3 July 2020

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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THE BIGGER PICTURE

… Unification, Part One ? …

Source : The FT / Ingram Pinn

POINTS OF VIEW

On Tuesday, the 23rd anniversary of Britain's handover of Hong Kong, Beijing's birthday gift to the former colony was the passage of a new security law. It brought protesters back onto the streets and was widely condemned abroad, including by the UK, the US and Australia. It is seen to contravene the Basic Law, Hong Kong's constitution, and to contradict the principle of 'one country, two systems'. It reinforces the impression of China becoming more assertive in the Asia-Pacific region with its militarisation of the East and South China Seas, challenging the territorial rights of its neighbours and posing a threat to Taiwan's independence. Globally, its Belt and Road Initiative is viewed with suspicion as China finances infrastructure investments that can turn into debt traps and loans be converted into equity. By this method, whether by accident or on purpose, China can, and does, end up owning strategically important railways, roads and ports that facilitate its extraction of valuable resources. In response to the new law, the UK is to offer a path to citizenship to 3 million HK holders of British National Overseas passports while many MPs are clamouring to review Chinese investments in vital UK infrastructure ranging from rail, ports and highways to water, telecoms and power. In a post-Brexit, Covid-weakened world the UK's current disagreements with the US, Europe and China will make it more difficult to secure trade deals. Pragmatic compromises lie ahead.

This week, thousands of UK job losses were announced in aviation, retailing and food as it becomes apparent that much of the Covid economic fallout still awaits. In response, Boris Johnson, the UK prime minister, called for a Rooseveltian-style New Deal for the British economy led by heavy investment in easy shovel-ready infrastructure projects. Unfortunately, this is largely recycled news as such plans have been talked about for years but have yet to materialise. The initial £5 billion of capital spending to be brought forward, with extra to follow, is to be spent on more homes, schools, hospitals, roads, rail and broadband, all with less planning constraints. But, the New Deal comparison is flattering as there will be no Hoover Dam here. Besides, FDR's New Deal is estimated to have cost the equivalent of £1 trillion (1933-39) in today's money.* The British public has already been promised a levelling up, bringing southern prosperity to the north, and big vanity projects such as Crossrail, Hinkley Point, HS2, the London supersewer and even Heathrow expansion, if it ever gets planning. These long-term investments will be subject to heavy delays and cost inflation making the more immediate spending outlined in the PM's speech, albeit without detail, more appropriate in mitigating imminent job losses. Covid, Brexit and multi-front US trade wars, that are having knock-on effects around the world, are evidently setting huge challenges to global shipping and trade.

Q2 has been an economic disaster for many western economies as, on the advice of epidemiologists and the WHO, they entered into voluntary full national lockdowns. The medics never took into account the huge economic damage, nor the second round physical and mental health costs. Under the circumstances of such a big hit to demand in Q2, shipping has done relatively well, especially true for large tankers, but less so for large bulkers. A 10-year old VLCC achieved an estimated Q2 average of $84,000 after a Q1 average of $84,500 per day. Meanwhile, a 10-year old capesize averaged an estimated $9,500 in Q2 after a dismal average of just $2,000 per day in Q1. As we enter Q3, VLCC earnings are weakening while capesize earnings are rising, implying a juxtaposition of tanker versus bulker fortunes in the second half of this year. In terms of values, all tankers and bulkers have fallen in value since the start of the year, a function of weaker demand as a result of the deadly virus. Any recovery in values will depend on the pace of restoration of demand, leading to higher earnings. This requires speculation. Baltic Sale & Purchase Assessments for 5-year old ships over the first half of 2020 suggest that a VLCC is off 3.4% from $75.5m to $72.9m, a suezmax is down 4.7% from $52.8m to $50.3m, an aframax is off 0.7% from $40.2m to $39.9m and an MR is down 3.0% from $29.6m to $28.7m. Bulkers fared less well, despite an earnings rebound in June, with a capesize off 8.6% from $33.7m to $30.8m, a kamsarmax down 10.5% from $22.9m to $20.5m, a supramax off 10.7% from $16.9m to $15.1m, and a large handysize down 9.4% from $16.0m to $14.5m.^ Brave investors may see this is a buying opportunity.

*The Times estimates that FDR pledged to spend the equivalent of 40% of 1929 pre-depression US GDP. In contrast, Boris has initially pledged to advance £5bn of planned spending, 0.2% of UK's £2.2tn GDP.

^The last reading is dated from early April when the Baltic introduced a 5-year old 38,200-dwt handysize to its BSPA index coverage.

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Dry Cargo Chartering

The **BDI** closed the week at 1,894, up from last weeks close of 1,749.

The **cape** market closed the week at a healthy $32,682. This was up from last weeks close of $29,641. On voyage, Port Hedland to Qingdao was fixed at $10.15 for 170,000/10% ore. In the Altantic, Tubarao to Qingdao was fixed at $19.50. On time charter, the *DS Charme* (176,000-dwt, 2011) fixed delivery Iskenderun for a trip via Black Sea redelivery Singapore-Japan range at $55,000. *K-Confidence* (181,488-dwt, 2013) a scrubber fitted RWE relet fixed delivery Gibraltar for a trip via Puerto Drummond to Karabiga, redelivery Gibraltar at $35,000 with Koch Shipping.

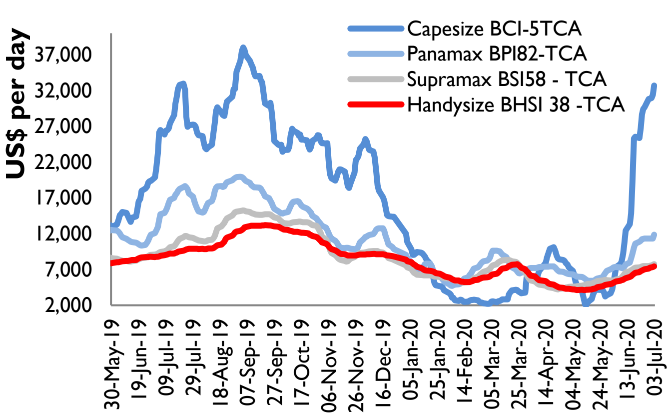
The **panamax** market had another positive week with rates continuing to improve, albeit a little slower than last week, with gains of $534 closing today at $11,840. In the Atlantic, the *Patroklos* (81,148-dwt, 2017) fixed delivery Brest for 2-3 laden legs redelivery Skaw-Gibraltar range at $13,500 with Nordic Bulk Carriers *Mint* fixed (82,000-dwt, 2020) delivery El Dekheila for a trip via Black Sea & AG redelivery Port Said with grains at $10,500 with Langlois. Comerage fixed the *Shandong Fu Hui* (81782-dwt, 2017) delivery Isdemir for a trip via Black Sea redelivery Singapore-Japan range at $23,000. The New Emperor was fixed out of East coast South America into the Arabian Gulf, redelivering PMO at $14,250 plus $425,000 bb. In the East, *Apollon* (82,084-dwt, 2018) was fixed delivery retro Butterworth for a trip via East coast South America redelivery Singapore-Japan intention grains $12,750 with Cofco Agri. Perfect Bulk took the *Medi Tokyo* (89,482-dwt, 2018) delivery Tachibana for a trip via Australia redelivery Singapore-Japan range at $14,250. The *CL Tianjing* (81,315-dwt,2016) fixed delivery Lianyungang trip via US Gulf redelivery Singapore-Japan range at $11,000.

The **supramax** market was overall flat with a downside shown closing to the end of this week. The BSI closed at $7,716 up from last weeks $7,633. In the Atlantic, *Newseas Jade* (52,409-dwt, 2005) fixed delivery US Gulf for a prompt trip redelivery West Africa at $12,500. *Ilenao* (55,442-dwt, 2013) fixed delivery Aliaga for a prompt trip redelivery West Africa at $6,500. In Indian Ocean, *KSL Qinyang* (56,880-dwt, 2011) fixed delivery Chittagong for a trip via East Coast India redelivery China at $15,250. *Asia Emerald IV* (58,016-dwt, 2012) fixed delivery Mumbai for a prompt trip via Salalah redelivery Vietnam with Gypsum at $14,750. In the Pacific, *Anetos* (58,163-dwt, 2009) fixed delivery Japan for a prompt trip via Nopac redelivery Singapore-Japan at $7,900, *Bulk Orion* (56,155-dwt, 2011) fixed delivery Busan for a prompt trip via CIS redel South East Asia at $5,500.

Signs of a slight improvement this week with the **handy** index moving up $416 to close today at $7,424. Rates appeared to improve in the Atlantic. We heard 40k-dwt fixed and failed at 8k dop Denmark to Turkey. *Kapetan Nondas* (34,816-dwt, 2012) was fixed delivery Canakkale for a trip via Black Sea to Southeast Asia at a healthy $11,500. Pacific saw a week of softening rates. Seaking fixed the *Tan Binh 234* (32,936-dwt, 2016) delivery Binh Thuan for a trip via Vietnam to Bangladesh with aggregates at $6,750. Further south, we heard a 35k-dwt fixed $9,000 delivery Singapore for trip to China. On period side, Cargill has *Uni Wealth* (29,255 dwt, 2009) on subjects delivery Korea for $6,250 for 3-5 months trading.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
K Confidence	181,488	2013	Gibraltar	5 July	Gibraltar	35,000	Koch	Via Puerto Drummond
DS Charme	176,000	2011	Iskenderun	8 July	Singapore-Japan	55,000	Fayette	
Patroklos	81,148	2017	Brest	30 June	Skaw-Gibraltar	13,500	Nordic	
Eclipse	79,474	2010	Sunda Stait	30 June	SE Asia	10,000	ASMI	Via ECSA
New Emperor	76,585	2006	ECSA	29 July	PMO	14,250 +425k	cnr	Via ECSA
Kaley	63278	2015	Iskenderun	3 July	Singapore-Japan	16,000	Langlois	Scrubber fitted
Ellirea	60,263	2017	Sohar	prompt	PG -India	13,500	Victory	2/3 LL
Kapetan Nondas	34,816	2012	Canakkale	Mid July	Via Black Sea	11,500	cnr	
Arawana	32,318	2012	Tauranga	prompt	Singapore-Japan	7,500	cnr	
Lady Cansen	28,750	2009	Prai Mole	5 July	Paranagua-Rio range	8,750	Norsul	



Exchange Rates	This Week	Last week
JPY/USD	107.51	107.16
USD/EUR	1.1225	1.121

Brent Oil Price	This Week	Last week
US$/barrel	42.67	40.66

Bunker Prices ($/tonne)	This week	Last week
Singapore IFO	260.0	240.0
MGO	390.0	370.0
Rotterdam IFO	250.0	255.0
MGO	360.0	343.0

Dry Bulk S&P

The capesize market has continued to post positive gains this week. Its meteoric rise over the last month is further bolstering current positivity in all sectors of the dry market. It's therefore no surprise to see this positivity now trickling down into second hand values. All of which are now nudging north.

The headline of the week, is the sale of the Doun Kissen controlled *Graceful Madonna* (180,242-dwt, 2010 Koyo). Reportedly sold to clients of Eastern Pacific for $20.5m, on a waive inspection basis. The last comparable transaction was *Cape Agnes* (181,458-dwt 2010 Koyo) sold for $18.2m last month. However, one must bear in mind this was reportedly an internal Japanese deal. Cido have sold one of their 15-year-old capesizes, *Great Challenger* (176,279-dwt, 2005 Universal) to undisclosed interest for $11.25m. Remembering *Cape Baltic* (177,536-dwt, 2005 Mitsui), was sold in May for $10.75m. Elsewhere in the sector, Kline have sold *Cape Rosa* (203,163-dwt, 2005 Universal) for $13.5m, reportedly to clients of Berge Bulk.

Kline make a second appearance in the sales table this week. Reportedly having sold *Corona Horizon* (88,315-dwt, 2000 Imabari) to undisclosed interest for $5.8m. Diana Shipping have parted company with *Arethusa* (73,593-dwt, 2007 Jiangnan). Greek buyers Castor Maritime are currently linked with the sale at $7.85m.

Favorita and *Rosita* (52,292-dwt, 2005 & 2004 Tsuneishi Cebu) have been sold to undisclosed buyers for $13.8m enbloc. Rosita basis bwts fitted, SS passed. Favorita basis bwts fitted, SS due. The last done back in June, was the sister vessel *Vigorous* (52,498-dwt, 2005 Tsuneishi Cebu) sold for $6.45m, basis SS/DD due.

Activity in the handysize sectors continues. *Global Heart* (32,964-dwt, 2012 Hakodate) has reportedly been sold to undisclosed Turkish buyers for excess $9m. At excess $9, it's arguably a slight step up from the three older sister, *Orient Hope* (32,165-dwt, 2009 Hakodate) which was done only last week at $7.5m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Cape Rosa	203,163	2005	Universal	Gearless	Far Eastern	$13.50m	
Graceful Madonna	180,242	2010	Koyo Dockyard	Gearless	EPS	$20.50m	
Great Challenger	176,279	2005	Universal	Gearless	undisclosed	$11.25m	
Corona Horizon	88,315	2000	Imabari	Gearless	undisclosed	$5.80m	
Arethusa	73,593	2007	Jiangnan	Gearless	Castor Maritime	$7.85m	
Bulk Beothuk	50,992	2002	Oshima	C 4x30T	Chinese	$4.80m	DD due
Favorita Rosita	52,292	2005 2004	Tsuneishi Cebu	C 4x30T	undisclosed	$13.80m enbloc	Bwts fitted & ss due. Fixed on subs
Global Heart	32,964	2012	Hakodate Dock	C 4x30T	Turkish	xs $9.00m	

Tanker Commentary

Over the coming months, tanker demand will remain supressed as more crude and product tankers re-enter the market from increased de-stocking. As we are learning to cope with the 'new normal', we can still expect countries to be dipping in and out of lockdown which is sure to reduce demand for oil and CPP's. As a result, tanker asset prices are likely to be under increased pressure across the board for the foreseeable future. Buyers are evidently sitting on the side lines anticipating better priced opportunities will present themselves in the coming months.

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