04 January 2019

WEEKLY COMMENTARY

HARTLAND
SHIPPING SERVICES

CONTENTS

THE BIGGER PICTURE

… Markets – In the Balance …

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POINTS OF VIEW

Stock markets did well in the first half but badly in the second half of 2018. US stock indices led the way, boosted by corporate tax cuts and higher corporate earnings, especially from the tech companies. In the end, all indices posted losses for the year. The DJIA was down 5.6%, the S&P 500 was 6.2% lower and the Nasdaq down 3.9%. Steeper falls were suffered overseas with the FTSE ASI off 12.0%, the FTSE 100 down 12.5% and the European Stoxx 600 off by 13.2%. In Asia, the Nikkei 225 was 12.1% lower and the Hang Seng was down 13.6%. However, somewhat ominously, the steepest loses were booked in China with the Shenzhen Composite down 33.1% and the Shanghai Composite off 24.6%. It is anticipated that the Chinese government will regard 6% GDP growth as a red line that must not be crossed.* Yesterday, Apple shares^ plunged nearly 10% after the company cut its earnings forecast for the first time in 16 years, blaming poor iPhone sales in China and discounted prices for the latest sets as people become less inclined to upgrade. Some see this as the canary in the coal mine, a portent of tougher times ahead. The US economy grew by 3% in 2018 while inflation was subdued at around 2%. The US stock market boom was fuelled by Trump's tax cuts and then reversed by Trump's trade wars and also affected by rising rates, the unwinding of QE and the partial government shutdown. S&P 500 companies saw their average earnings rise by about 20% in 2018 with around 8% of this attributable to the tax cuts. They might expect to grow earnings by some 8% in 2019, giving an average P/E ratio of just below 15, at around the mean for the past ten years, and a few points below the average for the past five.

Amidst all the doom, it is worth remembering that US base rates are still at only 2.5% and there are no signs of inflationary overheating, or of financial excesses that might lead to a contraction in credit, or of external shocks such as a spike in oil prices.** As Reuters summarised, fear became the dominant sentiment in 2018, sending equity and commodity prices into a tailspin as growing pessimism about the future gripped policymakers, business leaders, investors and journalists. Central to this was the shifting balance of power between the US and China as they engage in a multi-level conflict over intellectual property, foreign investment, technology transfer and espionage, and an accelerating arms race. The economically polarising benefits of globalisation are being questioned amidst renewed calls to strengthen the nation state just as multilateral bodies such as the IMF, Nato, World Bank, APEC, EU and WTO all come under attack. The corruption of social media, the rise of cyber attacks and of hacking by Russia, China, Iran, North Korea, Saudi Arabia, Israel and the US have undermined international relations. Proxy wars between Saudi Arabia and Iran (in Syria, Iraq and Yemen), the isolation of Qatar and the rift caused by the Khashoggi affair have raised geopolitical tensions in the Middle East. European solidarity is being challenged by British political paralysis, violent protests in France, weakened government in Germany, fiscal rebellion in Italy and hardening authoritarianism in parts of eastern Europe. This is happening just as Romania takes over the rotating EU presidency for the first time. It must deal with EU parliament elections, Brexit, a migration crisis and internal threats to its own judicial independence.

In the context of such uncertainty, shipping is eking out a dogged recovery, trusting that even tepid demand growth will reward a rare phase of supply discipline. Baltic Exchange data tracking 5-year old bulkers and tankers shows minor gains in asset values between 02 Jan 2018 and 02 Jan 2019, a reflection of volatile earnings in a gently improving trend. The absence of conviction reflects the murky economic, trade and geopolitical backdrop. For bulkers, a 180K-dwt capesize is up 8.3% from $32.8m to $35.5m; a 74K-dwt panamax is up 5.3% from $20.5m to $21.6m and a 58K-dwt supramax is up 5.8% from $17.3m to $18.3m. For tankers, a 305K-dwt VLCC is up 4.6% from $61.4m to $64.2m; a 105K-dwt aframax is up 5.2% from $29.5m to $31.0m and a 51K-dwt MR is up 11.5% from $23.7m to $26.3m. In 2019 we hope to build on these asset value gains. We are confident that supply growth will be constrained but have less visibility over demand growth. We still have the prospect of US-China and US-EU trade wars while we face a resurgent Russia in the west and an assertive China in the east. We see signs of slower growth in China, the main engine of global economic growth for many decades. We have endured rising dollar rates and the withdrawal of central bank stimulus which, when combined with higher tariff-driven prices, could dent final consumption and hit demand for upstream raw materials and downstream energy and manufactures. We may now need a stricter regulatory environment to tip the balance decisively in favour of the ships.

*Today China announced new economic stimulus measures ahead of a resumption of US-China trade talks on Monday.

^Apple's market capitalisation fell from a peak of $1.12 trillion in early October to $676 billion today, below Alphabet at $710 billion.

**Today it was reported that the US economy created 312,000 jobs in December, easily beating the 184,000 forecast.

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Dry Cargo Chartering

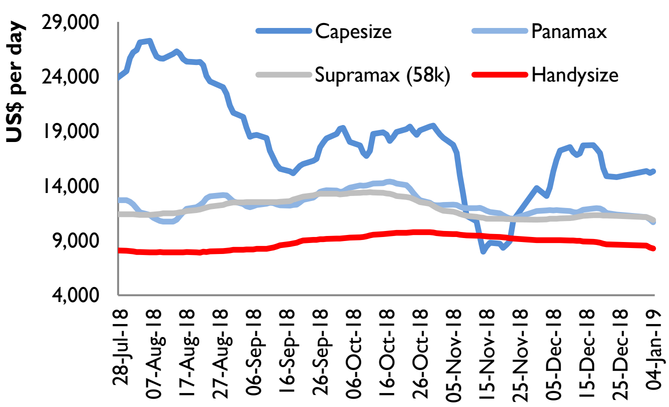
As expected it was an uneventful week post New Years with the **BDI** closing at 1,260. Prior to Christmas it was at 1,279. With all slates clean the **cape** market began 2019 in the green, closing at $15,341. On timecharter, the *Quorn* (178,005-dwt, 2010) fixed delivery CJK for a trip via Australia, redelivery Singapore-Japan at $13,000. Pacific Bulk fixed the *Anagel Vigour* (180,391-dwt, 2012) delivery retro Singapore 1st Jan for a trip via South Africa & Mediterranean, redelivery Cape Passero at $11,000. On voyage, Dampier/Qingdao ore runs were being fixed in the $6.50-6.70 region. A Tubarao/Qingdao ore run was fixed at $16.75 on Friday.

The **panamax** market closed the week at $10,677. In the Pacific, the *Scandinavian Express* (93,016-dwt, 2010) fixed delivery Taichung for a trip via Weipa redelivery Qingdao with bauxite at $11,350. The *Peace* (75,597-dwt, 2011) fixed delivery passing Yeosu for a trip via NoPac redelivery Singapore-Japan at $9,500. Hyundai Glovis took the *Sea Rising* (76,243-dwt, 2012) delivery Taichung for a trip via Indonesia redelivery South Korea at $11,900. In the Atlantic, Klaveness fixed the *Tatry* (82,138-dwt, 2013) delivery US Gulf for a trip redelivery Gibraltar-Skaw range at $13,000 plus $300,000 bb. The *Coral Diamond* (76,596-dwt, 2007) was fixed to Norden delivery US Gulf for a trip to Egypt redelivery Cape Passero at $13,000 plus $300,000 bb. On the front haul, the *RGL First* (82,215-dwt, 2017) fixed delivery retro Haldia for a trip via East Coast South America redelivery Singapore-Japan at $13,250. Cargill took the *Yangyze Xing Xiu* (81,602-dwt, 2013) delivery Santos for a trip redelivery Singapore-Japan at $14,750 plus $475,000 bb. On the period front, Louis Dreyfus took the *MBA Giuseppe* (82,256-dwt, 2010) delivery retro Haldia for 4-8 months redelivery worldwide at $11,750.

The **supramax** market finished the week at $10,847. In the Pacific, Fednav took the *Indigo Flora* (58,724-dwt, 2013) delivery Hong Kong for a trip via Australia redelivery Vietnam at $9,200. LD Bulk fixed the *Ero L* (50,457-dwt, 2003) delivery Ho Chi Minh trip via Indonesia redelivery Philippines at $8,500. The *GH Seabird* (63,553-dwt, 2016) was fixed to Norden delivery Busan for a prompt trip via NoPac redelivery Singapore-Japan at $10,500. In the Atlantic, the *SSI Avenger* (52,949-dwt, 2004) fixed to Meadway delivery Rio De Janeiro for a trip redelivery ARAG at $15,250. On the front haul, the *Alfios* (58,357-dwt, 2012) fixed delivery Port Elizabeth for a prompt trip redelivery China at $12,000 with $200,000 bb. Trafigura took the *Rego* (58,790-dwt, 2009) delivery Mississippi River for a trip redelivery West Coast Central America with coal at $24,000. On the period, Western Bulk Carriers took the *Mandarin Trader* (56,677-dwt, 2011) delivery CJK for 3-6 months redelivery worldwide at $7,500 for the 1st 30 days and $11,000 thereafter. It was a similar story for the **handysize** market which didn't start the new year well with rates falling in most areas. It closed the week at $8,276. Trithorn Bulk fixed the *V Uno* (37,888-dwt, 2015) delivery Skaw Passero for a prompt trip redelivery West Coast South America with grains at $13,500 as well as the *Stamina SW* (28,378-dwt, 2012) delivery Pecem a prompt trip redelivery NoPac with steels at $12,500.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Amorito	179,322	2012	Rizhao	29/30 Dec	Singapore-Japan	13,500	KL	Via Australia
Quorn	178,005	2010	CJK	2/4 Jan	Singapore-Japan	13,000	CNR	Via Australia
Red Lotus	83,007	2006	Zhanjiang	5 Jan	Taiwan	11,000	Norden	Via Indonesia
RGL First	82,215	2017	Retro Haldia	24 Jan	Singapore-Japan	13,250	BG Shipping	Via ECSA
Medi Taipei	76,633	2003	Canakkale	Beg Jan	Singapore Japan	18,250	Langlois	Via Black Sea
Rego	58,790	2009	Mississippi River	5 Jan	WCCA	24,000	Trafigura	Coal
Indigo Flora	58,724	2013	Hong Kong	4 Jan	Vietnam	9,200	Fednav	Via Australia
SSI Avenger	52,949	2004	Rio De Janeiro	10/15 Jan	ARAG	15,250	Meadway	-
V Uno	37,888	2015	SWP	PPT	WCSA	13,500	Trithorn	Grains
Stamina SW	28,378	2012	Pecem	PPT	NoPac	12,500	Trithorn	Steels



Exchange Rates	This Week	21st of Dec-18
JPY/USD	108.29	111.22
USD/EUR	1.1375	1.1398

Brent Oil Price	This Week	21st of Dec-18
US$/barrel	57.22	53.67

Bunker Prices ($/tonne)	This week	21st of Dec-18
Singapore IFO	367.0	349.0
MDO	505.0	512.0
Rotterdam IFO	332.0	311.0
MDO	503.0	481.0

Dry Bulk / Tanker S&P

An intriguing year lies ahead of the market as regulatory changes and compliance strategies are widely forecast to impact market fundamentals. With little in the way of fresh sales to report in this shortened first week back, the deals we have to report are those that were finalised at the end of last year.

Atlantica Shipping were reported to have sold their newbuilding Kamasarmax, *Atlantica Sun* (82,020-dwt, 2019, Jiangsu Hantong, launched this week) for a price in the mid $26'sm to undisclosed European buyers. The Chinese owned geared Panamax *Shun Yi* (73,461-dwt, 2001 Tsuneishi), was rumoured sold to undisclosed Far Eastern buyers for a very good mid $9'sm. A premium evidently being paid for the gear.

A couple of smaller Supramax's managed to get over the line as the year closed. *Tigris* (52,500-dwt, 2003 Tsuneishi) was reported sold for $8m to undisclosed buyers. *Zebra Wind* (50,800-dwt, 2009 Oshima) was rumoured to have been bought by undisclosed Norwegian buyers for $12.5m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Atlantic Sun	82,000	2019	Jiangsu Hantong	-	Europeans	26.5	
Shun Yi	73,461	2001	Tsuneishi Shipbldg	C 4x30	Far Eastern	9.5	
Tigris	52,454	2003	Tsuneishi Corp	C 4x30	Undisclosed	8	
Zebra Wind	50,820	2009	Oshima	C 4x30	Norwegians	12.5	
Amsel	27,308	1994	Mitsubishi HI	C 4x30.5	At Auction	2.2	SS due
Century Pearl	16,383	2008	Shin Kochi	C 4x30.5	Turkish	7	

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Njord Cloud	16,882	2004	Cant. Nav. de Poli S.p.A	Europeans	6.9	