HARTLAND
SHIPPING SERVICES

23 February 2018

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Not so Super …

Source: bunkerist.com

BP Energy Outlook 2018, abbreviated preamble :

"The EO explores the forces shaping the global energy transition out to 2040 and the key uncertainties surrounding that transition. It considers a number of different scenarios. These scenarios are not predictions of what is likely to happen or what BP would like to happen. Rather, they explore the possible implications of different judgements and assumption by considering a series of 'what if' experiments. The scenarios consider only a tiny sub-set of the uncertainty surrounding energy markets out to 2040; they do not provide a comprehensive description of all possible future outcomes. For ease of explanation, much of the EO is described with reference to the 'Evolving Transition' scenario. But that does not imply that the probability of this scenario is higher than others. Indeed, the multitude of uncertainties means the probability of any one of these scenarios materializing exactly as described is negligible. The EO is produced to aid BP's analysis and decision-making, and is published as a contribution to the wider debate. But it is only one source among many when considering the future of global energy markets. BP considers the scenarios in the EO, together with a range of other analysis and information, when forming its long-term strategy."

Honestly, in energy - as in shipping - no-one knows what happens next!

POINTS OF VIEW

You might be wondering what on earth is going on with large crude tankers. So are we. BIMCO reports that 2017 was the worst year for VLCC spot earnings in over two decades blaming excess tonnage, tepid trading demand, low Opec output, a dearth of long-haul trades and weaker-than-expected peak winter demand in the Northern Hemisphere. A modern VLCC averaged only $17,794 daily in 2017 across a wide basket of spot trades compared with $41,488 per day in 2016, $64,846 daily in 2015 and $30,015 per day in 2014. 2018 has got off to a very poor start at only $7,224 per day in the year to date. A collapse in earnings since 2016 has put the brakes on gains in asset values and put downward pressure on newbuilding prices. The nominal resale value of a 310,000-dwt VLCC fell from an annual average of $100m in 2015 to $84m in 2017 while the nominal newbuilding price fell from an annual average of $93.5m in 2015 to $81.5m in 2017. As we will see, everything that could possibly go wrong in 2017 did go wrong, on both the supply and the demand side. It was the perfect storm for shipping.

First demand. Brent crude oil fell from a peak level of $115 a barrel in June 2014 to $27 in January 2016 from where it grinded out a recovery to a new peak of $70 in January 2018. As oil prices fell in 2015, and remained low in 2016, oil demand surged both for consumption and for strategic and commercial restocking. Tankers boomed. Then in 2017, as prices climbed from $55 to $70, restocking inverted to destocking as end-users drew down cheaper stored crude rather than import more highly prices oil. Tankers bombed. Booming domestic oil production raised US exports to an average of 1.1m-bpd in the first eleven months of 2017, with 63% going to Atlantic-based buyers and 37% journeying east of Suez. This cut long-haul supplies from the AG to the Atlantic while raising short-haul supplies from the AG to Asia, which also happened to return higher netback prices to Middle East Opec producers. The crude oil market, far from getting a tonne-mile boost in 2017, experienced the reverse: it became more west-to-west and more east-to-east. According to Clarkson's Seaborne Trade Monitor, seaborne crude oil trade in 2017 grew by an estimated 2.6% in absolute terms and, more importantly, by an estimated 4.3% in tonne-mile terms, down from 6.3% in 2016. Point taken.

Even worse damage was done on the supply side. The turbocharged market of 2015 encouraged orders that delivered in 2016 and 2017. 47 VLCCs delivered and 2 were scrapped in 2016 while 50 delivered and 13 were scrapped in 2017, giving net fleet gains of 45 (13.8m-dwt) in 2016 and 37 (11.4m-dwt) in 2017. Delivery slippage rates for VLCCs fell from 25% in 2016 to just 6% in 2017; most of what was supposed to deliver last year did actually deliver. But is was seaborne destocking in 2017 that really hurt the supply-demand balance. Over the course of 2017, 12 Iranian VLCCs returned to active service and in the second half of the year 18 international VLCCs re-entered the market. The combination of net deliveries and re-employed VLCCs amounted to 67 units, or about 20.5m-dwt. We can add to this net deliveries of 6.8m-dwt of suezmax (+43 or 6.7m-dwt) and aframax (-2 or 0.1m-dwt) crude tankers in 2017. We lack precise storage data for these segments as movements in and out of storage over 2017 probably netted off to nil effect. All in all, the 2017 gain in the VLCC+suezmax+aframax crude segments amounted to 27.3m-dwt on the 384m-dwt combined total at the start of 2017, or 7.1%. Trade growth of 4.3% versus fleet growth of 7.1%. Not good.

Unfortunately, there has been an accelerated unwinding of floating storage so far in 2018 with 11 VLCCs, 14 suezmax and 16 aframax returning to active duty. And in January, 4 VLCCs delivered and 2 were scrapped, 7 suezmax arrived with no departures and 3 aframax came while 4 went. This may help to explain why these tankers are currently earning at or below daily opex. Any good news? Yes, global economic growth will spur oil consumption. According to the EIA, OECD crude oil stocks declined from 264mb above the 5-year rolling average at the start of 2017 to 52mb today. Once this destocking process punches below the 5-year average we will convert to restocking and thus boost seaborne demand. US oil production is set to rise by 1.3m-bpd in 2018, not far short of the EIA's 1.4m-bpd forecast of global oil demand growth for the year, and some of this will feed into long haul export trades to Asia. In 2018 we are already seeing faster scrapping and this will only pick up as owners begin to understand the cost implications of IMO 2020 and BWTS. Deliveries are slowing and we have the lowest VLCC OB/FL ratio in five years at 12.7%. Things might be gloomy now but we can look forward to sunshine later this year. We just need to survive the present chill.

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Dry Cargo Chartering

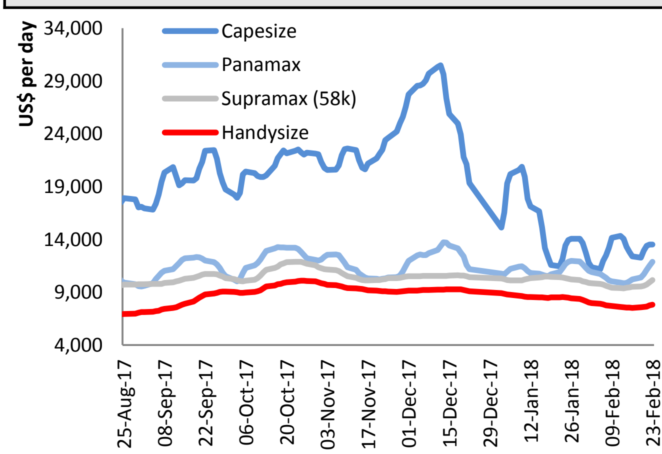
The BDI closed the week at 1,185, up from last weeks close 1,084. The **Capes** bounced back this week as the market rose by $1,128 to close at $13,524, up from last weeks close of $12,396. In the Atlantic, TKSE fixed the Oldendorff Newcastle TBN 180,000/10% for Sepetiba/Rotterdam at $7.35 pmt and the Classic Maritime TBN 175,000/10% was fixed by Arcelor Mittal for Tubarao/Dunkirk West & East at $8.25 pmt. On the front haul, the *FPMC B Justice* (206,649-dwt, 2012) 180,000/10% was fixed by Usiminas for Sudeste/Qingdao at $16.90 pmt and POSCO fixed the Panocean TBN 150,000/10% for Port Cartier/Kwangyang at $19.85 pmt. On the Dampier/Qingdao, the *Stella Flora* (176,292-dwt, 2012) 170,000/10% was fixed by Rio Tinto at $6.75 pmt. KEPCO fixed the Panocean TBN 130,000/10% for Richards Bay/Dangjin at $12.16 pmt. On the period rate, Louis Dreyfus fixed the *Cape Providence* (179,643-dwt, 2009) for 11-13 months at $20,000.

The **panamax** market this week rose by $1,657 to end the time chartering average on $11,873. In the Pacific, we saw the *Proteas* (93,048 dwt, 2010) delivery Tubarao redelivery Continent fix at $20,000 to Klaveness. Oldendorff took the *Blue Wave* (87,340-dwt, 2011) delivery Lisbon via US Gulf redelivery Skaw-Gibraltar at $12,500. On fronthaul, Louis Dreyfus fixed the *Cape Kennedy* (81,391-dwt, 2012) delivery East Coast South America redelivery Singapore-Japan at $15,250 plus $525,000 bb. Also on fronthual, ADMI took the *Huayang Dream* (75,906-dwt, 2013) delivery East Coast South America redelivery South East Asia at $14,500 plus $450,000 bb. The *GL Pirapo* (98,704-dwt, 2013) fixed delivery Fangcheng via Weipa redelivery Qingdao with Rio Tinto. Norden fixed the *Key Opus* (81,863-dwt, 2015) delivery Hong Kong via Indonesia redelivery Philippines at $11,000. On period Cobelfret fixed the *Mynika* (84,108-dwt, 2013) delivery Ulsan for abt 5/ abt 7 months redelivery worldwide at $13,600.

This week the **Supramax** market went up $622 to break the five figure mark and finish the week at $10,158. In the Atlantic, *Ionic Unicorn* (60,411-dwt, 2016) was fixed at $20,500 for a trip out of north Brazil into Greece with alumina and *Tamarack* (50,344-dwt, 2003) was taken by Oldendorff at $18,500 for a trip out of the Mississippi river to Morocco with coal. *White Hawk* (61,360-dwt, 2012) was fixed a trip out of Vera Cruz to the Arabian Gulf with XO Shipping at $24,500. In the Pacific, *Tenacity Bay* (56,846-dwt, 2008) was fixed by Hyundai Glovis at $13,500 delivery Fangcheng for a trip to Bangladesh via Vietnam. On the Period front, *Dionysus* (63,159-dwt, 2015) fixed 4/6 months for Atlantic trading at $14,000 delivery Portbury. The **Handy** market this week went up $285 to finish up at $7,815. It was a quiet week for reported fixtures but in the Atlantic *IVS Shikra* (29,664-dwt, 2008) was taken by MUR delivery Aveiro at $9,250 for a prompt trip with logs redelivery Otranto and *Ventura Harmony* (43,460-dwt, 2015) fixed a trip to India via the Black Sea with delivery Mersin at $18,000. No reported period activity on the handies this week.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Frontier Triumph	181,429	2012	Rotterdam	End Feb	Turkey	14,500	Oldendorff	Transatlantic Round
Pantagrule	180,181	2004	Lanshan	27 Feb	Singapore-Japan	14,500	Pacific Bulk	Via Australia
Ocean Topaz	92,859	2012	Pagbilao	25 Feb	South Korea	13,000	Panocean	Via Indonesia
Seaduty	82,449	2008	US Gulf	10/19 Mar	Singapore-Japan	16,100	Oldendorff	$610,000 bb
Samos Warrior	80,415	2011	Fazendinha	25/26 Feb	Skaw-Gibraltar	15,000	Bunge	$130,000 bb
White Hawk	61,360	2012	Vera Cruz	Prompt	Arabian Gulf	24,500	XO Shipping	-
St Paul	57,982	2010	Mersin	Prompt	West Africa	10,500	Weco Bulk	-
Tenacity Bay	56,846	2008	Fangcheng	Prompt	Bangladesh	13,500	Hyundai Glovis	Via Vietnam
Ventura Harmony	43,460	2015	Mersin	26 Feb / 02 Mar	India	18,000	cnr	Via Black Sea
IVS Shikra	29,664	2008	Aveiro	Prompt	Otranto	9,250	MUR	Intention Logs



Exchange Rates	This Week	Last week
JPY/USD	106.62	106.00
USD/EUR	1.2293	1.2453

Brent Oil Price	This Week	Last week
US$/barrel	67.22	64.60

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	369.0	370.0
MDO	581.0	570.0
Rotterdam IFO	357.0	352.0
MDO	557.0	545.0

Dry Bulk S&P

The freight market has proved to be much more resilient during the Chinese New Year holidays, traditionally the lowest tide of the weakest quarter of the year. The drop in rates during Chinese New Year this year was not as aggressive as usual and the rebound has been far more immediate than in the recent past, all of which adds to the positive sentiment in the secondhand market.

The firming freight markets are yet to effect the asset prices, with this week's sales remaining at last done levels or softer. *New Dalian* (180,371-dwt, 2010 Dalian) has been sold at $24m, in line with the last done *Mairaki* (181,016-dwt, 2011 STX) sold for $27.5m.

The panamax *Monte Pelmo* (72,917-dwt, Feb 2000 Daedong) may illustrate the pitfalls of owners missing the CCS class import restriction on tonnage of 18 years old or younger. She has been committed at just under $8mill to undisclosed Europeans. The last comparable sale of *MV Topeka* (74,416-dwt, May 2000 Hudong) at $9mill to Chinese buyer for import perhaps shows the two tiered nature of the vintage panamax market.

There is little activity in the supra sector to report, however with short period levels remaining firm and prices relatively unmoved we expect to have some transactions to mull over in coming weeks. The first of which may be *Darya Vishnu* (56,056dwt, 2006 Mitsui) which we understand is taking offers today.

The handy *Sea Harmony* (28,409-dwt, 2005 Imabari) has been committed at a soft $6.7 mill, however her reportedly poor condition, dry dock due and no US Coast Guard BWTS exemption perhaps explains the softer than expected price.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
New Dalian	180, 371	2010	Dalian	-	Undisclosed	24	
Monte Pelmo	72,917	2000	Daedong	-	European	7.95	DD due in March
Formentera	34,734	2011	Qidong Daoda	C 4x30	Vogemann	11.3	
Sea Harmony	28,409	2005	Imabari	C 4x30.5	European	6.7	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	$/LDT	Buyer
Mistral	306,278	2000	Hyundai	TANK	46,703	440	Undisclosed
Yangtze Star	277,095	1994	Mitsubishi Nagaski	TANK	32,541	430	'as is' Fujairah
Chokang Sunrise	170,475	1995	Mitsubishi Nagasaki	BULK	21,176	480	Undisclosed
Kriti Breeze	134,441	1996	Hyundai Ulsan	TANK	21,642	430	'as is' Fujairah
Kuban	106,562	2000			16,280		
Moscow	106,553	1998	NKK Corp	TANK	16,289	420	'as is' Singapore
Moscow Kremlin	106,521				16,321		
Pacific Pioneer	105,237	1998	Halla Eng & HI	TANK	16,700	455	Bangladesh
Limar	46,170	1996	Hall Eng & HI	TANK	9,701	Undisclosed	'as is' Fujairah

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Tanker Commentary

Just a few days into the year of the dog and buyers are already stepping out the shadows. Having been in the market for just one month, BP are rumoured to have concluded a deal on their three deepwell configured MR tankers; *British Courtesy*, *Tranquillity* and *Serenity* (47,000-dwt, 2005 HMD) have been sold for $11.8m each.0

The last 13 year old Korean built ship sold was the *Overseas Andromar* (46,195-dwt, 2004 STX) which fetched $11.2m in November 2017. The 5% price increase may be reflective of the BP vessels all being Ice class 1a, and illustrates that values continue to bounce along the bottom whilst owners wait for earnings to pick up. Elsewhere in the products market, Navigare Capital have continued their buying spree with the acquisition of the Socatra controlled *Kiribora* (50,052-dwt, 2013 SPP) for $27m with a five year BB back.

Without knowing the BB rate it is difficult to pass judgment on the price, but it is a notable step down to the last 2013 eco MR sold (Aristotelis) for a shade below $30m. In the crude sector, clients of Ridgebury have now sold their *Sally B* (105,672-dwt, 2003 Sumitomo) to Greek owners Eurotankers. The $9.2m price is well below the $11.3m achieved by Ridgebury recently on their sister ship. We understand that the ballast tanks were in poor condition on the Sally B which goes some way to explain the $2m drop in price accepted by the Sellers. With at least four large crude vessels heading to the beaches this week, and many more in the pipeline, is there a light starting to glimmer at the end of what has been a long and very dark tunnel?

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Ridgebury Sally B	105,672	2003	Sumitomo	Eurotankers	9.2	
Kiribora	50,044	2013	SPP	Navigare	rgn 27	Including 5 year BBB
British Courtesy British Serenity British Tranquillity	47,210	2005	Hyundai Mipo	Sinokor	11.8 (each)	
Huascar	35,722	1992	Shin Kurushima	Peninsula Maritime	2.8	

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