BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

January 23, 2024

Breakwave Dry Futures Index:	1,563	Baltic Dry Index (spot):	1,518	Short-term Indicators:	
↑ *30D: 4.3%*		↓ *30D: -27.5%*		*Momentum:*	Neutral
↑ *YTD: 4.3%*		↓ *YTD: -27.5%*		*Sentiment:*	Positive
↑ *YOY: 44.3%*		↑ *YOY: 99.0%*		*Fundamentals:*	Negative

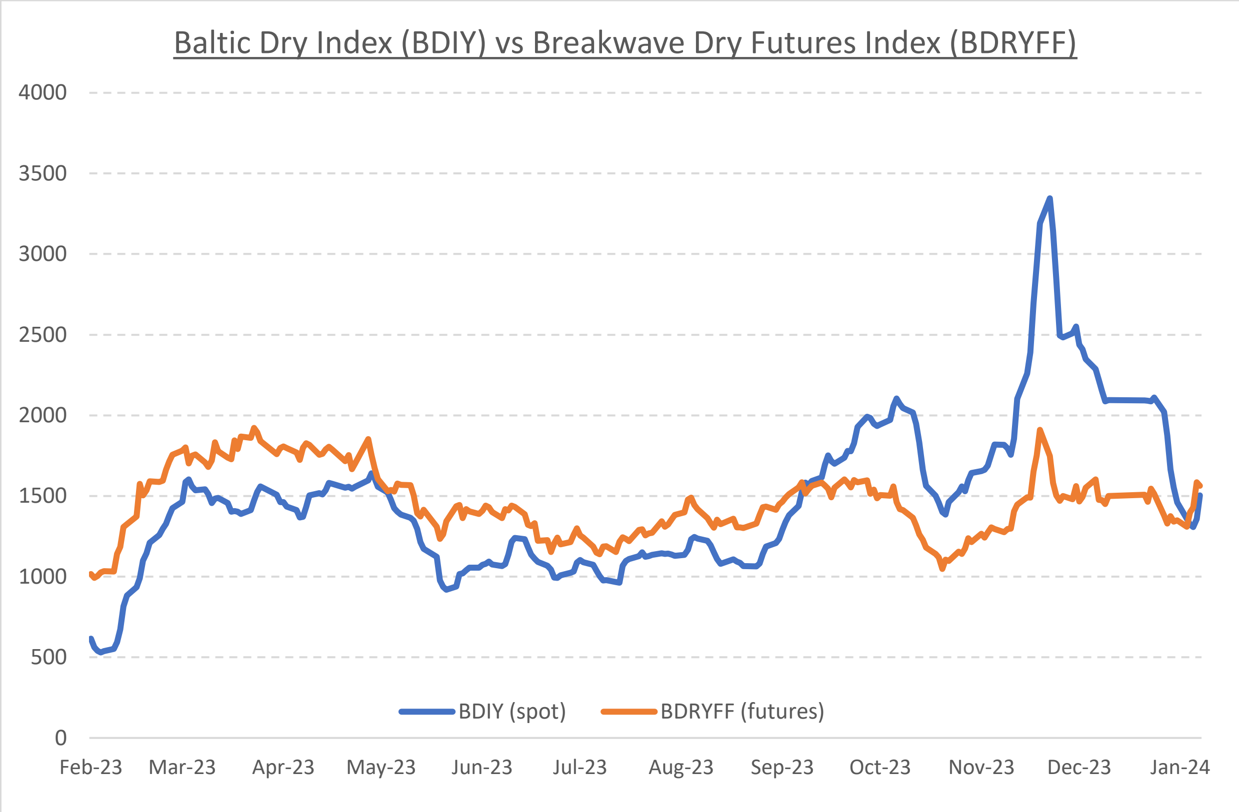
Bi-Weekly Report

- **A revival in Atlantic activity brings stability and optimism –** Seasonality is a powerful driver of shipping rates, but ultimately it is the supply/demand balance that shapes short term freight. The **Atlantic basin seems tight** in Capesize tonnage, and there are several reasons for such circumstances in the middle of winter: The **Red Sea** events have led to diversions which means ballasting tonnage through the Suez Canal is limited while **bad weather in northern Europe** continues to delay ships and port operations. **Brazil appears active** in terms of seeking spot vessels despite the fact that in our estimations **dedicated and owned tonnage should be enough** to cover their export requirements for the first 4-5 months of each year. Finally, **West Africa bauxite exports** continue to require more and more ships year after year, creating a **steady demand** center in that part of the world. Once you combine all the above factors (and the fact that **sentiment** across shipping is **extremely strong** due to the Red Sea situation) spot rates for Capesizes should unsurprisingly be above historical norms even for this time of the year. Looking forward, we believe the **inevitable seasonal decline** is only delayed and will eventually put pressure on spot rates, but once is all set and done, the **first quarter will average well above historical patterns**. However, as we look further down the curve, we would expect volatility to increase as traders have once again extrapolate current strength to the rest of the year, something that we do not believe will be the case without some considerable drawdowns. Such a view is not necessarily bearish but a natural element of the shipping markets, and the fact that **traders constantly price the future based on the present** creates many opportunities for the patient investor.

- **Expectations for further contraction in China's house sales to limit iron ore imports –** There is no question that the **Chinese property sector** is now in a **multi-year downturn**, with the bottom remaining subject to anyone's guess. With the great majority of home purchases sold before they are even built, consumer confidence remains key in terms of a turnaround, as buyers **need to be convinced** that the developers will remain solvent and deliver the home as promised. However, **balance sheets in the industry** remain extremely **stretched**, creating a vicious cycle with no signs of reversing anytime soon. 2024 should **continue** to see a **slide in house sales**, although we anticipate that it would not be as severe as 2023 (last year home sales across China were down ~10%). Iron ore imports correlate to steel demand and thus any slowdown in building activity will inevitably affect import levels. Steel exports, increased manufacturing activity and a shift from electric furnaces to blast furnaces can **mitigate some of the decline**, but we now expect **lower iron ore imports** in 2024 vs. last year, though totals should remain above the 1-billion-ton mark.

- **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 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 increasing bulk commodity demand and a slower fleet growth as a result of 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	1019mt	0.6%
China Steel Inventories	4.2mt	-18.0%
China Iron Ore Inventories	122mt	-9.0%
China Iron Ore Imports	1181mt	6.6%
China Coal Imports	474mt	61.8%
China Soybean Imports	102mt	11.6%
Brazil Iron Ore Exports	378mt	10.0%
Australia Iron Ore Exports	820mt	1.6%

Supply

Dry Bulk Fleet	1003dwt	3.1%

Freight Rates

Baltic Dry Index, Average	1,688	66.4%
Capesize Spot Rates, Average	22,339	101.1%
Panamax Spot rates, Average	12,707	36.9%

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

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