

Dry Bulk

BDI	5874	down 272
BCI	8107	down 617
BPI	5945	down 57
BSI	3632	down 191
BHSI	2017	down 46

>From Mr Landsberg: "The Capes continue to fall. A good deal of the recent decline has been somewhat sentiment driven - some days where Capes have come down, there has been moderate iron ore activity that seems to go ignored. What scares me is what's going to happen if and when iron ore shipments really come down? That scenario is looking ever more likely now that Rio Tinto has declared a two-week force majeure on iron ore exports from the Pilbara region and Chinese port stockpiles continue to rise.

If you're looking for a life-preserver, it's going to come in the shape of a rail being set in western China or a steel frame being put up in a new Chinese apartment building. As long as China continues to urbanize the vast majority of its 1.3 billion and build up the country outside of the East, steel demand will stay robust and day rates will ultimately rebound. The dry bulk party likely has a bit more tricks up its sleeves. Remember, three weeks ago everyone and their kid brother was bullish Q4. In the last 21 days, have the fundamentals really changed that much? "

More dry bulk commentary at bottom...

FFAs

Contract	Close	Current	Diff
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BDI Sep	6650	6400	- 250
BDI Q4	7700	7550	- 150
BDI Q1	7275	7175	- 100
CS4 Q4	\$124,719	\$121,000	- \$3,719
CS4 Cal 09	\$102,278	\$100,000	- \$2,278
PM4 Q4	\$58,000	\$57,500	- \$500
PM4 Cal 09	\$50,625	\$49,750	- \$875
SM6 Q4	\$45,981	\$45,250	- \$731

The market traded down, then up, then down again - though volumes have been moderate. With some noteworthy equity downgrades yesterday by Dahlman and Lazard - it seems the endless optimism for Q4 has turned to cautious optimism.

Tankers

VLCC AG/East: ws 125 (\$73,000) Suezmax Wafr/Usac: ws 170 (\$47,000)

V Owners are still pushing rates higher on impressive activity. The recent run is much more than a dead cat bounce, though the key factor going forward will be whether or not the momentum can be maintained until we see October requirements.

This could provide a decent launch pad for Q4, assuming the expected Q4 rally does play out. Just about anything is possible.

The futures have followed the lead of the physical, though volumes are only moderate. TD3 Sep and Oct gain 10 points each to 145 and 163, while Nov gains 7 points to 163. This has moved the Q4 up 5 points to 162. TD5 Sep trades up 7 points to 182 while Q4 adds about 7 points to 198.

Atlantic basin clean has been quiet - leaving rates largely unchanged. Cont/ta sits at 315-320 (\$26k) while Caribs/Usac remains at about 285 (\$23k). USG export cgos are not being seen. AG/East 55kt rates have slipped down to 340 (\$49k).

Clean FFA activity has been very slow. The good news for TC2 is that today's bids are higher than yesterday's closing prices - implying next done should provide a price lift. TC5 Sep adds 2 points to 335 while Oct has gained 7 points to 295.

Equities

Downgrades

- Omar Nokta has downgraded DRYS, EXM and TBSI to HOLD (from buy), citing their shorter-term contract coverage. He has reduced spot rate forecasts for Q4 and 2009, mentioning declining steel prices and waning raw material demand at Chinese steel mills, among others items.
- Urs Dur has downgraded EGLE, GNK and NM to HOLD (from buy). Though he believes things will improve in Q4, he expects the BDI to weaken further in the near term - citing softening steel prices and high ore inventories, among other items.

Some dry bulk comments:

Justin Yagerman: ...Despite Continued Sell-Off In Physical And Paper Markets, Contango Persists In Futures Curve. Despite the pronounced 11.8% average sell-off in dry bulk day rates w/w, contango has persisted in the FFA curve with Q4 2008 Capesize contracts \$30,000/day higher than spot rates, indicating lingering optimism for Q4 2008 as speculative players have likely exited long positions in the paper market leaving physical players left to hedge positions. While Q3 and Q4 2008 FFA values have traded down with the rest of the rate environment, the modest resiliency in these contracts leads us to believe charterers are anticipating increased physical demand from current levels, which should spur a leg up for rates.

Erik Helberg: ...In general, the overall sentiment is very weak now, and bears continue to point to weakening steel prices. The debate relates to whether this is temporary weakness or not. At present there are no conclusive data points to say either way. We are in the opinion that steel prices have mainly fallen due to decreasing production costs, as prices of crude oil and spot iron ore have fallen over the past month but also due to continued holiday/Olympics related shutdown of steel production giving reduced demand. We thus believe that once industry in China is back to normal, the market most likely will sharpen up...

More info on Vale:

>From Hellenic Shipping News:

Capesize owners should be braced for a potential trade spat that could ruin their tonne/mile scenario if news just in from Steel Business Briefing becomes confirmed. The leading commodity news bureau reports that 'Brazil's Vale has issued Chinese steel customers with a contract addendum, raising the 2008 benchmark iron ore prices it originally negotiated in February by around 20%'. The price of Vale's South System iron ore fines has now increased 86.4% on the 2007 contract price, while the price of Carajas fines is up 92.4%. This compares to increases of 71% and 65% respectively. More here:

http://www.hellenicshippingnews.com/index.php?option=com_content&task=view&id=17413&Itemid=79

>From the Australian:

BRAZILIAN miner Vale wants to raise iron ore prices for its Chinese and Japanese clients again this year, according to a report. The local Estado news agency reported that

Vale<http://www.vale.com/vale_us/cgi/cgilua.exe/sys/start.htm?tpl=home> has sent a letter to steelmakers in China seeking a 20 per cent bump in 2008 iron ore price contracts. The miner is expected to seek the same price hike from Japanese steelmakers. More here:

<http://www.theaustralian.news.com.au/story/0,25197,24291836-5005200,00.html>