02 March 2018

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Making America Great Again ? …

Source: The Times

*Reuters points out that 75% of US steel jobs disappeared in the 1962-2005 period. The American Economic Association claimed that the single biggest cause was improved production technology. The US now imports four times more steel than it exports and is reliant on foreign supplies.

^China is considering its $13bn a year US soyabean/sorghum imports. The US president may win steel votes but lose farm votes, not a good trade. The last time the US imposed steel tariffs, in 2002 under George W Bush, they were lifted within two years to avoid a damaging trade war.

POINTS OF VIEW

Financial markets are really on edge in 2018, aware that they face the disruption of a normalisation of monetary policy and the end of stimulative quantitative easing. At the end of January the good news of strong US wage growth and a synchronised global economic recovery triggered a bond market sell-off that soon contaminated equities. At the end of February Jerome Powell, the new chairman of the US Federal Reserve, hinted that US interest rates will have to rise four times instead of the assumed three this year in response to robust economic activity. Bonds and equities sold off again. Yesterday, Donald Trump announced imminent tariffs on imported steel and aluminium of 25% and 10% respectively. These protections will be in place "for a long period of time". They are not protections, they are quite the opposite. They will stifle corporate investment in energy and infrastructure, reduce manufacturing jobs in America and lead to retaliation from the likes of Canada, Mexico, Brazil, the EU, China, Japan and South Korea. It is a token domestic political gesture, following a misguided campaign pledge to sunset heavy industries. It aimed to secure the votes of steelworkers and win the state of Ohio, now at the expense of countries whose trade cooperation really matters*. Stock markets around the world sold off at this latest protectionist move, joining recent tariffs imposed on solar panels and white goods imports, fearing that the inevitable backlash will embark the US on multi-front trade wars from which no-one will gain. Yesterday the Dow closed down 1.7%, the S&P and Nasdaq down 1.2% and 10-year bond yields fell 1.6%. In Asia, the Nikkei closed down 2.5% and the Hang Seng down 1.5%. European markets opened lower with the shares of Thyssenkrupp, Arcelormittal, Lafargeholcim, Airbus, VW, Daimler and BMW all hit hard. Trump can no longer take credit for stock market gains, but he will be blamed for the losses. There is no art in this deal.

One reason the president gives for imposing tariffs on imported steel and aluminium is national security, as it needs domestic supplies for its new tanks, planes and warships. However, much specialised steel and aluminium is imported into the US, some of it for the defence industry, so it is not yet clear whether the tariffs will enhance or undermine national security. One example is Rio Tinto, the largest provider of aluminium to the US from its Canadian smelters, which also happens to be an important supplier to the US defence sector. US steel production has been in steady decline all this millennium, so President Trump's intervention may not help much, too little too late. In year 2000, the US produced 112mt of steel with this figure falling to 87mt in 2017. In 2000, the US steel industry employed 135,000 people, falling to 83,600 in 2016. The imposition of tariffs on US imports will distort the market as those volumes that are shut out of the US will seek other markets. Higher metal prices in the US will reduce investment and spending at a time when the exact opposite is intended. Toyota has warned that higher costs to its US-based auto plants will force it to raise the price of the cars and trucks that it sells in North America. Higher steel costs may jeopardise Exxon's plan to add a third distillation unit to its 0.36m-bpd Beaumont, Texas refinery, a move that would make it the largest in the US, edging out Saudi Aramco's 0.60m-bpd Port Arthur, Texas plant. Households face seeing prices rise and inflation return, pushing up interest rates and debt servicing costs, damaging consumer confidence and affecting spending.

Canada supplies 16% of US steel demand versus China's 2%, so they got the wrong man. The repercussions of these tariffs could have a much greater negative impact if they spark wider trade wars. China is <u>the</u> target as it is blamed for the progressive loss of US steel industry jobs. It is expected to retaliate by cutting back on its imports of America's bloated soyabean and sorghum^ harvest by switching to alternative supplies in South America. China produced 832mt of crude steel in 2017, 49% of the 1,691mt world total. Excess capacity led it to export 110mt in 2015 and 107mt in 2016, more than world No.2 Japan's entire 2016 steel output of 105mt. In 2017, China's exports plummeted to 74mt as it is 88% into the process of removing 290mt of capacity in the 2016-2020 period in pursuit of cleaner air. It exported only 4.65mt of steel in January, down 37% year-on-year and its lowest monthly export figure in five years, according to Reuters. It is already curbing its excess steel capacity and exports so Trump is closing the stable door after the horse has bolted. Furthermore, China is only the 11th largest steel supplier to the US after a 31% reduction in US imports of Chinese steel since 2011, helped by 29 countervailing and antidumping duties currently imposed on Chinese steel products. The US imports steel from 110 nations, that is 110 countries to upset. This is neither free trade nor pro business; it could be the president's biggest blunder yet.

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Dry Cargo Chartering

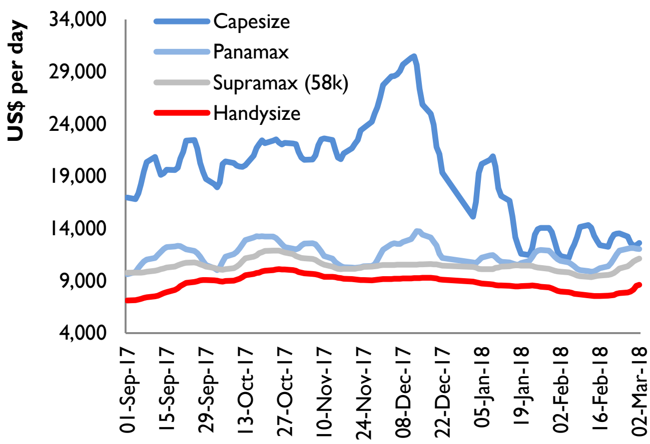
The **BDI** remained steady to firm throughout the week, eventually closing at 1,207 up from last weeks close of 1,185. Unlike the general picture, the **Capes** lost its upward momentum and dropped rapidly this week, taking the time charter average down to $12,609 from last week's close of $13,524. In the Pacific, RGL took the *Navios Etoile* (179,234-dwt, 2010) delivery Zhoushan for spot trip via West Australia redelivery China at $13,000 daily. The *Big Fish* (177,663-dwt, 2004) was fixed by Five Ocean delivery South Korea for a trip via East Coast Australia or NoPac redelivery Singapore-Japan at $16,000. In the Atlantic, Rio Tinto fixed Berge Bulk TBN 170,000/10% for Seven Islands/Oita at $20.90 pmt. On the front haul, Oldendorff fixed the *E.R. Borneo* (178,978-dwt, 2010) delivery Rotterdam for a trip redelivery India-Japan at $24,500. On the period, the *Seafighter* (181,068-dwt, 2015) was taken by Jera delivery Beilum for 11/13 months trading redelivery worldwide at $23,000.

The **panamax** market rose this week with a little momentum. The time charter average was up $165 to finish on $12,038. In the Atlantic we saw the *Beijing 2008* (82,561-dwt, 2007) delivery Gibraltar via Barcarena redelivery China fixed at $15,750 plus $250,000 bb with Cofco. Oldendorff fixed the *Shandong Peng Cheng* (82,154-dwt, 2010) delivery Rotterdam via Murmansk redelivery Skaw-Gibraltar at $12,750. On front haul, Norden fixed the *Great Wealth* (75,570-dwt, 2011) delivery East Coast South America redelivery Singapore-Japan at $15,250 plus $525,000 bb. Also on front haul Cargill took the *Jaguar Max* (81,309-dwt, 2012) delivery Gibraltar via US East Coast redelivery India via the COGH at $19,500 chopt via Suez at $21,500. In the Pacific, Phaethon fixed the *Hiroshima Star* (81,761-dwt, 2017) delivery Yuzhny redelivery Singapore-Japan at $28,750. PCL took the *Tahiti One* (81,353-dwt, 2012) delivery Hong Kong via Indonesia redelivery India at $10,500. On the period side of things, Glencore took the *Myra* (82,100-dwt, 2010) delivery Qingdao for 1 year redelivery worldwide at $15,000.

The **supramax** and **handy** market had a much needed lift this week. The supras closed the week at $11,381, up from last weeks close of $10,158 while the handys closed the week at $8,613, up from last weeks close of $7,815. In the Atlantic, the headline fixture of the week was the *Southern Light* (63,296-dwt, 2015) which scored an impressive $24,000 delivery Canakkale for a trip to China with Phaethon. The *Sand Topic* (60,155-dwt,2017) fixed similar earlier in the week at $19,000 delivery Black Sea redelivery Philippines with Caravel. Across in the US Gulf, Bulk Trading fixed the *Josco Runzhou* (58,722-dwt, 2011) delivery Houston for a trip to the Mediterranean with petcoke at $19,000. There was little reported on the smaller sizes however it was rumoured a 37k dwt achieved $11,750 delivery Recalada redelivery Continent. In the Pacific, the *Spring Cosmos* (63,272-dwt, 2017) delivery Longkou for a prompt trip via Indonesia, redelivery West Coast India at $10,000. Simtra fixed the *Ioanna Pol* (50,283-dwt, 2004) delivery Karachi for a trip via Mina Saqr, redelivery India with limestone at $11,250. On the handys, the *IVS Knot* (33,143-dwt, 2010) fixed delivery Singapore for a trip via Australia, redelivery Singapore-Japan range at $10,500. Plenty of period activity in the Pacific. Lighthouse Navigation fixed the *Genava* (57,433-dwt, 2016) delivery Bahrain for 5-7 months trading redelivery worldwide at $13,100. Norden fixed the *Roberta* (63,600-dwt, 2015) delivery Kohsichang for 5-7 months trading redelivery worldwide at $14,250. Bostomar fixed the *Maria Grace* (53,450-dwt, 2008) delivery Philippines for 4-7 months redelivery worldwide at $12,100.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Ocean Duke	180,361	2010	Caofeidian	03/05 Mar	Singapore-Japan	16,500	KSC	Via Australia
E.R. Borneo	178,978	2010	Rotterdam	09/11 Mar	India-Japan	24,500	Oldendorff	Non Breach
Rikke	81,895	2016	Ghent	Prompt	Passero	16,000	Solebay	Via US East Coast
Shun Ying	81,108	2012	Singapore	09/10 Mar	Singapore-Japan	13,250	Sea Grace	2 laden legs
Kypros Sky	77,079	2015	EC South America	10/20 Mar	Singapore-Japan	15,600	Cargill	$550,000 bb
Southern Light	63,296	2015	Canakkale	Prompt	China	24,000	Phaethon	-
Sand Topic	60,155	2017	Egypt Med	25 Feb	Philippines	19,000	Caravel	Via Black Sea
Coral Gem	55,073	2010	Singapore	Prompt	India	14,000	MUR	Via Indonesia
Interlink Mobility	38,767	2015	Bangsaphan	01/05 Mar	Tampa-Veracruz	7,500	Panocean	$11,500 after 58 days
IVS Knot	33,143	2010	Singapore	Prompt	Singapore-Japan	10,500	cnr	Via Australia



Exchange Rates	This Week	Last week
JPY/USD	105.39	106.62
USD/EUR	1.2305	1.2293

Brent Oil Price	This Week	Last week
US$/barrel	63.42	67.22

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	364.0	369.0
MDO	575.0	581.0
Rotterdam IFO	340.0	357.0
MDO	540.0	557.0

Dry Bulk S&P

While the number of inspections begins to gather momentum, the deal shadow from Chinese New Year has been evident in the list of reported sales this week.

The freight market seems to be up and running, with period rates climbing. The effect is evident in the secondhand market but certain sectors, notably supramax tonnage hovering just within the CCS 18 year age constraint, are beginning to look a bit over supplied with sales candidates.

We seem to have jumped the gun with last week's report of the sale of the caper *New Dalian* (180,371-dwt, 2010 Dalian). In fact it seems that her sister *New Hong Kong* (180,154-dwt, 2010 Dalian) is closer to being sold at something close to $24m.

The Fredriksen controlled kamsarmax *Sea Ace* (81,755-dwt, 2012 Guangzhou Longxue) is reported sold at $18.5m - in line with recent sales.

The ultramax *BW Durum* (61,491-dwt, 2016 NACKS) is reported sold to Navigare at $24.75m. She was acquired as a prompt resale at $18.5m. The TESS58 supramax *Maritime Unity* (58731-dwt, 2008 Tsuneishi Cebu) is sold with dry-dock due at $14m.

Despite the recent New Year celebrations, we have a couple of Chinese purchases to report. *Polstar* (53,452-dwt, 2006 Imabari) is reported sold at $9.3m at auction. Finally *Amethyst* (47,301-dwt, 2001 Minanminippon) is sold at $8.5m, three months ahead of her 18th birthday.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Sea Ace	81,755	2012	Guangzhou Longxue	-	Greeks	18.5	
BW Durum	61,491	2016	DACKS	4x30	Navigare	24.75	9 month charter back to BW region $12k per day
Maritime Unity	58,731	2008	Tess Cebu	4x30	Undisclosed	14	DD due
Polestar	53,452	2006	Imabari	4x30.5	Chinese	9.3	Sold at auction in China, buyer had to pay in RMB
Amethyst	47,301	2001	Minanippon	4x30	Chinese	8.5	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	$/LDT	Buyer
Mistral	306,278	2000	Hyundai Heavy Inds	Tank	46,703	-	Sold at $20.25m for further trading
Kos	305,870	2001	Daewoo	Tank	43,187	440	
Hyundai Sun	301,178	1998	Hyundai Heavy Inds	Tank	41,820	-	
Poros	284,170	2000	Mitsubishi	Tank	38,979	440	'As is' Khor Fakkan. Includes 500 tons IFO ROB.
Kriti Breeze	134,441	1996	Hyundai Heavy Inds	Tank	21,642	430	
Pacific Sunrise	105,176	1998	Samho	Tank	16,675	490	Delivered sub continent, including min 800 MT FO ROB
Cotopaxi	66,100	1999	HHI	Tank	11,984	420	'As is' Singapore
Esi Anax	11,957	2001	Dalian SY	Bulk	5,126	490	Undisclosed
Sinokor Incheon	3,016	1987	Naikai	Cont	2,560.5	462	Undisclosed

Tanker Commentary

It seems that the dog's quick start last week was a false one as we are back to the norm with minimal second hand tanker sales to report. Having said that, the number of enquiries is ever increasing and one hopes this will translate into deals over the coming weeks. The majority of prospective buyers seem focused on the six to ten year old MRs, but with so few workable for sale at realistic price levels, the market keenly awaits a transaction to set a much needed benchmark. The dire crude market has spurred owners into sending vessels to the beaches. Last week we reported no fewer than 8 large crude ships sold for demo, and this week the foot remains firmly on the pedal for both cash buyers and owners. The Greek controlled *Mistral* (306,278-dwt 2000 HHI) has been sold (reportedly) for further trading at $20.25m. On first look, this may seem to be excess her demolition price, but the ship has a number of extras and as such a 46,703 light weight. London based Greeks Embiricos have also made a demolition play this week, with the sale of their *Poros* (284,170-dwt 2000 Mitsubishi). At the time of writing there remains speculation that the owner may have also scrapped their year younger *Kos* (305,000-dwt, 2001 Daewoo). Given the ship does not have docking due for over a year, it will be testament to the woeful market if a demo deal has been concluded here. Elsewhere in the VLCCs, Korean owners Hyundai Merchant have now sold their *Hyundai Sun* (301,178-dwt 1998 HHI), and moving down a size, Greek owners Avin have sold their *Kriti Breeze* (134,441-dwt, 1996 HHI). With over fifty VLCCs ordered in 2017, one can only hope owners continue to send their older tankers for a winter beach trip.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Chembulk Kings Point	19,928	2008	Kitanihon	Indonesians	Upper 13s	

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