Dry Bulk Shipping

February 16, 2021

Breakwave Dry Futures Index:	1,429	Baltic Dry Index (spot):	1,364	Short-term Indicators:	
↑ 30D: 4.9%		↓ 30D: -22.2%		Momentum:	Positive
↑ YTD: 44.3%		↓ YTD: -0.1%		Sentiment:	Positive
↑ YOY: 75.1%		↑ YOY: 220.9%		Fundamentals:	Positive

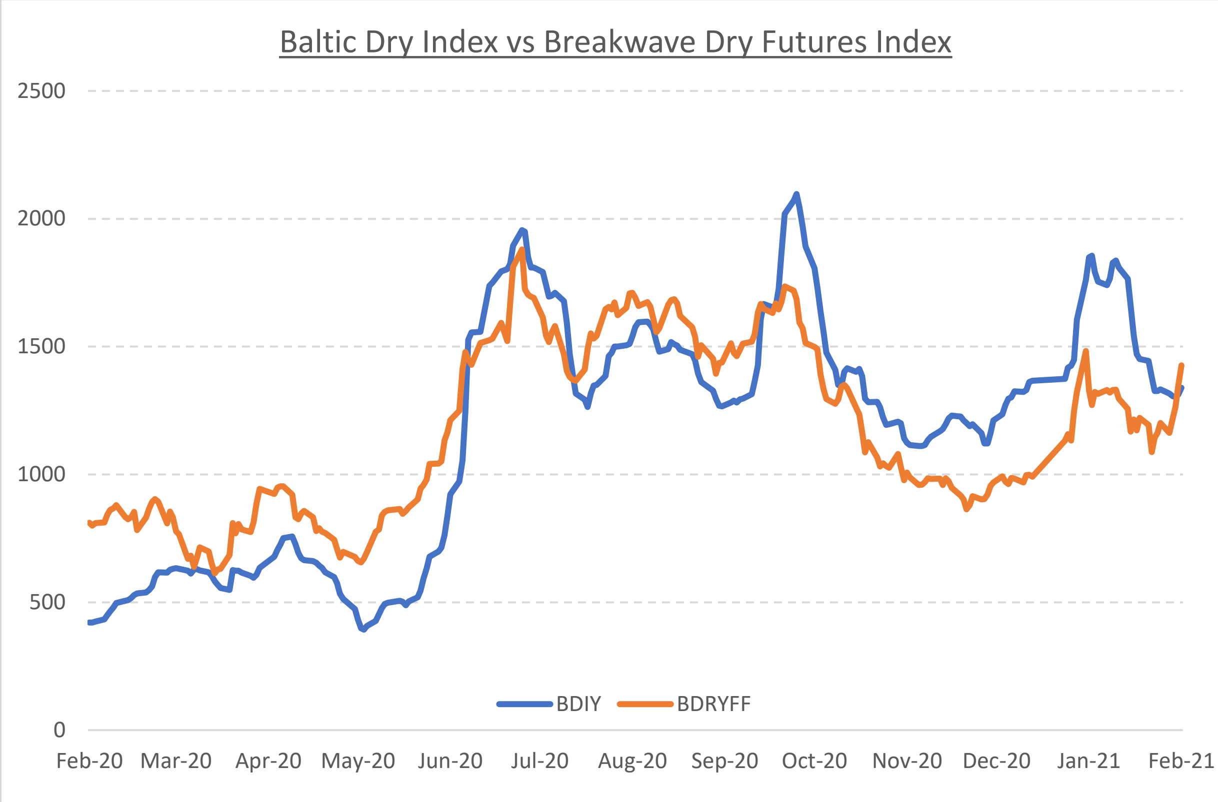
Bi-Weekly Report

- **Something has changed in dry bulk, and investors better take notice –** It is not that this time is different. In fact, it is the same as it always has been in cyclical industries. Commodities, and as a result dry bulk shipping, are seeing some of the highest capital flows and interest in years. There are numerous and debatable explanations, but cyclical upturns start out of nowhere and, as has been the case again and again, it is only in hindsight you can identify the reasons. However, we all make decisions in real time, and for dry bulk, to see Panamax routes at 20,000 and Handysize (!) rates at 10-year highs in the heart of the winter, it means something has probably changed. Dry bulk is a commoditized industry where, unlike other commodities, supply is inelastic, and if indeed demand is as strong as it seems, freight rates can take a life of their own and break out of recent ranges. This is happening in various areas and asset classes in the last couple of weeks. Capesizes remain muted due to seasonality, but freight futures are pointing to strength down the road. Our view remains that 2021 will be a rebound year for dry bulk, that futures are mispriced against reality due to the backward bias of most freight traders, and that the probability of prices reaching very high levels (see 2000s) is real. After all, every other asset class in shipping has had impressive spikes in rates in the last few years (i.e., tankers, containers, LNG, LPG, etc.). Thus, it would not be inconceivable to see a similar rush in dry freight on the back of a strong commodity market, with a very favorable risk/reward balance now.

- **Capesizes seasonally lagging, less macro sensitive –** A necessary ingredient for a supportive dry bulk market is the bullish element of the Capesize sector. However, one needs to remember that Capesizes are subject to the highest seasonality of any other sector in dry bulk. Winter weather greatly affects both loading and unloading operations while cold spells also affect steel demand. In addition, given the importance of China in Capesize demand, the Chinese New Year also plays a role in Capesize trading. The impressive strength in the smaller size bulkers is helping sentiment for Capesizes, but the actual physical market remains muted. This is not necessarily a red flag, as February is always a weak month. To the contrary, one could argue that with month-to-date Capesize rates hovering around 11,000, this is one of the best February months in years (in 2018, February Capesize rates averaged 12,800 but short of that, every other year since 2014 has seen single digit averages).

- **Volatility in freight should 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 was in hibernation for most of the past decade but is about to wake up and make potential trading returns very attractive subject to prudent risk management, while the lack of investment vehicles for investors will at times exaggerate such returns, as it happened in past cycles.

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	1053mt	5.7%
China Steel Inventories	6.6mt	-13.8%
China Iron Ore Inventories	126mt	-3.6%
China Iron Ore Imports	1170mt	9.5%
China Coal Imports	304mt	1.4%
China Soybean Imports	100mt	13.4%
Brazil Iron Ore Exports	0mt	1.4%
Australia Iron Ore Exports	871mt	3.9%

Supply		
Dry Bulk Fleet	879dwt	3.6%

Freight Rates		
Baltic Dry Index, Average	1,545	150.8%
Capesize Spot Rates, Average	18,277	199.5%
Panamax Spot rates, Average	13,482	167.1%

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

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