

Dry Bulk Shipping

April 30, 2019

Breakwave Dry Futures Index: 1,105

↑ 30D: 35.1%
 ↓ YTD: -8.4%
 ↓ YOY: -22.5%

Baltic Dry Index (spot): 913

↑ 30D: 32.5%
 ↓ YTD: -28.2%
 ↓ YOY: -32.9%

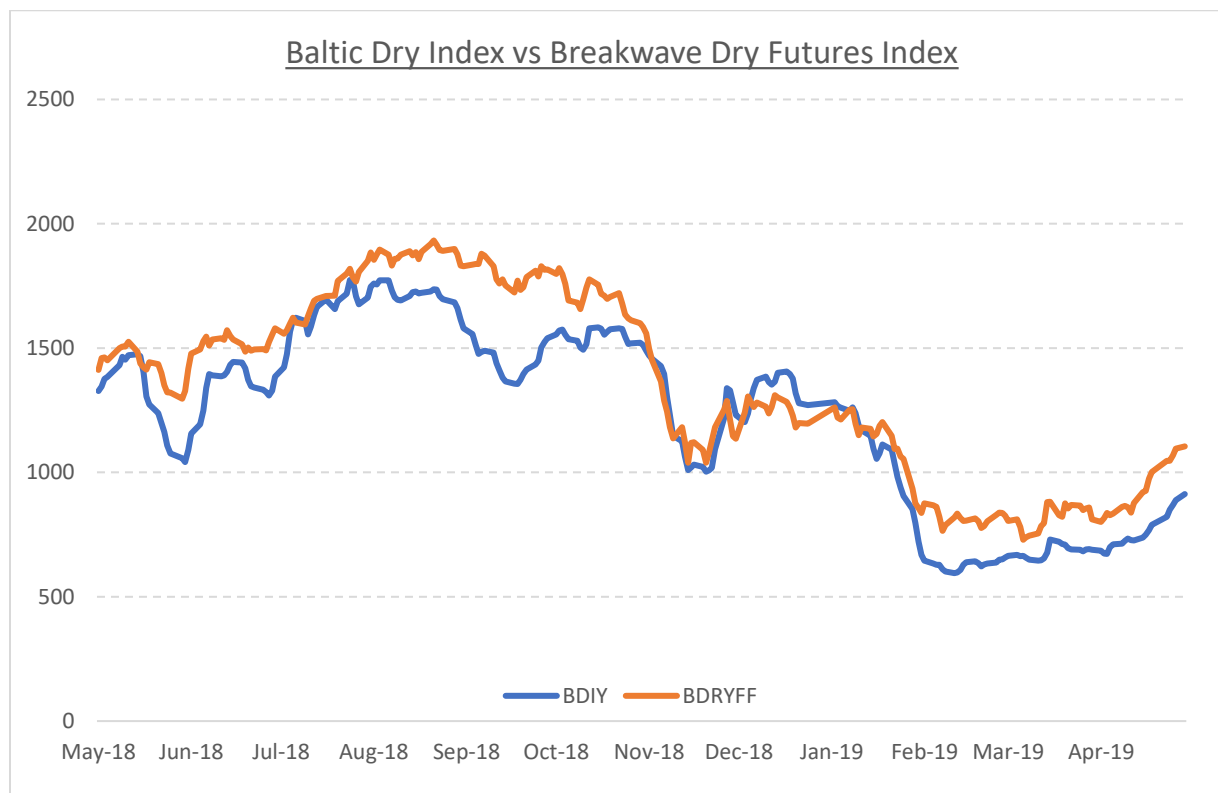
Short-term Indicators:

Momentum: **Positive**
 Sentiment: **Positive**
 Fundamentals: **Positive**

Bi-Weekly Report

- Brazil iron ore exports on path to recovery** - Vale seems to be on a path to recovery as it relates to their iron ore production, following the Brumadinho dam disaster in January. Although production still is far from reaching pre-accident levels, we anticipate that most of the unrelated to accident mines will slowly resume operations. However, spot chartering activity out of Brazil remains nonexistent, and that is the reason for the low absolute levels in Capesize rates. Currently, both Capesize rates and Panamax rates are averaging about 9,500/day.
- Iron ore inventories are drawing down fast** - The most important effect on iron ore balance that the Brazil accident and the Australian disruptions due to the cyclones brought, has to do with iron ore port inventory levels in China. In the last month, onshore port inventories have experienced the highest drawdown in recent history, dropping by a whopping 12mt. Given the lag times between production of iron ore and onshore deliveries, we expect such trend to continue, with Chinese iron ore port inventory dropping below 100mt by mid-summer (~136mt currently and ~160mt all time high). We anticipate iron ore prices to react favorably to such a scenario and incremental high-cost iron ore production to begin entering the market before the end of the year.
- Turning constructive ahead of summer** - Despite all the negative fundamentals affecting the Capesize market, dry bulk rates are on a path to recovery. Were Brazilian iron ore exports to continue to recover, we expect additional strength in the Capesize market, and a counter-seasonal rally likely to develop in the summer. That should set up the market for even more strength ahead of the second half and the upcoming changes in fuel specifications due to the IMO 2020 new regulations.
- Seasonality will not be as profound this year** - This year has been anything but normal for dry bulk. From mine accidents to cyclones to the ongoing trade wars, the seasonal pattern in dry bulk trade has been significantly disrupted. As such, we believe the anticipation for a normal summer will disappoint most market participants. In addition, with IMO 2020 just around the corner, volatility will gradually increase, and we expect significant short-term movements in rates, as we approach the second half of the year.
- 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

<u>Demand</u>	<u>YTD</u>	<u>YOY</u>
China Steel Production	231mt	9.9%
China Steel Inventories	6.3mt	-11.7%
China Iron Ore Imports	261mt	-3.6%
China Iron Ore Inventories	136mt	-14.6%
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%

<u>Supply</u>		
Dry Bulk Fleet	847dwt	0.7%

<u>Freight Rates</u>		
Baltic Dry Index, Average	789	-32.1%
Capesize Spot Rates, Average	8,099	-35.8%
Panamax Spot rates, Average	7,472	-34.0%

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

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