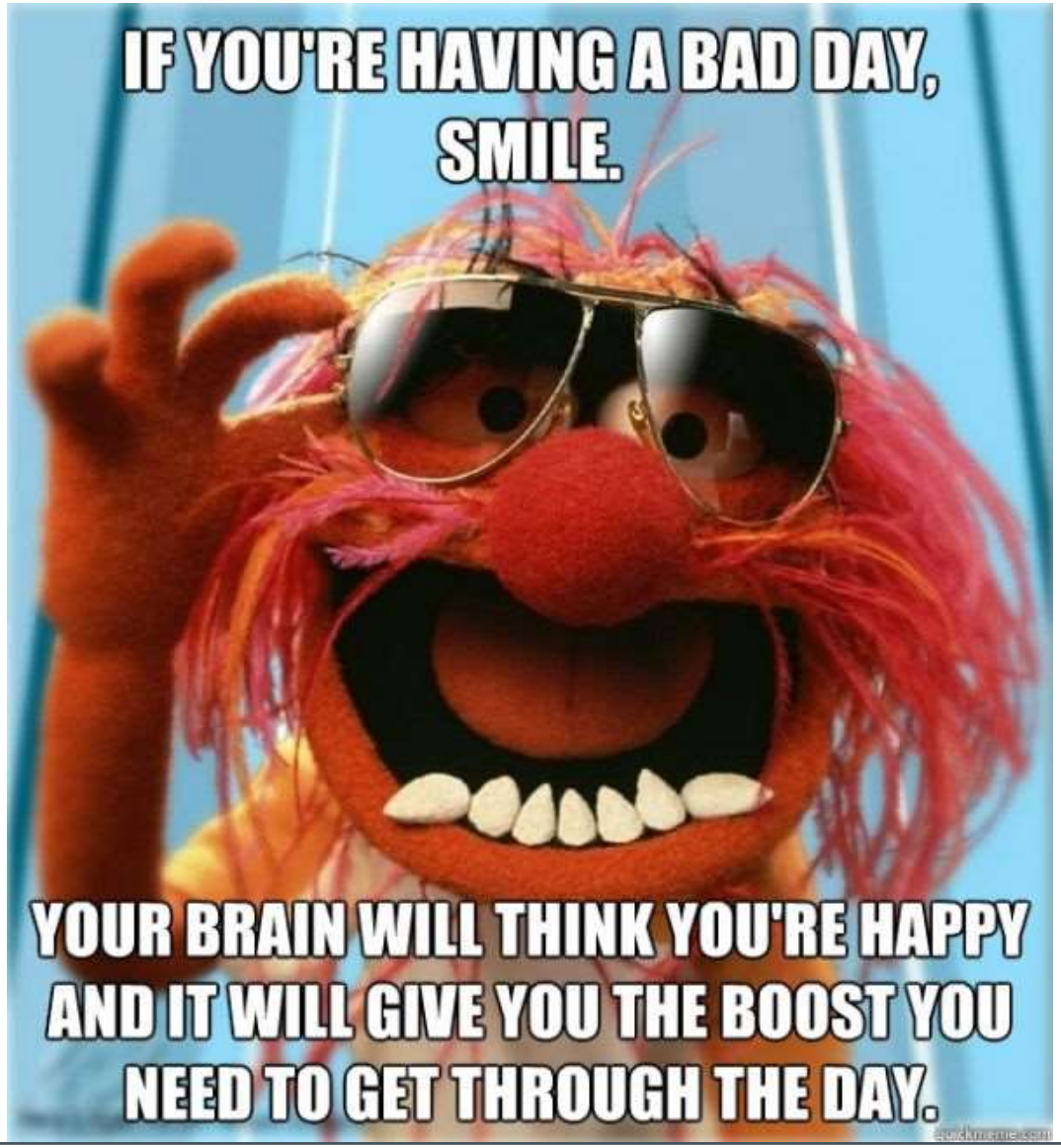
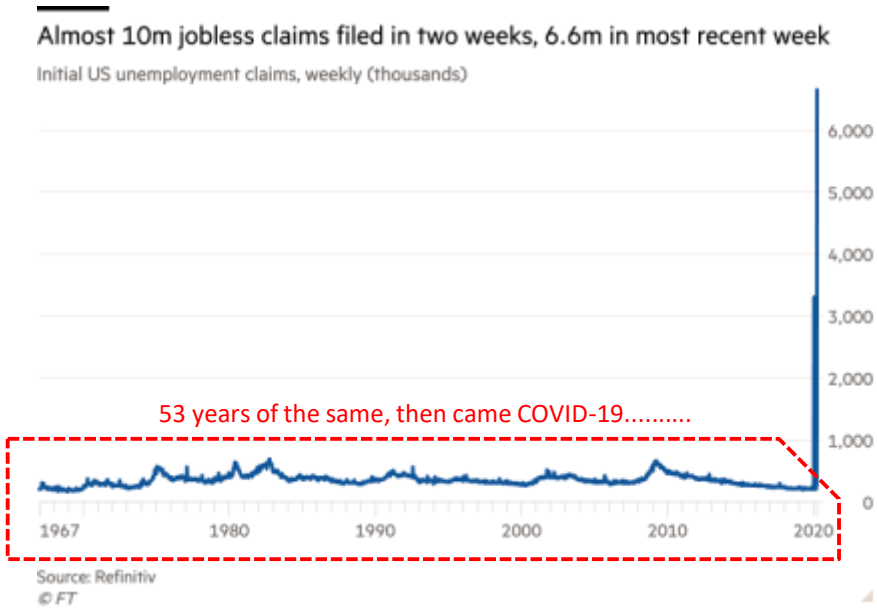
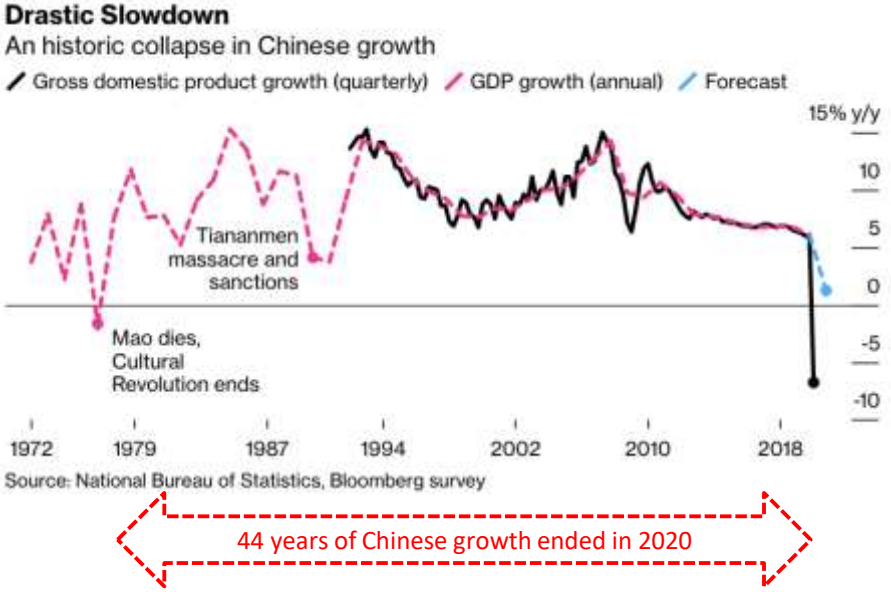


I think this sums up people whom work in shipping, we always live under the premise in down markets that "tomorrow will be better" … we are eternal optimists!

Business of shipping; business far from normal ☹





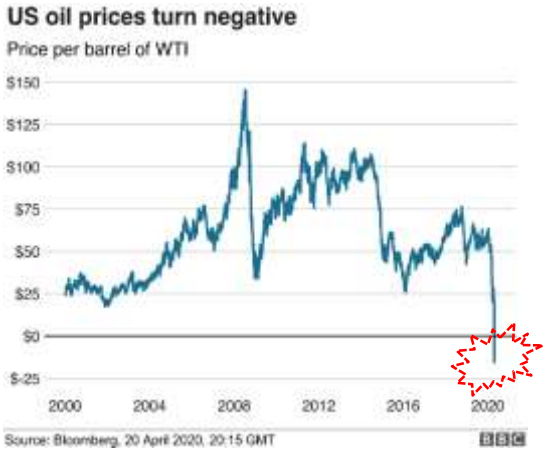
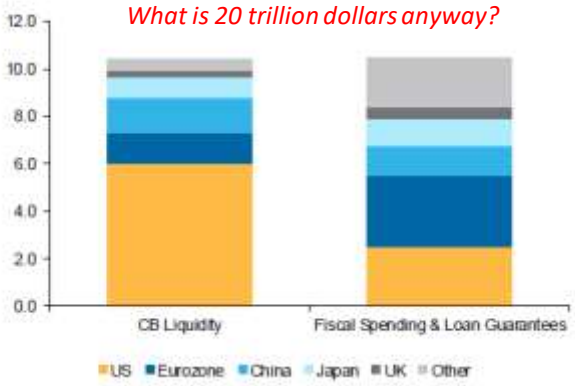
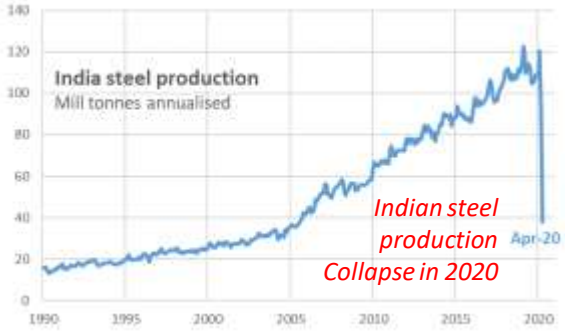
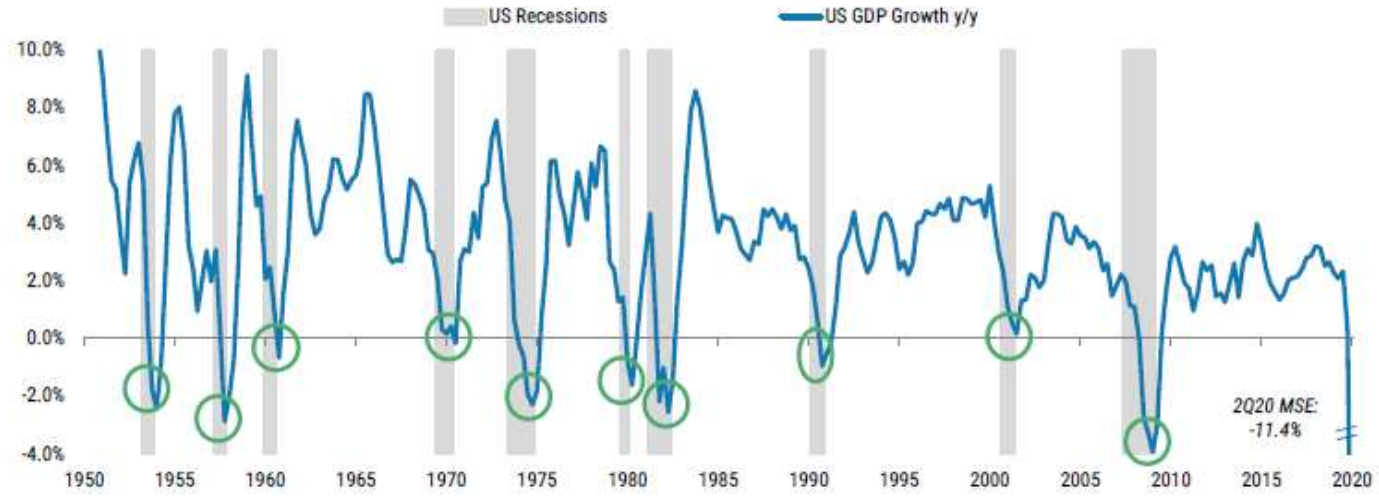


Fig 19 Estimated Monetary & Fiscal Support (US$ trillion) – estimates as at May 2020





- Clarkson's weekly fleet data continue to show high deliveries and low scrapping.
- The handysize fleet allocation shows that this is more balanced between Atlantic and Pacific.
- We are borrowing the below chart rom Morgan Stanley who described the prospect for and shape of a US recovery as follows: "***most investors we speak with are now in the 'U' camp, while an 'L' is generally off the table given the policy response. 'W' remains a real possibility depending on how the virus subsides and/or returns; but keep in mind that a 'W' initially looks like a 'V' or a 'U' depending on one's handwriting. If history is a guide, 'U' may actually stand for 'Unicorn' because U-shaped recoveries coming out of a recession really never happen (see chart below). Therefore, we continue to bet on the 'V'…."***



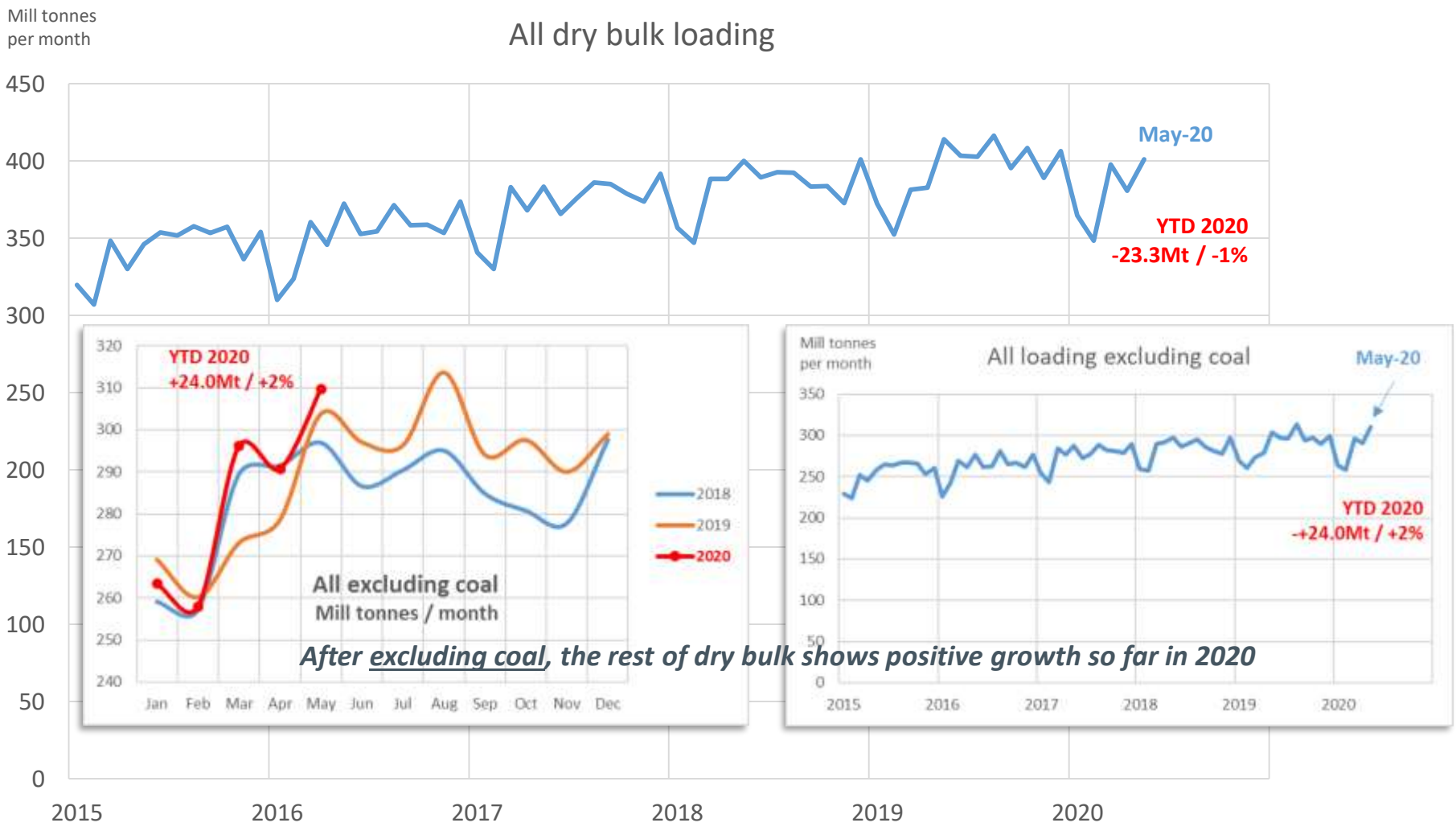
Source: Haver Analytics, Morgan Stanley US Economics Research estimates

The bottom of chart scale stops at -4.0% whereas the line in 2020 goes much lower and is therefore off-scale

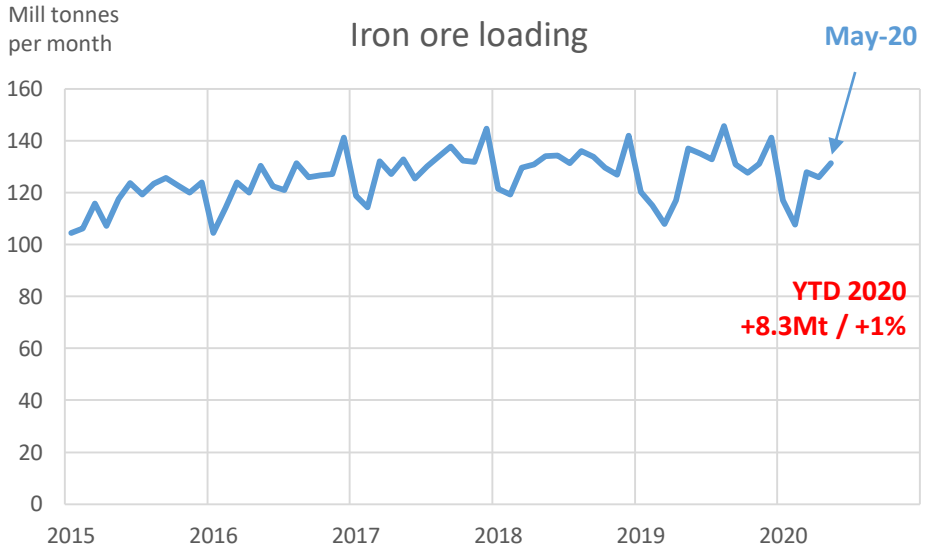
Pacific Basin

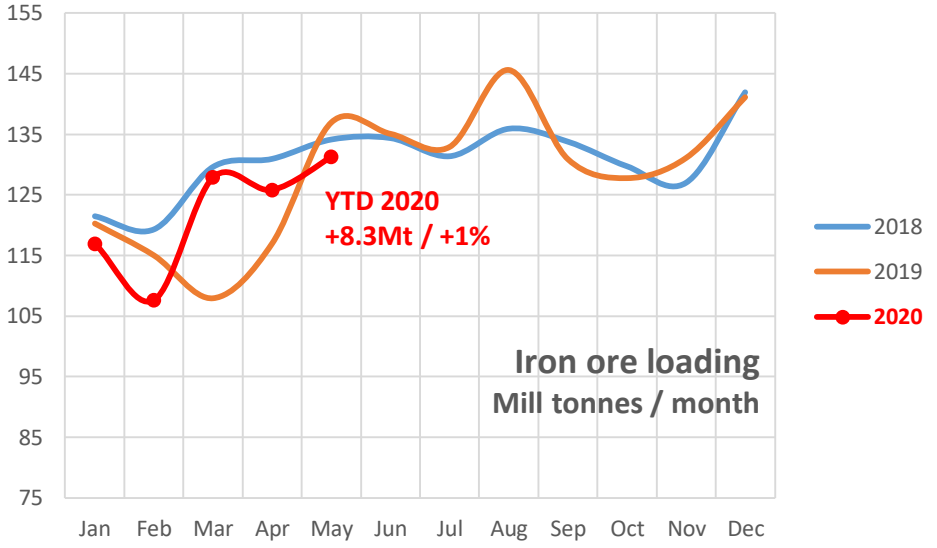
Demand

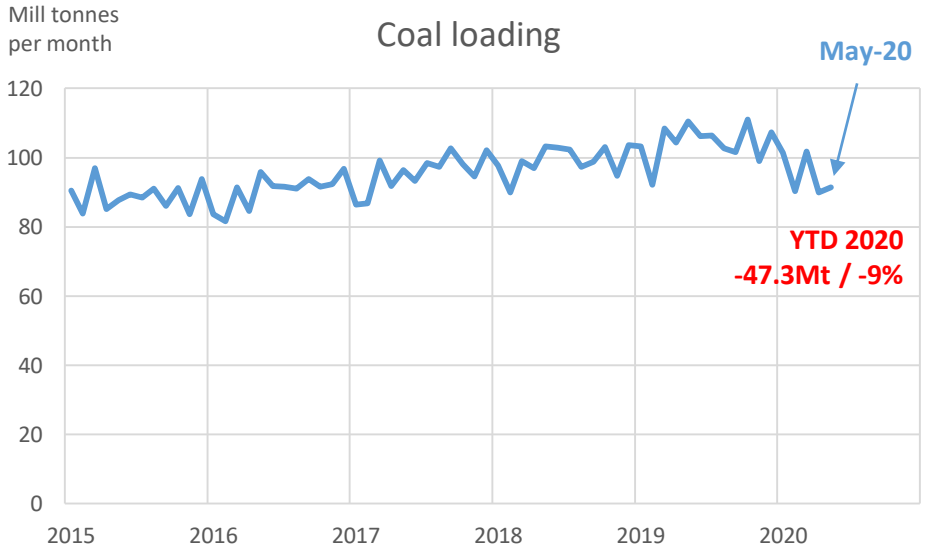
Loadings so far show small negative COVID-19 effect mainly for coal

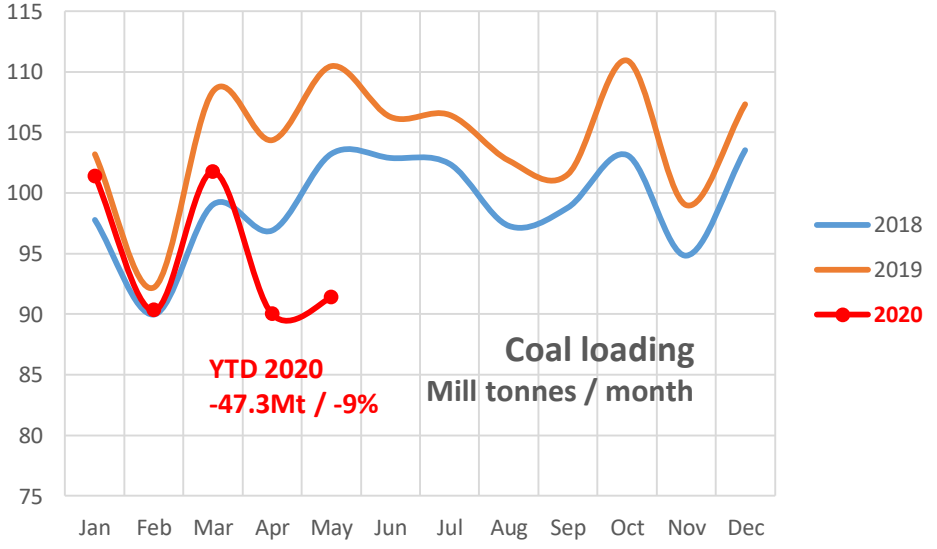


Iron ore is UP YTD despite Brazil shortfall
Coal is down especially in April and May



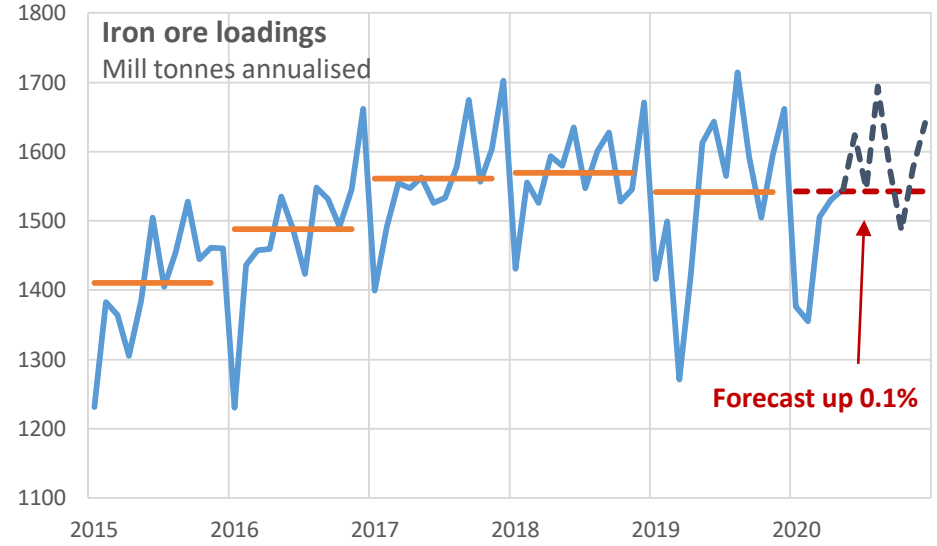


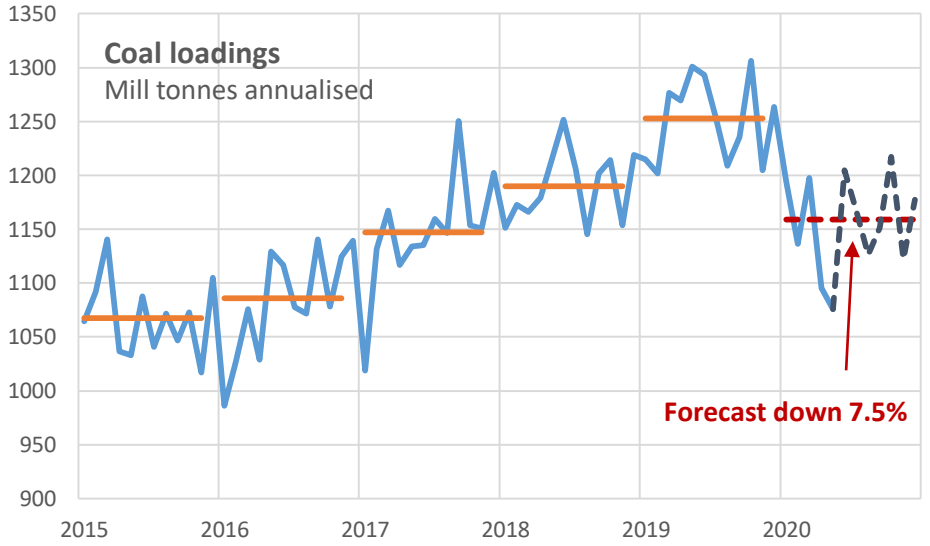


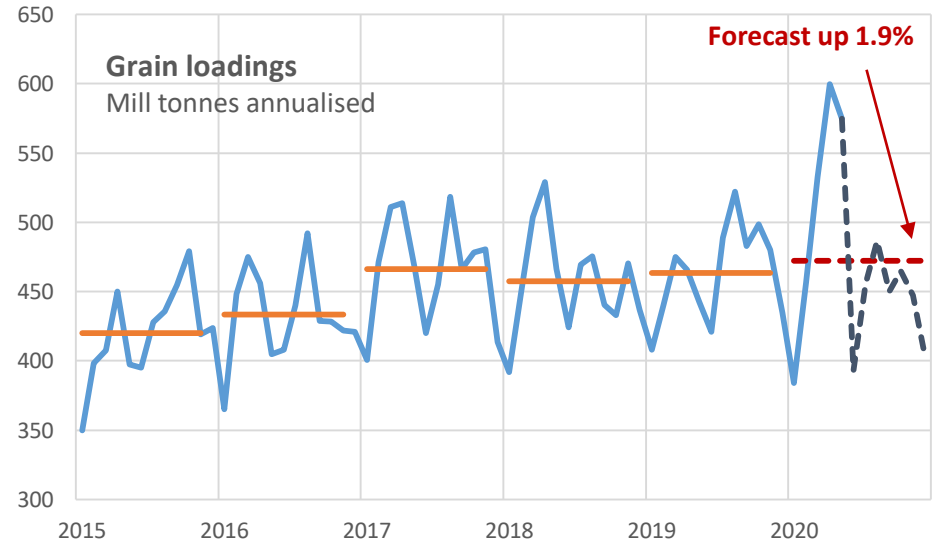


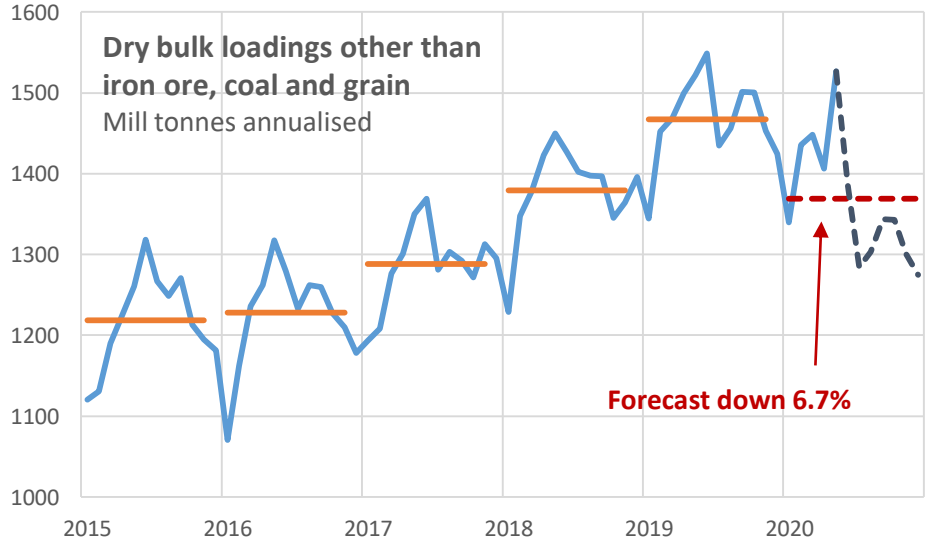
Pacific Basin

Four main cargo types based on Clarksons forecast scenario for 2020

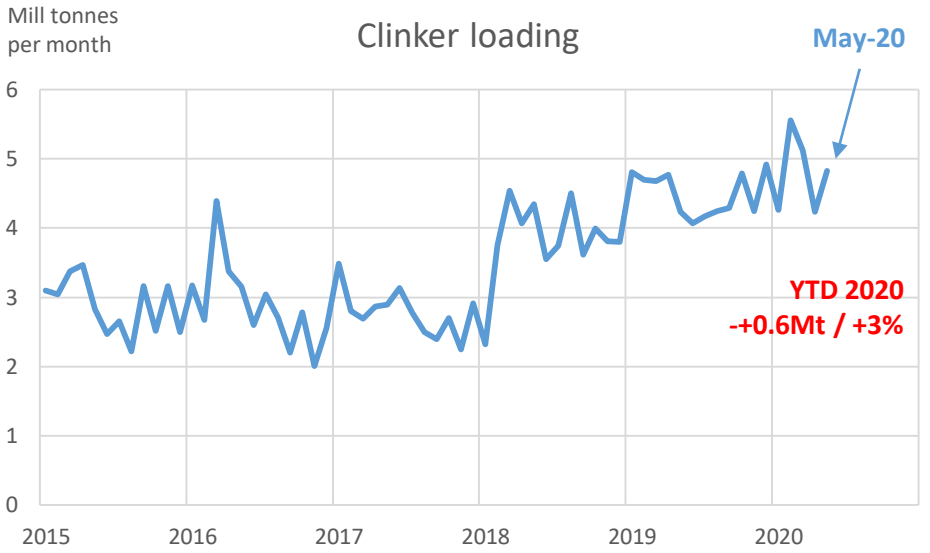


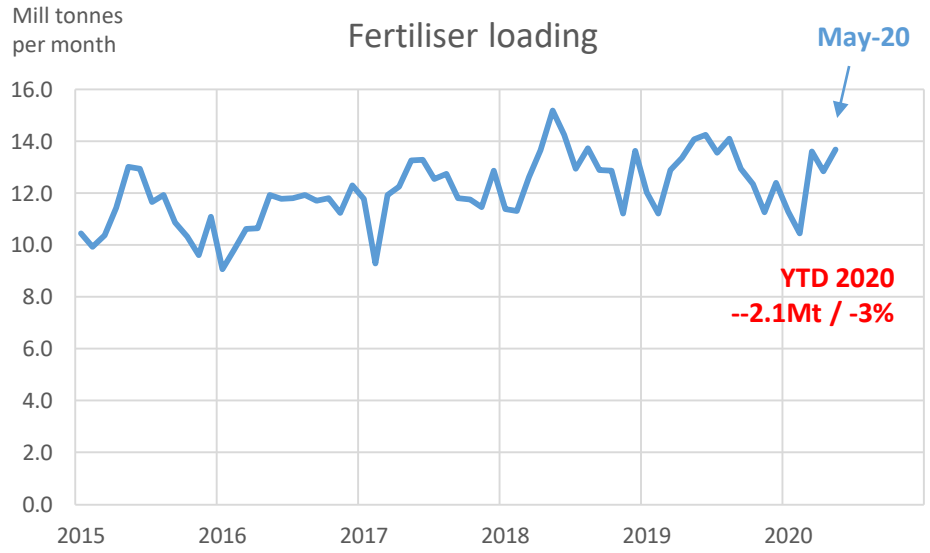


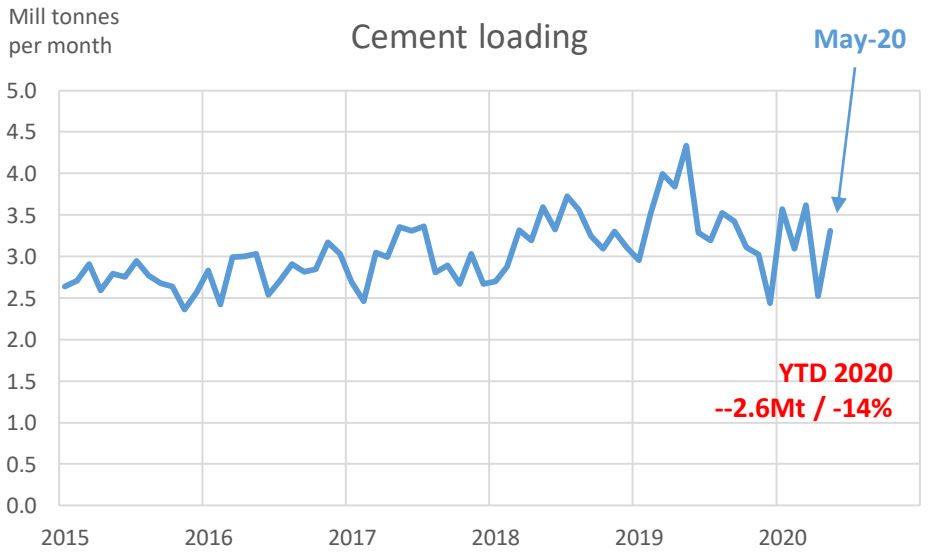




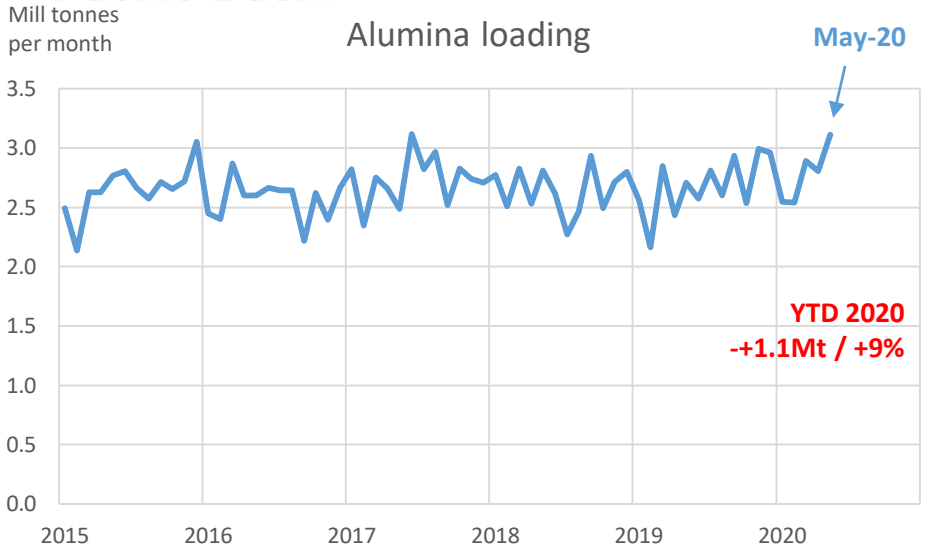
Some of the smaller trades are down, the most significant is steel

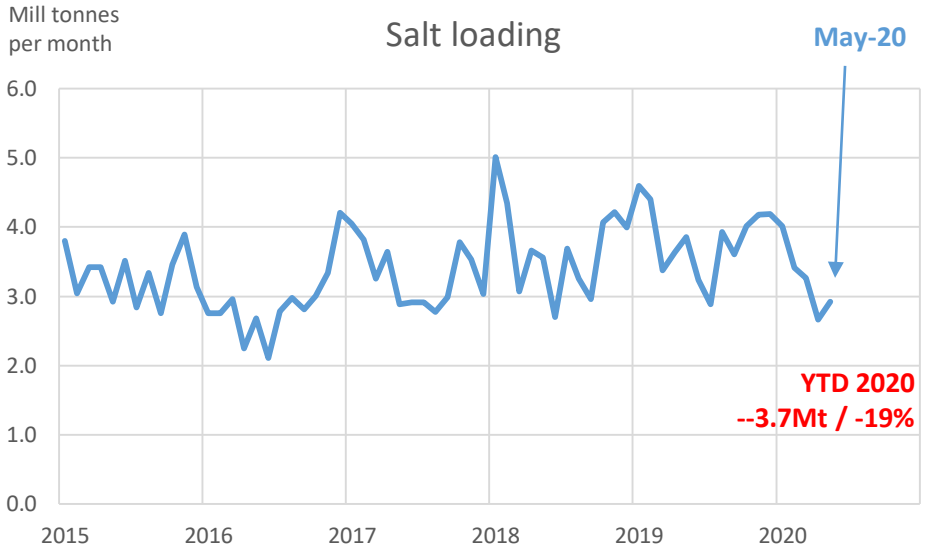


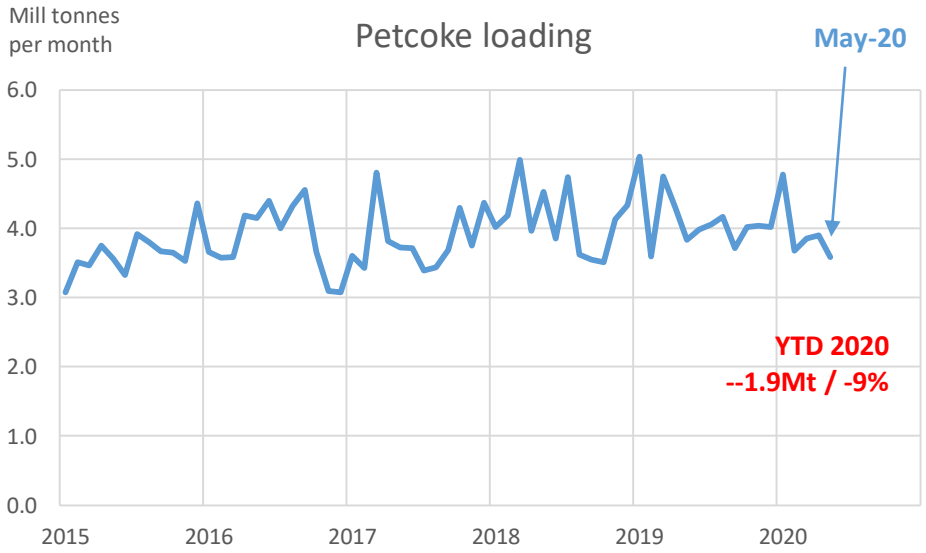


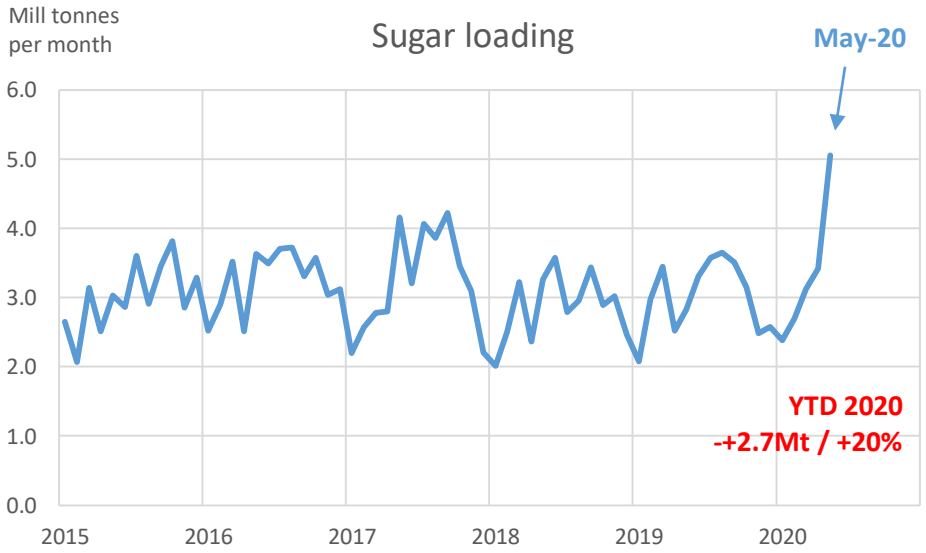


Mixed picture for other minors







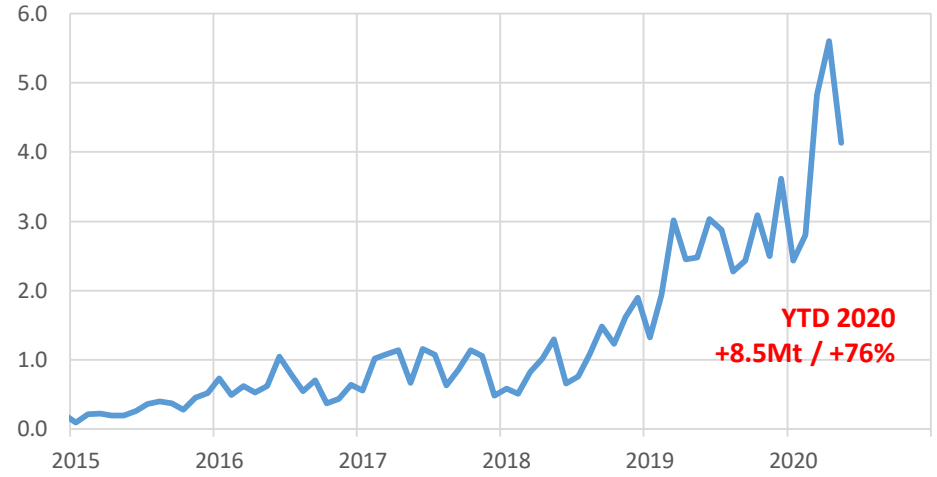


Pacific Basin

Coal loadings for Vietnam and Malaysia are UP

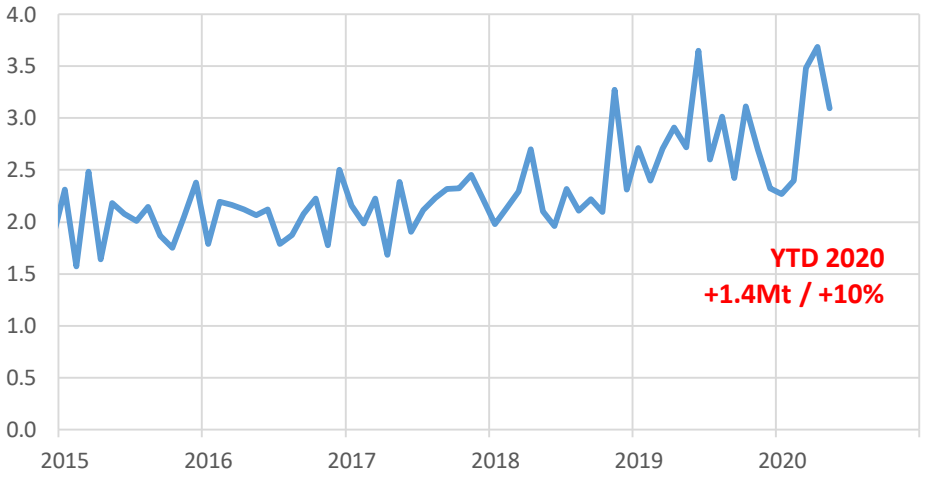
Mill tonnes per month

Vietnam coal discharge



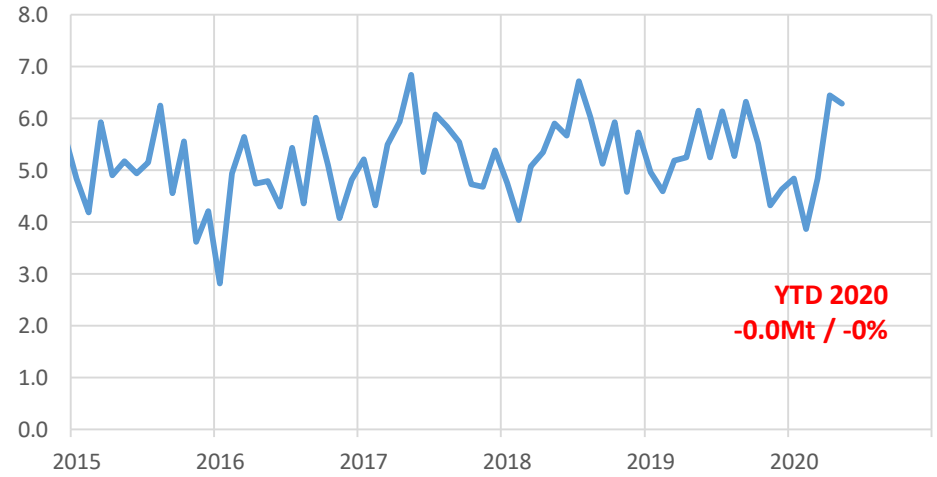
Mill tonnes per month

Malaysia coal discharge



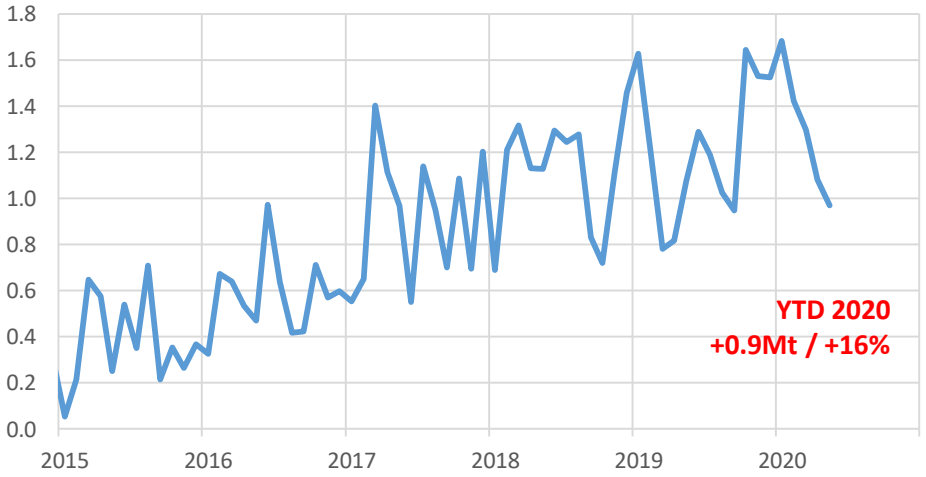
Mill tonnes per month

Taiwan coal discharge



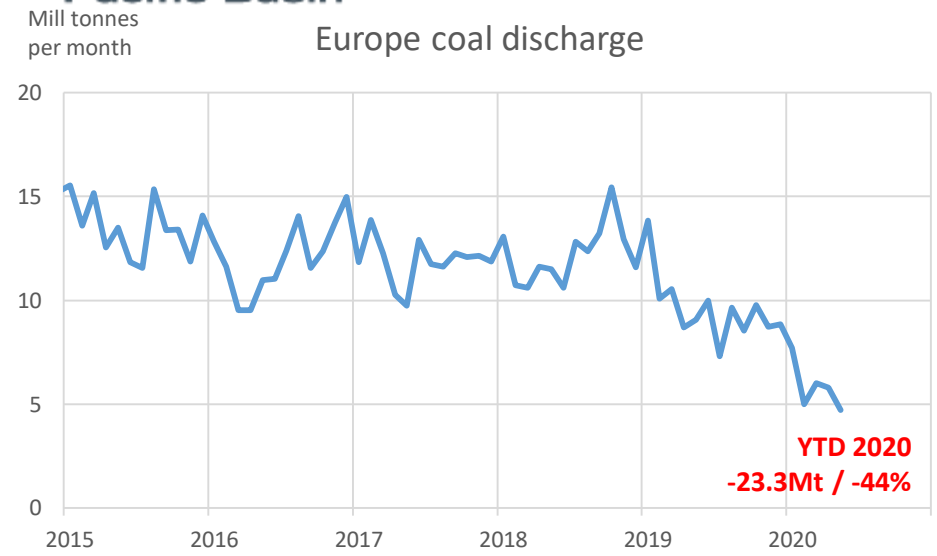
Mill tonnes per month

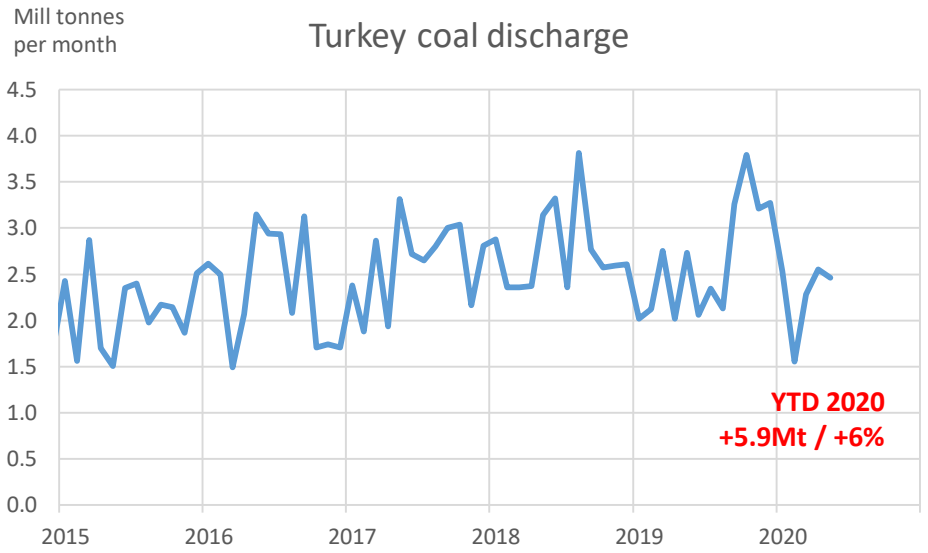
Pakistan coal discharge

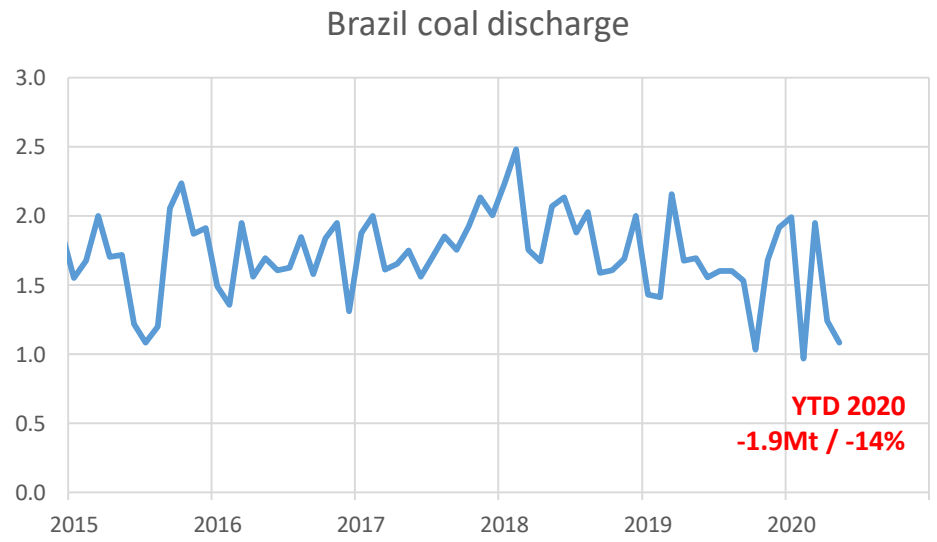


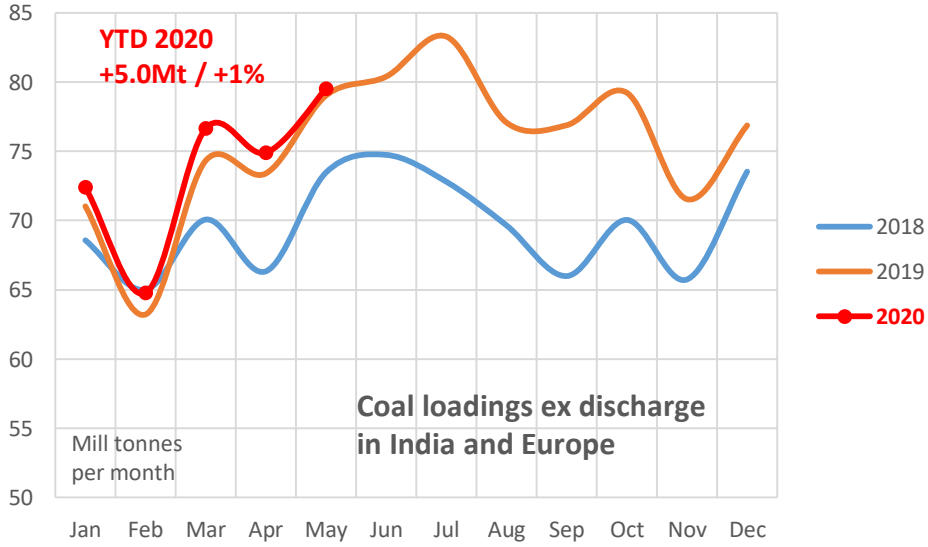
The other large negative for coal is Europe but this is a trend that started before COVID-19

Pacific Basin



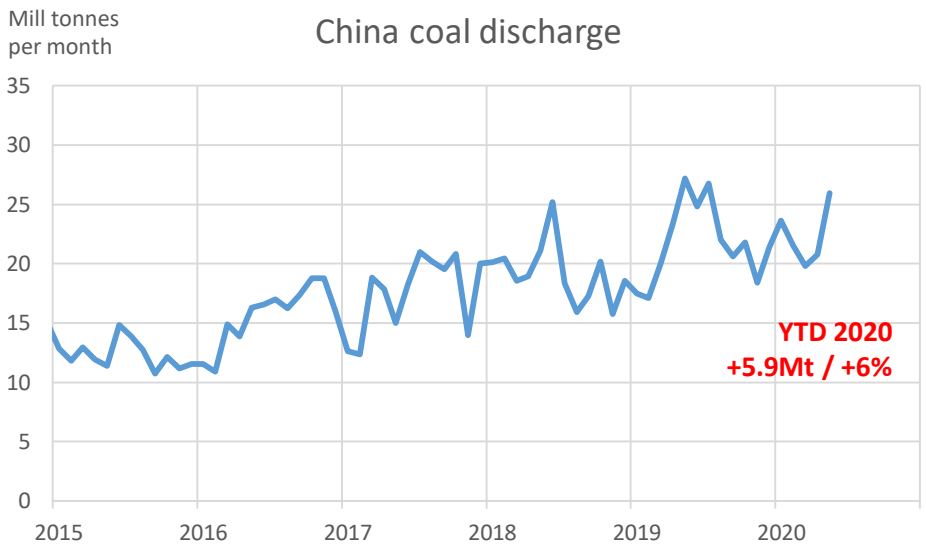


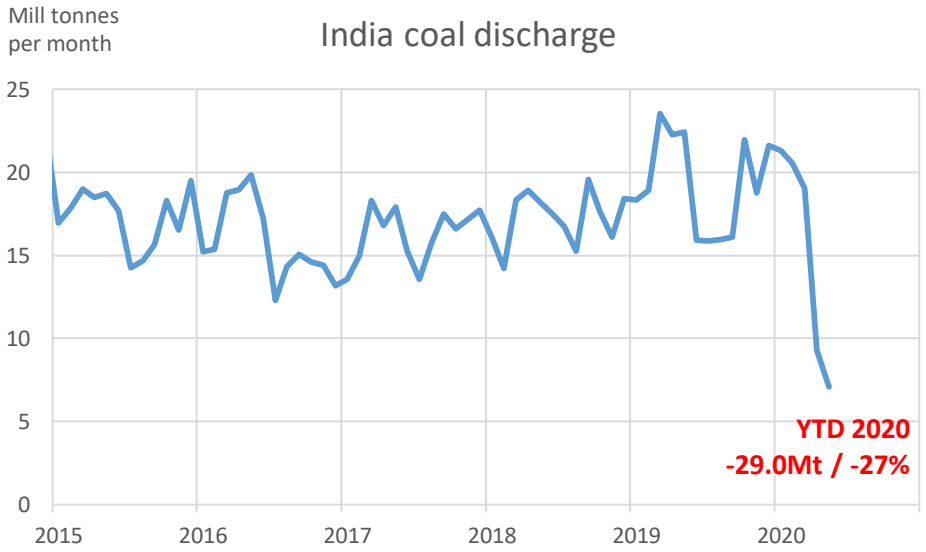


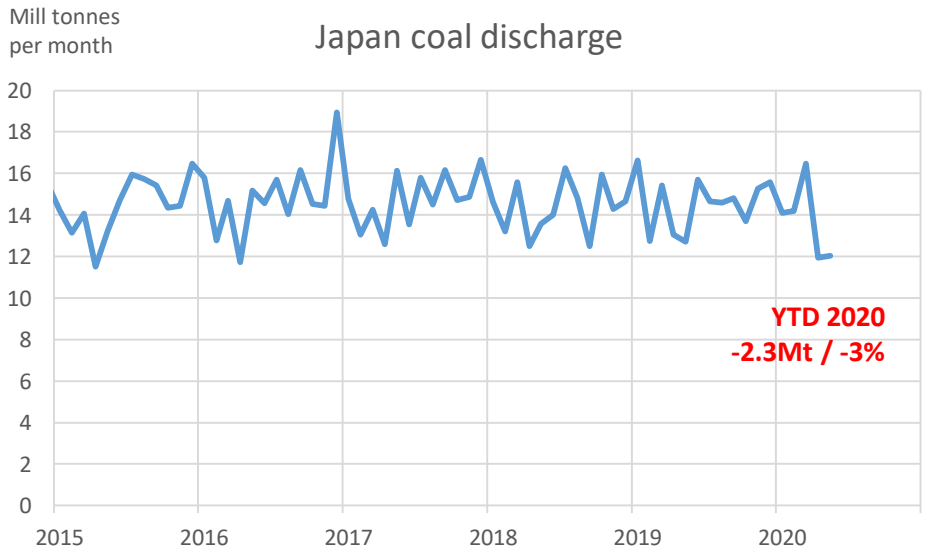


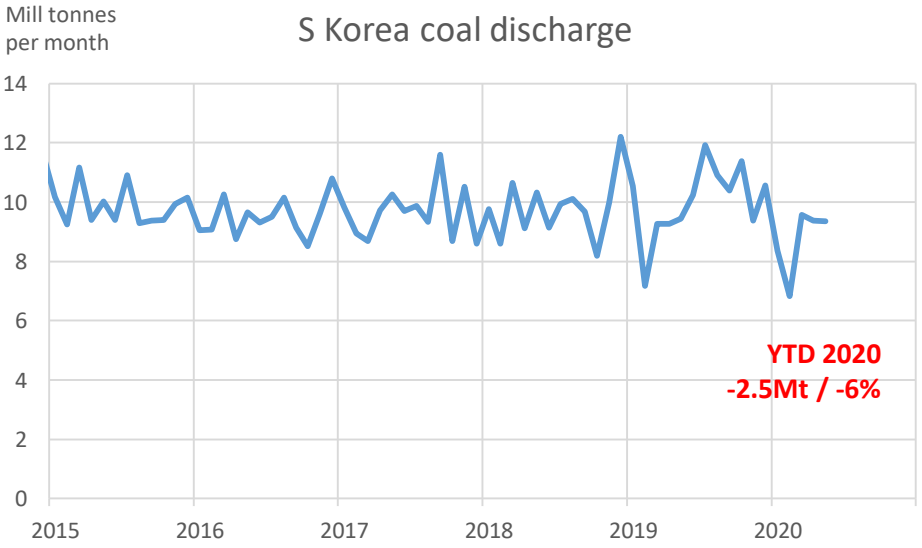
Out of the big four, coal loading for India discharge is dramatically lower

Pacific Basin

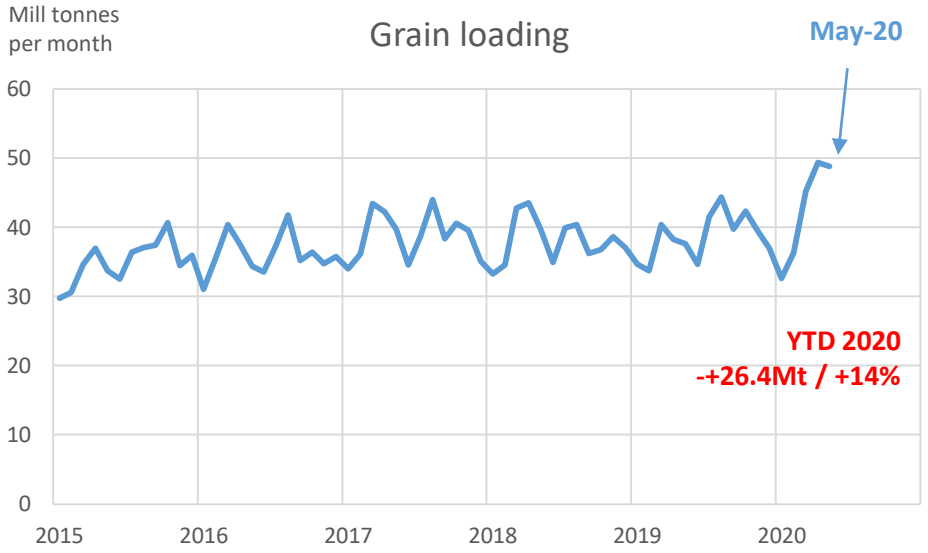


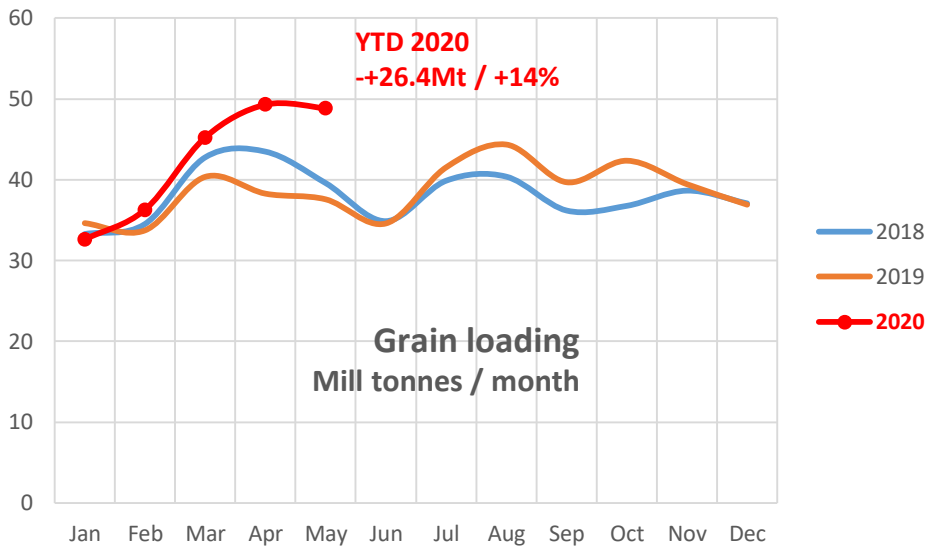


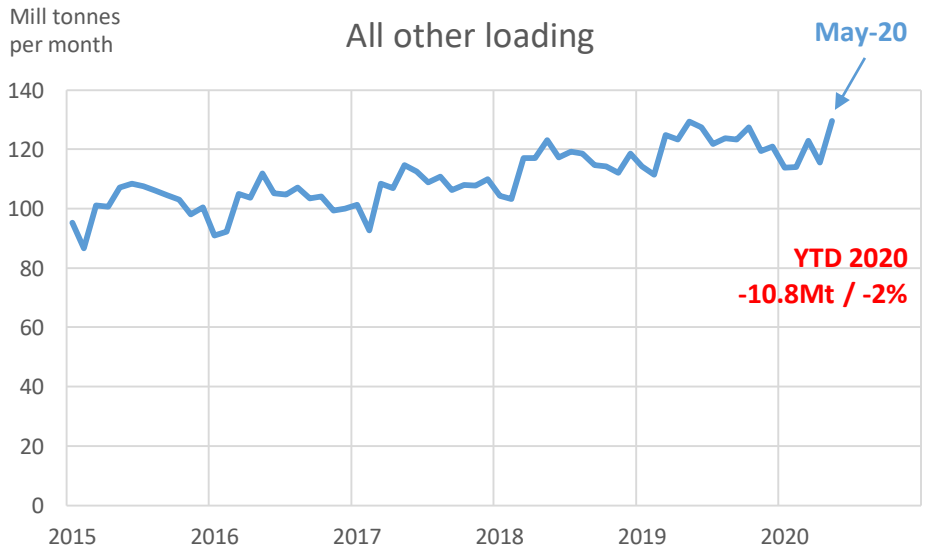


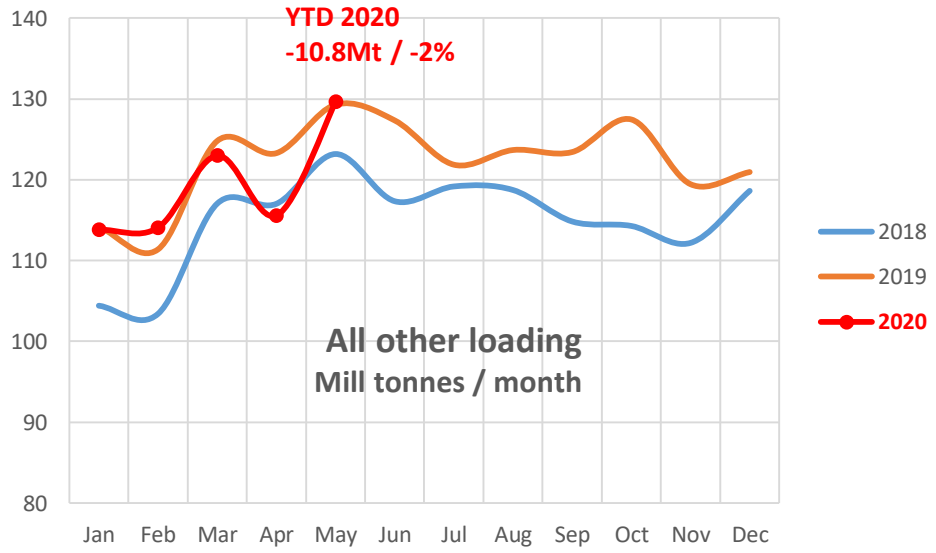


Grain is strongly UP and all others (excluding iron ore, coal and grain) is also UP





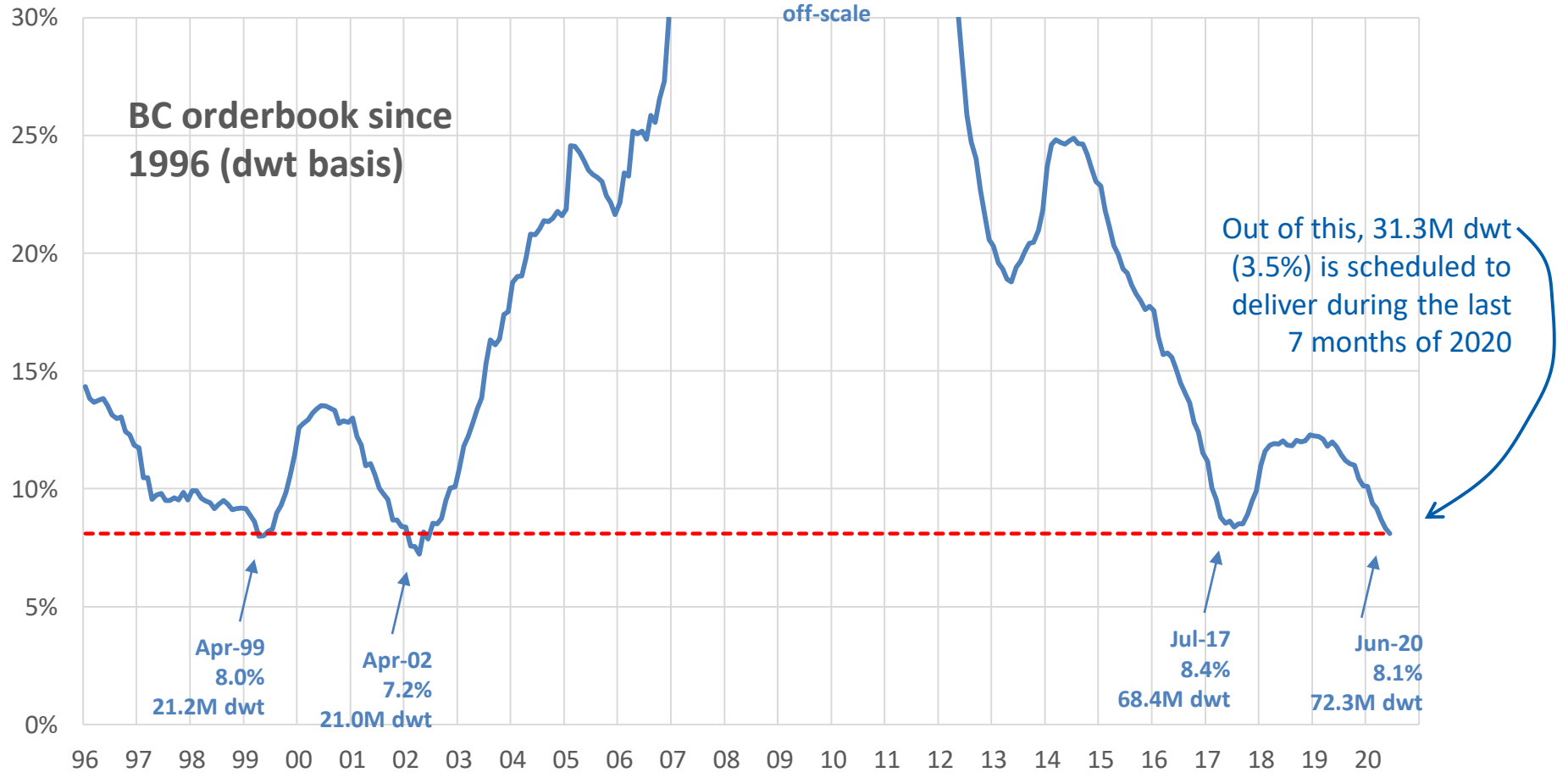




Supply

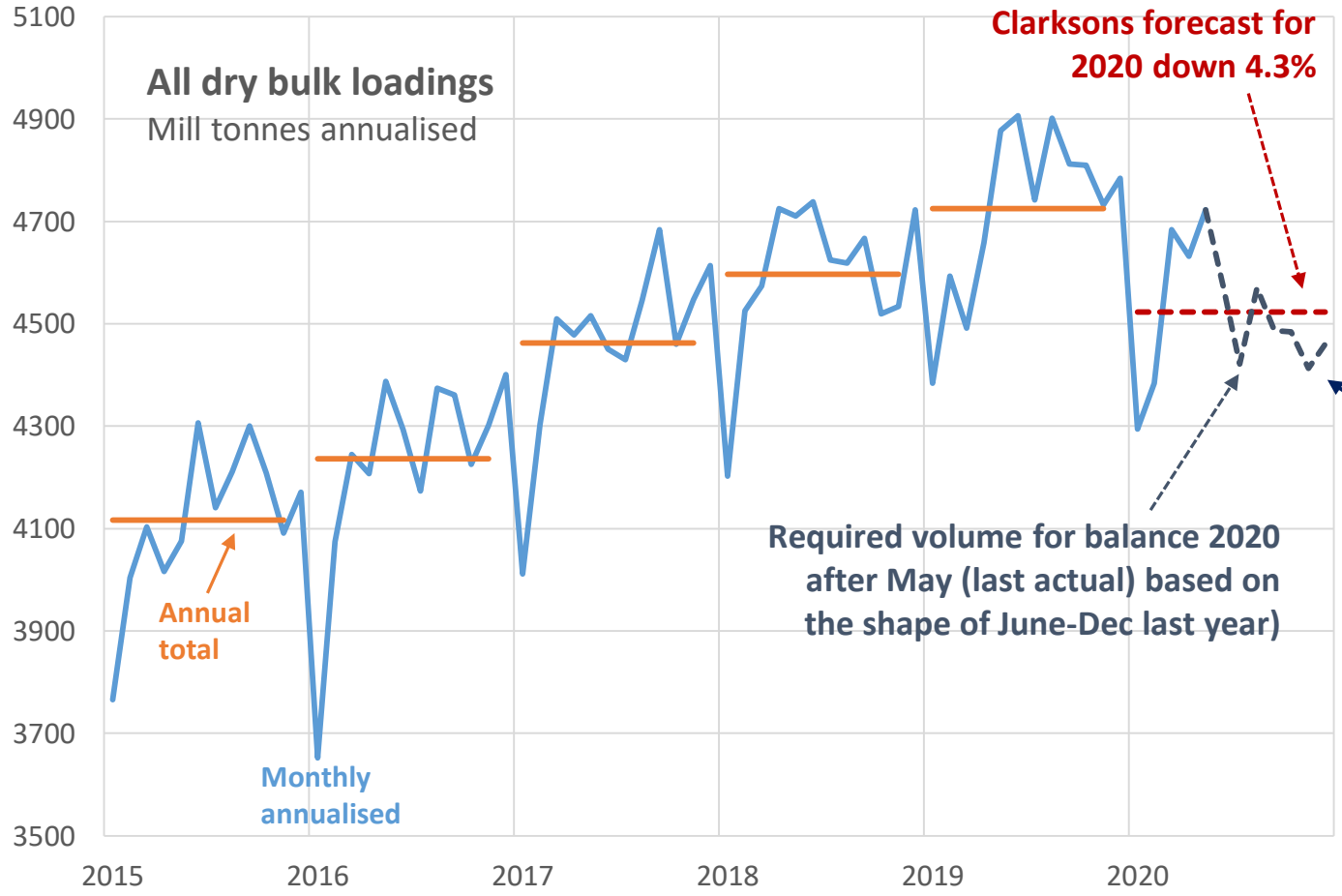
Whereas we all want it to be zero, the current orderbook has hardly been lower

Yards often hide orders so this is not 100% accurate but in in a long perspective since 1996, it is clear that we are about to hit unprecedented lows for the pro-forma orderbook in % of fleet



Source Clarksons as of start June 2020 – dwt basis for all bulkers over 10,000 dwt

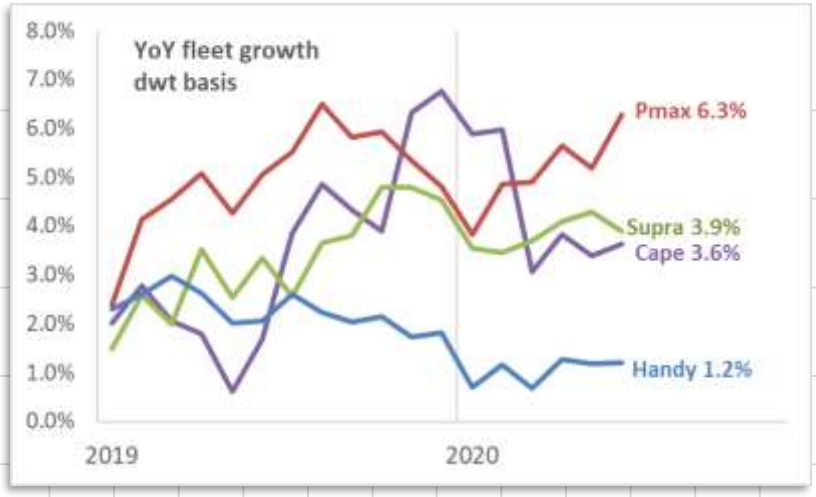
What if Clarksons are correct and we will see a demand volume decline of 4.3% in 2020?



If Clarksons forecast is correct, the total volume for 2020, after a decline of 4.3%, is like this

This is how it looks on a monthly basis assuming that the rest of 2020 will follow the shape of one year ago.

Net fleet growth is at the upper end of the normal range - mainly due to lack of scrapping



Total dry bulk fleet growth
Year-on-Year %
Dwt basis

This will stay in the 4-5% range in 2H but could go lower if scrapping picks up

The 2-5% range has been the norm except for the super boom and subsquent hang-over

Now 4.3%

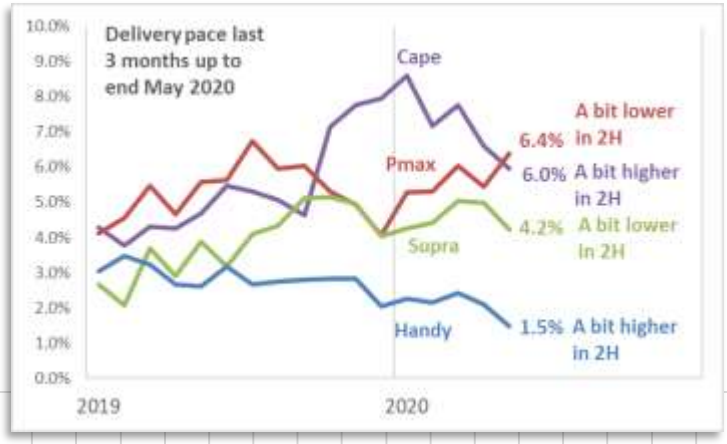
Can happen when scrapping is high and deliveries are low

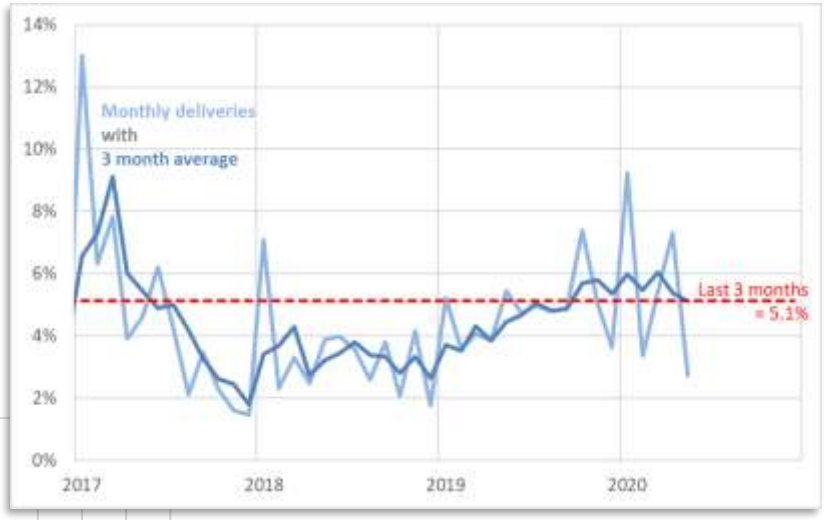
18% 16% 14% 12% 10% 8% 6% 4% 2% 0% -2%

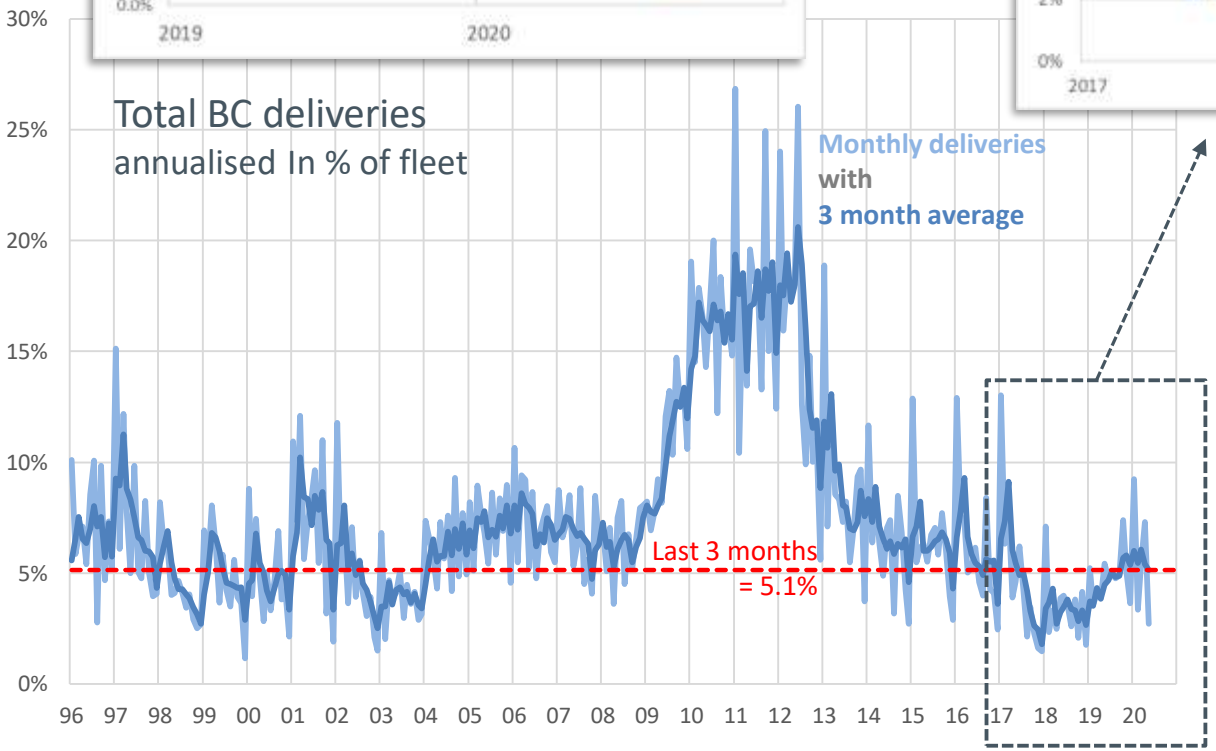
96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20

With you for the long haul

Deliveries will stay more or less the same for the balance on 2020 (Clarksons)





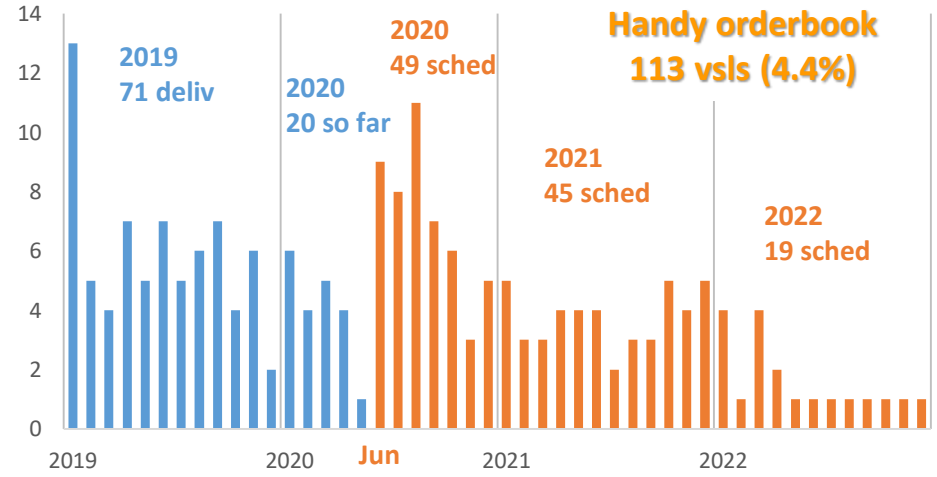


Reasonable to expect a similar overall pace of deliveries for the balance of 2020 as what we have had the last 3 months i.e. at an annualised of ca 5% of fleet. Handy and Cape may pace up slightly while supra and pmax can reduce the delivery pace during balance 2020.

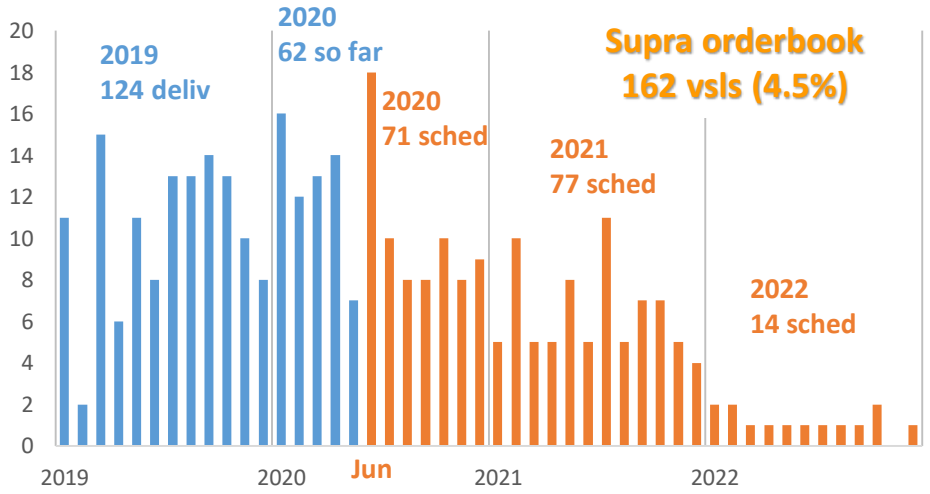
Deliveries since 2019 and pro-forma orderbook delivery schedule from June 2020

Pacific Basin

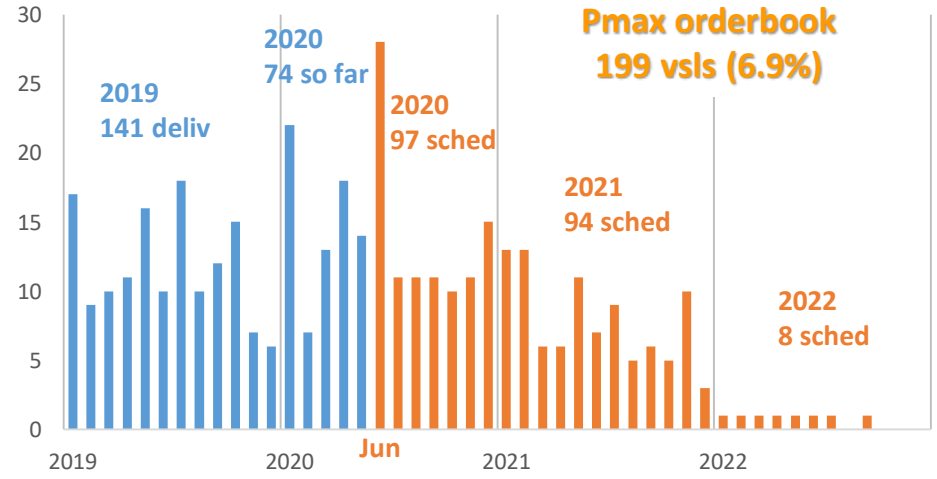
Handysize deliveries and pro-forma obook



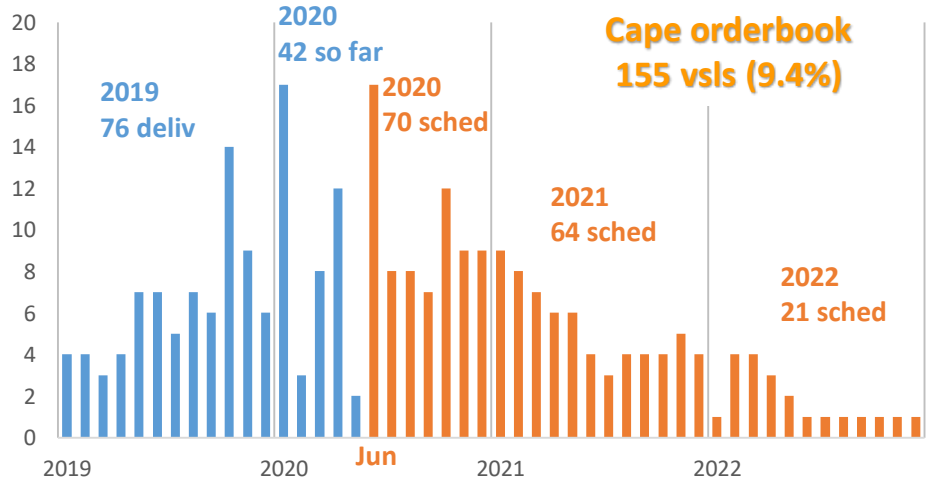
Supramax deliveries and pro-forma obook



Panamax deliveries and pro-forma obook



Capesize deliveries and pro-forma obook

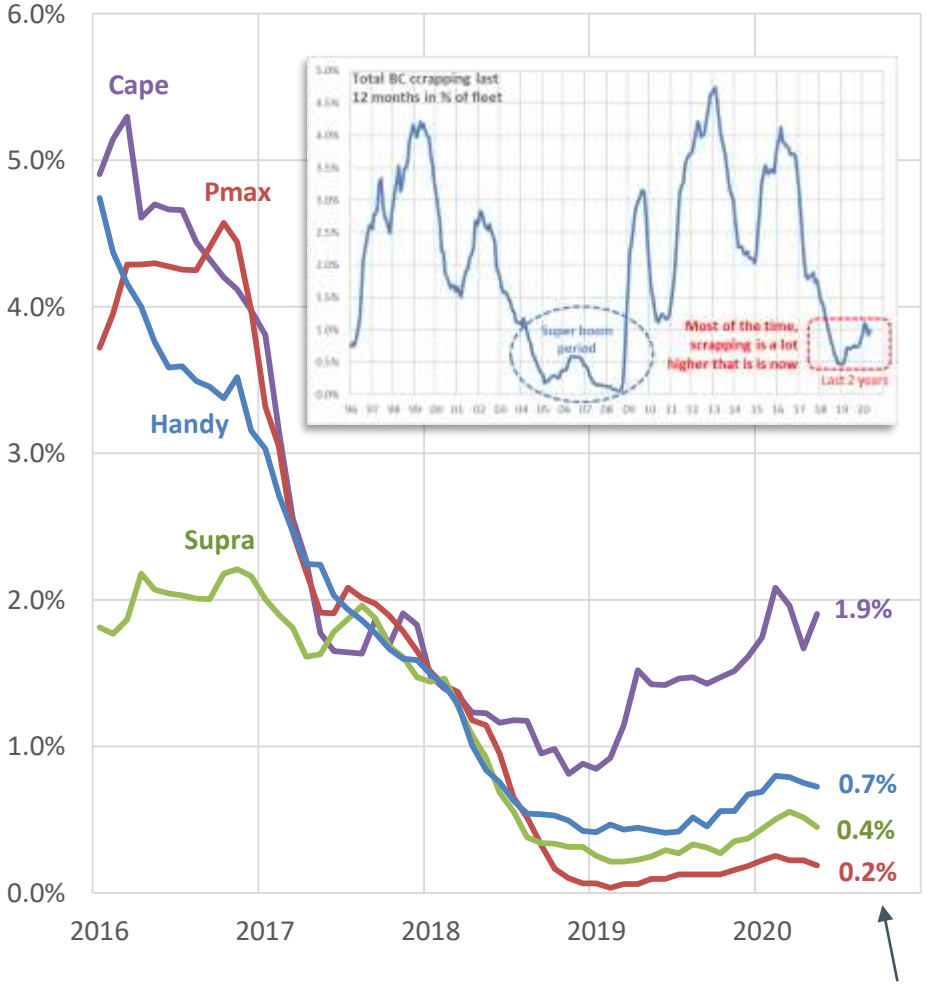


Source Clarksons as of 2 Jun 2020. No vsls per month. Handysize starts at 25,000 dwt.
20 woodchip carriers have been excluded from the orderbook = 16 x supramax and 4 x panamax.

With you for the long haul

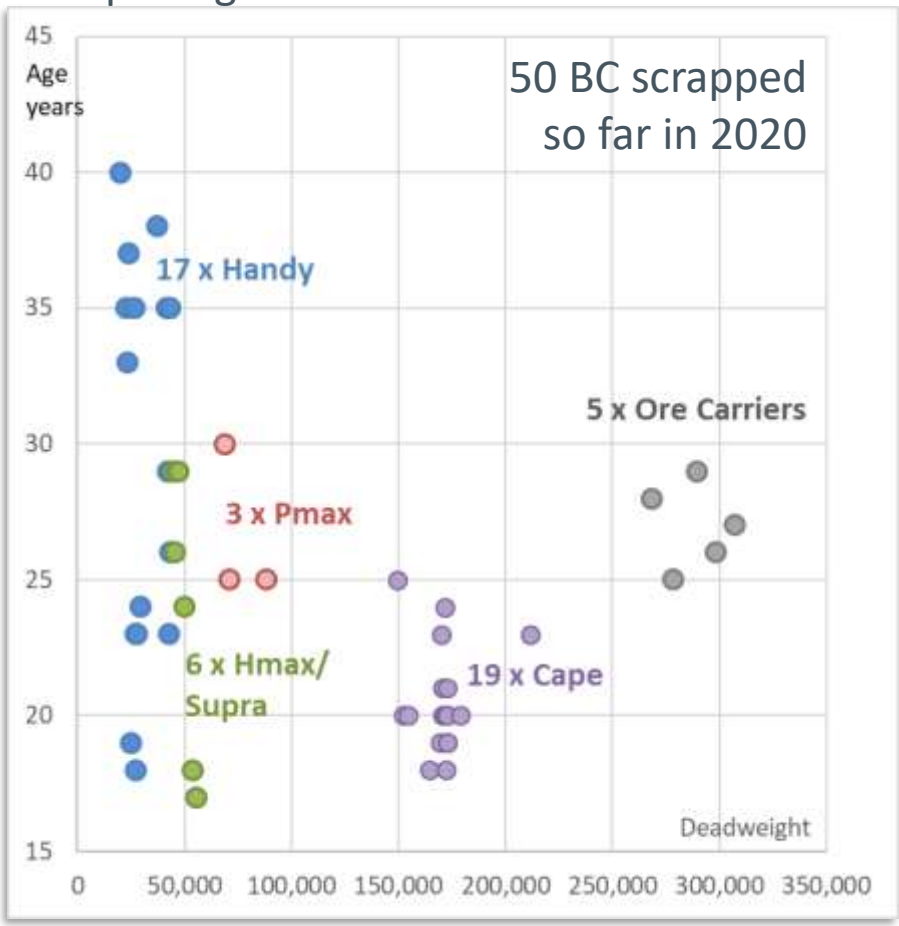
Scrapping in 2020 has disappointed as this normally goes up when markets are depressed

BC scrapping last 12 months in % of fleet



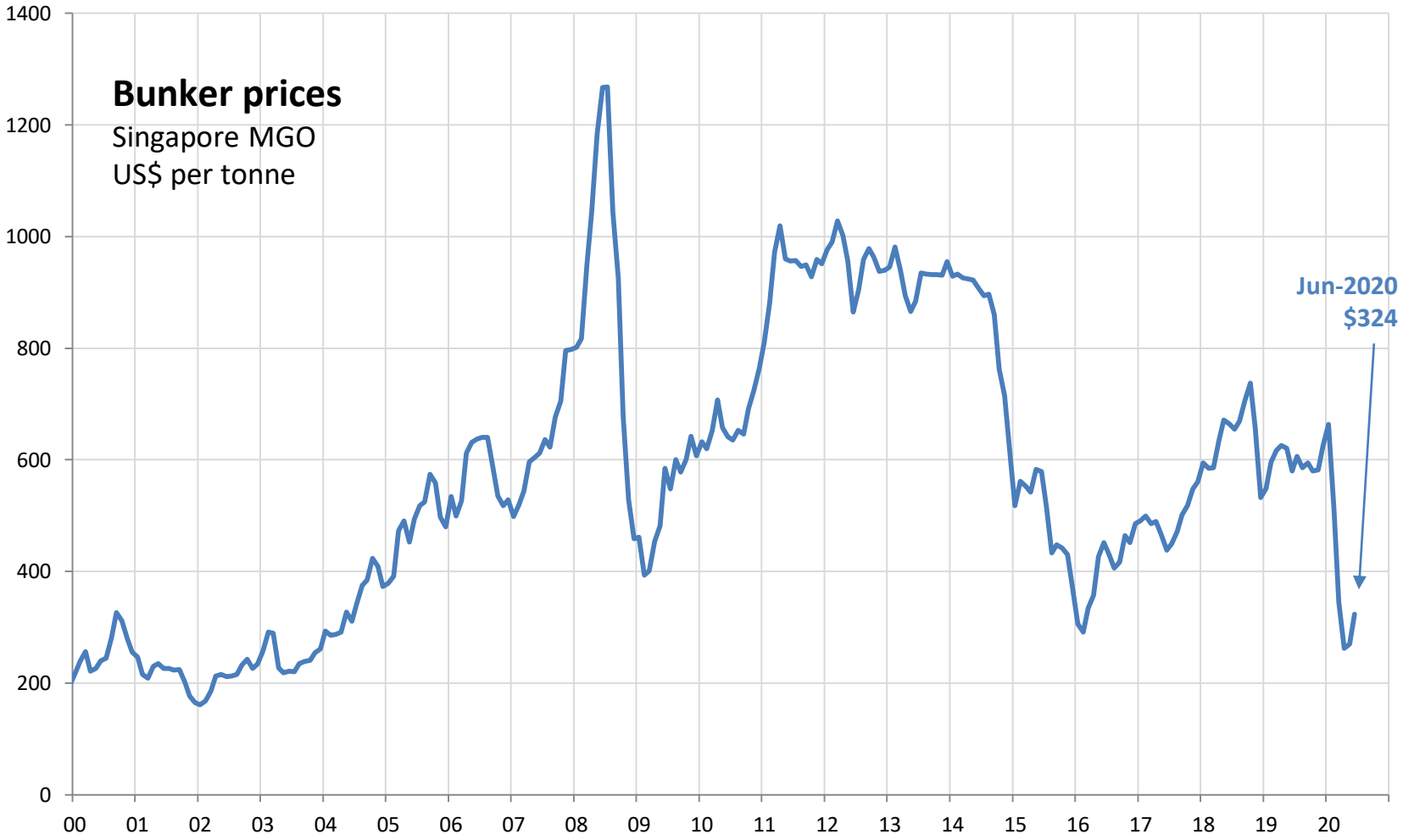
More up- than downside here

Maybe will snap back now India opening??



Source Clarksons for all BC over 10,000 dwt

Bunker prices have room to increase



With you for the long haul

MHI market medium term view

As a general comment, the dry bulk market has been more resilient that what could expected*) given unprecedented economic shutdowns and a never-before-seen trade dispute between the Worlds two largest economies.
MHI is leaning towards bullish

Negatives

- Too many ships (the fleet is still growing even if the pace slows down)
- Yards running out of work will drop prices enough for ordering to re-start and/or shipbuilding may get subsidy support
- Permanently changed world i.e. not going back to old normal and globalisation & trade growth, which has benefitted dry bulk trade, will reverse
- US-China trade spat is just gathering pace and the US election will cause escalation
- Fall-out for dry bulk trade is ahead of us
- Risk of COVID-19 second wave
- Risk of coal being phased out
- Risk of China steel maxing out

Positives

- Reduced forward fleet growth
- Normalisation from COVID-19 after extreme economic decline
- Unprecedented level of stimulus being rolled out across all major economies
- US election year will support economic growth - Trump can‘t afford de-railing in 2H 2020 and trade spat with China is mainly election noise
- Markets are low so risk is on the upside
- Higher oil/bunker prices = lower speed
- Seaborne coal represents marginal energy for major importers so it declines sharply but this may reverse under a recovery scenario
- Brazil iron ore ouput will improve

**) We have after all stayed above 2016 levels and layup has been avoided even as scrapping has been prevented by COVID-19 lockdowns*