Bangladesh boon?

Most seem to think a surge is scrap prices is unlikely as and when the country returns to buying.

Bangladesh's absence from the market has affected tanker owners the most as the country is the main destination for wet tonnage. This has left Pakistan as the main buyer of tankers for the past three months. Industry observers say that once Bangladeshi breakers re-enter the market they will have an appetite for at least half-a-million dwt in what is expected to be an initial buying frenzy.

Most cash buyers believe that the move will not result in a major increase in demolition prices as they have already been rising in recent weeks in anticipation of Bangladesh re-entering the market.

Scraping prices at the end of last week hovered around the $450-per-ldt to $460-per-ldt level for tankers and at $410 per ldt to $415 per ldt for bulkers.

Singapore-based cash buyer Wirana tells TradeWinds that rates should really have been around $20 per ldt to $30 per ldt lower based on the price of recycled steel in India and Pakistan.

US-based cash buyer GMS points out in its market report this week that much of the speculation for high scrap prices in recent weeks relied heavily on Bangladesh opening. High-level negotiations this week were said to be ongoing for Tsakos’s 59,500-dwt tanker Aramis (built 1983), as well as for two of Avin International’s vessels including the 39,500-dwt tanker Kriti Filoxenia (built 1986). All indications are that they will be achieving prices similar to the market rates of last week.

The general consensus is that the speculatively high prices being paid at present leaves little room for a big increase when the Bangladeshis start buying. Brokers at Wirana expect an increase of $10 per ldt to $20 per ldt.

Such an increase would make it difficult for Pakistani buyers as their local recycled-steel market is just able to support current scrap prices being paid by breakers and it would be difficult for them to compete for tonnage at higher levels.

Similarly, it would also make life difficult for Chinese breakers, who saw local demand for recycled steel in the first half of this year fall by 60% from the same period in 2009.

Some shipowners are said to be holding off from negotiating demolition deals until Bangladesh reopens to see whether they can achieve higher pricing levels. Scrap sources say BW Gas is holding off for its 82,000-cbm LPG carrier BW Ragnhild (built 1986) and Benelux Overseas (Galaxy Maritime) of Greece for its 70,000-cbm LPG carrier Egypt Gas (built 1977).

Bangladesh’s expected return to the demolition market next week is far from guaranteed. If the country remains out of the scrapping picture for several more months, India and Pakistan are said to be capable of absorbing current tonnage levels.

A softening of freight rates and the resulting glut of scrap tonnage would have a bigger impact on a weakening scrap price than any decision made by the courts in Bangladesh.

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