BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

August 30, 2022

Breakwave Dry Futures Index:	1,276	Baltic Dry Index (spot):	1,082	Short-term Indicators:	
↓ *30D: -33.7%*		↓ *30D: -42.9%*		*Momentum:*	**Negative**
↓ *YTD: -38.7%*		↓ *YTD: -51.2%*		*Sentiment:*	**Negative**
↓ *YOY: -66.0%*		↓ *YOY: -74.5%*		*Fundamentals:*	**Negative**

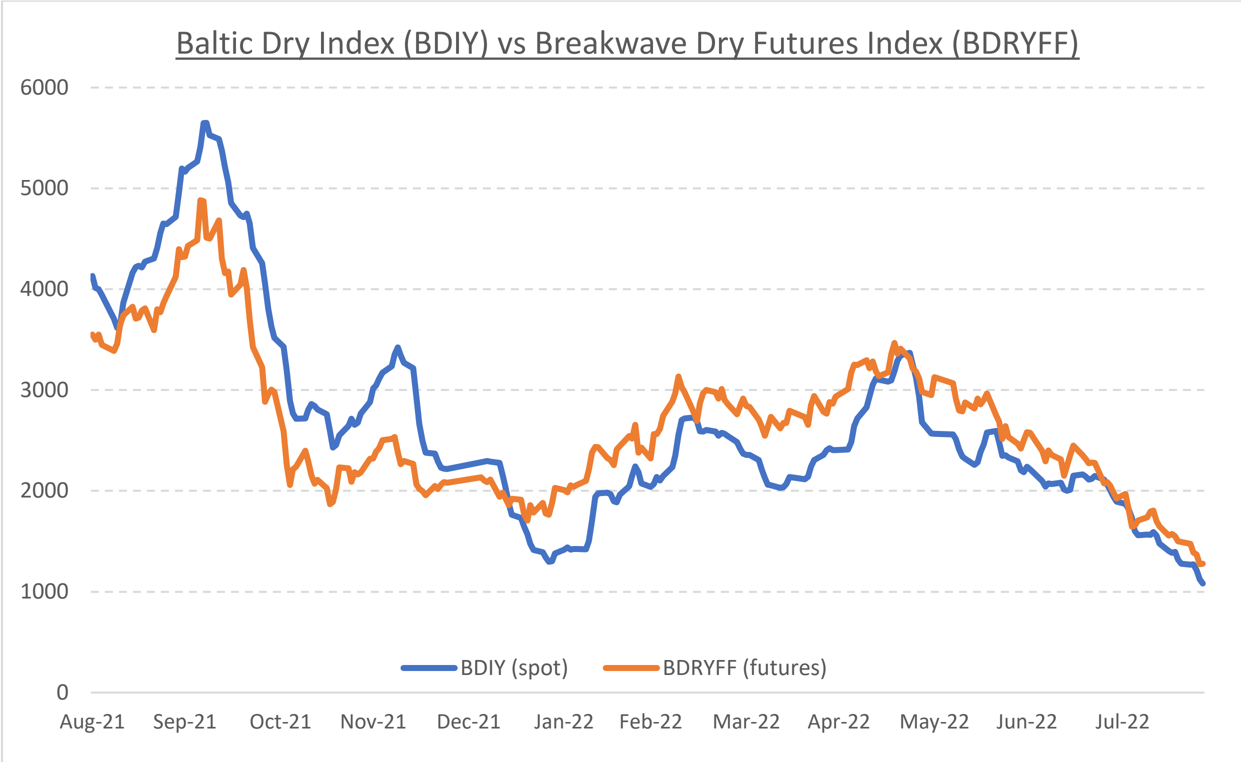
Bi-Weekly Report

- **Bottoming is a process; better days lie ahead for dry bulk –** As the month of August comes to an end, the dry bulk market is faced with numerous questions that have not been relevant during the past couple of years when the narrative was dominated by issues like Covid-19 lockdowns, crew detentions, port congestion, supply chain breakdowns and shifting trade patterns. With the focus now turning to the more traditional drivers for dry bulk rates, namely China and the associated industries driving the country's appetite for bulk materials, once again iron ore demand and China's buying seasonality becomes extremely relevant. Currently, Capesize spot rates are essentially zero while rates for the sub-Cape segments have also declined substantially during the last several months. But based on historical, more conventional patterns, this is about to change. Yet, the degree of such an anticipated move higher is a big unknown and relies a lot on the economic situation in China and the results of the government's recent efforts to revive the ailing real estate sector. With four months left till the end of the year, a lot must go right in order for Capesize rates to recover back to profitable levels. Yet, time and again, the Capesize market has surprised, and a move back towards the mid-20,000 level for spot rates is something that we feel is attenable. Beyond that, the economic cycle will determine whether the significant deterioration in forward expectations reflect a new reality or just sour trader's sentiment due to an ailing spot market.

- **Another week, another stimulus announcement from China –** It has now become more of a normal process to hear new stimulus packages out of China aiming at revitalizing what can only described as recessionary environment especially when it comes to the country's real estate. With hundreds of billions of stimulus already announced, the bottleneck becomes the deployment of such funds and related execution of new projects, something that seems to be in a standstill mode for months now. Liquidity seems ample, but demand for loans remains at best average. Is it due to Covid-19 related concerns (see more lockdowns), cyclical issues (demand for housing) or there is something structural that requires more attention? Only time will tell, but unless demand for materials increases, the dry bulk sector's hopes for a rebound will be short-lived and only seasonally relevant. Our view is (and we don't have any evidence to the contradictory) that we are dealing with a cyclical downturn that is close to its turning point, and thus, we remain optimistic for the medium-term outlook when it comes to Chinese demand for commodities.

- **Dry bulk focus shifts back to fundamentals –** Following a period of high uncertainty and significant disruptions across the commodity spectrum, the gradual normalization of trade is shifting the market's attention back to the traditional demand and supply dynamics that have shaped dry bulk profitability for decades. As effective fleet supply growth for the next few years looks marginal, demand will be the main determinant of spot freight rates with China returning back to the driver's seat as the dominant force of bulk imports.

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	5.2mt	-27.2%
China Iron Ore Inventories	140mt	8.5%
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	2,153	-15.7%
Capesize Spot Rates, Average	17,370	-35.8%
Panamax Spot rates, Average	21,753	-8.2%

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