

Dry Bulk Shipping

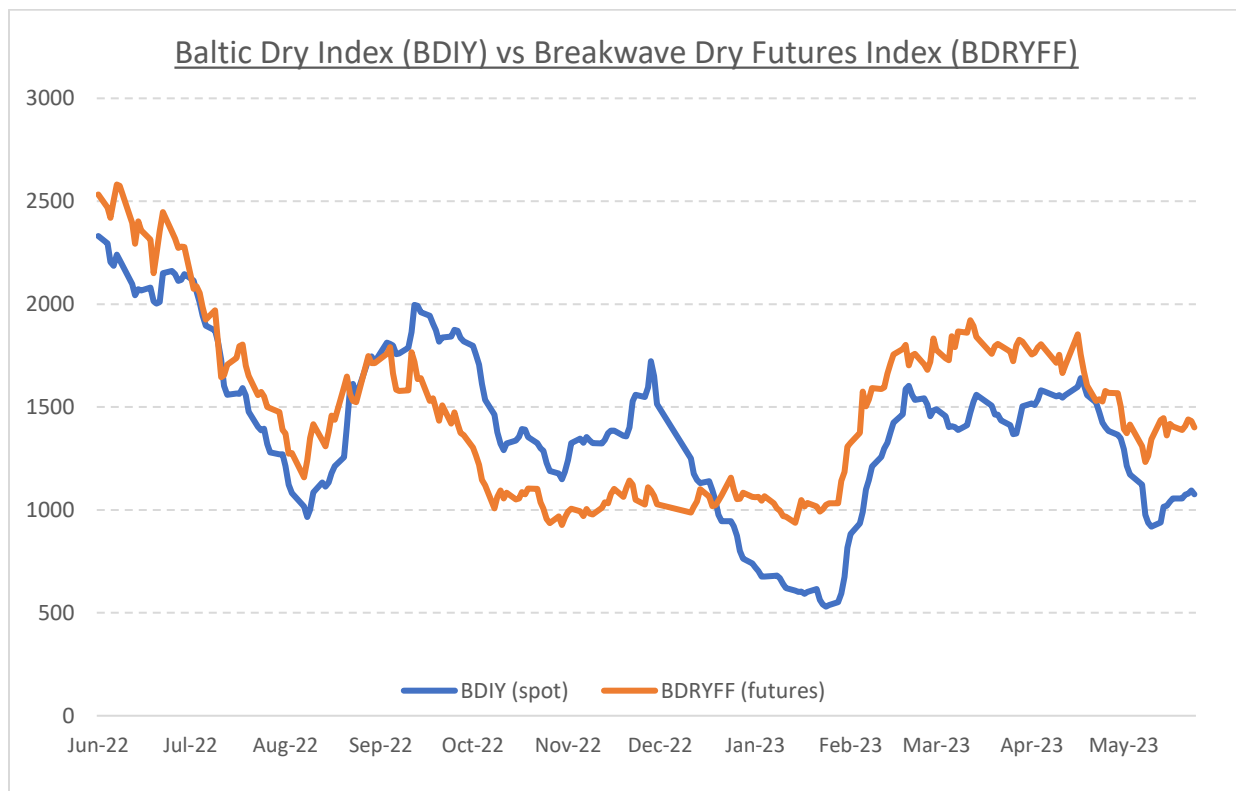
June 20, 2023

Breakwave Dry Futures Index: 1,400 ↓ 30D: -9.0% ↑ YTD: 36.3% ↓ YOY: -51.8%	Baltic Dry Index (spot): 1,076 ↓ 30D: -27.1% ↓ YTD: -29.0% ↓ YOY: -56.3%	Short-term Indicators: Momentum: Positive Sentiment: Neutral Fundamentals: Neutral
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Bi-Weekly Report

- Futures curve continues to adjust to an uninspiring macro outlook** – With the summer months upon us, dry bulk markets are faced with softening economic activity out of China, which remains the main demand driver for the sector. So far China has failed to excite, and although the **year-over-year comps look impressive**, one should always keep in mind the considerable **base effects** on such comparisons. On more normalized levels, **iron ore imports** into China have now been **relatively steady on a 3-year basis**, averaging a bit above 90 mt/month, and if it was not for the significant **growth of the bauxite** trade from West Africa, Capesize rates might have been even weaker than they have already been. On the **positive side, the seasonality in dry bulk is rapidly shifting**, and fourth quarter utilization is pointing higher, as both iron ore and bauxite activity once again is expected to pick up. The potential for a **soft patch over the next couple of months** is making traders nervous, which in turn, means that the flattening of the futures curve might continue till some tightness causes rates to materially shift. The **Atlantic market looks the most likely area** for such a development, and given the relatively low pricing of that route (~40% discount to index), a potential increase in the Capesize spot Index could very well take place rather soon. The **sub-Cape sectors also look inactive**, and the summer doldrums might also keep those markets in check until economic activity in the East improves. Overall, the **near-term outlook feels dull**, and although in shipping the element of **surprise** is the norm, any change might need to be confirmed by a respective transformation of the macroeconomic outlook.
- China's high stimulus hopes that never materialized** – The constant market narrative of an impending stimulus out of China has driven hopes to such a high level, that **any announcement** (absent a “bazooka” type of move) will most likely **disappoint** market participants that for months now have been betting on meaningful action from the Chinese government to support the weakening economy. We expect **no significant change in policy** out of China that involves anything more than **small, calculated adjustments** for the property sector. After all, for years now China has been communicating their willingness to support **high-quality growth** and not a repeat of the sizable cash injections and increasing leverage that in the past propped up the property market through speculation. Unfortunately for the **commodity markets**, such small adjustments mean that **prices might need to correct** to more normalized levels and while we continue to expect higher economic growth out of China this year, the 5% GDP threshold now seems more vulnerable than ever.
- 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 and thus shipping demand.

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	445mt	2.2%
China Steel Inventories	5.4mt	-32.2%
China Iron Ore Inventories	126mt	-0.5%
China Iron Ore Imports	481mt	7.6%
China Coal Imports	182mt	89.8%
China Soybean Imports	42mt	11.2%
Brazil Iron Ore Exports	100mt	3.7%
Australia Iron Ore Exports	286mt	3.0%

Supply		
Dry Bulk Fleet	985dwt	3.0%

Freight Rates		
Baltic Dry Index, Average	1,158	-49.1%
Capesize Spot Rates, Average	12,004	-32.8%
Panamax Spot rates, Average	10,591	-55.1%

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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Contact:

Breakwave Advisors LLC
17 State Street, 40th floor
New York, NY 10004
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com