BREAKWAVE ADVISORS

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Dry Bulk Shipping

January 5, 2021

Breakwave Dry Futures Index: 1,029	Baltic Dry Index (spot): 1,374	Short-term Indicators:
↑ *30D: 9.8%*	↑ *30D: 14.8%*	*Momentum:* **Positive**
↓ *YTD: 0.0%*	↑ *YTD: 0.6%*	*Sentiment:* **Neutral**
↓ *YOY: -3.1%*	↑ *YOY: 26.1%*	*Fundamentals:* **Positive**

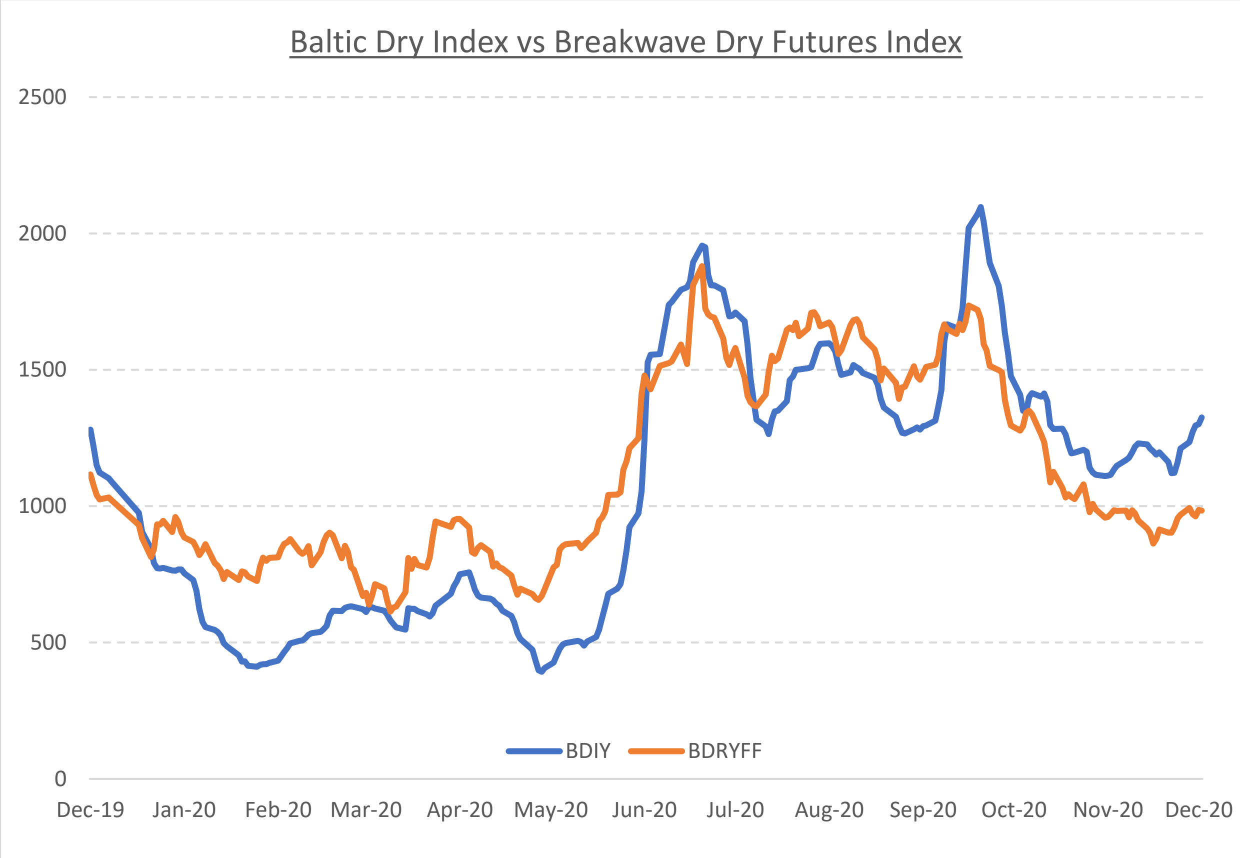
Bi-Weekly Report

- **The dry bulk market welcomes 2021 with a bang as futures adjust to reality –** As we stressed out prior to the Christmas break, the cautiousness of the market towards January Capesize rates was not warranted, as the Atlantic basin was lacking tonnage while the Pacific market continues to experience strong demand due to record-high iron ore prices. While futures were looking backwards to last year for guidance (odd, but frequently this is the case with freight futures), market participants became increasingly complacent with the steep discounts of prompt futures to spot, which eventually resulted in yesterdays' sharp and violent upward adjustment that pushed the futures market closer to spot, albeit still at a discount. With both the Pacific and Atlantic roundtrip rates paying close to 20,000, it is Capesize rates from Brazil to China that still keep the index relatively low, and any adjustment towards the above conference rates could potentially lead to one of the best January months for Capesizes in a decade. This is a big win for a market that over the past few years has seen rates dropping to the low single digits fast, although one should always keep in mind that weather plays a significant role in first quarter dry bulk rates, and any intensification on rains in Brazil or the potential for cyclones developing in Australia could easily bring this market down to the single digits rapidly. For now, however, the market enjoys a countercyclical strength with a decent chance of developing further and pushing the Capesize average into the 20,000 range. Panamax rates also entered the year quite strong, which makes the case for a well-supported Capesize market even stronger.

- **Volatile iron ore prices mean increased scrutiny by China –** During the Christmas break, a number of news articles and announcements that came out pointed to the frustration and concern of the Chinese steel industry towards the record high iron ore prices and the very negative impact on the sector's profitability that such a development brings. As the largest iron ore consumer in the world, China has the ability to alter the global iron ore trade dynamics meaningfully, although we believe any such development will be a multi-year process rather than an abrupt event. Over time, China clearly wants to diversify its iron ore supplies away from Australia and into areas like West Africa, Russia, and Brazil. In addition, China wants to obtain more direct control over the iron ore supplies, which bodes well with their long-term existing investments in areas like the Simandou deposits in Guinea. Ultimately, such a diversification will increase tonne-miles, as the distances involved are longer, a clear positive for dry bulk shipping.

- **Volatility in freight should increase –** We expect spot rate volatility to increase this year, as demand and supply growth rates seem closer than any other period in recent history (with a high probability of a significant gap towards a tighter market). A lot comes down to Brazil and the potential for sizable iron ore export growth this year, while iron ore price volatility will also play a bigger-than-usual role in determining freight rates. Finally, coal prices and the trade dispute between China and Australia have shifted the market towards longer-haul trades, which combined with an anticipated global commodity recovery, could provide further support to 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	961mt	6.3%
China Steel Inventories	3.4mt	8.8%
China Iron Ore Inventories	127mt	-2.3%
China Iron Ore Imports	1073mt	10.9%
China Coal Imports	265mt	-10.8%
China Soybean Imports	93mt	17.5%
Brazil Iron Ore Exports	335mt	-4.5%
Australia Iron Ore Exports	723mt	5.1%

Supply		
Dry Bulk Fleet	879dwt	0.0%

Freight Rates		
Baltic Dry Index, Average	1,374	45.9%
Capesize Spot Rates, Average	16,656	46.1%
Panamax Spot rates, Average	10,936	46.8%

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

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