BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

October 11, 2022

Breakwave Dry Futures Index: 1,641	Baltic Dry Index (spot): 1,944	Short-term Indicators:	
↑ *30D: 14.1%*	↑ *30D: 61.7%*	*Momentum:*	Neutral
↓ *YTD: -21.2%*	↓ *YTD: -11.5%*	*Sentiment:*	**Negative**
↓ *YOY: -63.6%*	↓ *YOY: -64.5%*	*Fundamentals:*	**Positive**

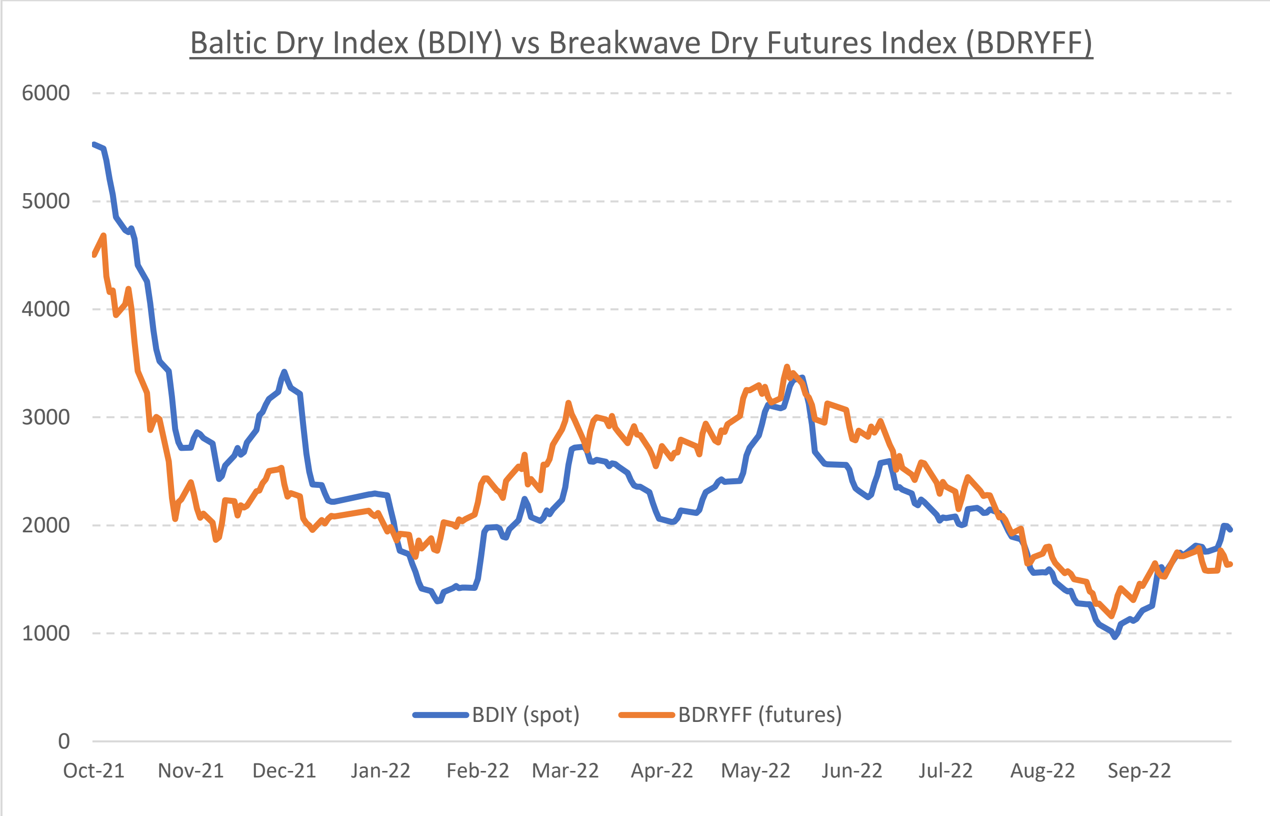
Bi-Weekly Report

- **Somber mood remains the main obstacle for a sustained move higher –** Once again, the Capesize market seems to have stalled, albeit close to two-month highs, as market participants remain quite bearish for the near-term direction of the spot market. And who can blame them: the world is a messy place with an ongoing war, a global slowdown, rising interest rates and a soaring dollar, all putting pressure on the macro outlook which remains the main stumbling block for the Capesize market. China, the most important demand center when it comes to dry bulk, remains at best inactive, while the Covid-related restrictions and shutdowns hover over the economy and increase the uncertainty for a potential property market revival. On the other hand, the micro picture has become more promising. The Capesize ballaster list (ships that are sailing towards the Atlantic and are available for fixing) is the lowest since May, when Capesize rates were close to the 30,000 level. Iron ore exports are creeping higher, while bad weather delays are popping up in various spots as the northern hemisphere winter is approaching. At the same time, smaller size vessels remain extremely profitable, with both Panamax and Supramax spot rates in the high teens. The contradiction between the current conditions versus the near-term outlook is quite evident in the freight futures curve, with spot Capesize rates close to 20,000 and the Q1 futures contract trading at 7,000, the lowest level in at least five years. History has taught us that sentiment might be a poor predictor of future returns when fundamentals take over, but some courage is required to position for such a potential turnaround.

- **Chinese economic numbers point to some stabilization, but we are far from a recovery upturn –** The past fortnight has been relatively inactive when it comes to news flow out of China, as the weeklong holidays combined with the preparations for the upcoming National Congress on October 16 have dominated the headlines. September economic numbers came out relatively steady while the steel complex has slowly bounced from the lows seen in the summer. Yet, after a year of decimal economic numbers and a property market in freefall, there is little evidence of an upcoming revival. However, following the upcoming political events, there is some expectation for a shift in the Chinese leadership's focus towards a restarting of the Chinese economic engine and moving away from the restrictive Covid-related policies. Such expectations reflect mainly speculation as there is little evidence of such a change, and only time will tell whether we see some revival in the crucial for shipping Chinese property market.

- **Dry bulk focus shifts back to fundamentals –** Following a period of high uncertainty and significant disruptions across the commodity spectrum, the gradual normalization of trade is shifting the market's attention back to the traditional demand and supply dynamics that have shaped dry bulk profitability for decades. As effective fleet supply growth for the next few years looks marginal, demand will be the main determinant of spot freight rates with China returning back to the driver's seat as the dominant force of bulk imports.

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	693mt	-5.4%
China Steel Inventories	4.9mt	-22.5%
China Iron Ore Inventories	132mt	-1.3%
China Iron Ore Imports	723mt	-3.2%
China Coal Imports	168mt	-15.1%
China Soybean Imports	61mt	-8.6%
Brazil Iron Ore Exports	256mt	-4.0%
Australia Iron Ore Exports	578mt	0.8%

Supply

Dry Bulk Fleet	965dwt	2.0%

Freight Rates

Baltic Dry Index, Average	2,062	-27.6%
Capesize Spot Rates, Average	16,675	-47.7%
Panamax Spot rates, Average	20,834	-16.9%

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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