

SUNDAY SPOTLIGHT 7 AUGUST 2011

SEAINTEL MARITIME ANALYSIS

IMPACT OF BAF ON RATE DEVELOPMENT

Pacific trade remains in rapid decline – Asia-Europe has leveled off.

In the past couple of weeks the Shanghai spot index (SCFI) has shown two consecutive weeks of increases for Asia to Europe, albeit relatively modest increases. On the other hand the, Pacific eastbound freight rates continue their decline.

However, these spot rates are inclusive of BAF. As BAF is intended as an ancillary charge, compensating for increases in bunker costs, we have analyzed the spot rate development exclusive of BAF, as well as analyzed what is in store for the rest of 2011 as a consequence of bunker developments.

We have found that the Asia-North Europe rates have effectively stabilized over the past month, however the latest increase merely reflect a slight BAF increase, but no material

currently not exhibiting any signs of stabilization.

Asia to North Europe

As previously analyzed in SeaIntel Sunday Spotlight (8 May 2011) there is no common BAF following the abolishment of the liner conferences. However, the individual BAF formulas were shown to be 99% correlated. It is therefore possible to calculate a "market BAF" as an average of a selection of individual carrier BAF levels.

The Asia-Europe BAF levels are adjusted monthly based on bunker prices from the previous months. Hence the BAF levels for September are already announced based on bunker prices in July.

Figure 1 shows the BAF development for a small selection of carriers who have already announced their BAF

A PREDICTABLE TRAGEDY

Spot rates excluding BAF have long since passed below sustainable levels on the 2 main east-west trades. They have been driven down by a combination of shippers reneging on contracts in order to benefit from the spot market and carriers doing the limbo dance when setting rates – "how low can you go?" – in order to get cargo. The predictable outcome is that when the market turns – either through increased demand or the lay-up of capacity – rates will skyrocket. Shippers will find themselves left on the quay or paying high rates to get priority loading. We will – *again* – hear shippers complain of possible collusion. And we will – *again* – hear about the need for better relations between

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