30 August 2019

# HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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## THE BIGGER PICTURE

… A Hitchcockian figure at the G7 …


Source: The FT

## POINTS OF VIEW

President Trump is already focused on his campaign for re-election in November 2020 so his policy choices will be informed by this ego-centric pursuit. Bill Dudley, the former president of the Federal Reserve Bank of New York, this week called upon the Fed to resist pressure from the president to slash interest rates. In order to achieve its goal of achieving a healthy economy, the Fed should refuse to dole out stimulus to counter the damaging effects of the US-China (and US-World) trade wars. He wrote in a piece for Bloomberg that "Trump's re-election arguably presents a threat to the US and global economy, to the Fed's independence and its ability to achieve its employment and inflation objectives." Basically, if the Fed were to ease monetary policy in reaction to a deteriorating US economic outlook, then the president may continue escalating his trade disputes knowing that the Fed provides him a backstop. The chances of a recession will increase. The Fed is limited in its ability to influence international trade negotiations and should avoid getting dragged into the president's trade wars. Dudley suggested that Fed officials could "state explicitly that the central bank won't bail out an administration that keeps making bad choices on trade policy, making it abundantly clear that Trump will own the consequences of his actions." It is a bold intervention by Dudley in the context of the subservient yesmen that surround the president who routinely are bullied into complying with his wishes. Trump has even implied that the Fed is run by a traitor!

Trump said he is "the chosen one" to take the fight to China, but chinks and fissures are undermining any policy assuredness as he begins to doubt the efficacy of his maximum pressure. Last Friday, the president ordered US businesses to disinvest from China and bring their factories and supply chains home after China imposed 5% duty on another $75 billion of US imports, including previously exempt crude oil.* China has shown that it can easily replace US goods such as oil, gas, coal, soybeans and grains. It can also switch aircraft orders from Boeing to Airbus and make other purchase switches that eventually will damage Trump's remarkably loyal base. The president's trade wars and the Fed rate cuts have failed to weaken the dollar. Instead US treasuries and the dollar are in high demand as safe havens. Ironically, it is the Chinese yuan that has fallen, making China's exports cheaper and its imports more expensive in an unintended China First strategy. Putting a tax on US crude imports places Chinese refiners at a regional disadvantage as they must pay more for the feedstock that powers product exports, just as IMO 2020 rules loom. But, Chinese imports of US crude peaked last summer at 0.5m-bpd and, according to the EIA, accounted for less that 1% of PRC crude imports in Jan-Jul 2019 and only 5% of total US crude exports.** Other Asian buyers are happy to buy US crude oil, as it is cheap and easy to refine, so there is no net loss to VLCCs. If China wanted to get back at the US then it need only raise its crude imports from Iran and Venezuela.

US-China trade friction is deterring US investment given the uncertainty and the elevated risk of a US and global recession,^ much as Brexit is deterring investment in the UK. US preference for bilateral trade deals may favour the UK post Brexit. Last weekend's G7 summit in Biarritz covered diverse subjects ranging from global trade and Iran to climate change and Hong Kong. It also highlighted the conflict between unilateral and multilateral visions. The G7 may be past its prime, multilateral but insufficiently so, representing only 10% of the world's population, and still far from harmonious.^^ Geopolitical, economic and trade issues paint a challenging backdrop for shipping. But, shipping is doing very well, seemingly detaching itself from negative macro pulses while prospering from positive micro drivers. Despite global recession risks, shipping still faces positive tonne-mile growth at a time of slowing supply growth. Fewer deliveries and stricter regulation favour the ships for once. Shipping equities tumble as computers interpret macro factors as sell signals, so good buying opportunities are compromised by binary algorithms and uninformed desk traders. Today, all the Baltic dry bulk indices hit record highs since their respective inception. The 180,000 capesize registered $34,583 thus easily surpassing its previous record of $32,963 on 22 July. The 82,000 kamsarmax rode to $19,899, the 58,000 supramax soared to $15,056 and the 38,000 handysize rose to $12,266 Disruptions to bulk cargo flows in first half 2019 prompted DBTO to reduce its forecast of dry bulk trade growth to 1.3% this year, from 2.6% in January, against bulk carrier fleet growth of 2.9%. Next year, DBTO forecasts trade growth of 2.6% against fleet growth of 2.7% suggesting that current strong bulk carrier performance is merely an appetiser. We must have more faith in the shipping dynamics and pay less attention to macro noise.

*Trump retaliated by adding another 5% to existing tariff rates covering all $550 billion of Chinese goods that the US imports.

**In 2Q19 the US exported an average of just under 3m-bpd of crude oil, about double the amount it exported in 2Q18. (EIA).

^The IHS Markit US manufacturing PMI fell to a contractionary 49.9 last week, its lowest since 2009 in the depths of the GFC.

^^770 million of 7.7 billion people. The G7 represents 46% of nominal GDP, 32% of PPP GDP & 62% of global net wealth at $280 trillion.

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## Dry Cargo Chartering

The **BDI** closed the week at 2,378, up from last weeks close of 2,168. The **cape** market finished the week at $34,583, up $4,146 from last Friday with rates surging up towards the end of the week. A slow but steady start witnessed several trans-Atlantic trades, while Rio Tinto was constant in the Pacific, fixing at levels up to $10.55 for the West Australian to China ore runs. A CCL TBN vessel was rumoured to have fixed for 170,000/10% on the same run at $26.15 to Panocean. In the Atlantic, Vale fixed the *Phoenix Beauty* 170,000/10% from Ponta Da Madeira to Qingdao at $26.50. On time charter, the *Mount Sinai* (177,656 dwt-2006) fixed delivery Ningbo for a trip via West Australia redelivery Singapore-Japan range at $30,000 with Oldendorff. The *Sunbeam* (171,199-dwt, 2000) fixed delivery Zhoushan for a trip via Indonesia redelivery India at $28,500 with Libra. On period, Koch fixed the *Attikos* (178,929-dwt, 2012) delivery Xingang for 3 to 5 months redelivery worldwide at $27,500.

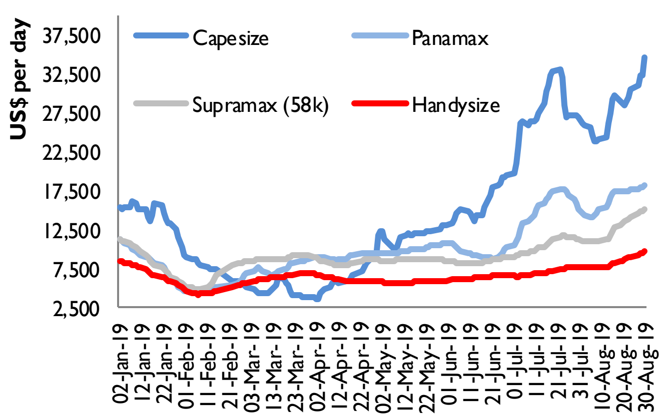
The **panamax** market strengthened further this week, ending the week at $18,098. Both basins remained firm. In the Pacific, *Lady Glovi* (81,791-dwt, 2007) was fixed delivery retro Zhoushan redelivery Philippines via Indonesia at $17,000. In the Atlantic, Norden fixed *Lady Giovi* (81,791-dwt, 2007) delivery Jorf Lasfar redelivery San Ciprian via Kamsar for a trip at $22,000. On Front haul, Cargill fixed *Star Amber* (81,800-dwt, 2019) for a trip delivery East Coast South America redelivery Singapore-Japan at $20,000 daily plus $1 million bb. On period, Norden fixed *Min Sheng I* (81,563-dwt, 2012) delivery Tianjin for 5 to 8 months redelivery worldwide at $15,000.

The **supramax** going strong again in all segments throughout the week, except Black Sea which seemed to slow at the 2nd half of the week. The BSI which closed at $15,056, up again from last weeks $14,113. In the Atlantic, *NM Sakura* (60,948-dwt,2015) fixed delivery Continent for a trip redelivery US Gulf at $15,000. *Kavo Platanos* (56,750-dwt, 2011) fixed delivery SWP redelivery Egypt at $18,500. In the Indian ocean, *Great Praise* (52,424-dwt, 2006) fixed delivery South Africa for a trip redelivery Pakistan at $14,100 plus $410,000 bb. *Pacific Constant* (61,450-dwt, 2016) fixed delivery Bin Qasim for a trip via Mina Saqr redelivery India with limestone at $15,500. In the Pacific, *FLC Happiness* (56,799-dwt, 2009) fixed delivery Luoyuan via Indonesia redelivery China at $14,500. *Leon Oetker* (58,765-dwt, 2008) fixed delivery Singapore for a trip via Australia redelivery China at $15,250.

The **handy** market also gained in strength, closing at $9,709. Up from last weeks close of $9,056. In the Atlantic, we heard a 37k-dwt fixing $20,000 worldwide range for Up River to Dakar as well as a 37k fixing $13,500 DOP Abidjan for a trip to the Continent via North Brazil. We also heard a 33k-dwt fixing $11,000 from the Mediterranean to the US Gulf. The Continent remained very firm, with strong numbers rumoured on both trips and short period. In the Pacific, there was a bustle of activity especially in South East Asia with charterers struggling to find vessels and owners trying to push rates higher still. *Great Cosmos* (38,649-dwt, 2018) was fixed delivery Indonesia 4/5 September for a trip redelivery Taiwan with steels at $13,000. In the North, *Kohinoor* (32,309-dwt, 2010) was fixed delivery Tianjin redelivery South Korea at $10,000. Once again, no period fixtures were reported despite ongoing period interest from charterers.

**Representative Dry Cargo Market Fixtures**

| Vessel | DWT | Built | Delivery | Date | Redelivery | Rate ($) | Charterers | Comment |
|---|---|---|---|---|---|---|---|---|
| Mount Sinai | 177,656 | 2006 | Ningbo | 27/28 Aug | Singapore-Japan | 30,000 | Oldendorff | Via West Australia |
| Sunbeam | 171,199 | 2000 | Zhoushan | 30/31 Aug | India | 28,500 | Libra | Via Indonesia |
| Rising Sun | 91,521 | 2006 | Busan | PPT | Singapore-Japan | 21,500 | Rio Tinto | Via Australia |
| Kyziko | 92,598 | 2007 | Cape of Good Hope | 10 Sep | Continent | 22,000 | Cargill | Via ECSA |
| Irene Madias | 79,516 | 2012 | Black Sea | 5/10 Sep | Singapore-Japan | 30,750 | COFCO | |
| Sarocha Naree | 63,046 | 2015 | Santos | 24/28 Aug | Singapore-Japan | 17,800 | CNR | Plus 780,000 bb |
| NM Sakura | 60,948 | 2015 | Continent | PPT | US Gulf | 15,000 | CNR | |
| Leon Oetker | 58,790 | 2008 | Singapore | 1/5 Sep | China | 15,250 | CNR | Via Australia |
| IVS Knight | 33,132 | 2011 | Ushant | 20 Aug | Italy | 13,500 | CNR | Int Petcoke |
| Kohinoor | 32,309 | 2010 | Tianjin | 2 Sep | South Korea | 10,000 | CNR | |




| Exchange Rates | This Week | Last week |
|---|---|---|
| JPY/USD | 106.18 | 105.31 |
| USD/EUR | 1.0991 | 1.1142 |

| Brent Oil Price | This Week | Last week |
|---|---|---|
| US$/barrel | 60.33 | 58.86 |

| Bunker Prices ($/tonne) | This week | Last week |
|---|---|---|
| Singapore IFO | 431.0 | 380.0 |
| MGO | 572.0 | 578.0 |
| Rotterdam IFO | 298.0 | 295.0 |
| MGO | 553.0 | 543.0 |

## Dry Bulk S&P

The rising tide of freight earnings is beginning to lift the secondhand market off the bottom. Values have remained stubbornly flat since the end of last year and remain anchored, partly by a lack of finance, partly by the sheer number of sales candidates. Buyers have been reluctant to acknowledge the gains in the spot market and the more recent jumps in (admittedly relatively short) period rates and some may want to see how the chips land post IMO 2020. But for those with cash the combination of better earnings and depressed values should be very encouraged.

We do not have a huge number of sales to report this week, but there are deals concluded this week and ongoing negotiations that should make next week's sales list significantly longer.

But for the here and now, Fortune Ocean have finally sold their quartet of modern handysizes. *Xing Ning Hai* and three sisters (abt 34,443-dwt, 2015 Namura) after many months in the market are reported sold at excess $17m each.

With a panamax spot index north of $18k/d it is unsurprising that older panamaxes continue to attract (mainly Chinese) buyers. *Vitagrace* (75,921-dwt, 2001 Kanasashi) is reported sold at $6.5m to Chinese buyers with her DD due, while the two year older *Ergina Luck* (73,976-dwt, 1999 Tsuneishi) achieved $6.1m with her surveys passed.

In the supramax market, *Bomar Amber* (58,110-dwt, 2012 Tsuneishi Zhoushan) is sold at $15m net – a but better than the recent sale of her Cebu sister Nord Manatee, but a discount to the Kawaski built 58k-dwt Hinode Maru. Turkish owners Yasa are reported to have sold a brace of Mitsui 56's built 2005/6 but details have yet to emerge.

**Reported Dry Bulk Sales**

| Vessel | DWT | Built | Yard | Gear | Buyer | Price $ | Comment |
|---|---|---|---|---|---|---|---|
| Vitagrace | 75,921 | 2001 | Kanasashi | - | Chinese | 6.5 | DD Due |
| Ergina Luck | 73,976 | 1999 | Tsuneishi | - | Undisclosed | 6.1 | SS Passed |
| Bomar Amber | 58,110 | 2012 | Tsuneishi Zhoushan | 4x30 | Belships, Norway | 15 net | - |
| Yasa Gulten | 55,953 | 2006 | Mitsui | 4x30 | Undisclosed | Undisclosed | - |
| Yasa Ozcan | 55,924 | 2005 | Mitsui | 4x30 | Undisclosed | Undisclosed | - |
| Lady Mary | 52,027 | 2001 | Tsuneishi Cebu | C 4x30 | Chinese | 5.2 | Class Suspended, overdue surveys |
| Xing Yuan Hai | 34,443 | 2015 | Namara | 4x30 | Undisclosed | XS 17m Each | |
| Xing Yuan Hai | 34,443 | 2015 | Namara | 4x30 | Undisclosed | XS 17m Each | |

## Tanker Commentary

For the first time this year, we have no sales to report. An optimist would put this down to a summer lull whilst someone holding a glass half empty may see a direct correlation between the poor freight market and a growing concern over when the much anticipated uplift of IMO 2020 will actually kick in. That said, our feeling is that overall sentiment remains positive. Owners are confident that the tanker market is going to directly benefit from IMO 2020 and thus no sellers are in a rush to offload tonnage at Buyers ideas.

On the flip side, with just 16 weeks until IMO 2020 and many ships still barely breaking even, it is no surprise that Buyers are holding their ground and not making the first leap to bridge any gaps on negotiations. The clock is ticking.

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