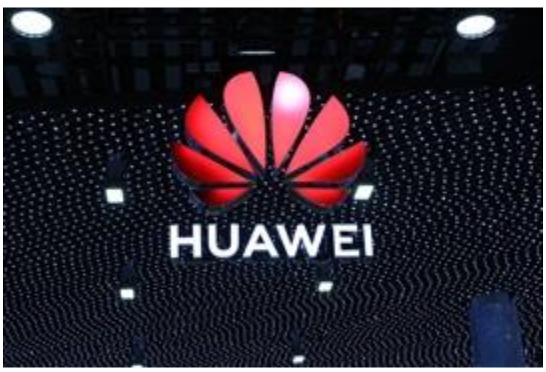
HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… Not just a Side Show …



Source : Huawei

POINTS OF VIEW

The Munich Security Conference was held last weekend. Its theme was "westlessness". It exposed a number of issues relating to US-EU intelligence sharing and defence. One, that Germany finds itself in a leadership vacuum at a time of stagnant growth after Merkel's successor, set to take over in autumn next year, decided to stand down. Second, that the UK is also in a tough spot as it desperately seeks a first trade deal with either the US or EU, but is getting pushback from both. What links them all is differing attitudes towards Huawei. The US is threatening to restrict intelligence sharing if the UK does not purge Huawei, the global leader in 5G, from its telecom networks. The UK has declined, as Huawei has been involved in the UK's 3G and 4G networks since 2005 and cannot easily be unscrambled. Besides, the US is not providing any alternative, it is simply imposing a unilateral ban. The closest challengers to Huawei are Finland's Nokia and Sweden's Ericsson and, only last week, A-G Barr proposed that the US buy them out. If the EU has any muscles at all, it may consider whether it can find a way of harnessing these firms, in the interests of EU security and in rejection of US bullying. German inertia, frustrating to Macron, finds Merkel broadly supportive of the UK stance of allowing Huawei limited access, although her as yet unknown successor may well disagree. Neither the UK nor Germany trust Trump not to do a U-turn after they have abandoned Huawei without a US-proposed alternative. Their suspicion is that the overriding US motive is simply to take down Huawei because it is far ahead in the technology of all our tomorrows.

Huawei is far from being a mere side issue. It is central to future US-UK, US-EU and UK-EU relations at a time of unresolved US-China trade tensions. If Trump is re-elected in November, he may re-open trade disputes with the Americas*, the UK, Europe, China and other Asia. The fig-leaf phase one US-China deal is looking ever harder to implement given current market disturbances. China has pledged to buy an extra $200bn of US goods and services over this year and next compared with the 2017 pre-tariff baseline. In 2017, China bought $130bn of US goods and $56bn in services. So, on average, China must raise its US purchases by 54% each year. But last year, its US goods purchases fell 20% to $105bn from $130bn in 2017. That's tariffs. Another problem is that the P1 deal is subject to 'market conditions', i.e. relative pricing, so there is nothing to stop China from buying cheaper elsewhere, only goodwill. Within the P1 framework, China will buy on average $40bn a year of US agricultural products, which is 67% up on the 2017 baseline of $24bn. There is a question of the US ability to supply and the Chinese ability to buy at such levels. It unfairly squeezes Brazil and Argentina out of the soybean market. On US energy supplies, China has to buy on average $35bn each year in 2020 and 2021, 4-times the 2017 baseline of $9bn. US crude oil will flow to China instead of to Japan and South Korea who only recently and reluctantly gave up buying Iranian crude under US threat. What do they do now, and what happened to free trade? P1 is undeliverable, it is a pretend facesaving deal for Trump and Xi.^ Huawei will be central to P2…

About 150 million people are suffering lockdown conditions in China, almost 11% of the population, that restricts how often they can leave their homes. This is the equivalent of the combined populations of France and Germany. Some 760 million people, well over 50% of the country and almost 10% of the world's population, face travel restrictions. All sectors of shipping are negatively affected from bulkers, tankers and gas carriers to boxships, car carriers and cruise ships. To make matters worse, we face a repetition of last year's first quarter rains in Brazil and cyclones in western Australia, interrupting iron ore supply. But, this year, we can also add interruptions to steel and power demand in China as many factories remain shut and the northern hemisphere winter is proving mild. Supply chains are ruptured as China plays a key role in importing raw materials and semi-finished goods and exporting value-added and finished goods. Energy use is curtailed by restrictions on travel and by subnormal industrial and manufacturing output. The best we can hope for is that the coronavirus be contained, unleashing pent-up shipping demand as we move to normalise. In the meantime, freight rates and earnings are under pressure and liquidity in the ship sale and purchase market is thin. The delivery of new ships, and the drydocking of old ships, are both delayed while owners are inclining to opt for the scrapyard over the cost of a 4th special survey. Ship supply is being managed down by market forces which bodes well for the market recovery when it eventually arrives.

*USMCA is not a done deal, while relations with Brazil and Argentina are testing, and with Venezuela they are bordering on the warlike.

^Expect many more fake US deals of the century in the run-up to the US November election, following the Palestinian and Afghan 'deals'.

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21 February 2020

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Dry Cargo Chartering

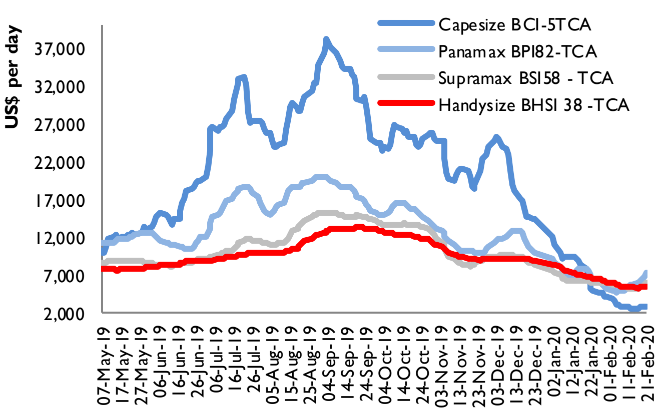
The **BDI** closed the week at 497, an improvement on last weeks close of 425 with all markets closing in the green. The **cape** market closed at $2,787, up from last weeks $2,445. On voyage, ore runs ex Port Hedland to Qingdao were fixed around $5.80 for 170,000/10%. Tubarao to Qingdao ore runs were fixed around $13.40 also for 170,000/10%. The **panamax** market closed the week at $7,087, this was also well up on last weeks $5,724. In the Pacific, the *Mariolina De Carlini* (87,337-dwt, 2010) fixed delivery Hoping for a spot trip via Indonesia redelivery Taiwan with coal at $4,000. In the Atlantic, *Royal Kaleido* (82,400-dwt, 2019) fixed delivery Flushing for a trip via Baltic Sea and Turkey, redelivery Passero with coal at $8,500. Bunge fixed the *Andros* (82,158-dwt, 2010) delivery East Coast South America redelivery Singapore-Japan rage with grains at $13,000 plus $300,000 with Bunge.

The **supramax** market showed strong signs of a recovery, with the index closing at $5,767, up from last weeks $5,171. In the Atlantic, *Spar Pavo* (63,800-dwt, 2016) fixed delivery US Gulf for a trip via India redelivery Port Said at $14,100. *Bulk Independence* (56,548-dwt, 2008) fixed delivery Alexandria for a trip redelivery US East Coast at $7,000 for first 40 days and $8,500 thereafter. *Beatrice* (55,700-dwt, 2009) fixed delivery Lisbon for trip via Continent redelivery East Mediterranean at $11,250. In the Indian Ocean, *Kifissos* (63,555-dwt, 2019) fixed delivery Richards Bay for trip redelivery Colombo at $11,000 plus $110,000 bb. In the Pacific, *Josco Fuzhou* (58,705-dwt, 2012) fixed delivery Indonesia for a trip redelivery South China at $7,100. *Jin Yuan* (55,300-dwt, 2007) fixed delivery Indonesia for a trip redelivery South East Asia at $6,000.

The **handy** market this week finally saw some signs of improvement as the week went on. The handy index closed at $5,474, up from last weeks close of $5,234. In the Atlantic it was rumoured that a 38k-dwt open on the Continent fixed a trip into the US Gulf at $7,500 and another big handy fixed a trip ex East Coast South America into Morocco at $10,000. There was still little activity reported in the Pacific, but it was picked up that a 37k-dwt fixed $4,000 APS Japan for a trip into South East Asia with steels. However there was an uptick in enquiry and along with it rates being discussed. On the period side of things a 35k-dwt fixed 4/6 months at 4k for the 1st 35 days then 8,250 for the balance period.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Konkar Venture	82,099	2015	EC South America	07/10 Mar	Singapore-Japan	13,250	CNR	Plus 325,000 bb
Sea Neptune	81,631	2013	Fazendinha	PPT	Skaw-Barcelona	8,000	Bunge	Int grains
Ying Shun	81,169	2013	EC South America	21/29 Feb	China	12,200	ECTP	Int grains Plus 220,000 bb
Nikolaos	75,539	2009	Singapore	PPT	Singapore-Japan	7,650	AUSCA	Int grains
Atlas	75,124	2012	EC South America	PPT	Skaw-Gilbraltar	5,000	Cargill	Int grains
Spar Pavo	63,800	2016	US Gulf	PPT	Port Said	14,100	Oldendorff	Via India
Akra	61,302	2016	Huelva	23 Feb	China	20,000	Trafigura	Int concentrates
Josco Fuzhou	58,705	2012	Indonesia	PPT	S.China	7,100	CNR	
Equinox Seas	52,009	2003	Djen Djen	PPT	Dakar	9,000	CNR	
Multan	50,244	2002	S Kalimantan	PPT	China	7,250	CNR	



Exchange Rates	This Week	Last week
JPY/USD	111.68	109.72
USD/EUR	1.0851	1.0851

Brent Oil Price	This Week	Last week
US$/barrel	57.97	56.99

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	322.0	315.0
MGO	500.0	518.0
Rotterdam IFO	300.0	295.0
MGO	463.0	464.0

Dry Bulk S&P

Relief from the freight market is muted, to say the least, but there are plenty of buyers who sense the opportunity the current market chaos. And despite their quarantined status, Chinese buyers continue to be prominent in the list of buyers.

Starting with capsizes, *Mineral Hokkaido* (180,159-dwt, 2008 Imabari) is sold for $17m – an 'as per last' sale value.

Turn over for older panamaxes continues on a steady track, with Chinese buyers picking up *Harvest Peace* (74,193-dwt, 2002 Namura) for a firm $6.3m – especially when her drydock is due in July.

The modern ultramax *Adventure III* (62,534-dwt, 2019 Oshima) is sold at a respectable $26.3m – but still a healthy discount to the newbuilding market.

The only other modern unit sold this week is the eco-engined *Ultra Tolhuaca* (37,429-dwt, 2015 Oshima). She is reported sold at $17m, but as this is a sale and leaseback deal with Japanese buyers, the value is somewhat obscured.
Elsewhere a pair of Dolphin57 supramaxes have been fixed on subjects at softer levels. *Maria* and *Lietta* (abt 57,000-dwt, 2010/2009) are committed at $17.5m enbloc. They were fixed and failed at similar levels recently.

Reported Dry Bulk Sales

Vessel	DWT	Built	Gear	Buyer	Price ($m)	Comment
Mineral Hokkaido	180,159	2008	-	Undisclosed	17	
Harvest Peace	74,193	2002	-	Chinese	6.30	
Adventure III	62,534	2019	C 4x30	Meghna	26.3	
Maria Lietta	57,114 57,070	2010 2009	C 4x35 C 4x35	Chinese	17.5 Enbloc	Previous sale failed, now fixed on subjects.
Mobilana Mariana	50,655	1998	C 4x30	Grieg Star	10.5 Enbloc	8 x HO/HA - OHBS
Ultra Tolhuaca	37,429	2015	C 4x30	Japanese	17	Sale & Lease Back

Reported demolition sales

Vessel	Type	LDT	DWT	Built	Buyer	$/LDT
Tachibana	BULK	19,098	154,324	2000	India	393
Savannah Pearl	BULK	10,806	43,003	1985	India	386
Crateus	BULK	8,900	42,487	1997	India/Pakistan/Bangladesh	382

Tanker Commentary

Corona virus is by no means in recovery mode yet. But, the number of new reported cases outside the Hubei province are falling at a faster pace. Over 50% of industrial enterprises have resumed operations across the country although many are still operating far below capacity. That said, tanker rates are picking up and with that we are seeing increased snp activity.

Having sold three VLCC resales to Euronav last week, Sinokor have sold their *Mediterranean Glory* (319k-dwt, 2004 Hyundai Samho) to clients of Embiricos. The price of $31.5m will look extremely attractive for the buyer if the market returns to even half of where it was in December. Earlier in the year Frontline sold their two year older *Front Hakata* (298k-dwt, 2002 Hitachi) for close to $34m. Older suezmaxes continue to change hands with Sovcomflot selling another 2002 built ship. Greek buyers are said to have paid high $18s for the vessel which has docking due in July in which the buyer will have to install a BWTS. The aframaxes are the talk of the town this week with two interesting sales to report. Having been under discussions for some time, the *Nanyang Star* (104,594-dwt 2012 Sumitomo) is rumoured to have been sold to Zodiac for $33m. On paper it looks like Zodiac achieved an attractive price when compared to Performance Shipping's purchase of the *FSL Shanghai* (115k-dwt, 2007 Samsung) at $26m. We understand this sale may have been concluded earlier in the year prior to the corona virus outbreak, but even so, with docking due in April, the Sellers must be very pleased with achieving their price idea.

Reported Tanker Sales

Vessel	DWT	Built	Buyer	Price ($m)	Comment
Mediterranean Glory	319,247	2004	Embiricos	31.50	
SCF Khibiny	159,196	2002	Greeks	18.80	DD due July, BWTS fitten then
FSL Shanghai	115,915	2007	Performance Shipping	26.00	
SC Ocean LI	105,501	1999	undisclosed	7.70	
Nanyang Star	104,594	2012	Zodiac	33.00	

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