Ref.: 2018-017

7 November 2018

To : The President of the Stock Exchange of Thailand

Subject : The 3rd Quarter of 2018 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

THE RESULTS reviewed by EY Office Limited, show you the latest financial position of the Company. The net profit for Q3 was USD 3.25 million compared to a loss of USD 5.23 million in the year ago quarter. The earnings per day per ship during Q3 came in at USD 11,239, 20% higher than that in Q3 2017. In this quarter, average daily operating costs per ship were USD 4,695, which is higher than our target of USD 4,500 and also higher than the actual of Q3 2017. The EBITDA was USD 17.36 million during the quarter, a significant improvement from that in 2017. The profit per share (eps) in Thai Baht stood at Baht 0.07 for this quarter.

The Hard Facts	Q3, 2017	Q3, 2018
Highest Earnings per day per ship in USD	15,000	19,803
Average Earnings per day per ship in USD	9,399	11,239
Average Earnings per day per ship in USD (Handysize)	9,767	10,267
Average Earnings per day per ship in USD (Supramax)	8,698	10,973
Average Earnings per day per ship in USD (Ultramax)	9,322	13,846
Operating cost per day per ship in USD	4,435	4,695
EBITDA in million USD	11.93	17.36
Net Profit/(Loss) in million USD (excluding Exchange gain (loss) and Non-recurring items)	(2.05)	3.26
Net Profit/(Loss) in million USD	(5.23)	3.25
Earnings(Loss) Per Share in Thai Baht (excluding Exchange gain (loss) and Non-recurring items)	(0.04)	0.07
Earnings (Loss) Per Share in Thai Baht	(0.11)	0.07

Market Segmentation: During Q3, the Baltic Handy Size Index (BHSI) averaged 566 points derived from the average Time Charter (TC) rate of USD 8,254. Compared to that, **our** Handies earned USD 10,267 and beat the BHSI TC rate by 24.39%. During Q3, the Baltic Supramax Index (BSI) averaged 1,075 points derived from the average TC rate of USD 11,560. Compared to that, our Supramaxes earned USD 10,973 and underperformed the BSI TC rate by 5.08%. Our Ultramaxes earned USD 13,846 and outperformed the BSI TC rate by 19.78% (as there is no special index for the Ultras, we have compared them with the BSI). Our target has been to outperform both the indices.

The next SET Opportunity Day will be held at the SET building at 15.20 hours on the 13th November 2018 where we will be presenting and discussing our Q3 results. For those of you who cannot attend physically, the SET webcasts the Opportunity Day presentation live, giving you a chance to be present via the web.

Long Term versus short term Charters: The long term charters already booked as of 30th September 2018 are shown in the chart below. As can be seen, our current and forward four year rolling book is currently at the 17% level with a visible revenue stream of USD 154.2 million.

Year	2018	2019	2020	2021	2022
Total Available Days	13,140	13,140	13,176	13,140	13,140
Fixed T/C Days	2,366	2,409	2,196	2,190	1,992
%age Fixed T/C Days	18%	18%	17%	17%	15%
Av. T/C Rate/Day in USD	13,664	13,585	13,875	13,875	14,211
Contract value in million USD	32.3	32.7	30.5	30.4	28.3

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

BDI Developments and our read of the market:

The Baltic Dry Index averaged 1,175 points in Q1; 1,260 points in Q2; and 1,607 points in Q3; ending at 1,540 points on the 28th September 2018. Though demand has grown as can be seen from the cargo numbers for China, net increase in supply has exceeded our expectations at 18.45 MDWT. Only 4.43 MDWT of dry bulk ships have been scrapped up to the end of Q3 this year compared to last year's 12.80 MDWT. New orders to end of Q3 at 80.81 MDWT, however, are near historically low levels. This has helped reduce the pressure from the Supply side of the equation in the forward position with the order-book hovering at just 9.71% (80.81 MDWT to be delivered up to and including end of 2021) of the existing fleet at the end of Q3. Negative sentiment has started to dissipate from the market resulting, unfortunately, in ship-owners refusing to scrap their older ships. This has allowed an overall net fleet growth of 2.27% in the 9M of this year. If scrapping doesn't accelerate, the BDI will continue to remain very volatile, solely dependent on what the demand side does. In other words, ship-owners are not helping their cause by not scrapping ships, making the recovery in 2018 to 2020 slower, extremely volatile, and totally dependent on demand continuing to outperform.

BDI Developments and others' reading of the market:

The larger dry bulkers continue to enjoy the demand uptick seen throughout the summer. Panamax earnings on the other hand - that have been lagging are now showing signs of improvements where rates are currently up 20% in the last two weeks. Chinese steel production is reported up 8% YTD, compared to 5% for FY17. Electricity production is also on the rise with

8% growth so far this year vs. 6% FY17 growth. Inventories remain at decent levels, though demand from both steel mills and power plants for iron ore and coal remains high. As such we foresee demand for larger dry bulkers to be sustainable into what is usually peak demand season in Q4. (Pareto – 27 Aug 18)

The level of Brazilian iron ore exports is likely to have the greatest influence on the direction of the Q4 Capesize market. Earlier in the year heavy rains and internal logistical issues hampered Brazilian shipments between February and April (exports for March at 29.8 MMT being 6.4 MMT (18%) down on the March 2017 figure) with a knock on effect on time charter rates with the Baltic Capesize Index (BCI) averaging just $10,730 for March. Export figures bounced back in June, July and August with a positive effect and the BCI went up to $27,283. September has seen rates slip back as more VLOC/Capesize vessels ballasted to Brazil. The fundamentals for Q4 look good. China, which imports two thirds of Brazilian iron ore, is actively employing a policy of consuming higher grade ore (in an effort to reduce pollution levels). The price for Brazil's ore of 65fe has ticked up to just under $90 pmt compared to average price falls in 2018 of 6% and 8% respectively for 62fe ($69) and 58fe ($41) giving them incentive to ship. Chinese Steel production is up 7.5% this year on the back of sharply improved domestic steel prices (up 37% in 2018) whilst iron ore stockpiles in China have fallen back 10 MMT from a June high of 160 MMT. From a shipper's perspective should Vale (which exports 93% of all Brazilian ore) achieve its forecast of 390 MMT then Q4 shipments will be a record. (Howe Robinson Research – 21 Sep 18)

Looking at the past ten years capesizes have seen Q4 rates average 50% higher than Q2/Q3 averages – and with momentum already starting to build we do expect much of the same this time around. Equities are already reflecting part of this though, and we maintain our positive view on most shipping names under coverage. (Pareto – 2 Oct 18)

Increased protectionism and trade friction risks undermining a broadly positive outlook for seaborne trade growth says UN agency. (TradeWinds – 3 Oct 18)

The IMF on Tuesday reduced its global growth forecasts for 2018 and 2019 to 3.7% from 3.9% for both years. (Reuters – 10 Oct 18)

Over the course of 2018, the fundamental backdrop and actual spot rate environment for dry bulk has continued to improve, and surprising restraint in adding to the orderbook amid this enhanced earnings/cash flow dynamic could potentially extend the upturn as demand remains solid and fleet expansion slows to multi-year lows. However, amid a broader return to profitability and some resumption of capital return to shareholders, the disconnect between equity prices and spot rates continues to widen, likely owing to global trade/macro fears. As the recent trend of accelerating profits and renewed dividends (and deleveraging) builds momentum, we look for dry bulk stocks to begin to more appropriately reflect the improving fundamental outlook. (Evercore ISI – 18 Oct 18)

Not so cheerful for the dry bulk market – which has disappointed expectations in many ways. The summer months provided spot rates above 5Y high, while have now fallen below 5Y averages – an average that includes the lackluster 2015/16. Shortfall of Brazilian volumes, as well as growing Chinese stockpiles at power plants are concerning, though on the other hand, recent production halt at 41 coal mines following several accidents in China could have some positive impact on import demand. Also, signals from Vale today are supportive, though markets are surely not willing to bet on this for the time being. (Pareto – 25 Oct 18)

Key Supply Side Developments:

Supply Side developments in the world bulker fleet paint a rather pessimistic picture. We started 2018 with 813.53 MDWT and have increased to 831.98 MDWT by the end of Q3 for a 2.27% net fleet growth. A further 1.20% (9.99 MDWT) is scheduled for delivery in the balance of 2018 and another 4.13% (34.35 MDWT) scheduled for delivery in 2019. If we were to apply a slippage factor of 20% (actual slippage to end of Q3, was 11.15%) to these scheduled deliveries and further assume that scrapping reaches 8 MDWT (4.43 MDWT was scrapped to end Q3) we would be left with a net fleet growth of 2.81% (836.40 MDWT) in 2018, net fleet growth of 2.52% (857.48 MDWT) in 2019 and net fleet growth of 2.52% in 2020 (879.11 MDWT).

What others' say about Supply Side Developments:

Just three vessels (one Cape and two Handysize) were scrapped in July as demolition continues at very low levels. The 3.4m deadweight (47 vessels) sent to the breakers this year represent just 0.4% of today's dry cargo fleet of 837 MDWT. The fleet has grown 96% (409 MDWT) since market peaks in 2008, and without a pick-up in scrapping the 86 MDWT on the order book will continue to swell the fleet and perhaps restrict the extent of further gains in the Baltic Dry Index. (Howe Robinson Research – 10 Aug 18)

Our read on Regulatory Pressures:

Ballast Water Management Systems (BWMS) are no longer being discussed. It is just something that needs to be done and owners are complying with the legal requirements. The total DWT of ships that would hit their milestone 20th, 25th or 30th birthday during the 8 quarters, starting in Q1 2019 and ending in Q4 2020, are shown below. We have segregated the table into 'geared' and 'gearless' ships i.e. ships that have their own crane/grabs onboard to load and or discharge cargoes against the very large ships that have no such equipment onboard.

GEARED SHIPS	4th SS (20yrs) (MDWT)	5th SS (25yrs) (MDWT)	6th SS (30yrs) (MDWT)	Total (MDWT)
Geared Ships turning 20/25/30 years in Q1-19	1.2	0.2	0.2	**1.6**
Geared Ships turning 20/25/30 years in Q2-19	0.9	0.6	0.2	**1.7**
Geared Ships turning 20/25/30 years in Q3-19	0.6	0.9	0.2	**1.7**
Geared Ships turning 20/25/30 years in Q4-19	0.4	0.7	0.4	**1.5**
Geared Ships turning 20/25/30 years in Q1-20	1.0	0.9	0.4	**2.2**
Geared Ships turning 20/25/30 years in Q2-20	0.9	1.3	0.2	**2.4**

Geared Ships turning 20/25/30 years in Q3-20	0.8	1.2	0.3	**2.3**
Geared Ships turning 20/25/30 years in Q4-20	0.4	0.8	0.3	**1.5**
Total MDWT (Geared Ships)				**14.8**

GEARLESS SHIPS	**4th SS (20yrs) (MDWT)**	**5th SS (25yrs) (MDWT)**	**6th SS (30yrs) (MDWT)**	**Total (MDWT)**
Gearless Ships turning 20/25/30 years in Q1-19	2.4	1.9	0.0	**4.3**
Gearless Ships turning 20/25/30 years in Q2-19	1.8	1.3	0.0	**3.1**
Gearless Ships turning 20/25/30 years in Q3-19	1.3	0.9	0.0	**2.1**
Gearless Ships turning 20/25/30 years in Q4-19	1.1	0.7	0.3	**2.2**
Gearless Ships turning 20/25/30 years in Q1-20	3.0	1.9	0.0	**4.9**
Gearless Ships turning 20/25/30 years in Q2-20	1.2	0.9	0.3	**2.5**
Gearless Ships turning 20/25/30 years in Q3-20	1.7	0.7	0.3	**2.7**
Gearless Ships turning 20/25/30 years in Q4-20	1.6	1.4	0.1	**3.1**
Total MDWT (Gearless Ships)				**24.9**

From the above table you can see that owners of 14.8 MDWT of ships in the geared, and 24.9 MDWT in the gearless sectors would have to pass their special surveys during 2019 and 2020. This would cost upwards of USD 1.0m for smaller ships and much more for the gearless ships, additionally USD 0.25/0.5m would need to be spent on a BWMS and then owners would be left to wonder if their old engines would be able to burn Low Sulphur Fuel Oil that becomes mandatory from 1st January 2020. At other places in this letter we have shown that industry practitioners and stock-equity analysts are all expecting scrapping rates to go up during 2019/2020 due to these pressures on older ships.

IMO 2020 Low Sulphur Fuel Oil (LSFO) is, however, occupying everyone's time and effort. By the end of September 2018, the total number of ships that had fitted, or were planning to fit, LNG engines or scrubbers was 2,182 ships or 2.25% of the 97,084 ships that have to comply with this regulation on and after 1st January 2020. So how are the rest of the ship owners planning to comply? Ship owners will achieve full compliance by burning LSFO. This choice, of course, has a few issues, primarily, adequate availability of LSFO. Exxon Mobil, ENI, Total, BP, Cepsa, Sinopec and Indian Oil have all confirmed that LSFO would be available at all the ports that they serve. Hopefully the 'flood' of LSFO that will ensue from Q4'19 onwards will ensure that the differential between HSFO and LSFO is not materially significant. This is one of the main reasons why LNG engines or scrubbers are/should not be the number one choice for owners. Other factors that would come into play would be compatibility issues between different blends of LSFO; excess production of sludge due to mixing of LSFO blends; capability of older ships to manage to keep different LSFO blends separate; and of older engines being able to 'burn' such LSFO blends without breaking down/damaging their engines/purifiers. Finally, older ships not capable of using LSFO will be scrapped and all other ships will be slowed down enough to burn the least amount of LSFO to make every voyage as economical as possible. This will result in a tightening of the supply of ships and would result in the market reacting strongly in favour of ship owners.

Others' read on Regulatory Pressures:

On the consequences of the IMO 2020 legislation, Sohmen-Pao is sanguine. "Of course there is a school of thought that it is all going to be chaos, but it may be good for shipping, because bigger ships will slow down, ships will be scrapped and so on. However, there was an interesting report recently by Goldman Sachs which put things into a little perspective. It said 'let's not forget that marine fuel is 5% or less of the total oil market and in order to solve the new regulations we need to see a 1% increase in refinery yields, and a 1% increase in throughput.' Sohmen-Pao said he didn't think it was beyond the realms of possibility to have a 1% increase in throughput and a 1% increase in yields. "It won't happen on the 1st of January 2020 and there will be a period where maybe prices and dislocations happen, but I don't think we should imagine that a system as sophisticated as the modern economy and these big oil companies can't address these issues within a reasonable amount of time." (TradeWinds – 18 Sep 18)

ExxonMobil said that a new unit at its integrated Beaumont, Texas facility has started operations, increasing production of ultra-low sulfur fuels by about 45,000 barrels per day. The new unit relies on a proprietary catalyst system developed by ExxonMobil to remove sulfur and meet U.S. Environmental Protection Agency specifications while minimizing octane loss. (Exxon Mobil – 27 Sep 18)

Prosecutors in Marseille have put an American cruise ship captain on trial for burning bunkers slightly above an EU limit of 1.5% sulfur content. The charges come as NGOs and regulators have focused attention on the health effects of air pollution near Marseille's harbor, which hosts a growing number of cruise ships. In court, prosecutor Franck Laugier called for the *Azura* to be fined 100,000 euros, with 80% to be paid by Carnival Corporation and 20% by Capt. Hoyt.(Maritime Executive – 8 Oct 18)

Donald Trump's White House is looking to ease the implementation of IMO 2020 emissions laws in a move which could have implications for those investing in scrubber technology. The shipping and energy markets may face less disruption if the rules were phased-in in the name of "experience building", a White House spokesperson told the newspaper. "The administration wants to ensure that IMO 2020 occurs in a manner that is not harmful to consumers and the global economy." While Trump has been at the thick of the action during his presidency, and his trade wars have impacted shipping, he is not in a position to change the IMO 2020 legislation, the body says. "They can't do anything to the 2020 implementation deadline," an IMO official told the Wall Street Journal. (TradeWinds – 19 Oct 18)

According to Bloomberg, the IMO Marine Environment Protection Committee today formally adopted a proposal preventing non-scrubber ships to carry heavy fuel oil. The ban will take effect from 1 March 2020 – two months after the IMO's sulphur cap enters into force on 1 January 2020. The proposal has yet to be formally "accepted" by the IMO, likely to happen at the next MEPC meeting in September 2019. Any phased start of the fuel rules such as the proposed 'experience building phase', which among others was proposed by the US administration last Friday, was rejected by the IMO. (DNB Markets – 26 Oct 18)

Our read of Trade Sanctions/Tariffs:

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

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

Others' read of Trade Sanctions/Tariffs:

Whirlpool initially responded positively to President Trump's tariffs on imports of washing machines from overseas rivals such as LG and Samsung. CEO Marc Bitzer said at the time that the move was a "positive catalyst for Whirlpool." However, Trump's steel and aluminum tariffs drove up Whirlpool's raw materials costs, hitting profits and ultimately helping to bring down the company's share price by 15%. (Wall Street Journal – 17 Jul 18)

U.S. President Donald Trump reached an agreement Wednesday with European Commission President Jean-Claude Juncker aimed at averting a transatlantic trade war, easing tensions stoked by Trump's threat to impose tariffs on car imports. (Bloomberg – 25 Jul 18)

Trade wars have no winner, Chinese President Xi Jinping said. Those who pursue them "will only end up hurting themselves," Xi said at the BRICS summit in Johannesburg Wednesday, calling on Brazil, Russia, India, China and South Africa to jointly reject unilateralism and protectionism. "The current international order is not perfect, but as long as it pursues a win-win situation for all countries, it must not be discarded as one pleases," Xi said. "We should pursue inclusive growth. Uneven development is a common challenge. Developed countries must increase support to developing countries." (Bloomberg – 25 Jul 18)

Mexican bread, pasta and flour-tortilla makers are seeking alternative suppliers of wheat to reduce their dependence on the United States as trade relations between the two neighbours deteriorate. Mexico, the top importer of U.S. wheat, is increasingly turning to cheaper supplies from Russia, which surpassed the United States as the top global wheat supplier in 2016. The shifting supply deals are alarming for the U.S. industry, which has supplied the vast majority of Mexico's wheat since the 1994 North American free-trade agreement took effect. U.S. wheat exports to Mexico dropped 38% in value, to US$285-million, in the first five months of 2018. U.S. wheat exports to all countries, valued at US$2.2-billion, dropped 21%. Mexico imported a test cargo of 33,000 tonnes in late 2017 after its government financed a trade mission of grain buyers to find alternatives to U.S. wheat in Latin America. That same mission also resulted in Mexico raising its corn imports from Brazil, at the expense of sales from the United States. Mexico imported 10 times more corn from Brazil in 2017 than the previous year and is on course to buy more this year. (Globe and Mail – 26 Jul 18)

Emerging Markets (EM) accounted for 59% of China’s total exports in 2017, beating the US (19%), the Eurozone (16%) and Japan (6%) combined. If a 25% tariff is placed on $200bn of China’s exports to the US, China’s overall export growth could slow by 3.8% but this would be fully offset if export growth to EM grew just 1.3% faster. (HSBC Global Research: A Blessing in Disguise – Aug 18)

More Canadian soybeans are finding their way into the Chinese market as US origin soybeans become uncompetitive after the 25% import duty was imposed from July 2018. Canada exports a total of 5.5 MMT of soybeans annually according to USDA, with traders expecting this share to increase by 80% in 2018/19. Traders are anticipating an uptick in imports from alternate origins such as Canada and the Black Sea, but also in other meals such as rapeseed meal and sunflower seed meal to compensate for decreased soybean imports. (Platts – 10 Aug 18)

The U.S. economy will be hit many times harder than the rest of the world by an escalating global trade war, according the chief executive officer of A.P. Moller-Maersk A/S. Soren Skou, who runs the world’s biggest shipping company from Copenhagen, said the fallout of the current protectionist wave “could easily end up being bigger in the U.S.” Tariffs could slow global annual trade growth by 0.1 to 0.3%, though for the U.S. the effect could be “perhaps 3 or 4%,” he said at Maersk’s headquarters on Friday. “And that would definitely not be good.” (Bloomberg – 19 Aug 18)

U.S. businesses have a message for the Trump administration: New tariffs on $200 billion of Chinese imports will force Americans to pay more for items they use in their daily lives, from cradles to first bicycles and wedding dresses to coffins. “USTR’s proposed tariff on an additional $200 billion of Chinese imports dramatically expands the harm to American consumers, workers, businesses, and the economy,” the U.S. Chamber of Commerce said in written testimony for the hearing. (Reuters – 20 Aug 18)

Following a bumper crop of 120 MMT, Brazilian soybean exports look set to continue at record levels. China accounts for almost all of the incremental growth as Brazil takes full advantage of continued USA-China trade tensions. Clearly, China will continue to purchase as much of Brazil’s remaining available soybeans so last year’s record export figure to China of 55 MMT looks set to be surpassed this year. (Howe Robinson Research – 20 Aug 18)

So we finally have a number indicating how much this trade spat might end up costing the Chinese economy if things continue to escalate. Economists expect a 0.3 percentage point drag on growth based on the assumption that current threats are carried out. Taking the partly-unadulterated estimate of +6.3% for next year, we're possibly talking Chinese growth slipping below six percent for the first time since recent records were kept. Citi's Chief Asia-Pacific Economist Johanna Chua pointed out that if China does slow by 0.5 percentage points, then global GDP takes a 0.2 percentage point hit over four quarters. That's again assuming the gloves come off completely. And more importantly as Johanna emphasizes, that's assuming all things stay equal. But they won't. Economic planners, businesses, and consumers are dynamic. That's why worst-case scenarios on paper rarely come to fruition, especially when the exogenous "shock" is as telegraphed and slow-moving as this one. Another potential blessing in disguise is reforms. This will possibly nudge China to frontload reforms that would have taken place five years down the road anyway — things like forcing out low-value manufacturing and allowing more market access. (Bloomberg – 23 Aug 18)

Trade wars could slow the improvement in dry cargo rates but will not derail the overall upturn in the market, Drewry says. Its analysts retain a positive outlook for the recovering sector with increased demand and limited fleet growth driving rates up from present levels. However, with a game of tariffs and counter-tariffs spurred by the US underway it seems unlikely that trade wrangles will end soon. (TradeWinds – 6 Sep 18)

After months of waging a behind-the-scenes war against President Donald Trump's trade tariffs that have escalated far beyond what business groups once imagined, more than 85 U.S. industry groups launched a coalition on Wednesday 12th September to take the fight public. The launch of Americans for Free Trade comes as Trump increasingly warms to using tariffs. The National Marine Manufacturers Association; the Information Technology Industry Council, includes Microsoft Corp and Apple Inc; the Consumer Technology Association, whose members include IBM Corp and Facebook Inc; the National Retail Federation, includes Amazon.com, Macy's Inc and Walmart Inc; the Toy Association, includes Mattel Inc, Hasbro Inc and Barnes & Noble Inc; the coalition is a joint effort with Farmers for Free Trade and will target Republican members of Congress in five states - Ohio, Pennsylvania, Illinois, Indiana and Tennessee. All are places where the tariffs could dramatically impact the local economies. (Reuters – 12 Sep 18)

While many farmers remain loyal to the president, they have urged him and congressional Republicans to resolve the trade disputes with China, Europe, Canada and Mexico quickly as commodity prices and exports plummet. "Trade not aid" has become a rallying cry. (Reuters – 13 Sep 18)

China's Ministry of Agriculture and Rural Affairs has lowered its soybean import forecast by 10.2 MMT as farmers are urged to seek alternative feeds, in midst of the ongoing trade war. The forecasted import for the coming marketing year, which begins next month, is 12% lower than the 95.5 MMT imported during the calendar year 2017. So far China's demand for soybeans has remained strong with increasing imports from Brazil. Brazil's soy harvest is expected to reach 119.3 MMT this year, the second highest on record. In spite of the healthy harvest, the high demand for Brazilian soy is expected to reduce the country's end-stocks to its lowest levels ever of only 434,000 tonnes. (Maersk Brokers – 14 Sep 18)

The Retail Industry Leaders Association of the US pointed out that "Tariffs are a tax on American families, period. Consumers – not China – will bear the brunt of these tariffs and American farmers and ranchers will see the harmful effects if retaliation worsens." (Reuters – 17 Sep 18)

The Organization for Economic Co-operation & Development (OECD) trimmed its growth forecast for the global economy to 3.7%, citing trade and emerging market woes. In its previous economic outlook in May, the OECD had forecast growth of 3.8% this year and 3.9% in 2019, but it said its latest update that growth had peaked in the face of rising trade tensions and turbulence in emerging markets. (DNB Markets – 21 Sep 18)

This week has marked a further escalation in trade tension, with the US confirming that 10% tariffs on $200bn of annual imports from China will be introduced on 24th September, rising to 25% next year. In response, China has announced that tariffs of 5-10% on $60bn of annual imports from the US will also come into force next week. In the dry bulk sector, the share of trade affected has risen to 1.8% (from 1.5% before these announcements). Chinese soybean purchases from the US have been very limited, but the key test will be in Q4 when US exports usually ramp up seasonally. (Clarksons – 21 Sep 18)

China's leadership signaled that further stimulus measures are being planned, as disappointing economic data showed that the current approach isn't working. The nation's economic situation is changing, downward pressure is increasing, and the government needs to take timely steps to counter this, according to a statement from a Politburo meeting Wednesday chaired by President Xi Jinping. The signal of increasing urgency came just hours after purchasing manager reports showed an across-the-board deterioration that risks spilling into a broader drag on global growth. The world's second largest economy is being damaged by its trade war with the U.S. and a domestic debt cleanup. (Bloomberg – 1 Nov 18)

Key Demand Developments:

PROSPECTS over the next 12 months can be better understood if one were to examine the macro environment. We have given you a selection of such information from various publicly available sources.

China

China's GDP growth numbers have advanced 6.5% year-on-year in the third quarter of 2018, after a 6.7% growth in the previous quarter and missing market consensus of 6.6%. (National Bureau of Statistics of China – 19 Oct 18)

China's iron ore imports for the first nine months at 802.6 MMT, dipped 1.8% from year-ago levels. (Reuters – 11 Oct 18)

China boosted coal imports in the first nine months of 2018 by 11.4% to 228.4 MMT over the previous year. (Reuters – 11 Oct 18)

China, in the first nine months of 2018, mined 2,590 MMT of crude coal, up 5.1 % year on year. (National Bureau of Statistics of China – 19 Oct 18)

Chinese steel production in the first nine months was 691.2 MMT, up 8.1% y-o-y. (Reuters – 19 Oct 18)

China's steel export in the first nine months of 2018 slowed significantly and was down 10.6% year-on-year to 53.3 MMT. (Metalbulletin – 19 Oct 18)

In early July 2018, China released its 2018-2020 pollution action plan, detailing the expansion of pollution-reducing measures to 82 cities across the country, although each of the 82 cities will now be allowed to draw up their own implementation plan. (Banchero Costa – 25 Jul 18)

According to China’s National Energy Administration, China aims to increase coal output by 7.3% to 3.7 BMT this year. However, as safety and environmental inspections continue, domestic production could fall short of this goal. This could balance out the negative impact that pollution control measures have on coal demand and imports. In the FH of 2018, coal production has only managed an increase of 3.9% to 1.7 BMT. (Banchero Costa – 25 Jul 18)

It’s a mistake to fixate on China’s GDP growth rates, which is to miss the bigger picture. In 2010, 10% real GDP growth added $606 billion to the economy. In 2017, however, 6% growth added $1,202 billion, double the amount of the 10% growth in 2010. Even though India’s real GDP growth rates exceeded China’s in recent years, the fact of the matter is that in any two years period since 2010 what China added to its GDP is bigger than the entire Indian GDP. As a result, the gap between the Chinese and the Indian economy is getting bigger, not smaller. In spite of China’s economic slowdown, China’s global economic reach and influence is set to expand, and that’s the bigger picture we need to watch. (Forbes - 23 Aug 2018)

China's electrical power demand increased by 9% in the first seven months of 2018. Growth was expected to be closer to 6%. Only 3% of this growth in power demand has been met by improved hydro output year-on-year. Utilisation of coal fired power plants has increased this year with 7% of the growth met by additional output from thermal coal power plants. The net effect is that China's thermal coal demand may increase by 140 MMT this year at this current growth level. (Braemar ACM – 24 Aug 18)

Don't call it a comeback, Coal's been here for years. The requiem for coal seemed to be written in 2015; however, the coal trade has been resurrected since the trough and several new favorable data points have emerged over the last couple of weeks. Indeed, China's thermal coal imports increased by 54% year over year in July, bringing the year-to-date increase to 30%. Coking coal imports in the country increased by 36% year over year in July and marked the highest monthly total in 15 months. It is important to note that although coal is shrinking as a percentage of China's electricity grid, domestic production cuts are still resulting in strong import gains. Chinese domestic coal producers have already removed an additional 80 MMT per annum (MTPA) this year, versus the annual goal of 150 MTPA and incremental to the massive 630 MTPA of excess capacity removed since 2016. (Evercore ISI – 10 Sep 18)

China reported its monthly electricity production for August on Friday which was up 7.8% YOY showing accelerating growth from July’s 5.4% YOY growth. This takes total electricity production growth to 7.5% YTD after two months with 643bn kWh record-high production. The total electricity composition YTD is 74% thermal, 16% hydro and 10% others. Thermal electricity production is up 7.1% YTD after 7.7% growth in August (broadly in line with aggregate growth and maintaining its share in the energy mix), while hydropower also grew 7.7% YOY for August and lifted YTD growth to 1.9%. For the other renewables (including nuclear) total YTD growth is now at 21.4%. Chinese coal production in August was again in positive YOY growth territory (2.2%) and marks the largest growth since September last year. We believe this relates to strong domestic demand for electricity generation and we anticipate domestic coal production to grow by 2% this year (currently -1% YTD) to ease the reliance on coal imports to fuel the countries rapid growth in electricity demand. Still strong electricity demand should continue to fuel demand for dry bulk shipping going forward. (DNB Markets – 17 Sep 18)

Iron ore stocks at ports in China continue to decline. We continue to believe Chinese demand is sufficient to fuel further imports of iron ore from Brazil the remainder of the year, and stocks from Brazil have recently increased signalling increased Brazil export numbers during September. The aggregate stocks peaked in June at 162 MMT and we are currently down 10% from the all-time high. Total Chinese iron ore stocks have built 9.4% YOY. Australia's share of total Chinese iron ore stocks is up from 52% one year ago to the current 60% and Brazil's share has decreased from 24% to 17%. The shift in stock composition shows the effect of iron ore's 'flight to quality' as Brazilian iron ore is of the highest quality. (DNB Markets – 28 Sep 18)

While the floor space of buildings sold has slowed, new constructions have been picking up pace, growing 15.9% over Jan-Aug 2018 with growth-boosting measures implemented by policymakers. The slowdown in China's residential housing sales is also expected to be offset by increased rental housing construction on rural land – a pilot program launched in Aug 2017 in 13 major cities, including Beijing and Shanghai, to build affordable rental housing projects in rural areas. In the first 8 months of 2018, Chinese iron ore imports fell 0.6% year-on-year to 710 MMT, even as Chinese steel production surged and domestic iron ore output continued to fall. China's iron ore imports as a proportion of steel production has also been decreasing, from an average of around 1.3 tonnes of ore imported for each tonne of steel produced in 2017, to around 1.1 at present. This could reflect a combination of less ores required in steel making due to the usage of higher-grade ores imported, some port inventory drawdown (which has been said to be of the higher quality ores as well), as well as increased scrap used in steel making. The China Association of Metalscrap Utilization reported that scrap used in Chinese steel making increased in 1H 2018 with 180 MMT estimated for the whole of 2018, compared to 148 MMT in 2017. (Banchero Costa – 3 Oct 18)

Americas

U.S. Federal Reserve Chairman Jerome Powell said protectionism can hurt economic growth and undermine wages, just as the U.S. ratchets up trade tensions with commercial rivals as well as longstanding allies. "In general, countries that have remained open to trade, that haven't erected barriers including tariffs, have grown faster. They've had higher incomes, higher productivity," he said. But Powell reiterated his upbeat assessment of the economy and signaled that while policy makers plan to continue gradually raising interest rates, the tightening isn't on autopilot. (Bloomberg – 17 Jul 18)

Despite having the third largest cement production capacity in the world, cement imports by the U.S. are still expected to rise from a relatively strong economy and job market, tax reforms, and an anticipated increase in infrastructure spending. The difficulty of building new cement production capacity and the country's long coasts and extensive waterways also help to support growing import volumes, with imports in 2018 expected to go above 12 MMT compared to 9.2 MMT in 2016 (sic). (Banchero Costa –27 Jul 18)

Argentina expects record wheat harvest while others suffer from drought. In Germany, grain harvests have dropped 20.3% to 36.3 MMT, the lowest in 24 years. Germany, the second largest producer in the EU after France, is usually a grain exporter. However, this year they will probably have to turn to imports to meet local demand. Record-low rain fall has left large parts of eastern Australia so dry it is impossible for anything to grow. Conditions for the affected areas, which produce around 1/3 of the country's wheat, look even worse than last year, when droughts cut Australia's output to the lowest in a decade. Similar conditions in Russia and China have meant that they also expect a reduced output of wheat this year while floods in the Black Sea area have significantly damaged the quality of their crops. In Argentina on the other hand, conditions have been more favourable. Harvest in Argentina could reach up to 21 MMT, exceeding the previous record of 18.2 MMT set in 2016-17. With wheat shortfall in the rest of the World, Argentinian farmers are well poised to benefit from increased prices. (Maersk Brokers – 10 Aug 18)

South America is a net coarse grain exporter. Coarse grain exports from South America are forecast to increase by 8.4% to 57.5 MMT in 2018/19. Argentina and Brazil are expected to account for 15% and 13% respectively of global coarse grain exports. In the first 5 months of 2018, Argentina's corn exports increased 62% year-on-year to 7.9 MMT, mainly as shipments to Vietnam, Egypt, and Malaysia increased a strong 89%, 176% and 98% compared to the same period a year ago. Brazilian corn exports during the first 8 months of 2018 fell 14.1% year-on-year to 9.3 MMT, as higher truck freight costs introduced since May disrupted sales of the grain. (Banchero Costa – 19 Sep 18)

A drought and then flooding effectively ruined this year's Argentinian harvest of soybeans with production levels down 31% yoy. Argentina ships relatively few beans in comparison to its soy meal exports (28.3 MMT in 2017 mainly to Europe and SE Asia), though it is expected to take advantage of current China-USA trading tensions to increase soybean exports over the coming months. About 100,000mt of beans were shipped in September to China with the expectation of another 1.5 MMT in Q4. In another development Argentina is taking advantage of the wide price differential between its own beans (at around $400) and discounts on USA product (c$320) to import as much as 600,000mt in the coming months (the first Ultramax shipment has just left the US Gulf) thus releasing domestic beans for export to China. If the current export tax of 28.5% was not in place Argentina's farmers might be tempted to ship a certain amount of stocks that remain high as their insurance against the weakness of the peso. (Howe Robinson Research – 5 Oct 18)

Vale had a great iron ore export performance, with the company having a quarter-on-quarter increase of 13.5% to 98.2 MMT. Compared to the same quarter a year ago, the increase was 9.2%. This was largely due to record levels of iron ore production as a result of the S11D ramp-up, and production recovery from bad weather in April and the 12-day truckers strike in May. The ramp up of S11D remains underway, with its production expected to hit close to 60 MMT this year, and expand to 90 MMT next year. With Vale maintaining their full year production guidance of about 390 MMT of iron ore fines (of which around 80% go into seaborne shipments) and 55 MMT of iron ore pellets this year, we expect seaborne shipments in 4Q 2018 to maintain at similar levels of around 100 MMT. (Banchero Costa – 26 Oct 18)

Asia

Vietnamese Cement exports have been growing to Asian countries such as Bangladesh, China, and the Philippines. These countries are estimated to account for 31%, 29%, and 19% of Vietnam's cement and clinker exports at present. Growing shipments have also been reported to Latin American countries like Chile and Peru, and African countries such as Mozambique and Kenya. Vietnam's cement exports in the first 7 months of 2018 are estimated at 17.8 MMT, an increase of 55% year-on-year and close to their 18-19 MMT target for the entire year. (Banchero Costa – 27 Jul 18)

As its economy grows, India urgently needs energy – and coal is paramount in the mix. Although the country has instituted policies favouring domestic coal producers over imports, demand growth should continue to outpace what Indian mines can provide, leading to a significant rise in imported volumes in the decades ahead. IHS Markit believes that India's steam coal imports will increase by an average of 2.7% per year between 2017 and 2040. It forecasts that volumes will rise steadily to about 175 MMT by 2022, 200 MMT in 2026, and 250 MMT in 2033. (IHS Maritime – 9 Aug 18)

With Chinese and Indian demand remaining strong, Indonesian coal exports look set to top 400 MMT in 2018 and probably eclipse 2013's record high 402 MMT. All Indonesia's coal exporting ports have seen increases in shipments due to improved port facilities, in part to handle rapidly growing internal shipments with the opening of a number of new coal fired power stations. Indonesia's domestic coal consumption soared to 97 MMT in 2017 up 32 MMT from 2016 and the government has now legislated that at least 25% of all domestic production must be reserved for internal use. (Howe Robinson Research – 31 Aug 18)

Last week, the Australian Bureau of Agricultural and Resource Economics and Sciences lowered its total wheat production forecast to 19.1 MMT for the 2018/19 season, as lower production from a severe drought across the country's east coast is offset by increased output in Western Australia after timely rains. This represents a 10.2% year-on-year drop compared to the previous 2017/18 season. Australia ranks among the world's major wheat exporters, making up around 8% of global exports based on estimates from the USDA. Australia typically exports two-thirds of its wheat, but the lower wheat production could reduce exportable supplies as domestic demand takes precedence. Despite the potentially lower wheat trade between Australia and its largely Asian customers, tonne-mile demand could still get a boost if buyers look further afield to Canada, the U.S., and Argentina for supplies, especially as Western Australia's wheat quality are said to be below average. Australia's production woes also overlap with a poor harvest in Russia, a factor that may also lay the foundation for increased wheat shipments from the Americas into Asia. (Banchero Costa – 14 Sep 18)

Vietnam has moved from being a net exporter to a net importer of coal due to a combination of falling domestic production and strong economic growth. With the majority of Vietnam's coal mines situated inland in the northern area of the country, it has also been more economic for end users, particularly in the south, to switch to cheaper imports, thus domestic inventories have built to 9 MMT by the end of last year. Vietnam currently has 20 coal-fired power stations (providing 39% of the country's electricity demand) but 10 more are planned by 2022 rising to 50 by 2030, potentially equating to 120-125 MMT of effective annual coal consumption. (Howe Robinson Research – 19 Oct 18)

Coal imports to India soared in September, by 35% y/y to 21.1 MMT. The increase was mainly due to thermal coal, which in the first six months of the fiscal year has totaled 82.5 MMT, an increase of 17.5% from a year prior. Electricity generation in September increased 5.4% y/y to 108.1 TWh, of which coal fired generation accounted for 80.3 TWh, up 4.1% y/y. Heading into the winter months, coal imports will most likely continue to increase as inventories remain low. Stocks have dropped by 30.7% since the beginning of September, and only around 10.1 MMT of thermal coal is currently available at India's power plants, below the critical 7 days' worth of stock. (Maersk Brokers – 19 Oct 18)

World Steel figures released this week saw Indian production rise above Japan and into second place behind China. Indian internal usage rose 12% to 52 MMT in the first 6 months of the year, perhaps a reflection of improved industrial production and GDP rising to over 8%. In particular Blast Furnace steel is up 4.2 MMT (9%) to 53.1 MMT and now accounts for 67% (65% 2017) of total production with resultant benefits for the dry bulk market. With current domestic iron ore production unable to keep pace with demand, ore imports have increased 190% y-o-y to 6.3 MMT between April-August whilst an increase in coastal movement may see this seaborne trade top 10 MMT in 2018. Metallurgical coal imports to July registered a 7 MMT increase y-o-y to 34 MMT though most of this product is sourced from Australia (up 3 MMT at 26 MMT) a weakness in the rupee has seen mills increasingly turn to sourcing some met coal from cheaper USA suppliers. This 1.5 MMT upturn to 4 MMT has largely been carried from East Coast USA ports. (Howe Robinson Research – 26 Oct 18)

Rest of the World

Japan and the European Union signed a trade agreement on Tuesday in Tokyo that lowers barriers on the movement of goods and services between the two economies and provides a counterweight to U.S. protectionism. The Economic Partnership Agreement will remove a wide range of duties and regulatory obstacles between the EU and Japan, helping Japanese car exports and making it easier for European farmers to sell their produce in the Asian nation. While the deal has been in the works since 2013, Europe and Japan are rallying to bolster multilateral agreements as Trump shuns such pacts and imposes tariffs on trading partners. (Bloomberg – 17 Jul 18)

The German association of coal importers VDKi forecast German imports of hard coal to be 45 MMT in 2018. The forecast would mean a 12% decrease from the 51.2 MMT imported in 2017, which was already down 10.2% from 2016. VDKi believe that Germany's increasing focus on green power sources like wind and solar will continue to grow in 2018, and lessen the country's demand for coal. (Maersk Brokers – 29 Jul 18)

EU imports of soymeal are set to surge to a seven-year high of 20.2 MMT this season as heat and drought ravage pastures, according to Strategie Grains. While Brazil and Argentina will still dominate supply, shipments from the U.S. will post the biggest gains as America-China trade tensions roil the market, it said. U.S. soymeal shipments to the EU are projected to climb by about 80% to 1.2 MMT as Brazil sells more feed to China. The appeal of U.S. soymeal in Europe has increased as prices fell by almost a fifth since May after China imposed a 25% levy on

American soybean shipments in a tit-for-tat response to tariffs imposed by Donald Trump's administration. (Bloomberg – 24 Aug 18)

High temperatures and little to no rain left little hope for much of German crops this summer. The German Ministry for Food and Agriculture's preliminary result for 2018 estimates that grain production (excluding corn) will come to 34.5 MMT, down 16% from the 41.0 MMT last year. Germany is the second largest producer in the EU after France, and usually one of the largest exporters. However, according to a new report by the USDA, Germany will become a net importer this year in order to meet local demand. Imported soybean and sunflower meal as well as other grains will likely serve to replace the domestic feed. The US is Germany's largest supplier of soybeans, shipping 1.8 MMT there last year, and is expected to pick up most of Germany's new demand for soy. Soybeans are in high supply in the US and prices are competitive because of the ongoing trade war with China. (Maersk Brokers – 28 Sep 18)

Yours Sincerely,

Precious Shipping Public Company Limited

Khalid Hashim
Managing Director