15 May 2020

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

… Not so close any more …

Source : The FT

POINTS OF VIEW

Non-US equities got a boost today after China, the world's second largest economy after the US, recorded a 3.9% year-on-year rise in industrial production in April, the first year-on-year rise in China's factory output since December last year. Retail sales were down 7.5% in April but this was a big improvement on the 15.8% contraction in March. Chinese crude steel production hit 85mt last month, up 6mt or 8% on March, and unchanged from April 2019. Consistent with rising steel output was a recovery in iron ore imports which came in at 95.7mt in April, up 11.4% on March's 85.9mt and up 18.5% on April 2019's 80.8mt. The Jan-Apr 2020 iron ore import tally was 358.4mt, up 5.3% on the Jan-Apr 2019 tally of 340.2mt. China's crude oil imports in the Jan-Apr 2020 period weighed in at 167.6mt or 10.1m-bpd which was up 1.7% on the same period last year. Teapot refinery utilisation rates were back to pre-coronavirus levels of almost 70% in late April, well up on the low point of this year of 42% recorded in the middle of February. These are encouraging signs that China is past the worst of the first phase of the virus, despite secondary outbreaks also seen in South Korea and Singapore. It is moving to normalise economic activity and get the economy growing again. Other countries will be watching as they also emerge from lockdowns with better hospital capacity and mechanisms in place to increase testing, tracking and tracing. We are going to have to learn to live with Covid-19 and battle to contain its spread while we await a much-in-demand vaccine.

The better China data did nothing to boost US equities on market opening today as America's dispute with China escalates after the US Department of Commerce targeted Huawei with tighter export controls on its US suppliers in the semiconductor industry. The US seeks proof that China did not do enough to contain the spread of the virus beyond its borders. It would be helpful for Trump's prospects of re-election if he could prove that China acted with malicious intent. That would allow him to pin economic collapse and loss and lives and jobs on China. The US has been inviting China to submit to an open and independent inquiry into the origins of the virus but has been firmly rebuffed. This week it threatened to completely sever diplomatic and trade relations with China. Separately, Australia also called for an investigation into the virus evolution, leaving itself exposed to Chinese retaliation in the form of boycotted beef purchases and import tariffs on Australian barley exports. Over the past 20 years China has used a globalisation platform to gain economic strength and influence; now some part of this gain is at risk. The US-China phase one deal has been exposed as a sham. In January, Beijing had pledged to buy $80bn of US agricultural products to end 2021, including $36.5bn in 2020 against a 2017 baseline of just $24bn. So far this year, it has bought just over $3bn, according to the American Farm Bureau Federation. In 2017, soybeans accounted for two-thirds of US agricultural exports to China. Last month, Brazil shipped a record 9.3mt of soybeans to China out of its bumper harvest of 125mt. They were about 23% cheaper than US beans after the Brazilian real's rapid decline in dollar value.

Under the phase one deal, China can apply commercial considerations to its purchases which would include price, quality and political motive. Worsening US-China relations cast a shadow over the economic and trade rebound that is expected to accompany a gradual return to work and social life around the world. Trump's tendency is to double down on threats, and yet Xi is not one to flinch in the face of intimidation and has used the virus as cover to exert increasing influence over the South China Sea, Hong Kong and Taiwan. So far this year, tankers have done well while bulkers and tramp containers have struggled, and this is reflected in the movement of modern second hand values. We expect that we are facing the worst of the demand shock right now in this current quarter and we will then see a recovery in the second half. Tankers can still do relatively well despite having to go through a protracted unwinding of crude and product storage, eating into seaborne oil demand. Output cuts and reviving demand will cause oil prices to rise and any contango in the oil price curve may be transient at best. As people emerge from lockdown they should increase pent-up demand for consumer goods which will support the container sector. Rising demand for raw materials (iron ore and coal), non-ferrous metals, cereals and forest products will support bulk carriers so that, in the second half, bulkers and containers may witness a long overdue reversal of fortunes.

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Dry Cargo Chartering

The **cape** market continued dropping and finished this week at $2,394, down $2,464 from last Friday. On Voyage, the usual 170,000mt 10% ore stem from Port Headland to Qingdao fixed at $3.60, with BHP Billiton. The same size stem, ore run from Tubarao to Qingdao fixed at $6.60, with Anglo American. The *Navios Lumen* fixed 170,000mt 10% from Dampier to Qingdao at $3.60 with Rio Tinto. The *Star Triumph* fixed 150,000mt 10% from Port Cartier to Qingdao at $11.50 with ArcelorMittal. On time charter, the *Sealink* (180,116-dwt, 2010) fixed for delivery Bayuquan for a trip via West Australia redelivery Singapore-Japan range at $3,000 with Five Ocean. The *Yang Fu Star* (175,013-dwt, 2011) fixed delivery Zhoushan for a trip via East Australia redelivery China at $1,800 with Pacbulk.

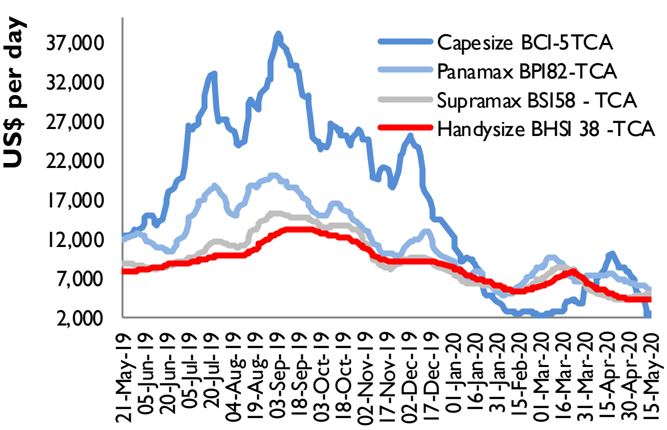
The **panamax** market kept negative although more activities were seen, ending the week at $5,424 down $575 from last week's $5,999. In the Atlantic, PacShip UK fixed *TW Beijing* (93,243-dwt, 2012) for a trip via Baltic & Mediterranean to Passero at $4,000, while Bunge took the *Sea Marathon* (81,945-dwt, 2015) delivery aps North coast South America for a trip redelivery Skaw-Barcelona with grains at $5,750. Additionally, Oldendorff fixed the *Dream Star* (81,909-dwt, 2004) delivery aps Ust-Luga for a trip redelivery Brazil with coal at $2,500. Over in the Pacific, Five Ocean took the *Tai Chang* (93,295-dwt, 2010) delivery Fangcheng for a trip via Indonesia redelivery South Korea at $6,250. COFCO also fixed the *Shao Shan 6* (75,700-dwt, 2012) for a trip delivery CJK via NoPac redelivery Singapore-Japan at $5,250. The *Vincent Trader* (81,600-dwt, 2019) was taken in by Norden on period for 4-8 months with delivery at Hong Kong at $6,500 first 50 days and $9,250 thereafter. Lastly on the voyage front, TS Global Procurement fixed the *NS Energy* (74,518-dwt, 2012) for a voyage via Riga del IJmuiden at $3.90.

The **supramax** market stayed rather flat this week, softening rates in Atlantic but improved numbers in the Pacific particularly in Indian Ocean. The index finished at $4,953 slightly up from last week at $4,657. In the Atlantic, Pacific Basin took the *Indigo Cefiro* (58,737-dwt, 2012) delivery Recalada for trip to West Coast South America at $8,200 while *Louise B* (55,625-dwt, 2011) was fixed delivery Recalada for trip to Algeria at mid 4k. A slightly better week in the Pacific, with South East Asia picking up the most. Indian Ocean continues to draw tonnage from South East Asia thanks to the pre monsoon push. However enquiries remain fairly slow possibly due to the Ramadan season. Uniwell fixed the *Wadi Feran* (57,281-dwt, 2011) delivery West Coast India for trip to China at $12,000 while we heard *Ocean Ambition* (62,653-dwt, 200) fixed delivery Richards Bay trip to Fareast at $11,000 plus $150,000 bb. *Glovis Maria* (55,705-dwt, 2020) fixed delivery Lianyungang for a trip via Indonesia to India at $3,500. No reported fixture on the period side.

The **BHSI** closed today at $4,157 down $47 from last week. The Atlantic suffered further stress this week with limited fresh requirements. On the Continent, the usual Rouen to Algeria runs were fixing at $4,500 arrival pilot station on a 34k. A 30k fixed Ust Luga for a trip to Spain with coal $5,750. The East coast of South America still struggling with draft levels falling to a near 50 year low, adding pressure to already stressed rates. A 37k rumoured to have fixed at $3,250 from Sao Luis to Mississippi River with Lauritzen. Another quiet week in the Pacific for the handy size vessels, however there was a murmuring that rates were slowly on the rise. In the north it was picked up that a 33k was fixed for a trip to South East Asia at $3,500 dop and that a large handy managed $4,500 dop for a quick CIS round voyage basis dop South Korea. In the south reported fixtures were few and far between. Very little to report on the period side of things, however owners were beginning to become unwilling to offer discounts for initial periods with escalation rates increasing.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Yuan Fu Star	175,013	2011	Zhoushan	14 May	China	1,800	Pacbulk	Via East Australia
CMB Chardonnay	95,740	2012	Lanqiao	12-13May	Spore-Japan	7,000	Jiangsu Steamship	Via Australia
Sea Marathon	81,945	2015	NCSA	24-30 May	Skaw-Barcelona	5,750	Bunge	Int grains
Zheng Zhi	81,804	2013	CJK	14 May	South China	5,000	CNR	Via Indo
Shandong Hai Xing	75,491	2014	ECSA	1 June	Spore-Japan	11,000	CNR	Int grains plus 115,000 BB
Tomini Unity	63,590	2017	Santos	20 May	Chittagong	10,000	CNR	Int grains plus 100,000 BB
Port Shanghai	58,747	2009	Recalada	Prompt	Algeria	5,550	Louis Dreyfus	
Kouyou	58,595	2013	Richards Bay	Prompt	Vietnam	10,250	ABCML	plus 125,000 BB
Busan Star	57,336	2011	Mumbai	Prompt	China	9,500	Norvic	
Regius	33,395	2016	Klaipeda	Prompt	EC Mexico	3,000	XO Shipping	



Exchange Rates	This Week	Two weeks ago
JPY/USD	106.95	106.63
USD/EUR	1.0844	1.0982

Brent Oil Price	This Week	Two weeks ago
US$/barrel	31.71	26.95

Bunker Prices ($/tonne)	This week	Two weeks ago
Singapore IFO	168.0	155.0
MGO	246.0	235.0
Rotterdam IFO	160.0	135.0
MGO	247.0	225.0

Dry Bulk S&P

After several weeks of a global lockdown and hardly any sales to report this week has produced a flurry of activity and with it some much needed benchmarks. On top of the sales, there are also numerous reports of ongoing negotiations, particularly within the geared segments. The emergence of countries from lockdown enabling inspections and crew changeovers is no doubt helping activity pick up, as have the previous few weeks of Buyers and Sellers feeling each other out and trying to establish the best prices achievable in an uncertain market.

Two of the more interesting sales to report are two dolphin *64 resales* (63,500 + 64,000 dwt, 2020 Nantong Xiangyu) which are reportedly sold enbloc to Greek Buyers for region $44.5m. Staying in the ultramax sector, there are reports that *Divinegate* (61,143-dwt, 2019 DACKS) is in negotiations around $22.5m, i.e. the same level as the above dolphin 64s. Sales from distressed sources continue as *Trenta* (56.838-dwt, 2010 Hantong) is reported sold for $6.7m basis prompt delivery with SS and BWTS due. While most of these 57s have been entering the Chinese market, Middle Eastern or Indian Buyers are linked to this one. There were mixed reports around *Moonbeam* (58,138-dwt, 2013 Tsuneishi Zoushan) which some said had sold or was negotiating between $12.5- $13m, however at the time of going to press we understand a sale is not finalised. If a sale does go through it would represent the first 'Japanese' 58 sale for a few months and show a significant step down on *Easter N* (58,740-dwt, 2013) which was reported sold for $15m in January this year.

The handies have been the topic of most chatter within dry this week as numerous negotiations appear to be ongoing. The eco main engine *Swiftnes & Sharpnes* (35,510-dwt, 2015 Tsuneishi Cebu) are possibly under discussions around the $13m mark in an off-market transaction. Two SPPs 34s from Genco are also widely reported to be negotiating or tied up however we are still awaiting clear guidance on these. There also appear to be multiple ongoing negotiations on Japanese 28s at prices below last done however again we are yet to get confirmation of any deals getting across the line. Last but not least, *Clipper Kamoshio* (32,226-dwt, 2009 Kanda) is reported sold to Vietnamese Buyers in the very high $6s. The unit fixed and failed to Greek Buyers for $7.2m at the end of March and the new price reflecting a fairly minor discount to that market.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
XY006	63,500	2020	Nantong Xiangyu	C 4x36	Greeks	$44.5m enbloc	Prompt delivery
TB1505	64,000						
Trenta	56,838	2010	Jiangsu Hantong	C 4x35	Middle Eastern/ Indonesians	$6.7m	
Nova Gorcia	53,100	2008	Yangzhou Dayang	C 4x35	Indonesian	$6.6m	BWTS fitted + SS Passed
Clipper Kamoshio	32,226	2009	Kanda Zosensho	C 4x31	Vietnamese	$6.9m	DD due
Squamish	18,920	2009	Yamanishi	C 4x31	Middle Eastern	Reg mid $6.0m	

Tanker Commentary

In a week that has seen the crude market slow down due to weakening storage demand and product rates come off due to lower expected exports from the US and Middle East, there are few second hand tanker sales to report.

It is understood that Sinokor have successfully sold another scrubber-fitted VLCC resale *HULL 5473* (300k-dwt, DSME) to clients of Thenamaris for $94m with delivery in October 2020. The price is a tick up from the 3 x $93.5m agreed with Euronav back in February.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
HULL 5473	300,000	2020	DSME	Thenamaris	$94.0m	Delivery Oct 2020

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