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HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… Lower Supply & Weaker Demand …

Source: baoshabaotian

*SteelHome's Long Product Price Index has fallen 18% from a 12-month high of 131 in 4Q18 to a 12-month low of 108 in 1Q19. Meanwhile, iron ore prices are up 24% since Brumadinho.

^Cape OB/FL ratio has crept up to 15.5% in 2019, from 14.5% in 2018 and 13.2% in 2017. That was the lowest since 2002. The 2009 peak was 114%.

**BCI-5TC from 28 January to the present ($12,523 to $4,881 daily).

^^Only one cape was reported sold in 1Q19: 15-year old Mineral Beijing.

POINTS OF VIEW

The capesize segment of the dry bulk sector is having a poor start to 2019. Average earnings for a modern 180,000-dwt capesize bulk carrier in the first quarter were only $5,712 per day, according to SIN data. This compares with an annual average of $14,026 daily in 2018 and $13,475 per day in 2017. And this was the year when things were supposed to be getting better. In fact the first quarter of 2019 has been so bad that it even falls below the annual averages for 2016 ($6,035) and 2015 ($6,369). Sentiment has taken a huge hit and it is always hard to regain lost confidence. The main problem has been a series of weather-related mine production outages, making this more an issue of cargo supply than of cargo demand. On 25 January, a tailings dam at Vale's Brumadinho iron ore mine in Brazil's Minas Gerais gave way under heavy rains and swept away over 330 people, making this tragedy Brazil's worst ever industrial accident. The mine's 40mt annual output was suspended and other similar mines were temporarily shut down for safety checks, potentially shutting in another 30mt of annual iron ore supply. At this stage it is hard to estimate the net effect on Brazil's annual iron ore exports as the shut-ins will be temporary and Vale's S11D mine and Anglo's Minas Rio mine could between them add over 30mt in incremental output this year. To cap it all, at the end of Q1, Cyclone Veronica hit Western Australia's Pilbara iron ore region disrupting mining, rail and port operations. Rio Tinto had declared force majeure as recently as January after a fire at Port Hedland interrupted operations. Rio Tinto and BHP have estimated that their iron ore shipments will be down a combined 20-22mt this year, about 3.5% of 2018's total.

China's seaborne iron ore imports last year accounted for over 70% of global imports, 1,047mt out of 1,476mt. But the 2018 import total was 1% down on 2017, the first year-on-year decline since 2010 when China's imports fell 1.5% to 619mt from 628mt in 2009. The latest Dry Bulk Trades Outlook forecasts flat Chinese imports this year of 1,048mt, down 1.5% from its early January estimate of 1,064mt. The 16mt shortfall represents a combination of lower available iron ore supply and weaker iron ore import demand. The situation is that Chinese steel prices have fallen while raw material input costs have risen,* an untenable squeeze on steel mill margins. In January/February this year, China imported 174.4mt of iron ore, down 5.5% on the 184.6mt that it imported in the same period last year. There is the distortional impact of Chinese lunar new year holidays, when steel mills and traders shut down for up to two weeks, and the impact of rising iron ore prices as availability shrank in Q1. 62% Fe, CFR China iron ore prices rose 24% from $74.6pmt on 25 January to $92.3pmt on 7 February. They then dipped to a low of $84.5pmt on 11 March before recovering to $92.2pmt yesterday. Prices averaged under $70 a tonne in 2018. When prices rise, Chinese buyers buy less, draw down their port and other stocks, switch to lower grade imports, and use inferior quality and cheaper domestic supplies. Some blast furnace output is replaced by electric arc furnaces that use steel scrap as feedstock. The end result is lower iron ore demand, and higher imports from nearby Australia at the expense of long-haul Brazil imports: a tonne-mile loss.

This is disastrous cocktail for capesize bulk carriers. Through the fog of distorting factors it is hard to assess what is temporary and what is structural. The unresolved US-China trade wars are having an impact on Chinese demand for stuff including, for example, cars. Import tariffs raise prices for households and reduce discretionary spending. China's slower economic growth, 6.6% last year and possibly 6.3% this year, are the lowest rates of GDP growth in the last 30 years. China is transitioning to lesser levels of industrial and manufacturing intensity as it tackles pollution, outsources functions to Southeast Asia and reduces over-capacity as it rolls out and supports its Belt and Road Initiative. In industrial terms, it is a progressive switch from heavy industry to light industry as services grow. Capes and other bulk carriers were expected to benefit from a supply-led rather than a demand-led recovery this year. We anticipated low levels of tonnage supply^ and robust demand growth, but Q1's events require the forecasts to be adjusted down a bit. As usual, we have witnessed mass panic as a series of what should be temporary events have hijacked sentiment and confidence. This quickly depresses freight rates, earnings and values. According to Baltic assessments, a 5-year old 180,000-dwt cape has slipped from a 28 January 12-month peak of $36.7m to $36.0m today. This negligible 2% drop in value, compared with a 61% collapse in spot earnings over the same period,** indicates that the market is not totally shot. Shipowners are not willing sellers in this market dip.^^

Dry Cargo Chartering

The **BDI** closed the week at 711, up from last weeks close of 689. This was driven by a **cape** market which began its much needed recovery during the week. It closed at $4,881, up from last weeks $3,796. This included a rise of $1,341 over Thursday and Friday. Unsurprisingly, fixtures this week if any were unreported. On voyage, ore runs West Coast Aussie to China was fixed at around $4.50 while Tubarao to China was marginally up to stand at $12.60.

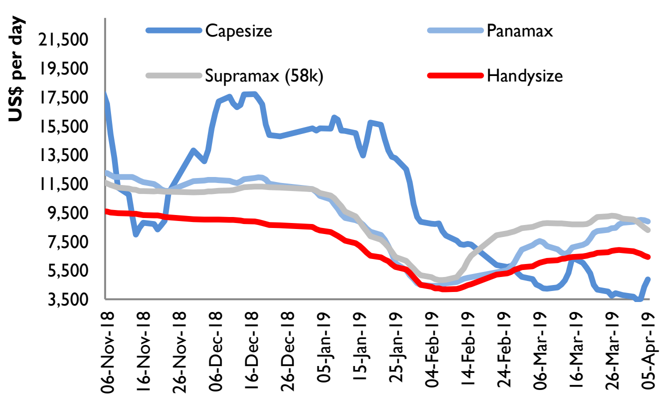
The **panamax** market this week saw very little movement, closing the week at $8,902. In the Pacific, rates were being concluded at $6,000 as seen by *JK Pioneer* (72,940 dwt, 1997) from Qingzhou via Indonesia to South China by Tongli. *Ocean Domina* (76,255 dwt, 2005) was said to have fixed delivery Hong Kong via Indonesia with redelivery Japan at $6,000 as well. In the Atlantic, Cargill fixed *W Eagle* (92,802 dwt, 2011) for a trip delivery Rotterdam via Murmansk redelivery Gibraltar-Skaw at $10,000. On the front haul, Omegra took the *Xin Han* (82,297-dwt, 2013) delivery East Coast South America redelivery South East Asia at $14,750 plus $475,000 bb. On period, Swiss Marine took the *Star Vega* (98,681-dwt, 2011) delivery Dalian for 6 to 8 months trading at $12,500.

The **supramax** continued the gradual dropping trend throughout this week and closed a $8,304, down from last weeks $9,094. In the Atlantic, *Nika* (52,454-dwt, 2003) fixed delivery EC South America for a trip redelivery Lebanon at $13,000, *Florentia* (63,340-dwt, 2016) fixed delivery USG for a trip redelivery Black Sea at $15,000. In the Indian ocean, Norvic fixed *Asia Emerald* (58,018-dwt, 2011) delivery Damman for a trip to East Coast India at $11,000. *Heilan Equilibrium* (56,815-dwt, 2011) fixed delivery Kuwait for a trip via Arabian Gulf redelivery Singapore-Japan range at $9,500 . In the Pacific, China Navigation fixed *Ante Topic* (60,155-dwt, 2017) delivery Kohsichang for a trip via West Coast Australia redelivery China at $9,000. BG Shipping fixed *Fareast Honesty* (56,841-dwt, 2012) delivery Singapore for a trip via Indonesia redelivery Vietnam at $6,500.

It was much the same as last week on the ***handies*** which closed the week at $6,430 compared to last weeks $6,983. The market in the Pacific remained uninspiring and moved sideways while the Atlantic was mostly in the red with big drops in the US Gulf. In the North China Navigation fixed *CH Clare* (33,144-dwt, 2010) delivery Ulsan for a trip to Singapore with cement at $7,750 and *Four Otello* (34,357-dwt, 2010) was fixed for backhaul ex CJK with redelivery Israel at low 4's. There was a rumour that a 37k fixed $8k basis Busan for a NoPac round voyage. There was little reported activity in South East Asia, with levels discussed for local trips in the 7's. On the period side of things we heard that a 34k logger fixed around 9k for a couple of legs in South East Asia. In the Atlantic, *Kite Bay* (38,330-dwt, 2016) fixed a solid $11,850 for a scrap ex Denmark to East Med. In the US Gulf, many owners were facing a completely different picture than 2 weeks ago, and East Coast South America also began to soften with less activity than last few weeks. We heard a large handy fixing at $8k from the US Gulf to the Continent while inter-US Gulf was being fixed in the $5k region. Rates in the Mediterranean and Black Sea stayed low. We heard a rumour of a 28k dwt fix $4k from East Mediterranean to East Coast South America, and a 34 fixe $3,500 from East Mediterranean to the Continent.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Aquasurfer	178,854	2013	Kwangyang	PPT	South Korea	6,800	KSC	Via Western Canada
Skythia	177,830	2010	Wakayama	25 Mar	Singapore-Japan	5,000	Jiangsu Steamship	Via E Australia
BW Barley	83,369	2010	EC South America	5 Apr	Gibraltar-Skaw	18,750	Glencore	
Kelly	81,247	2017	Wakayama	27/30 Mar	Japan	10,200	CNR	
Anais	76,015	2002	Santos	17/18 Apr	Singapore-Japan	14,500	Louis Dreyfus	Plus 450,000 bb
CP Guangzhou	63,527	2015	Makassar	3 Apr	South Korea	11,750	CNR	Via Indonesia
SBI Tango	61,286	2015	Durban	3/5 Apr	China	12,400	Ultrabulk	Plus 240,000 bb
Unity Discovery	60,629	2017	US Gulf	PPT	Morocco	16,000	Weco	
Nordorinoco	38,040	2015	Iskenderun	PPT	Argentina	6,300	European Charterer	Via Mediterranean
Hanze Gdansk	34,735	2013	Santos	PPT	Kaliningrad	14,000	Canfornav	Via Up River



Exchange Rates	This Week	Last week
JPY/USD	111.71	110.73
USD/EUR	1.1214	1.1231

Brent Oil Price	This Week	Last week
US$/barrel	70.30	68.44

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	434.0	425.0
MDO	607.0	600.0
Rotterdam IFO	418.0	407.0
MDO	586.0	575.0

Dry Bulk S&P

This weeks sales highlight where the pockets of opportunity lurk in the dry second hand market. The recent flow in older panamax sales has clearly defined prices in this sector and highlights their current value when compared to similar aged handysize & supramaxs. Chinese built supramax values are coming under increased pressure. A cocktail of bank driven sales and a plethora of candidates is allowing buyers to test the resolve of sellers. An April squall of larger dwt, non Japanese, handysizes sales has swept through the market this week. Its worth noting that the candidates reported have been languishing in the market for some time. For reasons explained in our Points Of View on page one, the capsize sector still remains bereft of activity.

Transocean continue to sell out their older panamaxes. *Ascanius* (76,878-dwt, 2004 Oshima) has reportedly been sold to undisclosed buyers for $8.7m. Reportedly fixed and failed in February for $9.5m, *Osmarine* (76,596-dwt, 2006 Imabari) has been tied up again to unknown interest at a reduced price in low $9'sm.

Viola (58,729-dwt, 2008 Tsuneishi Cebu) has reportedly been sold to clients of Belships for $13m in a part share, part cash deal. In a more market representative deal, the d'Amico owned *Medi Lisbon* (58,710-dwt, 2006 Tsuneishi Cebu) has reportedly found a new stable with Indonesians buyers for $10.75m. The sale is very much in line with the one year younger sister vessel, *Nord Express* (58,785-dwt, 2007 Tsuneishi Cebu) sold a couple of weeks ago for $11.7m. The bank controlled, Tier I, *Naess Resolute* (56,815-dwt, 2012 Taizhou Sanfu) has reportedly been sold to undisclosed Turkish buyers for regions $11m. A discount when compared to the 2009 Hantong, *Moonray* (57,000-dwt), sold last week for $10m. Clients of Gourdomichalis have reportedly sold *Defiant* (52,478-dwt, 2001 Shin Kurushima) to undisclosed buyers for $6.2m.

Bocimar have finally excepted what the market is willing to pay for their three Chinese built handysizes. *CMB Giulia* (33,500-dwt, 2012 Zhejiang Jingang), *CMB Catrine* (32,618-dwt, 2012 Jiangsi Zhenjiang) & *CMB Adrien* (32,663-dwt, 2011 Jiangsu Zhenjiang) have reportedly been sold to Greek buyers for $27m enbloc. Its emerged Norden have reportedly sold another of their Hyundai Vinashin units, *Nord Rotterdam* (36,599-dwt, 2011) for $11.5m to undisclosed Greeks. *IVS Kawana* (32,642-dwt, 2005 Kanda) has reportedly been sold to undisclosed buyers for $7.8m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Ascanius	76,878	2004	Oshima	-	undisclosed	8.7	
Osmarine	76,596	2006	Imabari	-	undisclosed	9.2	
Viola	58,729	2008	Tsuneishi Cebu	C 4x30T	Belships	13	50%cash 50%shares deal
Medi Lisbon	58,710	2006	Tsuneishi Cebu	C 4x30T	Indonesians	10.75	
Naess Resolute	56,815	2012	Taizhou Sanfu	C 4x30T	Turkish	10.3	Tier I
Defiant	52,478	2001	Shin Kurushima	C 4x31T	undisclosed	6.2	
Scarlett	46,750	1998	Sanoyas Hishino Meisho	C 4x30T	undisclosed	4.8	
Armata	43,769	1996	Daewoo HI - Geoje	C 4x30T	Chinese	4.4	
Nord Rotterdam	36,599	2011	Hyundai-vin	C 4x30	Greeks	11.5	
CMB Giulia	33,500	2012	Zhejiang Jingang	C 4x30T	Greeks	Enbloc regions 27	
CMB Adrien	32,663	2011	Jiangsu Zhenjiang				
CMB Catrine	32,618	2012					
IVS Kawana	32,642	2005	Kanda Zosensho	C 4x31T	undisclosed	7.8	
Hai Yu	27,760	1996	Shin Kurushima	C 4x31T	Vietnamese	3.2	ss/dd due promptly

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Silver Geneva	170,974	1999	Ishikawajima-Harima HI	Bulk	20,057	470	Bangladesh
SKS Tanaro	109,786	1999	Hyundai - Ulsan	Comb	18,400	434	India
IG 2	25,440	2000	Hudong Shipbuilding	Cont	8,764	442	Bangladesh
Bright World	19,299	1997	Juliana Const. Gijonesa	Tank	6,380	863 enbloc	India
Bold World	19,125	1998	Naval Gijon S.A.		6,569		
Gaz Palmyra	9,996	1984	T. Ruiz de Velasco S.A.	Gas	5,554	430	'As is' Khor Fakkan
KS Hermes 3	5,517	1993	Imabari	RoRo	5,462	477	Bangladesh
Elise	3,075	2007	Usta Mehmetoglu Ters.	Gen	20,000	460	'As is' China

Tanker Commentary

Turnover of VLCC's continues with another two changing hands this week; bringing VLCC sales for the year to date up to seven, including five in the past month. At this stage last year only one VL had been sold for further trading.

The youngest VL to change hands is *Tamagawa* (314,237-dwt, 2007 Kawasaki), which we gather has been committed now gather is sold for $36m to Zodiac. She had previously been committed just shy of $39m to a US based fund who failed to lift their subjects. *S-Glory* (318,658-dwt, 2004 HHI) is reported committed to Smart Tankers for $30.5m, in line with the sale of *Sea Lynx* (318,306-dwt, 2004 HHI) for $31m a month ago.

In the product sector the dirty trading *Ariake Maru* (45,920-dwt, 2008 Shin Kurushima) has been committed to Greek interests for just under $14m. The price seems soft, however given she has been trading dirty since delivery, is surveys due and the Sellers needed a Buyer who could take prompt delivery there are numerous mitigating factors.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
S Glory	318,658	2004	Hyundai HI- Ulsan	Smart Tankers Inc	30.5	
Tamagawa	314,237	2007	Kawasaki -Sakaide	Zodiac Maritime	36	
Ariake Maru	45,920	2008	Shin Kurushima - Onishi	AVIN	13.85	Trading DPP
SC Shenzhen	19,477	1999	Shin Kurushima -Akitsu	undisclosed	6.5	Stainless steel

Should you have any queries about the content of this report or require any services of Hartland Shipping Services, please contact:

Hartland Shipping Services Ltd, London
Tel: +44 20 3077 1600
Fax: +44 20 7240 9603
Email: chartuk@hartlandshipping.com
Email: snpuk@hartlandshipping.com
Email: consult@hartlandshipping.com

Hartland Shipping Services Ltd, Shanghai
Tel: +86 212 028 0618
Fax: +86 215 012 0694
Email: snpcn@hartlandshipping.com

Hartland Shipping Services Pte. Ltd, Singapore
Tel: +65 6702 0400
Email: projects.sg@hartlandshipping.com