27 April 2018

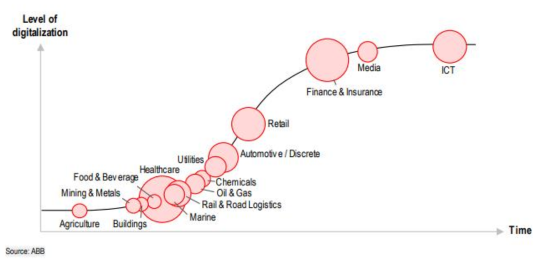
HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

…Lagging on the Digital S-Curve…



Source: ABB & HSBC Global Research

This week we bring you an extract of the HSBC Global Research report named "*Disruptive technologies*"; the authors discuss about the Shipping & Logistics exposure towards new technologies, particularly those concerning the existing freight forwarding business.

*"Liner shipping 2025. How to survive and thrive" Lars Jensen 2017
^Global Freight Forwarding 2017, June 2017

POINTS OF VIEW

If ever a blacksmith saw a motor car for the first time at the turn of the twentieth century, it is unlikely he would have had any inkling how profoundly this new technology would affect his own livelihood and the fabric of society in the coming decades. In the same way, it is impossible to know at this stage whether the likely technological changes in logistics will have such a dramatic impact on the shape of the industry, but it is certainly possible. Rising investment in logistics technology, the advent of a variety of web-based start-ups and efforts by the likes of Maersk to digitise the supply chain are all aspects of the bear case for the listed freight forwarders. Many investors have questioned the long term viability of forwarders in their capacity as intermediaries between shipper and transport provider, when most of the new technology is directed at finding ways to simplify the process of shipping cargo and disintermediating the industry. While the existing freight forwarding business model may be threatened in the long term, we think digitisation is as much an opportunity as a threat in the short term. For shipping lines better technology could transform the prospects of the industry.

The chart on the side shows ABB's view of the progress various industries have made in rolling out digital solutions. It can be seen that the marine and logistics industries are some way behind the leaders. The opportunities created by increased digitisation include the simplification of complex processes, the elimination of inefficiencies in a still largely analogue industry and, via the intelligent analysis of Big Data, the improvement in cost performance through better forecasting and the optimal use of existing assets. There are many inefficiencies in the logistics industry. These range from antiquated IT systems, analogue based document handling for shipments to more structural inefficiencies, especially in the container shipping industry. Analysis by Maersk revealed that in 2014, shipping refrigerated goods from East Africa to Europe required more than 200 interactions with nearly 30 people or organisations. This is likely to involve some manual interactions and perhaps the use of such relatively outdated technology as a fax machine. In a book by Lars Jensen* it was revealed that the invoicing accuracy of many shipping lines is so poor that up to 20% to 25% of all invoices will contain mistakes.

Once logistics systems are fully joined up, the opportunities to improve service quality and internal productivity are, in our view, significant. One example is the logical end game of the current technological evolution is that data will become ever more structured and abundant. Document processing and transactions will become standardised and a number of unified data platforms are likely to emerge as online market places for freight. The basic forwarding process will become increasingly automated/digitised. According to Transport Intelligence^, "predictive analysis will improve in accuracy, leading assets to become commoditised further, and it is likely that containerised shipping contracts will become traded on global markets in the same way that bulk shipping contracts are currently." This is likely to reinforce existing price pressures and prompt continued efforts to reduce costs, most likely through further digitisation and automation, to keep pace. For container shipping lines, it may also act as an additional spur to order even larger vessels. Though given the prevailing supply demand balance and the low fuel price, we do not consider this to be an imminent development.

Whereas digitisation involves the elimination of human involvement in the processing of information and paperwork. Physical automation in the logistics industry is also prevalent. Automated container terminals are now a reality and include Rotterdam, one under construction in Tangier (both operated by Maersk's APMT) and Melbourne in Australia. In Singapore, PSA (not listed) is consolidating its port operations in the new Tuas Port which is to be built on reclaimed land. Tuas port is set to be a showcase for the latest port technologies and systems when ready by 2024. This new port will include amphibious drones, automated quay cranes, exoskeletons for port staff, as well as robotic arms for related container activities. The Tuas port project follows Asia's first fully-automated terminal at Qingdao in China which opened in May 2017 with plans for four more automated berths. The increase in vessel size is increasing pressure on terminal productivity as owners do not want to increase the time ships spend alongside a berth and not moving. An efficient terminal therefore requires a high level of crane efficiency. According to ABB, a crane manufacturer, a terminal needs handling capacity of about 500/TEU per hour to turn around a 20,000 TEU capacity ship in 48 hours. According to Port Technology, a technical port industry publication, the Qingdao automated terminal can operate in total darkness, has helped reduce labour costs by 30% and improve efficiency by 30%. What is more the number of workers required to unload a ship has fallen from 60 to 9. Parcel handling facilities already have a high degree of automation both in terms of sorting and loading direct into a truck. We expect automated loading to become a feature of the air and sea freight industries in the coming years. Deutsche Post has already introduced a system that can automatically unload loose parcels from containers.

Within the logistics and shipping sector, we think it is too early to predict long term winners from the advent of digitisation and other technological innovations. Historically, the industry has proven slow to embrace changes and the scale of the opportunity. However, it is clear to us that unless the incumbent freight forwarders and, to a lesser extent shipping companies, fail to embrace the new and potentially disruptive technology, there is a significant risk that incumbent operators will be disintermediated and in the long term, will have no reason to exist. The main listed logistics operators in Europe (such as DHL Logistics, DB Schenker Logistics, and CEVA Logistics) are all actively adopting new technology. What is more, the principal technological threat, in our view, lies in the commoditisation of port-to-port activity. The listed European freight forwarders have long diversified away from this, to focus more on total supply chain management, where service quality is arguably more important than the technology that supports it.

WEEKLY COMMENTARY

27 April 2018

HARTLAND SHIPPING SERVICES

Dry Cargo Chartering

The BDI gained 80 points this week to end up at 1,361. In the **cape** market this week we saw some ground gained, rising $1,947 with the TCE average finishing at $17,713. In the Atlantic basin, *Big Bang* (174,109-dwt, 2007) was fixed delivery Gibraltar for a trip via Itaguai and Turkey with redelivery Cape Passero at $17,000 by MOL. In the Pacific, *Souther Wisdom* (177,325-dwt, 2004) a Jaldhi relet was fixed at $16,500 for an Australia round voyage delivery CJK by Oldendorff and Panocean took *Genco Augustus* (180,151-dwt, 2007) at $17,500 delivery CJK for a trip to South Korea via Newcastle. On the period side of things *King Sail* (177,643-dwt, 2002) was fixed for 1 year delivery Rizhao by Oldendorff at $16,500 and *Annou Max* (176,364-dwt, 2011) was fixed at $18,500 by Classic Maritime for 7/10 months delivery China.

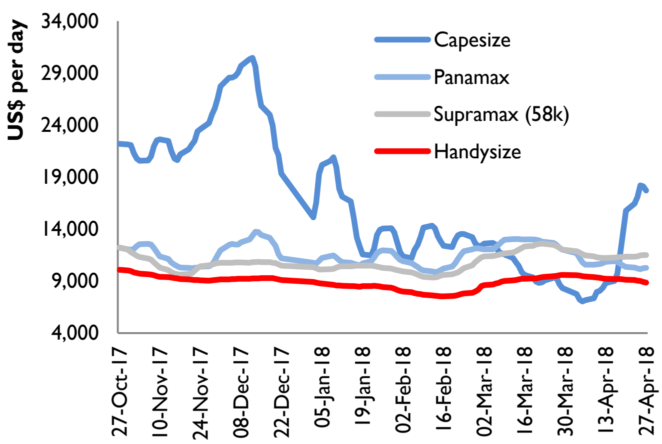
The **panamax** market started the week on a weaker note but picked up slightly towards the end of the week. The time charter average concluded at $10,250 down from last week's close of $10,347. In the Pacific, Hyundai Glovis fixed the *Geneva Star* (81,846-dwt, 2015) delivery Phu My for a trip via West Australia redelivery China at $11,750 and Transpower took the *Zheng Jie* (73,049-dwt, 1997) delivery Putian for a trip via Indonesia redelivery China at $10,000. The *Astrea* (81,838-dwt, 2015) was fixed to Marubeni delivery Kawasaki for a trip via NoPac redelivery Japan with grains at $12,000. In the Atlantic, Cargill fixed the *Ligari* (75,583-dwt, 2004) delivery Liverpool for a prompt trip via Rostock to Jeddah redelivery Passero at $10,500. The same charterer also fixed the *Anna* (75,162-dwt, 2002) delivery Santarem for a trip redelivery Ghent with grains at $15,000.

On the front haul, the *Medi Sydney* (81,788-dwtm 2015) was fixed to Sinoeast delivery east coast South America for a trip redelivery Singapore-Japan at $15,800 with $580,000 bb. On the period, Caledonia took the *Melia* (76,225-dwt, 2005) delivery Qingdao for 10-13 months redelivery worldwide $12,750.

The **supramax** index closed the week at $11,507, up from last weeks close of $11,339. The handy index closed at $8,851, down from last weeks $9,121. In the Atlantic, the *SBI Thalia* (63,500-dwt, 2015) fixed delivery Cristobal via NCSA, redelivery China at $24,500 with Cargill. Langlois fixed the *Global Venus* (58,635-dwt, 2013) delivery Gemlik via Black Sea, redelivery Singapore-Japan range at $17,500. The *Azzura* (52,050-dwt, 2004) fixed a prompt trip delivery Liverpool redelivery US Gulf at $9,250 with EMR. On the smaller sizes, COFCO fixed the *LV Song Hai* (38,863-dwt, 2016) delivery Recalada redelivery Skaw-Passero with grains at $12,750. The *CL Antwerp* (33,687-dwt, 2010) fixed delivery west Mediterranean for 2/3 laden legs redelivery Atlantic at $9,500 with Maxima Shipping. In the Pacific, Oldendorff fixed the *Pronoi R* (61,482-dwt, 2012) delivery Surabaya for a prompt trip via Indonesia to India at $14,000. ISL fixed the *Balaban* (56,753-dwt, 2009) delivery Djakarta via Indonesia, redelivery east coast India at $14,000. On the **handys**, Dooyang fixed the *Ansac Sesoda* (28,306-dwt, 2008) delivery Singapore via Indonesia, redelivery Philippines at $8,500 with Dooyang. On period, Meadway fixed the *CP Guangzhou* (63,608-dwt, 2015) delivery CJK for 4 to 6 months trading, redelivery worldwide at $13,200 with Meadway.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Southern Wisdom	177,325	2004	CJK	Spot	Singapore/Japan	16,500	Oldendorff	Via Australia
Big Bang	174,109	2007	Gibraltar	25 April	Cape Passero	17,000	MOL	Via Itaguai and Turkey
Ligari	75,583	2004	Liverpool	PPT	Passero	10,500	Cargill	Via Rostock to Jeddah
Gleamstar	75,491	2011	Huangpu	02 May	S.China	11,000	Tongli	Via Indonesia
Dimitrios T	72,917	2000	EC South America	25/30 May	Singapore/Japan	14,600	ECTP	+ $460k bb
Azzura	52,050	2004	Liverpool	PPT	US Gulf	9,250	EMR	
Global Venus	58,635	2013	Gemlik	PPT	Singapore/Japan	17,750	Langlois	Via Black Sea
Asia Emerald I	58,018	2011	Cambodia	PPT	Indonesia	12,500	Cargill	Via Indonesia
LV Song Hai	38,863	2016	Recalada	PPT	Skaw/Passero	12,750	Cofco	
Ansac Sesode	28,306	2008	Singapore	PPT	Philippines	8,500	Dooyang	Via Indonesia



Exchange Rates		This Week	Last week
	JPY/USD	109.23	107.67
	USD/EUR	1.2077	1.2313

Brent Oil Price		This Week	Last week
	US$/barrel	74.79	71.92

Bunker Prices ($/tonne)		This week	Last week
	Singapore IFO	417.0	394.0
	MDO	650.0	632.0
	Rotterdam IFO	388.0	380.0
	MDO	630.0	616.0

Dry Bulk S&P

While capesize earnings rocket back this week, in the secondhand market the sector surging forward most strongly is the handysize. Optimism amongst handy owners is largely based on solid earnings growth and a positive few of the basic demographics of the handy sector. The fleet has a relatively large overaged population and the lowest orderbook to fleet ratio of the entire shipping market. Speculative handysize newbuilding remains a difficult sell when newbuilding costs are at a relatively small discount to ultramax newbuilding costs and secondhand values remain adrift of newbuilding contract prices. Secure from a imminent ordering splurge, buyers are becoming increasingly bold in the secondhand market.

Last week, we reported that Orient Shipping Rotterdam may have surpassed seller's price expectations in paying in the region of $15.2-15.5m for the *PPS Ambition* (33,328-dwt, 2013 Shin Kurushima). Have they repeated the tactics this week? *Sider Venus* (32,120-dwt, 2009 Hakodate) is sold this week for $12.5m and again Orient are widely reported as the buyers. Recent benchmarks would not have valued the vessel above $12m particularly as she is a 2 generator vessel with DD due in December without a USCG exception for an installation of a BWTS. In addition, values advance with the sale of *Zenith Explorer* (28,343-dwt, 2008 Imabari) at $8.5m with SS due in August.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
AT 40	43,246	1995	Hyundai Ulsan	C 4x25	Undisclosed	5.05	DD due
Sider Venus	32,120	2009	Hakodate Dock	C 4x30	Undisclosed	12.5	DD/BWTS due Dec '18
Zenith Explorer	28,343	2008	Imabari	C 4x30.5	Undisclosed	8.5	SS due August

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	$/LDT	Buyer
CE-Breeze	105,154	1996	Namura	TANK	16,639	Undisclosed	Bangladesh
Platinum	45,614	1996	Chernomorskyi	TANK	12,450	465	'As is' Fujairah

WEEKLY COMMENTARY

27 April 2018

HARTLAND SHIPPING SERVICES

Tanker Commentary

Observers of the tanker market are waiting patiently to see the outcome of the sale of the Toisa tanker fleet with offers invited this week on several vessels. Whilst the market is full gossip as to what levels have been seen or achieved, the outcome is unlikely to be known for several weeks so we shall have to wait we baited breath. That said, activity in the tanker market is simmering with an increasing volume of sales to report this week.

The Kirk Capital controlled MRs *Marianne Kirk* and *Anja Kirk* (both 51,300-dwt, 2009 STX) are reported to have been sold to fellow Danish buyers for $18.8m each. The last comparable of this vintage was the *Box* (50,577-dwt, 2009 SPP) sold in August last year illustrating that prices for more modern tonnage have appreciated since then. The same can not be said for more vessels built 2005 and older where the sheer number of sales candidates is adversely putting pressure on prices.

Elsewhere in the crude sector, the *NS Lemos* controlled *VLCC Spyros* (319,247-dwt, 2007 Hyundai Samho) has been reported to have been committed. Aeolos Shipmanagement are understood to have fought off competition from a number of high profile owners to secure the vessel for $34.6m. This is the first VLCC of this vintage to be sold in over a year giving us a much needed benchmark to value tonnage.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Spyros	319,247	2007	Hyundai Samho	Aeolos Ship Management	34.6	
HS Alcina	160,183	2001	Daewoo	Undisclosed	10.4	
HS Medea	113,013	2003	Hyundai Samho	Undisclosed	9.3	
Gener8 Defiance	105,538	2002	Sumitomo	Undisclosed	10.2	
Marianne Kirk	51,291	2009	STX	Danish buyers	18.8 (each)	
Anja Kirk	51,332					
Cape Bird	40,271	2003	Hyundai Mipo	Undisclosed	8.3	SS due, clean
Angleviken	12,796	2005	Samho	Petrovietnam	7.1	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pm)	Charterer
Bunga Kasturi Enam	299,999	2008	Universal	1 year	20,000	Reliance Bulk
Alpine Minute	49,999	2009	Hyundai Mipo	1 year	14,350	Trafigura
Mattheos I	45,557	2004	Uljanik Brodo	1 year	14,350	FLOPEC
Perseus N	36,264	2009	Hyundai Mipo	1 year	Undisclosed	Maersk

Should you have any queries about the content of this report or require any services of Hartland Shipping Services, please contact:

Hartland Shipping Services Ltd, London
Tel: +44 20 3077 1600
Fax: +44 20 7240 9603
Email: chartuk@hartlandshipping.com
Email: snpuk@hartlandshipping.com
Email: consult@hartlandshipping.com

Hartland Shipping Services Ltd, Shanghai
Tel: +86 212 028 0618
Fax: +86 215 012 0694
Email: snpcn@hartlandshipping.com

Hartland Shipping Services Pte. Ltd, Singapore
Tel: +65 6702 0400
Email: projects.sg@hartlandshipping.com