Depreciating dollar dashes hopes for Chinese cash call

Owners warned not to rely on China to pick up the slack from traditional lenders

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INCREASING reluctance by Chinese bankers to lend in depreciating dollars is likely to hit western shipowners seeking finance for newbuildings at a time when credit from traditional US and European lenders remains restricted, well-placed ship finance sources are predicting.

A decline in the number of loans to foreign owners has been evident for several months now, they added. While the tap is unlikely to be entirely turned off, simply ordering a vessel from a Chinese shipyard will no longer be enough to swing a deal.

Preference will instead go to borrowers whose projects are regarded as in the national interest, according to Davide Barzilai, a banking partner in the Hong Kong office of Norton Rose. He confirmed that the prominent law firm is pricing fewer term sheets from Chinese shipping deals, although he declined to quantify the extent of the decline.

There are also question marks over the relevance of the $5bn facility for Greek owners unveiled by Chinese prime minister Wen Jiabao on a state visit to Athens last October, with another shipfinance specialist claiming that to the best of his knowledge, no deals have yet been done under the scheme.

Chinese banks have only been involved in the international shipping market on any real scale since the banking crisis broke in September 2008, when traditional home turf sources of funds dried up overnight.

The development was hailed at the time as a lifeline, and even sparked speculation that they could rapidly hoover up the bulk of the available business. From the Chinese standpoint, the policy was regarded as a desirable means of keeping Chinese shipyards in business.

However, the picture has changed rapidly, with domestic inflation and soaring property prices now at a point at which Beijing has ordered curbs on lending. Last month Chinese banks lent just Yuan551.6bn ($85bn) in new loans, compared with Yuan739.6bn in April, according to the People's Bank of China.

Workers at a yard in Dalian: Chinese banks only became involved in ship finance to help ailing Chinese yards after the 2008 global downturn. *Bloomberg*

"Just over a year ago, the Chinese appetite for lending in US dollars wained. What we saw was a reduction in non-strategic ship lending and a definite decline in US dollar lending generally," Mr Barzilai said.

Such lending as continues to be done is generally handled by branch offices outside mainland China, such as Hong Kong or even Tokyo, where there is a good base of dollar deposits. Backing from export credit agency Sinosure is now essential.

"If there is a strategic reason for the project to get finance, it will get finance. But there has to be very strong China links, such as a long-term charter agreement in place on delivery with a Chinese charterer, or a link with the energy or resources sector.

"If it's just a matter of a Chinese shipyard, that may not be enough any more. If you are coming to a bank afresh and they don't know you, then you are going to have difficulty."

Janos Koenig of shipfinance consultant Eurofin added: "You won't get any money from a Chinese bank unless you have a Chinese element [in the deal]. You probably need to have two Chinese elements, both building in China and longterm employment. One or the other is a definite must."

Although owners such as John Angelicoussis, Diana Shipping, George Prokopiou and a few others have struck deals, the number of transactions has been small.

"In China, people don't want to keep dollar deposits, because they fear the dollar will depreciate against the renminbi.

"Therefore the ability to fund is low. Coupled with that, you have demand from major and second tier Chinese owners.

"Either banks don't have the ability to provide dollar funding for foreign owner, or if they do, it is at higher cost. We have seen a lot of talk, but nobody is able to walk the walk."

Mr Koenig said that he was unaware of any deals done as part of the $5bn credit line extended to Greece last year. Although the deal was politically motivated, it has still to take effect. "I'm not saying it won't happen, but it is not evident as yet," Mr Koenig said.

Paul Slater, chief executive at consultancy First International, said that the $5bn was still available, but had found few takers. "Chinese yards, both government and private, are still offering finance for new orders, but little is happening," he said. ■

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