May 4 Dry Cargo Market Report

“Oh Dear, Not Another Day of Booming Rates” was the title of a leading shipbroker’s recent research report. A major finding is that market fundamentals are what they are, but the actors in the market- the owners and charterers, have changed their viewpoints and strategies. By now, the phrase “*accretive to earnings*” has leaked into the lexicons of those shipbrokers who speak the language of finance. The ability to pay dividends and distributions is increasingly driving the charter market, particularly with respect to longer term marquee fixtures. Not coincidentally- the volume of period activity has soared. Owners can make concessions on longer fixtures- vastly above breakeven costs.

Huge amounts of investor money is riding on the decision making ability and market timing of chartering strategists at listed companies, in the form of cash distributions and the opportunity costs. Quintana Maritime, an owner, and agri-business giant Bunge Corporation are locked into a multi-year “Master charter agreement” covering 17 vessels (14 **Kamsarmax** (pictured at left) and 3 Panamax) with pre-agreed floors and ceilings on rates through 2010.

After fixing rates forward through 2008, both parties have now agreed to lock up rates for calendar year 2009, at an average rate of $21,800/day- the upper end of the allowed range (the floor average is around $14,500/day). As a result of this and other “fixtures”, 96% of 2007 revenue is locked up; for 2008, the corresponding figure is 81%. At the time of the announcement, Baltic Exchange FFA’s for calendar 2009 were rated at $26,250/ day. The divergence from the rates on the FFA screen provide insight into the thinking of two major listed entities- major freight consumer Bunge, with a market capitalization of $9 Billion, is gaining a big “long” position at a rate below levels possible by creating a synthetic long (FFA)- were the liquidity available.

Meantime, Quintana locks in cash that can fund dividends, satisfy shipping bankers (where timecharters are routinely assigned as collateral on loans such as Quintana’s $865 Million bank credit with Fortis, along with twelve syndicate participants). Quintana’s fleetwide breakeven, in early 2007, was estimated to be $12,396/ day,

The period charter rates are significantly below the over-heated spot numbers, now routinely above $100,000/day for Capesize vessels. On a trip out of the Atlantic via Brazil, to the Far East, STX Pan Ocean paid just under $130,000/day on the six year old 171,000 tonner “S.A. Altius”. SK Shipping paid $109,000/day on TA round for “Constantia” 171,000 tons, built 1996.

Quintana has also continued to contract forward Capesize vessels- and agreed in advance on forward employment with top signature lessees. One such deal involves two Capers for delivery in 4Q 2010 that will go into Joint Venture companies. Both vessels will be fixed into five year charters to behemoth French utility EDF Trading, commencing on delivery. Charter terms include a floor rate around $27,000 per day with a 50/50 profit split, tied to the average of the four Cape TC's (versus a Calendar 2010 FFA settling for the TC average of nearly $43,000/ day when the deal was announced). Such an arrangement, worth $35,000 on Day 1 of the charter gives EDF (or Quintana) an opportunity to lock in a cost (or a revenue) moving into the future, as traded FFA positions for 2011 and beyond come on the screens.

The same owner booked a $93 Million Imabari newbuilding 180,000 tonner delivering in 4Q 2008, into a timecharter with operator Transfield, on a five year charter at $39,000/ day, beginning when the ship delivers- ie the charter extends out to 2013, well beyond the FFA forward curve. When the deal was announced, Calendar 2009 Capes were worth $52,000/day, $9000/day above the 2010 rate. Charts of Capesize T/Cs suggest a long-term support level, established in Summer 2003, just above $30,000/ day, a level that forward prices will presumably gravitate towards. While time will tell who got the better deal- owners have cash to distribute when charter rates exceed daily breakevens.

Genco Shipping & Trading, another period charter minded owner, has announced a time charter a two year timecharter at $37,700/ day of its 1999 built Panamax "Genco Knight" to SK Shipping- a nice bump up from the vessel's present $29,000/day charter to BHP. The fixture is well above the $31,000/day that another 1999 built Panamax, "Genco Beauty" had fixed several weeks earlier fixed to Cargill on a two year charter extension. In a recent earnings presentation, Genco suggested that its daily net income breakeven, across the fleet, was $11,757/ daily.

Bunge has reportedly re-let at least one Kamsarmax (around 82,000 dwt). to NYK for 42-45 months, at $35,500/day. For Panamaxes in spot trading, $50,000/day is considered to be a floor on both spot business and on short periods. Britannia Bulk chartered the 76,000 tonner "Nord Saturn" (built 2005) giving delivery Black Sea- for 4-6 months, at $50,000/day. Norden took "Pasqualle delka Gatta", 76,000 tonner built 1996 giving delivery in China, for 5- 7 months at $45,000/day. Baumarine fixed the 71,000 ton "Sea Urchin" to Cargill on a trans Atlantic round at $50,000/ day.

These heady levels on the Capesizes and Panamaxes, and the creep of high rates into the forward markets, could not have been imagined only a few months ago.