15 February 2019

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Supertankers – becoming US-dependent for their next fix? …

Source: Spash 247.com

POINTS OF VIEW

Worries about a slower pace of global economic growth raise questions about future energy demand and the direction of oil prices. The Paris-based International Energy Agency (IEA) has just released its 13 February Oil Market Report in which it notes global oil demand growth averaging 1.4m-bpd in fourth quarter 2018 and 1.3m-bpd in full year 2018. Out of this 2018 growth figure 1.19m-bpd, or 92%, was contributed by just three countries: the US (0.54), China (0.44) and India (0.21). The IEA has left unchanged its growth forecast of 1.4m-bpd for 2019 and total world oil demand is now, for argument's sake, at 100m-bpd. Its latest view is that rising oil output, particularly from the US, will swamp demand despite Opec and Russian productions cuts (1.2m-bpd) and US sanctions against Iran and Venezuela. It estimates that non-Opec output rose 2.7m-bpd in 2018 and will rise another 1.8m-bpd in 2019. Strong non-Opec production reduces the 'call on Opec' as it finds itself having to cut output to protect oil prices, the economic lifeblood of the Opec 15: Algeria, Angola, Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE and Venezuela. They are all oil-dependent economies, with the exception of Qatar which is gas-dependent. Non-Opec countries, led by the United States, are predominantly large oil consumers and they tend to prefer high oil output and low oil prices. The main contributors to 2018 global oil demand growth (US, China and India) are non-Opec nations despite having significant oil production of their own and, in the case of the US, significant oil exports.

Despite its slowing growth rate, 6.6% in 2018, China still raised its crude oil imports by 5% year-on-year to 10.0m-bpd in January, just below its all-time record of 10.4m-bpd in November. And, in tribute to its efforts to promote cleaner fuels, its natural gas imports* rose by 26% year-on-year to a record 9.8mt, beating the previous record of 9.2mt recorded in December. Alas, China's coal imports soared to 33.5mt in January, 3.3-times the 10.2mt it imported in December, and the highest in five years. It was largely explained by weakness in benchmark Australian coal prices and distortions caused by the Chinese New Year holidays. Turning to the Washington-based Energy Information Administration, it released its Short-Term Energy Outlook on 12 February. It estimates that US crude oil production averaged 12.0m-bpd in January, a record, after it averaged 11.0m-bpd in 2018 and is forecast to average 12.4m-bpd in 2019 and 13.2m-bpd in 2020. Most of the gains are expected to come from the Permian Basin in Texas and New Mexico, keeping the US upfront in global rankings. At the same time, it is influencing oil production around the globe by forcing Opec and Russia to cut their output and limiting output in Iran and Venezuela via the imposition of sanctions. These measures are all the more effective given that the US dollar is the default currency in which oil is traded, meaning that anyone breaching sanctions risks being excluded from the US dollar global payments system. Suspicions surrounding Iran's nuclear programme led the US to reimpose sanctions in May 2018, causing Iran's oil output to fall from 3.8m-bpd to below 3.0m-bpd and its exports to drop from 2.7m-bpd to below 1.9m-bpd. The aim is to reduce Iran's crude exports to zero once eight major import waivers soon expire.

The US is asserting itself in global oil markets by using its dominance of global trading infrastructure to embargo recalcitrant nations. Nowhere is this more clear than with Venezuela** where the US does not recognise the re-election of Maduro. Venezuelan crude oil output peaked at 3.4m-bpd in 1998 before falling to 2.5m-bpd in January 2015, 1.5m-bpd in January 2018 and 1.3m-bpd today. An average of 450,000-bpd were shipped to the US in 2018, mostly to Citgo refineries, down from a peak of 1.7m-bpd in 1998. US Gulf Coast refineries are configured to process heavier crudes from Canada, Mexico, Venezuela and Saudi Arabia but volumes from the first three are dwindling while Saudi Arabia prefers to export to Asia where it gets higher netback prices. Light US shale oil is now exported abroad at much higher prices than it can fetch at home. The premium of LLS^ over Mars Blend fell to below $1/bbl from more than $4/bbl last November. Since the 28 January announcement of US sanctions against Venezuela, the premium of Mars over WTI^ has soared from $4.50/bbl to over $7.50/bbl. Heavier crude is in hot demand. Global oil prices are now rising again after supply exceeded demand by 1.3m-bpd in 'quantity' terms in 2H18. The IEA says that, in 2019, the US alone will increase its crude production by more than Venezuela's current output but, in 'quality' terms, it is a more complicated picture. As it says, quality matters. Are we witnessing the demise of Opec, Venezuela and Iran and the ascendant influence of the US in global energy markets?

*LNG and pipelined gas.

**Foreign buyers must cease purchasing Venezuelan crude from 28 April.

^Light Louisiana Sweet and West Texas Intermediate, light crudes.

^^Brent is up 30% from $50/bbl to $65/bbl since end 2018.

Dry Cargo Chartering

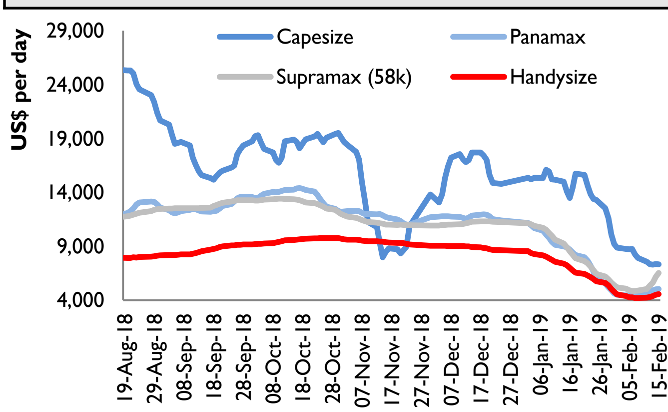
There were signs of life across most segments with all except the capes showing a sign of a recovery. The **BDI** closed the week at 639, this was up (yes….up) from last weeks close of 601. Something we have not heard for a while. The **cape** market was again the only market to close down this week, ending at $7,308, compared to last weeks $7,911. On time charter, Hyundai Glovis fixed the *Peloreus* (182,476-dwt, 2014) delivery Dandong for a trip via Australia, redelivery Singapore-Japan at $7,000. On period, Phaethon fixed the *Dong-A Astrea* (179,329-dwt, 2010) delivery Rizhao for 10-13 months trading redelivery world wide at $10,750. On voyage, Dampier/Qingdao runs were being fixed at the $5 however levels increased to $5.40 as the week went on. In comparison, Tubarao/Qingdao runs were fixed at mid $13 levels for 180,000/10%.

The **panamax** market finally showed some positive signs, albeit small. The time charter average finished up at $5,029, up from last weeks $4,618. In the Pacific, Norden fixed *Zheng Yao* (81,716-dwt, 2014) delivery Fuzhou via West Australia redelivery Singapore - Japan at $8,500. Bunge took *Sunny Young* (81,966 dwt, 2011) delivery Longkou via NoPac redelivery Singapore-Japan at $6,500. In the Atlantic, Cargill fixed *Welprofit* (93,250-dwt, 2011) delivery East Coast South America spot trip redelivery Skaw-Gibraltar. From the US Gulf Cargill took *Star Laura* (82,209-dwt, 2006) for front haul delivery US Gulf trip for a trip via Panama redelivery South Korea at $12,500 plus $250,000 bb. From the Plate, Ausca concluded *Rich Future* (82,197-dwt, 2013) delivery East Coast South America redelivery Singapore-Japan at $12,500 plus $250,000 bb. On the period front, Phaethon fixed *Rosalia D'Amato* (74,716-dwt,2001) delivery Qinzhou for 8/10 months trading redelivery worldwide at $5,500 for the first 45 days, $8,500 thereafter.

The **supramax** market was the pick of the bunch with an impressive week, closing at $6,529, up from last weeks $4,870. The US Gulf in particular made big strides with the TA and FH rates rising aggressively. In comparison the **handysize** market also recovered, closing at $4,544, compared to last weeks $4,202. In the Atlantic, Norvic fixed the *Tai Splendor* (60,618-dwt, 2015) delivery US Gulf for a trip to Israel with petcoke at $14,500. Langlois fixed the *Agia Doxa* (33,261-dwt, 2010) delivery Canakkale for a trip with grains to Morocco at $5,000. Oldendorff fixed the *Ocean Fortune* (38,037-dwt, 2014) delivery Mississippi River for a trip to the Continent at $7,650. Siva Bulk fixed the *Giovanna* (34,146-dwt, 2011) delivery North Brazil for a trip to India with petcoke at $12,250. In the Pacific, the *Dubai Knight* (55,418-dwt, 2007) fixed delivery Tuticorin for a trip redelivery Bangladesh at $7,500 first 30 days, $10,000 thereafter. *Triton Swan* (61,457-dwt, 2012) fixed delivery Richards Bay for a trip to Arabian Gulf – West Coast India at $10,250 plus $125,000 bb. Glovis fixed the *Port Botany* (28,470-dwt, 2001) delivery Thailand for a trip redelivery Indonesia with sugar at $6,000. *Venture Pearl* (55,633-dwt, 2012) fixed delivery Gresik for a trip via Kalimantan redelivery CJK at $9,750.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Golden Fulham	182,610	2016	Rizhao	11 Feb	Singapore-Japan	8,000	CNR	Via Newcastle
Peloreus	182,476	2014	Dandong	Spot	Singapore-Japan	7,000	Hyundai Glovis	Via Australia
Welprofit	93,250	2011	EC South America	Spot	Skaw-Gibraltar	9,000	Cargill	
Rich Future	82,197	2013	EC South America	26-27 Feb	Singapore-Japan	12,500	Ausca	Plus 250,000 bb
Zheng Yao	81,716	2014	Fuzhou	13 Feb	Singapore-Japan	8,500	Norden	Via West Australia
SBI Puma	63,542	2014	Hamburg	11/12 Feb	China	9,750	Itiro	
Dubai Galactic	55,418	2007	North China	17 Feb	S. Korea	5,000	CNR	Via CIS
Dalian Star D	56,010	2007	Turkish Mediterranean	PPT	West Africa	6,000	CNR	
Maria L	28,404	1998	Kingston	PPT	Skaw-Cape Passero	3,000	CNR	Via Caribs
Port Botany	28,470	2001	Thailand	Mid Feb	Indonesia	6,000	Glovis	



Exchange Rates	This Week	Last week
JPY/USD	110.50	109.77
USD/EUR	1.1260	1.1342

Brent Oil Price	This Week	Last week
US$/barrel	65.11	62.05

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	433.0	382.0
MDO	595.0	548.0
Rotterdam IFO	404.0	420.0
MDO	575.0	570.0

Dry Bulk S&P

There are a limited number of sales to report this week, however overall activity in the SnP market has certainly picked up. The physical market has been on a steadily improving course all week and has seemingly given buyers enough encouragement to start testing sellers. While certain sales undoubtedly show a softening in values there remains a lack of turnover to show any significant discount across the board. If the freight market continues to improve, it will be interesting to see how sellers react; withdrawn tonnage or face what buyers feel are todays levels. "Real deals" seem thin on the ground at present.

Tender Salute (95,696-dwt, 2011 Imabari) has reportedly been sold to clients of Cobelfret for regions $17m. The last similar unit done with a Japanese built element was ex *Ten Jin Maru* (98,681-dwt, 2011 Tsuneishi Zhoushan) sold for $20m back in September last year.

The fifteen to ten year old panamax sector has lacked any sort of concluded sales turnover for many months now, with buyers and sellers at loggerheads as to where values should be. This weeks sales should now give this sector some sort of yardstick. *Osmarine* (76,596-dwt, 2006 Imabari) has reportedly been sold to Eurobulk for $9.5m. The last unit supposedly sold was the *Ocean Wind* (76,585-dwt, 2006 Imabari) towards the end 2018 for $10.7m. Having been on the market for the best part of 18 months, d'Amico look to have found a new stable for *Medi Cagliari* (75,772-dwt, 2004 Sanoya) and *Medi Baltimore* (76,469-dwt, 2005 Tsuneishi), reportedly sold to Chinese buyers for $16.3m enbloc. *Pontonikis* (74,362-dwt, 2002 Daewoo) is also reportedly sold for regions $7m to undisclosed buyers.

Alster Bay (55,430-dwt, 2008 Kawasaki) has been much talked about this week. We understand she has been sold to Greek buyers for regions $12m. Compared to the last done sister vessel, *Luisia Colossus* (55,455-dwt, 2010 Kawasaki) sold over the New Year for regions $14.5m, its a softening in value of around 6%. Alster Bay shows that if you find "the real deal" out of the still lengthy list of sales candidates, then there is definitely opportunities for bold buyers in today's market.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Tender Salute	95,695	2011	Imabari	-	Cobelfret	17	
Osmarine	76,596	2006	Imabari	-	Eurobulk	9.5	
Medi Baltimore	76,469	2005	Tsuneishi	-	Chinese	16.3 en bloc	
Medi Cagliari	75,772	2004	Sanoyas Hishino	-			
Pontonikis	74,362	2002	Daewoo	-	undisclosed	7	
Alster Bay	55,430	2008	Kawasaki	C 4x31	Greeks	12	
Saubaagya 5	53,505	2002	Iwagi Zosem	C 4x31	undisclosed	High 6s	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
MG Shipping	250,903	1993	Nippon Kokan	Bulk	39,778	395	India
Zim Virgina	66,686	2002	Hyundai HI	Cont	19,598	466	'as is' Singapore
Pearl Ace	15,194	1994	Minaminippon	PCTC	12,000	420	India
Beril	2,431	1977	Niigata Eng.	RORO	2,753	400	Indian Subcontinent

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Tanker Commentary

The steady flow of Pumproom MRs which continue to come onto the market from Japanese owners is not having an adverse effect on prices. Competition remains strong with vessels being snapped up by hungry buyers looking to secure tonnage before IMO 2020 regulations coming into force. This week, the *Queen Express* (45,965-dwt, 2009 Shin Kurushima) has reportedly been sold off market to Transocean Maritime for a price of $16.3m, a slight tick up on recent sales. This latest deal marks the fifteenth ten year old Japanese built pumproom MR tanker to be sold over the past 12 months. Looking back at the majority of last year, prices for ten year old ships have averaged $15.5m, however since November last year the average price has been in excess of $16.1m.

With the 2020 clock ticking, it will be interesting to see what buyers are willing to pay to secure the few ships available. In the handy tanker sector, the *Axelotl* (37,330-dwt, 2004 HMD) has been sold to Indonesian buyers for $7.5m.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Queen Express	45,965	2009	Shin Kurushima	Transocean	16.3	
Axelotl	37,330	2004	Hyundai Mipo	Indonesian	7.5	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate $pd	Charterer
RS Aurora	159,812	2018	Shanghai Waigaoqiao	1yr	20,000	Navig8

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