BREAKWAVE ADVISORS

Dry Bulk Shipping

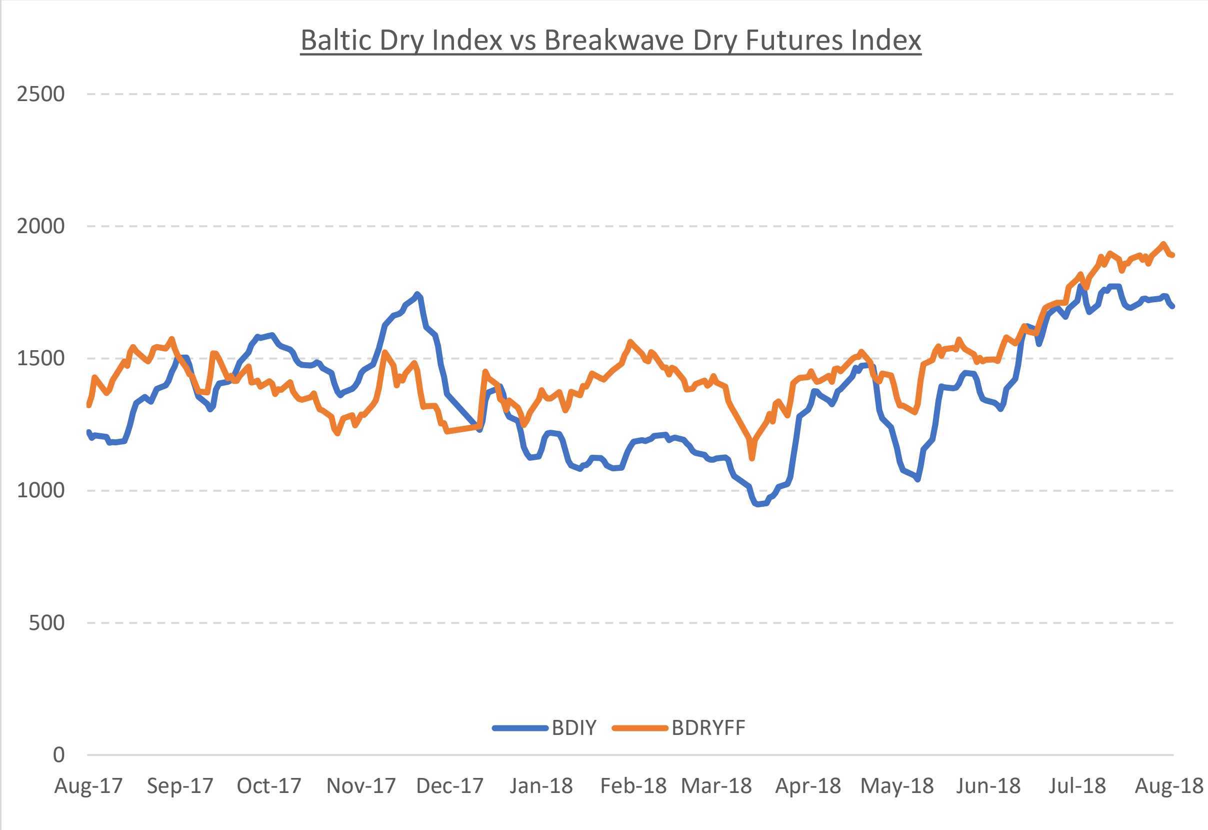
August 28, 2018

Breakwave Dry Futures Index: 1,891	**Baltic Dry Index (spot): 1,697**	**Short-term Indicators:**
↑ *30D: 4.7%*	↑ *30D: 1.3%*	*Momentum:* ***Negative***
↑ *YTD: 54.5%*	↑ *YTD: 24.2%*	*Sentiment:* ***Neutral***
↑ *YOY: 32.4%*	↑ *YOY: 40.4%*	*Fundamentals:* ***Negative***

Bi-weekly Report

- **Capesize rates soften -** Following a period of relative stability, Capesize rates declined, reaching the low end of the recent range, although they remain at very healthy levels for this time of the year. Panamax rates are increasing and are now trading at the top of their recent range (~13,000/d).
- **Atlantic Capesize cargo flow slowing -** After reaching its highest level ever last week, Capesize Atlantic fixtures eased, reflecting slower potential exports on spot Capesize vessels down the road. We expect similar performance in the next several weeks as this indicator has strong mean-reverting characteristics.
- **Historically, Capesize rates bottom in mid-September -** Based on historical patterns, we expect the Capesize rate correction to be short-lived as seasonal strength in both iron ore and coal export should push rates to new highs in the next few months. The Capesize curve is now back in contango, reflecting such expectations.
- **Trade volume statistics supportive, but not impressive -** Year-to-date, dry bulk trade volumes have been strong and higher compared to the same period last year, but iron ore remains below initial expectations (+~2%). There are still five months left to make up the difference, but it seems that without the strong coal volumes, the dry bulk market would not have performed as strong as it has so far this year.
- **Low scrapping continues to support fleet growth -** A few more dry bulk vessels have been scrapped in the last several weeks, but scrapping has been the lowest in many years (run rate of 0.5% of the fleet) as strong rates and high expectations continue to keep a lid on demolitions.
- **Short term outlook cautious -** Although we expect Capesize rates to continue to decline in the next few weeks, with the Panamax market robust and with the seasonally strong fourth quarter ahead, we would sit on the sidelines expecting for a better entry point in the weeks ahead.
- **Long term outlook neutral -** We continue to see positive fundamentals for the year ahead with both supply/demand balance tightening and regulatory changes adding to possible disruptions in trade that can be beneficial for rates. Longer term, we remain more cautious mainly on the back of unfavorable steel fundamentals in China (more use of scrap metal, lower iron ore imports).

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	533mt	6.3%
China Steel Inventories	4.1mt	6.4%
China Iron Ore Imports	621mt	-0.8%
China Iron Ore Inventories	151mt	13.0%
China Coal Imports	175mt	14.3%
China Soybean Imports	53mt	-3.7%
Brazil Iron Ore Exports	220mt	2.3%
Australia Iron Ore Exports	422mt	5.3%

Supply		
Dry Bulk Fleet	834dwt	2.0%

Freight Rates		
Baltic Dry Index, Average	1,331	35.2%
Capesize Spot Rates, Average	16,579	42.4%
Panamax Spot rates, Average	11,219	27.8%

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

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