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MACRO TOPICS

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POLICY: PACIFIC PIVOTAL

Japan and US release important data this week

Japan released industrial production data for August today, revealing a 1.3 per cent increase on July which was 0.4 per cent down in June. Annualised growth was 4.5 per cent, the fastest pace for two years. These are positive data for Abenomics adherents seeking results, but the positivity is muted by other data. Consumer inflation fell by 0.5 per cent year on year, household spending fell 4.6 per cent year on year and the unemployment rate went up slightly from 3.0 to 3.1 per cent between July and August. Japanese companies may be producing more, but Japanese housewives are not buying. Bank of Japan Governor Haruhiko Kuroda says that the consumer inflation is likely to be slightly negative or around zero percent for time being, while wage inflation remains subdued, so one can't expect a boom in consumer spending anytime soon.

Does this mean Japanese manufacturers are exporting more? Afraid not; Japanese exports fell 9.6 per cent year on year in August according to Ministry of Finance data, while imports fell 17.3 per cent. Exports to all major markets – China, the US and the EU – fell, reflecting holidays in the West no doubt as well as an ongoing slowdown in the Middle Kingdom.

If Japanese manufacturers are producing more but selling less to consumers at home and overseas, then they must be selling to each other or adding to inventory. Neither scenario sounds particularly enthusing from a shipping perspective. The Tankan business survey for October shows that sentiment rose to +10

compared to +5 in September, while surveyors report optimism in materials industries and food processing firms – seasonal effects, maybe? The recent increases in the Nikkei suggest to us not so much that Japan's corporates are in a golden period, but that TINA still rules: when it comes to investments, There Is No Alternative to equities.

On Wednesday, the US will release building permits and housing starts data for September. These are of limited interest to shoreside investors barring those exposed to the construction industry, but they always interest us as leading indicators of containerised shipping demand. Furniture and textiles are the two most shipped containerised manufactures on the trans-Pacific trades. The opening of the new lock at the Panama Canal has led to the replacement of a number of older style c. 4,500 Teu Panamax box ships and their replacement with larger 10,000 Teu to 14,000 Teu units. The consequent step change in slot supply coincided with a fall from 1.21 Mn new US housing starts in July to 1.11 Mn in August. The widening gap between supply and demand decimated freight rates. Liner companies will be crossing their fingers that the housing data are positive. They will also be looking with concern at the US presidential election, as new trade policies will have a direct effect on their beleaguered business.



TANKER: MAJORS TURN TO INNOVATION TO CUT COSTS

Global oil majors are employing new technologies to cut costs, while Opec members experiences mixed fortunes.

In an attempt to soften the blow of low oil prices, oil majors are now experimenting with new technology in an attempt to drive down costs. Total is reportedly employing drones to conduct inspections of its oil fields, having successfully completed a trial.

Statoil, meanwhile, has managed to cut costs by an estimated fifth (down to USD 12.2 Bn) for the first stage of its Johan Sverdrup field. By utilising more efficient technology and designs from the project's inception, the Norwegian giant has managed to cut costs.

Shell are also in on the act, and have developed the 'steel lazy wave riser' pipe, which is flexible with regards to the sea's current. The company claims that the pipe helps to increase production at far greater depths.

The production rate at Chevron's Erskine field in the North Sea is at its highest in two years, courtesy of a robotic device which is quickly checking and cleaning pipelines' interiors.

Last week, Saudi Aramco's CEO, Amin Nasser, voiced concerns that the significant drop in capital spending by oil producers over the past couple of years may result in a supply crunch down the line. The IEA has revealed that spending on oil and gas exploration and production has declined by USD 300 Bn between 2015-2016, of which two-thirds have been from cost-cutting, rather than the cancellation of shelving of projects.

If/when oil prices finally recover in earnest, the lasting legacy of the current slump will be the leaps made in the industry with regards to technology and efficiency. Savings made by these advances may avert the supply crunch which Mr Nasser fears.

Meanwhile, Iran remains as stubborn as ever in its bid to maximise production in the face of the collaborative cut. The managing director of the National Iranian Oil Co., Ali Kardor, on Monday revealed that Iran intends to boost production from today's 3.89 Mn bpd to 4 Mn bpd by the end of the year. The Opec member currently exports 2.2 Mn bpd.

But another Opec member, Kuwait, is struggling, however. The country's parliament was dissolved by royal decree on Sunday, which has set the stage for early elections. "Regional circumstances" and "security challenges" were cited by Sheikh Sabah al-Ahmed al-Sabah, the ruling emir, for the dissolution. But the economic challenges posed by low oil prices have clearly played their part; the government has been forced to raise the prices of subsidised gasoline among other benefits, which has created dissent.

Sources: Bloomberg, FT, The New York Times



GAS: CAN TURKEY SHIFT FROM A TRANSIT TO A TRADING HUB?

Turkey is keen to diversify its gas source, with numerous import projects waiting to be developed

Turkey's position as a crossroads between Europe and Asia has allowed it to grow its importance as a key energy transit hub as well as a regional energy power. New projects coming up will continue to drive this sentiment, but could Turkey be more than simply a place of transit?

BOTAS the vertically integrated state-owned gas utility company holds the most dominant position of purchasing and reselling of gas to the wholesale markets and in 2016 still tops the Fortune 500 list. Given that Turkey only produces around 0.07 bcf/d with demand around 4.3 bcf/d, it is heavily reliant on imports. In fact, Turkey was the 5th largest gas importer in 2015 at 48 billion cubic meters. As BOTAS controls most of the imports (99%) it effectively controls the pricing structures. It is thought that the BOTAS price will continue to be linked with the weighted average cost of all imported gas which will have a significant impact on anyone seeking to import the fuel to Turkey.

The most recent news (October 10) is that Turkey and Russia have recently signed a new agreement that will see two gas pipelines transit through the Black sea delivering 15.75 billion cubic meters each the Turkish Stream gas pipeline. This follows on from 2014 when Gazprom and Turkey's BOTAS signed an MOU for the construction of the Turkish Stream gas pipeline with initially a capacity of 63 billion cubic meters of gas per year from Russia to Turkey.

Additional projects in the region include the in the construction of the Southern Gas corridor that is set to stretch over 3,500 KM. The project will link the South Caucasus Pipeline, The Balky Tbilisi-Erzurum pipeline, Trans-Anatolian, The Turkey - Greece Interconnector and Trans Adriatic Pipeline. Iran is also keen to bolster its natural gas exports to Turkey. Currently, they export around 30 million cubic meters per day and adds that Iran can make more volumes available if Turkey so wishes. Most of the new volume will, however, come in the form of LNG. Since sanctions have lifted, Iran is keen to continue with its LNG export projects. Turkey's favourable location and numerous pipelines into Europe have caught Iran's eye in which they look to Turkey to invest in the project.

The president of Accenture Energy Group in Turkey noted that with the sheer amount of gas set to transit through Turkey, Turkey should be seen to try to become a natural gas trading hub as well as being the key transit hub. For this to occur, Turkey needs to develop is diversification of supplies and liquidity, he also recommended that BOTAS should be strengthened as a competitive market player. With gas potentially coming from Russia, Azerbaijan, Israel, Iran and Turkmenistan there could be sufficient scope for this to develop.

Source: Anadolou Agency, Interfax, Daily Sabah



CONTAINERS: BIG DATA'S POTENTIAL

Investment and determination required for changes to be made, but interest expressed still remains limited

Instability and uncertainty have turned to be the new normal for the container ship sector, as oversupply keeps on building with even bigger ships scheduled to get delivered in the next couple of years. In the meantime, demand hasn't been looking so promising, as total trade volumes have been growing rather marginally, while stronger intraregional trade means a weaker demand for transporting goods. The pressure has brought the rates to historical lows, with no dynamic recovery on the short-term horizon. Improvements in terms of pricing, capacity management, and business optimization are the only tools left for ship operators to soften the losses suffered, while the idle fleet capacity keeps on increasing.

In other sectors with perfect competition, such as retail, high speed in recognizing market niches and personalizing each service according to customer's needs became essential to survive. The "one size fits all" approach only led to limited sales in spite of lower and lower prices. Focusing on the individual establishes a competitive advantage for sellers, allowing them to generate profits instead of counting losses. But employing big data concepts are required for that. And the shipping industry, starting from the liner sector, has to follow the same example, borrowing ideas from the retail.

Imbalances between supply and demand highlight the lack of options in adjusting the supply side, as renegotiating contracts or even breaking them are usually avoided due to penalty fees. In parallel to that, demand is currently given no motivation to commit more than six months, as spot rates have remained low for a quite long period, while the market hasn't been as volatile as it used to be. Due to this

structure of the market, liner companies have been focusing and should continue doing so in gathering and analysing big data, to calculate customer offers and to optimize network behaviour. Big data could also support the collaboration between all participants in the physical chain of container custody – carrier, feeder, port, inland transporter.

A carrier typically has to conclude about issues such as congestion on a destination port based on internal data and vessel movement data provided by port operations systems, third party feed and social media. The carrier then calculates the optimised price, analysing options by customer, equipment, commodity etc. in real time, in an effort to provide a price appealing to the shipper but still as profitable. Big data could simplify this process, even providing the option of dropping the load off at one port before or after the preferred destination port, based on lift capacity and costs, capability and contract terms with ports, as well as intermodal contracts applying to container delivery from this optional destination. The carrier could even make an optional offer of faster delivery, if possible, for an additional charge, which could mean more profit for the carrier and for the port according to the agreement between the two. Moreover, it allows the carrier to improve the fleet capacity's utilisation.

The currently biggest obstacle for this process to quickly develop in shipping is the lack of willingness of key players to share their data and trust complex data-driven and automated decision and execution.

Source: Splash247



DRY CARGO: THE LAST STRAW?

The role of energy security in the European energy transition, and why it matters to coal.

There have been many milestones in the world of renewable energy this year, with direct consequences for demand for traditional fuels. Coal, in particular, is in the firing line, as reliance on the fuel in large parts of Europe is dwindling. In May, enthusiastic green energy supporters could revel in the fact that over the course of a week, coal-fired electricity did not contribute to the UK's power grid, sometimes for up to half a day. In the start of this month, it was found that UK solar panels generated nearly 7,000 gigawatt hours (GWh) in the period between April and September. What makes this figure astonishing is that it surpassed the 6,300 GWh produced by UK coal fired power plants in the same period, marking a step in the direction of a greener energy mix.

However, transitioning from conventional fuels to renewables still involves challenges. Last Friday, the National Grid released its 2016 winter outlook which showed that reserve capacity provided by gas and coal-fired power plants will provide a 6.6 per cent margin between supply and demand. This is necessary in order to avoid large-scale black outs as solar power, while proving its worth over the summer months, is expected to have minimal effect in the midst of winter. Furthermore, the National Grid expects wind power to be available for only 21 per cent of the time.

While policy makers are clear in their intentions to reduce their climate impact, the issue of energy security highlights the challenges of actually implementing renewable energy policies, a fact that becomes increasingly important as coal fired capacity is reduced. Current estimates by the National Grid suggest that approximately 60 per cent of UK generating capacity as of 2010 is expected to have disappeared by 2030. While centralised energy production is losing

ground to smaller, localised sources such as privately owned solar panels that receive feed-in tariffs, reliance on fair weather conditions, particularly in a country famed for its shifting climate, may be delay development and lend support to coal demand for some time.

Technology, is however, moving in favour of renewables, and from a political point of view, the implementation of green energy policies is the only viable option in an ever more environmentally conscious world. One area in particular which is seeing rapid development is wind power with improved rotor designs, being able to operate at wind speeds that previously would have rendered a region economically unviable, under development.

A further challenge can be seen in Germany where, during periods of superb solar and wind conditions, consumers sometimes have the unusual experience of getting paid to use electricity, and wind mill operators get paid not to produce any. During peak performance the supply of energy simply overpowers the existing grid, particularly as the intermittent nature of renewable energy often requires coal-fired plants to remain operational, thus creating periods of vast oversupply.







While energy storage techniques will provide a solution (hydrogen production, capacitors, pumped-storage hydroelectricity, etc.) in the long term, such problems highlight some of the issues of merely adding production capacity without supporting infrastructure. Energy security, even when there's too much energy, then, would seem to be the last morsel of hope for the coal industry in highly industrialised Europe.

Sources: Affinity Research, Carbon Brief, EC, Guardian, Independent, PEI

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