17 May 2019

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… Never Black and White ….

Source: The FT

^He wants the Fed to win the trade war with China by reducing rates. This would match the stimulus measures that China benefits from.

*China's crude steel output rose 11% y-o-y in April to a record 85mt, a larger share of which was made from scrap, reducing iron ore imports.

^^The difference in price between an 'on-the-water' newbuilding today and a 5-year old unit shows high depreciation rates.

In nominal terms, for a 180,000-dwt capesize it is 10%, for a 320,000-dwt VLCC it is 7.5% and for an 11,000-teu boxship it is 5%.

**Jan-Apr 2019 period. Capes: 14 in/18 out (2018: 51/18); VLCC: 25 in/3 out (2018: 39/31); 15,000+teu: 8 in/0 out (2018: 30/0).

POINTS OF VIEW

The US president has a penchant for manipulating markets. He has been putting pressure on the chairman of the US Federal Reserve to slash interest rates^ to boost both the economy and his chances of being re-elected. He is also using the US-China trade dispute to depress stock markets with a negative tweet only to revive them with a positive one. This illustrates the vanity of the president and the naivety of algorithmic trading. Early last week the president accused the Chinese of backtrading on earlier promises and notified them that he would raise tariffs on $200bn of Chinese goods imports from 10% to 25% on Friday. Later in the week he tweeted that he was doing the paperwork on applying levies to another $325bn of Chinese imports from July, just after his end June meeting with Xi Jinping at the G20 summit in Osaka. On Monday this week, China retaliated by announcing tariffs on $60bn of US imports, including LNG. The S&P 500 fell 2.4% in the day. On Tuesday, the president tweeted that a great deal will be done sooner rather than later, propelling markets back up again. Larry Hu, a China economist at Macquarie Capital said: "both sides have the incentive to act half-crazy and unpredictable before that (G20) in order to cut a better deal." Markets remain on edge.

Mr Trump is keen to do a deal with China so that he can switch his attention to Europe where he plans on extracting trade concessions to open up Europe to US agricultural imports, in a veiled attack on French farmers, while restricting US imports of European, and specifically German, vehicles. Out in Asia, he will continue to test China's influence in the South and East China Seas while monitoring Kim Jong-un's attempts to perfect his long-range ICBMs. In the Middle East, the screws are being turned on Iran to rein in its nuclear weapons programme. Last week, the US responded to credible Iranian threats against its military in Iraq and Syria to position the Abraham Lincoln aircraft carrier group and a number of B-52 bombers to the region. Subsequently, four commercial vessels, including two Saudi tankers, were attacked off Fujairah in the UAE. In another incident, Iranian-backed Houthi militia claimed that its drones were behind attacks on Saudi Aramco oil pumping stations at Yanbu on the Saudi Red Sea coast. Both Yanbu and Fujairah are termini to strategically important export pipelines. This is a serious escalation in the US-Iran standoff and is consistent with Iranian threats to close the Strait of Hormuz should America ratchet up its sanctions.

Asian economic growth is stalling, evidenced by growth slowdowns in China and Japan, and now reinforced by Malaysia and the Philippines that cut interest rates last week. Indonesia may soon follow suit. World trade volumes started contracting from last December while industrial production in the Asian region has dropped to its lowest level in ten years in recent months. These are slightly worrying developments for shipping. Tankers have already had to contend with Opec and Russian oil production cuts and lower output from sanctioned Iran and Venezuela. Large bulk carriers have had to adjust to lower seaborne iron ore movements after production cuts in Brazil and Australia and slower steel demand, although not output, in China.* China is temporarily suffering from weak housing demand and the inability of local governments to raise finance for infrastructure investment. Smaller bulk carriers have witnessed a decline in long-haul exports of soybeans and soybean meal from the US, Brazil and Argentina as African swine fever decimates the Chinese hog herd. Over a million pigs have been culled.

These amount to unfortunate and unexpected hits to the demand side at the margin. The improving supply-demand balance is thus in even greater need of supply-side constraint in order to contain net fleet growth in the three main sectors. What works in favour of better balance is the current high cost of newbuildings relative to modern second-hand ships.^^ The IMO ballast water and sulphur regulations should further regulate supply via increased demolition and slower steaming. In 2019 to date, deliveries have been dominated by larger ships.** In the first four months of this year, some 10.7m-dwt of bulkers delivered while 3.9m-dwt exited, almost all of which were capes. For tankers, it was 16.9m-dwt in and 1.3m-dwt out and for containers it was 0.34m-teu in and 0.09m-teu out. Over the same 4-month period, 8.0m-dwt of bulkers were ordered compared with 40.0m-dwt in calendar 2018. For tankers, it was 4.7m-dwt versus 25.9m-dwt and for containers it was 0.26m-teu versus 1.25m-teu. We are going in the right direction as high newbuilding prices discourage ordering and fleet growth is thus decelerating.

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Dry Cargo Chartering

The **BDI** closed the week at 1,040, up from last weeks close of 1,031. The **Cape** market continued to move in the right direction, ending the week at $11,909, slightly up from last weeks close of $11,621. In the Pacific, Cargill fixed the *Stella Laura* (179,549-dwt, 2015) delivery Jiangyin for a trip via West Australia redelivery Singapore-Japan at $12,000. The West Aussie/Qingdao ore runs were fixed in mid $6 mark with Cara Shipping and Glovis covering 170,000/10% at $6.50 pmt and $6.45 pmt respectively while Tubarao/Qingdao ore runs were fixed at $16.2 pmt. Once again, barely any fixtures reported on the period side.

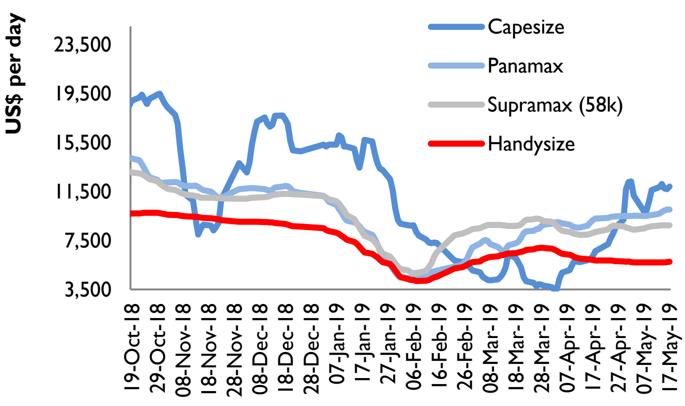
The **Panamax** market had a decent week, with gains across the board, ending the week at $10,042. Up from last weeks close of $9,592. In the Pacific, Oldendorff took *Medi Kyoto* (89,499-dwt, 2018) delivery West Australia for a trip redelivery China at $11,500 plus $230,000 bb while Norden fixed *Penelope I* (81,835-dwt, 2017) for a trip from Hong Kong to South China via Indonesia at $11,000. In the Atlantic, Norden took *Egyptian Mike* (81,600-dwt, 2011) delivery Liverpool redelivery Skaw-Gibraltar for a trip via Murmansk at $12,000. Fronthaul activity remained firm, with owners giving a higher ballast rate to South America. Comerge fixed *Nicosia Pegasus* (81,512-dwt, 2012) for a trip delivery East Coast South America redelivery Singapore-Japan at $16,200 daily plus $620,000 bb and Louis Dreyfus took *KM Hongkong* (82,131-dwt, 2010) at $16,000 plus $600,000 bb for similar business. On period, Rio Tinto took *BBG Grace* (81,952-dwt, 2015) delivery Fangcheng for 11/13 months trading, redelivery worldwide at $12,750.

The **Supramax** showed some slight recovery, being led by the US Gulf & Arabian Gulf, followed by East Coast South America. The Pacific however continued to soften. Overall the BSI closed at $8,738, up from last weeks $8,673. In the Atlantic, *Feng De Hai* (63,356-dwt, 2015) fixed delivery Tema for a trip redelivery Singapore-Japan range at $17,250. *Desert Harrier* (60,477-dwt, 2017) fixed delivery East Coast South America for a trip redelivery Singapore-Japan range at $14,350 plus $435,000. In the Indian Ocean, *Port Hainan* (56,777-dwt, 2012) fixed delivery Kandla for a trip to Bangladesh at $12,000. Topsheen fixed *BBG Confidence* (63,409-dwt, 2018) delivery Mozambique for a trip redelivery China with Ilmenite at $13,250 plus $275,000. In the Pacific, Jaldhi fixed *Pacific Hero* (58,677-dwt, 2012) delivery Cebu for a trip via Indonesia redelivery West Coast India with coal at $11,250. Ausca fixed *K.Garnet* (55,705-dwt, 2010) delivery South Vietnam for a trip via Indonesia redelivery China at $7,900.

The sideways movement of the **Handysize** market remained this week, with little encouragement that this will change. It closed the week at $5,673, slightly down from last weeks $5,715. In the Pacific, *Penghu SW* (37,168-dwt, 2011) fixed a quick trip ex Tianjin with coal into Japan at mid 7's and it was rumoured that another large handysize open Caofeidian fixed a trip to Penang at low 6's with an option of Chittagong redelivery at low 7's. In the South, *Basic Pioneer* (37,195-dwt, 2011) open Singapore fixed a coal run via Kalimantan into China at $7,400. Very little action reported on the period side of things this week with many charterers asking for discounts for the first month, reflecting quite how subdued the market currently is. In the Atlantic, *Sassy Sofia* (32,759-dwt, 2005) fixed delivery Recalada for a trip redelivery Skaw-Passero at $9,000. Earlier in the week Norden fixed the *Fortune Bay* (28,671-dwt, 2006) delivery Natal for a trip with salt to US East Coast at $8,500. The US Gulf, Continent and Mediterranean/Black Sea remained fairly flat.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
S Cape	175,526	2003	Tianjin	12/14 May	India	10,000	LSS	Via Indonesia
Stella Laura	179,549	2015	Jiangyin	PPT	Singapore-Japan	12,000	Cargill	Via West Australia
Medi Kyoto	89,499	2018	West Australia	20/30 May	China	11,500	Oldendorff	Plus 230,000 bb
Egyption Mike	81,600	2011	Liverpool	PPT	Skaw-Gibraltar	12,000	Norden	Via Murmansk
Nicosia Pegasus	81,512	2012	EC South America	04 June	Singapore-Japan	16,200	Comerge	Plus 620,000 bb
Desert Harrier	60,447	2017	EC South America	19/23 May	Singapore-Japan	14,350	CNR	Plus 435,000 bb
Amstel Eagle	56,108	2014	CJK	15 May	South China	8,500	CNR	Via Indonesia
Antakya M	55,888	2005	West Coast India	PPT	Mormugao	8,750	Seacoast	
African Harrier	37,707	2014	West Africa	PPT	China	11,000	Topsheen	
Sassy Sofia	32,759	2005	Recalada	PPT	Skaw-Passero	9,000	Trithron	



Exchange Rates	This Week	Last week
JPY/USD	109.72	109.52
USD/EUR	1.1174	1.1246

Brent Oil Price	This Week	Last week
US$/barrel	72.26	70.58

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	424.0	420.0
MDO	638.0	619.0
Rotterdam IFO	408.0	411.0
MDO	633.0	619.0

Dry Bulk S&P

At times this week various market participants have ended up bewitched, others bothered and many bewildered. Activity has been scarce with sellers unwilling to engage to low ball offers and a pervasive feeling that 'whatever will be will be'.

A Greek Buyer has reportedly picked up *Maritime Power* (176,346-dwt, 2005 Universal), a rare second hand cape deal. Over 20 vintage capes have been sent up the beach yet only a handful have been picked up for further traders as few Buyers seem willing to take a punt on the older ships given Vale's woes.

Japanese owners have sold out a pair of ten year old Panamax sisters, *Lake Dahlia* and *Triton Gannet* (both 78,802-dwt, 2009 Sanoyas) surveys passed, to Greek Buyers with early rumours naming Paviamar and an enbloc price in the $27s.

We only have one supramax sale to report, *Delfa* (53,622-dwt, 2005 Yangzhou Dayang) sold to Vietnamese Buyers for $7.6m. Given a 2011 Dolphin 57 was sold last week for $10.2m it looks a respectable price for the sellers.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Maritime Power	176,346	2005	Universal Shipbuilding	-	Brave Maritime	13.4	
Triton Gannet	78,821	2009	Sanoyas Hishino Meisho	-	Pavimar SA	27 en bloc	
Lake Dahlia	78,802						
Golden Bridge	63,800	2019	Nantong Xiangyu	C 4x35T	Minsheng Financial Leasing Co	22.5 each	Sale & leaseback deal
Golden River							
Delfa	53,622	2005	Yangzhou Dayang	C 4x35T	Vietnamese	7.7	Vietnamese

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Shinyo Ocean	281,395	2001	Ishikawajima-Harima HI	Tank	38,220	432.5	'As is' Colombo
Yangtze Innovation	30,537	2002	Xiamen Shipyard - Xiamen FJ	Gen	11,697	438.0	'As is'Malaysia
Kweichow	23,000	1994	Minaminippon	Gen	10,132	440.0	India
Tanto Hawari	4,584	1985	Kochi Jyuko (Eiho Zosen)	Gen	1,892	405.0	Bangladesh

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Tanker Commentary

The most liquid market across all mainstream shipping sectors continues to be the MRs. In excess of 20 ships under the age of 15 years have been sold since the turn of the year and despite the unrelenting flow of sales candidates prices have remained steady. Following up from a sale of a trio of MRs from a joint venture with Transpetrol, Glencore are reported to have disposed of another 10 year old MR *Glenda Megan* (47,147-dwt, 2009 HMD) with further sales candidates also understood to be under discussions. Celsius are naturally being linked with the sale at $17m having successfully purchased the initial trio.

Elsewhere, the Japanese controlled Leopard (47,991-dwt, 2010 Iwagi) is struggling to find a new home having taken offers earlier this week and been inspected by 3 buyers. The sale is being hindered by a below market TC for 1 + 1 years with buyers reluctant to meet the target price of $16m.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Super Sky	70,426	2005	Universal Shipbuilding	Greeks	8	
Glenda Megan	47,147	2009	Hyundai Mipo	Danish	17	

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