BREAKWAVE ADVISORS

Dry Bulk Shipping

February 19, 2019

Breakwave Dry Futures Index:	**811**	**Baltic Dry Index (spot):**	**643**	**Short-term Indicators:**	
↓ *30D: -32.6%*		↓ *30D: -42.2%*		*Momentum:*	**Negative**
↓ *YTD: -32.2%*		↓ *YTD: -49.4%*		*Sentiment:*	**Negative**
↓ *YOY: -44.3%*		↓ *YOY: -40.7%*		*Fundamentals:*	**Neutral**

Bi-Weekly Report

- **Dry bulk rates bottoming -** The steep decline in dry bulk rates is slowly coming to an end, in our view. Although we don't anticipate a V-shaped recovery any time soon, the intensity of the decline has brought freight rates close to or below operating expenses for most vessels. We expect rates to stabilize at current levels, while the near-term outlook is skewed to the upside. Capesize rates are currently at ~7,000/day while Panamax rates are hovering around 5,000/day.

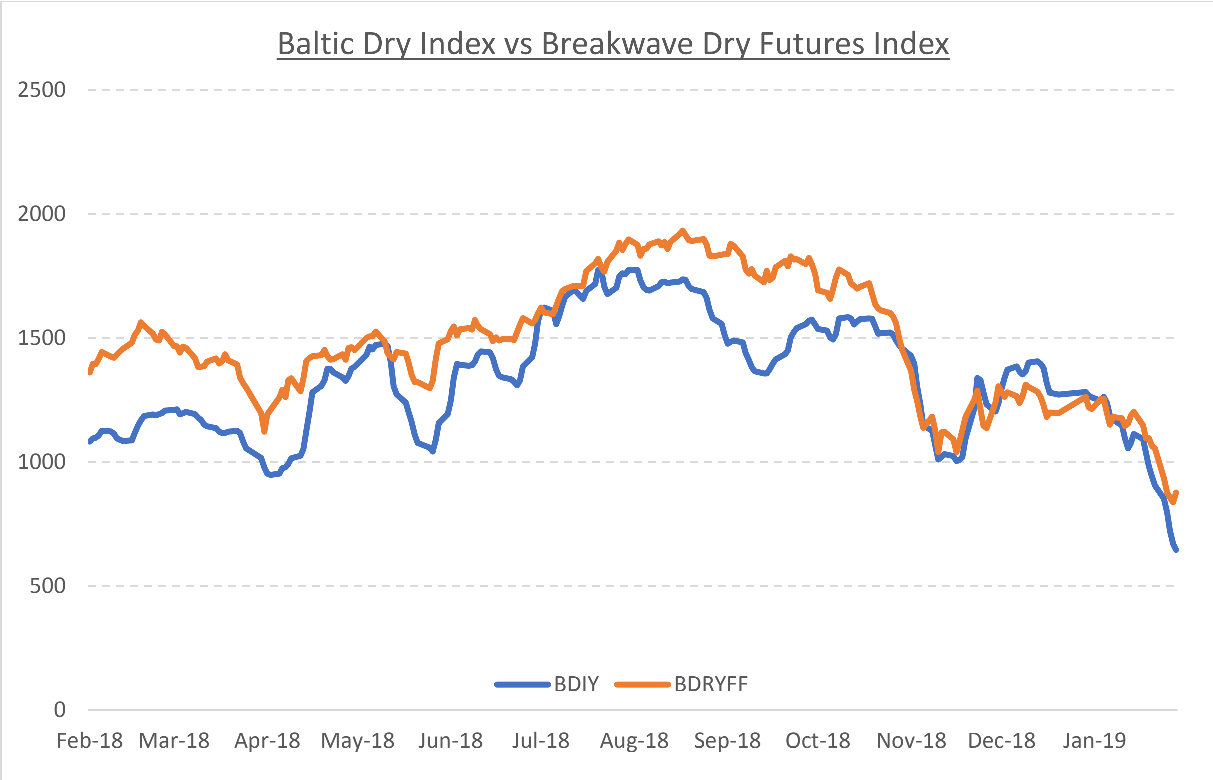
- **Higher scrapping, IMO 2020, the silver linings -** Several negative factors have contributed to the recent declines in dry bulk freight rates. China is the most important economy when it comes to dry bulk, and growth there is slowing. Brazil is the most important country when it comes to iron ore exports, and the Vale accident is having a negative impact on exports. Adding the trade wars and there are not a lot of places to look for hope. However, high scrap prices and a weak freight market should lead to more scrapping of older vessels. In addition, the upcoming change in fuel specs (IMO 2020) should lead to vessel dislocations and higher volatility. As a result, we believe the second half of the year will lead to higher rates.

- **Demand growth is coming to halt -** Chinese bulk commodity import growth is now negative on a 12-month trailing basis. Any initiative by the Chinese government to stimulate growth should have a positive impact on dry bulk. Dry bulk highly relies on China’s appetite for commodities, and as such the focus remains on China’s economic growth initiatives.

- **Short term neutral -** We expect Panamax and Supramax rates to slowly recover and approach double digits in the next few months, aided by strong grain exports from South America. Capesize rates should remain muted, as lower exports out of Brazil should continue to weigh on the market.

- **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.

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	928mt	6.6%
China Steel Inventories	7.4mt	35.9%
China Iron Ore Imports	91mt	-9.1%
China Iron Ore Inventories	144mt	-6.2%
China Coal Imports	34mt	20.5%
China Soybean Imports	7mt	-13.0%
Brazil Iron Ore Exports	33mt	8.9%
Australia Iron Ore Exports*	838mt	0.9%

Supply

Dry Bulk Fleet	844dwt	0.4%

Freight Rates

Baltic Dry Index, Average	907	-23.9%
Capesize Spot Rates, Average	11,932	-18.0%
Panamax Spot rates, Average	6,970	-35.8%

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

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