29 October 2021

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

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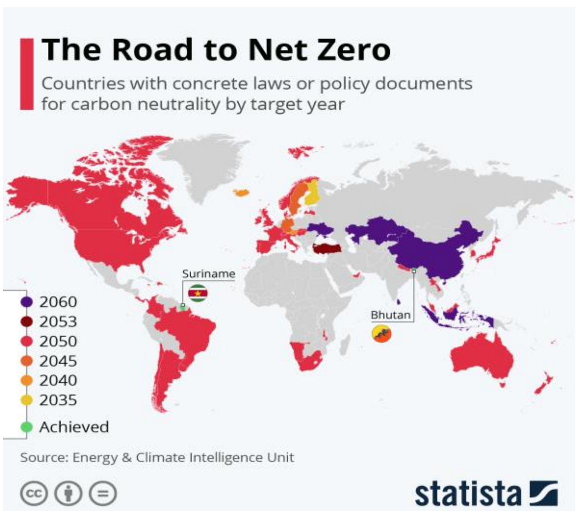


Source : E&CIU / Statista

*Three major coal producers have set a ceiling price of ¥1,200 for the winter heating season, illustrating the power of the NDRC.

On Thursday, thermal coal futures on the Zhengzhou exchange fell 13% to ¥1,033 a tonne in response to NDRC intervention.

^The Beijing Winter Olympics take place 4 to 20 February 2022, while the Paralympic Winter Games run from 4 to 13 March.

**BSPA 5yo (start '21 in brackets): Cape $47.3m ($32.0m), Kmax $33.8m ($21.1m), Smax $29.4m ($15.1m), Hndy $25.1m ($14.7m).

POINTS OF VIEW

The dry bulk market continues to correct from its recent highs leaving everyone a little confused. The spot market is in freefall and the futures in turmoil. So, has there been a dramatic shift in the underlying fundamentals? As usual, we need to turn to China. We are witnessing a multi-front government-induced slowdown which seems to be aimed at cracking down on excess. Excessive steelmaking, over-leveraged real estate companies, egregiously rich private entrepreneurs, too much pollution, sky-high commodity prices and even unreasonably high freight rates. The actions of President Xi Jinping and the NDRC have managed to prick these assorted bubbles, while the mission of 'common prosperity' seems to be visible in each correction. Prices had risen too far, there has been too much property speculation, too much wealth in the hands of so few, needless industrial processes that are contributing to dangerous levels of pollution, and rising raw material costs feeding into higher goods prices and inflation. The 'common man', such as farmers and working families, have come off the worst. Addressing their concerns will prolong Xi's leadership. Inertia, and failure to reform an unbalanced society and over-indebted economy, poses systemic financial risks and the threat of social unrest. These would undermine the leadership of Xi and the CCP.

So, this could represent a fundamental shift or it may just be a short-term ploy to put the brakes on demand and consumption, and thus reduce prices, or a bit of both. Excess is being addressed. China's steel output fell to 73.8mt in September, down 21% YoY and 26% lower than May's 2021 high of 99.5mt. The price of 62% Fe, CFR China iron ore has fallen 45% to $122 a tonne from its $220 peak in mid July. Evergrande and some other real estate companies face forcible restructuring that will slow down construction and dent iron ore demand, although lower prices and ex-China demand should sustain shipments as inventories are built up. In China, steel rebar prices are down 18% to ¥4,849 a tonne from an October peak of ¥5,922 while thermal coal prices are down 17% to $224 a tonne from an October peak of $270. This recent fall is despite global shortages and outages in China from mining accidents and pit closures. This week, the NDRC intervened and set an ex-pit near term price target of ¥1,200 a tonne ($187.5)* which was 17-37% below midweek trader quotes of ¥1,450-1,900. Power generators can apparently only break even with prices in the range of ¥600-1,000, according to Reuters, so the NDRC has set a longer term target price range of ¥500-570. That is quite some intervention. But so is asking China's top entrepreneurs to surrender tens of billions of dollars to the state. So is culling industrial activity to ensure blue skies for the Beijing Winter Olympics.^

We are left to assess whether current policy changes in China are structural or temporary. If structural, then we need to prepare for the possibility of permanently slower growth as China continues to transition away from energy intensive industrial growth and exports and towards less energy intensive services growth and imports. This seems likely, given China's 2060 carbon neutral pledge, and the fact that common prosperity is designed to protect ordinary people from slower growth and adverse demographics. The temporary aspects of slowdown may coexist as China tackles out-of-control real estate development, the wealth gap and pollution. In shipping, we face a quieter 4Q21 and 1Q22 as these issues are worked through, but accompanied by the usual rate volatility. Come 2Q22, there could be a demand surge as China seeks to boost growth after two quarters of painful restructuring, deleveraging and depolluting. Right now, the dry bulk sector is being sold off with the spot capes at $36,065pd, panamax at $35,061pd, supras at $34,147pd and handies at $35,487pd converging with one another as we had anticipated a week ago. As port congestion unwinds, and as we attempt to better understand China's direction, the dry bulk sector may continue to weaken until we get better demand signals. The FFAs are volatile and lower, despite which bulk carrier asset values continue to rise.** China is not alone in slowing down after posting growth in Q3 of 4.9% YoY and just 0.2% QoQ. US growth came in at only 2.0% QoQ in Q3, after 6.7% QoQ in Q2, variously put down to supply chain disruptions, Covid-19 resurgence and slower consumer spending. It amounts to a lot of headwinds at once but, eventually, they will pass.

Dry Cargo Chartering

The **BDI** closed this week at 3,519 points, dropping by 891 points from last week.

The **cape** markets continued their severe plunge downwards this week as the BCI 5TC shed a further $15,398 to close play at $36,065. Rates along all routes collapsed as the week progressed, notably the Tubarao-Qingdao ore route fell from approximately $36.00 pmt to around $28.00 pmt. On Tuesday we heard that Vale chartered a TBN vessel for 170,000 mtons 10% iron ore for this trade route at $28.00 pmt for early December dates. Other ore fixtures include the 10 reported deals from Rio Tinto that emerged this week along their usual Dampier-Qingdao route also for 170,000 mtons 10% stems for early-mid November dates. Freight prices ranged from a high of $14.00 pmt down to $11.60 pmt by Wednesday. Coal voyage fixtures from this past week included a Ssangyong TBN vessel being put forward for a 133,000 mtons 10% Kepco tender from Newcastle to Hadong for 16/25 November at $17.94 pmt, RINL taking the 2018-built *Star Eleni* for 140,000 mtons 10% from Norfolk to Gangavaram for mid-November at $47.65 pmt, and Vale chartering an unnamed vessel for 170,000 mtons 10% from Tulek to Qingdao at $9.95 pmt. Additionally, Minmetals Zhenjiang fixed the CCL relet *Mineral Destelbergen* (175,401-dwt, 2010) delivery Beilun 1 November for a CIS round trip at $35,000.

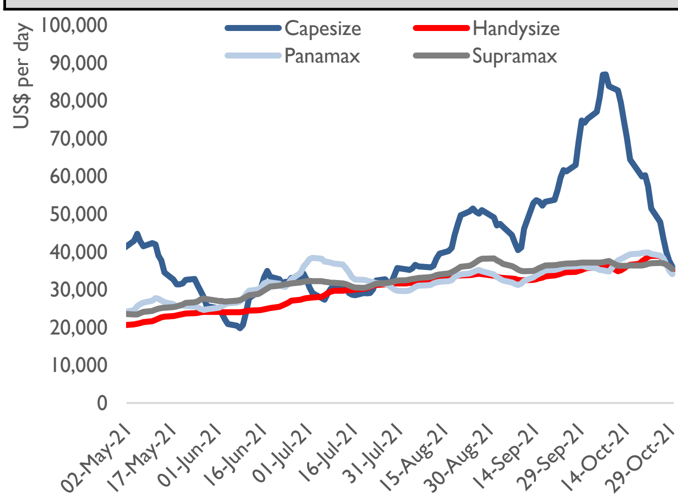
The **panamax** market really took a turn for the worse this week as it closed today at $35,061 down by $3,884 (-9.97%) since last reported on 15th October. In the Pacific, Libra fixed *Star Betty* (81,168-dwt, 2011) delivery Huangpu 1/5 November via Australia to India at $32,000, Viterra took *Beijing* (82,562-dwt, 2007) delivery Mizushima 1/5 Nov for a trip via East Australia to India at $36,000 whilst *Donghae Star* (82,861-dwt, 2012) fixed delivery Inchon 25/30 October for a trip via West coast Australia with iron ore to Singapore-Japan range at $37,250. In the Indian Ocean, Langlois took *Shandong Fu You* (81,178-dwt, 2018) delivery Port Said prompt for a trip via the Black Sea to Egypt with grains at $38,250. In the Atlantic, Cargill fixed *Yannis Gorgias* (87,375-dwt, 2010) delivery Gibraltar prompt for a trip via East coast South America to Skaw-Gibraltar range at $34,000, ADMI took *Hakuta* (82,165-dwt, 2011) delivery US Gulf mid-November for a trip to China at $37,000 + $1,700,000 whilst *Sea Hermes* (81,708-dwt, 2013) fixed delivery Yuzhny prompt for a trip via the Black Sea redelivery Singapore-Japan range at $57,000. Alternatively, Mina Shipping Dubai took *Star Helena* (82,150-dwt, 2006) delivery Nansha prompt for about 9 months with redelivery worldwide at $32,500.

It was a disheartening week for the **supra** market as corrections were made in the market. Rates have dipped significantly in all trade regions especially in the Pacific with owners seeing only a portion of what they saw the week before. The BSI closed at $34,147, down by $5,274 from last week. In the Atlantic, *Ionic Smyrni* (56,025-dwt, 2013) was fixed for a prompt trip delivery SW Pass to the Philippines at $51,000. *Antigoni B* (56,874-dwt, 2011) was fixed for a trip carrying scrap delivery Ghent via the Continent and redelivery in the East Mediterranean region at $41,000. In the Indian Ocean, *Alberta* (62,958-dwt, 2016) was fixed for a spot trip carrying aggregates delivery Bin Qasim to Bangladesh at $41,000. *Serena* (57,266-dwt, 2010) was fixed for a clinker run delivery Mumbai via the Arabian Gulf and redelivery Chittagong at $40,000. In the Pacific, *Ionic Spirit* (56,108-dwt, 2010) was fixed for a prompt NoPac trip delivery Tonda and redelivery in South East Asia at $31,000. Also, *Elias* (57,266-dwt, 2010) was fixed for a prompt trip delivery Okkye to the Philippines at $30,000.

Just as was seen for the bigger ships, the **handysize** markets also suffered this week as rates tumbled across both basins. Tonnage lists grew throughout the Atlantic and the number of fresh cargoes to hit the market was limited leaving the BHSI 7TC at $35,487 by close of play. At the beginning of the week Oldendorff took *Franz Schulte* (39,887-dwt, 2020) delivery Canakkale for a prompt steels trip via the Black Sea to the US Gulf at $40,500, yet by end of the week we heard that *Corsair* (35,062-dwt, 2001) was fixed delivery Port Said for a prompt trip to East coast South America with fertiliser at $34,000. The US Gulf did however maintain its momentum as Pacnav chartered *Good Luck* (37,384-dwt, 2018) delivery SW Pass for a trip to East coast Mexico at $40,000 and the same charterers also fixed *Ionic Huntress* (34,062-dwt, 2012) delivery Houston again for a trip to Mexico at $42,000. Elsewhere, out of South America it was rumoured that *Lady Alara* (30,130-dwt, 2011) fixed delivery Itaqui for a trip to Brunsbuttel at $35,000, charterers were Fednav. Over in the East, the handymax *Great Wisdom* (45,659-dwt, 2000) fixed delivery CJK for a Russian Pacific roundtrip at $27,000, *Cielo Di Seto* (37,133-dwt, 2017) fixed delivery Phu My for a prompt trip via Australia with alumina redelivery South China at $35,000, and a 33k-dwt vessel was linked with a China-Australia round voyage at $28,000. Other reported Pacific fixtures include *Fu Xing Hai* (38,801-dwt, 2016) delivery Guayaquil for a trip to Singapore-Japan range at $40,000. On the period front, Shield SST took on *Seastar Trader* (30,487-dwt, 2008) delivery Immingham for 5/7 months trading at $32,000 plus a $550,000 ballast bonus with worldwide redelivery.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Mineral Destelbergen	175,401	2010	Beilun	1 Nov	China	$35,000	Minmetals Zhenjiang	Via CIS
Yannis Gorgias	87,375	2010	Gibraltar	PPT	Skaw-Gibraltar	$34,000	Cargill	Via EC South America
Donghae Star	82,861	2012	Inchon	25/30 Oct	Singapore-Japan	$37,250	CNR	Via WC Australia Int Iron Ore
Hakuta	82,165	2011	US Gulf	Mid Nov	China	$37,000	ADMI	Plus $1,700,000 bb
Patricia V	75,345	2010	Teesport	1/4 Nov	Skaw-Gibraltar	$31,250	CNR	Via Atlantic
Elias	58,018	2010	Okkye	PPT	Philippines	$30,000	Norden	
Ionic Spirit	56,108	2010	Tonda	PPT	South East Asia	$31,000	CNR	Via NoPAC
Ionic Smyrni	56,025	2013	SW Pass	PPT	Philippines	$51,000	Bunge	
Cielo Di Seto	37,133	2017	Phu My	PPT	South China	$35,000	CNR	Via Australia Int Alumina
Montreal	34,391	2011	EC Mexico	PPT	Cristobal	$41,000	CNR	Via US Gulf and WC Central America



Exchange Rates	This week	Last Week
JPY/USD	113.75	113.76
USD/EUR	1.1652	1.1637

Brent Oil Price	This week	Last Week
US$/barrel	84.66	85.42

Bunker Prices ($/tonne)	This week	Last Week
Singapore IFO	469.0	505.0
VLSFO	615.0	621.0
Rotterdam IFO	456.0	478.0
VLSFO	592.0	602.0

Dry Bulk S&P

After the riotous few months that the market has recently enjoyed it is understandable if at some stage we have a lull. The correction in the freight market may have given some pause for thought, but probably half term and Greek national holidays have had a part to play. The fundamentals of the market remain unchanged (the limited supply of tonnage coupled to the rebound in cargo demand) but shorter term elements (Covid frictions, port congestion, commodity pricing) were always likely to effect the weekly outlook. With less buyers purchasing inspection reports this week there are one or two opportunities in the next week or so for buyers to scalp overlooked units at last done prices.

Needless to say any jitters in the spot markets have made no impact on second hand prices. The neo-panamax beam *Ramanas Rose* (84,500-dwt, 2021 Oshima) is reported sold at $44.0m. Her larger dwt and shallower draft make her an interesting design but just two weeks ago the same age, conventional, Tess Zhoushan, kamsarmax *Vorana Manx* was reported sold at $42.2m.

Buyers funds and sellers expectations are increasingly being made able to meet by later deliveries. The caper *Cape Spring* (180,082-dwt, 2011 Qingdao) is sold for a comparatively modest $30m but with a delivery some time in the first quarter of next year. She was bought for $21m in March. Likewise the ultramax *Sunleaf Grace* (61,683-dwt, 2011 Oshima) is sold at something in the $21m - $22m range but with a delivery sometime in March next year.

Elsewhere *Key Discovery* (82,1520-dwt, 2010 Tsuneishi) is sold at a "last done" $23.5m. Chinese supramaxes are beginning to close the wide value gap that has opened up between them and their Japanese built equivalents. The Dolphin57 type *Sophia N* (56,868-dwt, 2009 Qingshan) is reported sold for $17.75m. Three weeks ago the similar *Mariner* was sold at $17m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Cape Spring	180,082	2011	Qingdao	Gearless	undisclosed	$30.00m	Delivery Q1 2022
Ramanas Rose	84,500	2021	Oshima	-	Greek	$44.00m	
Key Discovery	82,152	2010	Tsuneishi Holdings	Gearless	undisclosed	$23.50m	
Sunleaf Grace	61,683	2011	Oshima	C 4x30T	undisclosed	$21.00m - $22.00m	Delivery March – May 2022
Sophia N	56,868	2009	Qingshan	C 4x30T	undisclosed	$17.75m	

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Tanker Commentary

The Turkish controlled *Advantage Arrow* (115,804-dwt, 2009 Samsung, scrubber fitted) and *Advantage Avenue* (115,785-dwt, 2010 Samsung) have been reported sold to Greek interests for $52m - both with TC's attached until early 2023 to Shell at $15.5k/day with a 50/50 profit split. Although not yet confirmed, even with a TC attached, this reflects a very healthy price.

Star Falcon (53,815-dwt, 2007 Shin Kurushima, Epoxy, SS/DD due 03/22) has been sold for in the region of $9.75m. The owners have subsequently withdrawn the sisters *Star Merlin* (53,755-dwt, 2007 Shin Kurushima) and *Star Eagle* (51,202-dwt, 2007 STX) hoping to capitalise on improved values next year.

The Italian controlled *Bauci* (37,320-dwt, 2002 STX) has been sold for $6.3m before the upcoming surveys in May next year. As there have been no similar sales to report, this will set a new benchmark.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Advantage Arrow	115,804	2009	Samsung	Greek	$52.00m enbloc	Includes TC to Shell at a rate of $15.5k p/d with a 50/50 split until early 2023
Advantage Avenue	115,785	2010				
Star Falcon	53,815	2007	Shin Kurushima	undisclosed	$9.75m	Epoxy coated
Bauci	37,320	2002	STX	undisclosed	$6.30m	

Demolition Sales

Vessel	DWT	Built	Yard	Type	LTD	Price $	Delivery
Muskie	70,362	2003	Daewoo	TANK	13,842	620	India
Walleye	70,296	2003	Daewoo	TANK	13,842	620	India
Jal Pari	8,821	1998	Imabari	TANK	2,998.00	985	India
Asian Glory	10,345	1997	Wuchang	TANK	3,413.00	undisclosed	Batam
Ostrov Russkiy	7,199	1985	Fukuoka	TANK	2,396.76	657.99	Bangladesh

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