BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

September 13, 2022

Breakwave Dry Futures Index: 1,444	Baltic Dry Index (spot): 1,256	Short-term Indicators:	
↓ *30D: -12.9%*	↓ *30D: -15.0%*	*Momentum:*	Positive
↓ *YTD: -30.9%*	↓ *YTD: -43.3%*	*Sentiment:*	Positive
↓ *YOY: -61.5%*	↓ *YOY: -67.5%*	*Fundamentals:*	Neutral

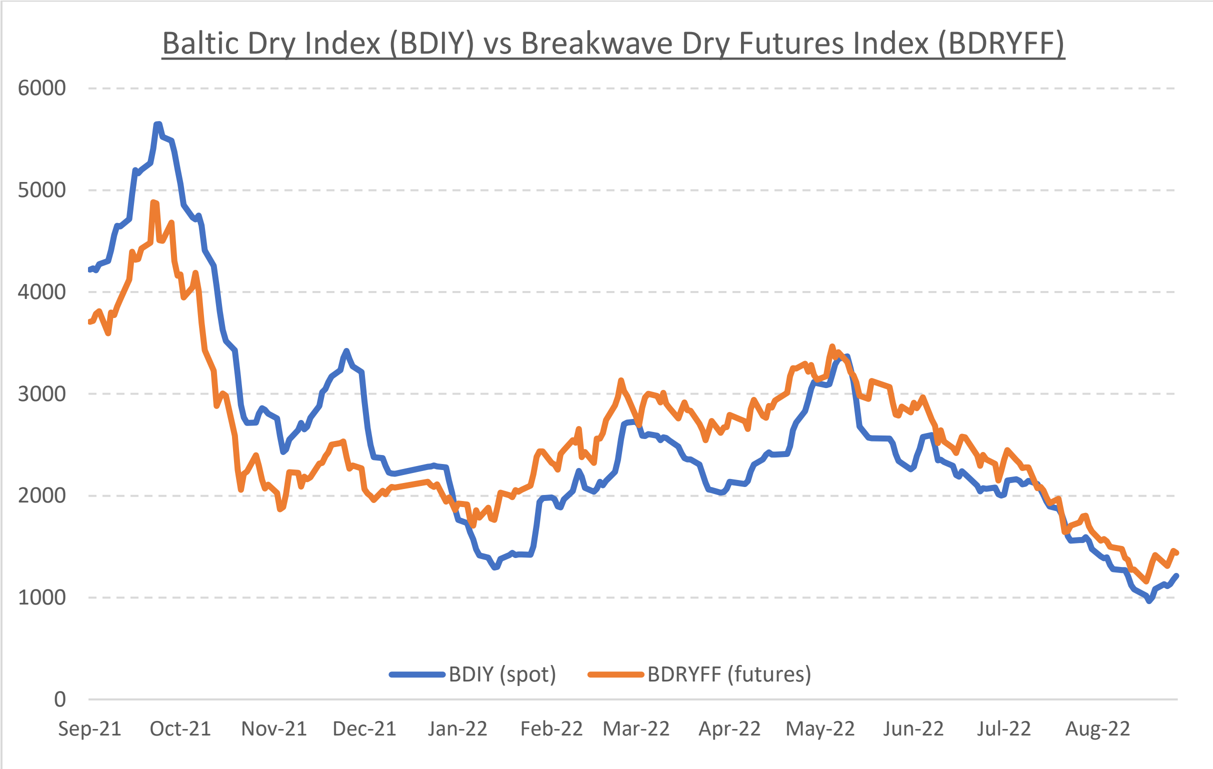
Bi-Weekly Report

- **Turnaround September? Futures seem to think so –** Following the brutal month of August that saw spot Capesize rates collapsing by roughly 85%, September has so far exhibited some highly-welcomed stability, albeit at essentially zero price levels for most spot routes. The Capesize futures market point to an anticipated recovery for the rest to the month, which, combined with seasonally favorable dynamics, could potentially build into something bigger as the month progresses and we enter the fourth quarter of the year. Yet, nothing is a given, as the supply/demand balance remains weak, and some additional work needs to be done in terms of trade volumes for the market balance to turn favorable. Iron ore volumes out of Brazil have remained below trend and quite fragile, but this is understandable given the extremely unstable conditions in China's real estate sector. We continue to believe that the recent sizable drop in housing activity in China is temporary, and quite soon an inventory cycle will take place, which will require large quantities of bulk commodities to be shipped, and thus, demand for dry bulk should increase in the coming six months or so. That does not necessarily mean that the long-term dry bulk fundamentals will dramatically shift, but the recent weakness in China has dragged for more than a year now and inventory levels across a number of commodities have been depleted. (And yes, iron ore stocks might seem average, but one has to always consider the bonded "noncommercial" inventories).

- **Headlines out of China point to a more positive outlook, as government pushes harder for stimulus –** China's zero tolerance towards Covid outbreaks remains a major hurtle for the resumption of economic activity towards normal levels, and so far, there is no indication of an imminent change in such a strict policy. However, there has been some encouraging signs of stimulative measures and actual implementation of additional liquidity in recent weeks. If such trend continues, we believe confidence from steel mills and real estate developers might return and thus a multi-month cycle of stronger demand for steel (and as a result for iron ore) might lie ahead of us. Leading indicators also point to such a potential, but once again, the current harsh policy towards Covid outbreaks remains a major obstacle and should be monitored closely as the winter months approach. Finally, iron ore prices have been quite stable and have remained mostly above the $100/ton level, which is encouraging when it comes to future demand for the steelmaking material. Overall, our view is that China's steel cycle is past its trough, and we are in a gradual path to recovery which historically tends to last many months at a time.

- **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	609mt	-6.2%
China Steel Inventories	4.9mt	-30.8%
China Iron Ore Inventories	142mt	8.9%
China Iron Ore Imports	723mt	-3.2%
China Coal Imports	168mt	-15.1%
China Soybean Imports	61mt	-8.6%
Brazil Iron Ore Exports	220mt	-5.8%
Australia Iron Ore Exports	505mt	1.1%

Supply

Dry Bulk Fleet	964dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,098	-19.8%
Capesize Spot Rates, Average	16,725	-40.0%
Panamax Spot rates, Average	21,225	-11.7%

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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