BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

August 2, 2022

Breakwave Dry Futures Index: 1,925	Baltic Dry Index (spot): 1,895	Short-term Indicators:	
↓ *30D: -25.2%*	↓ *30D: -14.4%*	*Momentum:*	Neutral
↓ *YTD: -7.5%*	↓ *YTD: -14.5%*	*Sentiment:*	**Negative**
↓ *YOY: -42.6%*	↓ *YOY: -42.4%*	*Fundamentals:*	**Negative**

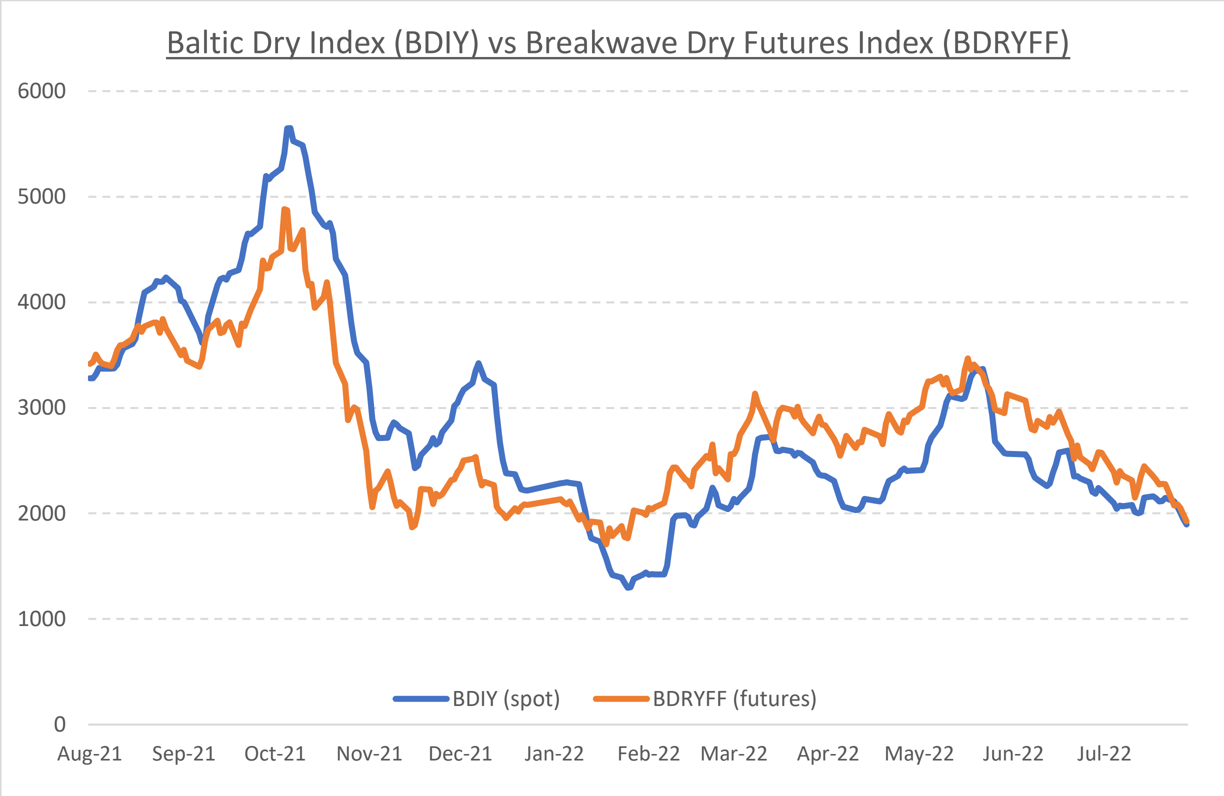
Bi-Weekly Report

- **It's a cruel, cruel summer for Capesizes but things are about to change –** Over the last few months the spot Capesize market has failed to match the overly optimistic expectations that the futures curve has been pricing all along. A futures curve, that was priced to perfection, has now crumbled back to reality, as the macro picture out of China has been abysmal, while the factors that led to the impressive rally last year have now dissipated. Unfortunately, freight futures tend to overreact and, amazingly enough, tend to look backwards for clues about the future. Yet, we see an opportunity due to the above realities and we believe now is the time to become more constructive on the near-term future of dry bulk. We think over the next few months spot rates will recover beyond what is priced in the futures curve. In fact, we are now the most optimistic we have been so far this year. Such a prediction might sound counterintuitive given the state of the current spot market (which indeed is anything but good), but once again, cyclicality should be our friend, and thus, we believe spot rates are about to bottom. China's economic activity is set to ramp up, the credit cycle in China has already bottomed with credit impulse clearly in an upturn, while the Chinese steel market has hit levels never seen before thus some expansion there should be imminent. Although daily price fluctuations rely a lot on regional balances and thus are unpredictable, we feel that the broader freight market balance will soon turn and rapidly push charterers to take cover. Risks remain abound, but the current level of futures combined with the bottoming macro in China warrants a bullish stance towards dry bulk.

- **The Chinese steel market is in a disarray –** The recent reported economic numbers out of China point to a significant deterioration in activity, especially for the very important real estate sector. Such a crucial engine of economic growth is going through a recessionary period, and despite the significant stimulus activity by the government, the effort to convert such liquidity into tangible growth has so far failed. The country's strict virus policies combined with last year's wounds in major real estate developers, have led to various negative externalities for the real estate sector which only now are slowly been dealt with. However, the rest of the year should see better conditions, something that the government has recently been aggressively communicating as well. Broader commodity markets have also been hit hard due to recessionary fears, disregarding the fact that supply remains tight and slower demand could only marginally affect the balance. Shipping has also been partially affected by such a negative commodity feedback loop and any upturn in those markets could become a tailwind for dry bulk shipping.

- **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	527mt	-6.5%
China Steel Inventories	6.2mt	-14.7%
China Iron Ore Inventories	136mt	5.7%
China Iron Ore Imports	536mt	-4.5%
China Coal Imports	115mt	-17.7%
China Soybean Imports	46mt	-5.4%
Brazil Iron Ore Exports	154mt	-7.5%
Australia Iron Ore Exports	353mt	0.2%

Supply		
Dry Bulk Fleet	951dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,250	-6.2%
Capesize Spot Rates, Average	18,393	-26.3%
Panamax Spot rates, Average	22,699	0.1%

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