

## Dry Bulk

# Big ships to cut 70 capesize cargoes from Brazil trades

## Largest bulk carriers ever built to eat into capesize spot market business in 2011-2012

HAL BROWN

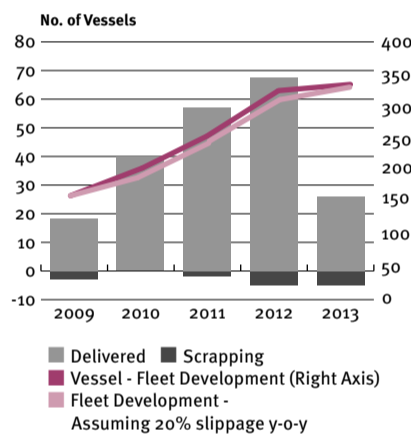
THE BOOM in building very large and ultra large bulk carriers for mining multinationals is threatening to steal market share from large capesize vessels on the spot market.

German investment bank DVB Group has predicted that some 22 cargoes in 2011 and 48 cargoes in 2012 will also be removed from the spot market for capesizes of 150,000 dwt-200,000 dwt, significantly reducing earnings.

The bleaker picture for capesizes comes as DVB calculates that the combined fleet of bulk carriers above 200,000 dwt is expected to grow 27.8% to 253 vessels in 2011, according to its latest report on the sector.

The development of this super-sized bulk carrier fleet saw DVB introduce a new

### VLBC & ULBC FLEET DEVELOPMENT



Source: DVB Research



Size matters: the first Chinamax vessels are due for delivery from mid 2011.

classification for its coverage of bulk carriers — the ultra large bulk carriers, defined as above 280,000 dwt.

Along with very large bulk carriers — classified as from 200,000 dwt-280,000 dwt — capacity is expected to double over the next three years.

The fleet will then expand by another 28% in 2012 to 314 vessels, and a further 10% to 343 vessels in 2103.

According to DVB, these VLBCs and ULBCs will “gain a significant market share at the expense of large capesizes” over the next two years.

Snatching business will be the biggest ships ordered by iron ore producer Vale with 36 of 400,000 dwt, now ordered at shipyards in Asia for work on dedicated Brazil-China trades.

The first of about 30 of these so-called ‘Chinamax’ vessels are due for delivery from mid 2011.

DVB’s assumes all newbuilding ULBCs will ship iron ore on the main Brazil-China route. “Based on four voyages a year, the 26 ULBCs (9.27m dwt) scheduled for delivery in 2011 will carry 37m tonnes which is already more than the 23m tonnes of ex-

pected incremental cargo on this route,” the DVB report said. “The 32 ULBCs (11.56m dwt) delivering in 2012, deployed on this route, will carry another 46m tonnes of iron ore cargoes while the incremental increase in cargo capacity in 2012 on the route is expected to be about 16m tonnes.”

The outlook for large capesizes adds to the problems already faced by owners in the spot market as rates have fluctuated.

Ejner Bonderup, president of Lauritzen Bulk, which owns a fleet of five capesizes ranging from 171,000 dwt to 180,000 dwt, told Lloyd’s List: “We’ve had a cape spot market at around \$60,000 [per day] and we have had it go as low as around \$10,000, so there’s been a lot of volatility in capesizes since May.

“We think capesizes will continue to act in the same way throughout 2011. We expect there will be a lot of volatility in the market, so as a shipowner that’s a huge challenge because you have to have ice in the stomach when the market movements are that big, going from \$10,000 to \$60,000.”

Lauritzen Bulk is yet to assess the impact of VLBCs and ULBCs, focusing more on the total amount of new capesize

tonnage added to the world fleet.

It was “not so much on how this additional capacity is distributed size-wise”, said Bonderup. “There’s no doubt we have a challenge when it comes to newbuildings and there has been quite a lot in the market so far in 2010.”

Contributing to the existing fleet of very large ore carriers are 47 vessels that have been converted from very large crude carriers, which have contributed about 25% to the fleet growth over the last three years, according to DVB.

The conversions and the newbuildings mean that Vale will have a total fleet of 80-100 bulk carriers to maximise capacity on the Brazil-China route, DVB calculated.

Vale’s move to gain more control over freight costs mirrors a similar strategy in the 1980s, when Japanese steel mills vertically integrated shipowning into their logistics operations.

So far in 2010, some 20 newbuilding VLBCs have been delivered with a further 11 scheduled before the end of the year. In addition there are some nine vessels waiting to be converted, said DVB. ■

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## Vale’s giant ore carrier costs lower than 10-year average

ESTIMATED cash break-even costs for Vale’s fleet of 36 giant ore carriers are just under \$40,000 per day, or \$20 per tonne, according to fresh estimates from German bank DVB, writes Michelle Wiese Bockmann.

DVB Group’s shipping research team analysed the very large ore carrier sector to come up with the statistics, which are close to other industry estimates.

Vale has kept quiet about costing for its fleet of ore carriers, but it is assumed the iron ore producer is paying an average price of \$130m each, with vessels scheduled for delivery from mid-2011 until 2014.

The estimates assume bunker prices of \$500 per tonne, with the cost of moving freight at \$16.50 per tonne. Assuming parcel costs of 245,000 tonnes, the break-even freight cost is \$20 per tonne, said the DVB Group report, ‘Big, Bigger, Biggest — Changing Landscape’.

Average freight rates over 1996-2010 to date for shipping 165,000 tonnes of iron ore from Brazil to China were \$23 per tonne, rising to \$28.60 per tonne between 2000-2010. The time charter equivalent of this average is about \$56,000 daily between 1998 and 2010, and \$64,715 per day between 2000-2010.

The calculations show that the Vale strategy — to use big ships to achieve economies of scale to hedge against volatility and high prices on the spot market — could be successful, based on the cash break-even costs.

However, DVB does ask whether history might repeat itself, as the mining company takes direct control of its freight.

It harks back to the short-lived era of the ultra large crude carrier — massive tankers of 550,000 dwt — that struggled through their sheer size to find viable employment because of the limitations of port calls and trading routes.

“Will the ultra large bulk carrier follow the same trend as the ULCC tanker?” ends the DVB report. ■

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# Return of Vale and coal exports lift capesize market

TOM LEANDER

VALE returned to the capesize market on Friday, chartering three vessels for voyages from Brazil to China for \$23.50 per tonne of iron ore.

The return of the world’s largest ore producer to the capesize market was a sign, brokers said, that rates on the spot market had finally bottomed and would enjoy a gradual uptick this week and into early December.

“The market seems to have bottomed out, and since Vale’s return index prices began creeping up,” said a broker based in Singapore.

The improved sentiment was reflected by the first rise in the Baltic Exchange’s capesize average time charter index since late October. The index closed up \$409 to \$33,537 per day.

Vale was also active in the panamax market, brokers said, chartering several panamax and post-panamax vessels last Thursday evening.

A Hong Kong broker said that this parallel activity in both capesize and panamax markets could cause panamax rates to rise, sending charterers that had favoured panamaxes to dash back to the capesizes, where orders have languished for weeks.

“The good news,” said the Singapore broker, “is that we may finally break the trend of the last month, where freight rates couldn’t jump away from a range of between \$27 [per tonne of iron ore] and \$31 in the Atlantic, and the low \$10s and \$12.50 in the Pacific.”

In the Pacific trading region, capesize rates for the voyage between Australia’s eastern coast coal terminals to China have been buoyed by demand for imported coal from China, now that the winter cold has set in.

“That’s quite normal for this time of year,” said a broker in Beijing. “We expect coal demand to be consistent at least through Chinese New Year in January.”

Reflecting China coal demand,

Australia’s thermal coal prices, a benchmark for trade between Australia and Asian nations, rose to over \$111 a tonne during the last week as supply for the rest of the year is expected to tighten.

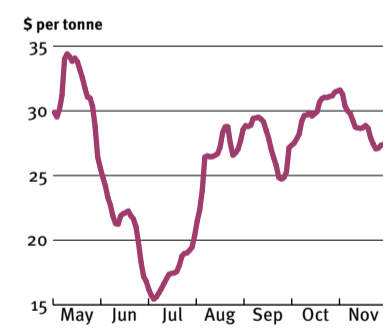
Last week, brokers had said that some Chinese steel mills had begun stockpiling iron ore once more, following a long period in which bank lending for new construction had slowed, pinching steel demand. The stockpiling has continued, but brokers are uncertain whether it will last until January.

Offsetting this mild dose of good news for the cape sector, the Baltic Dry Index fell to its lowest level in three months last week, to 2,155, a four-month low, on Friday.

Underlying the BDI’s decline is persisting uncertainty about the strength of renewed Chinese demand for iron ore. Inflation has been on the rise in China, and Chinese Premier Wen Jiabao said last week that his government was preparing

### CAPE-SIZE VOYAGE RATE

Brazil to China



Source: Baltic Exchange

steps to tame price rises. This could lead to additional action by the government to slow bank lending for new construction.

In the face of the uncertainty, brokers are seeking to gauge how long and to what

extent the ‘Vale effect’ will hold sway. “My feeling is that this will be the last small rally before the end of the year,” said a Hong Kong broker. “We’ll see another in January, just before the onset of Chinese New Year.”

After that, he said, all bets are off. “All we have to look forward to is a lot of new deliveries and the prospect that the Chinese government will continue to pull back,” said the broker. “We could be in for a difficult 2011.”

He added that the almost complete absence of period charter activity in recent weeks — for durations of one year, but also for periods of three and five years — was an indication that both charterers and owners were very much on the fence about next year.

“Rio Tinto and Cosco have both made public statements about how bullish they are,” said the Hong Kong broker. “But you would expect them to talk the market up.” ■

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## Dry Fixtures

## TIME CHARTER

**Rosco Poplar** (built 2008, 82,331 dwt) delivery Longkou 20/22 Nov, trip NoPac redel China int coal \$17,500 daily (DHL)

**Jin Star** (built 2010, 79,800 dwt) delivery Cape Passero 22/25 Nov trip via Brazil redelivery Taiwan \$23,500 daily (CSE)

**Maritime Anita** (built 2004, 76,737 dwt) delivery Tarragona ppt trip via Bolivar redelivery Japan \$24,000 daily (Cobelfret)

**AOM Milena** (built 2009, 76,662 dwt) delivery Kosichang 27/30 Nov trip via West Australia redelivery China \$17,500 daily (Tongli Shipping)

**Red Gardania** (built 2005, 76,000 dwt) delivery Hunterston 28/30 Nov trip via Kirkenes redelivery China \$24,000 daily (Xinlu Marine)

**Goya** (built 2008, 75,750 dwt) delivery Cape Passero in d/c 23/25 Nov trip via US Gulf option East Coast South America redelivery Singapore-Japan rge \$20,000 daily (Cargill)

**GH Fortune** (built 2002, 75,214 dwt) delivery Lanchan 19/22 Nov trip via NoPac redelivery Singapore-Japan rge intention sulphur \$17,000 daily (Noble)

**Ismiraki** (built 1998, 74,577 dwt) delivery aps San-



tos 5/15 Dec trip redelivery Singapore-Japan rge \$24,000 daily + \$600,000 bb (Louis Dreyfus)

**Desert Eagle** (built 2002, 74,066 dwt) delivery Montoir 2/8 Dec trip via North France & Egypt redelivery Cape Passero \$16,600 daily (Empros Lines) amends report of 18/11

**Anangel Omonia** Bunge relet (built 1996, 73,519 dwt) delivery Praia Mole 5/10 Dec trip via South Brazil redelivery Taiwan \$24,000 daily + \$400,000 bb (CSE)

**Bergen Max** (built 1994, 73,496 dwt) delivery Jintang 24/28 Nov trip via Australia or NoPac coal or grain redelivery India-China rge \$16,000 daily (Oldendorff)

**Mass Wits** (built 1988, 69,355 dwt) delivery Beilun

20/25 Nov trip Indonesia redelivery Singapore-Japan rge \$12,000 daily - (Charterer not reported)

**Ambitious Sky** (built 2009, 58,765 dwt) delivery Lianyungang 20/22 November trip via Australia redelivery Singapore-Japan approx \$8,750 daily (Oldendorff)

**Bulk Navigator** (built 2006, 53,000 dwt) delivery aps Sebuku end November trip redelivery China intention Iron Ore \$14,500 daily (Tongli)

**Dubai Jewel** (built 2004, 52,951 dwt) delivery dop Corpus Christi early December trip redelivery Singapore-Japan \$30,500 daily (STX Pan Ocean)

**TMS Maria** (built 2001, 52,403 dwt) delivery Prachuap spot trip via Indonesia redelivery India \$14,000 daily (Tongli)

**Rainbow** (built 2004, 52,000 dwt) delivery aps South America end November trip redelivery Continent approx \$21,000 daily (D’Amico)

**Saturnus** (built 2008, 50,300 dwt) delivery Kohsichang spot trip via Indonesia redelivery China \$11,000 daily (Norden)

**Vinalines Sky** (built 1997, 42,717 dwt) delivery Rayong spot trip via Indonesia redelivery South China \$12,000 daily (Charterer not reported)

**Four Nabucco** (built 2010, 34,403 dwt) delivery Rotterdam 23/26 Nov trip via Baltic redelivery US Gulf approx \$10,000 daily (Charterer not reported)

**Lord Wellington** (built 2005, 31,921 dwt) delivery aps Fangcheng 24/27 Nov trip redelivery Dammam \$12,500 daily (TBS)

**Oriental II** (built 1985, 26,564 dwt) delivery aps Tampa spot trip int petcoke redelivery east Mediterranean \$13,000 daily (Ultrabulk)

## PERIOD

**Aeolian Glory** (built 1995, 158,000 dwt) (reported 16/11 fixed \$24,500 daily to Swiss Marine for 14/16 months trading (Zhoushan))

**Brilliance** (built 1990, 149,349 dwt) delivery Beilun 22/25 Nov 4/6 months trading redelivery worldwide \$24,000 daily (Swiss Marine)

**Megalohari** (built 2004, 76,633 dwt) delivery China 19/25 Dec 3/5 months trading redelivery worldwide \$19,250 daily (Transgrain)

**Spitha** (built 2005, 75,411 dwt) delivery Dalian 22/25 Nov 4/6 months trading redel worldwide \$18,500 daily (Cargill)

**Marylaki** (built 2010, 58,470 dwt) delivery Far East

end November 3/5 months trading redelivery worldwide \$15,250 daily (Cargill)

**Ocean Freedom** (built 2010, 55,000 dwt) delivery ex Yard Japan end November 4/6 months trading redelivery worldwide \$15,500 daily (Cargill)

## ORE

**Guofeng First** (built 1996) 180,000 10 Tubarao/Qingdao 1/10 Dec \$26.25 fio scale/30000sc (Cargill)

**Anangel Grace** STX Pan Ocean relet (built 2010) 160,000/10 Dampier/Qingdao 5/15 Dec \$10.30 fio scale/30000sc (Rio Tinto)

**Collonges** (built 1993) 160000/10 Ponta Do Ubu/Misurata 1/14 Dec \$15.10 fio 60 hours sc/18500sc (Vitol)

**SC Lotta** (built 2009) 160000/10 Dampier/Qingdao end Nov/ely Dec \$10.40 fio scale/30000sc (Rio Tinto) Chinese vessel to be nominated, 160000/10 Saldanha/Qingdao 1/10 Dec \$19.50 fio scale/30000sc (Kumba)

**Aris T** (built 2007) 80000/10 Tubarao/Qingdao 5/15 Dec \$34.00 fio 40000sc/25000sc (Vale)

**Asia Graeca** (built 2004) 70000/10 Tubarao/Qingdao 5/15 Dec \$35.00 fio 40000sc/25000sc (Vale)