

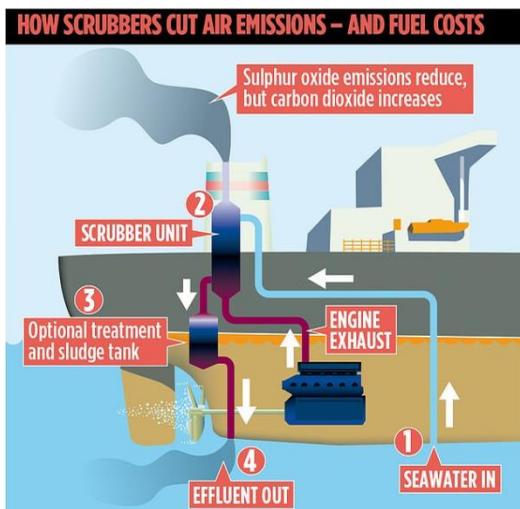


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THE BIGGER PICTURE

... Brexit and Scrubbers – we are all at sea now ...



Source: The Daily Mail

POINTS OF VIEW

This week we have been preoccupied with Britain's imminent exit from the European Union. In fact, we have been transfixed by this subject for the last 876 days to the virtual exclusion of any other political business. On Wednesday, Theresa May, the UK prime minister, presented to her cabinet a 585-page framework agreement for withdrawing from the EU. The cabinet backed it but parliament may prove more difficult.* The two choices on offer are a watered down Chequers plan, which was widely criticised even before its dilution, or a no deal exit. The latter is painted as the nuclear option, for which there has been no adequate preparation, not least because it has totally unfathomable consequences. So, basically, the only scoped-out deal on offer is the PM's Chequers Lite: my way or the highway. This is no choice at all, as Chequers Lite puts the UK in a worse position than we were in before triggering Article 50 on 29 March 2017. It is a betrayal of the narrow 52:48 referendum vote to leave, being Brexit in name only. It makes Northern Ireland a No-Man's Land between the UK and EU and leaves the UK as a vassal state of Europe for years to come[^], bound by Europe's rules but with no say in their creation. The key terms have angered leavers, remainers, Conservative, Labour and DUP members alike. A leaked memo from Michel Barnier's number two, Sabine Weyand, is revealing. She is quoted as informing EU ambassadors: "We should be in the best negotiation position for the future relationship. This requires the customs union as the basis of the future relationship. They must align their rules but the EU will retain all the controls. They apply the same rules. UK wants a lot more from future relationship, so EU retains its leverage." The UK will be bound by EU rules on e.g. competition, state aid, tax, labour and the environment to 2030, and will be legally shackled to the often bizarre judgments of the ECJ. The UK is not taking back control, it is surrendering it. However, there is no way to reverse Brexit without ignoring the democratic process. The credibility of parliament, and of the UK itself, depends on it delivering an EU exit, so our usually unheroic MPs may have no alternative other than to endorse the PM's plan. The idea that a better deal is available is a fallacy. The reputational and economic damage that the UK will suffer by rejecting the only deal on offer should eventually cajole parliament into accepting it, because the uncharted alternatives carry even greater risks.

Oil prices are plummeting on fears of weaker demand growth as the global economy shows signs of slowing into 2019. Brent has fallen from a high of \$87 a barrel in early October to as low as \$65 within this week. Lower oil prices may provide some relief to shipping given the inadequate cost pass-through mechanisms, especially in container and tanker shipping. For an industry in which fuel is the highest cost component, much attention is being paid to the higher fuel cost implications of IMO 2020. As with Brexit, there is no clear picture of its likely impact, but regulatory costs are going to rise and the industry urgently needs to find a way of being properly compensated. Extra costs extend beyond IMO 2020 to such issues as Tier 3 engines, ballast water treatment systems, greenhouse gas reduction targets, and so on. Much has been made of the loophole in IMO 2020 that allows owners to continue burning heavy fuel oil if they fit exhaust gas abatement systems, namely scrubbers. This bypass mechanism has been likened to 'Dieselgate' and it is now being aired in the court of public opinion, the press, with recent articles appearing in the Guardian and the Daily Mail. Scrubbers can achieve the maximum 0.5% sulphur content and cut sulphur oxide emissions by washing the exhaust gases with sea water. The resultant sulphuric and nitric acid mix is pumped back into the sea along with particulate matter and diluted carbon dioxide. It is estimated that over 2,000 commercial ships are set to be fitted with such open loop scrubbers, admittedly less than 5% of global capacity. The shipping industry is as polarised over scrubbers as the UK is over Brexit.** At one extreme is Euronav which is vocally against scrubbers. At the other is Star Bulk which intends to fit its entire 111-strong fleet of 12.67m-dwt. In between, other owners are hedging their bets with newbuilding adoptions and partial fleet retrofits. Nation states and port states will be minded to legislate against them while banks are getting wary of financing any technology that ignores rising environmental concerns. Media focus may cause the rules to change, so owners should work on the basis that scrubbers will only be used in international waters. The UK faces considerable reputational risk from how it executes Brexit while the shipping industry faces its own reputational risk from how it deals with IMO 2020. The whole world is watching.

*By a small majority, but later Brexit secretary Dominic Raab and work and pensions secretary Esther McVey resigned from the cabinet.

[^]It might take 5 years or so to actually leave and 'regain control', but what is 5 years in the history of a nation?

**The 'science' of each is less important than the public perception.

Dry Cargo Chartering

This week the BDI took a tumble, losing 94 points to finish the week down at 1,031. The **Capes** suffered badly earlier in the week, however later regained some ground, closing the week at \$8,804, down from \$10,750 on Monday. *Shinyo Challenger* (184,887-dwt, 2002) fixed delivery CJK for a trip via Brazil back to Singapore/Japan range with Cargill and *Anangel Happiness* (177,720-dwt, 2008) fixed and Australian round voyage delivery retro Dandong at \$11,000. Understandably there was very little activity on the period side of things, however *Mount Troodos* (179,383-dwt, 2012) fixed delivery retro Huanghau for 7/10 months at 103.5% of the BCI 5 time-charter average.

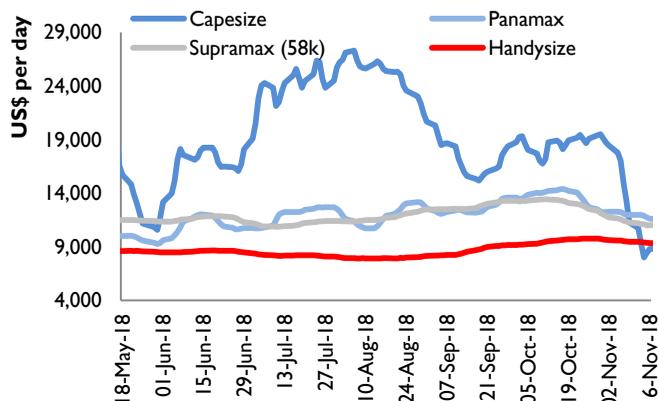
It has been an unexciting week for the **Panamax** market. The Time Charter Average concluded at \$11,622, down from last week close of \$11,975. In the Pacific, the *Star Georgia* (82,295-dwt, 2006) fixed delivery Chiba for a trip via NoPac redelivery Singapore-Japan at \$12,500 and the *TW Beijing* (93,243-dwt, 2012) delivery retro Zhoushan fixed a trip via West Australia redelivery China \$10,000. Ultrabulk took the *Med Gladstone* (81,845-dwt, 2016) delivery Sual for a trip via Indonesia redelivery Philippines at \$12,000. In the Atlantic, Element fixed the *Jin We Feng* (93,696-dwt, 2012) delivery Gibraltar for a transatlantic round voyage redelivery Gibraltar at \$15,000. The *Hua Sheng Hai* (81,233-dwt, 2017) delivery Dublin fixed a trip via Miss River redelivery Immingham with woodpellets at \$14,800. Langlois took the *Darya Aum* (81,109-dwt, 2018), a Cofco relet, delivery Brake

for a trip via Hamburg to Jeddah redelivery Cape Passero at approximately \$16,000. On the front haul, ACB took the *Darya Devi* (81,930-dwt, 2013) delivery Nordenham for a trip via Baltic and Suez redelivery Singapore-Japan at \$21,000 and Cargill fixed the *Ultra Jaguar* (81,560-dwt, 2016) delivery Sepetiba for a trip redelivery Singapore-Japan at \$15,900 plus \$590,000 bb. On the period side, Refined Success took the *Shao Shan 8* (75,366-dwt, 2014) delivery Lanshan for 3-5 months redelivery \$12,400.

The **Supras** this week continued the general downward market trend, down \$248 to \$11,006. In the Atlantic, *Dionysus* (63,158-dwt, 2015) fixed delivery Greece for a prompt trip via Black Sea redelivery Continent at \$16,100. In the Pacific, *Loch Shuna* (55,905-dwt, 2014) fixed Indonesian coal up to China at \$9,500 delivery Cebu with BG Shipping. On the period side of things *Mandarin Fortune* (57,000-dwt, 2008) was fixed for 1 year by Multimax at \$11,200 delivery Tuticorin and *Nautical Hilary* (63,531-dwt, 2015) fixed 5/7 months delivery CJK at \$12,350. Finally the **Handies** were unable to buck the trend of negative sentiment seen in the dry market, finishing the week at \$9,345, down \$129. In the Atlantic, Meadway fixed *Sunset* (37,334-dwt, 2009) for a trip to the UK-Continent at \$12,500 delivery Constanza and *Sam Panther* (33,395-dwt, 2010) was fixed delivery Poti for a trip to the East Mediterranean at \$14,500. In the Pacific there was little reported activity, with the same going for the period side of things.

Representative Dry Cargo Market Fixtures

| Vessel | DWT | Built | Delivery | Date | Redelivery | Rate (\$) | Charterers | Comment |
|-------------------|---------|-------|-----------|-----------|--------------|-------------------|----------------|----------------|
| Shinyo Challenger | 184,887 | 2002 | CJK | 15-16 Nov | Sing-Jpn | 9,500 | Cargill | Via Brazil |
| Anangel Hppiness | 177,720 | 2008 | Dandong | 14 Nov | Sing-Jpn | 11,000 | CNR | Via Australia |
| TW Manila | 93,250 | 2012 | Taichung | 14 Nov | India | 12,000 | CNR | Via Indonesia |
| Chryssa K | 81,305 | 2012 | Port Said | PPT | Port Said | 14,125 | Bahri-Bunge | Via Black Sea |
| Afterhours | 74,500 | 2007 | Xinsha | 14 Nov | Philippines | 9,200 | Klaveness | Via Indonesia |
| Mona Manx | 63,878 | 2017 | Recalada | 22 Nov | SE Asia | 15,500 + 550K GBB | Louise Dreyfus | Int Grains |
| Aqua Atlantic | 55,499 | 2010 | Yangjiang | Spot | China | 7,100 | CNR | Int Nichel Ore |
| Sea Lion | 53,621 | 2007 | Singapore | PPT | China | 9,500 | CNR | Via Indonesia |
| Sunset | 37,334 | 2009 | Constanza | PPT | UK-Continent | 12,500 | Meadway | |
| Sam Panther | 33,395 | 2010 | Poti | 14-20 Nov | East Med | 14,500 | CNR | |



| Exchange Rates | This Week | Last week |
|----------------|-----------|-----------|
| JPY/USD | 112.78 | 113.90 |
| USD/EUR | 1.1402 | 1.134 |

| Brent Oil Price | This Week | Last week |
|-----------------|-----------|-----------|
| US\$/barrel | 68.27 | 69.77 |

| Bunker Prices (\$/tonne) | This week | Last week |
|--------------------------|-----------|-----------|
| Singapore IFO | 472.0 | 506.0 |
| MDO | 646.0 | 693.0 |
| Rotterdam IFO | 408.0 | 436.0 |
| MDO | 606.0 | 638.0 |



Dry Bulk S&P

The indices have remained under continued pressure this week with the BDI settling at just over the 1,000 point mark. Despite this, resilient second hand buyers are still seeing opportunity and we have a broad selection of sales to report.

Berge Bulk continue their recent market activity. They have reportedly bought *New Huzhou*, *New Taizhou*, *New Quzhou* (175,949-dwt, 2010 Jinhai Hvy) and *New Shanghai* (180,145-dwt, 2011 Dalian) for \$98m en bloc. *Attikos* (178,929-dwt, 2012 Sungdong) is also rumoured sold to undisclosed buyers for \$32.5m.

Two post-panamax's from Japanese owners have been sold. Toyo Sangyo have disposed of *Houyo* (93,492-dwt, 2007 Namura) for regions \$14.5m to undisclosed buyers. K Line have sold *Kinko Maru* (91,860-dwtm 2001 Imabari) for \$11.5m to unknown interest. *Tenten* (81,336-dwt, 2012 New Century) has been purchased by undisclosed buyers for a solid price of excess \$18m. Its worth noting the vessel is Tier II, has a strong survey position, BWTS extended until

2020 and was originally supervised by Dynacom. The Hudong built *Pelagos* (75,213-dwt, 2008 Hudong) has been sold to European interest for \$12m. Diana have sold *Alcyon* (75,243-dwt, 2001 Samho) for regions \$7.45m, in line with the sister vessel *Triton* they sold last week.

Clients of Oceanbulk have reportedly bought the *Vela* (63,038-dwt, 2015 Jiangsu Hantong) for \$20.3m. On paper this is a step down from the last done *Sage Baylorcom* (63,500-dwt, 2015 Yangzhou Dayang) reportedly done at \$22.95m towards the end of October, however the *Vela* is rumoured to be in questionable condition.

The long running story of the four Fortune Ocean Namura's looks to have reached a happy ending. We understand *Xing Jing Hai*, *Zhi Hai*, *Yaun Hai*, *Ning Hai* (34,443-dwt, 2015 Namura) have been sold to undisclosed Greek buyers (with the support of a fund) for regions \$18.5m each. In an internal Japanese deal, *Asian Beauty* (28,218-dwt, 2011 Imabari) has been sold for regions \$9.5m including a T/C back.

Reported Dry Bulk Sales

| Vessel | DWT | Built | Yard | Gear | Buyer | Price \$m | Comment |
|---------------|---------|-------|-----------------|----------|----------------|------------|--------------|
| Attikos | 178,929 | 2012 | Sungdong Shipbg | - | undisclosed | 32.5 | |
| New Shangai | 180,145 | 2011 | Dalian | | | | |
| New Huzhou | 175,949 | | | | Berge Bulk Ltd | 98 en bloc | |
| New Quzhou | 175,886 | 2010 | Jinhai HI | | | | |
| New Taizhou | 175,885 | | | | | | |
| Houyo | 93,492 | 2007 | Namura Shipbg | - | undisclosed | 14.5 | |
| Kinko Maru | 91,860 | 2001 | Imabari | - | undisclosed | 11.5 | |
| Tenten | 81,336 | 2012 | New Century | - | undisclosed | Excess 18 | |
| Alcyon | 75,243 | 2001 | Samho HI | - | undisclosed | 7.45 | |
| Pelagos | 75,213 | 2008 | Hudong-Zhonghua | - | Europeans | 12 | |
| Vela | 63,038 | 2015 | Jiangsu | C 4x30 | Oceanbulk | 20.3 | |
| Xing Jing Hai | | | | | | | |
| Xing Zhi Hai | 34,443 | 2015 | Namura Shipbg | C 4x30 | Greeks | 74 en bloc | |
| Xing Yuan Hai | | | | | | | |
| Xing Ning Hai | | | | | | | |
| Asian Beauty | 28,218 | 2011 | Imabari | C 4x30.5 | Undisclosed | mid 9s | with TC back |

Demolition Sales

| Vessel | DWT | Built | Yard | Type | LDT | Price (\$) | Delivery |
|-----------------|--------|-------|-----------------------|------|-------|------------|----------------------------|
| Samo C | 46,538 | 1989 | Korea Shipbg & Eng | Tank | 9,550 | 325 | 'As is' Cuba |
| Cielo Di Agadir | 22,984 | 1996 | Stocznia Szczecinska | Cont | 7,855 | 392 | 'As is' Port Said |
| Mega Innovation | 17,562 | 2009 | Lianyungang Hengcheng | Gen | 9,643 | 360 | 'As is' Geoje, South Korea |
| Sinar Belawan | 15,428 | 1994 | Iwagi Zosen | Cont | 4,965 | 440 | 'As is' Singapore |

Tanker Commentary

With the crude market stealing the limelight for a prolonged period, it is somewhat refreshing that the action has been diverted to the product tanker market. Whilst product tanker earnings have not experienced the same level of appreciation as crude earnings, the positive sentiment is undoubtedly filtering through to the product sector which the sales table illustrates. Not only have we seen increased activity in the secondhand market but also unconfirmed reports in the press of a potential follow up to “Project Silver” with orders of up to 30 handy tanker and MR newbuildings under discussions against long term employment to Shell.

Diamond S Tankers are reported to have disposed of two of four MRs they have for sale. Danish interests are believed to have acquired the *Alpine Mystery* and *Alpine Minute* (both 49,999 dwt, 2009 HMD) in the high \$16m each with the remaining two also working firm to another buyer.

It is unclear whether the vessels will be delivered with pre-ordered BWTS included in the sale, however if this is not the case, it would represent a firming in prices, partly reflecting the lack of availability of deepwell MRs on the market.

Elsewhere, the Vitol / Lativan Shipping controlled MRIs *Kraslava* and *Kazdanga* (37,258 & 37,312-dwt, 2007 HMD) are understood to have been sold for \$11m to Gestion Maritime. The MRI market of this vintage has been very illiquid this year with this sale being the first concluded since April at a \$1m discount. Another market that has not been fluid is the LRI sector which has also sprung into life. Konig are understood to have committed *King Daniel* and *King Douglas* (73,720 & 73,666-dwt, 2008 New Century) for \$13.5m each to Greek buyers whereas Formosa are also thought to have disposed of *FPMC P Glory* (74,862-dwt, 2009 STX) for \$15m to European interests.

Reported Tanker Sales

| Vessel | DWT | Built | Yard | Buyer | Price \$m | Comment |
|----------------|---------|-------|----------------|------------------|-----------|---------|
| Tianjin | 319,896 | 2015 | Jinhai HI | Delta Tankers | 114 | |
| GC Fuzhou | 319,725 | 2014 | | | | |
| Petrovsk | 106,449 | 2004 | Tsuneishi Corp | undisclosed | 13.5 | |
| FPMC P Glory | 74,862 | 2009 | STX | Europeans | 15 | |
| King Daniel | 73,720 | 2008 | New Times | Centrofin | 13.5 each | |
| King Douglas | 73,666 | 2008 | | | | |
| Alpine Mystery | 49,999 | 2009 | Hyundai Mipo | Danish | 16.9 | |
| Alpine Minute | | | | | | |
| Kazdanga | 37,312 | 2007 | Hyundai Mipo | Gestion Maritime | 11 each | |
| Kraslava | 37,258 | | | | | |

Tanker Fixtures

| Vessel | DWT | Built | Yard | Period | Rate (\$/pd) | Charterer |
|----------------------|---------|-------|---------------|--------|--------------|-------------|
| Libya | 159,200 | 2007 | Hyundai Samho | 6 mths | 23,000 | ST Shipping |
| Yasa Golden Boshorus | 115,900 | 2007 | Samsung | 6 mths | 19,750 | AET |

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