Dry Bulk Shipping

May 12, 2020

Breakwave Dry Futures Index: 678	**Baltic Dry Index (spot): 433**	**Short-term Indicators:**
↓ *30D: -28.2%*	↓ *30D: -31.8%*	*Momentum:* **Negative**
↓ *YTD: -33.7%*	↓ *YTD: -60.3%*	*Sentiment:* **Negative**
↓ *YOY: -44.1%*	↓ *YOY: -57.3%*	*Fundamentals:* **Neutral**

Bi-Weekly Report

- **Capesize rates collapse –** The lethargic iron ore activity out of Brazil finally took a toll on Capesize rates that dropped sharply below 3,000/day, as the anticipated seasonal increase in exports has so far failed to materialize. Our calculations show that Vale can satisfy exports of ~22mt per month using its own dedicated and chartered-in tonnage without having to go to the spot market, and over the last several months that seems to have been the case. As a swing producer (Australia is a more predictable and stable exporter), such low exports have a material impact on global Capesize utilization. Although the first quarter is generally anticipated to be weak in terms of exports, the expectations for a ramp up in activity out of Brazil as the year progresses is not happening so far, and that is the bottom line for the Capesize market. Throw on top of that the general slowdown in global trade (Handysize spot rates are the lowest ever, while Supramax/Panamax rates just hover below opex levels) and one can see why the Baltic Dry Index is at the lowest point ever for this time of the year.

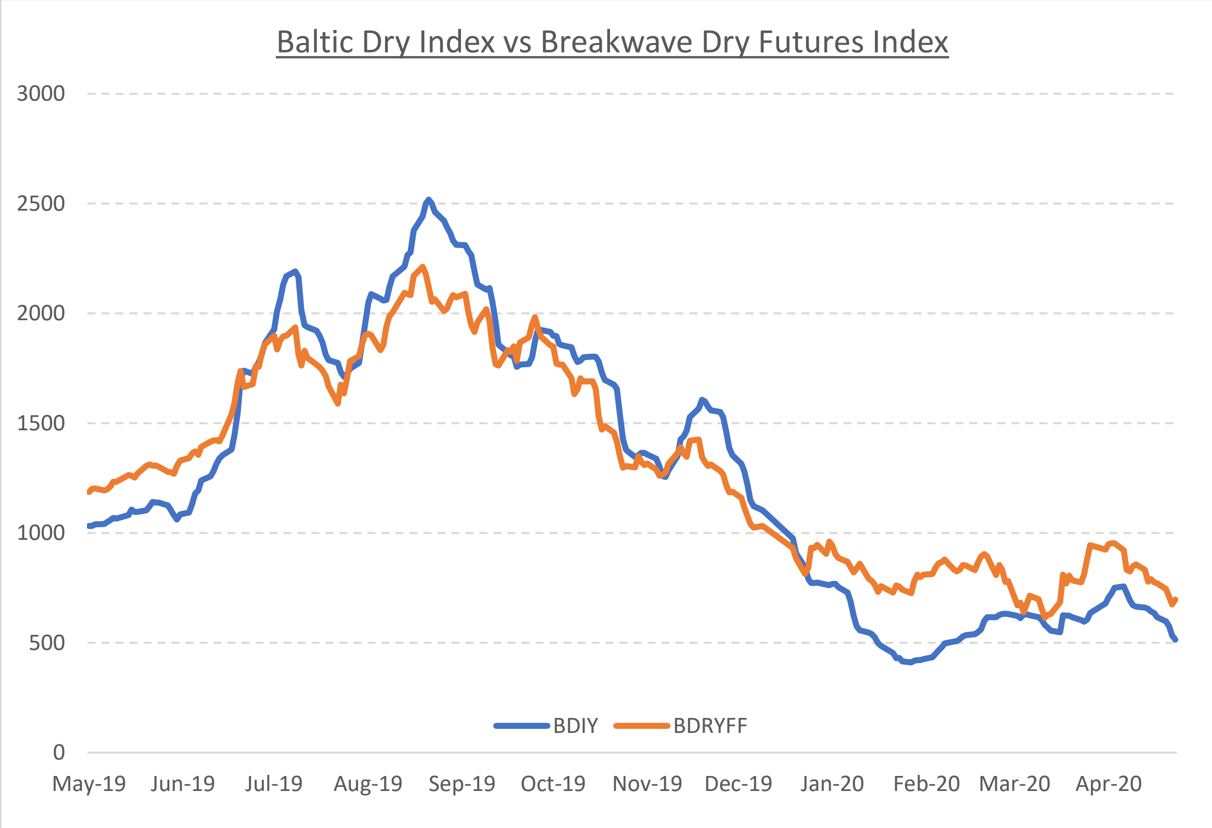
- **Factor #1: COVID-19 impact –** The broader economic impact of the COVID-19 pandemic is naturally also a major negative issue for shipping, despite the much healthier iron ore demand picture out of China. Indeed, China accounts for about two-thirds of total dry bulk demand, but if the remaining one-third of the world is in economic depression, it is extremely hard for the overall sector to thrive. We still believe that Capesize rates by themselves can rally **if** Brazilian exports return to more normal levels in the second half of the year, as the cannibalization from smaller segments is minimal. However, we also see limited scope for a recovery in the smaller segments that rely so much on both Europe and Asia ex-China as well as the rest of the world.

- **Factor #2: Brazil –** With the risk of becoming repetitive, Brazil is a very important region when it comes to dry bulk, given the shipping distance from China and the exporting capacity of raw materials and goods. Without activity out of Brazil, the dry bulk market cannot improve (that is true especially for Capesizes). We continue to rely on each individual company's guidance as we update our demand estimates, but so far, reality greatly lags guidance.

- **Factor #3: India –** The Indian economy remains in lockdown, and with that, imports of coal have come to a standstill. India is a major demand center for smaller size ships especially on the coal trade, that has been very supportive of the Supramax/Ultramax segments in the last few years. We anticipate some pent-up demand once ports open and operate normally but the timing of such development is anyone's guess.

- **History can be a guide, but current setup is unique –** Looking at history, dry bulk rates have never been lower for this time of the year. Seasonality is a powerful force, driven by higher cargo flows. As economies open, and trade normalizes, the potential of pent-up demand is definitely in the realm of possibilities, which combined with already high stimulus activity, could lead to a much better second half of the year for dry bulk.

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	9.5mt	67.3%
China Iron Ore Inventories	113mt	-15.3%
China Iron Ore Imports	358mt	5.4%
China Coal Imports	127mt	26.8%
China Soybean Imports	56mt	0.5%
Brazil Iron Ore Exports	71mt	-16.3%
Australia Iron Ore Exports	198mt	6.1%

Supply

Dry Bulk Fleet	893dwt	1.7%

Freight Rates

Baltic Dry Index, Average	605	-25.0%
Capesize Spot Rates, Average	5,347	-36.2%
Panamax Spot rates, Average	5,678	-25.8%

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

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