19 October 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

…Looking for firmer ground…

ECONOMICS
ASIA
Q4 2018

HSBC
Global Research

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Asian Economics

Looking for firmer ground

With the dollar bouncing back and trade tensions continuing to rise…

…the Year of the Dog has turned out to be a little fiercer than expected

Still, with solid fundamentals, and easing in China, stability will prevail

Source: HSBC Global Research

This week we bring you the latest quarterly Asian economics report from HSBC Global Research. The economists discuss their views of Chinese economic growth and policy expectations to bolster the impact of trade tensions with the US. HSBC expect a combination of short-term infrastructure boost and medium-term solutions such as tax cuts. Strengthening intellectual property rights, as well as private sector and structural reforms, among others, hold the key to sustainable growth.

POINTS OF VIEW

Grip the leash and hold on tight. That, at least, was the theme of this summer, leaving investors a little out of breath. Truth told, however, so far all those headlines aren't fully reflected in economic numbers. Yes, growth cooled at the margin, but it didn't exactly buckle. Still, the headwinds are stiffening. Tariffs will weigh on exports, amid a trade cycle that's already softening. With the dollar up, and interest rates heading higher as well, funding conditions have tightened. And then there's oil: the stuff is getting costlier, squeezing local budgets among the region's importers. And yet, and yet: while all this means growth will slow into next year, there's still plenty of juice left. China, for one, has sufficient policy muscle to ride out the drag from tariffs. And that, too, should ultimately put a floor under trade in the region. Inflation, meanwhile, is proving manageable, leaving central banks a little breathing space. Look forward to some firmer ground when we turn to 2019.

The year started off promising enough. Markets roared at the beginning of 2018 and exports soared. It all seemed a little heady, and reality soon set in: the dollar turned, the Fed hiked, and tariffs moved up the agenda. China, by contrast, slid a little, its numbers no longer quite as stellar as before. The Year of the Dog, in short, delivered a bouncy ride to investors, especially in emerging markets. What's next? Tariffs will be a bit of a drag. Though they won't stop exports cold, neither in China nor elsewhere in Asia. Higher dollar rates, and all that comes with it, have tightened financial conditions, which will squeeze borrowers in the region, including in markets a little more shielded from the effect by lofty external surpluses. Rising oil prices, meanwhile, are a headwind as well, to either households, firms, or the public purse, depending on who bears the cost. Growth, all told, may look a little soggier still.

Trade tensions between the US and China have been mounting and there is little sign that there might be calm anytime soon. A fresh round of 10% tariffs on $200bn of Chinese imports was put into effect by the US on 24 September, with the tariff rate set to increase to 25% in January 2019. We estimate that, if completely unmitigated, a 25% tariff on $200bn worth of goods will lead to a 3.75% reduction in export growth, implying a 0.75% reduction in headline GDP growth over a 12-month period. Combined with the tariffs on $50bn introduced in August, the net impact on growth could be larger, shaving off around 0.8-0.9% from GDP growth over a 12-month period. Apart from retaliation, we believe there will be stronger policy responses to offset the growth impact. Beijing has already adjusted monetary and fiscal policies pre-emptively. We expect the authorities to step up the policy easing, including more reserve ratio cuts, stabilise credit growth to support infrastructure investment, and deliver more tax cuts. In China's context, putting together a policy package to offset 0.75% growth impact is not unrealistic. For instance, this can be done by boosting infrastructure investment growth from 0.7% YTD y-o-y in August 2018, by 6%, to 6.7% y-o-y over a 12-month period (still slower than the average of 16% in the past three years). This can be financed via government bond issuance, which increases the public debt-to-GDP ratio by 0.75%.

But policymakers are leaning towards a basket of solutions, with a mix of short-term solutions, such as infrastructure investment, and medium-term solutions like cutting the corporate sector's tax and fee burden. China is one of the world's most heavily taxed economies. There is room to lower the tax burden through structural reforms. The implementation of these may take longer; as such, we think the policy response may not amount to a complete offset of trade war headwinds in the short term. We, therefore, see GDP growth at 6.6% for 2019. However, tax cuts can generate a more sustained lift to growth. Apart from revitalising business confidence, they can help to reinforce China's manufacturing upgrading process, which is continuing apace despite trade war worries. The manufacturing sector is much larger than infrastructure and housing, and is also by far China's most productive sector. The recovery means it will become a bigger pillar of growth in the next 2-3 years. Moreover, the trade tensions can be used as a catalyst to accelerate: 1) the opening up of the economy, 2) making industrial policies more market-driven, and 3) broader SOE reforms to reduce government intervention in businesses. Unlike retaliation and reflation, reform holds the key to support China's continued technological catch-up, and its transition to a more innovation-driven economy.

WEEKLY COMMENTARY

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Dry Cargo Chartering

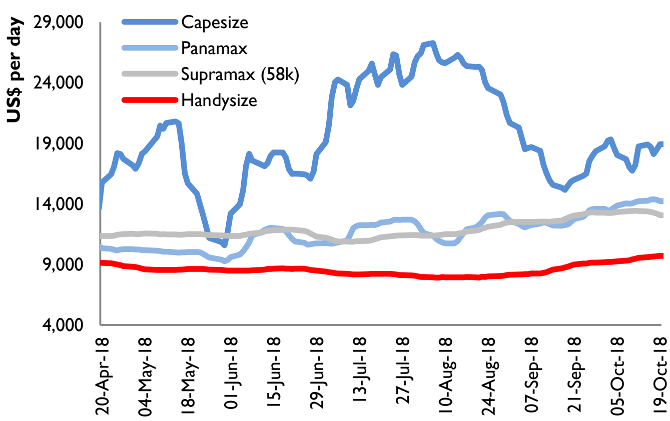
This week the **BDI** fell by 6 points to finish the week at 1,576. In the **Cape** market this week we saw a small overall increase in the TCE average with a gain of $38, ending the week at $18,932. By way of Atlantic fixtures *Dong A Eos* (179,329-dwt, 2009) was reportedly fixed by Jera for a transatlantic round voyage delivery Gibraltar at $19,500 however we later heard that this had failed. In the Pacific, *Pacific Concord* (180,032-dwt, 2013) was fixed by Jiangsu Steamship at $23,000 delivery Fangcheng for a trip via Australia redelivery Singapore-Japan and Pacific Bulk fixed *Navios Bonher* (179,144-dwt, 2010) delivery CJK at $22,000for a similar trip. There was no reported activity on the period side of things with capes this week.

The **Panamax** market decreased by $10 to close the week at $14,217, having peaked at $14,385 in the middle of the week but closed on a disappointing note in the end. In the pacific, *Kiran Afria* (79,105-dwt, 2011) delivery Tanjun Bin for a trip via Indonesia Redelivery China at $18,000. Norvic took *Arouzu* (82,025-dwt, 2012) delivery Tachibana trip via East Australia redelivery India at 15,500. On fronthaul, Shadab took *Valadan* (81,129-dwt, 2014) delivery Cape of Good Hope for prompt trip via East Coast South America redelivery Singapore-Japan range at $18,150 plus 950,000 bb. In the Atlantic, *SBI Rumba* (84,867-dwt, 2015) delivery Rotterdam prompt trip via US Gulf redelivery Continent fixed at $19,500 to Crystal Maritime. SwissMarine took *Artvin* (82,231-dwt, 2011) delivery Gibraltar for trip via Kamsar redelivery San Cirprian at $18,000. On the period front, *Prabhu Yuvika* (76,310-dwt, 2004) delivery Lianyungang for 4-6 months trading redelivery worldwide fixed at $13,250 to Crystal Sea. *Astarte* (81,640-dwt, 2013) delivery Tianjin for 14-17 months trading redelivery worldwide fixed at $14,250 Glencore Agri.

The **Supramax** market has cooled down this week, finishing the week at $13,064, down from last week $13,395. In the Pacific, the *Nova Gorica* (53,100-dwt, 2008) delivery Singapore fixed a prompt trip via Indonesia redelivery South Vietnam at $12,250. Oneocean Maritime fixed the *Zhe Hai 521* (54,036-dwt, 2007) delivery Hong Kong for a prompt trip via South East Asia redelivery China with nickel ore at $11,500. In the Atlantic, the Ultra *Bellambi* (61,412-dwt, 2012) fixed to Norden delivery Canakkale for a prompt trip via Black Sea redelivery ARA-Ghent at $18,500 and ADMI took the *Santa Alexandra* (63,551-dwt, 2018) delivery SW Pass for a trip via US Gulf redelivery Continent at $22,500. On the front haul, the *Pacific Advance* (63,564-dwt, 2015) was fixed to Oldendorff delivery Durban for a prompt trip redelivery Far East at $14,250 plus $425,000 bb. On period, EFE took the *Spring Cosmos* (63,273-dwt, 2014) delivery Magdalla for 5-7 months redelivery worldwide at $15,000. On the contrary to Supramax, the **handy** index kept rising the whole week and eventually closed at $9,704, up from last week's $9,536. In the Atlantic, Langlois fixed the *Atlantic Laurel* (33,271-dwt, 2012) delivery Alexandria for a trip via Black Sea redelivery Continent with grains at $13,500 and Fednav took the *Elin* (33,693-dwt, 2010) delivery Recife for a trip via Sao Luis redelivery St. Lawrence with alumina at $16,000. Little was reported in the Pacific.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Ocean Leo	177,638	2003	Hong Kong	23-24 Oct	China	20,500	Cargill	Via Tubarao
Aquajoy	171,009	2003	Xinsha	End Oct	China	21,500	Jiangsu Steamship	Via E. Australia
Pacific Kindness	82,177	2011	Noshiro	18 Oct	Singapore-Japan	15,500	Jera	Via NoPac with coal
Mitose	77,376	2008	Ennore	SPOT	Singapore-Japan	16,500	Louis Dreyfus	Via ECSA
Tiger West	76,000	2013	Belfast	PPT	Continent	15,000	ADMI	Via USG with grains
Great Rainbow	63,464	2015	Kandla	PPT	China	17,800	Lacay Shipping	Via WC India
Ken Star	61,423	2012	Tieshan	18 Oct	China	11,500	CNR	Via Philippines
Star Maine	61,263	2015	Wwr Up River	PPT	Chile	24,000	Western Bulk Carriers	With grains
Abyssinian	36,064	2014	Rio De Janeiro	PPT	Setubal	18,500	CNR	With steels
SE Marina	33,173	2017	Port Everglades	PPT	Egypt	16,000	Baltnav	Via SW Pass



Exchange Rates	This Week	Last week
JPY/USD	112.41	112.32
USD/EUR	1.1466	1.1574

Brent Oil Price	This Week	Last week
US$/barrel	80.58	80.85

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	510.0	516.0
MDO	730.0	744.0
Rotterdam IFO	467.0	462.0
MDO	678.0	690.0

Dry Bulk S&P

The large bait ball of tonnage circulating the market continues to be eaten into. Hungry buyers are recognising that in the majority of sectors values remain below historic ten year averages and are keen to take advantage. The feeding frenzy this week has again centred around the Ultramax & Supramax markets. Fresh units have continued to enter these sectors so we expect activity to continue.

Continuing their market activity, Eastern Pacific have reportedly sold *Dragonagate* (63,503-dwt, 2016 Imabari) to clients of ABC for $26.6m. A target price thought to be unachievable at the start of month. Supporting this level, Frontline are rumoured to have found $26m each for their year older sisters, *Golden Cathrine* & *Cecilie* (60,263-dwt, 2015 JMU). At the second time of asking, *Queen Halo* (58,096-dwt, 2010 Tsun Cebu) has reportedly been sold to Thoresen Thai for $15.2m, a price in line with recent activity. Clients of St Michael Shipping Greece have been linked to purchase of *Peterborough* (55,783-dwt, 2009 Hyundai-Vinshin) for $10.5M. Two Dolphin57's, *Grand Breaker* & *Grand Pioneer* (56,651-dwt, 2011 Yangzhou Guoyu) have reportedly been sold to undisclosed Far Eastern buyers for $23m enbloc.

In other sectors, the postpanamax *Scotian Express* (93,019-dwt, 2011 Cosco Dalian) has reportedly been bought by clients of Interocean for $16.7m. The Kamsarmax market continue it's recent renaissance. We understand *Rich Wave* (81,788-dwt, 2017 Tsun) has found or is close to finding a buyers at regions $30m. *Splendeur* (33,440-dwt, 2008 Shin Kochi) is rumoured sold to Lebanese interest for $11m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Scotian Express	93,019	2011	COSCO Dalian	-	Interocean	16.7	
Rich Wave	81,788	2017	Tsuneishi	-	Undisclosed	30	
Dragongate	63,503	2016	Imabari	C 4x31	ABC	26.6	
Golden Cecilie Golden Catherine	60,263	2016	Imabari	C 4x 30	Undisclosed	52 en bloc	
Queen Halo	58,096	2010	Tsun Cebu	C 4x30	Thai Thoresen	15.2	
Grand Breaker Grand Pioneer	56,651	2011	Guoyu	C 4x 35	Chinese	23 en bloc	
Peterborough	55,783	2009	Hyundai Vinashin	C 4x30	St. Michael	10.5	
Splendeur	33,440	2008	Shin Kochi	C 4x 31	Lebanese	11	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price ($)	Delivery
Armada Ulysses	310,137	1999	Samsung HI	Tanker	40,712	395	'as is' Singapore
Spero	107,160	1998	Koyo	Tanker	16,717	417	'as is' Singapore
Camilla	22,900	1996	Szczecinska	Container	7,771	460	'as is' Singapore

Tanker Commentary

The winter market is now well underway, and sentiment in the crude sector has picked itself up off the floor. After months of being bowled over by the charterers, owners are beginning to stand their ground and as such, we have seen a huge lift in earnings. The product sector has seen a more modest improvement, but an improvement nonetheless. There are a number of owners talking about buying tankers, but few seem to actually be there right now to make a move. As such we only have two concluded deals to report this week. In the crude sector clients of Pantheon Tankers have sold the vintage *Astro Chorus* (305,704-dwt, 2001 Daewoo) to Chinese buyers for $21.5m, a 20% price increase to last done*, and a reflection of the significantly improved spot market.

In the aframax sector, after 3 inspections the *CSK Shelton* (106,029-dwt, 2005 Daewoo) has been sold for $12.9m to Greek buyers, a price that will no doubt look extremely attractive should the crude earnings continue to ride the winter wave.

**Seaways Sakura (298,641-dwt, 2001 Hitachi Zosen) sold to Greeks for $18m*

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Astro Chorus	307,754	2001	Daewoo	Chinese	21.50	
CSK Shelton	106,029	2005	Daewoo	Greek	12.90	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
Nordic Cygnus	157,500	2018	Samsug	3 years	21,000	Vitol
Ns Laguna	115,800	2007	Samsung	12 months	15,000	Phillips 66
Ns Lotus	115,800	2008	Samsung	12 months	15,000	Phillips 66
Navig8 Providence	110,600	2018	New Times	12 months	Clearlake	15,700
Phoenix Alpha	104,700	2003	Daewoo	12 months	Phillips 66	14,750

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