BREAKWAVE ADVISORS

Dry Bulk Shipping

April 16, 2019

Breakwave Dry Futures Index: 883	Baltic Dry Index (spot): 738	Short-term Indicators:
↓ *30D: -0.6%*	↑ *30D: 1.1%*	*Momentum:* Neutral
↓ *YTD: -26.7%*	↓ *YTD: -41.9%*	*Sentiment:* Neutral
↓ *YOY: -34.5%*	↓ *YOY: -27.2%*	*Fundamentals:* Positive

Bi-Weekly Report

- **Unsurprisingly, Brazilian iron ore fixtures are at record lows -** Following the dam rupture in late January, Vale's reduced exports are having a devastated impact on the Capesize spot market, with spot fixtures out of Brazil hitting all time lows for the four-week period ending April 14. This comes at no surprise, since spot ships are the first to be impacted by the reduced exports, as Vale shifts most of their available cargoes to their contracted and term business as well as their controlled tonnage (i.e. Valemaxes). Unfortunately, despite the tightness in tonnage availability in the Atlantic, the absence of fronthaul (Brazil-China) business is keeping the market slow and weak. Capesize rates are averaging about 5,000/day, basically in line with operating costs. Panamaxes are faring better, averaging about 9,000/day.

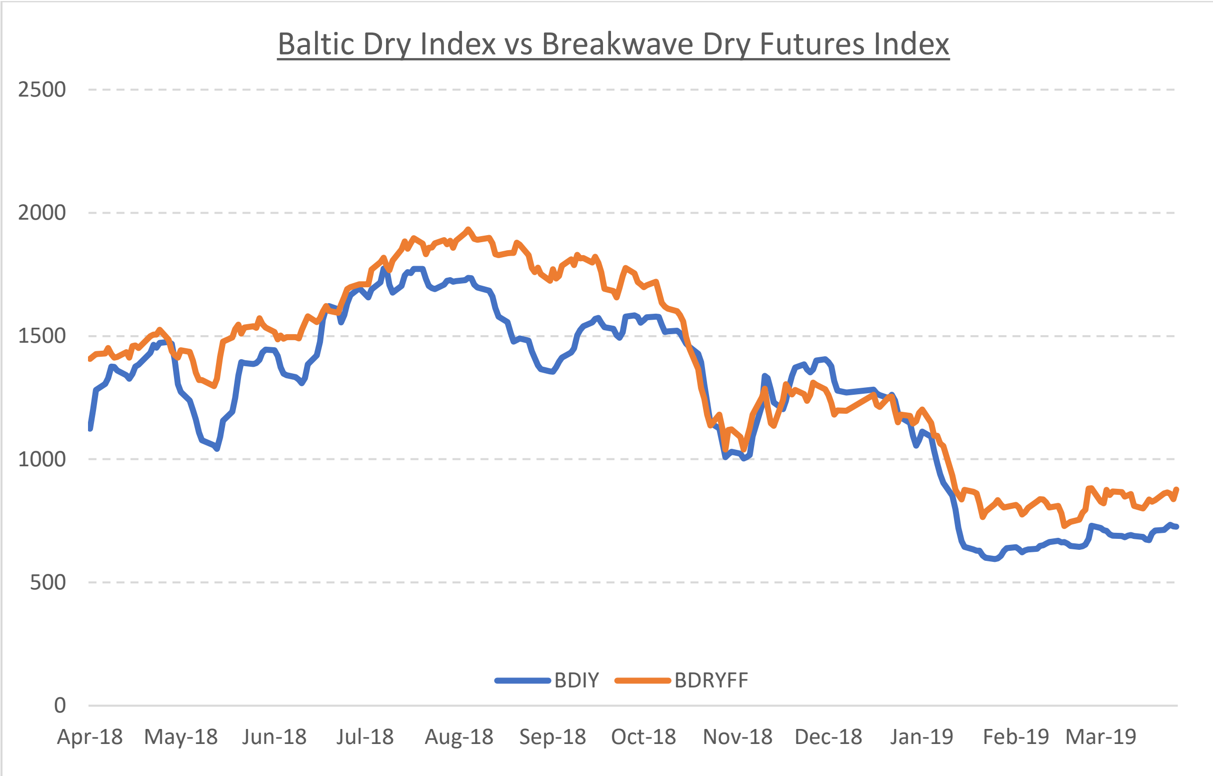
- **Expectations for resumption of some of the lost Brazilian exports -** In the months ahead, there is a high probability of resumption of some of the lost production out of Brazil, which should have some positive impact on the Capesize spot market. Predicting such regulated-driven decision is extremely difficult, and although the futures market is pricing a considerable increase in Capesize spot rates for the second half of the year, such event highly relies on additional exports in the Atlantic basin.

- **Inventory upcycle coming, but still early -** We expect Chinese iron ore inventories to start drawing down at a rate of 3-4 million tons per week, reflecting the lost exports out of Brazil. The long lead times (approximately 2 months) has so far had a minimal impact on iron ore stocks, but we believe we should start seeing the impact from Brazil right about now. The significant drawdown in inventories should lead to an inventory-led recovery in freight rates, as iron ore traders will eventually scramble to find product in the second half of the year, which should lead to a stronger spot market.

- **Summer months should remain active for smaller vessels -** The US-China trade dispute and a potential resolution should have a significant impact on the grain trade and on the seasonality of the market. As such, we believe that the summer months, which are usually weak, should maintain considerably momentum as soybeans out of the US should keep the Atlantic market relatively strong.

- **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	7.2mt	-12.3%
China Iron Ore Imports	261mt	-3.6%
China Iron Ore Inventories	144mt	-10.1%
China Coal Imports	75mt	-1.1%
China Soybean Imports	17mt	-14.3%
Brazil Iron Ore Exports	84mt	0.1%
Australia Iron Ore Exports	130mt	1.0%

Supply		
Dry Bulk Fleet	847dwt	0.7%

Freight Rates		
Baltic Dry Index, Average	785	-31.8%
Capesize Spot Rates, Average	8,168	-33.6%
Panamax Spot rates, Average	7,272	-36.5%

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