BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

October 25, 2022

Breakwave Dry Futures Index: 1,364	Baltic Dry Index (spot): 1,819	Short-term Indicators:	
↓ *30D: -20.4%*	↑ *30D: 4.2%*	*Momentum:*	**Negative**
↓ *YTD: -34.4%*	↓ *YTD: -18.0%*	*Sentiment:*	**Negative**
↓ *YOY: -63.1%*	↓ *YOY: -60.9%*	*Fundamentals:*	Neutral

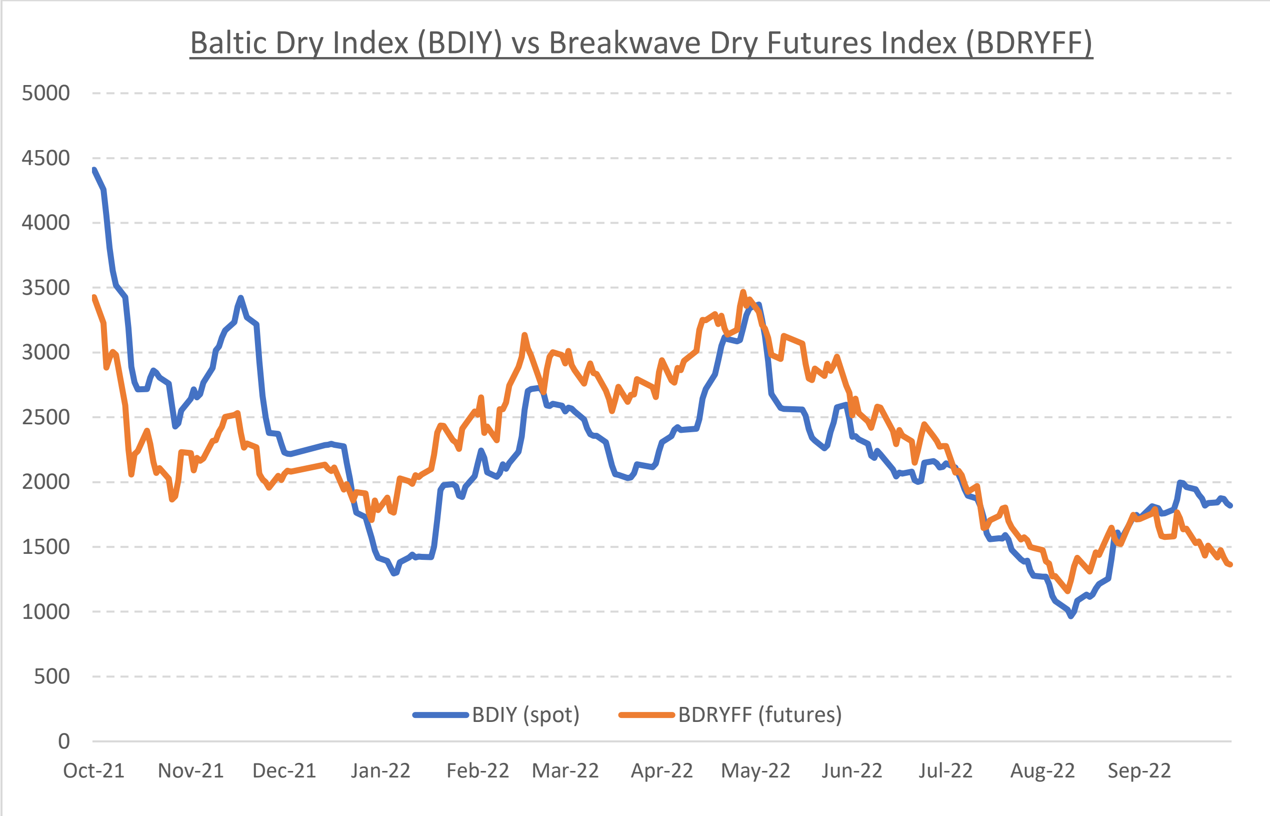
Bi-Weekly Report

- **Calm before the storm? –** An uneventful fortnight for the Capesize market has led to further pressure in the futures curve as the inactivity in physical transactions has typically been associated with weakness rather than stability. Nevertheless, spot rates remain stuck in a tight range and the catalyst for a move either way is not quite clear for now. On one hand, winter conditions should help tighten the market with delays adding pressure on the supply of open tonnage. On the other hand, economic developments are unfavorable for global trade with various red flags popping across the globe. Any spike in rates might be short lived in such an environment, but at the same time it can propel futures much higher due to a highly backwardated futures curve. Appetite for risk is extremely low, and thus, the futures curve is pricing dire conditions for dry bulk rates in the near-to-medium term. It is the battle between such attractive discounts versus an amenably weak macro picture that will shape the outlook for the freight market. As we approach the end of the year, the Chinese economy remains in turmoil, especially for the very important real estate sector which accounts for more than a quarter of economic activity. Is the worst behind us and is there an upcoming recovery in that part of the world? For the believers in such a scenario dry bulk offers an attractive risk/reward balance especially given the secular aid of a diminishing fleet supply over the coming years.

- **Strong Chinese economic numbers for September point to some recovery, but is it sustainable? –** September ended up being a very strong month for bulk imports into China. In fact, it was the fourth strongest month on record for combined iron ore and coal imports into the country. For the dry bulk market, and given the lag between vessel fixing, loading and delivery, such a strength points to early summer rates, when the Baltic Dry Index was hovering around 2,500 (versus ~1,800 currently). The natural question is whether this is a one-off or gradual shift towards stronger demand growth. Regardless, sentiment remains quite bearish on near-term economic developments following the conclusion of the country's leadership changes while there is little evidence of any substantial recovery in the nation's vital real estate sector. Given the considerable drop in imports during the first half of the year, the implicit recovery could just represent some normalization rather than a sustainable strength in demand for bulk commodities. As a result, the next few months will be closely watched to gauge the strength on the underlying infrastructure demand and the potential implications for the steel industry in China.

- **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	4.6mt	-23.2%
China Iron Ore Inventories	131mt	-6.4%
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	2,052	-30.2%
Capesize Spot Rates, Average	16,734	-50.0%
Panamax Spot rates, Average	20,691	-19.0%

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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