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## THE BIGGER PICTURE

... Kaleidoscopic – markets can totally change in a single twist ...



Source: pulsd.com

<sup>^</sup>Especially if it coincides with central bank stimulus reduction and balance sheet deleveraging but, hopefully, these are risks that only loom into view in late 2018 or 2019.

<sup>\*</sup>The FT reports that the Fed Funds futures market's implied probability of three rate rises for 2018 crossed over 50% this week in the wake of recent inflation data picking up.

<sup>^^</sup>Fiat Chrysler will move some truck production back to Detroit from Mexico in response to the tax cuts which challenges other companies to execute similar patriotic reshoring strategies.

<sup>\*\*</sup>Opec member Venezuela has dropped to its lowest oil output in 28 years while the US will overhaul Saudi's 10m-bpd this year with 10.4m-bpd (IEA) and is forecast to surpass Russia's 11m-bpd in 2019.

## POINTS OF VIEW

Global stock markets got off to a brisk start in 2018 having been turbocharged by US corporate tax cuts (35 to 20%) and evidence of synchronised global growth. Given that equity markets started the year at eye-watering levels investors need to convince themselves that conditions will not only confirm current valuations but send them even higher. This would be in defiance of the favoured metrics of spot price earnings and longer term cyclically adjusted price earnings ratios. We are informed that these are trading at multiples last seen before the 1929 Wall Street crash and the 2000 Dotcom bust. It takes a brave or foolish person to assert that "this time it's different." Markets could keep rising in the months ahead but this would imply that the correction, when it comes, will be deeper. The US government bond market might be trying to tell us something as the yields on its 10-year Treasuries today rose to well above 2.6% having started the year at 2.4%. This is the highest yield since September 2014 and it indicates that the economy, 10-year Treasury yields, interest rates and inflation are all going up with a mixture of possible consequences. If the bond sell-off continues, pushing yields even higher, then equities could suffer collateral damage as corporate debt servicing costs will shoot up and may put the brakes on economic growth<sup>^</sup>. It is said that as institutional investors sell bonds, retail investors around the world are piling in, unaware that fixed interest is not generally a safe buy when interest rates and inflation are at risk of rising<sup>\*</sup>. Each to his or her own; at least it creates a liquid market of both buyers and sellers as there is no consensus as to where asset prices are going. Retail investors may also be punting their real money on cryptocurrencies, like Bitcoin, so presumably they do not have a casino within easy driving or walking distance.

The controversial Trump tax cuts are a double-edged sword for US banks, especially those that suffered the most in the Global Financial Crisis, as huge losses mean that some banks have not used up all their deferred tax assets and must now write down the benefit in line with the lower tax rate. In the long run it is positive as these banks will generate higher profits, but this change led Citi to book a \$20 billion charge in its 4Q17 accounts. For Apple, it is a chance to put on a patriotic display by pledging to repatriate overseas profits, pay proper taxes and invest more in its US-based businesses as it trumpets a \$350 billion direct injection into the US economy over five years. The Apple is being made whole and it is being cooked for America's benefit. The guy they often refer to as a moron in the West Wing might surprise us all; he is spontaneous and pragmatic and he can turn on a dime. Maybe that is why he is going to Davos, after all, to rub shoulders with institutions that he used to despise. He was at home in Pittsburgh yesterday with blue collar friends, telling them how his tax cuts are creating jobs and reshoring manufacturing<sup>^^</sup>. Tax cuts enable Apple to give 120,000 employees a \$2,500 stock grant, Fiat Chrysler to give 60,000 employees a \$2,000 bonus and Walmart to raise its minimum wage from \$9 to \$11. This can only be applauded as it provides creative stimulus to the economy just as the Fed prepares to remove its punchbowl.

This year the dry bulk market has been seized by the recent and much anticipated collapse in capesize earnings. If everyone believes in it, then it will happen. However, beyond sentiment, there are more fundamental possibilities such as (all China-related, of course) high iron ore port inventories, lower steel demand from the construction industry in winter, easing port congestion and the hiatus created by trying to avoid ships arriving during the CNY holidays. Average capesize daily earnings have plunged from a 12Dec17 peak of \$30,475 to a trough of \$11,571 today, according to the BCI-5TC, a 62% drop. Once lunar scheduling is over we expect a rebound, or it is back to the drawing board. Look on the bright side, if the market did not cause investors to think twice then many would be on a plane to the shipyards. Capes are still doing better than supertankers. The VLCC-TCE hit a 6-month high of \$14,524 on 17Oct17, then sank to a 12Jan18 low of -\$1,773 daily, a 112% decline. It is back to \$2,891 today, a third of VLCC daily opex, so a small mercy. Brent traded above \$70 this week from its low of \$27 in Jan16. Falling prices from Jun14 encouraged stock building, good for tankers, and rising prices from Jan16's trough encouraged stock drawing, bad for tankers. The transition is akin to a sharp twist of a kaleidoscope as new and unpredictable trading patterns emerge. You have ton-mile gains and losses; let's say they net off and be done with it. Overlay that with too many ships and our best hope is for VLCCs to do better in 2H18. Much hinges on the tug of war between Opec/Russia and non-Opec/US.<sup>\*\*</sup> It all goes to show how unexpected twists add to the puzzle of shipping and economics.

The **BDI** finished the week at 1125, down from last weeks close of 1279. A very tough week for the **capes** which saw them drop \$5,547 finishing the week on \$11,571, down from last Fridays close of \$17,118. On the Dampier/Qingdao run, Rio Tinto fixed the *Rosco Maple* (181,453-dwt, 2010) 170,000/10% for \$5.60pmt In the Atlantic, Salzgitter fixed the RWTE TBN 130000/10% Saldanha Bay/Hamburg-Hansaport at \$8.25pmt. Tata NYK fixed the Classic Maritime relet *Cohiba* (174,234-dwt, 2006) 170,000/10% Saldanha Bay/Qingdao for \$10.20pmt. Kobe Steel fixed the NS-United relet *New Mighty* (179,851-dwt, 2011) 150,000/10% Ponta Da Madeira/Kakogawa for \$17.75pmt. Hyundai Glovis fixed the *Cape Saturn* (175,775-dwt, 2003) 150,000/10% San Nicolas/Qingdao at \$15.00pmt. On the period front, Oldendorff fixed the *Shinyo Diligence* (176,955-dwt, 2006) delivery Huangpu for 4/7 months trading at \$14,000. The *Alpha Faith* (178,104-dwt, 2008) fixed delivery Rizhao for 11/13 months trading at \$18,500.

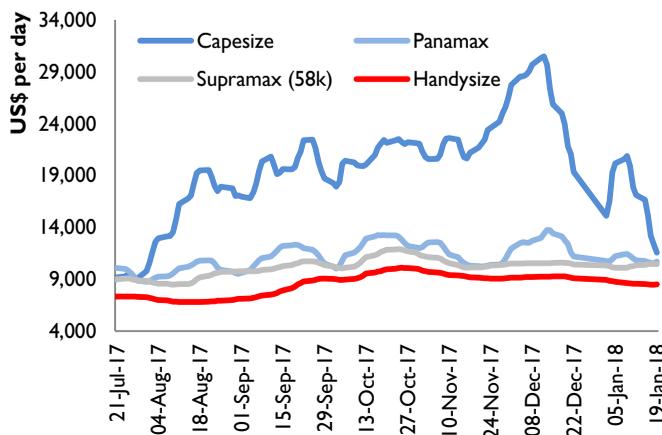
The **panamax** market had a mixed week, eventually closing at \$10,693, down from last weeks close of \$10,813. In the Pacific, Tongli took the *Key Opus* (81,863-dwt, 2015) delivery Port Kelang for a trip via Indonesia redelivery South China at \$14,000. *Global Star* (83,601-dwt, 2010) fixed delivery Hong Kong Via West Australia with salt to Norden at \$11,500. COFCO fixed the *Megalohari* (76,633-dwt, 2004) delivery Singapore for a prompt trip via East Coast South America, redelivery Singapore-Japan range at \$10,500. *Ningbo Seal* (76,032-dwt, 2011) fixed delivery Colombia for trip to Skaw-Passero at \$12,500 plus \$275,000 bb to Norvic. In the Atlantic, Ultrabulk fixed *Alkimos Heracles* (81,588-dwt, 2014) delivery Hamburg for a trip via US Gulf with wood pellets redelivery Continent at \$13,000. On the front haul, Cargill fixed the *Kerveros* (76,602-dwt, 2011) delivery East Coast South America for a trip to Singapore-Japan range at \$14,750 plus \$475,000 bb. On period, Transcenden took the *KM Singapore* (80,559-dwt, 2013) delivery Fuzhou for 8-11 months trading, redelivery worldwide at

\$13,000. Phaethon fixed the *Te Ho* (77,834-dwt, 2004) delivery Qingdao for 1 year trading, redelivery worldwide at \$11,900.

The **supramax** market closed the week at \$10,477, down \$133 from last week. The **handy** market also slightly fell as the week went on, closing at \$8,504 from last weeks close of \$8,555. In the Atlantic, supramax rates continued to be supported by a strong US Gulf market, although levels appeared to be cooling by Friday. At the beginning of the week we heard rumours of an ultra fixing at \$27,000 for US Gulf to Singapore-Japan range with grains. Norden fixed the *Bi Jia Shan* (56,625-dwt, 2012) for a trip ex US Gulf to Italy at \$23,250. In the south Atlantic, tonnage on the smaller sizes was tightening as the week went on. Seaside fixed the *Kambos* (33,225-dwt, 2008) for a trip delivery Rio De Janeiro via the Plate, redelivery Algiers at \$16,250. Seacape fixed the *Fu Xing Hai* (38,801-dwt, 2016) delivery Recalada redelivery West Coast South America at \$18,000. On the larger sizes, Louis Dreyfus were reported to have fixed the *Soho Mandate* (61,436-dwt, 2016) delivery Paranagua for a trip to China at \$14,250 plus \$425,000 bb. Rates continued to slide in the Med and Black Sea. Cargill fixed the *Baltic Wasp* (63,389-dwt, 2015) delivery Canakkale redelivery Continent at \$9,500. On the Continent, we heard a 28k dwt achieving \$10,000 dop Ghent, redelivery Turkey. In the Pacific, rates continued to fall across both handys and supras. Western Bulk fixed the *Spring Sunrise* (46,957-dwt, 2012) delivery CJK via NoPac, redelivery Singapore-Japan range at \$9,000. Pacific Success fixed the *Multan* (50,244-dwt, 2002) delivery Gresik redelivery China at \$11,800. Universal Resources fixed the *Eurosun* (33,705-dwt, 2012) delivery Kwangyang for a prompt trip via CIS, redelivery North China at \$8,250. On Period, Phaethon fixed the *CP Shanghai* (63,608-dwt, 2015) delivery ex DD China for about 12 months trading, redelivery worldwide at \$12,000.

### Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
Mineral Hokkaido	180,159	2008	Zhoushan	PPT	Singapore-Japan	10,500	MOL	Via Australia
Anastasia	91,800	2012	Fangcheng	20 Jan	S. Korea	11,250	Hyundai Glovis	Via Indonesia
Key Opus	81,863	2015	Port Kelang	19/22 Jan	South China	14,000	Tongli	Via Indonesia
Kerveros	76,602	2003	EC South America	05 Feb	Singapore-Japan	14,750	Cargill	\$475,000 bb
Ningbo Seal	76,032	2011	Colombia	01/05 Feb	Skaw-Passero	12,500	Norvic	\$275,000 bb
Soho Mandate	61,436	2016	Paranagua	PPT	China	14,250	Louis Dreyfus	\$425,000 bb
Veronique D	58,698	2012	Singapore	20 Jan	China	12,000	Universe Eternity	Via Indonesia
Bi Jia Shan	56,625	2012	US Gulf	PPT	Italy	23,250	Norden	
Zhen Zhu Hai	39,764	2015	Otranto	20 Jan	West Africa	12,000	MUR	Via Lisbon
Eurosun	33,705	2012	Kwangyang	PPT	North China	8,250	Univeral Resources	Via CIS



Exchange Rates	This Week	Last week
JPY/USD	110.53	111.46
USD/EUR	1.2243	1.2136

Brent Oil Price	This Week	Last week
US\$/barrel	68.62	69.21

Bunker Prices (\$/tonne)	This week	Last week
Singapore IFO	387.0	392.0
MDO	600.0	605.0
Rotterdam IFO	366.0	366.0
MDO	587.0	594.0

19 January 2018

### Dry Bulk S&P

The plunging BDI rollercoaster, although principally a capesize phenomena, has yet to make an impact on the general optimism of the second hand market. Most market players are happy to analyse-away the drop in capesize earnings with reference to the approach of Chinese New Year and are encouraged by the resilience of the panamax and supramax indexes, which remain in five figure territory, and the under-threat handy index, which remains north of 8500. Turnover remains high while the list of available sales candidates has begun to diminish. More Japanese owners have decided that the 12 month t/c market is a better option at this stage of an improving market. Despite the first-quarter doldrums, prices are continuing to stiffen.

Two sister supras have been sold at significantly different prices *Posiedon SW* and *Sage Pioneer* (both about 55,500-dwt, 2008 Oshima) have been sold for \$12.5m and \$14.2m respectively. The difference in relative values might be attributable to physical condition - we cannot tell from this desktop distance - or perhaps the buyers of the *Sage Pioneer* needed an ice-class vessel. In any case the *Sage Pioneer* was bought a year ago by JP Morgan at \$10.5m. Another, older Oshima supra has been sold for an even stronger number. *Ocean Pearl* (55,557-dwt, 2004 Oshima) is reported sold at close to \$11m, while the TESS52 *Jag Rahul* (52, 364-dwt, 2003 Tsuneishi Cebu) is sold at an impressive \$9.3m.

....although perhaps the two capesize sales this week are a bit below benchmarks. *Cape Med* (185,827-dwt, 2006 Kawasaki) is sold to XT Shipping at \$20.6m, a softer rate compared to the same age *Kerkis*, reported two weeks ago at \$ 22.0m. Again, against the same benchmark, *Bulk India* (177,640-dwt, 2004 Mitsui) was slightly softer at \$ 14.2m to Bulkseas.

Handy turnover continues unabated. *Glorious Sunshine* (28,306-dwt, 2009 Imabari) was sold for as much as \$8.5m net while her more modern sister *King Canola* (28,307-dwt, 2013 Imabari) was sold at close to \$11m. Both sales record a step up from last done.

#### Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$m	Comment
Cape Med	185,827	2006	Kawasaki	-	XT Shipping	20.6	
Bulk India	177,640	2004	Mitsui Chiba	-	Bulkseas	14.2	
Voge Enterprise	79,410	2011	COSCO Dalian	-	Undisclosed	15	
Sea Dias	57,053	2010	Taizhou	C 4x30	Chinese	Circa 22	Enbloc sale
Sea Athena	57,034						
Poseidon SW	55,688	2008	Oshima	C 4x30	Undisclosed	12.5	
Sage Pioneer	55,303	2008	Oshima	C 4x30	Undisclosed	14.2	
Jag Rahul	52,364	2003	Tsuneishi Cebu	C 4x30	Chinese	9.3	
Ocean Quartz	37,194	2012	Hyundai Mipo	C 4x30	Undisclosed	12	
Glorious Sunshine	28,306	2009	Imabari	-	Undisclosed	8.5	
King Canola	28,307	2013	Imabari	C 4x30.5	Undisclosed	High 10s	
Patria	24,021	1998	Kanda Kawajiri	C 4x30	Undisclosed	4.2	

#### Demolition Sales

Vessel	DWT	Built	Yard	Type	Buyer	Price (\$/LDT)
Plata Sunrise	302,193	1999	Kawasaki HI	TANK	Undisclosed	447
Innovator	149,298	1993	Samsung Heavy Inds	BULK	Undisclosed	490+
Betelgeuse	45,513	1999	Hyundai Ulsan	TANK	Undisclosed	Undisclosed
Spica	46,168		Halla Eng & HI			

### Tanker Commentary

It is a sign of the times that demolition sales outnumber second hand sales in this weeks report. Crude freight rates are not encouraging buyers to pursue ageing sales candidates with the prospect of hefty special survey costs and pending ballast water regulations looming. As result, it is not surprising that owners are turning their attention towards the beaches of the sub continent being enticed by the eye catching prices on offer. According to our figures, 10 crude tankers have been scrapped so far this year versus 8 newbuildings delivered, giving negative fleet growth – if only this could be the case come the end of the year!

Greek interests are reported to have paid \$26m for the vessel. It is interesting to note the last 2009 aframax sold was the coated *Phoenix Light* (105,599-dwt, 2009 HHI) back in August last year for \$23.3m illustrating the upward curve in crude prices we have seen in recent months. In addition, Ridgebury Tankers are understood to have sold the *Ridgebury Alice M* (105,745-dwt, 2003 Sumitomo) for \$11m to undisclosed Greek buyers for \$11m – again a uptick in prices from the last done.

Having sold the aframax *Aktea* (107,091-dwt, 2005 Daewoo) at the end of last year, there are unconfirmed reports that Chandris are close to finalising a deal on another aframax *Aegea* (115,878-dwt, 2009 Samsung).

#### Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
Ridgebury Alice M	105,745	2003	Sumitomo	Greeks	11	
Aristotelis	51,604	2013	Hyundai Mipo	Chelsea Shipping	29	BWTS fitted

#### Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate (\$/pm)	Charterer
Kiribora	50,044	2013	SPP	1 year	Undisclosed	Total
Stenaweco Gladys W						
Stenaweco Julia L	49,995	2013	STX	1 year	14,750	Stena Bulk
Stenaweco Marjorie K						

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