# Dry Bulk Shipping

October 15, 2019

| **Breakwave Dry Futures Index:** | **1,884** | **Baltic Dry Index (spot):** | **1,916** | **Short-term Indicators:** | |
|---|---|---|---|---|---|
| ↓ *30D: -9.1%* | | ↓ *30D: -17.1%* | | *Momentum:* | Neutral |
| ↑ *YTD: 57.5%* | | ↑ *YTD: 50.7%* | | *Sentiment:* | Neutral |
| ↑ *YOY: 6.0%* | | ↑ *YOY: 21.3%* | | *Fundamentals:* | **Positive** |

## Bi-Weekly Report

- **Calm before the storm? –** With extreme volatility in the tanker market dominating the headlines, dry bulk rates have remained relatively stable, but it is becoming increasingly likely that disruptions in global shipping will be with us for a while, whether due to geopolitical, political or IMO 2020 related factors. We are entering the final stretch of the year when seasonality is a tailwind, with rates hovering at high levels relative to recent years. In fact, this week, average Capesize rates for the year surpassed last year's level and are on track to average above 18,000/day for the full 2019. We remain constructive on rates over the next several months, especially for the larger vessels. Currently Capesize vessels are earning about 26,000/day while Panamax rates are hovering at 15,000/day.

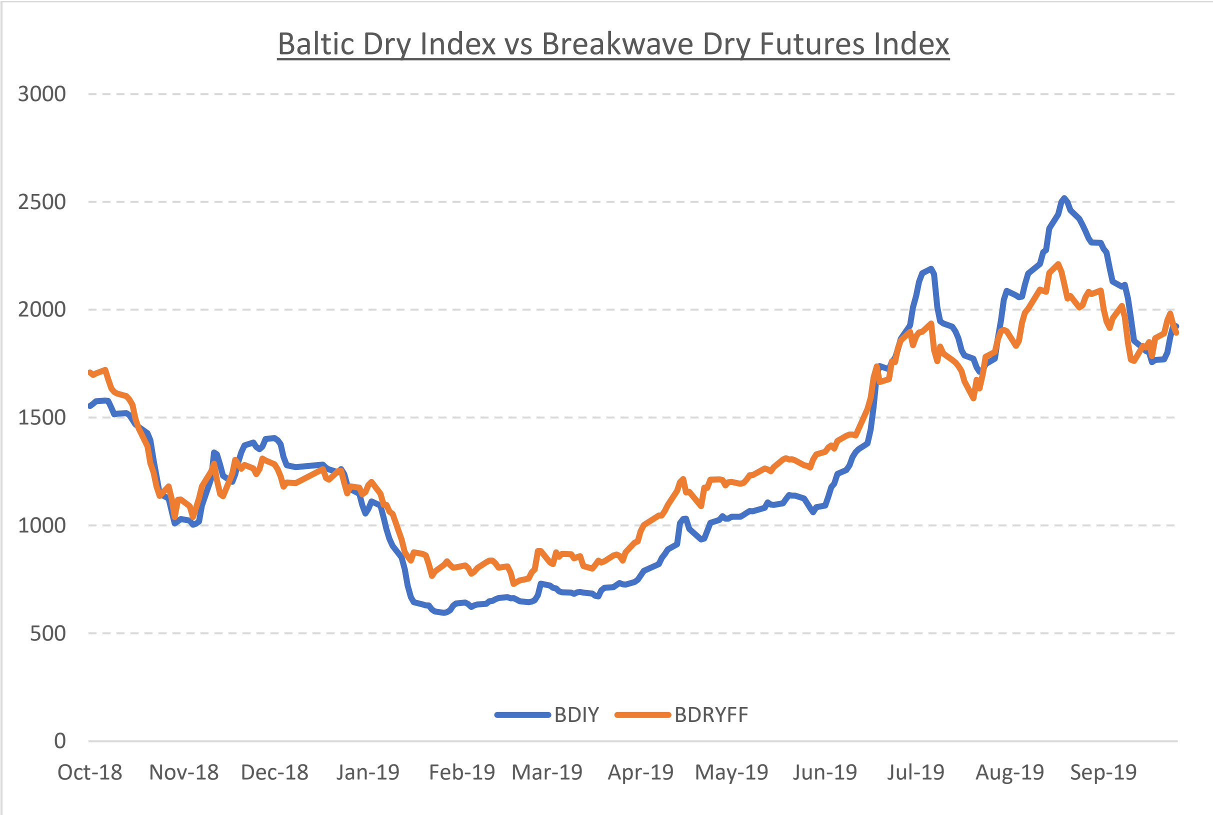
- **Trade flow growth is resuming –** Grain flows out of the US have found support following the recent developments as it relates to the trade dispute between the US and China. In addition, iron ore exports should see some increased activity as we head towards the end of the year, mainly due to seasonality but also due to some mean reversion following slower exports during the last few months. Party offset that will be slower expected coal trade as China will soon be reaching its annual import quota.

- **This time around, first quarter is a wildcard –** Major mining companies expect a volatile first quarter with the IMO 2020 disruption creating pockets of strength while at the same time adverse weather can also play a major role when it comes to freight rates. Futures are already trading at above average levels compared to history (after all, next year freight futures curve is unusually flat). Further out, a much worry-some bearishness is evident for dry bulk, despite the low orderbook and relatively stable economic forecasts.

- **Vale's production numbers confirm a rapid recovery –** Third quarter production numbers out of the largest iron ore miner in the world confirm a relatively rapid recovery in iron ore exports following the January dam incident. In addition, the remaining production that is still curtailed (~50mt) is expected to come online by 2021. Still, Q3 production was 21% below last year's level, which shows the resilience of the Capesize market which experienced one of the best quarters in many years despite the lower export volumes out of Brazil.

- **Environmental concerns front and center for shipping –** For shipping, developments as it relates to emissions control 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.

*The Baltic Dry Index (BDI) measures the average spot rates for dry bulk freight with a sector weighting of 40% Capesize, 30% Panamax and 30% Supramax. The Breakwave Dry Futures Index (BDRYFF) is designed to track freight futures contracts with a sector weighting of 50% Capesize, 40% Panamax and 10% Supramax and a weighted average maturity of approximately 50-70 days.*




## Dry Bulk Fundamentals

| Demand | YTD | YOY |
|---|---|---|
| China Steel Production | 665mt | 9.1% |
| China Steel Inventories | 4.9mt | 8.7% |
| China Iron Ore Imports | 784mt | -2.4% |
| China Iron Ore Inventories | 130mt | -10.8% |
| China Coal Imports | 251mt | 9.8% |
| China Soybean Imports | 65mt | -7.8% |
| Brazil Iron Ore Exports | 253mt | -12.6% |
| Australia Iron Ore Exports | 549mt | -1.7% |

**Supply**

| | | |
|---|---|---|
| Dry Bulk Fleet | 865dwt | 2.8% |

**Freight Rates**

| | | |
|---|---|---|
| Baltic Dry Index, Average | 1,313 | -3.4% |
| Capesize Spot Rates, Average | 17,092 | 1.6% |
| Panamax Spot rates, Average | 11,095 | -3.7% |

*Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors*



**Contact:**
**Breakwave Advisors LLC**
25 Broadway
New York, NY 10280
*Tel: +(1) 646 775 2898*
*Email: research@breakwaveadvisors.com*