BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

June 7, 2022

Breakwave Dry Futures Index: 3,098	Baltic Dry Index (spot): 2,633	Short-term Indicators:
↓ *30D: -4.6%*	↑ *30D: 9.5%*	*Momentum:* **Negative**
↑ *YTD: 48.9%*	↑ *YTD: 18.8%*	*Sentiment:* **Positive**
↑ *YOY: 7.3%*	↑ *YOY: 4.1%*	*Fundamentals:* **Neutral**

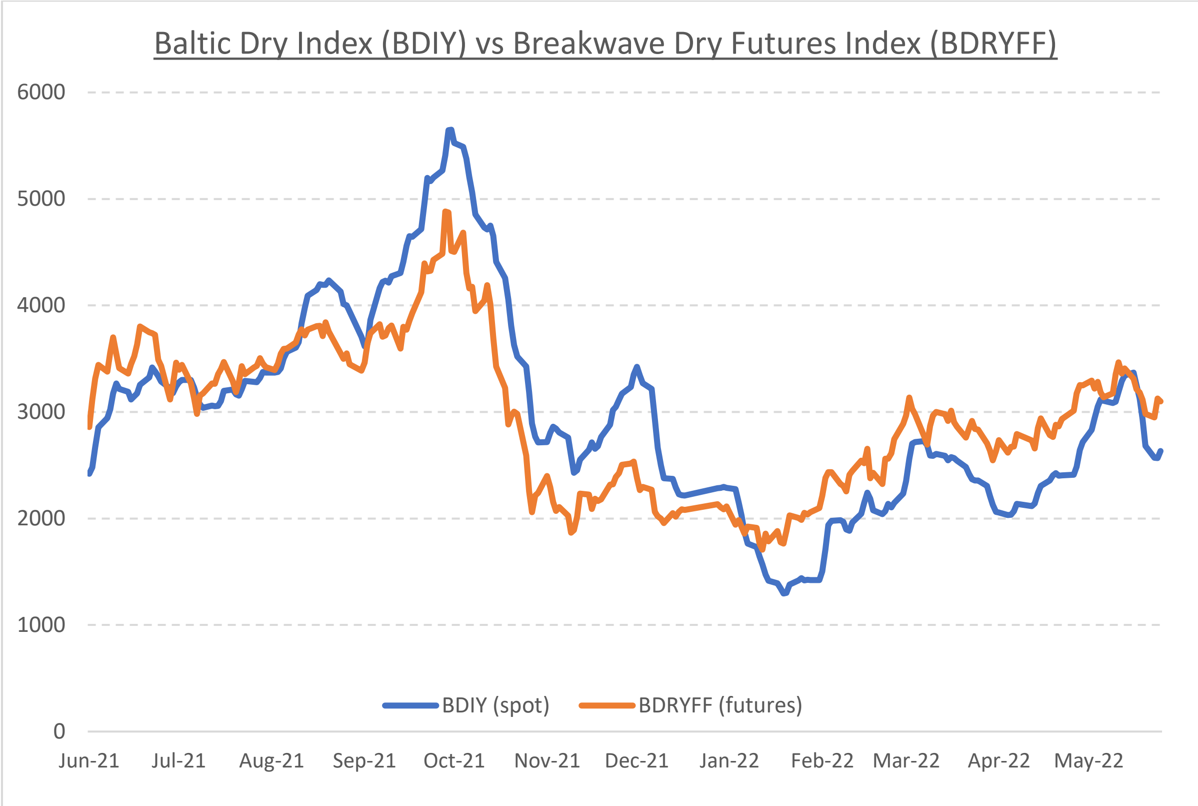
Bi-Weekly Report

- **Volatility surges as Capesize sentiment turns sour –** Following almost a tripling in performance in less than a month, the last few weeks have seen Capesize rates reversing course and dropping by ~40% on the back of weakening sentiment among owners. We anticipate the rest of the year to remain equally volatile in nature similar to the past few months, and although futures continue to be anchored to a tight range for the second half of the year, the prompt month will continue to follow closely the spot rates that are fighting between a supply-constrained market against relatively weak demand. Yet, sentiment drives shipping, and as the bi-annual Posidonia gathering is in full force, we feel the positivity all around us. On one hand, a resurgence of iron ore demand out of China could propel rates to very high levels. On the other hand, without such boost in demand (which by no means is given) the market remains vulnerable as the temporary drivers that are boosting the market could reverse to their previous trend at anytime. The current state of dry bulk shipping is the most interesting in years, as the traditional drivers (China's steel production and coal imports) have taken a back seat in a market driven by congestion, trade dislocations and new, longer routes that have emerged mainly due geopolitics and obviously the ongoing war in Ukraine. Finally, one should keep a close eye on the smaller size vessels that have recently been drifting lower, and although this is not yet concerning, it could potentially snowball into something more serious as we enter the summer months.

- **Another week, more China stimulus talks –** With what can only be described as the worst state since the GFC, the Chinese economy remains our main concern when it comes to commodities and the dry bulk market. Prices across most of the commodity spectrum remain high not due strong demand but due to supply issues, a very concerning development for the global economy as well as for trade flows. Such a condition has rarely been seen in the last decade, and the steep backwardation in most price curves explains just that. For dry bulk, China remains the most important region, and for the current strength in dry bulk shipping to be maintained into next year the Chinese economy needs to rebound soon. There has been a series of announcements focusing on stimulating the economy over the past several weeks, but we have yet to see any effect on the real economy. However, a potential rebound could be steep, and it can come on the top of a tight supply market for dry bulk, which combined with the current strong sentiment amongst shipowners, has the potential to drive spot rates to very high levels.

- **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	336mt	-10.3%
China Steel Inventories	7.7mt	14.4%
China Iron Ore Inventories	132mt	3.4%
China Iron Ore Imports	354mt	-7.3%
China Coal Imports	75mt	-16.4%
China Soybean Imports	28mt	-0.9%
Brazil Iron Ore Exports	97mt	-9.2%
Australia Iron Ore Exports	278mt	0.5%

Supply		
Dry Bulk Fleet	890dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,262	6.4%
Capesize Spot Rates, Average	17,611	-23.5%
Panamax Spot rates, Average	23,632	22.1%

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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