17 August 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Turkey fights back against America …

Source: The Guardian

POINTS OF VIEW

Sanctions and tariffs are proving to be an effective way of causing maximum discomfort to those trading partners of the US, whether friend or foe, that are perceived to have taken advantage of it. The main targets were supposed to be China, and last year's bilateral trade deficit of $375bn, and Europe. Other Asian countries and neighbouring Mexico and Canada find themselves caught in the crossfire. A dispute with Turkey over a detained American pastor escalated into something much more serious this week. The US doubled import duties on Turkish aluminium and steel to 20% and 50% respectively causing the Turkish lira to plummet. This in turn has triggered a currency crisis in other emerging market nations such as Argentina, Brazil and South Africa. Argentina's central bank raised interest rates another 5% to 45% in defence of the peso. Other countries perceived to be at high risk are Chile, Mexico, Indonesia, Malaysia and Russia. It also brings China into focus, and its debt fuelled economic expansion, with a 1Q18 debt to GDP ratio of 300%, up from 171% in 2008. Fortunately, most of it is held domestically making it somewhat less vulnerable to predatorial external speculators. The continued strengthening of the US dollar against falling EM currencies risks a global debt crisis as many countries see a drastic rise in the cost of servicing their US dollar debt. It is better that the US makes tactical use of its currency and tariffs than use its tactical weapons, but no-one is a winner if such actions bring on another world financial crisis. This US government makes policy on the hoof with little regard for unintended consequences.

There is no indication that Turkey may pull out of Nato but it is unsettling to learn that early this week Sergey Lavrov, the Russian foreign minister, was in Ankara for talks while Putin met with Rouhani on the fringe of the Caspian Summit. Erdogan has stated that he will seek alternative allies in view of the latest US actions and these include closer ties with Russia, China and Iran. This really does stir the pot. Turkey, Iran and Russia are drawn closer by the pain that is being inflicted on them by US 'economic warfare'. They, together with China, support using currencies other than the US dollar for their international trade. In reality, they find themselves trapped in a world of dollar denominated trade (especially as regards oil and gas) and by dollar denominated debt. However, the fact that many countries around the world, both friendly and unfriendly, are uniting in their condemnation of the random and indiscriminate nature of US foreign and trade policy is a cause for concern. One wonders whether such policies can achieve lasting gains or is the greater risk that the enmity survives long after any derived benefits have faded? The short-term prognosis for oil prices is one of weakness even as buyers of Iranian oil in Europe, South Korea and Japan cut back their purchases ahead of the 4 November US deadline. India has raised its purchases of discounted Iranian crude but it will also pull back in Q4. The possible loss of 2.5-3.0m bpd of sanctioned Iranian and Venezuelan output has some hedge funds* forecasting oil prices of $150pb. The strong dollar, higher debt servicing costs and dearer oil could become an economic drag.

Just as imminent restrictions on Iranian crude purchases caused a frantic import surge, so too did US soybeans receive an export boost in Q2. Shipments surged 48% year-on-year in the April-May period to 8.4mt, well ahead of the previous record of 6.4mt in 1982. Most went to destinations other than China (which is already cutting back on US bean purchases) including Mexico, Holland, Pakistan and Indonesia. US soybean exports to China fell 15% year-on-year in out of season Q2 to 1.5mt. The USDA expects US exports to decline just 2% year-on-year in 2018/19, illustrating how non Chinese buyers quickly emerge for US supplies, especially in response to discounted prices. Brazil, on the other hand, has benefited from premium prices as a result of the US-China trade spat and strong Chinese demand to build inventory buffers. Reuters reports that China paid $20.3bn last year for 53.8mt of Brazilian soybeans, about half of Brazil's output, up from 22.8mt in 2012. In the first half of this year China imported 36.0mt from Brazil, up 6% year-on-year, and in July it took 10.2mt, up 46% on July 2017. New soy planting^ in Brazil is replacing swathes of sugarcane but still meets stiff competition from corn. In the 2017/18 season just ending, Brazil's soybean output is estimated at 119.0mt. In the 2018/19 season it is forecast to rise slightly to 119.6mt, a 0.5% gain despite the price incentives**. It just goes to show that tariffs achieve very little other than cause trade disruption. One trade is lost, another is gained, but friendship can be lost for longer.

*Andurand Capital, Westbeck Capital and Energy Aspects anticipate a spike in oil prices within the next two years, according to Reuters.

^In the past two years, Brazil's soy plantings expanded by 2m hectares (an area the size of New Jersey) while sugarcane shrank 0.4m ha. (Govt).

**Reuters claims that last year one Brazilian farmer made a net profit of 480 reis per ha on sugar versus 2,600 on soy, but it may not last…

Dry Cargo Chartering

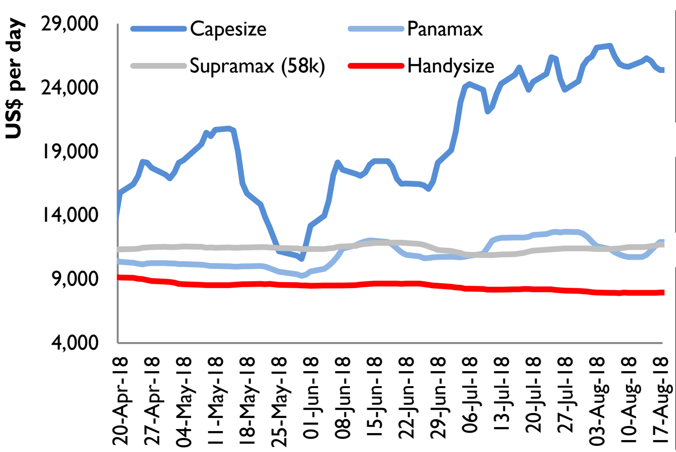
The **BDI** closed the week at 1,723, up from last weeks close of 1691. The **cape** market closed the week at $25,373, slightly down from last weeks close of $25,621. In the Atlantic, MOL fixed the *Winning Mission* (181,371-dwt, 2013) delivery Rotterdam for a trip via Ponta Da Madeira & Turkey, redelivery Cape Passero at $25,000. In the Pacific, Oldendorff fixed the *Antonis Angelicoussis* (177,855-dwt, 2007) delivery Lianyungang for a trip via Brazil, redelivery Singapore-Japan range at $26,000. The *Lowlands Phoenix* (177,036-dwt, 2004) fixed delivery Yeosu for a trip via Australia, redelivery Singapore-Japan range at $24,000. On voyage, Tubarao/Qingdao ore runs were being fixed at around $25 by the end of the week for 170,000/10%. In the Pacific, Dampier/Qingdao ore runs were being done in the mid-high 9's basis 170,000/10%.

The **panamax** market concluded the week at $11,898, up from last week close of $10,802. In the Atlantic, Element fixed the *Jin Tai Feng* (93,758-dwt, 2012) delivery Immingham for a trip via US Gulf and Red Sea redelivery Port Said with grains at $13,500. ADMI fixed the *Chrysanthi S* (80,268-dwt, 2012) delivery US Gulf for a trip redelivery Cape Passero with grains at $13,500 plus $350,000 bb. On the front haul, Norden took the *Seaduty* (82,449-dwt, 2008) delivery East Coast South America for a trip redelivery South East Asia at $15,600 with $560,000 bb. In the Pacific, Klaveness took the *Maria Cristina Rizzo* (87,334-dwt, 2010) delivery Taiwan for a trip via Indonesia redelivery South China at $8,500. The *Key Evolution* (83,416-dwt, 2010) was fixed to Cobelfret delivery passing Busan for a trip via NoPac redelivery Singapore-Japan at $11,500. Jera fixed the *Prabhu Das* (76,015-dwt, 2005) delivery China for a trip via Stockton redelivery Japan with coal at $10,000. On the period, the *W-Ace* (93,014-dwt, 2011) fixed to Uniper delivery retro Gibraltar for 4-7 months redelivery worldwide at $14,000.

The **supramax** index closed the week at $11,704, up from last weeks close of $11,201. In the Pacific, Huaya fixed the *Shandong Hai* (56,734-dwt, 2013) for delivery Ho Chi Minh, redelivery North China at $11,200 and the *DL Pansy* (57,835-dwt, 2013) for delivery Singapore via Indonesia, redelivery China at $9,500. In the Atlantic, ED&F Man Shipping fixed the *DACC Atlantico* (60,550-dwt, 2015) for delivery US East Coast, redelivery Turkey at $22,000 and the *Bulk Costa Rica* (58,758-dwt, 2012) was fixed by Pola for delivery Santos via the Red Sea, redelivery Port Said at $15,000. On the front haul, K-Line fixed the *JPS Afrodite* (57,523-dwt, 2016) for delivery US Gulf, redelivery Japan at $24,500 and the *Ellenita* (57,501-dwt, 2015) was fixed by Louis Dreyfus for delivery Recalada, redelivery South East Asia at $13,750 plus $375,000 bb. The **handy** index closed at $7,945, slightly down from last weeks $7,961. In the Pacific, the *Copacabana* (37,202-dwt, 2011) was fixed for delivery Fuzhou, redelivery South East Asia at $9,000. Simec fixed the *Neptulus* (33,706-dwt, 2012) for delivery Cebu via Australia, redelivery Vietnam at $7,400 and the *Dalarna* (35,958-dwt, 2014) was fixed for delivery Kaohsiung via Japan, redelivery Thailand at $9,200. In the Atlantic, Gregale Shipping fixed the *Hedvig Bulker* (31,872-dwt, 2011) for delivery Orinoco, redelivery Continent-Mediterranean at $10,250. On the period side, Lauritzen fixed the *Nord Imabari* (38,271-dwt, 2010) delivery Khalifa for 3/5 months redelivery worldwide at $10,500.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Antonis Angelicoussis	177,855	2007	Retro Lianyungang	6 Aug	Singapore-Japan	26,000	Oldendorff	Via Brazil
Alpha Millenium	170,415	2000	CJK	20 Aug	Singapore-Japan	26,750	CNR	Via Australia
Great Glen	93,252	2010	Boryeong	16 Aug	Singapore-Japan	11,450	Oldendorff	Via EC Australia
Seaduty	82,449	2008	EC South America	25/26 Aug	SE Asia	15,600	Norden	Plus $560,000 bb
Thalassic	81,426	2009	Retro Gibraltar	05 Aug	Brazil	9,500	Norvic	Via USEC
Bulk Costa Rica	58,758	2012	Santos	PPT	Port Said	15,000	Pola	Via Red Sea
JPS Afrodite	57,523	2016	US Gulf	PPT	Japan	24,500	K-Line	
Genco Predator	55,407	2005	Plate	23/27 Aug	Lebanon	15,250	Oldendorff	
Emil Selmer	32,626	2010	Singapore	PPT	China	8,250	Swire	Via Australia
Ken Goh	31,939	2001	Seki Saki	21/24 Aug	S Korea	8,250	CNR	Via Japan



Exchange Rates	This Week	Last week
JPY/USD	110.38	110.94
USD/EUR	1.1402	1.1462

Brent Oil Price	This Week	Last week
US$/barrel	72.41	72.31

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	452.0	471.0
MDO	645.0	659.0
Rotterdam IFO	410.0	418.0
MDO	618.0	618.0

Dry Bulk S&P

We are not yet out of the holiday period and the addition of Assumption Day holidays in Greece and Europe has further encouraged market participants to abandon the bridge. For those remaining at the helm, the market seems to be holding a steady-as-she-goes course. A few sales are emerging but generally values are tacking round last done sales.

Greek owners Order Shipping are reportedly the buyers of *Gloria Island* (28,401-dwt, 2012 Imabari) for $10.3m. This is as per existing benchmarks, or perhaps a little softer. The Chinese controlled supramax *EM Crystal* (57,353-dwt, 2011 STX Dalian) is reported sold at $ 12.2m to her current Chinese charterers. Again this would point to a softening of the market considering her Korean pedigree. *Nautical Aventurin* (56,778-dwt, 2012 Hantong) has tacked gently in the other direction with a $13m price tag.

The ultramax *Ocean Broaden* (63,562-dwt, 2013 Kouan) is sold for a disappointing $15.7m to a Hong Kong fund. On the basis of last done sales in this segment we would have expected a 2013 SDARI64 to be worth in the region of $20m.

However the reports are that *Ocean Broaden* may be in need of some remedial attention and it may be worth noting that the current owners paid just $14.75m for her a year ago.

Also in need of remedial action, three sister kamsarmaxes *Ocean Scorpio, Ocean Virgo* and *Ocean Libra* (81,500-dwt, 2013, 2012, 2013 Yangfan) have been sold for about $17.5m each - again a weak price. The vessels were reportedly fixed and failed at a million dollars more each back in April. Again the buyers are reportedly Chinese.

Finally *Five Star Fujian* (181,383-dwt, 2009 Sasebo) is sold at auction to Safe Bulkers, Greece at $25m and the post panamax *Ten Jin Maru* (98,681-dwt, 2011 Tsuneishi Zhoushan) is sold at $20.5m - pretty much exactly the same value as a sister sold a year ago.

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Five Stars Fujian	181,383	2009	Sasebo Heavy Ind.	-	Safe Bulkers	25	
Ten Jin Maru	98,681	2011	Tsuneishi Zhoushan	-	Undisclosed	20.5	
Ocean Scorpio	81,687	2013	Yangfan Group	-	Chinese	17.5	
Ocean Virgo	81,563	2012	Yangfan Group	-	Chinese	17.5	
Ocean Libra	81,504	2013	Yangfan Group	-	Chinese	17.5	
Ocean Broaden	63,562	2013	Taizhou Kouan	C 4x30	Far Eastern	15.7	
Nautical Aventurin	56,778	2012	Jiangsu Hantong	C 4x30	Chinese	13	
Em Crystal	57,353	2011	STX Dalian	C 4x30	Everest	12	
Ocean Glory	45,500	2000	Imabari	C 4x30.5	Undisclosed	6	
Gloria Island	28,401	2012	I-S Shipyard	C 4x30.7	Order Shipping	10.3	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price ($)	Delivery
Bahamas Spirit	107,261	1998	Koyo	Tanker	16,616	PNC	India (Green Recycling)
Winning Brother	185,777	1995	Kawasaki HI	Bulker	21,529	447	Full Sub-continent in buyer's option

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Tanker Commentary

Sales activity in the tanker market remains very scarce with uninspiring earnings failing to entice potential buyers to the market despite the attractive prices on offer. That said, following the substantial amount of interest in the LR2 *Pink Stars* (115,592-dwt, 2010 Samsung) for what now appears to have been a mere valuation exercise, Buyers are turning their attention to the *Glory Crescent* (105,405-dwt, 2013 HHI) which we understand 8 parties recently inspected in Singapore.

Offers are invited this coming Wednesday and it will be very interesting to see the outcome of the sales process. It is worth bearing in mind that she is uncoiled which typically buyers discount. This was the case with the *River Eternity* (105,445-dwt, 2006 Sumitomo) sold for $13.5m several weeks ago whereas an aframax of the same vintage could expect to command in the region of $16m.

One very interesting sale this week is the dirty trading MR *PTI Phoenix* (51,288-dwt, 2007 SPP) has been sold for circa $12.5m to a Greek buyer. Despite the DPP trade, this represents a substantial step down from the last done of this age *Iver Exact* (46,858-dwt, 2007 HMD - CPP) which was sold for $14m in June allegedly requiring several cargo tanks to be re-coated.

In the crude sector, we believe the *VLCC Shanghai* (319,775 dwt / blt 2015 Jinhai) remains unsold despite receiving a number of offers over a week ago. Several buyers including Delta Tankers are reported to be fighting it out in excess of $50m, we hope to be able to shed further light on this next week.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Arcturus	47,200	1998	Onomichi Dockyard	Undisclosed	6	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
Stena Conqueror	47,323	2003	Uljianik Brodogradiliste	2 years	14,500	Petrobras
Stena Conquest	47,136			2 years	14,500	
Falcon Nostos	51,371	2006	ShinA Shibuilding	2 years	14,500	Petrobras
Falcon Maryam	46,121	2009	Hyundai Mipo	2 years	14,500	

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