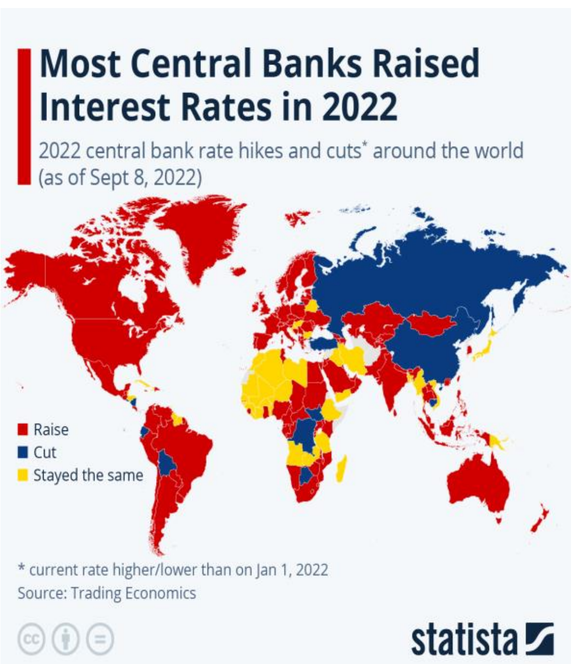
16 September 2022

HARTLAND
SHIPPING SERVICES

WEEKLY COMMENTARY

CONTENTS

… Inflation Busters ? …



Source : Statista

POINTS OF VIEW

Most central banks around the world raised interest rates in 2022, as illustrated by the chart on the left, to tackle rising consumer prices. Others – such as China, Russia and Turkey* – cut interest rates for reasons of their own ranging from multilateral turmoil and market exclusion to economic unorthodoxy. The PBoC has lowered its loan prime rate from 3.8% to 3.65% this year in an attempt to revive moribund borrowing demand. The Central Bank of Russia has reduced its key interest rate from 20% to 8% this year as inflation subsides and consumer demand weakens. Lastly, the Central Bank of Turkey has reduced its interest rate from 14% to 13%, despite a weak lira and inflation running at over 80%, largely due to the rising cost of energy imports. Turning to the raisers. The US Fed Funds rate is up from 0.25% to 2.5% this year and is about to be raised another 0.75%. The US Consumer Price Index was up 8.3% y-o-y in August against a 4.9% 3-year average, far above the 2% target. In the UK, the BoE has raised bank rate from 0.25% to 1.75% and is set to go still higher next week in the face of inflation currently running at around 10%. Lastly, in the EU, the ECB has raised interest rates from zero to 1.25% this year, taking a laid-back approach to fighting EU inflation running at about 9%. The lockdown splurge on home improvements, gardens and white goods has switched to spending on travel, restaurants and other services as we meet again. Supply-side shortages of labour and goods, and a manufactured energy crisis in Europe, have pushed up prices. It's all change.

We are all aware of a worldwide slowdown in consumer demand as households spend more money on food and energy and have to prioritise their spending. The highest inflation rates in over 40 years have ambushed families and companies and they are increasingly turning to their governments for more bailouts, the likes of which we became accustomed to during Covid. But, in too many cases, this is not so that they can carry on spending, it is so that they can carry on eating. In this context, what hope for consumer goods and the retail sector** and, in turn, what will be the impact on container shipping that discreetly moves this stuff around the world on giant ships from manufacturer to end-user? The booming container shipping market of the last two years has earned billions of dollars in profits for the mainline carriers and their tonnage providers. It also led both to order many new ships which may yet turn into buyer's remorse. According to SIN, the containership fleet now numbers 5,716 units of in aggregate 25.26m-teu, an average unit capacity of 4,420-teu. The orderbook sits at 7.05m-teu or 27.9% of the fleet, up from an historic low OB/FL ratio of 8.5% in October 2020 and down from an historic high OB/FL ratio of 61.3% in November 2007.^ Back then, the OB was 6.58m-teu and the FL 10.74m-teu. Today, the fleet is 2.3-times larger. In September 2008, Lehman Brothers failed and the global financial crisis followed.

This sent the container industry and the shipyards into a blind panic as, all of a sudden, a collapse in demand could not possibly support the massive backlog of ships on order. In 2009, there was a veritable procession of carriers and owners to the yards seeking to delay, transform, convert or cancel ships or face inevitable bankruptcy. Are we about to witness something similar? Tradewinds is reporting that Seaspan is cancelling 4 x 7,700-teu DF ships at K Shipbuilding (formerly STX), that were ordered in May, at $130m each, claiming breach of contract conditions. The yard is allegedly trying to resolve issues and revive the deal. The orders are apparently backed by time charters to MSC (rumoured for 4 years @ $165,000) while benchmarks suggest no deterioration in nominal prices for this size. It does not look like a retreat for commercial reasons but it may still turn out to be the proverbial canary in the coal mine.^^ The FBX index covering 12 trade routes is down 51% so far this year. It is still 3-times higher than the FBX average of pre-pandemic 2017-19. Container in-port congestion has fallen from a peak of 38% in July to 35% today, still above the 32% average of 2018-19. However, carriers such as Maersk have 70%+ contract coverage at levels higher than current spot, and have committed large ships on 10-12 year charters that they need in the long run. Market discipline is required to honour contracts. Meanwhile, nominal modern feeder (1,000-2,750 TEU) values are down 3% this year, while their nominal 6-12 month earnings are down 18% this year. We are in the early days of repentance.

*These three nations often see eye-to-eye on contentious issues today and are taking a contra-Western approach to interest rates.

**HSBC: UK retail sales fell 1.6% m-o-m in Aug (consensus -0.5%). Aug volumes up just 0.5% on pre-pandemic levels (in 2.5 years…).

^CRS's Shipping Intelligence Network records go all the way back to January 1996, over 25 years of data.

^^A forward indicator of the GFC was HSBC's profit warning in Feb 2007 as its investment in US sub-prime loans began to unravel.

Dry Cargo Chartering

The **handy** market started to show signs of life this week, notably in the Atlantic. BHSI closed this week at $16,281 up by $572 (3.64%) since last reported on 9th September. The continent remained slow, tailing behind other markets, perhaps the weakest area in the Atlantic. *Patagonia* (35,694-dwt, 2012) fixed delivery Hamburg for a prompt trip redelivery Algeria with grains at $11,600 to Cargill. *HTK Discovery* (37,322-dwt, 2007) open Lubeck fixed delivery Riga via Baltic to Turkey with Scrap $12,250. The Mediterranean started moving and shaking, notably in the bigger handy sizes. Conti Lines fixed *Obahan C* (35,478-dwt, 2015) basis Iskenderun for a prompt trip redelivery West Africa with steels at $17,000. A 28k-dwt vessel fixed $14,500 from central Mediterranean to Sweden. In the Black Sea, *Aegeon Spire* (33,401-dwt, 2008) fixed delivery Samsun for a trip via Constanta redelivery Continent with grains at $12,000 to Ace Shipping, expect these levels to start picking up next week. The US markets have also been active, *Ricarda* (39,949-dwt, 2015) open Port Canaveral fixed a trip to UK-Continent with Wood pellets at $17,000 to Norden. Subtle yet encouraging signs from the East coast of South America, 36,000-dwt vessel open Santos rumoured failed delivery Recalada for a trip to north Brazil at $25,000. *Hamburg Way* (39,376-dwt, 2016) fixed delivery Paranagua for a trip via Santos redelivery London with sugar at $16,500. In the East, the market showing a positive sentiment, *Woodgate* (28,219-dwt, 2011) delivery Moji for a trip via Japan redelivery Australia with slag at $14,000, *Poavosa Wisdom VIII* (28,200 dwt,2013) delivery Malaysia for a trip via West Australia redelivery Japan at $17,500, *Coreocean* (28,358-dwt, 2009) open Singapore fixed an Australia -Japan round voyage at $17,500.

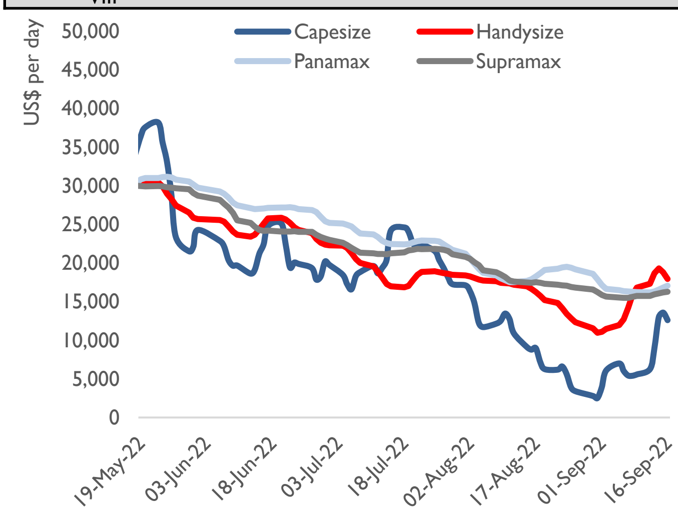
Supramax market tentatively improved this week as the S10TC closed at $17,057 up by $830 (5.11%) since last reported on 9th September. In the Pacific, *Global Hope* (57,296-dwt, 2010) fixed delivery East Kalimantan prompt dates for a trip to China at $16,000 + $120,000 whilst *DZ Heze* (52,388-dwt, 2004) was covered delivery Kampot 18th September for a trip via Kuantan with steels to Hong Kong at $18,000 and *Sunny Hope* (58,787-dwt, 2011) delivery Singapore 18-22 September for a trip via Indonesia to Philippines at $20,000. Meanwhile in the Indian, Oldendorff fixed *Dimijohn A* (57,902-dwt, 2015) delivery Port Elizabeth for a trip to Singapore-Japan range at $22,000 + $200,000. Whilst in the Atlantic, Bulk Trading fixed *Tai Honesty* (55,418-dwt, 2007) delivery US Gulf prompt dates for a trip with petcoke to India at $19,000 and Fednav took *Alis* (57,000-dwt, 2013) delivery Itaqui prompt dates for a trip to Brunsbuttel-Pori at $28,000.

The **Panamax** market staged a rebound and showed some modest gains after plummeting for several weeks. The P5 TC closed at $17,913 up by $1,127 (6.71%) since last reported on 9th September. In the Pacfic, Cofco took The *Cemtex Diligence* (82,200-dwt, 2019) open Rizhao for a Nopac round trip at $20,500, similarly, The *Cape Kourion* (79,463-dwt, 2010) was also heard fixed for the same trip delivery Pyeongtaek at around $17,000. Meanwhile, it was reported that Kline covered The *Ekaterini* (82,006-dwt, 2018) open Xiamen and redeliver Japan via East Coast Australia at $22,000. In the Atlantic, Cargill fixed both The *Jag Arnav* (81,732-dwt, 2015) from Aden for a trip via East Coast South America redelivery Singapore-Japan range at $24,000 and The *Doric Armour* (81,800-dwt, 2018) open Haldia for a trip to Singapore-Japan via East Coast South America at $22,000. Lastly, The *Sakizaya Brave* (74,940-dwt, 2013) was heard open Huelva and fixed for a trans-Atlantic round trip at $15,500 but no further details came to light. On voyage, Kepco Tender fixed Five Ocean TBN vessel for their 80,000/10 coal lift ex Gladstone to Boryeong 26Sep/5Oct at $19.19.

Cape markets shot up at the start of with about 100% growth between Monday and Wednesday before settling at the end of the week as time-charter averages improved by $7,025 (126.0.%) to end up at $12,599. Iron Ore deals that came to light this week including Rio Tinto fixing Ocean Duke an Ocean Longevity relet for 170,000 mtons 10% loading Dampier to Qingdao at $8.95 for 25-27 September as well as taking Ocean Lady another Ocean Longevity relet for the same stem at $8.90 for 24-26 September. Whilst Richland fixed a TBN vessel for 170,000 mtons 10% loading Western Australia to Qingdao at $8.50 for 1-3 October. On the coal front, NCSC fixed an Oldendorff TBN for 170,000 mtons 10% loading Drummond to Hadera at $13.25 for 3-12 October whilst OMPL fixed Star Angie a CCL relet for 150,000 mtons 10% loading Richards Bay Coal Terminal to Dhamra at $8.90 for 20-30 September.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Double Mircale	95,444	2014	Hong Kong	20Sep	Japan	$21,500	MOL	Via Indonesia
GH Harmony	93,315	2010	D/C Hong Kong	21Sep	China	$20,000	Cosco	via EC Australia
Volos	82,172	2014	D/C Shidao	Ppt	Singapore-Japan	$20,000	Louis Dreyfus	Via Nopac
Rize	81,950	2012	Zhoushan	13Sep	Japan	$18,750	MOL	Via Villaneuva
BBG Guigang	81,567	2020	Passero	15Sep	Singapore- Japan	$25,00	Cnr	Via NC South America
Sunny Hope	58,787	2011	Singapore	18/22 Sep	Philippines	$20,000	Cnr	Via Indonesia
Alis	57,000	2013	Itaqui	Ppt	Brunsbuttel-Pori	$28,000	Fednav	-
Jin Zhou Hai	56,907	2009	Dung Quat	13/15 sep	China	$15,500	Cnr	Via Philippines
Hamburg Way	39,376	2016	Paranagua	16/20 Sep	London	$16,500	Cnr	Via Santos
Poavosa Wisdom VIII	28,200	2013	Malaysia	16/18 Sep	Japan	$17,500	Cnr	Via W Australia



Exchange Rates	This week	Last Week
JPY/USD	143.28	142.47
USD/EUR	0.9954	1.0041

Brent Oil Price	This week	Last Week
US$/barrel	92.38	91.76

Bunker Prices ($/tonne)	This week	Last Week
Singapore IFO	400.0	404.0
VLSFO	688.0	662.0
Rotterdam IFO	410.0	414.0
VLSFO	653.0	680.0

HARTLAND SHIPPING SERVICES

Dry Bulk S&P

There is little to report in the dry market this week. This is not to say that the market is stagnant. There has been much manoeuvring as buyers and sellers test each other. There are plenty of inspection reports being reviewed and a decent barrage of offers. At this stage however the freight market is not guiding either side. Recovery in the larger sizes early on this week, while not quite inducing euphoria, did at least support an alternative narrative to the one of steady decline that some commentators have favoured.

At the moment buyers have a wealth of sales candidates to pick over. Are the apparent discounts on offer sufficient? Time will tell but a stronger freight market in October will take a lot of those discounts off the table. For sellers of older and thirstier units, they will be looking over their shoulder to see how values have risen in the last two years (i.e. roughly doubled) and are looking forward more anxiously to what sort of trading environment they will be facing once new EEXI regulations bite in about 14 weeks time. Navios can feel well pleased to have cashed in *Navios Camelia* (75k-dwt, 2009 Hudong) for $15m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Navios Camelia	75,162	2009	Hudong	-	undisclosed	$15.00m	

Tanker Commentary

If a Seller has an offer on table for their ship, they can be confident that there will be someone round the corner ready to pay more - slow peddling negotiations for another day or week is worth the wait. Earnings remain healthy across most segments, and with VLCC's taking the spotlight in S&P reports and supported by healthy rates in the Atlantic, there are plenty of buyers. Approximately 14 offers were received on *Hilwah* (316k-dwt, 2002 Hyundai) last Friday and whilst negotiations have been on going throughout the week, it's understood that she is currently trading well above $35m. In comparison, the same owners sold their *Tinat* (316k-dwt, 2002 Hyundai) last month for $ 29.5m.

Meanwhile Turkish owners Beks have executed some good asset play, selling their ice classed *Beks Atlantica* (115k-dwt, 2006 Samsung) for $33m that was originally purchased for $14.75m only a year ago.

In the MR segment, the Phenolic Epoxy coated *Seabright* (46k-dwt, 2006 STX) has been sold for excess $18m with docking passed. Arguably this is another notch up on pricing given *FSL Singapore* (46k-dwt, 2006 Hyundai) achieved $18m last month, however as she holds Ice class 1AS, this will have commanded a premium.

High spec chemical tankers *NCC Sudair* (46k-dwt, 2007 HMD, Zinc) and *NCC Rabigh* (46k-dwt, 2007 HMD, Zinc) have been sold with surveys and BWTS due for $35m en bloc. This is also an increase on price against last done, with *Patagonian Mystic* (49k-dwt, 2005 Naiki, Zinc) achieving $13.8m back in July, and *Sabrewing* (49k-dwt, 2004 Naiki, Zinc) changing hands for $9.5m the month before that.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Beks Atlantica	114,896	2006	Samsung	undisclosed	$33.00m	Ice Class 1A
Seabright	46,159	2006	STX	undisclosed	$18.00m	
NCC Sudair NCC Rabigh	46,012 45,951	2007	HMD	Chinese	$35.00m enbloc	Zinc coated & 22 grades, SS/DD/BWTS due

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