BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

January 18, 2022

Breakwave Dry Futures Index:	1,913	Baltic Dry Index (spot):	1,731	Short-term Indicators:	
↓ *30D: -2.3%*		↓ *30D: -27.2%*		*Momentum:*	Neutral
↓ *YTD: -8.1%*		↓ *YTD: -21.9%*		*Sentiment:*	**Negative**
↑ *YOY: 40.4%*		↓ *YOY: -1.3%*		*Fundamentals:*	Neutral

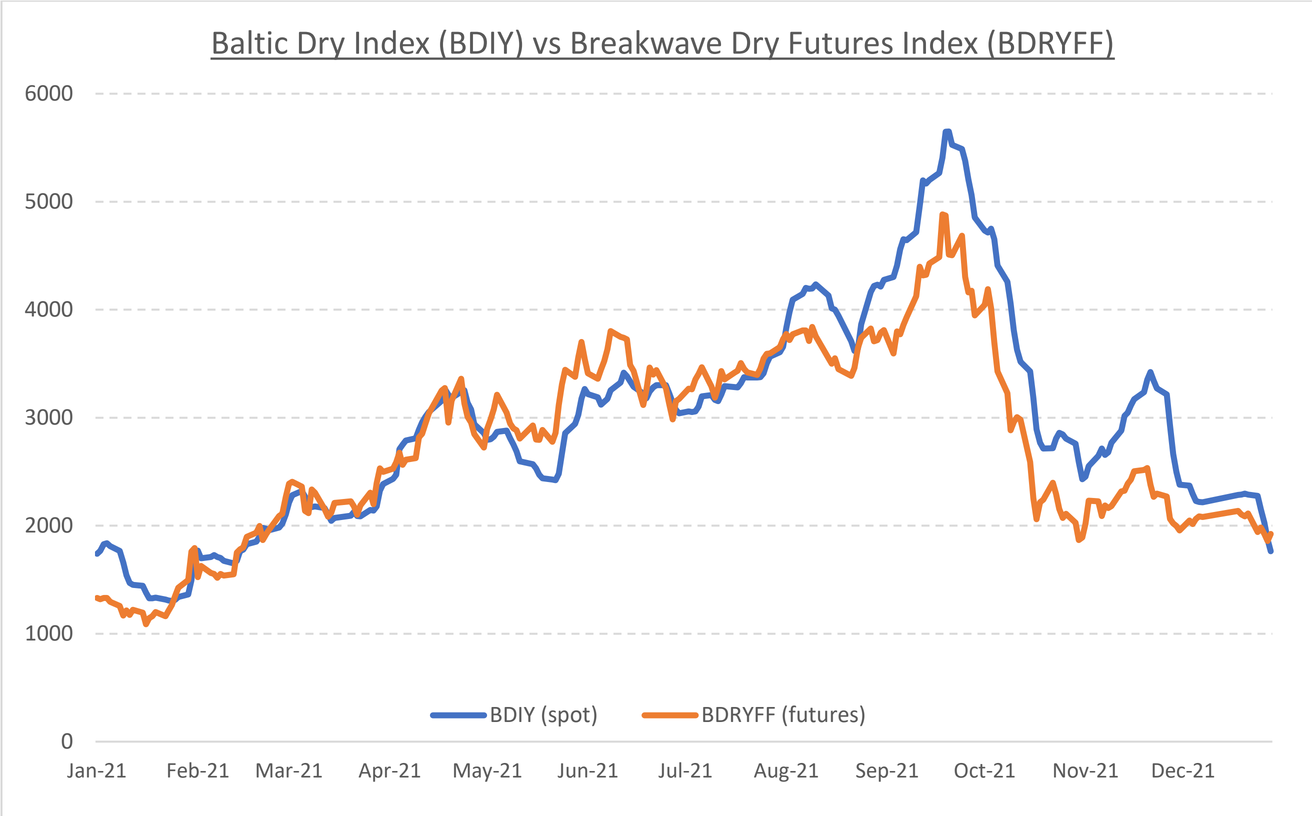
Bi-Weekly Report

- **In Brazil, when it rains it pours –** As we have been stressing for the past few months, weather remains the key driver for Capesize rates this time of the year, and clearly that has been the case over the last two weeks when heavy rains in Brazil's key iron ore producing regions have caused significant disruptions in production, transportation and loading operations. Although the latest news out of Brazil has been encouraging with Vale confirming a restart of its operations and minimal impact on its overall production, we are not out of the woods yet. Over the next few months weather conditions in both Australia and Brazil will determine the rate of iron ore exports and thus the direction of spot Capesize rates. The market remains hopeful that once we get through the winter, demand will recover, and spot rates will rebound towards the 20,000 mark. The futures curve is now in contango after spending the majority of last year in backwardation, also pointing to optimism about the future. Smaller size vessels have maintained their relative strength, with spot rates around the 20,000 level, which obviously is weaker versus most of last year, but for the month of January it represents the strongest they have been since the late 2000s. With the spot focused Baltic Dry Index at the same exact level versus last year, but with the corresponding near-dated futures some 40% higher versus 2021, there is clearly quite a bit of expectations priced in, although given last year's range, it does not sound too extravagant.

- **China is entering an easing cycle while the rest of the world fights inflation –** Despite the better than expected fourth quarter economic figures out of China, it seems that the centrally-planned economy is about to enter an easier monetary cycle, with lower interest rates and more economic stimulus to support the broader economy. Such a policy will contradict with the western world, where high inflation is pushing central banks into a tightening cycle. The outcome of such an unprecedented conflicting action from the largest economies in the world is unknown. For shipping, more infrastructure investment, that should naturally come in a looser monetary environment from China, is clearly a positive, while tightening financial conditions elsewhere do not necessarily represent a major risk given the China-focused nature of dry bulk shipping. Near term, the Olympics in China as well as the upcoming Chinese New Year remain the main date-sensitive events, and once we are past those, the dry bulk market should naturally calibrate to a more normalized recurring level subject to the intensity of iron ore and coal demand out of China.

- **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	4.0mt	4.9%
China Iron Ore Inventories	157mt	25.6%
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	897dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,098	28.9%
Capesize Spot Rates, Average	17,521	-19.1%
Panamax Spot rates, Average	23,080	83.6%

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