7 October 2022

HARTLAND SHIPPING SERVICES

WEEKLY COMMENTARY

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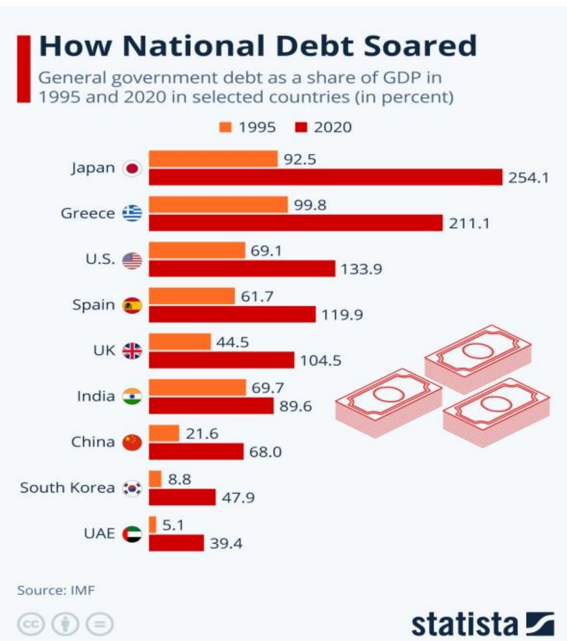
… The West and Japan are Debt Laden and Vulnerable …



[Source : Statista](#)

*Developers were prevented from adding to already huge debts, leading to a liquidity crisis, unbuilt flats and real estate insolvencies.

The FT reports that local government bonds back $7.8tn of real estate and infrastructure, 50% of China's 2021 GDP, 2x Germany's.

**In the 2000-19 decade, Chinese GDP grew on average 10.4% p.a., in 2010-19 it averaged 7.7%. In 2020: 2.2%, 2021: 8.1%, 2022f: 2.8%.

^Iran, Venezuela and Libya. They are compassionately exempt from Opec quotas as they are all unstable and variously sanctioned.

^^Opec+ announced a phased 9.7m-bpd output cut in April 2020 when Covid hit. It has never been completely restored.

+Urals prices, G7/EU price cap or not, will drop as buyers seek discounts, taking Brent & WTI with it. An Asian arbitrage opens.

POINTS OF VIEW

We know that we are heading for a winter energy crisis in Europe and yet we may be under-estimating the risks that this expands into a global energy crisis, a proxy world war in which energy is the main weapon. Players are taking sides, the teams are being picked. Brent crude oil prices hit an annual peak of $133pb in early March before falling back 37% to a trough of $84pb in late September as fears of global recession rose in febrile markets. Today Brent is back up to $98pb on fears of constrained supply as the EU moves closer to banning Russian seaborne crude and product imports this winter, just as Opec announces deep cuts and the US threatens to ban product exports. Who will meet the EU's thirst for diesel? Until this week, the West's focus was mainly on demand destruction caused by the war in Europe, rising energy and food costs, surging inflation, higher interest rates, strikes, public sector wage claims, Covid-drained national coffers and spreading financial contagion within China, and maybe soon outside it. Xi Jinping's 'three red lines'* and his zero-Covid policies have laid waste to Chinese growth. This is a matter of concern for all countries, not just its Asian neighbours, as China has driven global growth for over four decades, and globalisation kept a lid on prices, especially wages. Now this is all reversing and labour is regaining the whip hand.

In contrast to western demand fears, Saudi Arabia (KSA) is more concerned about oil supply constraints eroding already thin global spare capacity, Opec's bargaining chip. The partial shutting in of Russian oil exports will erode spare capacity but, counter-intuitively, Opec+ announced supply cuts of 2m-bpd in Vienna this week. Russia is KSA's lead partner in Opec+ and the alliance between Putin and MbS aligns them in more ways than one. They are both subject to western sanctions, both resent western overreach, both are accused of human rights abuses while Biden regards them evenly as pariah states. The US had already shut off arms sales to KSA, undermining its security and its ability to wage war in Yemen against Iran-backed militias. The US upset KSA by releasing large volumes from its Strategic Petroleum Reserve to lever down oil prices; now the G7/EU have just agreed to impose a price cap on Russian oil exports that has future implications for KSA and Opec+. Output cuts should mean higher prices, compensating for lower exports. They may even trigger a rethink of US-led western energy policy affecting three Opec+ members (being Iran, Venezuela and Russia), cause trouble for Biden in the November mid-terms and even increase the chance that their malleable friend and fellow strongman, Donald Trump, be returned to the White House in 2024.

Officially, the Opec+ cuts are an insurance policy against a big fall in demand and a device to raise spare capacity. Unofficially, they may be viewed as an anti-western and pro-Russian attempt to force up oil prices. They will stoke inflation and raise economic pain in the West, and also beyond, as they will be as indiscriminate as Russian artillery, hitting everyone everywhere. Opec's 10 members excludes Iran, Venezuela and Libya as they are exempt from output quotas.^ Opec+ raises cartel members to 20, including Russia. Its collective output ceiling will drop to 40.1m-bpd from November, according to Argus, its lowest since April, but still well above actual production. Opec+ members fell 3.6m-bpd below target in August, the worst performers being Russia, Nigeria and Kazakhstan. This week's headline 2.0m-bpd chop, after last month's 0.1m-bpd cut, merely acknowledges reality and closes the gap between target and actual output to a 1.5m-bpd quota deficit.^^

Failure to meet quotas is a pandemic legacy from alleged inadequate investment, ageing infrastructure, incompetence and corruption. So, just how much will Opec+ actually need to cut? Any real cuts will be left to the AG (KSA, UAE & Kuwait) and would be subject to the quantum of shut-in Russian volumes once sanctions bite. Brent and WTI will be under downward pressure, given lower US and European demand, while Dubai will rise as AG output is cut.+ It will open the door to non-Opec, Atlantic-based suppliers to fill the void, shipping crude to India, Singapore and China to get refined products in return for energy-starved Europe, Africa and Latin America, very nice long-haul combinations. We put the OB/FL ratio at 4% by capacity for crude tankers and 5% for product tankers, both low, to be drip fed into the market over three years. But, when it comes to demand it is Las Vegas, Macau and Monte Carlo rolled into one. Spin the roulette wheel, and good luck!

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Dry Cargo Chartering

Some strong gains were seen across *cape* markets in the first half of this week before rates levelled off on Thursday and Friday. The BCI closed at $19,874, up by $3,660 from last reported. This trading week saw average freight prices from Australia remain above the $9.00 pmt mark and were well above $24.50 pmt on average ex. Brazil. A good deal of coal deals came to light this week including an Oldendorff TBN vessel for 170,000 mtons 10% Bolivar to Hadera or Ashkelon at $15.80 pmt, charterers LSS fixing 150,000 mtons 10% Samarinda to Mundra 6/13 Oct at $6.40 pmt, and a unnamed Newcastlemax for 160,000 mtons 10% from Abbot Point to Rotterdam loading 27 Oct/5 Nov at $17.30 pmt. On the iron ore front we heard that the 2010-built *Hebei Universe* fixed 180,000 mtons 10% loading Stanley Point to Qingdao 16/18 Oct at $9.50 pmt. Additionally, Olam took on *Nicolemy* (179,910-dwt, 2014) delivery retro-sailing Singapore for a trip via Brazil and West Africa back to the Far East at $24,250, and Swissmarine fixed *Captain Petros H* (174,667-dwt, 2010) delivery Amsterdam for a transatlantic round trip at $28,000.

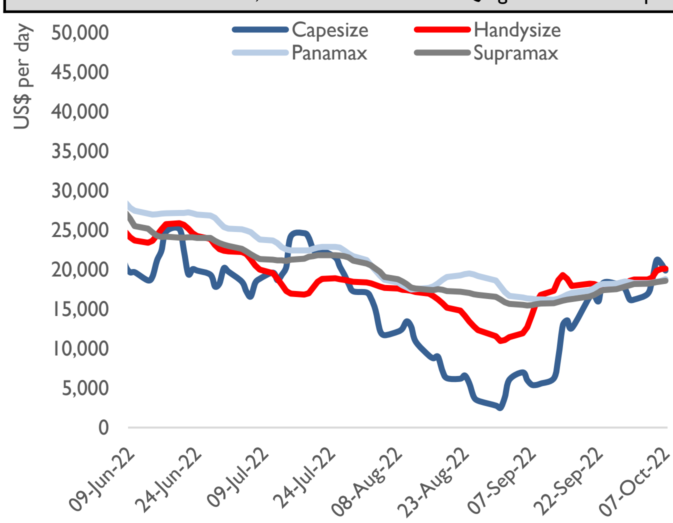
As the holidays progressed in Asia, market was significantly quiet with limited fresh enquiry surfacing. However in the Atlantic, an improved in demand saw optimistic gains especially on the fronthaul rates. The **P5TC** closed at $20,116 up by $1,824 since last reported 30th September. In the Pacific, ASL Bulk covered *The Socrates Graecia* (82,057-dwt, 2020) open Shibushi for a Nopac round trip at $20,000 and *The Valiant Summer* (81,920-dwt, 2016) was heard fixed for an Australian round trip at below $16,000 but little else came to light. It was also reported that Graincorp took The Mastro Nikos (82,177-dwt, 2011) open Singapore for redelivery in South Korea via EC South America at $20,350. In the Atlantic, Cargill was linked to both *The Saronic Champion* (93,115-dwt, 2011) open Gibraltar for a trip to Singapore-Japan range at $26,000 and *The GCL Hazira* (81,986-dwt, 2021) delivery Ghent for a front haul trip at $31,500. Similarly, *The Axios* (81,960-dwt, 2017) was also heard fixed for a trip open Belfast via US Gulf for redelivery in Singapore-Japan range at $31,500. On voyage, Kepco Tender fixed Wooyang TBN for their 85,000-88,000 coal lift Taboneo / Goseong 21/30 Oct at $10.82.

A quiet week in the Pacific markets due to the Golden Week celebrations in China meant that comparatively little activity was reported. The **BSI** closed this week at $18,763 up $471. The Atlantic showed little difference. We heard that Norvic fixed *Ultra Dwarka* (61,395-dwt, 2012) delivery Putian 4/5 October for a trip via Indonesia redelivery China at $16,750, while *Arch Michael* (63,628-dwt, 2015) fixed delivery Tianjin for a trip to West Coast India at $18,000. Moreover, an Ultramax reportedly fixed a Taiwan backhaul to the Continent at around $20,000. On the *Continent Alkyoni* (55,830-dwt, 2012) fixed delivery A-R-A-G range for a trip to Narvik at $16,500. On the period side of things, it was rumoured that *Peace Hope* (58,092-dwt, 2010) open Ciwandan fixed for 4/6 months at $19,000.

The **BHSI** closed this week at $18,588 up $429 driven by the notable uptick across the Atlantic, while the Pacific Ocean markets started to waver, as activity slowed with national holidays in China. Owners in the Far-East looked to fix back-haul trips in the high-teens. Continent and Mediterranean markets both respectively witnessed strong gains partially thanks to a strong South America grain harvest and a boosted level of confidence in Owners to fix from the Black Sea. Since the first ship sailed from Ukraine under the deal on August 1, more than 260 ships with over 6 million tons of grain have now departed from ports. *Meshka* (35,829-dwt, 2011) fixed $17,000 Continent for trip to West Mediterranean with grains. An Imabari 28kdwt fixed a grains trip Antwerp to Morocco at $17,500. Intra-continent coal fixtures were close to $20,000 on similar vessels. In the Mediterranean, a 35,000-dwt vessel fixed very high-teens delivery East Mediterranean via the Black Sea to USA with grains. *Elpis* (34,329-dwt 2012) open Ashdod fixed at high-teens from a trip East. United States Gulf was steady, levels remain mid-upper teens for trans-Atlantic trips. South America not for the first time, the star performer. *Lignum Grid* (41,963-dwt, 2022) open Sao Sebastiao fixed passing Recalada for a trip redelivery North Brazil at $43,000 with AEC. *Strategic Harmony* (39,880-dwt 2014) open Santos prompt fixed around $32/33,000 for a trip to the Mediterranean. With Golden Week in Asia, activity slowed down, sentiment dropped, and rates lowered. A 28,000-dwt open Hong Kong fixed for an Australian round trip at around $14,500. *Ever Brilliant* (28,367-dwt, 2009) fixed at $14,500 from Hong Kong for an Australia round voyage, redelivery far east. *Ionic Hawk* (34,067-dwt, 2012) fixed from Samalaju for a trip via West Australia redelivery Singapore-Japan range at $15,000 with J. Lauritzen. *Gabriella* (36,892-dwt, 2013) open Rizhao fixed a trip to US Gulf at $18,500 with Ultrabulk. On the west coast, *Eco Splendor* (38,302-dwt, 2013) fixed a trip Vancouver to Japan at $19,000. Period activity started boiling, *Bunun Dynasty* (37,795-dwt, 2014) open China fixed 108% BHSI for 11-13 months and *AC Splendor* (32,739-dwt, 2005) open Malaysia fixed 2/3 laden legs at $15,300.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
Nicolemy	179,910	2014	Singapore	2 Oct	Singapore- Japan	$24,240	Olam	Via Brazil/West Africa
Captain Petros H	174,667	2010	Amsterdam	Ppt	Amsterdam	$28,000	Swissmarine	Transatlantic round voyage
Ruth	82,046	2021	Kushiro	6 Oct	Singapore- Japan	$18,750	Cnr	Via Nopac
Axios	81,960	2017	Belfast	6/7 Oct	Singapore- Japan	$31,500	Cnr	Via US Gulf
Hydrous	81,601	2011	US Gulf	9 Oct	Singapore- Japan	$19,600	Louis Dreyfus	+960,000 bb
Golden Trader	63,677	2021	US Gulf	10/15 Oct	Singapore-Japan	$26,000	Cargill	Via US Gulf
Ultra Dwarka	61,395	2012	Putian	4/5 Oct	China	$16,750	Norvic	Via Indonesia
Aggelos B	58,480	2010	Morehead City	Ppt	WC India	$24,000	Cnr	-
Weco Laura	38,599	2020	Vila Do Conde	Ppt	Norway	$31,500	Mur	-
Poavosa Ace	28,208	2013	Qingdao	Ppt	SE Asia	$13,000	Cnr	-



Exchange Rates	This week	Last Week
JPY/USD	145.09	144.47
USD/EUR	0.9760	0.9816

Brent Oil Price	This week	Last Week
US$/barrel	95.29	88.20

Bunker Prices ($/tonne)	This week	Last Week
Singapore IFO	416.0	394.0
VLSFO	755.0	694.0
Rotterdam IFO	427.0	415.0
VLSFO	654.0	620.0

Dry Bulk S&P

Following a rather quiet spell of Dry Bulk S&P activity, we have a number of sales to report with activity across all major sizes.

Two older Capsizes have changed hands this week. We note that the *Shinyo Guardian* (177k-dwt 2005 Namura) has been sold to Turkish buyers for $16.9m whilst the *Lila Nantong* (171k-dwt 2003 Sasebo) has found a new home for $16m. It is likely that both buyers are betting on continued volatility in the sector opening the door to quick write-downs on older assets with smaller downside risk.

After a long hiatus, it is interesting to note the revival of Turkish buyers in recent weeks despite a lack of financial support from their domestic banks.

Supramax's have also been popular this week with three vessels being reported sold within the sector. Tsuneishi Group are understood to have sold their *Ocean Adventure* (57k-dwt 2015 Tsuneishi) for $23.5m. This demonstrates just how far asset values have fallen from their peak earlier this year when the three-year-older, non-eco, *Neutrino* (58k-dwt 2012 Kawasaki C4x31t) was sold to Vietnamese buyers for $24m.

It is expected that transaction volumes will remain steady in the next few weeks as more and more buyers are accepting todays prices as having 'bottomed out'.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
Shinyo Guardian	177,216	2005	Namura	-	Beks Shipping	$16.90m	BWTS fitted
Lila Nantong	171,009	2003	Sasebo	-	undisclosed	$16.00m	
Cymona Gemini	82,992	2006	Tsuneishi Fukuyama	-	undisclosed	$16.20m	
Golden Harvest	76,623	2001	Imabari	-	undisclosed	$10.50m	BWTS fitted
Teresa Oetker	58,018	2010	Yangzhou Dayang	C 4x35T	Greeks	$16.10m	
Ocean Adventure	57,814	2015	Tsuneishi Fukuyama	C 4x30T	undisclosed	$23.75m	
Corinthian Emerald	57,592	2012	STX	C 4x30T	undisclosed	$20.50m	BWTS fitted
Lodestar Pacific	33,393	2015	Shin Kochi	C 4x30T	Evalend	$19.80m	

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Tanker Commentary

Despite Golden Week taking most of the Chinese buyers out of the market, some remain active and the sales list remains healthy. Generally asset prices remain steady, the exception being ice-classed units that are showing stronger gains especially going into winter.

The Euronav-controlled *Cap Guillaume* (159k-dwt, 2006 Samsung - Ice 1C) has been sold for $35.7m to Chinese buyers - a very firm price compared to Augusts' sale of the smaller design *Ridgebury Mary Selena* (146k-dwt, 2006 Universal - Ice 1A) that went for $31m. Meanwhile *Nordic Cosmos* (159k-dwt, 2003 Samsung) has changed hands for $21m which may seem low, however note the buyers will be taking delivery in Q4 with dry docking due.

A pair of pumproom MR tankers have found new homes - *Ridgebury Birch* (53k-dwt, 2006 Shin Kurushima) & sister ship *Ridgebury Acacia* have been sold en bloc at $17.5m each. This is in line with last months sale of *Black Swan* (48k-dwt, 2007 Iwagi) at $19m and *Dee4 Dogwood* (48k-dwt, 2008 Onomichi) which was sold at $22m in August. Of the deepwell designs, *Jo Ask* (47k-dwt, 2007 HMD) has secured a buyer at $ 20.5 mill with much better survey positions.

In the chemical segment, *Battersea Park* (19k-dwt, 2002 Usuki, STST) has been sold with surveys passed for $10.5m - last month, the year younger *MTM Tokyo* (20k-dwt, 2003 Kitanihon, STST) went for $10.5m with docking due Q1 2023.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Nordic Cosmos	159,999	2003	Samsung	undisclosed	$21.00m	Delivery in Q4
Cap Guillaume	158,889	2006	Samsung	Chinese	$35.70m	BWTS fitted & Ice 1C
Seagrace	105,941	2004	Hyundai HI	Chinese	$23.50m	
Phoenix Beacon	105,525	2011	HHI	Performance Shipping	-	BWTS fitted
PGC Ikaros	72,829	2004	Hudong-Zhonghua	undisclosed	$12.25m	
Ridgebury Birch Ridgebury Acacia	53,712 53,688	2006	Shin Kurushima	undisclosed	$35.00m enbloc	
Jo Ask	47,128	2007	HMD	undisclosed	$20.50m	BWTS fitted
Energy Progress Energy Puma	46,606 46,549	2008	Sungdong	undisclosed	$40.00m enbloc	
Battersea Park	19,949	2002	Usuki	undisclosed	$10.50m	STST
Wealthy Loyal	19,098	2012	Zhejiang Taitong	Chinese	$15.40m	Auction
Leon Herc	17,568	2008	Samho	Greek	$9.00m	

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