



# DRYBULK NEWSLETTER

BRS Dry Bulk Newsletter is a summary for BRS clients of current market trends and developments.

N° 575 – March 3rd, 2008

## Trends

- Capesize Atlantic →
- Capesize Pacific →
- Panamax Atlantic →
- Panamax Pacific →
- HandyMax Pacific →
- HandyMax Atlantic →

## Capesize FFA Market Assessment

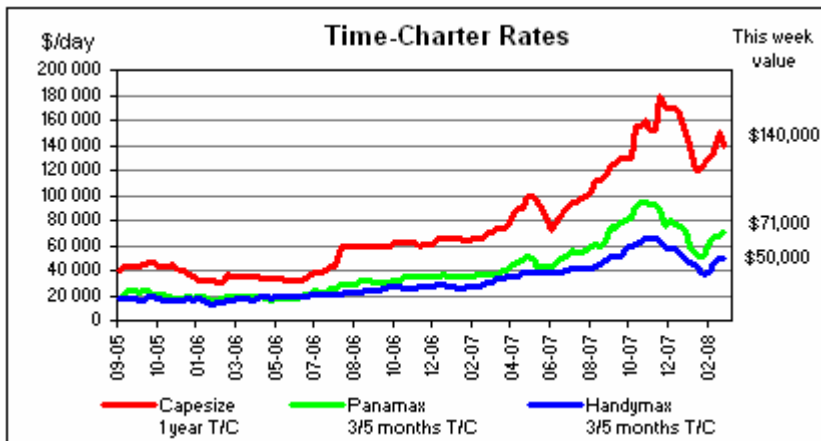
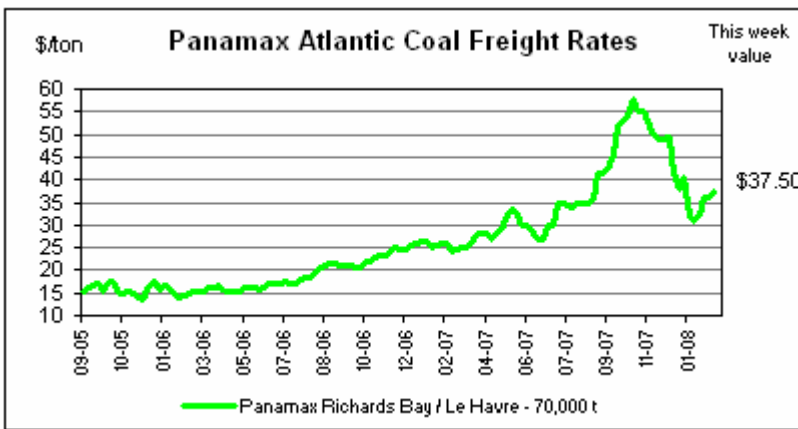
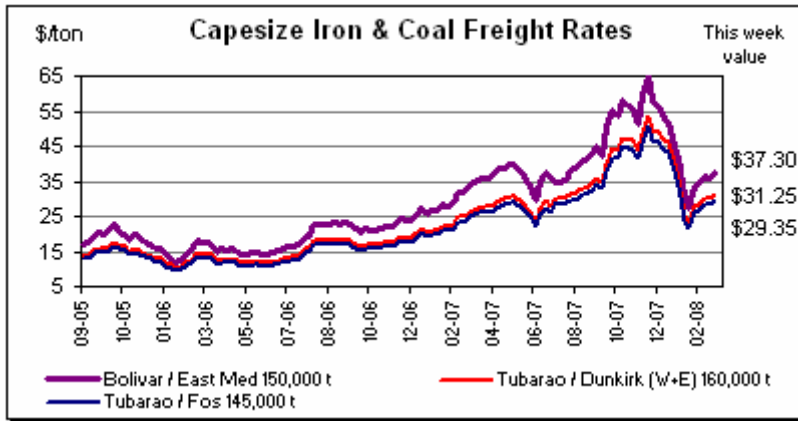
**Bid Offer**  
(as of February 29th, 2008)

C4 - Richards Bay / Rotterdam		
Feb 08	30,00	31,00
Mar 08	34,50	35,50
Apr 08	37,00	38,50
May 08	37,00	38,00
June 08	36,50	37,00
July 08	36,00	37,00
Aug 08	35,00	36,50
Sep 08	35,00	36,00
Oct 08	34,50	36,50
Cal 08	32,50	33,50
Cal 09	28,50	29,00
Cal 10	21,75	22,25
Cal 11	19,75	20,00

C7 - Puerto Bolivar / Rotterdam		
Feb 08	30,60	31,00
Mar 08	34,00	35,00
Apr 08	37,00	38,00
May 08	37,00	38,00
June 08	36,75	37,25
July 08	36,50	37,00
Aug 08	35,50	38,00
Sep 08	35,00	36,00
Oct 08	34,50	35,50
Cal 08	33,50	34,50
Cal 09	28,00	28,50
Cal 10	22,25	22,50
Cal 11	19,75	20,00

Average 4 Timecharter routes		
Feb	110 500	111 500
Mar	130 000	133 000
Q2 08	141 500	143 500
Q3 08	135 000	139 000
Q4 08	133 500	135 000
Q1 09	116 000	117 000
Cal 09	91 500	93 000
Cal 10	62 500	64 000
Cal 11	46 000	50 000

Source: BRS Futures Limited  
(44) 20 7602 5670



... At a Glance

DRY BULK Market

At a Glance ...



**Trends ... DRY BULK Market ... Trends**

To convert or not to convert, that is the question...the recent dash to turn tankers into bulkers hit a new obstacle this week: with steel prices rising rapidly, owners and yards have to revise their bills for conversions. One Asian owner is already reported to be seeking cash from new investors to overcome the problem of delays and increased costs in its program. As such, with bulker "surgery" already costing owners in the region of \$90-\$95m, and freight rates fluctuating wildly, it could be a fine line between success and failure for owners converting speculatively. Indeed rising steel prices will have a range of knock-on effects for the shipping industry. Last week saw Japan's shipyards rail against the new increases, and one yard (IHI) call a halt to newbuilding negotiations. Meanwhile more evidence this week that coal should prove to be a fascinating commodity in 2008. Reports out of Japan suggest Rio Tinto may seek price increases of much as 143% for its 2008 coal contracts. This underlines recent analyst reports also warning of significant increases.

Another week of see-sawing rates for the **Capesize** market. Rates fell at the start of the week, then surged upwards again from Wednesday. The average of the four time charter routes finished on Friday at \$122,876. Most interesting however was the period market, where yet more firm deals were concluded. Japanese charterers agreed to take a 176,000 dwt vessel for five years at the robust rate of \$50,000 per day with late 2009/early 2010 delivery. The deal includes a reduction to

\$48,000/day if delivery slips to second-quarter 2010, but either way this is a strong rate for availability this far in the future. Meanwhile an interesting re-let for last week's headline deal. We reported that a 177,000 dwt vessel with prompt delivery was signed at \$79,500/day for five years. It now appears the vessel has been re-let at \$100,000/day for three years. This offers a \$22.5m profit over the first three years, significantly reducing the charterer's exposure in the final two.

The Baltic **Panamax** Index went up by 375 points finishing at 7,435. The Panamax 4 t/cs gained US\$3,034/day and is now standing in the really low US\$60,000's.

Both the Pacific and the Atlantic markets have been firming up last week with a lot of fresh requirements. Two major causes can be noticed apart from the classical supply and demand balance regarding this upward trend. First, a strong influence from the Capes and Cape' splits interacting with the Panamax market.

Interest on period has also sustained the market tight on tonnage, supported by a strong activity on the FFAs (last Friday was the FFAs' settlement day). LMEs for 1 year with delivery Atlantic traded in the low US\$70000's daily and another LME with delivery Pacific has been reported fixed for 3 years at US\$52,000/day.

Both basins are undoubtedly on the rise with increasing and sustained activity. Short period up to one year remains a trendy duration. **Supramax** are now achieving in the low 60s with dely Atlantic and **Handymax** in excess of US\$50,000 for

short periods. Modern **Handies** (28-32,000dwt) are trading close to the mid-30s for short period.

In this context, spot rates for single trips or voyage are obviously showing very healthy rates although not yet to where they were by late 07.

The sentiment in the Atlantic is positive on the back of good expectations for the grain season starting soon. The Pacific is seeing more orders coming in, especially from bulk commodities such as alumina, nickel ore, etc. which have been quiet for a while and are critical for the dynamism of the region.

**S&P market:**

It seems that buyers are still "cautiously optimistic" and as such ongoing negotiations are not concluded as fast as most sellers would wish. Nevertheless a few of the reported sales this week involve ships that saw several buyers competing for especially in the Handy size. We understand that the Handymax "Snow Falcon" (50,000 dwt, built 2003 in Japan) has received o/r offers in the low US\$60's m. whereas sales include the "Tango Glory" (48,000, built 2001 in Japan) which has been finally sold at US\$65m to Greek buyers. The "Glen Helen" (47,000 dwt, built 1998 in Japan) obtained US\$55m from unknown buyers whereas the 24 year old "Amanda C" (42,000 dwt, built 1984 in Japan) has been sold for US\$28m to Korean buyers. Finally and following a competition between about 12 prospective buyers the Handy "Ansac Orient" (28,000, built 1995 in Japan) has been committed for a price in the region of US\$39m to Korean buyers.

**Dry Bulk Carriers Orderbook**

Dry Bulk Carriers Orderbook

03/03/2008	(Source: BRS)						Number of ships	
	2008 (deliv.)	2008*	2009	2010	2011	2012	2013+	Total on order
VLOC		12	13	21	34	21	2	103
Capesize	(4)	40	126	235	91	12	5	509
Small Cape	(1)	17	48	99	83	19		266
Panamax	(9)	89	96	148	81	18	2	434
Supramax	(14)	178	262	286	168	40	2	936
Handysize	(8)	129	207	185	116	29		666
<b>Total</b>	<b>(36)</b>	<b>(465)</b>	<b>(752)</b>	<b>(974)</b>	<b>(573)</b>	<b>(139)</b>	<b>(11)</b>	<b>2914</b>

\* Includes delayed 2007 vessels

VLOC: >220k dwt

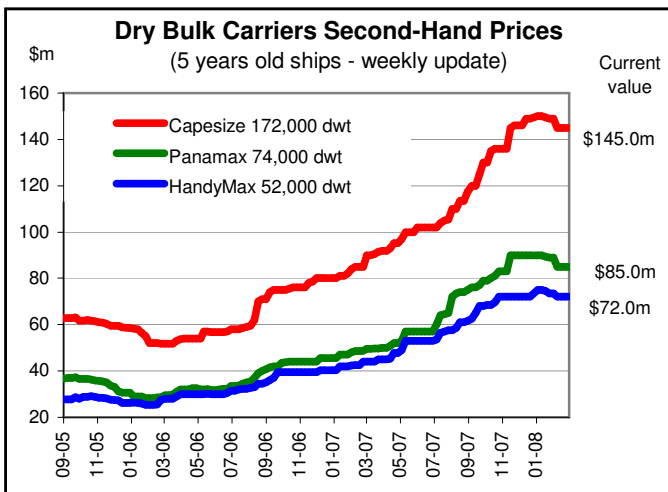
Cape: 120k-219k dwt

Small Cape: 83k-120 dwt or >32,3 beam

Panamax: 60-80k dwt & <=32,3 beam

Supramax: 40-60k dwt

Handysize: 24-40k dwt



**GLOBAL COAL SUPPLY 'CRISIS' TO FORCE PRICES UP**

Rio Tinto is reportedly seeking to raise the price of coal delivered to Japanese utilities under 2008 contracts by as much as 143%. Reuters reported that Rio executives met clients in Tokyo last week and offered coal to buyers including Chubu Electric Power for about \$135 per tonne, compared with \$55.65 last year. The anticipated hike comes as Macquarie Bank raised its estimates for coal prices by as much as 50% and said a "crisis" in supplies will continue in the wake of disruption in Australia, South Africa and China.

*Lloyd's List-26/2/2008*

**S-H VLCC CONVERSION INTO ORE CARRIERS TO SAG SHARPLY**

Sales/purchase deals on single-hull VLCCs aimed for conversion into dedicated ore carriers are expected to decrease sharply. Repair yards which undertake conversion works are in short supply, and with the looming "problem of 2010" when bulkers will be completed in huge volume, orderers' cautious attitude is intensifying. There is also a prospect for lower prices of secondhand single-hull ships whose uses are limited. With this, the trend to convert single-hull ships into ore carriers assumed to be a big boom now appears to cool down. In the last several years, moves to remodel and reuse single-hull tankers, whose expiration date for use in the international rules is imminent, have been accelerated. Particularly, there have been many plans to remodel them to ore carriers whose supply-demand situation is tight, and 30-40 such ships are said to turn into ore carriers.

*Lloyd's List-3/3/2008*

**CHINA'S CRUDE STEEL OUTPUT REVISES TO 489.66 MILLION TONS IN 2007**

China produced 489.66 million tons of crude steel in 2007, up 16.8% year-on-year and 568.944 million tons of steel products, up 21.3%, according to the Statistical Communique for National Economic and Social Development in 2007. Both figures were 419,200 tons and 4.3359 million tons above those in a latest report.

*CISA-3/3/2008*

**ITAGUAI BACK TO FULL STRENGTH**

Iron ore exports from the Brazilian port of Itaguai have returned to normal capacity, terminal operator Vale has confirmed. The Brazilian mining giant said that shipping had resumed on 10 February, but has only now attained its normal capacity of 25mt per year. Vale declared force majeure in December on iron ore cargoes following a collision between a bulker and a structure at the facility.

*Trade Winds-3/3/2008*

**IRON ORE PRICE RISE COULD FORCE CHINA STEEL RATIONALIZATION**

China imports almost half of the world's seaborne iron ore, making it the largest iron ore consumer in the world, but it has become a price-taker for this basic input for steel -- perhaps because it waited too long to negotiate with major suppliers. Analysts said that this situation could have been anticipated, because iron ore was in such demand globally, but they added that higher costs might actually help rationalize the Chinese steel industry by pricing some smaller firms with obsolete technology out of business.

*Xinhua-26/2/2008*

**OWNER HUNTS FOR CASH**

South Korean tanker owner SH Marine is said to be seeking cash from new investors to keep it afloat commercially after a programme of ship conversions in China challenged its liquidity. Sources acquainted with the matter tell TradeWinds SH Marine is looking to the fresh-cash infusion to solve "temporary tight liquidity" that resulted from the long delays and unexpectedly increased costs of its conversion programme. Five vintage single-skin products tankers in SH Marine's fleet have been undergoing conversion at Cosco Dalian and Cosco Shanghai repair yards in a programme that began in 2006.

*Trade Winds-29/2/2008*

**HEBEI TO BUILD WORLD'S LARGEST COAL EXPORT PORT CLUSTER**

Hebei province, in northern China, will build three modern comprehensive ports, including Qinhuangdao Port, Tangshan Port, and Huangyi Port in the next three years. This will become the world's largest coal export port cluster. In 2007, the design and handling capabilities of ports in Hebei doubled, growing to 392 million tons and 399 million tons, respectively, from 170 million tons and 140 million tons in 2002. And Qinhuangdao Port is the world's first and largest port to transport more than 200 million tons of coal.

*People's Daily-29/2/2008*

**OWNERS REVISE ECONOMICS OF VLOC CONVERSIONS**

Owners of single-hull tankers are reviewing the economics behind conversions to very large ore carriers. Market sources indicated that an expected increase in steel prices in 2008 would add considerably to total conversion costs, currently estimated at up to \$90m.

There are also anticipated delays to secure a place at shipyards within a reasonable time, causing interest to "dry up a bit" said one European broker yesterday. Freight rates for dry bulk carriers also tumbled in January, especially for capesize vessels traversing Brazil to China, the most likely route for tankers converted to VLOCs.

*Lloyd's List-27/2/2008*

**VALE POSTS 62.9% YOY SURGE IN 2007 EARNINGS**

World's biggest iron ore miner Brazilian Companhia Vale do Rio Doce has completed in 2007 the fifth consecutive year of extraordinary growth in its activities. This process was sustained by continuous improvement in operational and financial performance, greater diversification of its asset portfolio and globalization of its operations. In 2007 Vale broke different production records: Iron ore - 296 million tonnes, Pellets - 17.6 million tonnes, Bauxite - 9.1 million tonnes, Alumina - 4.3 million tonnes.

*SteelGuru.com-29/2/2008*

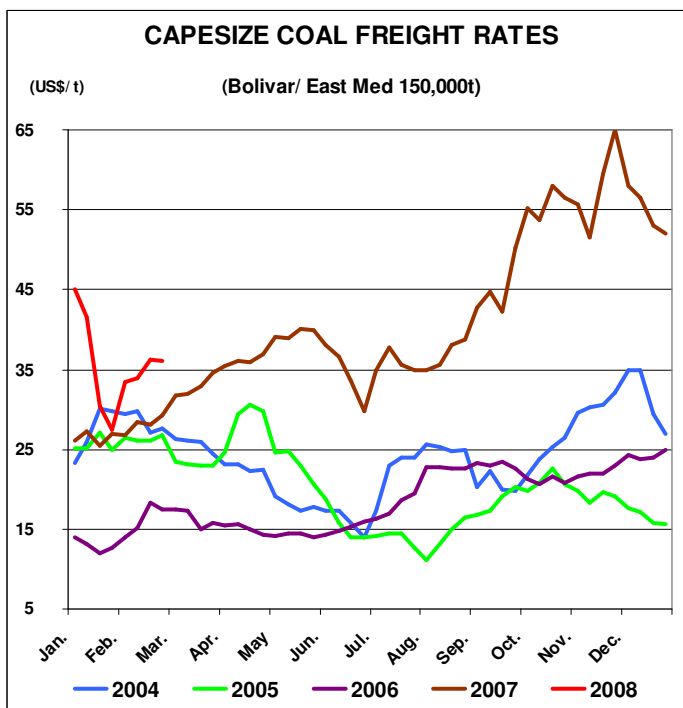
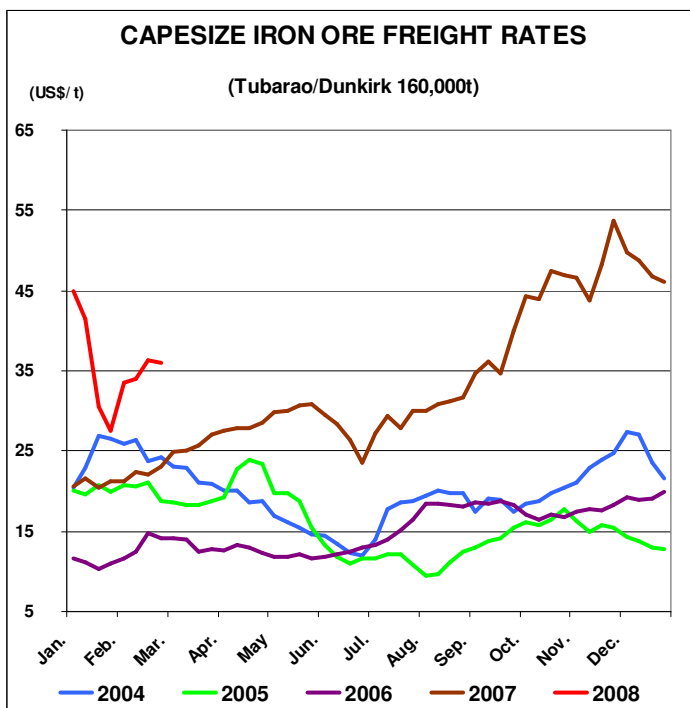
**CHINA PRODUCES 2.52 BILLION TONS OF RAW COAL IN 2007**

China produced 2.52 billion tons of raw coal last year, up 8.2 percent from 2006, according to the China National Coal Association (CNCA). The output of raw coal saw consecutive growth in the past five years. The output volume increased by 78.3 percent compared to that of 2002, when the volume stood at 1.42 billion tons. Over the past three years, the central government had arranged nine billion yuan (1.23 billion U.S. dollars) in treasury bonds to upgrade safety technologies and equipment at major state-owned coalmines in order to increase output while reducing the number of accidents.

*Xinhua-3/3/2008*



**Analysis ... DRY BULK Market ... Analysis**



Year	2004	2005	2006	2007	2008 (2 mths)
Deletions (m.dwt)	0,22	0,24	0,78	0,80	-
Deliveries (m.dwt)	7,85	9,43	11,68	12,70	0,80
IFO 380 cst Rott. (\$/t)	155,3	238,2	292,6	347,4	441,3

Since November last year when the market reached levels never seen before, a lot of events have occurred in the favor of a downturn (which in fact only pulled the rates back to the peaks recorded during the four preceding years): lower congestion in Australia, iron ore prices negotiations, M&A discussions between top mining companies, stems cancellations ex-Brazil, harsh weather conditions and the Rat's year break in China...

Rates have significantly recovered since end January as most of these factors have no longer been playing to the same extent.

However does this mean that the market is set for another race to the tops? or does it mean that we're entering a new period of less volatility? Certainly not.

First it seems hardly probable that what happened in 2006 repeats in 2007 as most players, either in the shipping, port, or the mining, steel industries have learnt from last year and either invested or reorganized to prevent such a situation to come again. Then, it is also difficult to believe that the market is going to stabilize or at least come back to a pre-2007 type of business as many other factors than the ones mentioned above should play in both the bullish or the bearish way, let's mention: on one side, iron ore price rise agreed this year means that the commodity is still a hot spot, the capacity China will have to supply more coal to its power grid will greatly weigh on the spot market, on the other side the delivery schedule of tankers being converted to dry will (if

respected) push some standard Capes back to the spot and the fact that the 12.7 m dwt of new Capes delivered this year have been easily absorbed does not mean that the 13.1 m dwt awaited for this year will be accepted the same way.

The market has changed and it's not a surprise for anybody, but one major change has been the fact that an increasing part of the Cape market is 'contractualised'. This also calls for more volatility on the spot market as the less vessels you have available for prompt stems, the more every tiny little event translates into sharp ups and downs for the rates.

So let's expect our hearts will again beat strong this year...

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