Lloyd's List

Shipping banks braced for the worst

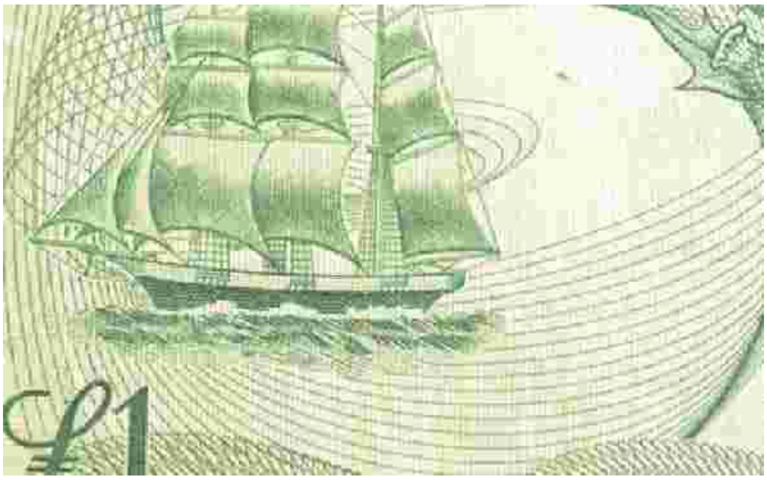
- Wednesday 04 November 2009
- by Nigel Lowry

Financiers believe one in every 10 shipping loans will go bad within next year.

A WIDE survey of the expectations of leading shipping bankers “shows that most bankers are preparing for the worst”, the report’s author has said.

Shipping consultant Ted Petropoulos of Petrofin was commenting on a key finding of the survey – that more than half the bankers canvassed feared that one in every 10 shipping loans would go bad, defined as non-performing, within next year.

A further one-third of respondents thought the bad loan rate would climb to between 4% and 6% of all banks’ portfolios in 2010.



Shipping banks braced for the worst

“Those are very high figures and it would mean banks having to write enormous provisions,” Mr Petropoulos said.

Bankers however were “relatively optimistic” in predicting how far the shipping crisis has still to go.

The majority chose between another one and two years as the most likely time horizon for the crisis, with very few seeing it stretching beyond three years.

The views emerged from a Petrofin questionnaire to 27 p shipping bankers representing banks with a total portfolio of $287bn or about 70% of all ship finance.

Less than 4% of bankers expected ship finance activity to recommence within the next half-year.

Most felt it would take six to 12 months or one to two years for ship lending to take off again.

“They believe ship finance will resume but it will be v ry slow in coming back,” Mr Petropoulos said.

Since the majority of bankers also said they expected secondhand vessel prices to bottom out only over the next year or, some said, more, Mr Petropoulos wryly said it could he ald “the first time in history that bankers will be practising what they preach and lend to owners when values are low, although it would make banking sense”.

Nearly 60% said they expected the global blue water sh finance portfolio, estimated at $410bn, to reduce by up to 10% in 2010, with another 11% predicting an even sharper drop.

Mr Petropoulos said that in so far as this implied a d op in financing of newbuildings it could be positive for the industry.

At the same time, when asked about their expectations or activity by their own institution, one quarter expected their portfolios to increase by more than 10% in the next 12 nths. Others were divided almost equally between those predicting a smaller increase, or a modest decrease, o expecting to remain stable.

“It could mean that a lot of banks like to talk the market down,” said Mr Petropoulos.

Two-thirds of respondents, however, thought the number of banks staying in shipping would be cut by 10%-20% in the very near future.

Mr Petropoulos found encouragement alongside darker messages in bankers' replies. For example, 44% of respondent felt more than 25% of newbuildings scheduled for 2009-2011 would not be built, while a further 41% put the likely rate of cancellations at about 20%.

Asked about their expectations for Chinese economic growth over the next 12 months, 41% of the bankers said it would "stay the same" as its current rate of about 8%, and another 37% forecast growth of 9%-10%.

Since they were more conservative about world economic growth in 2010-2011, with 70% expecting 1%-2% growth globally, Mr Petropoulos interpreted this to mean many bankers sensed reports of recovery in the US and Europe may be premature.

Article from Lloyd's List

http://www.lloydslist.com/ll/sector/finance/article135 ce

Published: Wednesday 04 November 2009