Dry Bulk Shipping

April 14, 2020

Breakwave Dry Futures Index: 944	Baltic Dry Index (spot): 635	Short-term Indicators:	
↑ *30D: 23.2%*	↑ *30D: 1.3%*	*Momentum:*	**Positive**
↓ *YTD: -7.6%*	↓ *YTD: -41.7%*	*Sentiment:*	Neutral
↑ *YOY: 7.7%*	↓ *YOY: -13.5%*	*Fundamentals:*	**Positive**

Bi-Weekly Report

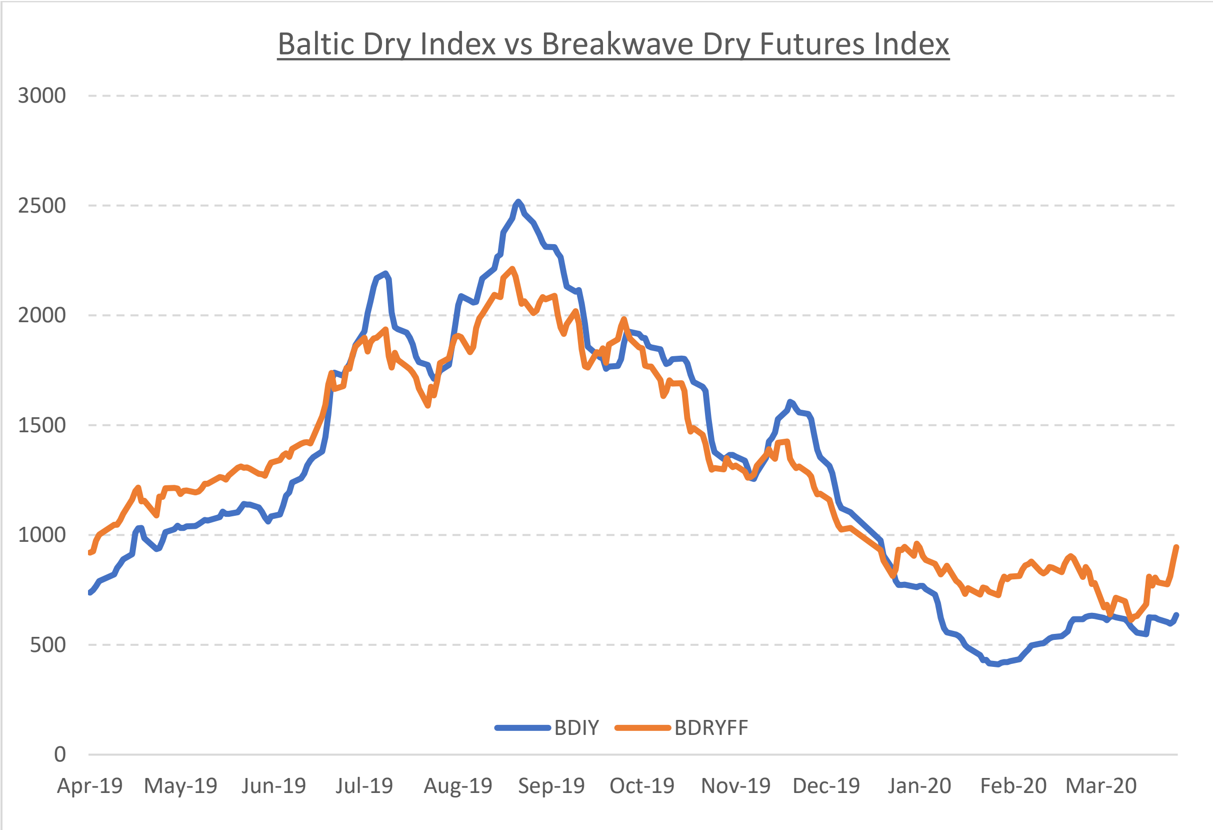
- **Improvement is evident as seasonality kicks in –** Capesize rates have experienced some much-needed improvement over the last two weeks, with the Atlantic market once again leading the charge. Still, it is mostly sentiment that is driving the market at the moment, as Brazilian iron ore exports remain very low compared to both capacity and recent years' quantities. However, we believe such a trend is also about to change: With Brazilian iron ore exports posting their lowest quarterly number in recent years for the Jan-Mar period, we anticipate a considerable ramp up in volumes for the rest of the year. China iron ore imports for 2020 should end up about 3%-5% higher following last year's flat performance, and with Capesize rates currently at ~7,000/day, there is ample room to see a repeat of last year's rally when rates peaked at almost 40,000/day in September.

- **China has almost fully recovered –** High frequency indicators out of China point to a significantly improved industrial activity compared to just a month ago. Although there are still areas that operate below capacity and sectors that remain greatly affected by reduced global demand, domestic infrastructure spending (the main driver for China's steel demand) has now returned to near pre-crisis levels, in our view. At the same time, Chinese onshore iron ore inventories have been sliding although steel inventories remain high. Furthermore, iron ore prices are relatively strong, which points to a tight iron ore market (our view is that this is mainly a result of very weak Brazilian iron ore exports year to date). Overall, China's steel markets remain healthy and should lead to higher iron ore trade in the next few quarters. The main question is whether Brazil has the ability to ship higher quantities of iron ore, given Vale's ongoing problems following last year's dam accident and the significant regulatory hurdles that resulted from the accident that is heavily impacting the performance of the company's southern mine system.

- **COVID-19 will have a meaningful negative impact on European demand for dry bulk goods –** Although China is by far the most important demand center when it comes to dry bulk trade, Continental Europe has always been a steady demand region, from coal and iron ore to grains trade. With the Coronavirus pandemic negatively affecting industrial activity in the region, imports of dry bulk goods have declined considerably. The duration of such decline is anybody's guess and subject to the daily news flow, but such disruption is partially offsetting the stronger Chinese demand we anticipate for the rest of the year.

- **Net fleet growth remains low, as scrapping of larger ships has accelerated –** Year to date, the dry bulk fleet has grown by less than 1%, net, a relatively low rate (although keep in mind demand is also weak year-to-date, following the COVID-19 impact). Generally, the orderbook for dry bulk shipping is considered low, reflecting several uncertainties related to future fuel standards, economic uncertainty and capital constraints. Fleet supply mostly affects longer term trends, but it is encouraging to see less new ships hitting the water, which eventually flows through the balance dynamics of the market.

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	155mt	3.1%
China Steel Inventories	11.2mt	55.1%
China Iron Ore Inventories	119mt	-17.3%
China Iron Ore Imports	263mt	0.7%
China Coal Imports	28mt	28.3%
China Soybean Imports	31mt	6.2%
Brazil Iron Ore Exports	71mt	-16.3%
Australia Iron Ore Exports	123mt	-5.1%

Supply

Dry Bulk Fleet	889dwt	1.2%

Freight Rates

Baltic Dry Index, Average	595	-24.2%
Capesize Spot Rates, Average	4,744	-42.1%
Panamax Spot rates, Average	5,759	-20.6%

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

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