

# Dry Bulk Shipping

September 29, 2020

**Breakwave Dry Futures Index: 1,651**

↓ 30D: -0.7%  
 ↑ YTD: 61.3%  
 ↓ YOY: -6.5%

**Baltic Dry Index (spot): 1,654**

↑ 30D: 11.2%  
 ↑ YTD: 51.7%  
 ↓ YOY: -10.9%

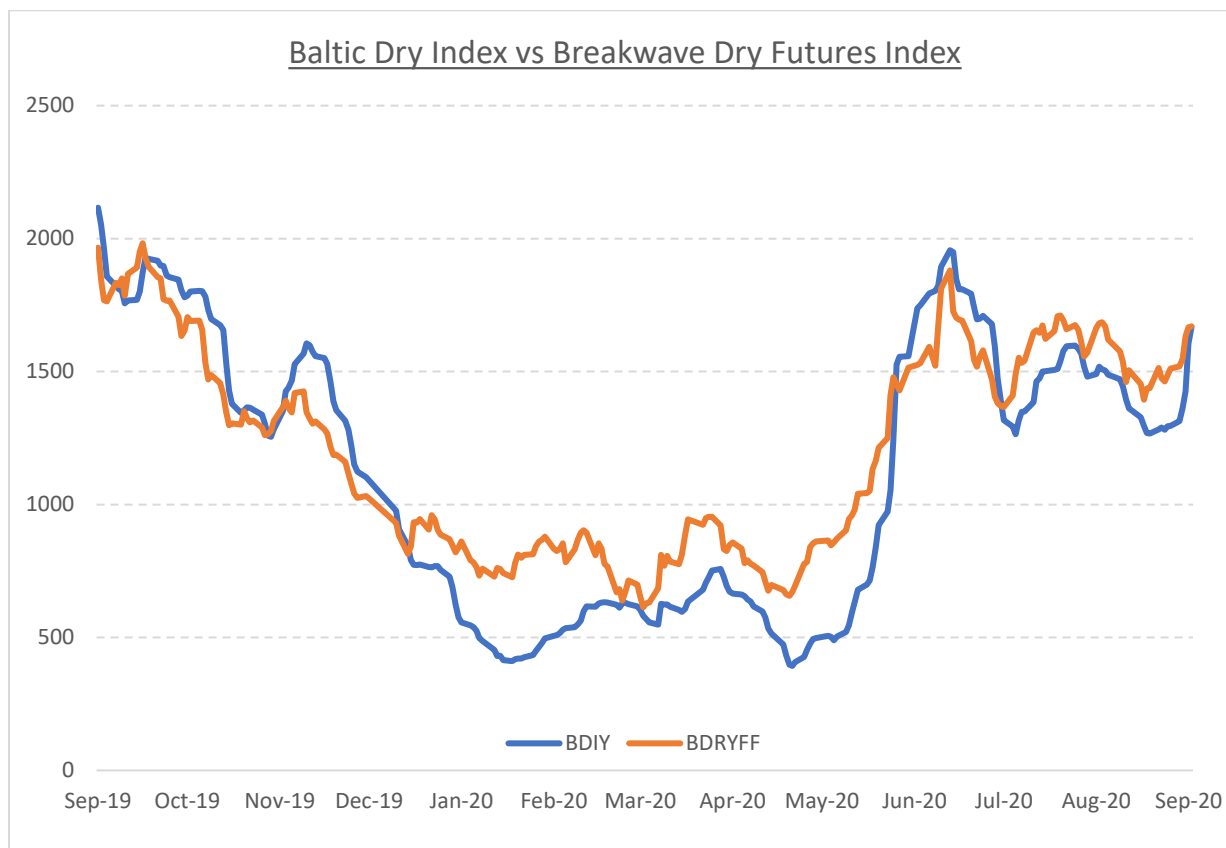
**Short-term Indicators:**

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

## Bi-Weekly Report

- Capesize spot rates rally as tightness becomes evident** – The Capesize market posted one of the best weekly performances last week, with the average spot rate jumping 53% week-over-week, reaching a two-month high and catching a lot of market participants by surprise. Tightness in both the Pacific and the Atlantic basis drove spot rates higher, although there was no significant improvement in chartering activity based on spot fixtures. That is particularly encouraging as we anticipate further volume, and thus chartering activity, improvements as the winter progresses. The Capesize market looks tight, in our view, as evident by the violent move in spot rates last week: As in every commodity market, higher volatility implies an imbalance in demand and supply, and the greater the imbalance, the stronger the price reaction. The significant move has now woken up market participants from the lethargic market activity and narrow trading range of the last few months, and although the future progression of the market is always uncertain, we believe any correction from here will be short lived and merely a consolidation of recent gains, as near-term fundamentals look supportive of higher rates. We believe the Capesize market can take out the summer highs sometime in the next two months, something that is not priced in the futures curve that is now backwardated in a period that historically has produced the strongest returns for Capesizes (absent the last two years that unforeseen events had a negative impact on spot rates). Currently Capesize spot rates average about 24,000 while Panamax spot rates are around 11,000.
- Port congestion to intensify on COVID-19 crew inspections** – The COVID-19 pandemic continues to have a significant impact on shipping operations, not only affecting dry bulk, but the broader shipping market as well. On top of the considerable effect in economic activity that the pandemic has already caused, the current restriction in crew changes combined with quarantine and crew inspection protocols around the world and especially in China, is causing increased port congestion as well as longer sailing times from loading to discharging ports caused by diversions to third country ports in order to complete the necessary crew changes. Over time, such delays lead to tightness in the supply/demand balance and, as a result, is supportive of higher freight rates across the shipping spectrum. For dry bulk, we anticipate such tightness to increase further during the winter months.
- 2021 freight futures continue to look cheap** – The macro environment remains highly uncertain not only for shipping but for most commodities. As a result, trying to make predictions and build forecasts for a year forward is extremely challenging. For shipping, however, the fact that the supply side is fairly predictable at least a year in advance (lead times for ship building is approximately 2 years), provides a relative advantage versus other industries. The orderbook remains low and the supply side is manageable when it comes to dry bulk. Assuming consensus views for the global economy, we believe the balance of the market can support higher rates versus what is priced in the futures market today, namely around 13,500 for Capesizes and 10,000 for Panamaxes.

*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

|                            | <u>YTD</u> | <u>YOY</u> |
|----------------------------|------------|------------|
| China Steel Production     | 689mt      | 3.6%       |
| China Steel Inventories    | 7.9mt      | 64.1%      |
| China Iron Ore Inventories | 120mt      | -4.2%      |
| China Iron Ore Imports     | 760mt      | 11.0%      |
| China Coal Imports         | 221mt      | 0.2%       |
| China Soybean Imports      | 65mt       | 15.0%      |
| Brazil Iron Ore Exports    | 210mt      | -8.7%      |
| Australia Iron Ore Exports | 501mt      | 5.5%       |

### Supply

|                |        |      |
|----------------|--------|------|
| Dry Bulk Fleet | 909dwt | 3.5% |
|----------------|--------|------|

### Freight Rates

|                              |        |        |
|------------------------------|--------|--------|
| Baltic Dry Index, Average    | 960    | -25.0% |
| Capesize Spot Rates, Average | 11,625 | -30.0% |
| Panamax Spot rates, Average  | 7,854  | -27.8% |

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

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