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## THE BIGGER PICTURE

... Divide and Conquer ...



Source : The FT / Ingram Pinn

### POINTS OF VIEW

Yesterday, June 4, was the 31st anniversary of the Tiananmen Square crackdown on student protesters who were championing democracy and seeking greater political freedom. The usual annual candlelit vigil marking the event in Victoria Park in Hong Kong was banned, but ignored. Coincidentally, yesterday it became a crime to mock China's national anthem. Hong Kong's liberties are being gradually withdrawn, much to the consternation of the UK government. It may relax visa requirements, a stepping stone to UK citizenship, for almost 3 million HK residents that hold British National Overseas passports, in a direct challenge to Beijing, causing the Chinese authorities to insinuate that strong repercussions would follow. Tensions between the US and China also remain elevated. The US threatened to ban Chinese airlines from 16 June unless China lifted restrictions on American carriers, in response to which China offered a phased opening up, allowing US carriers to resume flights. China's controversial new Hong Kong security law is a bone of contention and could lead to a further rise in tit-for-tat measures.

British banks HSBC and Standard Chartered openly supported the law, as did trading hongs Jardine Matheson (owner of Mandarin Oriental and Hongkong Land) and John Swire & Sons (owner of Cathay Pacific and China Navigation). All four companies have considerable assets at risk in both Hong Kong and mainland China and had little choice other than to agree. China itself is getting back to work and recovering lost economic ground. It glances at the US and sees Covid-19 cases approaching 2 million there, the death toll closing on 110,000 people and almost 43 million unemployment benefit claimants.\* It also watches American cities burning as protests over the death of George Floyd, and frustration at so many CV-affected livelihoods, spiralled out of control as night curfews were widely ignored. The president threatened to mobilise the US army\*\* if the governors and states could not do the job with city and state police and the National Guard. The moral high ground has been vacated by all sides but, in future, China may expect less criticism for its heavy-handed policing and its human rights abuses.

Much has changed in the past six months. Shipping and trade temporarily face strong headwinds due to much weaker economic growth from Covid-19 at a time when the world's two largest economies are falling out with each other on so many fronts. The Phase One deal between the US and China is dead. The Chinese government has even instructed state-run companies to avoid buying American meat and agricultural products in contradiction of the PI deal. In the first four months of 2020, Chinese imports of Brazilian soybeans were up 32% year-on-year while Chinese imports of US soybeans are at a 16-year low in the year to date. As the US export season starts this autumn there is time for things to change, but any change for the better will be dependent on a thawing in current frosty US-China relations. The World Steel Association expects global steel demand to fall 6.4% this year, before rebounding in 2021, which has been weighing on the larger bulk carriers that are in abundant supply right now.

Despite this gloomy projection, it has been a good week for capes. The BCI-5TC rose 100% this week, from \$3,648 on Monday to \$7,307 on Friday, a stunning gain from a low base. Stock market investors moved in after a 15% gain in the BCI-5TC on Tuesday and a 25% rise on Wednesday. Midweek, they sent Genco up 20%, Eagle up 19%, Diana up 18%, Star Bulk up 15% and Scorpio up 12%. Other factors were at play: a jump in the capesize freight futures (BFA Capesize)^, rising iron ore and steel prices, emergence from lockdowns and improved economic sentiment. Australian iron ore shipments were plentiful while other suppliers stepped in to replace lower Brazilian iron ore exports which have been affected by rains, logistics and the spread of Covid-19. New iron ore cargoes moved on ultra-longhaul routes into China from EC Canada and the Arctic Circle. As far as equities are concerned, investors who were shorting dry bulk company shares rushed to cover their short positions, causing prices to spike higher. Expect the unexpected in shipping, and then one might be somewhat better prepared. Tankers are looking at a calmer second half, after a rollercoaster first half, while bulk carriers look to be all set to enjoy a reversal of fortunes and a brisker run to end 2020.

\*Today, the US unemployment rate was reported to have fallen from 14.7% in April to 13.3% in May. Global equities rallied while President Trump called it the greatest comeback in American history.

\*\*President Trump threatened to invoke the antiquated 1807 Insurrection Act which would allow him to deploy active-duty soldiers in US cities to quell what are, and have been, predominantly peaceful protests.

^In the week from Monday to Friday, 3Q20 was up 18% from \$11,725 to \$13,789; 4Q20 was up 10% from \$13,900 to \$15,234; and Cal21 was up 6% from \$12,194 to \$12,949 daily.

## Dry Cargo Chartering

It was the week of gains with all segment improving over the week. The **BDI** reflected this, closing the week at 679, up from last weeks close of 504.

The **cape** market almost doubled in value, closing the week at \$7,307, up from last weeks \$3,369. On voyage, Port Hedland to Qingdao 170-180,000/10% ore runs were fixed around \$4.50-\$4.60 with runs improving to \$5.15 by the end of the week. On time charter, KSC fixed the *Chin Shan* (175,569-dwt, 2004) delivery Pohang for a trip via Australia redelivery Singapore-Japan at \$6,900. MOSK fixed the *Corinthian Phoenix* (179,223-dwt, 2009) delivery Jingtang for a trip via East Australia redelivery Singapore-Japan at \$8,500.

The **panamax** market closed the week at \$7,324, this was up from last weeks close of \$6,789. In the Pacific, Tongli fixed the *Olympic Glory* (84,091-dwt, 2011) delivery Hong Kong for a trip via Australia redelivery Taiwan at \$8,100. Norden fixed the *Double Paradise* (95,712-dwt, 2011) in d/c delivery Longkou for a trip via Weipa redelivery China at \$9,350. East Coast South America was very active in the Atlantic. *Pella* (82,163-dwt, 2010) fixed delivery East Coast South America for a trip redelivery Singapore Japan at \$13,000 plus \$300,000 bb. Bunge fixed the *Navios Prosperity* (82,535-dwt, 2007) fixed the same at \$12,750 plus \$275,000 bb. Norvic fixed the *Fyla* (84,104-dwt, 2013) delivery East Coast South America for a trip redelivery Richards Bay-India range at \$12,250 plus \$225,000 bb.

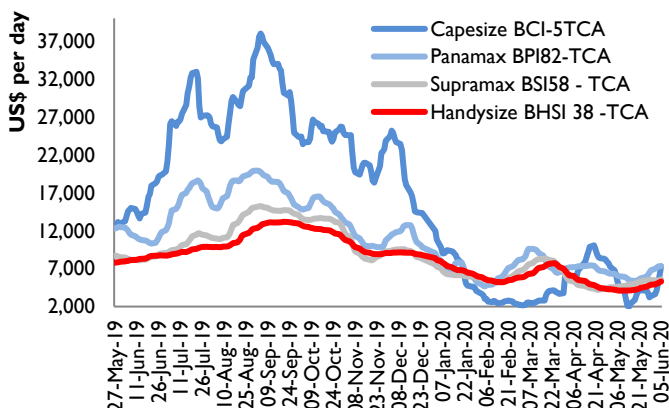
The **supramax** market stayed fairly flat this week, ending the week

at \$5,578 up \$73 from last week. In the Atlantic, *Doric Trident* (57,859-dwt, 2016) delivery Recalada was fixed for a trip to south Chile at \$11,500 while the *Asian Majesty* (62,466-dwt, 2016) delivery Izmir for a trip to West Africa at \$7,100. In the Pacific Indo round voyage is softening slightly with owners giving discounted rates to India. South Africa continued to draw tonnage from South East Asia. In the North, we heard Glencore took the *Gillingham* (58,018-dwt, 2010) delivery North Pacific redelivery Singapore-Japan at \$6,000 plus \$160,000 bb. The *Pacific Wind* (61,338-dwt, 2020) fixed delivery Mizushima for a trip via Indonesia to Zhoushan at \$5,500. *Port Hainan* (56,777-dwt, 2012) was fixed delivery Campha for a trip to west coast India at \$5,000. Charterers were actively seeking period tonnage with ultramax in particular demand. Rates were mostly at mid 6-7k for first month with an escalation in the 9's thereafter.

A week of improvement for the **handy** size vessels, with the index rising by \$422 from last week, to close at \$5,297. In the Atlantic, *Nordic Nanjing* (34,620-dwt, 2013) was fixed delivery South West Pass for a trip with grains to Libya at \$4,000. *Jiu Feng Ling* (32,034-dwt, 2011) open Averio was fixed for a trip into the Caribbean at mid \$3,000's DOP. The *Shan Hu Hai* (39765-dwt, 2016) delivery Rouen fixed for a prompt trip redelivery east Mediterranean at \$4,750 with Whitelake Shipping. In the Pacific, there was very little in the way of reported fixtures, however it was rumoured that a 37k was fixed for period ex North China for short period at \$6,750 but the details were not confirmed. The *Venture Dylan* (43,500-dwt, 2015) fixed delivery Umm Qasr for a trip via the Arabian Gulf to Australia at \$10,000.

### Representative Dry Cargo Market Fixtures

| Vessel              | DWT     | Built | Delivery      | Date       | Redelivery               | Rate (\$) | Charterers  | Comment             |
|---------------------|---------|-------|---------------|------------|--------------------------|-----------|-------------|---------------------|
| Corinthian Phoenix' | 179,223 | 2009  | Jingtang      | 7-9 June   | Singa- Jpn               | 8,500     | MOSK        | Via East Australia  |
| Chin Shan           | 175,569 | 2004  | Pohang        | 4 June     | Singa- Jpn               | 6,900     | KSC         | Via East Australia  |
| Cemtex Orient       | 98,704  | 2012  | Taichung      | 5 June     | World Wide               | 10,600    | Oldendorff  | 2 LL Max 105 days   |
| Fyla                | 84,104  | 2013  | ECSA          | 10-14 June | Richards Bay-India Range | 12,250    | Norvic      | +250k Ballast bonus |
| Zheng Run           | 81,822  | 2012  | Krishnapatnam | 5-9 June   | China                    | 13,000    | Fastfreight |                     |
| Evmilos             | 81,507  | 2012  | ECSA          | 20-30 June | Singapore                | 12,700    | Bunge       | +270k Balast bonus  |
| Asian Majesty       | 62,466  | 2016  | Izmir         | prompt     | West Africa              | 7,100     | Whitelake   |                     |
| Porthos             | 56,825  | 2010  | Kosichang     | prompt     | South China              | 8,500     | cnr         | Via Malaysia        |
| Venture Dylan       | 43,500  | 2015  | Umm Qasr      | prompt     | Australia                | 10,000    | cnr         | Via AG              |
| Shan Hu Hai         | 39,765  | 2016  | Rouen         | prompt     | East Med                 | 4,750     | Whitelake   |                     |



| Exchange Rates | This Week | Last week |
|----------------|-----------|-----------|
| JPY/USD        | 109.20    | 107.11    |
| USD/EUR        | 1.133     | 1.1138    |

| Brent Oil Price | This Week | Last week |
|-----------------|-----------|-----------|
| US\$/barrel     | 42.15     | 34.67     |

| Bunker Prices (\$/tonne) | This week | Last week |
|--------------------------|-----------|-----------|
| Singapore IFO            | 247.0     | 199.0     |
| MGO                      | 325.0     | 300.0     |
| Rotterdam IFO            | 240.0     | 185.0     |
| MGO                      | 315.0     | 165.0     |

5 June 2020

### Dry Bulk S&P

The dry indices have improved across all sizes and the BDI closed the week at 679 points, the highest level since 22<sup>nd</sup> April. The paper markets for the 2<sup>nd</sup> half of the year have picked up too and listed bulk owners saw their share prices jump between 10-20% lifting some of the doom and gloom that has surrounded the dry markets for the past couple of months. The steady trickle of sales over the last few weeks has, seen prices drop and a growing number of Buyers are enticed by the softer asset prices.

The handy sector has seen the most action with seven sales to report and various other ongoing discussions and negotiations. Two Japanese 28s are reported sold, *Wave Friend* (28,368-dwt, 2010 Imabari, BWTS fitted) is committed to Greek Buyers having initially fixed and failed at \$6.5m and *Ipanema* (28,766-dwt, 2008 Imabari) is reported committed to an undisclosed European Buyer for \$5.8m. These are the first sales of fairly

modern Japanese 28s reported in the market this year, with the previous youngest *Genco Charger* (28,398-dwt, 2005 Imabari) for \$5.2m at the end of January. Japanese owners have sold their *Maratha Pride* (37,221-dwt, 2011 Saiki) to Greek Buyers for region \$9m. While the Saiki design is not preferred by all Buyers, this represents a large step down on the last done of this type, *Calm Bay* (37,534-dwt, 2006 Saiki) in the middle of January for \$7.5m but with SS and BWTS due promptly.

Elsewhere Japanese sellers have committed *Cape Agnes* (181,458-dwt, 2010 Koyo) for a price around \$18m however it is unclear if this is a straight sale or a finance deal. Japanese buyers are also reported to have bought EPS' *Divinegate* (61,143-dwt, 2019 DACKS) for \$22.8m. Chinese Buyers remain on the hunt for early 2000 built units, and are reported to have bought *Pacific Cebu* (52,464-dwt, 2002 Tsuneishi Cebu) for \$4.8m.

#### Reported Dry Bulk Sales

| Vessel          | DWT     | Built | Yard           | Gear     | Buyer       | Price          | Comment                 |
|-----------------|---------|-------|----------------|----------|-------------|----------------|-------------------------|
| Cape Agnes      | 181,458 | 2010  | Koyo           | Gearless | undisclosed | \$18.0m        | Internally within Japan |
| Diamond Wind    | 76,536  | 2010  | Shin Kasado    | Gearless | Indonesian  | \$12.5m        |                         |
| Divinegate      | 61,143  | 2019  | Dacks          | C 4x31T  | Japanese    | \$22.8m        |                         |
| Pacific Cebu    | 52,464  | 2002  | Tsuneishi Cebu | C 4x30T  | Chinese     | \$4.8m         |                         |
| Maratha Pride   | 37,221  | 2011  | Saiki HI       | C 4x30T  | Greek       | Circa \$9.0m   |                         |
| Almendro        | 32,662  | 2003  | Shin Kochi     | C 4x31T  | undisclosed | \$4.35         |                         |
| Joo Do          | 32,259  | 2003  | Saiki HI       | C 4x30T  | Korean      | \$4.5m         |                         |
| KBS Star        | 30,548  | 2007  | Shanhaiguan    | C 4x30T  | Vietnamese  | Undisclosed    |                         |
| Ipanema         | 28,766  | 2008  | Imabari        | C 4x31T  | European    | \$5.8m         |                         |
| Pacific Jasmine | 25,159  | 2010  | Murakami       | C 4x25T  | undisclosed | Regions \$5.7m |                         |

## Tanker Commentary

As we ease off from global lockdown, the demand for oil is recovering, however it is unlikely that we will see demand at pre-pandemic levels in the foreseeable future. Significant barriers, such as lack of traffic on the roads and in the air, will likely hold us in the *limbo* stage of recovery for a while longer. A V-shaped recovery is looking increasingly improbable, however tanker owners can be optimistic about the longer term effects that government stimulus and a low orderbook will have on rates.

Sentiment has weakened both in the crude and the product markets, as a result we are seeing a lack of appetite for period deals. Furthermore, as the demand for storage comes off, we are likely to see suezmaxes and aframaxes being released back into the market before VLCC's as they are less cost efficient. This may

provide explanation for the reduction in earnings that we have seen in these sectors over the past week.

In the Aframax sector, we are hearing reports of the Zodiac Maritime owned *Silver Sun* (105,344-dwt, 2001 Sumitomo) being sold for \$11.5m. This falls in line with the *Torm Kristina* (105,002-dwt, 1999 Halla) which is thought to have been committed at \$10m last week.

Having fixed and failed several times, Sovcomflot have recently found a Greek buyer for their two vintage MR's the *Hermitage Bridge* (47,880-dwt, 2003 Hyundai Mipo) and sister *Anichkov Bridge* (47,842-dwt, 2003 Hyundai Mipo) for \$9.5m each. This could be considered a step down from the *Torm Mary* (46,349-dwt, 2002 STX) and *Torm Vita* (46,308-dwt, 2002 STX) which were committed last week for \$10m each.

### Reported Tanker Sales

| Vessel           | DWT     | Built | Yard            | Buyer       | Price       | Comment |
|------------------|---------|-------|-----------------|-------------|-------------|---------|
| Silver Sun       | 105,344 | 2001  | Sumitomo        | undisclosed | \$11.5      |         |
| Hermitage Bridge | 47,880  | 2003  | Hyundai Mipo    | Greek       | \$9.5m each |         |
| Anichkov Bridge  | 47,842  |       |                 |             |             |         |
| Marit            | 22,820  | 2001  | Kitanihon Zosen | undisclosed | xs \$5.0m   |         |
| Primo M          | 18,596  | 2000  | Vulcano         | undisclosed | undisclosed |         |

Should you have any queries about the content of this report or require any services of Hartland Shipping Services, please contact:

**Hartland Shipping Services Ltd,  
London**

Tel: +44 20 3077 1600  
 Fax: +44 20 7240 9603  
 Email: [chartuk@hartlandshipping.com](mailto:chartuk@hartlandshipping.com)  
 Email: [snpuk@hartlandshipping.com](mailto:snpuk@hartlandshipping.com)  
 Email: [consult@hartlandshipping.com](mailto:consult@hartlandshipping.com)

**Hartland Shipping Services Ltd,  
Shanghai**

Tel: +86 212 028 0618  
 Fax: +86 215 012 0694  
 Email: [snpcn@hartlandshipping.com](mailto:snpcn@hartlandshipping.com)

**Hartland Shipping Services Pte. Ltd,  
Singapore**

Tel: +65 6702 0400  
 Email: [chartops.sg@hartlandshipping.com](mailto:chartops.sg@hartlandshipping.com)

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