Capesize segment uptick fires dry market optimism

Capes led the recovery in August and the signs are positive

August proved to be a month of recovery for the dry sector, led by the Capesize segment, which benefited from renewed interest in ore shipments into China. By late August, after the apparent move towards iron ore restocking, the dry indices were flattening out. The dry bulk chartering desk at Oslo-based Fearnley asked whether the market in Capesizes was "taking a breather, or in for a setback after a period of strong improvement?"

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Investors, who continue to provide liquidity to both shipping and commodity markets, continue to devote a great deal of attention to the BDI. At least one analyst, Vincent Fernando, writing from Taiwan in 'The Money Game' blog on www.businessinsider.com discourages traders from relying on the BDI when looking for bigger economic trends. Fernando, once a shipping analyst for Citi, tells readers "the Baltic Dry Index is lousy, if not completely useless, as a leading indicator for the global economy."

Behind the curtain

As evidence of the very positional nature of the BDI, Fernando pointed to the derivative market in the underlying commodity – iron ore swaps – which had strengthened in July, ahead of a renewed build-up of iron ore stockpiles in China.

The analyst, an advisor to a Los Angeles-based hedge fund, added: "So far [the rising BDI] just shows that China is consuming more iron ore again, even though a sudden China crisis could suddenly and completely change this situation."

Rather than looking at one indicator, shipping people can often feel the momentum by going behind the curtain, looking at agriculture (a traditional shipping demand driver) and looking at the period timecharter market.

Its ebbs and flows in terms of the numbers of period fixtures, and their tenors, can sometimes indicate a strengthening, or weakening, in the market. Drewry Shipping fixture data shows that period activity waned in June (60 fixtures, 4.7M dwt) as hires (and the BDI) slid, but a surge in Panamax charters caused a pick-up in July (70 fixtures, 5.4M dwt) as it turned upward. August period numbers are set to be even higher.

> **$34,500**
> rate for the six to eight month charter of the Capesize newbuild *Golden Zhejiang*
>
> **$25,750**
> rate for a large Supramax fixed for four to six months, indicating that short period rates are steadily increasing

The concerns about ore charters notwithstanding, market optimism built up during August. The positive sentiments can best be seen from TMT's six-to-eight month fixture of the Capesize newbuild *Golden Zhejiang*, coming out of a Chinese yard, at $34,500/day. According to brokers Lorentzen & Stemoco (LS), "the charter is made at a higher level than the one-year timecharter that currently stands at $31,750/day, reflecting the shipowner's optimism towards the next half year." The ultimate owner, Golden Ocean, has a sister vessel set to deliver from the same yard later in the year.

Looking ahead, the Fearnley brokers pointed to positive signs, including increased term-chartering activity, in the Handymax and Supramax sector, saying: "The activity picked up in the Atlantic, with more enquiries seen for short period tonnage for end August/beginning September. As the grain season is fast approaching, the South American and Gulf of Mexico markets should enjoy firm rates."

Positive outlook

Discussing the Supramax sector, LS said: "Short period rates are steadily increasing, with many having a positive outlook going forward. For short period, a large Supramax was looking at close to the mid-$20s and firming," referring to a 52,000 tonner fixed at $25,750/day for four to six months. Its brokers added: "The East Coast South America remained firm… congestion in several of the Brazilian ports was building up throughout the week."

The Panamax sector was also evoking optimism from LS (coinciding with the Drewry data). Pointing to the upcoming harvest season in the North Atlantic, the broker said: "The Atlantic Basin was quite active as well, and many Chinese/Japanese grain houses were trying to cover grain from USG for the fourth quarter as the market is forecast to be quite intense for this period." F