+--+

Shipping Adds 32% as Boats Await Coal From Newcastle (Update1)

2010-02-15 08:24:48.851 GMT

(Updates shipping index in 10th paragraph.)

By Alaric Nightingale and Alistair Holloway

Feb. 15 (Bloomberg) -- The fastest expansion in world trade in three years is clogging up ports from Australia to Brazil, driving a 32 percent jump in charter rates by December.

The rate for leasing capesizes, boats three times the size of the Statue of Liberty, will average $39,000 a day in the fourth quarter, from $29,649 now, according to the median in a Bloomberg survey of 11 analysts. Higher costs for the ships, the biggest part of the commodity fleet, will bolster returns for Mitsui O.S.K. Lines Ltd., Nippon Yusen K.K. and China Cosco Holdings Co., analyst forecasts compiled by Bloomberg show.

While the 14 percent decline in world trade last year caused prices to plunge as much as 76 percent from their peak in June, increasing demand for coal now means 55 ships are waiting to load at Newcastle in Australia, up from 17 a year ago.

Lengthening lines at the iron-ore ports of Tubarao in Brazil and Qingdao in China also reflect a recovering global economy and accelerating demand for raw materials.

“Once congestion is really taking a grip, you can have 12 percent of the fleet stuck in ports,” said Philippe van den Abeele, London-based managing director of Castalia Fund Management (U.K.) Ltd., which trades freight derivatives.

Charter rates “will improve irrespective of the number of ships out there,” he said.

More Ships

Shipping costs that quadrupled last year on signs the global economy was recovering have retreated 20 percent in 2010 on concern that a record fleet expansion will overwhelm any rebound in demand. Laid end-to-end, the new ships would stretch about 60 miles, according to data compiled by Bloomberg and Clarkson Research Services Ltd.

Forward freight agreements traded by brokers and used to bet on or hedge against future dry bulk rates anticipate a fourth-quarter average of $29,825, according to data from Imarex ASA in Oslo. That’s 0.6 percent more than current costs and 24 percent below the median in the Bloomberg survey.

Golden Ocean Group Ltd., the commodities shipping line led by Norwegian billionaire John Fredriksen, said profit fell 33 percent last year to $238.9 million. Cie. Maritime Belge SA, owner of shipping line Bocimar International NV, said earnings slumped 44 percent to 118.9 million euros ($162.1 million).

Profit Forecast

Now, the Washington-based World Bank predicts a 4.3 percent gain in trade volumes this year and 6.2 percent in 2011. Ships carry about 90 percent of world trade, the Round Table of International Shipping Associations estimates.

Mitsui O.S.K., based in Tokyo, more than doubled its full- year profit estimate on Jan. 29 and Nippon Yusen posted third- quarter earnings on the same day, its first in a year. China Cosco President Zhang Liang forecast on Jan. 19 that the Baltic Dry Index will rise 54 percent this year. The gauge is a measure of commodity shipping costs.

The 12-member Bloomberg Dry Ships Index, led by Seoul-based STX Pan Ocean Co. and Pacific Basin Shipping Ltd. of Hong Kong, hasn't reflected those gains. The gauge is little changed from where it was at the end of May and trades at an average multiple to earnings of 8.3 times, compared with 18.4 times for the Standard & Poor's 500 Index. It fell 0.4 percent to 1,828 points as of 8 a.m. in London today.

Investors are growing concerned that central banks will withdraw stimulus measures before the economic recovery takes hold. The Federal Reserve may raise the discount rate "before long," Chairman Ben S. Bernanke said Feb. 10.

China 'Bubble'

The 93-member Bloomberg World Mining Index fell as much as 1.7 percent on Feb. 12 as the People's Bank of China ordered banks to set aside more deposits as reserves for the second time in a month to cool the fastest-growing economy. China's "bubble" may burst by 2011, Zug, Switzerland-based Tiberius Asset Management AG, which manages about $1.8 billion in assets including commodities, said in a report last week.

China's iron-ore imports fell 25 percent in January, from the previous month, according to customs data on Feb. 10.

Shipping "is highly dependent on a continued growth in Chinese iron-ore imports to absorb the dry-bulk fleet," said Martin Sommerseth Jaer, an analyst with Arctic Securities ASA in Oslo with a "sell" rating on commodity shipping lines.

Van den Abeele of Castalia Fund Management also expects rates to keep dropping, to as low as $15,000 a day, in coming months as Chinese growth slows and the fleet expands. Rates will then rebound as owners mothball ships and congestion worsens, he said.

Shipyard Delays

Estimates by analysts for daily leasing costs in the survey ranged from $22,000 to $50,000. A Bloomberg survey of shipping analysts and fund managers in August indicated capesize rates would drop about 50 percent to $18,000 before the end of 2009.

Rates fell as much as 42 percent to $22,109 in the next three weeks and then rebounded.

The capesize fleet will expand by 20 percent this year, outstripping the 8 percent gain in demand, this month's survey showed. Delays at shipyards may narrow the gap. The construction of one in six merchant ships was postponed in the three months to November, according to a December estimate from Bimco, a Bagsvaerd, Denmark-based shipping association. The average delay for dry bulk carriers was eight months.

Shipyards may seek to spread out deliveries because "if they only deliver in terms of the existing order book, which will be a heavy output over the next two years, they will be underutilized in the years following," said Henriette van Niekerk, a London-based divisional director at Clarkson Plc, the world's biggest shipbroker.

Iron Ore

Even with rates where they are now, ship owners are still making more than operating costs. Daily overheads on a capesize are about $7,555, Drewry Shipping Consultants Ltd. estimates.

China's economy, the world's biggest consumer of coal and iron ore, will expand 9.5 percent this year, according to the median estimate of 41 economists surveyed by Bloomberg.

Global seaborne trade in iron ore, the biggest cargo for dry bulk carriers, will expand 11 percent to exceed 1 billion metric tons this year, according to Clarkson. Exports of coal, the second-biggest dry bulk commodity, will gain 4 percent to 668 million tons this year, Barclays Capital estimates.

Ships waited an average of 9.4 days to get into coal ports in Brazil, Australia and China this quarter, compared with 5.2 days in the first quarter of 2009, according to Truro, England- based Global Ports, which tracks the shipping lines. Delays peaked at 13.8 days in the first quarter of 2008.

There are 142 capesizes tied up at ports in Brazil, China and east and west Australia, compared with a record 154 in June 2009, according to shipbroker Simpson, Spence & Young Ltd.

"There's always the possibility that something will go wrong with one of the ports," said Simon Francis, managing director of Global Ports. Some coal and iron ore loading ports "haven't got themselves in order quite yet," he said.

For Related News and Information:
Top shipping stories: SHPT <GO>
Shipping menu: SHIP <GO>
Shipping database: VSRC <GO>
Top commodity stories: CTOP <GO>
Top metals stories: METT <GO>
Top agricultural stories: TOP AGR <GO>

--With assistance from Diana Kinch in Rio de Janeiro, Kyunghee Park in Hong Kong and Ben Sharples in Melbourne. Editors: Stuart Wallace, Dan Weeks

To contact the reporters on this story:
Alaric Nightingale in London at +44-20-7073-3488 or anightingal1@bloomberg.net; Alistair Holloway in London at +44-20-7330-7780 or aholloway1@bloomberg.net

To contact the editor responsible for this story:
Stuart Wallace at +44-20-7673-2388 or swallace6@bloomberg.net