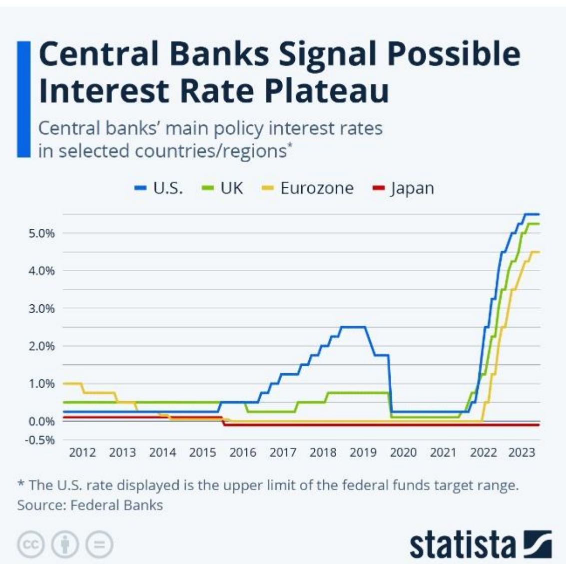
10 November 2023

WEEKLY COMMENTARY

HARTLAND SHIPPING SERVICES

CONTENTS

… Consumers no longer have cheap credit …



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POINTS OF VIEW

Winter has begun and the long nights are drawing in, the same is happening in the container industry. Last week, Vincent Clerc, CEO of A.P. Moller-Maersk, said the company faced *"a very uncertain trading environment with significant further downside risk potential"*. 10,000 employees could be made redundant. It seems the market is now acknowledging what has been clear for a while: it faces a bleak winter after an extraordinary summer. The boom was driven by transitory covid-related factors. Consumers, flush with cash and cheap credit, were stuck indoors unable to spend in bars and restaurants or on concerts and holidays. It duly went on a goods spending binge. Meanwhile covid tests, quarantines and supply-chain and labour disruptions created backlogs of ships in ports, soaking up large chunks of supply, but only temporarily. The *Ever Given* blocking the Suez Canal is the most enduring image, but drone footage of ships queuing to enter Long Beach better epitomises the perfect storm of booming demand and supply chaos. Both trends petered out towards the end of 2022 and container demand has been in a rut this year, partly explaining China's underwhelming economic reopening*. This may have been manageable if the enormous profits^ had not been spent at shipyards as part of a capacity arms race.** This orderbook has been coming down the track for a while and it is surprising how reluctant some were to identify the problem. Many even carried on ordering this year motivated by pioneering new fuels and decarbonisation. Spot freight rates have held the line slightly,^^ thanks to slow-steaming and blanked sailings, but asset prices and charter-rates are now tumbling.

The orderbook (28% of the fleet) is now arriving, 0.6m-teu in Q3. Alphaliner estimates 0.8m-teu in Q4. We predict fleet growth of ~7% in both 2023 and 2024. A wave of deliveries seems inevitable until at least 2026. This does not necessarily guarantee financial disaster. Cash buffers and long-term charters or freight deals should give owners and lines respectively some medium-term cover. However, those too exposed to the spot market or who over-extended at the top, might be nervous. The two industry giants are separating and pursuing divergent strategies: MSC targeting market share, Maersk lower-carbon freight. Regardless of strategy, demolition will be vital. This cycle of *boom-invest in new capacity-bust* is common in commodity and shipping markets, but containers are not the only sector to have had a bull run. Drybulk had a boom market in 2021-22, if not of equal magnitude. Since Russia invaded Ukraine, tanker markets have been on a superb run. Unlike containers however, neither of these followed the pattern of over-ordering. The crude tanker OB is tiny (4% of the fleet). The product OB is still growing, but only 11% so far, looking more like replacement not overcapacity. The drybulk OB has risen this year to 9% (11% sub-Capesize) and ordering is quite stubborn, but it could be much worse and should be digestible through demolition and hoped-for demand growth. None of these resemble orderbooks that would normally be expected after booms, think 2009. Likewise, the lead times at yards mean many ships will not deliver until 2H-25, into ageing fleets that require some replacement.

Dry and tanker owners may feel relief that they do not have the same hangover as their container peers, but for the grace of God go they. Maybe they had the discipline to enjoy their booms but avoid the excesses of over-ordering. The fragmented nature of the two bulk sectors means the fight for market share is less relevant. A more likely reason for restrained contracting is that other sectors beat them to it and had deeper pockets. High prices and the long wait for deliveries have been the main deterrent against ordering. It was not just containers either. South Korea's big three are packed with LNG orders†. PCTC and LPG owners have also been shopping. Orderbooks have swollen with complex, high-margin units. Chinese yards have moved up the value chain with South Korea too busy for tanker orders. This is not to say that tanker and dry markets face a rosy future, but busy yards and high prices put a brake on over-investment, the industry's Achilles heel. Will this continue? Ordering may ease from rival sectors and yard capacity is not static. However, coming full circle, the private arm of Maersk has been linked to LOIs for up to 10 VLACs, implying more orders to come related to the energy transition. These include LCO2 carriers and WTIVs‡ as well as cross-sector demand for ships powered by whatever wins the race to replace fuel oil.

*YTD China's exports are down 6.4% YoY in value terms (GACC).

^APMM reported profits of USD 29bn in 2022, USD 18bn in 2021. Hapag-Lloyd: a profit of EUR 17bn in 2022, EUR 9bn in 2021.

**Alphaliner places the current orderbook at 7.7m-teu, 28% of the fleet as at the start of Oct-23 and has hovered around ~30% all year.

^^The SCFI has spent most of the year hovering around 1,000, well down from the peak of 5,110 in Jan-22, but slightly above 2019 levels, although today bunker, operating and finance costs are far higher.

†Unlike the container sector this is against a clearer pipeline of growing demand, particularly from Qatar, which is believed to be behind up to 60 orders so far with up to 151 slots reserved. Global LNG trade is set to grow by 130bcm (25%) from 2022 to 2026 (IEA).

‡LCO2 = Liquified CO2. WTIV = Wind Turbine Installation Vessel. VLAC = Very Large Ammonia Carrier.

Dry Cargo Chartering

Another interesting week in the **Capesize** markets that perfectly encapsulated the sector's volatility. Time charter averages increased, dipped, and then rallied notably once more as the week played out, ending up at $21,473. This was a sizeable rise of $3,783 from our last report on Friday 3 November. The usual Pacific majors were active including Rio Tinto and BHP, each taking 4 vessels apiece for Australian iron ore into China. The former covered late November dates with freight ranging from $9.35 pmt to $9.80 pmt, while the latter took three positions for 160,000 mtons 10% with a similar freight range of $9.20 pmt to $9.80 pmt. BHP also took a HMM TBN ship for 190,000 mtons 10% at $9.40 pmt. We also heard that Welhunt covered 130,000 mtons 10% Newcastle to Xiamen at 13.50 pmt. From South America, Mercuria chartered *Cape Europe* (187,882-dwt, 2014) for 170,000 mtons 10% Tubarao to Qingdao at $21.00 pmt, while Koch fixed a NYK TBN position for the same trade at $20.70 pmt for early December dates. On the coal front, charterers Libra covered 150,000 mtons 10% South East Kalimantan anchorage to Mundra at $7.00 pmt. Elsewhere, Mittal fixed *United Grace* (182,922-dwt, 2019) for 150,000 mtons 10% Port Cartier to China at $31.25 pmt for 18/27 November.

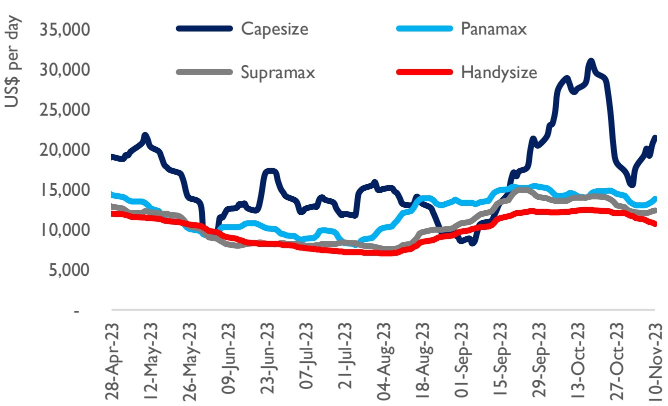
The **Panamax** market appeared active with the North Atlantic finding some support with fresh cargoes entering the market while further South, there was a glut of fixing rumoured for end November/early December arrivals at marginally higher levels. Rates continued to correct in Asia, albeit at a slow pace, despite healthy coal demand from both Indonesia and Australia. This was likely due to a growing tonnage count, which put rates under pressure. P5 TC closed at $13,773 up by $739 since last reported. In the Atlantic, *Aristoteles Graecia* (82,096-dwt, 2020) retro sailing Haldia 25 October was heard fixed for a trip via East Coast South America redelivery Far east at $14,000. The *Myrto* (82,131-dwt, 2013) Ijmuiden 5/8 November was fixed for a trip via US Gulf redelivery Amsterdam at $15,000 with Jera while *Cemtex Diligence* (82,200-dwt, 2019) Amsterdam 11 November was fixed for a trip via Puerto Drummond redelivery Japan at $24,000 to Jera. In the Pacific, the *Joy* (81,096-dwt, 2019) Xingang 10/11 November fixed for a trip via North China redelivery Japan at a rate in the high $12,000's. The *Kamares* (74,444-dwt, 2004) Singapore prompt fixed for a trip via Indonesia redelivery West Coast India at $12,000, whilst NS United secured the *Yangze 23* (82,367-dwt, 2022) Tianjin 11 November for a trip via North China redelivery Japan at $12,100. On voyage, Libra fixed 'TBN' for their 150,000 mtons 10% coal lift Kalimantan anchorage/Mundra 14/20 November at $7.00 pmt.

Supramax market showed signs of recovery this week. The US Gulf market firmed aggressively as the week went on, whilst the Pacific Ocean bottomed out leading to positivity for the first time in 2 weeks. The S10TC closed at $12,373 up by $262 (+2.16%) since reported last week. In the Pacific, *Ping Hai* (62,623-dwt, 2019) fixed delivery Go Gia prompt dates for a trip via Indonesia to China at $13,000 whilst Deyesion covered *Wolverine* (61,292-dwt, 2015) delivery Bayuquan prompt dates for a trip via Australia to Indonesia at $9,000. Whilst in the Indian, *Arch Michael* (63,628-dwt, 2015) covered delivery Payra 9-10 November for a trip via East Coast India to China at $9,500, *Tristar Prosperity* (56,824-dwt, 2012) was taken delivery Salalah prompt dates for a trip with gypsum to West Coast India and *Thor Future* (54,170-dwt, 2006) was fixed delivery Mina Saqr prompt dates to East Africa at $7,000. And in the Atlantic, Ultrabulk fixed *Nord Agano* (63,436-dwt, 2020) delivery SW Pass prompt dates for a trip with grains to East Coast Mexico at $25,000 whilst it was heard *Lausanne* (60,696-dwt, 2017) was on subs delivery SW Pass 18-27 November for a trip with grains to Singapore-Japan around $33,000.

The sentiment in the Pacific **Handysize** market was still negative. In Southeast Asia, rates continued to be pressured for prompt tonnage as the tonnage list continued to build. However, some market participants suggested a potential uptick in activity soon, citing the increase in fresh enquiries towards the end of November. This potential uptick in activity may suggest a positive turn in the market soon. The HS7TC closed at $10,697 down by $722 since last friday. In the North China-Japan Region, the absence of fresh cargo enquiries continued to be apparent, further driving down rates. The *Obrovac* (34,444-dwt, 2010) opening in Singapore was rumoured to have been fixed basis delivery Kijang for a trip to Samalaju with alumina in the $7,000s. The *Atilla* (37,913-dwt, 2011) opening in Port Kelang was said to have been fixed basis passing Singapore for a trip via Australia to Singapore-Japan at $6,750 to Cargill whilst others heard the rate was $7,850. The *Rin Treasure* (28,338-dwt, 2009) opening in Kuching 13-14 November was heard to have been placed on subjects for a trip to North China at $7,250 no further details had yet to emerge. As expected, the Handysize market in the Atlantic was fairly quiet throughout the week. The US Gulf/US East Coast market kept its momentum and remained firm, however, the other areas did not follow suit. On the Continent, Norden fixed a 34k-dwt for a prompt trip ex Rouen to Morocco with grains at $13,000. In the Mediterranean, a prompt 37k-dwt fixed $7,500 ex Milos Island into Antwerp with minerals, as well as a 28k-dwt fixing $7,500 delivery Canakkale for a Black Sea to Morocco grain cargo. Rates continued to soften in the south Atlantic, we heard a 34k-dwt ballasting towards North Brazil to fix $13,000 to the West Mediterranean.

Representative Dry Cargo Market Fixtures

Vessel	DWT	Built	Delivery	Date	Redelivery	Rate ($)	Charterers	Comment
CMB Medoc	95,746	2012	Singapore	12/14 Nov	Japan	$16,000	Jera	Via Richards Bay
Star Trader	82,181	2010	EC South America	17/20 Nov	Singapore-Japan	$16,750	Cargill	-
Andreas Petrakis	75,999	2014	EC South America	9/15 Nov	Singapore-Japan	$16,000	Hanson	-
Xin Wu Zhou 1	75,668	2001	Xiamen	9 Nov	South China	$6,500	Passepartout	Via Indonesia
Ling Bai	75,121	2001	Ningde	12/15 Nov	China	$8,000	Cnr	Via Indonesia
Wolverine	61,292	2015	Bayuquan	Ppt	Indonesia	$9,000	Deyesion	Via Australia
Amoy Progress	56,874	2011	Kendari	Ppt	CJK	$12,250	Fullinks	Via Indonesia
Ming Zhou 78	56,757	2011	Brunei	10/11 Nov	S China	$10,500	ESM	Via Indonesia
Liberty Bay	36,800	2012	Sepetiba	Ppt	NC South America	$13,250	Seacape	-
Orient Tide	33,755	2010	Santos	Ppt	Morocco	$13,000	Norden	-



Exchange Rates		This week	Last week
	1 USD	151.35 JPY	149.63 JPY
	1 USD	0.9354 EUR	0.9337 EUR

Brent Oil Price		This week	Last week
	US$/barrel	81.61	84.87

Bunker Prices (US$/tonne)		This week	Last week
	Singapore HSFO	466.0	484.0
	VLSFO	684.0	707.0
	Rotterdam HSFO	467.0	522.0
	VLSFO	575.0	600.0

Dry Bulk S&P

We have no Capesize sales to report this week (although we suspect that the JP Morgan controlled *True Cartier* - 181,380-dwt, 2014 Imabari - has been committed). That aside, pretty much every major dry bulk sector is represented in the sold table, young and old.

A resale Kamsarmax, due for delivery in January next year, *AP Jovrijenac* (82,000-dwt, Hantong) is reported sold for $37.62m to Egyptian buyers NCC, which represents a premium of about $3m over what is achievable at the yards today with 2026 delivery.

Five Panamaxes are reported sold. Older Japanese values seem to be holding up well with *Magic Moon* (76,602-dwt, 2005 Imabari) and *Thor* (76,838-dwt, 2005 Oshima) selling at $11.8m each. Whereas more modern Chinese built units look a little softer. *Lambay* and *Nestor S* (75,200-dwt, 2011 Penglai) are sold for $32.4m enbloc while *Peace Pearl* (76,431-dwt, 2013 Zhejiang) is sold for just $16.3m with a short TC attached.

In the Ultramax sector, three units are reported sold. *Lowlands Mimosa* (63,939-dwt, 2018 Tsuneishi Cebu) and *FJM Glory* (61,166-dwt, 2019 DACKS) are sold enbloc for $25.5m and $29.6m respectively. *Lowlands Mimosa* has reportedly suffered recent fire damage, but the FJM Glory is sold at last-done levels. *Shimanami Queen* (61,472-dwt, 2011 Shin Kasado) is reported sold at about $18.75m to Greek buyers.

Two Supramaxes are sold at strong levels. *Royal Knight* (58,721-dwt, 2013 Kawasaki) is sold for an impressive $19.5m as is *Nippon Maru* (55,581-dwt, 2011 Mitsu) at $17.25m. The elderly Tess52 *New Lotus* (52,416-dwt, 2001 Tsuneishi Cebu) is sold at $6.7m.

Modern Handysize tonnage is holding value. The Japanese-controlled *Iris Harmony* (38,593-dwt, 2019 Tsuneishi Cebu) is sold for $26m. The Chinese built *Aprilia* (36,193-dwt, Wuhu 2017) is sold for $20.2m. Finally, the Imabari28 type *Lake Dany* (28,358-dwt, 2008 Shimanami) is committed at a softer $8.5m.

Reported Dry Bulk Sales

Vessel	DWT	Built	Yard	Gear	Buyer	Price	Comment
AP Lovrijenac	82,000	2024	Jiangsu New Hantong		NNC	$37.62m	Resale
Thor	76,838	2005	Oshima		Ripley Shipping	$11.8m	
Magic Moon	76,602	2005	Imabari		Turkish	$11.8m	
Peace Pearl	76,431	2013	Zhejiang		Greeks	$16.3m	Short TC attached
Lambay Nestor S	75,200	2011	Penglai		Bright Navigation	$32.4m	Enbloc
Lowlands Mimosa	63,939	2018	Tsuneishi Cebu	C 4x36t		$25.5m	Enbloc – Lowlands Mimosa discounted due to recent fire damage
FJM Glory	61,166	2019	DACKS	C 4x30t		$29.6m	
Shimanami Queen	61,472	2011	Shin Kasado	C 4x31t		$18.75m	
Royal Knight	58,721	2013	Kawasaki	C 4x31t	Greeks	$19.5m	
Nippon Maru	55,581	2011	Mitsui	C 4x30t	Kouros	$17.25m	
New Lotus	52,416	2001	Tsuneishi Cebu	C 4x30t		$6.70m	
Iris Harmony	38,593	2019	Tsuneishi Cebu	C 4x30t	Turkish	$26.0m	March-May 2024 Delivery
Aprilia	36,193	2017	Jiangdong Wuhu	C 4x30t	Greeks	$20.2m	
Lake Dany	28,358	2008	Shimanami	C 4x31t		$8.50m	

Tanker Commentary

As various Bahri Week and Eisbein parties were in full flow, there was a considerable amount of activity in the VLCC and product tanker markets in the background this week.

Having committed two 2013 built VLCC's last week, SK shipping have sold their vintage VLCC, *C. Emperor* (314,000-dwt, 2004 Samsung - Scrubber Fitted) for $34.5m. Whilst no numbers have yet to be disclosed, offers were invited on *Xin Jin Yang* (297,376-dwt, 2004 Dalian - SS/DD: 11/24) earlier today. The last similar aged VLCC to sell was *Great Lady* (308,930-dwt, 2005 Samsung) which went to Chinese buyers at the end of September for $34.75m.

In the product tanker market, Chemikalien controlled, *Chemtrans Leo, Chemtrans Mercury* and *Chemtrans Uranus* (37,600-dwt, 2006 HMD - Epoxy Phenolic - Ice 1A) are reported to have sold for $54m enbloc or $18m per vessel. This falls in line with *Baltic Mariner I* (37,304-dwt, 2006 HMD, Ice 1B) which sold in mid-October for $18.5m. Elsewhere, we note a rare sale of a modern MR1 as the Chinese controlled *Dictador* (34,747-dwt, 2019 Fujian Mawei - Epoxy Phenolic) has sold for $29.2m. Finally, Bangladeshi owners, Taihua Ship Services are understood to have purchased the *Bow Emma* (25,594-dwt, 2009 Shin Kurushima - Stainless Steel) for a firm $24m.

Reported Tanker Sales

Vessel	DWT	Built	Yard	Buyer	Price	Comment
Chemtrans Leo Chemtrans Mercury Chemtrans Uranus	37,600	2006	HMD	Middle Eastern	$54.0m	Enbloc, Epoxy Phenolic, Ice 1A
Dictador	34,747	2019	Fujian Mawei		$29.2m	Epoxy Phenolic
Bow Emma	25,594	2009	Shin Kurushima	Taihua Ship Services	$24.0m	Stainless Steel
Enford Kenrick	16,886 16,788	2012	Taizhou Sanfu	Seacon	$28.0m	Enbloc, Epoxy Phenolic
ST Sara	8,019	2007	Anadolu Deniz		$8.30m	Epoxy Phenolic
VS Salma	8,015	2007	Anadolu Deniz		$8.80m	Epoxy Phenolic
VS Salome	7,915	2007	Anadolu Deniz		$8.30m	Epoxy

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