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HARTLAND SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

This week we bring you an extract of the HSBC Global Research report named “Global Agribusiness”. The authors discuss about the far-reaching implications of the African Swine Fever outbreak in China.

Source: The FT

POINTS OF VIEW

China’s pig population has been hit hard by the outbreak of African swine fever (ASF). African swine fever is a highly contagious and untreatable disease that – while already endemic in a number of countries around the world – was first reported in China in August 2018. Since then, the disease has been spreading and is now having a major impact on pork supply and prices. According to HSBC’s agriculture analysts, the supply of pigs in China has fallen by nearly 20% in 2019, the most severe decline in a decade. Piglet prices have soared by 60% since the beginning of the year in rural areas, mostly over the course of March and April. Nationwide, pork prices were up 5% y-o-y in March 2019. Past patterns suggest that once supply troughs, prices will continue to go up for another six months. This means pork prices should be on an uptrend until at least Q4 or even year-end. Judging by past patterns, pork prices could rise as much as 30% y-o-y. This is having knock-on effects around the world. US pork prices have risen by about 80% since the end of February. China has typically been the third-largest market for US pork exports, after Mexico and Japan. While US pork prices are often volatile, a large part of the recent lift is likely to have been driven by expectations of higher Chinese demand. Indeed, the US Department of Agriculture is projecting a 40% jump in Chinese pork imports in 2019 with producers in the US, EU and Brazil likely to be the main beneficiaries (although US producers continue to face retaliatory tariffs). However, the cuts to China’s hog herd are also lowering demand for feed, which has seen prices for commodities such as corn and soybeans fall. While the US and Brazil may benefit from increased Chinese demand for pork, these countries’ major agricultural export to China is soybeans. So the first-round effect, in net terms, is likely to be negative for both countries.

African swine fever is impacting global trade flows. China typically imports pork to supplement its domestic production. It was the world’s largest importer of pork in 2018, sourcing nearly 1.6 million tonnes of the meat from overseas and accounting for 20% of total global imports of pork that year. According to WIND data, China imported 90mt of soybeans in 2018, accounting for nearly 60% of total global soybean trade, and consumed 106mt of soybeans (with the rest of the supply from inventory and domestic production). Because China uses a significant amount of soybeans as feed, the disruption in China’s domestic pork production will greatly reduce soybean trade demand. According to HSBC’s agriculture analysts, 80% of the soybeans China consumes are used for feed and residual use, of which nearly half are used for pig feeding. That means annual feed use is almost equivalent to China’s total soybean imports. The sharp decline in Chinese pork production will likely lower corn and soybean demand as they constitute a major portion of animal feed. In a nutshell, assuming full substitution by poultry and if the reduction in Chinese pork output is about 30%, HSBC’s agriculture analysts estimate global demand for soybeans and corn would fall by 1.8-4.2% and 1.5-3.4%, respectively. This would likely be dragging down most of the grain value chain, including chemicals and fertilizers. Note that China’s imports of soybeans represent 1.7% of global seaborne dry bulk trade in millions of tonnes. Driven by the escalation in China-US trade tensions, China’s imports of soybeans declined 7.8% in 2018 and 14.3% y-o-y in 1Q19. With the ASF outbreak, China’s fundamental demand for soybeans has been weakened, adding downward pressure to the soybean trade.

The sharp reduction in pig population, resulting in lower soybean demand, might limit China’s ability to significantly increase soybean imports from the US, which is one of the key terms in China-US trade talks. Due to the trade tension, China curtailed its soybean imports from the US, down 84% y-o-y in 1Q19, although it was partially offset by increase in imports from Brazil (up 45% y-o-y). China is the largest pork consumption market, accounting for about 50% of global pork consumption. In terms of agriculture specifically, reports suggest that a bilateral US-China trade deal could require China to increase purchases of US agricultural goods like soybeans and energy products. China will reportedly have until 2025 to realize its commitments for commodity purchases from the US. The US has long-been a key supplier of soybeans to China, but export volumes have faltered since China imposed duties of 25% on US soybeans in retaliation to the tariff actions of the US on Chinese imports. According to PIIE, Chinese retaliatory tariffs targeted over $10bn worth of US soybean exports. China already resumed limited purchases of US soybeans at the end of 2018 and at the beginning of this year. However, the spread of ASF and subsequent culling of pig herds in China is likely to constrain China’s ability to substantially increase soybean imports from the US and could impact US soybean farmers who may have been hoping for a recovery in export volumes to China. Reports also suggest the US has requested that China shift its retaliatory tariffs from agricultural goods (e.g. soybeans and pork) to target other US exports instead. But as discussed by PIIE, China may be hesitant to do so. Imposing additional tariffs on intermediate inputs, e.g. parts and components, could affect the competitiveness of Chinese firms. However, China may need to reduce or remove its additional duties on US pork if the ongoing ASF crisis leads to a sustained pork shortage locally. Some tariff reprieve could help rebalance domestic pork availability, although evidence cited above suggests US exporters are already trading through the tariffs, so China’s punitive tariffs are not fully prohibitive. From the perspective of bulk carrier owners, they need an end to ASF and a de-escalation of the tariff wars if they are to bring home the bacon.

Dry Cargo Chartering

The **BDI** rose 46 points finishing the week at 1,031, this was up from last week's 985. The **Cape** market continued to look promising despite the trade war, ending the week at $11,621, up $439 from a week ago. In the Pacific, Oldendorff fixed the *Tiger Jiangsu* (180,096-dwt, 2010) delivery Nagoya for a trip via West Australia redelivery Singapore-Japan at $11,000. In the Atlantic, *Anangel Trust* (180,391-dwt, 2012) fixed a trans-Atlantic round voyage, delivery UK redelivery Skaw-Passero at $11,500 with K Line. The West Aussie/Qingdao ore runs were fixed in mid $6 mark with Rio Tinto and Louis Dreyfus covering 170,000/10% at $6.40 pmt and $6.60 pmt respectively while Tubarao/ Qingdao ore runs were fixed at $15.20 pmt. The period market has been quiet with barely any fixtures reported.

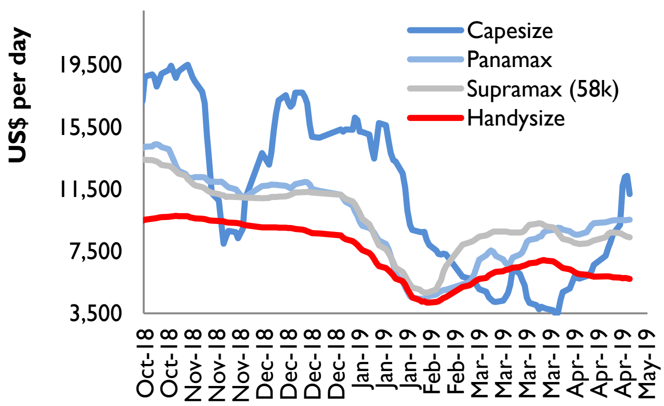
The **Panamax** market saw very little movement this week with the index rising $68 from last week to $9,592. In the Pacific, Hyundai Glovis took *Transatlantic* (81,250-dwt, 2012) delivery CJK for a trip via Australia redelivery Malaysia at $9,500. In the Atlantic, ACB took *Yangtze Xing Hua* (81,678-dwt, 2012) delivery Rotterdam redelivery Skaw-Gibraltar for a trip via Baltic at $12,000. Fronthaul remains active although rates have softened since last week. Omegra fixed *Irene Madias* (79,501-dwt, 2012) for a trip delivery East Coast South America redelivery Indonesia at $14,200 daily plus $420,000 bb and Ausca took *Captain V.Madias* (79,501-dwt, 2012) at $14,500 plus $450,000 bb for similar business. On period, EGPN took *MBA Giuseppe* (82,256 dwt-2010) delivery North China for minimum 15 February maximum 15 May 2020 trading, redelivery Singapore-Japan at $11,000.

The **Supramax** index closed the week at $8,673, up from last weeks close of $8,390. In the Pacific, *Amoy Fortune* (56,853 dwt-2011) fixed delivery Ningbo for a trip via Philippines redelivery China at $10,000. Swire Bulk fixed the *Bulk Chile* (55,486 dwt-2009) delivery Durban for a trip to UK with sugar at $7,500. Eagle Bulk fixed the *Amilla* (58,458-dwt, 2011) delivery Indonesia for a trip redelivery Kohsichang at $12,000. BG Shipping fixed the *Star Monica* (60,935-dwt, 2015) delivery Port Elizabeth for a trip redelivery Singapore-Japan at $12,500 plus $250,00 bb. It was very quiet in the Atlantic with only the *IVS Crimson Creek* (57,945 dwt-2014) fixed delivery passing Walvis Bay for a trip to China at $12,000 plus $200,000 bb.

The **Handymax** market went up a marginal $15 this week to finish at $5,715. The Pacific market remained rather stagnant with rates sliding downwards. Long tonnage lists in the north created pressure on already depressed rates. It was rumoured that a 37k-dwt fixed mid 5's for a trip with steels ex Weihai into Vietnam, with other fixtures scarce. In the south there was much the same, too many ships and not enough cargo. With regards to period, it was heard that *Maratha Promise* (37,187-dwt, 2012) was fixed for 4-6 months delivery Singapore for world-wide trading. In the Atlantic the Monday bank holiday provided a brief slow down and delayed the start to the week. Rates in East Coast South America remained firm with Norden fixing the *Dolce Vita* (38,762-dwt, 2015) delivery Cristobel for 4/6 months redelivery Atlantic at $9,500. We also heard a 35k-dwt fixing around $9k for 4-6 months ex Paranagua. The Continent remained quiet with little reported activity. The East Mediterranean saw an increased supply of tonnage with reporting levels at low $5,000 to US Gulf direction.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Cologny	180,643	2011	Zhoushan	2 May	Singapore-Japan	17,500	Panocean	Via West Australia
Jin Lang	93,280	2010	Jingtang	2 May	Korea	8,000	Panocean	Via NoPac
Andros	82,158	2010	EC South America	22 May	Singapore-Japan	15,150	Ausca	Plus 515,000 bb
Aeolian Arrow	81,800	2018	EC South America	12 May	Passero	17,250	Starlog	
Federica Prima	76,596	2005	Taiwan	06/08 May	South China	9,500	Tongli	
Jorita	63,532	2019	USEC	PPT	Continent	12,500	Pacific Basin	
Spar Capella	58,018	2011	Singapore	06/07 May	China	10,500	CNR	Via Indonesia
CL Boy	51,687	2010	Norfolk	Ely May	Italy	11,000	XO Shipping	
Caroline Selmer	33,647	2011	Rotterdam	05/07 May	East Mediterranean	10,125	CNR	
Bright Ocean III	37,062	2013	Continent	PPT	East Mediterranean	8,500	Norden	



Exchange Rates	This Week	Last week
JPY/USD	109.52	111.34
USD/EUR	1.1246	1.1164

Brent Oil Price	This Week	Last week
US$/barrel	70.58	70.86

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	420.0	432.0
MDO	619.0	625.0
Rotterdam IFO	411.0	408.0
MDO	619.0	610.0

Dry Bulk S&P

Despite the doom and gloom in the press surrounding the trade war; Vale lowering their iron ore output estimates and swine flu supposedly sweeping across China, killing pigs and removing demand for soybean meal, the BDI rose and activity in the S&P market continues to tick over, particularly on the older units.

The main movers, as has been the case for the last couple of months , are the older panamaxes. At the time of going to press there are rumours circulating that the post panamax *Shin Sapporo Maru* (91,439-dwt, 2002 Oshima) is committed in the mid 8s. Elsewhere, *Paquis* (74,143-dwt, 2005 Namura) is finally committed to Turkish Buyers in the low $8s and *An Ho* (77,834-dwt, 2004 CSBC) is sold to Chinese for $6.5m, $400k down on the sister *Te Ho* sold in March for $6.9m. Bringing vintage panamax sales (2005 and older) to 22 for the year.

The flow of Chinese 57s continues and Buyers continue to pay established prices. *Conti Larimar* (57,075-dwt, 2011 Sanfu) has been sold by German insolvency administrators to Chinese Buyers in the low $10s. Lastly, the handymax *Victoria* (46-dwt, 1997 Daedong) has been committed to unknow Buyers for $4.2m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
An Ho	77,834	2004	China Shipbuilding	-	undisclosed	6.5	
Paquis	74,143	2005	Namura Shipbuilding	-	Turks	8.3	
Conti Larimar	57,075	2011	Taizhou Sanfu Ship	C 4x30	undisclosed	10.2	
Victoria	46,841	1997	Daedong Shipbuilding	C 4x25	undisclosed	4.2	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Navios Equator Prosper	171,191	2000	Namura Shipbuilding	Bulk	20,489	437.5	'As is' Singapore
Royal Arsenal	48,203	1999	Oshima Shipbuilding	Bulk	7,250	431.0	Pakistan/India
Sward	10,700	1984	Schlichting-Werft GmbH	Gen	4,669	442.0	India/Pakistan

Tanker Commentary

With a run on aframaxes in the period market it comes as no surprise that we report one sold this week. The *Seaheritage* (109,229-dwt, 2005 Hudong) has been sold to Union Maritime for $14m. When you discount the yard at 10%, the price is in line with the last 2005 sold, the *Agrios* (106,029-dwt, 2005 Daewoo) which went for $15m in March. Similarly interest is picking up in taking in product tankers for longer term period, and with that we are seeing rates and sentiment, firming.

Whilst there has been a consistent drip feed of Japanese pumproom MR sales so far this year – the same can not be said for more vintage MRs where the lack of liquidity has hampered values. This week it is being reported *Seaways Ariadmar* and *Seaways Antigmar* (46,205/46,168-dwt, 2004 STX) have been sold to Nigerian buyers for $8.9m each.

The sister vessel Seaways Alcmar was sold in Q2 2018 for a reported $10.7m illustrating the extent to which values have softened for the more mature ladies. Where as values for older ships have suffered – the same can not be said for younger MRs where prices have remained stable despite the high volume of sales candidates from the Japanese market. The pumproom configuration *Leopard* (47,991-dwt, 2010 Iwagi) is calling for offers next week having being inspected by 3 buyers and it will be interested to see whether values can be maintained.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Seaheritage	109,229	2005	Hudong-Zhonghua	Union Maritime	14.0	
Seaways Ariadmar	46,205	2004	STX Shipbuilding	Nigerians	17.8 en bloc	
Seaways Antigmar	46,168					
Argent Cosmos	33,609	2009	Kitanihon Zosen	Greeks	18.50	
Valdaosta	26,200	2002	ShinA Shipbuilding	Nigerians	7.20	

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