BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

April 12, 2022

Breakwave Dry Futures Index: 2,735	Baltic Dry Index (spot): 2,031	Short-term Indicators:	
↓ *30D: -8.2%*	↓ *30D: -25.3%*	*Momentum:*	Negative
↑ *YTD: 31.4%*	↓ *YTD: -8.4%*	*Sentiment:*	Positive
↑ *YOY: 25.0%*	↓ *YOY: -2.6%*	*Fundamentals:*	Neutral

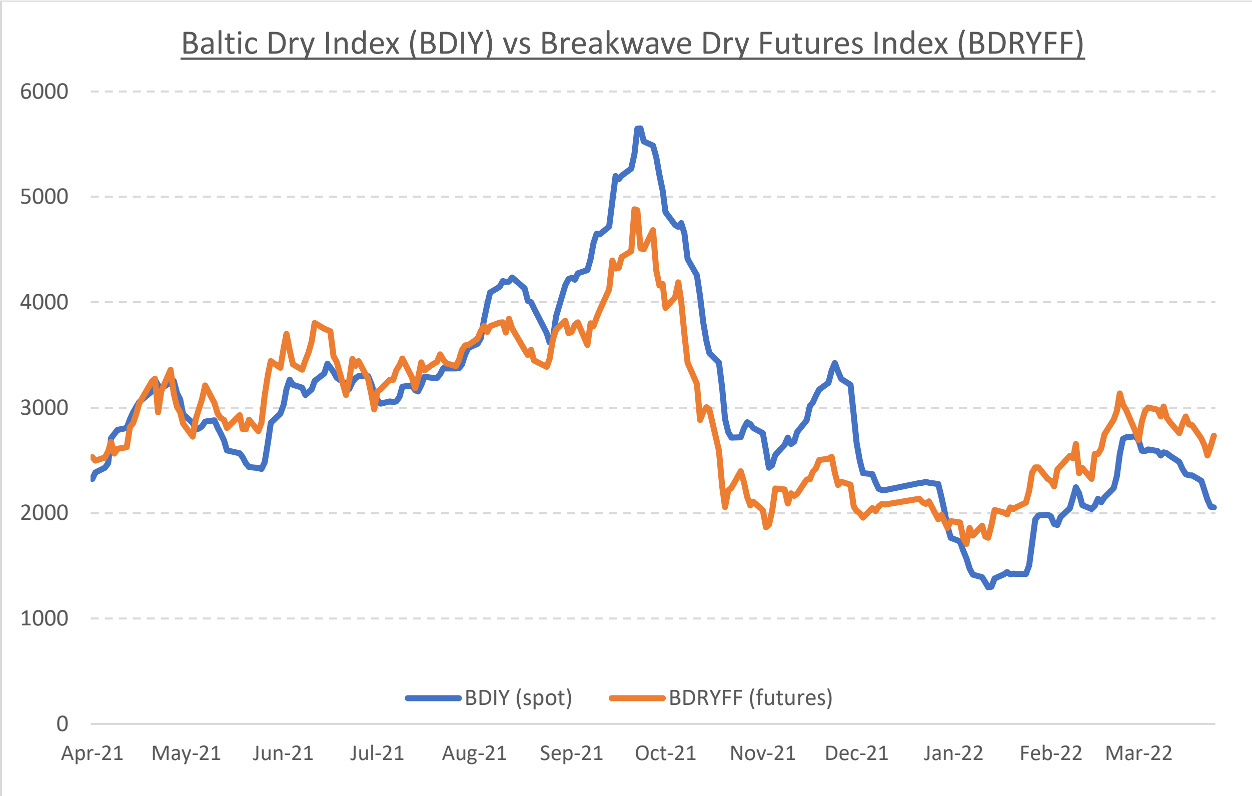
Bi-Weekly Report

- **Futures slump as spot freight rates refuse to rally –** The recent divergence between the Capesize spot and futures markets has finally come to a shift conclusion, with the near-dated futures curve crumbling down to the mid-teens where spot resides, as market expectations for an imminent rally failed to materialize. Bullish traders have been in a constant battle between an optimistic dry bulk futures market versus a stubbornly weak Capesize spot market and any attempt to climb up the steep contango ladder feels like a slippery slope on the back of stagnant iron ore trade activity. And yet, the optimism is such that it is only at the last minute that the market must face the hard reality as the inevitable "pricing of the contract" takes place. In the meantime, a lot of work has been done in the background to clear prompt open vessels and, with the improved seasonality as a tailwind for spot rates, the expectation is for a rally in the coming weeks. One must of course keep in mind the inevitable risks of being in the midst of global turbulence dominated by a major war, China's slowdown due to the country's zero tolerance towards another virus outbreak and a divergence between monetary policies in China vs. the West that is offsetting the benefits of regional looser financing conditions. Still, smaller size bulkers remain profitable and supportive, continuing the trend of the past year with strong demand for minor bulk transportation, and a struggle to secure grain supplies given the distortions and supply chain breakdowns that the geopolitical developments have introduced to global trade.

- **China's economy remains under pressure, taking a toll on steel demand –** About 30% of the dry bulk trade represents iron ore, and the great majority of this steelmaking ingredient is destined to China. As a result, any sign of economic weakness in that part of the world has a meaningful impact on dry bulk activity, especially for the large Capesize ships that predominantly transport iron ore. The Chinese economy is under pressure, reflecting a combination of factors that we have extensively discussed here, and although promises of additional stimulus by the centrally controlled government remain abundant, the reality on the ground is of a slowing economic activity. On top of that, the recent virus outbreak and the accompanying restrictions are adding further pressure, as a significant part of China's economic activity is currently idle. Anticipating a recovery should be a natural prediction as history has shown that the Chinese government tends to further stimulate the economy following such incidents. However, uncertainty is increasing over the duration, scope, and size of any such stimulative policy in the midst of a significant tightening in financial conditions for the rest of the developed world.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility of 2021 might slow down, the dry bulk sector remains in an upcycle driven by relatively low growth in supply, strong demand for bulk commodities, and continuing infrastructure bottlenecks and supply chain constraints that affect the whole shipping universe. We anticipate government actions as it relates to energy security combined with geopolitical developments to drive the flows of commodities transported by dry bulk, and thus, indirectly determine the path of freight rates.

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	158mt	-9.7%
China Steel Inventories	9.1mt	-7.1%
China Iron Ore Inventories	155mt	15.3%
China Iron Ore Imports	181mt	-0.2%
China Coal Imports	35mt	-13.9%
China Soybean Imports	14mt	4.0%
Brazil Iron Ore Exports	72mt	-10.9%
Australia Iron Ore Exports	135mt	2.7%

Supply

Dry Bulk Fleet	894dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,053	16.4%
Capesize Spot Rates, Average	14,578	-16.6%
Panamax Spot rates, Average	22,163	28.0%

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

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