BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

March 15, 2022

Breakwave Dry Futures Index: 2,775	Baltic Dry Index (spot): 2,727	Short-term Indicators:	
↑ *30D: 28.6%*	↑ *30D: 37.4%*	*Momentum:*	Positive
↑ *YTD: 43.5%*	↑ *YTD: 23.0%*	*Sentiment:*	Positive
↑ *YOY: 51.9%*	↑ *YOY: 39.1%*	*Fundamentals:*	Neutral

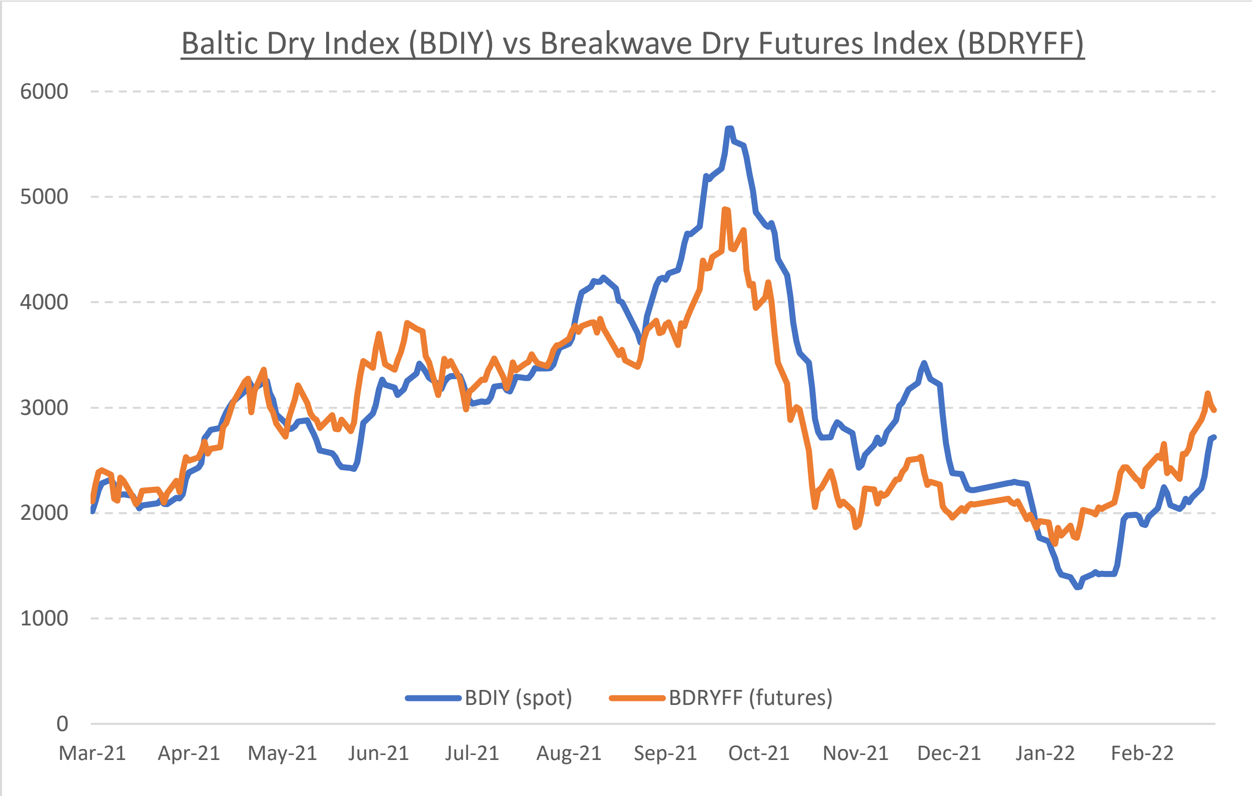
Bi-Weekly Report

- **Coal is driving the dry bulk market, but for how much longer? –** Trade flows have clearly shifted in the coal market, and that is helping dry bulk rates overcome the seasonal weakness that would otherwise have subdued freight rates this time of the year. However, we are almost out of the winter months when demand for coal power generation tends to be the highest, and the upcoming shoulder period is about to play a pivotal role for both coal prices as well as dry bulk rates. Unquestionably, the wild card will now be iron ore. So far this year, iron ore trading, especially out of Brazil can be characterized soft, at best. As the weather in Brazil improves and demand from China picks up, one would normally expect better flows and thus increased demand for iron ore shipping. However, this year is anything but normal. Commodity prices have seen wild swings, geopolitics are front and center, and a cloudy global economic outlook seems a significant headwind for Chinese housing demand and construction, and thus steel production. Of course, things can shift rapidly, but if coal demand eases without a corresponding increase in iron ore demand, the dry bulk market might end up with a lack of drivers to propel rates higher. In this environment, humbleness and risk management are the two most important factors for investors, and while premiums in freight futures have contracted quite a bit in the last week, we are still facing a contango market for the foreseeable future. On the other hand, with such major dislocations in both prices and volumes, it doesn't take much to see spikes in freight rates across different regions, which is part of a broader high-volatility regime dominating the current commodity space.

- **The long-term dry bulk demand outlook is increasingly uncertain as China moves to secure coal supply –** Dry bulk shipping has always been about iron ore and coal, and although in the last two years unexpected developments have refocused the market's attention to geopolitics and supply chain disruptions, one should always remember that as conditions normalize, it is the demand for those two commodities that will shape the long-term growth of the sector. Governments have now realized how important energy security is, and thus, they are gradually moving to make sure adequate energy sources will be readily available in the future. A great example is China, the largest coal consumer in the world, that is looking to increase domestic coal production, while Europe is accelerating alternative sources of energy, such as nuclear power and renewables. Although timing and the degree of such processes are unknown, the long-term dry bulk demand outlook might become less exciting, especially combined with slowing global growth under the weight of stubbornly high energy prices.

- **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	1033mt	-1.9%
China Steel Inventories	9.2mt	-20.4%
China Iron Ore Inventories	157mt	20.1%
China Iron Ore Imports	86mt	-11.0%
China Coal Imports	31mt	-20.8%
China Soybean Imports	9mt	18.0%
Brazil Iron Ore Exports	19mt	-19.6%
Australia Iron Ore Exports	156mt	6.9%

Supply		
Dry Bulk Fleet	896dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	1,897	16.4%
Capesize Spot Rates, Average	13,929	-16.9%
Panamax Spot rates, Average	20,458	31.6%

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