BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

December 7, 2021

Breakwave Dry Futures Index: 2,486	Baltic Dry Index (spot): 3,235	Short-term Indicators:	
↑ *30D: 11.8%*	↑ *30D: 16.8%*	*Momentum:*	**Positive**
↑ *YTD: 152.6%*	↑ *YTD: 132.1%*	*Sentiment:*	**Positive**
↑ *YOY: 173.7%*	↑ *YOY: 164.9%*	*Fundamentals:*	**Negative**

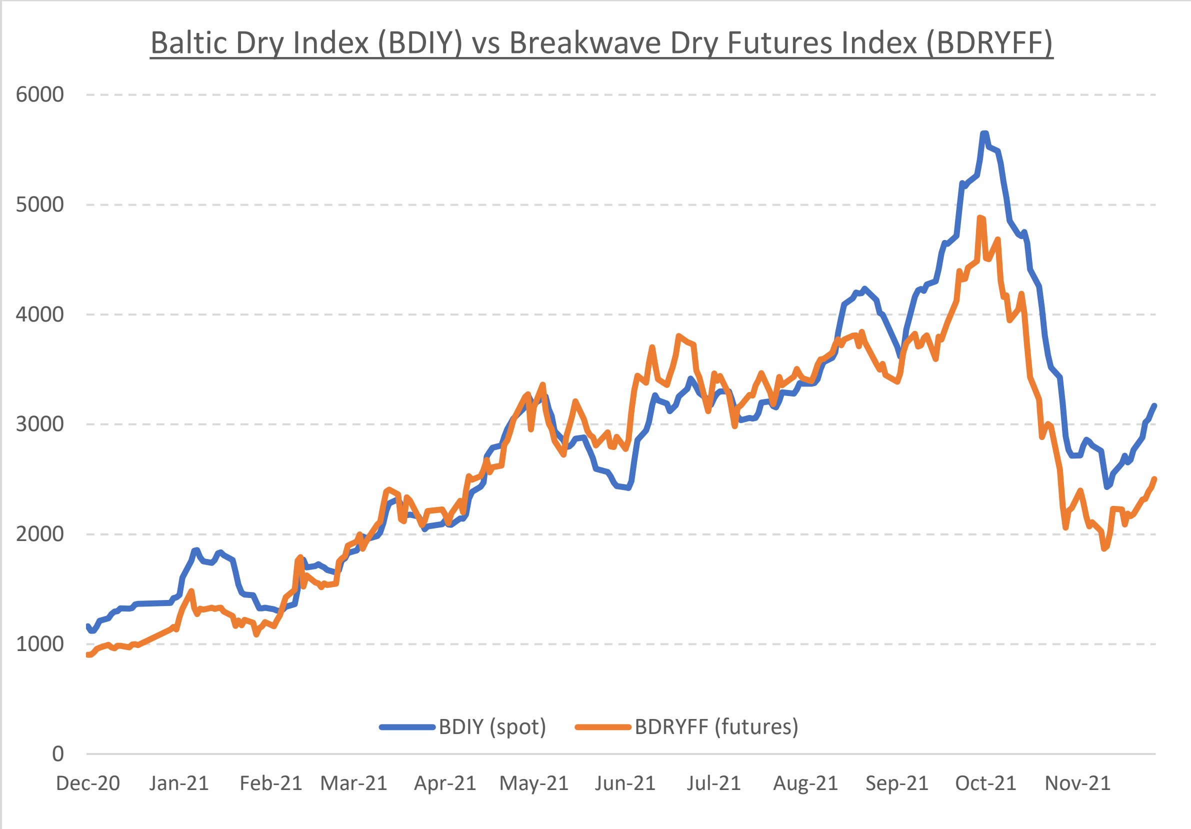
Bi-Weekly Report

- **Santa Claus Capesize rally underway as spot rates reach 40,000 –** The Capesize market is in an upturn and once again spot rates are about to revisit the psychologically important 40,000 level while Panamax and Supramax rates remain well supported heading into the seasonally slow Q1 period. For our readers this is not surprising, as we have been stressing for a while now that the reasons for the dry bulk strength remain in place and continue to constrain vessel supply across the board. Thus, any correction is to be bought, and the recent dip was no exception. We anticipate the next few weeks to remain relatively strong, although naturally, there will be a correction as we approach yearend: Cargo flow seasonally declines, and thus rates should follow. This is priced into the futures market, with the Q1 Capesize contract trading at ~50% discount to spot. The question is whether such correction will be deep enough to actually push futures even lower, and this is very difficult to predict. However, this time around, there is an unusual circumstance that we believe is important when it comes to future rates, namely the inter-asset relationship between large vessels and small vessels: Currently, smaller vessels are expected to earn more versus the larger Capesize ships in the near future, a very unusual occurrence. Although there are valid reasons for that, we believe that such an environment will naturally provide some support for Capesizes and thus we think a major correction (i.e., into single digits) is a low probability event (though obviously not zero).

- **China is once again faced with some considerable economic headwinds –** China remains the most important region when it comes to dry bulk demand. Although during the past year the rest of the world provided significant demand growth to balance a relatively weaker demand coming from China, we are concerned that next year, ex-China demand might not be enough to balance such a sluggish economic environment, assuming no action is taken. Early signs point to some government intervention in order to provide much needed support to the industrial economy. As a result, our baseline scenario as it relates to the dry bulk market assumes a weak demand period till Q2-22 followed by an acceleration in activity as interest rate cuts and looser monetary conditions work their way into the economy at a time when seasonally dry bulk demand also picks up. Iron ore and coal trade should follow a similar pattern. Luckily, such lackluster transition is taking place during a period that is usually characterized by lower freight rates, and thus, should not have a meaningful impact to overall averages for the full year.

- **Dry bulk upcycle to continue in 2022 –** Although the high level of volatility in 2021 might be slowing 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 ongoing decarbonization efforts 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	877mt	0.4%
China Steel Inventories	4.4mt	5.1%
China Iron Ore Inventories	155mt	20.7%
China Iron Ore Imports	935mt	-4.2%
China Coal Imports	258mt	1.7%
China Soybean Imports	79mt	-4.9%
Brazil Iron Ore Exports	297mt	6.7%
Australia Iron Ore Exports	724mt	0.1%

Supply

Dry Bulk Fleet	898dwt	3.1%

Freight Rates

Baltic Dry Index, Average	2,955	180.1%
Capesize Spot Rates, Average	33,548	157.0%
Panamax Spot rates, Average	25,689	204.8%

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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