September Market Report

15-10-2018

General Comments

In September we have diverted our attention from the ongoing Trade war, well at least briefly, to stories about the "Big Hack" which has hit US companies and China Stimulus - how China will come to the rescue for the nations troubled stock investors. Meanwhile, back in the drybulk market we have seen a firm September across all segments except the Cape segment which has somehow dissapointed Q4 believers so far.

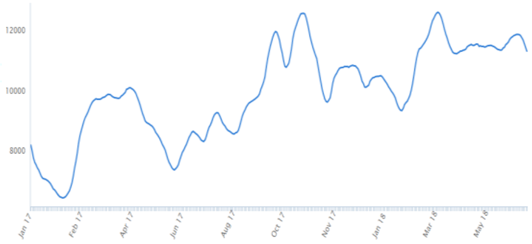
Trade Flow Update

Iron Ore - Essar Steel India's creditors have selected ArcelorMittal as their preferred bidder for the bankrupt steelmaker. ArcelorMittal submitted a bid of Rupees 420 billion ($5.73 billion) for Essar Steel, but it could only be considered by the committee of creditors if AM settled outstanding dues for Uttam Galva and KSS Petron. On Oct 4, India's Supreme Court upheld an order requiring AM to pay the dues within two weeks of the ruling. AM complied with the ruling on Oct17, by approving a payment of Rupees 74.69 billion to the creditors of Uttam Galva and KSS Petron. Only ArcelorMittal and Vedanta are left. Essar Steel is the fourth-largest domestic producer with a production capacity of 10 million mt/year.

Grain - The US's trade deficit grew $3.2 billion, or 6.4%, to $53.2 billion in August compared to a month earlier as a trade war with China slashed soybean exports globally, data from the Bureau of Labor Statistics and the US Census showed. Broken down, total exports of goods fell $1.8 billion on the month as a fall of $3.6 billion worth of exports, including a $1-billion fall in exports of soybeans, only partly offset by a $1.6-billion rise in exports of consumer goods. While exports of services increased, imports increased $1.7 billion. The figures are somewhat ironic, as soybean exports have fallen as a direct result of a trade war with China that was meant to cut the nation's trade deficit. The trade deficit with China rose $1.7 billion on the month to $38.5 billion.

Coal – The Australian government has backed coal-fired power, despite the recommendations of a major report on climate change. Phasing out coal is considered crucial to limiting global warming to within 1.5C, as set out in the UN report released yesterday. Australia's deputy prime minister has said the country should "absolutely" continue to use and exploit its coal. But China remains the world's biggest coal consumer. In addition, China has restarted word at hundreds of coal-fired power stations, according to an analysis of satellite imagery. Australia's Deputy PM, said his government would not change policy "just because somebody might suggest that some sort of report is the way we need to follow and everything that we should do". He added that coal provided 60% of Australia's electricity, 50,000 jobs and was the country's biggest export. The climate report was produced by the UN's Intergovernmental Panel on Climate Change (IPCC). It warned that "unprecedented" changes would be required to limit the Earth's temperature rise, and predicted that catastrophic species loss and extreme weather would result if the target was exceeded. It said that coal-fired power generation had to end by 2050 in order to avoid devastating changes to the planet. The coal lobby is pushing a technology known as carbon capture and storage (CCS) as a solution. CCS involved capturing CO_2 produced through the burning of fossil fuels like coal and trapping it deep in the ground. The IPCC agrees that CCS must become widespread. But many analysts say that progress on the technology is too slow to allow the necessary emissions reduction goals to be achieved. In addition, renewable energy technologies are becoming cheaper than conventional coal-fired power generation - a trend that's likely to continue. Meanwhile, China is reported to possess some 993 gigawatts of coal power capacity, although the approved new plants would increase this by 25%. China's central government has tried to rein in this boom by issuing suspension orders for more than 100 power plants. But the report based on satellite imagery suggests that these efforts have not been totally effective. China remains the world's biggest greenhouse gas emitter, while Australia ranks as 13th biggest emitter.

Oil - Oil prices have risen lately on signs of surging demand in China, the world's No. 2 oil consumer, although prices were headed for a second weekly decline on swelling U.S. inventories and concern that trade wars were curbing economic activity. Refinery throughput in China, the world's largest oil importer, rose in September to a record 12.49 million barrels per day (bpd). China's healthy oil demand, together with persistently high compliance of countries participating in the OPEC-led output-cut agreement, are supportive of prices. An OPEC and non-OPEC monitoring committee found that oil producers' compliance with a supply-reduction agreement fell to 111 percent in September from 129 percent in August, three sources familiar with the matter said. The Organization of the Petroleum Exporting Countries has led cuts from major oil producers since 2017 to shore up prices. Oil prices also rose along with rising equities prices on Wall Street. The intermittent correlation between oil and equities has been strong of late as the oil complex has been able to put some seemingly bullish geopolitical developments on hold for now while focusing, instead, upon some significant loosening in global oil balances. Pressuring prices this week was U.S. government data showing crude inventories last week climbed 6.5 million barrels, a fourth straight weekly build and almost triple the amount analysts had forecast. Rising supplies, particularly at Cushing, Oklahoma, the delivery hub for WTI pushed the market into contango, in which nearby prices trade lower than forward prices. This happened on Thursday for the first time since May 22. The U.S. oil drilling rig count, an early indicator of future output, rose by four to 873 this week, the highest since March 2015.



FFA	Current	Last report
Short Period (Pac)	13000	13000
1 Year Period (Pac)	13000	13000
Q4 FFA	12650	12700
Q1 FFA	11250	11500
Cal' 19 FFA	12000	12250

Commodities	Current	Last Report
SoybeanMeal (CBOT)	US$313/ton	US$313/ton
Fuel Oil (Sing 380)	US$506/ton	US$465/ton
Coal (Newcastle)	US$110/ton	US$113/ton
Iron Ore (London)	US$72/ton	US$66/ton

Pool Performance	Pool	Index
Jan-18	8752	9786
Feb-18	10856	9423
Mar-18	11989	11400
Apr-18	10699	10838
May-18	10830	10893
Jun-18	11662	11047
Jul-18	11519	10564
Aug-18	11406	11159
Sep-18	11163	12135
Oct-18		
Nov-18		
Dec-18		

Note all the above figures are net.

Detailed Supramax Analysis

In September, we have seen the Pacific continue August firmness and we are seeing a more enquiry in the market and rates are up across the board. As in previous months the main drivers continue to be the Nickel ore, coal, Nopac grain and period. The demand for period has been strong in September and rates have slighly improved. The Nopac grain remains inactive and rates are USD 11,500-12,500 ex China. Aussie grain is still present but slow and the underlying premium of USD 1,500-2,000 above a normal Aussie round view the cleanliness remains. Steel exports are slow and the majority being trips to SEAsia. China Coastal coal freight rate has remained flat steady and is hovering usd 7-7.50pmt. The Bhaul market is stable and the activity is consistent, as we continue to see very little cement and steel leave asia-pacific. The levels are presently around USD 9,000-9,500 per day for trips into WAfrica, while the trips to the USGulf are around USD 6,000-6,500. SE Asia Coal has picked up and is busy and we have seen China and India pick up the slack. The market is USD 15,000 dop Singapore. The India market is still commanding a premium of USD 1,000 to the SEAsia market.

Sand into Singapore is very quiet and Singapore is presetly facing sourcing difficulties which is keeping this a scarce run for the timebeing, however we have started to see new sand reclamaition projects surfacing into Brunei, Male and Hong Kong. The little cargo that hits the market remains a low paying cargo that is quick and positional.

India iron ore exports are back and market is moving. Rbay is firm and there is strong demand from India and Pakistan and Rbay will remain tight. Rates ex India are at USD 12,000 - 13,000 dop for trips to China or SAfrica back to India or China.

In the Atlantic, ECSA in September has gone from strength to strength. Ultras have been the primary mover, rates are now around USD 13,500 DOP WAfrica for trips within the Atlantic and for trips to Fareast USD 16,500 + 650K BB APS. The US Gulf remains strong. Rates are now at USD 23,000 fhaul market and the TA at USD 18,000. The USGulf period market has remained sporadic at best and the main takers going for 3/5 months and the main takers continue to be operators with cargo on the books being squeezed to take numbers between USD 16,500-17,000 for redelivery wwide basis 3-5 months and USD 15,000 for redelivery Atlantic.
The Med has stayed busy and Blacksea remais strong. The rates ex Black Sea are now around USD 22,000-23,000 ex canakkale for front hauls and for trips out of the Med USD 9,500 to USA dop with 1 or 2 days ballast and USD 15,000 to WAfrica. We expect the market in the Blacksea to continue to be strong into January.

The Continent has remained uneventfull and with all the problems in Turkey we have seen the scrap market dwindle. Scrap is paying USD 13-14,000 for trips into the Med and Fhauls altough very limited at USD 19,000. The Baltic RV has picked up the market is USD 11/13,000 but limited.

Pool View Strategy and Positioning

In the month of September we have had 19.02 days of off hire for the pool which are related to the dry dock of the MV MEDI LISBON.

As ever we are working on reblancing two basins presently and looking at the fleet distribution, the Pacific Ocean (12) and Atlantic (4) vessels and we have fixed 14 out on short/medium period, as strategic hedging. However we will receive 2 vessels back in Q4 2018.

The period market in September continued its firmer tones, Ultramax are now fetching USD 13,500-14,000 for 9-12 months, the Atlantic basin is still comanding a small premium of USD 500 - 1,000 for 8-13months. Period rates are around USD 12,500-13,000 in the Pacific(Tess58), provided you are flexible on the terms and optionality.
In September we have taken one new vessel for period. We are still keen to lengthen a little more provided we get big spreads and flexibility on the cargo/trading. We are still overall long for 2018 and are happy with the position and will continue to take coverage when we see the right opportunities.

In respect of cargo we continue to focus on the nearby and at present only see merit in taking cargo unless they are niche trade or Bhaul trades. Similarily to a year ago the COA's offered for Q4 and Cal 19 are undervalued and below paper levels and as such we have not taken any new COA. Similarily to last month we remain bullish on the market and as such the focus is on Tonnage and not cargo at the moment, this could of course change subject to geopolitical trends.

In September we have not hedged any bunkers nor sold or bought any FFA.

Some cargoes booked in September: N/A
Tonnage fixed in for more than 2 legs in September: Umax at USD 13000.
Tonnage fixed out for more than 2 legs in September: Umax at USD 14000.