BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

December 21, 2021

Breakwave Dry Futures Index:	1,940	Baltic Dry Index (spot):	2,371	Short-term Indicators:	
↓ *30D: -13.1%*		↓ *30D: -7.1%*		*Momentum:*	Neutral
↑ *YTD: 95.8%*		↑ *YTD: 73.6%*		*Sentiment:*	Neutral
↑ *YOY: 97.1%*		↑ *YOY: 78.9%*		*Fundamentals:*	Neutral

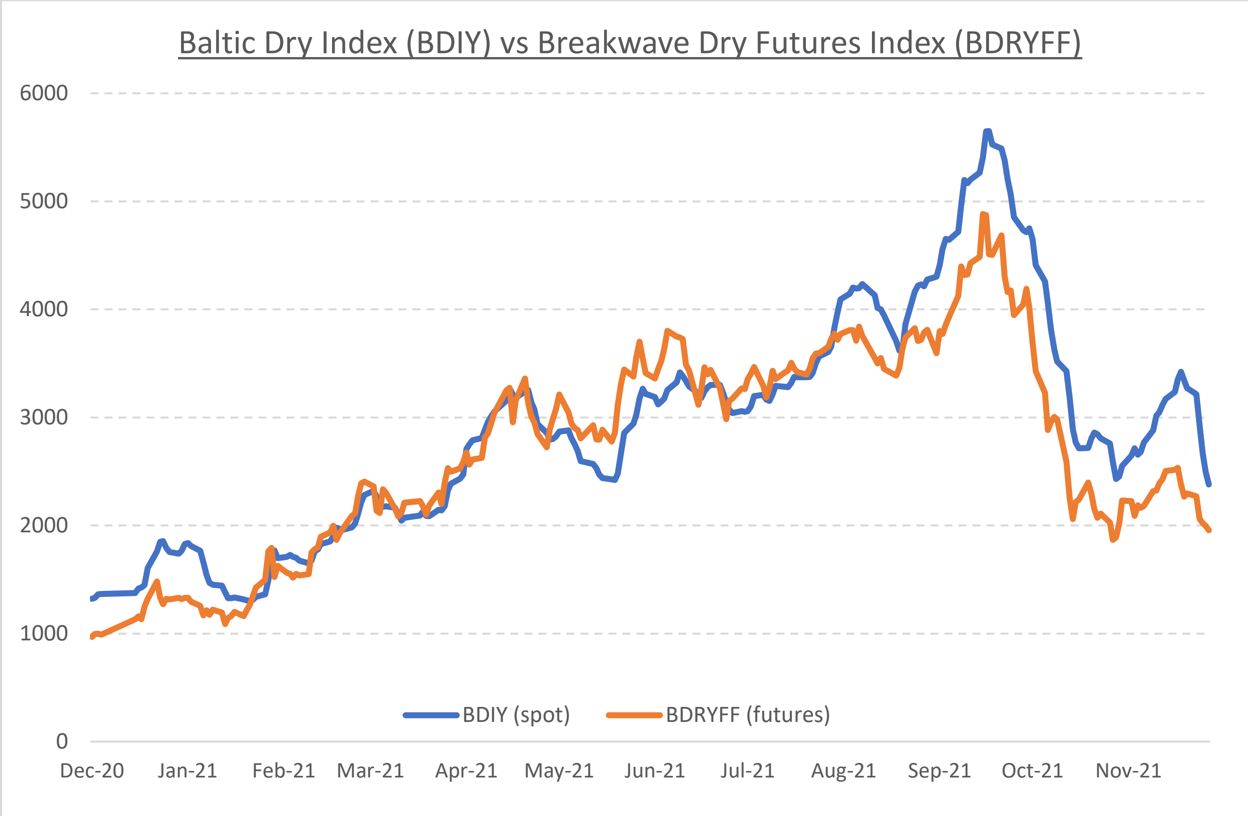
Bi-Weekly Report

- **A fascinating year comes to an end, but by no means the cycle is over –** With less than two weeks till the New Year, the dry bulk market feels exhausted. As one of the most volatile years in recent memory comes to an end, traders' focus shifts to the first few weeks of January when historically a pickup in activity has been the norm. The backwardation in the Capesize futures curve has now eased significantly, with expectations for a slightly slower market during the February/March period (Chinese New Year) followed by a relatively robust rest of 2022, currently priced in the mid-20,000 and in line with the most recent spot index. As a result, the risk/reward appears more balanced, with current demand fundamentals remaining weak, yet a low orderbook combined with a macro picture that favors commodities should keep sentiment upbeat. We are also of the opinion that trading ranges will remain wide, congestion and port disruptions will define effective supply (at least in the first half of the year), but more importantly, government policies and trade frictions will outline trade patterns and cause considerable shifts in shipping routes. Our view is that we are in a multi-year upcycle for dry bulk, enabled by low fleet growth and driven by structural changes in the way the industry operates (see environmental regulations). Demand will be more volatile and less predictable, but such short-term cycles will mainly reflect inventory management, underlying commodity prices, and seasonality, rather than any change on the trajectory of the cycle. **Happy New Year to all!**

- **Iron ore up 50%+ from the lows despite considerable economic headwinds –** It took only a few weeks for the iron ore market to find its footing, and with prices back up in the $120/ton range, it seems like concerns over inventory buildups, slow demand, and steelmaking restrictions are a thing of the past. However, monetary stimulus and easier financing conditions in China could explain, at least from a narrative perspective, the recent rally in iron ore prices. In addition, our suspicion (and we don't have any evidence of that) is that a major part of the recent inventory increases reflects low quality iron ore given China's focus on curtailing steelmaking emissions, and thus, the rally in prices is driven by a tighter high quality material balance. Whatever the reason might be, we are approaching the New Year with very healthy levels in terms of headline prices that point to another profitable year for the major miners. As has been the case for almost a decade, analysts continue to see an "oversupplied" market for next year and thus lower prices, but the track record of such forecasts has been at best questionable.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility in 2021 might be slowing 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 ongoing decarbonization 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	946mt	-1.5%
China Steel Inventories	4.0mt	12.9%
China Iron Ore Inventories	158mt	24.7%
China Iron Ore Imports	1040mt	-3.2%
China Coal Imports	293mt	10.5%
China Soybean Imports	88mt	-5.5%
Brazil Iron Ore Exports	326mt	6.0%
Australia Iron Ore Exports	724mt	0.1%

Supply

Dry Bulk Fleet	898dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,955	178.3%
Capesize Spot Rates, Average	33,545	157.6%
Panamax Spot rates, Average	25,642	199.8%

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

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