Lee: If you talk to any shipowner they will say everyone is having a difficult time.

How shipping lines manage their ship ordering will be critical to the recovery of the industry that is being hammered by sluggish demand that is unable to keep up with capacity supply, believes Soo Cheon Lee, co-founder and chief investment officer of Hong Kong-based financier SC Lowy.

“I have never seen this type of cycle before,” the independent fixed income specialist told IHS Fairplay “It is an all-time low and shipping companies will need to be very conservative in managing their businesses.”

Lee said instead of building new vessels, companies should buy from the secondary market so they did not increase the available capacity, even though newbuildings were now cheaper than ever.

“That is critical. There were pockets in the past where people thought the cycle was turning, like in early 2014, and a big wave of new orders were placed with the yards. But the market did not turn. If that money went into buying secondary vessels it would have not increased the capacity in the industry.”

Lee said there were a lot of problems in container shipping, dry bulk and to a lesser extent tankers, with shipping deep in a distressed cycle. “If you talk to any shipowners, everyone is having a difficult time. Prices of vessels are at all time lows, freight prices are all time lows,” he said.
Pacific Basin CEO Mats Berglund said in an IHS Fairplay interview in April that he had never seen newbuilding prices as “attractive” as they currently are. He said Clarkson’s has Handysize newbuildings at USD20 million, and generic prices for five-year old Handysize vessels at USD9.5 million, which was below 50% of the all-time low newbuilding price.

Dry bulk shipping is in trouble as China’s demand for raw materials slows. Any bulker over 15 years that is not making money is a scrapping candidate, and with day rates at dismal levels there are not many that are making money.

“It today, it doesn’t matter what vessel you operate. The daily rate is USD3,500-5,000 while the operating expenses are USD6,000. You also have to spend the capex to buy the ship and you can’t use a vessel for 25 years anymore, so the depreciation is over a much shorter period,” Lee said.

Container shipping is in an even worse state, burdened by chronic overcapacity with a host of carriers reporting significant first quarter losses to add to their poor 2015 performance. Freight rates have collapsed on most of the major east-West trades, despite a slight rise in volume and idle ship capacity that is at record levels.

“The giant vessels coming into the market just killed the pricing,” Lee said. “It is a trend. Trade volumes will continue to go up but only by 3-6% a year, and that will challenge the container market.

“The problem is that demand is not catching up with the capacity being injected into the market. It has been the case for the last six years and until we see a balance in supply and demand, that will continue. I don’t see that happening for another two years.”

Lee said the challenge that all shipowners struggled to cope with in the last year was that the market simply died.

“There are no secondary transactions, there is no cash flow. Some of the banks cannot even foreclose and sell the vessels. There are so many zombie shipping companies where the owners have just given up and the ships are sitting there doing nothing,” he said.

There was a glimmer of hope, however, with some activity returning to the industry. “In the last month I have seen some new buyers coming in and there seems to be improving sentiment. It may not last long, but there seems to be some people interested in buying and selling vessels again.”

Many of the banks holding debt from ship owners want to sell down their volume because of the poor market outlook, especially those in Europe trying to get rid of their exposure to the sector, and Lee said that was taking up a lot of SC Lowy’s time.

“This is mainly in the container and bulk sectors. Tankers are still doing okay, but the container and dry bulk are the main headaches. It is getting worse every year,” he said.