Ref.: 2019-010

7 May 2019

To : The President of the Stock Exchange of Thailand

Subject : The 1st Quarter of 2019 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

The results, reviewed by EY Office Ltd., show you the latest financial position of the Company. The net loss for Q1 2019 was USD 2.67 million. The earnings per day per ship during Q1 came in at USD 9,273, lower than that in Q1 2018, however, the Market Segmentation report shows you that PSL has completely outperformed the Index ships. In this quarter, daily operating costs were USD 4,816 higher than our target of USD 4,750 and that of the previous year. The EBITDA was USD 10.64 million during Q1, lower than that in Q1 2018. The loss per share (eps) in Thai Baht stood at Baht 0.05 for this quarter.

THE HARD FACTS	Q1, 2019	Q1, 2018
Highest Earnings per day per ship in USD	21,193	17,708
Average Earnings per day per ship in USD	9,273	10,965
Average Earnings per day per Handy size ship in USD	8,686	10,460
Average Earnings per day per Supra ship in USD	9,691	11,266
Average Earnings per day per Ultramax ship in USD	9,982	11,832
Operating cost per day per ship in USD	4,816	4,482
EBITDA in million USD	10.64	16.79
Net Profit/(Loss) in million USD (excluding Exchange gain (loss)	(2.63)	3.43
Net Profit/(Loss) in million USD	(2.67)	3.43
Earnings (Loss) Per Share in Thai Baht (excluding Exchange gain (loss)	(0.05)	0.07
Earnings (Loss) Per Share in Thai Baht	(0.05)	0.07

Market Segmentation: During Q1, the Baltic Handy Size Index (BHSI) averaged 414 points derived from an average Time Charter (TC) rate of USD 6,029. Compared to that, **our Handies earned USD 8,686 and beat the BHSI TC rate by +44%.** During Q1, the Baltic Supra Index (BSI) averaged 703 points derived from the average Time Charter (TC) rate of USD 7,638. Compared to that, **our Supras earned USD 9,691 and beat the BSI TC rate by +27%. Our**

Ultras earned USD 9,982 and outperformed the BSI TC rate by +31% (as there is no special index for the Ultras, we have compared them with the BSI). Our target is to outperform both the indices.

The SET Opportunity Day where PSL will be presenting will be held at the SET building at 15:20 hours on Wednesday the 15th May 2019. We hope that many of you will attend this event where the Company will get a chance to thoroughly discuss the Q1 results. For those of you who cannot attend physically, the SET live web casts the presentation giving you a chance to be present via the web.

Ship Scrapping has improved with 2.81 MDWT of ships being scrapped during Q1 2019 across all sectors in the dry bulk market as compared to 1.71 MDWT in Q1 last year. The existing age profile of the world fleet together with Regulatory pressures (BWTS and IMO 2020) should result in the world dry bulk fleet growing at a slower pace which will help redress the imbalance between supply and demand.

Long Term versus short term Charters: The long-term charters already booked as of 31st March are shown in the chart below. As can be seen, our current and forward four-year rolling book is currently at the 16% level with a visible revenue stream of USD 148 million.

Year	2019	2020	2021	2022	2023
Total Available Days	13,140	13,176	13,140	13,140	13,140
Fixed T/C Days	2,409	2,196	2,190	1,992	1,825
%age Fixed T/C Days	18%	17%	17%	15%	14%
Av. T/C Rate/Day in USD	13,585	13,875	13,875	14,211	14,550
Contract value in million USD	32.72	30.47	30.39	28.30	26.55

It is our intention to continue to charter out our ships on long term period contracts whenever practical and economically viable.

Our Reading of the market:

The BDI appears to have stopped its free fall and ended Q1 at 689 points having started the year at 1,282 points. However, prospects are not as grim as the fall in the BDI make it seem.

- **As of the end of Q1 2019, China's PMI index figures were at the highest levels since 2012** on the back of strong lending by banks and other stimuli that the government had embarked upon. **The stated GDP target is between 6-6.5% with Q1 2019 coming in at a consensus beating 6.4%!** Strong performance by manufacturers and looser credit conditions should stimulate the economy and the demand for dry bulk commodities.
- Breaking down the components of the BDI, we find that smaller segments have been able to rally more than larger size segments. This is due to **strong demand from minor bulks (commodities that move on our ships)** that have not been affected by Vale's iron ore mining disaster. As the 'new BDI' has a strong bias towards larger vessels (BDI since March 2018 has 40% weight from Cape index, 30% from Panamax index 30% from Supra

index and zero from Handy Size index), any decline in earnings on larger vessels has a pronounced impact on the BDI, which **can lead to the wrong conclusion**.

- **Trade tariffs** - in general, trade tariffs simply shift the origination of cargoes and make the shipping journey more inefficient **resulting in greater ton-miles sailed. This is always beneficial for dry bulk shipping so long as the trade tariffs do not actually curb or extinguish demand.**
- According to **Bloomberg news over the 3rd/4th week of April, it appears that a resolution to the trade war between the US and China is in sight with final sign-off taking place sometime in May between the two leaders**. **Should this materialize** and China attempts to rectify the trade deficit by importing more raw materials from the US (soybeans, oil/gas, and coal), **tonne mile demand would increase dramatically**.
- In response to weakening freight rates, **recycling has gone from 0.91 MDWT in January 2019 to 2.81 MDWT at the end of Q1 2019**. On an annualized basis, this equates to almost 12 MDWT of recycling.
- **PSL's exposure to the smaller size segments** means that it will be able to capitalize on the **strong growth in minor bulk demand, +3.5% forecast as per Clarksons** versus **expected net fleet growth in the geared sector of +2.82%,** while retaining additional upside as the market overall improves due to the reasons mentioned above.
- That leaves **2020 where regulatory pressure could make the year very interesting indeed. As the low sulphur fuel cap kicks in on 1st January 2020,** with low sulphur fuel oil expected to cost more than the current cost of high sulphur fuel oil, **the simplest way to reduce consumption would be to reduce speed. Reducing speed from 12 knots to 10 knots would effectively remove 17% of dry bulk shipping supply overnight!** In particular, **ships older than 20 years of age,** comprising about 65.55 MDWT or 7.8% of the existing fleet at the start of 2019 would come under maximum pressure and **would become ideal candidates for recycling, as their older engines would find it a challenge to burn low sulphur fuel oil,** besides, they would have to invest in ballast water treatments systems and expensive special surveys too. One way or the other **in 2020, you are going to have a supply side dividend either through slow steaming of the entire fleet or a combination of recycling some of the older ships and slow steaming by the balance existing fleet.**
- Another way to look at **future prospects** of the market would be to **compare the current forward orderbook (end of Q1) as a %age (10.9%) of the existing fleet as at the end of Q1 (842.79 MDWT)** and see when was it last as low as this number, that would be the end of 2002, and we all know what happened to the freight market thereafter!

Others' reading of the market:

2018 was a reasonably positive year for the Handy/Supra sector, with the Baltic Supra and Handysize TC indices averaging 11,486 USD/day and 8,700 USD/day, increasing respectively by 22.7% and 14.0% y-o-y from 2017. However, **the first 2 months of 2019 were disappointing**, with the Baltic Supra average down 27.9% y-o-y to 7,275 USD/day, and the Baltic Handysize average down 30.1% y-o-y to 5,710 USD/day. Deliveries in 2019 are expected to increase slightly to around 9 MDWT, from a low of just 7.2 MDWT in 2018. **In the first 2 months of 2019, we recorded the delivery of 27 units between 20,000-64,999 dwt, for a total of 1.2 MDWT, down 42% on the same period last year**. **We expect demolition activity to increase in 2019 to almost 4 MDWT, due to more modest market expectations this year**, and the impact from the implementation of the ballast water and sulphur regulations. However, in the first 2 months of 2019 we didn't record a single actual demolition in this size sector. We therefore **estimate net fleet growth to decline to about 2% y-o-y in 2019, down from about 3% in 2018**. In the first 2 months of 2019, 6 units between 20,000-64,999 DWT were contracted, for a total of 0.3 MDWT. **The supply-demand balance therefore continues to improve even as demolitions remain slow, whilst trade growth generally continues at decent levels**. **We expect demand for the Handy/Supra sector to expand by at least 3% in 2019**. However, persisting Chinese coal import restrictions could keep their import volumes more bearish in the near term, whilst we still expect strong coal import demand from India and South East Asia. **The US-China trade war is still having a disruptive impact on the soybean trade, whilst positive trends are seen in other trades like nickel ore, where Indonesia is increasing export volumes once again, and sugar with rising volumes from India and Thailand, and forecasts are currently quite positive for grain trades as well**. (Banchero Costa –3 Apr 19)

China's economy grew by 6.4% in the first quarter according to data released this morning, ahead of consensus estimate of GDP growth of 6.3% Y-o-Y. **Industrial production rebounded sharply in March, increasing 8.5% Y-o-Y (highest growth since July 2014**) and up from the 5.3% growth seen in Jan and Feb. Moreover, Chinese steel mills churned out 80.3 MMT of crude steel last month, reflecting a growth of 9% from the previous year. **We find these developments supportive for dry bulk shipping, as we estimate that China accounts for ~40% of the total importing dry bulk ton-miles, and 75% of the importing iron ore ton-miles**. (Arctic Shipping – 17 Apr 19)

Market sentiment for Cape rates saw an improvement after Vale's announcement to restart Brucutu mine, bringing back around 30 MMT per year of iron ore to the market. Despite the supply easing, some trade participants were concerned over adverse weather experienced in March and April that affected shipment from Ponta da Madeira port in Brazil. The delays in the port may also impact production volumes in the Vale's Northern System, but the miner maintained **its annual sales guidance for its iron and pellet at 307-332 MMT**. (Seatrade Maritime News – 18 Apr 19)

Given where rates are its easy to be negative about how the dry cargo market is positioned, with the Brumadinho dam disaster clearly still casting a shadow over proceedings. **But there are plenty of positive developments out there**, it's just a case of knowing where to look. **At 6.4%, China's reported Q1 GDP growth was above expectations**, and importantly is expected to represent the low point in the current economic cycle. Recent data shows **several positive trends** despite the ongoing impact of the trade war. **In March overall industrial production took a big jump and grew at its fastest rate since mid-2014, hitting 8.5%.** This was supported by strong **steel production figures, which achieved a Q1 record of 230 MMT, up 9% YoY**. Government stimulus is beginning to have the desired effect on boosting the Chinese economy. The latest phase of this is a **recently announced package of tax cuts worth RMB 2 trillion**. **There is continued optimism that a resolution to the trade war is close**. US officials are due in China on the 30th April, with reverse meetings in Washington the following week. While there are concerns about some of the terms of the deal and how long lasting it may prove to be, **any form of resolution and stability will provide a fillip to the economy and demand**. Meanwhile China continues to push ahead with its **One Belt, One Road initiative, with 37 heads of state in Beijing this week for a**

summit on developments. The return of Brucutu will provide a boost to both volumes and sentiment for the market. And the **FFAs have been on an upward trend since bottoming out in early February**, indicating a sense of positivity relative to where we were as the flow of bad news has slowed (though contracts for 2019 and 2020 still trade at levels below where they were before the Brumadinho dam collapsed). With a lot of the usual seasonal and weather-related issues behind us and China's economy seemingly having turned the corner, in more normal times we should be enjoying the benefits of an improving, or at least steady but profitable, market. We are not yet in normal times, but **there are enough positive signs to indicate that all is not lost for those who can afford to be patient.** (Braemar ACM – 25 Apr 19)

Supply Side Developments:

We started 2019 with 836.46 MDWT and have increased to 842.79 MDWT as at the end of Q1 2019. A further 4.2% (35.25 MDWT) is scheduled for delivery in the rest of 2019. If we were to apply a slippage factor of 20% (it was actually 18.15% in 2018) to these scheduled deliveries and further assume that scrapping reaches 12 MDWT (it was actually 2.81 MDWT in Q1 2019) we would be left with **a fleet growth of +2.25% (19.01 MDWT) by end of 2019 and +3.2% (27.8 MDWT) by end of 2020.**

What others' say about Supply Side Developments:

So far this year 7 VLOCs and only 4 Capes have come out of yards – this compares to less VLOCs (4) but many more conventional Capes (14) in Q1 2018. Perhaps the greatest difference is in the **Kamsarmax sector where 31 vessels have already delivered compared to just 13 a year ago**. We do not see the pace of deliveries picking up until the second half of the year, but this may well **be matched by increased scrapping especially in the Cape and VLOC sector where the market outlook remains challenging**. Certainly, March saw a significant uptick with 2 VLOC and 6 Capes heading for demolition. Our current thinking is that **deliveries/deletions in 2019 will broadly mirror 2017 when 39 MDWT entered the fleet whilst 15 MDWT was scrapped. Should this be the case net fleet growth would be similar to 2018 at 2.8%**. (Howe Robinson Research – 18 Apr 19)

The tally of dry bulk Cape vessels scrapped so far in 2019 has reached 18 according to Tradewinds, after Korea Line Corp sold the 1996-built Bluebell at a time coinciding with its 22.5-year intermediate survey. **The depressed Capes freight market of 2019 has resulted in more scrapped vessels by April than for the entire 2018 (17 or 1.1% of the fleet) and annualized would reach 54 units (3.1% of the fleet) by the end of the year.** This would be above the 33 scrapped in 2017, which resembled 2.0% of the fleet, but is still below the 78 and 93 scrapped in 2016 and 2015, respectively. The average Cape freight rates YTD of USD8,079/day are down 35% YOY (full year 2018 averaged USD16,529/day), but is considerably above the rate average for the same period in 2015 and 2016 (USD5,421/day and USD3,418/day). As such, scrapping so far this year seems to be in line with the freight market across the past four years. In our sector report published 6 March, **we forecasted 1.4% of the dry bulk fleet being scrapped in 2019, which should leave upside to our estimates if the scrapping spree continues as the stringent regulatory requirements are enforced from September this year (ballast water treatment systems) and 2020 (the IMO sulphur cap). Our outlook remains that the freight market will rebound in the second half of the year as potential Vale volumes return to market, and fleet capacity is curbed by preparations for IMO 2020. We estimate 1.7% of annual carrying**

capacity to be taken out for installation scrubbers and washing bunker tanks in 2019, with maximum impact in H2 and mostly Q4 – i.e. twice or four times the effect. (DNB Markets – 26 Apr 19)

IMO 2020 Regulatory Pressure:

Pricing of LSFO: At all main Argentinian and Brazilian ports you can buy HSFO with a sulphur content unexceeding 3.5% but if you test the oil, you will find a sulphur content varying between 0.2% and 0.73%. The general premium between HSFO sold in South America and Singapore varies between USD 40 to 45 pmt. The reason that they have such low sulphur HSFO at these ports is that the crude oil available in those countries is what is known as sweet light crude as against the sour heavy crudes purchased by the refineries in Singapore. Platts had, some time ago, come out with a spread of between USD 40 and USD 100 as a guidance for the differential that their team were looking at between LSFO and HSFO.

Compatibility of LSFO: Over the last few years, we have been testing every batch of HSFO that we purchase on all our ships. The reason for that is to keep our ships, cargoes and crew safe. Now that 1st January 2020 is around the corner, our well-established bunkering procedures will take on an added meaning. Every batch of LSFO will be tested before the ships staff will be allowed to use the LSFO. The reason for the testing, whether it is HSFO or LSFO, is to ensure that the product complies with the specifications of the ISO standards for the same. That way our ships, crew and cargoes will always remain safe.

Older ships and LSFO: At various industry conferences this question always comes up. The technical people (ABS, BV and others) say that the 20 years or older ships that have been used to a diet of HSFO for most of their life are now being asked to burn LSFO at the end of their economic life. This will result in the owners of these older ships having to either spend a lot of money on the bells and whistles that would be needed to make their old/end of life engines able to burn LSFO or suffer unexpected breakdowns in the alternate.

Our preparations for LSFO: Our existing fleet of 36 ships had an average age of just 7.28 years at the start of this year. These modern ships have fuel tanks located as side tanks and are easily accessible whether the ship is at sea or in port or fully loaded with cargo. Cleaning the fuel tanks of these very modern ships can and will easily be done by our crew and so will not cost us any extra time or money. For the few ships that are a bit older and that have their fuel tanks located in the double bottoms of these ships, we have started 'dosing' such bunker tanks with a chemical designed to dislodge residue sludge from the tank structure and bottom. The chemical is to be added into the tank before bunkering and fuel is consumed from the tank till empty. The process is then repeated. After three cycles of such dosing, the tank will be free of sludge and minimal cleaning will be required to prepare the tanks for receiving compliant fuel oil. This is on-going on all our older vessels.

What others' say about Key Regulatory Developments:

Singapore has a message for shipping **companies considering cheating on rules starting next year to combat pollution to save a few dollars on their fuel bills: don't. Captains and owners**

of vessels that burn overly sulfurous fuel in the Asian country's territorial waters could face up to two years in prison from the start of 2020, according to the Maritime and Port Authority of Singapore. If enforced, such a penalty would probably be among the strongest deterrents yet to dodging regulations that are supposed to cut emissions of a pollutant blamed for asthma and acid rain. (Bloomberg – 3 Apr 19)

France has proposed compulsory slow-steaming for ships to the IMO. The French delegation wants speed limits introduced as soon as possible, according to a proposal document for the IMO's greenhouse gas emissions working group seen by the Platts news agency. It suggests speeds would be differentiated by shipping sector. France has also suggested imposing individual emission limits on each shipowner from 2023. **Slow-steaming could cut emissions in the short-term and tighten markets.** (TradeWinds – 10 Apr 19)

The Danish Maritime Authority is planning to deploy a large drone to check emissions from ships in Danish waters for compliance with the IMO 2020 global fuel sulphur cap regulation. The drone, provided by the European Maritime Safety Agency (EMSA), is fitted with a so-called **'sniffer' capable of measuring sulphur emissions**. Entering the ship's exhaust gas plume, the drone can register the amount of sulphur in the fuel. The data can be immediately available to the Danish authorities who can then follow up if a ship does not comply with the regulatory requirements. (Seatrade Maritime News – 15 Apr 19)

Thoughts on Scrubbers and IMO2020: The Baltic Exchange announced that **the benchmark bulk carrier used for the calculation of their widely used time charter indices will remain described as a "non-scrubber fitted vessel**". That essentially was the "default" option. Whilst the adoption of scrubbers is a very controversial and polarizing issue, the reality on the ground is that i**n January 2020 no more than 10% of trading bulk carriers will have exhaust scrubber** equipment installed. Next year, most vessels will simply take the route of using compliant low-sulphur fuels. **Dry bulk shipowners are conservative, and after several lean years, they are quite cash-strapped too. The prospect to invest, upfront, millions of dollars in the hope of potential returns seems too much of a gamble. The negative press regarding the open-loop version of the technology** – the vast majority of those being installed – probably also **helped to cool the scrubber-enthusiasm**. The economics of a scrubber should work for larger bulk carriers, such as Capes and VLOCs. For smaller vessels, Supras and Handies, the economics look far shakier, and there is often lack of physical space on board to install this bulky equipment. Current adoption numbers suggest that by the end of 2020, up to 30% of Capes could be scrubber-fitted. **For smaller vessels, the adoption rates will be much, much smaller**. This creates a perverse incentive. As most small vessels will rely entirely on compliant fuel, **there will be little incentive for bunker suppliers to stock high sulphur fuel at more remote ports**. Therefore, scrubber-fitted small vessels could have significant problems with fuel availability. There is no doubt that the time charter rate for a scrubber fitted vessel should include a premium compared to a comparative non-scrubber fitted vessels. They will, after all, be able to use cheaper high-sulphur bunkers. **Will these premiums be enough to cover the installation cost of a scrubber? It will depend on what the actual bunker price spreads will be**. It will also depend on the strength of the freight market, and therefore on the bargaining power of the shipowners versus the charterers. For many bulk carriers, the choice will be between 0.5% blends and marine gasoil. It's by no means an obvious choice. **Blends, using a mixture of high sulphur fuel oil and distillates such**

as vacuum gasoil, are expected to be the cheaper solution. However, blends are not yet standardized and generally untested. **There are serious concerns about their stability, especially when mixing blends from different suppliers**. The risk is expensive damage to the engine. In the initial stages in 2020, many shipowners will take the safe route and use tried-and-tested, but more expensive, MGO. There is no doubt that, in 2020, compliant fuels will be more expensive than what is burned today. IMO 2020 will push overall bunker costs upwards. And this will have plenty of implications. (Banchero Costa – 26 Apr 19)

Key Economic News:

As the urban population continues to grow in the coming decades, the world's building stock is expected to double by 2060—the equivalent of adding another New York City monthly between now and then. *That's a lot of cement and steel.* (Annual Letter – Bill and Melinda Gates - 12 Feb 19)

Ship finance availability has contracted over the past several years. Traditional lenders are selling off packages of shipping loans. In June of 2018 Varde Partners and Oak Hill Advisors bought about $1b of legacy shipping loans from Deutsche Bank. Hedge funds and private equity investors have moved from buying ships to buying shipping debt and bonds. Last month Cerberus purchased a $3b distressed portfolio of shipping loans from NordLB, with plans to wind down NordLBs remaining non-performing shipping loan portfolio of nearly $4.5b by the end of 2019. DZ Bank has been trying to sell about $1.13b of shipping loans from their transport financing division (DVB Bank). It was reported this week that Piraeus Bank of Greece is looking to sell a package of performing and non-performing ship loans (known as Nemo) with nominal value of close to $680m. (Compass Maritime – 22 Feb 19)

Global trade has taken a sharp down turn, reinforcing the view that the world economy is in its worst state since the financial crisis a decade ago. Figures published Monday show **trade fell 1.8% in the three months through January compared with the previous period**. That's the biggest drop since May 2009. **On a year-on-year basis, trade posted its first decline in nine years in the three-month period**. Central banks have reacted to the slowdown by postponing tightening, but the question is whether things will stabilize or, if not, what policy makers can do if the situation worsens. Chicago Federal Reserve President Charles Evans said Monday that right now the "**risks from the downside scenarios loom larger than those from the upside ones**." The pessimistic view was echoed by IMF First Deputy Managing Director David Lipton, who said **there are "growing risks and uncertainties," including protectionism and US-China trade tensions**. (Bloomberg – 25 Mar 19)

Global growth has lost momentum since the start of the year, leaving the world economy in a "precarious" position, IMF Managing Director Christine Lagarde said. The global economy has weakened since the International Monetary Fund last updated its forecast in late January, though **a recession isn't likely in the near term**, Lagarde said Tuesday in remarks prepared for a speech at the U.S. Chamber of Commerce in Washington. **In January, the fund lowered its projection for world economic growth, forecasting expansion of 3.5% this year and 3.6% in 2020**. It was the IMF's second cut in the outlook in three months. The fund will release its new World Economic Outlook with an updated growth forecast on April 9. (Bloomberg – 2 Apr 19)

On a macro level, **China's economic growth continues to be strong growing at 6.6% in 2018, adding $1.2trn to the world economy**. Secondly, **a growing middle-class population** from 1.8 billion in 2009 to 3.2 billion by 2020 **will lend firm support to global demand**. Thirdly, even amid the US-China trade war, China exports to the US are at 4% of its GDP and US exports to China are at 3%. Fourthly, **the global orderbook now is extremely low. It is less than 10% for many sectors**. LNG is at 25% and it's a bit worrying but most of the others are at 10% or less. And my last point is **financing – yes there is too much availability of capital, but capital discipline is coming back, and banks are being more careful about lending. So, there are a lot of reasons in the near term to be quite excited.** Andreas Sohmen-Pao (SEA Asia Conference – 9 Apr 19)

The International Monetary Fund cut its forecast for global growth to the lowest since the financial crisis amid a bleaker outlook in most major advanced economies and signs that higher tariffs are weighing on trade. **The world economy will grow 3.3% this year, down from the 3.5% the IMF had forecast for 2019 in January**, the fund said Tuesday in its latest World Economic Outlook. **The 2019 growth rate would be the weakest since 2009, when the world economy shrank. It's the third time the IMF has downgraded its outlook in six months**. (Bloomberg – 9 Apr 19)

While a US-China trade deal might lead to a prompt response in met coal exports from the US to China, the larger outcome would be an improved global economy and boost to the steel market, a Seaport Global report said Tuesday. Seaport analysts Mark Levin and Nathan Martin noted Xcoal's Jack Porco's claim that if an agreement between the US and China is reached, and **coal is included, the market should expect to see a prompt response from the US and a surge in exports**. "A trade deal that includes coal might also make sense in the context of China making it progressively more difficult for Australian cargoes to clear customs in a reasonable amount of time," the analysts said in a Seaport report. (Platts – 16 Apr 19)

China's economy is off to a robust start this year, defying fears of a sharp slowdown, with **Beijing's pro-growth efforts successfully offsetting the effects of the trade war with the United States**. China's gross domestic product (GDP) expanded 6.4% in the first quarter compared to a year earlier, the National Bureau of Statistics reported on Wednesday, beating analysts' expectations of 6.3 per cent growth and remaining at the top end of Beijing's target growth range of 6.0 to 6.5 per cent for this year. Ding Shuang, chief Greater China economist at Standard Chartered, said **growth in the second quarter could well be stronger than in the first quarter.** However, while the March data showed that the direct impacts from Trump's punitive tariffs are manageable for Beijing, Ding warned that **an agreement to end the trade war has yet to be signed and said this remains "the largest uncertainty for the Chinese economy**" going forward. But if a trade deal is reached and the economic bottoming-out is confirmed, Beijing may decide to fine-tune its domestic policy, including scaling back fiscal expenditures, he added. (South China Morning Post – 17 Apr 19)

The global outlook continues to brighten, with our global Current Activity Index (CAI) now up to a preliminary 3.6% in April. **Most of the acceleration is due to China**, where strong activity data lifted the CAI to 7.6% in March (up from 5% as recently as December). While the monthly China data are noisy and likely affected by the timing of Chinese New Year, **underlying**

momentum has clearly accelerated in Q1 and we nudged up our 2019 real GDP forecast to 6.5%. We see two key drivers behind the China rebound, namely (1) more expansionary macro policy (on the monetary, fiscal and administrative side) and (2) progress in the trade negotiations, which helped to improve sentiment. Given the rebound, the government's policy stance is likely to turn somewhat less supportive from here, although we think a significant correction in the economy and markets would result in renewed policy loosening. **Following weakness around the turn of the year, our US CAI has also reaccelerated** notably and has been running at an average of 2.4% over the past three months. (Goldman Sachs, Global Views – 21 Apr 19)

It was a bumpy ride last year, admittedly. Three big shadows suddenly emerged over the global economy. **The Fed's tightening** lit a fire under the dollar, whipping financial markets about, not least in emerging markets especially sensitive to changes in global funding costs. Then, **trade tensions between the US and China** risked putting a dent in exports, while raising greater questions about the future shape of the world economy. And by mid-year, **China, long the global growth engine, started to sputter**, adding to the worries for investors. Dark, dark shadows. **At last, some light is starting to shine through. The Fed has signaled a pause to its tightening cycle this year**, relieving pressure on hard-pressed borrowers. **Signs of a truce between China and the US are also encouraging, with a deal possible by mid-year**, even if doubts linger. And **China, at last, has stepped up efforts to shore up growth, from tax cuts to a marginal loosening of the monetary reins**. (HSBC Global Research: Economics – Apr 19)

China's Belt and Road Initiative (BRI), will connect a vast swath of the world, creating huge yields in economic activity, and wiring the world together as never before. The BRI has indeed become **a massive platform for cooperation and an engine of growth**.

- **126 Countries and 29 international organizations** having signed up for BRI with China.
- **Total trade** between China and BRI countries **has exceeded $6 trillion**.
- **China's investment** in these countries has **surpassed $80 billion**.
- **Chinese companies generate over $2 billion in tax revenue and 300,000 jobs** for locals.
- **Kazakhstan has gained access to the Pacific Ocean** via Lianyungang port in China.
- **China-Europe Rail freight services created more than 6,000 jobs** in Duisburg, Germany.
- **Jamaica, Montenegro, and Uganda now have their first expressways**.
- **Belarus has developed its own car industry**.
- **Sri Lanka has seen an end to its longstanding power shortages**.
- **The Asian Infrastructure Investment Bank and the Silk Road Fund** have been established to help narrow the funding gap.
- **The BRI's agenda is building a community** with a shared future for mankind.
- **The BRI is open, inclusive and transparent**.
- **No country has become trapped in a debt crisis** since its participation in the BRI.
- **Honeywell International is working to further oil and gas** development along the BRI.
- **General Electric will help to provide reliable power** and energy to BRI countries.
- **Caterpillar is working to help solve Pakistan's** severe power shortages.
- **Citibank is actively providing financing** for BRI projects.

(Fortune Magazine – 23 Apr 19)

Fortune magazine on how to predict the next recession:

- **The yield curve:** When the interest rate on three-month Treasuries is higher than that on ten-year Treasuries, take heed. The yield curve inverted for five days in March; a more prolonged inversion would mean trouble.
- **Auto loans.** Could auto loans spark this cycle's equivalent of the subprime crisis? Maybe. Keep a close eye on delinquency rates.
- **China's consumers.** They have been the engine of this economic cycle. But the drop in iPhone sales suggests they are losing steam. That could be the beginning of the end.
- **Corporate debt.** Business debt now totals $66 trillion, up from $29 trillion before the financial crisis. If interest rates ever head north, that's going to be a problem.
- **Corporate profits.** As wages rise, profits may fall, and that could crimp growth. Count me as skeptical, though, that a profit recession would prompt a general recession.

(Fortune CEO Daily – 24 Apr 19)

Deborah Brautigam, director of the **China-Africa Research Institute at John Hopkins University**, argues the fear that China is engaging in "debt-trap diplomacy" through its Belt and Road initiative is at odds with the facts. "[We] have **found scant evidence of a pattern indicating that Chinese banks, acting at the government's behest, are deliberately over-lending or funding loss-making projects to secure strategic advantages for China**." (New York Times – 26 Apr 19)

President Donald Trump and Democratic congressional leaders agreed Tuesday to work together on a **$2 trillion infrastructure package** — but put off for later the difficult question of how to pay for it. (Time Magazine – 30 Apr 19)

President Donald Trump has reportedly dropped the US's demand that China end commercial "cyber theft" activities, in order to seal the US-China trade deal. "A lot of issues are being jettisoned from this negotiation because President Trump wants a deal," a source told the Financial Times, which said the US was likely to go with a watered-down commitment from China on the theft issue. Looks like a major win for Beijing if that's the case, though **the issue did seem genuinely intractable—the U.S. wanted China to promise to stop doing something it said it wasn't doing anyway**. (Financial Times – 1 May 19)

US Treasury Secretary Steven Mnuchin, along with US Trade Representative Robert Lighthizer, held a day of discussions, before Chinese Vice Premier Liu He goes to Washington next week for another round of talks **in what could be the end game for negotiations. "Ambassador Lighthizer and I just concluded productive meetings with China's Vice Premier Liu He. We will continue our talks in Washington, DC next week**," Mnuchin wrote on his Twitter account. He gave no details. (Reuters – 1 May 19)

Key Demand Developments:

China

China imported 91.3 MMT of iron ore in January 9% down from last year's 100.3 MMT and marginally below the 92 MMT in 2017. However, the imports are **up MOM (86.7 MMT in**

December 18) and the highest since 93.5 MMT in September 18. Any potential effects from the Vale disruption should not be reflected in the numbers yet and the start to 2019 signals still muted import demand for iron ore as stock draws continue. **Coal imports are again picking up, and January imports came in at 33.5 MMT – the highest monthly imports since January 2014**. This marks a 20.5% increase on last year and is a positive shift from the lackluster imports in December of just 10.2 MMT. The stormy weather in north east Australia is likely not reflected in the statistics but could have an impact on coal trade volumes the next month. **The strong YOY growth signals positive Chinese demand continuing this year which is a clear positive for dry bulk**. Lastly, soy bean imports were 7.4 MMT down 13% YOY, but again up from low imports in Q4 and December at 5.7 MMT. Headwinds for grain trade have capped Supra dry bulk rates, which came off from above USD11k/day entering the year to below USD5k/day in early February. (DNB Markets – 14 Feb 19)

For the past five years **China's domestic thermal coal prices have by and large traded at a premium to international prices** until quite suddenly in August 2018 they plummeted to a $20-25 discount, on the back of slackening demand. China's response was to start restricting the customs clearance of international cargoes, particularly in the more northerly ports, and to limit further international purchases for several months. Thus, **imports which were close to 26 MMT in August had dropped to just over 7 MMT by December 18**. The pattern of vessel delays in Bayuquan is mirrored in many other Chinese ports but, with domestic prices starting to recover and demand starting to return after Chinese New Year, congestion is now at a minimum. **Current economic headwinds would suggest China is unlikely to match last year's record coal imports of 245 MMT and indeed there are rumours that the government may cap imports into certain northern ports**. In addition, current tensions with the Australian government has led to fears that there may be further restrictions placed on coking coal imports from New South Wales and Queensland, perhaps a response to domestic coking coal prices trading at an equivalent $30 discount to higher quality Australian product. (Howe Robinson Research – 22 Feb 19)

Nickel is most commonly used to make alloys, with stainless-steel representing around 70% of global primary nickel usage. **China drives the production and demand for stainless steel in the world, accounting for over 50% of global stainless-steel output**. Based on data from the International Stainless-Steel Forum (ISSF), China's stainless-steel production over Jan-Sep 2018 increased by 8.5% year-on-year to 20.7 MMT. **In 2018, China imported 47.6 MMT of nickel ore, up 35.7% from 2017 volumes**. The increase in nickel ore imports was largely driven by shipments from Indonesia, which increased 292.0% to 14.9 MMT in 2018. Imports from Indonesia are expected to continue at a strong pace, as Indonesian ore export quotas continue to guarantee enough supply. **Chinese imports from their largest supplier, the Philippines, increased 3% to 30.7 MMT in 2018. This accounted for 64% of China's nickel ore imports**. The construction of NPI smelters in Indonesia also remains a key risk for Chinese nickel ore imports and overall tonne-mile demand, as they facilitate lower shipment volumes of the downstream product Nickel Pig Iron to China. (Banchero Costa – 1 Mar 19)

China's bauxite imports at 7.9 MMT in January were only marginally lower than the January 2014 monthly record, when China was seriously stockpiling the mineral in the wake of the Indonesian export ban. Significant Chinese investment in **Guinea** in both the mines and port infrastructure and the introduction of floating cranes at Port De Boke off Kamsar has seen

shipments to China rise from a mere 0.3 MMT in 2015 to 38.2 MMT last year, with the 4.3 MMT imported in January another maximum from that origin. Guinea's exports to China are now almost exclusively shipped on Capes and indeed the 13.4 MMT yoy increase in Guinea's Cape cargoes between 2017 and 2018 dwarfs the 4.3 MMT yoy increase in iron ore imports from Brazil to China (albeit this was a 234 MMT trade in 2018!) **Australian bauxite exports to China also registered their biggest yoy rise in 2018, up 4.3 MMT to 29.8 MMT**. In conjunction with port expansions at Gove and Weipa, this is increasingly a Post-Panamax trade as 24.5 MMT were shipped in this vessel type last year. This stands in contrast to Supras and Panamax vessels, which carried only 2 MMT and 3 MMT, respectively, from North Australia to China. **Indonesia is once again supplying China with bauxite as the ban on higher quality bauxite exports was relaxed last year; the 7.5 MMT in 2018 represented a 6.4 MMT increase on 2017's figures**. Though only shipping 1.65 MMT of bauxite last year, the Solomon Islands has overtaken Brazil as the 4th largest exporter to China. This may change in 2019 as Malaysia recently announced it will relax its moratorium on bauxite exports from April and, having supplied China with 24.5 MMT as recently as 2015, they should be able to quickly ramp up production. **Clearly, any change in the dynamic of bauxite supplied to China will have an impact on the various dry bulk sectors as, for instance, further increases in Indonesian exports and renewed shipments from Malaysia (if at the expense of other origins) will disproportionately benefit the Supra market**, though obviously at the expense of overall tonne:mile demand from this important trade. (Howe Robinson Research – 1 Mar 19)

China's government will cap coal imports this year at 2018 levels, four sources with direct knowledge of the matter told Reuters on Tuesday, to support domestic producers. The world's biggest coal consumer imported 281.23 MMT of coal in 2018 including thermal coal, coking coal and anthracite. However, domestic output has also increased and is set to rise by an extra 100 MMT this year, an official said on Tuesday. Three of the sources were told by provincial-level customs officials to restrict their imports in 2019 to no more than 2018 levels. A fourth source, an official with a government-affiliated body who was familiar with the import policy, said **the decision was made by China's State Council.** (Reuters – 9 Apr 19)

China released trade statistics for March today, with **disappointing numbers for dry bulk imports in Q1 for all the main dry bulk commodities (iron ore, coal and soybeans).** Iron ore imports are down 3.6% YOY in Q1 (recovering from the 9.0% decline in January), coal down 1.1% (down from 20.5% increase in January) and soybeans down 14.3%. **We forecast 0% growth in iron ore imports to China this year and 16% growth in coal imports**, which means Q1 imports are somewhat lagging our estimates. The full effect of Vale's production disruptions is hardly reflected in the latest numbers but should be visible in the April statistics. The c14% YOY decline in coal imports for February and March leads us to believe coal production statistics could come in at higher levels when released next week, but also worth noting that **Chinese coal stockpiles declined rapidly from January to February (-28%).** (DNB Markets – 12 Apr 19)

China's iron ore imports rose in March after touching a 10-month-low in February, customs data showed on Friday, with steel mills replenishing their inventory as winter production restrictions started to end. **Arrivals of iron ore came in at 86.42 MMT in March**, according to data from the General Administration of Customs. That was up from 83.08 MMT in February and up on 85.79 MMT in March last year. (Reuters – 12 Apr 19)

China's crude steel output grew 10% in March compared with the same month a year ago as mills ramped up operations amid a profit margin recovery and less stringent curbs on production in the country's anti-smog crackdown. Mills in the world's biggest market for the metal churned out 80.33 MMT last month, data from the National Bureau of Statistics showed on Wednesday, up from 73.98 MMT in March 2018. **For the first three months of this year, China produced a total of 231.07 MMT of steel, up 9.9% on the same period last year**, the official data showed. (Reuters – 17 Apr 19)

Owners of smaller bulk carriers could suffer from the African swine fever epidemic sweeping through China that has already seen millions of pigs culled. The viral disease, first reported in China in August, has infected swines across the country, which raises half the world's pigs, with severe global reverberations for global grain supply chains. The latest weekly report from Cleaves Securities noted: "**The Chinese pig industry accounts for a large portion of oil seed imports, encompassing important dry bulk commodities such as soybeans and canola. These oil seeds are often sourced from tonne-mile intensive locations, such as Canada, the US and Brazil**." Cleaves cited downside risk to smaller vessel segments such as supramaxes and handies as the full ramifications of the epidemic become clearer, something Beijing has been downplaying to date. (Splash24/7.com – 29 Apr 19)

Americas

Early crop planting and favourable growing conditions at the turn of the year have enabled **Brazilian farmers** in the main soybean producing areas of Mato Grosso and Parana to harvest earlier than usual. Consequently, Brazil has **been able to take full advantage of steady international soybean prices** coupled with a weakening Brazilian Real. **Last month's record 6 MMT shipments are not only more than double that of February 2018 but are a huge uplift on the 0.9 MMT exported two years ago. Inevitably almost all this year's exports (7 MMT out of 8.2 MMT) are destined for China and with no easing of US-China trade tensions at present, it is likely that a high percentage of Brazil's exports (currently 85%) will continue in this direction**. Despite the high volumes of soybeans currently moving to China, such is the excess in Panamax tonnage ballasting towards East Coast South America (a build-up caused in part from the absence of any significant soybean movement ex USA over the past few months), that present freight rates continue to languish at just under $30 per metric ton according to the HRP Santos/China Panamax Grain Index compared to $40 as recently as October when Brazilian exports at 5.3 MMT were again more than double those in October 2017. (Howe Robinson Research – 8 Mar 19)

Vale touched on their outlook following **the Brumadinho dam breach on 25 January. A total run rate production capacity of 93 MMT has been closed following the disaster, also 30 MMT of its c50 MMT additional spare capacity has been affected**. Of this, the company is most confident of a full or partial restart of the Brucutu mine (30 MMT) following expectations of the mine receiving necessary stability certificates by the end of this month. For the remaining capacity, the time frame is yet uncertain. **The company guides its sales in 2019 will be affected negatively by 50-70 MMT to end at 307-332 MMT with a bias towards the conservative end of this guidance**. Comparatively, in 2018 Vale had sales of 309 MMT despite production reaching 385 MMT, which means sales are expected to be flat or up YOY. The difference would be largely explained by drawing on inventories in China, Malaysia and at the Brazilian mines. As a material part of these inventories are assumed to be in Asia, the impact on shipping demand could be even higher. In our modelling we have assumed c40 MMT of decreased Brazilian iron ore exports in 2019, while an immediate restart of Brucutu would imply production decline of c65 MMT. Hence, our estimates may seem on the optimistic side and we believe today's news should be a negative for the dry bulk outlook. (DNB Markets – 28 Mar 19)

In 2018, the US retired 12.9 GW of coal-fired capacity. According to some industry projections, **further 6 GW of coal-fired capacity will be retired in 2019, and 5 GW in 2020**. With domestic demand in decline, US coal producers are becoming increasingly reliant on the export market. Whilst **in 2006 only 4% of US coal production was exported, the ratio went up to a record 15% in 2018 and the US exported 105 MMT of coal, which was 19.3% up year-on-year, and the second highest annual total ever (second only to the 114.2 MMT recorded in 2012)**. And this year started extremely well as well, with a record 10.8 MMT loaded in March 2019, up from 7.3 MMT in March 2018, according to Refinitiv data. **Of the 105 MMT exported in 2018, 55.8 MMT was coking coal (up 11.3% year-on-year) whilst 49.1 MMT was thermal coal (up 29.8% year-on-year).** The destinations are quite mixed. Most US coal exports are loaded on the East Coast, so the most obvious destinations are Europe and the Middle East, as well as the East Coast of South America. About half of coal cargoes from the US in 2018 ended up in Europe and in North Africa, with many cargoes also going to Brazil and Argentina. **About one quarter of US coal cargoes last year ended in Asia**. In particular, the top destinations for US coking coal in 2018 were Brazil (7.6 MMT), the Netherlands (5.6 MMT), and Japan (5.4 MMT). The top destinations for US thermal coal in 2018 were India (10.5 MMT), South Korea (5.8 MMT), and Netherlands (5.6 MMT). **What will be very interesting is if the trade talks can have any impact on US coal exports to China**. Coal flows from the US to China have been very modest in recent years. They peaked at over 1 MMT in February 2017, and since then have been on a declining trend, averaging less than 0.5 MMT per month. One way to break the negotiating impasse between the Trump administration and China was for China to ramp up imports of US commodities, such as oil and LNG, to help reduce its trade deficit versus the US. **This could perhaps include coal as well, and if this was really to happen then it would be very positive development for dry bulk tonne miles**. (Banchero Costa – 5 Apr 19)

After peaking at 57 MMT in 2016 **Colombian coal exports to Europe, Israel and Turkey slipped to 43 MMT last year and already in the first two months of the year, sales have dropped 25% yoy to 6.1 MMT (8.2 MMT Jan-Feb 2018)**. Exports to the Netherlands have been hardest hit, down 1.3 MMT to 0.6 MMT yoy. As almost all the trans-Atlantic cargo is shipped on Cape tonnage this is yet another negative development for an already under pressure sector. **Turkey though remains the largest importer of Colombian coal receiving 18 MMT in 2018 but even here imports are down 11% yoy in the first two months**. So far, Colombia has not been able to make up the shortfall by substantially increasing sales into other markets. Exports to Chile which at 7.8 MMT overtook the Netherlands as the second largest receiver of Colombian coal in 2018, at best appear steady whilst shipments to South Korea as the main Asian destination have fallen back in Q1 yoy after registering a healthy 2.4 MMT gain to 5.4 MMT in 2018. Sluggish demand is now starting to impact on coal prices in the Atlantic with Puerto Bolivar 6,400cal FOB having collapsed from US$90 in October to $64 today. (Howe Robinson Research – 5 Apr 19)

Colombian thermal coal is proving attractive to Chinese buyers, who are picking up "super cheap" offers from producers and traders with around 1 million to 1.35 million mt of coal on its way to China from the South American exporter, plus additional cargoes to northeast Asian countries including South Korea, market sources said Thursday. (Platts – 11 Apr 19)

Asia

A rise of 8% in steel consumption in India has resulted in an increase in Indian steel production of 4% in the first 10 months of the 2018/19 financial year. The discrepancy is explained by a fall in exports of 35% and 88 MMT of crude steel being produced according to Government data in the same period. Further **steel production capacity is also being expanded with new blast furnaces coming on line. However, India remains a net importer of finished steel.** (Braemar ACM – 22 Feb 19)

Indian economic activity remains robust and the rating agency Moody's recently forecast **Indian GDP growth to rise from 7% in 2018 to 7.3% in 2019 and sustain similar levels in 2020**. At present India seems less exposed to a slowdown in global manufacturing than other major Asian economies and emerging markets. This was certainly evident in the steel industry, as strong domestic demand led to production increasing by 5 MMT to 106 MMT whilst exports fell 5.2 MMT to 11 MMT, imports remaining steady at 7.7 MMT. Increasing production saw Indian metcoal imports grow 7.4 MMT to 55 MMT; Australia provides the overwhelming majority (45 MMT up 4 MMT yoy) of this metcoal but significant increases from both USA (5.1 MMT up 1.9 MMT yoy) and Canada (4.5 MMT up 1.5 MMT) provided additional tonne-miles. More surprising has been **the dramatic increase in iron ore imports, which more than doubled in 2018 to 15 MMT.** Australia exported a mere 1 MMT of iron ore to India in 2017 but this figure skyrocketed last year to 9 MMT with more modest gains from South Africa (3.4 MMT) and Brazil (1.6 MMT). Steel makers in India required this extra ore to meet demand whilst coastal trade in iron ore also grew considerably to 10-11mt. **India has become the second largest producer of steel overtaking Japan whose steel production has remained essentially unchanged over the past four decades**. (Howe Robinson Research – 29 Mar 19)

Continued drought conditions across much of Australia's grain belt continues to limit yields and consequent exports. In 2017 Australian wheat exports reached a record 22 MMT but fell back to just 12.3 MMT last year; barley registered a significant yoy fall, down from 9 MMT to 6.1 MMT. Indonesia is Australia's principal wheat market sending 5.2 MMT there in 2017 but that figure more than halved in 2018 to 2.25 MMT whilst exports to China fell from 1.7 MMT in 2017 to just 0.47 MMT last year. **China accounts for three quarters of Australia's barley exports and here again shipments fell, down 1.4 MMT to 4.7 MMT in 2018**; whilst exports to a previously important market, Saudi Arabia, have collapsed from 0.75 MMT in 2017 to one shipment of 66,000 last year! In the first two months of this year Australia has exported just 1.7 MMT wheat and 0.9 MMT barley; **falling yields have impacted stem sizes with over half this years' cargo carried on Handy sizes compared to around 30% in this vessel type for the past two years**. Clearly **falling barley and wheat shipments from Australia have contributed to the poor Q1 pacific sub cape market but some of this shortfall will be made up by Russian wheat (44 MMT) and barley (5.5 MMT) exports later in the year, possibly exceeding last years' record, a pointer perhaps for a firm sub-cape Black sea market in Q4**. (Howe Robinson Research – 12 Apr 19)

Yours Sincerely,

Precious Shipping Public Company Limited

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Khalid Hashim
Managing Director