HARTLAND
SHIPPING SERVICES

22 June 2018

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Trying to Close the Gap …

Source: The Times

POINTS OF VIEW

There are a lot of things that one could worry about at present: rising interest rates, toppy equity and bond markets, trade wars, inflation, Brexit, the Irish border, EU integrity, Russia, Iran, North Korea, Venezuela and wars in Syria, Yemen, Libya and other places that roll on despite less media focus. It may be best not to worry about them at all, like Melania Trump with her $39 Zara jacket emblazoned with the words: "I really don't care, do U?". We thought that she was referring to her husband, but he insisted that the slogan was directed at the Fake News Media, one of his many obsessions. Donald Trump is where he wants to be, at the centre of attention, and a prime feature in many of the world's worries. This week we want to focus upon two commodities: crude oil and soyabeans which may both be subject to imports tariffs two weeks from today when the US and China will impose duties on an initial tranche of $34 billion of each other's goods. Trump expects to impose tariffs on China without any retaliation, but that is not the way China sees it. It will match tariff for tariff but it risks running out of targets as it has a huge $375bn trade surplus with the US. Last year, the US imported $505bn of Chinese goods while China imported only $130bn of US goods; this gap must close. So far, the US has threatened up to $450bn of import duties on China in $50bn (at 25%), $200bn (at 10%) and $200bn (at 10%) tranches, leaving it with another $55bn to spare. This action is a key plank of the "America First" policy pledge.

In Vienna, Opec has just agreed to raise oil output by 1.0m-bpd in an attempt to keep oil prices in the sweet spot $70-80pb range after the US, China and India complained about high oil prices and the consequent economic pressure. Iran and Venezuela have both been against any increase in supply as they have no spare capacity and will get less income from lower prices. Both countries are subject to US sanctions that are damaging their oil industries and neither would like to see Opec bowing to the wishes of the US president. The increase is likely to be split 0.7m-bpd between Saudi Arabia, the UAE and Kuwait with 0.3m-bpd for Russia. This 1.0m-bpd increase in oil supply merely covers all or part of the forecast drop in Iranian and Venezuelan supply. The IEA's projection of global oil demand growth in 2018 and 2019 amounts to 2.8m-bpd in aggregate, the same as its forecast of incremental US oil production over the same period. As China will impose a 25% duty on US crude oil (and coal and gas) imports from July 6, it will need to source those lost barrels from elsewhere. Iran is a likely beneficiary as it will have oil to spare and China would be happy to defy US bullying tactics. It could buy Iranian oil with yuan or do barter deals, as it has in the past, supplying weapons and tankers in exchange for oil. In the 1980s, during the Iran-Iraq war, China supplied Iran with lethal ship-to-ship Silkworm missiles. More recently it built VLCCs in China in exchange for oil and now it may swap J-10 Chengdu fighter aircraft for Iranian oil. It would be satisfying for Iran as the J-10 is rumoured to be an American F-16 copy and it may even get to be used against US forces in the Middle East. The Opec increase will help beleaguered VLCCs that have endured sub-opex earnings for most of this year.

China will also impose 25% tariffs on US soyabean imports, hitting Trump's farm belt voters just as the duties on US crude oil will undermine his support base in Texas and North Dakota. China imports around two-thirds of globally traded soyabeans, 100mt out of 150mt. About half, or 50mt, of China's purchases are sourced from Brazil and about one-third, or 33mt, are bought from the US. This trade is worth some $14 billion a year, America's second largest export trade to China after aircraft. China has being buying what it can in additional supplies from Brazil, but this year's crop is now sold out. The US crop is shipped in the October to March window and futures prices have already fallen to 10-year lows on expectations of weaker China purchases and limited other export outlets for the unsold beans. Some estimates put China's sourcing shortfall at 20mt in the 2017/18 crop year, of which around 12mt may be US beans, about $5bn in value. Other suppliers such as Argentina, Paraguay and Canada are reckoned to have little spare capacity so China will have to boost its own production, currently sitting at only seven weeks of consumption. Additionally, it could invest in new production in Brazil, other South American countries and Africa to boost future access to the soyabeans that underpin its fast expanding livestock industries and demand for pig feed (soyabean meal) and edible oil (soya oil). In the short term, there is an implied downside for panamax to ultramax bulk carriers that have done well, averaging in the $11,000-13,000 per day range in the year to date. But then again, Trump is more bark than bite, and he is quick to engage reverse, so these trade wars may never happen.

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Dry Cargo Chartering

The BDI closed the week at 1,341, down from last weeks close of 1,445. The **cape** market slumped during the week, closing at $16,492, down from last weeks close of $18,244. In the Pacific, Jiangsu Steamship fixed the *CSK Glory* (173,044-dwt, 2002) delivery CJK for a trip via East Coast Australia, redelivery Singapore-Japan at $13,500. Pacific Bulk fixed the *Waterford* (181,060-dwt, 2015) delivery Jintang for a trip via Australia, redelivery Singapore-Japan at $15,850. On voyage, ECTP fixed the *Amigo II* (179,016-dwt, 2011) for 170,000/10% ore for Tubarao/Qingdao at $19.35. Ore & Metal fixed the Anglo American TBN 170,000/10% ore Saldanha Bay/Qingdao at $13.48. Cargill fixed a TBN 170,000/10% ore for West Australia/Qingdao at $7.40 Engie fixed a CCL TBN 160,000/10% coal for Nacala/Rotterdam at $7.85. On period, Glencore fixed the *Golden Savannah* (181,044-dwt, 2017) for 11-13 months trading, delivery China, redelivery worldwide at 119% of Cape 5TC average.

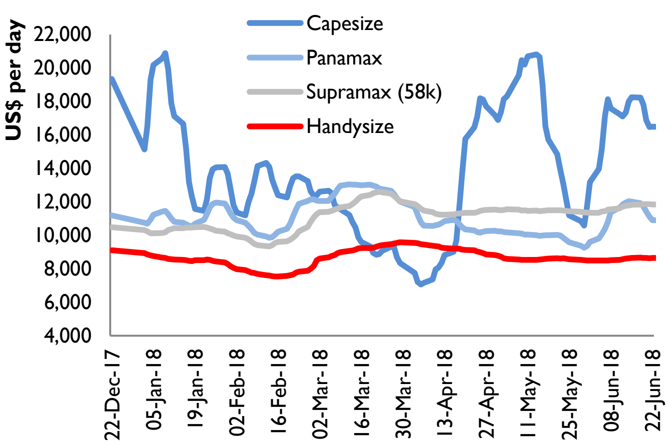
It has been a depressing week for the **Panamax** market. The timecharter average closed the week at $10,896, down from last week's close of $12,007. In the Pacific, Rio Tinto took the *BBG Ambition* (82,108-dwt, 2009) delivery Taichung for a trip via Gove with Weipa option redelivery China at $12,500. The *Rosco Sandalwood* (76,801-dwt, 2004) fixed delivery Fancheng for a spot trip via Indonesia redelivery South China at approximately $10,900. The *Ikan Bawal* (83,454-dwt, 2012) was fixed by Jera delivery Matsuura for a trip via Stockton redelivery Japan with coal at $13,200. In the Atlantic, AMD fixed the *Framura* (76,833-dwt, 2014) delivery Mississippi River for a trip redelivery Skaw-Gibraltar with grains at $12,000 with $200,000 bb and Jera took the *Hong Fu* (76,364-dwt, 2009) delivery Ghent for a trip via Murmansk redelivery Skaw-Gibraltar at $8,000.

The *NBA Millet* (82,100-dwt, 2014) delivery Eemshaven fixed a spot trip via Baltic redelivery Skaw-Gibraltar at $11,500. On the front haul, The *Matisse* (81,129-dwt, 2014) was taken by Bunge delivery Cape of Good Hope for a trip via East Coast South America redelivery Singapore-Japan at $14,500 plus $450,000 bb. Omegra fixed the *Icarus* (75,200-dwt, 2012) delivery East Coast South America for a trip redelivery South East Asia at approximately $15,500 plus $550,000 bb. Little was reported on the period.

This week the **Supramax** market remained rather flat, gaining only $7 over the week with the timecharter average finishing at $11,829. In the Atlantic basin, Centurion fixed *Venezia* (60,300-dwt, 2017) for a trip ex Santa Marta for a trip into the Black Sea with coal at $21,500. In the Pacific, Hanton *Trader III* (63,800-dwt, 2014) fixed a trip delivery Cebu to West Coast India at $15,000 and *Silkroad 03* (56,802-dwt, 2016) fixed delivery Singapore for a trip via Indonesia into South China with coal at $13,250. On the period side of things, *Asian Majesty* (62,000-dwt, 2016) was fixed for 3/6 months delivery SFDS at $14,750 redelivery Atlantic. The **Handy** market this week also moved little, losing $3 with the timecharter average ending up at $8,640. In the Atlantic market, *Ionic Huntress* (34,062-dwt, 2012) was fixed by Pacific Basin at $12,500 for a trip out of Santos into Algeria and *Blue Tide* (35,916-dwt, 2011) was fixed for a prompt trip delivery Canakkale via the Black Sea into Continent at $7,000. In the Pacific, *Uni Wealth* (29,547-dwt, 2009) open Kaosiung was fixed for a trip with steels to Singapore at $9250. Little was reported on the period side of things for handies.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
CSK Glory	173,044	2002	CJK	28-30 Jun	Sing-Jpn	13,500	JSSSC	Via EC Australia
Aquajoy	171,009	2003	Hong Kong	Spot	Sing-Jpn	13,750	JSSSC	Via EC Australia
Alcmene	93,193	2010	Hamburg	Spot	China	19,500	Aquavita	Via Klaipeda
Key Integrity	83,375	2011	Amsterdam	13 Jun	Jorf Lasfar	9,750	Oldendorff	Via Mumansk
AM Annaba	76,079	2013	Santos	30 Jun	Sing-Jpn	15,750 + 575K GBB	CNR	
Lowlands Breeze	61,430	2013	Singapore	23-25 Jun	China	14,500	CCS	Via Indonesia
Venezia	60,300	2017	Santa Marta	End Jun	Black Sea	21,500	Centuion	Int Coal
Glovis Maria	55,705	2012	Haikou	25-30 Jun	Chittagong	13,000	CNR	Int Clinker
Nueva Fortuna	50,992	2003	Mariveles	19 Jun	China	CCX	11,250	Via Philippines
Mother M	35,745	2012	Passing Skaw	23-25 Jun	Sea of Marmara	12,500	Grandwest	Via St Petersburg



Exchange Rates	This Week	Last week
JPY/USD	110.08	110.49
USD/EUR	1.1648	1.1581

Brent Oil Price	This Week	Last week
US$/barrel	74.90	73.91

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	444.0	448.0
MDO	650.0	667.0
Rotterdam IFO	410.0	420.0
MDO	613.0	630.0

Dry Bulk S&P

An enbloc sale in a rising market usually earns a premium price, and Genco's purchase of two capers and two ultramax from Zodiac has certainly pushed up beyond current benchmarks. The capers *Waterford* and York (181,060-dwt, SWS 2015) are priced at $45m each - in line with last week's sale of the same age and size Red Cherry despite the Red Cherry being built in Japan. The ultramaxes are also generously valued: *Yorkgate* (61,556-dwt, 2014 DACKS) for $24m and *Highgate* (60,294-dwt, 2016 Oshima) for $27m.

JP Morgan have sold a bloc of five capers to Goodbulk in exchange for a mixture of cash and shares, with a month long, share-offering subject.

Dryships appear to have sold two elderly panamaxes at healthy prices. *Mendocino* (76,623-dwt, 2002 Imabari) and Bargara (74,832-dwt, 2001 Hudong) are reported sold for $9.6m and $9.2m respectively to Chinese buyers who wholly dominate this sector of the market.

JP Morgan's great cash-out continues in the ultramax sector where they have sold two Crown63s *Sage Amazon* and *Sage Colorado* (63,227-dwt, 2012 Dayang) to Blue Planet for $19.5m.

Finally the handies - where the lack of elderly tonnage for sale means prices continue to push upwards. Dabinovic have sold *Boka* (31,824-dwt, 2000 Hakodate) for $7m - in line with the 5 year younger Sider Dream which they reportedly bought last month for $9.5m. Vietnamese buyers have bought *Molat* (28,355-dwt, 2000 Cebu) whose owners waited patiently in the market for many months to achieve their $5.5m target.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Waterford	181,060	2015	SWS	-	Genco, USA	141	Enbloc sale
York							
Yorkgate	61,556	2014	DACKS	C 4x30			
Highgate	60,294	2016	Oshima				
True Dream	180,694	2014	Tess Cebu	-	Goodbulk	39.15	Sub IPO. 95% cash / 5% shares
True Explorer	178,929	2012	Sungdong			35.65	
True Navigator	179,905	2011	Daehan			33.65	
True Windsor	180,012	2012				34.65	
True Endurance	179,147		Hyundai			35.65	
Mendocino	76,623	2002	Imabari	-	Chinese	9.6	
Bargara	74,832	2001	Hudong	-	Chinese	9.2	
Sage Amazon	63,227	2012	Dayang	C 4x35	Blue Planet	19.5 (each)	
Sage Colorado							
Vela Ocean	53,549	2008	Iwagi	C 4x30.5	Undisclosed	11.5	
Boka	31,824	2000	Hakodate	C 4x30.5	Undisclosed	7	
Molat	28,355	2000	Tess Cebu	C 4x30	Vietnamese	5.5	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price	Delivery
Nordic Aurora	147,262	1999	Samsung	TANK	23,098	447	Indian sub-cont
Yong Xiang 7	13,613	1985	Kurushima	REEF	9,329	370	'As is' China
Frio Athens	8,800	1988	Imabari	REEF	8,800	420	India

Tanker Commentary

The world cup has been in full flow this week with plenty of shocks, excitement and drama. Both the world cup and the tanker market bring participants from around the world into a melting pot, yet this is where the parallels between the two end (for this week at least), as another quiet week on tankers has been and gone.

There were two aframaxes reported sold this week, *Sentosa River* (115,146-dwt, 2008 Sasebo) committed to Bergshav at $19.5m and *Krasnodar* (115,605-dwt, 2003 HHI), sold to Greeks for $9.5m. The sale of Sentosa River sale is more or less in line with last done, as there is belief the market will turn and younger units have the chance to realise the upside.

The older Krasnodar however, is yet another drop off for elderly vessels, down on the last done Lemos afras sold to Thenamaris at the start of the month (*Sparto* and *Pantelis*, both 114k/2004 Samsung at 11.5 each).

The MR1 *Nicos Tomasos* (37,163-dwt, 2003 HMD, surveys passed) is rumoured committed at a very firm $8.6m, however early suggestions are the Buyers could be West African or Iranian, perhaps explaining the higher than expected level.

Lastly, news broke today that OPEC intend to increase output by 700,000 bpd. Russia will supplement this with a further 300,000 bpd. If output continues to rise, those taking a punt on the older tonnage may well reap their rewards sooner than they expected.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Krasnodar	115,605	2003	HHI	Horizon	9.5	
Sentosa River	115,146	2008	Sasebo	Bergshav	19.5	
Iver Exporter	45,683	2000	Samho	Indians	7	
Nicos Tomasos	37,163	2003	Hyundai Mipo	Undisclosed	8.6	
London Trader	13,097	2007	Sekwang	Meghna	8.1	

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