

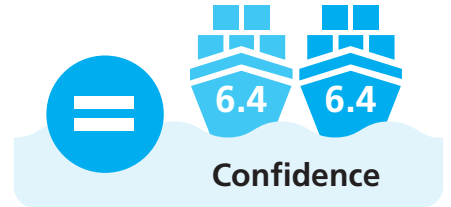


Shipping Confidence Survey

June 2018

www.moorestephens.co.uk

Industry confidence maintains four-year high



In May 2018, the average confidence level expressed by respondents held steady at the four-year high of 6.4 out of 10.0 recorded in February 2018.

Confidence on the part of owners was also maintained at the four-year high of 6.6 recorded in the previous survey, while managers' confidence was up from 6.4

"Long-term, shipping remains the safest investment for stakeholders who understand the industry culture."

to 6.7, the highest for this category of respondent since the rating of 7.0 in May 2008, when the survey was launched with an overall rating for all respondents of 6.8. The rating for charterers was up to 6.7 from 5.0, while confidence in the broking sector was up from 6.1 to 6.3, the second-highest rating in ten years.

Confidence in Europe held firm at 6.6, equalling the highest ever rating for this category of respondent in the life of the survey, but was down in Asia, from 6.3 to 6.1, and in North America, from 5.9 to 5.8.

"An 'Act of Trump', rather than an Act of God, is the only worry that is incalculable."

"The tanker market cannot sustain further orders because recovery can only begin with large-scale rationalisation of existing capacity and negative fleet growth."

Business performance factors



Demand trends remained as the factor expected to influence performance most significantly over the next 12 months, followed by competition and finance costs.

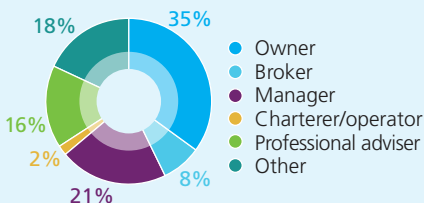
Survey analysis

The likelihood of respondents making a major investment or significant development over the next 12 months was down from 5.5 to 5.2 out of a maximum possible score of 10.0. Confidence was highest among charterers, albeit down from 6.8 to 6.7, followed by owners (down from 5.9 to 5.5), managers (down from 5.6 to 5.4) and brokers (down from 4.0 to 3.5). Geographically, increased expectations of major investment were highest in Asia (up from 5.8 to 5.9).

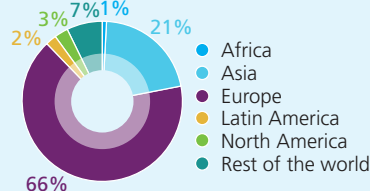
The number of respondents who expected finance costs to increase over the coming year was down to 63% from 64% last time. Whereas, in the previous survey, charterers were unanimous in expecting finance costs to increase, just a third were of that opinion this time.

"Earlier over-ordering in the tanker market means that supply currently exceeds demand by an average of 20%."

Respondents by type



Respondents by location



"We want to be confident on dry bulk, but then we see owners once more getting carried away with new orders."

Net sentiment*



+41
Tanker



+43
Dry bulk



+32
Container ship

*Net figures are the balance of 'higher' and 'lower' responses. Positive 'net' figures imply more 'higher' responses than 'lower' and negative figures imply the opposite.

Freight markets

The number of respondents expecting higher rates over the next 12 months in the tanker market was up by 11 percentage points on the previous survey to 50%, whilst the figure for those expecting lower rates was down by 4% to 9%. Meanwhile, the number anticipating higher rates in the dry bulk sector was unchanged at 54%, accompanied by a three percentage-point increase to 11% in the numbers anticipating lower rates. In the container ship sector, there was a five percentage-point increase to 43% in the numbers expecting higher rates, and a one percentage-point fall, to 11%, in those anticipating lower rates.

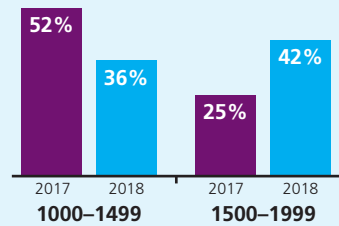
Baltic Dry Index

In a stand-alone question, when asked to estimate the level they expected the Baltic Dry Index (BDI) to reach in 12 months' time, 42% of respondents anticipated a figure of between 1500 and 1999, compared to 25% a year ago. Meanwhile, 36% put the likely level at between 1000 and 1499, contrasting with 52% a year ago.

"BDI remains in an upward trend."

"Dry cargo will be more nervous in the coming year," said one respondent, "but it looks like we could have another two healthy years ahead."

Baltic Dry Index predictions (12 months)



Conclusion

It is now two years since our survey reflected any decline in shipping confidence. Net freight rate sentiment was significantly up in all the main tonnage categories, and it is freight rates which will ultimately determine the health of the shipping industry.

"Considering the expectation for new investments in our area, we expect a considerable increase in business and we are also keeping ready for changes / coming events."

Shipping still has problems to overcome before positive sentiment is translated into performance. One respondent said that earnings in the tanker market were below operating expenses and that the sector was dogged by overcapacity. A number of others, however, expressed cautious optimism on dry bulk (albeit alongside fears of a new spate of over-ordering), and brighter prospects for container ships as a result of rationalisation in the trades.

"Freight rates will ultimately determine the health of the shipping industry."

There was a slight fall in the numbers of respondents expecting to make significant investments over the coming year, but this was not unexpected given that the cost of finance seems set to rise over the same period. Finance is nevertheless available, and well-founded shipping projects will continue to attract investment.

Shipping continues to punch above its weight in terms of optimism, and there is nothing to suggest that recent signs of the start of a recovery will prove to be a false dawn."

"Will the upcoming regulations for Ballast Water Treatment System installation be actioned or further extended? Answers to these questions will have an effect on the how the market behaves."



Ten year average confidence

Shipping Confidence Survey: ten years after

This is the tenth anniversary of the Moore Stephens Shipping Confidence Survey. Over the past decade we have canvassed the opinions of respondents from all industry sectors around the world. Our thanks go to them, without whom we would not have a story to tell.

“Right now we prefer not to work than to work and not get paid, so we will rely on customers whom we know we can trust.”

November 2008

It is a story of a volatile industry in particularly volatile times. Significant events of the past decade have included the peak of a boom, a prolonged global financial recession, crises in the banking sector, the collapse of stock markets, the Greek debt crisis, Brexit, and an unprecedented level of government and industry bail-outs.

All of these have affected, to varying degrees, the fortunes of the international shipping industry, which has also had to contend with internal issues of its own. It is a capital-intensive industry operating within an increasingly stringent regulatory framework.

This should make shipping safer and more environmentally responsible, but at considerable financial cost.

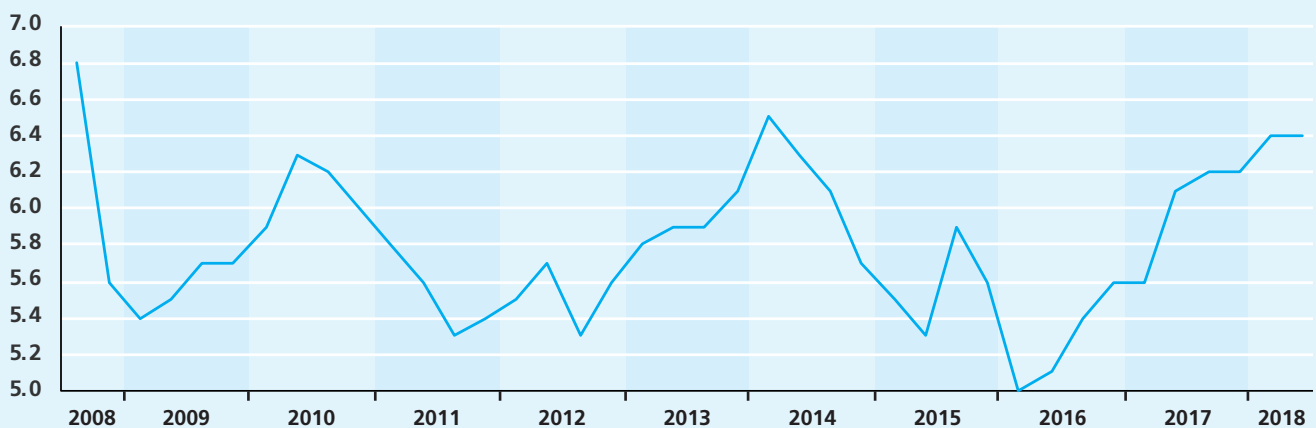
Over the past decade, industry confidence has fluctuated. But it has never collapsed, and for the past two years has followed an upward trend. Thanks are due, once again, to our respondents, for sharing with us their hopes and fears, and for enabling us to chart this fascinating period in the industry's history.

Confidence

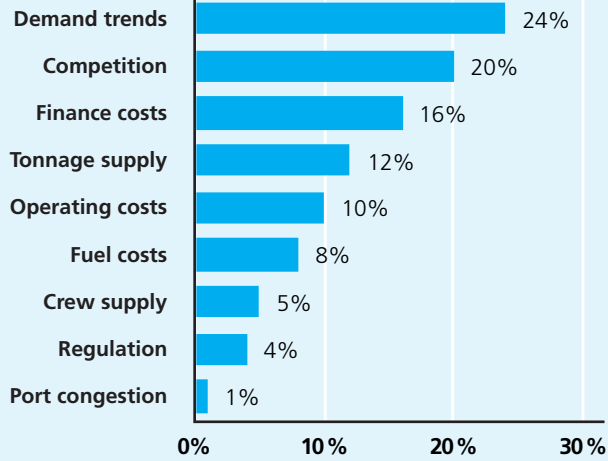
The survey was launched in May 2008, some months before the Lehman Brothers bankruptcy which was to trigger, in very short order, a protracted global financial recession. Shipping markets were buoyant at the time, and the average industry confidence level recorded in that first survey was 6.8 out of a possible 10.0. Today, it stands at 6.4. Over the ten-year period, it averages out at 5.8 out of 10.0.

The low point for industry confidence was the 5.0 out of 10.0 recorded in February 2016, since when the figure has only improved or been maintained. The 2010 financial crisis in Greece, the world's leading shipping nation, may have been a prime factor in the fall in confidence to a level of 5.3 in August 2011, but thereafter began a period of fluctuation before a gradual recovery beginning in 2016 which appears not to have been affected by the birth of Brexit that year.

Average confidence



Ten year average performance factors



Performance factors

Over the life of the survey, demand trends have been the factor deemed most likely to affect performance, identified by an average 24% of respondents, followed by competition (20%) and finance costs (16%). In May 2008, the same three factors featured in the same order and, together with tonnage supply, have been in the top four throughout the decade.

The ten-year averages for operating costs (10%), fuel costs (8%) and crew supply (5%) are all below the corresponding averages of 12%, 11%, and 11% for May 2008, doubtless due to the effects of the economic downturn and fluctuations in the price of oil. Ten years ago, regulation was cited by just 2% of respondents as a significant performance-affecting factor but has since assumed increasing importance. Today it stands at 10% and averages 4% over the decade.

Finance costs

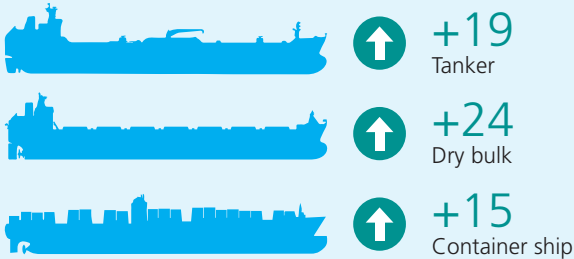
Over the last decade, an average of 48% of respondents have been of the view that finance costs were likely to rise over the coming year. When the survey was launched in May 2008, 66% of respondents were of that opinion. There have been some swings along the way. By February 2009,

the numbers expecting dearer finance had dropped to 47%, while 25% thought that finance would actually get cheaper. Six years later in 2015, just 32% of respondents anticipated an increase in finance costs, with 14% expecting cheaper finance. Today, the corresponding figures are 63% and 5%.

“Millions of dollars are lost each day by owners, and soon will be by bankers, and we are navigating very risky waters.”

March 2016

Ten year average net sentiment*



* 'Net' figures are the balance of 'higher' and 'lower' responses. Positive 'net' figures imply more 'higher' responses than 'lower' and negative figures imply the opposite.

Freight markets

Ten-year averages for the freight markets reveal a sizeable increase in expectations of higher dry bulk and container ship rates. Net sentiment in dry bulk was -3 in May 2008, but the 10-year average produces a figure of +24. The corresponding figures for container ships are +2 and +15. Ten-year net sentiment in the tanker sector, meanwhile, was +20 in 2008, and averaged +19 over the decade. In all three tonnage categories, current expectations of higher rates are significantly above those of ten years ago, arguably underlining both the inherent optimism of shipping investors and the failure to convert that into freight rate improvements.

“Oversupply of tonnage and reduced global demand for cargoes will see freight rates reduce substantially as the market absorbs the ‘boom’ consequences over a 2-3 year period.”

November 2008

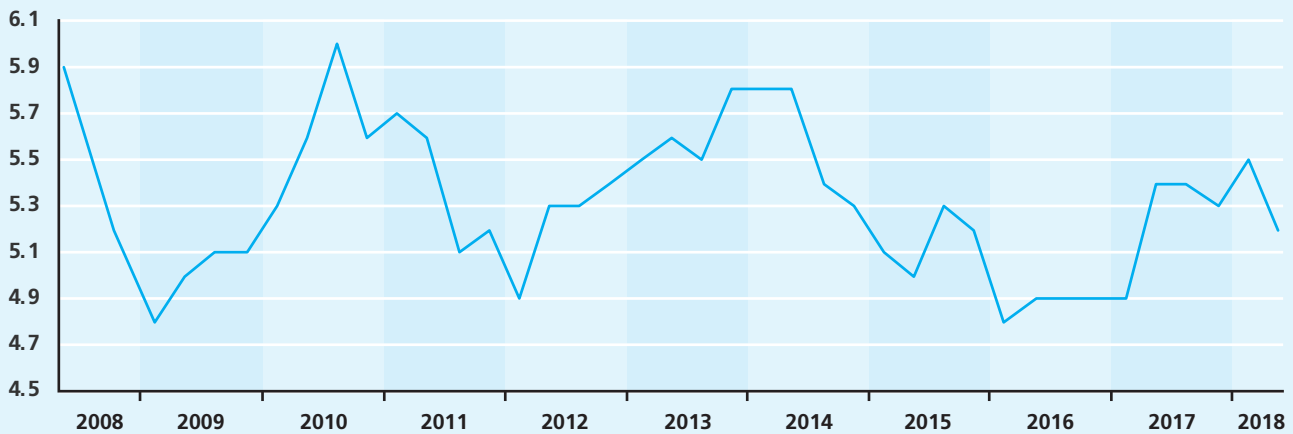
Future investment and development

When the survey was launched, respondents rated at 5.9 out of 10.0 the likelihood of their making a major investment or development over the next twelve months. The average for the ten-year period is 5.3, with some predictable rises and falls along the way. Expectations peaked at 6.0 out of 10.0 in August 2010 but reached a low of 4.8 in February 2016, following which the rating rose to 4.9 and stayed there for a full year before starting to climb once again. Today, the likelihood of respondents making a major investment stands at 5.2 out of 10.0.

“We are paying for excessive investments over the past five years by speculative funds that would win an Oscar for the quickest / largest destruction of capital in the shipping world.”

March 2016

Future investment and development



Tenth anniversary conclusion

Ten years is a long time in shipping, and the past decade has doubtless felt a lot longer still to those industry participants who have lived through it. It has been something of a roller-coaster ride, even for those inured to the peculiar cyclicity of the industry.

Our survey completes its tenth anniversary amid expectations that the start of a recovery may be under way. Generally speaking, confidence within shipping has held up well over the decade under some of the most exacting conditions the industry has faced in its long history. Ten-year confidence averages out at 5.8 out of 10.0, testament to the durability of shipping evidenced by a continuing rise in the demand for its services and the accompanying significant growth in the world fleet.

Over the past ten years, shipping has demonstrated its will and its ability to survive, and in so doing has encouraged its investors to believe that the next decade will bring a return to more profitable times.

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