BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

March 19, 2024

Breakwave Dry Futures Index:	2,536	Baltic Dry Index (spot):	2,419	Short-term Indicators:	
↑ *30D: 31.7%*		↑ *30D: 50.2%*		*Momentum:*	Neutral
↑ *YTD: 69.2%*		↑ *YTD: 15.5%*		*Sentiment:*	Positive
↑ *YOY: 44.2%*		↑ *YOY: 57.6%*		*Fundamentals:*	Neutral

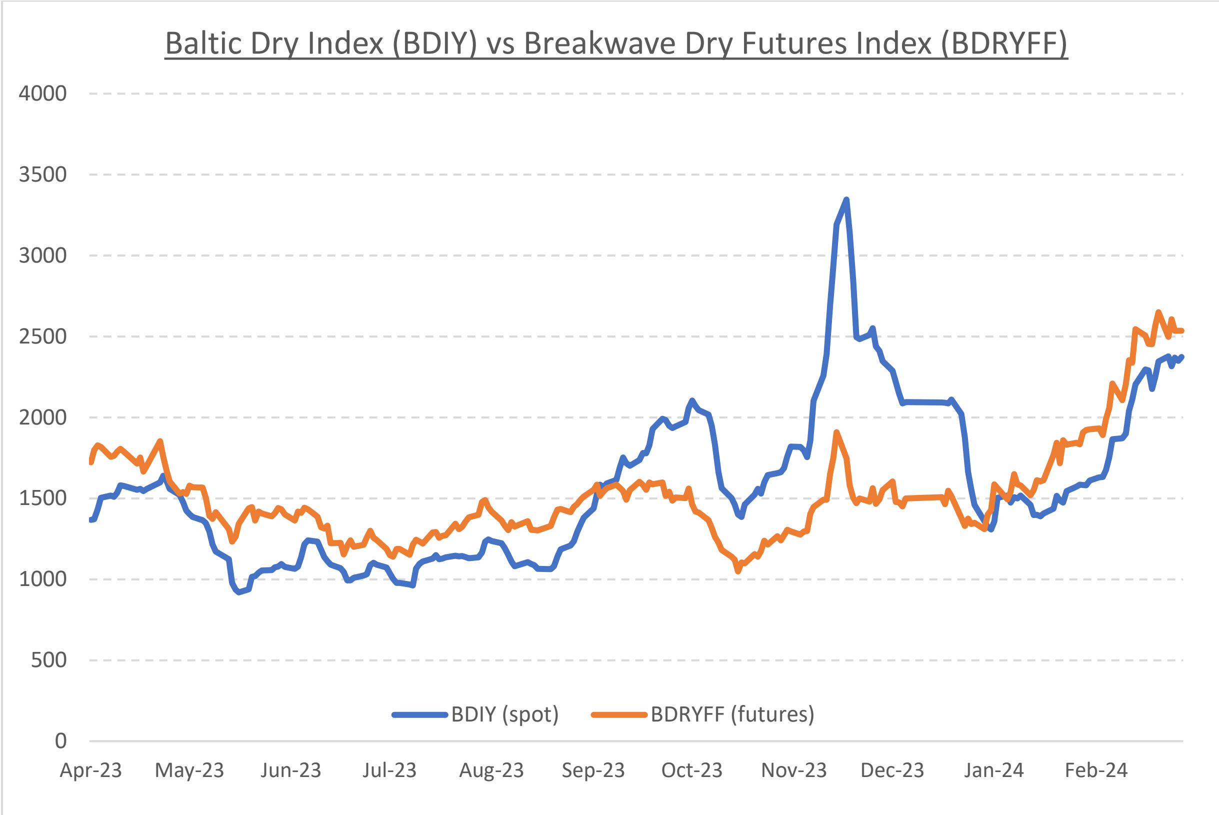
Bi-Weekly Report

- **Booming dry bulk market defies red flag warnings emerging from the steel complex –** Once again, the Capesize sector is leading the dry bulk rally although Panamax rates have also experienced a very strong performance with spot rates now hovering close to the 20,000-mark for the first time since December. Both the **Pacific and Atlantic markets** remain **well supported**, each for different reasons, and **any indication of softening is perceived as an opportunity** to either take-in tonnage (for the physical market) or add to long positions (for the freight futures market). **Sentiment** is the **most positive in years**, evident by the secondhand market where transactions are implying future freight rates at very solid levels last seen only during the 2000s shipping bull market. **Dry bulk** shipping has clearly **decoupled** from the **Chinese macro**, something that has allowed the sector to thrive in the midst of one of the deepest and longest downcycles in the very important Chinese real estate market, the main driver of bulk commodities demand for the past few decades. So, **if it is not Chinese demand** that is driving spot rates, **what is it**? A persistent **shortage of tonnage** and a **diverse cargo availability** are the two reasons that seem to be in synch over the past three months, in the process supporting spot rates at multi-year highs, especially during the seasonally weak first quarter period. Consequently, **owners are extrapolating** such strength to the rest of the year and beyond, creating an **overall bullish environment** and disregarding signals that otherwise would have led to a more cautious approach. Portside Chinese iron ore **inventories** have now been **rebuilt**, iron ore **prices** are at **multi-month lows** (recently dropping below the psychologically important $100/ton level) while the Chinese **real estate sector** is **anything but recovering**. Long term readers would know that we look at shipping cyclicality as a risk allocation factor, and with the upside/downside **balance** on freight levels now **tilted towards a riskier outcome**, the above negative signals should at least moderate the excitement around the sector until more solid fundamentals come into play.

- **Iron ore inventories surge to above average levels as spot prices dip below $100/ton –** The recently hot iron ore market is now faced with the reality of slow Chinese demand as both prices and inventories are clearly demonstrating the **weak appetite for the steelmaking material**. Iron ore inventories have been rapidly rebuilt from the seven-year lows back in October and are now sitting above the 5-year average. At the same time, spot prices have dropped more than 30% from their recent highs and have lately breached the $100/ton level. **Steel margins remain close to historical lows** while steel production in China is at best flattish. As the dry bulk sector is decoupling from the Chinese steel market fundamentals, drivers of freight become less obvious and more complex on determining future outcomes.

- **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	8.3mt	2.6%
China Iron Ore Inventories	141mt	2.4%
China Iron Ore Imports	1181mt	6.6%
China Coal Imports	474mt	61.8%
China Soybean Imports	102mt	11.6%
Brazil Iron Ore Exports	436mt	11.2%
Australia Iron Ore Exports	972mt	0.9%

Supply		
Dry Bulk Fleet	1009dwt	3.2%

Freight Rates		
Baltic Dry Index, Average	1,770	93.0%
Capesize Spot Rates, Average	23,669	197.2%
Panamax Spot rates, Average	13,484	44.8%

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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