Dry Bulk Shipping

December 4, 2018

Breakwave Dry Futures Index: 1,136	Baltic Dry Index (spot): 1,203	Short-term Indicators:	
↓ *30D: -21.8%*	↓ *30D: -17.4%*	*Momentum:*	Positive
↓ *YTD: -7.1%*	↓ *YTD: -11.9%*	*Sentiment:*	Neutral
↓ *YOY: -25.4%*	↓ *YOY: -26.0%*	*Fundamentals:*	Positive

Bi-weekly Report

- **Capesize rates recover –** Capesize rates posted a spectacular recovery from their recent lows, more than doubling in a matter of days before turning a bit lower, currently standing at ~14,000/day. The resuming of regular Australian iron ore exports following BHP's rail incident in early November brought more confidence in the market helping rates recover. Panamax rates also continue to improve, currently standing at ~12,000/day ahead of what might be a strong first half of 2019.

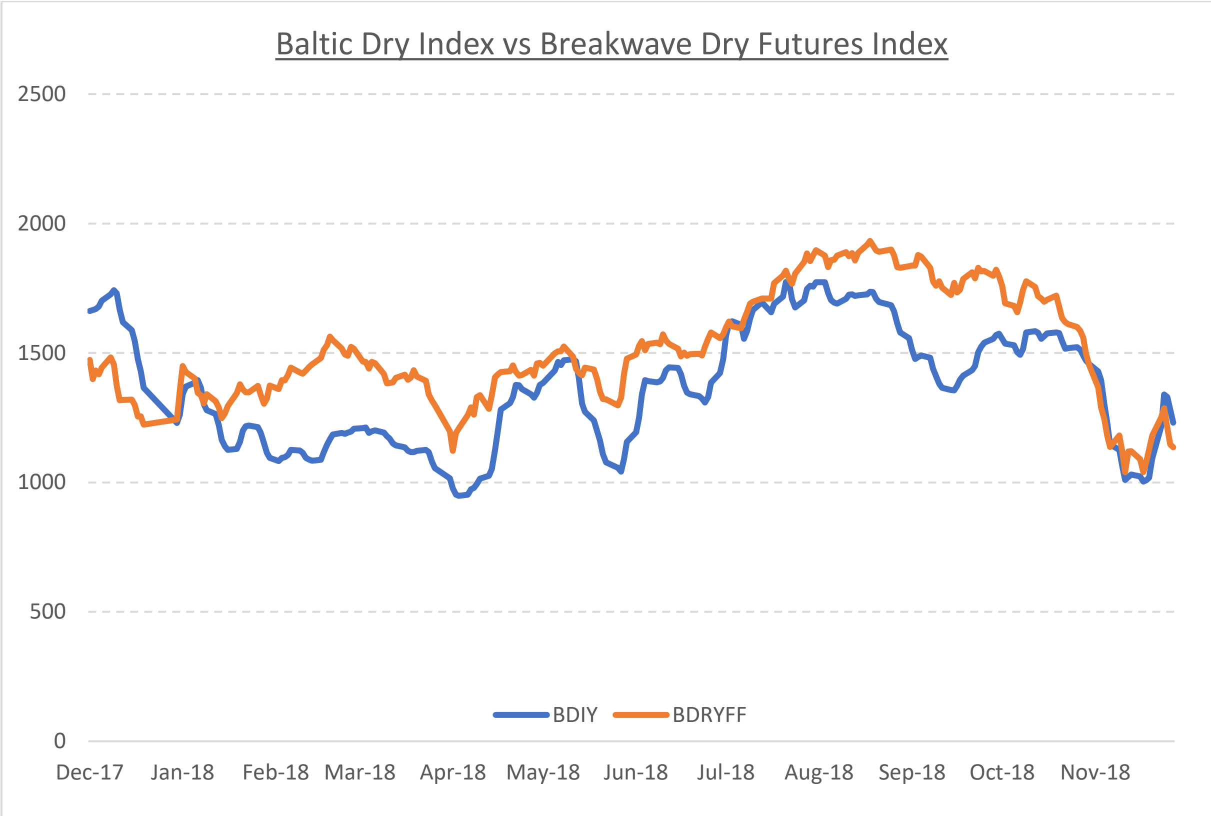
- **Seasonal uptick muted –** This year's seasonal strength has been muted, with a challenging macro environment, ongoing trade disputes, and environmental restrictions on coal by China as the main reasons for the weaker than anticipated performance. We believe some of the above challenges will be gradually solved (see recent announcement of a trade truce between US and China) and that should have a positive impact on the dry bulk market balance.

- **Q1 is traditionally a weak period –** Although it seems that seasonality this year was not as profound for dry bulk with Q3 ending up being the strongest quarter (rather than Q4), Q1 has historically exhibited the weakest performance in terms of dry bulk rates. Weather is the major reason for that affecting mainly the iron ore exporting areas (Brazil rain season and Australia cyclone season). However, given the rate progression over the last six months combined with the potential for inventory restocking, especially in soybeans and coal, we are a bit skeptical on whether that will hold this time around.

- **Short term outlook positive –** We expect Capesize rates to continue drifting higher while Panamax rates should find good support following the recent announcements by China on purchases of agricultural goods. We believe the first quarter of 2019 will be stronger than most people anticipate, as restocking and renewed soybean and coal imports from China should support the market.

- **Long term outlook neutral –** We also expect the second half of next year to be positive for dry bulk, mainly due to the upcoming change in fuel specifications, but supply/demand balance now looks less favorable. Coal remains the main commodity to watch, as it accounts for most of the expected growth. Longer term, we remain cautious mainly on the back of unfavorable steel fundamentals in China (more use of scrap metal, flattening steel demand growth).

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	782mt	6.4%
China Steel Inventories	2.9mt	-3.2%
China Iron Ore Imports	892mt	-0.5%
China Iron Ore Inventories	138mt	-2.7%
China Coal Imports	251mt	11.1%
China Soybean Imports	77mt	-0.5%
Brazil Iron Ore Exports	346mt	-1.5%
Australia Iron Ore Exports	629mt	2.7%

Supply		
Dry Bulk Fleet	840dwt	2.7%

Freight Rates		
Baltic Dry Index, Average	1,353	21.4%
Capesize Spot Rates, Average	16,535	14.9%
Panamax Spot rates, Average	11,649	21.7%

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

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