Dry Bulk Shipping

April 28, 2020

Breakwave Dry Futures Index: 863	Baltic Dry Index (spot): 661	Short-term Indicators:	
↑ *30D: 35.8%*	↑ *30D: 18.9%*	*Momentum:*	**Positive**
↓ *YTD: -16.1%*	↓ *YTD: -39.4%*	*Sentiment:*	**Negative**
↓ *YOY: -21.8%*	↓ *YOY: -25.6%*	*Fundamentals:*	**Positive**

Bi-Weekly Report

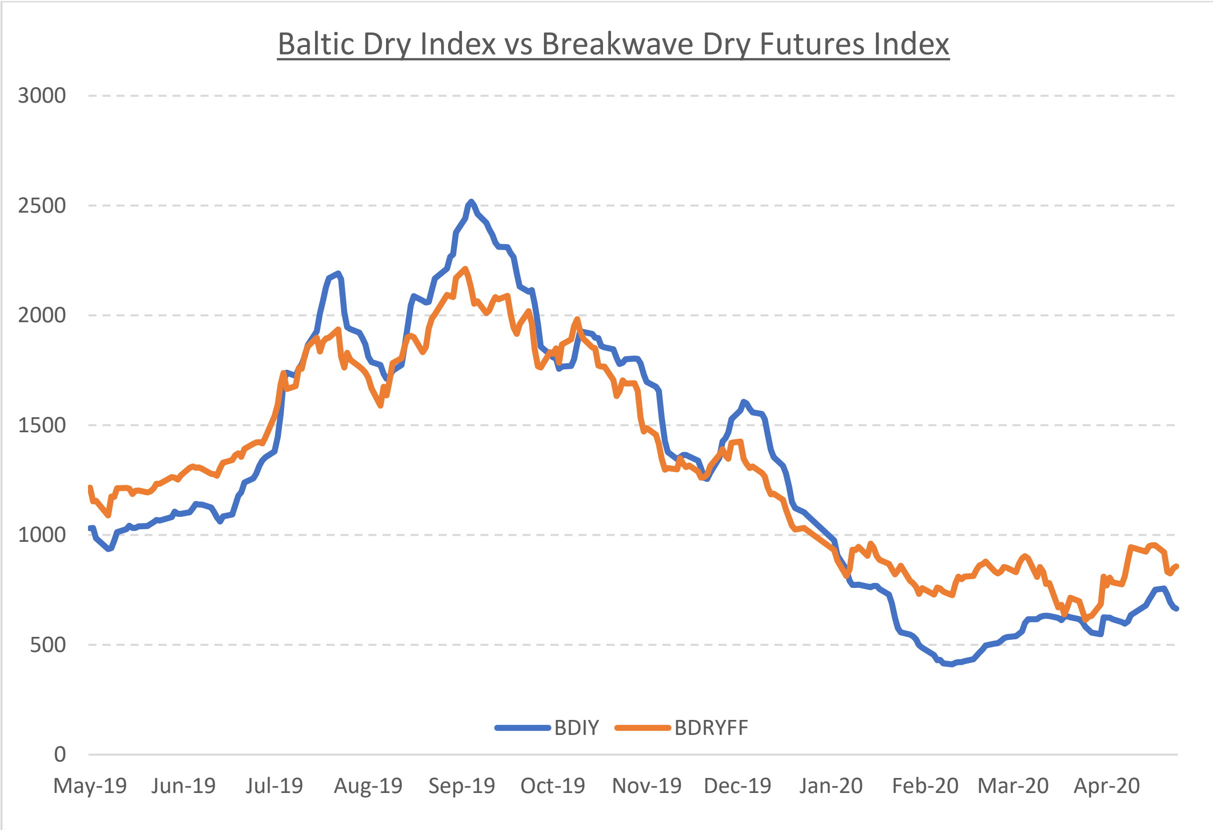
- **Unprecedented oil price volatility spooks freight traders –** Crude oil is considered the king of commodities and the recent turmoil in the oil futures market is already having implications well beyond energy. For shipping, bunker prices is the direct input to voyage cost calculations and thus have a material impact on net freight costs. In addition, the unprecedented swings in the price of oil over the last few weeks have had a significant impact on freight traders' sentiment: Looking at the futures curve, the price contango that is normal this time of the year took a major beating, leading to sour sentiment and a subsequent declines in spot rates. The physical market remains relatively stable though, and the much flatter futures curve reflect a unique opportunity, in our view, as demand for dry bulk transportation should continue to increase in the months ahead, especially for iron ore.

- **Capesize spot rates above last year, but futures now below spot –** Spot Capesize rates are currently higher versus the same time last year, while futures prices are lower, demonstrating the bearishness of freight traders for the future development of spot rates. Once again, we differ, and like last year, we believe the risk/reward for Capesize spot rates lies on the upside. There are indeed a lot of risks in the macro environment, but the uncorrelated nature of dry bulk combined with improving Chinese infrastructure demand, and as a result the potential for increased iron ore imports, should lead to higher iron ore volumes for the rest of the year. We expect a similar path for Capesize spot rates to last year, although for smaller size ships (Panamax, Supramax) we are less excited about the year over year comparisons: Coal prices have collapsed, and coal is a big part of the trade mix for smaller vessels. Still, we expect higher spot rates, but last year's rally in Panamax/Supramax rates is a low probability scenario.

- **Brazil iron ore exports to hit new highs –** Although Brazilian first quarter iron ore exports were particularly weak, we expect a significant improvement in the months ahead, potentially leading to the highest Apr-Dec exports ever out of the region. Our forecast highly depends on Vale's ability to deliver volumes in line with their recent guidance, which was cut by ~10% in mid-April. Once again, all eyes turn on weather and the significant rainfall in the iron ore mining regions that continues up to this day. Vale has disappointed again and again when it comes to delivering their targeted growth (to be fair, sometimes due to reasons beyond their control such as weather), and thus, such a forecast remains subject to their posted guidance. However, we need to base our scenarios on each individual company's operations, and although Anglo American, Trafigura and CSN have been quite accurate in their forecasts, Vale remains the main disappointment when it comes to Brazilian iron ore exports.

- **Net fleet growth at 1.3% year to date, manageable rest of the year –** Year to date, the dry bulk fleet has increased by about 1.3%, net of scrapping, a relatively low number versus historical rates. Although the impact of supply is less profound in short term durations, it is encouraging that scrapping has increased while new ordering has been sporadic, leading to better potential future balances for the dry bulk market.

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	234mt	1.2%
China Steel Inventories	10.4mt	64.6%
China Iron Ore Inventories	118mt	-13.3%
China Iron Ore Imports	263mt	0.7%
China Coal Imports	96mt	28.3%
China Soybean Imports	31mt	6.2%
Brazil Iron Ore Exports	71mt	-16.3%
Australia Iron Ore Exports	123mt	-5.1%

Supply

Dry Bulk Fleet	891dwt	1.4%

Freight Rates

Baltic Dry Index, Average	607	-22.9%
Capesize Spot Rates, Average	5,224	-35.4%
Panamax Spot rates, Average	5,761	-22.6%

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

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