BREAKWAVE ADVISORS

Dry Bulk Shipping

February 5, 2019

Breakwave Dry Futures Index: 880	Baltic Dry Index (spot): 634	Short-term Indicators:
↓ *30D: -27.5%*	↓ *30D: -49.7%*	*Momentum:* **Negative**
↓ *YTD: -26.5%*	↓ *YTD: -50.1%*	*Sentiment:* **Negative**
↓ *YOY: -36.0%*	↓ *YOY: -42.1%*	*Fundamentals:* **Neutral**

Bi-Weekly Report

- **Vale accident a negative but not a gamechanger -** The recent dam burst in one of Vale's mining sides is a horrible accident and a major loss of life that the industry has not experienced in years (coal mining is the most relevant mining function that historically had led to serious accidents and many lives lost). We expect the accident to lead to increased scrutiny on all mining operations in the developed world, while for Vale, increased inspections in its existing operations and initiatives by the company to address safety issues will lead to lower production and lower exports of iron ore.

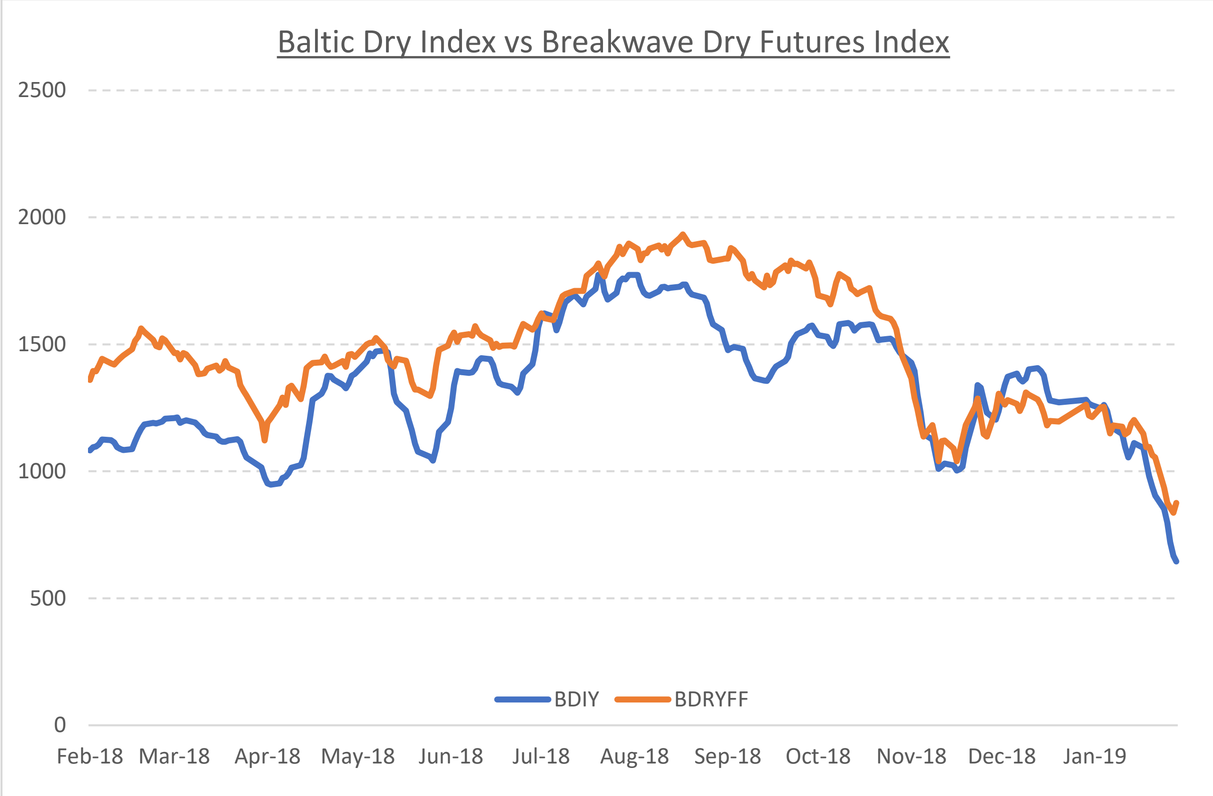
- **Net volume effect for Brazilian exports to be muted -** The fact that last year's Brazilian exports were negatively affected by another accident (Anglo-American pipeline burst) means that the year-over-year effect on overall Brazilian exports should be relatively muted. Anglo American has resumed operations and given the iron ore recent price increase, we expect exports out of their Brazilian mining operations to reach their capacity limit. We believe Vale's total net decline in exports should not exceed 20mt for the year given their guidance and the inventories at the mine and blending side levels. All in all, we expect flat year-over-year growth in iron ore exports out of Brazil.

- **Dry bulk freight rates about to bottom -** We expect the overall dry bulk market to bottom in the next few weeks as rates for most segments are now below operating expense levels. The intensity of the decline coupled with a lot of negativity in sentiment makes us believe the bottom is very near. The Baltic Dry Index has rarely spent much time below 600, and with that level in sight, we believe a turnaround is imminent.

- **The catalysts for the turnout are in place -** Grain exports in the second quarter from both the North and the South Atlantic should boost freight rates for smaller size vessels following the recent commitment by China to buy American soybeans. In addition, iron ore exports should remain relatively strong given recent price increases, while Capesize supply will continue be affected by scrubber installations downtime.

- **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	4.7mt	3.7%
China Iron Ore Imports	1064mt	-1.0%
China Iron Ore Inventories	138mt	-9.7%
China Coal Imports	281mt	3.6%
China Soybean Imports	88mt	-7.9%
Brazil Iron Ore Exports (Jan)	33mt	8.9%
Australia Iron Ore Exports	762mt	11.6%

Supply

Dry Bulk Fleet	841dwt	2.9%

Freight Rates

Baltic Dry Index, Average	1,028	-16.5%
Capesize Spot Rates, Average	13,671	-10.1%
Panamax Spot rates, Average	7,893	-29.1%

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

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