BREAKWAVE ADVISORS

Dry Bulk Shipping

March 19, 2019

Breakwave Dry Futures Index: 886	Baltic Dry Index (spot): 721	Short-term Indicators:
↑ *30D: 8.2%*	↑ *30D: 13.5%*	*Momentum:* **Positive**
↓ *YTD: -26.3%*	↓ *YTD: -42.6%*	*Sentiment:* **Negative**
↓ *YOY: -37.2%*	↓ *YOY: -36.1%*	*Fundamentals:* **Positive**

Bi-Weekly Report

- **Small uptick in rates -** Despite no meaningful change in underlying fundamentals, dry bulk rates found support last week, with Capesize rates turning up after a long period of constant weakness while Panamax rates also stopped declining and found support, especially in the Atlantic. Currently, Capesize rates are averaging about 6,000/day while Panamax rates are averaging about 7,000/day. We expect rates to remain in a relatively tight range, below 10,000/day but above operating expenses (~5,000/day), until there is more clarity on the demand side and Brazilian exports stabilize.

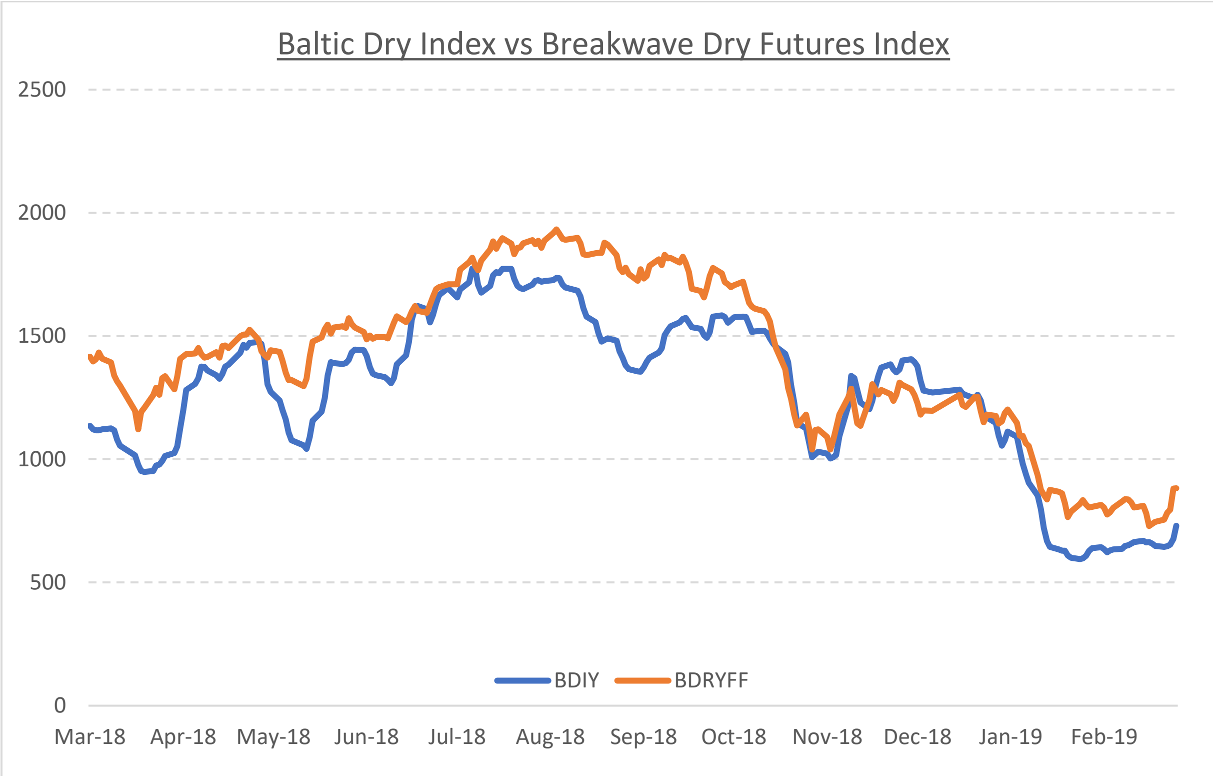
- **Another loss in Brazilian iron ore production, though small -** Vale's woes continue to have a negative impact on iron ore trade and on freight rates. Last week, another stoppage on Vale's iron ore production was announced, and although it was relatively small (~13mt per year) it comes on top of an estimated 70mt of production that has been impacted following the rapture of the Brumadinho dam. For freight, the spot-focused business of Vale is shrinking rapidly, leaving little room for rates to rally meaningfully in the Atlantic. Without such increased demand for spot ships, it is difficult to see how rates can sustain a significant move to the upside.

- **Scrapping accelerating, but still early in the year -** We expect scrapping to be much higher this year compared to last, as weak rates combined with regulatory changes should lead to older vessels being gradually removed from service and sold for scrap, effectively reducing the net fleet growth for the year. We expect less than 3% fleet growth for 2019, although demand growth should not exceed that number, leading to a balanced market, in our view.

- **Coal trading remains strong –** Despite all the negative structural headwinds that coal is facing, year-to-date, coal trading is strong, with Chinese imports in the first two months of the year up 5%. Although we expect a flattish coal trade growth this year, it is encouraging that China remains a solid demand region despite all the economic growth deceleration.

- **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	150mt	9.2%
China Steel Inventories	8.7mt	-10.8%
China Iron Ore Imports	174mt	-5.6%
China Iron Ore Inventories	148mt	-6.9%
China Coal Imports	51mt	5.0%
China Soybean Imports	12mt	-14.8%
Brazil Iron Ore Exports	62mt	14.5%
Australia Iron Ore Exports	64mt	-1.8%

Supply

Dry Bulk Fleet	846dwt	0.6%

Freight Rates

Baltic Dry Index, Average	815	-31.3%
Capesize Spot Rates, Average	9,472	-30.5%
Panamax Spot rates, Average	6,801	-40.0%

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

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