BREAKWAVE ADVISORS

www.drybulkETF.com

Dry Bulk Shipping

October 1, 2019

Breakwave Dry Futures Index: 1,752	Baltic Dry Index (spot): 1,823	Short-term Indicators:	
↓ *30D: -19.3%*	↓ *30D: -23.3%*	*Momentum:*	Negative
↑ *YTD: 46.5%*	↑ *YTD: 43.4%*	*Sentiment:*	Neutral
↓ *YOY: -3.6%*	↑ *YOY: 18.4%*	*Fundamentals:*	Positive

Bi-Weekly Report

- **The much-anticipated correction is here –** Capesize rates are down ~35% from their highs reached early in September as slower cargo flow and better vessel availability have weighted on the market. Although the Atlantic basin, which has propelled dry bulk rates higher over the last several months, remains relatively short on open tonnage, market sentiment turned sour early last week and that led to a snowballing effect pushing spot rates lower. We believe we are about to bottom in the Capesize market, as the drivers of strong rates remain in place and we expect Capesize spot rates to turn up in the next couple of weeks and rally towards recent highs. Currently Capesize rates are averaging approximately 24,000/day while Panamax rates are about 14,000/day.

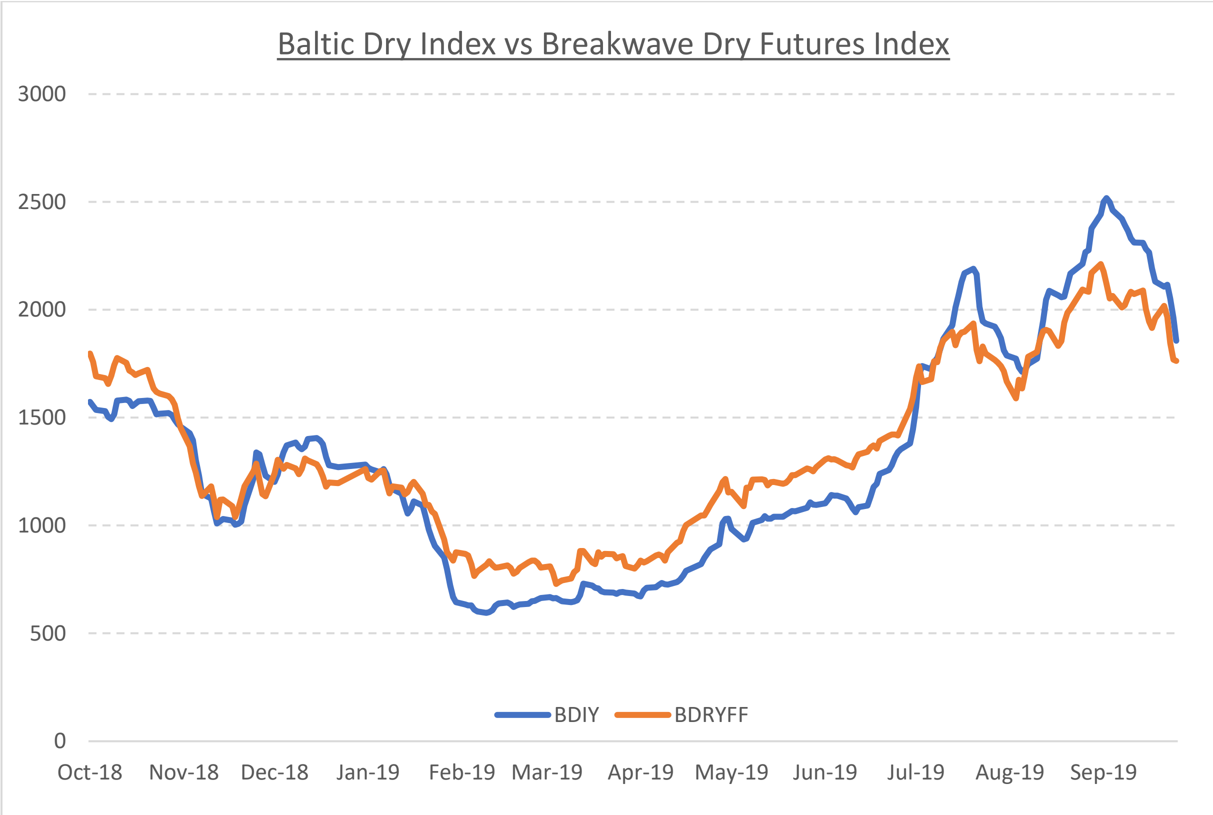
- **We stick with our forecast for a volatile market and a wide trading range till yearend –** We continue to expect Capesize rates to fluctuate in a wide range between ~22,000/day to ~45,000/day over the next several months, reflecting the disruptions that IMO 2020 brings. Although currently sentiment is quite bearish, things can turn quite rapidly, as the tight fundamentals that pushed rates to the high 30,000s are still intact during a period that traditionally has been strong for dry bulk: Historically, October and November are the strongest months of the year, and we see no reason why this is not going to be the case this time around.

- **Scrubber installations running slower than initially anticipated –**We continue to hear anecdotal stories of significant delays in scrubber installations which should remain an important catalyst for a stronger dry bulk market in the near term. The inefficiency created by diverting numerous ships to the yards for retrofitting at a short period of time is evident in the low number of available ships for loading in the Atlantic basin (most installations happen in Chinese yards, thus vessels stay in the Pacific for trading), which has caused a sharp divergence in rates between the Atlantic and the Pacific (the differential reached a record level last week at more than 15,000/day).

- **Chinese steel production continues to surprise on the upside –** Despite all the negative macro data coming out of China over the last few months, steel consumption growth is on pace for one of its strongest years. At about 9% year-over-year growth, steel demand has defied most analyst expectations and remains by far the strongest pillar for the fundamental strength of the dry bulk market. Steel demand cannot outpace economic growth forever at such a high margin, but for now iron ore demand exhibits a very healthy profile.

- **Chinese economic data seems to have stabilized –** September China's PMI data looked reasonably strong, given all the negative macro data that has flooded the market over the last several months. Although it is too early to call for a turnaround, the internals of the PMI numbers (new orders and inventories in particular) point to a more optimistic trajectory for the next few months, something that should also provide additional support for dry bulk shipping.

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	665mt	9.1%
China Steel Inventories	4.8mt	15.8%
China Iron Ore Imports	685mt	-3.5%
China Iron Ore Inventories	126mt	-15.8%
China Coal Imports	220mt	8.4%
China Soybean Imports	56mt	-9.1%
Brazil Iron Ore Exports	226mt	-11.6%
Australia Iron Ore Exports	475mt	-2.6%

Supply

Dry Bulk Fleet	863dwt	2.6%

Freight Rates

Baltic Dry Index, Average	1,285	-4.7%
Capesize Spot Rates, Average	16,682	-0.4%
Panamax Spot rates, Average	10,916	-4.2%

Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors

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