

Dry Bulk Shipping

December 10, 2019

Breakwave Dry Futures Index: 1,304

↓ 30D: -3.2%

↑ YTD: 9.0%

↑ YOY: 3.3%

Baltic Dry Index (spot): 1,558

↑ 30D: 1.6%

↑ YTD: 22.6%

↑ YOY: 16.4%

Short-term Indicators:

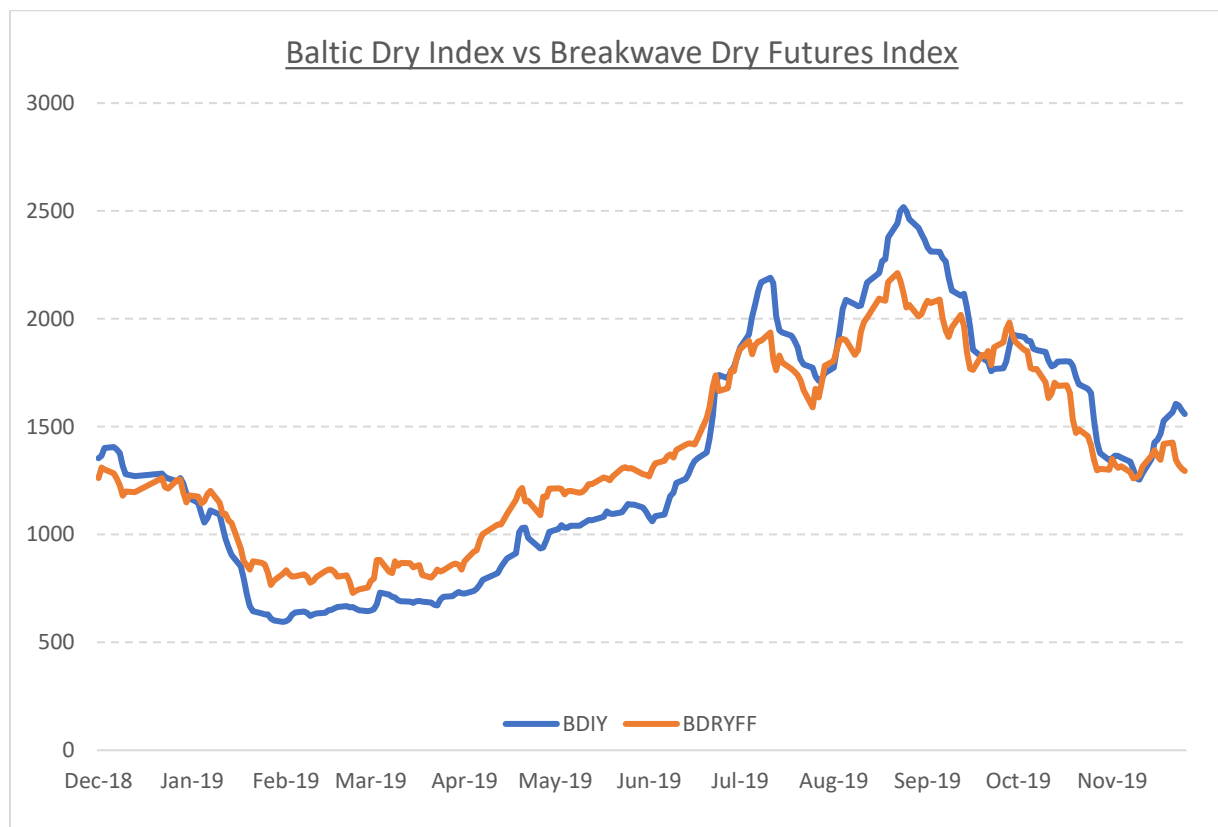
Momentum: **Neutral**

Sentiment: **Positive**

Fundamentals: **Neutral**

Bi-Weekly Report

- Fourth quarter disappointment for second year in a row** – The Capesize market failed to live up to expectations for an end of year rally for the second year in a row. The late November uptick in rates was short lived and the tightness in the Atlantic not enough to propel rates much higher than their usual expected volatility. For a second year in a row, the fourth quarter average rates will trail those of the third quarter, an unusual pattern that now aims to challenge the long-held belief that seasonally rate pick in the fourth quarter. Interestingly, the futures curve is also slowly adapting to such a change, with next year's Q3 and Q4 expected rates now about even, a significant change from previous years that show fourth quarter expectations usually trading at a significant premium to those of the third quarter. Capesize rates are currently averaging about 23,000/day while panama rates are approximately 11,000/day.
- IMO 2020 fuel switching is affecting the TCE rate calculations** – With the upcoming switch to the new, IMO 2020 compliant fuel well under way, the posted time-charter equivalent rates (TCE) are facing a significant headwind as we approach the end of the year. The shipping industry benchmark rate, the time-charter rate equivalent or TCE, is calculated by subtracting fuel costs. Thus, the ongoing transition to a fuel that costs more than \$250/ton more, is having a profound impact on the TCE rates, with the difference now approaching 10,000/day for Capesize vessels and more than 6,000/day for Panamax vessels. That means that all else being equal, Capesize rates should be approximately 30,000/day based on prevailing voyage spot rates. Instead, with higher fuel costs ongoing, owners have been unable to pass the higher fuel costs to charterers in the form of higher voyage rates and instead are absorbing most of the hit in fuel costs due to IMO 2020.
- 2020 brings tepid demand growth, though vessel supply remains also at low levels** – We expect iron ore trade to remain relatively flat next year, as major iron ore producers are guiding towards minimal production gains, on average, while China steel demand growth is slowing down from the frantic 1H 2019 levels. Coal trade had a strong year in 2019, but we don't translate that to an ongoing trend, and although that might surprise to the upside once again, we believe a similar year next year is in the cards. Grains could potentially push ton-mile demand higher, but by itself is insufficient to significantly change the demand/supply balance of the broader dry bulk trade.
- Environmental concerns front and center for shipping** – For shipping, developments as it relates to carbon emissions are rapidly becoming a very important matter. Although for years such concerns would be just a topic for a longer-term discussion, major charterers are pushing the environmental agenda much faster than the industry can absorb. Such issues will continue to limit new ship ordering as the combustion engine technologies of the future are still debatable and highly uncertain.



Dry Bulk Fundamentals

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	829mt	7.4%
China Steel Inventories	2.9mt	0.3%
China Iron Ore Imports	877mt	-1.6%
China Iron Ore Inventories	130mt	-4.9%
China Coal Imports	276mt	9.9%
China Soybean Imports	71mt	-8.0%
Brazil Iron Ore Exports	285mt	-13.0%
Australia Iron Ore Exports	688mt	-1.3%

<u>Supply</u>		
Dry Bulk Fleet	872dwt	3.7%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,356	0.2%
Capesize Spot Rates, Average	18,049	9.3%
Panamax Spot rates, Average	11,131	-4.5%

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

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