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The Impact of Hurricane Katrina on Shipping



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Special Notes of Interest:

- Swiss Re, the world's 2nd biggest reinsurance company, estimates that the industry's insurable losses from Katrina would be \$40 billion
- According to the EIA, 4 refineries with 5% of the nation's refining capacity are likely to remain closed for an extended period due to Katrina

The events on America's gulf coast in the past two weeks have caused many of us to focus on the region's role within the global economy. It is quite substantial. The Port of Southern Louisiana (which includes the port of New Orleans) is the fifth-largest port in the world in terms of tonnage, and the largest port in the United States. About \$150 billion, or 20%, of U.S. exports and imports pass through gulf ports annually.

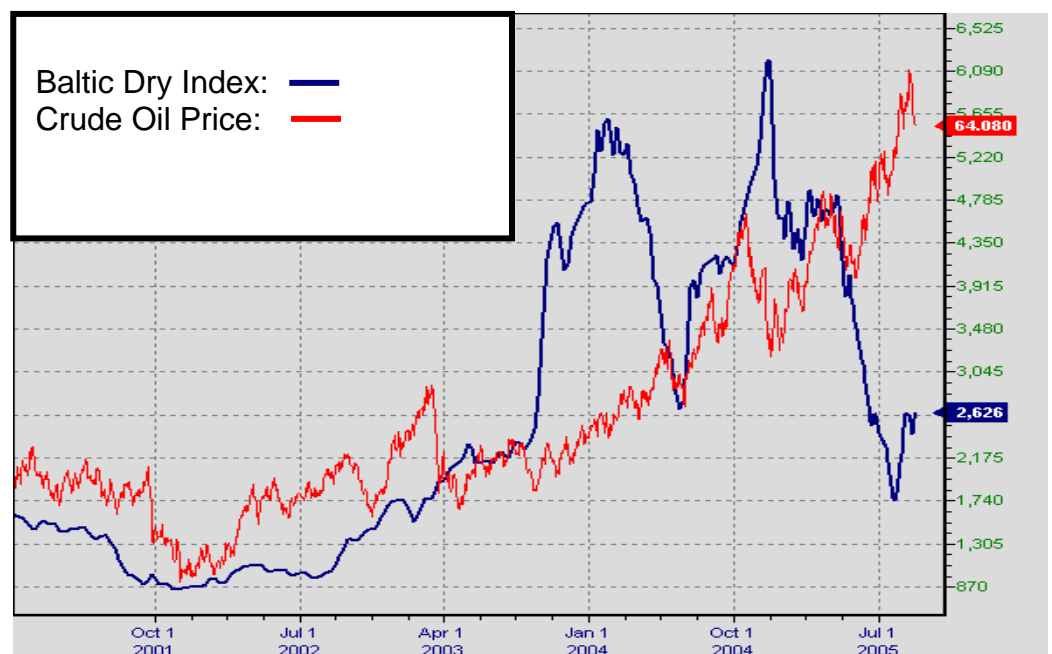
Rubber, Coffee and banana imports are moved almost exclusively through New Orleans. 70% of America's grain exports exit through the Mississippi delta. Products such as soybean, corn and wheat move down the Mississippi River on barges through the Port of New Orleans, and movement of these have been affected following the hurricane.

The cost of transport as a fraction of the world trade varies by product and by country. Most researchers agree on a

value of 5% for imports to the United States as our country has relatively efficient ports. With the secular reduction in tariffs worldwide over the past twenty years, transport costs have assumed a relatively more important role. Thus shocks to the system such as Hurricane Katrina have the potential to increase prices to consumers.

The shipping sector is divided into container, tanker and dry-bulk vessels. Container ships typically transport finished goods while tankers deliver petroleum based products. Dry bulk vessels transport essentials like iron ore, coal, and grains. The Port of Southern Louisiana deals primarily with Petroleum and dry-bulk.

While the Hurricane's impact on oil has been discussed at length, the role that New Orleans plays in the exchange of dry goods has been downplayed. One indicator is the cost of dry shipping. The best metric we have today for the cost of dry goods shipping is the Baltic Dry Freight Index. It is





Shipping (Cont)

based on shipping 150,000 tons of various raw materials between various destinations. And, surprisingly, Katrina's impact on the market price for dry goods remains minimal.

Ironically, prices for shipping were far higher last year. Steadily increasing demand from new economic powerhouses like China and India fueled substantial increases in the cost of most forms of transport. The Baltic Dry Freight Index reached an all time high in November 2004. However, many new container and dry freight vessels came on line in the past 8 months to alleviate this shipping bottleneck. And over the 18 months, another 120 Capesize (the largest) vessels will be delivered. It appears that the shortage of transport vessels has been decisively alleviated

The Baltic Dry freight index has fallen nearly 60% since December. While the devastation in New Orleans threatened to throw a new monkey wrench into the global shipping system, the most recent data indicates that dry freight costs no more to charter today that just prior to Katrina. See the chart on page 1.

There are a number of reasons. One is the surplus of transport ships. Another is the resilience of Louisiana ports. While the

transfer facilities on land have suffered long term damage, the water pathways themselves have proved robust. According to the U.S. Coast Guard, many of the affected ports and waterways in the region are already reopening, at first to restricted vessel traffic. By the end of this week, the waterway may be open to its normal draft of 45 feet.

Many dry goods can be rerouted in the short term. Nearby ports such as those in Houston, Tampa Bay, Miami and Charleston may see the bulk of this traffic. In fact, Houston has just accelerated a dredging project to deepen and widen its harbor to accommodate more shipping.

Barge traffic flowing south on the Mississippi river may be rerouted via the Intracoastal Waterway to the Mississippi River. This route bypasses New Orleans by connecting to the Mississippi at Baton Rouge, La. Also, midstream transfer of grains is common in New Orleans and may not require dockside grain elevators.

In short, the logistical system of the United States appears adaptable to the loss of transfer facilities in Southern Louisiana. Neither the market for dry freight nor containers has witnessed increases in shipping costs. Apart from escalating energy prices, inflation should remain low.

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Katrina's Impact on the Seafood Markets

The gulf region is a source of much of the nation's seafood. Apart from the damage to fishing vessels, the gulf faces an ecological disaster as the sludge is pumped out of New Orleans. Wholesale prices of tuna, grouper and snapper -- all of which are found in the Gulf of Mexico -- are up \$1 to \$1.50 per pound.

The storm decimated the \$2.6 billion Louisiana seafood industry, destroying oyster beds as well as the boats, docks, warehouses and processing plants that ship the delicacy. The Gulf produces 40% of the nation's oysters. The oyster industry will probably take years to recover.

Consumers may not notice an impact in the

market for shrimp. More than 80 percent of the shrimp consumed in this country come from shrimp farms in places like Thailand and China. Domestic shrimp harvesters are concerned that those imports will increase their hold on the market while the Gulf rebuilds.

A big long term variable is the environmental impact of the clean up. A century of industrial pollution trapped in New Orleans soil is being pumped into Lake Pontchartrín. Oil storage tanks ruptured by Hurricane Katrina may have dumped as much as 3.7 million gallons of crude oil into the lower Mississippi river and surrounding wetlands. That's about 1/3 of the Exxon Valdez oil spill.