Overall outlook of the shipping investments in the second quarter of the year “2011”: Secondhand / Demolition / Newbuilding Market.

Will the freight markets pose more stable and healthier earnings during the traditionally low summer period? What is the future of shipping investments? Will the newbuilding business maintain its pace amid oversupply factor till the end of the year? **Maria Bertzeletou** of the **Golden Destiny** Research & Valuations department gives us an overall outlook of the shipping investments in the second quarter of 2011.

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The first half of the year ended and there is still an uncertainty for the future of the shipping industry as the financial markets have not yet been rebalanced and vessels’ earnings are being squeezed by oversupply, mainly in the bulk carrier and tanker segment. The first half of the year ended with the average value of the BDI standing at 1,372 points, down by 57 % from the first half of 2010 when the BDI was at 3,166 points and capesizes were earning $11,507/day more than today’s levels. However, shipping investments have shown a 7% increase from the first quarter of the year with bulk carriers being protagonists in the secondhand market and containers dominating in the newbuilding scene. Overall, the semi annually transactions in the secondhand and newbuilding market are 1,511 in total, indicating a 19% decline in the secondhand market from the first half of 2010 in contrast with only a 6% drop in the newbuilding market. The total invested capital in the secondhand and newbuilding markets seems to be far more than $75 bn, but it is difficult to estimate it with proximity as more than 500 transactions are reported with undisclosed sale or contract price.

The main question is how confident shipping investors feel under the current market fundamentals. Statistics data show that market players are still active as in the previous year, but there are some signs of weakness towards primary investments, mainly in the bulk carrier segment where secondhand and newbuilding activity have fallen by 36% and 32% respectively from the first half of 2010. The lost of confidence is mainly attributable to the weak environment of the dry market as the BDI still hovers below the psychological barrier of 1,500 points mark and Chinese commodities’ demand appears not enough to absorb the ongoing flow of newbuilding deliveries.

Under these circumstances, it is very comforting for the industry that the BDI has not yet dropped below the 1,000 points mark and shipping investments are still appealing for the market players due to price opportunities in the secondhand and newbuilding market. Overall, 610 vessels reported to have changed hands at a total invested capital of more than $10 bn with bulk carriers grasping 32% share of the total volume of secondhand transactions, tankers 28%, liners 12% and containers only 9%. There has been a sharp fall in the buying momentum for bulk carriers and containers, 36% and 48% respectively, where it seems that there is a wide gap between buyers’ price ideas and sellers’ expectations, in contrast with the tanker segment where the drop is only 13% as asset prices seem that remain at their bottom lows. What is noteworthy is that the container segment remains “adverse” for the purchase of secondhand units as the buying interest fell by 41% during the second quarter, in contract with a 30% rise in the bulk carrier segment. In terms of invested capital, the most overweight sector appears to be the tanker segment with a total amount of money invested more than $4,2 bn, 18 transactions reported as undisclosed sale price.

2011 SECONDHAND ACTIVITY PER QUARTER				1H 2011 SECONDHAND ACTIVITY			
Vessel Type	First Quarter	Second Quarter	% of change Q2-Q1	Actual Sales	Invested Capital		P&C Terms
	No. of Actual Sales	No. of Actual Sales	No. of Actual Sales	No. of Vessels	(US$)	EURO	No. of Vessels
Bulkcarriers	84	109	30%	193	3.409.905.000	0	6
Tankers *	86	86	0%	172	4.249.005.000	6.000.000	18
Gas Tankers	21	21	0%	42	939.600.000	0	19
Liners **	34	40	18%	74	228.925.000	4.700.000	20
Containers	34	20	-41%	54	1.538.860.000	0	1
Reefers	3	1	-67%	4	10.576.000	0	0
Passenger / Cruise	3	2	-33%	5	12.900.000	0	3
Ro - Ro*****	10	14	40%	24	85.170.700	51.000.000	11
Car Carrier	0	0	0%	0	0	0	0
Combined ***	0	0	0%	0	0	0	0
Special Projects ****	19	23	21%	42	407.520.000	4.000.000	25
2011	**294**	**316**	**7%**	**610**	**10.882.461.700**	**65.700.000**	**103**
%of change 2011-2010	-27%	-10%		-19%	-26%	-53%	

Regarding the Greek presence, the pace of their secondhand ship purchasing activity has regained its momentum posting a 30% increase from the first quarter of the year. Their upward trend is mainly due to a 85% quarter-on-quarter rise in their bulk carrier investments and it is high likely that their positive buying momentum for dry units will continue as they wait asset prices to drop further during the summer season before committing to new deals. The total investment of Greek owners for secondhand units is estimated to be region $2 bn for 87 vessel acquisitions during the first half of 2011, 7 transactions reported with undisclosed sale price, down by 49% from a similar period in 2010 when their buying momentum in the bulk carrier segment was up by 62% from today’s levels. However, Greek owners are still outpacing Chinese players as they buying more tankers than their rivals.

Overall, the first half of the year ended with Chinese players buying 74 vessels at a total invested capital of region only $756 mil, 3 transactions reported with undisclosed sale price, down by 75% from the total amount of money invested from Greek owners. It is worth emphasizing that Chinese players are targeting more at vintage bulk carrier units, showing almost no interest for other segments, while Greek owners are seeking also for opportunities in the container segment and opt for more modern and larger size units in the bulk carrier segment.

2011 NEWBUILDING ACTIVITY PER QUARTER				1H 2011 NEWBUILDING ACTIVITY			
Vessel Type	First Quarter	Second Quarter	% of change Q2-Q1	Orders		Invested Capital	P&C Terms
	No. of Orders	No. of Orders	in No. of Units	No. of Orders	Dwt Ordered	(US$)	No. of Orders
Bulkcarriers	149	193	30%	342	27.100.390	4.364.900.000	214
Tankers *	25	42	68%	67	6.267.979	2.326.500.000	31
Gas Tankers	17	31	82%	48	2.210.600	5.079.600.000	16
Liners **	18	18	0%	36	675.400	717.500.000	15
Containers	79	147	86%	226	21.044.920	16.795.700.000	62
Reefers	0	0	N/A	0	0	0	0
Passenger / Cruise	8	3	-63%	11	10.000	1.772.400.000	7
Ro - Ro****	7	2	-71%	9	104.000	422.600.000	3
Car Carrier	1	1	0%	2	10.000	N/A	2
Combined ***	0	0	0%	0	0	0	0
Special Projects ****	62	98	58%	160	320.860	33.264.600.000	57
2011	**366**	**535**	**46%**	**901**	**57.744.149**	**64.743.800.000**	**407**
%of change 2011-2010	-1%	12%		6%	-13%	140%	
2010	370	477	29%	847	66.126.067	26.983.600.000	369

In the newbuilding market, the ordering business seems to be “hot” with foreign players proving to be more aggressive than Greek investors. During January-June 2011, 901 vessels reported to have been ordered in the shipyards worldwide at a total deadweight of around 58 million tons, posting a 46% increase from the first quarter of 2011. Although the ordering interest in the bulk carrier segment is down by 32% from 2010 levels, bulk carriers are holding the lion share, 38% of the total volume of newbuilding transactions, while containers follow by grasping 25% and tankers only 7.4%. The newbuilding activity in the first half of 2011 is up by 6% from a similar period in 2010 due to the container madness and a significant increase of business in the tanker and offshore segment. Newbuilding prices are still very alluring encouraging owners to proceed with the placement of new orders in segments where the ratio “orderbook to existing fleet” is lower and the demand prospects in relation to the overflow of ships is more positive.

Even the drop of the newbuilding activity witnessed in the bulk carrier segment during 2011, the total number of dry newbuilding orders placed since the recovery of the 2008 financial crisis is massive, taken into consideration the excessive number of orderbook, near to 50% of the existing fleet. The total number of dry newbuidling orders during 2009-2010-2011 is estimated to be 1,646 units with the 2010 being a “record” year, as 1,054 new transactions were recorded.

What is worth to emphasize is the strength of Chinese players in the newbuilding market versus the secondhand investments. Greek players are behind Chinese in terms of ordering business as Chinese have placed 144 new contracts during the first half of the year comparing to only 88 of Greek owners. Their strength is attributable to their confidence in the bulk carrier segment with 110 units ordered, up by 206% from the newbuilding activity of Greek owners who have proceeded in the ordering of only 36 units. In contrast with Chinese players, Greek owners have gained more confidence in the container segment by posting a 90% increase from the first quarter of 2011, while at a similar period in 2010 not even one order had been reported in this segment by Greeks.

In the demolition market, the upward trend from the first quarter continues with bulk carriers acquiring the biggest volume of scrapping business, 38% of the total number of vessels reported to have been sent to the scrap yards during the first half of the year. Overall, the first half of the year ended with 400 vessels in total reported for scrap at a total deadweight of region 18,3 mil of tons with bulk carriers and liners being the most popular scrap candidates. The demolition activity in the tanker and container segment has been subdued as there has been a sharp fall of 50% and 77% respectively from the first half of 2010. In terms of the reported number of transactions, the demolition activity has been marked during January-June 2011 with a 21% decline from a similar period in 2010, while in terms of deadweight there has been a 27% increase due to scrapping of larger size units this year.

In terms of scrap prices, there has been softness recently from the high levels paid in May with Bangladesh now offering more than India, $490/ldt for dry and $515/ldt for wet cargo. However, there are some worries about the trend in the coming weeks and it seems that sellers and buyers wait the new direction before committing to other deals. There is still uncertainly in the Bangladesh market as the decision regarding whether the market will be granted an extension has been set for July 12th. As we move towards the third quarter of the year, the feeling is that the scrapping business will continue at firm levels for bulk carriers, while substantial volumes will also be recorded in the tanker and liner segment but at lower ratios. Scrap prices will keep their pace and they may rise again upon the official extension of Bangladeshi market operation, with India winning the largest share of the demolition transactions and Bangladesh to follow.

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