

Argentina's Senate voted against the proposal to raise grain export taxes to 46%

Farmer strikes will finally come to an end; freight rates will likely be pushed up in the Atlantic basin

US grain prices down m-o-m; still much higher than the same time last year

Developing nations consuming more (and better) food; price increases will put pressure on world economic growth

Who Needs Eva Peron When We Got Cristina...

Argentine Senate Rejects Grain Export Tax

In an extremely close vote held on Thursday, Argentina's Senate voted against a proposal to raise Argentine grain export taxes from 35% to 46%. The "proposal" was originally an executive order issued by President Cristina Kirchner in March which sparked four separate farmer strikes that limited grain exports from reaching ports and wreaked havoc on Atlantic basin sentiment and freight rates.

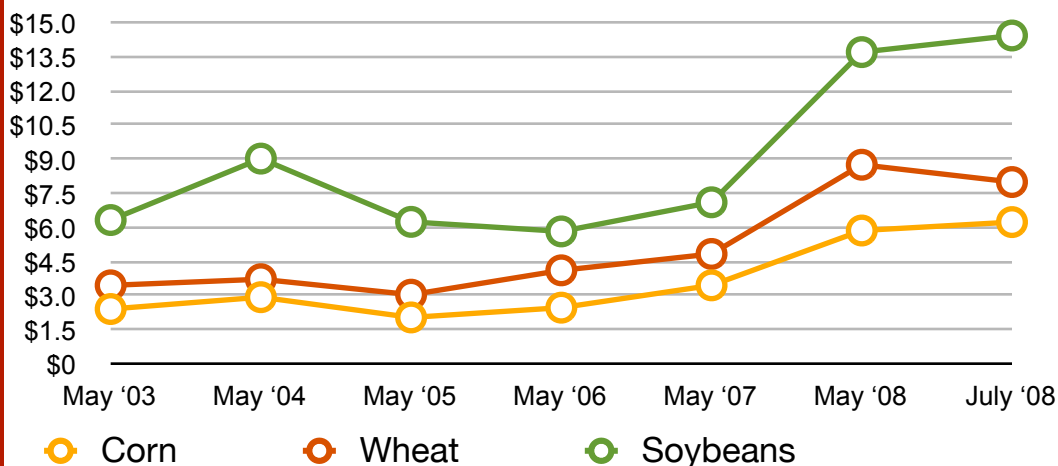
The Kirchner administration has accepted the Senate's decision and will push the grain export tax back down to 35%. As a result, the on-again off-again strikes have finally come to an end and a steadier supply of grain exports will be shipped from Argentina. This will help firm freight rates in the Atlantic basin and bring a bit more consistency to the volatile dry bulk freight market.

Grain Prices Pressuring World Economy

Although down from record highs set in June, grain prices remain at very robust levels. US corn is selling for \$6.28 per bushel, down 14% month-on-month but up about 70% year-on-year. Wheat is selling for \$8.04 per bushel, down 9% m-o-m but up 60% y-o-y. Soybeans are selling for \$14.48 per bushel, down 7% m-o-m but up 90% y-o-y.

High grain prices, an indication that food consumption is increasing around the world, is troubling for some economists worried about inflation coinciding with the economic downturn of the United States and other developed economies. This is a valid concern and an issue that will continue to challenge the growth of the world economy.

US Grain Prices (May '03 - July '08)



2008/09 Australian wheat exports previously expected to total 15mt

Drier than expected weather has caused uncertainty; more rain is needed during the next three months to ensure that Australian wheat production reaches 25mt

The Australian Government's Bureau of Meteorology expects below average rainfall for the next three months

Low stockpiles combined with an increase in domestic consumption will result in a significant decrease in US grain exports in 2008/09

Drop in US grain exports will decrease ton mile demand

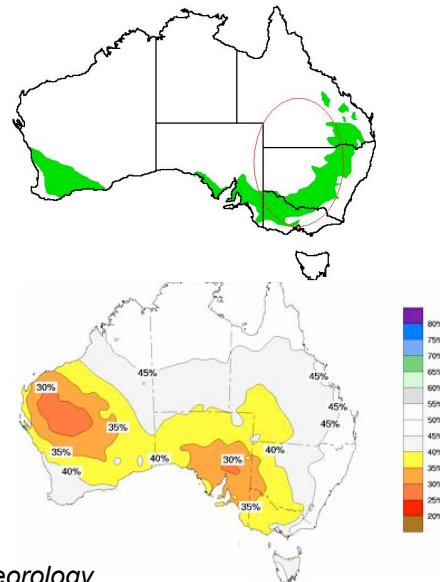
Ukraine is expected to increase total wheat and coarse grain production by 130% in 2008/09

2008/09 Ukrainian wheat and coarse grain exports expected to total 15.5mt, 12.3mt more than last year

Australian Wheat Exports in Question

Drier than expected weather throughout much of Australia has prompted concern over whether Australia's wheat crop is going to be as robust as expected. Previously, analysts had been expecting Australia to produce 25 million tons of wheat in 2008/09, up from 13mt in 2007/08. Australian wheat exports had been pegged at 15mt, up from last year's 7mt.

But a drought in the Murray-Darling basin and dry weather in Australia's other wheat producing regions (*see first map*: wheat producing regions are shaded in green, the Murray-Darling basin is circled in red) have prompted many to question if Australia will be able to export 15mt of wheat. In the next three months, below average rain is expected in Australia's wheat producing regions (*see second map*: areas shaded in orange and yellow show where below average rain is expected).



Forecast: Australian Government: Bureau of Meteorology

US Grain Exports to Decrease Considerably

As a result of low stockpiles (due to the large amount of grain exports shipped during the current 2007/08 grain season) and an expected increase in domestic consumption, US grain exports will decrease considerably in 2008/09. 2008/09 US wheat exports are expected to total 27.2mt, 7.2mt (-21%) less than last year. US coarse grain exports are expected to total 55.5mt, 14.5mt (-20%) less than last year. US soybean exports are expected to total 27.2mt, 4mt (-13%) less than last year. The 2008/09 grain season begins September 1. The drop in US grain exports will reduce ton mile demand.

Ukraine Set to Become Major Exporter

A huge increase in wheat and coarse grain production will result in Ukraine becoming a major grain exporter in 2008/09. Ukrainian wheat production is expected to increase from 14mt in 2007/08 to 21mt in 2008/09. Coarse grain production is expected to increase from 14.5mt to 21.7mt. Total Ukrainian wheat and coarse grain production is expected to increase by 130% y-o-y.

As a result, 2008/09 Ukrainian wheat exports are expected to total 7.5mt, 6.5mt (650%) more than 2007/08. Ukrainian coarse grain exports are expected to total 8mt, 5.8mt (264%) more than last year. A large increase in Ukrainian exports will help compensate for the possibility of a poor Australian wheat harvest and a reduction in US exports.

The end of farmer strikes in Argentina will push up Atlantic basin freight rates in the short-term

A significant decrease in 2008/09 US grain exports combined with increases in exports from Ukraine and Australia will reduce ton mile demand and put pressure on dry bulk freight rates

Outlook

In the short-term, Atlantic basin freight rates will likely be pushed upwards due to the resolution reached between Argentine farmers and the government. In the medium-term, a decrease in exports from the United States combined with an increase in exports from Ukraine and other grain producers in the Former Soviet Union will reduce ton mile demand. In addition, a further reduction in ton mile demand will occur as Australian wheat exports - although in question right now - are still likely to exceed last year's 7mt. The drop in ton mile demand will put pressure on dry bulk freight rates.