Clarksons launches container derivatives trading

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HISTORY was made in London on Friday afternoon when the first container freight rate derivatives product was traded.

Clarkson Securities, the derivatives broking arm of London shipbroker Clarksons, completed a Container Freight Swap Agreement trade between investment bank Morgan Stanley and Delphis, the European container transport group led by Alexander Saverys.

Container Freight Swap Agreements will be settled against the Shanghai Containerised Freight Index that was developed by the Shanghai Shipping Exchange in collaboration with Clarksons for this specific purpose.

The index, formally launched late last year, is compiled from freight rates on 15 routes, and will initially enable trades to be made based on four major container shipping routes, all out of Shanghai, to Europe, the Mediterranean, US west coast and US east coast.

Clarksons decided against producing derivatives products based on containership time charter rates and instead concentrated on an instrument for the freight markets.

"We wanted to develop an index that would focus on the cost of moving a single 20 ft container rather than the cost of chartering a containership," said Clarksons Securities chief executive Alex Gray. "This heralds a new era for marine risk management."

The new instruments will be quoted in dollars per teu, and will be traded in clip sizes of five teu initially, although the aim is to increase this to units of 10 teu as trading develops, Mr Gray told Lloyd's List.

A 30-strong panel, consisting of 15 carriers and 15 others, such as non-vessel operating carriers and logistics companies, has been established to ensure that the index is a fair and accurate market measure.

Trading will be done on an over-the-counter basis at first, but through a clearing house once sufficient historical data has been compiled.

Clarksons said it would welcome the participation of other brokers in order to build up liquidity.

Greatest interest is expected to come initially from financial institutions such as banks and hedge funds, which are more familiar with derivatives trading, but Clarksons hopes that liner operators, boxship owners and shippers will all eventually make use of a tool that can provide them with a hedge against future market movements.

Brokers have spent years trying to create some form of hedging tool for the container shipping industry, but were split on whether this could or should be based on charter or freight rates. Each was a problem, because of the fragmented nature of both sectors of the market, and an apparent lack of interest from major players, including both the containership operators and owners.

Some felt that the physical market provided the best means of hedging, through time charter contracts of varying duration.