Dry Bulk Shipping

March 2, 2021

Breakwave Dry Futures Index:	1,550	Baltic Dry Index (spot):	1,651	Short-term Indicators:	
↑ *30D: 29.2%*		↑ *30D: 14.3%*		*Momentum:*	Neutral
↑ *YTD: 55.6%*		↑ *YTD: 20.9%*		*Sentiment:*	Positive
↑ *YOY: 81.2%*		↑ *YOY: 208.6%*		*Fundamentals:*	Positive

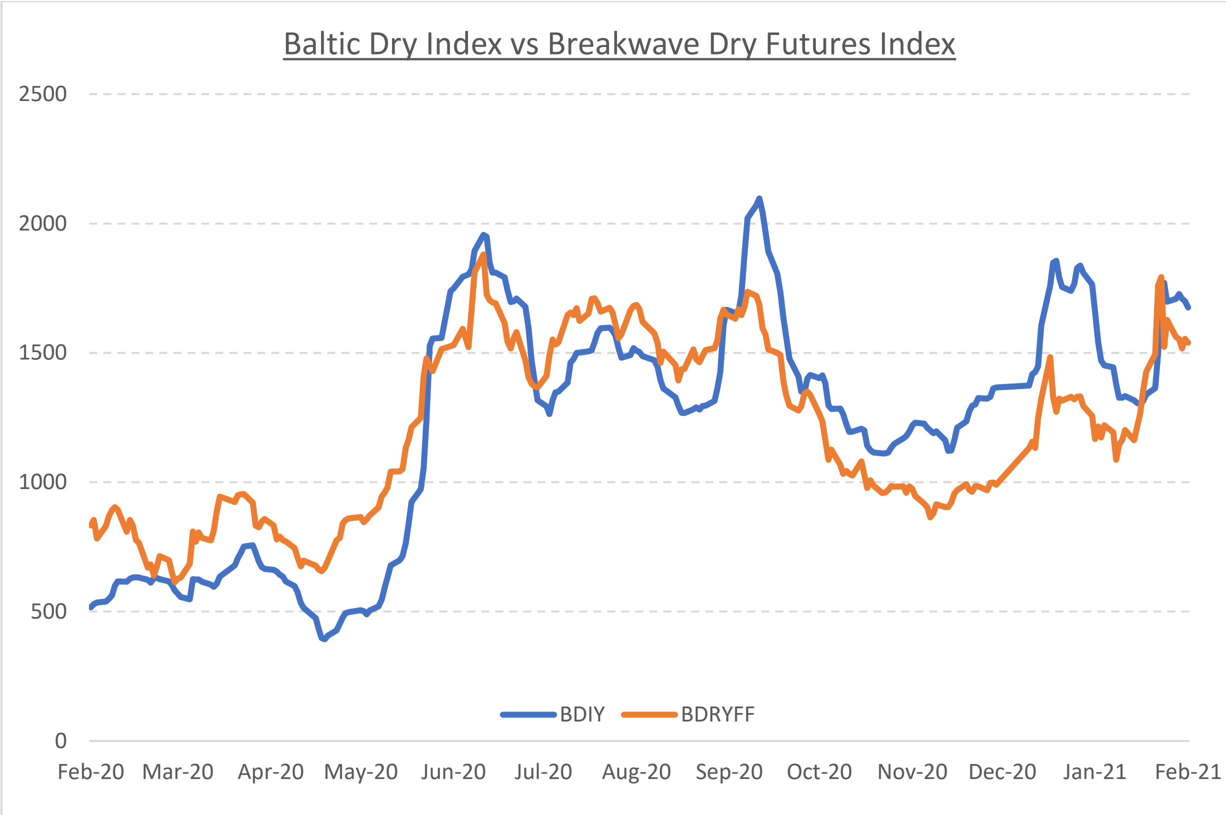
Bi-Weekly Report

- **Following the recent frenzy in dry bulk rates, attention turns to Capesize seasonal upturn –** With the sub-cape dry bulk segments having experienced some of the most volatile days in at least a decade and with corresponding spot rates sitting at extremely profitable levels, the next phase of the recent upturn will be critical and could potentially solidify the current upcycle in the minds of shipping investors. Yet, Capesize rates have lagged, and this is not surprising. Capesize fundamentals highly depend on iron ore that naturally exhibits the most seasonality of any other segment in dry bulk. Winter months are generally slow, with storms, rains and cyclones impacting loading and unloading operations in Australia, Brazil, and China. As we move into the spring months and the weather improves, iron ore exports tend to increase, and with that, demand for Capesize vessels also strengthens. February, which is historically the weakest month of the year, is behind us and as we enter March and miners begin to look for April loadings (most of the global chartering for Capesizes happens one month in advance), a tighter Capesize market is about to emerge. With Panamax and Supramax rates providing significant psychological support to the overall market (maybe even some marginal fundamental support as we recently heard of a Capesize ship being fixed for a grain shipment, something that rarely happens, if ever), the odds of another leg up for Capesize rates are looking quite good. Currently, Capesize rates are averaging about 11,500 while Panamax rates are just above 17,000.

- **Global economy recovers, positively impacting dry bulk shipping –** With widespread vaccinations taking place around the world and plenty of economic stimulus in the pipeline, growth is about to accelerate to make up for the lost output during the pandemic. As a result, raw materials demand has increased, which is evident by the exceptionally strong rates for smaller bulkers that usually transport a wide variety of economic sensitive goods. Dry bulk is considered a levered play on the commodity cycle, and as such, it should benefit disproportionately if indeed the world is entering a new cyclical commodity upturn. Similar to the underinvestment in global mining capacity over the last several years, there has been an underinvestment in dry bulk shipping capacity as well (although the sector was definitely overbuilt earlier in the previous decade). The combination of the above should support a healthy dry bulk market this year, accelerating into next year when the balances clearly tilt towards a capacity deficit.

- **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	1053mt	5.7%
China Steel Inventories	10.1mt	-3.6%
China Iron Ore Inventories	129mt	1.6%
China Iron Ore Imports	1170mt	9.5%
China Coal Imports	304mt	1.4%
China Soybean Imports	100mt	13.4%
Brazil Iron Ore Exports	29mt	8.7%
Australia Iron Ore Exports	871mt	3.9%

Supply

Dry Bulk Fleet	880dwt	3.7%

Freight Rates

Baltic Dry Index, Average	1,580	169.4%
Capesize Spot Rates, Average	17,071	224.7%
Panamax Spot rates, Average	14,879	185.0%

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

Contact:
Breakwave Advisors LLC
17 State Street, Suite 4000
New York, NY 10004
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com