Surge in capsize scrapping expected

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Norwegian broker Lorentzen & Steroco says as many as 100 capesizes could be disposed of by the end of this year.

THE influx of new tonnage combined with weak earnings have prompted a surge in capsize bulk carriers being sold for scrap this year, if the current trend continues this could mean as many as 100 capesizes being disposed of for demolition by the end of this year, according to Norwegian broker Lorentzen & Steroco.

But even that formidable depletion would only make limited inroads into the rising overcapacity and the projection assumes that scrap prices will continue to be attractive for owners.

In its latest weekly report L&S calculates that some 48 capesizes have been sold to breakers so far this year, which equates to about 6.3m dwt, base on an average 160,000 dwt per ship. Clarkson's figures put the total capsize capacity committed for demolition at 5.7m dwt.

This suggests that if the pace of scrapping continues through the rest of 2011, about 100 ships aggregating about 16m dwt could be taken out of the struggling market this year. When panamaxes and handysize ships are added, the total disposal of bulk carriers would exceed 20m dwt.

Some 130m dwt of new dry bulk capacity is due for delivery this year, after allowing for cancellations and delays about 90m dwt is actually expected to be delivered, more than four times the capacity that could be scrapped, even if the current pace of demolition disposals is maintained. Demand growth is forecast to add about 50m dwt to the total tonnage requirement, still leaving a surplus of supply over demand growth, but narrowing the gap to some degree.

L&S attributes the rush of capsize scrapping to the reduction of freight rates to operating cost levels, with little indication of any significant improvement. High bunker prices make older vessels trading in the spot market uncompetitive. In addition rising steel costs make the expense of putting ships through special surveys uneconomic, while higher scrap prices on offer are proving tempting for owners.

The broker pointed to a recent sale of the 23-year-old, 305,000 dwt Alster N for $910 per ldt giving a windfall of $22m. But US-based cash buyer CMS has reported that prices are weakening for dry bulk tonnage to below $500 per ldt due to the increased availability of tonnage for demolition.

However, a further easing of scrap prices combined with lower bunker prices and an improvement in capsize earnings could tempt owners with paid up older tonnage to keep them trading a bit longer. This could slow down the rate of disposals and prospects of reducing the supply/demand imbalance.

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