BREAKWAVE ADVISORS

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Dry Bulk Shipping

May 28, 2019

Breakwave Dry Futures Index:	1,237	Baltic Dry Index (spot):	1,066	Short-term Indicators:	
↑ *30D: 17.9%*		↑ *30D: 25.4%*		*Momentum:*	Neutral
↑ *YTD: 3.1%*		↓ *YTD: -16.1%*		*Sentiment:*	Neutral
↓ *YOY: -6.7%*		↓ *YOY: -3.9%*		*Fundamentals:*	Positive

Bi-Weekly Report

- **Rates stable across all classes –** Over the last few weeks, it seems that rates have reached an equilibrium, with all asset classes remaining relatively steady. Capesize rates are hovering around 12,000/day while Panamax rates are averaging about 10,000/day. In fact, spot rates, as measured by the Baltic Dry Index, are now at almost the same level as last year despite all the headwinds coming from the three major dry bulk markets, namely iron ore, coal and grains. Such environment shows that actually the balance of the market was quite tight prior to the extraordinary events that led to the significant decline in rates.

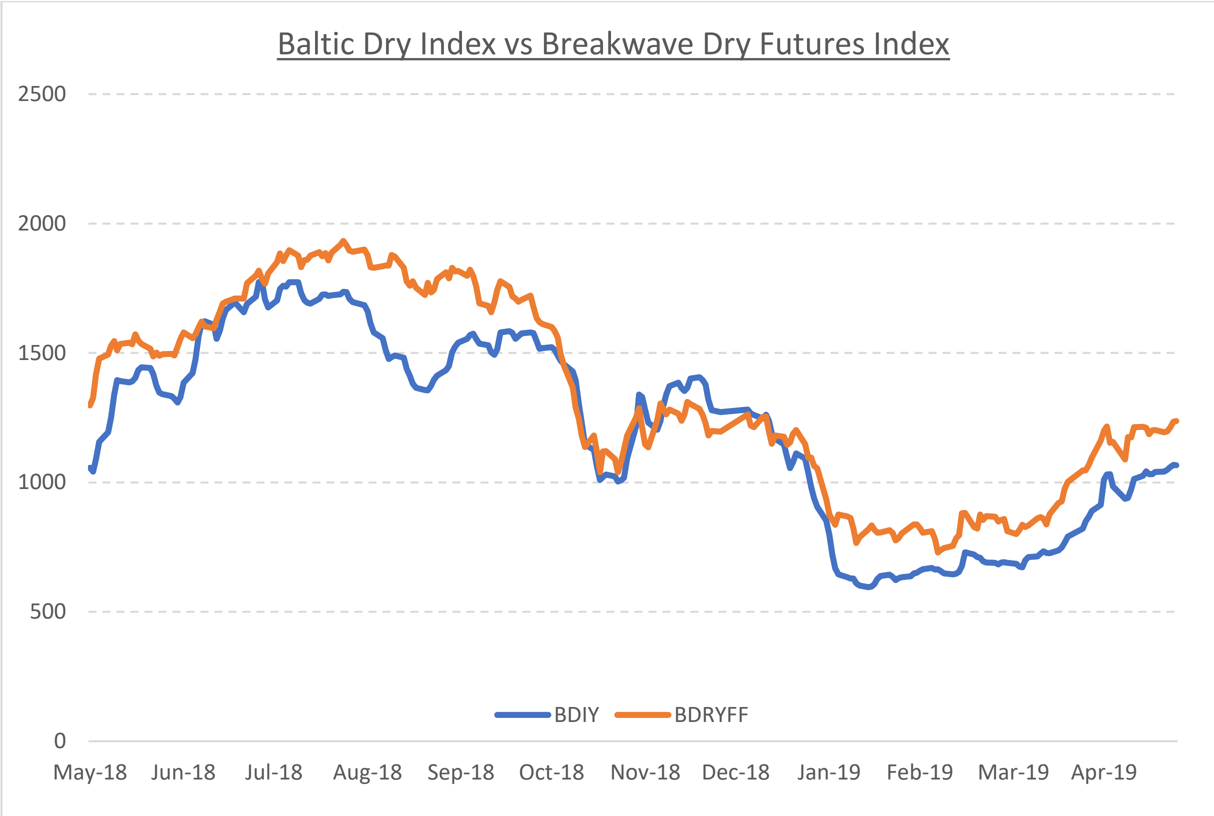
- **Iron ore inventories now at 2-year lows –** Iron ore inventories are drawing down fast. Although the impact on the freight market is not yet visible, we believe that as we head into the summer and fall, the logistical issues that come with tight inventories will actually help the freight market and we expect considerable volatility in rates during the second half of the year. In addition, with iron ore prices now above $100/ton and at the highest level since 2014, the percentage of freight on the overall price is now much lower and thus allows for larger fluctuations in time charter equivalent rates.

- **Summer has historically been a good period for dry bulk –** In the last ten years, the early summer months have been quite supportive for dry bulk freight, with June showing as one of the most positive months during an average year. Last year, during the month of June, spot rates climbed more than 30%. We expect a relatively strong early summer for dry bulk, as the early year slowdown reverses and the effects of such slowdown dissipate.

- **Capesize vessel speeds remain very low –** Although it is difficult to pinpoint the exact reason for the significant decline in the Capesize average speed, currently, the global Capesize fleet is steaming at the lowest speed since measurements became available. Such a decline followed the Brazil dam disaster during the first quarter, and although it has recovered slightly from the all-time lows, it is still well below the level that the Capesize fleet has been steaming over the last few years. Such an environment is quite supportive for rates as it tightens the supply/demand balance, although we expect speeds to slowly recover as the year progresses.

- **Long term neutral -** Slower economic growth and the maturing nature of the Chinese economy when it comes to infrastructure spending, are two major headwinds for dry bulk shipping. The Chinese steel market is maturing, absorbing less and less incremental iron ore while scrap use is gradually increasing.

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	315mt	10.1%
China Steel Inventories	5.2mt	-8.3%
China Iron Ore Imports	340mt	-3.7%
China Iron Ore Inventories	128mt	-20.4%
China Coal Imports	100mt	2.3%
China Soybean Imports	24mt	-7.9%
Brazil Iron Ore Exports	103mt	-6.8%
Australia Iron Ore Exports	188mt	-5.5%

Supply

Dry Bulk Fleet	849dwt	0.9%

Freight Rates

Baltic Dry Index, Average	831	-30.5%
Capesize Spot Rates, Average	8,742	-35.2%
Panamax Spot rates, Average	7,895	-28.8%

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

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