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Dry Bulk Shipping

September 1, 2020

Breakwave Dry Futures Index: 1,620	Baltic Dry Index (spot): 1,488	Short-term Indicators:	
↑ *30D: 8.7%*	↑ *30D: 17.7%*	*Momentum:*	Neutral
↑ *YTD: 58.5%*	↑ *YTD: 36.5%*	*Sentiment:*	Neutral
↓ *YOY: -22.4%*	↓ *YOY: -34.4%*	*Fundamentals:*	Neutral

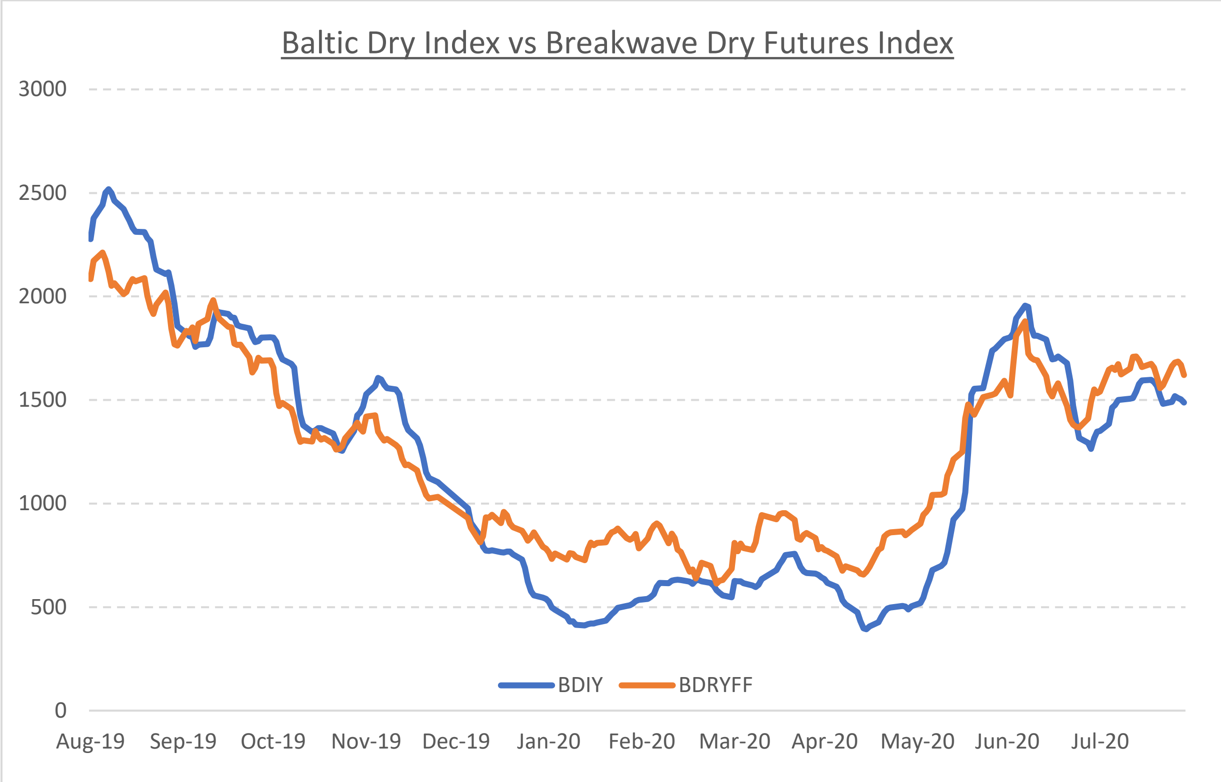
Bi-Weekly Report

- **Calm before the storm for Capesizes? –** With the least volatile August in recent history for Capesize rates (a 15% trading range for the Capesize spot average) behind us, the focus turns to September that historically has produced some of the best returns for dry bulk freight. This time around, however, the market has no clear direction or catalyst to look up to, despite an environment of relatively healthy demand drivers. Such a state is also reflected in the freight futures market, with a curve that is relatively flat to spot and has been trading in a tight range for over a month now. On one hand, market participants recognize the strength of Chinese demand for iron ore and the resulting favorable impact on Capesize spot trading. On the other hand, however, the rest of the world remains in recession when it comes to bulk commodities which puts a lid on any significant strength for shipping rates. Such an environment leaves external unanticipated factors as the main catalyst for rate moves, something that was clearly evident last week, when Typhoon Bavi caused vessel delays in North China and, as a result, some tightening and consecutive gains in the Australia-China route. Panamax rates on the other hand seem better supported by fundamentals, as grain trading has peaked up quite a bit with the North American exporting season underway.

- **Will there be a fourth quarter rally this year? –** Historically, the fourth quarter of each calendar year has been the most favorable for dry bulk and especially for Capesizes, something that over the past decade was always priced-in the futures curve with the fourth quarter contract trading at significant premiums to all other quarters. Yet, the last two years such pattern broke down, and as a result, market participants have become more skeptical, which has led to the gradual flattening of the futures curve. We believe that the last two years reflected irregularities in trading patterns, something that we don’t see currently in the market: in 2018, the combination of the Minas-Rio dam rapture early in the year and the confusion over the technicalities of the index calculation due to the IMO2020 fuel specification changes had a negative effect on the freight market; in 2019, the Vale Brumadinho accident greatly affected fourth quarter iron ore volumes after a brief surge in the third quarter, as regulators continued to push for increased safety measures in all of Vale’s mining operations. This year however, we see a ramp up in volumes out of both Brazil and Australia as the most likely scenario and thus seasonality should be a tailwind for Capesizes.

- **2021 freight futures look cheap –** The macro environment remains highly uncertain not only for shipping but for most commodities. As a result, trying to make predictions and build forecasts for a year forward is extremely challenging. For shipping, however, the fact that the supply side is easily predictable at least a year in advance (lead times for ship building is approximately 2 years), provides a relative advantage versus other industries. The orderbook remains low and the supply side is manageable when it comes to dry bulk. Assuming consensus views for the global economy, we believe the balance of the market can support higher rates versus what is priced-in the futures market today, namely about 14,000 for Capesizes and 10,000 for Panamaxes.

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	7.9mt	36.6%
China Iron Ore Inventories	116mt	-7.5%
China Iron Ore Imports	660mt	11.8%
China Coal Imports	200mt	6.8%
China Soybean Imports	55mt	17.5%
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	914	-21.0%
Capesize Spot Rates, Average	11,009	-24.3%
Panamax Spot rates, Average	7,486	-26.3%

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

Contact:
Breakwave Advisors LLC
25 Broadway
New York, NY 10280
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com