BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

October 1, 2024

Breakwave Dry Futures Index:	2,092	Baltic Dry Index (spot):	2,084	Short-term Indicators:	
↓ *30D: -2.8%*		↑ *30D: 14.9%*		*Momentum:*	Neutral
↑ *YTD: 39.6%*		↑ *YTD: 0.8%*		*Sentiment:*	Positive
↑ *YOY: 34.9%*		↑ *YOY: 24.0%*		*Fundamentals:*	Neutral

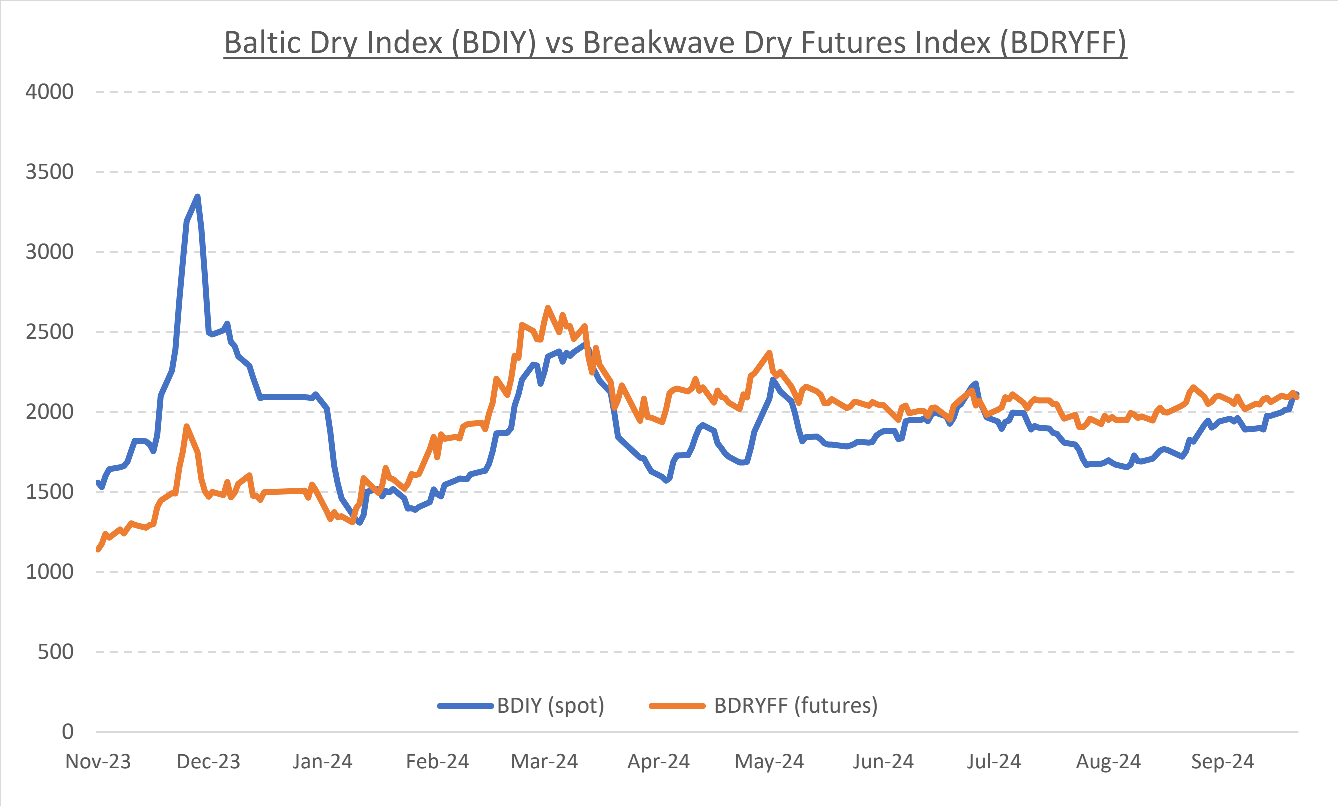
Bi-Weekly Report

- **Capesize Rates Continue to Climb on the Back of Favorable Seasonality –** Although **volatility remains subdued** across the dry bulk sector, **Capesize** rates continue to show **decent upside momentum,** while we sense an **air of optimism** characteristic of periods preceding major rallies. At about 30,000, Capesize spot rates have clearly outperformed the smaller sizes, as cargo flow for the large bulkers remains remarkably strong. With the **North Atlantic** spot market finally **catching up** to the rest of the basins in terms of rates and with winter weather upon us, we see the risk/reward for such vessels balanced, despite the ongoing lag in associated demand for the sub-Cape sector. The **Atlantic market** is capable for substantial **volatility** during the fourth quarter, and **any spike** in rates will most likely be **initiated** from that part of the world. On the other hand, **Panamax rates** appear relatively **cheap** and the potential for **cargo splits** (i.e. instead of hiring a Capesize vessel, one can split the cargo into two Panamaxes) could provide some support but also **limit** any **Capesize upside**. Furthermore, the overall **commodity space** received a significant **psychological boost** from the recent **Chinese stimulus** announcements, although we see **little direct impact** on trade volumes for dry bulk shipping. Finally, Capesize owners are currently enjoying quite a profitable market with limited volatility, but the **risk-reward** from a trading perspective is **not as favorable** as in past years: **First quarter futures** are now priced at 18,000, which is well **above historical averages** (with the exception of last year) and although such an average is achievable, a lot of things need to happen in order for such strong rates to materialize during a typically weak quarter.

- **Chinese Stimulus Tsunami Raises All Boats but Details Always Matter –** The **psychological impact** of **mostly expected** monetary changes from the PBOC led to a major rally in Chinese-related assets over the past week. Most of the announcements were generally expected (RRR cut, MLF reduction, mortgage downpayment relief) but some **new additions** (support for the stock market, direct checks for needing households) combined with a forceful presentation led to a major **shift in psychology**, causing a sizable amount of **short covering** but also **some optimism** for the future. **Iron ore prices** that have been particularly sluggish all year long, **jumped** almost 20% in days reflecting such renewed optimism. Yet, once we look at the details, we think **such positivity is premature**. The Politburo stated their preference for **limiting new construction** in order to help housing prices recover. Such a policy is clearly **not positive** for iron ore that relies on strong demand for steel, something that is directly linked to construction activity. We believe that **once the dust settles**, **iron ore** prices will **resume** their **decline**, especially given the very **high inventory** levels for this time of the year but also the persistent **negative margins** that continue to constrain steel mill profitability.

- **Our Long-term View –** The last few years have been characterized by increased geopolitical uncertainty. Going forward, we expect such events to continue to affect global trade and have a meaningful impact on effective vessel supply. Combined with the potential for a multi-year cyclical rebound in China's economic activity following the recent economic turmoil, dry bulk shipping should experience higher volatility on top of a secular tightness driven by stable bulk commodity demand and a slower fleet growth owing to a relatively low orderbook.

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	691mt	-3.0%
China Steel Inventories	3.2mt	-35.6%
China Iron Ore Inventories	146mt	34.5%
China Iron Ore Imports	816mt	5.1%
China Coal Imports	342mt	11.8%
China Soybean Imports	70mt	-1.7%
Brazil Iron Ore Exports	218mt	8.8%
Australia Iron Ore Exports	526mt	1.9%

Supply

Dry Bulk Fleet	1024dwt	3.1%

Freight Rates

Baltic Dry Index, Average	1,848	58.0%
Capesize Spot Rates, Average	23,970	89.6%
Panamax Spot rates, Average	13,900	32.7%

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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