Dry Bulk Shipping

May 26, 2020

Breakwave Dry Futures Index: 871	Baltic Dry Index (spot): 506	Short-term Indicators:	
↑ *30D: 1.5%*	↓ *30D: -23.9%*	*Momentum:*	Positive
↓ *YTD: -14.8%*	↓ *YTD: -53.6%*	*Sentiment:*	Neutral
↓ *YOY: -29.4%*	↓ *YOY: -52.5%*	*Fundamentals:*	Neutral

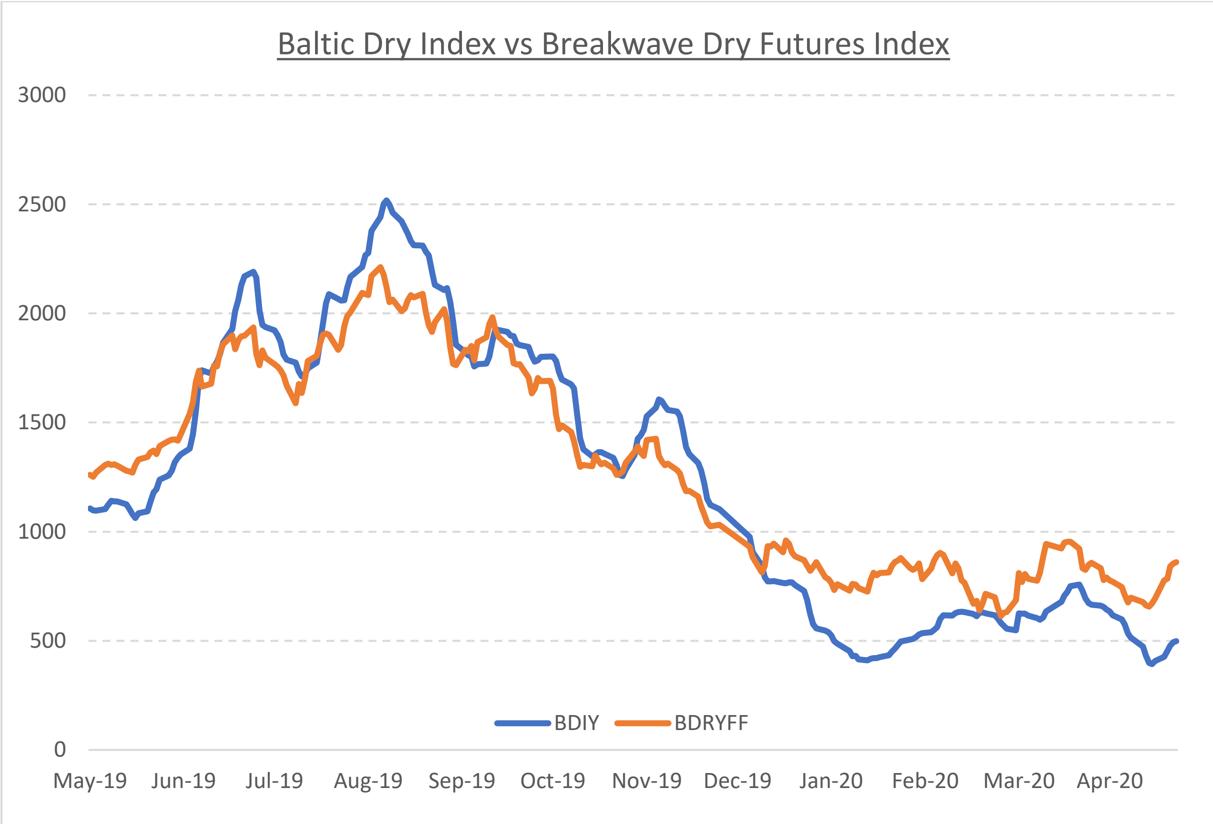
Bi-Weekly Report

- **Expectations run high as traders chase global rebound signs –** A small recovery in Capesize rates over the last two weeks brought some much-needed optimism back into the dry bulk market. Freight futures have increased, in some cases quite a bit versus spot, with spot rates driving sentiment, reflecting the market optimism about a potential recovery but also the very low and unsustainable levels that the spot market had recently dropped down to. Indeed, as we approach the end of May, Capesize spot rates have never been lower for this time of the year, while both Panamax and Supramax spot rates have bounced off levels that have only characterized deep global recessions in the past. Although most of the world is probably in such a state now, China, the main demand center for shipping, has almost fully recovered as evident by higher import flows, stronger industrial activity, and increased power consumption among other indicators. Capesize spot rates are currently at ~4,000/day while Panamax spot rates are hovering at ~4,500/day.

- **Quality iron ore is becoming scarce –** The fact that Brazil is experiencing serious issues with its iron ore exports is having a profound impact on global iron ore supply, especially for higher quality material. Inventories continue to decline (particularly for Brazilian ore) while at the same time Chinese steel demand (and thus iron ore demand) is increasing. The result is a tight iron ore market with volatile prices once again approaching the psychologically important $100/mt mark. Consequently, high iron ore prices are incentivizing smaller, higher cost producers to increase production and exports of iron ore, with a surge in export demand out of India late last week as the most recent example. One wonders whether the recent iron ore greenfield project discussions out of West Africa and the announced increases in capacity out of Australia reflect a loss of confidence on the ability of Vale to deliver on its growth promises, not only for this year but on their long-term stated targets: Even during normal times, the company has been unable to meet its production goals and maybe competitors are slowly realizing that what looks like one-off events year after year, might actually be structural inefficiencies that will keep iron ore prices elevated and probably in steep backwardation for years to come, which for a while now has been sending the wrong signals for the balance of the iron ore market.

- **As the world reopens, an inventory cycle will take center stage –** With the global pandemic gradually easing and with economic activity slowly returning to more normal levels, we anticipate inventories to slowly being rebuilt, which, combined with higher recurring demand for materials, should support freight rates and push the averages towards normal for the year levels. For Capesize ships, Brazilian iron ore exports (discussed to a great extend in our previous reports) remain the key driver to watch, while for smaller size ships, some green shoots are already evident with increasing chartering activity out of Europe/Asia ex-China. Expectations run high though, and any misfire in such process will have a meaningful impact on futures prices that are counting on the above factors to lead to a converge of spot prices to the futures curve, and bring the sector back to profitability.

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	319mt	1.3%
China Steel Inventories	8.2mt	57.9%
China Iron Ore Imports	358mt	5.4%
China Iron Ore Inventories	110mt	-13.9%
China Coal Imports	127mt	26.8%
China Soybean Imports	31mt	28.3%
Brazil Iron Ore Exports	71mt	-16.3%
Australia Iron Ore Exports	198mt	6.1%

Supply		
Dry Bulk Fleet	895dwt	1.8%

Freight Rates		
Baltic Dry Index, Average	589	-29.1%
Capesize Spot Rates, Average	5,133	-41.3%
Panamax Spot rates, Average	5,535	-29.9%

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