

# Dry Bulk Shipping

July 9, 2019

**Breakwave Dry Futures Index: 1,662**

↑ 30D: 27.6%  
 ↑ YTD: 38.9%  
 ↑ YOY: 3.7%

**Baltic Dry Index (spot): 1,725**

↑ 30D: 51.6%  
 ↑ YTD: 35.7%  
 ↑ YOY: 6.4%

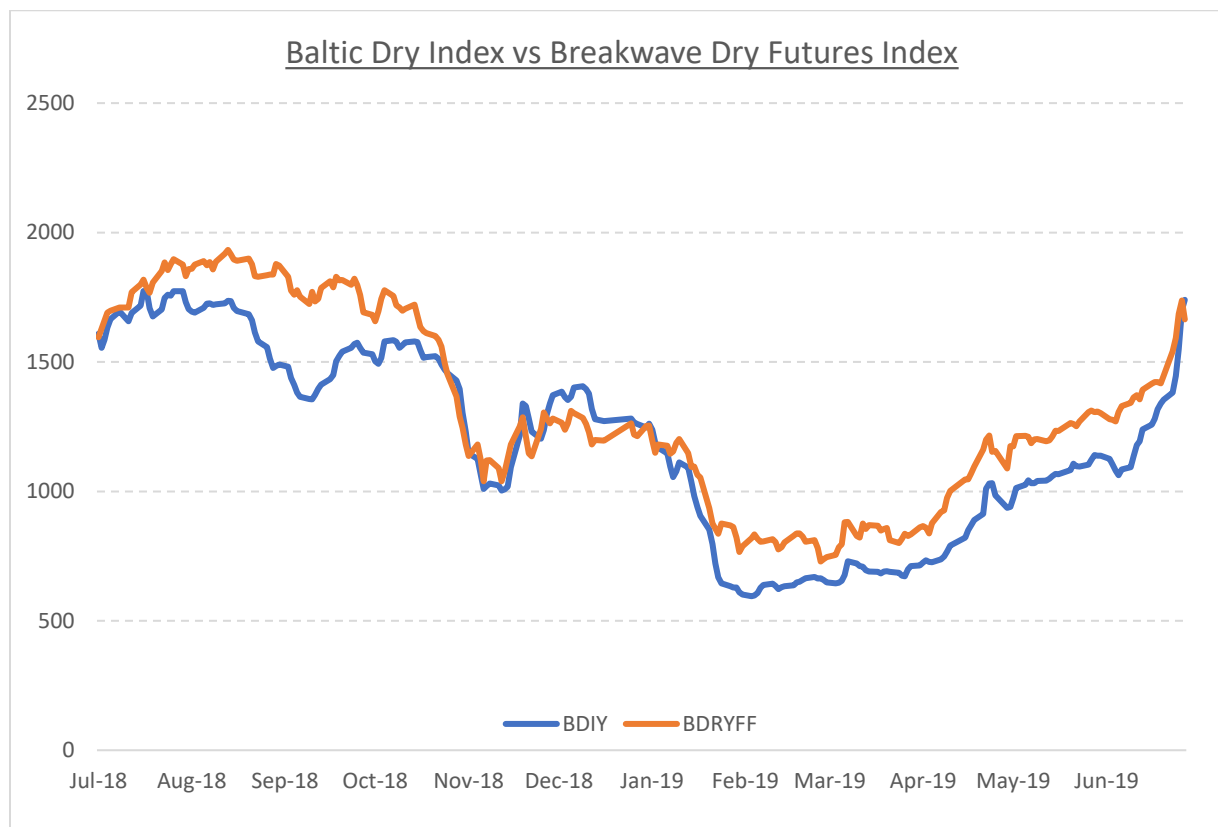
**Short-term Indicators:**

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

## Bi-Weekly Report

- The strongest Capesize market in years** – Capesize rates marching higher with the benchmark Brazil-China (Fronthaul) rate hitting decade highs. Tight vessel availability in the Atlantic basin combined with strong buying interest for iron ore, are the main reasons for the rally, in our view. Iron ore also remains in the strongest bull market in many years, as tight supplies following Vale’s dam incident in January has tilted the balance in this market. Capesize rates are currently assessed at ~26,000/day while Panamax rates also have been particularly strong, currently standing at ~14,000/day.
- A pullback is likely, will create opportunity ahead of Q4 rally** – We remain particularly constructive for dry bulk in the second half of the year, but a tradable pullback is very likely at this point. The rally in freight rates has been extremely strong and rapid, and spot rates are likely to return to the high teens for Capesizes over the next several weeks. However, futures are already in steep backwardation, reflecting such a scenario. We expect spot rates to resume their accent and reached the highest levels in a decade later in the year, something that is currently not fully priced-in the futures market.
- Congestion, offhire and slow steaming are contributing to strength** – We continue to observe the lowest average speed for the Capesize fleet ever recorded. We believe this is a result of the overall logistical distortion following Vale’s reduced iron ore exports, a number of vessels at or heading to the shipyards for scrubber installations and congestion on ports as a result of the fast-moving iron ore price. Low speeds reduce the active fleet supply (more ships needed to move the same amount of cargo) and are a powerful force on pushing freight rates higher.
- Keep an eye on iron ore prices** – We expect iron ore prices to decline towards the \$100/ton mark (currently ~\$120/ton) as we feel the top in this market is in for now. If that is true, sentiment in the iron ore trading market will deteriorate and buyers will hold back on purchases until prices stabilize. The direct result of such scenario is a slowdown on freight bookings, especially for Capesize vessels. Tight vessel supply however, should protect the market from a severe downturn, in our opinion.
- Long term neutral** – Slower economic growth and the maturing nature of the Chinese economy when it comes to infrastructure spending, are two major headwinds for dry bulk shipping. The Chinese steel market is maturing, absorbing less and less incremental iron ore while scrap use is gradually increasing.

*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

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	405mt	10.2%
China Steel Inventories	5.4mt	17.3%
China Iron Ore Imports	424mt	-5.3%
China Iron Ore Inventories	116mt	-26.1%
China Coal Imports	127mt	6.1%
China Soybean Imports	32mt	-12.2%
Brazil Iron Ore Exports	162mt	-8.0%
Australia Iron Ore Exports	331mt	-4.7%

<u>Supply</u>		
Dry Bulk Fleet	853dwt	1.4%

<u>Freight Rates</u>		
Baltic Dry Index, Average	927	-24.6%
Capesize Spot Rates, Average	10,667	-25.3%
Panamax Spot rates, Average	8,420	-23.6%

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, 9<sup>th</sup> floor  
 New York, NY 10280  
 Tel: +(1) 646 775 2898  
 Email: [research@breakwaveadvisors.com](mailto:research@breakwaveadvisors.com)