

Dry bulk market rates split persists

Capesize rates continued to strengthen last week, especially in the Atlantic

The pattern of previous weeks has continued, as the Capesize portion of the market showed further strength. The Capesize composite of four timecharter trips moved up slightly, remaining at above \$45,000/daily.

Brokers at Braemar Seacscope said; “the Atlantic basin is dominating the market with a Brazilian miner reportedly fixing about seven or eight ships.” Broker reports showed rates on ore cargoes booked by Vale from Tubarao to Qingdao ranging from \$30.50/tonne to \$32/tonne (the latter a case of ‘short covering’ by an operator who presumably was running out of time on a Vale cargo). Rates from West Australia into China, where Rio Tinto and BHP Billiton have been active, have now moved up to \$12/tonne.

The market structure suggests that traders don’t trust the optimism. Paper freight in the FFA (swap) market is substantially lower than spot. Traders’ views of the TC composite for 1Q11, assessed at \$29,500/day, and farther out positions (2Q and 3Q were rated at \$28,000/day and \$25,600/day). The more distant forward rates, now substantially below spot, have moved little in recent weeks. Rates of \$24,000/day (where forward rates are converging out to Calendar 2015) are similar to those at the end of September.

Forward physical transactions included two bookings of mid-1990s-built smaller Capesizes by sector specialist Swiss Marine – linked to a pair of four-to-six month deals, at \$31,000-\$32,000/day. STX Panocean took a newer 172,000 tonner, for a simi-



\$32/tonne

rates from Tubarao to Qingdao for ore cargoes booked by Vale [Photo: Vale]

lar period, paying \$36,000/day.

The momentum in both the Atlantic and the Pacific was slow in being transmitted to the smaller-sized vessels – spot market barometers for Panamax were actually easing very slightly. The Baltic Exchange Panamax TCE average softened down into the mid-\$17,000s/day.

As the physical market found strong support at these levels, positive psychology had the nearby quarterly FFAs settling above the spot. 1Q11 and 2Q11 were assessed at hires approaching \$23,000/day, which boosted the entire calendar 2011 assessment above \$21,000/day. The distant parts of the forward curve are also unchanged from recent weeks, hovering down through \$18,000/day towards \$17,000/day.

The relative calm evidenced by the paper market (beyond the next two quarters) has brought out bargain hunters who see opportunities to lock-in tonnage. Examining the nearer-term FFAs quotes reveals a disconnect between current levels and forward rates, leading to operators’

willingness to pay above current spot rates for period tonnage. The tenor on such fixtures has also moved upward; a spate of longer two-year fixtures has been recorded – mainly in the Panamax sizes. Cargill has been active as a charterer, booking a pair of newly-built Kamsarmaxes, for two years, at \$20,250/day.

‘Where we have a friend is in port congestion’ – which is beyond the control of the best chartering strategists

Analysts are watching the breadth of the market, as well as the actual fixture levels.

In a dry bulk panel at the recent Capital Link conference, John Dragnis from Goldenport (an owner of mainly Supramax bulkers, and container ships) noted the diminished role of the period market, compared to 2007-2008.

In response to a question from moderator Nigel Gardiner (from Drewry Shipping) about market direction, Dragnis discussed

downward pressures in the short term, but said that long-term charters were indeed available, adding that, “the volume has not been very high recently”. He said, “I see them relatively flat, with slight downward pressure.” Co-panelist Tassos Pantelias, from Hellenic Carriers, offered his view: “I think the market [in 2011] will not perform as well as it has done this year.” This observation is borne out by FFA curves.

The Hellenic Carriers executive pointed to commodity prices as the major reason for his view, noting, “the Chinese – the major drivers of this market – are very price sensitive”.

However, he suggested an alternative scenario where the Chinese back away from the raw material markets – which causes commodity prices to fall, which “may lead to greater demand than is currently predicted.”

Dale Ploughman from Seanergy, the third member of Gardiner’s panel, proffered that rates in the larger-size vessels would

continue to be volatile, which, in turn, could put downward pressure on the smaller sizes.

Ploughman described a situation where Chinese vessel charterers will raise rates as they move into the freight markets, saying that afterwards, “they will back off, and after a small hiatus, they will come back in again.” He said: “Where we have a friend is in port congestion” – which is beyond the control of the best chartering strategists. ■