BREAKWAVE ADVISORS

Dry Bulk Shipping

April 2, 2019

Breakwave Dry Futures Index: 863	Baltic Dry Index (spot): 689	Short-term Indicators:
↑ *30D: 4.5%*	↑ *30D: 4.7%*	*Momentum:* Neutral
↓ *YTD: -27.9%*	↓ *YTD: -45.8%*	*Sentiment:* Negative
↓ *YOY: -33.6%*	↓ *YOY: -34.7%*	*Fundamentals:* Positive

Bi-Weekly Report

- **The Vale drama continues -** Vale reported their fourth quarter results this past week and provided more information on the current status of their mines as well as future expectations. However, that left us with more questions than answers, as the situation on the ground remains very uncertain and in the hands of the various regulators and local governments. It is almost a certainty that production and exports this year will be significantly impacted and our estimate for total loss of production/exports is more aggressive than the company's guidance: We expect a total of 100mt of iron ore production to be lost this year and a similar decline in iron ore exports. As a result, any recovery in Capesize rates will be short lived, but volatility will be higher than usual, as pockets of demand in the Atlantic might lead to short term spikes in rates. Capesize rates currently stand at ~3,500/day and Panamax rates are approximately 9,000/day.

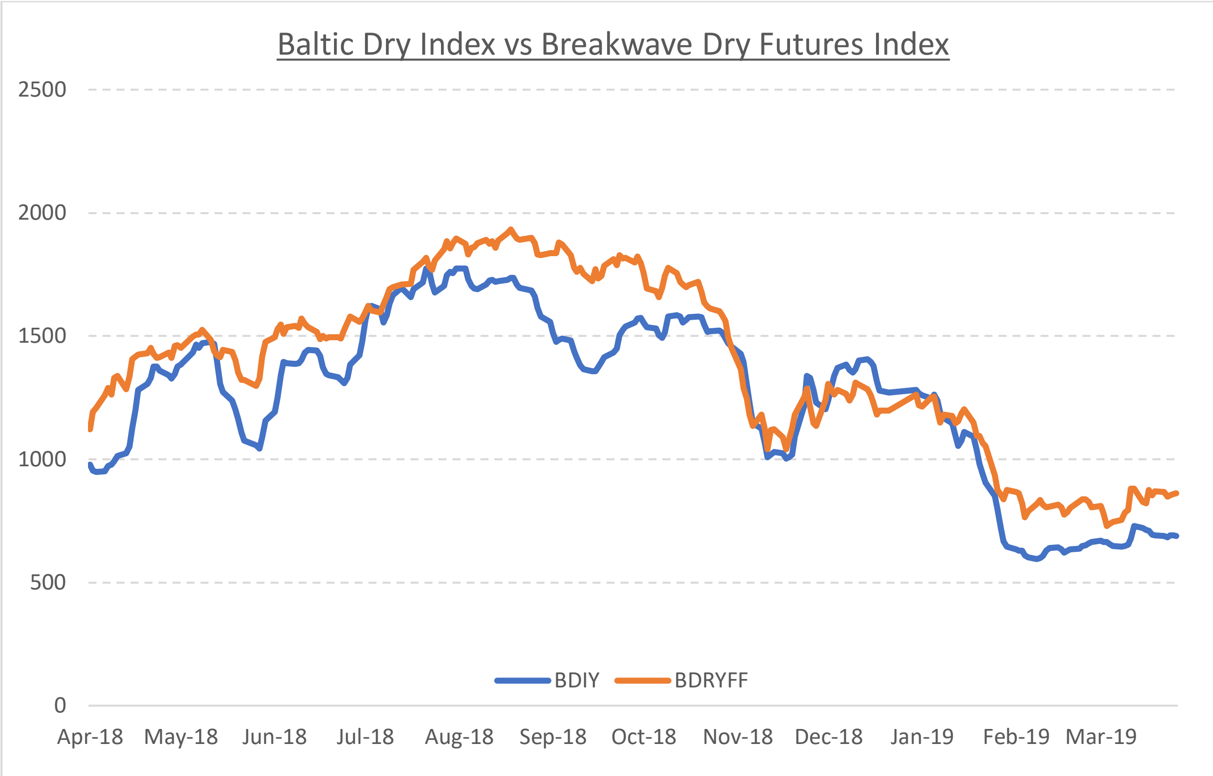
- **Australia's Port Lambert declares Force Majeure but impact limited -** Another disruption for iron ore trade, as Rio Tinto declared force majeure on some cargoes out of port Lambert, following a recent cyclone. Although the export impact should be limited, it adds to a psychologically depressed market and if anything, delays any partial upward move in Capesize rates, that remain below operating expenses for more than a month now.

- **Scrapping remains robust -** The good news for the dry bulk market is that given the low level of rates, combined with upcoming regulations, scrapping is already higher than the whole amount scrapped last year. A lot more ships need to be removed from service though in order to see some improvement in the supply/demand balance, but the trend is heading that way and we should expect even more tonnage to head to the scrapping beaches of southeast Asia.

- **Grain season is helping the smaller size segments –** Strong demand for grain cargoes out of South America is providing much needed support for Panamax and Supramax vessels. Fronthaul rates are approaching last year's levels and the Atlantic market is quite supportive. That is in contrast to the coal-driven Pacific market were rates remain weaker, as China's coal imports remain subdued.

- **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	8.1mt	-11.4%
China Iron Ore Imports	174mt	-5.6%
China Iron Ore Inventories	148mt	-8.7%
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	798	-32.1%
Capesize Spot Rates, Average	8,740	-32.6%
Panamax Spot rates, Average	7,007	-39.2%

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

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