BREAKWAVE ADVISORS

www.drybulkETF.com

Dry Bulk Shipping

April 27, 2021

Breakwave Dry Futures Index:	2,610	Baltic Dry Index (spot):	2,808	Short-term Indicators:	
↑ *30D: 13.2%*		↑ *30D: 28.9%*		*Momentum:*	Neutral
↑ *YTD: 163.5%*		↑ *YTD: 105.6%*		*Sentiment:*	Positive
↑ *YOY: 204.4%*		↑ *YOY: 322.3%*		*Fundamentals:*	Positive

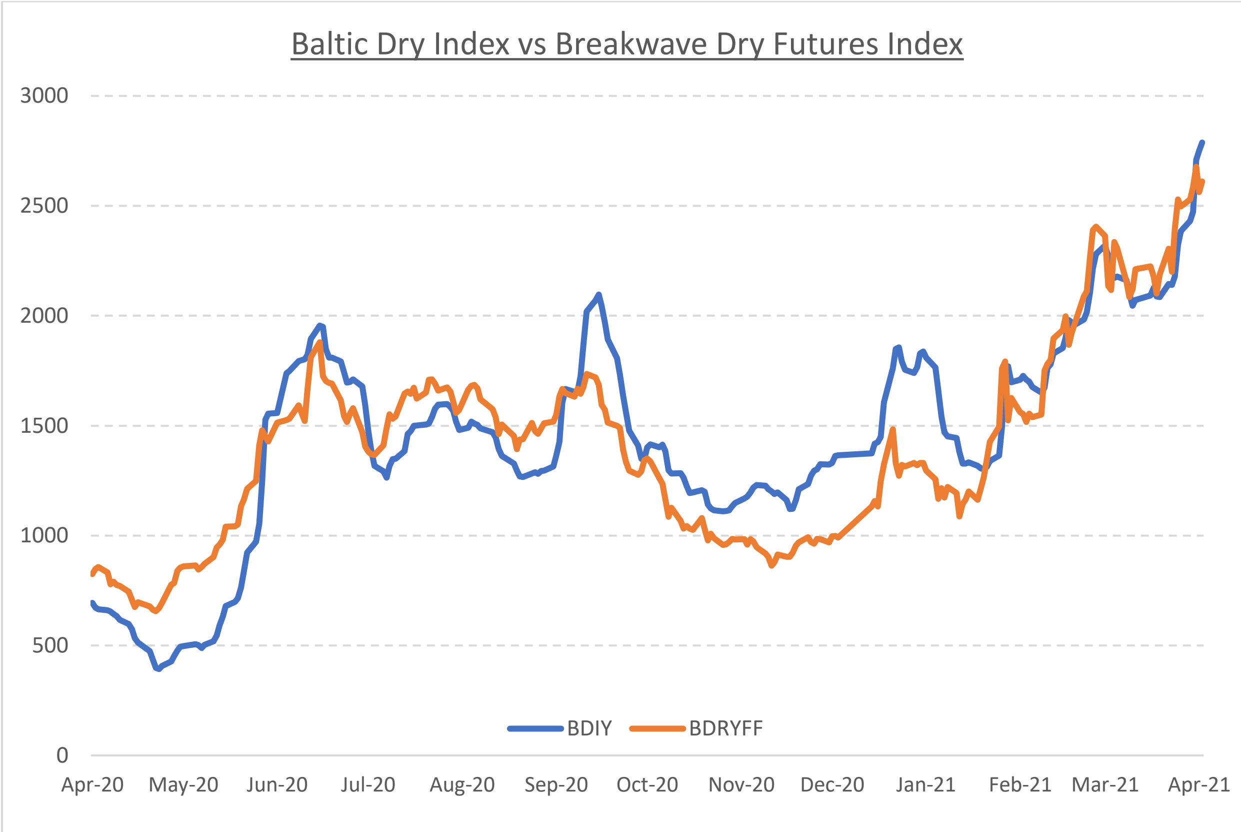
Bi-Weekly Report

- **Be aware: This ain't your conventional shipping cycle –** As Capesize rates march once again past 35,000, the third such rally in less than nine months, one has to wonder if something has materially changed in the dry bulk space. In the previous seven years (2014-2020) Capesize rates had touched the 35,000 level only once (September 2019), so the fact that we are visiting such relatively elevated levels more frequently in the last twelve months is indicative of some type of transformation in the underlying fundamentals of the Capesize market. The two recent back-to-back plunges in rates, namely the Vale dam rapture (Q1 '19) and, of course, the global pandemic (Q1 '20), masked the gradual improvement in the dry bulk market balance and, absent those, the Capesize sector would have had a more gradual ascent versus the recent heightened volatility, in our view. A new multi-year high is now within reach, and that would confirm a higher low/higher high pattern, which should provide a significant confidence boost in an already booming dry bulk market. Currently Capesize rates are above 35,000 while Panamax rates are ~22,000.

- **Iron ore prices boosting miners' earnings to record levels –** Iron ore is a major commodity transported by dry bulk vessels. As a result, although the price of iron ore does not directly impact the price of freight, the economics of iron ore production and trade does indeed affect traders' behavior, and thus freight prices. With almost all miners having a marginal cost of production of less than $65/tonne and with the major miners that account for close to 85% of global production having a marginal unit production cost of less than $30/tonne, current iron ore prices are providing for considerable profits so far this year. Spot prices for iron ore are approaching $200/tonne and thus any global miner that can produce and put a tonne of product on a vessel is scrabbling to do so. A great example of how iron ore economics can affect freight is the relationship between the delivered price of iron ore and the cost to transport it: The historical average percentage of freight on delivered iron ore from Brazil to China has been around 19%. If such level is applied to current iron ore prices, the corresponding freight rate would be closer to 50,000 versus current levels of ~32,000. Miners can unquestionably afford to pay up today for freight in order to secure a very lucrative profit margin on the core business, and we believe such a trend will further increase in the months ahead as mothballed and greenfield iron ore mining projects come back to live around the globe.

- **Volatility in freight continues to increase –** In 2021, we expect demand growth for dry bulk shipping to total almost 3x the growth in net new supply, and although utilization is still well below the record high levels of the 2000s, directionally, utilization is heading to new multi-year highs that have the potential to push shipping rates much higher. We anticipate volatility to increase this year, and although such a turbulent environment might seem scary at times, it is a characteristic for shipping that has been in hibernation for most of the past decade and is about to wake up and make potential trading returns quite attractive subject to prudent risk management.

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	271mt	15.6%
China Steel Inventories	8.6mt	-20.3%
China Iron Ore Inventories	136mt	15.2%
China Iron Ore Imports	284mt	8.0%
China Coal Imports	68mt	-28.5%
China Soybean Imports	21mt	19.0%
Brazil Iron Ore Exports	81mt	16.8%
Australia Iron Ore Exports	131mt	6.8%

Supply

Dry Bulk Fleet	884dwt	3.7%

Freight Rates

Baltic Dry Index, Average	1,863	206.9%
Capesize Spot Rates, Average	19,220	270.7%
Panamax Spot rates, Average	17,678	206.6%

Note: All numbers as of latest available; Imports/Exports/Production are YTD sums as of last reported; Inventories/Fleet are weekly totals

Sources: Bloomberg and Breakwave Advisors

Contact:

Breakwave Advisors LLC
17 State Street, 40th floor
New York, NY 10004
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com