



LET'S TALK ABOUT...

FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Shipping Indexes

(Part Four) We have just considered the evolution of the BDI – *Baltic Dry Index* since its introduction in 1985, also pointing at it as a reliable and pretty unbiased indicator of the macroeconomic trend, and a useful decision tool for fund managers and long-term oriented investors.

The index is currently far from its historical highs, due to the prevailing global recessive environment. Supply and demand of dry bulks are the main factors moving it, together with operational costs such as fuel, crew and general shipping charges. The credit crunch has heavily affected the shipbuilding industry, so taking to a smaller supply of carriers at a moment when the average prices of most commodities were on a downtrend. That has been the case for all shipping sectors and particularly the crude oil flows. The limited availability of tankers, together with other logistic limitations in terms of coastal facilities such as stores and refineries, not to mention increasing geopolitical crisis, have fueled the oil prices well above expected levels.

If the BDI just includes dry bulks, other renowned shipping indexes are in use, some of them global, such as the Delta Global Shipping Index (DGSI), or sector oriented as the ones elaborated and issued by Capital Link Shipping, one of them specifically devoted to the crude oil transportation, and the Harpex Index, which considers the shipping of containers, so mostly connected to the international flows not so much of commodities but rather of semi-manufactured goods, finished products, equipments and so on.

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(Part Three) We have noted that the BDI – *Baltic Dry Index*, one of the major shipping indices gauging commodities' trades, may also be a useful working tool for economic and financial analysis, investment decisions and so on. It may even be more reliable than other more popular indicators, largely mentioned in financial media. We remind that it refers to the bulk tonnages multiplied for the distances along the major world sea routes, its figures being denominated in USD. Although the range of commodities it includes is limited, and despite the greater elasticity of bulk demand in relation to the pretty inelastic freighters' supply, all of that making the index particularly volatile under certain circumstances, it is all the same more transparent and less biased than other macro indicators, at least because many of these may be somehow affected and distorted: suffice it to consider the long time that the assessment and elaboration of certain economic data require; the historical changes in the database constituents, so to render outcomes not so much homologous and comparable (as in the case of the measurement of inflation), or the case of just estimated or roughly calculated data, as for the job market, or the ones based on personal and emotional estimations and "sentiments", or too aggregate and complex ones to be really significant and of any practical use for investors. All of that not to say of those indicators which are "custom made" for financial markets, often aimed at speculative strategies and subject to some kind of biased distortions. On the contrary, as a reputed commentator has said about shipping indices "nobody book freighters unless they have cargo to move".

The BDI index was introduced in 1985 and after a period of stability around the 1000 level, it increased steeply until an historical top level of about 11800 in May 2008. But just at the end of the same year it had lost more than 90%, falling under 700, and then gradually recovering through volatile phases with increasing tops, reaching 4500 in September 2009 and then retreating down to the current level of about 2700 points. It is worth reminding that the index is not only affected by the supply and demand of sea transportation, but also by the operating costs of vessels themselves and costs of fuel. *(to be continued)* - GLT

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(Part Two) The BDI – *Baltic Dry Index*, one of the most important, authoritative and followed indicators of global commercial flows, is also an object of monitoring by portfolio managers and investors. Every day the index gauges the average costs of transports for dry bulks on major sea routes, as supplied by panels of shipbrokers. The index is issued and published through specialized media and financial informative systems such as Reuters and Bloomberg. The index's component data are denominated in USD and refer to the ratio between the supply and demand of maritime transport for dry commodities such as grains and other agro-food items, base metals, coal, building materials, semi manufactured goods,... That is why the BDI is a good leading indicator of economic trends, although two remarks apply. Firstly, as including just dry goods, it does not consider most important commodities like oil, natural gas, and so on, that represent a great share of today's global trades. Secondly in the relation between supply and demand of maritime transport, the first term is much more inelastic than the other one. Actually the supply is rigid, not only because building and rigging out a new ship is a very long job, taking several years, but also because keeping a ship at sea, at anchor or docked without any useful bulk to transport, is extremely expensive. Then, due to such inelasticity, a small increase in demand may produce a relatively larger move in the BDI index, so indicating a brighter economic upturn than the actual one. This pattern is likely relevant, in even greater terms, when the transport of crude oil is considered. On the other hand the BDI, as well as the other shipping indices, are objective, unbiased and pretty transparent instruments, when compared with other more renowned and published economic indicators, widely cited by politicians, analysts and financial market operators. (*to be continued*) - GLT

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(Part One) Financial markets' trends should supposedly be correlated with the evolutions of "real" economy, production, export, import, trade and consumes., whichever their strategies and time horizons, cannot disregard macroeconomic data, such as industrial production, level of plants' utilization, stocks, import-export, households consumes, and so on. And besides these ones other useful indicators, although not so cited and widely publicized – the shipping indices – closely gauge maritime trading activities as the most important component of international commerce and transports, so assessing the pulse of global economic vitality. However many observers do not agree, and see markets as rather self sustained and more fuelled by short term earning logics, special events, financial engineering, speculative pressures and so on. According to such view "Wall Street would not look at Mean Street" enough, so often walking its own way. All that said, managers and investors. There are many shipping indices, considering different geographical areas and type of commodities and goods. In general terms they evaluate the ratio between demand and availability of sea transport supply, in terms of bulk carriers' availability. One of the most followed by financial operators is the *BDI-Baltic Dry Index*; despite its denomination it does not apply only to North Europe and enjoys a pretty long and renowned history, much alike the major naval institution, the Lloyds, going back to 1740, when maritime agents and operators used to meet at the Virginia & Baltic Coffeehouse in London to discuss and trade freights and other naval matters. The BDI is issued daily as an average price of freights for dry bulks, that is non liquid, so excluding crude oil, gas and so on. Other details about it and other similar indices will be discussed in the coming articles. *(to be continued) - GLT*

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