BREAKWAVE ADVISORS

Dry Bulk Shipping

November 6, 2018

Breakwave Dry Futures Index:	1,447	Baltic Dry Index (spot):	1,428	Short-term Indicators:	
↓ *30D: -14.5%*		↓ *30D: -7.0%*		*Momentum:*	**Negative**
↑ *YTD: 18.3%*		↑ *YTD: 4.5%*		*Sentiment:*	Neutral
↑ *YOY: 7.7%*		↓ *YOY: -3.3%*		*Fundamentals:*	**Negative**

Bi-weekly Report

- **Capesize rates weakening –** Following a short period of relative stability, Capesize rates are once again turning lower, currently averaging ~17,000/day. Despite an increase in activity over the last few weeks, buildup in tonnage, especially in the Atlantic region, was more than enough to satisfy demand. Panamax rates have also declined from their recent peak but appear more stable despite weaker cargo flows. Panamax rates currently are averaging ~12,000/day.

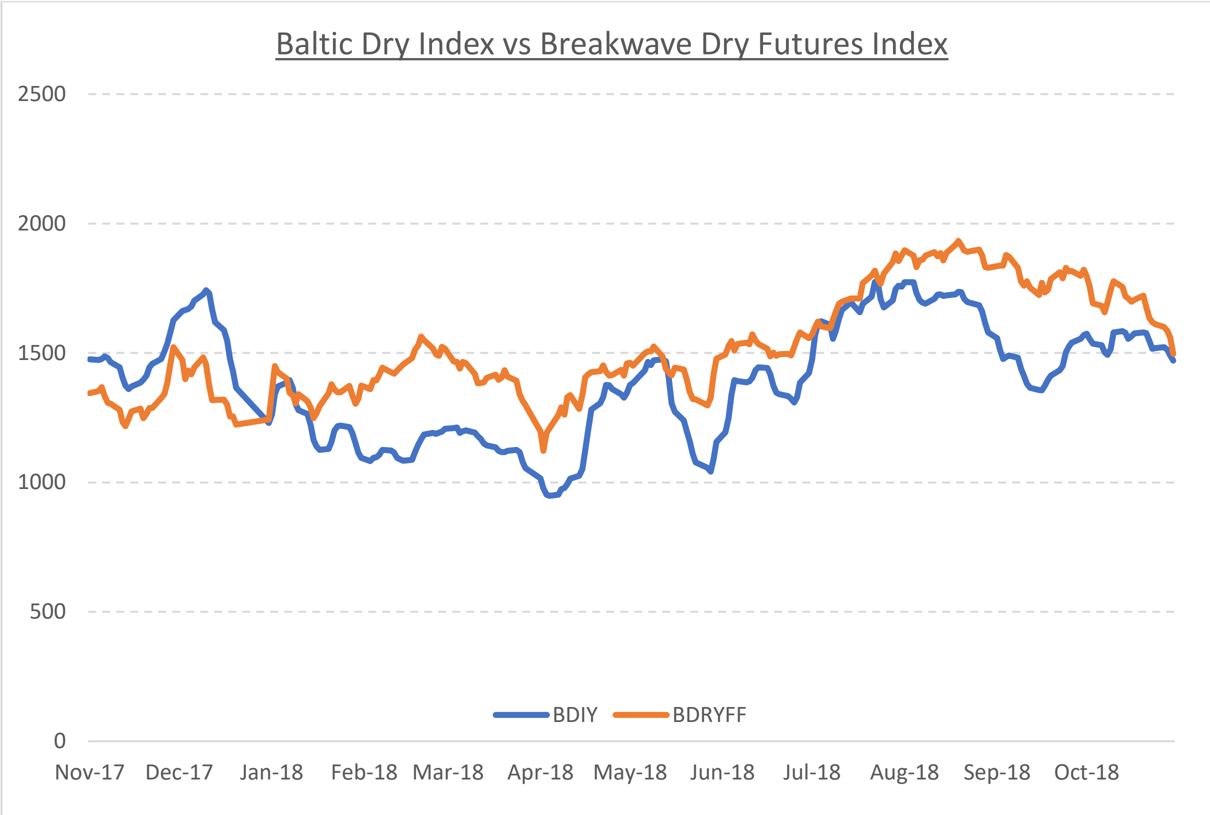
- **Atlantic Capesize cargo volume increased –** We believe that the Q4 cargo flow surge, that usually lead to a spike in Capesize rates, might already have occurred. Our Atlantic cargo flow indicator is now at the highs of recent years. However, the increase failed to spark a rally in Capesize rates. That is particularly concerning, as this indicator has strong mean reverting characteristics, and any decline in cargo flow might have an additional negative impact on Capesize rates.

- **Economic data out of China soft –** With the recent PMI data hovering between expansion and contraction as it relates to economic activity in China, it is no wonder that the dry bulk market remains depressed relative to expectations. This is a worrisome development, especially for early next year. Although freight futures for 2019 have already declined considerably, the risk is increasing of a weaker market in the first half of next year.

- **Short term outlook negative –** Dry bulk freight is volatile, and a turn in rates for the better is always on the table. However, with cargo flow at seasonal highs and a falling spot market, we believe the balance has tilted towards weaker rates in the near term. 2018 might mark a year when Q3 rates will average above Q4, which has happened only twice in the last 15 years (2008 and 2015). Freight futures for the remainder of the year are now close to flat to spot, down from high premiums just only a few days back.

- **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, 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	3.6mt	-12.5%
China Iron Ore Imports	803mt	-1.6%
China Iron Ore Inventories	142mt	3.9%
China Coal Imports	228mt	11.3%
China Soybean Imports	70mt	-2.0%
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	1,372	26.7%
Capesize Spot Rates, Average	16,974	24.8%
Panamax Spot rates, Average	11,651	23.4%

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

Contact:
Breakwave Advisors LLC
25 Broadway, 9th floor
New York, NY 10280
Tel: +(1) 646 775 2898
Email: research@breakwaveadvisors.com