BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

June 21, 2022

Breakwave Dry Futures Index:	2,976	Baltic Dry Index (spot):	2,596	Short-term Indicators:	
↓ *30D: -12.7%*		↓ *30D: -22.4%*		*Momentum:*	Neutral
↑ *YTD: 43.0%*		↑ *YTD: 17.1%*		*Sentiment:*	Neutral
↓ *YOY: -12.8%*		↓ *YOY: -19.3%*		*Fundamentals:*	Negative

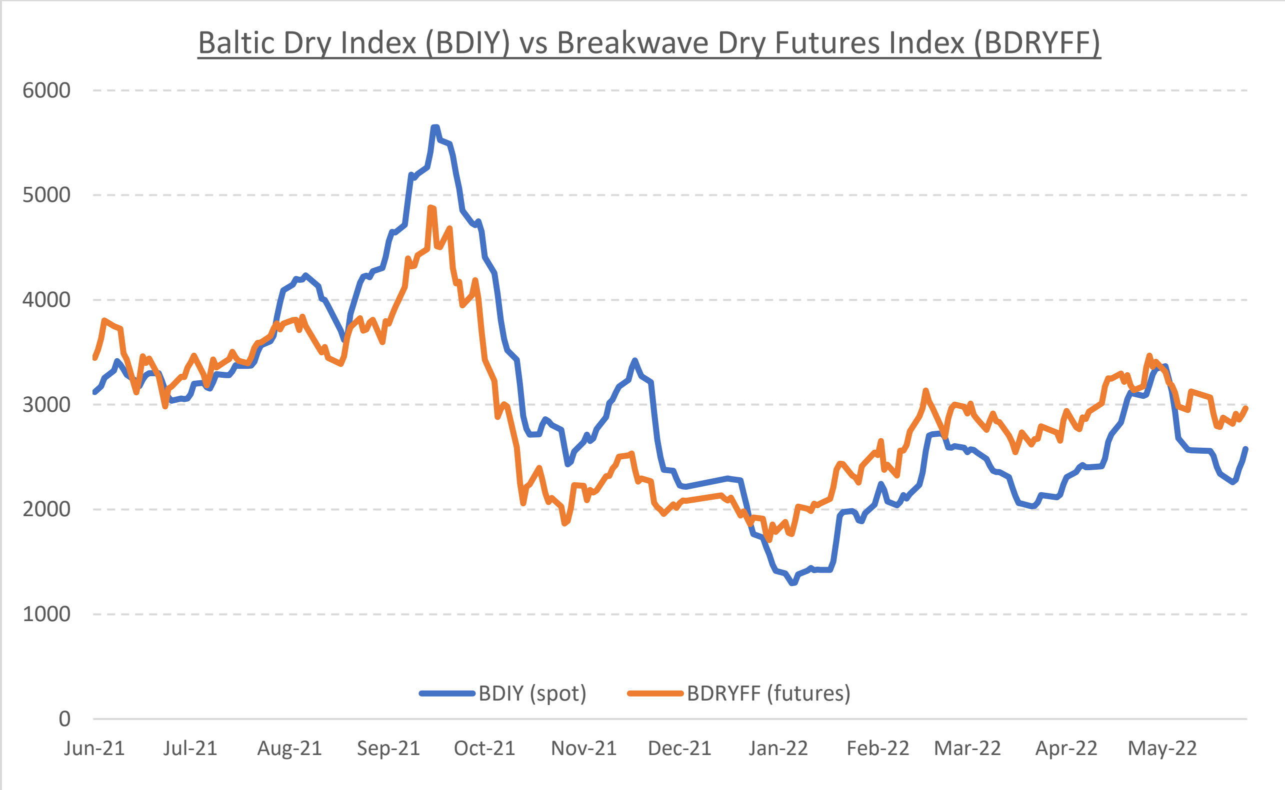
Bi-Weekly Report

- **Futures curve flattens as focus turns on the struggling Chinese property market –** Despite the recent stabilization in spot rates, dry bulk futures came under pressure, reflecting, in our view, increasing disappointment in recent stimulus efforts to revive the Chinese property sector which would have required some much-needed iron ore volumes, and thus higher dry bulk demand, for the next several months. Iron ore prices have already been under significant pressure, dropping some 20% in the last week alone, as Chinese steel mill patience run out, having been faced with negative margins for months now without any end in sight. Although seasonally iron ore shipments will gradually pick up, especially from the long-haul Brazilian market, lower iron ore prices mean fewer shipments from the high-cost marginal exporters of West Africa and South America that have provided a boost in tonne-mile demand for the last year or so. Adding the upcoming partial curtailment in bauxite exports out of West Africa due to the rain season, and the base demand for Capesizes would have looked dire if it wasn't for the coal market that remains the lifesaver for most of the dry bulk sector. It is the battle between the above factors that would shape the near-term direction of spot rates, and we expect volatility to ultimately be the winner irrespective of which factors prevail. We tend to believe the recent sharp correction in freight futures is almost complete, and we anticipate some much-needed improvement in sentiment before the end of the month.

- **The ever-ailing Chinese property market –** The mismatch between expectations and reality in China's property sector with production of steel and demand for steel remaining misaligned for months now, has finally been reflected in steel prices. At the end of the day, a 40% yoy drop in construction activity in the biggest property market in the world is not something to easily ignore. The ongoing virus restrictions in major Chinese metropolitan centers remain a major obstacle for a normalization of the construction market, and although the "pent-up" demand will eventually lead to a significant boost in construction, and as a result iron ore demand, the timing remains highly uncertain. In such an environment the recent steep contango in freight futures made little sense other than a reminder of last year's impressive rally to ~100k for Capesize spot rates. Yet, history rarely repeats itself, especially in freight, and we believe this year it is the fourth quarter when we should see some strong spot rates, contrary to market expectations that continue to price the third quarter as the peak period of the year. As futures prices once again get closer to spot, trading opportunities increase, especially in the current geopolitically unpredictable world.

- **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	435mt	-8.1%
China Steel Inventories	7.9mt	16.4%
China Iron Ore Inventories	126mt	1.4%
China Iron Ore Imports	447mt	-5.3%
China Coal Imports	96mt	-13.8%
China Soybean Imports	38mt	-0.5%
Brazil Iron Ore Exports	122mt	-8.2%
Australia Iron Ore Exports	278mt	0.5%

Supply

Dry Bulk Fleet	955dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,278	4.1%
Capesize Spot Rates, Average	17,978	-23.2%
Panamax Spot rates, Average	23,605	17.3%

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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