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### THE BIGGER PICTURE

... Times are Changing ...



Source: The FT

### POINTS OF VIEW

On Tuesday, China marked the 40<sup>th</sup> anniversary of its opening up to the world through economic reform and the establishment of special economic zones over the following years. It might also have marked the end of this more tolerant and reform-orientated approach, as initiated by Deng Xiaoping and Li Zhongxun\* in 1978, and a shift towards a more Maoist and less collective leadership style and greater assertiveness on the world stage. Xi Jinping is now president for life and he appears eager to depart from the reform tradition started by Deng and his father and later endorsed by presidents, Jiang Zemin and Hu Jintao, and premiers, Zhu Rongji and Wen Jiabao. None of these were present at his speech in the Great Hall of the People in Beijing. It may have been a timely moment to send a warning to US president Donald Trump that it will not be threatened and that “no-one is in a position to dictate to the Chinese people.” He noted that China’s focus on rapid industrialisation has achieved in 40 years what western nations took several hundred years to accomplish. In what was almost certainly a swipe at the US, he stated: “We oppose anyone imposing will on others, we oppose interference of others’ internal affairs, and we oppose bullying.” He confirmed the centrality of the Communist party and the importance of reinforcing state-owned enterprises, neither of which would inspire much confidence in the rising tide of privately owned businesses, many of them in the services sector. He promised that China would stand tall as a world power, with such posturing not boding so well for an early resolution of US-China trade disputes.

In its Global Economics Quarterly, titled “Trading down?”, HSBC observes that global growth is slowing. Any escalation in US-China trade frictions, which are feeding into this slowdown, will only make things worse. A few emerging economies are already in recession while much of the developed world has slowed markedly. In the case of Japan, Germany, Italy, Switzerland and Sweden they have actually slipped into outright contraction in the latest quarter. It points out that doubts have even started to emerge about the continued strength of the US economy which has done much to lift global growth over the past year. Now US interest rates are rising, stimulus is being withdrawn, trade wars are looming, debt levels are elevated, this year’s equity gains have been wiped out and the US yield curve is close to inverting. Despite all this bad news, HSBC has only reduced its forecasts for global growth in 2019-2020 by 0.1% per year, to 2.6% and 2.4% respectively. The Trump-Xi truce earlier this month gives us hope that tariffs will not ramp up from 10% to 25% as it has become apparent that the US-China trade spat has had a bigger negative impact on US exports to China than on Chinese exports to the US. The report goes on to examine the prospects for further Federal Reserve tightening, the risks of recession and the policy options that are available to constrained central banks and indebted governments should they have to tackle another downswing.

HSBC’s Asian Economics Quarterly is titled: “Brace, brace” as policy tensions and a slowing global cycle provide stiff headwinds to trade. Within Asia, tighter financial conditions could make for a more bumpy journey but anticipated easing in China and Fed pausing in the US may cushion the impact in the Year of the Pig. On Wednesday, after these reports were released, the Fed raised rates for the fourth time this year and equity investors delivered their worst response since 1994 as markets sold off. Jerome Powell admitted to growth concerns but was not willing to hit the pause button. Maybe he was simply trying to assert Fed independence of the Executive Branch, i.e. President Trump, that has been aggressively advocating low rates to keep the US and global economy out of trouble. The problem is that, at some point, we need to return to some semblance of monetary and fiscal discipline; that time is now. As the global cycle cools, exporters will face headwinds, even without higher tariffs. Tighter financial conditions will create a drag on Asian demand which may encourage China to step up policy intervention<sup>^</sup> to stabilise growth. Lower oil prices<sup>\*\*</sup> are providing relief for consumers, as well as some pain for producers, while benign inflation may provide scope for cuts, if needed. But, HSBC concludes, these measures alone may not be enough to get Asia sizzling again, so it is shaping up to be a bit of ‘a slow roast’ in the Year of the Pig. For us in shipping, it is not worth getting too bothered by signs of macro economic weakness, as trade will battle on, but we could certainly do without elevated tariffs which are a tax on consumption. A more important issue is whether changing trade flows add or subtract to overall ton-miles. On the supply side, we have the bright prospect of unusually low net fleet growth and disruptive regulations that will further reduce effective tonnage supply.

\*The father of Xi Jinping.

<sup>^</sup>A cut in corporate taxation and a revised household tax code should see growth maintained at 6.6% in 2019, the same as in 2018.

<sup>\*\*</sup>Brent has plunged from \$85 a barrel in early October to \$53 today.

## Dry Cargo Chartering

It was a rather quiet and sadly depressing week prior to Christmas with all markets closing in the red. The **BDI** reflected this, closing the week at 1,279, down from last weeks close of 1,401. The **cape** market closed at \$14,878, down from last weeks \$17,219. Panocean took the *Baltimore* (177,249-dwt, 2005) delivery Taranto for a trip via Baltimore redelivery South Korea at \$28,000. Swiss Marine fixed the *Seattle* (179,362-dwt, 2011) delivery Qingdao for a 16-19 months trading redelivery worldwide at \$16,000. On voyage, Dampier to Qingdao ore runs were being fixed in the mid \$8's but dropped to a tick under \$6 by Friday. A Tubarao to Bahrain run was done at \$15.90 for 160,000/10 ore.

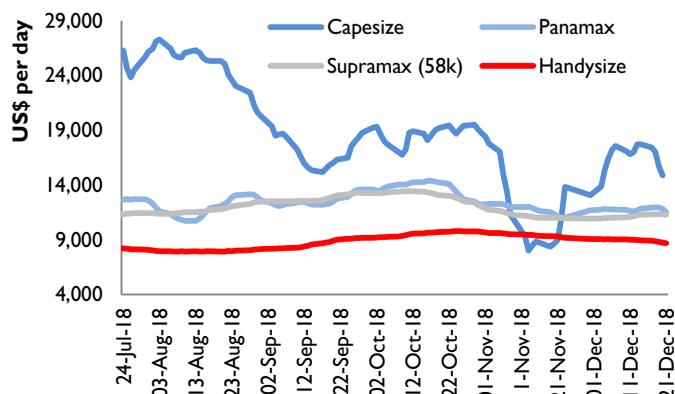
The **panamax** market finished the week at \$11,510 slightly down from last week close of \$11,828. In the Pacific, the *Tai Keystone* (84,703-dwt, 2017) fixed to Daiichi delivery Zhoushan for a trip via Yantai redelivery Japan \$13,500 and the *Rosco Lemon* fixed to Lotus delivery Hong Kong for a trip via Indonesia redelivery South China at \$11,250. Marubeni took the *Navios Aldebaran* (76,529-dwt, 2008) delivery CJK for a trip via the North Pacific redelivery Singapore-Japan at \$10,750. In the Atlantic, Star Logistics fixed the *Cerafina* (74,759-dwt, 2005) delivery North Coast South America for a trip redelivery Spain with \$13,350 plus \$225,000 bb. The *Athanasia C* (80,988-dwt, 2012) fixed to Louis Dreyfus delivery passing Canakkale for a trip via Black Sea redelivery Continent at \$14,000. On the front haul, the *Graecia Aeterna* (81,001-dwt, 2014) fixed to Bunge delivery passing Cape of Good Hope for a trip via East Coast

South America redelivery Singapore-Japan at \$14,000 plus \$400,000 bb. ADMI fixed the *Siana* (73,127-dwt, 1999) delivery East Coast South America for trip redelivery Singapore-Japan at \$14,500 with \$475,000 bb. On the period, Norden took the *KM MT Jade* (81,487-dwt, 2008) delivery Nagoya for 5-8 months redelivery worldwide at \$13,000.

This week the Supra market gained \$6, to finish the week up at \$11,279. In the Atlantic, Huayang Lily (63,533-dwt, 2016) fixed a petcoke run ex SWP into the East Mediterranean at \$23,500, this meant that the *S Brilliant* (48,821-dwt, 2004) appears to achieved a very strong rate of \$21,000 for a trip ex US Gulf into Italy with grains. In the Pacific, A North Pacific round voyage was fixed at \$11,500 on *Vita Kouan* (63,300-dwt, 2016) delivery Nagoya, redelivery Singapore-Japan and *Spring Melody* (63,233-dwt, 2014) fixed a clinker trip ex Campha into Chittagong at \$12,000, similar levels were fixed on *Blue Akihabara* (61,630-dwt, 2014) for the same trip. Meadway also fixed short period out of the USG on *Lowlands Patrasche* (57,950-dwt, 2013) which achieved \$13,500 + a ballast bonus of \$350,000. The Handy market this week fell sharply, ending the week at \$8,658 and loss of \$271. In the Atlantic it was reported that Cargill fixed *Cielo Di Angra* (39,202-dwt, 2015) for a prompt trip out of Paranagua into the West Med at \$16,150 and in the Pacific *Seaglass II* fixed to Oldendorff delivery Busan for a trip to Singapore-Taiwan range at \$6,750.

### Representative Dry Cargo Market Fixtures

| Vessel         | DWT     | Built | Delivery  | Date      | Redelivery       | Rate (\$) | Charterers | Comment        |
|----------------|---------|-------|-----------|-----------|------------------|-----------|------------|----------------|
| Baltimore      | 177,243 | 2005  | Taranto   | 24 Dec    | Korea            | 28,000    | Panocean   | Via Baltimore  |
| Nikiland       | 93,251  | 2009  | CJK       | 19 Dec    | China            | 12,000    | CNR        | Via Indonesia  |
| Tai Keystone   | 84,703  | 2017  | Zhoushan  | 22/23 Dec | Japan            | 13,500    | Daiichi    | Via Yantai     |
| Agri Princess  | 82,084  | 2017  | Rotterdam | 21/22 Dec | Jorf Lasfar      | 14,000    | Norden     | Via Murmansk   |
| GH Glory       | 74,973  | 2010  | ECSA      | 11 Jan    | Singapore-Japan  | 14,300    | Norden     | + \$430,000 BB |
| Sunshine Bliss | 76,441  | 2010  | Busan     | PPT       | Philippines      | 10,550    | CNR        | Via NoPac      |
| Sbi Hyperion   | 61,171  | 2016  | Samalaju  | 24/26 Dec | WCI              | 12,000    | CNR        | Via Indonesia  |
| Mandarin River | 56,724  | 2011  | Bohai Bay | 23/25 Dec | SE Asia          | 6,750     | CNR        | Int steels     |
| Cielo di Angra | 39,202  | 2015  | Paranagua | PPT       | West Med         | 16,150    | Cargill    |                |
| Sea Glass II   | 29,124  | 2008  | Busan     | PPT       | Singapore-Taiwan | 6,750     | Oldendorff |                |



| Exchange Rates | This Week | Last week |
|----------------|-----------|-----------|
| JPY/USD        | 111.22    | 113.53    |
| USD/EUR        | 1.1398    | 1.1287    |

| Brent Oil Price | This Week | Last week |
|-----------------|-----------|-----------|
| US\$/barrel     | 53.67     | 60.66     |

| Bunker Prices (\$/tonne) | This week | Last week |
|--------------------------|-----------|-----------|
| Singapore IFO            | 349.0     | 395.0     |
| MDO                      | 512.0     | 553.0     |
| Rotterdam IFO            | 311.0     | 354.0     |
| MDO                      | 481.0     | 540.0     |



### Dry Bulk/Tanker S&P

With Christmas now just around the corner bars and restaurants have tended to be busier than offices, resulting in a short list of sales.

The supramax, *Luisia Colossus* (55,455-dwt, 2010 Kawasaki) is reported sold to Greek Buyers for \$14.8m. Various sources have suggested the Buyer is New Vision, Greece, however we understand they are denying the purchase. Elsewhere, *Ocean Neeraj* (64,000-dwt, 2019, COSCO Zhoushan) a Dolphin 64 resale with delivery Q1 next year has taken offers. Initial rumours place the bidding in line with *Ocean Pankaj* (64.00-dwt, 2018, COSCO Zhoushan), a sister with end 2018 delivery around the \$24m mark.

We also understand MV *Bonnie Venture* (32,500-dwt, 2012 Hongxin) has been committed in the mid \$9s to an undisclosed Buyer. This is the first sale of a modernish Chinese Handy since August when Lauritzen sold their Signe Bulker (32,755-dwt, 2010 JNS) to Greek Buyers for \$9.6m, representing a step down, however JNS is considered a far superior yard than Hongxin.

#### Reported Dry Bulk Sales

| Vessel          | DWT    | Built | Yard                  | Gear     | Buyer       | Price \$m | Comment |
|-----------------|--------|-------|-----------------------|----------|-------------|-----------|---------|
| Luisia Colossus | 55,455 | 2010  | Kawasaki Shipbuilding | C 4x30.5 | Greeks      | 14.8      |         |
| Bonnie Venture  | 32,500 | 2012  | Zhejiang Hongxin      | C 4x30   | undisclosed | 9.5       |         |

#### Demolition Sales

| Vessel        | DWT    | Built | Yard              | Type      | LDT    | Price (\$) | Delivery          |
|---------------|--------|-------|-------------------|-----------|--------|------------|-------------------|
| Chemtrans Sky | 63,381 | 2000  | Dalian            | Tank      | 13,310 | 435        | 'as is' Singapore |
| TVL Xiamen    | 11,064 | 1997  | Malaysia Shipyard | Cont      | 4,700  | 382.5      | 'as is' Taiwan    |
| Orange Wind   | 4,944  | 1994  | Wuhu              | Gen cargo | 2,340  | 435        | Bangladesh        |

#### Reported Tanker Sales

| Vessel         | DWT    | Built | Yard         | Buyer       | Price \$m | Comment |
|----------------|--------|-------|--------------|-------------|-----------|---------|
| Falcon Grace   | 46,475 | 1999  | STX Offshore | undisclosed | 5.8 each  |         |
| Falcon Victory | 46,473 |       |              |             |           |         |

#### Tanker Fixtures

| Vessel  | DWT     | Built | Yard   | Period | Rate (\$/pd) | Charterer      |
|---------|---------|-------|--------|--------|--------------|----------------|
| Prostar | 114,000 | 2019  | Daehan | 2 yrs  | 20,500       | Teekay Tankers |
| Prosky  |         |       |        |        |              |                |



# Merry Christmas

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## & HAPPY NEW YEAR

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