BREAKWAVE ADVISORS

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Dry Bulk Shipping

December 8, 2020

Breakwave Dry Futures Index: 910	Baltic Dry Index (spot): 1,162	Short-term Indicators:
↓ *30D: -14.4%*	↓ *30D: -2.8%*	*Momentum:* Positive
↓ *YTD: -11.0%*	↑ *YTD: 6.6%*	*Sentiment:* Neutral
↓ *YOY: -30.7%*	↓ *YOY: -25.4%*	*Fundamentals:* Positive

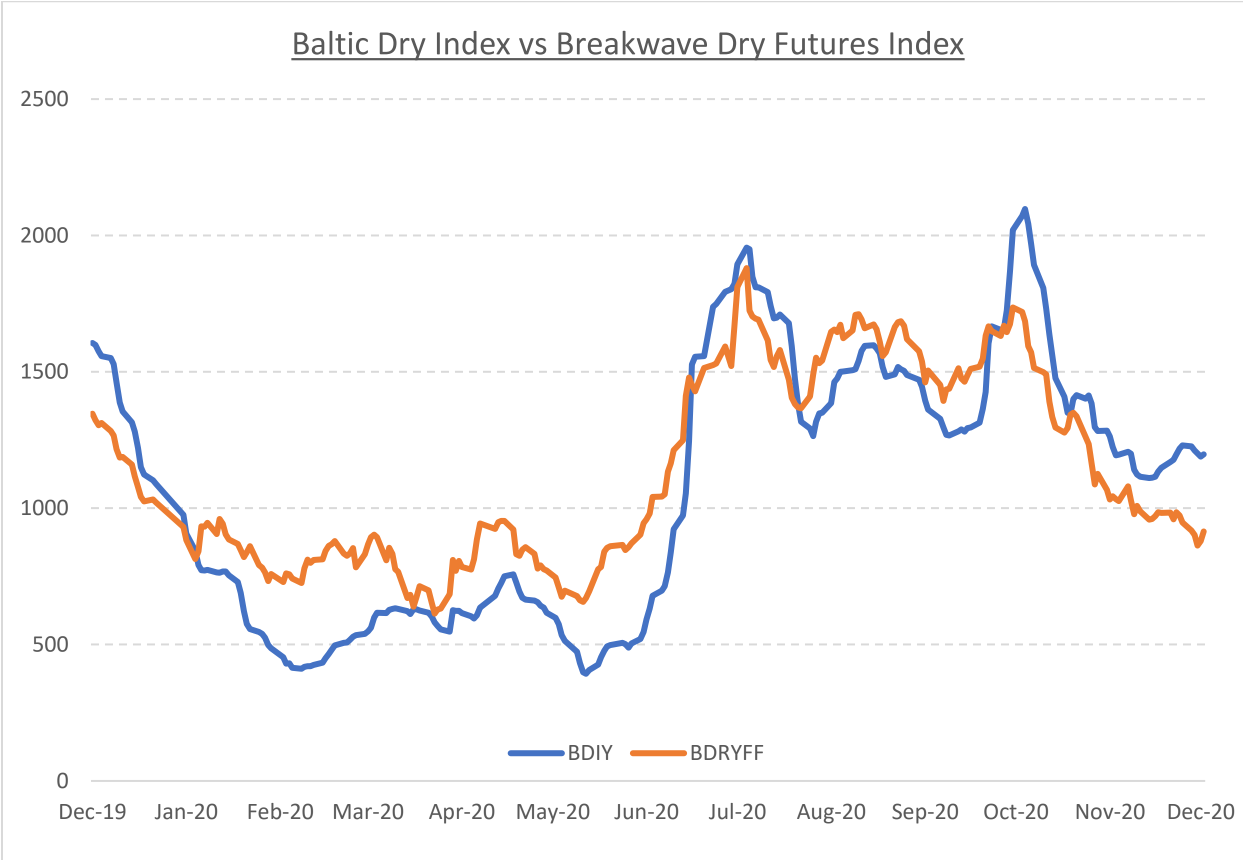
Bi-Weekly Report

- **Smaller size bulkers lead the way as Capesizes still struggle –** Capesize rates remain depressed as a slow market in the Atlantic basin persists and is the main obstacle for any meangiful recovery. Vale's recent results and guidance are evident of the relatively lethargic export activity out of Brazil despite multi-year highs in iron ore prices. Indeed, Vale's iron ore exports for 2020 will most likely end up being the lowest in at least a decade which is also one of the reasons why iron ore prices have been unstoppable, currently approaching $150/ton, a level that makes most global iron ore miners extremely profitable. Although Vale maintains a stated strategy of "quality over quantity", one has to wonder whether the company has even the ability to export more or its logistical chain and production capabilities still remain crippled following the 2019 Brumadinho dam disaster and the subsequent production curtailments. After all, with C1 cash costs of ~$15/ton, the profitability of the firm is extremely strong, especially if one considers the premium price received for Vale's high quality iron ore product. On the other hand, with the global economy slowly recovering, Panamax and Supramax rates have been more stable, gradually approaching the much larger Capesize segment in terms of dayrates. First quarter freight futures are essentially equal across all asset classes at around 8,500-9,000/day, something that it is quite unusual even for the seasonally weak first quarter. At the same time, current spot rates are also about even for all asset classes at around 11,000.

- **Vale's results disappointing, but not unexpected after all –** Vale's quarterly results and guidance were disappointing. Vale started the year guiding to almost 330mt of production, but it will most likely end up some 10% lower, and closer to 300mt. The 2H ramp up in exports never really materialized, and although there were improvements from the 1H, that was mainly due to the very low level of production earlier in the year and some inventory adjustments in Vale's network. The iron ore market remains clearly in deficit, with strong demand out of China (imports should total about 10% above last year) and restricted supply, as Brazil is currently running some 50mt/y below its prior peak. Unfortunately for the dry bulk market, Brazil has been an unreliable exporter for a while now, and it is tough to believe that this will change soon. If it does, however, then the dry bulk market can thrive, as supply growth will run below trend for the next few years with an orderbook at the lowest level in decades.

- **2021 starts to look attractive –** With less than one month till yearend, the prospects for 2021 start to look promising. Vale, the Brazilian miner, remains optimistic about raising their production by some 20-30 million tons, a development that should provide a significant boost to ton-mile demand. Iron ore prices remain well above $100/ton, a very strong incentive for miners around the world to produce and ship as much as possible of the steelmaking material. The potential for other regions reopening their economies (India, Europe, etc.) can provide an added boost. Finally, the dry bulk fleet is set to expand at the lowest rate in many decades, estimated at around 1.5%, which bodes well for tightening the market balance and thus supporting freight rates.

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	874mt	5.4%
China Steel Inventories	4.2mt	49.1%
China Iron Ore Inventories	129mt	-0.6%
China Iron Ore Imports	1073mt	10.9%
China Coal Imports	265mt	-10.8%
China Soybean Imports	93mt	17.5%
Brazil Iron Ore Exports	309mt	-5.3%
Australia Iron Ore Exports	723mt	5.1%

Supply		
Dry Bulk Fleet	912dwt	3.7%

Freight Rates		
Baltic Dry Index, Average	1,055	-22.1%
Capesize Spot Rates, Average	13,046	-27.7%
Panamax Spot rates, Average	8,438	-24.2%

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

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