

“C5” Australia-to-China Iron Ore Freight Route: Asia’s Next Biggest Commodity?

C5 is the Baltic Exchange’s code for the voyage for Capesize ships from West Australia to Qingdao, which primarily carry iron ore to fuel China’s gargantuan steel industry. While demand for C5 futures continues to boom, this growth story has not been as widely publicised as similar trajectories in the likes of lithium and iron ore. Yet, C5 has all the hallmarks of a contract deserving of much wider attention.

The Underlying

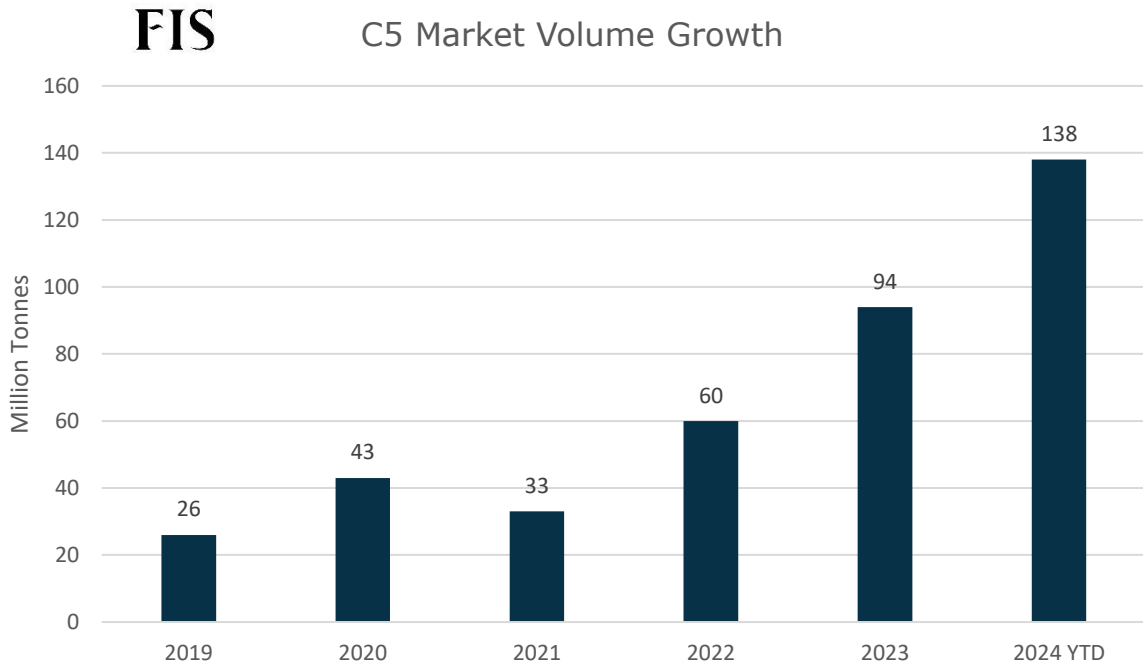
- **China's Iron Ore Appetite:** China is the world’s largest importer of iron ore. This year it is on track to import over 1.2 billion tonnes which is 75% of global imports. With this iron ore it will produce about a billion tonnes (55%) of the world’s steel, dwarfing former steel powerhouse and rival the US at just 94 million tonnes (5%);
- **Australia's Role:** Australia is the top global exporter of iron ore, supplying around 60% of the world’s total. The majority of this iron ore is shipped to China.

Explosive Growth

- Over the past five years, the market for C5 futures has quietly evolved from relatively niche status to being a bellwether of Asian trade. This growth is accelerating.
- In 2024, C5 volumes are on track to surpass 160 million tonnes, up from 10.3 in 2018, which amounts to 141% increase on 2023 volumes.



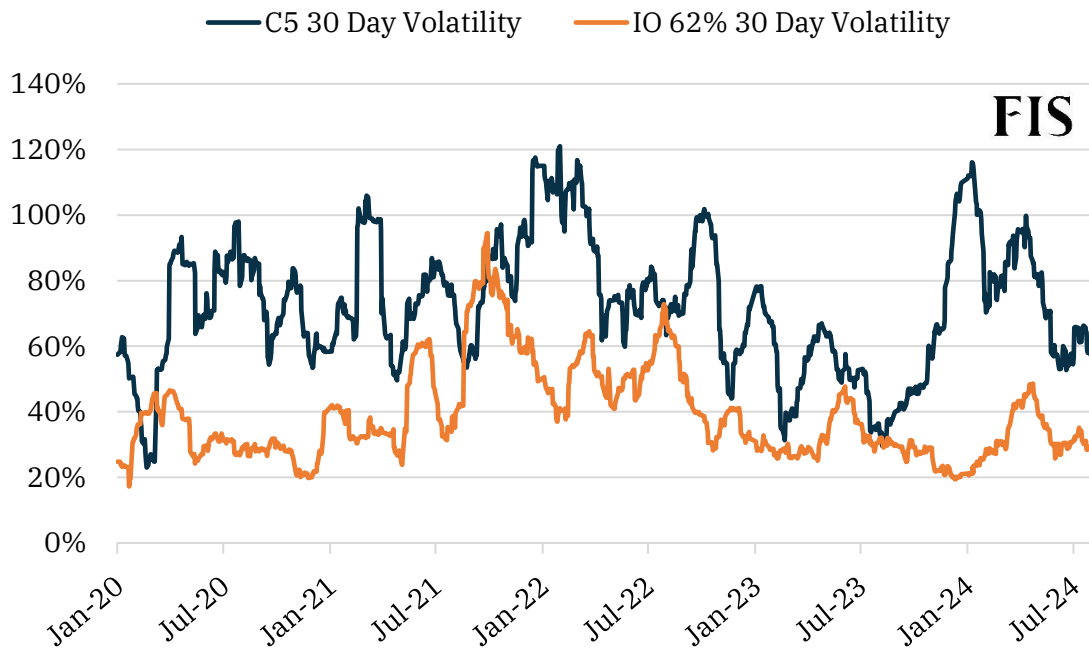
2024 YTD vs same period
2023 = **141% Growth**



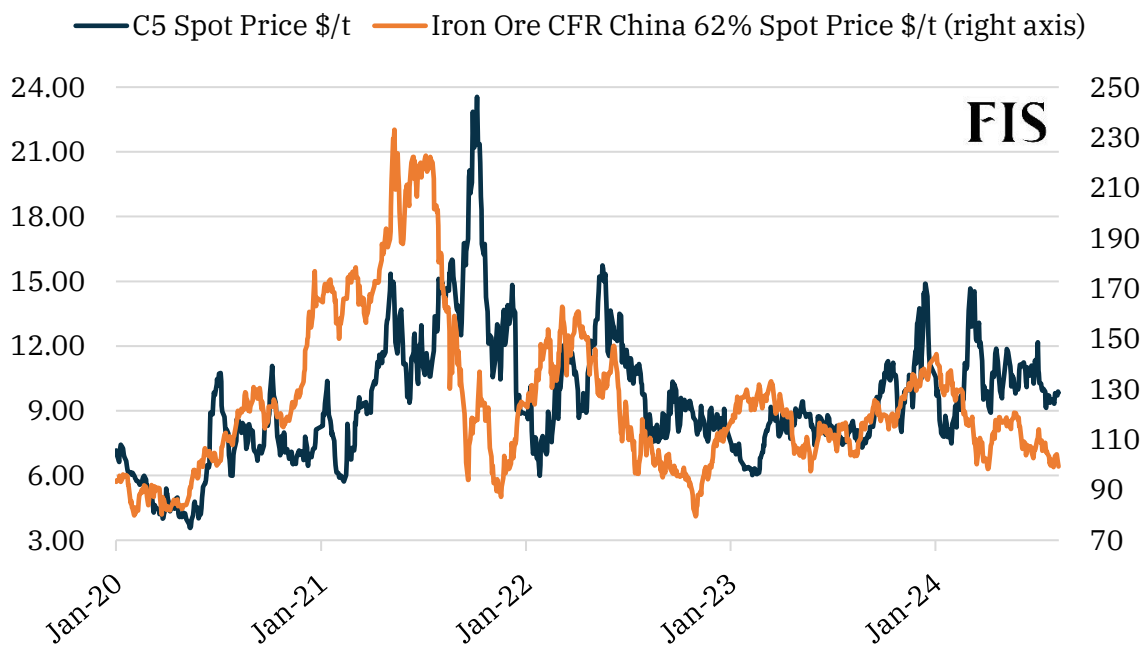
Source: FIS, Baltic Exchange

High Volatility Creates Opportunities

- Volatility on the C5 future has consistently doubled that of iron ore over the past four years. This high volatility offers both significant risks and opportunities, making it an attractive option for traders looking to capitalise on price movements.



Source: FIS, Baltic Exchange



- Over the past 12 months alone, the C5 spot price has seen a low of 7.29 USD per tonne and a high of 14.89 USD per tonne, making for a 104% difference. Considering the cargo capacity on the voyage is 180,000mt, that makes for a price difference on one cargo of USD1.38mn. This underscores the trading opportunity or the need for good risk management.

Key Selling Points

- **Liquidity:** C5's increasing liquidity has lowered barriers to entry, attracting major miners, funds, and banks;
- **Simplicity:** Unlike complex basket routes like the C5TC, C5 is a straightforward freight rate from Australia to China, making it easier to trade;
- **Arbitrage Opportunities:** Traders frequently arbitrage C5 against the C5TC basket or use it to create synthetic iron ore export prices from Australia by subtracting it from the iron ore contract;
- **Margin Offsets:** SGX offers up to 39% margin offsets between C5 and the 62% Fe iron ore contracts. EEX offers up to 62% margin offsets between the C5 and C5TC contracts. These make it financially advantageous for traders already active in these markets or interested in trading both.

The Potential for Continued Growth

- **Market Maturity:** C5's rapid expansion, despite limited publicity, signals its untapped potential. As liquidity grows, C5 is set to mature, making it an increasingly attractive option for financial players;
- **New Developments:** The clearers of C5, SGX and EEX, are actively working to improve the trading conditions of C5, bolstering its appeal to a wider audience.

Trade C5 with the Market Leader: FIS

- **Unparalleled Access:** FIS has been voted number one in dry bulk commodities for 12 years running, with leading market share in freight derivatives;
- **Pricing and Liquidity:** Our access and market position allow us to offer competitive pricing and leading liquidity, ensuring optimal trading conditions;
- **Expert Insight:** Our deep understanding of market movements and trends helps you stay ahead of the curve;
- **Top-Tier Brokers:** Our industry-leading brokers are dedicated to providing you with exceptional service and support;
- **Comprehensive Support:** We can guide you through the process of trading C5, with easy and quick setup to get you started.

Contacts

Please contact us on enquiry@freightinvestor.com or via our [website contact form](#) for more information about our freight and commodity derivatives offering.

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