BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

May 10, 2022

Breakwave Dry Futures Index: 3,249	Baltic Dry Index (spot): 2,831	Short-term Indicators:
↑ *30D: 18.8%*	↑ *30D: 37.8%*	*Momentum:* Positive
↑ *YTD: 56.1%*	↑ *YTD: 27.7%*	*Sentiment:* Positive
↑ *YOY: 2.9%*	↓ *YOY: -11.1%*	*Fundamentals:* Positive

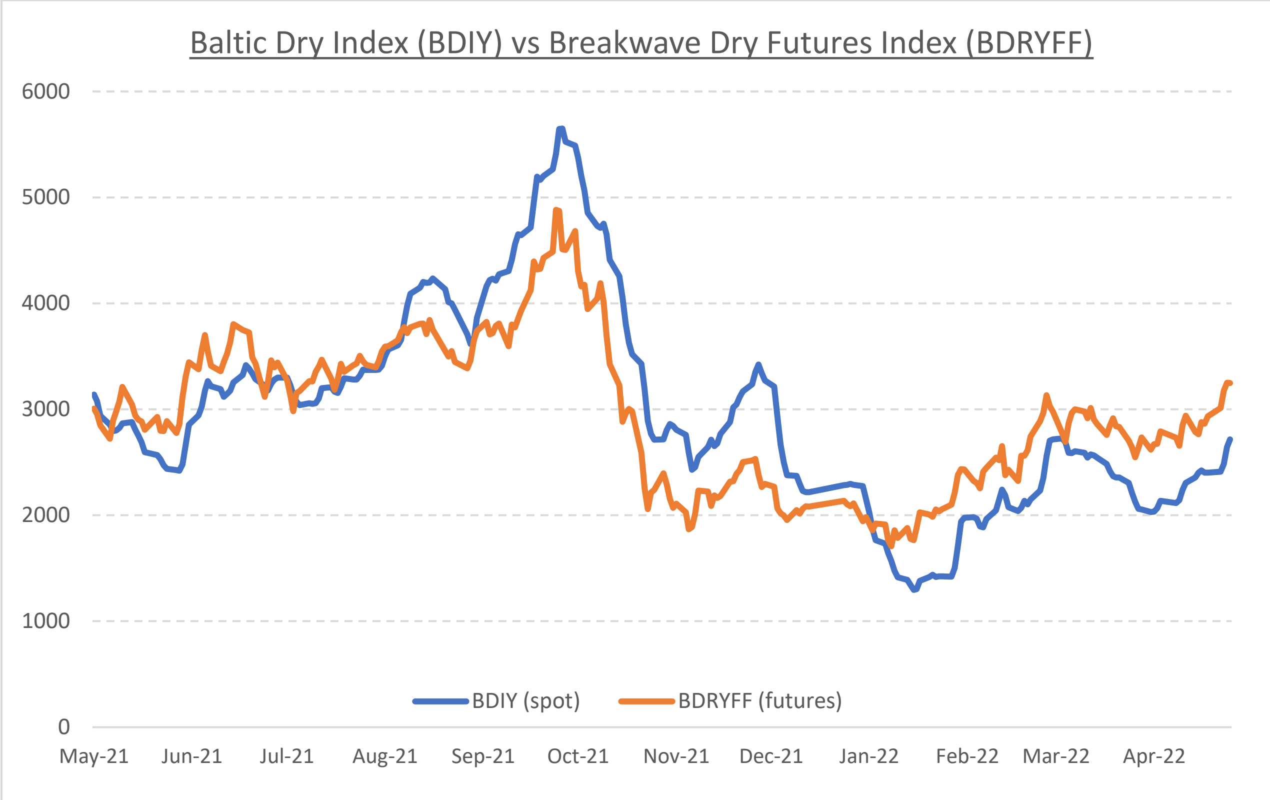
Bi-Weekly Report

- **Dry bulk defies global market rout –** The Capesize market has finally showed signs of strength, with spot rates doubling over the past few weeks, catching up to what in hindsight was an accurate futures market versus one that at that time seemed way too optimistic. With all major dry bulk segments earning rates in the high-20,000 range, dry bulk is currently thriving relative to a macro backdrop of recessionary fears and gloomy growth forecasts. Indeed, dry bulk is proving to be a non-correlated, safe heaven sector in a rather synchronous drop in risky assets across the globe. As we have stressed many times in the past, it is the idiosyncratic nature of dry bulk fundamentals that is causing such a performance, which combined with the physical nature of freight trading (not really a paper driven market like other commodities) can act as a major diversifier for investors during periods of distress driven by negative investor psychology. But if it is only fears and gloomy predictions that is causing risky assets to decline when real commodity trading activity remains solid, is there something to be told regarding such forecasts or dry bulk will also fold under the weight of a slowing global economy? Only time will tell, but for now, owners and traders are once again enjoying relatively high freight rates with little areas of concern in the near term.

- **China's dry bulk imports down 9% year-to-date mainly driven by lockdowns –** With the YTD average Baltic Dry Index up versus last year, one would have expected a relatively strong (or at best stable) Chinese demand to have acted as support to achieve such a tight market balance. However, the reality is much different this time around. Chinese dry bulk demand, as measured by imports, is down almost 9% year to date. Iron ore imports remain particularly weak, coal imports are down 16% from the previous year, while grain imports are flattish. Such a significant drop in volumes should have naturally led to a decline in freight rates, or at least some moderation. Yet, the substantial dislocation in trade patters combined with a major shift in coal and grain flows due to the ongoing war in Ukraine, have managed to cushion the considerable blow from a fragile Chinese economy. Such a fundamental shift will not last long, but for now (and probably for the next several months), it provides a much-needed cushion to the cyclical weakness coming from Asia. If the dry bulk market manages to "bridge" such imbalance until Chinese stimulus efforts come to fruition thus pushing import demand for commodities back up, then an otherwise severe downcycle would have been averted to the benefit of dry bulk owners.

- **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	243mt	-10.2%
China Steel Inventories	8.1mt	1.1%
China Iron Ore Inventories	145mt	10.9%
China Iron Ore Imports	354mt	-7.3%
China Coal Imports	75mt	-16.4%
China Soybean Imports	28mt	-0.9%
Brazil Iron Ore Exports	72mt	-10.9%
Australia Iron Ore Exports	207mt	0.4%

Supply		
Dry Bulk Fleet	892dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,113	7.0%
Capesize Spot Rates, Average	15,005	-29.3%
Panamax Spot rates, Average	22,870	25.7%

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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