BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

August 16, 2022

Breakwave Dry Futures Index: 1,656	Baltic Dry Index (spot): 1,404	Short-term Indicators:	
↓ *30D: -32.3%*	↓ *30D: -34.7%*	*Momentum:*	**Negative**
↓ *YTD: -20.4%*	↓ *YTD: -36.7%*	*Sentiment:*	**Negative**
↓ *YOY: -53.9%*	↓ *YOY: -60.6%*	*Fundamentals:*	**Negative**

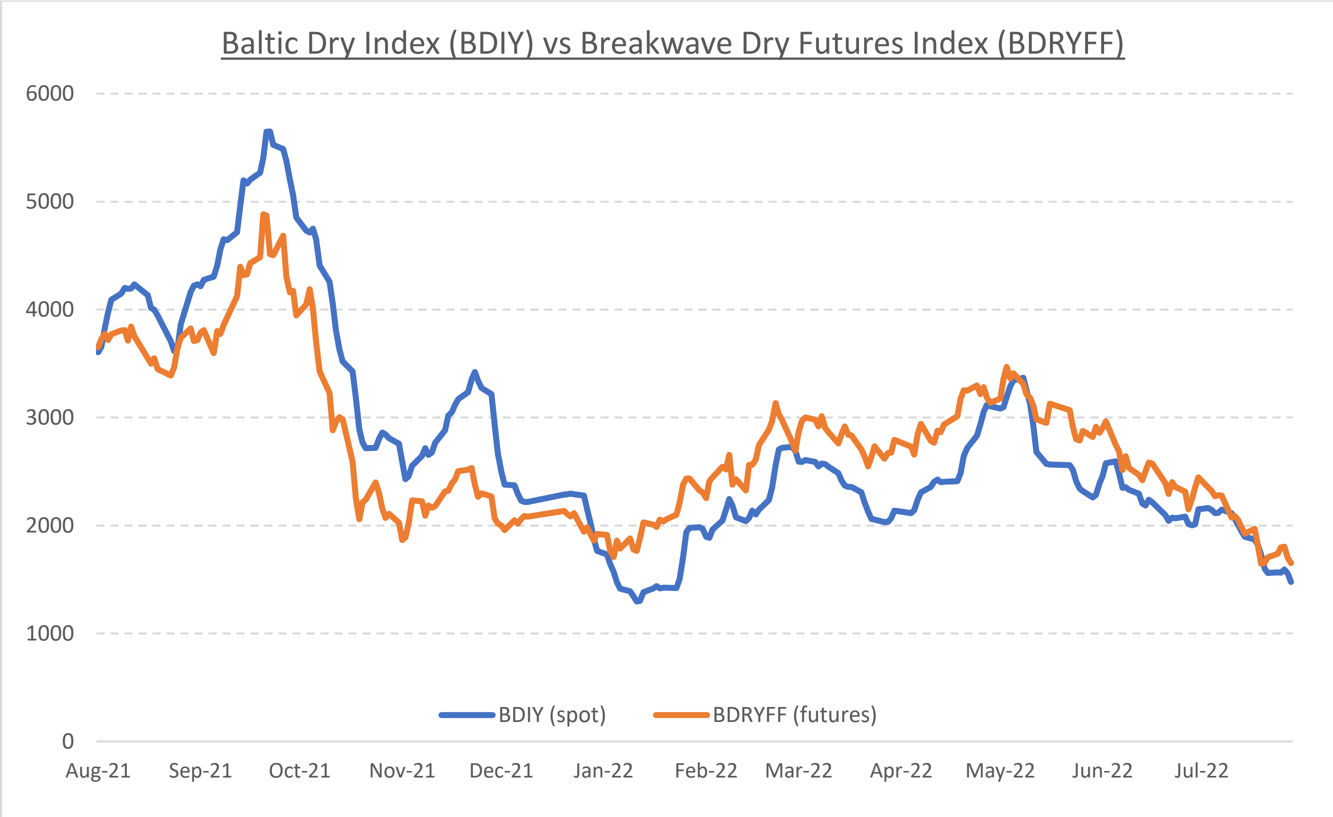
Bi-Weekly Report

- **Capesize spot rates drop below opex levels as sentiment collapses –** Freight futures, especially ones maturing beyond the next month, are purely driven by expectations. Earlier in the year, memories of last year's 100,000 dayrates increased hopes of a repeat, driving futures to unexplainably frothy levels that have now retracted back to reality. The ongoing spot market collapse is having a detrimental impact on traders' sentiment, let alone some very steep losses on a numerous freight books. Yet, the weak spot market reflects China's ongoing recession of the very crucial for shipping real estate sector, something that should have been easily identifiable months ago. But it wasn't, as traders were blinded by vivid memories of the past. In a highly cyclical industry like dry bulk, the more the pain, the larger the opportunity, although timing is as always crucial in such trading decisions. Currently, sentiment is the worse it has been in many years, implied dayrates are now below daily operating expenses and we are about to enter a period of relatively busier trading activity for the year. Turning to fundamentals, China is desperately looking for ways to stimulate an ailing economy, while in Europe imported coal is a vital energy source for the winter. The above represent positives in a rather depressed market. Are we at a turning point for dry bulk? Only time will tell but history has shown that when it comes to turning points, the worst it feels today the better the outcome will be a few months down the road. Our view is that absent a historic collapse in the Chinese economy, upcoming stimulus efforts will provide the catalyst for major restocking of iron ore, and thus, a swift jump in dry bulk demand.

- **Another round of dismal Chinese economic data points to even higher stimulus needs –** All major economic indicators coming out of China over the last several weeks point to an economy in desperate need of some short of major intervention. And yet, little is done other than some minor adjustments in borrowing rates and the usual jawboning by the applicable authorities. Yet, we are approaching the point of some serious decisions and difficult choices by the government as unemployment rates are creeping higher and slow economic activity is having a significant impact on the daily lives of the Chinese people. Although it has been important to limit speculative activity in any such stimulus effort, it is likely that the real estate sector will be the primary target given the implied wealth effect that the sector plays in Chinese household balance sheets. We expect such announcements relating to some type of quantitative easing or similar stimulus activity over the next few months, which should provide the confidence needed to revive the real estate sector and, as a result, the broader Chinese steel market.

- **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 supply chain constraints that affect the whole shipping universe. We anticipate government actions as it relates to energy security combined with geopolitical developments and economic stimulus efforts 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	609mt	-6.2%
China Steel Inventories	5.6mt	-20.9%
China Iron Ore Inventories	139mt	9.0%
China Iron Ore Imports	627mt	-3.5%
China Coal Imports	138mt	-18.5%
China Soybean Imports	54mt	-6.0%
Brazil Iron Ore Exports	186mt	-6.2%
Australia Iron Ore Exports	431mt	0.6%

Supply

Dry Bulk Fleet	949dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,205	-10.4%
Capesize Spot Rates, Average	18,011	-29.9%
Panamax Spot rates, Average	22,246	-3.8%

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

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