BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

November 9, 2021

Breakwave Dry Futures Index: 2,227	Baltic Dry Index (spot): 2,718	Short-term Indicators:	
↓ *30D: -50.3%*	↓ *30D: -50.8%*	*Momentum:*	Negative
↑ *YTD: 126.0%*	↑ *YTD: 99.0%*	*Sentiment:*	Neutral
↑ *YOY: 110.7%*	↑ *YOY: 127.3%*	*Fundamentals:*	Neutral

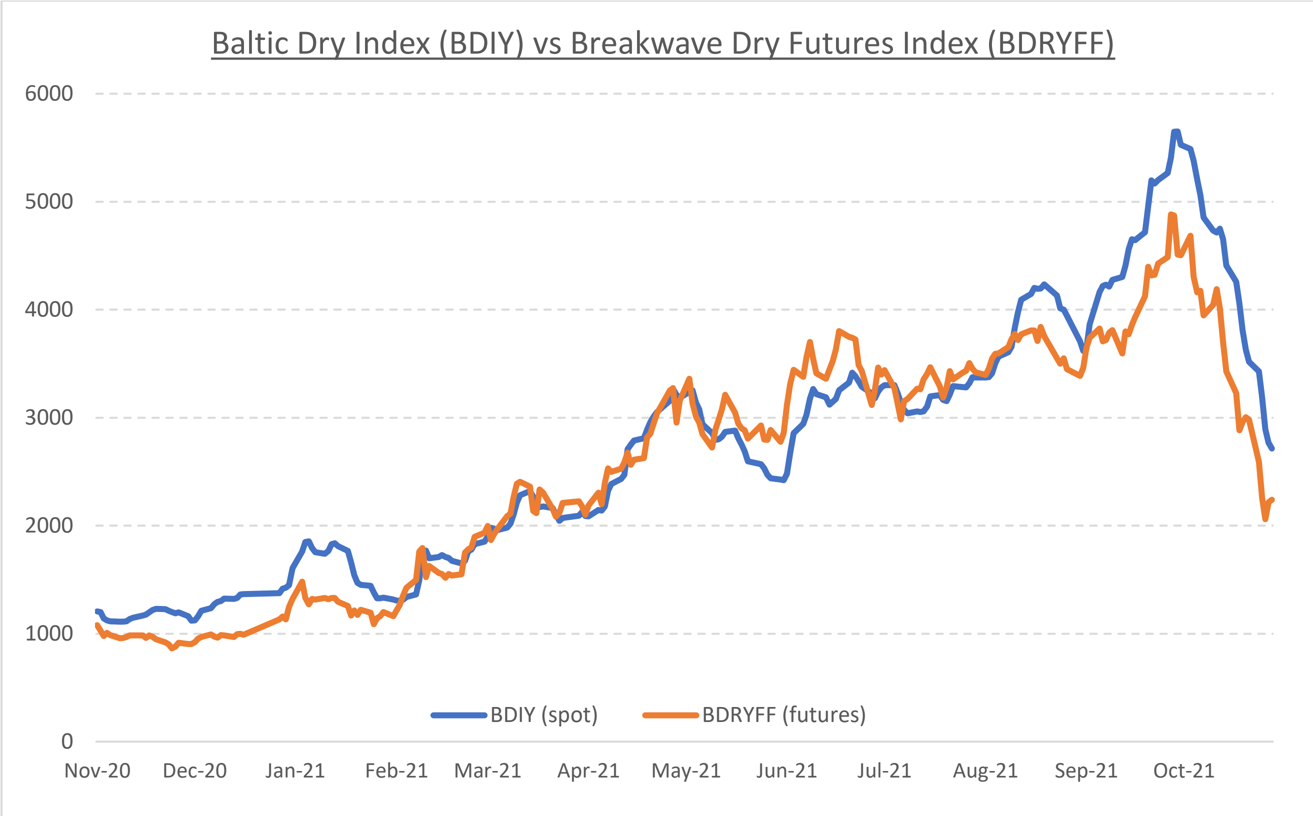
Bi-Weekly Report

- **Dry bulk rates drop back down to earth. Is the worst over? –** As volatility in the dry bulk space returned with a vengeance, so did potential trading opportunities, and the last leg of this year's spectacular journey might prove a great one. However, the direction of the next move is, as always, a big unknown. On one hand, the reasons that recently pushed rates to decade-highs remain in place: Congestion is still elevated, fluctuating at levels that correspond to a much higher utilization for the overall trading fleet; coal demand remains robust, reflecting supply shortages in the energy markets; while at the same time winter weather is ahead of us which can cause further delays but also push coal demand even higher. On the other hand, the significant curbs in Chinese steel production combined with highly volatile commodity prices remain an obstacle to increased trading activity. The balance of the above factors will determine the short-term direction of rates as a spectacular year comes to an end. We remain on the camp of a stabilization in spot rates around current levels before another potential tradable rally towards the end of the month emerges. The highs of the year have clearly been set for dry bulk, but current rates are very profitable, and owners' sentiment remains upbeat, after having seen rates that were unimaginable just a few months ago. Futures continue to be skeptical of such a scenario, and obviously that's where the opportunity lies. As always, one must keep in mind the high risk involved in dry bulk trading given the vast range of outcomes and the sensitivity of dry bulk shipping to China's policy towards commodities. Thus, one must remain quite focused on the continuous news flow out of the country and the potential implications for end user commodity demand.

- **Coal prices stabilize, winter demand will determine the commodity flow balance –** Following a rapid drop of some 50%, coal prices seem to have found a temporary bottom at levels that are still relatively elevated versus recent history. China's dramatic intervention in the coal markets was the main reason for the drop, given the country's dominant position in global coal consumption. Yet, the peak demand season for electricity is ahead of us, and it seems early to call an end to what conceivably might end up being power shortages in both Europe and China alike. Interestingly, commodities that require a lot of energy to process, such as iron ore and copper, have recently seen weak flows into China, while commodities that are part of the power generation chain, such as coal and LNG have witnessed strong flows. The above import mix tells a lot about the current industrial situation on the ground, and until a balance is restored, flows into China will remain tilted towards the later type of bulk commodities.

- **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	806mt	3.1%
China Steel Inventories	5.4mt	-29.6%
China Iron Ore Inventories	145mt	17.4%
China Iron Ore Imports	935mt	-4.2%
China Coal Imports	258mt	1.7%
China Soybean Imports	79mt	-4.9%
Brazil Iron Ore Exports	267mt	-4.3%
Australia Iron Ore Exports	651mt	0.6%

Supply		
Dry Bulk Fleet	898dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,969	184.4%
Capesize Spot Rates, Average	33,634	156.9%
Panamax Spot rates, Average	25,914	214.5%

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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