Week n°17– 2020
23.04.2020-29.04.2020

ALPHABULK
WEEKLY NEWSLETTER

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The Alphabulk Weekly Newsletter offers topical analysis of all the important issues affecting the Dry Bulk Market.

We hope you find the publication informative and useful. We welcome comment and feedback, which can be transmitted by replying to the email received or to **alphabulkteam@axsmarine.com**

TOPIC OF THE WEEK

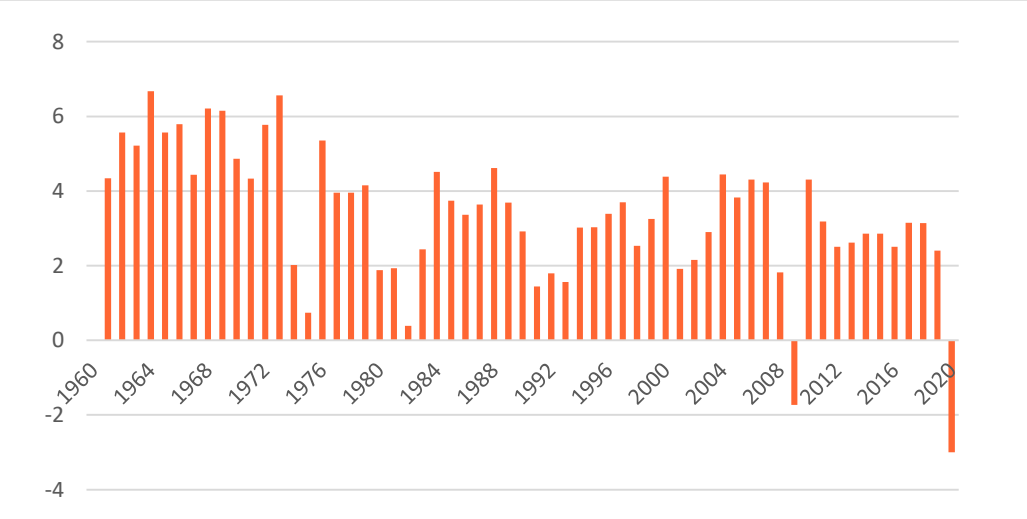


Figure 1: World year-on-year GDP growth in percentage since 1960

Greatest economic shock seen in peacetime?

In our last article, we mentioned the release of the latest World Economic Outlook (WEO) report from the IMF. Parts of this WEO report were made available in mid April (https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020), around the same time the WTO issued a press release dealing with the impact of the Covid-19 epidemic.

In this article, we will look at how these two international organizations are looking at a post Covid-19 world.

As already discussed, the OECD's worst-case scenario for post Covid-19 was a very low global GDP growth rate of 1.5%. We quoted the IMF on the same topic:

"The COVID-19 pandemic has pushed the world into a recession. For 2020 it will be worse than the global financial crisis. The economic damage is mounting across all countries, tracking the sharp rise in new infections and containment measures put in place by governments."

So while the OECD still sees the world growing, the IMF clearly has a different view.

Well, now that the IMF's April WEO report is available, what number is it putting on world GDP for 2020? The IMF sees world GDP contracting by ...3% in 2020. This is probably the first time in our experience we've seen these two big organizations issuing forecasts which are so different!

In October 2019, the IMF in its WEO report predicted 2020 world GDP growth to be 3.4%. And by the way, for those who don't remember, global GDP contracted by 'only' 1.7% in the post-financial crisis year of 2009.

The **graph above** shows world year-on-year GDP growth since 1960. If indeed 2020 world GDP shrinks by 3%, according to the IMF it will be "the worst global decline since the depression of the 1930s". In this article, we will look first at the content of this WEO April 2020 report, and then we will make the case, helped by the WTO, on why we think the IMF is wrong, as we think the contraction will be much more than the forecast 3%.

Topic of the Week *continued*

First, let us delve into the last release of the WEO report. The case of the IMF is very simple in explaining a revised forecast from +3.4% to -3%, and it is called Covid-19.

The executive summary of the WEO report starts as follows:

"The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity."

As we mentioned in our last article, a month's GDP is 8.33% of annual GDP, so if as a result of a population lockdown 50% of a month's GDP is lost then the impact on annual GPD is a 4.17% contraction. In many countries around the world, the lockdown is now in its second month and likely to go into a third. Assuming an average 50% GDP lost for these 3 months, the resulting GDP contraction at the end of the year is a huge 12.5%.

Best-case or worst-case?

And it is difficult to say if this is a best-case or worst-case scenario as on the one hand it does not take into account the second wave of the epidemic which is likely to hit most countries after the lockdown, nor on the other the various Covid-19 stimulus packages which will be implemented by governments and central banks around the world. More on that later.

We are now in mid April, and a number of countries have started to report GDP numbers for Q1 and have also started to revise their projections for 2020. The French central bank has announced a Q1 GDP contraction of 6% and is forecasting a contraction of 8% for the year!

The five leading German economic institutes are forecasting a 2% GDP contraction for Q1, a huge 9.8% contraction in Q2, and finally a total 4.2% drop for the full year.

In Asia, China's National Bureau of Statistics has announced that Chinese GPD shrank by 6.8% during the first quarter of 2020, and there is a consensus among forecasters that China, the second biggest economy in the world, will experience its lowest annual GDP growth in 44 years in 2020, with expansion of just 2%-2.5%.

In the US, there are no numbers available yet but a recent study by Deloitte saw US GDP shrink by 8.3% in 2020.

Topic of the Week *continued*

And now enter the WTO with its recent press release (https://www.wto.org/english/news_e/pres20_e/pr855_e.htm) which sees, at best, global trade shrinking by 13% in 2020 and, at worse, by a huge 32%.

The **graph below** shows global trade as a percentage of world GDP. The average percentage is 58.5%. Thus, a drop of 32% in the worst-case scenario would mean a world trade drop of 19%!

All of these numbers are huge, and that probably why as soon as the WEO report was part-released the relatively new managing director of the International Monetary Fund, Kristalina Georgieva, gave an interview to the BBC in which she said that the WEO forecast was probably too optimistic.

Only $4 trillion

Now a word on the various Covid-19 stimulus packages which are likely to be implemented by governments and central banks around the world.

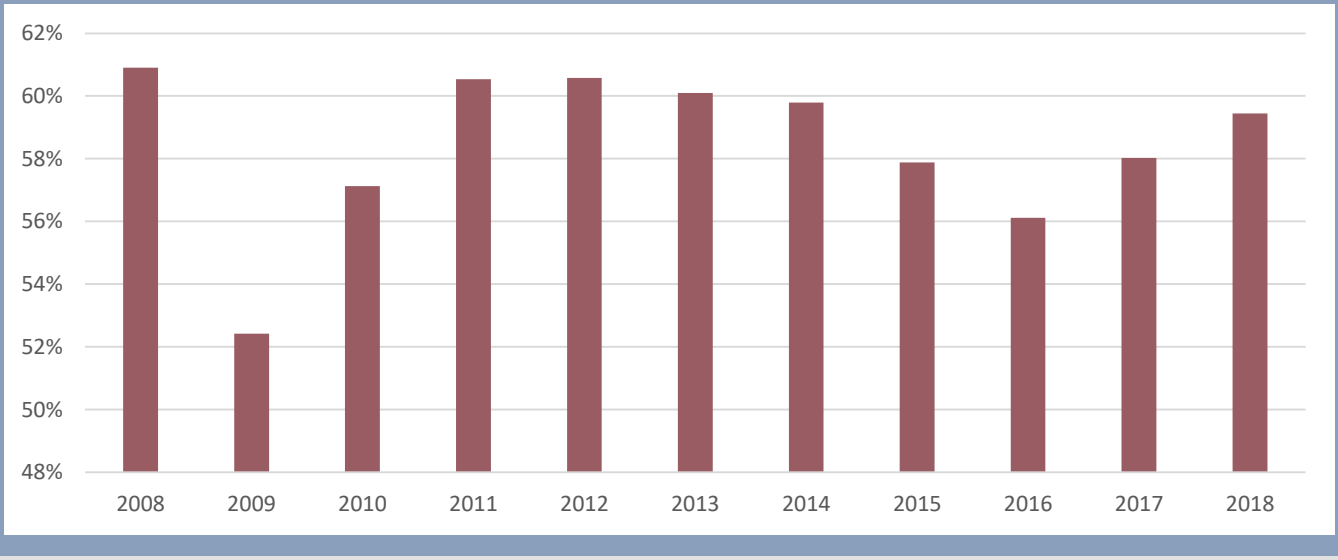
If the amount is huge, standing at a total of $4 trillion so far, it is "only" about 6% of world's GDP. In addition, these packages are going to be deployed at the earliest after the summer, resulting in a negligible impact on 2020's GDP. Furthermore, the experience of various recent stimulus packages tells us that they are becoming less and less efficient. This means that it may take 2 or 3 dollars of stimulus to buy 1 dollar of GDP.

Finally, around half of the packages announced so far are from central banks. The only thing central banks know how to do is credit commercial banks' reserve accounts with extra money, so that the commercial banks can lend more. As we have seen in the 2007/2008 crisis, this simply doesn't work! So, all in all, no matter how big the stimulus packages will be, they will fall short compared to the magnitude of the looming recession.

Regardless of the final number for 2020 world GDP growth, it will be a big number with a minus in the front: -5%, -7.5% or even -10%, only the future will tell. And this state of affairs is going to stress our systems as they have never been stressed in peacetime before.

As a conclusion, we will now share with you what is our main concern beyond of course the human cost of this man made Covid-19 tragedy, and that is the fact the world financial system is now in a much worse situation than it was in 2006/2007, and the Covid-19 driven recession is looking like a much bigger shock than the subprime shock was at that time.

Figure 2: Global trade as a percentage of world GDP



Steel

Worldsteel: steel may be less hit by crisis

STEEL association Worldsteel has issued a statement on the impact of the coronavirus in lieu of its usual Short Range Outlook.

Strikingly, the association claims the impact on steel demand in relation to the expected contraction in GDP may turn out to be less severe than seen in 2009. "The 2008 financial crisis was prompted by a severe reduction in industrial and investment activities because of the collapse of the financial system. The current economic crisis for all service and direct consumer sectors may prove to be less steel intensive," it said.

WORLDSTEEL KEY TAKEAWAYS:

Global manufacturing: The manufacturing sector is expected to be quicker to rebound compared to other sectors. But the longer the lockdown, the greater the damage to supply chains.

China: all steel-using sectors are expected to be ready for full operation by the end of April, but recovery of export-oriented categories will inevitably take more time. A strong rebound is foreseen in steel-using sector activity in the second half of 2020, especially in the infrastructure sector.

Construction: The construction sector is expected to be the last to resume full operations due to a slow return of workers, and weakened confidence and income is expected to outlast the Covid-19 crisis.

Mechanical Equipment: A rebound in the mechanical equipment sector is expected to be slow as the highly integrated supply chains will be slow to be restored.

Automotive: The automotive industry is expected to be among the hardest hit by Covid-19.

China steel run rates close to pre-Covid-19 levels - but BHP warns of massive drop elsewhere

CHINA's steel industry has rebounded strongly after its coronavirus lockdown, with capacity utilisation rates in April now verging on pre Covid-19 levels.

The capacity utilisation rate of 247 steel mills tracked by Mysteel increased for the sixth consecutive week during April 10-16, rising by the end of the period to nearly 80%.

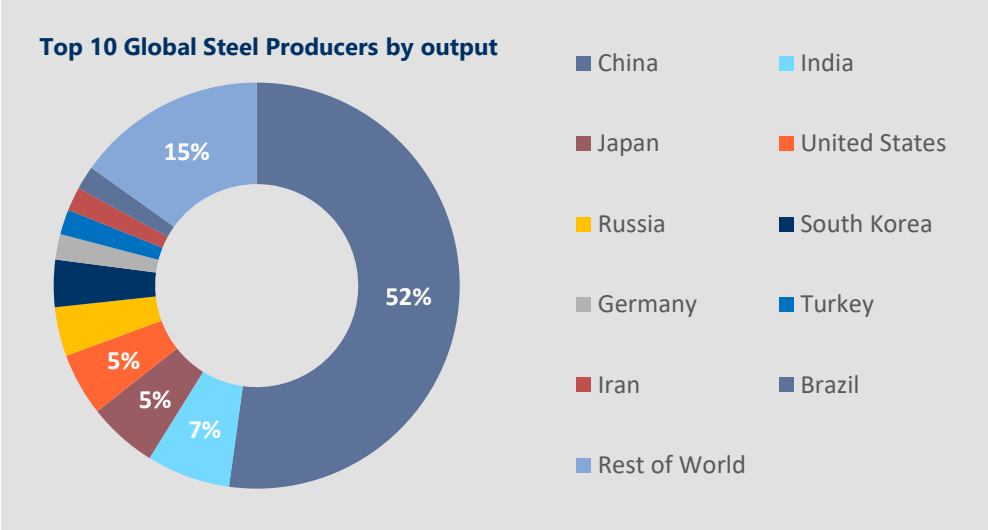
That takes the utilisation rate almost back to levels seen in late January before the Chinese New Year and the outbreak of the coronavirus.

Already, the country's steel industry had showed a surprising resilience in March. Despite fears of a collapse, mills pumped out 78.9 million tons during the month, a drop of just 1.6% on the previous year, and already higher than the monthly average seen in January-February combined.

Meanwhile, output for the 247 mills, plus 71 electric-arc-furnace (EAF) steel producers, rose another 2.7% to 2.7 million tons/day between April 11-20, as producers moved to meet strong demand from downstream industries, especially long products used by the construction industry.

The positive outlook was underlined by miner BHP which predicted Chinese steel production could even rise in 2020 versus last year if the country could avoid a second wave of Covid-19. BHP reported a 6.3% rise in iron ore production in the last quarter, and said it would maintain its full-year forecast despite the virus disruption.

However, it warned that global steel production outside China could contract by a double-digit percentage in 2020, with the US, Europe and India already expected to report steep declines in the second quarter of the year. The global total will be somewhat protected by China's dominance of the market. In February 2020, China represented a full 52% of worldwide steel output, according to Worldsteel – **see graph below**.



China

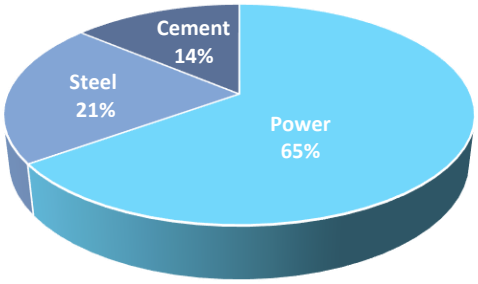
Chinese coal imports leap nearly 30% in Q1

GOVERNMENT measures to limit coal imports into China in the first few months of the year have proved ineffectual, with volumes jumping nearly 30% in the first quarter.

China's coal imports reached 95.78 million tons in January-March, up 28.4%.

Volumes in January and February were higher, at an average 34 million tons per month, but figures for March were also strong, at 27.83 million tons, versus 23.48 million tons in 2019.

The news may prompt Beijing to introduce stricter import and customs measures to control the flow going forward. Guangzhou port, a major hub in south China, was reported to have suspended customs declaration of overseas coal in order not to exhaust quotas too early in the year, while reports said many small trading firms had already used up import quotas, although utilities and large trading houses still had some capacity.



Chinese coal use by industry sector in 2019

Despite the continued flow of imports, Australian shipments are believed to have been hit, and it is thought future targeting will focus on restraining these rather than purchases from Indonesia.

China ships huge amount of steel overseas in March

SHIPMENTS of finished steel out of China leapt to a 20-month high in March as domestic demand fell off a cliff and producers pushed product overseas.

Chinese domestic demand froze in February while the country was in lockdown but steel output remained surprisingly high – see article on page 4. This drove suppliers to sell excess steel to foreign buyers, with the total reaching 6.48 million tons for the month.

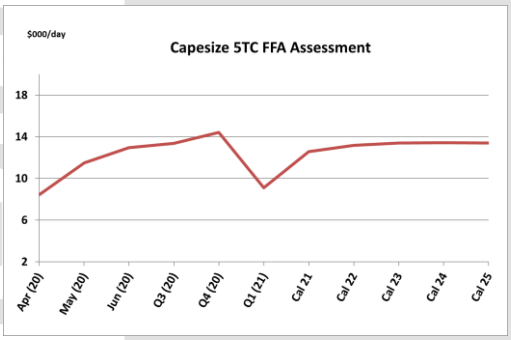
Coincidentally Supramax rates performed strongly in March, topping $8,100 during the month, outperforming both Capesizes and Panamaxes. Rates have since fallen in April, to around $5,400, now below both Capes and Panamaxes.

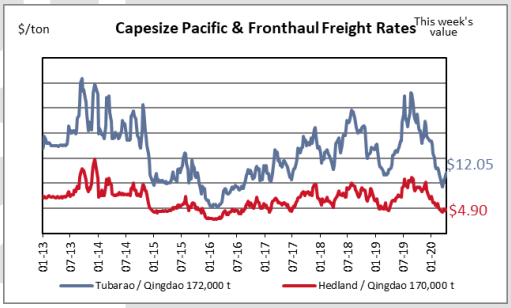
The export trend may not continue. Steel exports are expected to fall from this month, however, as foreign demand drops and China moves to get its economy working again. Added to weak overseas demand, Chinese steel is now less competitive versus Russia, Japan and South Korea, who have all lowered their export prices in response to Covid-19. Some traders predicted China's monthly steel exports could drop to as low as 3-4 million million tons in May-June.

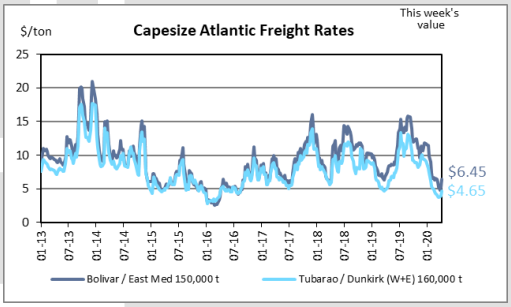
Medium size bulk shipowners may derive some comfort from small increases in Chinese steel imports, but this is unlikely to offset the losses.

China's Monthly Steel Exports since January 2018

Dry Bulk FFA Market Assessment
(as of April 17th, 2020)







Capesize

Next Week's Trends

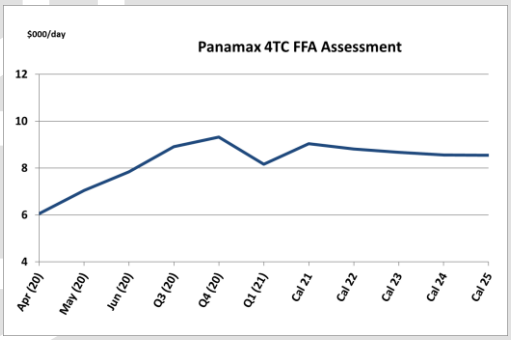
Capesize Atlantic ↘

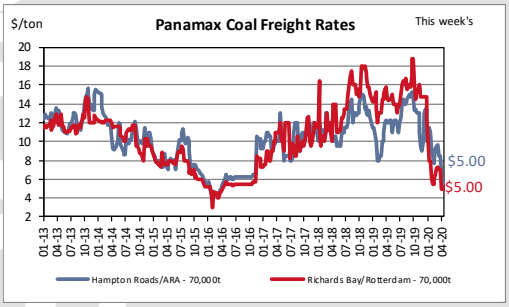
Capesize Pacific →

The market gained ground across the board last week on the back of the previous week's rise in the north Atlantic. Brazil cargo volumes are looking positive and C3 rose to $12 for end May dates, while prompt west Australia rates moved up to $5.

In the north Atlantic, a few more cargoes out of east coast Canada to the Far East went at around $21-$22,000 BCI levels. Iron ore sales to China rather than Europe (due to the virus-driven slowdown of the latter's steel activities) are helping the ton mile equation. But the apocalypse in crude oil prices at the beginning of the week meant bunkers came under further pressure, and this made sentiment shift, with levels retreating to $11 on C3. Transatlantic rates, which had previously risen to around $8-$9,000 on a BCI type, are now going down again as tonnage builds up in north. The evolution in bunker prices will be key to future sentiment, but after two weeks of rising rates, a correction is now underway.

Dry Bulk FFA Market Assessment
(as of March 17th, 2020)





Panamax

Next Week's Trends

Panamax Atlantic ↘

Panamax Pacific ↘

Transatlantic
A Kamsarmax fixed at $5,000 for Baltic round voyage. A Panamax fixed at $4,000 basis Rotterdam for Baltic to Cont.

Fronthauls - USG-Far East
A Kamsarmax would fix at $9,000 delivery Japan for USG to Far East.

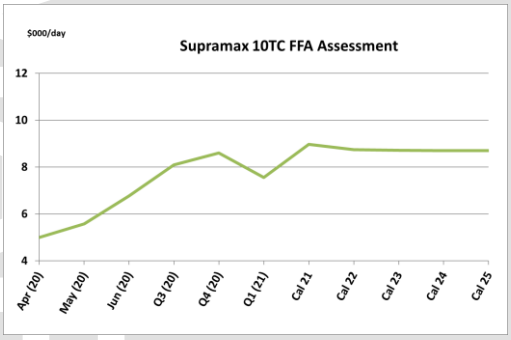
ECSA-Far East
A Kamsarmax fixed at $13,300 + $330k gbb aps ECSA for trip to southeast Asia. A Kamsarmax fixed at $13,000 + $300k gbb aps ECSA to China.

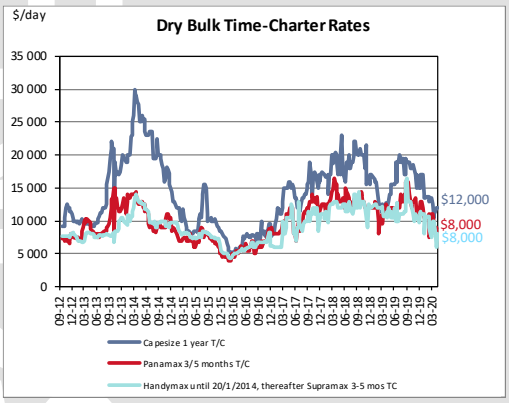
South Africa
No trade reported, with ports closed.

Pacific
A Kamsarmax fixed at $8,000 basis Hibikinada via east Australia to Singapore-Japan. A Kamsarmax fixed at $4,500 delivery Singapore via Indonesia to India. A Panamax fixed at $5,500 basis Zhoushan via Indonesia to south China. On Nopac round, a Kamsarmax fixed at $6,750 basis dop Yingkou.

Period
A Kamsarmax fixed 5-8 months delivery CJK at $8,000 redelivery worldwide.

Dry Bulk FFA Market Assessment
(as of March 17th, 2020)





Supramax/Handysize

Next Week's Trends

Supramax Pacific →

Supramax Atlantic ↘

The US Gulf has seen few fixtures with fronthauls on Ultramaxes going in the $12,000s and $13,000s, while transatlantic is in the $5,000s and $6,000s. Prompt/forward voyage cargos are being booked at lower levels than this. Many owners and operators with their own tonnage are choosing to wait up to 1-2 weeks to put cargos on their own tonnage rather than face the market levels and arbitrage. We are seeing a very large tonnage count and prospects in the immediate future are not promising. However, when the market turns many are expecting it to be as strong rebound.

The Cont has seen a considerable build-up of spot tonnage, which has been taxing the forward orders considerably. Ultramaxes have been getting $6,500 for scrap to Turkey and $3,000 for backhaul runs ex Cont into the USG, plus $4,000 for backhauls ex Cont into ECSA due to the slightly longer duration. We expect these rates to fall as charterers continue to drive rates down due to the oversupply of tonnage. We have not seen interest for fronthaul business out of the Cont recently. In the smaller sizes, a Handysize fixed $5,600 aps France to Algeria with the vessel ballasting from west Africa. Other local tonnage was rating $6,000 aps for same, while for France to the USG Handysizes are getting around $4,000, and for trips ex Baltic to east Med rates are in the $5,000s aps.

The Med/Black Sea region has also been lacking in cargos and again we are seeing a tonnage build-up. Trips from the Black Sea/west Med to Brazil have been going at sub $5,000 on Supramaxes. We have seen a number of backhaul fixtures from the west Med to USG at around $3,000 on good quality eco modern Ultramaxes. Ultramaxes have been getting $12,000 for long trips out to Chittagong from the Black Sea. On the Handysizes there is limited demand, but rates are around $4-$5,000 aps for inter Med trips and even less for trips to Cont, and around $7-$8,000 for west Africa basis aps Black Sea.

In ECSA, we are continuing with the downward trend: at the beginning of the week we were seeing Ultramaxes rate ECSA/Cont business at $8,000 versus charterers' $7,000s, and now we are down to $7,000 vs $6,000! A Supramax fixed $5,500 from Fazendinha to the Cont, and many charterers are aiming for less. On fronthaul ECSA-China, Ultramaxes have been going at $11,500 + $150k gbb, with charterers pushing for $11,000 + $100k gbb, and some are claiming Supramaxes have been doing flat rates with no ballast bonus but we have not seen this confirmed. Trips ECSA/Med are in the $6,000s for Supramaxes. West Africa fronthauls to China have been going in the $9-$10,000 range on Supramaxes and we saw a 58,000 dwt fix at $9,500 for aps west Africa redelivery China. West Africa to Cont is terribly low and circa $3,500 on a Supramax.

Last week in the Pacific was flat-to-soft, with supply increasing but demand coming off. Indonesia/southeast Asia trips are at around $3,000 aps Indonesia, while trips to India were being fixed in the $3,500-$4,000 range aps Indonesia.

Nopac round trips also stayed flat, with vessels being fixed in the $7,000 region + $150k gbb. The Indian ocean was also flat, with little increase in demand.

Short period (3-5 months) rates out of the Far East were around mid/high $4,000 levels for the first 40 days and mid/high $8,000 levels thereafter.

With the Pacific basin still in oversupply, rates are not expected to improve drastically over the course of this week and, at best, are expected to be flat.

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FLEET DATA

Vessel size definitions:

Capesize >85,000 dwt
Panamax 68-84,999 dwt
Supramax 37-67,999 dwt
Handysize 15-36,999 dwt

As at 1 April 2020

Deliveries

	2017		2018		2019		2020 Jan.-Mar.	
	Dwt.	No.	Dwt.	No.	Dwt.	No.	Dwt.	No.
Cape	16,152,911	85	15,225,228	62	20,003,996	92	7,165,319	34
Panamax	8,058,642	99	4,932,828	61	10,124,481	124	3,018,094	37
Supramax	13,426,141	247	7,014,717	132	10,067,535	182	3,083,650	53
Handy	827,803	26	905,944	32	891,140	28	183,775	6

Orderbook

	2020 Apr.-Dec.		2021		2022		2023	
	Dwt.	No.	Dwt.	No.	Dwt.	No.	Dwt.	No.
Cape	25,916,633	128	18,214,832	100	3,050,363	21	190,000	2
Panamax	11,468,341	140	5,097,297	62	247,973	3	-	-
Supramax	11,989,375	216	5,120,107	97	663,163	13	-	-
Handy	778,633	28	615,458	22	44,383	2	-	-

Fleet Projection*

	31 Dec. 2019		31 Dec. 2020		31 Dec. 2021	
	Dwt.	No.	Dwt.	No.	Dwt.	No.
Cape	390,286,803	2,230	402,202,102	2,281	413,936,934	2,345
Panamax	176,680,181	2,253	184,899,280	2,350	188,316,577	2,388
Supramax	229,756,591	4,327	238,533,866	4,480	242,453,973	4,553
Handy	67,932,736	2,312	67,683,691	2,305	67,579,149	2,303

***Note:** Fleet projections account for slippage (some percentage of the current orderbook to be delayed or not actually delivered) and for scrapping projections for the next 3 years.

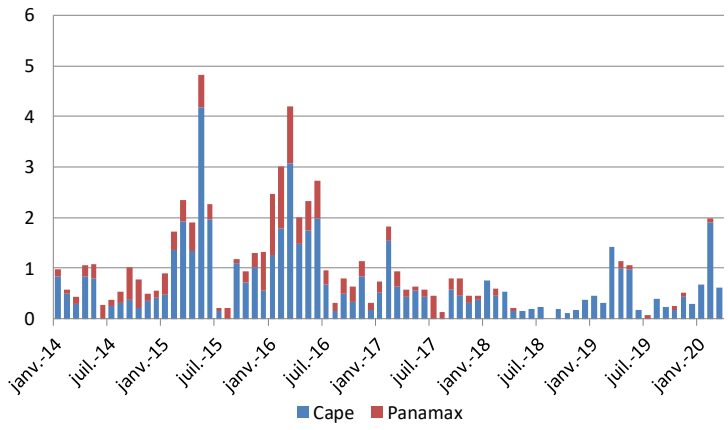
ACTIVE FLEET ADDITIONS / DELETIONS

Active Fleet* - 1 Apr.	No.	Deadweight
Cape	2,249	394,430,771
Panamax	2,286	179,384,613
Supramax	4,375	232,595,682
Handy	2,305	67,778,124

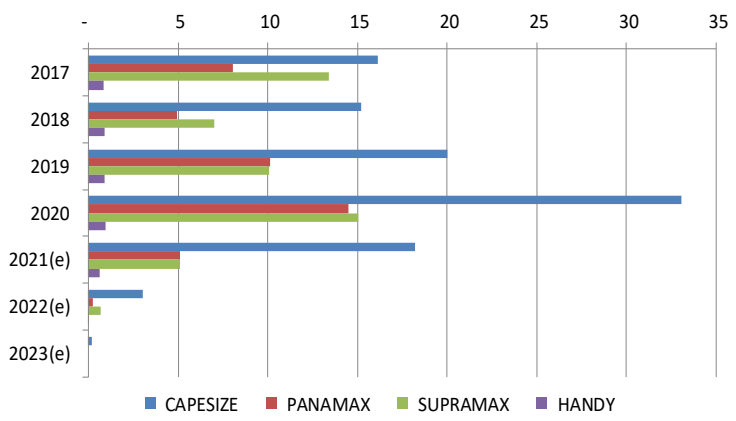
Deliveries—March	No.	Deadweight
Cape	9	1,941,417
Panamax	10	819,849
Supramax	20	1,180,552
Handy	2	71,698

Deletions—March	No.	Deadweight
Cape	3	618,100
Panamax	-	-
Supramax	-	-
Handy	3	78,344

SCRAPPING ACTIVITY (MILLION DWT)



DELIVERY BREAKDOWN BY VESSEL SIZE (MILLION DWT)



VLOC	2020 ytd	2019	2018
Active fleet	256	255	239
Deliveries	8	26	26
New orders	0	5	18
Demolition	4	10	3
Orderbook	29	45	70
Orderbook as % of fleet	15%	18%	29%

CAPESIZE	2020 ytd	2019	2018
Active fleet	1,374	1,363	1,324
Deliveries	25	49	23
New orders	4	38	93
Demolition	9	12	7
Orderbook	133	150	159
Orderbook as % of fleet	10%	11%	12%

KAMSARMAX/PANAMAX	2020 ytd	2019	2018
Active fleet	2,288	2,246	2,130
Deliveries	45	124	60
New orders	11	65	112
Demolition	1	6	3
Orderbook	203	226	312
Orderbook as % of fleet	9%	10%	15%

ULTRAMAX	2020 ytd	2019	2018
Active fleet	1,026	980	846
Deliveries	46	122	70
New orders	28	53	141
Demolition	0	0	0
Orderbook	190	228	292
Orderbook as % of fleet	19%	23%	35%

SUPRAMAX/HANDYMAX	2020 ytd	2019	2018
Active fleet	3,348	3,348	3,323
Deliveries	12	60	63
New orders	15	44	44
Demolition	5	18	15
Orderbook	131	126	117
Orderbook as % of fleet	4%	4%	4%

HANDYSIZE	2020 ytd	2019	2018
Active fleet	2,302	2,308	2,308
Deliveries	5	27	31
New orders	5	23	11
Demolition	8	23	13
Orderbook	56	57	63
Orderbook as % of fleet	2%	2%	3%

* Preceding years show figures as of 31 December

** VLOC 220k dwt+, Capesize 160-220k dwt, Kamsar/Panamax 68-85k dwt, Ultramax 60-68k dwt, Supra/Handymax 37-60k dwt, Handysize 15-37k dwt

FREIGHT RATES

TC AVERAGE	17/04/2020	Change w-o-w	Direction
Capesize (180k)	9,875	+46.0%	↗
Panamax (82k)	7,429	+1.6%	↗
Supramax (58k)	4,449	-8.3%	↘
Handysize (28k)	2,992	-15.6%	↘

TC AVERAGE	2020 ytd	2019	2018
Capesize (180k)	4,925	18,025	16,528
Panamax (82k)	7,107	12,465	13,007
Supramax (58k)	6,338	9,981	11,486
Handysize (28k)	4,427	7,188	8,700

SALE & PURCHASE PRICES

S&P PRICES ($m)	17/04/2020	Change w-o-w	Direction
Capesize (180k)	31.093	+0.003	↗
Panamax (82k)	21.858	-0.084	↘
Supramax (58k)	15.800	-0.043	↘

S&P PRICES ($m)	1 Jan 2020	1 Jan 2019*	1 Jan 2018*
Capesize (180k)	33.7	35.4	32.8
Panamax (82k)	22.9	21.5	20.5
Supramax (58k)	16.9	18.3	17.3

*basis 74,000 dwt Panamax

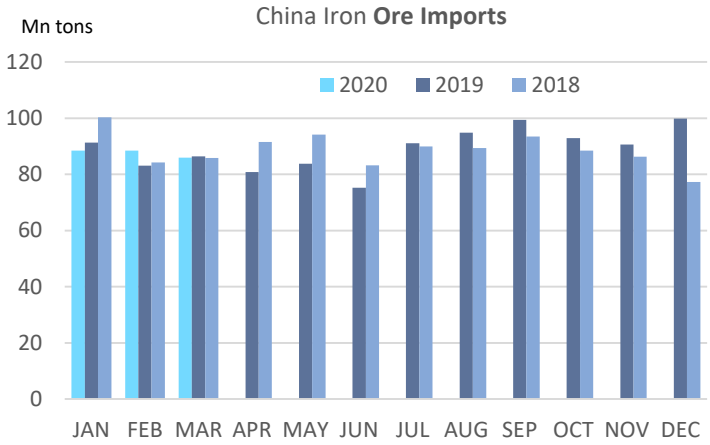
NEWBUILDING ACTIVITY

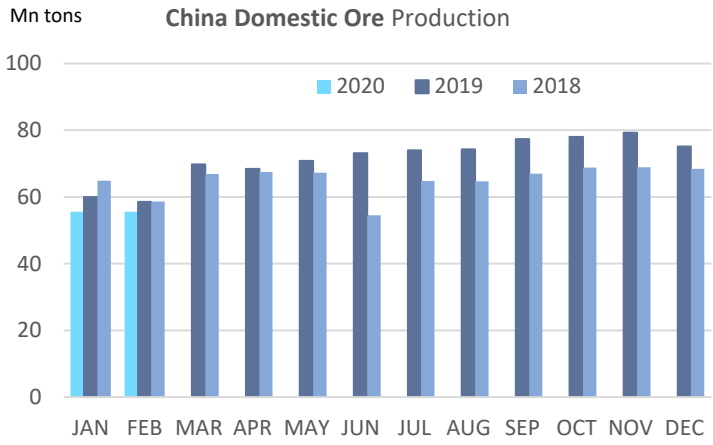
Vessel type	dwt/unit	Price $m	Delivery	Shipowner	Builder	Reported date
Bulker(4)	**325000**		2021	BoComm Leasing	Qingdao Beihai	03/04/2020
Bulker(2)	**62964**		2022	Nisshin Shipping/Japan	Nantong Xiangyu	03/04/2020
Bulker(2+2)	**61000**		2021	China Merchants Bank	DACKS	03/04/2020
Bulker(4)	**61000**	29.5 each	2022	Ming Wah Shipping	Jinling Shipyard	03/04/2020
Bulker(2)	**158000**	61 each	2022	Yasa Shipping/Turkey	Daehan Shibuilding/S.Korea	27/03/2020
Bulker(8)	**63000**	189 en bloc	2021	CDB FL	New Dayang Shipyard	03/04/2020

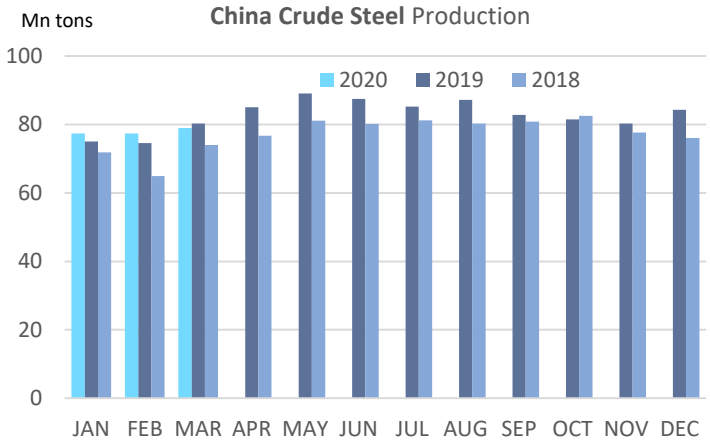
SALE & PURCHASE ACTIVITY

Vessel name	Dwt	Year	Shipyard	Gear	Price $m	Buyer
Coral Amber	78072	2012	Toyohashi/Japan		14,5	Singaporean
Bettys Beauty	76863	2006	Sanoyas/Japan		9,75	Clients of Five Ocean
Dubai Pride	74400	2001	DSME/S.Korea		5,2	Chinese
Draco Ocean	58605	2013	Nantong COSCO		14,1	Clients of Thoresen Shipping
Yvonne	56557	2008	IHI/Japan		9,5	Vietnamese
Bulk Chile	55486	2009	Kawasaki/Japan		low 10	Undisclosed
African Kingfisher	55476	2009	Kawasaki/Japan	4x30.5t	low 10	Indonesian
Nova Gorica	52100	2008	Yangzhou Dayang Shipbuilding		7,2	Greek
Alexandros Theo	45654	2000	Tsuneishi/Japan	4X30t	3,9	Chinese
Orient Alliance	33500	2009	Samjin/S.Korea	4x35t	7	Clients of Tufton Oceanic
Pacific Legend	32500	2010	Nanjing Dongze		6	Vietnamese
Clipper Kamoshio	32226	2009	Kanda Zosensho/Japan	4x30t	7,2	Greek
Pacific Huron	29975	2010	Yangzhou Guoyu	3x30t	6,1	German
Zheng He 58	14415	2009	Zhejiang Cheng Lu		at auction RMB22.8	Chinese

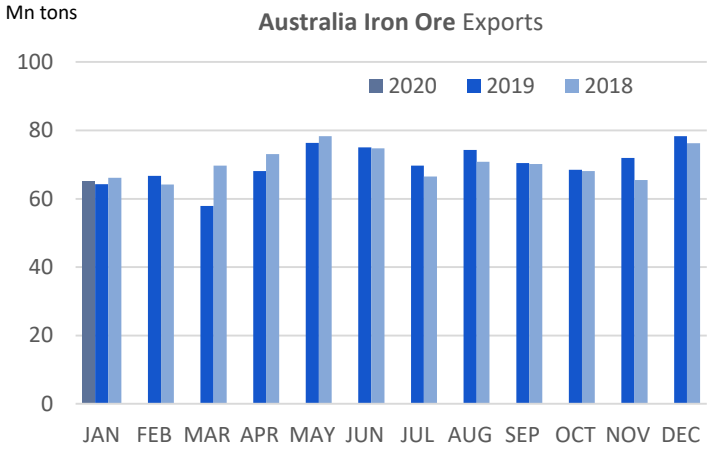
CHINA ORE & STEEL

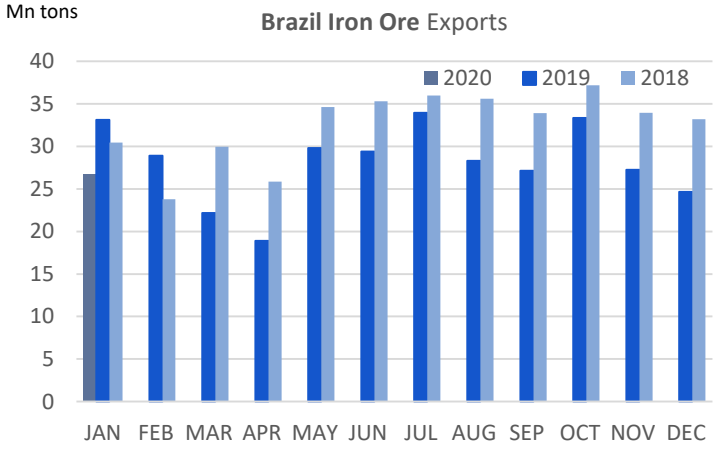


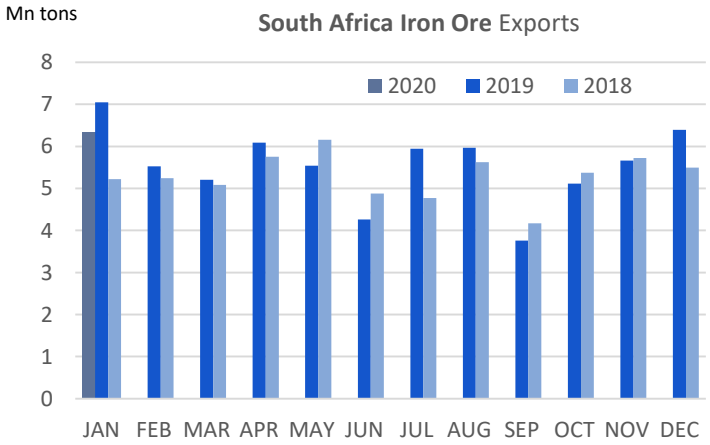


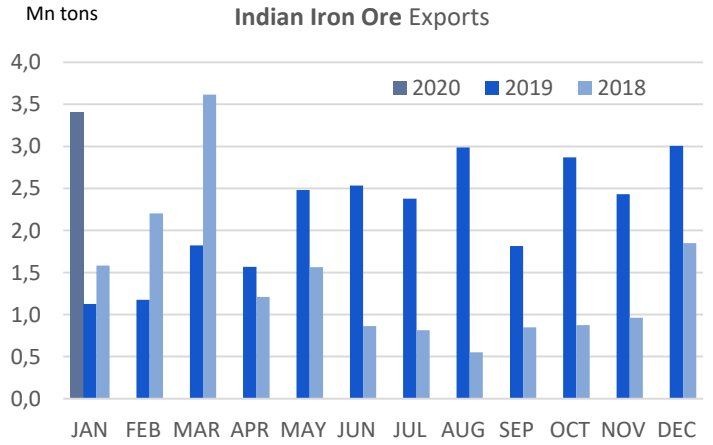


OTHER IRON ORE IMPORTS & EXPORTS

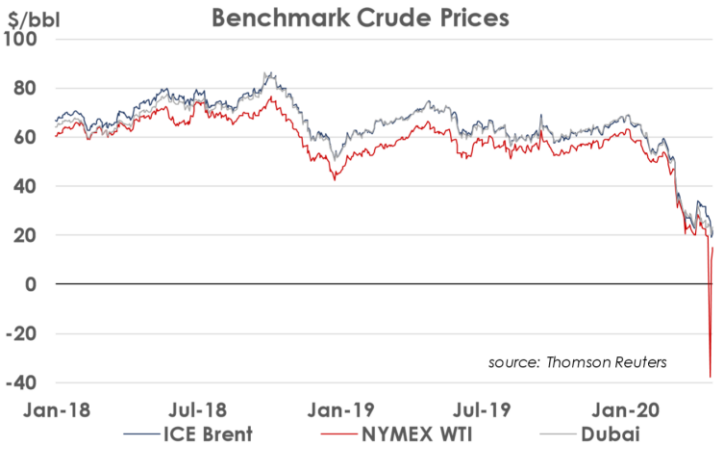


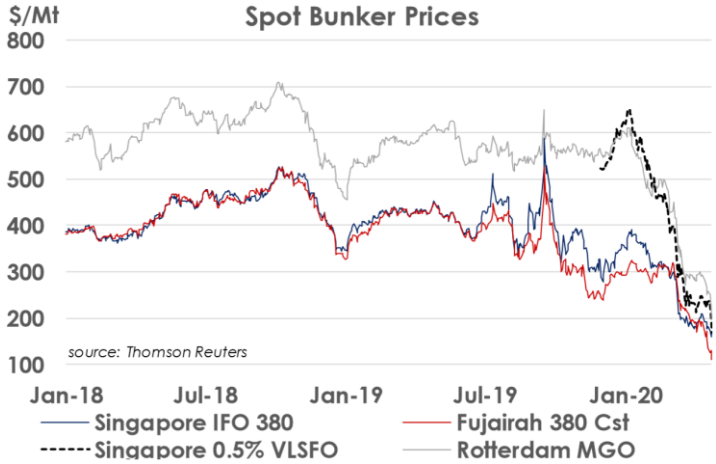




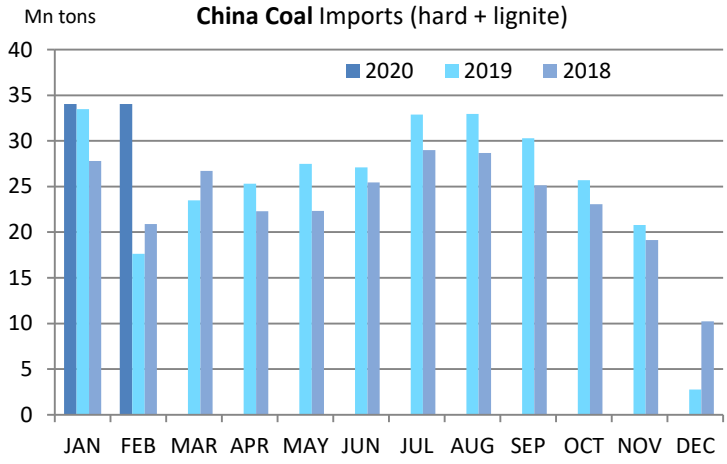


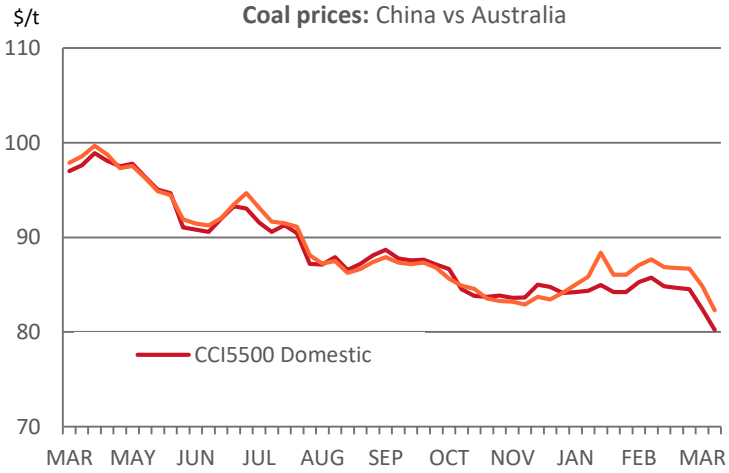
OIL and BUNKER PRICES





CHINA COAL IMPORTS AND COAL PRICE ARBITRAGE





CHINA GRAIN IMPORTS