10 August 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Executive Orders, or, My Way …

Source: The BBC

^In 2017, China was the world's second largest LNG importer (13.5%) after Japan (28.8%) and accounted for c. 15% of total US LNG exports.

*This involved 100 passenger planes from Airbus and 80 from Boeing. As Airbus uses US components, such sales are subject to export licences.

^^A law passed Congress in 1991 that requires the sanctioning of any country found to have used chemical or biological weapons.

**India booked 319,000-bpd of US crude to arrive in August up from 119,000-bpd in July. Its previous record was 190,000-bpd in Nov 2017.

^^^The VLCC-TCE is a 'crude' average of TD1 (AG/USG) and TD3C (AG/China) designed to give an average round voyage return.

POINTS OF VIEW

A thick pen has been kept busy signing presidential executive orders with great flourish. This brings the US government and the nation into trade confrontations with many countries and trading blocs including China, Russia, Iran, the European Union and Nafta. The US is currently operating sanctions and embargoes against the above entities plus Venezuela, North Korea and its continental neighbours in Canada and Mexico. It is picking economic and trade fights with the rest of the world as President Trump tries to rectify perceived wrongs and reduce the 2017 US trade deficit of $568.4bn. China is masochistically imposing import tariffs on US goods that it actually needs, ranging from energy to agricultural products. It aims to do maximum damage to US exporters while simultaneously exploiting the fungability of the global trade in goods. On Wednesday, Sinopec succeeded in getting US crude oil removed from the tariff list, illustrating just how important US crude has become. However, it can at any time replace low cost US crude oil with cheap embargoed Iranian oil. It can also swap US LNG^ for Qatari and Australian LNG and it can substitute US soybeans for Brazilian beans and Argentine soybean meal and oil. Where there are shortfalls it can buy from others, adapt its product requirements or simply pay a 25% penalty to import American, as it will with soybeans. It is assumed that China's pain threshold is higher than America's and that Chinese people will suffer silently while American people will complain loudly. Boeing and Airbus may lose $35bn in sales to China while $39bn of the duopoly's sales to Iran have had their export licences revoked*. Self harm is the only common denominator.

The US dollar is strengthening while other currencies are falling: the euro, the Chinese yuan, the Russian rouble, the Iranian rial, the Turkish lira, UK sterling. They are falling for economic, trade and geopolitical reasons. The rial has fallen 50% in value against the US dollar since April, causing domestic inflation and hardship for the Iranian people, especially the less well-off. They are not the target; the regime is the target. When sanctions are extended in November from carpets and gold to oil and gas the situation will get even worse. If regime change is the result then the relatively moderate one of President Rouhani may be replaced by a more hardline and radical one under the clerics. This will neither help the Iranian people nor improve the chances of reducing the nuclear threat or of reining in the "malign behaviour" of Iranian-backed Shia militias in Iraq, Syria, Yemen and Lebanon. Russia is a curious case, as the relationship between The Trump Organization and the Kremlin is yet to be revealed, although the Mueller investigation is beginning to grow teeth and we may soon have a better understanding. The State Department has finally found in favour of the UK's assertion that Russia breached an international chemical weapons ban in the Skripal poisoning^^. Trump has been slow to criticise Putin, for reasons unknown, and now he has lost the initiative. The State Department decision, backed by government agencies, opens the door to escalating punitive sanctions against the Russian elite in a move that sees US state institutions bypass Trump and his presidential decrees and get their retaliation in first. So far, the White House has been reduced to tweet-free, stunned silence.

In the calm before the storm, the dry bulk sector is doing relatively well. The BCI 5TC is now trading at $25,621 per day, slightly lower than its peak level for the year that was set on August 6 at $27,283 daily. The smaller sizes have disappointed. The BSI58-TCA hit a high of $12,567 per day on March 23 and is now at $11,445 daily. Hopes are for a better all round performance in Q3 and in Q4, but the dark clouds of trade disruption create an uncertain outlook. Large crude tankers continue to suffer with the VLCC-TCE^^^ now at $403 per day compared with a still dismal 2018 peak of $3,470 daily on August 6. Trade flows will change as various sanctions bite. Short-haul Saudi Arabian and long-haul US crude oil imports into India are rising sharply ahead of the imminent curtailment of Iranian imports. From President Trump's perspective, the fact that the US and its ally Saudi Arabia can supply crude oil to the world's third largest importer, at the expense of Iran, is a major victory. In the LNG space, China will import less long-haul US product and more from short-haul Asia-Pacific regional suppliers while Europe will buy more of the US cargoes abandoned by China. Spot rates for a 160,000-cbm LNGC remain at a respectable $75,000 per day but, as we move into Q3 and Q4, we may end up playing a game of trading Russian roulette. Be prepared for casualties.

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Dry Cargo Chartering

This week the BDI fell by 82 points to finish the week at 1,691. The **capes** this week dropped by $1,503 to end the week at $25,621. In the Atlantic, there was little TC activity to report, however rates out of Brazil were touch over $24pmt. Little was reported on the front-haul however there was a rumour that a Seven Islands to Qingdao trip was fixed which equated to low $40,000's per day. Trading was slow in the Pacific, mainly affected by holidays, in Singapore rates for West Australia / Qingdao route remained under $10pmt and *Cape Stork* (175,611-dwt, 2011) a Pacific Bulk relet fixed delivery Bayuqan for a trip via West Australia at $21,000 with K-Line. On the Period side of things K-line took *Genco Tiger* (179,185-dwt, 2011) for 4/6 months basis delivery CJK for world wide trading on an index linked rate based on BCI 5-timecharter average, small else was reported with regards to period fixtures.

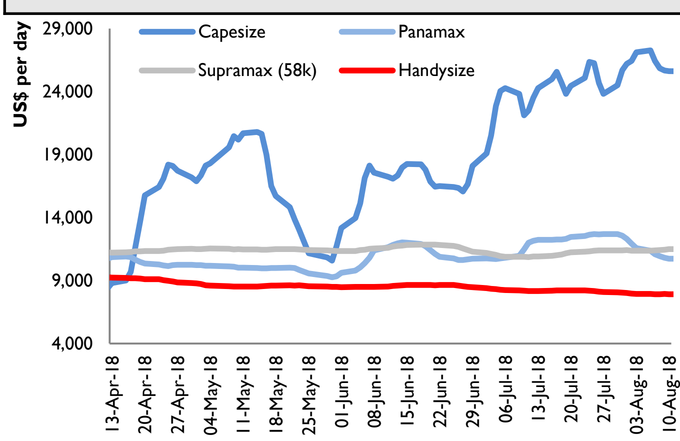
The downward momentum continued this week in the **Panamax** market. The time charter average decreased further to $10,802, down from last week close of $11,574. In the Atlantic, the *Ellina* (82,612-dwt, 2008) fixed delivery East Coast South America trip redelivery UK-Continent at $15,000 plus $150,000 bb. ACB took the *Hong Jing* (82,354-dwt, 2008) delivery Tilbury for a trip via Baltic redelivery Jorf Lasfar at $14,300. In the Pacific, SDTR took the *Alpha Melody* (74,475-dwt, 2002) delivery Donghae for a trip via Vancouver redelivery China with grains at $9,000 and Kaishun fixed the *MP Panamax 5* (73,625-dwt, 2000) delivery Singapore for a PPT trip via Taboneo redelivery S China at $9,500. The *Jin Lang* (93,280-dwt, 2010) delivery Lanqiao fixed to Louis Dreyfus for a trip via Australia redelivery China at $10,000. On the front haul, Norden fixed the *Balos* (82,200-dwt, 2018) delivery East Coast South America for a trip redelivery Singapore-Japan at $16,500 with $650,000 bb. The *Mild Sea* (81,684-dwt, 2013) delivery Santos fixed trip redelivery Singapore-Japan at $15,800 with $580,000 bb.

On the period side, Starboard took the *Thessaloniki* (76,598-dwt, 2006) delivery Philippines for 6-9 months redelivery worldwide at 106% BPI timecharter average.

The **supramax** index closed the week at $11,201, down from last weeks close of $11,362. In the Pacific, the *Bao Flourish* (56,591-dwt, 2011) was fixed for delivery Singapore via South East Asia, redelivery China at $11,250 and the *Darya Noor* (58110-dwt, 2011) was fixed for delivery Haikou via Indonesia, redelivery Thailand at $10,000. In the Atlantic, Bunge fixed the *African Bari Bird* (63479-dwt, 2017) for delivery Mississippi River, redelivery Egypt at $19,000 and the *Feng Shou Hai* (63,365-dwt, 2017) was fixed by Cargill for delivery Upriver, redelivery Continent at $14,900. On the front haul, Fayette fixed the *Great Fortune* (63,497-dwt, 2015) for delivery Sea of Marmara, redelivery South East Asia at $23,000. On the period front, the *Heilan Brother* (56,759-dwt, 2012) was fixed for 7/9 months, delivery Lianyungang, at $11,000. The **handy** index closed at $7,961, up from last weeks $7,945. In the Pacific, the *Ultra Osorno* (37,883-dwt, 2018) was fixed by Oldendorff for delivery Port Kembla, redelivery Singapore-Japan at $11,000 plus $100,000 bb and Pacific Basin took the *Yangtze Oasis* (34,306-dwt, 2013) for delivery Singapore via West Australia, redlivery Singapore-Japan at $8,000. Elsewhere, the *King Rice* (28,050-dwt, 2012) was fixed by Western Bulk for delivery Jebel Ali, redelivery South Africa at $6,000 escalating to $9,500 after 39 days and Noden fixed the *Belle Plaine* (35,485-dwt, 2014) for delivery Upriver, redelivery West Coast South America at $13,750. On the period side, the *TS Echo* (38,863-dwt, 2016) was fixed by Seacape for 2 months / up to November 2018 for delivery Fortaleza at $11,500 and Jaldhi fixed the *Patagonia* (35,964-dwt, 2012) for 2/3 laden legs delivery Ras Al Khair at $10,000.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Anangel Guardian	179,701	2010	Bayuquan	06 Aug	Sing-Jpn	27,000	CNR	Via Australia
Cape Stork	175,611	2011	Bayuquan	11-12 Aug	Sing-Jpn	20,500	Pacific Bulk	Via Australia
GL Pirapo	98,704	2013	Paradip	01 Aug	India	13,000	CNR	Via RBCT
Shandong Peng Cheng	82,154	2010	Hamburg	15-19 Aug	Continent	12,250	Oldendorff	Via Baltic
Darya Ma	81,874	2011	ECSA	23 Aug	Sing-Jpn	15,500 + 550k bb	CNR	
Great Fortune	63,497	2015	Sea of Marmara	18-19 Aug	SEAsia	23,000	Fayette	Int Grains
Astra Centaurus	58,518	2012	Port Elizabeth	PPT	Far East	12,200 + 220k bb	Oldendorff	
Sveti Dujam	52,113	2010	Ho Chi Minh	07-09 Aug	China	9,100	CNR	
Ultra Osorno	37,883	2018	Port Kembla	13-15 Aug	Sing-Jpn	11,000 + 100k bb	Oldendorff	
Yangtze Oasis	34,306	2013	Singapore	PPT	Sing-Jpn	8,000	Pacific Basin	Via West Australia



Exchange Rates	This Week	Last week
JPY/USD	110.94	111.41
USD/EUR	1.1462	1.1584

Brent Oil Price	This Week	Last week
US$/barrel	72.31	73.47

Bunger Prices ($/tonne)	This week	Last week
Singapore IFO	471.0	467.0
MDO	659.0	642.0
Rotterdam IFO	418.0	426.0
MDO	618.0	619.0

Dry Bulk S&P

Despite the holiday period, a squall of activity has swept across the dry second hand market this week. The majority of deals remain in line with last done, however there are a couple of sales that reflect prices maybe returning to levels seen before the summer lull kicked in.

Turnover in the capesize market remains fluid. *Royal Chorale* (177,544-dwt, 2006 Mitsui) has reportedly been sold to clients of Kassian Maritime for a price in the range of $20-22m. The last Mitsui cape sold (all be it slightly larger and older) was the *NNS Fortune* (184,872-dwt, 2003 Mitsui) early last month for $15.5m. The price achieved for Royal Chorale further bolsters the positive momentum currently been seen in the capesize chartering market.

Perhaps the headline sale of the week is *Sagar Jyoti* (58,110-dwt, 2011 Tsuneishi Zhoushan), reportedly sold for $16.45 to undisclosed interest. A price more in line with the firmer pre-summer market than last done.

In order to finish off internal bureaucratic import procedure, these mid August weeks are surely the last opportunity Chinese buyers have to physically take delivery of new acquisitions before the 1st of September deadline. *Glory Rotterdam* (74,710-dwt, 2001 Hudong) and *Alkyon* (74,875-dwt, 2001 Hotachi) have by all accounts squeezed across the line before the sands run out, reportedly both sold to Chinese buyers. Glory Rotterdam for an undisclosed price and Alkyon for $9.75m.

Tequila Sunrise (31,612-dwt, 2009 Saiki) was widely reported sold for $11.5m a couple of weeks ago, however we now understand the price was closer to $11.3m, and the buyers an undisclosed Greek. Last but not least, *Clipper Valour* (34,790-dwt, 2003 Tianjin Xingang) is rumoured to have found a new stable for a price in the region of $6.3m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Royal Chorale	177,544	2006	Mitsui	-	Kassian Maritime	Rgns 20-22	
Sagar Jyoti	58,110	2011	Tsuneishi	C 4x30	Undisclosed	16.45	
Alkyon	74,875	2001	Hitachi	-	Chinese	9.75	
Glory Rotterdam	74,710	2001	Hudong	-	Chinese	Undisclosed	
Clipper Valour	34,790	2003	Tianjin Xingang	C 4x30	Undisclosed	6.2	
Tequila Sunrise	31,612	2009	Saiki Heavy Ind.	C 4x30	Undisclosed Greek	11.3	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price ($)	Delivery
Ruby IV	281,000	2000	IHI - Kure	Tanker	425	16.4	"as is" Colombo

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Tanker Commentary

Earnings remain lacklustre to say the least, so you would be forgiven for thinking that the much talked about light at the end of the tunnel is nothing more than a mirage. It is no surprise then to see yet more sale&lease back transactions concluded as owners seek out ways to improve their cash flow and sail through this unforgiving storm. D'amico are reported to have concluded a deal on their *High Loyalty* (49,990-DWT, 2015 HMD), selling the ship to a Japanese buyer for $28.5m with a 10 year BB back. D'amico who have been extremely active in sale&lease back transactions this year, join the likes of Teekay Tankers and Scorpio Tankers who have both structured similar deals in recent weeks.

The VLCC sector continues to attract interest from cash rich owners not put off by loss making rates. The *Shanghai* (319,775-dwt, 2015 Jinhai) received up to five offers this week.

It is understood that whilst negotiations remain ongoing (at the time of writing), competition has driven the price up from very low $50s to mid/high $50s. In the aframax sector, Sovcomflot have sold their *Pterozavodsk* (106,449-dwt, 2003 Tsuneishi) to Chinese conversion buyers for $10.4m. It is understood that this might be an old sale, which would explain the firm price.

The billion dollar question is clearly when, not if, the market will recover. It takes bravery topped with large cash reserves to make big moves now. But as we saw in the drybulk sector, those who bought when things were darkest, were well rewarded when that light was no longer a mirage.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Petrozavodsk	106,449	2003	Tsuneishi Corp	Chinese ZPMC	10.4	Conversion Project
High Loyalty	50,000	2015	Hyundai Mipo	Undisclosed Japanese	28.5	10 yr bbc

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
DHT Bronco	318,000	2018	Hyundai HI	9 months	17,000	Undisclosed

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