By Christiana Gkochari

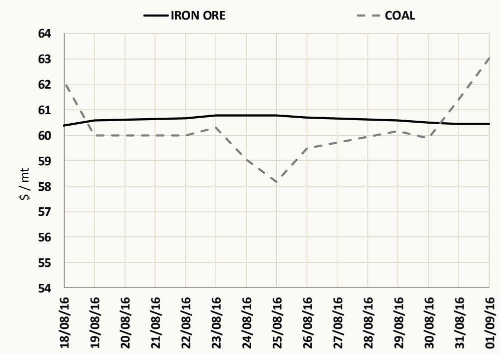
Are banks backing off shipping?

Alongside the troubled shipping markets, the shipping finance industry is struggling to manage an overwhelming amount of non-performing shipping loans and a plethora of new regulations. The Brexit, the insecurity about EU's future, crucial geopolitical issues and China's slowdown constitute major challenges for the global economy, affecting the global finance industry as well as shipping. Shipping investors are attracted by the volatility in shipping and are eager to invest now that prices are low. Although, it is increasingly difficult to support these investments, especially with the additional supervisory pressures put on banks. Basel III, Capital Requirements Directives 3 & 4 and OTC Derivatives Reform pose altogether significant strategic and operational challenges to banks and are partly responsible for altering their risk attitudes. However, a whole lot of sectors are struggling these days apart from shipping - take as an example manufacturing, retail and mining - and high levels of bad loans that shrink banks' revenues are spread all over these sectors.

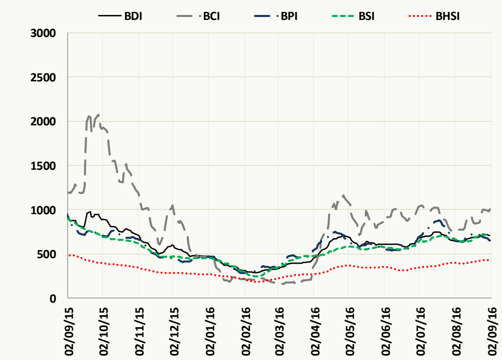
Contrary to popular belief the derived change in banks' strategy does not necessarily denote that banks are backing off the shipping sector. In fact, according to Nordea (one of the largest shipping lenders), the bank's loans to shipping and offshore sectors increased by 6% in 2015, reaching €10.5bn, whereas loans to energy sector, building materials sector and retail trade shrank by 14%, 8.3% and 6.6% respectively. Data from other leading shipping finance banks account for the evidence. For instance, according to DVB bank new businesses in Shipping Finance rose from €2.6bn to €3.3bn in 2015 while the bank's shipping finance portfolio increased by 4.1% in US dollar terms and by 16.8% in euro terms. Nonetheless, the LTV ratio in the sector increased by 1.8 percentage points to 70%. So, it seems that the world's leading shipping lenders strive to realign their finance businesses adopting a more cautious risk policy. Given that higher risk costs largely incurred for vessels under their control, as part of restructuring measures, banks now seek to establish a strong credit quality for their portfolios focusing on financially robust players and well-diversified portfolios.

Dry Market

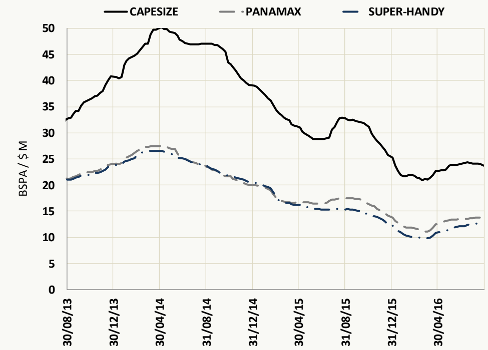
The iron ore price remained nearly flat during the past few weeks but recorded a downward momentum reaching the mark of $60.43/ton yesterday. In contrast, coal prices soared to $63.02/ton on the back of declining domestic coal production in China and the increase in demand brought about by the hot weather in Europe. However, grain prices that continued to be under pressure during the month, on the back of perfect US crops were slightly favored by bargain buying on Thursday.



The BDI weakened this week and closed yesterday at 712, 6 points down from last Thursday's closing. Rates showed a decline in all Panamax routes but the Atlantic trade was the biggest hit. In the Capesize sector, the volatility of the index increased but the week ended with a positive note. The Supramax index improved further mainly on increasing activity in the Atlantic, while the Handysize index was supported mainly by firm demand in the Pacific. Overall, Capes currently earn $6.831/day, Panamax vessels are trading at $5.224/day, whereas, Supramax and Handysize ships are earning $7.555/day and $6.215/day respectively.



The SnP activity remained firm in the dry sector. Overall 14 bulkers changed hands this week, and the most prominent segments of interest were the smaller vessels. On the other hand, another 5 bulkers were sent for demolition, all of which were old vessels. With 4 of these vessels set to be scraped in Bangladesh it seems that the country stands on top of demo country rankings this week. Despite the fact that the appetite in India is still low, demo yards in the country still hold the lead for the year.



Wet Market

Strong US dollar and market fundamentals caused the oil price downturn, after the gains triggered by fresh production cutback discussions. Official US inventory data, released on Wednesday, indicating significant rise in domestic crude supplies pushed oil prices further down. Meanwhile, the OPEC price settled at $42.04 a barrel yesterday, compared with $45.28 the previous week.

The BDTI remained flat on a week over week basis and closed yesterday at 514, 1 point down from last Thursday's closing. Crude oil demand out of MEG showed a further decline but, some fresh cargo moving out of North Sea and Carribs gave a positive note to the crude oil trade. VLCCs trade at about $13.903/day in the MEG-Japan route, and at $3.706/day in the MEG-USG route, Aframaxes earn about $6.383/day on average, whilst Suezmaxes trade at $8.398/day in the WAF-Cont. route and at $3.389 in the Black Sea–Med route. The DPP trade in the Mediterranean remained steady, while demand from USG showed a decline. On the clean side, the BCTI declined and closed at 441, 14 points down from last week, as increased backhaul activity out of USG could not make up for the overall weakening CPP demand.

The SnP market remained quiet this week as the sentiment in the sector is confused. Overall, we reported 3 SnP deals, amongst them the sale of the chemical tanker Dong-A Pontus 13K/2006 at $10.25m. In the Newbuilding front, we had a new order from Rosneft for 5 LNG fueled Aframaxes and another two orders for one MR and two small tankers, all of which at an undisclosed price. Finally, the demolition activity was literally nonexistent.