BREAKWAVE ADVISORS

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Dry Bulk Shipping

August 18, 2020

Breakwave Dry Futures Index:	1,658	Baltic Dry Index (spot):	1,598	Short-term Indicators:	
↑ *30D: 5.0%*		↓ *30D: -6.7%*		*Momentum:*	Neutral
↑ *YTD: 62.4%*		↑ *YTD: 46.3%*		*Sentiment:*	Neutral
↓ *YOY: -11.8%*		↓ *YOY: -23.6%*		*Fundamentals:*	Neutral

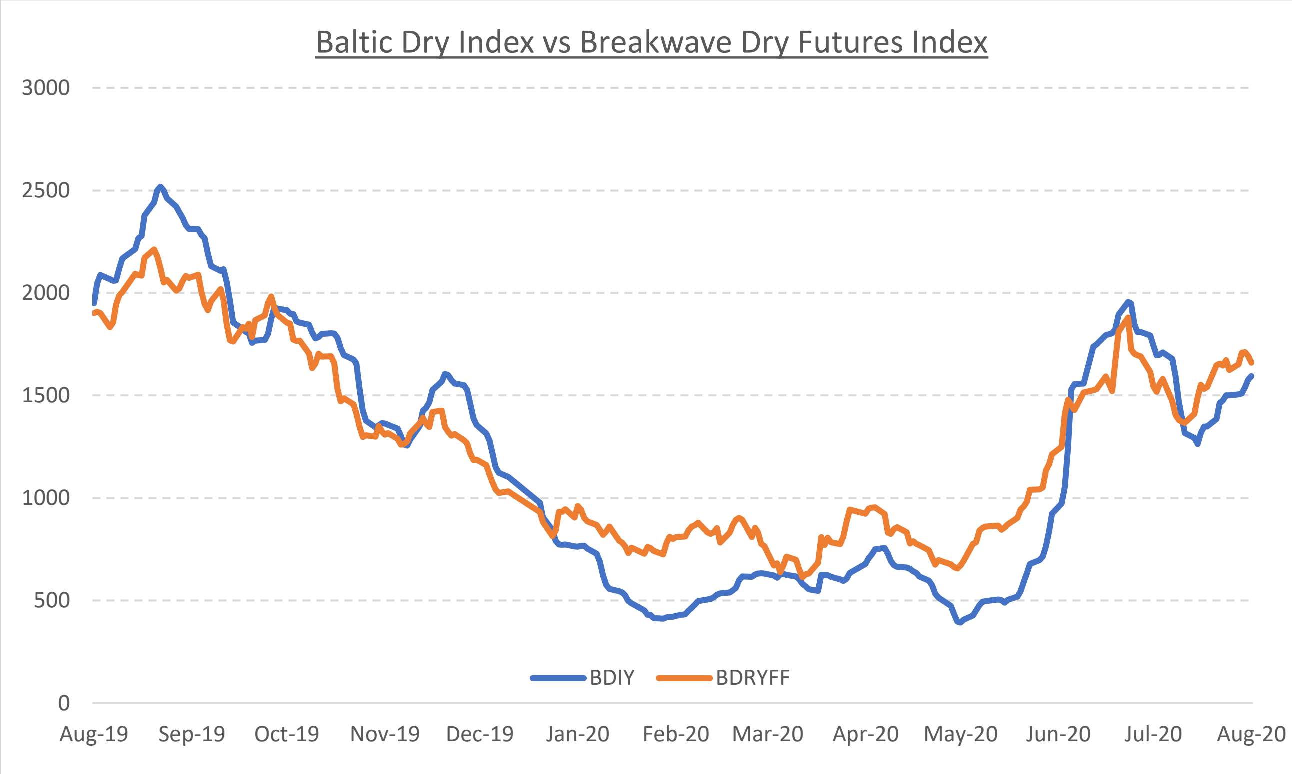
Bi-Weekly Report

- **Capesize spot rates level off as Panamaxes thrive –** For the last two weeks, Capesize spot rates have traded in a narrow range just below the psychologically important 20,000 mark, as the combination of slower cargo flow and summer's general lull have been the main drivers for the market. At the same time, however, Panamax spot rates are up more than 50%, reflecting strong demand in the Atlantic for grain cargoes but more importantly, a tight vessel supply, which among other things, reflects port congestion and COVID-19 related delays. The excitement in the Panamax segment has failed so far to spill over to Capesizes, something that is not unusual as it is the larger sizes that predominantly have an impact on smaller size rates and not the other way around. As we enter the second half of August and major miners start to look for mid/late September loadings, we expect a pickup in activity that, based on history, should have a positive effect on Capesize spot rates. With the Capesize average having stabilized at what we see as a higher low, the potential for another sharp move higher is there, although at this point we cannot identify the spark that will do the trick. Capesize rates are currently averaging about 20,000 while Panamax vessels are trading north of 15,000.

- **China steel demand the driving force behind dry bulk, but there is more under the radar –** We have been talking for months now about the potential for strong steel demand out of China following the major disruption that COVID-19 brought to the Chinese economy, and so far, the significant increase in demand has had a profound positive impact on iron ore imports and thus dry bulk rates. With prices in the Chinese steel complex continuing to point to such an expansion, we have no reason to change our view for the rest of the year, and thus we remain constructive for dry bulk rates primarily based on that. However, the smaller sizes are also finding support in this environment, something that is only partially explained by robust iron ore trading. Grain exports out of the US are expected to be very strong, following a similarly solid export season for South America grains. US dollar weakness is also adding fire to Chinese purchases of grains with the southern hemisphere harvest just ahead of us. In addition, as global economies recover, demand for various other dry bulk commodities is also starting to increase. All the above make the current dry bulk environment quite favorable, especially given that this is happening in the middle of the summer that generally is a slow activity period for shipping.

- **Fleet growth up to almost 3% year to date –** Following approximately 4% net growth in 2019, the global dry bulk fleet is up ~2.8% year to date. All segments have seen growth with Capesizes up ~2%. For the rest of the year, we expect slower fleet growth, and overall, the dry bulk market should experience less that 4% net growth for the whole year. Yet, from a supply/demand perspective, we believe the market will be tighter year-over-year during the Jul-Dec period, as iron ore trading volumes should exceed last year's fourth quarter level. As we look into next year, the orderbook looks similar to this year, and thus, all eyes will again be on demand, which, based on preliminary indications of production guidance (iron ore) and overall economic activity (recovery), looks promising.

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	593mt	2.8%
China Steel Inventories	7.8mt	29.4%
China Iron Ore Inventories	117mt	-5.1%
China Iron Ore Imports	660mt	11.8%
China Coal Imports	200mt	6.8%
China Soybean Imports	55mt	17.6%
Brazil Iron Ore Exports	179mt	-9.0%
Australia Iron Ore Exports	428mt	5.6%

Supply		
Dry Bulk Fleet	907dwt	3.2%

Freight Rates		
Baltic Dry Index, Average	875	-20.9%
Capesize Spot Rates, Average	10,510	-23.6%
Panamax Spot rates, Average	7,085	-27.6%

Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors

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