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THE COMPASS WEEKLY MARKET REPORT

October 31st, 2008 / Week 44

THE VIEW FROM THE BRIDGE …

In the 'Chinese water torture', slowly-dripping water on the victim's forehead allegedly causes so much pain as to drive the victim insane. The name of the torture is partially evocative of the origin and method of the slow pain in the present shipping markets. The Baltic freight indices continued their gradual decline this week in all asset classes for both dry and wet, with the broader Baltic Dry Index (BDI) closing the week below 1,000 at 851, down 251 points for the week. For those interested in historical minutiae, since the inception of the index in November 1999, only SEVEN days (in nine years) the index traded below this week's closing. In June 2008, the index was above the 10,000 level! Even more chilling, the Baltic Panamax Index closed the week at 677, its lowest level ever since the inception of the index in May 1998. In May 2008, the index was hovering above 11,000!

For the past 4-5 weeks we have commented in detail how DE-LEVERAGING, CREDIT RISK, LETTERS OF CREDIT, LIQUIDITY, CONFIDENCE, HEDGE FUND REDEMPTIONS, WILLING BUYERS/WILLING SELLERS, RESTRUCTURING, and CONSOLIDATION have affected the S+P market. Our October 17th report highlighted the most important of these factors: A DRAMATIC SLOWDOWN IN MARITIME TRADE.

Given the ferocity and the breath of the storm, both in the financial and shipping markets, and the side-effect from and to other industries (i.e. retail, industrial production, etc), we are afraid that things will get worse before they get better. We don't think that we have seen the full impact of the anemic freight markets in terms of charter defaults, financial defaults, deal cancellations, distressed sales and auctions, arrests and foreclosures, etc

Whereto the shipping market is heading? Who knows? But, it will take cool heads, guts and patience (with a well-lined purse always an extra dose of confidence) to prevail in such markets. And always, an alignment with a serious partner and expert counselor in the shipping industry might be one of the most prudent actions taken in these market conditions in order to masterfully navigate the muddy waters, position themselves for the tectonic changes ahead in the market and help avoid a cascade effect! Shipping is a notoriously cyclical business; we have been in similar markets in the past (it almost sounds as antediluvian history to the new generation); and now, we are resorting to the basics fast, 'new paradigm' and 'new economy' similes notwithstanding, The standard until now 'Know Your Client' (KYC) should be expanded into carefully selecting very reputable partners and get ready to dance to whatever music the band is going to play!

Logically, there is little to report in the S&P markets as the freight markets and the financial markets are not contributive to any activity at all. Market participants are mostly biding their time and trying to digest the news and a lot of rumors whirling the markets. In reality, no-one knows where the market is these days; only guestimates at best! And the indexed numbers resented in the following pages of our report are provided for information purposes only, representing our best estimates of the markets.

SALE & PURCHASE ACTIVITY REPORTED THIS WEEK

TANKERS

"PRO DIAMOND" 46,757/03 - HYUNDAI - B&W 11,665 - COATED - COILED - DH
Sold for $47.5 mill. to Japanese buyer (SK Shipping), including 5 year BB charter back at $14,000/day.

"ANNUITY" 3,294/88 - DENMARK - MAK 1,516 - COATED - COILED - SBT - DH
Sold "as is" for $4 mill. to Argentinean buyer.

BULK CARRIERS

"E. TRADER" 60,470/82 - HITACHI - B&W 13,301 - 7HH - 224.54M LOA - 12,094 LDT
Sold for $4.8 mill. to Chinese buyer; Please note vessel's SS was passed in 2007.

CONTAINERSHIPS

NONE

TWEENDECKERS / MPC / Ro-Ro / MISCELLANEOUS VESSELS

NONE

NEW VESSELS FOR SALE

TANKERS

NONE

BULK CARRIERS

NONE.

NEWBUILDINGS

NEWBUILDING STATISTICS								
ASSET CLASS	2008	2009	2010	2011	2012	2013	2014	* TOTAL ORDERBOOK
ULCC/VLCC	8	66	67	98	16			255
SUEZMAX	9	64	46	52	9			180 (-8)
AFRAMAX	26	98	87	48	1			260 (-1)
PANAMAX	14	53	26	35				128 (+2)
MR TANKER	60	216	191	92	13			572 (+24)
0-35K DWT	120	224	162	53	9			568 (-6)
CAPESIZE	12	165	345	216	77	18	4	837 (+2)
80-100K WT	12	90	191	157	37	11	1	499
PANAMAX	11	54	80	55	30	5		235 (-1)
SUPRAMAX	67	310	318	217	54	7		973 (-1)
HANDYSIZE	43	278	278	197	78	8		882 (-2)

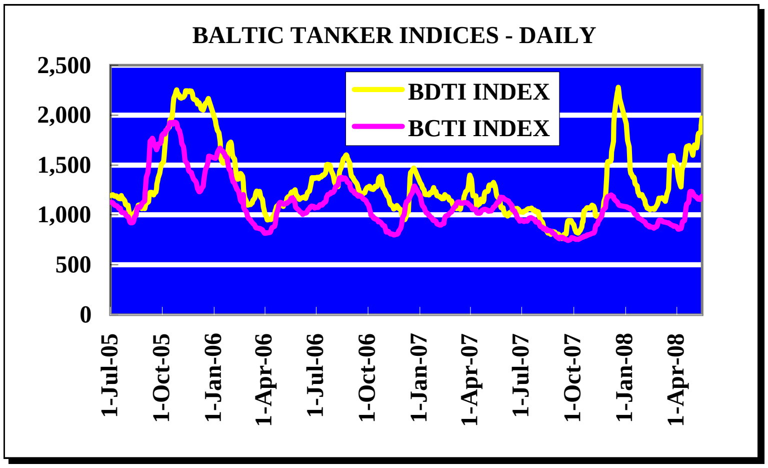
- ***Includes ALL vessels on order.***
- Please note that not all data are current as of the end of this week.

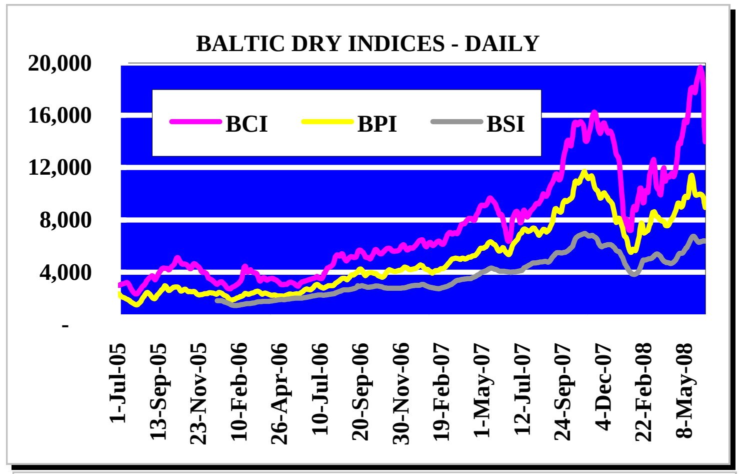
NEWBUILDING ACTIVITY REPORTED THIS WEEK

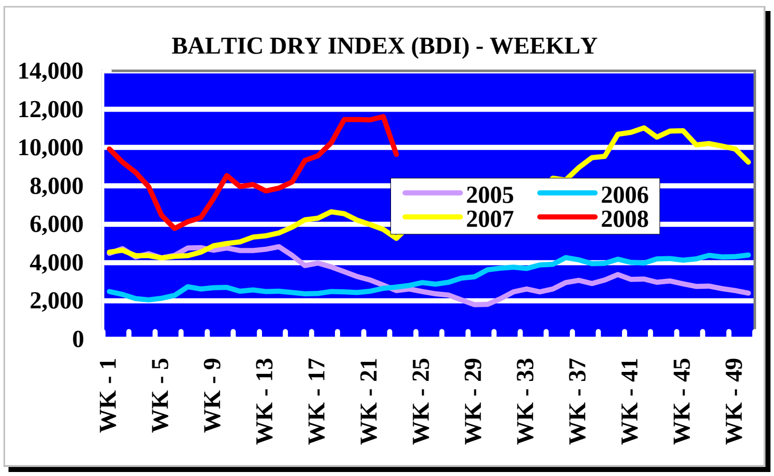
No.	Size	Type	Yard	Delivery	Price (mill)	Owners	Comm.
4x	6,400 dwt	Chem	Turkey	2010		Celik Enerji	
2x	57,000 dwt	Bulk	China	2010		Capital Ship Management	
2x	17,500 dwt	Mpp	Kwangsung	2009/10	$27	Doriko	

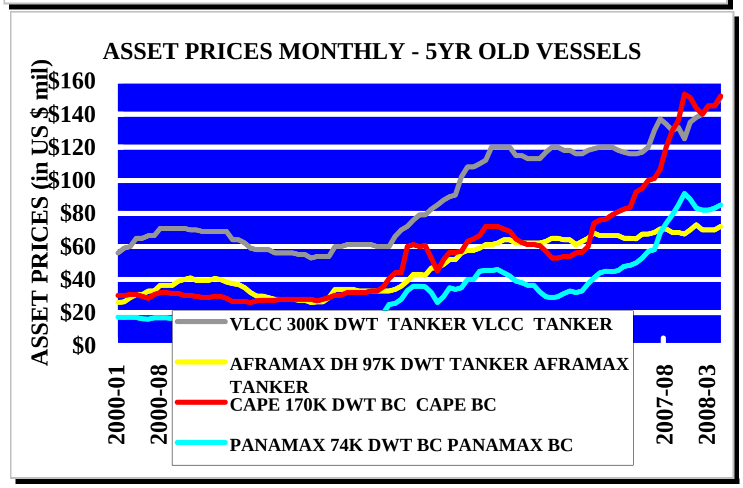
KEY INDICATORS

MARKET SNAPSHOT								
FINANCIAL SUMMARY		**FREIGHT INDICES - BALTIC EXCHANGE INDICES**						
WON / US $	1,244.56		THIS WEEK	LAST WK	LAST YR	CHANGE w-o-w	y-o-y	y-o-y (%)
NOK / US $	6.631	BDI - DRY	851	1,102	10,548	(251)	(9,446)	-89.55%
US $ / €	1.2923	BCI - CAPES	1,265	1,504	14,021	(239)	(12,517)	-89.27%
US $ / £	1.6470	BPI - PANAMAX	677	921	11,334	(244)	(10,413)	-91.87%
¥ / US $	98.43	BSI - SUPRAMAX	583	817	6,852	(234)	(6,269)	-91.49%
OIL (WTI) / bbl	$ 65.96	BHSI - HANDYSIZE	329	455	3,170	(126)	(2,841)	-89.62%
10-YR TREAS	3.937%	BDTI - DIRTY TANKERS	1,298	1,390	1,099	(92)	291	26.48%
LIBOR (3-mos)	3.54%	BCTI - CLEAN TANKERS	1,063	1,121	816	(58)	305	37.38%









VESSEL VALUES								FREIGHT
ASSET CLASS		**NB CONTRACT**	**PROMPT**	**5 YR**	**10 YR**	**20 YR (HULL)**		**ONE-YR TC**
TANKERS	**SIZE (DWT)**	*(All Numbers in US $ Millions)*						**US $ (pd)**
VLCC	300,000	$148.0	$150.0	$138.0	$110.0	$30.0	SH	$67,500
SUEZMAX	150,000	$93.5	$96.0	$90.0	$68.0	$25.0	DH	$47,500
AFRAMAX	105,000	$74.0	$76.0	$69.0	$53.0	$15.0	SH	$35,000
PANAMAX	70,000	$62.0	$63.0	$54.0	$45.0	$11.0	SH	$29,500
MR TANKER	47,000	$49.0	$51.0	$47.0	$35.0	$9.0	SH	$23,750
DRY BULK	**SIZE (DWT)**	**NB CONTRACT**	**PROMPT**	**5 YR**	**10 YR**	**20 YR**		
CAPE	170,000	$91.0	$77.0	$68.0	$55.0	$26.0	SH	$25,000
PANAMAX	74,000	$51.5	$50.0	$41.0	$30.0	$15.0	SH	$14,000
SUPRAMAX	52,000	$45.5	$41.0	$35.0	$22.0	$10.0	SH	$15,000

BUNKER PRICES (US$/ton	ROTTERDAM	FUJAIRAH	SINGAPORE	PIRAEUS
380 CST	$304.00	$331.00	$312.50	$317.00
180CST	$346.00	$354.00	$331.50	$347.00
MGO	$657.50	$827.50	$590.00	$657.50

DEMOLITION

DEMOLITION STATISTICS				
ASSET CLASS	*THIS DATE 2008*	*THIS DATE 2007*	*2007 TOTAL*	*2006 TOTAL*
ULCC/VLCC	5	1	1	0
SUEZMAX	4	1	1	0
AFRAMAX	10	8	8	14
PANAMAX TANKER	9	3	4	7
CAPE/COMBO (100K DWT +)	4	0	0	3
PANAMAX BULKER	1	*2 (*1 pmax+1 post pmax)	2	13

ESTIMATED DEMOLITION PRICES (US $ per lt)			
LOCATION	*TANKERS 6-10,000 LT*	*TANKERS 15-20,000 LT*	*BULK CARRIERS*
CHINA	195	200	185
SUB-CONTINENT	260	275	225

RECYCLING ACTIVITY REPORTED THIS WEEK

COMMENTARY:

Blood continues to flow in the streets of the "Recycling World". Prices continued their downward spiral, an abundance of re-negotiations were reported on the beaches of Alang and Chittagong and more new demo candidates are coming into the market on a daily basis. A quote from the GMS weekly report says it all: "Weakening global economies and currencies, falling steel plate prices, overwhelmingly large renegotiations of vessels at waterfronts, banking restrictions, credit crunch, oversupply of demo vessels (should we say more ?) are disastrously becoming "everyday events."

As we mentioned last week, with the reduction in prices from Indian and Bangladeshi breakers, China has once again re-entered the market reportedly taking four more ships this week, however the most recent purchases reflect some $35 dollars reduction from last week's levels.

Two of the hardest hit sectors in the shipping downturn (container and dry bulk), saw additional ships recorded in the recycling count. It is interesting to see the first panamax bulker of the year reported for demo (any guesses as to how many will appear on the final tally for the year ?). The container sector also added to the growing list (we count 15 container vessels sold for recycling in the past two months).

BANGLADESH – CHITTAGONG

NONE

CHINA

M/T **“OCEAN KORIAN”** 63,786/85 - 14,711 LDT - USD 185.00/LDT
M/V **“CAPETAN GIORGIS I”** 62,503/77 - 13,236 LDT - USD 185.00/LDT
M/V **“STELLAR BREEZE”** (wood chip) 41,793/89 - 8,424 LDT - USD 220.00/LDT
M/V **“S.G.C. SEAWIND”** 137,240/76 - 22,256LDT - USD 180.00/LDT

INDIA – ALANG

M/V **"MSC SHARJAH"** (cont) 21,876/72 - 6,000 LDT - USD 230.00/LDT
M/V **"SIMA TARA"** (cont) 20,815/81 - 7,088 LDT - USD 235.00/LDT

PAKISTAN – KARACHI

NONE

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