

Dry Bulk Shipping

July 3, 2018

Breakwave Dry Futures Index: 1,557

↑ 30D: 7.3%

↑ YTD: 29.1%

↑ YOY: 51.1%

Baltic Dry Index (spot): 1,422

↑ 30D: 23.0%

↑ YTD: 4.1%

↑ YOY: 57.8%

Short-term Indicators:

Momentum: **Positive**

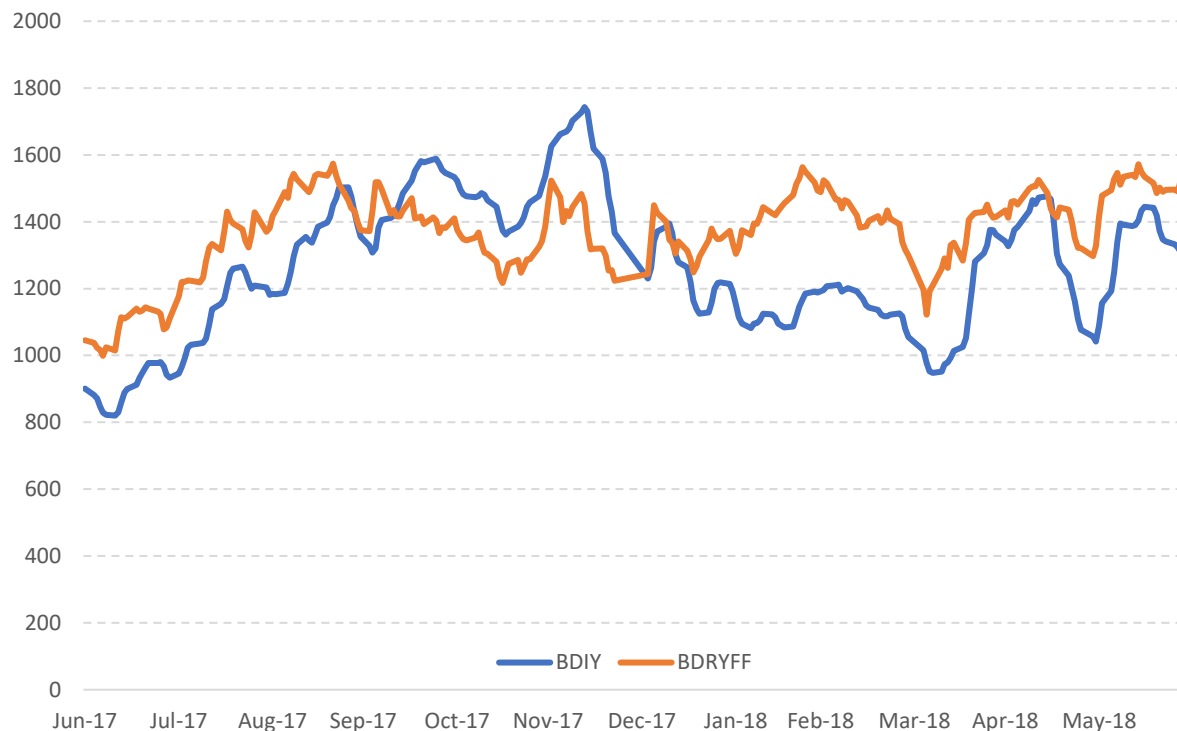
Sentiment: **Positive**

Fundamentals: **Neutral**

Bi-weekly Report

- **Dry bulk rates continue to hover in recent ranges** - Capesize rates reached 19,000/d, breaking out of the recent 16,000/d-18,000/d range, while smaller vessel size volatility remains compressed, with Panamax rates in the 10,000/d-11,000/d range.
- **Atlantic Capesize fixing strong** - The 4-week moving average on Atlantic basin Capesize fixtures saw a significant recovery and now is well above the 8-year average. This indicator has historically exhibited strong correlation with Capesize rates (thus the push last week) but also strong mean-reverting behavior.
- **Seasonality about to kick in** - the second half of the year has historically experienced stronger rates, on average, as miners ramp up exports ahead of the winter. We expect a similar pattern this time around, beginning in early August and running through the end of the year.
- **Futures curve reflects expectations for small increase in rates** - The Freight Futures curve prices in a small increase in rates for Q4: currently, it is pricing a ~25% increase in average Capesize rates from Q3 to Q4 versus an 8-year average increase of ~45%.
- **Scrapping remains at very low levels** - YTD, less than 1% of the global dry bulk fleet as been demolished, compared to an annual average of ~3.5% over the last 5 years. The global dry bulk fleet has increased by ~1.6% YTD while the 2018 orderbook currently stands at ~2.5% of the fleet.
- **Short term outlook neutral** - With expectations for high iron ore exports in the second half of the year (up ~10%-15% compared to 1H) we believe spot freight rates will increase further later in the year. Near term we expect flattish action before seasonality kicks in late summer.
- **Long term outlook neutral** - Iron ore exports remain the most predictable demand driver for dry bulk, given the already announced production targets by the major miners. However, with coal trade remaining subject to relative pricing (i.e. purely trade flows), the outlook beyond the next six months is subject to higher uncertainty irrespective of the supply cycle with the new regulations in 2020 being the wildcard.

Baltic Dry Index vs Breakwave Dry Futures Index



Dry Bulk Fundamentals

Demand

	YTD	YOY
China Steel Production	370mt	5.4%
China Steel Inventories	472mt	26.4%
China Iron Ore Imports	448mt	0.7%
China Iron Ore Inventories	158mt	6.4%
Brazil Iron Ore Exports	149mt	(0.8%)
Australia Iron Ore Exports	272mt	3.8%
China Coal Imports	48mt	4.8%

Supply

Dry Bulk Fleet	830.4dwt	1.6%
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Freight Rates

Baltic Dry Index, Average	1,219	25.1%
Capesize Spot Rates, Average	14,004	20.8%
Panamax Spot Rates, Average	11,028	29.2%

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

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