26 August 2022

WEEKLY COMMENTARY

HARTLAND
SHIPPING SERVICES

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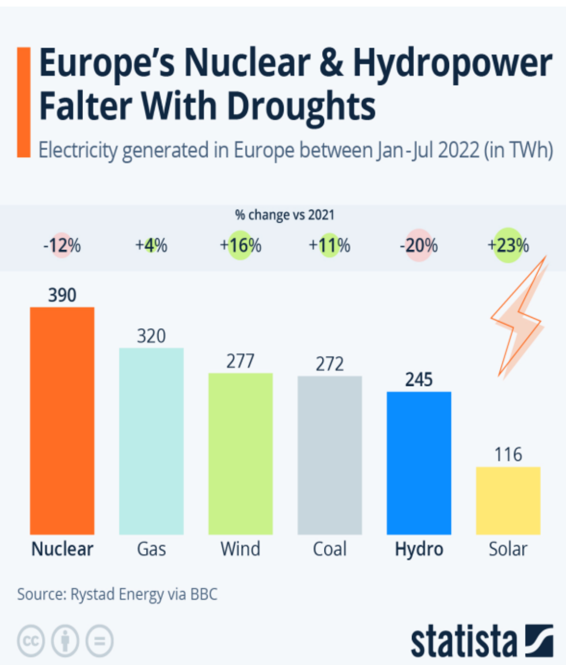
… Water isn't Working …



Source : Statista

*The BoE's target rate is 2%. It hit 10.1% y-o-y in July 2022, its highest rate in 40 years, driven up since 2021 by post-lockdown emergence.

^When Xi Jinping is likely to be re-elected for a 3rd term as president, allowing him to let this economically ruinous policy fade away.

**IP grew by 3.8% y-o-y in July, below a 4.6% forecast, and retail sales rose 2.7% y-o-y in July, below a 5.0% forecast.

^^Figures from SIN. Golden Ocean and Norden have warned of the demand slowdown, but still feel encouraged by low fleet growth.

POINTS OF VIEW

Various forecasts for UK peak inflation are being trotted out in what appears to be a competition to out-gloom one another. The Bank of England started it all on 4 August when it predicted inflation to reach a peak of 13.3% in Q4 this year.* HSBC then came out with a forecast for CPI inflation to peak at 14% y-o-y in January 2023, while the Resolution Foundation has put it as high as 15% by early 2023, and Citi just took the lead early this week with a forecast of CPI inflation peaking at 18.6% in January. Consumer price inflation was last above 18% in 1976 which, coincidentally, was the last time we had such a long, hot and dry summer as the one that we are experiencing now. Much of the increase in prices is put down to higher gas and electricity costs. Citi predicts a typical dual-fuel tariff energy bill to hit £3,717 in October and the price cap to rise to £4,567 in January and to reach £5,816 in April. This huge increase in energy costs will cause households and businesses to reduce spending in other areas, leading to reduced demand for other goods, itself a gradual disinflationary process. Inflation and high prices will find their own cure in demand destruction. The journey to this end will be a tough one with the possibility of rolling national strikes paralysing the UK as in the 1978-79 Winter of Discontent. Massive government intervention in the energy market will be needed to defuse the crisis. Successive governments over the past twenty years are to blame for short-termism: for failing to invest in nuclear power and renewables, for dismantling gas storage facilities, for climate change policies that discouraged exploitation of the North Sea, and for a ban on fracking that denied us a path to energy self-sufficiency, as happened in the US.

The UK is not alone in facing inflation, as it is visible in the US and across Europe. As an example, Turkey faces an inflation rate of almost 80%. The US is protected to some extent by its enviable energy self-sufficiency whereas the UK and Europe have an unhealthy reliance on energy imports. Europe is far too dependent upon Russian oil and gas whose supply is now being restricted by both sides. As the pandemic eases, so consumers are rotating away from buying goods to spending on services, such as travel and leisure, leaving inventories of goods at high levels in consumer countries, just as demand is softening. Container port congestion is set to ease as the price to wage gap widens, hence reducing consumer buying power. This puts the record box ship orderbook into sharp relief. The orderbook in August 2022 stands at 930 units of 6.96m-teu, or 27.6% of the fleet, the highest ratio since February 2012. As new ships deliver, so freight and time charter rates will revert to mean. A more sudden correction could be caused by ocean and landside congestion unwinding more quickly as global consumer demand weakens. One mitigating factor may be the IMO's decarbonisation rules that phase in from next year. These are variously estimated to reduce effective capacity by anywhere from 5% to 15%. A significant contributory factor in supply chain disruption has been China's zero-Covid. This policy may not survive beyond November.^ Both the carriers and tonnage providers have cash cushions to ride out any storm.

Turning to the dry and wet bulk sectors, they have recently switched places as tanker demand recovers while bulker demand takes a seasonal pause. Tankers have benefited from the war in Europe, which is elongating crude and product trade routes, whereas bulkers have been impacted by a sharp Chinese economic slowdown that is rooted in its precarious over-leveraged and over-built property sector. In the January-July period y-o-y, global crude steel production was down 5.4% while China's was down 6.4%. China's iron ore imports fell 3.4% y-o-y to 626.8mt while its coal imports dropped 18.2% to 138.5mt. Its crude oil imports were down 4.0% y-o-y to 290.0mt, or 10.0m-bpd, while its product exports were off 3.9% to 25.0mt. This rare Chinese economic slump is illustrated by below forecast industrial production and retail sales growth in July.** Low ordering in both sectors has less to do with discipline, and more to do with high prices and fear of premature obsolescence, as new propulsion and fuels are awaited. Steel and other input prices are abating, but technology anxiety is not, and this is likely to further constrain ordering. The bulker OB stands at 869 units of 68.11m-dwt, or 7.1% of the fleet, while the tanker OB stands at 339 units of 33.23m-dwt, or 5.0% of the fleet. Both FL/OB ratios are at their lowest since records began back in January 1996.^^ We need demand to spark up before showtime can resume.

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Dry Cargo Chartering

In what is becoming a recurring theme, the **cape** markets endured further misery dropping over 45% in value this week as time-charter averages ended up at a meagre $3,413. Freight prices for Brazil-China were well under $18.00 pmt, for Australia-China sub-$8.00 pmt, and ex-Saldanha Bay under $13.50 pmt. However, with news of the $146 billion stimulus package announced by Beijing to shore up its economy on Wednesday, the long-awaited light at the end of the tunnel could be in sight. Reported iron ore fixtures included Vale chartering *Cape Sun* built 2010 and relet from Mingwah for a shipment of 100,000 mtons 10% from Tubarao to Djen Djen 13/22 September at $14.50 pmt. On Monday, Rio Tinto took a duo of vessels for Dampier-Qingdao runs at $7.97 pmt and $7.80 pmt apiece, while the Bunge relet *Florida* built this year was chartered for 170,000 mtons 10% Sudeste-Qingdao at $19.00 pmt.

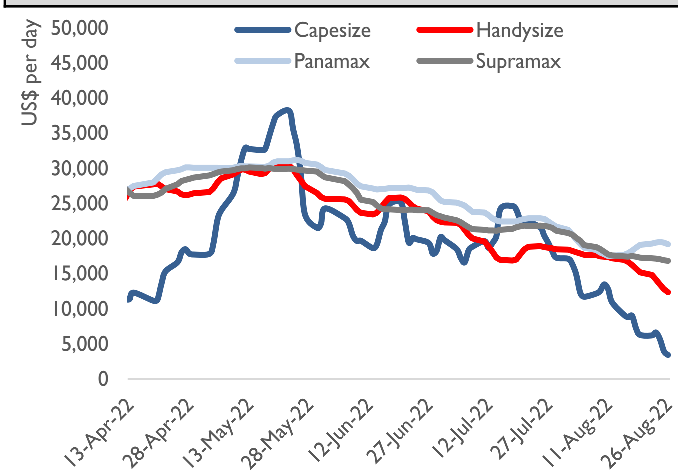
Panamax market is becoming a little like a stuck record as this week was yet another huge disappointment, the dropped a further 18.73% and there are few glimpses of the market bottoming out. The P5TC closed at $12,344 down by $2,844 (-18.73%) since last reported on 19th August. In the Pacific, *Msxt Echo* (85,187-dwt, 2021) fixed delivery Yeosu 29-31 August for a trip via East Australia to Malaysia at $13,500 whilst Bunge covered *Darya Ruchi* (82,557-dwt, 2022) delivery Ulsan 29-30 August for a trip via NoPac back to Singapore-Japan range at $16,000 and *BK Alice* (81,970-dwt, 2012) was taken delivery Cai Lan prompt dates for a trip via Indonesia to S China at $13,250. Whilst in the Atlantic, Marubeni fixed *Penelope I* (81,835-dwt, 2017) delivery East Coast South America 11-17 September for a trip to Singapore-Japan range at $17,500 + $750,000 and *Eternal Bliss* (82,071-dwt, 2010) was taken delivery Las Palmas prompt dates for a trip via North Coast South America to Singapore-Japan range at $19,000. Alternatively, Blue Pool fixed *Great Wealth* (75,570-dwt, 2011) delivery Krishnapatnam 23rd August for 5-8 months with redelivery worldwide at $16,250. SAIL Tender fixed a TBN vessel for their 75,000 mtons 10% coal lift ex Haypoint or Dalrymple Bay to Visakhapatnam 10/19 September at $21.85.

The market remained hopeful this week which is a very positive sign. **BSI** closed at $19,183, up from last week's $19,082. From the Pacific, overall demand and rates were kept fairly stable and strong. It was reported that *Queen* (58,096-dwt, 2010) open Gresik was fixed for a trip to China at $28,000 and *Spring Oasis* (63,291-dwt, 2014) was fixed from Surabaya to China at $29,000. From the Atlantic, sentiment remains mixed but it was said that both owners and charterers are still trying to ascertain the direction of the market. *Victorious* (56,000-dwt, 2011) was heard fixed from Port Harcourt to Algeria at $16,000 while *Xing Hao Hai* (61,452-dwt, 2016) was fixed from Szczecin to Arabian Gulf to Red sea range at $17,500.

Handy market was slow across both basins, with very little to write home about. BHSI closes this week at $16,794 down $2,288 from last week. Atlantic struggled with no outstanding market to help boost the rates. Continent and Baltic continued to be dragged down by an over supply of tonnage. *Jasmina D* (35,974-dwt, 2012) fixed delivery Finland for a scrap trip redelivery Turkey at $13,200. A 35,000-dwt vessel fixed from South Spain to Denmark-Lower Baltic at $12,000. The Black Sea-Mediterranean market marginally outperforming the Continent, trips to USEC fixing around $15,000. *Kotor* (32,376-dwt, 2014) fixed from the Black Sea to Bangladesh in the high teens. The US-Gulf rates have started to creep up but levels still around $18,000 for intra-gulf trips and similar rates to the Caribbean, although little reported activity. South America weakened, *Inoi* (32,301 2010) open in Santos fixed for a coastal requirement around $17,000. It was reported, *Ugland* (37,500-dwt, 2010) open in Salvador fixed via Itaquai to Pecem with steels in the low $20,000 to Norsul last week. *Lima Strait* (37,187-dwt, 2012) fixed $15,000 arrival Venezuela for trip to Turkey with scrap at Novek. In the East, the market was firm at the start of the week and flat from Wednesday onward, most enquires were covered by mid-week. Southeast Asia was the strongest performing market. *Venture Harmony* (43,433-dwt, 2015) open Kwinana fixed a trip via West Australia redelivery South China at $23,000 + $300k ballast bonus. *Romandie* (34,297-dwt, 2010) open in Qingdao failed for a trip to the Continent in the very low $20,000's. Highlight of the week, *Poavosa Wisom VIII* (28,280-dwt, 2013) fixed for 3 to 5 months at $19,600.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Msxt Echo	85,187	2021	Yeosu	29/31 Ayg	Malaysia	$13,500	Cnr	Via East Australia
Eternal Bliss	82,071	2010	Las Palmas	Ppt	Singapore- Japan	$19,000	Cnr	Via NC South America
Penelop I	81,835	2017	EC South America	11/17 Sep	Singapore- Japan	$17,500	Marubeni	+$750,000 bb
Navios Amber	80,909	2015	Huangpu	21 Aug	S.China	$16,250	Linko	Via Indonesia
Cape Greco	79,452	2011	EC South America	25 Aug	Skaw-Gibraltar	$26,000	Cnr	-
SSI Vigilant	63,861	2022	Antwerp	Ppt	E.Africa	$18,500	Meadway	Via Baltic
CMB Floris	63,628	2021	Port Klang	28 Aug	Thailand	$25,000	Cnr	Via Indonesia
Dynamic Striker	57,000	2010	Santos	Ppt	Algeria	$27,000	Louis Dreyfus	Via West Australia
Venture Harmony	43,433	2015	Kwinana	Ppt	S.China	$23,000	Cnr	Via West Australia
Jasmina D	35,974	2012	Finland	Ppt	East Mediterranean	$13,000	Cnr	-



Exchange Rates		This week	Last Week
	JPY/USD	136.98	136.96
	USD/EUR	1.0036	1.0049

Brent Oil Price		This week	Last Week
	US$/barrel	98.94	94.40

Bunker Prices ($/tonne)		This week	Last Week
	Singapore IFO	510.0	522.0
	VLSFO	790.0	755.0
	Rotterdam IFO	530.0	535.0
	VLSFO	741.0	735.0

Dry Bulk S&P

This week's sales table is particularly short, with only one row. *FW Adventurer* (34k-dwt, 2019, Hakodate) is reported sold to Greek Buyers, Meadway Bulkers, for $28.3m. On the face of it this looks like a positive price considering the current market however it is worth noting that we understand this sale to have been concluded early last week and a lot has changed since then!

The list of sales candidates remains lengthy with fresh ships entering the market, however with futures, period market and spot earnings softening across there is a lack of recent benchmarks to offer guidance to both Buyers and Sellers. Various units invited offers this week including *ES Sakura* (76k-dwt, 2007, Imabari), having been underwhelmed by the initial offers, the Sellers took the unusual step to broadcast their price target to the market encouraging they were there to sell more than three millions USD below the 'value' given to the vessel by a well known online shipping valuation platform.

Expectations are ships will continue to come for sale across ages and sizes. One source of tonnage is likely to be 5-10 year old units which Owner / Operators have purchase options on. They have the ability to guarantee profits by exercising options which are in the money having already secured a Buyer to flip the ship to.

Despite the negative sentiment across the dry market, the indices from the Baltic Exchange place supras earning in excess of 19k and handies at close to 17k per day. In the immediate future benchmarks will be reset lower. The end of August is around the corner however and China has announced another stimulus package. It's not all doom & gloom.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
FW Adventurer	34,487	2019	Hakodate	C 4x30T	Meadway Bulkers	$28.30m	BWTS fitted

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Tanker Commentary

Having purchased *C. Guardian* (300k-dwt, 2019 Daewoo) earlier this month for $98m, HMM have secured another scrubber fitted VLCC with *G. Dream* (299k-dwt, 2022 Hyundai) reported as sold for $108m. Competition on older tonnage remains high, as the Thai-controlled *Tsurusaki* (300k-dwt, 2002 IHI) has been committed for $33m, a firm price when comparing with last months sale of Tinat (316k-dwt, 2002 Hyundai) which went for $29.5m and had similar docking positions. Ridgebury Tankers continue to shed tonnage, selling their ice-classed *Ridgebury Captain Drogin* (166k-dwt, 2007 Hyundai, SS/DD due) for $29.5m. Other recent Ridgebury suezmax sales have been scrubber fitted however this weeks is not which is reflected in the lower price. Clean trading *Lila Fujairah* (113k-dwt, 2007 Daewoo, Epoxy) is understood to be committed at $27.8m, whilst the uncoated *Imperia* (115k-dwt, 2006 Hyundai) has been sold to Chinese at $31.5m. It's worth noting the latter has better survey positions and is ice classed which has been commanding a premium in recent months.

Finally UK based owners Tufton have secured Capitals non scrubber fitted *Alkaios* (50k-dwt, 2016 Samsung Ningbo, Phenolic Epoxy) and sister ship *Archon* for $73m enbloc. The values of these ships would have been in the region $30m each Q1 this year.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
DHT Edelweiss	301,021	2008	Daewoo	undisclosed	$38.00m	DD/SS/BWTS due
Tsurusaki	300,838	2002	IHI Marine	Greeks	$33.00m	
G Dream	299,945	2022	Hyundai Samho	HMM, Korea	$108.00m	Scrubber fitted
Ridgebury Captain Drogin	166,468	2007	Hyundai Ulsan	undisclosed	$29.50m	SS/DD due & no Scrubber
Imperia	114,849	2006	Samsung	Chinese	$31.50m	BWTS fitted
Gotland Carolina	53,160	2006	Guangzhou	Norway KS	$18.50m	
Alkaios	50,137	2016	Samsung Ningbo	Tufton, UK	$73.00m enbloc	epoxy & BWTS fitted
Archon	50,100					

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