BREAKWAVE
ADVISORS

Dry Bulk Shipping

October 23, 2018

Breakwave Dry Futures Index:	1,706	Baltic Dry Index (spot):	1,579	Short-term Indicators:	
↓ *30D: -4.5%*		↑ *30D: 11.7%*		*Momentum:*	Neutral
↑ *YTD: 39.4%*		↑ *YTD: 15.6%*		*Sentiment:*	Positive
↑ *YOY: 22.4%*		↑ *YOY: 0.1%*		*Fundamentals:*	Neutral

Bi-weekly Report

- **Capesize rates have stabilized –** Capesize rates have recently found a floor, stabilizing above the 17,000/d level, and have been slowly drifting higher (currently at 19,000/d), following the futures market that is pricing a 30%+ upward move in the very near future. Panamax rates, after reaching multi-year highs, are now slowly drifting lower, still supported by strong coal volumes especially in the Atlantic basin.

- **Atlantic Capesize cargo volume steadying –** Expectations for the next several weeks call for a sharp increase in cargo volume, especially for iron ore, as the major miners ramp up production and exports in the seasonally strong period of the year. We believe stronger volumes are likely to show up as there is some discrepancy between production figures and YTD shipped volumes. However, we believe considerable inventory build in the Asia-Pacific region will limit the long-haul volumes which might limit the potential for freight rate increases.

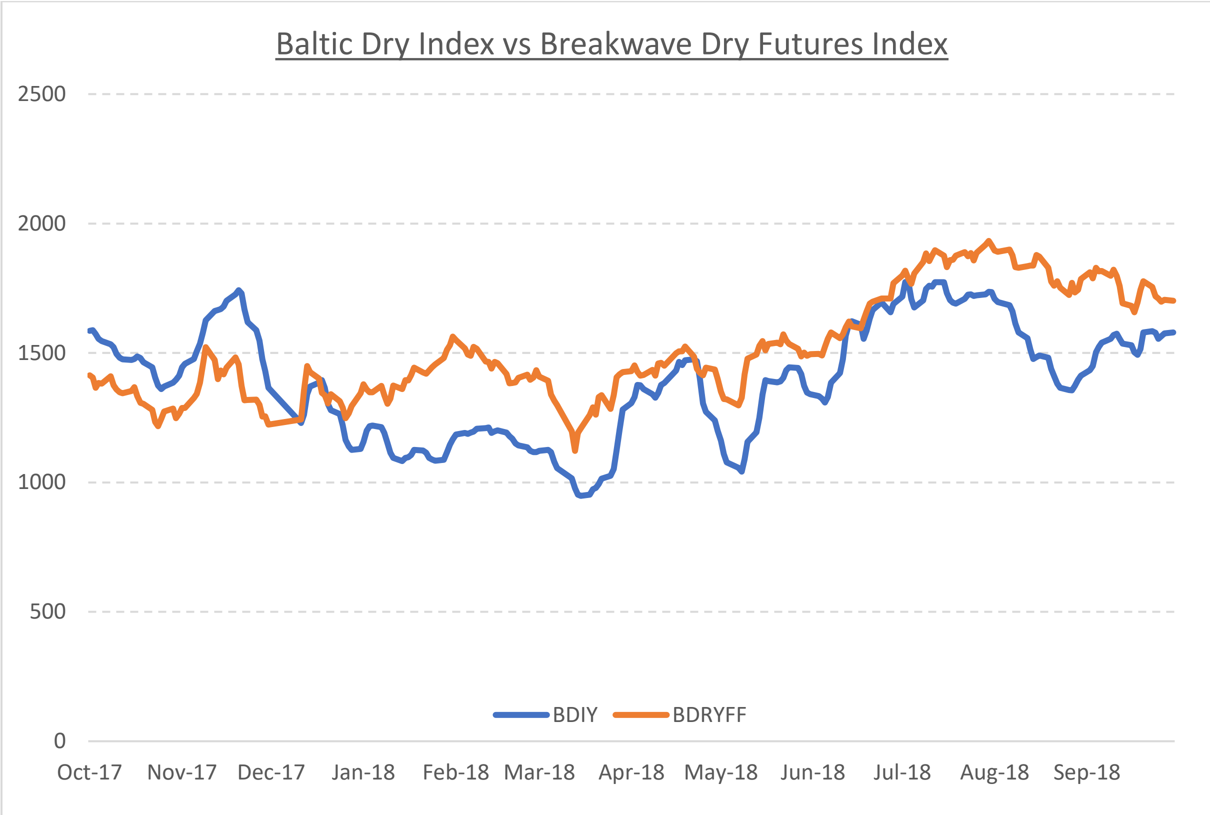
- **Economic data out of China continues to disappoint –** Recent GDP data as well as industrial production figures point a to a weakening economic activity in China. Steel production remains very strong though, and as far as shipping is concerned, that is a positive element in an otherwise muted economic data.

- **Brazil iron ore exports should increase by ~15mt this year –** Vale's iron ore exports continue to increase at considerable rates, and that should add to this year's export figures out of Brazil. Partly offset such increase are the lost Minas Rio volumes, due to an accident earlier in the year. Overall, Brazil should be a net addition to the seaborne market in the magnitude of ~15mt for all 2018.

- **Short term outlook neutral –** Although the forward curve is already pricing an increase in Capesize rates over the next few months while Panamax rates are sitting close to 4-year highs and at only a slight discount to Capesize rates, we remain positive on dry bulk for the rest of the year. However, as every week passes, and rates remain stable, the potential for a significant increase in rates decreases.

- **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	699mt	6.1%
China Steel Inventories	4.2mt	0.4%
China Iron Ore Imports	803mt	-1.6%
China Iron Ore Inventories	144mt	9.0%
China Coal Imports	228mt	11.3%
China Soybean Imports	70mt	-2.0%
Brazil Iron Ore Exports	290mt	3.0%
Australia Iron Ore Exports	559mt	3.7%

Supply		
Dry Bulk Fleet	837dwt	2.4%

Freight Rates		
Baltic Dry Index, Average	1,365	28.7%
Capesize Spot Rates, Average	16,879	27.9%
Panamax Spot rates, Average	11,602	24.9%

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

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