

The month of October....

October was a case of three steps forward, two-and-three-quarter steps back for the Spot market. There was a greater supply of bananas from both Central and South America, more interest from the Med traders and Chiquita continued to fix an additional two vessels per week to its programme.

The yield on the ballast transatlantic leg for some of the larger units was boosted by what appears to be a strategic decision by Moroccan citrus exporters to evaluate the potential of the Canadian market - diversifying away from the Russian market, which in 2008 absorbed 50% of all Morocco's citrus exports. Moroccan exporters were among those worst affected by the bankruptcy of integrated Russian multi-national Sunway.

Although operators were encouraged by activity levels, in reality the supply of tonnage was never insufficient enough for the market to attain any upwards momentum. Bunker prices continued to rise throughout the month, effectively neutralising the effects of the gradual increase in TC and voyage/box rates on TCE returns.

There were no surprises in the Q3 results of Chiquita and Del Monte: it was noticeable that Chiquita sold fewer bananas in the EU markets and more in the Middle Eastern and Mediterranean region. Meanwhile Dole's bid to raise US\$550-575m to pay down debt fell approximately US\$100m short. The pricing of the US multi-national's IPO means that it has lost more than half its value since it was taken private six years ago in a transaction valued at US\$2.5bn.

The week that was.....

The mood among reefer operators is beginning to lift as activity levels increase on a number of fronts. Capacity supply is tight enough and TCE earnings good enough in the smaller segment for Green to break two of its vessels out of lay up and consider the same course of action for a further two. The fish, potato and Moroccan citrus businesses are the major demand drivers, while the Egyptian citrus trade has also now started.

With 8-10 vessels open at the Canal the prognosis for the larger units is not quite as positive. Although there has been more banana chartering, Ecuadorian banana production is still affected by cool weather and a shortage of sunlight, both of which affect the total volume and, more importantly, the packout percentage for exports. The exit price is hovering at official reference levels.

Ecuador is also in the middle of a power crisis - electricity is being rationed across Guayaquil and there is already a shortage of diesel for trucks, containers, pumps and generators. The situation is forecast to persist for 4-6 months: how much it will affect the banana industry remains to be seen.

After showing signs of weakness the EU banana market has improved largely as a result of cooler, banana-

consumption inducing weather and a shortage of competitive, substitutable citrus. At €12.41 per box the benchmark Aldi price has barely fluctuated for the past 18 weeks.

Fixtures:

Chiquita fixed the Hansa Visby and Regal Star on TC at 37c/cbft: Rastoder meanwhile fixed the Chile Star and Frio Hellenic at US\$4.65 per box while Adriafruit took the Izumo Bay at US\$4.40 per box with free DAs.

On citrus, Spain fixed three (additional) Spot cargoes for the USEC - the Global Harvest, Tasman Start and Humboldt Rex - while the Asian Orchid, Galaxy Harvest, Canterbury Star and Green Spring fixed Morocco to New Bedford and Wilmington. The Nova Zemlya fixed into Bremerhaven and Klaipeda at a reported US\$162 per pallet.

The Cool Aster, Saronic Breeze and Green Costa Rica fixed fish from Denmark to Odessa and Nigeria respectively while the Kilimanjaro and Vinson fixed Nouadhibou to Lagos, the former on an approximate 90c/cbft TCE. Finally the Green Summer fixed a potato cargo from Vlissingen to Libya at US\$165 per MT, a 40% rise on previous fixed.

The Pusan Reefer and the Cassiopeia fixed poultry into St Petersburg and West Africa respectively. There has been some last-minute fixing of freezer tonnage into Russia to fulfil poultry quota obligations at a reported US\$150 per MT.

West Africa:

A year after switching its West Africa to Europe banana service into containers Del Monte has reverted to a specialised reefer service. No reason was given for the move away from the box services operated by Maersk and MSC. However it is not unreasonable to extrapolate from Del Monte's recent decision to charter four of Star Reefers' newbuilds for a 10-year period instead of developing its relationship with Maersk on its CRX (Costa Rica Reefer Express) service that its flirtation with the box mode for bananas is over - temporarily at least. Then again, given the number of times Del Monte has changed its mind over the past six years, a return to a third party liner service next year cannot be ruled out!

While Del Monte will continue to ship its excess Costa Rican requirements on the CRX the news will come as a major disappointment to Maersk, which has spent the last 12 months cultivating its prized 'defector'. More worrying for the line is that Del Monte reportedly switched modes to Africa Express Line (AEL) despite Maersk using its best equipment and having achieved a perfect service record over the course of the contract on the one hand; and despite Del Monte having to pay a premium to AEL for its capacity on the other.

However it is unlikely that this reverse will stunt Maersk's reefer ambitions, not least because the line has over-invested in reefer equipment. While both the specialised reefer business and the container lines will

SHIPPING

SPECIALISED SHIPPING

| 270,000 cbft | '09 TREND | '08 |
|--------------|-----------|-----|
| 67c | up | 62c |

| 450,000 cbft | '09 TREND | '08 |
|--------------|-----------|-----|
| 34c | flat | 43c |

MONTHLY AVERAGE

| OCT | '09 | '08 |
|----------|-----|-----|
| 450'cbft | 30c | 36c |
| 270'cbft | 59c | 51c |

BUNKER PRICES (380 cSt)

| | '09 | '08 |
|---------------|-----|-----|
| Gibraltar | 485 | 245 |
| Rotterdam | 458 | 210 |
| Panama Canal | 480 | 271 |
| St Petersburg | 370 | 200 |

EX RATES

| | '09 | '08 |
|----------|-------|-------|
| SAR/US\$ | 7.47 | 10.48 |
| SAR/UK£ | 12.42 | 15.50 |
| SAR/€ | 11.12 | 13.12 |

| | | |
|--------|------|------|
| US\$/€ | 0.67 | 0.80 |
| UK£/€ | 1.12 | 1.18 |

| | | |
|----------|------|------|
| US\$/¥ | 90 | 96 |
| US\$/RUR | 28.9 | 27.6 |

| | | |
|-----------|------|------|
| NZ\$/US\$ | 1.36 | 1.80 |
| NZ\$/UK£ | 2.26 | 2.67 |
| NZ\$/€ | 2.02 | 2.26 |

| | | |
|----------|-----|-----|
| CLP/US\$ | 508 | 631 |
| CLP/UK£ | 843 | 934 |
| CLP/€ | 755 | 790 |

| | | |
|----------|------|------|
| ARS/US\$ | 3.81 | 3.31 |
| ARS/UK£ | 6.33 | 4.89 |
| ARS/€ | 5.67 | 4.14 |

be hoping that there is truth in Maersk's global reefer capacity crunch projections, it appears that in light of this development the forecast is a little previous. The loss of the Del Monte account will immediately release perhaps 2,000-plus 40' reefer boxes into the Maersk pool.

There is one crumb of comfort for the company – the line was keen to point out that Del Monte has signed a contract to ship bananas from Costa Rica to the Middle East using its Starcare (Controlled Atmosphere) containers. However this pales into insignificance alongside the deeper malaise affecting the company. Its Q3 loss of US\$592m, which came in spite of a slight recovery in volumes compared to Q2, brings post-tax losses for the division so far this year to US\$1.54bn, already worse than the most pessimistic expectations.

The revenue per 40 ft container for Maersk's container shipping and related activities division was 32% lower than in the third quarter of 2008 and, while volumes were higher than in the second quarter, they were still 3% below the same period last year. CEO Nils Andersen identified the low earnings per container as being the main problem....!

USEC:

Last week Reefer Trends was the guest of the Pennsylvania-State-funded agency Select Greater Philadelphia, formed to promote the business interests of the region comprising Philadelphia itself, southern New Jersey and Delaware. Common to all three states is the Delaware River, home to the five reefer terminals responsible for handling more than an estimated 80% of all US fruit and banana imports as well as the 2,000 reefer plug Packer Avenue container terminal that handles the frozen meat and dairy imports from Australia, New Zealand and both coasts of South America and dry cargo from all over the world.

As well as being an information-gathering opportunity the invitation to journalists was largely designed to promote the region as an opportunity for inward investment. If current plans are realised the upper Delaware River will undergo a spectacular transformation over the next decade: there are funds available for a massive area regeneration programme that will start by dredging a channel in the river to a depth of 45' – it is currently 40' – at a cost of US\$300m. When the settlers first arrived on the US east coast it was only 17'.

Channel-deepening will allow the Delaware River terminals to benefit from an increased volume of larger (container) vessels the region hopes to attract away from the capacity limited ports on the North Atlantic, especially New York. The region also anticipates a significant upturn in traffic as a result of the expansion of the Panama Canal – completion due in 2014.

Logistically the Delaware River has a number of key competitive advantages: within a catchment area of 200 miles is located an estimated total 46m consumers, the highest population density in the US. Although not yet significant for reefer Philadelphia has the unique distinction of three Class I railroads adjacent to its marine terminals. All terminals have immediate access to an extensive interstate highway network. The river is ice-free and therefore an ideal alternative to the Canadian market when the St Lawrence freezes – Philadelphia is often referred to as the southernmost Canadian port. Finally there is little congestion.

This combination, coupled with an abundance of shoreline land available for development and a realisation that the US is fast transitioning away from its historical role as a manufacturer into becoming a consumer market – much like the UK - leads the powers-that-be to believe that now is the time for the port community in the three states to position itself for rapid growth.

What impact will any development have on reefer traffic? In reality, probably very little. The river is already plenty deep enough to accommodate existing reefer vessels, while there are many compelling reasons why the banana, citrus and Chilean grape trades will remain beyond the remit of the third party container lines

even if the number of box services increases.

The fruit importing business into the US is a bit of a zero sum game: the market is mature and while there might be some seasonal variations, any increase in one product is more likely than not to come at the expense of another. The frozen meat and other businesses on the other hand are different: after having switched modes it is hard to see the expanding southern hemisphere frozen trades U turn back into the specialised reefer.

The river's fruit and banana businesses are served as follows: the Holt terminal in New Jersey handles Spanish and South African citrus, Chilean fruit on the NYKool and CSAV services, as well as Argentine product. Wilmington is the world's largest banana hub, handling the containerised Dole and Chiquita services, Chilean grapes from Pacific Seaways and this year Moroccan citrus en route for Canada. Pier 82 in Philadelphia is the home of the Turbana banana terminal: Penn Terminals in Eddystone is the home of Banacol while just up river at Camden is the dedicated Del Monte banana operation – its largest worldwide. The Tioga terminal, which services Unifrutti and other customers of the CSAV Chilean business can be found on the Philadelphia side of the river, another few miles to the north. The only major service that does not call on the Delaware River is the Noboa banana schedule, which calls instead at Staten Island, New York.

All the banana majors are in the middle of long-term lease arrangements, which are unlikely to change even in the long term. Unless the phytosanitary conditions of entry for deciduous and citrus fruit are changed or relaxed (fumigation and cold sterilisation respectively), there is little reason why there should be any migration to containers until there are real capacity issues.

Reefer Trends has previously speculated on what might happen to reefer services when the dedicated cellular vessels operated by Dole and Chiquita came to the end of their natural lifespans. Following a visit to the Port of Wilmington it is very clear just how integrated the box services are – Dole has invested in a fleet of 1,500 truck chassis, which it maintains at the port and uses to transport out its 40' banana containers, often directly from the vessel as its 1,020 FFE Colombia or Chile are discharging. The company's pineapples are all discharged into cold storage for onward mixed loads.

Bunker Review:

The Bunker Review is contributed by Marine Bunker Exchange www.mabux.com

The oil inventories are still at a very high level which would ordinarily put downward pressure on oil prices – however hedge funds are buying oil contracts considerably more than they are selling, which is having the reverse effect! The reason for hedge funds acting in this way is due to the weakness in the US\$, which is expected to continue further downwards for some time to come. The investment in oil contracts is considered to be a safe-haven for the investors.

The International Energy Agency (IEA) released a report on Tuesday in which they estimate that 105m barrels/day will be able to be produced in 2030. However, experts outside of the organization consider this number to be highly exaggerated. Also many other organizations are of the opinion that it is even impossible to keep a production level around 90-95m barrels/day. But due to the fear of panic striking the financial market, the numbers have not been adjusted downwards. Even the large oil companies are sceptical of IEA's prognosis. The CEO of Total, France, has said that he does not believe that the world will ever produce more than 100m barrels/day. IEA, was formed after the first oil crisis in 1973-74 as an advisor to 28 industrialized countries on energy policies.

For next week we expect spot bunker prices to continue to move sideways.

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