

Scrapping has enjoyed counter-cyclical boom but is there a sting in the tail?

Evan Sproviero, a trader and head of projects and finance at cash buyer Global Marketing Systems (GMS), explains what Victorian novelist Charles Dickens has to teach us about the shipping market, including scrapping, and whether it is in the best of times or the worst of times

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness...” Oddly enough, no one in today’s world could better describe the current shipping markets as well as English Victorian era writer and social critic Charles Dickens. Rather than telling you the Tale of Two Cities, in this brief article, I will attempt to deliver the saga of the modern shipping market — particularly as it relates to recycling.

To properly understand the recycling markets, one must first have a base knowledge of the greater shipping industry. The trends in the world of ship recycling are typically counter-cyclical to the overall shipping business. Generally speaking, a freight and vessel values bust tends to result in a shiprecycling boom. Given the extreme volatility and downward pressure that has been felt throughout the industry since the 2008 financial collapse, it is only normal to expect that ship recycling would experience record-breaking numbers during this period. Correlating to some of the worst shipping markets in modern history, the recycling sector did experience an all-time record-breaking year in 2012 with about 56.5 million dwt making its way to the beach. The question is, however, for how long can this cleansing of the fleet last?

This corresponds directly to the previously mentioned link between the freight markets and their relationship with the recycling industry. Some leading industry experts believe we are currently living in the “best of times”, convinced that the bottom of

the market has now come and gone, and opportunity is plentiful. Others, however, contend that we are still in the midst of the “worst of times”, claiming the depressed market and hangover caused by the newbuilding orderbook is likely to last for several more years.

The only somewhat uniform consensus seems to be that the next year or so will likely remain very weak across the board. Focusing now on where we believe the recycling markets are heading is a little bit of a difficult task, although it is certain that, year-over-year in 2013, the total number of ships recycled is slightly down from last year. This is not surprising as earlier in the year there were some slight upticks in the cargo markets that gave some owners hope for a potential recovery. At the same time, many banks looking to limit their number of write-downs are helping owners to “kick the can” a little further down the road, also wishing for a recovery. With this



► **EVAN SPROVIERO:**

Says he expects the recycling industry to experience a very strong fourth quarter.

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being said, the idea of third drydockings is starting to become more of a legend than common practice in some sectors, while the age profile of ships being recycled has been steadily decreasing and now stands at an average of just 29. In some sectors, we have seen early 2000s-built ships being recycled.

At the moment, the recycling industry is steady, although it is feeling the effects of summer vacations and the monsoon season in the subcontinent. As to be expected, summer pricing has been a bit less aggressive than it was earlier in the year, and the volatile Indian rupee has not helped to improve the situation. For the past month or so, the rupee has been flirting with levels of INR 60 to \$1. The local governments in the subcontinent have been fighting to maintain and strengthen the currency that we expect will stabilise by the end of the summer. With that being said, sub-continent prices still remain at or around the \$400 per ldt level, with prices for some units recently falling to the region of \$380 per ldt. These levels may seem a bit weak compared to some of the peak pricing witnessed earlier this year — although it is important to remember that, relative to historic averages, the current levels are rather robust.

Looking forward, we anticipate the recycling industry to experience a very strong fourth quarter with large quantities of vessels being recycled in the wake of an upsurge in newbuilding orders and little short-term respite in the freight markets. It should be an active and interesting autumn as we transition from what some viewed as the “spring of hope” to what others fear will be the “winter of despair”.