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THE BIGGER PICTURE

... Georgia's on my mind, and there's sweet home Alabama ...



Source: The BBC / Getty Images

POINTS OF VIEW

On Wednesday, the US and China agreed to resume face-to-face ministerial meetings in Washington in the coming weeks in the hope of easing tensions in their rapidly escalating trade war. The latest measures will inflict much more harm on both sides than anything that went before. The timetable of nominal US imposed tariffs on Chinese imports has been as follows: List 1 on 06 July 2018 covering \$34bn at 25%; List 2 on 23 August 2018 covering \$16bn at 25%; List 3 on 24 September 2018 covering \$200bn at 10%, then on 10 May 2019 raised to 25%; List 4 in two tranches on 01 September and 15 December 2019 covering \$300bn at 15%; Lists 1-3 on 01 October 2019 covering \$250bn raised to 30%. In nominal terms, all \$550bn by value of US imports of Chinese goods will be tariffed. However, according to the USTR, given phasing effects, an estimated total of \$495bn of annual imports at 2018 values are so far affected by US import duties. HSBC has assessed the impact of these tariffs in a report entitled "Trade Turbulence". These include a worldwide reduction in business investment, mixed collateral damage to third countries and a downward revision to global growth forecasts to 2.3% in 2019 and 2.2% in 2020. China imports more raw materials while the US imports more finished goods. Lists 1-3 covered mainly imported components for US industry and manufacturing, thus impacting investment more than consumer spending, while List 4 covers more categories of consumer goods, thus threatening spending. Companies will juggle with a combination of passing on costs, accepting lower profit margins and accessing non-Chinese suppliers.

Imposition of tariffs on all of China's exports to the US, about \$495bn based upon 2018 values, will have a 1.6% drag on PRC GDP growth over 12 months, with half of this coming from the latest escalation, according to HSBC. This will most likely cause Beijing to step up fiscal and monetary easing, but in a gradual and selective way. PRC GDP growth for 2019 is thus adjusted down to 6.2% from 6.5% and for 2020 to 5.8% from 6.3%. China may lose 1.8 million manufacturing jobs which is equivalent to a 1.6% loss in total PRC manufacturing employment and a 0.4% drop in total urban employment. Any stimulus package will be constrained by macro prudential concerns as debt levels are already high. The US-China trade conflict has helped ASEAN countries such as Vietnam, Malaysia, Thailand and Indonesia that have benefitted from supply chain diversions at a time when intra-ASEAN and extra-ASEAN trade is already liberalising. But it is a slow process. Regional complications come in the form of deteriorating Japan-Korea trade relations as South Korea was removed from Japan's whitelist of preferred trading partners on 28 August. This has implications for the Korean and global semi-conductor business but it is worth bearing in mind that neither China nor Taiwan are on Japan's whitelist, so they need to plan 90 days in advance to get the required METI approvals. South Korea accounted for 75% of global DRAM and 50% of global NAND production in 2018. Picking trade fights in Asia is made easier after the example set by the US.

Trade uncertainties caused by the US-China spat, Japan-Korea friction, the Brexit saga, looming US auto import tariffs, lack of USMCA ratification, WTO malfunction and rising protectionism have not denied the dry bulk sector a recovery. Baltic indices rose to new highs midweek, before correcting, with capesize surging to \$38,014 per day, supras up to \$15,233 and handies at \$12,668. The BCI-5TC started 2019 at \$15,344 only to bottom out at just below \$3,500 in early April from which point it has risen 11-fold. It has been a similar pattern for the smaller sizes that all took an exaggerated hit in Q1 and suffered from low self esteem in Q2. Time-delayed reactions to earning trends have played havoc with asset values with nominal values falling in H1 before recent recoveries. For example, the BSPA* for the 180,000-dwt cape started 2019 at \$35.5m, moved up to an annual high of \$36.7m by end January only to retreat back to \$35.2m by the end of June. It was back up to \$35.7m by end August. The 82,500-dwt kamsar started 2019 at \$21.6m, rose to \$22.3m by end January, fell to a low of \$21.0m on 20 May and then shot to \$23.8m by end August. Finally, the 58,000-dwt supra started the year at \$18.3m, made an annual high of \$18.6m by end January only to plunge to an annual low of \$17.4m in mid July before clawing back to \$17.6m by end August. Other factors beyond earnings volatility have affected values. Too many ships are on the market as sellers take advantage of the strong dollar and avoid paying the costs of upcoming IMO regulations. Market liquidity is weak, typically buyers have little equity and only limited access to bank loans, while unconventional finance^ is not for everyone. That makes it a seller's market if intimidated by demand-side factors and a buyer's market if encouraged by supply-side factors.

*BSPA: Baltic Sale & Purchase Assessment for 5-year old bulkers.

^Such as leasing, hedge funds, private equity, bonds, etc.

Dry Cargo Chartering

The **BDI** closed this week at 2,462 up from last weeks close of 2,378. The **Cape** market kept up its momentum this week, forcing the BCI beyond 5,000 points for the first time in 9 years. The time charter average earnings finished up \$2,338 to stand at \$36,921. Fronthaul remained as the key driver, while increased demand from Brazilian miners were unable to find enough ships to cover demand. West Australia/Qingdao runs have been fixed at around \$11.30pmt, whilst the Tubarao/Qingdao runs at \$28.75. On time charter, *Anangel Virtue* (180,391-dwt, 2012) delivery Zhanjiang prompt for a trip via West Australia redelivery Singapore-Japan. On period, NYK took *Great Yuan* (178,979-dwt, 2010) delivery Qingdao for 11/13 months trading redelivery worldwide at \$20,500.

The **Panamax** rates have dropped off \$343 to finish the week at \$17,755. The market appeared to be a little flat this week with rates coming off a touch. Owners hunting for short trips to keep safe in the Atlantic, a slight sense of uncertainty creeping in, as market levels soften. In the Pacific, the *Ulusoy 11* (79,422-dwt, 2011) fixed delivery Lingkou for a trip via Indonesia with redelivery South Korea at \$20,000 with Daelim. The *Lemessos Napa* (78,000-dwt, 2017) fixed delivery Cai Lan for a trip via Indonesia redelivery Japan at \$20,000 with K Line. Tongli fixed the *Wei Qin* (72,495-dwt, 1999) from Guangzhou for a trip via Indonesia redelivery China at \$17,800. In the Atlantic, the *Belo Horizonte* (81,631-dwt, 2012) fixed delivery Gdansk for a trip via Ust-Luga with redelivery Skaw-Gibraltar range at \$24,000 plus \$15,000 bb with ACB. Oldendorff fixed a short trip out of Ijmuiden, via the Baltic with redelivery Skaw-Gibraltar range at \$19,750 with the *Ordu* (81,631-dwt 2012). Bunge fixed *locos Confidence* (76,036-dwt, 2013) basis delivery retro Krishnapatnam for a trip via East Coast South America redelivery Singapore-Japan range at \$19,000. On the period side, the *Crimson Ace* (81,759-dwt, 2015) fixed 2 laden legs with Unico at \$17,700 (1st leg Haypoint to Cigading). The *CMB Sakura* (75,765dwt, 2006) fixed delivery CJK for 2 laden legs redelivery Singapore-Japan range at \$16,000 with Norden.

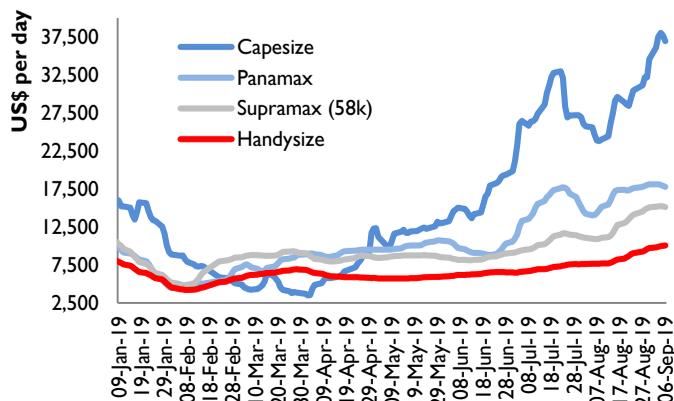
The *Yangze Navigation* (93,192dwt, 2010) fixed delivery Makassar for min 4/max 6 months redelivery worldwide at \$18,500 with Norden.

The **Supramax** rates this week started strongly in most markets but started dropping from Tuesday onwards, except in the US Gulf. The BSI which closed at \$15,099, raised again from last weeks \$15,056. In the Atlantic, *Pu Lan Hai* (56,965-dwt, 2010) fixed delivery South-West Pass for a trip redelivery Egyptian Mediterranean range, intention grains at \$20,000. *Chios Legacy* (45,526-dwt, 2000) fixed delivery north coast South America redelivery west coast South America at \$25,000. In the Indian ocean, *SBI Jaguar* (63,512-dwt, 2014) fixed delivery Dahej for a trip via Kandla redelivery China, intention Salt at \$21,400. *Iron Lady V* (57,324-dwt, 2011) fixed delivery Arabian Gulf for a trip redelivery Chittagong intention aggregates at \$20,000. In the Pacific, *Eraclea* (55,008-dwt, 2010) fixed delivery Tieshan redelivery North China intention limestone at \$15,250. *Madonna III* (53,390dwt, 2007) fixed delivery Kolsichang for a trip via Malaysia redelivery south China intention sands at \$13,250.

This week the **Handysize** market in the Pacific remained rather flat, with some suggesting it tailing off towards the end of the week. In the North, *Unison Power* (38,837-dwt, 2012) failed with Chun An at \$10,000 for steels ex CJK to Jakarta. In the South, it was reported that *Gullwing* (37,289-dwt, 2013) fixed high \$12,000's for a trip ex Australia with alumina back to South East Asia. On the Period side of things, *New Legacy* (39,184-dwt, 2017) fixed and failed 6/8 months at \$11,500. The Atlantic market was busy and particularly strong off the continent, yet little reported activity. The *Ricarda* (38,600-dwt, 2015) fixed delivery Rotterdam for a prompt trip to the US Gulf at \$16,750, charterers were not reported. South American sentiment remains positive. *Strategic Venture* (39,784-dwt, 2014) fixed delivery Kingston for a trip via US Gulf redelivery Continent at \$15,450. In the Black Sea, the *Fatih* (35,365-dwt, 2011) fixed delivery Dneprobogsky for a trip via Black Sea redelivery Nigeria intention steel approximately \$18,000 with Panocean.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
Anangel Virtue	180,391	2012	Zhanjiang	PPT	Singapore-Japan	40,000	CNR	Via West Australia
Ocean Duke	180,361	2010	Jingtang	7 Sep	Singapore-Japan	34,000	Korea Line	Via West Australia
Theresa Hainan	82,000	2013	Masinloc	8/9 Sep	South China	20,500	Cargill	Via Indonesia
DL Ivy	81,970	2012	Port Said	8/10 Sep	Egypt	20,250	CNR	Via Black Sea
Belo Horizonte	81,681	2012	Gdansk	9 Sep	Skaw-Gibraltar	24,000	ACB	Via Ust-Luga Plus 15,000 bb
Iron Lady V	57,324	2011	Arabian Gulf	PPT	Chittagong	20,000	Seacoast	Int Aggregates
Pu Lan Hai	56,965	2010	SW Pass	PPT	Egyptian Med	20,000	CNR	Int Grains
Madonna II	53,390	2007	Kolsichang	6/8 Sep	South China	13,250	CNR	Via Malaysia
Ricarda	38,600	2015	Rotterdam	PPT	US Gulf	16,750	CNR	
Faith	35,365	2011	Dneprobogsky	9 Sep	Nigeria	18,000	Panocean	Via Black Sea Int Sands



Exchange Rates	This Week	Last week
JPY/USD	106.67	106.18
USD/EUR	1.105	1.0991

Brent Oil Price	This Week	Last week
US\$/barrel	59.90	60.33

Bunker Prices (\$/tonne)	This week	Last week
Singapore IFO	424.0	431.0
MGO	581.0	572.0
Rotterdam IFO	313.0	298.0
MGO	561.0	553.0

06 September 2019

Dry Bulk S&P

A buoyant freight market and a long list of sales are the headlines this week. The broad spread of sales throughout the sectors and vintages is a reflection that bulkers are making money across the board. The cape index is at US\$37k per day, panamaxs at US\$18k, supras at US\$15k and 28k-dwt handies are at US\$10k.

Given the spread of sales its hard to know where to focus, however three Japanese resale ultramaxs are worth mentioning. The sellers are Japanese and the Buyers for two of the units are Japanese against long charters to Belships Norway. These are the first very modern Japanese ultramaxs concluded since *Adventure II* (62,472-dwt, 2018 Oshima) which was sold in March for \$26.5m. The price of these ships is in line with that, however it has taken a firm freight market to get buyers to a position where they can make sense of the price.

At the other end of the age spectrum, three ships built 1996 have been sold. While the rates available in the current charter market offer attractive returns, Seller's recognise that mature ships aren't the easiest to sell

and offloading the eldest ships while you can before Jan 1st 2020 seems a prudent option.

Asides from sales that have gone through, an active sector of the market has been ten year old Japanese supramaxes. Six ships built between 2008-2010 took offers over the last 10 days, however there is only one sale to report. *Nord Explorer* (58,803-dwt, 2009 Tsunieshi Cebu) committed in the mid-12s, in line with the recently sold *Nord Manatee*, a year younger sister for low 13s. The improved rates available in the charter market and flat S&P values, are leading some Japanese sellers to seek period employment rather than selling at best.

Lastly, Lauritzen have reportedly committed three 2010 JNS 32s to Clipper for an enbloc price of around \$22m. At the end of 2017, Clipper committed two sister ships built 2011 for \$20.2m enbloc. Even allowing for the relative ages of the ship, they've essentially sold two and bought 3 for a similar enough price, a handy arbitrage.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$	Comment
Harriette N	176,213	2011	Shanghai Waigaoqiao	-	Far Eastern	24.0	
Bulk Success	175,656	2014	Jinhai HI	-	Berge	25.0	
Clipper Victory	77,119	2015	Imabari	-	Greek	Excess 20	
YM Virtue	76,610	2003	Imabari	-	Indian	7.4	
Harvest Moon	73,040	1996	Samsung HI	-	Chinese	4.5	
Pacific Knight	68,461	1996	Imabari	C 4x30T	Chinese	6.5	
Nord Explorer	58,803	2009	Tsuneishi (Cebu)	C 4x30T	undisclosed	12.5	
Leonariso	56,877	2010	Jiangdong Shipyard	C 4x30T	Chinese	10.3	
Shanthi Indah	45,681	1996	Hashihama Shipbuilding	C 4x25T	Indonesian	3.0	
Sentosa Bulker	32,755						
Emilie Bulker	32,691	2010	Jiangmen Nanyang	C 4x31T	Clipper	22.0	Enbloc
Orchard Bulker	32,535						
Nord Tokyo	28,343	2009	Imabari	C 4x31T	undisclosed	7.7	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price \$	Delivery
Atlantic Merchant	238,819	1992	Hitachi Zosen Corp - Nagasu KM	Bulk	36,166	405.0	Bangladesh
Arctic Pearl	45,295	1986	Ishikawajima-Harima HI	Bulk	11,011	387.0	India
Jupiter	38,692	1996	Shin Kurushima	Bulk	7,972	375.0	Pakistan
Htk Hope	24,835	1984	Kurushima Dockyard	Bulk	5,719	385.0	Bangladesh
Wan Hai 205	23,902	1990	Naikai Shipbuilding	Cont	7,124	355.0	'as is' Taiwan
Wan Hai 203	23,729	1990	Naikai Shipbuilding	Cont	7,071	355.0	'as is' Taiwan
Robert Bond	3,726	1975	PORT WELLER DRY DOC	RoRo	5,063	370.0	India
Meridan	1,400	1988	K.K. Miura Zosensho	Gen	9,288	375.0	India



06 September 2019

Tanker Commentary

The tanker sale and purchase market remains in a stand off. Sellers are confident the market will pop, whilst buyers are unwilling to pay up to secure tonnage in a market that is barely breaking even.

That said, as traders, owners and operators return from vacations and we approach both the winter market and IMO2020, enquiries are certainly picking up and we could be set for an active final quarter of business for 2019. Following last week's report in which we had no transactions, this week we have just two deals concluded - both on the vintage side.

The *Energy Protector* (51,000-dwt, 2004 STX) has been sold to undisclosed buyers for \$11m. At first look one may think this is a firm price, but the Sellers had fitted the vessel with a BWTS and passed her special survey. Moving down a vintage, clients of Eastern Pacific have concluded a deal with Indian buyers on their *Ceylon* (48,000-dwt, 2002 Shin Kurushima). The price of \$7.7m may consider on the low side considering comparable deals this year, but it should be noted the ship is uncoiled and so will have had to be discounted to other coiled ships of the same age.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
Energy Protector	51,319	2004	STX Shipbuilding	undisclosed	11.0	SS passed + BWTS fitted
Ceylon	46,001	2002	Shin Kurushima	Indian	7.7	uncoiled
Chembulk Sydney	14,271	2005	Asakawa Zosen	undisclosed	6.8	

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