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BMTI INVESTORS' MARKET SPOTLIGHT

FOR BMTI-SUBSCRIBER CAPITAL LINK SHIPPING

BMTI provides a daily report of broker views, market news and trend analyses on all sectors of the international dry bulk shipping market. Our reports are drawn from a global network of independent correspondents, agencies and BMTI subscribers themselves.

DRY BULK MARKET HIGHLIGHTS

It has been a turbulent few days with ebbs and flows of the market nowhere more volatile than with the Capes, though the market solidifies on a burst of activity before the weekend and a quickening in futures trading. Positive movement over three consecutive days, (including Friday's 3% hike on the BCI), emboldens the bulls ahead of expected resumption in Australia/China ore trades, though evidence of such remains as yet limited. All told the BCI manages to climb upward by 6% over the week to 13,936. There was a limited number of open vessels in the Atlantic at the week's start, which started to widen by midweek, but the demand isn't really there either as heavy falls in the trans-Atlantic route rating (down by US\$ 6,227 on Monday). UKC trades and the Far East to Med backhaul take most of the blame for a serious 5% drop in the BCI on Tuesday. There are signs of ex-shipments returning from South America, but the usual inter-Atlantic trading is nowhere to be seen. Pockets of resistance remain: trips South Africa to China are up US\$ 4 in the week to US\$ 63.5/t while inner-Pacific rates have increased by US\$ 2-3/t in the past seven days.

In the once-struggling Atlantic the Panamax round voyage rises dramatically in the week on several days of strong upgrades, while the Pacific faces some widening in tonnage avails, is steady if not rising on Friday. Panamax started into the week holding their ground. The BPI climbs a slim but important 1% on Monday as the trans-Atlantic route ploughs ahead with US\$ 1,302 added, bringing the P1A to US\$ 68,665. The cessation of the Argentinian farmer strikes also promises to bring grain back into play in the western basin. Period remains promi-

nently on the chartering agenda with Hanjin taking a three-year duration for US\$ 59,000 daily on the 2004-built, 73,630 dwt "Protefs" and a number of 3-5 month fixtures on modern units in the low US\$ 60,000s daily range. Pacific area traffic climbs apace with the front and backhaul ratings upgraded day by day over the week. At midweek there is a tightening of tonnage in the western basin along with resurgence in period trading across the board. Norden brings short period charters back over the US\$ 80,000 mark with a pair of modern 10-year-old, 76,000-tonners on 4-6 months of trading. Futures trading also offers some support with sentiment improving on long positions in the quarter as well as in the 2009 contract.

Handy bulk suffers from some western uncertainty throughout the week with both the BSI and BHSI indices registering little progress and the former falling 5% since Monday. The Atlantic slows via the Continent on lower Black Sea imports and the US Gulf on grains blocked by the flooded Mississippi River. South American activity is also, as yet, lackadaisical with owners hoping for grain orders to begin in earnest any day now. The Pacific is altogether firmer with a pick-up in short period business and NoPac rounds on modern Supramaxes hitting the high US\$ 50,000s daily but rumoured to be already in the low US\$ 60,000s. Falls slow down for Handy bulk amid signs of firming on Wednesday, though the Supramax sector remains troubled, particularly on ex-shipment from the USG to the Continent where the route loses US\$ 5,515.

INVESTMENT REVIEW

Futures trading is decidedly neurotic but enthusiastic with paper consistently running ahead of physical ratings, though day-to-day shifting in rate levels has made trading a bit skittish. London-based Freight Investor Services, the leading broker of dry bulk derivatives, expected dry FFA trading volumes to have grown by 58% in the first half of 2008

compared to the second half of 2007. Trades are up by roughly 22% in H1-2008 compared to H1-2007. FIS strategic director Michael Gaylard tells BMTI activity the week's activity has been sporadic as traders now are tending to look for momentum rather than longer positions.

The listed bulker stocks display no real direction with firms large and small, Cape and Handy, spot and period, rising or falling at the whims of an uncertain physical market. Generally speaking, however, shares turn around at midweek after slumping through Tuesday. Genco Shipping [GNK] and DryShips [DRYS] finish the week unchanged at around US\$ 64 and US\$ 82, respectively. Others like equally spot market-exposed companies TBS Intl. [TBSI] and Excel Maritime [EXM] finish 7-8% down since Monday as smaller sized vessels—of which the companies' fleet comprise a sizable number—fare slightly worse than their larger counterparts. Managing Director of Jeffries, Hamish Norton, noted last week at the Marine Money conference the discrepancy between high volatility in stocks of bulker firms (87% in the year to date) compared to the BDI (47%) and the physical Cape market itself (9%). "Something's fishy," he said.

Genco [GNK] shares spiked by 5.8% on Wednesday after announced having fixed a time charter on one of its 2007-built Supramax vessels for 11-13.5 months at US\$ 62,000 daily.

Star Shipping of Norway will be divided into two companies according to its respective owners. Its fleet of Handy bulk carriers (20-50,000dwt per ship) will go to the Westfall Larsen Group (19 ships) and the Grieg Group (23 ships). Grieg will retain the Star Shipping name.

Major Greek grainhouse, Soya Mills, has announced plans to go public on the Alternative Investment Market in London in a joint venture with the Tsakos Group under the name TSoy Marine. Money earned from the AIM listing will be divided between purchasing three bulk carriers and expanding operations at Soya Mills.

Global investment bank UBS has upgraded earnings estimates for HK-listed Pacific Basin Shipping and says its expectations for profits of US\$ 348m in this quarter justify a share price "significantly" higher than its current grade of HKD 11.00. Nonetheless an expected fall in iron ore in the months July through September, when China hosts the Olympic Games, has motivated UBS to downgrade its target price for Pacific Basin by HKD 2.0 to HKD 17 based on expected erosion of ship value by 10-15%.

Planning is underway for an HK-based commodity exchange. The Hong Kong Mercantile Exchange would counterweight similar exchanges in Chicago and London. Considering Asia's key role in today's global commodities markets, such an exchange would be a natural fit, says an official in the HK-based Noble Group, one of the world's largest resource managers.

Seeking "firm employment" in oil, dry bulk shipping and commodities such as coal and iron ore, the Asian Finance Bank in Malaysia has floated the first shariah-compliant shipping fund valued at RM 1b (US\$ 312.2m). The fund will allow investors to enter the shipping market based on shariah-compliant terms. The 10-year closed-end fund is projected to have an annual dividend up to 10%. Some earnings, says the fund, will be invested in quality new and second-hand ships to be employed in the dry market on charters of 7-10 years to ensure stable returns.

IMAREX's new simplified investment instrument for a "broader audience of investors", the BDI Futures contract cleared by NOS, has been concluded 237 times since it began trading two weeks ago. CEO Herman Michelet values these contracts at US\$ 2m, the single contracts can be as small as US\$ 9,000.

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BMTI BROKERS MARKT & TREND INFORMATIONEN GMBH

Triberger Straße 9 - D-14197 Berlin

Responsible / MD: H.Piper

T+49 / 30.85 222 58 - F+49 / 30.85 222 59

sales@bmti.de | www.bmti.de - Amtsgericht Berlin HRB 91539

