

The week that was....

After a quiet start to the week, there was an increase in chartering activity for the small segment as trawlers went back to work in Mauretanian waters. The start of the mackerel season will see units diverted into the North Sea for voyages into the Baltic and Nigeria from next week. Rates are rising but there are insufficient cargoes to generate momentum or much excitement among operators.

The Ecuadorian banana industry is forecasting a seasonal 15-20% drop in volumes for the next 10 weeks, which is likely to keep the exit price high and therefore discourage speculative chartering. There could soon, however, be good news for Med banana traders after Moscow raised the prospect of swiftly lifting sanctions imposed on Turkey, two days after a surprise apology from Recep Tayyip Erdogan, the Turkish president, for the downing of a Russian warplane in November. Russia's president Vladimir Putin told Mr Erdogan during a telephone call on Wednesday that he would instruct his government to start talks with Turkish counterparts "in order to restore the mutually beneficial bilateral co-operation in trade, economic and other spheres," the Kremlin said. The eastern Med banana market is being negatively affected by the glut of Turkish summer fruit that would ordinarily have been shipped into Russia.

On the positive side for operators, there may be enough additional Argentinean lemons for a charter or two into N Cont. Meanwhile hopes that VGM implementation would trigger a switch of South African citrus into the specialized reefer appear to have been misplaced. It also looks as if the drought-induced shortage of grapefruit in South Africa will lead to an early end to cold sterilization shipments into Japan, with the last voyage planned for mid July.

Fixtures:

The Andromeda, Prince of Seas and Frio Chikuma fixed Mauretania to West Africa with the rate on the benchmark voyage ranging from US\$85 per MT for a 5K MT cargo to US\$90-\$95 per MT for smaller parcels. The rise in bunker prices means that TCE returns remain sub-breakeven on some units.

Reefer Trends understands that Cool Carriers has fixed 5 positions for Spanish citrus to the USEC between October and December, a similar number of sailings to last year but at a higher rate. There is no confirmation yet from Seatrade about the balance. The volume of fruit is forecast to be lower than last year following the decision by APHIS to re-admit competitive Moroccan fruit. There is no sign of a conclusion to negotiations on the Canary Islands tomato contract.

Brexit:

While the departure of the United Kingdom from the European Union may have neither a direct nor immediate impact on the supply and demand for reefer capacity, either specialized or containerized, there are and will certainly be broader implications for reefer industry stakeholders. Chief among these

is how dollar banana industry stakeholders manage a stronger US\$ against GBP£ and the €. However before the analysis, this publication begs the forbearance of its readership to pen a paragraph or three on the causes behind the seismic events of last week.

The referendum on whether the UK should remain or leave the EU was a Conservative Party manifesto promise and called only after Prime Minister Cameron had negotiated some concessions exclusively for the UK from the other 27 EU Member States. He was confident he could sell these to the British people, thereby ensuring continued membership of the Union. He miscalculated and was left with no option but to fall on his sword.

With the exception of Greater London and several of the Home Counties, Scotland and Northern Ireland, the British voted to leave. Of the 46.5m eligible to vote, a total of 33.5m actually did so – a 72% turnout. In percentage terms the leave:remain split was 52:48 – in absolute terms, there was a difference of 1.3m.

There was no single reason for the secession vote. The two biggest issues were sovereignty and immigration and the question most frequently asked was: why should the UK pay into the EU in the region of a net GBP£180m (US\$243m, €216m) *per week*, only to be told that it can't control its borders, make its own laws, or fish in its own waters? The UK is the second largest net contributor to the EU budget after Germany. 'Take back control' was the slogan of the Leave campaign.

For background, the UK's net immigration is currently running at over 300,000 per year, approximately half of which are EU citizens. Independent estimates suggest that the figure will average a minimum 250,000 per year for the next two decades, which will place a strain on the country's housing, national health and education systems, which are already under pressure. It will also drive up house prices. At 413 people per sq km, the population density of England is by far the highest of all the major European nations – no offence meant to Monaco, Malta, the Vatican City or San Marino, which are all more densely populated. The related effect of the rising tide is that blue-collar wages are being kept artificially low because low skilled eastern European migrants make up the largest percentage share of new arrivals.

Despite warnings from the Treasury, the IMF, the US President and Big Business, many saw the chance of a populist revolt that only a fully democratic referendum can deliver. They chose to vote in protest against the political class in general and Mr. Cameron in particular. The 'bigger picture' benefits of international global development and status in a stable and secure trading bloc, when the very same bloc is showing signs of weakness and insecurity, were not easy to sell, even with the concessions. The Remain drive was hampered by differences of opinion in the two main political parties, and a badly run campaign, dubbed 'Project Fear' by the Leavers.

Prior to promising a referendum, perhaps Mr. Cameron should have paid some attention to a poll

SHIPPING

SPECIALISED SHIPPING

270,000 cbft
'16 TREND '15
 65c up 95c

450,000 cbft
'16 TREND '15
 35c flat 40c

BUNKER PRICES (380 cSt)

	'16	'15
Gibraltar	264	348
Rotterdam	248	317
St Petersburg	170	250
Panama Canal	280	365
Fujairah	241	345
Busan	255	331

EX RATES

	'16	'15
US\$ / SAR	14.50	12.25
UK£ / SAR	19.64	19.14
€ / SAR	16.36	13.58

US\$ / €	0.90	0.90
UK£ / €	1.20	1.41

US\$ / ¥	103	123
US\$ / RUR	64.1	55.6

US\$ / NZ\$	1.40	1.48
UK£ / NZ\$	1.86	2.31
€ / NZ\$	1.55	1.64

US\$ / CLP	663	639
UK£ / CLP	884	998
€ / CLP	736	709

US\$ / ARS	14.75	9.09
UK£ / ARS	20.01	14.20
€ / ARS	16.67	10.08

conducted to establish a national bird for the UK. The US has the Bald Eagle, Germany the Golden Eagle, Chile the Condor, and the UK...? The European Robin. It's small, territorial and punches well above its weight – and these are the main reasons why Britons voted for the robin to be the country's national bird, according to the organiser of a nationwide poll. More than 224,000 people cast their ballot in the National Bird Vote in June last year. The robin is known for being openly aggressive towards birds it competes with for territory and food, and can kill them on occasion. The organizer of the poll attributed the bird's popularity to a small island mentality...

The immediate reaction to the vote was a massive loss in value of global capital markets and a steep fall in the value of GBP Sterling. Although global share markets had recovered fully by Wednesday, the currency had changed little against the US\$ and the €. Sterling has also weakened against the Kiwi\$ and Chilean Peso. The ongoing uncertainty caused by the British exit is not good news for the British economy - Sterling is expected to remain weak until conditions for the UK's formal departure are known. This will take some time - the UK will cease to be a member of the EU a full two years after Article 50 of the EU constitution is invoked. This will happen soon after a new Prime Minister has been elected.

In the short term any UK business trading in US\$ and € is likely to benefit - likewise the opposite is true. This will have an effect on US\$-denominated banana shipments into the UK, for example, and therefore might take the edge off the Fyffes' EBIT projection for 2016, unless the multinational had hedged at a pre-23 June X rate level. Fyffes has the largest market share of the UK banana market and uses predominantly Colombian bananas to meet its retail commitments. The US\$ has also strengthened against the €, but not by much. A stronger European banana market as a result of reduced shipment volumes from all origins will likely offset any loss in value of the Euro.

The complexity of unpicking and re-stitching trade deals and all the other bureaucratic paraphernalia, aggravation and associated cost involved means that the medium to long-term impact of Brexit is more difficult to forecast. However if sense prevails, a mutually beneficial compromise will be accepted to douse the uncertainty and allow an orderly divorce. The UK needs a strong EU and likewise vice versa.

It may be wishful thinking, but EU leaders may (should) follow the advice of European Council President Donald Tusk to temporarily park or even abandon the federal (political) ambitions of the EU project. We are in uncharted waters – nothing is impossible! In the modern capitalist age, and with the possible exception of Mr. Putin's Russia, commerce trounces politics every time, even if it takes a while.

Bunker Review:

The Bunker Review is contributed by Marine Bunker Exchange www.mabux.com

World fuel indexes had extremely high volatility on the eve of and days after the U.K. referendum. This was followed by a lot of different forecasts, analysis and predictions. The market agreed that prices would react immediately, but the negative effect on oil and fuel following a Brexit outcome would likely not be long lasting. In fact this scenario has now turned into reality.

The U.K. voted to quit the EU following more than four decades of membership and the question now is how lasting the negative effects of the Brexit result will be for fuel indexes. It is clear that there has been no change to the physical oil and fuel market: although the UK ranks as a top five global economy, a Brexit won't materially affect the supply/demand balance. But the Brexit is much more significant for the financial and currency markets than it is for oil supply and demand. And these effects can be just as important for price movements of fuel prices.

The first days after the referendum result clearly demonstrated

that the uncertainty on fuel market followed turmoil in financial markets as the pound extended its record selloff while demand for haven assets boosted gold and the dollar. A stronger dollar curbs investor demand for dollar-denominated commodities. It seems that the dollar is a key at the moment, even though it doesn't have a lot to do with supply and demand.

Another concern is that, with Britain choosing to leave the EU, other countries could follow suit: further political fallout in the form of a potential second Scottish independence referendum, calls for Irish reunification and the emboldening of far-right parties in the rest of the EU - and that could be a negative scenario for oil and fuel demand in the longer term.

EU leaders gathered on June 28 in Brussels for a two-day European Council summit to discuss Britain's withdrawal from the bloc. As a resumé, leaders said there could be no turning back for the U.K. and expressed a growing frustration across Europe that the June 23 referendum has left a power vacuum in the U.K. and the whole EU in a state of limbo. But even as the Brexit vote raises the prospect of a slowdown in the U.K. economy that could spread to other parts of the world, the fuel market itself is seen moving toward a demand and supply balance.

There are other potential market drivers: a strike in Norway threatened to cut output in western Europe's biggest producer. About 755 Norwegian workers on 7 oil and gas fields could go on strike from 2 July. A final round of talks will be hosted by a state mediator on June 30 and July 1 in an effort to avoid disruption that could start the following day. Norway produces 1.5m barrels per day.

Recent strikes in France took as much as 900,000 bpd offline at one point in June. The result is that crude inventories in an area of ARA (Amsterdam, Rotterdam and Antwerp) rose by more than 3.5m barrels to 65.635m barrels in the week ended June 17, pushing prices down. 84 of the ARA hub's 153 crude storage tanks at independent sites are now more than 75% full, while 55 are between 15% and 75% full. That's the most since 2013 when the supplies occupied 73% of available space. Stockpiles of oil in all of the Netherlands and Belgium haven't exceeded 65m barrels for at least 11 years.

The new and extended Panama Canal was inaugurated on June 26 - the first expansion since 1914. A project took nine years and US\$5.4bn to complete. The waterway has been doubled so that it can accept larger ships – such as VLGCs (Very Large Gas Carriers) carrying U.S. LNG exports, but still is unable to accept VLCCs (Very Large Crude Carriers). The expansion is expected to boost shipments to U.S. East Coast ports but not for oil at the moment.

China produced 7.4% less domestic crude oil in May compared to a year ago, settling at 16.76m MT. This was due to plans by state-owned oil companies to slash output that is weighed down by languishing oil prices.

Iran believes it can move from producing 3.5m bpd in May to 4.8m bpd by 2021, but to do that the country needs US\$70bn in foreign capital to hit the target. The reality is that capital is probably not going to come in the volume that Iran needs. As per EIA evaluation, the best-case production scenario for Iran is 4.1m bpd by 2021. The slow-ing production from Iran is already hitting OPEC's crude production along with out-ages and issues in other OPEC nations. As a result, OPEC production declined marginally in May and may have done so again for June.

Nigeria is hoping to continue to boost oil output after attacks crippled the country's production in recent months. By the end of June production had probably climbed from 1.3m bpd to 1.9m bpd, successfully bringing back a sizable portion of its disrupted output. In July, if pipeline repairs can be completed, Nigeria hopes to reach 2.2m bpd.

We expect the uncertainty on world bunker markets will continue next week and so bunker prices may have daily irregular changes until new signs/data emerge that provide a clearer path forward.