



Black and blue, Dead Cats, Dog Days, Death Crosses, and other unpleasantness

August was a month that saw July's drybulk rally continuing for a few days, but being snuffed out quickly as the month unfolded. Though not a good month for owners' prognostications (or "longs" in the forward market), the month was eventful- if nothing else. The price action in the most widely followed dry trades shows that broader market sentiments do indeed impact the hires paid for vessels, and prospects for future per diems.

As August began, the composite of Capesize routes (based on a handful of routings for a 180,000 dwt vessel) was climbing up towards \$20,000/day- after gaining strength, and testing support in mid July at around \$15,000/day. Several days into August, the spot measure had reached \$20,601/day, according to the Baltic Exchange- which polls shipbrokers for its daily market assessments. At this same time, traders were already looking for a softening- as evidenced by settlements in the forward freight (swaps) market. Even the Q4 2015 number, imbued with expectations of seasonal strength, was settled at just under \$17,800/day- or \$1,800/day below spot. During that first week, the forward numbers were already starting to fall- anticipating (perhaps) the move down that was to come. Fearnleys, a prominent shipbroker with a worldwide footprint, noted that a flurry of chartering activity by Chinese ore importers had bolstered the market (with spot round trips in the Pacific, via West Coast Australia- one of five component voyages in the composite, fetching \$20,000/day). However, the broker's well known economic team was cautioning that "...It is uncertain for how long this positive development may continue, and in the time of writing levels are stabilizing..."

We know now that August was about China- never quite as transparent as analysts would like, and about commodities- where maritime analysts prowl the docks and note the height of iron ore stockpiles. Growth rates in China, now said to be transitioning to an economy more about services (and softer assets) from an industrial engine building up its cities, have slid, as near as we can tell, down from the double digits a few years ago to the more manageable mid single digits (like 7 %, maybe, depending which analyst is being quoted) now. Stock markets all over the world saw a Death Cross, as moving averages (a technical indicator) pointed downward. As what's now dubbed "Black Monday" rolled around on August 24th, the dark portents of the forward market had been actualized; the spot composite had been cut in half- its hires averaged out to a little over \$10,000/day.

The economists at Fearnleys were now talking a possible "Dead cat bounce" in store for Q4- rather than a seasonal rally. They said: "There is no doubt that the Cape market has fallen off a cliff. Rates across the board have plummeted despite healthy fixing volumes..... Commodities, without exception have taken a hit and miners have started to feel the pain. Predictions going forward are bleak....." Unlike oil, where chartering activity (for much of 2015) was unabated as the commodity price fell, traders in iron ore- the fuel for the drybulk "engine", were prone to step back (after those stockpiles had grown in height) and watch the prices dangle, like on the precipice of one of those piles, and then drop- like a rock. Traders of "paper" were putting a value of around \$13,200/day on the Q4- a number that qualifies for "dead owner" since it is below the daily breakeven (operating cost plus finance component) for most modern Capesizes.

So where are we at the end of August, as the UK celebrates their Bank Holiday? During the month, activity in the FFA markets usually declined;

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this time, we saw a different pattern, perhaps due to the Holiday season, or perhaps due to traders' penchants for selling anything as stock markets began to wobble. Turnover levels were healthy- exceeding 20,000 lots/ week throughout the month, but the second and third weeks of August (as hires were in free fall, having been knocked off their precipice) were the most active. Towards month end, "open interest", a measure of market depth, actually started to climb, especially in the Capesizes- suggesting a new round of pessimism as "shorts" were fuelling the push down, an unusual feature in a market that historically is driven by "longs" who expect hires to rise. Sentiments of low commodity prices generally may be playing a role here.

The five voyage composite for the 180,000 ton dwt Capesize bulker, posted at a little above \$7,000/day at end August (down \$3,000 from the week earlier "Black Monday"), represented less than half of \$18,000/day hires seen as the month began. In the forward market, the all important Q4 2015 position (representing the seasonal surge) was assessed at just under \$14,000/day- actually up by nearly \$800/day from Black Monday's level. Forward positions into 2016 were trading at levels above the dismal spot levels. Moving farther out into the future, traders had bid up the Q4 2016 instrument to \$15,900/day- a sign of seasonal optimism when contrasted with the Q1 2017's \$9,450/day. Going forward into the future, the line-up of "Calendar" hires (these numbers are net of fuel and port costs) saw 2016, overall, assessed at \$11,235/day, with 2017 and 2018 rated at approximately \$12,800/day and \$14,500/day respectively. For subsequent years, the forward curve was creeping upward- but was not able to muster hires beyond the range of \$15,563/day (2019) to \$16,463 for Calendar 2022. Period chartering activity, another barometer of market sentiment, went quiet for Capesizes during August, with the exception of a 5- 7 month deal at month end at \$10,750/day.

In the Panamax category, the pattern was similar- though hires were lower. Most of August saw the Panamax composite at right around \$8,000 /day (finishing the month at \$7766/day). Expectations of traders were flat for nearby, with Q4 2015 at around \$7,300/day, and Q4 2016 at around \$7,600/day. Further out, the Calendar 2017 measure was assessed at around \$7,300/day by the Baltic Exchange; future years moved up towards \$9,400/day for 2022. Period charters, done typically for terms of up to 5- 7 months, were transacted around \$8,500/day to \$9,000/day (basis Far East deliveries).

Supramaxes, which make up around 10% of the forward swap activity, offered a brighter story (and a clue to what happens next across the sectors), as the six vessel composite climbed during August- finishing on a \$9,700/day high note. Traders are cautious- with the spot rate exceeding the Calendar 2016 (\$7,200/day) and Calendar 2017 (~ \$7,500/day). While we rarely report actual fixtures, it's worth mentioning that Clipper (a large drybulk owner and operator) chartered a vessel named "Blue Cat" (a Supramax built 2009) for 3-5 months at \$7,250/day, in early August. The swaps are in line with forward physicals, and very indicative of late Summer's dog days. Nevertheless, as traders return from Holidays, I would expect renewed upward movements.