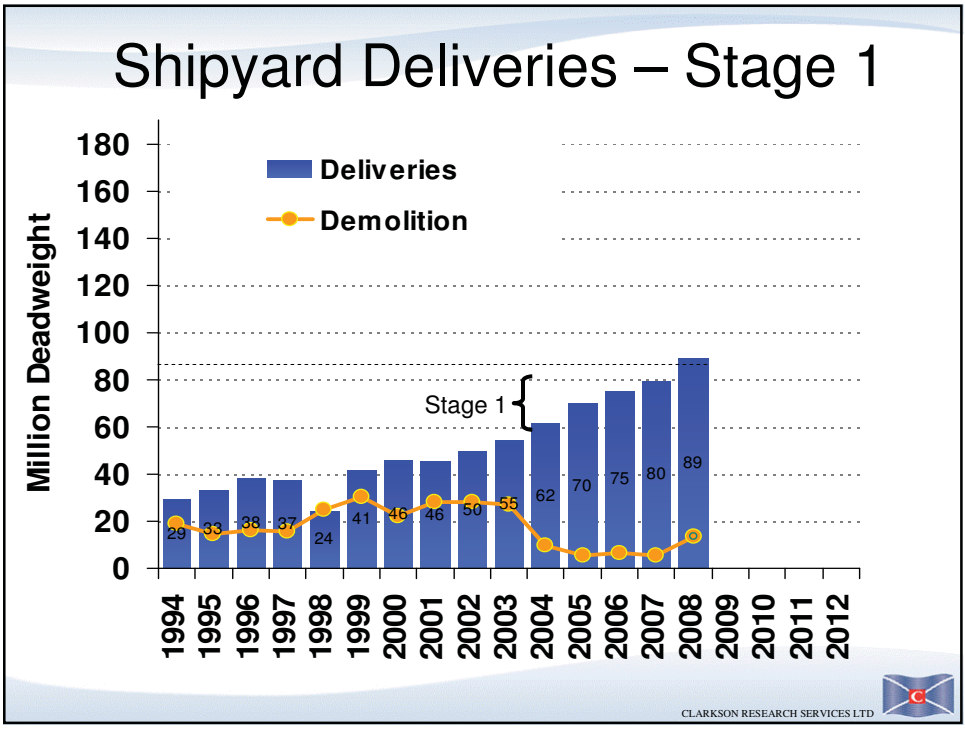
## World Shipbuilding Orders & Deliveries

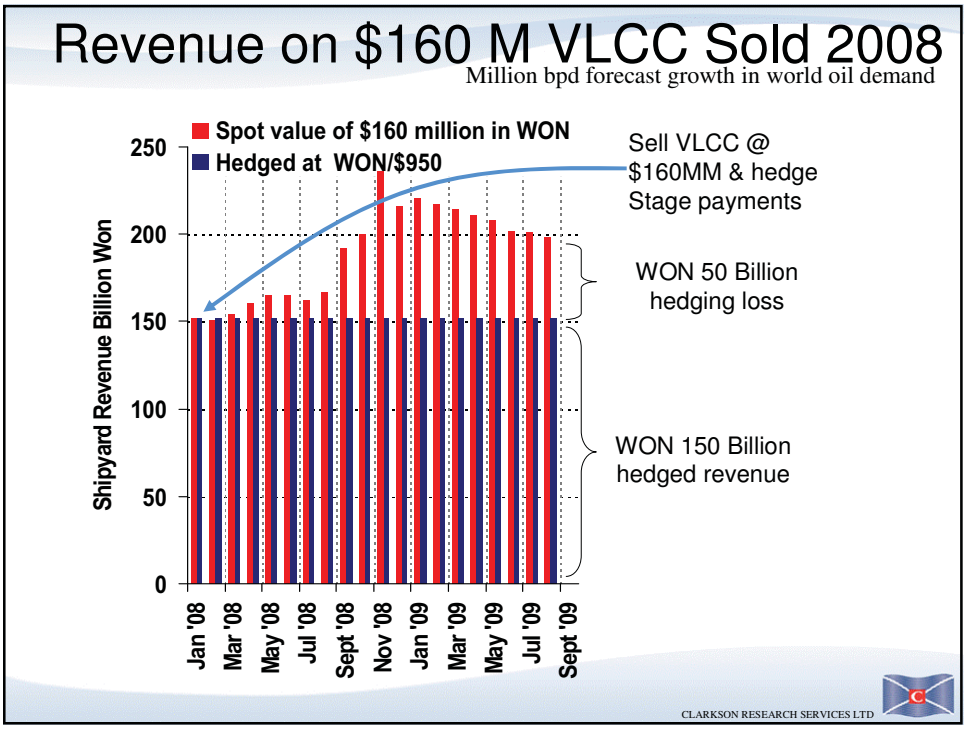
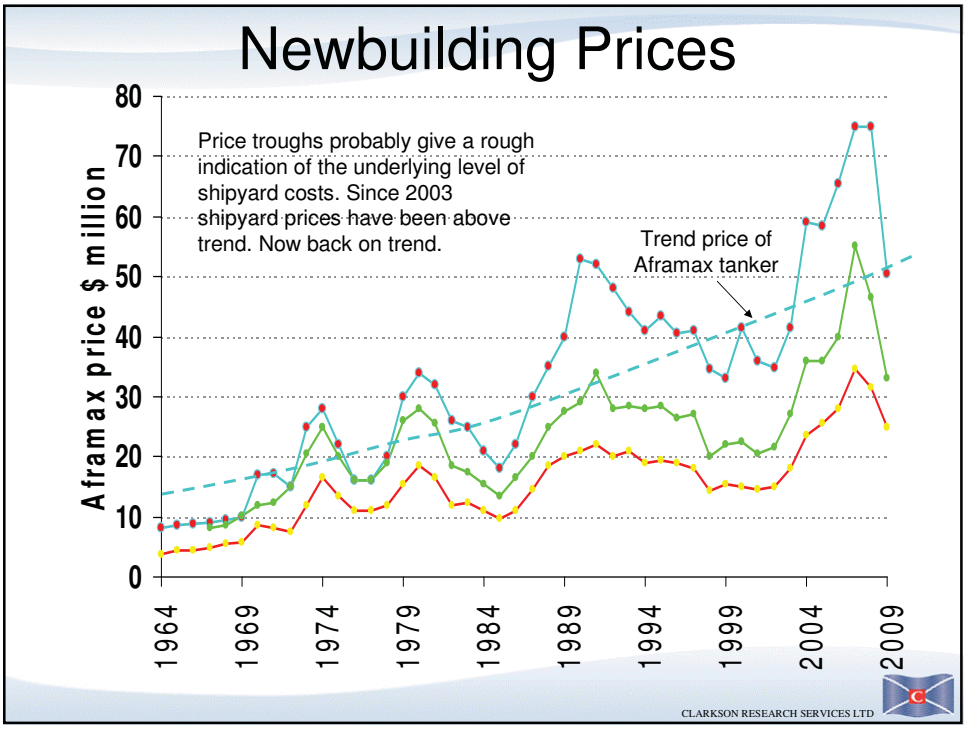
Figure 7: Shipyards expand in the 1970s boom & the 2000s Boom



## Shipyard Orderbook % Fleet

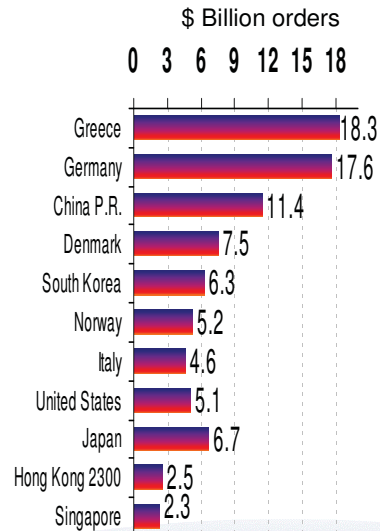






## Orders by Country in \$ Billion 2008

- 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

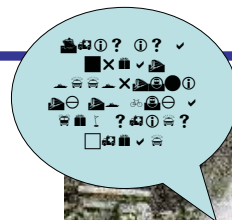


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## 6. The Next Stage

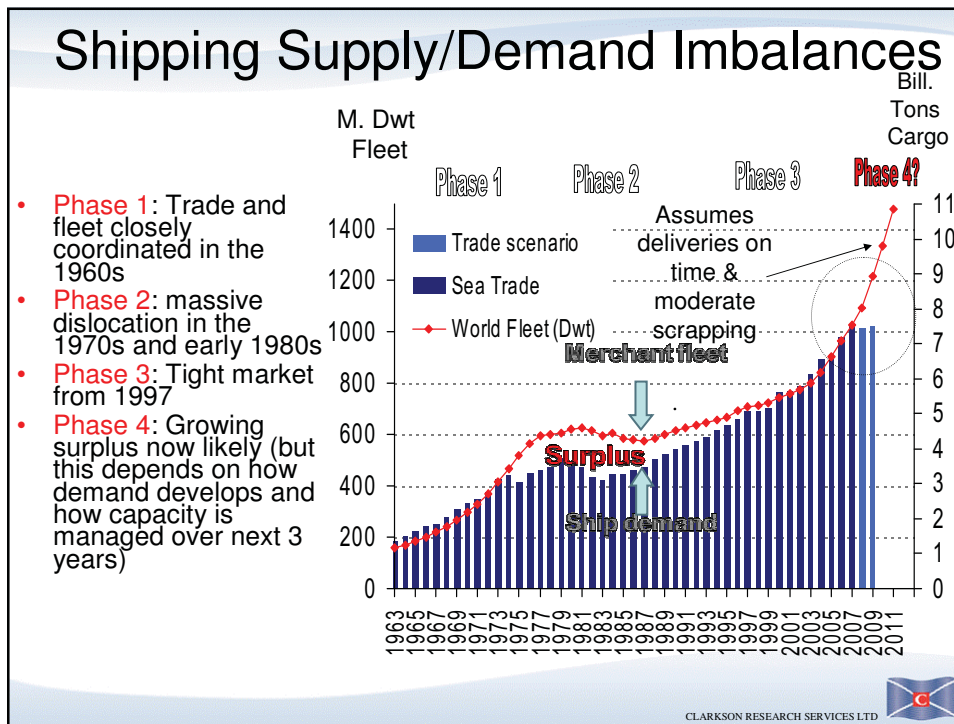
*"We must start out with the premise that forecasting is not a respectable human activity and not worthwhile beyond the shortest of periods"*  
*Peter Drucker*



**THE ORACLE'S FORECAST**

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## 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

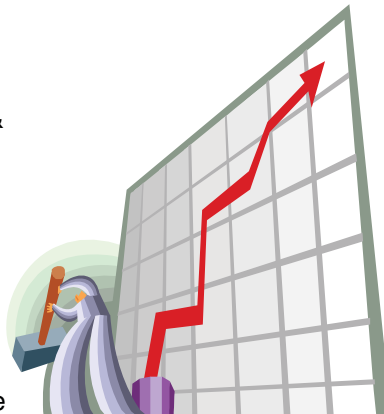
"It's OK. The recession is over, the stock market is rocketing upwards, house prices are recovering, bonuses are back, the world has a rosy future. These ships are just resting while their crews are on holiday getting blitzed out of their brains in Ibiza. The world's awash with money. Gordon will confirm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

Source eric campbell, harrogate

© Richard Jones / Sinoptix

## 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

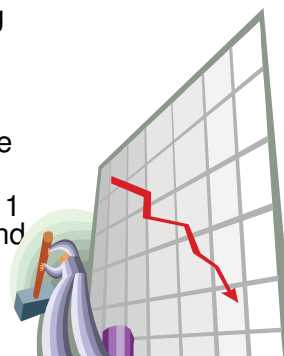


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## Low Case Scenario

- 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



10/1/2009

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## 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



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## 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.”*

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