BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

July 19, 2022

Breakwave Dry Futures Index: 2,451	Baltic Dry Index (spot): 2,162	Short-term Indicators:	
↓ *30D: -17.4%*	↓ *30D: -16.1%*	*Momentum:*	Positive
↑ *YTD: 17.8%*	↓ *YTD: -2.5%*	*Sentiment:*	Neutral
↓ *YOY: -22.8%*	↓ *YOY: -28.9%*	*Fundamentals:*	Positive

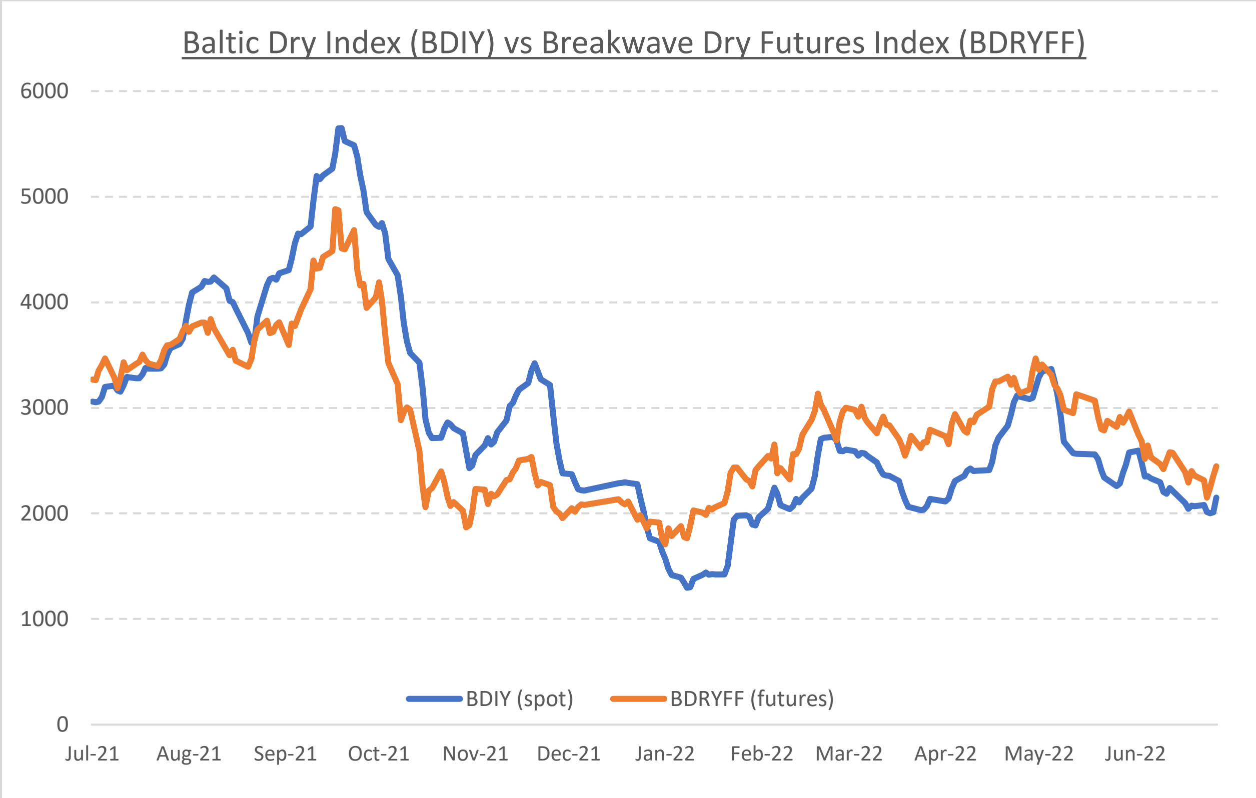
Bi-Weekly Report

- **Capesize spot rates recover, back to the top of the recent trading range –** Since June 1, Capesize spot rates have remained rangebound, fluctuating between 18,000 and 25,000, a profitable level for most Capesize owners, but well off the highs reached last year. The market remains supported but is missing the spark that would propel spot rates to much higher levels. Our view is that rangebound trading will remain in place for a few more weeks, before the late summer seasonality kicks in and iron ore volumes from Brazil start to absorb an ever-increasing number of vessels leading to some tightening in the South Atlantic basin. In the meantime, the North Atlantic is busy with coal trading to Europe, and that is causing rates in that part of the world to stay stronger. As we have stated in the past, the market has managed to remain relatively healthy despite the significant weakness in trade volumes to China, due to strong coal volumes, high inefficiencies due to congestion, shifting trade patterns due to the Ukrainian conflict and political disputes (see Australia-China trade issues). However, we are now approaching a period of strong seasonality. On top of that, there are significant expectations for economic stimulus out of China to support the ailing real estate sector. If such stimulus translates to higher shipping volumes for iron ore (and to a lesser degree coal), then dry bulk spot rates have the potential to reach much better levels versus what the current futures curve indicates.

- **Stimulus announcements continue to dominate China's economic headlines –** The most recent press reports point to an acceleration of infrastructure stimulus and the fast tracking of special bond sales, something that will front load any relevant investments. Naturally, such projects have long lead times, and any rollout of infrastructure spending takes multiple months to affect the underlying construction-related commodity demand which eventually should translate to higher iron ore imports. This is good news for shipping. On the margin, such efforts by the Chinese government are supportive the overall steel complex, and as a result, dry bulk. However, we still think any acceleration in spending is months away. Yet, the Chinese government needs to get economic growth back on track, and with the 5.5% GDP growth target looking quite unreachable at the moment, probably the risk lies on the upside rather than the downside when it comes to such stimulative efforts. Commodity markets have recently come under pressure due to recession fears in the western world, but China still dominates commodity demand, and one should be wary of any "all out" efforts to increase economic growth for the rest of the year.

- **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 geopolitical developments 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	527mt	-6.5%
China Steel Inventories	7.0mt	-4.6%
China Iron Ore Inventories	131mt	1.2%
China Iron Ore Imports	536mt	-4.5%
China Coal Imports	115mt	-17.7%
China Soybean Imports	46mt	-5.4%
Brazil Iron Ore Exports	154mt	-7.5%
Australia Iron Ore Exports	353mt	0.2%

Supply

Dry Bulk Fleet	952dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,263	-3.4%
Capesize Spot Rates, Average	18,230	-25.6%
Panamax Spot rates, Average	23,076	4.3%

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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