Dry Bulk Shipping

March 5, 2019

Breakwave Dry Futures Index: 808	Baltic Dry Index (spot): 669	Short-term Indicators:	
↓ *30D: -7.3%*	↑ *30D: 5.5%*	*Momentum:*	Positive
↓ *YTD: -32.7%*	↓ *YTD: -47.4%*	*Sentiment:*	Negative
↓ *YOY: -46.9%*	↓ *YOY: -44.6%*	*Fundamentals:*	Neutral

Bi-Weekly Report

- **Activity subdued -** Capesize rates reached multi-year lows, as fixing activity in the Atlantic basin remains low. Although seasonal weakness has usually been the case during Q1, the Vale incident continues to affect the market both fundamentally as well as sentiment-wise. Without any improvement in either of these factors, it is difficult to see a sustained rally in Capesize freight rates, currently averaging about 5,000/day. Smaller size vessel freight rates have found good support on the back of strong South American fixing activity and we expect such trend to continue. Panamax rates are averaging about 7,000/day.

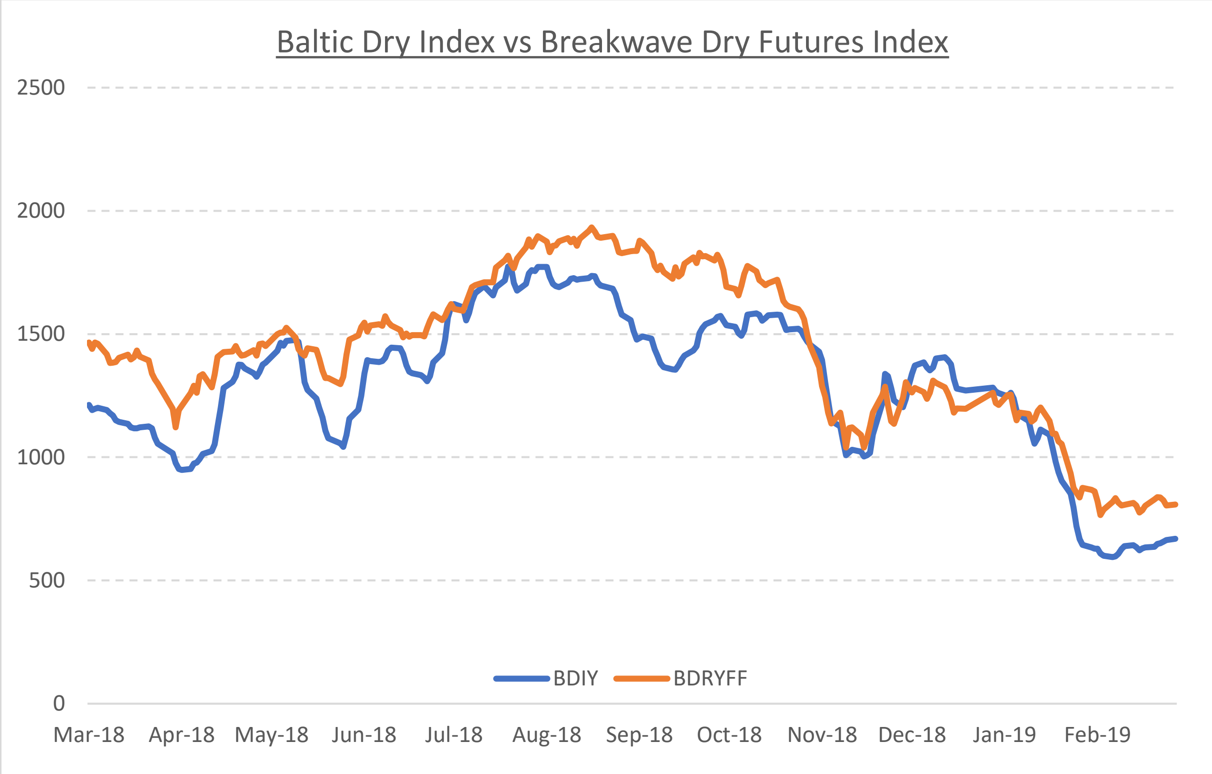
- **Keep an eye on inventories -** We believe the anticipated reduction in exports out of Brazil will eventually lead to an inventory-driven cycle, as high iron ore prices and reduced exports should lead to higher drawdowns of existing China-based inventories. So far, the impact has been minimal (Brazil exports are actually up considerably ytd), but we expect that to intensify in the coming months. Steel margins remain low, based on headline iron ore prices, but such inventories have been accumulated at lower prices, potentially providing an incentive to destock.

- **Demand growth puzzle -** The dry bulk market has been hit by an abundance of negative factors in the last few months, leading to questioning the 2019 dry bulk demand. However, year-to-date, Brazilian iron ore exports are up 14% while in January China coal imports were up 20%. Expectations for Soybean exports are also quite high, leading to a mismatch between freight rates sitting at multi-year lows and trade volumes that seem quite healthy.

- **Fleet growth low, but given flattish demand, not supportive -** Although a ~3% growth is below historical average (10-year average of ~5%), this year we expect overall dry bulk demand to remain relatively flat, as Brazilian exports should decline following the Vale dam rapture and subsequent reduction in production. However, the upcoming regulations for fuel specifications (IMO 2020) should lead to lower effective supply as ships enter the shipyards to install exhaust gas cleaning systems (scrubbers) to comply, a process that takes close to 30 days to complete.

- **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	928mt	6.6%
China Steel Inventories	9.1mt	3.4%
China Iron Ore Imports	91mt	-9.1%
China Iron Ore Inventories	146mt	-8.2%
China Coal Imports	34mt	20.5%
China Soybean Imports	7mt	-13.0%
Brazil Iron Ore Exports	62mt	14.5%
Australia Iron Ore Exports*	838mt	0.9%

Supply

Dry Bulk Fleet	846dwt	0.6%

Freight Rates

Baltic Dry Index, Average	848	-28.6%
Capesize Spot Rates, Average	10,515	-25.8%
Panamax Spot rates, Average	6,729	-38.9%

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

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