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Baltic Dry Index and iron ore spot market: dynamics and interactions

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ABSTRACT

Baltic Dry Index (BDI) is often included in the iron ore spot price. Iron ore market experienced a transition in pricing mechanism from the annual negotiated price to the one based on spot market price in 2008/2009. This paper investigates the dynamics of and the interactions between BDI and iron ore spot price in the regime of the new pricing mechanism. In addition to controlled variables, we find significant spillover interactions between BDI and the iron ore market. We also detect mean-reversion movement in the iron ore market, signalling certain inefficiency in the market pricing.

KEYWORDS:

Iron ore | Baltic Dry Index | market spillover | shipping finance

JEL CLASSIFICATION:

G14 C32 D84

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Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

[1] Iron ore price is for Chinese imported iron ore fines.

[2] For literature of HAM in the financial markets, see Peter, Hommes, and Manzan (2007), Frijns, Lehnert, and Zwinkels (2010), Lux (2012), Huang and Chen (2014), Chen, Huang, and Zheng (2018), among others.

[3] Price including shipping cost at Tianjin port for iron ore with a content of 62% iron. Data link: http://www.imf.org/external/np/res/commod/index.aspx.

[4] The quadratic-match average method is used to interpolate the data within the quarter such that the average of monthly observations is equal to the quarterly value.

Additional information

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