**Dry Bulk**

| | | |
|---|---|---|
| BDI | 4489 | down 293 |
| BCI | 5581 | down 497 |
| BPI | 4787 | down 411 |
| BSI | 3067 | down 36 |
| BHSI | 1623 | down 38 |

I was going to make some lame comment about "it always being darkest before the dawn", but **Commodore Landsberg** has provided insight with a touch more gravitas…

Michael Jordan. Scottie Pippen. Ken Reeves. Dry bulk. What do these have in common? At one time or another, all were Bulls. Jordan and Pippen are not coming back, and the *White Shadow* was canceled in 1981. But what about dry bulk?

There's plenty of concern in the market over whether Capes will ever reach $100,000/day again and the doubts are incredibly valid. Iron ore stockpiles at Chinese ports are up, steel production is down, the orderbook is enormous, and the equity markets are in disarray. But ten of my hard earned Singapore dollars say Capes will eventually bounce back and hit $100,000/day again.

China has finally released detailed information regarding August's 5.16% month-on-month decrease in crude steel production. Production fell by 2.32 million tons from July's 44.89mt **-** but 83% (1.92mt) of the decline came from steel mills located in Hebei, Shandong, and Tianjin. It was in these three provinces that steel mills were forced to either shutdown or reduce steel production to ensure clean air for the Beijing Olympics. It is important to point out that steel mills in these provinces produce only 35% of China's total steel. Taking their 1.92mt drop out of the equation, total Chinese crude steel production fell just 400,000 tons month-on-month.

Steel prices and spot iron ore prices have been falling – but Chinese iron ore imports have been relatively stable, totaling 37.4mt in August – a 5.55% decrease m-o-m but the fifth highest ever monthly total. Imports from Brazil are set to decrease which will hurt iron ore ton miles – but volume out of Western Australia has still been good and congestion there can possibly increase significantly if Australia becomes China's primary source for iron ore.

Looking a bit more towards the future, the Indian government has been investing a total of $27.5 billion on infrastructure and related construction in Delhi for the 2010 Commonwealth Games. According to Indian sources, construction projects are far behind and building will be forced to pick-up considerably to meet deadlines. Turning our focus back to China, the Middle Kingdom has $36 billion earmarked for reconstruction in Sichuan, which is expected to be completed by 2010.

All in all, the future still looks fairly good – or at least good enough for the bulls to keep on hoping. Cargo demand for thermal coal, iron ore, and grain normally peak in the fourth quarter of every year, and, if all goes well, construction projects in India and China will go on unabated.

Bulls and bears take notice: $100,000/day Capes might return. Crazier things have been known to happen in the dry bulk market.

**FFAs**

| Contract | Close | Current | Diff |
|---|---|---|---|
| BDI Sep | 5150 | 5150 | - 0 |
| BDI Q4 | 5400 | 5250 | - 100 |
| BDI Q1 | 5200 | 5050 | - 150 |

| | | | |
|---|---|---|---|
| CS4 Q4 | $65,281 | $62,500 | - $2781 |
| CS4 Cal 09 | $58,250 | $55,500 | - $2750 |
| | | | |
| PM4 Q4 | $39,213 | $37,000 | - $2213 |
| PM4 Cal 09 | $34,175 | $32,750 | - $1425 |
| | | | |
| SM6 Q4 | $33,688 | $33,000 | - $688 |

Volumes are thin – but the journey into the abyss continues. Usually a slowing descent implies the possibility of a near-term turn around, though in this case – I am not so sure. First of all, shorting the dry sector at this stage might put the odds in your favor that it is more likely to go down than up. But – if it does go up, it could run forever. The expected value of the short trade here likely shows a negative number. Second – we know these numbers can't go to zero – and they are unlikely to go below cash break even levels – which we can assume are about 20-25k on the Capes and about 10-15k on the Panamaxes. So the "accordion factor" will play a role. No – the accordion factor is not a tribute to Weird Al Yankovic, but a reference to the fact that this market has a lot more room to stretch to the upside rather than compress to the downside…"and another one rides the bus…"

**Tankers**
**VLCC Ag/East: ws 145 ($100k)** Suexmax Wafr/Usac: ws 185 ($56k)

The tanker surge continues as the current round of musical chairs plays into the hands of Owners, which seems to be the rule and not the exception the past few years. The TCE has about reached the "century" mark. With a few cgos in the mkt still unfixed – there appears to be a restoring force that could lift rates higher. With crude prices up once again, the odds of OPEC minimizations are less likely. Let's keep the punchbowls in the closet, but now that we have reached the $100k level, a few Bud 40s are in order. Bravo!

Crude FFAs have seen moderate activity. **TD3** has traded a fair amount in each of the Q4 months: Oct plus 8 to 157, Nov plus 4 to 156 and Dec plus 3 to 156. This brings their average to 156 – approx 5 points above yesterdays Q4 closing price. **TD7** October has seen good volume, though it trades down 10 points to 185.

Limited inquiry on the **Cont/ta** route has kept rates at a soft 320 ($28k). Simple supply/demand at work. Though the arb has looked pretty good the past few days – it hasn't brought about sufficient demand to keep this market firm. Though we are seeing a few Usg export cgos in the market – it hasn't been enough to lift the **Caribs/Usac** route – which remains at about 245 ($18k). Asian clean remains steady/firm at 365 ($56k) for the LR1 **Ag/East** route.

Clean FFAs have been unusually quiet. **TC2, TC4** and **TC5** all sit in backwardation through December.

**Expected Inventories (Reuters)**

| | | |
|---|---|---|
| CRUDE | -2.0 | MLN BBL |
| DISTILLATE | -1.5 | MLN BBL |
| GASOLINE | -4.0 | MLN BBL |
| REF UTIL | +0.2 | % CAPACITY |

**Equities**

**Tankers:** There were no plus-siders in the tanker names, though little known **CPLP** did manage to finish just about flat. Many attribute this to an equal number of buyers and sellers, whereas the **Ton Mile Trader** editorial board gives credit to the investing classes recognizing that the higher the CPLP share price - the better the party they will throw at the next Posidonia. Buy Mortimer, Buy!!! Alpha Male **FRO**

suffered a 7% kick in the pants - though this trade has become very much a crude oil trade.  Higher crude prices imply more production, while lower crude prices imply a potential output cut.  Simple math.

**Dry Bulk:**  From the frying pan directly into the fire.  When you combine more-than-a-few Omar Nokta downgrades with a sinking physical market and the spectacle of Chris Dodd telling us how markets should work...of course the sell off will be fierce.  George Glass dipped his toe back into **NM** and is less wealthy for his lack of discipline. Buying a stock at an 8% discount is indeed brilliant work, unless of course it closes down 12%.  Whoops indeed!  The only name that escaped with only minor cuts and abrasions was **OCNF**, though the 4% drop there is still unhealthy.

**In ratings news…**

- **Natasha Boyden** maintains a BUY on **Kirby** (KEX) and a $67 price target.  Though she lowers 2008 EPS estimates, she maintains her 2009 estimates, citing “positive outlook on the inland tank barge segment”, among other things.