

# CATASTROPHOLOGY

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People have a morbid fascination about disaster movies. They love to be scared out of their wits and feel relieved when the movie ends and reality returns. The film studios have discovered this fascination and have profitably made numerous disaster movies.

The media have also discovered that a catastrophe scenario sells. It sells TV time, as well as, newspaper copies.

Until recently, such catastrophology was rather limited to natural disasters, crimes etc. Over the last years, it spread (with good justification) to disaster stories about famine, global warming and so on.

In the last two years, however, catastrophology has taken a real hold in financial affairs. Ever since the sub – prime crisis, headlines predicting financial disaster have proliferated.

There was “the banking crisis” followed by “the Global Banking collapse” and then the “Global financial meltdown”. This lead to predictions about “the collapse of the global economy, the modern capitalist system and the dangers of the biggest economic recession ever”.

These headlines, as well as, considerable prime time TV coverage have truly continued to scare listeners. The fear of losing their jobs and of reduced earnings became a constant companion shaping their everyday life and attitude towards the future.

Consumer spending plummeted and every household prepared for the worst. In so doing, collective non spending action by consumers, investors and manufacturers brought about the realization of their worst fears. The economic crisis became and stayed as the top news story in every TV programme. Similarly, newspaper coverage increasingly concentrated on this subject, just in case readers failed to get the message!!!

And then a miracle happened. There was a recovery in economic activity. Tentative at first and more robust later.

This time, though, the catastrophology did not wane. The economic recovery was “going to falter”, “unemployment would continue to rise”, “China (the economic locomotive of our times) would soon go bust”. Just recently, I saw the headline “The next global economic crisis has already begun”.

However, catastrophology scenarios have also spread to non journalists. Economic professors e.g. Roubini, Stiglitz, Krugman and many others have followed the trend. Analysts, too, have focused on hot issues often making predictions of impending disasters.

Coming closer to home, we have all followed the catastrophology scenarios about whether Greece would become bankrupt and / or leave the EU with everyone having a view (depending on their interest in the issue). Indeed, there has even been a prediction that the risk of bankruptcy is 24.7%!!! This is very precise indeed!

So, what to make of all of this? My view is to take a deep breath and look at the wider picture. It would help to keep one’s cool and look into the motives of the catastrophologist. Rather than running scared like “headless chickens”, it is wiser to recognize that the biggest fear is fear itself. Events very rarely turn out

to justify disaster scenarios. Economists and consumers can and should resist rash predictions and actions. Furthermore, there are always economic mechanisms that assist to cushion the shocks and promote a recovery. These mechanisms are built in our economic system and assist in the pendulum swinging back. State and central bank action and recovery / liquidity programs also speed up the recovery process.

Often, therefore, the worst predicted catastrophes fail to be as deep and long lasting, as expected. Economic cycle analysis, by the IMF, has shown that economic recoveries invariably take place in about 1 to 1.5 years from their commencement. A full recovery may take longer but history has shown that post WW II recoveries have always been relatively quick and such recoveries always do occur.

Each individual should develop his / her own catastrophe filters to filter out catastrophe scenarios. It is important to keep a balanced view point and refuse to be psychologically unduly affected. Any decision based on fear invariably results in incurring losses that could have been avoided by waiting a short while. I am not advocating “being in denial” but to simply treat each catastrophe scenario with “a pinch of salt”.

In shipping, too, there has been a lot of catastrophology. There have been predictions of the collapse of international trade due to the Global banking crisis. Admittedly, international trade slowed down but it never stopped and sprung back very vigorously over the last calendar quarters. There were predictions of record newbuilding deliveries in 2009 inundating the demand for shipping. Instead, due to cancellations, delays, scrapping, layup and congestion, the supply of ships was kept in check and as demand for international trade bounced back, the year ended up considerably higher than had been forecasted.

In banking, too, nearly all shipping banks forecasted that between \$300 bn to \$500 bn new shipping loans were required to finance the newbuilding order book. This would lead to a catastrophe, as banks could not provide such loans. However, as time passed, the numbers have started to subside and although newbuilding finance is still scarce, there is always finance available at the right price and terms.

Based on the expectations of massive ship-owner failures, numerous vulture funds were set up for billion of US dollars, only to discover that no deals have yet been done to any significant scale. The reason is that owners have fared better than expected and bankers were not dumb to hand over a profit opportunity to such vulture funds and take losses. Instead, banks and owners found a way towards symbiosis, for mutual interest.

In shipping too, therefore, banks and owners have every reason to remain concerned about the size of the order book and owners' ability over time to punctually repay their indebtedness. Banks, however, have shown restraint and unwillingness to succumb to the catastrophe scenarios and into proceeding "willy nilly" to sell their assets at a discount.

I will now come to my last "scare" story. It is one put forward by banks that shipping credit shall remain almost non-existent for a number of years, in order to justify high spreads and very tough terms. Although this is a story that has caused considerable grief to owners and has already affected their willingness and ability to acquire vessels, new ship finance is gathering pace and that very soon, by the end of 2010, previous record ship finance totals for Greece, at least, will be bypassed. It is early days to be quantitative but contrary to public perception, shipping banks have already confidentially restarted lending concentrating on their biggest and more financially robust clients.

Barring unforeseen events, therefore, the trend towards more ship finance is expected to gather pace.

To summarise, therefore, whether dealing with the international economy, banking, Greece or the shipfinance market, owners and banks should be wary and concerned about the future but also refuse to follow the Cassandras of this world. As the motto says "Decide in haste, repent at leisure".