Smaller ships resilient in a bleak dry bulk market

Increased commodity demand is driving up Handysize spot fixtures


Hsu Chih-Chien, chairman of Courage Marine

'Handysizes have been more stable as they can carry almost anything'

[Photo: Courage Marine]

Small bulk carriers are proving to be the bright spot in a bleak market, say industry watchers.

Anticipating that freight rates for Handysizes and Supramaxes will rise in tandem with rising demand for sugar and grains, brokers told *Fairplay* that owners were shifting to spot markets.

A Braemar Seascope broker said: "It's not bad to be a Handysize owner now. Daily rates have been inching up as owners think there'll be increased demand for grain shipments, especially when Indonesia has talked about increasing imports of grains.

"Because of Chinese New Year, quite a number of ships sailed to the West to seek employment at the end of January. So the shortage of Handysizes for intra-Asia and East-West routes is also pushing up the rate."

Current Handysize rates are about $10,000/day for Asian routes, compared with about $8,800 at the start of February.

On 28 January, Indonesia said it would suspend import duties on rice, soyabeans and wheat as part of government efforts to fight inflation. Then Southeast Asia's biggest economy proceeded to surprise markets by buying 820,000 tonnes of rice from Thailand – nearly five times as much as expected.

Countries such as Algeria are also rushing to buy grains amid fears of rising food inflation. A Clarksons broker told *Fairplay*: "Just last month, customers were asking for period charters of three months to a year, because the rates were about $8,800/day.

"But now, I'm seeing more requests for spot bookings than period charters as owners want to ride on the upswing.

"The Chinese are back at work after the Chinese New Year so they're importing again. It also helps that there's a partial resumption of Indian iron ore exports from Karnataka."

Period charters for small carriers vary between three months and a year.

The trend is pleasing Hong Kong dry bulk carrier Courage Marine, which prefers to let out its ships on the spot market. The company has four Handysizes, one Capesize and four Panamaxes, with 65% of its business concentrated on the spot market.

Courage Marine chairman and co-founder Hsu Chih-Chien told *Fairplay*: "As far as long-term charters are concerned, the counter-parties must make a profit on top of what we charge them for the charters for the arrangement to be viable. And if the market drops, some counter-parties would try to renegotiate the charters.

"So I think that if we work harder on the spot market, we might as well make the profit for ourselves. Besides, historically, Handysizes have been more stable as they can carry almost anything and can enter almost every port."

Sonya Cho of South Korea's Hanjin Shipping told *Fairplay* it would consider doing spot fixtures. She said: "Many of our ships are dedicated to period charters. But we understand that the daily spot rate for Handysizes is rising so we're reviewing our spot activities once the charters are completed."

Jeffrey Landsberg, president of US dry bulk shipping consultancy Commodore Research, told *Fairplay* Handysize rates were likely to find more support going forward. They are less sensitive to newbuildings entering the market because of the big fleet size, he said. "Capesize rates are predominantly coming down because of the large number of newbuildings being delivered. There are about 1,200 Capesizes while there are about 2,900 Handysizes."

But Subhangshu Dutt, chairman of the Institute of Chartered Shipbrokers in Singapore, said that, in a good market, Handysizes would not be as profitable as bigger Capesizes and Panamaxes. He said: "As the Baltic Dry Index is very much driven by coal and iron ore shipments, you won't see high profits from small ships, even when the market is good.

"It makes sense for coal and iron ore to be transported on Capesizes and Panamaxes as the huge demand facilitates economies of scale. This is why shipowners won't invest heavily in small ships. Thus, these vessels are less likely to be hit by oversupply." F