23 November 2018

WEEKLY COMMENTARY

HARTLAND
SHIPPING SERVICES

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THE BIGGER PICTURE

… No Pleasure in Paradise …

Source: The Sun / AFP

*See Alphatanker's recent Marine Fuel Market study (page 13).

^Typical seawater contains about 2,800mg of sulphate per litre. An open loop scrubber adds 260mg and one popular bottled water has 450mg.

**PM = particulate matter which Includes black carbon and heavy metals. PAH = polycyclic hydrocarbons.

^^The SBLK fleet ranges from 52,000-dwt to 210,000-dwt.

POINTS OF VIEW

Paradise Lost: 150,000 acres of Northern California devastated by fire, more than 13,500 homes destroyed, 83 dead and 563 persons unaccounted for. That was Camp Fire's cruel tally on Wednesday, the day before Thanksgiving. Inevitably, this disaster feeds into the debate about global warming and how we manage our environment. Shipping is looking to make its own contribution by reducing emissions from its vast fleet of oceangoing ships that are usually invisible to the public. IMO 2020 is a good starting point as the sulphur content in marine fuels will drop from max 3.5% to max 0.5%, greatly reducing harmful emissions. The issue of exhaust gas scrubbers is an emotive one and last week we appeared to side against them, This week, in the interests of balance, we will put the case for scrubbers. Latest information from Clarksons puts the total scrubber orderbook at 1,911 units (719 newbuild and 1,192 retrofit). Across the three main sectors there are 633 orders for tankers, 473 for bulk carriers and 314 for containerships. These orders cover 6.5% of the combined fleet by number of ships in these three main sectors. The Clean Shipping Alliance 2020 represents 25 leading shipowners, with some 2,200 vessels, who have invested much time and capital in researching the benefits and risks of investing in this technology. In a press release on 18 October the CSA answered ten questions that help to clarify various common misconceptions. We do not have sufficient space to mention all the details here, but we can forward the press release upon request.

However, we can mention a few. Scrubbers for SOx removal have been in operation in the global maritime sector for over 10 years. Both scrubbers and compliant fuel are equally acceptable and are environmentally sound methods of compliance with the 2020 sulphur cap. Scrubbers allow ships to continue burning HFO, a residual fuel byproduct of the refining process, thereby providing an ongoing outlet for HFO use. Refining HFO into compliant fuels causes greenhouse gas emissions and the requisite refinery upgrading is a 5-8 year process typically costing either side of one billion dollars. Contrary to popular perception, the IEA suggests that it is actually cheaper to strip out sulphur onboard a ship than at a refinery, denting the case for refinery investment in hydrocrackers.* There is no link between the use of scrubbers and increased vessel speeds; market conditions are much more likely to influence the dynamics of slow steaming. In seawater scrubbing, the sea's natural alkalinity largely neutralises the results of SO^2 removal before discharge back to the sea. SO^2 is converted into sulphate, water and carbon dioxide. The pH of washwater is in compliance with IMO guidelines. The sulphate that is produced is a naturally occurring constituent in seawater and is therefore not harmful to the sea. The sulphur that is already present in the world's oceans would create a five feet thick layer on the ocean floor, while the sulphur from all the oil and gas reserves in the world would add the thickness of only a sheet of paper. Scrubbers on ships using HFO remove about 80% of particulate matter and over 98% of SOx from exhaust gases, resulting in lower PM, PAH** and SOx emissions than when burning MGO and IMO-compliant fuels.

As a result of the foregoing, scrubbers are an approved method of compliance with the sulphur regulations set by the IMO, European Union and US Environmental Protection Agency. Banks are assessing the upcoming assortment of environmental regulations insofar as they might inform lending policy, but scrubber financing is available. A good example of this is that of Star Bulk which is fitting its 111-strong fleet of modern bulk carriers^^ (at an average of 114,000-dwt each) with scrubbers at a significant capital outlay of $185 million. In Wednesday's 3Q18 financial results presentation it stated that about 70% ($135-140m) of its scrubber programme is debt financed, with the balance to be paid in cash. It is not such a difficult call for the banks as in SBLK's September investor presentation it put the payback time at 8 months for capesize and 17 months for supramax in its worst case scenario of the HFO-MGO spread being only $200 per tonne. This drops to 3 and 7 months respectively at a $500 spread. As it stands, well over 90% of the world fleet will default to more expensive IMO-compliant blended fuels or MGO. They will hope to pass this through as the main component in their voyage expenses, but they may not recover 100% of the cost. If left out of pocket then they can always time charter out their ships, at which point the sourcing and pricing of compliant fuel will fall to the charterer. We expect that higher fuel costs, and the time and cost of scrubber installation, will encourage more scrapping, slower steaming, extra docking time, diverted routing and added tonne miles. This is all good and, at the same time, shipping will be seen to be doing its bit for the global environment in its pursuit of Paradise Regained.

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Dry Cargo Chartering

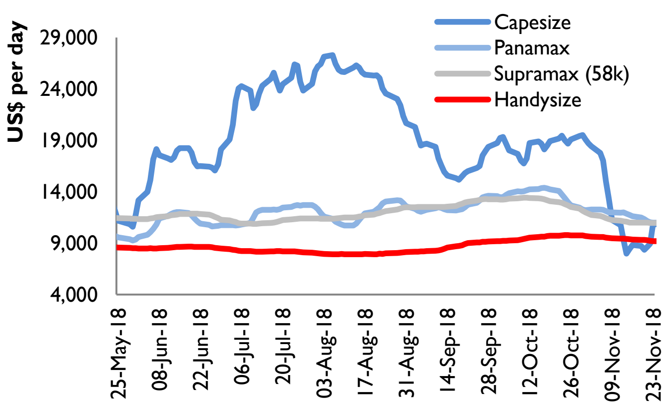
The **BDI** closed the week at 1,093, up from last weeks 1,031. The **cape** market closed the week at $10,853 which included a much needed gain of $1,902 today. This was up from last weeks $8,804 closing figure. Little was reported on timecharter except for the *True Chariot* (182,571-dwt, 2015) delivery Tianjin for a trip via Australia redelivery Skaw-Cape Passero at $2,000 first 65 days, $16,000 thereafter and the *Anangel Horizon* (180,940-dwt, 2016) delivery Gibraltar for a trip via Colombia redelivery Gib-Skaw at $13,000. On voyage, ore runs ex Dampier to Qingdao were being fixed in and around the low $6 mark throughout the week except for Friday which saw an uptick to $6.80. In the Atlantic, Tubarao/Qingdao ore runs were being fixed at around $15 for 170,000/10%.

The **panamax** market continued to drop this week, finishing at $10,996, down from last week close of $11,622. In the Atlantic, Cofco fixed the *Ultra Lynx* (81,607-dwt, 2018) delivery Constanza for a prompt trip via Black Sea redelivery Skaw-Gib range at $14,500. Bulk Trading took the *Nord Titan* (77,095-dwt, 2014) delivery Gibraltar for a trip via US East Coast redelivery Jorf Lasfar at $14,150. On the front haul, Ausca fixed the *Captain Antonis* (82,177-dwt, 2011) delivery East Coast South America for a trip redelivery Singapore-Japan at $14,750 plus $475,000 bb and Solebay took the *Ever Grand* (81,688-dwt, 2013) delivery East Coast South America for a trip redelivery Singapore-Japan at $15,000 plus $500,000 bb. In the Pacific, the *Apollon* (81,800-dwt, 2018) was fixed to Cargill delivery Cai Lan for a prompt trip via West Australia redelivery Singapore-Japan at $12,500 and the *Matro Nikos* (82,177-dwt,2011) delivery Hibikinada fixed to Norden for a trip via NoPac redelivery India at $11,250. Oldendorff took the *CL Grace* (81,563-dwt, 2012) delivery Indonesia for a trip redelivery Philippines at $8,000 plus $80,000 bb. On the period, the *Alcmene* (93,193-dwt, 2010) delivery Singapore was fixed to BG Shipping for 11-14 months redelivery worldwide $11,500.

This week the **Supramax** market lost $56, with the TCE average finishing at $10,950. In the Atlantic, *Ocean Freedom* (55,771-dwt, 2010) fixed a trip out of SWP down to Argentina at $17,000 and Meadway took *Sirius Sky* (60,514-dwt, 2017) for a front haul out of the Black Sea delivery Canakkale to Indonesia at $27,000. In the Pacific, *Arietta* (55,818-dwt, 2009) fixed a NoPac Round Voyage at $10,000 plus $275,000 bb with Pacific Basin. On the Period side of things, Oldendorff to *Star Pathfinder* (61,298-dwt, 2015) for 2/4 months delivery Makassar redelivery AG/Japan at $12,250. The **Handy** market this week continued its downward slide, losing $169 ending the week at $9,176. In the Atlantic, *Nordic Dalian* (77,330-dwt, 2013) fixed a trip ex US Gulf into Ireland at $17,000 and *Dauntless* (28,473-dwt, 2002) fixed a trip delivery Barranquilla via Vila Do Conde to the AG with Richstone at $13,750. In the Pacific, *Penelope L* (28145-dwt, 2015) fixed a quick sugar trip delivery Singapore into Vietnam at $8,000 and *Bright Hope* (28,201-dwt) fixed a spot trip delivery Mariveles at $6,250 for concentrates into China/Japan range. There was little reported action on the period side of things on the smaller vessels.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
True Chariot	182,571	2015	Tianjin	End Nov	Skaw-Cape Passero	2,000	Uniper	Via Australia
Yasa Pioneer	82,849	2006	ECSA	15 Dec	Sing-Jpn	14,900 + 490k bb	Crystal Sea	
Ultra Lynx	81,607	2018	Constanza	PPT	Skaw-Gibraltar	14,500	Cofco	Via Black Sea
Nord Titan	77,095	2014	Gibraltar	30 Nov	Jorf Lasfar	14,150	Bulk Trading	
Peace Pearl	76,000	2013	Recalada	17-18 Dec	Recalada	14,500 + 450k bb	Oldendorff	
Mona Manx	63,878	2017	Recalada	22 Nov	SE Asia	15,500 + 550k bb	Louise Dreyfus	Int Grains
Thor Courage	58,693	2009	Bin Qasim	PPT	WCI	12,250	Dooyang	
Xin Xiang Hai	56,111	2012	Glasgow	PPT	East Med	10,250	EMR	Via Tyne
COS Lucky	52,395	2003	Rizhao	18-25 Nov	AG	6,000	CNR	Via North China
Nordic Dalian	37,330	2013	US Gulf	PPT	Ireland	17,000	CNR	



Exchange Rates		This Week	Last week
	JPY/USD	112.83	112.78
	USD/EUR	1.1347	1.1402

Brent Oil Price		This Week	Last week
	US$/barrel	60.22	68.27

Bunker Prices ($/tonne)		This week	Last week
	Singapore IFO	455.0	472.0
	MDO	610.0	646.0
	Rotterdam IFO	381.0	408.0
	MDO	562.0	606.0

Dry Bulk S&P

A week with a spread of purchases across the sizes, yet only one ship built after 2006 is reported sold. Since September 1st (the date the Chinese government's implemented the cut off from 18 year old units to tier II vessels for coastal biz) there haven't been many sales of ships built between 2000-2003. Three months on from the regulations being implemented turnover in this sector is increasing, Buyers are recognising the value offered by these older ships, and importantly Seller's appear to be willing to part with older units before year end to top up balance sheets.

On the Panamaxes, *Navios Magellan* (74,333-dwt, 2000 Namura) is reported sold for low 7s to Chinese buyers. For comparison, in July *Marbella* (72,561-dwt, 2000 Sasebo) was sold for import into Chinese coastal biz for $9.25m. Elsewhere we understand *Ocean Wind* (76,585-dwt, 2006 Imabari) is committed to clients of Paviamar for $10.7m and *Silver Phoenix* (74,759-dwt, 2006 Hudong) is rumoured committed for $9.5m to Chinese Buyers.

The supramax *Star Delta* (52,434-dwt, 2000 Tsuneishi) is reported sold to Chinese Buyers for low $6s a soft price. However, we have also picked up the conflicting sale of the handymax *Fortis Amalthea* (47,263-dwt, 1999 Oshima) for $6.5m.

Despite the current soft chartering market on the capes, Greek Buyers continue to see opportunity with older vessels, Navitas are reported buying *Southern Explorer* (177,500-dwt 2002, Mistui) for $13.5m, in line with last done.

Lastly, the one fairly modern ship sold this week is the slightly awkward *Glory Hongkong* (40,000-dwt, 2012 Ningbo Dongfang) reported sold for $10.6m, a price which initially seems soft, however she is deep for a handy, is rumoured to be in poor condition and has heavy consumption.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price $m	Comment
Southern Explorer	177,493	2002	Mitsui	-	Navitas	13.5	
Ocean Wind	76,585	2006	Imabari	-	undisclosed	10.7	
Silver Phoenix	74,759	2006	Hudong-Zhonghua	-	Chinese	9.5	
Navios Magellan	74,333	2000	Namura	-	undisclosed	low 7s	
Star Delta	52,434	2000	Tsuneishi	C 4x30	Middle Eastern	6.15	
Fortis Amalthea	47,263	1999	Oshima	C 4x25	undisclosed	6.5	
Glory Hongkong	40,000	2012	Ningbo Dongfang	C 4x30	Chinese	10.6	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LDT	Price ($)	Delivery
Zhen Hua 8	44,926	1980	Uddevallavarvet	Gen	15,243	400	'as is' UAE
Vedika Prem	42,253	1993	Minaminippon	Tank	9,122	440	Bangladesh
Arca	21,480	1994	Hanjin HI	Cont	7,007	474	Alang
CNP Ilo	14,700	1995	Volkswerft Stralsund	Cont	5,734	460	Green Recycling

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Tanker Commentary

Thanks to the healthy and sustained crude earnings, sentiment across the market has been lifted and owners have been reminded of the fact that sometimes, tankers can make money. As such in a year that has seen limited activity, week 47 brings us an unusually high number of deals to report. The aframax *Singapore River* (115,126-dwt, 2009 Sasebo) has been sold in an off market transaction for $23.2m. The K-Line controlled vessel is reported to be heading to Norwegian owners Bergshav, who purchased the exact sister *Sentosa River* (115,146-dwt, 2008 Sasebo) from the same sellers in June for $19.5m. The price illustrates the firming interest and growing confidence in the tanker market going forward. After ten inspections, the *Toledo Spirit* (159,342-dwt, 2005 Daewoo) has been sold to Eurotankers for $19m, marking the third 2005 built suezmax purchased by the Gotsis controlled owner this year. In the aframax sector, the *Phoenix Alpha* (104,707-dwt, 2003 Daewoo) has been sold to Far Eastern buyers for $11.8m. The price may seem a touch light at first, but it should be noted that the ship will not deliver to the buyers until March, giving the sellers the entirety of the winter market to trade the ship.

In the product sector the pumproom type MR *High Pearl* (48,023-dwt, 2009 Iwagi) has achieved a healthy $16m, with Monaco based Transocean being reported as the successful bidder. After the sale of Diamond S's 2009 built deepwell MR tankers last week at $17m, the price reflects just a $1m discount for pumproom configured MRs vs deepwell designs. International Seaways have sold their *Seaways Alcesmar* (46,248-dwt, 2004 STX) to Greek buyers for $9.4m, a price that again reflects the improving sentiment in the tanker market.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price $m	Comment
Front Falcon	308,875	2002	Samsung HI	Yinson	31	*long subs, conversion
Toledo Spirit	159,342	2005	Daewoo	Eurotankers	19	
Singapore River	115,126	2009	Sasebo HI	Bergshav	23.2	
Phoenix Alpha	104,707	2003	Daewoo	Far Eastern	11.8	*delivery 3 months time
High Pearl	48,023	2009	Iwagi Zosen	Transocean	16	
FPMC 17	46,872	2009	Jinling	Far Eastern	10.5	
Seaways Alcesmar	46,248	2004	STX	Greeks	9.45	

Tanker Fixtures

Vessel	DWT	Built	Yard	Period	Rate ($/pd)	Charterer
FSL Hong Kong FSL Shanghai	115,000	2007	Samsung	2 yrs	17,000 each	Teekay Tankers
Aktoras	36,700	2006	Hyundai Mipo	1 yr	12,000	Shell

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