Dry Bulk Shipping

September 15, 2020

Breakwave Dry Futures Index: 1,438	Baltic Dry Index (spot): 1,267	Short-term Indicators:
↓ *30D: -15.9%*	↓ *30D: -16.1%*	*Momentum:* **Negative**
↑ *YTD: 40.5%*	↑ *YTD: 16.2%*	*Sentiment:* **Negative**
↓ *YOY: -30.2%*	↓ *YOY: -46.4%*	*Fundamentals:* **Neutral**

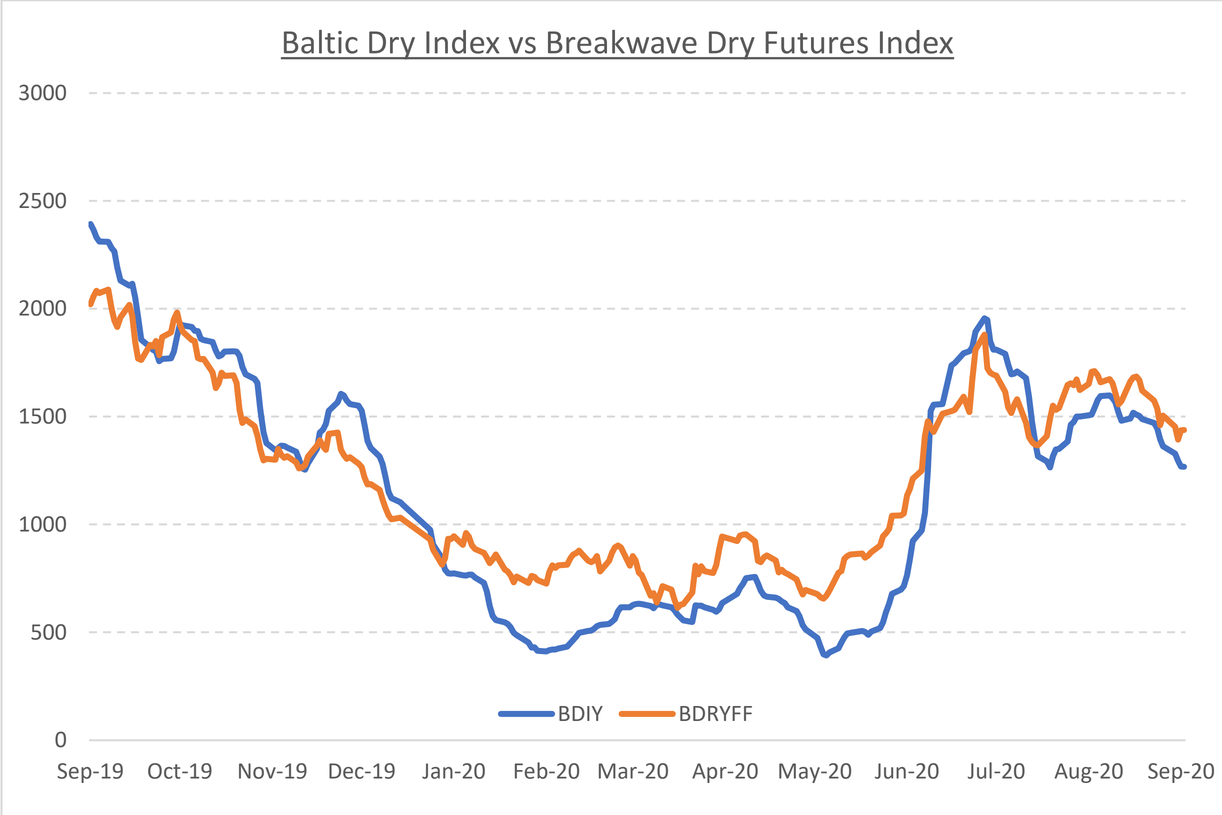
Bi-Weekly Report

- **Higher export volumes needed for freight rates to recover –** The Capesize market remains inactive with cargo volumes on the low end of the recent range which has failed so far to generate any significant rush by miners to cover forward shipping requirements. Although the current exporting rate of iron ore out of Brazil has managed to at least maintain a decent level in terms of freight rates, more is needed for the market to see any meaningful recovery from here onwards. The recent slight decline in bunker prices should help time-charter equivalent rates improve more once voyage rates recover, but once again, it is the intensity and second derivative of exporting volumes that matter for the freight rate market. In addition, smaller size vessels remain under pressure, despite the very strong volume of grain exports out of the US Gulf region. Market expectations are for a turnaround in the spot market for Panamax and Supramax vessels as we head into the fourth quarter of the year, with the futures curve now in contango, though so far spot rates continue to slide in both main trading regions, namely the Atlantic and the Pacific. Capesize spot rates currently are averaging about 16,000 while Panamax spot rates stand a touch above the psychologically important 10,000 mark.

- **Port congestion remains a tailwind for the shipping markets –** The COVID-19 pandemic had a profound impact on the demand side of shipping, as the significant drop in economic activity earlier in the year pushed freight rates considerably lower versus historical averages. However, rates have now recovered, and the operational related delays caused by expanded screening and crew changing requirements around the world has led to increased fleet inefficiencies and high port congestion, especially in China's discharging ports. In addition, longer iron ore license application procedures for Australian iron ore plus increased seasonal coal import requirements, should remain major drivers for higher port congestion which should persist at least until yearend. With more vessels waiting at ports, the active fleet is smaller, thus tightening the balance of the market, which is a positive for freight rates going forward. We estimate Capesize fleet utilization to hit the highest point in at least three years during the fourth quarter, always highly dependent on future Brazilian iron ore export volumes.

- **2021 freight futures look cheap –** The macro environment remains highly uncertain not only for shipping but for most commodities. As a result, trying to make predictions and build forecasts for a year forward is extremely challenging. For shipping, however, the fact that the supply side is easily predictable at least a year in advance (lead times for ship building is approximately 2 years), provides a relative advantage versus other industries. The orderbook remains low and the supply side is manageable when it comes to dry bulk. Assuming consensus views for the global economy, we believe the balance of the market can support higher rates versus what is priced-in the futures market today, namely about 13,000 for Capesizes and 9,000 for Panamaxes.

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	593mt	2.8%
China Steel Inventories	8.0mt	54.6%
China Iron Ore Inventories	119mt	-4.8%
China Iron Ore Imports	760mt	11.0%
China Coal Imports	221mt	0.2%
China Soybean Imports	65mt	15.0%
Brazil Iron Ore Exports	210mt	-8.7%
Australia Iron Ore Exports	501mt	5.5%

Supply

Dry Bulk Fleet	909dwt	3.4%

Freight Rates

Baltic Dry Index, Average	936	-23.8%
Capesize Spot Rates, Average	11,277	-28.5%
Panamax Spot rates, Average	7,700	-27.2%

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

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