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Sinotrans Shipping and Pacific Basin shares tumble amid cautious dry bulk sentiment



THE STOCK PRICES of Hong Kong-listed Sinotrans Shipping and Pacific Basin slumped on Tuesday, with sentiment turning cautious as dry bulk shipping heads into the fourth quarter.

Sinotrans Shipping shares closed at HK\$2.39 each on Tuesday, down 7% from the day before, following a consecutive rise since September 13.

Pacific Basin, having joined the Shenzhen-Hong Kong Stock Connect earlier this month, saw its shares fall by 7.7% to per share at HK\$1.79, after a nearly two-week uptick from September 14.

China's reported plan to cut steel production this winter seems to have taken a direct toll on Sinotrans Shipping, which operates 11 capesizes and 52 panamaxs, analysts said.

The move might also have hit Pacific Basin — a handysize and supramax specialist — by accident as risk-averse investors unfamiliar with the company rushed to cash in the previous share price gains.

"I think right now the investors are just trying to reap the profit when facing the uncertainties," said Huatai Financial Holdings (Hong Kong) equity analyst Lisa Lin, who covers both of the shipping firms.

The main latent risk derived from China's efforts to curb air pollution, which is expected to result in a substantial reduction in the country's steel production in the coming months.

In Henan province, a stronghold for the Chinese steel industry, the government has requested local producers to slash output by up to 50% between November and March.

That would affect imports of iron ore, the key raw material for steel making, and hence the earnings of capesize dry bulkers, the main workhorse carrying such a commodity, Ms Lin added.

Steel prices in China, which had reached a four-year high several weeks ago, slid with Shanghai rebar futures down 6% last week, while iron ore prices on the Dalian Commodity Exchange dropped 8%.

“Dry bulk spot rates have been firm, with capesize above \$22,000 daily, but weaker commodity prices are a yellow alert, in our view,” Claksons Platou said in a Friday note.

NEWS

China's pollution crackdown threatens to cast a cloud over capes

CHINA's pledge to tackle pollution could vapourise the current positive sentiment in the capesize market, where freight rates have been hovering around three-year highs.

Government policies in China are leaning towards a lower-carbon economy on many fronts. The most recent green agenda that has emerged from Beijing is to suspend construction of major public projects during winter to improve the capital's air quality.

The new plan is a part of Beijing's earlier vows to cut average concentrations of airborne particles known as PM2.5 by more than 15% year on year in the winter months in 28 northern cities to meet key smog targets.

In a 143-page winter smog battle plan posted on its website, the Ministry of Environmental Protection said the new target, for the October to March period, would apply to Beijing and Tianjin along with 26 other cities in the smog-prone provinces of Hebei, Shanxi, Shandong and Henan.

The clampdown has created uncertainty around China's appetite for iron ore and other commodities, because the demand for steel would fall significantly if construction works are halted.

The infrastructure push provided by China boosted steel demand this year, which resulted in huge demand for iron ore.

As the world's largest steel producer clamped down on substandard steel production and intensified its war on smog by tightening quality inspections since the beginning of the second quarter of this year, an increase in high-grade iron ore shipments from Brazil and China drove the demand for capes and inflated freight rates.

However, the risk of closures in steel production from November through March implies that Chinese steel mills could have ramped up production in the last few months not just because of firm margins, but also to produce as much as possible before being forced to reduce production.

BHP sees extra steel demand from China's Belt and Road Initiative

CHINA's Belt and Road Initiative, the ambitious centrepiece of President Xi Jinping's expansive foreign policy, could lead to incremental steel demand of 150m tonnes over a 10-year period, according to global miner BHP.

Investments in infrastructure linked to the Belt and Road project, which spans 68 countries in the Eurasian region, will amount to a hefty \$1.3trn, the miner said, comparing the figure to the \$13bn spent in rebuilding efforts in 18 countries in Europe after

the Second World War.

“Such investment would drive significant demand for construction materials and equipment, leading to an increase in direct and indirect demand for steel,” chief commercial officer Arnoud Balhuizen said in a blog post on the miner's website.

“BRI projects could result in up to 150m tonnes of incremental steel demand,” he said, adding that 80% would be used in structures and reinforced concrete,

with 20% going into machinery and other equipment.

Over a 10-year period, this would lead to an extra 15m tonnes per year, or 3% to 4% incremental demand growth for steel in the BRI regions, he said,

adding that this amount was “considerable”, given it would double the growth rate of local steel demand seen since 2011.

BHP expects that China’s steel production will likely peak in the middle of the next decade.

ANALYSIS

Harvey's lessons for tanker markets

THE storms in the US Gulf were significantly more disruptive for shipping markets due to one simple reason: the emergence of the US Gulf coast as a major player in the global energy markets, including propane, diesel, gasoline, crude oil and natural gas.

At its peak, Harvey knocked out a quarter of US oil refining capacity, including the country’s largest refinery; forced all Texas ports and oil terminals to close; delayed loading or discharge schedules for dozens of tankers; triggered Jones Act waivers; and disrupted shipments of petroleum products that reverberated through the oil supply chain in Asia.

Tanker market exposure to natural disasters in the

US, even five years ago, would have been considerably lower.

Energy transport is increasingly exposed to weather conditions aggravated by climate change, rapid shifts in energy markets such as the shale revolution, clean energy regulations that force a change in the fuel mix and trade patterns dictated by environmental policies.

It is also evident that disruptions in energy supply or demand are opportunities for shipping, allowing owners to earn higher freight in return for finding alternative supply sources and plugging short-term shortages.

MARKETS

Trading houses are in the frame to drive a wave of fresh tanker orders

THE surge in tanker orders, especially for very large crude carriers, seen earlier this year will not be the last heard from the liquid bulk market by a long shot.

Several unconventional owners, such as trading houses, are still in the market for newbuilding

tankers such as VLCCs, and another wave of newbuilding orders could well be around the corner.

The incentive for these companies is that they have an advantage over conventional shipowners, in the form of access to either cargo or finance, or both.

OPINION

Era of the big box dry cargo supermarket is over

THIS week’s sale of six ultramaxs by Golden Ocean to Scorpio Bulkers is all about asset allocation and market focus. The two companies have effectively signalled that the era of dry cargo fleets resembling big-box supermarkets is over. Welcome to the new era of the speciality corner store.

Scorpio Bulkers had already moved away in early 2016 from the larger-size segment. Now it is Golden Ocean’s turn to move away from the smaller-size segment, since it will be left with just two small vessels, which presumably are candidates for sale.

Publicly traded companies are increasingly focusing on market segments where they could potentially deliver value beyond just earning the market average. If Scorpio Bulkera wants to be a leader in panamax and ultramax, then Golden Ocean could become one in capesizes and panamaxes.

Golden Ocean chief executive Birgitte Ringstad Vartdal admitted the shift in focus when she said: "The sale of these vessels strengthens our commercial focus on capesize and panamax vessels, where we have critical mass, and that we believe will provide the greatest leverage to a recovery in the dry bulk shipping market."

Better to be a leader in one or two segments, then, than master of none. The only question really, is what took them so long?

Ask an industry veteran, for example a chartering executive, and they will tell you that each size segment is its own microcosm in terms of commodities traded, market players, exporters, importers and charterers.

It takes years to develop an expertise in one segment, and that skill is not easily transferable.

The new reality validates some of the early adopters of the narrow market focus, for example Safe Bulkera in panamaxes, or Eagle Bulk Shipping in ultramax.

Of the publicly traded shipping companies, Star Bulk and Genco are the only ones still maintaining exposure to all segments. Will they stick to their current strategy or will they change tack?

NEWS IN BRIEF

The Hadjioannou family have bought their first cape for the Alassia fleet

THE Cypriot Hadjioannou shipping family has privately acquired a six-year-old capesize bulk carrier from the fleet of Hamburg-based Orion Reederei.

Brokers have put a price of about \$26m on the acquisition of the 2011-built, 176,505 dwt Rugia, which will be managed by Athens-based Alassia Newships Management, launched in 2009 by Nicolas Hadjioannou. Rugia will be a first capesize for the company, which currently has a fleet of 10 bulkers.

Hyundai Heavy confirms \$800m Polaris order for 10 VLOCs

SOUTH Korea's Hyundai Heavy Industries has received orders totalling Won910.2bn (\$801.5m) from Polaris Shipping to build 10 325,000 dtw very large ore carriers. The VLOCs will be built based on an 'LNG-ready' design, with eco-friendly equipment such as ballast water treatment system and scrubber, and the vessels are expected to be delivered by April 30, 2021, said HHI.

It is the largest deal HHI has clinched in five years since 2012. Polaris placed orders based on a long-term contract of affreightment with Brazilian iron ore mining giant Vale.

Samsung Heavy confirms \$986m order from MSC

SOUTH Korea's Samsung Heavy Industries has confirmed an order for six containerships worth Won1.12trn (\$986m). The formal announcement came a few days after Mediterranean Shipping Co's chief executive Diego Aponte had told Lloyd's List that the line was ordering 11 ships of 22,000 teu, with six to be built by SHI and five by Daewoo Shipbuilding & Marine Engineering.

China Navigation explores low-tech sustainable shipping solution in South Pacific islands

SWIRE Group's Singapore-based China Navigation Company is in the process of developing and testing a small wind-powered cargo vessel that will help it to serve island communities in the South Pacific. Known as "Project Cerulean", the sustainable shipping initiative aims to make

the transition to low-carbon sea transportation.

The vessel's design was based on the drua, a traditional double-hulled sailing vessel used by inhabitants of the South Pacific islands. The 250 dwt prototype vessel measures 35 m in length, has an 8 m beam, and can sail at a speed of 12 knots. It has capacity to carry about 3 teu, or 70 tonnes of cargo, or 12-20 persons. It is equipped with a 1 megawatt hour battery powered by solar panels.

Hapag-Lloyd scraps three of UASC's older boxships

HAPAG-Lloyd has sent three boxships to the recycling yards due to their age.

Deira, Najran and Sakaka are each of 4,101 teu capacity and were delivered to United Arab Shipping Co between 1997 and 1998. The vessels were added to the German shipping line's fleet in May this year following the completion of its merger with Qatari-backed UASC. It noted that the three boxships "no longer fit with the portfolio" as most of its fleet was younger and more modern.

Ports urged to share data to optimise supply chain operations

PORT authorities across the globe need to overcome the "silo effect" when it comes to operational data if they want to be able to maximise efficiency in the supply chain. That was the message from the Future-Ready Shipping conference in Singapore this week. This means that ports have to make what they traditionally view as proprietary information more available to each other, according to Bruce Anderson, the International Association of Ports and Harbours senior strategist on sustainability for the World Port Sustainability Programme.

In a so-called 'Smart port', operators should try to find out what a vessel is carrying about two weeks ahead over two days so that terminals and their related logistics firms can use that information to carry out advance planning to circumvent any bottlenecks, according to Mr Anderson.

Shipping confidence on a six-month growth run

SHIPOWNER confidence grew marginally over the summer, as managers, charterers and brokers felt increasingly insecure, according to a new Moore Stephens survey. Despite the

reported positivity, fundamental predictions for the future remained stable; 50% of all respondents expect finance costs to grow within the next year, while the likelihood of major investments over the next year maintained a 5.4 rating as a whole.

Some respondents also expressed optimism for the future of industry in spite of the recurring worries over issues such as Brexit and overcapacity. "Concern, however, persisted over political instability, the incipient cost of increased legislation, and the probable entry into the market of low-cost newbuildings," the report said.

Piraeus posts higher first-half earnings

PIRAEUS Port Authority, the operator of Greece's largest port, has increased its earnings in the first half of 2017, boosted by rising revenues from the port's container and car terminals.

Turnover rose by 12.6% to €52m (\$61.7m), the PPA said. Most of the increase stemmed from a direct €4.6m increase in revenues from the box business and a €1.3m increase in compensation from the operating concession for Piers II and III which have been run by China Cosco

Shipping Group in recent years.

MISC exits the tank terminal business

MISC is getting out of the tank terminal business with the sale of its 45% stake in Centralised Terminals to Malaysian compatriot Dialog Group. The total proceeds from the sale of RM193m (\$45.9m) comprise the purchase consideration for MISC's shares and repayment of shareholder's advances and accrued interest by Dialog on behalf of Centralised Terminals.

"For MISC, this divestment will enable us to unlock the value of our investment in Centralised Terminals and take advantage of other opportunities within the energy and maritime industry," president and group chief executive Yee Yang Chien said.

ICTSI inks deals to manage Papua New Guinea ports

MANILA-based International Container Terminal Services Inc has secured two 25-year contracts to manage the ports of Motukea and Lae in Papua New Guinea. As part of the contracts, MITL will invest in cranes, berth and yard equipment at the newly-built Motukea, which is located near the capital Port Moresby.

For classified notices please view the next page.

PUBLIC AUCTION

(if not previously sold)

**BY DIRECTION SHERIFF CLERK
ABERDEEN SHERIFF COURT
ABERDEEN, SCOTLAND.**

M.V. MALAVIYA SEVEN (ex Northern Clipper)

IMO No. – 9087312. Port of Registry – Mumbai, India.

Built – 1994, Norway. Supply Vessel.

L.O.A. – 82.50m. B – 18.80m. D – 7.60m

GRT – 3001. Registered Tonnage – 1208.

Engines – 2 x Ulstein Bergen BRM-8, 9600BHP/3530KW (2 x 4800BHP)

Very extensive bridge and other navigational equipment.

Auction: 12 noon, Tuesday, 17th October 2017

At the Rox Hotel, Aberdeen, Scotland.

The vessel is offered For Sale AS SEEN AS IS at Aberdeen Port.

Further Details, Photographs & Conditions Of Sale from:

DOMINIC J. DALY, FRICS, AUCTIONEER

PEMBROKE HOUSE, PEMBROKE STREET, CORK, IRELAND.

Tel: (353) 21 4277399 or mobile: (353) 87 2550486

Email: info@dominicjdaly.com

