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Dry Bulk Shipping

November 26, 2019

Breakwave Dry Futures Index: 1,309	Baltic Dry Index (spot): 1,351	Short-term Indicators:	
↓ 30D: -22.2%	↓ 30D: -25.0%	Momentum:	Positive
↑ YTD: 9.9%	↑ YTD: 6.3%	Sentiment:	Positive
↑ YOY: 11.3%	↑ YOY: 23.6%	Fundamentals:	Neutral

Bi-Weekly Report

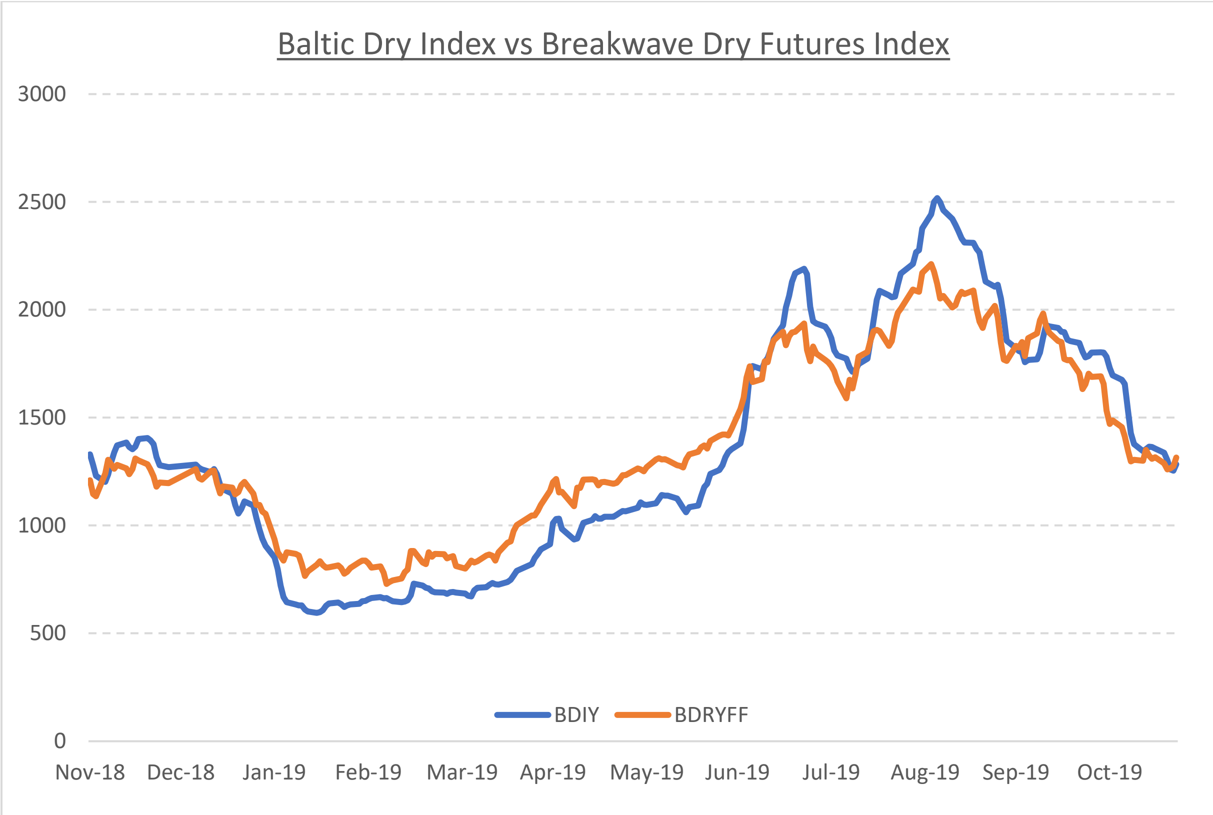
- **Capesize rates on the rebound, as end-of-year cargoes appear –** The fortunes of Capesize owners is slowly turning for the better, following the significant correction over the past two months. Despite the recent economic and technical (see fuel switching) headwinds, rates for the large bulkers found support in the 20,000/day range, which if indeed holds, will represent a major victory signifying the strength of the underlying market balance. Although it is too early to say whether such a strength is due to IMO2020 associated disruptions or it is a fundamental swift in the supply/demand equilibrium, given the broader rebound in the steel complex (iron ore and steel prices have been rallying hard over the last few weeks) we believe there is more to come and we would not be surprised if we see Capesize rates hitting 30,000/day towards the end of this year. Currently, Capesize rates are averaging about 21,000/day while Panamax rates are hovering at about 9,000/day.

- **Fuel prices will hit earnings, but not as bad as previously thought –** The switch to the new, IMO 2020 complaint fuel is proving to be a major event for the shipping industry and will have an impact on the net earnings shipowners receive. The shipping industry benchmark rate, called the time-charter rate equivalent (TCE), is calculated by subtracting fuel costs, and given that such costs are about to jump by 50%-60% overnight, the impact on TCE rates will be meaningful. However, one must remember that the price difference is not the result of higher compliant fuel prices but of the significant drop in the “old” fuel prices, which in turn is the result of a reduction in the demand for such fuel. For example, when one compares fuel prices to last year levels, the actual increase is ~15% (on an “apples-to-apples” basis) with half of that attributed to higher crude oil prices. High Sulphur Fuel Oil prices have basically crashed, and that makes the present comparison particularly steep. However, looking at the big picture, the change for the industry is not as meaningful.

- **Next year’s rates might potentially get an economic recovery tailwind –** The global economy is not out of the woods yet, but leading indicators seems to have found a bottom, and although there is not turnaround yet, the chances of some recovery in economic activity are increasing. Shipping, as a leading industry, is already performing quite well, and as we head into next year, any rebound in broader economic activity will only aid shipping rates. In addition, any potential breakthrough in the US-China trade negotiations will only add further fuel to the fire, while easier financial conditions given declining interest rates also helps global trade and thus shipping.

- **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

Demand	YTD	YOY
China Steel Production	829mt	7.4%
China Steel Inventories	2.9mt	-3.6%
China Iron Ore Imports	877mt	-1.6%
China Iron Ore Inventories	130mt	-8.1%
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%

Supply

Dry Bulk Fleet	870dwt	3.4%

Freight Rates

Baltic Dry Index, Average	1,349	-0.5%
Capesize Spot Rates, Average	17,824	7.5%
Panamax Spot rates, Average	11,175	-4.1%

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

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