Global Crisis. International Trade in Potential Jeopardy: Shipping continues it's Downward Plunge

Denial of Letters of Credit

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The Baltic Dry Index continues to lower as the demand for raw materials continues to drop to unseen levels.

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"Capesize Vessels" weigh from 175,000 tons to 400,000 tons and count as some of the largest craft in the World. They typically carry raw materials such as Iron ore, Steel, Coal and other raw commodities. Where you used to pay up to $230,000 per day to rent one, now you can have one for a measly $2800 per day. Lloyds even reported yesterday that one Capesize vessel was going for $1000 per day. These levels of payment are crippling the Shipping Industry and leading to cancelled orders with Shipyards where it is cheaper to let the shipbuilder keep the deposit. More and more older carriers are being scrapped as their value decreases. In October alone, more shipping tonnage was scrapped than in the previous 2 years. The inevitable result of this will be less tonnage available to transport raw materials. From an economic standpoint, supply will decrease thus *theoretically* lead to a commensurate increase in leasing prices, thus forcing the Baltic Dry Index up again.

In the meantime though, there will be a large increase in job losses in the shipping industry, both on land and on sea. This will only represent a small percentage of the Total unemployment figures around the world but, as the latter is increasing at breakneck speed already, the demand for raw materials will inevitably be dropping. Each factory that closes down, each car that is not sold, each housing start that does not start and each road project cancelled because of restricted public funds, all contribute to this decline and can only be expected to recover when the Economic fundamentals have recovered.

The other factor in the demise of shipping is the denial of Letters of Credit between banks that need to be fulfilled before a vessel leaves port. The general hope within the industry is that once the banking crisis has stabilised and money is flowing again, the Index will recover. But credit market has been getting steadily worse. Economic indicators have become harbingers of doom and Banks are hunkering down to weather the Credit Default Swap and Derivatives storm as well as they can. Astonishingly, Citi, after receiving Billions in taxpayer money to try and get them out of a hole, is now using the money to create new derivatives. Does the entire banking community need to be escorted to Gamblers Anonymous ? The FDIC is reporting that the number of Banks at high risk has been increasing and the number of failed banks has already reached 49 as of 1 October. Banks are also suffering loan and credit card defaults at record and ever increasing levels. Provisions for future losses are increasing and profits are seriously declining or, in most cases, have turned in to huge losses. All of this augurs badly for any Banking recovery anytime soon.

Exposure to Derivatives and CDS's are significantly larger than they were in the same period in 2007, when the system was in a better state and thus the system has started to fall off a precipice with no sign of the bottom in sight. Once fallen, there is no stopping it unless the toxic financial bundles are purged from the system. Thelack of will to do this is accelerating the systemic failure. There is not enough money on the planet to cover the derivatives market pure and simple. The Shipping industry is just another cog in the economic machine. As the machine grinds to a halt, the cogs inevitably stop turning.