

Dry Bulk Shipping

December 24, 2019

Breakwave Dry Futures Index: 1,032

↓ 30D: -21.5%
 ↓ YTD: -13.7%
 ↓ YOY: -13.9%

Baltic Dry Index (spot): 1,103

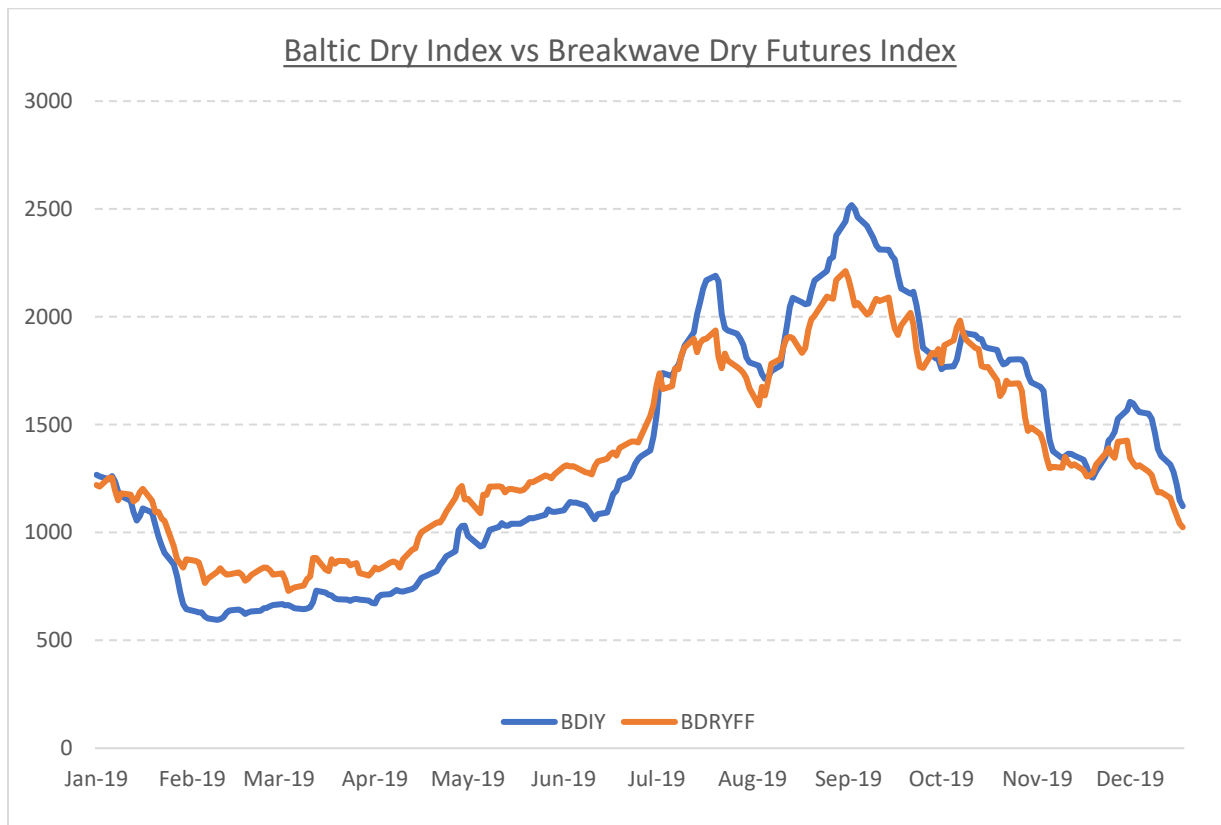
↓ 30D: -14.1%
 ↓ YTD: -13.2%
 ↓ YOY: -13.8%

Short-term Indicators:

Momentum: **Negative**
 Sentiment: **Neutral**
 Fundamentals: **Neutral**

Bi-Weekly Report

- IMO 2020 in full throttle mode** – The gradual “roll” of the embedded fuel cost on time charter equivalent (TCE) earnings has been having a detrimental effect on rates as implied compliant fuel (VLSFO) prices are now more than 2X higher compared to High Sulphur Fuel Oil (HSFO) prices that have now collapsed close to all-time lows (relative to crude oil). Although voyage rates (rates that include the cost of fuel) have declined only marginally, the considerable jump in fuel have pushed rates to six-month lows. Capesize rates are currently averaging below 15,000/day while Panamax rates are about 9,000/day.
- 2020 is starting weak, in line with comparable levels of recent years** – Although the market has failed to sustain the last several months’ strength, it is still entering the new year at relatively healthy levels, considering that the first quarter is historically the weakest period of the year. We anticipate a rebound in early January, as charterers return after the holiday break, and an average rate of ~15,000/day achieved for Capesize vessels during the first quarter will be a significant win for shipowners, given all the headwinds the industry is facing.
- Global economy performing well** – Although one can always find several negatives when it comes to economic activity, the global economy in general, and Chinese economy more specifically, are showing signs of resilience. As a result, we expect iron ore imports to China to remain roughly at 2019 levels, with some small growth likely and highly dependent on the specific iron ore market fundamentals. Coal remains the wildcard it has always been, and we don't anticipate much change from 2019 levels when it comes to trade volumes. Grains should improve year-over-year and should experience decent volumes. Nevertheless, grains remain a small part of the overall dry bulk freight market.
- High fuel prices should lead to slower steaming speeds** – The IMO 2020 impact on fuel costs should lead to slower steaming and thus lower overall ship supply, all else being equal. As such, the demand/supply balance for shipping in general and for dry bulk more specifically, should tilt towards stronger rates. However, such impact should be marginal, in our view, and not enough to cause a major change in freight rates. Volatility though once again will remain significant and in line with recent years.
- 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	904mt	7.0%
China Steel Inventories	3.0mt	2.6%
China Iron Ore Imports	968mt	-1.0%
China Iron Ore Inventories	129mt	-5.6%
China Coal Imports	297mt	9.8%
China Soybean Imports	79mt	-4.0%
Brazil Iron Ore Exports	312mt	-13.6%
Australia Iron Ore Exports	688mt	-1.3%

<u>Supply</u>		
Dry Bulk Fleet	873dwt	3.8%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,354	0.1%
Capesize Spot Rates, Average	18,040	9.1%
Panamax Spot rates, Average	11,120	-4.6%

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

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