BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

January 4, 2022

Breakwave Dry Futures Index:	2,081	Baltic Dry Index (spot):	2,217	Short-term Indicators:	
↓ *30D: -16.9%*		↓ *30D: -19.9%*		*Momentum:*	Neutral
↓ *YTD: 0.0%*		↓ *YTD: 0.0%*		*Sentiment:*	Neutral
↑ *YOY: 110.1%*		↑ *YOY: 62.3%*		*Fundamentals:*	Neutral

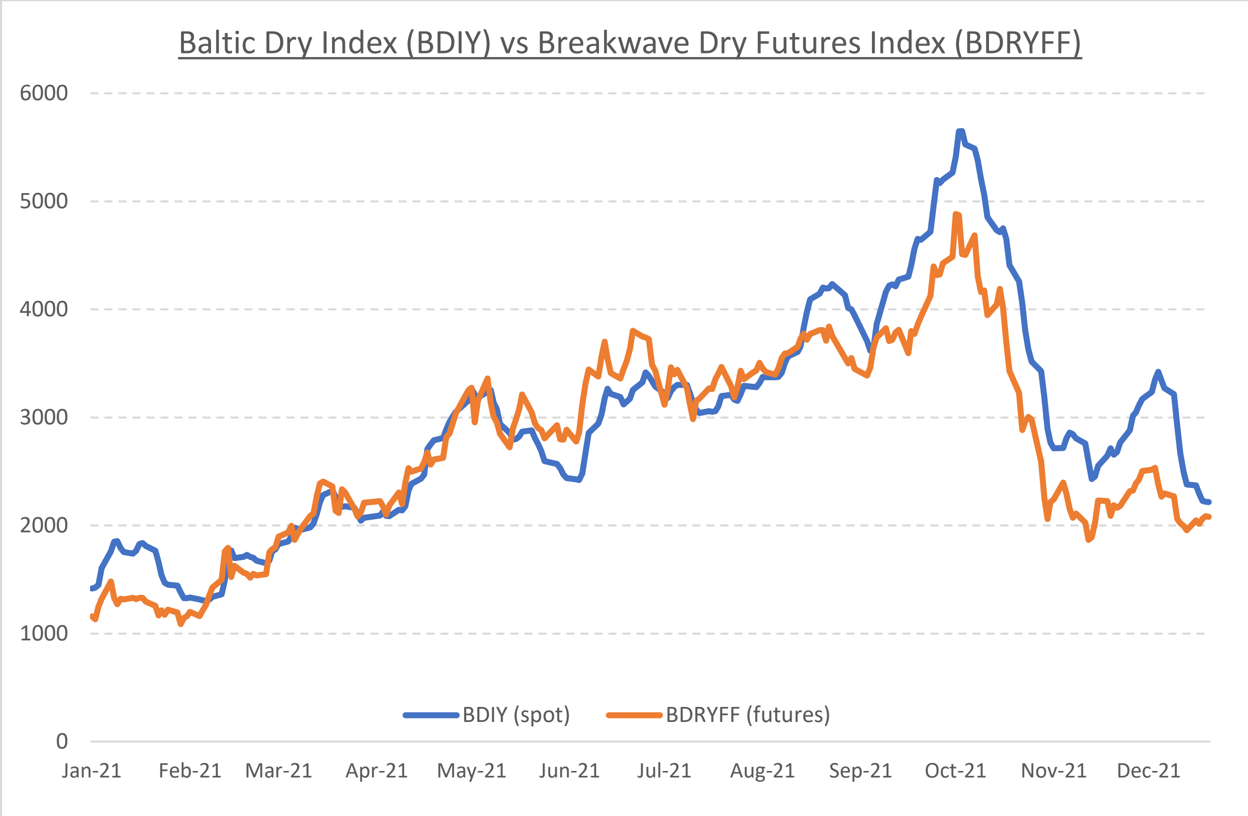
Bi-Weekly Report

- **Brand new year, same old story –** With the holiday break behind us, the dry bulk markets return to a state of uncertainty driven by the same factors that led to the record high volatility of 2021: a) Covid-related disruptions in China remain a major issue when it comes to delays and port congestion, with the latest information pointing to port pilot shortage due to virus quarantine protocols in a number of ports; b) energy shortages across the globe linger, with Indonesia being the latest country to restrict coal exports due to critically low domestic coal inventory; c) inclement weather continue to affect shipping operations, with a recent cold spell in north China causing delays; and, d) supply chain issues persist, leading to strong freight rates for smaller size dry bulk vessels due to some vessel substitution away from containerships. The above factors will remain with us for the foreseeable future, and thus, we anticipate heightened volatility at least until the spring, when some of those factors might begin to wane. Capesize rates were well supported during the holiday break, while some short-term seasonality (early January rush) could add some more fuel to the fire. For the sub-Capesize segments, we remain constructive given the forementioned factors, while the significant premium of small bulker spot rates to spot Capesize rates should act as support for the overall dry bulk market over the next few weeks.

- **China's steel industry remains in contraction, although this time around this is not necessarily a negative –** Although for years now the health of dry bulk demand relied considerably on China's steel industry, and as a result, on the country's property market, the ongoing pandemic has shifted the market focus towards the supply side, where tightness and constraints have remained the driving factor behind freight rates. If the current property slowdown is temporary (and that's a big if), then the current supply constraints will essentially be acting as the "bridge factor" to the current soft demand, and a pickup in activity in the spring will then also lead to a pickup in dry bulk demand. Such a scenario will mean a smooth transition for the market balance and lead to a strong second half of the year especially if supply constraints do not totally diminish. Inventories of iron ore and steel are relatively high, but the correlation to import demand has never been that straightforward to us. The Winter Olympics has been acting as the pivot date for a shift in steel production dynamics (we are not sure if there is even a fundamental connection) and thus spring is expected to bring some much need psychological revival to China's steel industry.

- **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	946mt	-1.5%
China Steel Inventories	3.8mt	13.4%
China Iron Ore Inventories	156mt	23.2%
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	2,943	176.1%
Capesize Spot Rates, Average	33,333	155.0%
Panamax Spot rates, Average	25,562	197.7%

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

Contact:
Breakwave Advisors LLC
17 State Street, 40th floor
New York, NY 10004
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com