

# THE TOP TEN SIGNS THAT THE SHIPPING INDUSTRY IS TURNING AROUND

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Clay Maitland  
Managing Partner  
The Marshall Islands Ship & Corporate Registry

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WHEN I CHOSE THIS TITLE, ALONG WITH NIC  
BORNOZIS, I MIGHT HAVE BEEN THOUGHT TO  
BE DRUNK OR CRAZY. IT IS, AFTER ALL,  
HARD TO FIND ONE, LET ALONE TEN, SUCH  
“SIGNS”.

THERE IS AN OLD SAYING: “IF YOU SEEK A SIGN, LOOK TO THE HEAVENS”.

WELL, I’VE TRIED LOOKING EVERYWHERE ELSE, WITH MIXED SUCCESS.

CERTAINLY, WE IN THIS INDUSTRY HAVE BEEN ASSAILED BY WHAT THE BIBLE CALLS “JOB’S MESSENGERS”, OR FALSE HOPES.

THESE ARE THEREFORE HARD TIMES ALSO FOR CHINESE PORTS, NORWEGIAN OFFSHORE SHIPOWNERS AND US INVESTORS. JUST TO NAME THREE CATEGORIES.

RECENTLY, THE BALTIC DRY INDEX (BDI)  
PUT A NUMBER ON THE SCALE OF THE  
MARKET PROBLEMS BY HITTING 553 POINTS  
– ITS LOWEST LEVEL IN 30 YEARS, DOWN 16  
POINTS IN ONE WEEK.

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THEREFORE, FOR MY TEN “SIGNS”, I TURN  
AS I SO OFTEN DO, TO OUR OLDEST SHIPPING  
NATION, AND ITS ANCIENT CULTURE. FOR  
ME THAT MEANS REFERENCE TO  
HERAKLEITOS (HERACLITUS, BUT THAT’S A  
ROMAN CORRUPTION), OF EPHEBUS, THE

GREAT METAPHYSICIAN. HE WAS FAMOUS FOR COINING PHRASES, SOME OF WHICH ARE EXTREMELY OBVIOUS.

HE ONCE NOTED THAT “WE CAN NEVER STEP INTO THE SAME RIVER TWICE”. I WAS TOLD MANY YEARS AGO THAT HE MEANT THAT TIME HAD AN IMPLACABLE FLOW, AND THAT IF YOU STEPPED IN A RIVER MORE THAN ONCE, IT WAS NOT THE SAME STREAM THAT YOU HAD PUT YOUR FOOT INTO FIVE MINUTES BEFORE.

HE ALSO NOTED THAT “ALL THINGS CHANGE”. IT SEEMS RATHER OBVIOUS, AND ITS ACTUALLY A NICE COMFORTING THOUGHT FOR THOSE OF US LABOURING IN THE DEEPEST CAVERNS OF THE SHIPPING INDUSTRY.

MY PHILOSOPHY IS MORE OR LESS THE SAME; THINGS WILL INDEED CHANGE IN OUR INDUSTRY.

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THERE ARE HOPEFUL SIGNS OF CHANGE,  
DIRECTLY AND INDIRECTLY AFFECTING  
MARITIME TRADE.

ONE SUCH SIGN IS THAT, OVER THE PAST  
THREE MONTHS, THE UNITED STATES HAS  
ADDED MORE JOBS THAN IN ANY SUCH  
PERIOD SINCE SEPTEMBER-NOVEMBER 1997,  
AT THE HEIGHT OF THE CLINTON BOOM.

ANOTHER SUCH SIGN IS THAT,  
APPARENTLY, THE FREE FALL IN OIL PRICES  
IS OVER. LET THAT SUFFICE!

ANOTHER SIGN: THE EUROPEAN CENTRAL BANK HAS (BETTER LATE THAN NEVER) ACCEDED TO MARKET DEMAND, AND UNDERTAKEN “QE” BOND PURCHASES.

AND ANOTHER SIGN: EMERGING MARKETS ARE ALSO RECOVERING. VALUATIONS IN THE U.S. AND THE EMERGING MARKETS SUGGEST THAT A STEADY MOVE FROM THE FORMER TO THE LATTER SHOULD PAY OFF OVER THE NEXT DECADE.

AS A FURTHER SIGN, ON A SLIGHT POSITIVE NOTE, THERE’S CONTANGO.

FLOATING STORAGE CHARTERS ARE EXPECTED TO PROVIDE A BOOST TO DAY RATES FOR PRODUCTS TANKERS ALONG WITH CRUDE TANKERS.

AS A BONUS “SIGN” -- A DECISION BY OPEC TO CONTINUE PUMPING CRUDE INTO THE MARKET, DESPITE WEAKER DEMAND AND OVERSUPPLY, HAS PLACED A FLOOR UNDER OIL PRICES, INTO CONTANGO, AND WHERE FUTURES PRICES LOOK A BIT LESS FORBIDDING.



THAT IS SPURRING TRADERS TO CONSIDER STORAGE PLAYS THAT WILL ADD ANOTHER 2% TO TANKER UTILISATION AND \$12,000 PER DAY TO RATES FOR 2015, ACCORDING TO A REPORT BY JEFF MCGEE, PRINCIPAL OF US SHIPPING CONSULTANCY MAKAI MARINE.

THE OPEC-FUELLED OIL GLUT ALREADY ADDS 3% TO 4% TO CRUDE TANKER TONNE-MILE DEMAND WITHOUT THE STORAGE IMPACT, HE ESTIMATES.

“OPEC HAS GIFTED VLCC OWNERS AN  
ADDITIONAL \$18,000 PER DAY OF SPOT  
EARNINGS IN 2015,” THE MAKAI REPORT  
SAYS.

PLUS, A WIDER GAS-OIL CONTANGO IS  
EXPECTED TO EMERGE THIS SPRING. WHILE  
CRUDE TANKERS WILL TAKE SOME OF THE  
GAS-OIL STORAGE DEALS, FLOATING  
STORAGE ON LONG-RANGE-TWO (LR2)  
PRODUCTS TANKERS WILL BEGIN IN THE  
SECOND QUARTER OF THIS YEAR. THAT

WOULD DRIVE A \$10,200-PER DAY EARNINGS  
RISE FOR THE UPCOMING YEAR.

BUT MAKAI SAYS THE GULF BETWEEN  
CURRENT OIL PRICES AND FUTURES SHOULD  
GROW LARGER DURING THE SPRING.

“WIDER CONTANGO SHOULD ALLOW  
ADDITIONAL STORAGE CHARTERS, AS SPOT  
EARNINGS SUBSIDE FROM SEASONAL PEAKS,  
EVEN WITH THE REMOVAL OF TONNAGE  
FROM THE OPERATING FLEET”, WROTE  
MCGEE, A FORMER RESEARCH HEAD FOR

SHIPBROKERS POTEN & PARTNERS AND  
SIMPSON, SPENCE & YOUNG (SSY).

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ANOTHER SIGN: AFTER THE EXPERIENCE  
OF THE LAST SEVEN YEARS, THE GOOD NEWS  
IS THAT MANY PRIVATE SHIPPING  
COMPANIES ARE NOT SUFFERING, BECAUSE  
THEY HAVE SHOWN THEMSELVES TO BE  
BETTER ABLE TO FOCUS ON THE LONG-TERM  
ISSUES OF OPERATING AND MAINTAINING  
QUALITY SHIPS FOR THE CARRIAGE OF CARGO  
– AND NOT THE VARIABILITY OF SHIP

VALUES. IN OTHER WORDS, THOSE COMPANIES THAT HAVE AVOIDED SPECULATION IN THE SALE AND PURCHASE MARKET ARE SURVIVING THE CRISIS.

WHILE AT PRESENT, THERE ARE TOO MANY SHIPS IN MOST CATEGORIES, AND LITTLE OR NO INCREASE IN DEMAND BY CARGO INTERESTS; IT IS TRUE THAT THE SPOT FREIGHT MARKETS TODAY ARE NOT PRODUCING RATES THAT GO BEYOND OPERATING EXPENSES, AND SOME INTEREST ON DEBT.

THAT SAID WE HAVE NOW CLEARLY COME TO THE END OF THAT PART OF THE CYCLE, WHERE "SURVIVAL" PROFITS WERE GENERATED MAINLY FROM SELLING SHIPS OR THEIR CONSTRUCTION CONTRACTS, RATHER THAN FROM A CONSISTENT CASH FLOW, OR CHARTER INCOME FROM OPERATIONS. BELIEVE IT OR NOT, THAT'S GOOD NEWS!

MOREOVER, AND THIS IS ALSO IMPORTANT FOR US TO REMEMBER: THE GLOBAL ECONOMY IS AN INTEGRATED SYSTEM. WE ARE CURRENTLY LIVING WITH

A CHRONIC WEAKNESS OF PRIVATE SECTOR DEMAND, RELATIVE TO POTENTIAL INCOMES, IN IMPORTANT ECONOMIES. AS DANIEL ALPERT OF WESTWOOD CAPITAL HAS OBSERVED, “NO ECONOMY IS AN ISLAND”. ONCE PRIVATE SECTOR DEMAND, WHICH HAS BEEN DEPRESSED SINCE 2008, BEGINS TO REVIVE, SO, TOO, WILL THE GLOBAL SHIPPING PICTURE BRIGHTEN.

A CRITICALLY IMPORTANT SIGN THAT A TURNAROUND IS FINALLY NEAR, IS THAT THE DEPRESSION IN PRIVATE-SECTOR DEMAND IS

COMING TO AN END. NOW, IF YOU TELL THAT TO MOST ECONOMISTS, THEY WILL LAUGH. THAT IS, IF YOU CAN FIND AN ECONOMIST WHO IS CAPABLE OF DOING SO, EVEN WHEN YOU TICKLE HIM (OR HER). NEVERTHELESS, THE SIGNS ARE CLEARLY THERE, IN THIS FIRST QUARTER OF 2015, THAT THE LONG TROUGH IN PRIVATE SECTOR SPENDING IS DISSIPATING!

THIS HAS SIGNIFICANT CONSEQUENCES FOR CHINA, WHICH STILL LIVES AS AN EXPORTER OF MANUFACTURED GOODS AND



PRODUCTS – THE MODERN “WORKSHOP OF THE WORLD”.

I, FOR ONE, BELIEVE THAT CHINA WILL SUCCEED IN MASTERING ITS CURRENT CHALLENGES. CHINA IS STILL CRUCIALLY IMPORTANT TO OUR INDUSTRY’S IMMEDIATE FUTURE. IN THE RUN-UP TO THE CRISIS, IT BALANCED THE ECONOMY BY RUNNING A TRADE SURPLUS THAT PEAKED AT 9 PER CENT OF GDP IN 2007. IN THE AFTERMATH OF THE CRISIS, IT REPLACED LOST EXPORTS WITH A HUGE CREDIT-FUELLED INVESTMENT

BOOM, WHICH SAW INVESTMENT RISE TO HALF OF GDP – UNSUSTAINABLE IN AN ECONOMY WHOSE RATE OF GROWTH IS FALLING RAPIDLY.

HOW WILL CHINA NOW MANAGE ITS EXCESS SUPPLY OF SAVINGS WITHOUT SUFFERING A DEEP RECESSION? THE ANSWERS ARE LIKELY TO INCLUDE A RISE IN TRADE SURPLUSES, PROMOTED BY A WEAKENING EXCHANGE RATE.

WE SHOULD NOT FORGET JAPAN. THERE, THE CORPORATE SECTOR IS THE MAIN

SOURCE OF EXCESS SAVINGS. BUT, UNLIKE GERMANY, JAPAN HAS BEEN WILLING TO OFFSET THE HUGE FINANCIAL SURPLUS OF THE CORPORATE SECTOR WITH A HUGE FINANCIAL DEFICIT IN THE PUBLIC SECTOR, THE RESULT BEING EXCEPTIONALLY HIGH LEVELS OF GOVERNMENT DEBT. I BELIEVE THAT JAPAN'S PRESENT GOVERNMENT IS ON THE WAY TO OVERCOMING THE HUGE IMBALANCE BETWEEN PRIVATE INCOME AND DESIRED SPENDING IN THAT COUNTRY, PRIMARILY BY ENGINEERING A FAR LARGER

CURRENT ACCOUNT SURPLUS. THE JAPANESE GOVERNMENT HAS ALREADY STARTED TO IMPLEMENT POLICIES THAT WILL BRING ABOUT THIS RESULT.

THE FINAL MAJOR SIGN OF RECOVERY, FOR THE SHIPPING SECTOR, IS BEING DRIVEN BY THE WILLINGNESS OF THE UNITED STATES TO BEAR THE RISKS OF LARGE NET CAPITAL INFLOWS. THE UNITED STATES IS CRITICAL, BECAUSE OF ITS SIZE AND ABILITY TO BORROW IN DOLLARS, WHICH WILL REMAIN THE WORLD'S BASIC CURRENCY.

AT THE VERY LEAST U.S. SPENDERS WILL,  
ONCE AGAIN, HAVE TO PULL NOT ONLY THEIR  
OWN ECONOMY BUT MUCH OF THE REST OF  
THE WORLD.

I'M SURE YOU WANT TO HEAR ABOUT  
EUROPE. THE COLLAPSE IN GDP BETWEEN  
2008 AND 2013, TOGETHER WITH A FALL IN  
REAL DOMESTIC DEMAND, WHICH  
SHRIVELLED BY 5.9% FROM EARLY 2008 TO  
THE THIRD QUARTER OF 2013, MAKES IT  
DIFFICULT FOR US TO BELIEVE IN A  
SUSTAINABLE DOMESTIC SPENDING BOOM.

THE MONETARY POLICIES OF THE EUROPEAN  
CENTRAL BANK WILL, I THINK, ONLY  
SUCCEED IF A FALLING EURO HELPS TO  
PROMOTE A BOOM IN NET EXPORTS.

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ON THE SURFACE, ALL OF THIS SOUNDS  
LIKE A VERY DRY ECONOMICS LECTURE. I  
BELIEVE, HOWEVER, THAT IT GOES TO THE  
HEART OF WHAT AILS THE SHIPPING  
INDUSTRY IN GENERAL – MUCH MORE THAN  
OVERTONNAGING AND AN OBSESSION WITH  
METRICS.

THE IMPORTANT THING IS TO BE ABLE TO  
CORRECTLY PREDICT WHAT IS GOING TO  
HAPPEN; AS WE PROGRESS THROUGH  
VARIOUS PRESENTATIONS TODAY, LETS ASK  
THIS QUESTION: WHAT IS GOING TO HAPPEN  
OVER THE NEXT YEAR OR TWO? YOU HAVE  
HEARD A FEW OF MY PREDICTIONS. I  
WON'T COME BACK NEXT YEAR, UNLESS IT  
LOOKS THEY'RE ON TARGET.

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