21 September 2018

WEEKLY COMMENTARY

HARTLAND
SHIPPING SERVICES

CONTENTS

THE BIGGER PICTURE

… Call me Don …

Source: Everywhere

POINTS OF VIEW

When it comes to the Don we know now to expect the unexpected. China has been caught off-guard by the lunatic extreme right fringe that inhabits the White House while many countries around the world are secretly pleased to see the US finally stand up to China. This week the president extended his counter extortion racket to cover another $200 billion of Chinese goods, with a long list of exempted (i.e. indispensable) imports^. This 2nd phase follows $50bn of Chinese imports in the 1st phase and will be followed by another $267bn in a 3rd phase should the Chinese have the audacity to retaliate. Naturally they must, with $60bn of new duties of their own, adding to the $50bn first round*. Trump's latest tariffs are surely designed to muster voter support ahead of the November mid-terms although, ironically, he has accused China of political interference. Any negative economic impact of the latest measures will only become apparent in 2019 long after the mid-terms. The new tariffs start at 10%, to protect Thanksgiving and Christmas, and rise to 25% in the new year to help lever the Chinese to the negotiating table. The narrative goes that the Don lacks cultural understanding. The Chinese play the long game, will not be intimidated, have huge capacity for suffering and get behind the state at times like this. Trump is pushing US companies to make stuff at home, despite the fact that Chinese labour is still cheaper than US labour^^, and despite decades of outsourcing that have created complex, and now vulnerable, supply chains.

The latest round of US tariffs have met mixed responses at home, as these will tend to hit consumer goods whereas round one was mostly aimed at industrial goods. The Retail Leaders Industry Association said: "Tariffs are a tax on American families, period. Consumers – not China – will bear the brunt of these tariffs and American farmers and ranchers will see the harmful effects of retaliation." In 2017, 33mt of China's 95mt of soybean imports came from the US. China could theoretically follow the US model in cutting the soymeal ration for hogs from 20% to 12%, the other 8% to be made up by alternative proteins such as rapeseed and cotton seed. This wipes out 27mt or 82% of US seaborne import needs; the balance could be replaced domestically and by Brazil and Argentina. The US-China soybean trade took 36 years to establish and may take just months to unwind. A lobby group called Tariffs Hurt the Heartland said: "These tariffs are going to be paid for by the working families who drive our economy. Tariffs are taxes, plain and simple. By choosing to unilaterally raise taxes on Americans, the cost of running a farm, factory or business will grow." Trump supporters will soon experience the inflationary effects of tariffs as their pay packets shrink in real terms, and it could be some time before China backs down.** In its latest round it will target US LNG imports with an initial 10% duty, jeopardising planned US LNG export terminals. China is cutting tariffs on non-US imports, conscious that its economic growth rate is slowing. Trump's trade policy risks tipping China into recession, and that will ripple across the globe.

Anecdotal evidence suggests that Chinese households are already feeling the effects of rising inflation, stagnant wages, high debt levels, falling property values, foreign exchange controls and a weak yuan/dollar. That is before one gets onto the state side of things. The strengthening dollar is pressuring Chinese and EM debt as loan servicing costs increase. No-one actually believes the official Chinese economic growth data, so GDP expansion will not provide any bail-out. Big companies like HNA, Anbang, Wanda and Fosun were long ago having their overseas expansion jaunts curtailed. The government interpreted their actions as capital flight. Now the level of scrutiny is flowing down the chain via state-owned banks and the non-bank and shadow banking sectors. Container lines have reaped better freight rates during peak season as they rush to beat import duties; then what? Tankers are already doing dreadfully, so where is their reprieve? Bulk carriers have stagnated and need higher earnings to justify further value gains. China still underwrites the global trade in iron ore and coal but, at the other end, agribulk trade is threatened. If the latest rounds of tariffs cause higher prices and a consumer pullback then this is not only bad for the container trades. It is bad for tankers as there will be less need for energy and for the oil-based products that become consumer goods and packaging. Eventually it blows back to steel and other metals demand and to the all important raw material trades. The Don could single-handedly mess up shipping demand at a time when, for once, the supply side is not the main threat. Fortunately, dons have limited lifespans whereas the US and China still have a very long way to go.

^Including rare earth elements used in magnets, radars and consumer electronics. China is the largest producer of strategic minerals.

*In 2017, the US imported $506bn of Chinese goods while China imported $130bn of US goods, hence the $376bn trade deficit.

^^The US Federal minimum wage is stuck at $7.25 per hour whereas the Guangdong average minimum wage has risen to $3.00 per hour.

**Net negative: it raises government revenues and helps domestic producers but consumers must pay more and they will buy less.

Dry Cargo Chartering

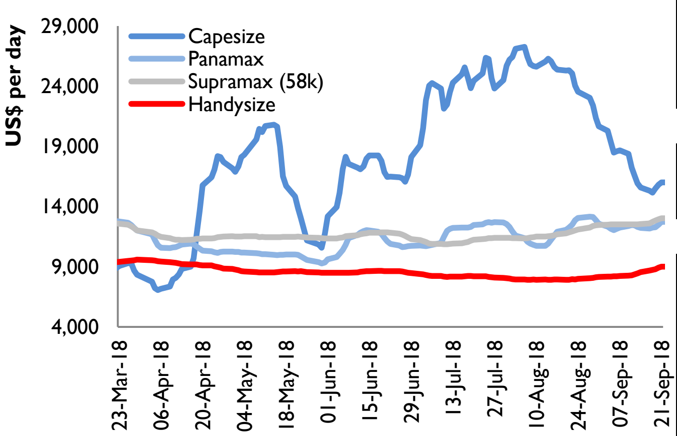
The **BDI** closed the week at 1,413, slightly up from last weeks close of 1,366. The **cape** market closed at $16,000, after last weeks $15,574. In the Atlantic, Vale covered three stems ex Tubarao to Qingdao for end Sept/early Oct dates at $19.00 pmt and POSCO covered a 130,000/10 stem ex Baltimore bound for Korea mid October dates on NYK tonnage at $35.48 pmt. Little was reported on TC. In the Pacific, *Alpha Dignity* (176,296-dwt, 2011) was fixed by Oldendorff at $22,000 delivery CJK for a trip via Brazil back into Singapore-Japan range and a Pacific round voyage via Australia was fixed on *Baltic Lion* (179,185-dwt, 2012) at $15,000 delivery CJK by Pacific Bulk. This was a touch less than *Anangel Odyssey* (171,681-dwt, 2006) which managed to get $16,250 basis CJK delivery for trip via West Australia with Hyundai Glovis. It was a quiet week with regards to period fixtures on the capes, with no fixtures being reported.

The **panamax** market picked up and concluded at $12,732, up from last week close of $12,219. In the Pacific, Klaveness took the *Golden Jake* (82,188-dwt, 2011) delivery Taichung for a trip via Indonesia redelivery Japan at $14,500 and Louis Dreyfus fixed the *Peak Proteus* (82,158-dwt, 2013) delivery Kunsan for a trip via E Australia redelivery Singapore-Japan at $13,650. The *Achilles* (76,878-dwt, 2004) fixed to MOL delivery Tamakomai for a prompt trip via NoPac redelivery Singapore-Japan at approximately $14,500. In the Atlantic, Jera took the *Anna Maria* (81,404-dwt, 2012) delivery USEC for a prompt trip to Skaw-Jorf Lasfar at $13,250 plus $295,000 bb and Oldendorff fixed the *W-Smash* (82,742-dwt, 2013) delivery Amsterdam for a trip via Murmansk redelivery Jorf Lasfar at $11,000. On the font haul, the *Aby Jeanette* (82,566-dwt, 2014) fixed for a trip delivery EC South America redelivery Singapore-Japan at $17,000 with $700,000 bb. Hyundai Glovis fixed the *Navios Galaxy I* (74,195-dwt, 2001) delivery Canakkale for a trip via Black Sea redelivery Indonesia with grains at $21,500. On the period, Sinoeast took the *Odysseas I* (81,662-dwt, 2013) delivery Singapore for 5-8 months trading worldwide at $14,000.

The **supramax** market closed the week at $13,022, up from last weeks $12,531. ECSA was showing a lot of promise with Dreyfus taking an ultramax at $16,000 plus $600,000 bb for a trip to Chittagong. Rates ex USG continued to stay above the 20k level with Norden taking the *Spar Pavo* (63,800-dwt, 2016) delivery Mobile redelivery Continent with pellets at $20,750. The *TCLC Luzhou* (61,963-dwt, 2017) fixed delivery SWP for a trip to Japan at $26,500 with grains. In the Med, the *SBI Hercules* (63,500-dwt, 2016) fixed delivery Milaki for a trip to China at $24,000. In the Pacific, Winning fixed the *Pacific Constant* (61,450-dwt, 2016) delivery Singapore for a trip via Indo, redelivery China at $17,500. The *Ingrid C* (56,975-dwt, 2009) fixed delivery Iloilo for a prompt trip with coal, redelivery SE Asia at $14,000. Pacific Basin fixed the *Avra* (53,809-dwt, 2004) delivery Durban for a trip via South Africa, redelivery China at $13,000 plus $300,000 bb. The **handy** market closed the week at $8,994, also up from last weeks $8,553. Again it was all about ECSA which showed a lot of promise. *Strategic Venture* (39,784-dwt, 2014) fixed $17,500 for Recalada to Egypt. The *Strategic Equity* (39,521-dwt, 2014) fixed delivery Up River to the Med at an impressive $19,750. USG was also holding firm however little was reported. On period, the *Yangtze Happiness* (32,377-dwt, 2012) fixed 4-6 months at $10,250 with Atlantic redelivery. The *Moleson* (34,266-dwt, 2010) fixed delivery Marmara for 6-8 months at $11,500 with Atlantic redelivery. In the Pacific the *East Bangkok* (32,474-dwt, 2012) fixed delivery Kohsichang for a trip to Indo at $8,900.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Baltic Lion	179,185	2012	CJK	20-21 Sep	Sing-Jpn	15,000	Pacific Bulk	Via Australia
Alpha Dignity	176,296	2011	CJK	23-22 Sep	Sing-Jpn	22,000	Oldendorff	Via Brazil
W-Smash	82,742	2013	Amsterdam	19 Sep	Jorf Lasfar	11,000	Oldendorff	Via Murmansk
ABY Jeanette	82,566	2014	ECSA	15-25 Ocr	Sing-Jpn	17,000 + 700K GBB	Amaggi	
ISL Star	74,461	1999	Kemen	21-22 Sep	S China	13,800	CNR	Via Indonesia
Eagle I Star	61,403	2013	SW Pass	25 Sep	W Africa	20,000	CNR	
Medi Segesta	58,730	2009	Ningde	21 Sep	China	14,750	Full Glory	Int Nichel Ore
Lady Mary	52,027	2001	Mina Saqr	26-30 Sep	India	11,500	Athena Shipping	Int limestone
Strategic Venture	2014	39,784	Recalada	PPT	Egypt	17,500	Trithorn Bulk	Egypt
Alberto Topic	34,356	2015	Porto Alegre	25-30 Sep	Med	16,000	Oldendorff	



Exchange Rates	This Week	Last week
JPY/USD	112.63	112.00
USD/EUR	1.1738	1.1664

Brent Oil Price	This Week	Last week
US$/barrel	78.74	78.67

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	473.0	467.0
MDO	712.0	695.0
Rotterdam IFO	435.0	428.0
MDO	657.0	651.0

Dry Bulk S&P

While the capsize indices continues in it's yo-yo fashion, the remaining elements of the BDI continue to strengthen. The supramax index is at its highest level since January 2014 – so the demand side of the market is holding up well. The supply side is the current problem. The supramax sector in particular is saturated in candidates (a quick market review results in close to 60 supramax/ultramax Japanese units openly in the market). Understandably sellers are struggling to get better than last done prices, but for the moment buyers do not yet seem to have found the particularly low-hung fruit. The harvest is there, when will it be gathered in?

Very little has been concluded this week although the pace of inspections is gathering. One supramax that did manage to find a new home was the TESS58 *Majulah Singapura* (57,982-dwt, 2014 Tsuneishi) which is reported sold at $ 19m, which is softer than her Chinese-built sister Sagar Jyoti (2011) which was sold for $16.45m in early August.

In the handies, Doun have agreed BBHP deals on their two larger modern units *Ocean Echo* and *Bright Ocean III* (37,000-dwt, 2013 Saiki). We understand that Erasmus may have taken the Ocean Echo. Presumably they took the sister as well?

The only cash sale in the handy sector this week is *IVS Shikra* (29,664-dwt, 2008 Shikoku) at a softer $8.6m, with her surveys freshly passed.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Majulah Singapura	57,982	2014	Tsuneishi HI	C 4x30	undisclosed	$19.00m	
Ocean Echo	37,084	2013	Saiki HI	C 4x30	Erasmus	-	BBHP
Bright Ocean III	37,062	2013	Saiki HI	C 4x30	undisclosed	-	BBHP
IVS Shikra	29,664	2008	Shikoku	C 4x31	greeks	$8.60m	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price ($)	Delivery
New Discovery	279,989	2000	Mitsubishi HI	Tank	40,453	450	"As is" Fujiariah

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Tanker Commentary

After a prolonged period of little to no activity, the tanker snp market has finally come to life. The summer is now firmly behind us and in the eyes of the optimist (or broker), lying ahead is a healthy winter market taking us into 2019; a year in which we see the tanker market make a long awaited recovery. Those with a half empty glass in their hand may see things differently, but a difference in opinions is the key to creating deals. BP have agreed to sell their fleet of 8 aframaxes to London based Union Maritime for a price in the region of $105m enbloc. We understand though that the deal is committed subject to the buyers successfully raising the funds. Several companies have recently withdrawn IPO plans, citing a poor market climate as the reason; with that in mind it will be interesting to see if Union are able to gain the necessary traction from the equity markets. The Toisa train rolls to its final stop this week with the sale of their six remaining COSCO newbuildings. Zodiac are reported to have paid in the region of $52m for each suezmax and $42m for each LR2. In the VLCC sector, International Seaways have found a further trading buyer for their vintage *Seaways Sakura* (298,641-dwt, 2001 Hitachi Zosen). The buyer, believed to be Hellenic, must have a glass half full in their hand to be buying a 17 year old VLCC. That said, they are paying a small premium to scrap so the downside risk will be fairly minimal whilst the potential reward could be in the multiples.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Pericles G. C.						
United Oceans	157,100					
United Paragon		2018	COSCO Shipping HI	Zodiac Maritime	280.00	En bloc
Nikos Kazantzakis						
United Mariner	113,500					
United Nomad						
British Kestrel						
British Falcon	113,553	2006				
British Eagle						
British Gannet	114,809		Samsung HI	Union Maritime	105.00	En bloc on subjects
British Mallard						
British Cygnet		2005				
British Robin	113,782					
British Cormorant						
Seaways Sakura	298,641	2001	Hitachi Zosen	Hellenic Tankers	18.35	
Torm Ohio	37,278	2001	Hyundai Mipo	undisclosed	6.80	
Torm Neches	47,052	2000	Onomichi	undisclosed	7.3	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
Phoenix Admiral	115,000	2011	Hyundai HI - Ulsan	1 yr + options	14,950	Philip 66
NS Lion	115,857	2007	Samsung HI	1yr	15,000	Philip 66

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