BREAKWAVE ADVISORS

Dry Bulk Shipping

November 20, 2018

Breakwave Dry Futures Index:	1,120	Baltic Dry Index (spot):	1,023	Short-term Indicators:	
↓ *30D: -34.3%*		↓ *30D: -35.1%*		*Momentum:*	**Negative**
↓ *YTD: -8.5%*		↓ *YTD: -25.1%*		*Sentiment:*	Neutral
↓ *YOY: -12.1%*		↓ *YOY: -25.4%*		*Fundamentals:*	Neutral

Bi-weekly Report

- **Capesize rates collapse –** Capesize rates experienced their steepest two-week decline in four years, dropping below USD 10,000/day and reaching their lowest level since early April. Freight futures saw a much more dramatic drop as the whole curve all the way to 2022 experienced one of the most dramatic moves in recent memory (October 2013 was the most recent comparable period). Panamax rates also declined, breaking below USD 12,000/day, but remained better supported despite all the negative news.

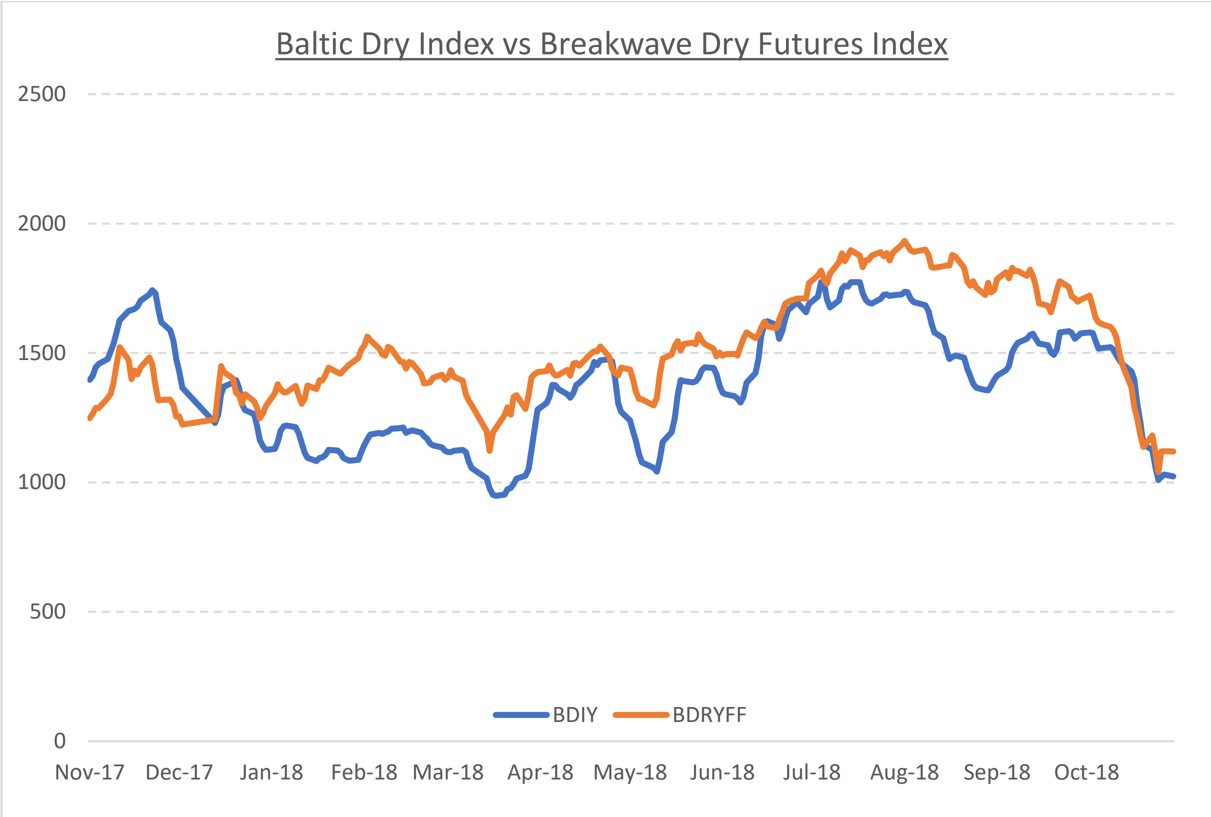
- **Reasons vs. Catalysts –** In the last few months, Chinese demand has been experiencing signs of a gradual slowdown. From iron ore to coal to soybeans, import activity has declined compared to the first half of the year. Economic numbers have also been discouraging with both manufacturing and industrial production slowing down. In dry bulk, the catalyst for the unwind of long positions came in the form of BHP's rail incident and the lost volumes for a week. A nervous market took this opportunity to react, leading to a few panicky, heavy volume days in freight futures trading last week.

- **Now what? –** It is hard to see how freight rates will remain at this level for a long period of time. The supply/demand balance in dry bulk points to a higher price equilibrium. In addition, Capesize spot rates are now below the smaller Panamax and Supramax segments, something that historically has not lasted long. However, in the short-term, sentiment prevails, and although we view current levels as attractive, the timing of any recovery is now highly uncertain.

- **Short term outlook positive –** With spot Capesize rates back to recent lows, but with still a few weeks of seasonally strong demand coming, we expect a rebound in spot Capesize rates. The degree of such rebound, however, will be small as sentiment is running low while there are only a few weeks left before such seasonality begins to fade. We expect the first quarter of 2019 to be stronger than most people anticipate, as restocking and renewed coal imports from China should support the market.

- **Long term outlook neutral –** We believe the second half of next year will 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 more cautious mainly on the back of unfavorable steel fundamentals in China (more use of scrap metal, flattening steel demand).

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	3.1mt	-14.7%
China Iron Ore Imports	892mt	-0.5%
China Iron Ore Inventories	141mt	1.5%
China Coal Imports	251mt	11.1%
China Soybean Imports	77mt	-0.5%
Brazil Iron Ore Exports	319mt	0.6%
Australia Iron Ore Exports	629mt	2.7%

Supply

Dry Bulk Fleet	838dwt	2.5%

Freight Rates

Baltic Dry Index, Average	1,361	23.9%
Capesize Spot Rates, Average	16,710	19.8%
Panamax Spot rates, Average	11,662	22.4%

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

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