

Using FFAs for speculative purposes:

Trader 'C' is purely looking for value, and will buy what they think sounds cheap and sell what they think looks expensive. 'C' will trade many times during the day and will try to get the sentiment of the day right – for example, buying in the morning on a rising market and selling in the afternoon at a profit. Apart from the physical market, they will also be looking at technical analysis and be keeping a close eye on the performance of other commodity markets and share prices. They will also look at the relationship between the different ship sizes or future periods, and either buy or sell a spread depending on where they feel there is value

Example: 'C' buys the panamax/supramax spread at Par for Q3 2010.

Buying panamax Q3 timecharter average at \$17,500, at the same time as selling supramax Q3 timecharter average at \$17,500.

This trade is purely speculative – banking on the spread widening between execution date and settlement. If the spread widens they will sell the panamax leg and buy the supramax leg back and lock in a profit.

Most principals active in the derivatives market would use a combination of the three examples given above, dependant upon their physical portfolio circumstances and the market conditions at any given time.