BREAKWAVE ADVISORS

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Dry Bulk Shipping

May 25, 2021

Breakwave Dry Futures Index:	3,212	Baltic Dry Index (spot):	2,881	Short-term Indicators:	
↑ *30D: 23.0%*		↑ *30D: 3.3%*		*Momentum:*	**Negative**
↑ *YTD: 224.2%*		↑ *YTD: 110.9%*		*Sentiment:*	**Neutral**
↑ *YOY: 273.2%*		↑ *YOY: 478.5%*		*Fundamentals:*	**Positive**

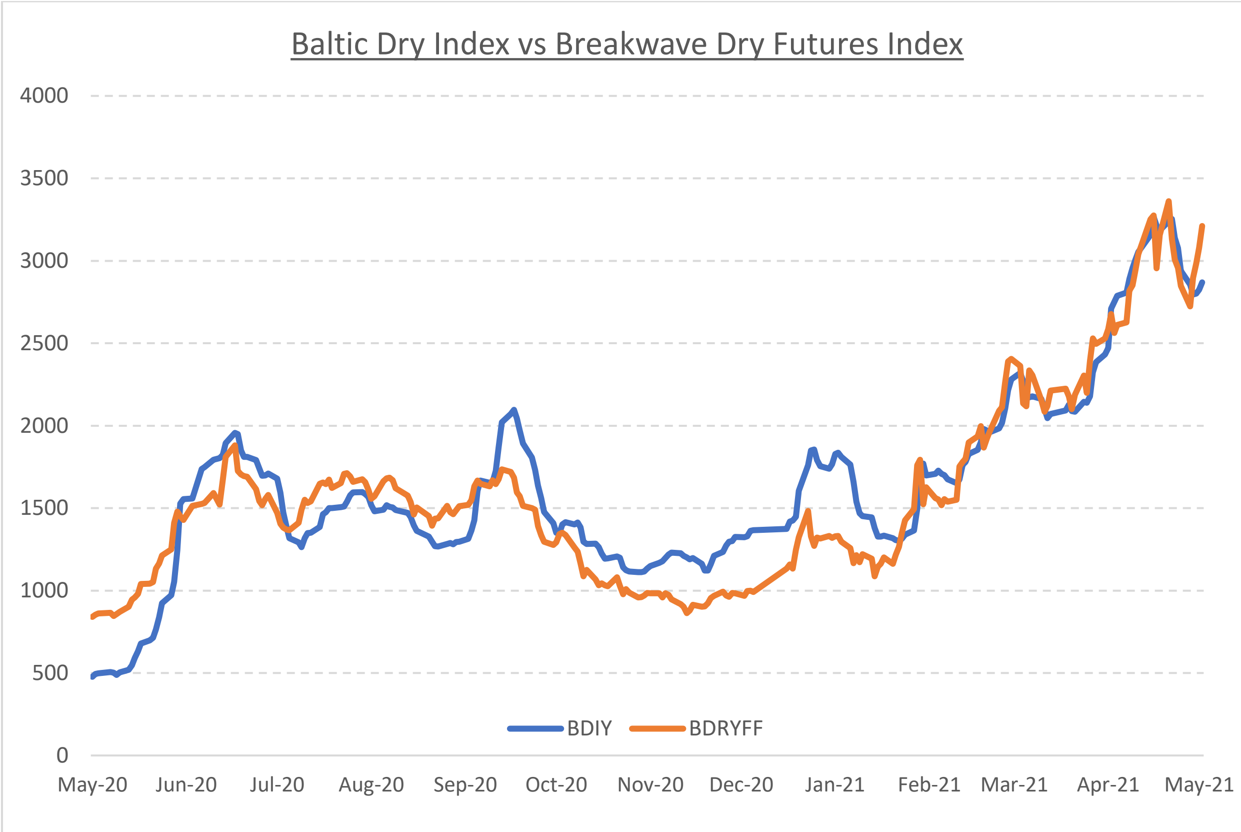
Bi-Weekly Report

- **Capesizes get ahead of themselves as contango market develops –** In the last six months, the dry bulk market has generally remained skeptical of the potential magnitude of spot rate increases, with the futures curve spending the most of the time at a discount versus spot. Although from time to time there was some excitement in the futures, it is only in the last week or so that Capesizes have begun to aggressively discount further gains at an increasing rate, despite relatively stagnant fundamentals. To be fair, there have been pockets of improvement: There is strength in the Pacific basin although it seems temporary to us. The more important (at least for index calculation purposes) Atlantic basin still feels "heavy". As a result, while the futures market tries to see the silver lining in the Pacific strength, the Capesize Spot Index remains low versus futures, especially following the recent rally we already had. Our suspicion is that the correction has not yet run its course, even though the fundamental strength remains evident by the resilience on the index to drop much further with any considerable speed. Our view remains that the next leg up will not come before mid-June, although further declines will be relatively shallow from the current levels as the sub-Cape segments remain robust on the back of unprecedented demand for grains and minor bulks.

- **Yes, dry bulk strength comes from the bottom tiers –** The strength in dry bulk shipping is not iron ore driven (see Capesize) this time around. The world is reopening, government stimulus is plentiful and demand for goods and materials has increased considerably. There is a scarcity factor in several bulk commodities, and that also translates to strong demand for bulk transportation. In fact, the Capesize segment appears the least supportive and the most vulnerable to China's recent clampdown on sky high commodity prices aiming at cooling off an overheated market, especially as it relates to its steel industry. Which brings us to the biggest risk for the dry bulk rally, namely China intervention. With more than 60% of demand coming from China, dry bulk remains highly dependent on Chinese imports of bulk goods. Any indication of a pullback, and dry bulk will be the first to feel the repercussions. We do not believe that such an aggressive action will be beneficial for China, as prices will only increase further due to the limits in domestic production capacity for a lot of commodities. However, we cannot ignore such a scenario. We continue to closely monitor the signals out of NDRC, which we believe implements most of the policies relating to anything steel-related in the country, and the attempts to cool down a red-hot steel market.

- **Volatility in freight continues to 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 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	375mt	17.3%
China Steel Inventories	7.2mt	-18.1%
China Iron Ore Inventories	128mt	16.7%
China Iron Ore Imports	382mt	6.7%
China Coal Imports	90mt	-28.8%
China Soybean Imports	29mt	16.8%
Brazil Iron Ore Exports	107mt	14.3%
Australia Iron Ore Exports	206mt	4.5%

Supply		
Dry Bulk Fleet	886dwt	3.5%

Freight Rates		
Baltic Dry Index, Average	2,087	253.6%
Capesize Spot Rates, Average	22,809	343.5%
Panamax Spot rates, Average	18,970	242.1%

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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