

Dry Bulk Shipping

July 20, 2021

Breakwave Dry Futures Index: 3,267

↓ 30D: -4.2%
 ↑ YTD: 229.8%
 ↑ YOY: 106.8%

Baltic Dry Index (spot): 3,059

↓ 30D: -4.9%
 ↑ YTD: 123.9%
 ↑ YOY: 78.9%

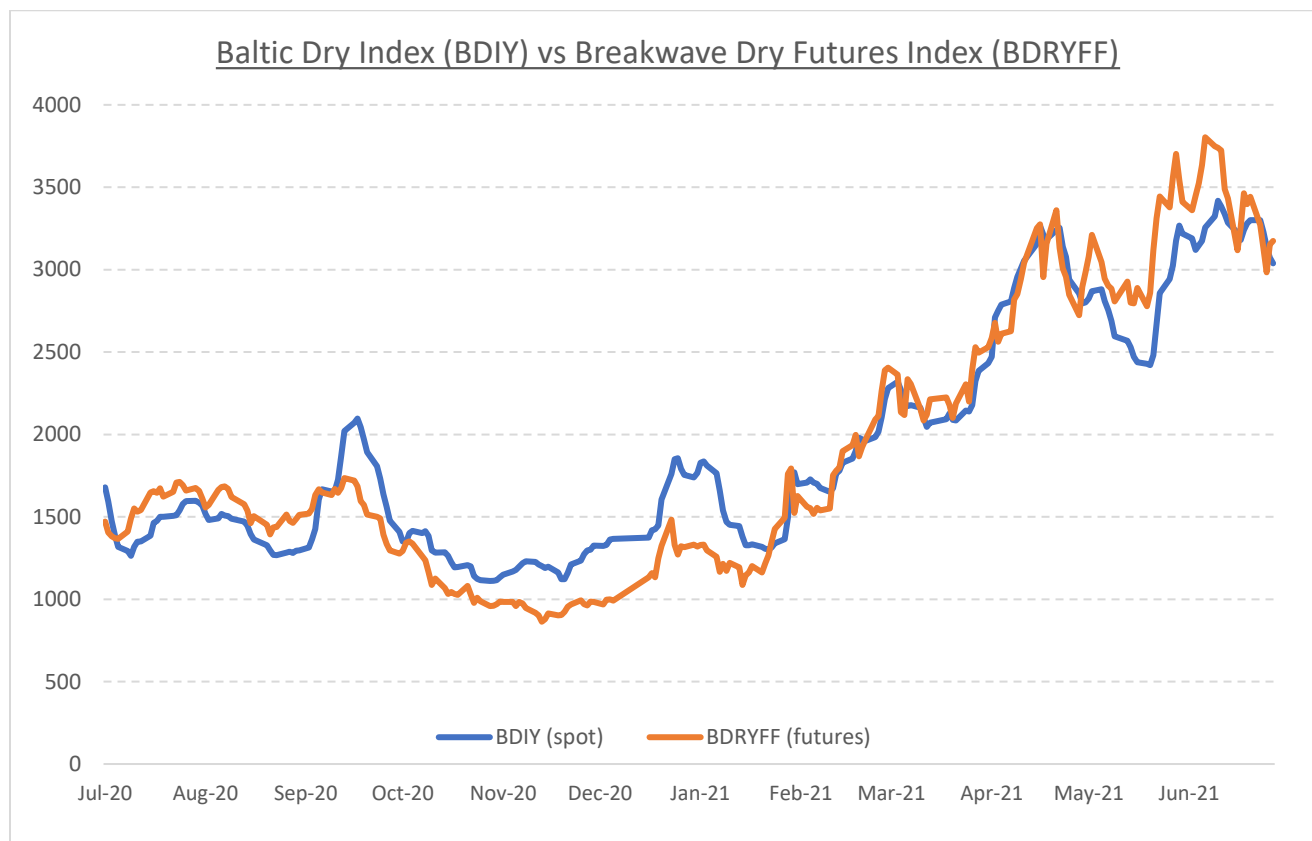
Short-term Indicators:

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

Bi-Weekly Report

- Volatility rampant but which way market balance points to?** – The past two weeks have once again been characterized by heightened volatility across all dry bulk segments. Initially, market confidence was shaken as the Capesize tonnage overhang for July loadings tilted the market balance towards oversupply, leading to some deterioration in spot rates. Yet, as Brazil begins its seasonal ramp up in iron ore exports thus absorbing more vessels for August loadings, the bottom on spot rates seems ever closer. Our view is that spot Capesize rates are indeed about to bottom and consequently turn up with the potential of even surpassing the highs achieved in the second quarter. The reason for our optimism lies in the fact that a seasonal upturn in iron ore shipping demand will come on top of the ongoing solid demand for coal transportation, a rather unusual coincidence that has the potential to significantly tighten vessel supply. Futures are clearly sensing such a turnaround scenario with prices for near-dated contracts remaining way above the spot market. Panamax rates have also recently come under pressure, but this segment has been highly volatile as of late, reflecting a very tight demand-supply balance and a turnaround there is also a likely event if indeed Capesize rates turn higher. Overall, we are constructive for the next few months, and we would look for a bottom in dry bulk spot rates to develop over the next two weeks.
- A pickup in COVID-19 infections could once again lead to inefficiencies in bulk commodities trading** – The recent unexpected pick up in Covid-19 infections across the globe could once again lead to vessel delays thus constraining vessel supply and tightening the market balance. Anecdotal evidence from China points to longer waiting times at specific ports for vessels arriving from certain “high risk” countries. Although still early, if delays start to increase and port congestion picks up, spot rates could be positively impacted. Such a scenario will happen during the seasonal strengthening in demand for dry bulk transportation. On the other hand, a significant deterioration in economic activity due to new broader lockdowns could potentially hammer trade and lead to lower demand for shipping. Finally, the Chinese government, through NDRC, continues to communicate a significant curtailment in steel production despite the record high levels of demand recorded so far this year for the highly sought material. All the above remain major risks for dry bulk shipping, but absence those, the upcycle seems to still be in its early stages enabled by the very low orderbook for new vessels.
- Volatility in dry bulk freight to remain elevated** – For the rest of 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 remain elevated, 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

Demand

	YTD	YOY
China Steel Production	563mt	12.9%
China Steel Inventories	7.4mt	0.5%
China Iron Ore Inventories	129mt	15.2%
China Iron Ore Imports	561mt	2.6%
China Coal Imports	140mt	-19.8%
China Soybean Imports	49mt	8.7%
Brazil Iron Ore Exports	167mt	15.2%
Australia Iron Ore Exports	352mt	1.6%

Supply

Dry Bulk Fleet	892dwt	3.1%
----------------	--------	------

Freight Rates

Baltic Dry Index, Average	2,347	196.7%
Capesize Spot Rates, Average	24,521	166.2%
Panamax Spot rates, Average	22,193	243.4%

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

Disclaimer:

This research report has been prepared by Breakwave Advisors LLC solely for general information purposes and for the recipient's internal use only. This report does not constitute and will not form part of and should not be construed as a solicitation of any offer to buy or sell any security, commodity or instrument or related derivative or to participate in any trading or investment strategy. The opinions and estimates included herein reflect views and available information as of the dates specified and may have been and may be subject to change without notice.

Contact:

Breakwave Advisors LLC
 17 State Street, 40th floor
 New York, NY 10004
 Tel: +(1) 646 775 2898
 Email: research@breakwaveadvisors.com