BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

March 29, 2022

Breakwave Dry Futures Index: 2,872	Baltic Dry Index (spot): 2,484	Short-term Indicators:	
↑ *30D: 23.6%*	↑ *30D: 21.8%*	*Momentum:*	**Negative**
↑ *YTD: 38.0%*	↑ *YTD: 12.0%*	*Sentiment:*	**Positive**
↑ *YOY: 24.6%*	↑ *YOY: 14.0%*	*Fundamentals:*	**Positive**

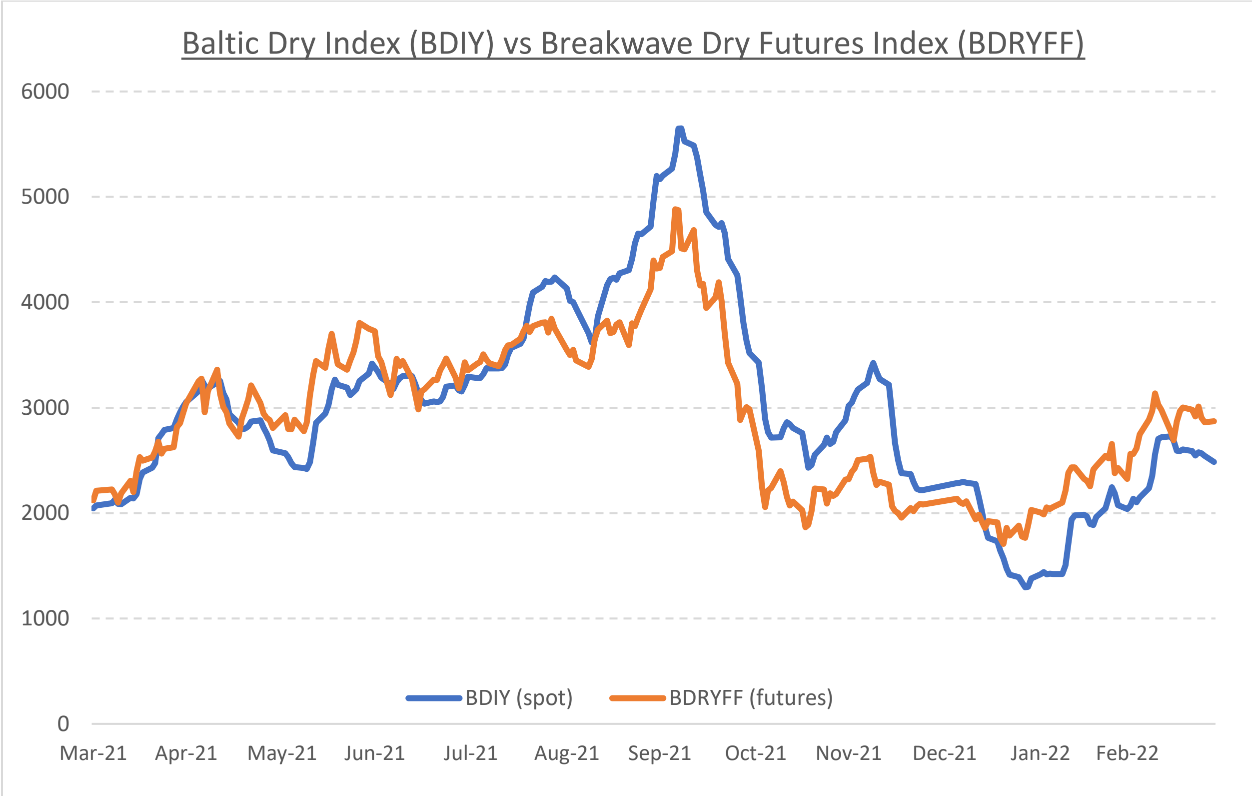
Bi-Weekly Report

- **Capesize futures premiums might not be that extreme after all –** As we stare into the second quarter of the year, the futures market remains overly optimistic about the progression of the spot Capesize rates, with a contango that currently stands at ~45% on the front month alone. The consensus view (at least based on our recent conversations) is that such premiums make little sense once one looks at the current state of the spot market, especially in the Atlantic, where an accumulation of open ships has recently tilted the balance towards the charterers favor (weaker rates). Despite that, market participants have for the past few weeks steadily maintained the futures premium over spot. The easy trade is to disregard the violent nature of the spot Capesize market and assume that it is the futures that needs to converge to spot. That sounds too simplistic. The second half of April, which is where the Capesize spot market is now focusing at, has the potential to tighten quite rapidly, especially if Brazilian cargoes appear en masse, a rather likely scenario given the time of the year and the year-to-date underperformance of Brazilian iron ore exports. As always, risk remains that such a scenario does not materialize (after all, as in any market, nothing is a given) but history shows that one should not easily disregard the opinion of the ones who choose to pay almost 100% above spot to “hedge” their Q2 freight exposure. So, buckle up, one way or another volatility is about to increase in the weeks ahead, and the conclusion of the current divergence between futures and spot will determine the next move in the overall freight futures curve for the rest of the year.

- **Deja vu, as shipping once again turns its attention to China –** Two years into the Covid-19 pandemic and global shipping remains captive to disruptions and port delays due to restrictions associated with the virus. Recent news point to new Covid-related closures around Shanghai, the center of China’s commercial activity, and we expect port delays to pick up around the region once again. Whether it is containers or dry bulk, a few additional days of waiting could tighten the market and cause freight rates to move higher. Turning into the steel markets, year-over-year comparisons of Chinese steel production will remain weak until June, but one should not pay too much attention to such statistics, as China was producing abnormally high amounts of steel this time last year. Rather, it is the sequential growth that would matter, and with iron ore exports having underperformed so far this year, the potential for a second-half ramp-up is real (although by now such a statement has become wishful thinking, with the main Brazilian iron ore producer remaining a rather poor performer when it comes to meeting its own guidance).

- **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	158mt	-9.7%
China Steel Inventories	9.1mt	-15.7%
China Iron Ore Inventories	156mt	16.7%
China Iron Ore Imports	267mt	-4.0%
China Coal Imports	66mt	-17.3%
China Soybean Imports	23mt	9.0%
Brazil Iron Ore Exports	76mt	-11.9%
Australia Iron Ore Exports	156mt	6.9%

Supply

Dry Bulk Fleet	896dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,024	17.6%
Capesize Spot Rates, Average	14,786	-13.3%
Panamax Spot rates, Average	21,585	28.0%

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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