

# Dry Bulk Shipping

November 12, 2019

**Breakwave Dry Futures Index: 1,300**

↓ 30D: -31.3%  
 ↑ YTD: 8.6%  
 ↑ YOY: 14.4%

**Baltic Dry Index (spot): 1,345**

↓ 30D: -30.1%  
 ↑ YTD: 5.8%  
 ↑ YOY: 17.3%

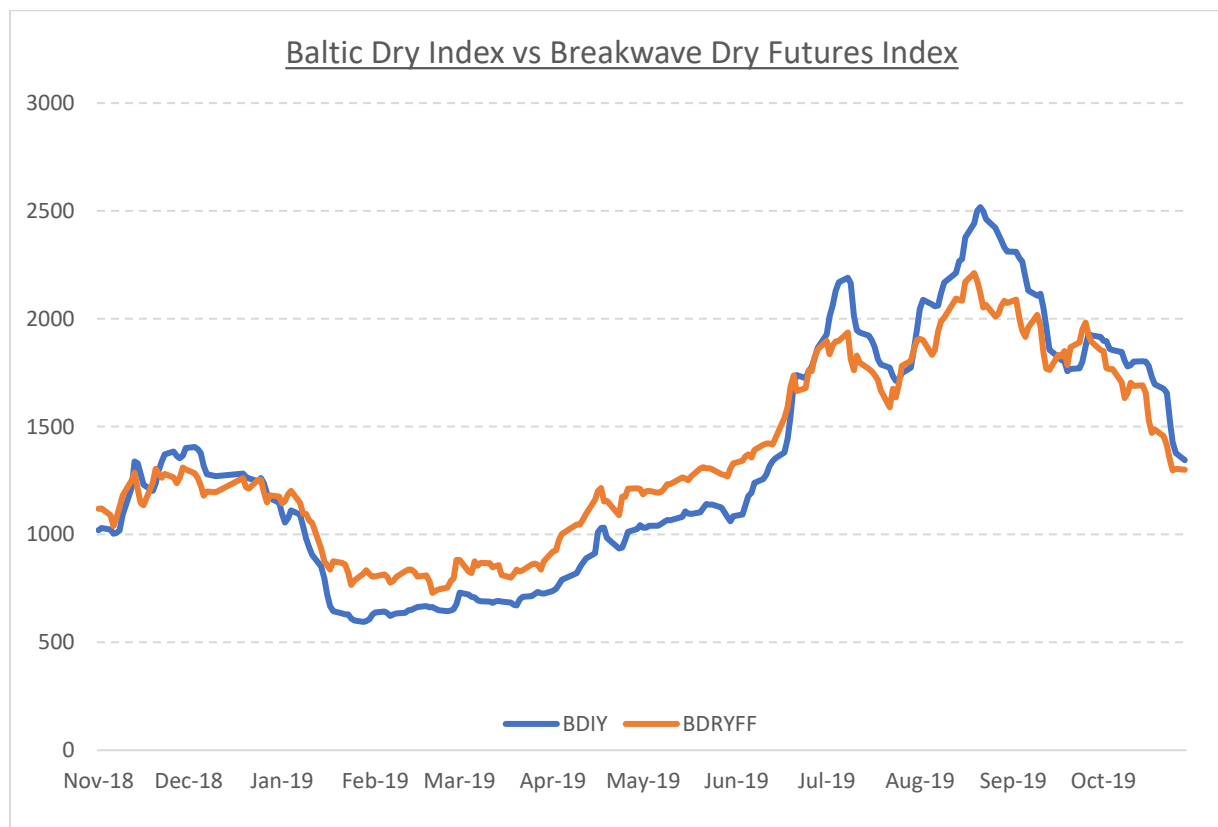
**Short-term Indicators:**

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

## Bi-Weekly Report

- We expect Capesize rates to turn up soon, although fundamentals are now less favorable** – Following a slump of about 50% from their highs reached in early September, Capesize rates seem to have stabilized and we expect a short-term rebound before the end of November. Yet, we now believe that the fundamental picture has weakened a bit, with Vale reducing exports, iron ore prices remaining relatively flattish and vessel supply in both basins looking decent. Seasonally, the Atlantic basin has room to strengthen, mainly due to weather and spot related demand for some coal, but iron ore exports for the fourth quarter out of Brazil should trail last year's levels and thus we don't anticipate any spectacular rally in freight rates. Vale has for months now been quite optimistic about their recovery efforts, and that was pointing to a stronger market towards the end of the year; now, with reduced expectations, demand and supply for dry bulk looks more balanced. Capesize rates are currently around 20,000/day while Panamax rates are hovering at about 10,000/day.
- Vale cuts iron ore sales guidance** – This week, Vale reduced its iron ore sales guidance for 2019, which implies a decline in sales for the year of approximately 15%. Although most of the decline occurred in the first half of the year (~20%), during the second half, despite the ongoing recovery, sales will still be down more than 10% compared to the same period last year. Looking at Brazil's overall iron ore exports, some of the decline will be made up from Anglo-American's resumption in production/exports following their own accident in 2018, but we expect Brazilian iron ore exports for the year to still be down approximately 10%. Looking into next year, some recovery is expected, but we don't anticipate export levels to reach 2018 run rates before late 2021.
- Smaller size vessels also in decline** – Although rates for larger vessels is usually the focus of the market given their relatively high volatility, smaller size vessels have also experienced significant declines from their respective recent highs. Supramax spot rates are back below 10,000/day, after spending most of the year above that level. Panamax spot rates have also been in a steady decline since early September (~45% drop) and are now trailing last year. Although part of the story there has to do with the ongoing US-China dispute that has limited the amount of grain exports out of the US Gulf, there is a spill-on effect from larger vessels but also a general softness in the overall dry bulk sector: The Baltic Dry Index average year-to-date is now below last year's level, despite the considerable strength during the third quarter.
- 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.

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

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	748mt	8.4%
China Steel Inventories	3.5mt	7.3%
China Iron Ore Imports	877mt	-1.6%
China Iron Ore Inventories	132mt	-6.3%
China Coal Imports	276mt	9.9%
China Soybean Imports	71mt	-8.0%
Brazil Iron Ore Exports	285mt	-13.0%
Australia Iron Ore Exports	619mt	-1.4%

<u>Supply</u>		
Dry Bulk Fleet	870dwt	3.4%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,350	-1.5%
Capesize Spot Rates, Average	17,727	4.8%
Panamax Spot rates, Average	11,269	-3.3%

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

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