Dry Bulk Shipping

January 19, 2021

Breakwave Dry Futures Index: 1,355	Baltic Dry Index (spot): 1,740	Short-term Indicators:	
↑ *30D: 37.7%*	↑ *30D: 31.3%*	*Momentum:*	**Positive**
↑ *YTD: 36.7%*	↑ *YTD: 27.4%*	*Sentiment:*	**Positive**
↑ *YOY: 52.9%*	↑ *YOY: 130.8%*	*Fundamentals:*	**Positive**

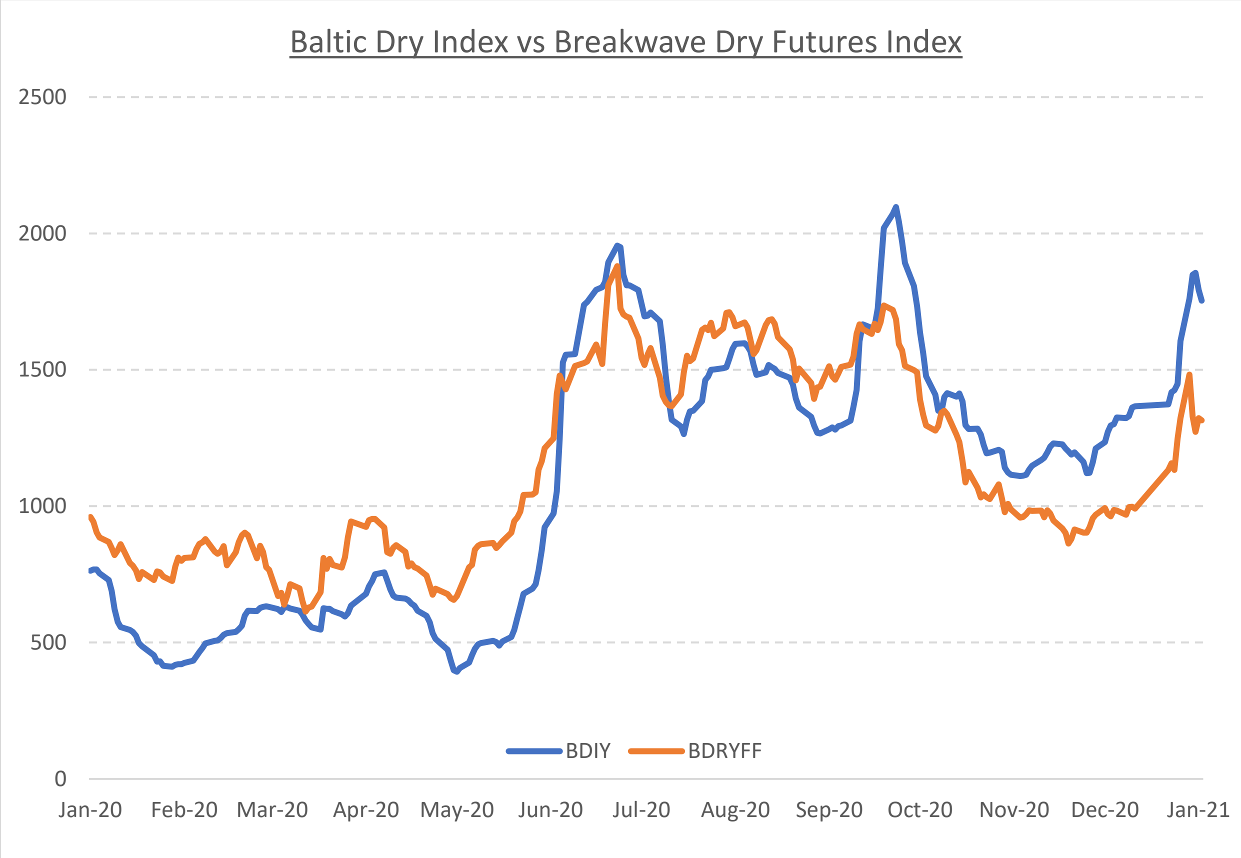
Bi-Weekly Report

- **Capesize rates rip as dry bulk volatility is making a comeback with a vengeance –** The dry bulk market is about to surprise a lot of people in 2021, something that is not priced in the futures and is not in the mind of most investors. A lethargic decade for the industry is behind us, where fleet growth was consistently exceeding the ever-reduced demand growth. But such a dynamic is about to change, and despite pundits' calls for a slow dying industry, we expect the next few years to be characterized by heightened volatility and strong risk-adjusted returns for dry bulk shipping. The recent rally, although not yet a reflection of such favorable demand/supply fundamentals, is a reminder that in shipping, tightness in the market balance happens fast and the old rules (see "Q1 weakness") are only a vague guidance of the future that should be followed with extra caution. With current inclement weather having a profound negative impact on vessel supply (very cold conditions in North China causing massive delays in all vessels), strong demand for coal trading (see cold weather in China), a global gradual economic recovery as the pandemic seems to be peaking (still an uncertainty though) and a thriving steel industry in China (record high steel production, record high iron ore imports), the dry bulk market is experiencing the best start of the year in at least a decade. Presently, Capesize spot rates are in the low/mid-20,000 range and Panamax rates are in the low-10,000s, and we expect a strong year for dry bulk though volatility will remain elevated as always is the case in early upcycles.

- **Orderbook is record low, demand growth will accelerate –** The fact that ship owners are reluctant to place new orders for ships is not the result of poor economics. Rather, regulatory uncertainty following the increasing pressure for an industrywide reduction in CO_2 emissions, is the main driver when it comes to the stagnant orderbook. Therefore, the secondhand ship becomes the focus of attention, and an early example of such a potential scarcity of asset was last week's Capesize sale that we estimate was concluded at a ~50% premium to last done. No matter the incentives or the specifics of the transaction, this is evident of the lack of available supply of ships for sale given the optionality for well above average rates of return over the coming years. Commodities are entering a new lengthy bull market, in our view, aided by increased inflation expectations, a weakening US dollar and an upcoming economic cycle that is driven by the depression-like conditions that have prevailed globally for almost a year now.

- **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	961mt	6.3%
China Steel Inventories	3.8mt	1.1%
China Iron Ore Inventories	125mt	-2.0%
China Iron Ore Imports	1170mt	9.5%
China Coal Imports	304mt	1.4%
China Soybean Imports	100mt	13.4%
Brazil Iron Ore Exports	335mt	-4.5%
Australia Iron Ore Exports	793mt	4.4%

Supply

Dry Bulk Fleet	880dwt	0.1%

Freight Rates

Baltic Dry Index, Average	1,628	101.2%
Capesize Spot Rates, Average	21,649	125.4%
Panamax Spot rates, Average	12,574	101.6%

Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors

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