Marcon International, Inc.

Vessels and Barges for Sale or Charter Worldwide

P.O. Box 1170, 9 NW Front Street, Suite 201
Coupeville, WA 98239 U.S.A.
Telephone (360) 678 8880
Fax (360) 678-8890
E Mail: info@marcon.com
http://www.marcon.com

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Growth & Trade – A Firming and / or Fragile Recovery

I have always believed in a version of the trickle-down theory, at least in tracking markets, by starting at the top to follow a Reader's Digest summary of global growth and trade down to transportation, utilization and earnings. All indicators will never totally agree, but they give an overall view of what's happening, although with the standard stock broker's disclaimer – *"historical and current performance is not necessarily an indication or guarantee of future performance".* In the past we saw a recovery two or three years after each downturn in the markets which Marcon specializes in. We are now eight years and two months, but who's counting, since the official end of the last Great Recession. For years I fought calling this as a new normal and kept expecting a turn-around, if not next year, then the following. I have finally come to the realization that there is no normal. We are not back to pre-crisis levels and downside risk continues due to political uncertainty and lingering possibilities of trade wars. This is exacerbated by imbalances in the vessel & barge supply / demand equation from blue-water to brown-water markets. All we can do is play with the cards dealt each and every day, and stay resilient enough to not only survive the risks, but take advantage of opportunities that may arise.

David Grzebinski, President and CEO of Kirby Corporation, with an inland and coastwise fleet of 921 tank & bulk barges and 294 tugs/towboats, in their latest earnings report commented *"We remain steadfast in our view of the long-term potential in our marine transportation markets. The inland market, in particular, has experienced one of the most severe and long-lasting downturns in the past three decades. This sets up a market that is conducive to both consolidation and a lack of capital investment by the competition, which plays to Kirby's strength and future growth opportunities. We are committed and have the balance sheet capacity to pursue the right acquisitions in the inland marine market, and we expect to emerge from this downturn larger and more efficient, with unparalleled customer service in the industry."* This is true not only in the inland marine market, but in coastal towing. Offshore oil & gas is also going through a downturn much deeper and longer than experienced in the 1980s with little sign of improvement in the near future, but at least a hope of being at the bottom. Once again there are OSVs working at less than break-even rates and we hear the old *"we will work for food"* grumble from some operators in towing and offshore markets. While vessels and barges today are being offered for which three years ago we would have gotten a *"no way in ****"* response when asking if we could develop for sale, there are also niche markets and vessel / barge types where nothing is available unless a Buyer is willing to pay top dollar. Risks remain tilted to the downside, primarily due to political considerations. Political & economic uncertainty, trade protectionism, spiraling rhetoric, and global conflict are not conducive to improving confidence, investment or trade.

According to the International Monetary Fund's July *"World Economic Outlook Update – A Firming Recovery"*, the pickup in global growth anticipated in the April report remains on track, with global output projected to grow 3.5% in 2017 and 3.6% in 2018. U.S. projections though are lower than in April, primarily assuming that fiscal policy will be less expansionary going forward than previously anticipated. Growth was revised up for Japan and especially the Euro area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum. China's growth has also been revised up, reflecting a strong first quarter 2017 and expectations of continued fiscal support. In comparison, the World Bank's June 2017 *"Global Economic Prospects – A Fragile Recovery"* forecasts slower growth even as global activity is firming up as expected and manufacturing and trade are picking up. The World Bank predicts global growth to strengthen to 2.7% in 2017 and 2.9% in 2018-19, with emerging market and developing economies to grow 4.1% in 2017 and reach an average of 4.6% in 2018-19. A 1.9% growth is expected for Advanced Economies in 2017, before moderating gradually in 2018-19.

IMF / World Bank Growth Projections

	2014	2015	2016	2017	2018	2019
World	3.4% / 2.8%	3.4% / 2.7%	3.2% / 2.6%	3.5% / 2.7%	3.6% / 2.9%	---- / 2.9%
Advanced Economies	1.8% / 1.9%	2.1% / 2.1%	1.7% / 1.7%	2.0% / 1.9%	1.9% / 1.8%	---- / 1.7%
United States	2.4% / 2.4%	2.6% / 2.6%	1.6% / 1.6%	2.1% / 2.1%	2.1% / 2.2%	---- / 1.9%
Euro Area	0.9% / 1.2%	2.0% / 2.0%	1.8% / 1.8%	1.9% / 1.7%	1.7% / 1.5%	---- / 1.5%
Emerging & Developing Economies	4.6% / 4.3%	4.3% / 3.6%	4.3% / 3.6%	4.6% / 4.1%	4.8% / 4.5%	---- / 4.7%
China	7.3% / 7.3%	6.9% / 6.9%	6.7% / 6.7%	6.7% / 6.5%	6.4% / 6.3%	---- / 6.3%
India	7.2% / 7.2%	8.0% / 7.9%	7.1% / 6.8%	7.2% / 7.1%	7.7% / 7.5%	---- / 7.7%
ASEAN *	4.6% / ----	4.9% / ----	4.9% / ----	5.1% / ----	5.2% / ----	---- / ----
Latin America & Caribbean	1.3% / 0.9%	0.1% / -0.8%	-1.0% / -1.4%	1.0% / 0.8%	1.9% / 2.1%	---- / 2.5%

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While risks around the global growth forecast appear broadly balanced in the near term, both the IMF and the World Bank agree that they remain skewed to the downside over the medium term. On the upside, the rebound could be stronger and more sustained in Europe, where political risk has diminished. On the downside, rich market valuations and very low volatility in an environment of high policy uncertainty raise the likelihood of a market correction, which could dampen growth and confidence. Economic policy uncertainty remains at high and could rise further, reflecting - for example - difficult-to-predict U.S. regulatory and fiscal policies, increased trade protectionism, negotiations of post-Brexit arrangements, and geopolitical risks. This could harm confidence, deter private investment, and weaken growth.

Projected global growth rates for 2017–18, though higher than the 3.2% estimated for 2016, are still below pre-crisis averages, especially for most advanced economies and for commodity-exporting emerging and developing economies. Among the former, many face excess capacity as well as headwinds to potential growth from aging populations, weak investment, and slowly advancing productivity. Between 2012 (last census) and 2050, the United States will experience considerable growth in its older population. In 2050, the population aged 65 and over is projected to be 83.7 million, almost double its estimated population of 43.1 million in 2012. The population 85 years and over will double by 2036 and then triple by 2049. While currently there are 19 people aged 65 to 84 for every 100 working-age people, this ratio will climb to over 30 by 2028. Reforms to boost potential output are key, and slow output growth makes it even more important that gains are shared widely across the all income levels – trickle up vs. trickle down.

Along with an improvement in GDP / Global Output, the volume of world trade has showing some signs of life. The **CPB World Trade Monitor** (Netherlands) shows that the volume of world trade increased 2.0% month-on-month in May 2017, but admittedly this followed a decline of 2.2% in April, so I consider this more of an almost break-even correction. World industrial production grew 0.1%, following a 0.4% increase the previous month. World Bank figures indicate that despite the rising uncertainty in trade policy, global trade in goods has rebounded from its post-crisis low of 2.5% (IMF: 2.2%) in 2016. This recovery was supported by a 1.8% industrial growth and is expected to rebound to 4% in 2017 (IMF projects 3.9%) supported by stronger import demand from major advanced economies, increased trade flows to and from China, and a diminished drag from weak commodity-exporting emerging & developing economies. Protectionism has not been a significant factor behind the weak trade since the global financial crisis, however expanding restrictions and growing uncertainty in trade policy in some major economies, not only the U.S., could have a negative impact. To put these numbers in perspective, the average growth in the volume of world trade in goods between 1999 and 2008 was 6.7%. The 2009 – 2018 average is projected to be 2.9%. Quite a difference. World exports of goods, excluding services, are projected to total US$ 16,803 billion in 2017, up from $15,713 billion last year. In 2014, the world trade in goods was US$ 18,569 billion following three previous years above US$ 17,000 billion.

Volume of World Trade in Goods (Excluding Services)

	Average		Actual										Projected			
	1999 - 2008	2009 - 2018	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2022
Change in Global Output*	4.2%	-----	5.2%	5.4%	2.9%	-0.1%	5.4%	4.2%	3.5%	3.4%	3.5%	3.4%	3.1%	3.5%	3.6%	3.8%
Change in U.S. GDP *	2.6%	-----	2.7%	1.9%	0.0%	-2.8%	2.5%	1.6%	2.2%	1.7%	2.4%	2.6%	1.6%	2.3%	2.5%	1.7%
Trade Volume - Change	6.7%	2.9%	9.3%	7.1%	2.5%	- 11.5%	14.4%	7.0%	2.4%	3.4%	3.1%	2.2%	2.2%	3.9%	4.0%	
Exports – US$ Billions	$9.117	$16,639	$12,035	$13,920	$15,666	$12,223	$14,895	$17,910	$18,039	$18,476	$18,569	$16,165	$15,713	$16,803	$17,597	
Avg. Oil Price/BBL	$44.49	$75.41	$64.27	$71.13	$97.04	$61.78	$79.03	$104.01	$105.01	$104.07	$96.25	$50.79	$42.81	$55.23	$55.06	
World Trade Price in U.S. Dollars																
Manufactures	1.8%	0.0%	2.4%	5.4%	6.2%	- 1.7%	2.2%	4.3%	2.8%	-3.0%	–0.4%	–2.4%	-5.4%	2.8%	1.7%	
Oil	22.2%	–5.5%	20.5%	10.7%	36.4%	- 36.3%	27.9%	31.6%	1.0%	- 0.9%	–7.5%	–47.2%	–15.7%	28.9%	-0.3%	
Nonfuel Primary Commodities	6.2%	–0.7%	23.1%	13.9%	7.9%	-16.0%	26.6%	18.0%	- 10.1%	- 1.4%	-3.9%	-17.4%	-1.9%	8.5%	-1.3	

* **Change in Global Output & U.S. GDP as of July 2017. All other figures as of April 2017**

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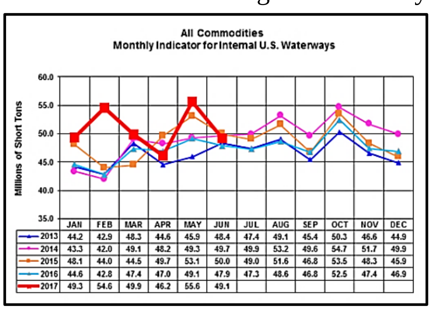
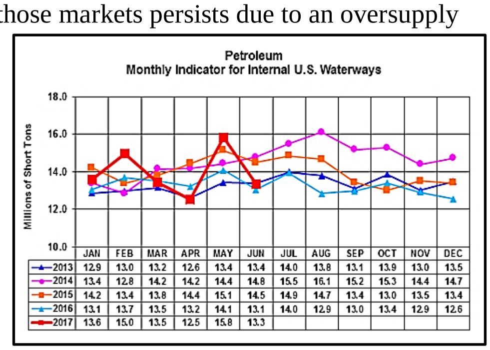
In the U.S., real gross domestic product (GDP) increased at an annual rate of 2.6% in the second quarter of 2017 according to their *"advance"* estimate, following a 1.2% increase the first quarter. The increase in real GDP reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, and federal government spending partly offset by negative contributions from private residential fixed investment, private inventory investment, and state and local government spending. Note that in these reports, I am not concerned with trade deficits or differences between imports and exports. Exports of goods (excluding services) total census basis increased $1.7 billion over the previous month to US$ 128,759 million, the highest monthly figure since April 2015. Imports of goods, at US$ 192,764 million in June, were slightly lower than April and May's figures. U.S. exports and imports to and from Canada over the first six months of 2017 were US$ 139,864 million and US$ 150,369 million respectively. U.S. exports and imports to and from Mexico for the same period were US$ 118,793 million and US$ 155,080 million.

According to a recent PricewaterhouseCoopers **report** prepared for the U.S. Department of Transportation, Maritime Administration and The American Waterways Operators, the U.S. tugboat, towboat and barge industry has a total impact on the U.S. GDP of US$ 33.8 billion and supports over 300,000 jobs nationwide – including 50,000 in the industry itself, of which 38,000 are on board vessels. Of all the products carried on the nation's waterways, 69% of the lumber, stone and ore, 82.4% of petroleum and petroleum products as well as 90% of coal are transported by the tugboat, towboat, and barge industry, using 75% less energy than trucks and 31% less than rail. By the end of 2015, according to the U.S. Army Corps of Engineers, there were 8,985 vessels operating on U.S. Waterways of which 5,592 were tugs and towboats / pushboats. There were also 31,555 dry cargo, deck and tank barges. Approx. 20% of the towing vessels and over 35% of the barges were built within the last ten years. In 2015 (the latest report available), a total of 904.8 million short tons of cargo were moved domestically on coastwise, lakewise and internal U.S. waterways, a decline of 3.5% from 2014. There were also a total of 1,374.2 million short tons of foreign inbound & outbound commodities, down 2.5% compared to the previous year. In 2015, 13.7% of all U.S. waterborne commerce by weight was containerized (2.4% domestic and 21.2% foreign). America's Marine Highway System consists of over 29,000 nautical miles of navigable waterways including rivers, bays, channels, the Great Lakes, the Saint Lawrence Seaway System, coastal and open-ocean routes.

Under U.S. law, vessel operators must report domestic waterborne commercial movements to the U.S. Army Corps of Engineers. June 2017's **(bold red line)** 49.1 million short tons of all commodities carried on internal U.S. Waterways was both the second lowest tonnage carried this year and second lowest carried in the month of June over the last five years, as was the 13.3 million short tons of petroleum. As an example of the market, Kirby Corp. reported inland barge utilization in the mid – high 80% range for 2Q2017 compared to high 80% to low 90% range in the first quarter. Demand for inland tank barge transport of petrochemicals and black oil was stable year-over-year, while demand for refined petroleum products and agricultural chemicals was lower. Both term and spot contract pricing were at lower levels relative to 2Q2016. Spot pricing remained stable compared to the 1Q2017. In the coastal market, tank barge utilization was in the high 60% to mid-70% range during 2Q2017 as the market became incrementally weaker relative to earlier in the year. Demand for transport of black oil, petrochemicals, and dry products was stable, while demand for the transport of refined petroleum products and crude oil was lower than 2Q2016, as weakness in those markets persists due to an oversupply of barrel capacity. The trend of coastal vessels moving into the spot market at the expiration of term contracts continued, increasing idle time and voyage costs. A total of 3.8 million tons of chemical were carried on U.S. internal waterways, the lowest tonnage carried since February 2014. 11.1 million tons of coal and coke were carried in June. Food and Far Products carried were 6.2 million tons, the second lowest tonnage this year, but up slightly compared to June 2016.



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2013	44.2	42.9	48.3	44.6	45.9	48.4	47.4	49.1	45.4	50.3	46.6	44.9
2014	43.3	42.0	49.1	48.2	49.3	49.7	49.9	53.2	49.6	54.7	51.7	49.9
2015	48.1	44.0	44.5	49.7	53.1	50.0	49.0	51.6	46.8	53.5	48.3	45.9
2016	44.6	42.8	47.4	47.0	49.1	47.9	47.3	48.6	46.8	52.5	47.4	46.9
2017	49.3	54.6	49.9	46.2	55.6	49.1						



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2013	12.9	13.0	13.2	12.6	13.4	13.4	14.0	13.8	13.1	13.9	13.0	13.5
2014	13.4	12.8	14.2	14.2	14.4	14.8	15.5	16.1	15.2	15.3	14.4	14.7
2015	14.2	13.4	13.8	14.4	15.1	14.5	14.9	14.7	13.4	13.0	13.5	13.4
2016	13.1	13.7	13.5	13.2	14.1	13.1	14.0	12.9	13.0	13.4	12.9	12.6
2017	13.6	15.0	13.5	12.5	15.8	13.3						

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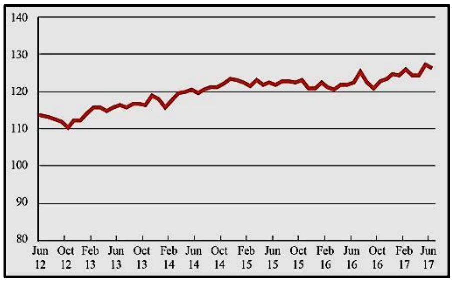
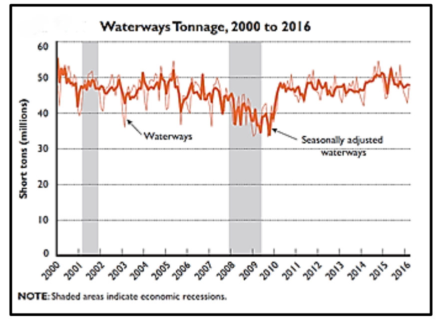
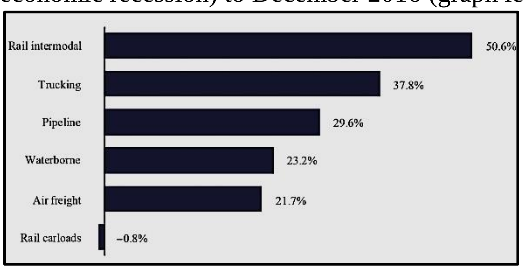
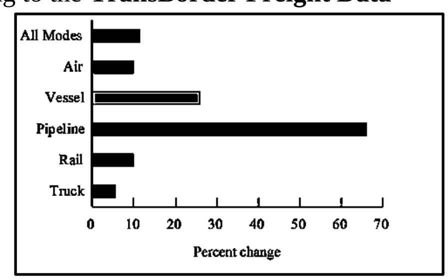


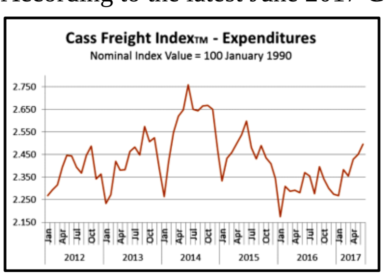
The U.S. Department of Transportation's Bureau of Transportation Statistics' **Freight Transportation Services Index** measures the month-to-month changes in for-hire freight shipments in the United States by trucking, rail, inland waterways, pipelines and air freight in tons and ton-miles, combined into one index. The Index (TSI) fell 0.8% in June, due to significant decreases in trucking and waterborne freight, after reaching an all-time high in May. The June 2017 index level (126.2) was 33.3% above the April 2009 low during the most recent Great Recession. For-hire freight shipments measured by the index were up 1.3% in June compared to the end of 2016. For-hire freight shipments are up 11.2% in the five years from June 2012 and are up 15.0% in the 10 years from June 2007. All but one of the major freight modes grew since the recession that ended in June 2009 with rail intermodal growing the fastest, rising 50.6% from June 2009 (the end of the economic recession) to December 2016 (graph left). The sole exception was rail carloads which declined 0.8%. The drop in rail carload shipments took place at the same time as a decline in coal shipments. All modes had declined during the recession as the freight TSI fell 16.3% from January 2008 to its low point in April 2009. The biggest decline was in the air freight index, down 26.5%, followed by rail carloads, -23.0%; waterborne, -18.6%; rail intermodal -18.1%; trucking, -14.5%, and pipeline, -4.7%. U.S.-NAFTA freight totaled $98.2 billion as all five major transportation modes carried more freight by value with North American Free Trade Agreement (NAFTA) partners Canada and Mexico in May 2017 compared to May 2016, according to the **TransBorder Freight Data** released by the U.S. Department of Transportation's Bureau of Transportation Statistics (BTS). The 9.4% rise from May 2016 is the seventh consecutive month in which the year-over-year value in current dollars of U.S.-NAFTA freight increased from the same month of the previous year. The value of commodities moving by pipeline increased 60.3%, vessel by 28.4%, air by 8.7%, rail by 7.0%, and truck by 5.0% (graph right). In contrast with recent months, there was only a modest year-over-year increase in the price of mineral fuels (3.8%). In May, the increase in the value of freight by pipeline and vessel more closely reflected a greater volume of mineral fuels moved rather than an increase in the price of those commodities.

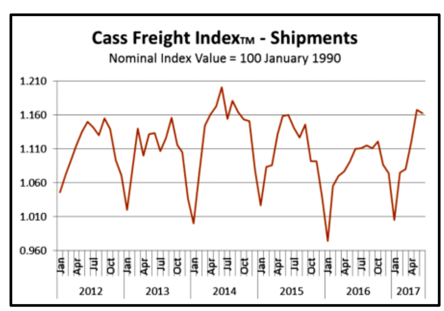






According to the latest June 2017 **Cass Freight Index Report**, not only have both the North American Shipments and Expenditures Indexes been positive for six months in a row, but they are showing accelerating strength. Throughout the U.S. economy, there are a growing number of data points suggesting that the economy continues to get *"slightly"* better. Some data points are simply less bad, but an increasing number of them are better, and even a few are becoming outright strong. The 4.8% YoY increase in the June Cass Shipments Index is yet another data point which confirms that the first positive indication in October was a change in trend. In fact, it now looks as if the October 2016 Cass Shipments Index, which broke a string of 20 months in negative territory, was one of the first indications that a recovery in freight had begun. Data is suggesting that the consumer is finally starting to spend a little, albeit not with brick and mortar retailers. It also suggests that, with the surge in the price of crude in October of last year, the industrial economy's rate of deceleration first eased and then began a modest improvement led by the fracking of drilled uncompleted wells, especially in the fields with a lower marginal production cost (i.e., Permian and Eagle Ford).





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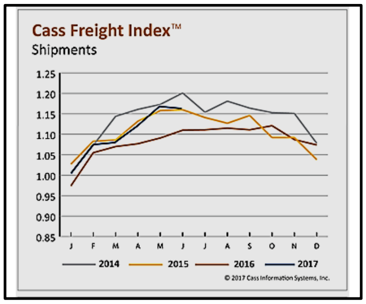

Cass Information Systems has been questioning, *"How fast will the recovery from here be?"* However, the overall freight recession, which began in March 2015, appears to be over and, more importantly, freight seems to be gaining momentum in most segments. The June sequential pattern was not as promising. Following a very strong May, June posted a slight decline of 0.4%. Expenditures (or the total amount spent on freight) turned positive for the first time in 22 months in January 2017, albeit against an easy comparison. Not since 2011—when the economy was still climbing out of the recession—had this index been so low. Cass' Expenditures Index in January 2016 was the worst in five years, as demand had weakened and crude oil fallen below $30 a barrel. Rails have seen persistent weakness for almost two years, however, the most recent week of data suggests that the higher price of crude (WTI $44 when the Cass report written) is driving increased activity in on-shore oil and gas exploration as companies with drilled uncompleted wells are choosing to proceed with fracking. Just as the dramatic drop in fracking led into the industrial recession in March 2015, it now appears to be in the early stages of leading us, or at least rail, out.

For the first six months of 2017, total cargo through the **St. Lawrence Seaway** at 12,098 thousand tonnes was up 19.9% compared to 2016. All cargoes were up, except coal, as expected, was off 16.03%. The improvements percentagewise were iron ore up 65.65% and general cargo up 28.71%. Total transits were also up 10.24% from 1,182 in 2016 to 1,303 this year-to-date. According to the **Lakes Carriers' Association**, U.S.-flag Great Lakes freighters (lakers) moved 9.7 million tons of cargo on the Great Lakes in June, a virtual repeat of a year ago. However, this June's shipments were down 3.6% from the month's long-term average. Iron ore cargoes for steelmaking totaled 4.9 million tons, an increase of 3.5% compared to a year ago. Coal loadings rose 8.1% to 1.6 million tons. The increase was almost entirely due to higher shipments of low-sulfur coal from Superior, Wisconsin. Limestone cargoes hauled in U.S. bottoms totaled 2.6 million tons, a decrease of 10.6% compared to a year ago. Year-over-year U.S.-flag cargoes total 30.6 million tons, again a virtual tie with the same point in 2016. Iron ore shipments have increased 5.7% to 17.9 million tons. Coal cargoes have risen 3.2% to 4.5 million tons. However, shipments of aggregate, fluxstone and scrubber stone – 6.5 million tons –dipped more than 13%. Lake Carriers' Association represents 13 American companies that operate 49 U.S.-flag tug-barge units and vessels on the Great Lakes and carry raw materials such as iron ore and fluxstone for the steel industry, aggregate and cement for the construction industry, coal for power generation, as well as salt, sand and grain. Collectively, these vessels can transport more than 100 million tons of cargo per year. (Photo Credit: www.boatnerd.com)

After looking at these snapshots of various leading economic, trade and transportation indicators, I see a mixed bag of data. There does not seem to be a clear answer to whether we are seeing a *"firming"* or a *"fragile"* recovery. There is not universal movement to *"all is getting better"*, though in some cases *"it is less bad"*. When I add into the mix the continuing political uncertainty, especially in the U.S., and the potential impact that has on domestic and international trade, I am still left wondering *"will we ever return to pre-2008 crisis levels"*. It just may be that our *"new normal"* is surviving this conflicting, uncertain world.