

Dry Bulk Shipping

September 17, 2019

Breakwave Dry Futures Index: 2,066

↑ 30D: 9.8%
 ↑ YTD: 72.7%
 ↑ YOY: 17.9%

Baltic Dry Index (spot): 2,311

↑ 30D: 10.7%
 ↑ YTD: 81.8%
 ↑ YOY: 69.2%

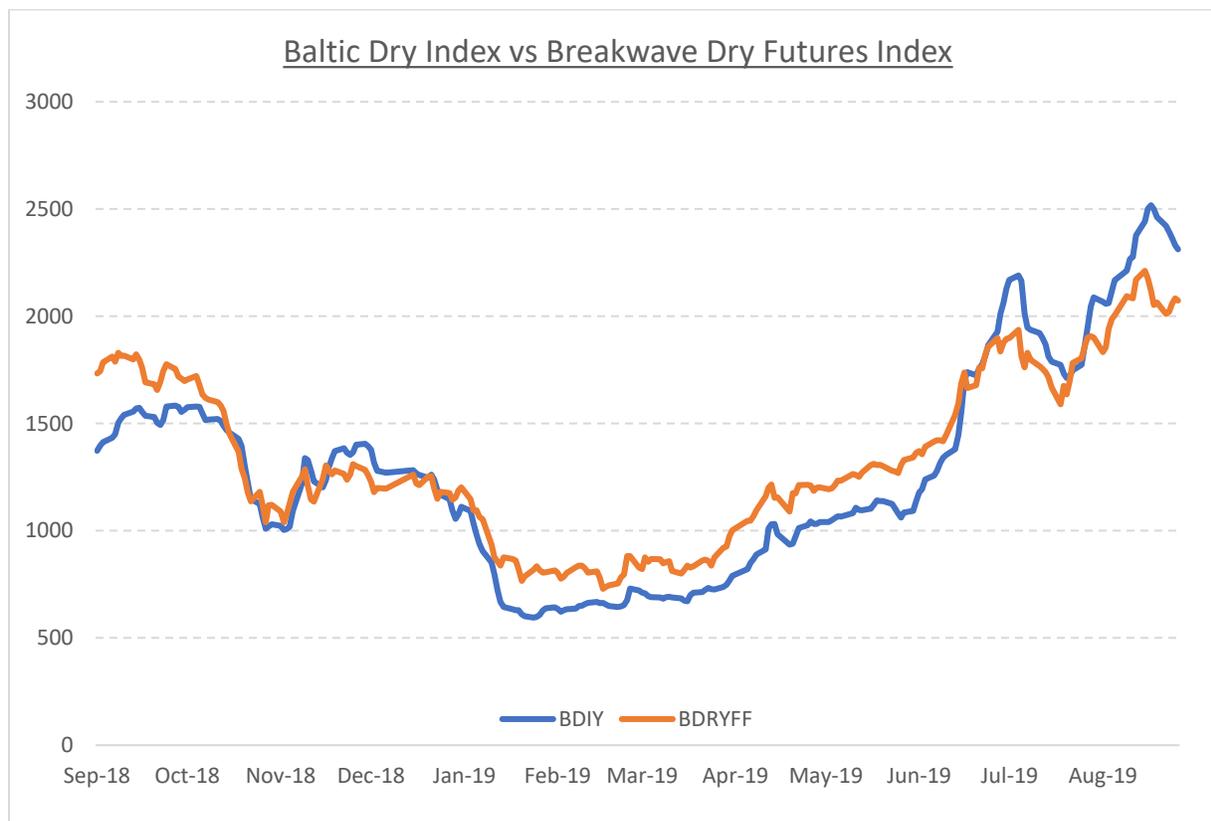
Short-term Indicators:

Momentum: Neutral
 Sentiment: Neutral
 Fundamentals: Positive

Bi-Weekly Report

- Focus turns on spiking fuel prices** – Over the next several months, an unprecedented change is about to occur in the global shipping markets with considerable impact on freight rates. The switch to low sulphur fuel as a result of IMO 2020 regulations is already having a profound effect on the shipping supply/demand balance, which will only intensify as we approach the end of the year. Throw on top of that escalating geopolitical risks with the Saudi Abqaiq complex attack, and fuel prices will take a center stage in the global shipping markets in the months to come. (An important reminder: Although the industry most often refers to freight rates as a “net of fuel” price, the actual physical market mostly transacts on a “gross of fuel” basis and the price of fuel during volatile periods can materially affect freight rates). Capesize rates are currently averaging about 34,000/day while Panamax rates are approximately 17,000/day.
- Dry bulk rates should continue to drift lower** – We believe the ongoing correction in freight rates will persist until month end, as cargo flow is easing a bit, following the surge in activity during August. Nevertheless, our confidence on this prediction is low as delays and logistical issues due to scrubber installations and fuel shortages can potentially cause vessel positioning squeezes and once again lead to spikes in rates irrespective of the demand picture. Although posted rates paint a bullish picture, owners with vessels undergoing retrofitting are missing the greatest rally in a decade while surging cash premiums for fuel means lower realized earnings compared to headline indices. A bright exception is the cash-settled freight futures market where 100% of this very strong market is currently being realized for holders of such contracts.
- China iron ore imports remain strong, steel production supports trade** – On the demand side, we continue to observe relatively robust activity, with the exception of grains. Iron ore trading has recovered from the slump earlier in the year (due to the Vale dam rupture incident) and coal remains stable. A ramp up in iron ore exports during the fourth quarter is not a given (seasonally strong period), but because of the lower exports during the first quarter, it seems more likely compared to previous years.
- We remain quite bullish for the next six months, disruptions mean high freight rates** – Given what we observe in the physical market, we won’t be surprised to see rates at levels most people would have thought they will never see again. However, as we discussed, that does not mean the whole industry will be realizing such strong levels. Being at the right place at the right time is always very important, although the headline indices can experience significant moves to the upside.

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	665mt	9.1%
China Steel Inventories	5.2mt	23.6%
China Iron Ore Imports	685mt	-3.5%
China Iron Ore Inventories	125mt	-16.6%
China Coal Imports	220mt	8.4%
China Soybean Imports	56mt	-9.1%
Brazil Iron Ore Exports	226mt	-11.6%
Australia Iron Ore Exports	475mt	-2.6%

<u>Supply</u>		
Dry Bulk Fleet	862dwt	2.4%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,241	-7.7%
Capesize Spot Rates, Average	15,973	-4.8%
Panamax Spot rates, Average	10,654	-5.9%

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

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