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SIGNS OF RECOVERY IN FREIGHT SHIPPING RATES

Charges for dry bulk and crude oil are picking up as factories in China resume production but container cargo lines may have to wait longer

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Freight shipping rates for dry bulk and crude oil have begun to show early signs of recovery as factories in China resume production after the coronavirus outbreak.

However, container cargo shipping lines may have to wait longer for a rebound.

The Baltic Dry Index, a composite of dry bulk time-charter averages across major routes and ship sizes, has risen 50 per cent to 617 as of Friday, from a four-year low of 411 on February 10, according to the Baltic Exchange. The index slumped from last year's peak of 2,518 on September 4.

Charter rates for very large crude carriers, or VLCC, have also regained some footing in recent weeks.

The revival follows a thawing in production activity in the world's second-largest economy as the government eased restrictions on factory production after an extended Lunar New Year holiday. Chinese manufacturing fell to a record low last month after companies froze production amid a lockdown in the manufacturing hub in the central region.

"We think that the dry bulk rates will rise first, as China starts needing raw materials first as the economy comes back," said Andrew Lee, an analyst of Jefferies, adding that freight forward agreements in the sector were showing signs of life.

Spot rates were expected to continue rebounding as Chinese economic activities began to normalise and construction returned, Jefferies said in a March 4 report. It forecasts daily rates for Capesize ships – large dry-cargo vessels – to rise from about US$2,000 a day this quarter to US$10,000 in the second quarter, and to more than US$16,000 by the fourth quarter.

The rate for dry bulk ships, which typically carry iron ore, coal and agricultural products, slumped late last year as China's economic growth eased to the slowest since 1990.

China accounted for 23 per cent of seaborne crude oil, 35 per cent of dry bulk, 18 per cent of liquefied gas and 72 per cent of iron ore shipped, according to Clarksons Research.

"The dry bulk market still has loss-making freight rates across the board, but there has been a bottoming out taking place," said Peter Sand, the chief shipping analyst for BIMCO, the world's largest international shipping association.

"The (forward freight agreement) curve is showing an upward trend, so there is some expectation there will be a recovery, although most people expect the first half to be tough going," said Tim Huxley, director of Hong Kong-based Mandarin Shipping. The rebound in the Baltic Dry Index reflected "firmer activity" in the Atlantic region, he added.

Crude tankers carrying oil from the Middle East to China have seen their daily charter rates plummet as Chinese demand cooled with the slowing economy. Daily charter rates for these VLCC tankers from the Persian Gulf to China have risen to US$28,816 per day last Thursday from US$12,500 a month ago. They averaged US$72,641 in January and surged above US$300,000 in September.

A March 2 report by IHS Markit noted that the final week of February saw a resumption of industrial production in China, with infrastructure projects being restarted, with larger enterprises resuming work faster than smaller ones. The enormous backlog of orders was creating the conditions for a sharp jump in production, it said.

Container cargo lines might have to wait longer for relief, as it took time for manufactured goods to roll out of factories for export, Lee said. China accounted for 14 per cent of all containerised cargo transport last year.

The spot-market container freight composite index in Shanghai fell by about 14 per cent in the first two months of this year, according to the Shanghai Shipping Exchange.

"Most worrying, though, is the lack of cargo we are experiencing now; that is down much more than rates," Sand said. "No one can cut costs at such pace."

50%

Percentage by which the Baltic Dry Index had risen last Friday, to 617 from a four-year low of 411 on February 10

> **The dry bulk rates will rise first, as China starts needing raw materials**
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> ANDREW LEE, ANALYST, JEFFERIES