Dry Bulk Shipping

November 23, 2021

Breakwave Dry Futures Index: 2,233	Baltic Dry Index (spot): 2,645	Short-term Indicators:	
↓ *30D: -34.9%*	↓ *30D: -40.0%*	*Momentum:*	Neutral
↑ *YTD: 125.3%*	↑ *YTD: 93.6%*	*Sentiment:*	Neutral
↑ *YOY: 127.1%*	↑ *YOY: 130.4%*	*Fundamentals:*	**Negative**

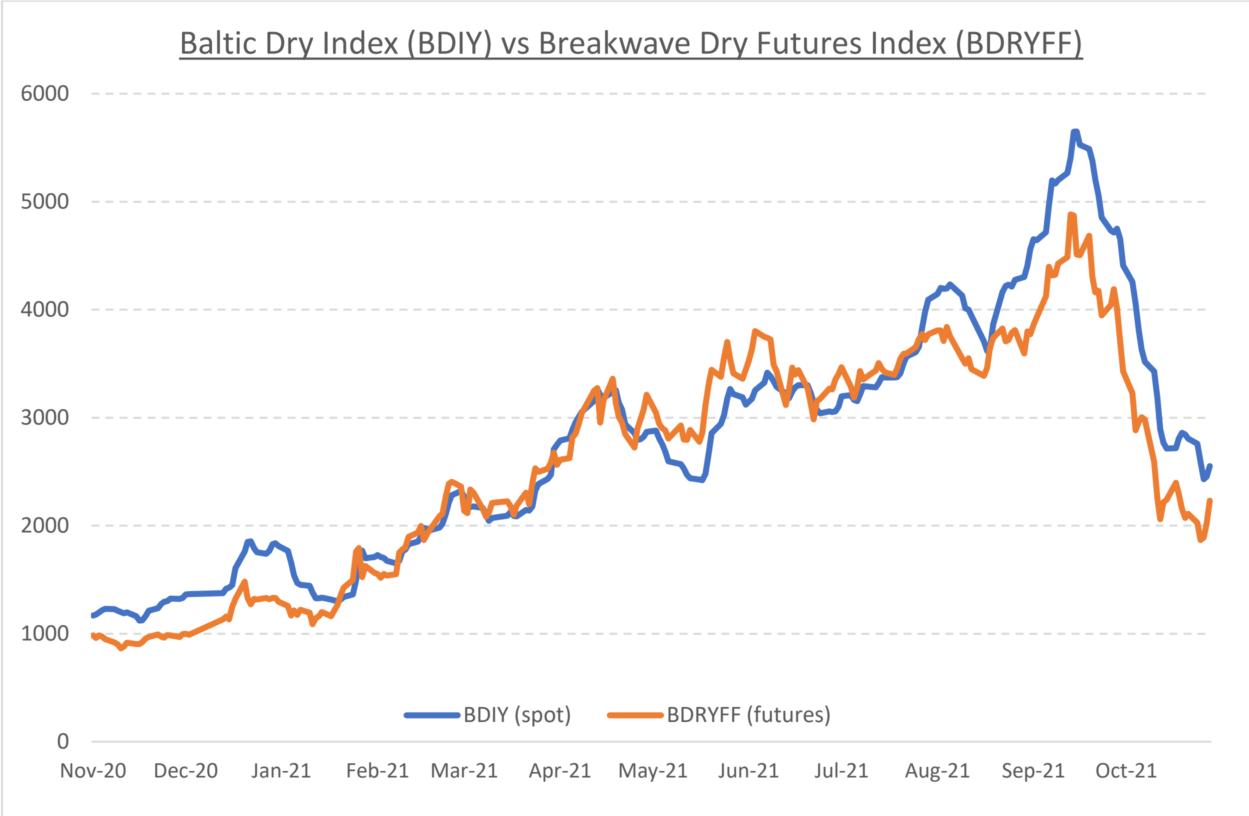
Bi-Weekly Report

- **Capesize spot rates turn higher: Is a surprise pre-Christmas rally in the cards? –**After several weeks of rangebound action, spot rates seem to have bottomed. However, one would not have come to the same conclusion from looking at freight futures alone. Significant bearishness has been evident across the futures curve and for every asset class, as China's industrial activity remains at best soft. Yet, as we had discussed before, our expectations for an end-of-year rally did not necessarily rely upon China's macro activity. It is mainly the result of the same drivers that led to the impressive rally in late September, and such drivers are still in place: Coal demand remains strong across most regions, especially ex-China, port congestion persists at relatively high levels versus history, and winter weather is already causing further disruptions and delays in shipping operations, more recently at Chinese ports. A continuation of the recent uptick in freight rates will be surprising to most market participants, but as we discussed previously, that is where opportunities lie: Similar to the "surprising" dramatic 70%+ drop last month, the same will hold for a strong rally from here. Make no mistake, we remain very concerned about Chinese economic activity, but for now, we see the short-term outlook for Capesize freight rates tilted towards further tightness and potentially higher spot rates. 2021 has been the year of surprises, and the year is not over just yet.

- **Dark clouds have gathered above the Chinese property market as steel output collapses –** Partly self-inflicted and partly externally enabled, China's economy has entered a period of slower activity. Whatever the reasons might be, this is also bad news for shipping given the scale of trade activity that China is engaged in. Although in the near-term other factors are at play when it comes to freight rates, China's economic health is crucial for the medium-term sustainability of the current upcycle in dry bulk. Over the coming weeks and months, it is important to focus on any indication of (first or second degree) changes in the economic data and whether the structural pillars behind China's appetite for steel, and thus iron ore, remain intact. Early indications from government actions point to some type of support (new loans acceleration, support for the real estate sector, potential easing), but more is needed before the all-clear is given. The fact that such slowdown will coincide with the seasonal upcoming weakness might prove to be a boon, as hopefully activity will accelerate even stronger past the shoulder period and into the spring months.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility in 2021 might be slowing 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.

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	877mt	0.4%
China Steel Inventories	4.9mt	-36.7%
China Iron Ore Inventories	150mt	21.5%
China Iron Ore Imports	935mt	-4.2%
China Coal Imports	258mt	1.7%
China Soybean Imports	79mt	-4.9%
Brazil Iron Ore Exports	297mt	6.7%
Australia Iron Ore Exports	651mt	0.6%

Supply

Dry Bulk Fleet	898dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,956	182.0%
Capesize Spot Rates, Average	33,474	155.9%
Panamax Spot rates, Average	25,784	210.4%

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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