

## To be or not LNG?

### Weekly Tanker Market Report

Since the IMO announced a global sulphur emission limit of 0.5%, shipowners have been faced with making tough decisions ahead of the impending deadline. Amongst the limited options is to invest in tonnage capable of burning LNG as a marine fuel. The decision has been widely embraced by vessels currently operating in ECAs however, the global merchant fleet has so far not been so enthusiastic in choosing a path.

Excluding LNG carriers, the global merchant fleet of dual-fuel vessels (capable of burning LNG bunkers) has grown considerably since 2014. Although a fairly insignificant portion of the global fleet, the current orderbook for dual-fuel vessels shows some considerable growth. Some significant orders have been Sovcomflot's 4 ice class Aframax tankers and AET's order of 4 Aframaxes in addition to 2 Afras and 3 MRs capable of switching to LNG bunkers currently trading.

The majority of LNG bunker ready ports are located in the Baltic and North Sea, where Norway has the largest with 6, mostly catering to ferries and cruise ships. However, new bunkering facilities or upgrades are planned in the Netherlands, France, Belgium and Spain. Repsol in cooperation with Enagás has completed what is considered to be Europe's first pipe-to-ship LNG bunkering at the Cartagena regasification terminal. Furthermore, the port of Fujairah, the second-largest bunkering port globally, has begun strengthening infrastructure whilst introducing LNG ship-to-ship transfers. The United States has grasped available technology and aims to take advantage of an abundance of cheap gas to push forward plans for LNG bunkering. Further afield in Asia, momentum is gathering to remove obstacles standing in the way of a widespread implementation of LNG as a marine fuel.

In Japan, the port of Yokohama can provide truck-to-ship bunkering, and is planning to introduce ship-to-ship bunkering by 2020, positioning Yokohama as a regional LNG bunkering hub. South Korea now provides LNG bunkering services from Incheon with an additional facility planned at Busan. China will also be increasing LNG services at inland waterways and at Zhoushan. Unsurprisingly, given its position as the world's largest bunkering port, Singapore has also made big strides. The Maritime and Port Authority of Singapore has awarded two separate LNG bunkering licenses and expects to begin supplying LNG bunkers this year. In addition, Singapore has joined forces with other global ports to progress and harmonise LNG bunkering standards and operations.

Oil majors including Shell, BP, Chevron and Total have invested heavily in downstream LNG distribution and infrastructure. Shell in particular is taking an active role as evidenced by the agreement to supply bunkers to Sovcomflot's newbuilding Aframax tankers for the North Sea and Baltic.

Advantages in LNG over conventional marine fuels are the improved emissions performance when compared with scrubbers or burning low sulphur fuels. LNG has zero sulphur content and relatively low levels of nitrogen oxide emissions. This has led some to declare LNG as 'future proof' against any future reductions in sulphur emission levels. However, downsides are the unknown cost of LNG bunkers and additional construction and containment costs. Also, LNG pricing to some is a relative unknown when compared with traditional marine fuels. Another significant drawback is that LNG will require around twice the storage space of marine fuel, reducing cargo intake.

There are several positives and negatives to LNG bunkering but expect it to become a more viable alternative in the coming years. With the dual-fuel capable fleet forecast to grow and major strides being made by ports to harmonise operations and improve global standards. Perhaps we will see an increasing number of owners turn to LNG as a viable marine fuel in the future.

## Crude Oil

### Middle East

Steady, but modestly steady, VLCC enquiry through the week was never enough to tighten lists sufficiently to prevent further market deterioration as rates fell into the low ws 40's for the older/more challenged units and little better than ws 50 for modern vessels with down to ws 21 seen for runs to the USGulf via Suez. Suezmaxes never regained any momentum, but with West Africa spiking, ballasting alternatives beckoned for some and sentiment did improve somewhat. Rate demands moved a little higher towards ws 85 to the East and ws 35 West accordingly. Aframaxes found very little and yet again remained stuck fast at 80,000mt by ws 100/105 to Singapore with little early change anticipated.

### West Africa

A tentative start to the week for Suezmaxes, but resistance built and as Charterers realised there was no further downside and also that holidays were approaching, activity picked up sharply and rates followed suit in short order at up to ws 95 to Europe and high ws 80's to the USGulf. Owners will continue to attempt to consolidate, but the holidays will provide a firebreak in the meantime. VLCCs only saw limited interest that kept rates pegged at no higher than 260,000mt by ws 53 to the Far East with down to \$2.35 million paid for East Coast India discharge. Similar values to be expected over the coming period, unless the AGulf makes an unexpected turn.

### Mediterranean

Aframaxes had already pushed higher late last week and continued to strengthen through the first half of this week too with up to 80,000mt by ws 150 payable X-Med. Thereafter, however, things slowed and lists began to rebuild so that rates fell off towards ws 115 and Owners will remain upon the backfoot into next week. Suezmaxes initially rode on the back of the Aframax gains, but eventually saw more interest within their own size-range and that, together with West African strength, allowed for rates to inflate to 140,000 by ws 95 from the Black Sea to Europe, with around \$3.1 million payable for runs to China.

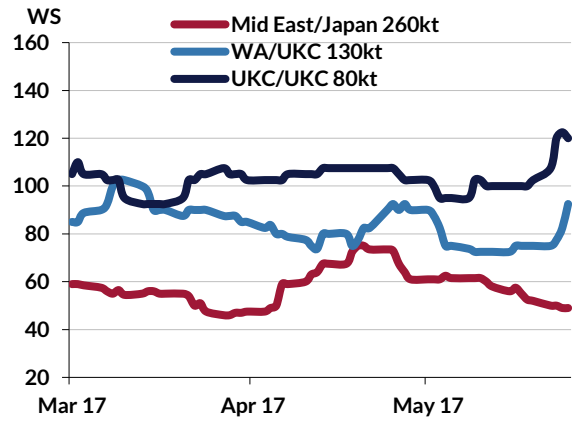
### Caribbean

Aframaxes bounced higher on higher demand and then stubbornly held on to rates at, or in excess of, 70,000mt by ws 140 upcoast, but by the week's end the pace had slowed ahead of the holiday break to undermine confidence and the next fixing phase is likely to operate at lower numbers. VLCCs stayed very slow with rates slipping to \$3.4 million to Singapore and \$2.8 million to West Coast India. Availability still looks heavy moving forward and further pressure looks on the cards.

## North Sea

As in the Med, a bright enough start for Aframaxes, but a more lacklustre ending than Owners would have hoped for. Rates now stand at 80,000mt by ws 120/125 X-UKCont and 100,000 by ws 100/105 also from the Baltic and the long weekend will probably lead to slippage next week. VLCCs saw occasional interest with \$2.9 million seen for fuel oil from Rotterdam to Singapore and rate will remain at close to that mark upon the next deals too.

## Crude Tanker Spot Rates



## Clean Products

### East

LRs have had another poor week with rates bumping along the bottom. There is little more Owners can give and with Ramadan now starting there is a feeling it may delay any recovery. 75,000mt naphtha AG/Japan remains at ws 85 with AG/UKCont now at \$1.375 million. LR1s are fairing little better with 55,000mt naphtha AG/Japan at ws 97.5 and AG/UKCont at \$1.05 million. The biggest excitement of the week was Scorpio enlarging their LR2 fleet to 38 ships and the knock-on effect that this could have. That is for the future though - for now there is little for Owners to enjoy.

MRs have this continued in much the same vein as last - there have been enough cargoes to keep the list from building up, and after seeing the list thin particularly off the natural window, Owners are finally feeling justified to push rates a little. Shorthaul has been pushed up to \$170k, with even \$175k on subs for a replacement, and \$415k into the Red Sea. These numbers will undoubtedly come under pressure next week, however, as LR2s start to compete for these cargoes as they hope to stay local to open in a stronger market. Seeing an LR2 do \$180k on an MR KWT/UAE doesn't bode well. EAF seems destined to finally come off ws 145, with some Owners trying to squeeze an extra 5 points onto the rate. Westbound has been unpopular amongst Owners, given the still uncertain market in the West - it trades today at \$900k although some Owners will look to push significantly if their ship is required for a westbound stem. A lot of naphtha cargoes are in the

market, which should add some stability - Owners are often not keen to send ships East, so we may finally see TC12 brought up in line with other routes.

### Mediterranean

After an initially quiet start to the week a flurry of enquiry at the midway point meant that Owners with available tonnage could capitalise on a lengthy cargo list and beat last done. Although a few cargoes got 'stung' with punchy numbers the status quo at the end of the week means Owners are getting at least 30 x ws 140 for X-Med and +10 points ex Black Sea. As has been the case so far this year, the Med is proving itself to be a particularly bipolar market and with the stage set rates could take off next week. That said caution is advised as a sudden cargo draught would swing the trend opposite.

With a generally more positive week seen in NWE the Med has been able to mirror the action with rates improving throughout the week. Med/transatlantic is offering 37 x ws 145 as last done and a fresh test for a Brazil run sees 37 x ws 170 on subs and both routes offering the potential for more. Although some action has been seen to the AG a fresh test is required as \$840K seemed too little as the market currently stands. With tonnage fairly limited on the front end, rates have the potential to push higher or at least maintain in the early part of next week.

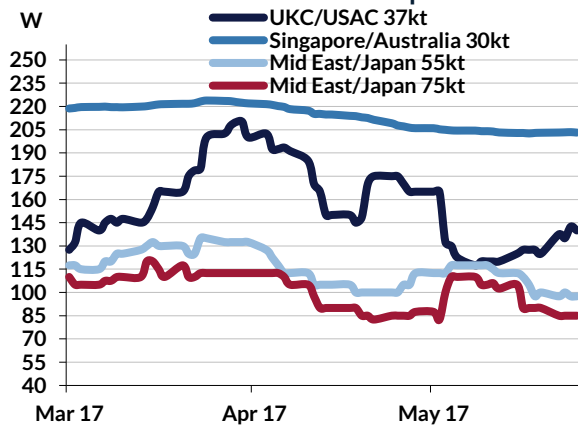
## UK Continent

The MRs have enjoyed a busy week 21, helped along with a Bank Holiday in Europe this week and one in London next week. Consequently rates have improved as the week progressed with 37 x ws 145 on subs TC2 and positivity seen in a similar notion across other routes with cargo bound for WAF, Argentina and Brazil being quoted. The Friday tonnage list is now very tight with cargo on the front end being forced to eat humble pie and pay up, rumours of 37 x ws 157.5 on subs transatlantic and numbers being shown 37 x ws 170 ex Baltic confirms Owners are currently in the driving seat.

On the same tract as the MRs, the Handies have seen a good week for the Owners where a tight tonnage list and consistent enquiry has offered the platform for Owners to push rates up from 30 x ws 135 to 30 x ws 142.5 ex Baltic. X-UKCont routes have been somewhat more subdued, but ultimately firmed too although offering 5 points less than Baltic load. With some Charterers out looking for cover on a Friday, rates have the potential to firm a touch more before the end of the day and Owners will be happy with the outlook going into the new week.

Yet another relatively quiet week for spot action on the Flexis, leaves all parties involved looking to the Handy market for guidance on achievable rates. The gradual firming of the Handy market means Flexi tonnage can now justify fixing higher rates at the back end of the week around the 22 x ws 175-180 mark, but in need of a fresh test. It must be said, however, that the numbers achieved vary from Owner to Owner and the route in question - blanket market rates are not accurate.

### Clean Product Tanker Spot Rates



# Dirty Products

## Handy

For many shipping hubs in the west this week was always going to hold potential for some volatility, as where fixing programmes are crammed into a reduced working week the appearance of a rush can alter sentiment. This week in the north, however, where tonnage was already stretched to meet requirement, it wasn't going to take too much additional cargo volume for rates to react positively, and this is precisely what happened. Hitting highs of ws 180 this shows a noticeable upswing and with units being booked un-naturally forward, the potential for ships to miss cancelling is increased. Don't be surprised therefore, to see these same conditions cross over into next week especially if requirement frequents as it has been recently.

In the Mediterranean, the script plays out rather differently during week 21, where units have been allowed to not only repopulate the tonnage lists but over some positions actually back up on top of one another. In a complete reverse to what is being seen in the continent, as competition intensifies we find value is being subtracted from the region. Forward trend will be dictated by the immediate demand for units upon our return, but from today's outlook conditions may deteriorate further before any building blocks can again be forged.

## MR

Benefitting from strong surrounding Handy market on the continent, momentum tipped over onto the MR's where they looked like good value from a Charterers perspective. Initially, whilst the first few units were being booked, rates looked fairly placid, although once this process was underway others came in looking to secure coverage. Levels subsequently reacted with highs of ws

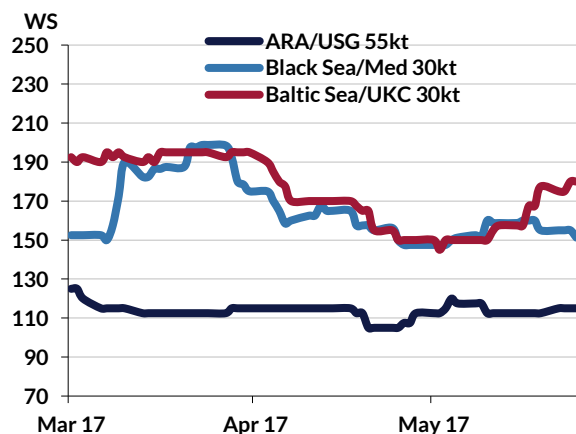
140 being seen, which at the time of writing alters the dynamics of this sector where Charterers will now have to look to surrounding areas and adjusted lead time to ballast units in.

Likewise, here too in the Mediterranean, we dance to a different drum beat, as the cargo base on offer is simply inadequate to keep all satisfied. Next week we are likely to see operators have to compete on part cargo sized opportunity (or incur idle time), all of which is only going to make good reading for Charterers.

## Panamax

This week kicked off with a good amount of activity from this side of the Atlantic, with this in mind, Owners managed to gain a few points on last done levels where we have seen ws 115 remain steady. Any further gains from this side of the Atlantic have been stalled as we report vessels failing in the continent/Baltic regions. This change of pace has mainly been affected by Charterers utilising a mixture of own tonnage and competitive larger tonnage where possible. Next week this market is getting ready to start off proceedings not until Tuesday at the earliest due to a public holiday in London on Monday and Memorial Day in the US.

Dirty Product Tanker Spot Rates



## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 25th	May 18th	May 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-3	50	52	61	63	54
TD20	Suezmax	WAF-UKC	+15	88	74	76	92	79
TD7	Aframax	N.Sea-UKC	+18	120	101	96	100	106

## Dirty Tanker Spot Market Developments - \$/day tce (a)

			wk on wk change	May 25th	May 18th	May 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-2,500	14,000	16,500	24,250	26,000	17,250
TD20	Suezmax	WAF-UKC	+5,250	18,500	13,250	14,750	21,250	14,750
TD7	Aframax	N.Sea-UKC	+13,250	24,000	10,750	7,000	11,500	13,750

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 25th	May 18th	May 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-5	85	90	110	85	
TC2	MR - west	UKC-USAC	+18	143	125	130	169	137
TC5	LR1	AG-Japan	-5	98	103	113	104	109
TC7	MR - east	Singapore-EC Aus	+0	203	203	205	206	

## Clean Tanker Spot Market Developments - \$/day tce (a)

			wk on wk change	May 25th	May 18th	May 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-1,250	5,000	6,250	11,000	5,000	
TC2	MR - west	UKC-USAC	+2,000	8,750	6,750	7,750	13,250	8,000
TC5	LR1	AG-Japan	-1,250	4,750	6,000	8,000	6,500	6,500
TC7	MR - east	Singapore-EC Aus	+0	9,250	9,250	9,500	9,750	

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam HSFO 380)	+11	303	292	273	281
ClearView Bunker Price (Fujairah 380 HSFO)	+12	325	313	298	301
ClearView Bunker Price (Singapore 380 HSFO)	+12	327	315	302	304
ClearView Bunker Price (Rotterdam LSMGO)	+22	460	438	421	442

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