Dry Bulk Shipping

August 17, 2021

Breakwave Dry Futures Index:	3,592	Baltic Dry Index (spot):	3,606	Short-term Indicators:	
↑ 30D: 13.2%		↑ 30D: 18.7%		Momentum:	Neutral
↑ YTD: 262.6%		↑ YTD: 164.0%		Sentiment:	Positive
↑ YOY: 116.5%		↑ YOY: 126.1%		Fundamentals:	Positive

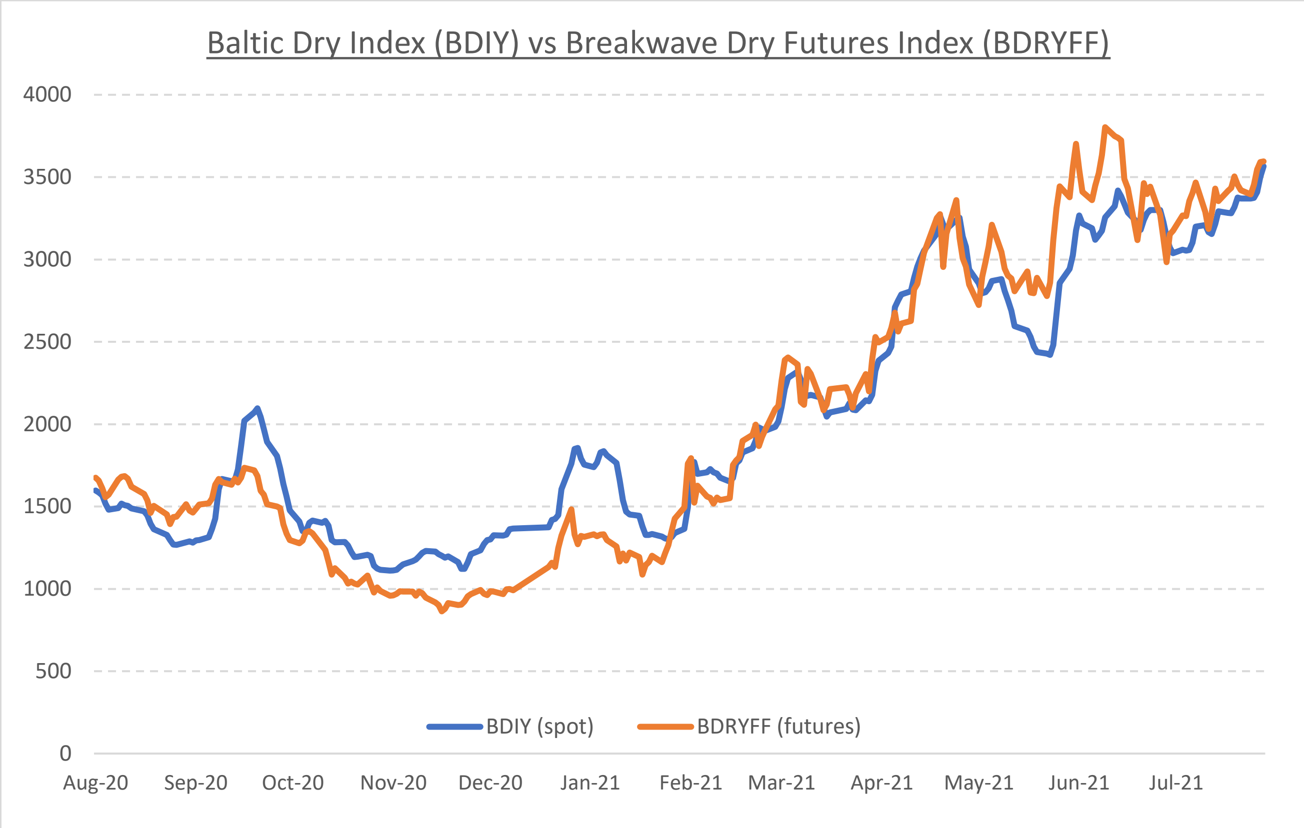
Bi-Weekly Report

- **Capesize rates reach 40k once again; Is 50k the next stop? –** In a span of less than four months, Capesize average spot rates have now topped 40k twice without experiencing a significant drawdown in between. This is not surprising. With Panamax and Supramax spot rates hovering in the 30,000+ area for months now, the historical relationships between asset classes remain a significant support for Capesize spot rates. And yet, our feeling is that most market observers remain relatively unimpressed. Whether it is the significant outperformance of other shipping segments (see the exploding container market, decade-high handysize rates, etc.) or the fact that it is real demand/supply imbalance that is tightening the market, our feeling is that 40k Capesize rates are great but nowhere close to impressive. With both Panamax and Supramax rates continuing to perform extremely well so far during August, a month that historically has seen some of the weakest rates on record, we remain optimistic on the near term direction of Capesize rates and we now believe there is a high probability of the spot index topping 50k soon (for those that are looking for the intra-asset relationships, with Panamax spot rates at ~31k and the historical average Cape/Panamax ratio at ~1.5x, it is easy to see how such level makes sense from a historical perspective).

- **Iron ore has collapsed almost 30% from record highs, as Beijing restrictive steel policy remains key –** During the last two weeks, spot iron ore prices have experienced a steep correction, down some 25%, and prices are now approaching levels last seen in early April. The significant push by the Chinese Government to both control the striking price increases in raw materials that are putting considerable inflationary strains in the economy but also to remain focused on reducing carbon emissions as well as air pollution coming from the steel industry, seem to finally having an impact on steel production (down 8% MoM in July) and, as a result, taking a toll on iron ore prices. At the same time, steel prices have remained relatively firm for the exact same reasons, as demand is quite strong and any attempt to reduce output will only strengthen prices further. As a result, the benchmark rebar steel margin recently reached new highs, and although has since then shrunk a bit, it remains at very healthy levels. Steel mills have all the incentive to produce steel and thus buy more iron ore. However, the risk on how aggressive Beijing will become in limiting steel production is still up for debate, given the strong economic interest of a fragmented sector versus a centrally controlled economy that aims at limiting production of such an important for the country industry.

- **Volatility in dry bulk freight to remain elevated –** For the rest of 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 remain elevated, while we sense that government policy decisions, especially as it relates to China's attempt to reduce carbon emissions caused by steelmaking, will be major drivers for the direction of future demand for dry bulk shipping.

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	649mt	9.5%
China Steel Inventories	7.1mt	-9.1%
China Iron Ore Inventories	127mt	8.9%
China Iron Ore Imports	650mt	-1.5%
China Coal Imports	170mt	-15.2%
China Soybean Imports	58mt	4.5%
Brazil Iron Ore Exports	189mt	8.6%
Australia Iron Ore Exports	429mt	0.3%

Supply		
Dry Bulk Fleet	894dwt	3.2%

Freight Rates		
Baltic Dry Index, Average	2,468	182.0%
Capesize Spot Rates, Average	25,804	145.5%
Panamax Spot rates, Average	23,167	227.0%

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

Sources: Bloomberg and Breakwave Advisors

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