7 December 2015

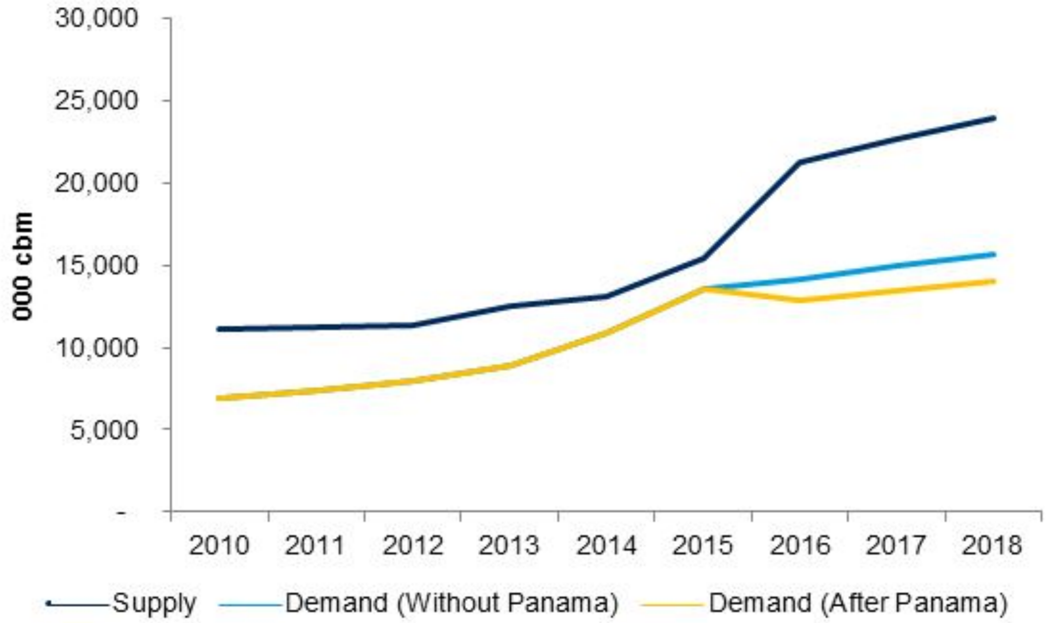
LPG shipping rates heading for a fall

London, UK, 7 December 2015 – LPG shipping rates are expected to decline from the second half of 2016 as a bloated orderbook for VLGCs (very large gas carriers) fuels fleet growth that will far exceed shipping demand, according to the latest edition of the *LPG Forecaster*, published by global shipping consultancy Drewry.

VLGC earnings have had another stellar year, averaging above $2.0 million per calendar month in the period to September 2015. This has been driven by three principle factors: rising US exports; an increase in long-haul trades thanks partly to higher US LPG import penetration to Asia countries; and the slow pace of vessel deliveries.

US exports have increased significantly in recent years on the back of rising domestic production and expanding LPG export infrastructure, rising 2.5-fold in the two years to 2014. This year's exports had already surpassed those of 2014 by the end of the third quarter.

VLGCs supply-demand gap



Source: Drewry Maritime Research

On the demand side, China's imports rose largely on account of new PDH (propane dehydrogenation) plants becoming operational. The country imported 8.4 million tonnes of LPG during the first nine months of 2015, exceeding 2014 full year import figure of 6.9 million tonnes. Much of this rising consumption is being fulfilled by US LPG, creating greater demand for larger vessels. Similarly, Japan and South Korea are also diversifying from Middle East supplies to US LPG in order to strengthen their bargaining power.

But while trade continues to grow, shipping capacity has not expanded at the same pace. Only eight VLGC vessels were delivered last year while just 20 joined the fleet during the first three quarters of 2015. Therefore, the gap between VLGCs shipping supply and demand has declined sharply over the past two years which has resulted in high freight rates.

“Going forward, we expect US exports to stay high with new production capacity coming on-stream. We also anticipate that Asian buyers will continue with their diversification programme away from Middle East supplies as US LPG still accounts for less than a third of major Asian countries' imports. However, the downside for shipping is that vessel fleet growth is expected to accelerate and so widen the supply and demand gap from 2016 onwards”, said Shresth Sharma, senior analyst, gas shipping at Drewry.

Moreover, the expanded Panama Canal will also cut the voyage distance between the US and the Far East by over a third, which will have the effect of further widening the supply-demand gap during 2016-18.

“Although we do not anticipate a sudden fall in freight rates, we do expect rates to start decreasing from the second half of 2016 as the fleet expansion accelerates. While the spot market provides some good short term earnings opportunities, we recommend that shipowners secure longer term charters over the next few months before the market softens on excess fleet supply growth”, added Sharma.

END

“LPG Forecaster" is a quarterly report published by Drewry Maritime Research and is priced at £2,115 for an annual subscription. The report is available from the Drewry website www.drewry.co.uk.

For further information, please contact James Harley, Drewry’s Head of Marketing:

Drewry,
15-17 Christopher Street,
London EC2A 2BS
United Kingdom

T: +44 (0)20 7650 1676
F: +44 (0)20 7987 9396
E: harley@drewry.co.uk
W: www.drewry.co.uk

About Drewry

Drewry is a leading international provider of research and consulting services to the maritime and shipping industry. From its origins in 1970 London to a 21st century maritime and shipping consultancy, Drewry has established itself as one of the most widely used and respected sources of impartial market insight, industry analysis and advice. Offering a unique combination of sector knowledge, rich market insight and commercial awareness Drewry is able to consistently deliver the performance, profitability and competitive advantage its clients seek.

Drewry serves its clients through four business units: Drewry Maritime Research, publishing market-leading research on every key maritime sector; Drewry Maritime Advisors, supporting the needs of shipping and financial institutions; Drewry Supply Chain Advisors, providing seafreight procurement support to retailers and manufacturers; and Drewry Maritime Equity Research, delivering an Investment Research Service on listed companies operating in the industry.

Drewry has a truly global perspective of the maritime sectors and areas of expertise it covers and employs over 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai.