

Hello Everyone,

"Admire a small ship, but put your freight in a large one; for the larger the load, the greater will be the profit upon profit." Hesiod

I had to look up Hesiod. I learned he was a Greek poet, often called the "father of Greek didactic poetry." Then I had to look up didactic. Sigh.

As you might guess, the subject of today's missive is shipping. For an army guy, this is foreign turf. But in the world of economics and trade, the sea is as important today as it was to the Greeks.

I hope you learn something new (I did)--- and that you all have a wonderful September weekend.

Signed, Your Sports-Have-Lost-So-Much-Luster-Since-Covid-Even-The-Cardboard-Fans-Are-Walking-Out Financial Advisor,

Greg

KKOB 09.11.2020 Baltic Dry Index & Toasters

Bob: So, Greg, when I saw the subject of today's segment, my first thought was, "Riveting." You want to talk about the Baltic Dry Index. Right?

Greg: Hmmm. I sense skepticism about the entertainment value of this topic. But, by the end of this segment, you'll be so excited you'll want to tell Carol all about the Baltic Dry Index.

Or not.

So, let's start with what it is. The Baltic Dry is the index that tracks the shipments of dry goods---by sea---all over the world. And, the fact is, most goods still travel by sea and not air. Ocean shipments may be slower, but they are far more economical.

So, when you think Baltic Dry, picture those huge ships with containers stacked one atop the other hauling products all over the globe.

And, on a side note, this does not include oil. Oil is wet. Baltic tracks dry...think cars, plastics, clothing, chemicals, iron ore, stuff like that.

Oh, here is the fun fact of the day. The name Baltic Dry Index has nothing to do with the Baltic States that rim the North Sea near Russia. Nope.

The Baltic name goes back to 1744 and the *Virginia and Baltick Coffee House* on Threadneedle Street in the City of London. Sea captains and merchants would meet there and exchange news and gossip. And they would cut deals.

Bob: So, it was like Starbucks. But they probably didn't order grande, non-fat, two pump, caramel macchiatos as they discussed trade.

Greg: Probably not. They likely added grog to their orders.

Anyway, as things evolved, it eventually became clear you could get a pretty good feel for international trade by hanging out at the coffee house. Thus, the Baltic Dry Index was born.

And today, not only does it provide daily freight market prices-- it helps set global maritime shipping & contract rates.

And Bob, it's really very sophisticated. Market pros keep a close eye on the Baltic

Dry to get a feel for what is really going on. I mean we all know profit and loss statements (and government stats) can be somewhat gamed. But you can't really game the Baltic. Either goods are being shipped or they aren't.

Bob: So, I think I know where you're going with this. Since Covid hit, rather than listening to politicians, you might want to look there to see if the global economy is expanding or contracting.

Greg: Bingo. Even before Covid, that index was slowing. Rates were falling and the bears were warning something was wrong. Then, of course, Covid slammed it down even further.

By early summer, however, we saw an upswing. That gave the market hope the world economy might be more resilient than the doom-and-gloomers had predicted.

But then, late last week, the port of Los Angeles...America's busiest port in terms of container volume... said their container traffic was still in contraction. In March it was minus 31%.... that was the Covid slam. But it was still minus 6% in July.

What I think this is telling you is this. Things are getting better, but not as fast as the stock market might have you believe. It's also telling you the global supply chain still hasn't fully recovered.

Bob: And that is why we are seeing holes on the shelves at grocery stores--- and big box stores---- like Target, Walmart, and Costco.

Greg: That's my take.

And, Bob, people are quick to adjust. Now if a product appears, customers don't delay. They buy it because they can't be sure when it will pop up again. I've even overheard people say, *"If you need something, buy two. Who knows when it will be back in stock?"*

On a personal note, Teresa (my wife) and I needed a new toaster. We were looking at Walmart and they were all gone. All of them. They had display models, but you had to order one to get it.

Bob: Like I said, I've noticed the gaps on the shelves. And now I know why. It's all because of the Baltic Dry Index. I can't wait to tell Carol. How do people reach you?

Greg: My work is done here. My number is 250-3754. Or, go to my website at zanettifinancial.com.

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