Dry Bulk Shipping

June 25, 2019

Breakwave Dry Futures Index: 1,395	Baltic Dry Index (spot): 1,258	Short-term Indicators:
↑ *30D: 13.1%*	↑ *30D: 18.0%*	*Momentum:* Neutral
↑ *YTD: 16.6%*	↓ *YTD: -1.0%*	*Sentiment:* Neutral
↓ *YOY: -6.7%*	↓ *YOY: -6.2%*	*Fundamentals:* Positive

Bi-Weekly Report

- **We expect significant increases in Capesize rates over the next six months –** We are becoming increasingly positive for dry bulk rates over the next two quarters, as the environment has become quite accommodative for considerable spikes in Capesize rates that should also help the overall dry bulk sector achieve some of the highest rate levels in almost a decade, in our view. We are entering Q3 at ~$18,000/day for Capesizes, a high level relative to recent history, and we expect Capesize spot rates to potentially touch decade highs in the next six months. Spot rates for smaller sizes should also see improvements, though to a lesser extent.

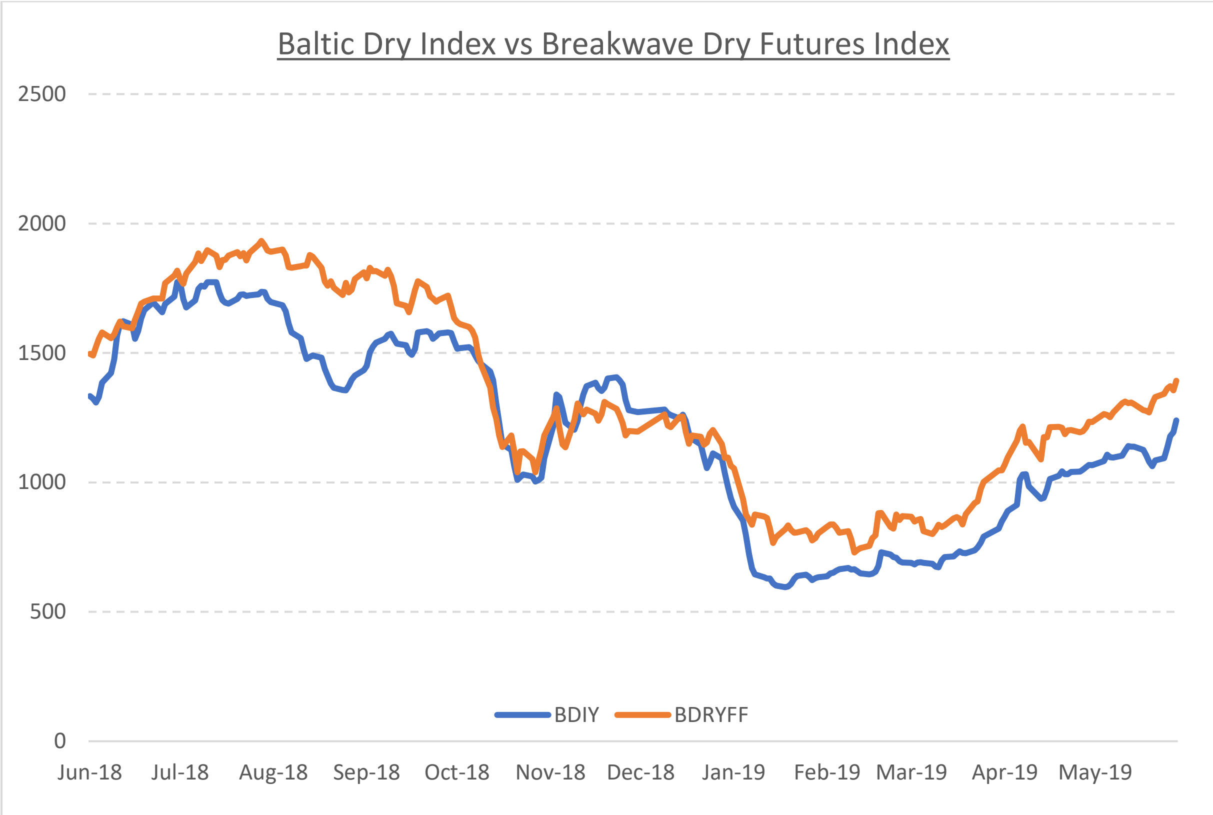
- **Vessel supply will continue to tighten over the next two quarters –** Minimal fleet growth so far this year combined with potential vessel downtime during scrubber installations that could lead to vessel lineups and congestion, disruptions due to fuel switching and availability and the potential for slow steaming, will tighten vessel supply during a period that has seasonally been strong for dry bulk. Overall, the supply side is tight enough to enable a volatile freight environment as long as demand remains supportive.

- **Demand will continue to improve with iron ore exports picking up –** Although the first half of the year was very negative for dry bulk demand, we expect much better shipping demand during the second half. Given that we are entering such period from a relatively high level in terms of rates, and the overall logistical chain in dry bulk has been stretched and severally disrupted in both Brazil and Australia due to unforeseen events, volatility in shipping volumes should increase and with that volatility in freight rates should also end up being elevated.

- **Iron ore prices supportive for higher freight rates –** Although historically there is not a significant correlation between iron ore prices and freight rates, the absolute level of iron ore prices is supportive for a higher freight environment. As an example, a $5/ton change in the FOB price of iron ore (a move that we have seen quite often recently) corresponds to a change of ~$10,000/day for Capesize rates, all else being equal. Iron ore prices are up ~$60/ton in the last six months providing further support for freight.

- **Long term neutral –** Slower economic growth and the maturing nature of the Chinese economy when it comes to infrastructure spending, are two major headwinds for dry bulk shipping. The Chinese steel market is maturing, absorbing less and less incremental iron ore while scrap use is gradually increasing.

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	405mt	10.2%
China Steel Inventories	5.3mt	13.5%
China Iron Ore Imports	424mt	-5.3%
China Iron Ore Inventories	117mt	-25.1%
China Coal Imports	127mt	6.1%
China Soybean Imports	32mt	-12.2%
Brazil Iron Ore Exports	132mt	-11.7%
Australia Iron Ore Exports	255mt	-6.1%

Supply		
Dry Bulk Fleet	852dwt	1.2%

Freight Rates		
Baltic Dry Index, Average	881	-27.4%
Capesize Spot Rates, Average	9,733	-29.7%
Panamax Spot rates, Average	8,193	-25.8%

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

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