

## Strength of yuan to water down rate of Chinese lending and export orders at home

The absolute competitiveness of Chinese shipyards could be watered down if a recent trend by the country's banks to avoid dollar-denominated loans continues.

Greek analyst Ted Petropoulos of Petrofin Research believes Chinese banks are committed to increase their role in shipping finance, particularly in shipbuilding. But the appreciation of the Chinese yuan is making yuan-denominated loans more likely, he says.

Up to now, unlike Japan where yen-denominated loans in shipbuilding have been the norm for a number of years, Chinese yards have set their contracts in dollars.

The Bloomberg newswire recently reported that the share of Chinese banks in lending to the maritime sector has shrunk to 0.7% of a total \$32.3bn, as opposed to 11.2% in the same period last year.

However, Petropoulos interprets this not so much as a contraction of lending but a decrease in dollar-denominated loans.

Qui Jun, deputy senior manager at Bank of Communications Co's marine-lending department, is quoted by Bloomberg this month telling a Shanghai conference that "it's not worth borrowing dollars just to provide shipping finance".

The yuan appreciated 0.4% against the dollar in November, Bloomberg says.

Continued appreciation of the currency would make a dollar financing of, say, 10 years unattractive to Chinese banks. But for foreign shipowners, if the pricing becomes less attractive their business may be drawn to other shipbuilding markets.

The Chinese government has nonetheless made a strong commitment to shipping and shipbuilding, a fact that was evidenced during a visit to Athens by Chinese prime minister Wen Jiabao in October.

The move was underlined in the presence of the Chinese premier and Greek prime minister George Papandreou. The first two loans by the Export-Import Bank of China were agreed with leading Greek owners Angelicoussis and Diana Shipping and the signing took place of what was understood to be the first fully bilateral deal with a Greek owner — between China Development Bank and George Economou of Cardiff Marine.

At the same time, Wen Jiabao said a \$5bn fund would be established to finance Greek newbuildings in China.

Up to now, financing through Chinese banks has generally been supported by a foreign bank acting as facility arranger and trustee for the loans, providing the shipowner with a "comfort factor".

"Although the rate of growth of Chinese and Far Eastern lenders is impressive, let us not forget that with European banks lending approximately 87% of the global shipping-loan portfolio, their contribution is still relatively small," said Petropoulos.

"However, according to Petrofin, at the end of 2010 Chinese bank shipping-loan portfolios are expected to record large increases, as Chinese banks are stepping in to fill part of the 'financing gap' that exists today," he said.

The Lloyd's Register/Fairplay newbuilding database currently lists Chinese yards with 3,259 contracts (although not all are oceangoing ships), of which 244 are for Greek owners, as compared with 1,482 at South Korean yards, of which 241 are for Greeks, and 1,155 in Japan with just nine contracts for Greeks.

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