BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

February 1, 2022

Breakwave Dry Futures Index: 1,897	Baltic Dry Index (spot): 1,418	Short-term Indicators:	
↓ *30D: -2.5%*	↓ *30D: -36.0%*	*Momentum:*	Neutral
↓ *YTD: -2.5%*	↓ *YTD: -36.0%*	*Sentiment:*	Neutral
↑ *YOY: 66.2%*	↓ *YOY: -2.3%*	*Fundamentals:*	Neutral

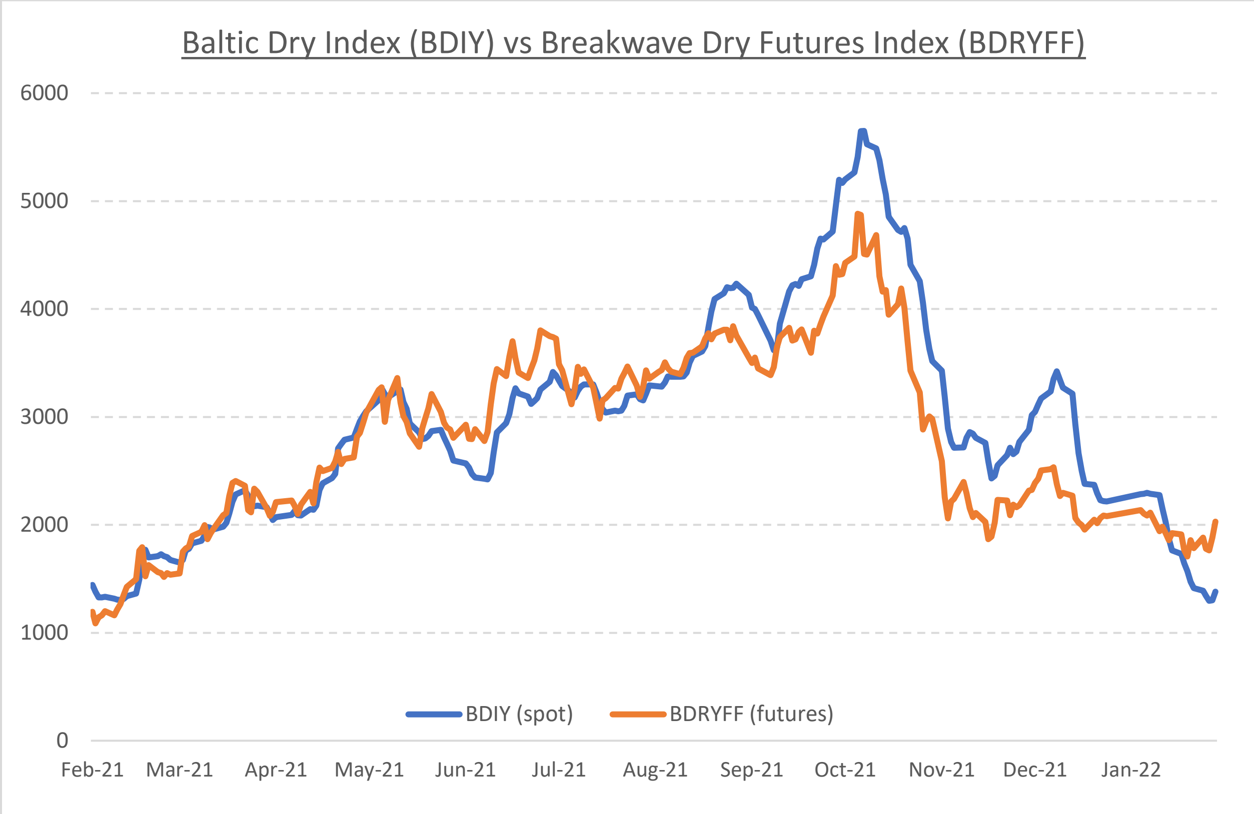
Bi-Weekly Report

- **Bottom is in for Capesizes, but upside capped by seasonality –** The Capesize market has experienced significant weakness over the last few weeks with spot rates reaching almost zero in the main reported routes around the globe. Although February is historically considered the weakest month of the year for dry bulk, we believe Capesize rates have already seen the lows for this year. However, that does not necessarily mean a sharp recovery is imminent. We expect spot Capesize rates to hover at current levels (high single digits/low double digits) for the next several weeks as seasonality remains a headwind for iron ore trading. However, following such period of subdued activity, the probability of a sharp recovery in spot rates around spring is high, especially given that the sub-Cape segments (Panamax, Supramax) remain relatively strong versus history, and the established correlations between different asset classes should "pull" rates for the large bulkers towards equilibrium. Futures have discounted a significant part of such a recovery, but if 2021 taught us anything, it is that prices can take a life of their own and historical ranges are not necessarily indicative of current or future dynamics. After all, coal prices are still above $150/mt, iron ore is at very profitable levels for most (if not all) miners globally, and the commodities market is experiencing one of the best periods in recent history. There are many reasons to be optimistic about the near-term future of dry bulk, and although as always one needs to keep an eye on several factors that could derail such a bullish scenario, the risk/reward balance remains tilted towards stronger freight rates for the balance of the year.

- **As China's credit impulse turns higher, so does dry bulk... but with a lag –** Chinese macroeconomic data has bottomed, at least for now, and we expect a pickup in activity over the next few months. Easier financing conditions, higher industrial activity and more economic stimulus should have a positive impact on China's macroeconomic figures in the near term, but more importantly, on the actual industrial activity, with steel production moving higher, and as a result, with iron ore import activity recovering. By early spring, we anticipate sequential improvements in steel output and better sentiment around the steel-intensive industries, which should flow through the dry bulk markets as well. China's economy has been going through a "soft patch" for the past six months and we anticipate a "mean reversion" to such a trend, mainly due to the actions that the centrally planned government has gradually been implementing across the economy.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility in 2021 might be 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 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	1033mt	-1.9%
China Steel Inventories	4.9mt	1.1%
China Iron Ore Inventories	154mt	22.1%
China Iron Ore Imports	1126mt	-3.8%
China Coal Imports	324mt	6.4%
China Soybean Imports	97mt	-3.8%
Brazil Iron Ore Exports	358mt	4.9%
Australia Iron Ore Exports	796mt	0.3%

Supply		
Dry Bulk Fleet	896dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	1,761	6.2%
Capesize Spot Rates, Average	12,844	-40.8%
Panamax Spot rates, Average	19,773	52.2%

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

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