16 August 2019

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Hong Kong – Getting Twitchy …

Source: The Times

^China has slowed US energy imports and banned US agricultural imports to hit back at Trump's support base.

*The three US indices plunged 3% each midweek spooked by inverted US UK yield curves and weak economic data from Germany and China.

POINTS OF VIEW

This week the US president blinked yet again. He has done another volte face less than two weeks after his 1st August announcement that he would raise 10% tariffs on the balance $300bn of Chinese goods imports from 1st September. He has now delayed the increase to 15th December on many goods including phones, laptops, clothing and toys that are likely to feature on many Christmas shopping lists and make up about half of the total value. It is Americans, rather than the Chinese, that are paying for these nonsensical tariffs. US consumers cannot be denied their luxury goods with the same ease that Chinese consumers can forego them, and the US consumer has a vote, the Chinese one does not. The fidgety, tweet-addicted Trump has exposed the deep flaws in his shallow negotiating tactics. He is constantly shifting his position while the Chinese have done very little.^ He thinks he is playing two-way poker when he is simply playing with himself. China's shift to the long game will put all the pressure on the US to dilute its demands as it needs to be seen to be making progress, while China knows it need only wait. The original announcement of the intention to raise tariffs on all Chinese imports caused a global stock market sell-off while the announcement of a delay sent them back up again. Stock market volatility, exaggerated by algorithm-trades, combined with unclear central bank messaging, means that equity and bond traders have no anchors around which to place their bets.* What is for sure is that the constant flip-flop nature of US trade and foreign policy is transmitting negative vibes to financial, energy and shipping markets.

President Xi appears to be taking a relaxed attitude to the US-China trade skirmishes, thanks to the insecure Cry Wolf tendencies of his opposite number, and for this he must be grateful. It has bought him some time to focus on more pressing domestic issues that include a slowing economy, environmental pollution and a restless Hong Kong. 2019 is the 30th anniversary of Tiananmen Square and the 70th anniversary of the founding of the People's Republic of China. Next year there are important elections in Taiwan which China still claims as its own. The escalation of public protests at Hong Kong's airport on Tuesday made us think back to 1989 as China's People's Armed Police are quite publicly gathering on the Shenzhen border. China's authority is being questioned but any military crackdown will resonate with the 30th birthday, and conflict with the 70th, while making Taiwan even more determined to protect its independence. China's attempts to tackle pollution have led to steel production being curbed, imported iron ore quality to rise and imported coal volumes to fall. But all such moves are temporary as lower coal and iron ore prices spur increased seaborne imports while higher steel price margins encourage higher steel output. It is the ultimate pragmatic and flexible economy being able to both influence, and instantly react to, global commodity price movements. However, the escalating trade dispute between the US and China is now hurting both economies. An inverted US yield curve, as we have now, has preceded the last seven US recessions.

Weak months of importing crude oil, iron ore and coals are often followed by strong months. For example, China's crude oil imports came in at 9.7m-bpd in July, up only marginally on June's 9.6m-bpd, but still up 14% y-on-y. Its weak m-on-m performance can be attributed to negative refining margins as well as Opec supply cuts and lower output from sanctioned Iran and Venezuela. More importantly, in the first seven months of 2019 it imported on average 9.8m-bpd, a 10% increase over the same period in 2018. China's iron ore imports fell to a 3.5-year low of 75mt in June only to rebound to 91mt in July, up 21% m-on-m and 2% y-on-y. In the first seven months of 2019, it imported 590mt of iron ore, down 5% on the same period last year. However, the y-on-y reduction had much to do with the lack of available supply from key Brazilian and Australian suppliers, not a lack of demand from China. Its coal imports rose 21% m-on-m in July to 33mt and in the first seven months of 2019 it imported 187mt, up 7% on the same period in 2018. So, when studying short term changes in China's imports we must give equal weight to both supply and demand drivers. On 1st August, when Trump announced his tariff raise, Star Bulk fell 8.0%, Golden Ocean lost 3.5% and Eagle Bulk fell 1.5%. On 13th August, when he announced his tariff delay, Star Bulk rose 8.7%, Golden Ocean gained 6.5% and Eagle Bulk put on 7.4%. If you dislike volatility, then shipping and its equities may not be for you. But remember, whether shares or ships, it is 'time in' the market not 'timing' the market that matters. It avoids having to make futile impact assessments of presidential tweets, central bank misguidance and economist doom, boom and gloom forecasts.

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Dry Cargo Chartering

The **BDI** closed at 2,088 up 340 points from last week. The **Cape** market this week has risen up $5,602 from last week, finishing at $29,624. The Cape sector continued to rally, the Atlantic basin was very active, while the Pacific rates ticked upwards throughout the course of the week. On voyage, the iron ore runs to Quingdao saw the *Great Explorer* fix 170,000-dwt 10% at $9.93 with BHP Billiton while the *Cape Canary* fixed 170,000dwt 10% from Tubarao at $21.70 with Vale. In the North Atlantic, Pan Ocean fixed the *SL Seoul* 170,000-dwt 10% from Seven Islands to Qingdao at $28.00. In the Pacific, the *Berge Eiger* fixed from Puerto Nuevo at $12.10, 160,000-dwt 10% into Rotterdam with Cargill. Little reported time charter activity this week, the *Anangel Conqueror* (179,719-dwt, 2012) fixed basis delivery Tianjin for a trip to East Australia, with redelivery Singapore-Japan range at $28,000. The *Cape Victory* (177,000-dwt, 2010) fixed delivery Huanghua for a trip via West Australia redelivering Singapore-China range at $25900 with Panocean. The *Grand Century* (174,333dwt, 2005) fixed delivery Zhanjiang for a trip via Newcastle redelivery Dangjin at $25,000 with Korea Line Corporation. No period deals reported this week.

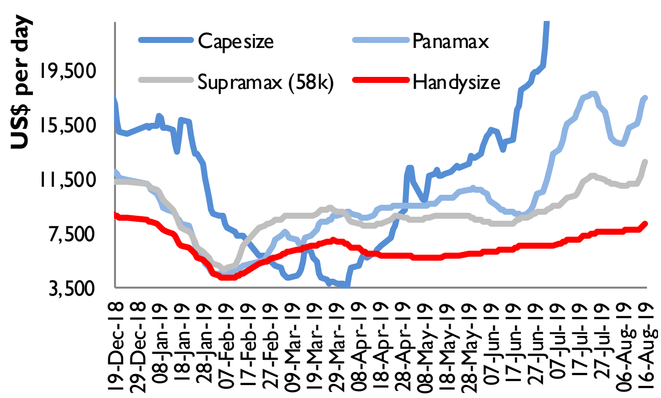
An even stronger week for the **Panamax** market, with the index rising over $2,190 to close at $17,359. Rates were boosted in both basins. In the Pacific, Tongli fixed *Alpha Afovos* (74,427-dwt, 2001) delivery Zhanjiagang redelivery Taiwan via Indonesia at $14,000. In the Atlantic, *Hermes* (75,200-dwt, 2012) was fixed delivery Gibraltar redelivery Skaw-Cape Passero for a trip at $18,500. On fronthaul, ADMI fixed *Arsinoe* (81,565-dwt, 2015) for a trip delivery East Coast South America redelivery Far East at $17,600 daily plus $767,500 bb. *Zheng Yao* (82,500 dwt, 2014) was fixed delivery East Coast South America for a trip to Singapore-Japan at $17,700 plus $770,000 bb. On period, *JY Hongkong* (81,000-dwt, 2019) was fixed delivery Changzhou for 7 to 9 months redelivery worldwide at $15,400.

The **Supramax** going strong in all markets this week, the BSI closed at $12,753, jumping from last weeks $11,074. In the Atlantic, *Filia Glory* (58,018-dwt,2011) fixed delivery Canakkale redelivery Indonesia at $25,500, the *Sea Star* (56,591-dwt,2014) fixed delivery Itaqui with redelivery Singapore-Japan range intention South Korea at $15,000 plus $500,000 bb. The *Bulk Bahamas* (56,141-dwt,2012) fixed delivery Port Arthur for a trip redelivery in the East Mediterranean, intention petcoke, at $16,750. In the Indian Ocean, *Asia Emerald I* (58,018-dwt, 2011) fixed delivery Hazira for minimum/maximum 75-90 days redelivery Arabian Gulf – South China range at $14,000. In the Pacific, *Honey Badger* (61,320-dwt, 2015) fixed delivery Gresik via Indonesia redelivery CJK at $17,000, while, the *Irene* (61,299dwt, 2016) fixed delivery Lianyungang for a trip via the North Pacific redelivering in South East Asia at $11,750.

This week the **Handy** market saw positive gains, increasing by $505 to finish at $8,210. In the Atlantic, *Daiwan Glory* (35,531-dwt, 2015) open Amsterdam fixed $12,000 trip to the East Mediterranean with WBC. The *Alberto Topic* (34,356-dwt, 2015) open Sfax fixed a trip with Salt to the US Gulf at $9,750. It was rumoured that a 35,000-dwt fixed $11,000 ex-Black Sea for 2/3 Laden legs redelivery Atlantic. In the Pacific, *African Jay* (37,869-dwt) open Caofeidian, fixed $6,500 for the first 65 days & $9,750 balance for a back haul ex Japan with steels to the Continent. In the south, *Admiralty Spirit* (32,521-dwt, 2004) open Penang, fixed $6,500 Australia with concentrates to the Far East. On the period desk, it was reported that *Twinluck SW* (32,937-dwt) open Jakarta fixed mid 8k for 2/3 laden legs, 1st intended leg West Australia to East Australia with grains.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Anangel Conqueror	179,719	2012	Tianjin	10 Aug	Singapore-Japan	28,000	CNR	Via E.Australia
Cape Victory	177,000	2010	Huanghua	15/19 Aug	Singapore-China	25,900	Panocean	Via W.Australia
Pedhoulas Cherry	82,013	2015	Guangzhou	20/23 Aug	Japan	16,500	NYK	Via Indonesia
Chloe	81,625	2016	Constantza	18 Aug	Singapore-Japan	32,000	Refined Success	Via Black Sea
Hermes	75,200	2012	Gibraltar	19/20 Aug	Skaw-Passero	18,500	CNR	
Irene	61,299	2016	Lianyungang	PPT	SE Asia	11,750	Cargill	Via Nopac
Filia Glory	58,008	2011	Canakkale	17/22 Aug	Indonesia	25,500	CNR	
Bulk Bahamas	56,141	2012	Port Arthur	PPT	East Med	16,750	Centurion	Int Petcoke
Vega Mars	31,728	2011	Skaw	PPT	East Med	11,800	CNR	Int Timber
Nimertis	28,396	2013	EC Mexico	PPT	North Brazil	9,500	MUR	Via Houston



Exchange Rates	This Week	Last week
JPY/USD	117.62	105.78
USD/EUR	1.1069	1.1196

Brent Oil Price	This Week	Last week
US$/barrel	58.54	58.05

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	330.0	380.0
MGO	572.0	564.0
Rotterdam IFO	284.0	322.0
MGO	546.0	533.0

Dry Bulk S&P

This week has seen the cape index rise by circa $5k per day approaching $30k per day. The BDI has pushed through the 2,000 mark and there's been green across the board all week. A firming chartering environment tends to lead to a more dynamic S&P market, however holidays across much of the globe have resulted in the market grinding along, feeling like a handbrake has been applied. The only real activity has occurred in the panamax and kamsarmax sectors.

Panamax time charter earnings have increased over $2k per day this week, perhaps helping a few deals get across the line. *Key Pacifico* (81,812-dwt, 2015 Tsuneishi) is reported sold, possibly to Far Eastern Buyers in excess of $24m, broadly in line with the one year older sister, *Key Navigator* (81,955-dwt, 2014 Tsuneishi), which was committed in early July for region $23m. *Yarrawonga* (82,624-dwt, 2008 Tsuneishi) is rumoured committed for $13.5m a price in line with Yasa Neslihan, 2005 sister which sold for $11.5m in early August. The panamax *Coral Emerald* (75,632-dwt, 2007 Sanoyas) has been committed to Greek Buyers for a strong $12.2m. The last Japanese panamax of the same vintage sold was *ES Sakura* (76,596-dwt, 2007 Imabari) which concluded at $11.5m at the end of June, showing the consistently stronger panamax earnings along with a more buoyant BDI are having a positive impact on pricing in some areas of the market.

The only other sale to report this week is the Japanese handy *Ljuta* (31,182-dwt, 2001 Hakodate) sold by Monaco based Dabinovic to undisclosed Buyers in the mid 5s.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $	Comment
Yarrawonga	82,624	2008	Tsuneishi Holdings	-	undisclosed	13.50m	
Key Pacifico	81,812	2015	Tsuneishi Shipbuilding	-	Far Eastern	Excess 24.0m	
Coral Emerald	75,632	2007	Sanoyas Hishino Meisho	-	Greek	12.20m	
Ljuta	31,812	2001	The Hakodate Dock	C 4x31	undisclosed	5.50m	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price $	Delivery
Ever Unique	63,388	1997	Mitsubishi HI	Cont	24,018	$372.00	'As is ' Ningbo
Ever Unison	63,388	1996	Mitsubishi HI	Cont	24,018	$372.00	'As is' Hong Kong
Ever Delight	55,515	1998	Mitsubishi HI	Cont	21,820	$372.00	'As is' Colombo
An Yun	43,397	1991	China Shipbuilding	Tank	9,758	$377.00	'As is' Taiwan
Uni-ample	15,477	1997	China Shipbuilding CSBC	Cont	5,129	$372.00	As is' Tanjung Pelepas

Tanker Commentary

Irrespective of earnings and seasonal fluctuations, prices for both crude and product tankers continue to supersede last done. Crude values are profiting not only from healthy level of enquiry from conventional tanker buyers but also increasing numbers of conversion buyers scouring the market for tonnage. This week – Centrofin are reported to have obtained firm prices for their vintage VLCCs *Kalymnos* and *Cerigo* (299,089-dwt, both 2000 Daewoo) which are understood to have been sold to conversion buyers for $25m each. It is interesting to note that the last VLCC of this vintage was disposed of on the beaches of the subcontinent for a value which equated to well below the $20m mark.

Elsewhere in the VLCC sector, the Japanese controlled *Oriental Jade* (306,352-dwt, 2004 Mitsubishi) is understood to have seen an offer in the region of $29m however owners are hoping to achieve high numbers and the vessel remains unsold.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Kalymnos	299,089	2000	Daewoo HI	conversion project	$25.00m	
Cerigo	299,089	2000	Daewoo HI	conversion project	$25.00m	
Torm Saone	36,986	2004	Hyundai Mipo	Indonesians	$8.20m	

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