Dry Bulk Shipping

March 31, 2020

Breakwave Dry Futures Index: 633	**Baltic Dry Index (spot): 548**	**Short-term Indicators:**
↓ *30D: -25.8%*	↑ *30D: 2.4%*	*Momentum:* Neutral
↓ *YTD: -38.2%*	↓ *YTD: -49.7%*	*Sentiment:* **Negative**
↓ *YOY: -22.2%*	↓ *YOY: -20.5%*	*Fundamentals:* **Positive**

Bi-Weekly Report

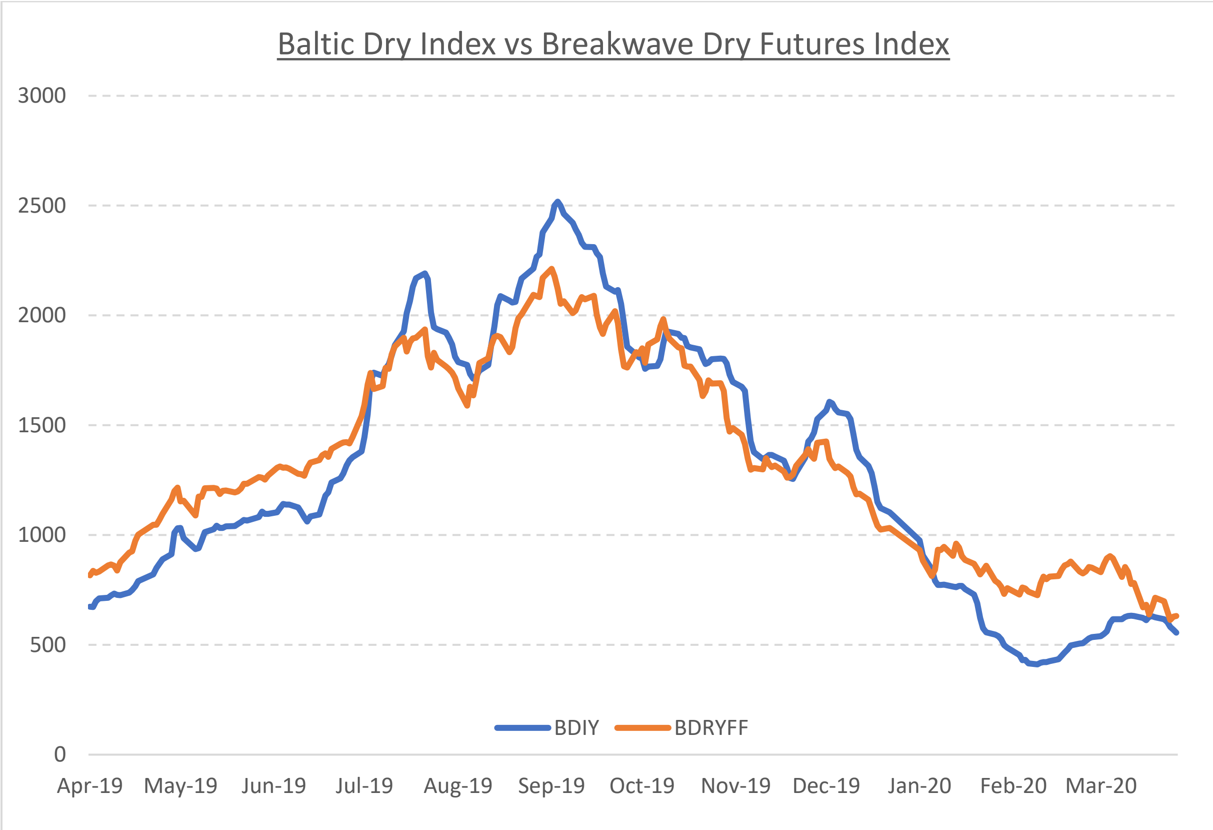
- **Sentiment rock bottom, contango record low –** Dry bulk shipping is experiencing one of the worst periods in history in terms of market sentiment, something that is reflected in future rate expectations priced in the freight futures market. It is rare to see such future pessimism with rates well below operating expenses, in a market that historically has proved that it can bounce hard and without warning. Optionality priced into the curve has collapsed and traders feel in total control of the outlook, painted bleak, with rates remaining below breakevens for many months ahead. And yet, time and again, such expectations have been proven wrong, in a market where the balance of supply and demand can turn in a moment's notice, pushing rates at multiples higher compared to current levels. Capesize rates currently stand at ~4,000/day while Panamax rates are approximately 5,000/day.

- **Brazil iron ore exports remain abysmal –** There is no doubt that Brazil remains a critical area when to comes to dry bulk. Specifically, for Capesize rates, Brazilian iron ore exports are extremely important for absorbing tonnage and thus balancing a weak market like the current one. And yet, March will prove to be a very weak month while when it comes to iron ore export quantity (Q1 probably worst in at least seven years). One can only speculate what the issues might be, given relatively strong iron ore prices and recovering Chinese demand. Although weather has always been a major issue for Brazilian iron ore exports this time of the year (see heavy rains), we remain puzzled by Vale's inability to push tons into the water. While maintaining its annual guidance, the company need to rump up exports quite aggressively in the coming months, which comes into considerable contrast with the current conservative pricing in the freight futures market.

- **COVID-19 disruptions are real, but major shipping areas remain open for business –** Shipping is not immune from the business disruptions that are happening globally due to the COVID-19 pandemic. Europe, a significant demand center for dry bulk, is in a standstill, while smaller countries in Asia are implementing their own plans as it relates to containment activities. However, Brazil, Australia and more importantly China, are operating very close to normal levels, which should support shipping activity going forward. Obviously, any disruption in those areas is a considerable risk, and would have a detrimental impact on shipping.

- **Something's gotta give: Vale's guidance too optimistic or freight market too pessimistic? –** Given a recovering Chinese economy, improving weather, a relatively high iron ore price and Vale's reaffirmed guidance, we believe freight futures are quite pessimistic reflecting the COVID-19 pandemic and the psychological impact on traders, always combined with extremely low spot rates that leave no room for optimism as we stand. Yet, futures are all about... well, the future. As we move into April, we expect a gradual improvement in the spot market, with the risk being on the upside if there is a rush to book ships, as complacency is always in favor of owners. Some early signs of such move seem to already be popping up, it is quite early in the process, but they point to higher rates.

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	155mt	3.1%
China Steel Inventories	12.4mt	53.7%
China Iron Ore Imports	177mt	1.4%
China Iron Ore Inventories	121mt	-17.9%
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	887dwt	1.0%

Freight Rates		
Baltic Dry Index, Average	591	-25.9%
Capesize Spot Rates, Average	4,538	-48.1%
Panamax Spot rates, Average	5,749	-18.0%

Note: All numbers as of latest available; Australia, China demand figures are 2019; Sources: Bloomberg and Breakwave Advisors

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