06 July 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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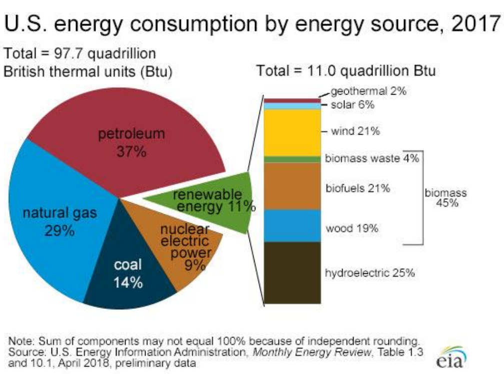
THE BIGGER PICTURE

… United States of America :
At 4% of world population it consumes 18% of world energy output…



Source: EIA

*Tier III standards apply to ships whose keels were laid on or after 1st January 2016 and require a 75% reduction in NOx emissions over TII.

^It may be possible to comply with TII standards on a non age specific basis, for example, by modifying the engine in some way.

**A silver lining for the bulk carrier supply side??

POINTS OF VIEW

The US population is currently just under 327 million which is 4.3% of the world total of 7.63 billion. Energy Information Administration (EIA) latest available figures indicate that in 2015 US primary energy consumption was 97 quadrillion British thermal units (Btu) out of a world primary energy consumption total of 542-qBtu. So, with a little over 4% of global population the US consumes 18% of world energy. On the face of it, this seems a little greedy and selfish? However, US primary energy consumption peaked at 101-qBtu in 2007 and has since been trending down. In 2017 it was at 97.7-qBtu broken down as follows: 37% petroleum, 29% natgas, 14% coal, 11% renewables and 9% nuclear. President Obama was in favour of environmental protection so he declined to approve the Keystone XL pipeline extension but he did permit the export of US crude oil, keen as he was to get rid of the dirty stuff. It was left to President Trump to approve the Keystone XL and Dakota Access pipelines, thus enabling North American crude oil exports and challenging Opec's domination of crude oil exports and crude oil pricing. Trump firmly believes that eight years of Obama's environmental protection held America back economically, so he has pulled out of the Paris climate accord, is bringing back coal mining and oil drilling and he is approving new oil and gas infrastructure. This is a short-term pro-growth policy that dovetails neatly with tax cuts, increased spending and resolute trade initiatives that are designed to "Make America Great Again".

What is interesting is that the US is vacating the moral high ground on environmental protection just as another big polluter, China, is moving in. There is a fair mix of necessity and political expedience involved in both decisions. For its part, China needs to tackle airborne, waterborne and land-based pollution as a matter of urgency. China has been culling excess industrial capacity and supporting gas over coal as it strives to reduce smog in its major cities. This week China's Maritime Safety Administration and Ministry of Transport announced new regulations on SOx and NOx that endorse IMO rules. First, the MSA declared that low sulphur fuel (max 0.5%) must be used in Chinese territorial waters from 1st January 2019, one year ahead of the IMO's global implementation of such a rule. Second, the MoT mandated that all imported ships and Chinese flagged ships operating in domestic trades must be IMO Tier II compliant by 1st September 2018, so in less than 60 days from now. Tier II standards* were adopted for all ships whose keels were laid on or after 1st January 2011. Effectively, this reduces the permitted age of such imported ships to 7 years^ from 12 for tankers, 18 for bulkers and 20 for containers. The policy will apply for 5 years to 1st September 2023 by which time the age cap will have stretched to 12 years from 7. This draconian measure makes China appear environmentally friendly just as the US is becoming the opposite. It also has implications for imported bulk carriers for the Chinese coastal coal trades.

Chinese buyers have provided huge price support to handymax bulk carriers in the 15-18 year old age range which are typically most appropriate for the coastal coal trade. Now these buyers face the extra capital cost of buying a 7-year old ship over an 18-year old ship, the latter being much better suited to domestic trading. Our price benchmarks would indicate that an 18-year old Japanese-built handymax bulker would cost around $8 million today while a 7-year old Japanese-built supramax would cost around $16.5m, more than double. Such a high capital cost ship will not be able to make economic sense of Chinese coastal coal freights, begging the question of how the market will supply suitable ships for this trade over the next five years. In theory, the cost of domestic seaborne coal transport will rise to meet the higher capital costs, sending coal shippers scrambling to fix the older ships at lower freight rates. Again, in theory, the price of 15-18 year old ships will fall and the price of 5-8 year old ships will rise. Strong Chinese buying interest in older ships has bid up values, providing headroom for scrap prices to firm up, as demolition buyers have had to pay up to compete with trading buyers. So, does this mean that scrap prices will fall across the board? The nominal value of a 2018-built Japanese 61,000-dwt bulk carrier is $28.5m, while a 2013-built Japanese 56,000-dwt unit is $18.0m and a 2008-built Japanese 56,000-dwt unit is $14.5m. This gives us a high 8.8% annual depreciation rate over the first 5 years of life falling to a low 4.2% annual depreciation rate from age 6 to age 10. This curious disparity in depreciation rates may flatten out but as long as new ships fall in value by almost 9% a year in their first five years then modern secondhand may continue to be preferred over newbuildings**.

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Dry Cargo Chartering

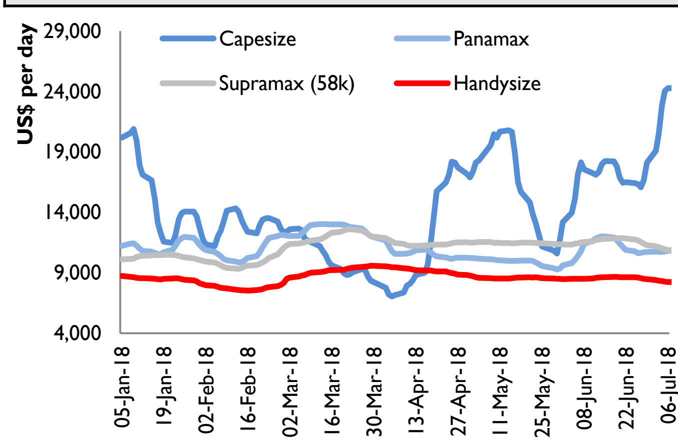
The **BDI** closed the week at 1622, up from last weeks close 1,437. The increase was driven by a productive cape market which closed the week at $24,273, up from last weeks close of $18,110. In the Atlantic, K-Line fixed the *Cape Alexandros* (179,166-dwt, 2010) delivery Cape Passero via Nouadhibou, redelivery Cape Passero at $21,400 with an option for Gibraltar at $24,500. Cargill fixed the *Besiktas Azerbaijan* (169,263-dwt, 2010) delivery Gibraltar for a trip via Colombia, redelivery Skaw-Passero at an impressive $29,500. In the Pacific, the *Baltic Lion* (179,185-dwt, 2012) fixed delivery Jintang for a trip via west Australia, redelivery Singapore-Japan at $19,100. On voyage, BHP Billiton fixed the Port Hedland/Qingdao run at around $8.00 bss for 170,000/10 ore, with these runs slowly increasing to the low-mid $8 mark as the week went on.

The **panamax** market concluded the week at $10,821, slightly up from last week's close of $10,738. In the Atlantic, Bunge took the *Yasa H. Mulla* (83,482-dwt, 2011) delivery US Gulf for a trip redelivery Skaw-Cape Passero at $13,250 with $325,000 bb and Norvic fixed the *Ionic Kibou* (81,889-dwt, 2015) delivery Dunkirk for a trip via USEC redelivery UK/Continent at $11,750. The *Key Pacifico* (81,812-dwt, 2015) delivery East Coast South America fixed to Cargill for a trip redelivery Skaw-Cape Passero at $19,250. In the Pacific, the *Tai Keystone* (84,703-dwt, 2017) was taken by Daiichi delivery Tonda for a trip via Brisbane redelivery Japan with coal at $14,250. Louis Dreyfus fixed the *Ever Grand* (81,688-dwt, 2013) delivery Muroran for a trip via NoPac redelivery Singapore-Japan at $12,250. On the front haul, CJ International fixed the *Yangtze Xing Hua* (81,678-dwt, 2012) delivery East Coast South America for a trip redelivery Singapore-Japan at $15,600 plus $560,000 bb and Glencore fixed the *Far Eastern Jupiter* (82,655-dwt, 2007) delivery North Brazil for a trip redelivery Singapore-Japan at $15,000 with $550,000 bb. The *Stahla* (76,059-dwt, 2012) delivery Fujairah fixed a trip via Black Sea redelivery Singapore-Japan at $12,000. On the period, Cargill took the *Polymnia* (98,704-dwt, 2012) delivery Qingdao for 14-17 months redelivery worldwide at $16,000.

Both the supramax and handysize markets continued their slow declines with rates softening in both basins. The **supramax** index closed the week at $10,892, down from last weeks close of $11,288. The **handy** index closed at $8,238, also down from last weeks close of $8,476. In the Atlantic, Norvic fixed the *Port Dalian* (56,700-dwt, 2012) delivery US Gulf redelivery Turkey with grains at $13,800. The *Ioanna D* (35,000-dwt, 2012) fixed US Gulf to the Mediterranean with scrap at $9,750. *Orhan* (35,138-dwt, 2013) fixed $11,000 for wood pellets ex US East Coast to the Continent. In the Mediterranean, TKB fixed the *Roztocze* (38,056-dwt, 2008) delivery Canakkale for a trip redelivery Adriatic at $8,000. It was all red in the Pacific with rates falling. In the Pacific, Tongli fixed the *Kavo Aetos* (52,384-dwt, 2003) delivery Yangon via Indonesia, redelivery China at $8,750. Transcend fixed the *Great Ocean* (35,296-dwt, 2011) delivery Kohsicahng for a trip to West Coast India with logs at $8,000. On period, Oldendorff fixed the Asia *Ruby IV* (62,982-dwt, 2014) delivery Manila for 4/6 months trading redelivery worldwide at $12,200.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Herodotus	176,000	2012	CJK	PPT	Singapore-Japan	18,500	KSC	Via West Australia
Besiktas Azerbaijan	169,263	2010	Gibraltar	13 Jul	Skaw-Cape Passero	29,500	Cargill	Via Colombia
Tai Keystone	84,703	2017	Tonda	08/11 Jul	Japan	14,250	Daiichi	Via Brisbane
Yangtze Xing Hua	81,678	2012	EC South America	10 Jul	Singapore-Japan	15,600	CJ International	$560,000 bb
Betis	79,607	2010	Kunsan	07/08 Jul	Singapore-Japan	9,150	United	Via NoPac
TR Niklas	63,800	2014	Matarani	PPT	Continent	11,000	CNR	
Densa Panther	57,631	2011	Singapore	PPT	India	12,000	CNR	Via Indonesia
Port Dalian	56,700	2012	US Gulf	PPT	Turkey	13,800	Norvic	
Great Ocean	35,296	2011	Koh Sichang	04/07 Jul	WC India	8,000	Transcen	Via Malaysia
Ioanna D	35,000	2012	US Gulf	PPT	Mediterranean	9,750	Hyundai Glovis	



Exchange Rates	This Week	Last week
JPY/USD	110.61	110.84
USD/EUR	1.1713	1.1667

Brent Oil Price	This Week	Last week
US$/barrel	76.51	79.42

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	467.0	470.0
MDO	662.0	655.0
Rotterdam IFO	441.0	443.0
MDO	640.0	643.0

Dry Bulk S&P

The headline news in the second hand market this week has been covered in Points of View on the first page. It will be very interesting to see how China's new regulation impacts values in the vintage Handymax, Supramax and Panamax sectors, and if there are any other further trading buyers out there to replace the Chinese from the 1st of September onwards. In the wider market their seems to be a growing sense of activity, with numerous negotiations currently ongoing, we expect to have a healthier number of sales to report next week, as this weeks offerings do not show any significant activity or movement in values.

Owners NS United have sold their *NSS Fortune* (184,872-dwt, 2003 Mitsui) to undisclosed Greek interest for regions $15.5m. One has to go back to the start of the year to find the last similar unit sold: *Silver Road* (185,820-dwt, 2002 Kawasaki) sold to Times Naviation for regions $15m. The price achieved by the NSS Fortune coupled with the current health of the cape period market, reflects well on the undisclosed Greek buyer.

F.D *Vittorios Raiola* (76.619-dwt, 2010 Shin Kasado) has reportedly been sold to clients of Soloi for $17.5m. In line with similar units recently sold.

Chinese buyers have reportedly purchased *Kavo Aetos* (52,384-dwt, 2003 Tsuneishi Cebu) for $9.45m, and the handysize *Oriente Shine* (31,820-dwt, 2001 Hakodate) for $7.2m. Given looming regulation change these buyers will be looking to take delivery as soon as possible.

Genco Progress and *Genco Explorer* (29,952-dwt, 1999 Oshima) have been rumoured sold a number of times since they were first put on the market earlier in the year. We understand an undisclosed buyer has now been found, picking up the vessels for $5.6m each. A good price for the sellers, considering the year younger *Molat* (28,355-dwt, 2000 Tess Cebu) was reported sold to Vietnamese a couple of weeks ago for $5.5m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
NSS Fortune	184,872	2003	Mitsui Chiba	-	Undisclosed	15.5	
Toro	76,636	2008	Imabari	-	Undisclosed	xs 15	
F.D. Vittorio Raiola	76,619	2010	Shin Kasado	-	Soloi	17.5	
Kavo Aetos	52,384	2003	Tsuneishi Cebu	C 4x30	Chinese	9.45	
Oriente Shine	31,820	2001	Hakodate Dock	C 4x30	Chinese	7.2	
Genco Progress Genco Explorer	29,952	1999	Oshima	C 4x30	Undisclosed	5.6 (each)	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price	Delivery
Ore Vitoria	233,016	1989	NKK Corp	BULK		440	Bangladesh
CAP Romuald	146,639	1998	Samsung	TANK	24,914	438	'As is' Singapore

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Tanker Commentary

Stagnant tanker earnings which seldom offer owners breakeven returns are dissuading potential buyers from moving as we enter the peak summer months. With the exception of the well publicised Toisa fleet sale, crude sales activity in particular has been limited with the majority of the transactions that have been concluded falling in the product space both on newbuildings and secondhand..

The Japanese controlled Onomichi type MR *Axel* (49,997-dwt, 2010 Onomichi) is reported to have been committed in the high $15m. It is worth noting the last done of this vintage was the *Nord Intelligence* (47,975-dwt, 2010 Iwagi Zosen) in May for a reported $16.5m illustrating the continued pressure on the values of these pumproom types. Offers were also invited last week on another Onomichi type *Freja Baltic* (47,548-dwt, 2008 Onomichi) with Buyers failing to reach owners expectations of $14m and the vessel was subsequently withdrawn having only seen $13.5m. However it is worth noting the vessel had special survey and BWTS due by the end of 2018.

Elsewhere in the handy market, Norden have obtained a very firm price for the MR1 – *Nord Farer* (40,083-dwt, 2005 Shina). Nigerian buyers are understood to have paid $11.5m underlining the perceived value in the shallow draft, larger cubic handy tanker design versus the smaller 37k dwt designs which continue to be sold at vastly discounted rates.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Axel	49,997	2010	Onomichi	Greeks	High 15s	
Iver Experience	45,650	2000	Samho	Seven Islands	7	
Nord Farer	40,083	2005	ShinA	Nigerians	11.5	
Oceanic Cyan	13,241	2008	Jinse	Undisclosed	7.8	SS/DD due Oct '18

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pm)	Charterer
Valrossa Valverde	50,344	2008	SPP	6 months	12,750	PMI Comercio
Hull 2680 Hull 2679	49,000	2019	Hyundai Mipo	3 years	17,000	Equinor

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