

# Dry Bulk Shipping

January 21, 2020

**Breakwave Dry Futures Index: 846**

- ↓ 30D: -15.2%
- ↓ YTD: -14.9%
- ↓ YOY: -24.3%

**Baltic Dry Index (spot): 689**

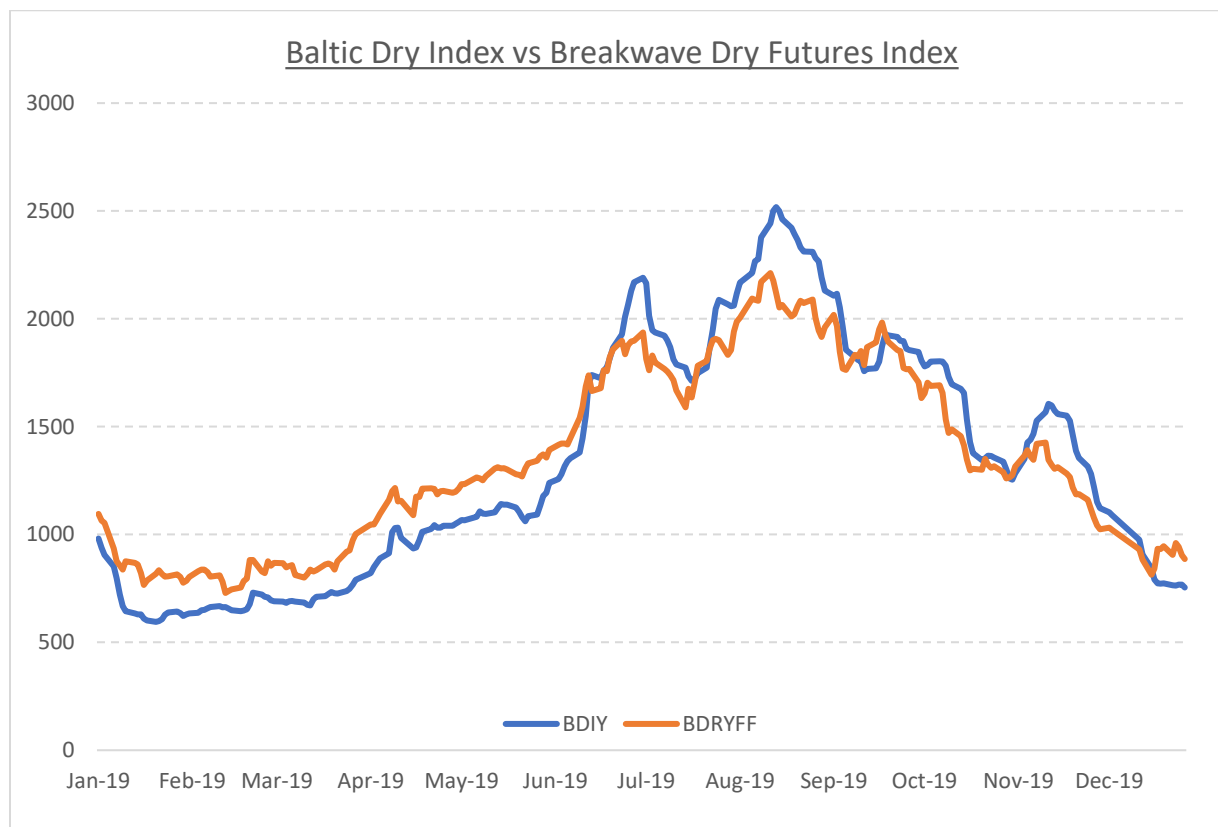
- ↓ 30D: -38.6%
- ↓ YTD: -36.8%
- ↓ YOY: -36.9%

**Short-term Indicators:**

- Momentum: Neutral
- Sentiment: **Negative**
- Fundamentals: Neutral

## Bi-Weekly Report

- **Atlantic is an outlier in an otherwise depressing market** – In a rather depressing overall market for dry bulk, Capesize vessels in the Atlantic continue to at least earn a profit (although this too might soon change), even without the help from scrubbers, as relatively inexpensive fuel in the region combined with decent demand for coal transatlantic cargoes have managed to maintain spot rates in the teens so far this month. The rest of the market, however, is experiencing single digit earnings (if any earnings at all), and judging from history, there is still more pain in the near term before any potential turnaround comes (historically, February is the worst month for dry bulk rates). Capesize spot rates are currently averaging about 7,000/day while Panamax rates have once again reached multi-year lows, with spot rates approximately at 6,000/day.
- **What to watch for a turnaround** – Historically, February signifies the bottom in dry bulk rates, and there is no reason to expect a different pattern this year. In addition, with a very early Chinese New Year (January 25), demand might start to accelerate earlier than usual. Weather, both on the loading ports as well as in China (construction demand fluctuates based on weather), remains a wildcard and will also affect rates as we head into a potential turnaround. Finally, transportation demand for grains should find support following the recent US-China agreement, although by how much remains unknown. We expect rates to improve as March stems hit the market, absent any weather-related disruptions.
- **Scrapping to accelerate** – Scrapping is the way to balance the supply side of shipping, and even that early in the year, we have seen several Capesize ships heading into the scrapyards. We expect such trend to continue as environmental regulations and poor market conditions favors the retirement of older, inefficient vessels. Our estimate is for at least 2% of the fleet to retire by the end of the year, which should help balance the relatively high newbuilding program in terms of tonnage. Overall, despite the very ugly start to the year, we expect a more balanced market in 2020, although any acceleration in economic growth will naturally have a positive impact on dry bulk freight.
- **Environmental concerns front and center for shipping** – For shipping, developments as it relates to carbon emissions are rapidly becoming a very important matter. Although for years such concerns would be just a topic for a longer-term discussion, major charterers are pushing the environmental agenda much faster than the industry can absorb. Such issues will continue to limit new ship ordering as the combustion engine technologies of the future are still debatable and highly uncertain.



## Dry Bulk Fundamentals

| <u>Demand</u>              | <u>YTD</u> | <u>YOY</u> |
|----------------------------|------------|------------|
| China Steel Production     | 996mt      | 8.3%       |
| China Steel Inventories    | 4.5mt      | 23.6%      |
| China Iron Ore Imports     | 1069mt     | 0.4%       |
| China Iron Ore Inventories | 127mt      | -9.6%      |
| China Coal Imports         | 300mt      | 10.8%      |
| China Soybean Imports      | 89mt       | 7.6%       |
| Brazil Iron Ore Exports    | 336mt      | -14.7%     |
| Australia Iron Ore Exports | 760mt      | -0.2%      |

| <u>Supply</u>  |        |      |
|----------------|--------|------|
| Dry Bulk Fleet | 844dwt | 0.3% |

| <u>Freight Rates</u>         |       |        |
|------------------------------|-------|--------|
| Baltic Dry Index, Average    | 791   | -32.9% |
| Capesize Spot Rates, Average | 9,202 | -39.2% |
| Panamax Spot rates, Average  | 6,259 | -34.0% |

Note: All numbers as of latest available; Demand figures are 2019; Sources: Bloomberg and Breakwave Advisors

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