BREAKWAVE ADVISORS

www.drybulkETF.com

Dry Bulk Shipping

June 22, 2021

Breakwave Dry Futures Index:	3,421	Baltic Dry Index (spot):	3,190	Short-term Indicators:	
↑ *30D: 6.2%*		↑ *30D: 11.2%*		*Momentum:*	Positive
↑ *YTD: 244.4%*		↑ *YTD: 133.5%*		*Sentiment:*	Neutral
↑ *YOY: 138.8%*		↑ *YOY: 105.1%*		*Fundamentals:*	Positive

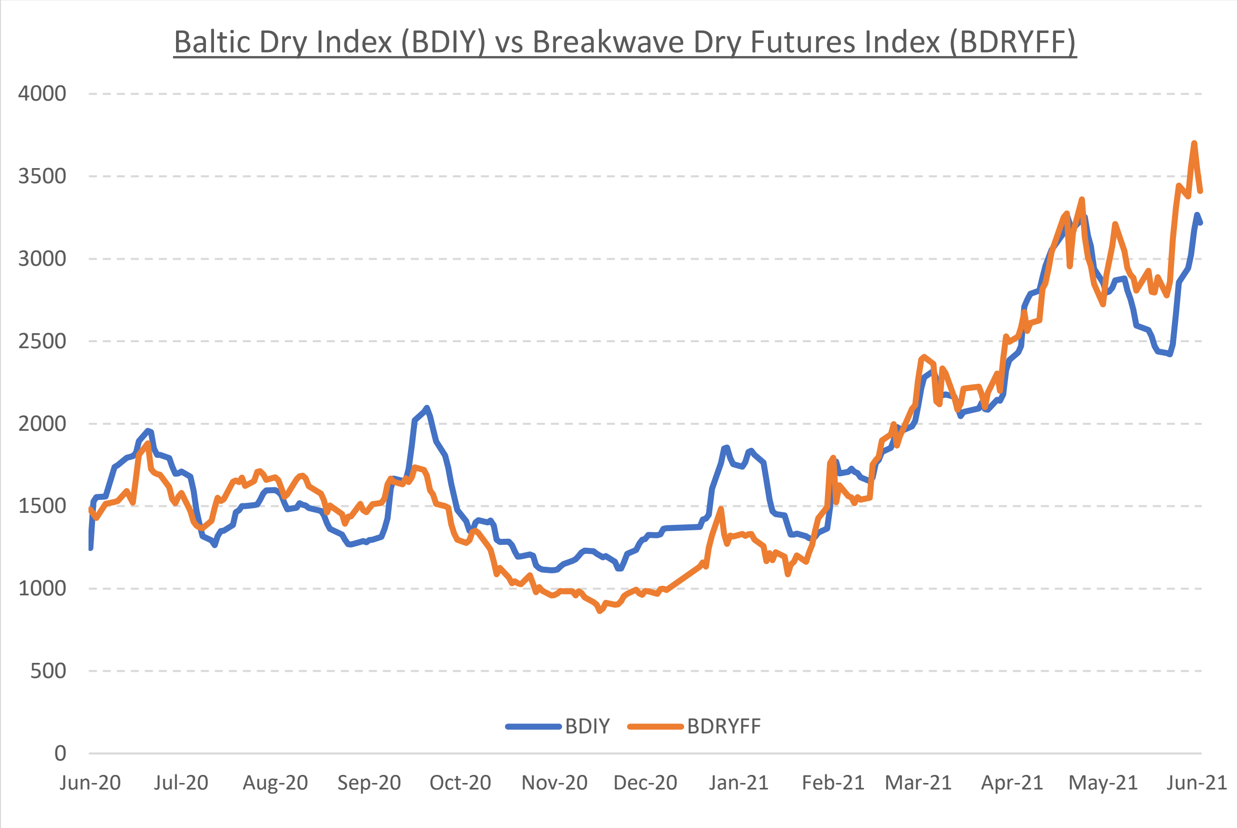
Bi-Weekly Report

- **Capesize spot rates rip but fail to impress a demanding futures market –** During a span of seven days, Capesize spot rates surged some 75%, or 15,000, to close the record wide gap to a futures curve that has for a while now been anticipating such a monstrous move in the spot market. Yet, despite such an impressive rally, futures wanted more, and as a result, following the rally, futures prices started to soften and gradually moved closer to spot (The potential on interest rate increases and China's crackdown on commodities 'speculation" did not help either). At the end of such a turbulent two weeks, Capesize futures are now sitting at less than 10% above the index, a significant contraction in the spread and more inline with historical levels. Still, the market remains optimistic for the progression of spot rates as we enter the third quarter. In the last four years, the sequential increase in Brazilian iron ore exports (from Q2 to Q3) has been 17-20 million tonnes, a significant amount of cargo to be absorbed in a heated spot market. Add on top of that some limited but growing cargoes coming from West Africa, Canada, and South America as a result of a highly profitable iron ore benchmark price, and the ingredients for a continuation of the strong spot market are definitely in place. Finally, on top of the robust iron ore trading activity, coal is once again making its appearance despite all the dire predictions for the commodity's growth prospects.

- **Commodities selloff left iron ore unscratched –** The recent across-the-board decline in commodities prices had only a marginal effect on iron ore prices. With both the spot and the near-dated futures at or above the $200/t mark, iron ore remains one of the best performing commodities over the last year, supported by limited supply growth and strong demand growth coming not only from China but from the rest of the world as well. High iron ore prices also support the relatively elevated dry bulk freight levels, as new opportunistic exporters are appearing in the market and despite the limited number of cargoes that they put in the water, such an increase in diversity of loading regions and requirements is having a profound positive impact especially in Capesize spot rates. However, it is not all rosy. Near term, as we move into the second half of the year, consensus expectations are for higher supply (see Brazil) and slower demand growth (see China), which on balance, should potentially soften iron ore prices. Such a development however is already priced into the futures curve with a steep backwardation observable across the 2021 maturities and with the 2022 average futures some 35% below current spot prices (~$140/t).

- **Volatility in dry bulk freight to remain elevated –** 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 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	6.8mt	-6.4%
China Iron Ore Inventories	125mt	15.0%
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	276mt	1.9%

Supply		
Dry Bulk Fleet	889dwt	3.3%

Freight Rates		
Baltic Dry Index, Average	2,189	250.5%
Capesize Spot Rates, Average	23,411	296.8%
Panamax Spot rates, Average	20,121	255.4%

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