09 February 2018

WEEKLY COMMENTARY

HARTLAND
SHIPPING SERVICES

CONTENTS

THE BIGGER PICTURE

… Volatility in Shipping and Shares …

Source: The FT

POINTS OF VIEW

Global equity markets continue to sell off with both the DJIA and the S&P 500 slipping into correction territory having fallen more than 10% from their January record highs. The initial trigger was last week's report of average hourly earnings rising 2.9% year-on-year in January, the fastest pace of US wage growth since 2009. The first signs of wage inflation caused a bond market rout with the yield on US 10-year Treasuries going from 2.4% to 2.9% so far this year. Rising bond yields also reflect market concerns that the combination of President Trump's tax cuts and proposed infrastructure spending would feed into core inflation. The Fed and the BoE have each signalled that rates will soon be going up, and probably faster than had been envisaged just weeks ago. These messages were enough to contaminate equities which had run up far too quickly last year and in January of this year. The rout has been exacerbated by algorithm trades as they sell off at the same time, triggering further sell orders and reinforcing the downward spiral. BlueBay Asset Management commented: "With substantial assets under management in these strategies, there is a risk that the rise of machines is a destabilising force in markets." The markets have decided that equities are overpriced in the context of rising interest rates, despite the fact that tax cuts will boost corporate profits and rising wages should boost household consumption. For now, the winning argument is that higher interest rates will increase debt servicing costs for companies and families, and this will crimp investment and spending. Equity indices will fall until fair value is detected or until we remember that we are in the foothills of a synchronised global economic recovery.

It seems that we are finally witnessing the end of the long bull market in equities that followed the 2008 crash. Ironically, in shipping, we hope that we are finally witnessing the start of a bull run after the long bear market in shipping that followed the 2008 crash. Shipping and financial markets do occasionally completely diverge. In the 1980s, when Japan was the global driver of shipping demand, just as China is today, the Nikkei went from 6,600 points in January 1980 to an all-time record high of 38,700 points in December 1989 only to almost halve to a low of 20,200 points in October 1990. The speculative frenzy of 1980s Japan gave way to Japan's "Lost Decades" in the 1990s and 2000s. Today the Nikkei is at 21,400 points. In contrast, shipping entered an 8-year slump from 1981 to 1988, of similar duration to our recent 8-year slump from 2009 to 2016. The first half of the 1980s was a torrid time for shipping, but we lack the data to prove it. In the first half of the 1980s, the Japanese dominated shipping market was weakening while the Japanese stock market was strengthening. The Baltic Dry Index only started in January 1985 at par of 1,000 points. It reached its 1980s nadir of 554 points in August 1986 from which point it made an unsteady recovery to around 1,600 points in December 1989. So, from early January 1985 to end December 1989 the BDI rose 60%. Over the same period, the Nikkei went from 11,558 to 38,916 points, up 237%. BDI up 60%, Nikkei up 237%, no contest. In our latest shipping slump the BDI plunged to 290 points on February 2016, 48% lower than the 1986 trough. Who can say which shipping slump was worse, as the dry bulk market is so much bigger today, and China has completely displaced Japan. However, had interest rates been as high as they were in the 1980s this recent crisis would have been much worse. Japan created zombie companies in the 1980s and the lost decades while central banks reinvented zombie companies post Lehman. The Darwinian process was suspended for the greater good.

A big contributor to the current equity sell off has been speculative trading in the CBOE volatility index (Vix), especially option trading funds^ betting on the extension of the calm markets of last year. The Vix Index traded between 10 and 15 over the whole of 2017 but spiked to 50.3 earlier this week, before moving back towards 30 today*. One fund** allegedly lost 80% of its value in the three days to Wednesday close. We do volatility in shipping too, even without the enhancement of algorithms. For example, in the six months from May to November 2008, average monthly capesize earnings fell 97% from $159,000 to $4,000 per day. Since 2008, volatility has been suppressed by tonnage oversupply and earnings have mostly traded in the range of $30,000 to zero. In 2017, the BCI-5TC sunk to an annual low of $4,630 on 14 February and reached an annual high of $30,475 on 12 December; today it is at $14,136 per day. Supertankers did relatively worse in 2017 with the VLCC-TCE peaking at $38,132 on 3 January and setting an annual low of -$1,705 on 15 September; today it is at -$1,636 daily. Unlike the Vix Index, there is never a dull moment for the big bulkers and tankers. What shipping and the global economy do have in common is that both face improving fundamentals.

^Banks estimate that volatility-targeting traders will sell about $200bn of equities this week, leading to more downward pressure on markets.

*The Vix long-term average is 20.

**The imperfectly named LJM Preservation and Growth Fund.

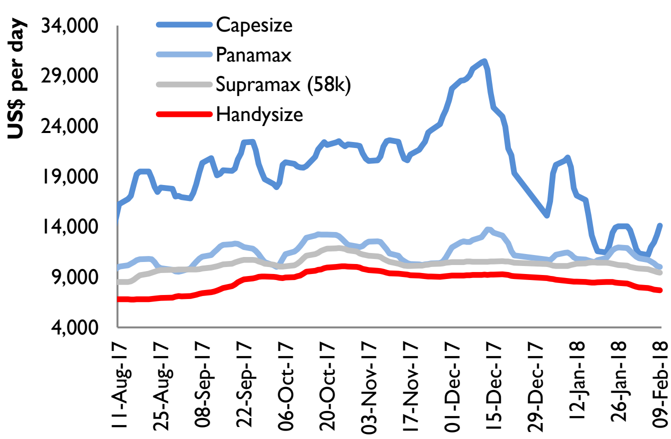
The **BDI** closed the week at 1125, up from last weeks close of 1095. The **capes** bounced back strongly this week climbing $2,769 to close at $14,136, up from last weeks close of $11,367. In the Atlantic, Oldendorff fixed the Berge Bulk TBN 160,000/10% for Puerto Bolivar/Iskenderun at $9.00 pmt and the *Big Bang* (174,109-dwt, 2007) 170,000/10% was fixed by Vale for Ponta Da Madeira/Taranto at $7.70 pmt. On the Port Hedland/Qingdao, Classic Maritime fixed the *Seafighter* (181,068-dwt, 2015) 170,000/10% at $6.55 pmt. KEMPO fixed the Panocean TBN 125,000/10% for Newcastle/Hadong at $8.86 pmt. On the front haul, the Pacific Bulk *Abyo Audrey* (175,125-dwt, 2011) was relet by Tonkolili for Pepel/Qingdao at $16.00 pmt. Oldendorff fixed the *Korona* D (179,362-dwt, 2011) 170,000/10% for Tubarao/Qingdao at $14.95 pmt. On the period rate, the *Cape Eagle* (181,529-dwt, 2012) was fixed by Louis Dreyfus, delivery Caofeidian for 11-14 months at $19,750. K-Line fixed the *Navios Symphony* (178,132-dwt, 2010) delivery Chang Jiang Kou for 10-14 months trading rate based on the BCI 5-timecharter average.

The **panamax** market lost further ground this week, closing at $10,030, down from last weeks close of $10,896. In the Pacific, the *Alpha Melody* (74,475-dwt, 2002) delivery CJK via NoPac redelivery Singapore - Japan fixed at $9,500 to Oceanways. Klaveness took the *Oregon* (74,204-dwt, 2002) delivery Xiamen via Indonesia redelivery Singapore-Japan at $9,000. On front haul, K-Line took the *Yiannis NG* (81,043-dwt, 2014) delivery East Coast South America redelivery Singapore-Japan $14,750 plus $475,000 bb. The *Stella Dawn* (81,700-dwt, 2014) was fixed at $15,100 plus $15,000 bb for delivery East Coast South America redelivery Singapore-Japan. In the Atlantic, Oldendorff fixed the *Ordu* (81,631-dwt, 2012) delivery Gibraltar via Kamsar redelivery Stade for $9,000. Cargill took the *Lowlands Comfort* (81,577-dwt, 2016) delivery Amsterdam via Mo-I-Rana redelivery Ijmuiden. On the period front Swiss Marine fixed the *Navios Helios* (77,075-dwt, 2005) delivery CJK for about 7 to about 10 months redelivery worldwide at $13,000.

It was more bad news for the supras and handys in the run up to the Chinese New Year. The **supramax** market closed the week at $9,398, down from last weeks close of $9,921, while the **handys** closed the week at $7,693, down from last weeks close of $7,981. Rates across the board remained in the red for all routes and sizes. In the Atlantic, Oldendorff fixed the *African Jacana* (57,200-dwt, 2013) delivery SW Pass redelivery East Mediterranean with coal at $18,000. Comerge fixed the *Endless Horizon* (58,018-dwt, 2012) delivery US Gulf redelivery China at $20,000. Across in the continent, EMR fixed the *Christos* (63,353-dwt, 2016) delivery Hamburg for a trip with scrap to the East Mediterranean at $12,000. In the Med, *Clipper Kamoshio* (32,226-dwt, 2009) fixed delivery Canakkale for a prompt trip to the Continent at $8,000. In the south Atlantic, Oldendorf fixed the *African Spoonbill* (63,033-dwt, 2016) delivery Paranagua redelivery Singapore-Japan range at $13,500 plus $350,000 with Oldendorff. In the Pacific, the *Bulk Patagonia* (58,723-dwt, 2012) fixed at $8,250 delivery Xiamen via Indonesia, redelivery south China at $8,250. Cargill fixed the *Carmencita* (58,773-dwt, 2009) delivery CJK for a NoPac run, redelivery Indonesia at $9,000. The *Spring Breeze* (33,600-dwt, 2013) fixed delivery Zhoushan for 2 laden legs redelivery worldwide at $9,000. Pacific Basin fixed the *Kavala Seas* (56,380-dwt, 2011) delivery Saldahna Bay redelivery Singapore-Japan range at $11,600 plus $150,000 bb. The *Golden Kiku* (29,858-dwt, 2005) fixed delivery Singapore via Indonesia, redelivery China at $7,000. On period, the *GH Storm Cat* (63,308-dwt, 2014) fixed 4-6 months trading delivery Singapore at $12,250 redelivery worldwide.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Anangel Harmony	180,391	2010	Passing Cape of Good Hope	20 Feb	China	18,500	Engie	Via Brazil $525,000 bb
Anangel Hope	179,445	2015	Caofeidian	D/C	China	14,500	Quadrolink	Via West Australia
Captain Antonis	82,177	2011	N China	07 Feb	Singapore-Japan	11,250	Louis Dreyfus	Via NoPac
Lowlands Comfort	81,577	2016	Amsterdam	SPOT	Ijmuiden	11,500	Cargill	Via Mo-I-Rana
Yiannis N G	81,043	2014	EC South America	24 Feb	Singapore-Japan	14,750	K Line	$475,000 bb
SBI Aries	63,604	2015	Durban	10/12 Feb	Singapore-Japan	12,300	Ultrabulk	$230,000 bb
TR Omaha	63,581	2014	SW Pass	22/26 Feb	Mediterranean	19,100	Panocean	
Vindonissa	58,097	2012	Cebu	PPT	India	11,250	Oldendorff	Via Indonesia
Clipper Kamoshio	32,226	2009	Canakkale	PPT	Continent-ARAG	8,000	CNR	
Occitan Pauillac	29,231	2008	CJK	SPOT	SE Asia	7,250	CNR	



Exchange Rates		This Week	Last week
	JPY/USD	108.86	110.38
	USD/EUR	1.2257	1.2441

Brent Oil Price		This Week	Last week
	US$/barrel	63.52	68.63

Bunker Prices ($/tonne)		This week	Last week
	Singapore IFO	372.0	394.0
	MDO	582.0	616.0
	Rotterdam IFO	347.0	372.0
	MDO	548.0	599.0

Dry Bulk S&P

In a market unsettled by seasonal volatility, there is still plenty of sales chatter. Generally sentiment amongst buyers supports the widespread consensus that the foundations underpinning the market for the year ahead remain positive. That said, there are a limited number of sales to report this week.

Mineral Nippon (203,275-dwt, 2007 Universal) and *Rubena N* (203,275-dwt, 2006 Universal) have been sold to Winning Shipping en bloc for $45.4. In an insolvency deal, *Tansanit* (92,776-dwt, 2011 Cosco Zhoushan) has reportedly been sold to undisclosed buyers for regions $17m, in line with last weeks sale of the year older *Trans Shanghai* (93,260-dwt, 2010 New YZJ) sold at $16.35m to clients of W Marine.

In recent months the 10-12 year old Panamax market has lacked turnover and as a result bench marketing values in 2018 has been something of a moving target. The reported sale this week of *Drake* (76,781-dwt, 2006 Sasebo) at $13.6m to undisclosed Greek interest should help ignite buying interest with clear ideas now of what units of this age are worth today.

For the last comparable sale one has to look back to early December 2017 when *Golden Heiwa* (76,596-dwt, 2007 Imabari) was sold to clients of Horizon Bulkers for $13m.

Having bought the ex *Crystal Palace* (58,781-dwt, 2008 Tsuneishi Cebu) last May for $13.4m, Thai Thorsesn have reportedly bought the sister *Angel B* (58,679-dwt, 2008 Tsuneishi Cebu) for $14m, a price in line with similar units recently concluded.

Ten parties supposedly inspected the logs fitted *Orient Sunrise* (28,514-dwt, 2001 Kanda) which has now reportedly been sold to undisclosed Chinese buyers for $5.7m. The last done similar aged unit was the *Atlantic Ace* (28,671-dwt, 1999 Imabari) sold for $4.7m. The heighten competition on the Orient Sunrise nudging values north once again for vintage handys.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Mineral Nippon	203,275	2007	Universal	-	Winning	45.4	Sold en bloc
Rubena N	203,233	2006					
Baroque	114,248	2011	New Times	-	Angle Investments	41.0	Sold en bloc and Time Charter attached
Bel Air	114,167	2010	Shanghai Shipyard	-			
Transanit	92,776	2011	Cosco Zhoushan	-	Undisclosed	17.2	
Drake	76,781	2006	Sasebo	-	Undisclosed	13.6	
Angel B	58,679	2008	Tsuneishi Cebu	C4x30	Thai Thoresen	14.0	
FF Wish	45,719	1997	Tsuneishi	C4x25	Undisclosed	5.0	
Orient Sunrise	28,514	2001	Kanda	C4x30.5	Chinese	5.7	
Luxury SW	23,519	1999	Tsuneishi Cebu	Cx30	Vietnamese	4.2	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	$/LDT	Buyer
Basilia	106,852	1992	Tsuneishi	TANK	17,418	458	India-Bangladesh options
Sea Dolphin	50,743	1989	Mitsubishi	LPG	16,365	446	'As is' Singapore
Harma	9,455	1994	Varna	BULK	3,290	294	'As is' Singapore
Kapitan Sergiyevskiy	5,730	1981	Vyborgskiy	CONT	4,215	440	Bangladesh

Tanker Commentary

With Chinese New Year round the corner, and earnings in the doldrums, activity remains subdued. All eyes were fixed on the Japanese controlled *Kai-Ei* (299,999-dwt, 2004 IHI) which invited offers last week. Having seen bids in the low/mid $20s and one at $27m with long subjects, the vessel remains unsold. Whether owners will withdraw the vessel or conclude with one of these buyers remains to be seen; one would hope the latter so a much needed 2018 benchmark in this vintage can be established.

Interest in the products sector remains rife, but this is yet to materialise into actual sales. The list of sales candidates for 12-15 year old vessels is extensive, and competitively priced, yet few are changing hands. The new regulations coming in have pushed owners to look at a younger vintage.

In the 6-10 year old region, the list of candidates is a great deal thinner. Whilst there are vessels for sale, the dreary rates are not enticing buyers to jump forward at today's prices. In the medium to long term though, sentiment in the products market is positive, so when a glimmer of light emerges at the end of the tunnel, we expect activity to pick up considerably… and for our weekly sales reports to be less repetitive!

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Princimar Equinox	19,976	2012	Ningbo		15.0	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pm)	Charterer
Nave Synergy	309,741	2010	Imabari	1 year	27,200	Petrobas
Alyarmouk	116,039	2008	Samsung	9 months	14,000	Mjolner Shipping
Aljalaa	115,577	2007	Sasebo			
RBD Gino Ferretti	107,546	2011	Tsuneishi	6 months	11,000 + profit share	Navig8
Maria Bottiglieri	107,505	2012				
Silver Stacie	49,746	2014	Hyundai Mipo	1 year + 6 months	15,250	Undisclosed
Nave Dorado	47,999	2005	Iwagi Zosen	1 year + 1 year	13,500	Norden

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