

**“Success does not consist in never making mistakes but in never making the same one a second time.” George Bernard Shaw**

### **Our Key Performance Indicators:**

**The Results** reviewed by EY Office Limited, show you the latest financial position of the Company. The net loss for the quarter was USD 0.15 million. The average earnings, per day per ship during the quarter, were USD 9,206, 46% higher than that in Q2 2016. The average operating expenses (including depreciation/amortisation of the Drydocking/Special Survey expenses), per day per ship, were USD 4,322 in Q2 2017 which is lower than our target of USD 4,500 and lower than the actual of Q2 2016. The EBITDA was USD 12.84 million during the quarter. The loss per share (eps) in Thai Baht stood at Baht 0.003 for this quarter. To keep our results in perspective, please take a look at the results declared by other shipping companies which we have compiled in a different section of this letter.

<b>The Hard Facts</b>	<b>Q2, 2017</b>	<b>Q2, 2016</b>
Highest Earnings per day per ship in USD	15,000	15,000
Average Earnings per day per ship in USD	9,206	6,293
Average Earnings per day per ship in USD (Handysize)	9,678	6,752
Average Earnings per day per ship in USD (Supramax)	7,982	5,571
Average Earnings per day per ship in USD (Ultramax)	9,454	5,025
Operating cost per day per ship in USD	4,322	4,529
EBITDA in million USD	12.84	3.94
Net Profit/(Loss) in million USD (excluding Exchange loss and Non-recurring items)	(0.98)	(9.75)
Net Profit/(Loss) in million USD	(0.15)	(13.48)
Earnings(Loss) Per Share in Thai Baht (excluding Exchange loss and Non-recurring items)	(0.02)	(0.22)
Earnings (Loss) Per Share in Thai Baht	(0.003)	(0.30)

**Awards and Accolades:** At the 10th Seatrade Maritime Awards Asia 2017, PSL was adjudged finalist in 3 award categories: ‘Ship Owner/Operator’, ‘Ship Manager’ and ‘Deal of the Year’ awards! Seatrade Hong Kong, the organizers, commented thus: **“being a finalist in 3 categories is an achievement in itself”**

**The Fleet Rejuvenation Plan** has completed. We now have a core fleet of 36 ships, with an average age of less than 6 years, consisting of 4 Cement carriers, 15 Handy size ships, 9 Supras and 8 Ultras. The last ship that was on order with Sanfu shipyard for delivery in early 2018 has been cancelled, with no penalties to either side, as Sanfu were unable to abide by the terms of the Ship Building Contract.

**Market Segmentation:** During Q2, the Baltic Handy Size Index (BHSI) averaged 497 points derived from the average Time Charter (TC) rate of USD 7,253. Compared to that, **our Handies earned USD 9,678 and beat the BHSI TC rate by 33.43%.** During Q2, the Baltic

Supramax Index (BSI) averaged 781 points derived from the average TC rate of USD 8,602. Compared to that, **our Supramaxes earned USD 7,982 and underperformed the BSI TC rate by 7.21%. Our Ultramaxs earned USD 9,454 and outperformed the BSI TC rate by 9.9%** (as there is no special index for the Ultras we have compared them with the BSI). Our target has been to outperform both the indexes.

**The next SET Opportunity Day** will be held at the SET building at 10.10 hours on the 08<sup>th</sup> August 2017 where we will be presenting and discussing our Q2 results. For those of you who cannot attend physically, the SET [webcasts](#) the Opportunity Day presentation live, giving you a chance to be present via the web.

**Long Term Charters:** As can be seen, our current and forward four year (2017 to 2021) rolling book is at the 17.4% level with a visible revenue stream of USD 157.3 million.

Year	2017	2018	2019	2020	2021
<b>Total Available Days</b>	13,147	13,140	13,140	13,176	13,140
<b>Fixed T/C Days</b>	2,555	2,240	2,190	2,196	2,190
<b>% age Fixed T/C Days</b>	19%	17%	17%	17%	17%
<b>Av. T/C Rate/Day in USD</b>	13,713	13,849	13,875	13,875	13,875
<b>Contract value in USD</b>	35.0m	31.0m	30.4m	30.5m	30.4m

Once the BDI moves in a sustained upward direction we will start fixing our ships on longer term charters.

### **Asset Value Developments:**

The cape ARISTOFANIS (178,926, 2011 Korea built) was sold at slightly above USD 31m with the seller having acquired her last November at a price around USD 21m, cashing in a decent USD 10m profit in just six months. (Andreas J. Zachariassen)

An interesting example of the surge in prices during the first quarter of 2017 was evident when the M/V "CE GUARDIAN" (52,525 DWT/Built 2006 at Tsuneishi in the Philippines) sold for \$10.5m which reflects a nice return for the Seller who purchased the vessel in March 2016 for region \$4.5m! (Compass Maritime)

PrimeBulk Shipmanagement of Greece sold their Panamax bulker M/V "AESARA" ex NordRhine (75,202 DWT/Built 2001 at Samho in Korea) for \$7.5m, purchased in April 2016 for \$3.8m. (Compass Maritime)

### **Regulatory Pressures:**

In a development that caught many industry participants of guard, the **IMO agreed** on the urging by a number of flag-states **to delay enforcement of Ballast Water Management Convention (BWMC) compliance for existing vessels from September 2017 to September 2019.** Compliance for existing vessels calls for the fitting of Ballast Water Treatment systems from their first International Oil Pollution Prevention (IOPP) renewal survey after the enforcement

date. Given the cost and lost time associated with BWT fittings, **it had been an industry wide assumption that the mandate would hasten the phasing-out of older vessels**, which already face higher maintenance costs than their younger counterparts. (Charles R. Weber)

**The US Coast Guard** made a point of **reminding shipowners** during MEPC 71 that the United States is not a party to the IMO's ballast water convention, and that such leniencies may not be extended to vessels trading in the United States. US ballast water regulations went into effect in 2012. **Violating US ballast water regulations may result in costly delays**, environmental deficiencies and civil enforcement action. (IHS Maritime)

In May 2017 **Danish authorities fined an unnamed foreign shipowner US\$ 57,886 for using high-sulphur fuel** within its waters. (TradeWinds)

### **BDI Developments and our read of the market:**

**The Baltic Dry Index averaged 945 points in Q1, averaged 1,006 points in Q2** of this year and ended 30<sup>th</sup> June at 901 points. **Though demand has grown**, as can be seen from the FH numbers for China, **net increase in supply has exceeded even our most pessimistic expectations at 17.83 MDWT almost equal to the entire net supply increase of 18.51 MDWT in all of 2016!** Only 8.65 MDWT of dry bulk ships have been scrapped in the FH of this year compared to last year's 22.74 MDWT. New orders, however, are hovering near zero levels due to financial pressure either on the buyers or at the ship yard level. This has helped reduce the pressure from the Supply side of the equation in the forward position with the **order-book hovering at just 7.5% (60.54 MDWT to be delivered up to and including 2020)**, of the existing supply at the end of Q2. **Negative sentiment has started to dissipate from the market, unfortunately, resulting in ship-owners refusing to scrap their older ships.** This has allowed an overall net fleet growth of 2.3% in the FH of this year. **If scrapping doesn't accelerate then the BDI will continue to fluctuate sharply solely dependent on what the demand side does.** In other words, ship-owners are not helping their cause by not scrapping ships **making the recovery in 2018 to 2020 slower, extremely volatile, and totally dependent on demand continuing to outperform.**

### **Key Supply Developments:**

**Supply Side developments** in the world bulker fleet **show a rather pessimistic situation.** We started 2017 with 790.41 MDWT and have increased to 808.24 MDWT by the end of H1 for a 2.3% net fleet growth. A further 2.97% (23.98 MDWT) is scheduled for delivery in the balance of 2017 and another 2.78% (22.43 MDWT) scheduled for delivery in 2018. **If we were to apply a slippage factor of 16.7%** (annualized from the 8.28% in FH 2017) to these scheduled deliveries **and further assume that scrapping reaches 17.44 MDWT** (annualized from the 8.65 MDWT scrapped in H1 2017) we would be left with **a net fleet growth of 3.67% (819.42 MDWT) in 2017 and net fleet growth of 0.56% (824 MDWT) in 2018.**

As of the start of 2009, there were 293 ship building yards active in the bulk carrier sector, with almost a third of total active shipyards having a bulker on order. An 'active' yard is defined here as one with at least one unit (1,000+ GT) on order. **This total has now fallen by 67% to stand at 97 yards as of the start of July 2017. Furthermore, 30% of currently active yards are set**

**to complete construction of ships on their order-book by the end of this year.** With these trends in place, it will be no mystery as shipyard capacity continues to slide. (Clarksons)

While market conditions may have improved compared to the lows of 2016, the **slowdown in demolition activity and continued large deliveries may cap substantial rate increases this year.** (Banchemo Costa)

**Scrapping in the dry bulk fleet is trailing a ~50% reduction from last year.** Assuming same rate of scrapping for the remainder of the year yields 16.2 MDWT of scrapping for the full year 2017, or 2.1% of the fleet as it stood at the start of the year. However, both in 2016 and 2015 scrapping was significantly higher in H1 compared with H2: in 2015 68% of the scrapping happened in H1 while in 2016 this share increased to 77%. Assuming an average rate of 73% scrapping for H1 versus H2 2017, this would imply full year scrapping of only 10.7 MDWT, only about half of our forecast of 20 MDWT. With market rates (including spot rates) coming down again after the spike in March, **scrapping should be relatively higher for H2 compared with 2015 and 2016 and we maintain our full year estimate of 20 MDWT.** (DNB Markets)

**This year reduced port congestion** has probably contributed to the retrenchment in rates in Q2. It is well illustrated by a sharp fall in waiting times (down 69% y-o-y) at Brazilian grain ports. Factors behind this reduction in line ups include more efficient silos and improved internal logistics but also an increasing movement of corn and soybean from the new grain terminals in the Amazon and Northern ports which generally operate with faster loading rates; last year nearly 20% of Brazil's 68 MMT grain export passed through these Northern facilities compared to just 8% 5 years ago. On the other hand Brazilian grain exports have fallen sharply this year due to the collapse of corn exports caused by the drought. After 4 months last year, Brazil's total grain exports numbered 38 MMT with corn contributing 12.2 MMT whilst in 2017 exports have fallen to 30.7 MMT with corn shipments at a meager 2.3 MMT. It is a similar story in Argentina where line-ups have reduced by nearly 60% y-o-y. **This fall in South American congestion has had the most pronounced downward effect on Panamax rates.** (Howe Robinson Research)

## **Key Demand Developments:**

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

**The International Monetary Fund raised its forecast for global growth** this year to 3.5%, from an earlier estimate of 3.4%. China, Japan, the Eurozone and the U.K. all had their outlooks raised due to what the IMF called a "cyclical upturn," but the Fund stuck by its estimate of 2.3% GDP growth for the U.S. this year, having already factored a substantial acceleration in the economy into its last estimates in January, shortly after Donald Trump's election victory. (Fortune CEO Daily)

"I know there has recently **been plenty of talk about the challenges facing the maritime industry, but let's remember, this industry is a cornerstone of the modern global economy.** Even as we advance into an era of modern technology the vehicles that provide our Uber rides,

the steel that holds up our Air B&B houses, and the goods that arrive in our Amazon boxes have typically spent some of their life on a ship,” **Andreas Sohmen-Pao (SEA Asia Conference)**

## **China**

The China Factor continues to have a disproportionate impact on the dry bulk markets. **China’s GDP growth numbers have been rock steady at 6.9%** in FH 2017, higher than the official government target of around 6.5%.

**China’s iron ore imports** for the first half at 539.5 MMT, climbed 9.2% from year-ago levels. (Banchemo Costa)

**Chinese steel production** in the first 6 months was 419.75 MMT, up 4.6% y-o-y. (Bloomberg)

**China plans to cut its steel production capacity** this year by 50 MMT, as the world’s No. 2 economy deepens its efforts to tackle pollution and curb excess supply. By 2020, the government has said it aims to close 100 - 150 MMT of steel capacity. (Reuters)

**China is on track to meet its target to cut coal production capacity this year**, and would likely top the goal, with further reductions expected in the second half. By the end of April, China had cut its coal capacity by 68.97 MMT, meeting 46% of this year’s target. (The Central People’s Government of the People’s Republic of China)

**China’s steel export in the first half of 2017 slowed significantly and was down 28.5%** year-on-year to 41 MMT. (Banchemo Costa)

**China boosted coal imports** in the first six months of 2017 by **23.4% to 133 MMT** over the previous year. (Banchemo Costa)

**China, in the FH of 2017, mined 1,712.63 MMT of crude coal, up 5%** year on year, data from the National Bureau of Statistics showed. (Platts)

**China’s electricity output in FH 2017 totaled 2,959.8 billion KWH, up 6.3%** year on year. **Coal-fired power output** comprised 2,221.5 billion KWH of the total, **up 7.1%** on year; **hydropower** 461.3 billion KWH, **down 4.2%**; **nuclear** 115.4 billion KWH, **up 19.6%**; **wind** 132.7 billion KWH, **up 17.9%** and **solar** 28.9 billion KWH, **up 35.1%**.(Platts)

**China’s cabinet pledged more fiscal and monetary policy support** to address risks of mass unemployment in some regions and sectors. The government plans to cut further excess and inefficient capacity in its steel production, coal mining, and coal-fired power plants, part of efforts to upgrade its economy and reduce pollution, but the move threatens to throw millions more out of work. (Reuters)

**China’s Belt and Road Initiative** is expected to boost infrastructure spending in China and in the participating countries, particularly in railroads, oil & gas pipelines, port terminals as well as other infrastructure development projects. These are **preliminary rough estimates** and we look to fine-tuning our analysis as we gain more clarity and data on the concrete Belt and Road

projects in the coming years. Assuming that Belt and Road boosts infrastructure spending by US\$200B per annum and 10% of this is spent on steel, this would **imply around 44 MMT of additional steel demand per annum. To produce an additional 44 MMT of steel, we would need approximately an additional 62 MMT of iron ore and 36 MMT of coking coal.** (Crucial Perspective)

**In China, renewable and nuclear power generation** as a percentage of total power capacity has increased over the past 5 years, from a total of 28% in 2011, to 36% in 2016. Under China's 13<sup>th</sup> five-year plan (2016-2020), installed non-fossil fuel power capacity is targeted to account for 39% of total power capacity by 2020. (Banchemo Costa)

**In China, a drop in electricity output** of as much as two-thirds from hydropower plants because of excessive rains pushing rivers to flood levels has boosted demand for coal-fired power as a replacement. Chinese thermal coal prices have spiked higher in line with those in Australia to 5<sup>th</sup> July's close of \$86.50 a ton. (Reuters)

**Chinese power generation has increased steadily** since mid 2016 as demand for electricity from industry has accelerated. Lack of rainfall in North Eastern and Central China over the winter and into the spring has seen Hydro Power fall back sharply whilst almost all this growth for energy has been met by increased thermal output. Domestic coal production continues to run at full capacity (after the reversal of a decree in early 2016 limiting mine working hours), **reflected by record coastal coal movement whilst seaborne imports are still running about 25% ahead of this time last year.** China's industrial output and power generation mix will be key determinants affecting seaborne coal movement and thus the balance between supply and demand in the Pacific freight market going forward. (Howe Robinson Research)

Xia Nong, supervisor at the industry department of the National Development and Reform Commission (NDRC) described **2017 as a "year of attack on Chinese Steel Capacity"** and said the state would make even bigger efforts to shrink capacity. It aims to close 50 MMT this year, and has also vowed **by the end of June to completely eliminate low-grade steel furnaces,** responsible for as much as 100 MMT of illegal substandard production every year. (Reuters)

**Chinese steel mills have been enjoying strong margins** as they continue to benefit from the government's removal of lower quality induction furnaces. Long steel has also been getting a boost from the robust housing market. The major story so far this year has been the closure of 100 MMT/year or so of induction furnace capacity in China. The removal has freed up market share for rebar and enabled more efficient producers to lift capacity utilization rates. As a result, rebar producers are enjoying some of the best margins in almost a decade and not surprisingly are churning out as much steel as possible. This has contributed to the 4.4% year-on-year lift in steel production over January-May. **The market for long steel has also been helped by a robust housing market – despite a plethora of tightening policies – and also low steel inventories.** This will see Chinese steelmakers continue to largely focus on domestic rather than export customers, which should help support global steel prices. From a macro perspective, the Chinese government will want to keep the economy ticking along nicely ahead of the all-important 19th party congress in Beijing in October. There are also some indications that China

may ease back on tightening regulations in the second half. **All-in-all, there should be enough stimulus to maintain current steel market conditions.** (Platts)

**Chinese steel prices have seen healthy increases** over the past two months. The high margins, spurred by a local tightness **after the government's effort to eliminate low-grade steel**, are enticing steel mills to continue at high production rates. Chinese steel production increased 2.5% y/y in May, to 72.3 MMT, close to recent record highs. (Maersk Brokers)

**Chinese steel consumption continues to grow faster than production as both exports and inventories are declining;** in May production growth was only 2% YOY but steel consumption grew 9% YOY. The YTD decline of 26% for Chinese steel export is by far the most important contributor to the discrepancy between consumption and production growth in China, but over the past few months the decline in inventories has accelerated: in February the YOY increase was 4.8 MMT (or 43% YOY), but now in May this surplus was reduced to 1.1 MMT (or 12% YOY). All in all we continue to believe that the improvement in the Chinese steel market is a strong positive for the dry bulk balance as it should imply decent growth in iron ore and coking coal imports. We reiterate our view that the dry bulk market should experience improvements in the years to come. (DNB Markets)

**China, the world's top steel producer and coal consumer, had cut 97 MMT of coal capacity as well as 42 MMT of steel capacity** by the end of May according to a recent statement from the state planner. This represents 65% of China's targeted cuts of 150 MMT for coal and 85% of 50 MMT for steel for the full year. (Maersk Brokers)

In **China, coal consumption** after many years of double digit growth, which took it from 1.41 BMT in 2000 to 4.24 BMT in 2013, **has since declined by 2.9% in 2014, by 3.7% in 2015 and by 4.7% in 2016.** After reaching a peak in 2013, coal output in China has been declining each year ever since. In 2016, total output for raw coal fell 9.4% year-on-year to 3.4 BMT. However, with most coal miners now exempt from production limits this year, as long as prices stay within a "reasonable range" of above 500 Yuan/ton, China's raw coal production has started increasing 4.3% to 1.4 BMT in Jan-May 2017 – a potential threat to coal imports. Following China's ban on North Korean coal imports, overall coal and lignite shipments from Indonesia, Australia, Mongolia, and Russia have seen a sharp increase in the first 5 months of 2017. (Banchemo Costa)

**The impact of China's new coal import regulations** on annual volume, based on the import capacities of current affected second-tier ports, have ranged from 15-20 MMT. The new coal import regulations has been attributed to continued supply side reforms by the country, as well as their ongoing efforts to tackle smog. Due to the large scale of China's domestic coal production and consumption, even small changes in their local situation are known to have a disproportionate impact on coal imports. With Chinese domestic output starting to increase, the halting of coal imports at certain small ports may be seen as a way to help domestic miners, and to prevent another coal supply glut that would depress domestic coal prices. (Banchemo Costa)

**Iron ore imports by China this year are on course to exceed 1 BMT by a comfortable margin,** breaking 2016's record, after first-half figures showed another jump in cargoes and highlighted the ability of the top steelmaker to absorb rising supplies. In the first six months,

imports rose to 539 MMT, 9.3% higher than the same period in 2016. Last year, China only just beat the 1 BMT mark, importing 1.024 BMT. (Bloomberg)

**Iron ore inventories at Chinese ports** now amount to 141.5 MMT as of end of June 2017. However, the current inventory levels **can be misleading as a large proportion of the stockpiled steel making ingredient at ports are of such low quality that it is not wanted by the steel mills.** (Maersk Brokers)

**China plans to curb illegal aluminum capacity expansion.** The National Energy Association will launch an inspection of the power stations owned by aluminum producers in the top six aluminum producing regions. This supports the assertion that the Chinese government is serious about forcing aluminum producers in 28 cities to cut output during winter. This **could potentially mean slashing production by 1-1.5 MMT, equivalent to 5-10 MMT of bauxite.** (Maersk Broker)

**China dominates as the largest bauxite importer** in the world, accounting for 62% of global imports in 2016. While China's bauxite imports fell by 7% year-on-year to 52 MMT in 2016, import levels have since recovered in the first 4 months of 2017, growing by 9% to 19.5 MMT. China's import outlook remains positive in the long term, as domestic supply levels off, additional smelter capacity comes on line, and demand from the transportation sector increases. Global bauxite production is estimated to have fallen 11% year-on-year to 262 MMT in 2016, mainly due to reduced production in Malaysia following their bauxite mining ban pending stricter environmental laws. However, the outlook for Guinea production is positive, as they plan to triple output from 2015 volume to 60 MMT by 2020. Global alumina production has grown by an average of 5% per annum over the past 10 years to reach 118 MMT in 2016, while global primary aluminium production has grown by an average of 5% per year over the past decade to reach 58.9 MMT in 2016, both driven mainly by China. However, **growth in China's alumina and aluminium output could be threatened this year by China's newly approved air pollution control measures.** (Banchemo Costa)

**China is the largest soybean importer in the world**, expected to account for 63% of global imports in 2017/18. **Global imports are forecast to rise 4.9% in 2017/18 to 147.8 MMT**, in response to a 4.5% increase in China to 93 MMT, as well as increases in other Asia and the Middle East. While China's soybean imports in the first 4 months of 2017 have risen by a strong 18% year-on-year to total 27.5 MMT, shipments from mainly Brazil are expected to fall in the coming months. (Banchemo Costa)

**Chinese soybean imports** decreased in June due to high inventories and tax changes. Soybean imports amounted to 7.7 MMT in June according to customs data, a 20% decline m/m, yet still up by 2% y/y. The decline is likely due to high inventory levels at crushers. Moreover, many ships seemed to be waiting to unload after July 1, when china reduced its value added tax on soybeans to 11 from 13%. **For the first 6 months of the year imports amounted to 44.8 MMT, up by 16% y/y.** (Maersk Brokers)

It seems as if the **growth in Chinese appetite for dry bulk commodities is easing** off a bit compared with a strong Q1 (which had easy comps!), but we remain optimistic in the sense that



**we expect China to remain strong enough to support the 2-4% YOY growth in the dry bulk trade** we expect for the next couple of years, a growth which should be sufficient to yield YOY earnings improvements in the dry bulk market as well. (DNB Markets)

## **Asia**

**Potential for future infrastructure building in Asia** was highlighted in a report published in February 2017 by the Asian Development Bank (ADB). Depending on assumptions adopted, the ADB estimates that Asian countries need to invest between \$22,600 billion and \$26,200 billion **during the period of fifteen years from 2016 to 2030**. These totals **imply an average \$1,500bn to \$1,700bn annual spending on infrastructure**. Currently the region is investing an estimated \$881bn annually, so a large increase is recommended. Most of this projected spending represents physical infrastructure in four categories: (a) transport – roads, railways, ports and airports; (b) electrical power – generation, transmission, distribution; (c) telecommunications; (d) water supply and sanitation. Power and transport are the two sectors with the largest spending requirements, comprising 52% and 35% of the total respectively based on the range's lower end. (Richard Scott, associate, China Centre (Maritime), Solent University)

**Indian iron ore exports are projected to almost double to 37 MMT in 2017** which, assuming the additional volumes are absorbed by Chinese demand and do not replace other exports, could add another 1% of growth to global seaborne iron ore trade this year. However, there are a number of downside risks to future Indian iron ore export growth. Firstly, global iron ore price levels have eased somewhat in recent weeks, cutting Indian miners' profit margins. Furthermore, Indian steel output has grown substantially in recent years, rising 6% to 95 MMT in 2016. Sustained growth in Indian steel output has the potential to increase the country's iron ore consumption, potentially absorbing volumes otherwise destined for export over the coming years. On a final note, given the country's proximity to the Chinese market, increasing Indian iron ore exports could actually pose a risk to global iron ore ton-mile trade, should they replace shipments from other, more distant exporters. (Clarksons)

**India's coal imports – slow down a possibility?** According to data from the International Trade Centre (ITC), India's coal imports is estimated to have decreased 5.6% year-on-year to 193.1 MMT in 2016, ceding its status as the world's top coal importer back to China. This comes in spite of data from India's Central Electricity Authority (CEA) showing a 7.4% year-on-year increase in coal-powered generation to 936 TWH. State miner Coal India (estimated to account for around 84% of the country's production) has struggled to meet ambitious production targets. Even in the recent Apr 16/ Mar 17 fiscal year, Coal India achieved only 93% of their production target, with output growing at a much slower pace of 2.9% year-on-year to 554.1 MMT. However, while the continued struggles of domestic output should have been a positive sign, import demand last year was likely affected by the country's liquidity crunch during their demonetization drive, as well as firm international coal prices that encouraged the utilization of domestic output and inventories. Following a peak of 39.1 MMT in coal stocks seen in early Apr 2016, inventories declined greatly to 21.2 MMT by end Dec 2016. With international coal prices remaining elevated, India's plans to continue raising domestic output, and the continued challenge of cash-strapped power distributors, India's coal imports may continue to slow. India's government has also stated aims to reduce thermal coal imports to zero over the next few years,

although the viability remains questionable as domestic output continues to fall short, and domestic availability of coking coal remains insufficient. (Banchero Costa)

**India's steel output has seen a steady increase of 6.8% on average per annum over the past decade** – a much quicker pace compared to output from the rest of the world, which only grew an average 2.3% per annum over the past 10 years. In 2016, while global steel output fell by 0.7% year-on-year, India managed a 6.7% increase to 95.6 MMT. This pace has maintained even in the early part of this year, with steel output in the first 4 months of 2017 rising 7.1% year-on-year to 33.2 MMT. As a result, India is now the third largest steel producer, accounting for 6% of global output in 2016, compared to 4% in 2006. This puts them just behind Japan's 7% market share. With a strongly positive steel production outlook, India's demand for coking coal is expected to rise in tandem as its domestic quality and availability remains insufficient. Australia is the main supplier of coking coal to India, accounting for 89% of India's coking coal imports in 2016. With a lack of alternative supplies within the region, and the next largest suppliers from further destinations in Canada and the U.S., coking coal supplies on the Australia-India route are likely to benefit the most in the coming years. (Banchero Costa)

**Indonesia's decision to resume the export of low grade nickel ore** has led to a growth in Chinese nickel ore imports this year to 6.7 MMT for the first 5 months 2017. Of Indonesia's 17 MMT annual production, 10 MMT is classified as low grade so this is perhaps a real possibility. (Banchero Costa)

## Americas

**Brazil's Vale SA, hit record iron ore production** in the second quarter, even as the world's largest iron ore producer said **output would close the year near the bottom of its 360 to 380 MMT forecast**. Vale said iron ore production reached 91.849 MMT last quarter, up 5.8% from 86.823 MMT in the second quarter of 2016. Pellet production rose 21.5% to 12.2 MMT last quarter from the same period last year. (Reuters)

**Brazil's iron ore exports increased** by 2.1% year-on-year to 374.0 MMT in 2016 – a slower pace compared to the 6.3% growth seen in 2015. **In the first 5 months of 2017**, Brazil exported 150.2 MMT of iron ore, **at an even slower patee of 1.3% year-on-year**. The country's iron ore exports are growing below market expectations, given that their S11D iron ore mine started production in Dec 2016, and began its first exports in Jan 2017. **Vale's S11D is currently the largest iron ore mine project developed in the world, and is expected to reach 90 MMT/year in capacity by 2020**. Exports from the S11D project have already reached around 4.6 MMT in the first 5 months of this year. (Banchero Costa)

**Monthly soybean exports from Brazil** in April at 10.4 MMT hit a new high with total exports at 23.8 MMT for the first four months, running ahead of last year. At 19.2 MMT China was the destination for 81% of shipments, thus its overriding influence on this market. Though USDA forecasts predict a very strong 61 MMT for the October 16 – September 17 crop year, there is evidence of slowing sales to China due to negative domestic crushing margins, a reluctance of Brazilian producers to accept current prices and, significantly, **China's decision to lower the import tax on agricultural products from 13% to 11% planned from July. The reduction in**

**import duties, once affected, should be positive for grain imports into China in the future.**  
(Howe Robinson Research)

Prospects seem positive for a much better **Brazilian corn** harvest with the USDA raising **export prospects for the 17/18 crop year to 33.5 MMT, 50% up on this years figure (22 MMT).**  
(Howe Robinson Research)

**The American Society of Civil Engineers**, which gave the U.S. a grade of D+ on infrastructure, **estimates the consequences of not investing in infrastructure** will add up to \$3.9 trillion in losses to U.S. gross domestic product, \$7 trillion in lost business sales, and 2.5 million lost American jobs by 2025. (Cathy Engelbert, CEO, Deloitte, USA)

**The U.S. soybean export forecast** for 2016/17 is raised 1.4 MMT to a record 57.2 MMT on the strength of exports to date and outstanding sales to be shipped later. As of the week ending in June 29th, accumulated exports have reached 52.9 MMT, 18% above this time last year, and exceed total exports (including outstanding sales) in 2015/16. Outstanding sales of U.S. soybeans for the current marketing year are also strong at 6.8 MMT, slightly below the record level observed in 2015/16. Last year's large volume of outstanding sales so late in the marketing year was mostly triggered by supply tightness in South America. This lack of availability along with competitive pricing prompted the increase in buyer interest in U.S. soybeans. This year, while interest in U.S. soybeans remains strong, the market dynamics driving buyers to the United States are different as lower prices following Brazil's record production have spurred additional global demand. Despite record post-harvest selling, Brazilian producers, facing these lower prices and a stronger real, have been more willing to store a larger percentage of this year's crop in hopes that prices will rise. **This has encouraged buyers to source additional product from the US where supplies are flush and prices remain competitive.** (Howe Robinson Research)

### **Middle-East**

**Qatar** is surrounded by the Saudi-led alliance on the North, South and West. Furthermore, Qatar's only land border is with Saudi Arabia. The closure of the Saudi-led alliance's land, sea and air routes and terminals will drive Qatar to increase its imports and exports from its "friendly" neighbours Iran, Kuwait, Oman and Turkey as well as from further away countries to substitute for the loss of imports and exports from the Saudi-led alliance. Qatar-flagged vessels will also have to be rerouted to bypass the Saudi-led alliance's sea ports. Qatar-bound cargo that traditionally transships at nearby ports in the Saudi-led alliance countries will also need to be rerouted. **This is likely to drive ton-mile demand up.** In addition, the vessel re-routing, higher risk premiums and panic stockpiling will push up freight rates on Middle Eastern routes in the near term unless the mediation efforts prove successful and the diplomatic and transport links are reinstated soon. (Crucial Perspective)

A symptom of the above challenges is that some well known and public names are currently struggling. The following information has been extracted from publicly available news sources.

### **Owners and their woes**

- Chinese domestic dry bulk shipping operator **Deqin Group** has released a notice to look for new investors to takeover and restructure the company. Zhoushan-based Deqin Group

has been suffering from a debt crisis for the past few years, having started an unsuccessful restructuring in 2014. (Splash247.com)

- **J. Lauritzen**, focused on the handysize and supramax sectors, posted a net loss of \$12.4m in the first quarter of 2017. (Lloyd's List)
- Japan's **Nippon Yusen Kaisha (NYK Line)** has suffered a massive JPY265.74bn (\$2.39bn) loss for its fiscal year ended on 31<sup>st</sup> March 2016. (SeaTrade)
- **DryShips** shares have lost around 99.4% of their value since the start of this year, and USD 100,000 invested in the stocks a year ago on May 04, 2016 would be worth USD 12.72 today (May 04, 2017). (Splash247.com)
- **Safe Bulkers** the US-listed owner lost \$3.2m between January and March 2017. (Lloyd's List)
- **Jinhui Shipping and Transportation** has started Q1 2017 by posting a loss of \$8m. (TradeWinds)
- **Kawasaki Kisen Kaisha (K Line)** reported a hefty loss of JPY139bn (\$1.24bn) for FY2016 ended 31 March 2017. (SeaTrade)
- New York-listed **Star Bulk** posted a first-quarter '17 net loss of \$16m. (Lloyd's List)
- In the biggest shipping casualty since Hanjin, **German shipping group Rickmers** officially filed for insolvency on 1<sup>st</sup> June 2017, in the wake of HSH Nordbank failing to approve its restructuring plan. (Splash247.com)
- US-listed dry bulk owner **Scorpio Bulkers** reported a Q1 2017 net loss of \$34.6m. For the Q2 2017 the Company's net loss was \$13.4m. (Lloyd's List)
- Taiwan's **U-Ming** the bulker owner has lowered its first quarter net deficit to 31 March to TWD 17.32m (\$0.57m). (TradeWinds)
- **Diana Shipping** has reported a net loss attributed to common shareholders of \$27.9m in first quarter of 2017. (TradeWinds)
- **Yangzhou Dayang Shipbuilding**, a subsidiary yard of Sinopacific Shipbuilding, has been declared bankrupt and started a liquidation process due to a long standing debt crisis. (Splash24/7.com)

Sincerely,

**Khalid Hashim**