

Interest grows in container freight swap market

A SURVEY of freight derivatives users has shown positive and growing interest in the new market for container freight swap agreements, writes *Michelle Wiese Bockmann*.

London-based Freight Investor Services, which brokers trades in dry bulk derivatives, iron ore and fertiliser swaps, has recently canvassed attitudes to the new product, with executives also travelling to Germany and China to promote and explain how they work to possible participants.

“The feedback came back as really positive,” said FIS managing director John Banaszkiwicz about the survey.

“A lot of people that could be involved in this market have not done (derivatives) before, other than the shipping companies and the banks.

“Freight forwarders and end users, and larger companies who traditionally organise annual freight rates with shipping lines, don’t do much trading, especially their logistics departments. So it’s really educating the market and reaching that critical mass when the market starts to educate itself.”

The over the counter container swaps provide a cash-settled agreement on the future price of container freight on a particular route published by the Shanghai Containerised Freight Index.

The first trades were concluded earlier this year by another derivatives broker,

SHANGHAI CONTAINERISED FREIGHT INDEX

Departing from Shanghai to following destinations:	Weighting	Weekly Index \$ 09/07/2010	Change on Last Week \$
Comprehensive Index		1,581.85	-1.33
Line Service			
Europe (base port)	20%	1,901	+14
Mediterranean (base port)	10%	1,910	-9
United States West Coast (base port)	20%	2,816*	-17*
United States East Coast (base port)	7.50%	3,987*	+25*
Persian Gulf and Red Sea (Dubai)	7.50%	1,398	+15
Australian/New Zealand (Melbourne)	5%	939	-19
East/West Africa (Lagos)	2.50%	2,505	-28
South Africa (Durban)	2.50%	1,652	+17
South America (Santos)	2.50%	2,185	+19
West Japan (base port)	5%	321	0
East Japan (base port)s	5%	321	0
Southeast Asia (Singapore)	5%	440	0
Korea (Pusan)	2.50%	198	-8
Taiwan (Kaohsiung)	2.50%	284	-13
Hong Kong	2.50%	144	0

Price is US\$/teu except * which are US\$/feu

Source: Shanghai Shipping Exchange

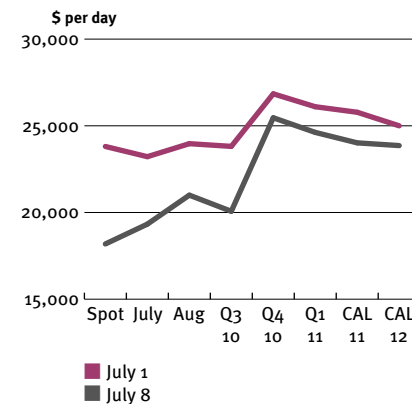
Clarkson Securities, and bilateral trades reached more than 50. But with LCH.Clearnet now offering a clearing service since June, volumes are expected to increase, with trading so far limited to the third and fourth quarters of 2010.

Mr Banaszkiwicz said that the underlying physical market for containerised exports from the Far East to the US and Europe totalled 25.2 m

containers, or around 20% of global trade. With freight rates climbing for the traditional peak season from May to October shipping lines have yet to publicly embrace the container swaps concept.

However, FIS broker Arthur Worsley said this might change if rates plateaued, and dismissed some industry comments that container derivatives trading was like casino shipping.

FFA CAPESIZE FORWARD CURVE



Source: Baltic Exchange

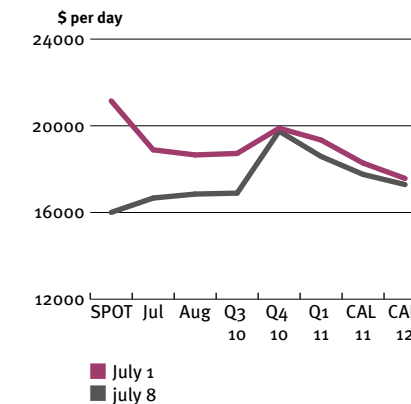
“There are no risk management tools in the market, so we’re doing casino shipping anyway,” Mr Worsley said.

“Nobody knows what the rates are going to be.

“At least if we introduce risk management tools we have a reliable forward curve and in two years time we’ll probably see the shipping companies using the forward curve to sell themselves.

“There has been interest from the shipping lines, but they don’t want to show obvious interest.

FFA PANAMAX FORWARD CURVE



Source: Baltic Exchange

“What will happen is that we’ll see one person break rank and at that stage everybody else will have to follow suit as it will give them such an advantage over everybody else.”

FIS is working to establish another index provider against which further routes can be settled.

London shipping consultant Drewry has previously confirmed they have been approached by an undisclosed party and have held discussions about indices provision. ■