Dry Bulk Shipping

October 9, 2018

Breakwave Dry Futures Index: 1,688	Baltic Dry Index (spot): 1,530	Short-term Indicators:	
↓ *30D: -9.8%*	↑ *30D: 2.7%*	*Momentum:*	Negative
↑ *YTD: 38.0%*	↑ *YTD: 12.0%*	*Sentiment:*	Neutral
↑ *YOY: 12.7%*	↑ *YOY: 8.9%*	*Fundamentals:*	Positive

Bi-weekly Report

- **Capesize rates under pressure –** With the seasonally strong fourth quarter underway, Capesize rates remain soft following the considerable rally during Q3. Although it is still early in the quarter, we believe that the chances of a considerable increase in Capesize rates are decreasing and a lot of the "seasonality" this time around was moved forward to Q3. Panamax rates are faring better, now at their highest point since 2014, averaging ~14,000/d.

- **Atlantic Capesize cargo still below trend –** Following a very strong Q3, Atlantic cargo flow has now declined to below-trend levels, which is not surprising given the softening in Capesize rates. We expect activity to increase going into November, but whether that will be sufficient to cause a sharp increase in rates is now debatable.

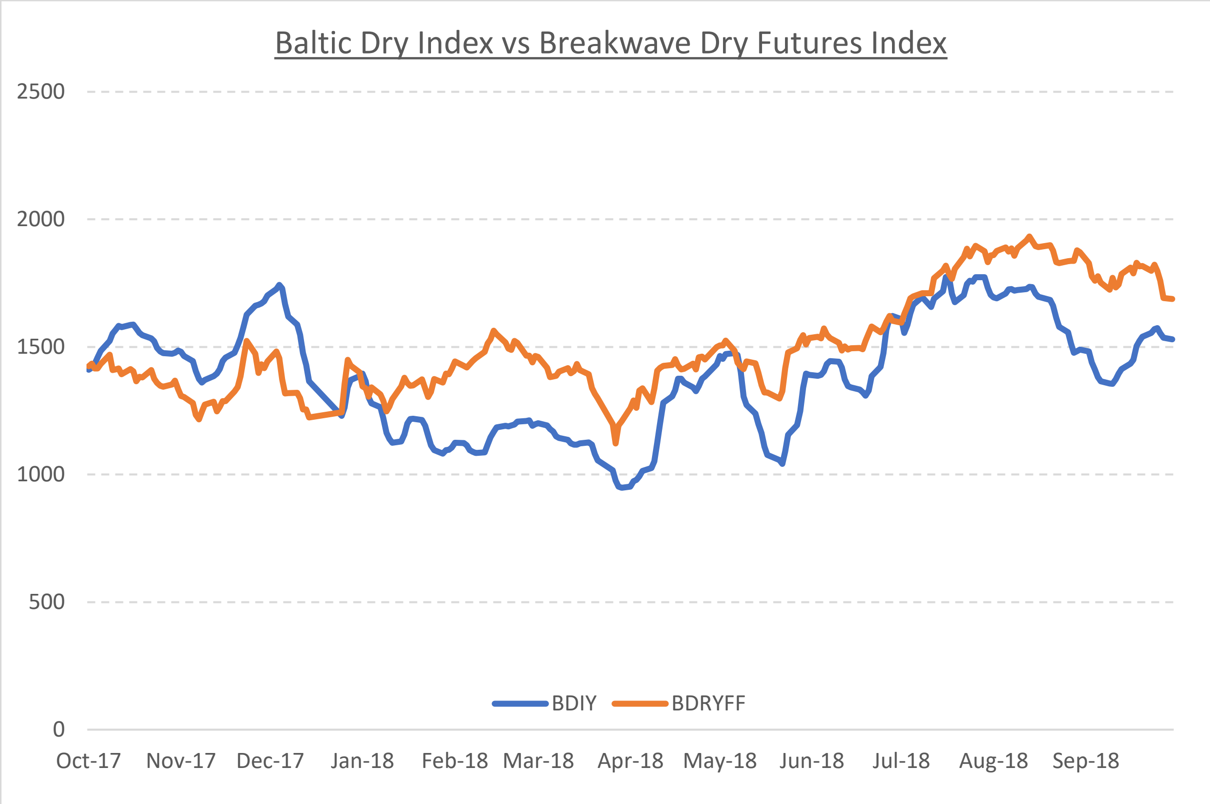
- **Economic data out of China not encouraging –** Recent economic data out of China point to a slowdown in activity, with PMI numbers now at the weakest level in more than year. However, the recent newly announced economic stimulus might provide some support.

- **Brazil iron ore exports now up for the year –** Following very strong export numbers for September (reflecting August Atlantic fixtures), iron ore exports out of Brazil are now up 3% for the year. The absence of exports from the Minas Rio mining complex is having a negative impact on volumes and we expect the overall year to show an increase of ~11mt in Brazil iron ore exports.

- **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 at 4-year highs and at only a slight discount to Capesize rates, we still remain positive on dry bulk for the rest of the year. The fourth quarter has provided some of the strongest spot rate rallies in recent years and as such we would not yet discard a strong end to the year for dry bulk.

- **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	617mt	5.8%
China Steel Inventories	4.1mt	0.7%
China Iron Ore Imports	710mt	-0.6%
China Iron Ore Inventories	146mt	9.4%
China Coal Imports	203mt	14.2%
China Soybean Imports	62mt	-2.1%
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	1,356	30.6%
Capesize Spot Rates, Average	16,811	31.4%
Panamax Spot rates, Average	11,469	25.8%

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

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