

Ref.: 2018-010

3 May 2018

**To : The President of the Stock Exchange of Thailand**

**Subject : The 1<sup>st</sup> Quarter of 2018 Management Discussion and Analysis (MD&A)**

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

**The results**, reviewed by EY Office Ltd., show you the latest financial position of the Company. The net profit for Q1 2018 was USD 3.43 million. The earnings per day per ship during Q1 came in at USD 10,965, 28% higher than that in Q1 2017. Please take a look at the Market Segmentation report that shows you the performance of the PSL fleet's earnings per day per ship compared to the Index ships. In this quarter, daily operating costs were USD 4,482 marginally lower than our target of USD 4,500 but higher than the actual for the previous year. The EBITDA was USD 16.79 million during Q1, 49% higher than that in Q1 2017. The profit per share (eps) in Thai Baht stood at Baht 0.07 for this quarter.

<b>THE HARD FACTS</b>	<b>Q1, 2017</b>	<b>Q1, 2018</b>
Highest Earnings per day per ship in USD	15,000	17,708
Average Earnings per day per ship in USD	8,588	10,965
Average Earnings per day per Handy size ship in USD	9,316	10,460
Average Earnings per day per Supramax ship in USD	6,701	11,266
Average Earnings per day per Ultramax ship in USD	8,929	11,832
Operating cost per day per ship in USD	4,208	4,482
EBITDA in million USD	11.26	16.79
Net Profit/(Loss) in million USD (excluding Exchange gain (loss) and Non-recurring items)	(1.74)	3.43
Net Profit/(Loss) in million USD	(1.70)	3.43
Earnings(Loss) Per Share in Thai Baht (excluding Exchange gain (loss) and Non-recurring items)	(0.04)	0.07
Earnings (Loss) Per Share in Thai Baht	(0.04)	0.07

**Awards and Accolades:** At the 11th Seatrade Maritime Awards Asia 2018, Precious Shipping was adjudged finalist for the 'Ship Owner/Operator' award, and Great Circle Shipping Agency ("GCSA"), our wholly owned ship-management subsidiary, was adjudged finalist for the 'Ship Manager' award.

**Market Segmentation:** During Q1, the Baltic Handy Size Index (BHSI) averaged 580 points derived from an average Time Charter (TC) rate of USD 8,492. Compared to that, **our Handies earned USD 10,460 and beat the BHSI TC rate by 23.17%**. During Q1, the Baltic Supramax Index (BSI) averaged 943 points derived from the average Time Charter (TC) rate of USD 10,625. Compared to that, **our Supramaxes earned USD 11,266 and beat the BSI TC rate by 6.03%**. **Our Ultramaxs earned USD 11,832 and outperformed the BSI TC rate by 11.36%** (as there is no special index for the Ultras, we have compared them with the BSI). Our target to outperform both the indexes was achieved.

**The SET Opportunity Day** where PSL will be presenting will be held at the SET building at 15:20 hours on Wednesday the 16<sup>th</sup> May 2018. We hope that many of you will attend this event where the Company will get a chance to thoroughly discuss the Q1 results. For those of you who cannot attend physically, the SET [live web casts](#) the presentation giving you a chance to be present via the web.

**Ship Scrapping** has been very disappointing with just 1.71 MDWT of ships being scrapped during Q1 2018 across all sectors in the dry bulk market as compared to 4.99 MDWT in Q1 last year. The existing age profile of the world fleet together with Regulatory pressures (BWM and Clean oil) should result in the world dry bulk fleet growing at a slower pace which will help redress the imbalance between supply and demand.

**Long Term versus short term Charters:** The long term charters already booked as of 31<sup>st</sup> March are shown in the chart below. As can be seen, our current and forward four year rolling book is currently at the 16.6% level with a visible revenue stream of USD 150.4 million.

Year	2018	2019	2020	2021	2022
<b>Total Available Days</b>	13,140	13,140	13,176	13,140	13,140
<b>Fixed T/C Days</b>	2,220	2,190	2,196	2,190	1,992
<b>%age Fixed T/C Days</b>	17%	17%	17%	17%	15%
<b>Av. T/C Rate/Day in USD</b>	13,859	13,875	13,875	13,875	14,211
<b>Contract value in million USD</b>	30.8	30.4	30.5	30.4	28.3

It is our intention to continue to charter out our ships on long term period contracts whenever practical and economically viable.

### **Our Reading of the market:**

When we **look back at 2017**, it was a year that started with the industry being on life support and by the **end of the year the patient was fighting fit and profitable** in most cases! According to Clarksons, **ton-mile demand growth during 2017 averaged 5.1% versus a net increase in tonnage supply of 2.93% i.e. a roughly 217 basis points difference between demand and supply** was sufficient to swing the industry from life support to profitability. This confirms our opinion that **the dry bulk supply-demand equation is very close to balance**.

**The prognosis for ton-mile demand growth in 2018 seems to have improved** since the start of the year with Clarksons having revised their estimates upward from **3.5% to 3.8%**. At the

same time, we remain **reasonably confident that net growth in tonnage supply will not exceed 2%** this year. This should result in another favourable gap of about 200 basis points between growth in ton-mile demand and growth in tonnage supply. Our Q1 results seem to reflect this happy state of affairs. **We expect a similar favourable demand-supply gap outcome for 2019.**

That leaves **2020 where regulatory pressure could make the year very interesting indeed. As the low sulphur fuel cap kicks in on 1<sup>st</sup> January 2020**, with low sulphur fuel oil expected to cost much more than the current cost of high sulphur fuel oil, **the simplest way to reduce consumption would be to reduce speed. Reducing speed from 12 knots to 10 knots would effectively remove 17% of dry bulk shipping supply overnight!** In particular, **ships older than 15 years of age**, comprising about 142 MDWT or 17% of the existing fleet would come under maximum pressure and **would become ideal candidates for scrapping, as their older engines are not really able to burn low sulphur fuel oil**, besides, they would have to invest in ballast water treatments systems as their special surveys come up. One way or the other **in 2020, you are going to have a supply shock either through slow steaming of the entire fleet or a combination of scrapping of some of the older ships and the balance of the existing fleet slow steaming.**

Another way to look at future prospects of the market would be to compare the current forward orderbook as a %age (9.85%) of the existing fleet as at the end of Q1 (819.94 MDWT) and see when was it last as low as this number, that would be the end of 2002, and we all know what happened thereafter!

**Finally, trade tariffs** - in general, trade tariffs simply shift the origination of cargoes and make the shipping journey all the more inefficient **resulting in greater ton-miles sailed. This is always beneficial for dry bulk shipping so long as the trade tariffs do not actually curb or extinguish demand.** Let us hope that what has begun as name calling rhetoric/tweets will eventually be reconciled into an acceptable solution for all parties concerned and that, globalization as we have known it, will continue to be in the driving seat.

### **Others' reading of the market:**

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After a strong freight rate rally in 2017, which also rubbed on stock prices, **we have seen a significant correction in the recent past as the BDI has come down sharply** from 1,743 in December to the current 1,089. The underlying reason for this revision is the seasonal weakness, owing to muted industrial activity in China. The moderation in commodity demand was exacerbated by the lag effect of steel production cuts announced by the Chinese government in October 2017. **We believe the retraction in freight rates is temporary, and the uptrend in rates should resume after the lacklustre first quarter because the favorable supply-demand dynamics remain intact.** The dry bulk fleet growth should remain benign over the next couple of years, which should support freight rates. Meanwhile, commodity demand will remain stable although it would moderate from the 2017 levels. The orderbook-to-fleet ratio is 10.1%; it has picked up from the all-time low of 7.5% in July 2017. We believe the orderbook will not swell, given the limited appetite of banks and private equity funds. **A low orderbook will restrict tonnage addition, and that should not challenge the recovery in the dry bulk market.** We expect the supply growth in 2018 to be 1%, followed by 1.2% in 2019. On the demand side, the

incremental growth will come from long-haul exports from Brazil to China, helped by the expansion of Vale's S11D project. We also believe the **trade for minor bulks will benefit from the growing Chinese imports of soybean, bauxite and nickel**. Overall, we expect the **tonne-mile growth in 2018 to be 4%, compared with 1% growth in the dry bulk fleet, which will consequently aid freight rates** to inch up. (Drewry – 16 Feb 18)

**Shipping stocks may still be in the doldrums in the view of many investors, but hedge funds have bet at least \$675 million on signs of renewed buoyancy in the industry**. Hedge funds made initial forays into shipping stocks in the third quarter of 2017, but significantly stepped up their bets in the final three months of the year, U.S. Securities and Exchange Commission filings compiled by Symmetric show. (Reuters – 16 Feb 18)

**International commodities trader Cargill wants to increase its dry bulk fleet having taken the view that demand growth will remain solid for the next few years**, Cargill expects solid demand growth in the dry bulk segment for the next two to three years for iron ore and bauxite trades, among others, giving upside to the capesize segment, which is posting the lowest fleet growth at just 0.6%. Coupled with that, the macro environment appears to have improved. **“We have not seen this for a long time — that fundamentals and non-fundamentals are both positive,”** he said. (Lloyd's List – 19 Feb 18)

**We retain our overweight stance on dry bulk stocks as we expect the freight rate rally to continue post the seasonal weakness**. The Baltic Dry Index has come down sharply from 1,743 in December to the current 1,191, owing to muted industrial activity around Chinese New Year. However, **freight rates will benefit from favourable supply-demand dynamics, especially considering that the dry bulk fleet is expected to expand by a meagre 1% in 2018**. Furthermore, the demand will be strengthened by long-haul iron-ore exports from Brazil to China with the expansion of the S11D project. (Drewry – 1 Mar 18)

**We increased our 2018 drybulk rate estimates** ahead of expected drybulk market improvement. **We believe that demand remains healthy**. Chinese industrial growth expanded 7.2% y/y in January/February. And, **Brazilian iron ore exports are expected to grow by 6.0% in 2018** as Vale's S11D iron ore mine is expected to reach 50-55 MMT of throughput this year vs. 22 MMT in 2017. Over the same time period, we also expect that **vessel demand should outpace supply by 2.1%, (slightly above 2017 levels)**, before balancing into 2019. (AXIA Capital Markets – 29 Mar 18)

**Dry bulk spot rates are volatile...and seasonal. No surprises there**. Yet, we have been surprised by the headlines this week about our peers lowering estimates and/or calling for a delayed or muted dry bulk recovery, just as the seasons start to turn. In fact, **the Capesize BCI 5TC rate increased by 79% last week (to 15,766 from 8,811)** as cargoes that were impacted by seasonal weather or maintenance started to return to the market. Vale's 1Q18 production fell 5% year over year, with some of the drop resulting from heavy rains, yet the major producer maintained its full-year growth projection of 7%, meaning that **1Q shortfall will be made up in the remainder of the year**. BHP also faced some disruptions from rail car issues and it has lowered its 2018 production guidance accordingly, but **the ton-mile impact of Vale from Brazil**

**is far more important to incremental ship demand than from Australian cargoes.** (Evercore ISI – 23 Apr 18)

**Dry bulk freight rates for the smaller sizes of ship are likely to rise significantly over the next three years as demand is expected to outstrip supply.** Speaking at the International Chromium Development Association's annual meeting in Paris, **Denny Sabah, a dry bulk freight analyst at Clarksons Platou, said that new orders for Handysize, Handymax and Supramax vessels were at extremely low levels. This would particularly affect shipping of alumina, bauxite, copper concentrate, manganese ore, chrome ore, zinc concentrate and ore, sugar, cement, bulk fertilizers and grain.** "The availability of these ships will shrink in the next three years," Sabah said. "If you regularly charter 40,000 dwt ships you will have less to choose from [compared with now]." (Platts – 26 Apr 18)

**The backdrop for dry bulk remains the same:** 1) Steel margins still strong, 2) steel prices remain high, 3) Chinese steel inventories are down 27% from mid-March levels and 4) price spreads on high versus low quality iron ore is very high. As Vale (the main Brazilian producer providing the best quality iron ore) reiterated its production guidance for 2018 despite Q1 being down YOY, **we are bullish on volumes for the rest of the year and should provide good support for Capesize rates.** (DNB Markets – 27 Apr 18)

### **Key Supply Side Developments:**

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**Supply Side developments** in the world bulker fleet makes for interesting reading. We started 2018 with 813.53 MDWT and have increased to 819.94 MDWT as at the end of Q1 2018. A further 3.36% (27.57 MDWT) is scheduled for delivery in the rest of 2018. If we were to apply a slippage factor of 30% (it was actually 33.7% in 2017) to these scheduled deliveries and further assume that scrapping reaches 12 MDWT (it was actually 15.16 MDWT in 2017) we would be left with a fleet growth of +1.90% (828.95 MDWT) in 2018 and +1.57% (841.98 MDWT) by end of 2019.

### **What others' say about Supply Side Developments:**

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**Tougher global emission limits for shipping from 2020 could see a surge in scrapping of older, less fuel-efficient vessels** within two or three years of the enhanced International Maritime Organization (IMO) regulations coming into force. **The dry bulk sector is expected to develop into a two-tier chartering market between older and new tonnage,** said Lei Yang, China ocean freight head for commodities group Cargill. The higher fuel consumption of older vessels, which sees operators paying USD2–3 million a year more for fuel compared with the latest ship designs, will hasten their demolition. **"The older fleet will be phased out very quickly after 2020 – within two or three years,"** Yang told the Marine Money Hong Kong ship finance forum. (IHS Maritime – 16 Apr 18)

**Bulk carrier prices:** Load Line Marine of Greece appears to have made another savvy asset play — this time **selling a 17-year-old supramax bulker for almost three times what the company paid in June 2016.** Shipbroking sources in Europe said the George Souravlas-led shipowner has offloaded the 52,000-dwt Challenger (built 2001) to an Indonesian buyer for \$8.8m. Load Line only paid about \$3m when it bought the bulker — then named New Spirit — from compatriot Transmar. (TradeWinds – 26 Apr 18)

## **Regulatory Developments/Pressures:**

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**With the low sulphur fuel oil deadline of 1<sup>st</sup> January 2020 rapidly approaching**, Scrubbers, an out dated technology are being thrust on ship owners as a costly solution when **the option to burn low sulphur fuel oil is on the table**. If we examine the statistics, we see that **at the end of March 2018 there were less than 0.30% of ships that were scrubber fitted/ready out of the 95,000+ vessels that need to comply with the new legislation**. Even if the scrubber fitted/ready ships figure trebles by the time we reach 1st January 2020, it will be just 1% of the existing world fleet of about 95,000+ ships. **With such a low number of potential clients, we don't think that any of the oil majors would continue to produce high sulphur fuel oil when the prospects for sales of the same are going to be so limited**. Not only that, the oil majors would then have to invest in dedicated pipelines, storage tanks and bunker delivery vehicles like tankers that would be solely dedicated/doing the dirty high sulphur fuel oil trade. This looks like a classic case of too much investment for too little, and very uncertain, returns. High sulphur fuel oil, if it is available post 1st January 2020, would likely be sold, not at a discount, but at a premium to low sulphur fuel oil! **Owners have voted with their pocket books and made clear that there is only low sulphur fuel oil that is an acceptable/palatable solution**.

## **What others' say about Key Regulatory Developments:**

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**Taiwan will enforce a 0.5% sulphur cap on vessels calling at the island's ports from January 1, 2019**, the Ministry of Transportation and Communications has announced. The move comes one year ahead of International Maritime Organization's mandate. When entering Taiwanese ports, vessels flying foreign flags or used for international trades will be required to switch to cleaner fuel, either with a maximum sulphur content of 0.5% or the same effectiveness in emission reduction, according to the ministry. (Lloyd's List - 9 Feb 18)

**Between 2013 and 2015, global shipping emitted on average 77 kilo-tonnes of Black Carbon (BC) annually. BC is a potent, relatively short-lived, climate forcing agent with a Global Warming Potential 3,200 times stronger than CO2**. When emitted and deposited on Arctic snow or ice, the climate warming effect of BC is at least five times more than when emitted over open oceans in temperate latitudes. In recognition of the serious impact of BC emissions from global shipping on the Arctic environment, the IMO began a work process to address the threat in 2011. Having agreed on a definition of black carbon, and identified ways to measure emissions accurately, **the IMO will now have to decide on BC abatement options by 2019**. (Arctic Alliance – 14 Feb 18)

**Emissions from shipping pose an acute and substantial risk to human health**. Pollutants such as particulate matter, black carbon and sulphur oxide have been linked to an increased risk of heart and lung disease as well as premature death. **A study on the health benefits of the global sulphur cap**, carried out by the Finnish Meteorological Institute (FMI) and Energy and Environmental Research Associates, LLC (EERA), along with related research **concludes that globally 200,000 premature deaths will be prevented by 2025 as a consequence of introducing the 0.5% sulphur cap in 2020**. (Arctic Alliance – 14 Feb 18)

**Mediterranean Shipping Co has paid \$350,000 in penalties** to the California Air Resources Board **after admitting violating air quality regulations**. The settlement was reached following

an investigation by the CARB that found **four MSC vessels had failed to comply with California Code of Regulations provisions on fuel sulphur content and record-keeping in 2015. California requires that ships in its waters use fuel with no more than 0.1% sulphur content.** (Lloyd's List – 6 Apr 18)

**Delegates at the International Maritime Organization (IMO) on 13 April mainly supported the initial strategy** presented to the Marine Environment Protection Committee (MEPC). The initial strategy will see a **40–70% improvement in ship efficiency and a 50% reduction in absolute terms of greenhouse gas emissions by 2050.** This level of ambition does not suit many of the supporters of the deal, including the Marshall Islands, the world's second-largest flag state, which says it would have walked away from the IMO had the strategy not been adopted. The widespread support for what was generally accepted as an imperfect strategy was agreed because the delegations believe that there will be opportunities to adjust the aims of the industry over the next five years; **in 2023 the final strategy is expected to be agreed.** (IHS Maritime – 13 Apr 18)

**Delegates to the International Maritime Organization's 72nd Marine Environment Protection Committee (MEPC 72) approved draft amendments to the MARPOL convention to ban ships from carrying high-sulphur fuel oil.** The move was expected, given the industry-wide support for the ban, which regulators and shipowners largely agree would help port state control administrations enforce the 0.5% global cap on sulphur contained in bunker fuel, which goes into force on 1 January 2020. **If formally adopted at MEPC 73 in October, the ban can take effect as early as 1 March 2020.** The ban would not apply to vessels that use scrubber equipment to clean sulphur emissions in the stack while continuing to burn fuel with sulphur content higher than 0.5%. (IHS Maritime – 16 Apr 18)

### **Key Economic News:**

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Recent market volatility does not change **the International Monetary Fund's view that global economic fundamentals remain strong,** and a market correction was probably inevitable given elevated asset prices, IMF chief spokesman Gerry Rice said. "Despite the volatility in recent days, we believe financial conditions remain supportive of economic growth. Financial markets continue to function in an orderly way," Rice told a regular weekly IMF news briefing. **"We expect the global economic recovery to continue."** (Reuters – 15 Feb 18)

**The global seaborne thermal coal market is expected to grow by 48 MMT this year to 974 MMT, up 5% year on year,** said Noble Group's head of hard commodities analysis Rodrigo Echeverri. **In the long term, seaborne coal demand will surpass 1 BMT globally,** supported by Indian imports. **India, which is the world's second-biggest coal importer after China, is expected to see more imports in 2018** after recording falling imports for two straight years. (Lloyd's List – 15 Feb 18)

**The world economic climate has improved considerably** in the first quarter of the year, German economic research institute Ifo reported. The results of Ifo World Economic Survey showed that **the indicator for the world economy rose from 17.1 points in the last quarter of 2017 to 26.0 points in Q1 of 2018, soaring to its highest level since autumn 2007.** The report noted that the economic climate improved in all regions of the world. In addition, surveyed

experts also expected that short and long-term interest rates will rise in the next six months, and that **world trade is to pick up significantly**. (Xinhua – 16 Feb 18)

**In the five years to 2017, seaborne grain shipments have risen on average by 6% each year. During that time wheat shipments have grown 37 MMT to 180 MMT, barley is up 6 MMT to 30 MMT, soybean meal ahead by 7 MMT to 62 MMT but the stellar gains have been in corn, up 42 MMT to 146 MMT and soya beans gaining 55 MMT to 149 MMT.** Last year soya bean shipments alone grew by a massive 15 MMT with China absorbing 12 MMT of this growth. **Brazil has gained the most from this additional demand with its soya bean exports up 17 MMT (32% y-o-y) to 68 MMT.** By way of contrast we are forecasting much more modest growth in 2018 with wheat and barley exports lower on reduced Australian harvests whilst corn and soya bean shipments only marginally higher, though Brazil in particular may gain market share at the expense of Argentina (currently suffering a drought) and USA. **As the percentage share of Brazilian shipments to China is expected to rise, there will continue to be an enhanced benefit for tonne:mile demand.** (Banchemo Costa – 23 Feb 18)

International Monetary Fund Managing Director Christine Lagarde said she saw positive and negative effects from a “complicated” U.S. tax overhaul, including a near-term growth bump that risks overheating the U.S. economy and a problematic rise in debt. Lagarde told Reuters in an interview that **tax cuts can lift the U.S. growth rate by about 1.2% over the three years through 2020, which should help boost global growth and trade for at least a few years.** But Lagarde said a bigger concern was the increase in U.S. budget deficits and debt that she said would begin to cut the growth rate starting in 2022. A fiscal watchdog group, the Center For a Responsible Federal Budget, has estimated the deficit could top \$1 trillion as early as 2019 between the tax cuts and a spending increase passed in January. **Trump administration officials maintain that increased growth prompted by the tax cuts would minimize revenue shortfalls.** (Reuters – 2 Mar 18)

**The OECD Interim Economic Outlook, published this month, paints a fulsomely optimistic picture for the next two years.** Their GDP growth projections for most of the 20 largest economic regions were revised upwards for both 2018 and 2019. Only Russia’s was revised downwards for 2018. **Overall YoY world growth is expected to accelerate from 3.7% in 2017 to 3.9% during the next two years,** with the US, Brazil, S. Africa and India showing the greatest increases. From the Dry Cargo perspective the recovery of investment demand for (steel/energy intensive) plant and machinery over the last nine quarters is particularly encouraging as is **the recovery in international trade, which grew by 5.2% in 2017 after five lean years.** Looking forwards, the progressive rise in consumer and business confidence throughout the OECD and BRIIC economies since 2016 also bodes well for the short term outlook. Naturally the **OECD also points to “rising tensions”: US and Euro monetary policy is expected to tighten.** Due mostly to China, **G20 public plus private debt has risen by almost 30% since 2010 to 220% of GDP.** Most crucially of all, the threat of **progressive tit-for-tat retaliation by trading partners to US steel and aluminium tariffs could badly damage the trade recovery.** Overall, however, the message for the next 12 months is encouragingly positive. (Howe Robinson Research – 16 Mar 18)



**Demand growth for seaborne coal is expected to weaken through 2018, which may dampen the recent strength of the dry bulk sector.** The weaker demand will stem from winter heating requirements in Asia drawing to a close and a recovery in Chinese and Indian domestic production, Bank of America Merrill Lynch says in a new report. **Seaborne coal demand has been a key driver of the recovery in the dry bulk sector over the past year along with iron ore demand, with curtailed domestic production in China and India and winter heating demand playing major roles.** (Lloyd's List – 10 Apr 18)

According to new data from the World Steel Association, **monthly global steel output reached the highest level on record in March, growing 4% y/y to a total of 148.3 MMT.** China, who accounted for half of the world's steel output that month, ramped up production as a result of the winter restrictions being lifted in mid-March. **China's production came at 74 MMT, a 4.5% increase y/y. India, who this year has overtaken Japan, is now the second largest producer in the world. Production there increased 5.3% y/y to 9.2 MMT in March.** In the US, the import tariffs on steel introduced last month, has spurred local mills to increase production. Output for March grew 5.3% y/y to 7.3 MMT. Based on positive world economic momentum, the World Steel Association last week revised upwards its growth forecast for global steel demand, by 0.2 percentage points to 1.8% for 2018. (Maersk Broker – 27 Apr 18)

## **Key Demand Developments:**

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### **China**

The China Factor continues to have a disproportionate impact on the dry bulk markets. **China's GDP growth numbers** have been holding steady at 6.8% in Q1, higher than the target of around 6.5%. **China's Iron Ore import** was 270.4 MMT in Q1 2018 or about 0.2% lower than the 271.1 MMT in Q1 2017. This was mainly due to the very wet weather in Brazil resulting in them exporting 5% less iron ore to China than they did in 2017. Provisional **Chinese steel production** for Q1 2018 was about 210.8 MMT or 5.0% more than the 200.8 MMT in Q1 2017. **China's Coal imports** totaled 75.4 MMT in Q1 2018 or 16.5% higher than the 64.7 MMT imported in Q1 2017! Coal imports are contingent on import pricing parity versus domestic coal production/transportation costs. It is also dependent on China strictly enforcing its stated goal of curbing pollution from burning 'poor' quality coal mined domestically requiring much better quality coal to be imported. In a country that currently produces and consumes some 3.5 BMT of Coal per annum even a small change in China's coal imports could have a significant impact on the Dry Bulk freight markets. **Chinese steel exports** have fallen by 26.1% to 15.3 MMT in Q1 2018 compared to the 20.7 MMT in Q1 2017 carried by geared ships from the Handy to the Ultramax sectors.

**China's demand for steel has peaked and the coming 14th Five-Year Plan period (2021-25) will witness a decrease in steel consumption** in the construction industry, while demand in the manufacturing sector is expected to remain at the same level, according to a senior official. During the period, steel consumption will mainly occur in the manufacturing industry, supplemented by needs in construction, said Shi Hongwei, director of China Steel Development & Research Institute. Specifically, **steel consumption is expected to remain 600 MMT per year, with the manufacturing sector taking up over 60%.** (China Daily – 8 Feb 18)

**The highly publicised curbs on China's steel production across the northern provinces over the winter months are to be extended in Tangshan province beyond the original restrictions deadline of March 15.** Tangshan, in Hebei province, is one on the top steel producing regions and is also one of the worst polluting cities. The continuation of production cuts will be applied to eight steel mills located close to the city centre. Other steel mills will stagger their production. **There was no indication by the Tangshan City Government when the extended curbs would end.** (Braemar ACM – 14 Feb 18)

**Growth in Chinese steel production could slow this year** on continued capacity curbs, and tougher production curbs next winter. **Stimulus measures are also expected to fade this year,** with the Chinese economy continuing to rebalance away from infrastructure investment and toward consumption. China's steel product exports decreased 3.0% year-on-year to 109.0 MMT in 2016, and continued to slump in 2017 by 30.6% to 75.6 MMT. The fall has been largely attributed to improved domestic demand and Beijing's resolve to tackle overcapacity. More stringent trade measures by importing countries have also contributed to lower Chinese exports. **If China's steel prices remain high, capacity cuts proceed, and domestic demand remains supported, lower steel exports could continue.** Downside risks are increasing for iron ore import volumes, including further capacity curbs this year, stricter output curbs next winter, lower steel demand, high iron ore prices which may encourage destocking and further increases in domestic output, and competition from scrap steel. (Banhero Costa – 16 Feb 18)

**China's steel producers are eager to unleash their mills' capacity when this winter's output curbs end next month, hoping for a repeat of last year's record profits based on high margins and less competition as outdated plants were closed.** China shut down up to half of its steel production this winter in 28 cities in the country's manufacturing heartland in the north as part of an anti-pollution campaign. **With margins still encouraging full output, China's pent-up steel production should erupt when the curbs expire on March 15.** Because of the curbs, China's average daily steel output in December was the lowest in a year at 2.16 MMT, government data showed last month. Average daily output may rise to about 2.5 MMT if the mills quickly boost production when the restrictions are lifted, Wang Yingsheng, vice secretary-general of the China Iron and Steel Association told an industry conference in late January. **With the government likely to re-impose the limits next winter, northern Chinese mills will have only about eight months to run at full speed, so plants are stocking up on raw materials to maximize production while the market conditions remain strong.** (Reuters – 20 Feb 18)

**In China, the government-ordered closure of inefficient induction furnaces led to a surge of steel scrap exports in 2017.** Over the last two years, **the Chinese government has closed around 140 MMT of outdated and often illegal capacity.** Induction furnaces are known for producing low quality steel products, often use high amounts of steel scrap in the production and demands a higher level of energy per ton produced. Despite a 40% export tariff on steel scrap, exports have increased rapidly following the closure of the furnaces. According to the Chinese iron and steel association (CISA), **China exported 2.2 MMT of steel scrap in 2017,** up from a meager 1,000 MT in 2016. South East Asia has been the primary recipient, with Indonesia, Thailand and Vietnam taking the majority of the shipments. (Maersk Brokers – 23 Feb 18)

**China's coal demand in 2017 halted three years of declines amid accelerating economic growth and extreme weather.** Use of the fuel by the world's largest energy consumer rose 0.4% last year, the first increase since 2013, the National Bureau of Statistics said on its website. Because total energy demand rose at a faster pace, the fuel's share in the nation's energy mix dropped 1.6 percentage points to 60.4%, it said. China's total energy use rose 2.9% to 4.49 BMT of standard coal in 2017, the fastest pace since 2013. Clean energy, including natural gas, hydropower, nuclear and wind power, accounted for 20.8% of the country's energy mix, 1.3 percentage points higher than 2016. (Bloomberg – 1 Mar 18)

**China has set its 2018 economic growth target at "around 6.5%".** The figure, announced at the opening session of the annual National People's Congress, is in line with the country's existing expansion goals. The report also said China would clamp down on the kind of financially risky operations which have threatened to cause the collapse of major firms. **China is now the world's second largest economy, but a reliance on borrowing has led to pressing political concerns about debt risk.** As expected, the report delivered by Premier Li Keqiang said reining in this risk would be a key policy for the coming year, promising to "see that internal risk controls are tightened in financial institutions" and a "serious crackdown on activities that violate the law like illegal fundraising and financial fraud". **Other goals mentioned in the report included: Achieving inflation of 3%; Cutting overproduction, including reducing steel capacity by 30 MMT and coal by 150 MMT in 2018; Reining in pollution; Reducing poverty.** The report said that China's economic and financial risks were "on the whole manageable". (BBC – 5 Mar 18)

According to Mysteel, **the volume of imported iron ore stockpiled at China's major ports reached a new record of 159.73 MMT as of 16 March.** Current volumes also remain almost double the 80 MMT level seen in mid-2015, after which inventory levels have mostly been increasing. **The general market view is that the majority of China's iron ore stockpile growth has been of lower grade ores with 58% iron content or less.** The build-up of such lower grade supplies tend to have a larger impact on their domestic miners which supply these grades, but less so on most international suppliers providing the higher grades. **Demand for higher grade ore imports have even been increasing, as China pushes for lower air pollution.** The usage of higher-grade ores require less coking coal and upgrading in blast furnace steel production, thus making the process less pollutive. Over the past decade, **the ratio of iron ore imports to steel production volume increased from around 0.9 in 2008 to 1.3 in 2018 – a sign of China's growing preference for higher quality and price competitive iron ore imports.** (Banchemo Costa – 16 Mar 18)

**Winter closures of steel mills in China are likely to become an annual event and have been effective and successful.** However, it has not really impacted total steel production at a national scale given the positive pricing environment it created. Greater productivity in operations (by using high grade ore), greater use of scrap and a shift in production to the south of China (which is unaffected by cuts) made up for government imposed cuts in Northern provinces. (Braemar ACM – 23 Mar 18)

**Coal is under fire in Beijing's 13th Five-Year Plan,** which vows to cut China's overall energy intensity by 4% this year while rebalancing its sources of energy in favour of clean sources like

gas. But the orchestrators of **China's national production want to boost domestic coal production at the same time as they cut coal consumption, which is bad news for foreign miners and foreign-flag shipowners.** (TradeWinds – 13 Apr 18)

**Latest available data for March 2018 shows the collapse of China's domestic iron ore production has continued. Almost 67 MMT was produced in March 2018 compared with 114 MMT for the same month in 2017.** The March figure is significant as it gives a more reflective picture as February's low production was influenced by Chinese New Year. China's domestic iron ore is generally very low grade and requires significant beneficiation and therefore is heavily polluting. **The focus towards higher efficiency in addition to reducing pollution is seen as the main reasons for the decline.** (Braemar ACM – 27 Apr 18)

**Chinese iron ore stocks in port have come down 1.5% (2.4 MMT) from the peak on 30 March in tandem with rising spot rates for Capesize vessels.** Moreover, the preference of high-quality iron ore is becoming apparent in the stock draws, with stocks of Brazilian sourced iron ore down 8.2% (2.9 MMT) from 30 March, while Australian sourced iron ore is up 1.4% (1.3 MMT) and India is up 36% (but only 0.9 MMT due to low base). Our take is that **Chinese consumption seems to be picking up again post the winter regulations, albeit a bit later than we had anticipated.** (DNB Markets – 27 Apr 18)

**Chinese nickel imports rose sharply in March as Indonesia continues to release surplus lower grade product to the export market.** The 1.36 MMT was the largest monthly shipment since 2013 when Indonesia brought in the original export ban on unprocessed mineral ores and indeed **is the leading exporter so far in 2018 having shipped 3.3 MMT to China in Q1.** Since 2014 the Philippines has dominated this trade exporting more than 29 MMT to China in 2017; Q1 always sees a lull in shipments from Philippines due to the rainy season, and there remains talk of government curbs to exports, so Indonesia's decision to resume exports in significant volume will be welcomed by China. The return of Indonesia as a volume exporter may well be detrimental to New Caledonia's planned nickel ore expansion plans (they exported 0.34 MMT to China in Q1 – up 62% yoy) due to falls in nickel ore prices, and rumours abound that Vale, who control their production, may consider mothballing them in the coming months. (Howe Robinson Research – 27 Apr 18)

Chinese authorities have reinstated coal import restrictions as part of efforts to boost domestic thermal coal prices and production. In Mar 2018, China's National Energy Administration (NEA) had stated that China aims to produce 3.7 BMT of coal in 2018, an all-time high and an increase of 7.3% year-on-year. In the first 3 months of 2018, China's coal production had increased 3.9% year-on-year to 0.8 BMT according to the National Bureau of Statistics of China (NBS). The new restrictions already appear to be impacting Chinese coal imports, based on vessel-tracking and port data compiled by Thomson Reuters Supply Chain and Commodity Forecasts. China's seaborne coal imports fell to 3.45 MMT in the week ended April 21, down almost 30% compared to the 4.92 MMT weekly averages that was recorded from Jan. 1 to April 15. The figure is also lower than the weekly average of 4.45 MMT for seaborne imports in 2017. Over Jan-Mar 2018, Chinese coal and lignite imports had increased 16.6% year-on-year to a total of 75.4 MMT, mainly due to a surge in thermal coal and lignite imports during the winter. **With the restrictions in place, Chinese coal imports appear likely to stay flat or decline this year.**

The reduction of Chinese demand is also **expected to pressure international thermal coal prices, which could help to increase India's import volumes from Australia.** India generally imports higher-quality coking coal from Australia for their steelmaking due to a lack of domestic supplies. On the other hand, Australian thermal coal cargoes typically struggle to find buyers in India due to their higher price and transportation cost compared to supplies from Indonesia and South Africa. (Banchemo Costa – 27 Apr 18)

### **Belt and Road initiative (BRI):**

The Belt and Road numbers sound big. **BHP puts the extra global demand it will create at 150 MMT of crude steel over the next decade, or about 15 MMT a year.** Korean giant POSCO's steel research institute says **extra demand could reach up to 30 MMT per annum.** The problem is that China's steel industry is now so large that relatively modest shifts at home tend to overwhelm even big structural trends like the Belt and Road plan. As domestic demand collapsed during China's last real-estate downturn, the nation's net steel product exports ballooned to more than 100 MMT in 2015 from 48 MMT in 2013. In other words, even if the upper end of estimates for Belt and Road demand are correct—about 30 MMT extra a year—the last sharp downturn in China dumped significantly more than that into global markets. (Wall Street Journal – 14 Feb 18)

Originally known as the “One Belt, One Road” initiative (OBOR), the “Belt-and-Road-Initiative” (BRI) was launched by China in September 2013. In Germany it is also dubbed the “new Silk Road”, as it runs roughly along the geographical course of the old Silk Road and aims to interlink its destinations and establish an intercontinental infrastructural network between Europe, Africa, Asia and China. The idea is for it to **revive trade between the participating countries and trade along the ancient Silk Road, stimulating economic growth in Asia and beyond. Nearly 70 countries have joined the initiative.** According to consultant firm McKinsey, the participating countries account for **around 65% of the world's population, a third of global economic output and roughly a quarter of worldwide trade in all goods and services.** McKinsey expects the initiative to **significantly eclipse the US Marshall Plan that was implemented after the Second World War.** According to Wikipedia, the US provided economic assistance worth \$13-14 billion at the time (adjusted for inflation, this equates to around \$150 billion today). The first summit meeting for the “Belt-and-Road” initiative took place in Beijing in May 2017 and was attended by representatives of more than 100 countries, including many heads of state and government. **The next meeting is scheduled for 2019 in Beijing.** It is not known how long the “Belt-and-Road” initiative is likely to last. The consultant firm PwC estimates its duration at **30-40 years at least. PwC sees 2049 as being one major milestone because that is the year in which the People's Republic of China will be celebrating its centenary.** (Commerzbank – 5 Apr 18)

### **Americas**

**Truck drivers in Argentina have recently ended a strike** that had brought grain exports to a standstill, **with almost 100 cargo ships currently waiting to load soy and corn from Argentina's main agro-export port of Rosario.** The strike ended when assurances were given of a meeting between the truck owners and the government on February 23 2018. (Braemar ACM – 14 Feb 18)

**In the US, exports of ferrous scrap climbed to 13.8 MMT in 2017, up 23% y/y, and breaking five years of decline. However, what was even more notable was that imports of ferrous scrap to the US totalled 4.65 MMT, the highest volume since 2006, with notable increases from Japan, UK and the Netherlands. (Maersk Brokers – 23 Feb 18)**

**With Argentinean domestic soybean production battered by the drought, soybean crushers in Argentina have been forced to turn to imports for additional supplies in order to maintain crushing volumes. The USDA reported 120,000 tonnes of U.S. soybeans sold to Argentina for delivery during the 2018/19 marketing season that starts on 1 Sept – the largest such sale since 1997. Argentina is the world’s largest exporter of soybean meal, forecasted to ship 29.5 MMT of soybean meal in the 2017/18 marketing year. This is almost double the volume of the next largest exporter Brazil, which is expected to ship 15.5 MMT. Soybean seeds are transported mainly to China, which accounted for around 88% of their soybean exports in 2017. However, soybean shipments to China fell 22.7% year-on-year in 2017, as Argentinean supplies lost out to those from Brazil. With Brazil experiencing a record harvest again this year, it appears likely for Argentina to lose further market share in China this year. As the U.S.-China trade conflict developed, Brazilian supplies have found themselves favored by Chinese buyers as China considers imposing tariffs on U.S. soybean imports, resulting in surging prices in Brazil. (Banchemo Costa – 13 Apr 18)**

**The U.S. exported 97.0 MMT of coal in 2017, a 61% increase from the 2016 level. Exports to Asia more than doubled from 15.7 MMT in 2016 to 32.8 MMT in 2017, although Europe continues to be the largest recipient of U.S. coal exports. (Maritime Executive – 21 Apr 18)**

**Production and exports have been halted from Anglo-American’s Minas-Rio iron ore project in Brazil until Q4 2018, resulting in a \$300 – 400 million reduction in their EBITDA for 2018. This follows a leak on the pipeline that carries slurry from the Minas-Rio iron ore mine to port in Rio de Janeiro. The pipeline is undergoing full inspection which will take 90 days, there will then be a period of further closure while any remedial action and testing takes place. Total shipments for the year may end up at the 3 MMT already exported, rather than the planned 13-15 MMT. (Braemar ACM – 27 Apr 18)**

## **Asia**

**India’s wheat imports are set to surge as lower plantings and poor rain threaten output in the world’s biggest grower after China. Imports may total 3.5 MMT in the year from April 1, according to the median estimate of eight traders and analysts surveyed by Bloomberg. (Bloomberg – 12 Feb 18)**

**In a presentation made to the Coaltrans India conference, New Delhi’s National Steel Policy predicted India’s per-capita consumption of steel would more than double to 158 kg by 2030-31 from the 2017 level. But that amount of steel far exceeds production targets, which is good news for bulker owners, because this would induce further imports into the country. In terms of raw materials, coking coal imports were about 100m tonnes in 2017 along with 8m tonnes of scrap, with an expectation that demand for them would increase by 10% in 2018, according to Essar Steel and JSW Steel. In the longer term, more imports of coking coal are needed to develop the Indian steel sector. (Lloyd’s List – 19 Feb 18)**

**In India, internal logistical problems and surging demand from power plants are likely to increase coal imports.** Domestic producers are struggling to meet demand due to a shortage of trains to move coal from the mines to the power plants. **Train shortages recently in India resulted in 10 power stations without any spare coal supplies and another 45 with stockpiles less than 7 days of consumption.** Coal imports may rise as much as 4% this year with similar levels of growth for the next 5 years. Furthermore, cement makers are now buying coal in larger quantities following the ban on the use of petroleum coke around New Delhi in efforts to reduce pollution. **Indian coal imports were 197 MMT, up over 2% in 2017 compared with the previous year.** (Braemar ACM – 28 Feb 18)

**Rapid expansion in Indian steel production in recent years has seen India become the second largest importer of coking coal.** India's coking coal demand is almost entirely met by imports, with quality and cost issues preventing domestic coking coal from being more widely used. **Indian seaborne coking coal imports have grown by a CAGR of 7% since 2010 to reach 50mt in 2017,** and while imports softened slightly in 2016-17, this reflected disruptions to seaborne supply. **Australia and the US are the largest suppliers of coking coal to India, while imports from Mozambique are rising rapidly following investment by Indian companies in mines in the East African nation.** Overall, growth in steel production is expected to drive firm expansion in Indian coking coal imports over the next decade. (Clarksons – 15 Mar 18)

**Indonesia is forecast to be the largest wheat importer for 2017/18 at 12.5 MMT, passing Egypt, which has traditionally been the top wheat importer.** Indonesian wheat imports have been growing based on food and feed demand. Population and incomes are rising and diets are moving towards Western trends of pastries, instant noodles, and poultry. Even though there are feed wheat import restrictions, lower-priced milling wheat is still an affordable ingredient to process into feed rations. Traditionally, **Indonesia's top four wheat suppliers have been – ranked from highest to lowest – Australia, Canada, Ukraine, and the United States.** However, competitively priced black Sea wheat continues to put pressure on high-quality suppliers by offering wheat at a much lower price. **So far in 2017/18, those top suppliers have changed to Ukraine, Australia, Russia, and Canada.** Between July-November 2017, imports from Ukraine have surpassed those of Australia, a long-time top supplier of wheat to Indonesia with market share of around 50% or more. **Not only is Ukraine robbing Australia of its major market, Russia has now made an entrance into Indonesia.** (Howe Robinson Research – 9 Feb 18)

**Indonesia has been increasingly turning to imports from Russia and the Ukraine for its wheat requirements.** Low wheat prices and freight from the Black sea region is quoted as the primary reasons behind the switch. Black Sea exports into Southeast Asia are about US \$25 PMT cheaper than from Australia, from where only 800,000 MT of wheat was imported in January when exports are normally around 2 MMT. **This move is positive for dry bulk demand due to the longer distance wheat is being transported from the Black Sea as compared to from Australia.** (Braemar ACM – 14 Feb 18)

**Thailand imported nearly 1.6 MMT of coal in January**, up 21.6% from the same month in 2017, according to data released by the Customs Department. In 2017, **Thailand imported 22.18 MMT of coal, up 2.5% from 2016.** (Platts)

**It's been a long time since any country shipped out as much wheat as Russia.** As estimates for the Black Sea nation's harvest keep growing, so does the outlook for exports. **The world's top exporter is now expected to sell 36.6 MMT overseas**, according to consultants SovEcon and the Institute for Agricultural Market Studies, or IKAR. **The U.S. was the last nation to ship out more, a quarter century ago.** (Bloomberg – 17 Feb 18)

### **Trade Tariff Developments/Pressures:**

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**Mexican buyers imported ten times more corn from Brazil in 2017** amid concern that NAFTA renegotiations could disrupt their U.S. supplies. **Mexican buyers imported a total of more than 583,000 MT of Brazilian corn last year – a 970% jump over 2016**, according to data from Mexico's Agrifood and Fishery Information Service (SIAP). U.S. corn exports to Mexico also rose, despite the rapid increase in the flow from Brazil, because Mexico needed record imports in 2017 to compensate for the impact of a drought on domestic corn production. Mexico boosted U.S. imports by 6.6%, according to U.S. Department of Agriculture (USDA) data. **Mexico buys far more corn from the United States than Brazil, taking 14.7 MMT in 2017**, according to U.S. government data. (Reuters – 22 Feb 18)

**In 2017, U.S. steel product imports increased 15.1% to reach 34.5 MMT**, after falling over 2015-2016. **Canada, the E.U., and Brazil form the top 3 suppliers** of steel products to the U.S., accounting for 16%, 14%, and 14% respectively and exporting a collective 14.2 MMT to the U.S. in 2017. **S. Korea is the largest Asian steel product supplier** to the U.S., exporting 3.4 MMT to the U.S. in 2017, and accounting for 10% of U.S. imports. **Japan, Taiwan, and India** forms another 5%, 4%, and 2% respectively, **shipping a collective 3.6 MMT**. While **China is the world's largest steel product exporter**, the country is only the **11th largest supplier to the U.S., exporting 0.7 MMT to the U.S. in 2017 and accounting for around 2% of U.S. imports**. While the annual volume from these Asian destinations may seem small, any disruption to these shipments are expected to have a disproportionate effect on the dry bulk market due to their longer distance to the U.S., and thus greater impact on overall tonne-mile demand. Trading partners may also take retaliatory measures against U.S. exports, which could impact other commodity trades. (Banchemo Costa – 26 Feb 18)

**The governor of Virginia warned that President Donald Trump's plan to impose tariffs on steel imports could hurt defense shipyards like Newport News**, which is building America's next class of aircraft carriers. President Trump surprised his party and his staff on Thursday by announcing that he would move ahead with a 25 percent tariff on steel imports and a 10 percent tariff on aluminum. "The danger is you could protect the domestic steel industry, but the industries that use steel to produce, employ multiple more people," said Virginia Gov. Tim Kaine (D) at a news conference. "So, the shipyard, auto manufacturers and others are going to see higher costs." (Maritime Executive – 2 Mar 18)

**World Trade Organization Director General Roberto Azevedo expressed concern at U.S. President Donald Trump's plan for tariffs on steel and aluminum**, an extremely rare



intervention into a WTO member's trade policy. "The WTO is clearly concerned at the announcement of U.S. plans for tariffs on steel and aluminum. The potential for escalation is real, as we have seen from the initial responses of others," he said in a brief statement issued by the WTO. (Reuters – 3 Mar 18)

**International opprobrium at President Donald Trump's steel and aluminum import tariffs was swift and fierce.** Industry leaders and allied countries threatened retaliation over what they called blatantly protectionist measures. But Asia, which produces more than two-thirds of the world's steel, will be minimally affected when compared to the rest of America's trading partners, according to ratings agency Moody's. (CNBC - 3 Mar 18)

**President Trump announced import tariffs of 25% on US steel imports and 10% on US aluminum imports** on 1st Mar'18 with the order expected to be signed sometime in the week commencing 5<sup>th</sup> March. We see muted impact on exports from China given China is already subject to 200~500% tariffs on steel imports while China contributes <1% to overall US steel imports; **impact may be larger on South Korea, EU and Canada.** In case of aluminum, impact on Chinese producers may be larger as China is the largest source of US aluminum products imports. We are wary of potential **broader repercussions if the proposed tariffs materialize into a global trade war** as US allies and other countries impose retaliatory tariffs. If the global trade war indeed materializes, the impact would be more widespread while **port operators, container shipping and air cargo sectors will take a hit** given their trade linkages. (JP Morgan – 5 Mar 18)

**If Donald Trump was aiming at China with his lofty proposed tariffs on imported steel and aluminum, he's a terrible marksman.** Not only will Chinese leaders likely brush off the measures. They have good reason to embrace them. The U.S. president clearly believes tariffs are the inevitable next step. Yet, any pain China feels from Trump's import restrictions will be minimal. A measly 3% of total U.S. imports of steel products, by value, came from China in 2017. As Bloomberg economist Tom Orlik points out, China's total exports of steel and aluminum to all countries account for barely 0.5% of its GDP, and the share going to the U.S. is relatively small. Even losing access to the American market entirely would thus have a negligible impact on Chinese growth. (Bloomberg – 5 Mar 18)

Dry Cargo faces an anxious wait to see the ramifications of President Trump's decision to impose 25% import tariffs on steel imports. Though the **USA's steel production rose 3 MMT to 81 MMT in 2017, even with the re-opening of a mothballed steel plant in Illinois, it is doubtful that production will top 85 MMT in 2018.** So the USA will require additional steel imports but those countries exempt from the tariffs, Canada and Mexico, already ship 88% and 75% respectively of their exports to the USA so it is doubtful whether they can provide much more additional steel. **Time will tell where the USA will source 20 MMT+ incremental steel necessary for their economy** but more pertinent will be possible retaliatory measures from the those countries affected by the new regulations. There is already talk that China might consider restricting imports of USA soybeans which last year totalled 33 MMT. Whatever the outcome, trading patterns may well be adversely affected by any escalation of tit-for-tat protectionist measures. (Howe Robinson Research – 9 Mar 18)

**The question that has to be asked is: is Trump losing it?** The announced tariffs on steel and aluminium, imposed for “strategic national security” reasons, impact mainly NATO allies. One loser in all of this is the United States, mainly the consumers and the agricultural exporters. Surely a wake-up call for the President. The other loser is world trade as **the response to the Trump “art of the deal” is impacting confidence and, as a result, potential GDP growth.** Trump has also single handedly wiped off trillions of dollars of wealth from the global stock markets. (Hackett Associates – 3 Apr 18)

**JP Morgan published a report** by their China Equity Strategy team **assessing the impact of a preliminary list of 1,297 products** released by the Office of the US Trade Representative (USTR) on 3rd April, 2018 **targeting annual imports of US\$50B from China.** The list of products is rather wide, covering machinery, electronic products and electronic equipment, transportation, medical, steel, high-tech, industrial tools and materials, etc. **As a retaliatory measure, China also announced a list of 106 products with an estimated import value of US\$50B and a planned levy of additional 25% tariff.** This list includes products like aircraft, soybeans, automobiles and chemicals. Our strategy team believes the window is still open for negotiation between China and the US. The likelihood of reaching some agreement, based on the demand list from the **US to ask China to further reduce auto import tariffs, speed up the opening of the financial sector, and increase imports of semiconductors** from the US, is reasonably high. That said, JP Morgan believes the path to negotiation will be bumpy. (JP Morgan – 4 Apr 18)

**Chinese President Xi Jinping has just delivered his keynote address at Boao Forum** for Asia, also known as China’s version of Davos. The highlights:

1. Xi said **“China’s reform and opening up can and will be a great success”**, adding that **China has become a key anchor and driver for the world economy.**
2. In an indirect criticism of Trump, Xi said **cold-war mentality are “out of place” and peaceful development and cooperation is the only way to creating a win-win situation.**
3. Xi said **China will not threaten others and will not undermine global order, adding that dialogue is the way to resolving disputes.**
4. Xi indicated that **globalization is an irreversible trend and said China will take major measures in widening market access**, to improve investment environment to attract foreign investment and allow greater access for foreign financial institutions, in a sign that **“China’s door will only open wider”**.
5. Striking at the heart of Trump’s moves against China, **Xi pledged protection of intellectual property rights and said punishments for violations will be increased.**
6. **China will significantly lower tariffs on autos**, addressing a specific complaint of Trump. (DNB Markets – 10 Apr 18)

Last week’s decision by the **Chinese government to impose a 178% import duty with immediate effect on USA sorghum** is perhaps a foretaste of **increased disruption to agriculture and ultimately dry bulk shipping should China’s proposed 25% tariff on imported USA soybeans actually come into force.** Records show USA exported 1.3 MMT of sorghum to China in January / February and that currently there are around 20 vessels loaded with sorghum heading for China; it seems that those vessels, some way from their destination, are likely to be diverted elsewhere. The problem for USA is that few other countries import

sorghum at present – the next largest importer in 2017 was Mexico at 0.4 MMT followed by Japan at 0.2 MMT so alternative destinations may be difficult to find. The USDA estimates that USA will produce 7.6 MMT of sorghum in the 2017/18 crop year of which 6.3 MMT (83%) was earmarked for export, so China is the key focus of this annual \$1 billion trade. Primarily used as feedstuff for poultry and hogs sorghum is not subject to import quotas in China unlike corn and wheat so grew in popularity from 2014 as a lower cost alternative to corn. Sorghum shipments from USA to China peaked in 2015 at 9.1 MMT falling to 4.6 MMT in 2017, so there is not the same reliance on USA as there is for soybeans (32 MMT of imports in 2017). Australia and Argentina produce limited amounts of sorghum should China seek to source product elsewhere to make up some of the shortfall. (Howe Robinson Research – 20 Apr 18)

**Should China decide to enact the import tariff on US soya beans**, the relevant question becomes: To what extent can, and will, Brazil step in to make it up for US exports? The answer to that is: anywhere between 0% and 82%, probably depending on the price. Brazil is expected to achieve a harvest that is almost as good as the record seen in the previous marketing year 2016/2017. That means the export potential is just as high, leaving changes to any stock piles out of the equation. **In 2017, Brazil exported 27 MMT to other countries than China. In theory, that means Brazil could cover 82% of the imports China used to source from the US.** Subsequently, that would require, the US to take over the Brazilian market share elsewhere in the world. We deem that is not a desirable position for the Brazilians to bring themselves into, having one giant customer only to serve. Bottom line is that **China needs the soya to feed farmed animals: poultry, pigs and fish – which cannot starve because of a trade war.** Meat from these animals has grown increasingly popular as the Chinese population has prospered. **Though not preferred by the Chinese importers, taking soya bean meal (soya beans crushed before exports) may serve as an interim substitute to close any ‘import gap’.** (BIMCO – 20 Apr 18)

Yours Sincerely,

Precious Shipping Public Company Limited

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Khalid Hashim  
Managing Director