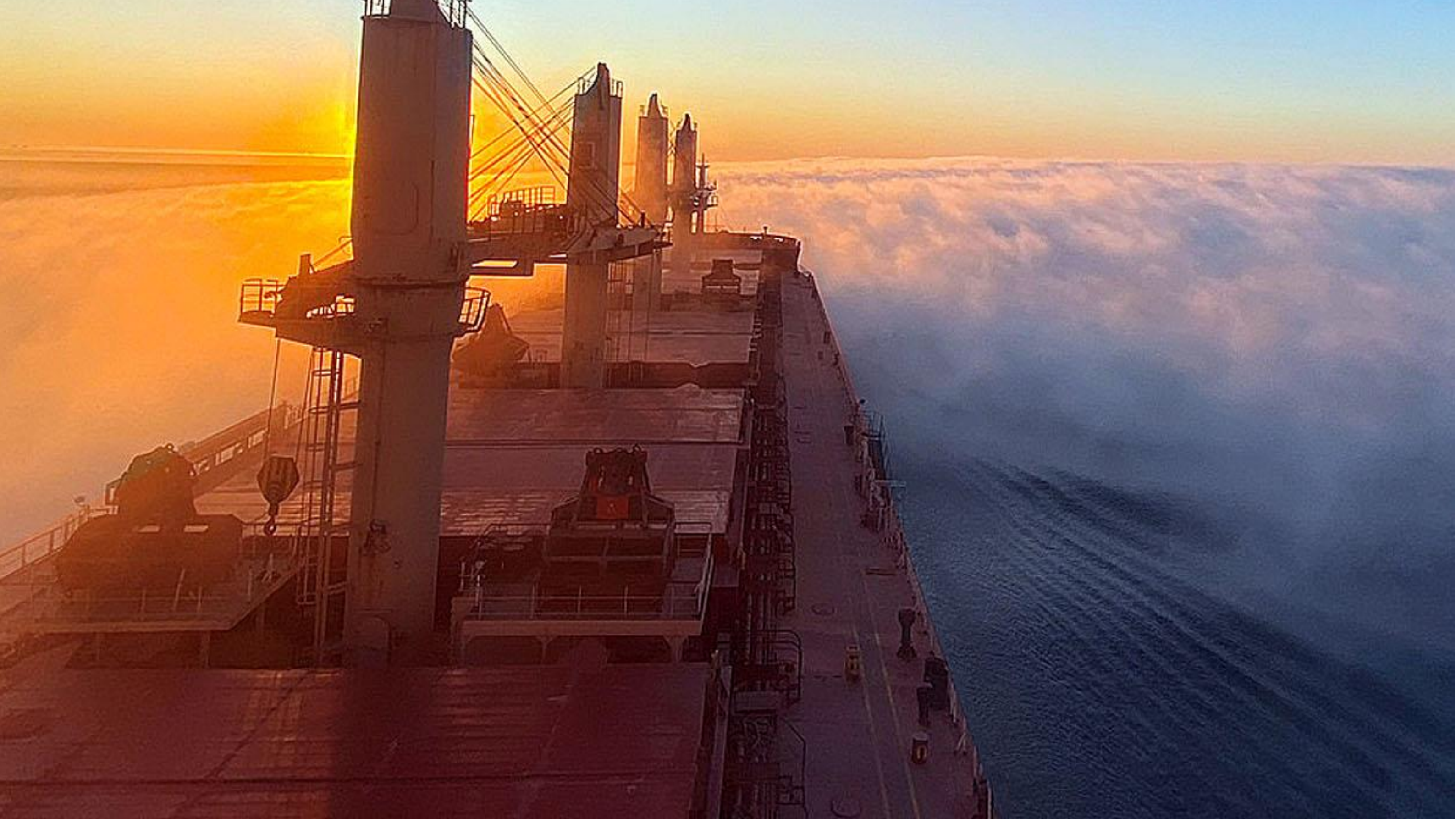
The 2nd Quarter of 2022 Management Discussion and Analysis

"Until the latest of our world conflicts, the US had no armaments industry. But now we have been compelled to create a permanent armaments industry of vast proportions. This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence, economic, political, even spiritual, is felt in every city, every State house, every office of the Federal government. We must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society. We must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist. We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable citizenry can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together."

Dwight D. Eisenhower,
34th POTUS (1953-61), 17 January 1961



Our Key Performance Indicators

2nd Quarter 2022 Financial Performance (US Dollar Terms)

The results, reviewed by EY Office Ltd., show you the latest financial position of Precious Shipping Public Company Limited and its subsidiaries ("the Company"). The net profit for Q2 2022 was USD 47.95 million, 1.83 times our net profit of USD 26.23 million in Q2 2021. The earnings per day per ship in Q2 came in at USD 23,901, 34% higher than the Q2 2021 figure of $17,841. This quarter, the company received a sizeable amount of insurance proceeds relating to claims that were made in connection to the Chayanee Naree, which was detained in Nigeria for almost seven months. This compressed daily operating costs down to USD 4,683, lower than both our target of USD 4,960 for the year and the USD 5,043 figure recorded in Q2 2021. The EBITDA was USD 57.46 million during Q2 2022, higher than the USD 35.28 million recorded in Q2 2021, with earnings per share of Baht 1.06 for Q2 2022. This is our seventh consecutive quarterly profit. Our FH 2022 profit has been the highest since 2007!

THE HARD FACTS	Q2 2021	Q2 2022
Highest earnings per day per ship in USD	45,000	40,000
Average earnings per day per ship in USD	17,841	23,901
Av. earnings per day per Handy size ship in USD	15,753	21,400
Av. earnings per day per Supramax ship in USD	18,366	21,629
Av. earnings per day per Ultramax ship in USD	22,211	32,461
Av. earnings per day per Supramax/Ultramax ship in USD	20,175	26,726
Operating cost per day per ship in USD	5,043	4,683
EBITDA in million USD	35.28	57.46
Net Profit (Loss) in million USD excluding exchange gain (loss) and non-recurring items	24.70	47.36
Net Profit (Loss) in million USD	26.23	47.95
Earnings (Loss) Per Share in Thai Baht excluding exchange gain (loss) and non-recurring items	0.50	1.05
Earnings (Loss) Per Share in Thai Baht	0.53	1.06

Consolidated Financial Performance (Thai Baht Terms)

For the quarter ending 30 June 2022, the Company earned a net profit of Baht 1,659.65 million as compared to a net profit of Baht 826.31 million in Q2’2021. The main reasons for the changes are as follows:

- The Net Vessel Operating Income (Vessel Operating Income net of voyage disbursements and bunker consumption) in Q2’2022 is 48% higher than the Net Vessel Operating Income in Q2’2021. This is mainly due to an increase in the average earnings per Vessel per day which increased from USD 17,841 in Q2’2021 to USD 23,901 in Q2’2022, due to a strong Dry Bulk Freight market. As on 30 June 2022, the fleet size was 37 vessels, compared to 36 vessels in the same quarter of last year.

- Vessel running expenses in Q2'2022 are 5% higher than the figure in Q2'2021, mainly due to the depreciation of the Thai Baht against the US Dollar. However, when measured in US Dollars, the average Vessel operating expenses (Opex) per day per Vessel (including depreciation/amortization of Drydocking/Special Survey expenses) decreased from USD 5,043 for Q2'2021 to USD 4,683 for Q2'2022, mainly on account of insurance proceeds that the Company received in connection to claims for the Chayanee Naree's detention.

- Administrative expenses (including management remuneration) for Q2'2022 came in Baht 46.60 million lower than the figure in Q2'2021, mainly due to a decrease in variable compensation expenses.

- Finance cost for Q2'2022 was Baht 13.28 million lower than the figure in Q2'2021, due to lower interest expenses. This was driven by a reduction in overall debt.

- Exchange gain for Q2'2022 of Baht 20.69 million, was mainly on account of changes in the US Dollar equivalent figure of our Thai Baht liabilities.

For the six-month period ending 30 June 2022, the Company earned a consolidated net profit of Baht 2,953.57 million as compared to a consolidated net profit of Baht 1,201.44 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 2022 is 67% 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 15,015 in the first half of 2021 to USD 22,956 in the first half of this year, due to a strong Dry Bulk Freight market. As on 30 June 2022, the fleet size was 37 vessels, compared to 36 vessels in the first half of last year.

- Vessel running expenses during the first half of 2022 are 9% higher than the figure during the same period last year, mainly due to the depreciation of the Thai Baht against the US Dollar. However, when measured in US Dollars, the average Vessel operating expenses (Opex) per day per Vessel (including depreciation/amortization of Drydocking/Special Survey expenses) decreased from USD 4,988 in the first half of 2021 to USD 4,797 during the first half of this year.

- Administrative expenses (including management remuneration) for the first half of 2022 came in Baht 5.55 million higher than the same period last year, mainly due to the depreciation of the Thai Baht against the US Dollar.

- Finance costs during the first half of 2022 were Baht 48.89 million lower than the same period last year, due to lower interest expenses. This was driven by a reduction in overall debt.

- Exchange gain for the first half of 2022 of Baht 20.86 million, was mainly on account of changes in the US Dollar equivalent figure of our Thai Baht liabilities.

Update on the Chayanee Naree drug smuggling incident

After obtaining departure clearances for the Vessel from the Nigerian Navy and other government agencies, the Vessel, along with her crew, sailed out of Lagos port in Nigeria on 17 May 2022.

However, the 10 crew members, who have been charged, are required to remain in Nigeria until legal proceedings are completed. The trial against the Vessel and the 10 crew members commenced in the Federal High Court of Nigeria in July 2022. The next hearing is scheduled for November 2022. The Company continues to work closely with its insurance company and legal counsel to ensure that the case is fully resolved as early as possible.

Market Segmentation

During Q2, The Baltic Handy Size Index (BHSI) averaged 1,531 points, as derived from an average Time Charter (TC) rate of USD 27,566 per day. In comparison, our Handy size fleet earned USD 21,400 and underperformed the BHSI TC rate by 22.37%. The Baltic Supramax Index (BSI) averaged 2,627 points, as derived from an average TC rate of USD 28,901 per day. In comparison, our Supra/Ultra fleet average earnings were USD 26,726 per day and underperformed the BSI TC rate by 7.53%. Our target has been to outperform both the indices.

The next SET Opportunity Day will be virtually held at 15:15 hours on the 10th August 2022 via the SET live web casts. We hope that many of you will attend this event electronically where the Company will get a chance to thoroughly discuss Q2 results. Number of online participants attending PSL's live presentation of Q1 2022 results on 12th of May 2022 were 313 on the SET website/YouTube views and 22 on Facebook for a grand total of 335.

Long Term versus short term Charters

The long-term charters, about 1 year or longer, are shown in the chart below. Our forward four-year rolling book is at 19% with a visible revenue stream of USD 196 million.

Year	2022	2023	2024	2025
Total Available Days	13,339***	13,505	13,542	13,505
Fixed T/C Days*	4,627	2,084	1,830	1,825
% age Fixed T/C Days	35	15	14	14
Av. T/C Rate/Day in USD**	22,737	16,778	15,316	15,316
Contract value in million USD	105.21	34.97	28.03	27.95

**This comprises charters on 7 ships on fixed rate charter and 7 ships on variable rate charters*
***Average T/C Rate/Day for the variable rate charters is estimated based on actual earnings for Q1&2 2022 and rates prevailing in July 2022 for the period thereafter.*
**** The first trip of Phatra Naree started on 15-Jun-2022.*

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

BDI Developments and our read of the market

- As usual, it will be supply and demand factors that will determine the strength of the freight markets. We have for the first time in two decades, 20+ year ships as a %age of the existing fleet at 7.25% being higher than the forward order book as a ratio of the existing fleet of 6.88% at the start of 2022. At the start of Q3 these figures were 8.0% (20+ year old fleet) and 7.1% (forward order book.)
- Supply-demand have been in perfect balance since the SH of 2021, while supply growth appears benign for the next few years, which is a leading indicator for future market strength.
- Dry bulk freight rates are essentially a tug-of-war between supply and demand. Supply has been very restrained over the last few years with hardly any new buildings on order compared to the earning potential of today's market rates. And since supply-demand came into balance by the SH of 2021, rates have become extremely volatile. The reason for that extreme volatility is that supply-demand is an inelastic curve, so with one extra unit of demand, rates can skyrocket by multiples of last done numbers. Same way, rates come down very sharply when that extra unit or two of demand is taken off the table. So, volatility is the name of the game from here on.
- The next catalyst could be anything that increases ton-mile demand; or an increase in traded volumes of commodities, all other things being equal; or any disruption; or congestion. These are just some of the catalysts that are good for shipping rates.
- As a reminder, it was the excessive supply side entering the freight market during 2010-2020 that was the main reason why rates were very low, and though the ton-mile demand rate has been steadily falling from 2003-2009 (+5.4% per annum) to 2022 (2.5%e), as excess supply has been finally absorbed, the very marginal increase in ton-mile demand in 2021 (3.97%) compared to the reasonably robust net increase in supply (3.55%), managed to push the BDI to a 13-year high of 5,650 points in October 2021.
- The BDI averaged 2,279 points in the FH of 2022, which was +1% as compared to FH 2021. If you look at the individual sectors/index ships, in FH 2022 as compared to FH 2021, then Capes averaged TC of $18,089 compared to $24,010, Panamaxes averaged TC of $24,876 compared to $22,212, Supras averaged TC of $26,983 compared to $21,014, and Handy sizes averaged TC of $25,782 compared to $19,511. So, other than the Capes, all other sectors of the dry bulk market outperformed the time charter rates in FH of 2021.
- China's demand was constrained in FH 2022 as covid-zero lockdowns kept about 400 million people away from their jobs/livelihoods for about 2 to 3 months. The massive stimulus plans that the Chinese government has put in place, $5.3 trillion according to Bloomberg, to combat the adverse impact of covid-zero on the economy will likely kick in in the SH of this year. That should lead to greater imports of iron ore and an increase in power generation.
- As can be seen, all the reasons for the slowdown in Q4 2021 and into FH 2022 are due to decisions made by governments, be it in China (dry bulk is very dependent on China) or in the ROW (Fed Reserve expected to raise interest rates 7 times in 2022, combined with QE taper.) These decisions have curtailed demand, but when reversed, they will allow demand to flourish once again, and we could be back at the same point we were at the start of 2021!
- Despite three (Jan, Apr and Jul) reductions, the IMF forecast for world GDP growth rates is still at a healthy 3.2% for 2022 and 2.9% for 2023. Besides, dry bulk demand has decoupled from world GDP growth rates and is now more dependent on government stimulus, impact from La Nina, climate change, geopolitics, inefficiency, lockdowns, congestion etcetera.
- Consumers should not be counted out. US households have a cash cushion to help navigate high inflation. And lest we forget, consumer spending accounts for 70% of US GDP growth rates.

- If you see the low growth in expected ton-mile demand for 2022, the slowdown in China's imports/exports, and the expected supply side growth, we should not have had as strong a FH as we have had in 2022. If you look at the index ships Time Charter earnings in Q2 2022, they have been very strong and certainly cannot be justified if you take just the ton-mile demand growth into account. It is the inefficiency in the dry bulk fleet, the very high price of bunkers slowing ships down significantly, that has been reducing the effective supply of ships and hence, despite all the existing obstacles of an end to central bank stimulus, QE tapering, rising interest rates, threat of global stagflation, China slowdown due to Covid-zero, lingering Covid-19, and the Russia-Ukrainian war, dry bulk shipping is still doing very well.
- High rates have been ably supported by low net new supply; lack of extreme ordering of new ships due to crowding out by early ordering from container/tankers/gas/car carriers; significantly reduced shipyard capacity; fuel-transitioning period; inefficiencies in the world fleet due to Covid-19 lockdowns/quarantine; and the start of EEXI on 1st January 2023 forcing most ships to reduce speed permanently via Engine Power limits.
- China will be the wild card for dry bulk once it gets the current Covid outbreak under control. China spent $586 billion in 2009 on steel intensive infrastructure and it pushed the BDI to a 4,221-point high in 2009 from a low of 665 points on 6th December 2008. China allocated $667 billion on 21st May 2020 to assist Covid-19 hits to their economy. That pushed the BDI to 5,650 points, a 13-year high, in October 2021. The real question therefore should be, what happens when China's massive $2.3 trillion (or $5.3 trillion according to Bloomberg) stimulus, announced in April 2022, a third devoted to steel intensive infrastructure development, comes into play, in such a finely supply-demand balanced dry bulk freight market, in the SH of 2022?
- Please see the attached note dated 22nd July on the dry bulk sectors from Howe Robinson.
- Global oil demand surpassed pre-pandemic levels in March 2022, while production of crude oil was stuck at 97% of the level before the onset of Covid-19.
- Inflation in the UK hit 9.4% a 4-decade high, hit 9.1% in USA another 4-decade high, hit 8.6% in the EU a record-high, while CPI in the OECD rose by 10.3%, respectively in June 2022 as compared to June 2021.
- The Chinese are perhaps the world's biggest savers and usually invest in property or the stock market. However, with the onset of the pandemic, property prices have fared poorly, stock markets have stumbled, leaving these savers to hoard their cash which has reached a humungous $16.3 trillion!
- The Russian-Ukrainian war is heaping uncertainty onto a world that was barely getting to grips with the Covid-19 pandemic, while facing the highest inflation levels in more than 4 decades in USA. The missing cargoes from Russia and Ukraine will, to the extent possible, be substituted from further away sources and thereby increase ton-mile demand. The fear is that the ROW falls into a recession with QE taper combined with much higher interest rates strangling economic growth. That outcome must be avoided.
- When 4 times as much DWT is delivered annually (2012 & 2016) as is ordered, then the BDI has increased in the subsequent year (+31% in 2013 and +70% in 2017). In 2020 48.66 MDWT was delivered, while 13.86 MDWT was ordered (or 4 times), and the average BDI for 2021 at 2,943 points was 176% higher than the average BDI in 2020 at 1,066 points. In 2021 37.62 MDWT was delivered, while 37.65 MDWT was ordered, so the 4X rule should not apply. Yet the increase in index levels of the BDI in Q2 2022 was -9%, Capes was -31%, Panamax +2%, Supramax +13%, and Handysize +22% higher than Q2 2021 averages. This again confirms that supply-demand balance has been achieved and rates will react with extreme volatility with the slightest change, increase or decrease, in demand. Volatility is here to stay, so better get used to it.
- Due to the ongoing Russia-Ukraine war, coal is being shipped from Australia to Europe, resulting in significant increase in ton-mile demand from alternate coal suppliers.

- The un-boxing of cargoes from containers to smaller ships helped Handies to reach heights not seen even in the 2003-2009 boom years.
- As supply-demand is in balance, freight markets will be characterized by extreme volatility, and sharp rate movements, in both directions, as we have seen in 2021 and in FH of 2022. Please expect more of the same in 2022 and beyond.
- Shipments of specialized ores required for renewable energy and battery production will provide additional ton-mile demand for the smaller size ships.
- Due to higher gas prices, coal-fired power generation increased by 11% in the EU in FH of 2022 requiring increased coal imports. If Europe should fully utilize its coal-fired power plants, it would need about 200 MMT of additional imported coal compared to about 100 MMT annual imports between 2016-2021.
- 25% of Chinese iron ore imports came from Brazil (48 MMT) down -14% and 71% from Australia (189 MMT) up +4% in Q2 2022. As longer ton-mile from Brazil was replaced by shorter ton-mile from Australia, it negatively affected the Cape sector in Q2 2022.
- World steel production reached 949.4 MMT in FH 2022, down -5.5% from FH 2021.
- China's PMI index was 49.1 during Q2 2022 indicating a slowing economy due to Covid-zero.
- China's Q2 2022 GDP growth was 0.4%. The Chinese government have taken several measures to stimulate their economy and we should see sustained demand for dry bulk in SH 2022.
- The orderbook to fleet ratio at the start of Q3 2022 for the dry-bulk sector was 7.1% (6.9% for the geared sector and 7.2% for the gearless sector) one of the lowest readings for over two decades!
- During Q2 2022 0.73 MDWT of ships were recycled across the dry bulk fleet compared to 0.92 MDWT (down by -21%) in Q2 2021. The existing age profile at the start of Q3 2022 of 75.88 MDWT or 8.0% (11.8% in the geared segment and 5.9% in the gearless segment) of the world fleet being 20 years or older, together with low levels of the order book to fleet ratio of 7.1% (order book up to end 2025 compared to net supply at the start of Q3 2022), should result in the world dry bulk fleet growing at a slower pace.
- Covid-19 induced congestion delays, deviations for crew changes, and delays due to quarantine of ships, have all tightened supply of ships in the last two years. We expect more fleet inefficiencies for 2022 as we do not see Covid-19 fading anytime soon especially with China's Covid-zero policy. This factor will tighten net effective supply of ships, aided by the very low ordering activity in 2022, to easily counteract any increased supply from new ships.
- With bunker prices reaching levels of well over $1,000 per ton, ships are being ordered to sail at the slowest possible speeds, further tightening effective supply.
- According to Clarksons expectations, ton-mile demand will grow by 1.4% and 1.9% compared to net supply growth of 3.4% and 0.7% in 2022 and 2023 respectively (demand forecast dated 7 July, supply forecast dated 26 July 2022). With the inefficiencies in the net supply of ships due to Covid-19 related disruptions, this gap between supply-demand in 2022 and 2023 should widen in favor of the ship owners and we should see similar years as we had in 2021.
- PSL's exposure to the smaller geared segments means that we will be exposed to growth in net supply of 3.2% in 2022, with minor bulks growing at 2.1%, according to Clarksons.
- Ships 20 years or older, comprising about 75.88 MDWT or 8.0% of the existing fleet (39.46 MDWT of the geared fleet or 11.8% and 36.42 MDWT of the gearless fleet or 5.9%) at the start of Q3 2022 would be ideal candidates for recycling in 2023 under the new IMO regulations.
- Healthier recycling is expected during 2023 due to the large number of 20+ year old ships in the world fleet, pressures from BWTS, Special Survey costs on these older ships, and

additional regulatory pressure from adoption of EEXI & CII regulations on 1st January 2023, that will force some of them to early recycling.

The unintended consequences of the Russia-Ukraine war:

Attached is an article dated 25th May 2022 from Commodore Research and Consultancy titled 'The Summer of our Lives' which explains some of these consequences and the chaos that has resulted from this war, worldwide. There are two more articles worth reading on the Russia-Ukrainian war. *One is from* Scott Ritter, who requires no introduction *and the other* is from Rajan Menon who is the Anne and Bernard Spitzer Professor of International Relations emeritus at the Powell School, City College of New York, director of the Grand Strategy Program at Defense Priorities, and Senior Research Scholar at the Saltzman Institute of War and Peace at Columbia University.

Export markets being serviced by Russia-Ukrainian grain are Turkey, Egypt, and North Africa, all 'close by' ports and are short ton-mile demand factors. These same ports will now need to get their grain from further away places like USA, Canada, Argentina, or Brazil. This will increase ton-mile demand substantially. Grain is also exported to China and other ASEAN countries from the Black Sea. These are long-ton mile cargoes and will be substituted by even longer ton-mile demand sources from further away places like USA, Canada, Argentina, or Brazil. The other cargoes moving from the Black Sea are steels and coal. Both these are short ton-mile cargoes as they are destined to EU countries (coal) and to the USA and EU (steel). These steel cargoes will be substituted by very long ton-mile cargoes from Japan, South Korea, Taiwan, and China, all much further origins for steel cargoes compared to the Black Sea. As far as coal is concerned, again the main buyers of this commodity are the EU, Turkey, and other Mediterranean countries, all very short ton-mile destinations which will be serviced from much further points of origin like Australia, Indonesia, USA, Colombia, and South Africa. Net-net, this disruption of grain, steel and coal movements from the Black Sea will be negative for ships in the Black Sea in the short-term, but very positive for all other ships in all other parts of the world thereafter.

Unfortunately, extreme climate change has coincided with a shortage of fossil fuel producing energy generators due to the 'abuse' foisted on coal/oil/gas/dirty energy producers, with equity and debt providers shunning them like the plague. Consequently, these producers of 'dirty' energy have shutdown marginal 'dirty' electricity generators/mines/wells, focused only on high-producing electricity generators/mines/wells, and stopped all capital expansion in any such 'dirty' energy sources/producers. This has collided with the world wanting to transition to 'clean' energy instantly, but the quantum of 'clean' energy produced presently is miniscule, as should be expected at the start of what would be a multi-decade long transition period, required for such a significant change to take full effect. Combine this with food shortages in various countries, due to agricultural-rich nations prohibiting food being exported, will make hunger present in more, rather than less, countries and people. The Russia-Ukraine war has not helped by causing food, fuel (oil, gas, coal), fertilizers and steel, exports from these two countries to dry up, pushing prices skywards. This will focus governments on building up buffer stocks of food grains, fuel (oil, gas, coal), fertilizers to avoid sharp price increases in food/energy with the resultant inflation that it brings. The Russia-Ukraine war has exacerbated fuel and food shortages to an extent that there will be food-energy riots in the world, no matter if they are rich or poor countries.

Our Q1 newsletter on this subject has a prescient feel today. *'We have a war between Russia and Ukraine, with the ROW weaponizing sanctions and declaring a boycott of Russian products. Consequently, oil prices are now oscillating between $100 and $135 per barrel, with food prices shooting off the charts, creating fear of food insecurity, pushing buyers to pre-empt their purchase plans, further raising prices of cereals. By threatening ship owners with sanctions from trading in Russian ports, you score the perfect own goal, by prohibiting the shipment of much needed cargoes around the world, increasing inflation. Inflation is the enemy now, yet what the threat of weaponizing sanctions does is that no ship owner is willing to load any Russian cargoes or call at Russian ports. So, a lot of cargoes are ready to be moved but no ships willing to carry it. However, the end buyers do not have the luxury of time and need their cargoes yesterday. They are, therefore, forced to pay a much higher price for the same commodity, ship it from a much further distance (increased ton-mile means freights rates are also moving upwards), and then the ROW wonders why they have inflation, and they are making haste to raise interest rates to calm down/reduce inflation!?!? The culprit, as ever, is geopolitics and the expected fallout in terms of rising prices and inflation. To tame current price rises in energy and cereals, applying the conventional wisdom of raised interest rates will do just the opposite, certainly not lower prices, as the fear factor of spreading food insecurity pushes buyers to up their purchase price.'*

As we are seeing with wheat today, we suspect the most vulnerable countries/governments will panic and lock in supply as prices move up. However, there may be less trade if for security reasons exporting nations prohibit exports of primary products to meet domestic needs. Indonesian coal export ban during January 2022 is one such example, with a ban on exports of Indian wheat during May. In the grain trade, there is a saying that 'Price is the best fertilizer!' So, if one country places security sanctions on the export of grain, another will plant more crops to take their place. Besides, the grain in Ukraine and Russia will still be exported, cheaply maybe, to places like India and China (Rupee and Yuan trades), that love to buy any product especially when it is sold at large discounts! So, we do not see a downside from sanctions or from export prohibitions.

Of course, this war has also pushed inflation to 4-decade highs in most countries, and the 'solution' by central bank governors is to hike interest rates to tame this inflation. That is why we used the Joseph Stiglitz quote from his article in Project Syndicate for the cover of our Q1 Newsletter, that the cure of inflation via higher interest rates, was far worse than the disease itself. Even the chief economist at Moody's, Mark Zandy, confirmed in the middle of June that 'diplomacy, instead of war in Ukraine, would have preempted the inflation problem in the US, and the world', as well as avoided the death and misery currently being experienced in the war zone. In wars, there are no winners, only losers, especially among the young and the innocent.

Our ships fixed for loading coal or grain from alternate sources due to the Russia-Ukraine war, all on time charter so we keep earning, have waited on an average between one and two months for loading at the start of Q2, as demand on alternate sources of supply, for energy and food, has shot through the roof. These alternate sources are longer in ton-mile demand terms, besides being heavily congested, both of which have reduced effective supply of ships and are the reasons for the FH 2022 strong rates despite overall cargo being reduced due to the war. Now, even this last premise may no longer hold good, as we have seen the first cargo of Ukrainian corn being shipped out of Constanza in end April, so demand volume may not shrink as was expected/happened in the first 3 months of the war.

The current war involves Ukraine and Russia, the principal protagonists, being goaded into a war fought via proxy by USA/UK/NATO supplying arms till the last Ukrainian is left standing. Kishore Mahbubani, former Dean of the Lee Kwan Yew school of Public Policy, speaking at a virtual session titled Defusing Asia's Geopolitical Flashpoints, argued that diplomacy entailed 'speaking to one's enemies.' If only USA/UK/NATO employed the art of diplomacy we would have had a lasting peace instead of this war that only enriches the military-industrial complex, but makes the poor, the colored people around the world, stay hungry, drop into abject poverty, and results in untold death and misery for young Russians and Ukrainians alike.

Germany's industrial PPI in June was up 32.7% y-o-y, a decelerating trend, as it was up 33.6% in May and 33.5% in April although hardly cause for comfort since the worst of the energy shortage is yet to hit the German economy. Energy prices were up 86.1% y-o-y with the price of natural gas the main cause. Industries were forced to pay 182.6% more in June y-o-y. For power producers, the cost of natural gas rose 227% y-o-y leaving millions facing power shortages due to price unaffordability. European demand for US liquefied natural gas, at record highs, is affecting the US where natural gas prices are at 13-year highs, leading to higher electricity and plastics prices. Most of this is due to the Russia-Ukraine war.

Russia is one of the most resource rich countries in the world, in food, fuel, diamonds, gold, and has a small population. Just for one second imagine, Russia broken into half a dozen countries, with multi-national corporates buying out mines/resources at cents to the dollar and then becoming the masters of what was the former Russian universe. All empires have conquered and subjugated weaker countries in the past in similar fashion, and as the famous Spanish philosopher George Santayana, said 'Those who cannot remember the past are condemned to repeat it.' So, is it a land/resource grab that is taking place in the guise of the Russia-Ukraine war? And if you thought we were dreaming conspiracy theories, here is a headline from a 'Bloomberg Opinion' article dated 1 June 2022, 'Will breaking up Russia end its imperialism?' Enough said.

The EU and Coal Imports:

In the FH of 2022, global coal imports were up 1.5% y-o-y to 572.7 MMT, while the EU imports were up 10.4%. In 1Q 2022, global coal imports were down 5.1% y-o-y to 258.5 MMT. In 2Q 2022, coal imports were up 7.7% y-o-y at 314.2 MMT, and June had a record 111.6 MMT, up 12.3% y-o-y. The EU's coal imports in 2021 increased by 30.3% y-o-y to 87.1 MMT. In the FH of 2022, coal imports into the EU increased by 49.6% y-o-y to 57.6 MMT. In 2021, as much as 44% of the EU's coal imports were sourced from Russia. In FH 2022, Russia was the top supplier of coal at 31.5% up 0.2% y-o-y to 18.2 MMT.

Container Shipping:

Despite demand expected to remain flat and supply side expected to grow around 3.5/4.5%, 2022 should end up being largely as forecasted by the analysts with another record year of net profits and EBITDA, due to the inefficiencies in the fleet due to supply chain disruptions, Covid related lockdowns, and stevedore labour negotiations on the US West Coast. 2023 will see a significant slowdown of ships due to EEXI/CII coming into force, scrapping of older non-eco ships reducing supply further, with new supply expected to grow around 6.5/7.5%. Demand is expected to grow between 2.5/3.0% which should result in another good year for the owners. In the meantime, container lines who had been charging customers, for the last 5 decades price per TEU in nominal not inflated dollars as was priced in 1973, raised their pricing correctly from 2020 and the USA suddenly has the POTUS getting involved in wanting lower rates, calling container lines a monopoly (forget that the FAANG corporates are giant monopolies with absolutely no one to answer to.) The hypocrisy is just off the charts!! It is not like the American shippers were helping subsidize container lines losses in the 5 decades since 1973, when they wanted “free market forces to prevail”. Now that it is time to pay the piper, even the POTUS has got involved in trying to lay the blame at the feet of the container lines. Amazing how the free market is important when the shoe is on the American foot and rates are very low, but how it becomes an issue that the POTUS gets involved in screaming foul, when the free-market prices containers at their correct value.

According to a note from JP Morgan dated 19 July 2022, their key findings and latest datapoints suggest: “1) Transpacific peak-season demand is expected to be moderately strong; 2) US consumer spend remains resilient with evolving spending patterns; 3) Global port congestion is taking a turn for the worse, with vessel queues starting to build up at USWC ports over the last couple of weeks; 4) Inventory has been rising, which however may have been driven by changes in inventory practices with evolving spending patterns as consumers re-allocate spending towards essentials including ‘back-to-school’ and cut back on discretionary spending.”

China’s zero-covid policy:

President Xi Jinping has been faced with either difficult or very difficult choices once Omicron entered China. With some 160m+ elderly, largely unvaccinated, citizens at risk of serious illness or death; with no trust or faith in Western vaccine supply; with sharing of mRNA vaccines’ IP being blocked by USA via the WTO; with local mRNA vaccines taking longer to develop; workers sleeping in offices/factories/banks to continue working; and 400m people struggling in strict lockdowns in different cities/regions from mid-March to end May, the zero-covid policy looks like the only choice left for China. The Chinese economy has taken a direct hit from covid-zero in the FH of 2022, and will, for the first time, grow at a slower pace than America in over 4 decades. But covid-zero is what has kept the elderly safe, and not exposed to death as was seen in country after country including the USA and the EU and is a source of Chinese pride and social cohesion. To bolster the battered economy some additional relief measures have been announced totaling some $5.3 trillion since the start of 2022, according to Bloomberg, and once implemented, China will be back on its usual economic growth path provided they get mRNA/other vaccines into the arms of their senior citizens.

Climate Change:

The hottest summer of our lives is upon us, linked to extreme climate change. Middle India since mid-March has been sweltering at 45 to 50-degree Celsius heat leading to power shortages, and deaths from heat stroke, followed by floods, mudslides and death with the onset of the rainy season in June; Brazil, lashed by unseasonal rains, had landslides killing in excess of 100 people; Mexico has been battered by early-season hurricanes; sandstorm frequency and power demand increasing in the middle east and north Africa; France has been hit by hailstones that are bigger than golf balls over thousands of hectares of vineyards; Spain is sweltering in 40 degree Celsius heat; massive floods in Yellowstone National park; Arizona, New Mexico, and other western US states are facing droughts and wildfires; heat waves affecting middle America are expected to push eastwards; floods hit 25% of Bangladesh; India's north east hit by floods; provinces in northern and central China are sweltering while in southern China they are inundated with floods; Arctic temperatures are rising at seven times the global average; Japan is in a 150-year-record heat wave due to premature end to their rainy season that may result in power shortages; The famous great salt lake in Utah is disappearing due to droughts; flooding in Sydney forced thousands to flee their homes; Italy has declared a state of emergency due to droughts; the operator of the power grid in Texas has warned of rolling blackouts if residents do not conserve energy during expected high temperatures, are some impacts of climate change. The oceans of the world became the most acidic and the hottest since the turn of this century in 2021. Melting ice caps at the poles have pushed sea levels to record highs, with predictions of 14-21 named hurricanes in the US, keeping coastal residents on edge. Climate change is here, and we are, obviously, not doing nearly enough to combat it. Large grain movements, coupled with weather related inefficiencies in reducing net ship-supply, will increase ton-mile demand and be positive for the dry bulk freight market.

In mid-July, heat waves have engulfed large portions of the Northern Hemisphere leading to wildfires, excessive GHG generation from these out-of-control fires, dehydration, and at times, death. A report last year by the EU Central Bank opined that seasonal temperatures and price indicators in 48 countries, found hot summers had "by far the largest and longest-lasting impact" on food prices. The effect lasted almost a year and was especially noticeable in developing countries. You can read more details in the article by *clicking on this link.*

According to an article in Scientific American dated 21 September 2021, the food we eat comes with a carbon cost. Global food production generates GHG of more than 17 BMT per year, according to a study published in Nature Food. Animal-based foods account for 57% of those emissions, and plant-based ones make up 29%. To read the article, *please click here*.

Rising inequality in the world:

According to a new report from Oxfam, since the start of the pandemic, 263 million people have been pushed into poverty; 573 newly minted billionaires have been created; the wealth of billionaires went up more during this period than over the last 23 years combined; the top 20 are worth more than the GDP of entire Sub-Saharan Africa; the top 10 are worth more than the bottom 40% of humanity of 3.1 billion people; and they pay little or no taxes! Here is *a short video* that explains this clearly.

25 June, Day of the Seafarer 2022:

The issues surrounding seafarers remain largely unchanged. Most member states of the United Nations that have adopted the Maritime Labor Convention (MLC) into their national laws, do not actually honor them. They do not allow seafarers shore leave, nor the luxury of medical treatment, nor the basic human rights accorded under the MLC of safe passage back to their country of origin when they have finished their contracts onboard ships. The IMO has come out with an excellent video that tells you all that you need to know about these essential workers who are pushed from pillar to post trying to get what are their legal rights only to be rebuffed by an uncaring world. Nation states and their populations that are dependent on the services of ships and their seafarers for the coffee that they drink, the food that they eat, the clothes that they wear, the houses that they live in, the offices that they work at, seem to be blissfully unaware of the great debt that they owe the seafarer. We hope *this video from the IMO* will wake you up to their realities.

Inflation:

The latest inflation read in the USA of 9.1% in June 2022 y-o-y is the highest in over four decades! The genesis of this bout of inflation began two years ago in March 2020, when the Covid-19 pandemic hit the world hard, with lockdowns and demand destruction quickly setting in. Added to that was the spat between Saudi Arabia and Russia resulting in a price war that saw oil prices drop to a low of $38 per barrel. One of the unintended consequences of weaponizing sanctions against Russia is that the Indians, Chinese, and Russians are pricing discounted oil (prewar prices less 25%) in Rupees, Yuan and Ruble, a win-win for each of them. Oil being priced in Yuan or Rupees or Ruble, will hurt the supremacy of the US Dollar, and reduce its attractiveness as the only reserve currency in the world. The culprit of our current problems, are of course, politicians; Covid-19 mishandled by politicians; climate change being mishandled by politicians, who have literally no clue as to what they are, or should be, doing; and geopolitics leading to this unnecessary Russia-Ukraine war. These are all self-inflicted goals, thanks to the mishandling by politicians who oversee these issues. And now, the solution by Fed Reserve Chairman Jerome Powell, and most other central banks, is to raise interest rates to reduce inflationary pressures, while 50% of the current price of oil is pure hubris by USA, UK, NATO, and Russia; food prices, once again due to the Russia-Ukraine war, and weaponizing of sanctions; with the cure of higher interest rates likely to kill the patient and not achieve the goal of reducing prices!

A new study shows that Pharma companies in the US have raised prices 1,186 times this year, increasing their net profits at the cost of the intensifying pain for patients. Some would call this the upside of unlimited profits, being the underbelly of capitalism, akin to usury especially when the same medicine manufactured by the same Pharma companies costs less than 10% of the cost in India. And these same Pharma companies in India, return massive monthly dividends to their parent organization! So even at a 10th or less of the price in the States their profits are ginormous in India, so imagine the profits that they make in the USA! This price gouging is another nail in the inflation coffin that is killing the common man in the States, with the weapon of choice being higher interest rates. *Please read the whole article here.*

An excellent explanation on supply chain constraints leading to the current bout of inflation can be *found in this article* by Stiglitz and Baker.

Key Supply Side Developments

We started 2022 with 939.15 MDWT and have increased to 953.79 MDWT (+1.6%) at the start of Q3 2022. If we were to apply slippage of 5% (it was actually 5.7% for FH 2022) to the scheduled deliveries in the SH of 2022 and 2023 and assume scrapping reaches 8 MDWT (it was actually 1.86 MDWT during FH of 2022) we would be left with a net fleet growth of 2.6% (939.15 MDWT to 963.79 MDWT of which 330.10 MDWT to 339.63 MDWT for the geared sector +2.9%, 609.05 MDWT to 621.04 MDWT for the gearless sector +2%) by end of 2022 and 2.3% by end of 2023 (963.79 MDWT to 986.10 MDWT of which 339.63 MDWT to 348.16 MDWT for the geared sector +2.5%, 621.04 MDWT to 634.80 MDWT for the gearless sector +2.2%.) Congestion, ballasting ships, slowing speeds, especially in 2023 due to EEXI/CII regulations, and Covid-19 quarantine delays, will further assist in supply side tightening.

Supply Chain Disruptions

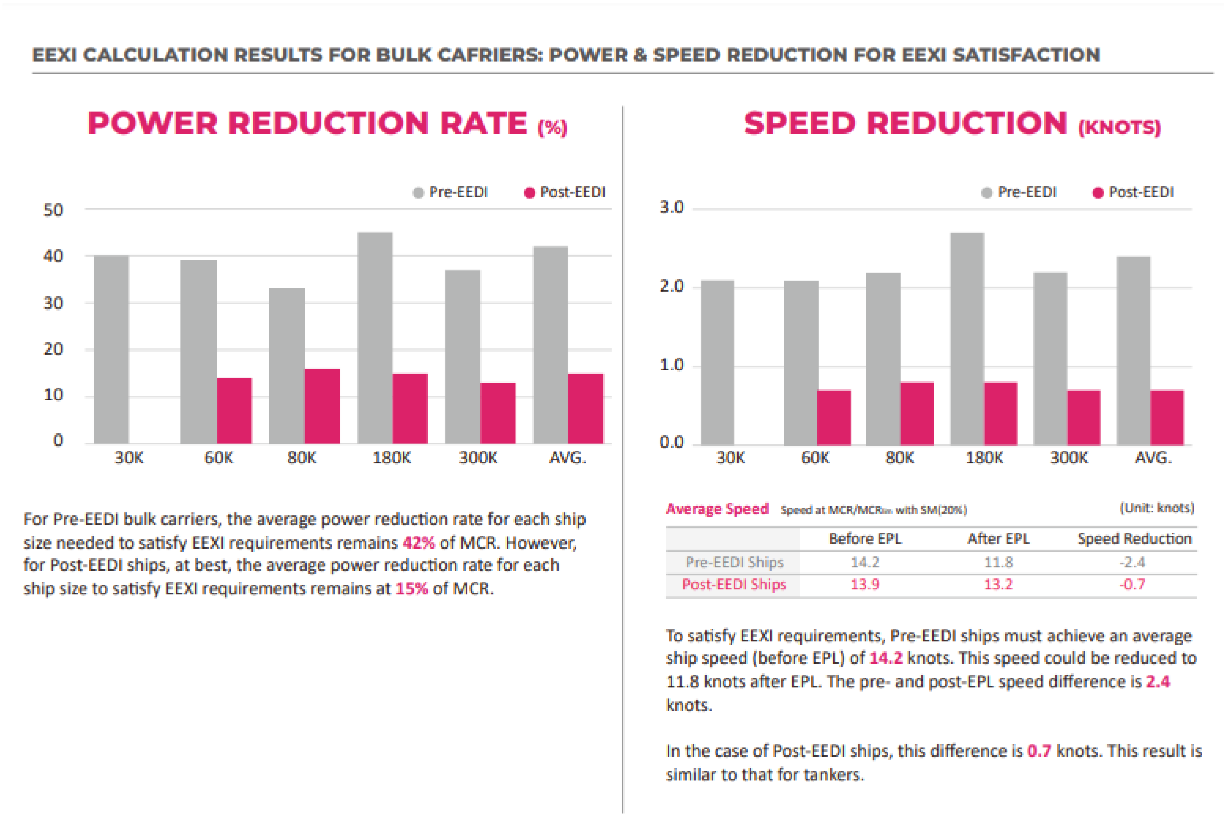
The maritime industry is one of the most efficient links in the supply chain system, so when it gets disrupted, it creates inefficiencies that result in an immediate increase in ton-mile demand. Covid-19, and now the war in Ukraine, has disrupted supply chain systems, as well as all aspects of life and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

Regulatory Developments

Oceans absorb almost a 3rd of all CO2 emitted by mankind. The more CO2 we emit, the more the oceans absorb, making them extremely acidic, and will result in the death of coral reefs with a corresponding reduction in the fish population. Another nail in the coffin of the poor and the hungry. Methane Slip, whereby some methane gas leaks out when LNG is burnt in ship engines, is set to become a big headache for shipping. Most modern ships built to dual fuel LNG standards, showing off their green credentials, are hiding an open dirty secret of methane slip. We are still waiting for dual fueled ammonia ships to become operational and, if they are safe and green, we will focus our resources on such ships that will become the true green ships of the future.

A new study suggests that global heating accelerates methane emissions at 4 times the previous estimates. Rising temperatures help produce more methane; prohibit removal of methane from the atmosphere by hydroxyl radicals due to their greater affinity for carbon monoxide; carbon monoxide is released from forest fires into the atmosphere. In a 20-year span, methane is 80 times more potent than CO2, so all sources of methane release into the atmosphere must be stopped. Please read an article in *The Guardian on this subject*.

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



Source: *[Korean Register of Shipping.]()*

The IMO adopted the Energy Efficiency Existing Ship Index (EEXI) as amendments to Marpol Annex VI that will enter into force on 1 January 2023. EEXI describes the CO2 emissions per cargo ton-mile, by determining the standardized CO2 emissions related to installed engine power, transport capacity and ship speed. Recent statistics suggest a bulker (30k to 60k) built pre-EEDI (Energy Efficiency Design Index) i.e., ships built pre-2013 may require a 38% to 40% power reduction (2.0K – 2.3K speed reduction from speeds in the SH of 2021) but ships built post-EEDI may require a 12% to 14% power reduction (0.7K speed reduction) to comply with EEXI. Implementation of engine power limitation and energy-saving device technologies will be used by owners to choose the solution best suited for their ships and will be very positive for increasing rates in the dry bulk markets. We will be getting all our ships rated for EEXI and Carbon Intensity Indicator so that we will be in full compliance by their first IAPP survey in 2023.

The IMO has agreed to debate and arrive at a solution on market-based mechanisms (MBMs) to reduce the CO2 footprint from shipping. This could be via a carbon levy on each tonne of fuel. The Solomon Islands and Marshall Islands have suggested a $100-per-tonne levy of CO2 released, which is about $314-per-tonne levy on fuel oil. The idea of any MBMs is to make current bunker fuel as expensive as, say, ammonia. So, the price of fuel oil must reach $1,500 per tonne, the current price is about $1,300 per tonne, to match the cost of future fuels for zero-emission vessels. It is hoped that pressure from the EU's ETS will help prod and push the IMO into taking a strong stand on MBMs via a carbon-based levy.

An excellent article on how ships will be slowed down due to EEXI/CII is in *this Reuter's article*.

Our read of the Novel Coronavirus or Covid-19

Covid-19 has become synonymous with delays; supply chain disruptions; lockdowns; higher inflation due to the massive government-led stimuli creating demand that far outstrips supply. Economic recovery from the pandemic has been very uneven for 3 reasons. Countries were hit by Covid-19 and went into lockdowns, hurting their economies, at different times; uneven rates of vaccinations in rich and poor countries; and high levels of stimuli in rich countries and lack of it in poor countries, has made for a nonuniform timed recovery. China with its Covid-Zero policy combined with the Omicron variant has created significant disruptions via lockdowns of almost 400 million people for 2 months, in dozens of cities that we have not seen even in 2020. For the Maritime Industry, the impact of Omicron will be to make crew change even more difficult and that is a challenge that we will have to face head-on.

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

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

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

Others' reading of the market

China's central bank effectively cut interest rate for new mortgages to prop up the ailing housing market and boost the slowing economy. The People's Bank of China said first-home buyers will be able to borrow money at an interest rate as low as 4.4%, down from 4.6% previously. (Bloomberg – 16 May 22)

China's plans to bolster growth as Covid outbreaks and lockdowns crush activity will see a whopping $5.3 trillion pumped into its economy this year. The figure, based on Bloomberg's calculation of monetary and fiscal measures announced so far, equates to roughly a third of China's $17 trillion economy. (Bloomberg - 19 May 22)

China will offer more than 140 billion yuan ($21 billion) in additional tax relief mainly aimed at businesses as it seeks to offset the heavy impact of coronavirus lockdowns on the economy. The measures include additional tax rebates to companies and cuts of 60 billion yuan on passenger-car purchase taxes, China National Radio reported, citing a decision from a meeting of China's State Council, a top government body chaired by Premier Li Keqiang. (Bloomberg - 23 May 22)

Commodity trading giant Glencore pleaded guilty to bribery charges as part of a sweeping $1.5 billion deal with authorities in the US and UK to resolve corruption probes. The guilty plea will go a long way toward removing a question mark that's overshadowed the company's business for years, though it still faces investigations elsewhere. (Bloomberg – 24 May 22)

For decades, the surest way for ordinary Chinese families to grow their wealth and guarantee future financial stability was to put most of their money into real estate and the rest in the stock market. But with Covid-19 lockdowns battering the economy, more people are clutching their cash, a whopping $16.3 trillion to be exact. (Bloomberg – 25 May 22)

China Evergrande Group is considering repaying offshore public bondholders owed around $19 billion with cash instalments and equity in two of its Hong Kong-listed units, two sources said, as the world's most indebted developer looks to emerge from its financial woes. (Reuters – 26 May 22)

For the past 20 years China has been the most reliable source of growth in the world economy, contributing a quarter of the rise in global GDP over that period. Its success has for the most part been powered by pragmatism, as the ruling Communist Party mixed market reforms with state control. Now, however, China's economy is in danger. (The Economist – 26 May 22)

As Adam Smith recognized in the eighteenth century, capitalism is not a self-sustaining system, because there is a natural tendency toward monopoly. The disastrous shortage of baby formula in the US this spring was itself the result of monopolization. After Abbott was forced to suspend production over safety concerns, Americans soon realized that just one company accounts for almost half of the US supply. (Project Syndicate – 31 May 22)

Australian coal exports to China declined by -98.7% y-o-y in 2021, to just 0.9 MMT, from 70.4 MMT in 2020. Pretty much the opposite happened to India. In 2021, Australia exported 68.6 MMT of coal to India, up +45.1% y-o-y, from 47.3 MMT in 2020. Similarly, Australia exported 62.3 MMT to Korea in 2021, up +34.6% y-o-y from 46.3 MMT in 2020. The top destination however is Japan, with 115.0 MMT in 2021, up by +14.6% y-o-y. Japan is now the destination for 32.1% of Australia's coal exports, with India 19.2%, Korea 17.4%, Taiwan 9.8%, and the EU at 4.3%. (Banchero Costa – 31 May 22)

Some analysts predict that the US economy is heading into a recession. But if that is indeed the case, someone forgot to tell consumers. Although consumer confidence plummeted in August 2021 and has been falling ever since, putting it in the same territory as it was during the 2008 financial crisis, household spending is much higher than it was then. Between March 2020 and December 2021, households received an additional $1.6 trillion in disposable personal income above and beyond the previous trend, owing mostly to government transfers like stimulus checks and unemployment insurance. At the same time, in response to the pandemic, consumers curtailed their consumption by $800 billion relative to what would have been expected. That means consumers entered 2022 with $2.4 trillion in excess savings; and that figure doesn't even account for the huge run-up in asset markets through the end of 2021. All told, the past four months of below-average savings represent only about a $100 billion reduction in households' additional reserves, leaving another $2.3 trillion. That is a lot of fuel for consumers to be able to spend. And, again, if asset markets were counted, the number would be even higher, because the market declines in 2022 have yet to come close to offsetting the huge increases over the previous two years. Consumer spending is growing at a roughly 2% annualized rate in the SH of 2022. Consumer spending represents about two-thirds of the US economy. If it stays strong, that will prevent overall growth from turning negative and the economy from slipping into recession. (Project Syndicate – 31 May 22)

China ordered state-owned policy banks to set up a $120 billion line of credit for infrastructure projects. The announcement, made at a State Council meeting chaired by Premier Li Keqiang, comes a month after Xi Jinping ordered an "all-out" infrastructure push. (Bloomberg – 1 Jun 22)

The world's 11th richest person bought the Hawaiian island of Lanai for $300 million. Over the past 10 years, he has opened a Nobu and has hosted the world's super-wealthy while pushing out families that have been there for generations. For those who have stayed, many residents both rent from him and work for him, so it goes on Lanai, where Ellison has become a modern American king. (Bloomberg – 10 Jun 22)

Supply chains are being transformed, with $9trn in inventories, as insurance against shortages and inflation. This new kind of globalization is about security, not efficiency. (The Economist – 16 Jun 22)

Bloomberg economics indicate odds of a recession by 2024 have jumped to at least 72%, and the S&P 500 and Nasdaq fell into bear markets. This despite consumers being flush with cash and jobless rates remaining near historic lows. While an economic contraction and higher unemployment might be what it takes to finally ease inflation, there are some factors the Fed can't control. (Bloomberg - 17 Jun 22)

Elon Musk, the world's richest man, sees a probable recession in the US. (Bloomberg - 21 Jun 22)

The euro sank to a two-decade low versus the dollar as another surge in natural gas prices reignited worries about the health of the euro zone economy and data showed euro zone business growth slowed sharply in June. (Reuters – 5 Jul 22)

Moody's Analytics chief economist, Mark Zandi: "Most US households have a cash cushion to navigate the very high inflation. This is allowing consumers to stay in the game." (Wall Street Journal – 5 Jul 22)

The Bank of England warned that the economic outlook for Britain and the world had darkened and told banks to ramp up capital buffers to ensure they can weather the storm. (Reuters – 5 Jul 22)

Russia was the EU's biggest supplier of crude oil in the first six months of 2022 at 59.6 MMT between January and June this year, up 5.5% on the figure seen 12 months ago. (TradeWinds – 6 Jul 22)

Charlene Chu, a senior analyst at Sanford C. Bernstein & Co., estimated there are “30 Chinese real estate companies who have defaulted with total liabilities of around $1 trillion.” While banks have the safeguard of collateral for their loans to developers, Chu recently said that “where things could start to get a lot uglier” is if lenders start revaluing that collateral lower. (Bloomberg - 7 Jul 22)

Consumer spending in the USA, excluding automotive, was up 9.5% year over year in June. And leading the way was a massive boom in travel, with airline spending up 18.2% year over year and lodging up 33.7% year over year. Restaurants are up 11.6%, and even jewelry is up 16.2%. In short, the “recession” is everywhere but in the numbers. (Fortune – 8 Jul 22)

In the FH of 2022, global coal loadings increased by +1.5% y-o-y to 572.7 MMT, from 564.1 MMT in the FH of 2021, but well below the 637.9 MMT in FH of 2019. In 1Q 2022, coal loadings were down -5.1% y-o-y to just 258.5 MMT. In 2Q 2022, coal loadings were a strong +7.7% y-o-y at 314.2 MMT. The month of June 2022 was a record 111.6 MMT, +12.3% y-o-y. The EU is now the fifth largest importer in the world, after India, China, Japan, and South Korea. In FH 2022, the EU accounted for 10.4% of coal imports. The EU’s coal imports in 2021 increased by +30.3% y-o-y to 87.1 MMT. In the FH of 2022, coal imports into the EU further increased by +49.6% y-o-y to 57.6 MMT. EU accelerated coal imports as a direct reaction to the threat of a reduction in gas from Russia. This compensated for the sharp drop in demand from China. In FH 2022, China’s coal imports declined by -26.0% y-o-y to 87.8 MMT, from 118.6 MMT in FH of 2021. In 2021, as much as 44% of the EU’s coal imports were sourced from Russia. In FH 2022, because of the war in Ukraine, this proportion has declined. Nevertheless, Russia was still the source of 31.5% of the EU’s coal imports this year and remains the top supplier to Europe. In FH 2022, coal imports to the EU from Russia increased by +0.2% y-o-y to 18.2 MMT. (Banchero Costa – 8 Jul 22)

During the first two years of the pandemic national school closures lasted an average of 29 weeks in Europe, 63 weeks in Latin America and 73 weeks in South Asia. Nearly 153m children missed more than half of all in-person education during the period. Even today, disruption continues in countries such as the Philippines. This is a disaster. The share of ten-year-olds in middle- and low-income countries who cannot read and understand a simple story has risen from 57% in 2019 to roughly 70%. The World Bank estimates the disruption could cost children $21trn in future earnings. Schools need to open everywhere, and teachers must do all they can to help pupils catch up. (The Economist – 9 Jul 22)

OPEC expects global demand growth to exceed the increase in supplies by 1 million barrels a day next year. To fill the gap, OPEC would need to significantly hike production, but members are already falling far behind the volumes needed now due to underinvestment and political instability. Despite the outlook, oil slumped on pervasive recession fears. (Bloomberg - 12 Jul 22)

Trade volumes have been disappointing so far. In FH 2022, global iron ore loadings declined by -2.6% y-o-y to 735.7 MMT. Iron ore loadings from Australia increased by +0.4% y-o-y, but from Brazil declined by -5.8% y-o-y. In FH 2022, coal loadings increased by +1.5% y-o-y to 572.7 MMT due to an export ban from Indonesia. Coal loadings from Australia -0.0% y-o-y, Indonesia +3.3% y-o-y, Russia -1.9% y-o-y, USA +6.2% y-o-y. (Banchero Costa – 13 Jul 22)

In Europe we look ahead to the bitter energy shock that is in prospect. You may be sizzling on a Med beach or roasting on the streets of Berlin, but winter is coming, and it promises to be brutal and divisive. As Putin strangles supplies of Russian gas to Europe, warning signs are flashing red. Prices for delivery of gas this winter, at $184/mwh, are seven times their long-run level. (The Economist – 14 Jul 22)

JPMorgan’s Jamie Dimon said “The consumer right now is in great shape. So even if we go into a recession, they are entering that recession with less leverage and in far better shape than they did in ’08 and ’09.” (Bloomberg - 14 Jul 22)

The woes in China’s property market have global investors on edge as homebuyer’s boycott mortgage payments on stalled projects. In a sector that accounts for about a quarter of the world’s second-largest economy, mounting signs of stress this week have roiled China’s credit markets, dragged down the nation’s bank stocks and pummeled commodities from iron ore to copper. (Bloomberg - 14 Jul 22)

China may allow homeowners to temporarily halt mortgage payments on stalled property projects without incurring penalties as authorities race to prevent a crisis of confidence in the housing market from upending the world’s second-largest economy. Authorities are ramping up efforts to backstop the real estate sector after mortgage payment boycotts snowballed in recent days across at least 301 projects in about 91 cities. Property makes up one fifth of China’s economic activity and some 70% of household wealth in China is tied up in real estate. (Bloomberg – 19 Jul 22)

The Bank of Japan remains the exception to the global wave of policy tightening. Market pressure has started to lift on Governor Haruhiko Kuroda to ditch super-loose settings, with speculative bets against the yen and Japanese bonds easing. (Bloomberg – 21 Jul 22)

Europe's thirst for oil and gas to replace sanctioned Russian supply is reviving interest in African energy projects that were shunned due to costs and climate change concerns. Energy firms are considering projects worth a total of $100 billion on the continent, according to Reuters calculations based on public and private company estimates. (Reuters – 21 Jul 22)

What others’ say about Supply Side Developments

Net fleet growth for the Containership fleet is expected to slow down slightly to around +4% y-o-y in 2022, and then accelerate to about +8% in 2023. The fleet expanded by +5% y-o-y in 2021. Contracting activity has been subpar in Q1 2022, with 161 units contracted in Jan-May 2022 compared to 234 units in the same period of 2021. The orderbook-to-trading ratio for Containerships is now 26.4% in TEU terms. Containerized trade volumes performed very poorly in Q1 2022. Exports from East Asia declined by -20.7% y-o-y in the 5 months of 2022, from Europe decreased by -24.7% y-o-y, and from North America shrunk by -26.6% y-o-y. (Banchero Costa – 14 Jun 22)

In the bulker sector, contracting has remained muted. While bulker ordering did pick up in 2021 to 48 MDWT (in line with the ten-year trend), this equated to just 5% of existing fleet capacity (2007 peak: 44%) and ordering so far this year has slowed notably (9 MDWT y-t-d). (Clarksons – 8 Jul 22)

Deliveries of bulkers in 2022 are expected to decline to 28.5 MDWT, after accounting for slippage, down from 35.9 MDWT in 2021. In FH 2022, deliveries totaled 15.1 MDWT, -27%y-o-y in DWT terms from 20.8 MDWT in FH 2021. Demolition in 2022 is expected to remain flat at 4.9 MDWT, based on the age profile compared to 6.5 MDWT in FH 2021. In FH 2022, demo totaled 1.98 MDWT, -66%y-o-y from 5.8 MDWT in FH 2021. Net fleet growth for bulkers over 20,000 DWT is expected at +3%

y-o-y in 2022, and then to slow to +2% in 2023, based on the orderbook, expected slippage and demolition. The orderbook-to-trading ratio, however, is still just 7.0% in DWT. (Banchero Costa – 13 Jul 22)

What others' say about Inflation

Cathie Wood says the massive inventories now held by US companies suggest inflation will die down. "I've never seen inventory surges like this in my career," the head of Ark Investment Management said. "This inventory issue highlights the cyclical reason we've been saying we think inflation will unravel." (Bloomberg – 8 Jun 22)

The Federal Reserve raised interest rates by 75 basis points, the biggest increase since 1994, and Chair Jerome Powell signaled another big move next month, intensifying a fight to contain rampant inflation. (Bloomberg - 15 Jun 22)

The bond market is pricing in a sharp deceleration in inflation over the next year, as aggressive tightening by the Federal Reserve to counter the steepest surge in prices in a generation ramps up recession concerns. The deceleration, which economists also call disinflation, is characterized by a slowing of the rise of overall prices and likely would be a welcome respite for financial markets reeling from inflation's impact. (Reuters – 11 Jul 22)

The US consumer price index rose at a 9.1% annual rate in June, making for the biggest annual jump in over four decades. Some now think the Fed could institute a 1% rate hike this month. However, there are reasons to believe this wave of inflation is approaching its peak. (Fortune – 14 Jul 22)

What others' say about Climate Change

India's northwestern Rajasthan state scheduled four hours of power cuts for factories, making it at least the third state to disrupt industrial activity to manage surging power demand amid an intense heat wave. (Reuters – 28 Apr 22)

There is a 48% chance the world will, in one of the coming five years, be 1.5 degrees Celsius warmer than pre-industrial times. Those odds have increased drastically, having been nearly zero just seven years ago. So, get ready for increasingly harsh impacts. (Financial Times – 10 May 22)

The world's oceans in 2021 grew to their warmest and most acidic levels on record, while melting ice sheets helped push sea levels to new heights, the World Meteorological Organization said. Oceans saw the most striking extremes as the WMO detailed a range of turmoil wrought by climate change in its annual 'State of the Global Climate' report. (Reuters – 18 May 22)

South Asia's deadly heatwave in March and April was made 30 times more likely because of climate change, scientists reported. As April temperatures hit nearly 50 degrees Celsius in parts of northern India and Pakistan, at least 90 people died from heat-related causes. (Reuters – 24 May 22)

Forecasters are predicting six to 10 Atlantic hurricanes this year. In all, 14 to 21 named storms could form. It is another worrying forecast for coastal residents. (Bloomberg – 25 May 22)

Over 100 people are missing or confirmed dead in Brazil, the government said, as mudslides and major floods brought about by heavy rains tore through several urban neighborhoods in the northeastern part of the country. (Reuters – 30 May 22)

At least three people were confirmed dead and at least five others reported missing after record-breaking storm Agatha battered southern Mexico. (Reuters – 1 Jun 22)

Europe is combatting a blistering heat wave where temperatures in Spain are soaring to 40 degrees Celsius (100 degrees Fahrenheit). Massive floods in Yellowstone National Park have washed away roads, bridges, and homes. And in Arizona, New Mexico and other Western US states hit hard by drought, wildfires are exploding as officials struggle to contain them. (Bloomberg - 14 Jun 22)

New data has revealed extraordinary rates of global heating in the Arctic, up to seven times faster than the global average. The researchers said the heating in this region was an “early warning” of what could happen across the rest of the Arctic. (The Guardian – 15 Jun 22)

Authorities in flood-hit Bangladesh and northeastern India scrambled to provide aid to more than nine million people marooned after the heaviest rains in years killed at least 54 people across both South Asian nations. (Reuters – 20 Jun 22)

When an ocean surge washed away Mureni Sanni Alakija's house in 2011, he took a loan to build a home farther away. But that too is no longer safe as the sea creeps inland in Okun Alfa, a neighborhood in Nigeria's commercial capital Lagos. (Reuters – 22 Jun 22)

Japan baked under scorching temperatures for a fourth successive day, as the capital's heat broke nearly 150-year-old records for June and authorities warned power supply remained tight enough to raise the specter of cuts. Climate change is driving this year's extreme heat and flooding, scientists said in a study. (Reuters – 28 Jun 22)

Helicopter crews and drones searched for around 15 people missing in the Italian Alps after part of a mountain glacier collapsed, killing at least six people, and injuring eight. (Reuters – 4 Jul 22)

Torrential rains kept battering Australia's east coast, intensifying the flood crisis in Sydney as thousands more residents were ordered to leave their homes as rivers rose past danger levels. (Reuters – 5 Jul 22)

Heatwaves are predicted to sweep through northern China in the next two weeks, with more than 250m people expected to grapple with temperatures exceeding 40 degrees Celsius. (Reuters – 5 Jul 22)

Italy declared a state of emergency for areas surrounding the river Po, which accounts for a third of the country's agricultural production and is suffering its worst drought for 70 years. (Reuters – 5 Jul 22)

Utah's Great Salt Lake is disappearing as a climate crisis-fueled "megadrought" continues to envelop the Southwest. (Bloomberg - 8 Jul 22)

The operator of Texas's power grid called on state residents for the second time this year to conserve energy, warning of potential rolling blackouts amid predictions for record-high temperatures. Meanwhile a wildfire threatening some of the world's oldest giant sequoia trees in California's Yosemite National Park expanded five-fold over the weekend. (Reuters – 11 Jul 22)

Glencore is expanding a coal mine that scientists have estimated leaks so much planet-wrecking methane each year it has the same warming impact as the annual emissions from millions of cars. New activity at the Hail Creek Mine in Australia involves digging up coal from gas-rich seams through surface mining, an approach for which the company has said there is no reliable way to halt fugitive methane from escaping during operation. (Bloomberg - 13 Jul 22)

Hundreds more people were evacuated from their homes as wildfires blistered land in France, Spain and Portugal, and officials in Europe issued health warnings for the heatwave in coming days. Britain's weather forecaster issued its first-ever red 'Extreme Heat' warning for parts of England on Monday and Tuesday when temperatures are forecast to reach record highs, triggering a 'national emergency' alert level. (Reuters – 14 Jul 22)

As Europe enters what is predicted to be a devastating heatwave, the Financial Times has *a must-read interview* with leading climate scientist Corinne Le Quéré, who plays a key role in the climate responses of both the UK and France. She reckons we have the technology to save ourselves, electric cars; heat pumps, but we are just not rolling it out fast enough. So, can we adapt to a hotter world? "No. Because the warming continues. You cannot just adapt because the target keeps moving." (FT – 18 Jul 22)

Britain was on course for its hottest day on record with temperatures forecast to hit 40C for the first time, forcing train companies to cancel services, schools to close early and ministers to urge the public to stay at home. Much of Europe is baking in a heatwave, with wildfires raging across tinder-dry countryside in Portugal, Spain, and France. (Reuters – 18 Jul 22)

Extreme weather spurred in part by global warming is wreaking havoc across Europe. The heatwave is complicating efforts to fight wildfires and pressuring the continent's energy infrastructure. Power stations are operating at low levels to keep temperatures in check while natural gas pipelines are limiting flows, just as demand for energy to cool homes and offices jumps. London recorded its hottest day ever at 40 degrees Celsius (104 degrees Fahrenheit, a heatwave that has already damaged airport runways and rail tracks). Drought and high temperatures are scorching crops across Italy and France. In the US, Texas's delicate power grid is in trouble again from heat blanketing the state and New York is set for a series of 90+ degree days, too. And all the extreme weather came with a warning from the UN: It is going to get worse. (Bloomberg – 19 Jul 22)

What others' say about the Russia-Ukraine War

The other shoe has well and truly dropped now when it comes to the inflationary impacts of war in Ukraine. Wheat's surge in the wake of India's decision to restrict exports means the grain has overtaken crude oil's gains. Only natural gas and a trio of refined fuels are up more this year than wheat among members of the Bloomberg Commodity Index. (Bloomberg – 16 May 22)

The inability to get wheat and cooking oil out of Ukraine could lead to "apocalyptic" food shortages in the developing world, Bank of England Governor Andrew Bailey warned lawmakers yesterday. Bailey on the idea that the UK's central bank could have warded off inflation with higher interest rates: "I don't think we could foresee a war in Ukraine. Another factor that we are dealing with now is a further leg of Covid, which is affecting China. We have seen a series of supply shocks coming one after another, and that's unprecedented." (The Guardian – 17 May 22)

Wheat prices, up 53% since the start of the year, jumped a further 6% on May 16th, after India said it would suspend exports because of a heatwave. Together, Russia and Ukraine provide 28% of the globally traded supply of wheat, 29% of barley, 15% of maize and 75% of sunflower oil. Ukraine's food exports normally feed 400m people worldwide. The high cost of staple foods has already raised the number of people who cannot be sure of getting enough to eat by 440m, to 1.6bn. Nearly 250m are on the brink of famine. (The Economist – 19 May 22)

India is preparing to restrict sugar exports, another act of protectionism after banning wheat sales just over a week ago. (Bloomberg – 24 May 22)

The world economy will pay a "hefty price" for the war in Ukraine through weaker growth, stronger inflation, and potentially long-lasting damage to supply chains, according to the OECD club of rich nations. (Bloomberg – 8 Jun 22)

The US government, however, is quietly encouraging agricultural and shipping companies to buy and carry more Russian fertilizer in a bid to combat spiraling global food costs. (Bloomberg - 13 Jun 22)

Moody's chief economist Mark Zandi reckons Russia's invasion of Ukraine, and the sanctions that followed, are the primary culprit for current US inflation, which is running at 8.6%. (Fortune – 14 Jun 22)

Dozens of countries risk protests, riots, and political violence this year as food prices surge around the world, the head of the food-aid branch of the United Nations has warned. Speaking in Ethiopia's capital, Addis Ababa, on Thursday, David Beasley, director of the UN World Food Program (WFP), said the world faced "frightening" shortages that could destabilize countries that depend on wheat exports from Ukraine and Russia. (The Guardian – 17 Jun 22)

Due to drought in Kenya, Somalia, and Ethiopia, 16.7 million people in east Africa are already dependent on food assistance. That number is likely to increase by 20 million by September alone. The World Food Program claimed the Ukraine ripple effect would mean a further 44 million people worldwide would be classified as "food insecure or at high risk". (The Guardian – 24 Jun 22)

Humanity is facing a "perfect storm" of crises that is widening inequality between the north and south, the UN secretary general has warned. The divide is not only "morally unacceptable" but dangerous, further threatening peace and security in a conflicted world. The global food, energy and financial crises unleashed by the war in Ukraine have hit countries already reeling from the pandemic and the climate crisis, reversing what had been a growing convergence between developed and developing countries, António Guterres said. (The Guardian – 2 Jul 22)

The slump in the Japanese yen to around a 24-year-low, the war in Ukraine and a heatwave in Tokyo are pushing the world’s third-biggest economy toward an energy crisis. Japan imports about 90% of its energy, priced in dollars, costs were soaring 40% from a jump in global oil, gas, and coal prices. In yen terms, it’s up almost 70%. (Bloomberg – 4 Jul 22)

If Russia does completely shut off gas supplies to Germany, as is widely expected, cities such as Hamburg might have to start rationing hot water and lowering the maximum temperature on their heating grids. (Fortune – 5 Jul 22)

The global cost-of-living crisis is pushing an additional 71m people in the world's poorest countries into extreme poverty, a new report by the UN Development Programme has warned. (Reuters – 7 Jul 22)

What others’ say about Regulatory Developments

While progress is already moving quickly, the shift towards ‘zero-carbon’ green fuels is set to drive another wave of technological change (as well as fleet renewal). Some owners are already opting for ‘fuel optionality’ (with over 20 orders in 2022 so far for LNG capable plus ammonia/ methanol ‘ready’ units for potential later conversion). A significant number of methanol, ammonia and hydrogen capable vessel designs have also received approval from class societies this year, with shipyards generally aiming to market a wide portfolio of alternative fuel options to owners as engine technology progresses. While operational factors and vessel retrofitting are also set to be important, newbuild ordering remains at the heart of the ‘Fueling Transition’, and Clarksons Research continues to track the evolving uptake of alternative fuels and technologies on new vessels. (Clarksons – 6 May 22)

If shipping is the beating heart of global trade, its pulse is about to get slower. Faced with uncertainty about which fuels to use in the long term to cut greenhouse gas emissions, many shipping firms are sticking with aging fleets, but older vessels may soon have to start sailing slower to comply with new environmental rules. (Reuters – 11 Jul 22)

Others’ read of the Novel Coronavirus or Covid-19

More than 15 million people, equal to the population of Manila, or Rio De Janeiro, or the entirety of Zimbabwe, have died because of the coronavirus pandemic that began more than two years ago in Wuhan, China, the WHO said. That is one out of every 500 people on Earth. (Bloomberg – 5 May 22)

As much of the world acts as if the coronavirus pandemic is over, at least a half-million children in the US are struggling with the mysterious disease known as long Covid. And far from being over, US Centers for Disease Control & Prevention data now show the US to be entering a seventh wave, currently averaging 67,000 new cases, 2,200 hospital admissions and 340 deaths each day. (Bloomberg – 6 May 22)

Long Covid could affect over a billion people within a few years, according to Covid researcher Arijit Chakravarty (who also supports official warnings of 100 million US infections this coming fall and winter). (Fortune - 9 May 2022)

This week North Korea ordered cities to lock down after admitting to its first infections since the pandemic began. Even for a country accustomed to bad news, the outbreak is disastrous. North Koreans will now suffer the consequences of low vaccination rates and rudimentary health care. (The Economist – 11 May 22)

Europe has suffered more than 2 million confirmed deaths from Covid-19, the WHO said, though as with the US where the number is 1 million, the actual losses are likely much higher. (Bloomberg - 13 May 22)

Some new (but early-stage) research suggests vaccinated people may get better immune responses from an Omicron infection than from a booster. That doesn't mean you should rush out to deliberately catch it, of course. (Bloomberg – 16 May 22)

The US is demanding that China should not benefit from a potential waiver of WTO intellectual-property protections for Covid-19 vaccines. The result could be the sinking of the mooted waiver, and with it the WTO's claim to relevance. (Bloomberg – 17 May 22)

Monkeypox appears to be spreading fast all over the world. Fortunately, countries are better prepared than they were for covid: the smallpox vaccine, which many countries have in storage, protects against it. (The Economist - 21 May 2022)

One out of five people infected by the coronavirus will suffer from the constellation of potentially serious infirmities associated with long Covid, said one study. The other stated that vaccinations are of minimal protection against such long-term effects. (Bloomberg - 25 May 22)

Two and a half years, and billions of estimated infections into this pandemic, Covid-19's visit has clearly turned into a permanent stay. Experts knew from early on that, for almost everyone, infection with this coronavirus would be inevitable. By this point, in fact, most Americans have been infected. But now, as wave after wave continues to pummel the globe, a grimmer reality is playing out. You are not just likely to get the coronavirus. You are likely to get it again and again and again. (The Atlantic – 27 May 22)

The WHO said that monkeypox constitutes a "moderate risk" to overall public health at global level after cases were reported in countries where the disease is not typically found. (Reuters - 30 May 22)

US children under age 5 are expected to be able to receive Covid-19 vaccines as soon as the week of June 21, Biden's pandemic czar said, if regulators ultimately authorize the shots. (Bloomberg – 2 Jun 22)

US regulators gave the nod to Covid vaccines for kids as young as six months. (Bloomberg - 14 Jun 22)

The Omicron variant is less likely to cause long Covid than previous variants, according to the first peer-reviewed study of its kind from the UK. (Bloomberg - 16 Jun 22)

Concern over covid-19 has ebbed in the West, but in China it remains a dominant public-health issue. Beijing, the capital, and Shanghai have both endured months of intermittent, but severe, local lockdowns. And despite some improvement in the covid numbers, the official strategy of “micro-lockdowns” and mass testing looks like a new norm. They are meant to replace economically destructive citywide closures, but people’s patience with the constant disruption and government interference in their lives is already wearing thin. (Reuters – 17 Jun 22)

Globally, omicron is still driving surges in China and Singapore, which saw a 23% week-on-week increase. (Bloomberg - 22 Jun 22)

Covid vaccines that were developed in record time saved an estimated 20 million lives in the first year of the rollout, more than half of them in wealthier countries, according to the first study of its kind to quantify the impact. But the research highlights the devastation caused by uneven global distribution. About one in five lives lost due to Covid in poorer countries could have been prevented if WHO targets had been reached, data published in The Lancet Infectious Diseases journal show. Meanwhile, new US data show that almost one-fifth of adults who have had Covid-19 are currently experiencing symptoms of long Covid that persist for at least three months. (Bloomberg - 23 Jun 22)

Israel is considering reintroducing its mask mandate, as is Germany, thanks to the rise of super-infectious new Omicron subvariants that evade vaccine and infection-acquired immunity. Meanwhile South Africa, which has already been swept by the new wave, is ditching its mask mandate (and so is Thailand). (Fortune - 24 Jun 22)

A paper published in the Lancet this week estimated that covid-19 vaccines prevented around 20m deaths in the first year of their roll-out. But more could have been done. The researchers’ mathematical model suggests that roughly one in five deaths due to covid in low-income countries might have been avoided if the WHO’s vaccination targets had been met. (The Economist – 25 Jun 22)

Fauci suffers Covid relapse after course of Pfizer’s Paxlovid. (Bloomberg – 29 Jun 22)

Millions in Shanghai queued up for a third day of mass Covid testing as authorities in several Chinese cities scrambled to stamp out new outbreaks that have rekindled worries about growth in the world's second-largest economy. (Reuters – 7 Jul 22)

In Europe, a new infection wave is forming up as the ongoing wave in the US remains at more than 106,000 new confirmed cases per day (though the real number is likely much higher) along with still-rising hospitalizations. (Bloomberg – 7 Jul 22)

The WHO urged governments and health care systems to take steps to curb Covid-19 transmission as a fresh wave of infections moves across Europe and the US. Sub-variants of the omicron strain are lifting case numbers and leading to further fatalities, Tedros Adhanom Ghebreyesus said. Tedros recommended the revival of protocols like mask-wearing to stop the spread. (Bloomberg - 12 Jul 22)

The bad news for everyone dropping masks or packing into bars and restaurants is that new research shows the more times you are infected, the bigger the chance you will suffer long-term damage—including to your heart and brain. (Bloomberg - 13 Jul 22)

Weekly Dry Cargo Review

July 22 2022, Week 28

BCI TC Avg	**22,362**	-1,847	BPI TC Avg	**18,838**	1,869	BSI TC Avg	**22,880**	456	BHSI TC Avg	**21,796**	547
			HRDI	**2,099**	-4	HRCPI	**1,769**	-146	HRSCI	**3,354**	178

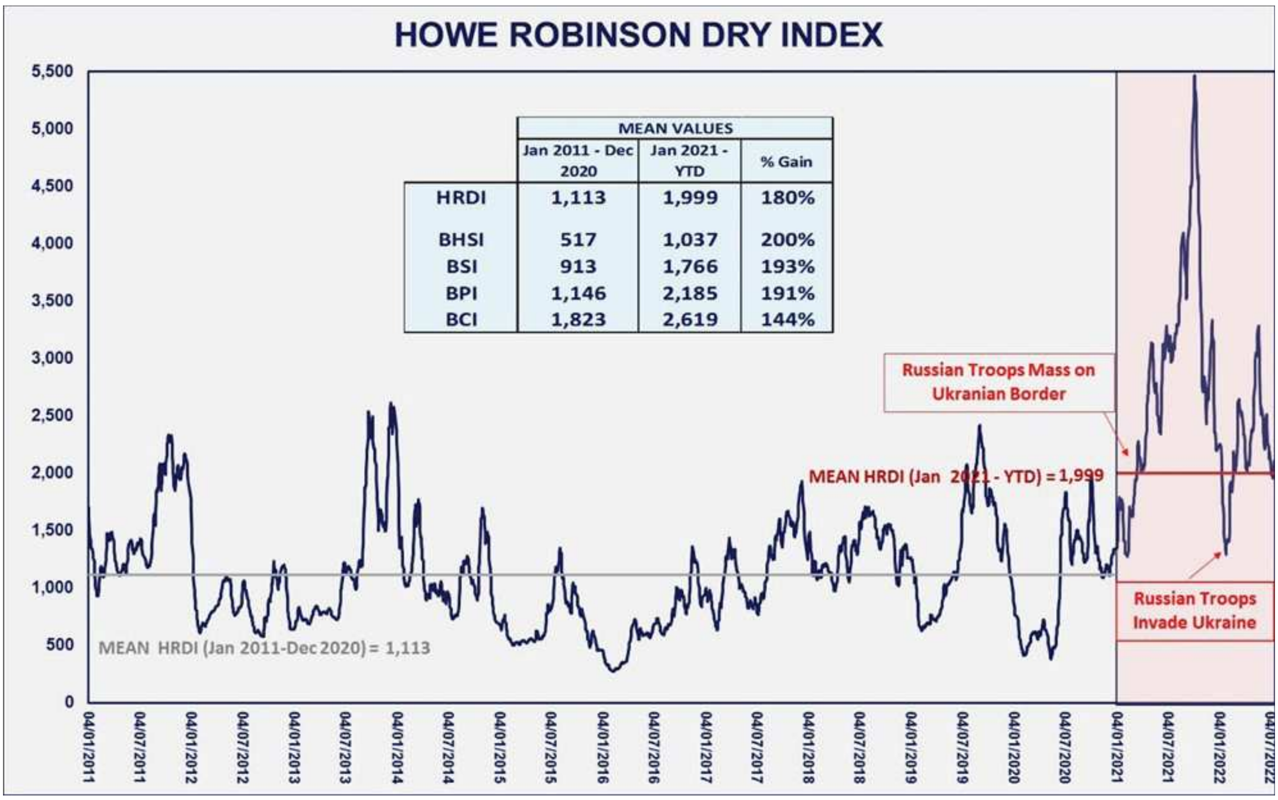
Dark Matter and Dry Freight Markets

Cosmologists believe there must be dark matter out there providing additional gravitational force because visible matter is insufficient by itself to prevent galaxies from flying apart. Similarly, hidden forces would appear to be supporting dry freight market indices in the face of declines in visible cargo tonnage volumes.

Our current estimates suggest that aggregate cargo volumes in the first half of 2022 were down by just over 1% on equivalent 2021 levels while this year net fleet capacity is growing at a projected rate of +2.7%. Meanwhile lead macroeconomic indicators suggest the global outlook is deteriorating apace.. Optimistic assumptions held by central bankers that the inflation surge would be a transitory spike are proving illusory as the impact of food and energy costs on consumer price indices are starting to feed into wage/price spirals in several countries. In contrast both to the 1980s inflation which was driven by OPEC restrictions on the supply of oil and to the 2008/9 recession which was triggered by over-indebted excess demand, this crisis has the distinction of being fuelled by both demand factors (quantitative easing, negative real interest rates and fiscal expansion during COVID) and, even more so, by supply constraints (post COVID labour shortages, continued Chinese lock-downs, sanctions on Russia and the continued issues surrounding Ukraine. This combination greatly restricts corrective policy options: tighten and you risk recession, don't tighten and you risk rising inflation. As a consequence 'stagflation' is becoming the consensus baseline for many corporate and governmental forecasts and even the Fed chair, Jerome Powell, admits a soft landing will be "very challenging".

Yet despite this gloomy economic backdrop, for the last eighteen months dry freight indices in all size segments have continued to exceed mean values for the previous decade by margins of up to 200%. This defiance of economic gravity is generally thought to result from side effects of the COVID pandemic and the Ukraine War. In Q4 2020 the logistical disruption to container trades caused by COVID lock-downs triggered the meteoric rise of container freight rates, after which the HRDI started to move above mean values. Then when Russia started massing troops on the Ukrainian border in April 2021 and again after it invaded in February 2022, it moved beyond previous highs and has remained above previous mean levels ever since (Chart 1).

Chart 1

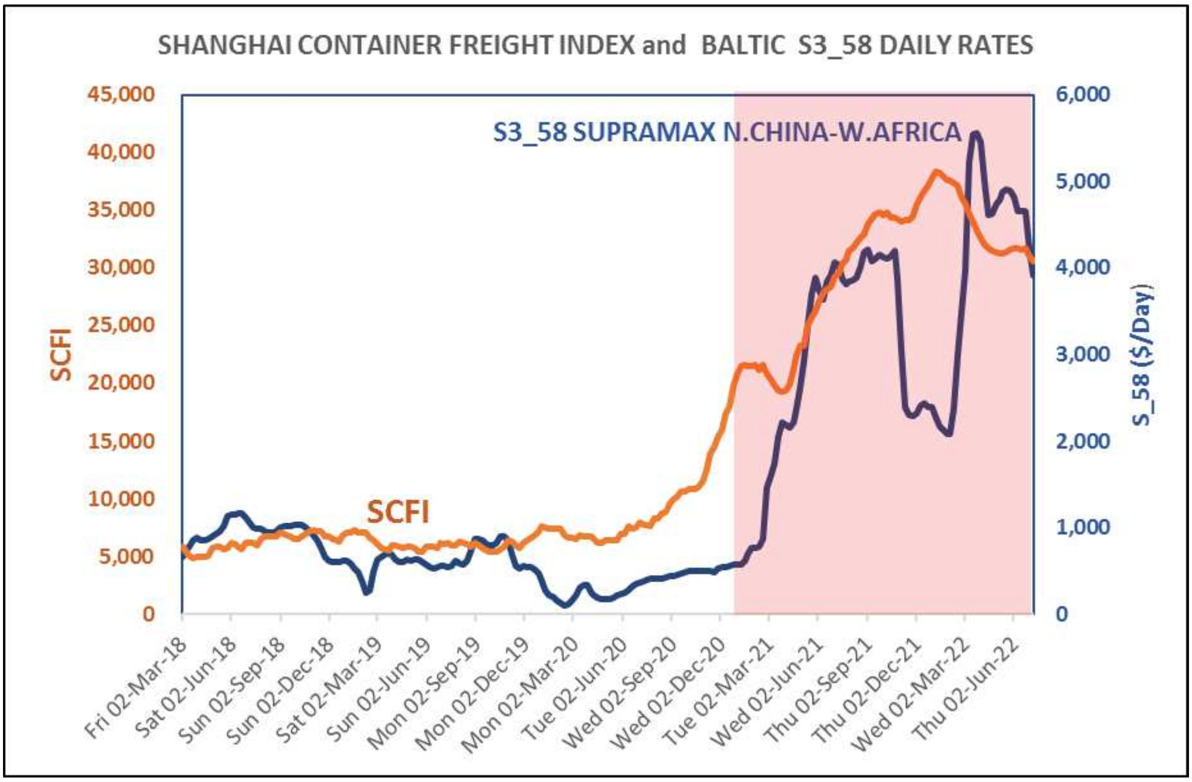


But the precise mechanisms by which these events contributed to the strength of dry markets are harder to assess or measure.

Unitised Cargo in Break-Bulk

The shift from unitised cargo to break-bulk, thanks to the quintupling of container freight rates since 2020, undoubtedly played a role, especially with respect to semi-fabricated products shipped from the Far East to the Atlantic. As Chart 2 shows, there is some correlation between the rising cost of container freight during the last two years and a lagged response in rates for smaller ship sizes on what was previously a quiescent backhaul route. MSI Ltd has attempted to quantify these additions to bulk cargoes using Oceanbolt's AIS-based trade monitoring system and concludes that the volume of unidentified minor bulk cargo jumped from a stable 35-40 Mn tonnes per month over the 2015-2020 period to around 45 Mn in 2021 and to 55 Mn this year. If accurate this would translate into a substantial 330 Mn tonnes of 'dark cargo' during the first half of 2022 on a largely long haul route from the Pacific to the Atlantic.

Chart 2

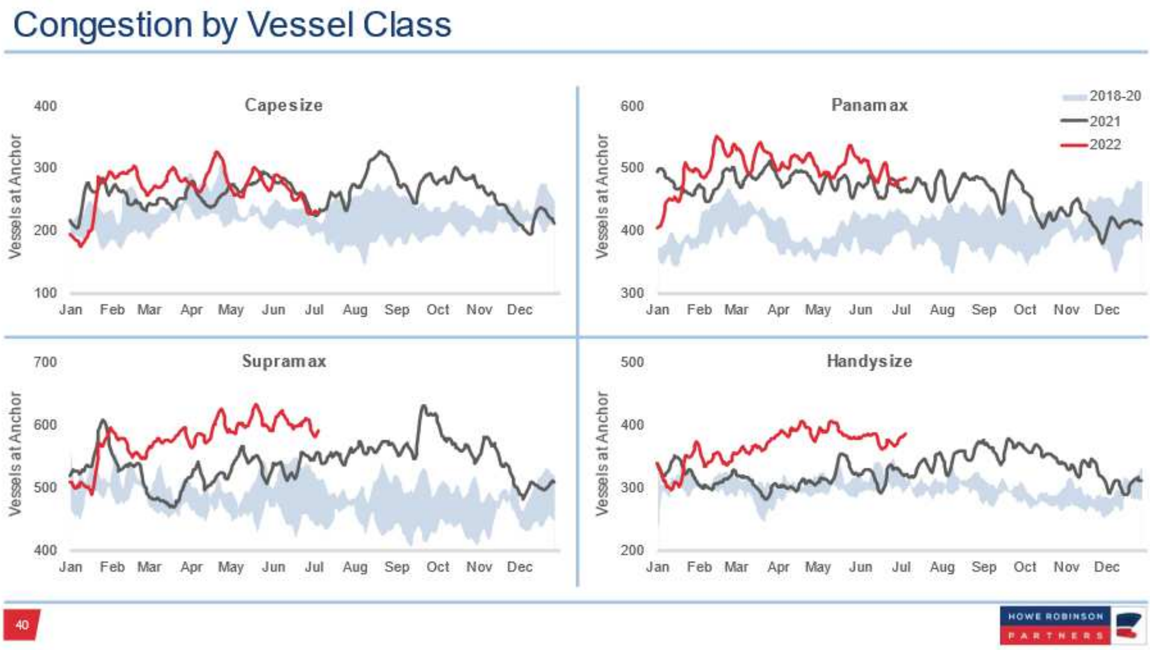


Trade Diversion & Trade Disruption

But the real surge in rates followed Russia's massing of troops on Ukraine's border in April 2021 and then again after the February 2022 invasion. The theory here is that the loss of cargo tonnage from this area was more than offset by the loss of fleet productivity. Subject to some exceptions, bilateral trade normally conforms to a pattern of voyage distance/cost minimisation. So, when conflicts, embargoes or physical blockades disrupt this pattern, cargoes have to be sourced from further afield, which inevitably increase average haul lengths. This has certainly been the true of case of grains as India's entry into the wheat trade, albeit quite briefly and other changes in corn and wheat trading patterns after the effectively closure of all Ukraine's main ports attests.

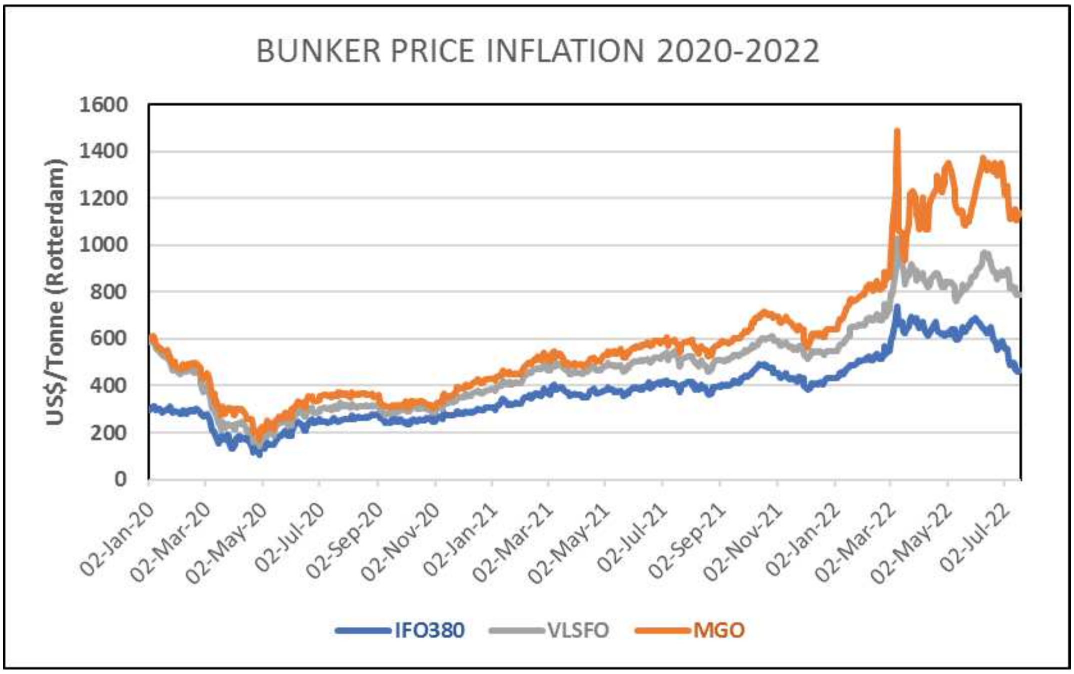
Nor has additional laden mileage been the only cause of productivity loss. Trade disruption on this scale potentially creates a host of other logistical inefficiencies: ships trapped by the conflict, additional ballasting, part-cargoing and port congestion thanks to the wrong ships in the wrong location, all of which followed hard on the heels of disruption to crew changes, dry docking repairs and ship deliveries caused by COVID lock-downs in China. Unfortunately, little of this productivity loss is measurably quantifiable but our third chart, comparing the number of vessels waiting at anchor in 2021 and 2022 with the previous three years strongly suggests that congestion and disruption continue to be a potent factor underlying the market's strength.

Chart 3



What also lends credence to these hypotheses is that, in marked contrast to normal booms which generally favour large ship sizes more than smaller ones, the reverse has been true since 2021. In terms of freight index performance (see Chart 1) the gains have been in inverse proportion to ship size. The smaller ships also experienced the biggest structural reversal in back-haul/fronthaul rates as well as the greatest increases in congestion. This was because Handys and Supras both stood to gain most from container to break bulk switches and sub-Capes were the dominant class in Black Sea trades.

Chart 4



Voyage Cost Inflation

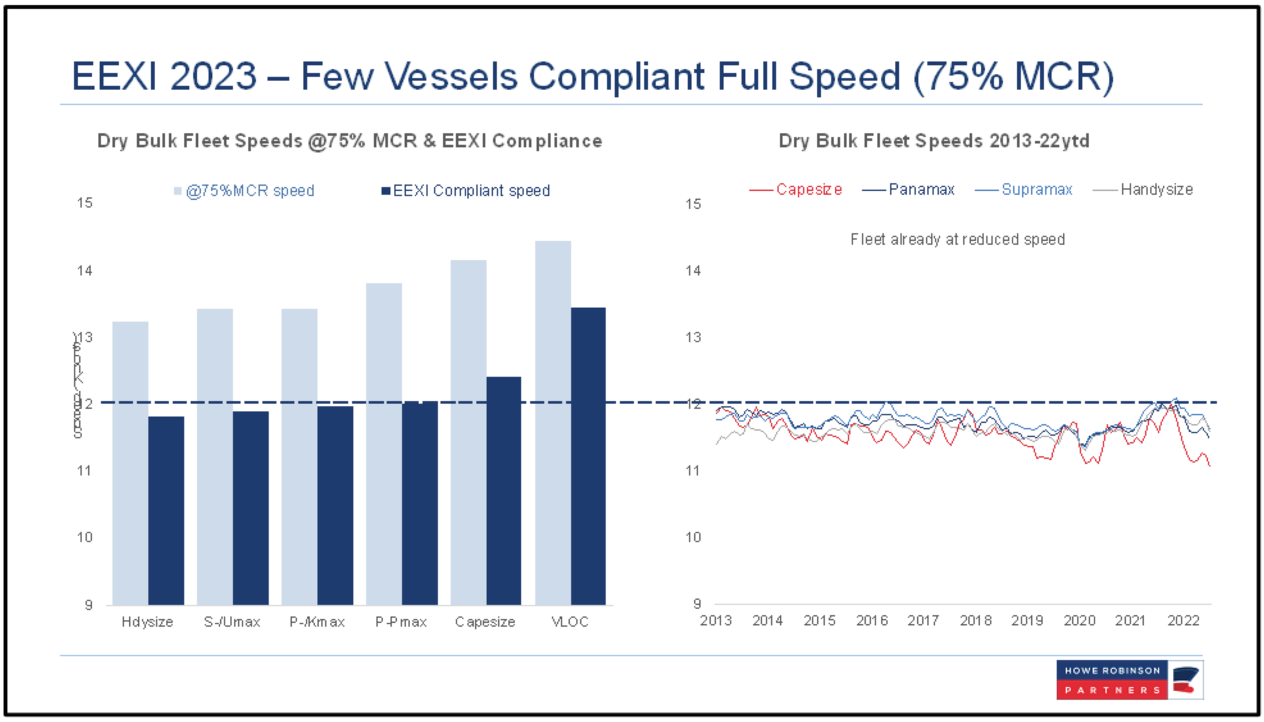
Though it has received much less attention, the steep rise in voyage costs will also have played a role in lifting nominal freight rates. The aggregate supply/demand balance between available ship tonnage and its employment is what principally determines freight rate margins over voyage costs. These costs have been rising and not solely because of the fuel price inflation which saw standard IFO380 (Rotterdam) soar from a low of $/T 155 in Q1 2020 to a high of $/T 591 in Q2 2022. As of January 2020, IMO low sulphur emission legislation forced the majority of the dry bulk fleet not fitted with scrubbers to burn VLSFO whose price touched $900 per tonne at the beginning of January with the spread with heavy fuel oil at a record $345.

Other operating costs have also been increasing. The Baltic reports average operating costs for bulkers (excluding dry docking expenses) as having risen by over 10% from $4,564/day at the beginning of 2020 to $5,053/day currently. On top of this the effective exchange rate of the US dollar, in which most of these costs are denominated, has been rising at a similar rate over the last twelve months. Assuming that supply/demand balances have been sustained to some extent by fleet productivity losses, it would be surprising if freight, like any other commodity market, had not reflected this rise in its cost base.

How Long Can it Last?

All our charts suggest markets are now past their peaks: the HRDI and SCFI (Shanghai Container Freight Index), though still high by historical standards, appear to be on the wane as are bunker prices. Unlike the universe's dark matter, logistical disruption is fundamentally a temporary phenomenon, which dissipates as the industry progressively adapts to new patterns and conditions of trade. In the absence of further shocks, fleet productivity is unlikely to decline much further. Nor is EEXI legislation likely to increase average voyage times in 2023 as vessels are already steaming at or below compliant speeds thanks to the high cost of fuel.

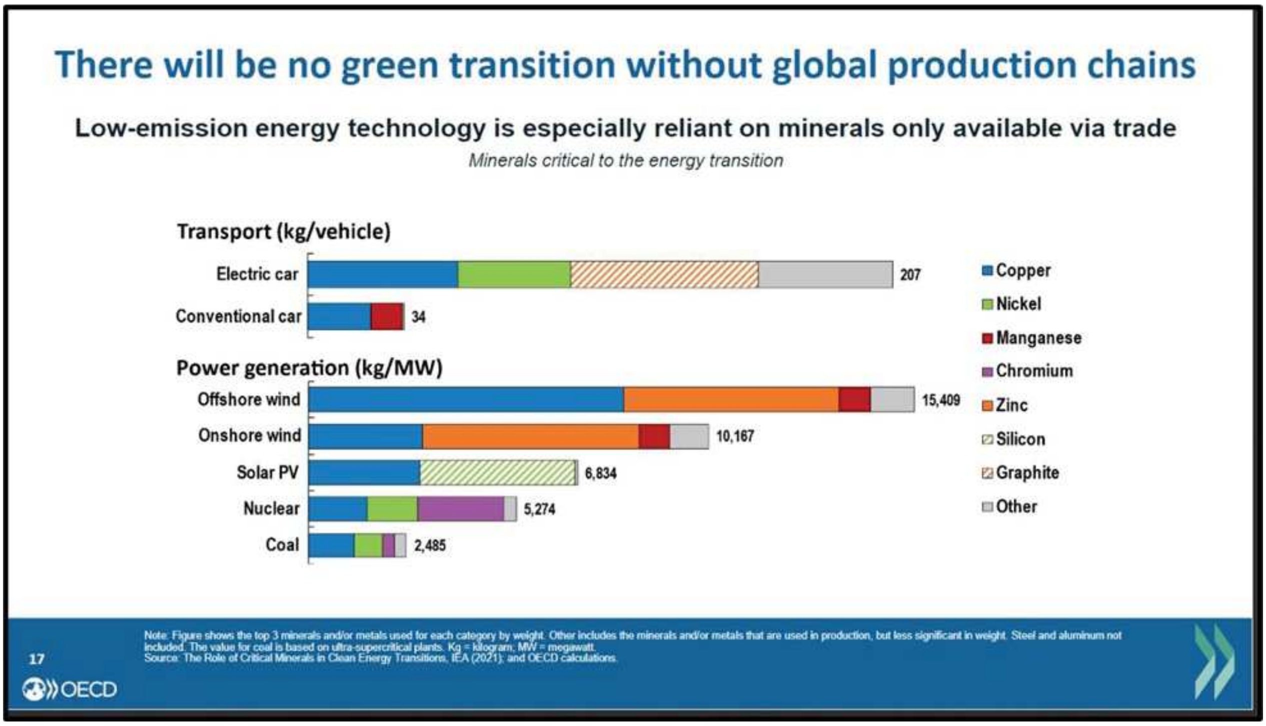
Chart 5



Prospects for substantial counter-balancing increases in major bulk cargo volumes are equally tenuous. While there are always potential upside macroeconomic scenarios, such as the UN/Turkey sponsored agreement to open up the mined port of Odessa which could release the 20 Mn tonnes of Ukrainian grain trapped in silos, barns and ships, immediate prospects for an amelioration of the three key constraints on trade - the war in Ukraine, China's policy of "Zero-Covid" lock-downs (currently beset by the new, highly infectious BA.5 Omicron variant) and stagflation all look bleak. More likely in the short term is that Russian restrictions on EU gas imports and upcoming EU bans on Russian coal exports will keep energy prices persistently high forcing reductions in EU industrial output. Longer term this is likely to accelerate the transition away from carbon fuels. None of these scenarios look likely to stimulate trade growth for grains, coal or iron ore.

However, to end on a brighter and less publicised note, energy transition is likely to have a beneficial impact on minor bulks trade. Our last chart gives the OECD's assessment of the many multiple increases in minor bulk metals and minerals per vehicle and KWH that will be required to effect the transition from conventional carbon to green energy. Depending on the pace and extent of this transition, these could be revealed as the new forces to sustain dry freight markets into the future.

Chart 6



As we have been stressing in our Weekly Dry Bulk Reports, we continue to believe that all nations will be wise to purchase as much food and energy-inducing commodities as possible from any and all exporters going forward. The same is also true for countries rich with their own resources; we can clearly understand why a nation would want to cut or restrict their own exports at present.

We continue to believe that the supply of food and energy-inducing commodities to be sold in the export market (and not quote unquote demand) will simply be what is driving seaborne trade volume. We also remain of our view that the global energy crisis and food crisis are each likely only in their infancies (and that this will remain helpful to the dry bulk shipping market for both the near term and longer term).

New this week is that Pakistan has become the latest country to face a shortage of either food or energy. The cost and consumption of energy-inducing commodities including oil and thermal coal have been surging in Pakistan -- and the government has already forced heavy industry including cement and steel plants to operate at significantly reduced capacities or shut down altogether. Pakistan's government is also considering changing the nation's work week.

Pakistan's government is reportedly considering reverting to one of the three scenarios: A) a four-day work week with three weekend days; B) a four-day work week with two weekend days and one day of lockdown (during which retail would remain closed); C) a four-day work week with one weekend day and two days of lockdown (during which retail would remain closed). Their goal is to reduce the electricity needed for industries and also to cut fuel consumption.

We are often not a fan of governments imposing restrictions on businesses or consumers. However, we understand why Pakistan's government (and any government) would want to put various restrictions in place on both its industries and its citizens. Demand for energy-inducing commodities is outpacing supply in Pakistan (just as it is in nations around the world), and summer has not yet even begun.

Demand for energy surges every summer, and this year demand could be even stronger if the onset of the summer is also coinciding with an easing of national coronavirus restrictions. We expect to see a wild summer globally, including here in the United States (which is naturally rich with energy-inducing commodities). While rolling blackouts have become fairly normal in countries like India, Pakistan, etc., more US grid operators are warning of summer blackouts.

Global demand for commodities is set to be robust, but commodity availability remains in question. Also in question is just how much industries around the world could be forced to reduce operations, and what restrictions will also be imposed on citizens. In Pakistan, we imagine some citizens (including small business owners) will be upset if they are suddenly forced to have one or two days of lockdown where all retail is closed.

Anger will only intensify, though, if this occurs while citizens are also experiencing power outages. If food shortages were also to break out, then we imagine that any existing anger could easily quickly turn to extreme unrest. Pakistan is not unique here. The entire world already is experiencing an energy and food shortage, and we believe things will get much worse this summer.

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