BREAKWAVE ADVISORS

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Dry Bulk Shipping

March 3, 2020

Breakwave Dry Futures Index: 783	Baltic Dry Index (spot): 535	Short-term Indicators:
↑ *30D: 0.1%*	↓ *30D: -0.7%*	*Momentum:* Neutral
↓ *YTD: -23.4%*	↓ *YTD: -50.9%*	*Sentiment:* **Negative**
↓ *YOY: -5.2%*	↓ *YOY: -18.7%*	*Fundamentals:* Neutral

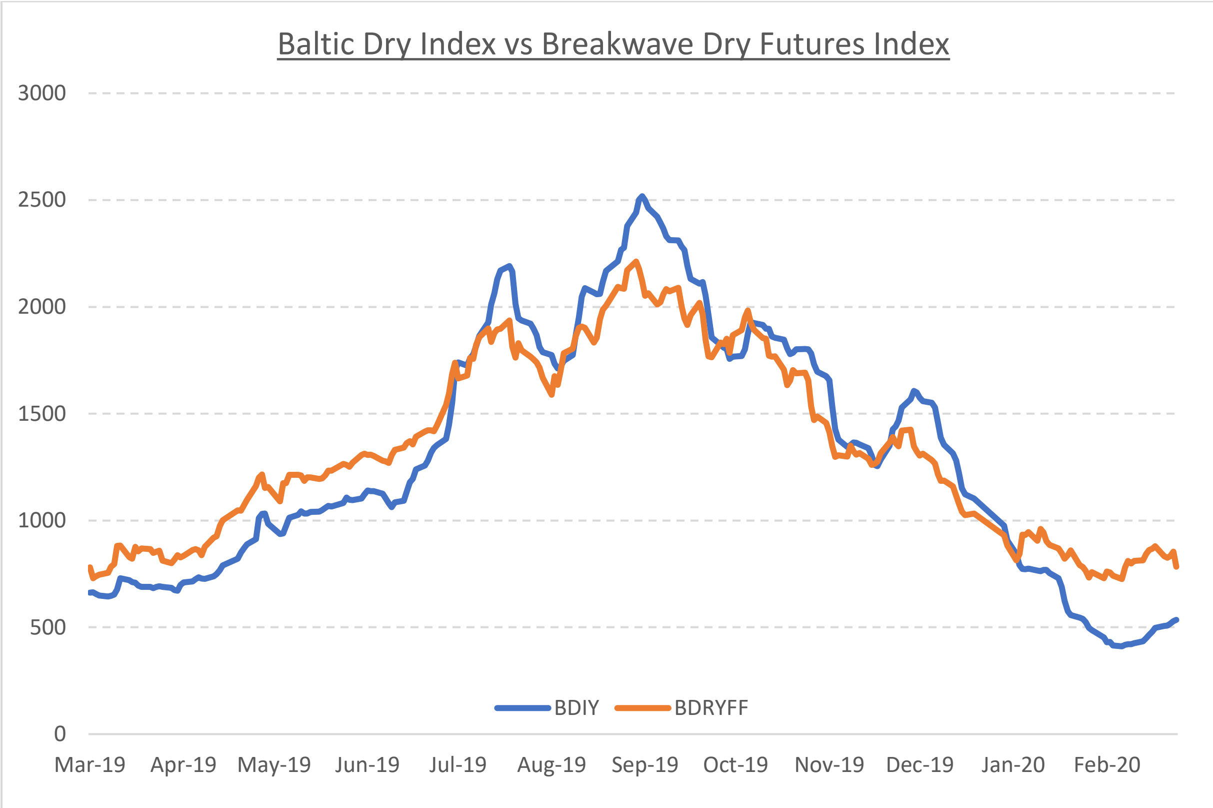
Bi-Weekly Report

- **Where to look for the recovery signs -** Dry bulk shipping remains in a state of distress, with February Capesize rates averaging just above 2,000/day, marking the worst February in history and the second worst month overall. Seasonality, weather, and of course the coronavirus epidemic are the reasons for such an abysmal performance. Smaller size vessels also had a rough month, though not to the same extend as Capesizes, given the more diversified nature of their respective trading patterns. As we look into spring, seasonality starts to become a tailwind. Weather (i.e. rains in Brazil and cyclones in Australia) are less likely, while construction activity in China picks up. Of course, this year, the coronavirus epidemic is having a much greater impact on demand for construction materials, and thus iron ore, the most important bulk commodity in dry bulk shipping. However, stimulus chatter in China has picked up quite a bit (USD $3.5 trillion was the last number heard), with construction-related Chinese equities rallying in the last few days, an important sign of things to come. At the same time, iron ore prices remain quite strong, especially relative to other commodities (oil, metals, grains) that have been hit hard. We would focus a lot on news flow out of China when it comes to infrastructure spending, while the virus epidemic in the region seems to become better managed. Overall, it is too early to tell how the situation will evolve, but our feeling is that China is moving towards restarting its economy, which will require a lot of simulative capital to the shipping-associated industries, thus benefiting dry bulk.

- **Rates are extremely low, but it is also February –** Seasonality is very profound in shipping, and historically February is the worst month for dry bulk. As such, although the current level is very low for Capesize ships, with the average rate at about 2,000/day, other asset classes are performing better though still below last year's levels. We expect Capesize rates to gradually advance, as activity picks up and China's economic activity gradually rebounds. As such, the next two quarters should see average rates well above recent levels, and we would not be surprised if they match last's years levels, on the back of some "catch up" volumes, given the weakness in the first quarter of the year. Coal movements (see coastal volumes) in China have also been weak due to the coronavirus, so imports might need to play a bigger role in the initial recovery.

- **Asia to lead the recovery, which is what matters for shipping –** As the months progress and the epidemic spreads around the world, Asia should be the first region to see containment of the epidemic (note; our base case assumes there will be such a containment). Positioning ahead of such a development might make sense, especially as other regions continue to struggle to contain the spread of the virus. Although a lot is still unknown and any estimates are highly dependent on science rather than economic models, investors are positioning to be ahead of the recovery in Asia and possibly ahead of deterioration in the rest of the world. Given the leverage that shipping has to the Asian economies, we continue to believe that shipping represents a very good proxy for the potential recovery from the depressed price levels due to the current unexpected epidemic.

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	996mt	8.3%
China Steel Inventories	11.5mt	27.0%
China Iron Ore Imports	1069mt	0.4%
China Iron Ore Inventories	127mt	-13.1%
China Coal Imports	300mt	6.8%
China Soybean Imports	89mt	0.6%
Brazil Iron Ore Exports	27mt	-19.4%
Australia Iron Ore Exports	838mt	10.1%

Supply

Dry Bulk Fleet	886dwt	0.8%

Freight Rates

Baltic Dry Index, Average	587	-31.5%
Capesize Spot Rates, Average	5,257	-51.2%
Panamax Spot rates, Average	5,221	-22.2%

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

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