

Dry Bulk Shipping

October 29, 2019

Breakwave Dry Futures Index: 1,681

↓ 30D: -4.7%
 ↑ YTD: 40.5%
 ↑ YOY: 4.3%

Baltic Dry Index (spot): 1,803

↓ 30D: -2.9%
 ↑ YTD: 41.9%
 ↑ YOY: 18.7%

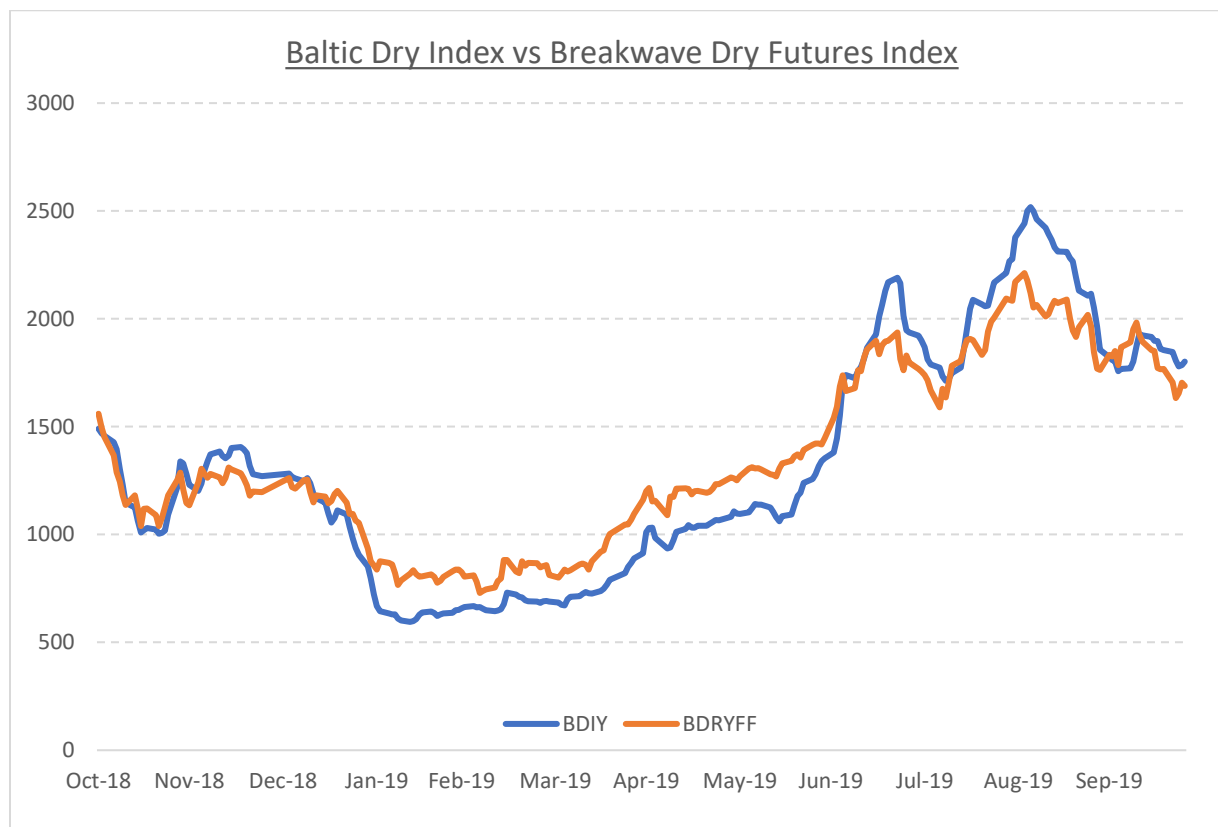
Short-term Indicators:

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

Bi-Weekly Report

- Capesize rates have found a short-term bottom, but is there any gas left?** – Capesize rates have remained relatively flat over the last few weeks after a dramatic ~40% decline from their record highs reached in early September. Although we remain of the opinion that another short-term rally is in the cards, such push must develop in the next several weeks in order to have a chance of becoming a real seasonal rally. With ~60 days left till the end of the year, and given the fact that ships are now fixing for loadings end of November (usually the fixing window is 20-40 days forward depending on the route, for scheduling purposes) there is roughly a month left for miners to book cargoes that will be shipped in 2019. Capesize rates are currently averaging approximately 25,000/day while Panamax rates are hovering at roughly 13,000/day.
- The Atlantic market will lead the way once again** – We believe the annual seasonality in dry bulk demand originates in the Atlantic basin, and thus we expect rates to start improving in that region over the next few weeks. Historically, the rates for transatlantic business have exhibited the highest degree of seasonality, and at the time of writing, it seems there is some momentum building on that side of the market. Furthermore, although Vale’s updated annual guidance reduced expectations for iron ore trade in the fourth quarter, it still represents an improvement over Q3 volumes. Overall, demand for iron ore transportation is healthy, and it is the supply of ships that can potentially create a vacuum that will allow rates to advance.
- It all comes down to scheduling** – As we approach the middle of the fourth quarter, the Capesize market’s volatility has subsided somewhat, leaving into question a sharp rise in rates. However, as it is always the case, it is difficult to predict a short-term imbalance between demand and supply. One can only look at the prevailing conditions and make an assessment regarding the probability that such an imbalance will develop. With a large number of ships out of active service due to scrubber installations and with lots of cargo still to be moved, we view such probability higher than otherwise would have been the case. In addition, we expect such trend to spill over into next year, which in turn could potentially prop up the first quarter’s freight market that historically has experienced the lowest rates at any given year.
- 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	4.1mt	4.5%
China Iron Ore Imports	784mt	-2.4%
China Iron Ore Inventories	134mt	-6.9%
China Coal Imports	251mt	9.8%
China Soybean Imports	65mt	-7.8%
Brazil Iron Ore Exports	253mt	-12.6%
Australia Iron Ore Exports	549mt	-1.7%

<u>Supply</u>		
Dry Bulk Fleet	866dwt	3.0%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,338	-2.2%
Capesize Spot Rates, Average	17,466	3.2%
Panamax Spot rates, Average	11,254	-3.3%

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

Disclaimer:

This research report has been prepared by Breakwave Advisors LLC solely for general information purposes and for the recipient's internal use only. This report does not constitute and will not form part of and should not be construed as a solicitation of any offer to buy or sell any security, commodity or instrument or related derivative or to participate in any trading or investment strategy. The opinions and estimates included herein reflect views and available information as of the dates specified and may have been and may be subject to change without notice.

Contact:

Breakwave Advisors LLC
 25 Broadway
 New York, NY 10280
 Tel: +(1) 646 775 2898
 Email: research@breakwaveadvisors.com