03 April 2020

HARTLAND SHIPPING SERVICES

WEEKLY COMMENTARY

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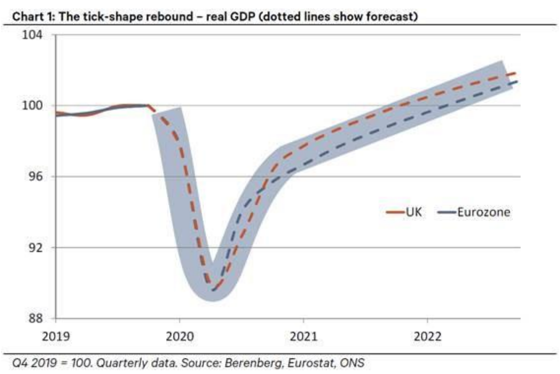
THE BIGGER PICTURE

… Peering into the Future …



Source : Berenberg

^Brent gained over 20% on Thursday after Trump claimed that Saudi Arabia and Russia were close to cutting 10 to 15m-bpd from their combined 23m-bpd output. Euronav and Frontline both fell about 15%.

Execution will be difficult. Reducing output by that much risks doing permanent damage to oil fields. KSA and Russia are unlikely to cut without the US doing the same, but this would be illegal under US law.

*But, to heed the words of the US president: "Nothing would be worse than declaring victory before victory is won." The chances are strongly in favour of him doing precisely that.

POINTS OF VIEW

The pundits and forecasters are having a field day trying to outdo one another in predicting what will happen next. Oil demand growth forecasts are a good one. At the end of last year global oil demand was running at around 100m-bpd and this is generally now forecast to fall to 80m-bpd in April, and maybe over Q2, and settle at around 95m-bpd for full year 2020, down 5% year-on-year. The weak oil price has seen the shares of oil majors sold off on weaker earnings and withheld dividends. The shares of tanker companies have been sold off with them, as they must suffer too, right? Wrong, lower oil prices usually stimulate consumption but, in these exceptional circumstances of 4 billion people in lockdown, traders will buy oil to store it while waiting for demand and prices to recover. On Tuesday, Reuters reported that the 6-month Brent contango (May-Dec) was at $13.45 per barrel, the widest it has ever been. WTI was at $12.85 a barrel, the widest since February 2009 which takes us back to the global financial crisis. Earlier this week, VLCCs were being bid $70,000 to $95,000 per day for 6-9 months storage. On Thursday night the VLCC-TCE closed at $210,052 daily, indicating much higher earnings in the riskier spot market.^ It is generally older tankers that are taken for storage and it is estimated that many of these will head to the scrapyards once their storage duties are over. When storage unwinds it will take rates down and the oldies may call it a day.

One Norwegian broker has estimated that up to 200 VLCCs may end up in floating storage, almost 25% of the 813-strong fleet. So, if we have a temporary 20% drop in oil demand and a temporary 25% drop in VLCC availability, then the tankers will still come out on top despite demand destruction. On Monday, Frontline described the current oil and tanker markets as "unprecedented" and "generational". Last year, a record 68 VLCCs delivered, the highest number in any one year since the long hot summer year of 1976, 44 years ago. According to Frontline's latest figures, 46 VLCCs are scheduled to deliver this year (11 already have), against 47 becoming over 20 years of age, and thus beach-ready. In 2021, it is 20 and 27 respectively and in 2022 it is 5 and 36. Today's VLCC orderbook to fleet ratio is 8.7% and it was last below this in 1997, 23 years ago, when the UK returned Hong Kong to China and the Asian Financial Crisis loomed. In China, newbuilding deliveries from state-owned shipyards are delayed by on average 6 weeks while scrubber retrofits are taking on average 60 days, underpinning immediate VLCC supply constraints. The temptation is to focus on the enormous hit to oil demand from the coronavirus at the expense of observing the most benign supply-side story in well over 20 years. Suezmax is also positive with 21 set to deliver this year, against 42 becoming over 20 years of age, 21 and 14 in 2021, and 4 and 24 in 2022.

Over time, although the time frame is unclear, oil demand growth will normalise and we will see China and India driving it up once again. The advantage of this ghastly pandemic is that it gives us the stock market correction that was overdue, a nasty bout of recession or depression, and then a full-blooded recovery. This is different to the GFC when the central banks bailed out the commercial banks. This time governments have to stand behind their economies including their banks, companies, households and public services. As governments put their economies into induced comas, risking jobs and livelihoods to save lifes, it is also up to them to use all fiscal and monetary tools available to return life to normal. There will be a big price to pay, and ultimately it will fall on the taxpayer, but in the short to medium term we can expect almighty state intervention. The crisis hits shipping at a time of reduced supply growth, yet again postponing the recovery that we have been awaiting for so long. The dry bulk sector has been buffeted by rain, wind and fire acts of God that have reduced vital industrial raw material supplies. Might the globe's temporary reprieve from carbon pollution break the cycle of devastating weather events, finally silencing the climate change deniers? The container industry will welcome a return to normality and the possibility that delayed purchases unleash pent-up demand as billions of people look to spend the money that they could not during lockdown. The Caixin China manufacturing PMI, covering small private manufacturers, rose to 50.1 in March from 40.3 in February while the official manufacturing PMI, covering large state-owned firms, jumped to 52.0 in March from 35.7 in February. This gives us an early stage indication, from the place where it all started, how quickly things may restart.*

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Dry Cargo Chartering

The **BDI** closed at 616, up 60 points from last week.

The **capesize** market lifted this week, up $2,274 by the close of play today at $5,949. On Voyage, the usual ore run from Port Headland to Qingdao was fixed in the $5's. The *Olympic Hope* (182,631-dwt, 2016) fixed 170,000mt 10% at $5.20 with BHP Billiton. Rio Tinto completed multiple ore fixtures of 170,000mt 10% from Dampier to Qingdao with the best done at $5.90 on the *Berge Atlas* (180,180-dwt, 2008). Rio Tinto also took the *Linda Fortune* (180,242-dwt, 2010) for a 170,000mt 10% stem from Seven Islands to Qingdao at $13.50. On time charter, Swiss Marine fixed the *Besiktas Azerbaijan* (169,263-dwt, 2010) delivery Gibraltar for a trip via Puerto Bolivar & Zonguldak with redelivery Gibraltar at $4,000.

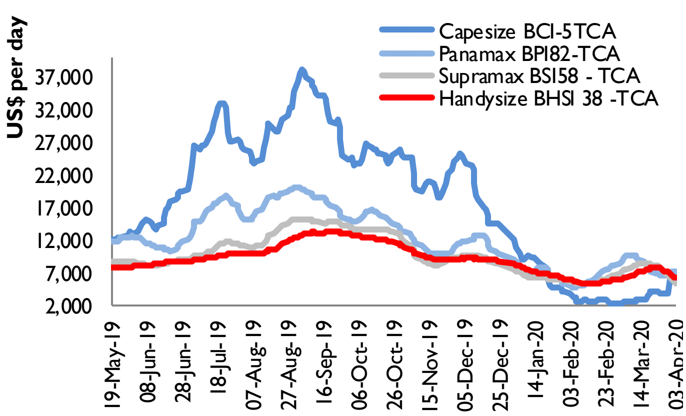
The **panamax** market rose this week to $7,170, an increase of $607 from last week's $6,563 closing. In the Atlantic, Bunge took the *Anna S* (75,966-dwt, 2001) for a trip delivery East coast South America to Singapore-Japan at $12,000 plus a $200,000 bb while unnamed Chinese charterers took the *Star Nadziye* (81,800-dwt, 2019) for the same trip with grains at $13,000 plus a $300,000 bb. In terms of fronthaul business, Cargill fixed the *Yu Zhu Feng* (75,519-dwt, 2011) delivery Tilbury for a trip with grains via France to China at $13,800. Turning to the Pacific, the same charterers also took the *Selina* (75,700-dwt, 2010) delivery Nakpo for a round trip via the North Pacific at $4,750 while Bunge took the *Vita Future* (81,938-dwt, 2015) delivery CJK again via the North Pacific with redelivery Japan at $8,000. ST Shipping fixed a TBN Oldendorff vessel for a 75,000mt 10% stem from Ust-Luga to Toros at $8.50pmt. Additionally, Cargill took in the *Myrto* (82,131-dwt, 2013) for 16 to 18 months delivery Nadahama at $10,000 with worldwide redelivery.

The **supramax** market disappointed across all basins due to limited tonnage demand. The BSI closed at $5,442 down from last weeks $7,054. In the Atlantic, the *Josco Taicang* (58,670-dwt, 2012) fixed delivery Freetown for a trip redelivery Constanza at $5,500. The *Gladiator* (56,784-dwt, 2012) fixed delivery Termisa for a trip to the US Gulf at $5,500. In the Indian Ocean, the *Bao Grand* (58,015-dwt, 2010) fixed delivery Chittagong for a spot trip via East coast India with redelivery China. Lastly in the Pacific, the *Global Future* (52,484-dwt, 2006) fixed delivery Singapore for a prompt trip via Indonesia with redelivery Taiwan at $3,100 while the *Yangtze Jewel* (63,212-dwt, 2015) was fixed delivery Adang Bay for a trip redelivery Philippines at $5,000.

The **handysize** market closed today at $6,117 down $1,107 from last Friday. The Atlantic witnessed rates dropping across all major loading areas, notably down the East coast of South America, as tonnage from South Africa and India ballast in that direction. A 37,000-dwt vessel was heard to have fixed at $7,000 arrival pilot station Itaqui for a trip to the Continent. The US Gulf showed more resilience with an increase of cargo booked out of the river towards the end of April. The Mediterranean and the Black Sea have been busy, yet little reported activity. A 48,000-dwt vessel was fixed mid $11,000's for a trip from Agadir to Conakry while Meadway fixed the *Althea* (29,816-dwt, 2002) delivery Constanza for a prompt trip via Black Sea with redelivery Morocco at $6,800. A sombre week for the handysize vessels in the Pacific this week with rates falling across the board. In the Far East, it was rumoured that a 28,000-dwt vessel fixed mid $3,000's arrival pilot station North China for a trip to South East Asia. Further south, *Trogir* (44,382-dwt, 2001) was fixed delivery Singapore for a trip to South China via Indonesia at $2,500. The Australian market remained quiet, with little fresh cargo enquiry since the 14-day quarantine for arriving ships was implemented. There was very little period activity going on this week as the virus continued to create uncertainty in the market.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Besiktas Azerbaijan	169,263	2010	Gibraltar	1 April	Gibraltar	4,000	Swiss Marine	Via Puerto Bolivar
Alcmene	93,193	2010	Zhousshan	spot	Wold Wide	5,000	Cargill	13/15 months
Star Nadziye	81,800	2019	ECSA	20-22 April	Singa-Jpn range	13,000	Chinese Charterers	+300k bb
Myrto	82,131	2013	Nadahama	28 April	World Wide	10,000	Cargill	
Vita Future	81,938	2015	CJK	1-5 April	Japan	8,000	Bunge	Via Nopac
SBI Hermes	61,272	2016	CJK	Early April	Santos	11,500	Bunge	+ 150k bb
Josco Taichang	58,670	2012	Freetown	Mid-April	Constanza	5,500	Cargill	
Pacific Bright	56,512	2013	Vostochny	ppt	South Korea	4,000	Norvic	
Pola Anisia	46,212	2006	Campha	ppt	South Kora	4,500	CNR	Via Australia
Althea	29,816	2002	Constanza	ppt	Morocco	6800	Meadway	Via Black Sea



Exchange Rates	This Week	Last week
JPY/USD	108.58	108.26
USD/EUR	1.0774	1.0998

Brent Oil Price	This Week	Last week
US$/barrel	33.56	24.43

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	192.0	186.0
MGO	287.0	288.0
Rotterdam IFO	170.0	160.0
MGO	300.0	298.0

Dry Bulk S&P

The stand out sale we report this week is that of a vessel already delivered to the Buyers. The Sellers of *Bettys Beauty* (76,863-dwt, 2006 Sasebo) will be delighted they managed to deliver her at the end of last week as physical deliveries became more challenging globally. The reported price of around $10m for her represents a significant premium to the levels discussed in todays market.

The impact of Covid-19 is not limited to sentiment or market forces, the mechanisms of S&P have been disrupted and require some creativity and a different approach from Buyers and Sellers. The handysize *Orient Alliance* (33,755-dwt, 2012 Samjin Weihai) is rumoured sold to Tufton for region $7.2m.

German liquidation sale are still of interest to Buyers as there's a confidence Sellers will bite the bullet. *Nova Gorica* (53,100-dwt, 2008 Dayang) is committed to Greek Buyers for $7.2m and we the lakes fitted bulker, *Pacific Huron* (29,975-dwt, 2010 Guoyu) is on subjects for around $6.2m, to German Buyers.

Although there are several sales to report, there has been plenty of stories of deals failing through. There are suggestions *Yvvonne* (56,557-dwt, 2008 IHI) had been closely working or committed on subjects to Vietnamese Buyers at around $9.5m. A strong price for her given the Wartsila engine and the recent activity on African Kingfisher and Bulk Chile last week. We have heard that the subjects have not been lifted and the sale looks unlikely to go through. We also gather *Dubai Pride* (74,401-dwt, 2001 Daewoo) was failed by Chinese Buyers around $5.8m and has subsequently been sold for $5.1m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Bettys Beauty	76,863	2006	Sasebo HI	Gearless	Five Ocean Corp	$10.00m	coal COA in place
Dubai Pride	74,401	2001	Daewoo Shipbuilding	Gearless	Chinese	$5.10m	delivered in March
Nova Gorica	53,100	2008	Yangzhou Dayang	C 4x35	Greeks	$7.20m	bank driven
Orient Alliance	33,755	2012	Samjin Shipbuilding	C 4x35T	Tufton	$7.20m	6-8 month TC to Cargill + management retained
Pacific Huron	29,975	2010	Yangzhou Guoyo	C 3x30T	Germans	$6.20m	On subs

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Tanker Commentary

Unsurprising the tanker report has a largely crude flavour to it as has been the status quo in recent weeks. Buyers are being enticed by the eye watering spike in crude earnings bought about by the Opec unrest and subsequent storage opportunities owners have capitalised on. In general though, second hand shipping markets are quiet, irrespective of sector as highlighted by this week's sales table. It is not necessarily a lack of enquiry but more the difficulty mobilising inspectors and physically delivering ships. Crew changes are proving increasingly difficult and in some case impossible with buyers and sellers are having to become increasingly more creative to find solutions on delivery. Naturally there is more motivation for tanker deals to go through given the spike in earnings but dry deals are proving more challenging to deliver unless there is a "willing buyer and willing seller".

As many as ten buyers have registered to inspect the Japanese controlled VLCC *Yugawasan* (302,481-dwt, 2005 Mitsubishi HI) illustrating again that prompt crude deals appear to be top of Buyers wish list. Offers were invited this week with reports suggesting an undisclosed Greek buyer has finalised a deal at $33.1m. The price is actually a step down from the last 2005 built sold at the end of January when *Katsuragisan* (311k-dwt, 2005 Kawasaki) changed hands for a reported $35m.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Yugawasan	302,481	2005	Mitsubishi HI	Transmed Maritime Ltd	$33.10m	on Subs
New Coral	297,580	2010	Shanghai Jiangnan Changxing		$43.00m	
New Creation	297,259	2009	Dalian Shipbuilding	undisclosed	$43.00m	Old sale - on subs since end of last year
New Talisman	296,068	2009	Bohai Shipbuilding HI		$43.00m	

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