24 April 2020

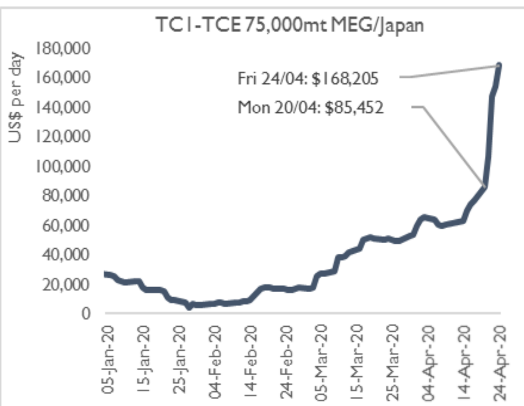
HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… LR2s :What a Week! …



Source : Hartland / Baltic

^A total of 26.4 million Americans, more than 15% of the workforce, have filed claims for unemployment benefits.

*As of 31 January 2020, the US Strategic Petroleum Reserve on the US Gulf Coast held 635mb, 78.5mb short of its maximum capacity of 713.5m. Congressional Democrats blocked Trump's recent request for $3bn to fund the purchase of 77mb from US shale oil producers for the SPR.

POINTS OF VIEW

The US-China phase one trade deal is proving to be the fiction that it was assumed to be. China is nowhere near on target to purchase anything like the extra $200 billion (against a pre-dispute 2017 baseline) of agricultural goods, energy products and services over 2020 and 2021, as outlined in the terms of the deal. This was broken down as $77.7bn in manufacturing purchases (from aircraft to cars, iron and steel, and from machinery to pharmaceuticals); $52.4bn in purchases of energy products (such as crude oil and LNG); $32.0bn in farm purchases (such as oilseeds, meats, grains and seafood). Finally, $37.9bn in services (such as cloud computing, financial services, travel and tourism). Covid-19 and reality got in the way of this overly ambitious target. If anything, relations between the US and China have deteriorated as the US president has repeatedly referred to the Chinese virus while appearing to support the rumour that the virus originated in a laboratory in Wuhan and was then deployed as a biological weapen. This week, US-China tensions in the South China Sea were elevated after an Expeditionary Strike Group of the US 7th Fleet sailed through disputed waters off Malaysia. Politicians in many western countries are under pressure to review diplomatic, security and trade relations with China once first phase Covid-19 has been contained. Almost certainly, supply chains will be shortened, with less outsourcing of essential goods (including rare earth minerals, medical equipment and pharmaceuticals), and much greater restrictions on Chinese equity and debt participation in vital infrastructure (such as ports, airports, utilities and telecoms). The UK has been particularly remiss in selling off UK strategic assets under previous conservative governments. Boris Johnson is more likely to take a similar view to the current and former US administrations: question, be suspicious, and then block.

Both Trump and BoJo were too slow to recognise the potential threat of the virus for reasons that are well documented. Joseph Stiglitz, a leading economist, believes that the US is heading for a Great Depression as a result of White House mismanagement of its preparedness and now a determination to reopen too early, risking a fresh outbreak. The president decided "to make this about politics rather than about the science" and the end game will be that "people are not going to be spending on anything other than food and that's the definition of a Great Depression." The daily White House briefings do not warrant being aired on live television. All they do is give free coverage to Trump's re-election campaign. But they are not alone in providing less than accurate information and false hope. The equivalent daily Downing Street briefings are more subtle and yet similar: repetitive and self congratulatory with obvious failings avoided. The economic cost is rising by the day amid plenty of dismal economic forecasts. The IMF is predicting zero growth in Asia this year (compared to 4.7% after the GFC and 1.3% after the AFC) while China is forecast to grow at 1.2% this year after 6.1% in 2019. The just released flash composite PMI for the UK came in at 12.9 for April after 36.0 in March (and 38.1 during the GFC). The same flash composite PMI for the eurozone came in at 13.5 for April after 29.7 in March. The flash US manufacturing PMI is at 38.0 in April after 48.5 in March.^ Anything below 50 represents contraction, and the degree of shrinkage is shocking, as will be the epic expansion in sovereign borrowing and national debt. Many small to medium size businesses will fail while many larger ones may be nationalised.

For once, the shipping forecast is brighter and more interesting, albeit all about tankers at present. In the week, WTI futures went briefly negative while Brent slipped to $16 a barrel. Commercial and strategic* landbased storage is filling up so excess crude oil and refined products have to be stored in pipelines and on tankers. For example, Cushing in Oklahoma, the delivery point for WTI, has 76mb capacity, is currently 60mb filled with the rest already leased. At the midweek point, CRS counted 91 VLCCs, 33 suezmax, 12 aframax and 45 product tankers in use as crude and clean floating storage, while Kpler counted 177 PTs storing 46.6mb of CPP worldwide. With onshore tanks filled to the brim, low water levels in the river Rhine are preventing barges reaching European inland storage. Half of the LR2 fleet is now trading or storing crude/DPP, putting a squeeze on the whole product tanker sector. The result is stunning spot earnings. This week, the Baltic's VLCC-TCE averaged $167,380 per day while the MR Atlantic Basket averaged a stonking $64,979 daily. This is, in a much overused word, unprecedented.

Dry Cargo Chartering

The **BDI** closed at 665, down from last weeks close of 751.

The **cape** market closed the week at $8,381, losing ground from last weeks close of $9,875. On voyage, a TBN vessel fixed $4pmt for 170,000mt 10% Dampier to Qingdao. Vale were active on Tubarao to Qingdao runs; however rates were still fixed around $11pmt for 170,000mt 10%. On time charter, NYK fixed the *Chin Shan* (175,569-dwt, 2004) delivery Lanshan for a trip via Newcastle redelivery Singapore-Japan range at $8,400. Pacific Bulk fixed the *Seamate* (177,775-dwt, 2010) delivery Kaohsiung for a round trip within Pacific redelivery Singapore-Japan range at $9,500.

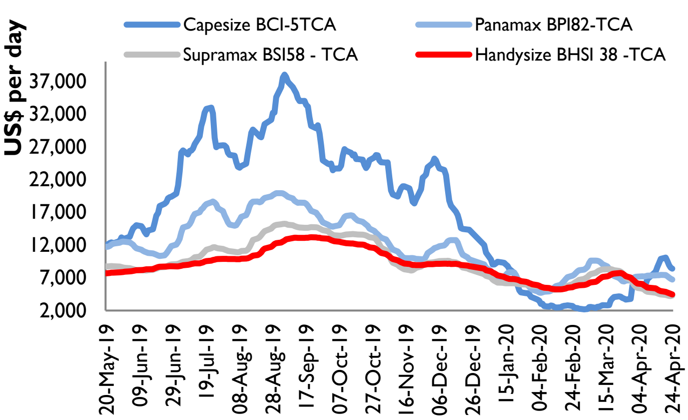
The **panamax** market fell as well this week ending at $6,719, down $710 from last weeks closing of $7,429. Rates remained low in the Atlantic with Cargill taking the *MSXT Hera* (82,000-dwt, 2018) for a trip delivery Las Palmas via North coast South America with grains to the Continent at $5,500, while SwissMarine fixed the *Navios Dolphin* (81,630-dwt, 2017) delivery Port Talbot for a trip with coal via Murmansk to Jorf Lasfar at $5,000. In the Pacific, the *Cerba* (80,370-dwt, 2010) was fixed delivery Ulsan for a roundtrip via the North Pacific redelivery Singapore-Japan range at $6,500. The *Yangze 16* (81,800-dwt, 2019) was taken by CRC delivery Taichung for a trip via East coast South America with grains redelivery Singapore-Japan range at $8,500, while Reachy fixed the scrubber fitted *Nadeshiko* (84,806-dwt, 2016) for a similar round trip but with delivery Singapore at $10,500. Polaris fixed the *New Prestige* (82,044-dwt, 2013) delivery passing Singapore again for the same East coast South America trip with grains to Singapore-Japan range at $8,750. On the period front, Norden took in the *Argonaut* (81,117-dwt, 2016) for a year delivery Ulsan with worldwide redelivery at $10,000. Additionally, a TBN Panocean vessel was fixed for a KEPCO tender of 75,000mt 10% from Tarakan to Kwangyang at $3.50pmt.

The **supramax** market kept a negative trend in general as the BSI closed at $4,269, down from last weeks $4,449. In the Atlantic, the *Thor Maximus* (55,695-dwt, 2005) fixed delivery Pascagoula for a prompt trip redelivery Altamira at $5,000. The *Neo* (58,110-dwt, 2011) fixed delivery Recalada for a prompt trip redelivery Algeria at $6,500. In the Indian Ocean, the *Beijing Venture* (53,378-dwt, 2010) fixed delivery Kandla for a prompt trip redelivery Arabian Gulf at $5,000. The *Ocean Princess* (50,655-dwt, 1999) fixed delivery Vizakhapatnam for a trip via East coast India redelivery China at $2,500. In the Pacific, the *Seacon Singapore* (56,501-dwt, 2013) fixed delivery Kohsichang for trip redelivery China at $4,250 and the *Top Weather* (58,689-dwt, 2012) fixed delivery Subic Bay for a trip via Vietnam to China at $4,000.

Another stagnant week for the **handies**, with minimal movement in both basins. The time charter average finished at $4,450. In the Atlantic, a 37k-dwt was fixed at $4,900 delivery Black Sea with an escalation after 40 days to $8,000 for a trip to the US Gulf and another 37k-dwt was fixed delivery North Brazil for a trip to the Continent at $4,500. The *Friendly Islands* (28,387-dwt, 2010) was fixed delivery Canakkale for a trip to Passero at $6,000. A 32k-dwt was rumoured to fix at $7,000 delivery Canakkale for a trip to the Mediterranean. In the Pacific, we heard a 36k-dwt fixed low $3k for a North China to Indonesia trip and a 39k-dwt was fixed delivery Kanmon for a CIS to Indonesia trip at $3,650. The *Genco Spirit* (34,393 dwt, 2011) was fixed at $3,000 arrival pilot station Busan for a trip from CIS to Thailand. Further south, we heard a 37k-dwt grabber fixed an impressive $5,500 delivery Indonesia for a trip to Vietnam and a 35k-dwt fixed $3,000 delivery Indonesia for a short trip. On the smaller ships, a 28k-dwt was fixed at $3,000 delivery Thailand for a trip to Indonesia. There was a lack of period fixtures reported as many operators were hesitant to take on vessels in view of the uncertain Covid-19 situation and volatile oil prices.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Seamate	177,775	2010	Kaohsiung	Ppt	Sing-Jpn range	9,500	Pacific Bulk	Pacific round trip
Denita Wave	93,201	2011	Lumut	21 April	Taiwan	5,000	Ausca	Via Indo with coal
Panayiota K	92,018	2010	Chiba	25-30 April	Passing Muscat outbound	8,250	Al Ghurair	Via Nopac to AG
Bettys Dream	82,641	2008	Singapore	25 April	Sing-Jpn range	9,200	CJ International	Via ECSA with grains
Alma	81,947	2017	Retro sailing Mormugoa	13 April	Singa-Jpn range	10,500	CNR	Via ECSA with grains
Spar Apus	63,800	2015	SW Pass	Ppt	S. Korea	13,000	Norden	With grains
Western Santos	63,518	2014	SW Pass	Ppt	AG-WCI range	12,750	XO Shipping	With petcoke
Elgzinur Cebi	57,305	2009	Fujairah	Ppt	Kuwait	6,000	CNR	With aggregates
Thor Maximus	55,695	2005	Pascagoula	Ppt	Altamira	5,000	ABT	With petcoke
Friendly Islands	28,387	2012	Canakkale	Ppt	Passero	6,000	CNR	With grains



Exchange Rates	This Week	Last week
JPY/USD	107.52	107.35
USD/EUR	1.0784	1.0865

Brent Oil Price	This Week	Last week
US$/barrel	21.56	28.17

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	160.0	176.0
MGO	228.0	256.0
Rotterdam IFO	140.0	165.0
MGO	209.0	260.0

Dry Bulk S&P

For the second consecutive week our dry sales table remains empty. While we have no firm sales to report there has been more activity in the market with rumours of a couple of ships being committed on subjects and failing and some other vessels working closely. The last few weeks' reports have referred to the additional challenges COVID creates when it comes to selling and delivering and financing ships so it is no great surprise that sales are limited.

The supramax *Conti Peridot* (57,001-dwt, 2011 Sanfu) was rumoured to have fixed and failed for around $7m a significant step down on the last done sister vessel, *Vincent Gemma* (56,872-dwt, Sanfu) which sold in January for $10m. It is unclear if the deal has failed due to Buyers' subjects, Sellers' subs or an inability to come to terms to accommodate complications COVID has created.

We understand two handysize sister vessels, *Asia Pearl III* and *Asia Pearl IV* (35,217-dwt, 2010 Nantong Changqingsha), are working closely for around low $5m per vessel. The sale will included BWTS (which are not yet installed) and with SS due promptly on both vessels. The price would represent a step down from the latest handy sales of this vintage. Reports suggested as many as seven separate Buyers were offering on these units showing the appetite is there when Buyers are confident sellers will sell at best.

Tanker Commentary

The old adage "shipping thrives of volatility" has never been more than apparent than today. Global tanker fleet supply and demand fundamentals have been turned upside down by the remarkable and unprecedented fluctuations in oil prices reigniting a flame in storage business that many anticipated was on the verge of been blown out. The price volatility has not been limited to crude oil but the rapid rise in product storage has seen LR2 spot earnings reach record highs this week with reports of fixtures in excess of $150k per day. Period activity has also accelerated against firming rates opening the door to charterers profiting from relets on vessels fixed as recently as last week.

From a sale and purchase perspective, the combination of eyewatering earnings and logistical challenges are prohibiting owners from selling. However, those that have found successful negotiations are all in the VLCC space. The NYK controlled *Takasaki* (300,390-dwt, built 2005 IHI) which took offers on Wednesday has now been committed to clients of Dynacom in the region of $37.5m (SS/DD due 11/2020). Clients of Euronav have sold the *TI Hellas* (319,254-dwt, built 2005 Hyundai Samho) to Greek interests Altomare for $38.5m, including a large quantity of VLSFO. Elsewhere, AET have today confirmed the sale of their 2006 built *Bunga Katsuri Tiga* (300,398-dwt, built 2006 Universal) but would not comment on price or direction officially. However it is widely understood to have been at circa $40m to Hunter, Norway – a slightly unusual buy for the Group and a sign of the times that older ships are attracting all types of Buyers today.

Storage buyers remain on the hunt for vintage VLCC units making the most of the current market volatility and it is understood that a late 90's built ship has been committed for $25m. More developments on this story in next weeks edition…

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
TI Hellas	319,254	2005	Hyundai Samho HI	Greeks	$38.3m	
Bunga Kasturi Tiga	300,398	2006	Univeral	Hunter	Circa $40m	
Takasaki	300,390	2005	IHI Marine	Dynacom	Circa $37.5m	
SCF Caucasus	159,173	2002	Hyundai HI	Far Easterns	$19m	
Eternal Diligence	74,994	2006	Onomichi Dockyard	Bentech	$11.5m	

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