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## THE BIGGER PICTURE

... Sayonara : Brexit means Jexit ...



Source: The FT

## POINTS OF VIEW

The UK automotive industry was dealt a heavy blow on Tuesday morning when Honda announced the closure of its Swindon plant in 2021, its only car manufacturing base in the EU, with the loss of 3,500 direct jobs.<sup>^</sup> Honda did not blame Brexit, as it is too polite. It did not blame diesel, as 94% of its production is petrol. It did say that the European market is too small when compared to the US and Asia where it produces over 2 million cars in each, although Chinese sales are now slowing. Swindon's current 160,000 unit output is 30% below its pre-2008 230,000 peak output and 36% below its 2001 250,000 peak capacity. It will pivot to electric, but execute this strategy from Japan, denying UK ambitions. Honda, along with other Japanese manufacturers, was lured to the UK in the 1980s with generous incentives and by tariff-free access to the EU's single market. This is about to be reversed when the UK leaves the EU and the 10% external tariff will have to be reapplied.<sup>^^</sup> Meanwhile, President Trump is threatening European origin autos with US import tariffs of up to 25%. About half of UK-made Honda Civics go to the US. Earlier this month the EU and Japan agreed a bilateral trade deal that will allow the import of each others cars at a zero tariff rate from 2027. So now is a good time for Honda and other Japanese car manufacturers to repatriate production to Japan to avoid future US and EU import duties. After almost three years, Mrs May and her government have been unable to provide clarity about the UK's terms of trade with the EU from March 30. In the only deal on the table, her voted-down compromise, all the difficult questions over the future relationship will be postponed until the end of the transition period, meaning that another cliff-edge looms into view at the end of 2021.

Automotive manufacturers cannot countenance such ambiguity with their just-in-time supply chains,\* so they will opt for safer places. The Honda decision follows Nissan's earlier announcement that it no longer plans to build its Nissan X-Trail in Sunderland; this is going to Japan instead. Toyota is reviewing its own plans while Jaguar Land Rover is cutting 4,500 mostly UK jobs as it is overlong diesel. Sony and Panasonic are trimming investment in UK consumer electronics while Hitachi and Toshiba have recently pulled out of UK nuclear power plant investments. The UK automotive industry employed 850,000 people and produced 1.7 million cars in 2018, 60% of which were exported to Europe. Now, with no compelling rationale to remain in the UK, we are facing Jexit. Our shipbuilding industry lost out to Japan and South Korea in the 1970s and 1980s, now our car industry is about to go the same way. Resurgent protectionism and tariff war escalation are colliding with Brexit to deny the UK its part in the electric vehicle revolution. Outside the US, it will be consolidated in Japan, South Korea and China just as shipbuilding moved there so many decades earlier. Technological challenges, especially those related to the environment, and better matching production to demand, are leading issues for the shipping industry as it faces IMO 2020, decarbonisation and ballast water rules that are designed to protect the marine environment. The car industry is shifting from diesel through petrol to electric while the shipping industry is shifting from high sulphur through low sulphur to gas and other cleaner fuels. Both must face tariffs.

In shipping we face all the uncertainties surrounding the availability and pricing of IMO compliant low sulphur fuel oil and the extent to which these extra costs can be passed on to shippers and end-users. Those seeking to continue accessing HFO from 2020, by investing in exhaust gas scrubbers, are hoping to make money out of the price difference between HFO and LSFO. In favour, Star Bulk, the largest listed bulker company and against, Euronav, the largest listed tanker company. There are conflicting opinions and arguments for and against scrubbers; the facts will emerge more slowly. In 2015, the IMO approved scrubber use, but it is under pressure from various entities to review and update its position. For example, the European Commission, the port state of Panama and the Japanese government have commissioned their own studies.\*\* The first two find cause for concern at the environmental impact of open loop scrubbers, while the Japanese study projects no significant impact over a 10-year period, certainly not enough to warrant prohibition. IMO: more research needed! Clarksons February 2019 Scrubber Count Update shows a six-fold increase in uptake from about 400 in January 2018 to over 2,500 today. These cover all commercial ships with installed and pending retrofits and newbuild installations. In tonnage terms in the existing fleet, uptake is 61% in cruise, 14% in tankers, 11% in containers and 7% in bulkers. Whether it be cars or ships, we face a seismic shift in propulsion technology that will shape future supply and demand.

<sup>^</sup>And at least another 3,500 jobs in supply chain subsidiaries and partners. Honda is also closing a plant in Turkey.

<sup>^^</sup>In the 2016 referendum, Swindon's 182,000 population voted 55-45% in favour of leaving the EU.

\*75% of Honda's parts are imported from the EU. UK car production fell 9% year-on-year in 2018 to 1.52m units.

\*\*The EC commissioned a paper from a German consultant while Panama used researchers at MIT.

## Dry Cargo Chartering

It was a week of small to medium gains across all sizes except the **capex** which lost nearly 20% in value this week. As a result the **BDI** closed the week slightly down at 634, compared to last weeks 639. The cape market continued its downward spiral, closing at \$5,873 after last weeks \$7,308. Cargill fixed the *Korona D* (179,362-dwt, 2011) delivery retro Fangcheng for a trip via Brazil redelivery Singapore-Japan at \$7,000. On period, Jaldhi fixed the *Dong-A Oknos* (179,329-dwt, 2010) delivery Dangjin for 9/11 months trading redelivery worldwide at \$11,000. Koch fixed the *Houston* (177,729-dwt, 2009) delivery retro Qingdao for 14/17 months trading, redelivery worldwide at \$10,500. On voyage, ore runs ex Dampier to Qingdao were being fixed around the \$5.25 level. In the Atlantic, Tubarao/Qingdao runs were being fixed around \$12.60.

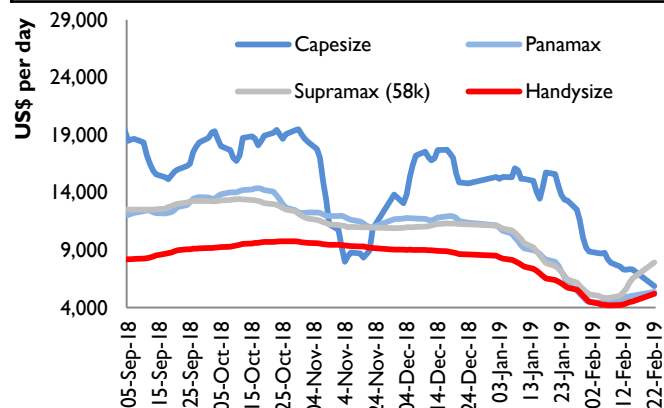
The **panamax** market kept moving forward with the time charter average finishing on \$5,370, up from last weeks \$5,029. Business within the Atlantic remained sparse. *Alma* (81,947-dwt, 2017) fixed delivery SW Pass for a trip to the Continent at \$11,500 by Klaveness. *SBI Sousta* (81,175-dwt, 2016) was fixed by Glencore delivery Mobile for a prompt trip redelivery Continent at \$12,000. There was an increase of activity in the Pacific. NYK took *Ikan Keras* (85,015-dwt, 2017) delivery Tianjin for a trip via East Australia redelivery Japan at \$8,000. Further south, Jaldhi fixed *Xenia* (87,144 dwt, 2004) delivery Cai Mep for a trip via Indonesia redelivery Malaysia \$5,000. On the front haul, Ausca took *Star Mona* (82,188-dwt, 2012) delivery East Coast South America for a trip redelivery Singapore-Japan for \$12,750 plus \$275,000 bb. From South Africa Oldendorff fixed *CMB Pauillac* (95,707 -dwt, 2012) for spot dates for

a trip redelivery China \$11,000 plus \$120,000 bb. On the period front, *Crystalia* (77,525 dwt, 2014) was booked by Glencore delivery Qingdao for 14/17 months at \$10,500.

Once again it was the week of the **supramax** which closed at \$7,933, up from last weeks \$6,529. This is a 63% increase over the last 2 weeks, heavily supported by rates ex US Gulf and East Coast South America. Bulk Trading fixed the *Asian Summit* (62,466-dwt, 2017) delivery Houston for a trip redelivery Casablanca with coal at \$13,500. Langlois fixed the *Baltic Wasp* (63,389-dwt, 2015) delivery Recalada for a trip via Up River, redelivery Singapore-Japan at \$12,250 plus \$225,000 bb. Refined Success fixed the *Inthira Naree* (63,456-dwt, 2014) delivery El Dekheila for a trip via Black Sea redelivery Singapore-Japan at \$17,000 with grains. In the Pacific, Fullinks fixed the *La Tonda* (61,241-dwt, 2016) delivery Surabaya for a trip via Indonesia redelivery China at \$12,250. Victory Shipping fixed the *Giants Causeway* (63,197-dwt, 2015) delivery Richards Bay for a trip redelivery Arabian Gulf / West Coast India at \$10,000 plus \$105,000 bb. The **handy** market also made up further ground, closing at \$5,206, up from last weeks \$4,544. The *Rabea* (38,800-dwt, 2017) fixed an impressive \$11,250 for a SWP redelivery West Mediterranean at \$11,250. Norden fixed the *Strategic Harmony* (39,521-dwt, 2014) delivery Savannah for a trip with wood pellets to the Continent at \$9,000. The *Ionic Huntress* (34,062-dwt, 2012) fixed delivery Rouen for a trip to Algeria at \$7,250. On period, the *Fanoula* (56,560-dwt, 2008) fixed delivery Cambodia for 4/6 months trading redelivery worldwide at \$10,500.

### Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
Seafarer	181,110	2014	Zhoushan	19 Feb	Singapore-Japan	6,800	CNR	Via Australia
Anangel Future	179,318	2015	Dalian	12 Feb	Singapore-Japan	11,900	CNR	Via W. Australia
Ikan Keras	85,015	2017	Tianjin	23/25 Feb	Japan	8,000	NYK	Via E. Australia Plus
Star Mona	82,188	2012	EC South America	1/10 Mar	Singapore-Japan	12,750	Ausca	275,000bb
Alma	81,947	2017	SW Pass	2/5 May	Continent	11,500	Klaveness	
Gentle Seas	63,350	2014	Up river	PPT	China	12,500	Norden	Plus 250,000bb
Asian Summit	62,466	2017	Houston	23/26 Feb	Casablanca	13,500	Bulk Trading	
Dimijohn A	57,609	2015	Laizhou	PPT	Singapore-Japan	9,250	Olam	Via NoPac
An Ding Hai	38,800	2017	Londonderry	PPT	E Med	6,500	Centurion	Via Baltic
Pomorze	38,056	2008	Bremen	PPT	Continent	5,000	TKB	



Exchange Rates	This Week	Last week
JPY/USD	110.70	110.50
USD/EUR	1.1338	1.1260

Brent Oil Price	This Week	Last week
US\$/barrel	67.18	65.11

Bunker Prices (\$/tonne)	This week	Last week
Singapore IFO	460.0	433.0
MDO	620.0	595.0
Rotterdam IFO	431.0	404.0
MDO	593.0	575.0



### Dry Bulk S&P

The freight market, capesize sector aside, is showing signs of recovery after a brutal start to the year and confidence is filtering back into the second hand market. Opportunist buyers have spent the last couple of weeks launching low-ball assaults on the large number of sales candidates in the market. Many sellers have resisted and withdrawn from the market, but a few buyers have lined up against really committed sellers and come away with bargains.

Perhaps the best example this week has been the sale of the modern ultramax *Loch Ness* (61,272-dwt, 2016 Shin Kurshima) which we believe is sold for as little as \$23m to Greek buyers. The sistership *Loch Nevis* was committed a month ago for \$24m and set a new benchmark low then. The buyers were the only outright counter-parties and the US equity firm that controlled the vessel were really committed to dispose of their last vessel.

Elsewhere activity has been focussed on older units. Turnover is climbing but the immediate trajectory is harder to judge. Aswan Qatar are reported to have

bought *Glovis Donghae* (97,045-dwt, 2004 Oshima) for \$11.2m with surveys due promptly, this represents a notable step down on the last sale of an older post panamax sale of *Kinko Maru* (91,860-dwt, 2001 Imabari) which achieved \$11.5m in November 2018. However the Greek owned panamax *Calhoun* (76,801-dwt, 2006 Sasebo) is reported sold for \$10.6m, a significant increase on the sale two weeks ago of *Medi Baltimore* (76,469-dwt, 2005 Tsuneishi) for \$8.4m. Two slightly older units also changed hands, Diana shipping are reported to have sold *Dione* and *Dane* (both 75,100-dwt, 2001 Samho) for \$7.2m to 'affiliated parties'.

A couple of older supras have changed hands too, Bangladeshi Buyers reported to have picked up *Star Kappa* (52,055-dwt, 2001 Sanoyas) for \$6.3m and Navios Meridian (50,316-dwt, 2002 Mitsui) is reported sold for \$7.2m.

#### Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$m	Comment
<i>Glovis Donghae</i>	97,045	2004	Oshima	-	Answar Qatar	11.2	
<i>Calhoun</i>	76,801	2006	Sasebo	-	Ukrainians	10.6	
<i>Dione</i>	75,172	2001	Samho HI	-	Associates of Sellers	7.2 each	
<i>Danae</i>	75,106			-			
<i>Loch Ness</i>	61,272	2016	Shin Kurshima	C 4x31	Greeks	23	
<i>Star Kappa</i>	52,055	2001	Sanoyas Hishino	C 5x30	Bangladeshi	6.3	
<i>Navios Meridian</i>	50,316	2002	Mitsui Eng	C4x31	Undisclosed	7.2	

#### Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price \$	Delivery
<i>LAL Bahadur Shastri</i>	28,902	1983	Hyundai HI	Cont	8,350	417	'as is' Colombo
<i>Darya Jaan</i>	18,649	1982	Minaminippon	Cement	5,396	417	Chittagong

## Tanker Commentary

Real buying interest in tankers is steady, and the number of sales reported each week remains limited. Clients of Euronav have sold their *Genmar Compatriot* (72,000-dwt, 2004 Dalian) to Greek buyers for \$6.75m. The price seems on the low side when compared to the sale in December of the *King Darwin* (73,000-dwt, 2007 New Century) at \$13m. Even when you take into account the ship is built at a Chinese yard, and is trading DPP it is interesting to note that this weeks sale illustrates a 43% price differential between MRs and LRIs\* of this vintage.

In the MR sector, the pumproom configured *High Strength* (46,592-dwt, 2009 Naikai) has been sold to clients of Cape Shipping for \$16.4m. The price may

seem firm, however it should be noted that the vessel has an above market charter attached for around six months.

In the handy sector, after many months in the market, the *Lavela* (40,009-dwt, 2010, SLS) has been sold to Italian owners Socomar for \$14.8m. This sale marks only the third ten year or younger handy tanker to be sold in the past twelve months.

\**Ardmore Seamaster* (45,840-dwt, 2004 Shin Kurushima) sold to Chinese Buyers 8th Feb for \$9.7m

### Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
Genmar Compatriot	72,736	2004	Dalian	Greeks	6.75	
High Strength	46,592	2009	Naikai	Clients of Cape Shipping	16.4	
Lavela	40,099	2010	SLA	Socomar	14.8	

### Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate \$pd	Charterer
Front Loki	156,720	2010	Jiangsu Rongsheng	1 yr	23,500	Repsol
Alpine Penelope	74,471	2008	Sundong	1 yr	14,500	Vitol
Alpine Persefone	74,269	2008	Sundong	1yr	13,500	Navig8
Archangelos Gabriel	72,291	2005	Hudong	9 mths	14,000	Trafigura Beheer
Nord Vantage	50,550	2018	Hyundai	1 yr	16,000	Union Maritime
Centennial Misumi	47,186	2008	Onomichi	1 yr	13,250	Philips 66

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