BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

March 1, 2022

Breakwave Dry Futures Index:	2,324	Baltic Dry Index (spot):	2,040	Short-term Indicators:	
↑ *30D: 15.8%*		↑ *30D: 43.9%*		*Momentum:*	Neutral
↑ *YTD: 11.6%*		↓ *YTD: -8.0%*		*Sentiment:*	**Positive**
↑ *YOY: 50.9%*		↑ *YOY: 21.8%*		*Fundamentals:*	**Positive**

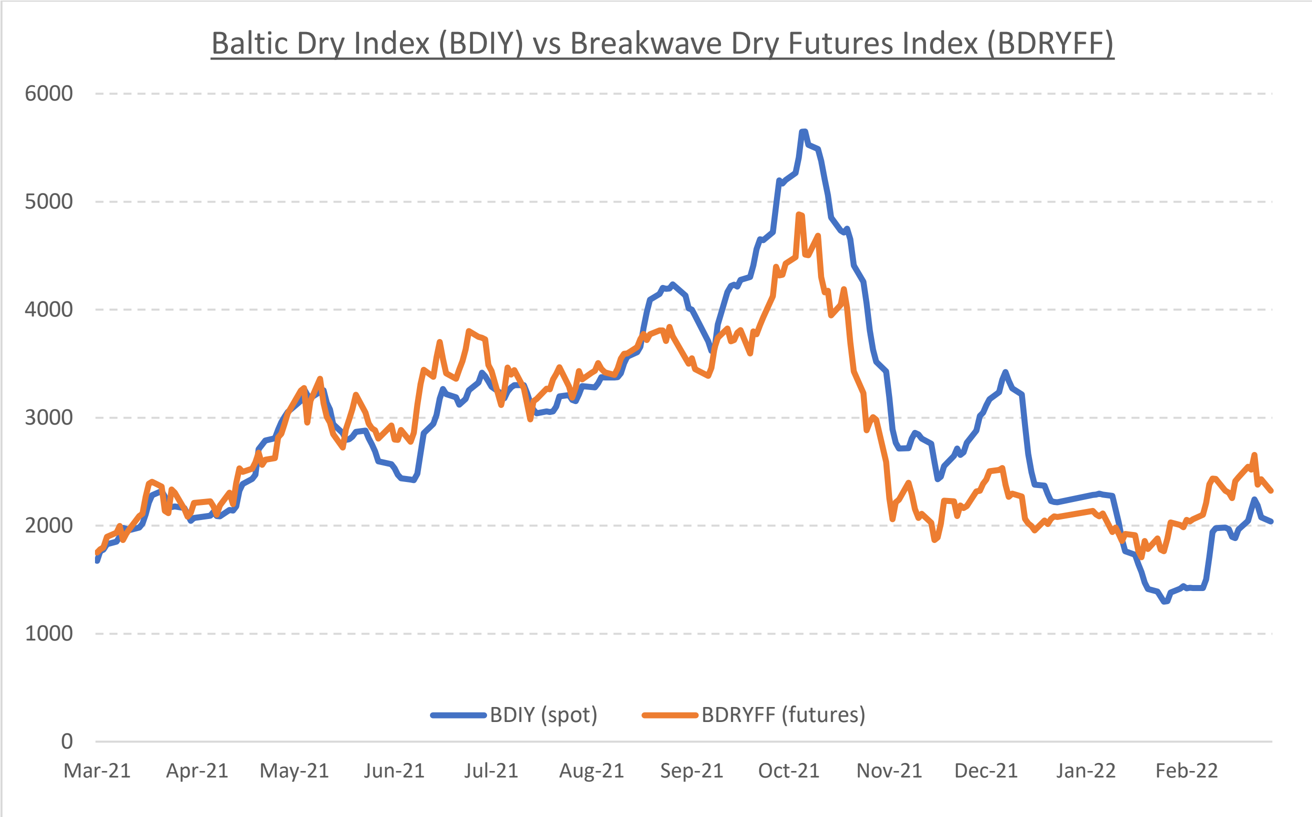
Bi-Weekly Report

- **All eyes on Ukraine, as geopolitical risk surges –** Dry bulk shipping is a vital part of the global economy, and as a result, the rapid developments in Ukraine have naturally dominated traders' attention in the last several days. Risk appetite has been reduced, and with that, forward premiums in the futures market have shrunk. Although the smaller size vessels continue to find support as a result of an already stretched global supply chain, the larger Capesizes lack the cargo flow momentum needed to propel spot rates higher, and thus, a correction is underway following the recent strength. As we enter March, seasonal forces will once again become increasingly relevant, and we expect some gradual improvement on demand for iron ore transportation out of Brazil. Such a pickup, combined with the relative strength in Panamax and Supramax spot rates, should also push spot rates for Capesizes higher and closer to the mid-20,000 range that the futures market is currently pointing to. Fundamentally the dry bulk market looks reasonably strong, but global geopolitical risk has now increased, affecting several areas of the global economy with unknown outcomes or relevant timeframes.

- **The Russia-Ukraine conflict is having a significant impact in energy and food prices –** With a very sizable percentage of the global grains supply been grown and exported out of the combined Western Russia/Ukraine region, the potential shortage on corn and wheat supplies (as well as other secondary food-related commodities) is real. There is no spare capacity of that magnitude globally when it comes to such basic commodities, which naturally will have a higher importance versus the much-discussed oil and gas markets that are also facing their own supply risk. A prolong disruption will mean much higher prices affecting mainly the poorer populations globally that rely on such staples for survival. There likely will be a scramble to find alternative supplies readily deliverable, and thus we think the available dry bulk fleet will experience another squeeze as traditional trade routes are being replaced with alternate ones, most likely adding to inefficiencies as well as ton-miles. In addition, coal cargoes out of Russia (Black Sea) might be replaced with longer haul ones out of the Americas, while the high-quality iron ore that Ukraine has been exporting, might also need to be replaced with comparable quality one (see Canadian or Brazil). All the above will lead to longer steam times, which in turn, should marginally increase fleet utilization.

- **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 ongoing decarbonization efforts to drive the flows of commodities transported by dry bulk, and thus, indirectly determine the path of freight rates, although recent geopolitics have led to higher risk for economic sensitive sectors like shipping.

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	8.7mt	-13.4%
China Iron Ore Inventories	160mt	24.0%
China Iron Ore Imports	1126mt	-3.8%
China Coal Imports	324mt	6.4%
China Soybean Imports	97mt	-3.8%
Brazil Iron Ore Exports	25mt	-12.9%
Australia Iron Ore Exports	796mt	0.3%

Supply		
Dry Bulk Fleet	897dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	1,798	13.9%
Capesize Spot Rates, Average	13,097	-23.9%
Panamax Spot rates, Average	19,450	31.3%

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

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