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### THE BIGGER PICTURE

#### ... Constructive Ambiguity or Destructive Ambivalence ? ...



David Davis, left, and Michel Barnier

Source: The FT

\*\*The UK leaves both the EU single market and customs union in March 2019 but seeks a 2-3 year transition period on bilateral trade issues.

\*The plan is to control access to the labour market and social security via work permits, skills quotas, company sponsorship and qualifying periods.

^The US wants open markets for its agricultural produce, raising EU fears of lorry loads of US chlorinated chicken and hormonised beef imports.

### POINTS OF VIEW

A couple of known threats to world trade achieved greater prominence this week. President Trump's alt-right White House strategist, Steve Bannon, declared that the US and China are engaged in an economic war that the US risks losing over the next five to ten years "hitting an inflection point from which we'll never be able to recover." He advocates maniacal focus and no let up on trade issues in return for China's cooperation in securing a peaceful accommodation with ICBM-crazy North Korea. China's foreign ministry responded that the China-US economic relationship is mutually beneficial and that there will be no winners from a trade war. It added: "We hope that people will not use 19<sup>th</sup> and 20<sup>th</sup> century perspectives and measures to address 21<sup>st</sup> century problems." On Monday the president announced a provocative year-long study into Chinese trade and investment practices. Meanwhile, Bannon is determined to introduce more hawks to the defence and state departments to put the US on the front foot in this US-China hegemon contest. It is all rather worrying, not least for Goldman Sachs alumni Steven Mnuchin and Gary Cohn, in their Treasury department and economic advisory roles, who favour a more nuanced approach. Bannon's comments came only days after the Charlottesville clashes since which time the president seems to have alienated most of America apart from maybe the Ku Klux Klan in Georgia and redneck pickup truck drivers in Florida. Trump's presidency goes from bad to worse suggesting that we all need to be saved from businessmen pretending to be politicians and diplomats.

The other threat to world trade comes from the EU and UK where politicians and diplomats are pretending to be businessmen. In exit discussions to date, the EC has prioritised three issues: the divorce bill (as the UK is the second largest contributor to the EU budget and will leave a huge hole in EU finances), the rights of EU citizens in the UK (and their ongoing access to jobs and benefits), and the Irish border (with UK member Northern Ireland to the north and EU member Republic of Ireland to the south). For its part, the UK has prioritised future trade links with the EU as businesses need to know a year in advance where they stand the day after the March 2019 exit, but the EC wants to deal with this after its agenda is settled. On the Irish issue, at present there is a soft border, with no passport controls or customs checks, after years in which there was a hard border during the troubles. The UK has no wish to endanger the peace process and this week it published a position paper\*\*. It confirmed that the border will remain open, thus respecting the EU principles of free movement of people and goods. However, a soft border questions how the UK will control in-bound EU migration\* and how the EU can monitor its in-bound UK and non-EU trade flows without customs checks at the internal border^. The EU will not tolerate unregulated imports from outside the EU that contravene its safety and quality standards and that undercut its own products on pricing. To some, it all amounts to a smugglers and traffickers charter and it illustrates how exit talks are dominated by UK and EC brinkmanship as the clock ticks on. The UK is time short while the EC is time long.

The risk is that at any time between now and March 2019 no agreement will be reached and the UK leaves the EU in a hard exit, something that will be damaging to all parties. The Irish border is probably central to all other issues surrounding the budget, free movement, the single market, customs union and governing law; so this is to be the battleground, rather unfortunately from an historical perspective. If the politicians fail to reach compromise agreements and we end up with a hard Brexit then it will be pandemonium for world trade. There will be overnight bottlenecks at UK and EU ports and airports that will reverberate around the world. It could be reminiscent of the seizure in world trade following the collapse of Lehman Brothers in September 2008, coming at a time when the global economy is on artificial support and container shipping is struggling to return to a healthy balance. The container market is turning a corner with trade growth in 2017 forecast at 5% against capacity growth of 3%; in 2018 the numbers rise to 5.3% and 3.7% respectively, hinting that the long awaited turnaround is nigh. Maersk Line, the industry bellwether, posted a profit of \$339m in 2Q17 compared with a \$151m loss in 2Q16 a year ago. Soren Skou, APMM Group CEO, told Bloomberg that the outlook is bright with very healthy fundamentals for container shipping. Maersk Line's Q2 volumes were up 1.7% year-on-year to 2.7m-teu while overall average freight rates rose 21.6% year-on-year to \$2,086 per box. Maersk Line is forecasting a \$1bn increase in underlying profit in 2017 compared with a \$384m loss in 2016. The recovery is on track and could well do without a US-China trade war or a hard Brexit.



The BDI has gained 105 points ending the week at 1,260, its highest level since late April, supported by a strong cape market.

The **Cape** market continued its upward trajectory, rising \$3,237 to finish the week at \$19,488. In the Pacific, Cargill fixed the *Don-A Onkos* (179,329-dwt, 2010) delivery Tianjing for prompt dates for a trip via West Australia back to Far East at \$19,000. On voyage, the West Australian iron ore run was paying around \$7.35pmt, Rio Tinto covering two early September 170/10% Iron ore stems for Dampier / Qingdao at \$7.35pmt. There were some large rates done for Atlantic loading business. Cargill fixed the *KSL Sydney* (181,015-dwt, 2014) delivery Rotterdam for a trip to the far East at \$35,000, guaranteed minimum duration of 75 days too! For Atlantic round voyage business there was a lack of fixtures reported, however Cargill were rumoured to have taken the *Navios Pollux* (180,727-dwt, 2009), fixed at the start of the week, delivery Passero for an Atlantic round voyage in the high \$15s. On period, Rio Tinto fixed the *Mount Dampier* (181,469-dwt, 2011) delivery Qingdao for 11/13 months at \$15,500.

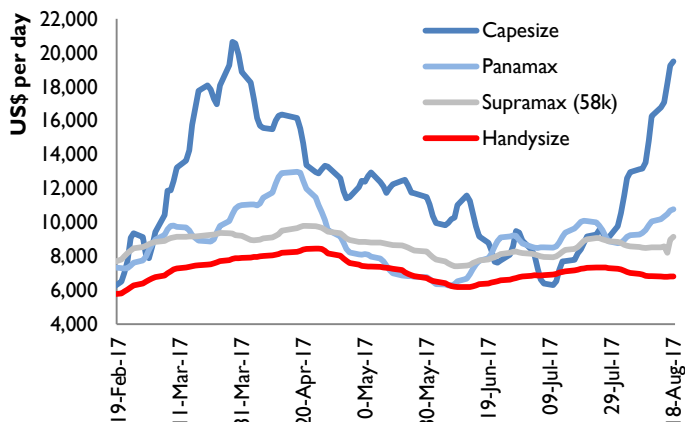
The **panamax** market has maintained the momentum with the timer chartering increased further by \$724 to end the week at \$10,780. In the Pacific, *Calyso Island* (85,031-dwt, 2017) delivery Longkou via Weipa redelivery Qingdao Fixed to Rio Tinto at \$11,000. *Orang Truth* (82,800-dwt, 2006) delivery Kawasaki for North Pacific round voyage redelivery Singapore-Japan range fixed at \$11,000 to Jera. On fronthaul, *Bottiglieri Flavio Borriello* (93,222-dwt, 2011) delivery Singapore via East Coast South America redelivery Singapore-Japan range fixed at 12,600. ADMI took *Crystal Star* (82,172-dwt, 2014) delivery Santos redelivery Singapore-Japan range at \$12,000 plus 600,000 bb.

In the Atlantic, *NBA Van Gohn* (95,708-dwt, 2013) delivery Brake for trip via North Brazil redelivery Skaw-Cape Passero range fixed at \$13,000. On the period front, *Martine* (86,800-dwt, 2009) delivery Qinghuangdao for 6-9 months trading redelivery worldwide \$11,500. Ultrabulk fixed *Shandong Hai Xing* (75,750-dwt, 2014) delivery Singapore for 4-7 months trading redelivery worldwide at \$10,750.

A positive week for both the **Supramaxes** across the board, **Handysize** earnings remained steady. Supra average earnings rose \$550 to close the week at \$9,145. Handy earnings closed at \$6,800 down \$20, despite the quiet week on the handies, there is a sense of momentum building and the hope that they will rise next week. In the Atlantic, the Black Sea remained firm, ultramaxs seeing close to 20k for fronthauls. Out of East Coast South America rates rose, the *Nautical Anne* (63,593-dwt, 2016) fixed delivery Tubarao trip via the Red Sea redelivery Port Said at \$15,500 to Norvic. Lauritzen fixed a 37-dwt handy delivery Skaw for a scrap run to East Mediterranean at \$9,250. In The Pacific levels picked up, particularly in the 2<sup>nd</sup> half of the week. In the Far East, there was an ultramax rumoured to have fixed \$10,000 for a North Pacific round voyage, well up on last done. In South East Asia the Pacific round voyage is closing in on five figures too, the *Densa Cougar* (57,592-dwt, 2012) fixed in the middle of the week delivery Singapore trip via Indonesia to India at \$9,750. Rates have risen since then. The *New History* (36,332-dwt, 2012) fixed delivery Japan for a trip to Singapore at \$7,500. On period, Ausca Shipping took the *CP Nanjing* (63,526-dwt, 2017) for 4/6 months at \$10,750. There were also rumours of an Ultra fixing Kohnsichang for short period at 10,500 today.

### Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
Aqua Crystal	181,458	2011	S.China	29-31 Aug	South Korea	20,500	Dong-A Tankers	Via South Africa
KSL Sydney	181,015	2014	Rotterdam	26 Aug	Sing-Jpn	35,000	Cargill	
CIC Epos	79,500	2014	Cape Passero	SPOT	PMO	17,000	Langlois	Via Black Sea & PG
An Ho	77,834	2004	Kaoshiung	19-20 Aug	S.Korea	11,000	Ta Ho	Via Indonesia
Bulk Polaris	63,396	2017	Cigading	21-22 Aug	China	10,500	CNR	Via Indonesia
African Finfoot	61,219	2016	USG	End Aug	Sing-Jpn	19,500	ADMI	
Medi Lisbon	58,710	2007	Ghent	SPOT	East Med	8,500	PGSC	Via Hamburg Int Scrap
Belstar	57,970	2009	ECSA	20-30 Aug	Sing-Jpn	12,400 + 240k gbb	Bunge	
Nord Seould	36781	2010	Skaw	PPT	East Med	9,250	Lauritzen	Via Baltic
New History	36,332	2013	Japan	PPT	Singapore	7,500	CNR	



Exchange Rates	This Week	Last week
JPY/USD	108.83	109.17
USD/EUR	1.1745	1.1801

Brent Oil Price	This Week	Last week
US\$/barrel	50.93	51.69

Bunker Prices (\$/tonne)	This week	Last week
Singapore IFO	298.0	315.0
MDO	460.0	480.0
Rotterdam IFO	292.0	295.0
MDO	445.0	456.0



### Dry Bulk S&P

There is relatively little to report this week. Songa Bulk, heedless of the holidays, continues to take tonnage from the market, but generally they are alone in making hay while the sun shines. Elsewhere recovery in Chinese cabotage trades has meant a surge in interest for older handymax and supramax tonnage, but for this week at least there are no sales to report.

Kamsarmaxes are this week's flavour. In probably the week's only significant transaction Songa have bought the latest United Ocean offering. *Goddess Santoshi Devi* (81,918-dwt, 2014 Tsuneishi) is sold for \$ 22.8m, very much in line with last done.

It is further reported that Songa are the buyers of *Harbor Hirose* (83,494-dwt, 2011 Sanoyas) at \$19.25m, but we understand that sale may have happened some months ago.

One elderly panamax is reported sold. *QC Athina* (72,917-dwt, 2000 Daedong) is sold for \$7.3m - which on paper at least looks a way short of other recent sales.

Finally the small handy *Nicolina* (24,159-dwt, 1997 Kanda) is sold for a fairly damp \$2.75m.

#### Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$m	Comment
Harbor Hirose	83,494	2011	Sanoyas	-	Songa	19.25	
Goddess Santosh Devi	81,918	2014	Tsuneishi	-	Songa	22.8	
QC Athina	72,917	2000	Daedong	-	Undisclosed	7.3	
Nicolina	24,159	1997	Kanda Kawajiri	C 3x30	Undisclosed	2.75	

#### Demolition Sales

Vessel	DWT	Built	Yard	Type	Buyer	Price (\$/LDT)
Nadin	298,731	1996	Daewoo	TANK	Singapore	382
Nona					Khor Fakkan	390
Daryakaran	298,306	1995	Daewoo	TANK	Bandar Abbas	Undisclosed
Maran Lyra	285,998	1995	Daewoo	TANK	Singapore	390
Ramtin	163,055	1992	Daewoo	TANK	Bandar Abbas	Undisclosed
Eagle Boston	99,328	1996	Samsung	TANK	Bangladesh	6.5(m)
Yugalraj	70,456	1993	Daewoo	BULK	Bangladesh	390
ER Hamburg	30,721	1998	China Shi – Kaohsiung	CONT	UAE	397
Avila Star	12,519	1990	AESA	REEF	Colombo	355

### Tanker Commentary

Earnings may be on the floor, but with second hand and newbuilding prices sitting at historical lows, VLCCs continue to attract investment. Along with reports of another three newbuilding contracts being inked with Japanese yards, it appears Gulf Marine are back in the game with the purchase of two tier 2 VLCC resales from Jinhai (J0282 & J0823), delivering at the end of 2018. The price of \$72.5m each reflects around a 10% discount to what a Korean newbuilding contract would set you back today. Owners will hope that a combination of a lacklustre freight market and enticing demolition prices in excess of US\$400 per ldt for larger crude tankers, will result in more vessels heading towards the beaches of Alang in the coming weeks addressing the supply and demand imbalance.

Elsewhere in the MR sector, having acquired a number of resale MR's in recent weeks, Torm have continued their fleet rejuvenation process with the sale of the MRI *Torm Fox* (37,025-dwt, 2005 HMD). Whilst yet to be confirmed, Indonesian buyers are being linked to the sale at US\$ 10.5 mill which is in line with recent activity. In addition, Stealth Maritime have sold the *Epiphany* (47, 465-dwt, 2002 Uljanik) to Greek interests – at this stage a price is yet to be disclosed.

#### Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
Epiphany	74,465	2002	Uljanik Brod	Greek	Undisclosed	
Torm Fox	37,000	2005	Hyundai Mipo	Indonesians	10.5	
KY Venus	13,049	2010	Kwangsung	Undisclosed		Sold at Auction in Hong Kong

#### Tanker Period Fixtures

Vessel	DWT	Built	Yard	Period	Rate (\$/pd)	Charterer
Lavails	299,325	2000	Daewoo	2 years	24,000	Indian Oil Co
Nordic Star	159,000	2016	Sungdong	18 months	Undisclosed	Shell
Nordic Space	158,000	2017				
Pantelis	114,500	2004	Samsung	14 months	12,000	Enesel
Sparto	114,549					
High Venture	51,088	2006	STX	1 year	13,250	ExxonMobil
Green Hellas	50,885	2014	Dae Sun	6 months	14,250	Clearlake
Valle Azzurra	50,697	2008	SPP	1 year	13,750	Total

Should you have any queries about the content of this report or require any services of Hartland Shipping Services, please contact:

**Hartland Shipping Services Ltd,  
London**

Tel: +44 20 3077 1600  
 Fax: +44 20 7240 9603  
 Email: [chartuk@hartlandshipping.com](mailto:chartuk@hartlandshipping.com)  
 Email: [snpu@hartlandshipping.com](mailto:snpu@hartlandshipping.com)  
 Email: [consult@hartlandshipping.com](mailto:consult@hartlandshipping.com)

**Hartland Shipping Services Ltd,  
Shanghai**

Tel: +86 212 028 0618  
 Fax: +86 215 012 0694  
 Email: [snpcn@hartlandshipping.com](mailto:snpcn@hartlandshipping.com)

**Hartland Shipping Services Pte. Ltd,  
Singapore**

Tel: +65 6702 0400  
 Email: [projects.sg@hartlandshipping.com](mailto:projects.sg@hartlandshipping.com)

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