BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

April 26, 2022

Breakwave Dry Futures Index: 2,941	Baltic Dry Index (spot): 2,307	Short-term Indicators:
↑ *30D: 2.7%*	↓ *30D: -9.3%*	*Momentum:* Neutral
↑ *YTD: 41.3%*	↑ *YTD: 4.1%*	*Sentiment:* **Positive**
↑ *YOY: 12.7%*	↓ *YOY: -17.3%*	*Fundamentals:* **Positive**

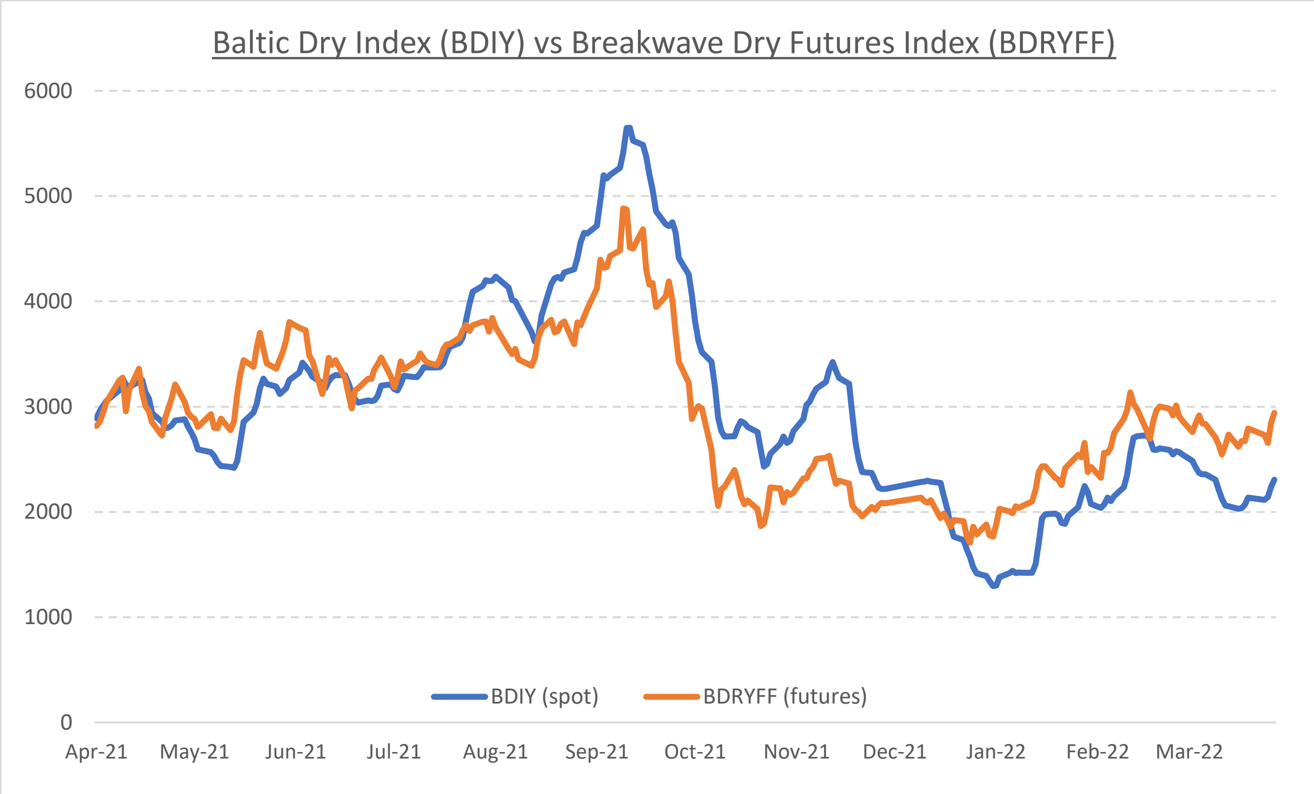
Bi-Weekly Report

- **The Good, the Bad, and the Ugly –** The Capesize spot market seems to have finally bottomed and has now moved higher despite a wall of negativity affecting the global economy. A low ballasting list (empty ships sailing from the Pacific towards the Atlantic seeking employment) combined with higher iron ore export activity out of Brazil, have provided the much-needed fuel for Capesize owners who year-to-date have experienced relatively low spot rates. Combining that with a very resilient sub-Cape market, where Panamax/Supramax/Handymax rates remain at historically elevated levels, and one can easily see how the balance of the dry bulk market has positively surprised over the past few years and it remains quite promising going forward. After all, very few people would have predicted such high levels for spot dry bulk freight, given that Chinese imports of main dry bulk commodities are sharply down year-to-date. Could we be in a new paradigm, where available capacity is tight enough to support a multi-year upcycle rather than purely depend on Chinese demand trade flow fluctuations? Only time will tell, and if once more Capesize spot rates manage to reach the level that freight futures are pointing to (mid-30,000 or some 100% above current spot rates), then the odds of such a scenario would have increased. Our short-term indications remain relatively constructive as we soon enter June loadings when major Australian miners tend to push a lot of cargo into the water, and we expect the balance to continue to tighten in favor of higher Capesize rates.

- **The global economy has entered unchartered waters –** There is little doubt that economic growth is slowing with the IMF recently lowering their global GDP growth forecast to a mere 3.6%, with China's estimate now at almost half the rate of that just a decade ago and at the lowest level in decades. Although the distribution of potential outcomes remains wide given so many uncertainties, trade volumes are likely to remain subdued in such an environment. From the US to Europe economic growth is decelerating, central banks are about to further tighten monetary policies to fight inflation, while China is also going through a rough patch where bulk commodity demand is under pressure for various reasons, from Covid-related lockdowns to energy security policies and steel-related curtailments. As a result, it is hard to argue for a thriving dry bulk demand environment, and one has to look into the supply side of the equation to find bullish arguments for higher rates, whether that is congestion, low fleet growth, slower speeds due to high fuel prices or new carbon-related regulations. Supply of commodities is demand for shipping, and presently commodity supply is getting constrained across the spectrum.

- **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	243mt	-10.2%
China Steel Inventories	8.7mt	1.4%
China Iron Ore Inventories	149mt	9.3%
China Iron Ore Imports	268mt	-5.4%
China Coal Imports	52mt	-24.3%
China Soybean Imports	20mt	-4.2%
Brazil Iron Ore Exports	72mt	-10.9%
Australia Iron Ore Exports	135mt	2.7%

Supply

Dry Bulk Fleet	893dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,062	11.4%
Capesize Spot Rates, Average	14,374	-24.4%
Panamax Spot rates, Average	22,492	27.6%

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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