MARKET REVIEW

Lower Economic Growth Negatively Impacting Dry Bulk Freight Rates

US$8,640 net ⬇ 61% YOY

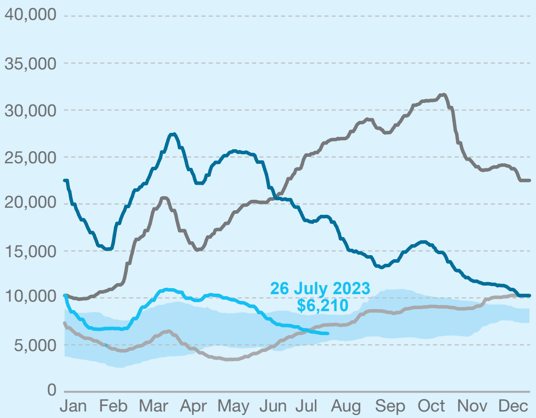
BHSI 38K (tonnage adjusted) Handysize 1H23 avg. market spot rate

US$9,930 net ⬇ 61% YOY

BSI 58K Supramax 1H23 avg. market spot rate

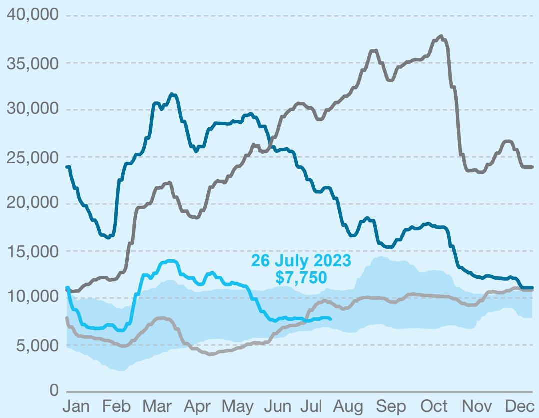
Handysize Market Spot Rates in 2016–2023

US$/day net*



Supramax Market Spot Rates in 2016–2023

US$/day net*



2016-2019 2020 2021 2022 2023

* Excludes 5% commission
Source: Baltic Exchange (BHSI 38,000 dwt (tonnage adjusted) and BSI 58,000 dwt)

In the first half of the year, market freight rates declined due to an increased supply of vessel capacity through less congestion in ports after the relaxation of Covid mitigation rules. Additionally, global growth has decreased due to higher inflation and interest rates. Average market spot freight rates for Handysize and Supramax were US$8,640 and US$9,930 net per day respectively.

Demand for minor bulks over the period was lower despite benefits of China reopening, due to decelerating global growth, higher interest rates and ongoing conflict in Ukraine.

Looking ahead, we expect that global demand and freight rates will continue to be impacted by higher interest rates and inflation with the potential for a recession in some economies.

Vessel Values Remain Elevated

US$29.5m ⬇ 14% YOY

Second-hand Ultramax vessel value

In the first half of the year, second-hand vessel values were resilient despite a 61% reduction in TCE. Clarksons Research currently values a benchmark five-year-old Ultramax vessel at US$29.5 million, up 5% since the start of the year.

Newbuilding prices are still above second-hand prices, and shipyards have filled up with orders for non-dry bulk vessel types, which limits scope for new vessel ordering in our sector.

Source: Clarksons Research data as at June 2023

DEMAND: China Reopening Supported Dry Bulk Demand

Global dry bulk loading volumes grew approximately 2% year on year supported by China reopening which increased demand for both coal and iron ore. Minor bulk loadings decreased by 0.1% year on year due to reduced loadings of cement and clinker, forest products and alumina, which were down 10%, 3% and 16% year on year respectively. Bauxite loadings increased 8% year on year primarily from Guinea and despite an export ban in Indonesia starting from June 2023.

Grain loadings decreased by 3% year on year, primarily due to reduced grain export from Argentina caused by drought. In the United States, adverse weather conditions and logistical problems led to higher costs for transporting grain on the Mississippi River, which made United States grain prices uncompetitive, reducing grain export during the first half of 2023. Despite delays in the harvest and export process, Brazil was able to export a record amount of grain.

Coal loadings increased 6% year on year, largely because of the low base created by the temporary Indonesian coal export ban in January 2022. Additionally, despite record domestic coal production, coal loadings to China in the first half of 2023 increased over 70% year on year due to energy security concerns and low hydroelectric output.

Iron ore loadings increased 3% year on year due to beneficial weather conditions in both Australia and Brazil, as well as increased demand in China as economic activity increased post-Covid benefitting demand from sectors such as domestic property construction, infrastructure and steel production.

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 nautical mile, and therefore reflects both the volume shipped (tonnes) and distance shipped (miles).

1H2023 Global Cargo Loading Volumes# YOY Change

Selected Minor Bulks*	↓	-0.1%
Grain	↓	-3%
Iron Ore	↑	+3%
Coal	↑	+6%

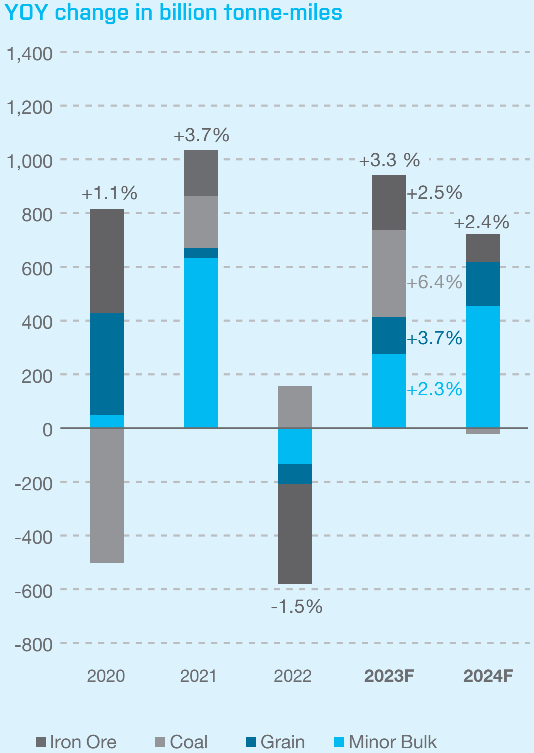
* Minerals, non-coal energy, metals and minor ores, fertiliser, sugar and non-grain agricultural products, cement and clinker, logs and forest products, steel and scrap

Source: Oceanbolt

Minor bulk demand is broad based and diverse both geographically and in terms of commodities and customers, with less China exposure, and normally tracks growth in GDP.

Long-term grain demand is driven less by global economic growth and more by urbanisation of a growing middle class and changing eating habits that drive demand for meat and hence animal feed.

Annual Change in Global Dry Bulk Tonne-mile Demand



Source: Clarksons Research, data as at June 2023

SUPPLY: Low Fleet Growth due to Limited Orderbook and Environmental Regulations

The global dry bulk fleet experienced a modest growth rate of 1.6% net during the first half of the year, despite limited scrapping. This is slightly higher than last year's fleet growth, due to increased scrapping being offset by an increase in newbuilding deliveries during the first half of the year. Effective supply increased during the period through a gradual unwinding of port congestion.

Lower average TCE rates in combination with prevailing oil prices have reduced vessel speeds over the period, while we expect newly introduced IMO 2023 decarbonisation regulations will not force further reductions in speeds until 2024 at the earliest.

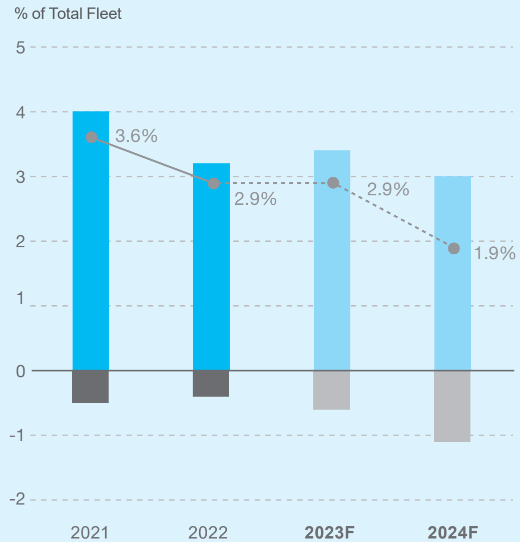
Clarksons Research forecasts scrapping of 0.6% and 1.1% of the global dry bulk fleet in 2023 and 2024 respectively. This is a result of an anticipated rise in the scrapping of older and less-efficient vessels facing onerous environmental regulations and expensive maintenance and upgrade.

Only moderate net fleet growth is expected in the next few years due to historically low new vessel ordering and potentially increased scrapping as the fleet ages and decarbonisation regulations tighten. IMO and EU decarbonisation regulations are likely to start forcing slower vessel speeds in the years ahead which will also reduce supply, boding well for the market in the longer term.

Overall Dry Bulk Supply Development

1.6%

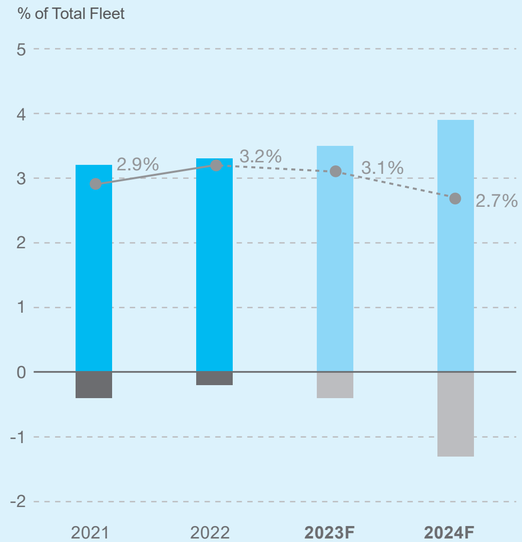
Overall dry bulk capacity 1H 2023



Handysize/Supramax Supply Development

1.5%

Global Handysize/Supramax capacity 1H 2023



Source: Clarksons Research, data as at June 2023

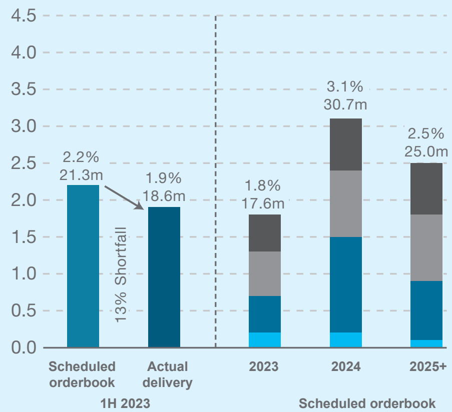
ORDERBOOK: Dry Bulk to Continue to Benefit from Record Low Orderbook

The total dry bulk orderbook stands at 7.4% of the existing fleet, which remains near the lowest it has been in decades. The combined Handysize and Supramax orderbook totals 8.8%, presenting the basis for continued low supply growth in the next few years. Dry bulk newbuild ordering in the first half of 2023 was 14.4m dwt, compared to 17.6m dwt in the first half of 2022, a reduction of 18% compared to the same period last year.

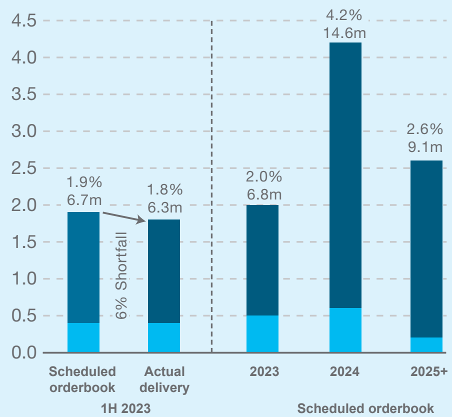
New vessel ordering is expected to remain restrained, discouraged by:

- uncertainty about the future fuels and technologies required to meet decarbonisation regulations
- the high cost of newbuildings and associated high residual value risk
- limited available dry bulk shipyard capacity for newbuild orders to be delivered until 2026, with world shipyard capacity remaining limited, and well below peak capacity of 10 years ago
- increased cost of capital further limits appetite for higher cost vessels, and large series of orders

Overall Dry Bulk Orderbook



Handysize & Supramax Combined Orderbook



Source: Clarksons Research, data as at June 2023

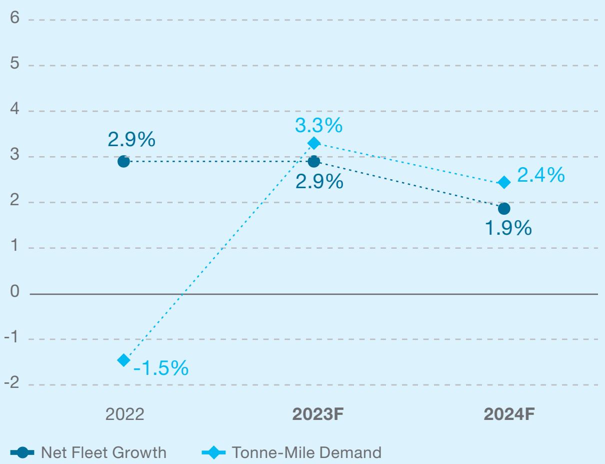
	Orderbook as % of Existing Fleet	Average Age	Over 20 Years Old	1H2023 Scrapping as % of 1 January 2023 Existing Fleet
Handysize (10,000–40,000 dwt)	9.3%	13	14%	0.3%
Supramax & Ultramax (40,000–70,000 dwt)	8.5%	12	10%	0.4%
Panamax & Post-Panamax (70,000–100,000 dwt)	9.1%	12	13%	0.3%
Capesize (100,000+ dwt)	5.1%	10	2%	0.2%
Total	7.4%	12	8%	0.3%

Source: Clarksons Research, data as at June 2023

MARKET BALANCE: Positive Demand and Supply Balance Expected To Continue

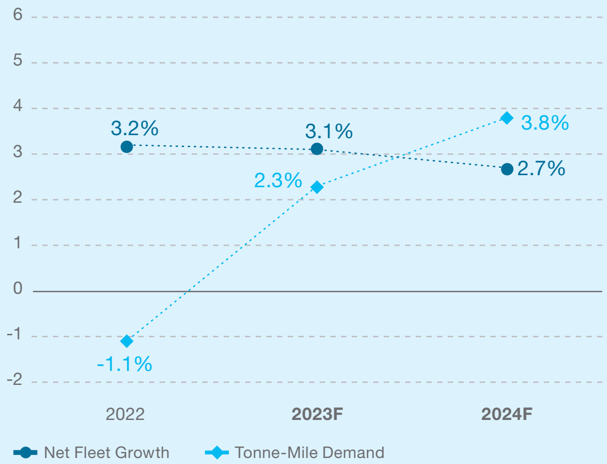
Overall Dry Bulk Demand and Supply

% YOY change



Minor Bulk Demand and Handysize/Supramax Supply

% YOY change



Source: Clarksons Research, data as at June 2023

Despite a deceleration of global economic growth, dry bulk demand growth is expected to outpace low supply growth in 2023 and 2024.

POSSIBLE MARKET DRIVERS IN THE MEDIUM TERM

OPPORTUNITIES

- Stimulus-driven recovery in China, and recovery in global economic activity driving increased demand for dry bulk commodities
- Slower vessel operating speeds due to emissions regulations and increased fuel cost
- Limited new vessel ordering and deliveries due to high newbuilding prices as well as decarbonisation regulations and uncertainty over future vessel designs and alternative fuels, leading to tighter supply
- Increased scrapping of older and less optimally designed tonnage facing onerous environmental regulations and expensive maintenance and upgrade

THREATS

- Persistent high inflation and interest rates negatively impacting global economic activity and demand in dry bulk commodities
- Excessive new vessel ordering in dry bulk driving increased net fleet growth
- Slow Chinese economic growth recovery post-Covid
- Tariffs and protectionism driving local production at the expense of global trade