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markets

● Scanscot insolvency: highlights project market woes ● CMA sees dry market revival: on the cusp ● Japanese-built bulk carriers: still attracting premiums as trades in Panamax-size vessels and above remain healthy

The miller's tale

Putin has ensured Russian grain traders will stay in the export business — despite the export ban.

John Helmer reports

An order announced last week by Russian prime minister Vladimir Putin to extend the ban on wheat, rye, barley and corn exports until 1 July 2011 will make an exception to allow Russian millers and traders to ship milled flour abroad.

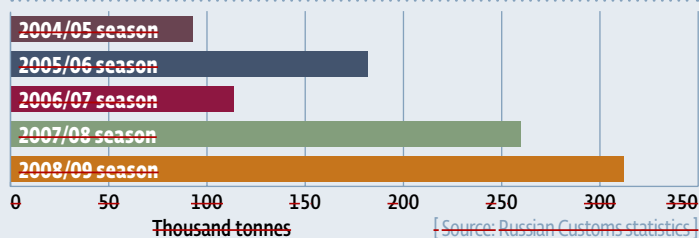
If 1.4 tonnes of wheat makes one tonne of flour, the tonnage of wheat not allowed to be exported (which may be shipped as flour) may reach 1M tonnes — triple the volume of the flour trade in the year before the drought.

According to the decree signed by Putin on 20 October, the ban on exports of wheat imposed

between 15 August and 31 December will be maintained for another six months. A spokesman for the prime minister has said there will be no loopholes for “unscrupulous exporters”.

The extension of the ban doesn't simply reflect the 30% reduction in the summer season's harvest due to drought. The winter planting, according to Putin, has been reduced by more than 3M ha — 20% less than a year ago. This will mean that the next harvest will also fall short of domestic consumption levels and stockpiling requirements, unless the control on exports remains in place. Fear of wheat price inflation is also driving the prime minister to make sure that, as next year's parliamentary election campaign accelerates as polling day in December approaches, Russian voters don't let their

Russian exports of wheat flour



An agreement on supplying flour to the very promising market of Indonesia has almost been reached

stomachs and their pockets rebel against the government and the ruling United Russia party.

President Dmitry Medvedev's chances for re-nomination for the presidential poll, scheduled for March 2012, will be seriously damaged if the governing party is badly defeated in the parliamentary election, so he is keen to keep up appearances that he is

doing everything he can to assure the supply of grain into flour and flour into bread.

Putin told a meeting of farm policy officials in Rostov last week that he is offering the farm sector subsidies to help cover their fertiliser costs; subsidies to lower their railway expenses; a postponement of interest payments on agricultural loans; and subsidies for

VLCC Gulf rates firm on contracts and relets

Affreightments and relets have given relief to VLCCs in the Gulf

Contracts of Affreightment (COAs) may have cleared out some tonnage and helped firm

VLCC rates in the Gulf last week. Unipeac is reported to have taken eight Chinese vessels and afterwards the Japanese took four relets and the Koreans withdrew others for their use, say Braemar Seascope.

The resulting rates may not

have staying power according to market sources.

The developments increased owner sentiment and fixtures for Gulf-Japan rose from W60 to around W67 — a timecharter equivalent of \$25,500-26,000/day. These are levels that enable

owners to at least cover operating costs (which would be in the region of \$10,000-12,000/day on a modern VLCC). West-bound moves remain still show negative returns.

The timecharter rates for West Africa — Gulf of Mexico for VLCCs

Dry revival on the cusp

Up to a 40% slippage rate in newbuildings may take pressure off dry bulkers

The dry bulk market remains active, but Capesize momentum appears to be slowing, at least temporarily. The Baltic Exchange's Capesize TCE average, which had climbed as high as \$46,000/day, slipped lower last week with a month-end dip below \$44,000/day. Among the individual routes, trans-Atlantic round voyages (which had been fuelled by ore cargoes) were easing the most.

In a sluggish paper market, the curve remained downward sloping, but softened a bit in line with spot rates. The all-important 1Q11 Cape contract, which had been assessed above \$30,000/day, pulled back below this important marker.

Period fixing continued

The Calendar 2011 FFA position, reflecting views of four Capesize quarterlies, still remained above \$26,000/day – discounted below period fixtures of comparable tenors. The spate of period fixing (an optimistic sign) continued, with a five-year fixture on the 2010-built *Samjohn Solidarity*; Cosco Tianjin took the ship at \$27,750/day. Cargill did a one-year deal on the new *Cape Venture* at \$32,500/day, being relet by Deulemar. Classic Maritime booked a 1999-built unit for a

very healthy \$41,250, with the strong rate reflecting the delivery in Mundra (western India).

The Panamax spot TCE averages had rallied slightly, up towards \$20,000/day. In contrast to the Capesizes, short rates on Panamax period fixtures were above spot – several Panamax transactions were done for periods out to one year, at around \$23,000/day. The 1Q11 and 2Q11 FFAs had reached similar levels, before pulling back to \$22,000/day.

One bullish view of market prospects came from George

several years. On the demand side, Economou waxed optimistically about Chinese demand continuing to propel the market forward, saying “the drivers are still alive”

The CMA lunch marked the beginning of the season of 3Q10 earnings; the relatively positive rate structure is benefiting at least one company set to release earnings. Analyst Scott Burk, from Oppenheimer & Co, in supporting an Outperform rating on Excel Maritime, said: “We see potential earnings upside with 4Q10 opportunities to re-charter

riding high. One attendee at the CMA event, Norman Barouch, a Capesize veteran now managing ships through NB Maritime, expressed concern about moves by raw material shippers to control freight rates.

Barouch, well known from his days at P&O Bulk, told *Fairplay*: “As I understand the programme that Vale has initiated, it is building sufficient tonnage to handle a very significant portion of its sales to China. Once the programme is in full swing, it will have a serious impact on the Capesize shipping market. I expect it will all but take Vale out of the market for candidates on the Brazil – China run and for the times that they do require market tonnage, it will no doubt result in very low freight rates.”

\$23,000/day

fixtures reported for Panamax one-year charters, trending above the Baltic Exchange TCE average spot rates of about \$20,000/day

In the money

Economou's presentation contained an investment analysis for hypothetical Capesize and Panamax vessels purchased in 2005 showing at a 10% return on equity could be generated by rates of \$26,670/day and \$20,362/day, respectively.

The Capesizes, at today's spot rates (and using assumptions of \$6,500/day in operating expenses) are clearly 'in the money'; Panamaxes (with similar operating expenses) are on the cusp. The five-year Capesize TC, on the other hand, shows only marginal contributions to capital costs. Based on the downward forward rate structure, and big period discounts, Barouch's views reflect the sentiment of traders booking physicals and paper. **F**

Economou, CEO of Dryships, which maintains a large presence in the dry bulk sector in spite of its recent focus on ultra-deep-water drillships.

Economou, speaking to an overflow luncheon audience at the Connecticut Maritime Association, talked about an order-book characterised by slippage of approximately 40%, partly due to a lack of financing, after the Lehman Brothers collapse two years ago. He said that funding difficulties would continue for

a large part of its fleet in what could be a strong rate environment.” Burk's company model assumed at \$21,250/day rate on Panamaxes in 2011, with a 10% sensitivity worth \$0.35/share – a significant boost to the bottom line compared to the base earnings estimate of \$0.72/share. Expressed differently, if Panamaxes were to garner \$23,375/day in 2011, Excel earnings would be 50% above this analyst's base case forecast.

The big ships are presently

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