11 August 2017

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… Market Fundamentals compete with Black Swans …

Source: The Times

^Described by the New York Times as "the biggest mortgage lender to people with blemished credit histories in the United States."

*Collateralised Debt Obligations.

^^China Iron and Steel Association.

**Coal mining and aluminium production are subject to similar cuts.

POINTS OF VIEW

Some financial market commentators view August 2017 as marking the 10th anniversary of the global financial crisis when BNP Paribas was no longer able to put a value on its sub-prime investments. We thought it was earlier, in February 2017, when HSBC issued a profit warning relating to its US sub-prime loans. In March 2003, HSBC concluded the acquisition of Household International^ for some $15 billion giving it wide access to the US consumer finance market. It rightly believed that we faced a prolonged period of low interest rates and low net interest margins; it wrongly believed that Household's computer models would safely navigate it through the complex risks that sub-prime borrowers represent. The final cost to HSBC is rumoured to have been many multiples of its original investment, enough to have taken almost any other bank down. Indeed, many other large banks suffered similar problems and required state bail-outs.

That profit warning in February 2007 was just the start of an enduring nightmare for all lenders. Ed Conway, writing in The Times, puts the origins of the GFC decades earlier, tracing it back to 1971 when US president Richard Nixon de-pegged the US dollar from gold. There were various other contributory events between 1971 and 2007, a leading one being the Asian Financial Crisis in 1997. Asian economies were caught short by mass capital flight and, since then, they have built up giant cash buffers to protect themselves in another crisis. Enormous surplus savings from countries such as Japan and China found their way into US government bonds, keeping a lid on global interest rates, and causing banks and investors to search for higher yields in riskier products. These ranged from sub-prime home loans at high rates to weak borrowers to bundled CDOs* as securitisation expanded bank lending capacity, often with disastrous consequences.

There are fears that another credit crisis is looming. In mature markets, since 2009 debt to GDP ratios have flatlined as the private sector deleveraged while public debt soared as governments stepped in as spenders of last resort. In contrast, in emerging markets led by China, since 2009 debt accumulation has continued rising across all three sectors: household, corporate and government. One of the big questions concerning the global economy today is how this will resolve itself once interest rates hit their inevitable upward path. The central banks are too afraid to pull the trigger but, at some point, Mr Market may decide that interest rates must rise to face off inflation or because investors need a higher coupon rate to buy sovereign bonds and justify the elevated risks. China occupies a central role in cause and effect, action and reaction, and in any final outcome.

And so it is in shipping. Since 10 July, the Baltic Cape Index has soared 176% from a low of 730 to 2,013 points today, taking the BCI-5TC from a low $6,305 to a much better $16,261 per day. The capesize fleet is expected to grow about 3% this year, compared to about 2% last year, while global iron ore trade is forecast to rise 5.5% (3.5% in 2016) and global coal trade to expand 2.8% (flat in 2016), giving us positive supply-demand fundamentals. The current surge in capesize earnings is based on surprisingly strong Chinese raw material import demand that is boosting commodity prices. Spot iron ore has risen 44% since mid June to $77 a tonne, while benchmark Shanghai rebar futures are up 56% since the end of last year to $600 a tonne. CISA^^ is concerned about speculation and that some market players may be misreading the likely impact of measures to further idle steel-making capacity this year to tackle pollution and reduce overcapacity. Government policy is encouraging speculative behaviour, sound familiar?

Pending output cuts and falling steel inventories have boosted raw material prices, steel prices and steel production in a mutually reinforcing pattern**. Port stocks of iron ore are high, at around 140mt, but some of this may be of outlawed low quality. Reuters reports that the Shanghai rebar futures relative price indicator (RSI) suggests that prices are overheating. The RSI currently stands at 82.6, well above the 70-mark that indicates when a contract is in overbought territory. It hit a peak of 90.6 in November last year before sinking below the 30-mark in April this year that puts it in oversold territory. At today's prices the risk of government intervention increases but, if the past is any guide, then government attempts to manage prices in a Goldilocks land of not too hot, and not too cold, are creating much policy uncertainty as it flip flops back and forth. The demand side still looks bright, and the supply side is under control for now, so capesize earnings and values should be set fair for continued improvement. Just keep an eye on excessive speculative moves, as they usually bring nasty consequences.

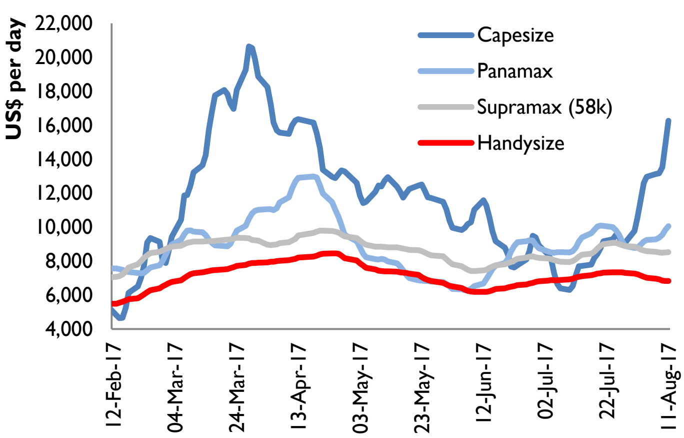
The **Cape** market continued its strong performance from last week, with the index rising $3,298 to close at $16,261. Increased enquiry and a continued lack of tonnage in the Atlantic was the primary driver behind the market's rally. The *Lake Dolphin* (179,418-dwt, 2011) fixed delivery Ashkelon for prompt dates for a trip via the USEC, redelivery Far East at $25,000, the charterers Classic Maritime. The Pacific picked up too, the West Australia / Qingdao iron ore run moving into the mid / upper 6s. Rio Tinto reported covering 170,000/10% ore at $6.75pmt. In the Pacific the *Star Pauline* (180,274-dwt, 2008) was fixed delivery South Korea for a trip via Australia back to Singapore-Japan at $16,500. The period activity remained quiet due the punchy spot market.

Another positive week for the **Panamax** market with the timecharter average increasing by $819 to end on the week on $10,056. In the Pacific, *Navios Livertas* (75,510-dwt, 2007) delivery Hong Kong fixed for a trip via Indonesia redelivery South China at $8,500. NYK fixed *Pedhoulas Trader* (88,214-dwt, 2006) delivery CJK via East Coast Australia redelivery Japan at $8,600. *Star Markella* (82,191-dwt, 2006) delivery CJK fixed for a trip via North Pacific redelivery Singapore-Japan range at $10,250. On the fronhaul, Louis Dreyfus took *Orient Fortune* (81,610-dwt, 2013) delivery East Coast South America redelivery Singapore – Japan range at $11,000 plus $600,000 bb. Cargill also fixed *RB Ariana* (81,334-dwt, 2017) delivery retro Singapore via East Coast South America redelivery Singapore – Japan range at $ 11,000. In the Atlantic, *NBA Magritte* (82,099-dwt, 2013) delivery Liverpool for a trip via Baltic redelivery Skaw-Gibraltar range fixed to SwissMarine at $12,500. *Thalassini* (82,977-dwt, 2005) delivery Fazendinha redelivery Vila Do Conde-Onde-Ponta Da Madeira range fixed to Norsul for 2/3ll at $16,500. On the period front. *Denita Wave* (93,201-dwt, 2011) delivery Longkou for 5-7 months trading, redelivery worldwide at $10,250.

A quiet week for the **Supra's**, with the timecharter average falling $60 to finish up at $8,595, however things started to pick up as it drew on. In the Atlantic, Bunge fixed a TA at $13,500 on *Coral Island* (55,700-dwt, 2006) for a prompt trip out of Recalada to Turkey. *CS Princess* (50,477-dwt, 2012) fixed a front haul passing Canakkale via Black Sea and India plus AG for redelivery passing Singapore at $15,250. In the Pacific, *Evnia* (53,806-dwt, 2003) fixed a coal run out of Gresik via Indonesia to Thailand at $9,500. A nickle ore cargo was fixed on *Topaz Halo* (53,600-dwt, 2009) for delivery Campha via Philippines up to China at $9,250. Little reported on the period front, with owners preferring to keep hold of their tonnage. Much the same with the **Handies**, however losing a bit more ground with the timecharter average falling $185 ending the week at $6,821. In the Atlantic, *Northern Confidence* (34,914-dwt, 2016) was booked by Pola Maritime for a trip out of Santos via Recalada to the West Mediterreanean at $11,000 and Pacific Basin fixed *Sunrise* (37,268-dwt, 2009) for a trip out of Santos to Morocco with sugar at $9,300. *Sunshine* (37,137-dwt, 2009) was fixed by Cargill for a front-haul cargo out of Itaqui for prompt dates to Singapore-Japan range at $11,750. In the Pacific *Darya Ganga* (36,845-dwt, 2011) was fixed by Oriental Pearl Shipping for a prompt trip out of CJK to West Coast India at $7,250 and *IVS Sentosa* (32,701-dwt, 2010) fixed a trip ex Lanshan down to South East Asia at $7,000. Again, just like with the Supras no period fixtures were reported this week.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Seafighter	181,068	2015	Singapore	21 Jul	China	17,000	Trafigura	Via Sudeste
Lake Dolphin	179,417	2011	Ashkelon	10 Aug	Sing-Jpn	25,000	Classic Maritime	Via USEC
Lara Venture	93,759	2011	Rotterdam	10 Aug	Skaw-Gibraltar	13,500	CNR	Via Baltic
Pedhouilas Trader	82,214	2006	CJK	08-12 Aug	Japan	8,600	NYK	Via EC Australlia
Good Wish	75,015	2011	ECSA	22-24 Aug	UKC	15,000	Nidera	
Tiger Shanghai	63,512	2014	Guangzhou	13-14 Aug	India	9,250	CNR	Via Indonesia
Dynamic Striker	56,736	2010	Itaqui	13 Aug	USG	9,750	ABT	Intent Steels
Tianjin Venture	53,600	2009	Haiphong	SPOT	S.China	6,600	CNR	Via Indonesia
Sunshine	37,317	2009	Itaqui	PPT	Sing-Jpn	11,750	Cargill	
Strategic Endeavour	33,078	2010	Praia Mole	PPT	Contient	8,000	CNR	



Exchange Rates	This Week	Last week
JPY/USD	109.17	110.58
USD/EUR	1.1801	1.1838

Brent Oil Price	This Week	Last week
US$/barrel	51.69	51.99

Bunker Prices ($/tonne)		This week	Last week
Singapore	IFO	315.0	309.0
	MDO	480.0	480.0
Rotterdam	IFO	295.0	297.0
	MDO	456.0	458.0

Dry Bulk S&P

Summer holidays are overlapping with national holidays worldwide but nevertheless some segments of the market still have numerous purchase enquiries. In some cases buyers are being frustrated by sellers' reluctance to commit tonnage. Sellers suspect that the markets are rebounding but from poolside and in a market that is not fully quorate, they are struggling to calibrate the strength of market recovery and would prefer to wait until they are back behind the safety of their desks before making the major decisions. That said, for those that remain in their offices, there is plenty of room still at the market buffet for buyers to load their plates. There is a fairly generous smorgasbord of sales candidates on offer at the moment.

Older and mid-aged supramax enquiry is particularly strong and turnover remains high. *Coral Island* (55,699-dwt, 2006 Oshima) is rumoured sold at $11.75m, which if correct is a healthy advance on the sale of the similar but younger *Nord Leader* (55,808-dwt, 2007 Kawasaki) last month at $11.2m.

Similarly the sale of *Ocean Hawk I* (56,039-dwt, 2007 Mitsui) at $12.5m underlines this market gain. Older supras values have also risen recent weeks and even Chinese built tonnage of this vintage is being actively hunted. This week *Ata M* (53,098-dwt, 2003 Oshima) is reported sold at $8m.

In the panamax sector *Fortune Clover* (77,430-dwt, 2006 Oshima) is sold for $11.0m, whilst the more modern *Fortune Iris* (82,372-dwt, 2009 Oshima) is reportedly negotiating in the mid $17m range.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Fortune Clover	77,430	2006	Oshima	-	undisclosed	11.0	
Ocean Hawk I	56,039	2007	Mitsui Chiba	4x30	Undisclosed	12.5	
Coral Island	55,699	2006	Oshima	4x30	Undisclosed	11.75	
Privsea	55,000	2007	Nantong COSCO	4x30	Undisclosed	9.5	SS due in Nov
Ata M	53,098	2003	Oshima	4x30	Undisclosed	8.0	

Tanker Commentary

As the holidays have progressed, the number of concluded deals has been diminishing and this week we appear to have hit rock bottom with not one sale to report. It is no surprise that this dearth comes at a time when the VLCC *Tina* (1998) was fixed for a voyage at WS38 that equates to circa $6,700 per day. As our friends on dry have seen, tough times call for tough measures and scrapping of VLCCs and other crude ships appears to have started. In recent weeks we have seen a number of aframax heading to the beaches, but this week Angelicoussis set the trend in sending his VLCC *Maran Lyra* (1995) for demo, only the third V to be scrapped this year. With demo prices for tankers touching $400 per LDT, and earnings on the floor, one would hope more owners are now incentivised enough to send their vintage vessels to the beach.

As rates soften, asset values have to some extent reflected this. A 5-year old VLCC is now worth $61.7m, marginally down from $62.0m at the start of July, according to the latest Baltic SPAs. A 5-year old 105,000-dwt aframax is now at $29.5m, down from $29.7m in early July, and a 5-year old 51,000-dwt MR is now at $23.8m down from $24.1m in early July. There remain a number of active buyers looking to pick up tonnage at todays prices, but the shop's shelves are scarce. With that in mind, for the short term at least, asset values may have found their floor…

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
No sales reported this week						

Tanker Period Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
Green Hellas	50,900	2014	Dae Sun	6 months	14,250	Clearlake
Archon	50,100	2016	Samsung	6 months	12,500	ST Shipping

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