20 April 2018

HARTLAND SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… A 10-year Learning Curve …

Source: worldpress.com

POINTS OF VIEW

Oil prices are up on a number of different factors. Since its cyclical low of $27 a barrel in January 2016, 82% lower than its all-time record of $147 in July 2008, Brent is now trading at around $74 a barrel. On a fundamental basis, the huge supply overhang caused by commercial and strategic stockbuilding in 2015 and 2016, in opportunistic response to falling oil prices, is almost gone. Developed world OECD oil stocks are fast closing on 5-year average levels*, although this measure notably excludes both China^ and India and most other developing countries where oil consumption is still rising. Some Opec countries are struggling to maintain their own output levels, the most prominent being Venezuela whose huge oil industry is on the verge of collapse after mismanagement and US sanctions. Other Opec producers in north and west Africa have had problems maintaining production levels, with Libyan output being the most volatile. Voluntary cuts from Middle East Opec producers, led by Saudi Arabia, and non Opec producers, led by Russia, have succeeded in cutting production by 1.8m-bpd since January 2017, in line with the target. But, as prices have risen, so US shale oil production has increased, initially frustrating Opec's efforts to drain global inventories and raise oil prices. What is driving up oil prices today is the elevated risk of an accidental mini third world war that could start in Syria, the battleground for a proxy war between Sunni and Shia Islam, fronted by Saudi Arabia and Iran, and a new Cold War, now turning hot, between the US and Russia. Another fear is that next month President Trump may reimpose sanctions upon Iran, thus once again impeding Iran's crude oil exports and access to the skills and spare parts that it needs to rebuild its oil industry. This could propel oil prices into the $80-100 a barrel range that various sources claim is Saudi Arabia's new unofficial target price range**. Higher oil prices should accelerate the depletion of lower cost stocks, bringing us closer to the next restocking phase that so helped the tanker market in 2015 and 2016. This is sorely needed as tanker earnings are at abysmal levels even as net fleet growth is modest. Look out for 2019, we should see a snap back to rising earnings and asset values on better supply-demand fundamentals.

It is almost ten years since the 2004-2008 shipping boom came to an abrupt end. The excitement and greed of the latter years of the boom saw owners and banks chase earnings and values ever higher. Awareness that such earnings and values had reached levels that were out of sync with previous experience proved to be no deterrent; they continued to jump on the bandwagon. The banks later accused the shipowners of acting and borrowing recklessly, while the owners blamed the banks for throwing money at them and lending irresponsibly. Even excluding the German KG system, that saw some ships financed at over 100% of value, it became normal for loan-to-value ratios to reach 80-90%. Given such high ship prices, and owners' finite access to equity, the banks had to lend more and more just to keep the party going. When an exogenous, non shipping event – the collapse of Lehman Brothers in September 2008 – brought the party to an end, asset values embarked upon a precipitous descent, losing 50-75% of their value from peak to trough. The owners' skinny equity was taken out very quickly before the crash took a huge and merciless bite out of the debt portion^^. Banks across Europe became unwitting and reluctant shipowners. The global financial crisis was caused by a similar act of unrefined optimism on the part of commercial banks: sub-prime mortgages. In this sense, lending standards to shipping and property were aligned in a total absence of prudence in that particular phase of asset backed lending. The banks, many of which were involved in both sectors, were lending to people who could not possibly afford to repay the loans when the cycle turned. The central banks came to the rescue with zero-bound interest rates, enabling the banks to restructure their loans, thus saving the global banking system. Looking back, many owners made a killing in the shipping boom only to give it all back in the collapse. They probably wish that neither had ever happened. We are returning to more normalised markets and a resumption of prudent borrowing and lending. Most private Greek shipowners, partly out of choice and partly out of necessity, prefer to keep leverage to 50% or less so that they control their ships, like in the old days. In contrast, publicly-listed shipping companies, and their private equity and hedge fund backers, need higher gearing to achieve better returns on equity, confident that we are at the bottom of the cycle. Some banks and Chinese lessors are willing to oblige. This polarisation in attitudes to risk and leverage is borne out of bitter experience where family fortunes have been won, lost and painstakingly rebuilt. More cautious finance arrangements, especially in the private sector, should be better for all markets.

*OECD oil stocks fell to just 12 million barrels above the 5-year average in March 2018 from 340mb above the average in January 2017.

^China is now the largest oil importer in the world having hit a all-time record of 9.6m-bpd in January this year.

**Ahead of the Saudi Aramco IPO and to finance MbS's Vision 2030 programme and the war in Yemen.

^^In Aug 2008 a 5-year old 47,000 MR was worth $54m. At 80% LTV one could borrow $43m and put up $11m. Today one is worth $26m. At 50% the borrower and lender put up $13m each. Equity is more, risk is less.

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Dry Cargo Chartering

The **BDI** finished the week at 1,281, up from last weeks close of 1,014. The Capes bounced back this week with the market climbing an impressive $6,955 to finish the week on $15,766, up from last weeks close of $8,811. In the Atlantic, Tata fixed the Cargill TBN 170,000/10% for Narvik/Port Talbot at $3.95 pmt and the Oldendorff TBN 180,000/10% was fixed by TSKE for Ponta Da Madeira/Rotterdam at $6.50 pmt. On the Dampier/Qingdao run, the *Alexandra P* (181,255-dwt, 2009) 170,000/10% was fixed by Rio Tinto for $6.90 pmt. POSCO fixed the Panocean TBN 130,000/10% for Newcastle/Kwangyang at $9.26 pmt. On the front haul, POSCO fixed the K Line TBN 150,000/10% for Port Cartier/Pohang at $19.36 pmt and the *Golden Feng* (169,232-dwt, 2009) 170,000/10% was fixed by Oldendorff for Tubarao/Qingdao at $17.50 pmt. On the period front, Cargill fixed the *Cape Osprey* (172,510-dwt, 1999) delivery Lianyungang for 10-12 months at $15,950.

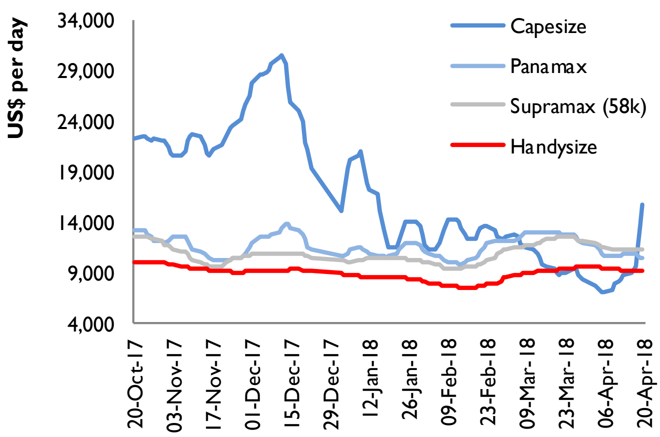
The **panamax** market lost its upward momentum from last week and plunged again. It concluded the week at $10,347, down from last week's close of $10,849. In the Pacific, Jera took the *Golden Spring* (83,730-dwt, 2008) delivery Yeosu for a trip via NoPac redelivery Singapore-Japan range at $9,950 daily and BG Shipping fixed the *Alpha Melody* (74,475-dwt, 2002) delivery Chiwan for a trip via West Australia redelivery China $8,500. In the Atlantic, the *Dimitra* (93,243-dwt, 2010) delivery Tubarao fixed to Cargill for a trip redelivery Continent at $21,000. ADMI fixed the *Aqua Lady* (76,492-dwt, 2004) delivery Gibraltar for a trip via North Coast South America redelivery Skaw-Gibraltar at $11,000. On the front haul, the *Nikomarin* (82,623-dwt, 2007) delivery East Coast South America fixed for a trip redelivery Singapore-Japan $16,500 plus $650,000 bb.

The *Icarus* (75,200-dwt, 2012) delivery Stade fixed a prompt trip via Baltic to Malaysia at $19,500. On the period, Glencore took the *Seajourney* (82,580-dwt, 2009) delivery CJK for min 4 – max 6 months redelivery worldwide at $14,250.

The **supramax** index stayed fairly steady up till Friday when a late surge resulted in small increases across most routes. This meant the week ended at $11,339, slightly up from last weeks close of $11,218. It was a different story however on the **handysize** market which closed the week at $9,121, down from last weeks close of $9,227. In the US Gulf, Bunge fixed the *Star Norita* (58,097-dwt, 2012) delivery SWP redelivery WCCA with grain at $20,000. Across in the Black Sea, XO shipping fixed the *LMZ Pluto* (57,000-dwt, 2011) for a trip via the Red Sea, redelivery Port Said at $9,500. Ultrabulk fixed the *Federal Imabari* (63,498-dwt, 2016) delivery Iskenderun redelivery West Africa with clinker at $10,500. The *Bulk Bahamas* (56,141-dwt, 2012) delivery Nemrut Bay via Greece, redelivery West Africa with cement at $12,000. There was little reported on the smaller sizes however we heard a 37k-dwt achieving $10,500 delivery Continent for a trip to the US East Coast. In the Pacific, EGPN fixed the *Medi Perth* (60,447-dwt, 2017) delivery Map Ta Phut for a trip via Philippines, redelivery China with nickel ore at $12,000. Noble Miracle fixed the *Engiadina* (57,991-dwt, 2011) delivery Mesaieed for a trip via Iran, redelivery China with iron ore at $16,000. On the smaller sizes, The *Universe Harmony* (28,294-dwt, 2000) fixed delivery Busan via Japan, redelivery South East Asia with scrap at $8,300. The *DD Vigilant* (26,551-dwt, 2007) fixed delivery Samalaju via Kemaman, redelivery North China at $7,200. There were no fixtures reported for period this week.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Alpha Hope	181,433	2011	Pohang	PPT	Sing-Jpn	15,500	Panocean	Via Australia
Anangel Prosperity	174,240	2006	CJK	Spot	Sing-Jpn	12,500	Pacific Bulk	
Dimitra	93,243	2010	Tubarao	03 May	Continent	21,000	Cargill	
Efraim A	82,174	2010	Itaqui	01-10 May	Sing-Jpn	16,100+10 k GBB	Norden	
Icaris	75,200	2012	Stade	PPT	Malaysia	19,500	CNR	Via Baltic
Hanton Trader II	63,800	2014	Kohsichang	PPT	WCI	11,000	Oldendorff	Via Indonesia
Star Norita	58,097	2012	SW Pass	22-25 Apr	WCCA	20,000	Bunge	Int Grain
Trans Spring	56,854	2011	Lianyungang	22-23 Apr	SE Asia	9,750	CNR	
Glenpark	37,838	2017	Lanqiao	PPT	China	11,500	Caledonia Maritime	Via New Zealand
DD Vigilant	26,551	2007	Samalaju	19 Apr	N.China	7,200	CNR	Via Kemaman



Exchange Rates	This Week	Last week
JPY/USD	107.60	107.67
USD/EUR	1.2303	1.2313

Brent Oil Price	This Week	Last week
US$/barrel	73.22	71.92

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	405.0	394.0
MDO	644.0	632.0
Rotterdam IFO	384.0	380.0
MDO	620.0	616.0

Dry Bulk S&P

As temperatures rise across Europe, and we leave winter behind, things are heating up in sectors of the 2nd hand dry market too. The BDI has pushed well past the 1,200 point mark off the back of a resurgent cape market, yet the standout sales this week are two modern handysize units. The shortage of quality, modern units, a small orderbook and consistent earnings both in spot and period business for the handies has created a pool of serious Buyers competing and seemingly pushing prices up. The BWTS fitted *PPS Ambition* (33,329-dwt, Shin Kurushima, 2013) has been sold by Schulte to Orient Shipping Rotterdam at $15.2m, which depending on the commission structure could be above the Sellers' asking price. The other noteworthy sale is the Green Dolphin *Western Baltic* (38,800-dwt, Hantong, 2015), sold by Nisshin for $17.2m, again at the asking price or just above.

Elsewhere, the rumours suggesting CCS will change their entry requirements to 15 year old units or younger has not dissuaded Asian Buyers; Challenger and *Top Trader* (both 52,400-dwt, Tsuneishi, 2001) have been sold for 8.8 and 8.6 respectively to Far Eastern interests and the Korean built *Aegis Fortune* (52,262-dwt, Daedong, 2001) saw a slight discount against these two, committed to Indonesians for $8.3m.

CTM / Goodbulk's monopoly on modern cape purchases appears to have been broken with Korea Line reported to have picked up *Vogerunner* (176,838-dwt, Namura, 2008) for $24m, in line with Broker expectations.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Shourong Harmony	180,323	2010	Dalian	-	Undisclosed	25	
Vogerunner	176,838	2008	Namura	-	Korean	24	
Orange Truth	83,051	2006	Tsuneishi	-	Greeks	13.6	
Requiem	58,018	2010	Yangzhou Dayang	C 4x35	Greeks	12.2	
Tento	56,755	2010	Taizhou Kouan	C 4x30	Middle Eastern	11.7	
Challenger	52,413	2001	Tsuneishi	C 4x30	Asian	8.8	DD due May 2019
Top Trader	52,403	2001	Tsuneishi	C 4x30	Chinese	8.6	DD due August 2018
Aegis Fortune	52,262	2001	Daedong	C 4x25	Indonesian	8.3	
Western Baltic	38,800	2015	Jiangsu Hantong	C 4x30	Nova Marine	17.2	
PPS Ambition	33,328	2013	Shin Kurushima	C 4x30	Orient Shipping	High15s	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	$/LDT	Buyer
ISIS Gas	49,998	1985	IHI	GAS	19,562	437	India

Tanker Commentary

Cash buyers with large inventories of crude tankers will very relieved to learn of the news that the beaches of Pakistan are preparing to open their shores to tankers after a prolonged leave of absence. A number of VLCCs have been acquired by speculative cash buyers on a hope and prayer of the Pakistan market re-opening which up until this week hasn't looked imminent. Stringent regulations in addition to vessels being gas free for hot works are sure to apply which are likely to be disclosed in the coming days.

After much toing and froing, it appears that Scorpio have finally secured a deal on their *STI Frontviellle* and *STI Ville* (50k dwt 2013 HMD). Singapore based PCL are rumoured to have come out the victors, paying region $26.8m per vessel. The price sets a much needed correction to the benchmarks since Chelsea Shipping's acquisition of *Capital's Aristotelis* (51,604-dwt, 2013 HMD) for $29m. The vessel's are first generation eco design, and thus will demand a slight premium to the modern non-eco ships on the market. Elsewhere in the products sector it seems Vietnamese buyers have agreed a deal on the *Sipea* (37,320-dwt, 2007 STX). The $12.1m price is much in line with last done, but when one takes into account the current spot market and the fact the ship was trading dirty, the price is a respectable one. In the crude market, Japanese owners Doun have agreed a deal with Petro Vietnam on their *BM Breeze* (105,300-dwt, 2008 Sumitomo). The price of $18m is a firm one and in line with what the owners have been aiming for many months; however, it should be noted that this is basis long subjects.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
BM Breeze	105,387	2008	Sumitomo	Petro Vietnam	18	Long subs
STI Fontville STI Ville	49,990	2013	Hyundai Mipo	PCL	26.8 (each)	
Sipea	37,320	2007	STX	Vietnamese	12.1	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pm)	Charterer
C Progress	313,990	2012	Hyundai Ulsan	2 years	Undisclosed	Unipec
Tokio	306,206	2005	Mitsubishi Nagasaki	1 year	20,000	Unipec
FPMC C Noble FPMC C Melody	297,258 299,200	2012 2011	Universal	2 years	21,750	Frontline
Salamina	115,000	2018	Shanghai Waig	1 year	15,000	Shell
Mare Nostrum	110,295	2009	Mitsui Chiba	6 months	14,500	Koch
DL Navig8	50,376	2008	SLS	1 year	13,000	Glencore

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