

Dry Bulk Shipping

August 4, 2020

Breakwave Dry Futures Index: 1,541

↓ 30D: -14.9%

↑ YTD: 50.8%

↓ YOY: -7.6%

Baltic Dry Index (spot): 1,350

↓ 30D: -28.7%

↑ YTD: 23.9%

↓ YOY: -24.5%

Short-term Indicators:

Momentum: **Neutral**

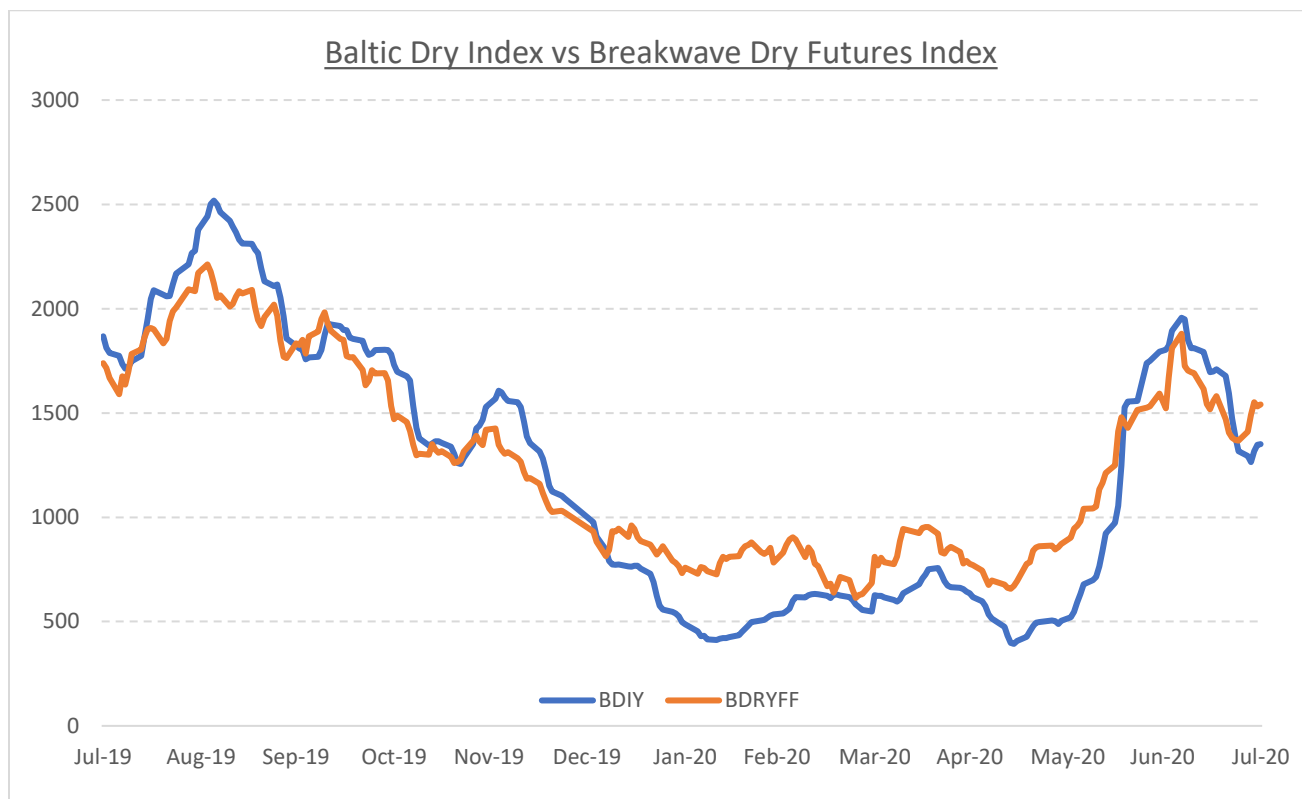
Sentiment: **Neutral**

Fundamentals: **Positive**

Bi-Weekly Report

- Capesize spot rates stabilize** – Following a significant steep drop in Capesize spot rates, a process that lasted almost two weeks, some much needed stabilization came into play at the end of last week, albeit 50% lower compared to the early July levels. In fact, the Pacific market has even started to increase once again after losing more than 20,000/day from its peak, while the Atlantic market has also seen some increased inquiry and, as a result, rate stability. Although the average spot rate broke the physiological 20,000/day mark, activity actually remains healthy and enough to keep that rough price level as support in the months ahead. Seasonality continues to be a tailwind for the dry bulk market for the remainder of the year, and although unanticipated events can derail such a ramp up in activity as it happened in the last two years, we expect the fourth quarter to see average Capesize rates in excess of the third quarter, something that currently is not priced in the futures market. As we enter the month of August, Capesize spot rates are approximately 18,000 while Panamax rates are averaging just below 10,000.
- Vale remains confident on delivering its promised iron ore target for 2020** – Last week, Vale reaffirmed its iron ore production guidance for the year of 310-330 million tons. Based on its reported first half actual production, a simple subtraction reveals a very heavy second half production schedule that should translate to significantly higher iron ore exports out of Brazil (Vale accounts for approximately 90% of Brazilian iron ore exports). Given the strong positive relationship between Brazilian iron ore exports and Capesize spot rates, we anticipate a rebound in export activity as we enter August which ultimately should translate to gradually higher spot rates. The futures curve is overly pessimistic, in our view, with a flat forward curve versus current spot rates, questioning the potential for higher iron ore export activity and thus higher spot fixing levels.
- Smaller sizes also benefit from a rebound in economic activity, restocking** – With an estimated USD \$20 Trillion of stimulus globally (USD \$9 trillion monetary, USD \$11 trillion fiscal) we anticipate higher economic activity in the months and quarters ahead. Dry bulk shipping is a levered play on the global economy and as such should experience a revival in demand. Grains trading is also keeping a lot of vessels busy, with multi-year highs in terms of US export quantities (both for corn and soybeans). All in all, the environment over the next six months will be favorable for smaller size dry bulk vessels, even though year-to-date Panamax/Supramax freight rates have underperformed.
- The stage is slowly set for a better 2021** – In an economic environment characterized by extreme uncertainty in all fronts, it is a fool's game to try to predict economic activity as far as even three months out. Yet, if we were hard-pressed to slowly put some numbers around 2021 supply and demand (and subject to a number of factors around normalization of economic activity that by no means are better than a guess given what the world has experienced so far in 2020), we see a continuation of the tightening balance for dry bulk shipping, as the comparisons to the first half of 2020 will look quite favorable both fundamentally as well as pricing-wise.

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	499mt	1.4%
China Steel Inventories	7.9mt	31.7%
China Iron Ore Inventories	117mt	-3.4%
China Iron Ore Imports	547mt	9.6%
China Coal Imports	174mt	12.6%
China Soybean Imports	45mt	17.7%
Brazil Iron Ore Exports	172mt	-12.5%
Australia Iron Ore Exports	347mt	4.9%

Supply

Dry Bulk Fleet	906dwt	3.1%
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Freight Rates

Baltic Dry Index, Average	832	-21.3%
Capesize Spot Rates, Average	9,879	-23.7%
Panamax Spot rates, Average	6,700	-28.7%

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

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