

FFAs and the BALTIC EXCHANGE

The market for Forward Freight Agreements (FFAs) continues to gain the interest of a wide range of companies including banks, commodity traders and shipowners. The latest statistics show that 12,758 tanker FFAs were transacted in 2006, equating to 329,434,250 metric tonnes of oil transported by sea with an estimated freight value of USD 5.5bn. On the dry side in the third quarter of 2006 alone, 511,105 lots were traded, with a lot representing one day's hire of a vessel or 1000 tonnes of freight. Compiled by the London headquartered Baltic Exchange, the provider of settlement data for the shipping markets, the statistics are based on confidential returns provided by 19 different FFA broking companies. The Baltic Exchange says that it believes that the publishing of trading volume data will assure market newcomers of the depth of liquidity now available across the FFA market. Commenting on the results, Baltic Exchange chief executive Jeremy Penn said: "Freight is a readily tradable commodity. The FFA market has performed strongly throughout 2006 and we expect to see continued growth of volumes in 2007." As a neutral organisation made up of shipbrokers, shipowners, charterers and traders, the Baltic Exchange underpins the growing freight derivatives market. Not only does it publish independent daily dollar assessments covering vessel hire rates for the capesize, panamax, supramax and handysize markets as well as Worldscale assessments for the tanker markets which are used to settle the vast majority of FFA contracts, but it also publishes benchmark forward curve data for all the most heavily traded FFAs. The recent launch of the Baltic's handysize index covering 28,000 dwt bulk carriers, means that owners and charterers of smaller vessels have the opportunity to trade paper for the first time. The Baltic Exchange is actively involved in promoting growth in the FFA market, holding workshops, forums and training courses in shipping centres around the world. The organisation, whose history stretches back over 250 years, is increasingly focusing its efforts on Asia and has just opened a representative office in Singapore. The Baltic sees a clear need for reporting on new routes for the Asian market and the potential for publishing to take place in local time for certain routes to aid the development of the derivatives market in Asia. Several new routes have already been proposed and are currently under consideration. "We see our role as a servant of the shipping markets," comments Jeremy Penn. "As an organisation with over 550 member companies active in the shipping business all our services are geared towards providing the freight markets with the information and support they need." The Baltic Exchange's indices are widely regarded as being the market's most reliable and independent assessments available. "Key to our success is the involvement of our international panel of independent shipbrokers which provides us with data on a daily basis," says the Baltic's chief executive. "We are able to reflect freight market movements with real accuracy. With input from our numerous consultative groups made up of member firms, we ensure that our vessel descriptions and routes assessed reflect what's really happening in the market." The Baltic Exchange is a unique organization whose members include the world's leading shipbroking, owning and chartering companies as well as banks and commodity houses active in the freight markets. Governed by its members, the Baltic also provides an important role in maintaining standards in the freight market. All Baltic Exchange members are expected to adhere to its famous motto "our word our bond" and the Baltic provides its members with a dispute resolution service and helps its members recover monies owed to them.