BREAKWAVE ADVISORS

www.drybulkETF.com

Dry Bulk Shipping

July 6, 2021

Breakwave Dry Futures Index:	3,119	Baltic Dry Index (spot):	3,224	Short-term Indicators:	
↑ *30D: 8.0%*		↑ *30D: 32.2%*		*Momentum:*	**Negative**
↑ *YTD: 214.8%*		↑ *YTD: 136.0%*		*Sentiment:*	**Neutral**
↑ *YOY: 65.9%*		↑ *YOY: 64.8%*		*Fundamentals:*	**Positive**

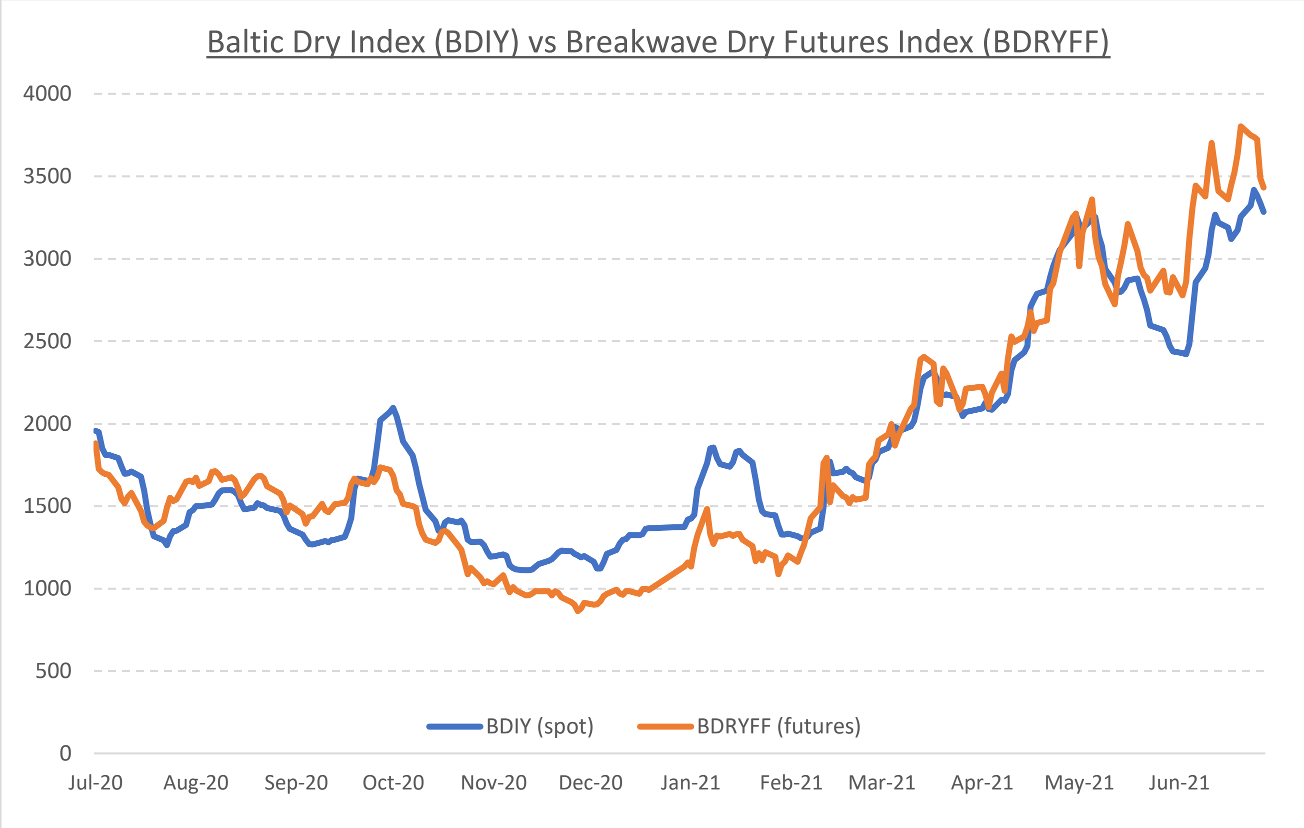
Bi-Weekly Report

- **Softening Capesize rates eat away futures' premiums as market confidence is shaken –** Once again, the Capesize market is left looking for a tradable bottom, following a recent short but extremely sharp rally, with spot rates approaching the mid-20,000 level for the second time in less than a month. This time around however, the premium over spot that the futures market demanded until recently, has gradually disappeared, as spot rates look increasingly vulnerable to a deeper correction in the near term. The battle between otherwise solid dry bulk fundamentals and the rather uninspiring present Capesize supply/demand balance has left traders with little ammunition on their effort to predict bottoms and tops of the volatile spot market as traditional intra-asset relationships seem to fail so far in forecasting any such levels (i.e., Panamax rates above Capesize despite the size difference). Our expectation is for another trip to the low 20,000 mark for Capesize rates before a meaningful bottom and subsequent rally to higher levels towards the end of the current month. Yet, with solid demand for the Panamax/Supramax segments where spot rates remain in the 30,000 territory, the vessel substitutions to Capesizes (i.e. charterers prefer to use a cheaper Capesize versus a smaller Panamax) are real and provide additional demand for that segment which could potentially offer a higher level of support for the dwindling Capesize spot market.

- **Coal's comeback provides a major boost for the dry bulk market –** The "hated" commodity is back with a vengeance, as coal proved to be the secret weapon for dry bulk owners so far this year. Despite all the environmental headwinds facing the commodity, demand across all regions has picked up significantly in the last several months with trade frictions between Australia and China, power shortages in China, strong demand for steel production across the globe and the overall increase in power demand as the pandemic slowly eases, all boosting demand for both thermal and coking coal. More importantly, it is not only the traditional dedicated trade routes for coal that are providing such a boost. Rather, smaller coal parcels are making a strong comeback, boosting the need for smaller size vessels and significantly tightening further the supply in the sub-cape segments. The reasons for such a demand surge are clearly cyclical in nature and possibly short leaved, but that has always been the nature of dry bulk demand anyway. For the foreseeable future, and with coal prices close to decade highs, we see little reason to expect any easing in demand for coal transportation, and thus no letup in demand for dry bulk coming from coal.

- **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, and although such a turbulent environment might seem scary at times, it is a characteristic for shipping that has been in hibernation for most of the past decade and is about to wake up and make potential trading returns quite attractive subject to prudent risk management.

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	473mt	14.9%
China Steel Inventories	7.1mt	0.6%
China Iron Ore Inventories	124mt	13.4%
China Iron Ore Imports	472mt	6.0%
China Coal Imports	111mt	-25.3%
China Soybean Imports	38mt	12.8%
Brazil Iron Ore Exports	107mt	14.3%
Australia Iron Ore Exports	352mt	1.6%

Supply		
Dry Bulk Fleet	891dwt	3.2%

Freight Rates		
Baltic Dry Index, Average	2,274	219.2%
Capesize Spot Rates, Average	24,103	210.8%
Panamax Spot rates, Average	21,131	252.4%

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

Contact:

Breakwave Advisors LLC
17 State Street, 40th floor
New York, NY 10004
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com