# The 3rd Quarter of 2022 Management Discussion and Analysis


**"Above all, while defending our own vital interests, nuclear powers must avert those confrontations which bring an adversary to a choice of either a humiliating retreat or a nuclear war. To adopt that kind of course in the nuclear age would be evidence only of the bankruptcy of our policy–or of a collective death-wish for the world."**

**President John F Kennedy**
***Commencement Address at the American University, Washington DC, 10 June 1963***

# Our Key Performance Indicators

## 3rd Quarter 2022 Financial Performance (US Dollar Terms)

**The results,** reviewed by EY Office Ltd., show you the latest financial position of the Company. The net profit for Q3 2022 was $36.37 million. The earnings per day per ship for Q3 2022 came in at $19,840, lower than the $23,901 and $24,722 figures recorded in Q2 2022 and Q3 2021, respectively. Operating costs of $5,159 were higher than our target of $4,960 and higher than the $4,683 and $5,136 figures recorded in Q2 2022 and Q3 2021, respectively. EBITDA came in at $45.77 million, lower than the $57.46 million and $57.35 million figures recorded in Q2 2022 and Q3 2021. The profit per share stood at Thai Baht 0.86 for this quarter.

| THE HARD FACTS | Q3 2021 | Q2 2022 | Q3 2022 |
|---|---|---|---|
| Highest earnings per day per ship in USD | 50,336 | 40,000 | 52,816 |
| Average earnings per day per ship in USD | 24,722 | 23,901 | 19,840 |
| Av. earnings per day per Handy size ship in USD | 22,230 | 21,400 | 16,535 |
| Av. earnings per day per Supramax ship in USD | 24,459 | 21,629 | 22,667 |
| Av. earnings per day per Ultramax ship in USD | 30,934 | 32,461 | 25,225 |
| Av. earnings per day per Supramax/Ultramax ship in USD | 27,506 | 26,726 | 23,871 |
| Operating cost per day per ship in USD | 5,136 | 4,683 | 5,159 |
| EBITDA in million USD | 57.35 | 57.46 | 45.77 |
| Net Profit (Loss) in million USD excluding exchange gain (loss) and non-recurring items | 46.51 | 47.36 | 35.09 |
| Net Profit (Loss) in million USD | 45.40 | 47.95 | 36.37 |
| Earnings (Loss) Per Share in Thai Baht excluding exchange gain (loss) and non-recurring items | 0.99 | 1.05 | 0.83 |
| Earnings (Loss) Per Share in Thai Baht | 0.96 | 1.06 | 0.86 |

## Consolidated Financial Performance (Thai Baht Terms)

For the quarter ending 30 September 2022, the Company earned a net profit of Baht 1,348.04 million as compared to a net profit of Baht 1,659.65 million and 1,501.26 million in Q2’2022 and Q3’2021 respectively. 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 Q3’2022 is 6.3% and 5.7% lower than the Net Vessel Operating Income recorded in Q2’2022 and Q3’2021. This is mainly due to a decrease in the average earnings per Vessel per day which decreased from USD 23,901 in Q2’2022 and USD 24,722 in Q3’2021 to USD 19,840 in Q3’2022, due to a weaker Dry Bulk Freight market. The fleet size was 38 vessels as of 30 September 2022, compared to 37 vessels as of 30 June 2022 and 36 vessels as of 30 September 2021.

- Vessel running expenses (Opex) per day per Vessel (including depreciation/amortization of Drydocking/Special Survey expenses) in Q3’2022 are 28% and 24% higher than the figures in Q2’2022 and Q3’2021. The increases are mainly driven by the depreciation of the Thai Baht against the US Dollar. Opex in Q2’2022 was also lower due to a sizeable receipt of insurance proceeds, a non-recurring item, without which Opex in Q3’2022 would have been 20% more than Opex in Q2’2022.

- Administrative expenses (including management remuneration) for Q3’2022 came in Baht 1.95 million higher than the figure in Q2’2022. When compared to Q3’2021, the figure was Baht 50.41 million lower due to a decrease in variable compensation expenses.
- Finance cost for Q3’2022 was Baht 11.73 million higher than the figure in Q2’2022, due to an increase in the base rate for floating interest rate loans as well as the depreciation of Thai Baht against the US Dollar. Finance costs in Q3’2022 were Baht 5.11 million lower than figures in Q3’2021 due to a reduction in aggregate debt.
- Exchange gain for Q3’2022 of Baht 47.99 million, was mainly on account of changes in the US Dollar equivalent figure of our Thai Baht liabilities.

For the nine-month period ending 30 September 2022, the Company earned a net profit of Baht 4,301.61 million as compared to a net profit of Baht 2,702.70 million during the same period last year. The main reasons for the changes to the nine-months financial results are as follows:

- The Net Vessel Operating Income (Vessel Operating Income net of voyage disbursements and bunker consumption) for the first nine-months of 2022 is 33% 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 18,286 in the first nine-months of 2021 to USD 21,875 in the first nine-months of this year. As of 30 September 2022, the fleet size was 38 vessels, compared to 36 vessels in the first nine-months of last year.
- Vessel running expenses during the first nine-months of 2022 are 14% 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 Dollar terms, the average Vessel operating expenses (Opex) per day per Vessel (including depreciation/amortization of Drydocking/Special Survey expenses) decreased from USD 5,038 in the first nine-months of 2021 to USD 4,923. Without including the non-recurring receipt of insurance proceeds, Opex for the first nine-months of 2022 was USD 5,007.
- Administrative expenses (including management remuneration) for the first nine-months of 2022 came in Baht 44.87 million lower than the same period last year, mainly due to a decrease in variable compensation expenses.
- Finance costs during the first nine-months of 2022 were Baht 54.01 million lower than the figure during the same period last year, due to lower interest expenses. This was driven by a reduction in overall debt.
- Exchange gain for the first nine-months of 2022 of Baht 68.85 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

Since the last report, there has not been any significant development in the case. As mentioned in the last report, 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 Q3, The Baltic Handy Size Index (BHSI) averaged 1,039 points, as derived from an average Time Charter (TC) rate of USD 18,709 per day. In comparison, our Handy size fleet earned USD 16,535 and underperformed the BHSI TC rate by -11.6%. The Baltic Supramax Index (BSI) averaged 1,793 points, as derived from an average TC rate of USD 19,728 per day. In comparison, our Supra/Ultra fleet average earnings were USD 23,871 per day and outperformed the BSI TC rate by +21.0%. Our target has been to outperform both the indices.

**The next SET Opportunity Day** will be virtually held at 15.15 hours on the 9th of November 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 Q3 results. The number of online participants attending PSL's live presentation of Q2/2022 results on 10th of August 2022 were 390 on the SET website/YouTube views, and 22 on Facebook, for a grand total of 412 viewers.

# 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 23% with a visible revenue stream of USD 236.39 million.

| Year | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| Total Available Days | 13,501*** | 13,870 | 13,908 | 13,870 |
| Fixed T/C Days* | 5,045 | 4,108 | 1,830 | 1,825 |
| % age Fixed T/C Days | 37% | 30% | 13% | 13% |
| Av. T/C Rate/Day in USD** | 21,459 | 17,561 | 15,316 | 15,316 |
| Contract value in million USD | 108.27 | 72.14 | 28.03 | 27.95 |

**This comprises charters for 7 ships on fixed rate charter and 12 ships on variable rate charters*

***Average T/C Rate/Day for the variable rate charters is estimated based on actual earnings for 9M 2022 and rates prevailing in October 2022 for the period thereafter.*

**** Phatra Naree and Pavida Naree were added in Q2 and Q3 2022.*

Variable-rate long-term charters benefit PSL as they protect us from waiting between employments, protect us from positioning an empty ship for her next employment, immediately benefit from any rate increases, and avoid taking large discounts mandatory on fixed-rate contracts. We hope this helps the reader to understand the logic behind variable-rate long-term charters.

# 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 end of Q3 these figures were 8.01% (20+ year old fleet) and 6.93% (forward order book.)
- Supply-demand has 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.
- Nouriel Roubini, who is best known for having predicted the 2008 financial crisis, is now predicting a long and ugly recession with stocks falling a further 40%, in a *20 Sep article from Bloomberg.*
- German chancellor Olaf Scholz expects an international conference in Germany in October will pledge a reconstruction budget for Ukraine that will dwarf the Marshall Plan of post-World War two fame.
- Japan's GDP shrank by -3.6% in Q3 as the world's third largest economy was battered by Covid.
- According to Reuters, US consumer spending rose more than expected in September even as people say inflation troubles them. However, 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.
- GDP grew by 2.6% in the USA in the third quarter.
- American inflation in September was 8.2% y-o-y, and higher than expected. The yield curve inversion steepened on 13 Sep, with the 2-Y at 30 bps above the 10-Y treasury, signaling a recession.
- Bank of Canada is the first central bank to slow the pace of interest rate hikes to avoid a recession.
- Saudi Aramco declared the biggest ever corporate profit of $48.4bn in Q2.
- HSBC Global Research forecast the UK economy in recession by Q4 '22 and it will last till mid- '23.
- Bangladesh is to import 500K tons of wheat from Russia.
- Due to sanctions, Poland will import 8 MMT of coal by sea, versus Russian coal by rail.
- Global Rice trade in 2022 will reach 48.8 MMT and 54.7 MMT in 2023 according to the USDA.
- India's rice exports were a record 21.5 MMT in '21 (40% market share) but will fall by 5 MMT in '22.
- Australia will harvest 32.2 MMT of wheat in 2022-23, just shy of 2021's 36.3 MMT all-time high. But torrential rain in Australia has damaged millions of tons of wheat, barley, and canola. The wet weather has been driven by three consecutive years of La Nina.
- World steel production reached 1,405.2 MMT in 9M 2022, down -4.3% from 9M 2021.

- China's PMI index was 49.5 during Q3 2022 indicating a slowing economy due to Covid zero.
- China's GDP grew by 3.9% in Q3 2022, and that is a 'bad' thing. However, the developed world will be in recession in 2022 and that is not a 'bad' thing?!?! China with its interest rate cuts and stimulus will grow its GDP at less than its targeted rate, but grow it will, and dry bulk owners will cheer.
- China plans to increase international flights before the end of October. Is China open for business?
- China and the Global Gloom, is the title of the enclosed report from Howe Robinson, dated 26 August 2022.
- China's demand was constrained in 9M 2022 as covid-zero lockdowns kept about 400 million people away from their jobs/livelihoods for about 3 to 4 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 be felt in 2023. That should lead to greater imports of iron ore and an increase in power generation.
- China is producing electrolyzers that separate water into oxygen and hydrogen via an electric current, at a fraction of the cost of US and European competitors. This will be a game changer and will allow hydrogen to be used as a zero-emitting fuel for all industries.
- 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!
- 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, a third devoted to steel intensive infrastructure development, comes into play, in such a finely supply-demand balanced dry bulk freight market, in 2023?
- Despite four (Jan, Apr, Jul, and Oct) reductions, the IMF forecast for world GDP growth rates is still at a reasonable 3.2% for 2022 and 2.7% for 2023. Besides, dry bulk demand has decoupled from world GDP growth rates and is now more dependent on government stimulus or lack of it, impact from La Nina, climate change, geopolitics, inefficiency, lockdowns, congestion etcetera.
- EU's drought is the worst in 5 centuries!
- Uniper declared a $12.5b net loss in FH 2022 and were it not for the bail out from the German government, who now own 30% of the equity, would have been bankrupt. Germany is presently considering nationalizing Uniper!
- 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.
- The top 3 Korean shipyards lost $ 1.1 billion in FH 22, but their loss was even larger in 2021 at $ 3.3 billion. Shipyards always seem to lose money, and if not bailed out by governments, would go bust.
- 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 (0.6%e by Clarksons), as excess supply has been finally absorbed, the very marginal increase in ton-mile demand in 2021 (3.8%) compared to the reasonably robust net increase in supply (3.6%), managed to push the BDI to a 13-year high of 5,650 points in October 2021.

- The index ships in Q3 2022 compared to Q3 2021 had Capes TC of $13,695 compared to $42,379, Panamaxes $17,172 to $33,629, Supras $19,728 to $34,269, and Handy sizes $18,709 to $32,194.
- The Wall Street Journal states the Russia-Ukraine war has cost the global economy $ 2.8 trillion.
- If you see the low growth in expected ton-mile demand for 2022, the slowdown in imports/exports in China, and the expected supply side growth, we should not have had as strong a 9M as we have had in 2022. If you look at the index ships Time Charter earnings in Q3 2022, they have been 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, strong Dollar, 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. That may, however, be coming to a temporary end as demand continues to weaken in ROW while de-congestion increases fleet efficiency and releases more supply into a demand-constricted market.
- 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.
- Inflation in the UK hit 10.1%, hit 8.2% in USA, hit 10.9% in the EU, while CPI in the OECD rose by 10.5%, respectively in September 2022 compared to September 2021.
- 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, and this must be avoided.
- 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.
- Shipments of specialized ores required for renewable energy and battery production will provide additional ton-mile demand for the smaller size ships.
- 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. The decrease in index levels of the BDI in 9M 2022 was -25%, Capes was -45%, Panamax -15%, Supramax -4%, and Handysize -2% lower than 9M 2021 averages. This again confirms that supply-demand balance has been reached 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. It also shows that the geared ships are less volatile and fall at a slower pace than the larger gearless ships.
- Due to higher gas prices, coal-fired power generation increased by 12% approximately in the EU in 9M of 2022 requiring increased coal imports.
- 24% of Chinese iron ore imports came from Brazil (68 MMT) down -4% and 62% from Australia (178 MMT) down -3% in Q3 2022, according to Drewry. As longer ton-mile from Brazil fell

more than the shorter ton-mile from Australia, it negatively affected the Cape sector in Q3 2022.

- The orderbook to fleet ratio at the end of Q3 2022 for the dry-bulk sector was 6.93% (7.00% for the geared sector and 6.90% for the gearless sector.)
- During Q3 2022 1.43 MDWT of ships were recycled across the dry bulk fleet compared to 0.50 MDWT (up by 186%) in Q3 2021. The existing age profile at the end of Q3 2022 of 76.96 MDWT or 8.01% (12.06% in the geared segment and 5.82% in the gearless segment) of the world fleet being 20 years or older, together with low levels of the order book to fleet ratio of 6.93% (order book up to end 2025 compared to net supply at the end 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 as we do not see Covid-19 fading anytime soon especially with China's Covid-zero policy. This factor will tighten the 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 0.55% and 2.20% compared to net supply growth of 3.42% and 0.55% in 2022 and 2023 respectively (demand forecast dated 30 September 2022, supply forecast dated 10 October 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 3.51% and 0.23%, with minor bulks growing at 2.55% and 2.43%, respectively in 2022 and 2023, according to Clarksons.
- Ships 20 years or older, comprising 76.96 MDWT or 8.01% of the existing fleet (40.78 MDWT of the geared fleet or 12.06% and 36.18 MDWT of the gearless fleet or 5.82%) at the end 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 that come into force on 1st January 2023, that will force some of them to early recycling.

# The EU and Coal Imports

To the end of Q3 2022, global coal imports were up 1.8% y-o-y to 876.0 MMT, while the EU imports were up 36.7% to 83.4 MMT. The EU's coal imports in 2021 increased by 30.3% y-o-y to 87.1 MMT. In 2021, as much as 44% of the EU's coal imports were sourced from Russia. To the end of Q3 2022, as much as 25% of the EU's coal imports were sourced from Russia, according to Banchero Costa.

# Container Shipping

The gravity-defying profits in the container-liner sector are astounding. The 14th largest player in the container world, a minor inter-Asia feeder operator running 97 ships, each below 2,700 TEU (74 owned), declared a $1.2 billion net profit for the FH of 2022! Record congestion and supply chain disruptions are pushing earnings in the container-liner sector into record-breaking territory despite slowing demand and an increase in supply of ships. And if you thought the minnows had done well, you should see the results of the big boys. Maersk's net profit for Q2 was $ 8.6 bn and FH $ 15.4 bn; ONE $ 5.5 bn and $ 10.6 bn; Cosco $ 5.6 bn and $ 10.0 bn; Hapag Lloyd $ 4.8 bn and $ 9.4 bn; Evergreen $ 3.4 bn and $ 7.1 bn; OOIL FH $ 5.60 bn; HMM 2.3 bn and $ 4.9 bn; Zim $ 1.3 bn and $ 3.0 bn, respectively. The latest news on spot container rates shows the Shanghai Containerized Freight Index has now dropped back to pre-covid levels since it peaked in January. According to Sea-Intelligence, rates on the transpacific to the west coast of the US are still up 54% compared to the same period in pre-pandemic 2019, while prices from Asia to North Europe are up by 146% compared to the same period three years ago. Please keep in mind that between 60 to 70% of all box freight is contract rates that are at 3 to 4 times the level prevailing pre-pandemic. However, if there are massive renegotiations in contract rates then there will be a problem for the container fleet.

JP Morgan's talking points dated 5th September 2022 suggests '1) Recent moves at least confirm the container shipping sector has been and remains market-driven, in contrast to the allegations of collusion or manipulations in pricing by major liners in recent years. 2) Following the rate corrections, we also see scope for a pick-up in overdue scrapping of older/inefficient vessels as an offset (scrapping is still zero YTD, with very muted activity in 2H20-2021) amid the upcoming 2023 environmental regulations (i.e., EEXI/CII). 3) On the demand side, there could also be upward inventory adjustment once the ongoing de-stocking process is completed, while seasonality is less relevant since the start of the pandemic.'

# China's zero-covid policy:

China has some 160m+ elderly, largely unvaccinated, citizens at risk of serious illness or death with the new Omicron sub-variants that have entered the country; 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 October, 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 but seems to have recovered in Q3 with a GDP growth print of 3.9%. 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

"Too often, rich countries deny their historical responsibilities, whether it be for colonialism, slavery, or today's mounting climate damage. But the developing world will not forget the leading role that industrialized economies have played in permanently altering the climate and making catastrophic events more likely."

Professor Jeffrey Sachs, Project Syndicate, 13 September 2022

The amount of news on heat waves, flash floods, glacier melts, Earth skin temperatures hitting new records, modern cities are heat sinks, rivers in Germany and Italy are running dry, whole swathes of agricultural lands are not able to get irrigation, crops are withering away, snow-capped mountains are disappearing, shipyards are declaring 'heat' force majeure, city folk are dying from heat-strokes, still others are dying from flash floods, coastal cities are facing rising sea levels threatening to destroy their way of life, rail lines are warped, airport runways have failed, roads have buckled, more than 1,100 people have been killed and 33 million have been displaced by flash floods in Pakistan with the hottest city in the world now flooded, tractors used in Bengaluru to rescue people from flooded communities, such is the impact that even the greatest climate-change skeptic should throw in the towel.

There is an *interesting article in Project Syndicate* authored by the economist Jeffrey Sachs where he links the current extraordinary flooding, deaths, and displacement of a third of Pakistan to the climate change caused by rich countries who should be made to pay for the current damages. He says 'Between 1850 and 2020, the burning of fossil fuels resulted in cumulative emissions of 1.69 trillion tons of CO2. Of that total, the US accounts for roughly 24.6% – 417 billion tons – which is much greater than its share of the 2021 world population: roughly 4.2%. Similarly, high-income countries combined (including the US, Europe, Japan, and a few others) account for around 58.7% of cumulative CO2 emissions, but only 15% of today's world population. By contrast, Pakistan contributed roughly 5.2 billion tons of CO2 between 1850 and 2020 – roughly what the US emits each year. Its share of historical responsibility is therefore around 0.3% – far below its share of the global population (2.9%) and its burden of climate-related damage. While the US and other high-income countries are "net exporters of climate damages," Pakistan and most other low-income and lower-middle-income countries are unwilling net importers.'

With extreme climate already upon us, the migration of pathogens from animals to humans will increase, yet the world is not prepared for new pandemics nor how to combat their spread. The reality of the world's greater reliance on fossil fuels in the interim is on full display in the EU, with the EU's drought the worst in 5 centuries! What we need to understand is that the transition from fossil fuels to green renewables is a multi-decade phenomenon and not something that can be achieved overnight, which the current 'instant coffee' world does not get. This transition period will hurt the poorest people living in the poorer countries the most. The cost of this transition will be about $3 to $5 trillion per year over the next 30 years, and though it sounds like a very large number, it is between 3 to 5% of the current world GDP. A multipolar world with the USA and China at its center, they are also the largest contributors to GHG so need to discuss how to get this lowered quickly, as equal but amicable competitors, would allow globalization to produce the funds needed for this transition. What we do not need is an even more polarized world. The technologies required for this transition are in their infancy. In the maritime industry we are waiting for ship engines that would run on

Ammonia or other zero emission fuels and the regulations governing them. The first such prototypes should be on the water by 2024. The IMO can help by simply not allowing any brand-new fuel burning ships to be produced after the end of 2029. That will get shipyards and shipowners to focus on ZEVs, produce them at scale, and at an acceptable cost. Here is an *article from Reuters* dated 11 August that highlights the mess that the world is in from climate change.

Due to climate change, rogue waves are a phenomenon that is getting more attention in our industry. Shallow waters such as the North Sea and Bay of Biscay are notorious for winter storm-driven wave conditions. The Mid-Atlantic Ridge provides a shallow zone between North America and Europe with potential to cause rouge waves during winters. Rogue waves are defined as waves twice the size of the significant wave height, where the significant wave height is defined as the average height of the highest 1/3 of waves across a spectrum. Rogue waves often occur near coastal areas where ocean currents are strongest and where the ocean depth more frequently changes (i.e., South Africa with Agulhas Current). A 20-year study conducted by the UK's National Oceanography Centre and University of Southampton analyzed 20 years of buoy observations along the US West Coast (1994-2016) found that rogue waves have decreased slightly in frequency but have increased in height. The study also found that the height of rogue waves increased by about 1% each year over the 22-year period of the study (basis buoy data). Here is a *video that shows such a rogue wave* hitting a North Sea oil platform this summer.

The latest study on climate change suggests that by 2100 some parts of the world will be shut down for two weeks each year due to extreme heat (51C). You can *read the article here*.

# Inflation

"Headlines about high inflation continue to feed into commentaries demanding that the US Fed increase interest rates to curtail demand. Yet not only would this approach benefit money-holders at the expense of many workers, businesses, and consumers; it also is not even the best way to contain rising prices. We have just seen two quarters of falling GDP, well ahead of any known Fed forecasts; indeed, late last year, the Fed was predicting 4% real (inflation-adjusted) growth in 2022. It is thus bizarre to argue that the Fed should keep ramping up interest rates to fight an energy price shock that is already fading away. The fact that the argument plays well to the monied classes doesn't make it smart, or wise, or good."

Professor James K. Galbraith, Project Syndicate, 5 August 2022

Price of gas in USA dipped below $4 a gallon, price rises decelerated in July, yet the Fed is bent on raising interest rates at the fastest pace in more than 4 decades to combat inflation. However, the inverted US treasury yield curve tells a very different story, pricing in a recession with Fed rates being slashed as quickly as they have been raised as early as middle of 2023. Here is a short *video from the Economist* that helps explain what high inflation means.

Meantime, UK inflation rose to a 4 decade high in July of 10.1%, dropping to 9.9% in August with the Bank of England expecting Q4 inflation to reach 13% and remain high in 2023. The prospects of the world falling into stagflation has therefore increased and the war in Ukraine is not helping by pushing fuel, fertilizer, and food prices much higher than they should be. The climate change that we have written about is further pressurizing fuel, food, and fertilizer prices by shrinking harvests due to extreme weather, with extreme heat/cold requiring ever more energy for cooling/heating. The world last experienced high inflation in the 1970ies, so the experience of combating it in the current crop of world leaders is non-existent. These higher food and fuel prices will disproportionately impact the poorer people living in the poorest countries in the world.

Raising interest rates, as the ROW central bankers are doing, is not the solution to tame inflation as it will make the pain for the poorest of the poor even more difficult to bear. This is the first time that everyone is saying the same thing, we are in a recession. Past recessions have always come as a surprise, that is their nature, and that is why they are so scary, but apparently not this one. The ROW central bankers started by saying that inflation was 'transitory' and would fall over time. When it took a bit longer to materialize than they had anticipated, they labelled inflation 'persistent' and started raising interest rates to quell it. With the falling commodity prices, their earlier transient inflation beliefs may still come through and you may see them lowering interest rates by the middle of next year. Here is *an article by Jim O'Neill*, that summarizes these thoughts.

And if you think there is something not quite right behind the desire for the Fed to use a sledgehammer to slow current inflation, even though increase in inflation rates is slowing down, then you should *read this article* that has a different take on the reason why an unnecessary recession is necessary. And on the issue of curing inflation by raising interest rates, *researchers in the Fed,* say interest rate hikes will create a recession despite their big boss, Powell, claiming that interest rate hikes will do no such thing. So, who is right? The Boss or the researchers?

The effects of rising interest rates are already being felt by a host of corporate entities that are leveraged as this *article by the FT* dated 13 September details.

When the world globalized by moving manufacturing jobs offshore to countries with a much lower cost of living, the world enjoyed deflation. Deglobalization will do the opposite with the drive to re-shoring, near-shoring, friend-shoring being highly inflationary with manufacturing jobs moving to high-wage countries. Consumers will have to pay more for onshore/secured supply chains. Energy will, in the long run, cost more once you have exhausted all easy to access energy sources, no matter where you move manufacturing jobs. As interest rates rise, so will the cost of capital, as the 4-decade long cycle of low interest rates has bottomed out and is reversing. De-financialization of the economy will reprice real productive assets upwards while devaluing financial assets. The wealthy, owners of the largest portion of financialization of the economy, will have their wealth pared down along with the collapse in stock markets. As birth rates fall and average life expectancy increases, labor will continue to get scarce and wages will rise, as they must, to attract a shrinking workforce back to the market. In one stroke of the pen, the pandemic forced people to realize that the future is neither riskless nor predictable. Younger people therefore want to experience life and living and do not collect assets. They will not accept meaningless jobs, nor will they stay on as 'slaves' of employers. Nonessential jobs will disappear, and labor will demand, and get, good wages, and working conditions, for essential jobs. The potential port workers strike in not one, but two, critically important container ports in the UK, will increase UK inflation. Now, dear reader, pray tell, how will raising interest rates remove the inflationary forces described above without creating a recession?

The latest decision by OPEC+ in the week ending 7$^{th}$ October to reduce oil production by 2 million barrels a day will raise oil prices, and increase inflation, that the Fed is trying to fight by raising interest rates.

The mainstream news cannot seem to get enough talking points on why inflation busting via interest rate hikes is a must. However, there are quite a few economists who disagree with the mainstream view and are advocates of halting the interest rate hikes till more data points can be checked to see if this is working. *An article* with an alternate viewpoint is made excellently by Joseph Stiglitz and Dean Baker, where they state 'There are several reasons to hold off. The first is simply that inflation has slowed sharply. Consumer price index (CPI) inflation, the measure most relevant to households, was zero in July, and it is likely to have been zero or even negative in August. Similarly, the personal consumption expenditure (PCE) deflator, another often-used measure based on GDP accounts, fell by 0.1% in July.'

Finally, *an article from Bloomberg* that warns you that we are headed for a recession because central bankers are concertedly hiking interest rates, are not taking into account that inflation rates have slowed down (see the article above), not waiting out the time-lag that exists between raising interest rates and inflation falling, not even taking into account that the Russia-Ukraine war has pushed up the price of the 3Fs, (food, fertilizers, and fuel) over which higher interest rates have no impact.

# Rising inequality in the world

The extreme inequality in wealth distribution is growing instead of shrinking. In an article written in The Guardian, Bernie Sanders states that the top 3 multibillionaires in USA are worth more than the wealth of the bottom 160 million Americans. He further states '45% of all new income goes to the top 1%, and CEOs of large corporations make a record-breaking 350 times what their workers earn.' Please *read the rest of this excellent article* along with the two articles above to understand what is going on.

Here is a *thought-provoking article* about income inequality by John Burn Murdoch in the FT dated 16 September, that compares the US and UK with their western peers. His conclusion? Both countries are actually "poor societies with pockets of rich people."

A good *video on the unsustainable gap* that has developed between the rich and the poor by Senator Bernie Sanders.

For more context on pay disparity in corporate America, please *read this article* that states, 'Between 1978 and 2021, according to new research from the Economic Policy Institute (EPI), CEO compensation at the 350 largest publicly traded US companies rose by *an inflation-adjusted 1,460%, far outstripping the 18.1% pay increase that the nation's typical worker* saw during that period.

# Key Supply Side Developments

We started 2022 with 939.15 MDWT and have increased to 960.33 MDWT (+2.26%) at the end of Q3 2022. If we were to apply slippage of 5.00% (it was -5.98% i.e., above projected deliveries till end of Q3 2022) to the scheduled deliveries in Q4 of 2022 and FY 2023 and assume scrapping reaches 5 MDWT (it was 3.29 MDWT till end of Q3 2022) we would be left with a net fleet growth of

3.00% (939.15 MDWT to 967.33 MDWT of which 330.10 MDWT to 340.87 MDWT for the geared sector +3.26%, 609.05 MDWT to 626.46 MDWT for the gearless sector +2.86%) by end of 2022 and 2.74% by end of 2023 (967.33 MDWT to 993.82 MDWT of which 340.87 MDWT to 350.32 MDWT for the geared sector +2.77%, 626.46 MDWT to 643.51 MDWT for the gearless sector +2.72%.) Congestion, ballasting ships, slowing speeds, Covid-19 quarantine delays, and slowing of ships speeds in 2023/2024 due to EEXI/CII regulations, 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 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 a few 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

Scrubbers and their poisonous discharge waters are responsible, according to a new research study at Chalmers University of Technology in Sweden, for 9% of emissions of carcinogenic and environmentally harmful substances in the Baltic Sea. Unfortunately, the IMO mixed up economics with anti-pollution legislation and we are in this mess, with Sweden likely to ban open loop scrubbers in the Baltic Sea.

The EU parliament has passed a law banning fossil fuel burning new car sales from 2030, and Renault, Stellantis and Bentley will phase out such car productions by the same deadline. China's Hainan Island has just passed a law banning all fossil fuel burning cars from 2030. Similar bans and production shifts will take place in countries and industries now that the regulators and authorities are setting hard-stop deadlines.

Therefore, I have been a strong advocate for the IMO, the international shipping regulator, to place a ban on the delivery of any fossil fuel burning new ship delivery from a specific date, say 1st January 2030. That hard-stop deadline would focus the collective minds of shipyards, engine makers, regulators, zero emission fuel suppliers and their entire land/sea supply chain, and shipowners on the choice of fuel for the future ZEV ships. We must replace all existing sea going fossil fuel burning ships with ZEVs by 2050, and the ONLY way we can get there is if we have such an IMO mandated hard-stop deadline in place at the start of 2030. The sooner the better.

According to Class DNV, to be compliant with IMO CII regulations until 2026, a reduction in CII of 38% from 2019 levels is required. If this CII reduction is to be achieved by speed reduction alone, this will have a large impact with max speed at ~8K compared to present average speeds of about 12K. In 2023 about 42% of number of ships and 441 MDWT will be graded D or E and this number will rise to about 58% and to 596 MDWT by 2026 based on the EU MRV 2019 reported data. If there is no retrofitting of energy saving devices, even with these devices there will not be any appreciable dent in the CII ratings, the IMO may ban these ships from sailing. That will not be practical unless the world is prepared to forego all those commodities, that are indispensable to our existing way of life, that are moved on these ships.

In the past we have given links to videos showing methane slip from LNG burning ships, alluding that this was not a good fuel even in the interim. Finally, major industry players that have already invested heavily in LNG engine dual fueled-ships, are agreeing that methane slip has a 27 to 30 times greater global warming power than CO2 over a 100-year period, while CO2 would remain at 1 irrespective of the time-period. They will now conduct studies to measure the methane slip, abatement technologies to minimize it, and how to get industry-wide participation in these new technologies.

Ship speed changes, up or down, are based on fuel prices and freight markets. The higher the freight market, the faster a ship will go, and vice versa. The higher the fuel price the faster an eco-fuel burning ship will go compared to a non-eco ship, and vice versa. Speed changes will be magnified as regulatory requirements come into force, forcing high fuel burning ships to slow down via Engine Power Limits.

# Our read of Covid-19

In most countries, covid is treated like a common cold, with minimum if any, isolation being the norm. The USA claims that as 95% of their population has been vaccinated and/or got covid, so even the unvaccinated can go about daily life with no restrictions. And it would appear, the current strains making the round, are about as lethal as the common cold. Mask wearing, a simple, inexpensive, and effective method of keeping people safe, has been abandoned in country after country.

Air and other forms of travel have made a sterling comeback but are faced with massive issues with multiple flights being cancelled, planes suffering from mechanical issues, flight crew unable to join due to covid, lounges overflowing, shortage of ground staff to handle passengers, shortage of luggage handlers, luggage being lost, and it goes on and on. People will travel but only when necessary, and even then, travel as light as practical with their luggage, travelling with them.

The search for a one-and-done vaccine that would not only take care of the existing strains but also all future variants is very close to fruition according to researchers at Caltech. This is not only positive for the current pandemic but will also be useful against any future pandemics, and for use against things like the common cold/flu virus. Please read the article '*Universal covid vaccine*.'

Staff will work from office, but it will not be daily. Some are talking about a 4-day week at office, others about 50% at office every alternate week, with working from home, in some combination, to stay. High efficiency particulate air (HEPA) filters and air quality monitors will become standard office equipment.

# Others' reading of the market

Global rice trade in the calendar year 2022 is projected at 48.8 MMT (milled basis), up 0.1 MMT from the previous forecast, and for 2023 was revised up fractionally to 54.7 MMT. (USDA – 16 Aug 22)

A recession in the EU is now almost certain, inflation is nearing double digits, and winter is fast approaching. High food and energy prices are exacerbated by a devastating drought and low river levels that constrain transport. EU inflation at 9%, not seen in a half century, is sapping purchasing power with cash used on petrol, natural gas, and food. In June, retail sales were down 4% from a year earlier, led by a 9% drop in Germany. Close to half of EU's aluminum and zinc smelting capacity is already offline while fertilizer production, which relies on natural gas, has been shut. That pain is likely to intensify, with higher energy costs and inflation as the EU gives up its cheapest energy supplies. (Reuters – 24 Aug 22)

To help boost the economy, Beijing is targeting investments in new energy projects, high-speed rail, and water tunnels. China is pumping trillions of yuan into infrastructure investment, stimulus that could benefit the world's second-largest economy well beyond this year's gloom of Covid lockdowns and property market turmoil. Beijing is making 6.8 trillion yuan (about $1 trillion) of government funds available for construction projects, according to Bloomberg calculations based on official announcements. Total spending could be even higher than that, three times that amount, by some estimates once bank lending and corporate funds are added. (Bloomberg – 26 Aug 22)

Climbing interest rates, slower growth and a softening of the labor market will "bring some pain to households and businesses," but the Fed is laser-focused on tamping down decades-high inflation. Chairman Jerome Powell, in highly anticipated remarks from the annual Jackson Hole policy meeting, said that interest rates will keep rising and aren't likely to come down soon. (Bloomberg – 26 Aug 22)

Bangladesh is set to import 500,000 tonnes of wheat at $430 a tonne from Russia in a G-to-G deal as it battles to secure supplies amid surging prices. (Reuters – 27 Aug 22)

China's economy is now projected to grow just 3.5% this year, down from a previous forecast of 3.9%, according to Bloomberg's latest quarterly survey of economists. (Bloomberg – 28 Aug 22)

In 2019, the US unemployment rate averaged 3.7% and consumer prices rose at 1.8%. Fast forward to 2022, and while the unemployment rate has averaged the same 3.7% for the first seven months of the year, prices are skyrocketing at an annual rate of more than 8%, touching off a potentially intense debate at the Fed over whether the "hot" labor market policies embraced before the Covid-19 pandemic can survive in the economy that is emerging. (Reuters – 29 Aug 22)

Europe's fears of gas shortages heading into winter may have been circumvented, thanks to an unexpected white knight: China. The world's largest buyer is reselling some of its [Russian] LNG cargoes due to weak energy demand at home. This has provided the spot market with an ample supply that Europe has tapped, despite the higher prices. (FT – 30 Aug 22)

Time charter rates for Container ships have been exceptionally positive this year, largely thanks to logistical inefficiencies. Deliveries in 2022 will increase to 1.03 MTEU (units over 1,000 TEU). Net fleet growth will slow to +4% y-o-y in 2022, and then accelerate to +7% in 2023. The fleet expanded by +5% y-o-y in 2021. The orderbook-to-trading ratio is now 27.6% in TEU terms. Container volumes were essentially flat y-o-y in 1H2022. (Banchero Costa – 5 Sep 22)

Australia, one of the world's largest wheat exporters, will produce another huge crop. Growers are on track to harvest 32.2 MMT of wheat in 2022-23, just shy of last year's 36.3 MMT all-time high, as favorable winter weather buoyed yield potential of crops. (Bloomberg – 6 Sep 22)

The two-year Treasury yield, the most sensitive to policy changes, jumped as much as 22 basis points, pushing it more than 30 basis points above the 10-year rate, highest this century, and deepening an inversion which is generally, a recession warning. The dollar surged. (Bloomberg – 13 Sep 22)

China's economy showed surprising resilience in August, with faster-than-expected growth in factory output and retail sales shoring up a fragile recovery. (Reuters – 16 Sep 22)

A return business-class flight on the longest routes, between New York and Sydney, can cost more than $20,000, about double the price from pre-pandemic days. According to travel management firm CWT and the Global Business Travel Association, business-class air fares will be up 45% in 2022 and another 6.2% next year. (Bloomberg – 18 Sep 22)

The "massive" correction to China's commercial real estate market may have at least another two years to run, according to HSBC's CEO Noel Quinn. And China's households are expected to shift 127 trillion yuan ($18.1 trillion) from property into financial products over the next nine years, CLSA said. Economist Nouriel Roubini, who correctly predicted the 2008 financial crisis, sees a "long and ugly" recession which could see stocks fall by 40%. Roubini, whose prescience on the housing bubble crash of 2007-08, said those expecting a shallow US recession should be looking at the large debt ratios of corporations and governments. He said achieving a 2% inflation rate without a hard landing would be "mission impossible" for the Federal Reserve. (Bloomberg – 20 Sep 22)

The Russia-Ukraine conflict, inflation and Chinese economic trends have all led to concerns over the economic outlook. Consensus suggests annual global GDP growth in 2022 and 2023 of ~2-3%, down ~1.5% from 'pre-conflict' expectations. Bulkers (only 6% on order) have softened from 2021's 13-year high, amid demand headwinds (including pressure in China) and lower congestion. Decarbonization remains in sharp focus (shipping is 2.3% of global $CO_2$) with regulatory and policy framework building; the IMO's EEXI and CII measures come into force in 2023 (and possibly the EU ETS). Emissions policies may create market upside volatility by disrupting supply: lower speeds, more recycling, uneven fleet renewal, "tiered" and complex charter/S&P markets. Longer term, Energy Transition will impact trade. Economic concerns are building (and may impact containers more than bulkers) but for shipping there are mitigating factors: congestion, changing trade patterns, sanctions, and energy security. Medium-term, limited supply growth in many sectors and impacts from "green" regulation and policies have the potential to provide underlying support to markets. (Clarksons – 23 Sep 22)

Global economic growth is slowing more than was forecast a few months ago in the wake of Russia's invasion of Ukraine, as energy and inflation crises risk snowballing into recessions in major economies, the OECD said. (Reuters – 26 Sep 22)

Russia's Ukraine invasion will have cost the global economy at least $2.8 trillion in lost output by the end of 2023, according to the OECD. (Wall Street Journal – 26 Sep 22)

Wall Street daredevils beware: Bearish sentiment is far from exhausted. Ned Davis Research now sees a 98% chance of a global recession. (Bloomberg – 26 Sep 22)

The era of economic placidity in the 2010s is over. The fear is of a blow-up, as a financial system that has become habituated to low rates wakes up to the soaring cost of borrowing. But look further ahead and fundamental trends in the 2020s and 2030s are for bigger government (as spending rises on health care, defence and energy) with still-low real interest rates (as ageing populations in rich countries accumulate excess savings). That poses an acute dilemma for central banks. Should they ditch their 2% inflation targets and raise them to, say, 4%? A brave new world of higher government spending, and higher inflation, would present both opportunities and dangers. (The Economist – 6 Oct 22)

This week may have dashed any hopes Wall Street had that the US Federal Reserve would pivot from its aggressive effort to tame inflation. It did however present more good news for Americans looking for work. The September jobs report showed unemployment was back at 3.5% a historic 50-year low, with employers continuing to hire at a solid pace. (Bloomberg – 8 Oct 22)

Coal trade has steadily improved and has now fully recovered to pre-Covid levels. In the 9 months of 2022, total seaborne coal increased by +3.0% y-o-y to 890.2 MMT, from 864.5 in the 9 months of 2021, but still below the 957.1 MMT in the same period of 2019. South Africa is the fifth largest exporter of coal, after Indonesia, Australia, Russia, and the USA. The EU is now again the second largest destination for South African coal after India, with a 20.0% share. India remains the top destination for South African coal, at 28.4% of exports in Jan-Sep 2022. (Banchero Costa – 14 Oct 22)

The IMF cut its global forecast as its chief economist warned "the worst is yet to come" and "for many people, 2023 will feel like a recession." (Bloomberg – 14 Oct 22)

Trade volumes were disappointing so far in 2022. In Jan-Sep 2022, iron ore declined by -3.0% y-o-y to 1,124.7 MMT. Iron ore from Australia increased by +0.2% y-o-y, but from Brazil declined by -3.8% y-o-y. In Jan-Sep 2022, coal increased by +3.6% to 889.2 MMT. Coal from Australia -5.9%, Indonesia +15.1%, Russia +0.2%, USA +7.3%, South Africa -1.1%. (Banchero Costa – 20 Oct 22)

Over the past decade owning a house has meant easy money. Prices rose reliably for years and then went bizarrely ballistic in the pandemic. Yet today, house prices are falling in nine rich economies. From Stockholm to Sydney the buying power of borrowers is collapsing, depressing demand, and can squeeze the finances of existing owners who, if they are unlucky, may be forced to sell. But as an era of low interest rates comes to an end, a home-price crunch is coming, and there is no guarantee of a better housing market at the end of it all. (The Economist – 22 Oct 22)

A US recession over the next 12 months is all but inevitable, according to a model by two Bloomberg economists. However, a separate Bloomberg survey of 42 economists earlier this month predicts the probability at only 60%. Contraction risks have been raised by tightening financial conditions, persistent inflation, and expectations the Fed will press ahead with rate hikes. (Bloomberg – 24 Oct 22)

US consumer spending rose more than expected in September. (Reuters – 28 Oct 22)

Exxon Mobil, Chevron, and others posted huge profits on rising energy costs, those very same costs that have left many of us with lighter and less valuable bank balances. (Reuters – 28 Oct 22)

# What others' say about Supply Side Developments

South Korea's top three shipbuilders, Hyundai, Samsung, and Daewoo suffered a massive combined KRW1.5trn ($1.1bn) loss in the first half of the year. Korean shipyards which have kept up with price competition from China recorded losses of $3.3bn in 2021. (Splash – 23 Aug 22)

We expect deliveries to be relatively modest for the balance of 2022, so our forecast for net fleet growth this year continues to be 25 MDWT. The orderbook for 2022 stood at 35.6 MDWT in January and with perhaps 6 MDWT slippage into 2023, next year's orderbook looks similar in DWT to 2022. Overall, the forward orderbook (67.2 MDWT) is dominated by Chinese shipyards in all sectors except for Handysize where Japanese yards still hold sway. (Howe Robinson – 9 Sep 22)

Easing congestion in the bulker sector has been marked. Having averaged 35.0% of the Cape/Panamax fleet at port across 1H 2022, 31.2% of fleet capacity was at port in October so far, around three quarters of the way back to the 'pre-Covid' 2016-19 average of 30.0%. Lower congestion in China has accounted for more than half of this drop, with 57 MDWT of capacity at port in China across early October, down 15% from the 1H average. So, congestion has clearly been easing, perhaps reflecting lower disruption in China as impacts from Covid-19 lockdowns earlier this year have eased, and more generally as softer demand trends in some sectors have lessened pressure on previously congested ports. Nevertheless, congestion remains an important market driver. (Clarksons – 14 Oct 22)

Bulkers delivered in 2022 will decline to 29 MDWT, down from 35.9 MDWT in 2021. Demolition will remain soft at 2.3 MDWT, based on the age profile and recent trends, compared to 6.5 MDWT in 2021. Net fleet growth for bulkers over 20,000 DWT will be +3% y-o-y in 2022, and then slow to +2% in 2023, based on the orderbook, slippage, and demolition. The fleet expanded by a net +3% y-o-y in 2021. The orderbook-to-trading ratio, however, is still just 6.7% in DWT terms. (Banchero Costa – 20 Oct 22)

# What others' say about Inflation

UK inflation rose to a 40-year high of 10.1% in July, the highest among G7 countries and topping economists' expectations of 9.8%. Food inflation hit a 20-year record of 12.7% last month, led by the surging prices of bread, dairy products, meat, and vegetables. With skyrocketing inflation and steady wage growth, the Bank of England is expected to raise interest rates another 0.5% at its next meeting. BOE expects inflation to hit 13% in Q4 and remain high next year. (FT – 18 Aug 22)

British consumer price inflation is set to peak at 18%, nine times the Bank of England's target, in early 2023, an economist at US bank Citi said, due to the latest jump in energy prices. (Reuters – 22 Aug 22)

US job openings unexpectedly jumped to 11.2 million and consumer confidence advanced to the highest since May. Combined, the figures show rock-solid labor demand and resilient household demand even as US central bankers' step harder on the monetary policy brake. Without a commensurate slowdown in consumer spending and easing of wage pressure, the Federal Reserve's fight to bring inflation down from decades-high levels will be that much more difficult. Goldman Sachs issued a sobering warning for the UK, predicting inflation would rise to 22%. (Bloomberg – 30 Aug 22)

This summer, Sen. Elizabeth Warren again raised the alarm about Fed Chairman Powell, this time over risks of the Fed's rate hikes, warning that the decision to increase rates "risks triggering a devastating recession." According to the Fed's own research, Warren is correct. (The Intercept – 9 Sep 22)

The cure may be worse than the sickness. If the Fed raises rates aggressively, the effects will be felt outside its national purview, Mark Ashworth warns in Bloomberg Opinion. Parts of the global economy will break, the worldwide downturn will blowback on the US, and then everyone will find themselves running headlong into the dark realm of unintended consequences. (Bloomberg – 15 Sep 22)

The Fed issued its fifth interest rate hike of 2022, and it certainly won't be the last one, warned Powell. The Open Market committee delivered a unanimous 75 basis point increase. Officials also updated their expectation that rates would rise to 4.4% by year end and 4.6% during 2023. (Bloomberg – 21 Sep 22)

Having just bailed out energy giant Uniper to stop it from going under, the German government is reportedly now in talks with many regional state-owned energy suppliers to help them cope with sky-high natural-gas prices. The local utilities could need tens of billions of euros to keep them afloat. Surviving Putin's gas squeeze is proving to be very, very expensive. (Reuters – 23 Sep 22)

Policymakers in independent central banks are dusting off the playbook of the 1970s and early 1980s. Having claimed success for a sustained period of low and stable inflation for two decades, they now face very high inflation. It may not all be of their making, but their ultra-loose monetary policies undoubtedly played a key role in sparking it. (HSBC Global Economics – 25 Sep 22)

St. Louis Fed chief James Bullard maintained his anti-inflation rage and warned that US policy makers' credibility was on the line. So much for investor hopes of a pivot to a slower pace of tightening because of nascent signs that supply shocks and other cost pressures are easing. (Bloomberg – 27 Sep 22)

Q3 was not as lucrative as Q2, given oil prices retreated, but the combo of TotalEnergies, Exxon Mobil, Chevron, BP, and Shell should report a combined $50 billion in net income. (Reuters – 24 Oct 22)

Private-sector wage growth slowed, suggesting inflation has peaked or is close to. (Reuters – 28 Oct 22)

The Eurozone's consumer price inflation rate hit 10.7% this month, crossing into double digits and overtaking the US, where inflation is 8.2%. The disparity partly reflects a worse energy crisis in Europe. (Wall Street Journal – 31 Oct 22)

# What others' say about Climate Change

Cement, glass, and steel of urban life have turned modern cities into dangerous heat sinks. Sunlight gets absorbed, stored, and slowly emitted in a bubble of warmth that can push city temperatures up as much as 3°C (5.4°F). This year has seen record-breaking highs in Delhi (49°C) and London (40.2°C), while thousands of city dwellers globally have died in sweltering cities. (Bloomberg – 4 Aug 22)

Corn crops are shriveling in Europe. China is burning coal to meet electricity demands. From deadly floods to extreme temperatures in Kentucky, this summer's heatwave has shown the broader challenges of the climate crisis. And it will get worse: The snowpack of the US West is disappearing, erasing a major source of water for 76 million people. Urban centers are sweltering. (Bloomberg – 5 Aug 22)

In Italy the waters of the river Po are so low they revealed a WWII bomb. (Reuters – 7 Aug 22)

The UK is planning for several days over the winter when cold weather may combine with gas shortages to spur blackouts for industry and even households. Under the government's latest “reasonable worst-case scenario,” Britain could face an electricity capacity shortfall totaling about one sixth of peak demand, even after emergency coal plants have been fired up. (Bloomberg – 9 Aug 22)

Antarctica's coastal glaciers are shedding icebergs more rapidly than nature can replenish, doubling previous estimates of losses from the largest ice sheet over the past 25 years. (Reuters – 11 Aug 22)

Extreme weather fueled by the climate crisis has deluged Seoul with its heaviest rainstorms in 80 years, caused drought across swaths of Europe (even as far as northern England) and imperiled beer production in Mexico. (Bloomberg – 12 Aug 22)

A report by nonprofit research First Street Foundation, found that an "extreme heat belt" in America's heartland that cuts through the middle of the country, stretching from Texas to the Great Lakes, would affect more than 107 million people over the next 30 years. Residents could experience temperatures above 125 degrees Fahrenheit by 2053, conditions that are more commonly found in California's Death Valley or in parts of the Middle East. (NBC News – 15 Aug 22)

China is scrambling to alleviate power shortages and bring more water to the drought-hit basin of the Yangtze River as it battles a record-breaking heatwave. (Reuters – 17 Aug 22)

The historic heat wave that has smothered western Europe this summer has caused transportation chaos. Warped railroad tracks, failed airport runways, and buckled key roads. The same thing has been occurring across America, Australia, China, and Africa. Roads all over the world were not built for the increasingly hotter climate caused by global warming. (Bloomberg – 18 Aug 22)

In Europe, France's river Loire has set new lows, rocky beaches are emerging from Italy's Lake Garda, and Serbs are wading across a vast stretch of the shrinking Danube. Torrential rain slammed the west and north of New Zealand's South Island for a third straight day, forcing hundreds to evacuate their homes and triggering road and school closures and land slips. (Reuters – 18 Aug 22)

The 1.9 billion people who inhabit the Indian subcontinent are waking up to the possibility that punishing heat may be the new normal. (Bloomberg – 19 Aug 22)

China’s Sichuan province extended industrial power cuts and activated its highest emergency response to blistering temperatures and scant rainfall since July, along with surging demand for air conditioning to deal with “extreme” electricity supply deficiencies. (Bloomberg – 19 Aug 22)

Europe’s drought is probably the continent’s worst in 500 years. (Bloomberg – 23 Aug 22)

Nations of the world are only too aware that fossil fuels need to be phased out for two reasons. First, oil is a finite commodity, and will run out. Secondly, fossil fuel emissions such as CO2 are destroying the planet’s climate system. A recent study puts a damper on the prospects of phasing out fossil fuels in favor of renewables. A phase out of fossil fuels by midcentury looks to be impossible. There are simply not enough quantities of minerals/metals contained in Mother Earth. (Counter Currents – 24 Aug 22)

Australia, the world’s biggest carbon-emitter per capita, is gearing up to go green, and could potentially produce enough green energy to power the whole world. (Bloomberg – 25 Aug 22)

The world’s rivers are drying up as we are fully in the grip of accelerating climate change, and that has a profound economic impact. Losing waterways means a serious risk to shipping routes, agriculture, energy supplies, even drinking water. (Bloomberg – 26 Aug 22)

Downpours in the sprawling manufacturing hub of Chongqing and nearby areas of Sichuan province, southwestern China, that had suffered scorching temperatures this month, are now on alert for flooding amid days of torrential rain. (Reuters – 29 Aug 22)

The UN has issued a flash appeal on Tuesday for $160 million to help Pakistan cope with catastrophic floods that have killed more than 1,100 people, destroyed infrastructure and crops, and affected 33 million people. (Reuters – 30 Aug 22)

Southern Pakistan braced for more flooding as a surge of water flowed down the Indus River, compounding the devastation in a country a third of which is already inundated by a disaster blamed on climate change, with Jacobabad, the world's hottest city, now under water. (Reuters – 1 Sep 22)

Scientists have issued an urgent “warning to humanity” about the global impact of tree extinctions. A new paper predicts severe consequences for people, wildlife, and the planet’s ecosystems if widespread loss of trees continues. At least 17,500 tree species, about a third of the world’s 60,000 tree species, are at risk of extinction. (The Guardian – 2 Sep 22)

In India, authorities in Bengaluru used tractors to rescue residents of posh housing estates marooned by floods after two days of torrential rain brought chaos to the tech hub. (Reuters – 6 Sep 22)

The ongoing heat wave hitting the Bay Area and other parts of California may go down as the worst in history, with Tuesday having seen record temperatures everywhere from Fairfield (117°) to downtown Sacramento (113°). (Fortune – 7 Sep 22)

Ocean waters in the Northern Hemisphere have been unusually warm in recent weeks, with parts of the North Atlantic and North Pacific undergoing particularly intense marine heat waves with temperatures up from 2C (3.6F) to 5C (9F), conditions that have not been observed since record keeping began roughly six decades ago. (NBC News – 7 Sep 22)

India, the world’s biggest rice shipper, levied a tax on some exports to secure domestic supplies after planting shrank, in a move that could further rattle global food markets. Un-milled and husked brown rice will attract an export levy of 20%, with a similar duty on semi-milled and wholly milled rice, except parboiled and basmati varieties. (Bloomberg – 8 Sep 22)

There are now at least as many people employed in clean-energy sector as there are in the fossil-fuel sector, according to a new report from the IEA. Both sides are experiencing a post-Covid employment upswing, but clean energy is accounting for the most growth, the inflection point is here. (AP – 8 Sep 22)

A blistering heat wave, and deepening drought, have left California tinder dry weeks before the arrival of seasonal hot winds that can whip a spark into towering flames. These factors are converging for the return of massive blazes, choking smoke and fire-related deaths. (Bloomberg – 9 Sep 22)

China is leading the race for technology vital for producing green hydrogen. Chinese factories produce electrolyzers, which run an electric current through water, separating it into oxygen and hydrogen, at a fraction of the cost of US and European competitors. When powered by renewable energy, they can produce hydrogen gas to fuel everything from cars to steel mills without any carbon emissions. Orders for the systems are soaring as more industries seek to decarbonize and analysts see costs falling 30% by 2025 as manufacturers build up economies of scale. (Bloomberg – 21 Sep 22)

Jan Dieleman, Cargill Inc.'s head of ocean transport, told Bloomberg that EU importers are hiring tankers for long-distance hauls of energy products from countries halfway around the world. If it weren't for the sanctions, natural gas and other refined energy products would flow via pipelines from Russia. But since Europe is hellbent on rapidly shifting its entire energy supply chain away from Russia, EU importers are hiring tankers to source LNG from Asia. (Zero Hedge – 23 Sep 22)

Climate change seemed a distant threat. No more. We now know its face, and all too well. We see it in every hurricane, torrential rainstorm, flood, heatwave, wildfire, and drought. (The Guardian – 30 Sep 22)

UNDP revealed that the world's poorest countries needed immediate debt relief to avoid even more extreme poverty and give them a chance of dealing with climate change, whilst a separate report by the European Network on Debt and Development (Eurodad) showed that small developing island states heavily exposed to the effects of climate change spend at least 18 times more on debt servicing than they receive in climate finance. (Reuters – 11 Oct 22)

Shell's ethane cracker is scheduled to come online soon in Pennsylvania. The cracker will be permitted to be a large polluter, the second biggest emitter of volatile organic chemicals in the state. After being awarded a state air permit to issue more volatile organic compounds than that emitted by the Clairton Coke Works, a notorious local polluter, the "cracker" plant is getting an easy ride from state officials as the fracking industry did, starting in the mid-2000s, critics say. (Inside Climate News – 21 Oct 22)

A survey shows that 71% of EU consumers are cutting back spending on everyday items, including food, to make ends meet amid a worsening cost-of-living crisis. Consumers across six key markets in Europe have made significant changes to how they shop as they cope with inflation. (Bloomberg – 24 Oct 22)

The IEA stated that reduced supplies of Russian fossil fuels can help to hasten a green energy transition. But can it really? Before we all pat ourselves on the back, last week we pointed to the rise of reopened coal plants to deal with this winter's energy crisis. This is something the AIIB has warned governments against, saying such moves could result in decades of environmental harm. (Reuters – 27 Oct 22)

# What others' say about War

House Speaker Nancy Pelosi's swing through Asia aimed to convey the US's "strong and unshakable" support for the region, ended up leaving many countries in stunned silence. Shockwaves from Pelosi's stop in Taiwan are still reverberating, after China conducted, and then extended, military exercises designed to show an ability to encircle the island and cut off the Taiwan Strait, one of the world's busiest trade routes. Many governments saw the visit as a step too far, and they do not want to get caught in the middle. (Bloomberg – 9 Aug 22)

Germany will host an international conference in Berlin in October to organize the reconstruction of Ukraine following Russia's invasion. Chancellor Scholz said a reconstruction package for Ukraine will be bigger than the Marshall Plan, which helped Europe recover from WWII. (Bloomberg – 11 Aug 22)

German utility Uniper, the most high-profile victim of EU's energy crisis, reported a net loss of $12.5 billion for FH 22 and warned it would take till 2024 before it could turn profitable. (Reuters – 17 Aug 22)

Economic activity weakened from the US to Europe and Asia, reinforcing concerns that soaring prices and the war in Ukraine will tip the world into a recession. US business activity contracted for a second-straight month in August, falling to the weakest level since May 2020, while output in the 19-nation euro zone fell as record energy and food inflation saps demand. In Asia Japanese output shrank, Australia's services sector contracted, and China is dealing with the twin blows of a real estate crisis and a Covid Zero policy which is damaging the economy. Australia is also contending with slumping house prices, they are down 5% in Sydney, adding to the risk of recession. (Bloomberg – 23 Aug 22)

As Western countries try to cripple Russia's $1.8 trillion economy with a novel arsenal of sanctions, the effectiveness of this embargo is critical to the outcome of the Ukraine war. Worryingly, so far, the sanctions war is not going as well as expected. (The Economist – 25 Aug 22)

Japan is set to approve what could be its biggest increase in defense spending since the end of World War II, which could propel it from ninth in the world for military spending to number three behind the US and China. (Bloomberg – 25 Aug 22)

The Biden administration is planning to ask Congress to approve a $1.1 billion arms sale for Taiwan that includes anti-ship missiles and anti-air missiles, Politico reported on Monday. (Antiwar.com – 30 Aug 22)

The German government is reportedly considering nationalizing Uniper, the country's biggest natural-gas importer, in which it already took a 30% stake earlier this year to stop it from collapsing. Uniper still needs help staying afloat. The European Commission now backs decoupling the effects of high gas prices on electricity prices, to allow consumers to "reap the benefits of low-cost renewables" and reckons the EU will raise over $140 billion from windfall taxes on energy firms' profits. (Bloomberg – 13 Sep 22)

President Joe Biden said, US military forces would defend Taiwan from "an unprecedented attack," his latest pledge of support as his administration seeks to deter China from increasing military pressure on the democratically elected government in Taipei. (Bloomberg – 19 Sep 22)

China could invade Taiwan this year or next, according to Admiral Mike Gilday, head of the US Navy. "I don't mean to be alarmist," he told the Atlantic Council. "It is that we cannot wish that away." There have been previous warnings in the US that such an event could happen by 2027, and China expert Bonnie Glaser said it was "irresponsible" of Gilday to predict an invasion before 2024. (FT – 20 Oct 22)

This week, NATO started a round of exercises of its nuclear capabilities in Belgium and the UK. While the NATO exercises were scheduled long ago, they are now uncomfortable. What will the multinational drills seek to accomplish, and why did NATO decide to move ahead with them now?

These are big, muscular events, and at least 14 of NATO's 30 member nations will participate. (Bloomberg – 20 Oct 22)

The chair of the progressive caucus of the US House of Representatives, Pramila Jayapal, has retracted a letter sent by 30 members urging Biden to engage in direct talks with Russia to end the war in Ukraine. (The Guardian – 25 Oct 22)

# What others' say about Regulatory Developments

With just 163 days to go until the IMO's EEXI comes into play, more than 75% of all tankers, bulkers and containerships will not be compliant, according to a new report from VesselsValue. EEXI alone will present a myriad of challenges to owners, operators, and financiers. The new rule is the most significant shipping regulation in years, leading to a fundamental shift in the industry. (Splash – 2 Jul 22)

With barely four months to go until EEXI and CII legislation, Maersk estimates that a minimum of 5% of additional tonnage may be needed as slowing down of vessels could have "a significant impact" that requires between 5 to 15% more capacity. Hapag-Lloyd put the figure in the region of "high single digits". Global Ship Lease suggested that reducing the average operating speed by just one knot could cut effective supply by 6% to 7% of global container fleet. But speed could be 2 to 3 knots slower, that suggests you require 18% more capacity. (TradeWinds – 15 Aug 22)

Measuring the scale of methane emissions and understanding if they can be managed to negligible levels, will signal if LNG is a viable fuel to help achieve 2050 decarbonization targets. The two-pronged approach to accelerating technologies in methane measurement and abatement will help drive solutions for the maritime industry, to support decarbonization. (TradeWinds – 6 Sep 22)

Fuel economics, and the impact of emissions policies, mean that speed trends will vary between ships with differing characteristics. In the Capes (average: 11.0 k), average speeds for 'eco' ships (11.2) were faster than non-eco units (10.9), and similarly for scrubber-fitted ships (11.1) vs non-scrubber fitted units (10.8). These trends reflect the differences in fuel costs; 'eco' ships due to lower fuel consumption, and scrubber-fitted ships due to their ability to use less costly higher-sulphur fuel. To optimize earnings, in stronger markets ships with lower fuel bills are more likely to speed up, whilst in weaker markets ships with higher fuel bills are more liable to slow down. So far, fuel economics appears to have been a clear driver of variation in speed. As the 'Fueling Transition' continues to evolve, there is potential for differences in speed trends to be amplified as more 'tiered' markets develop. (Clarksons – 9 Sep 22)

New research from Chalmers University of Technology in Sweden suggests discharge water from open loop scrubbers, is responsible for up to 9% of certain emissions of carcinogenic and environmentally harmful substances in the Baltic Sea, considerably more than was previously known. Furthermore, the number of scrubber-fitted ships have more than tripled since the study was carried out. If the Swedish politicians follow the line of the researchers, Sweden will be the first country in the Nordic region to introduce the ban into the internal waters of the Baltic Sea. (Splash – 20 Oct 22)

# Others' read of Covid-19

Hospital workers who got a fourth dose of Pfizer's vaccine were far less likely to catch Covid than their triple-vaccinated peers, according to a new study. The findings published Tuesday in the American Medical Association's open access journal are the latest to confirm the benefits of a second booster against breakthrough infections caused by omicron. (Bloomberg – 2 Aug 22)

There is a new clue to understanding long Covid. Researchers found striking decreases in the stress hormone cortisol were the strongest predictor for who develops long Covid. The new study identified several potential drivers of the lingering symptoms afflicting millions of survivors. Health officials in the US said Americans no longer need to quarantine after Covid exposure. (Bloomberg - 11 Aug 22)

The US CDC will no longer recommend quarantines or test-to-stay programs at schools or daycare centers for people exposed to Covid, the agency said in updated guidelines. The agency also said it was no longer recommending unvaccinated people quarantine after exposure, as around 95% of the US population has either been vaccinated, had Covid already, or both. (Reuters – 12 Aug 22)

Covid-19 survivors remain at higher risk of psychotic disorders, dementia, and similar conditions for at least two years, according to a University of Oxford study based on the records of 1.25 million patients. "Brain fog," epilepsy, seizures and other longer-term mental and brain health disorders remained elevated 24 months later. Even a mild Covid case is associated with brain shrinkage equivalent to as much as a decade of normal aging. (Bloomberg – 17 Aug 22)

Pfizer's Covid-19 pill appears to provide little or no benefit for younger adults, while still reducing the risk of hospitalization and death for high-risk seniors, according to a large study. (AFP – 25 Aug 22)

Several big Chinese cities have escalated covid-19 restrictions, renewed economic uncertainty, and delayed the start of the school year. The fresh measures, scheduled to last just a few days for now, reflect China's insistence on its so-called "dynamic covid zero" policy. (Reuters – 30 Aug 22)

US has recommended the use of Moderna and Pfizer's new omicron boosters. (Bloomberg – 1 Sep 22)

Ending the covid pandemic might well require a vaccine that protects against any new strains. Caltech Researchers may have found a strategy that will work. Nanoparticles could be the key to a universal covid vaccine. (MIT Technology Review - 5 Sep 22)

Is the coronavirus on its way out? No. The pandemic is still here, and new vaccine-evading strains may yet appear. Moreover, scientists predict the scourge that has lasted longer than the 1918 flu pandemic will linger far into the future. (Bloomberg – 12 Sep 22)

The world has never been in a better position to end the Covid pandemic, the head of the WHO said, his most optimistic outlook yet on the crisis which has killed over six million people. (Reuters – 15 Sep 22)

| BCI TC Avg | 3,413 | -2,854 | BPI TC Avg | 12,344 | -2,844 | BSI TC Avg | 19,183 | 101 | BHSI TC Avg | 16,794 | -491 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | HRDI | 1,065 | -189 | HRCPI | 270 | -226 | HRSCI | 2,516 | -215 |

## CHINA AND THE GLOBAL GLOOM

Whether it be wars, embargoes, plagues or natural disasters, the productivity loss stemming from the disruption to normal trade patterns invariably results in supply shortages and steep price hikes. The shock to energy and agricultural markets following the Ukraine conflict, coming so soon after the Pandemic, has been no exception. But whereas producers, not least those in transport sectors thanks to the mobility of their assets, are relatively quick to adapt to logistical change, the delayed effects of shocks to consumer / investor incomes, confidence, sentiment and expectations are starting to bite and may be more prolonged. The world economy is now entering this second phase as the 2021 early 22 commodity price spirals give way (with the notable exception of gas), to their consequential negative effects on inflation and demand growth.

COVID caused a record 85% of all countries to plunge into negative growth in 2020 (Chart 1) and the nascent 2021 recovery when is already collapsing. According to the IMF's June estimates (which will almost certainly be further downgraded as the Ukraine war continues past its six-month anniversary) world growth will more than halve and inflation more than double in both advanced and emerging economies this year (Table 1). The down-turn may be less severe than in 2020 but, with the exception of a few energy exporters, it will be just as wide-spread.

CHART 1 PERCENTAGE OF COUNTRIES EXPERIENCING NEGATIVE PER CAPITA GROWTH (1901-2021)


Source: IMF

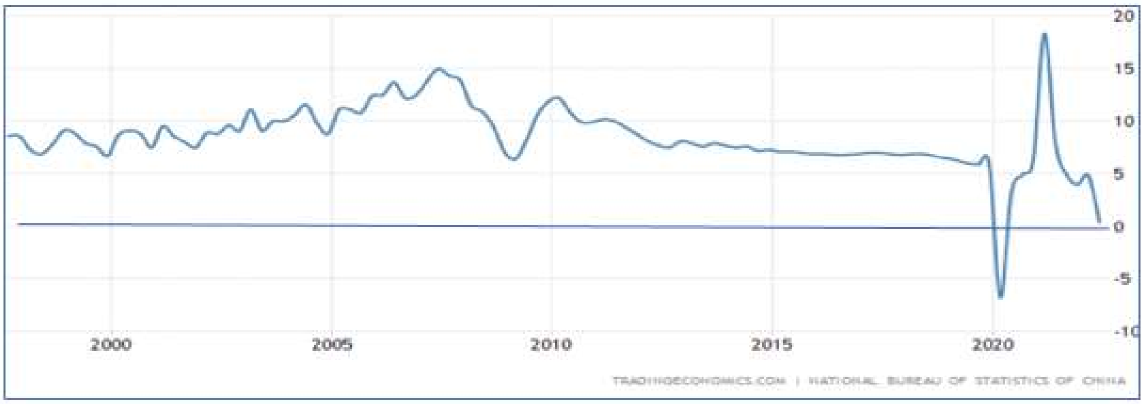
TABLE 1 IMF MACROECONOMIC GROWTH FORECASTS

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| **GDP Growth** | | | | |
| World | -3.1% | 6.1% | 3.2% | 2.9% |
| Advanced Economies | -4.5% | 5.2% | 2.5% | 1.4% |
| Emerging Economies | -2.0% | 6.8% | 3.6% | 3.9% |
| **Consumer Price Inflation** | | | | |
| World | 3.2% | 4.7% | 8.3% | 5.7% |
| Advanced Economies | 0.7% | 3.1% | 6.6% | 3.3% |
| Emerging Economies | 5.2% | 5.9% | 0.5% | 7.3% |
| **World Trade Volume** | | | | |
| Goods and Services | -7.9% | 10.1% | 4.1% | 3.2% |

Source: IMF Jun 2022

But important as the pervasive nature of this downturn is for world trade, it is China's economic deceleration that constitutes the most serious issue, particularly for dry bulk shipping as it accounts for around 50% of all its cargoes. Thanks to Deng Xiaoping's hugely successful "socialist market economy" policies, China generated 25% of the global increase in GDP during the last two decades and until COVID struck it had consistently enjoyed positive growth during every single quarter of the previous 25 years (Chart 2).

CHART 2 CHINA ANNUALISED QUARTERLY GDP GROWTH



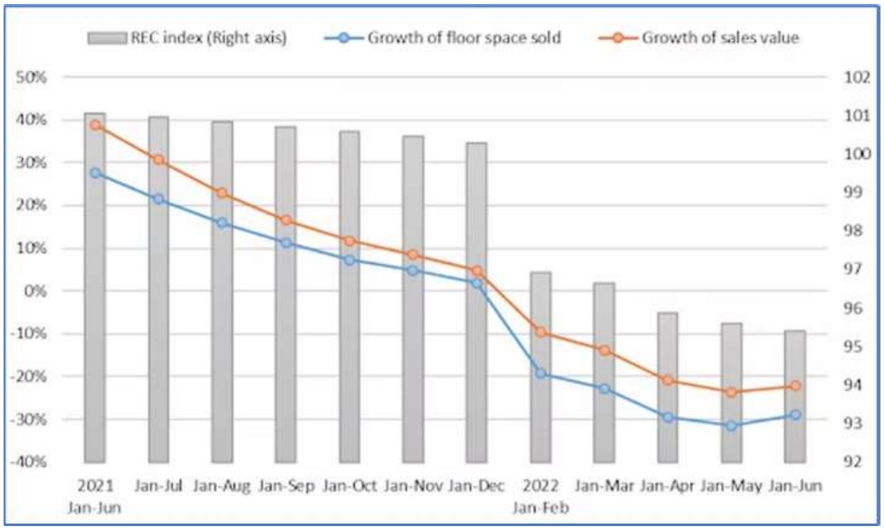

Although, as might be expected in a maturing economy, rates have trended down from double digit levels since 2008, China has proved a reliable and dynamic source of growth for dry bulk imports. However, even allowing for the questionable accuracy of these historical GDP figures, it is clear that since 2020 China's economy has entered a considerably more volatile phase, especially if compared to the 2008/9 financial crisis when quarterly growth never dipped below 5%.

The latest Q2 fall to 0.4% suggests China now faces a number of headwinds that were not blowing during the first two decades of the century. Like all trading countries, it faces overall weakening markets for its exports(though in the case of steel sharply increased stockpiles at home have led to near record shipments abroad in the past 3 months). Protectionism, the retreat from globalisation, the growing Sino-American split and worsening geopolitical climate are undoubtedly all contributory factors. But there are also homegrown problems which add force to these winds.

Fines, new regulations and a drive to reduce reliance on imported western components have caused the tech industry, which accounts for 8% of GDP, to stagnate. The zero-COVID policy, which has been in force for two and a half years is another culprit. During that time over 200 million people have been living under restrictions that have disrupted both industrial production and domestic demand and it looks as if restrictions due to COVID outbreaks may continue into 2023. because of China's refusal to import western RNA vaccines to combat the highly transmissible Omicron variant.

Another violent headwind has been the progressive deterioration of the real estate sector. Thanks to Ponzi type abuses of China's 'presale' system of property purchase, a vicious circle has developed. Payment strikes on 5-6% mortgages for homes homeowners worry may never get built have reduced the liquid funds available to developers by over 25% this year causing more than 60% of developers to hit one of the three debt thresholds set by regulators and about 10%, Evergrande included, to breach all three. In consequence the property boom which started in the early 2000s and peaked in 2018 has plunged deep into negative territory this year (Chart 3).

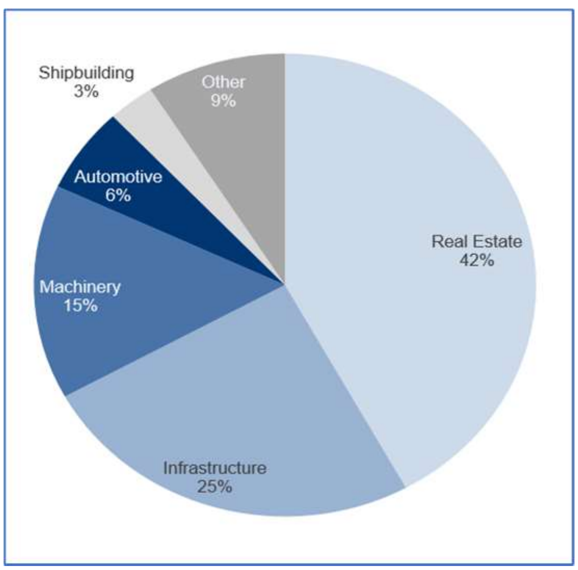
CHART 3 CHINA REAL ESTATE INDEX AND NEW HOUSE SALES




Source: National Bureau of Statistics of China

The crisis is highly significant because of real estate's size (the Economist estimates the sector constituted around 24% of GDP in 2021), because of its financial links to banks (around 25% of whose assets is in property) and, most directly for dry bulk shipping, because of the critical importance of building construction and its associated infrastructure of roads, rail links and utility projects for steel demand (Chart 4).

CHART 4 CHINA STEEL CONSUMPTION BY END USE SECTOR




None of this is evidence that China is going to suffer a full-blown financial collapse comparable to the US mortgage-backed securities disaster of 2008/9. Their big banks are publicly owned and underwritten by central government. The People's Bank of China (PBOC) is already easing interest rates and compared to indebted US and European homeowners in 2008, Chinese households have high savings rates with which to service their mortgage payments. But the inevitable consequence of so many challenges at home and some economic shift away from manufacturing towards real estate development and the services sector, is that China is less likely to lead the world out of any impending global recession as it did in 2008/9 and more likely to experience greater GDP growth volatility in the future.