BREAKWAVE ADVISORS

www.drybulkETF.com

Dry Bulk Shipping

August 6, 2019

Breakwave Dry Futures Index:	**1,668**		**Baltic Dry Index (spot):**	**1,788**		**Short-term Indicators:**	
↑	*30D: 0.2%*		↑	*30D: 2.8%*		*Momentum:*	**Negative**
↑	*YTD: 39.5%*		↑	*YTD: 40.7%*		*Sentiment:*	**Neutral**
↓	*YOY: -12.0%*		↑	*YOY: 0.8%*		*Fundamentals:*	**Negative**

Bi-Weekly Report

- **Dry bulk rates in correction mode –** Following one of the most impressive rallies in years for dry bulk shipping, freight rates are retracing in a market that can be generally characterized as quiet. The fundamental reasons behind the recent rally remain in place, but both the magnitude as well as the rate of the increase call for some consolidation ahead of what we continue to believe will be a strong fourth quarter. Capesize rates are currently assessed at about 26,000/day while Panamax rates are averaging approximately 14,000/day.

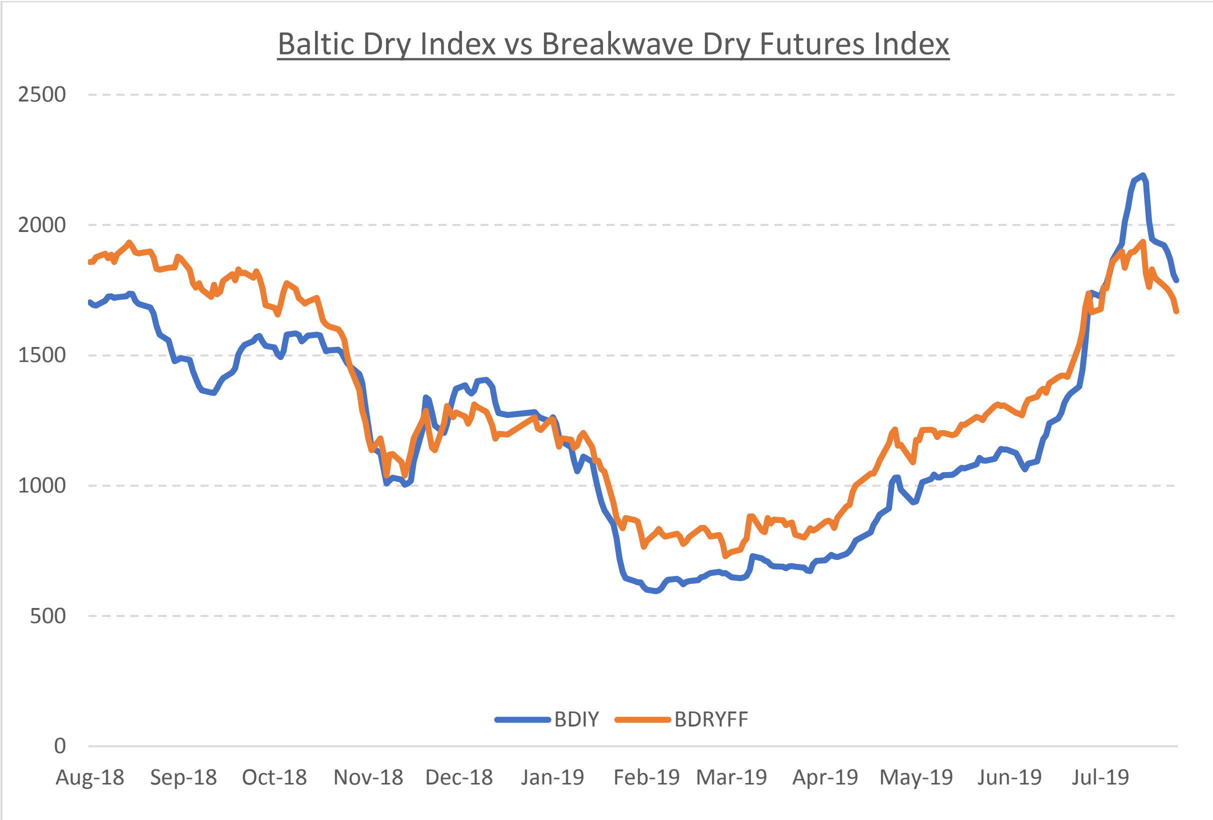
- **Rates should stabilize at a high level, turn up in Q4 –** The impressive run in dry bulk freight rates during July might be over, but the reasons behind it are still brewing: tight fleet supply as a result of IMO 2020 and associated scrubber installations, logistical disorder due to the earlier dam accident in Brazil, low global iron ore inventories, high iron ore prices and relatively strong Chinese steel production. None of these issues are going away soon, although some normalization starting in 2020 is expected.

- **Scrubber installations are taking much longer than initially expected –** Anecdotal reports and channel checks are pointing to longer downtimes for ships that are in the process of installing exhaust gas cleaning systems (scrubbers) in order to comply with the upcoming IMO 2020 emissions standards. Such longer shipyard times are tightening the supply of vessels as well as their respective flexibility. During the following six months, the intensity of scrubber installations will increase during a period that historically has seen strong demand for dry bulk transportation.

- **August historically a turning point for dry bulk rates –** Although it is extremely difficult to predict turning points in dry bulk, historically August marks the bottom of the summer in terms of freight rates. This time around, the impressive July rally should lead to a trough at a relatively higher level, compared to recent history. We anticipate rates to bottom in the next few weeks at ~ 20,000/day.

- **Limited new orders, fuel uncertainty to prolong the cycle –** There is a relatively low orderbook when it comes to dry bulk and we expect such a trend to continue. High uncertainty relating to the prevailing fuel technology of the future makes new orders challenging for an asset with an expected life of 25 years and requires more certainty on the long-term commercial viability of the asset than ever before. Such an environment should help prolong the current cycle, subject to the always important broader economic uncertainty.

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	492mt	9.9%
China Steel Inventories	6.0mt	44.9%
China Iron Ore Imports	499mt	-6.0%
China Iron Ore Inventories	121mt	-21.7%
China Coal Imports	154mt	6.2%
China Soybean Imports	38mt	-14.7%
Brazil Iron Ore Exports	196mt	-7.5%
Australia Iron Ore Exports	331mt	-4.7%

Supply		
Dry Bulk Fleet	856dwt	1.7%

Freight Rates		
Baltic Dry Index, Average	1,057	-18.1%
Capesize Spot Rates, Average	12,947	-17.4%
Panamax Spot rates, Average	9,396	-16.0%

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

Contact:
Breakwave Advisors LLC
25 Broadway, 9th floor
New York, NY 10280
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com