

THE NEWBUILDING ORDER BOOK MYSTERY

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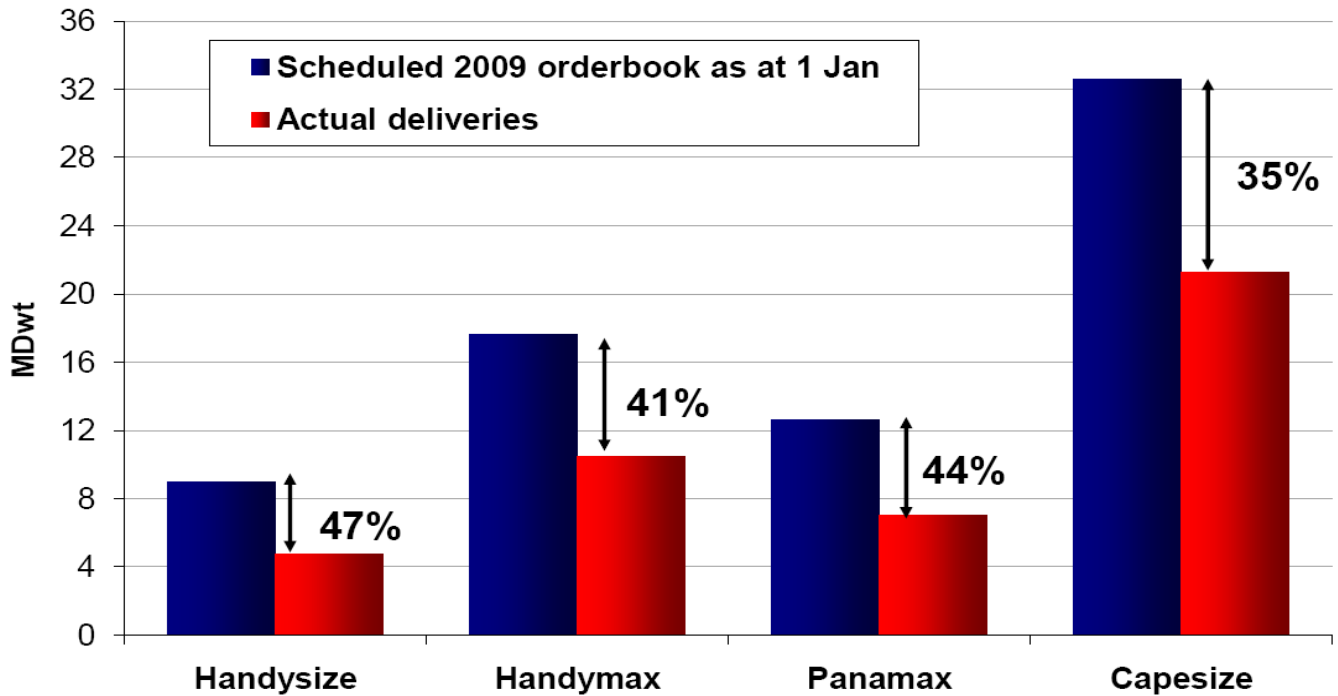
Every good mystery story needs a scary creature. In shipping, this role is performed by the newbuilding order book. Its sheer size is truly scary. However, is its size real? Are the figures inflated and why? Why do they change all the time? Why do different analysts report different figures? At the end of the day, what is the relationship between the order book and the actual vessels delivered over the years?

I will try and shed some light into the above, which shall, hopefully, make it clearer to readers. I will focus on the dry bulk order book, which has been the one creating the biggest scare and controversy.

The scheduled 2009 order book, as at 1st January 2009, called for a total of approx. 69m DWT in dry bulk deliveries (see table 1).

Table 1

2009 dry bulk carrier delivery position



Source: SSY/LR-Fairplay

April 2010

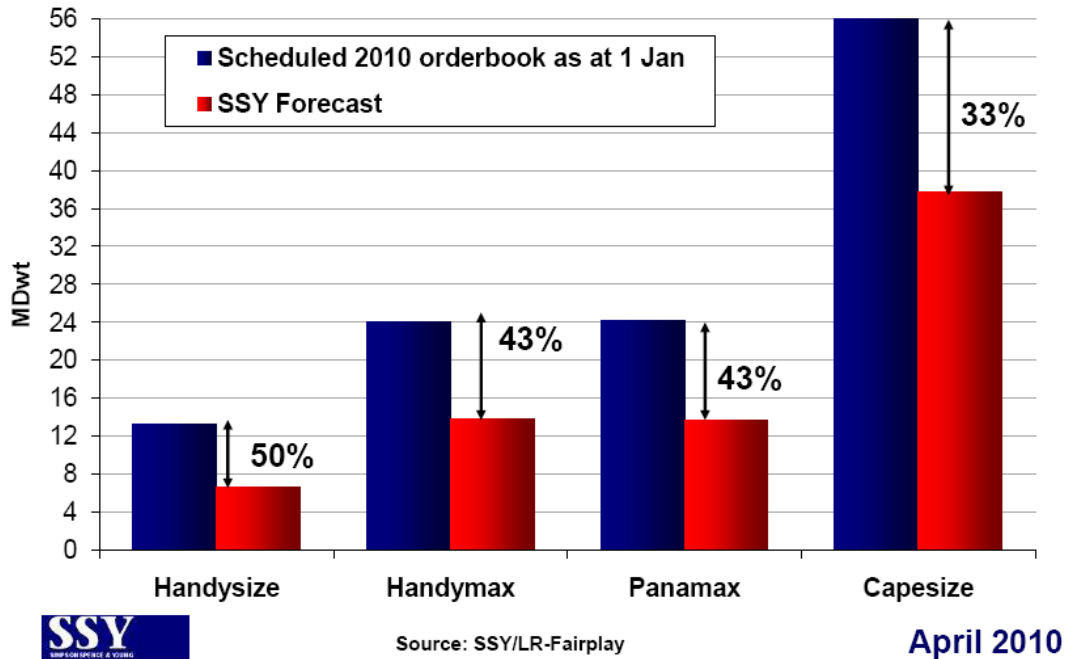
However, as can be seen, at the end of the year, only approx. 62% were actually delivered, involving a total of 42.7m DWT. The reduction was due to outright cancellations, delivery delays from 2009 to 2010 and delivery postponements to subsequent years. Unfortunately, the breakdown of non-delivered vessels among the above categories is not known.

What I suspect, though, is that some of the so called "orders" may have been paper orders only, announced by shipyards in earlier periods and / or speculative orders by the shipyards themselves, which would only proceed if it would entail a profit for the yard. I shall name these orders "bogus orders", from now on.

For 2010, the scheduled order book, as at 1st January 2010 (Table 2), jumped to 117m DWT. This is scary in as far as it accounts to 25.5% of the existing world fleet then of 457.8mDWT, if it were to materialize. Once again, though, the expectations are from a 39% slippage, due to the earlier mentioned reasons. Others e.g. NAVIOS do not agree with the SSY estimates and forecast a 48.2% slippage, as every analyst has his own assumptions, their estimates vary. In the absence of facts, such forecasts cannot be accurate. Irrespective of which estimate to accept, there are some missing ingredients.

Table 2

2010 dry bulk carrier delivery position



The problem is that during the year, orders scheduled for delivery may be converted. Often, this also involves a later delivery, which would be outside 2010. However, there are instances where the orders are “cancelled” and replaced by “new” ones (often with similar specifications), some of which may be delivered within 2010. Consequently, we may have, say, 40% cancellations but the delivered vessels may well be higher.

The problem of what will actually be delivered is magnified, the farther out in time that we go.

The reason is that the previous “cancellations” are replaced by fresh orders that are scheduled to be delivered in the future. However, it is not certain if these

new orders are real or bogus orders. Nor if these, too, will be subjected to cancellation and / or conversion and / or postponement.

Similarly, we have seen recently a series of announcements (mainly by shipyards) of massive orders by Greek and non-Greek public and private companies. This adds another doubt into the determination of the actual order book puzzle. How many of these will be delivered? Moreover, will these new orders offset the “cancelled” orders and by how much?

As it is not possible to assess today how many new orders will materialize in 2012 – 2013 and beyond, the size of the order book may have little to do with the actual deliveries over time.

This realization has prompted more owners to “lock in” low newbuilding prices today for 2012 – 2013 deliveries. By so doing, though, it is possible but cannot be determined so with certainty that by their collective action they are in fact undermining the sustainability of the dry bulk market recovery.

The new order spree has been achieved on the back of a recovered dry bulk market and higher economic growth and international trade estimates, including Chinese high growth predictions. However, the shipping market is always a finely balanced mechanism and a number of shipping analysts point out to the massive congestion as the reason for the market’s buoyancy.

To summarise, therefore, in determining the prospects of the market there are many conflicting factors, which remain at play. To the extent, though, that the high order book is to some owners and banks the critical factor, let me suggest that its size should be monitored but closer attention should be given to the rate of actual newbuilding deliveries themselves.

Allowing for scrapping and based on deliveries in the first quarter, the dry bulk DWT capacity is growing at an annual 14% in 2010. This figure is high but not as it seems beyond the ability of the dry bulk market to absorb. However, it appears both possible and probable that the rate of capacity growth shall rise. If so, there will come a point when the new capacity cannot be absorbed resulting in a fall of freight rates and vessel values prompting a fresh rush of cancellations and scrapping.

In the meantime, enjoy the ride but be weary of the sanctity of order book numbers and stay watchful of likely market conditions in 2010-2013.

Once again, contingency planning is called for and the buildup adequate reserves for the time that they would, once again, be sorely needed.