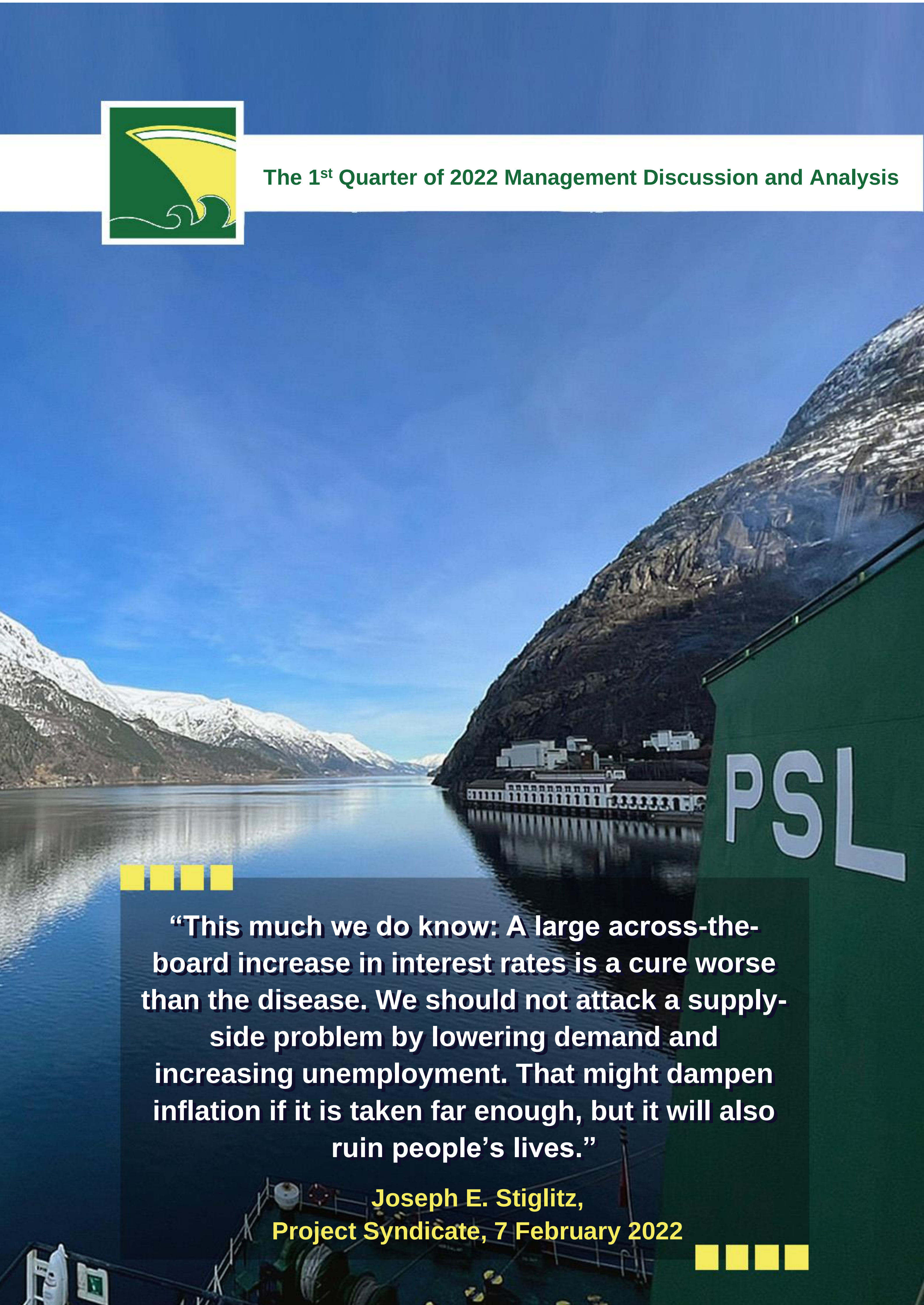
The 1st Quarter of 2022 Management Discussion and Analysis



“This much we do know: A large across-the-board increase in interest rates is a cure worse than the disease. We should not attack a supply-side problem by lowering demand and increasing unemployment. That might dampen inflation if it is taken far enough, but it will also ruin people’s lives.”

Joseph E. Stiglitz,
Project Syndicate, 7 February 2022

Our Key Performance Indicators

1st Quarter 2022 Financial Performance (US Dollar Terms)

The results, reviewed by EY Office Ltd., show you the latest financial position of Precious Shipping Public Company Limited and its subsidiaries ("the Company"). The earnings per day per ship during Q1 came in at USD 21,995 almost double the year ago figure. Please look at the Market Segmentation report that shows you the relative performance of the PSL fleet's earnings per day per ship compared to the Index ships. In this quarter, daily operating costs were USD 4,914, lower than our target of USD 4,960 for the year and lower than USD 4,933, the actual for the same period last year. The EBITDA was USD 49.21 million during Q1 2022. In Q1 2022 we made a net profit of USD 39.03 million, more than 3X our net profit of USD 12.32 million in Q1 2021, with earnings per share of Baht 0.83 for Q1 2022. This is our sixth consecutive quarterly profit.

THE HARD FACTS	Q1 2021	Q1 2022
Highest earnings per day per ship in USD	34,000	46,000
Average earnings per day per ship in USD	12,157	21,995
Av. earnings per day per Handy size ship in USD	11,990	20,313
Av. earnings per day per Supramax ship in USD	11,685	21,053
Av. earnings per day per Ultramax ship in USD	13,078	27,049
Av. earnings per day per Supramax/Ultramax ship in USD	12,340	23,875
Operating cost per day per ship in USD	4,933	4,914
EBITDA in million USD	20.11	49.21
Net Profit (Loss) in million USD excluding exchange gain (loss) and non-recurring items	8.87	39.04
Net Profit (Loss) in million USD	12.32	39.03
Earnings (Loss) Per Share in Thai Baht excluding exchange gain (loss) and non-recurring items	0.17	0.83
Earnings (Loss) Per Share in Thai Baht	0.24	0.83

Consolidated Financial Performance (Thai Baht Terms)

For the quarter ended 31 March 2022, the Company earned a net profit of Baht 1,293.92 million as compared to a net profit of Baht 375.13 million in Q1'2021. The main reasons for the changes are as follows:

- The Net Vessel Operating Income (Vessel Operating Income net of voyage disbursements and bunker consumption) in Q1'2022 is almost double the Net Vessel Operating Income in Q1'2021. This is due to an increase in the average earnings per Vessel per day which increased from USD 12,157 in Q1'2021 to USD 21,995 in Q1'2022. The fleet size as of 31 March 2022 was 36 vessels.

- Vessel running expenses in Q1'2022 are 13% higher than the figure in Q1'2021 mainly due to the depreciation of the Thai Baht against the US Dollar. However, when measured in US Dollars, the average Vessel operating expenses (Opex) per day per Vessel (including depreciation/amortisation of Drydocking/Special Survey expenses) decreased from USD 4,933 for Q1'2021 to USD 4,914 for Q1'2022, due to lower Drydocks/Special Surveys expenses.

- Administrative expenses (including management remuneration) for Q1'2022 came in Baht 52.14 million higher than the figure in Q1'2021, due to an increase in variable compensation expenses.

- Finance costs for Q1'2022 were Baht 35.61 million lower than the figure in Q1'2021, due to a reduction in overall debt.

Update on the Chayanee Naree drug smuggling incident

The Federal High Court of Nigeria ordered the release of M.V. Chayanee Naree and the 12 crew members who have not been charged in mid-January 2022. The Court reconfirmed the said order in February 2022, however, regrettably, this order has yet to be complied with by the relevant Nigerian authorities. Therefore, the Vessel as well as the 12 crew members who have not been charged, continue to remain under detention in Nigeria. The Company is working closely with its insurance company and legal counsel to ensure that the case is fully resolved as early as possible.

Market Segmentation

During Q1, The Baltic Handy Size Index (BHSI) averaged 1,338 points, as derived from an average Time Charter (TC) rate of USD 24,084 per day. In comparison, our Handy size fleet earned USD 20,313 and underperformed the BHSI TC rate by 15.66%. The Baltic Supramax Index (BSI) averaged 2,287 points, as derived from an average TC rate of USD 25,156 per day. In comparison, our Supra/Ultra fleet average earnings were USD 23,875 per day and underperformed the BSI TC rate by 5.09%. Please see the paragraph above on the Chayanee Naree incident, from which it is apparent that she was anchored at Lagos for the entire duration of Q1. If we were to exclude Chayanee Naree, from the average for our Supra/Ultra fleet, the average goes up to USD 25,243 and means we beat the index ship! Our target has been to outperform both the indices.

The next SET Opportunity Day will be virtually held at 15:15 hours on the 12th of May 2022 via the SET *live web casts.* We hope that many of you will attend this event electronically where the Company will get a chance to thoroughly discuss Q1 results. Number of online participants attending PSL's live presentation of Q4 results on 17th of February 2022 were 390 on the SET website/YouTube views and 40 on Facebook for a grand total of 430.

Long Term versus short term Charters

The long-term charters, about 1 year or longer, are shown in the chart below. Our forward four-year rolling book is at 19% with a visible revenue stream of USD 192 million.

Year	2022	2023	2024	2025
Total Available Days	13,140	13,140	13,176	13,140
Fixed T/C Days*	4,230	2,064	1,830	1,825
% age Fixed T/C Days	32%	16%	14%	14%
Av. T/C Rate/Day in USD**	23,816	17,302	15,316	15,316
Contract value in million USD	100.74	35.71	28.03	27.95

**This comprises charters on 6 ships on fixed rate charter and 7 ships on variable rate charters*

***Average T/C Rate/Day for the variable rate charters is estimated based on actual earnings for Q1 2022 and rates prevailing in April 2022 for the period thereafter.*

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

BDI Developments and our read of the market

- As usual, it will be supply and demand factors that will determine the strength of the freight markets. We have for the first time in two decades, 20+ year ships as a %age of the existing fleet at 7.25% being higher than the forward order book as a ratio of the existing fleet of 6.88% at the start of 2022. At the start of Q2 these figures had further improved to 7.64% (20+ year old fleet) and 6.57% (forward order book.) The fact that supply-demand have been in perfect balance since the middle of 2021, supply growth appears benign for the next few years, and growth in demand seems to be robust enough, that should lead to a reasonably good year in 2022.
- Ton-mile demand growth, estimated by Clarksons at +3.99%, during 2021 was barely higher than net supply growth of +3.55%, yet rates skyrocketed as supply-demand was in perfect balance!
- Please see the section 'Differences between 2003-2009, 2010-2020, 2021, and 2022' for a comprehensive explanation of the dynamics driving the dry bulk freight markets.
- In Q1 2022, the Capesize TC index averaged $ 14,746/day (-13.89% y-o-y), started the quarter at $ 19,490, reached a trough of $ 5,826 on 26 January, a peak of $ 23,413 on 15 March, and then closed out the quarter at $ 14,593. The Panamax (82k) index in Q1 averaged $ 23,218/day (+25.55% y-o-y), started the quarter at $ 25,865, reached a trough of $ 15,885 on 2 February, a peak of $ 30,746 on 28 March, and then closed the quarter at $ 28,273. The Supramax index in Q1 averaged $ 25,156/day (+51.24% y-o-y), started the quarter at $ 24,303, reached a trough of $ 17,273 on 2 February, a peak of $ 33,366 on 24 March, and then closed the quarter at $ 30,883. The Handysize index in Q1 averaged $ 24,084/day (+45.00% y-o-y), started the quarter at $ 25,322, reached a trough of $ 17,776 on 3 February, a peak of $ 32,166 on 28 March, and then closed the quarter at $ 31,236. Please keep in mind that Capes spend 74% of their time on iron ore and 21% of their time on coal. When you have that much of concentration risk of the type of cargoes carried, and with a single dominant customer China, accounting for over 60% of all iron ore imports, you are setting yourself up for volatility.
- Please see the attached note on volatility within the dry bulk sectors from Howe Robinson.
- The Russian-Ukrainian war is heaping uncertainty onto a world that was barely getting to grips with the Covid-19 pandemic, while facing the highest inflation levels in more than 4 decades in USA at 8.5% in March y-o-y. The missing cargoes from Russia and Ukraine will,

to the extent possible, be substituted from further away sources and thereby increase ton-mile demand. The fear is that the ROW falls into a recession with QE taper combined with much higher interest rates strangling economic growth. That outcome must be avoided.

- China's USD 667 billion stimulus plan announced in May 2020, brought the dry bulk market and demand roaring back into life with rates in the dry bulk freight market in 2021 being the highest they have been since 2010. China recently announced a $2.3 trillion stimulus plan, one third of which is aimed squarely at infrastructure, which would translate into increased demand for raw materials including minor bulks during 2022 and beyond.
- When 4 times as much DWT is delivered (2012 and 2016) as is ordered in any year, then the BDI has increased in the subsequent year (+31% in 2013 and +70% in 2017). In 2020 48.66 MDWT was delivered, while 13.86 MDWT was ordered (or 4 times), and the average BDI for 2021 at 2,943 points was 176% higher than the average BDI in 2020 at 1,066 points. In 2021 37.62 MDWT was delivered, while 37.65 MDWT was ordered, so the 4X rule should not apply. Yet the average index levels of Capes in Q1 2022 was -13.93%, Panamax +24.87%, Supramax +50.46%, and Handysize +45.00% higher than Q1 2021 averages. This again confirms that supply-demand balance has been achieved and rates will react with extreme volatility with the slightest change, increase or decrease, in demand. Volatility is here to stay, so better get used to it.
- Due to the ongoing geopolitical spat between China and Australia, coal normally shipped in larger gearless ships, increasingly moved on Supras from other alternate suppliers, resulting in increased ton-mile demand for alternate coal supply to China and from alternate importing countries for Aussie coal.
- Increased ton-mile growth in demand for grain, helped the smallest size ships, as did the un-boxing of cargoes from containers to Handies, to reach heights not seen even in the 2003-2009 boom years.
- 2021 was a story of a demand side recovery, aided by supply tightness due to Covid-19 related inefficiencies, yet increased ship speeds (2 knots), did not spoil the dry bulk party. This leads us to conclude that supply-demand is in balance and freight markets will be characterized by extreme volatility, and sharp rate movements, in both directions, as we have seen in 2021 and in Q1 2022. Please expect more of the same in 2022.
- Shipments of specialized ores required for renewable energy and battery production will provide additional ton-mile demand for the smaller size ships.
- Due to higher gas prices, coal-fired power generation increased by 11% in the EU in 2021 requiring increased coal imports. If Europe should fully utilize its coal-fired power plants, it would need about 200 MMT of additional imported coal compared to 50-100 MMT annual imports between 2016-2021.
- 19% of Chinese iron ore imports came from Brazil (49 MMT) down -24.3% and 68% from Australia (172 MMT) down -1.3% in Q1 2022. As longer ton-mile from Brazil was replaced by shorter ton-mile from Australia, it negatively affected the Cape sector in Q1 2022.
- India will increase steel exports by 33% and reach 12 MMT in 2022.
- India will increase wheat exports to about 10-15 MMT between Apr '22 and Mar '23.
- Thai rice exports are expected to reach 8 MMT in 2022.
- World steel production reached 456.6 MMT in Q1 2022, down -6.8% from Q1 2021.
- American consumers have paid down debt dramatically during Covid-19 as compared to the GFC so could be on a spending spree once infection rates slow down. US household net worth exceeded $150 trillion in Q4 2021. Consumer spending accounts for 70% of USA GDP!
- The USA plans to spend $1.1 trillion on infrastructure refurbishment spread over 5 years.
- China plans to spend $2.3 trillion on infrastructure starting in 2022.
- China's PMI index was 49.9 during Q1 2022.

- China's Q1 2022 GDP growth was 4.8%. The Chinese government have taken several measures to stimulate their economy and we should see sustained demand for dry bulk.
- In April 2022, IMF revised world GDP growth to +3.6% for each of the years 2022 and 2023.
- The orderbook to fleet ratio at the start of Q2 2022 for the dry-bulk sector was 6.56% (5.76% for the geared sector and 7.50% for the gearless sector) or the lowest annual reading for over two decades!
- During Q1 2022 1.24 MDWT of ships were recycled across the dry bulk fleet compared to 3.43 MDWT (down by -64%) in Q1 2021. The existing age profile at the start of Q2 2022 of 79.47 MDWT or 8.39% (12.47% in the geared segment and 6.18% in the gearless segment) of the world fleet being 20 years or older, together with low levels of the order book to fleet ratio of 6.57% (order book up to end 2024 compared to net supply at the start of Q2 2022), should result in the world dry bulk fleet growing at a much slower pace.
- Covid-19 induced congestion delays, deviations for crew changes, and delays due to quarantine of ships, have all tightened supply of ships in 2020 and 2021. We expect more fleet inefficiencies for 2022 as we do not see Covid-19 fading anytime soon especially with China's Covid-zero policy. This factor will tighten net effective supply of ships, aided by the very low ordering activity in 2021, to easily counteract any increased supply from new ships.
- With bunker prices reaching levels of over $1,000 per ton, ships are being ordered to sail at the slowest possible speeds, further tightening effective supply.
- According to Clarksons expectations, ton-mile demand will grow by 2.09% and 1.88% compared to net supply growth of 2.2% and 0.4% in 2022 and 2023 respectively (forecast dated 7 April 2022). With the inefficiencies in the net supply of ships due to Covid-19 related disruptions, this gap between supply-demand in 2022 and 2023 should widen in favor of the ship owners and we should see similar years as we had in 2021.
- PSL's exposure to the smaller geared segments means that we will be exposed to growth in net supply of 2.4% in 2022, with minor bulks growing at 2.69%, according to Clarksons.
- Ships 20 years or older, comprising about 72.36 MDWT or 7.64% of the existing fleet (37.97 MDWT of the geared fleet or 11.41% and 34.39 MDWT of the gearless fleet or 5.60%) at the start of Q2 2022 would be ideal candidates for recycling in 2023 when the new IMO regulations kick in.
- If net supply growth is affected by inefficiencies and slow speed, then 2022 and 2023 should be good years as world GDP growth rate of 3.6% in 2022 and 2023 are projected by the IMF.
- Healthier recycling is expected during 2023 due to the large number of 20+ year old ships in the world fleet, pressures from BWTS/IMO2020, Special Survey costs on these older ships, and additional regulatory pressure from adoption of EEXI & CII regulations on 1st January 2023, that will force some of them to early recycling.

Differences between 2003-2009, 2010-2020, 2021, and 2022:

Differences between 2003-2009, 2010-2020, 2021, and 2022

Daily average Time Charter rate	2003 – 2009	2010 – 2020	2021	Q1 2022
Capesize	67,101*	14,924***	33,333**	14,746**
Panamax	32,793*	10,965***	27,898**	23,218**
Supramax	28,013^^	10,765***	26,768**	25,156**
Handysize	18,753^^	8,789***	25,702**	24,084**
Demand Billion Ton-miles per year	+5.4%	+4.2%	+4.0%	+2.5%
Chinese Stimulus	China enters WTO 2001	USD 578 bn (2009)	$667 bn (mid year 2020) (ROW $20 tn+ 2020/21)	$2.3 trillion
Orderbook/Fleet ratio per year (start of each year)	+36.02%	+26.23%	+7.03%	+6.88%
Annual average % of 20-year-old (start of each year)	+18.38%	+11.27%	+6.25%	+7.26%
Annual average net supply growth	+6.8%	+6.4%	+3.6%	+2.1%

2022 & The Future

At the start of 2022, for the first time this century, the 20+ year old fleet was larger than the forward order book, and at the start of Q2 it was still 7.64% and 6.57%, respectively.

*Note: *BCI 172K (4TC), BPI 74K (4TC), BSI 52K (6TC), BHSI 28K (6TC).*
***BCI 180K (5TC), BPI 82K (5TC), BSI 58K (10TC), BHSI 38K (7TC)*
****Combine of above two classification*
^^1 Yr. TC 32K, 1 Yr. TC 52K used for years where there was no BHSI (2003-2006) or no BSI (2003-2005).

Source: Clarksons, 31 Mar 2022

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If you look at the time charter rates for the period 2003-2009 it was the highest for the Capes compared to all the other periods. For the Panamax and Supras, during 2003-2009, rates were almost 3X higher than in the 2010-2020 period but marginally higher than rates in 2021 and Q1 2022. For the Handy size, 2021 was 3X higher than in 2010-2020 and almost 1.5X higher than in 2003-2009. However, demand growth rate in ton-miles in the four periods had a clear declining trend with the lowest rate in 2022. Please keep in mind that China has just announced a USD 2.3 trillion stimulus plan in April, that should boost demand growth rate in 2022 and beyond which has not been factored into the current forecast from Clarksons. What was different was, of course, the average orderbook to fleet ratio being highest in 2003-2009 dropping by 27% in 2010-2020, by 80% in 2021, and by 81% at the start of 2022! The other significant difference was that orderbook to fleet ratio was 2X the 20-year-old fleet in 2003-2009, 2.3X in 2010-2020, 1.1X in 2021, 0.95X at the start of 2022, with the figure dropping to just 0.86X at the start of Q2 2022! This indicates weak supply growth in the future and indicates strong markets could continue for quite a few years.

Rates started out in 2021 at a low level and then accelerated to a peak on 7th October with the BDI hitting a 13 year high at 5,650 points, and since then, has fallen till February 2022 before rising once again. Why did rates oscillate in this fashion rising, falling, and rising once again, so quickly? The answer is quite simple: supply-demand, by the middle of 2021, was in perfect balance, and as ton-mile demand calculated by Clarksons grew at 3.99% just barely above net fleet growth at 3.55%, rates skyrocketed! But when China decided to reign in their out-of-control real estate sector by letting Evergrande and its brethren collapse, imposed strict anti-pollution controls on coal fired power plants post COP26 in November 2021, curtailed steel production, and insisted on blue skies during the winter Olympics during February 2022, ton-mile demand, of necessity, took a hit and rates fell for the opposite reasons that they skyrocketed to a peak on 5th October. This was not helped by the central bankers of the ROW tapering QE and indicating 7 interest rate hikes starting in March 2022 to combat inflation. With supply-demand being in balance, volatility will be the name of the game for the dry bulk freight markets!

China spent $586 billion in 2009 on steel intensive infrastructure and it pushed the BDI to a 4,221-point high that year from a low of 665 points on 6th December 2008. China allocated $667 billion on 21st May 2020 to assist Covid-19 hits to their economy. That pushed the BDI to 5,650 points, a 13-year high, in October 2021. Imagine what the $2.3 trillion stimulus announced in April 2022, a third devoted to steel intensive infrastructure development, will do to the BDI, and the dry bulk freight markets, if past Chinese stimuli and their impact are a guide for 2022 and beyond.

The geared sector, Supras and Handy sizes, had much lower volatility in rates due to the reasons expressed above but also because they had the slowest net growth rate in DWT in supply of ships in 2021 at +2.03% (Handy), +2.84% (Supras) versus +4.22% (Capes), and +3.82% (Panamax). In Q1 2022 these figures were +2.76% (Handy), +3.76% (Supras) versus +5.03% (Capes), and +4.75% (Panamax).

Key Demand Development

Congestion: In Q1 2022, the average number of ships at worldwide ports reached almost 4,700 vessels, 150 more than Q1 2021. The figure peaked on 23rd March with 4,867 vessels, but the figure almost reached 5000 when the BDI peaked at 5,650 points on 7th October 2021. Panamax, Supras, and Handysize have higher averages than Capes, where the number is lower but still higher than last year. With China's Covid-Zero policy, and the ships stuck in the Black Sea due to the Russia-Ukraine war, it would not be surprising if we beat last year's peak figure. The number of ships stuck in China in the 3rd week of April increased significantly with 140 Capes up +6.9%, Panamax at 290 up +13%, Supras at 278 up +10%, and Handysize at 159 ships up +7.4% more than the previous week. Details can be *found here*.

Inflation: The latest inflation read in the USA of 8.5% in March 2022 y-o-y is the highest in over four decades! The genesis of this bout of inflation began about two years ago in March 2020, when the Covid-19 pandemic hit the world hard, with lockdowns and demand destruction quickly setting in. Added to that was the spat between Saudi Arabia and Russia resulting in a price war that saw oil prices drop to a low of $38 per barrel. Fast forward to March 2022, and we have a war between Russia and Ukraine, with the ROW weaponizing sanctions and declaring a boycott of Russian products. Consequently, oil prices are now oscillating between $100 and $135 per barrel, with food prices shooting off the charts, creating fear of food insecurity, pushing buyers to pre-empt their purchase plans, further raising prices of cereals. By threatening ship owners with sanctions from trading in Russian ports, you score the perfect own goal, by prohibiting the shipment of much needed cargoes around the world, increasing inflation. Inflation is the enemy now, yet what the threat of weaponizing sanctions does is that no ship owner is willing to load any Russian cargoes or call at Russian ports. So, a lot of cargoes are ready to be moved but no ships willing to carry it. However, the end buyers do not have the luxury of time and need their cargoes yesterday. They are, therefore, forced to pay a much higher price for the same commodity, ship it from a much further distance (increased ton-mile means freights rates are also moving upwards), and then the ROW wonders why they have inflation, and they are making haste to raise interest rates to calm down/reduce inflation!?!? The culprit, as ever, is geopolitics and the expected fallout in terms of rising prices and inflation. To tame current price rises in energy and cereals, applying the conventional wisdom of raised interest rates will do just the opposite, certainly not lower prices, as the fear factor of spreading food insecurity pushes buyers to up their purchase price. One of the unintended consequences of weaponizing sanctions against Russia is that the Indians, Chinese, and Russians are pricing discounted oil (prewar prices less 25%) in Rupees, Yuan and Ruble, a win-win for each of them. Oil being priced in Yuan or Rupees or Ruble, will hurt the supremacy of the almighty US Dollar, and reduce its attractiveness as the only reserve currency in the world. The culprit of our current problems, are of course, politicians; Covid-19 mishandled by politicians; climate change being mishandled by politicians, who have literally no clue as to what they are, or should be, doing; and geopolitics leading to this unnecessary war between Russia and Ukraine. These are all self-inflicted goals, thanks to the mishandling by politicians who oversee these issues. And now, the solution by Fed Reserve Chairman Jerome Powell, and most other central banks, is to raise interest rates to reduce inflationary pressures, while 50% of the current price of oil is pure hubris by USA, UK, NATO, and Russia; food prices, once again due to the current war and weaponizing sanctions; with the cure of higher interest rates likely to kill the patient and not achieve the goal of reducing prices!

The Russia-Ukraine war: In 2021, Russian coal exports reached 177.2 MMT, of which 22% (38.8 MMT) was shipped to the European Union. Russia is the third largest exporter of coal in the world, accounting for 15% of global supply. Russian crude oil exports reached 212.0 MMT, of which 54% (114.2 MMT) was shipped to the European Union. Russia is the second largest seaborne exporter of crude oil and accounts for 11% of global supply. Russia is the second-largest exporter of potash at 12 MMT, or 20% market share, followed closely by Belarus. Russia exports 6 MMT of Urea or 14% market share. Ammonium nitrate is used in agriculture and mining, and Russia exports 3.5 MMT or 40% market share. Russia banned ammonium nitrate exports, prior to its invasion of Ukraine, to guarantee local supplies. Russian fertilizer exports had increased by 34% to 16.8 MMT in 2021. A global fertilizer supply crunch will put pressure on future harvests. Russia exports 8% of world steel, 17% of world wheat, 14% of coarse grain, 15% of coal, and 21% of world fertilizers, and 2% of iron ore. Ukraine supplies 12% of wheat, 2% of steel, and 3% of iron ore. Together, they are a significant exporter of grain, coal, fertilizers, oil, gas, and steel. The consequences of this war, therefore, are as follows:

- Truth is the first casualty of any war. Be skeptical of the mainstream media.
- The USA/NATO do not honor their commitments as Ukraine has discovered at their cost.
- Inconvenient truths are unearthed during wars. About 30 labs across Ukraine are allegedly involved in developing lethal bio-agents funded by USA/EU/WHO, according to Reuters.
- Hypocrisy of the West for white refugees, and following sanctions, *was on full display*. Colored refugees have no value.
- Innocent lives will pay the price for the blood-profits of the military-industrial complex. None of the people who started this war will ever pay such a price.
- A global food crisis is here, with a sharp rise in price of food items. Once again, it is the poor and colored people who will go hungry.
- Fossil fuel prices have skyrocketed. Renewables are the future, but fossil fuel is used today.

- The real culprit is, of course, geopolitics that has fostered the current war, and stoked inflation to multi decade highs. No one will remain untouched.
- ROW is raising interest rates and tapering QE to combat inflation, but China has cut interest rates, reduced RRR of banks, and reduced mortgage interest rates.
- 14.5% of all seafarers are from Russia-Ukraine. If this war continues for some time, it will push up crewing costs for every ship owner.
- Cargo exports from Russia-Ukraine to the EU, Turkey, Egypt, and North Africa will be substituted by longer ton-miles from India, Australia, USA/Canada, and South America.
- If the EU switches all its gas-based power plants to coal, then the annual import of coal would increase by about 200 MMT.
- The iron ore exported by Russia-Ukraine to the EU will be replaced by longer ton-mile cargo from Canada, boosting freight rates.
- Wars lead to disruptions, inefficiency, resulting in longer ton-mile, and higher freight rates.

Unintended Consequences of the Russian-Ukrainian war: Western traders having to cough up billions of dollars, in the form of margin calls, are getting the type of favorable attention that was sorely lacking in the mainstream media when the largest trader in Nickel, Chinese of course, got caught being short on Nickel when prices went through the roof after the Russian invasion. As a result, the LME exchange itself shut down for almost a week! This is a real problem, but we do not think that this would lead to a systemic risk at any bank. The traders would likely go bankrupt if they are unable to meet their margin calls, though most have massive credit lines available to them, and are exploring more via BlackRock, Goldman Sachs, and others. The exchanges that guarantee such trades, mainly in the Western world, would themselves be at risk and may close. The fall out would be that funds borrowed by these bankrupt traders and exchanges would not be returned. Question is, will such a scenario represent a systemic risk for the world financial architecture like the Lehman Brothers collapse did? We doubt it for the simple reason that banks are much stronger today than they were in 2008, have more stringent stress tests that they periodically undergo today, unlike in 2008 when there were no such stress tests at all, so that regulators are abreast of any issues well before they surface at any bank.

Another unintended consequence of this war is the impact on fertilizer producers. Yara International, the Norwegian fertilizer giant closed two plants, one in France and another in Italy, because of record gas prices. The recent jump in wheat and corn prices, since the start of the war, is already hitting the poor and the colored world the hardest, but the lack of fertilizers will only help push food prices even higher in 2023.

Commodity prices and Freight Rates: In general, whenever commodity prices have spiked, freight rates have also spiked. Currently that seems to be the trend but with all the uncertainty in the world, we are not too sure if this relationship will hold. Time will tell, but as of now, it seems to be holding up quite well. If you recall, in 2008 when oil prices had surged to $147 per barrel, and Goldman Sachs was predicting $200 per barrel, at that time there were fears that high oil prices would result in a slowing down of the world economy. That did not happen, and though oil prices remained high for most of 2008, only collapsing after Lehman Brothers failed in the 3rd week of September. The world economy only crashed after the collapse of the financial architecture of the western world imploded along with Lehman Brothers. So far, we do not see any such signs of the financial architecture of the world imploding, so despite high oil prices, we do not see any stress that could collapse the financial architecture and world GDP rates.

China: At the NPC meeting in March 'economic stability' was mentioned 81 times. The annual GDP growth target set at about 5.5%, will require strong policy support, as Covid-zero creates a weaker domestic market coupled with uncertainties in the ROW from the Russia-Ukraine crisis, sanctions, QE tapering, increasing interest rates etcetera. Infrastructure spending will increase due to greater fiscal spend, monetary easing via interest rate cuts, and RRR being eased, and mortgage rates being cut. No measurable targets for de-carbonization or energy usage are stated, and peak emission targets have been shifted back to 2030 from 2025. The housing sector emphasis is on affordable housing for real people to live in. Local government bond issuance remains at Yuan 3.65 trillion but will likely be 85% higher (Yuan 4.73 trillion in 2022 vs. Yuan 2.57 trillion in 2021), due to tail-end issuance in 2021 vs. front-end issuance in 2022. Beijing will make a very high fiscal transfer to local governments to encourage additional infrastructure investment. China reiterated aims to ensure food security by retaining annual grain output above 650 MMT and maintaining total farmland areas at 120 million hectares. Finally, Tax reduction is aimed at Small-Medium-Enterprises via VAT totaling Yuan 1.5 trillion in 2022. All these conditions are diametrically opposite to the actions taken by the West and will assist China in growing their economy in 2022, while the West appear bent on destroying theirs with 7 or more increases in interest rates during 2022.

China may have finally controlled their real estate sector and got them to focus on affordable housing that the common man needs, would love to own, and live in, via policy means like the recently lowered reserve requirement ratio for banks, interest rate cuts, and lowered mortgage lending interest rates. A win-win solution for all, with the real estate developers likely pushing up steel requirements back to the levels before the Evergrande debacle. That would be a big win for the dry bulk sector.

The other important event in China is the CCP meeting scheduled in November 2022 when President Xi Jinping would be up for an unprecedented 3rd term in office. For a leader wanting such a tenure, the economy moving forward at a smooth and preferably high growth rate is a must, hence no stone will be left unturned to ensure a growth-oriented economy before the congress meets.

As can be seen, all the reasons for the slowdown in Q4 2021 and into Q1 2022 are due to decisions made by governments, be it in China (dry bulk is very dependent on China) or in the free world (Fed Reserve expected to raise interest rates 7 times in 2022, combined with QE taper.) These decisions have curtailed demand, but when reversed, they will allow demand to flourish once again, and we could be back at the same point we were at the start of 2021!

Key Supply Side Developments

We started 2022 with 939.15 MDWT and have increased to 946.86 MDWT (+0.82%) at the start of Q2 2022. If we were to apply slippage of 5% (it was actually 2.47% for Q1 2022) to the scheduled deliveries in the balance of 2022 and 2023 and assume scrapping reaches 8 MDWT (it was actually 5.47 MDWT during 2021) we would be left with a net fleet growth of 2.47% (939.15 MDWT to 962.37 MDWT of which 330.10 MDWT to 339.33 MDWT for the geared sector +2.80%, 609.05 MDWT to 623.04 MDWT for the gearless sector +2.30%) by end of 2022 and 1.95% by end of 2023 (962.37 MDWT to 981.12 MDWT of which 339.33 MDWT to 345.99 MDWT for the geared sector +1.96%, 623.04 MDWT to 635.13 MDWT for the gearless sector +1.94%.) Congestion, ballasting ships, slowing speeds, especially in 2023 due to EEXI/CII regulations, and Covid-19 quarantine delays, will further assist in supply side tightening.

Supply Chain Disruptions

The maritime industry is one of the most efficient links in the supply chain system, so when it gets disrupted, it creates inefficiencies that result in an immediate increase in ton-mile demand. Covid-19, and now the war in Ukraine, has disrupted supply chain systems, as well as all aspects of life and business. Port congestion is seeing no letup as China's covid-zero policy combined with omicron, the most transmissible variant, is creating more, not less congestion, in Chinese ports as detailed above in the note under the heading Congestion. Global ports are caught up in the ripple effects flowing from Chinese ports. Demand for goods is the pull creating congestion, while congested ports are the push driving congestion. Lack of investments in existing port facilities and a paucity of modern, automated ports in the ROW has exacerbated the supply chain disruption flowing back and forth around the globe. Productivity has been the first victim of omicron, reducing the number of covid impacted port workers from their jobs. Pilots, the critical element that starts port productivity, are in short supply due to infections and quarantine. Ships that arrive from omicron hit countries, sit at quarantine anchorages, disrupting ports. Ship staff, the glue that binds globalization, face Covid tests, delays, isolation, and longer stays on board, and the fear of an outbreak of Covid-19 onboard, as several countries still do not allow them to leave their ships for their journey back home. Truckers hit by the pandemic, add to this lack of productivity, with cargoes stuck at ports. Assessing resilience, dependability, diversity, digitalization, productivity, risk mitigation, and inventory levels at all links in the supply chain has become critical for businesses and governments. Inventory levels at businesses and countries remain woefully inadequate to account for current disruptions, despite inventory restocking being at all-time highs. The new mantra is 'just-in-case' versus 'just-in-time' in the past.

Climate change and GHG emissions

Please see this *short film on solar geoengineering* and the debate between its proponents and doubters.

The Heat waves, fires, drought, out of control hurricanes and tornadoes, floods, and massive 100 feet waves will be the norm. Look at the recent floods in Australia, and South Africa where more than 440 people have lost their lives with the port of Durban reduced to shambles. Climate change is here, not in another decade, or two, or four, but here and now. Bloomberg states that '21 of the hottest 22 years since 1880' have occurred since the start of 2000, and the ocean subsurface in 2021 broke the annual heat record set in 2020. This will make storms, hurricanes, tornadoes, and ocean waves, ever more powerful. Climate change will lead to weather related disruptions with heightened congestion at ports, slower speeds at sea due to stronger/bigger waves, and loss of containers from ships, a regular occurrence. GHG emissions will continue to rise as the climate change impact will result in greater demand for electricity with fossil fuel burning, CO2 belching power plants, increasing the amount of CO2 that we put into the atmosphere. This will start a vicious cycle with greater power demand from factories, warehouses, transport/delivery organizations, to cool homes, workplaces, theatres, stadiums etcetera, demanding more power from fossil fuel burning power plants releasing even more CO2 into the atmosphere creating ever more climate change, heat, fires, droughts, floods, storms….and the cycle goes on-and-on. Food production will be hit hard by climate change, and we may find ourselves facing food insecurity no matter how wealthy the nation we live in. The war between Russia and Ukraine has not helped by causing food, fuel (oil, gas, coal), fertilizers and steel, exports from these two countries to dry up, pushing prices skywards. This will focus governments on building up buffer stocks of food grains to avoid sharp price increases in food staples with the resultant inflation that it would bring. Larger grain movements, coupled with weather related inefficiencies in reducing net ship-supply, will be ton-mile demand positive for the dry bulk freight market.

Regulatory Developments

Oceans absorb almost a 3rd of all CO2 emitted by mankind. The more CO2 we emit, the more the oceans absorb, making them extremely acidic, and will result in the death of coral reefs with a corresponding reduction in the fish population. Another nail in the coffin of the poor and the hungry.

Please see *this short film by BIMCO* on what needs to be done by Shipping, as well as all industries, and everyone, to make our planet a better place for us all to live and thrive in. (BIMCO – 29 Apr 22)

Methane Slip, whereby some methane gas leaks out when LNG is burnt in ship engines, is set to become a big headache for shipping. Most modern ships built to dual fuel LNG standards, showing off their green credentials, are hiding an open dirty secret of methane slip. Please see this *short 5-minute video from Transport & Environment*, an umbrella lobbying organization for environmental groups, that shows you, visually, methane slip taking place from such modern 'eco green' ships. We are still waiting for dual fueled ammonia ships to become operational and, if they are safe and green, we will focus our resource on such ships that will become the true green ships of the future.

As you may be aware, Shipping carries around 90% of all cargoes in the world and is responsible for less than 2.5% of greenhouse-gas (GHG) emissions. The Economist stated in their issue dated 29th September 2021 that 'according to the UN's Food and Agriculture Organization, raising animals for meat, eggs, and milk accounts for 14.5% of global GHG emissions.' The EU has included shipping in its Emissions Trading Scheme (ETS) while giving a free pass to the livestock industry and is importing more coal for their power plants as the cost of gas has skyrocketed due to the sanctions placed on Russia. And here we are, grappling with Zero Emission Vessels (ZEVs), while no one is talking about curtailing the emissions from the livestock business or stopping the use of coal to generate power in the EU?

The IMO adopted the Energy Efficiency Existing Ship Index (EEXI) as amendments to Marpol Annex VI that will enter into force on 1 January 2023. EEXI describes the CO2 emissions per cargo ton-mile, by determining the standardized CO2 emissions related to installed engine power, transport capacity and ship speed. Statistics suggest a bulker (30k to 60k) built pre-EEDI (Energy Efficiency Design Index) i.e., ships built pre-2013 may require a 30% to 40% power reduction (2.5K – 3.5K speed reduction from speeds in the SH of 2021) but ships built post-EEDI may require just 4% power reduction (0.2K speed reduction) to comply with EEXI. Implementation of engine power limitation and energy-saving device technologies will be used by owners to choose the solution best suited for their ships and will be very positive for increasing rates in the dry bulk markets. We will be getting all our ships rated for EEXI and Carbon Intensity Indicator so that we will be in full compliance by their first IAPP survey in 2023.

The IMO has agreed to debate and arrive at a solution on market-based mechanisms (MBMs) to reduce the CO2 footprint from shipping. This could be via a carbon levy on each tonne of fuel. The Solomon Islands and Marshall Islands have suggested a $100-per-tonne levy of CO2 released, which is about $314-per-tonne levy on fuel oil. The idea of any MBMs is to make current bunker fuel as expensive as, say, ammonia. So, the price of fuel oil must reach $1,500 per tonne, the current price is about $1,100 per tonne, to match the cost of future fuels for zero-emission vessels. It is hoped that pressure from the EU's ETS will help prod and push the IMO into taking a strong stand on MBMs via a carbon-based levy.

Our read of the Novel Coronavirus or Covid-19

Covid-19 has become synonymous with delays; supply chain disruptions; lockdowns; higher inflation due to the massive government-led stimuli creating demand that far outstrips supply. Economic recovery from the pandemic has been very uneven for 3 reasons. Countries were hit by Covid-19 and went into lockdowns, hurting their economies, at different times; uneven rates of vaccinations in rich and poor countries; and high levels of stimuli in rich countries and lack of it in poor countries, has made for a nonuniform timed recovery. China with its Covid-Zero policy combined with the Omicron variant has created significant disruptions via lockdowns of almost 400 million people in dozens of cities that we have not seen even in 2020. For the Maritime Industry, the impact of Omicron will be to make crew change even more difficult and that is a challenge that we will have to face head-on.

Omicron, and its sub variants, has been designated a virus of concern, and is many times more transmissible than the Delta variant, according to various news articles. The good news on this variant is that though caseloads are spiking, hospitalizations and death rates have not yet risen, and the bad news is that it is so infectious that the sheer number of cases can overload the health care system of any country, and it takes a very heavy toll on the old, the immunocompromised, and the unvaccinated very easily. In response, several countries with very high vaccination rates have halved isolation periods and so far, it appears that this decision has been justified.

The virus and its variants will make 'only work from office' impractical. Only 'working from home' will suffer from the lack of networking, human contact, and sparks created when working together, with creativity being compromised. As a result, the future of work will be some sort of a hybrid between only working from home or only from office. Each business and industry will develop norms that work best for them, while keeping diversity, inclusion, and equality in mind, and business leaders will be guided by such industry wide best practices.

For those who have lost loved ones or those that have lost their livelihoods due to Covid-19, 2021 has been a devastating year. 2022 has started with no signs of the pandemic abating, yet inflation is leading to higher prices eating into the meagre savings of the poor, who are at greater risk of contracting Covid.

Others' reading of the market

2021 was a remarkable year for the shipping markets with the estimated total S&P spend setting a new mark above $47bn across the 2,507 recorded sales. With more than $13.1bn spent on secondhand containerships, a new record over three times the previous largest total in 2007, with more than 1.6m TEU or 7% of the start year fleet, sold. The more than $16.2bn spent on bulkers was the second-highest figure seen yet. The more than $11.5bn spent on secondhand tankers, was the fourth highest total on record. Amid further price gains, the first 6 weeks of 2022 had a busy start, clocking up another $6.2bn of secondhand spending. That is an annual run-rate of ~$53bn which would be another new record! (Clarksons – 18 Feb 22)

Russia is estimated to account for ~5% of global seaborne exports (2021: >630mt), though a smaller percentage in terms of ton-miles with significant short-haul exports to Europe (from Western Russia) and to Asia (from the East). Ukraine accounts for a further ~1% (c.100mt) of export volumes. Energy is the major focus for Russian exports, the country accounts for 10% of seaborne oil exports (9% crude, 11% products), 8% of LNG exports, and 13% of coal shipments. Significant volumes of oil and gas are also moved to Europe via pipelines, including c.40mt of crude through the Druzhba pipeline in 2021 and c.170bn cbm of gas. Grain is significant for both, Russia is 7% of global exports, with Ukraine a further 9%, virtually all shipped ex Black Sea. As reflected in stock market volatility this week, material uncertainty, particularly of this scale, is always a challenge for investors. While the uncertainty itself adds to macro-economic risk, there is also impact on inflation (via energy prices, with oil over $100/bbl and gas >$30/mmbtu in Europe). Depending on how, and how quickly, disruption and sanctions play out, market impact complexities may include: trends towards longer haul oil trade to replace Russian volumes; shorter haul LNG trade as cargoes are diverted to Europe from USA; longer haul grain trade; local container impacts. Bunkering costs (now at record highs of $730/t for VLSFO in Rotterdam) could increase freight rates generally besides supporting earnings premiums for ‘eco’ and scrubber-fitted tonnage. Longer term geo-political trends may also now develop (impacting pipeline development, increased trade or shipbuilding activity between China and Russia, prioritizing security of energy supply via LNG). Again, shipping sits at the center of a global disruption event, and we hope our data will help frame some of the huge uncertainty. (Clarksons – 25 Feb 22)

US household net worth jumped to a fresh record in Q4 2021 on rising stock prices and higher home values. Household net worth increased by $5.3 trillion (+3.7%), after a more moderate gain in Q3. The Q4 advance pushed net worth to more than $150 trillion. (Bloomberg – 10 Mar 22)

The WHO advised Ukraine to destroy high-threat pathogens housed in the country's public health laboratories to prevent "any potential spills" that would spread disease among the population. Its labs have received support from the USA, the EU, and the WHO. (Reuters – 11 Mar 22)

There is no question that Vladimir Putin started the war and is responsible for how it is being waged. But why he did so is another matter. The mainstream view in the West is that he is an irrational, out-of-touch aggressor bent on creating a greater Russia in the mold of the former Soviet Union. Thus, he alone bears full responsibility for the Ukraine crisis. But that story is wrong. The West, and especially America, is principally responsible for the crisis which began in Feb 2014. (The Economist – 11 Mar 22)

Early 2022 saw an increase in bulker port congestion in Indonesia because of the country’s ban (now removed) on coal exports introduced at the start of January. As of 14 January, 197 bulkers (14.4m dwt, largely Panamaxes and Supras, 7dma) were at major Indonesian coal load ports, up from 122 ships (8.4m dwt, 7dma) at the start of the year. More broadly, our Bulker (Cape/Panamax) Port Congestion Index reached a new record high of 36.3% on 21st February (7dma), averaging 35.0% in the ytd, up from 32.8% in 2021, and a ‘pre-Covid’ average of 29.7%. A range of global events clearly continue to generate disruption. The impacts of the Russia-Ukraine conflict could further amplify shipping “inefficiencies”. As well as adding to port congestion, reluctance by some owners to commit to Russian ports and cargoes has already led to regional freight spikes and changing trade patterns may drive vessel repositioning (absorbing capacity) and increase the average haul. So, disruption remains widespread, and there is little sign yet of any material easing of port congestion. Against the backdrop of global events, the tracking of disruption and shipping inefficiencies remains important in 2022. (Clarksons – 18 Mar 22)

The world's food system is in jeopardy because of the war on Ukraine. Global food prices, already at record highs, could surge another 22% as the conflict stifles trade and slashes future harvests from key grain-growing regions, the UN warned. (Bloomberg – 18 Mar 22)

There are now around 40m Chinese in lockdown in Shenzhen, and the entire province of Jilin in the far north of China. (Splash – 16 Mar 22)

Both Ukraine and Russia are major exporters of wheat and corn, and their biggest customers are in emerging markets, places like Yemen and Lebanon. "Many of these populations are a step away from famine," says Arif Husain, chief economist for the World Food Program. (Fortune – 24 Mar 22)

How high could oil go? Brent, up more than 50% in 2022, could easily double in price to $250 per barrel. So says hedge fund chief Pierre Andurand of Andurand Capital Management. (Fortune – 24 Mar 22)

We estimate port congestion is absorbing at least an extra 4-5% of the bulker fleets vs pre-Covid. There is little sign yet of any easing, some normalization will come eventually but we expect disruption will take time to unwind fully. Bulker markets remain generally strong: the outlook looks "solid". Supply side growth remains moderate. Despite an increase in newbuild ordering the orderbook remains low, we expect less ordering in 2022 and shipyard capacity is well down from the peak (111 active "large" yards vs 320 in 2009). Newbuild prices have risen by a third. Deliveries have been steady and global shipyard output is forecast to decline slightly in 2022 before rising in 2023. Recycling has been limited, and scrap prices are firm ~$680/LDT. (Clarksons – 25 Mar 22)

In 1Q 2022 coal trade declined by -6.0% y-o-y to 256.3 MMT. The EU is the fifth largest importer of coal after China, India, Japan, and South Korea. In 2021, the EU accounted for 7.5% of coal imports up +21.2% y-o-y to 81.1 MMT. In 2021 the EU coal from Russia increased by +22.4% y-o-y to 37.5 MMT or 46% of all imports. In 1Q 2022, coal imports into the EU increased by +23.6% y-o-y to 24.5 MMT. EU was the only major region aside from South Korea posting positive coal imports. In 1Q 2022, China's coal imports declined by -36.0%, India's was down -12.8%, whilst Japan saw a modest +1.6% y-o-y increase. In 1Q 2022, Russia was still 38% of EU's coal imports with 9.3 MMT, down -0.4% y-o-y. In 1Q 2022, imports from USA increased by +60.2% to 4.4 MMT, Colombia by +50.4% to 3.4 MMT, but from Australia declined by -10.8% to 3.5 MMT. (Banchero Costa – 1 Apr 22)

Chinese buyers bought 1.084 MMT of US corn, their biggest purchase of US grain since May 2021, the US government said on Monday. (Reuters – 4 Apr 22)

With coronavirus lockdowns, a real estate downturn, and surging oil prices stemming from Russia's invasion of Ukraine, China's planned investment this year amounts to at least 14.8 trillion yuan ($2.3 trillion), according to a Bloomberg analysis. That is more than double the new spending in the infrastructure package the US Congress approved last year, which totals $1.1 trillion spread over five years. (Bloomberg – 7 Apr 22)

Europe's ban on Russian coal is set to kick in in mid-August, leaving European and Asian coal importers scrambling to find alternative sources of fuel. The major coal producing nations of Australia and Indonesia have already hit production limits. Europe will likely look towards South Africa and the US as new suppliers. (DNB Markets – 10 Apr 22)

Spurred by Russia's war on Ukraine and continuing economic fallout from the pandemic, US inflation rose in March by 8.5% the most since late 1981, reinforcing pressure on the Federal Reserve to raise interest rates more aggressively. (Bloomberg – 12 Apr 22)

South African terminal operator Transnet is undertaking a clean-up operation following the devastating floods that damaged the port of Durban. (TradeWinds – 14 Apr 22)

Commerce and industry minister Piyush Goyal on Friday said that India may export 10-15 MMT of wheat this year (Apr ’22 to Mar ’23) as against 7-7.3 MMT in the just ended fiscal year. (Economic Times – 15 Apr 22)

Shipbuilders in Jiangsu and Zhejiang provinces have followed Shanghai-based shipyards in declaring force majeure on deliveries of newbuildings. (TradeWinds – 15 Apr 22)

The World Steel Association has forecast a slowdown in global steel demand growth mainly owing to the impact of the Russia-Ukraine situation and China’s softening economy. Demand is estimated to increase by only 0.4% to 1.84 TMT in 2022, and a further 2.2% to 1.88 TMT in 2023. The volume in Q1 2022 was down 8.5% year on year to 252.7 MMT, the lowest level since 2017. (Lloyd's List – 18 Apr 22)

Global expansion will slow to 3.6% in 2022, down from a forecast of 4.4% in January as per IMF. Risks include a possible worsening of the war in Ukraine, escalation of sanctions on Russia, a sharper-than-anticipated slowdown in China, and a renewed flare-up of the Covid pandemic. (Bloomberg – 19 Apr 22)

China’s GDP expanded 4.8% YoY in the first quarter, for March, however, showed slowdowns in activity in several sectors of the Chinese economy, amid global geopolitical tensions and a resurgence of Covid-19 lockdowns. Floor space under construction grew by only 1% YoY, down from 1.8% in January-February and the lowest growth figure on record. China’s steel-intensive automobile industry also declined, with production contracting by 9.0% YoY. Fixed asset investment, however, increased by 15.6% YoY in manufacturing and 9.6% in infrastructure. On Monday, Chinese authorities unveiled 23 measures to aid the economy. These include amendments to lending guidance for banks to encourage support for government infrastructure projects and the property sector. (Braemar ACM – 19 Apr 22)

Imports of iron ore in Q1 2022 was down 8.5% y-o-y to 252.7 MMT and is the worst Q1 since 2017. Imports from Australia were down 1.3% y-o-y, whilst volumes from Brazil were down a massive 24.3% y-o-y. China’s Covid-zero policy is likely to further impact iron ore imports. (Banchero Costa – 20 Apr 22)

Bulkers have also laid down a new marker, average bulker earnings have registered the strongest start to a year since 2008 at $22,880/day, up 28% y-o-y. (Clarksons – 22 Apr 22)

We remain of the view that dry bulk demand will continue to grow, albeit at a slower pace than previously expected, due to Ukraine, inflation and Covid. We continue to believe that there will be demand for high-grade iron ore volumes and expect a significant rebound in trade once Brazilian exports recover. For coal, we expect volumes to move sideways despite the extraordinary situation in energy markets, but that a shift in trade will result in some growth in shipping demand. Russian and Ukrainian grain exports are clearly at risk for the foreseeable future, and the question is whether other exporters can compensate. We have assumed that other exporters will only partially offset the loss of exports from the Black Sea, but although we model a ~3% decline in volumes, the shift in trading patterns takes our ton-mile demand number to positive territory. We expect dry bulk ton-mile demand growth of 2.7%, 2.5% and 2.9% in 2022, 2023 and 2024, respectively. Given the strength in dry bulk earnings over the past couple of years, under “normal” circumstances, we would now be looking at a wall of newbuilds scheduled for delivery over the coming years. That is certainly not the case, and projected fleet growth should not be a concern (2.2%, 1.4% and 1.3% in 2022, 2023 and 2024). We expect that the congestion situation will be worse in 2022 than it was in 2021 and estimate effective net fleet growth below 1%. We have then applied a gradual easing of the current congestion situation, taking 2023 and 2024 effective net fleet growth to ~3%. (Arctic Securities – 25 Apr 22)

What others' say about Supply Side Developments

January deliveries in 2022 were strong amounting to 4.8 MDWT. However, with less tonnage on the nominal orderbook (417 vessels of 35.6 MDWT), fleet growth is likely to fall back as the year progresses so despite limited demolition (we forecast around 6.5 MDWT), net fleet growth may only be around 23 MDWT equating to 2.5% of the total dry fleet, the lowest since the 2.2% in 2016 when there was 31 MDWT demolition! We expect the highest percentage of growth to be in post-Panamax (3.8%), followed by Supra-Ultra (3.3%) and then the lowest in the Handysize (1.8%) and VLOC (+0.9%) sectors. The forward order book at 63.5 MDWT remains modest, considering it stood at 107 MDWT as recently as January 2019. (Howe Robinson – 18 Feb 22)

Beyond 2023, effective supply is expected to decrease due to lower operating speeds required to meet IMO emissions reduction targets. With 8.3% of the fleet over 25 years old and a further 1.7% turning 25 in 2022, analysts expect older, less efficient tonnage to be removed in 2023. The number of handy sizes could shrink by 2.3%, they believe. (TradeWinds – 21 Apr 22)

What others' say about Regulatory Developments

International banks parceled out over $1.5 trillion in financing for coal projects, with institutional investors also ponying up $1.2 trillion, over the last few years, despite widespread net zero promises. (Fortune – 16 Feb 22)

The world urgently faces limiting greenhouse-gas emissions and thus global warming. But does that conflict with another, of lifting the poorest people on Earth out of poverty? Research suggests that the two are compatible. It finds that there are ways to raise the incomes of the world's bottom billion, who account for a small share of emissions, that would add little to the total. (The Economist – 22 Feb 22)

As of March 1, ships that are anchored in the port or moored at a berth will be banned from discharging scrubber wash water in the Port of Vancouver. (Splash – 25 Feb 22)

Fashion accounts for up to 10% of global carbon dioxide output, more than international flights and shipping combined. Polyester, which has overtaken cotton as the leading textile in the industry, accounts for one-fifth of all plastic produced globally each year. Though fast fashion is often seen as the culprit, luxury brands are involved too. (Bloomberg – 27 Feb 22)

The breakneck speed of global warming exceeds the pace of efforts to protect billions of vulnerable people, according to a new report released Monday by the world's top climate scientists. The report warns of a growing mismatch between rising temperatures and slow, fragmented efforts to adapt, leaving little time for catching up before "a brief and rapidly closing window of opportunity" is sealed shut. (Bloomberg – 28 Feb 22)

One of the world's leading coral scientists claims a sixth mass bleaching event is unfolding across the Great Barrier Reef, with official monitoring flights now under way all along the Queensland coastline. (The Guardian – 17 Mar 22)

The UNs Environment Program has been warning for years, "our planet is choking on plastic." That's no metaphor, a new medical study in the scientific journal Environment International shows. The Dutch researchers found tiny plastics particles in the organs and blood of 80% of the people it tested. The health risk is not fully known, but "it is certainly reasonable to be concerned," the researchers said. (Fortune – 24 Mar 22)

Decarbonization remains “front and centre” with focus intensifying on reducing shipping’s emissions (~886 MMT and 2.4% of global CO2). The IMO’s EEXI and CII measures come into force in 2023 with potential impacts on speed, EST retrofitting, and recycling. Fleet renewal and ‘Fueling Transition’ is progressing. The ‘Eco’ ship share is growing as is EST uptake. Energy Transition will impact seaborne trade long-term; energy security is in focus today. (Clarksons – 25 Mar 22)

South Africa is this year experiencing the La Nina phenomenon. A weather station at Mount Edgecombe on the outskirts of Durban received 307 mm of rainfall within 24 hours on Monday, the most since it began gathering data 62 years ago and almost double the previous high in 2019. (Splash – 13 Apr 22)

As the planet continues to get hotter, could the solution be to give it some shade? That’s the simple idea behind solar geoengineering, a radical response to global warming, which could stop rising temperatures. But the technology carries risks. (The Economist – 21 Apr 22)

Others’ read of the Novel Coronavirus or Covid-19

New research backs the theory that the Covid pandemic originated in a Wuhan wet market. University of Arizona researcher Michael Worobey: "When you look at all of the evidence together, it's a very clear picture that the pandemic started at the Huanan market." (New York Times – 27 Feb 22)

Even a mild case of Covid-19 can damage the brain, leading to shrinkage equivalent to up to a decade of aging, according to a new Oxford University study. (Bloomberg – 11 Mar 22)

One of the enduring mysteries of the Covid-19 pandemic is that children have been spared by the virus and have not experienced anywhere near the severity of illness that adults have. Scientists are still in the process of working out why most children do not suffer badly from Covid. (CNBC – 24 Mar 22)

US regulators on Tuesday authorized another Covid-19 booster for people aged 50 and older, a step to offer extra protection for the most vulnerable in case the coronavirus rebounds. The FDA’s decision opens a fourth dose of the Pfizer or Moderna vaccines to those people at least four months after their previous booster. (Boston Globe – 28 Mar 22)

The omicron variant of Covid-19 has been linked to more hospitalizations, severe complications, and deaths of young children than previous waves of the virus, suggesting the highly contagious strain may not be as mild as initially thought. (Bloomberg – 31 Mar 22)

Moderna is asking the USFDA to greenlight its Covid-19 shot for infants and young children. If the FDA grants the shot emergency use authorization in the coming weeks, everyone 6 months and older in the US will finally be able to get vaccinated. (Boston Globe – 28 Apr 22)

Ever-bullish Denmark has become the first country to suspend its Covid vaccination program, as "the epidemic has reversed." This means officials won't send out vaccination invitations, at least through the end of summer, though it still recommends getting the jab. (Fortune – 29 Apr 22)

Weekly Dry Cargo Review

March 04 2022, Week 09

BCI TC Avg	**13,560**	-466	BPI TC Avg	**25,061**	1,139	BSI TC Avg	**28,450**	1,863	BHSI TC Avg	**25,974**	800	HRDI	**2,098**	62

A Comparison of Cape and Sub-Cape Freight Indices

Introduction

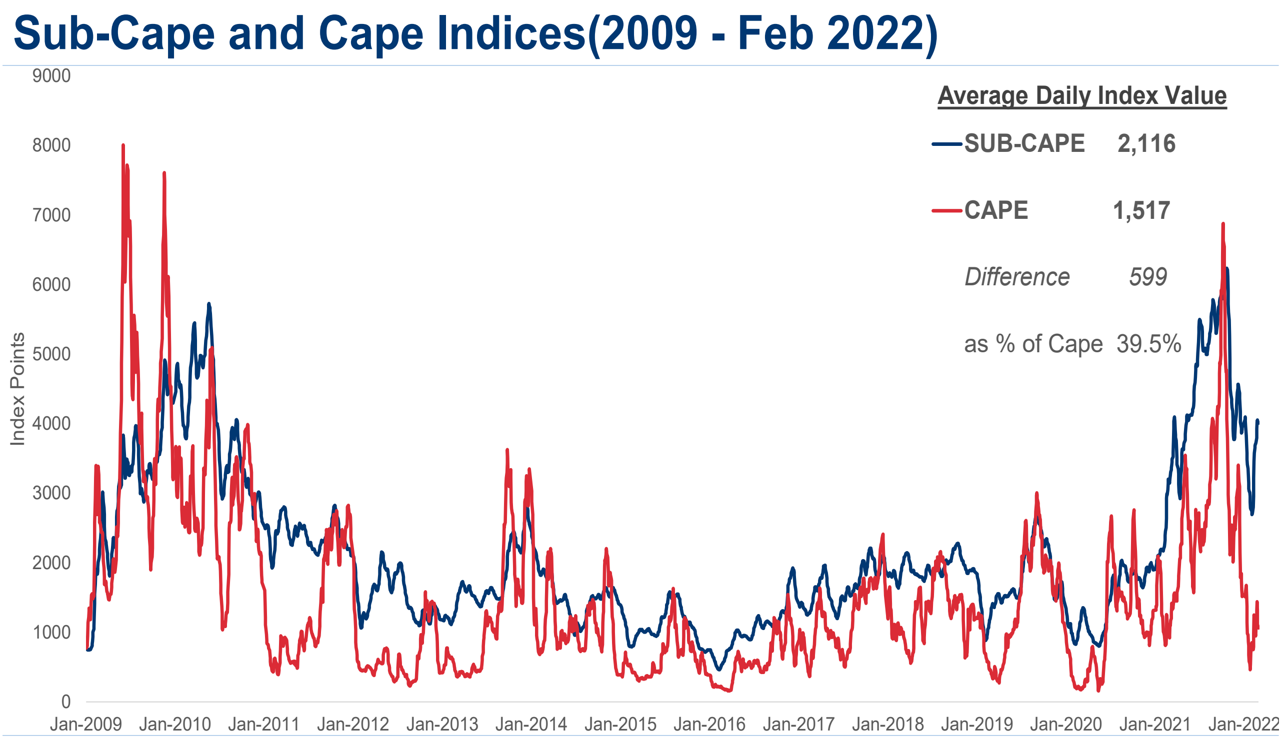
Due to mounting evidence of divergent behaviour between the Capesize and Sub-Cape freight markets, Howe Robinson Research decided to investigate the extent to which composite indices such as the Baltic Dry Index (BDI) and the Howe Robinson Dry Index (HRDI) conceal such differences.

To this end we constructed two daily freight indices, one for Capes (HRCPI) and one for Sub-Capes (HRSCI). Both indices run from January 2009 until the present. The former is based on the Baltic's BCI and the latter on its BPI, BSI and BHSI time series. Each series switches (eg from BCI 2003 to BCI 2014, BPI to BPI 82, BSI to BSI 58 and BHSI to BHSI 38) at the same date and using the same methodology as the Baltic does for the BDI. For purposes of comparison both series are indexed to the same value as the BDI (773) on their starting date of 2/1/2009.

There are, however, two key differences with the BDI:

1. The HRSCI includes the Handysize sector throughout which the Baltic excluded from the BDI in 2018.
2. Weights for the three components in the HRSCI are not fixed over time, as in the BDI, but are modified at the beginning of each year based upon the proportionate deadweight size of each fleet segment. (Since the BCI is the only series used to construct the HRCPI, the weighting is 1 throughout).

Results



1 *Chart 1*

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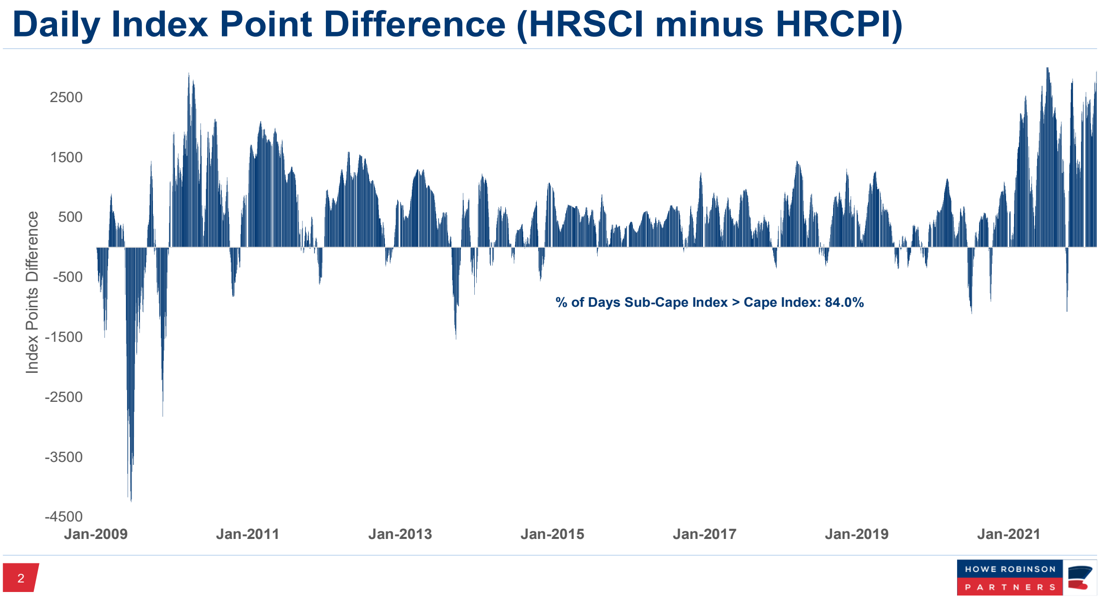
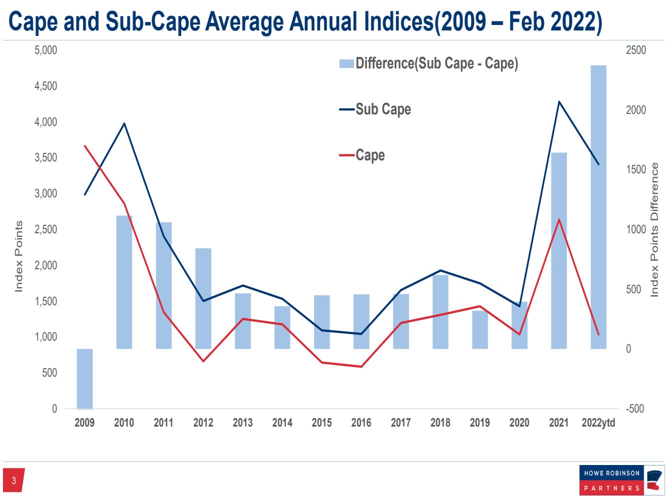
Chart 1 plots the daily index for each series since 2009. Also plotted is the daily difference in index points (HRSCI-HRCPI) between the two. It is immediately apparent that, brief cyclical peaks apart, the Sub-Capes have outperformed their larger sisters fairly consistently. For 84% of the period between 2009 and 2022 (or 2,758 out of 3,284 days) the HRSCI was at a higher level than the HRCPI and registered a daily average figure of 599 index points above the Capes (or almost 40% higher).





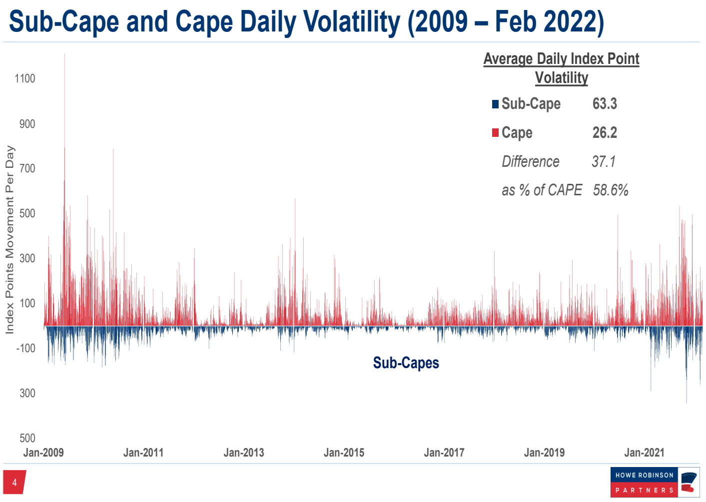


Chart 2 ***Chart 3***

Nor, as Chart 2 shows, was this particularly the case in weak markets as is often thought. In the relatively strong years of 2010 and 2021, for example, the HRSCI was stronger and for longer than the HRCPI and this has consistently been the case since 2009. It also suggests that in recent years these margins have tended to widen, such that in the first two months of this year the daily average sub-cape index has out-performed capes by 2,300 index points or 225%.

What is particularly surprising about these results is that higher rewards are generally associated with higher risks. Not so in this case. If we take daily volatility as a proxy for risk, Chart 3 shows the average (absolute) daily change for Capes was more than double that for Sub-Capes (63 compared to 26 Index Points/Day).