BREAKWAVE ADVISORS

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Dry Bulk Shipping

March 30, 2021

Breakwave Dry Futures Index:	2,312	Baltic Dry Index (spot):	2,162	Short-term Indicators:	
↑ *30D: 49.8%*		↑ *30D: 29.1%*		*Momentum:*	Neutral
↑ *YTD: 132.8%*		↑ *YTD: 58.3%*		*Sentiment:*	**Positive**
↑ *YOY: 265.2%*		↑ *YOY: 288.8%*		*Fundamentals:*	Neutral

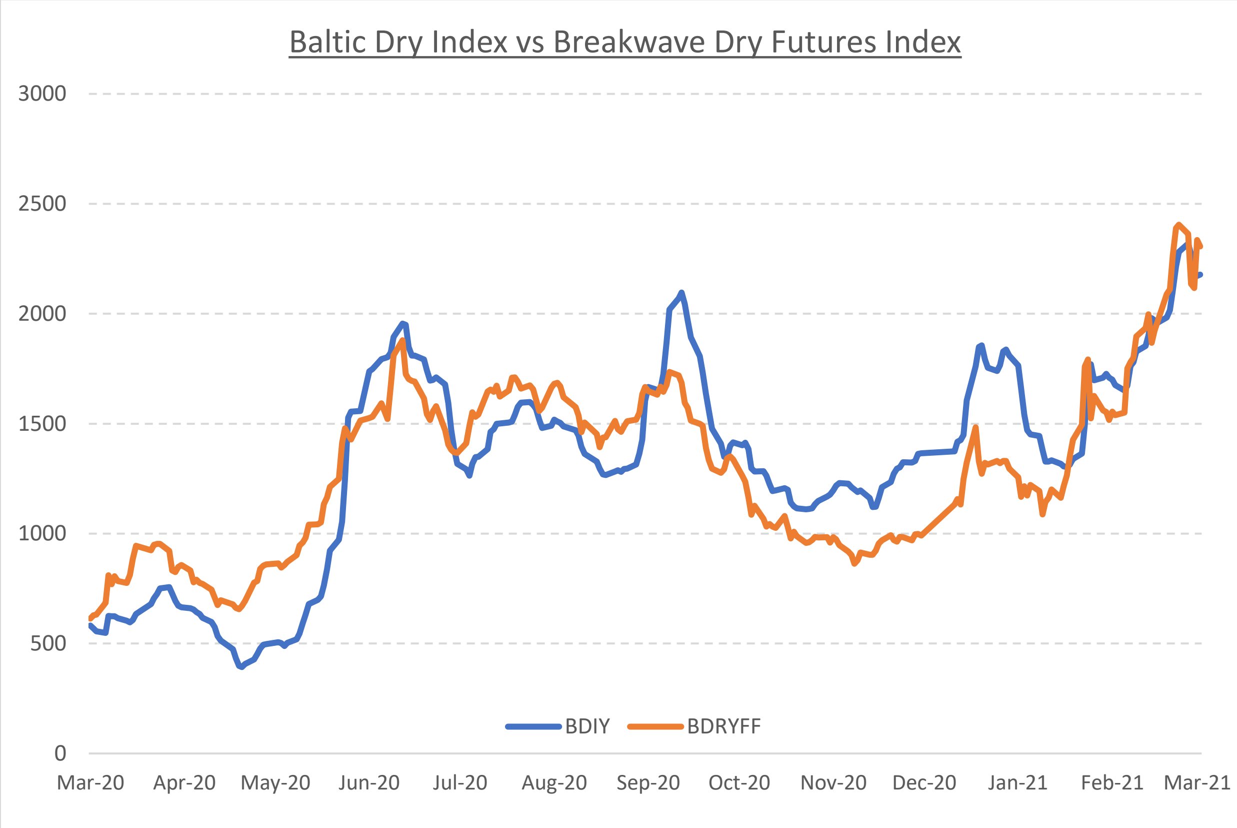
Bi-Weekly Report

- **Spot rate rally stalls as attention turns away from the Suez Canal –** With the six-day blockage of the Suez Canal behind us as the giant containership is finally freed, the dry bulk market is about to refocus on the near-term market balance, where Capesizes seem to be getting some traction on the back of a tighter Atlantic market. Yet, with last week having been dominated by the Suez Canal closure headlines, most market participants were assessing the potential impact of a prolonged blockage of the important waterway, with memories of the lengthy closure 50 years ago reappearing. With such a far-fetched scenario now gone, the overall near-term dry bulk fundamentals look less exciting, and although Capesizes should remain well supported, the sub-cape segments should feel some downward pressure against an unfavorable seasonality in the months ahead. After all, the Northern hemisphere grain fixing period is now passed its peak and the market is now faced with the summer "shoulder" stretch, where coal demand is highly uncertain on the back of China's crackdown on pollution, especially as it relates to the steel industry. One must always remember though that any impending correction starts from levels that just a few months ago were unimaginable and Supramax rates in the 20,000 range was just a distant memory from the roaring 2000s.

- **Time for the Capesizes to shine –** So far this year, the sub-cape segments have been the real surprise in dry bulk shipping, with demand for smaller parcel transportation and for non-core dry bulk cargoes far exceeding expectations. On top of that, strong grain exports from West to East, combined with a surge in overall global economic activity have provided a significant boost to dry bulk utilization. Capesizes have clearly lagged, as iron ore, the main commodity transported by such vessels, has once again shown its seasonality with the first quarter being relatively weak as it has always been the case. However, as we exit winter, and given the market expectations for iron ore trade this year, Capesize rates should gradually improve. This is not surprising. However, the level from which such an improvement will potentially take place is significantly higher versus the last few years. In fact, the Capesize market is at its highest point in 10 years for end of March (with 2014 being the only exception) and thus, any potential improvement could push rates to much higher levels versus history. Such an improvement is not expected to take place before early summer and range bound rates is our main scenario for the very near future.

- **Volatility in freight should increase –** In 2021, we expect demand growth for dry bulk shipping to total almost 3x the growth in net new supply, and although utilization is still well below the record high levels of the 2000s, directionally, utilization is heading to new multi-year highs that have the potential to push shipping rates much higher. We anticipate volatility to increase this year, and although such a turbulent environment might seem scary at times, it is a characteristic for shipping that was in hibernation for most of the past decade but is about to wake up and make potential trading returns very attractive subject to prudent risk management, while the lack of investment vehicles for investors will at times exaggerate such returns, as it happened in past cycles.

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	175mt	13.1%
China Steel Inventories	10.8mt	-16.1%
China Iron Ore Inventories	134mt	10.3%
China Iron Ore Imports	182mt	2.8%
China Coal Imports	41mt	-39.5%
China Soybean Imports	13mt	-0.7%
Brazil Iron Ore Exports	53mt	9.4%
Australia Iron Ore Exports	68mt	4.6%

Supply		
Dry Bulk Fleet	881dwt	3.8%

Freight Rates		
Baltic Dry Index, Average	1,728	192.0%
Capesize Spot Rates, Average	17,085	275.5%

Note: All numbers as of latest available; Imports/Exports/Production are YTD sums as of last reported; Inventories/Fleet are weekly totals
Sources: Bloomberg and Breakwave Advisors

Contact:
Breakwave Advisors LLC
17 State Street, 40th floor
New York, NY 10004
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com