HARTLAND
SHIPPING SERVICES

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THE BIGGER PICTURE

… The IMO meets Laurel and Hardy …

Source: Arabana Studio

POINTS OF VIEW

Paddy Rodgers, the CEO of Euronav*, has called the IMO 2020 rules on sulphur emissions "the worst piece of legislation ever". Being the leading operator of high fuel consumption VLCCs the company potentially faces extra costs of up to $5m a ship to fit exhaust gas scrubbers, should it choose to go down that route. However, Mr Rodgers does not seem to be convinced by "a technology that doesn't look right". Presumably this is a reference to the common perception that scrubbers simply appear to convert airborne pollution to waterborne pollution via a toxic transfer from air to sea. This popular perception matters to a publicly quoted company with a hard-earned reputation to maintain and defend. The IMO, having allowed enforcement slippage on single-hull tanker phase-out and the installation of ballast water treatment systems, has once again offered the industry a loophole. It would have been far better to have banned HFO altogether and mandated that all ships carry only 0.5% sulphur marine fuel from 1st January 2020. Scrubbers would not then be an option and the ambiguity of a multi-tiered charter market would melt away. Instead we are faced with increasing take-up of a technological fudge that allows some owners to continue buying lower cost 3.5% sulphur heavy fuel oil (HFO) and magically transform it into 0.5% sulphur IMO compliant fuel oil (CFO) on board ship. More owners are now seeking scrubbers, both for new and retrofitted ships, to hedge a portion of their fleets against the possibility that new blends of CFO will escalate in price, thus benefiting the refiners and owners that can supply, access and burn the HFO that should have been outlawed in the first place.

It is generally considered that the largest ships are best suited to scrubber installation as they consume more fuel and can sacrifice some cargo carrying capacity without unduly damaging the freight dynamics. This week we heard that Eagle Bulk will install up to 37^ scrubbers on its 48-strong fleet of supramax and ultramax bulk carriers, at around $2m per ship, in the process disturbing the theory linking scrubbers to only larger ships. This still leaves a healthy degree of speculation as to the future price spread between HFO and CFO and on the future availability of HFO should, for example, refiners move away from it and power utilities move into it. We heard in mid June that Maran Tankers had fixed two 318,000-dwt VLCCs, delivering in 2019 from DSME, to Chevron for 3 years at $35,000 per day when the market rate for such a type and period was only $25,000 daily. The $3.5 million annual premium represents a combination of payment for the scrubbers while also baking in expectations of a better VLCC market from 2019. The payback for the scrubbers in this instance could be 18 months or less for an owner who openly declared that he aims to make money out of the technology. A leading US broker has estimated, based on selective criteria, that a charterer moving crude from the AG to Japan will face 33% higher costs on a VLCC not fitted with a scrubber. The prospect of a multi-tiered charter market arises out of the IMO's failure to set one fuel standard for the entire market leaving us with a complex array of 'ifs' and 'buts'.

From 2020, the logical default position for the fuel component in freight should be 0.1% sulphur marine gas oil (MGO), currently widely available, as a small minority of ships will be fitted with scrubbers by then. Owners able to access HFO and CFO will derive some cost-saving benefit. Container line Hapag-Lloyd expects its fuel costs to rise by $1 billion a year from 2020**, and it aims to recover this extra cost from shippers. This is quite right, as fuel costs are a pass-through and should be reflected in the freight. The problem for tankers is that the fuel price element in the Worldscale flat rate does not reflect the actual cost of fuel, it is merely an estimate of future costs with adjustments to be captured in the Worldscale spot rate, but they rarely are. Similarly, container lines often do not recover their actual fuel costs through bunker adjustment factors. Both methods suffer from a time lag effect and are in need of reform ahead of IMO 2020. For bulk carriers there is better fuel cost pass-through although poorly constructed COAs could leave an owner out of pocket. On single voyages, the charterers should pay the owner's actual fuel costs failing which the owner could switch to time charter, shifting the entire burden of fuel price and fuel supply onto the charterer. In reality, it is likely that charterers will be free to set the fuel component at any point in the HFO-MGO price range^^. It will be settled by fuel availability and by competition between scrubber-fitted, eco and non-eco ships. Another fine mess that the IMO has got us into?

*The world's largest owner of crude oil tankers with a total tanker fleet numbering 78 units of an aggregate 19.85m-dwt.

^19 firm orders with 18 options. In a $12,000pd rate environment the payback will be 2.1yrs at a $200 and 1.1yrs at a $400 fuel price spread.

**Based on 4 million tonnes annual use and a price spread between HFO and CFO of $250 per tonne.

^^The current average price of HFO (IFO 380cst) is $480 versus MGO at $760 per tonne, giving a spread of $280 per tonne.

WEEKLY COMMENTARY

07 September 2018

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Dry Cargo Chartering

The BDI finished the week at 1,490, relatively unchanged since last week, yet with a rise of 6 points. The **cape** market closed the week at $18,676, similarly with a relatively low rise, just up $76 from the previous week. In the Pacific, RGL fixed the *Shinyo Diligence* (176,955-dwt, 2006) for delivery CJK trip via Australia, redelivery China at $19,750. Cargill fixed the *Anangel* Virtue (180,391-dwt, 2012) for delivery Beilun via west Australia, redelivery Singapore-Japan for the rate of $19,500. Pacific Bulk fixed the *Sealink* (180,116-dwt, 2010) for delivery Lanshan via Australia, redelivery Singapore-Japan for $20,000 daily. In the Atlantic, KEPCO fixed by Hyundai Glovis TBN 130,000/10% for Newcastle/Youngheung at $11.32. On the front haul, Oldendorff fixed the *Xin Chang Hai* (17,8361-dwt, 2017) for delivery Gibraltar via Trinidad, redelivery Singapore-Japan with an impressive rate of $35,000.

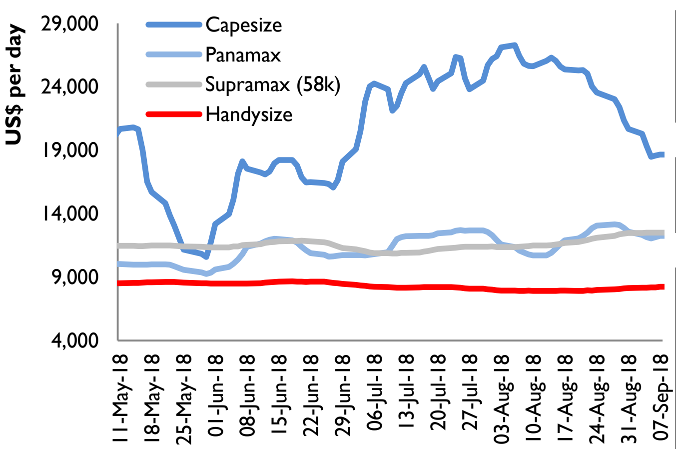
The **Supramax** market held a week of almost no change. The rise by just $2 meant the week finished at $12,514, a stagnant few days for the sector. In the Atlantic, Klaveness fixed the *Amis Glory* (55,474-dwt, 2016) for delivery Norfolk, redelivery UK/Continent for $21,250. Further, Bunge took the *Dalmatia G* (57,238-dwt, 2010) for delivery US Gulf, redelivery North Coast South America at $16,000. In the Pacific, Norvic took the *Charisma* (55,667-dwt, 2010) for delivery Kandla, redelivery China at $12,000 and *Queen Halo* (58,069-dwt, 2010) was fixed for delivery Cebu via Indonesia, redelivery Philippines at $14,500. Furthermore the *Amilla* (58,444-dwt, 2011) was fixed for delivery Kohsichang, redelivery China at $12,000. On the period front, XiangLong took the *Zealand Almere* (57,157-dwt, 2012) delivery CJK for 2/3 laden legs for at $10,250.

The **Panamax** market has further dropped this week at $12,249, a decrease of $333 from last week close of $12,582. In the Pacific, Oldendorff took *Crystal Star* (82,172-dwt, 2014) delivery Kunsan trip via Port Kembla redelivery Indian at $11,500. Hyundai Glovis took *Countess I* (79,234-dwt, 2013) delivery Dalian for trip via NoPac redelivery Singapore-Japan range at $11,500. On the fronthaul, *Lake Dahlia* (78,802-dwt, 2009) delivery Santos redelivery Singapore-Japan range fixed to Bunge at $16,000 plus 600,000 bb. Cargill took *My Vision* (81,502-dwt, 2015) delivery East Coast South America for trip to Singapore-Japan range at $16,260 plus 625,000 bb. In the Atlantic, XO Shipping took *Aeolian Light* (82,014-dwt, 2007) delivery US Gulf redelivery Liverpool with grain at $13,100 plus 310,000 bb. *Key Opus* (81,863-dwt, 2015) delivery Gibraltar for trip via US East Coast redelivery Skaw-Gibraltar fixed to NS United at $14,000. On the period front, *MBA Liberty* (82,217-dwt, 2010) delivery Fangcheng for 4-6 months trading redelivery worldwide fixed at $13,500 to Nordic. *Medusa* (82,194-dwt, 2010) delivery Chiba for 13-15 months trading redelivery worldwide fixed $14,000 to Cargill.

Similarly, the **Handysize** market this week remained relatively flat. A slow rise saw the BHSI up by only $33 to $8,233. On the Handies, the *Crystalgate* (28,183-dwt, 2010) was fixed for delivery Egypt med via the Black Sea, redelivery Persian Gulf at $11,800. In the Atlantic Dooyang took the *King Coffee* (32,809-dwt, 2012) for delivery Map Ta Phut, redelivery Indonesia at $8,500.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Rosco Maple	181,453	2010	Rizhao	10 Sep	Singapore-Japan	18,000	Pacific Bulk	Via Australia
Anangel Virtue	180,391	2012	Beilun	PPT	Singapore-Japan	19,500	Cargill	Via West Australia
Star Laura	82,209	2006	Donghae	08 Sep	Singapore-Japan	12,500	Louis Dreyfus	Via NoPac
Aeolian Light	82,014	2007	US Gulf	08 Sep	Liverpool	13,100	XO Shipping	Plus $310,000 bb
Lake Dahlia	78,802	2009	Santos	26 Sep	Singapore-Japan	16,000	Bunge	Plus 600,000 bb
Belocean	58,000	2011	Richards Bay-Cape Town	PPT	EC India	12,200	Oldendorff	Plus $220,000 bb
Dalmatia G	57,238	2010	US Gulf	PPT	NCSA	16,000	Bunge	
Amis Glory	55,474	2016	Norfolk	PPT	UK/Continent	21,250	Klaveness	
King Coffee	32,809	2012	Map Ta Phut	PPT	Indonesia	8,500	Dooyang	
Crystalgate	28,183	2010	Egypt Med	PPT	PG	11,800	CNR	Via Black Sea



Exchange Rates	This Week	Last week
JPY/USD	111.16	110.85
USD/EUR	1,1578	1.1632

Brent Oil Price	This Week	Last week
US$/barrel	76.57	76.07

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	457.0	469.0
MDO	695.0	696.0
Rotterdam IFO	417.0	432.0
MDO	651.0	660.0

Dry Bulk S&P

The second hand market this week has the feel of a late summer afternoon walk about it. The blackberries are ripe for the picking, tempting the adventurous walker to navigate through the thaws and prickles of the hedgerows to reach their reward, however the lengthening shadows and the fading colours of the countryside remind one that the landscape is beginning to brace itself for the uncertain months of winter that approach. This weeks sales show little in the way of value changes and with an abundance of tempting units still on the market, there is still ample opportunity for the adventurous buyer.

Ocean Celebrity (177,638-dwt, 2003 Mitsui) has reportedly been sold to undisclosed Greek interest for $13.5m. The last 2003 Mitsui capesize sold was the *NSS fortune* (184,872-dwt, 2003 Mitsui) for $15.5m in July. Even allowing for the smaller dwt of the *Ocean Celebrity* (177,638, 2003 Mitsui), $13.5m on paper at least represents a good deal for the buyer.

Two Dolphin 57K's are rumoured to have changed hands this week. *Nautical Amethyst* (56,889-dwt, 2011 Jiangsu New Hantong) to clients of Loadline for $12.75m, *U Noble* (57,00-dwt, 2012 Xiamen) for $12.75m to another undisclosed Greek buyer. The later price reflecting the fact that the vessels has been on the market for the best part of 3 years. Two sister supramaxs have been sold at significantly different levels. *Sea Lantana* (52,471-dwt, 2004 Tsun) for $9m to undisclosed buyers and *Patriot* (52,454-dwt, 2004 Tsun) at auction in Singapore for $7m. Patriots price due to the fact she has been laid up in Singapore for over a year.

K&A Se (32,295-dwt, 2008 Kanda) has been sold to Vietnamese interest for $10.65m. Older handies continue to attract consistent interest. *Maestro Tiger* (31,828-dwt, 1999 Saiki) is rumoured sold to Chinese buyers for $6.5m. *Bobae Frontier* (28,387-dwt, 1996 Imabari) is rumoured sold for $4.2m to undisclosed interest.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Ocean Celebrity	177,638	2003	Mitsui Ichihara	Gearless	Greeks	13.50	
Shao Shan 7	75,409	2013	Guangzhou Huangpu	Gearless	Zongchang Shipping	18.00	75% finance
U Noble	57,000	2012	Xiamen	C 4x30	Undisclosed Greeks	12.75	
Nautical Amethyst	56,889	2011	Jiangsu NHSHI	C 4x30	Loadline Maroussi	12.75	
Maemi Spirit	53,482	2008	Iwagi Zosen	C 4x31	Undisclosed Greeks	11.50	
Sea Lantana	52,471	2004	Tsuneishi Corp	C 4x30	Undisclosed	9.00	
Patriot	52,454	2004	Tsuneishi Corp	C 4x30T	Undisclosed	7.00	Auctioned sale Singapore
K&A Se	32,295	2008	Kanda Zosensho	C 4x31T	Undisclosed Vietnamese	10.65	
Maestro Tiger	31,828	1999	Saiki HI	C 4x30T	Undisclosed Chinese	6.50	
Bobae Frontier	28,387	1996	Imabari	C 4x31T	Undisclosed	4.20	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price ($)	Delivery
Olympic Spirit II	96,773	1997	Sumitomo HI	Tank	15287	Undisclosed	Undisclosed

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Tanker Commentary

2018 has delivered little in the way of positivity for tanker owners particularly in the crude sector however the recent appreciation in period earnings is at least offering some hope. Reports this week that P66 have fixed on subjects a modern aframax for 2 years TC at $15,900pd is definitely a step in the right direction. Whether there is anything more tangible than sentiment behind it remains to be seen however there is no denying forecasts of zero crude fleet growth this year will bear fruit in the long term and prudent buyers should move sooner rather than later.

In the product sector, contrary to softening in deepwell MR values, pumpoom MR values appear to be flat despite the constant flow of sales candidates drip feeding into the market from Japanese owners. The *High Beam* and *High Current* (both 46,500-dwt, 2009 Naikai Zosen) are the latest to be sold with a price of $30m enbloc being reported to Greek buyers which is consistent with a number of similar vintage sales recently.

In the crude sector, it is reported that London based Greek owners Embiricos have made another play in the VLCC market. Rumors are circulating that they have paid $25m for the *Kai-Ei* (300,000-dwt, 2004 IHI). The price seems on the firm side when compared to the *Nichioh* (303,994-dwt, 2004 Universal) sale at $23.5m. The question is whether the 6% increase in price is a reflection of improving market sentiment, or simply a reflection of the difference between the two vessel's quality. Either way, Embiricos are clearly confident that now is the time to invest as this is the second VL in three months Embiricos have bought; in July they paid $41m for the *Bright Rainbow* (309,774-dwt, 2009 Imabari).

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Kai-Ei	299,997	2004	IHI Marine United	Embiricos	25.00	
High Beam	46,646	2009	Naikai Zosen Corp	Undisclosed	15.00	
High Current	46,590	2009	Naikai Zosen Corp	Undisclosed	15.00	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
Olympic Lady	299,500	2017	Hyundai HI	1 yr	29,000	Aissot
Olympic Luna	299,300	2017	Hyundai HI	1 yr	29,000	Aissot

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