

Dry Bulk Shipping

July 23, 2019

Breakwave Dry Futures Index: 1,936

↑ 30D: 35.9%
 ↑ YTD: 58.1%
 ↑ YOY: 6.9%

Baltic Dry Index (spot): 2,191

↑ 30D: 76.8%
 ↑ YTD: 72.4%
 ↑ YOY: 29.7%

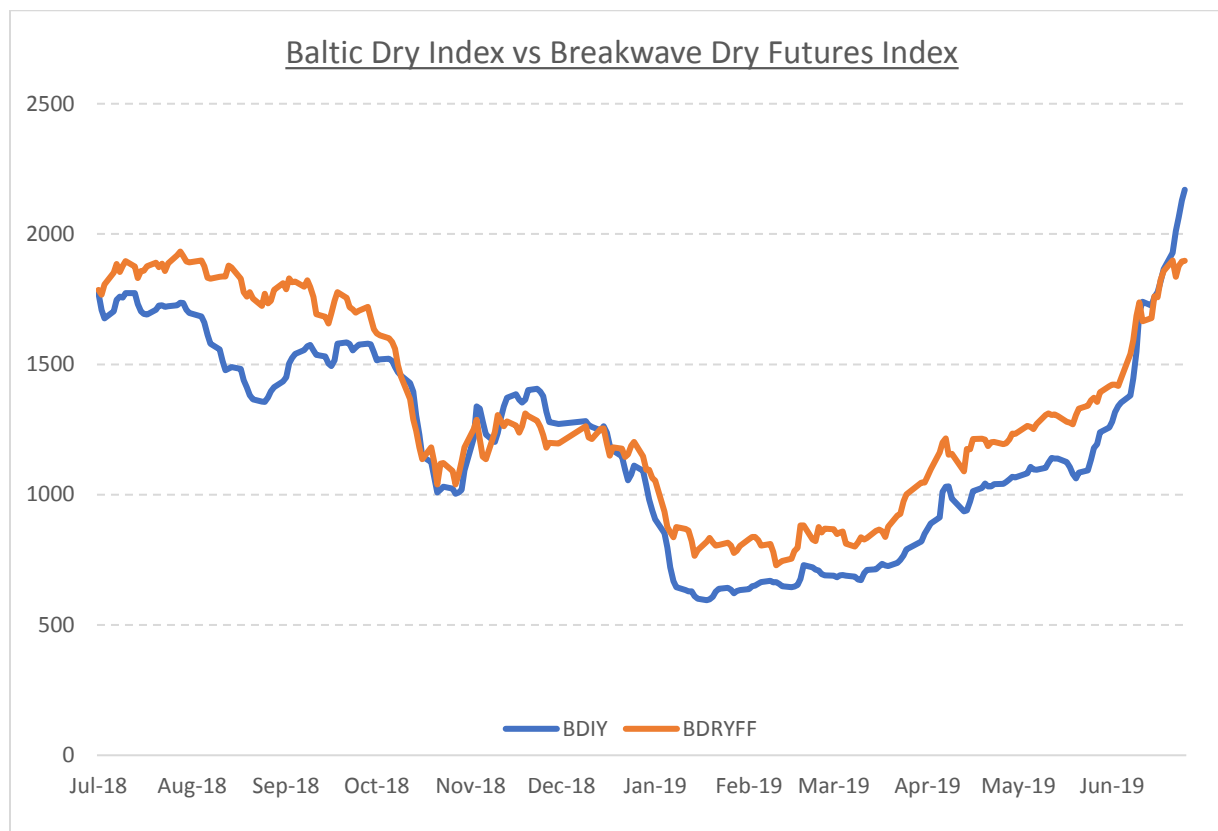
Short-term Indicators:

Momentum: **Positive**
 Sentiment: **Negative**
 Fundamentals: **Negative**

Bi-Weekly Report

- Dry bulk rates at decade highs** – What a difference a few months make: Four months ago, the dry bulk market was in the midst of one of the most serious demand crisis ever, with Brazil’s Vale copping with a major disaster and forced to cut production and exports dramatically. Fast forward to today, and dry bulk is enjoying the best market of the current decade. Unlike previous spikes that mainly impacted one asset class, this time around, the strength in rates has affected all dry bulk vessels. Capesize rates are currently averaging about 33,000/day while Panamax rates have surpassed 17,000/day in a hot, rising market that doesn’t seem to want to stop anytime soon.
- Supply-driven spike, but remain cautious near-term** – We continue to focus on the supply side as the main reason for the recent jump in rates. Most statistics relating to dry bulk trade are improving but not to the extent that would explain such strengthening in rates. Slow steaming and port congestion due to scrubber installations (ahead of new regulations starting in 2020, a number of vessels are installing scrubbers in order to comply) have limited vessel availability, especially in the Atlantic basin. In addition, the logistical efficiency of Vale’s shipments has declined due to the January’s dam incident and that has forced the miner to use more Capesize spot ships. On the demand side, global iron ore inventories have shrunk dramatically and combining that with double digit growth in Chinese steel production and record high iron ore prices, the shipping market is facing an ideal environment in terms of supply/demand balance. However, we continue to expect a correction in spot rates over the very short term.
- Volatility to persist, we expect an impressive spot market in Q4** – We anticipate a very volatile freight rate environment over the next 12 months with short term spikes reaching impressive levels versus recent history. Our confidence level is high due to the fact that the reasons for the recent strength in rates will likely persist for several quarters. In addition, any potential improvement in demand due to better economic factors (lower interest rates, China stimulus, etc.) should further strengthen the demand side.
- Limited new orders, fuel uncertainty to prolong the cycle** – There is a relatively low orderbook when it comes to dry bulk and we expect such a trend to continue. High uncertainty relating to the prevailing fuel technology of the future makes new orders challenging for an asset with an expected life of 25 years and requires more certainty on the long-term commercial viability of the asset than ever before. Such an environment should help prolong the current cycle, subject to the always important broader economic uncertainty.

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	492mt	9.9%
China Steel Inventories	5.6mt	31.5%
China Iron Ore Imports	499mt	-6.0%
China Iron Ore Inventories	118mt	-24.0%
China Coal Imports	154mt	6.2%
China Soybean Imports	38mt	-14.7%
Brazil Iron Ore Exports	162mt	-8.0%
Australia Iron Ore Exports	331mt	-4.7%

Supply		
Dry Bulk Fleet	854dwt	1.5%

Freight Rates		
Baltic Dry Index, Average	993	-21.2%
Capesize Spot Rates, Average	11,859	-20.8%
Panamax Spot rates, Average	8,897	-19.8%

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

Disclaimer:

This research report has been prepared by Breakwave Advisors LLC solely for general information purposes and for the recipient's internal use only. This report does not constitute and will not form part of and should not be construed as a solicitation of any offer to buy or sell any security, commodity or instrument or related derivative or to participate in any trading or investment strategy. The opinions and estimates included herein reflect views and available information as of the dates specified and may have been and may be subject to change without notice.

Contact:

Breakwave Advisors LLC
 25 Broadway, 9th floor
 New York, NY 10280
 Tel: +(1) 646 775 2898
 Email: research@breakwaveadvisors.com