

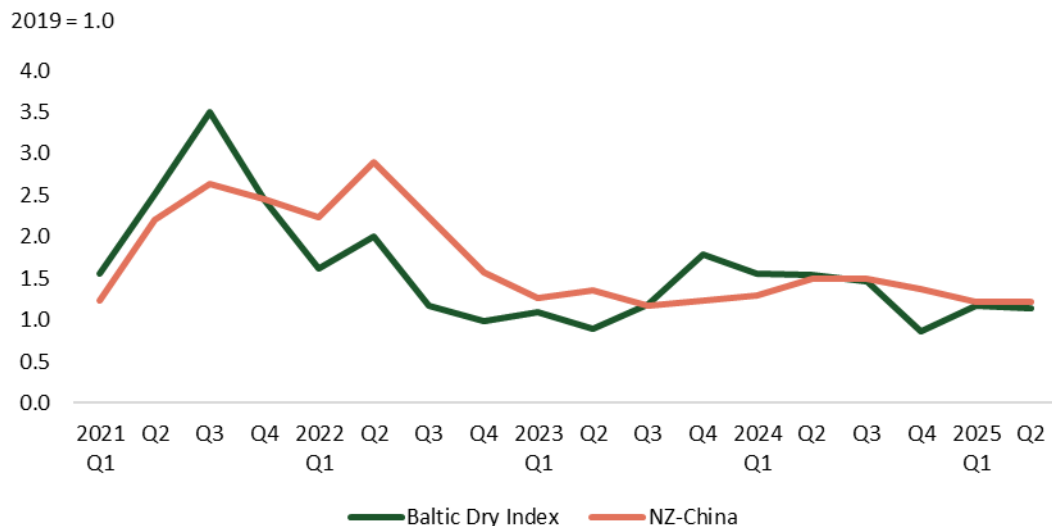
Why Shipping Rates Are Falling

– And What’s Keeping Them Up

Shipping plays a crucial role in taking New Zealand logs to world markets. Shipping typically accounts for 30% to 40% of the total landed cost in China. Since mid-2024 shipping rates have steadily declined. By the end of May, the Baltic Dry Index, which tracks the cost of shipping dry bulk cargo, had

fallen by 27%. This decline followed a period of relative stability, which came after years of extreme fluctuations including a record high. So, what has been driving this trend, and could rates move even lower?

Figure 1 Dry Bulk Shipping Rates

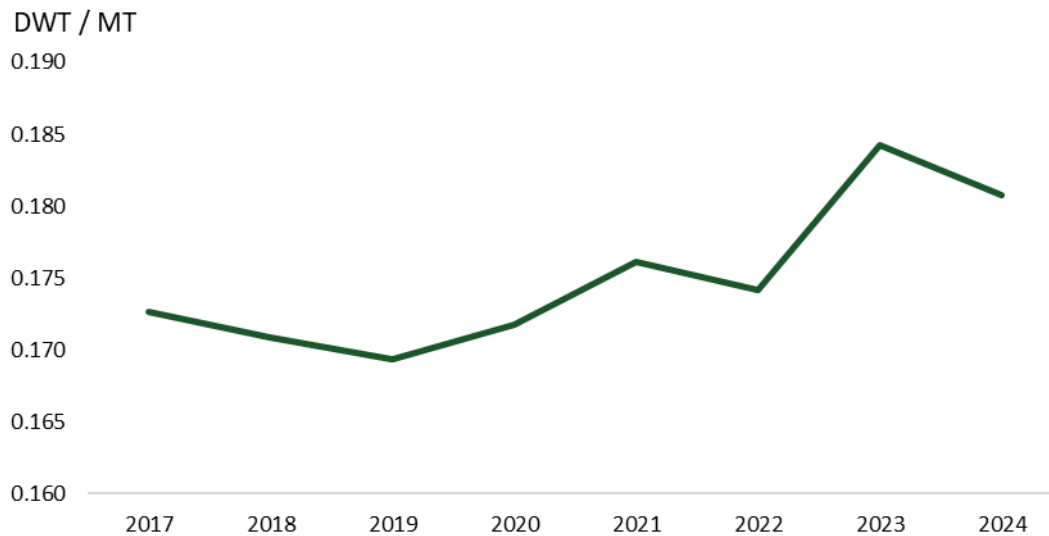


More Cargo, More Ships

In 2024, global dry bulk cargo shipments—including New Zealand logs—reached 5.8 billion tonnes, marking a 12.7% increase from 2019. However, fleet capacity expanded even more rapidly, rising by

17.3%. Typically, when the supply of shipping outpaces demand, freight rates tend to fall. Yet, somewhat unexpectedly, the Baltic Dry Index in 2024 was higher than in 2019, suggesting that other factors were also influencing shipping rates.

Figure 2 Dry Bulk Fleet Size (DWT) / Quantity Shipped (MT)



Disruptions Keeping Rates Up

Several global disruptions have constrained the availability of ships, pushing freight rates higher than expected.

- **Ukraine War** From 2022, the war in Ukraine has disrupted grain and energy exports from the Black Sea, causing vessels to be delayed or rerouted. This reduced the number of ships available elsewhere and pushed up shipping costs—especially for longer routes.
- **Red Sea Crisis:** In late 2023, attacks on commercial vessels in the Red Sea by Houthi rebels forced many ships to detour around the Cape of Good Hope, adding time and distance to voyages.
- **Panama Canal Drought:** By the end of 2023, low water levels in the Panama Canal forced authorities to limit the number and size of ships allowed through. Traffic dropped 29%, with many vessels diverted around South America

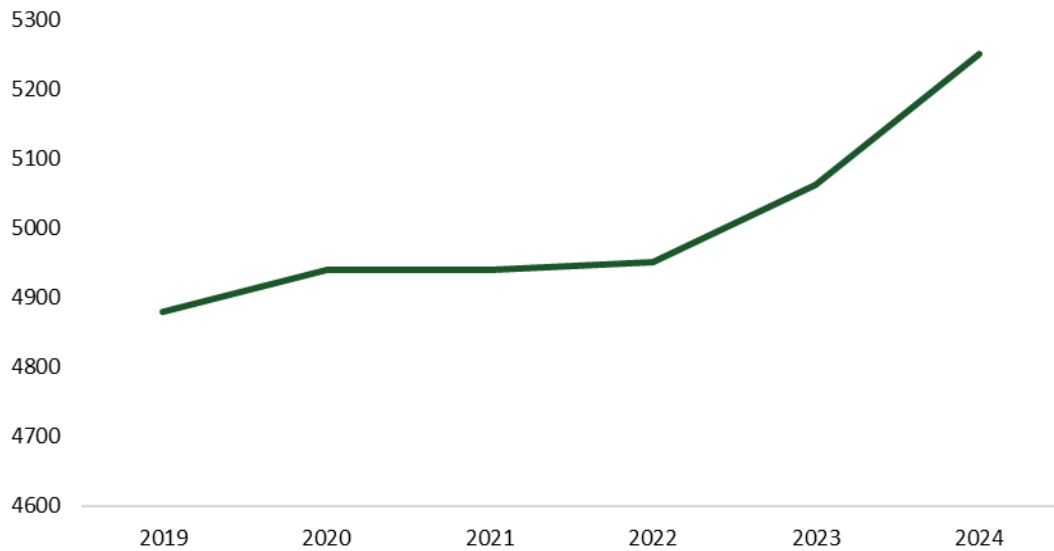
or Africa—again increasing travel time and vessel use.

- **Trade Tensions:** Trade wars that began in 2025 added further complications. U.S. exports of grain and coal to Asia fell sharply, with grain shipments down nearly 30% in early 2025 alone. Rising global tensions have also encouraged companies to diversify their supply chains, adding complexity and inefficiency.

All these developments increased the average "tonne-mile"—how far cargo travels per tonne (Figure 3)—which helps explain why average rates have stayed higher than supply and demand fundamentals would suggest.

A United Nations report confirmed that most of the changes in the Baltic Dry Index in 2023/ 24 have been driven by transit delays in the Panama Canal and security threats in the Red Sea.

Figure 3 Average Miles / Tonne Shipped

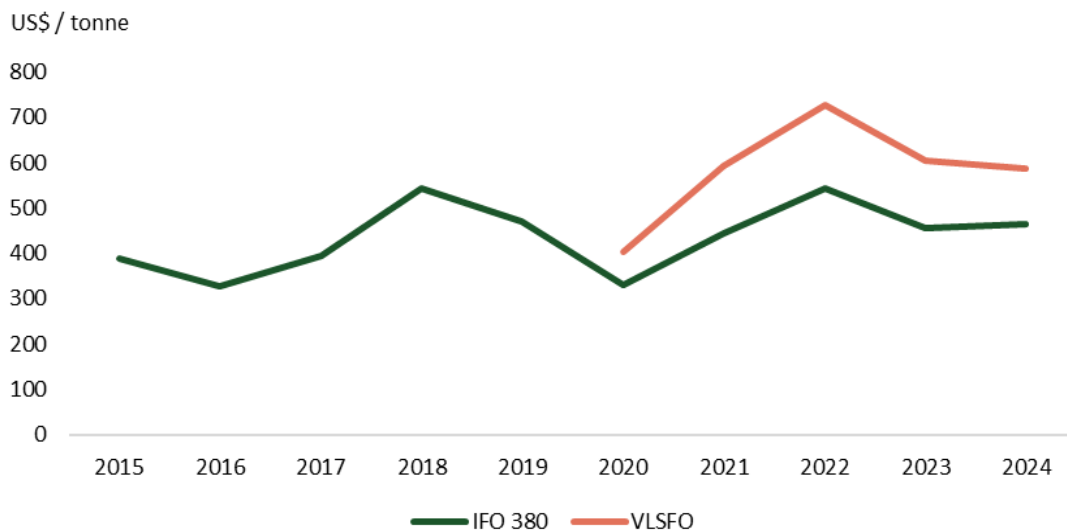


Bunker Fuel Cost Trends

Fuel is one of the largest operating costs for ships, and fluctuations in bunker fuel prices have a direct impact on freight rates. After spiking in 2022 due to the global energy shock following the war in Ukraine, bunker fuel prices eased through 2023 and into 2024 as oil markets stabilised and global economic uncertainty reduced demand. In 2025, prices have remained relatively stable, though slightly elevated compared to pre-COVID levels. The introduction of more stringent

environmental regulations has also driven up the cost of compliant fuels—such as very low sulphur fuel oil (VLSFO) — and incentivised operators to shift toward alternative fuels like LNG. However, these fuels come at a higher cost and require specialised infrastructure. While lower fuel prices have helped reduce operating costs recently, the long-term outlook is uncertain due to geopolitical risks and the push for decarbonisation, both of which could keep fuel prices volatile and influence future freight rate trends.

Figure 4 Bunker Fuel Costs



What's Next: Challenges and Opportunities

The global dry bulk fleet is expected to continue to grow. The ratio of new ships on order compared to the current fleet rose from 8% in early 2023 to 12% by early 2025. Oversupply therefore remains a risk, which could push rates lower—especially if global trade slows.

However, shipowners are also investing to meet new environmental targets and improve operating efficiency. While much of the fleet growth is concentrated in larger ships, particularly vessels in the Panamax class (68,000 to 85,000 DWT), shifts in shipping rates in this segment often affect the entire market.

The shipping industry faces strong pressure to reduce greenhouse gas (GHG) emissions. Under new targets set by the International Maritime Organization, emissions must fall by at least 30% by 2030 and reach net zero by 2050. To meet these goals, shipping companies are:

- Retrofitting ships to run on cleaner fuels like LNG, ammonia, and biofuels (although these remain expensive and not widely available).
- Investing in more efficient ship designs and operations.
- Exploring digital tools and AI to optimise routes, cut delays, and reduce fuel use.
- Testing remote-controlled and autonomous ships to lower labour and operating costs.
- Building bigger vessels to benefit from economies of scale—especially as ports improve infrastructure to accommodate them.

Conclusion

Dry Bulk shipping rates have been declining due to increased shipping supply and a slowdown in demand. Yet, geopolitical tensions, climate-related disruptions, and

trade conflicts have kept rates higher than they might otherwise be.

Looking ahead, shipping capacity is likely to keep growing, as owners respond to trade opportunities and the need to meet environmental targets. Weakening global demand for goods, including softening

Chinese demand could put further downward pressure on rates. On the upward side, India's coal consumption is expected to increase, while Brazil is expected to export massive soybean volumes to China. All this suggests that the future direction of ocean freight continues to be uncertain.

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