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THE BIGGER PICTURE

... Financial assets overvalued?
Shipping assets undervalued? ...



Source: The FT

POINTS OF VIEW

Bulk carriers and containerships limbered up in 2017 as rising earnings and higher asset values revealed great potential. Tankers arrested the sharp correction in values of 2016 by the end of first quarter 2017 as canny opportunists stepped in, but oversupply and policy-affected demand played havoc with earnings. One thing is apparent, the worst is past in all three main shipping sectors and it is not too late to invest for future gains. It is hard to argue that one might have 'missed the boat' when earnings and values are recovering from such a low base. Global stock markets have stormed upwards in early 2018, after prolific gains in 2017[^], begging the question of whether this is a melt-up, a final bull market surge as the last bears capitulate just ahead of a market correction. Compared to equities, bonds and property shipping looks distinctly undervalued.

Tanker values turned a corner in first half 2017 after buyers perceived that values had fallen far enough. According to the BSPAs* the value gains were modest, but at least they are moving back up. A 305,000-dwt VLCC improved 3.2% in the year^{^^} rising from \$59.4m to \$61.3m, a 105,000-dwt crude aframax gained 3.5% from \$28.4m to \$29.4m and a 51,000-dwt MR rose 13.0% from \$20.8m to \$23.5m. This turnaround was based more on bargain hunting in the context of low historical values than on the performance of a tanker freight market that remained choppy and largely disappointing. The VLCC-TCE trended down all year, despite occasional upward blips, starting at \$38,132 on 03 January and finishing 92% lower at \$3,068 daily on 22 December, giving an average of \$10,239 per day for calendar 2017. Over the same period, the Suezmax-TCE also trended lower starting at \$29,321 and ending 60% down at \$11,857 daily returning an annual average of \$12,397 per day. The Aframax-TCE followed this slippery trend despite enjoying a strong autumn. It started 2017 on \$18,124 and ended 62% lower on \$6,855 daily, with an annual average of \$8,975 per day. On the clean side MRs suffered high volatility but did better on a dollar per tonne basis than the larger crude tankers. The MR Atlantic Basket opened 2017 on \$18,135 and closed the year 27% lower on \$13,168 daily. The average for the whole year was \$10,554 per day which at least kept earnings in five figures and outperformed both VLCCs and aframax tankers.

In 2017, tanker earnings trended lower as they came off the highs of 2015 whereas, in stark contrast, bulker earnings trended higher as they recovered from the lows of 2015. The BSPAs show that a 180,000-dwt capesize moved up 46.4% in value during 2017^{^^} rising from \$22.4m to \$32.8m, a 74,000-dwt panamax gained 48.6% rising from \$13.8m to \$20.5m while a 58,000-dwt supramax put on 26.3% in moving up from \$13.7m to \$17.3m. These are already sizeable moves, but from a very low base. We foresee that there is ample headroom for further value gains over 2018 and 2019 when net new tonnage supply is forecast to be modest. Should demand growth continue on its steady upward trend then this will create the perfect environment for higher earnings and firmer values. Better earnings drove asset values higher with the BCI-5TC firming from \$11,277 on 03 January to \$19,341 daily on 22 December, a 72% gain at an undemanding annual average of \$15,129 per day. The BPI-TCA went from \$6,492 to \$11,183 over the same period, a 72% gain at an annual average of \$9,766 per day. The BSI58-TCA rose from \$8,206 to \$10,478 returning a 28% gain and an annual average of \$9,345 daily while the BHSI-TCA went from \$7,972 to \$9,104 providing a 14% uplift and a \$7,636 per day annual average. None of these averages look at all hard to beat in 2018.

Container earnings also turned a corner in 2017 with the nominal 3-year time charter rate for a geared 1,700-teu vessel rising over 23% from \$7,500 in January to \$9,250 daily in December. Over the same period the 3-year rate for a geared 2,500-teu vessel rose 40% from \$8,000 to \$11,200 daily. The nominal value of a 5-year old 1,700-teu geared unit rose over 41% from \$8.5m in January to \$12.0m in December while, over the same period, a 5-year old geared 2,500-teu unit rose 37.5% from \$10.0m to \$13.75m. In the larger deep-sea sizes there were similar chunky gains. The 3-year rate for a gearless 6,800-teu intermediate vessel climbed 37.5% from \$12,000 in January to \$16,500 daily in December and, over the same period, the 3-year rate for a 9,000-teu neo-panamax gained over 30% from \$23,000 to \$30,000 per day. The impact on modern values was spectacular as the nominal price of a 5-year old 6,800-teu unit went up 50% from \$16.0m in January to \$24.0m in December and, over the same timeframe, a 5-year old 9,000-teu neo-panamax surged 77% from \$26.0m to \$46.0m. These are impressive gains but we are still well below the earnings and values of years gone by.* Happy days!

[^]FTSE All World Index up 22% in 2017 and 2% in the first week of 2018.

*Baltic Exchange Sale and Purchase Assessments for 5-year old ships.

^{^^}From 03 January to 18 December.

**To give just one example, today's \$24.0m value for a 6,800-teu intermediate vessel is 77.5% below its 2008 peak of \$106.5m.



Dry Cargo Chartering

The BDI has dropped 29 points since we last reported before Christmas to finish the week at 1371.

A volatile week for the **Capes** falling by over \$4,000 in one day at the beginning of the week. Despite this the timecharter average ended the week at \$20,179 which was above levels seen in the run up to Christmas. In the Atlantic, K-Line took *Berge Ishizuchi* (181,458-dwt, 2011) delivery Cape Passero for trip via Ponta Da Madeira to Dunkirk at \$28,000 and Cargill took *Polymnia* (175,800-dwt, 2011) for a transatlantic round delivery Ijmuiden redelivery Skaw/Cape Passero at \$25,000. On the front-haul Panocean fixed *Anangle Unity* (179,818-dwt, 2015) delivery Rotterdam for a trip to South Korea via US East Coast at \$32,000. Little timecharter activity was reported on the Capes in the Pacific this week, however we saw a fair few period fixtures, including Louis Dreyfus taking *Dong-A Oknos* (179,329-dwt, 2010) delivery Singapore for 11/13 months with world wide redelivery at \$16,500 plus \$330,000 bb and Cargill took *Anangle Transporter* (179,719-dwt, 2010) with delivery East Coast India for about 12 months trading at \$20,000 with world wide redelivery.

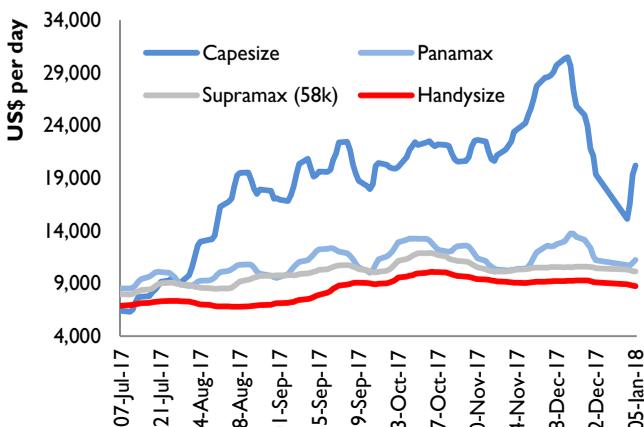
The **panamax** market has risen by \$40 since the last report on December the 22nd (\$11,183) to end the week on \$11,223. However comparing this to January of 2017 when the market opened up at \$6,826 a huge improvement is noted. In the Atlantic, Cargill took the *ABY Asia* (81,944-dwt, 2017) delivery retro Algeciras via US East Coast redelivery Continent at \$13,000. Cofco took the *Falkonera* (81,800-dwt, 2012) for a trip East Coast South America redelivery Skaw-Gibraltar at \$15,500 plus \$150,000 bb. Looking at fronthaul, Norden fixed the *Hua Sheng Hai* (81,233-dwt, 2017) delivery New Orleans, redelivery Singapore-Japan at \$15,000 plus \$650,000 bb. ADMI took the Shandong *Hong Tu* (76,116-dwt, 2012) delivery East Coast South America redelivery Singapore-Japan at \$14,650 plus \$465,000 bb.

On the Pacific side of things, Hyundai Glovis took the *Rosco Poplar* (82,331-dwt, 2008) delivery Tachibana for 2 laden legs redelivery Singapore-Japan at \$10,750. The *Ocean Opal* (81,166-dwt, 2012) delivery Muara Pantai redelivery India fetched \$10,000 plus \$90,000 bb from Athena Shipping. On the period, continuing on from last years trend Phaethon took another vessel, the *Panasiatic* (82,962-dwt, 2005) delivery South Korea for 4/7 months at \$12,250 redelivery world wide.

Moving forward from the holiday season, the **Supramax** market started to warm up and closed the week at \$10,108, a touch down from the last reported of \$10,478 on 22nd Dec 2017. On the other hand, the **Handy** market remained silent, finishing the week at \$8,704, down from last report of \$9,104. In the Pacific, the order list is lengthened by Indonesian coals and Far East slags. The *Great Progress* (63,777-dwt, 2015) fixed delivery Kongsichang for a trip via Indonesia redelivery China at \$9,500 daily and the *Helene Selmer* (55,741-dwt, 2005) fixed delivery Sihanoukville for a prompt trip via Indonesia redelivery Hong Kong at \$7,250. The *Bulk Honduras* (57,959-dwt, 2012) was fixed delivery Yokohama for a spot trip via NoPac redelivery South Japan at \$9,000. In the Atlantic, Cargill took the *Spar Aries* (63,800-dwt, 2015) delivery Gibraltar trip via Jorf Lasfar redelivery US Gulf at \$7,500. On the front haul, the *Albion* (58,732-dwt, 2008) was taken by Glencore delivery Gibraltar for a prompt trip via US Gulf to China at \$14,750. Norden fixed the *Skua* (53,350-dwt, 2003) delivery Owendo for a prompt trip redelivery China with bulk minerals \$15,750. On the back haul, Hyundai Glovis took the *Ocean Bao* (63,700-dwt, 2017) delivery CJK trip redelivery Mediterranean at \$4,150. On the period, Cronus Maritime fixed the *Carmencita* (58,770-dwt, 2009) delivery CJK for 3-5 months trading redelivery worldwide at \$9,500.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
Anangel Unity	179,818	2015	Rotterdam	10/12 Jan	South Korea	32,000	Panocean	Via USEC
Chou Shan	175,569	2005	Retro Jintang	27 Dec	South China	10,000	Chinese charterer	Via EC Australia
Falkonera	81,800	2012	EC South America	14/16 Jan	Skaw-Gibraltar	15,500	Cofco	\$150,000 bb
Star Charis	81,710	2013	Fangcheng	30 Dec	Philippines	10,250	CNR	Via Indonesia
Hua Sheng Hai	81,233	2017	New Orleans	15 Jan	Singapore-Japan	15,000	Norden	\$650,000 bb
Spar Aries	63,800	2015	Gibraltar	07/08 Jan	US Gulf	7,500	Cargill	Via Jorf Lasfar
Ocean Bao	63,700	2017	CJK	02 Jan	Mediterranean	4,150	Hyundai Glovis	
Northern Light	63,242	2015	Durban	15/17 Jan	Sri Lanka	12,000	PCL	Via Richards Bay \$225,000 bb
Singapore Bulker	56,718	2012	CJK	03/04 Jan	Vietnam	6,500	CNR	Via Indonesia
Venture Luck	43,413	2015	Calcutta, India	03/06 Jan	PG	10,500	CNR	Via EC India



Exchange Rates	This Week	15 th Dec 17
JPY/USD	113.14	113.21
USD/EUR	1.2035	1.1764

Brent Oil Price	This Week	15 th Dec 17
US\$/barrel	67.36	63.02

Bunker Prices (\$/tonne)	This week	15 th Dec 17
Singapore IFO	390.0	367.0
MDO	595.0	554.0
Rotterdam IFO	366.0	335.0
MDO	587.0	539.0



Dry Bulk S&P

The physical market has fluctuated widely this week as the industry settles down to the new year ahead, with the majority of volatility seen in the cape sector. Despite the volatility, there is no sign of any new year wobble in the sale and purchase market with a decent number of sales to report this week, the majority of which at levels above last done. Compared to recent years, dry fundamentals for 2018 paint a more favourable picture, and with numerous sales candidates still available in the majority of sectors, there are plenty of opportunities for buyers looking to start the year positively before any potentially escalation in values post CNY.

The supramax *Rose Balsam* (55,616-dwt, 2011 Mitsui) is rumoured to have been sold in region of \$16.2m to undisclosed Greek interest, the deal was concluded off market over the turn of the year. The year younger *Canary K* (58,223-dwt, 2012 Shin Kurushima) was the last comparable benchmark at \$16.7m and taking into account the larger dwt and age difference, *Rose Balsam* illustrates a firming in prices. In addition, *DN Vatan* and *DN Millet* (58,419/58,444-dwt, 2011 SPP) are rumoured sold for \$29.8m enbloc to clients of Newport Shipping. *Queen P* (51,241-dwt 2009 Imabari) was reported sold over Christmas for circa \$12.5m, also a step up from the last done similar aged boxed hold supramax, *Global*

Vanguard (52,223-dwt, 2008 Oshima) sold in November 2017 for \$11.4m.

Chinese buyers continue to snap older panamaxes, *Topeka* (74,716-dwt, Hudong) has been sold east for \$9m. An increase in price for this vintage, the last unit rumoured sold being the *Rosalia D'amato* (74,716-dwt, 2001 Hudong) for \$8.2m.

In other sectors, Samos Steamship are rumoured to have sold the capesize *Kerkis* (177,489-dwt, 2006 Mitsui) for \$22m to Korean buyers H-Line. Having bought the vessel at the start of 2016 for \$11.8m it would represent a profitable return if confirmed. Another off market deal rumoured to have been concluded over the holiday is the handy *Blue Ocean* (31,734-dwt, 2005 Saiki) to undisclosed Turkish buyers for a firm \$9m. Handysize values have picked up over the last few weeks, the *Blue Ocean* sale supports the improved price of \$10.2m reported to have been achieved on the *Anney* (31,931-dwt, 2007 Hakodate) at the end of December which was a further step up from the *Atlantic Treasure* (33,401-dwt, 2008 Shin Kochi) sold in November 2017 for a similar price of \$10.3m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$m	Comment
Kerkis	177,489	2006	Mitsui	-	H-Line	22	
Topeka	74,716	2000	Hudong	-	Chinese	9	
DN Vatan	58,419	2011	SPP	C 4x36	Newport	29.8	Enbloc sale
DN Millet							
Rose Balsam	55,616	2011	Mitsui Tamano	C 4x30	Greeks	16.2	
Marine Stars	53,565	2006	Yangzhou Day	C 4x35	Chinese	8.4	
Queen P	51,241	2009	Imabari	C 4x30.5	Chinese	12.5	
Blue Ocean	31,734	2005	Saiki	C 4x30	Turkish	9	

Demolition Sales

Vessel	DWT	Built	Yard	Type	Buyer	Price (\$/LDT)
Plata Glory	300,133	1999	Hitachi Zosen	TANK	As is Singapore	438
Moscow Stars	106,450	1999	NKK	TANK	Undisclosed	415
Alfa Britannia	99,222	1998	Daewoo	TANK	Undisclosed	Undisclosed
Skarpov	55,173	1979	Wartsila	GAS	India	Undisclosed



Tanker Commentary

In contrast to the dry cargo report this week, tanker sales are few and far between. This can not be attributed to a lack of enquiry in the market but more down to a lack of willing sellers – particularly of more modern tonnage. Interest is swelling with many buyers perceiving that values have reached the bottom and whilst earnings are nothing to get excited about, asset appreciation is a distinct possibility, as we started to see towards the end of 2017. Interest is ramping up in the products market as expectations for improved earnings grow. There are a number of high profile owners now seeking to expand in the sector, but with modern ships as scarce as ever, buyers have so far been left empty handed.

Over the festive period we only have one sale to report. Japanese owners concluded a deal on their *Advance Victoria* (74,995-dwt, 2006 Minaminippon) for a reported price of \$13.5m. Even when one considers that the ship has no heating coils, the price appears staggeringly low in comparison to the year younger (coiled) sister *Fortune Victoria* sold for \$17m in May '17.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
Advance Victoria	74,995	2006	Minaminippon	Undisclosed	13.5	Uncoiled

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate (\$/pm)	Charterer
Posillipo	53,116	2010	Guangzhou	2 years	14,000	Trafigura
Cenito		2009				
Kriti Amber	50,400	2005	SLS	6 months	12,750	ST Shipping

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