BREAKWAVE ADVISORS

Dry Bulk Shipping

September 25, 2018

Breakwave Dry Futures Index:	1,785	Baltic Dry Index (spot):	1,434	Short-term Indicators:	
↓ *30D: -5.6%*		↓ *30D: -15.5%*		*Momentum:*	Neutral
↑ *YTD: 45.9%*		↑ *YTD: 5.0%*		*Sentiment:*	Positive
↑ *YOY: 18.0%*		↓ *YOY: -4.5%*		*Fundamentals:*	Positive

Bi-weekly Report

- **Capesize rates have bottomed –** Following the recent steep correction in Capesize rates, we believe the Capesize market is about to turn up once again. The recent move saw rates declining ~40% from their recent highs but found strong support at ~15,000/d. Panamax rates remain resilient, trading above 12,000/d despite the weakening Capesize market.

- **Atlantic Capesize cargo flow should increase –** There has been a lull of Atlantic Capesize fixings in the last several weeks. We believe this is about to change which should lead to higher Capesize rates in the next few months. Seasonality in dry bulk is high, and the fourth quarter very rarely has been weaker than the third quarter, which will average above 22,000/d.

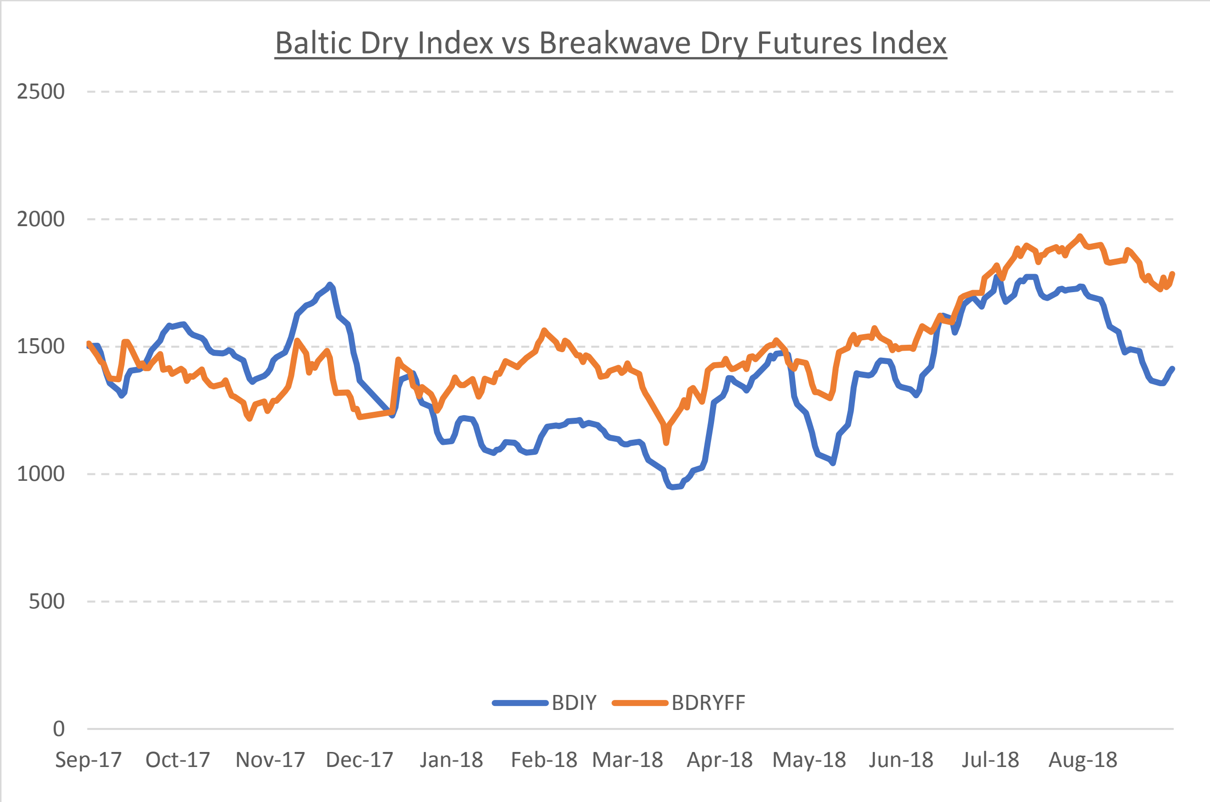
- **Capesize rates will move higher but might not reach new highs –** The recent correction was deeper than we anticipated, and several risks in global trade have been increasing. Sentiment around global trade has deteriorated following the trade war narrative, and that might put a lid on any strengthening in rates beyond reasonable expectations. We expect November to be the month that a considerable spike might take pace, although the odds of that happening have slightly decreased.

- **Trade volumes are not the reason for this year's increase in rates –** Trade volume growth year-to-date is still below recent historical averages. Although average rates are up considerably from 2017, that merely reflects the depressed levels that rates are recovering from. However, supply and demand balance this year is not as favorable as most people were anticipating.

- **Fleet growth should end up at ~3% for the year –** Despite a relatively manageable orderbook, the total absence of scrapping (less than 0.5% ytd) should lead to ~3% fleet growth for all dry bulk shipping this year. Compare that to our 2.5% trade growth estimate, and one can easily see a more balanced market. We believe 2019 will bring stronger volumes from iron ore, but the strength in coal trading this year might not be repeated to further add support in overall volumes for 2019.

- **Short-term outlook positive –** We expect Capesize rates to jump above 20,000/day in the short term, and probably move towards 30,000/d as we head into November. Panamax rates should also improve, but to a lesser extent.

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	617mt	5.8%
China Steel Inventories	4.1mt	-6.6%
China Iron Ore Imports	710mt	-0.6%
China Iron Ore Inventories	149mt	14.0%
China Coal Imports	203mt	14.2%
China Soybean Imports	62mt	-2.1%
Brazil Iron Ore Exports	256mt	2.6%
Australia Iron Ore Exports	488mt	4.2%

Supply

Dry Bulk Fleet	835dwt	2.2%

Freight Rates

Baltic Dry Index, Average	1,346	32.1%
Capesize Spot Rates, Average	16,737	34.8%
Panamax Spot rates, Average	11,354	25.9%

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

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