

City of London says change coming to FFA market

By Jonathan Saul

LONDON, Nov 18 (Reuters) - Change is coming to the freight derivatives market and the Baltic Exchange needs to respond to it, the Lord Mayor of the City of London said on Wednesday.

Forward freight agreements (FFAs), which allow a buyer to take a position over where freight rates will stand at a point in the future, are not traded on an exchange.

Earlier this year, the London Metal Exchange drew criticism from ship brokers after signalling it was interested in a possible move into the FFA market. Ship brokers have argued that the Baltic Exchange is the only place that could bring about changes such as a central trading screen.

Nick Anstee, who took office as the 682nd Lord Mayor of London earlier this month, said on Wednesday forcing markets onto exchanges in a premature way "may not serve the market well and may not help liquidity".

"Nonetheless, change is coming and it is important for the Baltic to be in the right position to respond to that change," he said in a speech at a Baltic Exchange event.

The Baltic Exchange said on Tuesday, in response to fresh market speculation, it was not in talks with the LME over a possible link up in relation to the FFA market. [ID:nLH680557]

Baltic Exchange Chairman Mark Jackson said at Wednesday's event: "We are looking hard at how the FFA market will need to evolve in its next phase, particularly in the context of screen trading and against the backdrop of a changing regulatory environment."

Most FFA contracts are settled against the Baltic Exchange's physical indices which are compiled from a panel of independent ship brokers.

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Anstee said investment banks had entered the shipping market via FFAs, adding that a number of hedge funds were now active in both physical shipping and freight derivatives.

"The City of London Corporation is also arguing against some of the more unhelpful elements of proposed EU regulation on hedge funds and private equity," he said.

"Hedge funds were not responsible for the recent financial crisis, and I believe that if the EU legislation goes ahead, it will not only affect London -- but as London is Europe's financial centre -- it will also have a negative impact on Europe."

The FFA market has grown in recent years from its beginnings in 1985 and was estimated to be valued at \$130 billion to \$150 billion in 2008, freight derivatives brokers said.

Some freight derivatives brokers have estimated that with shrinking volumes this year the notional value of the FFA market could drop to between \$31.3 billion to \$40 billion in 2009.

Freight derivatives broker FIS has estimated that the market could recover in 2010 to \$40 billion to \$50 billion and possibly up to \$60 billion to \$70 billion in 2011. [ID:nLF324137]

The Baltic Exchange has its origins in the Virginia Baltick coffee house in London in the 1700s, which was frequented by merchants and ship owners, and is one of the City of London's oldest institutions.

John Banaszekiewicz, managing director of freight derivatives broker FIS, said previous Lord Mayors had never offered an opinion about the FFA market.

"This is a new development and we are interested to find out how the Lord Mayor's office will get involved," Banaszekiewicz told Reuters.

The Lord Mayor's office was not immediately able to comment further.