Opportunistic moves, fresh air and volatile freights

Miami Beach, Florida was the site for the Association of Shipbrokers & Agents (ASBA) ‘s annual Cargo Conference event. This conference, drawing nearly 300 attendees, brings its members together for presentations bundled together with extensive networking. Not surprisingly, a large contingent of attendees from the Caribbean countries were in evidence, along with ASBA members from all over North America. Topics cover worldwide shipping market developments, as evidenced by a keynote talk by a talk by Jason Klopfer, who continues to gain wide exposure for Navig8, maybe prior to a quiet time when the company will not be able to present at such events. Mr. Klopfer provided a breath of fresh air compared to informative but unexciting oil company or legacy company speakers. He emphasized the advantages of shipping people (versus outsiders with superficial industry knowledge) in choosing niches with the best upside exposure, that sharp observers might find prior to full-blown market upticks which become publicized after the bloom is already off the rose. Examples include LR1 and LR2 tankers, rather than MR tankers, as a way to participate in the ongoing shifts in the “product tanker” trades. Similarly, Mr. Klopfer showed a series of expert forecasts that severely underestimated the seaborne movements of LPG, creating opportunities for those who invested in the early part of the cycle- before its mid-point. The speaker also expressed optimism regarding handy chemical tankers, besides pointing to likely increases in ton-miles from the longer voyages as crude oil moves out to Asia from Atlantic origins on VLCCs.

A grouping of presentations on niche cargo markets highlighted the importance of freight- where the actual movement of cargo is a function of freight- where fluctuating ship hires create opportunities to move cargo. The presentation by Suncor’s Mr. Ash Haq was particularly timely- coinciding with the Canadian energy powerhouse loading a shipment of oil sourced in Alberta and bound for eastern Italy- the first export to Europe of Western Canadian crude. The shipment was loaded on “Minerva Gloria”- with approximately 450,000 barrels trans-shipped after moving from its origin, in a small unit-train. Market observers were also pointing to a Stealth vessel set to load a Suncor cargo bound for the U.S. Gulf. Mr. Haq offered a hint of a new trade lane, as the pipelines presented on his Powerpoint slides linking Alberta with New Brunswick (with Montreal in between), begin to open up. Later this year, the reversal of an existing crude oil pipeline will bring crude oil from Montreal to refineries in the nearby Canadian maritime provinces. Several years out, new lines will bring oil from Western Canada eastward. In all likelihood, there will be many additional cargoes on similar routings- buoyed by the (temporarily?) soft tanker hire structure in the Atlantic.

Movements of petcoke (with a market size of 124 million metric tonnes annually), expertly explained by Berthold Kren- from cement maker Lafarge SA, are an example, who said that the days of “…looking at shipping as a simple part of supply chains…” are over. Mr. Kren addressed issues of pricing hedging in the underlying commodity, providing graphics which showed the correlations with a trio of widely quoted coal indices. Rio Tinto was also on the program- with its speaker addressing movements of bauxite! (somewhere on the cusp of major bulk versus minor bulk), rather than iron ore- the dominant cargo in the drybulk sphere.

Contributed by

Barry Parker

Barry Parker is a financial writer and analyst. His articles appear in a number of prominent maritime periodicals including Lloyds List, Fairplay, Seatrade, and Maritime Executive and Capital Link Shipping.

Financial trends have a profound impact on ASBA members, along with the ebbing and flowing tides of vessel supply and demand.. Two excellent presentations, by DVB’s Neil McLaughlin- on the drybulk team, and Morgan Stanley analyst Fotis Giannakoulis, with one of the better question/ answer sessions at such conferences, provided useful insights into what might be happening now. While Mr. McLaughlin emphasized the bankers’ ways of mitigating risk, Morgan Stanley’s man offered some excellent views into the psyche of investors- who face the high class problem of having to deploy vast amounts of money- what Mr. McLaughlin had referred to as “…a super abundance of capital….” that had been formed over the past 20 years. Expectations of hires above break-evens abound in the equity pricing algorithms; the Morgan Stanley analysis of stock prices suggested that investors are “…discounting hires above $25,000/day…” on the revenue side for Capesize vessels, for the next year. The excitement predicated on volatile revenues could be contrasted with a theme voiced by Navios’s Mr. Fred Gordon, on an earlier panel, who emphasized economies of scale, across 100+ vessels (spread across three entities that are presently listed), and cost control.

DVB’s Mr. McLaughlin’s assessment of equity capital markets for shipping noted that IPO’s, as new companies emerge, were subdued in 2014, but that markets for “follow on” issues by already listed equities were active. He said that the debt side of the market “…remains healthy…” with the prevalent low yields. Different structures (for example “Baby bonds”) were coming onto the scene. Term loan “B” arrangements, essentially having a bullet repayment, were described as not being highly prevalent “yet”.