Down, down, down

COMMODITY traders – and their close cousins the ocean freight traders –have a maxim that impels them to initiate trades on a rumour and exit their positions once the facts emerge. There are several schools of thought on the present drybulk slowdown, which intensified on the eve of the Olympics opening ceremony.

The indicators are undeniably negative, at least for the present. A Baltic Exchange composite of four Capesize timecharter trip routes, which peaked above $230,000/day in very early June, then stabilised around $150,000/day in mid June, began another steep drop. The composite has now dropped below $120,000.

Nor were Panamaxes immune from the market's softer sentiments. Mere months after their $90,000 a day zenith, a similar Panamax composite has now plunged towards $50,000 a day. Supramaxes that had basked in $70,000 a day glory were now down to around $45,000/day.

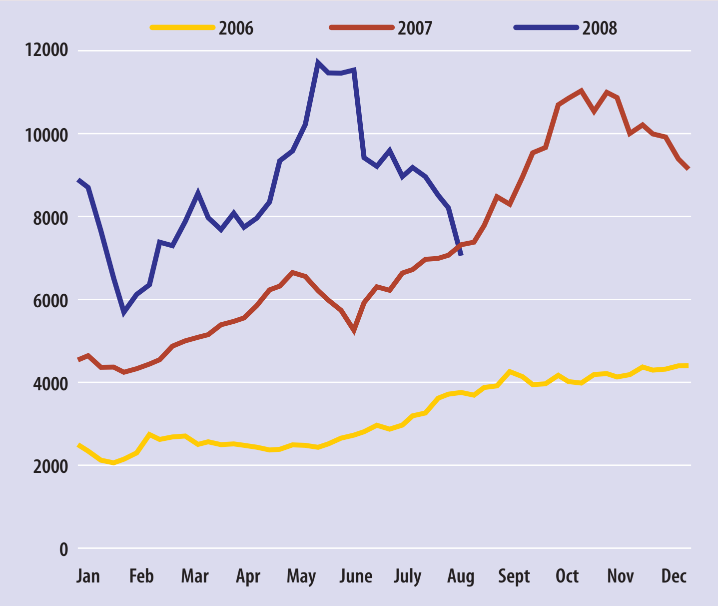
In the Capesize spot market, the Excel-owned 174,000dwt *Cape Veni* (built 2007) was fixed to Noble for a trip out of the Atlantic, starting in Fos, via Sept Isles in Quebec, out to China, at $145,000 a day. In Pacific business, Rio Tinto paid $122,000 a day fixing the 2007-built *Mona Century*, 172,000dwt, with delivery and redelivery in China on a trip via West Australia.

In voyage trades, *Genco Constantine* took a 160,000-tonne load from Port Hedland into Qingdao, at $28 per tonne, with standard terms. From Brazil, Noble booked a Capesize cargo, on *Hebei Star*, into the same port, at $70 a tonne.

Panamax fixtures also reveal a sloppy market. The 1997-built *Linda Leah* (another Excel vessel), with D'Amato at $23,650 a day, was relet out to Korean charterers for $42,500 a day on

Baltic Dry Index

Another slow period in the dry bulk market. Capesize rates continued to weaken but then the tempo slowed. Panamaxes face problems with fewer cargoes emerging. In the smaller sectors, fewer voyages were quoted but more timecharter enquiry livened things up.



Baltic Supramax Index

A Tess-52 went for 12 months at a reasonable $50,000 daily. The timecharter theme was louder than the single voyage market. South America was not a happy hunting ground for smaller ships; an overaged 28,000dwt achieved $35,000 daily.

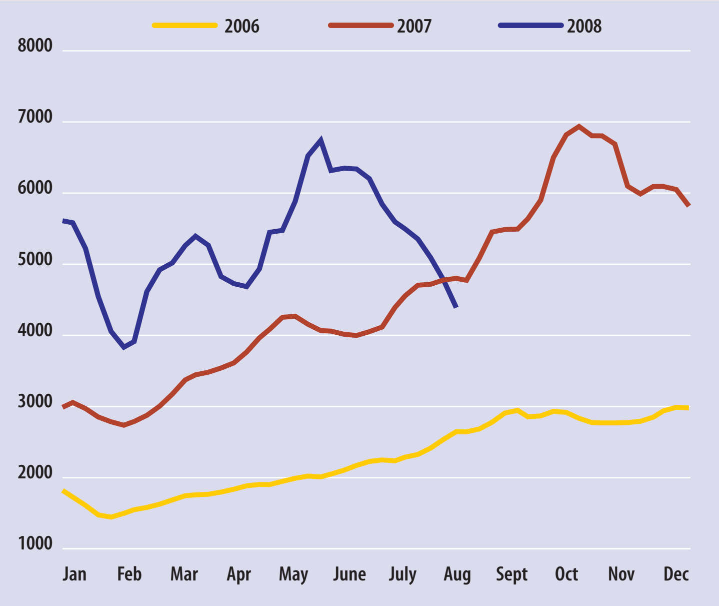


Photo: Southern Cross Maritime

Coals to Newcastle: Newbuilding *Alpha Faith* discharges iron ore in Port Kembla, Australia

an Indonesia round voyage, with delivery and redelivery at Taiwan.

Perhaps rivalling the spot rates in importance is the prognosis going forward. The eagerness of charterers or freight operators to fix long-term periods has abated, but settle prices of FFAs provide clues on market thinking. In the Capesize sector, traders are expecting a firming in 4Q08, with the settle at $138,000 per day. Panamax offer a similar picture, with settle prices for late 2008 closer to $60,000 a day (about $8,000 a day *above* the spot composite). Supramaxes show a flat forward curve throughout 2008.

Beyond 2008, the FFA settle prices show that the recent drop-offs in early and mid-August have indeed created doubts about 2009 and 2010, albeit at levels still way above historical averages for the respective size classes. Typically, the prices for these forward positions were less sensitive to the gyrations of the near market.

Forward rates get spot softness

Now, the 2009 'calendar' Capesize settle has dropped to $113,000 a day, while its 2010 counterpart has slumped to $77,000 a day. In early August, with a spot market of $148,000 daily, the forward markers stood at $127,000 a day (2009) and $87,000 per day (2010). Likewise, the fall in Panamax expectations shows that forward rates are no longer impervious to spot softness.

The analysts at Imarex offer insights - on one hand, Singapore based dry cargo analyst Jeff Landsberg told *Fairplay*: "Basically, after China closed down an additional 220 polluting factories it seemed very likely that freight rates would decline, which they have".

Landsberg's partner Mike Reardon, based in Houston, pointed out: "The interesting thing about the collapse is that it's not all based on the Olympics. The Atlantic market and coal trades are taking just as bad a beating as the Pacific Basin."

The bigger question is whether declines in freight rates portend something more serious for commodities overall. Unlike previous dips over the past year, marker prices such as crude oil and gold have come off sharply.

Imarex's Landsberg put the soft freight market, and the forward rates above spot, into an understandable context. He cited "an Olympic slowdown (in steel production and iron ore imports) tied to a temporary lull in coal exports "from the Atlantic and Pacific Basin."

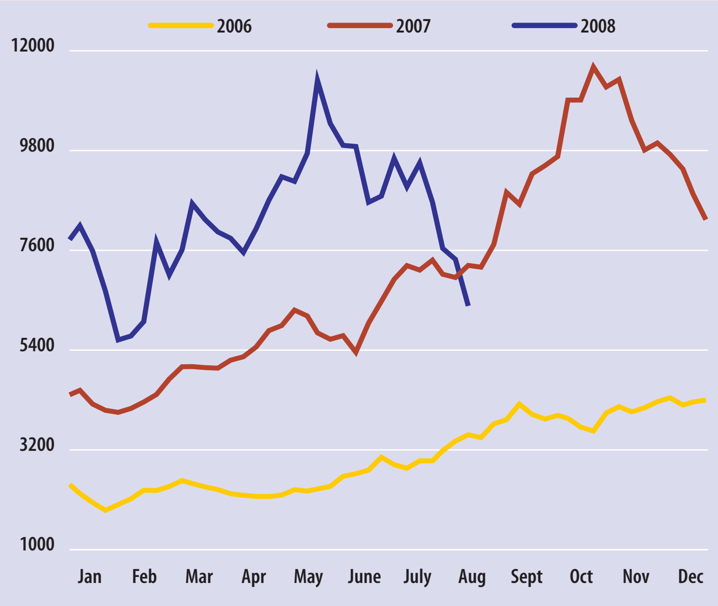
But, looking at the upward forward curves for the remainder of 2008, he commented: "Both these phenomena are temporary."

Baltic Dry Index watchers have repeatedly attempted to trace direct short-term correlations between broader economic conditions and dry freight rates. Each case offers different dynamics. This time, speculative froth may be coming off oil prices, with gold reacting sympathetically.

Both Reardon and Landsberg added: "Thermal coal demand all over the world is very strong and Hebei Steel has just secured $7Bn in credit from the Bank of China – a strong indication that the Chinese steel machine will be back in force after the Olympics." If these analysts are right, drybulk may be experiencing a calm before the storm expected later in the year.

Baltic Panamax Index

Continued steep falls characterised the Panamax market in both the East and the Atlantic. North Pacific rounds attracted rates of about $40,000 daily. The Atlantic was stronger at $55,000 for Atlantic rounds, while fronthauls went at $60,000.



Baltic Capesize Index

Rates tumbled in both hemispheres. West Australia to China voyages went for $27.50 per tonne. Brazil to China went down to $65. The basket of timecharter rates fell to $115,000 and the psychological barrier of $100,000 daily beckons.