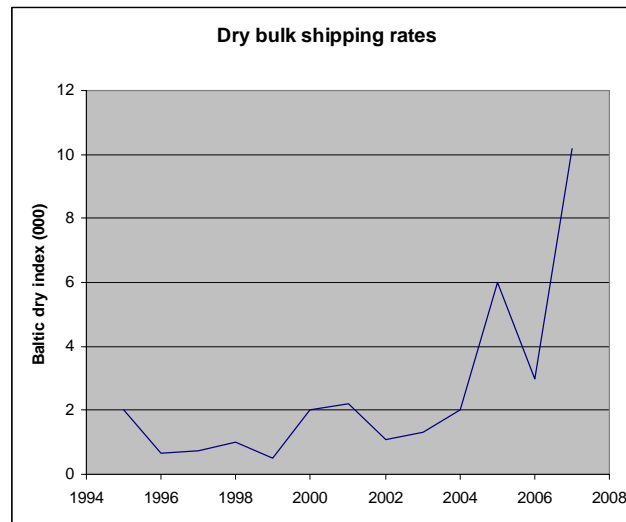


Baltic Index heads above 10,000



The Baltic dry index measures the daily charter rates for ships which move dry goods such as iron ore and cereal around the world. Yesterday, the index broke through 10,000 for the first time, closing at 10,218. It is 150 per cent higher than a year ago and has almost doubled since June. According to David Bradley at the Baltic Exchange, "The global economy is very strong and demand for ships is huge. With 90 per cent of all bulk trade carried by sea, the index is a very good indicator of the strength of the global economy".

One London broker said the price of the biggest ships had risen to \$227,000 (£112,000) a day compared with \$137,000 as recently as August. A similar charter a year ago would have cost as little as \$60,000 a day.

Fast-rising shipping costs are the result of soaring demand from places like China for the building blocks of industrialisation. As China steps up its demand for more commodities it has begun to take delivery from more distant countries. This lengthens shipping times and so effectively removes capacity from the world shipping fleet. The Chinese are also stocking up on iron ore because of the expected 50 per cent rise in prices for ore next year. In addition, supply bottlenecks due to port congestion have also pushed up prices. Container terminals and ports around the world are struggling to keep up with the flow of ships. A traffic jam at the Australian port of Newcastle, the world's top coal terminal, rose last week to 45 vessels, up from 38 a week earlier.

Soaring day rates for ships have been translated into sharply higher values for ships. One Capesize ship was reportedly ordered from a shipyard at \$82m in February, re-sold before it was built for \$90m in April and then again three months later for \$120m. There is likely to be a continued lag in supply of dry bulk ships because ship builders are still keen to build more lucrative types of ships.

In contrast, the daily rate for an oil tanker has fallen because the main oil producing nations have cut production by 1 million barrels a day.

Questions

1. Draw a demand and supply diagram which explains the rising daily charter price for a dry bulk ship.
2. Going forward, what are the key risks to charter prices for a dry bulk shipping company?