MARKET REVIEW

The Dry Bulk Freight Market Continues to Thrive

US$22,000 net ⬆34%

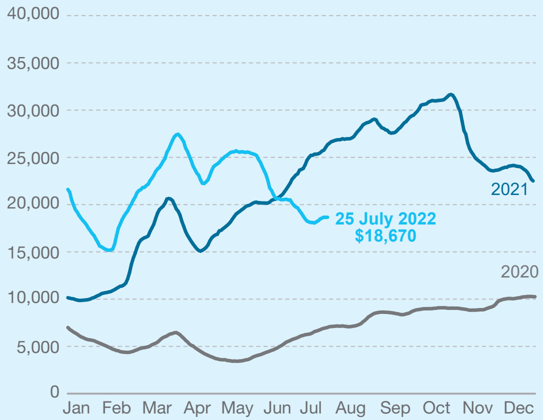
BHSI 38K (tonnage adjusted) Handysize 1H22 avg. market spot rate

US$25,630 net ⬆28%

BSI 58K Supramax 1H22 avg. market spot rate

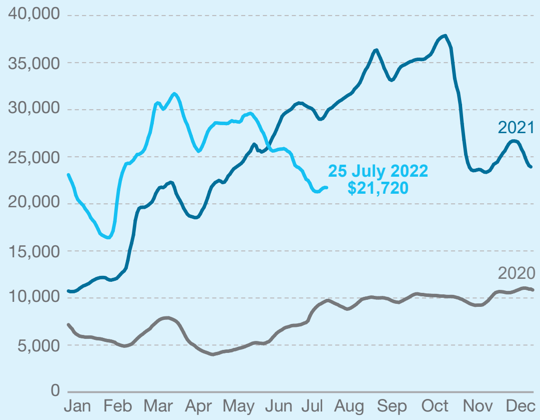
Handysize Market Spot Rates in 2020–2022

US$/day net*



Supramax Market Spot Rates in 2020–2022

US$/day net*



* Excludes 5% commission

Source: Baltic Exchange (BHSI 38,000 dwt (tonnage adjusted) and BSI 58,000 dwt)

The minor bulk freight market in the first half of 2022 saw continued favourable demand and supply fundamentals which have supported freight rates in the year to date. Freight rates saw a typical seasonal decline leading up to Chinese New Year, but otherwise remained firm over the period at higher levels than prior years, averaging US$22,000 and US$25,630 net per day for Handysize and Supramax respectively.

Demand for minor bulks over the period was robust despite concerns over global economic growth, on-going conflict in Ukraine, and Covid-related impacts on the Chinese economy. Changes to traditional trade routes as a result of the Ukraine conflict has benefited tonne-mile demand of some commodities such as coal and grain. Looking ahead, we expect that lower grain availability, slower global growth, and higher inflation may have a somewhat moderating impact on dry bulk freight demand in the second half.

Ship Values Remain Elevated

US$28.5m ⬆ +4%

Second-hand Handysize YOY

Vessel values have been supported by the continued strong freight market and increasing newbuilding prices. Clarksons Research currently values a benchmark five-year old Handysize at US$28.5 million, up 4% since the start of the year.

Dry bulk newbuilding prices remain above second-hand prices as shipyards offer limited pricing incentives to build dry bulk ships. Yard capacity has largely been filled up by higher margin non-dry bulk ship ordering which is likely to continue as we expect dry bulk vessel ordering will remain constrained until commercially viable zero-emission vessels are available.

Source: Clarksons Research

DEMAND: Minor Bulks Continue to Drive Demand

Global minor bulk loading volume grew approximately 9% in the first half compared to the same period last year. Construction materials were the main driver, in particular cement, clinker and aggregates where loadings were up 8% year on year. Compared to the first half of 2021, demand was strong across a broad range of commodities, in particular pet coke and bauxite loadings which were up 15% and 7% respectively. We believe increased global infrastructure spending and some relaxation of Chinese domestic property construction curbs will support minor bulk demand for the remainder of 2022 albeit at a more moderate rate then seen in the first half as slowing global growth is likely to impact demand.

Conflict in Ukraine continues to impact grain exports from the Black Sea and has been a major contributing factor in lower year to date grain loadings of 6% compared to the first half of 2021. Global food security has become a major issue as typical buyers of Ukrainian grains are forced to source from locations which are further away. Some lost volumes are being replaced by other producers, most notably the United States, Argentina, Brazil and Australia as higher grain prices have incentivised farmers around the world to increase plantings for export, with these volumes expected to benefit overall tonne-mile demand.

Coal loading volumes in the first half of 2022 increased 2% compared to the same period in 2021. Since the lifting of the Indonesian coal export ban we have seen a significant increase in coal loadings to countries in Europe, as well as India. The conflict in Ukraine has also had a positive tonne-mile impact as coal is increasingly being sourced from non-Russian areas such as Australia, United States, Canada and Colombia.

1H2022 Global Cargo Loading Volumes#

Selected Minor Bulks*	↑	+9%
Grain	↓	–6%
Iron Ore	↓	–1%
Coal	↑	+2%

* Minerals, non-coal energy, metals and minor ores, fertiliser, sugar and non-grain agricultural products, cement and clinker, logs and forest products, steel and scrap

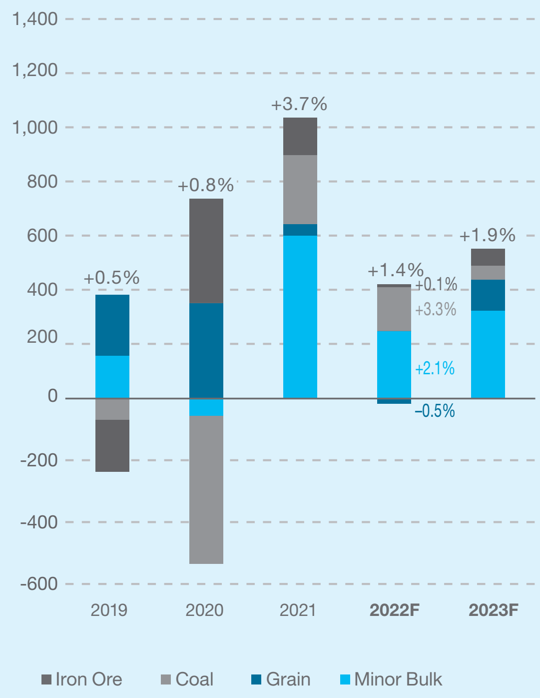
Source: Oceanbolt

Iron ore loading volumes declined 1% in the first six months of 2022 compared to the same period last year. The decline was due to seasonal weather impacting mining operations from key producers in Brazil and Australia, as well as reduced demand for steel products in China as domestic property construction underperforms, and economic growth is negatively impacted by continued Covid mitigation controls. Steel production in China is now expected to be lower than 2021 levels.

Cargo volume is different to tonne-mile demand. Tonne-miles is the primary measure of transport demand. A tonne-mile is defined as one tonne of freight shipped one mile, and therefore reflects both the volume shipped (tonnes) and distance shipped (miles).

Annual Change in Global Dry Bulk Tonne-mile Demand

YOY change in billion tonne-miles



Source: Clarksons Research, data as at June 2022

SUPPLY: Low Net Fleet Growth and Supply Inefficiencies are Supporting Rates

Despite very little scrapping, the global dry bulk fleet grew only 1.5% net during the half-year compared to 1.9% in the same period last year mainly due to slowing newbuilding deliveries. The global fleet of Handysize and Supramax vessels grew by 1.6%, which despite slowing global economic growth has helped to support higher rates over the period.

Vessel speeds remain elevated leaving limited scope to increase vessel capacity through faster speeds, while Covid-related inefficiencies around the world, particularly in China, have further constrained the availability of tonnage to meet global demand for dry bulk shipping.

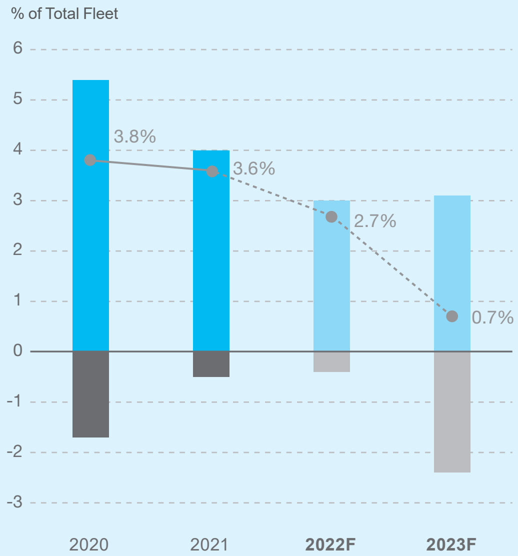
Clarksons Research forecasts scrapping in 2022 of just 0.4% of the global dry bulk fleet due to the prevailing strong TCE earnings. Scrapping is estimated to accelerate to 2.4% in 2023 which we believe to be optimistic, as we expect IMO 2023 decarbonisation regulations will not start forcing slower speeds and higher scrapping until 2024 at the earliest.

These supply constraints, and limited scope for speeding up the global world fleet, provides structural long-term support for the dry bulk market. Coupled with a healthy long-term demand outlook, despite short-term headwinds, make us optimistic about the long-term future of our market.

Only moderate net fleet growth is expected in the next few years due to minimal new ship ordering and potentially increased scrapping as the fleet ages and decarbonisation regulations tighten. From 2024, IMO and EU decarbonisation regulations are likely to start forcing slower vessel speeds.

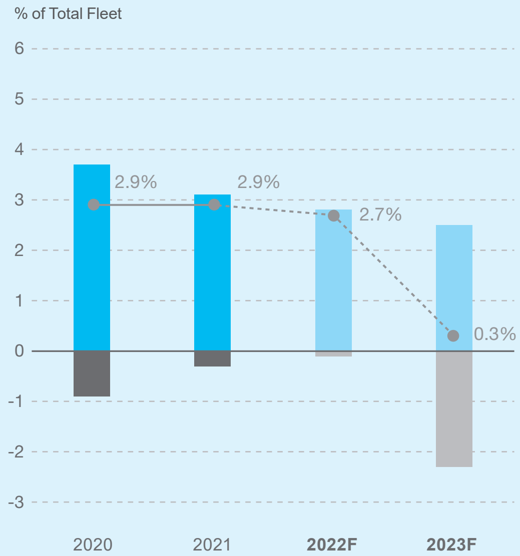
Overall Dry Bulk Supply Development

1.5%
Overall dry bulk capacity 1H22



Handysize/Supramax Supply Development

1.6%
Global Handysize/Supramax capacity 1H22



New Deliveries
Scrapping
Scheduled Orderbook
Scrapping Forecast
Net Fleet Growth

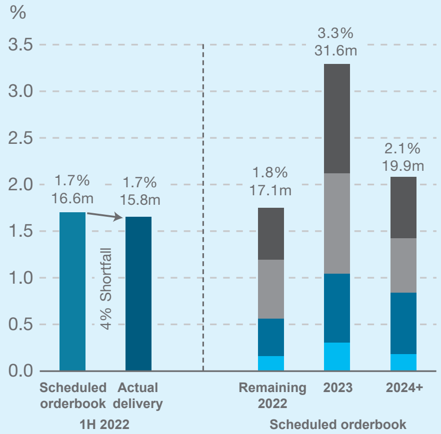
Source: Clarksons Research, data as at June 2022

ORDERBOOK: Orderbook at Record Low as New Ordering Continues to Fall

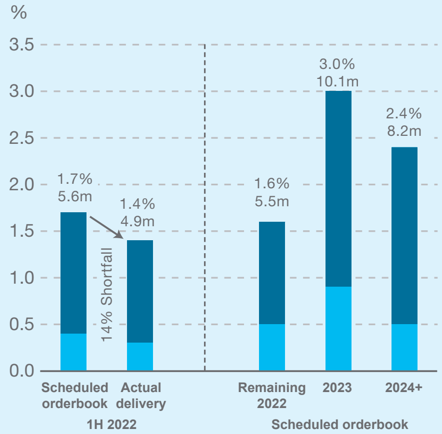
The total dry bulk orderbook stands at 7.2% of the existing fleet, which is the smallest it has been in decades. The combined Handysize and Supramax orderbook is 7.1%, presenting the basis for continued low supply growth in the next few years. Dry bulk newbuild ordering in the first half of 2022 was 9.4m dwt, compared to 23.4m dwt in the first half of 2021, a reduction of 60% compared to the same period last year.

New ship ordering is expected to remain restrained until vessel designs for clean fuels (such as ammonia and methanol) and associated bunkering infrastructure become commercially available.

Overall Dry Bulk Orderbook



Handysize & Supramax Combined Orderbook

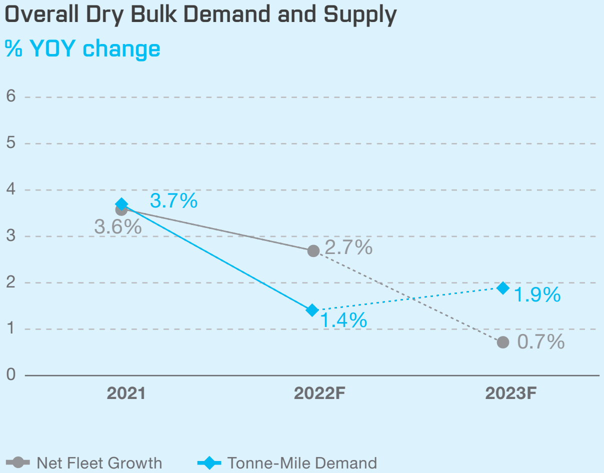


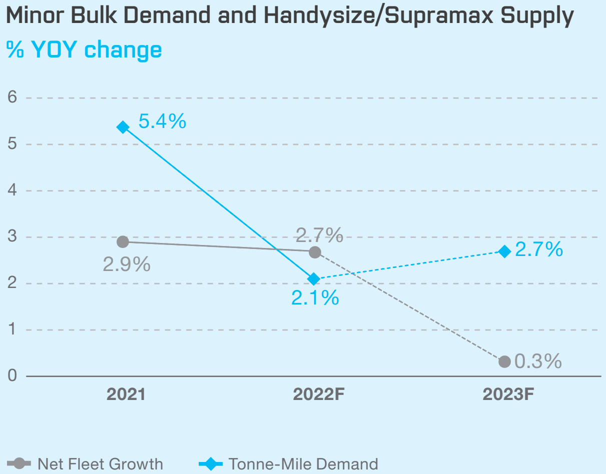
Source: Clarksons Research, data as at June 2022; 2022 orderbook excludes YTD deliveries

	Orderbook as % of Existing Fleet	Average Age	Over 20 Years Old	1H 2022 Scrapping as % of 1 January 2022 Existing Fleet
Handysize (10,000–40,000 dwt)	5.6%	13	14%	0.1%
Supramax & Ultramax (40,000–70,000 dwt)	7.8%	11	9%	0.0%
Panamax & Post-Panamax (70,000–100,000 dwt)	9.1%	11	13%	0.1%
Capesize (100,000+ dwt)	6.0%	10	2%	0.4%
Total	7.2%	11	8%	0.2%

Source: Clarksons Research, data as at June 2022

MARKET BALANCE: Supportive Long-Term Demand and Supply Fundamentals





Source: Clarksons Research

Dry bulk demand growth is expected to outpace new supply growth from 2023.

POSSIBLE MARKET DRIVERS IN THE MEDIUM TERM

OPPORTUNITIES

- Limited new ship ordering and deliveries due to decarbonisation regulations and uncertainty over future vessel designs and alternative fuels, leading to tighter supply
- Higher dry bulk demand through increased global infrastructure investment and demand for commodities for the green energy transition
- Chinese economy is expected to be supported by government led property construction, manufacturing and infrastructure spending
- Slower vessel operating speeds due to emissions regulations and increased fuel cost
- Higher demand for coal as a substitute for energy production due to constraints in gas supply

THREATS

- Excessive new ship ordering in dry bulk driving increased net fleet growth
- On-going pandemic containment measures in China reducing domestic and international economic growth
- Increased inflation and slowing global growth reducing dry bulk demand
- The marginal benefit that dry bulk demand is getting from temporary factors such as fleet inefficiencies and the very strong container market may reduce