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Lloyd's List

lloydslist.com | No. 60,216 | Friday 16th July, 2010
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BALTIC DRY INDEX JANUARY 2009-JULY 2010

Source: Baltic Exchange

Secondhand bulker values may plummet by up to 25%

Carriers losing more than \$1m a week in value as freight rates fall and deals fail

LIZ MCCARTHY AND MICHELLE WIESE BOCKMANN

SECONDHAND dry bulk values are forecast to crash by 20%-25% in the next few months as plunging freight rates cause deals to fail and owners withdraw ships from the market.

Bulk carriers are losing more than \$1m in value each week, brokers reported, as the Baltic Dry Index continued its freefall yesterday, closing at 1,700 points, down 60% since late May.

The crash has thrown into doubt many sales concluded in May and early June for ships that will not be handed over to new owners later this year, when values may have fallen significantly lower than the agreed purchase price.

Brokers are drawing parallels with two years ago when asset values began sliding and then dropped by two-thirds between September and November 2008 after the global financial markets crashed and access to credit was frozen.

"There is a definite sense of déjà vu in the market. Exactly the same thing happened two years ago — rates and prices went through the roof and then post-Posidonia the rally finished and the market started to slide," said a London-based broker.

"Plenty of rumours are circulating the



The handysize *Fadelia* was sold in June for \$25m but with delivery in November 2010: these types of deals look more uncertain. *Dietmar Hasenpusch*

market of deals sold in June and July that are now failing, which usually happens when the buyer reconsiders the deal and deposits are simply not paid."

Another broker said there were plenty of owners with "pockets full of cash" that would be tempted into buying when prices fell low enough.

A number of banks were expected to sell off assets from shipping portfolios in

the second half of the year. "They have been waiting for the right time where it is safe to declare these losses on their company's bank balance and not face losing their position," he said.

Nikolas Metallinos, deputy managing director of Greek shipbroker, Golden Destiny, said: "We have seen a lot of ships being withdrawn as owners wait for better days to come, but some of the recently done sales, mostly those that have long deliveries, may be jeopardised now by the decline of the market as well.

"Despite how low the rates are, the values are not following that quickly, which means most likely we expect to see a decline in ships' values, but this may happen in the next couple of months time." Mr Metallinos expected values to fall by 20%-25%.

There were unconfirmed reports of a handymax sold this week at a price 10% lower than the last comparable deal just weeks ago.

The 2000-built, 46,709 dwt *Tumarugal* is reported sold at \$24m-\$24.5m, nearly \$3.5m lower than the \$27m price paid for a similar ship earlier this month, the sale and purchase broker said.

"We are seeing a few owners, especially the Japanese, decide to extend

timecharters and remove vessels from sale," another broker said. "Rates have fallen too sharply and too quickly for them really to come to terms with.

"There is pitifully few inspections (of vessels for sale) going on and unless the owner is prepared to take a significant reduction in price levels it is unlikely you are going to sell a vessel today.

"We are in July so a lot of owners are going to have a nice summer holiday and see how things are lined up in September and maybe by then when we have seen prices come off 10%-15%, maybe they'll start thinking again."

Several high-profile deals by listed dry bulk players also face additional scrutiny, including New York shipping magnate Peter Georgiopoulos.

His listed companies Genco Shipping & Trading and Baltic Trading paid nearly \$1bn for around 20 bulk carriers in June, but are not due to take delivery of many until the final quarter of 2010.

These included 16 supramaxes for which he paid an average of \$33m. Genco could not be contacted for comment.

Also pushing down ship values is the swelling dry bulk fleet, expected to expand by a further 55m dwt in the second half of 2010, with an average of 23 capesize bulk carriers being delivered each month alone.

"It is inevitable that values will fall," said Alan McCarthy, who is with investment bank, Eurofin.

"One of the biggest drivers of ship values is supply of ships, so if the supply of ships gets bigger it is inevitable that prices will fall, how much and for how long depends on how much the Baltic Dry Index falls."

He warned that banks might start to foreclose on shipowners struggling through this second market crash.

Many had secured loan covenant waivers in early 2009, after falls in dry bulk carrier values saw loan-to-value ratios breached.

"But now two years down the line it is possible those huge cushions of cash that were there in 2008 are not there in those quantities now and banks are dealing with their own struggles with their balance sheets," Mr McCarthy said.

"It is when distressed assets do actually come on to the market, and when that happens we will see a very substantial fall in ship values as you do have a benchmark to compare." ■

NEWS HIGHLIGHTS



Piracy incidents slump

Pirate attacks worldwide were down by nearly 20% in the first half of 2010 in comparison to the corresponding period last year, according to the International Maritime Bureau. 2

Aker layoffs cloud AFL order

Aker Philadelphia Shipyard's own struggle for survival has cast a cloud over its ability to deliver on a letter of intent with Tobias König-backed American Feeder Lines for five Jones Act containerships, 2

BP's well woes buoy DryShips

Dryships sees a silver lining in the fallout from the Deepwater Horizon disaster in terms of the longer term employment prospects of the drillship fleet it has under construction in South Korea. 3



Tallink's revenue rises 15%

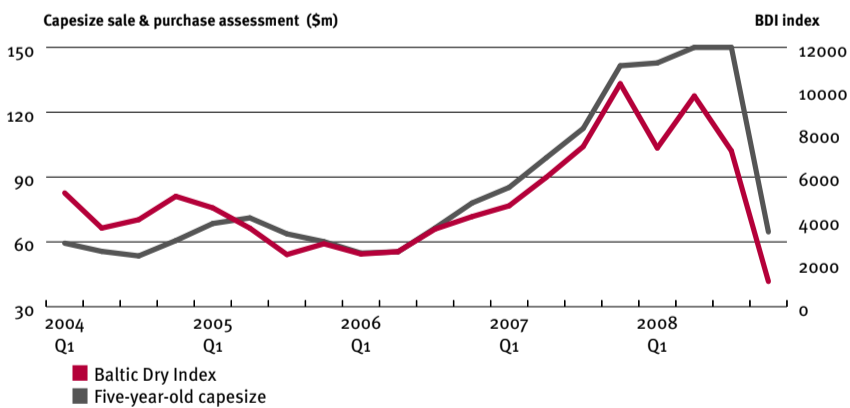
Stronger passenger volumes and better revenue management helped Estonian ferry operator Tallink record a 15% rise in unaudited group quarterly revenues to €202m (\$260m), while pre-tax and interest earnings more than doubled to €30m. 3

NYK confirms fleet growth plan

Japan's Nippon Yusen Kaisha has confirmed reports it will increase its fleet of panamax and post-panamax bulk vessels to 110 from the current fleet of 70 by 2015. 5

BDI VERSUS CAPESIZE VALUES

2004-2008 quarterly averages



Source: Baltic Exchange

Dry bulk ship sales hit three-year high in June

BULK carrier sales volumes reached a three-year high in June as sellers piled in to the secondhand market to take advantage of rising prices before an anticipated drop in asset values, writes Liz McCarthy.

The sale of 68 ships, of 4.7m dwt, is the highest volume of transactions seen since a record 100 vessels of 6.9m dwt were sold in July 2007, according to data from Clarkson Research Services.

The June figure was more than double the 32 bulk carriers, of 1.8m dwt, sold in the previous month and followed the

Baltic Dry Index reaching a six-month peak of 4,209 points in late May.

Since then the BDI has plunged 60% to 1,700 points, bringing down both asset values as well as sales volumes as buyers have become hesitant about investing money in a falling market.

In the month to date, Clarksons counts just 14 vessels, of 877,068 dwt sold, including just two capesize vessels.

By comparison, in June 12 capesize bulk carriers changed ownership, with buyers spending \$418.7m on these large vessels.

Last month's total secondhand figures were only slightly higher than June 2009 volumes, when 67 vessels of 4.6m dwt were sold.

However, asset values were lower 12 months ago and only \$1.6bn was spent on buying bulk carriers in June 2009 compared with \$1.9bn last month.

Falling asset values following a crash in freight rates was "not rocket science" one London-based broker said, but the current situation was unlikely to have a significant impact on volumes until the start of the fourth quarter.

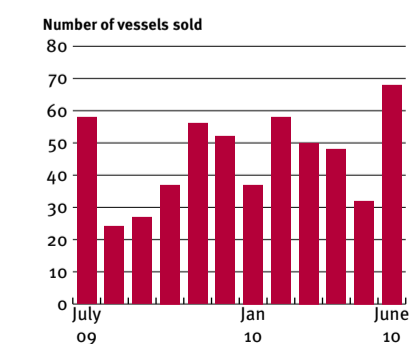
"It is hard to make a snap judgement on something that has happened over the last couple of weeks as the process of buying or selling a vessel takes some time to work through the system," the broker said.

"So we will not get a knee-jerk reaction, but instead will probably see the effects in mid to late September."

The number of larger bulk carrier sales over the next three months was expected to be minimal as they were "bigger ticket deals" that often took a more considered approach, he added. ■

BULK CARRIER SALES

July 2009 - June 2010



Source: Clarkson Research Services