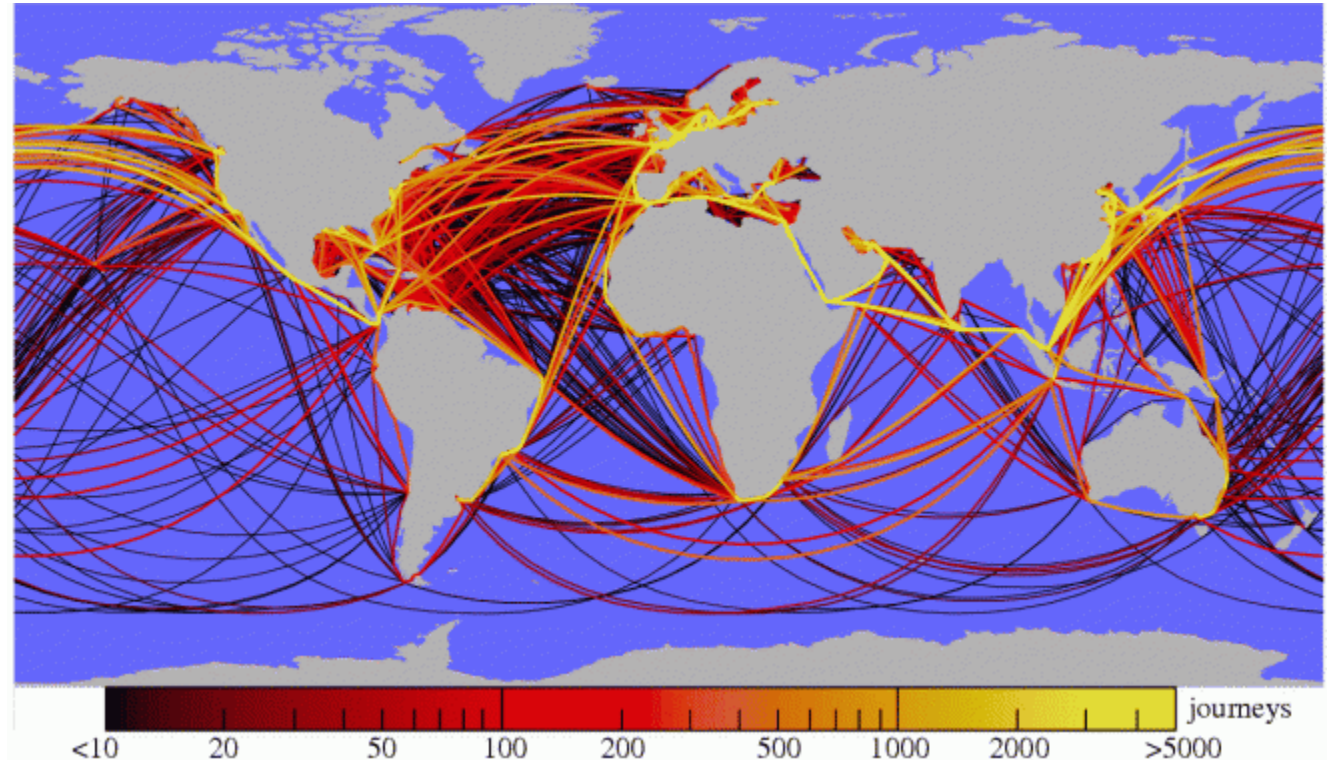


One year of global shipping routes for 16.693 cargo ships, mapped by GPS

17 June 2014

The Baltic Dry Index:
trend still down

Walter J. Zimmermann Jr.
United-ICAP



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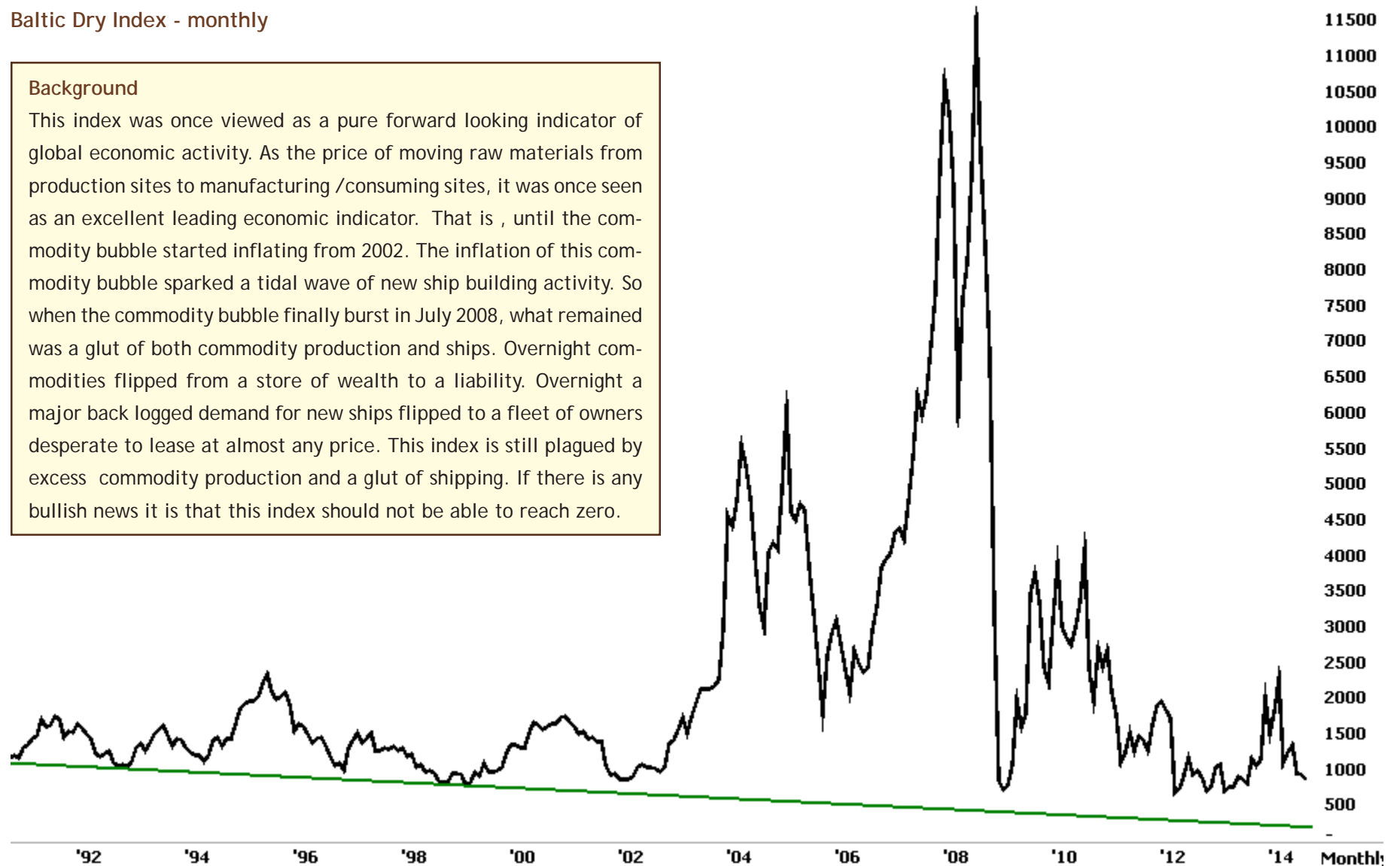
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Baltic Dry Index
17 June 2014

Baltic Dry Index - monthly

Background

This index was once viewed as a pure forward looking indicator of global economic activity. As the price of moving raw materials from production sites to manufacturing /consuming sites, it was once seen as an excellent leading economic indicator. That is , until the commodity bubble started inflating from 2002. The inflation of this commodity bubble sparked a tidal wave of new ship building activity. So when the commodity bubble finally burst in July 2008, what remained was a glut of both commodity production and ships. Overnight commodities flipped from a store of wealth to a liability. Overnight a major back logged demand for new ships flipped to a fleet of owners desperate to lease at almost any price. This index is still plagued by excess commodity production and a glut of shipping. If there is any bullish news it is that this index should not be able to reach zero.





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Baltic Dry Index - weekly

Bearish Case Confirmed

- To have any hope for any bear market correction higher the index needed to break above 1093 before breaking below 930
- Instead the Baltic could not even reach 1093, and this week it gapped down to a new multi-month low
- My minimum downside target is 577
- My most bearish case downside target is 313 (not shown) was -III- = -V-

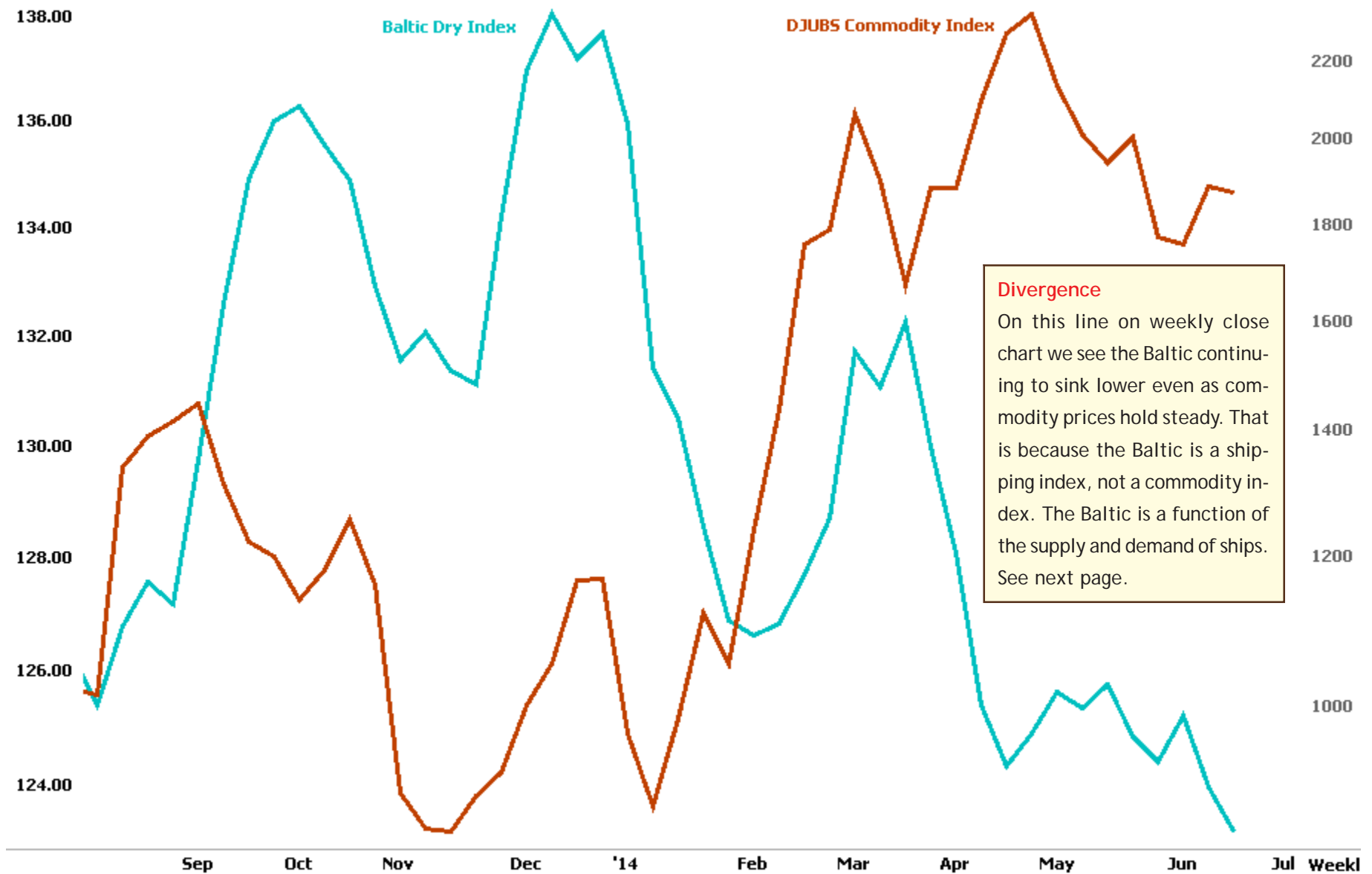




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Excess Bullish Shipping Enthusiasm

Private equity has poured an estimated \$32 billion into shipping over the last two years. An estimated 300 million dwt are due to start entering the global fleet from this month. The existing fleet is \$1.7 billion dwt. So 300 million on top of 1.7 billion is a great deal of new ships. Private equity has successfully created a new capacity glut just as the shipping industry was starting to recover from the commodity bubble inspired glut of new ships.

Glut

The numbers that I have seen suggest that the \$32 billion from private equity will become as many as 2,000 new ships, and a serious supply glut from 2016. Of course the Baltic will not wait until 2016 to sell off. In fact the Baltic will likely bottom out from 2016. Sell the rumor buy the news.



