Key Developments and Growth in Global Ship Finance

September 2022

By Ted Petropoulos, Head, Petrofin Research ©.

We are pleased to present for the 14th year running our latest Global Bank ship finance research and the bank loan portfolios to global shipping presented as of 31st December 2021.

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.

Contents

Main findings

1. The Petrofin Index for Global Ship Finance which commenced at 100 in 2008 is up by 1 point (from 62 in 2021 to 63), showing a rise for the first time in eleven years.

2. Top 40 Banks' lending to shipping in 2021 is higher at US$290.12bn from $286.9bn in 2020.

3. Asian and Australian banks (APAC) show the only growth, from $100.85bn to $114.75. APAC increased their share of the Global Portfolios from 35% to 39.5%. European banks' share declined further by US$9.78, 5.8% yoy.

4. Within Europe, the big decline continues by German banks although the trend has slowed down. Greek banks showed a yoy growth of 14.2 %, whilst Scandinavian banks continued their overall decline deemphasising lending in favour of use of their services to shipping.

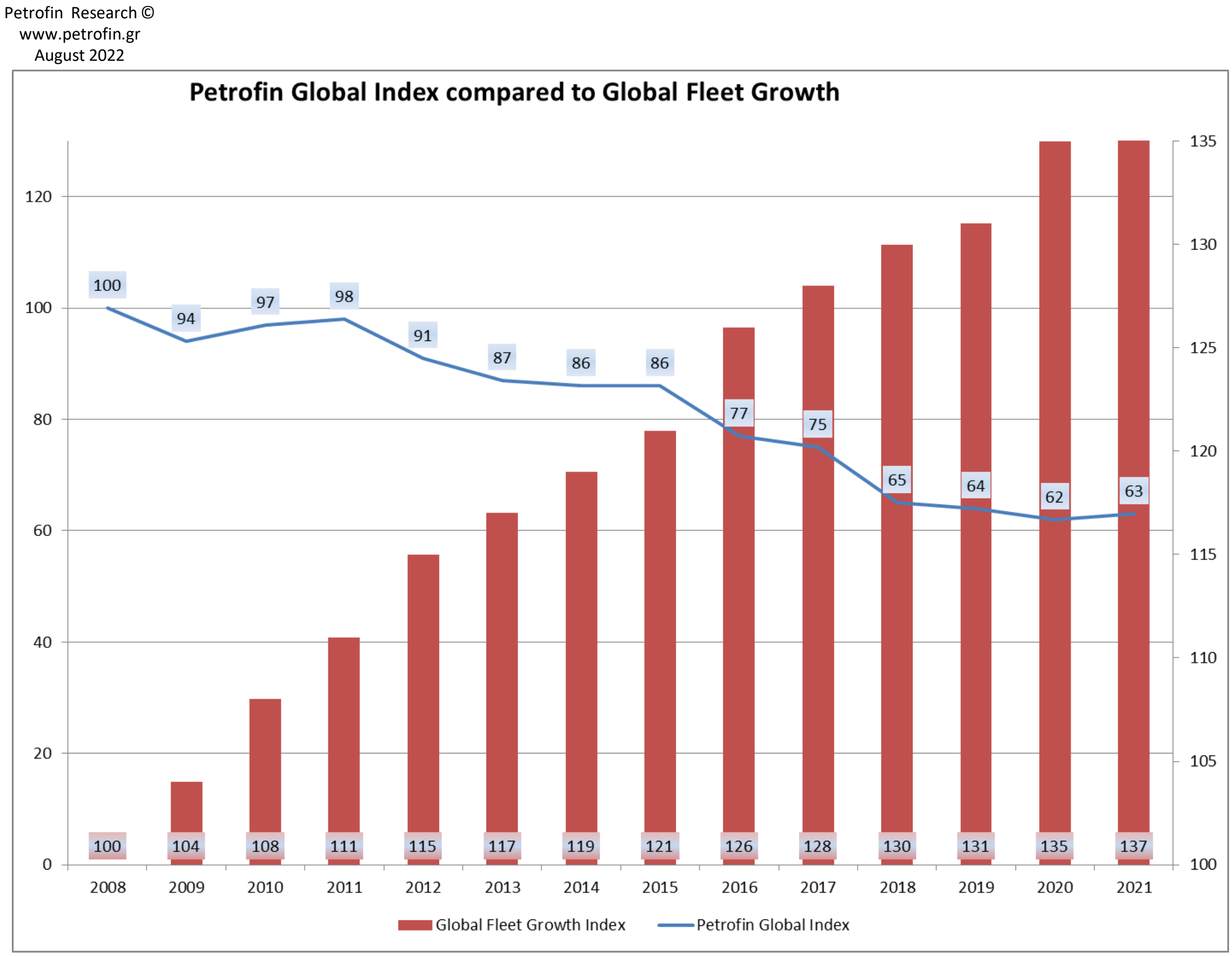
5. According to Petrofin Research ©, we can provide a cautious, indicative figure for global shipfinance, including all forms of lending, leasing and alternative providers, of approx. US$500bn. The total global bank lending of all banks, including local banks, amounts to approx. US$340bn, i.e. approx. 2/3 of the global ship finance total.

6. There is increasing evidence that due to the Russian invasion of Ukraine, together with the high energy prices, geographical sanctions, higher interest rates, slowdown in global growth and concerns over an incoming recession, bank lending in 2022 has been disrupted as caution prevails amongst banks. The Chinese selective lockdowns and economic slowdown has added to the above concerns and is having a temporary impact on Chinese leasing as well.

1. Petrofin Global Index of Shipfinance

As illustrated in Graph 1, the Petrofin Global Index (from 2008 to 2021) stopped its decline after an eleven year downward trend.

Graph 1: The Petrofin Global Index, compared to the indexed growth of the global fleet (fleet data from Clarkson's World Fleet Register).

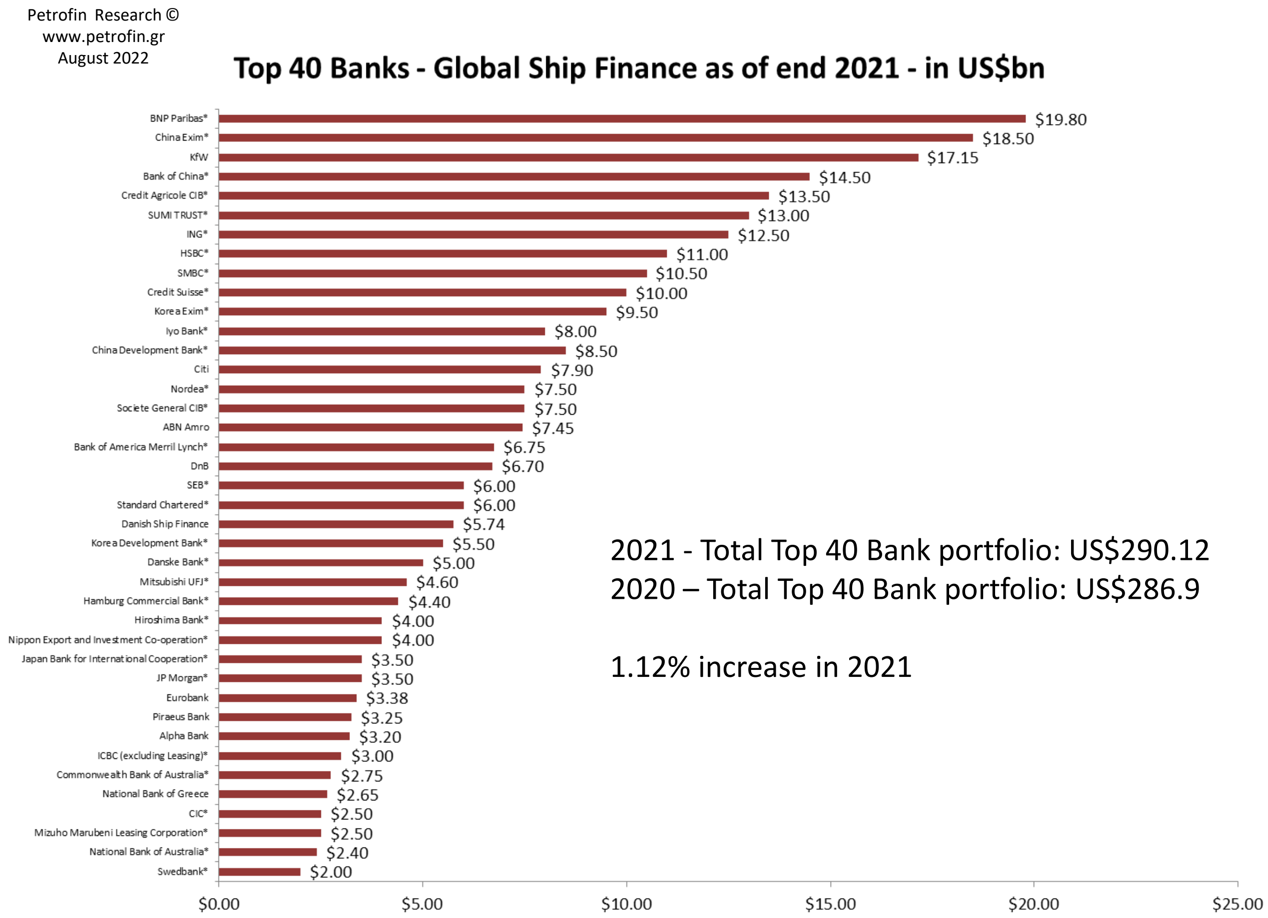


The growth of the global fleet continues to be funded primarily from non-banking sources, such as leasing, alternative lending, private equity from Funds, public markets and investors.

2. Top 40 Banks

We are pleased to present the latest Top 40 Global banks' lending as of December 2021, amounting to $290.12 (see Graph 3).

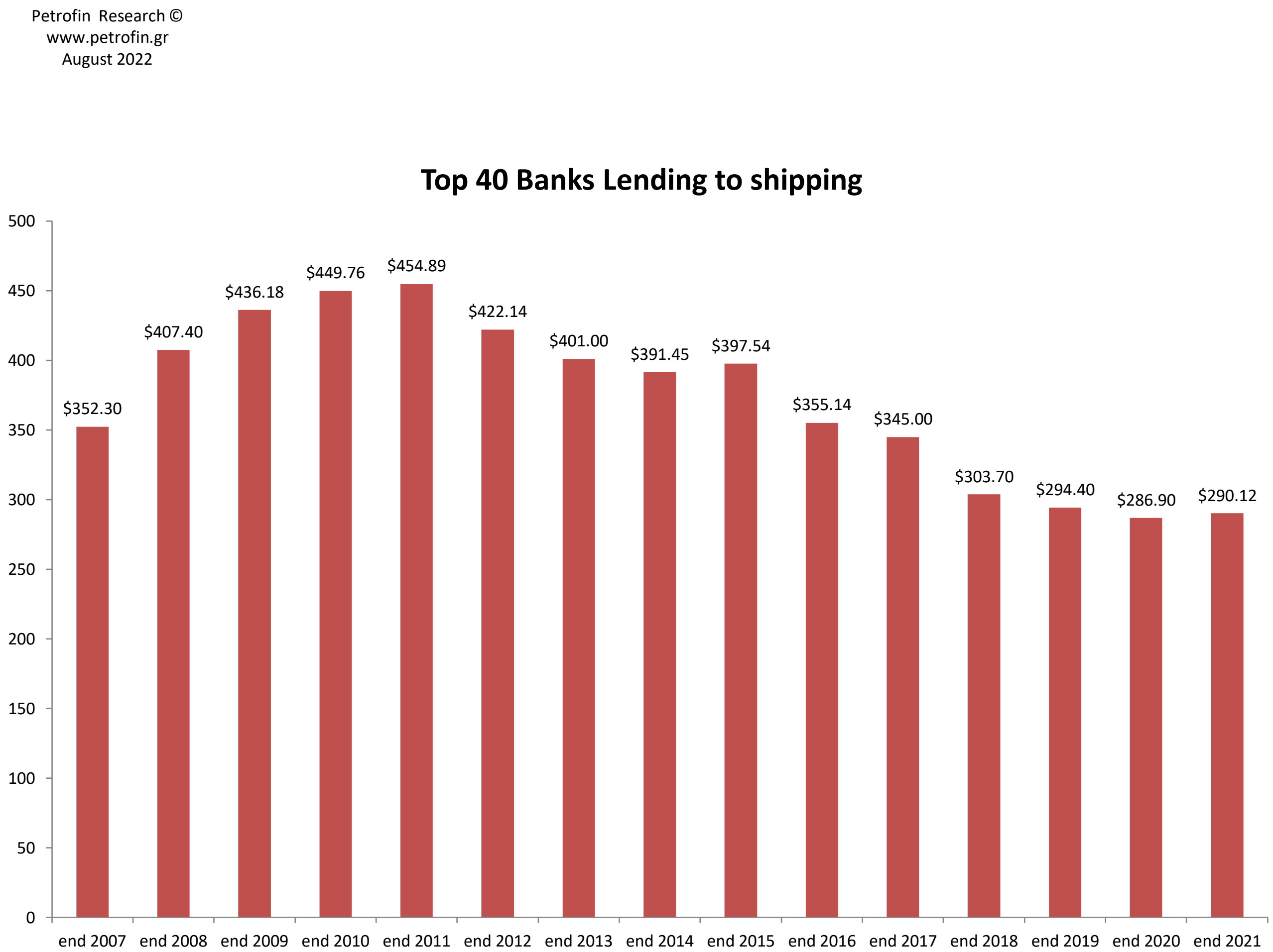
Graph 2: The Top 40 banks have a total of $290.12 exposure to shipping.



* Market estimate

The long decline that marked the last eleven years was halted in 2021 and reversed to a small increase of 1.12%.

Graph 3: Top 40 banks lending to shipping from end 2007 - end 2021



The yoy increase of the portfolio in 2021 amounts to US$3.23bn.

Global bank finance reversed its downward trend.

Graph 4: Banks – Change between 2020 and 2021 bank portfolios in $bn

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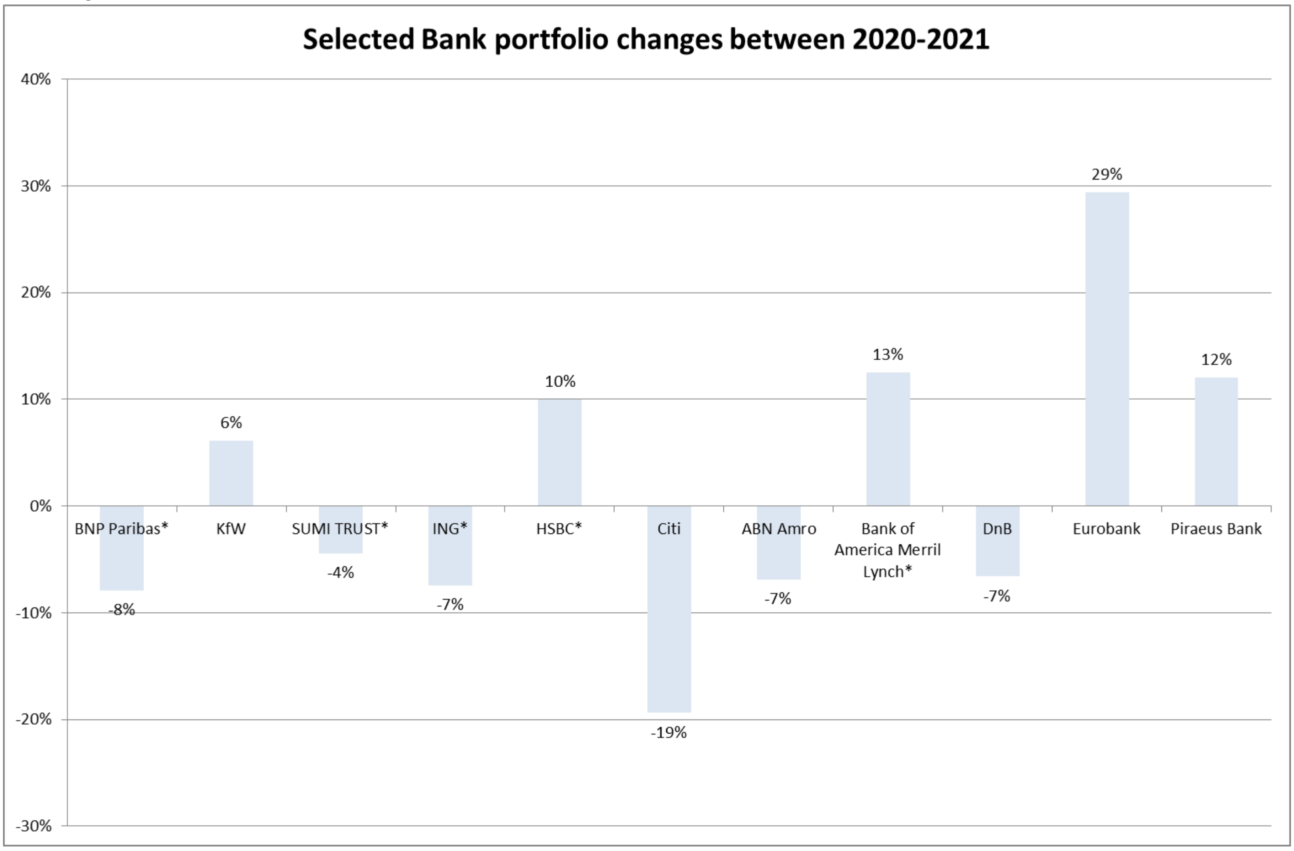
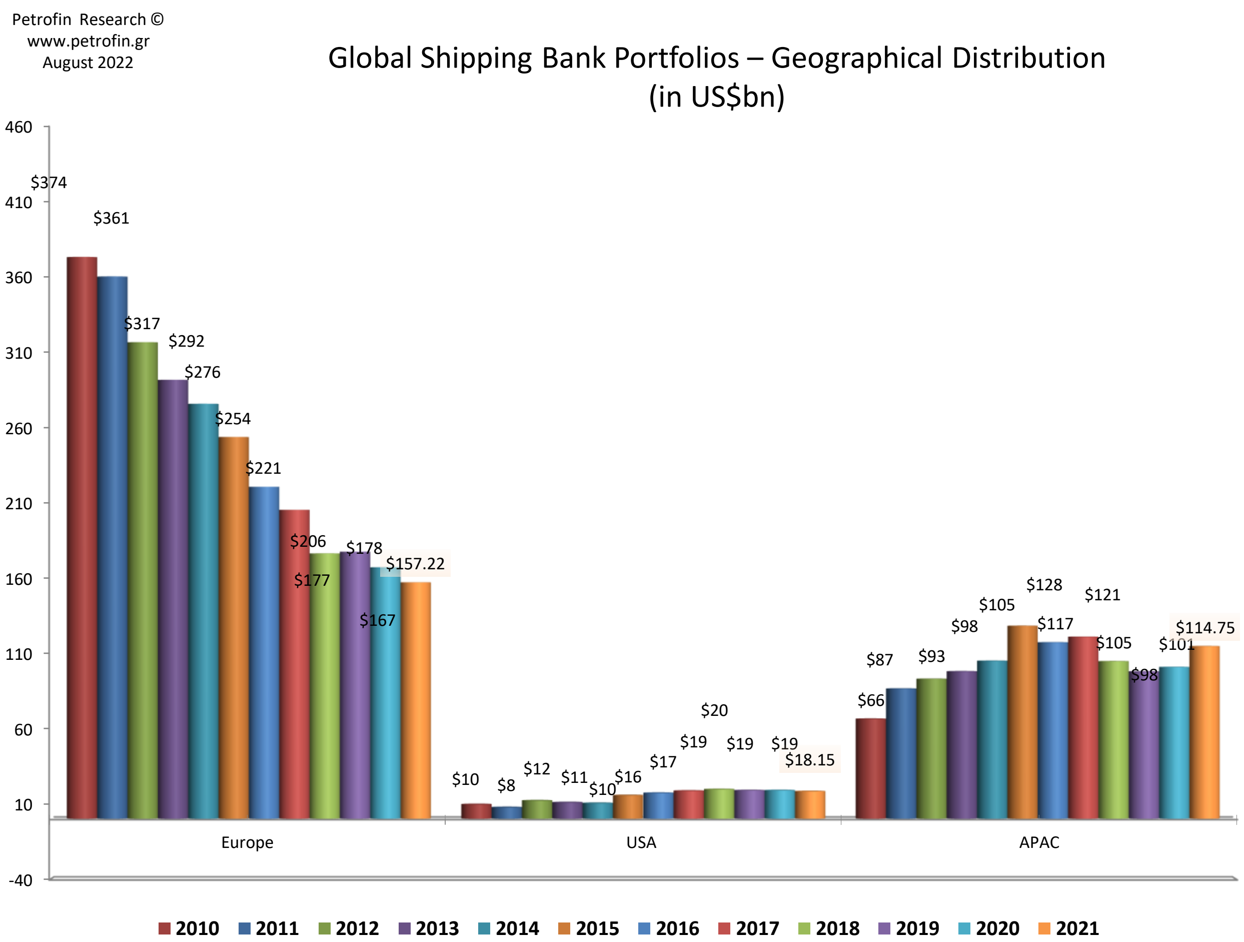


* Market estimate

There is no unified trend towards shipping among large European banks, as can be observed in Graph 4. Reductions and increases of portfolios are very much subject to each bank's own policies and terms. BNP Paribas decline is due to an internal reclassification of its shipping loan portfolios.

3. Commitment of Banks by Geographical Area

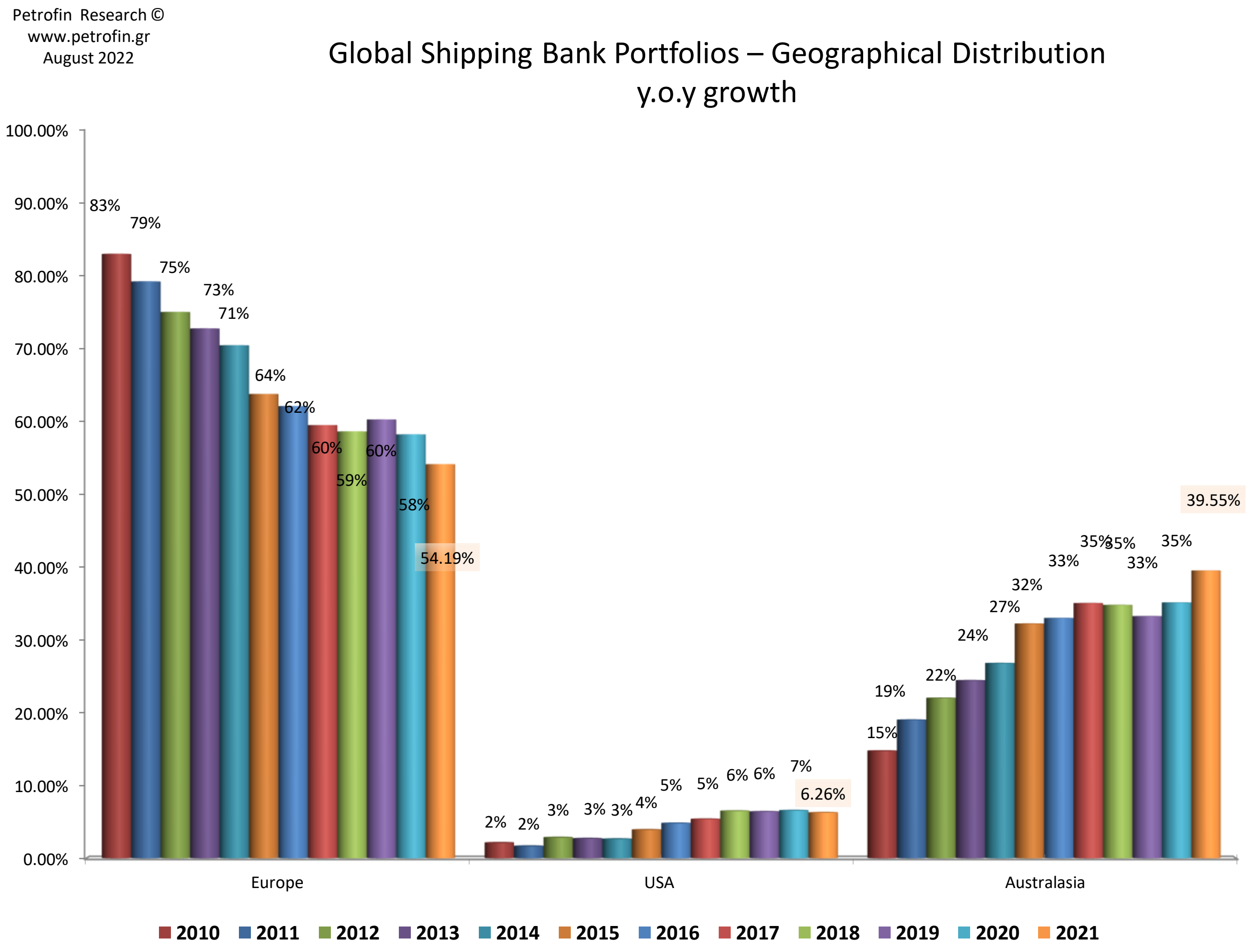
Graph 5: Breakdown of Global shipfinance portfolios according to geographical area, in US$bn



US banks show a very small decline in overall portfolio numbers but Asian / Australian banks were active in 2021 and increased their lending.

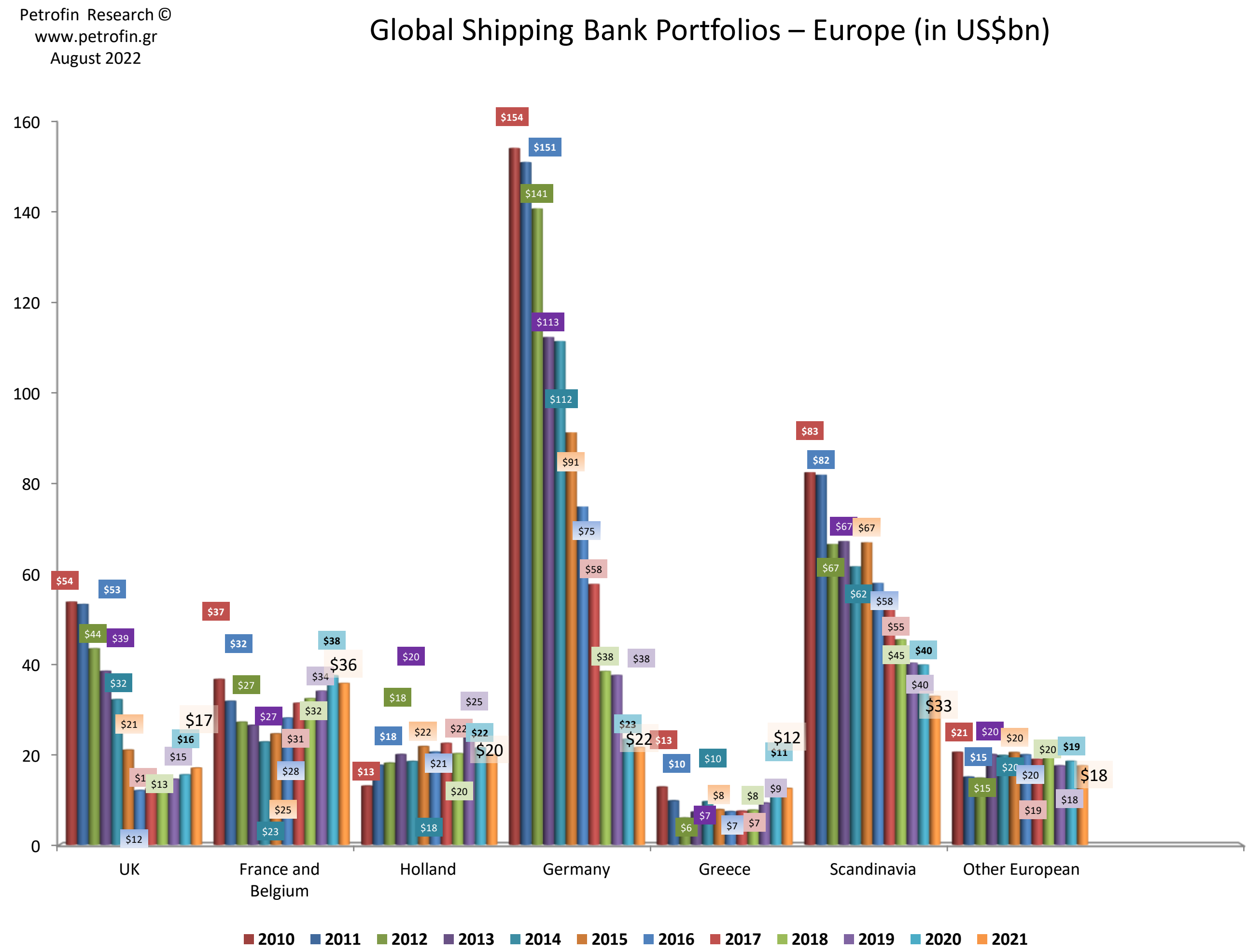
Europe continues its downward trend.

Graph 6: Breakdown of Global ship finance portfolio development according to geographical area (in % share of total)



The small increase in the global portfolio has come from the banks in Asia and Australia. The European share of the global portfolio continues its decline and this time is joined by the slight decrease in the USA exposure.

Graph 7: European banks’ global shipfinance development

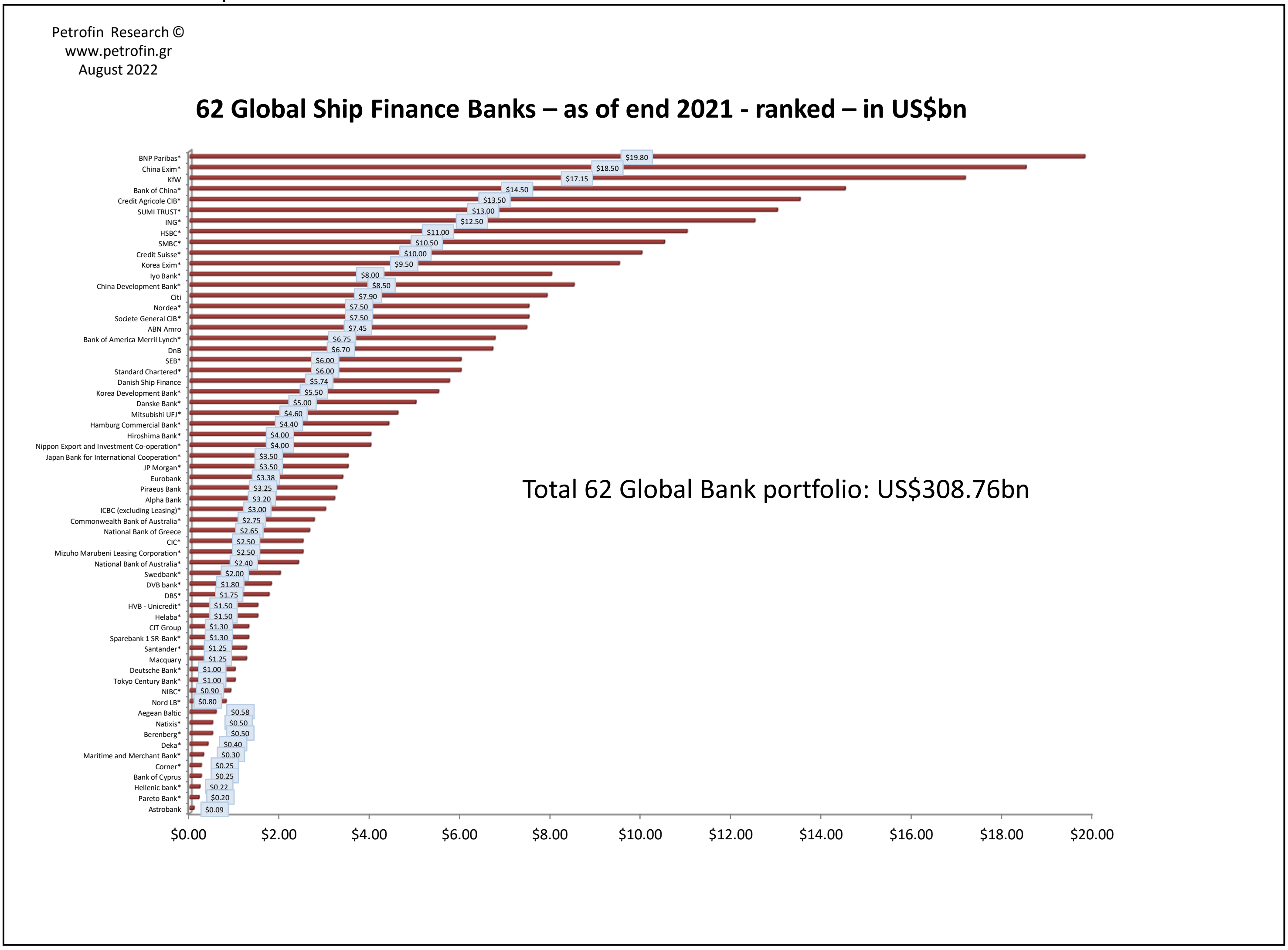


In the Top 40 European banks, we note that Scandinavian banks are down by US$7bn and top Greek banks continue to rise.

4. Other banks

Overall, we have identified 62 banks (Graph 8), including the Top 40, that traditionally do ship finance. These are:

Graph 8



5. Summary and Conclusions

As 2021 developed and Covid-19 restrictions waned, the global economy's GDP recovered from -3.1% to +5.9% yoy, seaborne trade from -3.5% to +4% yoy, whilst fleet growth was limited to a 2.9% increase. The above turnaround was assisted by continuing central banks' monetary easing, low interest rates and a resurgence of demand for goods and commodities leading to increased congestion and fleet inefficiency.

As a result of these developments, charter rates across most sectors (except for tankers) shot up by 50% for LNGs, up to 185% for dry bulk and multifold for Containers (Clarkson's statistics). Vessel values followed suit, whilst scrapping decelerated. All in all, a remarkable turnaround.

Banks, under the above favourable conditions and prospects, faced increased demand for loans, as well as competition from other non-banking lenders.

Global bank lending showed limited growth. Based on the latest Petrofin Research ©, Graph 1 ranks the Top 40 ship financing banks' portfolios, which collectively as of end 2021 year end stood at US$290.12bn, i.e. an increase of 1.12% yoy. This growth may appear small but it does represent the first rise since 2011.

New bank lending was robust in 2021, especially towards the second half of the year. However, it should be noted that the newbuilding order book, which stood at 200m tons DWT at the end of 2020, fell to 177m tons at the end of 2021, but rose to 219m tons on 30/06/2022 (Clarkson's).

The Petrofin Global Index (Graph 2) shows the development of ship finance against the growth of the global fleet from 2008 to 2021. The long decline in ship finance loans was mainly due to the departure of many large ship finance European names over the period. This withdrawal process seems to have run its course. 2021 bank lending marks a well awaited recovery. However, compared to the growth of the global fleet, it is self-evident that such growth was not mainly financed by banks but by non-banking relevant sources of finance including private fleet cash flows and owners' liquidity.

Within the Top 40, 21 banks are European based, 16 Asian/Australia based, and 3 North American based. European banks still hold the lion's share at US$157.22bn. European banks' share declined further from 58% to 54.19 %. Within Europe, German and Scandinavian banks' share continued to decline, whilst Greek banks showed a yoy increase of 14.2%.

Relative newcomers / small banks such as Bank of Cyprus, Hellenic, Pareto, M&M bank, etc. grew during 2021 and provided plurality to the available sources of bank finance. It is envisaged that total shipping related bank loans for all banks, including numerous domestic banks across the globe, which are outside the scope of this research, as of the end of 2021 is estimated at approximately US$340bn.

An estimate of global ship finance exposure would include all forms of direct or indirect finance. Such an exercise needs to be approached with caution as there is a scarcity of information, especially from Asian leasing companies and banks, as well as for lending Funds on a bilateral basis. As an indication only, however, according to Petrofin Research ©, the total global ship finance exposure including leasing and all other forms of finance at the end of 2021 amounted to approximately US$500bn, by which total global bank loans accounted for approximately 2/3 of the total.

6. Prospects for ship finance for 2022

The global situation changed abruptly with the Russian invasion of Ukraine on 24th February 2022. It led to geopolitical sanctions, high energy and commodity prices, a dislocation of trade, higher inflation and interest rates, a slowdown of global growth and a decelerating demand for shipping. China experienced near zero growth as a result of its pandemic related selective lockdowns. Chinese loan demand remains low despite record state spending and incentives aimed mainly at supporting Chinese infrastructure and the real estate industry. The confidence index, though, is still below 50%.

With the Chinese slowdown, port congestion fell releasing tonnage in the dry bulk market. The above resulted in a much weaker dry bulk market both on spot and period rates. Tankers, however, benefited enormously in the post invasion rush to meet demand, primarily in Europe. The offshore sector rose strongly. In general, there is market turbulence and anxiety across all sectors.

Sale and purchase activity too has halved in the first six months of 2022 in comparison to 2021 across all sectors and the increase of newbuilding orders for 2024 / 2025 has not yet affected bank lending. The higher interest rates have adversely affected cash flows and have resulted in higher loan breakevens. More banks have conducted reviews and revised assessments of their loan portfolios.

At the time of writing, banks are still keen on new business to maintain their lending portfolios but viable new loan generation is reducing. Bank loan margins are being squeezed as owners have access to alternative sources of finance and often opt for higher leverage as opposed to lower margins.

A bright development has been the increased popularity of sustainability linked loans provided by the participating banks and lenders in the Poseidon Principles. As more shipping companies develop their approach to meeting and exceeding the emission criteria, as well as investing in dual fuel and other innovatively designed vessels, banks have targeted such loans and provided some incentives to owners in terms of pricing. In themselves, the incentives are not significant in swaying owners towards green technology. They do provide an incentive / reward, though, and as such they are welcome. The majority of banks and owners have formulated policies as to green lending, despite the current energy crisis.

Banks are on the side lines regarding new technology as far as the more strict post 2030 regulations are concerned. They are waiting to see the new technology, cost implications, and the support to be provided by the market towards such vessels. For the time being, the emphasis of both owners and banks lie with Tier III newbuildings which seem to represent an intermediate choice compared to more advanced technologies.

The outlook for shipping and ship finance for the next couple of years depends on whether the recent geopolitical events represent a transient or permanent change. As the newbuilding orderbook is well contained for the next couple of years at least, shipping markets are increasingly looking at the demand side of the equation and the ability of China to once again provide the necessary stimulus to global trade.