



FORWARD FREIGHT AGREEMENTS – AN ESTABLISHED STANDARD

FIS is widely regarded as one of the key players in the development of the trade in dry Forward Freight Agreements (FFAs) into the vibrant and liquid market we see today.

FFAs offer shipowners, charterers and traders a means of protecting themselves against the inherent volatility of freight rates. They are able to do this thanks to a market with enough depth to trade into and out of positions with ease, at the same time taking advantage of the ability of FFAs to provide forward pricing trends.

Trading FFAs entails taking a position in a futures (paper) market as a substitute for a forward cash (physical) transaction. Contracts will normally be based on the terms and conditions of the Forward Freight Agreement Brokers Association or the International Swaps and Derivatives Association.

Contracts are agreed upon between the principals and can be cleared with LCH.Clearnet (London), SGX AsiaClear (Singapore) NADSAQ (Oslo) or CME (Chicago)

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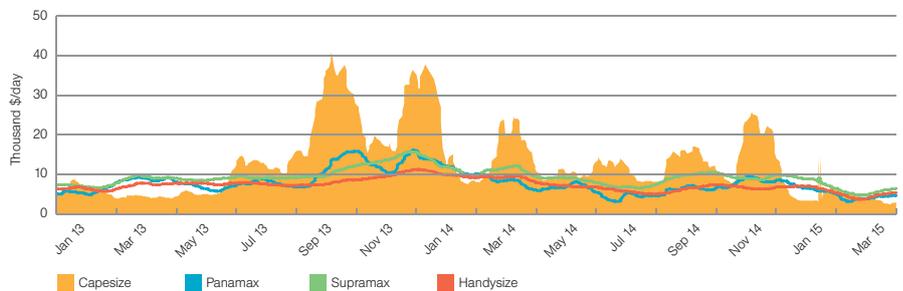
CAPESIZE

Capesize FFAs arguably provide the best indicator of overall direction in the dry bulk shipping market. Yet, in terms of the routes traded, port flexibility and products carried, this vessel size is the most limited. Iron ore and both steam and coking coal are the drivers for the underlying physical market.

Increasingly, Capesize FFAs offer considerable liquidity in the short and medium terms as well as progressively offering strategies for longer term trading and hedging opportunities, up to three years forward.

Currently, the most liquid trading is found on the average of the Four Time Charter Routes

Dry Bulk Vessel Average Earnings



Source: FIS

(4TCs) using a variety of days and quarters. Of the individual routes, C4 and C7 currently account for approximately 10% of all FFA trades. Traded routes on the Baltic Capesize are the Richards Bay/Rotterdam C4, Bolivar/Rotterdam C7, and the Average of the 4 Time Charter Routes.

PANAMAX

Panamax FFAs are the most widely traded product within the freight derivatives marketplace. Given the consistent increase in the number of companies that are using Panamax derivatives, this subdivision of the business offers encouraging opportunities for its participants—principally owners and charterers, grain houses, coal traders, iron ore and steel suppliers and financial institutions.

The product also boasts of widespread geographic coverage, with bid/offer prices readily available on the Pacific Round, Continent/Far East, Atlantic Round and Time Charter Average. Consequently, over the recent past the market has also seen a rise in paper traders who utilise the market's liquidity to control freight market exposure.

SUPRAMAX

The commencement of Supramax FFA trading was a direct consequence of growing industry concerns over the lack of a suitable hedging tool to manage the large price swings as seen in the early to late 1990s.

Supramax derivatives have provided a good mechanism for the minor bulk shipping market participants to manage and control their exposure to the prevailing volatility in Supramax freight rates.

A stable profile of trading activity has also given clear direction to owners and charterers looking to take advantage of the paper market to hedge their long-term earnings in addition to providing options for short and medium-term price cover.

HANDYSIZE

The Handysize is the smallest but most common vessel in the dry bulk sector. Trading in this category began on a trial basis but as demand grew it became fully active from 2007 onwards. As with the Supramaxes, the average of the time charter routes is the most widely-traded instrument.

Handysize FFAs provide good hedging opportunities for the minor bulk shipping participants and with the amount of physical opportunities available, there is potential for a much more sophisticated and liquid marketplace.

For further details about FFAs or to discuss trading opportunities, call:

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