Looking for answers

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For Nafs

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This article will concentrate on answers. Moreover, they will not be the undersigned's proposed answers, but those of the top global bankers.

You might well ask, why are bankers better placed than others especially when few of them have active shipping research departments to support them. The answer is that top bankers have an overview of shipping market conditions obtained from the multitude of their clients. Moreover, they are able to gauge the overall attitude as to future market conditions of their clientele, as well as to see a large number of new ship finance proposals. Lastly, their collective views and subsequent actions in providing and structuring finance have in themselves an influence on future market conditions, as they affect the ability of owners to seek finance for new orders and for second hand vessel purchases.

Every November, Petrofin Bank Research © poses a set of key question to bankers in their Top International Ship Finance Bankers' Survey. The bankers' answers form a collective prediction, as to the future and they are compares to last year's predictions to determine their accuracy.

This year, we obtained responses from 28 top banks representing 64.7% of the top 40 international bank ship finance total of $422.135bn.

To summarize the results for dry bulk shipping, whereas last year 72.4% expected a lower market for 2012 (and they were proven right) this year 60.7% expect for 2013 the market to stay the same. This signifies the formation of a bottom for the dry bulk market in 2013. However, whereas last year 86.2% expected lower dry bulk vessel prices in 2012 (proven equally right), this year the bankers' expectation fell to 64.3% signifying that prices have still some way to go.

Lastly, not a single banker thought that equilibrium conditions between demand and supply for dry bulk will be reached in 2013, whereas 50% thought this would take place in 2014, 42.7% in 2015 and 7.1% in 2016 and beyond.

The outlook is better for tankers. Last year, 51.7% expected the tanker market to remain the same and the rest were evenly split between a rise or a fall for 2013. This year, there has been a shift, with 42.9% expecting an improvement in 2013, 39.3% being the same and only 17.8% expect it to be lower. Clearly, a shift in expectations has occurred with an even greater expectation that the tanker market will turn upwards in 2013.

For the container market, the outlook is more mixed. Even though last year's expectation by 58.6% of top bankers that the market would fall were realized, this year only 28.6% expect a further fall, 50% expect the same conditions and 21.4% a rise.

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In all 3 sectors, bottom formations are underway in the views of the banks.

As China remains at the forefront of world trade, last year 72.4% expected a lower economic growth for China to about 6-8% and their views were vindicated. This year, with current growth running at 7%, 32.1% expect the growth rate to rise, 25% to fall with 42.9% expecting it to remain the same. Thus, the overall expectations are for a mild overall recovery for 2013 in China's growth rate. This compares well with the expectations of 67.9% of top banks that global economic growth rates will be 3-4% in 2013-2014, 32.1% expecting a global growth rate of under 2% and no one expecting a growth rate above 4%.

Turning to European ship finance, no one predicted a recovery in ship finance to take place in 2013, with all the bankers being equally split for a recovery among 2014, 2015 and 2016 and beyond. Clearly, no one expects a swift recovery which is justified by the acute problems in leverage and liquidity being faced by European banks.

Last year, 65.4% top bankers expected the average global ship finance loan portfolio to reduce and they were proven right once again as the top 40 global banks loan portfolios fell by 7% from $454.89bn in November 2011 to $422.135bn in November 2012. This year, 57.1% expect a similar reduction of up to 10%, 21.4% of even a bigger fall, 21.4% to stay the same and no one expected an increase. Significantly, for their own institutions, top banks were more optimistic than the market, with 25% expecting an increase in their shipping loan portfolios although 53.6% expected a fall.

In terms of loan margins, both last year and this year, no one expected a fall in loan margins. The only change is that last year 55.17% believed that margins would rise, whereas this year the figure has reduced to 32.1%. Clearly, the rate of margins' increase is slowing down as current margins have reached levels of between 300-450 basis points.

The vast majority of banks, 96.4% felt that non-performing loans will rise in 2013 demonstrating well the pressure put on banks by the shipping recession.

Interestingly, whereas last year 62.1% felt that Far Eastern banks would represent over the next 3-5 years medium competition, this year the figure has fallen to 50% with a corresponding rise in those feeling that Far Eastern banks would be only minor competition. Once again, the slow development of Far Eastern banks towards international shipping has meant that the danger felt by European banks is subsiding.

In the difficult ship finance conditions that prevail, it is not surprising that 75% of top bankers expect that ship finance from non-bank sources will rise as opposed to 55.2% last year.

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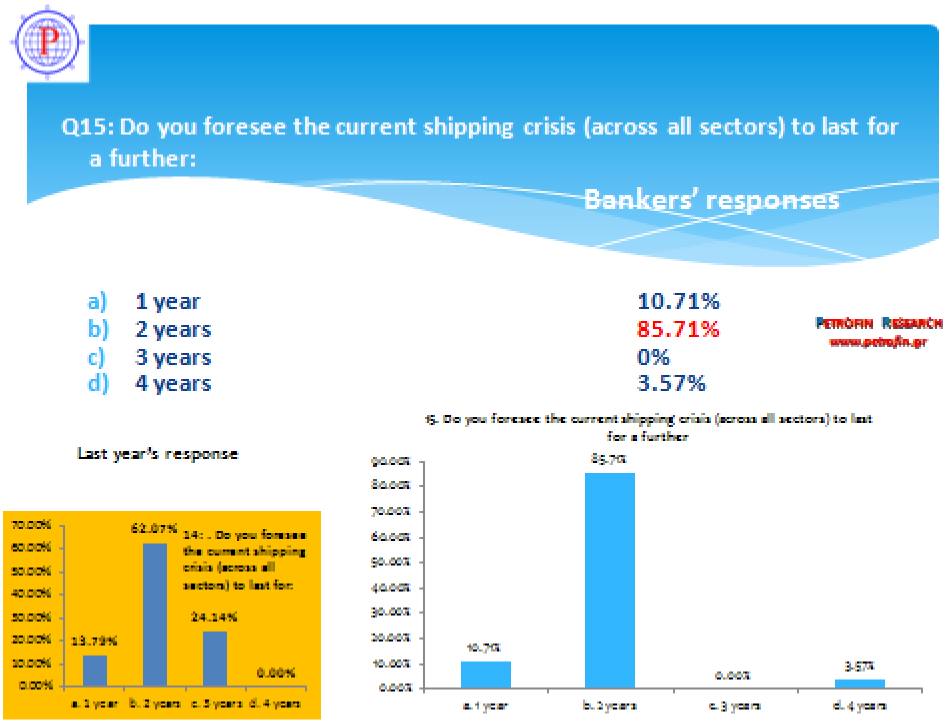
Lastly, in Graph 1, we show last and this year's responses to the key question that overhangs the shipping market: "How long do you foresee the current shipping crisis to last?". As you will see, last year (2011), 62.07% expected it to last 2 years with 24.4% at three years and no one beyond that. This year, the expectation of a 2-year recovery has been recorded by a staggering 85.71% of all top banks with only 10.71% for one year, none for 3 years and a small 3.57% for 4 years. Banks, therefore, believe that the crisis will last until 2014 and this view is shared by a number of analysts and many owners. Should everyone believe in the same recovery date, then the attractiveness of placing new orders for vessels at cheap prices with deliveries from 2015 onwards rises. To the extent that this would result in massive new orders, the market's recovery would be further delayed.



To conclude, therefore, global banks believe that the shipping market, as well as the global economy and China are experiencing the beginnings of bottoming with turnaround expected in 2013 and more so in 2014.

The would imply that in about 2 years' time, vessels earnings and prices shall be on the rise and that banks will feel safer to start expanding their shipping exposure once again. Should the above coincide with an improvement in the financial health of European banks, then it would signify that shipfinance growth shall be resumed from 2014 and beyond.