Capital Link Shipping
Weekly Markets Report

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Are we there yet? Flickers of light amidst drybulk gloom

Contributed by

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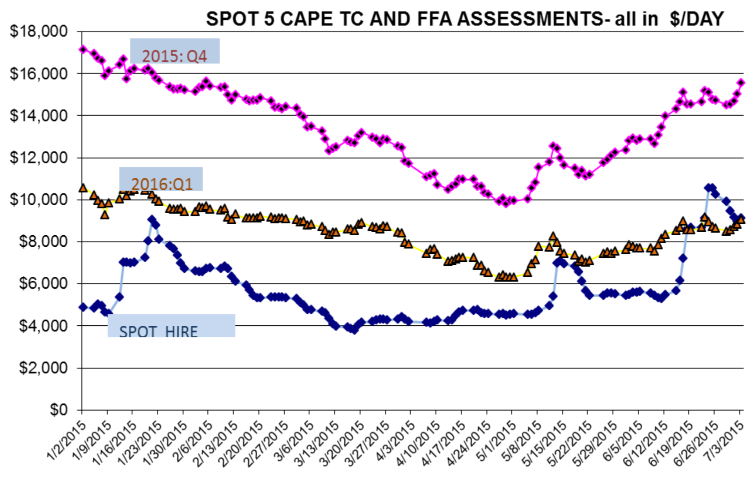
Since earlier in the year, I've been commenting on the amazing ability of Wall Street "buy side" equity analysts, and a few company Principals, to put a positive spin on the drybulk market- written off for dead by many observers. Not that I've written it off- as an investor, I hope that hires rise, presaging a long-awaited rise in share prices. Though I am not calling any type of a bottom yet, it's worth noting that June saw an upward burst upward in the Capesize arena- where hires rose briefly to $10,000/day. This generated considerable excitement, at a time that both Moore Stephens, and Norton Rose Fulbright, who both do surveys of shipping market attitudes, were reporting much doom and gloom.

For me, the forward swap market is a good barometer of market sentiment. Traders in the FFA market were initially skeptical of staying power in the Capesize market, after having endured numerous "head fakes" since late 2013 (which did have a strong finish). They set up for market strength, only to watch hires fall off after a seeming upward turnaround. Nevertheless- the mood was turning more positive and, by early July, assessments of FFA closing prices had moved upward through earlier "resistance" levels. The FFA indicator is worth watching; market sentiment plays an important role in shipping.

As was expected in rising hire environments, swaps turnover rose. Indeed, weekly turnover in the month's third week, at 43,000 lots (a lot being one day time-charter, in the context of this article)- was the highest for the entire year. Volumes rivaled levels of late 2013- the last big upsurge. Baltic Exchange data shows that "open interest"- the measure of market depth, also rose during the month, indicating that traders and hedgers were increasing their long positions. Importantly, market depth exceeds late 2013 by a significant amount. This is mirrored, at least somewhat, by activity in the forward physical market. The Capesize period timecharter market also saw more activity-with more than a dozen deals reported in June, with rates inching up towards $14,000/day for deals that would keep ships employed into 2017 (consistent with the pricing in the swaps market).

By early July, traders were valuing the Q4 2015 position at levels near $15,600/day (shown on the graph which follows), and the Q4 2016 at levels (not shown) of almost $17,600/day. Contrast these with beginning June settles, when the Q4's (which are usually priced with "seasonality", a strong year-end, in mind) were valued at $12,400/day and $15,200/day, respectively. As the spot market (reflected in the Baltic Exchange's Capesize vessel composite- made up of hires on five spot time charter trips) rallied, the Q4 also made a nice move upward- actually turning upward before the spot index reflected the building strength. The Q1 for 2016 reflects considerable caution among traders- it rose, but not as much as the spot Capesize composite. And, for now, the spot composite and the Q1 swap are valued at parity.

Just to be clear- the move up towards $10,000/day (basis the Baltic Exchange composite of five Capesize trip hires- the dark blue line



source: Baltic Exchange, London UK

on the graph above), finally achieved in late June, brought hires up to a level still well beneath the daily breakeven (operation plus finance cost) for Capesizes. Then, this measure dipped, in late June and early July, towards $9,000/day. As I write this, it has found support and might be going back upward.

However, all this price movement may still be in the category of counting angels on the head of a pin- full of grandeur but lacking overall significance, at least for now. Depending on when the vessel was acquired, the daily breakevens work back, variously, to between $15,000/day to $18,000/day (still above the period hires, unfortunately). Put a different way, I chuckle when I see shipping media reports trumpeting the rise in the Baltic Dry Index (BDI, a number that represents various ship types) has risen from "500 up to 800 points", or similar. Generally, vessels achieve breakeven when the BDI is around 2000 to 2200 points, so I'm not getting too excited yet.

So, in spite of the optimism that I hear from the Sell side, we are still not there yet; investors are not showing any love for drybulk equities. But, let's see whether more period fixtures are reported (and whether period charter hires continue to inch upward), and keep watching the swaps trades for a continuing insight into sentiments of traders. There are clearly flickers, sparks, embers, which might presage real support in the drybulk market.