31 July 2020

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

THE BIGGER PICTURE

… Vale Brasil :
The first of 67 trading valemax …

Source : Vale

POINTS OF VIEW

One of the worst things that can happen from an independent shipowner's point of view is when oil majors, miners and traders decide to build their own ships to carry their own cargoes. History is littered with examples of periodic decisions to own ships, as opposed to chartering them, often happening at times of high freight rates. Suddenly, enough is enough, and some portion of the freight book is used to invest in owning ships and amortising the loans that leverage the equity. This becomes a hedging mechanism and reduces the total amount of freight going out of the door, never to be seen again. However, it often happens that in the next cyclical downturn in freight, owning ships is declared a non-core business and the assets are sold at the bottom of the market cycle. It is the unintended strategy of 'buying high and selling low', the opposite to what one hope to achieve with a private share and bond portfolio. We will look at two notable examples of this in wet and dry, albeit that both plays served longer term strategies.

The oil major example is Saudi Aramco's Vela ('Sail') shipping arm, which was formed in 1984. In a big move into owning its own tankers, between September 1993 and March 1995, Vela took delivery of 15 ultra-high specification VLCCs at record prices rumoured to be as high as $150m each,* matched only in the sky-high market of 2008. These served Saudi Aramco well in delivering 20% of its crude oil, that was sold on a CIF delivered basis, safely to customers (often its own refineries) in the US, Europe and Asia. Despite the high capital cost, these tankers could often generate very strong operating earnings on account of having access to Aramco fuel oil at cost, minimising the single largest operating cost. Once past 2010, Aramco decided owning tankers was non-core to its main operations and decided to merge the Vela fleet and its delivered crude obligations with another Saudi shipping company. That company was National Shipping Company of Saudi Arabia (NSCSA), now named Bahri ('Sea'). The MoU was inked in late 2012 and the merger completed in mid 2014. It involved transferring the tankers in a down market, implying a book loss, but the merged entity is now a national champion and is expanding and prospering with Aramco as a key shareholder and sponsor.

The mining example is Vale's shipping arm. Its quantum leap came in 2007 when it went ahead with its valemax project to reduce freight costs on the key Brazil/China route. For several years Vale had been paying out huge sums to ship iron ore to China, later peaking at over $100 a tonne on smaller capesize shipments of 160,000/10 in Q2 2008. In August 2008, Vale ordered 12 valemax units of 400,000-dwt each at Rongsheng and, in October 2009, it followed up with 4 at Daewoo and, in July 2010, another 3 at Daewoo. The first 12 were ordered at the peak of the dry bulk freight and newbuilding price cycles, at over $133m each, making them the most expensive VLOCs ever built.^ The first four Daewoo ships cost $115m each, reflecting a 14% drop in nominal prices in 10 months. In January 2012, China banned bulkers over 300,000-dwcc from entering its ports, a ban that was not lifted until July 2015. This changed the economics for Vale's ships, and was rumoured to have been prompted by Cosco objections to Vale's CIF sales and control of this vital shipping route. Between May 2015 and December 2017, all 19 Vale-owned ships were sold to Chinese entities, including Cosco, at considerable book losses.

Lessons were learned. Nowadays, miners want to control some ships in partnership with shipowners who will adopt their specifications and help them meet 2030 GHG emission targets, but this time at a low point in the ship price cycle. Anglo American is ordering 4+4+2 x 187,000-dwt duel-fuel bulkers at SWS for $60-65m each that suit Port Acu and Saldanha limits. It will select an owner and provide 10-year TCs. EPS is rumoured to have ordered 5 x 208,000-dwt DF units at NTS for $66m each against 5-year TCs to BHP. Cosco has ordered 10 x 210,000-dwt conventional bulkers from Cosco HI Yangzhou for $53m each and will bareboat them from ICBC against long-term COAs with Chalco to lift bauxite from Boffa, Guinea in West Africa to China. Early last year, it had ordered 18 similar scrubber-fitted units at $55m each from four Chinese shipyards, also backed by Chalco COAs. These JVs work well for both ship owners and cargo interests.

*A basic 320,000-dwt VLCC would cost about $85m today.

^A basic 400,000-dwt VLOC would cost about $80m today.

WEEKLY COMMENTARY

31 July 2020

HARTLAND SHIPPING SERVICES

Dry Cargo Chartering

The **BDI** closed at 1,350, up from last week's 1,317.

The **cape** market closed the week at $18,296. This was also up from last week's close of $17,284. On voyage, Port Hedland to Qingdao ore runs were fixed at around $6.20 pmt for 170,000 mton 10% stems. In the Atlantic, Oldendorff fixed the *Milos Warrior* (179,276-dwt, 2011) at $17.45 pmt for a Tubarao to Qingdao 170,000 mton 10% ore stem. On time charter, H-Line fixed the *CS Salubrity* (180,301-dwt, 2014) delivery Jiangyin for a trip via West Australia redelivery Singapore-Japan at $15,900.

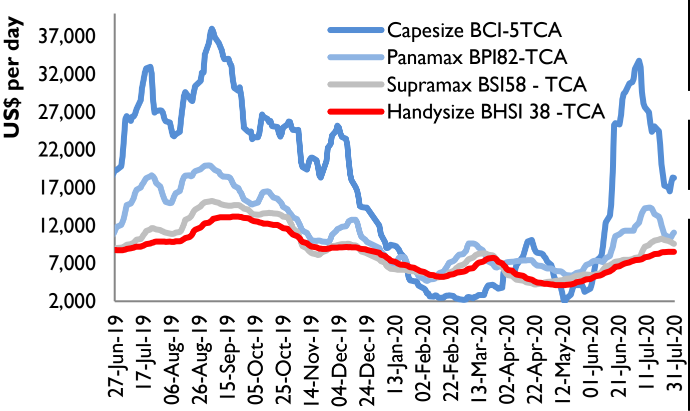
The **panamax** market recovered somewhat this week closing at $11,045, up from last week's close of $10,786. In the Pacific, Deyesion fixed the scrubber fitted *Star Laura* (82,209-dwt, 2006) delivery Toyama Shinko via CIS to Singapore-Japan range at $10,500, while Tata NYK took the *Zheng Yao* (81,716-dwt, 2014) delivery CJK for a prompt trip via Australia to India at $9,500. In the Atlantic, front haul rates remained strong as Oldendorff fixed the *Pacific Kindness* (82,177-dwt, 2011) delivery Liverpool for a trip to the Far East via the Baltic and COGH at $18,750. Rates from East coast South America were also sustained as Cargill fixed the *Omicron Sky* (77,031-dwt, 2006) for an August trip to Singapore-Japan range at $13,850 plus a $385,000 ballast bonus. Cargill were also active on the period side of things and took in the *SSI Dignity* (81, 221-dwt, 2014) delivery Dalian for 11/13 months at $10,500 with worldwide redelivery. The Steel Authority of India fixed a TBN vessel for a 75,000 mton 10% coal stem next month, from Newport News to East coast India at $28.45 pmt.

The **supramax** market continued to soften across most routes this week, and closed at $9,565 down from last weeks $10,070. In the Atlantic, the *Ultralaz* (64,042-dwt, 2018) fixed delivery Naples for a prompt trip via the Black Sea and India redelivery Durban at $13,250, while the *Veruda* (51,886-dwt, 2011) fixed delivery Calabar for a prompt trip via West Africa to China with manganese ore at a healthy $21,000. Over in the Indian Ocean, Allianz Bulk took the *Advance* (55,638-dwt, 2007) delivery Paradip for a trip via East coast India to China at $14, 750, and in the Pacific the *Cheval Blanc* (56,732-dwt, 2009) fixed delivery Ningde for a trip via Philippines with nickel ore redelivery South China at $9,000 with option North China at $9,800. Additionally, the *Lycavitos* (58,786-dwt, 2007) fixed delivery South Japan for a prompt trip via Australia to China at $8,750.

The **handy** market remained relatively flat once again, closing at $8,539, up slightly from last week's closing of $8,473. In the Indian Ocean, the *Xin Hai Tong 8* (48,897-dwt, 2014) was fixed delivery Haldia for a trip via East coast India to China at $15,000, while the *Audacious* (46,683-dwt, 2004) fixed delivery West coast India for a trip via the Red Sea to China at $9,000. In the Atlantic, rates from East coast South America stabilised as we heard that a 34k-dwt vessel fixed at $12,500 for a trip from the Plate to the Mediterranean, and a 39k-dwt vessel fixed at $12,000 for a trip to the Continent. There was once again limited activity in the Pacific and minimal interest in tonnage for period.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
CS Salubrity	180,301	2014	Jiangyin	30 July	Singapore-Japan	15,900	H Line	Via W.Australia
Welfine	93,146	2011	Gibraltar	28 July	China	19,000	CNR	Int Bauxite
BBG Guigang	82,000	2020	EC South America	14 Aug	Skaw-Gibraltar	13,500	CNR	
Marielena	81,354	2008	Retro Singapore	6 July	Singapore-Japan	10,500	Bunge	Via EC South America
Odysseas L	81,259	2013	Gibraltar	28 July	Rotterdam	7,000	Norden	Via Murmansk
Ultralaz	64,042	2018	Naples	PPT	Durban	13,250	CNR	Via Black Sea and India
Lycavitos	58,786	2007	S. Japan	PPT	China	8,750	CNR	Via Australia
Cheval Blanc	56,732	2009	Ningde	31 July	South China/North China	9,000/ 9,800	YND	Via Philippines
Besiktas M	53,020	2003	Gresik	PPT	India	10,000	CNR	Via South Africa
Audacious	46,683	2004	WC India	08/09 Aug	China	9,000	CNR	Via Red Sea



Exchange Rates		This Week	Last week
	JPY/USD	104.67	105.92
	USD/EUR	1.1848	1.1601

Brent Oil Price		This Week	Last week
	US$/barrel	43.25	43.17

Bunker Prices ($/tonne)		This week	Last week
	Singapore IFO	282.0	275.0
	MGO	387.0	395.0
	Rotterdam IFO	259.0	250.0
	MGO	358.0	364.0

Dry Bulk S&P

Given COVID-19 has caused about as much uncertainty as any of us can remember, it is odd to find consistency in the dry Sale & Purchase markets. Over the past month the same types of ships are changing hands regularly at the same sort of levels.

Buying interest remains focussed on around 10-15 year old vessels or modern, eco tonnage. On older units a large bid / offer spread remains and little is being concluded.

Japanese ultramaxes that have been returned to head owners from charters ending prematurely continue to sell at best. *Bulk Aries* (60,220-dwt, 2016 Onomichi) is sold to Greek Buyers for $18.5m. There were rumours another Buyer was competing above 19m however the sellers went with the outright Buyer taking a price slightly down on last week's sale of *Ocean Jorf* (61,269-dwt, 2016 Iwagi) which achieved $18.85m. *Santa Katarina* (58,096-dwt, 2010 Tsuneishi Cebu) is sold for $10.7m, a price in line with the same age Sister *BW Flax* which sold a couple of months ago at 400k less but without a BWTS included. *Xing Le Hai* & *Xing Huan Hai* (81,360dwt, 2017 Namura) have both been committed for $26m each. Prior to this, *Aquavita Air* (82,192-dwt, 2021 Oshima) was sold as a resale basis Q1 2021 delivery for $28.5m a month ago and these represent a slight step up on that.

Japanese 32s and 28s continue to find European Buyers and the 28s remain heavily discounted. *Ikan Jenahar* (31,755-dwt, 2010 Saiki) sold for $8m, in line with last done moonlight serenade and *Global Innovator* (28,222-dwt, 2013 I-S) sold for $7.1m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Pacific Oak	203,212	2005	Universal	Gearless	Chinese	$14.25m	SS due
Xing Le Hai	81,361	2017	Namura	Gearless	Chinese	$26.00m each	
Xing Huan Hai	81,361						
Bulk Aries	60,220	2016	Onomichi Dockyard	C 4x30T	Greek	$18.50m	
Santa Katarina	58,096	2010	Tsuneishi Cebu	C 4x30T	Greek	$10.70m	price including $300k ballast water that is not yet installed
La Venture	43,368	2017	Qingshan	C 4x30T	Pavnav, Mexico	$16.10m	
Hongxin Ocean	32,484	2012	Zhejiang Hongxin	C 4x30T	Chinese	$6.95m	internal Chinese deal
Ikan Jenahar	31,755	2010	Saiki HI	C 4x30T	undisclosed	$8.00m	include SS due 2022 and BWTS fitted
Global Innovator	28,222	2013	I-S Shipyard	C 4x31T	undisclosed	$7.10m	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Vinland	125,827	2000	Samsung HI	Tank	27,870	$180.00	Turkey
Alby Melody	45,642	1995	Tsuneishi	Bulk	7,539	$359.00	Pakistan
MJ Bulker	45,304	1995	Imabari	Bulk	8,071	$353.00	Pakistan
CMA CGM Okapi	22,900	2000	Stocznia Szczecinska Porta	Cont	7,850	$190.00	Turkey
MCC Ha Long	21,825	1991	Odense Staalskibsvaerft	Cont	7,480	$233.00	'As is' Singapore
MCC Mergui	21,825	1992	Odense Staalskibsvaerft	Cont	7,480	$233.00	'As is' Singapore
Tove Maersk	21,825	1992	Odense Staalskibsvaerft	Cont	7,480	$233.00	'As is' Singapore

Tanker Commentary

Lacklustre spot earnings across all sectors of the tanker market coupled with concerns over a second wave of Covid 19 infections do not provide a stable environment for investment in tanker assets. As you can see this week, there are no tanker sales to report as buyers anticipate better priced opportunities will present themselves over the coming months. Since the peak of the market in the second quarter, typically values have fallen between 5-20% depending on size/age with the vintage VLCCs most adversely effected. In late April, Eastern Mediterranean Maritime sold the *Lucky Trader* (298,677 dwt, 2000 Hitachi) for $30m where as this week a deal on the sister vessel *Commodore* is reportedly close to being concluded at $23.5m. Activity is likely to remain scarce over the summer months until we either see a further correction in pricing or a recovery in earnings.

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
Email: snpuk@hartlandshipping.com
Email: consult@hartlandshipping.com

Hartland Shipping Services Ltd, Shanghai
Tel: +86 212 028 0618
Fax: +86 215 012 0694
Email: snpcn@hartlandshipping.com

Hartland Shipping Services Pte. Ltd, Singapore
Tel: +65 6702 0400
Email: chartops.sg@hartlandshipping.com