Dry Bulk Shipping

July 7, 2020

Breakwave Dry Futures Index:	**1,811**	**Baltic Dry Index (spot):**	**1,956**	**Short-term Indicators:**	
↑ *30D: 74.0%*		↑ *30D: 188.1%*		*Momentum:*	**Positive**
↑ *YTD: 77.2%*		↑ *YTD: 79.4%*		*Sentiment:*	**Positive**
↑ *YOY: 8.8%*		↑ *YOY: 12.4%*		*Fundamentals:*	**Positive**

Bi-Weekly Report

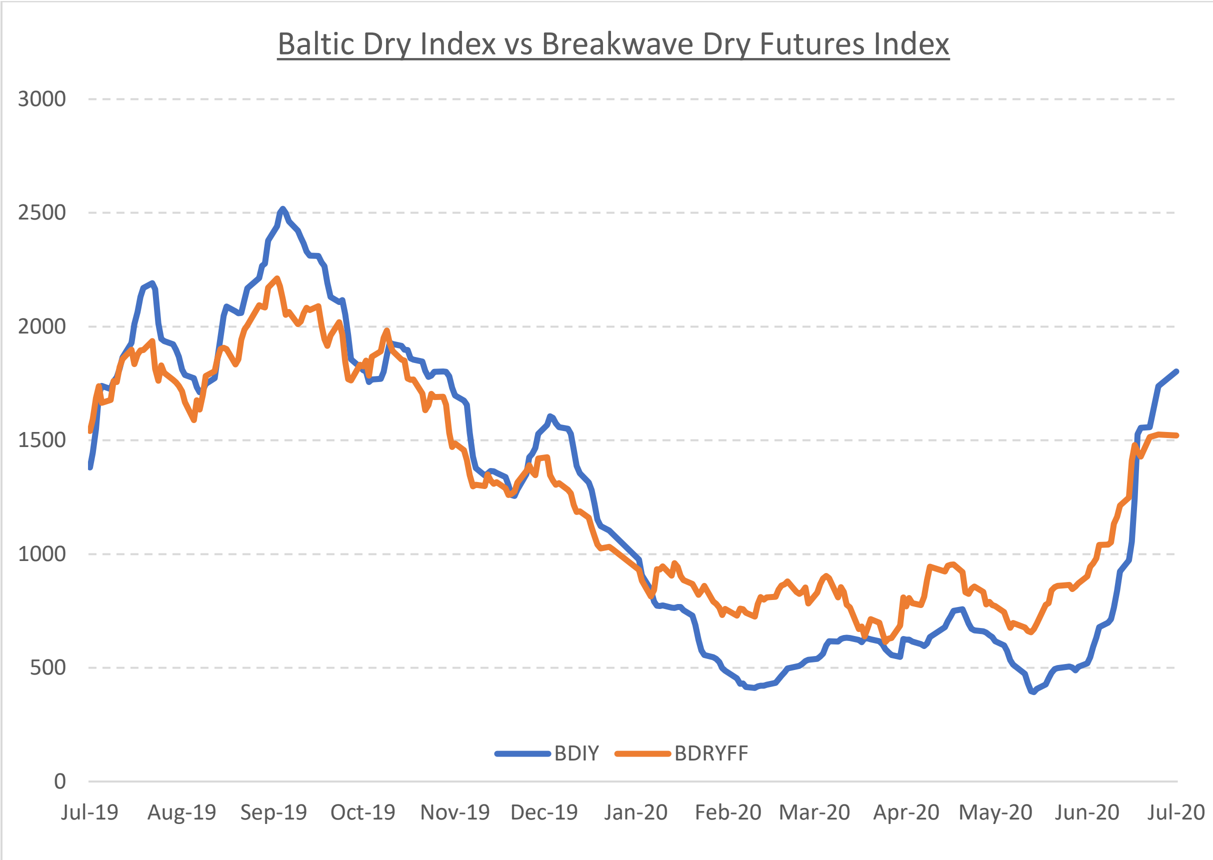
- **History repeats itself, as Capesizes break 30,000 –** It was only about a year ago that a jump in Brazilian iron ore exports and low vessel availability in the Atlantic basin pushed Capesize rates higher and in a matter of weeks owners were enjoying 30,000+ daily earnings surprising a lot of market participants in the process. Fast forward to last week and a repeat of last summer has now pushed rates once again above 30,000/day and on their way to potentially reaching the 40,000/day level. Over the last few months we were lucky enough to accurately predict and map out such a progression in rates as all the signs were pointing to a possible squeeze in the Atlantic which at the end was equally supported by a tight and strong Pacific market. Dry bulk is cyclical and good times will soon give away to a correction, the timing of which is highly uncertain. However, the near-term balance is still favorable as the four-week spot fixture count out of Brazil remains at record low levels despite the recent rate rally. On the other hand, futures are still too low versus the spot potential and in a steep backwardation. That provides a lot of comfort for investors and traders: For a long position to be highly profitable all it takes is flatfish rates over the next few months.

- **Prepare for volatility to increase –** The freight futures market knows that rates almost never stay flat for a long period of time and, following such a strong rally, a reversion to the mean is likely. As a result, the futures curve is strongly backwardated at the moment. Yet, a spike in rates of 5,000 to 10,000 above current levels (not out of question) over a few days' time will go a long way of skewing averages in favor of futures (freight futures settle against monthly averages of spot rates so a spike in spot rates increase the average calculation by quite a bit). The near-term outlook still looks promising, yet care is needed given the significant move in spot rates. We expect the second half of 2020 to see Capesize rates trading in a range of 15,000-45,000. This is wide, but not unheard of. We also expect the 2H average Capesize rate to exceed last years' level (~26,000/day), which means freight futures for the second half are still cheap, in our view (currently ~22,000/day).

- **Panamax rates to also move higher on sentiment, cargo splits –** We now expect a significant rally in smaller size vessels, although that might end up being short lived. Sentiment has turned positive for dry bulk as the high level of Capesize spot rates versus Panamax spot rates makes it more economical for charterers to split a cargo to two Panamax stems instead of one Capesize. That provides a higher floor for spot Panamax rates (at least near-term) and should also support Supramax rates that have recently been hovering just above operating expense levels.

- **Economies are recovering, trillions of stimulus are positive for dry bulk –** Trillions of stimulus dollars are currently supporting the global economy and slowly finding their way to the most economically-levered sectors, such as commodities. The demand side looks favorable for dry bulk shipping. Volatility will increase versus recent years and the trading ranges will expand. The dry bulk market is poised for a strong second half, but it is important to remain discipline in the range of potential outcomes, and opportunities for profit will be numerous.

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	412mt	1.9%
China Steel Inventories	7.2mt	34.5%
China Iron Ore Imports	445mt	5.1%
China Iron Ore Inventories	110mt	-5.1%
China Coal Imports	149mt	16.7%
China Soybean Imports	34mt	6.7%
Brazil Iron Ore Exports	145mt	-10.7%
Australia Iron Ore Exports	271mt	6.7%

Supply

Dry Bulk Fleet	903dwt	2.7%

Freight Rates

Baltic Dry Index, Average	722	-21.6%
Capesize Spot Rates, Average	7,956	-24.6%
Panamax Spot rates, Average	6,035	-28.0%

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

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