Dry Bulk Shipping

January 22, 2019

Breakwave Dry Futures Index: 1,204	**Baltic Dry Index (spot): 1,092**	**Short-term Indicators:**
↑ *30D: 0.4%*	↓ *30D: -14.6%*	*Momentum:* Neutral
↑ *YTD: 0.6%*	↓ *YTD: -14.1%*	*Sentiment:* Positive
↓ *YOY: -7.1%*	↓ *YOY: -2.9%*	*Fundamentals:* Neutral

Bi-Weekly Report

- **Counter-seasonal strength in Capesizes –** Capesize rates have held up quite well, despite the anticipated seasonal weakness that the beginning of the year usually brings, and more importantly, a sharp downturn in rates for smaller size vessels. With current Capesize rates at ~15,500/day, the large size sector has been mostly trading in a tight range (14,000/day-19,000/day) for five months now, which might reflect some underlying support in the demand/supply balance. Panamax rates have been in a steady decline since peaking in October and are now assessed at ~8,000/day.

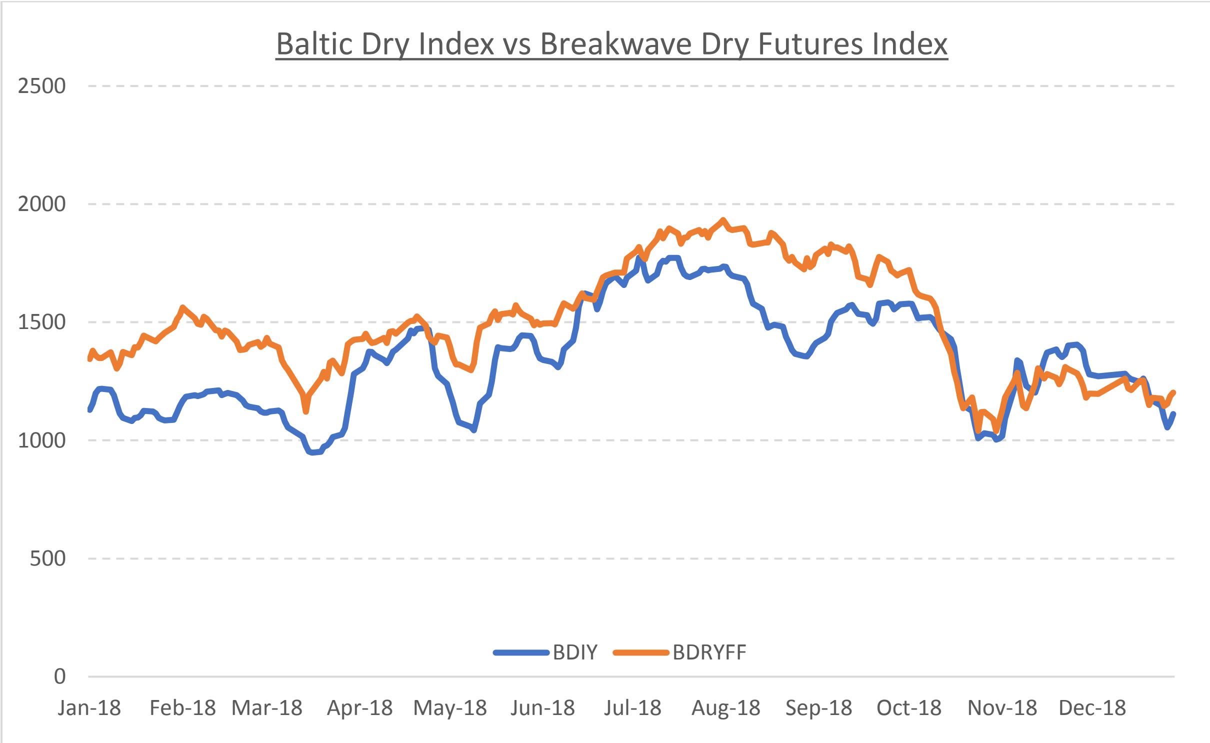
- **China macro weakening, but shipping balance improving –** Economic data out of China has lately not been supportive for shipping. Although a change on such economic fundamentals could potentially turn things around, we have yet to see encouraging signs coming out of the second largest economy. On the other hand, we expect a tightening supply for dry bulk due to increased offhire time (scrubber installations) to lead to an improved market, especially in the Atlantic basin (most installations will be happening in Asia) and that can continue to provide support to freight rates.

- **2019 is all about 2020 –** We expect the second half of the year to be characterized by considerable volatility in freight rates, as delays, dislocations and fuel differentials due to the upcoming IMO 2020 regulations will cause a general disruption in the freight market. However, we believe major miners are also anticipating such an environment, and we expect more cargo to be shipped in the 1H of the year.

- **Short term neutral –** We expect Capesize rates to continue to trade in the recent range, but find more support following the Chinese New Year (February 5th). We also expect rates for smaller size ships to turn around towards the end of this month. Overall, we remain constructive despite the seasonal headwinds the dry bulk market usually experiences this time of the year, but the macro environment will limit any upside for now.

- **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. Such structural headwinds are difficult to overcome without a considerable reduction in the size of the fleet. However, volatility will always remain part of the dry bulk market.

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	928mt	6.6%
China Steel Inventories	3.7mt	-4.1%
China Iron Ore Imports	1064mt	-1.0%
China Iron Ore Inventories	141mt	-8.8%
China Coal Imports	281mt	3.6%
China Soybean Imports	88mt	-7.9%
Brazil Iron Ore Exports	386mt	0.6%
Australia Iron Ore Exports	762mt	1.4%

Supply

Dry Bulk Fleet	841dwt	2.9%

Freight Rates

Baltic Dry Index, Average	1,178	-7.6%
Capesize Spot Rates, Average	15,140	-10.3%
Panamax Spot rates, Average	9,481	-13.1%

Note: All numbers as of latest available; Sources: Bloomberg and Breakwave Advisors   **based on 2018 figures except Freight Rates*

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