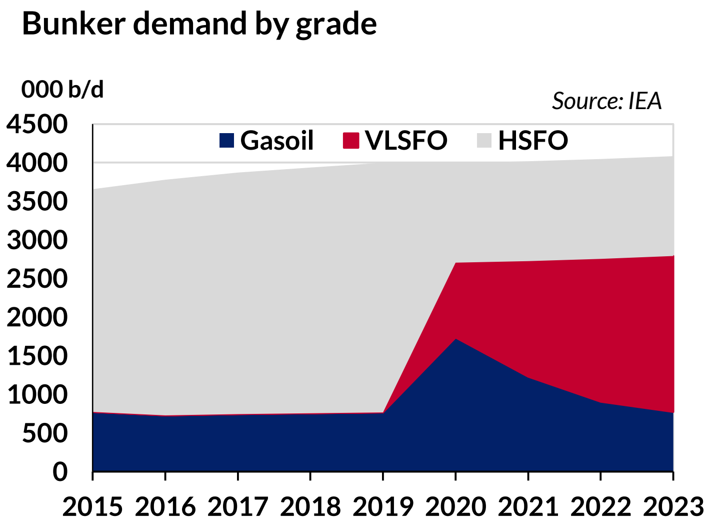
The Future of Fuel Oil

Weekly Tanker Market Report

Much debate has raged over how shipowners will fuel their vessels come 2020 when the IMO mandated 0.5% sulphur cap comes into force. We have discussed this at length and maintain our view that scrubbers will only play a minor role by the implementation date. With that view in mind, there will be a significant demand shift across the barrel in less than two years' time. Fuel oil trade will be fundamentally affected.

This week the IEA released its influential 'Oil 2018' report, which analyses oil market developments to 2023. This is the first edition of the report to be released since the IMO committed to the 1st of January 2020 implementation date. The IEA has thus been forced to offer their view of how the market will evolve. Come 2020, the agency expects a near 1 million b/d swing from high sulphur fuel oil (HSFO) to marine gasoil (MGO). Interestingly, the IEA have assumed a large uptake in a new 0.5% fuel oil blend, named very low sulphur fuel oil (VLSFO), which they estimate will take nearly another 1 million b/d of demand away from HSFO. The result is of course, a near 2 million b/d decline in HSFO demand.



For tankers in the fuel oil trade this may of course seem alarming to see such large volumes of fuel oil demand stripped from the market. Yet, VLSFO will be carried on dirty tankers, reducing the demand shift to clean from dirty products to 1 million b/d. Furthermore, the IEA estimate that from 2020 to 2023, VLSFO will claw back market share from MGO, with eventual VLSFO demand of approximately 2 million b/d, complimented by 1 million b/d of 'scrubbed' (or non-compliant?) HSFO demand. In effect, this returns the clean/dirty bunker demand split to where it was prior to 2020, but with VLSFO having taken share from HSFO.

The IEA also reveals interesting insights into where the surplus HSFO might go, which of course has implications for trade flows. They estimate that spare capacity in the power generation sector could absorb nearly 0.5 million b/d of HSFO demand, predominantly to destinations in the Middle East and Africa which would support longer voyages. Furthermore, by considering HSFO and VLSFO as dirty products, the total market share lost to MGO is just under 1 million b/d, which is likely to be reduced to 0.5 million b/d when new sources of demand, (i.e. power generation) are considered. Over time refinery upgrades will gradually come online, suggesting more VLSFO will be produced at the expense of HSFO. Assuming compatibility issues are overcome by this stage, higher availability of VLSFO should support a demand shift from MGO to VLSFO. In time this would see the volume of dirty bunker fuel cargoes being transported on tankers move close to pre-2020 levels.

Further, if refiners are to invest in upgrading capacity, and if sufficient volumes of VLSFO will eventually be produced, what are the longer-term benefits of the scrubbers? Will the spread between VLSFO and HSFO be enough to make the investment viable in the longer term? Undoubtedly, the short repayment horizon would appear to make scrubbers effective for those who install them ready for 2020. But, as time progresses post-2020, the spread between MGO and HSFO is likely to narrow, whilst refinery upgrades could see HSFO supply tighten.

Crude Oil

Middle East

VLCC rates hit absolute zero returns as Charterers continued to enjoy very easy supply and very compliant Owners too. Such low values did, however, start to increase the fixing pace and by the week's end there was a degree of resistance noted, and a slight pullback from off the very bottom. Rates to the East end at ws 37.5 for modern to China, but still in the high 'teens' for occasional voyages to the West. If the flow is maintained, then perhaps a bit better for next week. Suezmaxes pushed as hard as they could but never received sufficient attention to achieve critical mass and rates settled at no higher than ws 70 to the East and mid ws 30's West with little early change likely. Aframaxes were weak the previous week and again failed to find enough traction to move rates forward. A sluggish 80,000mt by ws 77.5 to Singapore now, and the short-term prognosis is for little change.

West Africa

Suezmax contestants engaged in a fair tussle through the week with advantage seemingly changing sides day by day. By the close both sides had punched themselves to an uneasy draw, and it will probably be Owners on the defensive at the start of next week. Rates operate at down to ws 67.5 to Europe, and to ws 65 to the USGulf for now. VLCCs quickly took a sharp step lower to equalise with the flattened AGulf market, to ws 37 to the Far East and to just below $2 million for Angola to West Coast India. Now, with a very slight Middle Eastern uptick being fought for, Owners will try and hold for a ws point/two higher as 'insurance' for the longer time commitment.

Mediterranean

Aframaxes tracked backwards over the bulk of the week to as low as 80,000mt by ws 82.5 X-Med, but then volumes increased, and levels moved towards ws 92.5 with an even more positive air starting to circulate before the weekend fire-break. Teed up for next week then. Suezmaxes suffered a mid-week negative ripple, but then became much busier to allow rates to push on modestly to 140,000mt by ws 77.5 from the Black Sea to European destinations, and to $2.6/2.7 million for any runs to China. Consolidation over the near term, but volumes will need to stay consistent.

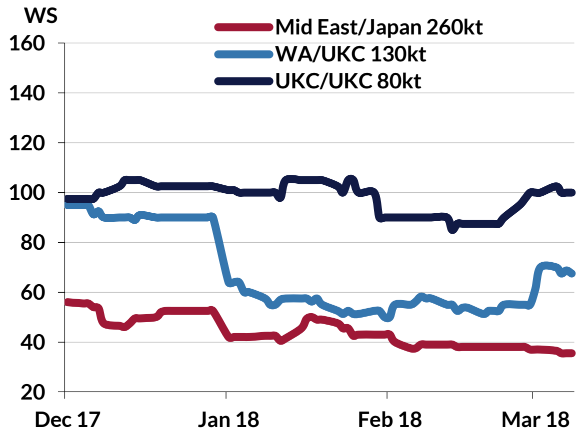
Caribbean

Aframax rates retreated as weather disruption evaporated. 70,000mt by ws 90 upcoast then became a solid bottom market and subsequent bargain hunting then allowed for a degree of re-inflation into the higher ws 90's that could potentially turn into something more meaningful early next week. VLCCs had one of the quietest weeks of the year leaving rate levels largely theoretical, but at certainly less than 'last done' and at around $3 million to Singapore, and to $2.5 million to West Coast India, though load dates will throw up some variance.

North Sea

Aframaxes scoured the horizon for options that would relieve them of their recent rate monotony, but for most the only option remained a sideways shift. 80,000mt by ws 100/105 X-UKCont and 100,000mt by ws 85 from the Baltic are presently 'conference' and will probably remain close to those marks early next week too. VLCCs found very little, but $3.5 million was paid for crude oil from Hound Point to South Korea.

Crude Tanker Spot Rates



Clean Products

East

LRs have had a very mixed week. LR2s started the week firing on all cylinders and pushing rates quickly upwards. 75,000mt naphtha AGulf/Japan established itself at ws 115 with higher rates paid on prompter positions. 90,000mt jet AG/UKCont jumped to $1.90 million and, although it looked a little fragile mid-week due to various failures, it has now steadied. LR1s have been busy but have been unable to push rates anywhere, however much Owners wanted it. With a firmer MR market now, there is a slight push especially on shorthauls that may see slight increase but it is limited. 55,000mt naphtha AGulf/Japan is at ws 115 and 65,000mt jet AGulf/UKCont is also stable at $1.30 million.

A busy week on the MRs keeping the sentiment firm throughout. At a tried and tested $550k Gizan has proved popular with many ships being taken in to the Red Sea, leaving the tonnage tight in both the AGulf and WCI. There were also high levels of activity in EAF, with a lot of potential ballasters going on subs before commencing their ballast to the AGulf, meaning that the tonnage list is a bit thinner looking forward. Heading towards the UKCont has been left largely untested for the week and, with very few outstanding cargoes in the natural window, it needs a fresh test, however, the positive sentiment means that it holds at the $1.125 million levels. EAF runs have pushed steadily to finish on ws 195 and, with end decade EAF cargoes likely to hit the market next week, ws 195 will probably be further tested. X-AGulf runs have been busy and positively corrected in line with the firming sentiment and so finished the week at $220k. Naphtha stems heading to the East have been lacking somewhat this week; however, with a few outstanding, next week will see a confirmation on where the market sits on TC12. For now it hovers at the 35 x ws 135 mark. There is a decent supply of outstanding cargoes remaining and, with some off pretty forward dates (a tell-tale sign we are in a firm market), Owners will be going into the weekend confident. A tight tonnage list and plenty of outstanding cargoes, the positive sentiment is sticking around.

Mediterranean

Poor weather conditions around WMed saw the start of week 10 with a tighter list and this, coupled with an uptick in enquiry, saw rates firm slightly on Monday to 30 x ws 150 for X-Med stems. With vessels beginning to be fixed away at a quick rate and naphtha stems around WMed off similar dates coming to fruition, this meant Owners were in the driving seat and we saw a ws 10 point jump, with rates currently trading at the 30 x ws 160 mark X-Med. Black Sea rates have moved in line with X-Med rates and at the time of writing are trading around the 30 x ws 167.5-170 mark. It will be interesting to see if week 11 brings more of the same, with the general sentiment still fairly positive.

A torrid week on the MR front, with rates in the Med being dictated by action in NWE. A softening of almost ws 30 points was seen on TC2 to 37 x ws 122.5, with last done for transatlantic out the Med around the 37 x ws 130 mark; however, expect next done to be South of this. If the slow level of enquiry we've seen this week translates into next, then pressure will continue to mount on Owners in week 11.

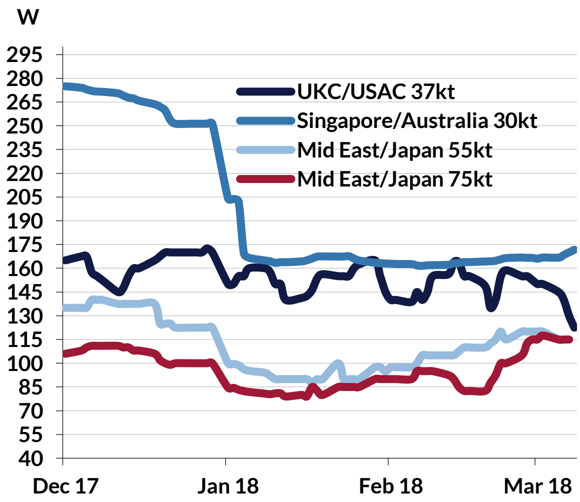
UK Continent

As week 10 comes to a close, MR Owners will be looking forward to the weekend as we see near on ws 30 points being wiped off the TC2 sector. With neither transatlantic or WAF giving many fixing opportunities throughout the week, the 37 x ws 150 - 170 Monday ideas were always going to struggle to remain, and by the time we reached the midweek it looked like we had bottomed out at the ws 130 - 150 point. But Charterers continued to take the opportunities that lay in front of them and by Friday we see ws 122.5 on subs for transatlantic, with WAF soon to follow towards ws 140. A select few runs to the Far East have given some Owners the chance to bail out of the West market and have been quickly taken out, with ARA/Spore sitting around $1.1 million - $1.15 million. With little outstanding today, week 11 may well mirror the difficulties Owners have seen this week, as we await to hit the true bottom of this market if we haven't already.

A very predictable week has passed on the Handies, with rates staying in place throughout. Enquiry levels have been enough to keep Owners and Charterers singing off the same hymn sheet, as 30 x ws 155 is repeated for Baltic loading consistently. 30 x ws 145 has seemed to be the X-UKCont number despite limited testing but with an increase of runs down to the Med being done at ws 130, tonnage turnover has been reasonable, leaving this market flat. Looking ahead, it would seem a reasonable prediction to see more of the same but, with a limp MR sector, Owners should be keeping a close eye that larger tonnage won't swoop in looking for a time filler and leaving additional Handies on tonnage lists.

Another typically characteristic week for the Flexis, which continues to see the majority of Owners trading their ships in the NSpain and Gibraltar regions; a trade which has been enough to keep tonnage on the move but insufficient enough for Owners to build rates. Benchmark rates can be misleading for Handies, although 22 x ws 195 X-UKCont is a good guide at the time of writing, a number that has changed little from the beginning of the week. With the Handy market now stabilising this week, this should rub-off onto the Flexis too.

Clean Product Tanker Spot Rates



Dirty Products

Handy

If market activity is anything to go by, then the best times of this trading week were seen at the front end where the market had firmed to ws 170. Since then however, Charterers were able to benefit from where activity fell off, and in the process Owners accepted perhaps due to a lengthening tonnage list, things weren't going all their way.

The Mediterranean market has moved nowhere this week and there has been zero fluctuation on last done for standard X-Mediterranean and from the Black Sea voyages. Positions have ticked over and Owners are hoping that if we see a handful more cargoes next week they may be in a position to try and push rates upwards, but for now its steady as she goes.

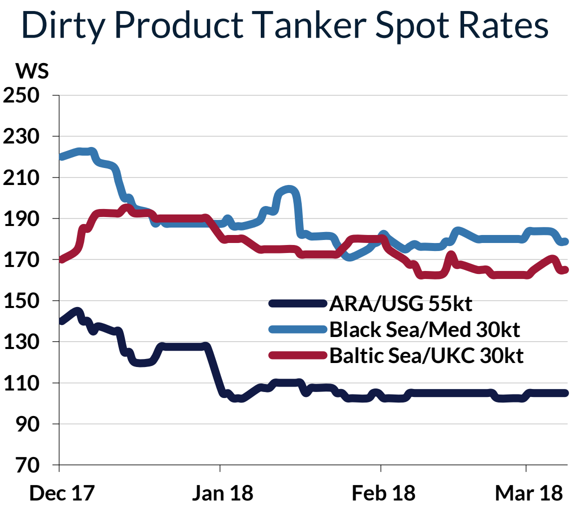
MR

Week 10 finally brought the test Owners have been waiting for in the North as a couple of Charterers decided now was the time to dip their toes into the market. Although the main talking point throughout this week was the disparity in levels witnessed, putting the next test into question. Unfortunately for Owners the back end of the week did see fresh enquiry slip off the radar, but Owners will take some positives in seeing full sized stems enter the market and despite there still being a couple of prompt units in the region, the position list Monday morning will inevitably look thinner.

An overall lacklustre week in the Mediterranean as the region continues to trade pretty much sideways for now. A couple of 45kt stems did trickle into the market but overall it was mainly part cargoes on the menu for Owners to feed on. Black Sea enquiry remained subdued and Owners will be hoping to see a few fresh stems enter the market once the Russians are back from Holiday come Monday morning.

Panamax

Owners of tonnage sat this side of the Atlantic suffered another week where it was the US that saw the better paying action, together with activity as a whole. The few tests that did come our way here in Europe showed levels to have developed a spread of strength between the Mediterranean and UKCont as where the continent has a few units in play fixing rates became susceptible to negativity. That said, we do now have validated benchmarks from which to base forward negotiations upon, with a realisation that rates are no worse off to those being seen only a fortnight ago.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 08th	Mar 01st	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**-1**	36	37	41	33
TD20	Suezmax	WAF-UKC	**+9**	69	60	51	64
TD7	Aframax	N.Sea-UKC	**+0**	100	100	89	99

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

			wk on wk change	Mar 08th	Mar 01st	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**-1,000**	5,250	6,250	8,750	2,750
TD20	Suezmax	WAF-UKC	**+3,500**	13,250	9,750	3,750	11,250
TD7	Aframax	N.Sea-UKC	**+0**	4,000	4,000	-5,500	3,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 08th	Mar 01st	Last Month	FFA Mar
TC1	LR2	AG-Japan	**+4**	118	114	92	
TC2	MR - west	UKC-USAC	**-27**	126	153	144	133
TC5	LR1	AG-Japan	**-1**	115	116	97	112
TC7	MR - east	Singapore-EC Aus	**+7**	173	166	163	

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

			wk on wk change	Mar 08th	Mar 01st	Last Month	FFA Mar
TC1	LR2	AG-Japan	**+1,000**	15,250	14,250	7,000	
TC2	MR - west	UKC-USAC	**-4,500**	7,000	11,500	9,000	8,250
TC5	LR1	AG-Japan	**-250**	9,250	9,500	5,250	8,500
TC7	MR - east	Singapore-EC Aus	**+1,250**	12,000	10,750	9,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+4**	347	343	378
ClearView Bunker Price (Fujairah 380 HSFO)	**+3**	381	378	397
ClearView Bunker Price (Singapore 380 HSFO)	**-3**	369	372	396
ClearView Bunker Price (Rotterdam LSMGO)	**+2**	547	545	608

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