

Asia Greater China Shipyards

Asian shipyards contend with spiralling steel plate costs



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Enjoying a longer orderbook than they've had for more than a decade, Asia's shipyards are having to contend with soaring input prices, likely leading to some testy negotiations with owners for higher priced contracts in the coming months.

Labour costs are increasing at yards in East Asia while steel plate prices, which typically make up around 20% of a ship's costs, are also leaping.

In South Korea, for instance, POSCO, the nation's top steel mill, is set to finalise negotiations with yards this week for an increase by at least KRW100,000 (\$79) per ton, meaning the price of heavy steel plate will have doubled since 2020 to around KRW1.3m per ton.

Steel mills are having to contend with hiked prices of their own with iron ore prices up by 22.5% this year and coking coal also up by 47%.

In Japan, Nippon Steel has also been raising prices of heavy steel plates by more than \$150 per ton this year while Chinese steel plate today costs around \$800 per ton, up by around \$250 per ton since April 2020. In China yards have also had to contend with expensive fallouts from repeated lockdowns.

Splash reported at the start of the month that according to Clarksons newbuild prices are experiencing the sharpest increase for almost two decades thanks in no small part to the extremely high number of containerships and LNG carriers ordered over the past 15 months.

Vessel newbuilding prices have been rising for over a year, and the overall Clarkson Newbuilding Price Index now stands at 158 points, up 26% since the November 2020 low, indicating the highest prices – in nominal terms – since 2009.

“The pace of increase has been rapid and the gain in our index over the last 16 months is the sharpest percentage rise over any equivalent period since 2005,” Clarkson Research Services stated.

Despite the 26% increase in overall newbuild prices, shipbuilders are not making massive profits, Clarksons pointed out.

“A basic inflation adjustment suggests that in ‘real’ terms newbuild prices are actually still below start 2016,” Clarksons suggested.

Christopher Rex, head of innovation and research at Danish Ship Finance, told *Splash* today that it was difficult to predict the impact of the rising input costs for yards.

“Component cost is not the only concern for yards that have an order cover of three years,” he said, adding: “I think that the good first tier yards are having the upper hand negotiating prices these days.”

While the cost of steel plate will be a concern for Asian yards, Martin Rowe, a broker with Clarksons, told *Splash* that the weakness of both the Japanese Yen and Chinese RMB currencies was important to bear in mind, as was the recent softening in iron ore prices, twin factors that ought to be favourable in US dollar terms for newbuild prices.

The rising steel plate prices are also having a noticeable effect on the ship recycling sector.

Kiran Thorat, a trader with cash buyer GMS, speaking on the company's latest podcast this week, said prices for steel in India were increasing, something that has been exacerbated in recent weeks by the war in Ukraine.