Can Freight Markets Predict the Next Inflation Spike?

Consumer prices in developed markets continue to be stubbornly over central banks' target rates, confirmed by the last inflation readings in the US, UK, and Eurozone.

There is a growing consensus among market participants of a change to the monetary policy course. In the case of the US Federal reserve, there is a predicted 70% chance of a rate cut in March of this year, according to Bloomberg.

The reasons behind the dramatic rise of inflation of the last years are well known: the post-covid global spending spree combined with rising energy costs mainly driven by Russia's invasion of Ukraine. This triggered a rapid rise in brent futures, which reached a high of USD 139.00 on 8th March 2022.

Energy prices have been traditionally considered the main signal to the future path of inflation. However, there is a market that could detect these signals even before oil prices turn red hot.

"Watch freight market rates if you want a guide to where inflation could go", says Ed Hutton, Technical Research Analyst at Freight Investor Services. "In 2021, Dry freight rates reached record highs roughly a year before both oil and CPI increases. We have witnessed the same with the corrections over the second half of 2022, which have been replicated by inflation and energy prices in H2 2023".

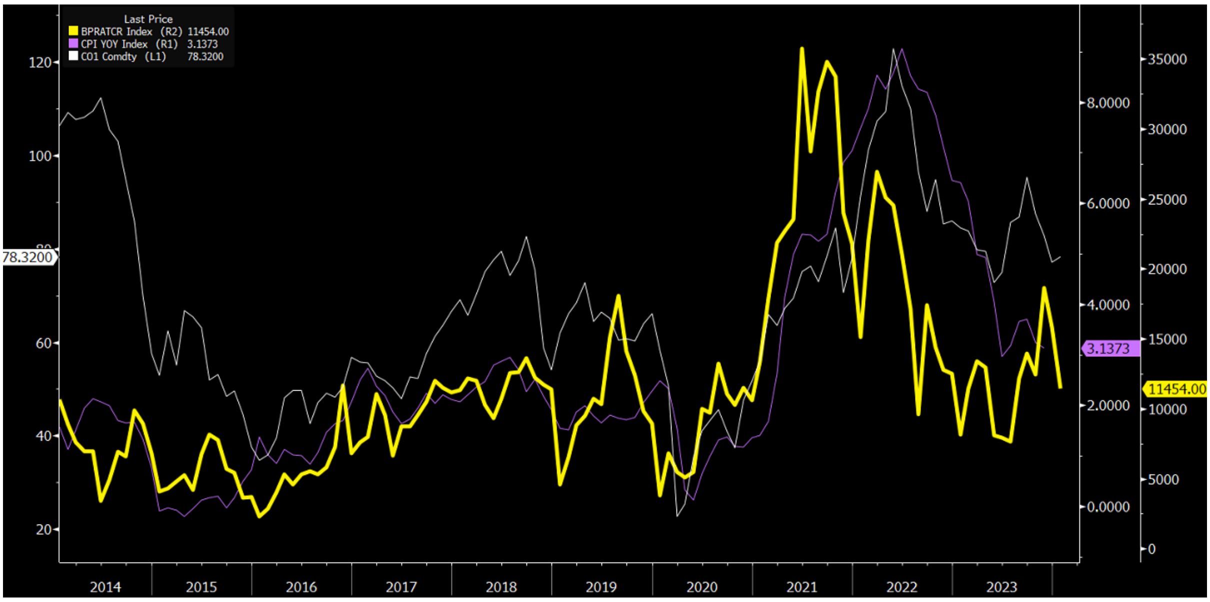

Chart source: Bloomberg

It appears that the market consensus on rate cuts could be ignoring the elephant in the room, or rather, the Panamax in the canal; and speaking of canals, they have recently been in the mainstream news. The Panama strait has recorded limited traffic due to low water levels, while the Suez Canal is becoming less attractive due to the recent Houthi attacks in the Red Sea. Recent IMF figures show a 35% drop in the sea traffic in the first week of 2024 in the Suez Canal, compared to 2023.

"Freight rates have the potential to be inflated because of the extra tonne miles due to ships having to circumnavigate Africa, warning of a possible domino effect in oil, energy, CPI and trigger a USD rally. In this context, a cut in the US interest rates in March may appear less likely", adds Hutton. "Dry Bulk Index rates are weakening at this point due to the seasonality patterns in shipping, but we are seeing signs that the dry bulk futures markets are starting to look a little overextended to the downside, meaning that when seasonality turns, a rally in freight is likely to cover all sectors and result in over-exaggerated prices. This could then have a knock-on effect on energy and ultimately inflation in the near future."

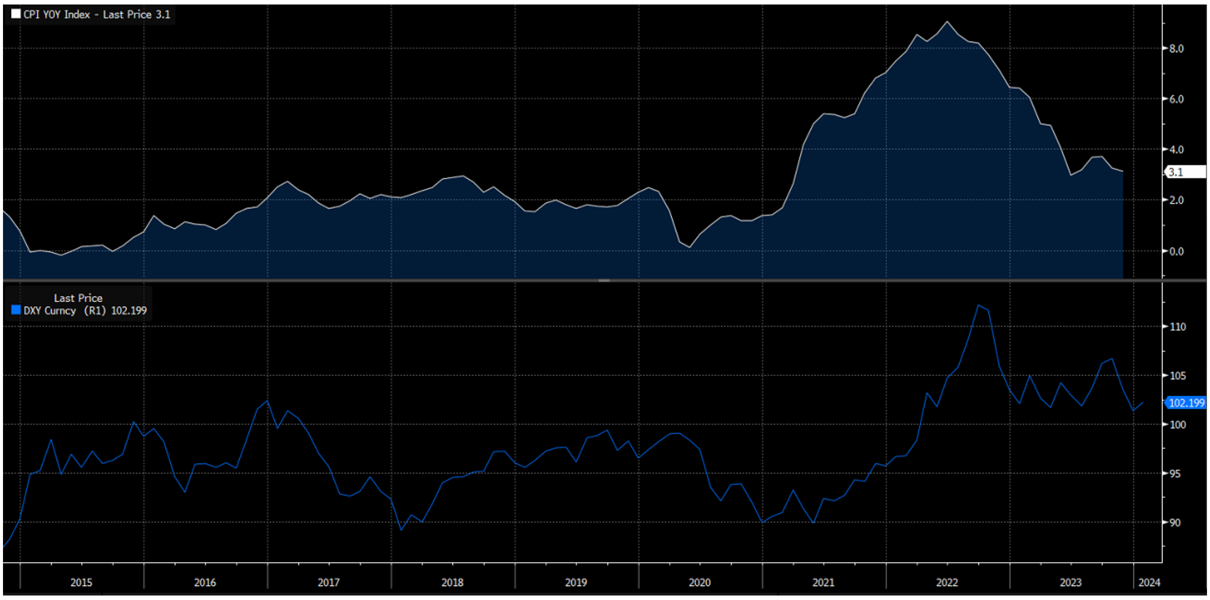

Chart source: Bloomberg

Contacts

Email: enquiry@freightinvestor.com
Tel: +44 2070901120