



**Baltic Capesize Index Family
Notice of Index change**

June 2020

1. Introduction

- 1.1. The Baltic Cape Index (BCI) is a composite index comprising of all the Cape routes, Time Charter and Voyage assessments and reflects the movement of the Cape freight market, showing the direction of such movement. The index composition has evolved over time as new routes have been added or removed and the vessel size has changed.
- 1.2. Owing to exceptional changes in market dynamics, we saw the BCI move into negative territory for February and March 2020 and reached a low of **-372** on 3 March 2020. As a comparison the Cape weighted average of the 5 timecharter routes (C5TC) reached a low of \$2,197 on the same day. The BCI has been negative before, but never for such a long period. Whilst this situation is unprecedented, it is apparent that a number of factors have all converged simultaneously – including global macro events, seasonal weakness, and higher fuel prices owing to implementation of the new IMO 2020 regulations. With the current multipliers this resulted in the contribution of the backhaul route (C16) to the index being disproportional.
- 1.3. The Baltic has previously anticipated the potential of the BCI to become negative, and remains accepting of such, but, given that the weighting of the routes were last fixed in 2014, this has prompted a review of the index to ensure that it remains reflective of both current, and foreseeable, market dynamics.

2. Current Composition of the BCI

- 2.1. The BCI is a composite index comprising of all the Cape routes, Time Charter and Voyage assessments. Due to the difference in value between the Time charter values, normally in 1000s and voyage rates which are normally in the 10s multipliers are applied to each route to convert the values into similar sized numbers. These adjusted values are added together to produce the BCI. Over time the multipliers have changed as new routes have been added or removed. In 2014 there was a major overhaul of the cape Time Charter Indices in response to the introduction of a larger 180,000Dwt vessel. A differential was applied to the multiplier which was set as the difference between the Old BCI and the New BCI on the changeover day with the goal of ensuring continuity of the data series

2.2. The current multipliers shown in Table 1 were set and applied in April 2014

Table 1

BCI 2014	
Route	Multiplier
C2 (Voy)	10.276695630
C3 (Voy)	14.474995240
C4 (Voy)	10.178191930
C5 (Voy)	34.242287860
C7 (Voy)	10.096625310
C8_14 (TC)	0.011232800
C9_14 (TC)	0.005011588
C10_14 (TC)	0.019386696
C14 (TC)	0.020572868
C16 (TC)	0.087405223
C15 (Voy)	6.567770448

2.3. The multiplier is applied to the published route value and the resulting sum is the BCI. Table 2 shows the value contribution of each route in April 2014 after the multiplier has been applied. Table 3 shows the same calculation and value for each route for March 2020.

Table 2

BCI calculation			
Route	Multiplier	April 2014 Avg published value	BCI contribution
C2	10.276695630	8.89	91.36
C3	14.474995240	19.89	287.91
C4	10.178191930	9.09	92.52
C5	34.242287860	8.30	284.21
C7	10.096625310	9.12	92.08
C8_14	0.011232800	8,994.85	101.04
C9_14	0.005011588	28,377.10	142.21
C10_14	0.019386696	14,729.40	285.55
C14	0.020572868	14,040.90	288.86
C16	0.087405223	1,374.05	120.10
C15 ¹	6.567770448	14.23	93.46
BCI Value			1,879

¹ C15 was replaced by C17 on 3 February 2020

Table 3

BCI calculation			
Route	Multiplier	March 2020 Avg published value	BCI contribution
C2	10.276695630	3.70	38.02
C3	14.474995240	10.70	154.88
C4	10.178191930	3.82	38.88
C5	34.242287860	4.55	155.80
C7	10.096625310	5.91	59.67
C8_14	0.011232800	4,229.77	47.51
C9_14	0.005011588	15,188.27	76.12
C10_14	0.019386696	3,759.95	72.89
C14	0.020572868	2,875.82	59.16
C16	0.087405223	-11,198.77	-978.83
C17 ²	6.567770448	8.16	53.59
BCI Value			-222

- 2.4. It can be seen from Table 3 that C16 has a disproportionate impact to the index. That single negative value is larger than all the positive values combined. The value of C9_14 should help offset the negativity of the C16, but with the current weightings C9_14 is reduced to a value of 76.12 from 15,188.27 compared with -978.83 for C16 which is disproportionate.

3. New Composition of the BCI

- 3.1. During the discussions on the BCI the key problem identified was the combination of voyage (US\$ per ton) and time charter (US\$ per day). The multipliers attempt to normalise a large number (TC) with a small number (Voy) by simply increasing one by a factor of 10 and reducing the other by a factor of 10. The feedback received was that the voyage routes should be removed from the BCI and only the Time Charter routes contribute. Only using Timecharter values would bring the BCI in line with the other Headline Indices; BPI, BSI and BHSI.
- 3.2. The BPI, BSI and BHSI timecharter route multipliers use the weighted timecharter averages percentages with a differential factor applied to produce the final multiplier. The differential factor being the percentage difference, at the time of a change, between the old and new Index for the previous 12 months.
- 3.3. Applying the same calculation model used by the other headline indices the BCI the new multipliers are calculated as shown in Table 4 below.

² C17 replaced C15 on 3 February 2020

Table 4

BCI new (TC only)			
Route	Weighted TC percentage	Differential factor	Multiplier
C2	0.0%	12.058%	0.0000000
C3	0.0%	12.058%	0.0000000
C4	0.0%	12.058%	0.0000000
C5	0.0%	12.058%	0.0000000
C7	0.0%	12.058%	0.0000000
C8_14	25.0%	12.058%	0.0301450
C9_14	12.5%	12.058%	0.0150725
C10_14	25.0%	12.058%	0.0301450
C14	25.0%	12.058%	0.0301450
C16	12.5%	12.058%	0.0150725
C17	0.0%	12.058%	0.0000000

3.4. When the new multipliers are used to calculate the BCI for the previous 12 months they show a very good correlation with the old BCI and more representative of the market in the extreme macro conditions we recently experienced. See Figure 1 below

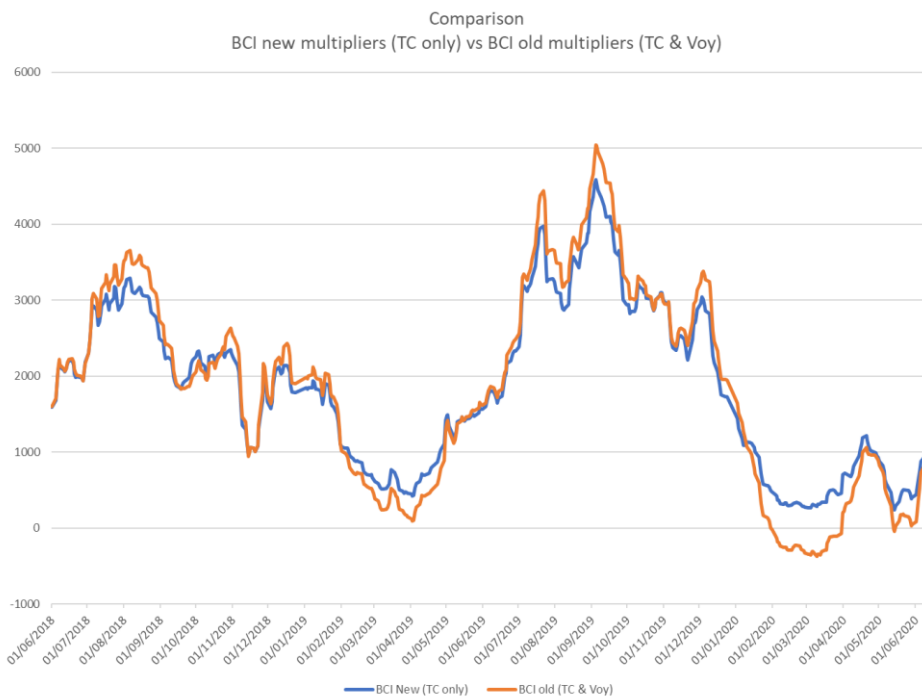


Figure 1

4. Conclusion

- 4.1. The proposed new multipliers have the support of both dry advisory councils (BAAC, BEAC)
- 4.2. This is not a Benchmark and is not traded, there is no open interest
- 4.3. This is a change that can be applied on short notice
- 4.4. The BIC has approved the change