Dry Bulk Shipping

August 3, 2021

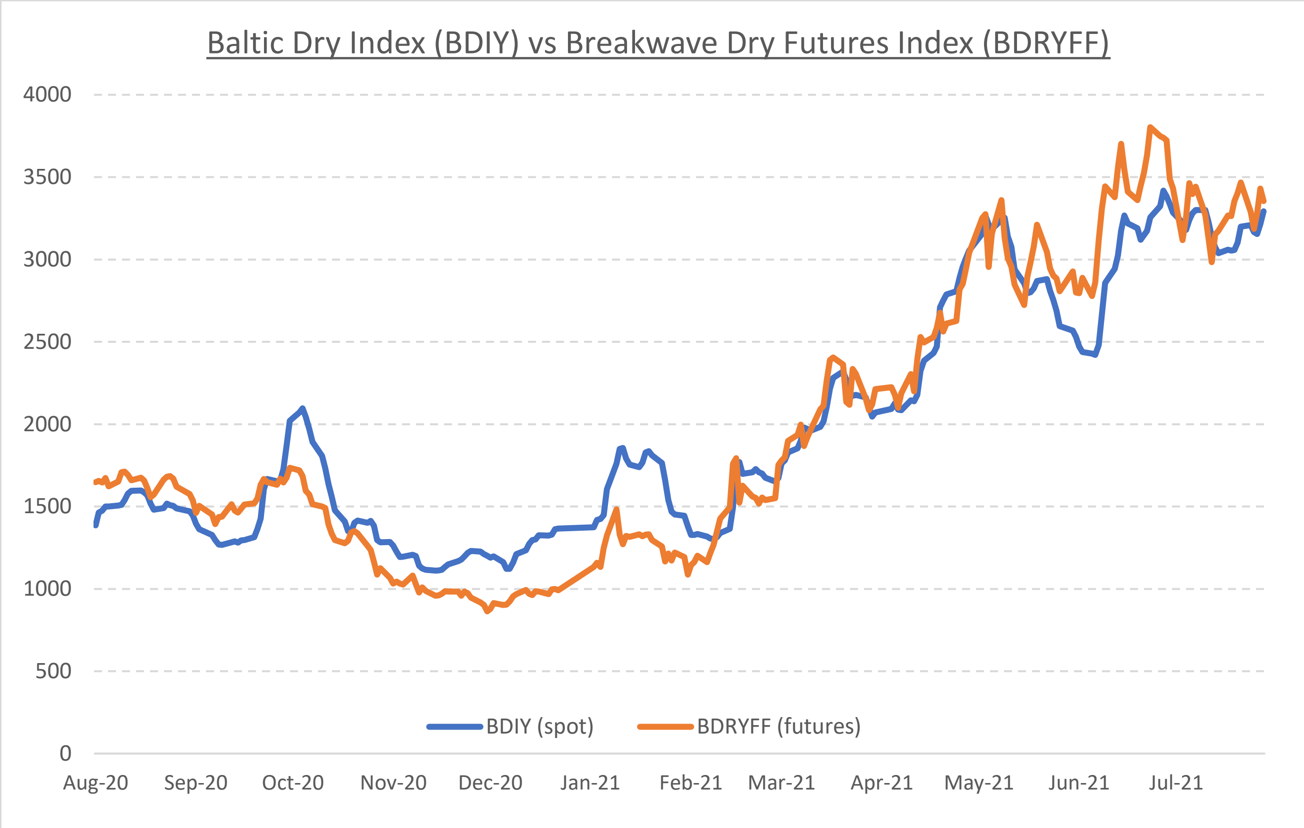
Breakwave Dry Futures Index:	3,417	Baltic Dry Index (spot):	3,282	Short-term Indicators:	
↓ *30D: -0.5%*		↓ *30D: -0.1%*		*Momentum:*	Neutral
↑ *YTD: 244.9%*		↑ *YTD: 140.3%*		*Sentiment:*	Neutral
↑ *YOY: 121.7%*		↑ *YOY: 143.1%*		*Fundamentals:*	**Positive**

Bi-Weekly Report

- **Smooth summer sailing for dry bulk but "stormy clouds" are likely gathering in the horizon –** The last few weeks have been characterized by a typical summer "lull" in both trading activity and actual volumes across the dry bulk sector. For Capesizes, the spot market has been rangebound and typical of mid-summer activity, although late last week rates begun to move higher as the market gradually tightened. Iron ore volumes for early September versus available tonnage looks favorable for owners, while coal cargoes continue to draw ships into rather unusual loading ports especially in the Atlantic, which adds uncertainty for charterers regarding future vessel availability and thus aiding freight rates. On top of that, vessel congestion is once again building up in Chinese ports following the new COVID-19 port restrictions. The weak link lies in the Panamax market, which currently is "sandwiched" between a recovering Capesize market and a stubbornly strong Supramax market, and yet is unable to strengthen (although that might be about to change). All the above should always be considered in the context of some of the strongest spot rates in at least a decade and thus by no means they represent absolute weakness. Yet, once more it is policy decisions that are now taking the front seat in shaping medium term expectations about dry bulk demand.
- **Beijing is once again showing its teeth in the battle against a polluting steel industry –** Iron ore prices dropped significantly last week while the backwardated futures market point to even steeper losses down the road, as the Chinese government through various venues continues to push for curtailments in steel production for the second half of the year. Whether it is through export curbs in steel products or direct reductions in domestic steel output, the end result will be lower demand for iron ore. On the other hand, given current steel margins, which jumped to a new high last week following the announcements, it is difficult to see how domestic steel mills will foregone profits of that magnitude. The Chinese steel industry is highly fragmented, and as game theory dictates, the incentive to "cheat" in a highly competitive and profitable market is very strong. Furthermore, such a push by the government to curtail steel production has been in the works for months now, without any meaningful impact. If this time is different is yet to be seen, but our feeling is that one way or another, the rate of growth in Chinese steel production will decline for the rest of the year and remain low next year. That is clearly not great news for the dry bulk sector, however, we still expect decent growth from a much higher absolute base which, once adjusted for the tonne-mile effect, we estimate it will exceed the growth in the global dry bull fleet.

- **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	563mt	12.9%
China Steel Inventories	7.2mt	-7.0%
China Iron Ore Inventories	128mt	9.7%
China Iron Ore Imports	561mt	2.6%
China Coal Imports	140mt	-19.8%
China Soybean Imports	49mt	8.7%
Brazil Iron Ore Exports	167mt	15.2%
Australia Iron Ore Exports	352mt	1.6%

Supply

Dry Bulk Fleet	893dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,397	188.0%
Capesize Spot Rates, Average	24,972	152.8%
Panamax Spot rates, Average	22,672	238.4%

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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