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## THE BIGGER PICTURE

... China's Big Issue ...



Source: The FT

\*BRI: Belt and Road Initiative.

^US business and trade groups – including Amazon, GM and Walmart – wrote to US senators expressing deep concern at the president's "unrestricted use of section 232" of the Trade Expansion Act of 1962 under which the president can bypass the institutions of state in the interests of protecting national security. This gives him a free hand to conduct 'personal' trade wars without Congressional constraint.

## POINTS OF VIEW

Our friends at HSBC Global Research have released a China Inside Out paper entitled "It's all about domestic demand" which should help to allay fears in shipping circles that looming trade wars will damage the demand side of shipping. We have talked for many years about China's transition from industrial powerhouse and manufacturing exporter to a diversified economy with a flourishing private sector in which services and domestic consumption play an increasingly important role. The numbers in this paper indicate that China's economy has already rebalanced with domestic demand accounting for over 90% of recent overall GDP growth. This makes the economy less vulnerable to trade shocks and implies that an escalation in US-led tit-for-tat tariffs may not have the desired effect. The following three paragraphs are quoted from the executive summary:

"As investors weigh the prospects of a broad-based tariff war between the world's two largest economies - the US and China, financial market sentiment has hit a one-year low. Indeed, there is a growing risk that trade tensions may escalate, harming exports more severely than expected. Can China really cope with such a large external shock? First, a simple fact, China's economy has already rebalanced from an exports-led to a domestically driven growth model. Gross and net exports as a share of GDP have dropped sharply to 18% and 2% in 2017, down from 35% and 9% in pre-GFC years. In terms of contribution to GDP growth, domestic demand accounted for over 90% of the overall GDP growth in the last three years, while net exports made a minimal contribution; so, domestic demand matters more for sustaining overall growth.

Second, contrary to popular perception, domestic consumption has already become a key growth driver in China, contributing 5.3 percentage points to the 6.8% GDP growth in 1Q18. Consumption growth is likely to remain steady in the coming years, thanks to steady growth in income and a healthy household balance sheet. We believe the labour market impact of a trade war should be limited. Third, the services sector, an increasingly important part of the economy (accounting for over half of GDP), is likely to keep growing strongly in the coming years due to changing consumption patterns of urban middle class consumers, improving transportation networks and digitalisation.

Last but not least, although the trade war will certainly hit sentiment in the exports-oriented manufacturing sector, the bulk of the demand for most manufacturing firms come from the domestic market. There are three cyclical factors and one structural factor that will likely continue to support the ongoing recovery in private manufacturing investment in the coming years. Unlike state-owned enterprises (SOEs), private firms have already completed their deleveraging. Combined with improving industrial profitability and capacity utilisation, this should set the stage for a multi-year cycle of technology-centric investment expansion. The large new supply of university graduates as well as the government's tax incentives for R&D will likely reinforce this trend."

We thus need to change our perceptions of China as the lumbering SOEs make way for "urban middle class consumers". The latter want clean air, uncontaminated soil, edible food and drinkable water and it will be a top government priority to deliver on these expectations over the coming years. From a shipping perspective, it will underline a shift at the margin to importing higher Fe content iron ore and lower sulphur content coal to produce steel and generate electricity at a lower environmental cost. China's huge mining industry is running out of quality inputs, while falling short on safety, and this matters to an increasingly empowered and vocal public. Saturation means that China can get a better return on a dollar invested abroad than it can on one invested at home.

The BRI\* will allow China to outsource overcapacity in industrial and manufacturing processes, at the same time transferring the associated pollution. For example, China's steel industry may be peaking so steel mills will shift some production to southeast Asia, killing two birds with one stone: using excess capacity while circumventing foreign tariffs on China-origin steel. Building and financing overseas infrastructure under the BRI opens up access to the resources that China needs while also creating consumer markets that it can both sell into and buy from. The rising prosperity of recipient nations creates a positive feedback loop, quite unlike the negative boomerang impact of US trade tariffs^.



## Dry Cargo Chartering

This week the BDI closed up 52 points from last week at 1385.

This week in the **Cape** market we saw an increase of \$1,680 in the TC average, with it finishing the week up at \$18,110. There was a midweek dip seen across both basins, however as the week progressed we saw better fixing levels and more cargo being quoted in both the Pacific and Atlantic. In the Atlantic KSL *San Francisco* (181,086-dwt, 2014) a RWE reit was fixed by K-Line Tokyo for a trans Atlantic round voyage delivery Cape Passero at \$19,150 redelivery Cape Passero option Gibraltar at \$18,150. In the Pacific, *Ocean Celebrity* (177,638-dwt, 2003) was fixed by Pacific Bulk delivery Caofedian for 2 laden legs at \$14,300 redelivery Singapore-Japan range. Little was reported on the period side of things with on the Capes this week.

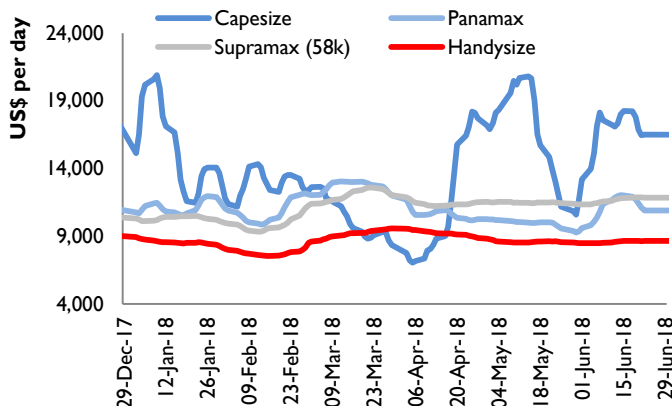
The **Panamax** market did not have a very exciting week, concluding at \$10,738, slightly down from last week's close of \$10,896. In the Pacific, Hyundai Glovis took the *Omicron Sky* (77,031-dwt, 2006) delivery Kashima for a trip via NoPac redelivery Japan with grains at \$11,750. Tongli fixed the *Navios Hyperion* (75,707-dwt, 2004) delivery Hong Kong via Newcastle redelivery Taiwan at \$10,400. The *Seacon 9* (74,844-dwt, 2012) fixed delivery Hong Kong to Spark Shipping for a trip via Indonesia redelivery S China at \$9,200. In the Atlantic, Oldendorff took the *Shandong Peng Cheng* (82,154-dwt, 2010) delivery Gibraltar for a trip via Kamsar redelivery Stade at \$10,000. The *Pantazis L* (76,629-dwt, 2003) was fixed to Paccship delivery Gdansk for a trip via Baltic to Mediterranean redelivery Passero at \$10,500. On the front haul, Bunge fixed the *CBC Fuyi* (81,610-dwt, 2014) delivery Canakkale for a trip via Black Sea redelivery Japan at \$21,000 and CRC took the *Star Georgia* (82,295-dwt, 2006) delivery EC South America for a

trip redelivery Singapore-Japan at \$15,800 plus \$580,000 bb. The *Omicron Light* (76,602-dwt, 2005) delivery S Brazil was taken by CJK International for a trip redelivery Singapore-Japan at \$15,750 with \$575,000 bb.

It was a sombre week with the **supramax** market closing the week at \$11,288, down from last weeks close of \$11,829. Similar story on the **handys** which closed at \$8,476, also down from last weeks close of \$8,640. In the Atlantic, Bunge fixed the *New Kosmos* (56,011-dwt, 2005) delivery Varna redelivery Mombasa at \$10,700. *El Matador* (63,379-dwt, 2016) fixed delivery Ashdod for a prompt trip redelivery Mississippi river with ferters at \$7,000. Trithorn Bulk fixed the *RHL Clarita* (53,828-dwt, 2008) delivery Antwerp for a prompt trip, redelivery east Med with scrap at \$11,800. On the smaller sizes, Ultrabulk fixed the *Vigorous* (33,50-dwt, 2013) delivery Iskenderun for a prompt trip redelivery USG at \$6,500 first 45 days, \$9,750 thereafter. In the Pacific, Ausca Shipping fixed the *Federal Island* (63,489dwt-2017) delivery Kolsichang for a trip via Indonesia, redelivery China at \$12,250. Orhan shipping fixed the *Busan Star* (57,336-dwt, 2011) delivery Hazira for a trip via Bandar Abbas, redelivery EC India at an impressive \$15,000. The *Loch Shuna* (55,600-dwt, 2014) fixed delivery Kolsichang via Thailand, redelivery Korea with sugar at \$12,500. A lot of period activity was reported including the *Queen Jhansi* (58,758-dwt, 2007) fixed delivery Cape Passero for min 50/max 100 days redelivery Atlantic at \$13,000. EBC fixed the *Greco Libero* (63,320-dwt, 2015) delivery Damman for 4/7 months redelivery worldwide at \$14,350. Cargill fixed the *Lausanne* (60,696-dwt, 2017) delivery Zhanjiang for 8/10 months trading redelivery worldwide at \$13,500. The *Spring Melody* (63,233-dwt, 2014) delivery Bin Qasim for 8/10 months trading redelivery worldwide.

### Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate (\$)	Charterers	Comment
KSL San Francisco	181,066	2014	Cape Passero	27-30 Jun	Gibraltar	18,150	K-Line	
Genco Tiger	179,185	2011	CJK	27 Jun	Sing-Jpn	13,500	Panocean	
Athanasios G.O.	87,447	2011	Taichung	25 Jun	Philippines	11,200	Klaveness	Via Indonesia
Attalia	82,171	2010	ECSA	25-31 Jul	Sing-Jpn	15,800 580K GBB	Ausca	
Clara	77,073	2006	Kamsar	05-44 Jul	India	18,650 + 215K GBB	Oldendorff	
El Matador	63,379	2016	Ashdod	PPT	Mississippi river	7,000	CNR	Int Fertilizer
Lycavitos	58,768	2007	Map Ta Phut	24-26 Jun	China	11,750	CNR	Via Indonesia
New Kosmos	56,011	2005	Varna	PPT	Mombasa	10,700	Bunge	
Shaol Al Doha	52,455	2002	Mariveles	PPT	China	12,000	CNR	Via Indonesia
Vigorous	33,500	2013	Iskenrun	PPT	USG	6,500	Ultrabuk	



Exchange Rates	This Week	Last week
JPY/USD	110.84	110.08
USD/EUR	1.1667	1.1648

Brent Oil Price	This Week	Last week
US\$/barrel	79.42	74.90

Bunker Prices (\$/tonne)	This week	Last week
Singapore IFO	470.0	444.0
MDO	655.0	650.0
Rotterdam IFO	443.0	410.0
MDO	643.0	613.0



### Dry Bulk S&P

The market is noticeably quieter this week, with action mainly focussed on the kamsarmax/panamax sector. Chinese buyers continue to dominate the older sector of the market, while Greek buyers continue to feast on the Toisa fleet.

First off, the Noble controlled *Ocean Ambition* (82,000-dwt, Longxue 2014) is reported sold off market at \$23.4m to Transman with a timecharter back to Noble. This is a marginal improvement on the sale earlier this month of the year-older sister *Ocean Forte* at \$23.8m between the same two principals.

Three Toisa kamsarmaxes went under the hammer this week. Pavimar picked up the sister *Trade Vision* and *Trade Will* (81,800-dwt, Longxue 2011 & 2012) for \$14.5m and \$15.5m respectively. Marmaras snapped up yet another Toisa unit - *Trade Resource* (82,031-dwt, NYZJ 2016) - for \$24.5m.

Chinese buyers have bought two older units. *Darwin* (73,870-dwt, Namura 2002) is sold for \$9.2m, while *Marbella* (72,561-dwt, 2000 Sasebo) is sold at a price as yet unknown.

Finally *Mastro Nikos* (53,609-dwt, Iwagi 2003) is sold subject to CCS approval to Chinese buyers for something approaching \$9m.

#### Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price \$m	Comment
Berge Rosa	180,230	2006	Imabari	-	Undisclosed	Undisclosed	
Berge Cristobal	177,253	2003	Namura	-	Undisclosed	Undisclosed	
Ocean Ambition	82,000	2014	Guangzhou Longxue	-	Transmed	23.4	Noble to take back on TC
Trade Vision	81,838	2011	Guangzhou Longxue	-	Pavimar	14.5	
Trade Will	81,712	2012	Guangzhou Longxue	-	Pavimar	15.5	Incl. 6 month TC at \$7,500/pd
Darwin	73,870	2002	Namura	-	Undisclosed	9.2	
Marbella	72,561	2000	Sasebo	-	Undisclosed	Undisclosed	

#### Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price	Delivery
Al Shegaya	310,513	1998	Hyundai – Ulsan	TANK	42,441	420	As is Kuwait
Nordic Voyager	149,591	1996	Dalian	TANK	26,646	445	As is Singapore
Kimitsu Maru	17,000	1991	Shikoku	BULK	4,929	335	As is Japan
Mashu	6,213	1999	Imabari	RORO	6,851	360	As is Japan
Al Jawzaa	4,999	1986	Usuki	TANK	2,841	305	As is Sharjah



## Tanker Commentary

Other than published reports Empire Navigation are rumoured to be ordering up to eight MR's in a South Korean yard and Frontline have allegedly invested in a scrubber manufacturer with the object to retrofit their VLCC's in order to compete on the chartering market, there is once again little to report in the tanker S&P market this week.

The aframax *BM Bonanza* (105,614-dwt, 2007 Sumitomo) has reportedly been sold to Norwegian buyers for \$17m.

The Stalwart owned chemical tanker, *St Aqua* (23,000-dwt, 2006 Kurinoura) is also reportedly sold for \$12m to undisclosed interest.

### Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price \$m	Comment
BM Bonanza	105,614	2007	Sumitomo	Norwegian	17	
St Aqua	23,322	2006	Kurinoura	Undisclosed	12	

### Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate (\$/pm)	Charterer
Lita	302,520	2018	Japan Marine	7 years	31,000	Exxon Mobil
United Grace	112,777	2010	New Times	2 years	15,750	Petrobras
FPMC 19	46,851	2009	Jinling	1 year	12,000	ST Shipping

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