Ref.: 2018-014

26th July 2018

To : The President of the Stock Exchange of Thailand

Subject : The 2nd Quarter of 2018 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

The Results reviewed by EY Office Limited, show you the latest financial position of the Company. The net profit for Q2 2018 was USD 2.85 million. The average time charter equivalent, per day per ship during the quarter, was USD 10,767, 17% higher than that in Q2 2017. The average operating expenses (including depreciation/amortisation of the Drydocking/Special Survey expenses), per day per ship, was USD 4,519 in Q2 2018 which is marginally higher than our target of USD 4,500 and higher than the actual of Q2 2017. The EBITDA was USD 16.37 million during the quarter. The profit per share (eps) in Thai Baht stood at Baht 0.06 for this quarter.

The Hard Facts	Q2, 2017	Q2, 2018
Highest Earnings per day per ship in USD	15,000	16,517
Average Earnings per day per ship in USD	9,206	10,767
Average Earnings per day per Handysize ship in USD	9,678	10,232
Average Earnings per day per Supramax ship in USD	7,982	10,672
Average Earnings per day per Ultramax ship in USD	9,454	12,142
Operating cost per day per ship in USD	4,322	4,519
EBITDA in million USD	12.84	16.37
Net Profit/(Loss) in million USD (excluding Exchange loss and Non-recurring items)	(0.98)	2.93
Net Profit/(Loss) in million USD	(0.15)	2.85
Earnings(Loss) Per Share in Thai Baht (excluding Exchange loss and Non-recurring items)	(0.02)	0.06
Earnings (Loss) Per Share in Thai Baht	(0.003)	0.06

Market Segmentation: During Q2, the Baltic Handy Size Index (BHSI) averaged 601 points derived from the average Time Charter (TC) rate of USD 8,777. Compared to that, **our Handies earned USD 10,232 and beat the BHSI TC rate by 16.58%.** During Q2, the Baltic

Supramax Index (BSI) averaged 1,056 points derived from the average TC rate of USD 11,031. Compared to that, **our Supramaxes earned USD 10,672 and underperformed the BSI TC rate by 3.25%. Our Ultramaxes earned USD 12,142**. Our target has been to outperform both the indexes.

The next SET Opportunity Day will be held at the SET building at 09.00 hours on the 14th August where we will be presenting and discussing our Q2 results. For those of you who cannot attend physically, the SET webcasts the Opportunity Day presentation live, giving you a chance to be present via the web.

Long Term Charters: As can be seen, our current and forward four year (2018 to 2022) rolling book is at the 16.6% level with a visible revenue stream of USD 150.4 million.

Year	2018	2019	2020	2021	2022
Total Available Days	13,140	13,140	13,176	13,140	13,140
Fixed T/C Days	2,220	2,190	2,196	2,190	1,992
%age Fixed T/C Days	17%	17%	17%	17%	15%
Av. T/C Rate/Day in USD	13,859	13,875	13,875	13,875	14,211
Contract value in million USD	30.8	30.4	30.5	30.4	28.3

Once the BDI moves in a sustained upward direction we will start fixing our ships on longer term charters.

BDI Developments and our read of the market:

The Baltic Dry Index averaged 1,175 points in Q1; 1,260 points in Q2; and **ended June at 1,385 points**. **Though demand has grown**, as can be seen from the FH numbers for China, **net increase in supply has been 12.79 MDWT a shade over two thirds of the entire net supply increase of 17.83 MDWT in all of 2017.** Only 2.77 MDWT of dry bulk ships have been scrapped in the FH of this year compared to FH of last year's 8.65 MDWT. New orders, however, are not significant due to higher cost of new builds; higher steel prices; lower availability of skilled ship yard workers; constant threat of new regulations (around the corner that would require almost immediate and expensive retrofits); refund guarantors for the yards insisting that ship build contracts must be profitable; and financial pressure either on the buyers or at the shipyard level. This has helped reduce the pressure from the Supply side in the forward position with the **order-book hovering at just 9.6% (79.01 MDWT to be delivered up to and including 2021), of the existing supply at the end of Q2. Negative sentiment has started to dissipate from the market resulting in ship-owners refusing to scrap their older ships**. This has allowed an overall net fleet growth of 1.6% in the FH of this year. **If scrapping doesn't accelerate then the BDI will continue to fluctuate sharply solely dependent on** what **the demand side** does. In other words, ship-owners are not helping their cause by not scrapping ships **making the recovery in 2018 to 2020 event dependent, extremely volatile, and completely beholden on demand continuing to outperform.**

BDI Developments and others' read of the market:

Heavy rains in Brazil during February/March coupled with the suspension of the 500km Minas Rio slurry pipeline due to a serious leak **impacted on both Chinese iron ore imports and Capesize freight rates**. Logistical dislocation saw vessel line-ups in Brazil grow, and as enquiry dried up Capesize Owners were less prepared to undertake longer ballasts for limited returns on the Brazil China route, **preferring instead to stay in the Pacific thus increasing tonnage supply and negatively affecting the Australia China route**. Overall Chinese monthly iron ore imports in March came in at a dramatically reduced 85 MMT, down by over 10 MMT compared to March 2017 (95.5 MMT) and the 100 MMT as recently as January this year. Imports from Brazil to China at 15.7 MMT were the lowest monthly figure since June 2016 (15.2 MMT). Clearly iron ore shipments have bounced back in April with a positive effect on freight rates, but the **market remains finely balanced, and we expect continued volatility for the rest of 2018**. (Howe Robinson Research – 4 May 18)

As is often the case in the world of global commodity trading, especially of late, **weather and geopolitical events tend to cause disruptions in raw material production and trade flows**, with the associated headlines impacting commodity prices and shipping market sentiment. There have been several such examples in the last two weeks, highlighting the shortcomings of shooting first and asking questions later. Many of the headlines in the iron ore (and, by association, dry bulk) markets over the last two weeks centered on the suspension of operations at the Anglo American Minas Rio mine in Brazil, potentially for the remainder of 2018, following an accident. Although any loss of cargo could be an incremental negative to shipping demand, this mine shipped only 17 MMT of iron ore in 2017, meaning the year-over-year loss of product will be about 14 MMT (after 1Q18 production). However, it is important to remember that **Vale, by far the largest producer in Brazil, fell short of its 1Q production target owing to weather, but it still aims to meet its full-year target of about 390 MMT, up 23 MMT year over year and including some "catch-up" exports from the 1Q shortfall. All told, despite the recent focus, we believe the outlook for long-haul Brazilian iron ore exports remains favorable for 2018.** Breaking from the theme of potentially misreading data points, sometimes the message from data is quite clear. In this case, **rapid declines in rebar (down 27% from March peaks) and iron ore inventories in China have led to pricing strength for both commodities and likely indicate that a seasonal uptick in demand is about to commence**. (Evercore ISI – 7 May 18)

After 4 years of relatively static growth, the **seaborne Manganese Ore trade grew sharply** in 2017 (up 4.4 MMT to nearly 29 MMT) on the back of strong Chinese demand. Primarily used by the steel and aluminum industries as a strengthening alloy, increased Chinese consumption coupled with the temporary shutdown of about a quarter of its own domestic manganese production (on the back of environmental concerns) saw y-o-y exports rise by 24% to 21.3 MMT. South Africa is the largest shipper of manganese ore and saw its exports to China rise 30% y-o-y to 9.3 MMT principally via Port Elizabeth and Saldana Bay but with rail capacity issues and the higher prices for manganese, some product was even trucked to Durban for shipment. Australian imports to China at 4 MMT remained constant but significant rises in exports from Gabon (2 MMT), Ghana (1.9 MMT) and Brazil (1.7 MMT) will have contributed to **additional tonne-mile demand in the sub Cape market**. We do not anticipate the same exponential growth in 2018 (manganese ore imports into China were up 3% y-o-y in Q1) as Chinese domestic production has returned to full capacity whilst a doubling of imports from Malaysia in Q1 may suggest a focus on a cheaper freight alternative. (Howe Robinson Research – 11 May 18)

Global seaborne trade is projected to rise to over 12 BMT in 2018, i.e. 1.57 tonnes for every person on the planet. This aggregate per capita figure is up almost 70% on two decades ago, during which time the world's population has risen by 27%. On an individual country basis though, there is much variation in per capita seaborne imports. For instance European countries imported 3.1 tonnes of cargo per head in 2017. In contrast, in many populous but developing economies, seaborne imports are just a fraction of a tonne per head, about 0.15 in Pakistan in 2017 for example. **Evidently there is potential in developing economies for rising per capita imports (as well as population) to enhance seaborne trade**. (Clarksons – 18 May 18)

Why we believe H2 will be better than H1: The average earning for a Capesize so far in 2018 is USD13.5k/day, up 12% YOY but still short of our 2018e estimate of USD17k/day. We believe the freight market is on the onset of improvement. In iron ore, we see the main driver in the months ahead as: **1) High price spread between high and low quality iron ore, 2) Brazilian exports YTD down 4% YOY with Vale still guiding for a 6% YOY production growth, 3) Chinese iron ore inventories inching down in recent weeks, and domestic iron ore production far below both last year and the 5y average and 4) A strong start of 2018 in China steel production, boosting demand for iron ore**. Short term supply disruptions faces both coal (Chinese government encouraging coal stock draws to curb price rally) and soybean (truck strikes in Brazil limits delivery of soy bean to ports), but **the underlying fundamentals look promising particularly when looking at Chinese coal stockpiles and trends YTD of domestic production.** (DNB Markets – 25 May 18)

Handysize and Supramax bulkcarriers have enjoyed strong popularity in recent years, due to their **flexibility and favourable employment prospects**. These are geared vessels, which can operate efficiently in trades where shore cargo-handling facilities are either unavailable or inadequate. Coupled with the acceptability of their dimensions and draft in an extensive range of ports, **their employment pattern is extremely varied**. In 2017, we recorded the delivery of 241 units, for a total of 12.8 MDWT between 20,000-64,999 dwt, down 25% in dwt terms compared to 2016. In dwt terms, around 66% of deliveries in 2017 were sized between 60,000-64,999 dwt. After assuming delivery slippages, 2018 deliveries are expected to come in at a lower 7-8 MDWT. In 2017, 116 units between 20,000-64,999 dwt were sold for scrap, totaling 4.5 MDWT. This is down 31.7% in dwt terms compared to 2016. Demolition activity is expected to fall to even lower levels in 2018 due to an improved market sentiment, although **the ballast water and sulphur regulations are expected to encourage more scrapping** in following years. The total handy & supra fleet is now expected to grow by a net 2% and 1% in 2018 and 2019 respectively, after assuming delivery slippages and lower demolition activity in 2018. There has been **a slight pickup in new orders since end 2017**, with 20 units ordered for a total of 1.0 MDWT in the first

4 months of 2018, compared to 14 units (0.7 MDWT) ordered during the same period in 2017. Of the units ordered this year, 10 units were sized between 30,000-39,999 dwt, 7 units were between 60,000-64,999 dwt, and 3 units were sized between 50,000-59,999 dwt. While demolitions have been slowing down greatly, the supply demand balance is still improving with deliveries remaining relatively stable at lower levels, and **trade growth generally continuing at decent levels–factors which are expected to continue supporting the Supramax and Handysize markets.** (Banchero Costa – 1 Jun 18)

Since mid-2016, the global economic outlook has probably never been as uncertain as it is currently. Incoming data since the start of the year has disappointed (the biggest disappointment coming from the eurozone), while a potential escalation of trade tensions between China and the US challenges every economists forecasting ability. Last but not least, a stronger dollar — the result of higher short-term interest rates — has put a lot of pressure on emerging economies, especially those with a high current-account deficit and a large portion of debt in foreign currencies. **It is easy to draw up a negative scenario for the economic outlook but the fact remains that growth is still solid in almost all regions**. In the **US**, strong corporate profitability and a tight labour market should ensure the country **records real GDP growth of 3% this year**. **European growth**, after having disappointed in the first half, **should rebound and reach 2.3% for the whole of 2018**. In Asia, the Chinese central bank is partially reversing its monetary tightening. After 6.9% growth in 2017, the **Chinese economy should grow by 6.6% this year**. Hence, **the global economic cycle is alive and well**, but we reckon that momentum has started to fade. In other words, the peak in growth is behind us. (TradeWinds – 10 Jul 18)

Our read of Trade Sanctions/Tariffs:

Trade sanctions and tariffs are on everyone's minds and lips. The general **consensus** in the main stream media, dominated with heated rhetoric, **is that China's export dependent economy will be the one to suffer the most. That would have been true before the Global Financial Crisis but no longer holds water**.

Trade sanctions/tariffs, in and of themselves, **cannot destroy demand so long as the sanctioned commodity is either available from some other supplier/country or is substitutable by a similar priced commodity with similar/identical attributes. All sanctions/tariffs** do is to make shipping of such commodities more inefficient. If this change in supplier/country **results in congestion; slower loading of ships** (compared to the original supplier/country); and **an increase in ton-mile,** then that is **best for the dry bulk markets.**

Others' read of Trade Sanctions/Tariffs:

Protective tariffs imposed by the United States in recent months have only had a minor impact on the world economy but a significant escalation in tensions could derail the recovery in global trade, the European Central Bank said on Monday. Retaliation and a fully fledged trade war could increase import prices, raise production costs and eat into households' purchasing power, negatively impacting consumption, investment and employment, the ECB said in an economic bulletin article. (Reuters – 8 May 18)

As China and the US try to negotiate their way out of a trade impasse this week and avoid an all-out trade war, the shipping industry will have to console itself with the fact that there is still **one trade between the world's two largest economies that is still booming: crude oil. US crude exports to China continue to hit record highs this year** even as the trade dispute heats up. With oil trades potentially an easy tool for the US to cut the deficit, and China seemingly a willing buyer, any resolution could boost tanker demand further. Sadly, any optimism for shipping ends there when it comes to the likely fall-out from escalating tension between the two economic super-powers. **Beijing's curbs on US imports could seriously alter global grains trades and while we think there could be a short-term freight rate bump associated with any change, the long-lasting trade restrictions should be considered a cause for concern** to anyone with exposure to dry bulk grain trades right now. (Lloyd's List – 14 May 18)

The Atlantic spot market is off mainly due to lack of grains moving out of USG and South America. While the slow South American grain exports can be attributed to a poor harvest in Argentina and domestic issues in Brazil, the USG grains are not moving due to "looming" trade wars from "on and off" tariffs by the U.S. government on Chinese and EU goods, with counter tariffs from the other side, particularly Chinese tariffs on US sorghum (which were put at 178% in April and rolled back later in May). **Buyers are fearful of buying forward cargoes under the "threat" of import duties - while traders are hesitant to sell forward cargoes at today's depressed prices. This is curtailing a major source of US exports, severely affecting the shipping and dry cargo market**. (Compass Maritime – 1 Jun 18)

First, a simple fact, **China's economy has already rebalanced from an export-led to a domestically driven growth model**. **Second,** contrary to popular perception, **domestic consumption has already become a key growth driver in China**, contributing 5.3 percentage points to the 6.8% GDP growth in 1Q18. **Third, the services sector**, an increasingly important part of the economy (accounting for over half of GDP), **is likely to keep growing strongly in the coming years** due to changing consumption patterns of urban middle class consumers, improving transportation networks and digitalization. **Last** but not least, although **the trade war will certainly hit sentiment in the export-oriented manufacturing sector, the bulk of the demand for most manufacturing firms comes from the domestic market**. (HSBC 'China Inside Out' - 29 Jun 18)

The U.S.-China trade spat is turning the global soybean market into a merry-go-round that **may see top exporter Brazil turn to imports.** With Brazilian prices benefiting from the feud, the South American nation could take advantage by maximizing sales to top importer China. But to do that, it'll have to turn to neighbor Argentina to buy soybean meal, a key ingredient needed to feed its poultry industry. (Bloomberg – 5 Jul 18)

Will somebody please tell commodity shippers there's a trade war going on? There's a theme emerging: **dry-bulk shipping rates are rallying despite an escalating trade war** that may yet damage China's economy. The reasons are that **China's economy is so far proving resilient**; **direct trade between the U.S. and the Asian country is relatively small**; and **China will**

invest in physical infrastructure to prop up its economy if a trade war with the U.S. does escalate. (Bloomberg – 5 Jul 18)

Global trade could face a setback if protectionist tendencies increase with the effect already starting to show, according to a World Trade Organization report on trade restrictions among G20 nations. It found that a total of 39 new trade-restrictive measures had been applied by G20 economies, between mid-October 2017 and mid-May 2018, including tariff increases, stricter customs procedures and the imposition of taxes and export duties. The tally equates to an average of almost six restrictive measures per month, almost double the amount recorded during the previous review period. By contrast, the number of new trade-facilitating measures averaged seven every month, compared to six previously. (Lloyd's List – 6 Jul 18)

Despite the first direct tariffs coming into force Friday, **the Chinese consumer has been on her best behavior**. That's somewhat unusual if you consider Beijing's most recent diplomatic spats with its trading partners. **When relations with South Korea deteriorated last year** over Seoul's decision to deploy a missile shield, **Chinese civil society went straight for the jugular**. **It was a similar story in 2012**, during one of the periodic flare-ups over islands in the East China Sea claimed by both Japan and China. Nationalist **crowds ransacked a Toyota Motor Corp. dealership and set a Panasonic Corp. factory ablaze**. To date, there's been little sign of that sort of thing in this dispute. In all, **Chinese subsidiaries of U.S. companies had about $223 billion in revenue in 2015,** according to Deutsche Bank AG. **Reduce those sales by just 20 percent — a rather modest target, given what consumer boycotts did to Korean firms last year — and you've already done $45 billion in damage, more than equivalent to the 10 percent tariff the U.S. is threatening to levy on a further $400 billion of imports if Beijing doesn't back down**. (Bloomberg – 6 Jul 18)

Economist Stephen Roach, a Yale senior fellow and former Morgan Stanley Asia chair, reckons **the U.S. will lose its trade war with China**. Although the U.S. imports more Chinese goods than vice versa, seemingly giving it more leverage, Roach explained: "**The U.S. is hugely dependent on China as a source for low-cost goods to make ends meet for American consumers. We're hugely dependent on China to buy our Treasuries to fund our budget deficits**, which as you know, are getting larger." (CNBC – 12 Jul 18)

The U.S. and China signaled they were open to resuming negotiations over trade after days of exchanging retaliatory threats, though Treasury Secretary Steven Mnuchin said Beijing must commit to deeper economic reforms. Mnuchin told the House Financial Services Committee on Thursday that he and administration officials are "available" for negotiations, as he called U.S. tariffs imposed on China a "modest" step aimed at leveling the playing the field. **China made its best efforts to avoid escalation of economic frictions with the U.S.** and its Washington's responsibility now that the matter has reached this point, according to a statement from the Commerce Ministry late Thursday in Beijing, adding that **it's been sincere in pushing to settle differences through dialog and consultation**. China's Vice Minister of Commerce Wang Shouwen said in an interview on Tuesday in Geneva that **China and the U.S. "should sit down and try to find a solution to this trade problem**." (Bloomberg – 13 Jul 18)

Escalating trade tensions are threatening to derail a global upswing that's already losing momentum amid weaker-than-expected growth in Europe and Japan as financial markets seem complacent to the mounting risks, **the International Monetary Fund warned**. The IMF kept its global forecast unchanged Monday in the latest update to its Global Economic Outlook. **The world economy will grow 3.9 percent this year and next,** said the Washington-based fund. The pace this year would be the fastest since 2011. (Bloomberg – 16 Jul 18)

China's foreign ministry claims that **the U.S.-led trade war has become the biggest "confidence killer" for the global economy**. At a regular press briefing, Hua Chunying, a spokeswoman for the ministry, alleged that the United States is fabricating reasons for pursuing trade action and warned that **if the U.S. "continues to be wilful, countries around the world will only harden their resolve to hit back**." (Reuters – 18 Jul 18)

Our read on Regulatory Pressures:

Ballast Water Management Systems (BWMS) are no longer even being discussed amongst ship owners or in the shipping press. It is just something that needs to be done and owners are complying with the legal requirements.

International Maritime Organization's (IMO) 2020 Low Sulphur Fuel Oil (LSFO) is, however, occupying everyone's time and effort. Up to the end of June 2018, the total number of ships that had fitted, or were planning to fit, **LNG engines or scrubbers is 1,383 ships or 1.41%** of the 98,183 ships that have to comply with this regulation on and after 1st January 2020. So how are the rest of the ship owners planning to comply? **Ship owners will achieve full compliance by burning LSFO.** This choice, of course, has a few issues, primarily, adequate availability of LSFO. Exxon Mobil has already confirmed that LSFO would be available at all the major bunkering ports in the world. Once an oil major has come out with such a statement all the others will follow suit. Hopefully **the 'flood' of LSFO that will ensue from Q4'19 onwards will ensure that the differential between HSFO and LSFO is not materially significant**. This is one of the main reasons why LNG engines or scrubbers are not the number one choice of owners. Other factors that would come into play would be **compatibility issues** between different blends of LSFO; **excess production of sludge** due to mixing of such blends; **capability of older ships** to manage to keep different LSFO blends separate; and of **older engines being able to 'burn' such LSFO blends without breaking down/damaging their engines/purifiers**. Finally, **older ships not capable of using LSFO will be scrapped and all other ships will be slowed down** enough to burn the least amount of LSFO to make every voyage as economical as possible. **This will result in a tightening of the supply of ships and would result in the market reacting strongly in favour of ship owners**.

Others' read on Regulatory Pressures:

The Norwegian fjords will become the world's first zero-emissions zone for shipping no later than 2026. The country's parliament has voted to halt emissions from cruise ships and ferries in the world heritage areas as soon as technically possible, marine group NCE Maritime CleanTech said. Existing ships will have to be equipped for electric propulsion with battery packs and, in the future, hydrogen. Several new ships already have, or are planning, such solutions. In addition, onshore power will be needed in ports to enable vessels to recharge when docked. (TradeWinds – 4 May 18)

The regulation which brings into force **the 0.5% limit in sulfur in fuel oil from January 1, 2020** (outside designated emission control areas where the limit is already 0.1%) **cannot be changed from a legal perspective, so there is no possibility of delay**. To date, this regulation (MARPOL Annex VI) has been ratified by 91 parties who between them represent 96.89% of world merchant shipping tonnage. So the majority of tonnage is covered by flag states that are party to the regulations. On January 1, 2019 we will see the entry into force of Amendments to MARPOL Annex VI **to designate the North Sea and the Baltic Sea as ECAs for NOx** under regulation 13 of MARPOL Annex VI. Both ECAs will take effect **on January 1, 2021**, thereby considerably lowering emissions of NOx from international shipping in those areas. **Black carbon is also being considered**. IMO has been looking at how to measure and report on black carbon emissions, as part of its work to consider the impact on the Arctic due to such emissions from international shipping. Extracts from an interview with Kitack Lim, Secretary-General of the International Maritime Organization. (Platts – 18 May 18)

ExxonMobil has announced that it will supply fuels that comply with the International Maritime Organization's (IMO) 0.5% sulphur cap in ports in Northwest Europe, the Mediterranean and Singapore. **Additional locations will be announced** ahead of the January 1, 2020 deadline. (Exxon Mobil – 24 May 18)

China is poised to expand its coastal emission control areas on vessels calling at the country's ports, an official from the China Maritime Safety Administration has said. **From January 1, 2019, China's territorial waters (12 nautical miles from coast) will apply a 0.5% sulphur cap on vessels.** The move is part of a government plan, according to Dong Leyi, head of CMSA's hazards and pollution control department. It will put Beijing one year ahead of the International Maritime Organization, which is to implement its own sulphur rules with the same level of restrictions on the first day of 2020. (Lloyd's List – 2 Jul 18)

The shipping industry could be forgiven for thinking there are no easy compliance options for the International Maritime Organisation's (IMO) 2020 sulphur cap. Owners have complained that **scrubbers are a new, expensive, and dirty technology**. In contrast, **burning low-sulphur fuels or marine gasoil (MGO) – already standard in emission control areas (ECAs) – has looked like a simpler solution**. Yet with less than 18 months to go until the regulations come into force, there is **increasing concern that the refinery industry will be unable to produce enough low-sulphur fuels** to meet demand, especially at an affordable price. **ExxonMobil has said it will supply them at ports in Northwest Europe, the Mediterranean and Singapore**. **BP has announced two 'possible' new blends**, although details are vague. **Cepsa will sell a single 0.5% fuel at Spanish ports**, and believes 0.5% blends will be priced around USD120-190/t above HFO. **Shell plans to announce its strategy in October**, while **Total has said it is** "too early for us to comment on this topic. We are **actively working on it**." (IHS Maritime – 16 Jul 18)

IMO 2020 is not stand-alone but part of a raft of regulatory initiatives and aspirational objectives out to 2025 and beyond. The latter include, the Baltic/N.Sea NECA and EEDI phases 1 & 2, proposals for a Chinese ECA and **to reduce NOx, particle and GHG emissions, incl. the halving of CO2 emissions by 2050. Such a plethora of efforts to reduce the environmental footprint of shipping make short term and isolated decisions about SOx compliance risky and more complex**. (Howe Robinson Research – 20 Jul 18)

Asset Value Developments:

Dry bulk values adjusted ~0-10% higher across the board. Capesize Resale, 5yr and 10yr at 49m, 37m and 25m. Pmax Resale, 5yr and 10yr valued at 30m, 24m and 16m. Resale, 5yr and 10yr Supras/Ultras at 28m, 22m and 15m. Resale, 5yr and 10yr Handies valued at 24.5m, 15m and 10.5m. (Arctic Shipping – 25 May 18)

One interesting sale reported this week is of the Panamax Bulker "TORO" of approx 76,000 DWT Built Imabari 2008 sold for $15.2 mill. The sellers purchased this vessel approx 2 years ago for about $9 mill and thus appears to have realized a nice profit. (Compass Maritime – 13 Jul 18)

Our read of Key Supply Developments:

We started 2018 with 813.53 MDWT and have increased to 826.32 MDWT by the end of H1 for a 1.6% net fleet growth. A further 2.11% (17.45 MDWT) is scheduled for delivery in the balance of 2018 and another 3.95% (32.66 MDWT) scheduled for delivery in 2019. If we were to **apply a slippage factor of 20%** (actual is 9.61% in FH 2018) to these scheduled deliveries **and** further **assume that scrapping reaches 8 MDWT** (actual is 2.77 MDWT scrapped in H1 2018) we would be left with **a net fleet growth of 2.64% (835.05 MDWT) in 2018 and net fleet growth of 2.51% (855.97 MDWT) in 2019.**

Others' read of Key Supply Developments:

Only 4 vessels (one in each sector) were scrapped last month making April's dry bulk scrapping figure the lowest since the 2 vessels in October 2008. So far this year only 28 vessels have been removed from the fleet comprising 10 Capesize, 4 Panamax, 8 Supramax and 6 Handysize compared to 99 vessels in the first four months of last year. Despite demolition prices still hovering around $440 ldt on the Sub-Continent there is little incentive for Owners to send tonnage for the breakers whilst rates remain comfortably above running costs thus our annual forecast remains approximately 8 MDWT for 2018. (Howe Robinson Research – 18 May 18)

Compared to the delivery of 544 units amounting to 46.4 MDWT in 2016, 2017 deliveries fell to 426 units totaling 37.1 MDWT. After assuming delivery slippages, **deliveries in 2018** could come in at **a lower level of around 27 MDWT**. In the first 5 months of 2018, 131 units totaling 12.8 MDWT were delivered. In 2017, **demolition activity** had slowed down in line with positive sentiments, from 382 units equivalent to 29.4 MDWT in 2016, to 191 units totaling 13.6 MDWT in 2017. Improved market sentiment is expected to keep demolition activity low in 2018, although the ballast water and sulphur regulations are still expected to encourage greater scrapping in future years. In the first 5 months of 2018, a total of 27 vessels amounting to 2.6 MDWT were demolished. With market rates continuing to improve, **newbuilding activity has picked up,** although orders are still relatively low compared to the range of 300-1000+ units ordered per year in 2010-2015. In the first 5 months of 2018, 65 new orders totaling 8.2 MDWT were reported. (Banchero Costa – 27 Jun 18)

In mid-June 2018, the global dry bulk fleet consisted of 1,241 vessels above 18 years of age. Most of these vessels, potential scrap candidates, are due for their special surveys in 2019 and 2020. **Lloyd's List forecasts a potential 46% increase in scrapping (774 Supras and 363 Handy size ships) due to tighter sulphur regulations from 2020**, compared with the scrapping rate under usual business circumstances. Still, these are vessels that have attained the average scrapping age and **will only be phased out if they become uneconomical for the owners to operate**. (Lloyd's List – 20 Jul 18)

Our read of Key Demand Developments:

The good news is that global GDP, and consequently trade growth, is forecast to remain around 4% till the end of 2019. Indian thermal coal demand though growing is being met by increased domestic production, while increasing demand for met coal is being met by imports. Grain trades, including soybeans, will continue to grow. Wheat exports from the Black Sea are expected to grow as Russia becomes the number one exporter. Continued infrastructure investment in South East Asia with China's Belt & Road Initiative will keep the bigger bulk trades active. Steel, cement and forest products will grow to support such projects. The strong anti pollution stance taken by the Chinese government will ensure growth in imports of high quality iron ore, coke and coal imports with greater ton-mile impact for the foreseeable future.

In **the negative news** category we have non-coal electricity generation growing strongly in China. Chinese Government policy favors higher domestic coal production over imports with a consequent negative outlook for imports.

Others' read of Key Demand Developments:

Whilst there are any numbers of events that can upset the short term flow of cargo (trade tariffs, strikes, weather events etc) **we remain bullish on cargo demand over the next 18-24 months**. We remain convinced that **the supply demand fundamentals will continue to lift time charter earnings over the next 18 months, and with that vessel values can be expected to rise as well**. Once we hit 2020 though there will be something of a two-tier market, with eco and scrubber fitted vessels still making positive returns but less efficient vessels suffering at the hands of the higher bunker costs. **With the economic cycle due to turn (higher interest rates, limited spare capacity, weaker Chinese growth) and vessel supply set to pick up, we see the**

freight cycle peaking and moving down by 2021. And so the cycle will start again. (Braemar ACM – 24 May 18)

Iron ore imports by China are expected to remain supported by a strong preference for higher quality ores – a factor that could be bullish for freight rates if it encourages more long haul shipments from Brazil. **South Korea's coal import sources** could also see a reshuffle due to new regulations, which may benefit tonne-mile demand as they favour imports from longer haul destinations. The global **wheat and coarse grains trade** is also expected to see decent growth of 2.5% in 2018/19, while the global **soybean trade** is expected to grow 4.2%. However, **Chinese coal imports** could be threatened by government policies to control domestic coal prices and increase local production this year, although we still expect to see imports pickup Jun –Aug during the peak demand season. **Nuclear power plant restarts in Japan** are also expected to further reduce their coal imports going forward. **Trade tensions** between the U.S. and China could also negatively impact their soybean trade, among other commodities. Barring the wild card of a full blown U.S.-China trade war, **the outlook for the dry bulk market remains generally positive in 2018**, on the back of improving vessel supply dynamics, and strong Asian demand for commodities such as iron ore, grains, and soybean. (Banchero Costa – 27 Jun 18)

China

The China Factor continues to have a disproportionate impact on the dry bulk markets. **China's GDP growth numbers have advanced 6.7% year-on-year in the second quarter of 2018**, after a 6.8% growth in the previous three quarters and matching market expectations. (National Bureau of Statistics of China – 16 Jul 18)

China's iron ore imports for the first half at 530.3 MMT, dipped 1.7% from year-ago levels. (Reuters – 13 Jul 18)

China boosted coal imports in the first six months of 2018 **by 9.2% to 145.5 MMT** over the previous year. (Platts – 13 Jul 18)

China, in the FH of 2018, mined 1,696.59 MMT of crude coal, down 0.9% year on year. (National Bureau of Statistics of China – 19 Jul 18)

Chinese steel production in the first 6 months was 448.8 MMT, up 7.1% y-o-y. (Reuters – 16 Jul 18)

China's steel export in the first half of 2018 slowed significantly and was down 13.2% year-on-year to 35.6 MMT. (Reuters – 13 Jul 18)

The world's biggest oilseed processor just confirmed one of the soybean market's biggest fears: China has essentially stopped buying U.S. supplies amid the brewing trade war. In a move that caught many in U.S. agriculture by surprise, China last month announced planned tariffs on American shipments of soybeans. As the market waited for the measure to take effect, there was some hope among traders and shippers alike that relations between the nations could ease in the meantime and the trade flow would continue. But that doesn't seem to be the case, at least for now, according to Bunge. **It's "very clear" that the trade tensions have already stopped China from buying U.S. supplies**, Schroder said. "How long that will last, who knows? But **as long as there is this big cloud of uncertainty, that's likely to continue**." (Bloomberg – 2 May 18)

We met an exceptional cross-section of industry contacts on CLSA's materials tour last week. **China's demand has recovered well, and there is a strong consensus that Beijing will support growth should trade weaken.** Seasonal factors are a near-term focus, which dictates that construction activity and steel demand weaken over the summer, but provide upside for coal consumption. (CLSA – 18 May 18)

China, the world's biggest soybean importer, almost tripled purchases from Russia amid a trade dispute with the U.S., the biggest producer. Russia sold about 850,000 metric tons of soybeans to China from the start of the 12-month season in July through mid-May, according to Russia's agriculture agency Rosselkhoznadzor. That's more than during any season before and compares with about 340,000 metric tons sold during all of the previous period, Chinese customs data show. China has already canceled several shipments from the U.S. in anticipation of tariffs on the country's products. While Brazil is expected to take much of that market share, Russia is also benefiting. (Bloomberg – 18 May 18)

Chinese figures just released reveal that both April's Steel production at 76.7 MMT and Blast Furnace production at 63.1 MMT were both monthly records. April's industrial production at 7% was also above expectations on the back of strong manufacturing output. This strong set of economic data masks the fact that Blast Furnace production is 0.5 MMT lower y-o-y for the first four months of the year, and of more concern for the freight market iron ore imports during the same period are 354 MMT up just 0.7 MMT y-o-y. As roughly half of China's steelmaking capacity (circa 480 MMT) will need to comply with tough new government emissions targets by 2020, blast furnace production could be further eroded in favour of more modern electric arc steel, though **iron ore imports should at least remain steady as mills will be required to use higher quality ore in Beijing's latest move to clean up heavy industry**. (Howe Robinson Research – 26 May 18)

China's demand for steel is likely to increase this year with JP Morgan raising its estimates for 2018 Chinese steel output from 830 MMT to 866 MMT, potentially boosting the demand for seaborne iron ore. As very large ore carriers and capesize vessels are often used to carry the key ingredient in the production of steel, the segments are likely to benefit from the improved demand. However, most of the speakers at the Singapore Iron Ore Forum on Thursday believed the demand for steel and iron ore will slow in the next few years as the nation rebalances economic growth away from heavy industry towards services. JP Morgan's head of currencies, commodities and emerging markets research, Luis Oganes, told the forum that **Chinese steel production this year will be about 4% higher but the pace should slow to about 1%-1.5% during the coming years**. (Lloyd's List – 28 May 18)

China's wheat output is set to drop sharply due to bad weather affecting the harvest in the main growing areas. The bad weather comprised of drought at key wheat producing provinces of Shandong and Hebei and heavy rains damaging crops during the harvest in May and June in Henan and Anhui provinces. The harvest is expected to be 15-20% lower this year providing an opportunity for higher imports to meet the shortfall. Major growers such as Canada and Russia are set to take advantage as the US-China tariff crisis means US exporters will be unable to capitalize on increased imports. The news reported last week that genetically modified wheat has been discovered in Alberta, Canada has so far not deterred Chinese wheat importers from buying Canadian wheat. (Braemar ACM – 29 Jun 18)

China intensifies plan to cut coal use and limit steel production. Over the past five years, China has been working on reducing the country's crippling air pollution problems, and this week the government released its new 2018-2020 action plan. **The new plan lays out strict guidelines for more than 80 cities across China, including a reduction of the number of coal mines in major coal producing regions like Shanxi and Shaanxi**. However, in addition to reducing production, one of the key efforts in the plan is to limit the country's dependence on coal. **The regions of Beijing, Tianjin, Hebei, Henan and Shandong are required to cut coal consumption by 10% by 2020 from their 2016 level**. In addition, in Hebei, where a quarter of China's steel output is produced, annual steel capacity must be reduced to 200 MMT by 2020. In comparison the region had an annual capacity of 286 MMT in 2013. Eventually, no new capacity for steel, coke or aluminium will be allowed to come online through to the year 2020. (Maersk Brokers – 2 Jul 18)

China will bring in 95 MMT of soybeans in the 2018-2019 season, the U.S. Department of Agriculture said on Thursday in its monthly World Supply and Demand Estimates report. That's **down from the USDA's June forecast for 103 MMT and would mean a drop of 2.1% from the prior crop year**. (Bloomberg – 13 Jul 18)

Asia

India's thermal coal imports rose by more than 15% in the first three months of 2018, with Indonesia accounting for about three-fifths of total supplies, according to vessel arrival data from Dubai-based coal trader American Fuels & Natural Resources. **Imports rose to 39.6 MMT during the three months ended March 31, up from 34.4 MMT of thermal coal during the first three months of 2017**, according to Indian government data which matched the data from American Fuels. India will likely increase 2018 thermal coal imports after two straight years of declines because of domestic logistic bottlenecks, regulatory changes and surging power demand. (Reuters – 11 May 18)

The Indian government's 12 major ports handled 9.71 MMT of thermal coal in April, the first month of the current fiscal year 2018-19, up 24% year on year, Indian Ports Association data released Monday showed. (Platts – 14 May 18)

Americas

Outbound volumes of US coal are surging, new overseas markets are opening up, **and the boom in exports appears sustainable**. According to data from the US Energy Information Administration (EIA), US coal exports totaled 88 MMT in 2017, up 61% year on year (y/y). Exports of steam coal (used for power generation) jumped 116%, to 37.8 MMT, while exports of metallurgical coal (used for steel production) rose 35%, to 50.2 MMT. The upward trajectory continues this year. The upside is not just that US seaborne coal volumes are rebounding, but also, that **the average voyage distances are dramatically lengthening**, significantly increasing demand measured in tonne-miles. According to the EIA, **US coal exports to Asia more than doubled last year, to 29.8 MMT**. Shipments to Asia accounted for 38% of US coal exports last year, while shipments to Europe (still the largest market) accounting for 41%. In contrast, Europe took 46% of US coal exports in 2016, with just 26% going to Asia. India was the largest recipient of US steam coal last year, with South Korea and Japan also in the top five. To put the effect on vessel demand of the Asian shift into perspective, **a voyage between Hampton Roads and Mundra, India (via the Cape of Good Hope) is 3.3 times as long as a voyage from Hampton Roads to Rotterdam in the Netherlands**. The trip to Mundra would take 34 days at 14 knot, while the voyage to Rotterdam would take 10.4 days. (IHS Maritime – 4 May 18)

Rest of the World:

Polish coal imports accelerated in 2017 to an all-time high 12 MMT (8.4 MMT in 2016) and this strong performance has continued into 2018. Thermal coal from nearby Russia accounts for the vast majority of this incremental cargo though USA's share continues to grow, having increased fivefold in 2017 to 1.2 MMT. Falling domestic production after years of reduced investment in the mining sector rather than additional demand is the principal reason behind this recent boost in seaborne trade and as Poland remains heavily reliant on coal (it accounts for 80% of electricity generation), **imports may rise further for the balance of 2018**. (Howe Robinson Research – 1 Jun 18)

Egypt is likely to pay higher prices for its increasing wheat imports amid supply disruptions due to rejected cargoes. **Egypt is one of the world's largest importers of wheat**. Recently Egypt rejected four Russian cargoes due to payment disputes, a missed delivery deadline and a higher than permitted level of ergot fungus. These are likely to result in Egypt's state controlled buyer having to buy alternative cargoes at much higher prices in a stronger commodity market than were previously achieved in the original tenders. (Braemar ACM – 8 Jun 18)

Yours Sincerely,

Precious Shipping Public Company Limited

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Khalid Hashim
Managing Director