

Dry Bulk Shipping

December 19, 2023

Breakwave Dry Futures Index: 1,551

↑ 30D: 19.7%
 ↑ YTD: 51.0%
 ↑ YOY: 47.7%

Baltic Dry Index (spot): 2,348

↑ 30D: 29.0%
 ↑ YTD: 55.0%
 ↑ YOY: 50.5%

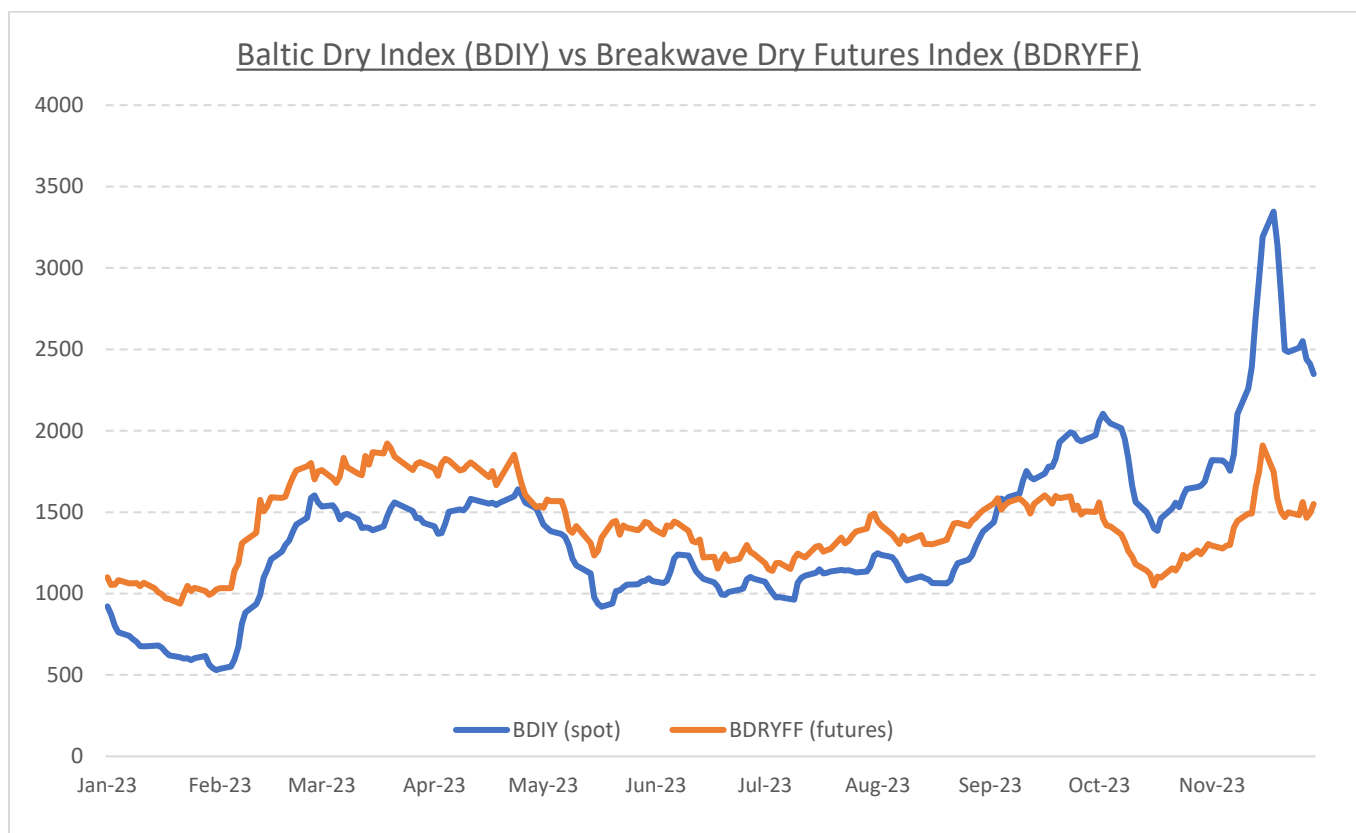
Short-term Indicators:

Momentum: Neutral
 Sentiment: **Positive**
 Fundamentals: Neutral

Bi-Weekly Report

- White Christmas in China brings holiday joy for Capesize owners** – Surprise Christmas gifts are the best and Capesize owners are getting a big one this year. **A confluence of events** in the past month begun with a surge in rates in the **Atlantic on tight vessel availability** and is now been followed by a very **cold weather front in North China** that is causing **delays** and tightening vessel availability in the **Pacific region**. The result is a spot Capesize market that so far has failed to correct the way that the freight futures market has been dictating and the strength is now **threatening to expand** during a period that activity tends to calm down as the Christmas holidays rapidly approach. With few trading days left before the New Year and a **highly backwardated market** (Capesize in the 30,000s /January futures in the high teens) the risk of the **surprisingly high spot rates spilling into 2024** is becoming real. Although the longer-term futures market has also moved up in the past few weeks, we still believe the current strength is a result of a **“perfect storm”** situation rather than a change in fundamentals, and although the positive “carry” in the curve is enormously tempting, any vacuum on current demand flow can rapidly bring spot rates down well below the level the futures curve is indicating. In the meantime, investors **should cherish** the current robustness that once again demonstrates the **impressive uncorrelated returns** one can achieve in shipping, especially in freight futures, that purely rely on the idiosyncratic and regional nature of supply and demand. **HAPPY NEW YEAR!**
- China continues to aggressively add stimulus as economic numbers remain weak** – The streak of **mediocre** economic numbers lingers in China, as the most **recent industrial activity** and **housing numbers** point to further deterioration despite the “impressive” year over year headline growth that is based off the very weak Covid-related activity in 2022. The **response** from the Chinese government has been **similar to the ones** implemented in the last year or so, with further relaxation in housing rules and additional liquidity in the system in the form of funds from the MLF facility. The repeating nature of such sequence of events is becoming now common. Although one should assume that **eventually** we will see some **structural change** in demand, especially consumer driven demand, for now, the outlook remains pessimistic and there is **little indication of an imminent turnaround** in the cornerstones of the Chinese economy, namely the real estate sector as well as the consumer. As we look into 2024, the early part of the year should remain subdued, and once again, all focus will soon turn to the **annual parliament meeting (NPC) in March** when growth targets are officially approved.
- 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 manageable, 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	952mt	1.8%
China Steel Inventories	3.5mt	-2.7%
China Iron Ore Inventories	114mt	-16.6%
China Iron Ore Imports	1080mt	6.2%
China Coal Imports	427mt	62.8%
China Soybean Imports	92mt	14.1%
Brazil Iron Ore Exports	339mt	8.7%
Australia Iron Ore Exports	747mt	2.3%

Supply

Dry Bulk Fleet	997dwt	3.2%
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Freight Rates

Baltic Dry Index, Average	1,362	-29.8%
Capesize Spot Rates, Average	16,114	0.1%
Panamax Spot rates, Average	11,428	-41.5%

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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