BREAKWAVE ADVISORS

Dry Bulk Shipping

September 11, 2018

Breakwave Dry Futures Index: 1,829	Baltic Dry Index (spot): 1,482	Short-term Indicators:
↓ *30D: -2.5%*	↓ *30D: -12.4%*	*Momentum:* **Negative**
↑ *YTD: 49.5%*	↑ *YTD: 8.5%*	*Sentiment:* **Positive**
↑ *YOY: 19.8%*	↑ *YOY: 11.3%*	*Fundamentals:* **Neutral**

Bi-weekly Report

- **Capesize rates at two-month lows –** With a slowdown in fixing, Capesize rates touched ~18,000/day, their lowest point in the current quarter. Although the decline has been generally expected, the fact that rates dropped below the psychological 20,000/day mark makes this correction a bit more serious that otherwise anticipated. Panamax rates remain flattish at ~12,000/day, which has been a very familiar level this year.

- **Atlantic Capesize cargo flow back to historical levels –** Following a frenzy of fixing during late July, which we believe was the result of logistical delays relating to Vale's very large ore carriers and their ability to access their designated terminals, Atlantic cargo flow has returned back to normal levels.

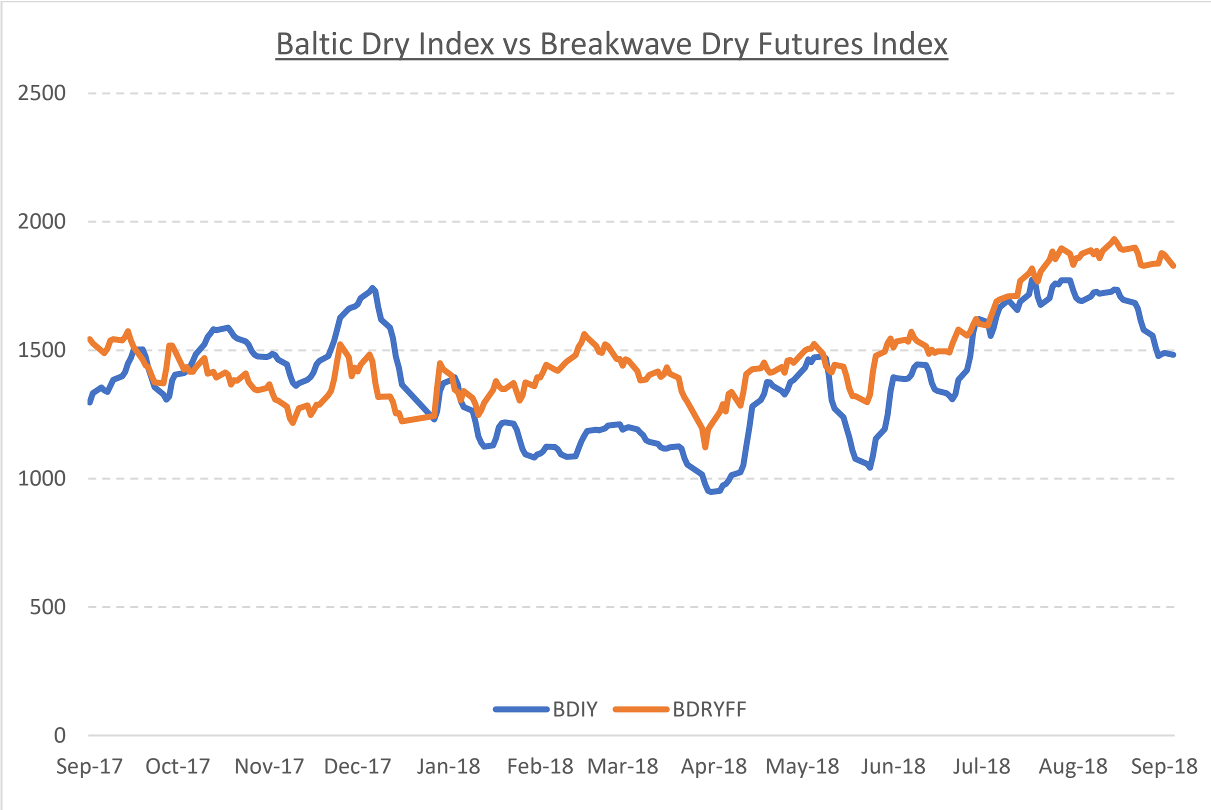
- **We expect Capesize rates to find a bottom soon –** We believe the roughly 35% correction in Capesize rates is almost over. However, with the futures curve now in steep contango, the timing of any resumption in the upward trend is crucial. We continue to believe that spot Capesize rates will reach new multi-year highs in the next few months as a lot of iron ore remains to be moved before the end of the year.

- **Year-to-date trade volumes remain relatively subdued –** Iron ore imports to China remain flat and it is basically the strong coal volumes that are keeping the dry bulk trade fairly strong. That represents weaker than previously anticipated growth, as coal trading is less predictable and more aligned with short-term pricing differences across the globe. Brazil iron ore exports are running at ~3% up year-over-year, once again weaker than previously expected.

- **Fleet growth now above 2% for the year –** Although average dry bulk rates are up more than 35% so far in 2018, the supply-demand balance doesn't appear as favorable: For the three main commodities (iron ore, coal, grains) China import volume is up ~2%, below the growth in vessel supply. Long-haul trading, however, is higher, which explains part of the strength in the dry bulk market.

- **Short-term outlook neutral –** With Capesize rates down closer to the year-to-date average, we believe the recent correction has run its course. Although we expect rates to turn up soon, for now we would expect some consolidation at current levels which will allow the short-term vessel supply-demand imbalance to correct and slowly turn positive again.

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

China Steel Production	533mt	6.3%
China Steel Inventories	4.2mt	-0.6%
China Iron Ore Imports	710mt	-0.6%
China Iron Ore Inventories	150mt	12.6%
China Coal Imports	203mt	14.2%
China Soybean Imports	62mt	-2.1%
Brazil Iron Ore Exports	256mt	2.6%
Australia Iron Ore Exports	488mt	4.3%

Supply

Dry Bulk Fleet	835dwt	2.2%

Freight Rates

Baltic Dry Index, Average	1,343	34.8%
Capesize Spot Rates, Average	16,782	40.2%
Panamax Spot rates, Average	11,293	27.6%

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

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