15 June 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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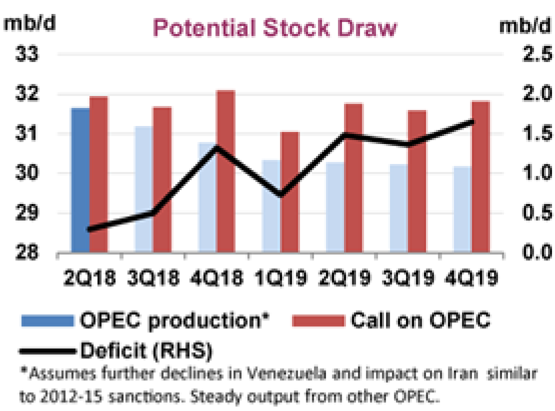
THE BIGGER PICTURE

… Rising Vulnerability to Oil Price Shocks …



Source: The IEA

*The market is also convincing itself that Opec and Russia will agree to raise production next week to compensate for Iran and Venezuela.

^GODG: global oil demand growth.

**So far this year.

POINTS OF VIEW

The cost of stuff is definitely rising and when that happens there is a tendency to adjust investment and spending in response. On Wednesday, the US Federal Reserve raised rates by 0.25% to 2.0% and flagged up another two rises this year and three next year. It was a good day for the dollar. On Thursday, the European Central Bank announced that it will end its bond buying programme by the end of this year. It was a bad day for the euro. Global bonds and emerging markets sold off in what has been seen as an inflection point: the long-awaited transition from quantitative easing to quantitative tightening. Money is going to get more expensive and borrowers will have to pay more to carry debt. Money is not the only thing that is getting more pricey. Internationally traded goods will rise in line with new tariff barriers as today the US president, a veritable bull in search of a China shop, announced $50bn of tariffs on named Chinese imports. China retaliated swiftly and proportionately, invalidating the results of previous rounds of US-China trade talks, locking the two nations on a path to trade war. Rebel attacks on Libya's oil ports have just shut in about 0.4m-bpd of output in an already tight market, but Brent immediately fell 2% from $75.50 to $74.00 a barrel on the bigger news* of the Trump tariffs which are a tax on American consumers, manufacturers and farmers.

Oil prices still have a chance of joining the party once things settle down, but a Brent surge into the $80-100 a barrel range would lead to marginal demand destruction. Opec meets in Vienna next week to set new production targets, mindful of Iran and Venezuela, both of which are subject to US sanctions and export constraints. Global spare production capacity is estimated at only 3% of global demand, or 3m-bpd out of 100m-bpd. This buffer could fall to 2%, the lowest since 1984, should Saudi Arabia and Russia decide to increase supply by 1m-bpd to compensate for the impact of the US oil embargo on two of Opec's largest members. This increases the chances of a dangerous spike in oil prices this year and next that could derail global economic growth. Brent broke through $80 in May after OECD inventories fell back to 5-year average levels and after sanctions were reimposed on Iran. This week the IEA released its latest Oil Market Report. Its sees global oil demand rising 1.4m-bpd in both 2018 and 2019. Non-Opec production is forecast to rise by 2.0m-bpd in 2018 and 1.7m-bpd in 2019 with the US accounting for 75% of this, being 1.5m-bpd in 2018 and 1.3m-bpd in 2019, enough in aggregate for the US to meet GODG^ in 2018-19 all on its own. Despite pipeline and infrastructure constraints, Texas is forecast to contribute 1.3 and 0.9m-bpd of this.

The IEA muses, as a scenario rather than a forecast, that by the end of 2019 oil output from Iran and Venezuela could be 1.5m-bpd lower than today. Venezuelan production has dropped 1m-bpd over the past two years and is set to fall further. MEG Opec producers could quickly ramp up another 1.1m-bpd while Russia could take care of the balance 0.4m-bpd shortfall. But this only covers the delinquency of two Opec members and does not provide for GODG, which is left to non-Opec producers to satisfy. Either by accident or design, President Trump's sanctions are really hitting two Opec members hard while simultaneously opening up an opportunity for US exporters to entirely fill the void. In a world of collateral damage, this overlooks the destabilising by-products of a human tsunami fleeing Venezuela and Iranian ability to retaliate across the Middle East. When you add it all up you could say that America is single-handedly doing a fine job of trying to generate global inflation via higher interest rates, higher trade tariffs and higher oil prices. The Fed cannot quite explain why the US has full employment but stagnant wage growth and robust economic expansion but tepid inflation. It may be relying upon an inflation overshoot to vapourise part of the huge and rising US debt mountain.

The paradoxes of US trade and foreign policy, whereby you pick fights with friend and foe alike, create an uneasy economic backdrop. The crude tanker market is getting nearer to a turnaround as rising oil production and restocking will soon be needed if prices are to stay below the demand destructive $80-100 range. Up to the end of this week a modern VLCC has averaged $5,600 daily** on the spot market, compared with $18,000 in 2017, $41,500 in 2016 and $65,000 in 2015. Despite this, or maybe because of it as the end is nigh, the nominal price of a resale VLCC has gone from $84m to $86m this year. Supply and demand will be better balanced in 2019 right after which we have the IMO 2020 sulphur rules and the ballast water management deadline of 2022. Environmental rules will reduce effective capacity by increasing scrapping and decreasing speeds. We anticipate a little Trumpian chaos of our own, but with a good outcome.

WEEKLY COMMENTARY

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Dry Cargo Chartering

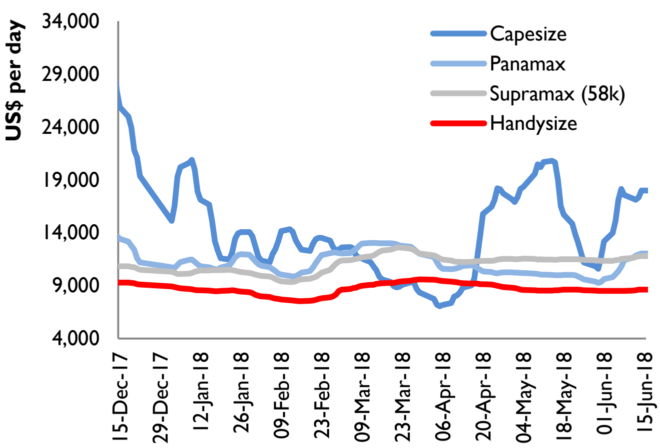
This week the **Cape** market rose $678 despite a mid week, with the TC average ending at $18,244. Little activity was reported in the Atlantic, rates were improving however due to increased activity out of Brazil and tightening tonnage lists. In the Pacific Cargill took *Golden Cumulus* (180,499-dwt, 2018) delivery Huanghua for spot dates for a trip Via West Australia at $17,500 and EGPN took *Savina* (176,382-dwt, 2011) at $16,000 again for a similar trip via West Australia with delivery Lianyungang. Both vessels were to be redelivered Singapore-Japan range. On the period side of things *Mineral Edo* (207,219-dwt, 2015)was fixed delivery Kwangyang for 11/13 months at 130.5% of the BCI 5-timechart average for world-wide trading and (180,181-dwt, 2004) was fixed by Oldendorff for 7/9 months at $21,000 for world wide trading with delivery Jintang.

The **panamax** market this week rose by $622 to end the time chartering average on $12,007. In the Pacific, JJ Maritime fixed the *Nasaka* (81,918-dwt, 2014) delivery Lanshan via Indonesia redelivery S.China at $13,100. Klaveness took the *Zheng Kaj* (81,877-dwt, 2012) delivery Hong Kong via Indonesia redelivery Mauban at $13,000. On front haul, the *Nan Xin 27* (74,483-dwt, 2000) delivery EC South America redelivery Singapore-Japan fixed at $15,150 + $515,000bb with Ausca. Comerge fixed the *Huayang Spirit* (75,784-dwt, 2013) delivery EC South America redelivery Singapore-Japan at $16,000 + $600,000bb. In the Atlantic, the *Anna* (75,162-dwt, 2002) delivery Liverpool via Murmansk redelivery Continent fixed at $13,000 to Suek. Solebay took the *Far Eastern Mercury* (82,509-dwt, 2008) delivery USG redelivery Skaw-Passero at $12,800 + $305,000bb. On the period front we saw the *Kiran Eurasia* (79,158-dwt, 2011) fix for 4/8 months redelivery worldwide at $12,250 to Quadra.

The **supramax** index closed the week at $11,822, up from last weeks close of $11,559. In the Pacific, NYK fixed the *Devongate* (61,200-dwt, 2014) delivery Busan via CIS redel S Korea at $13,000 and the *Densa Dolphin* (58,772-dwt, 2010) was fixed by Dragon Carrier delivery Singapore via Indonesia, redelivery China at $11,500. In the Atlantic, Norden fixed the *Nautical Anne* (63,593-dwt, 2016) delivery US Gulf, redelivery Brazil at $18,000 and the *Ikan Seligi* (56,236-dwt, 2010) was fixed by Cofco delivery Recalada, redelivery Italy at $14,000. On the front haul, Daewoo fixed the *Ilsabe Oldendorff* (63,572-dwt, 2016) delivery Canakkale via the Black Sea, redelivery Singapore-Japan range at $17,000. On the period front, the *Santa Paulina* (61,381-dwt, 2013) was fixed for 1/2 laden legs delivery Singapore, redelivery worldwide at $13,000. The **handy** index closed at $8,643, up from last weeks $8,505. Cosmotrade fixed the *Sunset* (37,334-dwt, 2009) delivery Praia Mole, redelivery East Mediterranean at $11,000 and the *Gardenia K* (38,067-dwt, 2014) was fixed by Canfornav delivery Bahia Blanca, redelivery Brazil at $8,400.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Golden Cumulus	180,499	2018	Huanghua	Spot	Singapore-Japan	17,500	Cargill	Via West Australia
Savina	176,382	2011	Lianyungang	11/14 June	Singapore-Japan	16,000	EGPN	Via West Australia
Athinoula	82,177	2012	Amsterdam	13 June	Singapore-Japan	21,750	Bunge	Via PDM
Sakizaya Orchid	81,700	2017	Rizhao	18 June	Singapore-Japan	13,500	Oldendorff	Pacific RV
Melodia	80,554	2013	Port Talbot	12 June	Skaw-Passero	13,500	CNR	Via USEC
Nautical Anne	63,593	2016	USG	PPT	Brazil	18,000	Norden	-
Glafkos	63,519	2016	Santos	End June	Jebel Ali	15,250	Copa Shipping	$525,000 BB
Crimson Queen	58,140	2014	Navlaki	16/17 June	SEAsia	11,250	Daewoo	-
Sunset	37,334	2009	Praia Mole	PPT	East Med	11,000	Cosmotrade	-
Tarus	29,260	1998	Kinuura	18 June	PG	8,500	Oldendorff	Petcoke/Steels



Exchange Rates	This Week	Last week
JPY/USD	110.49	109.48
USD/EUR	1.1581	1.1683

Brent Oil Price	This Week	Last week
US$/barrel	73.91	77.10

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	448.0	452.0
MDO	667.0	683.0
Rotterdam IFO	420.0	434.0
MDO	630.0	655.0

Dry Bulk S&P

Activity in the second hand market has picked up this week as the memories of another Posidonia drift off and the clouded minds of her participants clear.

The headline sale of the week is that of the CTM owned *Red Cherry* (184,419-dwt, 2015 JMU), reportedly sold for regions $45m with a t/c attached for 9 months at 19K per day. The buyer is believed to be J.P. Morgan and represents an increase in values in excess of 10% above current market benchmarks for a capsize tonnage of this age.

Energy G (79,389-dwt, 2010 Jiangsu Eastern) has been sold to undisclosed buyers for $15.5m. The last done similar aged unit was *Golden Eminence* (79,44-dwt, 2010 Jinhai Hvy) sold in early May for $14.7m. Singaporean registered owners Fiorenza, have sold two of their vessels: *Energy Prosperity* (77,828-dwt, 1998 Sasebo) and *Energy Midas* (77,697-dwt, 1998 Mitsui Tamano) for and enbloc price of $15.5m to Qatari aggregate traders MFH.

Chinese leasing companies and import buyers continue to hoover up Dolphin57's and vintage Supramax's. We understand the sister vessels *Bulk Power* and *Bulker Progress* (57,005-dwt, 2010 Cosco Zhoushan) have been sold to an undisclosed Chinese leasing outfit for regions $23m enbloc. *Ocean Skipper* (56,815-dwt, 2011 Tianjin Xingang) has reportedly been sold to Chinese interest for $11.2m, a slight drop in values from the last done, similar aged vessel *Venus* (56,568-dwt, 2012 Cosco Zhoushan) sold in early May for $12.7m. Values however in the 17-15 year old supramax market are well cemented at present. This weeks sales of the *Ocean Prefect* (53,035-dwt, 2003 Oshima) sold at circa $9m and *Tamarita* (52,292-dwt, 2001 Tsuneishi) sold at $8,5m are very much in line with recent transactions.

Sider Dream (33,588-dwt, 2005 Hakadate) has been bought by clients of Dabinovis for regions $9.5m. A healthy number if one works back down from the four year younger *King Wheat* (33,387-dwt, 2009 Shin Kochi) sold last week for $12m. *Prinsesa Sirena* (28,378-dwt, 2011 I-S) has reportedly been sold to Greek owners Order Shipping for $10m, in line with the year older sister vessel *Glorious Sentosa* (28,346-dwt, 2010 I-S) sold towards the end of May for $9.5m. We understand *Global Standard* (28,349-dwt, 2010 Shimanami) has also been sold to undisclosed Greek interest for an undisclosed price, we will report back with more details (once they filter through) in next weeks issue. The Vietnamese owned logs fitted Kanda type, *BMC Catherine* (23,641-dwt, 2000 Kanda Kawa) has achieved a firm price for a vessel of her stature, reportedly sold to Chinese buyers for $6m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Red Cherry	182,419	2015	Japan Marine	-	J.P. Morgan	45	TC attcd. at $19k p/d
Energy G	79,387	2010	Jiangsu	-	Undisclosed	15.5	
Energy Prosperity	77,828	1998	Sasebo	-	MFH	15.5	Enbloc sale
Energy Midas	77,697		Mitsui Tamano	-			
Bulk Power	57,005	2010	COSCO Zhoushan	C 4x30	Chinese	23	Enbloc sale
Bulk Progress	56,944						
Ocean Skipper	56,815	2011	Tianjin Xingang	C 4x30	Undisclosed	11.2	
Ocean Prefect	53,035	2003	Oshima	C 4x30	Chinese	9	
Tamarita	52,292	2001	Tsuneishi	C 4x30	Chinese	8.5	
Sider Dream	33,588	2005	Hakodate	C 4x30	Dabinovic	9.4-9.5	
Prinsesa Sirena	28,378	2011	I-S	C 4x30.5	Skiatheis	10	
Global Standard	28,349	2010	Shimanami	C 4x30.5	Greek	Undisclosed	
BMC Catherine	23,641	2000	Kanda Kawa	C 4x30	Chinese	6	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price	Delivery
New Andros	301,620	1999	IHI	TANK	41,601	448	'As is' Khor Fakkan
Concord M	301,345	1996	Hyundai Ulsan	TANK	42,173	448	'As is' Singapore
Tor	298,990	2001		TANK	42,186	Undisclosed	'As is' Fujairah
Nordic Saturn	157,332	1998	Daewoo	TANK	22,331	446.50 (each)	Sub-Cont Option
Nordic Discovery	153,328		Hyundai Ulsan	TANK	21,492		
Guru Gobind Singh	147,495	1995	Hyundai Ulsan	TANK	21,968	422.70 (net)	'As is Columbo
Gas Al Mutlaa	49,874	1993	Mitsubishi Nag	LPG	17,244	464	'As is ' Kuwait

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Tanker Commentary

Last week, one of the major investment banks released a report analysing what impact IMO's 2020 regulations might have on shipping. In short, the conclusion was disruptive, but homogenously positive. Product tankers came out on top; with an estimated 9% uplift in demand, just 9% of the total fleet on order, scrap rates at healthy levels and an expected increase of tonne mile demand, there are no surprises that the common Posidonia pool side talk was centred around product tankers. There is certainly no shortage of buyers, and whilst inspections are picking up, we are yet to see any substantial second hand deals reported. MR1 prices remain under immense pressure as the German controlled *Conti Guinea* (37,554-dwt, 2008 HMD) has been sold for $12.5m. Moving up a size, the *Endeavour* (46,104-dwt, 2004 STX) has been sold to Greek owners for $9.5m, a notable step down to the *Arctic Bridge* (50,921-dwt, 2005 STX Ice 1A) sold in May for $12m. In the crude sector the Japanese controlled *Sentosa River* (115,146-dwt, 2008 Sasesbo) is closely working in the mid $19s and whilst there is much speculation that the buyer is Norwegian, details remain hazy. Whether prices have further to go is the question on everyone's minds, but as we know too well, prices go down in escalators and up in elevators, so getting yourself in position to move can be no bad thing.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Cap Jean	146,643	1998	Samsung	Undisclosed	10.6	
Endeavour	46,101	2004	STX	IMC	9.4	
Conti Guinea	37,554	2008	Hyundai Mipo	Atlantica	12.5	
Chembulk Shanghai	20,583	2000	Fukuoka	Undisclosed	7.8	

Tanker Fixtures

<table>
<tr><th>Vessel</th><th>DWT</th><th>Built</th><th>Yard</th><th>Period</th><th>Rate ($/pm)</th><th>Charterer</th></tr>
<tr><td>Atlantas</td><td>321,300</td><td>2010</td><td rowspan="3">Daewoo</td><td rowspan="3">5 years</td><td>20,500</td><td rowspan="3">Al-Iraqia</td></tr>
<tr><td>Apollonas</td><td rowspan="2">299,999</td><td rowspan="2">2016</td><td rowspan="2">23,500 (each)</td></tr>
<tr><td>Atromitos</td></tr>
<tr><td>Atlantic Sirius</td><td>36,677</td><td>2010</td><td>Hyundai Mipo</td><td></td><td>10,500</td><td>Clearlake</td></tr>
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