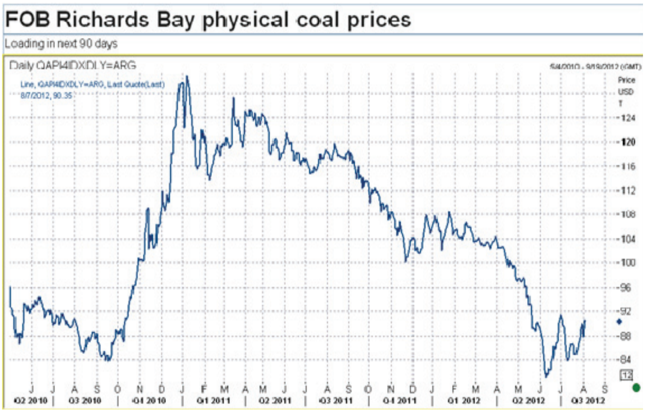
INSIDE DRY FREIGHT

Wednesday, August 15, 2012

Index (Total Return)	Close	Change	Pct. Change
Baltic Exch Dry	750	-14	-1.9%
Baltic Capesize	1147	-11	-1.0%
Baltic Panamax	803	-1	-0.1%
Cash Prices			
McCloskey AP14	90.95	0.35	0.4%
McCloskey AP12	95.8	0.45	0.5%
Coal Newcastle	87.15	0	0.0%

Port Congestion (Source: Global Ports)	Avg. Day	Weekly Change
Port Hedland Ore	4.5	1
Newcastle Dyke Coal	6	3
Newcastle Kooragang Coal	5	1
Brazil Tubarao	1	2
China Qingdao	0.5	0
India Paradip Ore	0	0
India Paradip Coal	0	0
Rich. Bay Coal	3	0

CHART OF THE DAY



MARKET NEWS

FREIGHT

- Lower rates for all ships pulls Baltic index down
- Norden keeps 2012 outlook after Q2 profits fall

COAL

- Euro Coal-Steady despite oil rise, Colombia rail strike vote
- Colombia coal rail workers vote to end strike, union cries foul
- Colombian Q2 coal output rises 15.3 pct vs yr ago

IRON ORE

- Iron Ore-Shanghai rebar slips for 3rd day, ore near 2-1/2 yr low

TODAY'S MARKETS

IRON ORE: Shanghai steel futures dropped for the third day in a row , putting more pressure on iron ore prices which languished near 31-month lows as weak steel demand curbed appetite for the raw material.

But with spot iron ore prices having fallen 24 percent and Chinese steel down 16 percent from their 2012 peaks, some analysts and traders are starting to think both markets could soon hit bottom on expectations demand may pick up in the fourth quarter.

"Right now, steel prices don't have much room to fall further, and (current levels) may also be the bottom for iron ore," said Henry Liu, head of commodity research at Mirae Asset Securities in Hong Kong.

GLOBAL MARKETS: Global growth concerns hit shares in Europe and Asia, while expectations of central bank action to stabilise the euro zone debt crisis propped up the euro and tempered demand for safe-haven German bonds.

"There appears no end in sight in the near-term for an end to economic contraction in the fiscally challenged euro-zone members," said Lee Hardman, currency analyst at Bank of Tokyo-Mitsubishi.

"The weakening growth outlook is likely to lead to more aggressive monetary easing from the ECB, weakening the euro further ahead," Hardman added.

MARKET NEWS

Lower rates for all ships pulls Baltic index down

Aug 14 (Reuters) - The Baltic Exchange's main sea freight index, used to track rates for ships carrying dry commodities, fell further on Tuesday due to excessive shipping cargoes.

The main index, which gauges the cost of shipping commodities including iron ore, coal and grain, dropped 14 points to 750 points, or 1.83 percent. The index has fallen 26 days in a row.

"The dry bulk rate environment declined again last week..driven largely by the oversupply of tonnage in the current market," Michael Webber, analyst at Wells Fargo said in a note to clients.

The Baltic Exchange's capesize index lost 0.95 percent or 11 points, to reach 1,147 points.

The average daily earnings of capesizes, which usually transport 150,000 tonne cargoes such as iron ore and coal, slid $173 to $3,590. It has fallen almost 87 percent this year.

Iron ore shipments, a raw material in steel manufacturing, account for around a third of sea-borne volumes on the larger capesizes, and brokers said price developments remained a key factor for dry freight.

"Iron ore prices have steadily declined and are rapidly heading for the $110 per ton-mark with some industry players indicating further downside still," Arctic Securities analyst Erik Nikolai Stavseth said.

Limited buying interest from top consumer China drove spot iron ore prices to their lowest since December 2009 amid sluggish Chinese steel demand that is preventing a rebound in iron ore, even after it has slumped more than 18 percent this year.

Growing ship supply has been outpacing commodity demand and is widely expected to weigh on dry bulk freight rates in the coming months.

Global port congestion increased to 5 percent of the global fleet last week, driven primarily by an increase in vessels at anchorage in Chinese ports, Webber said.

The Baltic Exchange's panamax index fell 1 point to 803 points. Average daily earnings for panamaxes, which typically transport 60,000 to 70,000 tonne cargoes of coal or grain, dropped $11 ending at $6,395.

Reduced grain exports are hovering above the market in the smaller segments, Stavseth said.

The average daily earnings for handysize and supramax ships, both fell, to $7,416 and $9,046, respectively.

Norden keeps 2012 outlook after Q2 profits fall

COPENHAGEN, Aug 15 (Reuters) - Danish shipping firm D/S Norden posted a smaller-than-expected drop in operating profits for the second quarter on Wednesday, helped by high contract coverage for its dry-bulk fleet in a weak market overall.

"As expected, 2012 proves to be a challenging year for the shipping industry," Chief Executive Carsten Mortensen said in a statement.

Earnings before interest and tax (EBIT) before writedowns fell to $9 .6 million in April-June from $21.1 million in the second quarter last year, beating analysts' average estimate of a fall to $7.0 million in a Reuters poll.

EBIT estimates had ranged from a loss of $2.4 million to a profit of $20.0 million.

Norden, which in May surprised the market with a $300 million writedown on the value of its fleet, said it still expected full-year 2012 earnings before interest, tax, depreciation and amortisation (EBITDA) to be in a range of $110 million to $150 million.

Euro Coal-Steady despite oil rise, Colombia rail strike vote

LONDON, Aug 14 (Reuters) - Physical prompt coal prices were unchanged on Tuesday despite oil's rise close to a three-month high and a vote by striking Colombian rail workers to return to work.

Coal often, but not always, moves in line with oil - coal prices usually lag oil's movements.

Oil rose to almost $113 a barrel on Tuesday, underpinned by expectations of further U.S. and Chinese economic stimulus and worries over North Sea supply constraints [O/R], but coal did not react.

Few trades were reported, and all at levels unchanged from the previous day.

Two October DES ARA cargoes traded at $96.00 - in the middle of Monday's bid/offer range.

The market stabilised after dropping to a two-year low of around $82.00 in June and crept higher on sentiment more than physical supply disruption as a result of the Colombian strikes.

Workers on Colombia's Fenoco railway which moves coal to port for Drummond , Goldman Sachs and Glencore's Prodeco , have been on strike for more than three weeks, cutting the country's exports by an estimated 4 million tonnes this year.

Fenoco workers voted late Monday to end the strike, but the union called the vote illegal and vowed to continue industrial action in pursuit of improved pay and benefits.

The tonnage lost as a result of the Fenoco strike and a separate dispute at Prodeco's mines may have an impact on prices in two to three months' time when end-users return to the market for Q4 cargoes but at present, there is still more coal available than there are buyers, traders and utilities said.

"There were several bidders for October DES cargoes but nothing which suggests they wanted replacements for anything lost from Colombia," one trader said.

GRAPHIC on FOB Richards Bay South African coal prices: http://graphics.thomsonreuters.com/gfx1/JCW_20120808115254.jpg

GRAPHIC on DES ARA physical coal prices:
http://graphics.thomsonreuters.com/gfx1/JCW_20120708165104.jpg

GRAPHIC on FOB Richards Bay coal prices:
http://graphics.thomsonreuters.com/gfx1/JCW_20120708165347.jpg

TRADES

Two October delivery DES ARA cargoes traded at $96.00 a tonne, unchanged.

PRICES

A September loading South African cargo was bid at $87.05 and offered at $89.95, unchanged.

An October South African cargo was bid at $91.25 and offered at $91.50, unchanged.

A November DES ARA cargo was bid at $96.00 and offered at $97.00, also unchanged.

Colombia coal rail workers vote to end strike, union cries foul

BOGOTA, Aug 13 (Reuters) - Colombian railway workers at the country's main coal line voted on Monday to end a three-week strike that has paralyzed more than half of coal shipments from the world's fourth-largest exporter, but the union called the vote illegal and has vowed to continue the strike.

MARKET NEWS *(Continued)*

Striking workers at privately held rail company Fenoco have brought coal exports from the main producing province of Cesar to a halt, causing major coal producers to declare limited force majeure and costing the government more than $1.2 million per day in royalties.

Force majeure is a clause provided in contracts under which buyers or sellers are allowed to renege on their commitment because of a situation that is beyond their control.

Fenoco President Peter Burrowes told Reuters that 335 workers had voted in favor of lifting the strike, sending the dispute to arbitration, meaning that the company received more than the 51 percent required to end the walkout.

A total of 347 out of 624 workers cast ballots on Monday, Burrowes said. Laborers could return to work as soon as Thursday, according to the company.

But the union -- which has more than 200 members -- said only union leaders could stop the strike and called on the company to make concrete proposals to end the walkout.

"We're not going to lift the strike. We're going to continue striking," Felix Herrera, president of the Sintraime union, told Reuters.

Fenoco's shareholders include Glencore International Plc's Prodeco unit, Drummond International and Goldman Sachs Group Inc's Colombian units. In 2009, striking Fenoco workers held up exports for 27 days.

Fenoco is also trying to have the strike declared illegal, which would allow the company to fire union leaders. A court ruling is expected on Tuesday, but is likely to be bogged down in a months-long appeal process.

Map of the Fenoco railway: http://r.reuters.com/rad66s

The dispute between laborers and the private company has pushed up prices despite the availability of coal in the Atlantic and Pacific markets, and while sentiment has become cautiously optimistic for firmer prices in the fourth quarter, the shortfall from Colombia has yet to be strongly felt, utilities and traders said.

Buyers of Colombian coal say if the strike lasts for the rest of the month, it would take 4 million tonnes out of supply for this year, which the country would not be able to make up.

That, plus supply cuts underway in the United States, Australia and Indonesia, will help rebalance the market and should push prices back above $100 per tonne, but at that level, fresh U.S. offers are likely to emerge, capping any price gains, traders and utilities said.

Colombia's second-largest coal exporter, Drummond International, said before Monday's vote that it was sharply cutting production because of the rail strike.

"With the railway out of operation, coal exports have ceased and inventory at the mine loadout facility has reached full capacity," Drummond said in a statement sent to Reuters early on Monday. The company could not be reached immediately for comment later on Monday.

"As such, Drummond, for an indefinite period of time, will be significantly reducing its operations in Colombia," said the statement, dated Aug. 10.

Drummond, whose Colombian coal operations are 20 percent-owned by Japan's Itochu Corp , said the walkout by rail workers was preventing shipment of 80,000 to 85,000 tonnes per day from its mines to its Caribbean port.

Drummond customers say the company has informed them that the miner's workers in Colombia have been put on paid leave and that it has mined and moved all the coal it can while the vital rail link is offline.

Prodeco and a local Goldman Sachs unit, which the company bought from Vale earlier this year, have used trucks to move some coal to ports, but Drummond does not have the loading ability to move coal by trucks, industry sources said.

Colombian Q2 coal output rises 15.3 pct vs yr ago

BOGOTA, Aug 13 (Reuters) - Colombia's coal production jumped 15.3 percent to 23.4 million tonnes in the second quarter versus a year ago, pushed up by more output in the two top producing provinces, data from the Andean country's mining regulator showed on Monday.

Colombia's coal industry is dominated by big producers with their own ports and railways such as Glencore , Drummond and Cerrejon, which is jointly owned by BHP Billiton , Anglo American and Xstrata .

The top three producers export all their output.

The main markets for Colombian coal are the United States and Europe, although exporters have started to make inroads in Asia despite the high freight costs.

The largest production increases were in the Cesar province where Prodeco, Drummond and Goldman Sachs' local affiliates operate. Output in the region increased 14.3 percent to 11.94 million tonnes versus the same period last year.

Cesar production fell 7 percent in the second quarter versus the first quarter, the data showed.

Output in La Guajira province - where Cerrejon, the country's largest exporter, has four of five licenses to mine - rose 20.4 percent to 9.38 million tonnes in the second quarter versus a year ago.

Quarter-on-quarter production increased 4.2 percent.

The regulator did not give a reason for output changes, but all major coal miners are currently expanding their mines and infrastructure in Latin America's top coal exporter.

Currently, the market is reeling from a three-week long rail strike that has paralyzed coal exports from Cesar.

The world's No. 4 coal exporter is experiencing a boom in investment in the oil and mining sectors following a U.S.-sponsored crackdown on illegal armed groups that has made it safer to explore and mine.

Colombia's coal production is expected to increase to 97 million tonnes in 2012 from 85.8 million tonnes last year, the mining minister has said.

Iron Ore-Shanghai rebar slips for 3rd day, ore near 2-1/2 yr low

SINGAPORE, Aug 15 (Reuters) - Shanghai steel futures dropped for the third day in a row on Wednesday, putting more pressure on iron ore prices which languished near 31-month lows as weak steel demand curbed appetite for the raw material.

But with spot iron ore prices having fallen 24 percent and Chinese steel down 16 percent from their 2012 peaks, some analysts and traders are starting to think both markets could soon hit bottom on expectations demand may pick up in the fourth quarter.

The most-traded rebar for January delivery on the Shanghai Futures Exchange was off 0.3 percent at 3,655 yuan ($570) a tonne by 0533 GMT. The contract hit a record low of 3,631 yuan earlier this month.

MARKET NEWS *(Continued)*

"Right now, steel prices don't have much room to fall further, and (current levels) may also be the bottom for iron ore," said Henry Liu, head of commodity research at Mirae Asset Securities in Hong Kong.

"But even if we see some improvement in demand, a strong rebound in prices is unlikely. There's still a lot of steel inventory to digest and overcapacity in China."

Inventory of five major steel products in China, including rebar and hot-rolled coil, held by traders, stood at 15.1 million tonnes at the end of last week, 9.4 percent more than a year ago, based on data compiled by Bank of America-Merrill Lynch.

Steel demand in China, the world's biggest consumer and producer, is slowing along with the economy which grew at its weakest pace in more than three years in the second quarter. Disappointing trade and industrial output data last week suggested the slowdown may have extended to July.

BULLISH FOR Q4

China's slowdown has weighed most on iron ore, the price of which is mainly driven by its biggest importer.

Benchmark iron ore with 62 percent iron content stood at $113.30 a tonne on Tuesday, according to Steel Index, a day after hitting $112.90, its lowest since Dec. 29, 2009.

The price of the steelmaking ingredient has fallen in 22 of the past 25 trading sessions.

"I don't think prices have bottomed. I think they have room to go down further. But I'm bullish for the fourth quarter," said an iron ore trader in Hong Kong.

"The China stimulus will be felt in Q4 and that will lift iron ore prices."

China cut interest rates in June and July and slashed banks' required reserve ratio three times since November to boost lending and stimulate its economy. Analysts expect more of those, or even more aggressive, steps after trade and new bank lending data last week suggested pro-growth policies have been slow to gain traction.

Robust Chinese demand for iron ore fueled a tripling in prices to near $200 in early 2011 from 2008, as Beijing's urbanisation bid meant huge demand for steel.

But now iron ore is underperforming other China-focused commodities, such as copper , which has only dropped by around 2 percent this year versus iron ore's 18 percent slump.

Despite falling prices, miners continue to push out spot cargoes, with top iron ore producer Vale selling two cargoes via separate tenders on Wednesday.

Vale is offering 90,791 tonnes of 64.11-percent grade Brazilian iron ore lump and another 176,800 tonnes of Brazilian Carajas iron ore fines, traders said.

Vale sold a similar Carajas material on Monday at $123.51 a tonne, including freight. Last week, Vale sold about seven cargoes on the spot market estimated at more than 1 million tonnes, traders said.

Second-ranked iron ore miner Rio Tinto is offering 165,000 tonnes of 58 percent-grade Australian Yandicoogina fines, also at a tender closing on Wednesday, traders said.