

Shipping Essentials Weekly

Macro and Events in Brief

The result of the election in Crimea came as no surprise and an overwhelming majority voted to break away from Ukraine. The crisis escalated yesterday as the region's parliament declared the peninsula an "independent sovereign state" and asked to become a part of the Russian Federation. Market reactions following the referendum have been small, but risks for further escalation remains and can affect markets going forward (see Oil and Fixed income). This week the FOMC meeting on Wednesday will be a key event. The 175k rise in payrolls in February more or less seals the case for the Fed to continue tapering its monthly bond purchases by USD 10bn, to USD 55bn. It is also likely that the Fed will replace its threshold forward guidance with a qualitative approach, referring to a wider range of labour market indicators. Also from the US we get inflation figures this week. We expect CPI headline inflation to slip from 1.6% y/y in January to 1.1% in February, due to base. This would be the weakest year-on-year rate since October's 1.0% print and significantly below the 1.3% consensus forecast. The core rate should be stable at 1.6%, in line with the consensus forecast.

Oil and Fuel

Oil and natural gas prices retreated Monday morning from Fridays high after the Crimean. European oil and gas prices will still be supported by nervousness around the development in Ukraine and the short term future fluctuations in oil and gas prices will to a large extent dependent on the severity of the response by the EU and Ukraine to the outcome. In the short term we expect that the movements in oil and gas price will be cushioned by abundant supplies from high natural gas inventories and seasonally falling demand and as we foresee that the EU only will impose limited sanctions against Russia. An escalation of the conflict that influence energy supplies could of course push energy prices higher. The two sides are mutually dependent as Russia accounts for 32% of oil (crude and products) and 30% of natural gas consumption in Europe (of which 50% is transported via Ukraine), while Europe accounts for 57% of oil and around 65% of total Russian natural gas exports. Worries about the health of the underlying economic growth in China and other populous emerging markets such as India and Indonesia weigh on oil price as these countries are expected to account for the lion's share of the expect growth in oil demand going forward. The turmoil Libya continues to support oil prices as the country's National Oil Company (NOC) reinstates force majeure on 4 important oil shipment ports.

Interest Rates

Long yields fell clearly last week, as flight-to-safety flows on the back of the looming referendum in Crimea as well as weak signals coming from the Chinese economy pushed yields lower. The flows were not quite enough to push the 10-year USD swap yield to the early February low of 2.71%. Since the referendum passed without violence, some relief looks likely to contribute to a small upward move in yields early this week, but as the tensions between Russia and the US / EU are far from behind, the upside for yields looks quite limited in the near term and risks remain for another bout lower in yields. This week, the Fed is almost certain to deliver another USD 10bn reduction in the monthly pace of its bond purchases. The main focus will thus be on possible changes in the Fed's forward guidance.

Foreign Exchange

EURUSD slowly grinding higher in light of high risk-appetite and tight European money markets. Implied volatilities around the lowest levels from last year gives the impression of a market not thinking anything can go wrong. Copper prices down by more than 10% in quite a short time gives the impression of something else. The USD index only occasionally depreciates with large drops in the copper price. This time could be different or just another dollar-ally waiting to happen.

Credit

Lately there has been a fair amount of activity in the Norwegian bond market. Ship Finance International placed a five-year NOK 900m bond at 3m NIBOR + 410bps. Klavness Ship Holding AS issued a six-year NOK 400m bond at 3m NIBOR + 425bps. Ridgebury Crude Tankers placed a three-year USD 210m bond at a fixed rate of 7.625%.

Table 1: Foreign exchange					Date: 17.03.2014
	Spot	1w chg	1w chg %	YTD chg	YTD chg %
EURUSD	1,3922	0,004	0,3%	0,073	5,5%
USDNOK	5,95	0,00	-0,1%	0,39	6,9%
GBPUSD	1,66	0,00	0,0%	0,04	2,4%
USDJPY	101,77	-1,50	-1,5%	15,02	17,3%
USDSGD	1,26	0,00	-0,3%	0,04	3,5%

Source: Bloomberg

Table 2: Interest rates					Date: 17.03.2014
	USD	1w chg	NOK	1w chg	EUR
3M *IBOR	0,2345	0,00	1,73	0,04	0,3050
6M *IBOR	0,3339	0,00	1,82	0,04	0,4070
2y swap	0,50	0,00	1,93	-0,02	0,4830
5y swap	1,66	-0,04	2,48	-0,09	0,9790
7y swap	2,25	-0,06	2,79	-0,14	1,3540
10y swap	2,80	-0,07	3,11	-0,12	1,8190
5y 5y swap	4,15	-0,11	3,86	-0,16	2,7527

Source: Bloomberg

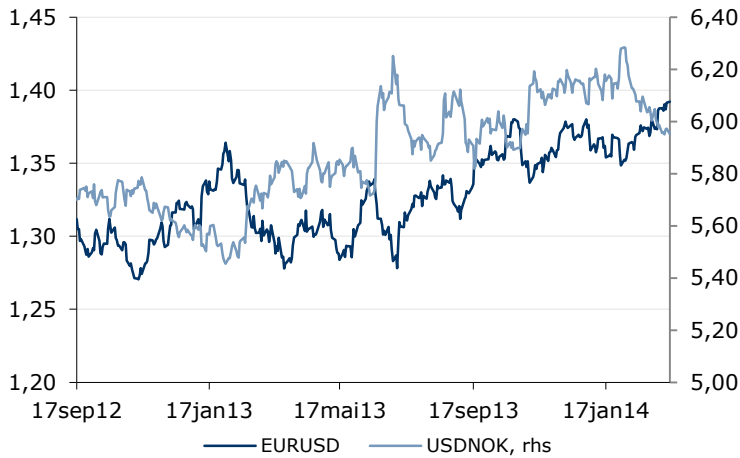
Table 3: Fuel and crude oil					Date: 17.03.2014
Fuel swaps (USD/tonne)	Front month	1w chg %	CAL 2014	1w chg %	
Fuel oil 3.5% FOB Brigs ARA	570	-0,2%	567	-0,5%	
Fuel oil 1% FOB Crg NWE	601	-1,0%	596	-0,9%	
Sing 380 cst.	589	-1,0%	588	-1,0%	
Sing 180 cst.	598	-0,8%	596	-0,9%	
ICE gasoil swap	888	-1,7%	887	-1,2%	
Crude futures (USD/bbl)	1st month	1w chg %	Dec' 2014	1w chg %	
ICE Brent	106,24	-1,2%	103,40	-0,9%	

Source: Bloomberg

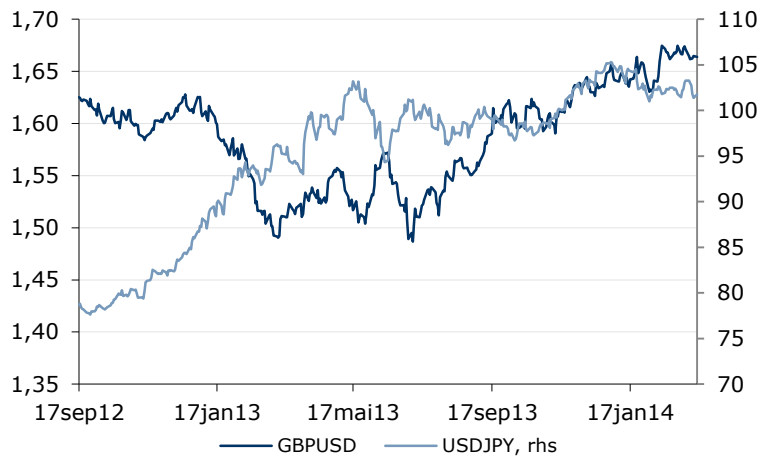
Table 4: Freight					Date: 17.03.2014
Tanker rates (USD/tonne)	Spot	1w chg %	Front Qtr	1w chg %	
TD3 - Arabian Gulf to Japan	11,66	-10,7%	12,44	-3,4%	
TD5 - West Africa to USAC	12,59	-6,4%	13,47	-5,3%	
TD7 - North Sea to Continent	6,84	5,7%	6,95	-0,6%	
TC2 - Continent to USAC	20,90	-3,4%	20,59	-1,0%	
TC4 - Singapore to Japan	15,43	0,1%	15,54	0,5%	
TC5 - Middle East to Japan	30,02	0,2%	29,88	0,2%	
Dry bulk T/C (USD/day)	Spot	1w chg %	Front Qtr	1w chg %	
Capesize	20 975	-15,2%	24 067	-2,2%	
Panamax	8 982	2,6%	13 003	-8,7%	
Supramax	12 454	4,7%	13 810	-1,5%	
Handysize	9 811	1,5%	10 671	-0,1%	
Baltic Dry Index	1 481	-5,2%			

Source: Bloomberg

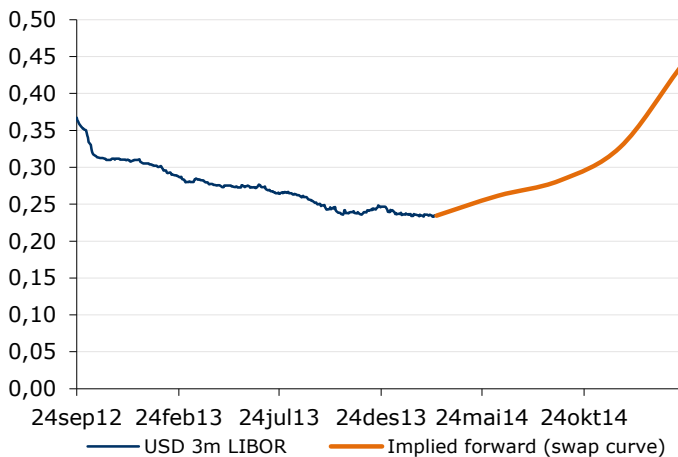
FX and Interest rates

Chart 1: EURUSD and USDNOK


Source: Bloomberg

Chart 2: GBPUSD and USDJPY


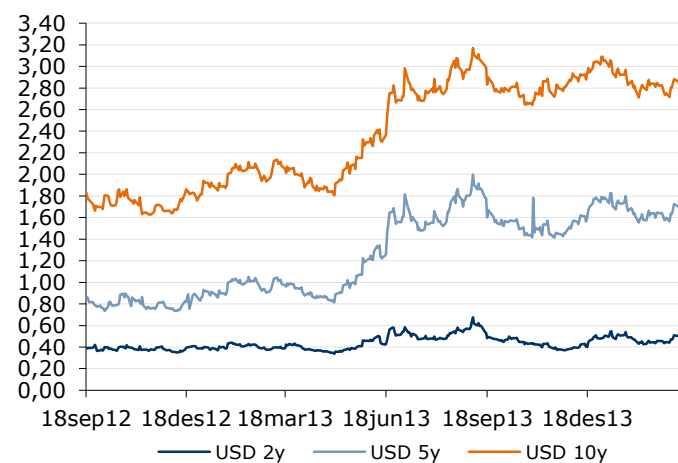
Source: Bloomberg

Chart 3: USD 3m LIBOR fix and forward


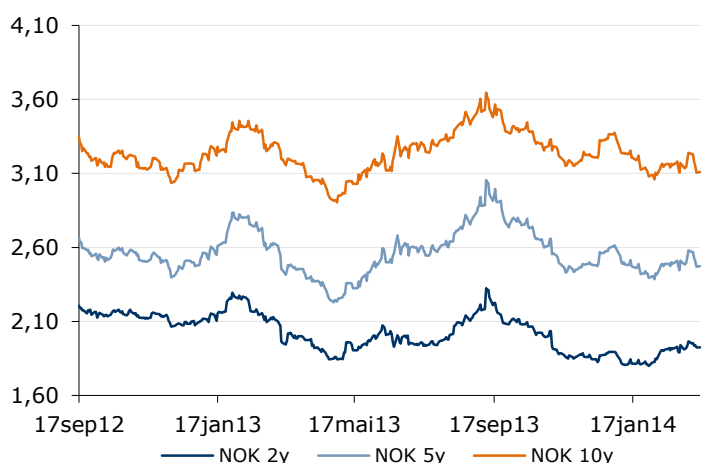
Source: Bloomberg

Chart 4: NOK 3m NIBOR and forward


Source: Bloomberg

Chart 5: USD historical swap rates


Source: Bloomberg

Chart 6: NOK historical swap rates


Source: Bloomberg

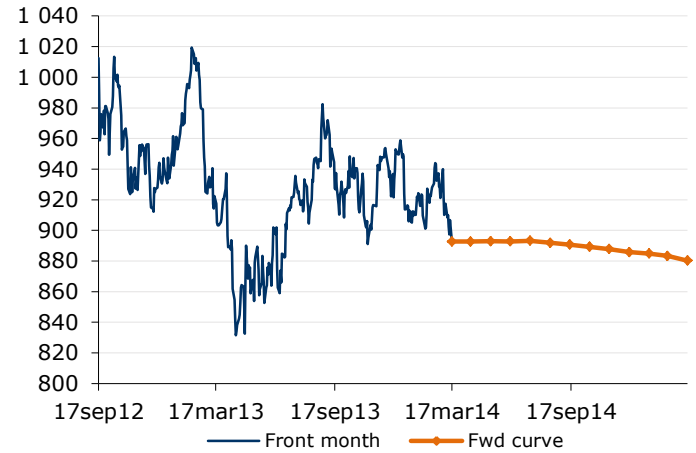
Oil and fuel

Chart 7: ICE Brent futures (USD/bbl)



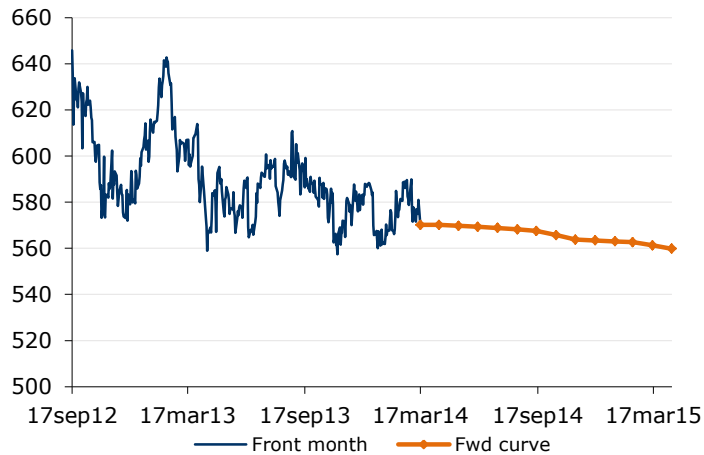
Source: Bloomberg

Chart 8: Gasoil 0.1% CIF Cargoes NWE swap (USD/tonne)



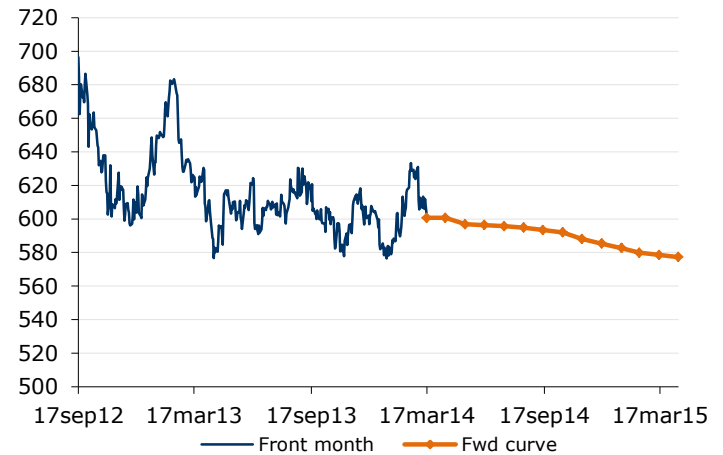
Source: Bloomberg

Chart 9: Fuel oil 3.5% FOB Barges Rotterdam swap (USD/tonne)



Source: Bloomberg

Chart 10: Fuel oil 1% FOB Cargoes NWE swap (USD/tonne)



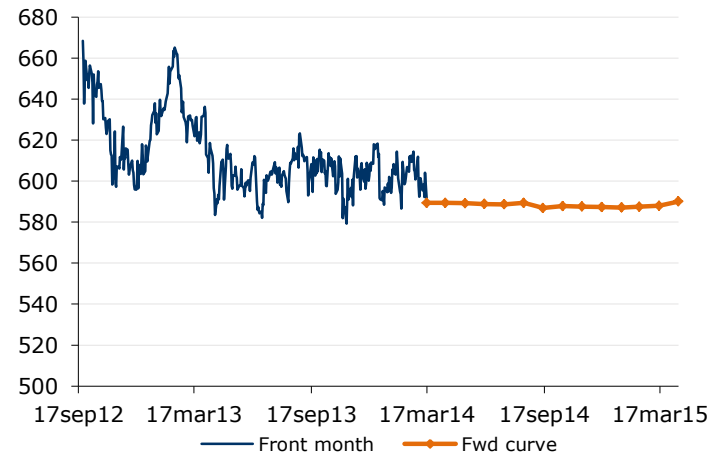
Source: Bloomberg

Chart 11: Fuel oil Sing 380 cst. swap (USD/tonne)



Source: Bloomberg

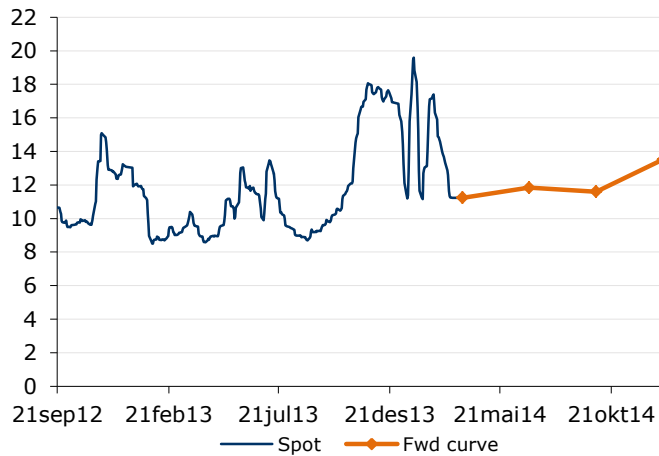
Chart 12: Fuel oil Sing 180 cst. swap (USD/tonne)



Source: Bloomberg

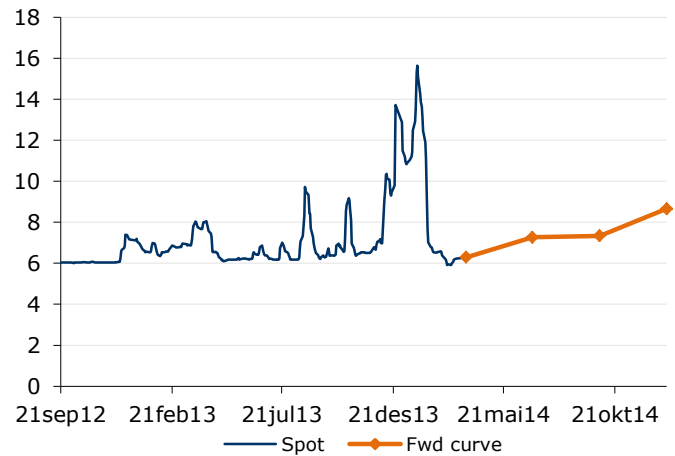
Freight rates

Chart 13: TD3 Arabian Gulf to Japan, spot and forward (USD/tonne)



Source: Bloomberg

Chart 14: TD7 North Sea to Continent, spot and forward (USD/tonne)



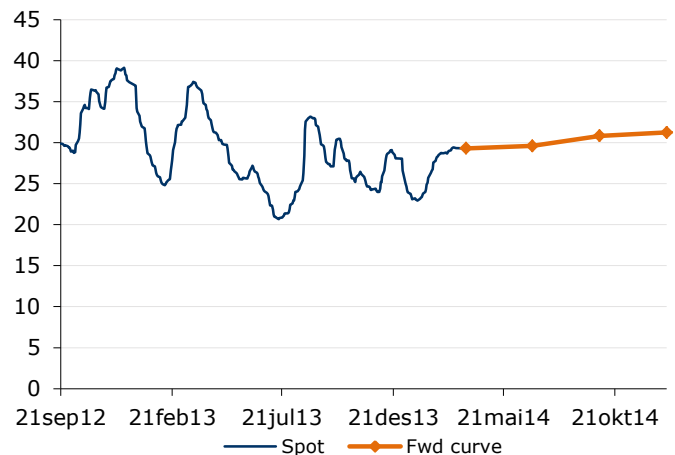
Source: Bloomberg

Chart 15: TC2 Continent to USAC, spot and forward (USD/tonne)



Source: Bloomberg

Chart 16: TC5 Middle East to Japan, spot and forward (USD/tonne)



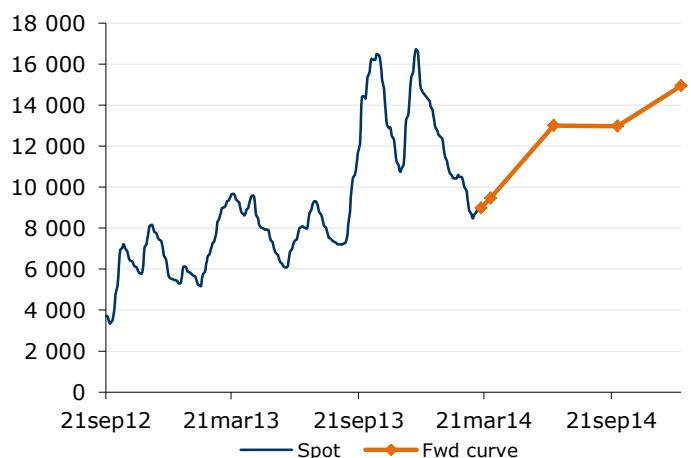
Source: Bloomberg

Chart 17: Capesize T/C average, spot and forward (USD/day)



Source: Bloomberg

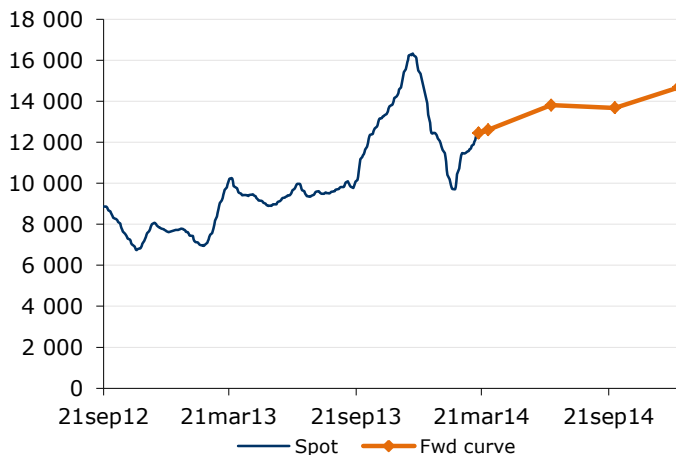
Chart 18: Panamax T/C average, spot and forward (USD/day)



Source: Bloomberg

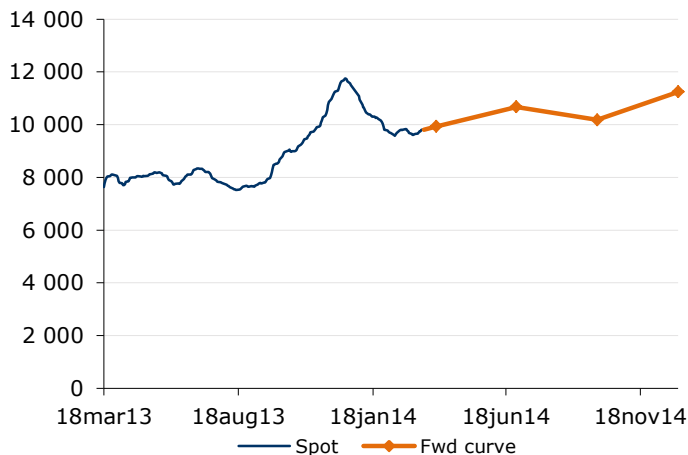
Freight rates

Chart 19: Supramax T/C average, spot and forward (USD/day)



Source: Bloomberg

Chart 20: Handysize T/C average, spot and forward (USD/day)



Source: Bloomberg

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