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WEEKLY COMMENTARY

HARTLAND
SHIPPING SERVICES

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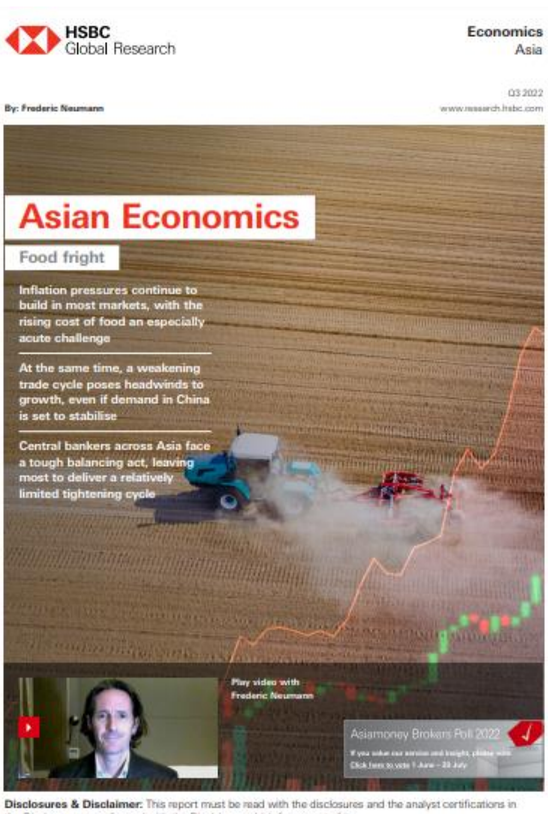
This week we bring you an extract of the latest report "Asian Economics" from HSBC Global Research. Economists discuss how inflationary pressures, rising cost of food and a weakening trade cycle poses headwinds to growth.



Source: HSBC Global Research

POINTS OF VIEW

Asia's economies, traditionally beating to the same rhythm, have diverged markedly over recent months. For most, emerging from the earlier, exhausting battle with the virus, growth has picked up, lifted by strengthening local demand and still buoyant exports. By contrast, mainland China's economy, the region's largest, stumbled as flare-ups of COVID-19 infections were met with harsh counter-measures, depressing spending at home and curtailing shipments abroad. The headline manufacturing PMIs for emerging Asia held up well in recent months (though they are gradually drifting lower). However, the measure for mainland China dipped sharply, and doesn't even fully capture the decline in overall activity of late: services, after all, were impacted far more than manufacturing. Over the coming quarters, however, the economic orchestra should begin to play again in unison: in mainland China, growth is set to stabilise, helped by easing virus-control restrictions and spurred by more stimulus, especially for infrastructure. Elsewhere, activity is likely to slow as the 'reopening' bounce fizzles, monetary tightening exerts its inevitably drag, and the export boom starts to fade. That will leave the region's economies once more broadly following the same tune – though, in growth terms, something far more downtempo than Asia's customary 'rock 'n' roll'.

Start with mainland China. That the second quarter marked a severe stumble is hardly a surprise: the virus control measures tripped up logistics and curtailed spending by consumers, especially on services and travel. As a result, HSBC downgraded their GDP forecast for this year to 4.1% (from 4.9%). The question is: what comes next? Some stabilisation is bound to occur: the recent relaxation of COVID-19 restrictions should help support a recovery especially in household spending. And while the 'dynamic zero COVID-19' policy is likely to remain in place for a while, improved implementation should over time help to mitigate, at least to some extent, the overall drag on growth. But that alone is not sufficient for a sustained acceleration: rising unemployment and depressed consumer confidence could pose lingering headwinds to growth. In fact, the latter shows a much bigger impact of the recent growth stumble on perceived prospects for employment and income than the initial 'lockdown' wave in early 2020, suggesting that a recovery in spending may prove more gradual this time around. In fact, consumer caution appears to run much deeper than mere worries over disruptions from COVID-19 restrictions. A survey by the PBoC, for example, shows that even before the pandemic a rising share of households expressed a preference for raising cash savings. This also matters for the real estate market, a key engine for growth. In recent months, policy has been eased to revive sales, stretching from lower mortgage rates to relaxed purchase guidelines. While there was some improvement in sales at the beginning of the year, these have tumbled again along with housing construction. The hope is that 'reopening' will help stabilise the sector in the coming months, but persistent consumer caution could curtail any rebound and prolong the drag on the economy.

All this points to the need for more stimulus. Already, the government has urged local governments to front-load the issuance of special bonds – a key funding source for infrastructure investment. The entire annual quota of over RMB 3.65trn is to be issued by the end of June, an accelerated schedule partly necessitated by a 'cash crunch' among many local governments. In the coming months, the government is also likely to announce an additional quota, for example by allowing pre-issuance of next year's quota of some RMB 1.5trn, or by facilitating the issuance of special Treasury Bonds of possibly RMB 1.0trn. This will come on top of other measures already unveiled to support demand, including wide-spread tax cuts and targeted consumption schemes. Meanwhile, the 'credit impulse' – the amount of new lending in the economy relative to GDP – has started to turn: although it is still (slightly) negative, it signals an easing in financial conditions. From this perspective, then, China's economy is past its trough and should pick up steam over the coming quarters, even if the rebound is bound to prove more gradual than in the past. More broadly, while not collapsing, export growth from emerging Asia continues to cool. Over time, shipments tend to track new global manufacturing orders well. Mounting headwinds for growth in the US and Europe, and an only limited recovery in demand from mainland China, could thus trigger a 'trade recession', even if only a mild one, over the coming quarters in Asia.

On balance, considerable monetary tightening in most Asian economies is still likely over the coming quarters. Not only are policy rates expected to rise by a substantial margin in most cases, but they are also likely to exceed their end 2019 level. Still, the overall rise in interest rates is expected to fall short of the tightening delivered by the US Fed.

Dry Cargo Chartering

The BDI closed the week at 2,214, down from last weeks close of 2,331. The **cape** market was on a roller coaster ride this week. After a significant drop at the beginning, it bounced back close to the end of the week. As a result the index closed the week slightly down at $19,745 from last weeks close of $19,875. West Australia to China route was concluded in the very low $11s pmt at the beginning of the week and then improved to $11.82 on Thursday. It was heard that Rio Tinto took two ships at $11.70 and $11.75 respectively for 170,000mtons 10% iron ore from Dampier to Qingdao. While Brazil to China dropped to close at $28.87 pmt on Tuesday, it was then brought up to $30.51 two days after. Vale fixed one of Adani vessels at low $29s pmt for Tubarao to Qingdao with 170,000mtons 10% iron ore on Thursday morning. On the time charter front, Natty (176,000-dwt, 2011) was chartered by Barclay Maritime with delivery Gibraltar on 2 July for a trip via Nouadhibou redel Taranto at $33,000 per day.

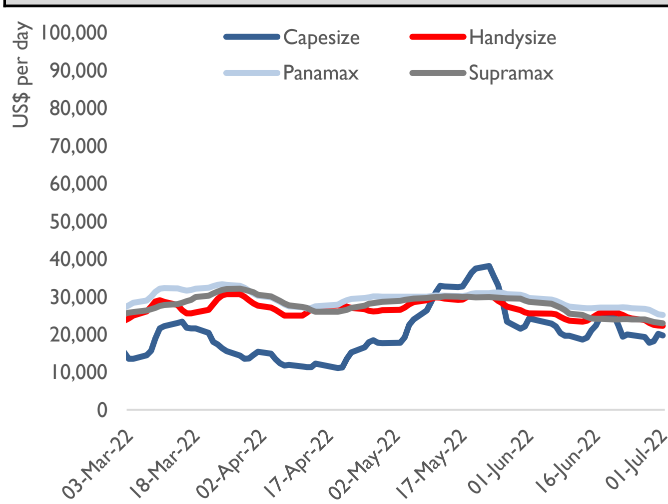
The **panamax** index fell by $1,957 to close at $22,297 with limited activity reported. In the Atlantic, Azue fixed the Wen Zhu Hai (76,611-dwt, 2008) delivery Gibraltar for a prompt trip via NCSA redelivery Passero at $21,000. The Darya Pretti (81,981-dwt, 2019) fixed delivery retro Visakhapatnam for a trip via ECSA redelivery Singapore-Japan at $27,000 with Cargill. Norden fixed the Shun Tong (81,603-dwt, 2019) delivery Sunda Strait for a trip via ECSA redelivery Singapore-Japan range at $24,000. Chinaland fixed the Vincent Talisman (81,577-dwt, 2020) delivery Yangpu for a trip via Indonesia redelivery China at $21,000.

The **supramax** index close the week at $25,192, down from last weeks close of $26,942. This week has moved rather slowly as we saw less activity across most regions. In the Atlantic there has been a lack of fresh enquiries but there might be some improvement in mid July, particularly for transatlantic businesses. It was reported that the Ilenao (55,442-dwt, 2013) was fixed from Le Harve to Turkey at $21,000. In ECSA, a reduction on prompt tonnage can be seen with focus shifting more towards the second half of July as well, with the exception of the Kiran Australia (63,429-dwt, 2013) open Fazendinha which was fixed for a trip to China at $31,000. Moving over to the Pacific, the Asia market has remained relatively inactive with the lack of ongoing new enquiries coming from Australia, Nopac and recently, Indonesia. The Tai Strength (63,700-dwt, 2021) was rumoured to be fixed for a trip from Indonesia to China in the low $30,000s, and the Great Vista (61,072, 2021) was fixed for $32,000 from Incheon to Singapore-Japan range. From the Indian Ocean, little information surfaced except for the Gemini (55,781-dwt, 2006) which was fixed from Richards Bay to Continent range at a decent $40,000, and the Fermita (60,480-dwt, 2020) which was fixed from Maputo to North Continent range at a a exceptional $53,000 due to a prompt laycan.

The **handy** index closed the week down $1,036 from last weeks close of to close at $22,973. Rates continued to soften in the Atlantic with most of the value remaining in ECSA. The Double Diamond (33,145-dwt, 2011) delivery Barra Dos Coqueiros for a trip to ARAG with grains at $25,000. Cargill were also reported to have fixed the Alexandros III (32,631-dwt, 2010) delivery Paranagua for a prompt trip redelivery Black Sea with sugar at $23,000. USG still had a collection of prompt ships to clear and as a result rates continued to fall, while the Continent and Med also continued to slide with tonnage lists growing for July dates. In the Pacific rates also continued to slide. Berge fixed the Bunun Hero (37,811-dwt, 2015) delivery Singapore for a prompt trip via Australia, redelivery Taiwan at $23,000. Swire also took the HPC Sunrise (35,152-dwt, 2011) delivery Gresik for a trip via West Australia redelivery China with salt at $25,000. Back haul had some value with the African Wren (38,227-dwt, 2019) fixing delivery south China for a prompt trip to the Mediterranean at $36,000. On the period we heard the Lavieen Rose (33,398-dwt, 2014) fixing $18,500 delivery Sea of Marmara for 1 year to Ultrabulk.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Natty Aquavita	176,000	2011	Gibraltar	2 July	Taranto	$33,000	Barclay Maritime	Via Nouadhibou
MBA Giovanni	93,352	2010	Taiwan	28 June	Malaysia	$15,000	Sinmal	Via Indonesia
Shun Tong	81,603	2019	Sunda Strait	21 June	Singapore- Japan	$24,000	Norden	Via EC South America
Vincent Talisman	81,577	2020	Yangpu	27/30 June	China	$21,000	Chinaland	Via Indonesia
Wen Zhu Hai	76,611	2008	Gibraltar	Ppt	Passero	$21,000	Azure	Via NC South America and Mediterranean
Kiran Australia	63,429	2013	Santos	Ppt	China	$31,000	Cnr	+$480,000 bb
Florinda	58,791	2008	Paranagua	4 July	Itaguai	$35,000	Norsul	Via Praia Mole
Orange River	55,603	2007	Singapore	Ppt	China	$25,000	Cnr	Via Indonesia
HPC Sunrise	35,152	2011	Gresik	Ppt	China	$25,000	Swire	Via Western Australia
Alexandros III	32,631	2010	Paranagua	Ppt	Black Sea	$23,000	Cargill	Int Sugar



Exchange Rates	This week	Last Week
JPY/USD	135.10	135.13
USD/EUR	1.0381	1.0521

Brent Oil Price	This week	Last Week
US$/barrel	110.01	111.87

Bunker Prices ($/tonne)	This week	Last Week
Singapore IFO	585.0	630.0
VLSFO	1106.0	1107.0
Rotterdam IFO	556.0	638.0
VLSFO	879.0	915.0

Dry Bulk S&P

In light of the bumpier freight market of recent weeks, it would be understandable if buyer confidence was lessened but it will take a lot more adverse news from the freight market to make any dent in sellers' price ideas. There are opportunities for buyers however. Where deals have collapsed, quick acting buyers often have the chance to catch jilted sellers on the rebound.

Overall while some owners have decided to declare an early break for summer, the market remains active across the board. However it is noticeable that while values continue to creep up, less fuel-efficient units are making slower progress.

With the gap between high and low sulphur content fuel widening significantly the value of scrubbers is really beginning to tell, particularly in the larger units.

Only one larger unit has been sold this week. *Hans Oldendorff* (209k-dwt, 2017 Catic) is sold at $53m. This is marginally ahead of benchmarks but probably this is due more to the enhanced value of the scrubber rather than any heightened appetite in this sector.

The supramax sector continues briskly, although values continue to mark time. *Merida* (56k-dwt, 2012 Kouan) is sold at $19.75m, pretty much where values have been since April. Similarly *Mamba Point* (55k-dwt, 2009 Mitsui) is reported sold at a static $20.2m. A strong price has been paid for *Bao Wealth* (53k-dwt, 2005 Dayang). She is reported sold at $14.8m.

Larger Japanese handies are amongst the best peforming assets in the bulk sector this year. lauritzen have sold two sister *Milau Bulker and Eva Bulker* (38k-dwt, 2012 Naikai) for $23m each - a rise of 25% in value over the last five months.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Hans Oldendorff	209,190	2017	Taizhou Catic	-	JP Morgan	$53.00m	Scrubber fitted
Shanhaiguan B85k-10	84,740	2022	Shanhaiguan	-	Chinese	$35.18m	Auction & delivery in Sept
Jal Shakti	69,925	1995	Sanoyas	C 4x30T	Chinese	$7.50m	
Merida	56,670	2012	Taizhou Kouan	C 4x30T	undisclosed	$19.75m	BWTS fitted
Mamba Point	55,614	2009	Mitsui	C 4x30T	undisclosed	$20.20m	BWTS fitted
Bao Wealth	53,591	2005	Yangzhou Dayang	C 4x35T	undisclosed	$14.80m	
Elim Challenge	50,206	2002	Mitsui	C 4x30T	undisclosed	$12.50m	
Milau Bulker Eva Bulker	38,173 38,140	2012	Nakai	C 4x30T	Newport	$46.00m enbloc	BWTS fitted
Ionian Spire	32,269	2008	Kanda	C 4x31T	Kopuzlar Shipping	$17.00m	BWTS fitted
Lord Wellington	31,921	2005	Hakodate	C 4x30T	Chinese	$14.30m	
Sunroad Yatsuka	25,000	2005	Kurinoura	C 4x30T	undisclosed	$11.25m	

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Tanker Commentary

OPEC will be meeting this week to discuss it's exports. Increased production whilst there is a demand squeeze should have a positive affect on freight rates.

VLCC action has taken the limelight this week with Hunter Group completing the sale of their entire fleet. The last four vessels to go were *Hunter Idun, Hunter frigg, Hunter Disen, Hunter Freya* (299k-dwt, 2020 Daewoo) and are reported to have achieved $96m each with Maran picking up two and Ray Car Carriers picking up two.

In the product sector, *Alicudi M* (40k-dwt, 2004 ShinA, phenolic epoxy) is reported to have sold for $14m and *Azahar* (35k-dwt, 2003 STX, epoxy) is reported to have sold for $7.2m.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Hunter Idun	299,995	2020	Daewoo	undisclosed	$95.50m	
Hunter Frigg				undisclosed	$96.00m	
Hunter Disen				undisclosed	$96.00m	
Hunter Freya				undisclosed	$95.50m	
Azahar	35,000	2003	STX	undisclosed	$7.20m	epoxy

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