

Baltic Dry Index

From Wikipedia, the free encyclopedia
Baltic Dry Index 1985–2013

The **Baltic Dry Index** (BDI) is an economic indicator issued daily by the [London](#)-based [Baltic Exchange](#). Not restricted to [Baltic Sea](#) countries, the index provides "an assessment of the price of moving the major raw materials by sea. Taking in 23 shipping routes measured on a timecharter basis, the index covers [Handysize](#), [Supramax](#), [Panamax](#), and [Capesize dry bulk](#) carriers carrying a range of commodities including [coal](#), [iron ore](#) and [grain](#)."^[1]

Historical origin

In 1744, the *Virginia and Maryland* coffee house in Threadneedle Street, London, changed its name to *Virginia and Baltick*, to more accurately describe the business interests of the merchants who gathered there. Today's Baltic Exchange has its roots in a committee of merchants formed in 1823 to regulate trading and formalize the exchange of securities on the premises, which by then had moved to the Antwerp Tavern.^[2] The first daily freight index was published by the Baltic Exchange in January 1985.^[3]

How it works

Every working day, a panel of international shipbrokers submits their view of current freight cost on various routes to the Baltic Exchange. The routes are meant to be representative, i.e. large enough in volume to matter for the overall market.

These rate assessments are then weighted together to create both the overall BDI and the size specific [Supramax](#), [Panamax](#), and [Capesize](#) indices. The BDI factors in the four different sizes of oceangoing dry bulk transport vessels:^[4]

Ship Classification	Dead Weight Tons	% of World Fleet	% of Dry Bulk Traffic ^[5]
Capesize	100,000+	10%	62%
Panamax	60,000-80,000	19%	20%
Supramax	45,000-59,000	37%	18% ^[6]
Handysize	15,000-35,000	34%	

The BDI contains route assessments based only on time-charter hire rates "USD hire paid per day". Fuel (= "Bunkers") is the largest voyage dependent cost and moves with the crude oil price. In periods where bunker costs fluctuate significantly, the BDI will move more than the shipowners' realised earnings(?).

The index can be accessed on a subscription basis directly from the Baltic Exchange as well as from major financial information and news services such as [Thomson Reuters](#) and [Bloomberg L.P.](#)

Importance[[edit](#)]

Most directly, the index measures the demand for shipping capacity versus the supply of [dry bulk carriers](#). The demand for shipping varies with the amount of cargo that is being traded or moved in various markets ([supply and demand](#)).

The supply of cargo ships is generally both tight and [inelastic](#)—it takes two years to build a new ship, and the cost of laying up a ship is too high to take out of trade for short intervals,^[7] the way you might park a car safely over the winter. So, marginal increases in demand can push the index higher quickly, and marginal demand decreases can cause the index to fall rapidly. e.g. "if you have 100 ships competing for 99 cargoes, rates go down, whereas if you've 99 ships competing for 100 cargoes, rates go up. In other words, small fleet changes and logistical matters can crash rates..."^[8] The index indirectly measures global supply and demand for the commodities shipped aboard dry bulk carriers, such as [building materials](#), [coal](#), [metallic ores](#), and [grains](#).

Because dry bulk primarily consists of materials that function as [raw material](#) inputs to the production of [intermediate](#) or [finished goods](#), such as [concrete](#), [electricity](#), [steel](#), and [food](#); the index is also seen as an efficient [economic indicator](#) of future economic growth and production. The **BDI** is termed a [leading economic indicator](#) because it predicts future economic activity.^[9]

Another index, the HARPEX,^[10] focuses on containers freight. It provides an insight on the transport of a much wider base of commercial goods than commodities alone. HARPEX is regarded as a Current-Activity Indicator, because it measures and charts the changes in freight rates for 'container ships.' Container ships typically carry a wide variety of finished goods from a multitude of sellers. These are factory output goods headed for retail markets, at the other end of the supply chain.^[11]

Other leading economic indicators—which serve as the foundation of important political and economic decisions—are often measured to serve narrow interests, and subjected to adjustments or revisions. Payroll or employment numbers are often estimates; consumer confidence appears to measure nothing more than sentiment, often with no link to actual consumer behavior; gross national product figures are consistently revised, and so forth. Unlike stock and bond markets, the BDI "is totally devoid of speculative content," says Howard Simons, an economist and columnist at [TheStreet.com](#). "People don't book freighters unless they have cargo to move."^[12]

Significant levels[

On 20 May 2008, the index reached its record high level since its introduction in 1985, reaching 11,793 points. Half a year later, on 5 December 2008, the index had dropped by

94%, to 663 points, the lowest since 1986;^[13] though by 4 February 2009 it had recovered a little lost ground, back to 1,316.^[14] These low rates moved dangerously close to the combined operating costs of vessels, fuel, and crews.^{[15][16]}

By the end of 2008, shipping times had been already increased by reduced speeds to save fuel consumption, but lack of credit meant the reduction of [letters of credit](#), historically required to load cargoes for departure at ports. Debt load of future ship construction was also a problem for shipping companies, with several major bankruptcies and implications for shipyards.^{[17][18]} This, combined with the collapsing price of raw commodities created a perfect storm for the world's marine commerce.

During 2009, the index recovered as high as 4661, but then bottomed out at 1043 in February, 2011, after continued deliveries of new ships and [flooding in Australia](#).^[19]

Though rebounding to 2000 on 7 October,^[20] by 3 February 2012, the index made a new multi-decade low of 647 on a continued glut of dry bulk carriers and decreases in orders of iron and coal.^[21]

On 10 February 2016 the Baltic Dry Index reached the historic low of 290.^[22]