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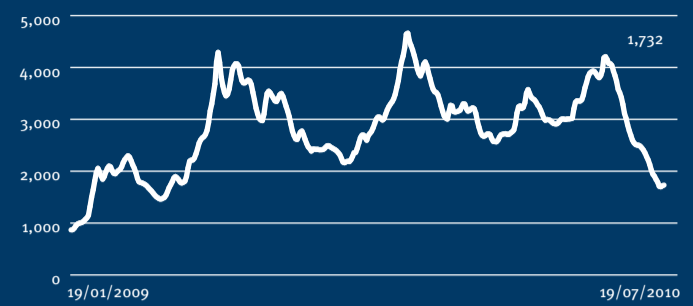
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Lloyd's List

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BALTIC DRY INDEX JANUARY 2009-JULY 2010



Source: Baltic Exchange

Dry bulk shares break link with BDI

Experts advise shunning so-called bellwether index after 'decoupling' from listed companies

RAJESH JOSHI — NEW YORK

THE behaviour of dry bulk shares this year, which has mirrored the wider market more than the Baltic Dry Index, has exposed the limitations of the so-called bellwether index as the proxy for the whole sector.

Investors seeking positive returns on listed companies are better advised to downplay the BDI and track wider market sentiment, experts said.

The advice is based on several factors, including listed dry bulk companies' greater reliance on period charters, diversification by some into other industries and the advent of smaller and illiquid companies that do not command hedge funds' attention as before.

Oppenheimer analyst Scott Burk highlighted the "decoupling" with the BDI. From 2005-2008, dry bulk equities displayed a 95% correlation with the BDI and a 50% correlation with the S&P 500, the

capitalisation-weighted index of 500 actively traded stocks. Dry bulk shares so far this year had a 32% correlation with the BDI, while the correlation with the S&P 500 increased to 82%.

"We expect shipping stocks to maintain this correlation to the broader markets in the near term, so we continue to suggest that investors actively trade sizeable upside and downside moves in high-beta shipping stocks," Oppenheimer advised.

First International chairman Paul Slater said: "Hallelujah. Dry bulk shares are finally coming to their senses, by tracking something that reflects actual investor sentiment."

Compass Maritime Services managing director for projects and finance Basil Karatzas said a reason for the U-turn was the "over-use" of the BDI as proxy at the top of the market. He cited the anecdote of Aegean Marine Petroleum, a bunkering company, whose share at one point in pre-recession years was said to be 100% correlated with the BDI.

"Now the market is moving to the other extreme, recognising that the BDI is not the complete proxy for the sector," Mr Karatzas said.

"In addition, many dry bulk companies



Go figure: so far this year dry bulk shares have shown only a limited correlation with the BDI. AP

today are no longer pure dry bulk, pure spot players, having diversified into other sectors and fixed long-term charters."

Mr Slater said the near-100% correlation between the BDI and dry bulk shares in the boom market was partly triggered by equity analysts laying far more emphasis on the BDI than was warranted. He said the BDI was an illogical figure, derived by a handful of brokers and "sometimes based on as little as one voyage fixed the previous day".

"This could mean they looked at six fixtures, out of the 2,000 or so we have. And all of these would be spot — we do not have period fixtures in there," Mr Slater said.

Mr Burk added: "In addition to the short-term orientation of the BDI, I also see it as a better proxy for Chinese demand than the world economy. It is problematic to consider the BDI as the best proxy for the world economy."

Mr Burk expects the BDI to underperform against world growth in the coming two years, because of the growing dry bulk ship supply that would negatively

influence the index. Dry bulk shares at current levels have priced in this realisation as reflected in one-year and two-year forward freight rates and are not swayed by the day's BDI alone, he said.

Another reason for share prices decoupling from the BDI is that institutional investors have lost interest in the sector, Mr Burk said. This means share prices move based on retail demand, which tend to reflect broader market sentiment.

Another source, speaking on condition of anonymity, said: "In the last year we have seen companies with less than stellar managements make highly dilutive share issues designed for the company's survival more than anything else. In this situation, there is no incentive for strategic investors to play market fundamentals."

"This deterioration has caused investment in dry bulk shares to mirror the wider market, as people have understood that neither the BDI nor such moves by these companies have anything to do with the industry." ■

NEWS HIGHLIGHTS

Eurotunnel first-half revenues up

Eurotunnel reported a revenues rise of 22% to €331m (429m) in the first half of 2010, against a background of "very aggressive" pricing from SeaFrance, €48m in blocked insurance payouts and a cross-Channel truck market still 17% below 2008 levels 2

Navios eyes \$587m VLCC deal

Angeliki Frangou's newly-operative tanker spin-off, Navios Maritime Acquisition, has lined up a \$587m deal to acquire seven very large crude carriers from Vanship Holdings, the joint venture founded by Fred Cheng and the late Charles Vanderperre. 3



Qatar in line to help CMA CGM

THE Qatar Investment Authority remains the front-runner to bail out CMA CGM despite stark differences between the two sides over corporate governance that emerged last week. 3

Secondhand capesizes hit

Activity in the capesize sale and purchase market has ground to a halt as a dire charter market and daily rates that barely cover operational costs give little incentive to investors. 8



Netherlands warns IMO of asbestos in newbuildings

THE Netherlands has raised the issue of asbestos on newbuildings at the International Maritime Organization, after Lloyd's List revealed that a chemtanker delivered by a Turkish yard to a Dutch owner contained substantial quantities of the material, writes David Osler.

Impending regulatory changes might mean that asbestos would have to be removed from ships prior to scrapping, which would represent a "real challenge", the delegation warned.

While the draft report of a meeting of the IMO's flag state implementation subcommittee earlier this month does not name the ship involved, the context makes

it clear that it is referring to Caroline Essberger, the 2009-built, 8,400 dwt vessel operated by John T Essberger of Dordrecht.

The material has been banned on ships constructed since 2002, under the terms of the Safety of Life at Sea convention. But classification societies and specialist asbestos removal concerns have testified that it is still being employed by many shipyards, particularly in China.

The report makes clear for the first time the full extent of the problems with Caroline Essberger, revealing that it took as long as six months to remove the huge quantity of asbestos on board the vessel, built by Eregli shipyard in Turkey. It also confirms that the

ship was misleadingly declared asbestos free.

According to the IMO draft report: "The [Dutch] delegation reported that they were, recently, confronted with a newbuilding ship, provided with statutory certificates, and with an asbestos-free declaration, that appeared to have more than 5,000 gaskets containing asbestos in the piping systems on board.

"They were found all over the ship and it took almost half a year to remove all these gaskets and to replace them with asbestos-free gaskets. From this case, the Netherlands learned that asbestos is still available and used for ships' purposes and

that only a few people are aware that asbestos is still applied on ships worldwide, notwithstanding the ban on the use of it."

The Netherlands further indicated that once the Ship Recycling Convention comes into force, there will be an obligation for ships to undertake an 'investigation of hazardous materials', known as an IHM.

"Within the scope of this IHM, special attention should, then, be given to asbestos-containing materials and there may be a real challenge when and if, on ships delivered after July 2002, asbestos is found on board, as these ships will not comply with Solas requirements, and, therefore, all asbestos will have to be removed from the

ship, which will be an enormous job as already mentioned."

Meanwhile, Anglo-Dutch seafarer union Nautilus International is to draw the issue to the attention of the UK labour movement, and will table a resolution on the use of asbestos on ships at the annual conference of the Trades Union Congress in Manchester in September.

"We are outraged that the substance is still being found in extensive use, so long after Solas rules were supposed to have curtailed its use," a Nautilus spokesman said. "We are looking for a new wave of concerted international action to stamp out its use." ■

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