BREAKWAVE ADVISORS

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Dry Bulk Shipping

July 21, 2020

Breakwave Dry Futures Index:	1,580	Baltic Dry Index (spot):	1,678	Short-term Indicators:	
↑ *30D: 10.6%*		↑ *30D: 7.9%*		*Momentum:*	**Negative**
↑ *YTD: 54.6%*		↑ *YTD: 53.9%*		*Sentiment:*	**Negative**
↓ *YOY: -16.7%*		↓ *YOY: -22.7%*		*Fundamentals:*	**Positive**

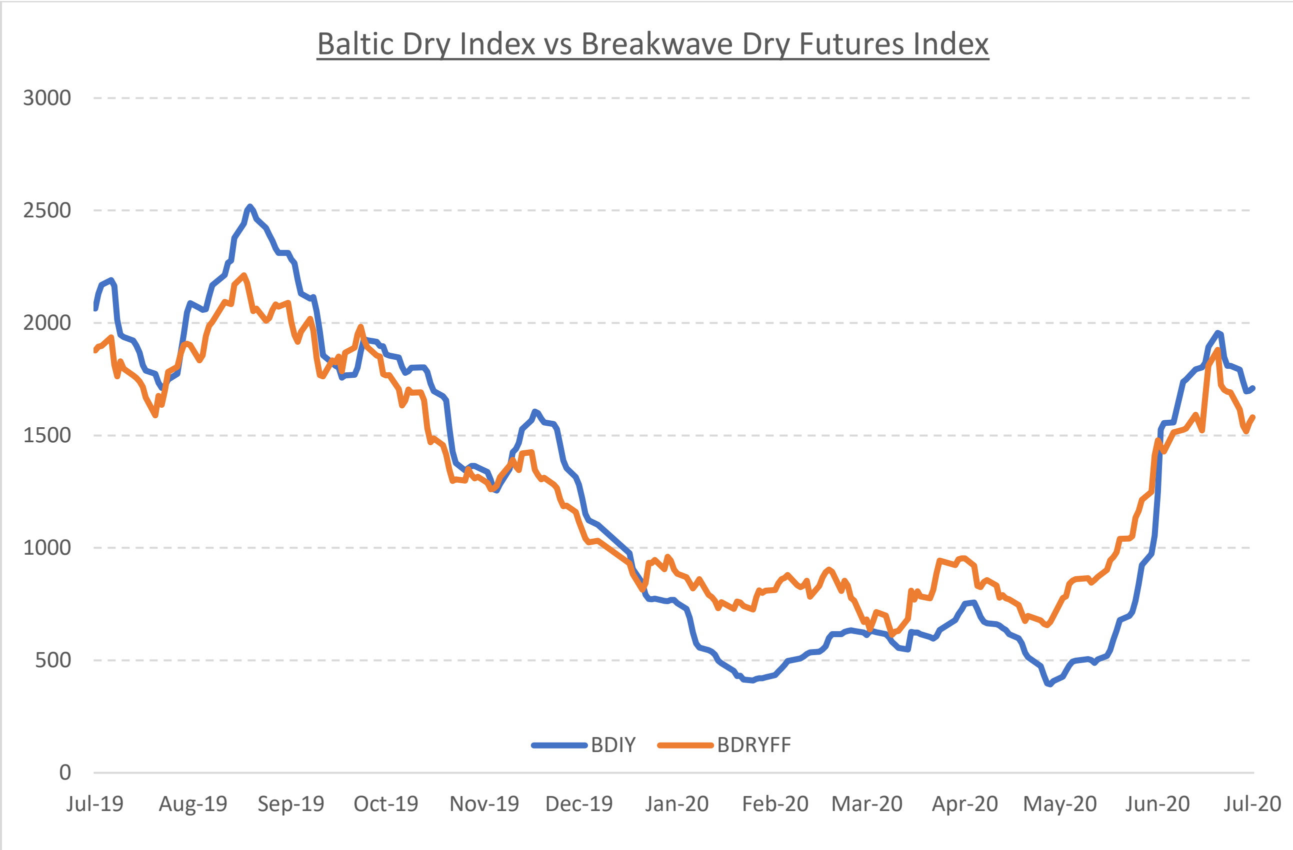
Bi-Weekly Report

- **Volatility jumps as Capesize spot rates correct –** As is always the case, every rally is followed by a correction, something that is currently taking place in the dry bulk sector following one of the strongest rallies in recent memory. As major miners pull back from the spot market in an attempt to cool things down (additionally, a major Australian miner as well as part of Vale's network are currently performing scheduled maintenance) owners are being forced to accept lower rates, mainly in the Atlantic, which was the driving force behind June's impressive ascent. Timing of turnarounds in freight rates are impossible to predict or time well. Yet, if one attempts to use last year as a blueprint, one should expect the spot market to bottom over the next couple of weeks and turn back up as we enter the month of August. On the other hand, as readers know, we are not inclined to use any year as a guideline in a market that is so volatile in nature and so idiosyncratic when it comes to fundamentals. Currently Capesize rates are averaging about 25,000/day while the Panamax sector is also under pressure with spot rates now below 12,000/day.

- **We remain optimistic for dry bulk rates for the rest of the year –** We continue to believe dry bulk will experience quite a positive second half driven by the same assumptions that we have identified earlier in the year and have so far been the main forces behind the dry bulk market strength. On the demand side, the Chinese infrastructure market is benefiting from the significant economic stimulus currently unravelling which should last till yearend at least. That is happening at a time of relatively low iron ore inventories and high iron ore prices, both pointing to continuing strong iron ore imports into China. At the same time, iron ore exports from "long haul" destinations such as Canada and West Africa are increasingly being diverted to China due to lack of alternative destinations (i.e. Europe) adding to ton-mile demand. Finally, Brazil has experienced a significant recovery in iron ore exports following a very slow beginning of the year, something that could continue based on Vale's full year production guidance reaffirmation. All in all, the demand side looks robust and the outlook, at least for this year, very promising.

- **Vessel supply is tightening in a surprising way –** For the first time in many years one can say that supply of dry bulk ships looks tight. The dry bulk market has spent the last decade absorbing a sizable newbuilding program placed early in the past decade as a result of an extraordinary commodity market back then and sky-high freight rates. The balance of supply and demand is gradually tilting, as scrapping has been healthy and new ordering has remained low. In the near term, however, another unexpected factor is further tightening the market balance, namely port congestion. With COVID-19 related delays and disruptions, vessels are waiting longer in ports and that translates to lower effective supply. In the core Capesize sector, an estimated 7% of the global fleet is currently stuck in ports, a number that is double the level compared to a few years ago. All of the above is effectively tightening the market and as a result rate volatility has increased, representing one of the earlier signs of a firmer overall dry bulk market that can potentially lead to considerable spikes in spot freight rates as we head into the end of the year and beyond.

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	499mt	1.4%
China Steel Inventories	7.6mt	36.1%
China Iron Ore Imports	547mt	9.6%
China Iron Ore Inventories	112mt	-5.4%
China Coal Imports	174mt	12.6%
China Soybean Imports	45mt	17.7%
Brazil Iron Ore Exports	145mt	-10.7%
Australia Iron Ore Exports	347mt	4.9%

Supply		
Dry Bulk Fleet	905dwt	3.0%

Freight Rates		
Baltic Dry Index, Average	791	-20.3%
Capesize Spot Rates, Average	9,212	-22.3%
Panamax Spot rates, Average	6,463	-27.4%

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

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