BREAKWAVE ADVISORS

www.drybulkETF.com

Dry Bulk Shipping

December 22, 2020

Breakwave Dry Futures Index: 979	Baltic Dry Index (spot): 1,323	Short-term Indicators:	
↑ *30D: 0.1%*	↑ *30D: 15.2%*	*Momentum:*	**Positive**
↓ *YTD: -3.7%*	↑ *YTD: 21.4%*	*Sentiment:*	**Negative**
↓ *YOY: -4.0%*	↑ *YOY: 17.8%*	*Fundamentals:*	**Positive**

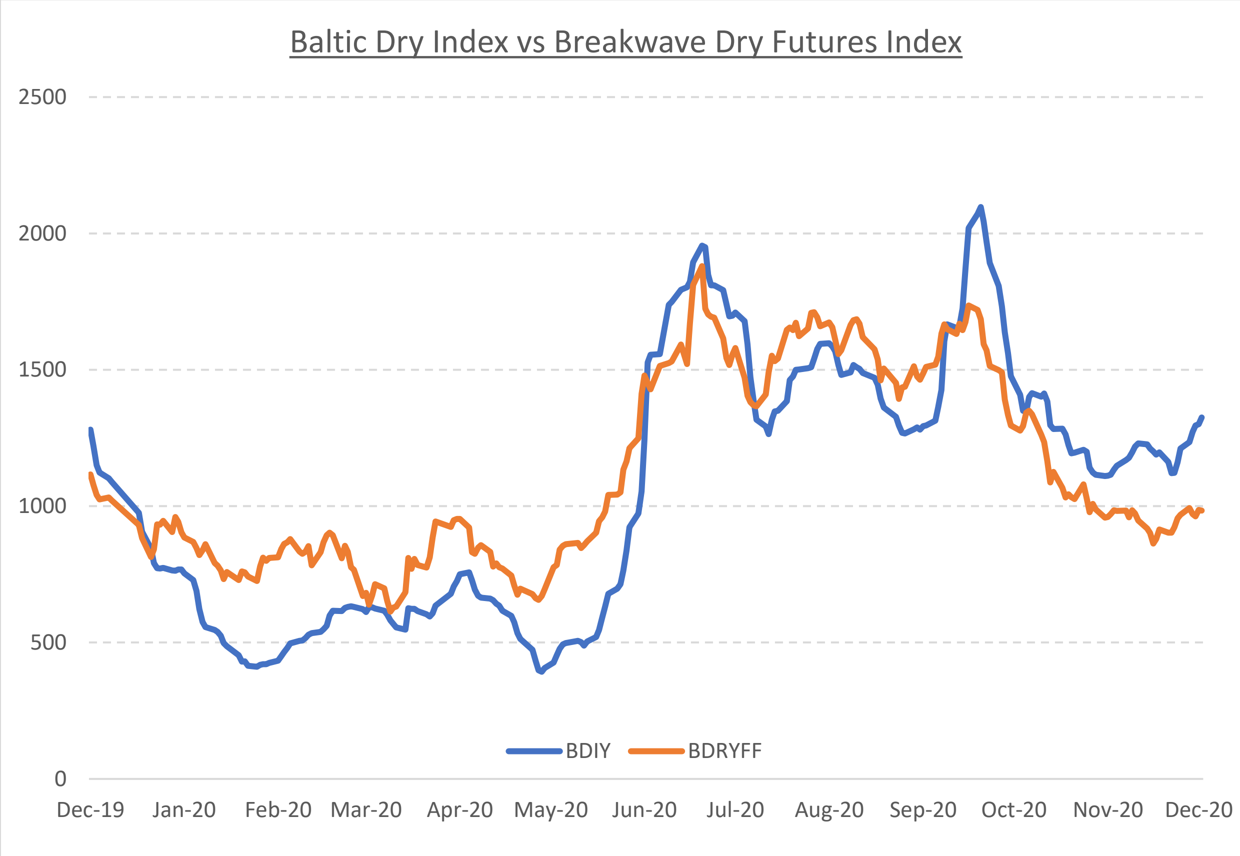
Bi-Weekly Report

- **Santa Claus rally for Capesizes, January should see better rates –** A counter seasonal rally has developed in the struggling Capesize market, an unexpected development for most market participants that had written off December as a dead month. The lack of interest from shipowners to ballast in the Atlantic given the relatively weaker rates versus the Pacific, has left the basin with the largest deficit of open ships since mid-summer. Although cargo flow is not exciting, the few cargoes that had to be covered faced strong resistance from owners, and thus the benchmark C3 route (Brazil to China route) rose gradually during last week and currently stands at the highest level since late October. Still, overall rates remain weak for this time of the year, while the smaller size segments (Panamax, Supramax) are naturally weakening, something that was well priced in the futures curve; Seasonality is more pronounced in the smaller segments and reflects the end of year lull in cargo flows. We expect Capesize spot rates to strengthen further during the holiday break and enter January unexpectedly strong, reflecting the record high iron ore prices which should push miners to export and sell as much as possible, not only due to the high profitability but also due to increasing pressure by the main customer, namely China, to bring prices down to earth.

- **Iron ore prices to the moon –** Iron ore is by far the best performing major commodity this year. A perfect storm involving supply constraints and strong demand from China has fueled an impressive rally that has pushed spot iron ore prices to the highest level in a decade. Interestingly, it was only a few months back that most industry analysts were calling for a sharp correction in prices, only to see a rapid reversal and another leg up towards the magic $200/t mark (last price of ~$175/t). However, not all is good. China is by far the main consumer of iron ore and keeping your customer happy should be the primary focus of the miners. After all, although there is a love/hate relationship between the two (i.e., China needs iron ore, and iron ore miners need China), with the benchmark steel margin now deep into negative territory, steel mills could pull back and cause a sharp correction in prices which eventually might lead to a serious reassessment of the related volatility and to how prices are set in the market. In any case, prices at these levels are unsustainable, and most market participants recognize that. Nevertheless, longer-dated futures have also moved higher which makes the great majority of iron ore greenfield projects around the world profitable.

- **2021 should be a good year –** The prospects for 2021 look promising. Vale, the Brazilian miner, remains optimistic about raising their production by some 20-30 million tons, a development that should provide a significant boost to ton-mile demand. Iron ore prices remain well above $100/ton, a very strong incentive for miners around the world to produce and ship as much as possible of the steelmaking material. The potential for other regions reopening their economies (India, Europe, etc.) can provide an added boost. Finally, the dry bulk fleet is set to expand at the lowest rate in many decades, estimated at around 2%, which bodes well for tightening the market balance and thus supporting 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	961mt	6.3%
China Steel Inventories	3.5mt	20.2%
China Iron Ore Inventories	126mt	-2.2%
China Iron Ore Imports	1073mt	10.9%
China Coal Imports	265mt	-10.8%
China Soybean Imports	93mt	17.5%
Brazil Iron Ore Exports	309mt	-5.3%
Australia Iron Ore Exports	723mt	5.1%

Supply

Dry Bulk Fleet	912dwt	3.8%

Freight Rates

Baltic Dry Index, Average	1,063	-21.6%
Capesize Spot Rates, Average	13,033	-27.8%
Panamax Spot rates, Average	8,562	-23.1%

Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors

Contact:
Breakwave Advisors LLC
25 Broadway
New York, NY 10280
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com