BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

November 7, 2023

Breakwave Dry Futures Index:	1,098	Baltic Dry Index (spot):	1,462	Short-term Indicators:	
↓ *30D: -30.6%*		↓ *30D: -17.9%*		*Momentum:*	**Negative**
↑ *YTD: 7.6%*		↓ *YTD: -8.6%*		*Sentiment:*	**Negative**
↑ *YOY: 4.6%*		↑ *YOY: 7.4%*		*Fundamentals:*	Neutral

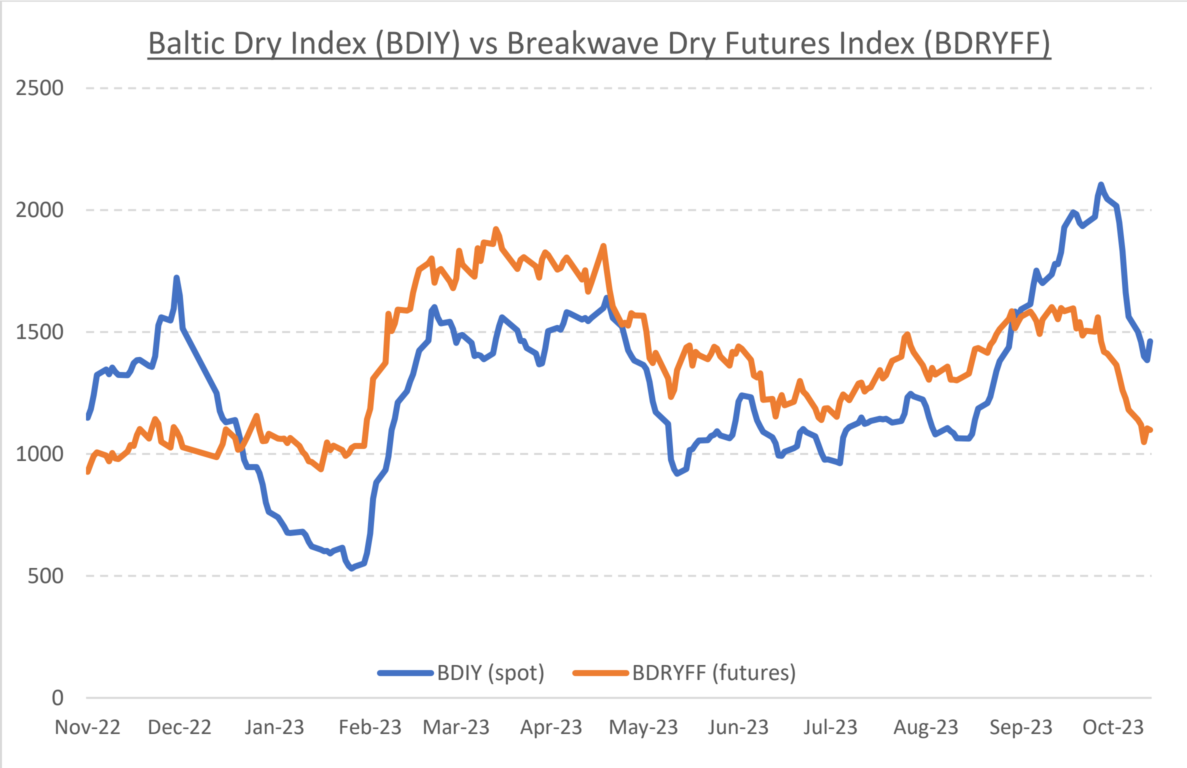
Bi-Weekly Report

- **Shipping volatility is your friend… most of the time –** Once again, the **Capesize** market has proven what shipping is all about: **Uncorrelated volatility**. With spot rates doubling in a period of a month reaching north of 30,000, a harsh correction brought rates back to the 15,000 level in less than two weeks followed by a sharp bounce in the last few days. Although such **volatility is a characteristic of the spot market**, futures only focus on **averages** (freight futures settle over monthly averages of spot prices). As a result, despite the increase in **spot rate** volatility, freight futures traders are **unwilling to track** the ups and downs of the spot to a **similar degree**. After all, the fourth quarter contract has been trading in a relatively tight range (+ or – 2,000) for six months now despite the intense fluctuations in spot rates. **There are less than 50 days left till the Christmas break**, and although we continue to believe average rates will be **higher versus the futures curve**, time is running out for another dramatic move in rates either way. However, **the fourth quarter will most likely settle above Q3, against initial market expectations**, which in line with our view that the Capesize market has returned to the pre-Covid fundamentals, and the curve should be reflecting that (yet for 2024 we still see flat Q3-Q4 futures which we think is unlikely to materialize). As we look at the **low pricing of Q1** (curve below 9,000 across all asset classes) we wonder whether the **opportunity** for a counter-seasonal surprise rally is worth the risk. No crystal ball exists, but once you incorporate possible **percentage changes** and not absolute dollars in the mix, this is the **most attractive part of the curve** for those willing to stomach the associated risk.

- **China plays the leverage card once again –** Faced with the potential of missing growth targets, **China** is once again looking at increasing infrastructure spending by **raising additional debt** in both the local level as well as the sovereign one. Such a policy response is not new. In the past, **China has successfully boosted growth** by increasing spending on infrastructure projects and new construction. However, **times have changed**. The **return** potential on such projects seems **sub-par** as most of the high-return projects of the past few decades are behind us. The boost to growth will still be there but will be short lived and the hangover from such increasing leverage will then end up being worse. There are **no easy solutions** when it comes to high leverage/low return outlook. The **choice** is between **short term pain** versus a **longer-term crisis**. For now, China is choosing the easy path, and while investors remain unimpressed and cautious (a great example is the **negative Foreign Direct Investment** print for October) there will most likely be an increase in infrastructure related activity and, as a result, in the property market next year.

- **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	795mt	1.8%
China Steel Inventories	4.1mt	-1.5%
China Iron Ore Inventories	107mt	-20.3%
China Iron Ore Imports	878mt	6.6%
China Coal Imports	348mt	73.0%
China Soybean Imports	79mt	14.1%
Brazil Iron Ore Exports	274mt	7.3%
Australia Iron Ore Exports	670mt	2.5%

Supply		
Dry Bulk Fleet	997dwt	3.2%

Freight Rates		
Baltic Dry Index, Average	1,245	-38.7%
Capesize Spot Rates, Average	14,029	-15.5%
Panamax Spot rates, Average	10,771	-47.4%

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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