

Dry Bulk Shipping

May 11, 2021

Breakwave Dry Futures Index: 2,610

↑ 30D: 13.2%
↑ YTD: 163.5%
↑ YOY: 204.4%

Baltic Dry Index (spot): 2,808

↑ 30D: 28.9%
↑ YTD: 105.6%
↑ YOY: 322.3%

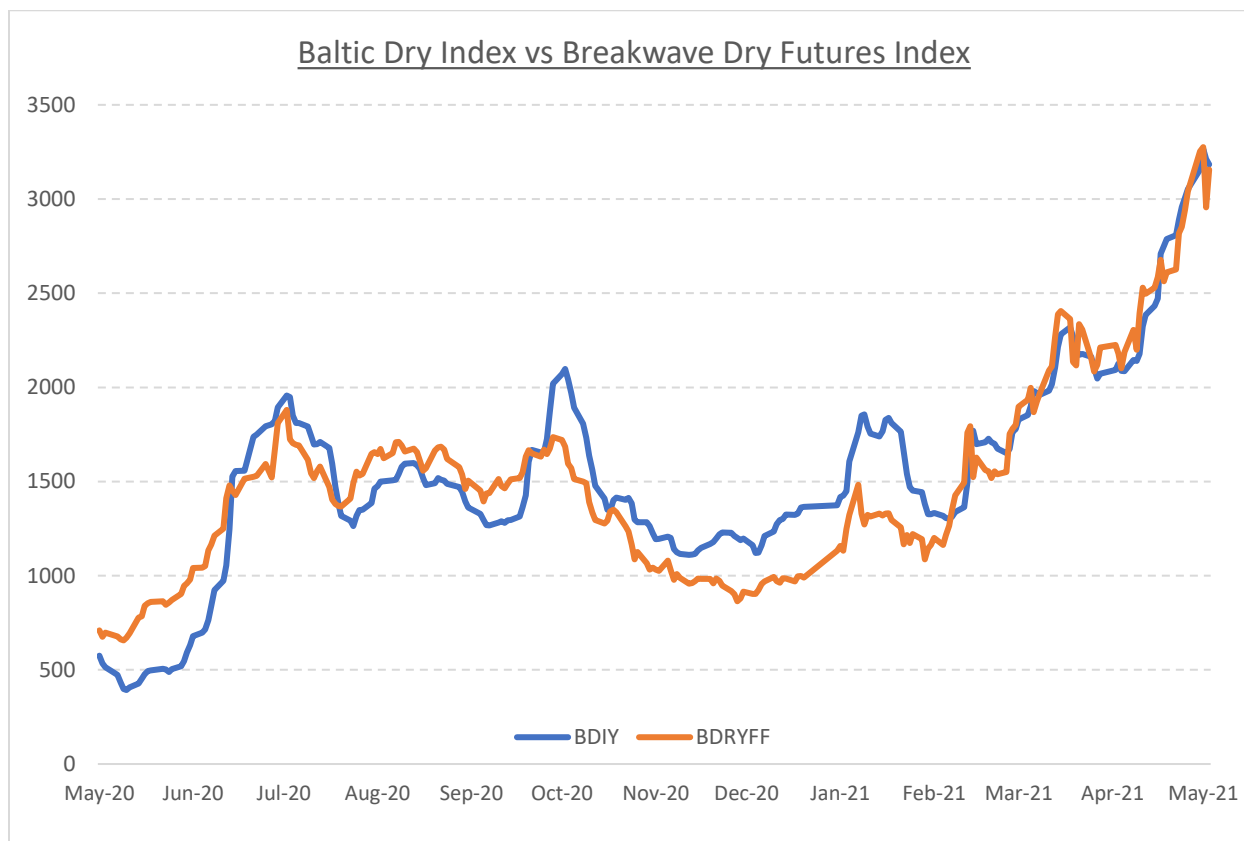
Short-term Indicators:

Momentum: **Positive**
Sentiment: **Positive**
Fundamentals: **Positive**

Bi-Weekly Report

- **The (iron ore) king is dead, long live the king!** – The iron ore market is in the midst of an extraordinary period, a period that many in the industry would have viewed as unimaginable just a few years back (see peak steel). One of the most tradable and essential commodities in the world is hitting new highs day after day in a frantic rally that has let investors and analysts alike scrambling to keep up with prices and looking for clues on what the drivers behind such abrupt and substantial move might be. Indeed, this is not a “run-of-the-mill” rally for iron ore. Although we have talked about the imbalance of demand and supply repeatedly over the past year, the fact that iron ore prices are trading above \$200/tonne is not a reflection of such relatively tight fundamentals, in our view. Our suspicion is that geopolitics and the far-fetched possibility of an iron ore flow disruption (the Australia-China trade dispute is what initially comes in the mind of most investors) is causing such a hectic attempt to secure future supplies. To be sure, the world is short of an “inventory cushion” when it comes to iron ore, something that reflects significant underinvestment in mining following the boom years of the early 2010s. Any disruption, intentional or not, of iron ore supply will send prices soaring. Iron ore is a valuable commodity and one that there is no real storage capacity around (unlike crude oil, natural gas, or other commodities). Given the significant demand coming from the steel mills driven by record high profit margins, it would make sense to secure supplies (or just buy futures), even if the risk of a disruption is hardly visible. There is an embedded optionality being long iron ore and investors are suddenly feeling that. Ultimately, iron ore is a limited supply asset with a real underlying use that is highly sought after.
- **Capesize rates react to the iron ore price rally** – Does a meaningful correlation between iron ore prices and freight rates exist? Not really. Whether statistically or conceptually, we cannot envision a reason why over long periods of time the two would be correlated. However, currently iron ore is a “hot commodity”. A trader would be better off having a Capesize full of iron ore over the next 60 days, even if she must pay up in order to secure a ship. Thus, as the underlying commodity becomes a scarce asset, demand for the means of transporting/holding the physical commodity also increases. Sentiment is very positive in the steel industry, sub-cape freight is at decade-highs, and there is no reason why Capesize rates cannot go much higher from the already elevated levels. After all, other segments of shipping have recently hit unimaginable levels driven by a similar “scarcity” factor, among others.
- **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	271mt	15.6%
China Steel Inventories	8.0mt	-19.0%
China Iron Ore Inventories	133mt	15.1%
China Iron Ore Imports	382mt	6.7%
China Coal Imports	90mt	-28.8%
China Soybean Imports	29mt	16.8%
Brazil Iron Ore Exports	81mt	16.8%
Australia Iron Ore Exports	206mt	4.5%

<u>Supply</u>		
Dry Bulk Fleet	885dwt	3.5%

<u>Freight Rates</u>		
Baltic Dry Index, Average	1,990	228.1%
Capesize Spot Rates, Average	21,470	300.3%
Panamax Spot rates, Average	18,280	221.3%

Note: All numbers as of latest available; Imports/Exports/Production are YTD sums as of last 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