

Dry Bulk Shipping

June 9, 2020

Breakwave Dry Futures Index: 1,046

↑ 30D: 49.3%
 ↑ YTD: 1.9%
 ↓ YOY: -20.1%

Baltic Dry Index (spot): 698

↑ 30D: 35.8%
 ↓ YTD: -36.0%
 ↓ YOY: -38.7%

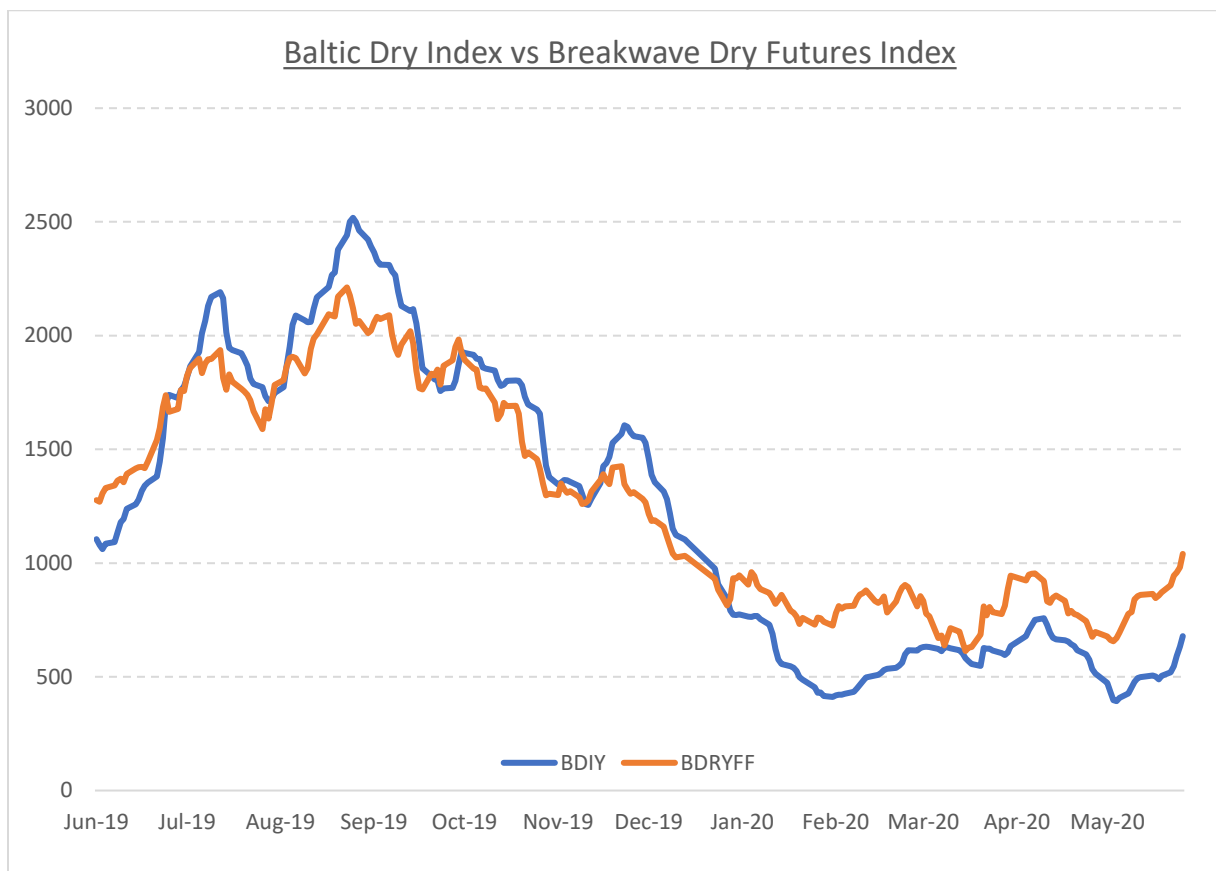
Short-term Indicators:

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

Bi-Weekly Report

- Capesize rates jump, but Vale’s news take some steam out of recent rally** – Increasing cargo flow in the Atlantic, mainly ex-Brazil, and stronger freight numbers out of Australia pushed Capesize rates higher over the last few weeks. Although it is an exciting development, one should always put things into perspective: Capesize rates were at the lowest level ever for this time of the year and remain extremely weak despite the recent 100%+ rally. It is the relative change that looks impressive, but absolute prices remain at depression-like levels. Additionally, the bearish news out of Brazil (discussed below) took some steam out of a heated freight futures market, a welcoming development as premiums have recently reached very high levels shifting the risk/reward dramatically for the prompt contracts. Overall, the direction of spot freight rates is positive, and we expect further gains, though at a more measured pace (at least percentagewise). Capesize average rates are currently approximately 8,000/day while Panamax vessels earn about 6,000/day on average.
- Vale’s news could psychologically have a negative impact, but by no means is a gamechanger yet** – On Friday evening, a judge ordered several of Vale’s mines to halt operations after 188 workers tested positive for Coronavirus. The halt is in place until a final court ruling or until Vale satisfies labor inspectors on its measures, with a daily fine of 500,000 reais. Following that, Vale said that such stoppage will have no impact for now on its recent annual guidance for iron ore production in the range of 310-330 million mt. This is important, and we believe a resumption of production in the next few weeks will have an immaterial impact on overall production and on exports. On the other hand, a prolonged stoppage will lead to lower cargo flow and thus a more measured recovery in freight rates. The situation is quite fluid, to say the least: What is the extend of the virus impact on Vale’s operations? Is the northern system next in line? How about logistical issues? All the above increase the risk of lower exports and thus weaker demand for Capesize vessels, although, for , nothing has really changed materially, and the positive rate trajectory is still in place. It is the risk of the future cargo flow that has increased, which naturally reduces the “option” premium embedded on freight futures.
- Smaller size vessels finally found support** – Panamax and Supramax rates have found some support over the last few weeks, with more cargo flow and improving sentiment aiding the market. However, once again we want to stress the extremely low levels recently reached and the relative in nature positive change. Absolute levels still hover around operating expenses and although the outlook has improved, it is nowhere near profitable levels for the average shipowner. Yet, it is a start, and whether this is a trend it is yet to be seen, as global trade is still trying to find its footing following the global pandemic disruption. Summer historically is not a great period for smaller size dry bulk vessels (shoulder period between the North and South hemisphere grain harvesting seasons), but given the disruptions so far this year, it won’t be surprising if summer ends up being relatively strong.

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	319mt	1.3%
China Steel Inventories	7.4mt	47.3%
China Iron Ore Imports	445mt	5.1%
China Iron Ore Inventories	109mt	-10.8%
China Coal Imports	149mt	16.7%
China Soybean Imports	34mt	6.7%
Brazil Iron Ore Exports	71mt	-16.3%
Australia Iron Ore Exports	272mt	7.0%

Supply

Dry Bulk Fleet	896dwt	2.0%
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Freight Rates

Baltic Dry Index, Average	589	-31.2%
Capesize Spot Rates, Average	5,146	-44.1%
Panamax Spot rates, Average	5,547	-31.7%

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

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