

Dry Bulk Shipping

June 11, 2019

Breakwave Dry Futures Index: 1,304

↑ 30D: 7.5%
 ↑ YTD: 9.0%
 ↓ YOY: -15.0%

Baltic Dry Index (spot): 1,125

↑ 30D: 11.1%
 ↓ YTD: -11.5%
 ↓ YOY: -19.1%

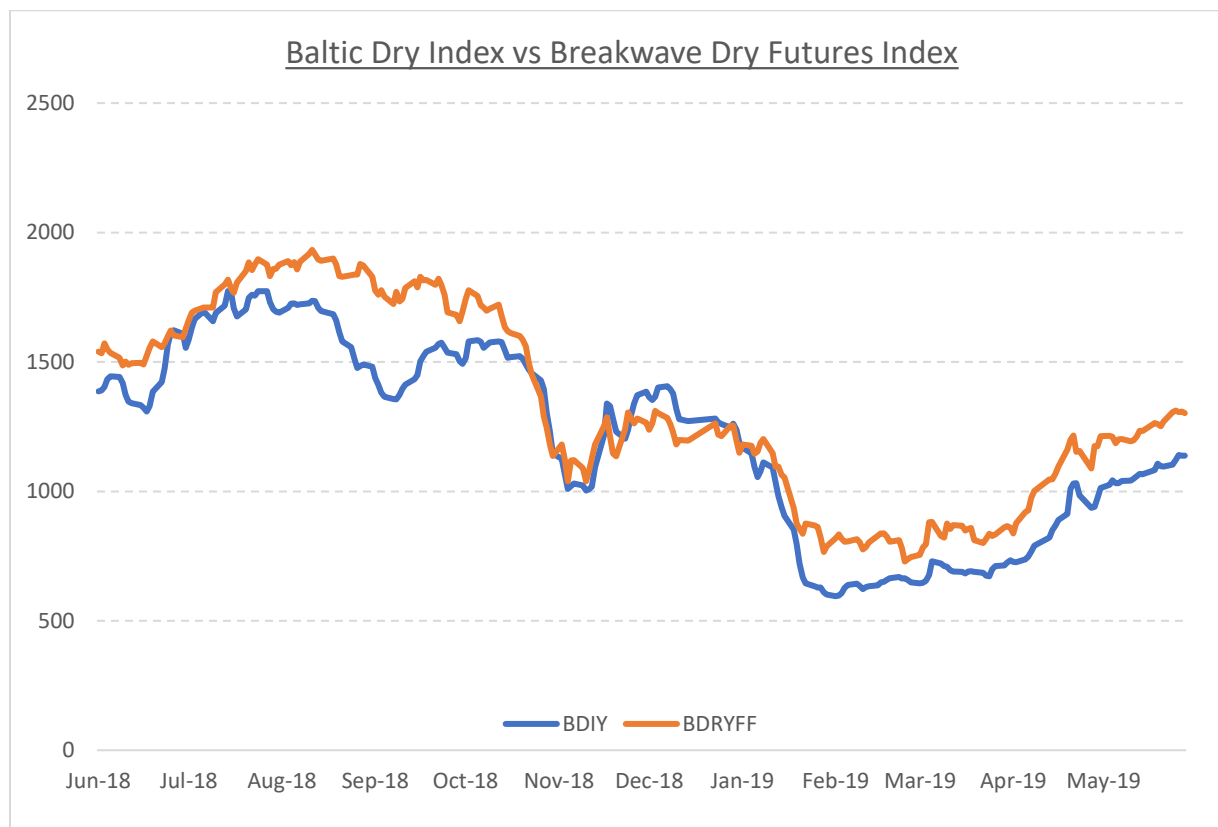
Short-term Indicators:

Momentum: Neutral
 Sentiment: Neutral
 Fundamentals: Positive

Bi-Weekly Report

- Rates softening** – Following the significant rally in dry bulk freight rates over the last two months, dry bulk spot rates are taking a breather, with smaller vessels experiencing weaker rates mainly in the Atlantic basin while the larger vessels (Capesize) are also starting to find resistance as activity in the Brazil-China route remains slow. Although cargo flow has steadily increased in the last few months, at the moment, we feel the market balance is slowly tilting towards weaker rates. Currently, Capesize spot rates are ~14,500/day while Panamax rates are ~9,500/day.
- Iron ore inventories continue to decline** – The iron ore market is experiencing one of the most volatile periods in recent years, as declining exports out of Brazil following Vale’s dam incident in January has led to a significant drop in iron ore inventories in China. That has pushed iron ore prices to multi-year highs. We expect further declines in iron ore inventories and we also anticipate that most miners will operate at capacity when it comes to production and exports in order to take advantage of the very strong iron ore pricing environment. Such a scenario is positive for dry bulk, all else being equal, as it will absorb more of the lost tons out of Brazil.
- We expect rates to find a floor soon** – Although this year should be a bit unusual when it comes to seasonality given the trade disputes, the Vale incident and the upcoming IMO 2020 regulation, we expect the summer to remain healthy when it comes to freight rates. As a result, we anticipate the recent softening in rates to be shallow and short lived. By the end of June, freight rates should begin recover as we head into what we believe is going to be a strong second half of the year for dry bulk.
- Active vessel supply to shrink during second half** – The upcoming change in fuel specifications (IMO 2020 sulphur cap) would have a significant impact on the active vessel supply, as many ships will enter the shipyard to install scrubbers in order to comply with the regulations. As a result, especially for the Capesize segment, we expect the active fleet to shrink during the second half of the year, which in turn, should push rates higher, assuming demand remains relatively strong.
- Long term neutral** – Slower economic growth and the maturing nature of the Chinese economy when it comes to infrastructure spending, are two major headwinds for dry bulk shipping. The Chinese steel market is maturing, absorbing less and less incremental iron ore while scrap use is gradually increasing.

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 | 315mt | 10.1% |
| China Steel Inventories | 5.0mt | 0.1% |
| China Iron Ore Imports | 424mt | -5.3% |
| China Iron Ore Inventories | 122mt | -24.5% |
| China Coal Imports | 127mt | 6.1% |
| China Soybean Imports | 32mt | -12.2% |
| Brazil Iron Ore Exports | 132mt | -11.7% |
| Australia Iron Ore Exports | 255mt | -6.1% |

| <u>Supply</u> | | |
|----------------|--------|------|
| Dry Bulk Fleet | 850dwt | 1.1% |

| <u>Freight Rates</u> | | |
|------------------------------|-------|--------|
| Baltic Dry Index, Average | 857 | -28.3% |
| Capesize Spot Rates, Average | 9,202 | -32.0% |
| Panamax Spot rates, Average | 8,117 | -26.1% |

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

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