01 February 2019

WEEKLY COMMENTARY

HARTLAND SHIPPING SERVICES

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THE BIGGER PICTURE

… Winter Freeze before Spring Thaw? …

Source: The Times

POINTS OF VIEW

We have just had a +49C heatwave in South Australia and a -48C freeze in Minnesota, extreme conditions that arguably are both products of man-made climate change. A week ago today, an upstream tailings dam burst at Vale's Corrego de Feijao iron ore mine near Brumadinho in the state of Minas Gerais. Over 350 people are feared dead or missing, making it Brazil's worst ever environmental accident. This may be deemed yet another man-made disaster as such upstream tailings dams are already banned in Chile and Peru and present elevated risks during rainy seasons and in earthquake prone areas. Vale intends to decommission ten similar dams over a 3-year period at an estimated cost of $1.3bn. On a phased basis, this will involve taking off line some 40mt, or about 10%, of Vale's current annual production. The loss to the seaborne iron ore spot market would be significant, as 40mt represents two-thirds of the 60mt per year that is exported from Brazil on a spot, uncontracted basis. This is estimated to equate to around 65 standard 180,000-dwt capesize Brazil-Far East round voyages.^ However, one must account for phasing and also for new and restarted output from other domestic mines. Vale modestly estimates that its S11D mine will raise output by 15mt* this year while another 10mt of iron ore that was to be feedstock for 11mt of pellets will now be exported as fines. This still leaves it 15mt down, but this amount can be covered in the export market by last December's restart of Anglo American's Minas Rio mine. It closed early last year to fix two pipeline leaks and managed only 3.4mt of exports in 2018 after 17mt in 2017. In 2019, it should recover to 19mt, leading to a 15.6mt gain over 2018.

The dire predictions of cargo being lost to the largest bulk carrier segments may be a bit overdone, but sentiment has been hit hard when combined with other factors. Baltic Exchange data indicates that all bulk carrier segments suffered a collapse in earnings in January. The BCI-5TC lost 40% dropping from $15,344 to $9,198 daily; the BPI82-TCA lost 50% falling from $12,243 to $6,093 per day; the BSI58-TCA was down 52% from $11,141 to $5,379 daily and the BHSI38-TCA was off 38% from $10,330 to $6,383 per day. These sharp falls in earnings are undermining asset values and yet we have Chinese New Year right upon us, the 1st March deadline for a resolution of US-China tariffs and trade and the 29th March Brexit Day. According to SIN's latest Dry Bulk Trade Outlook, the estimated numbers for total seaborne iron trade are 1,473mt in 2017 (up 3.9% year-on-year); 1,471mt in 2018 (no change); 1,498mt in 2019 (up 1.8%) and 1,514mt in 2020 (up 1.1%). Brazil's seaborne iron ore exports are rising steadily as new projects come on stream, although these estimates pre-date the Feijao disaster: 380.2mt in 2017 (+2.7%); 387.8mt in 2018 (+2.0%); 406.0mt in 2019 (+4.7%) and 415.7mt in 2020 (+2.4%). Finally, China's seaborne iron ore imports are showing signs of slowing down according to latest estimates: 1,057.8mt in 2017 (+5.0%); 1,046.6mt in 2018 (-1.1%); 1,063.7mt in 2019 (+1.6%) and 1,067.7mt in 2020 (+0.4%). The 1.1% decline in 2018 was the first since 2010 and can be put down to port inventory drawdown, increased use of steel scrap and a general economic growth slowdown. Going forward, the risks are that demand for iron ore and steel will plateau as growth slows and the economy transitions.

Right now we face a raft of uncertainty and forward indicators of slower global economic growth. The US is struggling in response to import tariffs and poor existing home sales^^ while China's 6.6% GDP growth in 2018 was its lowest since 1990, and it is set to deteriorate further as consumption ebbs. In Japan, industrial production fell 1.9% year-on-year in December and India recorded 0.5% y-on-y IP growth in November after 8.4% in October, merely a festive hangover blip? The leading economies in Europe are stalling as eurozone** industrial production contracted 3.3% year-on-year in November while Italy is already in technical recession. Germany is suffering from a collapse in its export markets, France is preoccupied with the gilets jaunes and the UK is being led into a calamitous EU exit by its warring political parties. Positively, the Fed has decided to pause its rate rises and the US and China claim to be making progress in their trade talks. They will most likely need an extension to the 1st March deadline while the UK will almost certainly seek to extend Article 50 beyond 29th March to avoid a hard no deal exit. A spring resolution of these two issues alone will be good for world trade and lift global markets. The Feijao disaster is an event, a tragic one, but one of many that we routinely face in shipping. The real demand-side risks that now confront us are more structural than cyclical in nature, so we must continue to exercise supply-side discipline.

^Source of estimate: Braemar ACM as published in Tradewinds.

*This is half of Vale's Sep 2018 estimate of 30mt, and also well below its Dec 2018 estimate of 15-25mt, of 2019 output expansion at S11D.

^^Pending existing home sales in the US fell 9.8% y-o-y in Dec 2018, the largest contraction since Apr 2011.

**Eurozone year-on-year growth of 1.2% in 2018 was its slowest rate in 5 years. 0.4% m-o-m growth in each Q1+2 slipped to 0.2% in each Q3+4.

Dry Cargo Chartering

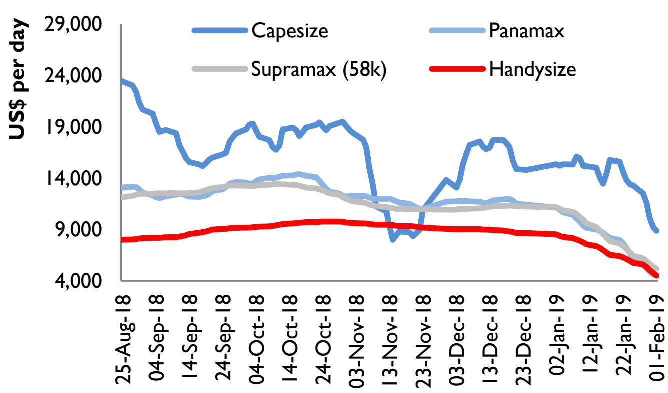
It comes as no surprise that the **BDI** closed well down at 645 from last weeks 905. A near 30% drop. The **cape** market fell into the 4 figures, closing at a staggering $8,877 after last weeks close of $13,288. On time charter, the *Anangel Virtue* (180,391-dwt, 2012) fixed delivery Cape Passero for a trans Atlantic round redelivery Skaw-Cape Passero at $14,000. On voyage ore runs, West Australia/Qingdao runs were being fixed around $5.60 pmt. Dampier/Qingdao runs were fixed around $5.20. These were being fixed under $5 by Friday. In the Atlantic, Tubarao/Qingdao runs were fixed at $13.75. On period, Swiss Marine fixed the *Leopold LD* (179,816-dwt, 2014) delivery retro Jingtang for 11/14 months trading redelivery worldwide at $15,000.

The Panamax market has dropped further to close the week at 560 points, a decrease of 188 from last week's closing of 748. In the Atlantic, *Golden Eclipse* (79,471-dwt, 2010) is fixed delivery Rotterdam for a trip via Riga redelivery Continent at $3,250 to PCL. Cargill took *Blue Wave* (87,340-dwt, 2011) delivery East Coast South America for a trip redelivery Skaw-Gibraltar at $10,350. On the front haul, Norden fixed *En May* (85,001-dwt, 2017) delivery East Coast South America for a trip redelivery SE Asia at $13,000 + $300 KGBB. *Zhong Xin Pearl* (75,321-dwt, 2013) delivery East Coast South America redelivery Singapore-Japan range if fixed at $12,100 plus $210k GBB to Crystal Sea. In the pacific, Bainbridge fixed *Minoan Courage* (76,801-dwt, 2004) delivery aps Indonesia for a trip redelivery India at $4,500. Deyesion took Shangdong *Hai Xing* (75,750-dwt, 2014) delivery aps New Castle for a trip redelivery Xiamen at $6,000 plus $140k GBB. On the period front, Phaethon took *Naias* (73,546-dwt, 2006) delivery Krishnapatnam for 23/26 months trading redelivery worldwide.

It was more doom & gloom for the supras and handys. The **supramax** market closed the week at $5,164, down from last weeks close of $6,436. The **handy** market closed the week at $4,516, also down from last weeks close $5,742. Little was reported throughout the week as most fixtures were kept strictly pnc in order to avoid any embarrassment. In the Atlantic, Whitelake Shipping fixed the *Nordcolorado* (37,964-dwt, 2016) for a trip delivery North Brazil redelivery Baltic at $5,400. Cargill fixed the *Pola Atlantic* (33,465-dwt, 2010) delivery Recalada for a trip to ARAG at $5,250. Emirates Bulk fixed the *Sam Lion* (57,200-dwt) delivery US Gulf for a trip to Marmara Sea at $6,300. *Asian Pride* (62,466-dwt, 2017) fixed delivery NCSA for 2-3 laden legs at $9,000 with redl USEC. It was a similar story in the Pacific as Chinese New Year started. Many expect it to only add to the misery. *Rosalia* (38,664-dwt, 2016) fixed delivery Vancouver for a trip redelivery Japan at $11,800. *Hino de Maru* (58,630-dwt, 2012) fixed delivery Zhanjian for a prompt trip redelivery West Coast India at $5,200. *Iliana* (58,018-dwt, 2010) fixed delivery Campha for a trip redelivery Chittagong with clinker at $6,800.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Anangel Virtue	180,391	2012	Cape Passero	31 Jan	Skaw-Cape Passero	14,000	CNR	transAlantic
HSC	173,799	2006	Zhoushan	26-27 Jan	Singapore-Japan	9,000	Pacific Bulk	Via EC Australia
Blue Wave	87,340	2011	EC South America	09-12 Feb	Skaw-Gibraltar	10,350	Cargill	
Alcor	81,600	2015	Hachinohe	04 Feb	Singapore-Japan	6,500	Smart Gain	Via NoPac
Yasa Falcon	81,488	2012	EC South America	24 Feb	Singapore-Japan	12,700	Bunge	Plus 270,000bb
Nautical Hilary	63,531	2015	Recalada	Ely Feb	WC South America	9,000	Bunge	
Bulk Atacama	61,384	2014	US Gulf	PPT	Singapore-Japan	14,000	Oldendorff	
Yangtze Galaxy	56,453	2012	Busan	PPT	Philippines	3,600	Chun An	Via CIS
Nordcolorado	37,964	2016	N Brazil	11 Feb	Baltic	5,000	Whitelake Shipping	
Leap Heart	28,383	2012	Singapore	28 Jan	Singapore-Japan	4,500	Cargill	Via W. Australia



Exchange Rates	This Week	Last week
JPY/USD	109.35	109.57
USD/EUR	1.1467	1.1401

Brent Oil Price	This Week	Last week
US$/barrel	62.06	61.45

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	414.0	407.0
MDO	581.0	575.0
Rotterdam IFO	373.0	368.0
MDO	540.0	540.0

Dry Bulk S&P

The BDI has continued on with its recent downward trajectory, and as a result the dry S&P market hasn't hogged the limelight with only a few sales to report.

Tellingly, the headline sales this week are ships with forward delivery. Eastmed are reported to have sold two post panamax resales delivering in May / June this year. The wide beam, shallow drafted 84ks from Sasebo achieving a price of $32m each. At the time of writing its not clear who the Buyer is, however there are some suggestions they're Taiwanese based.

Rumours have emerged that a Dolphin 57 *Mandarin River* (56,774-dwt, 2011 Hantong Tier II) is committed for region mid/high 12s to a Chinese Buyer, a firm price if correct however some reports suggest she's been failed on subs.

Two handy sales have emerged at respectable levels, though we understand these could have been concluded at the end of December or Early January. Maestro Lion (31,857-dwt, 1999 Saiki) is rumoured sold for region $6m, a price in line with her sister which was sold in September last year for $6.5m Lastly *Nord Tokyo* (28,343-dwt, 2009 Imabari) is reported sold for region $8.5m to a Greek Buyer.

With the Chinese New Year holidays still ahead of us the bearish outlook from Buyers is likely to continue for a week or too, which could lead to Sellers huffing and puffing but struggling to get ships sold unless they're below last done.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Hull No 854 Hull No 855	84,700	2019	Sasebo	-	Undisclosed	$32.0m each	Delivery May/June 2019
Maestro Lion	31,857	1999	Saiki	C4x30	Undisclosed	$6.0m	
Nord Tokyo	28,343	2009	Imabari	C4x30.5	Greek	$8.5n	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Ken Ho	22,271	1989	Saiki	CEMENT	5,835	$350	As is Kaohsiung
Shine Ho	17,071	1984	Shikoku		5,248		

Tanker Commentary

The lack of sales this week is not a reflection of the level of interest in the tanker market. Average earnings so far this year for crude ships across the board are well in excess of US$ 20k per day having a positive knock on effect to period earnings. Several MRs in the 10 year old age range are understood to have been sold or committed on subjects this week at levels on a par or better than last done.

Viken Shipping are reported to have finalised a deal on their 3 x LR2s – *Troviken, Tofteviken* and *Telleviken* (115k dwt / blt 06-05-05 Samsung). The sister vessels which are all trading DPP, will be sold including the balance of TC's to AET until December 2019 and February 2020 at US$ 14,500 per day with a profit share on actual earnings. A price of US$ 48.5 mill each is being mentioned to UAE based buyers.

Elsewhere, Maersk Tankers are understood to have found a home for vintage dirty trading LR2 *Maersk Prosper* (109k dwt / blt 2001 Dalian). The sale illustrates the extent to which sentiment has improved in the tanker sector as one would imagine the vessel would have been destined for the beaches of the subcontinent rather than finding a trading buyer last year.

Finally, Torm are continuing to rejuvenate their fleet selling off vintage assets and are reported to have committed the *Torm Amazon* (47k dwt / blt 2002 Onomichi) for US$ 8.3 mill to Indian interest. The sale is in line with the recent benchmarks.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Troviken	115,341	2006				
Tofteviken	115,340	2005	Samsung	UAE based	$48.5m each	Including Balance TC to AET until Dec '19 and Feb '20 at $14,500 per day
Telleviken	115,340					
Maersk Prosper	109,326	2001	Dalian New Shipbuilding	Greek	$10.5m	
Torm Amazon	47,275	2002	Onomichi	Indian	$8.3m	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate $pd	Charterer
Olympic Lyra	319,000	2019	Hyundai HI	6 months	25,000	Clearlake
DHT Europe	317,713	2007	Hyundai Samho	3 years	20,000	CCSA Chartering
Arita	113,180	2015	Sadra International	6 months	14,500	ST Shipping
Augusta Telluride	72,344	2003	Hudong Zhonghua	3+2 years	17,500	ST Shipping
Nord Steady	49,994	2009	STX Offshore	1+1 year	16,000	Union Maritime
Platytera	47,401	2009	Onomichi	6 months	14,000	Clearlake
Eagle Bay	47,134	2008	Hyundai Mipo	1 year	13,250	Norden

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