HARTLAND
SHIPPING SERVICES

03 May 2019

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Blowing Us Off Course ….

Harold MacMillan.

On being asked by a journalist what could potentially derail his government he is reputed to have replied: "events, dear boy, events."

*This was featured on Newsnight last night in what was an astonishing indictment of Vale, the Brazilian mining company.

^Time series data from the Shipping Intelligence Network.

**Although unnecessarily heavy this year in the capesize and VLCC segments on account of excessive ordering in recent years.

POINTS OF VIEW

This week, the US Federal Reserve and the Bank of England decided to pause interest rates at current levels, although each chairman gave out a different message. The Fed's Jerome Powell acknowledged that inflation is below target but he gave no indication whether the next step will be up or down. He has room to cut rates as a mechanism to stimulate inflation and is under extreme pressure from the president to slash rates to boost the economy. Mr Trump wants a weaker dollar, stronger exports, weaker imports and a lower trade deficit. His attempts at currency manipulation are precisely what he accuses China of. The president is obsessed with his own re-election. Another 4-year term will preserve his immunity from possible criminal prosecution and jail-time as, when he is no longer president, he will have lost the power to suppress evidence. In the UK, Mark Carney hinted that, when Brexit is sorted out, there may be a need to raise rates. The US and UK are enjoying positive but weak economic expansion, low inflation, job gains, wage growth and falling unemployment. The uncertainty of Brexit and appalling political mismanagement are holding back the UK. But, once we know whether we are going to be in or out of the EU, we can move on with our lives. In the US, Mr Trump is eager to strike a trade deal with China and the suspicion is that he is going to cave in. The unions are watching carefully as any deal that harms US workers will cause union leaders to encourage Mr Trump's support base to desert him. If the president can keep the economy in growth mode this year and next then a majority of the American public seems willing to overlook a multitude of other issues that so divide the country.

A resolution to Brexit and US-China trade wars will give a significant boost to global economic activity as investment and spending will recover. But we need to be aware that lasting damage has been done by both issues. The UK has lost credibility and economic momentum. The US is keen to open up a new trade war front with Europe while Congress has yet to ratify the rehashed Nafta deal with Canada and Mexico. Congress seeks meaningful amendments before doing so. Shipping had a terrible first quarter as it was knocked sideways by Acts of God in Brazil and Australia, by US sanctions on Iran and Venezuela, by oil production problems in Angola and Libya, by African swine fever in China and by generally lower consumption due to tariff inflation on goods prices. That is only a sample of what was an extraordinary coincidence of bad and tragic events. The Brumadinho mine disaster in Brazil in late January* and Cyclone Veronica in Western Australia in late March knocked out ten of millions of tonnes of iron ore output, thus depriving the large bulk carrier segment of its lifeblood. Brazil's iron ore exports came in at just over 18mt in April, down 18% month-on-month and 29% lower year-on-year. It was the lowest monthly export figure since January 2012, according to Commodore Research, but should mark the annual low point as output cranks back up. There is almost no spot cargo on the market as what is being shipped is going under COAs.

Luckily, most market players are looking beyond these event setbacks which have savaged bulker earnings, tanker earnings and sentiment. SIN^ data indicates that a modern 180,000-dwt capesize has earned on average only $5,142 daily in the first four months of 2019 compared with $14,026 daily over full year 2018. Despite this, a 10-year old capesize is nominally worth $24.5m today compared with $24.0m a year ago. Baltic Exchange data indicates that the BCI-5TC bottomed out at $3,460 daily on April 2 before climbing to a peak of $12,346 on May 2. Baltic BSPAs put a 5-year old 180,000-dwt capesize at $35.6m today, 5% higher than the $33.8m of a year ago. In the large crude oil tanker segment, SIN shows that a modern VLCC earned an average of $22,045 per day in the year to date compared with an average of $15,561 daily in 2018. It puts a 10-year old VLCC at $45.0m today against $41.0m a year ago. The Baltic VLCC-TCE hit a high note of $22,793 daily on March 1 only to sink to minus $2,845 daily on May 2. Despite this, the Baltic BSPAs put a 5-year old 305,000-dwt VLCC at $67.5m today, 10% higher than the $61.6m of a year ago. Just as with large bulk carriers, large crude tankers find themselves deprived of their lifeblood by falling oil production in Angola, Libya, Iran and Venezuela and voluntary export cuts by Saudi Arabia, UAE and Russia. At a time of relatively benign tonnage supply** we are confounded by event-driven cuts to iron ore and crude oil flows. What we need, and hope to get, is for trade flows to normalise and for new environmental measures to modernise and shrink the dry and wet fleets.

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Dry Cargo Chartering

The **BDI** closed the week at 985, this was up from last weeks 889. The **Capes** have shown signs of real promise this week, with an unexpected surge to $2,515 on Tuesday, bringing the index up to end the week at $11,182 up $2,586 in seven days. In the Pacific, Panocean fixed the *Cologny* (180,643-dwt, 2011) delivery Zhoushan for a trip via West Australia redelivery Singapore-Japan at $17,500 last week. The West Australia/Qingdao ore was fixed in the low $7 mark with both Rio Tinto and Oldendorff covering 170,000/10% at $7.35 pmt while Tubarao/Qingdao ore runs were fixed at $16 pmt. On period, Swiss Marine took *El Grasso* (181,365 dwt-2012) delivery Longkou for 11 – 13 months trading, redelivery worldwide at $17,000.

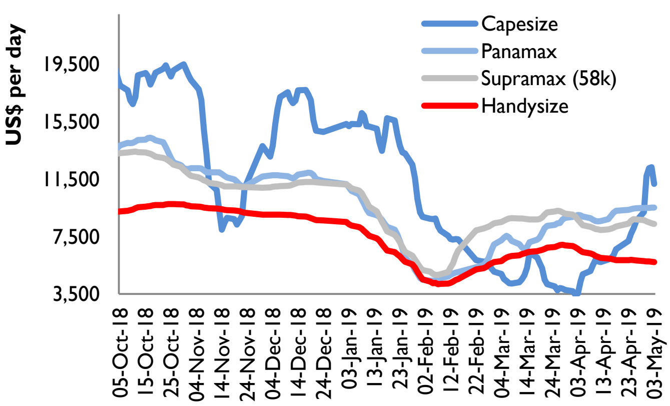
The **Panamax** market saw a slight move this week with the index rising a minimal $38 to finish at $9,524. In the Pacific, Oceanways took *Great Rich* (75,524-dwt, 2012) delivery Bayuquan for a trip via NoPac redelivery Singapore–Japan at $8,150. Oldendorff fixed *Ultra Tiger* (83,611-dwt, 2009) delivery Zhoushan via NoPac redelivery Japan at $8,500. In the Atlantic, Starlog took *Aeolian Arrow* (81,800-dwt, 2018) delivery East Coast South America redelivery Passero for a trip at $17,250. Fronthaul appeared to be slightly more active and rates have strengthened over the past week. Both Ausca and Bunge fixed *Tyana* (82,158-dwt, 2012) and *Andromache* (81,600-dwt, 2017) respectively for a trip delivery East Coast South America redelivery Singapore-Japan range at $15,000 daily plus $500,000 bb. On period, Cargill took *Mondial Iris* (81,630 dwt-2017) delivery Zhanjiang for 4 – 6 months trading, redelivery worldwide at $11,800.

The **Supramax** continues the gradual dropping trend until a recovery was observed, especially for South East Asia, which closed at $8,390 down $313 from last weeks $8,703. In the Atlantic, *Shou Chen Shan* (56,621-dwt, 2013) fixed delivery East Coast South America for a trip redelivery East Mediterranean range at $13,500. Sinotrans fixed *Tai Star* (62,487-dwt, 2016) delivery SW Pass for a trip via Panama Canal redelivery China at $22,750. In the Indian ocean, *Hannah S* (53,208-dwt, 2008) fixed delivery Shuaiba for a trip redelivery Arabian Gulf at $8,500. In the Pacific, YND fixed *Polyworld* (56,565-dwt, 2011) delivery Yangjiang for a trip via Philippines redelivery South China with Nickel Ore at $9,000. Xiang Sheng fixed *Mimi Selmer* (55,711-dwt, 2005) delivery Hong Kong for a trip via Indonesia redelivery CJK at $8,000. Libra fixed *Nasco Pearl* (56,861-dwt, 2010) delivery Hong Kong for a trip via Indonesia redelivery West Coast India at $9,250.

On the **Handy's,** a disrupted week for the Pacific market, owing to the holidays across the region saw the market finish at $5,700. There was very little reported action from either the north or south, however despite this, there was increased inquiry levels at the end of the week, suggesting an improvement in the market is on the horizon. Nothing to report on the period side of things this week with owners not willing to come down to meet charters intended evaluations. The Atlantic market remained subdued although firm numbers were reported off the Continent. The *Caroline Selmer* (33,647-dwt, 2011) delivery Rotterdam for a trip to East Mediterranean with scrap at $10,125. Rates in the South Atlantic were softening, we heard a 32k-dwt fixing low $7,000's for Recalada to the Mediterranean. The US Gulf also remained flat with limited activity. Rates in the Mediterranean and Black Sea continued to be uninspiring. We heard a 36k-dwt fixing 4,750 APS Black Sea for a trip to the Continent. No surprise that little period activity was reported.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Cologny	180,643	2011	Zhoushan	2 May	Singapore-Japan	17,500	Panocean	Via West Australia
Jin Lang	93,280	2010	Jingtang	2 May	Korea	8,000	Panocean	Via NoPac
Andros	82,158	2010	EC South America	22 May	Singapore-Japan	15,150	Ausca	Plus 515,000 bb
Aeolian Arrow	81,800	2018	EC South America	12 May	Passero	17,250	Starlog	
Federica Prima	76,596	2005	Taiwan	06/08 May	South China	9,500	Tongli	
Jorita	63,532	2019	USEC	PPT	Continent	12,500	Pacific Basin	
Spar Capella	58,018	2011	Singapore	06/07 May	China	10,500	CNR	Via Indonesia
CL Boy	51,687	2010	Norfolk	Ely May	Italy	11,000	XO Shipping	
Caroline Selmer	33,647	2011	Rotterdam	05/07 May	East Mediterranean	10,125	CNR	
Bright Ocean III	37,062	2013	Continent	PPT	East Mediterranean	8,500	Norden	



Exchange Rates	This Week	Last week
JPY/USD	111.34	111.81
USD/EUR	1.1164	1.113

Brent Oil Price	This Week	Last week
US$/barrel	70.86	74.33

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	432.0	457.0
MDO	625.0	642.0
Rotterdam IFO	408.0	428.0
MDO	610.0	609.0

Dry Bulk S&P

With extended holidays in Japan, coupled with the end of the Orthodox Easter and the May Day holidays, it has been, as we predicted, a quiet week. Harmonious but not entirely dormant - the BDI managed to poke its head above the 1,000 mark this week, largely thanks to activity in the cape market as Brazilian ore production recovers while COSCO have announced details of their latest multi ship Newcastlemax order.

The sellers of the modern Japanese-built Ultramax *Loch Ness* (61,272-dwt, 2016 Shin Kurushima) having shied away from the market in early March, seem to have now accepted what was previously on offer - $23m. The buyers are reportedly Neptune Line, Greece, the buyers of the sister, Loch Nevis, for $24.25m back in early January. We understand Japanese owners have sold *Eria Colossus* (55,411-dwt, 2008 Kawasaki) for a reported $12.6m to undisclosed buyers. These two sales seem to chart values from the beginning of the year – a dip from January but now pretty much as per last done. Belships have announced another supramax purchase this week. They have bought *Sephora* (55,866-dwt, 2007 Kawasaki) for a reported $12m, in a 50% share, 50% cash deal which obscures somewhat actual market value. However others were offering at mid-low 11 levels which underscores the market-bottoming-out narrative.

Elsewhere the steady drip of middle-aged Dolphin57s into the market is keeping a cap on any value recovery. Two units are reported negotiating closely at the moment.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Loch Ness	61,272	2016	Shin Kurushima Toyohashi	C 4x31	Neptune Line	23	
Medi Vitoria	76,616	2004	Imabari	-	Grand Ocean	7.7	Old sale
Sephora	55,866	2007	Kawasaki Shipbldg	C 4x31	Belships	12	50% shares, 50% cash
Eria Colossus	55,411	2008	Kawasaki Shipbldg	C 4x31	undisclosed	12.6	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Agra	306,009	1999	Mitsubishi HI	Tank	43,030	undisclosed	as is' Singapore
CSK Glory	173,044	2002	Daewoo Shipbuilding	Bulk	21,313	undisclosed	as is' Singapore
Bluebell	148,668	1996	Samsung HI	Bulk	17,737	425	'as is' Korea
Heijin	14,366	1989	Oshima Shipbuilding	RoRo	11,034	426	India
Sinegorsk	7,365	1991	Ast. Reunidos del Nervion S.A. - Bilbao	Gen	4,389	452	'as is' S.Korea

Tanker Commentary

Interest in the crude sector appears to be gathering momentum with rising period rates drawing increasing numbers of Buyers to the market. In the absence of secondhand opportunities, the newbuilding market is particularly active mainly with Greek participants providing welcome interest to hungry Chinese yards. The headline sale of the week is suezmax newbuilding contract re-sold by Active Shipping to Frontline. The 158k-dwt *Nordic Glaze* which is scheduled for delivery ex Hyundai Samho in June 2020 with scrubber fitted is reported to have been committed for $66m. If correct, the sale is a step up from the last Korean built suezmax resale changing hands from Top Ships to New Shipping for $65m in the 3rd quarter last year.

Prolific asset traders NGM energy have made yet another play in the VLCC sector. The Greek owner is reported to be on the selling side this time with a deal concluded on their *Vida* (299,097-dwt, 2003 NACKS) to Dubai based buyers for $26.7m. This week's deal is a notable step up for VLCC prices, especially when you take into account that just last month NGM purchased the three year younger sister *Nerissa* (299,000-dwt, 2006 NACKS) for $28m. There have been 12 VLCCs sold this year, all older than 12 years.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Vida	299,097	2003	Nantong COSCO KHI	Dubai based	26.7	
Nordic Glaze	158,400	2020	Hyundai Samho HI	Golden Ocean	66	

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