BREAKWAVE ADVISORS

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Dry Bulk Shipping

March 16, 2021

Breakwave Dry Futures Index:	1,969	Baltic Dry Index (spot):	1,983	Short-term Indicators:	
↑ *30D: 31.5%*		↑ *30D: 43.7%*		*Momentum:*	**Positive**
↑ *YTD: 98.5%*		↑ *YTD: 43.5%*		*Sentiment:*	**Positive**
↑ *YOY: 156.6%*		↑ *YOY: 210.6%*		*Fundamentals:*	**Positive**

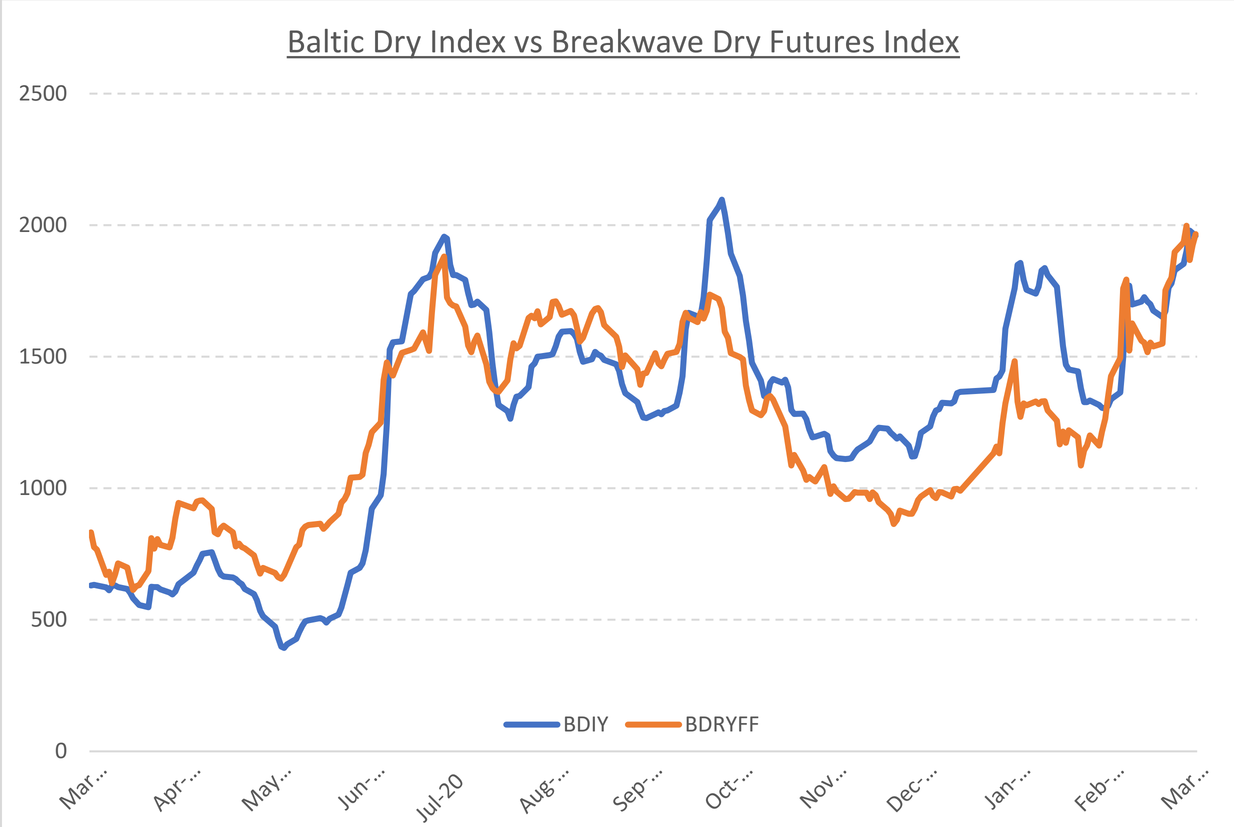
Bi-Weekly Report

- **Capesizes lag while rest of dry bulk thrives –** The excitement around dry bulk remains unabated, with the smaller geared vessels enjoying some of the highest spot rates in history in a relentless rally that is driven by real demand for transportation of various bulk commodities and is present in almost every shipping area around the world. The rally has left numerous market participants stunned but, at the same time, the higher freight costs are hurting commodity producers and consumers alike, as it significantly increases the price for delivered goods. Capesizes, on the other hand, are still subject to an oversupplied Atlantic with limited demand for Brazilian iron ore and it is only the excitement around the rest of the dry bulk market that seems to support spot rates at current levels. As we move towards the end of the month, we look for Capesize spot rates to soften somewhat, while on the sub-cape segments, we also anticipate a topping process to take place, without though any significant drawdown in pricing. Overall, the dry bulk rally that began late last year seems closer to have run its course and some consolidation of recent gains is expected. Capesize rates are at about 17,000 while Panamax rates are averaging almost 19,000.

- **The dry bulk strength is real and there is a cyclical recovery taking place –** “False starts” have been numerous when it comes to dry bulk upturns over the last several years. In each instance, Capesizes led the way, as iron ore projects were adding tens of millions of tonnes of product into the seaborne market, positively distorting the demand/supply balance. However, in each instance, the large fleet overhang and the anemic demand for the sub-Capesize segments limited the upside potential for the overall sector. This time around, the dry bulk market is experiencing a renaissance that has its roots to a much more diversified cargo demand base rather than just iron ore. In fact, iron ore has been the weakest of all in terms of demand over the last few months. The same holds true for Chinese imports of coal. However, the rest of the world ex-China also needs dry bulk goods, and it is those areas that are leading the recovery. One must always keep in mind that shipping is highly cyclical and good times do not last forever, but if spot rates upon completion of the current cycle manage to end up at a higher trough versus the last, then one can start talking about a more meaningful long term cycle that is driven by vessel supply, constraints in the orderbook and thus a more sustainable cycle versus history.

- **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	175mt	13.1%
China Steel Inventories	11.6mt	-5.5%
China Iron Ore Inventories	131mt	3.6%
China Iron Ore Imports	182mt	2.8%
China Coal Imports	41mt	-39.5%
China Soybean Imports	13mt	-0.7%
Brazil Iron Ore Exports	53mt	9.4%
Australia Iron Ore Exports	939mt	4.0%

Supply		
Dry Bulk Fleet	881dwt	3.9%

Freight Rates		
Baltic Dry Index, Average	1,637	177.8%
Capesize Spot Rates, Average	16,764	255.1%
Panamax Spot rates, Average	15,610	173.2%

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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