By Christiana Gkochari

The Container market as we knew it?

As excess supply in the container shipping market persists, shipping lines reposition themselves to withstand the downturn. A few days ago, United Arab Shipping Company S.A.G. (UASC) announced, that it has entered into a definite merger agreement with Hapag-Lloyd AG (Hapag-Lloyd) to offer a global diversified trade portfolio with leading presence in the major East-West and North-South trades. Also last Friday, APL - that joint the CMA CGM Group recently - announced the introduction of the Felixstowe Express Service (FEX); a new weekly service that connects the key ports of China, Europe and Felixstowe. The new route that promises to provide shorter transit times from China into the key European markets will be launched in late August. In whatever way, container shipping has witnessed a reshaping of alliances over the past two years that gave rise to new trends and routing patterns. In fact, these newly established alliances are shifting the industry towards optimized transportation systems and fleet utilization; with larger ships offering economies of scale.

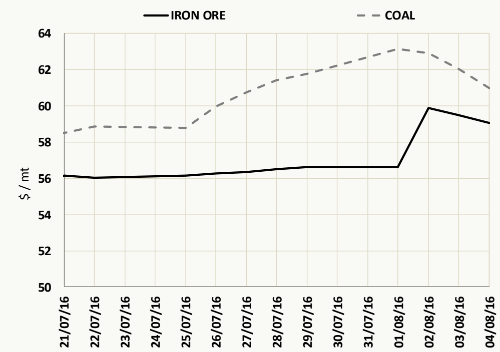
Although, the above trend is expected to benefit the trade adding demand and opening up new businesses; it will certainly challenge owners with additional oversupply. During the first half of 2016, 82 container ships were sent for demolition, with an average age of 20 years, amounting about 0.26 m TEU. Considering that in 2015 a total of 89 vessels were scrapped amounting about 0.20 m TEU with an average age of 22.9 years, this indicates the pressure in the market. Increased demolition activity and lower deliveries contributed in a slower fleet growth in the first half of 2016, but deliveries of very large vessels are expected to pick up in the following years. On the other side of the equation, the world's busiest container ports reported a decline in the containers handled during the first six months of 2016. The Port of Singapore recorded a 5% decline whereas; the Port of Rotterdam Authority (PRA) recorded a decrease of 2.3% in terms of TEU. The supply demand gap was reflected in the charter market where the average box rate out of China and Shanghai went down by about 11% (over the same period), and the number of idle ships increased significantly. Well, demand is projected to double within 15 years, but given that time savings and economies of scale will follow the restructuring of the market, are there any good prospects for owners?

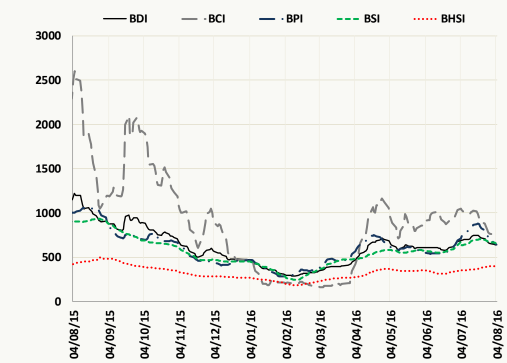
Dry Market

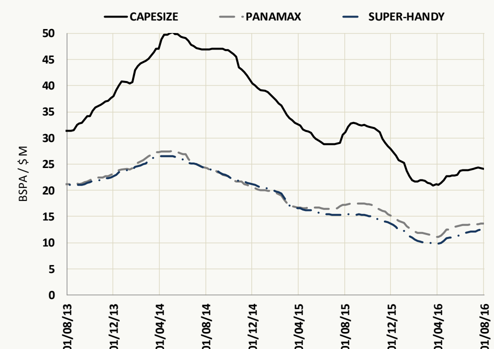
The iron ore price was further supported by rising steel prices; but on Tuesday it started to move down again as steel prices stabilized. In the meantime, the coal price was further supported by capacity closures in China and broke the mark of $63/t on Monday, before edging down again as traders took profits. However, grain prices rebounded this week on the back of bargain-buying from the US.

The BDI declined even more this week and closed yesterday at 636, 29 points down from last Thursday’s closing. The Capesize sector remained under pressure, but some fresh cargo moving from Brazil to China was noticed. The Panamax index squeezed 11% on a week over week basis; while the USG/SKAW trade showed the largest decline in the Supramax sector. Meanwhile, the Handysize index started moving downwards, on Monday - after 5 weeks of consecutive improvement - as steady demand in the Pacific could not offset the impact of weakening demand elsewhere. Overall, Capes currently earn $5.363/day, Panamax vessels are trading at $5.132/day, whereas, Supramax and Handysize ships are earning $6.838/day and $5.732/day respectively.

Despite the European holiday season, a number of deals were concluded in the SnP as well as in the demolition market. Overall 8 bulkers changed hands this week ranging from Handysize up to Capesize, most of which modern vessels including 3 resales. On the other hand, another 4 bulkers were sent for demolition, amongst them a 15 years old Capesize; that is the fifth 15 year old Cape scrapped to date. 68 Capesize were sent to demolition yards this year to date, with an average age of 20.6 years.

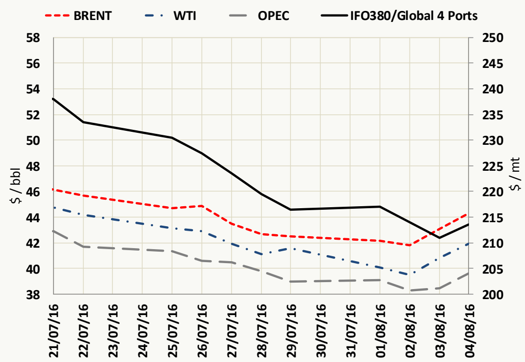




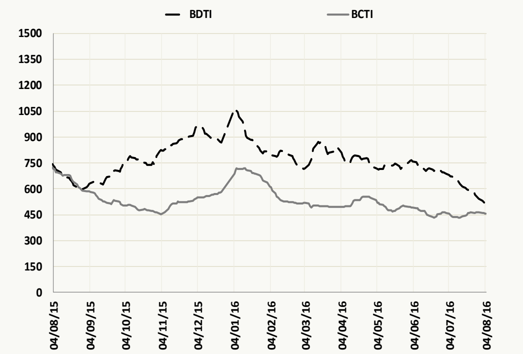


Wet Market

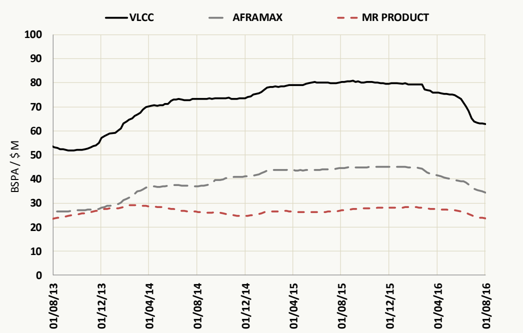
Rising US drilling and increased Iraq output contributed in further oil price slips but on Tuesday, all prices started to move up again on intensified strike actions and planned stoppages. Also, the OPEC price slipped slightly to $39.6 a barrel yesterday as compared with $39.79 last week. Meanwhile, Iran ratified a new upstream model contract on Wednesday.



The BDTI weakened further during the week and closed yesterday at 509, 41 points down from last Thursday's closing. Rates showed a decline in all Baltic routes with crude oil product tankers struggling to maintain last week's rates out of Caribs. However, it seems that activity is picking up in the North Sea with fresh cargo going down to the Continent. VLCCs trade at about $16.783/day in the MEG-Japan route, and at $4.756/day in the MEG-USG route, Aframaxes earn about $8.054/day on average, whilst Suezmaxes trade at $7.067/day in the WAF-Cont. route and at $3.922 in the Black Sea–Med route. On the clean side, the BCTI declined slightly and closed at 458, 8 points down from last week, on weakening MR activity in the Atlantic.



The activity slowed down this week, though some interesting deals were concluded. Overall, we reported 6 vessel transactions and the interest remained for chemicals/oil product tankers. In the Newbuilding front we had one fresh order for 2 VLCCs with expected delivery mid 2018 contracted at DSME, at $89.5 m each; and another one for 2 bitumen tankers with expected delivery end 2017 contracted at Chinese yard Poet, at an undisclosed price.



Note: Our next Shipping Weekly analysis will be published on September 2, 2016.

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