Too early to call

Flagging freight rates could be set to receive a welcome boost following China’s decision to end its currency’s decade-long peg to the US dollar

China’s decision to allow the Yuan to rise by 2.1% from its previously fixed rate of CNY8.3 to the dollar will make the import of raw materials cheaper.

“From the tanker industry perspective, at a stroke Chinese oil imports have become slightly less expensive,” said London shipbroker EA Gibson.

“Similarly the value of the massive shipbuilding output already on order will be reduced when owners’ dollar payments are banked.”

EA Gibson said the potentially lower value of these exports is “unlikely” to conflict with China’s objective to be the world’s largest shipbuilder by 2015.

Yang Xinkun, deputy secretary general of the China Association of Shipbuilding Trade said China’s shipbuilders were unlikely to lose orders because of the revaluation.

“In our industry, about 40% to 60% of the components are imported, so that will help to reduce rises in the cost of ships,” he said.

But the appreciation of the Yuan could prove a double-edged sword for shipping, with exports from China likely to be curtailed.

Korean owners such as Hyundai Merchant Marine and Hanjin Shipping, whose business focuses heavily on container shipments, saw their share prices fall.

Investors were worried that possible further revaluations of the Yuan would dampen trade ties with South Korea’s giant neighbour.

“The container business depends on trade volumes between China and the US and China and Europe,” said Lee Hoon, an analyst at Samsung Securities.

Although the 2.1% revaluation of the Yuan on Thursday was modest, more revaluations could have an adverse impact on exports out of China, analysts said.

But Singapore container line Neptune Orient Lines (NOL) sees no immediate impact on its business from China’s revaluation of its currency.

“We do not expect the appreciation of the yuan so far to have a significant impact on China’s exports as China remains highly competitive as a production base,” NOL said.

In the short term the revaluation appears to have done little for the China’s demolition industry, according to US-based cash buyer Global Marketing Systems (GMS).

“While there is positive news on the Yuan, the Chinese ship recycling industry remains a distant fourth amongst the group of four leading recycling nations,” it said.

In the wake of China’s revaluation of the yuan, Malaysia scrapped its ringgit’s seven-year peg to the US dollar and opted for a managed float system.

Shipowners like Malaysia International Shipping Corp (MISC) that have massive foreign debt stand to gain as the de-pegging lowers the cost of borrowing.

By Dale Wainwright in Singapore

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