BDRY

BREAKWAVE ADVISORS

Dry Bulk Shipping

May 23, 2023

Breakwave Dry Futures Index: 1,571	Baltic Dry Index (spot): 1,365	Short-term Indicators:	
↓ *30D: -13.7%*	↓ *30D: -9.2%*	*Momentum:*	**Negative**
↑ *YTD: 52.7%*	↓ *YTD: -9.9%*	*Sentiment:*	**Negative**
↓ *YOY: -54.0%*	↓ *YOY: -59.2%*	*Fundamentals:*	Neutral

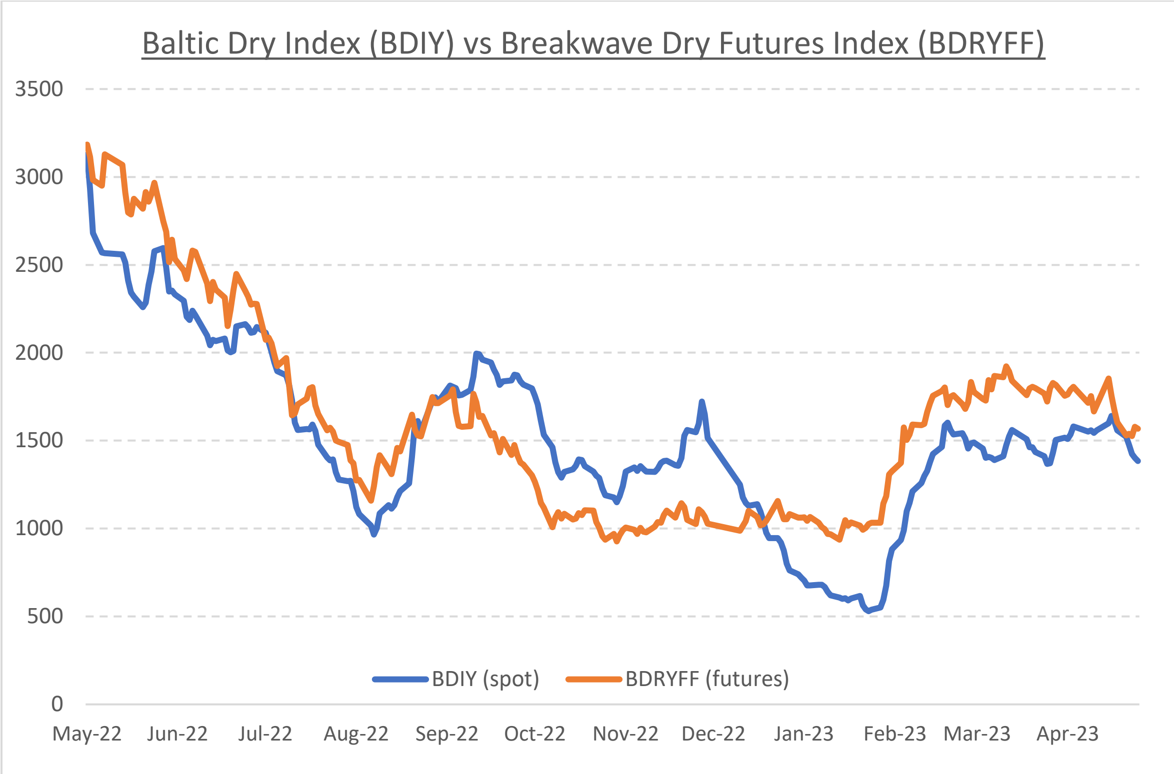
Bi-Weekly Report

- **Freight futures contango evaporates as optimism turns into caution –** Not much has changed in the spot market during the past few weeks, yet **Capesize futures took a dive** and have now erased any premium that was present over the last few months. Although **spot rates** are trading **above mid-April** levels, **futures** are some **20% lower** than the comparable period. Clearly sentiment has turned sour, as across the commodity spectrum the relatively weak numbers out of China has taken a toll on any optimism relating to an imminent rebound in activity in that part of the world. Furthermore, the **sub-Cape segments** remain particularly **weak** (although versus pre-Covid spot levels are quite comparable) which also weighs on the overall sentiment for dry bulk shipping. What is the potential for dry bulk rates in the near term? On the positive side, the **flattening** of the **futures** curve is **positive** as it has neutralized any option premium previously embedded in the curve: from here, any movement in spot rates should be reflected almost instantly on the futures curve, thus providing a better entry point for investors. In addition, **seasonally**, **June** has been a **positive** month for dry bulk more times than not, and given the fact that in the last three months not a lot has happened in in the spot market, the chances of an **early summer rally** still look good. On the other hand, the **sub-Cape** sector has now weakened quite a bit as demand for both coal and grains transportation is soft, and there is **little evidence** that those smaller size ships are about to experience an imminent **turnaround**.

- **Chinese data remains stagnant while Beijing is reluctant to add more liquidity – Chinese economic data** is running out of steam, even though almost all the pandemic constraints have now been lifted. Commodity prices, that had initially rallied on hopes of a rebound, have been under pressure, reflecting the **stagnant demand recovery**. Make no mistake, there is **considerable credit availability** around, which historically should have translated into better demand. However, this time **sentiment** seems to be the main **hurdle**, and not liquidity. In the real estate sector, that accounts for some 20% of the overall economy, there have been limited positive developments, mainly reflecting stabilization rather than a rebound. Although the government has already **lowered interest rates** quite a bit, which haver also driven the Chinese Yuan to relatively low levels (a positive for commodity demand), the **need for more direct government intervention** to boost infrastructure investment is what could potentially get the commodities market going, and as a result, lead to a **recovery** in shipping demand.

- **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	354mt	5.4%
China Steel Inventories	6.1mt	-23.6%
China Iron Ore Inventories	127mt	-7.5%
China Iron Ore Imports	385mt	8.6%
China Coal Imports	143mt	89.1%
China Soybean Imports	30mt	6.7%
Brazil Iron Ore Exports	100mt	3.7%
Australia Iron Ore Exports	217mt	4.6%

Supply

Dry Bulk Fleet	985dwt	3.0%

Freight Rates

Baltic Dry Index, Average	1,170	-46.7%
Capesize Spot Rates, Average	11,848	-28.2%
Panamax Spot rates, Average	10,940	-53.1%

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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