

Dry Bulk Shipping

June 8, 2021

Breakwave Dry Futures Index: 2,895

↓ 30D: -8.5%
 ↑ YTD: 191.5%
 ↑ YOY: 177.4%

Baltic Dry Index (spot): 2,428

↓ 30D: -23.7%
 ↑ YTD: 77.7%
 ↑ YOY: 257.6%

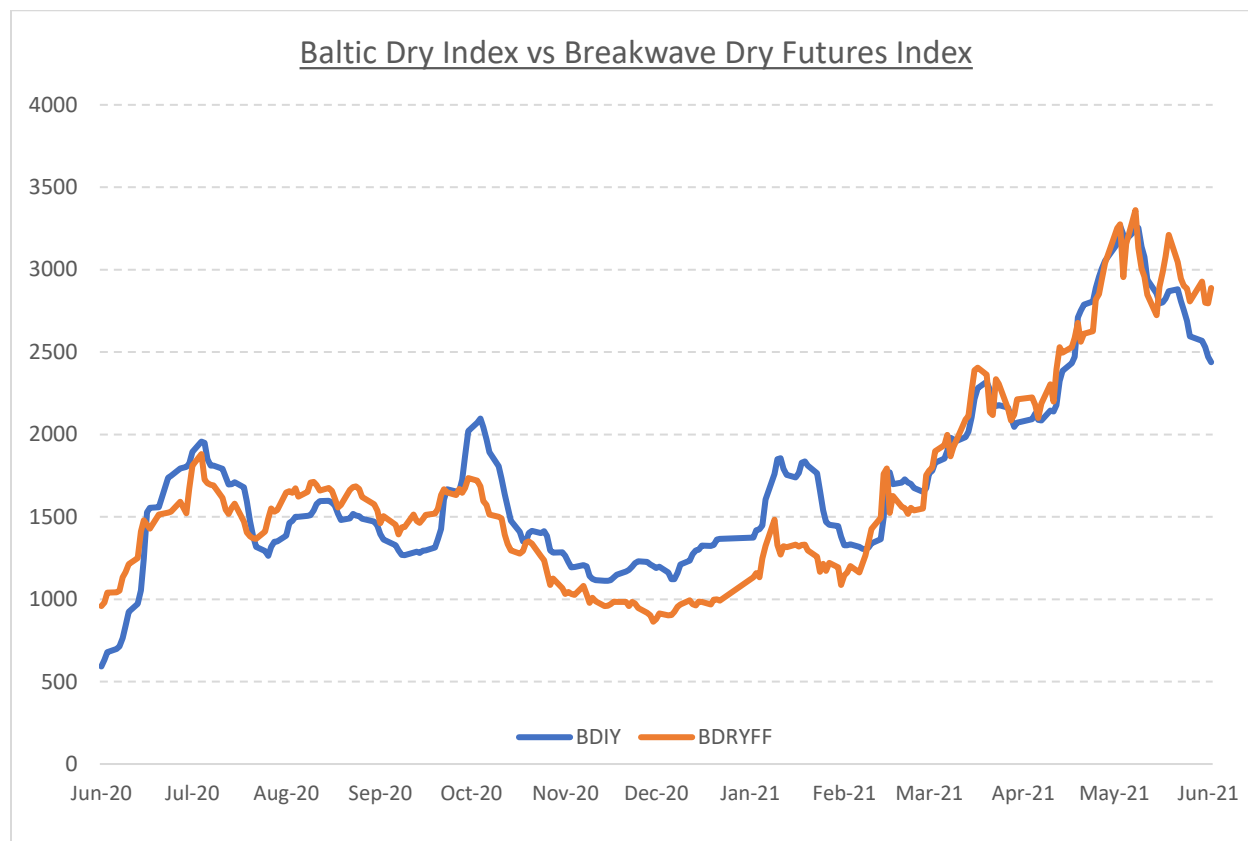
Short-term Indicators:

Momentum: **Negative**
 Sentiment: **Positive**
 Fundamentals: **Neutral**

Bi-Weekly Report

- Spreads gone wild: Capesize premiums explode as optimism remains abound** – Despite a relatively poor spot Capesize market over the last several weeks, freight futures traders have not given up hope on an imminent strong rebound in the spot market, and as a result, futures prices have recently been trading at record premiums versus the spot index, reflecting such optimism. Although sector volatility does not preclude such a scenario, the contango has been stretched quite a bit and thus the risk/reward has tilted somewhat towards a riskier near-term development for the futures. Yet not all is bad: We are also of the opinion of a bottoming process for the Capesize spot index relatively soon (we have mainly been focusing on the second week of June) but our confidence of a strong rebound that will bring the index to the 30,000+ mark fast enough as the futures prices imply, is low. We do expect rates to remain volatile, and the spot index to surpass the recent highs of ~45,000, but not at such a tight timeframe. There is significant support for Capesizes coming from the sub-cape segments where rates remain at decade highs, and that is also an important factor when assessing the future direction of spot rates for the large ships. For now, Capesize spot rates are averaging about 20,000 while Panamax rates remain above the 25,000 level.
- The catalyst for a turnaround on Capesize rates is Brazilian iron ore exports** – Once again, the Capesize market looks to Brazil in order to find support for spot rates. And rightfully so: historically, Brazilian iron ore exports increase during the second half of the year, something that has also been indirectly communicated by Vale, the major Brazilian miner, in its most recent earnings call. Given the relatively positive sentiment in the spot market, it does not take much for rates to turnaround, especially given that the sub-cape segments trade well above Capesizes across the board. Year-to-date, Brazilian iron ore exports are some 10 million tonnes (~ 8%) higher while expectations are for roughly 25-30mt higher for the whole year. Translating that to sequential increases, we expect some 54mt of additional Brazilian iron ore exports in the 2nd half of the year versus the 1st half. As a result, the fact that Capesize freight futures are trading at a premium versus the spot does indeed make sense by looking at such an increase in tonne-miles. Needless to say, one must always keep in mind that in the last several years Brazilian iron ore exports have fallen short of expectations, which has been a major disappointment for the market (and a positive for iron ore prices).
- 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

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	375mt	17.3%
China Steel Inventories	6.8mt	-13.3%
China Iron Ore Inventories	128mt	17.7%
China Iron Ore Imports	472mt	6.0%
China Coal Imports	111mt	-25.3%
China Soybean Imports	38mt	12.8%
Brazil Iron Ore Exports	107mt	14.3%
Australia Iron Ore Exports	206mt	4.5%

<u>Supply</u>		
Dry Bulk Fleet	887dwt	3.5%

<u>Freight Rates</u>		
Baltic Dry Index, Average	2,129	262.7%
Capesize Spot Rates, Average	23,007	351.5%
Panamax Spot rates, Average	19,408	250.3%

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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