Dry Bulk Shipping

November 24, 2020

Breakwave Dry Futures Index: 984	Baltic Dry Index (spot): 1,178	Short-term Indicators:	
↓ 30D: -24.5%	↓ 30D: -16.7%	Momentum:	Neutral
↓ YTD: -3.8%	↑ YTD: 8.1%	Sentiment:	Neutral
↓ YOY: -25.2%	↓ YOY: -8.3%	Fundamentals:	Positive

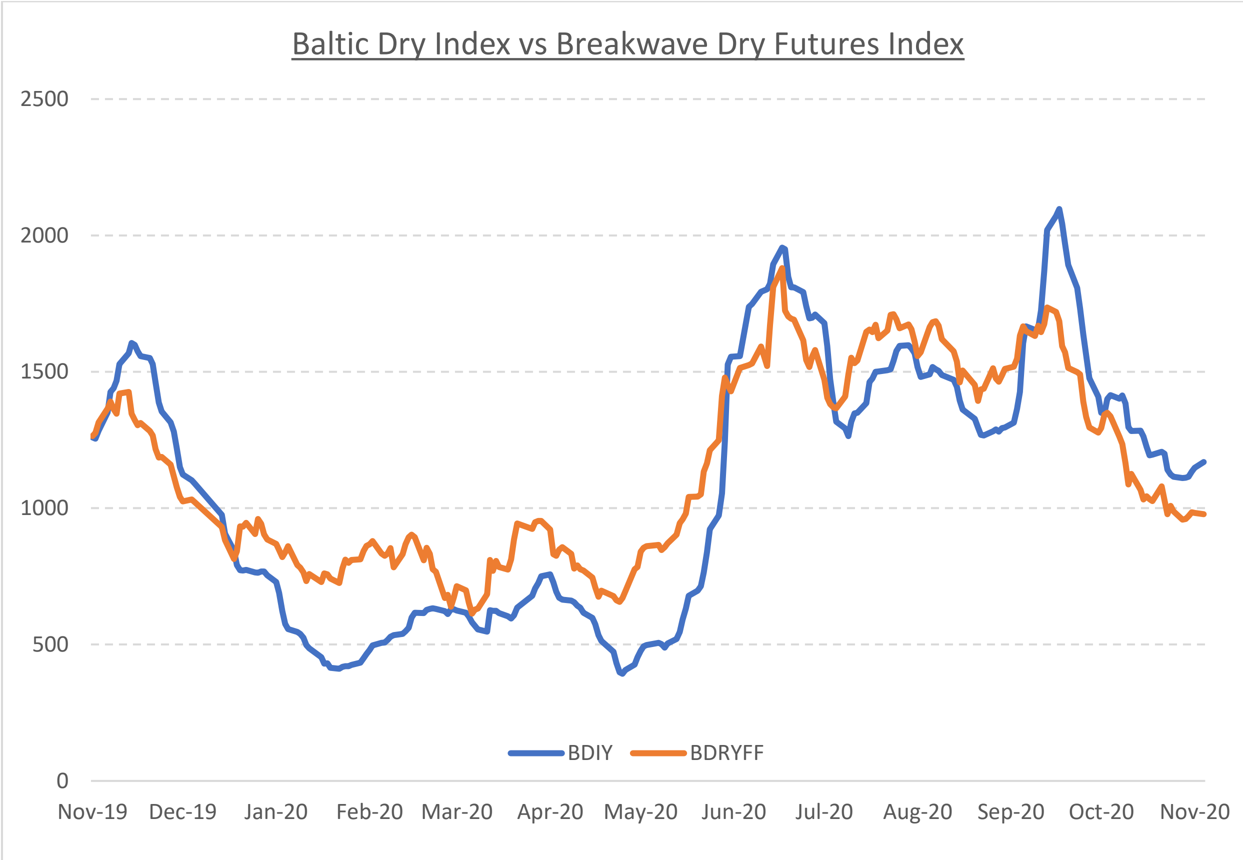
Bi-Weekly Report

- **Capesize market seems to have found a bottom, risk/reward favors upside –** The precipitous decline in Capesize spot rates that begun in early October is slowly coming to an end, as resistance from owners and some better cargo flow have recently led to small gains in the spot Capesize market. Still, sentiment remains fragile and conviction in either direction is low with the end of the year upon us. On the positive side, we estimate that some 40 million tons of iron ore have to be moved in the next six weeks from Brazil to various destinations mainly in Asia while tonnage availability remains relatively low, though admittedly not as low as in the previous uptick in late September. On the negative front however, weather enters the picture as another factor to watch, and early rains in Brazil are already taking a toll on loading operations. In addition, the coal transatlantic market that usually is in full force this time of the year (heating season in Europe), is very slow due to the ongoing Colombian workers' strike. Therefore, the futures curve has been moving in line with the spot market, as traders' conviction remains low while activity in the spot market has also been relatively quiet. Panamax rates on the other hand are in a recovery mode, aided by grains exports and some coal trading activity due to the dislocation caused by the recent trade dispute between Australia and China. It is highly unusual on a historical basis for Panamax rates to be almost at parity with Capesize rates for this time of the year, and yet, Capesize rates are currently averaging 12,000 while Panamax rates just surpassed 11,000 with the market still having some more room to run.

- **Dry bulk fleet growth to slow down next year –** In 2020, the dry bulk market experienced significant fleet growth despite the healthy scrapping activity mainly led by older Very Large Ore Carriers (VLOC). More than 100 vessels were scrapped so far in 2020 while some 350 newbuilding ships were delivered, for a net tonnage growth of ~3.5%. For next year, we estimate such growth rate to slow down materially to about 1.5%. If true, that will represent a historically low growth rate on the supply side, while demand should rebound following a rare contraction in 2020 due to the COVID-19 pandemic. As a reference, historical dry bulk demand growth has averaged around 5% in the last 20 years, although such rate has recently declined towards the 3% range. The slower supply growth and the potential for stronger demand might leave the dry bulk market at its widest such margin in at least a decade.

- **2021 starts to look attractive –** With less than two months till yearend, the prospects for 2021 start to look promising. Vale, the Brazilian miner, remains optimistic about raising their production by some 30-40 million tons, a development that should provide a significant boost to ton-mile demand. Iron ore prices remain 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. Freight futures remain skeptical of such scenarios, trading at significant discounts to current spot levels, especially for Capesizes. We view such price-fundamentals disconnect as an opportunity.

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	4.9mt	49.7%
China Iron Ore Inventories	132mt	1.6%
China Iron Ore Imports	975mt	11.2%
China Coal Imports	253mt	-8.4%
China Soybean Imports	83mt	17.7%
Brazil Iron Ore Exports	279mt	-5.8%
Australia Iron Ore Exports	647mt	4.5%

Supply

Dry Bulk Fleet	910dwt	3.6%

Freight Rates

Baltic Dry Index, Average	1,049	-22.2%
Capesize Spot Rates, Average	13,077	-26.6%
Panamax Spot rates, Average	8,318	-25.6%

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

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