11 May 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… The Iran accord: Trump ripped it up; and the Iranian parliament burnt it …

Source: AP - The Times

POINTS OF VIEW

This week President Trump reneged on the terms of the 2015 nuclear accord* with Iran, alleging violations, despite the UN atomic watchdog certifying Iran as compliant. The move undermines respect for international treaties at a time when the US hopes to win the trust of Kim Jong-un in denuclearising the Korean peninsula. Reimposition of strict sanctions will hurt both sides. In Iran, unemployment had fallen and GDP surged by 12.5% in 2016-17, after the lifting of sanctions, following a 1.5% GDP contraction in 2015-16. Oil sales will now suffer as buyers shift to other suppliers. Iran may switch to sales in euros or renminbi as it still has the support of the EC (and the UK, France and Germany) and China. US and EU aircraft makers, Boeing and Airbus, have outline deals to sell Iran some 200 new planes, only three of which have so far delivered. The rest are jeopardised since the US has just revoked export licences. Any companies using US dollar clearing face punitive fines should they continue to trade with Iran, frustrating oil company attempts to re-engage with its huge oil industry. Global multinationals are frantically seeking exemptions from future US retaliation for doing business with Iran. Coincidental allies, Israel and Saudi Arabia, which are both under threat from rising Iranian Shi-ite influence across the region (from Iraq to Syria and from Lebanon to Yemen), are happy with this US policy change. Saudi Arabia can ramp up oil output to replace lost Iranian barrels while the US itself, now forecast by the EIA to reach 12m-bpd of crude oil production by end 2019, also stands to gain from rising oil exports. Ironically, Iran's oil exports hit 2.6m-bpd in April, a new record since the lifting of sanctions. Iran has questioned the relevance of the EU after its failure to prevent the US from going ahead with its nuclear policy reversal, despite intense lobbying. A new dimension has been added to a trade war that was started by the US against China.

Brent has strengthened to around $77 a barrel and the yield on 10-year US Treasuries flirts with the 3% mark. Emerging market equities and bonds have been sold off as debt servicing costs are on the up. US Libor is rising and already creating discomfort for highly leveraged corporates, including listed shipping companies. Lloyd's List mentioned that state-owned giants Cosco and China Merchants have seen their borrowing costs rise by 30% and 34% respectively in 1Q18 year-on-year as the US dollar interbank rate pushes higher^. Both have borrowed more to finance newbuildings and acquisitions. This includes Cosco's 11 new 20,000-teu boxships at a total contract cost of $1.5bn and the OOCL takeover at $6.3bn. Meanwhile, CMES is borrowing to fund an outstanding orderbook of 9 VLOCs and 9 VLCCs. Both these companies enjoy the advantage of strong state support. Tradewinds reports that the rise in the Libor benchmark to its highest level in 10 years could be the "elephant in the room" for shipowners. With 3m USD Libor at 2.35%** it is still historically low, but still causing pain. An analyst at S&P Global Platts Ocean Intelligence took the median leverage ratio for S&P 500 companies as a baseline and compared it to the leverage ratio for shipping companies listed on its platform. The median net debt to Ebitda of S&P 500 firms is 1.5-times while for the shipping firms it is 8-times. Typically, a 1% rise in Libor would contribute to more than a 10% hike in a company's interest cost as a share of its operating income. S&P Global Ratings recently graded the debt of 15 of 17 publicly-listed shipping companies as junk.

Many tanker companies geared themselves up for a recovery and went out on the fleet and company acquisition trail, sometimes enhanced by orders for new tankers. The recovery is taking longer than expected as oil stocks first have to be drained, and orders placed in 2015-16, when markets were much better, are now hitting the water to meet sub-opex earnings. China, the world's largest oil importer, continues to raise its oil imports^^ but much of the incremental demand is satisfied by pipelines rather than by seaborne imports. The 22mt per year Burma-China pipeline opened a year ago and is ramping up while the second Russia-China ESPO pipeline doubled total capacity to 30mt per year from this January. The Burma line shortens VLCC routes to destinations east of Singapore while the Russian pipelines are drawing crude away from hostile European customers to more accommodating and less critical buyers in Asia. Year to date earnings for crude oil tankers are abysmal: under $6,000 daily for VLCCs, below $10,000 daily for suezmax and under $9,000 per day for aframax. At such levels many owners will struggle to pay interest, let alone principal, on loans and the costs are only going up. The brinkmanship of this US administration - intentionally crafted to unsettle 'opponents' in Russia, China, Iran and North Korea - risks trade wars, real wars, inflation and another debt crisis. Shipping is trying to rise above these troubled waters.

*JCPoA: Joint Comprehensive Plan of Action.

^3m USD Libor rose to 2.35% in May, the highest since Nov 2008.

**Up 1.35% from 1.0% at the beginning of January 2017.

^^Record 9.6m-bpd in April; Jan-Apr '18 imports up 8.9% y-o-y.

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Dry Cargo Chartering

The **cape** market had a big week, closing at $20,684 after last weeks close of $18,308. On Tuesday the index reached $20,500 which was the highest level since December. In the Pacific, Oldendorff fixed the *Lowlands Sunrise* (181,458dwt-2011) delivery Zhoushan for a trip via west Australia, redelivery Singapore-Japan at $21,750. On Port Hedland/Qingdao, BHP fixed *Mehmed Faith* 170,000/10 at $7.65 fio. Later in the week, Rio Tinto fixed 3 TBN's in the low 8's on Dampier/Qingdao. In the Atlantic, Oldendorff fixed the *Cape Alexandros* (179,166dwt-2010) delivery Cape Passero for a spot trans-Atlantic round redelivery Skaw-Cape Passero at $21,250. Oldendorff fixed the Winning TBN 170,000/10 Tubarao/Qingadao at approx. $17.90 fio. On period SwissMarine fixed the *Seamate* (177,775dwt-2010) retro Singapore for 9/11 months trading, redelivery worldwide at $19,250 as well as the *Houston* (177,729dwt-2009) delivery Changzhou for 9/11 months redelivery worldwide for $19,000.

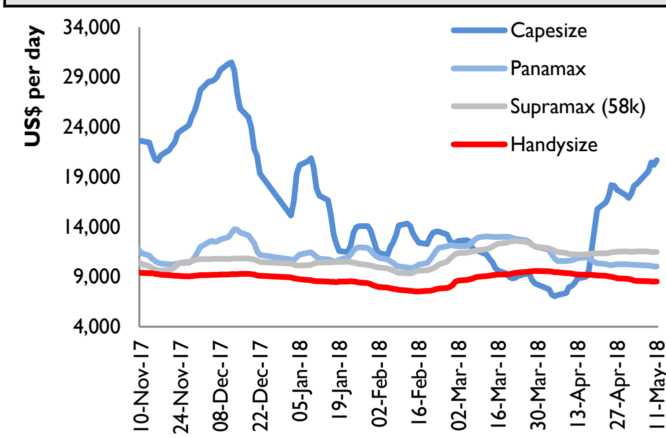
The **panamax** market has dropped further throughout the week, to close at $10,034, a decrease from last close of $10,176. In the Pacific, NS United took *Navios Prosperity* (82,535-dwt, 2007) delivery Jingtang for a trip via Dalian redelivery Japan at $11,500. The *Graceia Aeterna* (81,000-dwt, 2014) was fixed delivery Qinhuangdao fixed for a trip via the North Pacific redelivery Singapore-Japan range at $13,000 to Oldendorff. Ausca also took *Shao Shan 7* (75,409-dwt, 2013) delivery Masinloc trip via Indonesia redelivery Malaysia fixed at $11,750. On the fronthaul, *Navios Megellan* (74333-dwt, 2000) delivery East Coast South America redelivery Singapore-Japan at $13,800 plus $380,000 bb. Cargill fixed *Darya Moti* (80545-dwt, 2010) delivery East Coast South America redelivery Singapore-Japan range at $14,600 plus $460,000 bb. In the Atlantic, Oldendorff took *Ultra Panache* (78,450-dwt, 2011) delivery Gibraltar prompt trip Via Kamsar redelivery Stade at $8,750. On the period front, *Armonia A* (82,084-dwt, 2018) delivery ex yard Jiangsu for 1 year option 1 year trading, redelivery worldwide, was fixed at 13,500 option $14,500 to Cofco. Deyesion took *Seacon 9* (74,844-dwt, 2012) delivery Beihai for 4-6 months trading, redelivery worldwide fixed at 11,500.

The **supramax** index closed the week at $11,462, down from last weeks close of $11,543. In the Atlantic, the *Seabee* (62,653-dwt, 2015) was fixed for East Mediterranean / US Gulf at $7,000. In the Pacific, SWIFT fixed the *Konstantinos D* (50,326-dwt, 2000) for Nansha / China via Indonesia at $12,000 and the *Idee Fixe* (63,458-dwt, 2015) was fixed for Dalian / Chittagong via the North Pacific at $13,000. On the period front, PWSL fixed the *AP Astarea* (57,553-dwt, 2012) delivery Xiamen for 3/5 months at $11,500. Norden took the *Aurelia K* (53,100-dwt, 2009) delivery Singapore for 2/3 laden legs at $11,500.

The **handy** index closed at $8,527, down from last weeks $8,592. The *Happy Venture* (28,587-dwt, 1996) was fixed on a split rate by Weco Bulk for Skaw / South Brazil via Poland at $8,000 for the first 38days and $10,250 thereafter. The *Riva* (38,664-dwt, 2016) was fixed for US Gulf / Yuhzny at $11,000 and Ultrabulk fixed the *Cook Strait* (31,894-dwt, 2004) for El Dekheila / Haiti at $10,000.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Cape Alexandros	179,166	2010	Cape Passero	Spot	Skaw-Cape Passero	21,250	Oldendorff	Transatlantic Round
Aquajoy	171,009	2003	Mailiao	09/11 May	South China	15,500	Jiangsu Steamship	Via Australia
Siberian Express	92,974	2012	EC South America	22/23 May	Skaw-Gibraltar	15,000	Cargill	
Constantinos G.O.	87,447	2011	Yantai	12 May	China	10,500	Rio Tinto	Via Weipa
Mykonos	81,386	2013	EC South America	25/30 May	Singapore/Japan	14,500	Louis Dreyfus	+ $450k bb
Seabee	62,653	2015	East Mediterranean	PPT	US Gulf	7,700	CNR	
STH London	60,446	2015	Vietnam	PPT	China	11,500	Fullinks	Via Indonesia
Suabaagya 5	53,500	2002	Kandla	PPT	N China	10,250	Norvic	Via WC India
Riva	38,664	2016	US Gulf	PPT	Yuhzny	11,000	CNR	
Alma Suria	29,077	2012	Passing Skaw	PPT	East Mediterranean	11,000	Merbulk	Via Denmark



Exchange Rates	This Week	Last week
JPY/USD	109.24	109.17
USD/EUR	1.1956	1.1941

Brent Oil Price	This Week	Last week
US$/barrel	77.13	73.86

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	440.0	418.0
MDO	680.0	657.0
Rotterdam IFO	418.0	387.0
MDO	648.0	616.0

Dry Bulk S&P

After last weeks flurry of activity there are a limited number of sales to report this week, holidays across most of Europe have seemingly put a dampener on activity. The sales we do have to report do not show any significant gear change in values, and reflect what has been a fairly flat week on the freight market when looking at where the BDI started and has finished.

The first dry ship from the Toisa fleet is rumoured sold to clients of Marmaras Navigation. *Trade Quest* (82,042-dwt, 2016 NYZJ) has reportedly been committed for $24.4m, including a TC attached at $7,000 per day until April - August 2018 with an option to extend. The coal carrier *Sincere Salute* (85,778-dwt, 2004 Oshima) has been sold to Chinese buyers for slightly excess $13m. *Boreal* (74,181-dwt, 2002 Namura) we understand is fixed to undisclosed buyers for regions $10m and the geared panamax Ionian Ealge (74,085-dwt, 2001 Daewoo), having previously fixed and failed to Chinese has found a new undisclosed buyer at circa $10.2m.

Super-Eco Tankers have reportedly sold their Dolphin57, *Venus* (56,568-dwt, 2012 Cosco Zhoushan) to undisclosed interests for $12.7m. One could argue this is a slight price improvement when compared to last weeks two reported Dolphin57 sales: *Suprastar* (57,000-dwt, 2011 Qingshan) and *AS Vincentia* (56,708-dwt, 2010 Kouan) at $11.75m and $11m respectively, the uptick could be attributed to the fact that Cosco Zhoushan Shipyard is held in higher esteem.

Undeterred by the looming import tonnage age change, Chinese buyers continue to hoover up 16-17 year supramaxes, and as a result the list of sales candidates is steadily dwindling. We understand Aliki P (50,341- dwt, 2001 Kawasaki) has been sold for $8.35m to undisclosed Chinese interest. Along with the reported sales of the *Challenger* (52,413-dwt, 2001 Tsuneishi) and the *Top Trader* (52,403-dwt, 2001 Tsuneishi) a couple of weeks ago in the mid $8m's, the Aziz and Aliki P deals support a clear drop in values from the giddy heights of the *Akili* (52,301-dwt, 2001 Tsuneishi) sold for $9m to Chinese at the start of the year. It shows that at these more realistic levels Chinese buying appetite remains in this sector.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Sincere Salute	85,778	2004	Oshima	-	Chinese	13.0	
Trade Quest	82,042	2016	Jiangsu New YZJ	-	Marmaras	24.4	TC attached
Golden Eminence	79,444	2010	Jinhai Heavy Ind	-	Undisclosed	14.7	
Eternal Grace	76,585	2006	Imabari	-	Undisclosed	13.6	
Boreal	74,181	2002	Namura	-	Undisclosed	10.0	
Ionian Eagle	74,085	2001	Daewoo	4x30	Undisclosed	10.2	
Tai Prize	73,169	2001	Sumitomo	-	Chinese	7.9	
EM Amber	58,018	2010	Dayang	4x36	EGPN Bulk	12.0	
Venus	56,568	2012	COSCO Zhoushan	4x30	undisclosed	12.7	
Aliki P	50,341	2001	Kawasaki HI	4x30.5	Chinese	8.35	
Conqueror	32,912	2010	Shin Kurushima	4x30	Undisclosed	8.2	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	$/LDT	Delivery
Silver Glory	302,203	2001	Kawasaki HI	TANK	44,380	436.5	Full sub-continent range
Pacific Energy	106,681	1998	Koyo Dockyard	TANK	16,688	465.0	Full sub-continent range
Amazon Guardian	72,910	1999	Hundai HI - Ulsan	TANK	12,560	455.0	'as is' Khor Fakkan
Somaya	12,334	1982	Miho Shimizu	BULK	3,868	415.0	Pakistan

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Tanker Commentary

Despite earning less than supramax bulk carriers, rock bottom prices are still enticing some owners to invest in the VLCC sector. Cyprus Maritime is reported to have paid $22.6m to secure the Japanese controlled *Takamine* (306,206-dwt, 2004 Mitsubishi) whilst Athens based oil company Avin have made their second purchase in as may weeks, paying $21.5m for MOL's *Rokkosan* (300,257-dwt, 2003 Universal).

As more of the Toisa fleet sales drip feed into the market setting new benchmarks, it seems values for younger tankers appear to be firming whereas values of tankers older than 10 years of age are being dragged down by the sheer volume of candidates on the market for sale. Apparently owners are keen to dispose of their older units prior to the impending IMO 2020 and Ballast Water regulations come into force resulting in further investment in ageing ships with limited trading life ahead. The BP MR's *British Serenity, British Courtesy* and *British Tranquillity* (all 47,210-dwt, 2005 HMD) are a good illustration of this having allegedly been committed to Sinokor in February for $11.8m each and subsequently dropped on Buyer's BOD approval are now reported to be committed on subjects again for a more modest $10.7m each. In the aframax sector, Seaways International has continued disposing their older tonnage. Clients of Waruna are said to have purchased the *Seaways Josefa Camejo* (112,200-dwt, 2001 HHI) for a price of $9.5m.

The latest reported sales from the Toisa fleet are the suezmax *United Emblem* (161,724-dwt, 2010 New Times) to Delta Tankers for $27.85m and the LR2 *United Grace* (112,777 dwt, 2010 New Times) to compatriots Stealth Maritime having been inspected by the Greek community in Piraeus. A price of $22.0m is being reported packaged up with finance attached.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Takamine	306,206	2004	Mitsubishi	Cyprus	22.6	
Rokkosan	300,257	2003	Universal	Avin	21.5	
United Emblem United Grace	161,724 112,777	2010	New Times	Stealth	27.85 22.0	 With finance
Seaways Josefa Camejo	112,200	2001	Hyundai HI	Waruna	10.2	
British Serenity British Courtesy British Tranquillity	47,210	2005	Hyundai Mipo	Undisclosed	10.7 each	
Cielo Di Milano	40,083	2003	ShinA SB	Undisclosed	8.25	
Chemroad Mega	30,364	2000	Shin Kurushima	Singapore	6.0	
Ivy Galaxy	19,994	2008	Usuki	Far Eastern	14.0	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pm)	Charterer
Clio	112,723	2008	New Times	1 year	14,750	Shell
Kimolos	51,522	2010	Hyundai Mipo	1 year	13,500	CCI LLC
Hellas Enterprise	51,246	2008	STX Offshore	6 months	12,750	ST Shipping
Sunny Day Sunny Dream	46,803	2005	Hyundai Mipo	1 year	12,750	Shell
Tavrichesky Bridge	46,697	2006	Admiralty	1 year	13,750	ExxonMobil

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