BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

February 15, 2022

Breakwave Dry Futures Index: 2,451	Baltic Dry Index (spot): 1,984	Short-term Indicators:	
↑ 30D: 26.6%	↑ 30D: 12.5%	*Momentum:*	Positive
↑ YTD: 17.0%	↓ YTD: -10.5%	*Sentiment:*	Positive
↑ YOY: 70.7%	↑ YOY: 48.2%	*Fundamentals:*	Neutral

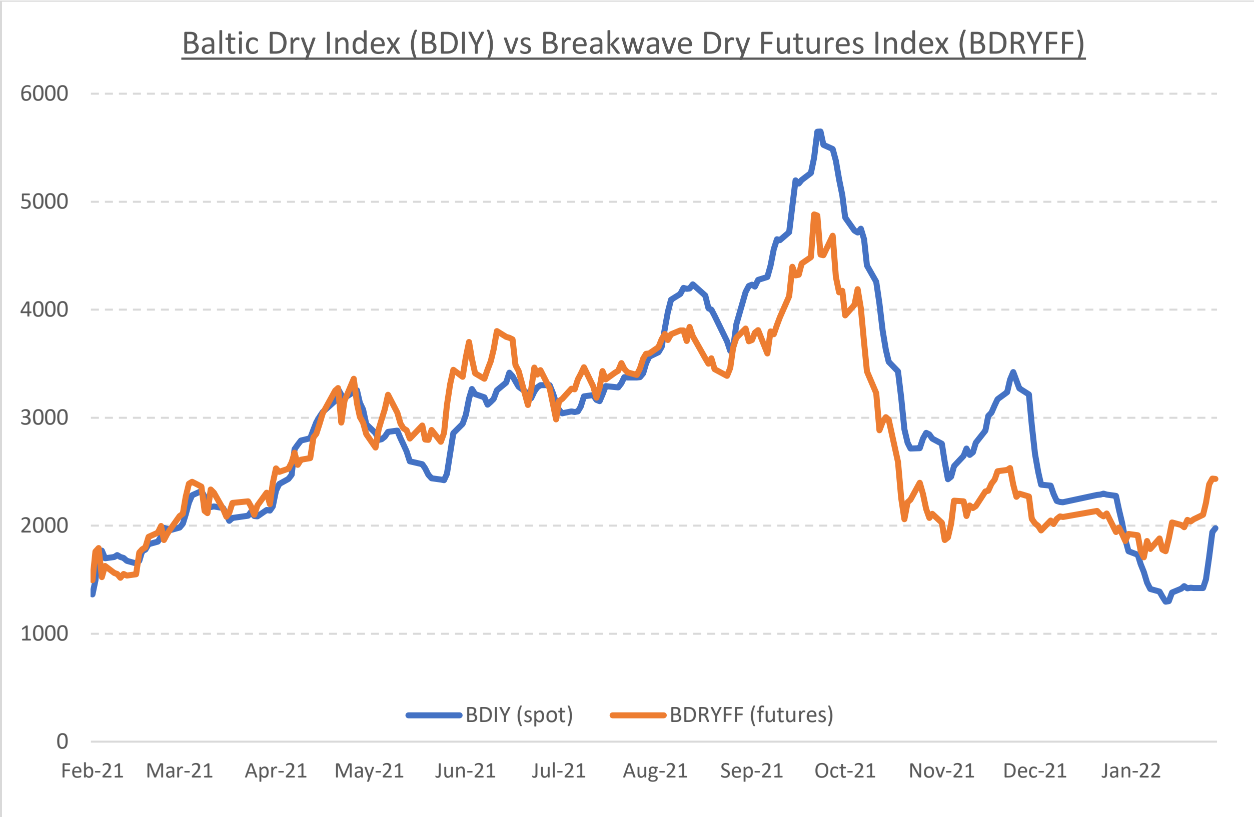
Bi-Weekly Report

- **Too fast-too high, as Capesize rates take a breather –** During the past two weeks the Capesize market came back to life, with the Atlantic market leading the way on the back of strong West Africa activity and some decent demand for N. Atlantic ore transportation. Still, the market is lagging Brazilian iron ore, and although sentiment has firmed quite a bit as evident by the steep contango in the futures market, more needs to fundamentally be done in the supply/demand balance for rates to move further up. This is not the case for the sub-Cape segments however, where strong demand for grains and coal continue to propel rates higher, in the process providing much needed positivity for the overall dry bulk sector. As we exit February, we expect the April stems out of Brazil to start dripping into the market (Capesizes fix cargoes roughly one month in advance), and with that, some increased spot activity is also anticipated. For the time being, quite a bit is priced-in to the Capesize futures market, although such premiums were much higher a week ago. The recent mild correction could provide a better entry point for the those who believe that historical relationships between Capesizes and smaller size bulkers will revert to the mean, which effectively translates to Capesize rates in the low 30,000s range. With the futures curve for the remainder of the year priced at ~65% of last year's spectacular average, traders remain more skeptical when it comes to the large ships, while for the smaller size vessels, freight futures are currently priced much closer to last year's averages (though still below).

- **The Russia-Ukraine conflict impact on dry bulk depends on sanctions as well as intensity –** It is easy to see how a total stoppage of exports out of both Russia and Ukraine can have a negative impact on dry bulk if viewed in isolation. After all, Ukraine accounts for ~9% of global seaborne grain trade while Russia accounts for ~11% of global seaborne coal trade. Run those numbers in any supply/demand model and fleet utilization plummets. However, global trade does not work in isolation. After all, demand for such bulk commodities is very high with a strong scarcity factor evident in many instances. If there is an escalation, buyers will switch to the next available supply point, in the process further affecting an already stretched global supply chain, with higher waiting times, increasing port congestion and longer distances travelled. Geopolitical disruptions have historically been good for shipping rates, and contrary to consensus, we believe following an initial risk-off reaction similar to other assets, dry bulk rates could rebound and rally, although a prolonged export stoppage will ultimately be negative for dry bulk.

- **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 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	7.0mt	6.5%
China Iron Ore Inventories	156mt	24.2%
China Iron Ore Imports	1126mt	-3.8%
China Coal Imports	324mt	6.4%
China Soybean Imports	97mt	-3.8%
Brazil Iron Ore Exports	25mt	-12.9%
Australia Iron Ore Exports	796mt	0.3%

Supply

Dry Bulk Fleet	898dwt	3.1%

Freight Rates

Baltic Dry Index, Average	1,715	10.6%
Capesize Spot Rates, Average	12,576	-32.2%
Panamax Spot rates, Average	18,820	40.7%

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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