BREAKWAVE ADVISORS

# Dry Bulk Shipping

May 14, 2024

| Breakwave Dry Futures Index: 2,251 | Baltic Dry Index (spot): 2,066 | Short-term Indicators: |
|---|---|---|
| ↑ *30D: 4.9%* | ↑ *30D: 19.5%* | *Momentum:* **Positive** |
| ↑ *YTD: 50.1%* | ↓ *YTD: -1.3%* | *Sentiment:* **Positive** |
| ↑ *YOY: 40.2%* | ↑ *YOY: 32.6%* | *Fundamentals:* **Neutral** |

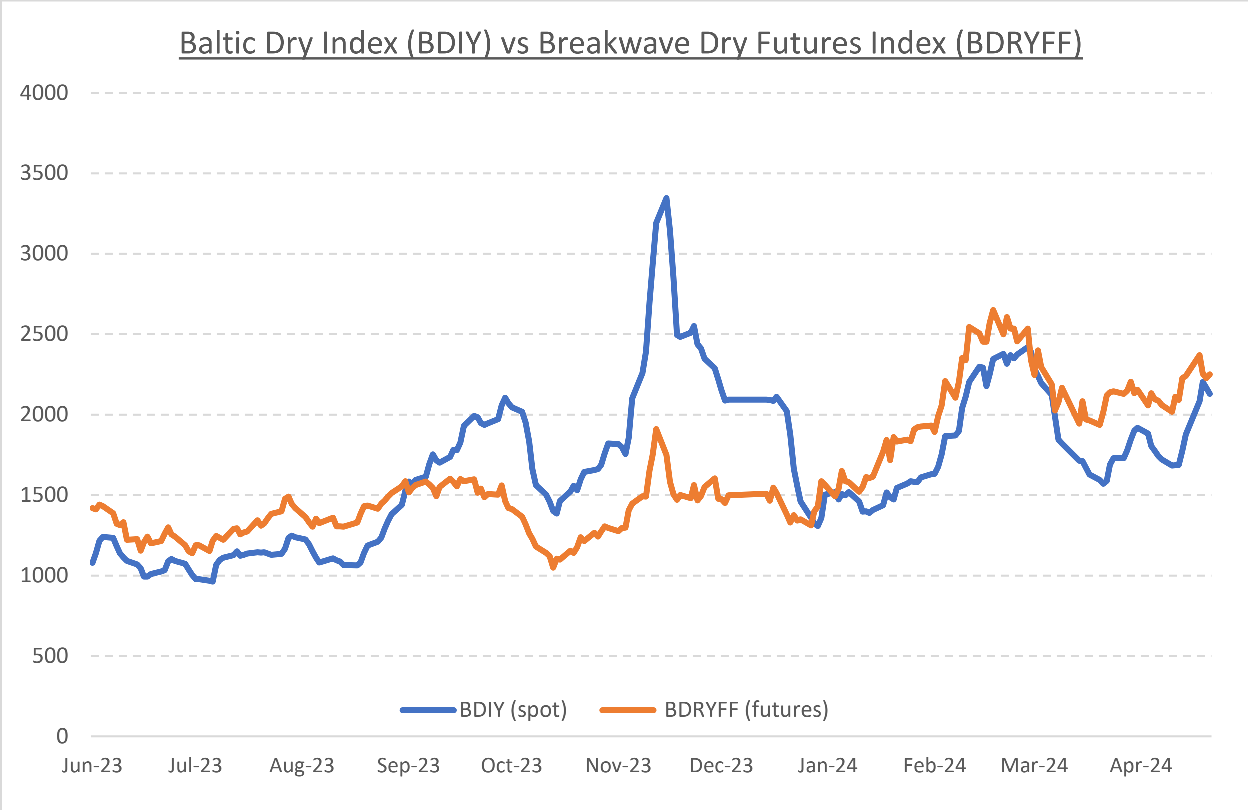
## Bi-Weekly Report

- **Dry Bulk Spot Rate Volatility Points to Ongoing Positional Imbalances Amidst Solid Volumes –** After bottoming in the high-teens, the Capesize Spot Index posted a **solid recovery**, pushing freight rates back towards the high-20,000 level, i**n line with** where the **futures market** has been trading for weeks now. The **Atlantic** market remains the most **volatile** area where rates managed to surge from 8,000 to 33,000 in less than a week. Such positional imbalances, combined with solid sentiment for the overall shipping sector, are the main reasons for the elevated volatility the market has observed so far this year. With **solid commodity import volumes** into China, there has been little concern regarding the health of the current cycle. However, **one should not forget** that the past has little to do with the future when it comes to **cyclical industries**, and given the significant imports into China, especially for iron ore, a **mean reversion could very well be in the cards**, if history is any guide. As we look into the summer months, a potential **slowdown of iron ore trading** combined with **weather-related issues for bauxite** exports out of West Africa could **pose a risk** for the robust **Capesize** market that futures are currently predicting. Although we **remain optimistic** for the duration and intensity of the current upcycle, we also are **well aware of the brutal corrections** that are part of the nature of dry bulk shipping and could lead to significant drawdowns (see last two years) irrespective of the longer-term underlying fundamentals.

- **Iron Ore Imports to China Continue to Surge Despite Declining Steel Production –** The **mismatch** between **steel** fundamentals and **iron ore** imports continue to dominate China's steel complex, with year-to-date iron ore **imports up some 7%,** way above **steel production** that hovers just below the **unchanged** level of roughly 1 billion tons per annum, a level that has remained relatively constant for more than three years in a row. The bizarre divergence has led to a **surge** in observable iron ore portside **inventories**, which, although they are below the all-time highs reached in 2018, now stand well above the 5-year average. We remain **cautious** on the future development of iron ore imports into China **until the balance** between imports and steel production is **restored**, and we **anticipate a slower pace of iron trading** during the second half of the year. Iron ore prices, which have been supported above the $100/ton level, are now some 10% below last year, while when compared to the impressive rally in other industrial-related commodities (Copper, Silver, Aluminum, etc.), they have vastly **underperformed**. **Slower iron ore imports** into China could also **pose headwinds** for **Capesize demand,** if such a trend materializes, as the current run rate of imports is now above 1.2 billion tons per year, a rather high rate for a steel industry that remains under pressure.

- **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 cyclical 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 | 257mt | -1.9% |
| China Steel Inventories | 6.3mt | 0.0% |
| China Iron Ore Inventories | 145mt | 13.1% |
| China Iron Ore Imports | 412mt | 7.0% |
| China Coal Imports | 161mt | 13.1% |
| China Soybean Imports | 27mt | -10.3% |
| Brazil Iron Ore Exports | 84mt | 12.1% |
| Australia Iron Ore Exports | 212mt | -2.3% |

| Supply | | |
|---|---|---|
| Dry Bulk Fleet | 1014dwt | 2.7% |

| Freight Rates | | |
|---|---|---|
| Baltic Dry Index, Average | 1,818 | 57.4% |
| Capesize Spot Rates, Average | 23,344 | 103.3% |
| Panamax Spot rates, Average | 14,452 | 31.6% |

*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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