Dry Bulk Shipping

October 12, 2021

Breakwave Dry Futures Index: 4,460	Baltic Dry Index (spot): 5,488	Short-term Indicators:
↑ *30D: 19.2%*	↑ *30D: 42.0%*	*Momentum:* **Positive**
↑ *YTD: 350.1%*	↑ *YTD: 301.8%*	*Sentiment:* **Positive**
↑ *YOY: 194.6%*	↑ *YOY: 190.1%*	*Fundamentals:* **Negative**

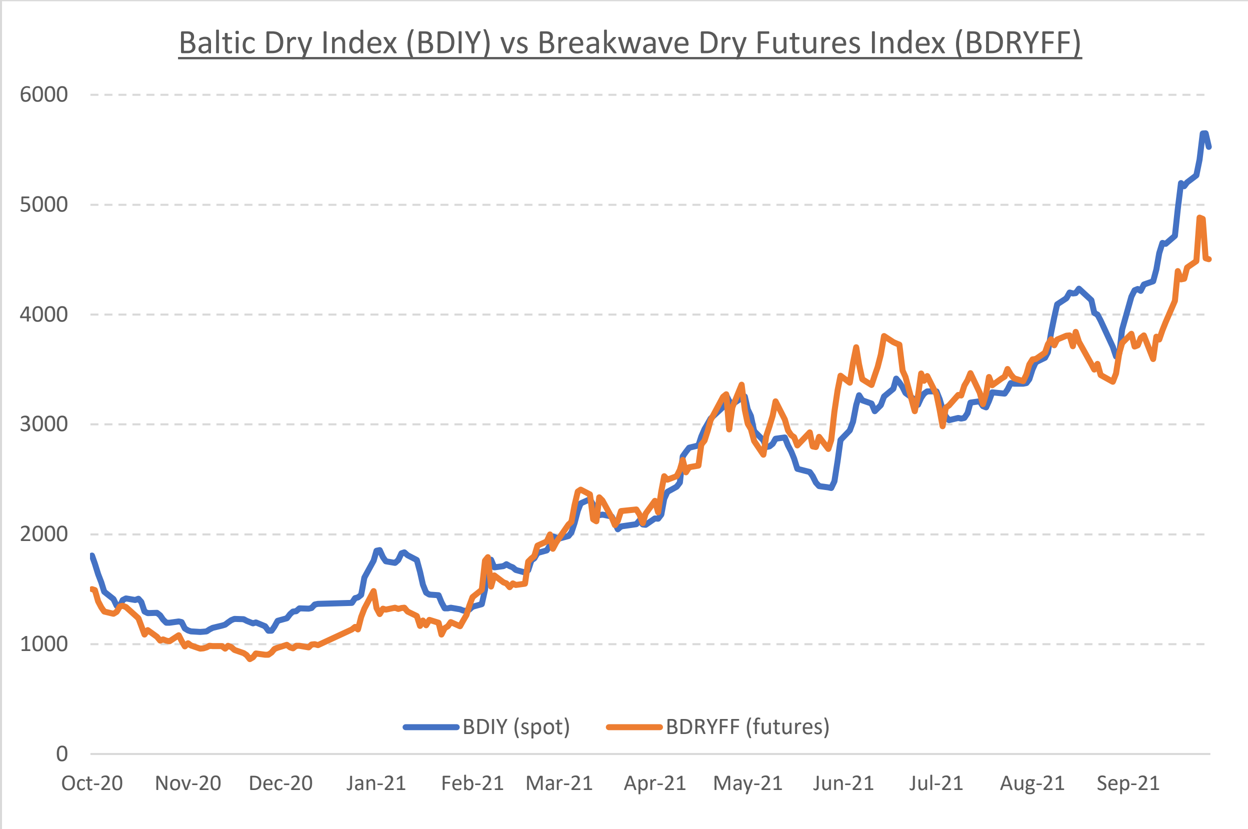
Bi-Weekly Report

- **Spot Capesize rates consolidate as the steep futures backwardation points to a correction –** There is a battle going on in the dry bulk market, and the outcome will probably define the direction of rates over the next several months. On one hand, the considerable increase in freight costs is hurting commodity traders and producers although the high volatility in the underlying commodities makes it extremely difficult to estimate the impact of such increases. On the other hand, commodity demand, especially for coal, is extremely strong which, combined with steady demand for iron ore and ongoing bottlenecks on the supply side, makes it hard for market participants to turn negative on rates, despite the mean reversion character of freight and the upcoming seasonal weakness during the winter. This is not a normal year for commodities by any means. Freight is a levered play on commodities and winter activity will be quite different this time around. We remain in the camp of some gradual softening in rates, and we believe the futures are rightly positioned for such an event. However, the extent of such a decline is highly debatable. We sense an urgency from market participants to hedge winter freight and understandably so. At the same time, short-term spot fundamentals, especially for Capesizes, don't look particularly promising, and history suggests that when spot prices drop, futures follow. Yet, it will be the rate of decent that will shape the futures curve, and so far, we have seen only marginal declines across spot routes. With Q1 futures some 65% below spot, the brave ones that believe that this time might be different, will be handsomely rewarded if they prove correct. The last time that Q1 Capesizes averaged 30,000+ was in 2010 when the Chinese stimulus program was in full swing.

- **2021 will be the year of coal –** A lost decade for coal has ended abruptly, as the world is suddenly faced with a potential energy crisis and limited options ahead of the northern hemisphere winter and the risk of a colder than normal season. Coal is now coming to the rescue but given the underinvestment in mining and power generation infrastructure, especially in the western world, it might be too late to change the course of the near-term direction of energy prices. At the same time, shipping is also getting a significant boost. The stagnant coal demand over the past decade had a profound negative impact on shipping demand, as coal has historically been a very meaningful part of dry bulk demand. Thus, the recent spike in coal demand also means a boost for coal transportation, and since the coal supply chain is built around dry bulk shipping, good times might still lie ahead for shipowners.

- **Volatility in dry bulk freight to remain elevated –** For the rest of 2021, we expect demand growth for dry bulk shipping to exceed growth in net new supply given the considerable congestion issues, 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, while we sense that government policy decisions, especially as it relates to China's attempt to reduce carbon emissions caused by steel mills, are the main risk when it comes for the direction of future demand for dry bulk shipping.

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	733mt	6.4%
China Steel Inventories	6.3mt	-17.3%
China Iron Ore Inventories	134mt	8.2%
China Iron Ore Imports	747mt	-1.7%
China Coal Imports	198mt	-10.4%
China Soybean Imports	67mt	3.7%
Brazil Iron Ore Exports	233mt	11.0%
Australia Iron Ore Exports	574mt	0.0%

Supply		
Dry Bulk Fleet	898dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,861	183.9%
Capesize Spot Rates, Average	32,171	156.3%
Panamax Spot rates, Average	25,127	213.1%

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

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