Key Developments and Growth in Global Ship Finance

July 2023

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We are pleased to present for the 15th year running our latest Global Bank ship finance research and the bank loan portfolios to global shipping presented as of 31st December 2022.

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, has remained stable at 63 in 2022 compared to 2021, as the drop in portfolios of the Top 40 Banks was very small.

2. Top 40 Banks' lending to shipping in 2022 stands at $289.39, compared to US$290.12bn in 2021.

3. Asian and Australian banks (APAC) show significant growth, especially their market share, which has jumped from 40% to 44%. In terms of actual exposure their portfolio amounts to US$127.3bn compared to US$115bn in 2021.

4. European banks' share declined further to 49.5%, below 50% of Global exposure for the first time.

5. Within Europe, the big decline of German banks continues. Regarding the UK, HSBC shows a decline, as they withdrew from Greek ship finance and part of that portfolio has been committed to Greek banks.

6. Greek banks showed a yoy growth of 4.6% from US$12.5bn in 2021 to US$13bn in 2022, whilst Scandinavian banks declined further to US$27.8bn.

7. According to Petrofin Research ©, we can provide a cautious, indicative figure for global ship finance, including all forms of lending - including leasing, export finance and alternative providers - of approx. US$525bn. The total global bank lending of all banks, including local banks, is approaching US$350bn, i.e. approx. 67% of all types of the global ship finance total.

8. Poseidon Principles now incorporates 30 signatories, which represent $200bn in shipping finance.

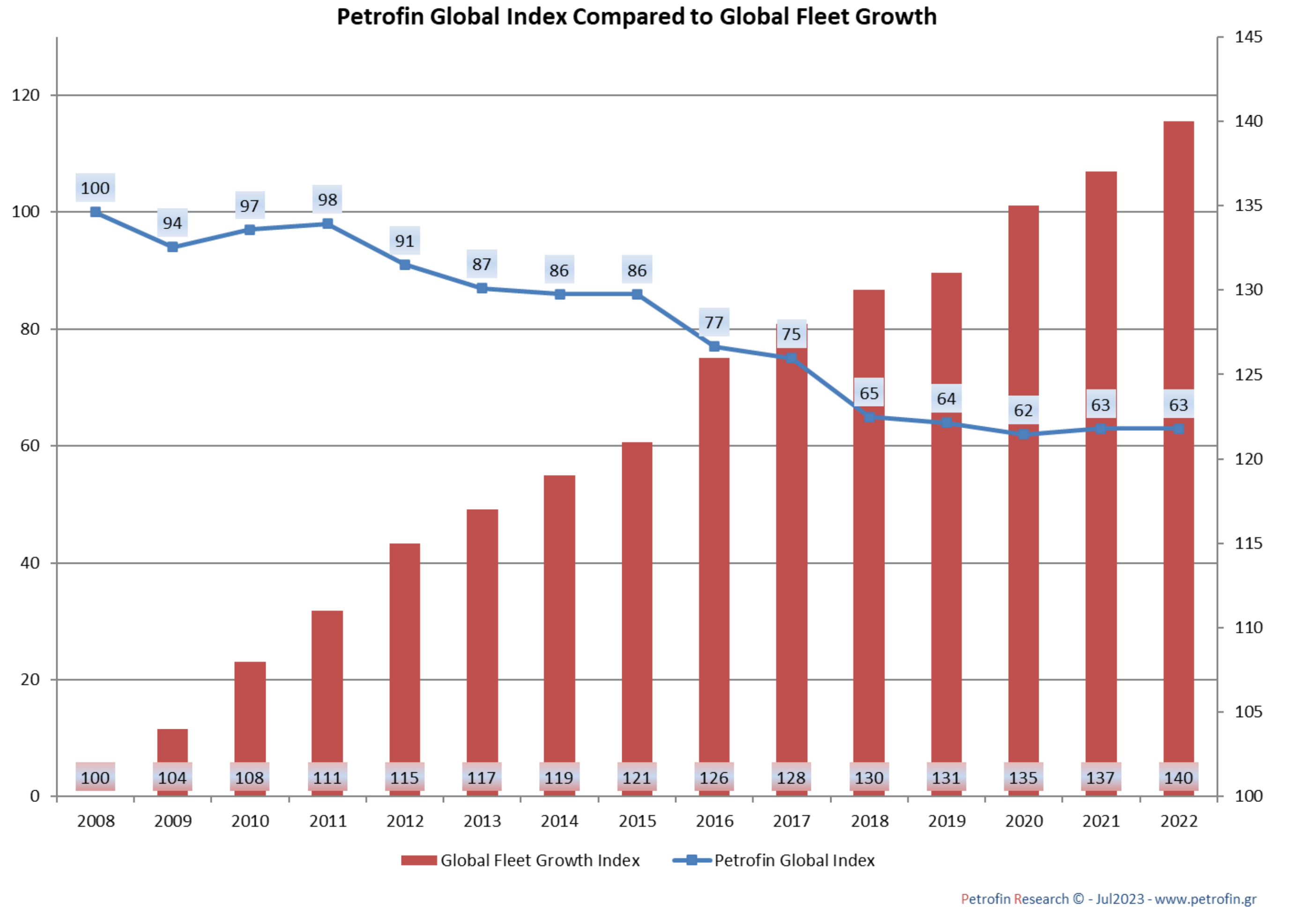
9. Japanese banks now figure more prominently in global ship finance.

10. ESG considerations and bank strategies continue to influence bank ship lending towards non eco vessels.

1. Petrofin Global Index of Ship finance

As illustrated in Graph 1, the Petrofin Global Index (from 2008 to 2022) has remained stable.

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

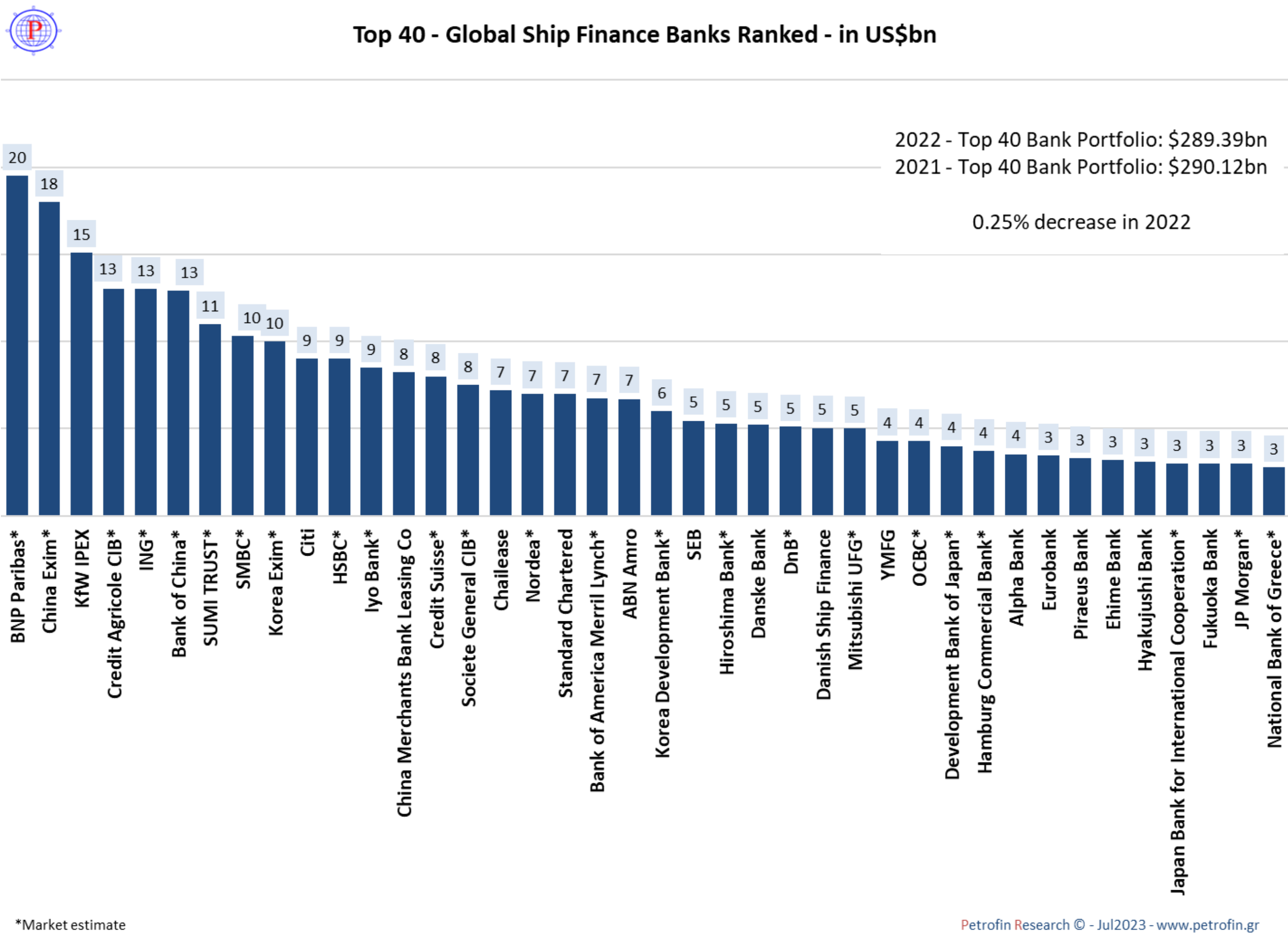


The growth of the global fleet continues to be funded primarily from non-banking sources, such as leasing, alternative lending, private equity from Funds, public markets and investors.

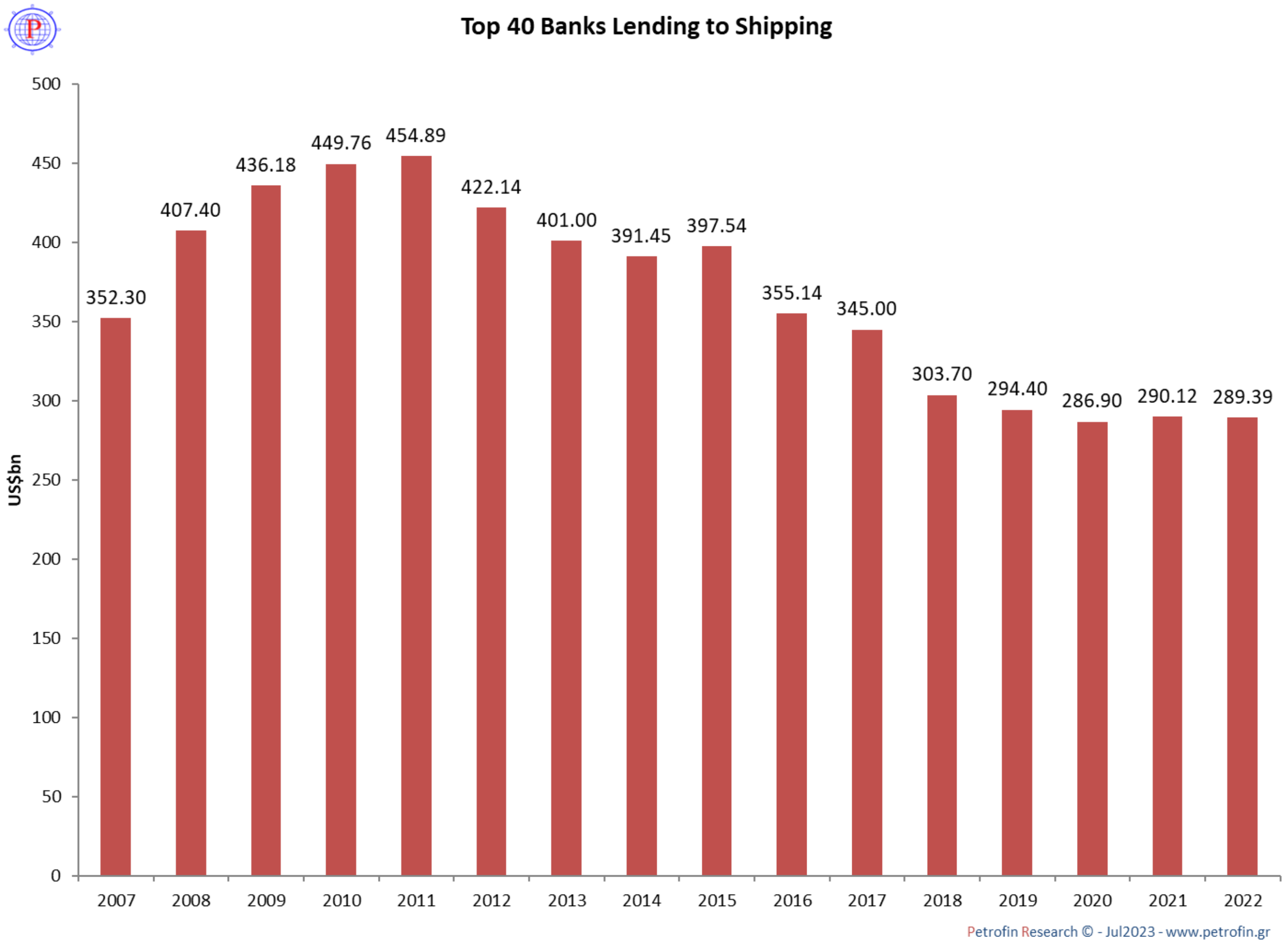
2. Top 40 Banks

We are pleased to present the latest Top 40 Global banks' lending as of December 2022, amounting to US$289.39bn.

Graph 2**:** The Top 40 banks



Graph 3**:** Top 40 banks lending to shipping from end 2007 to end 2022

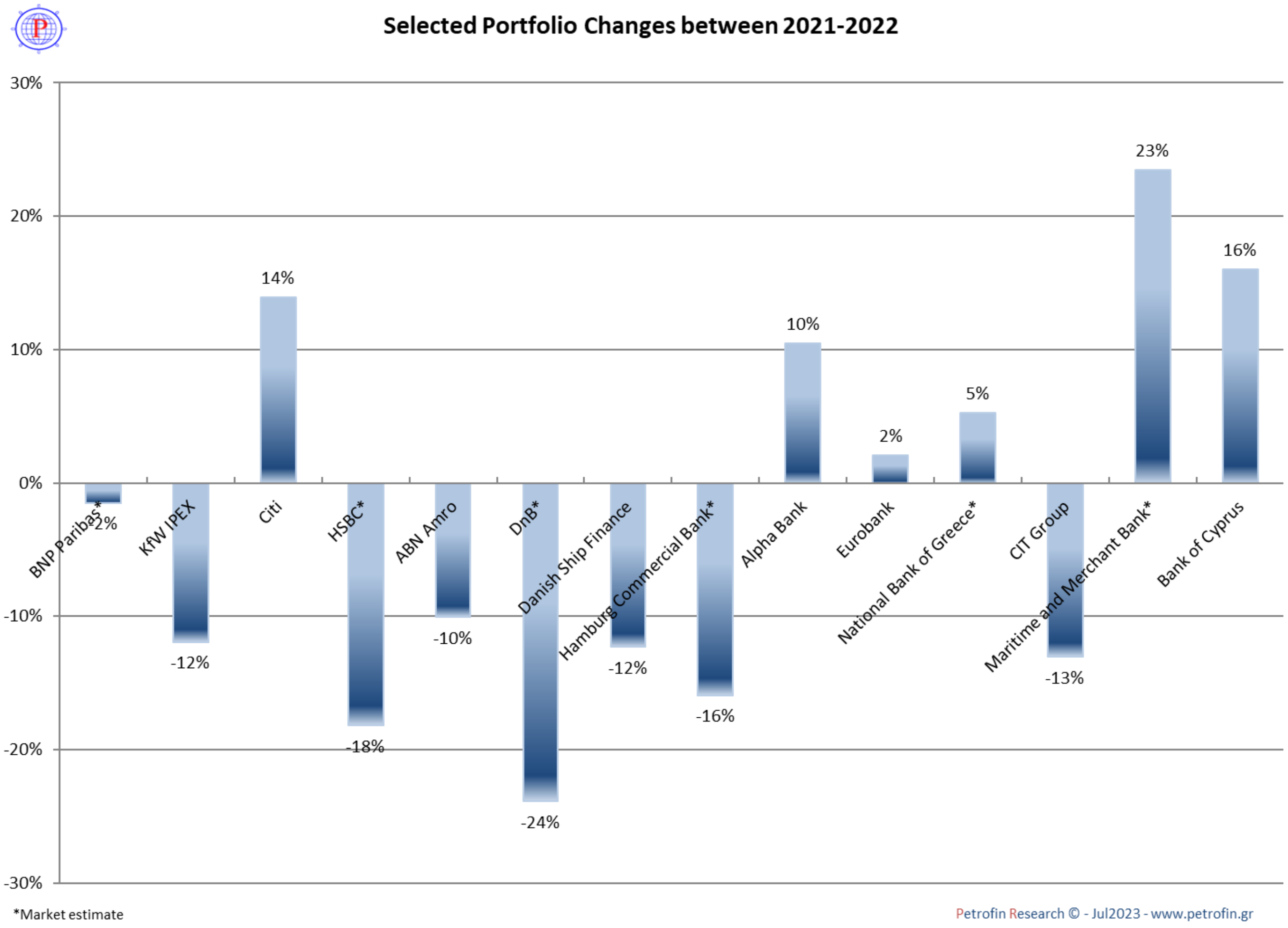


The resistance to the long downward trend which began in 2020 continued in 2022.

The yoy decrease of the portfolio in 2022 amounts to US$0.25bn.

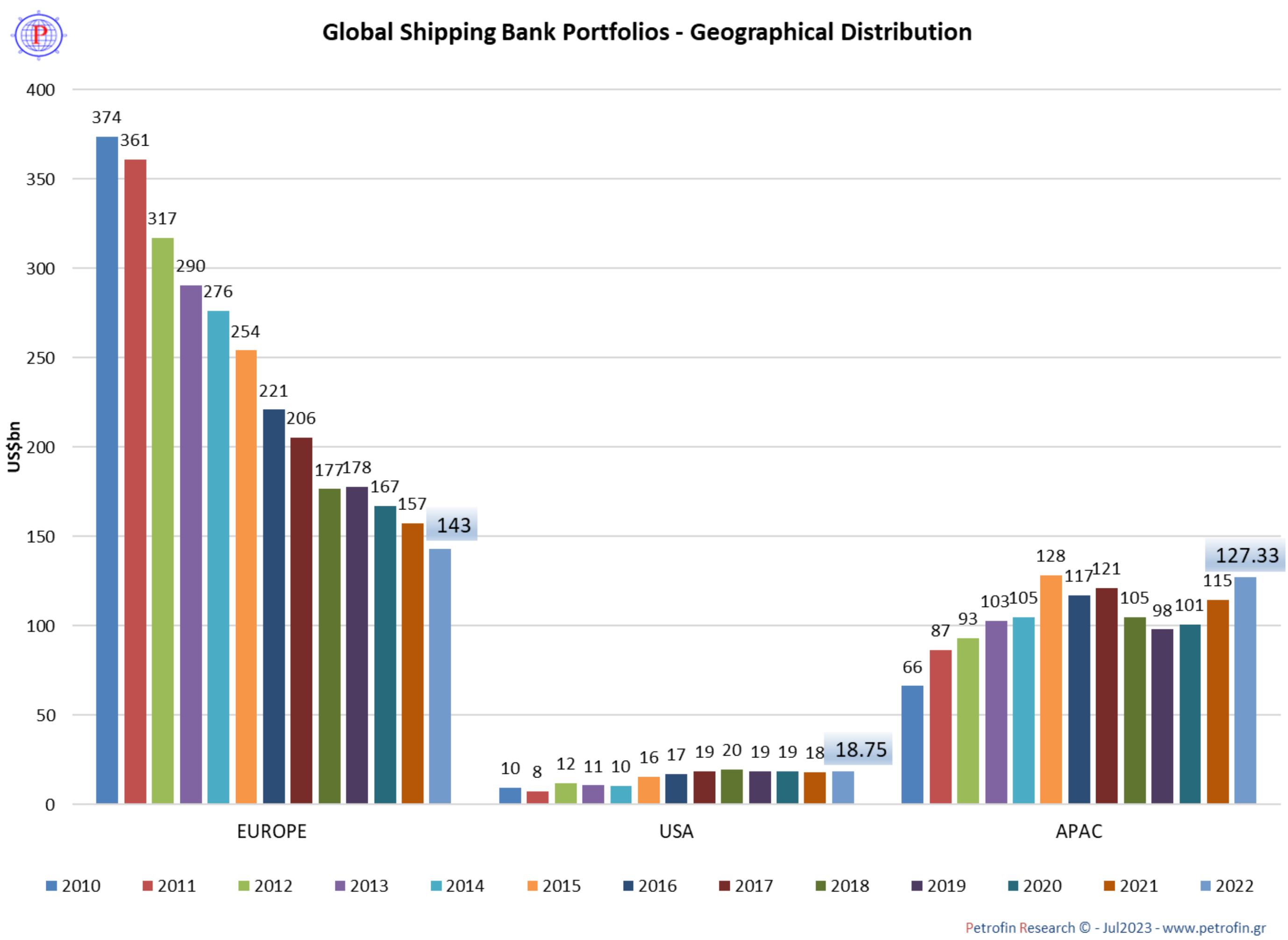
Our research includes 32 additional banks totalling approx. US$36bn towards global ship finance, which are not included in the Top 40 above.

Graph 4: Banks – Annual change between 2021 and 2022 bank portfolios



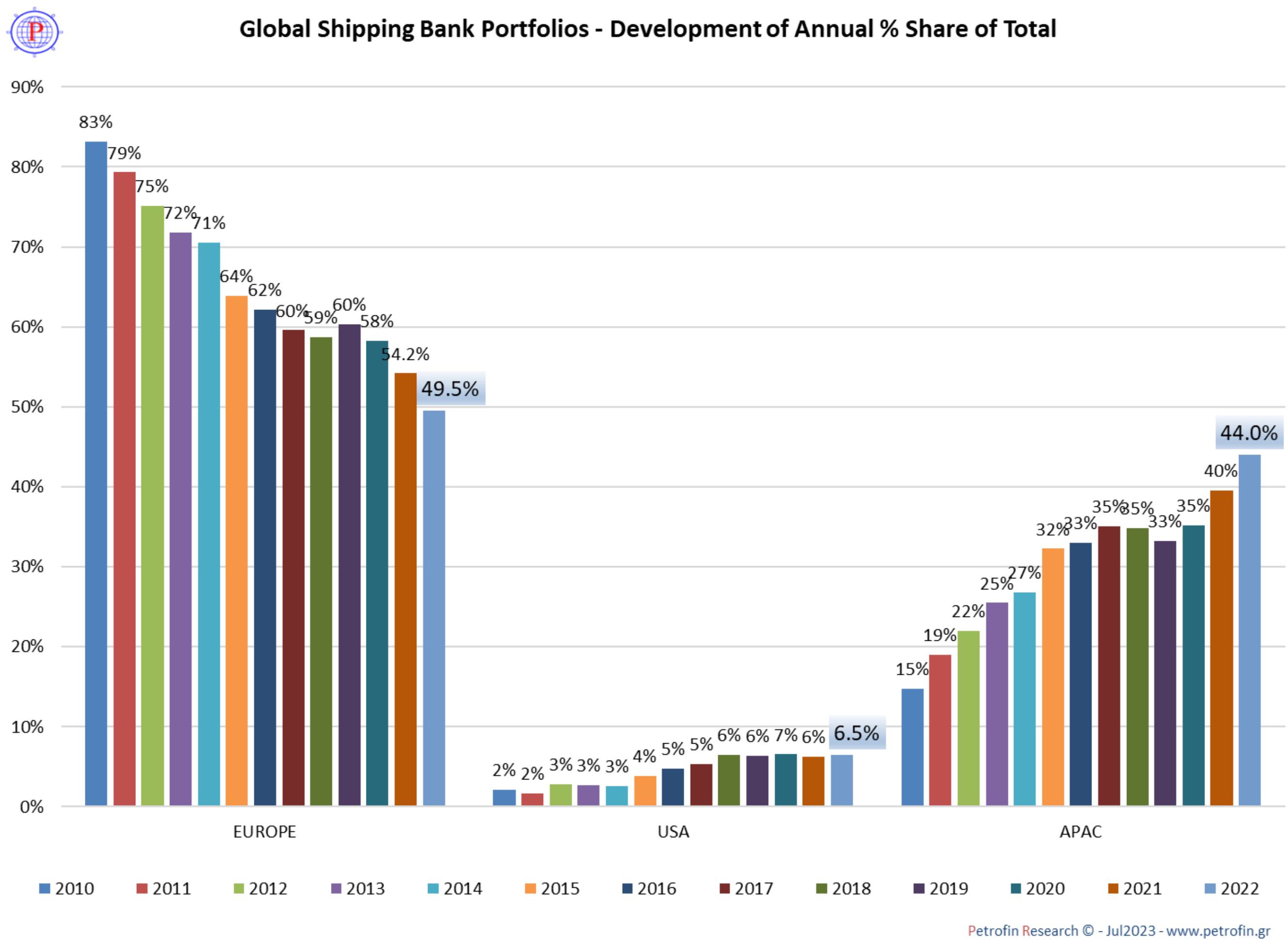
3. Commitment of Banks by Geographical Area

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



Europe and USA show small growth, which becomes significant as, especially for Europe, the decline has been long lasting. APAC is far more dynamic in their commitment to ship finance.

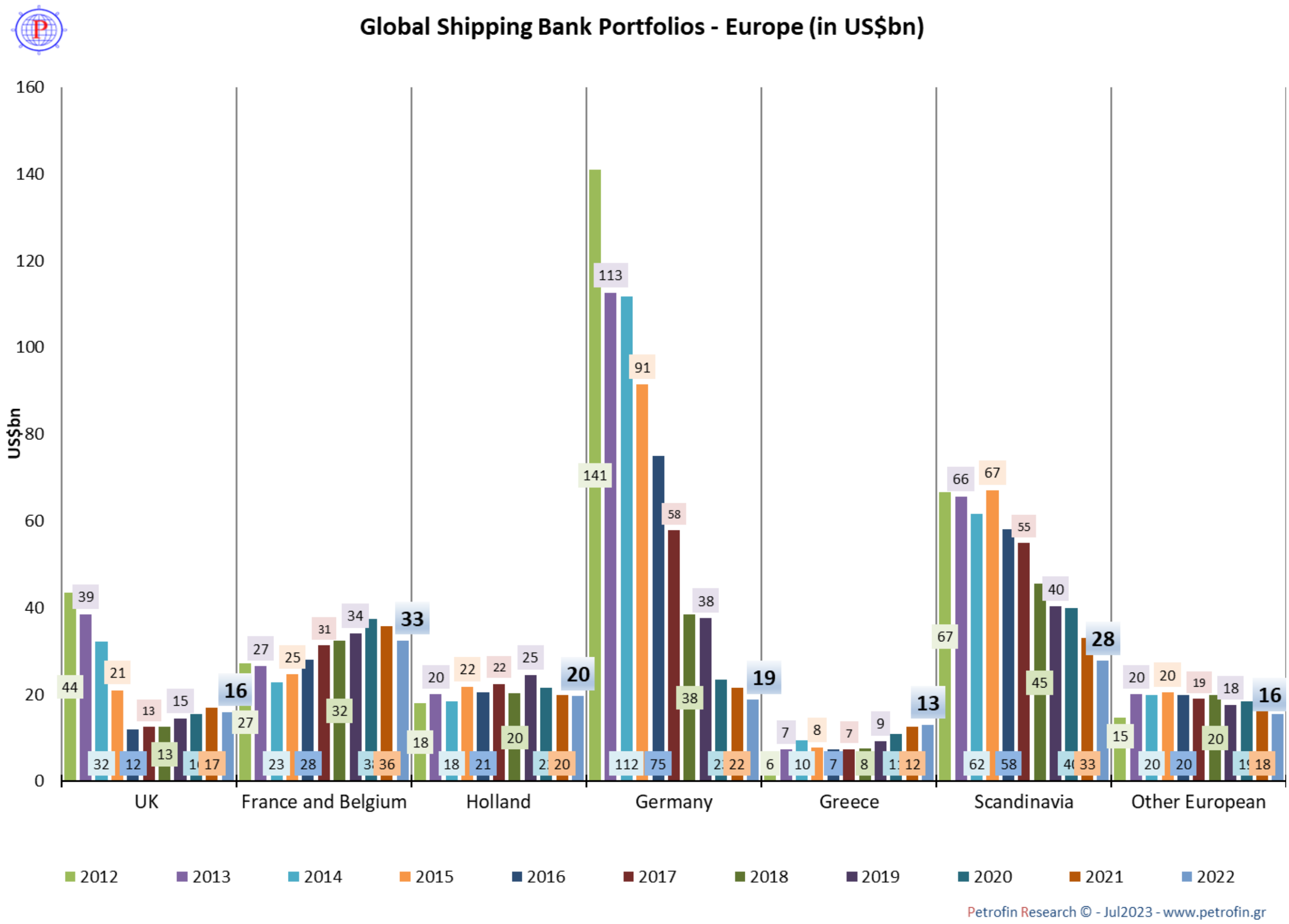
Graph 6: Breakdown of Global ship finance portfolio development according to geographical area (in % share of total)



Although European banks have slightly increased their exposure to shipping, European market share has declined to 49.5%, less than half of the global total for the first time.

USA remains stable. APAC has climbed up to a significant 44% share.

Graph 7: European banks' global ship finance development



European countries show minor changes yoy.

4. Summary and Conclusions

The Global Banking industry faced many challenges in 2022. The Ukrainian war and international sanctions led to trade dislocation. The high energy prices and global inflation led to a slowdown of GDP growth and international seaborne trade (-0.1% - Source: Clarkson's). Port congestion eased and trading became more complex. Although, newbuilding deliveries and orders were kept low, the demand conditions across most market segments (tankers and LNG excluded) were generally unsupportive.

The rising US interest rates from close to 0% to over 5% has rendered many vessel cash flows weaker in supporting the high prevailing vessel prices, especially for eco vessels.

For banks in 2022, finding loan transactions that met their credit criteria became increasingly difficult. On the other hand, the rising liquidity of owners having benefited from the good markets, did result in early prepayment of loans. Most owners were reluctant to commit to conventional technology newbuildings and preferred to enjoy their good cash flow and high liquidity until a new proven eco technology would arise. In view of the global uncertainty and mixed market prospects, major charterers have not shown preference for period charters unless able to obtain such at a discount. It is hardly surprising, therefore, that under the above conditions, global bank lending remained at similar levers amounting to US$289.39bn. The shift away from Europe, towards the Far East continued, with European banks' share falling to 49.5%, whilst Far East lending increased to 44% of global ship finance totals.

The Petrofin Index remained at 63, which implies that bank lending continues to be flat. Lending by Greek banks has risen against the European downward trend. As the global fleet continued to grow, the financing gap was covered by leasing, alternative sources of finance and own funds.

Lending for newbuildings did not increase in line with the orderbook, as the newbuilding total for 2021 was at 180m tons, at the end of 2022 it was 228m tons and 238m tons as of 30/06/2023 (Clarkson's). In addition, leasing has made further progress, especially for newbuilding fleets and public companies, which required large sums and flexible terms, something that leasing companies were able to provide.

Of the Top 40 Global banks, 19 were European, 18 Far Eastern, including Australia and 3 North American. Significantly and indicative of the growing presence of Japanese lending of the total 40 Top Banks, 11 are Japanese. It is noteworthy that in the last 15 years, there have not been any major European banks to enter ship finance. Thus far, there have been a number of smaller lenders whose presence, however, has been growing.

It is estimated that the total global bank finance including regional banks as of the end of 2022, was US$350bn, whilst total shipping global finance including leasing, export finance and Funds, is estimated at US$525bn, of which total global loans account for approximately 2/3 of the total.

5. Prospects for Ship Finance for 2023

The challenges facing shipping and, correspondingly, global ship finance remain.

Geopolitically the Ukrainian war and the disruption caused by sanctions and dislocated trade routes appear likely to remain for the foreseeable future.

The tightening monetary policy in the West seeking to bring down inflation to 2% via high interest rates, also appears likely to affect the whole of 2023 with some hope in place for 2024.

The emphasis on ESG by banks and lenders and owners has grown stronger. This has also affected lenders in vessels which are not deemed to be in line with reducing emissions. Dual fuel vessels now account for 47% of all shipbuilding orders, a figure that adds weight to the above view. Whereas zero emissions technology is not yet available, dual fuel and other emission reducing measures are seen as the next best option. Consequently, a two-tier lending market has developed with lenders favouring eco vessels (tier 3, dual fuel, etc.)

Funds engaged also in lending have begun to increasingly include ESG criteria, with a strong preference towards sustainability loans and vessels engaged in renewables. The ability of Funds to raise sums from investors has also shifted heavily towards green lending as this is now demanded by their investor base.

It is noticeable that loan terms for eco vessels are better than for non eco vessels. Oil and gas related vessel use is also frowned upon despite evidence that alternative fuels cannot yet fully replace hydrocarbons. This is not to say that finance for conventional technology is not available, but, in our view, the appetite by lenders for these vessels is waning and this does affect, where available, loan terms and such vessels' values. Until now, lenders have not differentiated sufficiently in favour of eco vessels to provide meaningful support for owners. Lending conditions for modern eco vessels used in oil and gas activities have so far been less affected.

Turning to ship finance activity, it is clear that the industry is having difficulty finding sufficient loans that meet lenders' credit criteria. The steep rise of western nations' interest rates has dented vessel cashflows and in combination with high vessel prices relative to incomes in the dry bulk and container sectors, has resulted in weak new loan production. For example, average dry bulk prices are now similar to the average of 2021, whereas 1 year time-charter rates are now 40-50% lower. The same does not apply to tankers where one year market incomes are on average 30-60% higher than 2021 and vessel prices are also on average approximately 50% up in 2022. However, lenders are concerned with how tanker prices and incomes will develop in the event of an end to the Ukrainian war and a possible lifting of sanctions.

Owners across all sectors have developed sizeable liquidity. Some have placed tier 3 orders but newbuilding slots are now limited for 2026 and 2027. Even though orders have picked up in early 2023, especially for tankers, they still do not pose a threat of overordering for the next years. Some owners are engaged in S&P but such volumes are well down in 2023. Most owners seem content to sit on their liquidity awaiting better risk / reward opportunities and technological advances, whilst others are prepaying their loans bearing in mind the high US Dollar interest rates.

Under the above conditions, it is difficult to anticipate growth in global ship finance in 2023. Whereas we still anticipate a continuous shift away from Western lending towards Far Eastern lending, we expect global ship finance totals to remain stable. China's commitment to growth is offering some hope of an early recovery in seaborne trade and dry bulk in particular. At the time of writing, the US and Europe are still facing slow / no growth but this varies from country to country. With 2023 world seaborne trade forecasted to grow by only 1.8% across all sectors and 3.2% yoy growth in tonne – miles (Clarkson's), it is difficult to see excess demand condition for shipping. It is fair to assume continuous volatile conditions as demand and supply growth seem matched on the whole but differ from market to market.

Leasing, Funds and SLB transactions have now become a well-accepted alternative to bank loans and we expect this segment of the Global ship finance market to grow.

Overall, our predictions for global ship finance are that volumes will remain at / close to current levels with many lenders running to stay still.