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SEAINTEL MARITIME ANALYSIS

SPOT VERSUS CONTRACT RATE ON 11 CHINESE EXPORT TRADES

Spot is leading indicator, but some trades see higher correlation than others

Much debate has been seen in the market concerning whether the spot rates measured by the Shanghai Shipping Exchange – the SCFI rates - accurately reflect the market developments.

We have previously analyzed the Asia to Europe trade and shown conclusively that the SCFI index is highly correlated to the CTS index published by Container Trade Statistics reflecting the carriers' rates including all contractual rates. The analysis also conclusively showed that the SCFI was a leading indicator with a 1 month lead time.

However that was just one trade. Today we have analyzed 11 trades out of Shanghai using the SCFI spot rates and the CCFI rates which include contractual rates as well.

This analysis is more granular in

CTS index is only measured on a monthly basis.

The findings are quite interesting. As a general rule of thumb, the long-haul deep sea trades show a high degree of correlation, with the spot rates as a leading indicator, with the 6 trades to Europe, Mediterranean, US West Coast, South America, South Africa and Hong Kong all showing consistent correlations in excess of 95% when using the SCFI spot rates as a leading indicator.

However in some trades we do not find such strong correlations, most interestingly in the trade to Korea where no correlation exists at all.

Some of the trades exhibiting low degrees of correlation could be due to differences in geographical scope between the SCFI and CCFI; however this

DO CORRELATIONS MATTER?

It is always dangerous to conclude that just because two sets of data are correlated, then one causes the other. Correlation does not equal causality. However when it comes to the gradual emergence of index-linked contracts whereby carriers and shippers agree to let the freight rate vary, to some degree, according to an index, correlation becomes important. The premise for these contracts is that the rate varies in line with the "market". If different indices in the same market are highly correlated, this should confer confidence in the indices ability to capture market developments in that particular market. Which specific index is then used is immaterial. However if they are not correlated, great

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