BREAKWAVE ADVISORS

Dry Bulk Shipping

January 8, 2019

Breakwave Dry Futures Index:	1,213	Baltic Dry Index (spot):	1,247	Short-term Indicators:	
↓ *30D: -5.3%*		↓ *30D: -9.1%*		*Momentum:*	Neutral
↑ *YTD: 1.4%*		↓ *YTD: -1.9%*		*Sentiment:*	Positive
↓ *YOY: -15.0%*		↓ *YOY: -9.0%*		*Fundamentals:*	Neutral

Bi-Weekly Report

- **2019 starts on a high note –** Historically, the first quarter has generally been weaker compared to the rest of the year when it comes to dry bulk rates. Lower iron ore export volumes combined with weaker trading volumes for coal, are the main reasons for the seasonally weaker market. However, this year, Capesize rates remained strong throughout the holiday period, currently averaging ~16,000/day and freight futures are pointing to even stronger levels near term. Panamax rates are averaging ~11,000/day although we believe the short-term outlook is less favorable.

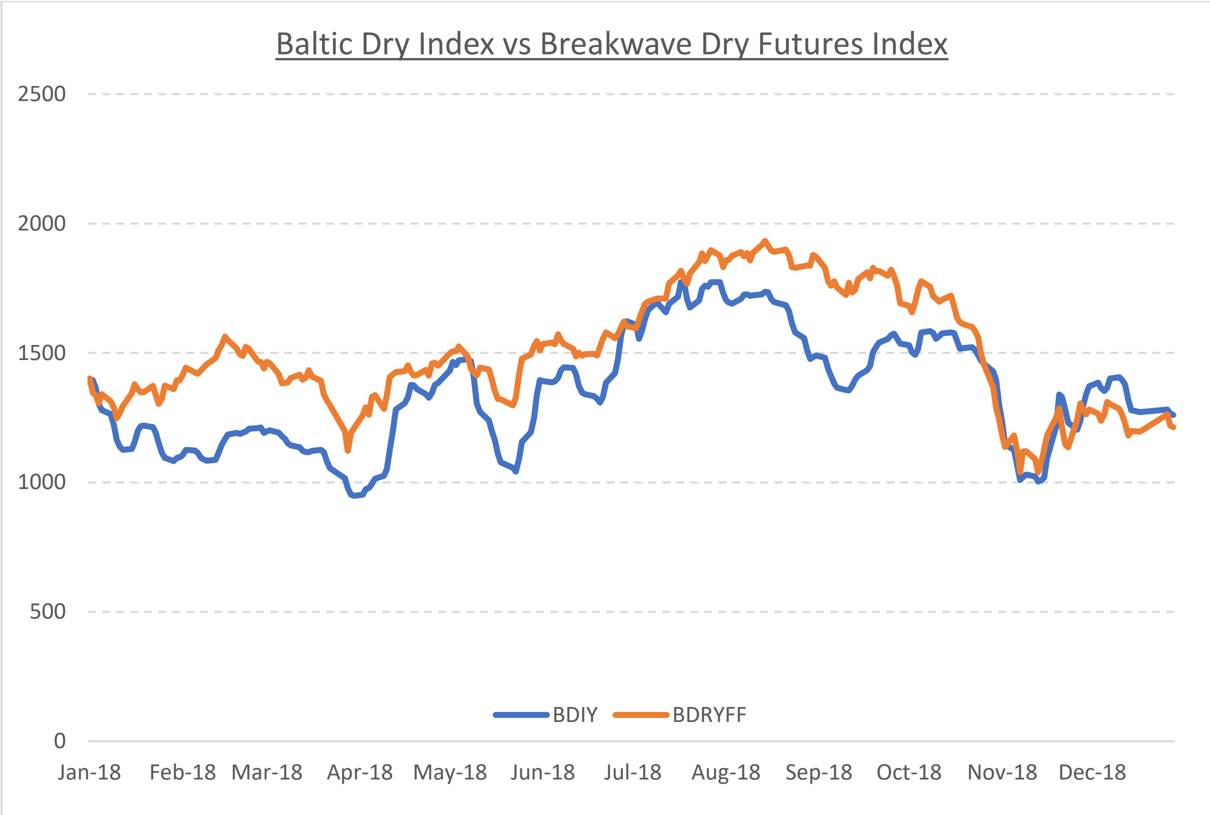
- **Iron ore volumes to increase marginally in 2019 –** We expect iron ore exports out of Brazil to grow about 25 million mt in 2019. Although this is not that impressive, combining that with the long-distance factor for the Brazil-China route, and it can certainly have a positive impact on demand. Australia iron ore volumes should also increase marginally, based on the already announced targets from the mining majors.

- **IMO 2020 regulations should lead to tighter balance –** In the next 12 months, a large number for dry bulk vessels would have to exit the active fleet for weeks at a time in order to install exhaust gas cleaning systems (scrubbers) on board as a result of the upcoming IMO 2002 regulations. That could potentially lead to disruptions, delays and tightening of the supply/demand balance. Although impossible to calculate the timing and the extend of the tightening, we expect that to have a positive impact on freight.

- **Short term positive –** We believe Capesize rates can remain strong, and further advance, in the near term, aided by restocking ahead of the Chinese New Year. Although the magnitude of any increase should be limited by seasonality, we anticipate a better than expected January. On the smaller size vessels, we believe soybean exports out of Brazil should start to have a positive impact on rates, although in the near term, we are less constructive on rates.

- **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. Such structural headwinds are difficult to overcome without a considerable reduction in the size of the fleet. However, volatility will always remain part of the dry bulk market, and as such, trading opportunities will remain amble.

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	857mt	6.7%
China Steel Inventories	2.8mt	-0.1%
China Iron Ore Imports	978mt	-1.3%
China Iron Ore Inventories	137mt	-4.5%
China Coal Imports	271mt	8.9%
China Soybean Imports	82mt	-4.3%
Brazil Iron Ore Exports	368mt	4.8%
Australia Iron Ore Exports	696mt	2.1%

Supply		
Dry Bulk Fleet	841dwt	2.9%

Freight Rates		
Baltic Dry Index, Average	1,264	-2.8%
Capesize Spot Rates, Average	15,302	-14.0%
Panamax Spot rates, Average	10,798	-0.9%

Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors **based on 2018 figures except Freight Rates*

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