

CSAV is first line off container swaps starting block

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Breakthrough development seen as key to growing liquidity for the market for container freight swap agreements

CHILE's CSAV has become the world's first line to execute a trade in the nascent market for container swaps.

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Investment bank Morgan Stanley, which traded the first contract back in January, provided the other side of the transaction.

The breakthrough development from the world's eighth largest line is viewed as key to growing liquidity for the market for container freight swap agreements, developed as a risk management tool for container freight rates.

"We are now seeing demand from all sectors of the market including shippers, freight forwarders, financial institutions and now shipping lines," said Morgan Stanley Commodities vice-president Joe Radmore.

"The lines, which up until now have generally applied a wait-and-see approach to container swaps, are increasingly taking the opportunity to explore how container derivatives can be incorporated into their existing business model."

Freight forwarders and retailers have keenly embraced container swaps as a tool for price discovery and to lock in forward rates for shipping containers, following an unprecedented period of volatility, which saw rates rapidly surge in the first half of 2010.

But there has been little public support from senior liner executives, including Maersk Line chief executive Eivind Kolding, who described container swaps back in March as "the wrong avenue" for the industry.

Clearing houses LCH.Clearnet and SGX AsiaClear also began offering clearing services in the last six weeks, further opening up opportunities beyond the over-the-counter bilateral contracts.

London broker Clarkson Securities has been at the forefront of the new development, working with the Shanghai Shipping Exchange to develop the Shanghai Containerised Freight Index, against which the contracts are settled. The contracts cover four major container shipping routes from Shanghai to Europe, the Mediterranean, US west coast and US east coast.

London broker Freight Investor Services is working with two of the largest container lines in the AXS Alphaliner Top 100, which have expressed serious interest in trading container swaps, said FIS container freight derivatives broker Arthur Wosely.

Although volumes currently traded were low, he hoped to see a "fully liquid market" within 12 months.

"We are seeing a lot of people sit up and pay attention to this market," he said. "The key is liquidity, and that liquidity is going to be delivered in big numbers when the shipping lines start trading in the market against the consumers."

"Shipping is slow moving and people are just beginning to reject the initial suspicions of a new thing".

The underlying physical market for containers shipped from Asia to Europe is estimated at 10.9m teu.

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