Shipping rates fall to all-time lows

Ships beached for scrap over slow growth fears

LONDON: Scrap yards are preparing for record numbers of freighters as shipping rates tumble to all-time lows.

Owners may demolish 40 million deadweight tons of dry bulk carriers, more than double last year's total, according to Arctic Securities in Oslo. Rates to ship commodities slumped 66 percent last year amid a glut of capacity, the worst performance since the global recession.

China's combined imports of iron ore and coal, the market's biggest cargoes, fell to a two-year low last month, according to customs data. The nation last week set its lowest economic growth target in almost a generation, at a time when delivery of new ships will expand the fleet for a 16th consecutive year.

"The decision to scrap a ship is reactive rather than proactive," Sverre Svenning, the Oslo-based director of research at Fearnley Consultants AS, said by phone March 9. "You decide to scrap a ship once you have had a sufficiently long period of negative earnings and you don't see a light at the end of the tunnel."

The Baltic Dry Index, a measure of the cost of moving everything from minerals to grains, reached a record-low 509 points on February 18, according to the Baltic Exchange in London. Owners responded by sending more than twice as much shipping capacity for demolition in January and February than they did a year earlier.

The gauge fell 0.9 percent to 560 on March 12. Average daily earnings for Capesize ships were $2,830 on March 13, the lowest since August 23, 2012. Accelerated scrapping could help boost shipping rates for owners. Capesizes, the biggest dry-bulk vessels tracked by the Baltic Exchange indexes, will earn $16,000 a day on average in 2016, from $12,500 this year, Morgan Stanley estimates.

"It's going to be a huge year" for scrapping, said Anil Sharma, chief executive officer of GMS Inc, the biggest buyer of vessels for demolition. "Most likely the biggest year for dry bulkers, especially for Capesizes."

Not all owners are following the trend. Nippon Yusen Kaisha, the biggest Capesize owner, has no plans to accelerate demolitions, Brandon Kitamura, a spokesman for the Tokyo-based company, said. Demand will be boosted by the completion of iron-ore mining projects in Australia and Brazil over the next two years, he said.

Companies may be less willing to get rid of ships because previous demolitions and a surge in deliveries of new vessels mean the fleet is getting younger, according to Nigel Prentis, the head of research at Hartland Shipping Ltd. in London. The average age of the dry-bulk fleet at the end of 2011 was 11.4 years, according to Clarkson Plc, the world's biggest shipbroker. By December that was nine years.

Ship owners are contending with slowing or contracting trade to China. China imported 83 million tonnes of iron ore and coal last month, according to customs data compiled by Bloomberg, a 12 percent decrease from January and the lowest total in two years. The nation's seaborne coal imports will decrease 2.7 percent to 233 million tonnes this year, according to data from Clarkson. They fell in 2014 for first time in six years.

Global iron-ore shipments will expand 6.4 percent to 1.4 billion tonnes in 2015, the slowest expansion in three years, according to Clarkson. Chinese Premier Li Keqiang last week set the nation's 2015 expansion target at about 7 percent, the weakest pace in more than 15 years.

Slowing growth means less demand for ships and more heading for the scrap yards, centered on Bangladesh, India and Pakistan. Typically, vessels are driven onto beaches and dismantled. In China, the third-largest scrapper, it takes place in docks.

About 73 million deadweight tons of new bulkers will be delivered this year, the most since 2012, according to Braemar ACM, the London-based shipbroker. Those ships were ordered about two years ago and there are signs the surge will slow.

Orders were equal to about 600,000 deadweight tons through February, compared with 62.5 million deadweight throughout 2014, according to Morgan Stanley.

"Starting 2016, you'll see that improvement materializing in rates," Erik Stavseth, an analyst at Arctic Securities in Oslo, said. "It's the combination of scrapping and no new orders which improves market prospects."

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Doha Bank CEO honoured

The NRI Foundation hosted a felicitation in honour of India's Finance Minister Arun Jaitley at Buckingham Gate & St James' Court, London, on March 13. Dr R Seetharaman, CEO of Doha Bank, was honoured with NRI Foundation Excellence Award 2015 by Jaitley at the function for his outstanding contribution to NRI community.

GFH proposes capital cut

DUBAI: Bahrain's Gulf Finance House (GFH) said yesterday that its shareholders would consider a capital reduction at an annual meeting this month which would allow the firm to pay dividends some time in the future, but it proposed no payout for 2014.

The move disappointed investors, who had been hoping that the Islamic investment bank, which is recovering from a financial crisis, would pay dividends immediately after swinging to profit last year.

The stock tumbled its daily 10 percent limit in Dubai and was down 10.6 percent in Kuwait, where it is also listed. But Kuwait's stock exchange subsequently suspended the stock and cancelled all Sunday's trades, saying this was because GFH had not notified it about the capital reduction plans in advance.

GFH conducted a previous capital reduction in November. This time, it plans to reduce the number of shares by 40 percent instead of cutting their nominal value.

The firm, which was crippled by the global financial crisis and required several debt restructurings, posted a profit of $11m for 2014 compared with a loss of $18m for 2013.

GFH on Sunday asked shareholders to allow it to keep the profit as reserves and retained earnings, instead of paying it out as a dividend.

It proposed "the elimination of the accumulated losses to allow for distribution of dividends in future", without giving any further details on when dividends might resume. GFH last paid a dividend for 2008.

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