Next moves in the freight market will determine if SGX got a Baltic bargain

The prospect of an electronic trading platform and potential competition from alternative data providers cloud the Baltic purchase, says **Liz Bossley**, chief executive of Consilience Energy Advisory Group

The £87m ($108m) price the shareholders of the Baltic Exchange accepted in September from the Singapore Exchange (SGX) is a really good deal for either the buyer or the seller, depending on what happens next in the freight market.

What SGX is buying — apart from some nice real estate at St Mary Axe in London, which was valued at £25m to £27m before the Brexit vote — is the growth potential of being the dominant freight rate provider in the forward freight agreement (FFA) market. That almost guarantees growing subscription fees, albeit from a modest level of about £3m in 2015, as the shipping market expands.

LIZ BOSSLEY

Photo: CEAG

SGX is also buying the potential to be the cash settlement price for any new freight futures market that emerges. We have already seen two failed attempts at a freight futures market: Biffex and Imarex. If third time is the charm, as the new owner of the FFA assessment, SGX would be ideally placed to launch its own freight futures market once the deal with the Baltic has gone through.

However, market sources say that SGX has promised not to compete with the voice brokers, many of whom are Baltic shareholders and assessment panellists. Rightly or wrongly, this is taken to mean SGX will not attempt to launch electronic trading for physical or FFA deals or a fully fledged cleared futures market.

According to the Baltic chairman's statement in the Shareholders' Circular, SGX's actual intentions, not guarantees, are to:

- Maintain Baltic's headquarters in St Mary Axe
- Keep the existing multiple clearing house model
- Strengthen the existing market benchmark production and governance model in line with the proposed amended Guide to Market Benchmarks
- Maintain membership subscription fees, end-user Baltic data fees and SGX clearing fees of FFA contracts at current levels for at least five years
- Continue to provide a range of membership services
- Use its reasonable endeavours to revise the terms of data licensing and subscription, specifically to clarify that usage of the Baltic indices and/or data for physical and financial settlement without the involvement of a Baltic panellist is unacceptable unless explicitly permitted by licence (eg, for clearing houses)

These "commitments" appear self-explanatory. In particular, maintaining the multiple clearing house model means SGX does not get to keep growing over-the-counter clearing fees for itself, and clearers such as LCH can still compete for that business.

However, the promise to try to keep Baltic panellists involved in the use of data for settling deals does not read like a guarantee that SGX will not launch an electronic trading platform that cuts out voice brokers and their fees.

On the other side of the negotiating table, to safeguard itself, SGX must ensure that the Baltic panels will still produce indices diligently after ownership has transferred. The Baltic announced on 25 July that it had signed deals with 48 shipbroking panellists to ensure they will continue to provide data to SGX. Although the terms of these deals are confidential, sources close to the Baltic say that the panellists will not be paid for continuing this service, despite their vociferous claims that they should be.

Being a Baltic panellist gives a competitive advantage to incumbent brokers compared with any new entrants trying to break into their market. It is unlikely that any Baltic panellist would willingly opt out and risk losing business of shipowners and charterers who want their brokers to take their voices into account when supplying input to the daily Baltic indices.

However, it is unclear whether panellists are bound by their new contracts to supply data only to Baltic panels, or whether they can similarly advise the Baltic's competitors. If revenue from data subscriptions is really what SGX is paying for, then its biggest threat will come from alternative data providers that set up different, but equally robust, panels to provide the same data.

If any such competitors are prepared to pay panellists and are more welcoming to new brokerage firms or electronic trading platforms, SGX will have to work hard to hang on to the dominant position it is buying in the freight data market. ■