Dry Bulk Shipping

December 18, 2018

Breakwave Dry Futures Index:	**1,299**	**Baltic Dry Index (spot):**	**1,406**	**Short-term Indicators:**	
↑ *30D: 15.8%*		↑ *30D: 36.4%*		*Momentum:*	**Positive**
↑ *YTD: 6.2%*		↑ *YTD: 2.9%*		*Sentiment:*	**Neutral**
↓ *YOY: -1.5%*		↓ *YOY: -13.2%*		*Fundamentals:*	**Neutral**

Bi-weekly Report

- **Best year for dry bulk rates since 2011 –** Despite the negative sentiment due to a weaker than anticipated Q4, the dry bulk market experienced one of its best years in recent history, with each segment averaging above breakeven rates and posting a ~19% increase from last year's levels. Panamax rates were the strongest, on average, up ~20% from 2017 while Capesizes were up ~9%.

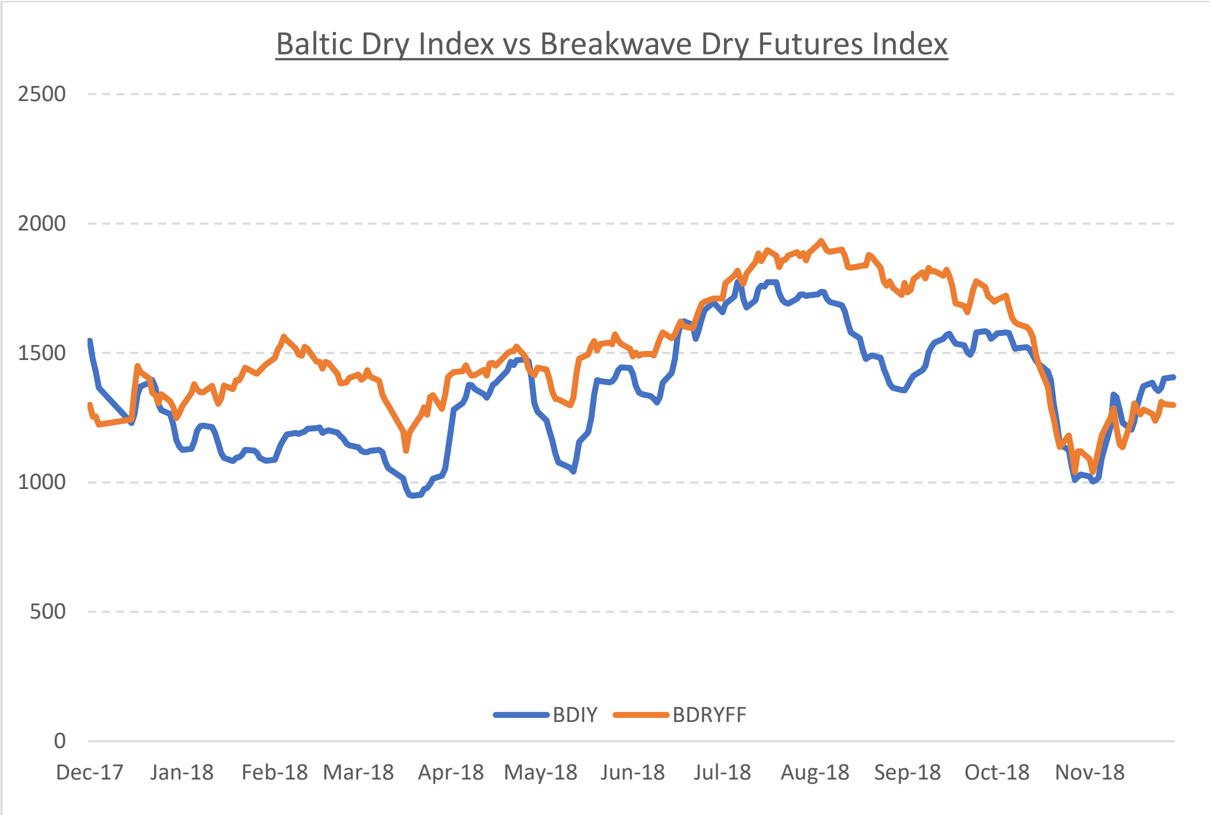
- **2019 should see higher average rates –** Although broader economic uncertainty is currently negatively affecting most asset classes, including shipping, the outlook for dry bulk remains positive: a relatively slow expected fleet growth combined with some growth in dry bulk trade and stronger growth in ton-mile demand, should provide a decent supply/demand balance for freight rates next year. On balance, rates should average above this year's levels, with the second half of 2019 holding the best prospects.

- **The positives: Coal trade should continue to drive dry bulk demand in 2019 –** Although structurally the coal market is in a gradual decline, China continues to import considerable amounts of coal relative to the global size of the coal trade. Soybeans should also experience better volumes in terms of trading which will be supportive for the smaller size vessels. Overall, coal and soybeans should experience stronger trade volumes next year.

- **The negatives: Iron ore growth in consolidation phase –** We believe the structural nature of strong iron ore import volumes that the market has experienced in the past two decades is coming to an end, and it will be inventory cycles that will shape the volume outlook for now on. As such, the recent drawdown in iron ore inventories is a positive, but not yet enough for any spectacular volume growth. We expect flat iron ore volumes next year, although Brazil exports should see some growth resulting from the Anglo-American resumption of exports.

- **The surprises: IMO 2020 –** The IMO 2020 upcoming regulations can potentially lead to considerable disruptions on the supply side of shipping, causing a lot of volatility in freight rates as we approach the implementation phase. Combined with the current economic trade dispute uncertainty which might be resolved at some point next year and the potential for a Chinese economic stimulus, 2019 should be the most interesting year for shipping in a very long time.

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	857mt	6.7%
China Steel Inventories	2.8mt	-0.1%
China Iron Ore Imports	978mt	-1.3%
China Iron Ore Inventories	137mt	-4.5%
China Coal Imports	271mt	8.9%
China Soybean Imports	82mt	-4.3%
Brazil Iron Ore Exports	353mt	0.5%
Australia Iron Ore Exports	696mt	2.1%

Supply		
Dry Bulk Fleet	841dwt	2.8%

Freight Rates		
Baltic Dry Index, Average	1,353	18.9%
Capesize Spot Rates, Average	16,540	10.4%
Panamax Spot rates, Average	11,652	19.9%

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

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