Market Review

Freight Market Summary

Handysize and Supramax spot market rates averaged US$6,590 and US$8,010 per day net respectively in the first half of 2017, representing a substantial 69% and 76% improvement in average earnings from a very low base in the first half of 2016. As significant as this improvement is, market freight earnings are still not at profitable levels for most dry bulk shipowners.

The dry bulk freight market indices were characterised by a familiar pattern with a short seasonal decline at the start of the year, recovery after Chinese New Year and a stronger second quarter, especially in the Pacific which started the year markedly weaker than the Atlantic. By mid-April, rates were at their highest in over two years, driven by increased Chinese industrial imports of major and minor bulks, record South American grain export volumes and improved US grain exports compared to a year earlier.

Market rates have softened since end April following the seasonal peaks in the South American agricultural export seasons and, in part, due to reduced Australian coal port congestion and exports in the wake of Cyclone Debbie.

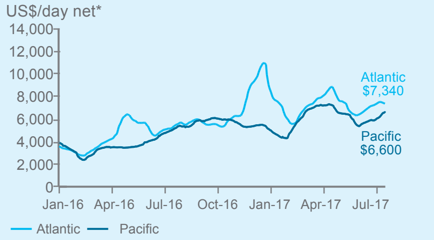
US$6,590 net ⬆ +69%

Handysize 1H17 average market spot rate

US$8,010 net ⬆ +76%

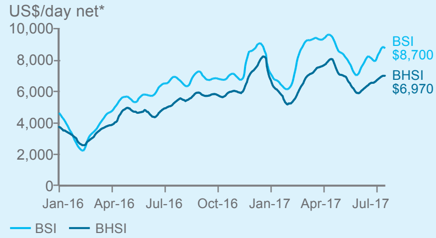
Supramax 1H17 average market spot rate#

Handysize Spot Rates Atlantic vs Pacific Routes



* excludes 5% commission
Source: Baltic Exchange, data as at 26 Jul 2017

Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)#



* excludes 5% commission
# BSI is now based on a standard 58,000 dwt bulk carrier
Source: Baltic Exchange, data as at 26 Jul 2017

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

Key Supply Developments

SUPPLY DRIVERS

The global fleets of 25,000-40,000 dwt Handysize and 50,000-60,000 dwt Supramax ships grew 2.0% and 1.5% net respectively during the half year as much reduced scrapping outweighed a reduction in newbuilding deliveries. Overall dry bulk capacity expanded by 2.3% in the period.

The reduced pace of scrapping to 1.0% of existing dry bulk capacity and 1.0% of Handysize capacity was due to the markedly improved freight market conditions compared to a year before.

A reduction in newbuilding deliveries to 3.2% of existing capacity was expected due to the declining orderbook. Deliveries appear to have been boosted by a number of Chinese-built newbuildings that had essentially been completed some time ago but withheld by their builders until markets improved.

Yard deliveries are typically higher early in the year, so net fleet growth is likely to reduce in the second half – depending on scrapping, more of which is required for a more normal market balance to be sustained.

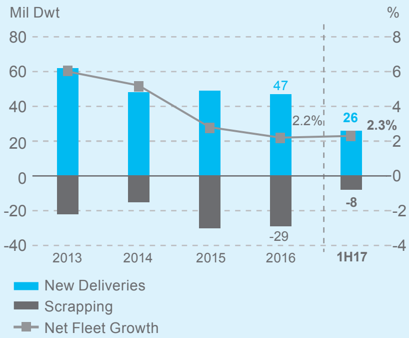
⬆ +2.0% (Jan to Jun)

1H17 Global Handysize capacity

⬆ +2.3% (Jan to Jun)

1H17 Overall dry bulk capacity

Dry Bulk Supply Development



Source: Clarksons Platou, Bloomberg

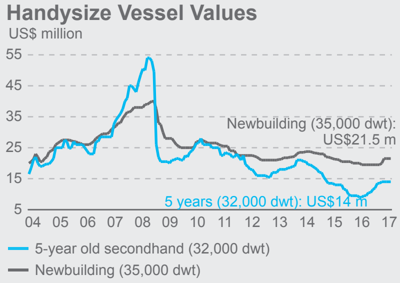
Ship Values

Improved freight market conditions overall have supported sale and purchase activity and increased vessel values. Clarksons Platou currently values a benchmark five year old Handysize bulk carrier at US$14.0 million – up 4% since the start of 2017 and 47% from one year ago. Newbuilding prices have increased 10% since the beginning of the year to US$21.5 million. The gap between newbuilding and secondhand prices continues to discourage new ship ordering which will benefit freight market fundamentals in the future.

US$14m ⬆ +47%

Secondhand Handysize

Handysize Vessel Values



Source: Clarksons Platou, data as at 26 Jul 2017

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

DEMAND DRIVERS

Key Demand Developments

Clarksons Platou estimate dry bulk shipping demand in the first quarter to have improved by 4.9% from a year earlier. This compares favourably to 0.4% growth in the first quarter of 2016 and a 1.7% decline in the first quarter of 2015. Data for the second quarter is not yet available but will likely show an improved demand/supply balance compared to a year ago.

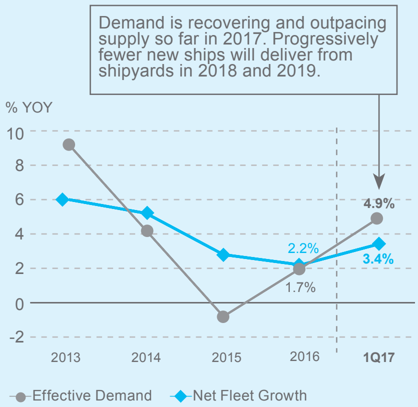
Key drivers through the first half included improved North and South American grain exports despite increased stock piling by farmers speculating on price and, in Brazil, currency exchange rate changes.

Cyclone Debbie affected Australian coal operations causing a dramatic reduction in metallurgical coal exports in April causing coal importers to look to other exporters to cover the shortfall.

Brazilian fertiliser imports saw a strong upswing, and coal imports to Vietnam, Philippines, Thailand and Malaysia increased due to increased coal-fired power capacity. India registered higher steel and grain imports.

In January to June, Chinese imports of eight minor bulks that we track increased 15%, and Chinese dry bulk imports overall increased 12%. Chinese steel exports reduced 25% in the first six months despite a 4% increase in production, illustrating the strength of domestic demand growth from industrial activity.

Dry Bulk Effective Demand & Supply



Overall dry bulk demand

+4.9% 1Q17 YoY

1H17 Chinese imports – major bulks

Iron Ore	+9%
Coal	+23%

1H17 Chinese imports – minor bulks

Manganese Ore	+44%
Bauxite	+26%
Soybean	+16%
Logs	+9%

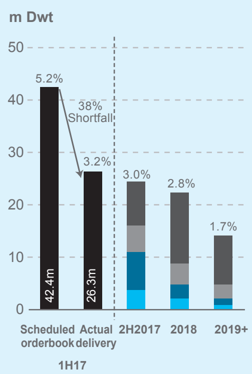
Source: Clarksons Platou, Bloomberg

Orderbook

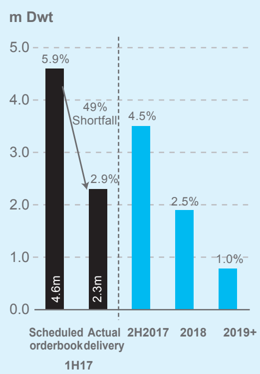
The dry bulk orderbook has reduced further to 8% from 15% a year ago. New ship ordering remained very limited at 5.5 million dwt in the first half of the year, representing 1.4% of the fleet (annualised) with most new orders placed for larger Panamax and Kamsarmax ships.

Historically low new ordering and a continued orderbook delivery shortfall should result in further reductions in new ship deliveries in the coming years. Scheduled deliveries for this year are 37% smaller than last year, and we expect actual deliveries will be around 38 to 44 million deadweight tonnes compared to last year's 47 million deadweight tonnes.

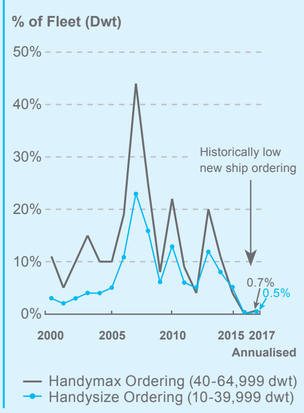
Orderbook by Year



Handysize Orderbook



Dry Bulk New Ship Ordering



Source: Clarksons Platou, data as at 1 Jul 2017

	ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 20 YEARS OLD	1H17 SCRAPPING AS % OF EXISTING FLEET, AS AT 1 JUL 2017 (ANNUALISED)
Handysize (25,000–39,999 dwt)	8%	8.6	10%	1.9%
Handymax (incl. Supramax) (40,000–64,999 dwt)	6%	8.3	7%	2.0%
Panamax & Post-Panamax (65,000–119,999 dwt)	5%	8.4	6%	1.2%
Capesize (incl. VLOC) (120,000+ dwt)	10%	7.6	7%	2.4%
Total Dry Bulk > 10,000 dwt	8%	8.8	7%	2.0%