



Capital Link Shipping Weekly Markets Report



Monday, January 20, 2015 (Week 3)

IN THE NEWS

Who's going where? And how fast?

Rainstorms, ice storms, fog....all of these are excellent catalysts for staying indoors and catching up on various postings on Linked In. Fortunately, my home office is adjacent to a great big fireplace- no gas logs for me. Of great relevance, recently, are numerous postings on subjects such as the impact of low fuel prices on the speed of ships. Speed, of vessels, in turn, has an important impact on capacity utilization- if the fleet is limping along (slow steaming), utilization can be higher, at least temporarily. Once hires become more enticing, then it's worth money for operators to speed up. Factoring lower fuel prices into the equation provides further incentives for shipowners to turn up their engines.

Though I dashed off some quick ripostes on Linked In, basically challenging the various commentators who suggested that vessels were so efficient that they would not speed up, it was clear that I did not have objective evidence to determine exactly what types of vessels were moving at what speeds. Intuitively, I would guess that tankers are surely going faster than they were four months ago (more bucks to be made if they can get to the next cargo, less cost when cranking it up because intermediate fuel is now around \$300/tonne- depending on location and specs, or less, rather than \$700/tonne that we saw over the past three years. Apologies, of course, to Paddy Rodgers of Euronav (now back on the IPO trail), who has stated forcefully and eloquently that tankers will not speed up in response to a stronger market and cheaper fuel. But, really, what's needed is some objective evidence. After all, quite a few people spend a lot of time trying to prognosticate the likely extent of the current rally- reflecting the sizable sums (certainly in the \$Billions of vessel asset values, and thus, market capitalization of shipping companies).

My friends at University College in London have been at the forefront of measuring what ships are going how fast. Along with others, they've been under contract from the International Maritime Organization (IMO) and other organizations to measure such things- and, with this information, to infer exactly how much CO₂ is being emitted. It's called a bottoms-up approach, where you count vessels and figure out what they are doing. Recent regulatory developments, where vessels are required to transmit positions, using the Automatic Identification Systems (AIS) technology, has enabled much more informed analytics, offering real objective evidence- instead of punditry, positing and posturing.

For those readers who have time to study this issue, see UCL's 2013 report on Ship Efficiency, prepared for the International Council on Clean Transportation, a Washington, DC based NGO, the first such study to make extensive use of AIS tracking. It can be found online at http://www.theicct.org/sites/default/files/publications/UCL_ship_efficiency_forICCT_2013.pdf Maybe because of its location in London, the UCL team is more aware of commercial shipping market realities than most academics. Necessarily, its Greenhouse Gas work, considers the impact of efficiency (which can be defined as how much "work" is performed per unit of energy consumed), but UCL looks at impacts on both time charter and second hand markets, where fuel efficient ships tend to earn more and hold more value.

Important for my musings on LinkedIn and elsewhere, UCL has comparing inferred movements of the "fleet" in 2007 (when average bunker prices were in the \$300/tonne range) with those from 2011. The

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study mentioned above found that vessels were going 10% - 15% slower, in looking at 2011 movements (when bunker prices were at steadier \$700/tonne levels). Yes- at higher fuel prices, ships do indeed slow down. Quantifying such impact has huge \$ implications, as noted, besides keeping both market pundits and shipowners honest when opining on slow steaming. There's more work to be done.

The UCL study states: "This study demonstrates there is a large potential for Satellite AIS data to be useful for understanding ship operational behaviour and efficiency." Readers who are interested in learning more about AIS tracking may already have been in touch with a number of sources who make such information available- some of whom find their way into business media articles about shipping. The data for the UCL effort was supplied by a Canadian outfit called ExactEarth Ltd. which offers the ability to display AIS positions on a map following the ESRI protocol (a widely used platform). A web browser interface, called ShipView allows novices (not skilled in manipulating geospatial "layers") to see ship positions through a web browser.

There is a tremendous amount of information on ship movements out there, with many others in the business (though lacking the constellation of owned satellites in the ExactEarth fleet. Value added comes from data fusion- with any of the products mentioned here, programmers can use APIs (not a reference to light oil, but rather "Application Programming Interfaces") to fuse ship positions with "something else"- it might be current news items (often licensed from a well known provider) ship descriptions (which might come from a provider of such data) or vessel images, or it might be port information (licensed from a producer of port directories). Map platforms vary- some use Google maps while others use the more sector specific Jeppesen (part of Boeing). I-H-S offers something called AIS-Live, while Informa offers something called Seasearcher. Other sources of position data include Marinetraffic.com (out of Cyprus), Vesselfinder.com (from Bulgaria), Fleetmon.com (from Germany) and Shipfinder.com (out of China)

Still others focus on linking ship movements to activity in the underlying commodities. These include Genscape (whose offerings include something called Vesseltracker.com), which concentrates on movements of crude/ petroleum products. A new entrant, ClipperData (no relation to the Bahamas based shipowner) is a startup staffed by Genscape alums. Another provider, Vesselsvalue.com, better known for its algorithms for valuing vessels- also provides geospatial studies- aggregating and, most importantly, providing objective visualizations from the massive amounts of AIS data- questions like what's going where? and how fast?

In the hands of good analysts, such data could open up a new realm for the same tired supply and demand models presently in use.