

# Dry Bulk Shipping

May 14, 2019

**Breakwave Dry Futures Index: 1,216**

↑ 30D: 38.4%  
 ↑ YTD: 1.4%  
 ↓ YOY: -20.4%

**Baltic Dry Index (spot): 1,026**

↑ 30D: 41.3%  
 ↓ YTD: -19.3%  
 ↓ YOY: -30.3%

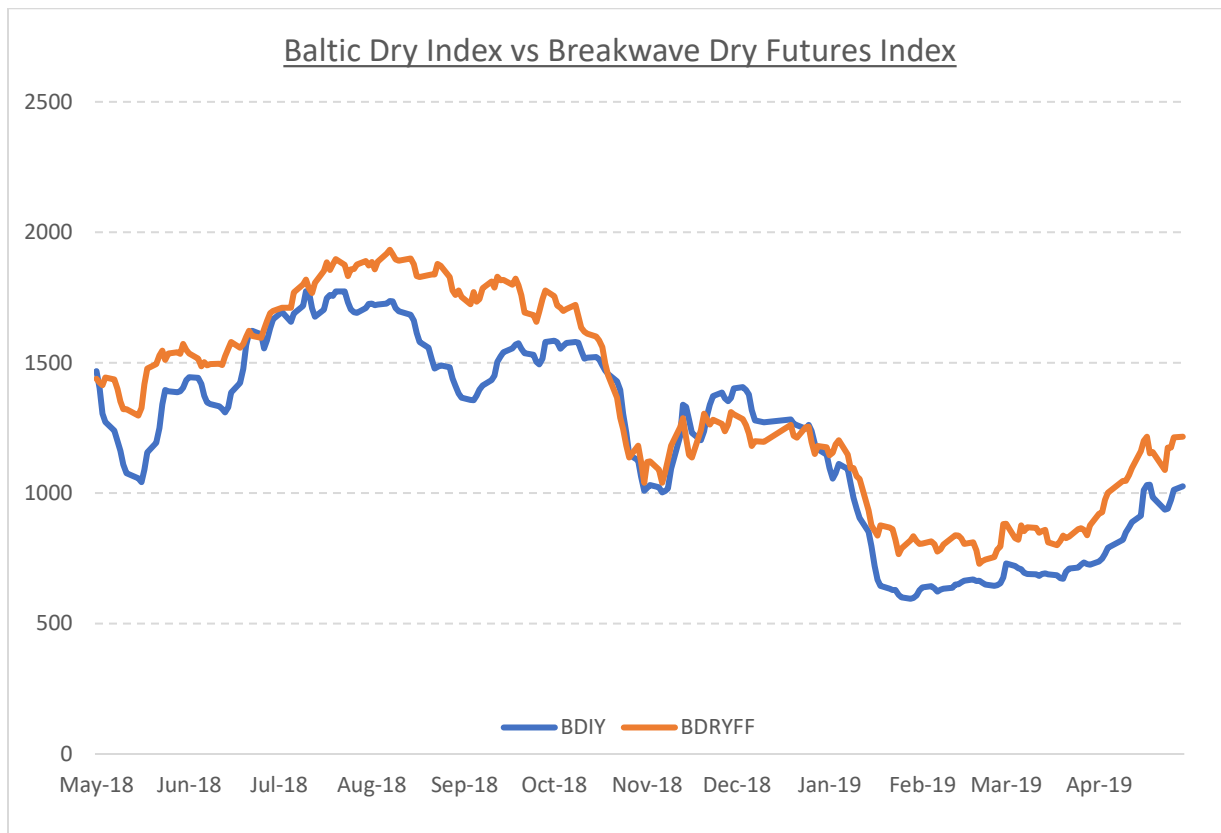
**Short-term Indicators:**

Momentum: Neutral  
 Sentiment: Positive  
 Fundamentals: Positive

## Bi-Weekly Report

- Congestion/slow steaming tightening the Capesize market, in our view** - Despite the nonexistent spot market for Capesizes in the Atlantic, spot rates continue to be well supported. We believe the high congestion in Brazil as a result of the disruptions over the last several months, is the reason why the rest of the Capesize market has slowly improved. Although we view the current development as short term, Capesize rates are now on par to historical levels based on seasonality. Capesize rates are averaging about 12,000/day while Panamax rates remain flat at around 9,500/day.
- Vale production updates not supportive, recovery will take a long time** - Last week, Brazilian miner Vale provided an update on their expectations for the timing of recovery, following the January dam deadly incident that has caused a considerable disruption in Vale's iron ore production and exports. Based on their comments, we expect that Vale won't fully recover from its previous production target (400mt per year) before 2021. Although we expect some ramp up in exports in the next 18 months (weather related disruption resummptions plus inventory rebuilding), on a recurring basis, the increases in production and exports will be roughly 30mt per year for the next few years, at best.
- Iron ore inventories continue to draw, iron ore market balance tight** - This year's unexpected disruptions due to accidents and weather, have brought the global iron ore market to its tightest level in many years. The difference this time around, however, is that this is a supply-driven event, compared to earlier in the decade when strong demand drove prices well above \$100/ton. We expect iron ore prices to match or even exceed the levels experienced earlier in the decade as it is very difficult to see any incremental availability of iron ore production while at the same time global inventories should continue to tighten.
- US-China trade dispute remains a concern** - Although it is anybody's guess what the outcome of the year-long trade dispute between the two largest economies will be, the cloud over the smaller size dry bulk segment remains. Smaller vessels ship the great majority of grains out of the US, mostly during the second half of each year. So far, the trade war has had a small impact on freight rates, but it remains to be seen what the Q4 export volumes out of the US Gulf will look like this time around.
- 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

China Steel Production	231mt	9.9%
China Steel Inventories	5.7mt	-11.6%
China Iron Ore Imports	340mt	-3.7%
China Iron Ore Inventories	133mt	-16.7%
China Coal Imports	100mt	2.3%
China Soybean Imports	24mt	-7.9%
Brazil Iron Ore Exports	103mt	-6.8%
Australia Iron Ore Exports	188mt	-5.5%

### Supply

Dry Bulk Fleet	848dwt	0.8%
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### Freight Rates

Baltic Dry Index, Average	809	-31.7%
Capesize Spot Rates, Average	8,413	-36.3%
Panamax Spot rates, Average	7,677	-31.5%

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

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