Dry Bulk Shipping

March 17, 2020

Breakwave Dry Futures Index: 782	Baltic Dry Index (spot): 631	Short-term Indicators:
↓ *30D: -2.8%*	↑ *30D: 50.4%*	*Momentum:* Neutral
↓ *YTD: -24.0%*	↓ *YTD: -41.9%*	*Sentiment:* **Negative**
↓ *YOY: -2.3%*	↓ *YOY: -3.2%*	*Fundamentals:* **Positive**

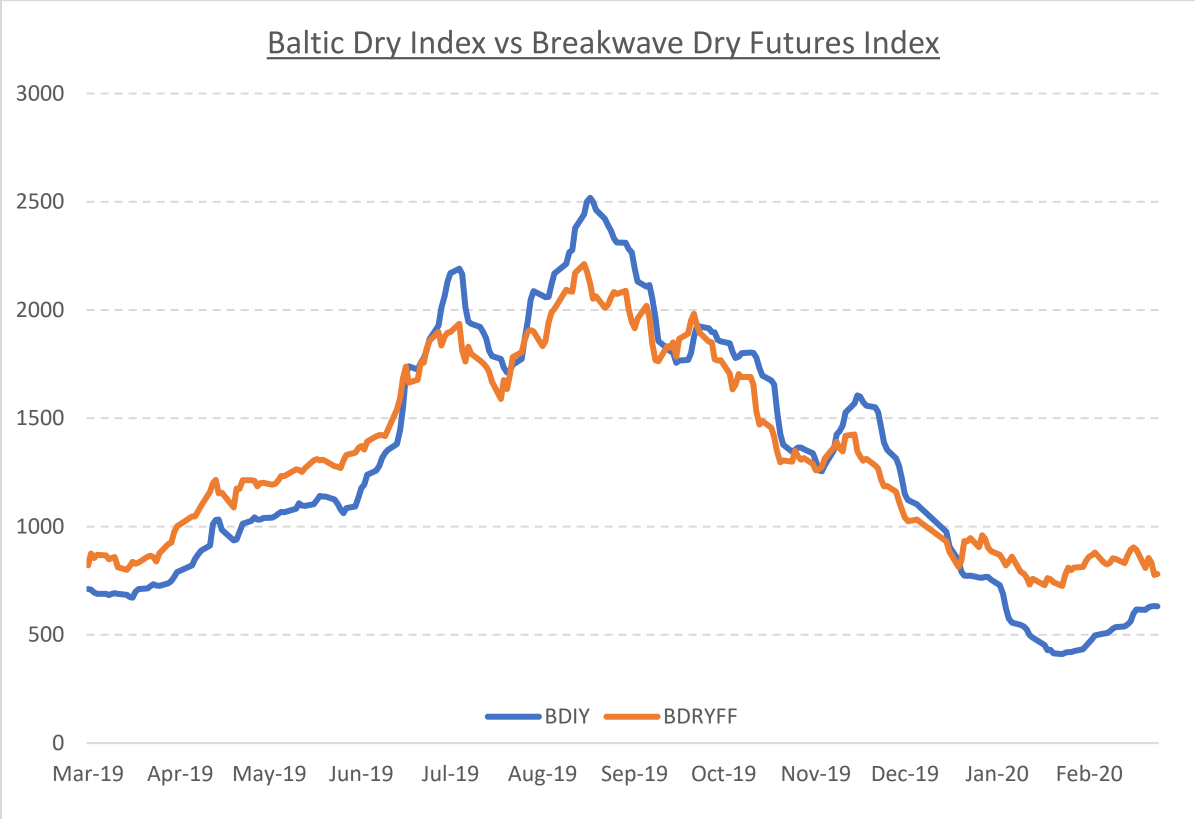
Bi-Weekly Report

- **Panic everywhere, in the meantime China slowly returns to norm –** Main activity indicators out of China point to a gradual recovery following the Coronavirus collapse in activity and the worst economic indicators out of China ever, with industrial output collapsing to negative territory for the first time ever. Apparent steel demand, coal burn, atmospheric pollution and road traffic all point to increased activity, though still below normal for this time of the year. However, the improvement is quite impressive, given that just a month ago, most enterprises were basically shut countrywide. Inventories for iron ore have remained relatively flat, as blast furnaces continued to operate during the crisis, albeit at reduced levels. Imports of iron ore into China remain strong, with the first two months of the year pointing to a marginal decline from a year earlier (Keep in mind, all this cargo was shipped prior to the coronavirus crisis). March should see a significant reduction in iron ore imports, reflecting the disruption in port activity and supply chains. Capesize rates remain stuck at ~3,000/day, one of the lowest levels ever, and there is little to point out an upturn in the very near term. However, we believe most of the decline in activity is on the production and outbound shipping side, and not so much on the receiving end. Put it another way, weather has played a major role in the current environment, aided of course by the coronavirus epidemic.

- **Weather in Brazil and Australia has caused major disruptions in iron ore shipments –** Brazil exports are down 19% year over year, as the country's major production regions have been hit by record high rainfall over the last few months. Australia has also seen cyclones disrupting shipments from its key Pilbara region. Combining the two, and it is no surprise that iron ore remains the best performing commodity, despite the global selloff on most major asset classes and commodities. As the weather improves in both regions, combining with relatively strong iron ore prices and the extremely low level of gross freight (in gross freight, oil prices are included, thus the recent drop in oil prices is also causing gross freight to decline), we would expect iron ore exports to increase considerably soon. In addition, smaller size vessels have experienced quite a recovery, which points to better trade activity.

- **Low inventories, stimulus, and pent up export capacity is the recipe for higher rates –** As we look at the fundamental drivers for freight, it is hard to see how rates cannot see a meaningful recovery for the rest of the year. Stimulus discussions out of China, improving iron ore exports, relatively and low iron ore inventories (though steel inventories are at record high) all point to better rates going forward. The freight futures market is pricing some improvement, but once again, the low level of spot rates is keeping market expectations anchored relative to what can be achieved this year. Of course, with the coronavirus pandemic affecting most of the western world, it is difficult to see how shipping will thrive. However, shipping is primarily a China-focused sector, and there has been significant improvements over the last month in that part of the world. If the trend continues, we expect shipping to outperform most other asset classes, as the western world copes with what it looks as a recessionary environment for the next few quarters, at minimum.

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	996mt	8.3%
China Steel Inventories	13.0mt	48.9%
China Iron Ore Imports	177mt	1.4%
China Iron Ore Inventories	126mt	-14.8%
China Coal Imports	300mt	6.8%
China Soybean Imports	89mt	0.6%
Brazil Iron Ore Exports	27mt	-19.4%
Australia Iron Ore Exports	903mt	0.3%

Supply

Dry Bulk Fleet	885dwt	0.8%

Freight Rates

Baltic Dry Index, Average	589	-28.0%
Capesize Spot Rates, Average	4,720	-50.8%
Panamax Spot rates, Average	5,714	-15.8%

Note: All numbers as of latest available; Demand figures are 2019 except Brazil; Sources: Bloomberg and Breakwave Advisors

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