26 June 2020

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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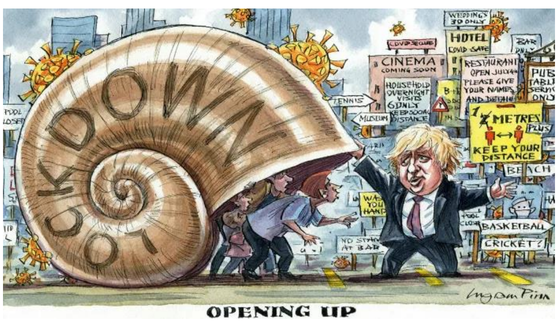
THE BIGGER PICTURE

… Unleashing Pent-up Demand? …



Source : The FT / Ingram Pinn

POINTS OF VIEW

There is some confusion over the state of play as regards the US-China Phase One trade deal that was struck on 14 February this year. Peter Navarro said it was off, only to be contradicted by the president who said it was still on, while China recommitted to it in Hawaii. Maybe all parties are right, as the deal was really a publicity stunt. The deal can still be on, being more aspirational than legal. China is well short of its targets as demand is lower and it has been invoking its right to commercial flexibility, buying from cheaper sources than the US. Soybeans are just one example. With the collapse of the Brazilian real against the dollar, it has been cheaper for China to buy as much as possible from Brazil. In May, it bought 8.9mt, up 41% YoY on May 2019's 6.3mt, and up 50% MoM on April 2020's 5.9mt. Brazilian exports are now in full swing after heavy rain delays in Q1. In contrast, China bought only 0.5mt of US soybeans in May, half what it bought a year ago. However, by the time the new US crop is ready for export in the autumn, China is expected to raise its purchases as it typically buys 40% of its total annual US purchases in the Sep-Dec window. One presumes also that China has up its sleeve force majeure declarations should Covid-19 frustrate its attempts to fulfil its Phase One pledges. China expects a record average of 1m-bpd of US crude oil imports in July following earlier opportunist price-driven purchases of WTI-linked oil. This is more than double its previous record of 0.47m-bpd set in June 2018. The oil on the water arriving in July may be costing as little as $20 a barrel, half today's price. The US-China trade deal is both political, Trump needs to show he is making progress, and pragmatic, Xi needs to show he can get value. The bilateral relationship may face further headwinds as the US Senate has unanimously passed a bill imposing fresh sanctions on any Chinese individuals and companies, including banks, that undermine Hong Kong's semi-autonomous status.

China imported a record 11.3m-bpd of crude oil in May, but one bright forecast sees further increases to 13.6m-bpd in June and 13.5m-bpd in July, as cheaply purchased crude arrives in China, before falling back to 10.5m-bpd in August and 10.0m-bpd in September. Higher oil prices are tempting oil out of floating storage causing more tankers to return to active service and rates to collapse amidst weak, but recovering, final demand. We had anticipated the fortunes of tankers and bulkers to change places in second half 2020, but it has already happened. VLCC average earnings, as illustrated by the VLCC-TCE, most recently peaked at $192,512 per day on 22 April. Today, the reading is down to $15,281 daily. However, it is interesting to note that 10 of DHT's 27 VLCCs are locked into mixed period charters returning on average a minimum of $50,673 per day. Of the 17 VLCCs trading spot, DHT has fixed 97% of Q2 days at an average of $90,100 daily which it reckons to be well ahead of the Q2 industry average of $80,000 per day. It means that DHT and its listed competitors will have a very good first half, paying down debt and paying out to investors. This deleveraging opportunity for tanker owners will make them more resilient in what could be a tough journey to demand restoration.

Large bulk carriers have done the opposite, according to the Baltic's proxy for average capesize earnings: the BCI-5TC. It hit an annual low of $1,992 per day on 14 May only to register $29,641 today, a 15-fold increase. As the saying goes, stock markets can behave irrationally longer than you and I can remain solvent. Well, they certainly are delinked from the real economy which is in its worst shape this century. The major indices are supported by three things: central banks, TINA (there is no alternative) and FOMO (fear of missing out). Shipping shares are more complicated, as few investors know what they are buying and selling. At the fringe, the day traders and algo traders trade the share price, and share price volatility, rather than the underlying business. It is a classic attempt to buy low and sell high with computer triggers amplifying the ups and downs. Anyway, the direction of shipping share prices follows the near-term prospects: down for tankers and up for bulkers. For tankers, since their end April peaks, DHT is down 38%, Euronav off 35% and Frontline off 42%. For bulkers, since their mid May troughs, Golden Ocean is up 49%, Star Bulk up 74% and Safe Bulkers up 43%. The changing daily fortunes of listed shipping companies, and the extreme share price volatility, is beyond comprehension.

Dry Cargo Chartering

The **BDI** closed this week at 1,749, up 194 points from last Friday.

Another strong week for the **capes** driving the Baltic Dry Indices forward, gaining $4,130 to close play at $29,641. On voyage, Vale fixed numerous 170,000 mtons 10% stems from Tubarao to Qingdao on the usual ore run at $21.50 pmt. Rio Tinto booked similar stem sizes from Dampier to Qingdao at just under $10 pmt. Oldendorff fixed a Solebay To Be Nominated vessel for 170,000 mtons 10% from Saldanha Bay to Qingdao at $14.95 pmt. Very few time charter deals reported this week, but on period Pacbulk fixed the *Ugo De Carlini* (176,153-dwt, 2010) delivery Manila for 12-14 months redelivery worldwide at $15,000.

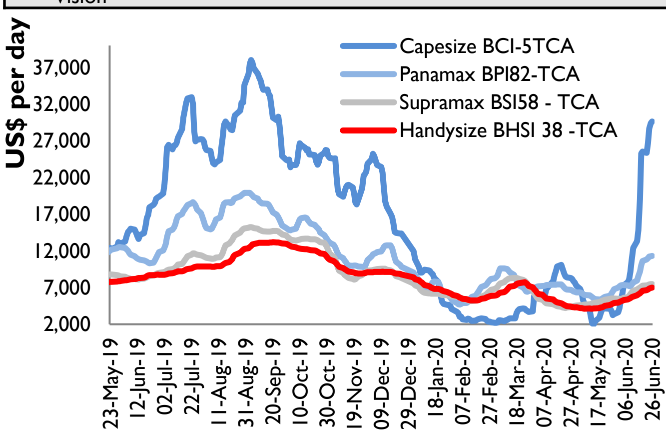
Similarly it was another positive week for the **panamax** market too with the BPI rising $703 to close the week's trading at $11,306. Cargill fixed the *Shandong Hong Tu* (76,116-dwt, 2012) delivery Ghent for a long trip via US Gulf and Suez redelivery China at $16,500, while also taking the *Sea Hermes* (81,708-dwt, 2013) delivery Amsterdam for an Atlantic round trip at $13,000. Turning to the Indian Ocean, the *Stalo* (81,800-dwt, 2017) was fixed retro-sailing Singapore for a trip via Richards Bay redelivery India by Klaveness at $14,000, and in the Pacific the *Majestic Island* (81,632-dwt, 2017) was fixed delivery Taichung for a trip via East Australia redelivery China at $11,800. Additionally, the *HC Beauty* (73,744-dwt, 1998) reportedly fixed delivery Hong Kong for a trip via Indonesia to South China at $9,350. Interest in period continued with Jera taking in the *Navios Uranus* (81,600-dwt, 2019) delivery Hazira for 6-9 months at $13,850 with worldwide redelivery. The Steel Authority of India remained very active fixing multiple stems including another 75,000 mtons 10% coal stem from Gladstone to Visakhapatnam, this time at $14.20 pmt.

The **supramax** market remained strong but appeared to be quieter this week. The BSI closed at $7,460, up slightly from last weeks $7,230. In the Atlantic, the *LMZ Vega* (56,180-dwt, 2010) fixed delivery Lindoe for a prompt trip via Ust Luga redelivery Dakar at $11,250. The *Orion* (56,071-dwt, 2007) fixed delivery US Gulf for a prompt trip redelivery Japan with grains at $17,000. In the Indian Ocean, the *Melpomeni* (53,836-dwt, 2002) fixed delivery Chittagong for a prompt trip via East coast India redelivery China at $16,000. The *Jag Roopa* (52,454-dwt, 2006) fixed delivery Mundra for a trip via Arabian Gulf redelivery South-East Asia at $16,000. In the Pacific, the *Mimi Selmer* (55,711-dwt, 2005) fixed delivery CJK for a prompt trip redelivery South-East Asia, the *Thor Breeze* (53,464-dwt, 2013) fixed delivery Kohsichang for a trip via East coast India redelivery China at $10,000, while the *Stingray* (57,080-dwt, 2015) fixed delivery Singapore for a prompt trip via India redelivery China at $11,500.

The **handysize** market remained rather flat this week with the index ending up at $7,008. In the Atlantic, Bunge took the *Mykonos Dawn* (37,880-dwt, 2017) delivery Ilheus for a trip into the Black Sea with grains at $18,500. We heard some strong numbers in the Pacific this week though there was a general consensus that rates are coming off. The *Irongate* (28,316-dwt, 2015) fixed delivery CJK for a trip via South Korea redelivery Singapore at $7,500. Further south, we heard a 35k-dwt fixed $8,000 delivery Vietnam for trip to South-East Asia via East coast India. Not much to report on the period side this week.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Key Light	83,027	2012	Bahodopi	25-27 June	Philippines	12,000	D'Amico	Via Indonesia
Maxwell	82,170	2017	Rotterdam	30 June-1 July	Gibraltar	13,250	Aquavita	Via Baltic and Mediterranean
KM Singapore	80,559	2013	Fangcheng	24-25 June	Philippines	9,000	Oldendorff	Via Indonesia
Desert Harrier	60,447	2017	USEC	End June	Atlantic	12,000	XO Shipping	3-5 months
Filia Glory	58,018	2011	Pipavav	Ppt	Worldwide	13,000	Simtra	4-6 months
Stingray	57,080	2015	Singapore	Ppt	China	11,500	Cnr	Via India
Melpomeni	53,836	2002	Chittagong	Ppt	China	16,000	Cnr	Via East coast India
Thor Breeze	53,464	2013	Kohsichang	22 June	China	10,000	Cnr	Via East coast India
Mykonos Dawn	37,880	2017	Ilheus	Ppt	Black Sea	9,500	Bunge	With grains
Strategic Vision	37,186	2012	Acajutla	Ppt	USWC	8,000	Pacific Basin	Via Chile with salt



Exchange Rates	This Week	Last week
JPY/USD	107.16	106.87
USD/EUR	1.121	1.1228

Brent Oil Price	This Week	Last week
US$/barrel	40.66	42.59

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	240.0	250.0
MGO	370.0	372.0
Rotterdam IFO	255.0	240.0
MGO	343.0	356.0

Dry Bulk S&P

With the freight market showing consistent signs of improvement, activity in the dry sale and purchase market continues to gather pace. A growing number of Buyers are emerging, looking to take advantage of values before increased competition starts to drive prices higher. As China continues its restocking drive, *Alpha Era* (170,387-dwt, 2000 Sasebo) has reportedly been sold to further trading PRC buyers for $7.8m, basis SS due (equivalent to a demo value of $317 ldt).

The run on fifteen to twenty-year-old panamaxes continues this week. The Union Maritime controlled, *Harrow* (76,752-dwt, 2005 Sasebo) has reportedly been sold to clients of AIMS Shipping for $8.6m, SS passed/BWTS fitted. An encouraging number for the sellers compared to the $7m achieved for *Navios Northern Star* (75,395-dwt, 2005 Universal), sold with SS promptly due, to undisclosed interest.

Suprastar (57,000-dwt, 2011 Qingshan) appears to have bucked the trend and found an undisclosed German buyer at $7.2m. Showing that others outside of China see opportunity in this sector at current prices. Reverting to type, after weeks of speculation, we understand *Aragonit* (56,757-dwt, 2012 Jiangsu Hantong), has been sold for $8.4m to undisclosed Chinese buyers. The premium attributed to the vessel's Tier II status and healthy SS/DD position.

D'Amico continue to part with tonnage. They are widely rumoured to have fixed Cielo Di *Cartagena* (39,202-dwt, 2015 Yangfan). It's understood to have gone to undisclosed buyers for regions $13.5m. In light of any recent transactions in this Chinese eco-spec bracket, the number falls in line with current benchmarks. The lightening of Japanese owned handysizes continues. *Orient Hope* (32,165-dwt, 2009 Hakodate) has reportedly been sold to undisclosed buyers for $7.5m. Its perhaps unfair to compare this sale to *Clipper Kamoshio* (32,226-dwt, 2009 Kanda), which went for $6.4m at the start of the Covid-19 pandemic, as those were strained times for all. Nevertheless it's a clear indicator of where sentiment has shifted to since then. In line with recent transactions, *Global Trinity* (28,202-dwt, 2011 Imabari) has been sold for $6.6m to undisclosed Greek interest.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Alpha Era	170,387	2000	Sasebo HI	Gearless	Chinese	$7.80m	SS due (equivalent to a demo value of $317)
Aquavita Air	82,192	2020	Oshima	Gearless	Safe Bulkers Inc	$28.50m	
Harrow	76,752	2005	Sasebo HI	Gearless	AIMS	$8.60m	SS passed, BWTS fitted
Qi Xiang 21	75,704	2011	Shanghai Shipyard	Gearless	Chinese	$13.95m	Internal Chinese deal
Navios Northern Star	75,395	2005	Universal	Gearless	undisclosed	$7.00m	with SS due
Panamax Energy	74,083	1998	Imabari	Gearless	Chinese	$3.25m	
Suprastar	57,000	2011	Qingshan Shipyard	C 4x30T	German	$7.20m	
Aragonit	56,757	2012	Jiangsu Hantong	C 4x36T	Chinese	$8.40m	
Vigorous	52,498	2005	Tsuneishi Cebu	C 4x30T	undisclosed	$6.45m	basis delivery in October
Cielo Di Cartagena	39,202	2015	Yangfan Group	C4x30T	undisclosed	$13.5m	
Smart Tina	38,850	2015	Taizhou Kouan	C 2x50T C 2x36T	German	$11.80m	
Orient Hope	32,165	2009	The Hakodate Dock	C 4x30T	undisclosed	$7.50m	
Global Trinity	28,202	2011	Imabari	C 4x31T	Greek	$6.60m	

HARTLAND SHIPPING SERVICES

Tanker Commentary

In the last week VLCC rates have fallen significantly, reaching lows of around $21k/day. As production cuts are maintained across the board, supply side factors outweighing demand and inflating the price of crude, resulting in less demand for tankers.

The market fundamentals would suggest that the longer term future is promising. Beaches have started opening up for the demolition business, this coupled with pressures to move towards more eco-friendly engine designs is likely to result in a fleet reduction. A lack of available finance and limited new building enquiry should help the overall story of fleet reduction at a time when it is needed. Having said that, although the beaches have opened up, it is speculated that the lack of demand for steel and significant inventory of ships on cash buyers books may lead to uninspiring rates for the remainder of this year.

Having purchased a 12 year old aframax earlier this year, Greek owners Eurotankers appear to be shedding older tonnage having sold their suezmax tanker, *Sandro* (160,373-dwt, 2000 Daewoo) for $13m to an unknown buyer. This sale is approximately 14% below our internal benchmark for a vessel this age, however the quality of the vessel and given she has surveys/BWTS due may have played a more significant role in this sale price.

Elsewhere in the Suez sector, the *SKS Sinni* (159,385-dwt, 2003 HHI) had been reported last month as sold to Salmar for $21m, however we understand the buyers have recently renegotiated a price of $20.2m.

Maersk Tankers have found a buyer for their *Maersk Rosyth* (34,810-dwt, 2003 GSI, 12 epoxy coated tanks, IMO II) agreeing a price somewhere around $7.2m. The Danish powerhouse has been looking to offload much of their older tanker tonnage of recent, with their last vessel being sold is the *Ribe Maersk* (34,806-dwt, 2004 GSI, 12 epoxy coated tanks, IMO II) back in April to Indonesian buyers. It would be no surprise if this week's buyer is from the same region.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Sandro	160,373	2000	Daewoo HI	undisclosed	$13.00m	
Maersk Rosyth	34,810	2003	Guangzhou Shipyard	undisclosed	$7.20m	
Sichem Singapore	13,141	2006	21st Century	undisclosed	$5.50m	

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