

Dry Bulk Shipping

September 28, 2021

Breakwave Dry Futures Index: 3,923

↑ 30D: 4.7%
 ↑ YTD: 296.6%
 ↑ YOY: 138.3%

Baltic Dry Index (spot): 4,717

↑ 30D: 11.4%
 ↑ YTD: 245.3%
 ↑ YOY: 183.0%

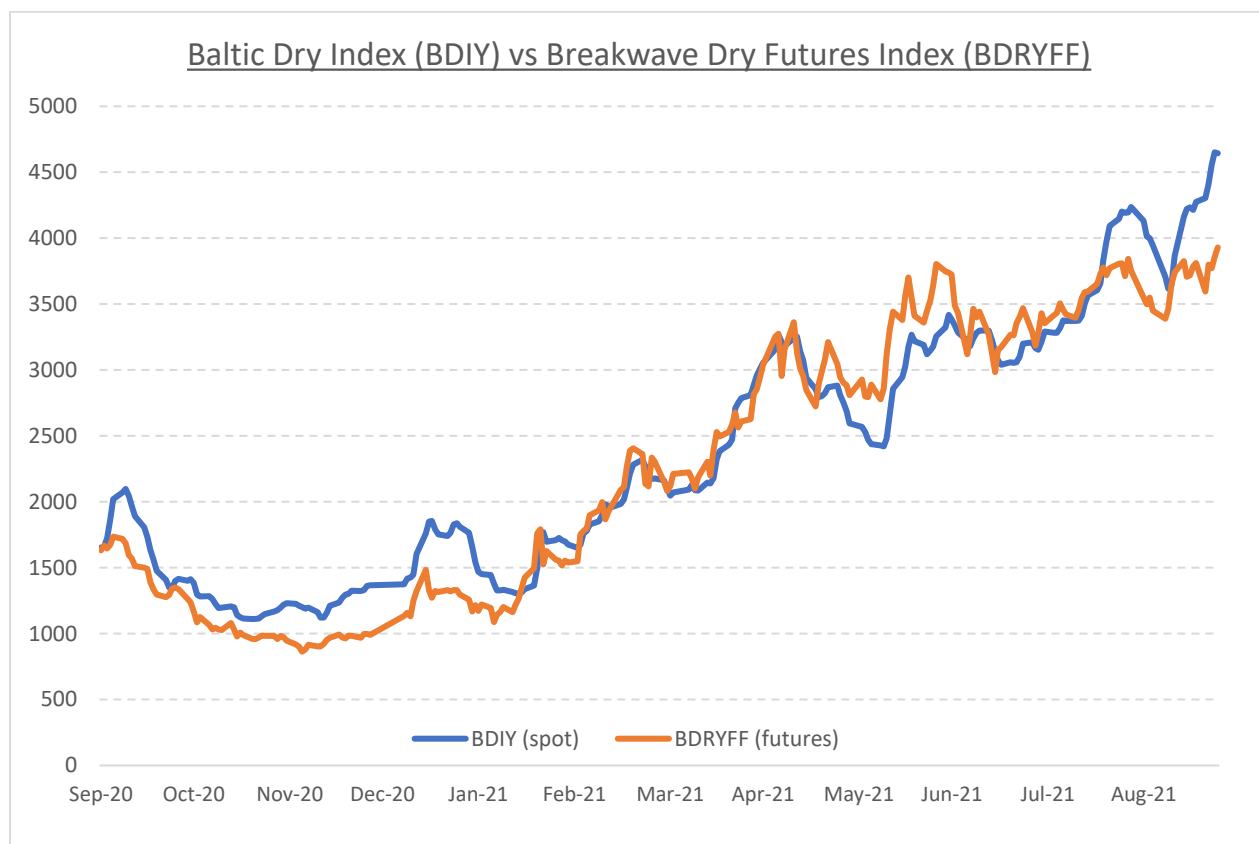
Short-term Indicators:

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

Bi-Weekly Report

- A “super squeeze” is underway in the Capesize market, and the ultimate top is anyone’s guess** – The Capesize market has entered a phase of heightened volatility as positional imbalances are reaching extreme levels and owners with vessels located in the appropriate loading windows will enjoy some of the most profitable days ever. This is not a fundamental imbalance and should not be taken for granted. The current tightness reflects the significant dislocation of commodities across the logistical chain which, combined with weather disruptions and ongoing port congestion, is causing a perfect storm scenario for the ones who hold the most valuable asset, namely a ship. Where we go from here is anyone’s guess. There is no real metrics to consider, as prices are only “subject to availability” and not market balance. The expectation of a market correction is by no means a prediction, rather a natural reaction to the exponential move already underway. However, “how high is high” is a more topical discussion, and to that front the historical charts show much higher levels (all-time highs in Capesize spot rates lies somewhere in the mid-\$200,000/day). Futures remain in steep backwardation, as expected, and the discounts make it extremely hard to position for a potential correction. Rather, everyday that spot moves higher, futures follow, creating a self-feeding cycle (with short positions covering). With the risk of an outdated prediction as soon as the market opens tomorrow, we believe the probability of lower spot levels in the next few weeks exceeds the risk of holding long positions, but again, this is more of a “gut feeling” rather than a calculated forecast as there are significant factors impossible to model. Thus, humbleness should be the only real strategy in the current state of dry bulk.
- Energy shortage is becoming a global issue and China is the epicenter when it comes to coal** – From natural gas to crude oil to coal, energy related commodities are hitting new highs daily, reflecting both a tightness in the energy supply chain but also fears of a deterioration on availability as we enter the cold winter months in the northern hemisphere. The global focus on renewable energy over the past decade has left the fossil fuel industry underinvested with production declines and no new capacity. Given the fact that combustion technology is still the most reliable source of energy, countries are once again turning to fossil fuels to fill the gap. Coal has been a major beneficiary, with prices at decade highs, while the incremental winter demand might only add more fuel to the fire. Naturally, dry bulk has been and should continue to profit from such trend, especially the sub-Cape segments.
- Volatility in dry bulk freight to remain elevated** – For the rest of 2021, we expect demand growth for dry bulk shipping to exceed growth in net new supply given the considerable congestion issues, 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, are the main risk when it comes 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

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	733mt	6.4%
China Steel Inventories	7.0mt	-13.4%
China Iron Ore Inventories	130mt	10.0%
China Iron Ore Imports	747mt	-1.7%
China Coal Imports	198mt	-10.4%
China Soybean Imports	67mt	3.7%
Brazil Iron Ore Exports	233mt	15.4%
Australia Iron Ore Exports	499mt	-0.2%

<u>Supply</u>		
Dry Bulk Fleet	896dwt	3.1%

<u>Freight Rates</u>		
Baltic Dry Index, Average	2,716	184.0%
Capesize Spot Rates, Average	29,464	154.9%
Panamax Spot rates, Average	24,584	213.7%

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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