13 March 2020

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… Covid-19:
Democratic Hoax to Global Pandemic …

Source : The FT

*On Tuesday and Wednesday it is said to have fixed 18 VLCCs on subs to load over 36m barrels in late March.

It is moving crude to its own and third party refineries, pushing up VLCC freight, trying to damage floating storage dynamics for traders.

^Lower oil prices are usually good for shipping, stimulating both end-user consumption and demand for onshore and offshore oil storage.

On 12 March spot Brent was at $34 a barrel with the Brent futures curve in steep contango out to March 2029 at $55 a barrel.

POINTS OF VIEW

OPEC+ (basically Opec + Russia) agreed in early December to raise their oil output cuts from 1.2m to 1.7m-bpd to end March. The Kingdom of Saudi Arabia voluntarily took out another 0.4m making total cuts of 2.1m-bpd. On Friday, in Vienna, it asked for a further 1.5m-bpd cut to end 2020 given the coronavirus hit to demand. Russia declined and the meeting broke up with no plan beyond end March. Brent immediately fell 9% from $50 to $45 and then on Monday plunged another 26% to $33 a barrel. Tired of doing all the heavy lifting, KSA has slashed prices and is raising production in April to 12.3m from today's 9.8m-bpd. This is above its 12.0m-bpd sustainable rate, suggesting that it will also release oil from reserves, while Russia claims it has the capacity to increase its output by another 0.5m-bpd. This is, at first glance, a masochistic action but the main target is US shale oil whose prolific production gains and export penetration of Asian markets have been largely at Opec's expense. Now, a tsunami of Saudi crude will attempt to squeeze out US long-haul exports. At below $40 a barrel, many US shale oil firms will down tools having already cut back investment to service heavy debt burdens. Bankruptcy looms for some and US banks will be looking on nervously. Trump may intervene with subsidies to shale oil as he has done for steel, aluminium and agriculture regardless of WTO rules. Only his re-election matters to him. Sanction-bound Iran and Venezuela look vulnerable. Ironically OPEC+ might achieve what the US has so far failed to do on its own: regime change. African producers also look shaky, but can KSA and Russia afford this move?

KSA has below $5 a barrel production costs and $500bn in reserves but needs around $80 for budget breakeven. Russia has higher production costs but has $570bn in reserves and fiscal breakeven of around $40. Both claim they could survive with $30 a barrel for years, but actually at great cost to their economies and critical spending plans. Only two months ago, most energy agencies were predicting subdued global oil demand growth of either side of 1.2m-bpd for 2020, about a 1% year-on-year rise. How quickly things change. As an example, the IEA, the OECD body, was forecasting growth of 1.2m-bpd in January. This fell to 0.8m-bpd in February and to -0.1m-bpd in its latest March report, the first year-on-year contraction since 2009. The EIA, a division of the US DoE, was only recently forecasting a 1.0m-bpd rise in US 2020 output to an average of 13.0m-bpd. Now it is talking zero growth for this year. With US output flatlining, American producers will struggle to maintain their share of sales into Asia in the face of weaponised Saudi crude. They will hope that Asian refiners prefer their brand of light, sweet crude but first the Gulf coast WTI discount to Brent and Dubai needs to widen to give them a fighting chance. Also, rising tanker rates since last Friday will make it harder for US crude to compete with Saudi supply into nearer-by Asia, pushing US crude into Europe. US crude now needs to be priced to sell in export markets, or the marginal barrels will be shut in.

This week, we have enjoyed watching VLCC earnings climb every day while the share prices of listed tanker companies yoyo up and down. The Baltic's VLCC-TCE went from $21,313 daily on Friday to $28,425 on Monday and to $258,700 by today's close. Bahri was actively fixing VLCCs for export on behalf of Saudi Aramco.* Traders are rushing to secure VLCCs for floating storage as the oil price futures curve goes into deep contango with future prices higher than current ones.^ It is the usual feeding frenzy but it may be temporary as Brent was briefly back to $36 midweek and rising VLCC time charter rates are squeezing storage margins. We expect a big surge in crude exports from the AG but much of it will be at the expense of long-haul Atlantic-origin crude from the US, Canada, Brazil and Norway. Those hoping for a replay of 2015, when the crude tanker market boomed the last time KSA turned on the taps, may be disappointed. Back then, a 5-year old VLCC earned an average of $64,846 per day in 2015 compared with $30,015 the year before in 2014 and $41,488 the year after in 2016. The respite may be brief, but still welcome, in these challenging times. Last year, 68 VLCCs delivered into the market, the largest number in any one year since 1976! The extra seaborne crude and storage generated by KSA will help soak up these egregious additions, unwarranted in an undisturbed market, although disturbance is now the norm in the highly politicised VLCC segment. This year, 11 VLCCs have already delivered with another 30 due, but this could slip thanks to Covid-19, then just 27 in 2021. This is supply-side bullish for VLCCs!

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Dry Cargo Chartering

The **BDI** closed this week at 631 points, up 14 points from last Friday. The **cape** market showed further signs of improving closing $2,797 up $527 from last week. On voyage, Rio Tinto has taken a couple of TBN vessels at 170,000mt 10% from Dampier to Qingdao ore runs at $4.25 & $4.55. The *CHS Cosmos* a Cosco relet fixed 170,000mt 10% from Saldanha Bay to Qingdao at $7.72 with Ore & Metals. The *Stella* a Five Ocean relet fixed 170,000mt 10% for Prince Rupert + Roberts Bank to Pohang option Gwangyang at $7.95 with POSCO. No time charter fixtures reported.

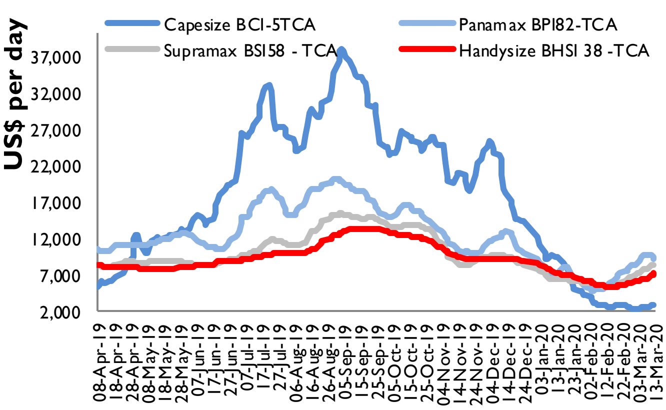
The **panamax** fell $549 this week ending today at $9,061. Despite a high number of fixtures, a softer tone has been felt across both basins with rates dropping. In the East, the *Golden Daisy* (81,507-dwt, 2012) fixed delivery Kwangyang for a trip via East Australia redelivery in Singapore-Japan range at $7,000 with Tongli. The *Sea Proteus* (81,761-dwt, 2013) fixed delivery retro Singapore via East coast South America redelivery Singapore-Japan range at $10,500 with Chinese charterers. The *Lucky Loong* (76,469-dwt, 2005) fixed delivery Sunda Strait for via East coast South America redelivery Singapore-Japan intention grains $10,750 with Raffles. In the Atlantic, the *Green K Max 2* (82,000-dwt, 2009) fixed delivery Ghent for a trip via Baltic redelivery Argentina intention coal at $8,500 with ST Shipping. The *Arethusa* (73,593-dwt, 2007) fixed delivery Tarragona for a trip via US Gulf redelivery Singapore-Japan intention grains $16,500 at Cofco. The *Falkonera* (81,641-dwt, 2012) fixed delivery arrival pilot station in East coast South America for a trip redelivery Singapore-Japan intention grains $14,500 plus $450,000 bb with Glencore.

The **supramax** market this week is continuing strong growth in all basins, the BSI closed at $8,255 up from last weeks $7,564. In the Atlantic, *Daimongate* (63,496-dwt,2017) fixed Delivery US Gulf for a trip redelivery Spain at $17,000. The *Aramis* (55,830-dwt, 2012) fixed Dneprobugskiy prompt trip redelivery Charleston at $6,000. The *Doric Victory* (58,091-dwt, 2010) fixed delivery Recalada for a trip to Algeria at $16,500. In the Indian Ocean, *ML Swallow* (63,592-dwt,2015) fixed delivery Chittagong for trip via East coast India redelivery China at $13,850. The *APJ Shirin* (56,594-dwt, 2012) fixed delivery Vizakhapatnam for a trip redelivery West coast India at $8,000. In the Pacific, *Corefortune OL* (60,225-dwt, 2015) fixed delivery CJK for a trip via Indonesia redelivery China at $7,000, while the *Rui Ning 5*(53,486-dwt, 2010) fixed delivery Hong Kong for a trip redelivery China intention Bauxite at $8,000. The *Nasco Jade* (56,316dwt-2010) fixed delivery Manila for trip redelivery China intention nickel ore at $11,800.

A positive week across both basins in the handies, with the Atlantic fairing particularly strongly. This week the **BHSI** closed at $7,103 an increase of $811. In the Atlantic, the *Koszalin* (37,930-dwt, 2012) was fixed by Trithorn delivery South Brazil for a trip into the US Gulf at $8,500. The *strategic Alliance* (39,848-dwt, 2014) open Nemrut was fixed for a trip to the US Gulf at $7,250 for the first 50 days and $9,500 thereafter. Ultrabulk fixed a front haul on *Hai Chang* (37,595-dwt, 2014) for a trip to China delivery Hamburg at $14,000. Over in the Pacific, the North remained strong with South East Asia seeing a sharp increase in rates on offer. *Clipper Alexandria* (32,535-dwt, 2010) was rumoured to have fixed 4k for a trip into South East Asia. On the period side of things, AEC fixed *St. Andrew* (32,688-dwt, 2010) for 5/7 months delivery Amsterdam at $9,000 for Atlantic trading.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Flag Trias	93,492	2007	Kwangyang	11-15 March	Chima	10,800	Tongli	Via CIS
Sasebo Glory	85,020	2016	Cai Mep	End Feb	Singa-Jpn range	12,750	CNR	Via ECSA
Ocean Zenon	76,596	2007	Singapore	20-25 March	Singapore	10,500	Pacific Bulk	
VSC Poseidon	74,957	2013	Retro Singapore	End Feb	Singapore-Jpn range	10,500	COFCO	Via Cofco
Osprey	63,234	2014	Altamira	ppt	Japan	21,900	Oldendorff	
Rowan 3	58020	2010	Ho Chi Minh	March	South China	6,750	CNR	Via Indonesia
Aramis	55,830	2012	Dneprobugskiy	ppt	Charleston	6,000	Norden	
Strategic Alliance	39848	2014	Nemrut	ppt	Black Sea	7,250	CNR	
Mazowsze	38056	2009	Hamburg	ppt	Spain	10,900	Ultrabulk	
Hai Chang	37,595	2014	Hamburg	ppt	Spain	14,000	Ultrabulk	



Exchange Rates	This Week	Last week
JPY/USD	107.29	105.33
USD/EUR	1.1108	1.1314

Brent Oil Price	This Week	Last week
US$/barrel	34.31	47.87

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	216.0	287.0
MGO	350.0	445.0
Rotterdam IFO	180.0	259.0
MGO	340.0	422.0

Dry Bulk S&P

As oil price and tankers take the spotlight this week, the dry market ticks away with a handful of deals to report despite Covid-19 tightening its grip on the West.

Inspections continue to take place, as buying interest – mainly from the Greek and Far Eastern markets – seek out the most serious sellers in the attempt of securing interesting deal.

On Capes, owners of the *Great Challenger* (176,279-dwt, 2005 Universal) are believed to have sold her for $14m, however no buyer has been mentioned. This in line with the sale of sister vessel *Shinyo Alliance* (176,269-dwt, 2005 Universal) for $14.5m back in early February.

Despite the BPI coming off this week, interest in Panamax and Kamsarmax tonnage remains high. The Japanese controlled *TR Infinity* (77,113-dwt, 2015 Imabari) had 4 buyers on board and took offers today – no levels have been mentioned, however Greek buyers are understood to be leading the race. Elsewhere, the *Olympic Gemini* (82,992-dwt, 2006 Tsunieshi) is rumoured to be under negotiations, however a direction or level is unknown at this stage.

Greek owners Blue Wall Shipping have offloaded their *Vigorous* (52,498-dwt, 2005 Tsuneishi Cebu C4x30T) for $7m. This looks competitively priced when comparing it to the *Luzern* (50,363-dwt, 2002 Kawasaki C4x30T) that was reported as sold for $5.65m last week.

Contrary to last week's report, in the handy bulker sector ADNOC are reported to have now sold the first of their HMD built ships – the *Arrilah-I* (36,490-dwt, 2011 Hyundai Mipo C4x30T) for $8.9m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Great Challenger	176,279	2005	Universal	-	undisclosed	$14.0 m	
Vigorous	52,498	2005	Tsuneishi HI	C 4x30	undisclosed	$ 7.0 m	
Arrilah-I	36,490	2011	Hyundai Mipo	C 4x30	undisclosed	$ 8.9 m	

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Tanker Commentary

The tanker market has risen from the ashes in the face of Covid-19 driven adversity. A political spat between a Saudi Arabian and Russia has stemmed from a crucial Opec meeting this time last week and has seen the supply and demand fundamentals in the global oil market turned on its head.

Subsequent spiralling oil prices has lead to a surge in demand for period and spot employment leading to a wave of storage business. The latter no doubt will come as welcome news to owners of VLCCs with the global VLCC fleet having digested a record haul of newbuilding's in 2019. Reports of eyewatering rates being paid for VLCCs are filtering through the market but how many actually materialise into firm fixtures remains to be seen, as was the case in October 2019. From an S&P perspective, values, particularly of more vintage tonnage are likely to appreciate in the short term and quickly. Whilst we have no sales to report, one would imagine this will be reversed next week.

The only sale of note this week the J Laliotis controlled *Sea Faith* (46,350-dwt, Hanjin HI 2003) which is understood to have been committed for a firm $11.2m to undisclosed interests however we understand the transaction was finalised in January which would go some way to explain the price.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Sea Faith	46,349	2003	Hanjin HI	undisclosed	$11.2m	

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