

Dry Bulk Shipping

October 27, 2020

Breakwave Dry Futures Index: 1,289

↓ 30D: -21.8%

↑ YTD: 26.1%

↓ YOY: -23.7%

Baltic Dry Index (spot): 1,402

↓ 30D: -15.9%

↑ YTD: 28.6%

↓ YOY: -22.2%

Short-term Indicators:

Momentum: **Negative**

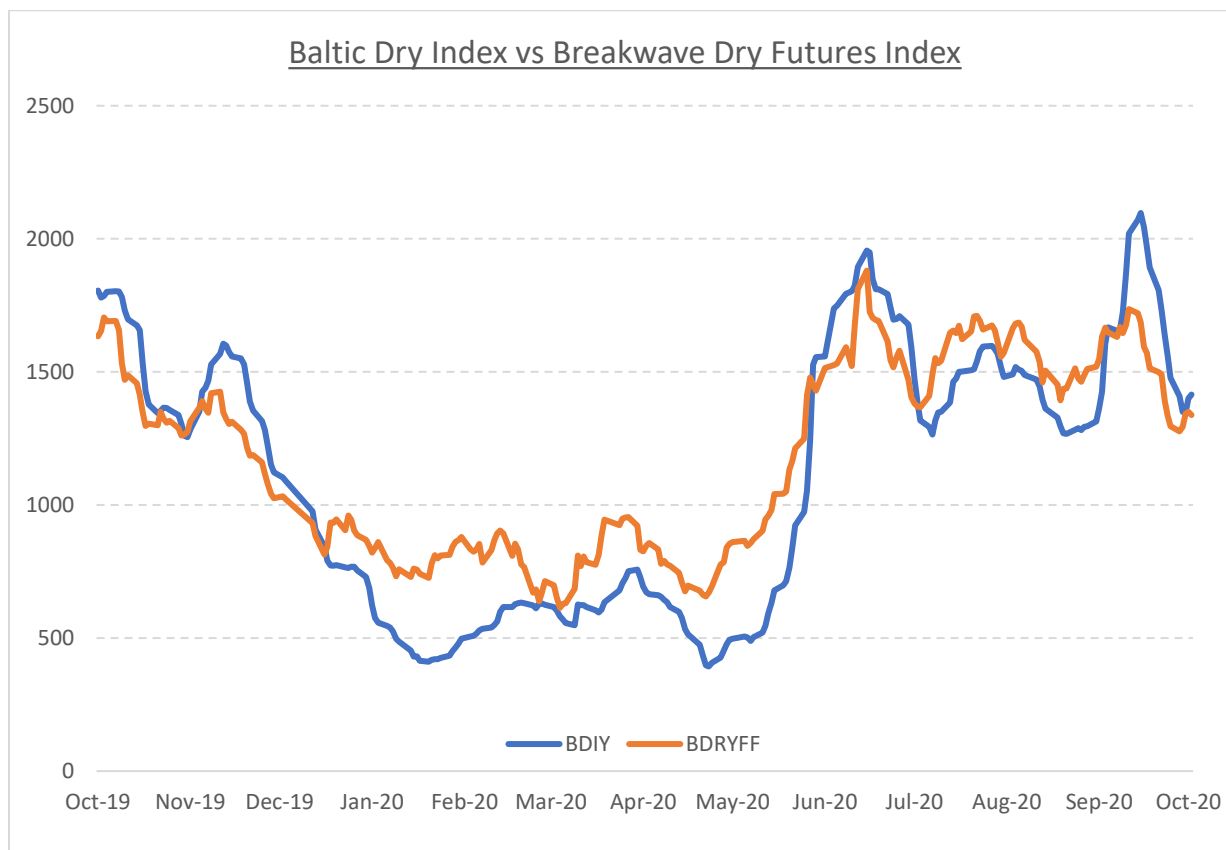
Sentiment: **Neutral**

Fundamentals: **Positive**

Bi-Weekly Report

- Capesize rates bottoming, potential for a gradual reversal** – With spot Capesize rates back in the high teens, the dry bulk market has experienced a steep correction during the last three weeks, primarily reflecting slower cargo flow in the Atlantic but also better vessel supply across both basins. We believe the Capesize market is bottoming and a gradual turnaround is in the cards. Our confidence reflects better iron ore volumes out of Brazil as well as some seasonality relating to inclement weather as we enter the winter months in the northern hemisphere. Timing always remains key, but volatility is real, and it would be quite surprising for the year to end on a flattish note. The freight futures curve is pricing a flat to down market over the next two months, which has been the case for a while now. The steep backwardation in the futures market for early next year remains quite aggressive, in our view, absent any surprises, as the iron ore export run rate from both Brazil and Australia should remain well above the last two years and thus the risk/reward is quite favorable. Capesize spot rates are currently averaging around 18,000 while Panamax spot rates are approximately 10,500.
- Vale's iron ore sales materially below actual production** – Last week, Vale, the Brazilian major miner, posted its third quarter production report, and although iron ore production was more or less in line with expectations coming at 88.7 million tons, actual iron ore sales came in well short of our expectations at only 74.2 million tons. Compared to last year, production was up 2mt but sales were down 11mt. Such a discrepancy is highly unusual, and it represents the highest deviation for any quarter since at least 2011. Vale cited logistics lead time between production and sales as the reason for the discrepancy and expects such gap to close in the fourth quarter. However, for shipping it is all about sales and the weak performance does not bode well for the seaborne iron ore market. Assuming Vale will match its estimated production for the last quarter of the year but also ship all of it, then one should expect a significant ramp up in export volumes in the next several weeks, but once again, it is not only Vale's actual production that has now become a moving target but also the actual exporting volumes.
- 2021 starts to look attractive** – With less than three months till yearend, the prospects for 2021 start to look promising. Vale, the Brazilian miner, remains optimistic about raising their production by some 30-40 million tons, a development that should provide a significant boost to ton-mile demand. Iron ore prices remain above \$100/ton, a very strong incentive for miners around the world to produce and ship as much as possible of the steelmaking material. China's economy seems quite strong while stimulus continues to make its way through the system. Coal demand is solid in China, while inventories are at the low end of the recent historical range. The potential for other regions reopening their economies (India, Europe, etc.) can provide an added boost. Freight futures remain skeptical of such scenarios, trading at significant discounts to current spot levels, especially for Capesizes. We view such price-fundamentals disconnect as an opportunity with the risk reward tilted towards long positions.

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

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	782mt	4.5%
China Steel Inventories	7.1mt	58.3%
China Iron Ore Inventories	128mt	-4.7%
China Iron Ore Imports	868mt	10.8%
China Coal Imports	239mt	-4.5%
China Soybean Imports	75mt	15.5%
Brazil Iron Ore Exports	248mt	-5.4%
Australia Iron Ore Exports	575mt	4.7%

<u>Supply</u>		
Dry Bulk Fleet	908dwt	3.3%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,034	-22.6%
Capesize Spot Rates, Average	12,977	-25.5%
Panamax Spot rates, Average	8,163	-27.4%

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

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