BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

July 5, 2022

Breakwave Dry Futures Index:	2,502	Baltic Dry Index (spot):	2,159	Short-term Indicators:	
↓ *30D: -19.3%*		↓ *30D: -18.0%*		*Momentum:*	Neutral
↑ *YTD: 20.2%*		↓ *YTD: -2.6%*		*Sentiment:*	Neutral
↓ *YOY: -27.1%*		↓ *YOY: -34.3%*		*Fundamentals:*	Neutral

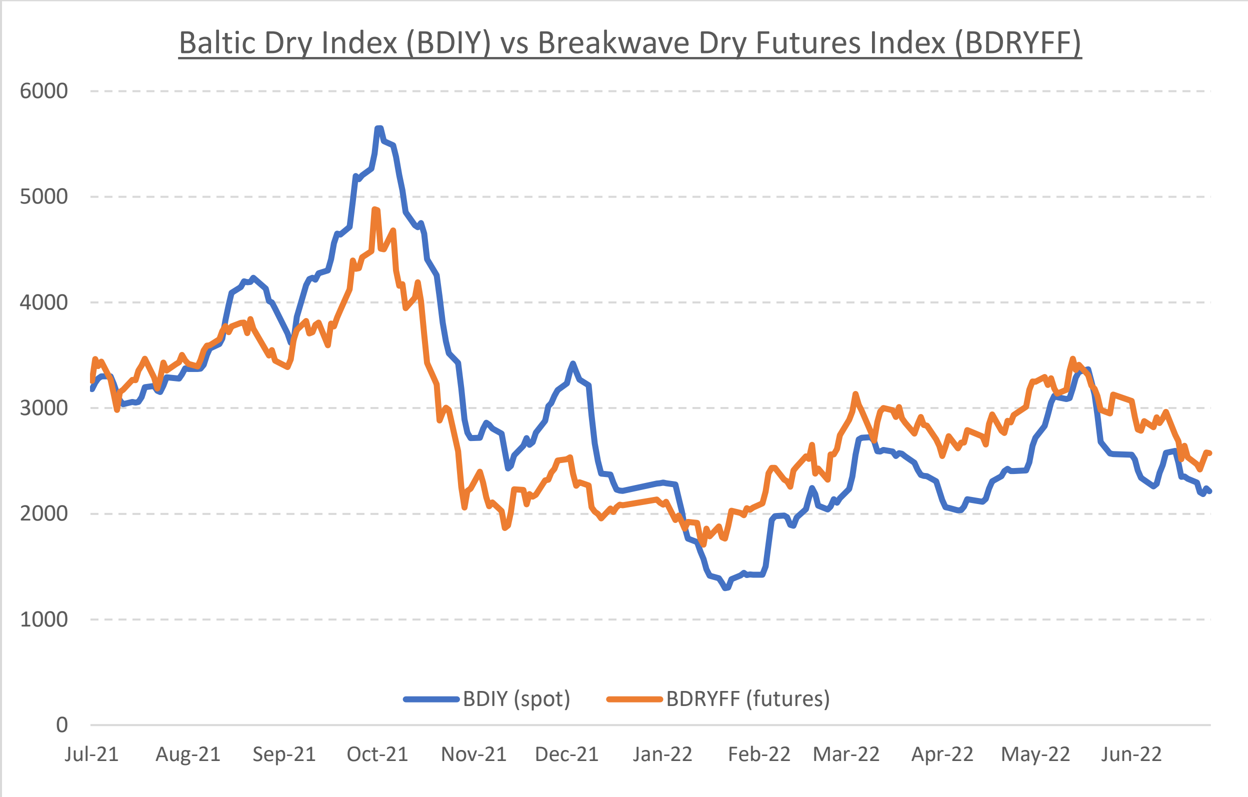
Bi-Weekly Report

- **Capesize futures curve now points to peak rates later in the year –** The considerable downside adjustment in the futures curve has been the main event over the last few weeks as spot rates have failed to rally to any substantial degree to justify the prompt futures premiums. Market expectations for a strong third quarter had mainly reflected memories of last year's impressive rally rather than any fundamental shift in market balance. Historically, the third quarter of the year had been a rather uneventful period, and it was only in the last few years that certain temporary in nature factors led to short term spikes in rates during the summer months. As we have stated in the past, we expect the fourth quarter of the year to be the peak period for the spot Capesize market, and now the futures curve starts to reflect such a scenario. We continue to anticipate a muted market over the summer, but not a particularly weak one since we believe the balance has moved to a higher "base level". The fourth quarter futures seem conservative to us, especially given the anticipated acceleration in economic activity in China as the year progresses. With the futures curve much flatter now on a seasonally-adjusted basis than anytime in the last year, the risk-reward for investors has become more attractive, especially given the significant geopolitical unknowns that hover over the global economy and the potential for "supply squeezes" in shipping demand. For the dry bulk market, China returns as the primary focus when it comes to demand, but also presents the main risk, as the reasons for the deceleration in import volumes since the beginning of the year still remain and should be monitored closer than ever before.

- **China continues to signal increasing economic stimulus spending –** The first half of the year proved to be a particularly tough period for the Chinese economy, directly impacting the real estate sector and leading to a major slowdown in construction activity and thus steel demand. Recent signaling out of major Chinese policy meetings point to an increase of velocity on infrastructure funding which could provide some much-needed support for the steel sector that is currently faced with low demand, high input prices and negative margins. Although the 5.5% GDP growth for the whole year seems a far-fetched target, recent remarks out of senior officials continue to imply a sizable acceleration in economic activity for the rest of the year. However, the recurring Omicron waves remain the most significant risk for such an outlook that would have a major negative impact for shipping this time around, as the supportive elements of the past several months (congestion, shifting trade patterns, inefficiencies, disruptions, etc.) have gradually been waning since their peak of last year.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility of 2021 might slow 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 geopolitical developments 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	435mt	-8.1%
China Steel Inventories	7.7mt	7.4%
China Iron Ore Inventories	126mt	0.8%
China Iron Ore Imports	447mt	-5.3%
China Coal Imports	96mt	-13.8%
China Soybean Imports	38mt	-0.5%
Brazil Iron Ore Exports	122mt	-8.2%
Australia Iron Ore Exports	278mt	0.5%

Supply		
Dry Bulk Fleet	953dwt	3.1%

Freight Rates		
Baltic Dry Index, Average	2,278	0.2%
Capesize Spot Rates, Average	18,106	-24.9%
Panamax Spot rates, Average	23,498	11.2%

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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