

Half-year outlook 2022

A special report



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Half-year outlook

The war in Ukraine, lockdowns in China, supply-chain disruptions, and the risk of so-called ‘stagflation’ mean that for many countries, recession will be hard to avoid. The consequences of that are not yet playing out in the shipping sectors reviewed in this half-yearly outlook report. Yet even in containers, where rates remain high and cash is still flowing into the lines’ bulging coffers, executives are already planning for the post-pandemic party hangover.



Juanna Aparicio/Alamy Stock Photo

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Russia's invasion of Ukraine is an undoubted economic shock that will spark market turbulence for potentially years to come.

Russia adds compound interest to shipping's challenges

The accumulation of disruption and supply chain shocks are transforming global trade as governments and businesses look to exchange efficiency for security, **Richard Meade reports**

“We just didn’t see this coming,” a traumatised oil trader whispered to a tanker owner while they were waiting for their drinks at a recent industry gathering.

“Neither did I,” the owner confessed as the two men mutually supersized the order at the bar in preparation for the conversation to follow.

Timing, as ever, is everything in shipping.

Cyclicality can be called, but market peaks are driven by black swans — and, while expecting the unexpected is the basic job description of a shipowner, we are living through extraordinary times.

The pandemic disrupted logistics networks across all sectors and the war is compounding the unresolved issues, magnifying the slowdown in the global economy in the process.

The risk of ‘stagflation’ has already

been spelled out by the World Bank, which earlier this month predicted a protracted period of feeble growth and elevated inflation.

Global growth is expected to slump from 5.7% in 2021 to 2.9% in 2022 — significantly lower than the 4.1% the bank was anticipating in January.

The war in Ukraine, lockdowns in China, supply-chain disruptions, and the risk of stagflation mean that, for many countries, recession will be hard to avoid.

The consequences of that are not yet playing out in the shipping sectors reviewed in this half-yearly outlook report.

However, even in containers, where rates remain high and cash is still flowing into the lines’ bulging coffers, executives are already planning for the post-pandemic party hangover.

The immediate focus is, of course, Russia.



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The war in Ukraine is stifling trade and logistics of both the nation and the Black Sea region, but the consequences are being felt globally.

Confronted with trade restrictions and logistical challenges, the cost of oil and gas has increased as the world scrambles for energy security in a market that was already undersupplied prior to the war.

The shifting trade patterns are evolving daily. As Europe steadily dials back its Russian imports, cut-price Russian crude is increasingly heading to Asia, India and potentially even Latin America as pragmatism trumps politics in the rush to stave off fuel price inflation.

Higher energy costs, in turn, have led to higher marine bunker prices, increasing shipping costs for all sectors.

By the end of May 2022, the global average price for very low sulphur fuel oil had increased by 64% since the start of the year.

The shift in grain trading patterns is reflected in port calls by dry bulk vessels in the Black Sea, where ports that normally serve more than 90% of Ukrainian overseas grain shipments have remained shuttered by the conflict.

Lloyd's List Intelligence's vessel tracking has revealed how overseas grain dispatches have been limited to deliveries via Western borders, by rail, as well as through the small ports of Reni and Izmail on the Danube River.

However, these alternatives are insufficient to compensate for the lost capacity normally provided by Ukrainian Black Sea ports.

Since the start of the war, weekly port calls have gone from 60 to almost zero in Ukraine, and declined somewhat in the Russian Federation and Turkey.

Meanwhile, dry bulk vessel calls have seen small increases at ports in Bulgaria and Romania, reflecting the rerouting of some of the trade from Ukraine.

The impact of the war has reached into every sector and every business in shipping, but the long-term consequences will be largely determined by how long the conflict persists.

According to figures published by consultancy group Accenture earlier this month, the cost of supply chain disruption in the Eurozone across 2022-2023 could range between €242bn (2% of GDP) and €920bn (7.7% of GDP) in a protracted war scenario.

Yet even beyond the war, there is now a sense that the accumulation of disruption and supply chain shocks are transforming global trade more fundamentally.



Andrei Mosenko/Alamy Stock Photo

The shift in grain trading patterns is reflected in calls by dry bulk vessels at Black Sea ports, where shipments have remained shuttered by the conflict.

“
As Europe steadily dials back its Russian imports, cut-price Russian crude is increasingly heading to Asia, India and potentially even Latin America as pragmatism trumps politics in the rush to stave off fuel price inflation
”

The era of the long-distance value chain was waning long before Trump, Brexit and the coronavirus pandemic — and the current congestion and supply crunch, followed so closely by a war with global reach, has only further exposed the fragility of the just-in-time threads that hold the global economy together.

The pandemic forced a fundamental shift in global trade policies as governments increasingly focus on supply-chain resilience.

Vladimir Putin's invasion of Ukraine accelerated that search as he painfully exposed Europe's reliance on Russian energy and the limited good options available for those seeking diversification.

Efficiency will willingly be exchanged for security as firms and governments seek to diversify suppliers subject to global trade chokepoints.

However, redesigning supply chains takes time — and noticing an effect takes even longer.

Political rhetoric will suggest otherwise, but there are limited good options available to unwind the past 40 years of globalised trade.

Russia's invasion of Ukraine is an undoubted economic shock that will require a global reorientation of trade lanes and spark market turbulence for potentially years to come.

Yet in seaborne trade terms, demand will not disappear significantly.

What has disappeared — for shipping, at least — is any certainty about how to plan amid the immediate volatility and the apparently endless flock of black swans disrupting the market.

The shipowner and the oil trader would be well advised to buy another round.



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The lockdown in Shanghai saw vessels held up as manufacturing and inland distribution ground to a halt, despite the port staying open.

Containerships eyeing the post-pandemic slowdown

Box shipping will likely have its most profitable year on record in 2022, but with demand easing and a flood of new tonnage coming into service, the peak may have already passed, **James Baker** reports

At the beginning of 2022, the container shipping sector outlook was dominated by high demand, sky-rocketing freight rates and continued supply chain congestion, all of which looked set to send carrier profitability to new records.

As the shipping sector prepares for the second half of the year – which will include its traditional peak season in the third quarter – that outlook has changed, although many elements remain the same.

Freight rates, despite falling from their peaks earlier this year, remain high, and many customers have locked in long-term contracts at high rates to ensure capacity.

The requirement to do this is based on the continuing congestion in the supply

chain, which is also climbing from its absolute nadir but remains a key factor in the market.

However, there is a general sense that while the party may not yet be over, the peak may have passed.

The Shanghai Containerised Freight Index, for example, has fallen back to levels last seen in June 2021, while Drewry's composite World Container Index now stands 10% lower than it did a year ago.

Figures from Container Trades Statistics show a softening of demand – albeit from last year's extreme highs – with year-to-date volumes for April falling 5.6% in 2022 compared to the previous year.



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Nevertheless, congestion in the world's supply chains remains. This was driven partly by the month-long lockdown in Shanghai, which saw vessels held up as manufacturing and inland distribution ground to a halt, despite the port remaining open.

Conditions in the US have remained difficult, with east coast ports having taken up the mantle of congestion, even as it eased somewhat on the west coast.

The queue of ships waiting to berth at San Pedro Bay fell from a record high of 109 in January to just over 20 by mid-June, indicating some improvements, but that has partially come at the cost of lines rerouting to east coast ports instead.

War in Ukraine

Perhaps one of the biggest ructions has been the impact of the war in Ukraine.

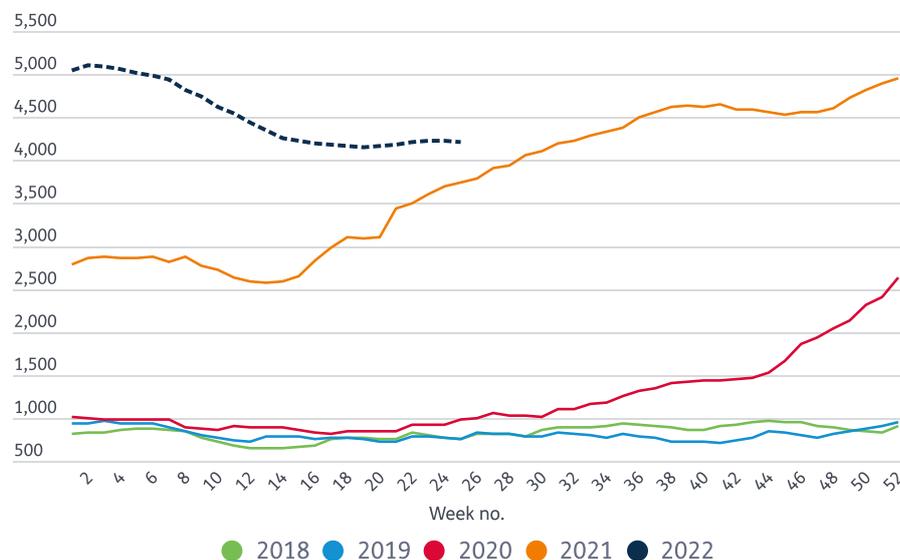
While having little direct influence on container shipping, given the low volumes shipped to and from both Russia and Ukraine, the effect of the war on the global economy could prove to be the biggest threat to box shipping over the second half of the year.

Sanctions on Russia have sent energy prices soaring, with the twin impact of raising operating costs for lines through higher bunker prices, and driving inflation in the world's economies.

The excess demand seen during the first two years of the pandemic is now set to taper off, with both the International Monetary Fund and the World Bank revising down the lower ranges of their estimated global gross domestic product growth forecasts.

If inflation, as expected, puts pressure on

Shanghai Containerised Freight Index – Global Comprehensive Index Jan 2018 - June 2022



Source: Shanghai Shipping Exchange

“Sanctions on Russia have sent energy prices soaring, with the twin impact of raising operating costs for lines through higher bunker prices, and driving inflation in the world's economies”

consumers, then demand for containerised freight will slow further as well.

The surge in profits over the past two years has sent carriers and owners racing to the yards to buy new tonnage, much of which will be coming on stream just as this potential slowdown in demand occurs.

There is 7m teu of capacity on order – or 30% of the existing fleet capacity – and, while forecasts for demand growth over the next couple of years are in the sub-3% range, in 2023, the fleet will grow by 7%.

Spectre of overcapacity

If this coincides with an easing of congestion, which is taking up 10%-12% of capacity, then the spectre of overcapacity emerges again, at least in the short term.

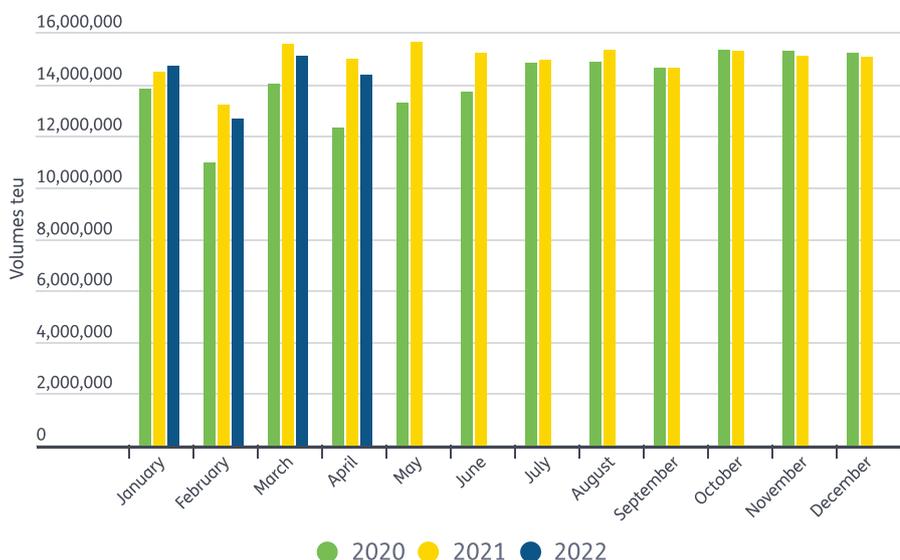
Heading into peak season, there are few signs that congestion will ease before next year, however.

The twin US ports of Los Angeles and Long Beach continue to post record throughput figures, with May volumes being among the highest in their history.

In Europe, industrial action at terminals in Germany and Belgium, and driver shortages – partially due to the disappearance of Ukrainian drivers from the market – are clogging up terminals, making it hard to get boxes in or out.

And in the US, the west coast labour contract renegotiation has many on tenterhooks. Both employee and employer sides have said talks will continue beyond the July 1 expiry of the existing contract, and that neither lockouts nor strikes are on the cards.

Container Trade Volumes (2020-2022)



Source: Container Trades Statistics

However, the automation of terminals will be a tough nut to crack, leading to fears a resolution may not be found and congestion will again shoot up.

Meanwhile, in the US in particular, the passage of the Ocean Shipping Reform Act 2022 has again brought the behaviour of carriers into the spotlight.

Despite the Federal Maritime Commission finding that high freight costs were a feature of demand, not collusion, the political rhetoric remains aimed against container lines.

Limited relief

OSRA22 brings only limited relief to shippers, mainly in terms of detention and demurrage costs and the availability of export containers, so there is an emerging risk that carriers may find themselves faced with further regulatory pressures in the months and years to come.

As container shipping enters the second half of what is still likely to be the most profitable year in its history, it is fair to say that concerns are beginning to mount that the peak has already passed.

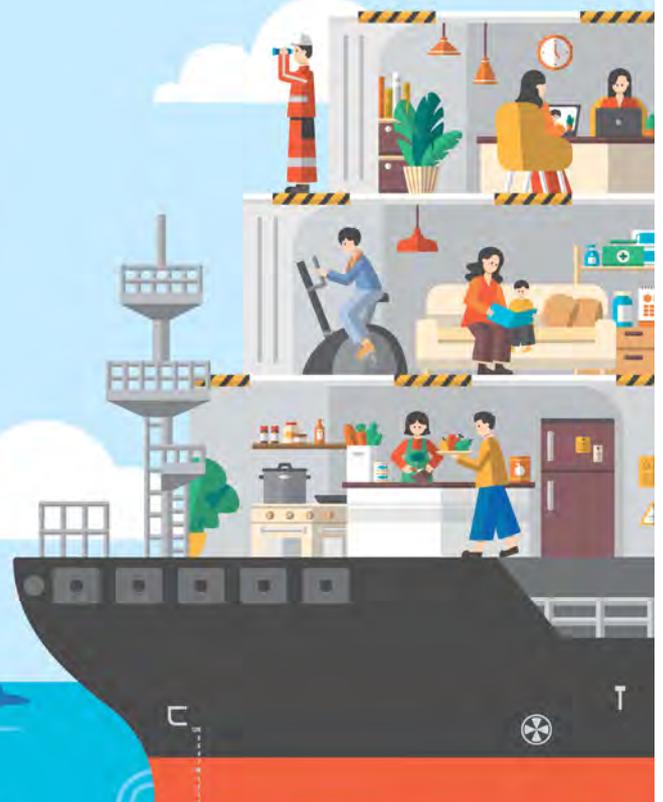


Port of Los Angeles

The twin US ports of Los Angeles and Long Beach continue to post record throughput figures, with May volumes being among the highest in their history.



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While smaller ship sizes are back in the black, the global fleet of nearly 900 VLCCs is earning even less than 12 months ago.

Demand destruction threatens tanker market turnaround

Not every vessel size will benefit from a significant recalibration of oil and refined product trades at a time of extreme geopolitical and global economic uncertainty, **Michelle Wiese Bockmann** reports

Russia's war on Ukraine provides a masterclass on why sanctions and volatility are good for shipping, even though larger tankers have not been invited to the party so far.

For a start, many tankers are sailing over longer distances as Russian oil flows recalibrate to China, India and Turkey from Europe to accommodate sanctions.

That has helped lift demand and propel spot rates higher for both product tankers and smaller crude tankers, spurring a long-awaited market recovery that has ended a pandemic-induced slump lasting 18 months.

Higher premiums paid to lift Russian crude amid self-sanctioning by shipowners and oil companies is

also changing the composition of those engaged in Black Sea and Baltic trades.

Tankers and traders linked to US and northwest European companies have shunned Russian business, with private Greek operators and Russian-owned vessels taking more than half of the business by mid-2022.

With a global recession looming and high oil and gas prices stoking the highest inflation rate in 30 years, any market recovery cannot be defined as well-entrenched.

Still, average rates to charter aframax and suezmax tankers on the spot market during June were 11 times greater than those of the year-ago period.

These smaller ship sizes were back in the black over the April-through-June period to lead the tanker market turnaround.

By contrast, the global fleet of nearly 900 very large crude carriers is earning even less than 12 months ago. London-based Baltic Exchange VLCC rates have been negative since January 2021, with earnings below operating costs for six consecutive quarters.

In previous rebounds, VLCC rates were the first to strengthen, usually in tandem with rising Chinese import demand, with improved earnings trickling down to smaller sizes.

Lockdown restrictions

This time, China is not riding to the rescue. Zero-Covid policies have taken a toll on the country's industrial and manufacturing output during 2022, with as many as 200 million people under some form of lockdown restrictions during the last quarter.

As a result, oil demand in China — which imports about 25% of the world's seaborne crude — is forecast to contract in 2022 for the first time this century, according to the International Energy Agency.

Diesel-led recovery for product tankers

The global fleet of product tankers has been experiencing the best trading conditions since 2008 as sanctions tighten on Russia and middle distillate shortfalls show no signs of easing.

By late June, rates for long range tankers shipping refined products from the Middle East Gulf to Japan had eased back to between \$37,000 and \$43,000, down from \$55,000 per day two weeks earlier.

Daily rates for MR vessels trading in the Pacific Basin were at \$55,000 daily and more than \$45,000 for those in the Atlantic region, Baltic Exchange data showed. Clean daily rates for Singapore-to-Australia shipments climbed 105% during June.

Italian shipowner d'Amico, with a fleet of 23 MR tankers, forecast in May that seaborne transport of refined products would grow at an average rate of 9.5% between 2021 and 2023, with net fleet growth for MR and LR1 tankers of 1.2% in 2022 and 0.5% in 2023.

Fuelling increased trades is demand for jet fuel and diesel, which reached a record 29m bpd in the fourth quarter of 2021, according to the International Energy

Agency. It forecasts demand for these products to rise by 1.9m bpd in 2022 and a further 1.9m bpd in 2023.

Russian oil products comprise some 11% of seaborne trade, adding to tonne-miles as buyers in Europe seek alternative supplies.

Diesel exports from the US — the world's biggest supplier — topped 1.4m bpd in April, the highest since August 2019, and steadied at 1.2m bpd by the end of the first half. Latin America and Europe are the main importers.

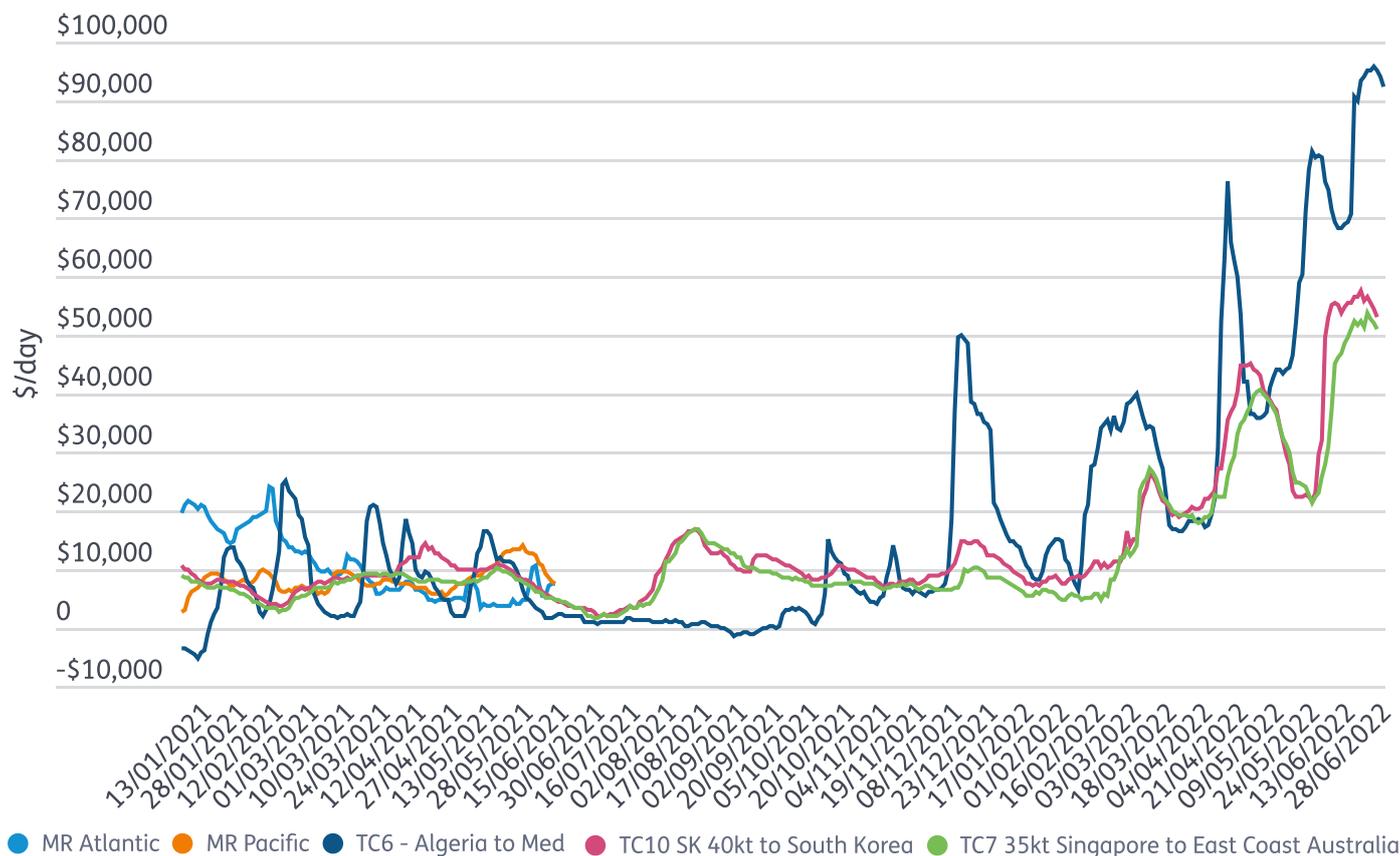
Daily transatlantic rates that started the year at \$13,000 are nearing \$47,000.

Diesel stocks in developed countries are the lowest since 2004, according to the IEA, which predicts demand for middle distillates will not be fully met until 2024.

Global refining capacity that posted its first decline in 30 years during 2021 will rise this year, the IEA added, another positive for product tankers.

Net additions mean a further 1m bpd in refinery capacity will be added in 2022, and another 1.6m bpd in 2023, with 70% of additions seen east of the Suez Canal.

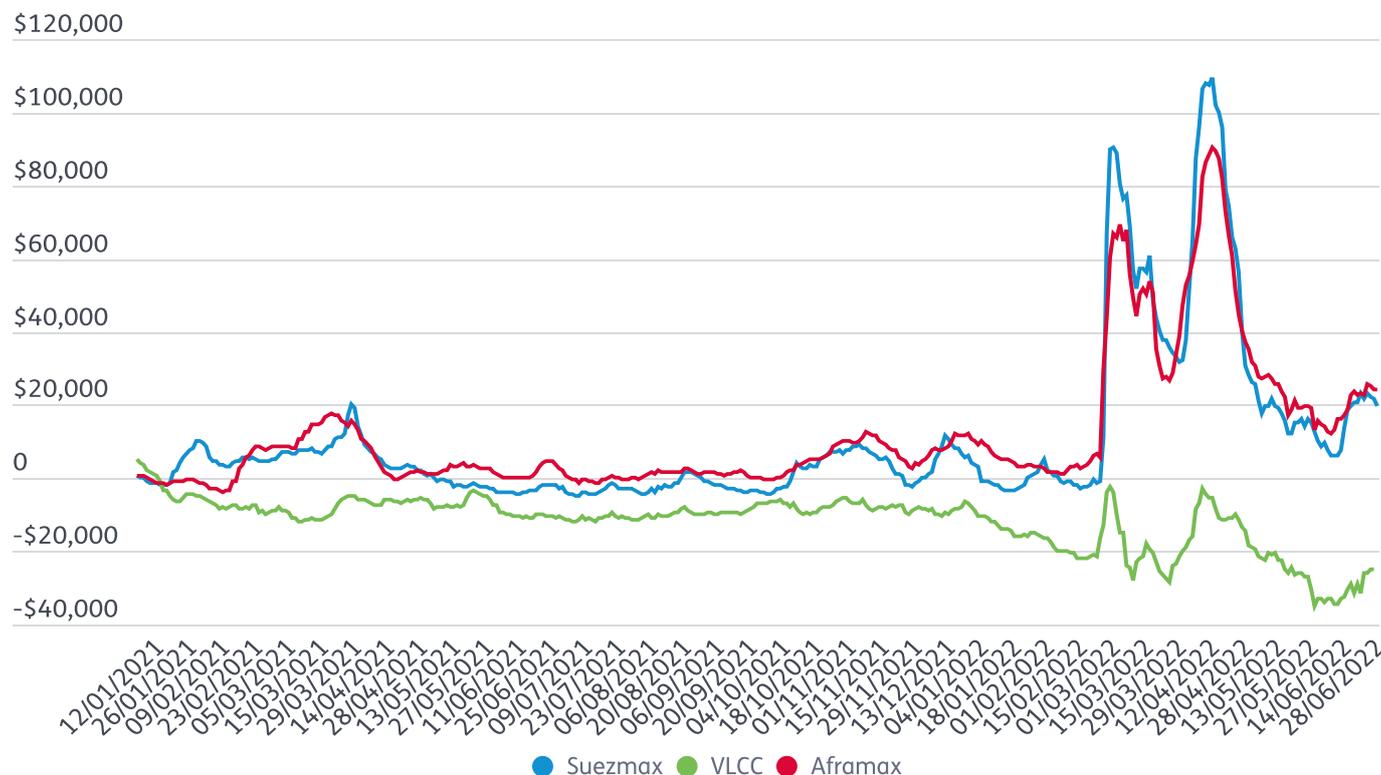
Product tanker average time charter equivalent rates (\$/day)



● MR Atlantic ● MR Pacific ● TC6 - Algeria to Med ● TC10 SK 40kt to South Korea ● TC7 35kt Singapore to East Coast Australia

Source: Baltic Exchange

Crude tanker average time charter earnings (\$/per day)



Source: Baltic Exchange

About 76% of China-bound crude is shipped on VLCCs, data from Lloyd’s List Intelligence shows.

Between 195 and 220 tankers called monthly, discharging between 9.7m bpd and 10m bpd over the January-May period.

The IEA estimates that Chinese oil demand this year will be 15.4m barrels per day, 130,000 bpd lower than last year. That is equivalent to 24 fewer VLCCs needed.

It is a different story for the global fleet of 1,100 aframax and 650 suezmax tankers that directly benefit from Russian disruption.

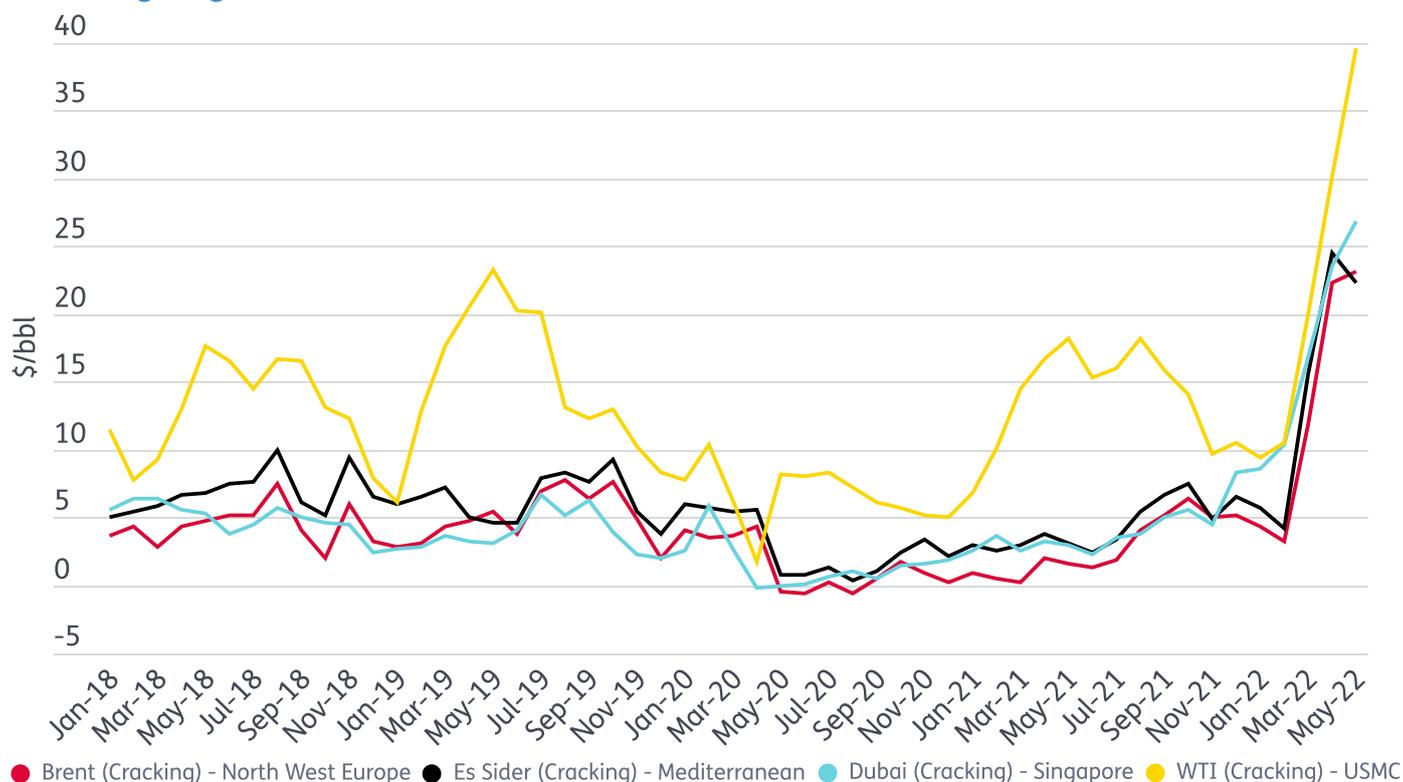
“Oil demand in China – which imports about 25% of the world’s seaborne crude – is forecast to contract in 2022 for the first time this century, according to the International Energy Agency

World oil supply & demand (m barrels per day)

	2019	2020	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023
DEMAND								
Americas	25.5	22.6	25.1	25.0	25.4	25.3	25.2	25.2
Europe	14.3	12.4	13.5	13.1	13.7	14.0	13.7	13.6
Asia Oceania	7.9	7.1	7.5	8.1	7.3	7.4	7.9	7.7
FSU	4.7	4.5	4.6	4.5	4.5	4.7	4.7	4.6
Europe	0.8	0.7	0.8	0.7	0.8	0.8	0.8	0.8
China	13.9	14.3	15.4	16.0	16.2	16.3	16.8	16.3
Other Asia	14.0	12.6	13.6	14.3	14.2	13.7	14.4	14.2
Americas	6.3	5.6	6.1	6.1	6.2	6.3	6.3	6.2
Middle East	8.8	8.3	8.8	8.6	8.8	9.2	8.7	8.8
Africa	4.2	3.7	4.1	4.1	4.1	4.1	4.2	4.1
Total Demand	100.4	91.9	99.4	100.5	101.1	101.9	102.7	101.6
SUPPLY								
Americas	24.8	23.8	25.9	26.9	27.1	27.3	27.6	27.2
Europe	3.4	3.6	3.3	3.4	3.3	3.4	3.5	3.4
Asia Oceania	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
FSU	14.6	13.5	13.3	11.7	11.7	11.6	11.7	11.7
Europe	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.9	4.0	4.2	4.3	4.3	4.3	4.2	4.3
Other Asia	3.3	3.0	2.7	2.7	2.7	2.6	2.6	2.7
Americas	5.3	5.3	5.6	5.8	5.9	5.9	5.9	5.9
Middle East	3.0	3.0	3.2	3.3	3.3	3.3	3.3	3.3
Africa	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Processing gains	2.4	2.1	2.3	2.3	2.4	2.4	2.4	2.4
Global Biofuels	2.8	2.6	2.9	2.6	3.1	3.4	3.0	3.0
Total Supply	100.6	93.8						
Call on OPEC crude + Stock ch.	29.5	23.8	28.7	30.3	30.2	30.4	31.2	30.5

Source: IEA

IEA refining margins



Source: IEA

Suezmax rates to ship 135,000 tonnes of crude from Russia’s Black Sea port of Novorossiysk to Augusta, Italy, were settling at around \$25,000 daily in June, although much of this business is now off-market, making reliable assessments difficult.

Rates on the route peaked at \$150,000 daily in mid-April. Aframax shipments to northwest Europe from the Baltic port of Primorsk sky-rocketed to \$345,000 daily before dropping to a more realistic \$30,000-\$35,000.

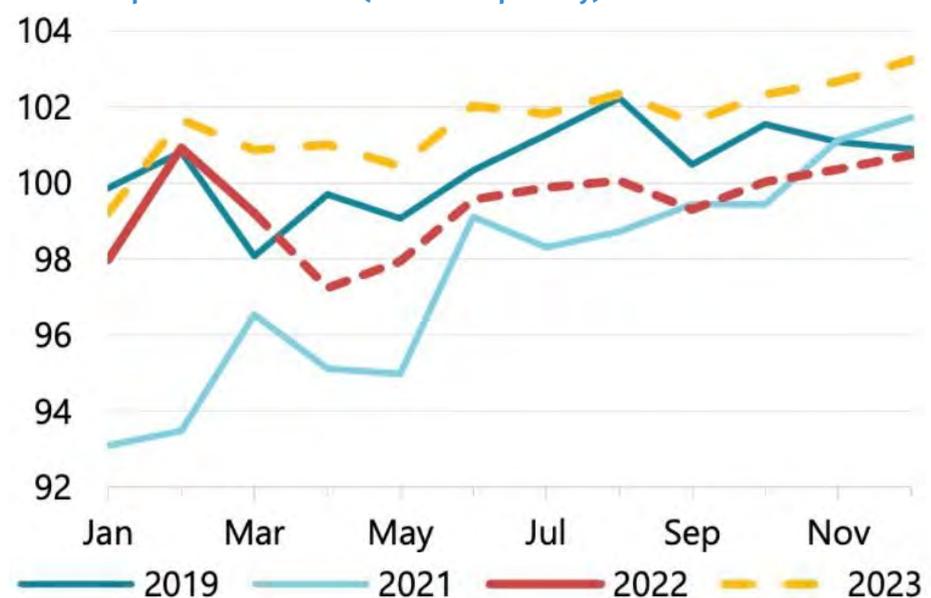
Europe has turned to the US for alternate crude supplies, which further adds to demand for aframax and suezmax tankers that are used to ship US Gulf crude to refineries in Europe and the Mediterranean.

US Gulf crude exports have exceeded 3m bpd since mid-March, the first time these volumes have been consistently seen since mid-2021. About 1.4m bpd of this sails for Europe, according to shipbroker Braemar ACM.

The growth returns the US to its 2019 position as the world’s swing supplier of crude, with exports forecast to return to pre-pandemic highs in 2023, according to the US Energy Information Administration.

Alongside Russian production cutbacks, crude supplies are “wafer thin” and will struggle to keep up with demand next year, according to the IEA.

World oil products demand (m barrels per day)



Source: IEA

Unrest in Libya has further disrupted oil supplies, while the inability of some African countries to meet current production quotas by the Organization of the Petroleum Exporting Countries adds to pressure in any post-pandemic landscape.

Supply concerns come even after production cuts agreed in April 2020 by Opec and their allies are fully unwound by September.

“Crude supplies are ‘wafer thin’ and will struggle to keep up with demand next year, according to the IEA”



3D generator/Alamy Stock Photo

Venezuela has shown Russia there is a ready-made template for bypassing sanctions to reach buyers willing to accept discounted oil.

Iran and Venezuela show Russia a sanctions-skirting template

Sanctions on Russia amid self-sanctioning by Western oil traders have already upended oil markets; incoming bans on crude and refined products cargoes, shipping and marine insurance and reinsurance will further disrupt global tanker trade flows, **Michelle Wiese Bockmann** reports

From next year, it is very likely that EU-sanctioned Russian crude will be shipped to Indian refineries, which will turn it into diesel and jet fuel and then sell it back to middle distillate-starved Europe.

Such a development says much about the effectiveness of sanctions, the dramatic recalibration of global oil and refined products trades and changing composition of shipowners and refineries dealing with Russian crude.

The EU27's 74 refineries do not produce enough diesel to meet demand and, until its invasion of Ukraine, Russia supplied some 40% of the bloc's imports, totalling around 500,000 bpd.

Europe is now weaning itself off Russian diesel, just as global demand for jet fuel, diesel and gasoil rebounds. As

“*Displaced Russian crude is sailing for alternative destinations including India, China and Turkey, which has increased tonne-miles for aframax and suezmax tankers*”

planes return to the skies and trucks and cars to roads, middle distillate demand is expected to outpace supply well into 2023, according to IEA estimates.

Transport fuels account for about 34% of global oil consumption and the shortfall is driving fuel prices across the US, Europe and the UK to record levels and generating record profit margins for refineries.

Displaced Russian crude is sailing for alternative destinations including India, China and Turkey, which has increased tonne-miles for aframax and suezmax tankers.

Pre-invasion, Russia exported between 4.5m and 4.7m bpd of crude, of which about 45% was consumed by Europe and a further 300,000 bpd was shipped to the US, mainly fuel oil.

The US banned all shipments from April, redirecting Russian fuel oil supplies to countries including the United Arab Emirates, where it is blended into existing marine fuels.

EU and UK embargoes on seaborne crude and refined products, which kick in at the end of the year, will redirect between 1.5m bpd and 1.7m bpd of seaborne crude.

Although this represents as little as 3% of crude shipped by sea, such sanctions-led redistributions ripple through the market to have an outsized impact.

Marine insurance sanctions

Adding to import restrictions are European sanctions on marine insurance and reinsurance on Russian oil cargoes, including those shipped to third countries. These are being phased in over the next six months.

Widely expected and complementary UK marine insurance bans had yet to be announced by the end of June. This is thought to be connected to difficult-to-implement plans canvassed in late June by some of the G-7 nations to place a price cap on Russia crude sales.

Together, the European and UK market provides cargo, hull and machinery and P&I cover for about 90% of the world's ships. G-7 proposals floated restricting insurance to those price-capped cargoes.

Yet whether there is a price cap or not, industry consensus is that any of these insurance-linked measures — whatever the format — will disrupt but not stop shipments.

Protests from Greece, Malta and Cyprus, as a sixth round of sanctions was thrashed

out, thwarted tougher EU plans to prevent all European shipowners from handling Russia-origin crude or refined products.

These countries have significant maritime interests that would be damaged by any wider embargo.

Business is likely to be transferred to Asia-based insurers over the next six months and shift to shipowners willing to accept sovereign guarantees from Russia or China once restrictions begin from 2023.

Already, Iran and Venezuela have shown there is a ready-made template for bypassing sanctions to reach buyers willing to accept discounted oil.

A fleet of some 220 elderly tankers has evolved over the past three years that is solely deployed on US-sanctioned Venezuelan and Iranian oil trades and operates without penalty.

About 60 of the 220 tankers are VLCCs, and a further 33 are suezmax vessels.

All have insurance outside traditional markets and engage in deceptive shipping practices to evade detection from authorities and obfuscate the origin and destination of cargoes.

As many as 12 of these tankers have been tracked switching to Russian trades over the past two months.

Most tankers are owned by anonymous shipowners and are said to account for about 2% of seaborne trade.

Shipowners have complained these tankers cannibalised an already depressed tanker market over 2020 and 2021, creating demand for older tankers that would normally be scrapped.

More of these tankers are expected to join Russian trades if sanctions remain in their current format. Currently they are shipping between 1.2m bpd and

1.5m bpd of Venezuelan and Iranian crude.

There are also shipowners willing to take the reputational risk of shipping Russian crude.

Privately owned tankers from Greece-based fleets have taken advantage of the higher premiums and the exit of other European operators to boost business.

Tankers beneficially owned by Greece-based companies comprised about 43% of all calls at key Baltic and Black Sea Russian ports over May and June. That compared to 34% for the year-ago period. Russian-owned tankers have 15% of business, up from 8% for the year-ago period.

Geopolitical divisions

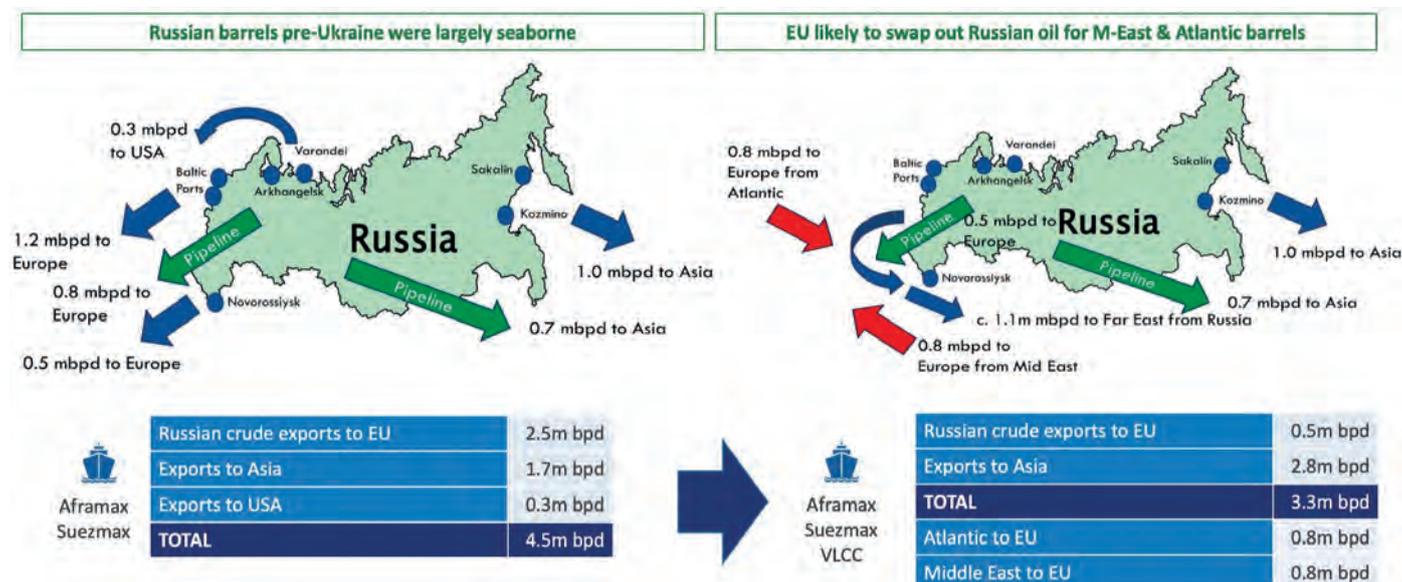
Geopolitical divisions suggest the Russians' new crude customers are unlikely to heed European calls to stop financing the federation's war on Ukraine by buying their oil.

Russia surpassed Saudi Arabia as the biggest supplier of crude to China in May and India-bound Russian exports went from almost nothing pre-invasion to more than 700,000 bpd in the same month.

The Indian Register, which began classing tankers from Russian-owned shipowner Sovcomflot in April after it was expelled by European counterparts, provided an insight into attitudes over Western oil sanctions.

In a statement issued in June, the class society said about the Sovcomflot vessels that such sanctions were not mandated by the UN and that its priority was maritime safety, not politics.

Indian middle distillate exports refined from blends that include Russian crude are likely on the water and already sailing to Europe.



Winter of content ahead for LNG traders



Imaginechina Limited/Alamy Stock Photo

The Asia-Pacific region imported 272.5m tonnes of worldwide LNG last year, with China the biggest buyer.

Russia's war on Ukraine has upended oil, gas and agricultural markets, triggered record prices and placed energy security at the top of political agendas as inflationary pressures and an economic downturn signal a global recession, **Michelle Wiese Bockmann** reports

The energy crunch sweeping the world will again trigger fierce competition between buyers in Europe and Asia for gas supplies this winter, placing the global fleet of liquefied natural gas carriers at the centre of a disrupted, chaotic market.

Spot rates for LNG carriers surged to a record \$350,000 per day on the Australia-to-Japan route last November as countries in Atlantic and Pacific Basins competed for cargoes amid soaring energy prices that created arbitrage profits above \$130m for a single Europe-bound shipment.

European LNG imports are forecast to be around 103m tonnes in 2022, 23% above volumes last year, according to the latest estimates of the gas consultancy division of shipbroker Poten & Partners.

Gains reflect replacement volumes after Russia cut pipelined natural gas

“We are continuing to see weakness in Chinese demand and demand destruction hitting the Asia-Pacific region”

Jason Feer
Gas analyst
Poten & Partners

to some countries, with Germany likely facing energy rationing over the winter. These gains are anticipated to offset falls in Asia-Pacific imports.

Europe, including Turkey, accounted for some 20% of the 372m tonnes of worldwide LNG imports in 2021, trade figures show. The Asia-Pacific region imported 272.5m tonnes last year, with China the biggest buyer.

“We are continuing to see weakness in Chinese demand and demand destruction hitting the Asia-Pacific region,” said Jason Feer, an analyst with the gas consultancy division of Poten & Partners.

“Europe will pull that volume into the Atlantic Basin... and, wherever possible, producers will export as many additional cargoes as they can to take advantage of current market conditions.”



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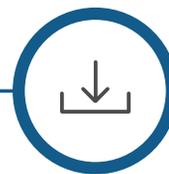
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LNG carrier spot rates for Australia-to-Japan shipments — the world’s biggest LNG route by volume carried — are currently 15% lower than the year-ago period, at nearly \$57,000 daily, Baltic Exchange indices show.

Spot rates are 33% and 31% lower, respectively, on the US Gulf-Japan and US Gulf-Europe routes, with both at nearly \$54,000 daily, the indices assessed on June 27 showed.

Spot rates during the usual summer lull cooled on news of a three-month outage at the Freeport LNG facility in the US Gulf in mid-June. That equates to a loss of about 1m tonnes each month in a tight market.

However, much of the fleet of some 650 LNG carriers is deployed on a mixture of shorter- and longer-term charters — some beyond 10 years — by gas producers, traders and importers.

One-year time charters are currently assessed above \$160,000 daily, up 60% from this time last year, according to a June presentation from shipowner Flex LNG. Three-year charters are priced at around \$130,000, a 30% year-on-year gain.

Traders are seeking to charter tonnage over longer terms to guarantee vessel availability as arbitrages remain highly profitable amid record volatility.

Rates spikes

Last year, only a handful of LNG carriers were available on the spot market as energy prices hit record levels, leading to rates spikes.

A cargo bought for around \$28m in the US Gulf can sail for Europe, where it is sold for between \$140m and \$152m, or Japan, where it is worth \$144m, based on May energy prices, according to Flex LNG.

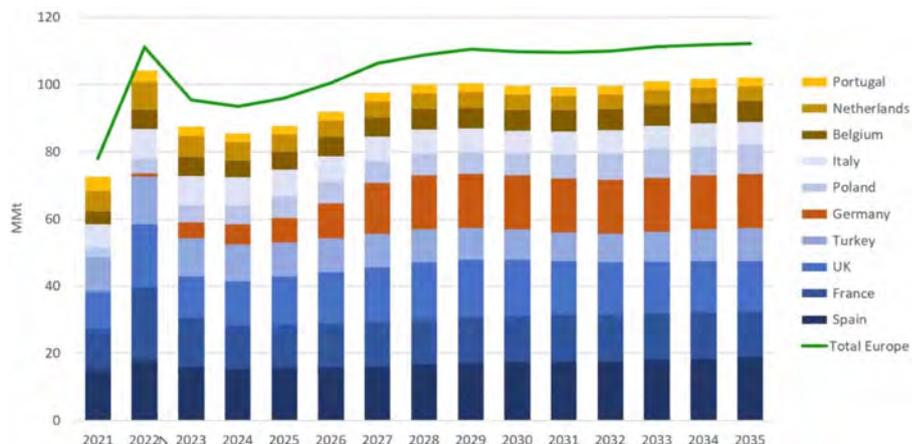
The spread — or difference — in price between LNG delivered to Europe and the Asia-Pacific region in energy futures markets suggests that by October and November, traders will favour China, South Korea or Japan as the most profitable destination for spot cargoes.

About 36% of global LNG exports were sold on the spot market in 2021, trade data shows.

Many of the largest national producers, including Qatar, Australia and Malaysia, also supply longer-term, guaranteed volumes linked to the oil price.

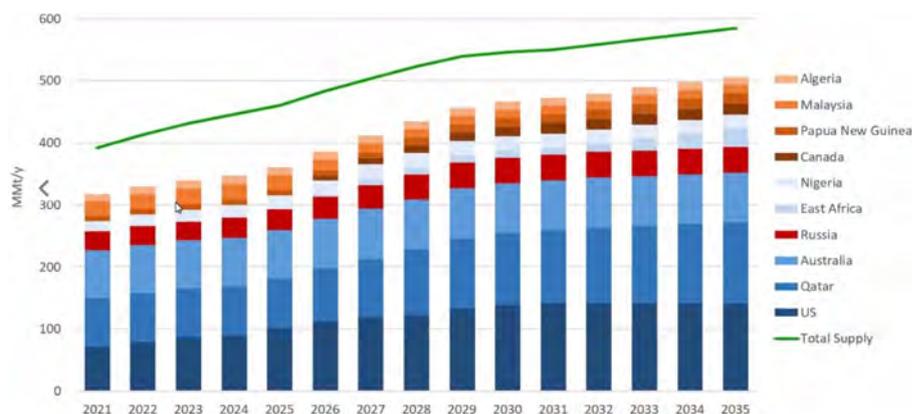
Europe ramped up LNG purchases over the summer to fill gas inventories, but the outage at Freeport LNG, on top of Russian pipeline natural gas cuts, means the bloc will fail to reach its goal of 80%-90% underground storage by winter, according to Poten & Partners.

European LNG imports



Source: Poten & Partners - LNG Outlook

Global LNG exports



Source: Poten & Partners - LNG Outlook

“ LNG carrier spot rates for Australia-to-Japan shipments — the world’s biggest LNG route by volume carried — are currently 15% lower than the year-ago period, at nearly \$57,000 daily, Baltic Exchange indices show ”

Two-thirds of Europe’s LNG imports were shipped from the US Gulf during May. The US agreed to supply additional volumes, equivalent to 11m tonnes, to the EU27 this year in a high-profile deal announced by US president Joe Biden and EU president Ursula von der Leyen in March.

Although coal will replace some Russian gas, there are limits on how much LNG Europe can import.

Import capacity in Europe is estimated at 184m tonnes, according to Flex LNG. However, there are storage caps in some countries (the UK), limited gas connectivity in others (Spain) and capacity constraints in Italy.

Germany has no LNG import terminal, prompting charters of four floating storage and regasification units in May. Two arrive in time for winter and another two during 2023. Russia supplies about 35% of the EU27’s natural gas.

Chinese LNG demand is anticipated to rebound in 2023. The country surpassed Japan in 2021 to become the world’s largest importer, buying one-fifth of all LNG.

Last year, government edicts saw national oil companies in China told to buy LNG, no matter the cost. This year, energy traders with China are selling any unwanted cargoes as longer-term contracts meet their needs.

Chinese buyers are not expected to fully return to the spot market until after the Congress meeting in October, said Poten researcher Kit Wong in an analyst presentation in late June.

“There is an expectation that given such elevated [natural gas] prices, the national oil companies [in China] will probably meet the demand for the residential and not for the industrial sector, so there will probably be a much more significant reduction in demand from the industrial sector.

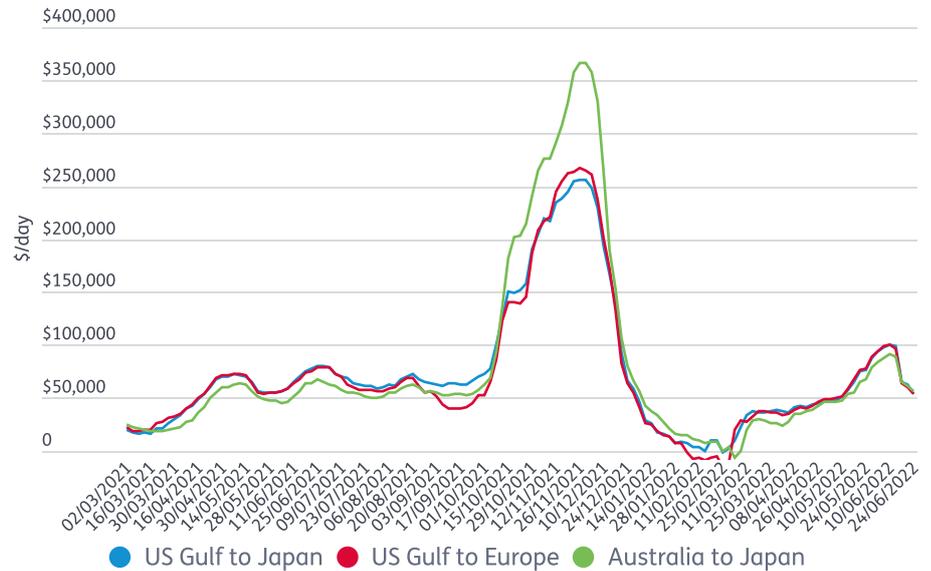
“We have seen in the market that Japanese and Korean [buyers] have been actively looking ahead of winter but the biggest question for the spot market is when China will come back – and that will really push up prices in Asia.”

The energy crisis has increased sale and purchase agreements made to supply LNG over longer terms in the first half of 2022 in order to lock in prices as energy security and diversification dominate political agendas.

Pakistan cancelled three tenders to purchase LNG for July because they were too expensive, worsening a power shortage. The government is now talking to suppliers including Qatar, Australia and possibly Russia for a long-term contract.

In the US, commitments for 20m tonnes of additional LNG capacity have been signed this year, triggering new projects, according to Houston-based energy advisor RBN Energy.

Average LNG time charter equivalent rates (\$/day)



Source: Baltic Exchange

“The energy crisis has increased sale and purchase agreements made to supply LNG over longer terms in the first half of 2022 in order to lock in prices as energy security and diversification dominate political agendas”

None were signed with companies from Europe, where the transition to cleaner energy has left buyers uncertain or unwilling to commit to extended terms.

On the back of increased demand for LNG, at least one company, Venture Global LNG, is going ahead with plans to build a \$13bn, 13m tonnes-a-year export terminal in Louisiana, one of several projects given the green light recently.

Poten & Partners estimated that 79% of global sales agreements signed for LNG supplies in the first four and a half months were for 16 years or longer. That compared to one-third of all contracts over the corresponding period in 2021.

Global LNG exports are estimated to rise by between 15m tonnes and 18m tonnes each year until 2025 because of market incentives to produce, according to Poten.

Against this backdrop is a global fleet that has added only 10 vessels this year, according to data from Lloyd’s List Intelligence.

However, a tsunami of new tonnage is coming from 2023, in anticipation of new projects coming onstream from Qatar, Russia and the US.

Some 220 LNG carriers are on order, equivalent to 44% of the existing fleet when measured by deadweight capacity. Eighty vessels were ordered during the first half of 2022, including 22 by Qatar’s national gas company, QatarGas.

The numbers suggest that the orderbook is looming as a longer-term impediment to continued LNG carrier profitability, if or when the energy market turbulence subsides.



Eighty LNG carriers were ordered during the first half of 2022, including 22 vessels by Qatar’s national gas company, QatarGas.

Paul Cleaver/Alamy Stock Photo



Imaginechina Limited/Alamy Stock Photo

Iron ore imports from Brazil and Australia to meet China’s rising investment in the construction sector should benefit capesizes.

Growing demand risks unlikely to upend strong rates

Slowing fleet growth is expected to support dry bulk rates, even as demand concerns emerge due to inflationary pressures globally, **Nidaa Bakhsh** reports

Strength in the dry bulk market is expected to continue into the second half of 2022, despite growing unease about demand due to inflationary pressures that could lead to lower economic growth.

The World Bank recently forecast global growth at just 2.9% this year, revised down from an estimate in January of 4.1%. That compares with 5.7% in 2021.

Similarly, the International Monetary Fund cited in April that growth would fall to 3.6%, almost one percentage point lower than an earlier estimate, due to the Russia/Ukraine conflict.

While dry bulk trade is closely linked to economic wellbeing, the slowing rate of fleet growth should provide support to dry bulk rates, according to analysts, with congestion adding inefficiencies to the fleet, shrinking effective supply further.

In addition, high bunker prices may slow vessels down, keeping available tonnage out of the market for longer.

“Strong earnings in the dry bulk

sector over the past 18 months were driven by booming demand,” Arrow Shipbroking said.

“Looking ahead, earnings are set to be supported by restricted supply growth.”

The lowest fleet growth in decades should continue as owners mull over future fuels and yards fill up with other, more lucrative contracts from other shipping sectors. The earliest delivery date at this stage is late 2024/early 2025.

Even as newbuild ordering has picked up, mainly in the smaller sizes, total activity during the first half of 2022 is running at about 32% of the levels seen during the corresponding period last year.

Analysts peg fleet growth in the 2.3%-2.8% range this year, while demand growth, initially seen at about 4%, could be knocked down to around the 2.5% mark due to the protracted Russia/Ukraine conflict, which is introducing major recessionary fears.

Demand figures are constantly being reviewed.

“We expect a more balanced growth in supply and demand over the next 18-24 months,” the London-based brokerage said in a report.

“While we think that the freight market may come under pressure as inefficiencies eventually unwind, vessel earnings will be well-supported by the structurally healthier fundamentals.”

This tightening supply-demand balance is favouring owners and operators rather than the charterers.

For the individual asset classes, capesizes have trailed the smaller-sized vessels in terms of earnings as iron ore volumes from Brazil have so far disappointed, with hopes hinging on a sharp ramp-up in the second half of 2022.

However, questions remain about whether Brazil’s mining giant Vale can meet its full-year target. Vale said it will be publishing its next production report in July.

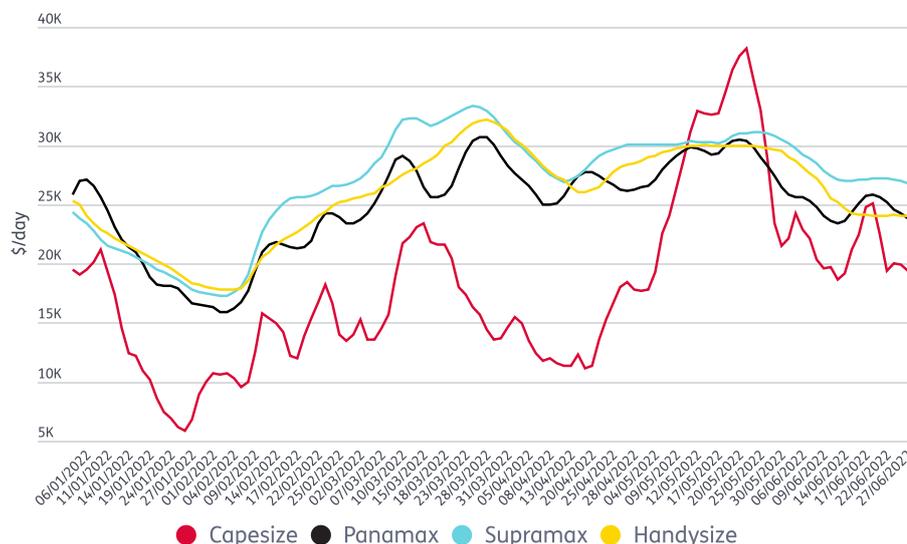
Supramaxes have topped the earnings chart this year to June 27, averaging \$27,008 per day, Baltic Exchange data shows, followed by handysizes at \$25,842 per day, panamaxs at \$24,930 per day, and capesizes at \$18,072 per day.

The demand picture is quite mixed and the impact of changing trade patterns due to geopolitical tensions in the Black Sea region has so far been “mildly positive”, according to Arrow.

On the one hand, longer journeys in the case of coal, as Europe bans Russian material from August, adds to tonne-miles, while a virtual halt to grains shipments from Ukraine as ports shut has seen more volume stay in the Atlantic, thereby shortening average distances travelled.

Baltic dry bulk indices*

Jan 1-Jun 27, 2022



*Average weighted time-charter rates on the Baltic Exchange through the year

Source: Baltic Exchange

Dry bulk trade versus fleet growth estimates

Year-on-year growth



Source: Arrow Shipbroking Group

While China’s appetite for dry bulk commodities has been weak thus far, given Covid-19 lockdowns that have hit manufacturing, analysts expect a recovery based on infrastructure stimulus to boost the economy.

“2022 carries significant political importance for China’s policymakers and it is hard for them to tolerate a failure in either the zero-Covid policy or the growth target set for this year,” Arrow said.

“Rising investment in the construction sector is expected to boost China’s dry bulk imports over the next 12-18 months.”

It thus expects capesizes to benefit from rising iron ore from Brazil and Australia over the coming quarters.

According to dry bulk operator Torvald Klaveness, coal trade will increase substantially, given Europe’s stance against Russia, but the tonne-mile effect will largely depend on how much Russian coal can be diverted to places like India and China.

Russia’s railway capacity going east is around full capacity, so any increase in volumes to Asia will need to use Atlantic ports, the company’s head of research Peter Lindstrom said. If this happens, the tonne-mile effect “will be massive”.

If iron ore volumes increase as expected, capesizes, which have been moving more coal this year, will revert back to ore, allowing panamaxs to get a lift from these coal cargoes, he said.

The lower Black Sea grain volumes are “a clear negative” for supramaxes and handysizes, he noted, adding that although some of the volumes will be offset by higher exports from elsewhere (likely to be more long-haul and thus require more panamax vessels), it is net negative for the panamaxs as well.

Minor bulk trades are, however, expected to remain strong in the second half of the year, with high container rates continuing to support the smaller bulk sizes, he added.

So, while there are growing demand risks for the remainder of 2022, it is the low fleet growth that will be the dominant market feature, providing support to freight rates.

“While we think that the freight market may come under pressure as inefficiencies eventually unwind, vessel earnings will be well-supported by the structurally healthier fundamentals”



Markus Scholz/dpa/picture alliance/dpa

The CII measures how efficiently a ship transports goods in grams of CO₂ per cargo-carrying capacity and nautical mile.

Countdown to the CII

Regulation watchers are eyeing the January 1, 2023 deadline when the IMO's Carbon Intensity Indicator rule kicks in; the regulation could end up rewarding dirtier ships, and the market impact is hard to predict, **Declan Bush** reports

The big regulation to watch in late 2022 is the Carbon Intensity Indicator, one of the short-term efficiency measures approved by the International Maritime Organization last year.

The operational CII and technical Energy Efficiency Existing Ships Index come into force from January 1, 2023, when ships must start collecting performance data. They will begin reporting it in March 2024.

The CII measures how efficiently a ship transports goods in grams of CO₂ per cargo-carrying capacity and nautical miles. It rates ships above 5,000 gt from A to E.

Ships rated D for three years running, or rated E in a single year, must submit a corrective action plan for improvement.

They must also have a Ship Energy Efficiency Management Plan on board from January 1, 2023.

The SEEMP Part 3 plan must include a list of measures the ship needs to improve its energy efficiency, how it will implement them, mitigation measures, and — importantly — identify which particular staff members will carry out the task.

The IMO hopes flag states will provide carrots for cleaner ships and sticks for dirtier ones. However, the CII has no enforcement mechanism; environment groups deride it as toothless.

There are concerns about how the market will react. Some expect business as usual, with ships slowing down or fitting engine power limiters to comply or improve their rating.

Yet while there is a business case for doing this, owners that can convince charterers it is OK to get a bad rating also stand to benefit.

“A bad rating means freedom of navigation, in a way,” a source says, adding that badly rated ships can sail faster, making them more attractive to charterers.

The ratings are based on the previous year's performance.

“If you think about it, it's like saying that the commercial operation of the ship last year is important for my consideration of the ship in the future,” he said.

“It makes no sense... the ship's capability doesn't change with how you operate it.”

“

The IMO hopes flag states will provide carrots for cleaner ships and sticks for dirtier ones

”

Meanwhile, in Brussels, triologue discussions on the European Union's emissions trading system will start in September, but will probably drag on well into next year.

Carbon content limits

The FuelEU Maritime proposal, which would set ever-tighter limits on the carbon content of fuels, faces the European Parliament's transport committee on July 11, with a plenary vote in September.

The IMO debate over market-based emissions measures will, of course, continue at the Marine Environment Protection Committee meeting in December.

Delegates will pore over the five MBM plans before them, particularly those of China.

Industry groups who backed the International Maritime Research Fund plan — the \$2-a-tonne fuel tax effectively killed off at MEPC78 in June — will have to decide what to do next, after three years of mostly fruitless advocacy.

This will not be easy, as different groups look further into the details of the MBM plans and divisions emerge.

MEPC79 will not vote anything through. More important will be MEPC80 in spring 2023, which will revise its 2018 initial greenhouse gas strategy.

However, the meeting this December will be the first MEPC to be held in person, at London's Albert Embankment, since before the Covid pandemic, and this could be a big help.

Delegates do their best work not on the plenary floor, but in private chats during coffee breaks.

They complain that virtual meetings — while a huge technical achievement for the IMO Secretariat during Covid — have stifled progress and made compromise and progress harder.

Training review

In other news, the IMO is starting a comprehensive review of the International Convention on Standards of Training, Certification and



The MEPC meeting this December will be the first to be held in person, at London's Albert Embankment, since before the Covid pandemic.

Watchkeeping for Seafarers, which will take some years.

The human element, training and watchkeeping (HTW) sub-committee, which reviews the STCW Convention, has been told to develop and finalise training provisions addressing bullying and harassment, including sexual assault and sexual harassment.

In November, the Maritime Safety

Committee is expected to adopt a new draft chapter, Solas Chapter XV, which is meant to provide minimum safety standards for ships that carry industrial personnel.

It will address risks from maritime operations in the offshore industry, such as people servicing windfarms, offshore oil and gas installations, ocean mining and other activities.



Maersk

Following the lead taken by Maersk Line, interest in green methanol-fuelled boxships is picking up.

Latest super-cycle gives shipyards the upper hand

With newbuilding orderbooks stretching out beyond 2025, first-class shipyards should be in their best position for years, **Rob Willmington** reports

Newbuilding ordering activity remained healthy during the first half of 2022 — though at around 40% less, in gross tonnage terms, in comparison to the same period last year. Nevertheless, making a profit from shipbuilding operations still proves elusive.

South Korea's largest shipbuilder, Korea Shipbuilding & Offshore Engineering, reported a loss of more than \$300m in the first quarter of 2022, compared to an operating profit of \$60m in the same period in 2021.

Daewoo Shipbuilding & Marine Engineering (DSME), South Korea's number two shipbuilder, reported a consolidated operating loss of \$368m for the first quarter of 2022 — more than double the losses incurred during the corresponding 2021 period.

On the flipside, with rampant demand for new containerships and gas carriers, the worldwide shipbuilding orderbook is arguably at its healthiest position since the global financial crisis.

However, major shipbuilders are now in the unenviable position of having to deliver ships ordered in 2019 and 2020 at low prices, with zero or negative margins, due to major increases in raw material costs since the orders were placed.

The doubling in the price of shipbuilding steel plate prices — which can make up one-quarter of shipbuilding production costs — from around \$400 per tonne in mid-2020, has been a particular headache for shipbuilders.

In addition, labour costs throughout the shipbuilding industry have risen in the past year due to skill shortages, while China has been particularly hit by pandemic lockdowns, causing delivery delays to new ships — and consequent late delivery penalties.

In spite of shipbuilders' current financial woes, the medium-term outlook appears far more positive. Thanks to full orderbooks, stretching as far ahead as 2026 in some cases, shipbuilders now hold the upper hand in newbuilding contract negotiations.



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There are certainly no more bargains to be had in the current market, which has seen pricing increase by an average of 30% since early 2021. In some cases, existing newbuilding contracts made at low prices in 2020 are being renegotiated to take account of higher steel prices.

Ordering activity in the second quarter of 2022 continued to be dominated by the containership and gas carrier sectors. This has driven the orderbook to in-service fleet ratio of the former up to almost 30%.

Big orders in the boxship sector in the second quarter included 16 vessels for CMA CGM of between 7,900 teu and 23,000 teu capacities contracted in South Korea and China.

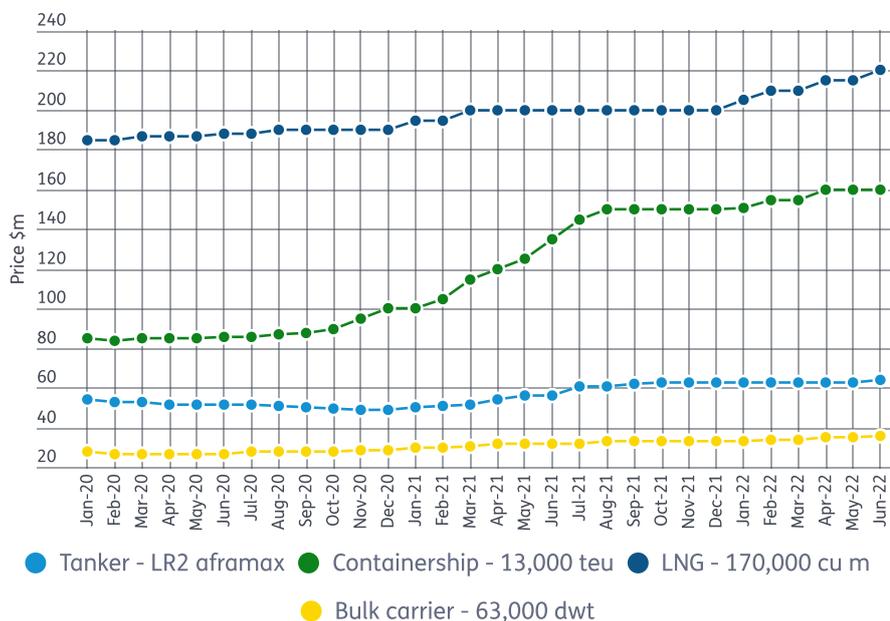
Methanol-fuelled boxships

Significantly, six of CMA CGM's newbuildings will be capable of utilising green methanol as fuel, which is starting to attract increased interest from the liner vessel sector after Maersk Line contracted a dozen 15,000 teu green methanol-fuelled boxships at Hyundai Heavy Industries last year.

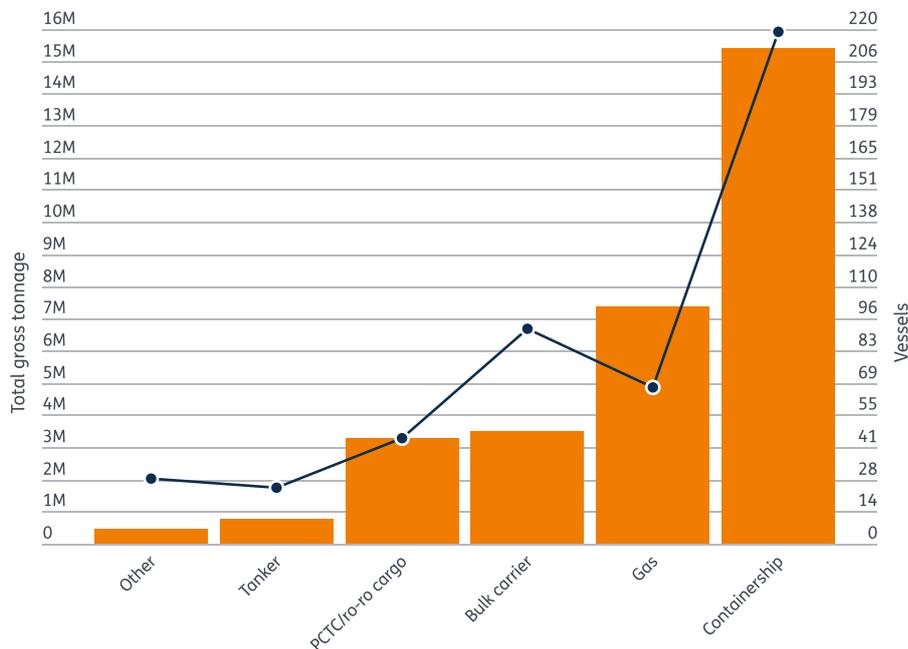
Other major containership orders placed in the second quarter included 10 13,700 teu capacity, conventional-fuelled ships for Ocean Network Express, with the order being split equally between Japan's Nihon Shipyard and Hyundai Heavy Industries.

This order represented the first to be placed by ONE itself, which until now has relied on tonnage provided by its three partner shipowners, K Line, Mitsui OSK and NYK Line.

Newbuilding pricing since 2020



Newbuilding orders since January 1, 2022*



*Includes vessels of 10,000 dwt and above

Source: Lloyd's List

“ Ordering activity in the second quarter of 2022 continued to be dominated by the containership and gas carrier sectors ”

Containership orders in the pipeline – which could be concluded soon – include up to 22 mid-sized, 8,000 teu capacity, dual-fuelled ships for Mediterranean Shipping Co, which are expected to be built in China; and six 7,700 teu ships for Navios, set to be ordered from a South Korean shipyard.

LNG newbuildings

Recent orders in the liquefied natural gas sector include a pair of 174,000 cu m capacity ships for Capital Gas, ordered at Hyundai Samho for a record \$240m apiece.

There are thought to be at least a further 18 LNG tanker orders in the pipeline, expected to be firmed up later in 2022, for operation with Petronas, QatarGas and ADNOC.

Another sector that has seen a surge in ordering activity recently is the vehicle carrier sector. It went through a period of limited investment in new tonnage after the global financial crisis and is now playing catch-up.

Recent orders included 15 7,000 car capacity ships for Cosco Specialised Shipping at three Chinese shipyards.

In addition, four 9,000 car capacity units were ordered by Hoegh Autoliner, to add to four sisterships contracted earlier in the year, at Guangzhou Shipyard International.

Meanwhile, MOL ordered four 7,000 car capacity ships at two domestic shipyards. In almost all cases, the vehicle carrier orderbook is made up of dual-fuelled vessels.

Source: Lloyd's List/shipbrokers

With few shipyards capable of building large vehicle carriers, operators wishing to place orders now are having to endure delivery lead times of up to five years.

The dry bulk and tanker sectors have been significant by their relative absence in terms of newbuilding orders this year.

Only 14 crude oil or products tankers have been ordered so far in 2022.

These have been chiefly in the medium range and aframax sectors, while only a handful of tanker orders are presently thought to be in the pipeline. These include four MR ships for Navig8 and two aframax units for Thenamaris.

Relatively low freight rates, coupled with high newbuilding prices, plus a lack of consensus regarding alternative fuels have been the main drag factor for new large tanker orders.

Return of tanker owners

With freight rates starting to show signs of an upturn, tanker owners may start looking to return to the newbuilding market soon.

The dry bulk sector, meanwhile, has registered an upturn in new orders lately after a slow start to 2022.

Recent orders have been placed by Thenamaris for four ultramax (63,500 dwt) ships at Hyundai Vietnam, while Chinese leasing companies have contracted a number of ultramax, kamsarmax and open-hatch bulkers at domestic shipyards.

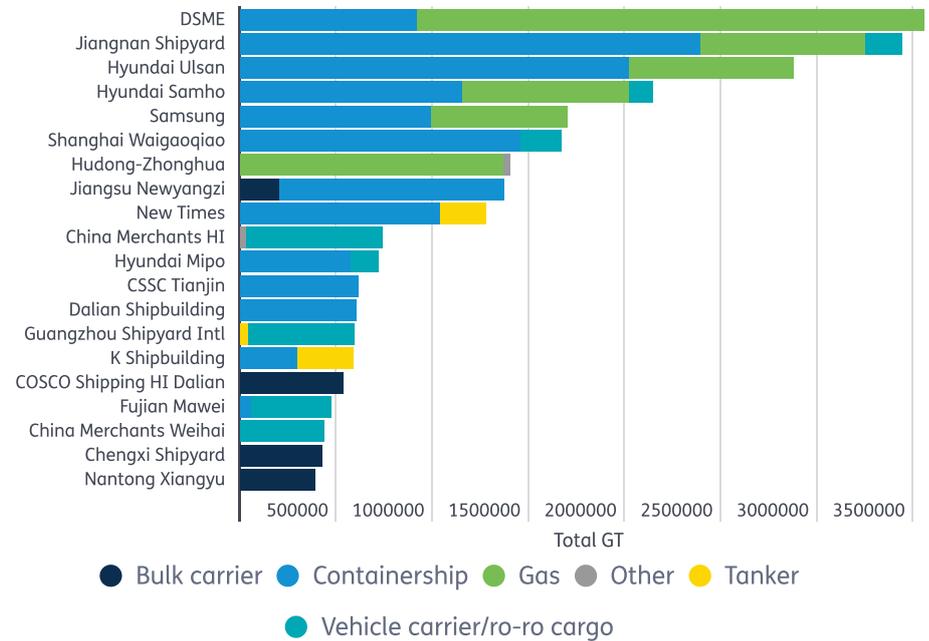
Full orderbooks and greatly improved margins on more recent shipbuilding contracts should see a return to profitability for the shipbuilding sector, at least in the medium term.

However, clearly the industry will not be totally immune to current geo-political woes, the Ukraine crisis and rising inflation and interest rates.

Whether these factors translate to a raft of newbuilding order cancellations — particularly from the container sector — as happened after the global financial crisis, remains to be seen.

Newbuilding orders received since January 2022*

Top 20 shipyards by gross tonnage

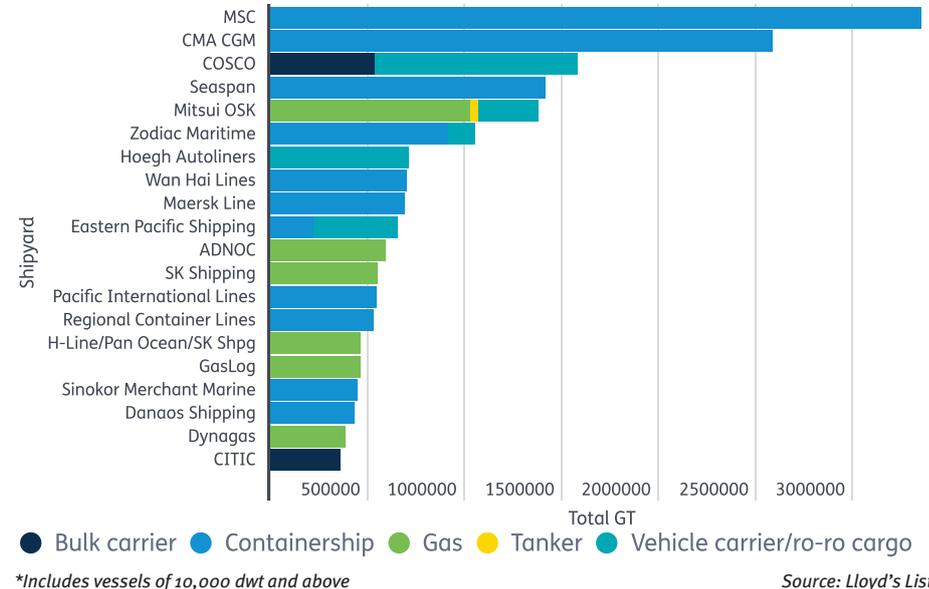


*Includes vessels of 10,000 dwt and above

Source: Lloyd's List

Newbuilding orders by ownership*

Top 20 by gross tonnage



*Includes vessels of 10,000 dwt and above

Source: Lloyd's List



Reuters/Lee Jae-Won/Alamy Stock Photo

Hyundai Heavy Industries was contracted to build a dozen 15,000 teu green methanol-fuelled boxships for Maersk Line.



Portuguese Navy

The loss of MOL Car Carrier's 60,000 gt Felicity Ace in February will make P&I clubs more cautious over PCTCs and large ro-ros in future.

More stable P&I rates seen but more expensive H&M

The International Group is about to shrink from 13 members to 12, with mixed predictions on the impact on shipowners; but can another renewal round characterised by stiff rate hikes be avoided?

David Osler reports

It is always risky making predictions about marine insurance, so let's start with a nailed-on certainty for the near future: the International Group is about to get smaller, after members of the North and Standard P&I clubs endorsed merger proposals in May.

The clubs insist they did so overwhelmingly, although the actual votes have not been made public. That means the move will go ahead at the next renewal deadline on February 20, 2023.

Opinion is divided about the impact that the emergence of NorthStandard — as the combined entity will be known — will have on the market.

There are fears that it will diminish competition, as well as some talk that it could ultimately derail the IG and even bring down the pool scheme — although that kind of speculation appears overdone.

On the plus side, it does create a

counterweight to Gard, for long the giant of the P&I niche. Advocates also suggest that the fusion could bring down the joint combined ratio by as much as four percentage points, which is certainly worth having.

P&I pricing appears closer to equilibrium than it has done for some time, after three years of hefty rate hikes, with going rate increases of 7.5% in 2020, 10% in 2021 and 12.5% in 2022.

Gard chief executive Rolf Thore Roppestad has gone on the record as proclaiming that as far as he is concerned, premiums have now hit sustainability.

Yet as the world's largest P&I club — at least until the arrival of NorthStandard — his marine mutual is in a healthier financial state than most. Put his comments to his peers at other IG affiliates, and they are notably less likely to be committal.

There are a number of wild cards: a renewed upsurge in coronavirus; the uncertainties generated by the Russian invasion of Ukraine; the ever-present possibility of a spectacular casualty, or even a spate of them.

No club has yet announced a pricing decision for the next renewal round — and none are likely to do so for a few months yet.

Moderate increases at most clubs, possibly offset by rate freezes from those with the deepest pockets, seems the most likely prospect from this distance.

Hull and machinery

The Nordic and Asian markets continue to eat into London's traditional dominance in the hull and machinery space.

Even so, the class is doing better than it has for some time at Lloyd's, with syndicates last year ending a run of several years of losses and reporting a collective combined ratio of 93.5%. IG clubs can only look on enviously.

So enticing is H&M right now that Beazley reported new entrants to the sector had cost it a 6% decline in its hull book.

Yet despite increased capacity, observers are predicting rate rises of up to 10% in 2022, depending on each owners' claims record, thanks to both consolidation and the determination of syndicates to build a stronger premium base.

On the upside, the momentum of increasing rates does appear to be slowing, according to a recent report from prominent broker Gallagher.

Hull and machinery

Both P&I and H&M insurers are still trying to piece together the implications of the European Commission's decision to ban the insurance of tankers stemming Russian crude as part of its sixth round of sanctions in retaliation for the Ukraine invasion.

The trade has largely been taken up by Greek owners, as Russian operators were already sidelined in earlier rounds of sanctions. They will still be permitted to do so during a wind-down period.

The desired headlines have been achieved. However, there is — as yet — little flesh on the bare bones of the prohibition, and there is also political pushback.

At the time of writing, there were media reports that the US was unhappy with the decision, perhaps because of the inevitable economic fallout from anything that increases the price of oil.



Russian tanker outfits — no doubt led by Sovcomflot — have been lining up alternative cover following the decision to ban the insurance of tankers stemming Russian crude.

“
The Nordic and Asian markets continue to eat into London's traditional dominance in the hull and machinery space
”

Meanwhile, Russian tanker outfits — no doubt led by Sovcomflot — were lining up alternative cover.

The big casualty of the first half of 2022 has been MOL Car Carrier's 60,000 gt *Felicity Ace*, which suffered a serious fire off the Azores in February, while laden with 4,000 new Volkswagen-Audi Group cars.

This was just the latest casualty among this vessel type over the past decade,

including *Hoegh Xiamen*, *Golden Ray* and *Grande America*.

P&I club sources say they will be more cautious over PCTCs and large ro-ros in future, implying higher rates.

While this is admittedly a niche segment, casualties on this scale inevitably feed into the pool.

Marine insurers are also still coming to terms with the grounding of Evergreen boxship *Ever Given*, which shut down the Suez Canal for six days in March 2021.

The marine insurance payout on that incident is likely to come in at around \$2bn, roughly similar to that seen in the wake of the sinking of cruiseship *Costa Concordia* in 2012, according to one recent estimate from French reinsurer SCOR.

That is a lot of money, of course — yet still well short of the \$6bn payout after the explosion at the Chinese port of Tianjin in 2016, which comfortably ranks as the most expensive marine insurance claim of all time.



Falling cost of finance scorches ‘alternative’ lenders

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Margins on loans for leading names from the bigger ship finance banks have dropped from 2%-2.5% before to as little as 1.5% today.

With many shipowners making more money than they can remember, and banks willing to cut margins to keep the business, it’s a buyer’s market and likely to remain so while good markets last, **Nigel Lowry** reports

Ship finance is taking its cue from the robust health of most shipping markets — but that does not mean everyone is equally busy.

The increased financial wellbeing of shipowners in most of the main sectors of the industry has stimulated a renewed outpouring of love from the traditional banks that have hung around.

The shipping banking capacity that has been lost in Europe over what was a miserable decade for the industry may never be replaced in its entirety.

However, the banks that are left have been competing hard for business with highly-rated shipowners, who — generally speaking — are less needy of financing today than they have been for quite a few years.

This has put pressure on the margins that owners are willing to accept.

“You have a number of banks that have had good experiences over the past couple of years — and they are keen to do more,” says Anthony Zolotas, chief executive of Eurofin Group, a major

ship finance adviser and arranger, active mainly from offices in London, Athens and Singapore.

“There is a lot of competition right now.”

According to Mr Zolotas — who this year celebrates 45 years’ experience in ship finance — margins on loans for leading names from the bigger ship finance banks have dropped from 2%-2.5% before to as little as 1.5% today, while even smaller owners in some cases have been able to ask — and get — below 2%.

While medium-sized and smaller owners remain at a disadvantage to the major outfits when it comes to borrowing, in some cases, domestic banking markets have filled some of the gap.

Nowhere is this more obvious than in the world’s largest shipowning market, Greece, says Mr Zolotas.

“Medium- and smaller-sized owners in Greece are very well catered-for at the moment by the Greek banks, which have been doing a lot of business in recent years — in fact, beyond what was thought to be their limit.”



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One factor behind this is that Greek shipping does not face as intense competition from other sectors as is the case in some markets.

Between them, the four leading Greek banks now have a combined portfolio of well over \$9bn.

“They are seen to be hungry for more and their margins have been dropping, too,” says Mr Zolotas.

The combination of owners in many cases building up their cash reserves and bank lending becoming cheaper has inevitably had an impact on a number of financing sources that flourished in the gap left by the withdrawal of many European lenders a few years ago.

The rate of deals being concluded by alternative financiers, in particular, has dropped noticeably, according to various financial sources.

“Owners today don’t have to pay 6%-8% when they can get cheaper money, so there is less interest in the so-called alternatives,” claims one finance executive.

The changing market has also served, to some extent, to reduce interest in Chinese leasing. It, too, has been losing ground because it is more expensive than normal bank finance.

“In fact, owners who have done sale-leasebacks earlier are now trying to refinance because they can get cheaper money,” says the executive.

“A lot of shipowners are cash-rich and do not believe they should be paying 3% for financing that was equivalent to 80% of the asset value but has now dropped to 50%.”

Despite this, Mr Zolotas believes that the overall trend is for the sources of



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Taiwanese banks are ‘already a force to be reckoned with’, according to Anthony Zolotas – and there are already all-Asian club deals being done for European owners.

ship finance to continue diversifying, to shipowners’ long-term advantage, and for Asian financiers to continue to spread beyond the continent and increase their market share.

Japan, for example, has provided various types of leasing and bareboat chartering alternatives – at least to the upper echelons of the shipowning community.

There will always be some traditional shipowners reluctant to consider any type of leasing, according to Mr Zolotas – but on the other hand, there are new options to consider.

For example, Japanese operating leases with call options (Jolcos), a staple of the aviation industry for many years, are now being “aggressively marketed” in shipping because investors were burned by the collapse of the aviation business due to the pandemic.

“They can be attractive under certain circumstances when there is strong security,” says Mr Zolotas.

“An ideal example would be an LNG carrier with a 10-year charter.”

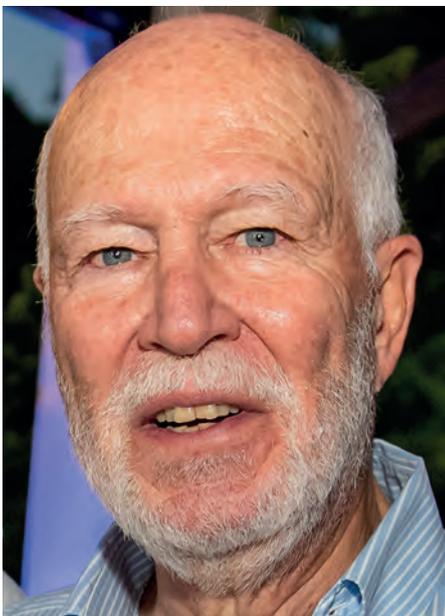
Japanese banks, too, are venturing outside Japan, although deals are limited due to a cumbersome and lengthy approval process that calls to mind the first steps of Chinese banks in the European market a decade ago.

Overall, though, Mr Zolotas expects that a sustained good shipping market will encourage more Asian banks to come into the European ship finance market – albeit with gradual steps.

Taiwanese banks are “already a force to be reckoned with” and there are already all-Asian club deals being done for European owners.

By contrast, it has been noticeable that a couple of leading European ship finance lenders have recently closed their operations in Asia and retreated to European business.

For the time being, ship finance is seen as a buyer’s market – and this is likely to remain the case while good markets last.



“Medium- and smaller-sized owners in Greece are very well catered-for at the moment by the Greek banks, which have been doing a lot of business in recent years – in fact, beyond what was thought to be their limit”

Anthony Zolotas
Chief executive
Eurofin Group



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