BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

October 26, 2021

Breakwave Dry Futures Index: 3,386	Baltic Dry Index (spot): 4,257	Short-term Indicators:	
↓ *30D: -12.8%*	↓ *30D: -8.3%*	*Momentum:*	**Negative**
↑ *YTD: 246.0%*	↑ *YTD: 211.6%*	*Sentiment:*	**Negative**
↑ *YOY: 163.2%*	↑ *YOY: 200.8%*	*Fundamentals:*	**Negative**

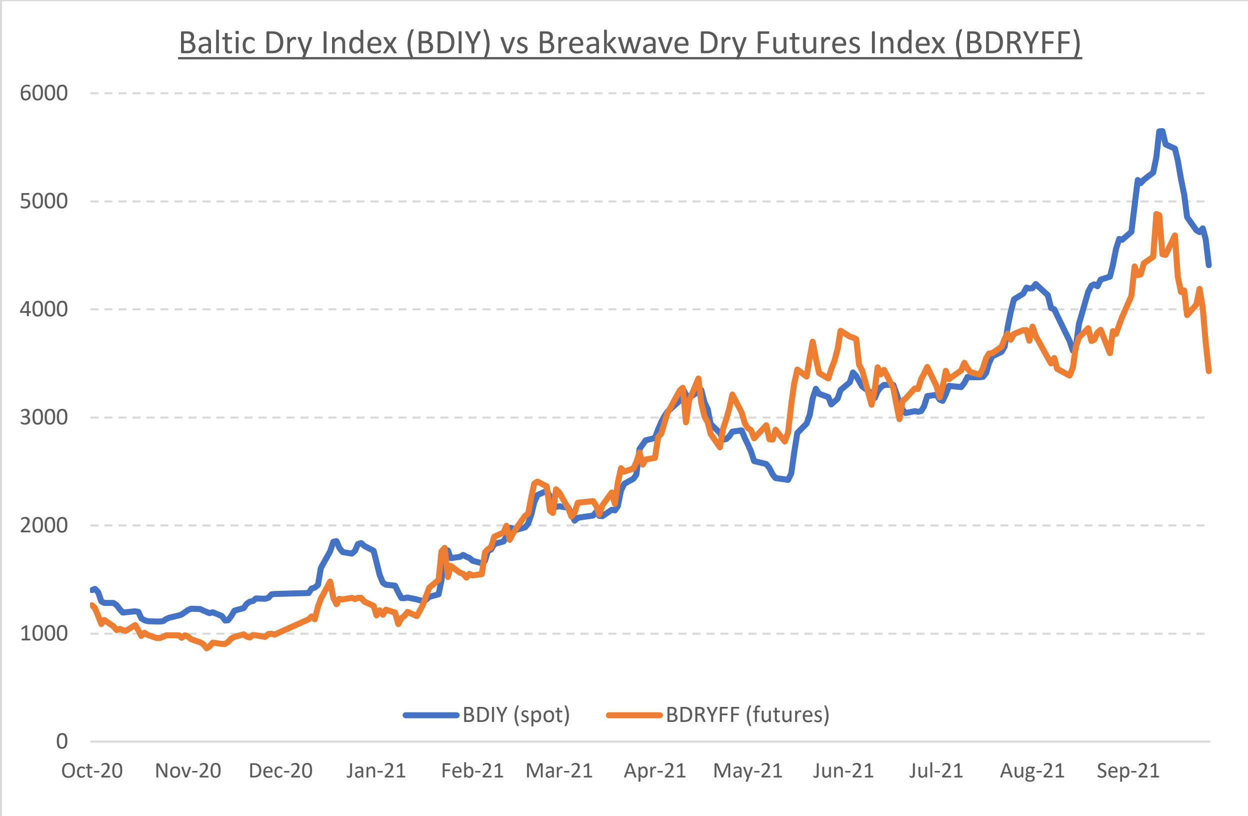
Bi-Weekly Report

- **Spot Capesize rates down 45% from highs; Are we near the bottom? –** Over the past two weeks spot Capesize rates have dropped more than 40,000, as both the Pacific and the Atlantic markets have experienced a significant deterioration in demand, especially for iron ore transportation. This is not a surprising development, as the recent rally was driven by factors that, in our view, were not fundamental in nature. Now, as "the squeeze" is over, the level of rates in the near-term will mainly be determined by two factors: The number of remaining coal and iron ore cargoes for the rest of the year and the level of spot rates for the sub-cape segments that drive vessel substitution. We believe that both factors are pointing to a bottoming process over the next couple of weeks, with the potential of another upward move towards the end of November. Once again, our forecast stands against market consensus, as the December futures are trading at a 15% discount to November. The freight futures market tends to overreact, offering numerous trading opportunities, and although it is early to call the all-clear for the spot Capesize market (we expect spot rates to drop a bit further in the coming days) the futures market has now discounted a greater than 65% drop from peak to trough, which we believe is reasonable. Smaller-size vessels will also now see some deterioration in spot rates, as sentiment slowly spills over to those sectors, but futures have also priced than in. Overall, during the next couple of weeks we expect volatility across dry bulk to decrease, a bottom to gradually form, and the potential for another tradable late-year rally to emerge (although it is still too early to call for that).

- **Bulk commodities are seeing some of the most volatile days on record –** Coal and iron ore have, for most of the past decade, been the "sleepy" sectors of the commodities spectrum, as demand has been at best mediocre while supply, especially for iron ore, has been abundant. In the last year, such dynamics have clearly changed. For iron ore and particularly for coal, concerns about sufficient supply have increased, leading to the frantic volatility in the spot and futures markets recently seen. Although it is possible that price swings might calm down as the winter progresses without significant coal shortages, we believe the reasons behind the recent price movements won't disappear. In fact, the underinvestment in production capacity across all fossil fuels could possibly lead to years of fierce price action in the respective commodities as renewable technologies capable of replacing the fossil fuel economy in scale are still years away. Thus, energy security will become front and center for many countries (see China), leading to a "renaissance for the dirty fuels" and shipping will be a major beneficiary of such trend.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility in 2021 might be coming to an end, the dry bulk sector remains in an upcycle driven by relatively low growth in supply, strong demand for bulk commodities, and continuing infrastructure bottlenecks and supply chain constraints that affect the whole shipping universe. We anticipate government actions as it relates to energy security combined with ongoing decarbonization efforts to drive the flows of commodities transported by dry bulk, and thus, indirectly determine the path of freight rates.

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	806mt	3.1%
China Steel Inventories	5.9mt	-22.6%
China Iron Ore Inventories	140mt	13.4%
China Iron Ore Imports	843mt	-2.9%
China Coal Imports	231mt	-3.7%
China Soybean Imports	74mt	-0.7%
Brazil Iron Ore Exports	267mt	7.8%
Australia Iron Ore Exports	574mt	0.0%

Supply

Dry Bulk Fleet	898dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,955	186.3%
Capesize Spot Rates, Average	33,651	159.8%
Panamax Spot rates, Average	25,651	214.6%

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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