

Dry Bulk Shipping

September 3, 2019

Breakwave Dry Futures Index: 2,212

↑ 30D: 32.6%
↑ YTD: 84.9%
↑ YOY: 20.5%

Baltic Dry Index (spot): 2,501

↑ 30D: 39.9%
↑ YTD: 96.8%
↑ YOY: 60.6%

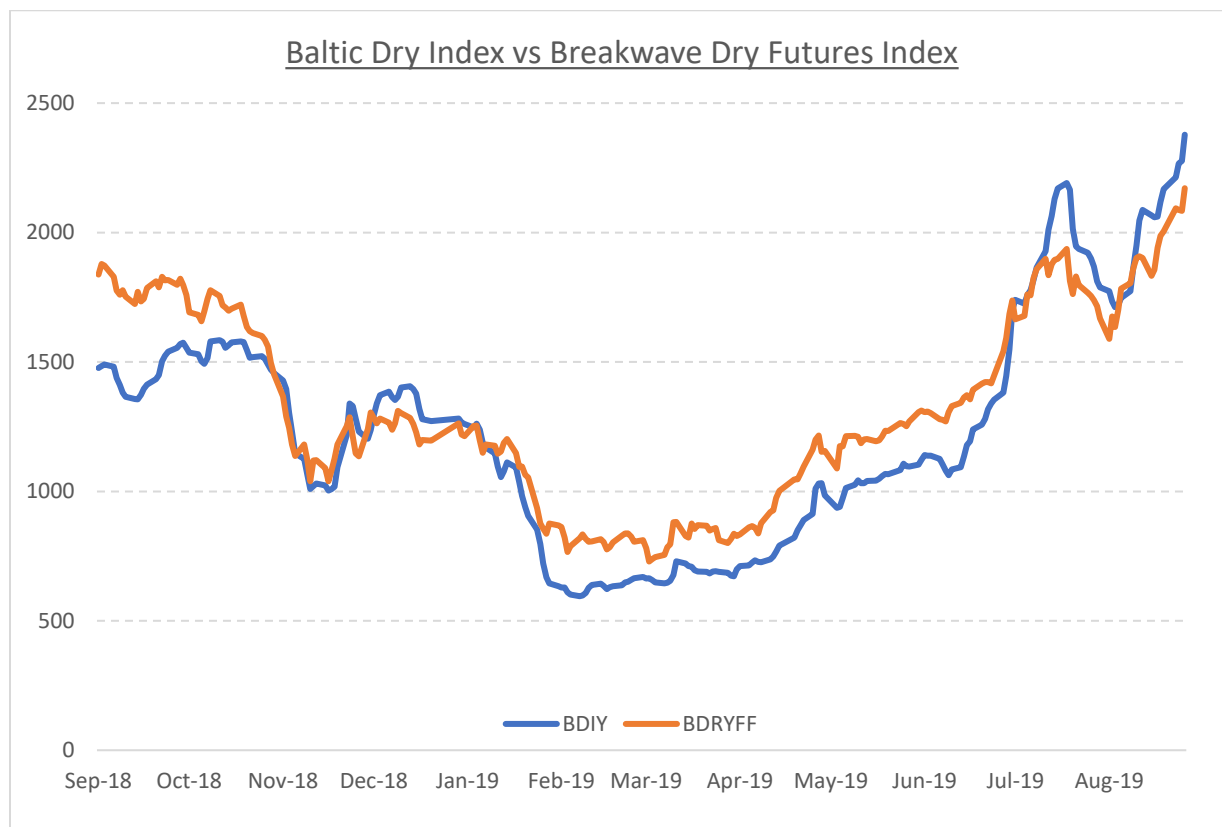
Short-term Indicators:

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

Bi-Weekly Report

- **Another pullback likely in the cards...** – The rally in dry bulk rates remains unabated, demonstrating the tight tonnage balance, predominantly in the Atlantic basin, during a period of increasing cargo flows as we head into the final stretch of the year. Although high volatility makes it extremely difficult to predict short term movements in rates, our expectations is that two weeks from now spot rates are more likely to be lower than higher. There seems to be more available open ships later in the month and combined that with some better inventory management from the major miners, a cool-down in rates seems likely. Currently, Capesize rates are averaging about 36,000/day while Panamax rates are close to 18,000/day.
- **...but a fool's game to try and predict rates next few months** – As we enter the fourth quarter of the year, traditionally the strongest period for dry bulk, we need to keep in mind that this year one of the biggest changes in shipping is about to take place that will lead to increased logistical issues for the global fleet. The upcoming IMO 2020 fuel regulations are about to impact bunkering operations globally, leading to congestion, delays and industry confusion. The supply/demand balance will be highly distorted leading to increased volatility in pricing. As such, predicting twists and turns in rates will be harder than usual and we expect the most volatile environment for dry bulk freight in decades.
- **Any meaningful decline in rates will be an opportunity** – We continue to be constructive for dry bulk over the next six months and expect to see Capesize rates hitting 45,000/day soon. However, we also expect drawdowns closer to 20,000/day. Although such volatility is quite high even for shipping standards, it presents unique opportunities for trading with high potential rewards. As an example, the fourth quarter Capesize futures contract is trading ~25% below the spot price, reflecting extreme cautiousness in the near-term development of the spot market while at the same time such backwardation also provides quite a bit of cushion against a steep decline in rates.
- **Limited new orders, fuel uncertainty to prolong the cycle** – Despite decade highs in rates for most dry bulk sectors, the market remains extremely bearish for the longer-term health of the industry. The 2021 futures contracts remain anchored at levels last seen years ago at the depths of the industry downcycle. However, there is a relatively low orderbook when it comes to dry bulk and we expect such a trend to continue. High uncertainty relating to the prevailing fuel technology of the future makes new orders challenging for an asset with an expected life of 25 years and requires more certainty on the long-term commercial viability of the asset than ever before, making us more constructive longer term.

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

	<u>YTD</u>	<u>YOY</u>
China Steel Production	577mt	9.0%
China Steel Inventories	5.8mt	40.0%
China Iron Ore Imports	590mt	-4.9%
China Iron Ore Inventories	125mt	-17.3%
China Coal Imports	187mt	7.4%
China Soybean Imports	47mt	-11.3%
Brazil Iron Ore Exports	196mt	-11.0%
Australia Iron Ore Exports	406mt	-3.7%

Supply

Dry Bulk Fleet	860dwt	2.2%
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Freight Rates

Baltic Dry Index, Average	1,164	-12.9%
Capesize Spot Rates, Average	14,664	-12.1%
Panamax Spot rates, Average	10,201	-9.3%

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

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