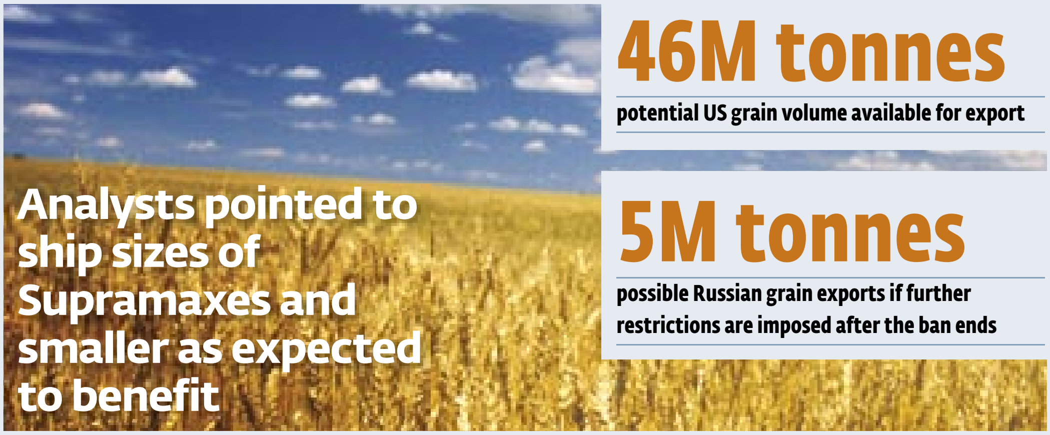
# America prepares to feed the world

Shipping is readying itself for the changes – and the benefits –that are resulting from Russia's grain export ban




An undercurrent of activity in the underlying raw materials has been keeping dry cargo traders busy even during the traditional summer doldrums.

The markets for smaller bulk carriers held the promise of upside, with expected shifts in the commodity markets for wheat following Russia's ban on exports. Ukraine was reported to be considering similar measures. Shipping analysts pointed to ship sizes of Supramaxes and smaller as expected to benefit as a portion of the trade shifts to long hauls – yielding greater tonne miles.

According to the United States Department of Agriculture (USDA),the world's wheat trade totalled around 124M tonnes during the 2009-2010 marketing year. The USDA put the share of exports by Russia/Ukraine/Kazakhstan at nearly 20% for the period; developing countries in Africa and Asia have been identified as major sources of growth in the trade. Egypt, close to Black Sea export facilities, is already the leading importer, taking in 11M tonnes of wheat in 2009-2010.

In the near term, the Handies up through Supramaxes could certainly be winners. Shipping analyst Ole Slorer at Morgan Stanley and his commodity team noted that the slowdown in Russian and Ukrainian wheat shipments combined with a production surplus in the US approaching 27M tonnes "sets the stage for a significant boost in tonne-mile demand as buyers in European and Asian countries are forced to turn to the US as a primary source." This is chiefly a boon for Supramaxes and Panamaxes.

For these vessels, the benefits could be more than temporary if the ban extends beyond its stated expiry at the end of the year. As recently as 1Q10, the USDA said it forecast wheat exports by Russia, Ukraine and Kazakhstan "will increase by about 50% to over 50M tonnes by 2019." In the coming decade, it said, the region could account for more than half the growth in world wheat exports.

The Morgan Stanley team, thinking well beyond December 2010, warned that Russian exports might be cut to just 5M tonnes, a 70% fall, if the country moves to decrease overseas shipments to 10% of production as it did the last time it suffered a drop-off in output. "The US can absorb this increased demand, given that wheat inventories are at an all time high. Exports could increase by 19M tonnes to 46M tonnes – a 70% surge in demand." Analysts also stressed Australia's importance, and the potential for increased tonne-miles.

## Supply disruptions

As Supramax FFAs were stiffening for 4Q10 and 1Q11, fixture reports were already hinting at a response to supply disruptions. Nom (UK), which operates flour mills in West Africa, was reported to have chartered the 28,000dwt *Nikator* (built 2009) at $20,000/day for a timecharter trip with wheat from the Galveston-Corpus Christi range to Nigeria. Navision took the Supramax *Crowned Eagle*, a relet from GMI (56,000 dwt, built 2008) delivery passing Durban, spot, for a trip via east coast South America to the Continent or Mediterranean, for a rate said to be $19,000/day. Owner Eagle Bulk, a Supramax specialist, was mentioned by Morgan Stanley's Slorer as a possible beneficiary of the Russian situation.

The stage is also set for shifting players on the commodity side. One participant on a *Financial Times* discussion board offered that: "Nevermind Glencore suggesting to the Russian government that they should ban wheat exports, thus allowing them to cancel their contracts to deliver wheat at a lower price." Fortunately, grain chartering is mainly a spot business – unlike traders making commitments through their futures screens. F