BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

May 24, 2022

Breakwave Dry Futures Index:	3,410	Baltic Dry Index (spot):	3,369	Short-term Indicators:	
↑ *30D: 15.9%*		↑ *30D: 46.0%*		*Momentum:*	Neutral
↑ *YTD: 63.8%*		↑ *YTD: 52.0%*		*Sentiment:*	**Positive**
↑ *YOY: 6.2%*		↑ *YOY: 17.4%*		*Fundamentals:*	**Positive**

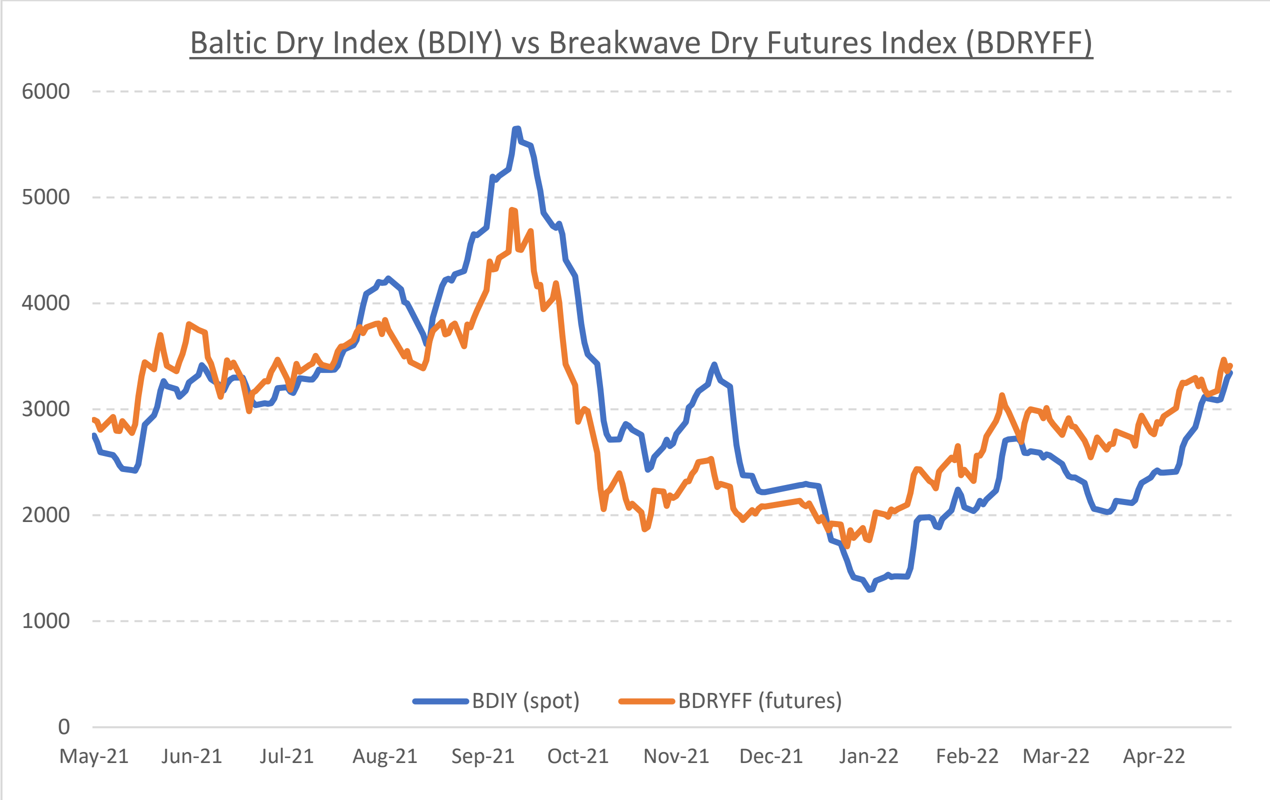
Bi-Weekly Report

- **Capesize rates surge 130% in less than a month as iron ore cargoes emerge –** The volatile nature of the Capesize market was in full force once again, with spot rates having now more than tripled since the lows of April. With the broader dislocation of coal trade acting as the base for a tighter market, the emergence of iron ore cargoes out of Brazil added more fuel to the fire, and the spot index is now back to well above the 30,000 mark for the first time since late last year. The natural question for market participants is whether we are near a peak. For now, we think a pause in the spot Capesize rate rally and a drift lower is a more likely scenario rather than a further push higher. That does not mean we are about to collapse, but after such a sharp increase in rates, some moderation is warranted before potentially another leg higher in late June/early July. Of course, such an opinion is mostly based on historical patterns, and thus should not be heavily relied upon given the unusual trading dynamics currently in place, but our stance would be a bit more cautious near term. Having said that, the futures are also sensing such a pause, with the contango now all but disappearing and with deepening discounts as we head into the third quarter of the year. We do not see a meaningful setup for a rate "squeeze" and digesting such impressive gains in the Capesize market seems a logical development, which has also been progressively priced in the futures market.

- **China continues to add stimulative measures to an ailing economy –** As the strict virus policies continue to hurt the second largest economy in the world, the Chinese government keeps on adding small but targeted measures in order to stimulate demand and hopefully (but unlikely in our view) hit their GDP growth target for the year (5.5% official, 4.8% consensus). From tax relief to lower mortgage rates to outright increases in financing, the aim is to revive consumer demand, which has all but collapsed int the last few months. For the industrial economy, and especially for the real estate market, the lead times remain long, and thus we believe steel demand recovery, at least on a month-to-month basis (so to exclude last year's base effects) will struggle for the remainder of year. The decline in iron ore inventories sounds as an encouraging factor, but we never found a significant correlation between inventories and import demand. That leaves price as the main determining factor for higher iron ore trading, but with steel margins back down to multi-year lows, we need to see a revival of the country's steelmaking industry profitability before steel mills jump into aggressive buying.

- **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	7.9mt	5.3%
China Iron Ore Inventories	137mt	6.9%
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	891dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,221	6.8%
Capesize Spot Rates, Average	16,936	-25.4%
Panamax Spot rates, Average	23,449	24.0%

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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