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## THE BIGGER PICTURE

... Huawei & Motorola –  
the deal that never happened ...



Ren Zhengfei and Mike Zafirovski on Hainan Island in 2003

Source: The FT

## POINTS OF VIEW

The US economy expanded a rate of 2.9% in 2018 after 2.2% in 2017. Much of this increase was probably attributable to the \$1.5 trillion in corporate tax cuts. Meanwhile, the Chinese economy expanded at a rate of 6.6% in 2018 after 6.9% in 2017. Much of this slowdown was probably attributable to its trade dispute with the US. The divergent growth paths of the world's largest economies is likely to be a temporary phenomenon. If they end their trade war then both economies will get a boost, but if they escalate their tit-for-tat tariffs then each will take a hit. The stand-off between the US and China is relevant to shipping as the outcome will determine future trade flows and global economic growth. A poor outcome will have an adverse impact on shipping demand while a good outcome could have an opposite positive effect. On the supply side, we face the lowest fleet growth in many years in the three main sectors of bulkers, tankers and containers. In addition, we have the likely positive impact of IMO regulations (IMO 2020 and the Ballast Water Management Convention) as they further constrain fleet growth by raising scrapping and slowing sailing speeds. The US president started these trade wars last year by targeting his immediate neighbours, Canada and Mexico, before moving onto the larger targets of Europe and China. He is belatedly attempting to level the trade playing field in the quite reasonable belief that WTO terms and established trading practices have not done the US any favours. By departing from collective bargaining he is relying upon the likelihood that the US can win its battles when it goes one on one.

The principle is fair enough but the execution seems to be flawed. Imposing tariffs on US imports merely raises the cost of goods to US consumers. It acts as a tax and can only damage the consumption that is so critical to economic growth. Targeting the bilateral trade deficit with China, which was \$375 billion in 2017, also seems mistaken. The deficit illustrates that American consumers have a choice and that they have a strong currency to spend on foreign goods. Besides, far from reducing the deficit, it actually rose to \$419 billion last year. Lastly, accusing China of intellectual property theft is only half right. Back in the 1980s and 1990s, US and other multinationals were so keen to gain a foothold in China that they agreed extremely unequal terms. They also willingly shared technology and IP as, in those days, China posed no threat. 30+ years on, they may have regrets, but it is hard to say what was given and what was taken. Look at mobile phones. Pioneering US firm Motorola sold the world's first handset in 1983. It opened an office in China in 1987.\* Its phone division, Motorola Mobility, was sold to Google for \$12.5 billion in 2012 and on sold to China's Lenovo for \$2.9 billion in 2014. It has since slipped from view. Finnish firm Nokia eventually overtook Motorola in world-wide sales and, by 2002, it had 35% of the global cellphone market against number two Motorola's 15%. Nokia opened an office in Beijing in 1985. Its phone division was bought by Microsoft for \$7.2 billion in 2014 and on sold to Taiwan's Foxconn for \$350 million in 2016. In handset terms, it has vanished. Today's global leaders in mobile phones are Apple, Samsung and Huawei.

Huawei is our point of interest. Motorola nearly bought it in 2004 for \$7.5 billion when Motorola had annual revenues of over \$20 billion and Huawei was still a fledgling, albeit China's leading telecoms equipment supplier. The two companies had worked closely together since 2000. The deal collapsed after Zafirovski was replaced as CEO. Motorola is effectively no more, but Huawei's annual revenues now exceed \$100 billion. It is the biggest telecoms equipment company in the world and the second largest smartphone maker by sales. Its founder, ex PLA officer Ren Zhenfei, always valued his independence, taking out bank loans in preference to government money or princeling cash. Some years after the deal fell through, Huawei settled out of court with Cisco over technology theft and, in 2010, it did the same with Motorola whose star, by then, was already fading. This is where President Trump has an issue with China in general and Huawei in particular. Ren's daughter, Huawei's CFO, is under arrest in Canada awaiting extradition to the US on charges of Iran sanctions violation. Big questions are raised. Did Huawei lose its independence and start acting for the state once it became a national champion? Would US firms such as Cisco and Intel do the same in the interests of national security? After the failure of telecoms firms such as AT&T, Motorola, Nortel and Lucent, did America simply fall behind in the race for global technology supremacy?^ National security is very much at stake as cyberspace will be tomorrow's battlefield. Rumours are that the US and China are getting close to resolving their tariff and trade wars. That would be great for shipping, but the main issue of cyber domination is a war that is only just beginning.

\*1987: the same year in which Huawei was founded.

^Huawei is the world leader in 5G networks and this worries the US.

## Dry Cargo Chartering

The **BDI** closed the week at 649, down from last weeks close of 664. This was again driven by a crumbling cape market as well as a small dip in the panamax segment. The **cape** market closed the week at \$4,236, once again down from last weeks close of \$5,065. The fixtures on timecharter summed it up. Oldendorff fixed the *King Sail* (177,643-dwt, 2002) delivery China for a Pacific round voyage redelivery Singapore-Japan at a depressing \$1,000. Daelim fixed the *Sealink* (180,116-dwt, 2010) delivery Jingtang for a trip via Indonesia, redelivery India at \$2,100. On voyage, Dampier/Qingdao runs were being fixed around \$4.70-\$4.80. With the market at these levels it comes as no surprise that there were no period deals reported.

The **panamax** market started the week strongly but there were lesser enquiries in the latter part of the week and eventually closed at \$7,195. In the Pacific, Rio Tinto fixed *Madredeus* (98,681-dwt, 2011) delivery Fangcheng via North Australia redelivery North China at \$12,000. JSSC took the *YM Effort* (81,702 dwt, 2008) for delivery Sual via East Coast Australia redelivery China at \$9,500. It was another quiet week in the Atlantic although front haul remained active. Klaveness fixed *Tiger North* (76,000-dwt, 2013) delivery Barcarena for a trip redelivery Continent for \$10,650. Olam concluded the *Da Ying* (75,318-dwt, 2003) for a trip delivery East Coast South America redelivery Singapore-Japan at \$13,000 plus \$300,000 bb. Norden also took *Mastro Nikos* (82,177-dwt, 2011) for a trip delivery US Gulf redelivery South East Asia for \$14,000 plus \$400,000 bb. On the period front, Oldendorff fixed *Magic P* (76,453-dwt,2004) delivery Chang Jiang Kou for 5/8 months trading redelivery worldwide at \$9,000 for the first 30 days, \$11,250 thereafter.

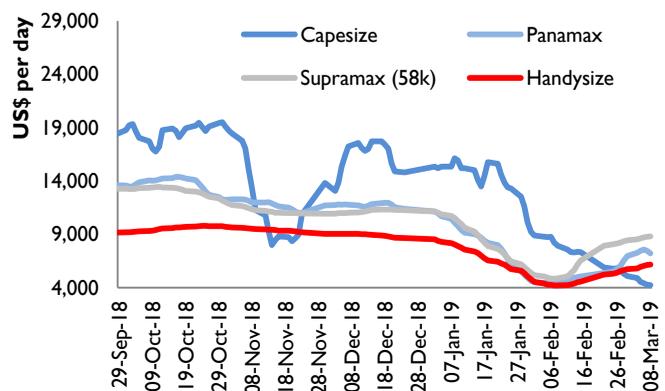
The **supramax** continued to rise this week and closed at \$8,777, up from last weeks \$8,434. This was helped by the East Coast South America & Black Sea areas within the Atlantic. The *TN Sunrise* (60,948-dwt, 2015) was fixed delivery Egypt Mediterranean for a trip via Black Sea redelivery China at \$17,000. The *Pacific Talent* (61,408-dwt, 5016) was fixed delivery US East

Coast for a trip with coal redelivery East Mediterranean at \$10,000. In the Pacific, *ER Nazire* (56,715-dwt, 2010) fixed delivery Gresik for a trip via Indonesia redelivery West Coast India at \$10,000. Panocean fixed *Melinda* (57,981-dwt, 2012) delivery Durban for a trip to West Coast India at \$10,500 plus \$160,000 bb.

The **handy** market closed the week at \$6,163, up from last weeks \$5,728. In the Atlantic, *Genco Ocean* (34,402-dwt, 2010) was fixed by Cargill delivery Santos for a trip to Casablanca at \$9,500 which was an improvement on *SFL Kent* (34,601-dwt, 2012) which performed the same trip earlier in the week with Pacific Basin at \$7,250. *Apollonia* (28,741-dwt, 2002) fixed a trip out of South Brazil into the Mediterranean at \$7,250. In the Mediterranean, *Papua* (31,817-dwt, 2003) fixed an inter Mediterranean cargo delivery Cannakkale at \$6,250 if redelivery Marmara-Aliaga range or if in the East Mediterranean at \$6,500. Off the Continent, G2Ocean fixed *Nord Savannah* (37,067-dwt, 2013) delivery Bremen for a prompt trip into Houston at \$8,000. At the beginning of this week we saw increased levels of activity in the Pacific, however this tailed off as the week went on. In the Far East, *Venture Goal* (43,479-dwt, 2015) open Tomakomai fixed a NoPac Round Voyage back into China with petcoke at \$10,000. NYK reportedly took *African Ibis* (32,347-dwt, 2004) for a trip ex North Japan into South East Asia with slag at \$7,250 and the same rate was reportedly fixed by *Seas 5* (37,205-dwt, 2012) for steels again out of Japan into South East Asia however delivery taking place in Taiwan. There were also rumours of a 33k fixing ex North China into India at \$8,000. In South East Asia, *Venture Grace* (43,343-dwt, 2018) was fixed by BG Shipping for an Australian Round Voyage delivery Kwinana with Grains at \$15,000 plus \$30,000 bb. Fortuna fixed *Dory* (34,529-dwt, 2010) open Kolsichang for a prompt trip to Pakistan at \$7,250 and *Leap Heart* (28,383-dwt, 2012) fixed delivery Thailand for an inter South East Asia trip with sugar at \$7,250. On Period, *Nordloire* (37,212-dwt, 2013) fixed delivery Lorient for 4/6 months trading redelivery Atlantic at \$10,750. Little period activity reported in the Pacific with charterers unwilling to match owners ideas.

### Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
Aquacharm	171,009	2003	Zhoushan	06/07 Mar	Singapore-Japan	2,750	GNS	Via Samarinda
Golden Shui	169,332	2009	Rizhao	11/12 Mar	Singapore-Japan	3,500	CNR	Via West Australia
Madredeus	98,681	2011	Fangcheng	07/10 Mar	North China	12,000	Rio Tinto	Via North China
Bacco	82,188	2011	EC South America	12 Mar	Singapore-Japan	13,750	Omegra	Plus 375,000 bb
Tiger North	76,000	2013	Barcarena	19/20 Mar	Continent	10,650	Klaveness	
Beechgate	63,000	2019	Busan	14/16 Mar	Philippines	10,750	CNR	Via Nopac
Carina Ocean	58,765	2009	Nansha	10/11 Mar	China	9,000	CNR	
Top Fair	55,256	2010	Fangcheng	14 Mar	China	9,500	CNR	Via Vietnam
African Lbis	32,347	2004	N Japan	PPT	Singapore	7,350	NYK	
Apollonia	28,741	2002	South Brazil	PPT	Mediterranean	7,250	CNR	



Exchange Rates	This Week	Last week
JPY/USD	110.88	111.81
USD/EUR	1.123	1.1383

Brent Oil Price	This Week	Last week
US\$/barrel	64.28	65.99

Bunker Prices (\$/tonne)	This week	Last week
Singapore IFO	440.0	428.0
MDO	617.0	620.0
Rotterdam IFO	405.0	411.0
MDO	589.0	592.0



## Dry Bulk S&P

While demolition vultures are starting to gather over the capesize fleet, the rest of the market is noticeably more active. Buyers have gained in confidence, and while some are still firing off ranging shots, more of them are stepping up to sellers' price ideas and taking the discounts on offer. Chinese buyers continue to pick-off older panamax; Greek buyers are more focussed on modern supramaxes.

The Korean controlled three modern kamsarmaxes *FH Fang Cheng*, *FH Ri Zhao* and *Zhen Bang* (81,458 / 79,489 / 79,343-dwt, 2015 Jinhai) for \$47m enbloc to a yet unknown Greek buyers. The vessels had been on the market for five months.

There are a handful of ultramax reported sold this week. Pacific Basin are rumoured to be the buyers of *Malmo* and *Melbourne* (61,400-dwt, 2010/11 Oshima) for \$34m enbloc. The sellers, Tufton, bought the sisters cheaply in 2016 for \$28m enbloc. Further to our report last week, the prompt resale *Ocean Neeraj* (64,000-dwt, COSCO Zhoushan) has been sold to Mingsheng Leasing for \$22m. The vessel was launched back

in March 2016. Mingsheng bought the sister in December for \$24m. Finally the high-spec *Adventure 1* (62,472-dwt 2017 Oshima) is reported sold on as yet unknown terms.

In the supramax sector there are half a dozen on-going negotiations on modern Japanese built units, most of which have been in and out of the market for several months. Greek names appear regularly as the bidders. For the moment few sales have been reported concluded. *Oxygen* (55,525-dwt, 2009 Mitsui) is reported sold at \$13.5m, supposedly to Greek buyers. A pair of bank-controlled Chinese units, *Solar Jade* and *Solar King* (56,501-dwt, 2013 Sanfu) have been sold for a fairly disappointing \$11.8m each to Korean buyers, considering they have both Teir II engines and BWTS fitted.

### Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$m	Comment
Fh Fang Cheng	81,458						
Fh Ri Zhao	79,489	2015	Jinhai HI	-	Greeks	47 enbloc	
Zhen Bang	79,343						
Ocean Neeraj	64,000	2019	COSCO (Zhoushan)	C 4x30	Minsheng Leasing	22	
Melbourne		2011					
Malmo	61,414	2010	Oshima Shipbuilding	C 4x30	Pacific Basin	34 enbloc	
Solar King	57,450						BWTS fitted, reported to be in poor condition
Solar Jade	56,501	2013	Taizhou Sanfu Ship Eng	C 4x30	Koreans	11.8 each	
Oxygen	55,525	2009	Mitsui Eng	C 4x30	Greeks	13.5	

### Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price \$	Delivery
Anangel Destiny	171,997	1999	Hyundai HI	Bulk	22,145	432	'As is' Singapore
Well Deep	69,235	1993	Imabari Shipbdg	Bulk	9,615	425	Bangladesh
Maribor	51,845	2005	China Shipdg	Cont	18,000	443	'As is' Singapore
Ocean Prologue	18,294	1995	China Shipdg	Cont	6,256	434	'As is' Singapore
Marine Star	1,958	1987	Teraoka Shipyard	Reef	1,138	420	'As is' Malaysia



## Tanker Commentary

As has been the case since the turn of the year, the steady turnover of vintage VLCC sales shows no sign of relenting and prices are superseding the last done. Hot on the heels of also acquiring the VL *Sakura* (298,641-dwt, 2001 Hitachi) from Hellenic Tankers, Nathalin are now reported to have bought the *Sea Lynx* (318,306-dwt, 2004 Hyundai Samho) for \$31.5m from Pantheon Tankers. Interesting to note that Pantheon purchased the vessel for a mere \$40m back in 2013. The last VLCC of this vintage that changed hands was back in September at \$25m illustrating the extent to which crude values have firmed – particularly factoring in that the vessel is now a year older.

Elsewhere, following on from last week's report, the Japanese controlled VLCC *Tamagawa* (314,237-dwt, 2007 Kawasaki) was thought to have been committed to a fund in the early part of

the week however a deal at \$38.75m failed to materialise. There are unconfirmed reports that a Greek under bidder stepped in and paid \$38.5m in the face of strong competition.

In the product sector, after lengthy negotiations, Formosa are understood to have sold off the LR1s *FPMC P Fortune* and *FPMC P Eagle* (74,860-dwt, 2009 STX) to Greek interests in excess of \$16m each. The sale represents a substantial step up in values from the sale of the sister vessel *FPMC P Glory* (74k-dwt, 2009 STX) in November last year for \$14.5m to Centrofin. It will be interesting to see whether Centrofin repeated the feat having reportedly inspected both vessels. Finally, in the MR sector *Gan Trust* (49,999-dwt, 2013 HMD) is understood to have been sold – at the time of going to press, a price or buyer has yet to be confirmed and we hope to shed further light on the sale next week.

### Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
Sea Lynx	318,306	2004	Hyundai Samho HI	Nathalin	31.5	
Tamagawa	314,237	2007	Kawasaki Shipbdg	Greeks	undisclosed	
FPMC P Eagle	74,863	2009	STX	Greeks	16	
FPMC P Fortune	74,862					
Gan-trust	49,999	2013	Hyundai Mipo	Island Navigation	28	

### Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate \$pd	Charterer
British Venture	320,122	2013	Daewoo	1 yr	29,000	Koch Logistics
Barbarosa	164,746	2009	Hyundai Samho	9 mths	22,000	Trafigura Beheer
Searunner	114,129	2017	Sundong	9 mths	20,750	ST Shipping
Navigare Pactor	51,034	2012	STX Offshore	9 mths	13,600	Hartree Partners
Dalmacija	49,991	2015	SPP	1 yr	16,000	Trafigura Beheer
Starman	45,997	2008	Shin Kurushima	9 mths	13,500	BP

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