
China steel rebound signals bottoming of shipping rates

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It is reported that the smallest profits in the commodity shipping market in 18 months may be ending as a rebound in steel and iron ore prices signal improving Chinese demand that will ease the transport glut.

Deutsche Bank AG said Chinese steel prices rose 4.7% last week, the most in 11 months. Derivatives for fourth quarter iron-ore prices jumped 23% between July 9 and 21. Costs for leasing capesize ships used to carry iron ore will average USD 30,375 a day in the fourth quarter from USD 12,755 now.

Expectations for higher shipping costs suggest the 78% plunge in Capesize since June 2nd doesn't point to a new global economic slump. While last month's Chinese steel output was the smallest since February, the nation still accounted for 45% of global supply. Three consecutive months of lower iron-ore imports may mean mills are running down inventories.

Mr Stuart Rae London based co-managing director of M2M Management Ltd a USD 450 million hedge fund group that operates ships and trades freight derivatives said "This is hand to mouth stuff."

Mr Rae who correctly predicted a decline in shipping rates at the end of 2008 said "By the fourth quarter, stockpiles will have been depleted to a point that, strategically, they will want to try and build them up"

According to as many as 54 economists surveyed by Bloomberg capesizes, three times the length of a football field were last this cheap in the first quarter of 2009, when the US contracted 6.4% and Chinese growth fell to 6.2% the slowest since 1999. Now, China will expand 8.95% in the fourth quarter and the US will gain 2.8%.

According to data from the Baltic Exchange forward freight agreements traded by brokers and used to bet on or hedge against dry-bulk rates are already anticipating a rebound pricing in a Q4 average of USD 26,625. That's USD 3,750 less than the median in the Bloomberg survey. Capesize rates more than quadrupled last year as the US economy accelerated from a first quarter contraction to 5.6% growth in the final three months of the year the fastest pace since 2003.

Data from Beijing Antaika Information Development Co show Chinese prices for rebar, steel used to reinforce concrete in roads and buildings, advanced for five consecutive days through July 23rd reaching CNY 3,995 per tonne. Prices had fallen 17% since April.

According to data provider The Steel Index the cost of 62% iron-content ore delivered to Tianjin port in China gained 8% to USD 127 a ton since July 14th rebounding from a 37% drop that began in April. Fourth-quarter iron-ore swaps, traded off exchanges rose to USD 123 a ton on July 21 from USD 100 on July 9th.

Mr Georgi Slavov head of freight and basic resources research at ICAP Shipping International Ltd in London said China accounts for 64% of the seaborne iron-ore market, the single biggest source of demand for dry-bulk shipping. Iron ore represents about 75% of capesize cargoes.

Mr Rahul Sharan an analyst at Drewry Maritime Services in Gurgaon, near New Delhi said "Chinese iron-ore demand is very, very important for the capesize market and it's the most important thing driving rates higher or lower."

Clarkson estimates global shipments of iron ore will advance 6% to a record 961 million tons this year. The brokerage also predicts a 9% gain in coal cargoes to an all-time high of 874 million tons. The commodity is the second- biggest source of demand for capesizes.

(Sourced from China Daily/Bloomberg)

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