Shipping Lines Say Tight Credit Cutting World Trade (Update2)

By Chan Sue Ling, Bloomberg

Oct. 15 (Bloomberg) -- **Pacific Basin Shipping Ltd.**, Hong Kong's biggest dry-bulk carrier, and **Precious Shipping Pcl**. said demand for moving coal, iron ore and other commodities will fall because banks are guaranteeing fewer loads.

``Letters of credit and the credit lines for trade currently are frozen,'' **Khalid Hashim**, managing director of Precious Shipping, Thailand's second-largest shipping company, said in Singapore yesterday. ``Nothing is moving because the trader doesn't want to take the risk of putting cargo on the boat and finding that nobody can pay.''

The lack of letters of credit, in which banks guarantee payment for merchandise, could become a ``big issue'' for world trade, according to **Klaus Nyborg**, Deputy Chief Executive Officer at Pacific Basin. Tighter credit has contributed to this year's 80 percent drop in the **Baltic Dry Index**, a measure of commodity-shipping costs. About 90 percent of world trade moves by sea.

``This can have a significant effect on demand because you won't see the same volume of cargo moved,'' Harold L. Malone III, senior vice president at Jefferies & Co., said at a Marine Money conference in Singapore. ``You have to figure out other ways to get trade done.''

The **Baltic Dry Index** dropped 8.5 percent to 1,809 points yesterday, the lowest since August 2005. Pacific Basin dropped 6.5 percent to HK$4.75 in Hong Kong and Precious Shipping declined 5.5 percent to 12.1 baht in Bangkok.

Vessel Owners

Banks worldwide have curbed lending because of increased concerns about getting their money back. Shipowners are already struggling to obtain funding for new vessels. Precious Shipping took as long as 15 months to secure financing for 18 vessels it has on order, Hashim said.

The maritime sector needs about $300 billion over the next three to four years to fund construction of vessels that are already on order, according to Nordea Bank Finland Plc. At least a quarter of container ships, dry-bulk vessels and oil tankers on order are not financed, according to Seaspan Corp., the Hong Kong-based ship lessor.

Swings in the London interbank offered rate, which lenders typically use as a base for writing new loans, have made it difficult to decide what price to charge new customers.

``The banks cannot fund at Libor rates at the moment,'' said **Keishi Iwamoto**, head of shipping for Asia at Sumitomo Mitsui Banking Corp. ``The question is how do we tackle the additional costs for lenders.''

Borrowing Costs

German banks with funds to lend are offering about 200 basis points above Libor, double previous rates, while in Singapore the rate is plus-350 points, according to **Tobias Koenig**, managing partner of **Koenig & Cie.** In the main though, shipping lines aren't able to borrow, he added.

``There is no rate because all banks are closed for business,'' he said. ``You have a few banks rescuing their best customers, but that's it.''

More than two-thirds of 104 bankers polled said they were unable to obtain funding at or close to Libor, according to an October survey by trade publication Marine Money Asia. About 80 percent expect shipping bankers will not be able to raise enough financing for clients this year and next, the survey showed.

``There are a lot of banks that will do deals today but they will do it on a bilateral basis with good clients, which they have long relationships with,'' Tom Zachariassen, an executive at Nordea Bank, said yesterday.

Libor, set by 16 banks in a survey conducted by the British Bankers' Association each day in London, determines rates on $360 trillion of financial products worldwide, from home loans to derivatives. The cost of borrowing in dollars for three months fell 12 basis points to 4.64 percent yesterday.

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