BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

September 27, 2022

Breakwave Dry Futures Index: 1,714	Baltic Dry Index (spot): 1,816	Short-term Indicators:	
↑ *30D: 23.5%*	↑ *30D: 42.9%*	*Momentum:*	Positive
↓ *YTD: -17.6%*	↓ *YTD: -18.1%*	*Sentiment:*	Neutral
↓ *YOY: -55.6%*	↓ *YOY: -61.0%*	*Fundamentals:*	Positive

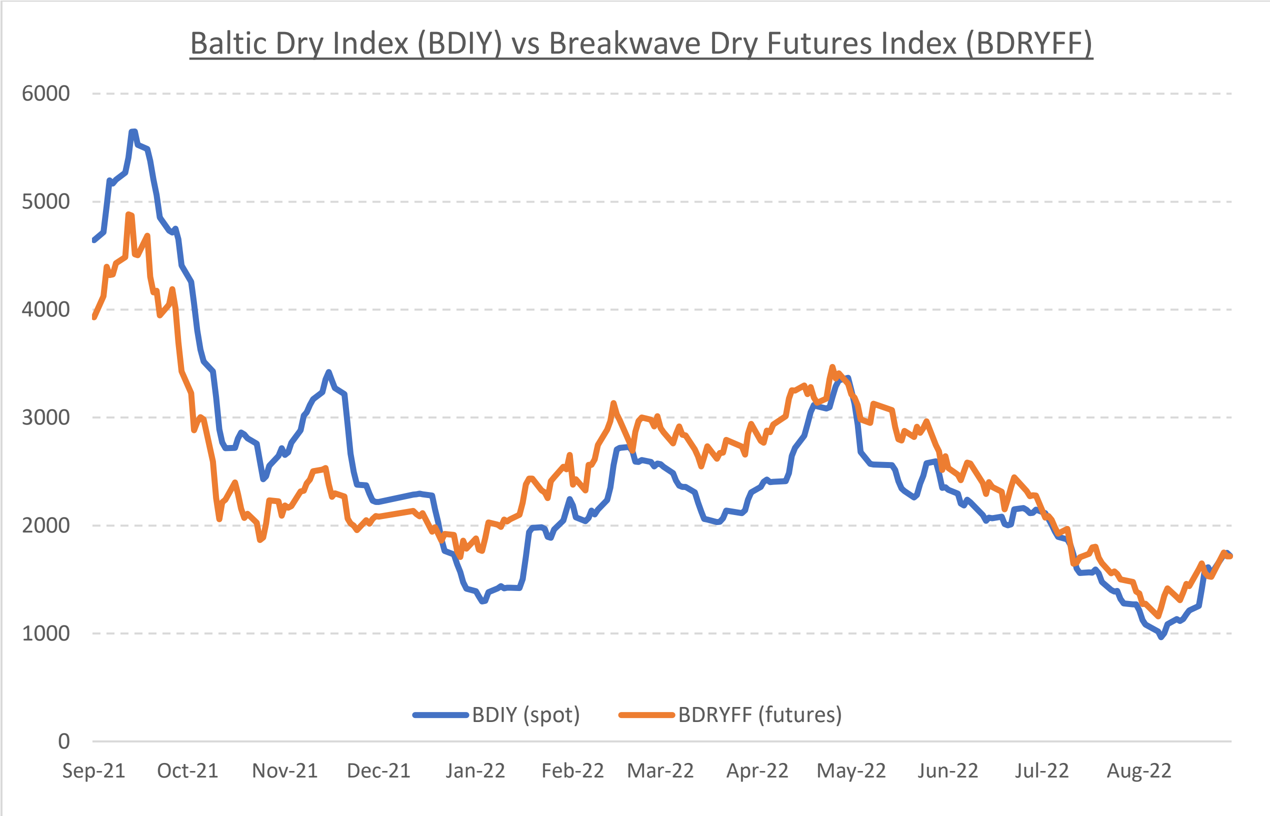
Bi-Weekly Report

- **A September to remember for Capesizes, but what will October bring? –** Shipping is all about seasonality and, once again, those that betted on a fourth quarter revival for spot rates have so far been proven right. However, as markets are still facing a tough global macro environment combined with an ever-changing geopolitical landscape, it is understandable for market participants to be more cautious when it comes to the progression of dry bulk spot rates. Luckily, such a caution has also led to a considerable decline of the contango in the futures curve that has been the dominant force in the freight futures market over the past year. Such a reshaping of the futures curve makes it even more attractive from a risk/reward perspective for investors who believe that the next few months will be positive for dry bulk shipping. We also remain on the constructive front, as we have discussed here for the past month or so, and our conviction is mainly the result of two important factors: Firstly, despite a global macro environment that resembles only recessionary periods, in China such a decline in economic activity has been the reality for months now, and we believe the next several months will actually experience some boost in demand leading to commodity restocking especially for the steel and iron ore sectors. Secondly, the micro balance in the key Capesize market seems quite healthy versus a month ago and if Brazilian iron ore exports tick up further, the balance will tilt clearly towards higher freight rates. Finally, rates for smaller size dry bulk vessels remain extremely strong if one considers the major issues that the global economy is facing, let alone a multi-decade strong US Dollar. The crucial question however for dry bulk is what would the future bring when such headwinds dissipate, and the economic environment becomes even more favorable for global trade in the absence of any substantial orderbook?

- **Some revival in China's real estate sector should be expected in the near term –** We think the worst is behind us when it comes to China's real estate woes, although the sector's fundamentals remain far away from anything that's considered normal. Yet, given the magnitude of recent declines, we see the risk/reward balance tilted to the upside, especially once we consider the major stimulative pent-up demand in the pipeline. Obviously the Covid-related lockdowns remain the major negative factor for a revival of the world's second largest economy and trying to predict what the policy will look like in the months ahead is a fool's game. Yet, we remain of the view that the cyclical trough in China's construction-related demand is behind us, and the question is more about the trajectory of the upcycle, which might end up being shallow but still provide some much-needed increase in requirements for steel.

- **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	4.8mt	-28.8%
China Iron Ore Inventories	138mt	6.0%
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	965dwt	2.0%

Freight Rates		
Baltic Dry Index, Average	2,073	-23.4%
Capesize Spot Rates, Average	16,568	-43.4%
Panamax Spot rates, Average	21,012	-14.3%

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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