The 2nd Quarter of 2021 Management Discussion and Analysis

> ***Eight lessons from the Covid pandemic:***
> *1. Workers are always essential; 2. Healthcare is a basic right; 3. Conspiracy theories can be deadly; 4. The stock market isn't the economy; 5. Wages are too low to get by on; 6. Remote work is now baked into the economy; 7. Billionaires are not the answer; and 8. Governments can be the solution.*
>
> **Robert Reich**
>
> *The Guardian, 23 May 2021*

Our Key Performance Indicators

2nd Quarter 2021 Financial Performance (US Dollar Terms)

The results, reviewed by EY Office Ltd., show you the latest financial position of the Company. The net profit for Q2 2021 was $26.23 million. The earnings per day per ship during Q2 2021 came in at $17,841, almost three times higher than the Q2 2020 figure of $6,099. Our FH 2021 profit has been the highest since 2009! Daily operating costs of $5,043 were higher than our target of $4,750 and higher than the $4,531 figure recorded in Q2 2020. This was mainly on account of the disruption to crew changes due to Covid-19. EBITDA came in at $35.28 million, a 13.4-fold increase from the $2.63 million recorded in Q2 2020. The profit per share stood at Thai Baht 0.53 for this quarter.

THE HARD FACTS	Q2 2021	Q2 2020
Highest earnings per day per ship in USD	45,000	15,065
Average earnings per day per ship in USD	17,841	6,099
Av. earnings per day per Handy size ship in USD	15,753	6,035
Av. earnings per day per Supramax ship in USD	18,366	3,607
Av. earnings per day per Ultramax ship in USD	22,211	9,053
Av. earnings per day per Supramax/Ultramax ship in USD	20,175	6,170
Operating cost per day per ship in USD	5,043	4,531
EBITDA in million USD	35.28	2.63
Net Profit (Loss) in million USD excluding exchange gain (loss) and non-recurring items	24.70	(9.79)
Net Profit (Loss) in million USD	26.23	(37.32)
Earnings (Loss) Per Share in Thai Baht excluding exchange gain (loss) and non-recurring items	0.50	(0.20)
Earnings (Loss) Per Share in Thai Baht	0.53	(0.76)

Consolidated Financial Performance (Thai Baht Terms)

For the quarter ending 30 June 2021, the Company earned a net profit of Baht 826.31 million as compared to a net loss of Baht 1,183.07 million in Q2’2020. 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 Q2’2021 is 192% higher than the Net Vessel Operating Income in Q2’2020. This is mainly due to an increase in the average earnings per Vessel per day which increased from USD 6,099 in Q2’2020 to USD 17,841 in Q2’2021, due to a resurgent Dry Bulk Freight market.
- Vessel running expenses in Q2’2021 are 14% higher than the figure in Q2’2020. The average Vessel operating expenses (Opex) per day per Vessel (including depreciation/amortization of Drydocking/Special Survey expenses) increased from USD 4,531 for Q2’2020 to USD 5,043 for Q2’2021, mainly on account of higher crew and store expenses.
- Administrative expenses (including management remuneration) for Q2’2021 came in Baht 80.84 million higher than the figure in Q2’2020, mainly due to an increase in personnel expenses.

- Finance cost for Q2'2021 was Baht 50.07 million lower than the figure in Q2'2020, due to lower interest expenses. This was driven by a lower LIBOR base rate as well as due to a reduction in overall debt.
- Exchange gain was higher by Baht 73.59 million mainly because the favorable currency movement led to a reduction in the US Dollar equivalent figure for Debentures.

For the six-month period ending 30 June 2021, the Company earned a consolidated net profit of Baht 1,201.44 million as compared to a consolidated net loss of Baht 1,300.17 million during the same period last year. The main reasons for the changes to the six-months financial results are as follows:

- The Net Vessel Operating Income (Vessel Operating Income net of voyage disbursements and bunker consumption) during the first half of 2021 is 102% higher than the figure during the same period last year. This is mainly due to an increase in the average earnings per Vessel per day which increased from USD 7,249 in the first half of 2020 to USD 15,015 in the first half of this year, due to a strong Dry Bulk Freight market. The fleet size of 36 vessels as on 30 June 2021 remained the same as in the first half of last year.
- Vessel running expenses during the first half of 2021 are 9% higher than the figure during the same period last year. The average Vessel operating expenses (Opex) per day per Vessel (including depreciation/amortization of Drydocking/Special Survey expenses) increased from USD 4,566 in the first half of 2020 to USD 4,988 during the first half of this year, mainly on account of higher crew expenses related to covid-19 restrictions and store expenses.
- Administrative expenses (including management remuneration) for the first half of 2021 came in Baht 48.41 million higher than the same period last year, mainly due to an increase in personnel expenses.
- Finance costs during the first half of 2021 were Baht 104.57 million lower than the same period last year, due to lower interest expenses. This was driven by a lower LIBOR base rate as well as due to a reduction in overall debt.
- Exchange gain for the first half of 2021 was Baht 156.95 million higher than the same period last year, mainly because the favorable currency movement led to a reduction in the US Dollar equivalent figure for the Thai Baht denominated Debentures.

Market Segmentation

During Q2, the Baltic Handy Size Index (BHSI) averaged 1,250 points, derived from the average Time Charter (TC) rate of $22,507. Compared to that, **our Handy size earned $15,753 and underperformed the BHSI TC rate by 30%**. During Q2, the Baltic Supra Index (BSI) averaged 2,322 points, derived from the average TC rate of $25,538. In comparison, **our Supras/Ultras earned $20,175 and underperformed the BSI TC rate by 21%**. Our target is to outperform both the indices.

The **three reasons** for our underperformance are: **Firstly**, our ships are 'different' from the index ships. On an apples-to-apples comparison, our Handy ships are **ranked 25% below** and the Supras are 10% below the index ship TC rates. **Secondly**, the 5 handy ships, out of our fleet of 19, on long term charter are **fixed at $14,537 per day** and the one Supra, out of our fleet of 17, is **at $13,421 per day**, both are well below the average TC rate for the index ships in Q2 (BHSI $22,507 and BSI $25,538). And **finally**, if we see the way the market has gone up, virtually in a straight line during Q2, if you had **fixed all your ships on day 1 of Q2 at the index level** (BHSI $20,461 and BSI

$20,241), despite our ships not being as well ranked as the index ships, you **would still underperform the average index ship TC** by 9% in Handy and 21% in Supras.

Type of vessel	Q2 average Index time charter rate in $ (A)	PSL average time charter Rate in Q2 in $ (B)	PSL ship difference from Index ships in % (C)	Difference if vessel fixed on 1st day vs Q2 Avg (D)	PSL long term time charter ships adjustment in % (E)	{A*(C+D+E)} = (F) in $	PSL true time charter rate in $ (B+F)	PSL true performance versus Index ship in %
Handy	22,507	15,753	25%	9.09%	9.32%	9,770	25,523	**+13.4%**
Supra	25,538	20,175	10%	20.74%	2.79%	8,563	28,738	**+12.5%**

As can be seen in the above table, **we outperformed both indices handsomely!**

SET Opportunity Day

The SET Opportunity Day (quarterly investor presentation) will be held at 15:15 hours on the 18th of August 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 Q2 results. Number of online participants during PSL presentation of Q1 results on 19th of May on the SET website/YouTube had 235 Views, and Facebook 68 Views, for a grand total of 303 views.

Long Term versus short term Charters

The long-term charters, over 1 year in duration, already booked as of 1st of July 2021 are shown in the chart below. As can be seen, our current and 4 years forward rolling book is presently at the 14.8% level with a gross visible revenue stream of $144.7 million.

Year	2021	2022	2023	2024	2025
Total Available Days	13,140	13,140	13,140	13,176	13,140
Fixed T/C Days	2,190	1,992	1,825	1,830	1,825
% age Fixed T/C Days	17%	15%	14%	14%	14%
Av. T/C Rate/Day in USD	14,291	14,802	15,316	15,316	15,316
Contract value in million USD	31.3	29.5	28.0	28.0	28.0

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

Ship recycling

Ship recycling had a low figure of 4.44 MDWT being recycled during FH 2021, due to the significant impact from worsening Covid-19 experienced in the Indian subcontinent, as compared to 8.06 MDWT in FH 2020. The existing **age profile of 62.18 MDWT** (34.38 MDWT in the geared segment and 27.80 MDWT in the gearless segment) or **6.73%** (3.71% in the geared segment and 3.01% in the gearless segment) **of the world fleet being 20 years or older at the end of FH 2021**, together **with low levels of the order book to fleet ratio of 5.41%** (order book up to end 2023 compared to the existing fleet as of end FH 2021), should result in the dry bulk fleet growing at a much slower pace. **Recycling may improve** during SH of 2021 due to the number of 20+ year old ships in the world fleet; increase in scrap steel price to $600 per steel ton-weight; regulatory pressure from BWTS; Special Survey costs; and IMO2020. **However, the strength of the freight markets**, may negate all these factors and slow down the DWT of ships recycled.

Personal Data Protection Act (PDPA)

We believe that data privacy of our individual stakeholders involved in any area of the Company's business operations is important and should be treated with utmost care. As such, although the effective date of the PDPA has been postponed to 1 June 2022, we are actively in the process of preparing to be in full compliance with the Law within this year itself which would be well ahead of the new effective date.

Two Ship-mortgage-Backed Loans signed in Q2, 2021

On 21 June 2021, we signed a 5-year USD 38.35 million senior secured amortizing loan agreement with Crédit Agricole Corporate and Investment Bank. The loan is secured by the vessels M.V. Vipha Naree, M.V. Viyada Naree, M.V. Daranee Naree, M.V. Baranee Naree, M.V. Benjamas Naree and M.V. Ananya Naree.

On 29 June 2021, we signed an 8-year USD 85 million senior secured sustainability-linked amortizing loan agreement with International Finance Corporation, Export-Import Bank of Thailand and TMBThanachart Bank Public Company Limited. The loan is secured by the four Cement Carriers M.V. Apinya Naree, M.V. Boonya Naree, M.V. Chanya Naree and M.V. Danaya Naree and the Supramax Dry Bulk vessel M.V. Apiradee Naree.

Our only outstanding bond, PSL211A

Almost the entire proceeds of the abovementioned Crédit Agricole Corporate and Investment Bank loan were utilized to redeem THB 1,163.16 million of PSL211A on 22 July 2021. After this 4th partial early redemption, the outstanding principal of PSL211A is THB 1,421.64 million. This outstanding principal amount will also soon be redeemed from the proceeds of the USD 85 million loan agreement signed with International Finance Corporation, Export-Import Bank of Thailand and TMBThanachart Bank Public Company Limited.

BDI Developments and our read of the market

- We have attached two analyst reports – one covering Liner (Container) shipping and the other covering Dry Bulk shipping - for your perusal at the end of this letter. Both the reports are worth reading.

- **As supply and demand balance had been very close prior Covid-19, the secular recovery would be characterized by extreme volatility as any small change in demand or supply would have a disproportionate impact on the BDI.**

- **Q1 has been stronger** than the average Q1 of the last 10 years. **Q2 is stronger than Q1** and stronger than the average Q2 of the last 10 years. Last 10-year average rates suggest **an anemic Q1, a stronger Q2, an even stronger Q3, and the strongest rates in Q4**. Will 2021 follow the pattern established over the last 10 years or the previously established seasonality with a weak Q1, a stronger Q2, a slightly weaker Q3 and a very strong Q4? Time will tell what future rates have in store for us.

- In the **FH of 2021, Capes led the bulker sector** time charter rates at $ 24,010 per day, ahead of Panamax on $ 22,212, Supras on $ 21,014 and Handysize on $ 19,511 daily.

- The Financial Times had an article in May that suggested in the SH of 2021 **Capes could be earning $100,000.00 per day!**

- **Container business** has been the talk of the town due to the huge increase in rates being paid today compared to the start of 2020. The **Container industry could have a $100b net profit in 2021** having lost a similar amount over the last two decades. Whilst **rates have grown 8 to 10 times since the start of 2020, freight represents ONLY 5% of the retail price of containerized goods!**

- In the FH of 2021, **iron ore has grown by 3%; grains by 11%; minor bulks by 19%**. Geopolitical trade disruptions (China/Aussie) have added to ton-mile demand. **Effective supply has been reduced** by Covid-19 delays to ships (e.g., minimum 14 days after departure from last port stipulation at Chinese and Australian ports); delays due to crew changes (deviations, port stays, quarantine days); delays due to testing protocols. **The perfect storm for a sky-high freight market!**

- **US households added a staggering $13.5t to their net wealth** during 2020! They will want to spend that, and soon, probably once the threat of the pandemic recedes.

- The **USA has passed a $559b infrastructure refurbishment** plan, which could increase to $1.2t to $6.0t, spread over 6 to 8 years. Infrastructure requires steel, cement, and wood all of which are carried mainly by the geared segment of smaller ships.

- Turkey has started **construction of the 45KM Kanal Istanbul** linking the Black Sea to the Sea of Marmara which will require lots of steel, cement, and wood.

- Brazil's **April soybean exports** have broken all monthly records at a massive **17.4 MMT!**

- Euro zone **business growth accelerated** at its fastest pace in over three years in May.

- **Global steel production reached a new record, rising by 12.3%, to 174 MMT in May before declining by 3.5% in June to 167.9 MMT.**

- At the **Marine Money Week (21/25 June) the dry bulk panel agreed** that to end of 2022 ton-mile **demand would grow between 5 to 7% while supply would grow at just 2 to 3%** making for a strong market during the coming 18 months.

- **Moody's has upgraded its outlook to positive** for shipping companies that it covers over the next 12 to 18 months with **EBITDA increasing by 29%.**

- **Covid-19 continues to pose a threat** to individual countries as well as to the world economy. **Mass vaccination has helped economies normalize quickly.**

- From 432 proposed coal mining projects worldwide, a total of 2.2 BMT of new coal would be added per annum, or **an increase of 30% from current production** levels. 1.6 BMT per annum of proposed coal mine capacity is in the early stages of planning and vulnerable to cancellation. But 0.6 BMT per annum of new mine activity is already under construction, therefore, **the rumors of the death of 'King Coal' have been greatly exaggerated!**

- African Swine Fever **(ASF) destroyed almost 50% of the Chinese pig herd in 2019**. Just a couple of years later, **China has bought nearly every single ton of available feed grain** to support the rebuilt pig herd that has grown to levels higher than in 2019.

- **China plans to build up 100 MMT of coal reserves in 2021.**

- **China's PMI index was 51 in Q2 2021.**

- **China's GDP growth for Q2 2021 was 7.9%.**

- China imported **561.4 MMT of Iron ore up 2.6%** in FH 2021 versus FH 2020.

- China imported **139.6 MMT of Coal down 19.9%** in FH 2021 versus FH 2020.

- China imported **49.0 MMT of Soybean up 8.9%** in FH 2021 versus FH 2020.

- China imported **7.4 MMT of Steel** in FH 2021 identical to the figure for FH 2020.

- China exported **37.4 MMT of Steel up 30.3%** in FH 2021 versus FH 2020.

- China produced **560.2 MMT of Steel up 11.4%** in FH 2021 versus FH 2020.

- In July, **IMF projected world GDP for 2021 to 6%**, the forecast at the start of the year was for 5.5% and was 6% in April. The April IMF forecast for GDP growth rates was Denmark 2.8%, Greece 3.8%, New Zealand 4%, Norway 3.9%, Sweden 3.1%, Switzerland 3.5%, Taiwan 4.7%, and UAE 3.1%. IMF revised their forecast for GDP growth rates in July for Australia 5.3%, Canada 6.3%, China 8.1%, France 5.8%, Germany 3.6%, India 9.5%, Indonesia 3.9%, Italy 4.9%, Japan 2.8%, Netherlands 3.3%, Saudi Arabia 2.4%, South Korea 4.3%, Spain 6.2%, UK 7%, USA 7%, and Thailand 2.1%.

- The **BDI has had an amazing run** averaging 1,739 in Q1, 2,793 in Q2 and ended Q2 at 3,383 points having started the year at 1,374 points. The BDI was 3376 points as of 5th August 2021.

- What is even more amazing is the **reluctance by owners to rush and order new ships**. The average BDI was 2,257 in FH 2021, 230% higher than 685 in FH 2020 and 152% higher than 895 in FH 2019. Yet the total dry bulk ships ordered of 13.98 MDWT, in FH 2021 was 37.1% higher than 10.2 MDWT in 2020, a year which suffered the most pronounced impact of Covid-19 and -6.8% lower than 15.0 MDWT in 2019. There are **three reasons for this reluctance to overorder new ships: 12 years of poor markets** have removed the risk-taking ability from cash starved owners; **Container, Tankers and Gas carriers have taken up all available slots** in 2022 and 2023 due to business growth/expected growth; and the **decarbonization regulatory pipeline** that could make Internal Combustion (IC) engine ships obsolete well before the end of their 'normal' economic lives.

- According to the June report from VesselValues, **dry bulk ships ordered in FH 2021** were the lowest (84 ships/value $2.4b); **secondhand purchases were the highest** (552 ships/value $8.5b); and **demolition were below tankers but better than the rest** (53 ships/value $335m) **compared to Tankers, Container carriers, and Gas ships**.

- In response to strengthening freight rates, **recycling has shrunk from 8.06 MDWT in FH 2020 to 4.44 MDWT in FH 2021**. On an annualized basis, this equates to 8.88 MDWT. **Recycling in the geared ships sector, however, increased by 11% in the FH**.

- **PSL's exposure to the smaller geared segments** means that it will be exposed to **lower growth in net supply of 2.51% during 2021 according to Clarksons**.

- **Ships 20 years or older**, comprising about **59.48 MDWT or 6.43%** of the existing fleet at the start of SH of 2020 **would be ideal candidates for recycling**, as they would have to invest in ballast water treatments systems and expensive special surveys too.

- Another way to look at **market prospects** would be to **compare the forward orderbook at end of Q2 of 49.96 MDWT (till end of 2023) as a percentage (5.41%) of the existing fleet at the end of Q2** and see it is the lowest since records were maintained from 1996!

- Our read of the **growth in supply has a net fleet growth rate of 2.96% (906.99 MDWT to 933.81 MDWT) by end of 2021 and 1.45% (to 947.35 MDWT) by end of 2022, assuming recycling of 9 MDWT/year and slippage of 20% per year in 2021 and 2022**.

- **If we are right on our supply predictions, then 2021 should be a reasonably good year and we can look forward to a similar year in 2022.**

- **If the supply side gets a dividend by the recycling of the very old ships**, slow steaming by the rest of the owners who are using LSFO and forced down time in dry docks for those owners who are still retrofitting scrubbers/BWTS, then **the market would further benefit from this tightening of available ships on the supply side**.

Key Supply Side Developments

We started 2021 with 906.99 MDWT and have increased to 924.24 MDWT at the end of FH 2021. A further 1.9% (17.67 MDWT) is scheduled for delivery in the SH of 2021. If we were to apply a slippage factor of 20% (it was actually 18.85% in FH 2021) to these scheduled deliveries and further assume that annual scrapping reaches 9 MDWT (it was actually 4.4 MDWT in FH 2021) we would be left with **a fleet growth of 2.96%** (to 933.81 MDWT of which 321.85 MDWT to 329.22

MDWT in the geared sector, 585.14 MDWT to 604.59 MDWT in the gearless sector) **by end of 2021 and 1.45% by end of 2022** (to 947.35 MDWT of which 334.48 MDWT in the geared, and 612.87 MDWT in the gearless sector), **assuming similar recycling and slippage levels as in 2021. Congestion, ballasting ships, slowing speeds, Covid-19 minimum delays between ports** are other factors that will assist supply side tightening.

Regulatory Developments

Decarbonization is the new buzz word. The word made its first appearance in TradeWinds in December 2015. It appeared in just 27 articles from then until April 2018. And has since appeared in TradeWinds **more than 700 times!**

So, before you get lost in the details that follow, let me remind you that **Shipping carries around 90% of all cargoes in the world** and is responsible for **about 2.5% of GHG**. **Livestock**, on the other hand, is **responsible for 9.9% of GHG** according to the US Environmental Protection Agency. And yet, here we are, grappling with **Zero Emission Vessels (ZEVs)**, while no one is talking about curtailing the emissions from the livestock business? I have become a vegetarian since the start of 2020, and that represents my personal effort to save the planet from global warming by not supporting the livestock industry.

IMO adopted **the Energy Efficiency existing ship Index (EEXI)** as amendments to MARPOL Annex VI during MEPC76 that will **enter into force on 1st January 2023**. EEXI will be applied to **all vessels in service, through a one-time certification**, however, some details were not finalized and were deferred to MEPC77. 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** (1.8 – 2.5K speed reduction) but **ships built post-EEDI may require just 4% power reduction** (0.2K speed reduction) to comply with EEXI. Implementation of Engine Power Limitation (EPL) and Energy Saving Devices (ESD) technologies will be used by owners to choose the solution best suited for their ships. **EEXI will certainly reduce the speed of many ships, some older units may even be forced to head to the recycling yards, reducing the effective supply**.

IMO agreed, at their recently concluded **MEPC76 meeting, that ships need to reduce their Carbon Intensity Indicators (CII) or grams of CO2 per ton-mile of cargo carried by 1% for 2022 and by 2% each year from 2023 till 2026**. The IMO will review the situation and decide if they need to accelerate this 2% annual reduction to meet the targets set for 2030. **The IMO may revise the 2030 target itself, depending on pressure from the US and the EU**, both of whom have made it clear that they are unhappy with the underwhelming and non-ambitious goals set at the MEPC76 meeting, and may produce much more stringent rules of their own. **This has been done in the past** viz when the USA made the BWTS rules in US waters much more onerous than the IMO rules on BWTS, and the entire shipping industry had, subsequently, **adopted the stricter rules of the USA without any protest**.

The EU Emissions Trading Scheme (ETS) as applied to shipping, confirms that the entity that performs the commercial journey of the ship remains responsible for paying for all charges connected with said journey. The EC proposed that owners will only be liable for 20% of their emissions in 2023, 45% in 2024, 70% in 2025, and 100% in 2026. **Compliance with the EU's ETS will not be challenging. Clauses will be written into time charter parties that would define which party would bear all such extra costs i.e., the time charterers**. On a voyage charter, an owner would cost such charges/fees under the ETS into the business, just as you would do currently for fuel or port costs, and then give one freight rate per ton of cargo carried to the client. So, **compliance with any such new rules/regulations would be a non-issue**.

What is annoying is that the EU has applied its ETS to several industries except that **one sacred cow, the livestock industry**, which has by far the largest impact in terms of GHGs. Even **three Michelin starred 'Eleven Madison Park'**, said it would no longer serve animal products. Every dish on their tasting menu, $335 per head, would be plant-based. Please read *'Beefatarians Not Wanted'* by Peter Singer that **details the livestock industry's real GHG footprint**.

The IMO have agreed to debate, during the November 2021 MEPC77 meeting, 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 ton of fuel. The Solomon and Marshall Islands have suggested a $100 levy per ton of CO2 released i.e., a **$300 per ton levy on fuel oil.** This will be taken up in the October inter-sessional meeting before being debated at MEPC77.

The idea of any MBMs is to make current bunker fuel as expensive as say Ammonia or Hydrogen or Methanol i.e., the price of fuel oil must reach $1,500 per ton, the current price is around $600 per ton of fuel oil, to match the cost of future fuels for ZEVs. The Marshal Islands' proposal of $300 per ton on fuel as a carbon levy could be raised annually to reach the magic number of $900 per ton fuel-levy between 2022 and 2030, or some earlier agreed date, to make ZEV ships as competitive as IC engine ships. **It is hoped that pressure from the EU's ETS, as discussed above, would help prod and push IMO to take a strong stand on MBMs** via a carbon-based levy at the MEPC77 meeting.

The UN's COP26 meeting in Glasgow in early November 2021 **will also help push the IMO to implement MBMs** quickly if they want to remain relevant post the COP26 meeting.

The funds collected from any IMO MBMs via a fuel-based levy could be used as follows:

- **To fund R&D** to produce ZEV ships, their designs, their regulations, their infrastructure.
- **To develop** green 'well to wake' ZEV fuels and their land-based support infrastructure.
- To allow IMO to put a **deadline for prohibiting the physical delivery of IC engine ships** from, say, 2030 or some earlier agreed date.
- To allow IMO to **mandate recycling of IC engine ships that are older than 20 years** of age from, say, 2030 or some earlier agreed date.
- To make **shipyards produce ZEVs at a scale** that new build ZEVs would cost roughly the same as an IC engine ship.
- Make cost of fuel for transporting goods on IC ships **identical** to ZEVs for the end user.
- To make it a **level playing field for Charterers to select the best ship purely based on their GHG emissions** and no other economic factor.

And if you thought that such **MBM price increases**, eventually borne by the end consumer, **would cost a small fortune**, you could be forgiven. According to Boston Consulting Group's calculations, it would **add just $600 to the price of a car, $3 to the price of a smartphone, or $1 to a pair of jeans. That is a small price to pay for preventing climate catastrophe**.

The spread between LSFO and HSFO has increased to about $125/MT. **Scrubbers are, therefore, once again attracting attention**. However, the high freight markets will dissuade owners from retrofitting scrubbers whilst time charter rates remain at current elevated levels.

Our read of the Novel Coronavirus or Covid-19

Covid-19 has shone a laser like spotlight on the failures of capitalism. **One percenters**, who control 60+% of global wealth, **increased their wealth during Covid-19** while small businesses went bankrupt, migrant and poor daily workers bore the brunt of lockdowns, lost their livelihoods, increased their poverty levels, increased their food insecurity, had disproportionate number of deaths in their families due to lack of medical safety nets, and were met with a complete lack of support from their respective governments. As a result, more than 100 million people slipped into the deep abyss of poverty during 2020.

Covid-19 is an amoral virus disproportionately attacking the weakest, the poor, the dispossessed, people of color while almost giving a free pass to the rich, the well-heeled, who ignore social distancing/mask rules, and who can afford treatments either due to their position or their economic might. **Covid-19 has increased food insecurity** amongst the economically challenged so dramatically this year that it has influenced the Nobel Committee to award the **Peace Prize to the World Food Program, a United Nation's entity that provides food aid to people/countries in desperate need**.

The low rate of vaccinations of seafarers will exacerbate supply chain disruptions till the world wakes up to their legal responsibilities under the Maritime Labor Convention (MLC). Even the **Vatican has blasted governments and operators** for not supporting seafarers but, sadly, such criticism has fallen on deaf ears. We see **no action from governments or charterers to live up to their MLC moral/legal obligations** to fully respect the human rights of seafarers.

The shining example of countries that are doing something for seafarers is the **USA, and a few countries in the EU**, where they are happy to vaccinate any seafarer, of any nationality, at no charge to the seafarer, on any ships that call at their ports! Now that is doing the right thing. **Three cheers for all such benevolent countries!**

Others' reading of the market

The industry is confident that prices will keep rising this year. Petter Haugen, an analyst at Kepler Cheuvreux, said it is possible that **capesize vessels will fetch $100,000 a day** in the second half of the year. (Financial Times – 11 May 21)

The **global grain market** is in a state of flux as we watch the weather in Brazil to see just how badly the corn crop has been damaged and follow the planting developments of the new US crop. Signals of Chinese grain demand are positive as the African Swine Fever (ASF) wave seems to be petering out. China has bought 11 MMT of corn in the last fortnight for shipment prior to September 2021 on routes that are very freight intensive. Although there may be a couple of hiccups over the coming months, the grain outlook remains favorable for Panamax and Supras. (Arrow – 21 May 21)

Euro zone business growth accelerated at its fastest pace in over three years in May, as a strong resurgence in the bloc's reopening service industry added to the impetus from an already-booming manufacturing sector. Meanwhile, a gauge of British economic growth hit its highest level on record. (Reuters - 21 May 21)

Underlying the surge in freight has been a jump in raw material trade. Total dry bulk shipments on geared vessels hit a record 155.7 MMT last month, an improvement of 4% MoM and 16% YoY. Trade on ships in Supras specifically grew by 5% MoM and 17% YoY to over 102 MMT in May. The boost in steel trade and subsequent growth in long-haul employment on these ships, cement so far this year is up by 30% YoY, hit a record 7.8 MMT in March, accounting for 745 voyages. Infrastructure push has raised domestic demand. Bangladesh, Ghana, and the Ivory Coast, are urbanizing at a rapid pace. US imports of cement grew by 25% YoY over January - May. Aggregates on Supras grew by 11% YoY in the last five months to almost 30 MMT. Agri bulk trade on Supras has grown by 10% YoY to almost 75 MMT. Bumper exports of soybeans and corn from North and South America has been backed by enormous Chinese demand. Wheat exports from Australia have surged, with volumes on Supras hitting a record 1.5 MMT in April. YTD, wheat liftings on Supras are up by 170% YoY at 5.7 MMT (113 shipments). Australian Barley exports, which were hammered by Chinese tariffs last year, have now recovered back to 2018 levels as Saudi Arabia, Vietnam and Thailand emerge as buyers of this crop. Heightened demand for raw ores and concentrates has benefitted the smaller bulkers, Supras have seen a 20% YoY increase in copper concentrate shipments this year, China is the biggest player in this market, pulling in volumes from Chile and Peru. Manganese ore YTD is up by 14% YoY at 12.4 MMT. Iron ore and Supras are rarely mentioned in the same sentence, but record levels have been shipped on these vessels. Indian iron ore exports on Supras have boomed, as have shipments from Liberia and Norway, and from distribution hubs such as Bahrain. The geared fleet is well placed to supply re-opening economies with the wide variety of raw materials needed to get growth back on track. This is also evident in rising vessel speeds. Average laden speeds for Supras at 11.6 kts in May was up by 6% from 2020's average, while ballast speeds increased by 3% to 12.1 kts, despite bunker prices also being on the rise. At these high utilization rates, we expect the continued global economic rebound to keep rates elevated over the next few months. (Braemar ACM – 3 Jun 21)

We are in a fascinating episode of **commodity price volatility** as every asset class is at some extreme price level and news stories appear in our feeds, we thought were impossible. The grains market has played a key part in this. Who thought African Swine Fever would kill over half of the Chinese hog herd, and then, less than 2 years later, the Chinese are clearing out Brazilian & US grain silos causing prices to approach all-time highs? Our view is that structural Chinese grain demand has materially improved over the past few years, especially in corn, and is no longer anomalous, but habitual. High grain prices are encouraging production growth which is set to continue. These developments will provide a solid backstop to freight rates for grain carriers as tonne-mile intensive freight routes see growing volumes. (Arrow – 3 Jun 21)

Bulker earnings in May were the highest since 2010, with the strength in the medium and small bulker sectors in late Q1 enduring and Capesize earnings firming to a seven-year high, due to support from improving trade volumes and port congestion. (Clarksons – 4 Jun 21)

Higher volumes in May into China saw Ultra shipments of forest products increase 60% YoY to a new monthly record of 1.1 MMT. Supras have enjoyed most of the added import dry bulk demand from Brazil with arrivals at its highest monthly total on record in May at 3.5 MMT, 32% higher YoY. Coal imports on Supras saw their strongest month on record at over 0.6 MMT, 69% higher YoY. Supras have remained hot relative to the other ships, as these niche trades continue to outperform. (Braemar ACM – 7 Jun 21)

Shipping rates have been growing strongly since the autumn of 2020, but the first months of this year have seen a new surge across different freight rates (dry bulk, containers) along major trade routes. Prices for several trade lanes have tripled compared to last year. There is little sign of relief in the short term, and rates are therefore likely to continue spiking in the SH of 2021, as rising global demand will continue to be met with limited increases in shipping capacity and the disruptive effects of local lockdowns. (ING Economic and Financial Analysis – 7 Jun 21)

We believe the **fundamental outlook** remains highly encouraging based on the recent market strength, further demand drivers expected in the coming months, and a record low orderbook to fleet ratio below 6%. Owners remain hesitant to order new vessels considering technological uncertainty and yard slots are being booked in other segments such as container vessels, limiting potential for over-ordering in the near term. This puts the dry bulk companies in a position to de-lever and focus on healthy shareholder returns for a sustainable period barring any surprises such as trade war, Vale dam ruptures or global pandemics. (DNB Markets – 10 Jun 21)

Drought conditions in Brazil and Ukraine combined with a surge in international grains demand has set the US on track to achieve a record year in corn exports. In the first four months of 2021, US corn exports, at around 30 MMT, nearly doubled 2020's figure. China sold much of its corn stockpile at auction, now faces rising domestic corn prices and has looked to the international market for price stabilization. Corn exported out of the US Gulf is primarily loaded on Handysize and Supras/Ultras, with Handies hauling most Trans-Atlantic business and Supra/Ultras transporting the majority of fronthaul business. On the Pacific-side of the US, corn loadings have increased by nearly 150% to over 8.5 MMT. This has benefited Panamax vessels, which make up around 85% of corn shipments ex NOPAC, though all sub-Cape vessel sectors have seen a rise in shipments in both export regions. Early estimates for May's exports indicate only a slight decline m-o-m to 8.2 MMT but is nonetheless still much higher than the 5.7 MMT exported last May. This further supports the USDA's outstanding sales of US corn to August at over 31 MMT. For this reason, the sub-Cape sectors can expect further support from the US corn export market through the remainder of the summer months. (Howe Robinson Research – 11 Jun 21)

Elevated congestion, some level of de-containerization and surging commodity prices have all contributed to send Q1 freight rates to levels not seen in a decade. Contained fleet growth also helped. We expect total dry bulk demand to grow by 2.3% annually between now and the end of 2025, and dry bulk fleet to grow by 1.1% annually between now and the end of 2025. We expect demand to outpace supply significantly over the forecast horizon, but we also expect other factors to be at play: namely inflation and regulations. The rising commodity costs will support demand while regulation will curtail some effective supply. (Maersk Brokers – 15 Jun 21)

Bulker owners feel confident that the market should retain its strength over the next two to three years. Speaking on a Marine Money panel, five senior executives cited low supply growth of 2% to 3% over the next 18 months and a continuation of strong demand growth in tonne-miles of 5% to 7%. (Lloyd's List – 24 Jun 21)

The strength of the dry cargo market has taken many by surprise this year. The star performers have been the geared ships. Chinese steel production has continued to set fresh output records. A boost in external demand for Chinese steel is helping to prop up output and providing employment for Supras in the form of exports. Iron ore trade has not been so impressive; therefore, Cape rates have not seen gains on the same scale as the smaller ships. YTD iron ore trade is on track to grow by less than 3% relative to the same period in 2020, which was itself a weak year. Strongest performer has been grains, growing by 11% YoY over the first five months of 2021 and boosting demand for the Panamax and the geared segments. Minor bulks have been performing extremely well supporting rates on the smaller ships and are on track to grow by 19% YoY over the first half of 2021. Underlying these strong trade figures have been several market inefficiencies and distortions, either due to the pandemic or trade disputes. Crew changes remain difficult to perform requiring diversions and lengthier voyages, while quarantines and testing protocols translate to longer periods waiting at ports. Australia requires ships to be at sea for 14 days before they can call at its ports. For ships opting to change crews in the Philippines this 14-day clock is reset at this point, and more time is spent idling. As a result, capesize fleet utilization has received a leg-up, despite cargo volumes seeing only limited gains. On the supply-side, it has been one of slowing fleet growth, despite strong rates disincentivizing owners from recycling their ships, and with the orderbook now thinning out, the pace of new ships joining is easing. We remain optimistic that the current strength in the freight markets can be sustained for the next few months, as the typical seasonal tailwinds take hold and add to a market that is already running hot. We, however, expect a lot of the inefficiencies surrounding the pandemic to fade as we close out the year, slowly releasing pressure from some markets. (Braemar ACM – 24 Jun 21)

A stimulus-fueled rebound in global trade and strength in minor bulks has helped Supra rates surge in 2021 with the BSI up by 182% YTD at time of writing. Trade on the Supras totaled over 472 MMT across January-May of this year, rising 11% YoY. (Braemar ACM – 28 Jun 21)

The global coal market has tightened fueling more price increases and contributing to the rally in freight. Chinese have upped their purchases from other suppliers such as Indonesia, Russia, and the Philippines. This has not been enough to offset a shortfall in domestic supply. China's planners have allowed more imports from Indonesia. Total coal imports in June reached an estimated 29.5 MMT, a record monthly total, up 14% on June 2020. (Braemar ACM – 1 Jul 21)

Chinese dry bulk imports arriving on Panamaxes hit a record high of 42.8 MMT in June, rising by 27% YoY. Imports of Agri bulk, grains and iron ore have seen increases of 38%, 19% and 18% YoY, respectively. As a result, Panamax congestion in China has continued to soar, reaching a record high of 15.8 MDWT last week. China's sustained demand for grains and recent uptick in coal imports has seen ports struggle. Record Panamax cargoes arriving in China has left the Atlantic market extremely tight, with most Panamax routes hitting decade-highs. The P1A and P2A 82k routes, both delivery Skaw-Gib, hit record highs on Friday, with rates today at $44,775 per day and $55,614 per day an increase of 218% and 166% YoY. (Braemar ACM – 5 Jul 21)

Growing demand from the US Gulf and short tonnage lists have helped spot rates for Supras close to a 11-year high seen in late May. Spot rates for supra and ultras rose again on Wednesday, making them the most expensive class of vessel to hire in the spot market. (TradeWinds – 9 Jun 21)

Norwegian bulker owner Belships has fixed four of its **ultramaxes on long-term contacts**, one for 22 to 25 months at $24,000, another for 21 to 24 months at $23,000 and the other for 22- to 25-month at $22,000 per day. The final vessel for 11 to 14 months at $27,000 per day.
(TradeWinds – 29 Jun 21)

Several **positive fundamentals** are in place these days that spell a very promising word for shipping, according to an analyst: super cycle. BTIG's Greg Lewis laid out a perfect storm of factors that set the stage for such a phenomenal period since the last one took hold from 2004 to 2008. "And while shipping super cycles are arguably once in a lifetime ... just 13 years later the pieces look to be falling into place for another super cycle," he wrote. (TradeWinds – 17 Jun 21)

Pent-up demand, economic recovery and shifts in consumer spending, are supporting projected trade of 207m teu this year, up 6% on 2020. (TradeWinds – 5 Jul 21)

Drewry is now forecasting the **container shipping industry** will post a record $80bn profit in 2021, up from earlier forecasts of $35bn. If freight rates surpass expectations in the remainder of the year, Drewry said an annual profit line in the region of $100bn is not out of the question, more than three times the all-time liner record. Lars Jensen, CEO of container advisory Vespucci Maritime, suggested that container shipping was set to make up for 20 years of value destruction in the space of a single year. (Splash – 6 Jul 21)

The low rate of vaccinations of seafarers is threatening to **prolong trade disruptions** and open loopholes at container ports that the virus can slip through. (Bloomberg – 12 Jul 21)

The dry bulk market has tightened considerably over the past 12 months. Given the highly attractive supply backdrop, with a 5.6% orderbook-to-fleet ratio and limited willingness to order vessels despite considerable cash generation, we believe there is potential for strong returns and asset appreciation. Thus, we remain positive on the space and reiterate our BUY on all the stocks under our coverage. Average 2021–2023e volume growth of 3.7% translating into 4.0% ton-mile demand growth. Fleet growth set to average 2.0% in 2021–2023e with supply growth at 2.5% as record-low order book stands at just 5.6% of the fleet. (DNB Markets – 14 Jul 21)

In the FH of 2021 **container volume reported at all Chinese ports was 138.18m teu, an increase of 15% year on year**. (Seatrade – 21 Jul 21)

Spot rates for Bulkers improved in FH 2021, the Baltic Cape TC index averaged $23,958/day (+234.0% y-o-y), Panamax(82k) $22,089/day (+205.6% y-o-y), Supras $20,938/day (+248.8% y-o-y), Handysize(38k) $19,478/day (+232.8% y-o-y). Deliveries in 2021 are expected to decline to 33.2 MDWT from 47.6 MDWT in 2020. Demolition in 2021 is expected to decline to 11.55 MDWT, from 12.9 MDWT in 2020. Net fleet growth for bulkers over 20,000 DWT is expected to slow down to +2% y-o-y in 2021, and then to +1% in 2022, based on the orderbook, expected slippage, and demolition. The fleet expanded by +4% y-o-y in 2020. Contracting was modest in recent years. The orderbook-to-trading ratio is now just 6.5% in DWT terms. In FH of 2021, iron ore loadings increased by +3.3% y-o-y to 761.4 MMT, but declined from Australia by -0.9%y-o-y, and increased from Brazil by +14.7% y-o-y. In FH of 2021, coal loadings declined by -0.5% y-o-y to 577.0 MMT. Coal from Australia declined by -2.9% y-o-y, from Indonesia by -4.3% y-o-y, but from Russia +10.7% y-o-y, from USA +12.6% y-o-y. (Banchero Costa – 22 Jul 21)

So, **China banned coal imports from Australia. On June 28, the ‘Frontier Unity’ left the port of Newport News, Virginia**, with a 136,400-ton cargo of coal bound for China. It was the biggest shipment of its kind from a US east coast port. (Bloomberg – 22 Jul 21)

Australia commands the second-greatest share of **thermal coal international trade**. In terms of met coal, Australia is not merely the world’s largest exporter but supplies nearly half of all global exports. Total coal exports in the first half of 2021 hit an estimated 180 MMT, a slight y-o-y decline from last year’s 188 MMT, but at price levels far above last year. Coal from Australia has seen a trend, due to China’s ban on Australian coal imports, that more coal is carried in the sub cape sector. About 30% of Australian-loaded Capes are typically destined for China, compared to only 15% of Australian loaded sub-Cape coal cargoes. So, China’s import ban has had an outsized effect on the Capesize sector in 2021, with Panamax loadings now actually exceeding Cape loadings for the first time on record. This explains why the slight nominal decline in Australia’s y-o-y coal exports will likely only really affect the Capesize sector, while leaving the sub-Cape vessel sectors largely untouched or even in positive territory. (Howe Robinson Research – 23 Jul 21)

Severe drought in North America has cut expected US spring wheat output to the lowest in three decades and crops in the Canadian Prairies are likely to be reduced as well. The USDA has pegged the US spring crop output down by 37% from the previous three-year average, the lowest since 1988. US durum wheat harvest is expected at 46% less than last year and the smallest in 60 years. a situation akin to 1988 would place the figure at 19.8 MMT, down by 11.7 MMT. The loss in wheat and canola production would be significant to the global market as Canada accounts for two-thirds of global canola exports and is the third largest wheat exporter in the world, making up 13% of annual trade. (Maersk Brokers – 23 Jul 21)

Despite the rise of the delta variant, Bloomberg Economics' base case remains that **the world economy will see a continued recovery in the second half of 2021**. (Bloomberg 26 Jul 21)

World steel production was robust in June and grew by 12.3% YoY rising to 167.9 MMT. A demand recovery in 2021, fueled largely by economic stimulus, has seen world mills' output increase by 13.7% in FH 2021 to 996.6 MMT. The Chinese have committed to slowing their steel production in 2021 to be lower than or equal to 2020's annual total, though this target is looking increasingly unrealistic. Production in other countries has remained strong however, rising over 15% YoY on improved volumes from India and Turkey. Total shipments of steel products, excluding scrap, have accounted for 9.8% of production, remaining flat YoY. With environmental pressures mounting and slowing economic activity, we expect a slowdown in steel production, particularly in China, over SH of 2021. (Braemar ACM – 26 Jul 21)

China's bauxite imports from Guinea continues to grow. In the last decade, Chinese industrial conglomerates have invested billions (US$) into new mining projects in Guinea. The West African country is now China's primary supplier of the ore, with imports topping 52 MMT in 2020. China has imported over 31 MMT from Guinea in H121, an increase of 3.7 MMT (+13) y-o-y. China's bauxite import activity is now definitively a long-haul Capesize trade, a Dry Bulk structural shift further supported with Guinea's introduction of new floating terminals and transhipper operations that more efficiently load larger tonnage. Continued supply of bauxite remains vital to China as its aluminum production is particularly key for its burgeoning automotive industry. As of June, China's production of primary aluminum is up 7.2% y-o-y. (Howe Robinson Research – 30 Jul 21)

What others' say about Supply Side Developments

Container ship contracting activity has accelerated strongly in 2021, with at least 122 units contracted in Jan-Apr 2021 compared to 31 units in the same period of 2020. The orderbook-to-trading ratio for Container ships is now 15.5% in TEU terms. Containerized trade volumes declined in 2020, but by less than expected. In 2020, global container throughput declined by -0.9% y-o-y. We forecast a +6% y-o-y increase in 2021. (Banchero Costa – 19 May 21)

Deliveries of bulkers in 2021 are expected to decline to 33.8 MDWT, from 47.6 MDWT in 2020. Demolition activity in 2021 is expected to increase to 14.1 MDWT, up from 12.9 MDWT in 2020. Net fleet growth for all bulkers over 20,000 DWT is expected to slow down to +2% y-o-y in 2021, and then further to about +1% in 2022, based on the order book and expected slippage and demolition. The fleet expanded by a net +4% y-o-y in 2020. (Banchero Costa – 27 May 21)

Net fleet growth across dry bulk is 10.7 MDWT to the end of May representing a 36% y-o-y reduction. Based on the nominal orderbook for the balance of 2021, with a significant number likely to be delayed into 2022, our forecast for net fleet growth this year is 24 MDWT or a 2.6% y-o-y increase, much less than the 3.6% growth in 2020 and 3.9% in 2019. With only 255 vessels currently on order for 2022 and with few yards now able to accommodate any further 2022 berths, supply side fundamentals appear positive for the next 18 months. What is particularly pertinent is the reduced number of Panamax and Ultramax tonnage currently on order from Japan – at 32 and 51 respectively being the lowest numbers for some considerable time, perhaps due to yards in Japan taking on considerably more Container ship orders given the boom in that market.
(Howe Robinson Research – 4 Jun 21)

The pace of rebalancing in the **car carrier market** has surprised on the upside. Nearly 18% of fleet capacity was idle or laid up by the end of May last year, but, despite some difficulties recrewing vessels, this had fallen to 5% by the end of the year, and by the end of Q1 2021, had returned to pre-Covid levels. Charter rates have also rebounded firmly, as utilization has picked up and the market has been supported by a fleet which is now c.1.5% smaller than at the start of the pandemic while disruption (including congestion) has also helped to soak up capacity. Having fallen to a record low of $10,000/day in Q2 ’20, the 1-year TC rate for a 6,500 ceu PCTC hit $21,500/day in May 2021, a 5-year high, while the rate for a 5,000 ceu ship had jumped to $17,000/day; the highest level seen since before the financial crisis. (Clarksons – 18 Jun 21)

Sale volumes have rebounded sharply with a record 84 MDWT (>$22bn) in 1H 2021.The largest number of secondhand sales were in the Bulkers (>525 sales, 36 MDWT, $8bn). Our 5yr old price index increased by 38%, with the largest gains in Ultras and Handysizes. (Clarksons – 9 Jul 21)

Port congestion has helped drive bulk markets; average bulker earnings saw their strongest 1H since 2010 at $21,039/day. Congestion has focused heavily on Chinese ports, with the Australia-China coal dispute leading to Panamax delays. Elsewhere, as well as general Covid-19 related inefficiencies, specific issues have arisen e.g., strikes at Argentine grain load ports and weather-related disruption in Indonesia. The share of Capes/Panamax capacity in port has risen from an average of 27.1% in 2016-19 to 28.9% in 1H 21 (>30% in June). An extra 1.8% tied up, 11m dwt, is more than the total bulker fleet of the 8th largest bulker owner. (Clarksons – 16 Jul 21)

What others’ say about Regulatory Developments

Several larger liner companies, including Maersk and MSC along with the 17 signatories to an open letter to IMO member states from last week, have put their weight behind building pressure for **the IMO to act on more stringent measures** to combat carbon emissions from shipping. Maersk CEO Søren Skou last week fronted a carbon tax of at least $150/tonne to accelerate shipping’s decarbonization efforts, and MSC CEO Søren Toft now calls for market-based measures incorporating carbon pricing as part of the industry’s regulatory framework. Previously, the US and EU had both voiced concerns about the IMO’s strategy for curbing GHG emissions not being compliant with the Paris Agreement 1.5°C ambitions of carbon neutrality by mid-century. This is in stark contrast to the IMO’s stated ambition of 50% cuts in GHG emissions by 2050.
(DNB Markets – 8 Jun 21)

As more companies adopt **“net zero” climate commitments**, it is worth contemplating what such programs would cost consumers. In a piece published this week in Fortune, Boston Consulting Group CEO Rich Lesser builds on research his company has done that offers an intriguing answer: Not nearly as much as you might think. According to BCG’s calculations, it would only **add $600 to the price of a car, $3 to the price of a smartphone, or $1 to a pair of jeans**. That is a small price to pay for preventing climate catastrophe. “Decarbonization adds only modest costs to the end of any value chain,” he writes, and that fact “presents the biggest opportunity for business to make a real mark in the battle against climate change.” (Fortune – 23 Jun 21)

VLSFO/HSFO price differentials narrowed in 1H-20 (from c.$300/t to c.$50/t), but in recent months have ticked up to c.$110/t, raising estimated scrubber premiums. (Clarksons – 25 Jun 21)

Bunker fuel prices for very low sulphur fuel oil (VLSFO 0.1%) and high-sulphur fuel oil (HSFO 3.5%) in Singapore hit $546.8 and $428.0 per tonne today, marking a new one-year high for the VLSFO. The spread between the two fuels reached $123.5 per tonne this morning, the highest since late-February and 36% higher YoY. Oil prices have firmed in the last week as OPEC+ members are yet to reach an agreement to increase output. Though the widening spread between the two fuels is

generating more interest in scrubber retrofits, strong returns in the spot market are likely to keep yard activity relatively limited in the short-term. (Braemar ACM – 5 Jul 21)

The Vatican has once again weighed in on seafarers' welfare. In a message ahead of the Sea Sunday on July 11, The Vatican has accused governments, shipping companies, crew agencies and international organizations of perpetuating or burying their heads on the sand as seafarers suffer due to Covid-19 pandemic-related disruption and their safety is put at risk by pirates.
(Maritime Executive – 7 Jul 21)

The United Nations Food and Agriculture Organization's 2013 report 'Tackling Climate Change Through Livestock' states that **beef contributes 41%** of the greenhouse-gas (GHG) emissions from the entire livestock sector, and has the highest emissions intensity – that is, the highest GHG emissions per unit of protein – of any animal products. Ruminant's belch/flatulence releases methane, an extremely potent GHG. Rearing beef cattle brings six times the contribution to global warming as non-ruminants producing the same quantity of protein. (Project Syndicate – 9 Jul 21)

Wartsila expects to have an engine running on an ammonia blend ready this year. A pure **ammonia propulsion system should be available in 2023**. (TradeWinds – 14 Jul 21)

Senior consultant Chris Bell of design and engineering consultancy Houlder, said an estimated **68% of the dry bulk fleet will "need to take some action" to comply with the EEXI**. He said most ships will be able to implement an engine power limitation without affecting their operations, as they are currently operating 10-20% below design speeds. (Lloyd's List – 14 Jul 21)

The acclaimed New York restaurant Eleven Madison Park— possessor of three Michelin stars, once named No. 1 on the "World's 50 Best Restaurants" list — recently announced **it would no longer serve animal products**. Every dish on the tasting menu — $335 per person — would now be plant-based. (Boston Globe - 18 Jul 21)

The International Energy Agency reckons **CO2 emissions will hit record levels a couple years from now, then keep growing**. IEA: "The sums of money, both public and private, being mobilized worldwide by recovery plans fall well short of what is needed to reach international climate goals." (Fortune – 20 Jul 21)

The G20 countries have provided more than $3.3tn in subsidies for fossil fuels since the Paris climate agreement was sealed in 2015, a report shows, despite many committing to tackle the crisis. (The Guardian – 20 Jul 21)

The consequences of climate change have never seemed so stark. In the past month, floods in Belgium, Germany and China have left dozens dead and temperatures in British Columbia have surpassed those in Death Valley. Preventing a future where such events become regular occurrences will involve a transformation in the way we generate energy. Innovative thinking will be needed if clean energy sources are to rival oil and gas. (The Economist – 21 Jul 21)

The lifestyles of around three average Americans will create enough planet-heating emissions to kill one person, and the emissions from a single coal-fired power plant are likely to result in more than 900 deaths, according to the first analysis to calculate the mortal cost of carbon emissions. (The Guardian – 29 Jul 21)

Others' reading of the Novel Coronavirus or Covid-19

Our central estimate is that **10m people have died who would otherwise be living**—more than three times the recorded number. Official figures suggest that the pandemic has struck in waves, and that the rich countries have been hit hard, while much of the developing world has seemed to get off lightly. But the overwhelming majority of the 6.7m or so deaths that nobody has counted have been in poor and middle-income countries. The virus has spread remorselessly from rich countries to poorer ones—and it is still doing so. Our findings contain an urgent warning. Unless vaccines go global, the tragic scenes now unfolding in India risk being repeated elsewhere. Millions more will die. (The Economist – 13 May 21)

Sanofi and GlaxoSmithKline's potential Covid-19 vaccine is moving to the **final trial phase**, after earlier trials demonstrated a robust immune response. The companies hope for approval in Q4, which would allow the vaccine to be used as a booster. (Reuters – 18 May 21)

There is emerging evidence that people who have **already had Covid-19** may only need one vaccine dose rather than two, writes emergency department physician and author Carolyn Barber. There could be significant implications for the distribution of vaccines. (Fortune - 19 May 21)

New research shows a delay in getting a second Covid-19 shot can **boost its efficacy**. Some vaccines are helping countries slow infection rates faster than others. (Bloomberg – 21 May 21)

A new type of coronavirus believed to have originated in dogs was detected among patients hospitalized with pneumonia in 2017-2018 and may be the eighth unique coronavirus known to cause disease in humans if it is confirmed as a pathogen, a study says. (Reuters - 21 May 21)

As the pandemic eases in some countries, economic activity is partly returning to something closer to normal. Our data team reports that **shoppers are going gangbusters**. But as recovery creates jobs in industries that have been locked down, there seems to be a severe shortage of workers to fill them. (The Economist – 22 May 21)

China's **Sinovac** received long-awaited WHO authorization of its Covid-19 vaccine, paving the way for a wider rollout of the controversial shot in countries scrambling for a supply of immunizations. It is the second emergency use permission given to a Chinese Covid vaccine, after state-owned Sinopharm secured WHO's nod in early May. (Bloomberg – 1 Jun 21)

China has granted Sinovac, one of the country's domestic Covid-19 vaccines, emergency **approval for use in children** between the ages of 3 and 17, setting the lowest age approval for Covid-19 vaccines worldwide. (Reuters – 8 Jun 21)

The CDC says it is seeing more cases of **heart inflammation** than expected in 16-to-24-year-olds who received their second Pfizer-BioNTech or Moderna mRNA vaccines. We are still talking about very rare cases of myocarditis or pericarditis, but the CDC thought it would see 10-12 cases by the end of May and saw 275. (CNBC – 11 Jun 21)

Novavax reported late-stage data from its US-based clinical trial showing its vaccine is more than 90% effective against Covid-19 across a variety of variants of the virus. (Reuters – 14 Jun 21)

Vaccines made by AstraZeneca and the Pfizer-BioNTech alliance remain broadly **effective against Delta and Kappa variants**, according to a scientific study, underpinning a continued push to deliver the shots. (Reuters – 23 Jun 21)

The **Delta** strain of the coronavirus is probably going to be dominant in the US within a few weeks, researchers say. Delta (first spotted in India) is competing with Gamma (Brazil) to displace Alpha (UK) as the US's number-one strain. That is bad news for unvaccinated people, who are the most exposed—and unfortunately, the US is going to miss the White House's target of 70% of American adults having received at least one dose by July 4th. (Wall Street Journal – 23 Jun 21)

Mixing doses of vaccines from Pfizer-BioNTech and AstraZeneca-University of Oxford creates a strong immune response, according to a University of Oxford study. (Bloomberg – 28 Jun 21)

The **Delta variant** is stymying reopening plans around the world: Australia is on high alert, with outbreaks showing the limits of its "Covid zero" closed-borders strategy (not a substitute for vaccinations, as it turns out) and South Africa has also reinstated stronger lockdown measures for the next couple of weeks. Israel is also reintroducing mask mandates. (Fortune – 28 Jun 21)

Moderna said its vaccine produced protective antibodies against the delta variant spreading in the US and many other parts of the world. (Bloomberg – 29 Jun 21)

Covid's hit on the tourism industry will run to $4 trillion over 2020-2021, according to the United Nations Conference on Trade and Development. That is far worse than expected, and it is largely down to an uneven vaccine rollout. (Fortune – 30 Jun 21)

Pfizer's vaccine appears to be less effective in halting the spread of the delta strain, though it remains highly effective at preventing severe illness, according to data from Israel's government. (Bloomberg – 5 Jul 21)

An international study published in the journal Nature on Thursday concludes that **genetic factors** also increase the likelihood that someone will be infected with Covid-19 and develop a serious case. The study has more than 3,300 coauthors and was led partly by researchers from the Broad Institute of MIT and Harvard. (Boston Globe – 8 Jul 21)

Pfizer will seek FDA approval for a **third Covid-19 shot** next month. The company says very early study data indicates an extra dose, to be administered between six and eight months after the first two, can boost neutralizing antibody levels as much as 10-fold. (Fortune – 9 Jul 21)

J&J revised its Covid vaccine factsheet to warn of the risk of the rare Guillain-Barré immune-system disorder in which the immune system attacks your nerves. (Bloomberg – 12 Jul 21)

The low rate of vaccinations of seafarers is threatening to prolong trade disruptions and open loopholes at container ports that the virus can slip through. (Bloomberg -12 Jul 21)

The WHO has slammed the rich world's rush to secure booster vaccines, at a time when most people in poorer countries can only dream of getting a basic vaccination. WHO Director-General Tedros Adhanom Ghebreyesus: "The priority now must be to vaccinate those who have received no doses and no protection." (Al Jazeera – 13 Jul 21)

Swiftly rising coronavirus cases across USA and abroad have fueled fears of a pandemic resurgence and sent shockwaves through stock markets as the highly contagious Delta variant appears to be taking hold. (Reuters – 20 Jul 21)

In the UK, **the Delta variant is hitting young people and men particularly hard**. Deutsche Bank analysts say this **"strongly hints at the impact of millions of football fans watching the Euro football final."** (Fortune – 20 Jul 21)

Scientists from the Sri Jayawardenapura University said that the **Sinopharm Covid-19 vaccine is effective against the Delta variant** initially identified in India. Published by the health sciences server medRxiv, their study holds that people vaccinated with Sinopharm have a similar level of protection against infection with Delta and Beta variants. The scientists administered the Chinese vaccine to 282 people, 95% of whom achieved an antibody response against the SARS-CoV-2 'spike' protein. (TeleSUR – 20 Jul 21)

The WHO contends that the coronavirus can be beaten by mid-2022—if the world is vaccinated, that is. (Bloomberg – 21 Jul 21)

India's death toll from Covid-19 has been grossly underreported, with the actual number of deaths ranging from 1.3 million to a staggering 5 million, according to figures derived from research models and local authority data. (Bloomberg – 21 Jul 21)

Japan's Shionogi has become the latest drugmaker to start **human trials of a prospective Covid-19 treatment**. Pfizer and Merck have already progressed to later-stage tests of their treatments, which could also be **self-administered at home**. (Wall Street Journal – 26 Jul 21)

Moderna said it would expand an ongoing trial of its coronavirus vaccine in children under 12 years old to gather more safety data. (Bloomberg 26 – Jul 21)

A study suggests the small risk of blood clots, after the first jab, is not there after getting the second jab of AstraZeneca. (Reuters – 28 Jul 21)

The great Return to Office is grinding to a halt. Much of America Inc. had planned to get back to normal come fall, but Covid-19's delta variant had other ideas. Companies from Google to Uber are delaying their back-to-the-office schedules and mask mandates are on the agenda again. The new faces of the US pandemic are younger and sicker. But there are some reasons for optimism: Vaccinations are rebounding in America's hotspots and more than 4 billion shots have been administered worldwide. (Bloomberg – 31 Jul 21)

Key Demand Developments

China

China generated 53% of the world's total coal-fired power in 2020, 9% more than five years earlier, despite climate pledges and the building of hundreds of renewable energy plants, a global data study showed. New coal-fired power installations reached 38.4 GW in 2020, more than three times the amount built by the rest of the world. (Reuters – 31 Mar 21)

The USDA expects **China to import around 26 MMT of Corn** from worldwide suppliers for the period that begins in September 2021. (TradeWinds – 21 May 21)

Chinese authorities reported **May production statistics** for coal, steel and pig iron have risen YOY by 10%, 15% and 7%, respectively. Compared to April, growth rates have slowed down, as the YOY figures for April stood at 12%, 17% and 10%, respectively. (DNB Markets – 18 Jun 21)

Chinese crude steel production increased 8% YoY in May to 99.5 MMT - a new monthly record. Production is now over 197 MMT so far in Q2, 13% higher than production over the first two months in Q1. On June 15 Chinese officials began inspections of mills across all steel producing provinces to identify facilities that are 'overly-damaging' to the environment. Authorities have also been clamping down on older, less efficient capacity. Active steel mills have been encouraged by high prices in recent months to ramp up output. We expect pressure from regulators to mount causing Chinese crude steel production to slow down in SH 2021. (Braemar ACM – 21 Jun 21)

Global steel production reached a new record of 174 MMT in May, with Chinese output up 8% y-o-y at a new record 100 MMT, and ex-China production up 33% y-o-y, close to the pre-Covid record. (Splash – 28 Jun 21)

China's National Development and Reform Commission (NDRC) has announced that it plans to build up around **100 MMT of deployable coal reserves** this year. Precise details on the source of the reserves have not been released, but the NDRC has also stated it expects both domestic coal output and imports will increase in the near term. (Splash – 29 Jun 21)

China's iron ore imports are likely to fall by around 79 MMT/year from 2020 over the next five years, in line with the aims of the country's five-year plan for the steel industry, Jinshan Xie, an analyst with Shanghai-based research firm Horizon Insights, said during a webinar organized by Horizon and the Singapore Exchange SGX June 30. (Platts – 30 Jun 21)

China's V-shaped economic rebound from the Covid-19 pandemic is slowing, sending a warning to the rest of world about how durable their own recoveries will prove to be. Data is expected to show growth eased in Q2 to 8% from the record gain of 18.3% in Q1, according to a Bloomberg poll of economists. The economy was always expected to descend after its initial rebound and as last year's low base effect washes out. But economists say the softening has come sooner than expected and could ripple across the world. (Bloomberg – 12 Jul 21)

Trends and patterns in Chinese grain auctions, local meat and corn production point towards stronger imports in the coming years. Barley, sorghum, and wheat also rose in 2020 and are likely to continue growing in 2021 and beyond. Since 2016, China has been facing a corn supply deficit, which has been addressed by auctions of corn reserves acquired before 2016. On average, the past 4 years have seen China auction 59 MMT a year. It comes as China's corn production has been stagnant around 260 MMT over the period, while demand has grown to almost 300 MMT. The absence of grain auctions announcements in 2021 means that the **supply gap will probably be addressed through elevated imports**. Pressure to import is further supported by increasing meat production. In 2019, as China was recovering from African Swine Fever, meat production fell to 78 MMT, while imports of corn, barley, sorghum were at 11.8 MMT. In 2020, when China's total meat production was still at 77 MMT, imports of the three major feed grains surged to 24.3 MMT and auctions increased to almost 80 MMT, meaning local production was not able to meet demand. Without the periodical grain auctions and increase in production, import of feed grains in the coming years could easily go beyond 2020 levels. (Maersk Brokers – 30 Jul 21)

Asia

The **world's coal producers** are currently planning as many as 432 new mine projects with 2.28 BMT of annual output, research published on Thursday showed, putting targets for slowing global climate change at risk. China, Australia, India, and Russia account for more than three quarters of the new projects, according to a study by US think-tank Global Energy Monitor. China alone is now building another 452 MMT of annual production capacity, it said. (Reuters – 3 Jun 21)

Till end April 2021 **Australia** exported 10 MMT of wheat. With decent reserves and strong demand from Southeast Asia it is quite likely exports will break 2017's all-time annual record of 22 MMT. Indonesia is the no.1 export market followed by Vietnam, Philippines, Thailand, and Malaysia. At this point last year China was Australia's leading market for wheat but with ongoing political tensions between both countries shipments to China have shrunk to 0.5 MMT (0.7 MMT – 2020) as China sources its wheat from Canada and USA. Australia has also transported wheat this year to markets virtually dormant for the past few years such as South Africa (for the first time in five years), Saudi Arabia, and Sri Lanka. Aid cargoes to Yemen have more than doubled at 0.35 MMT. Strong shipments to Southeast Asia have particularly benefited the supra-ultras; exports in the larger geared vessels account for 51% of all Australia's wheat shipments up from 38% last year. Panamaxes carry 20% to Japan, South Korea, and China, whilst the balance is carried in handy sizes. All sectors have seen a rise in volume compared to 2019/2020 when only 3.5 and 4 MMT respectively had been shipped during the same time. (Howe Robinson Research – 18 Jun 21)

A possible **third wave** of coronavirus in India is likely to impact agricultural demand in the coming months, while agricultural production is expected to reach records despite the pandemic, leading to concerns over commodity prices and export flows. The government has targeted food grain production at a record 307 MMT and oilseed output at 37.6 MMT for 2021/22. Market participants are optimistic that farmers will reach the government's record output target. The monsoon planting season runs from June through September with rice, legumes and oilseeds being the main crops. However, the third wave is anticipated by experts over September-October, the same time as when harvest begins. Domestic demand for agricultural products in India has decreased substantially due to the complete or partial lockdown of almost all states. Yet, with output reaching record highs and a decrease in domestic demand, it is expected that agricultural exports will continue growing, reaching levels akin to 2013/14. Marketing year 2020/21 saw exports grow by 20% y/y, mainly driven by wheat which grew nine-fold. (Maersk Broker – 25 Jun 21)

India is the second largest importer of coal in the world, just after China. In 2020, India accounted for 17% of coal shipments, a decline of -11.4% y-o-y to 186 MMT. This was a larger decline than recorded in China of -8.2% y-o-y. Things softened in 1Q 2021, with India importing 48.0 MMT of coal, a -13.0% y-o-y decline from the very high levels of 1Q 2020. Q2 was very positive with 55.3 MMT, up +54.9% y-o-y from the (very poor, lock down affected) Q2 of 2020. This was the best quarter since the pre-Covid 1Q 2020. April and May 2021 were higher with 18.9 MMT (+20.4%y-o-y) and19.0 MMT (+73.8%y-o-y). May 2021 was indeed the best monthly figure since May 2019.
In June things cooled to 17.4 MMT, which was still +92.2% up from the terrible 9.1 MMT in June 2020. Australia has emerged as the top coal exporter to India, as they had to divert the cargoes that in the past they would have sold to China. Imports from Australia increased by +120.3% y-o-y to 39.4 MMT in the FH of 2021, from 17.9 MMT in FH of 2020. Australia accounts for 38% of India's coal imports. The second largest source is Indonesia, accounting for a 30% share. This is down from a 39% share in FH of 2020. Shipments from Indonesia declined by -11.6% y-o-y to 31.1 MMT in FH of 2021, from 35.2 MMT in FH of 2020. Volumes from South Africa declined by -12.1% y-o-y to14.8 MMT in FH 2021. (Banchero Costa – 9 Jul 21)

Mineral producers predict global seaborne iron ore trade, combined with Chinese production, will reach 1.9 BMT in 2021. This is approximately 50 MMT up from 2020. BHP said the company was enjoying a strong year and is on track to export between 276 and 286 MMT in 2021. Rio Tinto said shipments were up 7% in FH of 2021, and the company expected to export between 325 and 340 MMT from its Pilbara mines in Australia and an additional 18 to 20 MMT, from its mines in Canada. Vale said the Brazilian mining giant was confident it would reach its export target of 400 MMT of iron ore in 2021. Singapore Iron Ore Forum (TradeWinds – 13 Jul 21)

The period over August-October is forecast to see **above average rainfall in Australia** and could see the La Nina weather event emerging later in the year. Typically, La Nina is associated with increased rainfall in east Australia where the country's thermal and coking coal mines are located.

As it stands, three of seven models suggest that La Nina thresholds may be reached in the Australian spring of September-November – increasing the likelihood of above average rainfall in much of east and north Australia. Over the 2020/21 summer, East Australia recorded La Nina event, but it did not cause any widespread disruption to coal mines. However, the previous recording of the event was in 2010/12 where several coal mining firms declared force majeure in early December that stayed until February due to flooding. Hard and semi-soft coking coal exports were affected the most with thermal coal export growth also slowing over the period. The latest three-month outlook suggests that parts of coastal WA have a 50/50 chance of above average rainfall in August October. For most of Australia, August-October is likely to be above median with a 60% chance of rainfall exceeding median volumes and east Australia showing 80% chance of above average rainfall. The US climate prediction Center forecast the La Nina at a 66% chance of emerging between Sep-Nov this year and may last until the spring of 2022. Overall, La Nina comes with wetter weather and colder temperatures. These could translate positively for crops but could also come with complications for mining and transportation. (Maersk Broker – 16 Jul 21)

Europe

Russian coal exports are on pace to reach 16.9 MMT in June, representing an increase of 24% YoY. Export volumes in May hit a record monthly figure of 17.1 MMT. With Australia's coal still off limits for Chinese buyers, Russian supply has become a favored substitute in China. Russian coal miners in the country's East expect greater Asian demand over the next few years and are eager to capitalize on their proximity to countries like China. (Braemar ACM – 28 Jun 21)

Turkish president Tayyip Erdogan was on hand as **construction of the Kanal Istanbul** got underway, one of the largest infrastructure projects seen in Europe for many years. The 45 km canal linking the Black Sea and the Sea of Marmara will serve as an alternative to the increasingly congested Bosporus Strait. It is projected to cost $15bn. (Splash – 28 Jun 21)

Marketing year 2021/22 could see a **fragile export season** for European and Black Sea wheat due to strong global competition stemming from rival origins and other feed grains. Despite projections of record global wheat imports by the USDA, it is still unclear how Covid-19 implications will affect demand. According to the USDA, global wheat imports could reach a record 199.5 MMT in 2021/22 marketing season of which 47% is expected to be covered by the EU, Russia, and Ukraine. Both EU and Black Sea have projected bumper seasons but will have to compete for key importing regions as well as with other wheat suppliers. North Africa, Turkey, Iran, and Pakistan stand out to be the contested regions for the EU and Black Sea exporters. In Egypt, Romanian-origin wheat already has an advantage for 2021/22 crop seeing as Ukrainian and Russian wheat are hampered by high freight rates and a tax on wheat exports in Russia. Tunisia is expected to keep its traditional European wheat suppliers, but Algeria where imports are estimated to increase by 1.2 MMT, could be under pressure by Russian exports to displace French wheat. Morocco could reduce its imports by 1.1 MMT this season following higher domestic output. The reduction would be equal to Ukraine's total wheat exports to Morocco in the 2020/21 marketing year. Russian and Ukrainian exporters could compete strongly for Turkish market share as the country increases its imports by 1.3 MMT. Pakistan is expected to keep importing from Russia and Ukraine at the same rate. (Maersk Broker – 9 Jul 21)

Americas

After the March monthly record of 13.5 MMT, **Brazil's April soybean exports** have broken all monthly records at a massive 17.4 MMT. With significant line-ups in all the Brazilian grain ports at present, May's export figures will almost certainly top last year's figure of 14.1 MMT especially as farmers/Shippers seek to take advantage of exporting at the current sky-high prices which at $565 per ton FOB (ex Paranagua) are double the price this time last year and are at their highest levels since September 2013. Soybeans destined for China once again dominate the export market with 24.3 MMT out of 33.5 MMT total shipments heading there in the first 4 months of 2021. (Howe Robinson Research – 7 May 21)

Brazil is on track to sell the largest volume of soybeans to the US since 2014. A total of 208,000 tonnes of Brazil soybeans have been shipped to the US or will set sail soon. in 2014 Brazil exported a record 1 MMT to the US. (Reuters – 14 May 21)

Brazil's June's soy exports are likely to surpass last year's level amid strong demand from China, as it is likely to import a record 100 MMT of soy in 2020-21 marketing year (October-September), with over 60% shipped-in from Brazil. The world's top soy supplier, Brazil, exported 2.5 MMT of soy in the first week of June, compared with 3.3 MMT in the same period last year. Daily soy shipments have averaged 0.8 MMT in June so far, compared with 0.6 MMT in the same period last year. Brazil typically supplies over 80% of its soy to China between February and July, but due to harvest delays and slackening crushing activities in China in Q1, exports to China were lower than usual. China is expected to ramp up soy purchases from Brazil, which is selling its beans cheaper than the US. Until August, Brazil is likely to export record volumes of soy to make up for lost opportunities in Q1. Brazil's oilseed imports have also surged since May. Brazil is expected to produce a record 136 MMT of soy in the 2020-21 marketing year (February-January) and export an all-time high volume of 85 MMT. (Platts – 8 Jun 21)

President Joe Biden announced on Thursday a “long overdue” tentative deal on a bipartisan **$579 billion infrastructure plan**, saying it would create millions of jobs while fulfilling a major piece of his economic agenda. The package has a price tag of $1.2 trillion over eight years, according to the White House, and includes investment in roads, bridges, and rail along with broadband and water systems. (Bloomberg – 24 Jun 21)

A new poll of USA CEOs out this morning was conducted in collaboration with Deloitte. Summarizing the poll results, Deloitte US CEO Joe Ucuzoglu said “There is **tremendous optimism**. It does seem to be grounded in economic fundamentals, strong growth, tremendous pent-up consumer demand. I have had, in conversations with client CEOs over the past couple of weeks, comparisons made to the Roaring 20s, comparisons made to the period coming out of World War II. (Fortune – 25 Jun 21)

Americans padded their savings, paid off debt, cut back on spending, and poured their money into stocks and netted killer returns. All told, US households added an astounding $13.5 trillion in wealth in 2020, the Wall Street Journal reports, citing Federal Reserve data. The last economic crisis, in 2008, Americans lost trillions. (Fortune – 28 Jun 21)

Total iron ore loadings in the FH 2021 were up +3.3% y-o-y to 761.4 MMT. This was higher than the 726.0 MMT in FH of 2019, a year which was affected by the Brumadinho dam disaster. It was also higher than the previous all-time record of 759.9 MMT in FH of 2018. In tonne-miles, trade has massively shifted in favor of long-haul shipments from Brazil to Asia. Total iron ore from Australia declined by -0.9% y-o-y in FH to 434.4 MMT. Shipments from Brazil surged by +14.7% y-o-y to 163.9 MMT. This is still below the pre-Brumadinho level of 178.1 MMT in 2018. In FH of 2021, China imported 537.8 MMT of iron ore, up +2.1% y-o-y. Imports from Australia declined by -2.2% y-o-y to 356.0 from 364.1 MMT in 2020. Australia accounts for 66.2% of China’s iron ore imports and Brazil for 20.6% share. Shipments from Brazil increased by +18.4% y-o-y to 110.5 MMT from 93.3 MMT in 2020, above the pre-Brumadinho level of 99.1 MMT in 2018. Volumes from India surged by +63.6% y-o-y to 11.2 MMT. From Peru, up +21.6% y-o-y to 11.1 MMT. From Canada, up +45.0% y-o-y to 8.6 MMT. (Banchero Costa – 23 Jul 21)

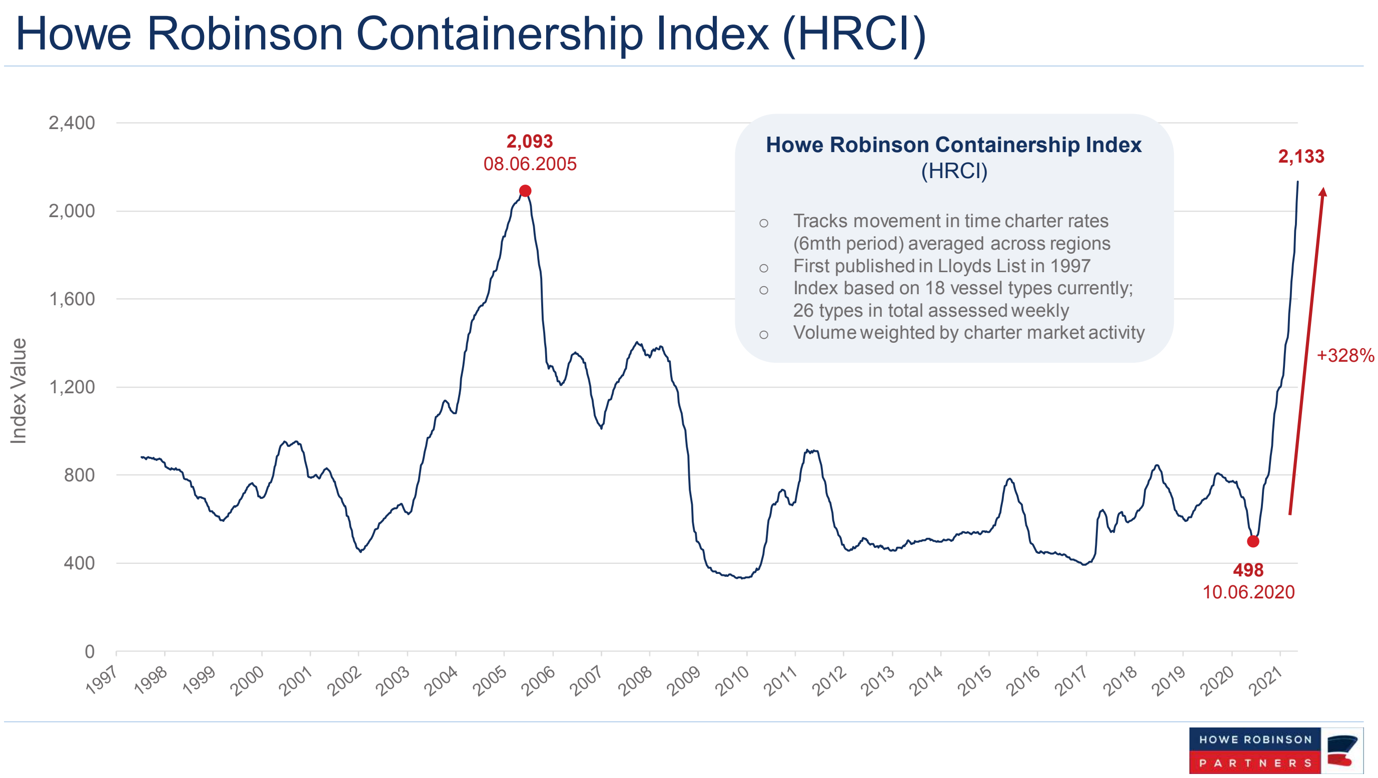
US steel imports continue to rise and, excluding scrap, totaled 2.3 MMT in June rising 59% YoY and 28% higher than 2019 levels. A boost in manufacturing activity in the country has been met with a shortfall of steel supply, which has sent prices soaring and end-users scrambling for foreign material. The US, as with many countries, has also looked to mass infrastructure spending to restart the economy following the pandemic. The US government is reportedly nearing a deal for a $1 trillion infrastructure bill that will include ports, bridges, and airports. If passed, the US would likely require more support from foreign steel producers to meet their steel needs. Imports from South Korea hit their highest monthly total for 5 years at 307,000 tons in June, rising 14% YoY. Other countries such as Brazil, along with South Korea, have benefitted from current US levies placed on EU steel and aluminum imports, imposed since 2018. Meanwhile, US steel production increased by 44% YoY in June totaling 7.1 MMT. (Braemar ACM – 26 Jul 21)

Weekly Dry Cargo Review

14 May 2021, Week 19

BCI TC Avg	**34,542**	-6,972	BPI TC Avg	**26,652**	55	BSI TC Avg	**25,264**	1,106	BHSI TC Avg	**22,839**	1,440	HRDI	**2,835**	-223

Slide of the Week



As a departure from our usual dry cargo commentary we thought it insightful to look at some remarkable developments taking place in the Container market and as such are thankful to our Container colleagues for the following observations.

'Records are there to be broken', as many a target driven individual might tell you, and for the container industry they have clearly been in 'smashing' form of late.

Those in the dry cargo market controlling box hold ships and multipurpose might be wondering why they have been carrying so many containers recently. Similarly, many US agricultural exporters requiring boxes have been left frustrated by the fact that they can't get their hands on the said containers, and even more bemused that the preference has been to send them back to Asia empty.

One look at the above chart might explain why.

Both the market for the boxes (the freight market) and that for the ships which carry them (the charter market) have set new records in what is turning out to be a remarkable period for an industry which has spent most of the last decade in the doldrums.

Whilst the pandemic has clearly impacted lives and businesses world-wide, the disruption caused to the global supply chain and the container industry in general has arguably been the most extraordinary.

As its name implies, any kink or shock along the 'chain' would be felt by other segments further down the line, and the bigger the shock, the more significant the consequences for all parts of the network. None come bigger than temporarily shutting down a country and an economy as vital as China's during the first quarter of 2020, sitting as it does at the heart of the world's manufacturing hub in Asia. Indeed, any country-wide lockdown, be it producer based or more consumer driven (as happened from Q2 2020 and beyond) would be enough to impact the smooth flow of global trade, yet 16 months on, this 'chain' of catastrophic events has been in a completely different league.

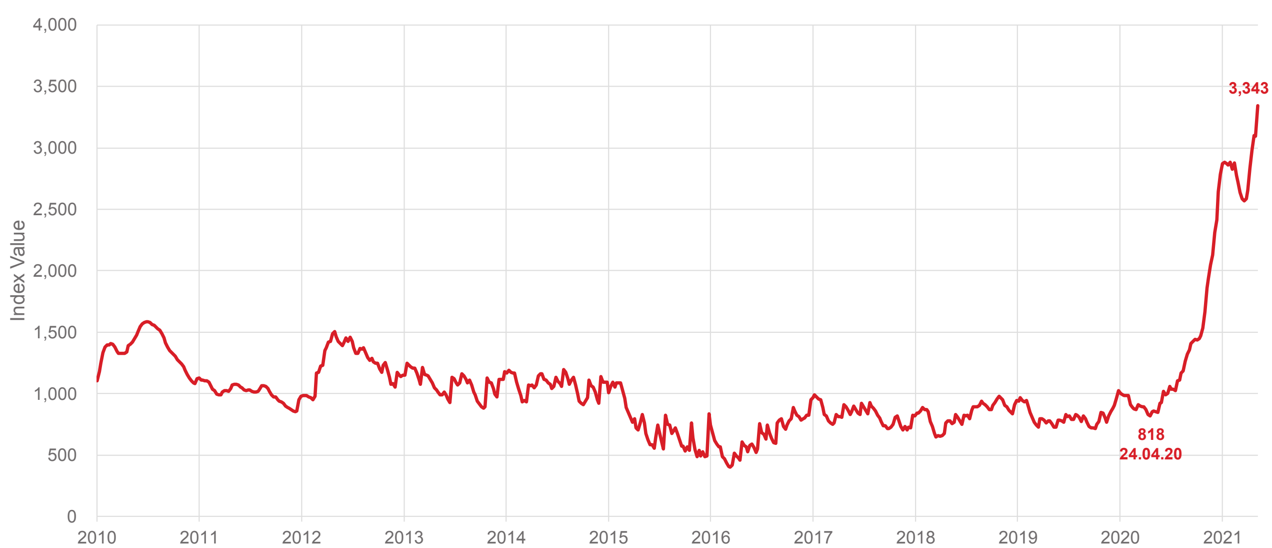
Shutdowns have led to delays and bottleneck across the entire network, from exporters to importers, from ports to trucks, and from manufacturers to suppliers. Furthermore at the end of Q1 2020, faced with an initial collapse of freight income and potential implosion of the industry as a whole last year, Liner companies drastically cut shipping capacity by 'blanking' or cancelling sailings in a desperate bid to match services with the sudden slump in demand.

As trade dramatically rebounded in the second half of 2020, fuelled further by the fact that many industries had 'destocked' inventory in 2019 prior to the pandemic, the network was ruthlessly overwhelmed by the sudden surge in demand and consequently shipments. Freight rates, which at first had been held up, then soared as the initial blank sailings had left boxes chronically out of position for where exporters needed them.

This huge imbalance in box distribution has led to an astonishing surge in freight rates, at first towards the main consumers in the US and Europe, and then across most regions world-wide as exporters desperately hunted for boxes to help them rebuild their battered economies. Regular clients on the main lanes, used to securing dry containers from anywhere between $700 to $1,800 per TEU, were suddenly being faced with quotes nearer $5,000 per TEU and over, with many instances of spot rates pushing into 5 figures being reported.

With red-hot earnings on the head haul (front haul for those unfamiliar with the container lexicon), Liners would be pressured to get the boxes back as quick as possible for the lucrative export leg, shipping 'empties' to Asia rather than finding a far lower paying back haul cargo. This left the likes of some US agricultural exporters stranded and unable to send their goods to customers in the East. The US which usually exports about 9mt of agricultural products each year in containers only shipped 6mt in 2020(mostly in Q1/2) and that figure is likely to shrink further this year.

Shanghai Containerized Freight Index



Source: Shanghai Shipping Exchange

Unsurprisingly, Liner profits since the second half 2020 have gone through the roof, experiencing unimaginable earnings from a business model which had, for so many years, struggled to break even. At the time of writing, the Shanghai Containerized Freight Index, a key barometer of the head haul market, has set a new record of 3,343 points, which considering it has spent the past decade a shade below 1,000, gives the spike of the BDI from 2003 a run for its money. Blocking up the Suez Canal did not help, yet the disruptive 'chain reaction' of events had long been set in motion by this point. In the words of many a Liner executive, there are simply not enough boxes in the world to deal with this 'sort' of demand, and whilst more are frantically being built, the pressures are not expected to ease until the second half of this year.

So that explains the freight side of things, but what about the charter market for the vessels which carry them?