Key Developments and Growth in Global Ship Finance

July 2020

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We are pleased to present our latest Global Bank ship finance research for the 12th year running and the bank loan portfolios to Global shipping presented as of 31st December 2019.

We also include the Petrofin Global Index, which monitors the global bank ship finance levels since 2008.

Petrofin Research © wish to thank all participating banks for their on-going support, without which this research would not have been possible.

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Main findings

1. The Petrofin Index for Global Ship Finance which commenced at 100 in 2008 fell by 1 point (from 65 to 64 the year before), pointing to a possible stabilisation of the decline of global shipping portfolios.

2. Top 40 Banks' lending to shipping fell from $300.7 in 2018 to $294.4bn in 2019, the lowest level since we started monitoring the global portfolio in 2008.

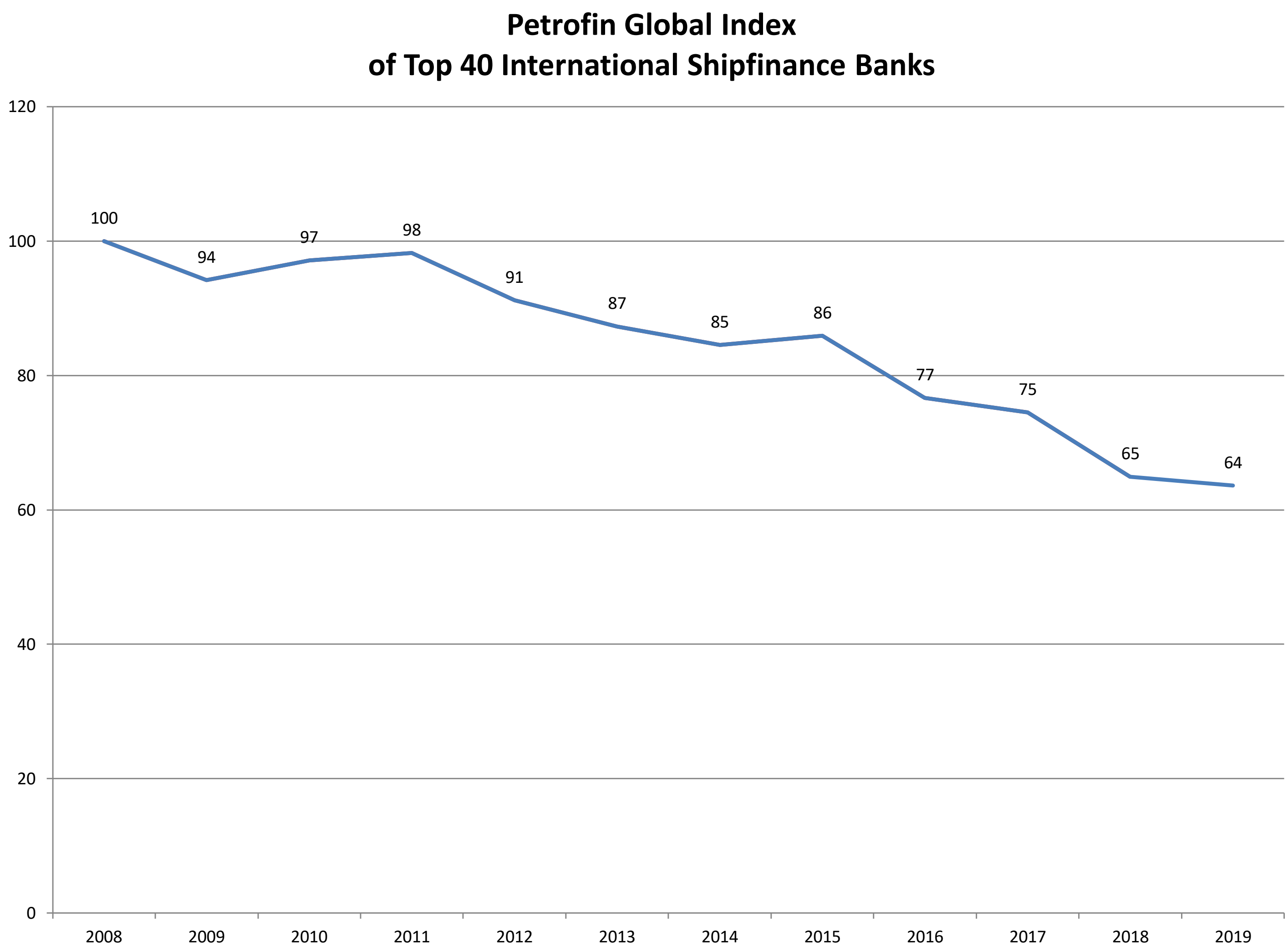
3. European portfolios show a small increase, based mainly on BNP Paribas and KfW climbing to the top 2 positions.

4. Chinese banks continue to mark a small gradual decline in terms of direct, bilateral bank ship finance.

5. Chinese Leasing is increasing its exposure from $52.5 in 2018 to $59.2bn in 2019.

1. Petrofin Global Index of Shipfinance

Graph 1: Petrofin Global Index of shipfinance between 2008 - 2019



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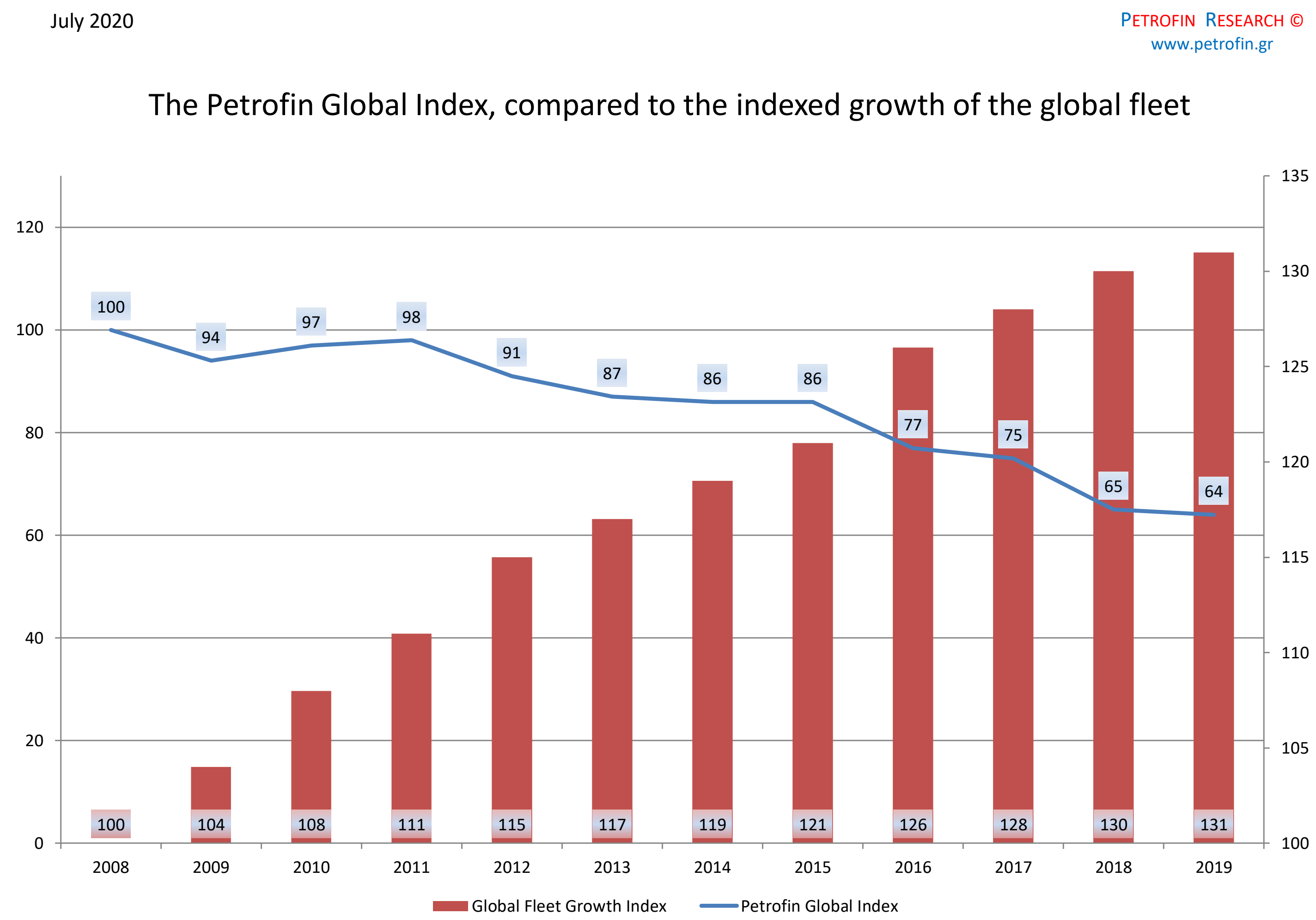
As illustrated in Graph 1, the Petrofin Global Index from 2008 to 2019 continues its decline through 2019. The index is standing at its lowest point since first published in 2008. However, the drop is by one point only, possibly pointing to a reappraisal of shpping's risks/rewards for banks. This trend may signal a gradual end of the departure by many European banks from ship finance leaving more committed participants.

Graph 2: The Petrofin Global Index, compared to the indexed growth of the global fleet (fleet data from Clarkson's World Fleet Register)



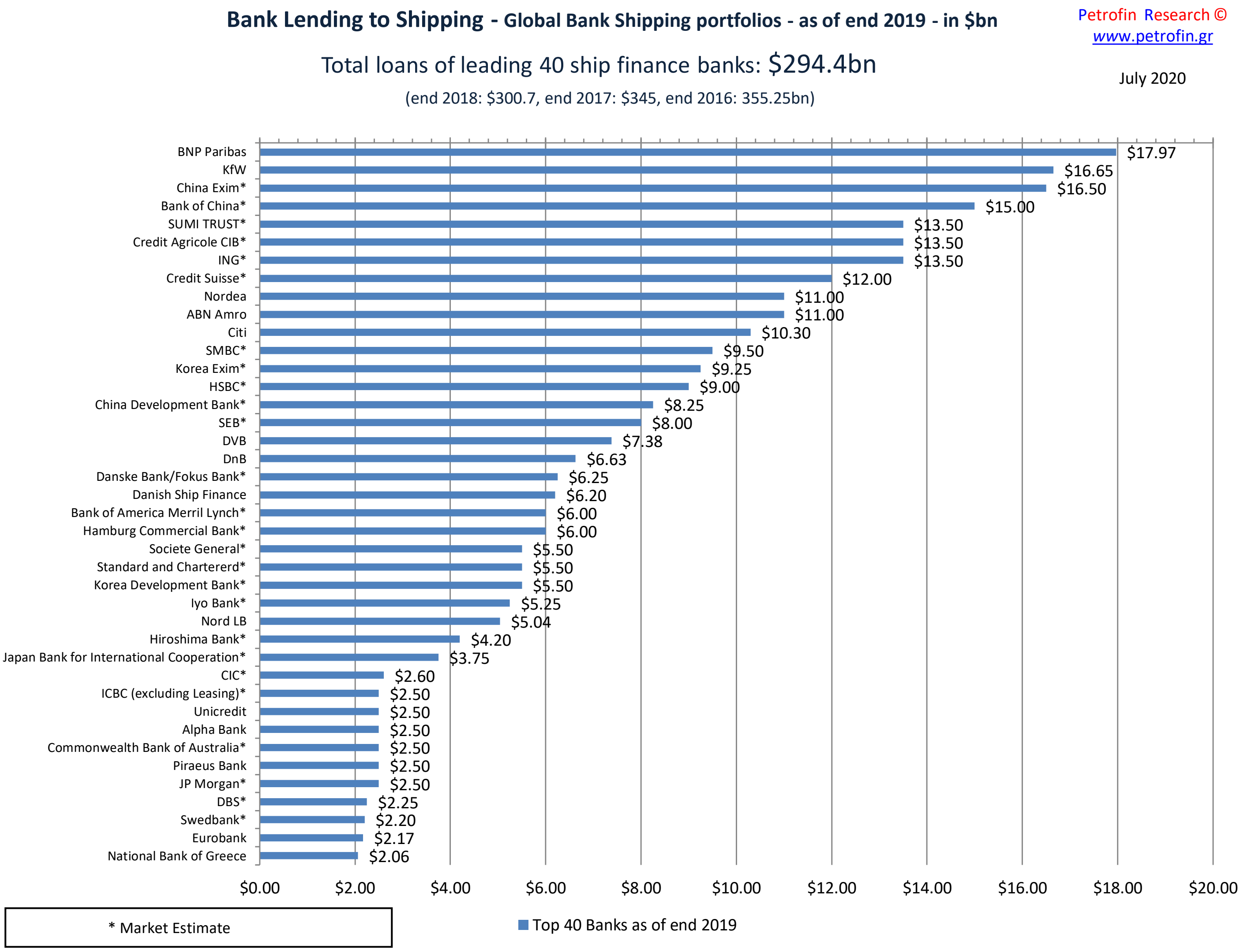
Source: Petrofin Bank Research © and Clarksons' World Fleet Register

The growth of the global fleet continues to be funded from non-banking sources, such as leasing, alternative lending, private equity from Funds and investors.

2. Top 40 Banks

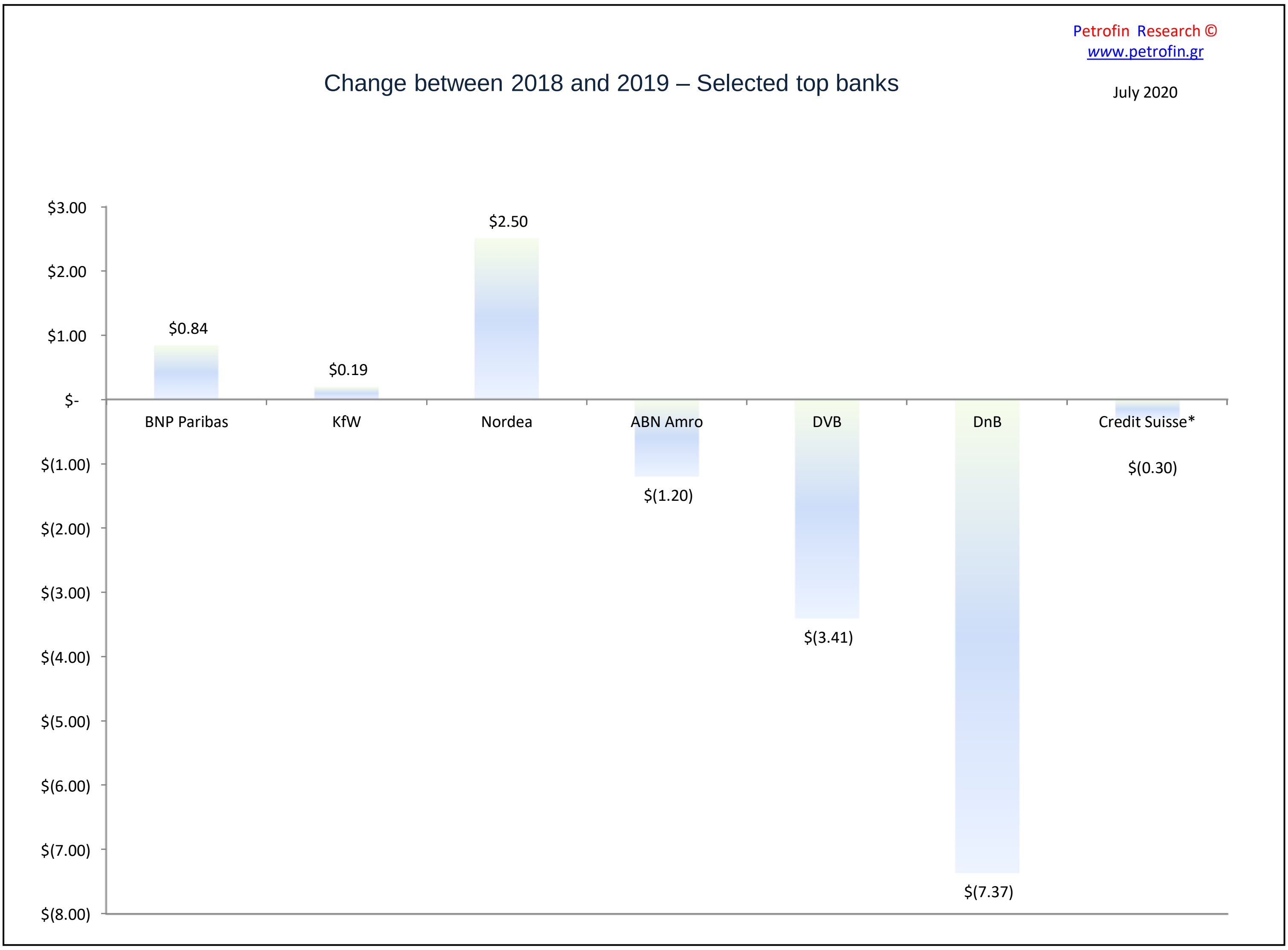
We are pleased to present the latest Top 40 Global banks' lending as of December 2019, amounting to $294.4 (see Graph 3).

Graph 3: The Top 40 banks have a total of $294.4bn exposure to shipping.



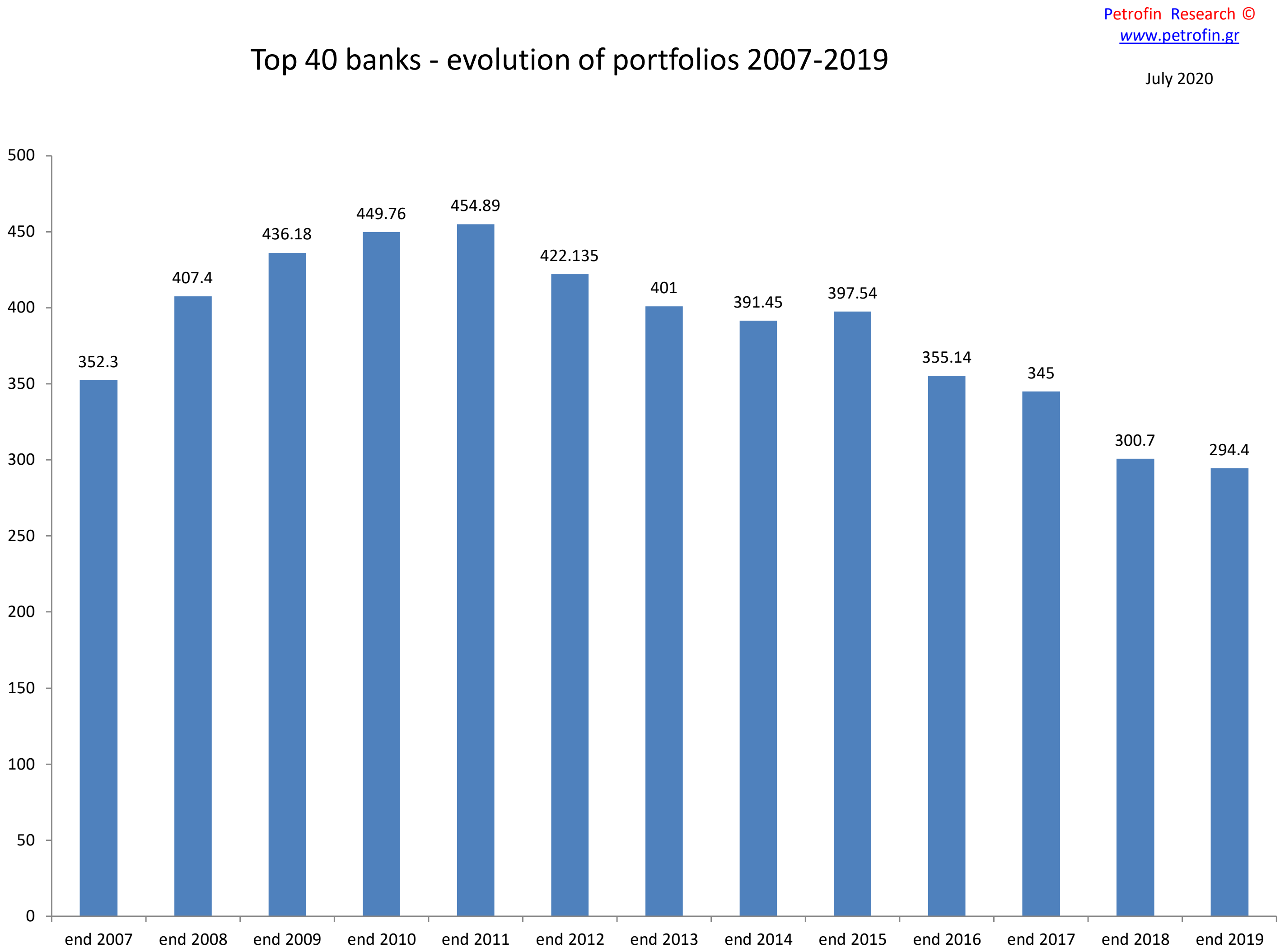
Last year we noted a continuation of the portfolio decline momentum. This year we observe a slow down noting a decline of only 2.1%, compared to last year's 13% fall. It looks as if the commercial strategy has shifted and that although there are some notable exits from the sector (DVB, NORD LB), commitment is increasing.

Graph 4: Selected banks – Change between 2018 and 2019



There is no unified policy towards shipping among large European banks, as can be observed in Graph 4. With the exception of DVB, which is leaving the sector, the rest show mixed directions. The variation in policy depended on individual banks' strategy in 2019 and views as to trade sanctions and the prospects for shipping as well as their overall lending limits. Next year's fluctuation shall be interesting, as COVID-19 will have definitely impacted their performance.

Graph 5: Top 40 banks lending to shipping from end 2007 till end 2019

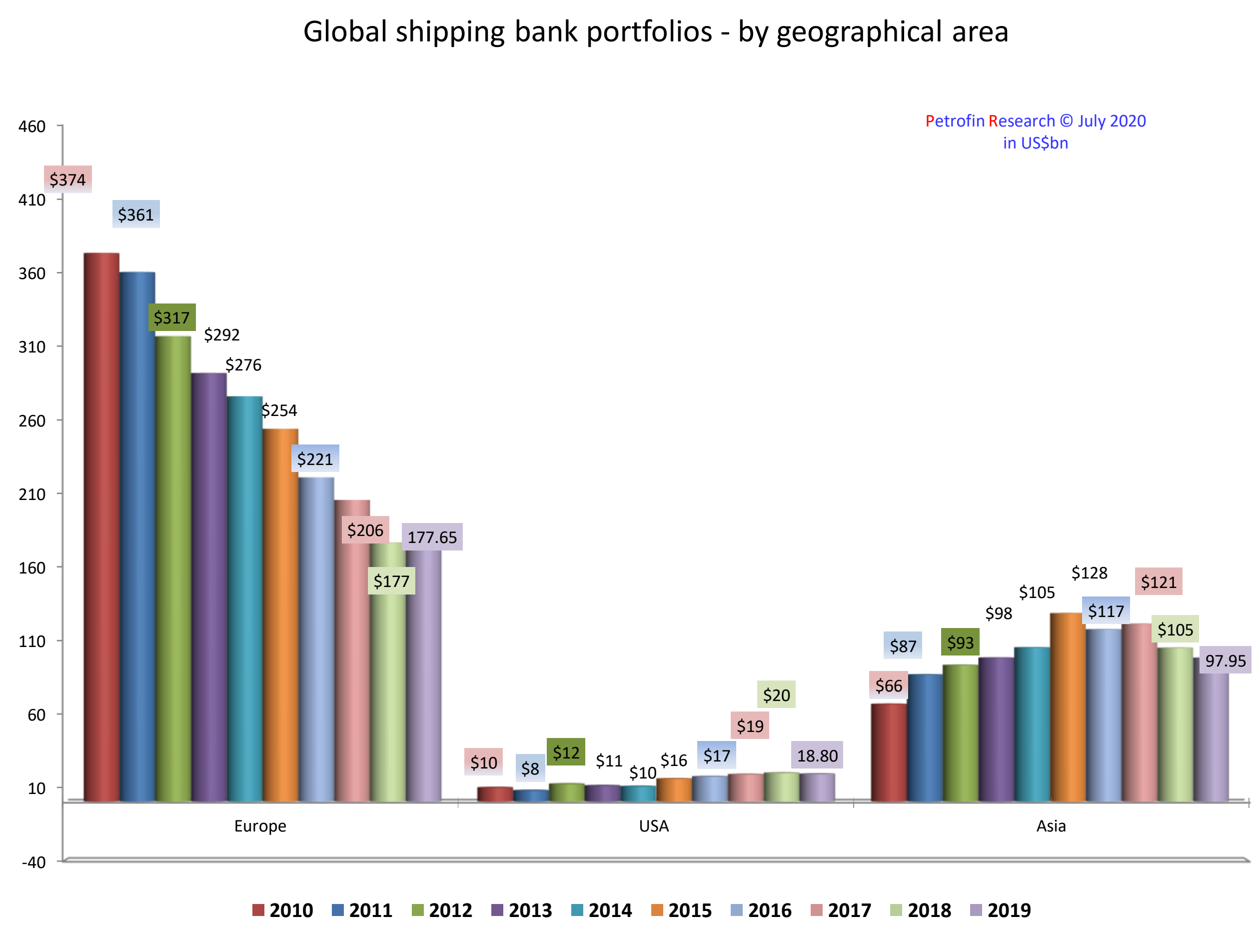


Last year there was a significant reduction of $44.3bn in the portfolio, whereas this year the fall has been much smaller, at **$6.3bn**.

Global bank finance stands at the lowest level of the last 13 years.

3. Commitment of Banks by Geographical Area

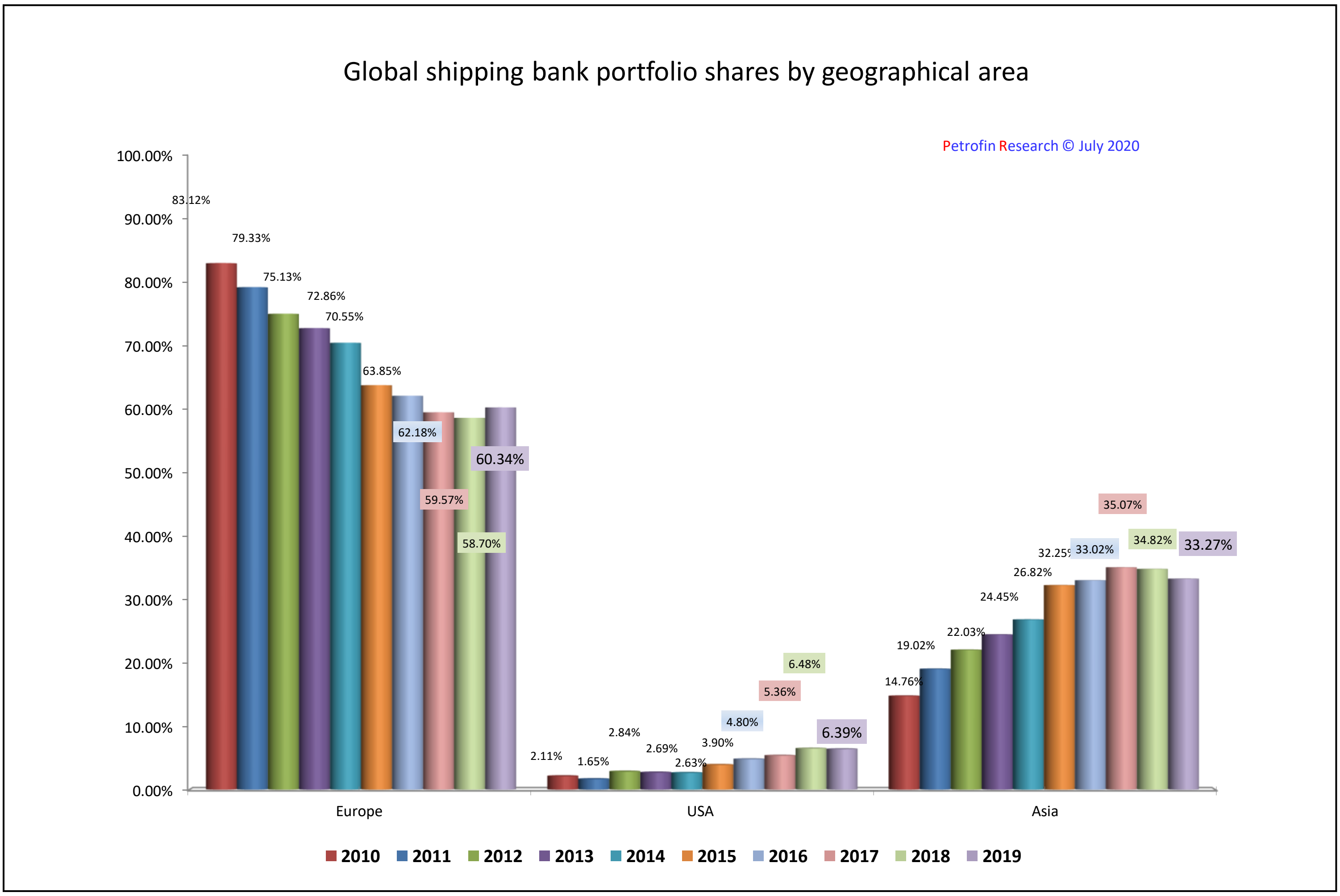
Graph 6: Breakdown of Global shipfinance portfolios according to geographical area, in US$bn



For the first time since 2010, we note an increase in the European portfolios. This is mainly due to the commitment by BNP Paribas and KfW.

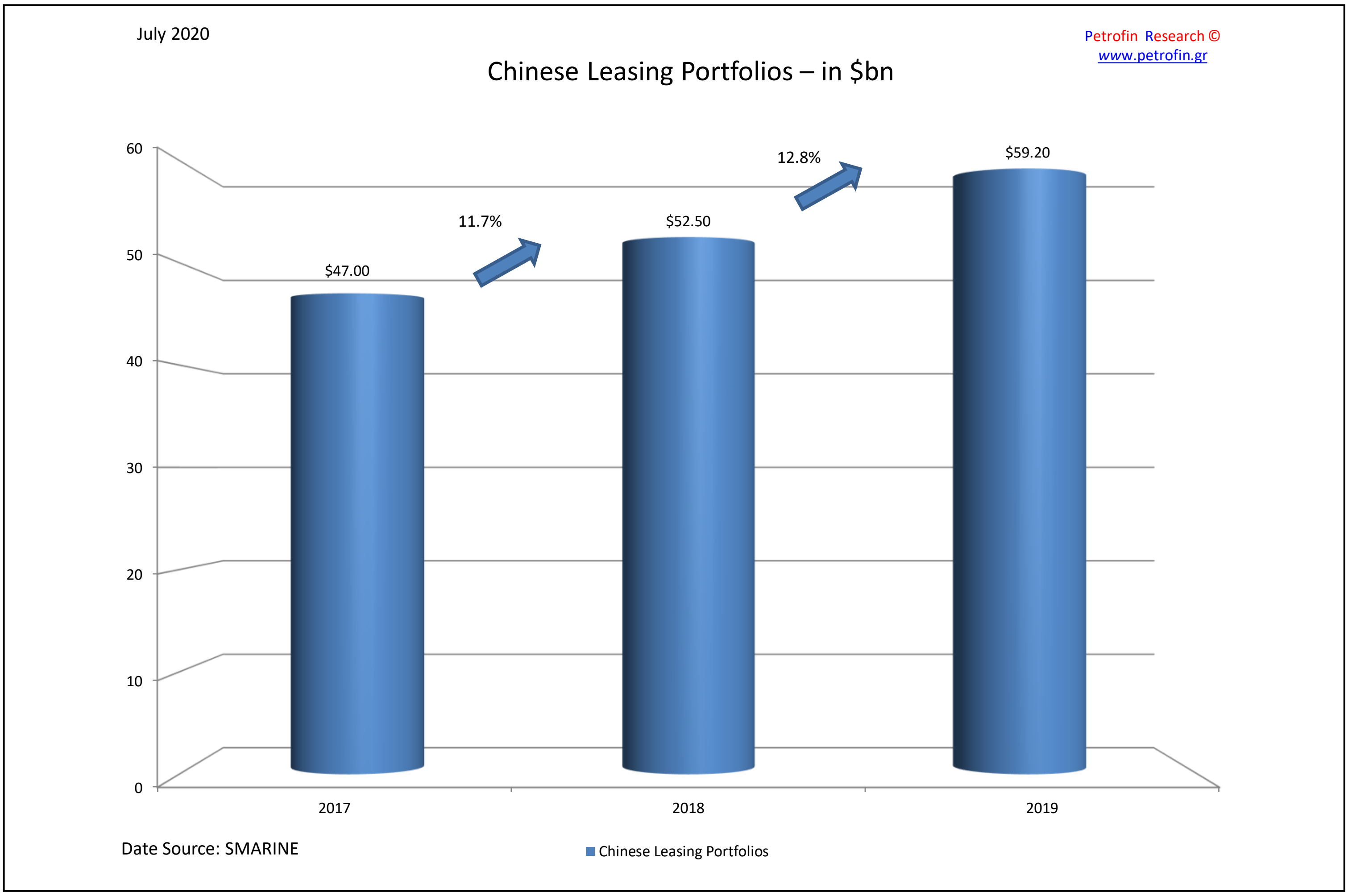
US banks show a decline, and so do Asian banks.

Graph 7: Breakdown of Global ship finance portfolio development according to geographical area (in % share of total)



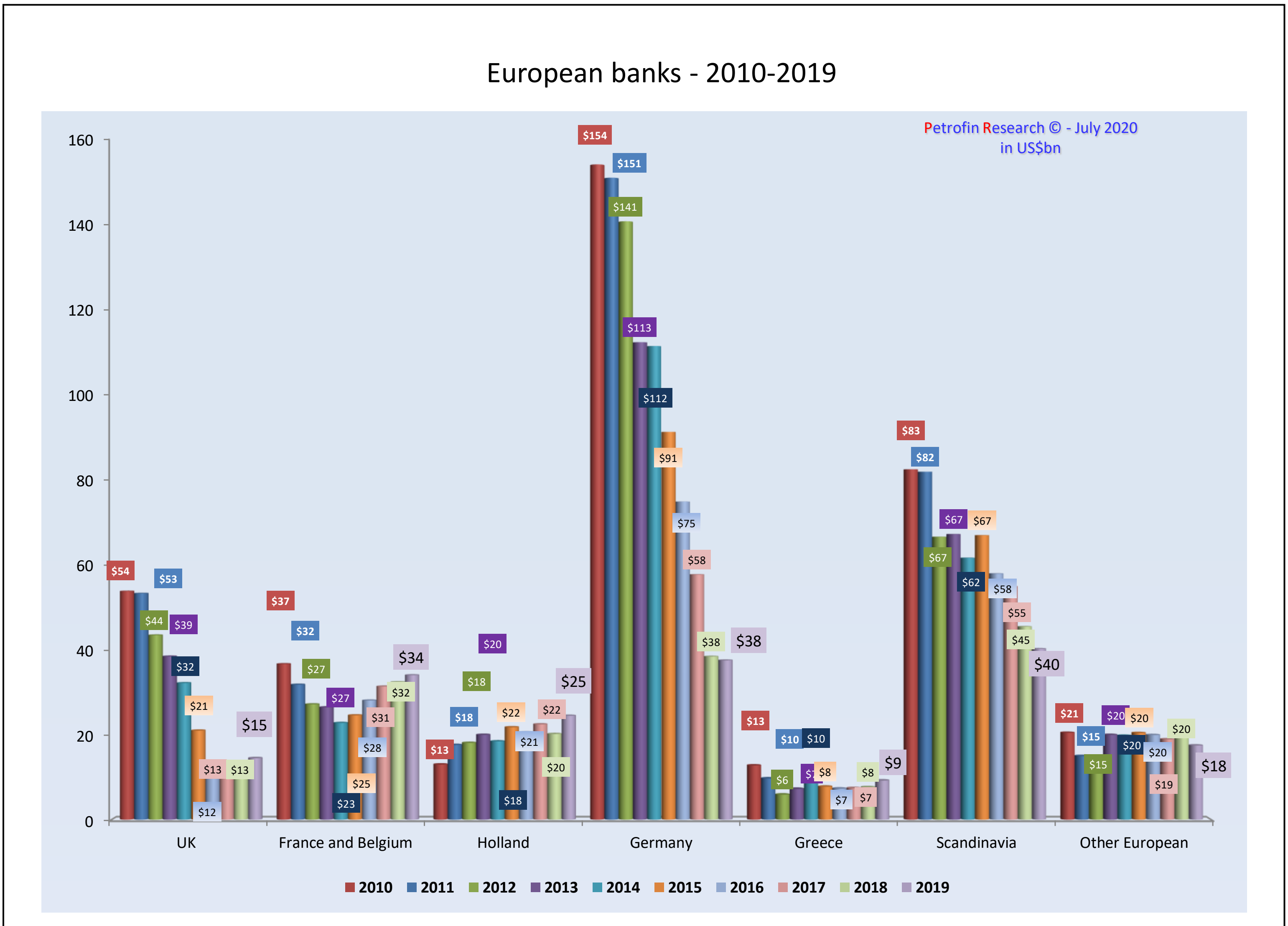
The European share of the global portfolio has increased to 60.34% from 58.7% the year before. US banks slightly decreased their share, whereas Asian banks are down for the second year in a row.

Graph 8: Chinese Leasing Portfolios to Shipping



It is interesting to observe that the Asian banks (mainly Chinese banks) have receded by 6.45% (Graph 6), compared to the rise of Chinese Leasing by 12.8% in 2019. Chinese banks appear to have reduced their direct lending. Increased Chinese lending was extended via bank leasing subsidiaries or via independent leasing companies.

Graph 9: European banks' global shipfinance development



The UK, French and Dutch banks have increased their portfolios. Germany, primarily on account of KfW, has stabilised its decline. Greece has marked an increase, whereas Scandinavian banks have receded. Among other European banks, Credit Suisse also showed a small decline.

6. The outlook for 2020 and beyond

The decline of Western banks ship finance appears to have run its course. Even though there are loan portfolios by DVB and Nord LB still to be disposed, committed Western banks did absorb such declines resulting in the stabilization of Western bank ship finance.

Chinese ship finance has taken a breather and showed some declines. These declines, however, are more than counterbalanced by the rise of Chinese leasing.

Overall, Global Ship Finance showed only a minor decline and the prospects were positive at the end of 2019 for a more robust performance in 2020.

Unfortunately, the COVID-19 pandemic and its resultant major negative impact upon the global economic activity, international trade, and the price of oil, completely changed the scene in 2020. The effect of lockdown and travel restrictions have imposed an enormous strain on shipping. Some sectors, such as, offshore, cruising and containers took the brunt, whilst others, such as dry bulk and the tanker sector displayed increased volatility.

Banks' reaction was one of caution. Although there were some loan restructure requests received by all banks, it was hardly a deluge. In fact, the shipping industry, as a whole, weathered the storm well with the exception of offshore and cruising industries, which faced serious financial threats.

Inevitably, bank approvals became more cautious and demanding, which resulted in more stringent terms and higher pricing. At the same time, Chinese leasing companies were adversely impacted by their exposure to aviation, which combined with the higher cost of US Dollar funding resulted in a slowdown in their ship finance activities.

By mid-year, the situation has stabilized and the focus is shifted to the expected timing and magnitude of the global economic recovery. Analysts are talking either of a V-shape recovery, or of a U-shape one, or of W-shape one and yet others of no foreseeable recovery until 2021.

The tanker market frenzy due to oil capacity shortages was short lived as oil demand fell. Nothwithstanding the low price of oil, the expected boom did not materialize. Dry bulk, however, staged a strong recovery based on inventory and other seasonal and trade route factors and this bolstered confidence by banks.
By mid-year, bank lending started to return across all main sectors (dry, wet and containers) with many banks actually taking advantage of the upheaval and improved margins to increase their loan portfolios.

Public markets were volatile and shipping shares underperformed. On the whole, little public market activity took place, as investors remained cautious.
Alternative capital providers continued to provide capital and loans but at even higher costs, seeking to take advantage of the difficulties in obtaining finance by some owners and in order to mitigate their higher perceived risk.

In all the months of turmoil in the main sectors of dry, wet and containers, there were hardly any insolvencies and for many banks, non-performing loans remained low.

The international banking environment, however, remains challenging, as the Basle higher capital ratios criteria and other central bank regulations and monitoring, limiting the ability of banks to lend. Central banks, however, have provided attractive liquidity terms to banks in order to enhance the economic recovery and this may support increased ship finance by banks.

There continues to be a trickle of new entrants consisting of smaller European, Middle Eastern and Asian banks, mainly supplying their own local clientele.
Amongst the newer banks, are M&M, Berenberg, Warburg, ATB, Bank of Cyprus, Hellenic Bank, Astrobank, as well as Japanese lenders, all of whom have continued building up their loan portfolios.

Looking to the year ahead, bank policy will depend on the economic recovery and a medical solution for COVID-19, as well as how the trade wars and sanctions will develop during a US presidential election year. Trade protectionism is an increasing concern, coupled with an emphasis on national rather than international policy by the main economic players.

Shipping remains at the mercy of the international trade environment. As newbuilding orders have slowed down, it is the demand side that will shape market conditions.

Forecasting shipping demand over the next year appears especially difficult as there are so many factors at play. The ship finance industry may be satisfied by the performance of shipping during a very difficult period, but the geopolitical, pandemic, economic, environmental and trade factors remain. Consequently, we anticipate global ship finance to remain constrained in 2020/2021 in the absence of new positive factors.