HARTLAND
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WEEKLY COMMENTARY

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Source: Goldman Sachs

POINTS OF VIEW

Goldman Sachs Investment Management has just released a 2018 Outlook report titled "(Un)Steady as She Goes". The title hints at the divergence of economics and politics as the economy is on a steady growth path while politics is on an unsteady random walk. The economic recovery that started in March 2009 could become the second longest since 1945 if it gets through to mid 2019 without interruption. 186 of 192 IMF member countries posted economic growth in 2017 with the IMF forecasting that 2018 will see the lowest number of countries in recession ever. Unemployment is in decline around the world with the US creating 2.1 million jobs last year and OECD member countries registering 8.2 million newly employed in 2017. Last year, in local currency terms, US equites returned 21.8%, developed markets 15.8% and emerging markets 31.0%. The economy seems steady enough but 2017 was unsteady in other respects. The Trump presidency, and its decree by tweet, is by any measure unconventional. The US has developed tense relationships with Russia, China, North Korea and Iran. In 2017 the West suffered terrorist and cyber attacks on its citizens and infrastructure; the perpetrators ranged from criminals to nation states. It is a credit to the world economy that it did so well last year while largely ignoring the distraction of unpredictable events. For 2018, Goldman Sachs has expectations of steady economic growth* and steadily appreciating financial markets, but within an unusually uncertain and unsteady political and geopolitical setting. We might expect something similar in shipping in 2018.

We foresee steady but unspectacular growth in earnings and steady appreciation in asset values in an unpredictable geopolitical context. Fleet growth across the three main sectors should be modest over the next few years, and at its most benign in a decade or more^, while continued global economic growth should underpin expansion in world seaborne trade. Inevitably, as the market improves, fresh orders increase and scrapping declines so the window of opportunity may not stay open too long. Management of the tonnage supply side is in the hands of a fragmented and disunited shipowning community while the cargo demand side is beyond anyone's control. We take what we are given and hope for steady growth in seaborne demand to match or exceed tonnage capacity supplied by shipowners. One country looms large on both the supply and demand side, but particularly demand, and that is China. China's GDP growth was 6.7% in 2016, its lowest in 26 years, but in 2017 it is expected to rebound to 6.9% according to Premier Li Keqiang. It continually breaks records in hoovering up the world's supply of commodities that mostly make their way to China by sea. Iron ore imports exceeded a billion tonnes for a second year in a row, rising 5% year-on-year to 1.08bt in 2017 and are forecast to rise further to 1.12bt in 2018 with steel output at 838mt this year. More higher quality iron ore in being imported from Brazil, replacing low iron content domestic ore to raise efficiency and reduce pollution. This has lifted the price of 62% Fe, CFR China iron ore from a low of mid $50s in June to high $70s per tonne today.

China produces about half the world's steel and imports about two thirds of seaborne iron ore, making it the dominant market force, but it is also plays a leading role in non-ferrous metal and oilseed trades. For example, in 2017 China's copper concentrate imports rose 2.3% year-on-year to 17.35mt while in the year to end September 2017 it imported 95.5mt of soyabeans, an almost 14% year-on-year rise. The USDA forecasts this to rise to 97mt in the year to end September 2018, accounting for 65% of the 150mt annual world trade in soyabeans. Copper is used in wiring and piping while soyabeans are crushed to make soya oil and the residual meal is used as pig feed. Infrastructure development needs steel and copper while rising incomes lead to greater meat consumption. Energy is another area in which China dominates. In 2017 it displaced the US as the world's largest oil importer at an average of 8.4m-bpd, about a 10% year-on-year increase. And, despite producing 3.4 billion tonnes of coal each year China is still an importer of higher quality thermal and coking coal. It imported^^ over 42mt of coking coal in 2017, about 16% of global seaborne imports, and 177mt of thermal coal, about 19% of global seaborne imports. Both are expected to rise by 1% in 2018. China is gradually replacing coal with gas, as it attempts to tackle chronic air pollution, leading to a 27% total year-on-year increase in pipelined gas and seaborne LNG imports in 2017 to 68.6mt. Gas imports are expected to rise 10-15% in 2018.

"Steady as She Goes" is probably the Goldilocks scenario for economic growth, equity and shipping markets. Anything much faster may trigger less desirable consequences and tip the world and our markets into the unsteady mode that we all fear.

*For 2018, GS forecasts that US GDP growth should rise to 2.5% from 2.2% in 2017 and global GDP growth will rise to 4.0% from 3.7% in 2017.

^One blind spot is the Japanese newbuilding order book which tends to be less easy to assess than either South Korea or China.

^^Seaborne volumes only.

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12 January 2018

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Dry Cargo Chartering

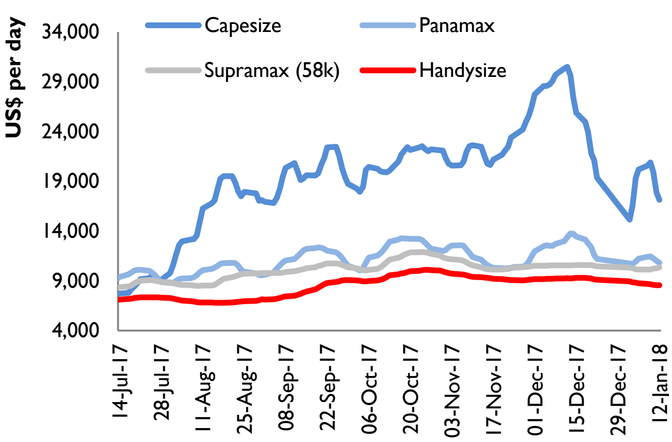
The BDI closed this week at 1,279, down 92 points from last weeks 1,371. Another unsettled week for the **Capes** saw a small resurgence on Tuesday being followed by a sharp drop towards the end of the week finishing on $17,118, down from last weeks close of $20,179. In the Atlantic, Vale relet the *Cape Kestrel* (181,267-dwt, 2016) 170,000/10% delivery Ponta Da Madeira, redelivering Taranto at $12.35pmt. On Dampier/Qingdao, Rio Tinto fixed the *Marvellous* (169,150-dwt, 2000) 170,000/10% at $6.50pmt. Ore & Metals fixed the Anglo American TBN 170,000/10% Saldanha Bay/Qingdao at $11.75pmt. On the front haul, Trafigura fixed the *CDBL Ore* (180,389-dwt, 2011) 170,000/10% Tubarao/Qingdao at $17.30pmt. Rio Tinto also fixed the Classic Maritime TBN 170,000/10% for Seven Islands/Kawasaki at $27.88pmt. On the period front, Cargil fixed the *New Shanghai* (180,145-dwt, 2011) delivery Guangzhou for 1 year trading at BCI 5 timecharter average plus 5%. The *Buccleuch* (179,444-dwt, 2016) fixed delivery Qingdao for 12/15 months trading at approximately $20,000 to Rio Tinto.

The **panamax** market dropped by $604 to end the time charter average on $10,813. In the Pacific, MOL took the *CMB Chardonnay* (95,740-dwt, 2012) delivery Longkou via Dalian redelivery Japan at $12,000. The *Ecostar G.O* (75,149-dwt, 2007) delivery CJK via Indonesia redelivery China fixed at $9,500 to Minmetals. On fronthaul, K-Line took the *Xin Hong* (82,226-dwt, 2013) delivery East Coast South America redelivery Singapore - Japan at $15,250 plus $525,000 bb. Cofco Agri fixed similar business, the *Globe Danae* (80,306-dwt, 2010) delivery East Coast South America redelivery Singapore - Japan at $15,000 plus $500,000 bb. In the Atlantic Ocean, Oldendorff fixed the *MBA Millet* (82,100-dwt, 2014) delivery Retro San Ciprian via US Gulf redelivery Skaw-Passero at $11,250. Hayne Shipping took the *Jawor* (79,694-dwt, 2010) delivery Port Said redelivery East Mediterranean at $11,500. On the period side of things, ECTP look the *Despina V* (81,200-dwt, 2018) delivery Weihai for 1 year redelivery worldwide at $13,000.

The **Supramax** market this week lost $21 on the timecharter average to finish the week at $10,344.Indra *Oldendorff* (63,490-dwt, 2016) was fixed by MOL for a front haul ex Mississippi River for a prompt trip to Japan at $23,500. Moving over to the Pacific MP *Ultramax I* (63,339-dwt, 2016) was reported as doing a NoPac Round delivery Busan at $9,000 redelivery Japan and *Federal Tambo* (55,337-dwt, 2013) fixed Indonesia coal into south China at $11,250 delivery Cebu. In the period market, *Nefeli* (63,466-dwt, 2016) fixed min 3 / max 5 months delivery Fos at $12,375 for Atlantic trading and GH *Northern Dancer* (63,205-dwt, 2016) fixed 4/6 months at $11,650 delivery India for world wide trading. The **Handy** market this week fell $113, with the timecharter average ending the week at $8,555. In the Atlantic, *Palau* (31,800-dwt, 2003) fixed a TransAtlantic delivery Rio Grande via Upriver to West Africa at a firm rate of $15,500 and *Puma* (34,979-dwt, 2017) was reported as fixing a trip ex south Brazil into the Baltic at $14,000. In the Mediterranean, *NY Trader II* (37,054-dwt, 2014) fixed a steels run delivery Canakkale via Turkey into Antwerp Rotterdam Amsterdam at $8,300. In the Pacific, SWIFT took *Minnanaur Cebi I* (33,811-dwt, 2011) delivery Tawau for a prompt trip via Indonesia into South Vietnam at $8,200. Little was reported in the period market for handies this week.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Heodotus	176,000	2012	Zhoushan	Spot	Singapore-Japan	12,250	Sinochart	Via EC Australia
CHS Magnificence	173,624	2006	Lianyungang	14/16 Jan	Singapore-Japan	7,000	Oldendorff	Via Australia
Xin Hong	82,226	2013	EC South America	02/03 Feb	Singapore-Japan	15,250	K Line	$525,000 bb
Maribella	76,629	2004	Houshi	12 Jan	Philippines	9,500	Klaveness	Via Indonesia
Triton	75,336	2001	Santos	25 Jan	Thailand	14,250	ADMI	$425,000 bb
Nautical Lucia	63,548	2016	Jamaica	PPT	China	24,500	Bilgent	
Federal Tambo	55,337	2013	Cebu	12/16Jan	South China	11,250	CNR	Via Indonesia
Osprey I	50,296	2002	Karachi	08/11 Jan	Arabian Gulf	9,500	Athene Shipping	Via WC India
Ina Lotte	38,267	2010	Ghent	Spot	Atlantic Colombia	7,750	Meridian	Via Baltic
Minanur Cebu I	33,811	2011	Tawau	PPT	S Vietnam	8,200	Swift	Via Indonesia



Exchange Rates	This Week	Last week
JPY/USD	111.46	113.14
USD/EUR	1.2136	1.2035

Brent Oil Price	This Week	Last week
US$/barrel	69.21	67.36

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	392.0	390.0
MDO	605.0	595.0
Rotterdam IFO	366.0	366.0
MDO	594.0	587.0

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Dry Bulk S&P

Handy asset values have been moving northwards since the turn of the year having not experienced the same level of appreciation achieved by the larger bulk sectors last year. The *Trading Fabrizia* (34,529-dwt, 2011 SPP) obtained a very firm price of $10.3m at auction in Jamaica taking into account that she had been laid up for a year and out of class. Greek buyers Bluffin Marine fought off competition from 9 other outright buyers to secure the vessel. The Japanese owned *Blue Ocean* (31,734-dwt, 2005 Saiki) has been sold for $9m to a Vietnamese buyer, a premium of $1.5m over the last done of that vintage. It was a repeat deal done off market so whether this could be achieved on the open market remains to be seen. In addition, there are confirmed reports that the *PPS Ambition* (33,328-dwt, 2013 Shin Kurushima) has been sold for $14.7m. The step up in pricing can be attributed to the vessel being fitted with BWTS.

The 28k dwt handys are not fairing so well on the other hand with buyers and charterers generally opting for the larger deadweight candidates. The *Asian Beauty* (28,218-dwt, 2011 Shimanami) has been withdrawn having received limited interest and the *Glorious Sunshine* (28,306-dwt, 2009 Imabari) has seen offers in low $8m with the controlling bank is holding out for $8.5m which sounds optimistic.

The *King Canola* (28,207-dwt, 2013 Imabari) has seen 3 offers and is very close to being concluded to a Greek buyer in the high $10m – we hope to be in a position to clarify further details on the deal next week.

In the supramax sector, the Chinese controlled *Dynasty Shang* and *Dynasty Xia* (56,573/56,629-dwt, 2013-12 Huatai Heavy Industry) have been committed domestically to Chinese buyers on a subject inspection basis having only been on the market a matter of days. A price of $25m is being reported – arguably quite a full number for a Chinese spec and the first sale concluded in this age range for some time.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Sea Trellis	79,501	2012	Jinhai	-	Greek	15.5	
Dynasty Xia	56,629	2012	Huatai	C4x30	Chinese	25.0	Enbloc sub inspection
Dynasty Shang	56,573	2013		C4x30			
Akili	52,301	2001	Tsuneishi Fukuyama	C4x30	Chinese	9	
Trading Fabrizia	34,529	2011	SPP	C4x35	Bluffin Marine	10.3	Auction in Jamaica
PPS Ambition	33,328	2013	Shin Kurushima	C4x30	undisclosed	14.7	BWS fitted
Blue Ocean	31,734	2005	Saiki	C4x30	Vietnamese	9.0	Off market deal
Atlantic Ace	28,671	1999	Imabari	C4x30.5	undisclosed	4.7	

Demolition Sales

Vessel	DWT	Built	Yard	Type	Buyer	Price ($/LDT)
DS Valentina	308,491	2000	HHI	TANK	Best Oasis	418 (as is Singapore)
Enterprise	168,432	1997	Halla Eng	BULK	Somap	495 (delivered Pakistan)

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Tanker Commentary

We are less than a fortnight into the New Year and activity in the tanker sale&purchase market is already rife, with a number of transactions already across the line. In the crude market, Tsakos have completed a sale and lease back transaction on their older suezmaxes *Eurochampion 2004* and *Euronike* (164,608/164,565-dwt, 2005 HHI). An extremely firm price of $32.6m is being reported, but it is difficult to make sense of the numbers without the five year BB rate. In the aframax sector, clients of Athens based Target Marine have purchased the *Vega Voyager* (104,864-dwt, 2003 Samsung) for region $10.6m. The price is in line with the various sisters sold at the end of last year. We understand the new owners are going to be placing the ship into a PDVSA charter.

In the products market, after hiding in the shadows for most of 2017, LR1s have stepped into the lime light. With the sale of the Advance Victoria last week, we can now report another two deals in the sector. German owners have agreed an enbloc deal on their *King Duncan* (73,230-dwt, 2008 New Times) and *King Darius* (73,634-dwt, 2007 New Times) for excess $14m each. Whilst it is yet to be confirmed, various sources are reporting Cyprus Maritime as the buyer. Elsewhere in the LR1 sector, having marketed the ship for over six months, Golden Energy of Greece have sold their dirty trading *Energy Century* (70,201-dwt, 2003 HHI) to Chinese buyers for a price of $9.5m.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Eurochampion 2004 Euronike	164,608 164,545	2005	HHI	Tsakos	32.6	Incl 5-yr BB back
Vega Voyager	104,864	2003	Samsung	Target Marine	10.6	Charter to PDVSA
King Duncan King Darius	73,720 73,634	2008 2007	New Times	undisclosed	28.5	
Energy Century	70,201	2003	HHI	Chinese	9.5	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pm)	Charterer
Orange Stars	115,756	2011	Samsung	1 year	16,500	Reliance Industries
Hafnia Australia	74,540	2010	STX Offshore	1 year	14,500	Galana

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