# BDRY

BREAKWAVE ADVISORS

# Dry Bulk Shipping

April 25, 2023

| Breakwave Dry Futures Index: | 1,826 | Baltic Dry Index (spot): | 1,517 | Short-term Indicators: | |
|---|---|---|---|---|---|
| ↑ *30D: 2.2%* | | ↑ *30D: 1.9%* | | *Momentum:* | Negative |
| ↑ *YTD: 76.9%* | | ↑ *YTD: 0.1%* | | *Sentiment:* | Neutral |
| ↓ *YOY: -38.2%* | | ↓ *YOY: -34.2%* | | *Fundamentals:* | Positive |

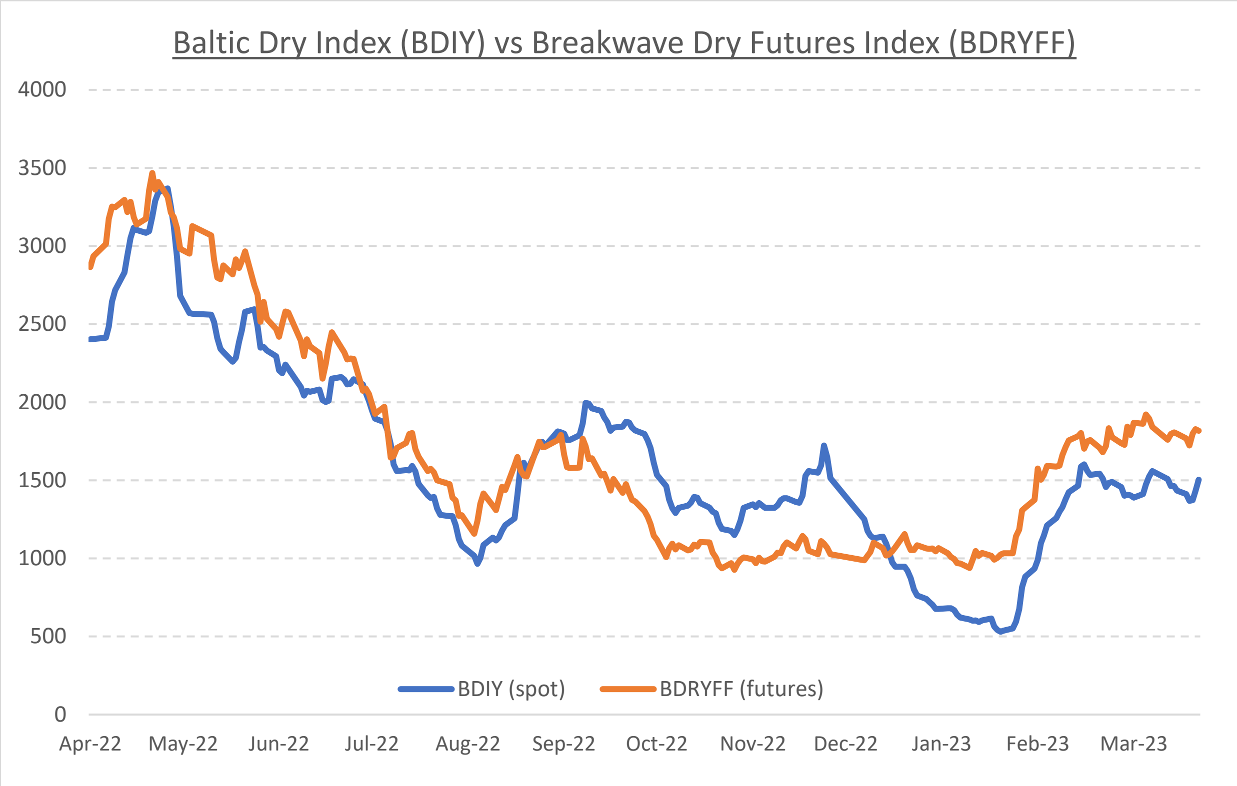
## Bi-Weekly Report

- **Volatility declines as a wait-and-see approach takes center stage –** The dry bulk market rarely stands still, as by nature it is flooded with volatility, twists and turns, and a highly unpredictable spot market. Yet, the last several weeks have been **unusually calm** as spot rates have traded in a rather tight range. Both basins demonstrate signs of **balance**, and although demand for transportation has been gradually increasing with higher indicated iron ore exports from both Brazil and Australia, there have been sufficient ships open to absorb such volumes without any meangiful impact on pricing. As a result, freight futures have been looking for clues outside the traditional spot-focused indictors in order to try and predict the direction of freight rates. One such market is **iron ore**, where prices have seen some **increased volatility**, and thus have had an impact on **sentiment** across freight desks. Over the **next few weeks** we expect spot rates for **Capesizes to increase** and although such carry is mostly priced into the futures curve, by mid-May we believe the Capesize sector will be in a position to push even higher as both Australia and Brazil will exporting iron ore at relatively higher rates while West Africa, that has become a very important demand center for Capesizes, will also be aggressively pushing bauxite into the water ahead of the upcoming rain season in late summer. **After** more than a month of **stability**, the dry bulk market is once again primed to exhibit its embedded **volatility**, which we believe is more likely to see **higher spot rates** from current levels than lower.

- **Iron ore prices collapse under the pressure of regulators, slow recovery in demand –** It was less than a month ago that iron ore prices were hovering above $130/ton as bullish expectations surrounding China's real estate sector were plentiful while government agencies were communicating their displeasure on a daily basis. However, the lack of any concrete activity out of China's increasingly important construction market combined with constant pressure by the regulators, have finally taken a toll on prices, with prompt month futures currently standing at just above the $100/ton psychological mark. **Yet not much has changed**. Although **the real estate market** in China has probably **bottomed**, the recovery has not been spectacular. With the first quarter behind us, **China's steel demand** seems to be heading for a **flattish year**, which, although is rather supportive for iron ore imports, it does not indicate any significant squeeze on the demand side. Iron ore import trade tends to be back-end loaded at any given year, and thus **iron ore trade volumes** should gradually **increase** as the year progresses, especially from the far-fetched Brazilian miners that add to **shipping demand** due to the increased distance (versus Australia).

- **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 | 262mt | 7.5% |
| China Steel Inventories | 7.3mt | -16.1% |
| China Iron Ore Inventories | 132mt | -11.4% |
| China Iron Ore Imports | 294mt | 9.7% |
| China Coal Imports | 102mt | 96.5% |
| China Soybean Imports | 23mt | 13.4% |
| Brazil Iron Ore Exports | 75mt | 4.4% |
| Australia Iron Ore Exports | 140mt | 3.3% |

**Supply**

| | | |
|---|---|---|
| Dry Bulk Fleet | 977dwt | 2.9% |

**Freight Rates**

| | | |
|---|---|---|
| Baltic Dry Index, Average | 1,091 | -47.1% |
| Capesize Spot Rates, Average | 10,258 | -28.6% |
| Panamax Spot rates, Average | 10,749 | -52.2% |

*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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