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HAPPY DAYS!!!

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Some observations on the dry bulk market

Geared Handysize and Supra/Ultramax markets have been leading the dry bulk recovery in 2021

Extremely tight container market has helped dry bulk

Fleet utilisation has increased and supply is now so tight that measuring 'demand' as 'cargo carried' becomes less meaningful (but it is still done by many as if supply bottlenecks & high freight were not a limiting factor)

Covid-19 has created a catch-up effect for dry bulk demand in 2021

Port congestion and Covid-19 restrictions have reduced fleet efficiency

Vessel speed has gone up a lot in 2021 to help supply meet demand but elevated speed means further significant increases may not be possible

Scrapping is already at zero so cannot be reduced

In the dry bulk market there are always things to worry but, for once, excessive supply growth is not on the foreseeable horizon

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In the short to medium term

- THE KNOWNS
- Supply side is strained to its limit and beyond
- Newbuilding deliveries are pacing down and future environmental requirements are holding back NB ordering
- Scrapping is already as zero (so cant go lower)
- Speed has increased and has limited room for further rise
- Covid-19 continues to dampen economic activity
- Power/energy bottlenecks are affecting industrial output in China

- THE UNKNOWNS
- Length of time that Covid-19 will continue to affect economic activity
- Hard-to-quantify effect from increased port wait and congestion and how quickly this can normalise
- Extent of spill-over effect from containers to dry bulk and how long this will be with us
- How much dry bulk demand is being shut out by supply side running out of carrying capacity
- Stimulus effect on demand
- Length of China bottlenecks

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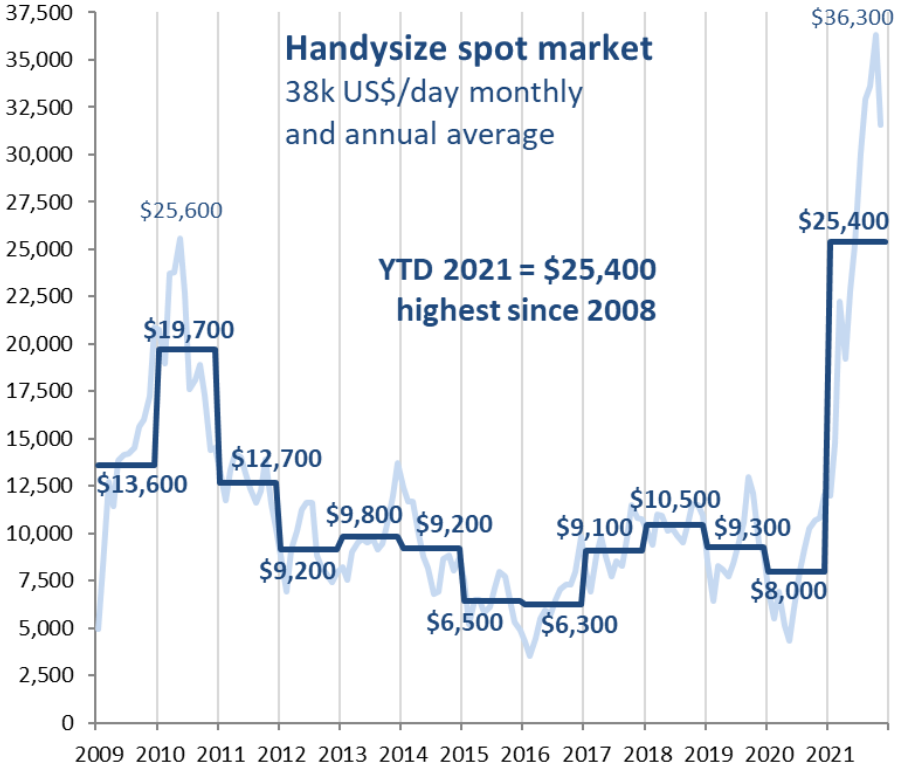
In the long term

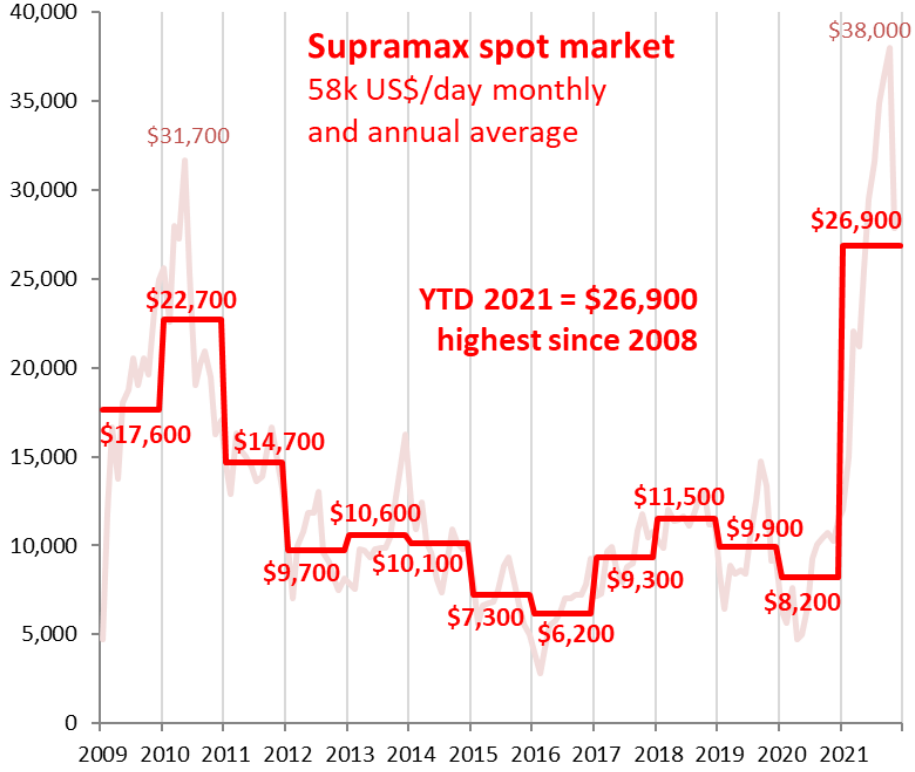
- THE KNOWNS:
- Fleet supply growth will remain subdued for years to come due to uncertainty over environmental requirements for shipping
- Fleet speed will reduce to comply with IMO regulation and thereby reduce supply
- New designs, when they become commercially availble, will be more expensive so will raise the cost of the zero carbon vessels that will eventually replace the current fleet

- THE UNKNOWNS:
- Timing of clean energy shift and its effect on dry bulk trade (expect less coal but more of other commodities linked to clean energy)
- Time horizon for the current fleet i.e. when and how much will speed reduce and how long until oil based vessels are regulated out of service
- Cost and availability of zero emission fuels that will be chased by non-shipping sectors as well

Spot earnings in 2021 at a 12 year high

Pre-2009 was **much higher** with the annual average for the 28,000 dwt index over $39,000/day and over $58,000/day for Supramax

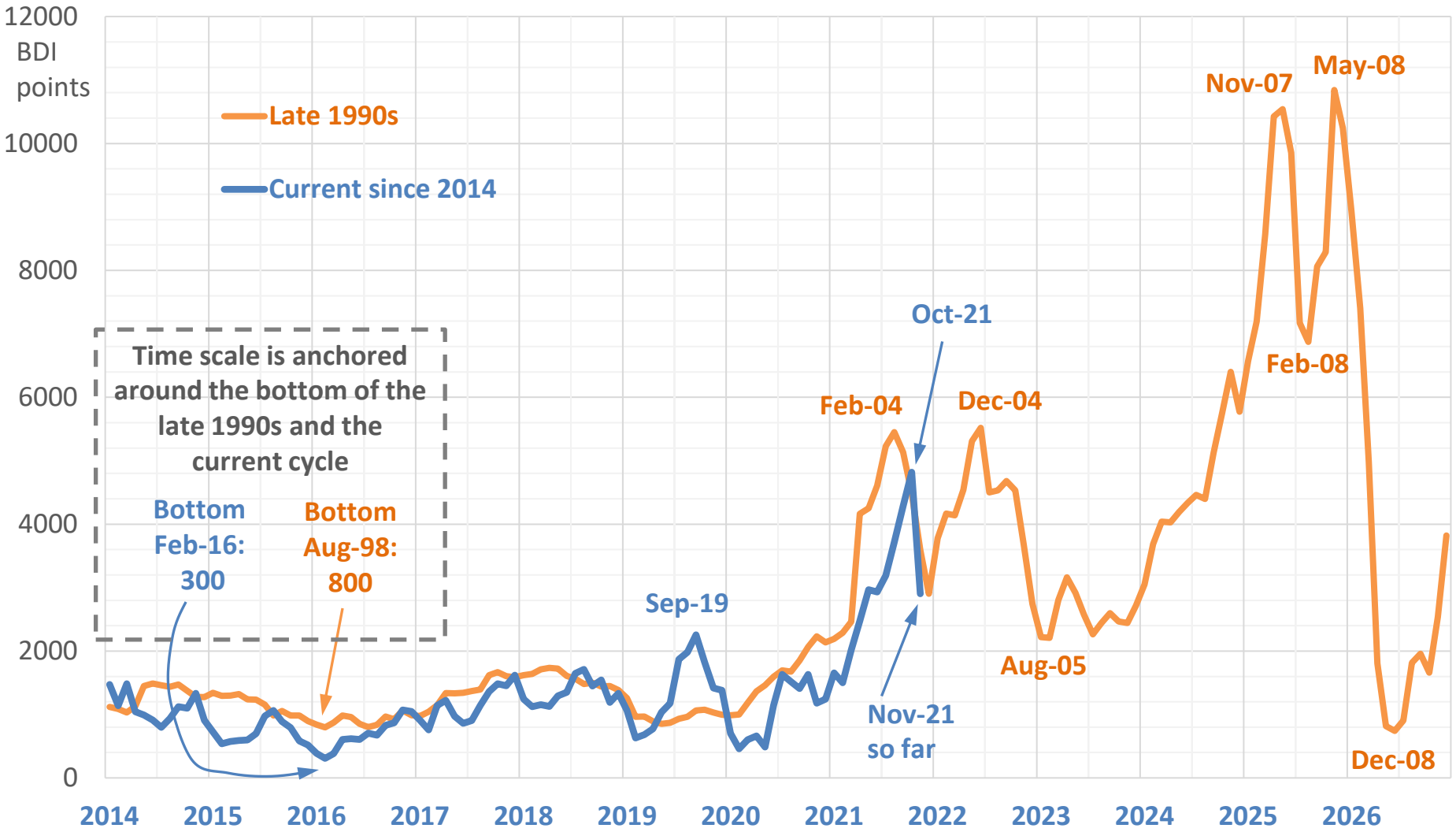




BHSI 38k is converted from 28k at factor 1.20 prior to Nov 2017

Source: Baltic Exchange as of 11 Nov 2021

A comparison of the current cycle to the last one that peaked in 2008



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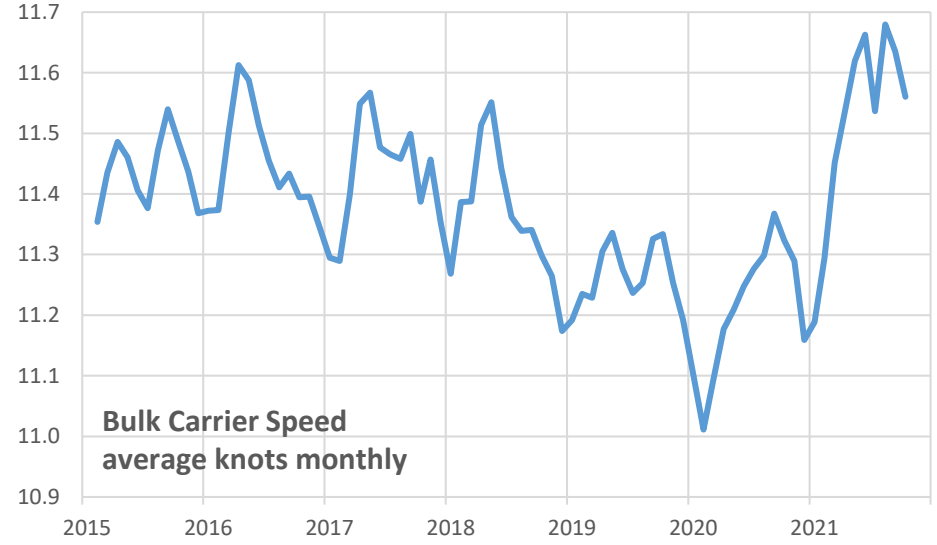
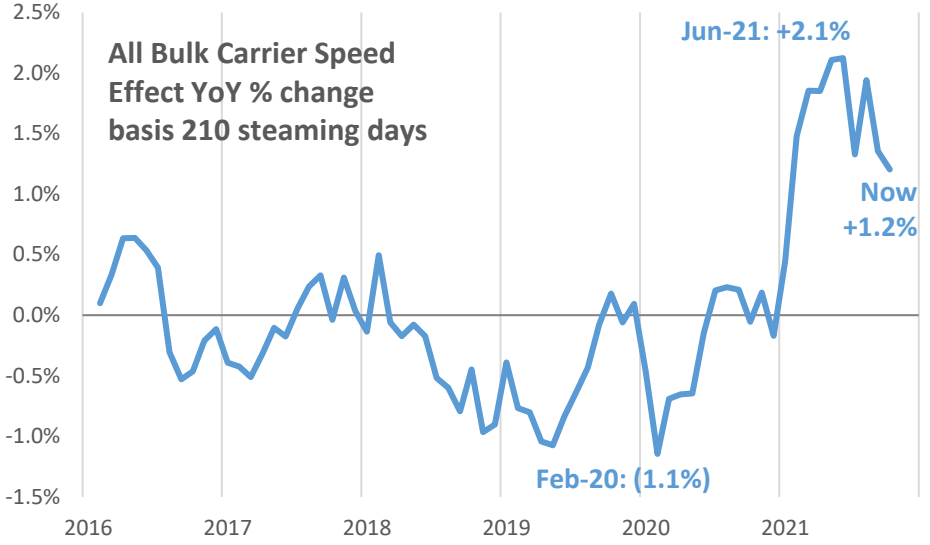
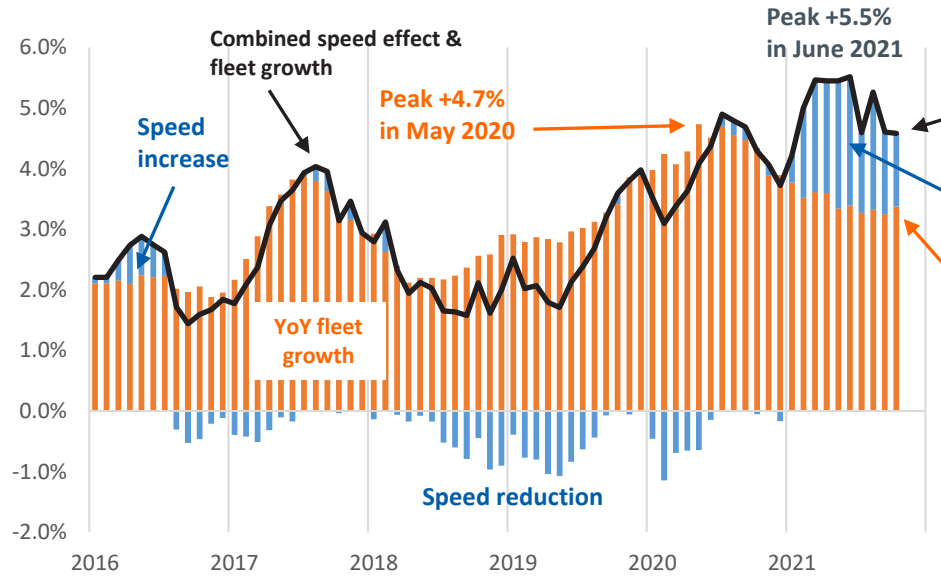
Classic Supply vs Demand model is broken

- When earnings are high and fleet utilisation is stretched (as it is now with decade high levels) the classic measuring of market balance with **supply vs demand has limited meaning**.
- **Supply is now a bottleneck** that determines how much cargo (demand) can being moved, i.e. If there was more supply available we would see more cargo being moved → this means that whereas classic supply (dwt capacity, speed) can be measured, other factors such as changes in time spent in ballast & time spent waiting are hard to quantify in terms of supply effect and classic demand (cargo volume & distance) can‘t be regarded as a separate entity to be weighed up against supply on a weight scale
- **What we know**: Supply will continue to grow but less than before due to limited orderbook and scrapping already at zero so cannot decline. Fleet speed is already high so has limited further upside. Chartering psychology has changed allowing previously unheard-of charter rates to be agreed.
- **What we don‘t know**: How elastic is demand when greater supply is allowing more cargo to be moved? How much has leftovers from containers added to dry bulk demand and when will some of this move back to containers? How strong is the effect on supply from port congestion and quarantine restrictions that reduce fleet efficiency and when will this revert to a more normal situation?

Higher speed has increased effective supply but the YoY boost effect is now reducing







+4.6% current combined YoY speed effect & fleet size growth and will decline

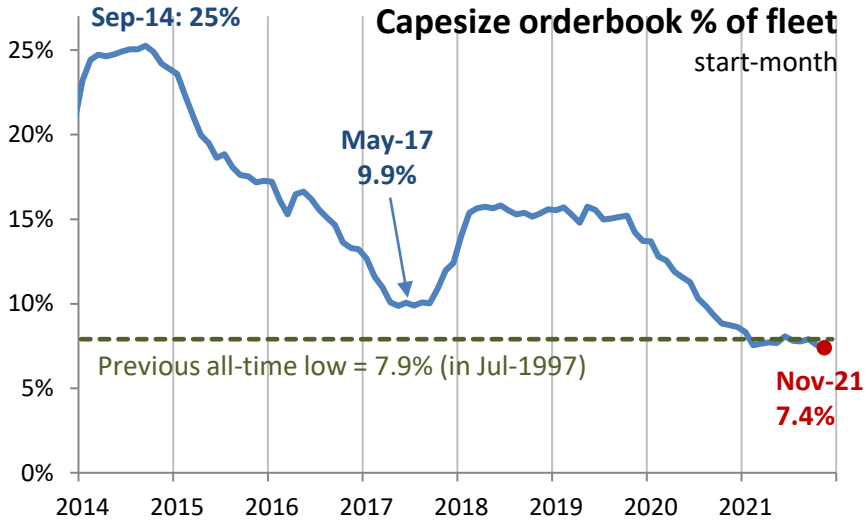
YoY speed effect peaked in June at +2.1% and will decline further

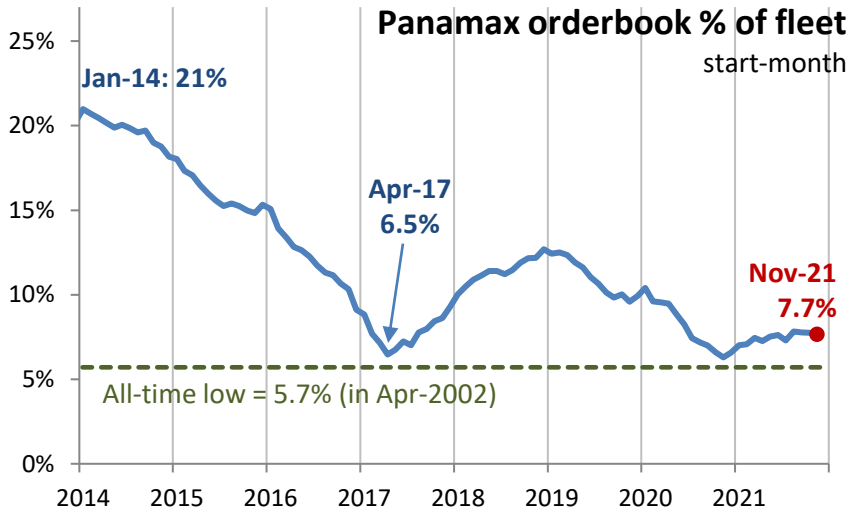
YoY fleet growth is currenty +3.5% and will decline in 2022

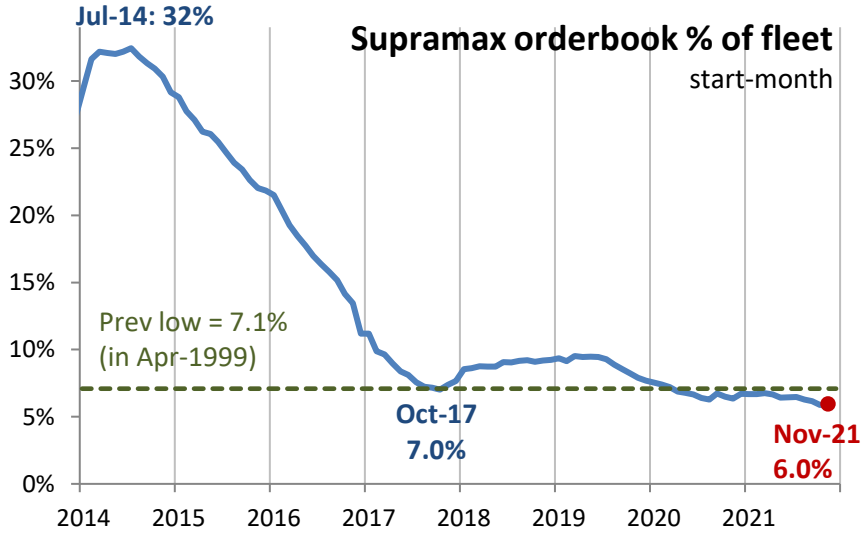
With current speed near practical maximum, the YoY effect will have to decline on top of net fleet growth which is set to reduce in 2022

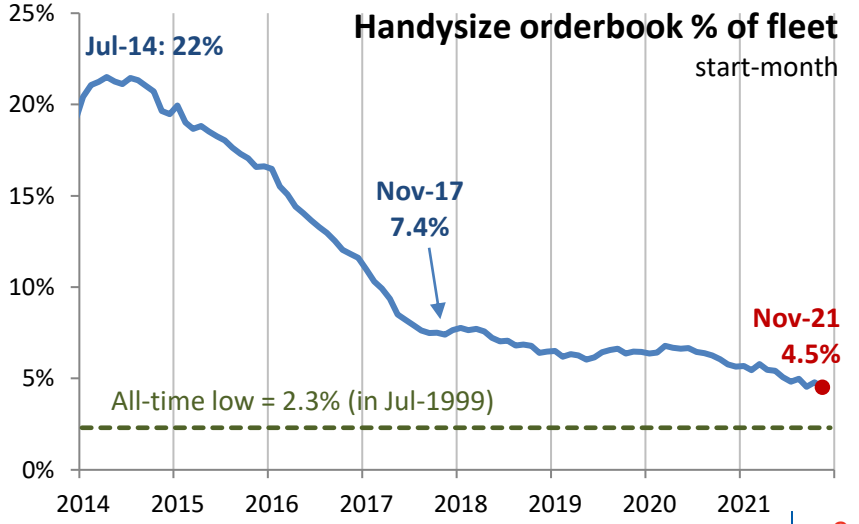
Source: Oceanbolt (speed() and Clarksons Research (fleet growth)

Orderbook remains near all time low despite much improved freight market in 2021



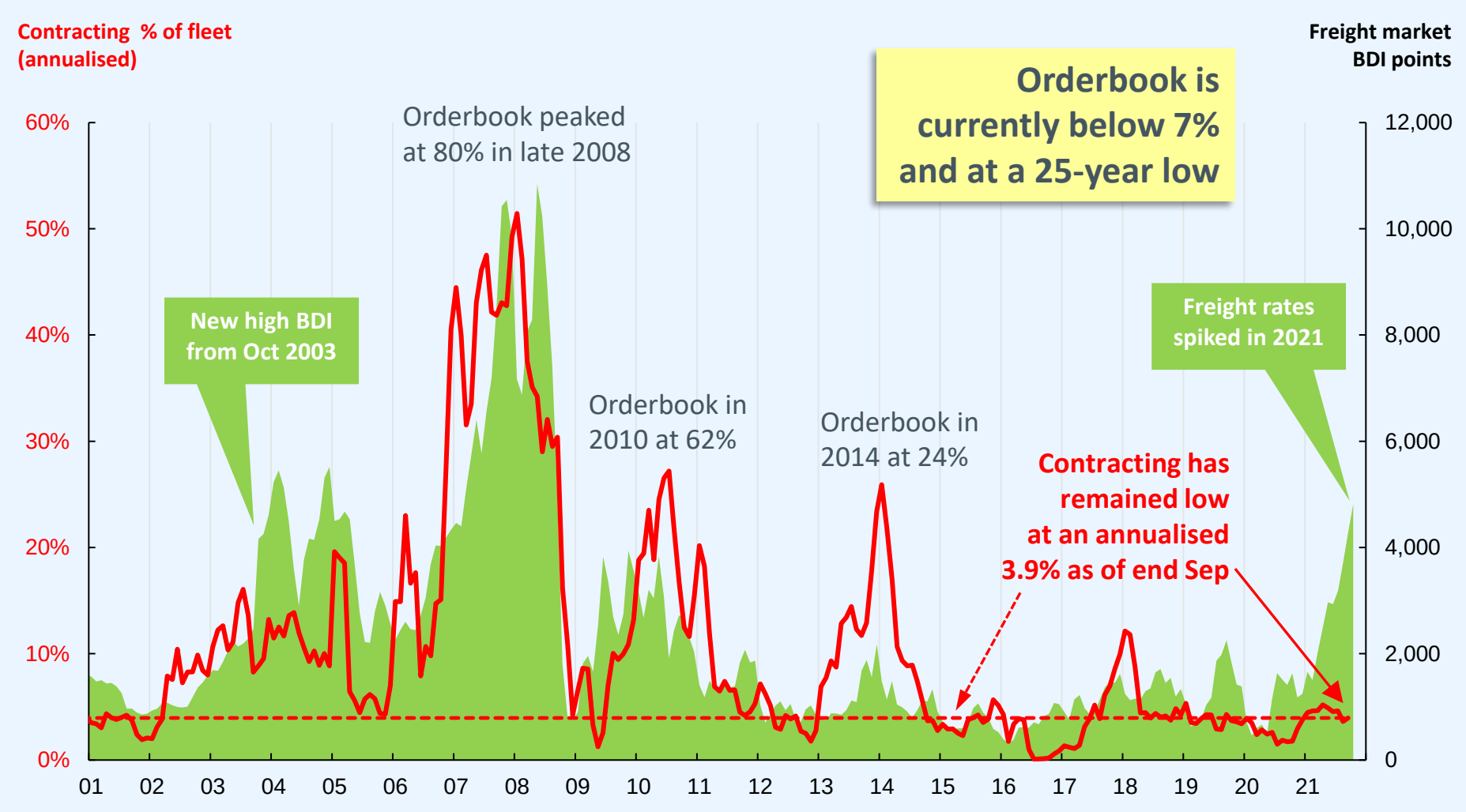






Source Clarksons. Measured in dwt terms as of start Nov 2021

The relationship between strong freight market and high NB contracting is broken



Source Clarksons (BC contracting 3mos avg) and Baltic Exchange (BDI)

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Summary

- For once, dry bulk supply growth is not a concern due to rock bottom scrapping, an already record low orderbook and a (genuine & justified) concern over future regulation holding back appetite for new ordering as long as no new and future-proof non-oil-based newbuilding designs are technically and commercially available. Such new designs, based on realistic fuel scenarios, will take time to develop and will be more expensive to order
- Increased speed has added to dry bulk supply growth in 2021 but the year-on-year effect (now abt +2%) has peaked this is a one-time grab that cannot be repeated due to fleet speed already being elevated
- Longer term will see fleet speed being forced lower as IMO regulation kicks in from 2023-2024 and this will reduce supply
- Covid-19 is still with us and is on the one hand surpressing economies and on the other, creating fleet efficiencies – neither will go away soon
- Extremely tight container market has leaked cargo to dry bulk and whereas this might leak back, the container market is expected to stay tight for a while longer
- China‘s industrial growth is slowing, as evidenced by lower steel output in August, and a key question is how much of this is policy driven by the Chinese Govt (which is what they say) and how much is caused by resource bottlenecks (such as power and met coal) and avoiding excessive inflation.
  → If the latter, would the Chinese Govt be open about this?