

# Paper boosted as stability returns to physical charters

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STABILISING bulk carrier rates saw the value of dry paper contracts for the third and fourth quarter of 2010 return to levels last seen at the start of July.

Growing interest in the physical market to charter bulk carriers for longer-term periods had also prompted a number of participants back to the paper market to hedge against short term contracts.

“It’s always a bit of a ‘what came first — the chicken or the egg?’ situation when you talk about the physical and paper market,” said one dry bulk freight derivatives broker, talking about which sector had showed the first signs of improvement.

“Over the last two weeks there’s been a thinning out of natural sellers but now that the market seems to have established a floor you naturally have a little more buying interest.

“And there’s certainly been more interest for period charters in the Pacific

basin so naturally the paper values have picked up.”

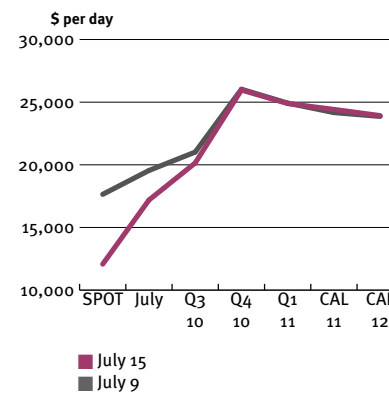
On Friday the Baltic Exchange posted the fourth consecutive gain for average panamax time charter rates, with prices reaching \$16,839 per day. This in turn prompted some charterers to take ships on period charters before prices rose too high.

US-based commodities multinational Cargill led the way, taking two panamax and one supramax, according to the Baltic Exchange daily fixture list.

This included the 2001-built, 74,297 dwt *Hephaestus* for \$20,500 per day, the 2001-built, 74,133 dwt *Gallia Graeca* for \$20,000 per day and the 2003-built, 52,384 dwt *Ocean Queen* for \$18,800 per day, all for four to six month periods.

This push in period charters saw Freight Investor Services report increased prices for August panamax paper contracts, which were trading at an average \$20,750 per day on Friday, up from \$17,875 earlier in the week. Third and fourth quarter FFA

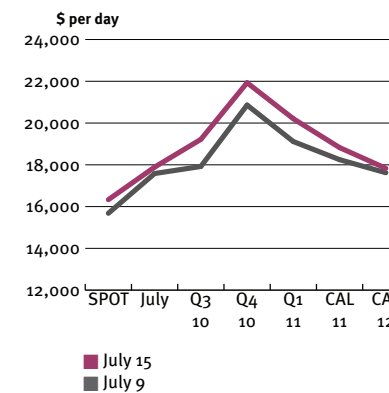
FFA CAPESIZE AVERAGE TIME CHARTER



Source: Baltic Exchange/FIS

panamax contract values also moved up by around \$2,000, with third-quarter paper closing the week at around \$20,150 per day

FFA PANAMAX AVERAGE TIME CHARTER



Source: Baltic Exchange/FIS

and fourth-quarter contracts at \$22,375 per day, FIS figures showed. “Personally I’m surprised by the strong bounce. In terms of

freight it isn’t that huge but it feels like a big jump because the physical isn’t really moving,” said another broker.

Capesize FFA values also posted an increase on Friday, with third-quarter contracts traded at an average \$20,750 per day, up from average values of \$19,000 last Tuesday. And fourth-quarter paper was valued at around \$26,250 per day at the end of the week, up from \$24,400 earlier in the week, data from FIS showed.

In contrast, the capesize average time charter rate stood at \$12,495 per day, despite posting its first rise in three weeks having dropped from a 2010-high of \$59,324 per day in early June.

This huge disparity between physical and paper capesize values left brokers arguing that “something’s got to give”.

“Something fairly dramatic is going to have to happen in the next couple of weeks. Either physical is going to have to start moving again or the paper will have to come down,” said one. ■