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SEAINTEL MARITIME ANALYSIS

Indicators from the week 7 Jan. – 13 Jan. 2013



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USING DERIVATIVES AS ONE OF THE TOOLS TO REIGN IN VOLATILITY

A retrospective look at 2012 and a view to 2013

Looking at the CCFI contract rate index from the Shanghai Shipping Exchange since 2003, we find that not only has freight rate volatility for the contract rates increased significantly since the start of the financial crisis – we also find that for 2 of the 4 main Asian export trades, volatility reached record levels in 2012. Hence the volatility is indeed an issue concerning contractual rates, and not only – as typically monitored – for the spot rates.

As we have previously outlined, the three fundamental drivers of volatility are: structural overcapacity, limited contract adherence/enforceability and the game-theoretic nature of the interplay between carriers. These three factors are unlikely to materially change in the short to medium term.

The key question of interest becomes: how to deal with the increasing levels of volatility? As with any good question, it does not have a single simple answer. One could consider three conceptually different approaches.

One approach might be to simply accept the high levels of volatility, and live with the fact that rates – and profitability – will be moving between extreme lows and extreme highs. Such an approach would, however,

Positive momentum?

Carriers have successfully increased rates on the main Asian exports trades for the 2nd week. This is positive for the carriers, as they bring in much needed relief to their beleaguered bottom lines. However, we would argue that this to some extent is also positive news for the shippers. As carriers continued to lose money they had no choice but to blank sailing and pull services. From a shippers' point of view, having seemingly random blanking of sailings is not ideal, and restoring a reasonable freight rate does serve everyone's long-term interests. However, we are unconvinced that this will last for the duration of 2013.

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