

Dry Bulk Shipping

August 31, 2021

Breakwave Dry Futures Index: 3,753

↑ 30D: 11.9%
↑ YTD: 278.8%
↑ YOY: 126.2%

Baltic Dry Index (spot): 4,235

↑ 30D: 28.6%
↑ YTD: 210.0%
↑ YOY: 184.6%

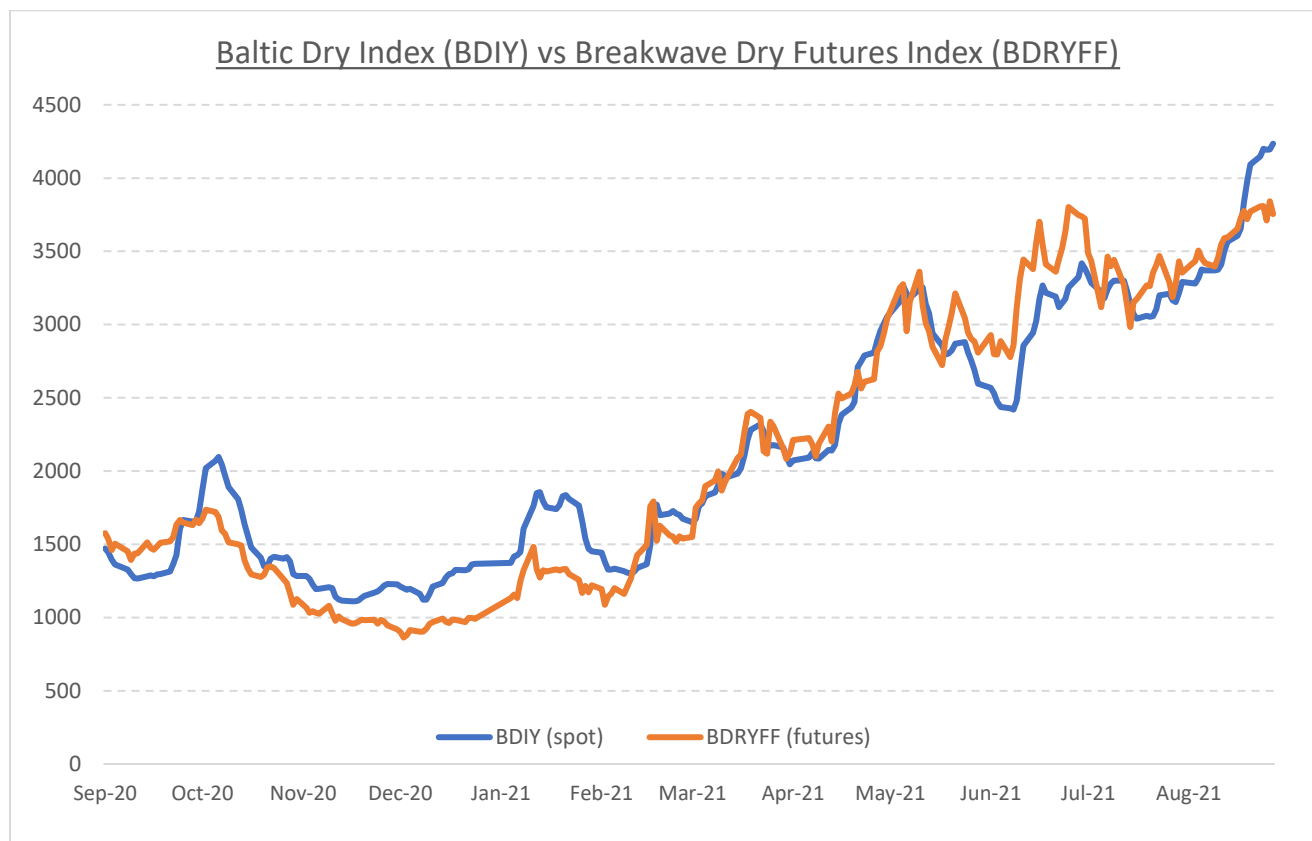
Short-term Indicators:

Momentum: Neutral
Sentiment: Neutral
Fundamentals: Positive

Bi-Weekly Report

- **Capesize rates reach 50k. Are the next 10k higher or lower?** – With the Atlantic market taking the lead from an already hot Pacific, the Capesize spot index rushed past 40,000 and reached the 50,000 mark in matter of days, stabilizing just above that level. In the process, new cycle highs were achieved, further reinforcing the view that the current cycle is not a random positional tightness for Capesizes but a well-supported fundamental push across the dry bulk sector. This is now history, and the question, as always, is what lies ahead. The market seems in a “breather” phase, and although many market participants will disregard the recent monster drop in iron ore prices as it relates to freight, our view is that this time around iron ore prices matter. Although there is no direct correlation between freight and iron ore, we believe during periods of significant volatility there is a causation effect and thus, we are turning cautious on the near-term direction of spot Capesize rates. Although the futures market remains in backwardation, we believe a deeper-than-priced correction in spot rates is more likely than a further significant push higher. However, we don’t anticipate a meaningful setback. In fact, we believe following such a consolidation, once again, the spot index has the potential to climb to new highs, which will be against consensus views of a “soft” Q4 relative to Q3: spot rate seasonality was negatively impacted during the past two years due to various reasons which now have reshaped market expectations, but we believe seasonality will return with a vengeance this year, and Q4 might end up being the strongest quarter of the year for the spot market.
- **Focus remains on Beijing’s restrictive steel policy as more chatter points to production curbs** – Over the past few weeks the news flow regarding steel production curbs and future closures has become more bearish as it relates to iron ore demand. Major steel mills are now pointing to lower production, and although inventories remain low and every ton of seaborne iron ore will still be absorbed by China, the urgency to do so combined with the potential for actual lower imports can create a negative loop in both fundamentals and sentiment as it relates to the Capesize market. However, the rest of dry bulk remain robust, and we don’t anticipate any significant drop in demand for the rest of the year, which combined with the ongoing constraints in supply due to delays and port congestion should sustain spot rates at well above historical norms. Such a strength in the sub-cape segments also provide an important floor for Capesize rates, since by themselves might not have been able to support elevated spot rates.
- **Volatility in dry bulk freight to remain elevated** – For the rest of 2021, we expect demand growth for dry bulk shipping to significantly exceed 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 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, will be major drivers 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	649mt	9.5%
China Steel Inventories	7.1mt	-9.4%
China Iron Ore Inventories	129mt	11.7%
China Iron Ore Imports	650mt	-1.5%
China Coal Imports	170mt	-15.2%
China Soybean Imports	58mt	4.5%
Brazil Iron Ore Exports	184mt	7.0%
Australia Iron Ore Exports	429mt	0.3%

Supply

Dry Bulk Fleet	895dwt	3.2%
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Freight Rates

Baltic Dry Index, Average	2,554	179.5%
Capesize Spot Rates, Average	27,036	145.6%
Panamax Spot rates, Average	23,692	216.5%

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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