BREAKWAVE ADVISORS

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Dry Bulk Shipping

February 2, 2021

Breakwave Dry Futures Index:	1,221	Baltic Dry Index (spot):	1,444	Short-term Indicators:	
↑ *30D: 23.2%*		↑ *30D: 5.7%*		*Momentum:*	**Negative**
↑ *YTD: 23.2%*		↑ *YTD: 5.7%*		*Sentiment:*	**Negative**
↑ *YOY: 61.0%*		↑ *YOY: 196.5%*		*Fundamentals:*	**Positive**

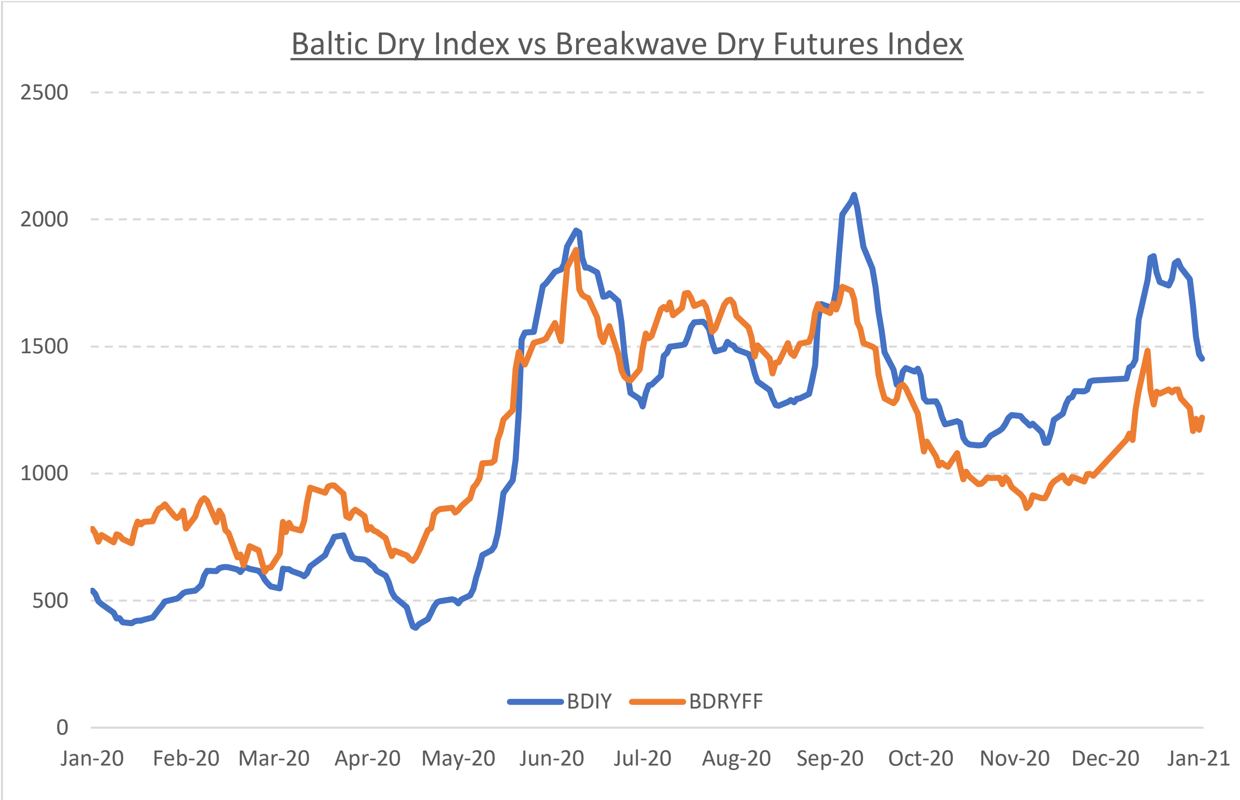
Bi-Weekly Report

- **Capesize rates come "back down to earth"; Expect spot rates to drift on winter lull –** Following the best January for Capesize rates in a decade, the unavoidable correction is here, as seasonally demand for dry bulk transportation drops considerably due to weather-related issues. Australia's main loading ports are currently dealing with a relatively weak cyclone, while in China, construction activity slows down during the cold winter months and ahead of the Chinese New Year celebrations. In Brazil the seasonal rains, which usually lead to considerably slower loading operations, have so far been absent, and based on forecasts, that should be the case for the next couple of weeks. Capesize spot rates have dropped from the record high for the season levels, yet the Atlantic basin maintains the significant premium over the Pacific, now at over 14,000 differential. It is the strong North Atlantic market that is keeping the overall Capesize Index from reaching the low-double digit levels that the rest of the segments are already trading at, and we expect the premium to be maintained for now. Brazil should remain relatively stable and thus we expect the index not to collapse, despite the heavily backwarded futures market. Yet, we do not anticipate a rally in rates either, at least not until we reach the end of February: Historically, we don't find any significant directional bias in spot rates for the month of February, with past years pointing to relatively flattish spot markets during the month. Capesize rates are currently averaging around 15,000 while Panamax rates are above 13,000.

- **First half should outperform recent years –** 2021 started with a bang, and although there were very particular circumstances behind the strength, dry bulk should perform better in the first half of the year versus the last couple of years. Obviously, the lack of unexpected events that dominated the shipping and global markets in 2019 and 2020 alike should make the comparisons quite favorable. In addition, ample global liquidity and what seems like a recovering global economy, should further aid the dry bulk market. Commodity prices, an important barometer of demand for bulk materials, have been rallying in the past few months as demand for base metals, agricultural products, iron ore, and coal among others are reaching multi-year highs. As such, arbitrage opportunities and the ability of buyers to "pay up" for freight should provide support for spot freight rates. The futures market remains unconvinced for now, but the opportunities in investment usually lie on that promise that consensus is wrong.

- **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	4.9mt	-6.3%
China Iron Ore Inventories	126mt	-0.7%
China Iron Ore Imports	1170mt	9.5%
China Coal Imports	304mt	1.4%
China Soybean Imports	100mt	13.4%
Brazil Iron Ore Exports	341mt	1.4%
Australia Iron Ore Exports	793mt	4.4%

Supply

Dry Bulk Fleet	882dwt	4.3%

Freight Rates

Baltic Dry Index, Average	1,647	135.0%
Capesize Spot Rates, Average	21,384	182.8%
Panamax Spot rates, Average	13,006	129.8%

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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