



Lloyd's List

No.59,698

lloydlist.com

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Monday June 23, 2008

225p

Dry bulk FFA market passes physical trade

Futures market is estimated to be worth \$125bn, 20% more than global dry bulk trade

Michelle Wiese Bockmann
Hamburg

THE fast-growing paper market for dry bulk freight has eclipsed the size of the physical market for the first time, with estimates that 2.4bn tonnes of freight worth \$125bn will be traded in 2008.

"We are now the acceptable face of gambling on freight," said Ian Staples, from London-based major shipping derivative broker FIS.

"The trickle of hot money has started, but we are still working towards an avalanche."

Propelling paper's acceptance has been a sharp increase in forward freight agreements settled using clearing houses. This has reduced the risk of counterparty default and guaranteed that trades remain anonymous.

The development has given owners the confidence to take increasingly riskier and larger positions on paper during a period of record rates and volatility, rather than using FFAs simply as a hedge.

Shipping derivatives are set to grow 25% this year, based on accepted forecasts made by about 230 derivatives brokers and traders last week at a Hamburg conference hosted by the Baltic Exchange.

Volumes in 2009 are expected to rise further to 3.2m lots, representing 3.2bn tonnes of freight.

Mr Staples said there had been "only minor problems with defaults and bankruptcies" as the market expanded.

This was one of the few references made during the two-day conference to any losses sustained during extremely high volatility.

Last year 1.8m lots of FFAs, representing 1.8bn tonnes of freight, were traded based

on Baltic Exchange data. Unaccounted private transactions are thought to bring that total to 2bn tonnes, according to Norwegian broker Imarex. So far, 1.2m lots have been recorded by the Baltic in 2008.

Imarex managing director Mikal Boe said that would "easily" top 2.4m lots by the end of year.

He said that the paper market was poised to grow even further, as new money plunged in.

"We need hedge fund managers, we need the pension funds, we need their liquidity," said Mr Boe, who recently launched a retail futures products based on the Baltic Dry Index. "They don't need us, but we need them."

The market for the seaborne transport of major bulk commodities such as coal and iron ore is just over 2bn tonnes, with the paper market now nearly 20% larger.

Purely speculative traders are thought to comprise an extremely small part of FFA trading, with rough estimates that they account for less than 10% of all participants.

Their absence is not surprising, given that shipping derivatives are the among the world's highest-risk derivatives.

They are more volatile than oil futures and "up there" with gas and energy market trades, shipping academic Nikos Nomikos from London-based Cass Business School said.

Investment banks would be "very willing" to help open credit lines to expand trade in FFAs, according to Stefan Albertjin from German commodities trader Alfred C Toepfer International.

He believed trades would surpass 3.2m lots, or 3.2bn tonnes of freight, by 2009.

But Mr Albertjin was one of many who called for better information and statistics to boost trading confidence.

The FFA market was worth only \$56bn in 2006, according to Baltic Exchange data, with industry consensus that it reached \$115bn in 2007.

Estimates for 2008 mentioned during the conference varied from \$125bn to as high as \$150bn.

LME shortlisted for Baltic dry bulk trading system — Page 14

California cleanin' Exhaust trial



A CRANE lowers a large bonnet over the funnel of a ship during a demonstration of a system designed to trap and treat exhaust gases from vessels, at the Port of Long Beach. Manufacturers are keen to push the benefits of the new technology in reducing emissions from vessels in port. The first inter-session meeting of

the International Maritime Organization's Working Group on Greenhouse Gas Emissions from Ships gets under way today in Oslo. The week-long session aims to develop the technical basis for a new IMO regime to control greenhouse gas emissions. Ship emissions formula helps policy makers — Back

Six new ships for China Navigation in \$360m deal

Keith Wallis
Hong Kong

CHINA Navigation, the deepsea shipping arm of John Swire & Sons, has signed its first newbuilding contract for 10 years with a \$360m agreement for six new-generation 40,000 dwt, fuel-efficient multi-purpose vessels.

The Hong Kong-based company, which designed the vessels in-house, also has an option for six further ships which would make the total order worth around \$720m.

Richard Kendall, the firm's managing director, said the ships' innovative design, coupled with their environmental efficiency, will set a "new benchmark within the multi-purpose sector".

The ships will be built by China's Nantong Mingde Heavy Industry after China Navigation signed the order last week.

The first six vessels will be delivered from 2011 to the beginning of 2012. China Navigation has until the middle of next year to declare options for the other six vessels which would be delivered from mid-2012.

Pointing to the ships' special innovative features, China Navigation commercial manager William Davies told Lloyd's List that, at 40,000 dwt, they are 10,000 dwt larger than the nearest comparable multi-purpose vessels.

Mr Davies said they are also very fuel-efficient, consuming just 30 tonnes of bunkers a day at a speed of 14.5 knots on a draft of 11.9 m.

He said comparable vessels consume around 53 tonnes of bunkers per day, but are 10,000 dwt lighter although they do travel at 3-4 knots faster.

With the cost of bunkers now more than \$600 per tonne, these fuel savings alone mean "there is a huge difference" in daily operating costs for the new China Navigation ships.

Fuel consumption is expected to be cut by up to a further 10% because the vessels will be fitted with propulsion-enhancing technologies such as a propeller boss cap, fin and wake ducts, and with the latest polymer-based fouling release paint systems.

Mr Davies said the fuel savings were especially important given that China Navigation is an owner-operator and plans to keep the vessels for their entire 30-year life, rather than make them an asset play.

STX in \$110m bid for Aker

SOUTH Korea's STX Shipbuilding made a surprise bid of up to \$110m on Friday to buy more of Norwegian shipbuilder Aker Yards.

In a statement issued after the close of the Oslo bourse, STX said it "intends to launch a mandatory offer for all shares outstanding in Aker Yards".

STX offered Nkr63 (\$18) per share for up to 7.9% of the shares in Aker Yards, which would raise its stake to 47.2% of the group. This would trigger a buyout of minority own-

ers, its brokers, ABG Sundal Collier, said in a statement to the Norwegian stock exchange.

The offer is worth between Nkr126m and Nkr567m (\$24.3m-\$109.5m).

Already the biggest Aker Yards shareholder, with a 39.2% stake, STX offered to buy at least 2m shares, or 1.8% of the stock, and up to 9m shares, said ABG Sundal Collier. "The order to buy shares is in effect immediately," said the broker's statement.

"The price per share is 63 Norwegian crowns, representing 11.5% premium to the closing price for the Aker Yards ASA share today of 56.50 crowns".

If STX's offer succeeds, the company will launch a mandatory buyout offer for the rest of Aker Yards' shares, ABG said. Under Norwegian law, buying a stake of more than 40% triggers a mandatory bid for the rest.

STX would compensate shareholders if it buys, or offers to buy, additional shares at a price higher than 63 crowns during the offer period, ABG said. ABG said it would buy shares for its client for as long as offers are received for the minimum amount of stock. It said the offer could be closed at any time.

STX became the biggest shareholder in Aker Yards last year to get a foothold in the cruiseship business now dominated by European shipbuilders.

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