

Dry Bulk Shipping

August 20, 2019

Breakwave Dry Futures Index: 1,902

↑ 30D: 3.6%
 ↑ YTD: 59.0%
 ↑ YOY: 2.4%

Baltic Dry Index (spot): 2,088

↑ 30D: 3.8%
 ↑ YTD: 64.3%
 ↑ YOY: 21.4%

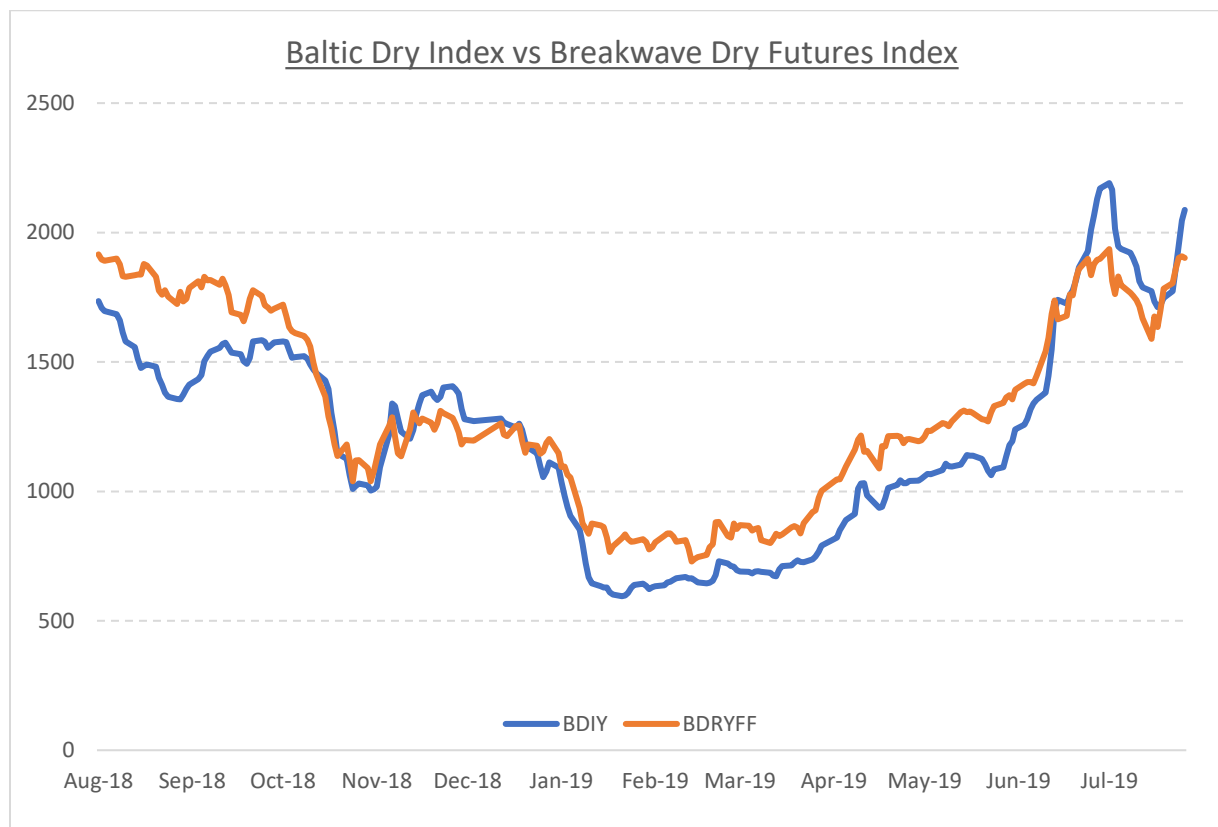
Short-term Indicators:

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

Bi-Weekly Report

- Summer blues? Not for dry bulk** – So far, the summer of 2019 has proven one of the most exciting summers for dry bulk in a long time. Capesize rates remain at high levels compared to recent history, while the Panamax market is thriving, hovering at multi-year highs, in a market that most people will characterize as surprising. Nevertheless, the strength is here and is real, supported by limited vessel availability and strong cargo flows across all basins, with the Atlantic being the driving force behind it. Currently, Capesize rates are averaging about 30,000/day while Panamax rates are close to 18,000/day.
- The next few months to be the most volatile for rates in years** – As we enter the most exciting part of the year for dry bulk, we expect heightened spot rate volatility, beyond what usually this market experiences. The upcoming IMO 2020 fuel regulations will have a profound impact on the overall shipping market, and for dry bulk, that means high volatility. We continue to see increasing likelihood that Capesize spot rates move close to 45,000/day in the next several months, but that will come with steep spikes and deep drawdowns that will remind to a lot of people the old days of the previous cycle.
- Scrubber installations are causing delays** – We continue to hear anecdotal evidence of significant delays in scrubber installations that is keeping an ever-increasing part of the fleet out of service. That is already causing some tightening in the supply/demand balance, and is the main reason, in our view, for the strengthening in spot rates. Such a phenomenon will only intensify as we head towards the end of the year, and we see the conditions as quite favorable for owners who have vessels operating spot.
- Macro risks rising** – Despite all the very shipping-specific bullish factors (i.e. IMO 2020 and scrubber fittings) the current macro environment is not necessarily supportive for shipping. The good thing is that this is happening during a period that shipping-specific factors are keeping rates elevated, and if the economic environment begins to improve over the next several months, shipping would have been “bridged” through the weakness and move to a more sustainable plateau as we enter the next decade.
- 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.

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	577mt	9.0%
China Steel Inventories	6.0mt	47.1%
China Iron Ore Imports	590mt	-4.9%
China Iron Ore Inventories	123mt	-19.4%
China Coal Imports	187mt	7.4%
China Soybean Imports	47mt	-11.3%
Brazil Iron Ore Exports	196mt	-11.0%
Australia Iron Ore Exports	406mt	-3.7%

<u>Supply</u>		
Dry Bulk Fleet	859dwt	2.1%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,107	-15.9%
Capesize Spot Rates, Average	13,759	-15.4%
Panamax Spot rates, Average	9,780	-12.5%

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

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